



TAURON POLSKA ENERGIA S.A.

(incorporated in the Republic of Poland as a joint-stock company)

EUR 500,000,000 2.375 per cent. Notes due July 2027

Issue Price: 99.438 per cent.

Tauron Polska Energia S.A., a Polish company incorporated as a joint-stock company (the **Issuer**), is issuing EUR 500,000,000 2.375 per cent. Notes due July 2027 (the **Notes**).

Application has been made to the Financial Conduct Authority in its capacity as competent authority under the Financial Services and Markets Act 2000 (the **FCA**) for the EUR 500,000,000 2.375 per cent. Notes due July 2027 (the **Notes**) of the Issuer to be admitted to the official list of the FCA (the **Official List**) and to the London Stock Exchange plc (the **London Stock Exchange**) for such Notes to be admitted to trading on the London Stock Exchange's regulated market (the **Market**). References in this Prospectus to Notes being "listed" (and all related references) shall mean that such Notes have been admitted to trading on the Market and have been admitted to the Official List. The Market is a regulated market for the purposes of the Markets in Financial Instruments Directive 2004/39/EC.

Interest on the Notes is payable annually in arrear on 5 July in each year. Payments on the Notes will be made without deduction for or on account of taxes of the Republic of Poland to the extent described under "Terms and Conditions of the Notes - Taxation".

The Notes will bear interest from (and including) 5 July 2017 (the **Issue Date**) to (but excluding) 5 July 2027 (the **Maturity Date**) at a fixed rate of 2.375 per cent. per annum. Interest will be payable in arrear on 5 July in each year up to (and including) the Maturity Date. The Notes will initially be sold to investors at a price equal to 99.438 per cent. of the principal amount thereof plus accrued interest in respect of the period from (and including) the Original Issue Date to (but excluding) the Issue Date.

The Notes mature on 5 July 2027 but are subject to redemption in whole, at their principal amount, together with accrued interest, at the option of the Issuer at any time on any Interest Payment Date in the event of certain changes affecting taxes of the Republic of Poland. See "Terms and Conditions of the Notes - Redemption and Purchase".

Under Polish law, the Issuer may be required to withhold tax at the rate of 20 per cent. on interest payments under the Notes. Under Condition 10 (Taxation), in the event that any withholding or deduction is required by law, the Issuer is required, subject to certain customary exceptions, to pay such additional amounts as will result in the receipt by the Noteholders of such amounts as would have been received by them if no such withholding or deduction had been required. See "Taxation - Republic of Poland." So long as applicable provisions of Polish law impose withholding tax on payments required to be made by the Issuer under the Notes, and otherwise subject to certain conditions, the Issuer is permitted to arrange for the substitution of a wholly owned subsidiary incorporated, domiciled, resident or otherwise subject to tax in any jurisdiction of good international repute (the **Substitute Issuer**) as principal debtor in respect of the Notes and under the Deed of Covenant in place of the Issuer, in the circumstances described in Condition 15 (Substitution). It is expected that such a substitution may take place prior to the due date for the first interest payment under the Notes. See "Risk Factors - Risks Relating to the Notes - Risks related to the structure of the Notes - So long as applicable provisions of Polish law impose withholding tax on payments required to be made by the Issuer under the Notes, the Conditions allow for the substitution, at the Issuer's discretion, of another company in the place of the Issuer as principal debtor in respect of the Notes. If payments by the Issuer would continue to be subject to withholding under Polish law, it is expected that such a substitution may take place prior to the due date for the first interest payment under the Notes."

The Notes will be offered and sold in offshore transactions outside the United States in reliance on Regulation S (Regulation S) under the U.S. Securities Act of 1933, as amended (the **U.S. Securities Act**).

THE NOTES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT, OR ANY STATE SECURITIES LAW, AND THE NOTES MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, ANY U.S. PERSON (AS SUCH TERMS ARE DEFINED IN REGULATION S), EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE U.S. SECURITIES ACT.

The Notes will be issued in registered form in minimum denominations of EUR 100,000 and integral multiples of EUR 1,000 in excess thereof. The Notes are intended to be held in a manner which would allow Eurosystem eligibility and will be represented by a global registered note certificate (the **Global Certificate**) which will be registered in the name of a nominee for and deposited with a common safekeeper for Euroclear Bank SA/NV (**Euroclear**), and Clearstream Banking, société anonyme (**Clearstream, Luxembourg**) on or around 5 July 2017 (the **Closing Date**). Definitive note certificates (the **Definitive Note Certificates**) evidencing holdings of Notes will be available only in certain limited circumstances. See "Summary of Provisions Relating to the Notes in Global Form".

The Notes will be rated BBB by Fitch Ratings Limited (**Fitch**). The Issuer's current long-term rating by Fitch is BBB (outlook stable). A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation. Fitch is established in the European Union (the **EU**), domiciled in the United Kingdom, and is included in the list of credit rating agencies registered in accordance with Regulation (EC) No. 1060/2009 on Credit Rating Agencies as amended by Regulation (EU) No. 513/2011 and Regulation (EU) No. 462/2013 (the **CRA Regulation**). This list is available on the ESMA website (<http://www.esma.europa.eu/page/list-registered-and-certified-CRAs>) (last updated 29 March 2017).

Investing in the Notes involves a high degree of risk. See "Risk Factors" beginning on page 1.

Joint Lead Managers

J.P. Morgan

MUFG

Santander Global Corporate Banking

Co-Manager

PKO Bank Polski

The date of this Prospectus is 4 July 2017.

This Prospectus constitutes a prospectus for the purpose of Article 5 of Directive 2003/71/EC as amended, including by Directive 2010/73/EU (together, the **Prospectus Directive**) and for the purpose of giving information with regard to the Issuer and its subsidiaries and affiliates together, (the **Group**), and the Notes which, according to the particular nature of the Issuer and the Notes, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profit and losses and prospects of the Issuer and the Group and of the rights attaching to the Notes. The Issuer, having taken all reasonable care to ensure that such is the case, accepts responsibility for the information contained in this Prospectus. To the best of the knowledge of the Issuer the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

Neither the Joint Lead Managers nor any of their directors, affiliates, advisers or agents has made an independent verification of the information contained in this Prospectus in connection with the issue or offering of the Notes and no representation or warranty, express or implied, is made by the Joint Lead Managers or any of their directors, affiliates, advisers or agents, nor is any liability accepted by any such persons, with respect to the accuracy or completeness of any such information. Nothing contained in this Prospectus is, is to be construed as, or shall be relied upon as, a promise, warranty or representation, whether to the past or the future, by the Joint Lead Managers or any of their respective directors, affiliates, advisers or agents in any respect. The contents of this Prospectus are not, are not to be construed as, and should not be relied on as, legal, business or tax advice and each prospective investor should consult its own legal and other advisers for any such advice relevant to it.

No person is authorised to give any information or make any representation not contained in this Prospectus in connection with the issue and offering of the Notes and, if given or made, such information or representation must not be relied upon as having been authorised by any of the Issuer or the Joint Lead Managers or any of their directors, affiliates, advisers or agents. The delivery of this Prospectus does not imply that there has been no change in the business and affairs of the Issuer since the date hereof or that the information herein is correct as of any time subsequent to its date.

This Prospectus does not constitute an offer to sell or a solicitation of an offer to buy the Notes by any person in any jurisdiction where it is unlawful to make such an offer or solicitation. The distribution of this Prospectus and the offer or sale of the Notes in certain jurisdictions is restricted by law. This Prospectus may not be used for, or in connection with, and does not constitute, any offer to, or solicitation by, anyone in any jurisdiction or under any circumstance in which such offer or solicitation is not authorised or is unlawful. In particular, this Prospectus does not constitute an offer of securities to the public in the United Kingdom. No prospectus has been or will be approved in the United Kingdom in respect of the Notes. Consequently this document is being distributed only to, and is directed at (a) persons who have professional experience in matters relating to investments falling within article 19(1) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the **Order**) or (b) high net worth entities falling within article 49(2)(a) to (d) of the Order, and other persons to whom it may be lawfully communicated, falling within article 49(1) of the Order (all such persons together being referred to as **relevant persons**). Any person who is not a relevant person should not act or rely on this document or any of its contents. Persons into whose possession this Prospectus may come are required by the Issuer and the Joint Lead Managers to inform themselves about and to observe such restrictions. Further information with regard to restrictions on offers, sales and deliveries of the Notes and the distribution of this Prospectus and other offering material relating to the Notes is set out under “*Subscription and Sale*” and “*Summary of Provisions Relating to the Notes in Global Form*”.

Unless otherwise specified or the context so requires, references to **U.S. Dollars** and **U.S.\$** are to United States dollars, references to **euro**, **EUR** and **€** are to the currency introduced at the start of the third stage of European Economic and Monetary Union pursuant to the Treaty establishing the

European Community, as amended and references to **zloty** and **PLN** are to zlotys. References to **billions** are to thousands of millions.

The language of the prospectus is English. Certain legislative references and technical terms have been cited in their original language in order that the correct technical meaning may be ascribed to them under applicable law.

In connection with the issue of the Notes, J.P. Morgan Securities plc as the Stabilising Manager(s) (the **Stabilising Manager(s)**) (or any person acting on behalf of the Stabilising Manager) may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, stabilisation may not necessarily occur. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the Notes is made and, if begun, may cease at any time, but it must end no later than the earlier of 30 days after the issue date of the Notes and 60 days after the date of the allotment of the Notes. Any stabilisation action or over-allotment must be conducted by the Stabilising Manager (or person(s) acting on behalf of the Stabilising Manager) in accordance with all applicable laws and rules.

Each potential investor in the Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor may wish to consider, either on its own or with the help of its financial and other professional advisers, whether it:

- (i) has sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained in this Prospectus or any applicable supplement;
- (ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact the Notes will have on its overall investment portfolio;
- (iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes;
- (iv) understand thoroughly the terms of the Notes and is familiar with financial markets; and
- (v) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

FORWARD-LOOKING STATEMENTS

Certain statements included herein may constitute “forward-looking statements” within the meaning Section 21E of the United States Securities Exchange Act of 1934, as amended (the **Exchange Act**); however, this Prospectus is not entitled to the benefit of the safe harbour created thereby. Such statements, certain of which can be identified by the use of forward-looking terminology such as “believes”, “expects”, “may”, “are expected to”, “intends”, “will”, “will continue”, “should”, “could”, “would be”, “seeks”, “approximately”, “estimates”, “predicts”, “projects”, “aims” or “anticipates”, or similar expressions or the negative thereof or other variations thereof or comparable terminology, or by discussions of strategy, plans or intentions, involve a number of risks and uncertainties. Such forward-looking statements are necessarily dependent on assumptions, data or methods that may be incorrect or imprecise and that may be incapable of being realised. Factors that might affect such forward-looking statements include, among other things, overall business and government regulatory conditions; changes in tariff and tax requirements (including tax rate changes, new tax laws and revised tax law interpretations); interest rate fluctuations and other capital market conditions, including foreign currency exchange rate fluctuations; economic and political conditions in the Republic of Poland and other jurisdictions; and the timing, impact and other uncertainties of future actions. See “*Risk Factors*”.

The Issuer is not obliged to, and does not intend to, update or revise any forward-looking statements made in this Prospectus whether as a result of new information, future events or otherwise. All subsequent written or oral forward-looking statements attributable to the Issuer, or persons acting on its behalf, are expressly qualified in their entirety by the cautionary statements contained throughout this Prospectus. As a result of these risks, uncertainties and assumptions, a prospective purchaser of the Notes should not place undue reliance on these forward-looking statements.

PRESENTATION OF FINANCIAL AND CERTAIN OTHER INFORMATION

The financial information relating to the Group and set forth herein, has, unless otherwise indicated, been derived from:

- the Group's audited consolidated financial statements as at, and for the year ended, 31 December 2015 (the **2015 Financial Statements**);
- the Group's audited consolidated financial statements as at, and for the year ended, 31 December 2016 (the **2016 Financial Statements** and, together with the 2015 Financial Statements, the **Annual Financial Statements**); and
- the Group's unaudited interim consolidated financial statements as at, and for the three months ended, 31 March 2017 (the **Q1 2017 Financial Statements**), and together with the Annual Financial Statements, the **Financial Statements**).

The Financial Statements were prepared in accordance with International Financial Reporting Standards (**IFRS**) issued by the International Accounting Standards Board and related interpretations published as European Commission regulations.

The Annual Financial Statements were audited by Deloitte Polska spółka z ograniczoną odpowiedzialnością sp. k. (**Deloitte**), independent auditors in accordance with National Auditing Standards which are fully aligned with International Standards on Auditing.

Certain amounts which appear in this Prospectus have been subject to rounding adjustments; accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures which precede them.

EBITDA throughout this Prospectus means 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).

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RISK FACTORS

In purchasing Notes, investors assume the risk that the Issuer may become insolvent or otherwise be unable to make all payments due in respect of the Notes. There is a wide range of factors which individually or together could result in the Issuer becoming unable to make all payments due. It is not possible to identify all such factors or to determine which factors are most likely to occur, as the Issuer may not be aware of all relevant factors and certain factors which it currently deems not to be material may become material as a result of the occurrence of events outside the Issuer's control. The Issuer has identified in this Prospectus a number of factors which could materially adversely affect its businesses and consequently its ability to make payments due in respect of the Notes. Factors which the Issuer believes may be material for the purpose of assessing the market risks associated with Notes are also described below.

Prospective investors should also read the detailed information set out elsewhere in this Prospectus and reach their own views prior to making any investment decision.

RISKS RELATING TO THE REGULATORY AND LEGAL ENVIRONMENT

The energy industry is subject to significant and changing regulation which could have a negative effect on the Group

As an owner and operator of power plants, renewable energy facilities and an electricity distribution business, the Issuer and its subsidiaries are subject to, among other things, both Polish and EU energy market and environmental regulations. The Group conducts its business operations in a sector in which the market regulator, being the President of the Energy Regulation Office (the **President of the ERO**), plays an active role.

Pursuant to the Energy Law dated 10 April 1997 (the **Energy Law**), the Polish state may limit the sale of fuels as well as the supply and usage of electricity and heat. In addition, local government entities may affect the activity of firms in the energy sector, in particular by determining local plans for the supply of heat and electricity.

The Energy Law and related secondary legislation, including the Public Procurement Law dated 29 January 2004 (the **Public Procurement Law**), the Anti-Monopoly Law dated 16 February 2007 (the **Anti-Monopoly Law**) and other laws that regulate the operations of the energy sector in Poland, have undergone frequent changes. Furthermore, there is a lack of uniform interpretation of law in Poland, especially regarding tax law. Combined with a relatively long period under which tax liabilities become statute barred by limitation, such circumstances may adversely impact the operations, financial results and conditions of the Group.

A recently adopted package of amendments to the Energy Law and laws concerning the renewable energy source (the **RES**) significantly changes rules with respect to the functioning of the Polish energy market, in particular relating to the renewable energy sector. This could result in an adverse change in the performance of long-term agreements for the purchase of electricity and property rights, which could affect the feasibility of new investments and current operations in the energy sector and in particular for RES.

Furthermore, the Act on Wind Power Plant Investments dated 20 May 2016 (the **Wind Farm Act**) significantly limits any new investments in onshore wind power projects and increases the performance parameters of existing wind power plants. The Wind Farm Act also creates a risk of a several-fold increase in real estate tax charges imposed on owners of existing wind power plants. As the capacity of wind farms owned by the Group is significant, this may affect the business operations, financial condition or results of operations of the wind farms involved.

A new regulatory model, introduced on 1 January 2016, is designed to improve the quality of services provided by the distribution system operators (the **DSOs**). An analysis of data comparing energy supply continuity indices in Poland and Europe shows that Poland is underperforming in comparison to other European countries. The introduction of quality regulations is both an opportunity and a challenge for distribution companies, given that operators can derive financial and reputational benefits from effective compliance with the regulations but could also experience negative consequences in the event of their failure to adequately comply. Any such failure on the Group's part could damage its reputation which in turn could materially impact the Group's activities, operations and financial condition.

Regulation (EU) No 1227/2011 of the European Parliament and the Council of 25 October 2011 on Wholesale Energy Market Integrity and Transparency (the **REMIT Regulation**), on the one hand sets out measures to promote the transparency of the energy wholesale market, while on the other hand contains prohibitions on abusive practices in the trade of energy wholesale products. Violations of the REMIT Regulation may result in significant adverse consequences, such as penalties or even criminal sanctions.

The EU Commission will table specific proposals for the structuring and implementation of the European framework for climate and energy policy up to 2030. These proposals will then be debated over the course of the EU legislative process so amendments to existing laws and regulations and the adoption of new laws and regulations are to be expected. As part of the current debate concerning the achievement of long-term European climate protection goals by 2050, amendments to the European emissions trading legislation are also under discussion. The EU Commission presented a first draft for the amendment of the relevant directive in July 2015.

The abovementioned regulations are a few examples of the increased regulatory burden that companies in the energy sector face. The energy sector is subject to dynamically changing regulatory environment. Future regulation, changes in regulation and other legal requirements by the Polish government, European regulatory authorities or the EU may require significant changes in the Group's business or otherwise affect its business in ways that the Group cannot predict.

As part of its ordinary course of business the Group is engaged in energy trading. Accordingly these activities are also impacted by new financial regulations such as the amendments to the EU Directive 2014/65/EU on markets in financial instruments (known as MIFID II), the Market Abuse Regulation (Regulation (EU) No 596/2014) and Regulation (EU) No 648/2012 of the European Parliament and the Council of 4 July 2012 on over-the-counter derivatives, central counterparties and trade repositories. These regulations together with other European financial regulations impose a regulatory burden on the group and any failure to comply could lead to fines and/or sanctions.

Any new regulation that causes the Group to restructure or otherwise change its business could have a material adverse effect on its business. Any increase in the regulations impacting the Group is likely to cause the increase of compliance costs. This together with any potential fines and/or sanctions that may be imposed for failure to comply so may negatively affect the operations, financial condition and results of the Group and/or the ability of the Issuer to meet its obligations under the Notes.

Risks related to environmental requirements could have a negative impact on the Group

The Group is subject to various environmental laws and regulations in Poland and is also required to obtain environmental permits from various authorities for its operations.

Since 2016, Polish conventional energy generation facilities have been required to meet new stricter emission standards resulting from Directive 2010/75/EU of the European Parliament and of the Council of 24 November 2010 concerning industrial emissions. Compliance with environmental regulations may materially increase the Group's expenditure. The Group will also have to incur future

expenditure in order to satisfy any potential new environmental requirements. Certain environmental permits required for the Group's operations require periodic renewal and the Group cannot predict whether it will be able to renew such permits or whether material changes in permit conditions will be imposed. Violations of these permits could result in plant shutdowns, fines and/or litigation being commenced against the Group. Finally, the availability of land for certain investments may be limited in the future owing to its inclusion into the Natura 2000 programme. It is possible that the geographical range of that programme will be expanded in the future, resulting in the need to change the location of certain of the Group's planned future investments.

The expected changes on the European energy market will largely stem from the final form of the ETS Directive novation, provisions of the BAT conclusion (adopted in April 2017) and the regulations comprised in the Winter Package. We can therefore expect further measures related to the reduction of CO₂ emissions and other pollutants, which will significantly affect the conventional generating units. The reduction of emission thresholds triggers outlays on adjustments of the existing generating units, while making them at the same time less competitive on the energy market due to the increased costs of power generation. The expenditures planned in some older installations are not likely to be returned, and therefore those units will be permanently shut down. The basic period for adjusting emission sources was set to be four years from the publication of the BAT conclusion, with an option to extend it if derogations are opted for in respect of certain sources. Currently, the Group already meets the BAT conclusion requirements for most of its generating units in terms of SO₂, NO_x and dust emissions. Making the air emissions of HCl, HF and mercury conform to the requirements will present a certain challenge. Currently, analyses are being carried out with a view to optimise outlays on making installations conform to the BAT conclusion. The Winter Package will be the next stage in reducing installation emissions. Compliance with the provisions of the currently proposed regulations may be very difficult or impossible especially for the older units, which will significantly limit the Group's production capacity.

Political decisions aimed at limiting the pool of emission rights available at the auctions – through the increase of the linear reduction factor and an earlier implementation of the MSR mechanism as well as a permanent withdrawal of allowances from it could lead to an increase in the EUA price. While derogations may be available it is not yet clear what their extent will be or whether the Group will benefit from them.

All or any of the above factors may have an adverse effect on the operations, financial condition and results of the Group and/or the ability of the Issuer to meet its obligations under the Notes.

Future capacity market legislation is unclear but could negatively impact the Group's results of operations

A draft Act on the capacity market (the **Draft CMA**), prepared by the Ministry of Energy, was published and submitted for public consultation on 5 December 2016. The Draft CMA aims to ensure cost-effective security of supply of electricity to final customers in the medium- and long-term. It does this by creating new economic incentives for the construction, maintenance and modernisation of generating units.

The Draft CMA assumes the development and implementation of an established capacity market with net available capacity which can be offered by generators and demand-side response units in return for remuneration for their readiness to supply energy and, in the circumstances prescribed by law, their obligation to do so in periods of capacity shortfalls. The capacity market is to operate in the form of auctions organised by the Transmission System Operator (the **TSO**) based on auction parameters specified by the Minister of Energy. It is anticipated that first deliveries on the capacity market will take place in 2021.

In November 2016, the European Commission proposed a large set of new regulations concerning European energy sector (COM/2016/0860) including a CO₂ emissions limit for electricity generators assisted by public funds which would operate within the framework of the capacity market. The proposed CO₂ emission limit per one kilowatt-hour (kWh) is 550g, which effectively precludes the participation of coal-fired units in the capacity market.

Since the capacity market constitutes a type of public aid, the Draft CMA must also be notified to the European Commission.

For the time being it is difficult to predict the end result of the current public consultation which is still ongoing and the nature of the new regulations regarding the capacity market. However, these regulations will be applicable to Group companies and if implemented in a way that is unfavourable to the Group, could have a materially adverse effect on the operations, financial condition and results of the Group.

The stability of the RES support system (certificates of origin of electricity) is uncertain and changes to it could negatively impact the Group

As a result of the entry into force of the Act on Renewable Energy Sources, dated 20 February 2015 (the **Act on RES**), then-existing support system for RES installations was fundamentally remodelled. As a result of the changes, access to the green certificates system was stopped for new installations (the last installations to gain access to the system had to commence energy production before 1 July 2016), and the obligation to purchase “green” energy by obliged sellers at a regulated price has been abolished with effect from 1 January 2018 for installations with installed capacity of over 500 kW. Furthermore, the Act on RES introduced an auction system as the target support system for RES. Although existing installations are permitted to “migrate” to the auction system, there is a lack of detail in the new legislation as to how this will work. In addition, despite oversupply on the green certificates market resulting in a significant fall in the prices of green certificates, no mechanisms have been introduced in the new legislation to effectively counteract this phenomenon.

In light of the possible prolonged oversupply of green certificates and the possibility that migrating to the auction system will not achieve prices reflecting the anticipated returns on investments into the RES installations, the revenues of the Group companies affected may be lower than expected. Additionally, certain Group companies may incur losses arising from their obligation to perform long-term agreements for the purchase of green certificates at prices higher than market prices, which may affect the competitiveness of the Group’s electricity offer when compared with that of other market participants.

The uncertainty of the legal regime surrounding the RES sector, including changes reducing the support system to certain installations and introducing limitations with respect to biomass sourcing as well as changes in the market of certificates of origin, could adversely affect the results achieved by the Group in this area, and make its existing and future investments in renewable sources less feasible.

Decreasing free emission allocations and changes to CO₂ emission allowance prices could negatively impact the Group

The production of electricity and heat from coal-fired power plants and combined heat and power plants involves the emission of CO₂ into the environment. In 2005, the European Union introduced the EU system of emission allowances trading (the **EU ETS**). Within the EU ETS, each greenhouse gas emitter must counterbalance its greenhouse gas emissions with emission allowances allocated to it for free by the state or acquired within an auction or in the open market, otherwise the emitter is penalised.

In the Phase III of the EU ETS, the pool of free CO₂ emission allowances granted to power generation installations in Poland as part of the transitional allocation (see “*Regulatory Environment – CO₂ emissions allowances*”) are being progressively limited and will be completely terminated by the end of 2019. Thereafter, CO₂ emission allowances will have to be purchased at auction or in the open market, where prices are subject to fluctuation.

It is expected that certain Group companies will be forced to purchase a higher number of European Union Allowances (the **EUA**), the Certified Emission Reduction (the **CER**) or the Emission Reduction Units (the **ERU**) certificates in the future which will, if the price for the emission allowances increases significantly, adversely affect the Group’s energy production costs.

The decreasing availability of free emission allocations and/or the increase of CO₂ allowance prices are likely to result in a substantial increase in the Group’s generation variable costs, thus making the price of electricity sold to end customers less competitive, which may adversely impact the Group’s business, prospects, financial condition or results of operations.

A failure to obtain necessary consents and permits from local authorities and title to real estate could adversely impact operations

The Group is subject to various regulations in Poland and is also required to obtain various safety permits from various authorities for its operations.

The future success of the Group will depend, in part, on it receiving various permits, consents and relevant legal title to key real estate, as well as reaching agreements with local authorities. In the past, Group companies have experienced difficulties in obtaining such permits, consents and titles in a timely manner, as well as obtaining access to real estate, which has caused delays in executing investment plans. The Group is not in a position to assure that, in the future, it will be able to obtain all necessary permits, consents and agreements in a timely manner and that it will be able to enter into relevant agreements regarding real estate. Any failure to do so could adversely impact the operations, financial condition and results of the Group and/or the ability of the Issuer to meet its obligations under the Notes.

Claims related to the unregulated legal status of real properties could negatively impact the Group

Certain properties in the possession of the Group on which equipment and installations are located or through which power and heat lines run have an unregulated legal status.

In many cases after World War II, the electricity and heat transmission and distribution grid infrastructure was built on real property owned by third parties without an explicit agreement with the owners of such property since no such agreement was legally required at the time. As a result, there are legacy problems in this respect.

The Civil Code dated 23 April 1964 (the **Civil Code**) has made it possible for a person who incurred the costs of construction of infrastructure used for, among other things, supplying electricity and connecting to the grid of a transmission or distribution company, to acquire the ownership rights to that infrastructure for appropriate consideration. As the Civil Code does not precisely specify the status of the infrastructure constructed before it came into force or the rules of the settlement thereof with the relevant company, the risk of claims being pursued by persons who incurred the costs of construction of such infrastructure for the settlement thereof cannot be ruled out.

Such claims, if pursued against a Group company, could have an adverse impact on the operations, financial conditions and results of the Group.

Risk associated with the implementation of smart grid and advanced metering infrastructure

Directive 2009/72/EC of the European Parliament and of the Council of 13 July 2009 concerning common rules for the internal market in electricity expresses a preference for smart grids as the direction for the development of electricity grids. Smart grids aim to provide a supply of electricity that is economically efficient, while at the same time improving the stability and security of supplies.

Pursuant to the abovementioned directive, the President of the ERO has required the five biggest DSOs in Poland to install smart balancing meters in MV/LV stations. The number of meters installed should cover a minimum of 80 per cent. of end receivers by 2020 which is a challenging target, and failure to meet this target could have adverse consequences for the Group. In the long-term, the intention is for these meters to minimise, amongst other things, the duration of low voltage energy supply interruptions.

The Group has taken action relating to the implementation of the smart grid concept. However, this comes with certain risks. The most significant risks relate to the possible reluctance of customers to adopt innovative solutions and the issues surrounding necessary amendments in the regulatory framework that would support the implementation of the smart grid concept. These risks could result in the loss of end customers and/or further uncertainty in the regulatory framework, each of which could affect the Group's operations and/or financial condition.

Tauron Dystrybucja has begun the process of implementing the Advanced Metering Infrastructure (the **AMIs**) locally (in Wrocław) on a large scale (implemented for all customers). The goal of AMIs is to provide customers and other utility companies with real-time data on power consumption and allow customers to make informed decisions about energy consumption based on the price at the time of consumption.

However, the implementation of the remote metering system carries a number of business, regulatory and technical risks. Whilst implementation of the AMIs may have a positive impact on the Group's distribution tariffs, the implementation will be expensive. As this is an innovative project, recommended standards have not yet been established, which means there is an increased risk of operation difficulties and potential customer dissatisfaction during implementation.

These factors may have an adverse effect on the operations, financial condition and results of the Group and/or the ability of the Issuer to meet its obligations under the Notes.

Certain provisions of the support scheme for RES could be found to constitute unlawful state aid

Aid granted under the support schemes provided for in the Act on RES will be compatible with the internal market provided that, while conducting the auctions, the Polish government (represented by the President of the ERO) complies with the requirements set out in Regulation 651 or the Communication from the Commission Guidelines on state aid for environmental protection and energy 2014-2020. For example, Regulation 651 applies if the aid for the production of electricity from renewable sources does not exceed EUR15 million per beneficiary per project or EUR150 million per year in the event that the competitive bidding process under Article 42 of Regulation 651 is applied taking into account the combined budget of all such aid schemes for the promotion of electricity from renewable sources in Poland. The EEAG aims to promote a competitive bidding process by imposing conditions on the giving of aid depending on whether it is appropriate and proportional, and with regard to any incentives it may provide and any negative impacts such aid may have on competitive trade. In addition, any state aid must not have the effect of providing windfall profits for beneficiaries. The European Commission has stated that in the period 2020-2030, "established renewable energy sources will become grid competitive, implying that subsidies and exemptions from balancing responsibilities should be phased out in a digressive way". Therefore an

assessment aimed at checking whether an entity taking part in the auction system could potentially obtain aid incompatible with the internal market will have to be performed to review the terms and conditions of a specific auction, rather than just a review of the Act on RES.

The Group is not aware of any official assessment of the general compatibility of the Act on RES with Regulation 651 or the EEAG.

In addition, it cannot be ruled out that in the future the European Commission may come to the conclusion that the current support system for multi-fuel combustion plants (although limited), dedicated multi-fuel combustion plants and hydro-generation introduced in Poland constitutes an aid scheme which is incompatible with the internal market. There can also be no assurance that any future scheme implemented in Poland will not be considered to be state aid.

There is also a risk that the European Commission could conclude that the new support system to be introduced by the Act on RES, or some elements of that system, is incompatible with the internal market, in which case any future transactions in which the Group receives funding as a result of that Act might also be treated as involving unlawful state aid. In either case it could result in an obligation on the Group to return such aid received with interest. This could have an adverse effect on the Group's business, financial results, financial condition and prospects and, consequently, on the value of the Notes and on the ability of the Issuer to make payments under the Notes.

The Group may have to return of state aid

The Group has obtained finance by way of state aid for the construction of RES units. Due to the low market price of green certificates, those units are only operational part-time. The Group is accordingly at risk of breaching the finance agreements relating to the state aid received, because the support agreements provided for certain level of utilisation of the units, and such levels are not met. Such a breach could lead to the Group being forced to return all or a part of state aid received, which may have an adverse effect on the operations, financial condition and results of the Group and/or the ability of the Issuer to meet its obligations under the Notes.

Risk related to the distribution unbundling

This risk relates to the possibility of the regulator ordering the separation of electric power distribution from the Group's structure to ensure the safety and non-discrimination of customers. While no such initiatives are in place as of the date of this Prospectus, it cannot be excluded that the regulator will take such action in the future. The requirement of independence of distribution system operators (**DSOs**) or the Group's withdrawal from distribution may adversely affect the Group's operations, however the Issuer considers this risk to be very low.

Risk of change of or withdrawal from the co-generation support scheme

As other undertakings involved in power and heat co-generation, the Group is a beneficiary of domestic support for units of high-efficiency co-generation, which is based on a system of tradable property rights arising under certificates of origin of electricity generated in RES. Under the Act on RES, the current system of support for high-efficiency co-generation is to be in force until the end of 2018. There is no certainty whether, and if so, what kind of co-generation support scheme will be in place in Poland after that date.

The absence of such system after 2018 or the operation of a system different from the current one may adversely affect the revenues that can be achieved from the co-generation of power and heat, which may adversely affect the profitability of co-generation units that the Group has now or may have in the future.

Risks arising from pending or threatened litigation

A number of different court actions, regulatory investigations and proceedings are currently pending against the Group and further actions or proceedings may be instituted in the future. The disputes are, for the most part, related to contractual interpretation and obligations (including payment obligations) arising thereunder. Although these claims are individually immaterial, if a large number of such claims are resolved against the Group they could, in aggregate, materially adversely affect the Group's business, revenues, results of operations and financial condition.

RISKS RELATING TO STRATEGY AND CORPORATE STRUCTURE

A failure to successfully implement the Group's strategy could negatively impact the Group's results of operations

On 2 September 2016 the Issuer's Management Board adopted the document entitled *TAURON Group's 2016-2025 Strategy* (the **Strategy**). The Strategy has been produced as a response to the current and future challenges within the power sector and the markets in which the Group operates (see "*Description of the Group – Strategy*").

The successful implementation of the Strategy is subject to various risks including but not limited to:

- difficulties related to the long-term procedures of awarding public contracts for goods and services, in particular under the Public Procurement Law;
- difficulties in obtaining the required decisions or permits due to administrative or legislative obstacles;
- delays in the investment processes related to the modernisation of the existing installations;
- cost overruns due to the underestimation or increase of prices of goods and services;
- project delays;
- lack of agreements and conflicts with our key business partners;
- labour conflicts and collective bargaining agreements;
- adverse market changes;
- risks related to the construction of its electricity generation facilities, including risks related to the availability of equipment from reliable suppliers, the availability of building materials and key components, the availability of key personnel, including qualified engineering personnel, delays in construction timetables and completion of projects within budget and to required specifications; and/or
- other impediments such as adverse weather conditions, difficulties in connecting to electricity transmission grids, construction defects, delivery failures by suppliers, unexpected delays in obtaining zoning and other permits and authorisations or legal actions brought by third parties.

The Group operates in a constantly changing environment over which it has little control and that requires a rapid response to deal with the changes to market conditions and compliance rules. Unfavourable legislative or market trends may result in the Group being unable to implement its Strategy, particularly the key programme of efficiency enhancement. If the Strategy is not

successfully implemented then there is the risk of an increase in operating costs and deterioration in the Group's results and financial standing.

Strategic investments carried out by the Group expose it to risk

Strategic investments carried out by the Group are focused on modernising production capacity and developing electricity grids. Currently planned investments are expected to involve expenditure amounting to approximately PLN18 billion in years 2016-2020 (including PLN3.8 billion already spent in 2016). This will require the Group to obtain external funding. As strategic investments are spread out over time, there is a risk that the cost of obtaining funding will increase. The most important Strategic Investment Projects include the building of new capacity at Jaworzno III (910 MW), a new unit at Stalowa Wola (400 MW), the 800m level at ZG Janina and the "Grzegorz" shaft together with accompanying infrastructure.

In light of the specific features of the market, in particular possible changes to legal regulations impacting the operation of the energy sector, changes in the prices of energy and raw materials and disruption in the global financial markets causing an increase in interest rates and foreign exchange rates, there is also a risk that the anticipated financial impact of investments may be negatively affected.

Project risk management allows the Group to identify and manage the implementation of business risks. Implementation risks affect compliance with the timeline and budget of the project. Business risks relate to the gains assumed for the investments undertaken and are of key importance for the implementation of EBITDA planned for the years 2017-2020. The most important business risks concern, *inter alia*, the volume and change of electricity prices and related products, decreases in the volume of generated electric power and changes in property rights prices related to certificates of origin. Among the most important implementation risks is the bankruptcy risk of the General Contractor. Failure to anticipate all works necessary to be carried out under the project and non-fulfilment of investment and operating commitments by project partners may lead to an increase in the costs of the project, a delay in finalising the project or, in the most extreme circumstances, not finalising the project at all.

The launch of strategic investments requires corporate consents and administrative decisions. The protracted periods for obtaining the necessary administrative decisions may cause delays in the implementation of strategic investments or if consent is not given it may prevent the execution of strategic investments. The Public Procurement Law may also prolong the implementation of strategic investments and increase the risk of a dispute between contractors.

Suspending the implementation of strategic investments could have an adverse effect on the performance of the Group's strategy, and hence on its financial results.

Reputational risks can negatively impact the Group

As for all major energy utilities, the Group's reputation is influenced by discussions and events related to the coal, nuclear power, energy policy, energy transition, contractual partners, customer care and energy prices. As an energy utility with a focus on conventional power, the Group is particularly exposed to criticism that is expressed in connection with coal-fired power plants. Moreover, in recent years many customers have come to prefer renewable generation, which is also associated with corresponding criticism of conventional energy generation.

There is a risk that damage of our reputation resulting from unforeseeable and non-controllable external events could have material adverse effects on the financial condition and results of operations beyond the direct impact of such events.

A failure to maintain pace with technological changes in the rapidly evolving energy sector would negatively impact the Group

The technologies used in the energy sector have changed in the past, and may continue to change and evolve rapidly in the future. Techniques for generating, storing, and distributing electricity are constantly improving and becoming more complex.

In order for the Group to maintain its competitiveness and expand its business, it must effectively adjust to changes in technology. In particular, technologies related to power generation and electricity distribution are constantly being updated and modified. If the Group is unable to modernise its technologies quickly, it could face increased pressure from competitors who are better able to do so and, as a result, lose customers. The Group could also lose opportunities to expand its operations in existing and new markets as a result of any failure to integrate new technologies in its operations. As a result, the Group's failure to respond to current and future technological changes in the energy sector in an effective and timely manner could have a material adverse effect on the Group's business, financial condition, prospects or results of operations.

Failure to comply with or retain licences could negatively impact the Group

In Poland, operations conducted by the Group require various licences including concessions to produce, distribute and trade in electricity and heat. Securing new licences, maintaining current licences and extending the validity of current licences are of major importance to the operations of the Group. The most important licences held by Group companies have been issued by the President of the ERO. The Group cannot give any assurance that, in the future, the President of the ERO will not change its approach with respect to granting licences to Group companies or that it will not amend an existing licence on the basis of the relevant statutory authority, including restricting its scope, or that it will not revoke any of the existing licences. The Group cannot guarantee that Group companies will always comply with all of the licence requirements. Any failure to comply with licence requirements could result in financial fines of up to 15 per cent. of income or the revocation of the licence.

Prior to the expiry of the most important licences, the Group's companies apply for extensions and, as their operations develop, they apply for new licences. For example, the Group's distribution licence expires in 2025. The Group cannot provide assurance, however, that the licences held by Group companies will be extended or that the Group will obtain all of the new licences necessary for its development.

Failure to obtain new licences or to renew existing ones may have an adverse impact on the operations, financial condition and results of the Group and/or the ability of the Issuer to meet its obligations under the Notes.

Risks related to setting of tariffs could have a material adverse effect on the Group's financial position

Legal regulatory background

The revenues of an energy company are predominantly determined by tariffs, which provide for the maximum electricity prices which could be charged by the Group depending on the tariffs group. Under Polish law, tariffs should cover reasonable costs of operation and should protect customers from unreasonable price increases. Energy companies that hold licences are obliged to submit their proposed tariff packages to the President of the ERO for approval. The terms and conditions of setting tariffs are set out in secondary legislation issued pursuant to the Energy Law. The President of the ERO may exempt an energy company from the duty to submit tariffs for approval if the President of the ERO determines that the company operates in a competitive market.

The obligation to submit tariffs for approval by the President of the ERO currently applies to energy undertakings engaged in the electricity distribution and transmission sectors and to energy undertakings selling electricity directly to retail customers (known as tariff group G). The tariff obligation also applies to entities involved in the generation and distribution of heat. All energy undertakings engaged in the generation and sale of electricity (in general without tariff group G) are exempt from the obligation to have their tariffs approved by the President of the ERO.

In accordance with the above, Tauron Sprzedaż sp. z o.o. (**Tauron Sprzedaż**) and power producers in the Group are exempt from the obligation to have their tariffs approved by the President of the ERO except for sales by them to retail customers. Tauron Dystrybucja S.A. (**Tauron Dystrybucja**), as a company involved in distribution services, also needs to apply to the President of the ERO for the approval of its tariff (see “*Regulatory Environment – Tariffs*”).

Specific risks concerning tariffs include:

- Risks associated with the fact that the tariffs are approved by the President of the ERO by way of an administrative decision which involves a process over which the Group has limited influence. The President of the ERO may regulate prices according to the law and other external factors beyond the control of energy companies and also with a view to protect customers. This may lead it to reject what it believes to be unjustified costs and/or profit margins, or the prices and tariff-related fees proposed by energy companies and, as a result, tariffs might not fully reflect the Group’s operational costs, assumed level of capital expenditures or return on capital.
- The risk associated with any delay or non-approval of tariffs by the President of the ERO. A protracted process of agreeing the components of a tariff (such as costs and volumes) may lead to a delay in its approval. If a tariff is not approved by 17 December of the year preceding the introduction of the new tariff, the energy company making the application cannot introduce new rates from 1 January. Such potential delays in the introduction of a tariff (especially in cases where the company had bona fide expectations that any increase in tariff prices would be approved) could potentially result in loss of part of the revenue assumed for the given tariff year. Therefore, a delay in the approval of its proposed tariffs may adversely affect the Group’s financial condition.
- The risk of changes in regulatory policy which affects the Group’s distribution business. When approving tariffs for the Group’s distribution business, the President of the ERO determines key formulas and inputs based on the regulatory policy adopted by it in its guidelines, which are not necessarily derived directly from provisions of law. Therefore, there can be no assurance that existing principles relating to regulatory policy as understood by the market will remain constant should the President of the ERO decide to modify its regulatory policy, especially after the end of the current five year regulatory period for 2016-2020. Any such changes could result in lower than expected revenues and profitability achieved by the Group in the Distribution Segment.
- New parameters for the calculation of DSO tariffs for the regulatory period 2016-2020 take into account, among other things, an updated approach to determining the weighted average cost of capital, the reassessment of the efficiency of undertakings in terms of operating costs and the book-tax difference volume, as well as some elements of quality-control regulation. This more expansive set of parameters could make it more difficult for relevant Group companies to have their tariffs approved which in turn could have a material adverse impact on the Group’s operations and financial condition.
- Risks associated with quality performance. The President of the ERO has introduced a system which allows the imposition of penalties with respect to the quality of service provided by a

distribution company. Since 2016, any interruption in (i) the supply of electricity to customers and (ii) connectivity implementation time, impacts an energy company's quality ratio. Any deterioration in the quality ratio may result in a reduction of the relevant company's capital-based remuneration in its tariffs for subsequent years. The Group's inability to achieve quality of service measures stipulated by the President of the ERO could therefore result in lower than expected profitability in the Distribution Segment.

- In the current regulatory period, the President of the ERO introduced an additional ratio which aims to determine and evaluate the innovation activities undertaken by the DSO. There is also a risk that a negative or critical assessment by the Energy Regulation Office (the **ERO**) in relation to this ratio could result in a reduction of the relevant company's capital-based remuneration in its tariffs for subsequent years.

Risk related to the main shareholder

The Polish State Treasury is the dominant shareholder of the Issuer. As at the date of this Prospectus, it holds in total 30.06 per cent. of the shares in the Issuer. In view of the entry into force of the Act on the Rules of Managing State Property dated 16 December 2016 and new rules concerning the disposal of shares belonging to the Polish State Treasury, it is likely that this shareholding percentage will remain the same for the foreseeable future (and is not likely to change by operation of law). The Polish State Treasury can exert an influence on the decisions of the Issuer's Management Board with respect to dividend payment recommendations. As controlling shareholder, the Polish State Treasury may use its influence to secure dividend payments that are higher than they otherwise might be, which could weaken the financial condition of the Group and impact the ability of the Issuer to make payments under the Notes. Furthermore, the current attitude of the Polish State Treasury with respect to dividends is to tie the amount of dividends payable to its assessment of the implementation of the Group's investment programme, as a result of which the Group's independence with respect to the implementation of its strategy is limited.

In addition, if the Polish State Treasury was to sell all or part of its shareholding, whether by privatisation or otherwise, any new controlling shareholder might pursue a strategy that differs from that of the Group at the date of this Prospectus. Any politically motivated influence or instability in corporate governance matters relating to the Group could have a material adverse effect on the Group's business, financial condition and the results of operations. The Group has made investments in the coal industry. It is possible that the Group may be requested to make further investments in the coal industry in the future. Such investments may involve acquiring entities or operations that carry significant financial and other liabilities. Such investments may involve acquiring entities or operations that carry significant financial and other liabilities. The Group can give no assurance that the financial results of any investment associated with the abovementioned investments would not adversely affect its business.

Risk associated with corporate supervision

The Group is also subject to additional corporate supervision under the Act on Crisis Management dated 26 April 2007 and the Act on Special Prerogatives of the Minister in Charge of Energy and Their Exercise in Certain Companies and/or Groups of Companies Operating in the Electrical Energy, Crude Oil and Gas Fuel Industries dated 18 March 2010. These Acts confer powers on the minister in charge of energy in respect of: (1) obtaining information on the Group's business operations; (2) access to the Group's documentation; and (3) the right to object to any disposals of assets of primary importance to the Group, its liquidation or other related decisions. Such powers, in particular those described in (3) above, could affect the implementation of the management's strategy with respect to the business and the running of the Group's business as the management sees fit.

Risk associated with the structure of the Group

Polish law has no comprehensive regulations concerning the cooperation of companies within a group. Polish law only recognises the business interest of an individual company and has difficulty recognising the overarching business interests of a group. As a result, intra-group transactions often require justification proving that any given action was taken in the best interest of each of the companies involved. In light of this, there is a risk associated with ineffective and inefficient management of a group of companies with capital ties to each other. This in turn can have an adverse effect on the operations, financial results and condition of the Group as a whole.

The Issuer directly and indirectly holds shares in several subsidiaries. The companies forming the Group provide services connected with the Issuer's core business, as well as other activities undertaken by it which are not connected with electricity generation, but rather increase the operational effectiveness of the Group's activities, control and limit costs and increase the competitiveness of the products and services on the electricity market.

It may be that the Group has to undertake restructuring measures from time to time in order to facilitate operational effectiveness across the Group. The Group cannot provide any assurance that such restructuring will be implemented effectively and in a timely manner or that any failure to do so will not adversely impact the operations, financial condition and results of the Group and/or the ability of the Issuer to meet its obligations under the Notes.

Notwithstanding the Group's risk management system, due to the Group's complex structure (including the fact that there is currently no centralised compliance function for the Group) there is a risk that the Issuer's Management Board may not be aware of all risks and issues that individual Group companies may have at any given time.

The Notes will be structurally subordinated to the claims of the creditors of the Issuer's subsidiaries

The Issuer is the parent company of the Group and depends upon intercompany transfers from its subsidiaries. Noteholders will not have any claim as a creditor against any such subsidiaries. Generally, indebtedness and other liabilities, including trade payables, whether secured or unsecured, and claims of preference shareholders (if any) of those subsidiaries will be structurally senior to the claims of Noteholders. In the event of any dissolution, winding up, administration, liquidation or other insolvency, reorganisation or bankruptcy proceeding in respect of such subsidiaries, holders of debt and trade creditors of such subsidiaries will typically be entitled to payment of their claims from the assets of the relevant subsidiaries before any assets are made available for distribution to the subsidiary's common equity holders. As such, the Notes will be structurally subordinated to the creditors (including trade creditors) and preference shareholders (if any) of the Issuer's subsidiaries. The issue of structural subordination may be exacerbated by issues under Polish corporate law relating to transactions between Group companies. See "*Risk Factors – Risks associated with the structure of the Group.*"

RISKS RELATING TO THE COMMODITY MARKET

Changing market prices and margins for power could negatively impact the Group's results of operations

The Group is exposed to considerable market price risks in almost all of its areas of operation. The achievable margins depend on the market prices for power, and the respective fuels used in the Group's power plants (coal in particular), as well as the prices of CO₂ certificates. The relevant prices can be affected in particular by external factors, on which the Group has no influence, such as global or cyclical fluctuations, national energy policy, seasonal imbalances of supply and demand, or the

emergence of new providers. Generally, the price of electricity is determined at various energy and/or commodity exchanges by balancing supply and demand. Due to the continued increase of the renewable generation capacity, it cannot be ruled out that the power prices will drop even further in the future. Declining power prices as well as rising or falling commodity prices could materially adversely affect the profitability of the business of the Group.

The Group comprises companies from both generation and sale segments. This causes the risk within the Group to diversify to a certain extent due to the presence of opposing positions in those areas. Since those areas do not fully balance out, however, and also due to their different exposure, the Group is exposed to the reduction of energy prices and the lack of co-integration between energy prices and the prices of fuels and CO₂ emission allowances. The lack of co-integration means that changes in prices of those goods may not converge and may negatively affect the Clean Dark Spread which is a basic component of the margin in the generation segment.

As part of its operative business activities the Group endeavours to hedge against existing price risks with regard to power and fossil-fuel primary energy sources, predominantly via hedging transactions (via exchanges as well as over-the-counter). In this context, there is an additional risk that the Group proves unable to comprehensively hedge against the adverse effects of any change in power and commodity prices through these hedging transactions. In addition, derivative financial instruments also face counterparty default risk. This could have material adverse effects on the financial condition and results of operations of the Group.

Reduction of liquidity on the commodity market may affect the Group's operations

Since the energy generation segment and the supply segment do not completely balance out (short position of approx. 15 TWh) the Group is exposed to the risk stemming from the low liquidity of the commodity market, the weight of which has been increasing especially in the last two years. The decrease of the 2017 turnover volume of the annual BASE product in respect of the previous year approximates 50 per cent. Among the causes of the decrease of turnover volume at the Polish Energy Exchange we can list the following:

- the entities ending the performance of long-term contracts (**LTCs**), withdraw from the exchange market (internal netting in the remaining energy groups);
- entities reluctantly sell their production in the long term due to the lateral price trend and expected increase of long-term prices of coal and CO₂; and
- entities cut their costs stemming from transaction fees and the requirement to set up margins.

Influence of risks on the Group:

- difficulties with securing financial results in the long term;
- increase of price risk related to the trading on the Following Day's Market (a much higher price volatility than in the case of the Commodity Forward Instruments Market, RTT);
- Polish Power Exchange (the **TGE**) - based reference indices may not sufficiently reflect the current market situation - particularly for future deliveries with terms longer than one year;
- reduced competitiveness and attractiveness for end clients of final products offered by Tauron Sprzedaż especially in the long term, with delivery in the year Y+2 and subsequent years; and
- competition shifted from the wholesale market to the retail market.

The above circumstances could have a material adverse effect on the activity, results or financial condition of the Group.

A decrease in the demand for electricity could have a negative effect on the sales and generation volume

The demand for electricity is a major factor affecting the Group's results of operations. Although the Group expects the demand for electricity to continue to grow in the long term, there is no assurance that this growth will actually continue or that the rate of growth will reflect assumed levels. A slower pace of economic growth, an increase in energy prices or the implementation of new energy-saving technologies may result in a decrease in the demand for electricity.

A decrease in the demand for electricity that results from a drop in the rate of commercial growth, could result in decreases in sales volume and production volume. This could have a negative impact on the Group's cash flow and financial condition and its ability to cover fixed costs. Additionally, one of the factors used in determining the value of tariffs is forecasted demand for electricity. If actual demand is lower than forecast, there may be a risk that the Group will not be able to generate enough revenue to meet the costs justified by the tariffs.

The process of approval of a tariff is based on the agreement of the amount of costs and supplies of electrical energy in the individual tariff groups. An inaccurate forecast is reflected in regulated income (including fixed costs) not being recovered. The most significant factor that results in regulated income not being recovered is a decrease in low-voltage supplies to recipients.

The above circumstances could have a material adverse effect on the activity, results or financial condition of the Group.

Volume risks due to market standards, cyclical and technical developments and political decisions.

The Group is exposed to the risk that any power and commodities volumes may fall below projected quantities. Overall, as in the past the power and commodities markets are likely to continue being characterised by a high degree of volatility in sales volumes, which is affected, particularly by meteorological factors, as well as by macroeconomic and cyclical developments, political decisions, and technical aspects.

This risk is exacerbated by the fact that the power and gas customers are, for the most part, not subject to any contractual obligation to purchase the entire consumption quantities forecasted by the Group. The high-volume of business-to-business (B2B) customers is characterised by a great willingness, on the part of customers, to change providers, and the Group is thus exposed to the risk that the volumes projected prove unable to be sold and forecast margins might therefore be unachievable. Conversely, the Group is also exposed to the risk that the power and gas quantities actually demanded by its customers exceed the projected consumption volumes, potentially proving unable to produce the required additional power quantities itself at terms that cover its costs or to procure such volumes in the market at such terms.

In connection with the discrepancy between the forecast power and gas consumption and the actual consumption, the Group is exposed to a so-called profile and imbalance risk. One of key risks is quality of consumption forecasts, which can drop as a consequence of a strongly fluctuating generation from renewable generation or a volatile power consumption. In such case or if the forecast was prepared incorrectly, the costs for balancing energy or for the structuring of the supply to customers in line with their needs would increase, which would have a negative effect on the cost structure and could lead to falling margins. Moreover, the forecasts have an impact on the volume of any hedging transactions the Group enters into. Any change in consumption and thus the power and gas prices could result in the hedging transactions of the Group proving to be either insufficient or excessive.

Quality of forecasts prepared by the Group, as well as changes in actual demand volume, could result in falling margins or even losses, particularly under long-term energy supply contracts, and have material adverse effects on the financial condition and results of operations of the Group.

Liberalisation of the electricity market could increase competition and reduce the Group's customer base

The Group is exposed to significant and increasing competition in the electricity and energy markets in Poland. Given the ongoing development of the retail energy market in Poland, the increasing activity of energy sellers and a growing number of customers who change their energy supplier, the Group is exposed to the risk of losing existing customers in the retail market and the risk of decreased margins achieved on sales to existing retail customers.

The Group faces risks associated with the actions of competitors and the entry of new entities into the market. The ongoing liberalisation of the energy market in Poland, changing legal requirements and restrictions with regard to competition, the changing value and volatility of the market and the number and size of current and potential competitors are all factors affecting competition.

The Group cannot anticipate all of the various risks and opportunities that may arise from the ongoing liberalisation of the Polish energy market. The complete implementation of the liberalisation process is intended to eliminate regulated retail tariffs, which is expected to further increase competition. The ongoing changes to the Polish energy market could adversely impact the operations, financial condition and results of the Group and/or the ability of the Issuer to meet its obligations under the Notes.

Ongoing liberalisation of energy market leads to intense competition, which in recent years has sometimes resulted in significant decreases in sales. This competition has intensified in the past and could further intensify in the future owing to the entry of new market participants or a more competitive approach by existing competitors, thus increasing the risk of declining sales or lower profit margins for the Group. Moreover, the margins that are realisable with major customers have been declining overall for several years. While this applies primarily to the power business, the achievable margins in the gas market also may decrease.

Increase in renewable power generation can result in displacement of conventional power plants among the competition.

Decarbonisation requires a transition in power generation from fossil fuels to renewable energy sources. Therefore, conventional generation of power faces the risk of losing competitiveness against renewable energy and thus market share and, over the long term, even faces the risk of disappearing completely from the market. Furthermore, there is a risk that customer demand for renewable energy increases to the detriment of conventional energy. The European Union member states have agreed in their 2030 energy strategy to reach at least a 27 per cent. share of renewables by this date.

The steady expansion and government support of renewable power generation has an increasing impact on the electricity market. As storage capacity of power is limited, wholesale prices are normally determined by the power demand and supply at a point in time. Given a certain demand (so-called "load"), the power price is determined on the basis of the highest short-term marginal costs of the power plant that is still needed to cover the overall power demand (market clearing price). These marginal costs are only variable generation costs and include costs for commodities, CO₂ emissions rights, as well as variable operating costs and any opportunity costs as appropriate. The resulting merit order ranks the available power plants based on their short-term marginal costs in ascending order. Starting with the lowest marginal costs, power plants are deployed until the required power need is met.

The variable generation costs for generation from renewable energy, such as wind and solar energy, are almost zero as they do not require any fuel to produce electricity. As a result the merit order typically starts with renewables followed by power plants with high investments, but comparably low variable generation costs, such as hydro- or lignite-fired power plants. Hard coal-fired power plants constitute normally the middle/end of the merit order.

The continuous growth of renewables results in a displacement of conventional power plants in the merit order. In times of high feed-ins of renewable energy, and a given demand, conventional power plants are no longer necessary to cover the demand. Additionally the marginal power plant determining the energy price has lower marginal cost which results in a lower energy price. Given the renewables target of the EU, it can be expected that conventional energy will be deployed to a lesser extent.

The shift of the energy mix towards a preference for power from renewable generation is leading to a reduction of power generation from fossil energy sources and to a decline in wholesale power prices. This has a negative impact on the part of the Group's energy business that is based on fossil energy sources, which could materially adversely affect Group's financial condition and results of operations.

Risks arise for the Group business from the global promotion of decarbonisation and the related decline in conventionally generated energy

In the coming years, the Group's operations may be adversely affected by risks related to the intended decarbonisation of the energy sector and the continuing development of RES.

Specific risks concerning promotion of decarbonisation:

- EU legislation aimed at reducing the share of coal as fuel in the energy mix and strengthening emission standards for coal sources. The Proposal for a Regulation of the European Parliament and of the Council on the Internal Market for Electricity eliminates from the power market new generating units (for which the final investment decision was made on the entry of said regulation into force) emitting more than 550 g CO₂/kWh, and five years after coming into force its provisions will also affect all the existing generating units exceeding that limit. Provisions of the Regulation in the above form limit or completely suspend investments in new coal sources and impose phasing out of that generating technology in the long run. Such a situation adversely affects operations of the Group whose substantial majority of generating units are based on coal.
- Conventional power generation is largely associated with the greenhouse gas emissions. Decarbonisation, as a central goal of the energy transition, refers to the transition of the energy sector towards a lower emission of CO₂. At the World Climate Conference in Paris, France, held at the end of 2015 (United Nations Framework Convention on Climate Change), the participants agreed on the first global climate protection treaty (the Paris Agreement) that bindingly pledges a so-called "2-degree cap" (the reduction of global warming to less than 2 degrees Celsius compared to pre-industrialisation levels) under international law and obligates the signatories to achieve greenhouse gas neutrality in the second half of the century. The global climate protection policy, which in addition stipulates the endeavour of the community of states to limit the increase in temperature to 1.5 degrees Celsius, could also have a significant impact on the development of the world's electricity and gas markets and gives rise to the expectation that individual countries may adopt ever stricter climate protection requirements. According to the targets set at the World Climate Conference in Paris, greenhouse gas emissions should already be reduced globally by 40% to 70% by 2050, compared to the levels of 2010. In particular, this requires a transition from fossil-fuel energy sources to renewable generation.

- The Group is also adversely affected by the continuous development of RES which reduces the share of conventional power in the energy mix, as well as the growth of prosumers that reduces end customers' demand. The EU power strategy provides for 27% RES in 2030, which will translate into an even more intensive growth of renewable energy, while the creation of the EU energy market will introduce cheaper energy generated abroad, thus reducing demand for generation from domestic conventional units.
- The EU's progressing decarbonisation policy also affects the perception of the coal-based energy sector by financial institutions. More and more firms declare departure from coal-based energy, while some major financial institutions declare not to finance coal projects. Among others, the Dutch ING which has a strong position in Poland has declared that it will not finance firms which have more than 50% of their business based on the production of energy from coal or on sales of power coal. From the Group's perspective such an approach of financial institutions has a negative impact on future possibilities of obtaining investment financing and its costs.

Risks arise from rising costs of emissions certificates

A large number of power plants operated by the Group generate energy from hard coal. This exposes the Group to the risks in connection with the European Union Emissions Trading System (**EU ETS**), particularly with regard to the power generation. The EU ETS is a "cap and trade" system and a major tool of the EU in its efforts to meet emissions reductions targets. It caps the total volume of greenhouse gas emissions. The EU ETS legislation, in particular the EC Directive 2003/87/EC establishing a scheme for greenhouse gas emission allowance trading within the Community, amended by, among others, Directive 2009/29 creates so-called EU allowances (**EUA**) which are essentially rights to emit greenhouse gas emissions equivalent to the global warming potential of 1 ton of CO₂. This allows companies to slowly adjust to meeting the stricter emissions reductions requirements. Each year, a proportion of the allowances are given to certain participants for free (for example in sectors where there is considered to be a potential risk, that production (and pollution) could shift to the countries with less ambitious emissions reduction action), while the remaining allowances are sold mostly through auctions. At the end of a year, the participants must return an allowance for every ton of CO₂ they have emitted during that year. If a participant has insufficient allowances it must either take measures to reduce its emissions or buy more allowances on the market. Participants can acquire allowances at auctions or from each other.

Currently, institutions of the EU are discussing the legal framework for the EU ETS in phase 4 beginning in 2021. The EU Commission among other things proposed that phase 4 should last until 2030 and that the number of allowances available to businesses subject to the EU ETS should be reduced by 2.2% per year. Final decisions from EU institutions are expected in 2017. Furthermore, the EU has already decided to introduce a market stability reserve (the **MSR**) at European level from 1 January 2019 onwards. This MSR will help to adjust the number of available allowances based on actual emissions. In case of excess supply, allowances will be transferred to the MSR reducing the quantity of allowances auctioned to the market, or vice versa in case of under-supply.

Such circumstances could significantly increase the EUA price and have a material adverse effect on the Group's business, financial results, financial condition and prospects and, consequently, on the value of the Notes and on the Issuer's ability to make payments under the Notes.

Risk of interruption of the supply of fuels to the Group's production units and risk of fuel price increases

The production of electricity and heat by the Group's production units depends on the supply of hard coal and biomass. Disruptions in fuel supplies may be caused by, *inter alia*, natural factors (such as natural disasters and difficult atmospheric conditions affecting transport), social factors (for example,

strikes), economic and political factors (for example, export restrictions, sector restructuring, reductions in the generation of nuclear energy as discussed below, the imposition of unfavourable conditions of transport or supply) and legal factors (such as changes to laws regarding mining or classification of RES). The limitation of, or interruptions in, the supply of fuel may result in the limitation or total stoppage of the supply of electricity and heat, depending on the scale of such interruption. Moreover any interruption of the supply poses a threat to the availability of fuels for the Group and its ability to comply with the statutory requirements regarding mandatory fuel reserves in the utility-scale power industry.

Hard coal from domestic producers accounts for the largest share in the Group's burnt fuel. Problems arising in the renegotiation of coal supply contracts or fuel charges under longer-term coal supply contracts or any changes in suppliers may result in increased hard coal supply costs to the Group which could have an adverse impact on the Group's financial position and profitability.

Any limitation on the development of nuclear energy may result in the increase of coal prices on the global markets, including the Polish market. Given that in 2016 the Group's fuel costs were 86 per cent. of its total generation costs, fluctuations in fuel costs have a material impact on the Group's expenditure and its financial condition.

All or any of the above factors may have an adverse effect on the operations, financial condition and results of the Group and/or the ability of the Issuer to meet its obligations under the Notes.

Failure to generate sufficient electricity to fulfil sales to end customers exposes the Group to market risk

The Group's generation capacity is limited when compared with the volume of its electricity sales to end customers. For example, during 2015, the Group's electricity generation amounted to 16.64 TWh compared to retail sales of 35.94 TWh. As a result, the Group has to procure electricity on the open market and is exposed to changes in the market prices of energy. Given the limited natural hedge of energy sales from its own generation, the Group's prices could (at times of limited open market availability) be less competitive compared to other integrated energy groups with greater generation capacity, which could result in the loss of customers and market share and have a negative impact on the Group's earnings.

RISKS RELATING TO THE FINANCIAL MARKET AND MACROECONOMIC CONDITIONS

Poor macroeconomic conditions could negatively impact the Group's results of operations

The Group's operations are focused on Poland with only a minor part of the Group's operations being conducted outside Poland. As a public utility, the Group's results of operations are significantly affected by the macroeconomic situation in Poland, which may be adversely affected by changes in regional and global financial conditions.

In particular, the Group's operations are affected by factors such as the level of Poland's GDP growth, the growth of industrial production, the inflation rate, currency exchange rates (for example changes in the EUR to PLN exchange rate, and the PLN to USD exchange rate), the level of interest rates, yields on Polish State Treasury bonds, fuel prices (including prices of hard coal, natural gas and biomass), the unemployment rate, changes in consumer affluence levels, and the Polish state's fiscal and monetary policy.

A lack of stability and difficulties in the financial markets, such as those experienced from time to time since the global financial crisis, may limit the availability of obtaining external financing. Limited access to external financing or an increase in its associated costs may in turn have an impact

on the Group's ability to implement its investment programme and strategy. An adverse macroeconomic situation may also increase the risk of insolvency for the Group's business clients, which could lead to difficulties in recovering debts owed to the Group, as well as to the loss of significant clients.

Such circumstances could have a material adverse effect on the Group's business, financial results, financial condition and prospects and, consequently, on the value of the Notes and on the Issuer's ability to make payments under the Notes.

The Group is exposed to foreign exchange and interest rate risks

A part of the Group's external financing is raised in currencies other than PLN (predominantly in EUR), while the Group's revenue is predominantly earned in PLN. As a result, the Group's borrowings expose it to certain foreign currency. Additionally external debt nominated in PLN bases on floating interest rate, so there is also interest rate risks. To address these risks, the Group has entered into hedging arrangements that are designed to reduce the Group's exposure to these risks. There can be no assurance, however, that such hedges will always eliminate the associated risks being hedged and any failure to put in place adequate hedges in the future could adversely impact the operations, financial condition and results of the Group and/or the ability of the Issuer to meet its obligations under the Notes.

The Group is exposed to risk related to the inability to obtain future financing, including debt financing, to fund the Group's investment programme

The Group intends to finance its operations, including its planned investments, with its own funds as well as external financing. The Group has significant capital expenditure investment plans. Such expenditure is budgeted to exceed cash generated from the Group's operations. The additional expenditure, including debt refinancing, is expected to be covered at least partially by external financing and, as a result, the Group's leverage is expected to increase in future years. Any failure to finance such expenditure, or any significant increase in expenditure could have a material adverse effect on the financial condition, prospects and operation of the Group.

It cannot be ruled out that in the future the Group may not be able to obtain new financing at the desirable level or on acceptable terms or at all.

To secure this funding, the Group plans to diversify its sources of debt capital. Further, the Group has obtained investment loans from international financial institutions such as the European Investment Bank (the **EIB**) and certain other commercial banks. To finance its working capital requirements, the Group plans to continue using working capital loans obtained from the Polish banking sector. The Group actively monitors and manages the risks associated with financing its capital expenditure programme by taking into consideration the financial covenants imposed on the Group as a result of its entry into various finance agreements and rating requirements in the finance agreements. These covenants include the indebtedness ratio and any breach in the future of this ratio could result in the Group having to renegotiate its covenants and, in a worst-case scenario, some or all of the Group's debt being accelerated. The failure by the Group to raise debt financing at levels which it expects from time to time will adversely impact the Group's ability to fund its operations across the Group which in turn could have a significant impact on its financial condition.

Additionally the Issuer has received credit ratings from Fitch. Independent credit rating agencies, including Fitch, may at any time lower the ratings or announce a negative outlook in relation to the ratings or withdraw the ratings altogether. Each of the above may increase the Group's costs of external financing, limit its access to capital markets and negatively influence its ability to sell products and enter into business transactions, especially long-term. This may affect the Group's liquidity and its ability to obtain financing (including refinancing of existing debts) for investments

and have a material adverse effect on its business, results of operations, financial condition or development prospects.

Furthermore, given the current shareholding structure of the Group, the Issuer's credit rating from Fitch is also linked the credit ratings of the Republic of Poland. Therefore, a downgrade in the creditworthiness of the Republic of Poland might have similar effects to the ones described in the above paragraph.

Risks related to the financial standing of key customers and counterparty defaults

The Group is exposed to counterparty default risks due to the trading and sales activity. In the event of a default of a partner, for instance as a result of insolvency, the Group would be exposed to default risk in relation to trading partners as well as to customers and suppliers. Risk exposure includes payment exposure as well as replacement exposure, since the corresponding trading position would then have to be sold or replaced at the current market price. In addition to counterparty default risk in trading and hedging transactions, the Group is exposed to a general default risk with respect to suppliers and customers.

The insolvency of key partners could result in difficulty recovering amounts owed by them to the Group, and also cause the loss of important customers, which may adversely impact the operations, financial condition and results of the Group and/or the ability of the Issuer to meet its obligations under the Notes.

Risks related to the Group's cash receivables

The Group has material overdue, after allowance/write-down receivables amounting to PLN239 million (approximately EUR54 million) as at 31 December 2016 (before allowance/write-down amounting to PLN496 million (approximately EUR112 million)), the majority of which is for energy deliveries. As at the date of this Prospectus, some of these receivables for energy deliveries are overdue by more than 90 days. Although the Group has been taking steps to recover such receivables, including negotiating repayment arrangements with debtors, filing court claims as appropriate and, in extreme cases, filing motions for the declaration of the debtor's bankruptcy, PLN24 million (approximately EUR5,4 million) after allowance/write down of the Group's receivables (PLN146 million (approximately EUR33 million) before allowance/write-down) were subject to court proceedings. It is impossible to predict the outcome of negotiations and bankruptcy and settlement proceedings. It is also, therefore, impossible to determine how much the Group may be able to recover from such claims. The Group may have problems with the sale, if any, of such receivables. The Group's failure to recover a substantial part of the receivables may adversely impact the operations, financial condition and results of the Group and/or the ability of the Issuer to meet its obligations under the Notes.

All amounts in this risk factor were converted into EUR according to the exchange rate announced by the National Bank of Poland on 30 December 2016, PLN4.4240 = EUR1.

RISKS RELATING TO THE OPERATIONS OF THE GROUP

Risk of high dependence of the Group's revenue on the effective performance of the equipment used by the Group in the operation of its power plants and electricity distribution networks

The Group's business and ability to generate revenue depend on the availability and operating performance of the equipment necessary to operate its power plants and electricity distribution networks. Mechanical failures or other defects of equipment, or accidents that result in non-performance or underperformance of a power plant or electricity distribution network, may have a direct impact on the revenues and profitability of the Group's activities.

The cost to the Group of these failures or defects is reduced to the extent that the Group may have the benefit of warranties or guarantees provided by equipment suppliers that cover the costs of repair or replacement of defective components or mechanical failures, or where the losses are covered by insurance. However, there can be no assurance that any liquidated damages or insurance proceeds would fully compensate the Group for the shortfall and resulting decrease in revenues, or that such suppliers will be able or willing to fulfil such warranties and guarantees, which in some cases may result in costly and time-consuming litigation or other proceedings.

Furthermore, industrial installations such as those operated by the Group are potentially hazardous to health, life and property, particularly in the event of any accidents or malfunction of equipment, machinery or facilities.

Any significant expenses resulting from failures, defects or accidents relating to the Group's operating equipment and infrastructure, could have a material adverse effect on its business, financial condition, prospects or results of operations.

The Group's coal mining operations are subject to operational risks that could result in decreased production or increased costs, which could reduce the Group's sales revenues or profitability

The production capacity of the Group's coal mining operations is subject to operating conditions and events beyond the Group's control that could disrupt operations and affect the volume of production at particular mines for varying lengths of time.

The Group's underground mining operations are particularly affected by mining conditions, which include:

- difficult geological conditions, such as highly variable and irregular interruptions in the continuity of deposits, which may reduce the efficiency of longwall mining parcels to a greater extent than expected;
- a higher than forecast level of natural hazards which may reduce the production capacity of individual longwalls to a level below predictions and, in extreme cases, may preclude further extraction;
- the variable tectonic character of the coal deposits, including foldings, faults, varying thickness, interlayers, cleavages and washouts resulting in reduced quality of the extracted coal;
- mining accidents, fires, methane explosions and ignitions, coal dust explosions, methane breakouts, rock outbursts, rock drops and slides, any of which may result in fatalities or injuries;
- mining and processing equipment failures;
- increased levels of water entering excavations in areas where mining work is conducted;
- the need for operation in remote areas, resulting in increased access time and consequently shortening the effective working time, which renders mines less productive;
- the need for sufficient preparatory works; and
- other operational risks associated with industrial or engineering activities, such as mechanical breakdowns and the use of explosive materials.

Furthermore, conditions and events which could disrupt and influence the Group's operations include:

- depletion of the Group's reserves;

- difficulties in obtaining or renewing permits for mining or executing mining usage agreements in a timely manner;
- shortages of properly qualified mining labour in the future;
- changes in governmental regulation of the coal industry, including the imposition of additional taxes or fees, the suspension or revocation of our concessions or changes in the manner of enforcement of existing regulations;
- the decisions of supervision authorities, in particular mining supervision authorities;
- adverse weather conditions and natural disasters;
- increased or unexpected mining land reclamation costs and costs of remedying impacts of mining on the surface; and
- extended interruptions in deliveries of materials necessary to conduct mining activity or other problems related to the delivery of the Group's products.

These conditions may increase the Group's costs of mining and temporarily reduce or permanently halt production at particular mines, or parts thereof, for varying lengths of time. Furthermore, the occurrence of some of these risks could result in a decrease in the Group's resources or coal production facilities and could cause workplace accidents (potentially resulting in fatalities and/or injuries) or delays in the preparation of production capacity at particular mines, all of which could lead to monetary losses for the Group, and, as a result, have a material adverse effect on the Group's business, results of operations and financial condition.

In the process of coal extraction, natural geological and mining threats pose material risks as well as the risks of adverse geological conditions. Unexpected difficulties stemming from geological conditions, i.e. faults, broken rock mass, rock bursts, endogenic fire (coal spontaneous combustion), as well as threats related to the appearance of gases (methane) and underground watercourses, affect the efficiency of the mining process, including the safety of the miners. The miners' safety and health conditions are especially affected by the high temperature, humidity and dustiness of the air, the possibility of rock fall as well as work on mining machines and equipment where inattention may result in injuries or even death in an extreme case. Were such risks to materialise then this could negatively impact the Group's results of operations.

Unfavourable meteorological conditions could negatively affect the financial condition and results of the Group

Earnings from the generation segment depend on meteorological and hydrological conditions which might affect the operations of the Group's wind farms and hydropower plants. Unfavourable meteorological conditions in any year could therefore negatively affect the operations, generation output and financial condition of the Group and the ability of the Issuer to meet its obligations under the Notes. Additionally, meteorological conditions might also affect the Group's ability to generate and sell heat. Temperatures in winter which are higher than average might lead to a decrease in demand for heat and therefore negatively affect the financial condition of the Group and the ability of the Issuer to meet its obligations under the Notes.

Global climate change, periodical droughts, heavy precipitations or freezing rain can adversely affect the generating segment output. In the RES segment, power generation largely depends on weather conditions. The size of production of hydroelectric plants is primarily conditioned by hydrological conditions in areas where the plants are located. A low level of precipitation resulting in prolonged hydrological droughts, snowless winters resulting in no spring melt and seasonal increased generation have a decisive impact on financial revenues. By the same token, the size of production of wind farms depends on wind conditions in areas where the farms are located. Prolonged periods of no wind or low wind adversely affect revenues in that segment.

Weather conditions are also of decisive importance for the heat segment where revenues from the sale of heat directly depend on average temperatures during the heating season. Climate warming and occurrence of warm winters materially reduce revenues from this segment.

Extreme weather conditions can also have a material adverse effect on the functioning of conventional units (e.g. high temperatures can cause problems with cooling systems).

The above circumstances could have a material adverse effect on the activity, results or financial condition of the Group.

Risk of an interruption in the supply of energy through distribution grids to recipients

Interruptions in the supply of energy through distribution grids arises as a result of breakdown of equipment, caused by, among other things, wear and tear, third-party actions and destruction of energy lines as a result of unfavourable weather conditions, or certain other factors which may be outside the relevant Group company's control.

Weather conditions, in particular fluctuations in air temperature, result in seasonal variations in the demand for electricity and affect the technical conditions of distribution and transmission which, in turn, can have an economic impact on the Group. Low temperatures causing an increase in demand for electricity for heating can cause damage to installations and devices (such as lines transmitting electricity). High temperatures, which also cause an increase in the demand for electrical cooling systems, can also limit the transmission capacity of the electricity system. Weather conditions, in particular wind and rainfall, also materially influence the production of electricity from RES connected to the distribution grid. The unstable production of renewable sources also adversely affects the energy balance in the distribution grid in which the Group operates.

Extremely low temperatures resulting in, amongst other things, icing of lines, heavy rainfall, strong gusts of wind and other phenomena can disrupt the distribution and transmission of electricity and can result in interruptions in the supply of electricity to large groups of recipients.

Interruptions in the supply of electricity may have adverse effects in the form of additional obligations, safety precautions and fines and other sanctions being imposed on the distribution grid operator, if the public authorities or other responsible entities hold the operator liable for the occurrence of such breakdowns. Breakdowns may also result in additional costs, such as repair, reinstatement and maintenance costs, compensation payments and fines.

Furthermore, in order to maintain the distribution of energy, a distribution operator must undertake regular overhauls, repairs and upgrades of its infrastructure and assets. These actions require considerable financial outlay and involve periodic shutdowns of equipment and installations. The risk of delays or inability to perform particular works caused by, among other things, the uncertainty as to whether sufficient funds will be obtained in order to carry out works in a timely manner, protests by ecological and/or environmental organisations and owners of the land on which the distribution infrastructure is installed, strikes, increases in the costs of investment, delays of contractors in fulfilling orders and difficulties in obtaining required permits, cannot be ruled out.

The above circumstances could have a material adverse effect on the activity, results or financial condition of the Group.

The Group's operations are dependent on the TSO's actions regarding the transmission grid

The operation of the Group's distribution grids is dependent, to a large extent, on the condition of the transmission grid. There is a risk that deficiencies in the condition of the transmission grid and the failure of the TSO to expand and upgrade the grid may result in failures and outages of the Polish

transmission grid. This, in turn, may lead to failures and outages of the Group's distribution grids and/or generation assets. There is also a risk that the Group's ability to make certain investments in new electricity generation units will be hindered by the TSO's failure to expand and upgrade the transmission system. As a result, the TSO's failure to adequately maintain the transmission grid could have a material adverse effect on the Group's business, financial condition or results of operations.

Pursuant to the Energy Law, the TSO is obliged to ensure that its grid network is capable of supplying energy in a continuous and reliable manner, maintaining the quality requirements in force. The issues related to the maintenance of the quality parameters of the energy supplied to the DSO's grid network are regulated in the transmission services agreement, which stipulates that the TSO is liable for failing to maintain those parameters.

The current plan of development of the transmission grid network envisages a number of investments in the grid, including a significant strengthening of the grid network where Tauron Dystrybucja operates. The Group is co-operating with the TSO on the development of the transmission grid network and a 110 kV grid network in the area where Tauron Dystrybucja operates aimed to ensure the optimum planning of the development of the grid network.

However, joint investment planning does not entirely guarantee that all the needs of Tauron Dystrybucja will be met, especially if the TSO encounters problems carrying out its line investments. Any failure by the TSO to make all its planned investments could negatively affect the ability of the Group to supply all of the power generated by it to the transmission grid.

Risk of inefficient operation of the generating units

The Group's generating units being the centrally administered units are regulated by the operator of PSE. The grid operator may order that electric energy generation be withheld or reduced or that electric energy be generated in the volumes exceeding those scheduled by the Companies of the Group which in turn may decrease the efficiency of utilisation of the Group's generating units. If the electric energy generation ordered by the Operator involves high volumes and does not guarantee the expected rate of return on generation assets, this may have an adverse effect on the operations, financial condition or operating results of the Group.

The operation of the Group's hydropower plants involves a number of risks which could negatively impact the Group

The operation of a hydropower plant involves a number of risks, including:

- environmental contamination, for example through the discharge of oil or other pollutants;
- damage caused to the plant by debris in the water, including ice in severe winter periods; and
- operational problems and risk of flooding caused by ice floats and ice jams.

The occurrence of any of the above risks at any of the Group's hydropower plants may result in significant expenditure being incurred by the Group and disruptions to its business and as a result, adversely affect the Group's business, results or financial condition.

The operation of the Group's wind farms involves a number of risks which could negatively impact the Group

Operating wind farms involves a number of risks which might adversely impact the Group's financial results in this sector. The most important of these risks include:

- volatility of the wind conditions triggering the automatic deactivation of the wind turbines due to the lack of the necessary wind speed or excessive wind volume;

- temporary power reduction due to the less favourable wind conditions;
- formation of ice on the blades of the wind turbines in the winter triggering their automatic deactivation.

The additional risk involved in the operation of wind farms is related to calculating the real property tax (payable on a wind farm). Following the entry into force of the Act on Investments in Wind Farms there are no clear guidelines concerning the calculation of this tax. The Group calculates and pays the real property tax in accordance with the existing calculation. As a result of an adverse interpretation of the applicable tax regulations the Group will have to pay the real property tax on the value of the wind farm as a whole plus interest which could negatively impact future financial performance.

The Group may be forced in the future to incur additional costs of mine closing

Under the Geological and Mining Law the entities carrying out extraction activities must complete full mine closing in the areas of the extraction works including, among others, securing or closing the headings as well as the facilities and equipment of the mine, securing the unused part of the deposit and the neighbouring deposits and taking the necessary measures to protect the environment and reclaim soil and manage the post-mining areas.

Furthermore, under the Geological and Mining Law, among others, the undertakings holding licences for extraction of minerals from deposits must create a mine closing fund. The principal parts of the mine closing costs are the costs of reclamation of the areas where the extraction works have been carried on. Therefore, in particular as regards the extraction of lime in open pits by the Group, it is not possible to eliminate the risk that in the future the appropriations to the mine closing fund will have to be significantly increased or the specific provisions will have to be created or other unplanned costs of closing specific post-mining areas exceeding the current assumption will have to be incurred which may have an adverse effect on the operations, results or financial condition of the Group.

Risks related to fluctuations in the price of materials, including steel

The Group's operations are capital intensive because the production of energy and its distribution requires the construction of adequate infrastructure. Depending on the technology and type of infrastructure, from 5 per cent. to as much as 70 per cent. of the cost of construction is related to the purchase of materials, equipment and parts, the price of which depends on many factors beyond the Group's control. Any increase in the price of these materials, equipment or components translates into an increase in the cost of energy production and may decrease the profitability of proposed development projects as well as adversely affect the operations, financial condition and results of the Group and/or the ability of the Issuer to meet its obligations under the Notes.

Risk related to defaulting on a contract and delivering products inconsistent with the contractual terms

The Group's operations depend on the timely and continuous delivery of certain services and products by third parties. Such services include, among others, project management, engineering services, construction services as well as process designing and planning. Furthermore, third parties provide the Group with certain products, including equipment, of key importance for its operations, in particular the equipment for coal extraction as well as electric energy generation and distribution. The Group concluded or concludes the relevant agreements for the provision of such services or products. However, it is not certain that the Group will be able to ensure that such services or products will be available on favourable terms and conditions or that the relevant agreements will be performed timely or otherwise duly. Furthermore, it is not certain, that the services or products procured by the Group will be sufficient to satisfy its demand. The non-provision or late provision of such services or the non-delivery or late delivery of such products by third parties, any changes in the terms and

conditions on which such services are provided or such products are delivered or the provision of such services or the delivery of such products by third parties in breach of the Group's requirements, may have a material adverse effect on the operations of the Group. If as a result of the above the Group will have to change the provider of such services or the supplier of such products, the Group may be forced to incur extra costs or its operations may be interrupted. The above may have another material adverse effect on the operations of the Group. Furthermore, certain services or products necessary for the operations of the Group or its strategic development are or may be available in the future only on the relevant terms and conditions only from a limited number of providers or suppliers. The Group may find it difficult to procure such services or products delivered or supplied by specialised undertakings due to high demand for such products or services resulting from the competitive operations of other power companies which may in particular cause delays in the implementation of its assumed investment programme. If any of these risks concerning services or products delivered or supplied by third parties materialises, it may have a material adverse effect on the operations of the Group.

Imposing fees for the use of water by the energy industry may have a material adverse effect on the Group's financial condition

Legislative work is currently in progress to introduce significant changes to the current regulations concerning water management and, in particular, its financing sources. Based on draft legislation, charges could be introduced for water intake or the use of water for electricity generation purposes. If such regulations or charges were to be introduced, electricity generating costs in hydroelectric plants and in conventional open-cycle power plants would increase significantly and could threaten the profitability of certain hydroelectric projects, power plants and CHPs, including the units used by the Group.

Charges for intake or use of water for hydroelectric purposes may also result in the necessity to make capital expenditures, which may lead to an increase in energy prices which are passed on to customers, which in turn may lead to a reduced demand for electricity, and consequently have a material adverse effect on the Group's business, results of operations, financial condition or development prospects.

Risk related to possible impairment issues

At the end of each three-month reporting period, the Group evaluates whether there is an indication of impairment to tangible and intangible non-current assets, including goodwill. This analysis is also conducted at the time the Group identifies the relevant indications of impairment. The analysis is conducted in accordance with the IFRS and includes, but is not limited to, external factors (such as changes in the technological, market, economic or legal environment in which the Group operates, or in the markets where the Group's assets are used) and internal factors (such as changes in the use and usefulness of, any damage sustained by and/or lower returns from any particular asset). Regarding tangible non-current assets, the Group conducts tests for impairment where there has been an indication of impairment in respect of such an asset. Regarding intangible non-current assets and goodwill, the Group performs annual tests for impairment, irrespective of whether there is any indication of impairment.

As a result of:

- negative macroeconomic developments;
- changes in the electricity market (especially pertaining to an observable decrease in electricity prices as well as its components along with the deterioration of long-term forecasts for significant market variables affecting the Group's profitability);

- regulatory changes (including, in particular, those related to the methodology of tariff calculations, further changes to the national system of support for the production of energy from RES, and changes to the law regarding wind power projects and planned capacity market regulations);
- changes in commercial and internal operational workings of certain Group companies (including, but not limited to, increased costs, reclassifying business areas and decommissioning certain investments),

the current recoverable amount of some of the Group's assets may be lower than their balance-sheet value (see "*Description of the Group – Impairment of non-financial assets*").

This could result in an adverse effect on the activity, results, financial standing and prospects of the Group.

Risk associated with the influence of trade unions on the process of creating rights and protecting the interests of employees

Currently, approximately 80 company and inter-company trade union organisations, affiliating nearly 19,000 employees of the Group (i.e. approximately 75 per cent. of the total number of employees), operate at the Issuer and other Group companies. By law, trade unions have a guaranteed influence on the process of creating the regulations concerning the rights and interests of the employees. Trade unions are also entitled to conduct collective disputes with employers (including strikes) concerning the rights and interests of the employees and trade unions.

The intra-company collective bargaining agreements are in force for most of the employees within the Group. Amongst other matters, these grant the trade unions the right to be consulted and the right for them to be involved in negotiations with employers regarding planned actions of employers concerning the rights and interests of the employees, such as internal restructuring processes. The necessity of consulting and/or negotiating with the trade unions regarding certain actions means that the process of implementing management decisions may be delayed or even require alteration. As a result, the Group's ability to decrease costs and increase efficiency through employment restructuring is limited by social agreements in place and the Group companies' obligation to consult certain measures with the trade unions.

Trade union activity can result in strikes or demonstrations, which could have a material adverse impact on the operations of the Group's various companies.

Risk of the loss of key management and qualified employees

Growth in the Polish economy has intensified competition for highly qualified employees with extensive relevant professional experience. This competition is especially high with respect to professionals within the energy sector.

The Issuer is subject to the Compensation Restrictions Act dated 9 June 2016 as a result of being a company in which the Polish State Treasury is the controlling shareholder. According to this Act, the remuneration for the Management Board can be set above the limits indicated in the Act but only if there is appropriate justification. As a result of the limitations stemming from the Compensation Restrictions Act, the Issuer is generally not in a position to provide compensation for members of the Management Board that is higher than the average remuneration given by other companies in the market of comparable size. These restrictions may influence decisions of key management members of the Issuer if they were to receive offers from companies in the private sector which were able to offer better remuneration. Moreover, the labour regulations in force with respect to the Group restrict, to a certain extent, its ability to create a more flexible employment policy, which may also create an

obstacle to finding suitable personnel and cause Group employees to move to other companies or competitors that offer better terms of employment. Such losses, or the inability to hire key employees, may adversely impact the operations, results or prospects of the Group and/or the ability of the Issuer to meet its obligations under the Notes.

Compliance risk

In the course of its operations the Group is subject to extensive regulations and supervisory requirements, therefore it is exposed to the incidents involving non-compliance with applicable laws and regulations, misinterpretation of the new laws and regulations, the requirements imposed by the regulators supervising the Group, the requirements set out in the Act on Personal Data Protection as well as its internal regulations and the adopted standards of conduct the non-compliance with which may expose the Group to administrative sanctions and fines and adversely affect the Group's image.

The Group has the internal management and control system and implements the policy which raises in the employees the awareness of threats and the necessity to counteract them. However a failure by one or more of the Group's employees or officers to adhere to these policies could negatively impact the Group's position.

The activities of certain companies of the Group may be deemed as the abuse of dominant position on the local market of the sales and distribution of electric energy or heat or on the local heat generation market

Given that there are no economic reasons to support building in the same area as competing electric energy or heat distribution grids, for the time being the companies of the Group engaged in electric energy and heat distribution are the natural monopolists in their respective markets and therefore have a dominant position on these markets. Furthermore, in the areas where the distribution grid operators of the Group are active, the Retail Sales Companies have a dominant position as regards the sales of electric energy to the end users due to their past monopoly on the sales of electric energy to the end users in these areas. In certain local markets the companies of the Group also have the dominant position as regards heat generation. Given the above, the companies of the Group are strictly supervised by the competition protection authorities i.e. the President of the CCPO and the European Commission.

The Group may not rule out that the competition protection authorities will conclude that its activities impair competition, in particular by abusing its dominant position, and the imposed sanctions, which may include a fine of up to 10 per cent. of turnover for the previous financial year, may have a material adverse effect on the operations of the Group, its financial conditions or its operating result.

Third-party action could disrupt the Group's business

The Group's operations may be disrupted by unforeseen events such as terrorist attacks, vandalism or sabotage. Such losses may affect the Group's real estate, installations and equipment, financial assets or key employees. Unforeseen events may also cause additional operating costs such as higher insurance premiums. They may also result in the Group's inability to obtain insurance protection against certain types of risk. Each of these risks may have an adverse effect on the operations, financial condition and results of the Group and/or the ability of the Issuer to meet its obligations under the Notes.

Risks related to losses and expenditures not covered by insurance

The Group faces numerous operational risks in its production and distribution activities, which may result in losses which may not be covered by insurance.

The Group has insurance contracts that have been formulated specifically for it and are tailored to its requirements considering the broad range of its activities. These include property all-risk insurance, third-party liability insurance, directors' and officers' liability insurance, motor-vehicle insurance, loss of profit insurance and construction/erection all-risk insurance. However in line with market standards the Group does not insure distribution grid and underground equipment. The terms and conditions of the Group's insurance policies may provide for the payment of amounts that are less than the actual value of the damage it has experienced, including as a result of agreed deductibles and exclusions. No assurance can be given that in all cases amounts paid under any insurance policy will be sufficient to cover all of the potential losses incurred by the Group. Therefore, the Group may be required to cover financial losses arising from the abovementioned or other factors out of its own funds. This risk may have an adverse effect on the operations, financial condition and results of the Group and/or the ability of the Issuer to meet its obligations under the Notes.

Risk associated with tax penalties and/or sanctions for tax arrears

The tax system in Poland is subject to relatively frequent and significant changes, the effect of which is uncertainty over the interpretation and application of many tax provisions. The changes in tax legislation and uncertainty regarding its interpretations by the tax authorities and competent courts, combined with the relatively long statute of limitations with respect to tax obligations and sanctions for tax arrears, not only makes proper assessment of tax provisions difficult but also may result in an increased risk of a violation of tax provisions by the Group resulting in additional tax amounts and/or penalties being payable by the Group. Payment of such amounts may adversely affect the Group's financial condition and results of operation.

The companies of the Group constitute a Tax Group and therefore the Group is exposed to the risk of losing the effect of the joint tax settlement of the companies comprising the Tax Group. This risk is related to the potential loss of its status as a result of its failure to meet the statutory criteria (insufficient profitability of the Tax Group), ownership changes in the structure of the companies comprising the Tax Group (failure to observe the required levels), defaulting on payment of the overdue tax liabilities of the companies comprising the Tax Group, concluding transactions between the Tax Group and its related parties not at arm's-length basis.

If the Tax Group loses its status:

- additional costs related to closing a tax year will arise;
- additional transfer pricing documents will have to be drawn up;
- the companies comprising the Tax Group will cease to be able to jointly settle their taxes; and
- the companies comprising the former Tax Group will be unable to form a new Tax Group for the next 12 months.

The transactions between the companies comprising the Tax Group are not subject to transfer pricing regulations.

In the Group only the transactions with the affiliates who are not companies comprising the Tax Group are subject to the transfer pricing regulations. The Group is unable to exclude that the tax authorities will challenge any settlements between the companies of the Group under the transfer pricing regulations.

However, if the Tax Group loses its status, the companies of the Group must be deemed as the related parties within the meaning of the Polish tax law concerning the Polish transfer pricing regulations. In such event the companies of the Group will apply the standards of drawing up the required transfer pricing documentation and the relevant procedures aimed at ensuring that the terms and conditions of transactions are not different from the arm's-length terms. Given the wide scope of transactions

between the companies of the Group, one may not rule out any potential disputes with the tax authorities as regards the arm's-length terms in transactions between related parties.

If the tax authorities challenge the terms and conditions of transaction between the companies of the Group, it may have a material adverse effect on the operations of the Group, its financial conditions or operating results.

Risk surrounding the lack of integrity and the reliability of IT systems

The complexity of the Group's structure and its operation and the diversity of its IT systems carry a risk of a lack of coordination and cooperation between individual systems. The non-streamlined management of systems could limit the possibility of developing effective standards to create and develop such systems, resulting in inefficiencies in data handling.

There are many changes, updates and integration features with respect to the Group's IT systems which are being carried out across the Group and the broad scope of those changes carries a risk that new IT solutions may not necessarily achieve the planned cohesion and technological and cost-related interdependence that the Group had expected.

There are also general concerns in the energy sector regarding the security and integrity of data which is handled through an energy company's IT system. This is exacerbated by the energy sector's increasing dependence on IT systems and the quantity of data collected and processed by those systems which make it essential to ensure the highest degree of reliability of those systems and the security of the data held in them.

Potential events posing a risk to the continuity of the operation of IT systems and confidentiality of data include the risk of a breakdown of the systems and cyber attacks on the systems.

There are several risks related to grid management. The electric grid is highly dependent on computer-based control systems. Any failure of the electric grid would have a significant and devastating impact on the economy of whole country regions. The control systems are also exposed to cyber risk.

There are also risks related to power plant operations. Power plant control systems are especially vulnerable to risks surrounding hardware disintegration and the difficulty of sourcing spare parts on the market to replace and/or upgrade affected hardware. This is compounded by the fact that there is also a shortage of hardware and IT specialists that have the skills to maintain the systems to the standards required.

Finally, the lack of integrity of particular IT systems might cause difficulties in maintaining the full functionality of invoicing systems and result in end users not receiving invoices on time or in the correct amount.

Each of the above factors poses risks to the operations of the Group and if they were to occur, could have a material adverse effect on the activity, results or financial condition of the Group.

RISKS RELATING TO THE NOTES

Risks related to the structure of the Notes

Redemption prior to maturity for tax reasons

In the event that the Issuer would be obliged to increase the amounts payable in respect of the Notes due to any change in or amendment to the laws or regulations of the Republic of Poland or any

political sub-division thereof or of any authority therein or thereof having the power to tax or in the interpretation or administration thereof, the Issuer may redeem all outstanding Notes in accordance with the Conditions of the Notes. In such case, it may not be possible to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Notes and this may only be possible at a significantly lower rate. See Condition 9(b)(i) (*Redemption for Taxation Reasons*).

So long as applicable provisions of Polish law impose withholding tax on payments required to be made by the Issuer under the Notes, the Conditions allow for the substitution, at the Issuer's discretion, of another company in the place of the Issuer as principal debtor in respect of the Notes. If payments by the Issuer would continue to be subject to withholding under Polish law, it is expected that such a substitution may take place prior to the due date for the first interest payment under the Notes

Under Polish law, the Issuer may be required to withhold tax at the rate of 20 per cent. on interest payments under the Notes. See "*Taxation - Republic of Poland*". Under Condition 10 (Taxation), in the event that any withholding or deduction is required by law, the Issuer is required, subject to certain customary exceptions, to pay such additional amounts as will result in the receipt by the Noteholders of such amounts as would have been received by them if no such withholding or deduction had been required. However, under Condition 15 (Substitution), so long as applicable provisions of Polish law impose withholding tax on payments required to be made by the Issuer under the Notes, the Issuer is permitted to arrange for the substitution of another company incorporated, domiciled, resident or otherwise subject to tax in any jurisdiction of good international repute of the Issuer's choosing (the **Substitute Issuer**) as principal debtor in respect of the Notes and under the Deed of Covenant in place of the Issuer, in the circumstances described in Condition 15 (*Substitution*). The forms of deed poll and deed of guarantee to be entered into in connection with a substitution are included in this prospectus. See "*Form of Deed of Guarantee*" and "*Form of Deed Poll for Substitution*". Such substitution may be effected at the discretion of the Issuer, at any time after the Issue Date in order to allow the Issuer not to fall within the scope of the application of withholding tax requirements on payments to be made by the Issuer, all without the consent of the Noteholders and subject only to the limited conditions set out in Condition 15 (Substitution), all of which are in the control of the Issuer. In particular, any such substitution may be effected without independent advice, approval or certifications being undertaken or provided for the protection of the Noteholders and Noteholders will not have the ability to be consulted on or to consent to any such substitution. Rather, the Issuer will determine whether the conditions set out in Condition 15 have been met. See "*Terms and Conditions of the Notes*".

If payments by the Issuer continue to be subject to withholding tax under Polish law, it is expected that such a substitution may take place prior to the due date for the first interest payment under the Notes. If a substitution was to occur, the Issuer's current expectation is that the Substitute Issuer would be incorporated in a member state of the European Union.

The choice of the jurisdiction of incorporation of a Substitute Issuer may adversely affect Noteholders, including in respect of their ability to enforce the Substitute Issuer's obligations under the Notes and as to the tax treatment of their investments in the Notes. There may be distinct tax, corporate and other risks for Noteholders arising in the context of such a substitution. Moreover, the application or interpretation of certain provisions of a relevant double tax agreement may be uncertain and lead to further risks. As a result, any eventual substitution, even if aimed at reducing tax inefficiencies, could expose Noteholders to some tax risks, particularly if an offshore or special purpose vehicle is used.

The conditions of the Notes contain provisions which may permit their modification without the consent of all investors

The Conditions of the Notes contain provisions for calling meetings of Noteholders to consider any matters relating to the Notes, including the modification of any provision of the Conditions or the Fiscal Agency Agreement. Any such modification may be made if sanctioned by an Extraordinary Resolution. Any Extraordinary Resolution duly passed at any such meeting shall be binding on all the Noteholders, whether present at the meeting(s) or not. The Fiscal Agent may also agree, without the consent of the Noteholders, to any modification of the Notes or the Fiscal Agency Agreement which is in its opinion of a formal, minor or technical nature or is made to correct a manifest error. Any such modification shall be binding on the Noteholders and, if the Fiscal Agent so requires, shall be notified to the Noteholders as soon as practicable thereafter; see Condition 14 (*Meetings of Noteholders; Modification*).

The value of the Notes could be adversely affected by a change in English law or administrative practice

The Conditions of Notes are based on English law in effect as at the date of this Prospectus. No assurance can be given as to the impact of any possible judicial decision or change to English law or administrative practice after the date of this Prospectus and any such change could materially adversely impact the value of the Notes.

Investors who purchase Notes in denominations that are not an integral multiple of EUR1,000 may be adversely affected if definitive Notes are subsequently required to be issued

The Notes have denominations consisting of a minimum of EUR100,000 or its equivalent plus one or more higher integral multiples of EUR1,000 or its equivalent. It is possible that the Notes may be traded in amounts that are not integral multiples of EUR100,000 or its equivalent. In such a case a holder who, as a result of trading such amounts, holds an amount which is less than EUR100,000 or its equivalent in his account with the relevant clearing system at the relevant time may not receive a definitive Note in respect of such holding (should definitive Notes be printed) and would need to purchase a principal amount of Notes such that its holding amounts to EUR100,000 or its equivalent. If definitive Notes are issued, holders should be aware that definitive Notes which have a denomination that is not an integral multiple of EUR100,000 or its equivalent may be illiquid and difficult to trade.

New Safekeeping Structure

The Issuer intends that the Notes will be registered on issue in the name of a nominee for Euroclear or Clearstream, Luxembourg (as defined below) as common safekeeper. This does not necessarily mean that the Notes will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon the European Central Bank being satisfied that Eurosystem eligibility criteria have been met.

Risks related to the market generally

An active secondary market in respect of the Notes may never be established or may be illiquid and this would adversely affect the value at which an investor could sell his Notes

The Notes may have no established trading market when issued, and one may never develop. If a market does develop, it may not be liquid. Therefore, investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a

developed secondary market. Illiquidity may have a severely adverse effect on the market value of the Notes.

If EUR is not an investor's home currency, the investor will be exposed to movements in exchange rates. The imposition of exchange controls in relation to any Notes could result in an investor not receiving payments on those Notes

The Issuer will pay principal and interest on the Notes in EUR. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the **Investor's Currency**) other than EUR. These include the risk that exchange rates may significantly change (including changes due to devaluation of EUR or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to EUR would decrease (1) the Investor's Currency-equivalent yield on the Notes, (2) the Investor's Currency-equivalent value of the principal payable on the Notes and (3) the Investor's Currency-equivalent market value of the Notes.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal.

The value of the Notes may be adversely affected by movements in market interest rates

Investment in the Notes involves the risk that subsequent changes in market interest rates may adversely affect the value of the Notes.

Credit ratings may not reflect all risks

The credit rating(s) assigned to the Notes at any time may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time.

Investors to rely on the procedures of Euroclear and Clearstream, Luxembourg for transfer, payment and communication with the Issuer

The Notes may be represented by one or more Certificates. The Notes will initially be represented by the Global Certificate which will be issued and delivered on or prior to the Issue Date to a nominee for a common safekeeper for Euroclear and Clearstream, Luxembourg. Except in the circumstances described in the Global Certificate, investors will not be entitled to receive individual Note Certificates. Euroclear and Clearstream, Luxembourg will maintain records of the beneficial interests in the Global Certificate. While the Notes are represented by the Global Certificate, investors will be able to trade their beneficial interests only through Euroclear or Clearstream, Luxembourg.

While the Notes are represented by the Global Certificate, the Issuer will discharge its payment obligation under the Notes by making payments to the common safekeeper for Euroclear and Clearstream, Luxembourg. A holder of a beneficial interest in the Global Certificate must rely on the procedures of Euroclear and Clearstream, Luxembourg to receive payments under the relevant Notes. The Issuer does not have any responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Global Certificate.

Holders of beneficial interests in the Global Certificate will not have a direct right to vote in respect of the Notes. Instead, such holders will be permitted to act only to the extent that they are enabled by Euroclear and Clearstream, Luxembourg to appoint appropriate proxies.

Legal investment considerations may restrict certain investments

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (1) the Notes are legal investments for it, (2) the Notes can be used as collateral for various types of borrowing and (3) other restrictions apply to its purchase or pledge of the Notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of the Notes under any applicable risk-based capital or similar rules.

OVERVIEW

General Description of the Offering

Issuer:	Tauron Polska Energia S.A.
Fiscal Agent:	Citibank, N.A., London Branch
Paying and Transfer Agent:	Citibank, N.A., London Branch
Registrar:	Citigroup Global Markets Deutschland AG
The Issue:	EUR 500,000,000 2.375 per cent. Notes due July 2027
Issue Price:	99.438 per cent. of the principal amount of the Notes
Issue Date:	5 July 2017
Maturity Date:	5 July 2027
Interest Rate:	The Notes will bear interest at the rate of 2.375 per cent. per annum from and including 5 July 2017 to but excluding the Maturity Date (as defined in " <i>Terms and Conditions of the Notes</i> ").
Yield:	2.439 per cent.
Interest Payment Dates:	Interest will be payable annually in arrears on 5 July in each year, commencing on 5 July 2018.
Withholding Taxes:	All payments of principal and interest in respect of the Notes shall be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatsoever nature imposed, levied, collected, withheld or assessed by or on behalf of the Republic of Poland or any political subdivision or any authority thereof or therein having power to tax, unless such withholding or deduction is required by law, as described in Condition 10 (<i>Taxation</i>). Under Polish law, the Issuer may be required to withhold tax at the rate of 20 per cent. on interest payments under the Notes. Tax withheld will (subject to customary exceptions and limitations) be grossed up by such additional amounts as are required for Noteholders to receive, net of any withholding or deduction, the amounts they would have received had no such withholding or deductions been required. See "<i>Taxation – Republic of Poland</i>".

Ranking:	The Notes constitute direct, general, unconditional, unsubordinated and (subject to Condition 5 (<i>Negative Pledge</i>)) unsecured obligations of the Issuer. The Notes will at all times rank <i>pari passu</i> among themselves and at least <i>pari passu</i> in right of payment with all other present and future unsecured and unsubordinated obligations of the Issuer, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.
Cross Acceleration:	The terms of the Notes will include a cross-acceleration provision relating to indebtedness in excess of EUR 75,000,000 as described in Condition 12 (<i>Events of Default</i>).
Negative Pledge:	The terms of the Notes will include a negative pledge as described in Condition 5 (<i>Negative Pledge</i>).
Tax Redemption:	The Issuer may at its option redeem the Notes, in whole but not in part, at their principal amount plus accrued interest in the event of certain changes affecting taxation in the Republic of Poland as described in Condition 9(b)(i) (<i>Redemption for Taxation Reasons</i>).
Substitution of the Issuer:	So long as applicable provisions of Polish law impose withholding tax on payments required to be made by the Issuer under the Notes, and otherwise subject to certain conditions, the Issuer is permitted to arrange for the substitution of another company, which is a wholly-owned subsidiary of the Issuer, incorporated, domiciled, resident or otherwise subject to tax in any jurisdiction of good international repute (the Substitute Issuer) as principal debtor in respect of the Notes and under the Deed of Covenant in place of the Issuer, in the limited circumstances described in Condition 15 (<i>Substitution</i>). The forms of deed poll and deed of guarantee to be entered into in connection with a substitution are included in this prospectus. See “ <i>Form of Deed of Guarantee</i> ” and “ <i>Form of Deed Poll for Substitution</i> ”. It is expected that such a substitution may take place prior to the due date for the first interest payment under the Notes. If a substitution was to occur, the Issuer’s current expectation is that the Substitute Issuer would be incorporated in a member state of the European Union. See “ <i>Risk Factors - Risks Relating to the Notes - Risks related to the structure of the Notes - So long as applicable provisions of Polish law impose withholding tax on payments required to be made by the Issuer under the Notes, the Conditions allow for the substitution, at the Issuer’s discretion, of another company in the place of the Issuer as principal debtor in respect of the Notes. If payments by the Issuer would continue to be subject to withholding under Polish law, it is expected that such a substitution may take place prior to the due date for the first interest payment under the Notes.</i> ”

Change of control:	The terms of the Notes will include a change of control provision relating to the State Treasury of Poland ceasing to be a controlling shareholder of the Issuer, as described in Condition 9(c). Upon the occurrence of a change of control event, each Noteholder will have the option to require the Issuer to redeem the Notes held by such Noteholder, at their principal amount plus accrued interest.
Use of Proceeds:	The net proceeds of the issue of the Notes will be used for the purpose of refinancing the costs of development and acquisitions of wind farms by one of the Group companies, financing the Group's investments in the distribution segment and general corporate purposes. The net proceeds will not be used for new coal power generation projects.
Form of the Notes:	The Notes will be issued in registered form in minimum denominations of EUR100,000 and integral multiples of EUR1,000 in excess thereof. The Notes will be represented by the Global Certificate which will be registered in the name of a nominee for and deposited with a common safekeeper for Euroclear and Clearstream, Luxembourg on or around the Closing Date. Definitive Note Certificates evidencing holdings of Notes will be available only in certain limited circumstances. See " <i>Summary of Provisions Relating to the Notes in Global Form</i> ". It is intended that the Notes will be held in a manner which would allow Eurosystem eligibility.
Listing and Clearing:	Application has been made to list the Notes on the Official List and to trading on the Market. The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg with the following ISIN and Common Code: ISIN: XS1577960203 Common Code: 157796020
Governing Law:	The Notes, including any non-contractual obligations arising out of or in connection with them, are governed by, and shall be construed in accordance with, English law.
Selling Restrictions:	The offering and sale of Notes is subject to applicable laws and regulations including, without limitation, those of the United States, the United Kingdom, the Republic of Poland, Italy and Austria. See " <i>Subscription and Sale</i> ".
Ratings:	The Notes will be rated BBB by Fitch. The Issuer's current long-term debt rating by Fitch is BBB (outlook stable). A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation.
Risk Factors:	Investing in the Notes involves a high degree of risk. See " <i>Risk Factors</i> " beginning on page 1.

DESCRIPTION OF THE GROUP

OVERVIEW

The Group is a vertically integrated energy group and its core activities are: (i) distribution; (ii) supply; (iii) generation; and (iv) mining. These activities together represented 99.5 per cent. of the Group's revenue in 2016. The Group's remaining revenue was principally generated from other activities, including the extraction of stone and limestone for the energy sector, metallurgy, construction and road building industries and the production of sorbing agents for installations of flue gas desulphurisation using the wet method and for application in fluidised bed boilers.

In 2016, the Group was the largest electricity distributor in Poland in terms of number of customers and volumes of electricity distributed, the second largest electricity supplier in Poland and the second largest electricity producer in Poland. It also has a concession to explore 32 per cent. of Poland's steam coal resources. The Group's activities are concentrated mainly in southern Poland. The Group also conducts certain allowance and energy trading activities in the Czech Republic, Germany and Sweden.

For the year ended 31 December 2016, the Group generated revenue of PLN17,646 million (EUR4,033million), EBITDA of PLN3,337 million (EUR763 million) and a net profit attributable to shareholders of the Issuer of PLN367 million (EUR84 million). As at 31 December 2016, the Group had total assets of PLN33,457 million (EUR7,563 million) and total equity of PLN16,679 million (EUR3,770 million). Revenues, EBITDA and assets for the financial year ended 31 December 2016 were converted into EUR according to the exchange rate representing the arithmetic means of the average exchange rates announced by the National Bank of Poland as at the end of each calendar month of the financial year ended 31 December 2016, PLN4.3757 = EUR1. Equity and assets as at 31 December 2016 were converted into EUR according to the exchange rate announced by the National Bank of Poland on 30 December 2016, PLN4.4240 = EUR1.

For the quarter ended 31 March 2017, the Group generated sales revenue of PLN4,590 million (EUR1,070 million), EBITDA of PLN1,185 million (EUR276 million) and a net profit attributable to shareholders of the Issuer of PLN640 million (EUR149 million). As at 31 March 2017, the Group had total assets of PLN33,216 million (EUR7,871 million) and total equity of PLN17,304 million (EUR4,101 million). Both as of 31 December 2016 and as of 31 March 2017, the Group was the second largest energy company in Poland in terms of revenue. Revenues, EBITDA and assets for the first quarter of 2017 were converted into EUR according to the exchange rate representing the arithmetic means of the average exchange rates announced by the National Bank of Poland as at the end of each calendar month of the first quarter of 2017, PLN4.2891 = EUR1. Equity and assets as at 31 March 2017 were converted into EUR according to the exchange rate announced by the National Bank of Poland on 31 March 2017, PLN4.2198 = EUR1.

The most significant segment of the Group's operations in EBITDA terms is distribution which, in 2016, generated 72 per cent. of the Group's EBITDA. For the year ended 31 December 2016, the Group's distribution network comprised 228,936 kilometres of lines covering 57,100 km², equal to 18.3 per cent. of Poland's territory. As at 31 December 2016, the Group was the largest energy distributor in Poland in terms of the volume of energy distributed, with a 37 per cent. market share according to Group calculations based on ARE data. In 2016, 49.7 TWh of electricity was distributed, including 47.5 TWh to approximately 5.5 million customers through the Group's various distribution networks (additional 2.2 TWh was distributed to other DSO or exported). Distribution segment, in the first quarter of 2017, generated 51 per cent. of the Group's EBITDA. Both as at 31 December 2016 and as at 31 March 2017, the Group was the largest energy distributor in Poland in terms of the volume of energy distributed (in the first quarter of 2017 13.3 TWh was distributed).

The second most significant segment of the Group's operations in EBITDA terms is generation which, in 2016, generated 16 per cent. of the Group's EBITDA. As at 31 December 2016, the Group's total electricity generation production capacity amounted to 5.0 GW, which accounted for 12 per cent. of the total capacity installed in Poland. In 2016, the Group generated 16.8 TWh of electricity, of which 8 per cent. was generated from renewable sources (hydro, wind and biomass) and 92 per cent. was generated by coal-fuelled plants. The Group also generated 11.5 PJ of heat in 2016. In the first quarter of 2017, the Group generated 4.9 TWh of electricity, of which 7 per cent. was generated from renewable sources (hydro, wind and biomass) and 93 per cent. was generated by coal-fuelled plants. The Group also generated 5.3 PJ of heat in the first quarter of 2017.

In 2016, the total volume of electricity sold by the Group's supply segment was 42.4 TWh, of which 32.0 TWh was sold to 5.3 million retail customers, and the remaining 10.4 TWh was sold on the wholesale market. During 2016, the Group's supply segment contributed 15 per cent. of the Group's consolidated EBITDA. In the first quarter of 2017, the supply segment generated 32 per cent. of the Group's EBITDA. As at 31 March 2017, 9.1 TWh was sold to retail customers.

The Group's mining segment had negative EBITDA in 2016 and was also the smallest of the Group's segments in revenue terms. In 2016, the mining segment produced 6.4 million tonnes of commercial coal, of which 77 per cent. was used for the Group's own generation and the balance was sold to external clients. In the first quarter of 2017 the mining segment increased its production by 24.8 per cent., the same financial results of mining segment has improved.

The Issuer is a joint stock company (*spółka akcyjna*), established in Poland, organised under the laws of Poland and registered with the register of entrepreneurs of the National Court Register (*Krajowy Rejestr Sądowy*) maintained by the District Court Katowice-Wschód in Katowice, under no. 0000271562. Its registered head office is located at ul. ks. Piotra Ściegiennego 3, Katowice, Poland, and the telephone number of its registered head office is + 48 32 774 24 05.

HISTORY

The establishment of the Group was a part of a programme adopted by the Polish government in March 2006. The Issuer was established on 6 December 2006 by the Polish State Treasury represented by the Minister of State Treasury, EnergiaPro S.A., ENION S.A. and Elektrownia Stalowa Wola S.A.

In 2007, the Polish State Treasury transferred to the Issuer, in exchange for shares in the Issuer, its shares in Południowy Koncern Energetyczny S.A., ENION S.A., EnergiaPro Koncern Energetyczny S.A., Elektrownia Stalowa Wola S.A., Elektrociepłownia Tychy S.A. and Przedsiębiorstwo Energetyki Ciepłej S.A.

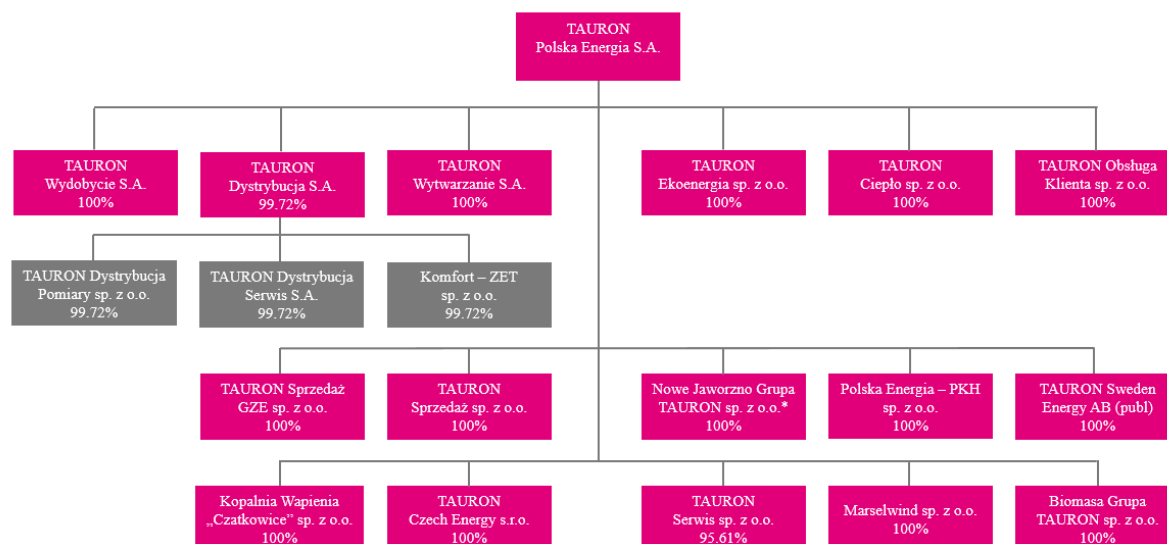
In 2009, the Polish State Treasury transferred to the Issuer, in exchange for shares in the Issuer, its shares in Przedsiębiorstwo Energetyki Ciepłej w Dąbrowie Górniczej S.A. and Elektrociepłownia EC Nowa sp. z o.o.

The initial public offering of the Polish State Treasury's shares in the Issuer took place in 2010. Retail and institutional investors acquired 51.60 per cent. of shares. Since 30 June 2010, the Issuer's shares have been listed on the regulated market of the Warsaw Stock Exchange.

On 13 December 2011, the Issuer acquired from Vattenfall AB 99.98 per cent. of shares in Górnośląski Zakład Energetyczny S.A.

GROUP STRUCTURE

The chart below shows the Group's structure as at 31 March 2017.



*a company established on 31.01.2017, registered at court on 03.04.2017

Direct subsidiaries of TAURON Polska Energia S.A. Indirect subsidiaries of TAURON Polska Energia S.A.

The Issuer is the holding company for the Group which, as of 31 March 2017, included 19 key subsidiaries shown in the chart above and 35 other companies. The ownership structure of the Group is presented in the table below.

No.	Company name	Registered office	Operating segment	Interest in the share capital and in the decision-making body held by the Issuer
1.	TAURON Wydobycie S.A. ¹	Jaworzno	Mining	100.00%
2.	TAURON Wytwarzanie S.A. ²	Jaworzno	Generation	100.00%
3.	Nowe Jaworzno Grupa TAURON sp. z o.o.	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. ³	Katowice	Generation	95.61%
8.	TAURON Dystrybucja S.A.	Cracow	Distribution	99.72%
9.	TAURON Dystrybucja Serwis S.A. ⁴	Wrocław	Distribution	99.72%
10.	TAURON Dystrybucja Pomiary sp. z o.o. ³	Tarnów	Distribution	99.72%
11.	TAURON Sprzedaż sp. z o.o.	Cracow	Supply	100.00%
12.	TAURON Sprzedaż GZE sp. z o.o.	Gliwice	Supply	100.00%
13.	TAURON Czech Energy s.r.o.	Ostrava, Czech Republic	Supply	100.00%
14.	TAURON Obsługa Klienta sp. z o.o.	Wrocław	Other	100.00%
15.	KW Czatkowice sp. z o.o.	Krzeszowice	Other	100.00%
16.	Polska Energia Pierwsza Kompania Handlowa sp. z o.o.	Warsaw	Other	100.00%
17.	TAURON Sweden Energy AB (publ)	Stockholm, Sweden	Other	100.00%
18.	Biomasa Grupa TAURON sp. z o.o.	Stalowa Wola	Other	100.00%
19.	Komfort-ZET sp. z o.o. ³	Tarnów	Other	99.72%

¹ On 1 December 2016, the business combination under common control of TAURON Wydobycie S.A. and Nowe Brzeszcze Grupa TAURON sp. z o.o. was registered, which has been discussed in more detail in Note 32 to these consolidated financial statements.

² The company was established on 31 January 2017 and registered on 3 April 2017 as an entity dedicated to the construction of a new power unit of 910 MW at Jaworzno III Power Plant.

³ On 2 November 2016, a business combination under common control of TAURON Serwis sp. z o.o. and TAURON Wytwarzanie Serwis sp. z o.o. was registered.

⁴ TAURON Polska Energia S.A. holds indirect interest in TAURON Dystrybucja Serwis S.A., TAURON Dystrybucja Pomiary sp. z o.o. and Komfort-ZET sp. z o.o. through a subsidiary, TAURON Dystrybucja S.A. Additionally, TAURON Polska Energia S.A. uses the shares of TAURON Dystrybucja Serwis S.A. — and TAURON Dystrybucja Pomiary sp. z o.o.

Vertical Integration

The Group controls the whole value chain which ranges from coal extraction, to the supply of electricity, to its clients. It also performs activities in the following key segments of the energy market:

- coal mining;
- generation;
- distribution; and
- the trade of electricity and heat.

The Group will benefit from vertical integration because it allows the Group to decide to purchase electric energy from its own resources or on the market, depending on the prevailing circumstances. Furthermore, the wide customer base of its individual companies enables the Group to prepare a comprehensive offer and implement cross-sales.

STRATEGY

On 2 September 2016 the Issuer's Management Board adopted the document entitled *TAURON Group's 2016-2025 Strategy* (the **Strategy**). The Strategy has been produced as a response to the current and future challenges within the power sector and the markets in which the Group operates. The key elements of the Strategy are:

- ensuring financial stability;
- building a strong group based on the three pillars described in paragraph 2 below; and
- making organisational changes to support the implementation of the Strategy.

The Group's objective is to increase EBITDA from PLN3.5 billion in 2015 to over PLN4 billion in 2020 and potentially to over PLN5 billion in 2025. Achieving these objectives will depend on many variables many of which are outside the Group's control, including that market conditions are stable. There can be no assurance that these objectives can or will be achieved.

The target of the *Efficiency Improvement Programme in TAURON Group for 2016-2018* (the **Efficiency Improvement Programme**) is to achieve an impact on EBITDA of the Group of approximately PLN0.4 billion starting from 2018 and of approximately PLN0.3 billion after 2020.

1. Ensuring financial stability

The first priority of the Group is to ensure its financial stability by implementing the following actions:

- (a) In March 2016, the Efficiency Improvement Programme was adopted which is expected to result in a cumulative EBITDA increase of approximately PLN1 billion and a CAPEX reduction of approximately PLN0.3 billion in the period from 2016 to 2018. The Group hopes that its total savings will be approximately PLN1.3 billion for the period from 2016 to 2018.
- (b) The Group aims to improve results by approximately PLN1.9 billion through implementing strategic initiatives and by reducing CAPEX in the period from 2017 to 2020. It aims to achieve this by: (i) increasing cumulative EBITDA by approximately PLN1.2 billion; and

(ii) reducing CAPEX by approximately PLN0.7 billion. It is expected that these savings will be achieved in addition to the savings described in paragraph (a) above. The assumed initiatives include the sales expansion (by developing additional products and services and improving client contact) and pro-efficiency efforts (mainly reducing fixed costs, structure optimisation, generating assets management optimisation and disposing of non-generation assets).

- (c) By suspending, in 2016, investment in the new combined cycle gas turbine at Łagisza Power Plant, approximately PLN1.5 billion worth of CAPEX will be saved. In the event that regulatory and market conditions turn favourable, it is anticipated that this investment project will resume. This investment was suspended because of prevailing unfavourable market conditions for power plants fuelled by gas.

2. Building a strong group

The second priority of the Strategy is to build a strong group. The Strategy outlines a new approach to be taken in relation to the value chain of the business, in which key tasks are allocated to each segment. The Strategy does not assume balanced growth for each segment.

Sales and development of new products

It is expected that the sales and development of new products and services will constitute a strong base for growth of the Group. In this segment, the Group is planning to rapidly develop offers made to customers. It is hoped that this will allow the Group to: (i) retain the existing base of customers who purchase the Issuer's products; and (ii) increase the Group's profitability.

Electricity distribution, heat generation and distribution

The Group anticipates that electricity distribution, heat generation and distribution businesses will constitute a stable base of regulated business.

Mining and conventional generation

For mining and conventional generation businesses, the Group's main aim is to improve efficiency.

The three pillars

In order to build a strong group, the Group's Strategy identifies the following three pillars as key:

- (a) **Customer Relations** – the Group aims to build customer relations based on high quality service, the use of modern sales and customer service channels and by developing product and service offers.
- (b) **Stable base of regulated assets** – by establishing a stable base of regulated assets (such as the updated electricity distribution and heat businesses), the Group expects to maintain a strong capital base. The Strategy also highlights the importance of readiness to develop renewable energy sources should a favourable regulatory environment prevail.
- (c) **Improving efficiency and cost production** – by improving the cost efficiency and productivity of conventional assets such as the mining and conventional generation businesses, the Group hopes that (i) mining business will be competitive on the market; and (ii) generation assets will be shifted to the regulated part of the power system.

3. Implementation of organisational changes

The third priority of the Strategy is the implementation of organisational changes at the Group in order to modernise it. The Group anticipates that this will be achieved by implementing a new, process-oriented operational model. The operations of the Group will concentrate on five key streams:

- (i) Strategy;
- (ii) Finance;
- (iii) Assets Management and Development;
- (iv) Client and Corporate Governance; and
- (v) Support.

It is hoped that this approach will allow the Group to focus on its key strengths allowing the Group to highlight its competitive advantages.

ELECTRICITY MARKET IN POLAND

The electricity market environment in Poland impacts the Group's financial performance. The key factors include:

- the levels of domestic production and consumption of electricity;
- electricity prices in Poland;
- prices for energy certificates; and
- the cost of CO₂ emission allowances,

each of which is discussed further below.

Domestic production and consumption of electricity

According to data published by the TSO:

- 162.63 TWh of electricity was produced in Poland in 2016 compared to 161.77 TWh in 2015. The increase in production in 2016 was driven by changes in net electricity flows between Poland and the systems in its neighbouring countries.
- 164.63 TWh of electricity was consumed in Poland in 2016 compared to 161.44 TWh in 2015.

Growing production of electricity in Poland – reported by TSO – confirms the increasing demand. Due to this growth power units of the Group are able to sell higher volume of energy and gain higher margins. Increasing sales from the Group's power units is also supported by a favourable schedule of repairs (floating in consecutive years).

Energy and coal prices

In 2016, wholesale prices of energy in Poland grew slightly compared to 2015. The average price on TGE's Day-Ahead Market for 2016 amounted to PLN159.22 per MWh, which was PLN2.27 per MWh higher than in 2015. The CRO price on the balancing market was PLN164.19 per MWh on an

annual basis in 2016, PLN6.88 per MWh higher than in 2015. The main reason for this growth in market prices was increased systemic demand for capacity which, on an annual basis, resulted in the growth of electricity consumption by over 3 TWh in 2016 compared to 2015. The impact of the growth in electricity consumption was not offset by relatively low coal prices, which fell by PLN0.99 per GJ to an average of PLN8.79 per GJ in 2016.

Another factor supporting energy prices in 2016 was the change in the structure of generation during the year. Although approximately 730 MW of new wind farm capacity was commissioned in 2016, this did not result in significant growth in RES production. At the same time, reflecting declines in cheaper lignite production the production of more expensive gas-fired power plants increased by 37.8 per cent. in 2016 and this was supported by net imports of almost 2 TWh of electricity in 2016.

In the first quarter of 2016, the coal price reached its lowest level for over a decade driven by factors such as the economic crisis in China and shale production in the United States, which replaced coal production. In addition, both China and Europe are seeking to increase electricity production from renewable sources. Coal prices began to improve in the second quarter of 2016 due to disruptions in the supply side worldwide as low prices bankrupted coal producers around the world. In Europe, due to the suspension of a significant quantity of generating capacity in the nuclear sector in France (as a result of irregularities detected at a number of generation plants), the demand for coal increased in the autumn, strengthening the demand side. Coal prices on the SPOT market for delivery in 2017 almost doubled compared to prices in February 2016. The Group believes that a strengthening of coal prices in 2017 will have a positive effect on the Polish mining sector should it materialise.

Prices for energy certificates

Prices for green energy certificates fell significantly in 2016 from PLN114.54 per MWh in the first quarter 2016 to PLN32.57 per MWh in the fourth quarter 2016, principally reflecting market uncertainty around the new system of RES support and high levels of surplus certificates. The average price for green certificates in 2016 was PLN49.98 lower than in 2015.

Prices for white, yellow, red and violet energy certificates remained relatively stable throughout the year.

The Group is primarily interested in buying energy certificates. Because the Group purchases energy certificates, the downward trend in green energy certificates prices has the most positive impact on the Issuer's cost structure and will improve operational efficiency. Price stability in the market for other certificates also positively influences the Issuer's operating activities, through predictability in forecasting future cost components as well as volumes and prices of energy produced.

CO₂ emission allowance market

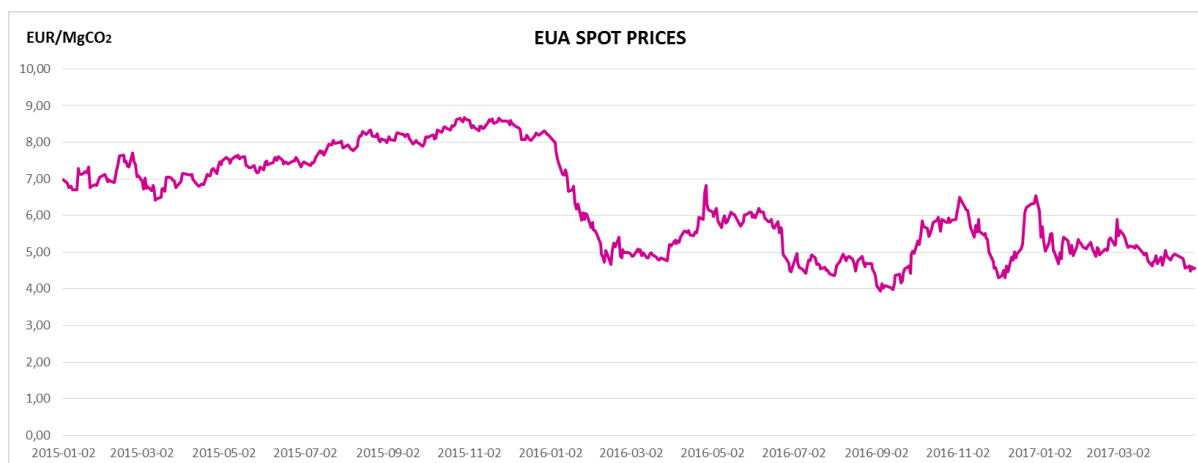
CO₂ emissions allowance prices experienced high levels of volatility in 2016. Prices in January 2016 fell from EUR8.30 to EUR4.90 driven by a record warm winter which reduced demand for electricity, the economic downturn coming in China and the backloading mechanism which led to a withdrawal of the last 200 million of 900 million of EUA units throughout 2016 and translated directly to increased volumes of allowances sold in auctions. A temporary rebound in prices occurred in April as a result of increased demand for EUA units in order to clear emissions for 2015.

In June 2016, following the Brexit referendum in the UK, the price dropped from EUR6.00 to EUR4.40 and the price remained low throughout the summer before recovering to EUR6.60 in response to the suspension of nuclear production in France. This resulted in increased electricity prices and increased generation from conventional sources (coal and gas-based), which resulted in increases in the prices of relevant commodities and CO₂ emission allowances. Prices continued to strengthen in December 2016, even though some French nuclear facilities were permitted to resume production

conditionally due to concerns that the French power system would not cope with increased winter demand.

During the first quarter of 2017 the CO₂ emission allowance market was influenced by the legislation of the EU ETS system. Additionally, declining prices in January were a consequence of the increased volume of auction. Information about verified emissions for 2016 was also a significant factor influencing the prices. As a result, prices were in the range of EUR5.40 to EUR4.60.

The graph below presents the changes in EUA spot prices noted from 2 January 2015 to 2 March 2017.



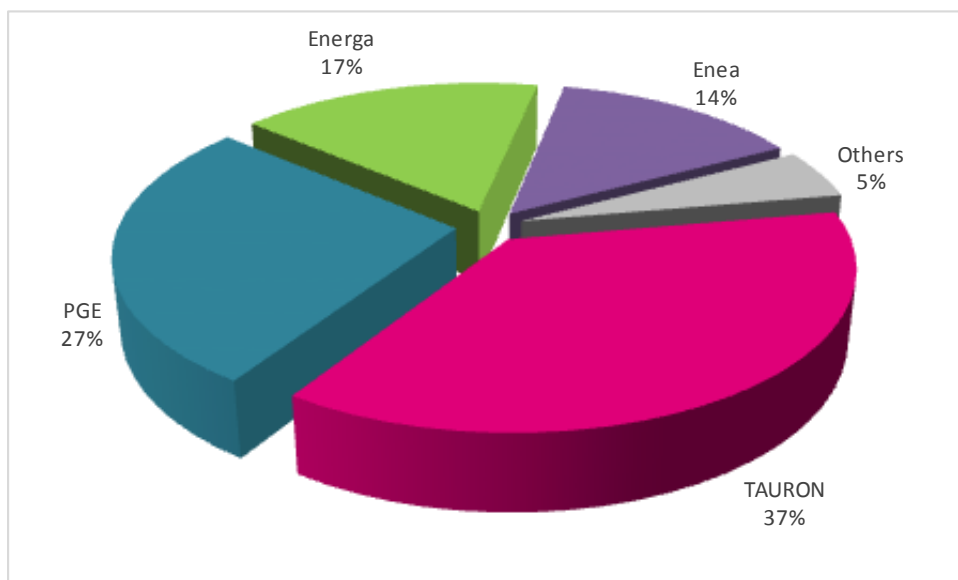
Source: the Issuer

General outlook for prices trend forecast is upward, especially due to implementation of Market Stability Reserve (**MSR**) and Linear Reduction Factor (**LRF**).

COMPETITIVE STRENGTHS

The Group is the largest electricity distributor in Poland and also a market leader in terms of revenues received from distribution activity. According to the data for 2015, 2014 and 2013, the volume of electricity supplied to clients by the distribution segment was 47.0 TWh, 45.6 TWh and 45.2 TWh, respectively. During this period, the Group ranked first in terms of the quantity of electricity delivered. In 2016, the volume of energy supplied to end consumers amounted to approximately 47.5 TWh.

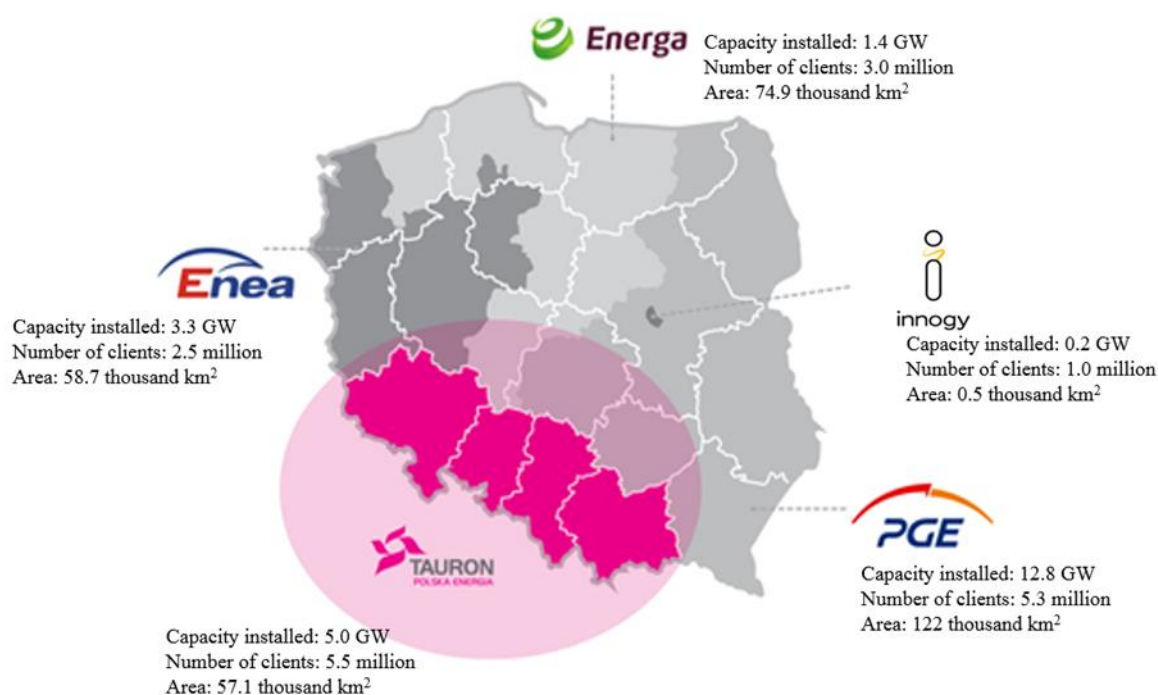
These volumes above make the Issuer a leader in Poland – market division is shown on a graph below.



Source: ARE, information of companies published on their relevant websites

The Group's distribution activity is essential as it generates stable and predictable revenues. This is due to the natural quasi monopoly the Group has in its operational area. The geographical area of electricity distribution in which the companies of the distribution segment and the supply segment have historically operated is characterised by heavy industrialisation and dense population. This in turn influences the demand for electricity both among households and among enterprises. The number of clients of the distribution segment amounts to almost 5.5 million.

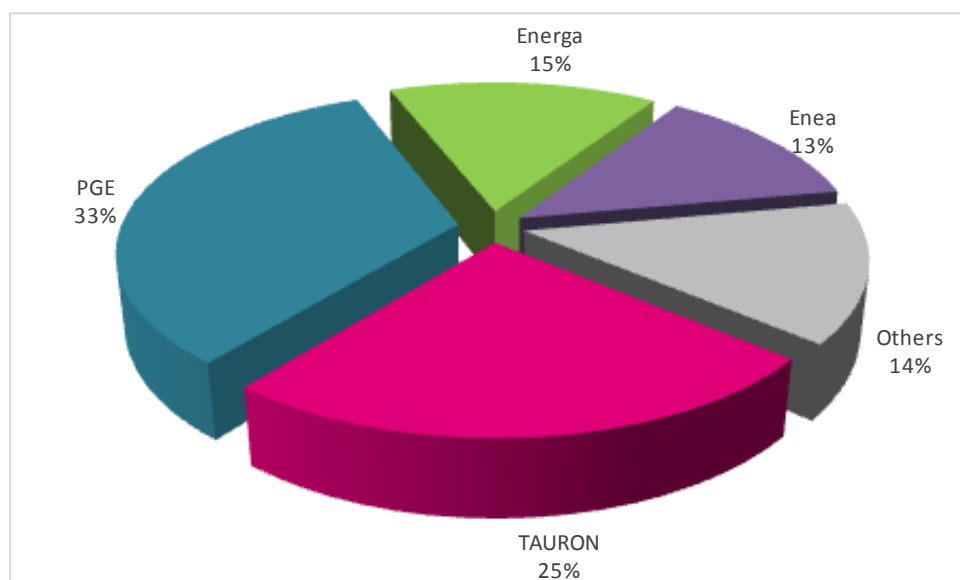
The map below illustrates the competitive environment of the Group in 2016.



Source: ARE, the Issuer, information of companies published on their relevant websites, information published in stock exchange reports

As at 31 December 2016, the number of clients in the supply segment was approximately 5.3 million. As is the case with the other energy groups operating in Poland, the majority of the Group's clients classified as households and small enterprises are the clients located in the area in which the Group acts as the DSO, which provides a natural competitive advantage. As at 31 December 2016, the Group's market share amounted to 25 per cent.

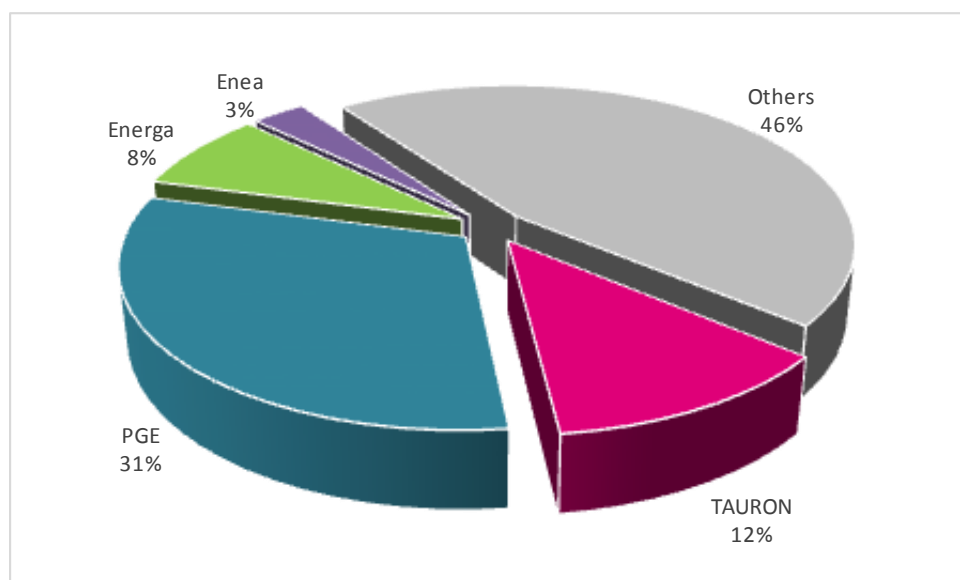
The graph below illustrates the percentage split of the sales of energy to the end users in 2016.



Source: ARE, information of companies published on their relevant websites

The Group was the second largest producer of electricity in Poland. As at 31 December 2016, the share of the Group in the domestic market of electricity generation, measured by gross electricity output, amounted to approximately 10 per cent. (source: ARE data and publicly available information). The Group is thereby able to leverage efficiencies due to its size and economies of scale to give it a competitive advantage over its competitors.

The Group's share in the Polish market in terms of capacity installed as at 31 December 2016 is presented on the graph below.



Source: ARE, information of companies published on their relevant websites

The generation assets of the Group are concentrated in southern Poland. Coal deposits are also located in this region and are used for combustion processes in power plants and co-generation plants of the Group. Costs associated with coal transportation are thereby optimised by having generation assets built nearby (the fuel transportation costs being the most significant of operating costs).

Furthermore, the Group's distribution region, although smaller than those of its competitors, covers highly urbanised areas, with a great number of cities and concentrated industry, both traditional and developed, in the special economic zones. Due to such location of the Group's distribution assets, the number of its customers, both individual and industrial ones, is rising.

BUSINESS

Overview

The Group's business is divided into four main operating segments:

- **distribution**, which is undertaken by three Group companies and involves the distribution of electricity from the generators to the suppliers;
- **supply**, which is undertaken by three Group companies and principally involves the sales of electricity to end users or intermediate suppliers as well as the trading of electricity on the wholesale market and the trading of energy certificates, emission allowances and gas fuel;
- **generation**, which is undertaken by a number of Group companies and principally involves the generation of electricity using conventional and renewable sources as well as the generation, distribution and sale of heat; and
- **mining**, which is undertaken by Tauron Wydobycie S.A. (**Tauron Wydobycie**) and involves the mining of hard coal.

The table below shows each operating segment's share of the Group's revenue, EBITDA and capital expenditure.

	<u>31 March 2017</u>		<u>31 March 2016</u>		<u>31 December 2016</u>		<u>31 December 2015</u>	
	(PLN million)	(per cent.)	(PLN million)	(per cent.)	(PLN million)	(per cent.)	(PLN million)	(per cent.)
Revenue								
Mining.....	384	8.4	254	5.6	1,311	7.4	1,206	6.6
Generation	1,219	26.6	1,272	27.9	4,356	24.7	5,376	29.4
Distribution	1,733	37.8	1,616	35.4	6,310	35.8	6,450	35.3
Supply	3,617	78.8	3,509	76.8	14,016	79.4	15,873	86.9
Other ⁽¹⁾	<u>195</u>	<u>4.2</u>	<u>217</u>	<u>4.8</u>	<u>828</u>	<u>4.7</u>	<u>928</u>	<u>5.1</u>
Unallocated/eliminations...	<u>(2,559)</u>	<u>(55.8)</u>	<u>(2,304)</u>	<u>(50.5)</u>	<u>(9,175)</u>	<u>(52.0)</u>	<u>(11,569)</u>	<u>(63.3)</u>
Total revenue.....	4,589	100.0	4,564	100.0	17,646	100.0	18,264	100.0
EBITDA								
Mining.....	(29)	(2.4)	(65)	(7.4)	(82)	(2.5)	9	0.3
Generation	191	16.1	191	21.9	545	16.3	755	21.4

	31 March 2017		31 March 2016		31 December 2016		31 December 2015	
	(PLN million)	(per cent.)	(PLN million)	(per cent.)	(PLN million)	(per cent.)	(PLN million)	(per cent.)
Distribution	607	51.2	543	62.1	2,395	71.8	2,372	67.3
Supply	380	32.1	168	19.2	490	14.7	380	10.8
Other ⁽¹⁾	35	2.9	31	3.5	115	3.4	100	2.8
Unallocated/eliminations...	1	0.1	6	0.7	(126)	(3.7)	(94)	(2.6)
Total EBITDA.....	1,185	100.0	874	100.0	3,337	100.0	3,523	100.0
Capital expenditure								
Mining.....	29	4.6	63	9.7	283	7.4	211	5.1
Generation	335	52.7	256	39.2	1,661	43.5	1,934	46.3
Distribution	262	41.2	328	50.2	1,806	47.4	1,925	46.1
Supply	0	0	1	0.1	1	0	5	0.1
Other ⁽¹⁾	10	1.5	5	0.8	65	1.7	100	2.4
Total capital expenditure	636	100.0	653	100.0	3,817	100.0	4,175	100.0

Source: the Issuer

Note:

- (1) The Group conducts stone (including limestone) quarrying for the power, metallurgy, construction and highway engineering industries and also produces sorbents for use in wet desulphurisation installations and fluidised bed combustors.

Distribution

The distribution segment comprises the distribution of electricity received from the TSO to the segment's customers.

Financial data

The distribution segment accounted for 71.8 per cent. of the Group's EBITDA in 2016 and 67.3 per cent. in 2015. The distribution segment's revenue from external customers accounted for 17.6 per cent. of the Group's total revenue from external customers in 2016 and 16.5 per cent. of the Group's total revenue from external customers in 2015. It should be noted that the external customers of the distribution segment are only the entities purchasing high and medium voltage electricity. Sales to retail customers are conducted by the supply segment. Sales to retail customers are presented as intra-group sales in the results of the distribution segment and as sales to external customers in the results

of the supply segment. All distribution services provided by the Group (through the distribution segment and the supply segment) are addressed to external customers.

The table below summarises certain financial data for the distribution segment.

	31 March 2017	31 March 2016	Change 31 March 2017/31 March 2016	31 Decembe r 2016	31 Decembe r 2015	Change 2016/15
	<i>(PLN million)</i>		<i>(per cent.)</i>	<i>(PLN million)</i>		<i>(per cent.)</i>
Total revenue (including intra-group)	1,733	1,616	7.2	6,310	6,450	(2.2)
Revenue from external customers	820	777	5.5	3,100	3,006	3.1
EBITDA	607	543	11.8	2,395	2,372	1.0
Net profit/(loss)	346	292	18.5	1,363	1,372	(0.7)
Capital expenditure.....	262	328	(20.1)	1,806	1,925	(6.2)

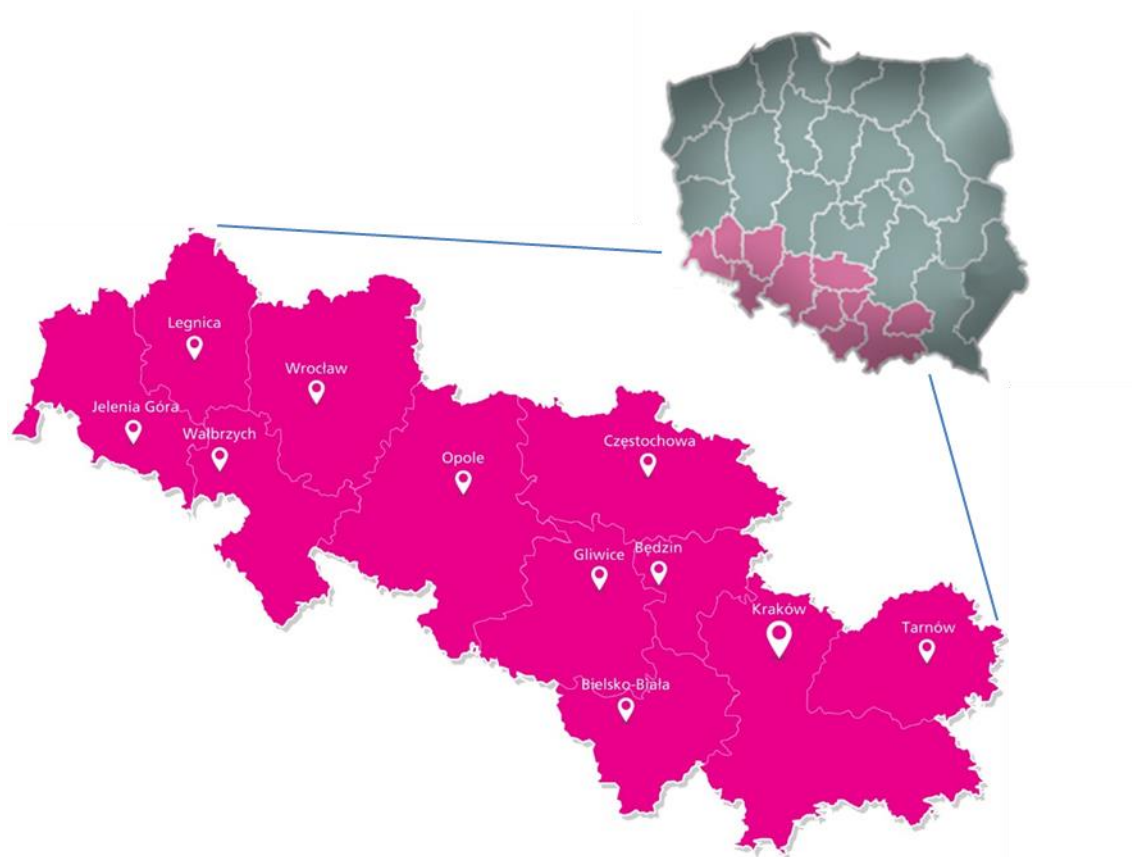
Source: the Issuer

Operations

The distribution segment comprises Tauron Dystrybucja as the distribution services operator (the **DSO**), and its subsidiaries. The DSO has its head office in Cracow and 11 local branches in Będzin, Bielsko-Biała, Częstochowa, Gliwice, Jelenia Góra, Cracow, Legnica, Opole, Tarnów, Wałbrzych, and Wrocław. The subsidiaries support the DSO in the performance of its key tasks by providing services in the areas of grid maintenance, customer technical services and specialist grid services.

The DSO is the largest distribution service operators in Poland. Its territory of operation covers southern Poland and totals approximately 57,100 km² or approximately 18.3 per cent. of the country (see map below). The DSO serves 5.5 million customers, including approximately 5 million individual customers, and its share in the Polish energy distribution market amounted to 37 per cent. in 2016.

The map below illustrates the DSO's area of operation.



Source: the Issuer

The distribution activity of the DSO is carried out under a licence granted by the President of the ERO, which expires in 2025. Pursuant to this licence, the DSO has a monopoly on distribution activity in the territory where its distribution assets are located.

In 2016, the DSO transmitted 49.7 TWh (including 2.2 TWh to other DSO and exported) of electricity through 228,936 kilometres of high, medium and low voltage lines, both overhead and cable. Apart from the power lines, the DSO's assets include 58,247 transformers with a total capacity of 35,202 MVA, 59,032 power substations and around 2 million connections.

The table below shows the assets used by the DSO in its operations.

	As at 31 December	
	2016	2015
Total length of overhead lines	156,718	155,880
of which:		
High voltage.....	11,010	10,997
Medium voltage.....	40,629	40,566
Low voltage.....	105,079	104,317
Total length of cable lines	72,218	69,861
of which:		
High voltage.....	118	113
Medium voltage.....	23,385	22,758
Low voltage ⁽¹⁾	48,715	46,990
Total length of lines	228,936	225,741
Total capacity of transformers	35,202	33,472
Total number of transformers	58,247	57,706
Total number of power substations	59,032	58,373
Total number of transformer substations.....	54,802	54,175
Total connections	1,986,872	1,965,836

Source: the Issuer

Note:

(1) Length of lines after conversion per line circuit plus connections.

Sales by the DSO

The DSO supplies electricity to customers pursuant to combined agreements or on a third party access (the **TPA rule**) basis. The combined agreements provide for the sale of both electricity and distribution services to the client. The TPA rule allows the purchase of energy by a customer from any supplier holding an electricity trading licence which the customer chooses (see further "*Regulatory Environment — TPA rule*"). The DSO provides distribution services under combined agreements to 95 per cent. of its customers.

In 2016, the DSO sold 47,473 GWh of electricity and in 2015 it sold 47,004 GWh. The DSO's main customers are tariff B customers (which comprised approximately 35 per cent. of supplied electricity), tariff A customers (approximately 29 per cent.) and tariff G customers (approximately 21 per cent.). In 2016, the remaining tariff C and tariff R groups received approximately 15 per cent. of the electricity distributed by the DSO.

Network data

The DSO records all work in the network, including interruptions in the supply of electricity to retail customers.

The table below shows the level of total network losses of electricity in the DSO for each of 2016 and 2015.

	<u>2016</u>	<u>2015</u>
Total network losses.....	2,614 GWh (4.90 per cent.)	2,628 GWh (4.98 per cent.)

Source: The Issuer's studies based on the source data provided by subsidiaries

The table below shows the level of the DSO's System Average Interruption Duration Index (**SAIDI**) and System Average Interruption Frequency Index (**SAIFI**) indicators for each of 2016 and 2015 in minutes per customer per year (for all voltages). The improvements in SAIDI and SAIFI are a result of the Group's investments in the distribution network. Both SAIDI and SAIFI are closely monitored by the ERO so the Group intends to continue investment projects which will lead to further improvements of these two indicators.

SAIDI is the sum of the products of the interruption duration and the number of customers suffering from the effects of the interruption during the course of a year, divided by the total number of customers served.

SAIFI is the number of customers suffering from the effects of all interruptions in the course of a year, divided by the total number of customers served.

	<u>SAIDI</u>				<u>SAIFI</u>			
	Unplanned with		Planned	Total	Unplanned with		Planned	Total
	<u>Unplanned</u>	<u>catastrophic</u>			<u>Unplanned</u>	<u>catastrophic</u>		
2016...	137.64	137.90	59.37	197.01	2.55	2.55	0.40	2.95
2015...	207.35	238.67	69.42	276.77	3.08	3.10	0.46	3.54

Source: the Issuer

Tariffs

The DSO's revenue from distribution activities is regulated by the ERO. The tariff model is based on the principle of reimbursement of the operating costs incurred by an operator, plus a margin to represent return on capital engaged in the operations. The tariff is set every year by the President of the ERO and is based on regulated revenue as reported by the relevant distribution services operator.

Regulated revenue is calculated based on the costs incurred by a distribution services operator in connection with its distribution activities, to the extent considered justified by the ERO, and the return on capital engaged in distribution activity. The costs relating to distribution activity include operating costs, depreciation, taxes on grid assets, costs of the purchase of electricity to cover network losses and transferred costs (i.e. costs of transmission services). The return on the capital engaged is calculated according to the Regulatory Asset Base (**RAB**) and the set weighted average cost of capital (this was set at 5.7 per cent. in 2016 and 7.2 per cent. in 2015). Starting with the tariff for 2016, the return is adjusted by the regulatory parameter (a discretionary factor applied by the ERO within a range of 0.9-1.1) and, from the tariff for 2018, this will also be adjusted by a quality parameter (which will relate to the implementation of the Quality Regulation and will have a range of 0.85-1.00).

From 2014, the RAB (in PLN billion) was as follows:

	2014	2015	2016
	<i>(PLN billion)</i>		
RAB	14.07	14.85	15.57

Source: the Issuer

The structure of regulated revenue accepted by the President of the ERO as a base for the 2014 to 2016 tariffs is shown in the table below. The tariff structure in effect incentivises a distribution services operator to manage both its operating costs and investments as efficiently as possible.

	2014	2015	2016
	<i>(PLN million)</i>		
Regulated revenue	5,642.6	5,884.8	5,885.8
<i>including the charges for exceeding the contractual consumption of passive energy, charges for exceeding contractual power and the fees for the services performed at a consumer's additional request</i>	<i>196.3</i>	<i>174.3</i>	<i>157.1</i>
Operating costs	1,355.9	1,367.6	1,377.6
Depreciation	893.6	926.4	947.1
Tax on grid assets	302.1	326.6	348.0
Costs of the purchase of electricity to cover network losses	587.2	598.6	490.4
Costs of transmission services	1,477.8	1,645.1	1,808.3
Return on capital engaged in distribution activity	1,024.9	1,019.4	896.9
Other model costs	1.0	1.1	17.4

Source: the Issuer

Apart from the regulated revenue, the distribution segment obtains additional revenues from operations which, due to their nature, are not included in the RAB, e.g. revenues from connection fees, maintenance of street lighting or resolving grid infrastructure conflicts.

Supply

The supply operating segment principally comprises electricity sales and customer service.

Financial data

The supply segment accounted for 14.7 per cent. of the Group's EBITDA in 2016 and 10.8 per cent. in 2015. The supply segment's revenue from external customers accounted for 65.2 per cent. of the Group's total revenue from external customers in 2016 and 68.4 per cent. of the Group's total revenue from external customers in 2015.

The table below summarises certain financial data for the supply segment.

	31 March 2017	31 March 2016	Change 31 March 2017/31 March 2016	31 December 2016	31 December 2015	Change 2016/15
	(PLN million)		(per cent.)	(PLN million)		(per cent.)
Total revenue (including intra-group)	3,617	3,509	3.1	14,016	15,873	(11.7)
Revenue from external customers	3,033	2,910	4.2	11,513	12,487	(7.8)
EBITDA	380	168	126.2	490	380	28.9
Net profit/(loss)	377	161	134.2	479	370	29.5
Capital expenditure	0.2	0.7	(71.4)	1.5	4.6	(67.4)

Source: the Issuer

The supply revenues in 2016 were lower compared to 2015, mainly due to the lower revenues from the sale of electric energy, fuels and the distribution service (transferred). The revenues from the sale of fuels dropped due to the lower volumes of both wholesale and retail sales. In turn, the increased EBITDA resulted from the lower prices of certificates and creating provisions in 2015 (which reduced the results for this period).

Operations

The supply segment is responsible for:

- sales of electricity in the Polish wholesale and retail markets;
- customer relations and service (including customer satisfaction);
- sales of energy-related products and services and gas; and

- providing lighting maintenance activities and comprehensive services including the lighting of roads, streets, squares, parks and buildings.

The supply segment offers electricity bundled with gas and additional energy-related products and services. This offer is targeted at all customers, regardless of the volume of their electricity consumption. The supply segment concentrates on providing high quality service in all contact channels and implementing solutions that improve the efficiency of its service processes and tools. The supply segment aims to increase customer satisfaction while also optimising costs. As of 31 December 2016, the supply segment had a sales network that comprised 37 proprietary showrooms. Additionally, the Group conducts sales through external distributors. The Group cooperates with external partners who offer the supply segment's services and products in sales outlets operated throughout Poland.

In recent years, the Group has principally experienced sales growth in its dual fuel offering based on electricity and gas to business and retail clients. In addition, reflecting increasing levels of digitisation on Poland, the Group is focusing on developing its electronic sales channels, including internet and mobile sales.

The principal Group company within the supply segment is Tauron Sprzedaż, which was founded in 2007 in order to comply with the requirements of the Energy Law relating to the separation of the distribution and sales functions within energy companies. The core business of Tauron Sprzedaż is to purchase energy that is subsequently re-sold to retail and business customers in Poland. Tauron Sprzedaż GZE, a part of the Vattenfall business acquired in 2011, has the same business profile. – For operational and formal reasons (separate concessions), the companies function as different entities.

Customers

The supply segment sells energy-related products and services in both wholesale and retail markets.

Wholesale trade

Electricity trading on the Polish wholesale market, both short- and long-term, takes place through bilateral transactions with other market participants, the Polish Energy Exchange (*Towarowa Gielda Energii*), internet trading platforms and brokers' platforms. In addition, Tauron Sprzedaż and the Issuer trade gas and energy-related products, such property rights.

Retail trade

Since 2007, the market for the sale of energy to business customers has been fully liberalised and the tariffs are not regulated by the President of the ERO.

The retail sales market for tariff G group (which comprises individual customers including households) remains regulated and the tariffs are generally required to be approved by the President of the ERO.

Tauron Sprzedaż sells a significant majority of the total electricity within the area covered by the distribution network operated by the DSO. However, since the TPA rule, which allows energy customers in Poland to choose their energy supplier, was introduced to the Polish energy market in 2004 (2007 for households), Tauron Sprzedaż intensified its efforts to expand its sales area whilst maintaining its position in its home markets.

Apart from selling electric energy, the supply segment obtains other revenues such as from selling natural gas, CO₂ emission allowances, property rights and fuel.

Generation

The generation operating segment includes the generation of electricity and heat from conventional sources (power stations and co-generation plants) and electricity from renewable sources (based on wind, water and biomass).

Financial data

The generation segment's EBITDA accounted for 16.3 per cent. of the Group's EBITDA in 2016 and 21.4 per cent. in 2015. The generation segment's revenue from external customers accounted for 13.9 per cent. of the Group's total revenue from external customers in 2016 and 12.2 per cent. in 2015.

The table below summarises certain financial data for the generation segment.

	31 March 2017	31 March 2016	Change 31 March 2017/31 March 2016	31 December 2016	31 December 2015	Change 2016/15
	<i>(PLN million)</i>		<i>(per cent.)</i>	<i>(PLN million)</i>		<i>(per cent.)</i>
Total revenue (including intra-group)	1,219	1,272	(4.2)	4,356	5,376	(20.0)
Revenue from external customers	550	770	(28.6)	2,457	2,227	10.3
EBITDA	191	191	0.0	545	755	(27.8)
Net profit/(loss)	130	112	16.1	(693)	(3,469)	-
Capital expenditure	335	256	30.8	1,661	1,934	(14.1)

Source: the Issuer

Generation capacity

The total generation of the Group's power plants amounted to approximately 16.8 TWh as at 31 December 2016, accounting for 10 per cent. of the total generation in Poland at that date. The energy generation capacity at the Group's power plants is based on diversified fuels, principally coal, wind and water.

The table below shows the Group's installed generation capacity at 31 December in each of 2016 and 2015.

	2016	2015
	(GW)	
Electricity installed capacity	5.0	5.1

of which renewable sources	0.5	0.5
Heat installed capacity.....	2.4	2.5
of which renewable sources	0.2	0.2

Source: the Issuer

The decrease in the electricity generation capacity was caused by decommissioning two generation units of aggregate power of 120 MWe at Łagisza and Siersza power plants and commencing the operations of the 66 MWe unit at Tychy power plant.

Generation

The table below shows the Group's actual generation by source.

	<u>31 March 2017</u>	<u>31 March 2016</u>	<u>31 December 2016</u>	<u>31 December 2015</u>
	(TWh)		(TWh)	
Coal.....	3.96	3.39	14.21	15.70
Co-generation	0.60	0.51	1.28	1.22
Dedicated biomass	0.10	0.20	0.49	0.68
Wind.....	0.10	0.09	0.44	0.50
Hydro	0.13	0.13	0.38	0.32
Co-firing biomass	—	—	—	0.14
Total generation.....	4.89	4.31	16.80	18.56

Source: the Issuer's own calculations based on data provided by the Issuer's subsidiaries

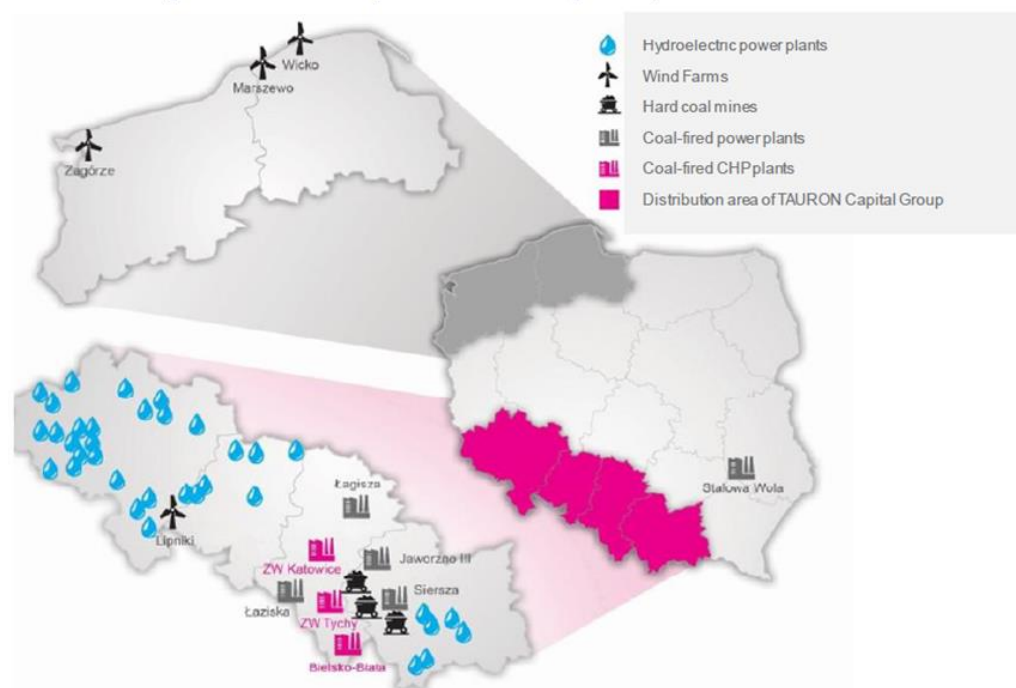
The overall decline in production in 2016 was principally due to:

- coal – an increase in the amount of coal sold in the SPOT market and a significantly higher use of the operational power reserve in 2016 as compared to 2015;
- dedicated biomass – a decrease in the price of green certificates, which resulted in a decrease of the profitability of biomass units and a corresponding reduction in the production output of these units;
- wind – less favourable meteorological conditions; and
- co-firing biomass – a decrease in the support for co-firing biomass by reducing the amount of green certificates allocated for co-firing biomass.

The increase in the co-generation production is the result of launching a new BC-50 unit in the Tychy power plant in June 2016. The increase in hydro production was caused by more favourable meteorological conditions. Additionally, the scope of modernisations and overhauls of hydro plants was smaller than in 2015.

The Group's power plants

The map below shows the location of the Group's generation plants.



Source: the Issuer

The Group's generation plants comprise:

- eight conventional power stations and combined heat and power plants with an electricity capacity of 4.6 GWe and a heat capacity of 2.4GWt;
- four wind farms with a total capacity of 201 MWe; and
- 34 hydroelectric power plants with a total capacity of 143 MWe.

Together these plants generated 16.8 TWh of gross electricity, including 0.8 TWh from wind and hydroelectric sources and 0.5 TWh from biomass. The Group also generated 11.5 PJ of heat which it distributed through 816 km of heat networks.

In the future the Group's generation assets should follow the global tendencies, as presented on the graph below.



Source: the Issuer

GHG emissions

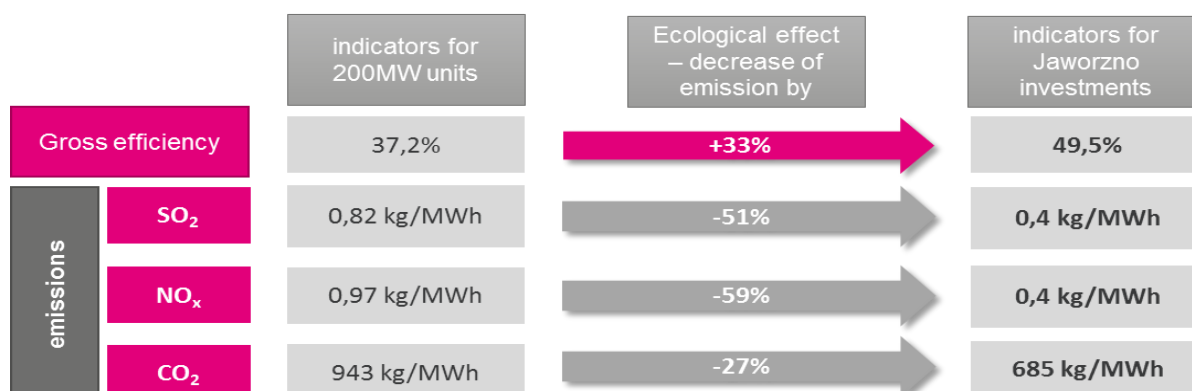
The table below shows the Group's GHG emissions for each of 2016 and 2015.

	2016	2015
Quantity (tonnes thousand)	15,123	16,651

Source: the Issuer's own calculations based on data provided by the Issuer's subsidiaries

The principal causes of the decrease in GHG emissions were the construction of new generation units of greater efficiency and the increase of energy generated from the RES in the Group's generation output.

The Group intends to decrease all kinds of emissions, mainly by replacing the older units with the new 910 MW block in Jaworzno III Power Plant. The ecological effect is presented in the graph below:



Source: the Issuer

Mining

The Group owns and operates three hard coal mines — Zakład Górniczy Sobieski in Jaworzno, Zakład Górniczy Janina in Libiąż, and Zakład Górniczy Brzeszcze w Brzeszczach — which extract and supply hard coal for the Group's conventional power plants, including Elektrownia Jaworzno III and Elektrownia Siersza, which are situated in the vicinity of the mines. The mines and the power plants constitute complete technological chains.

Financial data

The mining segment had negative EBITDA of minus PLN82 million in 2016 versus a positive amount of PLN9 million in 2015 (0.3 per cent. of the Group's EBITDA in 2015). The mining segment's revenue from external customers represented 2.8 per cent. of the Group's total revenue from external customers in 2016 and 2.5 per cent. of the Group's total revenue from external customers in 2015.

The relatively worse financial performance in 2016 was mainly caused by dropping coal prices and the negative influence of the Brzeszcze coal mine (acquired at the beginning of 2016), which needed time and investment to become an effective entity).

The table below summarises certain financial data for the mining segment.

	31 March 2017	31 March 2016	Change 31 March 2017/31 March 2017	31 December 2016	31 December 2015	Change 2016/15
	(PLN million)		(per cent.)	(PLN million)		(per cent.)
Total revenue (including intra group)	384	254	51.2	1.311	1.206	8.7
Revenue from external customers.....	168	90	86.7	492	459	7.2
EBITDA	(29)	(65)	-	(82)	9	-
Net profit/(loss).....	(60)	(104)	-	(205)	(104)	-
Capital expenditure	29	63	(53.9)	283	211	34.1

Source: the Issuer

Mining operations

According to the estimate published by the State Geology Institute (*Państwowy Instytut Geologiczny*), the hard coal resources in the area covered by the concession granted to TAURON Wydobycie S.A. amount to 3,992 million tonnes. The aggregate output of the Group's mines in 2016 was 6.4 million tonnes of coal.

The Zakład Górniczy Sobieski mine is a two-operation plant located in Jaworzno and covers an area of 74.2 km². In the area of the current concession, resources amount to 1.26 billion tonnes. The concession for exploitation of the "Dzieńkowice" deposit expires in December 2022 and the concessions for exploitation of the "Brzezinka 1", "Byczyna", and "Jaworzno" deposits expire in December 2040. In 2016, the output of this mine was 2.6 million tonnes.

The Zakład Górniczy Janina mine is a one-operation plant located in Libiąż and covers an area of 81.1 km². In the area of the current concession, resources amount to 2.11 billion tonnes. The concession for exploitation of the "Wisła I" and "Wisła II" deposit expires in August 2031 and the concession for exploitation of the "Janina" deposit expires in December 2040. In 2016, the output of this mine was 2.6 million tonnes.

The Zakład Górniczy Brzeszcze mine is a one-operation plant located in Brzeszcze and covers an area of 26.9 km². In the area of the current concession, resources amount to 0.6 billion tonnes of coal and 3.431 m³ of methane. The concession for exploitation of the "Brzeszcze" deposit expires in September 2040. In 2016, the output of this mine was 1.2 million tonnes.

Customers

In 2016, 77 per cent. of the hard coal produced by the generation segment was used within the Group. The remaining 23 per cent. was sold principally to retail customers through a country-wide network of distributors who require coal of the highest quality (the sale of quality coal to retail clients generates higher margins). The Group entered into long-term contracts with these distributors, but the amount and price of coal sold to a distributor is separately determined each year.

Receivables

The table below shows the ageing of the Group's receivables for each of 2016 and 2015.

	2016	2015
	(PLN million)	
Total receivables from clients	2,213	2,168
of which:		
<i>Not past due receivables</i>	1,717	1,644
<i>Less than 30 days past due</i>	170	173
<i>30-90 days past due</i>	45	37
<i>90-180 days past due</i>	20	22
<i>180-360 days past due</i>	26	41
<i>More than 360 days past due</i>	235	251
Allowance/write down	(263)	(281)
Net receivables	1,950	1,887

Source: the Issuer

The Group writes off all successfully disputed receivables from clients and all non-performing debts and receivables from clients which are more than 12 months overdue. Receivables from clients which are more than six months overdue are written off by 50 per cent.

Health and Safety

Each Group company has implemented its own health and safety standards, relevant for the scope and nature of its operations. The Group companies regularly monitor and update these standards and the Group employees receive comprehensive training on the standards applicable to them.

In 2016, there were 199 accidents and two fatalities among the Group employees. Among the Group's subcontractors in 2016, there were 49 accidents and one fatality.

In 2016, the ratio of labour-related illnesses in the Group, calculated as the number of occurrences of labour-related illnesses per 1,000 employees, was 0.46.

CAPITAL EXPENDITURE

In the year ended 31 December 2016, the capital expenditure of the Group amounted to PLN3,816.8 million. This represented a decrease of approximately 8.6 per cent. in comparison to the capital expenditure incurred in 2015, which was approximately PLN4,175.5 million. This decrease is mainly due to the decline in expenditure in the generation and distribution segments. The main reasons for the decline in expenditure are: (i) the completion of construction of the second stage of 18 MW Marszewo wind farm; (ii) the finalising the modernisation of the de-nitrification units in Jaworzno III and Łaziska power plants; and (iii) completion of the co-generation unit at ZW Tychy.

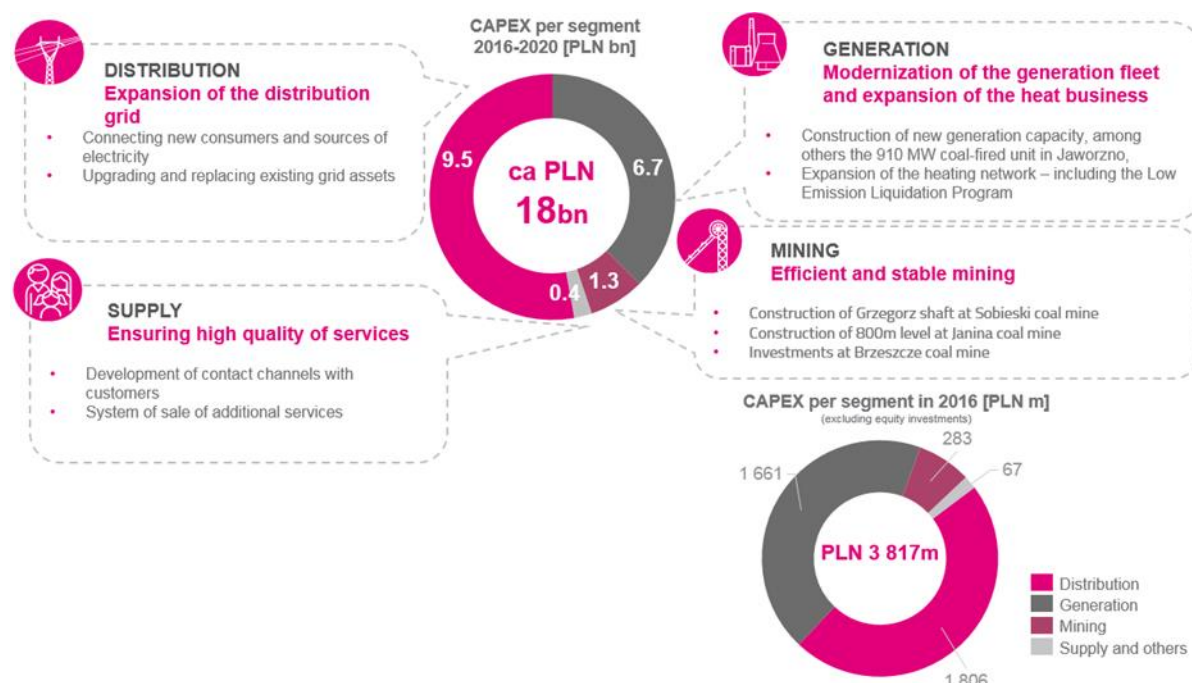
The table below illustrates the capital expenditure incurred within the Group's business areas in 2016.

Specification	Capital expenditure (PLN million)
Distribution	
Modernisation and reconstruction of existing grids	953
Construction of new connections	591
Generation	
Construction of new capacity at Jaworzno III Power Plant (910 MW)	1,237
Construction of new capacity in co-generation at Tychy Power Plant (including the construction of BC-50 unit)	107
Investment associated with the development and maintenance of heating networks	57
Modernisation of hydroelectric power plants	18
Construction of flue gas de-nitrification installation and modernisation of units at Jaworzno III Power Plant	11
Mining	
Brzeszcze mine investment programme	106
Construction of a 800m level at Janina mine	61
Construction of the "Grzegorz" shaft, including the construction of the infrastructure and the accompanying headings	24

Streamlining Capital Expenditure

The Group's Strategy envisages that capital expenditure will be streamlined through the implementation of the capital expenditure plan (the **CAPEX Plan**). The Group currently anticipates that, once optimised, the CAPEX Plan will amount to capital expenditure of ca. PLN18 billion in years 2016-2020

The structure of the Group CAPEX is presented on the graph below.



Source: the Issuer

The CAPEX Plan

Among the most important CAPEX there are:

- projects in the **distribution segment** (ca. PLN9.5 billion) arising from regulatory requirements, in particular the construction of new connections and the related modernisation of the grid;
- projects in the **generation segment**, the investment in the 910 MW unit at Jaworzno III Power Plant and investments in the heating networks. Capital expenditure in this segment is estimated to amount to PLN6.7 billion between 2016 and 2020. The investments in the generation segment are driven by the necessity to ensure that despite the existing generation units becoming obsolete, the Group will maintain its generation capacity; and
- projects in the **mining segment**, including investments at Janina mine, the construction of “Grzegorz” shaft at Sobieski mine and the planned investment projects at Brzeszcze mine. Capital expenditure in this segment is estimated to be approximately PLN1.3 billion between 2016 and 2020. The projects in this segment are aimed at increasing the Group's production capacity and granting the Group access to fuel from the Group's own sources.

Continuing investments

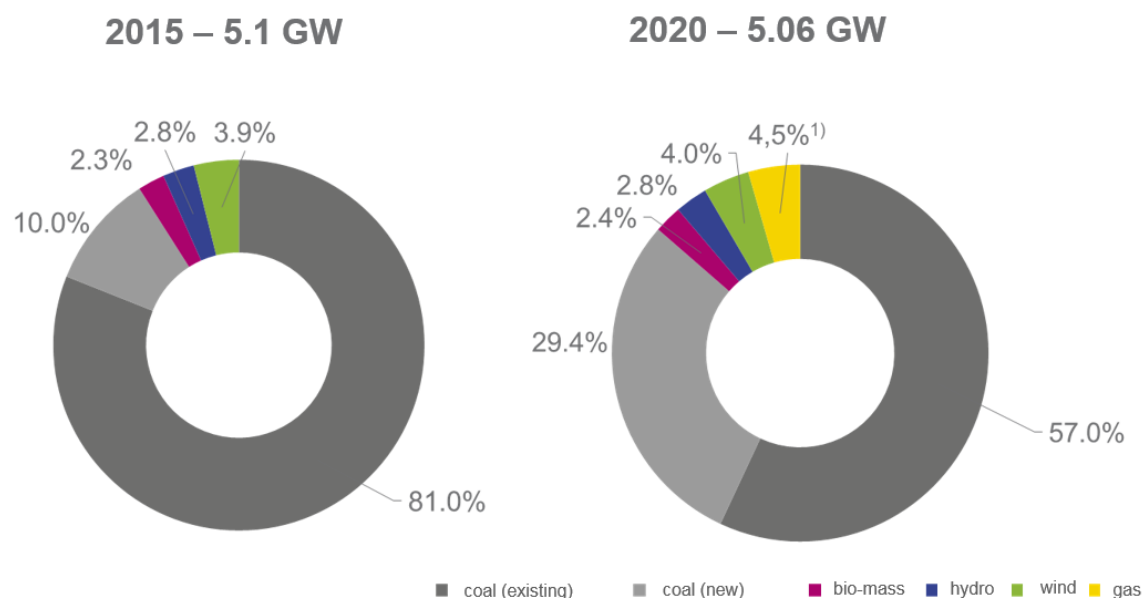
The Strategy assumes the continuation and completion of investment projects already underway where the discontinuation or postponement of such projects would have either an adverse impact on the Group's value or would not be possible due to legal or security requirements. It is anticipated that 75 per cent. of the Group's capital expenditure incurred under the CAPEX Plan for the year 2020 will comprise of projects already commenced as at the date of this Prospectus.

The planned CAPEX will be financed both through cash flow generated from current Group operations and external sources, which will be arranged taking into consideration market situation (liquidity and depth), a level of interest rates or margins or potential covenants. Additionally, the Group intends to follow the below principles regarding new external financing:

- commitment from the lenders to grant the new financing to be obtained at least 24 months before the forecast date of utilising the funds;
- increasing the average maturity of the external financing; and
- diversifying the investor base and sources of funding.

Additionally, the Group intends to obtain additional financing from the state controlled entity which supports the development of the Polish industry, i.e. from the Polish Development Fund (*Polski Fundusz Rozwoju*, the **PFR**). On 1 June 2017, the Issuer signed a memorandum of understanding setting out the preliminary terms and conditions of potential cooperation concerning the construction of a 910 MW unit at Jaworzno III Power Plant with funds managed by PFR. Pursuant to this memorandum, PFR expressed interest in investing a total amount of PLN880 million through the acquisition of new shares in the special purpose vehicle Nowe Jaworzno Grupa TAURON sp. z o.o. (the **NJGT**), currently wholly-owned by the Issuer. PFR's shareholding in NJGT may not exceed 50 per cent. less one share. The remaining part of NJGT shares will be held by the Issuer, or the Issuer and an additional investor whereby the Issuer will hold at least 50 per cent. plus one NJGT share.

As part of the implementation of the Strategy, the Group has made assumptions about changes in the future energy mix. Whilst installed capacity is expected to be kept at levels comparable to current installed capacity, it is expected that the new generation unit at the Jaworzno III Power Plant will have an influence on the quality of generation assets, as presented in the table below:



1) Gas-fired capacity assumed as 50% of the capacity of the newly built gas-fired unit at Stalowa Wola

Source: the Issuer

IMPAIRMENT OF NON-FINANCIAL ASSETS

The Group tests its assets for impairment periodically or at the time of identifying the relevant indications of impairment, including in particular regarding the value in use of the cash-generating units. The Group conducts impairment tests in accordance with the IFRS. If the recoverable amount of the assets estimated as a result of the tests is lower than their carrying amount, the Group must recognise impairment losses. If there are indications that an impairment loss recognised in the previous periods is no longer justified or is justified at a value lower than its past value, the Group reverses the recognised loss.

The highest impairment losses were recognised in 2015 and 2016 and amounted to PLN 3.57 billion and PLN 1.99 billion respectively. In 2016, the Group reversed previous write-downs of property, plant and equipment of PLN 1.21 billion.

A detailed schedule of the write-downs and their reversals is given in the table below. All write-downs and their reversals shown in the table below related to the generation segment.

2015		2016	
Impairment loss	Impairment loss reversal	Impairment loss	Impairment loss reversal
Property, plant and equipment	Goodwill	Property, plant and equipment	Goodwill
(in PLN million)			
3,411	155	-	1,208
		1,943	52

Source: the Issuer

It should be noted that the recognised impairment losses do not affect EBITDA.

Conducting impairment tests and, as a result, recognising impairment losses is typical for entities with an expanded chain of operations, in particular power industry companies whose operations are affected by numerous factors.

The following table describes the results of the sensitivity analysis (as at the end of December 2016) of the individual cash-generating units of the generation business:

		Effect on net impairment loss, ie following its reduction by the reversals	
	Change	Increase in net impairment loss	Decrease in net impairment loss
<i>(in PLN million)</i>			
Change in electricity prices in the forecast period	+1%	-	237
	-1%	366	-
Net change in WACC	+0.1 p.p.	92	-
	-0.1 p.p.	-	44
Changes in prices of CO ₂ emission allowances in the forecast period	+1%	41	-
	-1%	-	41
Changes in coal prices in the forecast period	+1%	105	-
	-1%	-	85
Capacity market not taken into account	-	2,666	-

Source: the Issuer

The above results show that taking into account the capacity market followed by changes in electricity prices, changes in coal prices and changes in the weighted average cost of capital, have the most significant effect on the value in use of the assets tested for impairment. The measurement of the value in use of the assets tested for impairment is to a lesser extent affected by changes in prices of pollutants' emission allowances.

MATERIAL CONTRACTS

On 14 December 2016, the Issuer signed two agreements with the EIB relating to the EIB's subscription for EUR190 million hybrid bonds. The proceeds from the issue of the bonds are allocated to financing Tauron Dystrybucja expenditure associated with the development and modernisation of power grid infrastructure in the years 2016-2020.

The bonds are subordinated, unsecured, interest-bearing debt securities and were acquired by the EIB under the operations of the European Fund for Strategic Investments launched by the EIB in cooperation with the European Commission for the purpose of implementation of the “Juncker Plan”.

The issue of bonds has a positive impact on financial stability of the Group since the bonds are excluded from calculation of the debt ratio constituting a covenant for other Issuer’s financings. Moreover, the bonds are eligible for classification as equity by the rating agency at a level of 50 per cent. of this financing and obtained the BB+ rating from Fitch.

In 2016, companies from the Group did not enter into any other material agreements.

MAJOR SHAREHOLDERS

As of the date of this Prospectus, the Issuer’s share capital is PLN 8,762,746,970 and is divided into 1,752,549,394 shares with nominal value of PLN5 each.

The Issuer is a public joint-stock company and its shares are listed on the regulated market of the Warsaw Stock Exchange. Therefore, the Issuer does not have detailed information on all of its shareholders. The Issuer receives information on its significant shareholders only if these shareholders comply with the notification requirements prescribed by Polish law.

According to the statements delivered to the Issuer, the Polish State Treasury held 526,848,384 shares in the Issuer, which constitutes 30.06 per cent. of the Issuer’s share capital and confers the right to 526,848,384 votes at the Issuer’s general meeting. KGHM Polska Miedź S.A. (**KGHM**), a Polish State Treasury controlled company, held 10.39 per cent. of the Issuer’s shares and Nationale-Nederlanden Otwarty Fundusz Emerytalny (Nationale-Nederlanden Open-End Pension Fund) (**NN OFE**) held 5.06 per cent. of the Issuer’s shares. The Polish State Treasury, KGHM and NN OFE are the only shareholders of the Issuer which have notified a holding of, or in excess of, 5 per cent.

The Issuer’s Articles of Association provide that the voting rights of shareholders holding more than 10 per cent. of the total votes in the Issuer shall not be able to exercise more than 10 per cent. of the total votes in the Issuer at the general meeting. This limitation does not apply to the Polish State Treasury and its subsidiaries as long as the Polish State Treasury and its subsidiaries hold such a number of shares in the Issuer entitling them to exercise at least 25 per cent. plus one vote of the total number of votes in the Issuer. Votes belonging to shareholders, among whom there is a parent or subsidiary relationship, shall be added together and if their cumulative number of votes exceeds 10 per cent. of the total votes in the Issuer its aggregate votes shall also be reduced to 10 per cent. of the total votes.

LITIGATION

Contingent liabilities Claims filed by Huta Łaziska S.A.

Following the Issuer’s merger with Górnośląski Zakład Elektroenergetyczny S.A. (**GZE**), the Issuer became party to a court dispute with Huta Łaziska S.A. (in bankruptcy proceedings) (**Huta**) against GZE and the Polish State Treasury represented by the President of the ERO. At present, the case is pending at the District Court in Warsaw.

On 12 October 2001, the President of the ERO ordered GZE to resume electricity supplies to Huta (suspended on 11 October 2001 since Huta had failed to pay its liabilities) on the terms set out in the agreement dated 30 July 2001, in particular at the price of PLN 67/MWh, until the dispute was resolved.

On 14 November 2001, a decision by the President of the ERO ruled that GZE's discontinuation of electricity supplies to Huta was not unjustified. Huta appealed against this decision, however, on 25 July 2006 the Court of Appeal in Warsaw issued a final and binding decision ending the dispute. The Court of Appeal dismissed Huta's appeal against the decision of the Regional Court in Warsaw dated 19 October 2005, in which that court had dismissed Huta's appeal against the decision of the President of the ERO. Huta filed a cassation appeal against the judgment of the Court of Appeal in Warsaw which the Supreme Court dismissed in a judgment dated 10 May 2007.

On 15 November 2001, GZE again suspended power supply in spite of the order of the President of ERO of 12 October 2001 to resume electricity supplies to Huta. As a result, Huta has sued GZE for damages for its failure to comply with such order.

Under a lawsuit of 12 March 2007 against GZE and the Polish State Treasury represented by the President of the ERO, Huta claimed the payment of PLN 182 million in separate proceedings (*zobowiązania in solidum*), together with interest from the date of filing the lawsuit 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 ERO dated 12 October 2001.

In relation to this lawsuit, the courts of first and second instance passed judgments favorable to GZE; however, in its judgment dated 29 November 2011, the Supreme Court overruled the judgment of the Court of Appeal and remanded the case for re-examination by that court. On 5 June 2012, the Court of Appeal overruled the judgment of the Regional Court and remanded the case for re-examination by that court. The first hearing before the court of first instance was held on 27 November 2012. In May 2015, a court expert prepared an opinion on the settlement claims between the parties to the dispute. On 30 June 2015, the Issuer lodged complaints against the opinion in question. Complaints against the opinion were also filed by Huta and the Polish State Treasury. In its decision dated 16 September 2015, the court of first instance admitted an additional opinion by the court expert concerning charges born by the parties to the dispute as evidence. After the issuance of the court's decision on admitting the court expert's additional opinion, the Issuer tried to argue the admission of the additional court expert opinion as evidence was unacceptable in this particular case. Finally, the Court commissioned a third opinion to be prepared by the court expert. On 5 September 2016, the additional opinion by the court expert was delivered to the Issuer. The Issuer filed charges against the said opinion on 12 and 19 September 2016. Charges were also brought by the Polish State Treasury and Huta.

A court hearing took place on 24 March 2017 in order to continue the questioning of the court expert with respect to the aforesaid opinions, which began during the hearing conducted on 21 December 2016. The court expert could not attend the hearing on 24 March 2017 so the court postponed the trial without setting the date of the next hearing.

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

Litigation related to termination of long-term agreements

On 18 March 2015, Polska Energia – Pierwsza Kompania Handlowa Sp. z o.o. terminated long-term agreements regarding the purchase of power and property rights from windfarms. Court proceedings were instigated against the Issuer to consider the termination notices invalid.

In 2016, the claims against the Issuer amounted to approximately PLN40 million which incorporates claims for damages related to the termination of the agreements.

Since the court proceedings regarding the above long-term agreements are pending, their financial effect on the Issuer and the Group cannot be estimated with certainty. In light of the current status of

the proceedings and the related circumstances, the Group believes that the probability of losing the cases both in terms of the termination notices being declared invalid and securing both non-monetary claims and the claims for damages does not exceed 50%.

On 3 July 2017, a press article was released alleging that a number of lawsuits had been filed by a US investor claiming in aggregate PLN1.2 billion from the Issuer in respect of the alleged unlawful termination of a number of long-term agreements with windfarm operators. As at the date of this Prospectus, the Issuer has not received any formal notification of the commencement of these legal proceedings. A lawsuit that was filed against a subsidiary of the Issuer in a related matter was dismissed in March 2016 by the Circuit Court in Warsaw. Based on extensive legal advice received since 2015, the Issuer believes that the alleged lawsuit described in the press article has no basis and is without merit with respect to the Issuer.

REGULATORY ENVIRONMENT

Regulatory Framework

The activities of entities operating in the Polish energy sector are subject to a number of Polish and EU regulations.

National regulations

At national level, the activities of entities operating in the Polish energy sector are subject to the national regulations which comprise the Energy Policy. The principal law regulating the energy industry in Poland is the Energy Law. The Energy Law, amongst other things, sets out: (i) the principles pursuant to which the government seeks to develop its national energy policy; (ii) the terms of supply and use of fuels and energy, including heating; (iii) the TPA rule; (iv) the rules regarding connection to the power grid; and (v) the terms on which energy undertakings operate including, in particular, the obligation to obtain concessions and calculate tariffs. It also determines the authority and powers of the principal energy regulator, the President of the ERO, and penalties for breach of obligations imposed by the Energy Law.

Secondary legislation and grid operators' O&M instructions issued on the basis of the Energy Law are important to the operation of the electricity market in Poland. For example, the grid operators' O&M instructions regulate the transmission network, setting out instructions for the operation of the balancing market (this is the mechanism for balancing current demand for energy and generation of energy in the National Energy System managed by the TSO), including "must run" generation. The main idea of the operation of a power station with a "must run" status is that if that power station does not sell energy on the market, it will be appointed (called upon) to operate and sell the energy generated on the balancing market for a price that covers 105 per cent. of the variable costs of production. The regulations with respect to "must run" generation are particularly important to Jaworzno III, Łagisza, Siersza, Łaziska, and Stalowa Wola power plants, which, depending on the current situation of the balancing market, might receive "must run" status.

The Act on Energy Efficiency was passed on 20 May 2016. It defines the principles for drawing up a national action plan regarding energy efficiency, for implementation of energy saving obligations and for preparing an energy audit of an undertaking, as well as the responsibilities of public sector entities with respect to energy efficiency.

Additionally, the Polish government has published a forecast demand for the fuel and energy sectors for the period until 2030 as well as a national strategy: "Energy Security and the Environment – 2020 perspective". The Polish Government announced that a revised Energy Policy, intended to run for the period until 2050, will be announced by the autumn of 2017.

The Polish energy industry is also subject to other laws and regulations, for example with regard to environmental protection (including greenhouse gas emission allowances trading) competition issues, tax and public procurement.

EU regulations

The Polish energy industry, as well as being subject to national regulations, is also affected by EU law. The key EU legislation governing the energy industry includes:

- (a) EC Directive 2009/72/EC concerning common rules for the internal market in electricity;

- (b) Regulation (EC) 714/2009 concerning the conditions for access to the network for cross-border exchanges in electricity;
- (c) EC Directive 2005/89/EC concerning measures to safeguard security of electricity supply and infrastructure investment;
- (d) EC Directive 2009/28/EC on the promotion of the use of energy from renewable sources;
- (e) EU Directive 2012/27/EU on energy efficiency;
- (f) EC Directive 2003/87/EC establishing a scheme for greenhouse gas emission allowance trading within the Community;
- (g) EU Directive 2010/75/EU on industrial emissions; and
- (h) Regulation (EU) 1227/2011 on wholesale energy market integrity and transparency.

President of the ERO

The President of the ERO regulates the activities of energy undertakings in accordance with the Energy Law, with the aim of balancing the interests of energy undertakings with those of their customers.

The President of the ERO's duties include, among other things:

- (a) granting, refusing, amending and revoking concessions;
- (b) controlling the business activities of energy undertakings;
- (c) approving and controlling fuel, electricity and heat tariffs in order to ensure their compliance with the principles set out in the Energy Law and analysing and verifying the costs adopted by the energy undertakings as eligible for the purposes of approving and calculating tariffs;
- (d) reviewing development plans for grid operators;
- (e) approving the grid operators O&M instructions;
- (f) publishing information promoting efficient use of fuel and energy;
- (g) imposing fines, in accordance with the Energy Law;
- (h) monitoring the functioning of the electricity system;
- (i) cooperating with the relevant bodies in counteracting monopolistic practices of energy undertakings;
- (j) settling disputes falling within the scope of the Energy Law; and
- (k) appointing grid operators and "obliged suppliers".

The activities of energy undertakings also come under the supervision of other authorities, including that of the President of the Office of Competition and Consumer Protection.

Concessions

Under the Energy Law, subject to certain exceptions, energy undertakings are required to obtain concessions for operating businesses in the areas of: (i) fuel and energy production; (ii) storage of gaseous or liquid fuels, as well as liquefying and re-gasification of gaseous fuels; (iii) transmission or distribution of fuels or energy; (iv) trading in fuels or energy; and (v) transmission of carbon dioxide.

As a general rule, pursuant to the Energy Law, an entity applying for a concession should:

- (a) have its registered office or place of residence within the territory of a member state of the EU, a member state of the European Free Trade Association, a party to the European Economic Area Agreement, Switzerland or Turkey;
- (b) have sufficient financial resources to ensure the correct performance of its operations in any such area or be able to document the ability to acquire such resources;
- (c) have the technical ability to ensure the correct performance of its operations in any such area;
- (d) ensure the employment of persons with appropriate professional competences, referred to more specifically in the Energy Law;
- (e) have obtained a land-development-conditions decision (*decyzja o warunkach zabudowy i zagospodarowania terenu*) (if applicable); and
- (f) not be in arrears with payment of taxes to the State budget.

Furthermore, under the Energy Law, there are also additional requirements established for specific concessions, for example the concession for generation and trade in liquid fuels.

The Energy Law also sets out circumstances in which an entity might be prevented from obtaining a concession. In particular, a concession may not be granted to entities that:

- (a) are in the course of insolvency or bankruptcy proceedings;
- (b) have had their concession for conducting commercial operations regulated by statute revoked within the last three years for reasons referred to in the relevant provisions of law, or which have been deleted from the register of regulated activity within the last three years for reasons referred to in the relevant provisions of law;
- (c) were convicted for an offence or fiscal offence related to their business activity;
- (d) are not registered as a VAT tax payer; and
- (e) have a controlling or co-controlling entity which has been convicted for an offence or fiscal offence related to their business activity in the last three years.

Companies must pay annual fees for concessions and such fees are charged with respect to each licensed activity the company is engaged in. The minimum fee is PLN200 and the maximum fee is PLN1 million. Fees are calculated based on the company's income. A company can request a short-term concession for a particular project but usually concessions are granted for a fixed term of between 10 and 50 years.

Furthermore, under the Energy Law, in certain circumstances the President of the ERO can or must revoke the concession, for example in circumstances involving national security or if a company

breaches the terms of the concession and such breach continues following the expiration of a cure period.

Tariffs

Pursuant to the Energy Law, energy undertakings holding a concession have to draft and present their tariffs to the President of the ERO for approval. At the same time, the Energy Law provides that the President of the ERO, upon determining that an energy enterprise holding a concession operates in a competitive market, may exempt that enterprise from the obligation to submit tariffs for approval. In the past, the President of the ERO has issued several decisions to exempt entities operating in various segments of the energy sector from the obligation to present tariffs for approval.

The obligation to present tariffs for the approval of the President of the ERO currently applies to energy undertakings engaged in the distribution or transmission of electricity and to energy undertakings selling electricity directly to household customers (tariff group G). This obligation also applies to entities involved in the generation and distribution of heat. Power producers and suppliers in the Group are exempted from the obligation to have their tariffs approved by the President of ERO, (however in general there is necessary to get approval for sales in tariff group G). Tauron Dystrybucja, as a company involved in distribution services, needs to apply to the President of the ERO for the approval of its tariff.

Detailed rules on how to calculate tariffs are set out in the Tariff Ordinance.

In accordance with the Energy Law, tariffs should, among other things, be calculated in a manner that allows (i) recovery of justified costs and a return to be made on the capital involved and (ii) protection of customers from unjustified increases in prices.

The Tariff Ordinance further provides that:

- justified costs for the production, transmission or distribution of electrical energy mean the energy enterprise's justified costs, planned for the relevant year, which take into account the justified return on the capital employed in the economic activity carried out; and
- justified costs for trading in electrical energy mean the planned justified costs for the purchase of energy and justified costs of energy trading activity.

When it comes to approving tariffs for the distribution of electricity, although no such requirement results directly from the Energy Law, the President of the ERO issues, on an annual basis, methods and assumptions which are to be used by DSOs when calculating their tariffs (for example "Assumptions for the calculation of DSO tariffs for 2017").

The level of justified costs put forward by an undertaking is assessed by the President of the ERO on a case-by-case basis.

TPA rule

Energy customers in Poland are able to choose their energy supplier. According to The National Report of the President of the ERO for the European Commission of July 2016, approximately 584,000 third-party access agreements had been entered into with suppliers in 2015. Pursuant to the Energy Law, all customers and businesses trading in energy must have access to the transmission and distribution systems on an equal and arm's length basis. Transmission and distribution enterprises have been subject to the TPA rule since 1 July 2004 and it has been applicable to households since 1 July 2007.

Connection to the grid

Energy undertakings involved in the distribution and transmission of electricity are required to provide connections to their grids on the basis of equal treatment and giving priority to RES, provided, however, that the technical and financial conditions for the connection and the delivery of electricity are met and the party requesting the connection meets specific conditions set out in the law.

The fee payable for the grid connection is calculated based on:

- (a) one quarter of the actual costs of the connection – for connection to a grid with a nominal voltage exceeding 1 kV and not greater than 110 kV (except for connection of energy sources and transmission/distribution grids – see (c) below);
- (b) the fees set out in the electricity distribution tariff or heat tariff calculated based on one quarter of the average annual capital expenditure for the construction of sections of the grid built for the connection purposes – for the connection to a grid with a nominal voltage not exceeding 1 kV and a heat network (except for connection of energy sources and transmission/distribution grids); and
- (c) the actual capital expenditure on the connection for the connection of energy sources and transmission/distribution grids, with the exception of: (a) connection of RES with a capacity not exceeding 5 MW and co-generation units of installed capacity below 1 MW – where a fee is based on one-half of the actual expenditures for the connection; and (b) connection of micro-installations to a distribution grid, which is free of charge.

Furthermore, a number of documents should be attached to the application for connection conditions, such as: legal title to the real estate on which the object to be connected is to be located and an excerpt from the local zoning plan or a land-development-conditions decision (*decyzja o warunkach zabudowy i zagospodarowania terenu*). Additionally, as a rule, a deposit must be paid by the applicant.

A power grid operator who fails to issue connection conditions within the deadlines stipulated by law or who, without justified reasons, refuses to execute a connection agreement, is subject to a fine imposed by the President of the ERO.

Obligation to sell power on a competitive basis

Pursuant to the Energy Law, an energy producer is required to sell at least 15 per cent. of the electricity it generates each year on commodity exchanges, within the meaning of the Commodity Exchanges Act or on the regulated market, within the meaning of the Act on Trading in Financial Instruments.

In addition, an energy producer with the right to obtain funds to cover stranded costs on the basis of the PPA Termination Act dated 29 June 2007 (the **PPA Termination Act**) is also required to sell the remaining volumes of electricity generated in a manner guaranteeing public and equal access to this electricity, in an open tender procedure, on the regulated market or on commodity exchanges.

The Energy Law provides for several exceptions where this obligation does not apply. These exceptions apply to electricity: (i) supplied by an energy enterprise generating electricity for the final recipient via a direct line; (ii) generated from RES; (iii) generated in co-generation; (iv) used by an electricity producer for its own purposes; (v) necessary for electricity system operators to perform their statutory obligations; and/or (vi) generated in a plant with a total installed generation capacity not exceeding 50 MW.

The President of the ERO may also, at the request of an energy enterprise, exempt it from the obligation to sell power, in the manner specified above, with respect to electricity (i) sold for the purposes of meeting long-term obligations under agreements concluded with financial institutions in order to implement investments related to electricity generation or (ii) generated for the needs of the TSO and used for the purposes of ensuring the correct operation of the national power system, provided, however, that such exemption will not materially distort competition on the electricity market or cause disruptions on the balancing market.

Each energy producer is obliged to submit a statement to the President of the ERO regarding performance of the obligation in question for each year by 31 March of the following year.

Development plans

Pursuant to the Energy Law, energy undertakings engaged in energy transmission or distribution must prepare development plans for the territory on which their activities are based relating to the satisfaction of present and future power demand.

An electricity DSO must prepare a development plan relating to the satisfaction of present and future power demand for periods of at least five years (and the plan must be updated every three years), as well as forecasts of power supply security for periods of at least 15 years.

In particular, these plans should include:

- (a) the anticipated scope of power supply;
- (b) any investments required to modernise, develop or construct the grid or any planned new energy sources, including RES;
- (c) any investments required to modernise, develop or construct connections to the power systems of foreign countries;
- (d) any investments that would rationalise the level of power consumption by customers;
- (e) the anticipated manner of financing such investment projects;
- (f) the anticipated income necessary for the plans to be implemented;
- (g) the envisaged time scale for the investments;
- (h) the assumptions of the development plan prepared by the electricity TSO; and
- (i) other elements listed in the Energy Law.

The costs to be incurred by operators in accordance with the development plan are taken into account by the President of the ERO when approving tariffs.

The DSO's plan must also specify the generation capacity and the reserves of capacity, the preferred locations and structure of any new sources of power, the distribution and transmission capacities of the power generation system and the level of its utilisation and any action or project aimed at securing power supplies.

By law, power facility development plans should ensure long-term maximisation of efficiency as regards the expenditure and costs incurred by the energy undertaking so that such expenditure and costs do not result, in any individual year, in excessive increases in the prices and charged rates for

the supply of gaseous fuels or energy, whilst maintaining the continuity, reliability and quality of their supply.

As a rule, draft development plans are subject to approval by the President of the ERO. Further, by 30 April each year, the DSOs must file progress reports with the President of the ERO concerning the implementation of their development plans.

In addition, each energy undertaking generating electrical energy from sources with a total installed electrical capacity of at least 50 MW must prepare and submit to the President of the ERO forecasts for the next 15 years including, in particular, the volumes of electrical energy generated, any plans for the modernisation or expansion of existing, or the construction of new, sources, as well as technical and economic data regarding the type and size of these sources, their location and the type of fuel used to generate electrical energy. In addition, the energy undertaking generating electrical energy must, every two years by 30 April of the relevant year, update its forecasts and notify the President of the ERO of the updates as well as the operators of those power grids to whose networks it is connected.

Obligations of DSOs

In accordance with the Energy Law, the obligations the DSOs (in addition to the obligation to prepare development plans as described above) include, amongst others, the following:

- ensuring effective grid traffic in their distribution grids, whilst meeting the required reliability and quality standards for electrical energy supply;
- operating, maintaining and overhauling each distribution grid so as to ensure continuous operation of the distribution system;
- ensuring the extension of the distribution grid and inter-system connections in the area of its operation;
- co-operating with other electrical energy systems operators and electrical energy undertakings;
- managing the capacity of generation units connected to the distribution grid (excluding generation units with a maximum power equal to or exceeding 50 MW which are connected to the co-ordinated 110 kV grid); and
- balancing the relevant distribution system (excluding balancing of current demand with supply of electrical energy which is the obligation of the TSO) and managing the system's limitations.

The DSO, within its field of operation, is obliged to apply objective and transparent rules ensuring equal treatment of the users of the system in the provision of distribution services for electrical energy, provided that it is obliged to give priority to energy generated from renewable energy sources and from high-performance co-generation plants, whilst ensuring the reliability and security of the national electrical energy system.

PPA termination

Another important act of law is the PPA Termination Act. The PPA Termination Act deals with, among other things, regulations regarding financing the costs of the power generators resulting from early termination of specific long-term PPAs, payment of compensation to cover these costs, as well as calculating, adjusting and settling these costs.

At the beginning of the 1990s, a number of power plants in Poland executed long-term PPAs with PSE. The purpose of the PPAs was to enable power producers to obtain financial support from banks for the modernisation of their generation units. The PPAs required PSE to off-take power over a certain period of time and at the fixed price set out in the relevant PPA. However, PPAs became one of the main obstacles to the liberalisation of the power market in Poland. Therefore, from early 2000, the Polish government tried to develop various mechanisms for terminating PPAs. Finally, on 29 June 2007, the Polish parliament enacted the PPA Termination Act. In accordance with the PPA Termination Act, compensation is payable to power producers by Zarządca Rozliczeń S.A. (a company established by the PPA Termination Act) in accordance with the rules set out in the PPA Termination Act. The PPA Termination Act determined the maximum amount of stranded costs for each power producer. Compensation is payable to the producers in the form of advance payments.

A power producer that used to be a party to a PPA submits, on a yearly basis, an application to the President of the ERO for payment of the advance for the following calendar year. The amount of the advance payments is subject to annual adjustments made by the President of the ERO in accordance with the PPA Termination Act. Under the PPA Termination Act, it is possible that, in practice, a producer will not receive any advance payment at all or will have to return the advance already paid to it.

Tauron Wytwarzanie S.A. (**Tauron Wytwarzanie**, formerly known as Południowy Koncern Energetyczny S.A.) was a party to six PPAs which were terminated under the PPA Termination Act. From 1 April 2008 to 31 December 2012 Tauron Wytwarzanie was paid PLN 2,076,915,000 of stranded costs.

"Must run" generation

Under the Polish electrical energy system, one of the mechanisms through which the TSO removes system limitations is by controlling the operation of producers who work under the "must run" generation regime. In order to do so, the TSO concludes centrally administered agreements with producers for the availability of generation units, which ensures that the required volume of electrical energy (necessary for the operation of the National Power Grid) is produced by those units.

The mechanism under which the "must run" generation regime operates is set out in detail in the TSO's O&M instruction.

Pursuant to the TSO's O&M instruction, when balancing production with demand, the TSO has the power to give instructions to call into operation those production units covered by the agreements with the TSO, in order to ensure the proper functioning of the National Power Grid. This is subject to limitations on the capacity of the grid.

The regulations on "must run" generation are particularly important to Jaworzno III, Łagisza, Siersza, Łaziska, and Stalowa Wola power plants, which, depending on the current situation of the balancing market, might receive "must run" status. The main idea of the operation of a power station with a "must run" status is that if such unit does not sell energy on the market, it will be required to operate by the TSO, and for the energy produced during that period of operation it will receive a price that covers 105 per cent. of the variable costs of production. The detailed terms of calculation of the price are set out in the Ordinance on the Detailed Conditions of the Operation of the Electrical Energy System of 4 May 2007.

Co-generation

The Energy Law also provides certain mechanisms to support electricity generated in high-efficiency co-generation.

Pursuant to the Energy Law, generators and suppliers selling electricity to customers connected to a network located within Poland are obliged to obtain and present "co-generation certificates" for redemption to the President of the ERO confirming that a specified percentage of the volume of electricity generated was generated in highly efficient co-generation units in Poland, or to pay a substitute fee instead.

In Poland, there are three types of co-generation certificates: (i) "yellow" certificates, which are issued for electricity generated using gas as the fuel or generated in highly efficient co-generation unit with an aggregate installed electrical power of less than 1 MW; (ii) "violet" certificates, which are issued for electricity generated in co-generation mode in units fired with methane released into, and captured by, underground mining works in active, liquidated or closed down coal mines as well as from gas derived from biomass; and (iii) "red" certificates which are issued for electricity generated in high efficiency co-generation modes other than specified in (i) and (ii) above.

The substitute fee payable instead of redemption of the determined amount of the co-generation certificates is calculated in accordance with the provisions set out in the Energy Law.

The Energy Law provides that it is possible to obtain both "green" and co-generation certificates for the same amount of electricity if the electricity is generated from a RES which meets the criteria established for a high-efficiency co-generation unit.

The co-generation obligation with regard to yellow, violet and red certificates will remain in force until the end of 2018. For the time being it is unclear what will happen in relation to co-generation certificates thereafter.

Renewable Energy Sources

The Polish RES sector has developed rapidly over the last few years. The existing support system for RES installations in place before the new system described below was put in place (the **Old System**) was based on two main pillars: (i) a system of tradable property rights arising under certificates of origin of electricity generated in RES ("green certificates"); and (ii) the mandatory purchase of energy generated in a RES installation by the suppliers of last resort (now the obliged suppliers) at a regulated price. The Old System was governed mainly by the provisions of the Energy Law and its secondary regulations.

On 20 February 2015, the Polish parliament enacted the Act on RES. The Act on RES was published in the Journal of Laws on 3 April 2015, and was subsequently amended by the Act of 29 December 2015 and by the Act of 22 June 2016. The Act on RES introduced fundamental modifications to the Old System and introduced an auction system (the **New System**) as the basic and target support system for RES installations which is to ultimately replace the Old System. When the Act on RES was adopted, almost all the regulations regarding the RES support scheme were moved from the Energy Law to the Act on RES.

Despite the introduction of the New System based on auctions, the legislative authority did not, however, decide on a total and immediate end to the Old System. Subject to certain modifications, it allowed it to continue functioning, for a limited time, in relation to RES installations that began producing energy before 1 July 2016 (the **Old RES**). The New System is now the exclusive support system for installations that will start production of energy after completion of a relevant auction, i.e. the "new" RES installations (the **New RES**). Consequently, the two RES support systems, the Old System and the New System, will function simultaneously for a while, independently of each other. The Act on RES makes it possible for the Old RES functioning under the Old System to move to the New System (provided that the regulator announces a separate "migration" auction and allocates sufficient energy volume to such auction and that a given Old RES wins the auction).

Because the Group has several operating wind farms in its portfolio, the regulations of the Act on RES regarding the Old RES as well as the New RES (in case of migration to auctions), are applicable to its operations.

The Old System – green certificates

Green certificates are issued by the President of the ERO to operators of RES installations to confirm that they have produced a certain volume of renewable energy in that RES installation over a certain period of time. Green certificates are issued on the application of the relevant producer on the basis of data confirmed by the operators of the grid transmission or distribution system to which the RES installation is physically connected. The number of green certificates granted is proportionate to the volume of electricity generated (i.e. for each MWh produced the RES installation receives one green certificate). The green certificates system does not differentiate between technologies, the installed capacity of the relevant installation, whether it has been modernised or is new, and its date of commissioning. The number of green certificates received depends solely on the volume of electricity generated. An operator of a RES installation is entitled to receive green certificates for a period of 15 years from the moment that the relevant installation produced electricity for the first time.

Upon issuance, green certificates are registered in the account of an operator of a RES installation in the register of green certificates held by the Polish Power Exchange. They have no expiry date.

Green certificates are tradable instruments that can be traded on the Polish Power Exchange or in OTC transactions (for prices agreed bilaterally in certificate purchase agreements executed between a seller and a purchaser). There is no minimum or maximum price for transactions in green certificates.

The demand for green certificates is created by imposing, on groups of entities indicated by law, an obligation to acquire a certain number of green certificates annually and subsequently submit them for redemption (or pay a substitution fee). These are entities that produce or trade in electricity and sell it to a final off-taker as well as, in certain circumstances, "industrial off-takers", final off-takers (other than "industrial off-takers", that are members of the commodity exchange or of the exchange operating a regulated market) and brokerage houses trading in energy at the commodity exchange or at the exchange operating a regulated market (the **Obligated Entities**). The Obligated Entities include the green certificates' costs in the electricity price charged to end customers.

The number of green certificates each Obligated Entity is obliged to redeem in a given year is calculated by reference to the annual volume of sales of electricity to end customers or, in the case of industrial off-takers, by reference to the annual volume of electricity bought for their own needs, and constitutes a percentage of such annual volumes (the **RES Quota**). The President of the ERO imposes fines on Obligated Entities that fail to present the required number of green certificates (or pay the substitution fee). The RES Quota is set by law. Until 2016, the RES Quota was set specifically for each calendar year by the ordinance of the relevant minister (until 2014) and by the provisions of the Act on RES (for 2015 and 2016). Between 2005 and 2016, the RES Quota gradually increased from 3.1 per cent. in 2005 to 15 per cent. in the second half of 2016.

Under the Act on RES, the RES Quota was originally set at 20 per cent. However, in 2016, a separate quota was introduced for certificates of origin issued for biogas installations at the level of 0.65 per cent., and at the level of 19.35 per cent. for other RES. At the same time, the Act on RES provides that, by an ordinance to be issued no later than on 31 August of a given year, the Minister of Energy may change the level of the RES Quota for subsequent calendar years (this level can be decreased as well as increased by the Minister). The RES Quota for 2017 was set in the Ordinance of the Minister of Energy at the level of 0.60 per cent. for biogas installations and at the level of 15.40 per cent. for other RES installations.

The Act on RES repealed the regulations providing for the indexation of the substitution fee (the substitution fee was subject to annual indexation on the basis of changes in the CPI).

The Old System – Mandatory off-take obligation regarding energy from RES

The second pillar of the Old System was based on an obligation imposed on sellers of last resort (*sprzedawca z urzędu*) (now referred to as obliged sellers). The obliged seller is a seller with the biggest electricity sales volume to final consumers in the period from 1 January until 31 August of each year within the area of activity of each DSO. The obliged seller is designated by way of a decision of the President of the ERO, for the territory in which a relevant DSO's activities are based, by 15 October of each year for the following year. The mandatory purchase of electricity produced from RES installations is carried out at a certain predetermined price, i.e. the average price of electricity in the preceding quarter (formerly the previous year) on the competitive market, calculated and published by the President of the ERO.

Under the Act on RES, starting from 1 January 2018, large RES installations (with a capacity equal to or greater than 500 kW) will be deprived of the right to require the mandatory purchase of energy they generate by the obliged seller at a regulated price. This regulation will significantly impact the situation of RES energy producers, as starting from 1 January 2018, they will be fully exposed to fluctuations in energy prices on the energy market. As a consequence, RES energy producers will be forced to reassess their wind farm projects, taking into account the costs associated with their participation in the energy market which, among other things, includes the balancing costs (i.e. the costs resulting from the fact that there are differences between the energy production forecasts and actual energy production, resulting in the need to compensate for the differences by purchasing/selling energy on the balancing energy market) and profile costs (these are the costs resulting from the fact that wind installations do not produce energy exactly in accordance with the actual profile of energy trading on the market, i.e. wind projects generate more energy off-peak (at night), when the prices of energy are lower).

The New System – Auctions

The New System introduced by the Act on RES is based on the following assumptions:

- (a) the New RES is to participate in auctions organised by the President of the ERO. A producer of energy from RES that wins the auction is entitled to cover the negative balance in settlements with the Renewable Energy Settlements Operator;
- (b) auctions are conducted separately for: (a) New RES; (b) modernised New RES; (c) migrating Old RES; and (d) modernised migrating Old RES. In addition, each of the auctions is to be conducted separately for large (>1 MW of installed capacity) and small ($\leq$ 1 MW of installed capacity) RES installations. Finally, auctions are to be conducted separately for several "technological baskets" (created by reference to several different criteria, i.e. the productivity of a given installation, the volume of its CO₂ emissions, legal and organisational form of business activity, natural resources used to generate energy, etc.). This means that, theoretically, various separate auctions can take place;
- (c) the auction is won by the bid which has the lowest price (until the quantity or value of the electricity specified in the announcement of the auction is exhausted). Bids exceeding the reference price (determined by the Minister of Energy for various RES installations) are rejected;
- (d) the maximum quantity and value of energy from RES installations which can be sold at a given auction is determined each year by way of an ordinance of the Council of Ministers for the following year; and

- (e) the support under the auctions remains in force for the period specified each time with respect to each auction in the Ordinance of the Minister of Energy, but no later than 31 December 2035.

Wind Farm Act

The Wind Farm Investments Act dated 20 May 2016 (the **WFA**) introduced regulations which have a significant impact on the RES sector in Poland, namely: (i) a restriction on the distance between newly built wind power plants and the nearest residential or environmentally protected area (the so-called "minimum distance requirement"); and (ii) changes to the manner of calculation of real estate tax (the **RET**) regarding wind power plants.

The WFA – Minimum distance requirement

The minimum distance requirement refers to the location of (i) a new wind power plant with respect to residential or environmentally protected areas as well as (ii) the construction of any new residential buildings with respect to an existing wind power plant. This distance should be equal to or higher than ten times the height of the wind farm unit. The height of the wind farm unit should be calculated from ground level to the highest point of the wind farm unit including the rotor and the blades.

The distance requirement in principle does not apply to wind farms already constructed (there is no obligation to remove or relocate these installations). However, with respect to wind farms which are already built and which do not meet the distance requirement, only overhauls (*remonty*) and other actions necessary for proper operation of the wind power plant, excluding actions aimed at increasing the performance parameters of the wind power plant or increasing its impact on the environment, can be carried out. This means that under the WFA, modernisation of any existing RES installation, including increasing its operating parameters, is not allowed, unless the RES installations in question meet the minimum distance requirement.

The WFA – RET

The new regulations introduced by the WFA regarding the calculation of RET create a material risk that the RET payable by wind farms will be significantly increased (the maximum rate of RET applicable to a wind farms is 2 per cent., calculated on the value of a structure (*budowla*) determined for income tax depreciation purposes). This is because the WFA introduced a change to the definition of a structure (*budowla*) included in the Construction Law of 7 July 1994 to which the Act on Local Taxes of 12 January 1991, regulating the RET, refers to for the purposes of calculation of the RET regarding wind farms.

This new definition makes it unclear whether, for the purposes of calculation of the RET regarding wind farms, in addition to the construction parts of wind power plants (such as mast and foundations), also the technical components of wind power plants (such as a rotor with a set of blades, a drive train unit, a power generator, control systems and nacelle with a fastening and yaw system) should be taken into account. Should the value of the technical parts of a wind power plant also be the base for calculation of the RET, the RET tax burden on wind power plants could potentially quadruple. This approach has been confirmed by decisions of administrative courts issued in the first quarter of 2017.

Excise tax

Pursuant to the Act on Excise Duty of 6 December 2008 (the **Act on Excise Duty**), the sale of electrical energy to an end consumer is subject to excise duty. An end consumer is understood as an entity purchasing electrical energy which does not hold a licence to generate, transmit, trade in or distribute electrical energy (there are some limited exceptions from this definition set out in the Act on Excise Duty). The payer of the excise duty is an entity carrying on taxable activity which sells

electrical energy to an end user. From this it follows that the sale of electrical energy to an entity which holds an energy licence (and thus does not have the status of an end user) by another entity holding such a licence is not subject to the excise duty. Only the consumption of purchased electrical energy by an entity holding a licence will be a taxable act.

Therefore, a producer of electrical energy which sells electrical energy to an entity holding a licence to generate or trade in electrical energy is not obliged to pay excise duty on the electrical energy sold, irrespective of whether the purchaser involved designates this electrical energy for resale or consumes it for its own needs. In the latter case, the purchaser will be an entity obliged to pay the excise duty on the energy used for its own needs. However, the obligation to pay excise duty will, as a rule, rest on the entity selling electrical energy to an end user.

Electrical energy generated in renewable energy sources is exempt from excise duty on the basis of a document confirming the redemption of a green certificate in the meaning of the provisions of the Act on RES.

Environmental protection regime

Under Polish environmental protection regulations (set out mainly in the Environmental Protection Law of 27 April 2001, the Act on Waste of 14 December 2012 and the Water Law of 18 July 2001), operating an installation which causes, among others, (i) a discharge of gases or dust into the air, (ii) a discharge of sewage into water or the earth, (iii) other special use of water (such as extraction and damming), or (iv) waste generation, is permitted only if a relevant environmental permit is held. Certain categories of installations which do not cause substantial risk to the environment are exempted from this permit requirement.

Additionally, pursuant to the Environmental Protection Law, the running of certain types of installations the operation of which, owing to the type and scale of activity carried out at these installations, could cause major pollution to elements of the environment (such as air and water) or the environment as a whole, requires the holding of an integrated permit. The Polish integrated permit regime implements relevant EU regulations, in particular, the IPPC Directive (the Directive 2008/1/EC of the European Parliament and of the Council of 15 January 2008 concerning integrated pollution prevention and control).

On 24 November 2010, the IED (the Directive 2010/75/EU of the European Parliament and of the Council on industrial emissions) was adopted (it came into force on 6 January 2011). The IED replaced the IPPC Directive and five other directives on 7 January 2014 and also replaced the LCP Directive (the Directive 2001/80/EC of the European Parliament and of the Council of 23 October 2001 on the limitation of emissions of certain pollutants into the air from large combustion plants) on 1 January 2016.

The IED is the successor of the IPPC Directive and, in essence, aims to minimise pollution from various industrial sources (in particular, combustion plants with a capacity equal to or greater than 50 MW).

The IED has been transposed into national legislation by Poland pursuant to relevant amendments to the Environmental Protection Law and secondary legislation issued pursuant to it.

The regulations regarding protection of the environment are applicable to the development of any new infrastructure by the Group.

Environmental Protection Law

The Environmental Protection Law, together with the accompanying secondary legislation, is intended to ensure that soil, air and water are protected from pollution and to provide protection against noise and electromagnetic fields. The Environmental Protection Law sets out provisions primarily for the protection of the environment and the terms and conditions for using natural resources taking into account the requirements of balanced development. It contains, in particular:

- (a) the rules for determining the conditions with respect to (i) the protection of natural resources and (ii) the introduction of substances or energy into the environment and the costs of using the environment;
- (b) the duties of the administrative authorities; and
- (c) the resulting liability and sanctions for breach.

EIA Act

Introductory comment

Environmental impact assessment regulations are set out in the EIA Act and have been in force from 15 November 2008. The EIA Act specifies:

- (a) the procedures and rules applicable to (i) providing access to information on the environment and protection thereof, (ii) environmental impact assessments and (iii) cross-border environmental impact;
- (b) the rules governing society's participation in environmental protection; and
- (c) the administrative authorities competent with regard to the matters referred to in (a) above.

Recent amendments to the EIA Act

In October 2015, the EIA Act was amended, and most of the changes came into force on 1 January 2017, namely: (i) new requirements regarding the information chart of an undertaking, an obligation to obtain the opinion of an entity responsible for issuing an integrated permit if the planned undertaking requires an integrated permit to be obtained; (ii) new requirements regarding the content of EIA reports; (iii) new regulations regarding the cumulative impact of undertakings on the environment; and (iv) new penalties for violations of relevant regulations of the EIA Act which comprise fines from PLN500 to PLN1,000,000.

Environmental decisions

Pursuant to the EIA Act, the development of List 1 projects and List 2 projects requires that an environmental decision is obtained and is subject to an EIA. The EIA is carried out as part of the environmental decision issuing process. List 1 projects comprise, among others, onshore wind farm projects of a nominal capacity equal to or higher than 100 MW, all offshore wind farm projects as well as electrical energy power stations and overhead energy lines with a voltage equal to or higher than 220 kV and a length not shorter than 15 km. List 2 projects comprise, among others, onshore wind farm projects not comprising List 1 projects located on environmentally protected areas or of a total height equal to or higher than 30 metres, and electrical energy power stations and overhead energy lines of a voltage equal to or higher than 110 kV, not comprising List 1 projects. List 1 projects and List 2 projects are listed in the EIA Ordinance.

EIA Report

The additional environmental impact assessment procedure carried out as part of the issuance of an environmental decision process (described above) is complex and may include the preparation of an EIA report, public participation and consultation with other environmental authorities. In the case of List 1 projects, an EIA report is required during the procedure for obtaining the environmental decision and public participation is required in every case. In the case of List 2 projects, an EIA report may be required depending on the decision of the appropriate environmental authorities.

Except for List 1 and List 2 projects, an EIA is also required for projects likely to impact Natura 2000 areas.

Natura 2000 network

Polish legislation applicable to Natura 2000 areas is based on the Habitats Directive, as well as the Birds Directive to protect the most seriously threatened habitats and species across Europe. The Birds Directive required the establishment of special protection areas for birds, while the Habitats Directive required that special areas of conservation be designated for other species, and habitats. The main aim of this legislation is the creation of a network of sites called the Natura 2000 Network which seeks to protect areas in the EU covering fragile and valuable natural habitats and species of particular importance for the conservation of biological diversity within the EU. All Member States are required to manage and implement Natura 2000.

Detailed legal provisions concerning the creation and protection of the network of Natura 2000 areas within Poland were introduced under the Nature Conservation Act. Pursuant to this act, any activities which may materially affect the attainment of the objectives of Natura 2000 are prohibited. The Nature Conservation Act specifically prohibits the destruction of areas with habitats as well as animal and plant species, for which special areas of conservation have been designated under Natura 2000. Operators are not allowed to disturb the integrity of Natura 2000 sites or the ecological coherence of the Natura 2000 network. The prohibition of actions adversely affecting the environment applies not only to the Natura 2000 sites which have been formally approved, but also to proposed sites. The proposed sites are entered in an official list prepared by the General Director for Environmental Protection and other lists submitted to the European Commission.

CO₂ emissions allowances

The EU system of emission allowances trading (the **EU ETS**), is currently regulated, among others, by the EC Directive 2003/87/EC establishing a scheme for greenhouse gas emission allowance trading within the Community, amended by, among others, Directive 2009/29. Directive 2009/29 was implemented into the Polish legal system by the ETS Act.

The ETS Act scheme currently covers three areas of the economy: (i) industry in general; (ii) the energy industry; and (iii) the aircraft industry.

The EU Emission Trading Scheme, as implemented into Polish law, is supervised by the Minister of the Environment of Poland and is administered by the National Centre for Emission Balancing and Management (*Krajowy Ośrodek Bilansowania i Zarządzania Emisjami*).

Pursuant to the legislation regulating the emission trading scheme previously in force (the Act of 24 December 2004 and the Act of 28 April 2011 that repealed it), the allocation of free of charge emission allowances to installations participating in Phase I of the EU ETS (2005-2007) was set out in the National Allowance Allocation Plan (*Krajowy Plan Rozdziału Uprawnień*), KPRU). KPRU II was adopted by an ordinance of the Council of Ministers on 1 July 2008, and was finally approved by the European Commission in April 2010. Under KPRU II, the total CO₂ emission allowance for the

2008–2012 settlement period was 1,042 million tonnes (208.5 million tonnes per year). One allowance allows the emission of one tonne of CO₂.

Under EU ETS Phase III (2013–2020), a single, EU-wide cap on emissions applies in place of individual national caps that were determined in Phase I and II. Since 2013, the number of emissions allowances allocated to each installation free of charge steadily decreases while auctioning is the default method for allocating allowances. Power generators in principle do not receive any free allowances (but have to buy them through auctions). However, Poland as well as seven other Member States, benefit from a derogation pursuant to which it may allocate a decreasing number of free allowances to existing power plants until 2019. Poland's proposal with respect to free CO₂ emission allowances allocation for existing power plants (i.e. installations for electricity production in operation by 31 December 2008 or for which the investment process was physically initiated by the same date) has been approved by the European Commission as compatible with the internal market. The power generation installations of the Group (covered by the Polish application to receive free of charge emission allowances for energy industry) have to report every 12 months on the implementation of their investments referred to in the national plan of investments in retrofitting and upgrading of the infrastructure and clean technologies, approved by the European Commission.

Installations owned by the Issuer's affiliates that qualify as new installations within the meaning of the Directive 29/2009 or that are heating plants or high efficiency co-generation plants as defined by the Directive 2004/8/EC, also benefit from free of charge allowances. No free of charge allocation is given to electricity generation in such units (the allowances are allocated only in respect of the generation of heat).

Under Phase III, the scheme applies to CO₂, as well as to nitrous oxide (N₂O) and perfluorocarbons (PFCs).

Because the production of electricity and heat in coal-fired power plants and combined heat and power plants owned by the Group involves the emission of CO₂ into the environment, the regulations regarding CO₂ emissions are applicable to the operations of the plants involved.

MANAGEMENT AND EMPLOYEES

Description of operation

The Management Board of the Issuer operates on the basis of KSH and other regulations of law, provisions of the Issuer's Articles of Association and provisions of the *Bylaws of the Management Board of TAURON Polska Energia Spółka Akcyjna with its registered office in Katowice*, which are available on the website of the Issuer at <http://www.tauron.pl/>.

The Issuer is the dominant entity and the company which manages the holding. It is responsible for, among others, wholesale trading in electricity, managing the Group's procurement activities, the Group's finances, risk systems, IT systems, and research and development activities. The Issuer is also responsible for the Group's accounting, legal services for the Group and the Group's audit.

The Group's corporate governance model is a two-tier system comprising a management board (the **Management Board**) and a supervisory board (the **Supervisory Board**).

The Management Board is responsible for managing the Issuer's activities and representing the Issuer in relations to third parties. The Management Board comprises one to six members appointed for a joint term of office of three years by the Supervisory Board. The Management Board is headed by the President.

The table below sets out the names of the current members of the Management Board, along with their principal affiliations and positions held.

Current members of the Management Board

Name	Age	Position	Elected
Filip Grzegorzczak	39	President of the Management Board	15 November 2016
Jarosław Broda	37	Vice-President of the Management Board for Asset Management and Development	8 December 2015
Kamil Kamiński	38	Vice-President of the Management Board for Customer Affairs and Corporate Management	8 December 2015
Marek Wadowski	42	Vice-President of the Management Board for Finance	29 January 2016

Source: the Issuer

The business address of each member of the Management Board and each executive officer of the Group is ul. ks. Piotra Ściegiennego 3, Katowice, Poland. No member of the Management Board has any actual or potential conflict of interest between his duties to the Issuer and his private interests and/or other duties.

Profiles:

Filip Grzegorzczuk

Mr Grzegorzczuk holds a PhD in EU law from Jagiellonian University in Cracow. He has completed the Summer Advanced Course programme in European Law at the University of London, King's College, Centre of European Law as well as the International Business and Trade Summer School programme at Catholic University of America – Columbus School of Law and the Ecole de droit français Université d'Orléans. He holds the position of professor at the University of Economics in Cracow, where he is a lecturer at the Faculties of Management and Economics and International Relations. He speaks fluent English and French.

He has broad professional experience in the energy and fuel sector, having served as a member of the management board of the Issuer and as a management board proxy for energy sector development at Kompania Węglowa S.A.

From November 2015, Mr Grzegorzczuk has served as the Undersecretary of State at the Ministry of State Treasury.

Jarosław Broda

Mr Broda holds an undergraduate degree from Warsaw School of Economics and postgraduate diploma in project management from Koźmiński University.

He has broad public and private sector experience in energy project management and strategy. Mr Broda was an adviser in the Department of Governance and Privatisation at the Ministry of State Treasury where he was focused primarily on sector consolidation and ministry policy. He has also held key roles in the private energy sector including as Director for Strategy at the Issuer, where he developed the strategy of the Capital Group (including general restructuring strategy) and as Director for Strategy and Development at GDF Suez Energia Polska – Katowice, where he managed the execution of key M&A projects from 2014 to 2015.

As Vice-President of the Management Board for Asset Management and Development the Issuer Mr Broda oversees the following areas of the Issuer's operation: asset management, research and innovation, investment projects and occupational health and safety. Currently, Mr Broda also oversees fuel trading, portfolio management, trading, settlements and sales reporting and will do so until a new member of the Management Board for Commercial Affairs is appointed.

Kamil Kamiński

Mr Kamiński holds an undergraduate degree from Jagiellonian University, an MBA Executive diploma from Stockholm University School of Business/Cracow University of Economics and a post-MBA Diploma in Strategic Financial Management from Rotterdam School of Management, Erasmus University/GFKM. He also completed a series of corporate and investment courses as part of Ernst & Young's Academy of Business, the PMP® Project Management Academy and additional business training through the Strategic Management in Singapore and Business Analysis course at George Washington University.

He has broad public and private sector experience in project management particularly in building company value, mergers and acquisitions, business integration and strategy operationalisation. He has also taken part in the complex transformation and restructuring processes of companies in the energy, fuels and transport logistics sectors.

He has served as Vice President of the Management Board for Corporate Affairs, Restructuring and Development at Węglukoks Group, as President of the Research and Development Centre of the Refining Industry (**OBR**) in Płock or John Paul II International Airport in Kraków-Balice and as Manager of the operations of John Menzies PLC in Poland. He also sits on the supervisory boards of ZCP CARBO-ENERGIA, PLL LOT and Tauron Wytwarzanie.

As Vice-President of the Management Board for Customer Affairs and Corporate Management Mr Kamiński oversees the following areas of the Issuer's operation: customers, corporate matters and support, human resources, procurement and administration, security and compliance.

Marek Wadowski

Mr Wadowski holds an undergraduate degree from the University of Economics in Katowice, a Mastère Spécialisé en Banque et Ingénierie Financière diploma from École Supérieure de Commerce Toulouse and an Executive MBA from the Koźmiński University in Warsaw. He also obtained significant training in finance at The Wharton School of University of Pennsylvania and Imperial College London, School of Professional Development. He is studying toward a CIMA certificate (holder of Advanced Diploma in Management Accounting).

He has professional experience in industry (namely power, mining and steel industry), financing of investments and international commercial transactions. He was a consultant at BRE Corporate Finance S.A., and has held numerous managerial board positions including various roles at Huta Cynku Miasteczko Śląskie S.A. (including management board's representative for restructuring, chief financial director, member of the management board – chief financial officer, president of the management board – chief executive officer), Vice-President of the Management Board at the Group of Jastrzębska Spółka Węglowa S.A. (**JSW**), Chief Financial Officer at Polski Koks S.A., Vice-President of the Management Board for Economic Affairs at Jastrzębska Spółka Węglowa S.A., Vice-President of the Management Board, Chief Financial Officer at Spółka Energetyczna Jastrzębie (subsidiary of JSW) and President of the Management Board at Towarzystwo Finansowe Silesia.

As Vice-President of the Management Board for Finance Mr Wadowski oversees the following areas of the Issuer's operation: finance, controlling, accounting and taxes, business analysis, risk and IT.

Supervisory Board

A detailed description of the Supervisory Board operations is included in the KSH, in the Issuer Articles of Association and in the *Bylaws of the Supervisory Board of TAURON Polska Energia S.A. with its registered office in Katowice* which are available on the Issuer website <http://www.tauron.pl/>.

The Supervisory Board exercises regular supervision over the Group's operations and is responsible for, among others, reviewing the Management Board's annual report and the Group's annual financial statement, appointing, suspending and dismissing members of the Management Board, delegating members of the Supervisory Board for temporary positions on the Management Board and opining on the Group's long-term strategy.

The Supervisory Board appoints the audit committee, the strategy committee and the appointment and compensation committee. The members of the committees carry out particular supervision activities. The exact scope of the responsibilities of a committee is set out in the resolution of the Supervisory Board appointing the committee.

The table below sets out the names of the members of the Supervisory Board, along with the date of their most recent election and position.

Members of the Supervisory Board

Name	Age	Position	Elected
Beata Chłodzińska	45	Chairwoman of the Supervisory Board	12 August 2015
Jacek Szyke	78	Member of the Supervisory Board	15 May 2014
Paweł Pampuszko	36	Member of the Supervisory Board	29 May 2017
Radosław Domagalski-Łabędzki	39	Member of the Supervisory Board	29 May 2017
Teresa Famulska	59	Member of the Supervisory Board	29 May 2017
Barbara Katarzyna Łasak-Jarszak	54	Member of the Supervisory Board	29 May 2017
Jan Pludowski	66	Member of the Supervisory Board	30 December 2016
Agnieszka Woźniak	42	Member of the Supervisory Board	16 December 2016

Source: the Issuer

The business address of each member of the Supervisory Board is ul. ks. Piotra Ściegiennego 3, Katowice, Poland. No member of the Supervisory Board has any actual or potential conflict of interest between his duties to the Issuer and his private interests and/or other duties.

TERMS AND CONDITIONS OF THE NOTES

The following is the text of the terms and conditions of the Notes which, subject to amendment and completion and except for the text in italics, will be endorsed on each Definitive Note Certificate (if issued).

The EUR 500,000,000 2.375 per cent. Notes due 2027 (the **Notes**, which expression includes any further notes issued pursuant to Condition 17 (*Further Issues*) and forming a single series therewith) of Tauron Polska Energia S.A. (the **Issuer**) are (a) constituted by and subject to, and have the benefit of, a deed of covenant dated 5 July 2017 (as amended or supplemented from time to time, the **Deed of Covenant**) of the Issuer and (b) are the subject of a fiscal agency agreement dated 5 July 2017 (as amended or supplemented from time to time, the **Fiscal Agency Agreement**) between the Issuer and Citibank, N.A., London Branch as fiscal agent (the **Fiscal Agent**, which expression includes any successor fiscal agent appointed from time to time in connection with the Notes), the other paying and transfer agents named therein (together with the Fiscal Agent, the **Agents**, which expression includes any successor or additional paying and transfer agents appointed from time to time in connection with the Notes) and Citigroup Global Markets Deutschland AG, in its capacity as Registrar (the **Registrar**, which expression shall include any successor registrar appointed from time to time in connection with the Notes).

Certain provisions of these Conditions are summaries of the Fiscal Agency Agreement and are subject to its detailed provisions. The Noteholders are bound by, and are deemed to have notice of all the provisions of the Fiscal Agency Agreement applicable to them. Copies of the Fiscal Agency Agreement are available for inspection during normal business hours at the Specified Offices (as defined in the Fiscal Agency Agreement) of the Agents. References to **Conditions** are, unless the context otherwise requires, to the numbered paragraphs of these terms and conditions.

1. FORM, DENOMINATION AND TITLE

- (a) **Form and denomination.** The Notes are in registered form, serially numbered. The Notes will be issued in minimum denominations of EUR 100,000 or any amount in excess thereof which is an integral multiple of EUR 1,000 (each, an **Authorised Holding**).
- (b) **Title.** Title to the Notes will pass by transfer and registration as described in Conditions 2 (*Registration*) and 3 (*Transfer of Notes*). The holder (as defined below) of any Note will (except as otherwise required by law or as ordered by a court of competent jurisdiction) be treated as its absolute owner for all purposes whether or not it is overdue and regardless of any notice of ownership, trust or any other interest in it, any writing thereon by any Person (as defined below) (other than a duly executed transfer thereof in the form endorsed thereon) or any notice of any previous theft or loss thereof; and no Person will be liable for so treating the holder.

In these Conditions, **Person** means any individual, company, corporation, firm, partnership, joint venture, association, unincorporated organisation, trust or other judicial entity, including, without limitation, any state or agency of a state or other entity, whether or not having separate legal personality, **Noteholder** or **holder** means the Person in whose name a Note is for the time being registered in the Register (as defined below) (or, in the case of joint holders, the first named thereof) and **holders** shall be construed accordingly.

*A certificate in definitive form (a **Definitive Note Certificate**) will be issued to each Noteholder in respect of its registered holding.*

*The Notes are intended to be issued under the new safekeeping structure and will be represented by a global note (the **Global Note Certificate**), interests in which will be exchangeable for Definitive Note Certificates in the circumstances specified in the Global Note Certificate. The Global Note Certificate will be deposited with, and registered in the name of a nominee for, a common safekeeper for Euroclear Bank SA/NV (**Euroclear**) and Clearstream Banking, S.A. (**Clearstream, Luxembourg**).*

- (c) **Third party rights.** No Person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999.

2. REGISTRATION

The Issuer will cause a register (the **Register**) to be kept at the Specified Office of the Registrar in which will be entered the names and addresses of the holders of the Notes and the particulars of the Notes held by them and all transfers and redemptions of the Notes.

3. TRANSFER OF NOTES

- (a) **Transfer.** Each Note may, subject to the terms of the Fiscal Agency Agreement and to Conditions 3(b) (*Formalities Free of Charge*), 3(c) (*Closed Periods*) and 3(e) (*Regulations Concerning Transfer and Registration*), be transferred in whole or in part in an Authorised Holding by lodging the relevant Definitive Note Certificate (with the endorsed form of application for transfer in respect thereof duly executed and duly stamped where applicable) at the Specified Office of the Registrar or any Paying and Transfer Agent. A Note may be registered only in the name of, and transferred only to, a named person or persons. No transfer of a Note will be valid unless and until entered on the Register.

The Registrar will within five Business Days (as defined below) of any duly made application for the transfer of a Note, register the transfer and deliver a new Definitive Note Certificate to the transferee (and, in the case of a transfer of part only of a Note, deliver a Definitive Note Certificate for the untransferred balance to the transferor), at the Specified Office of the Registrar, or (at the risk and, if mailed at the request of the transferee or, as the case may be, the transferor otherwise than by ordinary mail, at the expense of the transferee or, as the case may be, the transferor) mail the Definitive Note Certificate by uninsured mail to such address as the transferee or, as the case may be, the transferor may request.

- (b) **Formalities Free of Charge.** Such transfer will be effected without charge subject to (i) the person making such application for transfer paying or procuring the payment of any taxes, duties and other governmental charges in connection therewith, (ii) the Registrar being satisfied with the documents of title and/or identity of the person making the application and (iii) such reasonable regulations as the Issuer may from time to time agree with the Registrar.
- (c) **Closed Periods.** Neither the Issuer nor the Registrar will be required to register the transfer of any Note (or part thereof) during the period of 15 days immediately prior to the due date for any payment of principal or interest in respect of the Notes.
- (d) **Business Day.** In this Condition 3, **Business Day** means a day on which the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET) System (the **TARGET System**) or any successor system is open and on which commercial banks and foreign exchange markets settle payments and are open

for general business (including dealing in foreign exchange and foreign currency deposits) in the city in which the Specified Office of the Registrar is located.

- (e) **Regulations Concerning Transfer and Registration.** All transfers of Notes and entries on the Register will be made subject to the detailed regulations concerning transfer of Notes in Schedule 1 to the Fiscal Agency Agreement. The regulations may be changed by the Issuer with the approval of the Registrar (such approval not to be unreasonably withheld or delayed). A copy of the current regulations will be mailed (free of charge) by the Registrar to any Noteholder who requested in writing a copy of such regulations.
- (f) **Authorised Holdings.** No Note may be transferred unless the principal amount of Notes transferred and (where not all of the Notes held by a holder are being transferred) the principal amount of the balance of the Notes not transferred are Authorised Holdings.

4. STATUS

The Notes constitute direct, general, unconditional, unsubordinated and (subject to Condition 5 (*Negative Pledge*)) unsecured obligations of the Issuer. The Notes will at all times rank *pari passu* among themselves and at least *pari passu* in right of payment with all other present and future unsecured and unsubordinated obligations of the Issuer, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.

5. NEGATIVE PLEDGE

So long as any Note remains outstanding (as defined in the Fiscal Agency Agreement) the Issuer shall not, and shall procure that none of its Material Subsidiaries will, create or have outstanding any Security Interest, other than a Permitted Security Interest, upon the whole or any part of its present or future business, undertaking, assets or revenues (including any uncalled capital) to secure any Relevant Indebtedness, or to secure any guarantee or indemnity in respect of any Relevant Indebtedness, without at the same time or prior thereto according to the Notes the same security as is created or subsisting to secure any such Relevant Indebtedness, guarantee or indemnity or such other security as shall be approved by an Extraordinary Resolution (as defined in the Fiscal Agency Agreement) of the Noteholders.

6. DEFINITIONS

For the purposes of these Conditions:

Group means the Issuer and its Subsidiaries taken as a whole;

Material Subsidiary means at any relevant time a Subsidiary of the Issuer:

- (a) whose gross revenues (consolidated in the case of a Subsidiary which itself has Subsidiaries) or whose total assets (consolidated in the case of a Subsidiary which itself has Subsidiaries) represent in each case (or, in the case of a Subsidiary acquired after the end of the financial period to which the then latest audited consolidated accounts of the Issuer and its Subsidiaries relate, are equal to) not less than 10 per cent. of the consolidated gross revenues or, as the case may be, consolidated total assets, of the Issuer and its Subsidiaries taken as a whole, all as calculated respectively by reference to the then latest audited accounts (consolidated or, as the case may be, unconsolidated) of such Subsidiary and the then latest audited

consolidated accounts of the Issuer and its Subsidiaries, provided that in the case of a Subsidiary of the Issuer acquired after the end of the financial period to which the then latest audited consolidated accounts of the Issuer and its Subsidiaries relate, the reference to the then latest audited consolidated accounts of the Issuer and its Subsidiaries for the purposes of the calculation above shall, until consolidated accounts for the financial period in which the acquisition is made have been prepared and audited as aforesaid, be deemed to be a reference to such first-mentioned accounts as if such Subsidiary had been shown in such accounts by reference to its then latest relevant audited accounts, adjusted as deemed appropriate by the Issuer;

- (b) to which is transferred the whole or substantially the whole of the undertaking and assets of a Subsidiary of the Issuer which immediately prior to such transfer is a Material Subsidiary, provided that the transferor Subsidiary shall upon such transfer forthwith cease to be a Material Subsidiary and the transferee Subsidiary shall cease to be a Material Subsidiary pursuant to this subparagraph (b) on the date on which the consolidated accounts of the Issuer and its Subsidiaries for the financial period current at the date of such transfer have been prepared and audited as aforesaid but so that such transferor Subsidiary or such transferee Subsidiary may be a Material Subsidiary on or at any time after the date on which such consolidated accounts have been prepared and audited as aforesaid by virtue of the provisions of subparagraph (a) or, prior to or after such date, by virtue of any other applicable provision of this definition; or
- (c) to which is transferred an undertaking or assets which, taken together with the undertaking or assets of the transferee Subsidiary, generated (or, in the case of the transferee Subsidiary being acquired after the end of the financial period to which the then latest audited consolidated accounts of the Issuer and its Subsidiaries relate, generate gross revenues equal to) not less than 10 per cent. of the consolidated gross revenues, or represent (or, in the case aforesaid, are equal to) not less than 10 per cent. of the consolidated total assets, of the Issuer and its Subsidiaries taken as a whole, all as calculated as referred to in subparagraph (a) above, provided that the transferor Subsidiary (if a Material Subsidiary) shall upon such transfer forthwith cease to be a Material Subsidiary unless immediately following such transfer its undertaking and assets generate (or, in the case aforesaid, generate gross revenues equal to) not less than 10 per cent. of the consolidated gross revenues, or its assets represent (or, in the case aforesaid, are equal to) not less than 10 per cent. of the consolidated total assets, of the Issuer and its Subsidiaries taken as a whole, all as calculated as referred to in subparagraph (a) above, and the transferee Subsidiary shall cease to be a Material Subsidiary pursuant to this subparagraph (c) on the date on which the consolidated accounts of the Issuer and its Subsidiaries for the financial period current at the date of such transfer have been prepared and audited but so that such transferor Subsidiary or such transferee Subsidiary may be a Material Subsidiary on or at any time after the date on which such consolidated accounts have been prepared and audited as aforesaid by virtue of the provisions of subparagraph (a) above or, prior to or after such date, by virtue of any other applicable provision of this definition,

all as more particularly defined in the Fiscal Agency Agreement.

A report by two members of the Management Board of the Issuer that in their opinion a Subsidiary of the Issuer is or is not or was or was not at any particular time or throughout any specified period a Material Subsidiary, shall, in the absence of manifest error, be conclusive and binding on all parties.

Permitted Security Interest means a Security Interest which is created to secure or provide for the payment of Relevant Indebtedness in connection with any Project Financing provided that the assets or revenues subject to such Security Interest are (i) assets which are used or to be used in or in connection with the project to which such Project Financing relates or (ii) revenues or claims which arise from the operation, failure to meet specifications, exploitation, sale or loss of, or damage to, such assets;

Project Financing means any indebtedness incurred solely to finance a project or the restructuring or expansion of an existing project, in each case for the acquisition, construction, development or exploitation of any assets pursuant to which the person or persons to whom such indebtedness is or may be owed by the relevant borrower (whether or not a member of the Group) (i) expressly agrees or agree that the principal source of repayment of such funds will be the assets of the project and the revenues generated by such project (or by such restructuring or expansion thereof) and (ii) has, or have, no other recourse whatsoever to any member of the Group (or its assets and/or revenues) for the repayment of, or a payment of, any sum relating to such indebtedness;

Relevant Date means, in relation to a payment of principal and/or interest, whichever is the later of (i) the date on which such payment first becomes due and (ii) if the full amount payable has not been received by the Fiscal Agent on or prior to such due date, the date on which, the full amount plus any accrued interest having been so received, notice to that effect shall have been given to the Noteholders;

Relevant Indebtedness means any indebtedness which is in the form of, or represented or evidenced by, bonds, notes, debentures, loan stock or other securities which for the time being are, or are intended to be or capable of being, quoted, listed or dealt in or traded on any stock exchange or over-the-counter or other securities market, *provided that*, bonds which meet all of the following criteria shall not be considered to be “Relevant Indebtedness”: (a) denominated in zloty; (b) governed by Polish law; (c) not registered in the Polish National Depository for Securities or any other clearing system; (d) not listed on any stock exchange or other securities market (and not intended to be so listed); and (e) subscribed by banks and other credit institutions, acting as principal;

Security Interest means any mortgage, charge, pledge, lien or other security interest including, without limitation, anything analogous to any of the foregoing under the laws of any jurisdiction; and

Subsidiary means any entity whose financial statements at any time are required by law or in accordance with generally accepted accounting principles to be fully consolidated with those of the Issuer.

Any reference in these Conditions or the Notes to principal and/or interest shall be deemed to include any additional amounts which may be payable under Condition 10 (*Taxation*) or any undertaking given in addition to or substitution for it under the Fiscal Agency Agreement.

7. INTEREST

- (a) **Interest Accrual.** Each Note bears interest from 5 July 2017 (the **Issue Date**) at the rate of 2.375 per cent. per annum (the **Rate of Interest**) payable annually in arrear on 5 July in each year (each, an **Interest Payment Date**), subject as provided in Condition 8 (*Payments*). Each period beginning on (and including) the Issue Date or any Interest Payment Date and ending on (but excluding) the next Interest Payment Date is herein called an **Interest Period**.

- (b) **Cessation of Interest.** Each Note will cease to bear interest from the due date for final redemption unless, upon due surrender of the relevant Note, payment of principal is improperly withheld or refused. In such case it will continue to bear interest at the Rate of Interest (after as well as before judgment) until whichever is the earlier of (i) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder and (ii) the day which is seven days after the Fiscal Agent has notified the Noteholders that it has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment) in accordance with Condition 16 (*Notices*).
- (c) **Calculation of Interest.** The amount of interest payable in respect of each Note for any Interest Period shall be calculated by applying the Rate of Interest to the principal amount of such Note, applying the day-count fraction, and rounding the resultant figure to the nearest one cent.

The day-count fraction applied to determine the amount of interest payable in respect of each Note will be calculated on the following basis:

- (i) if the Accrual Period is equal to or shorter than the Determination Period during which it falls, the day-count fraction will be the number of days in the Accrual Period divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year; and
- (ii) if the Accrual Period is longer than one Determination Period, the day-count fraction will be the sum of:
 - (A) the number of days in such Accrual Period falling in the Determination Period in which the Accrual Period begins divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year; and
 - (B) the number of days in such Accrual Period falling in the next Determination Period divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year.

Where:

Accrual Period means the relevant period for which interest is to be calculated (from and including the first such day to but excluding the last); and

Determination Period means the period from and including 5 July in any year to but excluding the next 5 July.

The determination of the amount of interest payable under Conditions 7(c) (*Calculation of Interest*) by the Principal Paying and Transfer Agent shall, in the absence of manifest and proven error, be binding on all parties.

8. PAYMENTS

- (a) **Principal.** Payment of principal in respect of each Note and payment of interest due other than on an Interest Payment Date will be made to the person shown in the

Register at the close of business on the Record Date (as defined below) and subject to the surrender (or, in the case of part payment only, endorsement) of the relevant Definitive Note Certificate at the Specified Office of the Registrar or of the Paying and Transfer Agents.

- (b) **Interest.** Payments of interest due on an Interest Payment Date will be made to the persons shown in the Register at close of business on the Record Date.
- (c) **Record Date.** “Record Date” means the fifteenth day before the due date for the relevant payment.

So long as the Notes are represented by a Global Note Certificate, payments of principal and interest in respect of Notes represented by the Global Note Certificate shall be made to the person(s) shown as the Noteholder(s) in the Register at the close of business on the Clearing System Business Day before the due date for payment, where “Clearing System Business Day” means a day on which each clearing system for which the Global Note Certificate is being held is open for business, and shall be made against presentation for endorsement and if no further payment falls to be made in respect of the Notes, surrender of the Global Note Certificate.

- (d) **Payments.** Each payment in respect of the Notes pursuant to Conditions 8(a) (*Principal*) and (b) (*Interest*) will be made by Euro cheque drawn on a branch of a bank in the principal financial centre of any member state of the European Union mailed to the holder of the relevant Note at his address appearing in the Register. However, upon application by the holder to the Specified Office of the Registrar or any Paying and Transfer Agent not less than 15 days before the due date for any payment in respect of a Note, such payment may be made by transfer to a Euro account maintained by the payee with a bank in the principal financial centre of any other member state of the European Union.

Where payment is to be made by cheque, the cheque will be mailed, on the business day preceding the due date for payment or, in the case of payments referred to in Condition 8(a) (*Principal*), if later, on the business day on which the relevant Definitive Note Certificate is surrendered (or endorsed as the case may be) as specified in Condition 8(a) (*Principal*) (at the risk and, if mailed at the request of the holder otherwise than by ordinary mail, expense of the holder).

Where payment is to be made by transfer to a Euro account, payment instructions (for value the due date, or, if the due date is not a business day, for value the next succeeding business day) will be initiated, in the case of principal, on the later of the due date for payment and the day on which the relevant Definitive Note Certificate is surrendered (or, in the case of part payment only, endorsed) and, in the case of interest on the due date for payment.

- (e) **Agents.** The names of the initial Paying and Transfer Agents and Registrar and their Specified Offices are set out below. The Issuer reserves the right under the Fiscal Agency Agreement by giving to the relevant Agent concerned at least 30 days’ prior written notice, which notice shall expire at least 20 days before or after any due date for payment in respect of the Notes, to vary or terminate the appointment of/remove any Agent or the Registrar and to appoint successor or additional Agents or another Registrar, provided that it will at all times maintain:

- (i) a Fiscal Agent;

- (ii) Paying and Transfer Agents in at least one major European city;
- (iii) a Paying and Transfer Agent in a jurisdiction other than the Republic of Poland; and
- (iv) a Registrar.

Notice of any such removal or appointment and of any change in the Specified Office of any Agent or Registrar will be given to Noteholders in accordance with Condition 16 (*Notices*) as soon as practicable.

- (f) ***Payments subject to Fiscal Laws; Commissions.*** All payments in respect of the Notes are subject in all cases to any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 10 (*Taxation*) Neither the Issuer nor any Agent nor any other person will be obliged to make any additional payments to the Noteholders in respect of any amounts so withheld or deducted. No commissions or expenses shall be charged to the Noteholders in respect of such payments.
- (g) ***Delay in Payment.*** Noteholders will not be entitled to any interest or other payment in respect of any delay in payment resulting from (i) the due date for payment not being a business day or (ii) a cheque mailed in accordance with this Condition 8 (*Payments*) arriving after the due date for payment or being lost in the mail.
- (h) ***Business Days.*** In this Condition 8, **business day** means any day on which the TARGET System is open and on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) and, in the case of surrender of a Definitive Note Certificate, in the place of the Specified Office of the Registrar or relevant Paying and Transfer Agent, to whom the relevant Definitive Note Certificate is surrendered.

9. REDEMPTION AND PURCHASE

- (a) ***Scheduled redemption.*** Unless previously redeemed or purchased and cancelled as provided below, each Note will be redeemed at its principal amount on 5 July 2027, subject as provided in Condition 8 (*Payments*).
- (b) ***Redemption for Taxation Reasons.*** The Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice to the Noteholders in accordance with Condition 16 (*Notices*) (which notice shall be irrevocable) at their principal amount, together with interest accrued to (but excluding) the date fixed for redemption, if, immediately before giving such notice, the Issuer:
 - (i) has become or will become obliged:
 - (A) to increase the additional amounts paid as provided or referred to in Condition 10 (*Taxation*); or
 - (B) to pay additional amounts as provided or referred to in Condition 10 (*Taxation*) (if the Issuer at any time after the Issue Date has ceased to be obliged to pay such additional amounts),

in either case as a result of any change in, or amendment to, the laws or regulations of the Republic of Poland or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after 4 July 2017; and

- (ii) cannot avoid such obligation by the Issuer taking reasonable measures available to it,

provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay or increase payments of such additional amounts if a payment in respect of the Notes were then due.

Upon the expiry of any such notice as is referred to in this Condition 9(b) (*Redemption for Taxation Reasons*), the Issuer shall be bound to redeem the Notes in accordance with this Condition 9(b) (*Redemption for Taxation Reasons*).

- (c) **Change of Control.** If a Change of Control Put Event occurs, each holder of the Notes will have the option (a **Change of Control Put Option**) (unless prior to the giving of the relevant Change of Control Put Event Notice (as defined below) the Issuer has given notice of redemption under Condition 9(b) (*Redemption for Taxation Reasons*) to require the Issuer to redeem or purchase that Note on the Change of Control Put Date (as defined below) at its principal amount together with interest accrued to (but excluding) the Change of Control Put Date.

A **Change of Control Put Event** will be deemed to occur if:

- (i) any one or more of the following events occurs:
 - (A) the Polish State Treasury ceases to hold, directly or indirectly, shares representing at least 25 per cent. of votes at the general meeting of shareholders of the Issuer; unless the articles of association of the Issuer are amended to allow the Polish State Treasury to maintain the right to appoint and dismiss the majority of the members of the supervisory board of the Issuer irrespective of holding such number of shares; or
 - (B) the Polish State Treasury ceases to have the right to appoint and dismiss a majority of the members of the supervisory board of the Issuer,each such event being a **Change of Control**; and
- (ii) on the date of the first Relevant Potential Change of Control Announcement, the Notes carry:
 - (A) an Investment Grade Rating, from any Rating Agency assigned at the invitation of the Issuer (or if there is no rating from any Rating Agency assigned at the invitation of the Issuer, the then Investment Grade Rating (if any) from any Rating Agency assigned of its own volition) and such rating is, within the Change of Control Period, either downgraded to a Non-Investment Grade Rating or withdrawn and is not, within the Change of Control Period, subsequently (in the case of a downgrade) upgraded to an Investment Grade Rating or (in

the case of withdrawal) reinstated at an Investment Grade Rating by such Rating Agency;

- (B) a Non-Investment Grade Rating from any Rating Agency assigned at the invitation of the Issuer (or where there is no rating from any Rating Agency assigned at the invitation of the Issuer, the then Non-Investment Grade Rating (if any) from any Rating Agency assigned of its own volition) and such rating is, within the Change of Control Period, either downgraded by one or more rating categories (from Baa1 to Baa2 (in the case of Moody's) or BBB to BBB- (in the case of S&P or Fitch) or such similar lowering) or withdrawn and is not, within the Change of Control Period, subsequently (in the case of a downgrade) upgraded to its earlier credit rating or better or (in the case of withdrawal) reinstated at its earlier credit rating or better by such Rating Agency; or
- (C) no credit rating and the Notes are not assigned an Investment Grade Rating within the Change of Control Period,

provided that if, at the time of the occurrence of the Change of Control the Notes carry a credit rating from more than one Rating Agency, at least one of which is Investment Grade, then sub-paragraph (A) above will apply; and

- (iii) in making any decision to downgrade or withdraw a credit rating pursuant to paragraphs (ii)(A) and (ii)(B) above or not to assign an Investment Grade Rating as described in paragraph (ii)(C) above, the relevant Rating Agency announces publicly or confirms in writing to the Issuer that such decision(s) resulted, either in whole or in part, from an event or circumstance comprised in or arising as a result of, or in respect of, the occurrence of the Change of Control or the Relevant Potential Change of Control Announcement.

Promptly upon the Issuer becoming aware that a Change of Control Put Event has occurred, the Issuer shall give notice (a **Change of Control Put Event Notice**) to the Noteholders in accordance with Condition 15 specifying the nature of the Change of Control Put Event and the procedure for exercising the Change of Control Put Option.

To exercise the Change of Control Put Option, the holder of a Note must deposit the Certificate evidencing such Note(s) with the Registrar or any Transfer Agent at its specified office, together with a duly signed and completed Change of Control Put Notice obtainable from the Registrar or any Transfer Agent within the Change of Control Put Period. No Certificate so deposited and option so exercised may be withdrawn without the prior consent of the Issuer. Payment in respect of any Certificate so deposited will be made, if the holder duly specified a bank account in the Change of Control Put Notice to which payment is to be made, on the Change of Control Put Date by transfer to that bank account and, in every other case, by cheque drawn on a bank and mailed to the holder (or to the first named of joint holders) of such Note at its address appearing in the Register.

The Issuer shall redeem or purchase (or procure the purchase of) the relevant Notes on the Change of Control Put Date unless previously redeemed (or purchased) and cancelled.

If 75 per cent. or more in principal amount of the Notes then outstanding have been redeemed or purchased pursuant to this Condition 9(c), the Issuer may, on giving not less than 30 nor more than 60 days' notice to the Noteholders (such notice being given within 30 days after the Change of Control Put Date), redeem or purchase (or procure the purchase of), at its

option, all but not some only of the remaining outstanding Notes at their principal amount, together with interest accrued to (but excluding) the date fixed for such redemption or purchase.

If the rating designations employed by any of Moody's, Fitch or S&P are changed from those which are described in paragraph (ii) of the definition of "Change of Control Put Event" above, or if a rating is procured from a Substitute Rating Agency, the Issuer shall determine the rating designations of Moody's, Fitch or S&P or such Substitute Rating Agency (as appropriate) as are most equivalent to the prior rating designations of Moody's, Fitch or S&P and this Condition 9(c) shall be construed accordingly.

In this Condition 9(c):

Change of Control Period means the period commencing on the date of the Relevant Potential Change of Control Announcement and ending 90 days after the Change of Control (or such longer period for which the Notes are under consideration (such consideration having been announced publicly within the period ending 90 days after the Change of Control) for rating review or, as the case may be, rating by a Rating Agency, such period not to exceed 60 days after the public announcement of such consideration);

Change of Control Put Date means the date which is seven days after the expiration of the Change of Control Put Period;

Change of Control Put Notice means a notice of exercise in the form (for the time being current) obtainable from the specified office of any Paying Agent;

Change of Control Put Period means the period of 30 days after the date on which a Change of Control Put Event Notice is given;

Investment Grade Rating means a rating of Baa3 or higher by Moody's (or its equivalent under any successor rating categories of Moody's); a rating of BBB- or higher by S&P (or its equivalent under any successor rating categories of S&P); a rating of BBB- or higher by Fitch (or its equivalent under any successor rating categories of Fitch); or the equivalent Investment Grade Rating from any additional Rating Agency or Rating Agencies;

Non-Investment Grade Rating means a rating of Ba1 or lower by Moody's (or its equivalent under any successor rating categories of Moody's); a rating of BB+ or lower by S&P (or its equivalent under any successor rating categories of S&P); a rating of BB+ or lower by Fitch (or its equivalent under any successor rating categories of Fitch); or the equivalent Non-Investment Grade Rating from any additional Rating Agency or Rating Agencies;

Rating Agency means:

- (i) any of Moody's Investors Service Ltd. (**Moody's**), Fitch Ratings Ltd. (**Fitch**) or Standard & Poor's Ratings Services (**S&P**) or any of their respective affiliates or successors; or
- (ii) any other internationally recognised rating agency or affiliate thereof (a **Substitute Rating Agency**) substituted for any of them by the Issuer from time to time; and

Relevant Potential Change of Control Announcement means any public announcement or statement by the Issuer, any actual or potential bidder or any adviser acting on behalf of any

actual or potential bidder relating to any potential Change of Control where, within 180 days of the date of such announcement or statement, a Change of Control occurs.

- (d) **Purchase.** The Issuer or any of its Subsidiaries may at any time purchase or procure others to purchase for its account Notes in the open market or otherwise and at any price. The Notes so purchased may be held or resold (provided that such resale is outside the United States and is otherwise in compliance with all applicable laws) or surrendered for cancellation at the option of the Issuer or otherwise, as the case may be in compliance with Condition 9(e) (*Cancellation of Notes*) below. The Notes so purchased, while held by or on behalf of the Issuer or any such Subsidiary, shall not entitle the holder to vote at any meeting of the Noteholders and shall not be deemed to be outstanding for the purposes of calculating quorums at meetings of the Noteholders or for the purposes of Condition 14(a) (*Meetings of Noteholders*). Any purchase by tender shall be made available to all Noteholders alike.
- (e) **Cancellation of Notes.** All Notes which are redeemed pursuant to Condition 9(b) (*Redemption for Taxation Reasons*) or redeemed or purchased pursuant to Condition 9(c) (*Change of Control*) or submitted for cancellation pursuant to Condition 9(c) (*Purchase*) will be cancelled and may not be reissued or resold. For so long as the Notes are admitted to trading on the London Stock Exchange and the rules of such exchange so require, the Issuer shall promptly inform the London Stock Exchange of the cancellation of any Notes under this Condition 9(e) (*Cancellation of Notes*).

10. TAXATION

- (a) All payments of principal and interest in respect of the Notes shall be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatsoever nature imposed, levied, collected, withheld or assessed by or on behalf of the Republic of Poland or any political subdivision thereof or by any authority therein or thereof having power to tax (each a **Relevant Jurisdiction**), unless such withholding or deduction is required by law. In that event, the Issuer shall pay such additional amounts as will result in the receipt by the Noteholders of such amounts as would have been received by them if no such withholding or deduction had been required, except that no such additional amounts shall be payable in respect of any Note:
 - (i) **Other Connection:** presented for payment by or on behalf of a holder who is liable to such taxes, duties, assessments or governmental charges in respect of such Note by reason of his having a present or former connection with a Relevant Jurisdiction, other than the mere holding of such Note, the enforcement of rights under such Note or the receipt of any payments in respect of such Note;
 - (ii) **Presentation more than 30 days after the Relevant Date:** where (in the case of a payment of principal or interest on redemption) the relevant Definitive Note Certificate is surrendered for payment more than 30 days after the Relevant Date (as defined in Condition 6 (*Definitions*)) except to the extent that the holder of it would have been entitled to such additional amounts on surrendering such Definitive Note Certificate for payment on the last day of such period of 30 days;
 - (iii) **Payment by another Paying and Transfer Agent:** where (in the case of a payment of principal or interest on redemption) the relevant Definitive Note Certificate is surrendered for payment by or on behalf of a Noteholder who

would have been able to avoid such withholding or deduction by surrendering the relevant Definitive Note Certificate to another Paying and Transfer Agent in a Member State of the European Union; or

- (iv) **Payment in the Republic of Poland:** where (in the case of a payment of principal or interest on redemption) the relevant Definitive Note Certificate is surrendered for payment in the Republic of Poland.
- (b) **Taxing jurisdiction.** If the Issuer becomes subject at any time to any taxing jurisdiction other than the Republic of Poland, references in this Condition 10 (*Taxation*) to the Republic of Poland shall be construed as references to the Republic of Poland and/or such other jurisdiction or, in each case, any political subdivision or any authority thereof or therein having power to tax.

11. PRESCRIPTION

Claims in respect of principal and interest will become void unless the relevant Definitive Note Certificate is surrendered for payment as required by Condition 8 (*Payments*) within a period of 10 years in the case of principal and five years in the case of interest from the appropriate Relevant Date.

12. EVENTS OF DEFAULT

If any of the following events (**Events of Default**) occurs, the holder of any Note may give written notice to the Fiscal Agent at its specified office that such Note is immediately repayable, whereupon the principal amount of such Note together (if applicable) with accrued interest to the date of payment shall become immediately due and payable:

- (a) **Non-payment.** Default is made in the payment on the due date of interest or principal in respect of any of the Notes and the default continues for a period of five days in the case of interest; or
- (b) **Breach of other obligations.** The Issuer does not perform or comply with any one or more of its other obligations in respect of the Notes which default is incapable of remedy or, if capable of remedy, is not remedied within 30 days after notice of such default shall have been given to the Issuer by any Noteholder; or
- (c) **Cross-acceleration**
 - (i) any other present or future indebtedness of the Issuer or any Material Subsidiary (as defined in Condition 6 (*Definitions*)) for or in respect of moneys borrowed or raised becomes due and payable prior to its stated maturity by reason of any actual or potential event of default or the like (howsoever described), or
 - (ii) any such indebtedness is not paid when due or, as the case may be, within any originally applicable grace period, or
 - (iii) the Issuer or any Material Subsidiary fails to pay when due any amount payable by it under any present or future guarantee for, or indemnity in respect of, any moneys borrowed or raised,

provided that the aggregate amount of the relevant indebtedness, guarantees and indemnities in respect of which one or more of the events mentioned above in this

Condition 12(c) have occurred equals or exceeds EUR 75,000,000 or its equivalent (on the basis of the middle spot rate for the relevant currency against the euro as quoted by any leading bank on the day on which this Condition 12(c) operates); or

- (d) **Enforcement Proceedings.** A distress, attachment, execution or other similar legal process is levied, enforced or sued out on or against the whole or a substantial part of the property, assets or revenues of the Issuer or any Material Subsidiary and is not discharged or stayed within 90 days; or
- (e) **Security Enforced.** Any mortgage, charge, pledge, lien or other encumbrance, present or future, created or assumed by the Issuer or any Material Subsidiary becomes enforceable (such encumbrance(s), either alone or when aggregated with other such encumbrances, relating to a payment or other obligations of a value equal to or exceeding EUR 75,000,000, or its equivalent (on the basis of the middle spot rate for the relevant currency against the euro as quoted by any leading bank on the day on which this Condition 12(e) operates) and any step is taken to enforce it (including the taking of possession or the appointment of a receiver, manager or other similar person); or
- (f) **Insolvency.** The Issuer or any Material Subsidiary is (or is, or could be, deemed by law or a court to be) insolvent or bankrupt or unable to pay its debts, stops, suspends or threatens to stop or suspend payment of all or a material part of (or of a particular type of) its debts, proposes or makes a general assignment or an arrangement or composition with or for the benefit of the relevant creditors in respect of any of such debts or a moratorium is agreed or declared in respect of or affecting all or any part of (or of a particular type of) the debts of the Issuer or any Material Subsidiary; or
- (g) **Winding-up.** An order is made or an effective resolution passed for the winding-up or dissolution or administration of the Issuer or any Material Subsidiary, or the Issuer or any Material Subsidiary shall apply or petition for a winding-up or administration order in respect of itself or ceases to carry on all or substantially all of its business or operations, in each case except for the purpose of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation (i) on terms approved by an Extraordinary Resolution (as defined in the Fiscal Agency Agreement) of the Noteholders or (ii) in the case of Material Subsidiary, whereby the undertaking and assets of the Material Subsidiary are transferred to or otherwise vested in the Issuer or another Material Subsidiary; or
- (h) **Seizure etc.** Any step is taken by any person with a view to the seizure, compulsory acquisition or expropriation of all or a material part of the assets of the Issuer or any Material Subsidiary; or
- (i) **Authorisation and Consents.** Any action, condition or thing (including the obtaining or effecting of any necessary consent, approval, authorisation, exemption, filing, licence, order, recording or registration) at any time required to be taken, fulfilled or done in order to (i) enable the Issuer lawfully to enter into, exercise its rights and perform and comply with its obligations under the Notes, (ii) ensure that those obligations are legally binding and enforceable and (iii) make the Notes admissible in evidence in the courts of the Republic of Poland or England is not taken, fulfilled or done; or
- (j) **Illegality.** It is or will become unlawful for the Issuer to perform or comply with any one or more of its obligations under any of the Notes; or

- (k) **Analogous Events.** Any event occurs that under the laws of any relevant jurisdiction has an analogous effect to any of the events referred to in any of the foregoing paragraphs.

13. REPLACEMENT OF NOTES

If any Definitive Note Certificate is lost, stolen, mutilated, defaced or destroyed it may be replaced at the Specified Office of the Registrar or any Paying and Transfer Agent subject to all applicable laws and stock exchange or other relevant authority requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer may require (provided that the requirement is reasonable in the light of prevailing market practice). Mutilated or defaced Definitive Note Certificates must be surrendered before replacements will be issued.

14. MEETINGS OF NOTEHOLDERS; MODIFICATION

- (a) **Meetings of Noteholders.** The Fiscal Agency Agreement contains provisions for convening meetings of Noteholders to consider any matters relating to the Notes, including the modification of any provision of these Conditions or the Fiscal Agency Agreement. Any such modification may be made if sanctioned by an Extraordinary Resolution. Such a meeting may be convened by the Issuer or by the Noteholders holding not less than one-tenth in principal amount of the outstanding Notes. The quorum at any meeting convened to vote on an Extraordinary Resolution will be two or more persons holding or representing a clear majority of the aggregate principal amount of the Notes for the time being outstanding, or, at any adjourned meeting, one or more persons being or representing Noteholders whatever the principal amount of the Notes for the time being outstanding so held or represented; provided, however, that any proposals relating to any Reserved Matter (as defined below) may only be sanctioned by an Extraordinary Resolution passed at a meeting of Noteholders at which two or more persons holding or representing not less than three-quarters or, at any adjourned meeting, one-quarter of the principal amount of the outstanding Notes form a quorum. Any Extraordinary Resolution duly passed at any such meeting shall be binding on all the Noteholders, whether present at the meeting(s) or not.
- (b) **Reserved Matters.** In these Conditions, **Reserved Matter** means any proposal whereby:
- (i) the principal amount of, or interest on, or additional amounts in respect of the Notes is to be reduced or cancelled or the rate of interest on the Notes is to be reduced; or
 - (ii) the status of the Notes under Condition 4 (*Status*) is to be amended; or
 - (iii) the Events of Default set out in Condition 12 (*Events of Default*) are to be amended; or
 - (iv) the currency of payment of the Notes or the due date or date for any payment in respect of the Notes is to be changed; or
 - (v) the provisions contained in Schedule 4 (*Provisions for Meetings of Noteholders*) to the Fiscal Agency Agreement concerning the quorum required at any meeting of Noteholders or the majority required to pass an

Extraordinary Resolution or the definition of “Extraordinary Resolution” or the definition of “outstanding” is to be modified; or

- (vi) this definition of Reserved Matter is to be amended; or
- (vii) the Deed of Covenant is to be modified or cancelled.
- (c) **Written resolution.** A resolution in writing will take effect as if it were an Extraordinary Resolution if it is signed by or on behalf of Noteholders holding not less than 90 per cent. of the aggregate principal amount of the outstanding Notes. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.
- (d) **Modification without Noteholders’ consent.** The Fiscal Agent may agree, without the consent of the Noteholders, to any modification of the Notes or the Fiscal Agency Agreement which is in its opinion of a formal, minor or technical nature or is made to correct a manifest error. Any such modification shall be binding on the Noteholders and, if the Fiscal Agent so requires, shall be notified to the Noteholders as soon as practicable thereafter.

15. SUBSTITUTION

- (a) **Substitution.** So long as applicable Polish law imposes withholding tax on payments required to be made by the Issuer under the Notes, the Issuer (for the purposes of this Condition 15, the **Existing Issuer**) may at any time, without the consent of the Noteholders, substitute for itself as principal debtor under the Notes, any company (the **Substitute Issuer**) that is a wholly-owned Subsidiary (as defined in the Fiscal Agency Agreement) of the Existing Issuer, provided that:
 - (i) the Existing Issuer and the Substitute Issuer shall execute a deed poll in the form scheduled to the Fiscal Agency Agreement as Schedule 9 (the **Deed Poll**), and by such Deed Poll shall agree to indemnify each Noteholder against any tax, duty, assessment or governmental charge that is imposed on it by (or by any authority in or of) the jurisdiction of the country of the Substitute Issuer’s residence for tax purposes and, if different, of its incorporation with respect to any Note, the Deed of Guarantee (as defined below) or the Deed of Covenant and that would not have been so imposed had the substitution not been made, as well as against any tax, duty, assessment or governmental charge, and any cost or expense, relating to the substitution;
 - (ii) the Substitute Issuer’s obligations under the Notes and the Deed of Covenant shall be unconditionally and irrevocably guaranteed by the Existing Issuer (in such capacity, the **Guarantor**) by means of a deed of guarantee (the **Deed of Guarantee**), to be in the form scheduled to the Agency Agreement as Schedule 10;
 - (iii) the Substitute Issuer shall have become party to the Agency Agreement, with any appropriate consequential amendments, as if it had been an original party to it;
 - (iv) the substitution will allow the Guarantor and the Substitute Issuer not to be required to withhold tax on payments to be made by the Guarantor to the Substitute Issuer under any Intercompany Loan (as defined in the Deed Poll)

and will not result in the imposition of withholding or other taxes on payments to be made by the Guarantor to the Substitute Issuer under such Intercompany Loan or on payments to be made by the Substitute Issuer to Noteholders under the Notes;

- (v) no Event of Default has occurred or will, upon the completion of the substitution, occur in respect of the Notes or the Deed of Guarantee (as defined below);
- (vi) no payment in respect of the Notes is at any relevant time overdue;
- (vii) all actions, conditions and things required to be taken, fulfilled and done (including the obtaining of any necessary consents) to ensure that the Deed Poll, the Notes and Deed of Covenant represent valid, legally binding and enforceable obligations of the Substitute Issuer and the Deed of Guarantee represents valid, legally binding and enforceable obligations of the Existing Issuer, as guarantor (including to ensure that the Notes and the Deed of Guarantee are admissible in evidence in the courts of the Republic of Poland and the jurisdiction in which the Substitute Issuer is incorporated or organised), have been taken, fulfilled and done and are in full force and effect;
- (viii) the Substitute Issuer shall, at the time of the substitution, be able to make all payments of principal and interest in respect of the Notes free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatsoever nature imposed, levied, collected, withheld or assessed by or on behalf of the jurisdiction of the country of the Substitute Issuer's residence for tax purposes and, if different, of its incorporation, or any political subdivision thereof or by any authority therein or thereof having power to tax;
- (ix) the jurisdiction of incorporation of the Substitute Issuer is a jurisdiction of internationally good repute;
- (x) the substitution shall not be materially prejudicial to the interests of the Noteholders;
- (xi) the Substitute Issuer will be solvent immediately following the substitution;
- (xii) two directors of the Substitute Issuer shall have delivered a certificate (the **Director's Certificate**) addressed for the benefit of the Noteholders (care of the Fiscal Agent) confirming the matters set out in paragraphs (iv) to (xi);
- (xiii) legal opinions addressed for the benefit of the Noteholders shall have been delivered (care of the Fiscal Agent) from firms of lawyers with leading securities practices in each of Poland, the jurisdiction of the Substitute Issuer and England as to:
 - (A) the due incorporation and the due capacity and authority of the Substitute Issuer and, as applicable, the Existing Issuer, to execute and deliver the Deed Poll and the Deed of Guarantee and the amendment to the Fiscal Agency Agreement, as the case may be;

- (B) the enforceability of all obligations of the Substitute Issuer as principal debtor in respect of the Notes and under the Deed of Covenant and under the Deed Poll;
 - (C) the enforceability of all obligations of the Existing Issuer as guarantor under the Deed of Guarantee;
 - (D) the fulfilment of the preceding conditions of paragraph (vii) and the other matters specified in the Deed Poll;
- (xiv) each stock exchange on which the Notes are listed shall have confirmed that, following the proposed substitution, the Notes will continue to be listed on such stock exchange;
 - (xv) the Substitute Issuer has appointed a process agent as its agent in England to receive service of process on its behalf in relation to any legal proceedings in the courts of England arising out of or in connection with the Notes; and
 - (xvi) the Existing Issuer shall have given at least 14 days' prior notice of such substitution to the Noteholders, stating that copies (or, pending execution, the agreed text) of all documents and legal opinions in relation to the substitution that are referred to above, or that might otherwise reasonably be regarded as material to Noteholders, shall be available for inspection at the specified office of each of the Paying Agents.
- (b) ***Effect of Substitution.*** Upon compliance with all of the requirements of Condition 15(a) (*Substitution*), the Substitute Issuer shall succeed to, and be substituted for, and may exercise every right and power, of the Existing Issuer under the Notes and the Fiscal Agency Agreement with the same effect as if the Substitute Issuer had been named as the Issuer herein, except as otherwise specified in the Deed Poll..
 - (c) ***Restriction on Substitution.*** Under no circumstances (other than by the express consent of the Noteholders acting by Extraordinary Resolution) shall any substitution of the Existing Issuer be permitted where the consequences of such substitution could be materially prejudicial to the interests of the Noteholders including (without limitation) by exposing Noteholders to withholding or other taxes applicable in the jurisdiction of incorporation of the Substitute Issuer on payments to be made by the Substitute Issuer or the Existing Issuer, under or in respect of the Notes or the Deed of Guarantee.

16. NOTICES

Notices to Noteholders will be sent to them by first class mail (or its equivalent) or (if posted to an overseas address) by airmail at their respective addresses on the Register. Any such notice shall be deemed to have been given on the fourth day after the date of mailing. Notices to Noteholders will be valid if published, for so long as the Notes are admitted to trading on the London Stock Exchange and the rules of such exchange so require, in a leading newspaper having general circulation in London (which is expected to be the Financial Times) or, if, in the opinion of the Fiscal Agent, such publication is not practicable, in a leading English language daily newspaper of general circulation in Europe. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the first date on which publication is made.

So long as any of the Notes are represented by the Global Note Certificates, notices required to be published in accordance with Condition 16 (Notices) may be given by delivery of the relevant notice to Euroclear and Clearstream, Luxembourg for communication by them to the relevant accountholders, provided: (i) that such notice is also delivered to the London Stock Exchange; and (ii) so long as the Notes are admitted to trading on the London Stock Exchange and the rules of the London Stock Exchange so require, publication will also be made in a leading daily newspaper having general circulation in London (which is expected to be the Financial Times).

17. FURTHER ISSUES

The Issuer may from time to time, without notice to or the consent of the Noteholders and in accordance with the Fiscal Agency Agreement, create and issue further notes having the same terms and conditions as the Notes in all respects (or in all respects except for the date for and amount of the first payment of interest) so as to be consolidated and form a single series with the Notes (**Further Notes**).

18. CURRENCY INDEMNITY

The Fiscal Agency Agreement provides that if any Noteholder receives or recovers any amount in a currency other than the Contractual Currency (as defined in the Fiscal Agency Agreement) (whether as a result of, or of the enforcement of, a judgment or order of a court of any jurisdiction, in the winding-up or dissolution of the Issuer or otherwise), in respect of any sum expressed to be due to it from the Issuer that amount will only discharge the Issuer to the extent of the Contractual Currency amount which the recipient is able to purchase with the amount so received or recovered in that other currency on the date of that receipt or recovery (or, if it is not practicable to make that purchase on that date, on the first date on which it is practicable to do so).

If that Contractual Currency amount is less than the Contractual Currency amount expressed to be due to the relevant Noteholder under the Notes, the Issuer will indemnify such Noteholder against any loss sustained by it as a result on the written demand of such Noteholder addressed to the Issuer and delivered to the Issuer or to the Specified Office of the Registrar or any Paying and Transfer Agent with its Specified Office in London. In any event, the Issuer will indemnify the relevant Noteholder against the cost of making any such purchase.

19. GOVERNING LAW AND JURISDICTION

- (a) **Governing Law.** These Notes, including any non-contractual obligations arising out of or in connection with them, are governed by, and shall be construed in accordance with, English law.
- (b) **Jurisdiction.** The Issuer agrees for the benefit of each of the Noteholders that the courts of England shall have exclusive jurisdiction to hear and determine any suit, action or proceedings arising out of or in connection with this Agreement (including any non-contractual obligations arising out of or in connection with this Agreement) (**Proceedings**) and, for such purposes, irrevocably submits to the jurisdiction of such courts. Nothing in this paragraph shall (or shall be construed so as to) limit the right of Noteholders to take Proceedings in any other court of competent jurisdiction, nor shall the taking of Proceedings in any one or more jurisdictions preclude the taking of Proceedings by Noteholders in any other jurisdiction (whether concurrently or not) if and to the extent permitted by law.

- (c) **Appropriate Forum.** For the purpose of Condition 18(b) (*Jurisdiction*), the Issuer irrevocably waives any objection which it might now or hereafter have to the courts of England being nominated as the forum to hear and determine any Proceedings and agrees not to claim that any such court is not a convenient or appropriate forum.
- (d) **Service of Process.** The Issuer agrees that the process by which any Proceedings are commenced in England pursuant to Condition 18(b) (*Jurisdiction*) may be served on it by being delivered to Law Debenture Corporate Services Limited at Fifth Floor, 100 Wood Street, London EC2V 7EX, United Kingdom. If such person is not or ceases to be effectively appointed to accept service of process on behalf of the Issuer, the Issuer shall, on the written demand of the Noteholders, appoint a further person in England to accept service of process on its behalf and, failing such appointment within 14 days, the Noteholders shall be entitled to appoint such a person by written notice to the Issuer. Nothing in this paragraph shall affect the right of the Noteholders to serve process in any other manner permitted by law.
- (e) **Waiver of Immunity.** To the extent permitted by applicable law, the Issuer hereby irrevocably and unconditionally waives, with respect to the Notes, any right to claim sovereign or other immunity from jurisdiction or execution and any similar defence and irrevocably and unconditionally consents to the giving of any relief or the issue of any process, including, without limitation, the making, enforcement or execution against any property whatsoever (irrespective of its use or intended use) of any order or judgment made or given in connection with any Proceedings.

USE OF PROCEEDS

The net proceeds of the issue of the Notes, after deduction of the total expenses related to the issue and admission to trading, will be used for the purpose of refinancing the costs of development and acquisitions of wind farms by one of the Group companies, financing the Group's investments in the distribution segment and general corporate purposes. The net proceeds will not be used for new coal power generation projects.

SUMMARY OF PROVISIONS RELATING TO THE NOTES IN GLOBAL FORM

1. Global Note Certificates

The Notes will be evidenced on issue by the Global Note Certificate (deposited with, and registered in the name of a nominee for, a common safekeeper for Euroclear and Clearstream, Luxembourg).

Interests in the Global Note Certificate may be held only through Euroclear or Clearstream, Luxembourg at any time. See “- Book-Entry Procedures”.

Except in the limited circumstances described below, owners of interests in the Global Note Certificate will not be entitled to receive physical delivery of certificated Notes in definitive form (the **Definitive Note Certificates**). The Notes are not issuable in bearer form.

2. Amendments to the Conditions

The Global Note Certificate contains provisions that apply to the Notes that it represents, some of which modify the effect of the above Conditions of the Notes. The following is a summary of those provisions:

Payments. Payments of principal and interest in respect of Notes evidenced by the Global Note Certificate will be made against presentation for endorsement by the Paying and Transfer Agent and, if no further payment falls to be made in respect of the relevant Notes, surrender of the Global Note Certificate to or to the order of the Paying and Transfer Agent or such other Paying and Transfer Agent as shall have been notified to the relevant Noteholders for such purpose. A record of each payment so made will be endorsed in the appropriate schedule to the Global Note Certificate, which endorsement will be *prima facie* evidence that such payment has been made in respect of the relevant Notes.

Notices. So long as any Notes are represented by the Global Note Certificate and the Global Note Certificate is held on behalf of one or more clearing systems, notices to Noteholders required to be published in the *Financial Times* may be given by delivery of the relevant notice to such clearing systems for communication by it to entitled accountholders in substitution for delivery thereof as required by the Conditions of such Notes provided that for so long as the Notes are listed on the official list and admitted to trading on the Market and the rules of that Exchange so require, notices shall also be published in a leading newspaper having general circulation in London (which is expected to be the *Financial Times*).

Meetings. The holder of the Global Note Certificate will be treated as being two persons for the purposes of any quorum requirements of, or the right to demand a poll at, a meeting of Noteholders and, at any such meeting, as having one vote in respect of each EUR 1,000 in principal amount of Notes for which the Global Note Certificate may be exchangeable.

Prescription. Claims against the Issuer in respect of principal and interest on the Notes while the Notes are represented by the Global Note Certificate will become void unless it is presented for payment within a period of ten years (in the case of principal) and five years (in the case of interest) from the appropriate Relevant Date (as defined in Condition 10 (*Taxation*) of the Notes).

Purchase and Cancellation. Cancellation of any Note required by the Conditions to be cancelled following its purchase will be effected by reduction in the principal amount of the Global Note Certificate.

Record Date. As long as the Notes are represented by a Global Note Certificate, payments of interest and principal on the Notes will be paid to the holder shown on the Register on the Clearing System Business Day before the due date for such payment in accordance with the rules and procedures of the Clearing System (the **Record Date**), where **Clearing System Business Day** means a day on which each Clearing System in which the Global Note Certificate is being held is open for business.

3. **Exchange for and Transfers of Definitive Note Certificates**

The Global Note Certificate will become exchangeable, free of charge to the holder, in whole but not in part, for Definitive Note Certificates if Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business or does in fact do so, or an Event of Default (as defined in Condition 12 (*Events of Default*) of the Notes) occurs. In such circumstances, the Issuer will procure that the Registrar notifies the Noteholders as soon as practicable after the occurrence of the relevant event and that such Definitive Note Certificates will be registered in such names as Euroclear and Clearstream, Luxembourg shall direct in writing.

In such circumstances, the Global Note Certificate shall be exchanged in full for Definitive Note Certificates and the Issuer will, without charge to the holder or holders thereof, but against such indemnity as the Registrar may require in respect of any tax or other duty of whatever nature which may be levied or imposed in connection with such exchange, cause sufficient Definitive Note Certificates to be executed and delivered to the Registrar for completion, authentication and dispatch to the relevant Noteholders. A person having an interest in the Global Note Certificate must provide the Registrar with a written order containing instructions and such other information as the Issuer and the Registrar may require to complete, execute and deliver such Notes.

The holder of a Definitive Note Certificate may transfer the Notes evidenced thereby in whole or in part in the applicable minimum denomination by surrendering it at the specified office of the Registrar or any Paying and Transfer Agent, together with the completed form of transfer thereon. The Registrar will not register the transfer of any Notes or exchange of interests in a Global Note Certificate for Definitive Note Certificates for a period of 15 calendar days ending on the due date for any payment of principal or interest in respect of the Notes.

4. **Book-Entry Procedures**

Custodial and depositary links are expected to be established between Euroclear and Clearstream, Luxembourg to facilitate the initial issue of the Notes and cross-market transfers of the Notes associated with secondary market trading. See “*Book-Entry Ownership*” and “*Settlement and Transfer of Interests in Notes held in the Clearing Systems*” below.

Investors may hold their interests in the Global Note Certificate directly through Euroclear or Clearstream, Luxembourg if they are accountholders (**Direct Participants**) or indirectly (**Indirect Participants** and together with Direct Participants, **Participants**) through organisations which are accountholders therein.

5. **Euroclear and Clearstream, Luxembourg**

Euroclear and Clearstream, Luxembourg each hold securities for their customers and facilitate the clearance and settlement of securities transactions through electronic book-entry transfer between their respective accountholders. Indirect access to Euroclear and Clearstream, Luxembourg is available to other institutions which clear through or maintain a custodial

relationship with an accountholder of either system. Euroclear and Clearstream, Luxembourg provide various services including safekeeping, administration, clearance and settlement of internationally-traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg also deal with domestic securities markets in several countries through established depository and custodial relationships. Euroclear and Clearstream, Luxembourg have established an electronic bridge between their two systems across which their respective customers may settle trades with each other. Their customers are worldwide financial institutions including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations.

6. Book-Entry Ownership

Euroclear and Clearstream, Luxembourg

A Global Note Certificate representing the Notes will have an ISIN and a Common Code and will be registered in the name of a nominee for, and deposited with a common safekeeper on behalf of, Euroclear and Clearstream, Luxembourg.

The address of Euroclear is 1 Boulevard du Roi Albert 11, B-1210 Brussels, Belgium, and the address of Clearstream, Luxembourg is 42 Avenue J.F. Kennedy, L-1855 Luxembourg.

7. Relationship of Participants with Clearing Systems

Each of the persons shown in the records of Euroclear and Clearstream, Luxembourg as the holder of a Note evidenced by the Global Note Certificate must look solely to Euroclear or Clearstream, Luxembourg (as the case may be) for his share of each payment made by the Issuer to the holder of the Global Note Certificate and in relation to all other rights arising under the Global Note Certificate, subject to and in accordance with the respective rules and procedures of Euroclear or Clearstream, Luxembourg (as the case may be). The Issuer expects that, upon receipt of any payment in respect of Notes evidenced by the Global Note Certificate, the common safekeeper by whom such Note is held, or nominee in whose name it is registered, will immediately credit the relevant Participants' or accountholders' accounts in the relevant clearing system with payments in amounts proportionate to their respective interests in the principal amount of the Global Note Certificate as shown on the records of the relevant clearing system or its nominee. The Issuer also expects that payments by Direct Participants in any clearing system to owners of interests in the Global Note Certificate held through such Direct Participants in any clearing system will be governed by standing instructions and customary practices. Save as aforesaid, such persons shall have no claim directly against the Issuer in respect of payments due on the Notes for so long as the Notes are evidenced by the Global Note Certificate and the obligations of the Issuer will be discharged by payment to the registered holder, as the case may be, of the Global Note Certificate in respect of each amount so paid. None of the Issuer or any Paying and Transfer Agent will have any responsibility or liability for any aspect of the records relating to or payments made on account of ownership interests in the Global Note Certificate or for maintaining, supervising or reviewing any records relating to such ownership interests.

8. Settlement and Transfer of Interests in Notes held in the Clearing Systems

Subject to the rules and procedures of the applicable clearing system, purchases of Notes held within a clearing system must be made by or through Direct Participants, which will receive a credit for such Notes on the clearing system's records. The ownership interest of each actual purchaser of each such Note (the **Beneficial Owner**) will in turn be recorded on the Direct and Indirect Participants' records.

Beneficial Owners will not receive written confirmation from any clearing system of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which such Beneficial Owner entered into the transaction.

Transfers of ownership interests in Notes held within the clearing system will be affected by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in such Notes, unless and until interests in the Global Note Certificate are exchanged for Definitive Note Certificates.

No clearing system has knowledge of the actual Beneficial Owners of the Notes held within such clearing system and their records will reflect only the identity of the Direct Participants to whose accounts such Notes are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers. Conveyance of notices and other communications by the clearing systems to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

The laws of some jurisdictions may require that certain persons take physical delivery in definitive form of securities. Consequently, the ability to transfer interests in a Global Note Certificate to such persons may be limited.

Secondary market sales of book-entry interests in the Notes held through Euroclear or Clearstream, Luxembourg to purchasers of book-entry interests in the Notes held through Euroclear or Clearstream, Luxembourg will be conducted in accordance with the normal rules and operating procedures of Euroclear and Clearstream, Luxembourg and will be settled using the procedures applicable to conventional eurobonds.

TAXATION

The following is a general summary of the Republic of Poland tax consequences as at the date hereof in relation to payments made under the Notes, including, but not limited to, the consequences of receipt of payments under the Notes and their disposal or redemption. It is not exhaustive and purchasers are urged to consult their professional advisers as to the tax consequences to them of holding or transferring Notes.

Please also refer to the risk factor “*Risk Factors – Risks Relating to the Notes – So long as applicable provisions of Polish law impose withholding tax on payments required to be made by the Issuer under the Notes, the Conditions allow for the substitution, at the Issuer’s discretion, of another company in the place of the Issuer as principal debtor in respect of the Notes. If payments by the Issuer would continue to be subject to withholding under Polish law, it is expected that such a substitution may take place prior to the due date for the first interest payment under the Notes*”.

Republic of Poland

General Information

The following is a discussion of certain Polish tax considerations relevant to an investor residing in Poland or which is otherwise subject to Polish taxation. This statement should not be deemed to be tax advice. It is based on Polish tax laws and, as its interpretation refers to the position as at the date of this Prospectus, it may thus be subject to change including a change with retroactive effect. Any change may negatively affect the tax treatment described below. This description does not purport to be complete with respect to all tax information that may be relevant to investors due to their personal circumstances. Prospective purchasers of the Notes are advised to consult their professional tax adviser regarding the tax consequences of the purchase, ownership, disposal, redemption or transfer without consideration of any Notes. The information provided below does not cover tax consequences concerning income tax exemptions applicable to specific taxable items or specific taxpayers (e.g. domestic or foreign investment funds).

The reference to "interest" as well as to any other terms in the paragraphs below means "interest" or any other term as understood in Polish tax law.

Polish tax resident individuals (natural persons)

Under Art. 3.1 of the Personal Income Tax Act dated 26 July 1991 (the **PIT Act**), natural persons, if residing in the Republic of Poland, are liable for tax on their total income (revenue) irrespective of the location of the sources of revenue (unlimited obligation to pay tax).

Under Art. 3.1a of the PIT Act, a Polish tax resident individual is a natural person who has his/her centre of personal or business interests located in Poland or who stays in Poland for longer than 183 days in a tax year, unless any relevant tax treaty dictates otherwise.

Interest income

Under Art. 30a.7 of the PIT Act, interest income does not cumulate with general income subject to the progressive tax rate but under Art. 30a.1.2 of the PIT Act it is subject to a 19 per cent. flat rate tax.

Under Art. 41.4 of the PIT Act, interest payers, other than individuals not acting within the scope of his/her business activity, should withhold the 19 per cent. Polish tax on any interest payment.

Under Art. 41.4d of the PIT Act, the entities operating securities accounts for individuals, acting as tax remitters, should withhold tax on this interest income if such interest income (revenue) has been earned in Poland and is connected with securities registered in said accounts, and the interest payment to the individual (the taxpayer) is made through said entities.

There are no regulations defining in which cases income (revenue) earned by a Polish tax resident should be considered income (revenue) earned in Poland. However, as of 1 January 2017 a new regulation addressing the source of income with respect to non-residents has been in force and it cannot be excluded that in practice the tax authorities will consider that the same situations should indicate a Polish source of income for Polish tax residents. Pursuant to Art. 3.2b of the PIT Act, income (revenues) earned in the Republic of Poland by non-residents shall include in particular income (revenues) from:

1. work performed in the Republic of Poland based on a service relationship, employment relationship, outwork system and co-operative employment relationship irrespective of the place where remuneration is paid;
2. activity performed in person in the Republic of Poland irrespective of the place where remuneration is paid;
3. economic activity pursued in the Republic of Poland, including through a foreign establishment located in the Republic of Poland;
4. immovable property located in the Republic of Poland or rights to such property, including from its disposal in whole or in part, or from disposal of any rights to such property;
5. securities and derivatives other than securities, admitted to public trading in the Republic of Poland as part of the regulated stock exchange market, including those obtained from the disposal of these securities or derivatives, or the exercise of rights resulting from them;
6. the transfer of ownership of shares in a company, of all rights and obligations in a partnership without legal personality, or units in an investment fund or a collective investment undertaking, in which at least 50% of the value of assets is constituted, directly or indirectly, by immovable properties located in the Republic of Poland, or rights to such immovable properties;
7. the receivables settled, including receivables put at disposal, paid out or deducted, by natural persons, legal persons, or organisational units without legal personality, having their place of residence, registered office, or management board in the Republic of Poland, irrespective of the place of concluding and performing the agreement.

The above list is not exhaustive; therefore, the tax authorities may also consider that income (revenues) not listed above is sourced in Poland.

Given the above, in particular point 7, interest on the Notes should be considered as income earned in Poland.

Although this is not clearly regulated in Polish tax law, in fact, foreign entities do not act as Polish withholding tax remitters. Therefore, it should be expected that a non-Polish entity operating the securities account for the individual will not withhold the tax. It is not entirely clear whether in such case (ie if a payment is made through a foreign entity operating securities account and not collecting the withholding tax) the issuer should or should not withhold the tax.

Under Art. 45.3b of the PIT Act (and Art. 45.3c of the Polish PIT Act with respect to securities held in Polish omnibus accounts), if the tax is not withheld, the individual is obliged to settle the tax himself/herself by 30 April of the following year.

Separate, specific rules apply to interest income on securities held in Polish omnibus accounts (within the meaning of the provisions of the Act on Trading in Financial Instruments, hereinafter Omnibus Accounts). Under Art. 41.10 of the PIT Act, insofar as securities registered in Omnibus Accounts are concerned, the entities operating Omnibus Accounts through which the amounts due are paid are liable to withhold the flat-rate income tax on interest income. The tax is charged on the day of placing the amounts due at the disposal of the Omnibus Account holder.

Pursuant to Art. 30a.2a of the PIT Act, with respect to income (revenue) from interest transferred to taxpayers holding rights attached to securities registered in Omnibus Accounts whose identity has not been revealed to the tax remitter in accordance with the Act on Trading in Financial Instruments, a 19% flat-rate tax is withheld by the tax remitter (under Art. 41.10 of the PIT Act the entity operating the Omnibus Account) from the aggregate income (revenue) released for the benefit of all such taxpayers through the Omnibus Account holder.

Under Art. 30a.9 of the PIT Act, withholding tax incurred outside Poland (including countries which have not concluded a tax treaty with Poland), up to an amount equal to the tax paid abroad, but not higher than 19 per cent. tax on the interest amount, could be deducted from the Polish tax liability. Double tax treaties can provide other methods of withholding tax settlements.

Other income

Income other than interest derived by a Polish tax resident individual from financial instruments held as non-business assets, qualify as capital income according to Art. 17 of the PIT Act. This income does not cumulate with the general income subject to the progressive tax scale but is subject to a 19 per cent. flat rate tax. The costs of acquiring the securities are recognised at the time the revenue is achieved. In principle, this income should be settled by the taxpayer by 30 April of the year following the year in which the income was earned. No tax or tax advances are withheld by the person making the payments.

Notes held as business assets

If an individual holds the Notes as business assets, in principle, interest and capital gains income should be subject to tax in the same way as other business income. The tax, at 19 per cent. flat rate or the 18 per cent. to 32 per cent. progressive tax rate depending on the choice and meeting of certain conditions by the individual, should be settled by the individual himself/herself.

Polish tax resident corporate income taxpayers

Under Art. 3.1 of the Corporate Income Tax Act dated 15 February 1992 (the **CIT Act**) the entire income of taxpayers who have their registered office or management in Poland is subject to tax obligation in Poland, irrespective of where the income is earned.

The appropriate tax rate is the same as the tax rate applicable to business activity, ie 19 per cent. for a regular corporate income taxpayer or 15 per cent. for small and new taxpayers.

Polish tax resident corporate income taxpayer is subject to income tax in respect of the Notes (both on any capital gains and on interest/discount) following the same principles as those which apply to any other income received from business activity. As a rule, for Polish income tax purposes interest is recognised as revenue on a cash basis i.e. when it is received and not when it has accrued. In respect of capital gains, the cost of acquiring the Notes will be recognised at the time the revenue is achieved.

Although no Polish withholding tax should apply on interest payable to Polish corporate income taxpayers, under specific rules applying to interest income on securities held in Omnibus Accounts, under Art. 26.2a of the CIT Act, for income (revenue) from interest transferred to taxpayers holding rights attached to securities registered in Omnibus Accounts whose identity has not been revealed to the tax remitter in accordance with the Act on Trading in Financial Instruments, a 20 per cent. flat-rate tax is withheld by the tax remitter from the aggregate income (revenue) released for the benefit of all such taxpayers through the Omnibus Account holder. If such tax is withheld for a Polish tax resident corporate income taxpayer, to receive a refund of such tax, the entity should contact its tax adviser.

Non-Polish tax residents: natural person or corporate income taxpayers

Under Art. 3.2a of the PIT Act, natural persons, if they do not reside in Poland, are liable to pay tax only on income (revenue) earned in Poland (limited obligation to pay tax).

Under Art. 3.2 of the CIT Act, in the case of taxpayers who do not have their registered office or management in Poland, only the income they earn in Poland is subject to tax obligation in Poland.

Non-Polish tax resident individuals and corporate income taxpayers are subject to Polish income tax only on income earned in Poland. Until 1 January 2017, there were no provisions clarifying the territory where such income for corporate income tax purposes is generated. Since that date, under Art. 3.3 of the CIT Act, income (revenues) earned in the Republic of Poland by non-residents shall include in particular income (revenues) from:

1. all types of activity pursued in the Republic of Poland, including through a foreign establishment located in the Republic of Poland;
2. immovable property located in the Republic of Poland or rights to such property, including from its disposal in whole or in part, or from the disposal of any rights to such property;
3. securities and derivatives other than securities, admitted to public trading in the Republic of Poland as part of the regulated stock exchange market, including those obtained from the disposal of these securities or derivatives, or the exercise of rights resulting from them;
4. the transfer of ownership of shares in a company, of all rights and obligations in a partnership without legal personality, or units in an investment fund or a collective investment undertaking, in which at least 50% of the value of assets is constituted, directly or indirectly, by immovable properties located in the Republic of Poland, or rights to such immovable properties;
5. the receivables settled, including receivables put at disposal, paid out or deducted, by natural persons, legal persons, or organisational units without legal personality, having their place of residence, registered office, or management board in the Republic of Poland, irrespective of the place of concluding or performing the agreement.

Similar provisions are included in Art. 3.2b of the PIT Act.

It should be noted that the list of incomes (revenues) gained in Poland, as provided in Art. 3.3. of the CIT Act and Art. 3.2b of the PIT Act is not exhaustive, therefore, other income (revenues) may also be considered as earned in Poland.

Given the above, and in particular point 5 of Art. 3.3 of the CIT Act and point 7 of Art. 3.2b of the PIT Act, interest from the Notes should be considered as earned in Poland. Therefore, if the payer of the interest is a tax remitter under Polish tax regulations, the withholding tax at 20 per cent. under Art. 21.1.1 of the CIT Act or at 19 per cent. under Art. 30a.1.2 of the PIT Act should apply.

Under Art. 26.1 of the CIT Act, interest payers, other than individuals not acting within the scope of his/her business activity, should withhold the 20 per cent. Polish tax on any interest payment. Similar provision concerning interest payments to the individuals is provided in Art. 41.4 of the PIT Act.

Under Art. 26.2c.1 of the CIT Act, the entities operating securities accounts for the taxpayers, acting as tax remitters, should withhold this interest income if such interest income (revenue) has been earned in Poland and is connected with securities registered in said accounts, and the interest payment to the taxpayer is made through said entities. Similar provision concerning interest payments to individuals are provided in Art. 41.4d of the PIT Act. It should be noted, however, that although this is not clearly regulated in the Polish tax law, in fact, foreign entities do not act as Polish withholding tax remitters. It is not entirely clear whether in such case (ie if a payment is made through a foreign entity operating securities account and not collecting the withholding tax) the issuer should or should not withhold the tax. Moreover, the relevant double tax treaty (if any) should be verified to check whether Polish taxation applies at all or whether the withholding tax rate is reduced under the given tax treaty.

As indicated above, non-Polish tax resident individuals and corporate income taxpayers are subject to Polish income tax only with respect to their income earned in Poland. With respect to capital gains, in certain circumstances, based on Art. 3.3 of the CIT Act and Art. 3.2b of the PIT Act, such income may be treated as derived in Poland. However, most of the tax treaties concluded by Poland provide for a tax exemption for Polish income tax on capital gains derived from Poland by a foreign tax resident.

To benefit from a tax treaty, a foreign investor should present the relevant certificate of its tax residency. Moreover, many tax treaties provide protection only for beneficial owners. Pursuant to Art. 4a.29 of the CIT Act, beneficial owner shall mean the entity receiving a given receivable for its own benefit, not being an intermediary, representative, trustee, or another entity obliged to transfer the receivable in whole or in part to another entity.

Separate, specific rules apply to interest income on securities held in Omnibus Accounts. Also, in cases where Polish withholding tax should not apply on interest payable to non-Polish tax residents (natural persons or corporate income taxpayers), under specific rules applicable to interest income on securities held in Omnibus Accounts there is a risk that such tax would be withheld. Under Art. 26.2a of the CIT Act, with respect to income (revenue) from interest transferred to taxpayers holding rights attached to securities registered in Omnibus Accounts whose identity has not been revealed to the tax remitter in accordance with the Act on Trading in Financial Instruments, a 20% flat-rate tax is withheld by the tax remitter from the aggregate income (revenue) released for the benefit of all such taxpayers through the Omnibus Account holder. Under Art. 30a.2a of the PIT Act, with respect to income (revenue) from interest transferred to taxpayers holding rights attached to securities registered in Omnibus Accounts whose identity has not been revealed to the tax remitter in accordance with the Act on Trading in Financial Instruments, a 19% flat-rate tax is withheld by the tax remitter from the aggregate income (revenue) released for the benefit of all such taxpayers through the Omnibus Account holder. If such tax is withheld for non-Polish tax resident taxpayers, to receive a refund of such tax, the entity should contact its tax adviser.

If a foreign recipient of income acts through a permanent establishment in Poland to which interest is related, as a matter of principle it should be treated in the same manner as a Polish tax resident.

Tax on civil law transactions

Neither an issuance of Notes nor a redemption of Notes is subject to tax on civil law transactions.

Under Art. 1.1.1.a of the Tax on Civil Law Transactions Act dated 9 September 2000 (the **PCC Act**), agreements for the sale or exchange of assets or proprietary rights are subject to tax on civil law

transactions. The Notes should be considered as representing proprietary rights. Transactions are taxable if their subjects are:

- assets located in Poland or proprietary rights exercisable in Poland;
- assets located abroad or proprietary rights exercisable abroad if the acquirer's place of residence or registered office is located in Poland and the civil law transaction was carried out in Poland.

Although this is not clearly addressed in the law, in principle the Notes should be considered as rights exercisable in Poland, consequently, as a rule, the tax should apply regardless the place a sale or exchange transaction is concluded.

As a rule, the tax at 1% of the market value of the Notes should be payable within 14 days after the sale or exchange agreement is entered into. Tax on the sale of the Notes is payable by the entity acquiring the Notes. In the case of exchange agreements, in principle, tax on civil law transactions should be payable by both parties jointly and severally.

However, under Art. 9.9 of the PCC Act, a PCC exemption applies to the sale of property rights constituting financial instruments (such as the Notes):

- (a) to investment companies and foreign investment companies,
- (b) via investment companies or foreign investment companies,
- (c) as part of organised trading,
- (d) outside organised trading by investment companies and foreign investment companies, if those rights were acquired by those companies under organised trading, within the meaning of the provisions of the Act of 29 July 2005 on Trading in Financial Instruments.

Remitter's liability

Under Art. 30 of the Tax Code dated 29 August 1997, a tax remitter failing to fulfil its duty to calculate, withhold or pay tax to a relevant tax authority is liable for the tax that has not been withheld or that has been withheld but not paid, up to the value of all its assets. The tax remitter is not liable if the specific provisions provide otherwise or if tax has not been withheld due to the taxpayer's fault. In such case, the relevant tax authority will issue a decision concerning the taxpayer's liability.

The above summary is not intended to constitute a complete analysis of all tax consequences relating to the ownership of Notes.

Prospective purchasers of the Notes should consult their own tax advisers concerning the tax consequences of holding Notes in light of their particular circumstances, including the application of the U.S. federal income tax considerations discussed above, as well as the application of state, local, foreign or other tax laws.

SUBSCRIPTION AND SALE

Banco Santander, S.A., J.P. Morgan Securities plc and MUFG Securities EMEA plc, as joint lead managers (the **Joint Lead Managers**) and Powszechna Kasa Oszczędności Bank Polski S.A., as co-manager (the **Co-Manager** and together with the Joint Lead Managers, the **Managers**) have, pursuant to a Subscription Agreement dated 4 July 2017, agreed with the Issuer, subject to the satisfaction of certain conditions, to subscribe the Notes. The Issuer has agreed to pay to the Joint Lead Managers a combined management and underwriting commission and has separately agreed to pay the Co-Manager a commission. In addition, the Issuer has agreed to separately reimburse the Joint Lead Managers and the Co-Manager for certain of their expenses in connection with the issue of the Notes. The Issuer has agreed to indemnify the Managers against certain liabilities in connection with the offer and sale of the Notes. The Subscription Agreement entitles the Joint Lead Managers, on behalf of the Managers, to terminate it in certain circumstances prior to payment being made to the Issuer.

Some of the Managers and their affiliates have engaged in, and may in the future engage in, investment banking and other commercial dealings in the ordinary course of business with the Issuer and/or its affiliates. They have received, or may in the future receive, customary fees and commissions for these transactions.

In addition, in the ordinary course of their business activities, the Managers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Issuer and/or its affiliates. Certain of the Managers or their affiliates that have a lending relationship with the Issuer and/or its affiliates routinely hedge their credit exposure to such entities consistent with their customary risk management policies. Typically, such Managers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in the securities of the Issuer and/or its affiliates, including potentially the Notes. Any such short positions could adversely affect future trading prices of the Notes. The Managers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

General

No action has been or will be taken in any jurisdiction by the Issuer or the Managers that would, or is intended to, permit a public offering of the Notes, or possession or distribution of this Prospectus or any other offering material, in any country or jurisdiction where action for that purpose is required. Persons into whose hands this Prospectus comes are required by the Issuer and the Managers to comply with all applicable laws and regulations in each country or jurisdiction in which they purchase, offer, sell or deliver Notes or have in their possession, distribute or publish this Prospectus or any other offering material relating to the Notes, in all cases at their own expense.

United States

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons, except in accordance with Regulation S or except pursuant to an exemption from the registration requirements of the Securities Act.

Each Manager has severally represented, warranted and undertaken to the Issuer that it has offered and sold, and will offer and sell the Notes (i) as part of their distribution, at any time; and (ii)

otherwise, until 40 days after the later of the commencement of the offering and the Closing Date, only in accordance with Rule 903 of Regulation S under the Securities Act and, accordingly, that (1) neither it nor any of its affiliates (including any person acting on behalf of such Managers or any of its affiliates) has engaged or will engage in any directed selling efforts with respect to the Notes.

Terms used in this paragraph have the meanings given to them by Regulation S.

United Kingdom

Each Manager has severally represented and agreed that:

- (a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000, as amended (the **FSMA**)) received by it in connection with the issue or sale of the Notes in circumstances in which section 21(1) of the FSMA does not apply to the Issuer; and
- (b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

European Economic Area

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a **Relevant Member State**), each Manager has represented and agreed that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the **Relevant Implementation Date**) it has not made and will not make an offer of Notes which are the subject of the offering contemplated by the Prospectus to the public in that Relevant Member State other than:

- (a) to any legal entity which is a qualified investor as defined in the Prospectus Directive;
- (b) to fewer than 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive), subject to obtaining the prior consent of the Joint Lead Managers; or
- (c) in any other circumstances falling within Article 3(2) of the Prospectus Directive,
- (d) provided that no such offer of Notes shall require the Issuer or any Manager to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this selling restriction, the expression an “offer of Notes to the public” in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State.

Poland

This document has not been and will not be notified to or approved by the Polish Financial Supervision Authority (*Komisja Nadzoru Finansowego*). The Notes may not be offered or sold in or into Poland except under circumstances that do not constitute a public offering defined under the Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organised Trading and Public Companies of July 29, 2005, as amended.

Italy

Notes may not be offered, sold or delivered, directly or indirectly in the Republic of Italy and this Prospectus or any other document relating to the Notes has not been distributed and will not be distributed in the Republic of Italy except:

- (a) to qualified investors (*investitori qualificati*), as defined under Article 100 of the Legislative Decree No. 58 of 24 February 1998, as amended (the **Italian Financial Act**), as implemented by Article 26, paragraph 1(d) of the Commissione Nazionale per la Società e la Borsa (**CONSOB**) Regulation No. 16190 of October 29, 2007, as amended (“Regulation No. 16190”), pursuant to Article 34-ter, first paragraph, letter b), of CONSOB Regulation No. 11971 of 14 May 1999, as amended (**Regulation No. 11971**); or
- (b) in other circumstances which are exempted from the rules on public offerings pursuant to Article 100 of the Italian Financial Act and its implementing CONSOB regulations including Regulation No. 11971.

Any such offer, sale or delivery of the Notes or distribution of copies of this Prospectus or any other document relating to the Notes in the Republic of Italy must be: (i) made by investment firms, banks or financial intermediaries permitted to conduct such activities in the Republic of Italy in accordance with the relevant provisions of the Italian Financial Act, Regulation No. 16190, Legislative Decree No. 385 of September 1, 1993 as amended and any other applicable laws or regulation; and (ii) made in compliance with any other applicable laws and regulations or requirement imposed by CONSOB or the Bank of Italy (including the reporting requirements, where applicable, pursuant to Article 129 of the Banking Act and the implementing guidelines of the Bank of Italy, as amended from time to time) or any other Italian authority.

Austria

No prospectus has been or will be approved and/or published pursuant to the Austrian Capital Markets Act (*Kapitalmarktgesetz*), as amended or validly passported to Austria from another EEA member state. Neither this Prospectus nor any other document connected therewith constitutes a prospectus according to the Austrian Capital Markets Act and neither this Prospectus nor any other document connected therewith may be distributed, passed on or disclosed to any other person in Austria, save as specifically agreed with the Managers. No steps may be taken that would constitute a public offering of the Notes in Austria and the offering of the Notes may not be advertised in Austria. Each Manager has severally represented and agreed that it will offer the Notes in Austria only in compliance with the provisions of the Austrian Capital Markets Act and all other laws and regulations in Austria applicable to the offer and sale of the Notes in Austria.

GENERAL INFORMATION

1. Clearing Systems

The Notes have been accepted for clearance through the Clearstream, Luxembourg and Euroclear systems. The Common Code for the Notes is 157796020. The ISIN number for the Notes is XS1577960203.

2. Admission to Trading

The admission of the Notes to the Official List will be expressed as a percentage of their principal amount (exclusive of accrued interest). It is expected that admission of the Notes to the Official List and to trading on the Market will be granted on or before 6 July 2017, subject only to the issue of the Notes. Prior to official listing and admission to trading, however, dealings will be permitted by the London Stock Exchange in accordance with its rules. The total expenses related to the admission to trading of the Notes are estimated to be £4,000.

3. Authorisations

The Issuer has obtained all necessary consents, approvals and authorisations in connection with the issue and performance of the Notes. The issue of the Notes was authorised by resolution of the Management Board of the Issuer passed on 13 June 2017.

4. Significant or Material Adverse Change

There has been no significant change in the financial or trading position of the Issuer since 31 March 2017 and no material adverse change in the financial position or prospects of the Issuer since 31 December 2016.

5. Litigation

Save as disclosed in this Prospectus at pages 72-74 as described under “*Litigation*”, neither the Issuer nor any of its subsidiaries is involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened) which may have, or have had during the 12 months preceding the date of this Prospectus, a significant effect on the financial position or profitability of the Issuer.

6. Documents on Display

For so long as any of the Notes is outstanding, copies of the following documents may be inspected in electronic format at the specified offices of each of the Paying and Transfer Agents during normal business hours:

- (a) the Articles of Association of the Issuer;
- (b) the annual reports and consolidated accounts of the Issuer for the financial years ended 31 December 2015 and 31 December 2016 including, in each case, the audit report relating to such accounts;
- (c) the consolidated interim accounts of the Issuer for the three months ended 31 March 2017;
- (d) the Fiscal Agency Agreement;

- (e) the Deed of Covenant;
- (f) the Issuer-ICSDs Agreement; and
- (g) this Prospectus and any supplements thereto.

English translations of any of the documents listed above which are not in English are also available for inspection as described above.

7. Auditors

Deloitte Polska spółka z ograniczoną odpowiedzialnością sp. k., with its seat in Warsaw, at Al. Jana Pawła II 22, 00-854 Warsaw is the Issuer's auditor.

The consolidated accounts of the Group for the financial years ended 31 December 2015 and 31 December 2016 contained in this Prospectus have been audited by Artur Maziarka, certified auditor, member of the National Chamber of Statutory Auditors (*Krajowa Izba Biegłych Rewidentów*), license no. 90108, acting on behalf of Deloitte, entity authorised to audit financial statements entered on the list kept by the National Chamber of Statutory Auditors under no. 73, in accordance with International Financial Reporting Standards and rendered an unqualified audit report on such accounts of the Group for each of these years. The auditor of the Issuer has no material interest in the Issuer.

8. Conflicts of Interest

There are no potential conflicts of interest between any duties of the members of the administrative, management or supervisory bodies of the Issuer towards the Issuer and their private interests and/or other duties.

FORM OF DEED OF GUARANTEE

This Deed of Guarantee is made on [●]

Between:

- (1) **Tauron Polska Energia S.A.** of ul. ks. Piotra Ściegiennego 3, 40-114 Katowice, Poland, as guarantor (the “**Guarantor**”);

In favour of:

- (2) **The Noteholders** (as defined in the Fiscal Agency Agreement) and the **Accountholders** (as defined in the Agency Agreement) (together the “**Beneficiaries**”).

Whereas:

- (A) The Guarantor has issued the EUR 500,000,000 2.375 per cent. Notes due 2027 (the “**Notes**”) (which expression includes, unless the context otherwise requires, any further Notes issued pursuant to Condition 17 (*Further Issues*) and forming a single series with the Notes).
- (B) A Fiscal Agency Agreement (the “**Agency Agreement**”) was entered into on 5 July 2017 between, among others, the Guarantor, as issuer, and Citibank, N.A., London Branch, as fiscal agent, in relation to the Notes.
- (C) The Notes were issued with the benefit of a Deed of Covenant (the “**Deed of Covenant**”) dated 5 July 2017 executed by the Guarantor, as issuer, relating to the Notes.
- (D) It has been proposed that there will be a substitution of [●] (such substituted issuer, the “**Issuer**”) for the Guarantor as the issuer of the Notes.
- (E) The Beneficiaries shall have the benefit of this Deed of Guarantee.
- (F) The Guarantor agrees herein to guarantee the payment of all sums expressed to be payable from time to time by the Issuer to the Beneficiaries under the Notes and the Deed of Covenant.

This Deed of Guarantee witnesses as follows:

1. Interpretation

1.1 Definitions

Terms used in this Deed of Guarantee but not defined in this Deed of Guarantee have their respective meanings given to them in the Deed of Covenant or the Agency Agreement, as the case may be.

1.2 Contracts (Rights of Third Parties) Act 1999

A person, apart from a Beneficiary, who is not a party to this Deed of Guarantee has no right under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of this Deed of Guarantee.

1.3 Clauses

Any reference in this Deed of Guarantee to a Clause or sub Clause is, unless otherwise stated, to a Clause or sub Clause hereof.

1.4 Headings

Headings shall be ignored in construing this Deed of Guarantee.

1.5 Statutes

Any reference in this Deed of Guarantee to a statute or statutory provision shall, unless the contrary is indicated, be construed as a reference to such statute or statutory provision as the same shall have been or may be amended or re enacted.

1.6 Benefit of Deed of Guarantee

Any Further Notes issued by the Issuer pursuant to Condition 17 (*Further Issues*) on or after the date of this Deed of Guarantee shall have the benefit of this Deed of Guarantee but shall not have the benefit of any subsequent guarantee relating to the Notes (unless expressly so provided in any such subsequent guarantee).

2. Guarantee and Indemnity

2.1 Guarantee

The Guarantor hereby unconditionally and irrevocably guarantees:

- (a) to each Noteholder, the due and punctual payment of all sums from time to time payable by the Issuer in respect of the Notes and the Deed of Covenant (including principal, interest, any premium and any other amounts of whatever nature or additional amount which may become payable under such Note or the Deed of Covenant) as and when the same become due and payable, and accordingly undertakes to pay to such Noteholder, in the manner and currency prescribed by the Conditions for payment by the Issuer in respect of such Note, any and every sum or sums which the Issuer is at any time liable to pay in respect of such Note and which the Issuer has failed to pay; and
- (b) to each Accountholder the due and punctual payment of all sums from time to time payable by the Issuer to such Accountholder in respect of the Direct Rights as and when the same become due and payable, and accordingly undertakes to pay to such Accountholder, in the manner and currency prescribed by the Conditions for payment by the Issuer in respect of the Notes, any and every sum or sums which the Issuer is at any time liable to pay to such Accountholder in respect of the Notes and which the Issuer has failed to pay.

2.2 Indemnity

The Guarantor unconditionally and irrevocably agrees as a primary obligation to indemnify each Beneficiary from time to time from and against any loss, liability or cost incurred by such Beneficiary as a result of any of the obligations of the Issuer under or pursuant to any Note, the Deed of Covenant or any provision thereof being or becoming void, voidable, unenforceable or ineffective for any reason whatsoever, whether or not known to such Beneficiary or any other person, the amount of such loss being the amount which such

Beneficiary would otherwise have been entitled to recover from the Issuer. Any amount payable pursuant to this indemnity shall be payable in the manner and currency prescribed by the Conditions for payments by the Issuer in respect of the Notes. This indemnity constitutes a separate and independent obligation from the other obligations under this Deed of Guarantee and shall give rise to a separate and independent cause of action.

3. Compliance with the Conditions

The Guarantor covenants in favour of each Beneficiary that it will duly perform and comply with the obligations expressed to be undertaken by it in the Conditions.

4. Preservation of Rights

4.1 Principal Obligor

The obligations of the Guarantor hereunder shall be deemed to be undertaken as principal obligor and not merely as surety.

4.2 Continuing Obligations

The obligations of the Guarantor hereunder shall constitute and be continuing obligations notwithstanding any settlement of account or other matter or thing whatsoever and, in particular but without limitation, shall not be considered satisfied by any intermediate payment or satisfaction of all or any of the obligations of the Issuer under or in respect of any Note or the Deed of Covenant and shall continue in full force and effect until all sums due from the Issuer in respect of the Notes and under the Deed of Covenant have been paid, and all other actual or contingent obligations of the Issuer thereunder or in respect thereof have been satisfied, in full. Furthermore, these obligations of the Guarantor are additional to, and not instead of, any security or other guarantee or indemnity at any time existing in favour of any Beneficiary, whether from the Guarantor or otherwise and may be enforced without first having recourse to the Issuer, any other person, any security or any other guarantee or indemnity. The Guarantor irrevocably waives all notices and demands of any kind.

4.3 Waiver of Defences

Neither the obligations of the Guarantor contained herein nor the rights, powers and remedies conferred upon the Beneficiaries by this Deed of Guarantee or by law shall be discharged, impaired or otherwise affected by:

- (a) the winding up, liquidation, bankruptcy, administration, moratorium or dissolution of the Issuer or analogous proceeding in any jurisdiction or any change in its status, function, control or ownership; or
- (b) any of the obligations of the Issuer under or in respect of any Note or the Deed of Covenant being or becoming illegal, invalid, unenforceable or ineffective; or
- (c) any time or other indulgence being granted or agreed to be granted to the Issuer in respect of any of its obligations under or in respect of any Note or the Deed of Covenant; or
- (d) any amendment, novation, supplement, extension (whether of maturity or otherwise) or restatement (in each case, however fundamental and of whatsoever nature) or replacement, waiver or release of, any obligation of the Issuer under or in respect of any Note or the Deed of Covenant or any security or other guarantee or indemnity in

respect thereof including without limitation any change in the purposes for which the proceeds of the issue of the Notes are to be applied and any extension of or any increase of the obligations of the Issuer in respect of any Note or the addition of any new obligations for the Issuer under the Deed of Covenant; or

- (e) any other act, event or omission which, but for this sub clause, might operate to discharge, impair or otherwise affect the obligations expressed to be assumed by the Guarantor herein or any of the rights, powers or remedies conferred upon the Beneficiaries or any of them by this Deed of Guarantee or by law; or
- (f) the making or absence of any demand on the Issuer or any other person for payment.

4.4 Settlement Conditional

- (a) Any settlement or discharge between the Guarantor and the Beneficiaries or any of them shall be conditional upon no payment to the Beneficiaries or any of them by the Issuer or any other person on behalf of the Issuer being avoided or reduced by virtue of any laws, provisions or enactments relating to bankruptcy, insolvency, liquidation or similar laws, provisions or enactments of general application for the time being in force and, in the event of any such payment being so avoided or reduced, the Beneficiaries shall each be entitled to recover the amount by which such payment is so avoided or reduced from the Guarantor subsequently as if such settlement or discharge had not occurred.
- (b) Each Beneficiary may concede or compromise any claim that any payment, security or other disposition is liable to avoidance or restoration.

4.5 Exercise of Rights

No Beneficiary shall be obliged before exercising any of the rights, powers or remedies conferred upon it by this Deed of Guarantee or by law:

- (a) to make any demand of the Issuer, other than the presentation of the relevant Note; or
- (b) to take any action or obtain judgment in any court against the Issuer; or
- (c) to make or file any claim or proof in a winding up or dissolution of the Issuer,

and, save as aforesaid, the Guarantor hereby expressly waives presentment, demand, protest, and notice of dishonour in respect of each Note.

4.6 Deferral of Guarantor's Rights

The Guarantor agrees that, so long as any sums are or may be owed by the Issuer in respect of any Note or under the Deed of Covenant or the Issuer is under any other actual or contingent obligation thereunder or in respect thereof, it shall not exercise any right which it may at any time have by reason of performance by it of its obligations hereunder:

- (a) to be indemnified by the Issuer; and/or
- (b) to claim any contribution from any other guarantor of the obligations of the Issuer under or in respect of any Note or the Deed of Covenant; and/or

- (c) to take the benefit (in whole or in part and whether by way of subrogation or otherwise) of any rights of any Beneficiary against the Issuer in respect of amounts paid by the Guarantor under this Deed of Guarantee or any security enjoyed in connection with any Note or the Deed of Covenant by any Beneficiary; and/or
- (d) to claim, rank, prove or vote as a creditor of the Issuer or its estate in competition with any Beneficiary (or any trustee or agent on its behalf); and/or
- (e) to receive, claim or have the benefit of any payment, distribution or security from or on account of the Issuer, or exercise any right of set off as against the Issuer.

4.7 Pari Passu

The Guarantor undertakes that its obligations hereunder will constitute direct, unconditional, and unsecured obligations and will at least rank *pari passu* and (save for certain obligations required to be preferred by law) equally with all other unsecured obligations (other than subordinated obligations, if any) of the Guarantor from time to time.

4.8 Governmental Consents

The Guarantor represents and warrants that all necessary governmental consents and authorisations for the giving and implementation of this Deed of Guarantee have been obtained.

4.9 No Subrogation

Until all amounts which may be or become payable under the Notes have been irrevocably paid in full, the Guarantor shall not by virtue of this Deed of Guarantee be subrogated to any rights of any Beneficiary or claim in competition with any Beneficiary against the Issuer.

4.10 Rights of Beneficiaries

Until all amounts which may be or become payable by the Issuer under or in connection with the Notes and/or the Deed of Covenant have been irrevocably paid in full, each Beneficiary (or any trustee or agent on its behalf) may:

- (a) refrain from applying or enforcing any other moneys, security or rights held or received by that Beneficiary (or any trustee or agent on its behalf) in respect of those amounts, or apply and enforce the same in such manner and order as it sees fit (whether against those amounts or otherwise), and the Guarantor shall not be entitled to the benefit of the same; and
- (b) hold in a suspense account any moneys received from the Guarantor or on account of the Guarantor's liability under this Deed of Guarantee, without liability to pay interest on those moneys.

5. Deposit of Deed of Guarantee

This Deed of Guarantee shall be deposited with and held by the Fiscal Agent until the date on which all the obligations of the Issuer and the Guarantor under or in respect of the Notes and the Deed of Covenant have been discharged in full following which this Deed of Guarantee shall be promptly returned to the Guarantor. The Guarantor hereby acknowledges the right of every Beneficiary to the production of a copy of this Deed of Guarantee.

6. Stamp Duties and other Taxes

The Guarantor shall pay all stamp, registration and other taxes and duties (including any interest and penalties thereon or in connection therewith) which may be payable on or in connection with the execution and performance of this Deed of Guarantee, and shall indemnify each Beneficiary against any claim, demand, action, liability, damages, cost, loss or expense (including, without limitation, legal fees and any applicable value added tax) which it incurs as a result or arising out of or in relation to any failure to pay or delay in paying any of the same.

7. Benefit of Deed of Guarantee

7.1 Deed Poll

This Deed of Guarantee shall take effect as a deed poll for the benefit of the Beneficiaries from time to time.

7.2 Benefit

This Deed of Guarantee shall enure to the benefit of each Beneficiary and its (and any subsequent) successors and assigns, each of which shall be entitled severally to enforce this Deed of Guarantee against the Guarantor.

7.3 Assignment

The Guarantor shall not be entitled to assign or transfer all or any of its rights, benefits and obligations hereunder. Each Beneficiary shall be entitled to assign all or any of its rights and benefits hereunder.

8. Severability

In case any provision in or obligation under this Deed of Guarantee shall be invalid, illegal or unenforceable in any jurisdiction, the validity, legality and enforceability of the remaining provisions or obligations, or of such provision or obligation in any other jurisdiction, shall not in any way be affected or impaired thereby.

9. Communications

Any communication in respect of this Deed of Guarantee shall be by letter, email or fax and shall be sent to the Guarantor at:

Tauron Polska Energia S.A.

Katowice Business Point
ul. ks. Piotra Ściegiennego 3
40-114 Katowice, Poland

Attention: [NAME], [POSITION]

Email: [EMAIL]

or any other address of which written notice has been given to the Beneficiaries in the manner prescribed for the giving of notices in connection with the Notes. Such communications will take effect, in the case of a letter, when delivered, in the case of a fax, when received and in the case of email, when received. Communications not by letter shall

be confirmed by letter but failure to send or receive the letter of confirmation shall not invalidate the original communication.

10. Currency Indemnity

An amount received or recovered in a currency other than euro (the “**Contractual Currency**”) (whether as a result of, or on the enforcement of, a judgment or order of a court of any jurisdiction, in the winding up or dissolution of the Guarantor or otherwise), by any of the Beneficiaries in respect of any sum expressed to be due to the Beneficiaries from the Guarantor shall only discharge the Guarantor to the extent of the Contractual Currency amount which the recipient is able to purchase with the amount so received or recovered in that other currency on the date of that receipt or recovery (or, if it is not practicable to make that purchase on that date, on the first date on which it is practicable to do so).

If that Contractual Currency amount is less than the Contractual Currency amount expressed to be due to the Beneficiaries under this Deed of Guarantee, the Guarantor shall indemnify the Beneficiaries against any loss sustained by it as a result thereof, upon written demand addressed and delivered to the Guarantor. In any event, the Guarantor shall indemnify the Beneficiaries against the cost of making any such purchase.

11. Governing Law and Jurisdiction

11.1 Governing Law

These Notes, including any non contractual obligations arising out of or in connection with them, are governed by, and shall be construed in accordance with, English law.

11.2 Jurisdiction

The Guarantor agrees for the benefit of each of the Noteholders and the Accountholders that the courts of England shall have exclusive jurisdiction to hear and determine any suit, action or proceedings arising out of or in connection with this Deed of Guarantee (including any non contractual obligations arising out of or in connection with this Deed of Guarantee) (“**Proceedings**”) and, for such purposes, irrevocably submits to the jurisdiction of such courts. Nothing in this paragraph shall (or shall be construed so as to) limit the right of the Noteholders and the Accountholders to take Proceedings in any other court of competent jurisdiction, nor shall the taking of Proceedings in any one or more jurisdictions preclude the taking of Proceedings by the Noteholders and Accountholders in any other jurisdiction (whether concurrently or not) if and to the extent permitted by law.

11.3 Appropriate Forum

For the purpose of Clause 11.2 (*Jurisdiction*), the Guarantor irrevocably waives any objection which it might now or hereafter have to the courts of England being nominated as the forum to hear and determine any Proceedings and agrees not to claim that any such court is not a convenient or appropriate forum.

11.4 Service of Process

The Guarantor agrees that the process by which any Proceedings are commenced in England pursuant to Clause 11.2 (*Jurisdiction*) may be served on it by being delivered to Law Debenture Corporate Services Limited at Fifth Floor, 100 Wood Street, London EC2V 5EX, United Kingdom. If such person is not or ceases to be effectively appointed to accept service of process on behalf of the Guarantor, it shall, on the written demand of any Noteholder or

Accountholder, appoint a further person in England to accept service of process on its behalf and, failing such appointment within 14 days, any Noteholder or Accountholder shall be entitled to appoint such a person by written notice to the Issuer or the Guarantor, as the case may be. Nothing in this paragraph shall affect the right of any Noteholder or Accountholder to serve process in any other manner permitted by law.

11.5 Waiver of Immunity

To the extent permitted by applicable law, the Guarantor hereby irrevocably and unconditionally waives, with respect to this Deed of Guarantee, any right to claim sovereign or other immunity from jurisdiction or execution and any similar defence and irrevocably and unconditionally consents to the giving of any relief or the issue of any process, including, without limitation, the making, enforcement or execution against any property whatsoever (irrespective of its use or intended use) of any order or judgment made or given in connection with any Proceedings.

12. Modification

The Agency Agreement contains provisions for convening meetings of the Noteholders to consider matters relating to the Notes. This Deed of Guarantee may only be amended in the same way as the other Conditions are capable of amendment under Schedule 4 of the Fiscal Agency Agreement and any such amendment of this Deed of Guarantee will constitute a “Reserved Matter” specified in Condition 11(b). Any such modification may be made by supplemental deed poll if sanctioned by an Extraordinary Resolution and shall be binding on all Beneficiaries.

FORM OF DEED POLL FOR SUBSTITUTION

This Deed Poll is made on [●]

By:

- (1) **TAURON POLSKA ENERGIA S.A.** of ul. ks. Piotra Ściegiennego 3, 40-114 Katowice, Poland, as issuer (the “**Existing Issuer**”);
- (2) **TAURON POLSKA ENERGIA S.A.** of ul. ks. Piotra Ściegiennego 3, 40-114 Katowice, Poland, as guarantor (the “**Guarantor**”); and
- (3) [●] a company incorporated under the laws of [●], with its registered office at [●] and company number [●], as substitute issuer (the “**Substitute Issuer**”).

In favour of:

- (4) The **Noteholders** (as defined in the Conditions) and the **Accountholders** (as defined in the Deed of Covenant) (together the “**Beneficiaries**”).

Whereas:

- (A) It has been proposed that in respect of the EUR 500,000,000 2.375 per cent. Notes due 2027 (the “**Notes**”) of the Existing Issuer, there will be a substitution of the Substitute Issuer for the Existing Issuer as the issuer of the Notes.
- (B) A Fiscal Agency Agreement (the “**Agency Agreement**”) was entered into on 5 July 2017 between, among others, the Existing Issuer, as issuer, and Citibank, N.A., London Branch, as fiscal agent, in relation to the Notes.
- (C) The Notes were issued with the benefit of a Deed of Covenant (the “**Deed of Covenant**”) dated 5 July 2017 executed by the Existing Issuer, as issuer, relating to the Notes.
- (D) In connection with the substitution of the Substitute Issuer for the Existing Issuer as the issuer of the Notes, the Guarantor will execute a Deed of Guarantee (the “**Deed of Guarantee**”) to be dated the date hereof and effective as of the Effective Date (as defined below) relating to the Notes, which shall be substantially in the form scheduled to the Agency Agreement as Schedule 10.

This Deed witnesses as follows:

1. Interpretation

1.1 Definitions

Terms used in this Deed Poll but not defined in this Deed Poll have their respective meanings given to them in the Deed of Covenant or the Agency Agreement, as the case may be.

1.2 Contracts (Rights of Third Parties) Act 1999

A person, apart from a Beneficiary, who is not a party to this Deed Poll has no right under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of this Deed Poll.

1.3 Clauses

Any reference in this Deed Poll to a Clause or sub Clause is, unless otherwise stated, to a Clause or sub Clause hereof.

1.4 Headings

Headings shall be ignored in construing this Deed Poll.

1.5 Statutes

Any reference in this Deed Poll to a statute or statutory provision shall, unless the contrary is indicated, be construed as a reference to such statute or statutory provision as the same shall have been or may be amended or re enacted.

1.6 Benefit of Deed of Guarantee

Any Further Notes issued by the Issuer pursuant to Condition 17 (*Further Issues*) on or after the date of this Deed Poll shall have the benefit of this Deed Poll.

2. Substitution

The Substitute Issuer agrees that, with effect from and including the first date on which notice has been given by the Existing Issuer pursuant to Condition 15(a) (*Substitution*) and all the other requirements of such Condition have been met (the “**Effective Date**”), except as set out herein, it shall be deemed to be the “Issuer” for all purposes in respect of the Notes and the Deed of Covenant, and accordingly it shall be entitled to all the rights, and subject to all the obligations and liabilities, on the part of the Existing Issuer contained in them.

3. Release

With effect from and including the Effective Date and without prejudice to the other provisions of this Deed Poll, including in particular, but not limited to, the Guarantor’s obligations as Guarantor under the Notes as provided in the Deed of Guarantee, the Existing Issuer is released from all its direct liabilities, in its capacity as issuer of the Notes, contained in the Notes and the Deed of Covenant.

4. Amendments to Conditions

(a) **Amendments.** the Terms and Conditions of the Notes (as modified with respect to any Notes represented by a Global Note by the provisions of the Global Note, the “**Conditions**”) and the provisions of the Deed of Covenant relating to the Substitute Issuer are amended in the following ways:

- (i) “**Deed of Guarantee**” shall be defined to mean a Deed of Guarantee executed by the Guarantor (as defined below) in connection with the substitution of the Substitute Issuer for the Existing Issuer as the issuer of the Notes;
- (ii) “**Guarantor**” shall be defined to mean Tauron Polska Energia S.A. of ul. ks. Piotra Ściegiennego 3, 40-114 Katowice, Poland;
- (iii) “**Issuer**” shall be defined to mean [●] of [●];

- (iv) the Substitute Issuer shall be deemed to be a “Material Subsidiary” as defined in Condition 6 (*Definitions*) for the purposes under the Conditions;
- (v) Condition 9(b) (*Redemption and Purchase*) shall be replaced with the following:
 - “(b) ***Redemption for Taxation Reasons.*** The Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days’ notice to the Noteholders in accordance with Condition 16 (*Notices*) (which notice shall be irrevocable) at their principal amount, together with interest accrued to (but excluding) the date fixed for redemption, if, immediately before giving such notice:
 - (i) the Issuer has become or will become obliged to pay additional amounts as provided or referred to in Condition 10 (*Taxation*) as a result of any change in, or amendment to, the laws or regulations of [*tax jurisdiction(s) relevant to Issuer as a result of the substitution*] or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the Effective Date; or
 - (ii) the Guarantor has become or will become obliged to pay additional amounts as provided or referred to in Condition 10 (*Taxation*) as a result of any change in, or amendment to, the laws or regulations of the Republic of Poland or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the Effective Date under an instrument by which amounts equivalent to the principal, interest and other amounts due on the Notes are transferred from the Guarantor to the Issuer (an “**Inter-company Loan**”), in order to enable the Issuer to make a payment of principal or interest in respect of the Notes,

and in the case of either (i) or (ii), such obligation cannot be avoided by the Issuer or the Guarantor, as the case may be, taking reasonable measures available to it, *provided that* no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer or the Guarantor, as the case may be, would be obliged to pay such additional amounts if a payment in respect of the Notes were then due, or the Guarantor would be obliged to make any such withholding or deduction with respect to any amount paid by the Guarantor under an Inter-company Loan in order to enable the Issuer to make a payment of principal or interest in respect of the Notes, were such a payment then due.”
- (vi) all references to the Republic of Poland in Condition 8(e) (*Agents*) shall be deemed to include both the Republic of Poland and the jurisdiction of incorporation of the Substitute Issuer;

- (vii) all references to “*the Republic of Poland*” in Condition 10 (*Taxation*) are replaced by references to “*the Republic of Poland and [tax jurisdiction(s) relevant as a result of the substitution]*”;
- (viii) Condition 12(b) (*Breach of other obligations*) shall be replaced with the following:
 - “(b) ***Breach of other obligations.*** The Issuer or the Guarantor does not perform or comply with any one or more of its other obligations in respect of the Notes or the Deed of Guarantee which default is incapable of remedy or, if capable of remedy, is not remedied within 30 days after notice of such default shall have been given to the Issuer or the Guarantor by any Noteholder; or”
- (ix) Condition 12(i) (*Authorisation and Consents*) shall be replaced with the following:
 - “(i) ***Authorisation and Consents.*** Any action, condition or thing (including the obtaining or effecting of any necessary consent, approval, authorisation, exemption, filing, licence, order, recording or registration) at any time required to be taken, fulfilled or done in order to (i) enable the Issuer lawfully to enter into, exercise its rights and perform and comply with its obligations under the Notes, (ii) enable the Guarantor to lawfully to enter into and perform and comply with its obligations under the Deed of Guarantee, (iii) ensure that the obligations of the Issuer under the Notes and the Guarantor under the Deed of Guarantee are legally binding and enforceable and (iv) make the Notes, the Deed of Covenant and the Deed of Guarantee admissible in evidence in the courts of [*Issuer’s jurisdiction*], Poland and England, is not taken, fulfilled or done; or”
- (x) Condition 12(j) (*Illegality*) shall be replaced with the following:
 - “(j) ***Illegality.*** It is or will become unlawful for the Issuer to perform or comply with any one or more of its obligations under any of the Notes or for the Guarantor to perform or comply with any one or more of its obligations under any of the Deed of Guarantee, or the Deed of Guarantee is not (or is claimed by the Guarantor not to be) in full force and effect; or”
- (xi) paragraph (vii) of the definition of “Reserved Matter” in Condition 14(b) (*Reserved Matter*) shall be replaced with the following:
 - “(vii) the Deed of Covenant or Deed of Guarantee is to be modified or cancelled.”
- (b) ***Certain References to the Issuer.*** Notwithstanding anything else in this Deed Poll all references to “the Issuer” contained in the following Conditions shall continue to at all times refer to the Guarantor:
 - (i) Condition 5 (*Negative Pledge*);
 - (ii) the definition of “Group” in Condition 6 (*Definitions*);

- (iii) the definition of “Material Subsidiary” in Condition 6 (*Definitions*);
- (iv) the definition of “Subsidiary” in Condition 6 (*Definitions*);
- (v) the definition of “Change of Control Put Event” in Condition 9(c) (*Change of Control*);
- (vi) Condition 9(d) (*Purchase*);
- (vii) Condition 12(c) (*Cross-acceleration*);
- (viii) Condition 12(d) (*Enforcement Proceedings*);
- (ix) Condition 12(e) (*Security Enforced*);
- (x) Condition 12(f) (*Insolvency*);
- (xi) Condition 12(g) (*Winding-up*); and
- (xii) Condition 12(h) (*Seizure*).

5. **Guarantee**

The Guarantor and the Substituted Issuer agree that the Deed of Guarantee shall be in force in any event on the Effective Date. The Guarantor shall, under the Deed of Guarantee, unconditionally and irrevocably guarantee that, if the Substitute Issuer does not pay any sum payable by it under the Deed Poll or the Notes by the time and on the date specified for such payment (whether on the normal due date, on acceleration or otherwise), the Guarantor shall pay that sum to each Beneficiary as provided in the Deed of Guarantee..

6. **Tax Indemnity**

The Substitute Issuer and the Guarantor jointly and severally agree to indemnify each Noteholder, on an after tax basis, against (a) any tax, duty, assessment or governmental charge that is imposed on such Noteholder by (or by any authority in or of) the jurisdiction of the country of residence of the Substitute Issuer for tax purposes and, if different, of its incorporation with respect to any Note and that would not have been so imposed had the substitution not been made and (b) any tax, duty, assessment or governmental charge, and any cost or expense, relating to the substitution.

7. **Deposit**

This Deed Poll shall be deposited with and held to the exclusion of the Substitute Issuer and the Guarantor by the Fiscal Agent at its specified office for the time being under the Conditions until complete performance of the obligations contained in the Notes, the Deed of Guarantee and the Deed of Covenant relating to them occurs and the Substitute Issuer and the Guarantor hereby acknowledge the right of every Noteholder to production of this Deed Poll and, upon request and payment of the expenses incurred in connection therewith, to the production of a copy hereof certified by the Fiscal Agent to be a true and complete copy.

8. Benefit

8.1 Deed Poll

This Deed Poll shall take effect as a deed poll for the benefit of the Beneficiaries from time to time.

8.2 Benefit

This Deed Poll shall enure to the benefit of each Noteholder and its (and any subsequent) successors and assigns, each of which shall be entitled severally to enforce this Deed Poll against the Substitute Issuer and the Guarantor.

8.3 Assignment

The Existing Issuer, the Substitute Issuer and the Guarantor shall not be entitled to assign or transfer all or any of their respective rights, benefits and obligations hereunder. Each Noteholder shall be entitled to assign all or any of its rights and benefits hereunder.

9. Communications

Any communication in respect of this Deed Poll shall be by letter[[[,/or] email][or fax]]:

in the case of the Substitute Issuer, to it at:

[•]
[•]

Attention: [•]
[Fax: [•]]
[Email: [•]]

in the case of the Existing Issuer, to it at:

Tauron Polska Energia S.A.
Katowice Business Point
ul. ks. Piotra Ściegiennego 3
40-114 Katowice, Poland

Attention: [NAME], [POSITION]
Email: [EMAIL]

in the case of the Guarantor, to it at:

Tauron Polska Energia S.A.
Katowice Business Point
ul. ks. Piotra Ściegiennego 3
40-114 Katowice, Poland

Attention: [NAME], [POSITION]
Email: [EMAIL]

or any other address of which written notice has been given to the Beneficiaries in the manner prescribed for the giving of notices in connection with the Notes. Such communications will take effect, in the case of a letter, when delivered and in the case of email, when received.

Communications not by letter shall be confirmed by letter but failure to send or receive the letter of confirmation shall not invalidate the original communication.

10. Governing Law and Jurisdiction

10.1 Governing Law

This Deed Poll, including any non contractual obligations arising out of or in connection with this Deed Poll, is governed by, and shall be construed in accordance with, English law.

10.2 Jurisdiction

The Existing Issuer, the Guarantor and the Substitute Issuer each agree for the benefit of each of the Beneficiaries that the courts of England shall have exclusive jurisdiction to hear and determine any suit, action or proceedings arising out of or in connection with this Deed Poll (including any non contractual obligations arising out of or in connection with this Deed Poll) (“**Proceedings**”) and, for such purposes, irrevocably submit to the jurisdiction of such courts. Nothing in this paragraph shall (or shall be construed so as to) limit the right of Beneficiaries to take Proceedings in any other court of competent jurisdiction, nor shall the taking of Proceedings in any one or more jurisdictions preclude the taking of Proceedings by Beneficiaries in any other jurisdiction (whether concurrently or not) if and to the extent permitted by law.

10.3 Appropriate Forum

For the purpose of Clause 10.2 (*Jurisdiction*), each of the Existing Issuer, the Guarantor and the Substitute Issuer irrevocably waives any objection which it might now or hereafter have to the courts of England being nominated as the forum to hear and determine any Proceedings and agrees not to claim that any such court is not a convenient or appropriate forum.

10.4 Service of Process

Each of the Existing Issuer, the Guarantor and the Substitute Issuer agrees that the process by which any Proceedings are commenced in England pursuant to Clause 10.2 (*Jurisdiction*) may be served on it by being delivered to Law Debenture Corporate Services Limited at Fifth Floor, 100 Wood Street, London EC2V 7EX, United Kingdom. If such person is not or ceases to be effectively appointed to accept service of process on behalf of such parties, the Existing Issuer, the Guarantor or the Substitute Issuer (as the case may be) shall, on the written demand of any Beneficiary, appoint a further person in England to accept service of process on its behalf and, failing such appointment within 14 days, any Beneficiary shall be entitled to appoint such a person by written notice to the Existing Issuer, the Guarantor or the Substitute Issuer. Nothing in this paragraph shall affect the right of the Beneficiaries to serve process in any other manner permitted by law.

10.5 Waiver of Immunity

To the extent permitted by applicable law, each of the of the Existing Issuer, the Guarantor and the Substitute Issuer hereby irrevocably and unconditionally waives, with respect to this Deed Poll, any right to claim sovereign or other immunity from jurisdiction or execution and any similar defence and irrevocably and unconditionally consents to the giving of any relief or the issue of any process, including, without limitation, the making, enforcement or execution against any property whatsoever (irrespective of its use or intended use) of any order or judgment made or given in connection with any Proceedings.

11. Currency Indemnity

An amount received or recovered in a currency other than euro (the “**Contractual Currency**”) (whether as a result of, or of the enforcement of, a judgment or order of a court of any jurisdiction, in the winding up or dissolution of the Substitute Issuer or otherwise), by any of the Beneficiaries in respect of any sum expressed to be due to the Beneficiaries from the Issuer will only discharge the Issuer to the extent of the Contractual Currency amount which the recipient is able to purchase with the amount so received or recovered in that other currency on the date of that receipt or recovery (or, if it is not practicable to make that purchase on that date, on the first date on which it is practicable to do so).

If that Contractual Currency amount is less than the Contractual Currency amount expressed to be due to the Beneficiaries under this Deed Poll, the Substitute Issuer will indemnify the Beneficiaries against any loss sustained by it as a result thereof, upon the written demand of such Beneficiaries addressed and delivered to the Substitute Issuer. In any event, the Substitute Issuer will indemnify the recipient against the cost of making any such purchase.

12. Modification

The Agency Agreement contains provisions for convening meetings of Noteholders to consider matters relating to the Notes. This Deed Poll may only be amended in the same way as the other Conditions are capable of amendment under Schedule 4 of the Fiscal Agency Agreement and any such amendment of this Deed Poll will constitute a “Reserved Matter” as specified in Condition 11(b). Any such modification may be made by supplemental deed poll if sanctioned by an Extraordinary Resolution and shall be binding on all Beneficiaries.

13. Waiver of Immunity

To the extent permitted by applicable law, each of the Substitute Issuer and the Guarantor hereby irrevocably and unconditionally waives, with respect to this Deed Poll, any right to claim sovereign or other immunity from jurisdiction or execution and any similar defence and irrevocably and unconditionally consents to the giving of any relief or the issue of any process, including, without limitation, the making, enforcement or execution against any property whatsoever (irrespective of its use or intended use) of any order or judgment made or given in connection with any Proceedings.

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CAPITAL GROUP TAURON POLSKA ENERGIA S.A.

**INDEPENDENT AUDITOR'S OPINION
AND REPORT ON THE AUDIT OF
THE CONSOLIDATED FINANCIAL STATEMENTS OF
THE TAURON POLSKA ENERGIA S.A. CAPITAL GROUP
FOR THE YEAR 2015**

**TAURON POLSKA ENERGIA S.A.
CAPITAL GROUP
KATOWICE, UL. KS. PIOTRA
ŚCIEGIENNEGO 3**

**CONSOLIDATED FINANCIAL STATEMENTS
FOR THE 2015 FINANCIAL YEAR**

**WITH
AUDITOR'S OPINION
AND
AUDIT REPORT**

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CONSOLIDATED FINANCIAL STATEMENTS OF THE CAPITAL GROUP FOR THE 2015 FINANCIAL YEAR

REPORT ON THE ACTIVITIES OF THE CAPITAL GROUP FOR THE 2015 FINANCIAL YEAR

AUDITOR'S OPINION

To the Shareholders and the Supervisory Board of TAURON Polska Energia S.A.

We have audited the attached consolidated financial statements of the TAURON Polska Energia S.A. Capital Group (hereinafter: the "Capital Group"), for which TAURON Polska Energia S.A. (hereinafter: the "Parent Company"), with its registered office in Katowice, at ul. ks. Piotra Ściegiennego 3, is the Parent Company. Those financial statements include: consolidated statement of financial position prepared as at 31 December 2015, consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated cash flow statement for the financial year from 1 January 2015 to 31 December 2015 and notes comprising a summary of significant accounting policies and other explanatory information.

Preparation of consolidated financial statements and a report on the activities of the capital group in line with the law is the responsibility of the Management Board of the Parent Company.

The Management Board of the Parent Company and members of its Supervisory Board are obliged to ensure that the consolidated financial statements and the report on the activities of the Capital Group meet the requirements of the Accounting Act of 29 September 1994 (*Journal of Laws* of 2013 item 330, as amended), hereinafter referred to as the "Accounting Act".

Our responsibility was to audit and express an opinion on compliance of the consolidated financial statements with the accounting principles (policy) adopted by the Capital Group and whether the financial statements give a true and fair view of the financial and economic position as well as the financial performance of the Capital Group.

Our audit of the financial statements has been planned and performed in accordance with:

- section 7 of the Accounting Act;
- national auditing standards, issued by the National Council of Statutory Auditors in Poland.

We have planned and performed our audit of the consolidated financial statements in such a way as to obtain reasonable assurance to express an opinion on the financial statements. Our audit included, in particular, verification of the correctness of the accounting principles (policy) applied by the Parent Company and the subsidiaries, verification - largely on a test basis - of the basis for the amounts and disclosures in the consolidated financial statements, as well as overall evaluation of the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

Deloitte.

In our opinion, the audited consolidated financial statements in all material respects:

- give a true and fair view of the information material to evaluation of the economic and financial position of the Capital Group as at 31 December 2015 as well as its financial performance in the financial year from 1 January 2015 to 31 December 2015;
- have been prepared in accordance with the International Accounting Standards, International Financial Reporting Standards and related interpretations published as European Commission regulations, and in all matters not regulated in the standards – in accordance with the provisions of the Accounting Act and its executory provisions;
- comply with the provisions of law applicable to the Parent Company and Capital Group entities which affect the contents of the consolidated financial statements.

The report on the activities of the Capital Group for the 2015 financial year is complete within the meaning of Article 49.2 of the Accounting Act and the Ordinance of the Minister of Finance of 19 February 2009 on current and periodic information published by issuers of securities and the rules of equal treatment of the information required by the laws of non-member states (*Journal of Laws* of 2014 item 133) and consistent with underlying information disclosed in the audited consolidated financial statements.

.....
Artur Maziarka
Key certified auditor
conducting the audit
No. 90108

On behalf of Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. – entity authorized to audit financial statements entered under number 73 on the list kept by the National Council of Statutory Auditors:

.....
Artur Maziarka – Vice-President of the Management Board of Deloitte Polska Sp. z o.o.
— General Partner of Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k.

Warsaw, 8 March 2016

The above audit opinion together with audit report is a translation from the original Polish version. In case of any discrepancies between the Polish and English version, the Polish version shall prevail.

**REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL
STATEMENTS OF THE TAURON POLSKA ENERGIA S.A. CAPITAL GROUP
FOR THE 2015 FINANCIAL YEAR**

I. GENERAL INFORMATION

1. Details of the audited Parent Company

The Parent Company of the Capital Group operates under the business name TAURON Polska Energia S.A. (hereinafter: the "Parent Company"). The Parent Company's registered office is in Katowice, ul. ks. Piotra Ściegiennego 3.

The Parent Company operates as a joint stock company. At present the Parent Company is recorded in the Register of Entrepreneurs kept by the District Court for Katowice-Wschód, VIII Business Division of the National Court Register in Lublin, under number 0000271562.

The Parent Company operates based on the provisions of the Code of Commercial Companies.

As at 31 December 2015, the share capital of the Parent Company equalled PLN 8,762,747 thousand and was divided into 1,752,549,394 shares with a face value of PLN 5 each.

Composition of the Management Board of the Parent Company as at the date of the opinion:

- Remigiusz Nowakowski – Chairman of the Management Board;
- Jarosław Broda – Vice Chairman of the Management Board;
- Kamil Kamiński – Vice Chairman of the Management Board;
- Marek Wadowski – Vice Chairman of the Management Board;
- Piotr Zawistowski – Vice Chairman of the Management Board.

Changes in the composition of the Management Board of the Parent Company during the audited period and until the date of the opinion:

- on 1 October 2015, Mr. Dariusz Lubera was dismissed from the position of Chairman of the Management Board, and Mr. Aleksander Grad and Ms. Katarzyna Rozenfeld were dismissed from the positions of Deputies and their office was revoked on the same day;
- on 1 October 2015, the Supervisory Board appointed Mr. Jerzy Kurella for the position of Chairman of the Management Board, and appointed Mr. Michał Gramatyka and Mr. Henryk Borczyk for the positions of Deputy Chairmen of the Management Board;
- on 1 October 2015, Mr. Stanisław Tokarski and Mr. Krzysztof Zawadzki filed their resignation from the positions of Deputy Chairmen of the Management Board;
- on 10 October 2015, the Supervisory Board appointed Ms. Anna Strzyk and Mr. Piotr Kołodziej for the positions of Deputies;
- on 8 December 2015, Mr. Jerzy Kurella was dismissed from the position of Chairman of the Management Board, and Ms. Anna Strzyk and Mr. Piotr Kołodziej were dismissed from the positions of Deputies;
- on 8 December 2015, the Supervisory Board appointed Mr. Remigiusz Nowakowski for the position of Chairman of the Management Board, and appointed Mr. Jarosław Broda, Mr. Piotr Zawistowski and Mr. Kamil Kamiński for the positions of Deputy Chairmen of the Management Board;
- on 8 January 2016, Ms. Anna Strzyk was dismissed from the position of Deputy Chairperson of the Management Board;
- on 29 January 2016, the Supervisory Board appointed Mr. Marek Wadowski for the position of Deputy Chairman of the Management Board.

2. Structure of the Capital Group

The consolidated financial statements as at 31 December 2015 cover the following entities:

a) The Parent – TAURON Polska Energia S.A.

We have audited the financial statements of the Parent Company for the period from 1 January to 31 December 2015. As a result of our audit, we issued an unqualified opinion on 8 March 2016.

b) Companies subject to full consolidation:

Company	Interest in the share capital (%)	Name of entity that audited the financial statements and type of opinion issued	Balance sheet date of the consolidated entity
TAURON Wytwarzanie S.A.	100%	Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. – unqualified opinion	31 December 2015
TAURON Ekoenergia Sp. z o.o.	100%	Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. – unqualified opinion	31 December 2015
TAURON Dystrybucja S.A.	99.72%	Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. – unqualified opinion	31 December 2015
TAURON Sprzedaż Sp. z o.o.	100%	Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. – unqualified opinion	31 December 2015
TAURON Czech Energy s.r.o.	100%	An opinion on the audit of the Entity had not been issued by the date of this report.	31 December 2015
TAURON Sprzedaż GZE Sp. z o.o.	100%	Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. – unqualified opinion	31 December 2015
TAURON Ciepło Sp. z o.o.	100%	Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. – unqualified opinion	31 December 2015
TAURON Obsługa Klienta Sp. z o.o.	100%	Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. – unqualified opinion	31 December 2015
Polska Energia Pierwsza Kompania Handlowa Sp. z o.o., in liquidation	100%	Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. – qualified opinion	31 December 2015
TAURON Wydobywanie S.A.	100%	Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. – unqualified opinion	31 December 2015
TAURON Sweden Energy AB (publ)	100%	An opinion on the audit of the Entity had not been issued by the date of this report.	31 December 2015
TAURON Dystrybucja Pomiary Sp. z o.o.	99,72%	Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. – opinion with an emphasis of matter	31 December 2015
TAURON Dystrybucja Serwis S.A.	99,72%	Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. – unqualified opinion	31 December 2015

Kopalnia Wapienia Czatkowice Sp. z o.o.	100%	Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. – unqualified opinion	31 December 2015
Biomasa Grupa TAURON Sp. z o.o.	100%	Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. – opinion with an emphasis of matter	31 December 2015

c) Companies subject to consolidation using the equity method:

Company	Interest in the share capital (%)	Name of entity that audited the financial statements and type of opinion issued	Balance sheet date of the consolidated entity
Elektrociepłownia Stalowa Wola S.A.	50%	Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. – opinion with an emphasis of matter	31 December 2015
Elektrownia Blachownia Nowa Sp. z o.o.	50%	Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. – opinion with an emphasis of matter	31 December 2015
TAMEH HOLDING Sp. z o.o.	50%	Not issued	31 March 2016
TAMEH POLSKA Sp. z o.o.	50%	Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. – unqualified opinion	31 December 2015
TAMEH Czech s.r.o	50%	An opinion on the audit of the Entity had not been issued by the date of this report.	31 December 2015

In the audited financial year, the Parent Company included Biomasa Grupa TAURON Sp. z o.o. in the consolidation.

3. Information about the consolidated financial statements for the prior financial year

In 2014, the activities of the Capital Group resulted in a net profit of PLN 1,185,560 thousand. The consolidated financial statements of the Capital Group for 2014 were audited by a certified auditor. The audit was performed by authorized entity Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. The certified auditor issued an unqualified opinion on those financial statements.

The General Shareholders' Meeting which approved the consolidated financial statements for the 2014 financial year was held on 23 April 2015.

The consolidated financial statements for the 2014 financial year were submitted to the National Court Register (KRS) on 29 April 2015.

4. Details of the authorized entity and the key certified auditor acting on its behalf

The entity authorized to audit the financial statements was appointed by the Supervisory Board. The audit of the consolidated financial statements was performed based on the agreement of 7 May 2013 concluded between the Parent Company and Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k., with its registered office in Warsaw, al. Jana Pawła II 19, recorded under number 73 on the list of entities authorized to provide audit services kept by the National Council of Statutory Auditors. On behalf of the authorized entity, the audit of the financial statements was conducted under the supervision of Artur Maziarka, key certified auditor, (No. 90108), in the registered office of the Parent Company from 15 to 19 February 2016 and outside its premises until the date of this opinion.

Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. and the key certified auditor conducting audit confirm that they are authorized to carry out audits and meet the requirements of Article 56 of the Act on statutory auditors and their self-governing body, auditing firms and on public oversight (Journal of Laws of 2009 No. 77, item 649, as amended) to express an unbiased and independent opinion on the consolidated financial statements of the Capital Group.

5. Availability of data and management's representations

The scope of our audit was not limited. During the audit, necessary documents and data as well as detailed information and explanations were provided to the authorized entity and the key certified auditor, as confirmed e.g. in the written representation of the Parent Company's Management Board of 8 March 2016.

II. ECONOMIC AND FINANCIAL POSITION OF THE CAPITAL GROUP

Presented below are the main items from the consolidated statement of comprehensive income, consolidated statement of financial position as well as financial ratios describing the financial performance of the Capital Group and its economic and financial position compared to the prior year.

Main financial data from the consolidated statement of comprehensive income (PLN '000)

	<u>2015</u>	<u>2014</u>
Sales revenue	18,375,224	18,557,479
Operating expenses	(20,248,603)	(16,862,130)
Operating profit (loss)	(1,901,141)	1,830,113
Net profit (loss)	(1,804,215)	1,185,560

Main financial data from consolidated statement of financial position (PLN '000)

Inventory	433,279	527,596
Receivables from clients	1,830,033	1,917,060
Current assets	3,947,248*	6,396,444*
Total assets	32,071,433	34,559,193
Equity	16,048,157	17,996,564
Short-term liabilities (including short-term provisions and accruals)	7,439,326	4,818,537*
Liabilities to suppliers	790,706	916,744
Total liabilities and provisions for liabilities	16,023,276	16,562,629

Profitability and efficiency ratios

	<u>2015</u>	<u>2014</u>
– return on sales	-10%	10%
– net return on equity	-10%	7%
– assets turnover ratio	0.57	0.53
– receivables turnover in days	37	38
– liabilities turnover in days	15	21
– inventory turnover in days	9	11

Liquidity/Net working capital

– debt ratio	50%	48%
– equity to fixed assets ratio	50%	52%
– net working capital (PLN '000)	(3,492,078)	325,172
– current ratio	0.53	1.07
– quick ratio	0.47	0.96

* Current assets include non-current assets classified as held for sale

* Current liabilities include liabilities classified and liabilities held for sale

An analysis of the above figures and ratios indicated the following trends in 2015:

- A decrease in the net return on equity ratios;
- an increase in the assets turnover ratio;
- a decrease in the receivables, liabilities and inventory turnover ratios;
- an increase in the debt ratio and a decrease in the equity to fixed assets ratio;
- a decrease in the net working capital;
- a decrease in the liquidity ratios.

III. DETAILED INFORMATION

1. Information about the audited consolidated financial statements

The audited consolidated financial statements were prepared as at 31 December 2015 and include:

- the consolidated statement of financial position prepared as at 31 December 2015, showing total assets, equity and liabilities of PLN 32,071,433 thousand;
- the consolidated statement of comprehensive income for the period from 1 January 2015 to 31 December 2015, disclosing a net loss of PLN 1,804,215 thousand and a negative total comprehensive income of PLN 1,682,139 thousand;
- the consolidated statement of changes in equity for the period from 1 January 2015 to 31 December 2015, disclosing a decrease in equity of PLN 1,948,407 thousand;
- the consolidated cash flow statement for the period from 1 January 2015 to 31 December 2015, showing a cash outflow of PLN 1,080,356 thousand;
- notes, comprising a summary of significant accounting policies and other explanatory information.

The audit covered the period from 1 January 2015 to 31 December 2015 and focused mainly on:

- verification of the correctness and fairness of the consolidated financial statements prepared by the Management Board of the Parent Company;
- verification of the consolidation documentation;
- evaluation of the correctness of the consolidation methods and procedures applied during consolidation.

2. Consolidation documentation

The Parent Company presented the consolidation documentation including:

- 1) financial statements of controlled entities, adjusted to the accounting principles (policy) applied during consolidation;
- 2) financial statements of controlled entities translated into the Polish currency;
- 3) consolidation adjustments and eliminations necessary for preparation of the consolidated financial statements;
- 4) calculation of non-controlling interest;
- 5) calculation of exchange differences arising from translation of the financial statements of controlled entities denominated in foreign currencies.

The financial statements of the subsidiaries were consolidated using the full method, i.e. full amounts of all relevant items of the financial statements of the Parent Company and the subsidiaries included in consolidation were summed up.

The equity method was applied with respect to associated entities. The value of the Parent Company's interest in the associated companies was adjusted by increases or decreases in the equity of the associated companies attributable to the Parent Company, which occurred in the period covered by consolidation.

The Parent Company preparing the consolidated financial statements has not applied any material simplifications and exceptions to the consolidation principles with respect to the controlled entities.

3. Completeness and correctness of drawing up notes and explanations and the report on the activities of the Capital Group

The Parent Company confirmed the validity of the going concern basis in preparation of the consolidated financial statements. The notes and explanations to the consolidated financial statements give a description of measurement principles regarding assets, equity and liabilities, financial performance and principles of preparation of the consolidated financial statements.

The Parent Company prepared notes in the form of tables to individual items of the consolidated statement of financial position and consolidated statement of profit or loss and consolidated statement of comprehensive income as well as narrative descriptions in line with the requirement of IFRS.

The financial statements have been supplemented with the Parent Company's Management Board report on the activities of the Capital Group in the 2015 financial year. The report contains information required under Article 49.2 of the Accounting Act and the Ordinance of the Minister of Finance of 19 February 2009 on current and periodic information published by issuers of securities and the rules of equal treatment of the information required by the laws of non-member states (*Journal of Laws* of 2014 item 133). We have audited the report with respect to the disclosed information derived directly from the audited consolidated financial statements.

IV. FINAL NOTES

Management Board's Representations

Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. and the key certified auditor received a representation letter from the Parent Company's Management Board, in which the Board stated that the Capital Group complied with the laws in force.

.....

Artur Maziarka
Key certified auditor
conducting the audit
No. 90108

On behalf of Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. – entity authorized to audit financial statements entered under number 73 on the list kept by the National Council of Statutory Auditors:

.....

Artur Maziarka – Vice-President of the Management Board of Deloitte Polska Sp. z o.o.
— General Partner of Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k.

Warsaw, 8 March 2016

TAURON POLSKA ENERGIA S.A. CAPITAL GROUP

**CONSOLIDATED FINANCIAL STATEMENTS
PREPARED ACCORDING TO THE INTERNATIONAL FINANCIAL
REPORTING STANDARDS,
AS ENDORSED BY THE EUROPEAN UNION
FOR THE YEAR ENDED 31 DECEMBER 2015**

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CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Year ended 31 December 2015	Year ended 31 December 2014 (adjusted figures)
Sales revenue	11	18 375 224	18 577 479
Cost of sales, including:	12	(19 140 775)	(15 648 779)
<i>Impairment of non-financial non-current assets</i>	12	(3 594 654)	(50 050)
Profit (loss) on sale		(765 551)	2 928 700
Selling and distribution expenses	12	(488 859)	(549 164)
Administrative expenses	12	(618 969)	(664 187)
Other operating income and expenses	13	(27 762)	114 764
Operating profit (loss)		(1 901 141)	1 830 113
Share in profit/(loss) of joint ventures	22	7 933	(936)
Finance income	14	73 452	85 906
Interest expense on debt	15	(279 673)	(285 474)
Other finance costs	15	(88 342)	(131 394)
Profit (loss) before tax		(2 187 771)	1 498 215
Income tax expense	16	383 556	(312 655)
Net profit (loss)		(1 804 215)	1 185 560
Measurement of hedging instruments		85 932	(20 207)
Foreign exchange differences from translation of foreign entities		595	245
Income tax	16	(16 327)	3 839
Other comprehensive income subject to reclassification to profit or loss		70 200	(16 123)
Actuarial gains/(losses)		64 523	(338 594)
Income tax	16	(12 260)	64 333
Share in other comprehensive income of joint ventures		(387)	–
Other comprehensive income not subject to reclassification to profit or loss		51 876	(274 261)
Other comprehensive income, net of tax		122 076	(290 384)
Total comprehensive income		(1 682 139)	895 176
Net profit (loss):			
Attributable to equity holders of the parent		(1 807 317)	1 180 893
Attributable to non-controlling interests		3 102	4 667
Total comprehensive income:			
Attributable to equity holders of the parent		(1 685 301)	890 879
Attributable to non-controlling interests		3 162	4 297
Basic and diluted earnings (loss) per share (in PLN)	17	(1.03)	0.67

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	As at 31 December 2015	As at 31 December 2014
ASSETS			
Non-current assets			
Property, plant and equipment	18	24 882 817	24 850 942
Goodwill	19	92 059	195 155
Energy certificates and emission allowances for surrender	20.1	510 840	472 500
Other intangible assets	21	1 182 765	1 132 134
Investments in joint ventures	22	418 127	414 584
Loans granted to joint ventures	23	221 803	198 331
Other financial assets	24	211 215	179 052
Other non-financial assets	25	550 375	657 943
Deferred tax asset	16.3	54 184	62 108
		28 124 185	28 162 749
Current assets			
Energy certificates and emission allowances for surrender	20.2	805 388	733 048
Inventories	26	433 279	527 596
Receivables from clients	27	1 830 033	1 917 060
Receivables arising from taxes and charges	28	228 345	159 444
Other financial assets	24	34 334	79 648
Other non-financial assets	25	233 059	221 034
Cash and cash equivalents	29	364 912	1 420 909
Non-current assets and assets of a disposal group classified as held for sale	30	17 898	1 337 705
		3 947 248	6 396 444
TOTAL ASSETS		32 071 433	34 559 193

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION – continued

	Note	As at 31 December 2015	As at 31 December 2014
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Issued capital	31.1	8 762 747	8 762 747
Reserve capital	31.3	11 277 247	10 393 686
Revaluation reserve from valuation of hedging instruments	31.5	(73 414)	(143 019)
Foreign exchange differences from translation of foreign entities		(791)	(1 386)
Retained earnings/(Accumulated losses)		(3 947 461)	(1 045 580)
		16 018 328	17 966 448
Non-controlling interests			
	31.6	29 829	30 116
Total equity		16 048 157	17 996 564
Non-current liabilities			
Debt liabilities	33	4 924 127	7 468 775
Derivative instruments	34	15 156	93 501
Provisions for employee benefits	35	1 735 206	1 948 323
Provisions for disassembly of fixed assets, land restoration and other provisions	36	377 372	165 278
Accruals, deferred income and government grants	39	650 364	662 072
Deferred tax liability	16.3	795 176	1 357 157
Other financial liabilities		86 549	48 986
		8 583 950	11 744 092
Current liabilities			
Debt liabilities	33	3 214 520	644 991
Derivative instruments	34	96 953	102 615
Liabilities to suppliers		790 706	916 744
Capital commitments		766 843	595 550
Provisions for employee benefits	35	172 505	158 954
Provisions for liabilities due to energy certificates and greenhouse gas emission allowances	37	1 018 134	923 056
Other provisions	38	178 044	158 359
Accruals, deferred income and government grants	39	254 337	245 520
Liabilities arising from taxes and charges	40	429 649	355 636
Other financial liabilities		243 713	354 571
Other non-financial liabilities	41	273 922	277 571
Liabilities of a disposal group classified as held for sale	30	–	84 970
		7 439 326	4 818 537
Total liabilities		16 023 276	16 562 629
TOTAL EQUITY AND LIABILITIES		32 071 433	34 559 193

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Note	Equity attributable to the equity holders of the Parent						Non-controlling interests	Total equity
		Issued capital	Reserve capital	Revaluation reserve from valuation of hedging instruments	Foreign exchange differences from translation of foreign entities	Retained earnings/(accumulated losses)	Total		
As at 1 January 2014		8 762 747	9 037 699	(126 651)	(1 631)	(344 999)	17 327 165	466 334	17 793 499
Dividends	31.6, 32	-	-	-	-	(332 984)	(332 984)	(1 163)	(334 147)
Acquisition of non-controlling interests	31.6	-	-	-	-	76 938	76 938	(407 596)	(330 658)
Other transactions with non-controlling shareholders	31.6	-	-	-	-	4 450	4 450	(31 756)	(27 306)
Distribution of prior year profits		-	1 355 987	-	-	(1 355 987)	-	-	-
Transactions with shareholders		-	1 355 987	-	-	(1 607 583)	(251 596)	(440 515)	(692 111)
Net profit		-	-	-	-	1 180 893	1 180 893	4 667	1 185 560
Other comprehensive income		-	-	(16 368)	245	(273 891)	(290 014)	(370)	(290 384)
Total comprehensive income		-	-	(16 368)	245	907 002	890 879	4 297	895 176
As at 31 December 2014		8 762 747	10 393 686	(143 019)	(1 386)	(1 045 580)	17 966 448	30 116	17 996 564
Dividends	31.6, 32	-	-	-	-	(262 882)	(262 882)	(2 787)	(265 669)
Other transactions with non-controlling shareholders	31.6	-	-	-	-	63	63	(662)	(599)
Distribution of prior year profits	31.3	-	883 561	-	-	(883 561)	-	-	-
Transactions with shareholders		-	883 561	-	-	(1 146 380)	(262 819)	(3 449)	(266 268)
Net profit (loss)		-	-	-	-	(1 807 317)	(1 807 317)	3 102	(1 804 215)
Other comprehensive income		-	-	69 605	595	51 816	122 016	60	122 076
Total comprehensive income		-	-	69 605	595	(1 755 501)	(1 685 301)	3 162	(1 682 139)
As at 31 December 2015		8 762 747	11 277 247	(73 414)	(791)	(3 947 461)	16 018 328	29 829	16 048 157

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

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Year ended 31 December 2015	Year ended 31 December 2014
Cash flows from operating activities			
Profit (loss) before taxation		(2 187 771)	1 498 215
Share in (profit)/loss of joint ventures		(7 933)	936
Depreciation and amortization		1 832 780	1 796 917
Impairment losses on property, plant and equipment, intangible assets and goodwill		3 595 895	51 036
Interest and commissions		273 502	286 733
Other adjustments of profit before tax		329	(166)
Change in working capital	42.1	(7 628)	(707 371)
Income tax paid		(111 716)	(308 393)
Net cash from operating activities		3 387 458	2 617 907
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets	42.2	(3 973 510)	(3 464 578)
Purchase of financial assets	42.2	(29 067)	(6 684)
Loans granted	42.2	(26 100)	(18 050)
Other payments		–	(184)
Total payments		(4 028 677)	(3 489 496)
Proceeds from sale of property, plant and equipment and intangible assets		36 554	47 800
Repayment of loans granted		14 500	11 700
Redemption of debt securities		21 732	–
Other proceeds		13 769	43 263
Total proceeds		86 555	102 763
Net cash used in investing activities		(3 942 122)	(3 386 733)
Cash flows from financing activities			
Redemption of debt securities	42.3	(450 000)	(1 148 200)
Repayment of loans and borrowings	42.3	(140 585)	(169 971)
Dividends paid to equity holders of the parent		(262 882)	(332 984)
Interest paid	42.3	(276 305)	(273 392)
Other payments		(44 059)	(156 077)
Total payments		(1 173 831)	(2 080 624)
Proceeds from loans and borrowings	42.3	295 000	–
Issue of debt securities	42.3	310 000	3 653 234
Subsidies received		43 139	63 139
Total proceeds		648 139	3 716 373
Net cash from (used in) financing activities		(525 692)	1 635 749
Net increase/(decrease) in cash and cash equivalents		(1 080 356)	866 923
Net foreign exchange difference		1 169	(177)
Cash and cash equivalents at the beginning of the period	29	1 408 071	541 148
Cash and cash equivalents at the end of the period, of which:	29	327 715	1 408 071
restricted cash	29	206 254	116 568

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

INTRODUCTION

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 Parent was assigned statistical number REGON: 240524697.

Duration of the Parent and 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, Distribution, Sales and other operations, as discussed in detail in Note 10 to these consolidated financial statements.

The consolidated financial statements of the Group cover the financial year ended 31 December 2015 and include comparable data for the year ended 31 December 2014.

These consolidated financial statements were approved for publication by the Management Board on 8 March 2016.

Composition of the Management Board

As at 31 December 2015 the composition of the Management Board was as follows:

- Remigiusz Nowakowski – President of the Management Board;
- Jarosław Broda – Vice-President of the Management Board;
- Kamil Kamiński – Vice-President of the Management Board;
- Anna Striżyk – Vice-President of the Management Board;
- Piotr Zawistowski – Vice-President of the Management Board.

After the balance sheet date, on 8 January 2016 the Supervisory Board dismissed Anna Striżyk from the position of the Vice-President of the Management Board. On 29 January 2016 the Supervisory Board appointed Marek Wadowski to the position of the Vice-President of the Management Board of TAURON Polska Energia S.A.

As at the date of approval of these financial statements for publication the composition of the Management Board has not changed.

As at 31 December 2014 the composition of the Management Board was as follows:

- Dariusz Lubera – President of the Management Board;
- Aleksander Grad – Vice-President of the Management Board;
- Katarzyna Rozenfeld – Vice-President of the Management Board;
- Stanisław Tokarski – Vice-President of the Management Board;
- Krzysztof Zawadzki – Vice-President of the Management Board.

Changes in the composition of the Management Board in the year ended 31 December 2015 have been presented in the Management Board's report on the activities of the TAURON Polska Energia S.A. Capital Group for the 2015 financial year (Section 6.11.1).

2. Composition of the TAURON Capital Group and joint ventures

As at 31 December 2015, TAURON Polska Energia S.A. held direct and indirect interest in the following key subsidiaries:

Item	Company name	Registered office	Operating segment	Interest in the share capital 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.	Jaworzno	Generation	100.00%
3	TAURON Ekoenergia Sp. z o.o.	Jelenia Góra	Generation	100.00%
4	TAURON Ciepło Sp. z o.o.	Katowice	Generation	100.00%
5	TAURON Dystrybucja S.A.	Kraków	Distribution	99.72%
6	TAURON Dystrybucja Serwis S.A. ¹	Wrocław	Distribution	99.72%
7	TAURON Dystrybucja Pomiary Sp. z o.o. ¹	Tarnów	Distribution	99.72%
8	TAURON Sprzedaż Sp. z o.o.	Kraków	Sales	100.00%
9	TAURON Sprzedaż GZE Sp. z o.o.	Gliwice	Sales	100.00%
10	TAURON Czech Energy s.r.o.	Ostrawa, Czech Republic	Sales	100.00%
11	TAURON Obsługa Klienta Sp. z o.o.	Wrocław	Other	100.00%
12	Kopalnia Wapienia Czatkowice Sp. z o.o.	Krzeszowice	Other	100.00%
13	Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. in liquidation	Warszawa	Other	100.00%
14	TAURON Sweden Energy AB (publ)	Sztokholm, Sweden	Other	100.00%
15	Biomasa Grupa TAURON Sp. z o.o. ²	Stalowa Wola	Other	100.00%

¹ TAURON Polska Energia S.A. holds indirect interest in TAURON Dystrybucja Serwis S.A. and TAURON Dystrybucja Pomiary Sp. z o.o. through a subsidiary TAURON Dystrybucja S.A. Additionally, TAURON Polska Energia S.A. uses shares held by TAURON Dystrybucja S.A.

² Business combination of Energopower Sp. z o.o. and Biomasa Grupa TAURON Sp. z o.o. was registered on 1 July 2015.

Additionally, as at 31 December 2015, TAURON Polska Energia S.A. also 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	Elektrownia Blachownia Nowa Sp. z o.o. ¹	Kędzierzyn Koźle	Generation	50.00%
3	TAMEH HOLDING Sp. z o.o. ²	Dąbrowa Górnicza	Generation	50.00%
4	TAMEH POLSKA Sp. z o.o. ²	Dąbrowa Górnicza	Generation	50.00%
5	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. and Elektrownia Blachownia Nowa Sp. z o.o. through a subsidiary TAURON Wytwarzanie S.A.

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

Acquisition of shares in Nowe Brzeszcze Grupa TAURON Sp. z o.o

On 5 August 2015 the District Court for Katowice-Wschód, VIII Business Division, registered RSG Sp. z o.o. (currently: Nowe Brzeszcze Grupa TAURON Sp. z o.o.). TAURON Polska Energia S.A. took up 100% of shares in the new company for the total acquisition price of PLN 102 thousand.

On 1 December 2015 the Extraordinary Shareholders' Meeting of Nowe Brzeszcze Grupa TAURON Sp. z o.o. decided to increase the issued capital of the entity up to PLN 2 100 thousand by way of issuing 20 000 shares with the par value of PLN 100 each and the total par value of PLN 2 000 thousand. All new shares were acquired by the Company for an acquisition price equal to the par value.

On 31 December 2015 Nowe Brzeszcze Grupa TAURON Sp. z o.o. and Spółka Restrukturyzacji Kopalń S.A. entered into an agreement for sale of a specified part of Zakład Górniczy w Brzeszczach, constituting an organized part of the enterprise, as described in details in Note 53 to these consolidated financial statements. As pursuant to the agreement in question all risks and benefits related to the organized part of the enterprise acquired have been transferred to Nowe Brzeszcze Grupa TAURON Sp. z o.o. on 1 January 2016, the data of Nowe Brzeszcze Grupa TAURON Sp. z o.o. will be included in the consolidated financial statements starting from 1 January 2016.

STATEMENT OF COMPLIANCE WITH IFRS

3. Statement of compliance

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

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

The Group companies and the Parent keep their accounting records and prepare financial statements in compliance with the International Financial Reporting Standards, except for Biomasa Grupa TAURON Sp. z o.o., TAURON Czech Energy s.r.o. and TAURON Sweden Energy AB (publ), which keep their accounting records and prepare financial statements in line with accounting policies applicable in Poland, the Czech Republic and Sweden, respectively.

The consolidated financial statements include amendments not recognized in the accounting records of the Group companies, introduced in order to achieve compliance of the consolidated financial statements with IFRS.

4. Going concern

The consolidated financial statements have been prepared in accordance with the going concern principle regarding the Group companies, except for Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. in liquidation. As at the date of approving these financial statements no circumstances have been detected that could put the going concern operation of the remaining Group's companies at risk.

5. Functional and presentation currency

The Polish zloty has been used as the presentation currency of these consolidated financial statements and the functional currency of the Parent and subsidiaries covered by the 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 consolidated financial statements have been presented in the Polish zloty ("PLN") and all figures are in PLN thousand, unless stated otherwise.

SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (POLICIES) APPLIED

6. Material values based on professional judgment and estimates

When applying 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 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. Detailed information regarding assumptions adopted has been presented in notes to these consolidated financial statements, in line with the table below.

Items of the consolidated financial statements posing the risk of material adjustment of the carrying amount of assets and liabilities are presented below.

Item	Value of item to which the estimate figure in the consolidated financial statements applies		Accounting policy description	Details regarding assumptions made and calculation of significant estimates
	2015	2014		
Property, plant and equipment	24 882 817	24 850 942	note 9.2 note 9.6	- Impairment loss – property, plant and equipment in the amount of PLN 3 410 726 thousand. note 18 - Estimated periods of use (depreciation rates) – reduction of depreciation expenses of PLN 6 177 thousand as a result of verification of economic useful lives. note 12.3
Goodwill	92 059	195 155	note 9.3 note 9.6	Impairment loss – goodwill in the amount of PLN 154 998 thousand. note 19
Provisions for employee benefits	1 907 711	2 107 277	note 9.19	Description of actuarial assumptions made along with the sensitivity analysis. note 35
Provision for gas emission obligations	153 083	8 130	note 9.21	Provision calculation. note 37
Provision for obligation to submit energy certificates	865 051	914 926	note 9.21	Provision calculation. note 37
Provision for mine decommissioning costs	111 675	120 704	note 9.20	Provision calculation. note 36
Provision for restoration of land and dismantling and removal of fixed assets	101 244	42 774	note 9.20	Provision calculation. note 36
Provision for onerous contracts	182 877	–	note 9.22	Provision calculation. note 36
Accrued revenue from sales of electricity and distribution services in the Sales segment	16 284 291	16 319 893	note 9.26	Additional assessment of revenue from sales of electricity and distribution services in the Sales segment at the end of the reporting period in the amount of PLN 248 098 thousand. note 11
Deferred tax assets	54 184	62 108	note 9.25	Realisation of deferred tax assets. note 16.3
Derivative instruments:				
Assets	5 684	1 811	note 9.17	Fair value measurement. note 34
Liabilities	112 109	196 116		
Receivables from clients	1 830 033	1 917 060	note 9.12	Impairment loss – as at the end of the reporting period impairment losses on receivables from clients amounted to PLN 278 374 thousand. note 27, note 49.1.1

7. New accounting standards and interpretations

The Group has not decided to early adopt any standards, interpretations or revised standards which have been published but not entered into force yet.

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

According to the Management Board the following revised standards will not materially impact the accounting policies applied.

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

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

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

Standard details	Estimated impact	Effective date specified in the Standard, not endorsed by the EU*
IFRS 9 <i>Financial Instruments</i>		
The standard introduces a business model-based approach to classification and measurement of financial assets and the characteristics of cash flows. IFRS 9 provides a new loss impairment model which requires a more timely disclosure of expected credit losses. The new model also assumes a standardized impairment approach applied to all financial instruments. Moreover, IFRS 9 includes an enhanced general hedge accounting model. The amendments are aimed at adjusting the principles of recognizing risk management issues in financial statements and enable more adequate presentation of actions taken in the financial statements.	Preliminary analysis of IFRS 9's impact on the accounting policies applied indicates one change important for the Group, i.e. replacing the existing classification and measurement models under IAS 39 with a single classification model assuming two categories only, i.e. amortized cost or fair value. IFRS 9 classification complies with the business model applied to manage financial assets. Additionally, the standard introduces a new hedge accounting model which requires detailed risk management disclosures. Evaluation of effects of IFRS 9 on the consolidated financial statements is subject to further analyses due to the large scope of amendments.	1 January 2018

Standard details	Estimated impact	Effective date specified in the Standard, not endorsed by the EU*
IFRS 15 <u>Revenue from Contracts with Customers</u> The Standard specifies how and when revenue is recognized and requires more informative, relevant disclosures. The Standard replaces IAS 18 <i>Revenue</i>, IAS 11 <i>Construction Contracts</i> and a number of interpretations concerning revenue recognition. On 11 September 2015 the IASB published an amendment to the standard introducing a new effective date – annual periods beginning on or after 1 January 2018. The original effective date was set at annual period beginning on or after 1 January 2017.	Preliminary analysis of the effects of IFRS 15 on the accounting policies applied has shown that the new standard changes the method of accounting for contracts with customers, in particular if services and goods are provided under a single contract, which may be particularly important for the Sales segment. The new guidelines of IFRS 15 may result in the need to change the systems, but before the standard enters into force the Group intends to carry out a five-step analysis of contracts with customers including contract (or contract group) identification, indication of individual liabilities, determining prices, assigning them to individual liabilities and revenue recognition. The new standard requires considerably more detailed disclosure of sales and revenue in financial statements. Evaluation of effects of IFRS 15 on the consolidated financial statements is subject to further analyses due to the large scope of amendments.	1 January 2018
IFRS 16 <u>Leases</u> Under IFRS 16 the lessee recognizes the right to use an asset and a lease liability. The right to use the asset is treated similarly to other non-financial assets and is depreciated. Lease liabilities are initially measured at the present value of future lease payments due in the lease period, discounted using the lease rate if its determination is not difficult. If that rate cannot be readily determined, the lessee shall use their incremental borrowing rate. Leases are classified by lessors the same as in accordance with IAS 17 – as an operating lease or a finance lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of the underlying asset. Otherwise a lease is classified as an operating lease. In finance lease the lessor recognizes finance income over the lease term, based on pattern reflecting a constant periodic rate of return on the net investment. A lessor recognizes operating lease payments as income on a straight-line basis, or if more representative of the pattern in which benefit from use of the underlying asset is diminished, another systematic basis.	Preliminary analysis of IFRS 16's impact on the accounting policies applied indicates certain changes important for the Group, i.e. the need to recognize lease assets and lease liabilities for leases currently classified as operating leases in the financial statements and the change in the presentation method applied to finance lease assets, which are currently recognized in property plant and equipment or intangible assets. The Group intends to analyse all lease agreements concluded to identify leases which require recognition of assets and liabilities or presentational changes. As the effective date of IFRS 16 is still distant, and it has not yet been approved by the EU, as at the date of approving these financial statements for publication the Group had not carried out any analyses which would enable determining the impact of the planned changes on the financial statements. The analysis will be conducted in future.	1 January 2019

* Annual periods beginning on or after the date.

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

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
Revised IFRS 10 <i>Consolidated Financial Statements</i> and IAS 28 <i>Investments in Associates and Joint Ventures: Sale or Contribution of Assets between Investor and its Associate or Joint Venture</i>	1 January 2016
Revised IFRS 10 <i>Consolidated Financial Statements</i> , IFRS 12 <i>Disclosure of Interests in Other Entities</i> and IAS 28 <i>Investments in Associates and Joint Ventures – Investment Entities: Applying the Consolidation Exception</i>	1 January 2016
Revised IAS 12 <i>Income Taxes – Recognition of Deferred Tax Assets for Unrealized Losses</i> – explains the method of recognition of a deferred tax asset that is related to a debt instrument measured at fair value.	1 January 2017

Hedge accounting for financial assets and liabilities portfolio is still beyond the scope of IFRS as its principles have not been endorsed by the EU.

8. Changes to accounting policies and presentation changes

The accounting principles (policies) adopted for the preparation of these consolidated financial statements are consistent with those adopted for the preparation of the annual financial statements of the TAURON Polska Energia S.A. Capital Group for the year ended 31 December 2014, except for the application of IFRIC 21 *Leases, applicable to annual periods beginning on or after 17 June 2014* and *Annual Improvements to IFRS (Cycle 2011–2013)*, applicable to annual periods beginning on or after 1 January 2015, whose application did not considerably affect the accounting policies applied according to the Management Board.

In 2015 the Company also decided to change the definition of EBITDA. EBITDA is the operating profit (loss) ("EBIT"), increased by amortization/depreciation and impairment of non-financial assets (before the change EBIT was increased by amortization/depreciation only). The change of the definition of EBITDA was discussed in detail in Note 10 to these consolidated financial statements. The comparable data have been appropriately restated, as presented below.

	Year ended 31 December 2014 (approved figures)	Including impairment losses on non-financial assets in the definition of EBITDA	Year ended 31 December 2014 (adjusted figures)
Operating profit (loss) – EBIT	1 830 113	–	1 830 113
Depreciation/amortization	(1 796 987)	–	(1 796 987)
Impairment	–	(67 444)	(67 444)
EBITDA	3 627 100	67 444	3 694 544

To increase the value of the financial statements to the readers, in the year ended 31 December 2015 the Group decided to change the method of presenting revenue and expenses related to certificates of energy generated using renewable sources in wind and water power plants held by the Group.

	Year ended 31 December 2014 (approved figures)	Change in presentation of income from generation of energy certificates	Year ended 31 December 2014 (adjusted figures)
Sales revenue	18 440 763	136 716	18 577 479
Cost of sales	(15 512 063)	(136 716)	(15 648 779)

9. Significant accounting policies

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

9.1.1. Consolidation

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

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

9.1.2. Business combinations

Taking control over an entity is accounted for using the acquisition method. The acquirer measures identifiable assets acquired and liabilities assumed at fair value as at the acquisition date.

Goodwill is measured as the excess of the aggregate of the consideration transferred to the acquisition, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed measured. The accounting policies on goodwill have been presented in Note 9.3.

9.1.3. Acquisition of businesses under common control of the State Treasury

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

Following the business combination, the continuity of common control is presented in the financial statements, while the fair value remeasurement of net assets (or recognition of new assets) or measurement of goodwill are not presented therein, as none of the entities combined is actually acquired. The financial statements have been prepared in such a manner so as to account for the combined entities as of the date they have become subjected to common control.

For the purpose of settlement of the entities under common control of the State Treasury, the Company uses separate financial statements of an acquired entity in order to determine the value of its assets and liabilities. For the purpose of settlement of the entities under common control of the State Treasury within the TAURON Capital Group, the Company uses consolidated financial statements in order to determine the value of assets and liabilities of an acquired subsidiary.

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

Entities acquired in May 2007 were controlled by the State Treasury, which implied that the Company and these entities were under common control of the State Treasury in time of a business combination. Therefore, in the opinion of the company, the transaction meets the definition of a transaction under common control, hence it has been excluded from the scope of IFRS 3.

9.2. Property, plant and equipment (Note 18)

Key fixed assets in individual segments:

- Generation:
 - boilers with accessories, turbines with generators, transformers and thermal stations as well as equipment used for purposes of fuel unloading and transportation, pumping stations and sulphur-recovery facilities;
 - thermal stations, equipment used for purposes of fuel unloading and transportation as well as pumping stations and water treatment facilities;
 - wind farms, water turbine sets as well as weirs and dams.
- Distribution: power lines and stations. Power lines are located on the area of 58 000 square meters, with the total length of ca. 258 000 km;
- Mining: mechanized lining, pit shafts and dip-headings and fixed assets key for processing are located in the mine walls and the coal processing plant.

Property, plant and equipment are carried at cost less accumulated depreciation charges and impairment losses.

The cost includes:

- acquisition price or manufacturing cost;
- costs directly attributable to the purchase and bringing the asset to the working condition;
- projected cost of disassembly of property, plant and equipment, their removal, and restoration of their current location to its initial condition (accounting policy on provisioning for these costs have been presented in Note 9.20);
- borrowing costs (accounting policy on capitalizing these costs has been presented in Note 9.7).

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

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

Depreciation charges are calculated at cost of the given asset less its residual value. Depreciation is based on a depreciation plan determining the projected useful life of each asset. Property, plant and equipment (including components) are depreciated on a straight-line basis over the period of their economic useful lives, except for land and fixed assets under construction which are not depreciated. Specialized spare parts and service equipment are depreciated over the remaining useful life of the asset they refer to.

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

The following average useful life periods are assumed for fixed assets:

Asset group	Average remaining depreciation period (number of years)
Buildings, premises, civil and water engineering structures	16 years
Plant and machinery	10 years
Other tangible fixed assets	4 years

Property, plant and equipment are tested for impairment if there is any indication of impairment. The impairment tests of property, plant and equipment are carried out in line with the accounting policy presented in Note 9.6.

9.3. Goodwill (Note 19)

Goodwill is carried at its gross value (determined in line with the accounting policies presented in Note 9.1.2) less any accumulated impairment losses. Goodwill is not amortized, but it is tested for impairment on an annual basis or more frequently, if any indications of impairment occur.

As at the acquisition date the goodwill acquired is allocated to each cash-generating unit (CGU) that derives benefits from synergy effects. Operating segment is the lowest level in the Group with attributable goodwill and with goodwill monitored for internal management purposes in the Group (except for the Generation segment). In the Generation segment, however, the lowest level units are CGU related to electricity generation from conventional sources, including cogeneration and co-firing of biomass and other thermal energy (TAURON Wytwarzanie S.A.), CGU related to generation to electricity from renewable sources (TAURON Ekoenergia Sp. z o.o.) and CGU related to generation, distribution and sale of heat (TAURON Ciepło Sp. z o.o.).

Impairment tests of goodwill are carried out in accordance with the accounting principles presented in Note 9.6.

9.4. Energy certificates and gas emission allowances (Note 20)

The item includes:

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

The Group classifies energy certificates and greenhouse gas emission allowances based on the intent regarding their use determined as at the acquisition date (with subsequent reclassification allowed) as:

- short-term intangible assets: energy certificates and greenhouse gas emission allowances, designated for own purposes, if the Group is going to surrender them in order to fulfil its obligation for the current year;
- long-term intangible assets: energy certificates and greenhouse gas emission allowances, designated for own purposes, if the Group is going to surrender them in subsequent years in order to fulfil its obligation;
- inventories: energy certificates and greenhouse gas emission allowances held for sale.

Upon initial recognition, these assets are measured in accordance with the following principles:

	Acquired	Granted / Received free of charge	Release
Energy certificates	Acquisition cost	Fair value as at the receipt date	Weighted average
Greenhouse gas emission allowances	Acquisition cost	Nominal value (i.e. zero)	Obtained free of charge in the first place, subsequently acquired ones (according to weighted average)

Surrender of the energy certificates and greenhouse gas emission allowances held (in correspondence with the settlement of the provision amount) takes place as at the allowances surrender date. Principles of recognizing provisions for obligation to submit energy certificates for cancellation and for liabilities arising from greenhouse gas emissions are presented in Note 9.21.

9.5. Other intangible assets (Note 21)

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

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

Other intangible assets, except for those non-commissioned yet, are amortized over the period of their estimated use. Amortization is calculated based on initial value less residual value.

The residual value is included in the determination of the basis for calculation of amortization charges, if there is an active market regarding a given asset. Residual value of the perpetual usufruct of land has been determined based on market prices. Since the residual value is close to the carrying amount, the perpetual usufruct was not amortized.

The following average useful life periods are assumed for other intangible assets:

Asset group	Average remaining amortization period (number of years)
Development expenses	2 years
Software, concessions, patents, licenses and similar items	4 years
Other	10 years

9.6. Impairment of non-financial non-current assets (Note 18 and Note 19)

Goodwill is tested for impairment each year on a regular basis, and additionally each time if impairment indications occur. Other non-financial non-current assets are tested for impairment if any indication of impairment occurs.

When carrying out impairment tests, the Group estimates the recoverable amount of a given asset or CGU to which the asset belongs. Information regarding the determination of CGU to which the goodwill is allocated is presented in Note 9.3.

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

Impairment loss is allocated to goodwill in the first place; the remaining amount is allocated to individual assets included in a given CGU, up to the share of the carrying amount of each asset in the carrying amount of the CGU. Following the allocation, the carrying amount of an asset cannot be lower than the highest of the three following amounts: fair value less costs of disposal, value in use and zero.

If impairment indications that have resulted in recognition of an impairment loss in the preceding periods cease to exist, the loss is reversed or reduced. Impairment loss on goodwill cannot be reversed.

9.7. Borrowing costs

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

Borrowing costs include interest on specific and general borrowings calculated using the effective interest method and financial charges due to finance lease agreement. Capitalization includes the effective portion of a hedging relationship for contracts that fulfil the terms of hedge accounting, concluded in relation to funding of fixed assets construction (the hedge accounting policy is presented in Note 9.18).

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

General borrowing costs eligible for capitalization are determined applying capitalization rate to expenditure incurred for qualifying assets. Capitalization rate equals the weighted average rate of all borrowing costs related to borrowings of a given period other than specific borrowings.

9.8. Investments in joint ventures (Note 22)

Joint arrangements of the Group are classified as joint ventures. Shares in joint ventures where the Group exercises a joint control are accounted for using the equity method.

When using the equity method, the initial value of investments carried at cost is increased or reduced by the share in gains/losses and in other comprehensive income of a joint venture beginning from the acquisition date (recognized in financial profit/loss or other comprehensive income of the Group, respectively).

Interests in joint ventures are tested for impairment in case indications of possible impairment or impairment loss reversal occur.

9.9. Loans granted to joint ventures (Note 23)

Loans granted to a joint venture do not meet the criteria allowing their classification as net investments in a joint venture. Loans are initially recognized at fair value and measured at amortized cost including impairment as at the end of the reporting period.

9.10. Other non-financial assets (Note 25)

The Group recognizes prepayments, advance payments for fixed assets under construction, intangible assets and inventories as other non-financial assets. Advance payments, as non-monetary items, are not discounted.

Prepayments include in particular costs of production preparation in coal mines, including costs of reinforcing working faces and costs of drilling drifts not classified as property, plant and equipment. These costs are recognized in the amount of incurred expenses and charged to profit/loss based on the monthly stage of completion of the planned extraction of commercial coal from each working face.

9.11. Inventories (Note 26)

Group's inventories include mostly fuel (classified as materials, semi-finished products or finished products) as well as energy certificates and greenhouse gas emission allowances held for sale.

Inventories are measured at the lower of: cost or the net realizable value. Releases of inventories are measured using the weighted average method.

9.12. Receivables from clients (Note 27)

Receivables from clients include those invoiced and accrued as deferred income, not measured or invoiced in the existing settlement system. The accounting policy regarding accrued revenue is presented in Note 9.26.

Receivables from clients are measured at initially invoiced amounts (including the effects of discount, if material), including impairment losses.

As at the balance sheet date, the Group checks its receivables or groups of receivables for objective evidence of impairment. Material objective indications include mostly payment delays, cases when a debtor faces serious financial problems or is declared bankrupt, instigating a lawsuit against a debtor, a material unfavorable change of debtor's economic, legal or market conditions.

If the recoverable amount of an asset is lower than its carrying amount, an allowance is recognized up to the level of the current value of planned cash flows. Receivables from debtors declared bankrupt, claimed at court and to be collected by means of administrative or court enforcement, are fully impaired. In other cases, collective impairment allowances are recognized based on payment delay: 50% for receivables overdue by 6 to 9 months and 100% for receivables overdue by more than 9 months.

Impairment losses on receivables are charged to operating expenses or finance costs, according to the type of receivables.

9.13. Cash and cash equivalents (Note 29)

Cash and cash equivalents include in particular cash at bank and in hand, as well as short-term deposits with primary maturity up to three months.

Cash is recognized in nominal value. The nominal value of funds on bank accounts includes interest accrued by the bank or by the company itself.

9.14. Non-current assets/disposal groups classified as held for sale and the related liabilities (Note 30)

Non-current assets/disposal groups and the related liabilities are classified as held for sale, if their carrying amount is recovered mostly through sale and the sale is considered highly probable. They are recognized at a lower of the two amounts: carrying amount or fair value less costs to sell.

9.15. Issued capital (Note 31.1)

Issued capital is recognized in the amount determined in the by-laws and recorded in the court register of the Parent.

9.16. Debt liabilities (Note 33)

Debt liabilities include bank loans, advances, debt securities and finance lease liabilities.

Debt liabilities are initially measured at fair value less transaction costs. Following initial recognition, these liabilities are measured at amortized cost using the effective interest rate method.

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

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

9.17. Derivative financial instruments (Note 34)

Derivative instruments included in the scope of IAS 39 are classified as financial assets/liabilities measured at fair value through profit or loss, except for those designated as hedging instruments and subject to hedge accounting. Derivatives acquired and maintained for internal purposes, as excluded from the scope of IAS 39, are not measured as at the balance sheet date.

Derivative instruments categorized as “financial assets/liabilities measured at fair value through profit or loss” are measured at fair value, including their market value as at the end of the reporting period. Changes in the fair value of these instruments are charged to profit/loss for the period. Derivatives are recognized as assets if their amount is positive, and as liabilities, if their amount is negative.

As at the balance sheet date, Interest Rate Swaps (IRS) acquired and maintained to hedge against interest rate risk related to issued bonds are subject to hedge accounting (the accounting policy described in details in Note 9.18). Other derivatives held by the Group as at the end of the reporting period are not subject to hedge accounting.

As at the end of the reporting period, the Group held the following derivatives:

Classification	Instrument type
Derivatives subject to hedge accounting	Interest Rate Swaps concluded to hedge against risk related to interest rate changes. Subject to hedge accounting; detailed policy presented in Note 9.18.
Derivatives not subject to hedge accounting, classified as “assets/liabilities measured at fair value through profit or loss”	• forward contracts concluded in order to hedge against risk related to foreign exchange rate fluctuations; • Coupon Cross Currency Swap (CCIRS) concluded in order to hedge against risk related to foreign exchange rate and interest rate fluctuations; • forwards and futures for purchase and sales of emission allowances, energy and other commodities, concluded and maintained for speculation purposes.
Derivatives excluded from the scope of IAS 39	Forwards and futures for purchase and sales of non-financial assets, concluded and maintained for own use purposes.

9.18. Hedge accounting

In order to hedge interest rate risk the Group uses interest rate swaps. The instruments hedge cash flows related to bonds issued. These transactions are subject to hedge accounting.

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

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

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

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

9.19. Provisions for employee benefits (Note 35)

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

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

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

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

Actuarial gains and losses on measurement of defined benefit obligations are fully charged to other comprehensive income (with the accumulated loss charged to retained earnings), while actuarial gains or losses on jubilee benefits are charged to profit or loss.

Other increases and decreases in provisions are charged to operating expenses in case of employees, to other operating expenses/revenue in case of pensioners and individuals entitled to disability allowances and to financial costs in case of the portion pertaining to interest related to provision discounting.

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

9.20. Provisions for dismantling of fixed assets and restoration of land (Note 36)

Provision for mine decommissioning costs

The provision for costs of dismantling fixed assets and restoration of land include mainly the provision for costs of liquidating mines, for which it is required to liquidate the assets and restore the land to its initial state.

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

For coal mines a corresponding entry is made in line with IAS 16 as a fixed asset item of a mine and changes in estimates are disclosed in line with IFRIC 1 Changes in Existing Decommissioning, Restoration and Similar Liabilities, i.e. as provision adjustments and capitalized future mine decommissioning costs. The related accounting policies have been presented in Note 9.2. The unwinding of the discount is recognized in profit or loss.

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

Based on estimates of future costs of dismantling prepared by independent experts, taking into account discounting effect, the Group establishes a provision for estimated costs of dismantling, mainly in relation to wind farms, but also for removing fixed assets and restoring land where the fixed assets were located, in case a liability arises from the acquisition or use of property, plant and equipment items.

9.21. Provision for liabilities due to gas emission allowances and energy certificates

9.21.1. Provision for the obligation to surrender energy certificates (Note 37.1)

Pursuant to the Energy Law and regulations of the Minister of Economy energy companies trading in and selling electricity to end users are obliged to acquire property rights under energy certificates and to present them for redemption or to pay a substitution fee. If in a given year the volume share of electricity specified in the energy certificates in the total sales of electricity to end buyers complies with limits provided for in regulations of the Minister of Economy – such an obligation is considered met.

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

Provision for the obligation to surrender energy certificates is recognized:

- in the portion corresponding to energy certificates held as at the end of the reporting period – in the amount of certificates held (the accounting policy on energy certificates has been presented in Note 9.4)
- in the portion not covered by energy certificates held at the end of the reporting period – first, in the amount resulting from futures and forwards for the purchase of certificates with the intention to fulfil the obligation for the current year; then in the market value of certificates necessary to fulfil the obligation at the end of the reporting period or in the amount of the substitution fee – in accordance with the intention concerning the method of fulfilling the obligation.

The provision is charged to operating expenses.

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

9.21.2. Provision for greenhouse gas emission liabilities (Note 37.2)

Provision for liabilities arising from emission of gas included in the EU Emissions Trading System (EU ETS) is recognized only when the actual emission level in a given year exceeds the volume of emission allowances awarded to the Group free of charge, including allocation of emission allowances to installations belonging to individual operating segments. Group companies included in the EU ETS are obliged to surrender emission allowances for each emitted ton of carbon dioxide to 30 April in the following year.

The accounting policy concerning emission allowances received and awarded has been presented in Note 9.4.

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

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

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

At the emission settlement date, emission allowances classified to current intangible assets with a corresponding entry in provision for gas emission obligations are derecognized.

9.22. Other provisions (Note 36 and 38)

Other provisions include:

- a provision for use of real estate without contract. The Group recognizes provisions for all claims filed by owners of real estate on which distribution systems and heat installations are located in amounts of probable cost of claims due to land owners until the end of the reporting period. The Group does not establish a provision for possible unlodged claims of owners of land with unregulated status. Recognition and derecognition of the provision is charged to other operating revenue or other operating expense and interest accrued is charged to financial revenue or finance costs.
- A provision for onerous contracts. As at the end of the reporting period the Group recognized a provision for onerous contracts. The provision was recognized for the surplus of expected costs of meeting the obligations under the contracts with a jointly-controlled entity over the expected economic benefits to be received under the contracts.
- Other provisions which relate to court cases, counterparty claims or other claims, possible fines resulting from administrative proceedings carried out by the Energy Regulatory Office and the Office for Competition and Consumer Protection and tax settlements.

9.23. Accruals, deferred income and government grants (Note 39)

Under accruals, deferred income and government grants, the Group recognizes mainly deferred connection fees, as well as subsidies to the acquisition of property, plant and equipment. The deferred connection fees regard transactions included in the scope of IFRIC 18 Transfers of Assets from Customers, received prior to 1 July 2009. Since 1 July 2009, in accordance with IFRIC 18, the said connection fees have been recognized under revenue from sales of services.

Subsidies and grants for the acquisition of property, plant and equipment are recognized at the amount of cash received, as other operating income, so as to match the corresponding depreciation costs of property, plant and equipment.

9.24. Liabilities to suppliers, capital commitments and other financial liabilities

Liabilities to suppliers, capital commitments and other financial liabilities are measured at amounts due, since the discount effect is immaterial.

9.25. Current and deferred income tax (Note 16)

Tax Capital Group

A Tax Capital Group agreement for the years 2015–2017 was concluded on 22 September 2014. The Tax Capital Group was registered by the Head of the First Śląski Tax Office in Sosnowiec under a tax identification number NIP 2050004308 pursuant to a decision of 20 November 2014. Major companies constituting the Tax Capital Group since 2015 are: TAURON Polska Energia S.A., TAURON Wytwarzanie S.A., TAURON Dystrybucja S.A., TAURON Sprzedaż Sp. z o.o., TAURON Obsługa Klienta Sp. z o.o., TAURON Ekoenergia Sp. z o.o., TAURON Ciepło Sp. z o.o. and TAURON Wydobywanie S.A.

TAURON Polska Energia S.A., as the Company Representing the Tax Capital Group, is responsible for making payments due to withholding CIT of the Tax Capital Group in compliance with the CIT Act. The share of an individual entity from the Tax Capital Group in CIT prepayments is determined based on a percentage share in the tax base specified by a given entity in the tax base of the Tax Capital Group, excluding entities disclosing a tax loss. If the final amount of an individual entity's share is lower than the preliminary amount transferred to the Representing Company, the Representing Company returns the difference.

Current tax

Income tax recognized in profit or loss for the period includes actual tax charges for the given reporting period of individual Tax Capital Group companies and other Group companies not included in the Tax Capital Group, determined in line with provisions of the CIT Act, any tax adjustments from previous years.

Deferred tax

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

Deferred tax asset is recognized only if its realization is probable, i.e. if a tax profit sufficient to apply the asset will be generated.

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

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

9.26. Sales revenue (Note 11)

Revenue is recognized at the fair value of the payment, received or due, following reduction by VAT, excise duty and other sales taxes, charges, discounts and price reductions.

Revenue for a given financial year includes also accrued revenue, not measured and invoiced yet under the existing settlement system.

9.26.1. Revenue from sales of electricity distribution services in the Distribution segment

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

Electricity distribution services are considered sold upon service provision to the client, as registered by the electricity meter, i.e.:

- for VAT invoices raised by reference to the meter reading – the reading date;
- for VAT invoices raised in a billing period exceeding one month, by reference to the forecast energy consumption – the forecast period;
- for settlement periods specified in contracts with buyers exceeding one month, the revenue includes the revenue which has not been measured and billed. The said revenue is estimated based on the average daily consumption of electricity in prior billing periods and the number of days in the analyzed billing period. Additional sales are measured at the weighted average sales price in the financial year.
- Adjustments to sales revenue are recognized in the period of their identification or in the period to which they relate (only when material).

The Group recognizes revenue relating to fixed assets received free of charge due to rendering services of removing power or heat infrastructure collision in sales revenue. Moreover, since 1 July 2009, the Group has also recognized transactions included in the scope of IFRIC 18 *Transfer of Assets from Customers* in this item. Revenue falling within the scope of IFRIC 18 *Transfer of Assets from Customers*, relating to fixed assets received from clients free of charge and used for connecting such clients to the infrastructure and providing them with constant access to supplies of services, or revenue relating to cash received from clients for acquisition or development of the said fixed assets (connection fees) is carried at the estimated fair value or the amount of cash received and recognized as revenue from sales of services in the period when such assets are actually received from clients.

9.26.2. Revenue from sales of electricity and distribution services in the Sales segment

The Group companies operating in the Sales segment generate revenue from sales of electricity and distribution services to retail and wholesale clients (balancing market sales).

Revenue from sales is determined on the basis of the billed volume and price, including additional assessments.

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

- Additional assessment of sales to clients, unbilled as at the reporting date

Measurement and billing systems showing the electricity volume sold to retail clients are read and invoices are issued mainly in periods not corresponding to reporting periods. Therefore, the Group companies from the Sales segment make appropriate estimates of sales at each reporting date. For clients being parties to complex contracts and sales contracts, the additional assessment is made in the billing systems on the basis of the average daily consumption of electricity between the last actual reading date and the reporting date.

- Additional assessment of sales related to client migration to an integrated billing system

Due to the implementation of an integrated billing system, at each balance sheet date additional assessments have been made to comply with technical requirements of the billing system in relation to earlier meter reading dates and changes to the client billing model versus the previous billing systems.

- Additional assessment of sales resulting from reconciliation of the energy balance

The Group companies from the Sales segment reconcile the energy balance by estimating the non-balancing sales or purchase volume at each reporting date. An amount increasing or reducing revenue from sales of electricity, determined as the product of the estimated non-balancing sales and the weighted average purchase price is also accounted for.

9.26.3. Revenue from wholesale of electricity in the Generation segment

Wholesale of electricity from the generation units managed centrally and as part of trading operations requires the client and the supplier's notification of the volume of electricity declared per each hour to the Transmission System Operator through the centralized computerized Energy Market Information Exchange System, which volume a Generation segment company is obliged to provide under specific contracts as a supplier (sales of energy generated internally or purchased as part of trading operations) or ensure its provision (through energy purchases on the Balancing Market) and the client is obliged to accept. Both the price and volume per each hour is determined on the basis of transactions signed in advance or (in the case of the Polish Power Exchange) recorded electronically. The Transmission System Operator, which kind of guarantees volume settlements, ensures reliability of data concerning the supplied volume of energy. As billing is based on reports generated by the Transmission System Operator, all electricity wholesale invoices are raised following electricity supply, with a clearly determined volume and value of such energy.

Sales invoices relating to electricity supplied to the Balancing Market are raised on the basis of reports from the centralized system balancing sales in the Polish National Power System. Such settlements are made every decade. The invoicing procedure, including the price setting algorithms and principles as well as the due dates, is set out in the Transmission System Operation and Maintenance Instruction approved by the President of the Energy Regulatory Office.

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

9.26.4. Revenue from sales of heat in the Generation segment

Heat is sold under heat sale contracts entered into with institutional clients and consumers.

Institutional clients incur fixed charges for power contracted in advance at rates specified in the tariff in force. Variable charges are imposed periodically, by reference to meter readings on an accrual basis. Meters are read between the first and the last reading date. Charges are imposed regularly, on a monthly basis. Fixed and variable charges are imposed on consumers once a month, in line with the meter reading schedule, on a specific meter reading date, at rates specified in the tariff in force.

Revenue is measured by reference to the tariff in force, the volume of power billed, heat, carrier, lease rate, excess amount and other actual consumption of products. It includes mainly charges for contracted power as well as fixed and variable transmission.

Heat is sold by reference to readings on an accrual basis. Therefore, an additional assessment of sales is made for accounting purposes from the reading date to the end of the month so as to determine the monthly sales volume from the first to the last day of the month. Additional assessments of sales are made separately for each reading point.

9.26.5. Revenue from sales of coal in the Mining segment

Sales of washed fine coal supplied under sales contracts to power and heat and power stations of the TAURON Group represent the intragroup market for the Mining segment. Entities operating in the Company's sales network in the Mining segment, i.e. Authorized Coal Sellers and Coal Sellers, play a strategic role in coal sales. Other sales are made in the form of intra-community supplies and retail sales.

Sales are made on a continuous basis in the form of railroad and truck sales, in accordance with the railroad supply schedule and truck sales advice notes. Sales are made when coal is handed over to the carrier, whether in truck or railroad transport.

Revenue from sales of coal is measured on the basis of sales values resulting from the billed volume and price. Revenue from sales of coal is adjusted, in particular, based on discounts, price reductions as well as accepted volume and quality complaints.

9.27. Operating expense

Operating expense include:

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

Manufacturing costs that can be assigned directly to revenue generated by the Group impact its financial performance for the period to which the revenue pertains.

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

9.28. Transactions in foreign currencies and translation into the presentation currency of foreign operations

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

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

Exchange rates applied for the purpose of balance sheet measurement:

Currency	31 December 2015	31 December 2014
USD	3.9011	3.5072
EUR	4.2615	4.2623
CZK	0.1577	0.1537

As at the reporting date exchange differences from translation and settlement are recognized through profit or loss in the financial revenue (or cost), except for those capitalized in assets.

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

- assets and liabilities are translated to the presentation currency at the average rate published by the National Bank of Poland as at the reporting date;
- revenue and expenses have been translated at the rate of the National Bank of Poland published on the transaction date or the average rate for a given period, if no significant exchange rate fluctuations occurred in the period;
- exchange differences from translation have been recognized in other comprehensive income.

9.29. Statement of cash flows

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

EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 settles 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 clients, other financial receivables and cash and cash equivalents, which do represent segment assets.

Segment liabilities do not include deferred tax, income tax liability or financial liabilities, except for payables to suppliers, investment liabilities and payroll liabilities, which represent segment liabilities.

The Group's financing (including financial expense and revenue) 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 the reporting operating segments.

The Management Board separately monitors operating results of the segments to take decisions on how to allocate the resources, to evaluate 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 considered by the Group the profit/(loss) on continuing operations before deducting taxes, finance income and finance cost, i.e. operating profit (loss). In the year ended 31 December 2015, the Management Board of the Company decided to change the definition of EBITDA. In prior periods, EBITDA had been defined by the Group as EBIT increased by amortization/depreciation. The definition of EBITDA has been changed to clearly describe the method of calculating this figure by the Group in line with the generally applied investors' practice. EBITDA reported in compliance with the changed definition will be less sensitive to one-off events, because recognition and reversal of impairment losses are of non-repetitive nature. Consequently, the Management Board decided that the new definition of EBITDA, accounting for impairment losses for non-financial assets, will ensure higher clarity and comparability of financial data presented by individual entities, hence increasing the value for readers of the financial statements. Comparable data were appropriately restated.

In the year ended 31 December 2015 the Management Board decided to no longer distinguish the following operating segments: Renewable Sources of Energy, Heat and Customer Service. The Management Board monitors performance of the Generation segment encompassing all companies generating power and heat from conventional and renewable sources. Activities which used to be included in the Customer Service segment have been reclassified to other business activities of the Group. Comparable data were appropriately restated.

Renewable Sources of Energy and Heat segments have been combined with the Generation segment to allocate resources more efficiently, assess performance of the operations related to generating power from renewable sources and in cogeneration, which were presented in separate segments before. Moreover, the former Customer Service segment provides services mainly to the Capital Group companies, hence generating very insignificant revenue and profit from transactions outside the Group, therefore the data added no informative value for the readers of the Group's financial statements. The former operating segments Renewable Sources of Energy, Heat and Customer Service did not exceed quantitative thresholds specified in IFRS 8, which, if met, would require presenting the related financial data separately.

Additionally, the Group presents geographic areas of operations not included in segment reporting.

The Group's reporting format for the period from 1 January 2015 to 31 December 2015 and for the comparative period was based on the following operating segments:

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

* Entities recognized with the equity method.

In addition to the key operating segments listed above, the TAURON Group also conducts operations in quarrying stone (including limestone) for the power industry, metallurgy, construction and highway engineering industry as well as in the area of production of sorbents for use in wet 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. and Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. in liquidation are also treated as other activities of the Group.

10.1. Operating segments

Revenue, profit or loss, assets and liabilities of individual segments of the Group for the years ended 31 December 2015 and 31 December 2014 have been presented below.

Year ended 31 December 2015	Mining	Generation	Distribution	Sales	Other	Unallocated items/ Eliminations	Total
Revenue							
Sales to external customers	459 304	2 226 869	3 006 443	12 597 692	84 916	–	18 375 224
Inter-segment sales	746 640	3 149 411	3 443 831	3 386 447	843 037	(11 569 366)	–
Segment revenue	1 205 944	5 376 280	6 450 274	15 984 139	927 953	(11 569 366)	18 375 224
Profit/(loss) of the segment	(104 328)	(3 477 076)	1 371 577	369 604	32 596	(6 379)	(1 814 006)
Unallocated expenses	–	–	–	–	–	(87 135)	(87 135)
EBIT	(104 328)	(3 477 076)	1 371 577	369 604	32 596	(93 514)	(1 901 141)
Share in profit/(loss) of joint ventures	–	7 933	–	–	–	–	7 933
Net finance income (costs)	–	–	–	–	–	(294 563)	(294 563)
Profit/(loss) before income tax	(104 328)	(3 469 143)	1 371 577	369 604	32 596	(388 077)	(2 187 771)
Income tax expense	–	–	–	–	–	383 556	383 556
Net profit/(loss) for the year	(104 328)	(3 469 143)	1 371 577	369 604	32 596	(4 521)	(1 804 215)
Assets and liabilities							
Segment assets	1 657 407	10 370 286	15 974 893	2 706 907	478 618	–	31 188 111
Investments in joint ventures	–	418 127	–	–	–	–	418 127
Unallocated assets	–	–	–	–	–	465 195	465 195
Total assets	1 657 407	10 788 413	15 974 893	2 706 907	478 618	465 195	32 071 433
Segment liabilities	537 234	1 735 686	2 505 890	1 652 586	303 352	–	6 734 748
Unallocated liabilities	–	–	–	–	–	9 288 528	9 288 528
Total liabilities	537 234	1 735 686	2 505 890	1 652 586	303 352	9 288 528	16 023 276
EBIT	(104 328)	(3 477 076)	1 371 577	369 604	32 596	(93 514)	(1 901 141)
Depreciation/amortization	(113 473)	(647 963)	(992 771)	(10 876)	(67 607)	–	(1 832 690)
Impairment	8	(3 583 864)	(7 781)	–	(117)	–	(3 591 754)
EBITDA	9 137	754 751	2 372 129	380 480	100 320	(93 514)	3 523 303
Other segment information							
Capital expenditure*	211 458	1 934 229	1 924 886	4 604	100 293	–	4 175 470

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

Year ended 31 December 2014 (adjusted figures)	Mining	Generation	Distribution	Sales	Other	Unallocated items/ Eliminations	Total
Revenue							
Sales to external customers	486 545	2 965 705	2 678 276	12 352 225	94 728	–	18 577 479
Inter-segment sales	707 479	1 997 946	3 396 370	2 925 226	775 307	(9 802 328)	–
Segment revenue	1 194 024	4 963 651	6 074 646	15 277 451	870 035	(9 802 328)	18 577 479
Profit/(loss) of the segment	(6 829)	72 093	1 209 344	582 307	56 593	(11 442)	1 902 066
Unallocated expenses	–	–	–	–	–	(71 953)	(71 953)
EBIT	(6 829)	72 093	1 209 344	582 307	56 593	(83 395)	1 830 113
Share in profit/(loss) of joint ventures	–	(936)	–	–	–	–	(936)
Net finance income (costs)	–	–	–	–	–	(330 962)	(330 962)
Profit/(loss) before income tax	(6 829)	71 157	1 209 344	582 307	56 593	(414 357)	1 498 215
Income tax expense	–	–	–	–	–	(312 655)	(312 655)
Net profit/(loss) for the year	(6 829)	71 157	1 209 344	582 307	56 593	(727 012)	1 185 560
Assets and liabilities							
Segment assets	1 742 510	12 745 464	15 012 125	3 715 551	459 596	–	33 675 246
Investments in joint ventures	–	414 584	–	–	–	–	414 584
Unallocated assets	–	–	–	–	–	469 363	469 363
Total assets	1 742 510	13 160 048	15 012 125	3 715 551	459 596	469 363	34 559 193
Segment liabilities	706 921	1 672 567	2 457 586	1 489 054	323 730	–	6 649 858
Unallocated liabilities	–	–	–	–	–	9 912 771	9 912 771
Total liabilities	706 921	1 672 567	2 457 586	1 489 054	323 730	9 912 771	16 562 629
EBIT	(6 829)	72 093	1 209 344	582 307	56 593	(83 395)	1 830 113
Depreciation/amortization	(105 241)	(668 318)	(947 792)	(25 906)	(49 730)	–	(1 796 987)
Impairment	(8)	(52 392)	(15 152)	–	108	–	(67 444)
EBITDA	98 420	792 803	2 172 288	608 213	106 215	(83 395)	3 694 544
Other segment information							
Capital expenditure*	188 897	855 029	1 934 781	5 928	104 957	–	3 089 592

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

10.2. Geographic areas of operations

The majority of the Group's business operations is carried out in Poland. In the years ended 31 December 2015 and 31 December 2014 export sales amounted to PLN 469 756 thousand and PLN 487 453 thousand, respectively.

11. Sales revenue

	Year ended 31 December 2015	Year ended 31 December 2014 (adjusted figures)
Sale of goods for resale, finished goods and materials without elimination of excise	12 191 724	12 785 392
Excise	(425 691)	(453 850)
Sale of goods for resale, finished goods and materials, of which:	11 766 033	12 331 542
Electricity	10 099 333	10 503 015
Heat energy	613 660	629 766
Energy certificates and greenhouse gas emission allowances	386 211	354 247
Coal	439 608	470 519
Furnace blast and compressed air	56	230 544
Other goods for resale, finished goods and materials	227 165	143 451
Rendering of services, of which:	6 552 945	6 193 716
Distribution and trade services	6 184 958	5 816 878
Connection fees	124 866	122 594
Maintenance of road lighting	116 042	111 634
Other services	127 079	142 610
Other revenue	56 246	52 221
Total sales revenue	18 375 224	18 577 479

The revenue from sale of furnace blast and compressed air decreased because in December 2014 Zakład Wytwarzania Nowa was contributed in kind by the TAURON Group to TAMEH POLSKA Sp. z o.o., being a part of a joint arrangement. Zakład Wytwarzania Nowa was a major provider of the Group's products in question in the comparable period.

Additional assessment of revenue from sales of electricity and distribution services in the Sales segment

Additional assessment of the revenue from the sale of electricity and distribution services have been discussed in Note 9.26 Sales revenue.

As at 31 December 2015 additionally assessed revenue from sale of electricity and distribution services in the Sales segment reached PLN 248 098 thousand and, when reversed estimations from the prior year have been accounted for, the impact on the profit or loss for the year has reached PLN 95 390 thousand.

12. Cost of sales

12.1. Expenses by type

	Year ended 31 December 2015	Year ended 31 December 2014 (adjusted figures)
Costs by type		
Depreciation of property, plant and equipment and amortization of intangible assets	(1 832 690)	(1 796 987)
Impairment of property, plant and equipment and intangible assets	(3 598 926)	(51 636)
Materials and energy	(1 848 777)	(2 084 545)
Maintenance and repair services	(382 641)	(416 141)
Distribution services	(1 706 894)	(1 541 950)
Other external services	(673 161)	(736 375)
Taxes and charges	(770 492)	(692 189)
Employee benefits expense	(2 560 784)	(2 795 472)
Allowance for doubtful debts	(29 461)	(36 218)
Other	(130 155)	(139 718)
Total costs by type	(13 533 981)	(10 291 231)
Change in inventories, prepayments, accruals and deferred income	(164 328)	61 872
Cost of goods produced for internal purposes	610 506	597 273
Selling and distribution expenses	488 859	549 164
Administrative expenses	618 969	664 187
Cost of goods for resale and materials sold	(7 160 800)	(7 230 044)
Cost of sales	(19 140 775)	(15 648 779)

12.2. Employee benefits expenses

	Year ended 31 December 2015	Year ended 31 December 2014
Wages and salaries	(1 952 987)	(2 003 756)
Social security costs	(380 096)	(394 979)
Jubilee bonuses	(19 367)	(137 866)
Social Fund	(56 215)	(59 782)
Post-employment benefit expenses, of which:	(31 863)	(72 537)
Provision for retirement, disability and similar benefits	(11 824)	(7 513)
Coal allowances and special electricity rates and charges	32 287	(1 514)
Social Benefits Fund	16 387	(1 858)
Contributions to employee retirement plans	(68 713)	(61 652)
Voluntary termination scheme	(46 172)	(42 809)
Other employee benefit expenses	(74 084)	(83 743)
Employee benefits expenses, of which:	(2 560 784)	(2 795 472)
Items included in cost of sales	(1 705 021)	(1 841 096)
Items included in selling and distribution expenses	(226 328)	(276 414)
Movement in stock of finished goods	(5 941)	(93 151)
Items included in administrative expenses	(376 309)	(358 789)
Items included in cost of goods produced for internal purposes	(247 185)	(226 022)

A decrease in post-employment benefit costs is related mostly to derecognition of a provision for the Social Benefits Fund and for coal allowances in a Mining segment company. A reduction in the costs of provisions for jubilee bonuses is related to a change in the discount rate adopted for the purposes of actuarial valuation. The above changes have been described in detail in Note 35.1 hereto.

12.3. Depreciation and amortization charges and impairment losses

	Year ended 31 December 2015	Year ended 31 December 2014
Items included in cost of sales:	(5 337 505)	(1 748 760)
Depreciation of property, plant and equipment	(1 703 932)	(1 660 950)
Impairment of property, plant and equipment	(3 437 907)	(49 256)
Amortization of intangible assets	(36 909)	(37 573)
Impairment of intangible assets	(1 749)	(794)
Impairment of goodwill	(154 998)	–
Other	(2 010)	(187)
Items included in selling and distribution expenses:	(33 291)	(42 786)
Depreciation of property, plant and equipment	(16 999)	(28 513)
Amortization of intangible assets	(16 292)	(14 273)
Items included in administrative expenses:	(42 354)	(41 505)
Depreciation of property, plant and equipment	(25 286)	(23 049)
Impairment of property, plant and equipment	(2 262)	(1 327)
Amortization of intangible assets	(14 806)	(17 057)
Impairment of intangible assets	–	(72)
Items included in cost of goods produced for internal purposes:	(18 466)	(15 572)
Depreciation of property, plant and equipment	(18 117)	(15 380)
Amortization of intangible assets	(349)	(192)
Total depreciation/amortization expense and impairment, of which:	(5 431 616)	(1 848 623)
Depreciation and amortization	(1 832 690)	(1 796 987)
Impairment	(3 598 926)	(51 636)

An increase in costs of impairment losses on property, plant and equipment and on goodwill is related to the Group's having recognized impairment losses on property, plant and equipment and on goodwill of the Generation segment companies based on impairment tests. The procedure has been described in detail in Notes 18 and 19 hereto.

Depreciation and amortization rates

Following the review of useful lives of fixed assets and intangible assets carried out in 2015 amortization and depreciation costs were reduced in 2015 (PLN 6 177 thousand), with the following impact on individual segment costs:

- a decrease in amortization and depreciation costs in the Mining segment of PLN 1 744 thousand;
- an increase in amortization and depreciation costs in the Generation segment of ca. PLN 5 567 thousand;
- a decrease in amortization and depreciation costs in the Distribution segment of ca. PLN 10 000 thousand.

The review of the economic useful lives in other segments did not considerably affect depreciation and amortization costs in 2015.

13. Other operating income and expenses

	Year ended 31 December 2015	Year ended 31 December 2014
Penalties, fines, compensations received or receivable	28 043	27 530
Surplus of provisions (recognized)/derecognized	(12 616)	44 672
Subsidies/grants and revenue representing the equivalent of amortization/depreciation charges on subsidies/grants to fixed assets or fixed assets received free of charge	39 404	25 335
Surplus of shares taken up in a joint venture over the value of contributed assets	–	38 965
Derecognition of actuarial provisions for the existing pensioners and disability pensioners in the Mining segment	45 557	–
Other	43 878	32 109
Total other operating income	144 266	168 611
Loss on the disposal of property, plant and equipment/intangible assets and costs of damages to non-current assets	(14 973)	(17 602)
Write-off for abandoned investments and production as well as liquidated materials	(81 540)	(1 826)
Costs of court proceedings, fines and damages	(12 322)	(12 659)
Other	(63 193)	(21 760)
Total other operating expenses	(172 028)	(53 847)
Total other operating income and expenses	(27 762)	114 764

An increase in the costs of writing off discontinued investments is related to the write off of capitalized costs of drilling drifts and reinforcing working faces in the amount of PLN 78 610 thousand due to loss of economic use.

An increase in other operating expenses vs. the comparative data results mostly from settlement of a shortage in the inventory volume of coal and semi-finished products of PLN 39 084 thousand detected during a physical count in TAURON Wydobycie S.A.

14. Finance income

	Year ended 31 December 2015	Year ended 31 December 2014
Income from financial instruments, of which:	68 765	78 155
Interest income	60 385	51 315
Dividends	4 684	3 931
Measurement of derivative instruments	2 415	–
Foreign exchange differences	524	–
Gain on the disposal of investments	757	22 909
Other finance income	4 687	7 751
Total finance income	73 452	85 906

15. Finance costs

	Year ended 31 December 2015	Year ended 31 December 2014
Financial instrument costs, of which:	(310 271)	(328 555)
Interest costs	(279 673)	(285 474)
Surplus of impairment losses recognised	(9 609)	(1 878)
Measurement of derivatives	–	(12 236)
Foreign exchange losses	–	(14 340)
Commission relating to borrowings and debt securities	(12 514)	(14 013)
Net costs from realized derivative instruments	(8 475)	(614)
Other finance costs, of which:	(57 744)	(88 313)
Interest on employee benefits	(44 491)	(64 096)
Other finance costs	(13 253)	(24 217)
Total finance costs, including recognized in the statement of comprehensive income:	(368 015)	(416 868)
Interest expense on debt	(279 673)	(285 474)
Other finance costs	(88 342)	(131 394)

16. Income tax

16.1. Tax expense

	Year ended 31 December 2015	Year ended 31 December 2014
Current income tax	(206 255)	(238 340)
Current income tax expense	(233 398)	(258 363)
Adjustments to current income tax from previous years	27 143	20 023
Deferred tax	589 811	(74 315)
Income tax expense in profit/(loss)	383 556	(312 655)
Income tax expense relating to other comprehensive income	(28 587)	68 172

16.2. Reconciliation of the effective tax rate

	Year ended 31 December 2015	Year ended 31 December 2014
Profit/(loss) before taxation	(2 187 771)	1 498 215
Tax at Poland's statutory tax rate of 19%	415 676	(284 661)
Adjustments to income tax from previous years	27 143	20 023
Tax effects of the following items:	(62 376)	(42 927)
Recognition of non-deductible provisions and write-downs/allowances	(9 183)	(3 129)
National Disabled Persons Rehabilitation Fund (PFRON)	(4 551)	(4 766)
Permanent differences on costs related to tangible assets	(5 135)	(26 317)
Impairment of goodwill	(29 450)	–
Other tax non-deductible costs	(19 692)	(24 251)
Dividends	796	721
Other income not included in taxable base	4 839	14 815
Other	3 113	(5 090)
Tax at the effective rate of 17.5% (2014 – 20.9%)	383 556	(312 655)
Income tax (expense) in profit/(loss)	383 556	(312 655)

16.3. Deferred income tax

	As at 31 December 2015	As at 31 December 2014
– difference between tax base and carrying amount of fixed and intangible assets	1 490 408	2 037 038
– difference between tax base and carrying amount of financial assets	29 609	21 505
– different timing of recognition of sales revenue for tax purposes	69 064	59 105
– difference between tax base and carrying amount of energy certificates	48 817	47 490
– other	39 889	22 813
Deferred tax liability	1 677 787	2 187 951
– provisions	685 405	667 464
– power infrastructure received free of charge and received connection fees	57 071	62 177
– difference between tax base and carrying amount of financial assets and financial liabilities	49 471	48 003
– valuation of hedging instruments	18 139	34 377
– different timing of recognition of cost of sales for tax purposes	58 333	38 632
– tax losses	12 758	12 758
– other	55 618	29 491
Deferred tax assets	936 795	892 902
After setting off balances at the level of individual Group companies, deferred tax for the Group is presented as:		
Deferred tax asset	54 184	62 108
Deferred tax liability	(795 176)	(1 357 157)

Change in deferred tax liability

	Year ended 31 December 2015	Year ended 31 December 2014
Opening balance	2 187 951	2 175 471
<i>Change in the balance:</i>		
corresponding to profit/(loss)	(529 019)	42 968
contribution	–	(12 397)
reclassification to/from disposal group classified as held for sale	18 910	(18 910)
other changes	(55)	819
Closing balance	1 677 787	2 187 951

Change in deferred tax asset

	Year ended 31 December 2015	Year ended 31 December 2014
Opening balance	892 902	882 453
<i>Change in the balance:</i>		
corresponding to profit/(loss)	60 792	(31 347)
corresponding to other comprehensive income	(28 587)	68 172
contribution	–	(16 627)
reclassification to/from disposal group classified as held for sale	11 585	(11 585)
other changes	103	1 836
Closing balance	936 795	892 902

Deferred tax asset

Based on the forecasts prepared for the Tax Capital Group (TCG), according to which taxable income will be earned in 2016 and in subsequent years, it has been concluded that there is no risk that the deferred tax asset recognized in these consolidated financial statements will not be realized.

Deferred tax liability

A decrease in deferred tax liability in correspondence with profit or loss is related mostly to impairment losses on property, plant and equipment recognized by the Generation segment companies, as described in detail in Note 18 hereof.

16.4. Income tax receivables and payables

As at 31 December 2015 the Group had the following income tax assets and liabilities:

- income tax receivable of PLN 909 thousand, where the entire amount does not relate to the Tax Capital Group companies,
- income tax liability of PLN 85 357 thousand, where PLN 82 944 thousand relates to settlements of the Tax Capital Group.

17. Earnings (loss) per share

Earnings (loss) per share (in PLN)	Year ended 31 December 2015	Year ended 31 December 2014
Basic and diluted, for profit (loss) for the year attributable to equity holders of the Parent	(1.03)	0.67

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

	Year ended 31 December 2015	Year ended 31 December 2014
Net profit (loss) for the year attributable to equity holders of the Parent	(1 807 317)	1 180 893
Number of ordinary shares	1 752 549 394	1 752 549 394

18. Property, plant and equipment

Year ended 31 December 2015

	Land	Buildings, premises and civil engineering structures	Plant and machinery	Other	Assets under construction	Property, plant and equipment, total
COST						
Opening balance	117 142	18 195 456	14 819 091	808 607	1 364 263	35 304 559
Direct purchase	–	–	228	401	3 808 063	3 808 692
Borrowing costs	–	–	–	–	68 656	68 656
Transfer of assets under construction	3 608	1 320 193	1 400 437	102 850	(2 827 088)	–
Sale, disposal	(1 181)	(5 172)	(8 327)	(17 875)	(586)	(33 141)
Liquidation	–	(64 089)	(174 717)	(9 238)	(4)	(248 048)
Received free of charge	–	19 830	403	3	–	20 236
Transfers to/from assets held for sale	(7)	470 453	793 329	(8 536)	21 192	1 276 431
Overhaul expenses	–	–	–	–	139 078	139 078
Items generated internally	–	–	–	–	41 899	41 899
Cost of disassembly of wind farms and decommissioning of mines	–	(10 039)	(660)	–	–	(10 699)
Other movements	(26)	1 767	80 637	(72 202)	(15 493)	(5 317)
Foreign exchange differences from translation of foreign entities	–	–	7	10	–	17
Closing balance	119 536	19 928 399	16 910 428	804 020	2 599 980	40 362 363
ACCUMULATED DEPRECIATION						
Opening balance	(458)	(5 049 663)	(4 957 467)	(440 706)	(5 323)	(10 453 617)
Depreciation for the period	–	(839 414)	(837 677)	(87 243)	–	(1 764 334)
Increase of impairment	(81)	(826 976)	(2 608 593)	(5 036)	(8 421)	(3 449 107)
Decrease of impairment	51	8 954	143	770	16	9 934
Sale, disposal	–	1 890	7 290	16 500	–	25 680
Liquidation	–	52 057	169 981	8 821	–	230 859
Transfers to/from assets held for sale	22	(39 254)	(43 328)	4 610	–	(77 950)
Other movements	–	(250)	(35 310)	34 557	–	(1 003)
Foreign exchange differences from translation of foreign entities	–	–	(4)	(4)	–	(8)
Closing balance	(466)	(6 692 656)	(8 304 965)	(467 731)	(13 728)	(15 479 546)
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	116 684	13 145 793	9 861 624	367 901	1 358 940	24 850 942
NET CARRYING AMOUNT AT THE END OF THE PERIOD	119 070	13 235 743	8 605 463	336 289	2 586 252	24 882 817
<i>of which operating segments:</i>						
Mining	1 189	582 131	596 130	14 595	161 732	1 355 777
Generation	41 638	2 514 623	3 977 254	38 806	1 662 593	8 234 914
Distribution	59 414	10 037 164	3 892 698	260 861	754 370	15 004 507
Other segments and other operations	16 829	101 825	139 381	22 027	7 557	287 619

Year ended 31 December 2014

	Land	Buildings, premises and civil engineering structures	Plant and machinery	Other	Assets under construction	Property, plant and equipment, total
COST						
Opening balance	114 112	17 385 870	14 909 785	738 450	1 213 948	34 362 165
Direct purchase	–	–	107	32	2 773 427	2 773 566
Borrowing costs	–	–	–	–	45 524	45 524
Transfer of assets under construction	4 511	1 409 386	1 208 791	96 797	(2 719 485)	–
Sale, disposal	(615)	(6 231)	(13 159)	(13 421)	(37)	(33 463)
Liquidation	–	(44 419)	(196 767)	(9 842)	–	(251 028)
Received free of charge	10	14 620	748	72	–	15 450
Transfers to/from assets held for sale	(80)	(488 270)	(793 781)	(868)	(21 192)	(1 304 191)
Contribution	–	(179 107)	(298 531)	(2 773)	(60 296)	(540 707)
Overhaul expenses	–	205	12 612	–	91 867	104 684
Items generated internally	–	–	–	–	47 445	47 445
Cost of disassembly of wind farms and decommissioning of mines	–	86 061	3 145	–	–	89 206
Other movements	(796)	17 341	(13 863)	154	(6 938)	(4 102)
Foreign exchange differences from translation of foreign entities	–	–	4	6	–	10
Closing balance	117 142	18 195 456	14 819 091	808 607	1 364 263	35 304 559
ACCUMULATED DEPRECIATION						
Opening balance	(645)	(4 360 059)	(4 490 207)	(377 855)	(5 760)	(9 234 526)
Depreciation for the period	–	(802 467)	(840 332)	(85 093)	–	(1 727 892)
Increase of impairment	(135)	(50 575)	(32 172)	(2 115)	(22)	(85 019)
Decrease of impairment	322	12 794	20 064	1 164	459	34 803
Sale, disposal	–	2 427	11 361	11 608	–	25 396
Liquidation	–	33 287	190 786	8 890	–	232 963
Transfers to/from assets held for sale	–	45 919	43 679	836	–	90 434
Contribution	–	70 684	136 587	1 989	–	209 260
Other movements	–	(1 673)	2 769	(129)	–	967
Foreign exchange differences from translation of foreign entities	–	–	(2)	(1)	–	(3)
Closing balance	(458)	(5 049 663)	(4 957 467)	(440 706)	(5 323)	(10 453 617)
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	113 467	13 025 811	10 419 578	360 595	1 208 188	25 127 639
NET CARRYING AMOUNT AT THE END OF THE PERIOD	116 684	13 145 793	9 861 624	367 901	1 358 940	24 850 942
<i>of which operating segments:</i>						
Mining	1 076	576 796	552 084	16 828	122 041	1 268 825
Generation	42 476	2 889 200	5 653 879	41 812	549 314	9 176 681
Distribution	57 627	9 573 595	3 533 460	288 292	671 879	14 124 853
Other segments and other operations	15 505	106 202	122 201	20 969	15 706	280 583

Property, plant and equipment used based on finance leases	Year ended 31 December 2015	Year ended 31 December 2014
Buildings	45 895	50 857
Plant and machinery	42 651	45 126
Motor vehicles	870	1 691

In the year ended 31 December 2015, the Group acquired property, plant and equipment for PLN 3 877 348 thousand, including capitalized costs of external financing. Major purchases were related to investments in the following operating segments:

Purchase of property, plant and equipment by segment	Year ended 31 December 2015	Year ended 31 December 2014
Distribution	1 858 807	1 883 562
Generation	1 750 548	703 604
Mining	210 574	185 682

Key investment projects carried out by the Group in the 2015 financial year have been presented in item 1.4.1.3. of the Report on the activities of TAURON Polska Energia S.A. Capital Group for 2015.

Recognition and derecognition of impairment losses for property, plant and equipment had the following impact on operating segment performance.

	Year ended 31 December 2015				Year ended 31 December 2014			
	Generation	Distribution	Other	Total	Generation	Distribution	Other	Total
Increase of impairment	(3 430 917)	(18 173)	(17)	(3 449 107)	(72 441)	(12 556)	(22)	(85 019)
Decrease of impairment	609	9 322	3	9 934	33 865	929	9	34 803
Total impact on the profit (loss) for the period	(3 430 308)	(8 851)	(14)	(3 439 173)	(38 576)	(11 627)	(13)	(50 216)

Impairment tests

Impairment tests of property, plant and equipment were carried out as at 31 December 2015 considering the following indications:

- the market value of the Company's net assets remaining below their carrying amount for a long-term period;
- long-lasting unfavorable market conditions for power manufacturers and resulting more conservative power price forecasts for the future;
- power manufacturing volumes to be adjusted in the future (i.e. limited) to the existing unfavorable market situation and pessimistic outlooks;
- manufacturing units closed sooner than expected.

The tests required estimating the value in use of cash generating units, based on their future cash flows discounted to the current value with the discount rate.

The impairment test for property, plant and equipment and non-current intangible assets was carried out 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 cash generating units understood as generation units or groups of generation units;
- TAURON Ekoenergia Sp. z o.o., where water power plants and wind power plants 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 energetics companies). For the purpose of more detailed cost analysis, additional tests were carried out for individual generation units.

Key assumptions made to estimate the value in use of property, plant and equipment:

- The adopted price path of power coal, other coal sizes and gaseous fuels. Approximately 5% increase of coal price was assumed until 2025, however it's been assumed that after 2025 the price level will remain the same as this year (in fixed prices);
- The adopted electricity wholesale price path for the years 2016–2025, 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 CO₂ emission allowances; Approximately 22% increase was assumed until 2020, until 2025 more dynamic increase in prices was assumed, however it's been assumed that after 2025 the price level will remain the same as this year (in fixed prices);
- Changes in the Polish market model aimed to introduce the capacity market or other incentive mechanisms for production capacity have not been taken into account. The forecast electricity prices take into account the market impact of the new principles governing Operational Power Reserve application and settlements, implemented by PSE S.A. effective from 2014;
- Emission limits for generating electricity specified in the regulation of the Ministry of Economy, 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 CO₂ emission allowance price path for the years 2016–2025. An over twofold rise of the market price is assumed by 2025 with 2025 prices thereafter (fixed);

- Green, red and yellow energy production volumes depending on the production capacity, along with the price path for individual energy certificates. A rise of ca. 9% is assumed for renewable energy prices by 2020 with a more dynamic growth rate by 2025 and 2025 prices thereafter (fixed);
- Limited support periods for green energy have been assumed in accordance with the Act on Renewable Energy Sources, which provides for new support mechanisms for renewable energy. The support period has been limited to 15 years as from the date of the first supply of electricity qualifying for an energy certificate to the distribution network. At the same time, hydropower plants with installed capacity of more than 5 MW do not qualify for support;
- 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 7.20% – 9.05% in nominal terms before tax.

The impairment test of assets carried out as at 31 December 2015 indicated that an additional impairment loss of PLN 3 410 726 thousand should be recognized for a portion of assets in the Generation segment. The recoverable amount for this group of assets corresponds to the value in use. Impairment loss has been charged to cost of sales, and was related to the following cash-generating units:

CGU	Company	WACC		Recoverable amount	Impairment loss recognized
		Year ended 31 December 2015	Year ended 31 December 2014		
Elektrownia Jaworzno II	TAURON Wytwarzanie S.A.	7.69%	8.25%	431 771	323 765
Elektrownia Jaworzno III				564 698	893 440
Elektrownia Łaziska				288 017	837 253
Elektrownia Siersza				239 350	555 362
Elektrownia Stalowa Wola				(7 570)	194 253
Zakład Wytwórczy Bielsko Biała EC 1	TAURON Ciepło Sp. z o.o.	7.61%	7.86%	374 966	213 204
Zakład Wytwórczy Bielsko Biała EC 2				(411)	153 446
Zakład Wytwórczy Tychy				575 881	240 003
Total					3 410 726

Results of the sensitivity analysis carried out for individual CGU have indicated that changes in electricity prices and in the weighted average cost of capital have the most significant impact on the value in use of tested assets. The impact of changes in the prices of hard coal and CO₂ emission allowances on the measurement is lower. Below please find estimated changes in the impairment losses on assets in the Generation segment as at 31 December 2015, resulting from modification of key assumptions.

Parameter	Change	Impact on impairment loss in PLN millions	
		Increase of impairment loss	Decrease of impairment loss
Change of electricity prices in the entire forecast period	1%	–	200
	-1%	190	–
Change of WACC (net)	+0.1 p.p.	30	–
	-0.1 p.p.	–	30
Change of CO ₂ emission allowances prices in the entire forecast period	1%	40	–
	-1%	–	40
Change of coal prices in the entire forecast period	1%	80	–
	-1%	–	80

19. Goodwill

	Year ended 31 December 2015	Year ended 31 December 2014
Opening balance	195 155	247 057
Impairment loss	(154 998)	–
Reclassification to/from disposal group classified as held for sale	51 902	(51 902)
Closing balance, of which operating segments:	92 059	195 155
Mining	13 973	13 973
Distribution	25 602	25 602
Generation	52 484	155 580

As at 31 December 2015, goodwill of PLN 51 902 thousand regarding the Generation segment, allocated to CGU related to electricity generation in renewable sources has been reclassified from a disposal group since wind-powered assets did not fulfil the requirements of IFRS 5 as at that date and were no longer classified as a disposal group held for sale, as described in detail in Note 30 hereto.

Impairment tests

As at 31 December 2015, an impairment test of the carrying amount of goodwill was performed for the net assets increased by goodwill for individual operating segments, except for the Generation segment, for which impairment tests were conducted individually for each company. In previous periods the test was carried out for operational segments. The approach change results from the fact that in 2015 Heat and Renewable Sources of Energy were no longer distinguished as separate operating segment, as discussed in detail in Note 10 to these consolidated financial statements and the resulting need to ensure comparability of goodwill impairment test approaches adopted in previous periods to TAURON Ciepło Sp. z o.o. and TAURON Ekoenergia Sp. z o.o.

The recoverable amount in each company was determined based on the value in use.

The test was performed based on the present value of estimated operating cash flows. The calculations were based on detailed projections for the period from 2016 to 2025 and the estimated residual value, for the generating units projections cover the entire period of its functioning. Reliance on projections covering a period longer than 5 years results mainly from the fact that investment processes in the power industry are time-consuming. The macroeconomic and sector assumptions serving as the basis for projections are updated as frequently as any indications for their modification are observed on the market. Projections also take into account changes in the legal environment known as at the date of the test.

The 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 (3.22%) and the risk premium for operations appropriate for the power industry (6%). The growth rate used for extrapolation of projected cash flows beyond the detailed planning period is at the level of 2.5% and it corresponds to the estimated long-term inflation rate.

The key assumptions affecting the estimated value in use and the discount rates adopted for individual companies are:

Goodwill in the segment (company)	Key assumptions	Discount rate (before tax)	
		Year ended 31 December 2015	Year ended 31 December 2014
Mining	- The adopted price path of power coal, other coal sizes and gaseous fuels. By 2025 an increase in prices of coal of approx. 5% has been assumed, and the 2025 level thereafter (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.	9.05%	10.03%
Distribution	- Regulated revenue generated by distribution companies, ensuring coverage of reasonable costs and a reasonable level of return on capital. The return level depends on the so-called Regulatory Value of Assets; - Maintenance of the electricity distribution capacity of the existing non-current assets as a result of replacement investments.	7.50%	8.26%
Generation (TAURON Ekoenergia Sp. z o.o.)	- Green, red and yellow energy production volumes depending on the production capacity, along with the price path for individual energy certificates. A rise of approx. 9% in prices of electricity from renewable sources has been assumed by 2020; a more rapid growth has been assumed by 2025, with 2025 prices thereafter (fixed); - For green energy, limited support periods have been included, in accordance with the provisions of the Act on renewable energy sources determining new mechanisms of supporting generation of electricity from renewable sources. 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 exceeding 5 MW have been excluded from the support. - Maintaining generation capacity using the existing non-current assets as a result of replacement investments.	8.39% (for hydropower plants); 8.14% – 8.90% (for wind power plants)	9.10% (for hydropower plants); 8.51% – 9.25% (for wind power plants)
Generation (TAURON Ciepło Sp. z o.o.)	- Tariff revenue generated by heat companies, ensuring coverage of reasonable costs and a reasonable level of return on capital; - The adopted electricity wholesale price path for the years 2016–2025, 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 CO₂ emission allowances; A rise of ca. 22% is assumed by 2020 with a more dynamic growth rate by 2025 and 2025 prices thereafter (fixed); - Generation volumes of green, red and yellow energy arising from capacity along with the price path for individual energy certificates. - Emission limits for generating electricity and heat in line with regulations of the Council of Ministers. - The price path for CO₂ emission allowances adopted for 2016–2025. An over twofold rise of the market price is assumed by 2025 with 2025 prices thereafter (fixed); - Maintaining generation, distribution and sales of heat capacity of the existing non-current assets as a result of replacement investments.	7.61% (heat and electricity generation); 7.82% (heat transmission and distribution)	7.86% (heat and electricity generation); 7.91% (heat transmission and distribution)

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

Impairment test carried out as at 31 December 2015 indicated impairment of the carrying amount of goodwill allocated to the Generation segment (TAURON Ciepło Sp. z o.o.). As a result, the Group recognized an impairment loss on goodwill of PLN 154 998 thousand. The impairment loss has been charged to cost of sales.

CGU	Company	WACC		Recoverable amount	Impairment loss recognized
		Year ended 31 December 2015	Year ended 31 December 2014		
Generation	TAURON Ciepło Sp. z o.o.	7.61%–7.82%	7.86%–7.91%	2 436 239	154 998

The recognition of the impairment loss resulted from long-lasting unfavorable market conditions for power manufacturers and the resulting conservative power price forecasts for the future.

Results of the sensitivity analysis carried out for individual CGU have indicated that changes in electricity prices and in the weighted average cost of capital have the most significant impact on the value in use of tested assets.

The sensitivity analysis was carried out for the carrying amounts of the assets increased by the goodwill of TAURON Ciepło Sp. z o.o. in the Generation segment. No significant amounts of goodwill have been detected in other segments.

- Sensitivity to gross WACC changes

The recoverable amounts of assets increased by the goodwill of TAURON Ciepło Sp. z o.o. reaches the carrying amount with the discount rate changing by approx. -15% (-1.2 p.p.)

- Sensitivity to changes in wholesale electricity prices

The recoverable amounts of assets increased by the goodwill of TAURON Ciepło Sp. z o.o. reaches the carrying amount with the changes in electricity prices by approx. +9%.

20. Energy certificates and gas emission allowances

20.1. Non-current energy certificates and gas emission allowances

Year ended 31 December 2015

	Energy certificates	Greenhouse gas emission allowances	Total
Opening balance	207 397	265 103	472 500
Direct purchase	85 240	129 548	214 788
Reclassification	(59 664)	(116 784)	(176 448)
Closing balance	232 973	277 867	510 840

Year ended 31 December 2014

	Energy certificates	Greenhouse gas emission allowances	Total
Opening balance	20 250	34 528	54 778
Direct purchase	203 330	226 566	429 896
Reclassification	(16 183)	4 009	(12 174)
Closing balance	207 397	265 103	472 500

20.2. Current energy certificates and gas emission allowances

Year ended 31 December 2015

	Energy certificates	Greenhouse gas emission allowances	Total
Opening balance	724 918	8 130	733 048
Direct purchase	411 854	33 643	445 497
Generated internally	235 484	–	235 484
Cancellation	(781 711)	(5 941)	(787 652)
Reclassification	61 760	117 251	179 011
Closing balance	652 305	153 083	805 388

Year ended 31 December 2014

	Energy certificates	Greenhouse gas emission allowances	Total
Opening balance	695 427	461 123	1 156 550
Direct purchase	504 479	22 794	527 273
Generated internally	319 674	–	319 674
Cancellation	(838 186)	(463 362)	(1 301 548)
Reclassification	43 524	(12 425)	31 099
Closing balance	724 918	8 130	733 048

20.3. Balance of greenhouse gas emission allowances recorded in the National Register of Allowances

CO ₂ emissions allowances	Year ended 31 December 2015	Year ended 31 December 2014
Allowances recorded at the beginning of the financial year	26 878 236	23 566 799
Allowances surrendered (previous year's emissions)		
in the installations of TAURON Wytwarzanie S.A.	(12 508 585)	(17 277 731)
in the installations of TAURON Ciepło Sp. z o.o.	(1 571 376)	(4 381 680)
Allocation of free-of-charge allowances	6 985 193	14 166 356
Allowances purchased on the secondary market	8 745 500	47 027 230
Allowances sold on the secondary market	(3 698 500)	(36 123 000)
Other changes – transferred to TAMEH	(1 093 020)	(99 738)
Allowances recorded at the end of the financial year	23 737 448	26 878 236
Allowances intended for surrender for a given year:		
in the installations of TAURON Wytwarzanie S.A.	(14 604 360)	(14 110 585)
in the installations of TAURON Ciepło Sp. z o.o.	(13 040 086)	(12 620 750)
in the installations of TAURON Ciepło Sp. z o.o.	(1 564 274)	(1 489 835)

The third phase of the EU Emissions Trading System (EU ETS) started on 1 January 2013. The third phase assumes a single EU-wide cap on emissions, to be reduced by 1.74% p.a. until 2020. In accordance with the Directive 2009/29/EC of the European Parliament and of the Council of 23 April 2009 amending Directive 2003/87/EC so as to improve and extend the greenhouse gas emission allowance trading scheme of the Community, auctioning has become the key method of obtaining EU emission allowances. Individual EU Member States will auction over 40% of allowances awarded in 2013–2020. The remaining allowances will be allocated free of charge to: energy-intensive sectors (exposed to the risk of carbon leakage), other sectors (in line with the strategy to gradually eliminate free allocation) – pursuant to Article 10a of the Directive, and power sectors in selected Member States, including Poland, qualifying for derogation under Article 10c (“derogation allowances”). Derogation allowances have been awarded in the years 2013–2020, based on costs of investments, which are a condition for obtaining allowances.

In 2015 the TAURON Group was awarded 722 111 registered allowances due to generation of heat and 6 197 006 allowances due to electricity generation under requests for free-of-charge allowances filed in accordance with Article 10a of the Directive and requests for derogation allowances. Moreover, 12 246 allowances due to generation of heat for 2013 and 53 830 allowances due to generation of heat for 2014 were awarded and registered in 2015.

In the financial and factual reports filed by the TAURON Group in 2015, which concerned investment task performance covered by National Investment Plan for the settlement period from 1 July 2014 to 30 June 2015, the value of free-of-charge allowances related to modernization of the electricity generation process for 2015, i.e. 3 042 255 emission allowances were balanced. The Group expects that the allowances will have been registered by April 2016.

21. Other intangible assets

Year ended 31 December 2015

	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	4 670	789 670	475 291	153 770	53 436	1 476 837
Direct purchase	–	–	80	–	117 065	117 145
Transfer of intangible assets not made available for use	–	1 123	89 290	33 451	(123 864)	–
Sale, disposal	–	(2 132)	(8 072)	–	–	(10 204)
Liquidation	(256)	(1)	(5 925)	(433)	–	(6 615)
Other movements	1 276	(2 156)	200	1 216	5 248	5 784
Foreign exchange differences from translation of foreign entities	–	–	28	–	–	28
Closing balance	5 690	786 504	550 892	188 004	51 885	1 582 975
ACCUMULATED AMORTIZATION						
Opening balance	(3 822)	(15 297)	(289 949)	(35 635)	–	(344 703)
Amortization for the period	(474)	–	(53 959)	(13 922)	–	(68 355)
Increase of impairment	(853)	(383)	(2 845)	(259)	–	(4 340)
Decrease of impairment	–	2 616	–	–	–	2 616
Sale, disposal	–	–	8 072	–	–	8 072
Liquidation	256	–	5 916	430	–	6 602
Other movements	–	–	(75)	(5)	–	(80)
Foreign exchange differences from translation of foreign entities	–	–	(22)	–	–	(22)
Closing balance	(4 893)	(13 064)	(332 862)	(49 391)	–	(400 210)
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	848	774 373	185 342	118 135	53 436	1 132 134
NET CARRYING AMOUNT AT THE END OF THE PERIOD	797	773 440	218 030	138 613	51 885	1 182 765

Year ended 31 December 2014

	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	4 030	810 712	379 236	109 979	84 633	1 388 590
Direct purchase	–	–	175	–	118 198	118 373
Transfer of intangible assets not made available for use	–	5 452	105 783	43 677	(154 912)	–
Sale, disposal	–	(1 389)	–	–	–	(1 389)
Liquidation	–	(77)	(7 504)	(240)	–	(7 821)
Contribution	–	(22 178)	(3 704)	–	–	(25 882)
Other movements	640	(2 850)	1 293	354	5 515	4 952
Foreign exchange differences from translation of foreign entities	–	–	12	–	2	14
Closing balance	4 670	789 670	475 291	153 770	53 436	1 476 837
ACCUMULATED AMORTIZATION						
Opening balance	(3 442)	(14 449)	(242 012)	(23 460)	–	(283 363)
Amortization for the period	(380)	–	(56 304)	(12 411)	–	(69 095)
Increase of impairment	–	(3 083)	(88)	–	–	(3 171)
Decrease of impairment	–	2 235	116	–	–	2 351
Liquidation	–	–	7 454	236	–	7 690
Contribution	–	–	2 051	–	–	2 051
Other movements	–	–	(1 158)	–	–	(1 158)
Foreign exchange differences from translation of foreign entities	–	–	(8)	–	–	(8)
Closing balance	(3 822)	(15 297)	(289 949)	(35 635)	–	(344 703)
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	588	796 263	137 224	86 519	84 633	1 105 227
NET CARRYING AMOUNT AT THE END OF THE PERIOD	848	774 373	185 342	118 135	53 436	1 132 134

22. Investments in joint ventures

	Elektrociepłownia Stalowa Wola S.A.	Elektrownia Blachownia Nowa Sp. z o.o.	TAMEH HOLDING Sp. z o.o.*	As at 31 December 2015
Non-current assets	1 085 917	–	1 295 743	2 381 660
Current assets	12 387	37 008	341 716	391 111
Non-current liabilities (-)	(965 514)	–	(378 507)	(1 344 021)
Current liabilities (-)	(125 610)	(85)	(377 432)	(503 127)
Total net assets	7 180	36 923	881 520	925 623
Share in net assets	3 590	18 461	440 760	462 811
Investment in joint ventures	–	18 461	399 666	418 127
Share in revenue of joint ventures	18	490	545 175	545 683
Share in profit/(loss) of joint ventures	(1 474)	(13 644)	23 051	7 933
Share in other comprehensive income of joint ventures	–	–	(387)	(387)

* 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.

	Elektrociepłownia Stalowa Wola S.A.	Elektrownia Blachownia Nowa Sp. z o.o.	TAMEH HOLDING Sp. z o.o.*	As at 31 December 2014
Non-current assets	973 128	27 351	985 875	1 986 354
Current assets	53 283	36 920	319 756	409 959
Non-current liabilities (-)	(900 635)	–	(34 085)	(934 720)
Current liabilities (-)	(92 570)	(59)	(433 758)	(526 387)
Total net assets	33 206	64 212	837 788	935 206
Share in net assets	16 603	32 106	418 894	467 603
Elimination of transactions with Group companies	(11 127)	–	–	(11 127)
Investment in joint ventures	5 476	32 106	377 002	414 584
Share in revenue of joint ventures	54	490	17 446	17 990
Share in profit/(loss) of joint ventures	(2 183)	42	1 205	(936)

* The data presented concern the TAMEH HOLDING Sp. z o.o. capital group.

Elektrociepłownia Stalowa Wola S.A.

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

TAURON Polska Energia S.A. holds an indirect 50% interest in the share capital of this company and in its governing body through TAURON Wytwarzanie S.A. Since as at 31 December 2015 the existing share in losses of a joint venture and the adjustment of performance on top-down transactions concluded between the Group companies and the joint venture exceeded the value of interests held in this joint venture, the Company has ceased recognizing its interests in further losses generated by the joint venture.

Additionally, the Company holds receivables arising from loans originated to Elektrociepłownia Stalowa Wola S.A. in the amount of PLN 223 909 thousand, as described in detail in Note 23 and provisions for onerous contracts resulting from commercial contracts concluded by the Company in the amount of PLN 182 877 thousand (Note 36).

Elektrownia Blachownia Nowa Sp. z o.o.

On 5 September 2012 TAURON Wytwarzanie S.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 land of TAURON Wytwarzanie S.A. – Oddział Elektrownia Blachownia.

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

On 30 December 2013 TAURON Polska Energia S.A., KGHM Polska Miedź S.A. and TAURON Wytwarzanie S.A. concluded an agreement, based on which the construction of gas and steam power unit in Elektrownia Blachownia Nowa Sp. z o.o. has been suspended. The decision resulted from the current situation in the electricity and gas market entailing higher investment risk, which made the entities review and optimise the project.

The parties undertook to ensure further business operations of Elektrownia Blachownia Nowa Sp. z o.o., securing deliverables provided thus far, in particular updating project documentation and ensuring on-going monitoring of the energy market and regulatory environment in view of the possibility to restart project performance as soon as possible. The parties agreed that the decision to recommence the project will be adopted in the form of a separate agreement which is expected to be concluded by 31 December 2016.

As at 31 December 2015, following the project analysis, including the probability of its non-performance, recognition of an impairment loss on property plant and equipment has been deemed reasonable based on project documentation. As a result of recognizing the impairment loss, the entity's profit/loss has been charged with PLN 27 351 thousand.

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. shall carry out investment and operational projects related to industrial power sector. The Agreement was concluded for the period of 15 years with possible term extension. Following the transactions concluded last year, both capital groups have held 50% of shares in TAMEH HOLDING Sp. z o.o. each.

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.

23. Loans granted to joint ventures

	As at 31 December 2015		As at 31 December 2014	
	Principal	Interest	Principal	Interest
Loans originated to EC Stalowa Wola S.A., including:	194 950	28 959	182 850	21 343
Subordinated loan	177 000	28 922	177 000	21 331
Loan for debt repayment	15 850	31	–	–
Other loans	2 100	6	5 850	12
Total	194 950	28 959	182 850	21 343
Non-current	192 850	28 953	177 000	21 331
Current	2 100	6	5 850	12

Under the agreements of 20 June 2012 among PGNiG S.A., TAURON Polska Energia S.A. and Elektrociepłownia Stalowa Wola S.A., TAURON Polska Energia S.A. granted a subordinated loan and a VAT loan to Elektrociepłownia Stalowa Wola S.A. with a view to satisfying the necessary conditions for provision of funding to Elektrociepłownia Stalowa Wola S.A. by the European Bank for Reconstruction and Development and the European Investment Bank. As at the end of the reporting period, the amount disbursed under the subordinated loan agreement was PLN 177 000 thousand, i.e. the maximum contractual amount. The loan with interest due is to be finally repaid no later than by the end of 2032.

On 14 December 2015 the Company entered into a loan agreement with Elektrociepłownia Stalowa Wola S.A., under which the Company extended a loan to Elektrociepłownia Stalowa Wola S.A. with the maximum amount of PLN 15 850 thousand for repayment of the first instalment with accrued interest of credit facilities granted to the borrower by the European Investment Bank, the European Bank for Reconstruction and Development and Bank Polska Kasa Opieki S.A. Subject to the provisions of the subordination agreement, the borrower has agreed to make one-off repayment of the principal amount and interest accrued until 31 December 2027.

On 25 November 2015 the Company entered into a loan agreement with Elektrociepłownia Stalowa Wola S.A., under which the Company has been obliged to extend a short-term loan of PLN 2 600 thousand to Elektrociepłownia Stalowa Wola S.A. for financing current operations of the borrower (as at the balance sheet date the total of PLN 2 100 thousand was used).

In the year ended 31 December 2015, the interest income due to loans granted reached PLN 7 671 thousand. The Group presented interest income due to loans granted of Elektrociepłownia Stalowa Wola S.A. in the portion corresponding to unrelated investors' interests in the joint venture in the consolidated financial statements.

24. Other financial assets

	As at 31 December 2015	As at 31 December 2014
Shares	136 488	112 396
Bonds, T-bills and other debt securities	1 890	23 622
Deposits	39 724	35 823
Bid bonds, deposits and collateral transferred	54 106	53 738
Other long-term receivables	4 669	7 000
Other	8 672	26 121
Total	245 549	258 700
Non-current	211 215	179 052
Current	34 334	79 648

Purchase of shares in PGE EJ 1 Sp. z o.o.

On 15 April 2015 the Company, Polska Grupa Energetyczna S.A., KGHM Polska Miedź S.A. and ENEA S.A. concluded an agreement for acquisition of shares in PGE EJ 1 Sp. z o.o., a special purpose vehicle, managing the preparation and performance of an investment project covering construction and operation of the first Polish nuclear power plant with a capacity of ca. 3,000 MWe ("The Project"). The Company, KGHM Polska Miedź S.A., ENEA S.A. acquired 10% of shares in PGE EJ 1 Sp. z o.o. each (the total of 30% of shares) from PGE Polska Grupa Energetyczna S.A. The price paid by the Company for the shares in question was PLN 16 046 thousand.

In accordance with the Shareholders' Agreement dated 3 September 2014 the parties will jointly finance the initial phase of the Project proportionally to the number of shares held. The initial phase will cover determining project elements, such as selecting potential partners, including the strategic partner, technology providers, EPC (Engineering, Procurement, Construction) contractors, nuclear fuel providers, acquiring funds for Project financing and ensuring appropriate organization and competences of PGE EJ 1 Sp. z o.o. to act as a future nuclear plant operator responsible for its security and efficiency.

On 29 July 2015 the Extraordinary Shareholders' Meeting of PGE EJ 1 Sp. z o.o. adopted a resolution to increase the issued capital of the entity from PLN 205 860 thousand to PLN 275 859 thousand. TAURON Polska Energia S.A. took up 49 645 new shares with the total face value of PLN 7 000 thousand.

The timeframe of further investments in PGE EJ 1 Sp. z o.o. by its shareholders will be determined in subsequent reporting periods.

25. Other non-financial assets

25.1. Other non-current non-financial assets

	As at 31 December 2015	As at 31 December 2014
Prepayments for assets under construction and intangible assets	358 673	407 845
Costs of preparing production in hard coal mines	159 159	243 534
Other prepayments	32 543	6 564
Total	550 375	657 943

Advance payments for fixed assets under construction and intangible assets are mostly related to the performance of an investment task called Construction of a 910 MW Unit in Jaworzno III Power Plant totaling to PLN 337 531 thousand.

A decrease in the costs of preparing production in hard coal mines is related mostly to the write off of capitalized costs of drilling drifts and reinforcing working faces in the amount of PLN 78 610 thousand due to loss of economic use.

25.2. Other current non-financial assets

	As at 31 December 2015	As at 31 December 2014
Costs settled over time, including:	104 251	87 478
Property and tort insurance	15 888	16 795
IT, telecom and postal services	26 367	18 624
Costs of preparing production in hard coal mines	33 411	38 079
Other prepayments	28 585	13 980
Other current non-financial assets, including:	128 808	133 556
Advance payments for deliveries	120 342	116 299
Surplus of Social Benefit Fund assets over its liabilities	3 984	5 212
Other current assets	4 482	12 045
Total	233 059	221 034

Company Social Benefits Fund

The Group entities have offset the Fund assets with its liabilities to the Fund since the assets are not classified as the Group's individual asset items. Analysis of the fund is presented in the following table.

	As at 31 December 2015	As at 31 December 2014
Loans granted to employees	31 087	38 022
Cash	20 144	15 533
Other Fund assets and liabilities	(382)	(3 521)
Social Fund liabilities	(46 865)	(44 822)
Net balance	3 984	5 212
Transfers made to the Social Fund during the period	(60 388)	(64 482)

26. Inventories

	As at 31 December 2015	As at 31 December 2014
Historical cost		
Raw materials	273 523	285 135
Semi-finished goods and work-in-progress	155 586	239 426
Finished goods	5 510	1 600
Goods for resale	4 053	707
Energy certificates	1 319	20 055
Emission allowances	3 424	1 761
Total	443 415	548 684
Write-downs to net realisable value		
Raw materials	(10 097)	(7 305)
Finished goods	(4)	(12)
Goods for resale	(35)	(21)
Energy certificates	–	(13 750)
Total	(10 136)	(21 088)
Net realisable value		
Raw materials	263 426	277 830
Semi-finished goods and work-in-progress	155 586	239 426
Finished goods	5 506	1 588
Goods for resale	4 018	686
Energy certificates	1 319	6 305
Emission allowances	3 424	1 761
Total	433 279	527 596
Movement in write-downs to net realisable value		
Opening balance	(21 088)	(50 761)
Recognition	(3 220)	(21 441)
Reversal	10 392	5 633
Utilization	3 780	45 763
Other	–	(282)
Closing balance	(10 136)	(21 088)

27. Receivables from clients

Current receivables from clients as at 31 December 2015 and 31 December 2014 have been presented in the table below.

	As at 31 December 2015	As at 31 December 2014
Value of items before allowance/write-down		
Receivables from clients	1 581 863	1 738 000
Receivables from clients – additional assessment of revenue from sales of electricity and distribution services	298 805	232 541
Receivables claimed at court	227 739	228 011
Total	2 108 407	2 198 552
Allowance/write-down		
Receivables from clients	(74 828)	(73 809)
Receivables claimed at court	(203 546)	(207 683)
Total	(278 374)	(281 492)
Value of item net of allowance (carrying amount)		
Receivables from clients	1 507 035	1 664 191
Receivables from clients – additional assessment of revenue from sales of electricity and distribution services	298 805	232 541
Receivables claimed at court	24 193	20 328
Total	1 830 033	1 917 060

Detailed information on allowances for receivables from clients and other financial receivables has been presented in Note 49.1.1 hereto.

28. Receivables from taxes and charges

	As at 31 December 2015	As at 31 December 2014
Corporate Income Tax receivables	909	26 489
VAT receivables	205 713	106 629
Excise duty receivables	20 314	22 138
Other	1 409	4 188
Total	228 345	159 444

29. Cash and cash equivalents

	As at 31 December 2015	As at 31 December 2014
Cash at bank and in hand	353 428	410 082
Short-term deposits (up to 3 months)	10 722	1 009 991
Other	762	836
Total cash and cash equivalents presented in the statement of financial position, of which:	364 912	1 420 909
restricted cash	206 254	116 568
Bank overdraft	(10 206)	(11 918)
Cash pool	(29 377)	(4 481)
Foreign exchange	2 386	3 561
Total cash and cash equivalents presented in the statement of cash flows	327 715	1 408 071

Restricted cash consists mainly of: cash on the account used for settling electricity trading on the Polish Power Exchange, i.e. Towarowa Giełda Energii S.A., of PLN 55 291 thousand held by companies from the Sales segment and cash on a bank account for bid bonds and deposits of PLN 127 567 thousand.

30. Non-current assets and a disposal group classified as held for sale

	As at 31 December 2015	As at 31 December 2014
Disposal group	–	1 320 932
Other non-current assets	17 898	16 773
Non-current assets and assets of a disposal group classified as held for sale	17 898	1 337 705
Liabilities of a disposal group classified as held for sale	–	84 970

As at 31 December 2014 a disposal group included the assets and liabilities of four existing wind farms classified as held for sale in relation to the followed off-balance sheet asset financing policy aimed at selling interest in the existing wind farms to an external investor. The original idea was to sell (with the buy-back option) a majority interest in the existing wind farms to a financial investor and to refinance the existing debt allocated to the wind farms using bank debt when the Company becomes a minority shareholder. Following a failure to reach an agreement on certain conditions regarding the transaction to sell a package of shares in the existing wind farms, the Company has discontinued negotiations with a potential investor. The TAURON Group will continue activities aimed at off-balance sheet funding of the development of wind power generation in the Group. Under current market conditions, works are continued to reach a solution involving commencement of cooperation with an industrial investor. With this respect, on 2 July 2015 the Company and ENEA S.A. concluded a letter of intent concerning partnership in the implementation of a common strategy on the optimal increase in the use of renewable sources of energy and financing acquisition of wind farm assets.

In light of the above, as at 31 December 2015, an analysis was carried out that indicated that the disposal group did not fulfil all criteria allowing its classification as held for sale in accordance with IFRS 5 as at the end of the reporting period.

Following the discontinuation of the classification of the disposal group as held for sale, property, plant and equipment of wind farms were measured at carrying amounts as at the date preceding the classification of the disposal group as held for sale, adjusted by depreciation calculated as of the date of its classification as held for sale, which resulted in a charge on the Group's net profit/loss of PLN 56 227 thousand.

31. Issued capital and other capitals

31.1. Issued capital

Issued capital as at 31 December 2015

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

As at 31 December 2015, the value of issued capital, the number of shares and the par value of shares did not change compared to 31 December 2014.

Shareholding structure as at 31 December 2015 (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 Otworthy 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%

31.2. Shareholders' rights

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

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

Information concerning the limitations in exercising the voting rights has been presented in item 6.6 of the Management Board's report on the activities of the TAURON Polska Energia S.A. Capital Group for the 2015 financial year.

31.3. Reserve capital

In the year ended 31 December 2015, the reserve capital was increased by PLN 883 561 thousand. Pursuant to a resolution of the Ordinary General Shareholders' Meeting of 23 April 2015 on distribution of profit for 2014, the amount in question was allocated to reserve capital.

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

The total of PLN (3 453 908) thousand represents the Company's loss for 2015 unabsorbed by the date of approving these financial statements to be absorbed with previous years' profits, which has been presented in detail in Note 33.5 of the separate financial statements of TAURON Polska Energia S.A. for the financial year ended 31 December 2015.

Previous years' profits arising from settlement of business combinations with subsidiaries and actuarial gains and losses related to provisions for post-employment benefits recognized through other comprehensive income are not distributable.

As at 31 December 2015 and as at the date of approving these financial statements for publication no other dividend restriction occurred.

31.5. Revaluation reserve from valuation of hedging instruments

	Year ended 31 December 2015	Year ended 31 December 2014
Opening balance	(143 019)	(126 651)
Remeasurement of hedging instruments	85 466	(21 171)
Remeasurement of hedging instruments charged to profit or loss	466	964
Deferred income tax	(16 327)	3 839
Closing balance	(73 414)	(143 019)

As at 31 December 2015 the Company recognized PLN (73 414) thousand of revaluation reserve from valuation of hedging instruments. It represents a liability arising from measurement of interest rate swaps as at the end of the reporting period, totaling to PLN 95 467 thousand, adjusted by a portion of measurement relating to interest accrued on bonds as at the end of the reporting period, including deferred tax.

The profit/loss for the period was charged with PLN 89 380 thousand, where PLN 88 914 thousand was the amount paid in respect of hedges used in relation to closed interest periods and PLN 466 thousand resulted from remeasurement of instruments related to interest on bonds accrued as at the end of the reporting period. The aforementioned costs of hedging IRS transactions increased financial expenses arising from interest on bonds issued in the statement of comprehensive income.

31.6. Non-controlling interest

	Year ended 31 December 2015	Year ended 31 December 2014
At the beginning of the period	30 116	466 334
Dividends paid by subsidiaries	(2 787)	(1 163)
Share in actuarial gains/(losses) related to provisions for post-employment benefits	60	(370)
Acquisition of non-controlling interests by the Group	–	(407 596)
Mandatory squeeze-out	(662)	(32 567)
Share in subsidiaries' net profit or loss	3 102	4 667
Change in non-controlling interests due to mergers	–	811
At the end of the period	29 829	30 116

As at the reporting date non-controlling interest were held in the Distribution segment companies only.

32. Dividends paid

	Year ended 31 December 2015	Year ended 31 December 2014
Dividends paid in the period		
Dividends paid throughout the year by subsidiaries	(2 630)	(1 233)
Final dividends paid by the Parent	(262 882)	(332 984)
Total dividends paid	(265 512)	(334 217)

Dividend per share paid out by the Parent for individual years was the following:

	Year ended 31 December 2015	Year ended 31 December 2014
Dividend paid per share (PLN)	0.15	0.19

33. Debt

	As at 31 December 2015	As at 31 December 2014
Loans and borrowings	1 411 776	1 232 032
Bonds issued	6 680 433	6 821 830
Finance lease	46 438	59 904
Total	8 138 647	8 113 766
Current	3 214 520	644 991
Non-current	4 924 127	7 468 775

33.1. Loans and borrowings

Loans and borrowings taken out as at 31 December 2015

Currency	Interest rate	Value of loans and borrowings as at the balance sheet date		of which maturing within (after the balance sheet date):					
		currency	PLN	less than 3 months	3–12 months	1–2 years	2–3 years	3–5 years	over 5 years
PLN	floating	77 350	77 350	29 993	6 864	7 333	7 308	14 316	11 536
	fixed	1 316 062	1 316 062	20 444	112 297	147 478	162 214	324 429	549 200
Total PLN		1 393 412	1 393 412	50 437	119 161	154 811	169 522	338 745	560 736
EUR	floating	2 025	8 630	8 630	–	–	–	–	–
Total EUR		2 025	8 630	8 630	–	–	–	–	–
USD	floating	404	1 576	1 576	–	–	–	–	–
Total USD		404	1 576	1 576	–	–	–	–	–
Total			1 403 618	60 643	119 161	154 811	169 522	338 745	560 736
Interest increasing carrying amount			8 158						
Total loans and borrowings			1 411 776						

Loans and borrowings taken out as at 31 December 2014

Currency	Interest rate	Value of loans and borrowings as at the balance sheet date		of which maturing within (after the balance sheet date):					
		currency	PLN	less than 3 months	3–12 months	1–2 years	2–3 years	3–5 years	over 5 years
PLN	floating	59 697	59 697	6 116	6 126	7 534	7 333	18 466	14 122
	fixed	1 153 997	1 153 997	20 443	112 289	132 733	132 733	265 464	490 335
Total PLN		1 213 694	1 213 694	26 559	118 415	140 267	140 066	283 930	504 457
EUR	floating	2 796	11 918	11 918	–	–	–	–	–
	fixed	–	–	–	–	–	–	–	–
Total EUR		2 796	11 918	11 918	–	–	–	–	–
Total			1 225 612	38 477	118 415	140 267	140 066	283 930	504 457
Interest increasing carrying amount			6 420						
Total loans and borrowings			1 232 032						

Change in the balance of loans and borrowings excluding interest increasing the carrying amount in the year ended 31 December 2015 and 31 December 2014 has been presented below.

	Year ended 31 December 2015	Year ended 31 December 2014
Opening balance	1 225 612	1 477 456
Movement in bank overdrafts and cash pool loans	23 184	(82 740)
Movement in loans (excluding bank overdrafts and cash pool loans):	154 822	(169 104)
Taken out*	294 705	–
Repaid	(140 585)	(169 971)
Change in valuation	702	867
Closing balance	1 403 618	1 225 612

* Costs of the loan have been included.

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

Loans/ borrowings	Borrowing institution	Purpose	Interest rate	Maturity date	As at 31 December 2015	As at 31 December 2014
Loans	European Investment Bank	Coal unit at Jaworzno III Power Plant	Fixed – agreed until 15 June 2016	15.12.2021	126 218	147 240
		EC Bielsko Biala coal unit	Fixed – agreed until 15 June 2016	15.12.2021	180 303	210 334
		Modernization and extension of power grid	Fixed – agreed until 15 December 2017	15.06.2024	348 325	389 284
			Fixed – agreed until 15 March 2018	15.09.2024	165 467	183 846
			Fixed – agreed until 15 March 2018	15.09.2024	206 746	229 707
		Modernization and extension of power grid and improvement of hydropower plants	Fixed – agreed until 15 September 2019	15.03.2027	297 132	–
Borrowings	Regional Fund for Environmental Protection and Water Management	Construction of renewable power unit at Jaworzno III Power Plant	Floating	15.12.2022	28 000	32 000
		Construction of biomass infeed installation and modernization of fluid bed at Tychy Generation Plant	Floating	15.12.2022	19 216	21 747
Other loans and borrowings					40 369	17 874
Total					1 411 776	1 232 032

33.2. Bonds issued

Bonds issued as at 31 December 2015

Issuer	Tranche/ Bank	Redemption date	Currency	As at balance sheet date		of which maturing within (after the balance sheet date):				
				Interest accrued	Principal at amortised cost	up to 3 months	3–12 months	1–2 years	2–5 years	Over 5 years
TAURON Polska Energia S.A.	C	12 December 2016	PLN	4 389	2 998 938	2 249 203	749 735	–	–	–
		20 December 2019	PLN	106	99 836	–	–	–	99 836	–
		20 December 2020	PLN	106	99 823	–	–	–	99 823	–
		20 December 2021	PLN	106	99 815	–	–	–	–	99 815
		20 December 2022	PLN	106	99 808	–	–	–	–	99 808
		20 December 2023	PLN	106	99 802	–	–	–	–	99 802
		20 December 2024	PLN	106	99 800	–	–	–	–	99 800
	BGK*	20 December 2025	PLN	106	99 796	–	–	–	–	99 796
		20 December 2026	PLN	106	99 792	–	–	–	–	99 792
		20 December 2027	PLN	106	99 790	–	–	–	–	99 790
		20 December 2028	PLN	97	99 790	–	–	–	–	99 790
		20 December 2020	PLN	12	70 000	–	–	–	70 000	–
		20 December 2021	PLN	12	70 000	–	–	–	–	70 000
		20 December 2022	PLN	12	70 000	–	–	–	–	70 000
	TPEA1119	4 November 2019	PLN	7 508	1 749 043	–	–	–	1 749 043	–
TAURON Sweden Energy AB (publ)		3 December 2029	EUR	1 921	709 495	–	–	–	–	709 495
Total debentures				14 905	6 665 528	2 249 203	749 735	–	2 018 702	1 647 888

* Bank Gospodarstwa Krajowego.

On 31 December 2015 Tranche C bonds maturing on 12 December 2016 were classified as liabilities maturing within 3 months due to the intention of early redemption. On 29 February 2016 the Company redeemed the bonds in question before maturity, as discussed in detail in Note 53 to these consolidated financial statements.

Bonds issued as at 31 December 2014

Issuer	Tranche/ Bank	Redemption date	Currency	As at balance sheet date		of which maturing within (after the balance sheet date):				
				Interest accrued	Principal at amortised cost	up to 3 months	3–12 months	1–2 years	2–5 years	Over 5 years
TAURON Polska Energia S.A.	B	12 December 2015	PLN	485	299 716	–	299 716	–	–	–
	B	30 January 2015	PLN	2 287	150 000	150 000	–	–	–	–
	C	12 December 2016	PLN	4 849	2 997 442	–	–	2 997 442	–	–
		20 December 2019	PLN	115	99 797	–	–	–	99 797	–
		20 December 2020	PLN	115	99 791	–	–	–	–	99 791
		20 December 2021	PLN	115	99 787	–	–	–	–	99 787
		20 December 2022	PLN	115	99 784	–	–	–	–	99 784
	BGK*	20 December 2023	PLN	115	99 781	–	–	–	–	99 781
		20 December 2024	PLN	115	99 781	–	–	–	–	99 781
		20 December 2025	PLN	115	99 780	–	–	–	–	99 780
		20 December 2026	PLN	115	99 777	–	–	–	–	99 777
		20 December 2027	PLN	115	99 776	–	–	–	–	99 776
	TPEA1119	4 November 2019	PLN	7 953	1 748 810	–	–	–	1 748 810	–
TAURON Sweden Energy AB (publ)		3 December 2029	EUR	1 923	709 276	–	–	–	–	709 276
Total debentures				18 532	6 803 298	150 000	299 716	2 997 442	1 848 607	1 507 533

* Bank Gospodarstwa Krajowego.

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

Change in the balance of bonds excluding interest accrued in the year ended 31 December 2015 and in the comparable period has been presented below.

	Year ended 31 December 2015	Year ended 31 December 2014
Opening balance	6 803 298	4 291 460
Issue*	309 789	3 649 150
Redemption	(450 000)	(1 148 200)
Change in valuation	2 441	10 888
Closing balance	6 665 528	6 803 298

* Costs of issue have been included.

Changes in the balance of bonds in the year ended 31 December 2015 resulted from the following events:

- Redemption – On 30 January 2015 and on 12 December 2015 the Company redeemed Tranche B bonds with the par value of PLN 150 000 thousand and PLN 300 000 thousand, respectively, at their maturity.
- Issue – Pursuant to the agreement with Bank Gospodarstwa Krajowego, in 2015 the Company issued bonds with the total par value of PLN 310 000 thousand: one tranche with the par value of PLN 100 000 thousand and three tranches with the par value of PLN 70 000 thousand each.

In July 2015 TAURON Polska Energia S.A. and Bank Gospodarstwa Krajowego concluded an annex to the scheme agreement concerning the bond issue scheme organization, under which the amount of the bond issue scheme increased from PLN 1 000 000 thousand to PLN 1 700 000. Bank Gospodarstwa Krajowego acts as an arranger, underwriter and depositary. The bonds were issued to finance capital expenditure of the TAURON Group. The value of the bond scheme with securities of at maximum 15-year maturity periods and 6-month interest periods is PLN 1 700 000 thousand. Under the increased bond issue scheme as at the date of concluding the annex, PLN 300 000 was underwritten; subsequently, pursuant to another annex of 20 November 2015, the amount underwritten by Bank Gospodarstwa Krajowego was increased by PLN 400 000 thousand, up to the total scheme amount of PLN 1 700 000 thousand. In accordance with the financing structure bonds will be issued in series in the years 2015–2016 and they will mature from 2020 to 2029. In December 2015 the Company issued bonds with the total par value of PLN 210 000 thousand maturing on 20 December 2020, 20 December 2021 and 20 December 2022 under the increased bond scheme.

Moreover, 17 500 TPEA1119 series bearer bonds with the total face value of PLN 1 750 000 thousand and the unit face value of PLN 100 thousand issued by the Company in 2014 were listed in the Catalyst market in the year ended 31 December 2015. The first listing took place on 12 March 2015 and the last listing on 22 October 2019.

Concluding contracts regarding the bond issue scheme

On 24 November 2015, the Company, Bank Handlowy w Warszawie S.A., Bank of Tokyo-Mitsubishi UFJ (Holland) BV, Bank of Tokyo-Mitsubishi UFJ (Polska) S.A., Bank Zachodni WBK S.A., CaixaBank S.A. (Spółka Akcyjna) Branch in Poland, Industrial and Commercial Bank of China (Europe) S.A. Branch in Poland, ING Bank Śląski S.A. and Powszechna Kasa Oszczędności Bank Polski S.A. signed an agency and depositary agreement and an underwriting agreement providing for a bond issue scheme (the “Scheme”) totaling PLN 6 270 000 thousand. The proceeds of the issue under the Scheme will be used for covering expenditures related to implementation of the investment program of the TAURON Group, refinancing its debt or covering corporate expenses of the Group.

As part of the Scheme, the Company will be able to issue bonds repeatedly until 31 December 2020. The said bonds will be unsecured, coupon, floating rate bearer securities with the par value of PLN 100 thousand each and maturity of 1, 3, 6, 12, 24, 36, 48 or 58 months. Their issue will be underwritten, which means that the underwriters (banks being parties to the underwriting agreement) will commit to purchase the bonds issued by the Company under the Scheme.

After the end of the reporting period, the Company issued bonds under the aforementioned Scheme, which has been discussed in more detail in Note 53 to these financial statements.

The Company hedges a portion of interest cash flows related to bonds issued under Tranche C using IRS contracts. The instruments are subject to hedge accounting, as discussed in Note 34 hereto.

The contracts signed by the Company with banks include legal and financial covenants which are commonly used in such transactions. As at 31 December 2015, none of these covenants were breached and the contractual provisions were complied with.

33.3. Finance lease

	As at 31 December 2015		As at 31 December 2014	
	Minimum lease payments	Present value of lease payments	Minimum lease payments	Present value of lease payments
Within 1 year	13 909	12 715	15 146	13 461
Within 1 to 5 years	34 691	33 701	48 731	46 420
More than 5 years	24	22	26	23
Minimum lease payments, total	48 624	46 438	63 903	59 904
Less amounts representing finance charges	(2 186)	–	(3 999)	–
Present value of minimum lease payments, of which:	46 438	46 438	59 904	59 904
Current	12 715	12 715	13 461	13 461
Non-current	33 723	33 723	46 443	46 443

Key finance lease items as at 31 December 2015:

- liability due to lease of buildings in Katowice in the amount of PLN 30 169 thousand (as at 31 December 2014 it was PLN 33 159 thousand);
- liability due to lease of machines and technical equipment and real estate in the amount of PLN 15 785 thousand (as at 31 December 2014 it was PLN 24 928 thousand).

34. Derivative instruments

	As at 31 December 2015				As at 31 December 2014			
	Charged to profit or loss	Charged to other com- prehensive income	Total		Charged to profit or loss	Charged to other com- prehensive income	Total	
			Assets	Liabilities			Assets	Liabilities
CCIRS	(11 368)	–	3 055	(14 423)	258	–	1 499	(1 241)
IRS	(4 833)	(90 634)	–	(95 467)	(17 746)	(176 567)	–	(194 313)
Commodity forwards/futures	17	–	2 225	(2 208)	(250)	–	312	(562)
Currency forwards	393	–	404	(11)	–	–	–	–
Total derivative instruments, including:			5 684	(112 109)			1 811	(196 116)
Current			5 668	(96 953)			1 811	(102 615)
Non-current			16	(15 156)			–	(93 501)

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

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

Hierarchy of fair value of financial derivative instruments is determined as follows:

Classes of financial instruments	As at 31 December 2015		As at 31 December 2014	
	Level 1	Level 2	Level 1	Level 2
Assets				
Commodity – related derivatives	2 225	–	312	–
Derivate instruments – CCIRS	–	3 055	–	1 499
Derivative instruments – currency	–	404	–	–
Liabilities				
Commodity – related derivatives	2 208	–	562	–
Currency derivatives	–	11	–	–
Derivate instruments – CCIRS	–	14 423	–	1 241
IRS derivatives	–	95 467	–	194 313

Derivative instruments used for hedging – IRS

As at 31 December 2015 the Group concluded hedging transactions subject to specific risk management policy. In March 2012 the Company hedged 80% of interest cash flows related to bonds issued under Tranche C and a portion of Tranche A having entered into 5-year IRS contracts. The aforementioned transaction was concluded due to fluctuations in the projected future cash flows from interest payments resulting from the issue of bonds in PLN with a floating interest rate based on WIBOR 6M. These instruments were subject to hedge accounting.

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

Derivative instruments CCIRS relate to the Coupon Cross Currency Swap contract entered into by the Company on 24 November 2014, which consisted in a swap of interest payments from the nominal value of EUR 168 000 thousand. In accordance with the contract, the Company pays interest accrued based on a floating interest rate in PLN and receives fixed interest-rate payments in EUR. Hedge accounting principles do not apply to the transaction in question. After the balance sheet date, on 12 February 2016 the transaction in question was closed and on 15 February 2016 it was settled in cash, hence the Company received PLN 5 400 thousand.

35. Provisions for employee benefits

	As at 31 December 2015	As at 31 December 2014
Provision for post-employment benefits and jubilee bonuses	1 850 375	2 044 405
Provision for employment termination benefits	57 336	62 872
Total	1 907 711	2 107 277
Current	172 505	158 954
Non-current	1 735 206	1 948 323

35.1. Provisions for post-employment benefits and jubilee bonuses

Change in provisions for employee benefits for the year ended 31 December 2015

	Provision for retirement, disability and similar benefits	Employee electricity rates	Social Fund	Provision for coal allowances	Jubilee bonuses	Provisions, total
Opening balance	357 017	769 975	170 242	67 661	679 510	2 044 405
Current service costs	14 533	8 144	2 960	983	39 023	65 643
Actuarial gains and losses, of which:	(11 222)	(47 439)	(6 084)	222	(8 683)	(73 206)
arising from changes in financial assumptions	(29 065)	(63 451)	(12 090)	–	(39 657)	(144 263)
arising from changes in demographic assumptions	2 439	15 946	3 749	–	6 687	28 821
arising from other changes	15 404	66	2 257	222	24 287	42 236
Benefits paid	(24 011)	(22 784)	(3 943)	(1 321)	(61 515)	(113 574)
Past service costs	(3 115)	(2 321)	(35 561)	(68 432)	(10 197)	(119 626)
Interest expense	7 922	17 159	3 496	887	15 027	44 491
Other changes	–	–	–	2 242	–	2 242
Closing balance	341 124	722 734	131 110	2 242	653 165	1 850 375
Current	22 734	23 527	4 286	2 242	71 793	124 582
Non-current	318 390	699 207	126 824	–	581 372	1 725 793

Change in provisions for employee benefits for the year ended 31 December 2014

	Provision for retirement, disability and similar benefits	Employee electricity rates	Social Fund	Provision for coal allowances	Jubilee bonuses	Provisions, total
Opening balance	282 621	569 140	121 571	49 457	582 840	1 605 629
Current service costs	12 492	6 716	2 564	942	37 216	59 930
Actuarial gains and losses, of which:	76 361	198 657	46 547	17 029	112 160	450 754
arising from changes in financial assumptions	62 025	214 149	42 304	17 628	79 744	415 850
arising from changes in demographic assumptions	(451)	164	790	734	1 720	2 957
arising from other changes	14 787	(15 656)	3 453	(1 333)	30 696	31 947
Benefits paid	(19 420)	(22 179)	(4 756)	(1 715)	(62 784)	(110 854)
Past service costs	(6 382)	(5 057)	(565)	(14)	(13 132)	(25 150)
Interest expense	11 345	22 698	4 881	1 962	23 210	64 096
Closing balance	357 017	769 975	170 242	67 661	679 510	2 044 405
Current	21 707	24 339	4 839	1 883	55 740	108 508
Non-current	335 310	745 636	165 403	65 778	623 770	1 935 897

A decrease in provision for post-employment benefits and jubilee benefits in the year ended 31 December 2015 resulted mostly from:

- adoption of the discount rate of 2.75% for the purposes of actuarial valuation, while in the financial year ended 31 December 2014 the discount rate applied had been 2.25%. Change in the other actuarial assumptions affected the provision increase. Change in the provision for actuarial gains and losses resulted in an increase of other comprehensive income, and its portion related to jubilee benefits affected the financial profit/loss of the Group;
- derecognition of provisions related to amendments to regulations underlying the benefits payment (the solution presented under post-employment costs). The most significant item included amounts to PLN 103 772 thousand from derecognized provision for the Social Benefits Fund and for coal allowances in a Mining segment company. Following the changes introduced to the Social Benefits Fund Regulations and to the Collective Labor Agreement the provisions in question were derecognized in the financial year ended 31 December 2015.

Measurement of provisions for employee benefits

Provisions for employee benefits have been estimated using actuarial methods. Key actuarial assumptions made as at the reporting date for the purpose of the provision calculation:

	31 December 2015	31 December 2014
Discount rate (%)	2.75%	2.25%
Estimated inflation rate (%)	2.35%	2.35%
Employee rotation rate (%)	1.14% – 9.10%	1.25% – 10.63%
Estimated salary increase rate (%)	0.23% – 2.43%	1.40% – 2.79%
Estimated electricity price increase rate (%)	4.30%	4.80%
Estimated increase rate for contribution to the Social Fund (%)	4.50%	4.50%
Remaining average employment period	9.80 – 14.90	9.00 – 15.30

As at 31 December 2015 the Group analyzed sensitivity of measurement results to changes in the financial discounting rates and changes in the planned increases in the base amounts in the range of -0.5 p.p./+0.5 p.p.

Carrying amounts of individual provisions and provisions calculated based on changed assumptions have been presented below:

Provision title	Carrying amount	Financial discount rate		Planned base increases	
		-0.5 p.p.	+0.5 p.p.	-0.5 p.p.	+0.5 p.p.
Provision for retirement, disability and similar benefits	341 124	363 082	321 298	321 531	365 683
Employee electricity rates	722 734	787 748	665 860	664 034	789 120
Costs of appropriation to Social Benefits Fund	131 110	143 192	120 557	120 047	143 668
Jubilee bonuses	653 165	680 426	626 410	626 422	685 415
Total		1 974 448	1 734 125	1 732 034	1 983 886

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

Provision title	Carrying amount	Deviations			
		Financial discount rate		Planned base increases	
		-0.5 p.p.	+0.5 p.p.	-0.5 p.p.	+0.5 p.p.
Provision for retirement, disability and similar benefits	341 124	21 958	(19 826)	(19 593)	24 559
Employee electricity rates	722 734	65 014	(56 874)	(58 700)	66 386
Costs of appropriation to Social Benefits Fund	131 110	12 082	(10 553)	(11 063)	12 558
Jubilee bonuses	653 165	27 261	(26 755)	(26 743)	32 250
Total, including:		126 315	(114 008)	(116 099)	135 753
effect on profit/loss		27 261	(26 755)	(26 743)	32 250
effect on other comprehensive income		99 054	(87 253)	(89 356)	103 503

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

Maturities of employee benefit provisions

	Retirement, disability and similar benefits	Employee electricity rates	Social Fund	Coal allowances	Jubilee bonuses	Provisions, total
31/12/2016	22 734	23 527	4 286	2 242	71 793	124 582
31/12/2017	17 500	27 234	4 282	–	48 866	97 882
31/12/2018	12 255	27 102	4 272	–	46 069	89 698
31/12/2019	10 315	26 391	4 258	–	43 228	84 192
31/12/2020 and subsequent years	278 320	618 480	114 012	–	443 209	1 454 021
Total	341 124	722 734	131 110	2 242	653 165	1 850 375

35.2. Provisions for employment termination benefits

Year ended 31 December 2015

	Voluntary redundancy schemes in operating segments			Other	Total
	Mining	Generation	Distribution		
Opening balance	–	38 867	22 236	1 769	62 872
Recognition	4 750	9 864	24 898	8 444	47 956
Reversal	(4 750)	(419)	(3 563)	–	(8 732)
Utilization	–	(24 852)	(18 139)	(1 769)	(44 760)
Closing balance	–	23 460	25 432	8 444	57 336
Current	–	14 047	25 432	8 444	47 923
Non-current	–	9 413	–	–	9 413

Year ended 31 December 2014

	Voluntary redundancy schemes in operating segments		Other	Total
	Generation	Distribution		
Opening balance	28 787	17 584	8 182	54 553
Recognition	28 700	16 742	–	45 442
Reversal	–	–	(3 454)	(3 454)
Utilization	(18 620)	(12 090)	(2 959)	(33 669)
Closing balance	38 867	22 236	1 769	62 872
Current	26 441	22 236	1 769	50 446
Non-current	12 426	–	–	12 426

In the year ended 31 December 2015 the TAURON Group followed Voluntary Redundancy Schemes introduced in previous years and implemented new schemes.

36. Provisions for dismantling of fixed assets and restoration of land

Year ended 31 December 2015

	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	Provisions, total
Opening balance	120 704	42 774	–	163 478
Interest cost (discounting)	2 996	961	–	3 957
Discount rate adjustment	(13 308)	(675)	–	(13 983)
Recognition/(reversal), net	1 283	(1 205)	182 877	182 955
Reclassification from liabilities of a disposal group classified as held for sale	–	59 389	–	59 389
Closing balance	111 675	101 244	182 877	395 796
Current	–	905	19 428	20 333
Non-current	111 675	100 339	163 449	375 463
Other provisions, long-term portion				1 909
Total				377 372

Year ended 31 December 2014

	Provision for mine decommissioning costs	Provision for restoration of land and dismantling and removal of fixed assets	Provisions, total
Opening balance	44 620	96 280	140 900
Interest cost (discounting)	1 785	3 826	5 611
Discount rate adjustment	76 282	24 426	100 708
Recognition/(reversal), net	(1 983)	(23 422)	(25 405)
Reclassification to liabilities of a disposal group classified as held for sale	–	(58 336)	(58 336)
Closing balance	120 704	42 774	163 478
Current	–	871	871
Non-current	120 704	41 903	162 607
Other provisions, long-term portion			2 671
Total			165 278

36.1. 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. More details on the calculation of the provision have been presented in Note 9.20 hereto.

A reduction in the provision of PLN 13 308 thousand in the year ended 31 December 2015 results from higher discount rates assumed for valuation purposes (2.75%–3.04%) compared to 31 December 2014 (2.25%–2.50%). At the same time, in the comparable period, following a reduction in the discount rate assumed for the purpose of provision measurement as at 31 December 2014 (from 4% to 2.25%–2.50%) the Group incurred costs of provisions in the amount of PLN 76 282 thousand.

The provision for mine decommissioning costs includes the balance of Mine Decommissioning Fund (MDF) which, in accordance with the provisions of Geological and Mining Law and secondary legislation thereto, is established by mining enterprises included in the Capital Group as a percentage of tax value of depreciation charges on fixed assets or, with regard to the exploitation fee, through transfers of cash equivalents of the charges to a separate bank account. Financial assets of the Fund are presented in the statement of financial position under non-current financial assets, while the balance of the Fund is recognized under provision for future costs of decommissioning mine facilities. The following tables present the amount of appropriation to the Fund, the Fund's assets and the balance of liabilities arising from future costs of mine decommissioning.

Mine Decommissioning Fund financial assets

	Year ended 31 December 2015	Year ended 31 December 2014
Assets as at 1 January	38 232	33 260
Contributions made	4 463	3 971
Interest	809	1 001
Use	(1 375)	–
Assets as at 31 December	42 129	38 232
Transfers made to the MDF in the period	(4 113)	(4 459)

Provision for mine decommissioning costs

	Year ended 31 December 2015	Year ended 31 December 2014
Mine Decommissioning Fund	43 731	42 625
Surplus of discounted estimated decommissioning costs	67 944	78 079
Total	111 675	120 704

36.2. Provision for costs of restoration of land and dismantling and removal of fixed assets

The provision for costs of rehabilitation and disassembly and liquidation of fixed assets includes the following provisions recognized by the Generation segment companies:

- provision for costs related to rehabilitation of ash piles whose balance as at 31 December 2015 was PLN 41 855 thousand (PLN 42 774 thousand as at 31 December 2014);
- provision for expenses related to wind farms disassembly of PLN 59 389 thousand.

As at 31 December 2015, following reclassification of wind farms, which as at 31 December 2014 had been classified as a disposal group held for sale, the provision for disassembly of wind farms was reclassified from items directly related to assets held for sale to provisions for costs of rehabilitation and disassembly and for liquidation of fixed assets.

36.3. Provision for onerous contracts

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

In relation to the above, in the year ended 31 December 2015 the Company recognized provision for onerous contracts with a jointly-controlled entity – Elektrociepłownia Stalowa Wola S.A. in the amount of PLN 182 877 thousand.

Under the long-term agreement concerning sale of electricity concluded by Elektrociepłownia Stalowa Wola S.A., the Company and PGNiG Energia S.A., the Company is obliged to buy a half of the volume of electricity for the price calculated as “cost plus” formula, covering production costs and ensuring servicing of the financing. The estimated provision is calculated based on the difference between planned market prices of electricity and costs resulting from the “cost plus” formula. The provision was estimated in the amount of PLN 123 254 thousand.

Under the comprehensive contract to supply gaseous fuels concluded by PGNiG S.A. and Elektrociepłownią Stalowa Wola S.A., Elektrociepłownią Stalowa Wola S.A. is obliged to pay for untaken gaseous fuels to PGNiG S.A. or to sell it on the market (the contract provision “take or pay”). The Company may be obliged to cover potential losses being a result of this provision. In the process of calculating the provision the volume of gaseous fuels for the years 2016–2018 was applied according to the contractual terms. The provision as at the end of the reporting period amounted to PLN 51 661 thousand, of which PLN 19 428 thousand was classified under current provision.

At the same time, in connection with the delay of the realization of the project, and thus the necessity to cover costs of operations of Elektrociepłownia Stalowa Wola S.A. the Company as at the end of the reporting period recognized the provision for the costs in question in the amount of PLN 7 962 thousand. The provisions for costs of realization of the contract to supply gaseous fuels and for the additional costs of operations have been recognized proportionally to the Company's share in a jointly-controlled entity.

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

Provisions for liabilities due to gas emission and energy certificates are related to the current year, therefore the entire amount of these provisions is considered short-term.

Year ended 31 December 2015

	Provision for gas emission obligations	Provision for obligation to submit energy certificates	Provisions, total
Opening balance	8 130	914 926	923 056
Recognition	153 084	863 210	1 016 294
Reversal	(2 290)	(2 202)	(4 492)
Utilisation	(5 841)	(910 883)	(916 724)
Closing balance	153 083	865 051	1 018 134

Year ended 31 December 2014

	Provision for gas emission obligations	Provision for obligation to submit energy certificates	Provisions, total
Opening balance	461 123	905 561	1 366 684
Recognition	73 051	917 784	990 835
Reversal	–	(2 783)	(2 783)
Utilisation	(463 362)	(905 636)	(1 368 998)
Contribution	(62 682)	–	(62 682)
Closing balance	8 130	914 926	923 056

37.1. Provision for the obligation to surrender energy certificates

As at 31 December 2015, the Group recognized a short-term provision for the obligation to surrender energy certificates for cancellation of PLN 865 051 thousand, out of which PLN 652 305 thousand were covered with certificates held as at the end of the reporting period; the Group intends to cover the amount of PLN 188 757 thousand through payment of a replacement fee, and the amount of PLN 23 989 through purchase of property rights.

In the year ended 31 December 2015 the Group completely fulfilled the requirement to surrender certificates of electricity generated using renewable sources, in cogeneration and energy efficiency certificates for 2014. Therefore, a provision of PLN 910 883 thousand has been utilized.

37.2. Provision for gas emission liabilities

As at 31 December 2015, the provision for gas emission liabilities amounted to PLN 153 083 thousand. The provision was recognized for installations of TAURON Wytwarzanie S.A. and TAURON Ciepło Sp. z o.o., as in both companies emission in the year ended 31 December 2015 exceeded the number of free-of-charge emission allowances. Provision for absorption of deficit costs, i.e. of emission exceeding the number of free-of-charge allowances, was recognized in the amount of purchased emission allowances presented as short-term intangible assets with the carrying amount of PLN 153 083 thousand.

As at 31 December 2015, the number of allowances recorded on the Group's account in the National Register of Allowances reached 23 737 448.

38. Other provisions

Year ended 31 December 2015

	Provision for use of real estate without contract	Provision for counterparty claims, court dispute and other provisions	Provisions, total
Opening balance	93 818	66 341	160 159
Recognition/(reversal), net	3 587	5 840	9 427
Utilisation	(5 496)	(6 240)	(11 736)
Other movements	–	1 771	1 771
Foreign exchange differences from translation of foreign entities	–	(1)	(1)
Closing balance	91 909	67 711	159 620
Current	91 909	65 802	157 711
Non-current	–	1 909	1 909
Current portion of provisions for the costs of disassembly of fixed assets and land restoration and other provisions			20 333
Total current other provisions			178 044

Year ended 31 December 2014

	Provision for use of real estate without contract	Provision for counterparty claims, court dispute and other provisions	Provisions, total
Opening balance	104 827	92 016	196 843
Discount rate adjustment	–	25	25
Recognition/(reversal), net	(3 997)	(7 079)	(11 076)
Utilisation	(7 012)	(6 625)	(13 637)
Contribution	–	(13 033)	(13 033)
Other movements	–	1 024	1 024
Foreign exchange differences from translation of foreign entities	–	13	13
Closing balance	93 818	66 341	160 159
Current	93 818	63 670	157 488
Non-current	–	2 671	2 671
Current portion of provision for the costs of disassembly of fixed assets and land restoration			871
Total current other provisions			158 359

Provision for use of real estate without contract

The Group companies recognize provisions for all claims filed by the owners of the real estate on which distribution systems and heat installations are located. As at 31 December 2015, the relevant provision amounted to PLN 91 909 thousand and covered the following segments:

- Generation – PLN 50 334 thousand;
- Distribution – PLN 41 575 thousand.

In 2012 a third party lodged a claim against TAURON Ciepło S.A. (currently: TAURON Ciepło Sp. z o.o.) related to the regulation of legal status of the transmission devices located in its property. The Company has questioned the validity of the claim and of the offset made against the claimant's current liabilities due to heat supply. Consequently, the Company has claimed its current receivables at court. The amount of claims posed by the entity in relation to regulating the legal status of the company's transmission facilities will be verified further 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, and in accordance with IAS 37.92, the Group does not disclose all information regarding the above issue as required by IAS 37.

39. Accruals, deferred income and government grants

39.1. Deferred income and government grants

	As at 31 December 2015	As at 31 December 2014
Deferred income, of which:	325 861	358 247
Donations, subsidies received for the purchase or fixed assets received free-of-charge	83 308	94 599
Connection fees	240 485	262 895
Other	2 068	753
Government grants, of which:	382 660	359 190
Subsidies obtained from EU funds	286 222	267 438
Forgiven loans from environmental funds	11 801	8 740
Measurement of preferential loans	39 401	41 177
Other	45 236	41 835
Total, of which:	708 521	717 437
Non-current	650 364	662 072
Current	58 157	55 365

39.2. Current accruals

	As at 31 December 2015	As at 31 December 2014
Unused holidays	37 468	41 403
Bonuses	140 946	140 372
Environmental protection charges	4 449	4 688
Other	13 317	3 692
Total	196 180	190 155

40. Liabilities due to taxes and charges

	As at 31 December 2015	As at 31 December 2014
Corporate Income Tax	85 357	13 518
Personal Income Tax	46 841	47 696
Excise	42 467	45 640
VAT	46 787	37 772
Social security	156 635	164 780
Environmental charges	46 889	43 629
Other	4 673	2 601
Total	429 649	355 636

41. Other current non-financial liabilities

	As at 31 December 2015	As at 31 December 2014
Payments from customers relating to future periods, of which:	273 168	266 053
prepayments for connection fees	25 366	26 100
amounts overpaid by customers	240 700	224 510
other	7 102	15 443
Other	754	11 518
Total	273 922	277 571

42. Significant items of the consolidated statement of cash flows

42.1. Cash flows from operating activities

Change in working capital

	Year ended 31 December 2015	Year ended 31 December 2014
Change in receivables	118 806	111 716
Change in inventories	90 497	(43 868)
Change in payables excluding loans and borrowings	(180 636)	(234 014)
Change in other non-current and current assets	(104 176)	(178 409)
Change in deferred income, government grants and accruals	(73 962)	(67 333)
Change in provisions	141 843	(295 463)
Total	(7 628)	(707 371)

42.2. Cash flows from investing activities

Purchase of property, plant and equipment and intangible assets

	Year ended 31 December 2015	Year ended 31 December 2014
Purchase of property, plant and equipment	(3 877 348)	(2 819 090)
Purchase of intangible assets	(117 145)	(118 373)
Change in the balance of VAT – adjusted capital commitments	138 635	(64 088)
Change in the balance of advance payments	49 172	(298 271)
Costs of overhaul and internal manufacturing	(180 912)	(150 793)
Other	14 088	(13 963)
Total	(3 973 510)	(3 464 578)

Acquisition of financial assets

Expenditure for acquisition of financial assets resulted primarily from the Parent's transfer of cash intended to finance shares in the increased issued capital of PGE EJ 1 Sp. z o.o. totalling to PLN 23 046 thousand.

Loans granted

Expenditure related to loans granted result from portions of a VAT loan extended by the Parent to the jointly-controlled entity Elektrociepłownia Stalowa Wola S.A. totalling to PLN 8 150 thousand and loans granted under agreements entered into in November and December 2015 totalling to PLN 17 950 thousand, as discussed in detail in Note 23 hereto.

42.3. Cash flows from financing activities

Redemption of debt securities

Expenditure for redemption of debt securities result from redemption of Tranche B bonds by the Parent in the amount of PLN 450 000 thousand in the year ended 2015 in accordance with the schedule.

Loans and borrowings repaid

Expenditure on repayment of loans and borrowings of PLN 140 585 thousand disclosed in the consolidated statement of cash flows result mainly from repayment of PLN 132 818 thousand of the loans granted by the European Investment Bank by the Parent.

Interest paid

	Year ended 31 December 2015	Year ended 31 December 2014
Interest paid in relation to debt securities	(286 692)	(253 511)
Interest paid in relation to loans and borrowings	(57 536)	(63 591)
Interest paid in relation to the finance lease	(1 237)	(2 565)
Total, of which:	(345 465)	(319 667)
financing cash outflows	(276 305)	(273 392)
investing cash outflows	(69 160)	(46 275)

The Group's consolidated statement of cash flows discloses borrowing costs capitalized in the current period for asset financing as expenditure for acquisition of property, plant and equipment and intangible assets in cash flows from investing activities.

Proceeds from loans and borrowings obtained by the Company

Proceeds from loans and borrowings obtained of PLN 295 000 thousand comprise a tranche of the loan granted by the European Investment Bank to the Parent under the agreement of July 2014.

Issuance of debt securities

Proceeds from issuing debt securities of PLN 310 000 thousand result from issuing bonds under the agreement with Bank Gospodarstwa Krajowego by the Parent.

OTHER INFORMATION

43. Contingent liabilities

Item	Description
Use of real estate without contract	Entities of the Group do not hold legal titles to all plots of land where distribution networks, heating installation and the related devices are located. 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 their detailed records do not exist. 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 91 909 thousand (Note 38).
Claims filed by Huta Łaziska S.A.	Following the Company's business combination with Górnośląski Zakład Elektroenergetyczny S.A. ("GZE"), TAURON Polska Energia S.A. has become a party to a court dispute with Huta Łaziska S.A. ("Huta"). The key reason was the latter's failure to fulfil its obligation to pay the amounts due for electricity supplies, which led to discontinuation of electricity supplies to Huta Łaziska by GZE in 2001. Based on a decision of 12 October 2001, the President of Energy Regulatory Office (ERO) ordered GZE to resume electricity supplies to Huta 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 a dispute concerning GZE's energy supplies to Huta. The court dismissed Huta's appeal against the decision of the Regional Court in Warsaw dated 19 October 2005, in which the court had dismissed Huta's appeal against the decision of the President of the Energy Regulatory Office. Huta filed a cassation appeal against the judgment of the Court of Appeals in Warsaw, which was dismissed by the judgment of the Supreme Court dated 10 May 2007. Due to discontinuation of electricity supplies, Huta has raised a claim against GZE for damages amounting to PLN 182 060 thousand. Currently, an action is pending under Huta's suit of 12 March 2007 against GZE and the State Treasury represented by the President of ERO for the payment of PLN 182 060 thousand together with interest from the date of filing the suit to the date of payment, in respect of damages for alleged losses resulting from GZE's failure to comply with the decision of the President of the Energy Regulatory Office dated 12 October 2001. In this case, the courts of the first and second instance passed judgments favorable for GZE; however, in its judgment of 29 December 2011 the Supreme Court overruled the judgment of the Court of Appeals and remanded the case for reexamination by that Court. On 5 September 2012, the Court of Appeals overruled the decision of the Regional Court and remanded the case for reexamination. The first hearing before the first instance court was held on 27 November 2012. In May 2015 a court expert prepared an opinion on correctness of settlements between the parties to the dispute. On 30 June 2015 TAURON Polska Energia S.A. lodged complaints against the opinion in question. Complaints against the opinion were also filed by Huta and the State Treasury. In its decision dated 16 September 2015 the court admitted an additional court expert's opinion concerning charges levelled by both parties as evidence. In the most recent pleading lodged, the Company's representative requested that the court expert be promptly excluded from attending the following hearing and that the court expert evidence be rejected. The most recent court hearing was held on 20 January 2016. The next court hearing has been scheduled for 20 May 2016. Based on the Company's legal analysis of the claims raised by Huta and by its main shareholder, GEMI Sp. z o.o., the Company believes that they are groundless and the risk of their satisfaction is remote. As a result, no provision has been recognized by the Company for any costs associated with those claims.
Amount	Claim regarding payment of damages of PLN 182 060 thousand.
Litigation related to termination of long-term contracts	On 18 March 2015, Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. in liquidation, a subsidiary, terminated long-term contracts concerning purchases of electricity and energy certificates from wind farms. Therefore, proceedings were instigated against the company, to consider its termination statements ineffective and to secure non-monetary claims resulting from the above purchase contracts. Since proceedings regarding the above cases are pending, the final claim amount of the potential financial effects on the company and the capital group cannot be estimated.

Item	Description
Registered pledges and a financial pledge on shares of TAMEH HOLDING Sp. z o.o.	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, constituting ca. 50% of shares in the issued capital of the entity for the benefit of RAIFFEISEN BANK INTERNATIONAL AG. The Company established a first lien registered pledge 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. Moreover, the Company assigned the rights to dividend and other payments. Agreement on establishing 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. 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 a release by the pledgee, not later than on 31 December 2028.
Amount	As at 31 December 2015 the carrying amount of investments in joint venture recognized using the equity method in the TAMEH HOLDING Sp. z o.o. capital group was PLN 399 666 thousand.
Administrative proceedings instigated by the President of the Office for Competition and Consumer Protection (UOKiK)	President of UOKiK has instigated the following procedures: – On 12 December 2012 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 charging interest for overdue payments for projected use of electricity groundlessly. Such interest was determined by the automatic payment management system as a result of linking payments made by electricity users with amounts payable in future and marking the oldest liabilities as unpaid. On 16 April 2013 the President of UOKiK issued a decision that obliged the company to discontinue the activities. On 30 June 2015 the company filed a report concerning obligations met. – 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 (Journal of Laws No. 171 item 1206) 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; the "Act on competition and consumer protection"). The company committed to discontinue practices violating 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 requested the company to indicate whether the practices had been discontinued, to which the company responded in February 2016, informed UOKiK about the practices being discontinued and requested refraining from imposing the fine. – Under a decision of 19 December 2014 anti-trust proceedings were instigated regarding the alleged abuse of the dominant position by TAURON Sprzedaż Sp. z o.o. and TAURON Sprzedaż GZE Sp. z o.o. on the reserve electricity distribution market. In 2015 the companies applied for a decision requesting the entities to discontinue activities violating the Act on competition and consumer protection and to take steps preventing the alleged violations. In July 2015 the President of the Office for Competition and Consumer Protection, issued a decision requesting the entities to take appropriate steps to prevent the alleged infringements within four months from the date when the decision becomes final and binding. The entities were obliged to report on fulfilling the obligations within 6 months from the date the decision becomes final and binding. – On 27 January 2015 explanatory proceedings were instigated to provisionally determine if actions taken by TAURON Sprzedaż Sp. z o.o. towards small hydropower plants involving enforcing unfair terms of purchase of electricity generated using renewable sources and conditioning the energy purchase on meeting with the commercial balancing requirement, which may constitute a breach of the Act on competition and consumer protection. Under a decision of 15 October 2015 anti-monopoly proceedings were instigated by the President of UOKiK. On 1 February 2016, UOKiK accepted the company's statement regarding presentation of a determined liability, at the same time determining a 21-day deadline to present a relevant proposal. The companies do not recognize provisions for potential fines arising from the above proceedings, since according to their Management Board, the risk of issuing an unfavorable ruling and imposing a fine is remote.
Explanatory proceedings instigated by the President of UOKiK	Explanatory proceedings have been instigated against companies from the Sales segment to preliminarily determine whether their actions have been in breach of the Act on competition and consumer protection. The companies provided requested documents and explanations and responded to statements included in the letters of UOKiK. The companies' Management believe that, considering the explanatory nature of the proceedings instigated, the probability of an unfavorable outcome of the above-mentioned cases is low; hence no provision has been recognized for these events.

Security of a bank guarantee for Elektrociepłownia Stalowa Wola S.A.

On 31 October 2015 the surety of TAURON Polska Energia S.A. securing the guarantee extended by BGŻ BNP Paribas S.A. to collateralize transactions entered into by a joint arrangement Elektrociepłownia Stalowa Wola S.A. with an unrelated entity, expired as result of an agreement concluded. The original expiry date of the surety was set at 12 September 2018.

44. Contingent assets and liabilities related to tax returns

Tax returns may be inspected within five years, starting from the end of the year when the tax was paid. As a result of such inspections the Group's tax settlements may be increased by additional tax liabilities. As of 31 December 2015, according to the Group assessments, provisions recognized for identified and measurable tax risk were sufficient.

As at the date of the consolidated financial statements, the following proceedings regarding settlements under public law were pending in the Capital Group companies:

Item	Description
Excise duty	In view of the differences between the Polish and EU regulations concerning excise duty on electricity, following the judgment of the European Court of Justice ("ECJ") in Luksemburg of 12 February 2009 power and heat and power plants from the TAURON Capital Group filed tax return correction and applications to acknowledge excise tax excess payment for the years 2006-2008 and for January and February 2009. In the judgment in question ECJ conceded that Polish regulations determining the timing of recognition for excise tax purposes were not adjusted to the requirements of the Energy Directive neither before nor after the transition period. Proceedings concerning individual companies from the TAURON Capital Group (TAURON Wytwarzanie S.A. and TAURON Ciepło Sp. z o.o.) have been carried out before competent tax authorities and Administrative Courts. As the final outcome of this dispute is highly unpredictable, the Group has not recognized any effects of possible reimbursement of excise duty overpayment or claims and possible claims of electricity buyers in these consolidated financial statements.
Amount	The overpaid amounts claimed by the Group approximate PLN 908 500 thousand.
Income tax – an increase in tax-deductible costs by the amount of component repair cost	In accordance with the tax ruling, companies in the Tax Capital Group ("TCG") (TAURON Wytwarzanie S.A. and TAURON Ekoenergia Sp. z o.o.) expensed costs incurred on component repairs over time. At the same time the Company, representing the TCG, appealed against the tax ruling, as in its opinion the repairs in question should be expensed when incurred, on one-off basis, irrespective of the way they are accounted for in the accounting records. Such position was confirmed by the Regional Administrative Court in Gliwice in its decision dated 18 September 2014. On 30 December 2014 the Company filed an application to acknowledge tax excess payment and a tax return correction for 2013, where the component repairs were recognized in tax-deductible expense on one-off basis. At the same time, an impairment loss for income tax receivable has been recognized with relation to the excess payment. In 2015, TCG received an overpayment refund of PLN 22 250 thousand. The impairment loss has been reversed, thus reducing the tax expense for 2015. Following a cassation appeal filed by the Minister of Finance, as at 31 December 2015 the case was awaiting the final decision of the Supreme Administrative Court.
Amount	The refunded overpayment of PLN 22 250 thousand.
Real estate tax	There are different interpretations regarding the approach to real estate tax on electricity generation and transmission facilities. Since the tax is imposed on the local self-government level, there is no unified approach and in several cases, the tax base calculation has been questioned. Depending on court decisions and possible amendments to relevant regulations, the status of real estate tax on electricity generation and transmission facilities may change in future.
Amount	As at the end of the reporting period, provisions were recognized for costs of disputes regarding real estate tax (totaling to PLN 16 038 thousand).
Tax inspection proceedings	The Company is a party to inspection proceedings instigated by the Director of the Tax Inspection Office in Warsaw ("Director of the TIO"). The inspection covers the reliability of declared taxable amounts and the correctness of calculation and payment of value-added tax for individual months from October 2013 to April 2014. The Director of the TIO carries out evidentiary proceedings in the form of written communication with the Company and questioning witnesses. In its subsequent letters the Company responded to requests sent by the Director of the TIO and presented all explanations and documents required. The period of the inspection proceedings was prolonged by the Director of TIO a few times and the new deadline has been set at 28 April 2016. The inspection proceedings are expected to be closed in 2016 but no precise closing date can be determined. As at the date of preparing these consolidated financial statements the Director of the TIO did not present any opinion on the evidence collected, at this stage any possible consequences of his final decision cannot be indicated yet.

45. Collateral against liabilities

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

The carrying amounts of assets pledged as security for liabilities at particular balance sheet dates are presented in the table below.

Carrying amount of assets pledged as collateral against liabilities

	As at 31 December 2015	As at 31 December 2014
Real estate	94 183	115 202
Plant and machinery	39 550	41 719
Cash	22 067	5 792
Total assets pledged as security for liabilities	155 800	162 713

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 31 December 2015 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 1 560 000 thousand, valid until 31 December 2016 – as regards repaid Tranche A and Tranche B - up to PLN 6 900 000 thousand, valid until 31 December 2018 – as regards Tranche C, Tranche D and Tranche E (not disbursed)
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
Framework bank guarantee agreement with PKO Bank Polski S.A. The bank guarantee limit securing transactions may be used by the Company and the TAURON Group companies. As at 31 December 2015 the maximum limit of bank guarantees granted reached PLN 100 000 thousand.	authorization to debit the bank account maintained by PKO Bank Polski S.A.	up to PLN 125 000 thousand
Agreement concluded with Bank Zachodni WBK S.A. concerning bank guarantees for Izba Rozliczeniowa Giełd Towarowych S.A.	authorization to debit the bank account maintained by BZ WBK S.A.	up to PLN 150 000 thousand
Overdraft agreements with PKO Bank Polski S.A. (up to PLN 300 000 thousand and an intraday limit up to PLN 500 000 thousand)	authorizations to debit the bank account maintained by PKO Bank Polski S.A.	up to the total amount of PLN 800 000 thousand
Overdraft agreement with Bank Gospodarstwa Krajowego (in EUR, up to EUR 25 000 thousand)	authorization to debit the bank account maintained by Bank Gospodarstwa Krajowego	up to PLN 106 538 thousand (EUR 25 000 thousand)
	declaration of submission to enforcement	up to EUR 50 000 thousand valid until 31 December 2019

Other forms of collateral regarding Group's liabilities

As at 31 December 2015, other material forms of collateral regarding liabilities of TAURON Capital Group included:

- Blank promissory notes

Agreement/transaction secured by blank promissory notes	Capital Group company that has issued a blank promissory note	Value as at 31 December 2015
Agreements concerning loans originated to subsidiaries: TAURON Wytwarzanie S.A. and TAURON Ciepło Sp. z o.o. by Regional Fund for Environmental Protection and Water Management in Katowice	TAURON Polska Energia S.A.	71 180
Performance bonds to include co-funding of engagements carried out	TAURON Dystrybucja S.A.	131 390
Performance bonds related to co-funding agreements concluded with the National Fund for Environmental Protection and Water Management	TAURON Ciepło Sp. z o.o.	80 579
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.	64 144

- Collateral of finance lease agreements

Finance lease agreement	Lessee	Carrying amount of the leased asset as at 31 December 2015	Collateral
Leaseback agreement concerning real estate, plant and machinery	TAURON Ciepło Sp. z o.o.	56 510	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.
Finance lease agreement concerning real estate in Katowice	TAURON Polska Energia S.A.	28 935	The agreement is collateralized by two blank promissory notes, assignment of receivables and authorization to debit a bank account.

- The Company granted a corporate guarantee to TAURON Sweden Energy AB (publ), a subsidiary, to secure bonds issued by the entity in December 2014. The guarantee is valid in the entire bond period, i.e. until 3 December 2029, and amounts to EUR 168 000 thousand;
- Under the framework agreement for bank guarantees entered into with PKO Bank Polski S.A., upon request of the Company PKO Bank Polski S.A. issued bank guarantees securing liabilities of TAURON Polska Energia S.A.'s subsidiaries totaling PLN 2 185 thousand and securing transactions executed by the Company:
 - up to EUR 1 000 thousand (PLN 4 262 thousand) – a guarantee for CAO Central Allocation Office GmbH (currently: Joint Allocation Office S.A.), valid until 5 February 2016;
 - a performance bond up to PLN 6 300 thousand (Polskie Sieci Elektroenergetyczne S.A.) valid until 11 February 2016;
 - a performance bond up to PLN 3 864 thousand (Operator Gazociągów Przesyłowych GAZ – SYSTEM S.A.) valid until 30 November 2016.
- Under the guarantee agreement concluded with Bank Zachodni WBK S.A., the bank issued a guarantee to secure stock market transactions arising from the membership in the Commodity Clearing House up to PLN 20 000 thousand valid until 15 January 2016;
- collateral for the Company's transactions entered into on Polish Power Exchange:
 - Alienation agreement between TAURON Polska Energia S.A. and Izba Rozliczeniowa Giełd Towarowych S.A. ("IRGIT"). Under the collateral, the number of allowances recorded on the Company's account in the National Register of Allowances reached 5 183 500 EUA. The agreement is valid until 31 March 2016;
 - Alienation agreement between TAURON Wytwarzanie S.A. and IRGiT S.A. The agreement covered a freeze on the following CO₂ emission allowances in the Register of Allowances held by TAURON Wytwarzanie S.A.:
 - 8 000 000 EUA – for the Company's liabilities to IRGiT in the period ended 31 March 2016;
 - 5 040 086 EUA – for trade deposits for transactions conducted by TAURON Wytwarzanie S.A. at TGE S.A. in the period ended 31 March 2016.

As at 18 December 2015, 5 000 000 EUA out of 5 040 086 EUA deposited on the account were returned to TAURON Wytwarzanie S.A. After the transfer 40 086 EUA were still deposited on the account of TAURON Wytwarzanie S.A. in IRGiT, and secured transactions made by TAURON Wytwarzanie S.A. at TGE S.A.

Mining entities from the Capital Group have established a Mine Decommissioning Fund to ensure funds for covering future liquidation costs. Detailed information is provided in Note 36.1.

46. Capital commitments

As at 31 December 2015, the Group committed to incur expenditure on property, plant and equipment and intangible assets in the amount of PLN 5 597 990 thousand, with the following key items:

Operating segment	Agreement/investment project	As at 31 December 2015	As at 31 December 2014
Generation	Construction of a power-generating unit with the capacity of 910 MW for supercritical parameters in Jaworzno III Power Plant	3 773 520	4 390 240
	Commissioning of a part of external coal handling system and an ash removal system for a power-generating unit with the capacity of 910 MW for supercritical parameters in Jaworzno III Power Plant	144 325	–
	Constructing new cogeneration capacity in Tychy Heat and Power Plant	98 970	393 949
Distribution	Implementation of Smart City Wrocław, an intelligent measurement system	91 126	–
Mining	Construction of a shaft inlet and developing infrastructure in Janina shaft	37 986	65 333

47. Related party disclosures

47.1. Transactions with jointly-controlled entities

The Group has the following joint ventures: Elektrociepłownia Stalowa Wola S.A., Elektrownia Blachownia Nowa Sp. z o.o. and TAMEH HOLDING Sp. z o.o. with subsidiaries, which have been presented in detail in note 22 hereto.

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

	Year ended 31 December 2015	Year ended 31 December 2014
Revenue	58 013	10 371
Costs	(36 002)	–

The increase in the transactions value versus the comparative period results from the recognition of a joint arrangement, the TAMEH HOLDING Sp. z o.o. Capital Group since December 2014.

The key item in receivables and payables with jointly-controlled entities is a loan granted to Elektrociepłownia Stalowa Wola S.A. presented in detail in Note 23 hereto.

The Company also granted collateral to joint ventures by providing a registered pledge on shares in TAMEH HOLDING Sp. z o.o., as discussed in detail in note 43 to these consolidated financial statements.

In connection with contracts concluded with a jointly-controlled entity – Elektrociepłownia Stalowa Wola S.A. as at 31 December 2015 the Group recognized a provision for onerous contracts in the amount of PLN 182 877 thousand, as described in detail in Note 36 to these consolidated financial statements.

47.2. Transactions with State Treasury companies

The State Treasury of the Republic of Poland is the Group's key shareholder; therefore State Treasury companies are treated as related parties.

The total amount of transactions with State Treasury entities is presented in the following table.

Revenue and expense

	Year ended 31 December 2015	Year ended 31 December 2014
Revenue	2 558 894	2 820 889
Costs	(3 018 993)	(2 636 725)

Receivables and liabilities

	As at 31 December 2015	As at 31 December 2014
Receivables	367 207	413 102
Payables	270 429	302 646

As at 31 December 2015 receivables presented in the table above included advance payments of PLN 128 650 thousand, mainly advance payments for deliveries of coal of PLN 124 996 thousand and advance payments for purchase of fixed assets of PLN 3 649 thousand. As at 31 December 2014 receivables included advance payments for coal supplies with the value of PLN 115 344 thousand.

In the financial year ended 31 December 2015, the State Treasury companies being the major clients of the TAURON Polska Energia S.A. Capital Group included KGHM Polska Miedź S.A, PSE S.A, PKP Energetyka S.A., Jastrzębska Spółka Węglowa S.A. and Kompania Węglowa S.A. Total sales to these contracting parties accounted for 79% of revenue from transactions with State Treasury companies. The largest purchase transactions were concluded by the Group with PSE S.A. and Kompania Węglowa S.A. Purchases from these contracting parties accounted for 80% of the value of purchases from State Treasury companies in the financial year ended 31 December 2015.

In the financial year ended 31 December 2014, the State Treasury companies being the major clients of the TAURON Polska Energia S.A. Capital Group included KGHM Polska Miedź S.A, PSE S.A, PKP Energetyka S.A., Jastrzębska Spółka Węglowa S.A. and Kompania Węglowa S.A. Total sales to these contracting parties accounted for 87% of revenue from transactions with State Treasury companies. The largest purchase transactions were concluded by the Group with PSE S.A. and Kompania Węglowa S.A. Purchases from these contracting parties accounted for 86% of the value of purchases from State Treasury companies in the financial year ended 31 December 2014.

The Capital Group enters into material transactions in energy markets through Izba Rozliczeniowa Giełd Towarowych S.A. As such entities are only responsible for organization of commodities exchange trading, the Group has decided not to classify purchase and sales 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 concluded on an arm's length basis.

47.3. Executive compensation

	Parent		Subsidiaries	
	Year ended 31 December 2015	Year ended 31 December 2014	Year ended 31 December 2015	Year ended 31 December 2014
Board of Directors	11 225	9 144	22 152	21 546
Short-term employee benefits (salaries and surcharges)	7 333	7 022	19 640	20 865
Post-service benefits for a Member of the Management Board	2 820	600	1 018	–
Post-employment benefits	–	–	599	43
Employment termination benefits	–	750	526	263
Other	1 072	772	369	375
Supervisory Board	1 118	908	990	925
Short-term employee benefits (salaries and surcharges)	1 118	908	927	862
Other	–	–	63	63
Other key management personnel	14 588	12 819	40 541	42 246
Short-term employee benefits (salaries and surcharges)	12 392	11 672	38 580	40 630
Jubilee bonuses	–	–	1 001	1 359
Post-employment benefits	507	140	607	40
Employment termination benefits	627	–	125	–
Other	1 062	1 007	228	217
Total	26 931	22 871	63 683	64 717

The above note does not present provisions for post-service benefits payable to a Member of the Management Board and recognized by the Group in the amount of PLN 6 708 thousand and provisions for post-service benefits payable to other top executives of PLN 180 thousand, which are expected to be paid after the reporting date. The provisions in question were presented in these financial statements under accruals.

Other transactions resulting from civil law agreements concluded between the Parent and members of the entity's governing bodies concern only private use of company cars.

In the year covered by these consolidated financial statements, no loan agreements were concluded between the Social Benefits Fund and members of management and supervisory bodies of the Capital Group. As at 31 December 2015, there were no outstanding loan balances.

48. Financial instruments

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

Categories and classes of financial assets	Note	As at 31 December 2015		As at 31 December 2014	
		Carrying amount	Fair value	Carrying amount	Fair value
1 Assets at fair value through profit or loss, held for trading		5 684		1 811	
Derivative instruments	34	5 684	5 684	1 811	1 811
2 Financial assets available for sale		140 783		116 695	
Shares (non-current)		132 383		108 399	
Shares (current)		4 105		3 997	
Investment fund units		2 405	2 405	2 409	2 409
Bonds, T-bills and other debt securities		1 890	1 890	1 890	1 890
3 Loans and receivables		2 150 918		2 255 585	
Receivables from clients	27	1 830 033	1 830 033	1 917 098	1 917 098
Deposits		39 724	39 724	35 823	35 823
Loans granted		223 911	223 911	204 699	204 699
Bonds, T-bills and other debt securities		–	–	21 732	22 893
Other financial receivables		57 250	57 250	76 233	76 233
4 Financial assets excluded from the scope of IAS 39		418 127		414 584	
Investments in joint ventures	22	418 127		414 584	
5 Cash and cash equivalents	29	364 912	364 912	1 420 909	1 420 909
Total financial assets, of which in the statement of financial position:		3 080 424		4 209 584	
Non-current assets		851 145		791 967	
Investments in joint ventures		418 127		414 584	
Loans granted to joint ventures		221 803		198 331	
Other financial assets		211 215		179 052	
Current assets		2 229 279		3 417 617	
Receivables from clients		1 830 033		1 917 060	
Other financial assets		34 334		79 648	
Cash and cash equivalents		364 912		1 420 909	

Categories and classes of financial liabilities	Note	As at 31 December 2015		As at 31 December 2014	
		Carrying amount	Fair value	Carrying amount	Fair value
1 Financial liabilities at fair value through profit or loss, held for trading		16 642		15 183	
Derivative instruments	34	16 642	16 642	15 183	15 183
2 Financial liabilities measured at amortized cost		9 980 020		9 969 713	
Preferential loans	33.1	47 999	47 999	55 222	55 222
Arm's length loans	33.1	1 353 571	1 375 724	1 164 892	1 202 546
Bank overdrafts	33.1	10 206	10 206	11 918	11 918
Bonds issued	33.2	6 680 433	6 683 707	6 821 830	6 821 830
Liabilities to suppliers		790 706	790 706	916 744	916 744
Other financial liabilities		157 240	157 240	232 215	232 215
Capital commitments		767 759	767 759	595 550	595 550
Salaries and wages		155 957	155 957	154 718	154 718
Insurance contracts		16 149	16 149	16 624	16 624
3 Liabilities under guarantees, factoring and excluded from the scope of IAS 39		46 438		59 904	
Obligations under finance leases	33.3	46 438	46 438	59 904	59 904
4 Derivative hedging instruments (liabilities)	34	95 467	95 467	180 933	180 933
Total financial liabilities, of which in the statement of financial position:		10 138 567		10 225 733	
Non-current liabilities		5 025 832		7 611 262	
Debt liabilities		4 924 127		7 468 775	
Derivative instruments		15 156		93 501	
Other financial liabilities		86 549		48 986	
Current liabilities		5 112 735		2 614 471	
Debt liabilities		3 214 520		644 991	
Liabilities to suppliers		790 706		916 744	
Capital commitments		766 843		595 550	
Derivative instruments		96 953		102 615	
Other financial liabilities		243 713		354 571	

Financial derivatives measured at fair value as at the end of the reporting period, i.e. assets and liabilities measured at fair value through profit or loss and hedging derivatives were measured in line with the method described in Note 34 to these financial statements. Disclosures of fair value hierarchy of derivative instruments are also discussed in Note 34.

Financial instruments classified to other categories of financial instruments:

- With regard to financial instruments bearing fixed interest, which as at 31 December 2015 included loans received from the European Investment Bank and bonds issued by a subsidiary, the Group carried out fair value measurement. Fair value measurement of fixed rate financial instruments was carried out based on the present value of future cash flows discounted using an interest rate applicable to a given bond issue or loan, i.e. by reference to market interest rates. The measurement resulted in Level 2 classification in fair value hierarchy. As at 31 December 2014, the Group measured loans originated by the European Investment Bank at fair value. The fair value of the bonds issued by the subsidiary was close to their carrying amount.
- The fair value of other financial instruments (except for shares classified as financial assets available for sale and excluded from the scope of IAS 39, as described below) as at 31 December 2015 and 31 December 2014 did not significantly differ from their values presented in the financial statements for the respective periods, for the following reasons:
 - the potential discounting effect relating to short-term instruments is not significant;
 - the instruments are related to arm's length transactions.

Consequently, the fair value of the instruments in question was disclosed in the table above at the carrying amount.

- The Group did 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, in accordance with the Group's accounting policy, shares in joint ventures – financial assets excluded from the scope of IAS 39 – are measured using the equity method.

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

Year ended 31 December 2015

	Assets/liabilities at fair value through profit or loss, held for trading	Financial assets available for sale	Loans and receivables	Financial liabilities at amortized cost	Hedging instruments	Financial assets/liabilities excluded from the scope of IAS 39	Total
Dividends and shares in profits	–	4 684	–	–	–	–	4 684
Interest income/(expense)	15 651	–	44 734	(189 057)	(89 380)	(1 236)	(219 288)
Currency translation differences	1 887	–	(24)	(2 152)	–	813	524
Impairment/revaluation	2 415	189	(9 798)	–	–	–	(7 194)
Commission relating to borrowings and debt securities	–	–	–	(12 514)	–	–	(12 514)
Gain/(loss) on disposal of investments	3	754	–	–	–	–	757
Other	(8 475)	–	–	–	–	–	(8 475)
Net profit (loss)	11 481	5 627	34 912	(203 723)	(89 380)	(423)	(241 506)
Remeasurement	–	–	–	–	85 932	–	85 932
Other comprehensive income	–	–	–	–	85 932	–	85 932

Year ended 31 December 2014

	Assets/liabilities at fair value through profit or loss, held for trading	Financial assets available for sale	Loans and receivables	Financial liabilities at amortized cost	Hedging instruments	Financial assets/liabilities excluded from the scope of IAS 39	Total
Dividends and shares in profits	–	3 931	–	–	–	–	3 931
Interest income/(expense)	14 636	–	36 679	(207 282)	(75 699)	(2 493)	(234 159)
Currency translation differences	3 433	–	117	(17 737)	–	(153)	(14 340)
Impairment/revaluation	(12 236)	213	(2 091)	–	–	–	(14 114)
Commission relating to borrowings and debt securities	–	–	–	(14 013)	–	–	(14 013)
Gain/(loss) on disposal of investments	–	22 953	–	–	–	(44)	22 909
Other	(614)	–	–	–	–	–	(614)
Net profit (loss)	5 219	27 097	34 705	(239 032)	(75 699)	(2 690)	(250 400)
Remeasurement	–	–	–	–	(20 207)	–	(20 207)
Other comprehensive income	–	–	–	–	(20 207)	–	(20 207)

In the year ended 31 December 2015, total gains/losses related to IRS hedging instruments subject to hedge accounting constituted an effective hedge and were recognized accordingly under other comprehensive income. Gains/losses on revaluation of the hedging instrument recognized in other comprehensive income were recognized in the profit/loss for the period under finance costs arising from interest on bonds issued, at the moment when the item was hedged, i.e. when interest on the bonds affected the financial profit/loss for the period. The profit/loss for the period was charged with PLN 89 380 thousand, where PLN 88 914 thousand was the amount paid in respect of hedges used in relation to closed interest periods and PLN 466 thousand resulted from remeasurement of instruments related to interest on bonds accrued as at the end of the reporting period.

49. Principles and objectives of financial risk management

The Capital Group manages its financial risk in a mindful and responsible manner, based on the *Specific risk management policy in the area of finance in TAURON Group* presenting principles and standards compliant with the relevant best practices. As the risk incurred and the potential income amount are correlated, the principles

are applied to keep the risks at a predetermined and acceptable level. The key objective of financial risk management is to minimize the cash flow sensitivity of the TAURON Group to financial risks and to minimize finance cost and costs of hedging with the use of derivative instruments. The policy for management of specific risk in the area of finance determines the strategy of managing financial risk regarding currency and interest rate risk.

Specific risk management policy in the area of finance has also introduced hedge accounting principles, including types of cash flow hedges and accounting treatment of hedging instruments and hedged items in accordance with the IFRS. In line with the policy, wherever possible and commercially viable, the TAURON Capital Group uses derivative instruments, whose nature allows for the application of hedge accounting. Hedge accounting principles with regard to derivatives have been presented in Note 9.18.

Further, the TAURON Group has also implemented:

- *Liquidity management policy for the TAURON Group.* Thanks to the policy, among others based on precise weekly update of financial plans, scenario and benchmark analyses, the management of the liquidity position of the TAURON Group is optimized and thus the liquidity risk mitigated;
- *Credit risk management policy for the TAURON Group.* The policy defines the principles of managing credit risk in the TAURON Group. The objective of the regulation is to effectively minimize the credit risk's impact on the Group's objectives. The Group has no centralized risk management system, but credit risk control, mitigation and reporting are managed centrally at the Company's level.

Financial and credit risk management has been discussed in the Management Board's report on the activities of the TAURON Polska Energia S.A. Capital Group for the 2015 financial year (item 3).

Key types of risk arising from financial instruments to which the Capital Group is exposed in the course of its operations include:

- credit risk;
- liquidity risk;
- market risk, including:
 - interest rate risk;
 - currency risk;
 - commodity price risk related to commodity derivative instruments.

49.1. Credit risk

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

Classes of financial instruments	As at 31 December 2015	As at 31 December 2014
Receivables from clients	1 830 033	1 917 098
Cash and cash equivalents	364 912	1 420 909
Loans granted	223 911	204 699
Deposits	39 724	35 823
Other financial receivables	57 250	76 233

The TAURON Group has adopted Credit risk management policy for the TAURON Group, as discussed in detail in Note 49 to these consolidated financial statements.

49.1.1. Credit risk related to receivables from clients and other financial receivables

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

	As at 31 December 2015	As at 31 December 2014
Institutional clients	75.39%	74.70%
Individual clients	24.61%	25.30%
Total	100.00%	100.00%

No material concentration of credit risk related to the core activity occurs in the Group. The key item of receivables are those from PSE S.A. which constituted 6.97% of receivables from buyers and other financial receivables as at 31 December 2015 and 6.13% as at 31 December 2014.

Receivables from buyers bear no interest and in case of cooperation with institutional contractors they usually have a 30-day maturity period. In case of individual clients, payments are made on a monthly or bi-monthly basis.

The Group manages credit risk of institutional and individual clients mainly through application of the following methods:

- evaluation of counterparty's financial standing and determining of credit limits;
- requiring determined collateral to be provided with clients with poor financial standing;
- standardizing of contractual provisions regarding credit risk and standardizing of credit collateral;
- ongoing monitoring of payments and an early collection system;
- regular measurement of credit risk arising from trade activities;
- ongoing monitoring of counterparty's financial standing, cooperation with business intelligence and collection companies.

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

The ageing analysis and write-downs for receivables from buyers and other financial receivables have been presented below.

Write-downs for receivables from clients and other financial receivables

	Year ended 31 December 2015	Year ended 31 December 2014
Allowance/write-down at the beginning of period	(282 848)	(273 499)
Recognised	(106 039)	(129 961)
Utilized	18 438	17 760
Reversed	89 435	102 864
Other movements	116	(12)
Allowance/write-down at the end of period	(280 898)	(282 848)
Value of item before allowance	2 168 181	2 276 179
Value of item net of allowance (carrying amount)	1 887 283	1 993 331

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

Ageing analysis of receivables from clients and other financial receivables as at 31 December 2015

	Not past due	Past due					Total
		<30 days	30-90 days	90-180 days	180-360 days	>360 days	
Before allowance/write-down	1 643 946	173 145	36 604	22 435	40 656	251 395	2 168 181
Allowance/write-down	(1 753)	(3 298)	(3 060)	(8 037)	(29 922)	(234 828)	(280 898)
After allowance/write-down	1 642 193	169 847	33 544	14 398	10 734	16 567	1 887 283

Ageing analysis of receivables from clients and other financial receivables as at 31 December 2014

	Not past due	Past due					Total
		<30 days	30–90 days	90–180 days	180–360 days	>360 days	
Before allowance/write-down	1 680 340	228 451	46 794	26 179	49 008	245 407	2 276 179
Allowance/write-down	(1 335)	(1 763)	(5 314)	(8 668)	(35 723)	(230 045)	(282 848)
After allowance/write-down	1 679 005	226 688	41 480	17 511	13 285	15 362	1 993 331

49.1.2. Credit risk related to cash and cash equivalents

The Group manages credit risk related to cash by diversifying banks where it deposits its cash surplus. All entities the Group concludes deposit transactions with operate in the financial sector. They include high-rating banks with sufficient equity and stable, strong market position.

As at 31 December 2015, the share of three banks holding the largest balance of Group's cash was 73%.

49.1.3. Credit risk related to originated loans

Loans granted to joint ventures have been recognized under loans granted by the Group. The loans in question have not been overdue as at the end of the reporting period. According to the Group, credit risk due to originated loans was insignificant as at the balance sheet date. The key item was a subordinated loan of PLN 205 922 thousand, secured with a blank bill of exchange with a bill of exchange agreement.

49.2. Liquidity risk

The Group maintains the balance between continuity and flexibility of funding through the use of a variety of funding sources, such as overdraft facilities, bank loans, other loans, bonds and finance leases. Such use of the funding sources allows liquidity risk management and effective mitigation of its possible negative effects.

Liquidity is managed at the Capital Group level. The TAURON Group has adopted *Liquidity management policy for the TAURON Group*, as discussed in detail in Note 49 to these consolidated financial statements.

Additionally, in order to minimize the possibility of cash flow interruption and the risk of loss of liquidity, the TAURON Group, as in previous years, used the cash pooling mechanism. Regardless of funds collected by its individual members, cash pooling is linked to a flexible credit facility in the form of overdraft. Under the cash pool agreement the Company is entitled to use external financing in the form of an overdraft up to PLN 300 000 thousand and an intraday limit up to PLN 500 000 thousand.

Apart from an overdraft made available under the cash pool agreement, the Group is entitled to use foreign currency overdrafts:

- up to USD 2 000 thousand, with the outstanding amount of USD 404 thousand as at the reporting date;
- up to EUR 25 000 thousand, with the outstanding amount of EUR 2 025 thousand as at the reporting date.

The following tables present the Group's financial liabilities based on non-discounted contractual payments by maturity as at 31 December 2015 and 31 December 2014.

Financial liabilities as at 31 December 2015

Classes of financial instruments	Carrying amount	Non-discounted contractual payments*	of which non-discounted contractual payments maturing within (after the balance sheet date)					
			less than 3 months	3–12 months	1–2 years	2–3 years	3–5 years	more than 5 years
Financial liabilities other than derivative instruments:								
Interest-bearing loans and borrowings and issued bonds	8 092 209	(9 236 101)	(2 335 274)	(1 046 480)	(316 908)	(324 752)	(2 596 757)	(2 615 930)
Liabilities to suppliers	790 706	(790 706)	(790 655)	(29)	(22)	–	–	–
Capital commitments	767 759	(767 759)	(766 749)	(93)	(613)	(113)	(191)	–
Other financial liabilities	329 346	(329 346)	(231 380)	(12 332)	(9 184)	(40 662)	(35 647)	(141)
Obligations under finance leases	46 438	(48 625)	(4 799)	(9 110)	(10 958)	(23 730)	(4)	(24)
Derivative financial liabilities:								
Derivate instruments – IRS	95 467	(96 559)	–	(96 559)	–	–	–	–
Derivate instruments – CCIRS	14 423	(68 165)	–	2 749	2 662	988	(4 350)	(70 214)
Derivate instruments – commodity	2 208	(985)	–	(251)	(734)	–	–	–
Total	10 138 556	(11 338 246)	(4 128 857)	(1 162 105)	(335 757)	(388 269)	(2 636 949)	(2 686 309)

* Negative values indicate a cash outflow. Estimations of future payments to be made in selected periods may be positive for some derivatives, i.e. they may indicate a cash inflow, but the value resulting from measurement of such instruments during the entire term to maturity is negative (liability).

Financial liabilities as at 31 December 2014

Classes of financial instruments	Carrying amount	Non-discounted contractual payments*	of which non-discounted contractual payments maturing within (after the balance sheet date)					
			less than 3 months	3–12 months	1–2 years	2–3 years	3–5 years	more than 5 years
Financial liabilities other than derivative instruments:								
Interest-bearing loans and borrowings and issued bonds	8 053 862	(9 317 895)	(199 728)	(625 209)	(3 340 049)	(289 008)	(2 412 307)	(2 451 594)
Liabilities to suppliers	916 744	(916 744)	(916 512)	(188)	(22)	(22)	–	–
Capital commitments	595 550	(595 550)	(572 425)	(23 125)	–	–	–	–
Other financial liabilities	403 557	(403 557)	(327 643)	(26 927)	(8 437)	(40 451)	–	(99)
Obligations under finance leases	59 904	(63 903)	(5 110)	(10 036)	(20 753)	(4 247)	(23 731)	(26)
Derivative financial liabilities:								
Derivate instruments – IRS	194 313	(198 470)	–	(103 415)	(95 055)	–	–	–
Derivate instruments – CCIRS	1 241	(45 378)	–	1 190	2 351	1 389	(1 224)	(49 084)
Derivate instruments – commodity	562	(580)	–	(580)	–	–	–	–
Total	10 225 733	(11 542 077)	(2 021 418)	(788 290)	(3 461 965)	(332 339)	(2 437 262)	(2 500 803)

* Negative values indicate a cash outflow. Estimations of future payments to be made in selected periods may be positive for some derivatives, i.e. they may indicate a cash inflow, but the value resulting from measurement of such instruments during the entire term to maturity is negative (liability).

49.3. Market risk

Market risk is related to possible negative effects of fluctuations in the fair value of financial instruments or the related future cash flows arising from changes in market prices on the financial profit/loss of the Group.

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

- interest rate risk;
- currency risk;
- commodity price risk related to commodity derivative instruments.

49.3.1. Interest rate risk

The Group's interest rate risk results mainly from debt, concluded IRS and CCIRS contracts, cash deposits and loans granted to joint ventures.

Due to floating rate items the Group is exposed to cash flow changes resulting from interest rate fluctuations. As a result of fixed-rate items the Group is exposed to changes in the fair value of items measured at amortized cost. The risk of fair value changes resulting from interest rate changes also relates to IRS and CCIRS contracts. The Company is also exposed to lost benefit risk related to a decrease in interest rates of fixed interest rate debt or to an increase in interest rates of fixed interest rate assets, with the changes not disclosed in the financial statements.

The purpose of interest rate risk management is to limit negative effects of market interest rate fluctuations on the Group's cash flows to an acceptable level and to minimize finance costs using derivative instruments (IRS). In order to hedge interest rate risk related to floating-interest rate bonds issued, in 2012 the Group concluded interest rate swaps contracts (IRS). More information on IRS has been presented in Note 34.

Carrying amount of financial instruments of the Company exposed to the interest rate risk has been presented in tables below. The Parent has issued floating interest rate bonds only. A portion of bonds with interest cash flow fluctuations hedged with interest rate swaps was presented in the tables below together with measurement of fixed-rate hedging instruments.

Financial instruments by interest rate type at 31 December 2015

Financial instruments	Fixed interest rate	Floating interest rate	Total
Financial assets			
Deposits	–	39 724	39 724
Loans granted	–	223 911	223 911
Cash and cash equivalents	–	364 912	364 912
Derivative instruments (CCIRS)	–	3 055	3 055
Financial liabilities			
Bank overdrafts	–	10 206	10 206
Preferential loans	–	47 999	47 999
Arm's length loans	1 324 191	29 380	1 353 571
Bonds issued	3 714 744	2 965 689	6 680 433
Derivative instruments (IRS)	95 467	–	95 467
Obligations under finance leases	–	46 438	46 438
Derivative instruments (CCIRS)	–	14 423	14 423

Financial instruments by interest rate type at 31 December 2014

Financial instruments	Fixed interest rate	Floating interest rate	Total
Financial assets			
Bonds, T-bills and other debt securities	21 732	–	21 732
Deposits	–	35 823	35 823
Loans granted	–	204 699	204 699
Cash and cash equivalents	–	1 420 909	1 420 909
Derivative instruments (CCIRS)	–	1 499	1 499
Financial liabilities			
Bank overdrafts	–	11 918	11 918
Preferential loans	–	55 222	55 222
Arm's length loans	1 160 411	4 481	1 164 892
Bonds issued	3 713 490	3 108 340	6 821 830
Derivative instruments (IRS)	180 933	13 380	194 313
Obligations under finance leases	–	59 904	59 904
Derivative instruments (CCIRS)	–	1 241	1 241

Interest rate of floating-rate financial instruments is updated on a regular basis, more frequently than once a year. Interest on fixed rate financial instruments is fixed for the entire period until the maturity date of these instruments or to a determined future date, when the rates are verified and may be changed; this principle applies to loans obtained from the European Investment Bank, as described in detail in Note 33.1.

Sensitivity analysis

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

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

In the interest rate risk sensitivity analysis, the effect of changes in risk factors has been determined for interest income/expense related to financial instruments measured at amortized cost and for the fair value of floating interest rate financial instruments measured at fair value as at the end of the reporting period.

The Group identifies exposure to the risk of changes in WIBOR and EURIBOR, but as at 31 December 2015 the EURIBOR interest rate risk was insignificant. The tables below present sensitivity of the gross financial profit/loss as well as other comprehensive income (gross) to reasonably possible changes in interest rates within a horizon until the date of the next financial statements, assuming that all other risk factors remain unchanged.

Year ended 31 December 2015

Classes of financial instruments	31 December 2015		Sensitivity analysis for interest rate risk as at 31 December 2015	
	Carrying amount	Value at risk	WIBOR	
			WIBOR + 66 bp	WIBOR -66 bp
			Profit or loss / other comprehensive income	
Deposits	39 724	39 724	262	(262)
Loans granted	223 911	223 911	1 478	(1 478)
Cash and cash equivalents	364 912	364 912	2 152	(2 152)
Derivatives (assets)	5 684	3 055	(3 360)	3 360
Preferential loans	47 999	47 999	(317)	317
Arm's length loans	1 353 571	29 380	(194)	194
Issued bonds	6 680 433	5 969 017	(39 396)	39 396
Obligations under finance leases	46 438	46 438	(306)	306
Derivatives (liabilities)	112 109	109 890	(24 358)	24 358
Total			(64 039)	64 039

Year ended 31 December 2014

Classes of financial instruments	31 December 2014		Sensitivity analysis for interest rate risk as at 31 December 2014			
	Carrying amount	Value at risk	WIBOR		EURIBOR	
			WIBOR + 69 bp	WIBOR -69 bp	EURIBOR + 97 bp	EURIBOR -97 bp
			Profit or loss / other comprehensive income		Profit or loss / other comprehensive income	
Deposits	35 823	35 823	247	(247)	–	–
Loans granted	204 699	204 699	1 412	(1 412)	–	–
Cash and cash equivalents	1 420 909	1 420 909	9 606	(9 606)	237	(237)
Derivatives (assets)	1 811	1 499	(4 624)	4 624	(223)	223
Preferential loans	55 222	55 222	(381)	381	–	–
Arm's length loans	1 164 892	4 481	(31)	31	–	–
Bank overdrafts	11 918	11 918	–	–	(116)	116
Issued bonds	6 821 830	6 110 631	(42 163)	42 163	–	–
Obligations under finance leases	59 904	59 904	(413)	413	–	–
Derivatives (liabilities)	196 116	195 554	(4 439)	4 439	(26 016)	26 016
Total			(40 786)	40 786	(26 118)	26 118

49.3.2. Currency risk

In the TAURON Group companies the currency risk included transaction and translation exposure. Capital Group companies are exposed to the EUR/PLN, CZK/PLN and USD/PLN exchange rate risk related to their operations and financial transactions. The Group's exposure to currency risk by financial instrument class in 2015 and 2014 is presented in the following tables.

Currency position as at 31 December 2015

Classes of financial instruments	Total carrying amount in PLN	EUR		CZK		USD	
		in currency	in PLN	in currency	in PLN	in currency	in PLN
Financial assets							
Receivables from clients and other financial receivables	1 887 283	1 586	6 759	57 819	9 118	96	376
Cash and cash equivalents	364 912	8 184	34 876	16 988	2 679	338	1 317
Derivatives (assets)	5 684	334	1 425	–	–	205	800
Total		10 104	43 060	74 807	11 797	639	2 493
Financial liabilities							
Bank overdrafts	10 206	2 025	8 630	–	–	404	1 576
Issued bonds	6 680 433	166 941	711 417	–	–	–	–
Liabilities to suppliers and other financial liabilities	947 946	3 173	13 523	13 139	2 072	1	4
Derivatives (liabilities)	112 109	242	1 032	70	11	301	1 176
Total		172 381	734 602	13 209	2 083	706	2 756
Net currency position		(162 277)	(691 542)	61 598	9 714	(67)	(263)

Currency position as at 31 December 2014

Classes of financial instruments	Total carrying amount in PLN	EUR		CZK		USD	
		in currency	in PLN	in currency	in PLN	in currency	in PLN
Financial assets							
Receivables from clients and other financial receivables	1 993 331	1 520	6 477	81 737	12 563	–	–
Cash and cash equivalents	1 420 909	5 723	24 395	17 879	2 748	444	1 556
Derivatives (assets)	1 811	–	–	–	–	89	312
Total		7 243	30 872	99 616	15 311	533	1 868
Financial liabilities							
Bank overdrafts	11 918	2 796	11 918	–	–	–	–
Issued bonds	6 821 830	166 858	711 199	–	–	–	–
Liabilities to suppliers and other financial liabilities	1 148 959	4 756	20 272	18 556	2 852	91	320
Derivatives (liabilities)	196 116	132	562	–	–	–	–
Total		174 542	743 951	18 556	2 852	91	320
Net currency position		(167 299)	(713 079)	81 060	12 459	442	1 548

In 2015 and in 2014 the TAURON Group used forward transactions under its currency risk management policy in order to hedge against currency risk associated with its trading operations. The Group has not used hedge accounting to hedge currency risk.

Additionally, in November 2014 the Group entered into a Coupon Cross Currency Swap (CCIRS) contract to mitigate EUR/PLN currency risk related to interest coupon on bonds issued in EUR. The fair value measurement of this instrument is exposed to EUR/PLN currency risk. The transaction is excluded from hedge accounting. As at 31 December 2015 CCIRS was measured at PLN (11 368) thousand. After the balance sheet date, on 12 February 2016 the transaction in question was closed and on 15 February 2016 it was settled in cash, hence the Company received PLN 5 400 thousand.

Sensitivity analysis

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

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

The Group identifies its exposure to the risk of EUR/PLN, CZK/PLN and USD/PLN exchange rate changes. The tables below present sensitivity of the gross financial profit/loss to reasonably possible changes in the exchange rates within a horizon until the date of the next financial statements, assuming that all other risk factors remain unchanged.

Year ended 31 December 2015

Classes of financial instruments	31 December 2015		Sensitivity analysis for currency risk as at 31 December 2015					
	Carrying amount	Value at risk	EUR/PLN		CZK/PLN		USD/PLN	
			exchange rate	exchange rate	exchange rate	exchange rate	exchange rate	exchange rate
			EUR/PLN	EUR/PLN	CZK/PLN	CZK/PLN	USD/PLN	USD/PLN
			+7.15%	-7.15%	+8.22%	-8.22%	+11.43%	-11.43%
			Profit or loss / other comprehensive income		Profit or loss / other comprehensive income		Profit or loss / other comprehensive income	
Receivables from clients and other financial receivables	1 887 283	16 253	483	(483)	749	(749)	43	(43)
Cash and cash equivalents	364 912	38 872	2 494	(2 494)	220	(220)	151	(151)
Derivatives (assets)	5 684	5 684	3 078	(3 078)	–	–	91	(91)
Overdrafts	10 206	10 206	(617)	617	–	–	(180)	180
Bonds issued	6 680 433	711 417	(50 866)	50 866	–	–	–	–
Liabilities to suppliers and other financial liabilities	947 946	15 599	(966)	966	(170)	170	–	–
Derivatives (liabilities)	112 109	16 642	21 587	(21 587)	(1)	1	(135)	135
Total			(24 807)	24 807	798	(798)	(30)	30

The exposure to risk as at 31 December 2015 is representative for the Group's exposure to risk during the annual period preceding the aforementioned date.

Year ended 31 December 2014

Classes of financial instruments	31 December 2014		Sensitivity analysis for currency risk as at 31 December 2014					
	Carrying amount	Value at risk	EUR/PLN		CZK/PLN		USD/PLN	
			exchange rate	exchange rate	exchange rate	exchange rate	exchange rate	exchange rate
			EUR/PLN	EUR/PLN	CZK/PLN	CZK/PLN	USD/PLN	USD/PLN
			+7.7%	-7.7%	+8.37%	-8.37%	+12.89%	-12.89%
			Profit or loss / other comprehensive income		Profit or loss / other comprehensive income		Profit or loss / other comprehensive income	
Receivables from clients and other financial receivables	1 993 331	19 040	499	(499)	1 052	(1 052)	–	–
Cash and cash equivalents	1 420 909	28 699	1 878	(1 878)	230	(230)	201	(201)
Derivatives (assets)	1 811	1 811	1 925	(1 925)	–	–	40	(40)
Overdrafts	11 918	11 918	(918)	918	–	–	–	–
Bonds issued	6 821 830	711 199	(54 762)	54 762	–	–	–	–
Liabilities to suppliers and other financial liabilities	1 148 959	23 444	(1 561)	1 561	(239)	239	(2)	2
Derivatives (liabilities)	196 116	1 803	25 162	(25 162)	–	–	–	–
Total			(27 777)	27 777	1 043	(1 043)	239	(239)

The exposure to risk as at 31 December 2014 is representative for the Group's exposure to risk during the annual period preceding the aforementioned date, except for transactions made at the end of 2014. They included a class of bonds issued in December 2014 and denominated in EUR and individual classes of derivative instruments, i.e. assets and liabilities, such as the CCIRS transaction of November 2014.

49.3.3. Commodity price risk related to commodity derivative instruments

The Company concludes derivative contracts, with underlying instruments being commodities and raw materials. Group's exposure to commodity derivatives price risk is related to the risk of fluctuation in the fair value of these instruments following changes in prices of the underlying raw materials/commodities. In most cases the Group hedged the risk by way of entering into opposite transactions. This way the Group hedges the price risk related to commodity derivative instruments. The risk is limited to open long and short positions concerning a given commodity or raw material.

As at 31 December 2015 open positions included forward and future contracts for emission allowances and a future contract for gas. As at 31 December 2015 the total carrying amount of all derivative contracts for emission allowances was PLN 433 thousand (the asset item of PLN 1 425 thousand and the liability item of PLN 992 thousand) and in case of the derivative contract for gas it was PLN 40 thousand (liability item).

As at 31 December 2014 the Group's exposure to commodity risk related to derivative instruments held was insignificant and concerned one open position only.

Sensitivity analysis

For the purpose of analysis of sensitivity to greenhouse gas emission allowance change risks the Group applies a scenario analysis. The scenarios reflect the Group's assessment of risk factors shaping in the future and are aimed at examining the effect of risk changes on the Group's financial performance.

	Carrying amount as at 31 December 2015			Increase		Decrease	
	price (EUR)	Assets	Liabilities	price (EUR)	Impact on profit (loss)	price (EUR)	Impact on profit (loss)
Derivative instruments – commodity (emission allowances)	8.25–8.29	1 425	992	8.53–8.57	(122)	4.83–4.85	1 490

50. Operational risk

Operational commercial risk is managed at the level of the TAURON Group, which has been presented in detail in item 3 of the Management Report on the activities of the TAURON Polska Energia S.A. Capital Group for the year 2015. The Company manages its operational risk following the Operational risk management policy developed and adopted in the TAURON Group, which defines the principles and general terms of managing operational and commercial risk at the level of the TAURON Group. The document implements market practices and operational risk solutions applied to trading in electricity and related products tailored to the structure of the TAURON Group and energy industry requirements.

Companies from the TAURON Polska Energia S.A. Capital Group are exposed to negative effects of the risk related to fluctuations of cash flows and profit/loss expressed in domestic currency due to changes in the prices of commodities. The Group's exposure to the commodity price risk is reflected in the volume of purchases of the key raw materials and commodities, to include hard coal, gas and electricity. The volume and cost of purchases of the key commodities from non-Group suppliers are presented in the following table.

Fuel type	Unit	2015		2014	
		Volume	Purchase cost	Volume	Purchase cost
Coal	tonne	4 821 241	947 360	4 578 847	935 604
Gas	thousand m ³	112 270	122 189	3 598 607	208 615
Electricity	MWh	33 993 308	5 703 158	38 036 718	6 185 219
Heat energy	GJ	6 028 877	227 926	4 941 873	118 225
Total			7 000 633		7 447 663

51. Finance and capital management

Key tools allowing effective management of financial resources include the central financing model and TAURON Group's liquidity management policy along with cash pooling adopted by the TAURON Group. Additionally, the financial management system is supported with the TAURON Group's central specific risk management policy and central insurance policy with the Company acting as a manager directing activities, thus allowing relevant risk exposure limits to be established.

Detailed information regarding financial management has been described in Section 4.12 of the Management Board's report on the activities of TAURON Polska Energia S.A. Capital Group.

In 2015, the Capital Group was fully able to pay its liabilities within contractual deadlines.

The key objective of the capital management policy developed by the Group is maintaining a good credit rating and safe capital ratios supporting its operations and increasing its shareholder value. The Group manages its capital structure and modifies it in accordance with changes in economic conditions. In order to maintain or adjust the capital structure, the Group may establish dividend policy for its shareholders, return equity to them, issue new shares or influence external debt level accordingly.

The Group monitors first of all the debt ratio defined as a relation of net financial debt to EBITDA.

Net financial debt is the financial debt of the TAURON Group due to interest-bearing borrowings and securities and due to finance lease reduced by cash and short-term investments with maturity up to one year. EBITDA is the operating profit or loss of the TAURON Group increased by amortization/depreciation and impairment of non-financial assets. Financial debt means the obligation to pay or refund money (both principal and interest).

The value of the ratio is also monitored by the Company's creditors, rating agencies and has a measurable impact on the Company's ability to obtain funding and its costs, as well as on evaluation of its credit standing.

As at the end of the reporting period, the debt ratio was 2.2 which is classified as safe and allowing contracting further financial liabilities according to the valid market standards.

	Year ended 31 December 2015	Year ended 31 December 2014
Loans and borrowings	1 223 814	1 068 750
Bonds	3 666 590	6 353 582
Finance lease	33 723	46 443
Non-current debt liabilities	4 924 127	7 468 775
Loans and borrowings	187 962	163 281
Bonds	3 013 843	468 249
Finance lease	12 715	13 461
Short-term debt liabilities	3 214 520	644 991
Total debt	8 138 647	8 113 766
Cash and cash equivalents	364 912	1 420 909
Short-term investments maturing within one year	9 772	27 539
Net debt	7 763 963	6 665 318
EBITDA	3 523 303	3 694 544
Operating profit (loss)	(1 901 141)	1 830 113
Depreciation/amortization	(1 832 690)	(1 796 987)
Impairment	(3 591 754)	(67 444)
Net debt / EBITDA	2.2	1.8

Change in the balance of debt has been presented below.

	Debt liabilities
As at 1 January 2014	5 864 135
Proceeds arising from debt taken out	3 649 150
financing received	3 653 234
transaction costs	(4 084)
Interest accrued	330 869
charged to profit or loss	284 594
capitalized to property, plant and equipment	46 275
Debt related payments	(1 658 460)
principal repaid	(1 338 793)
interest paid	(273 392)
interest paid, capitalized to investment projects	(46 275)
Change in the balance of overdraft facility and cash pooling	(82 740)
Change in debt measurement	11 755
Other non-monetary changes	(943)
As at 31 December 2014	8 113 766
Proceeds arising from debt taken out	604 494
financing received	605 000
transaction costs	(506)
Interest accrued	344 378
charged to profit or loss	275 218
capitalized to property, plant and equipment	69 160
Debt related payments	(950 476)
principal repaid	(605 011)
interest paid	(276 305)
interest paid, capitalized to investment projects	(69 160)
Change in the balance of overdraft facility and cash pooling	23 184
Change in debt measurement	3 143
Other non-monetary changes	158
As at 31 December 2015	8 138 647

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

Information concerning the fee of the certified auditor has been presented in the Management Board's report on the activities of TAURON Polska Energia S.A. Capital Group for the 2015 financial year in Section 4.13.

53. Events after the end of the reporting period

Issuance of debt securities

On 8 January 2016 the Company issued long-term bonds with the total face value of PLN 210 000 thousand under the agreement with Bank Gospodarstwa Krajowego with the following redemption dates:

- Tranche of PLN 70 000 thousand with the redemption date of 20 December 2023;
- Tranche of PLN 70 000 thousand with the redemption date of 20 December 2024;
- Tranche of PLN 70 000 thousand with the redemption date of 20 December 2025.

Acquisition of the organized part of the enterprise Zakład Górniczy w Brzeszczach

On 31 December 2015 Nowe Brzeszcze Grupa TAURON Sp. z o.o. and Spółka Restrukturyzacji Kopalń S.A. ("SRK") entered into an agreement for sale of a specified part of Zakład Górniczy w Brzeszczach, constituting an organized part of the enterprise ("ZCP Brzeszcze"). The sales contract was included in the performance of the preliminary agreement of 19 October 2015 and pursuant to Article 8a.4 of the Act on coal mining operations of 7 September 2007. According to the sale contract concluded, the date of releasing the sold item and transferring the acquired ZCP Brzeszcze to be used by Nowe Brzeszcze Grupa TAURON Sp. z o.o. was determined as 1 January 2016, on this date, Nowe Brzeszcze Grupa TAURON Sp. z o.o. assumed risks and benefits related to the acquired item.

The sales contract has determined the selling price of ZCP Brzeszcze payable to SRK as PLN 1. Since KWK Brzeszcze generated losses when operating within SRK, pursuant to the agreement of 29 May 2015 concluded by and between the Minister of Economy and SRK, the latter was granted public funds to absorb the current mining production losses of the enterprise in 2015 ("Public Aid"). At the same time, pursuant to provisions of the agreement on aid refund, Nowe Brzeszcze Grupa TAURON Sp. z o.o. undertook to refund the Public Aid with interest accrued from the date of providing SRK with individual Public Aid tranches. Thus, the acquisition cost includes the price of PLN 1 and the amount of Public Aid refund with interest accrued as at 31 December 2015, i.e. PLN 130 108 thousand.

Since the transaction of acquiring ZCP Brzeszcze has been concluded under common control of the State Treasury, Nowe Brzeszcze Grupa TAURON Sp. z o.o. shall account for the combination in accordance with the accounting policy as described in Note 9.1.3 assuming no possibility to present comparative data. The acquisition transaction will be recognized in the financial statements of Nowe Brzeszcze Grupa TAURON Sp. z o.o. and of the TAURON Group since the date of releasing the item sold, i.e. 1 January 2016.

Below we present the estimated balance sheet as at the date of Nowe Brzeszcze Grupa TAURON Sp. z o.o. assuming control over the separate part of Zakład Górniczy in Brzeszcze.

	As at 1 January 2016		As at 1 January 2016
Non-current assets		Equity	(10 087)
Property, plant and equipment and intangible assets	215 924	Provisions and liabilities	
Deferred tax assets	2 538	Provision for mine decommissioning	65 992
	218 462	Provisions for employee benefits	26 462
		Accruals (provision for unused annual leave)	4 203
Current assets		Obligations under leases	3 132
Inventories	1 348	Liabilities arising from public aid refund	130 108
Other financial assets	25	Other financial liabilities	25
	1 373		229 922
Total assets	219 835	Total equity and liabilities	219 835

As Zakład Górniczy Brzeszcze did not prepare its financial statements in conformity with IFRS, for purposes of accounting for the transaction the Group prepared an estimated balance sheet of ZCP Brzeszcze in accordance with the accounting policy of the Group. To this end, the following procedures were carried out:

- fixed assets were measured by an independent property appraiser. The amortized replacement cost method was used for the major part of those assets in the absence of an active market.
- The following provisions were recognized:
 - mine decommissioning provision – estimated on the basis of calculations made by third-party experts;
 - actuarial provision – estimated using actuarial methods in accordance with agreements setting out the terms of calculation and payment of retirement, disability and jubilee benefits at Kompania Węglowa S.A.;
 - provision for unused annual leave – estimated by an actuary.

Having acquired ZCP Brzeszcze, Nowe Brzeszcze Grupa TAURON Sp. z o.o. did not take over any trade liabilities or receivables related to that part of the enterprise, or inventories, except for materials of PLN 1 348 thousand.

On 31 December 2015, the Extraordinary General Shareholders' Meeting of Nowe Brzeszcze Grupa TAURON Sp. z o.o. adopted a resolution to increase the issued capital of the entity by PLN 2 900 thousand by way of issuing 29 000 shares with the par value of PLN 100 each, which will be acquired by the Parent at PLN 1 000 per share, i.e. PLN 29 000 thousand in total. By the end of the reporting period, neither the capital increase had been registered nor had the funds been paid to increase the capital. The funds increasing the issued capital were paid by the Company on 8 January 2016. The capital increase was registered on 29 January 2016.

Redemption and issuance of debt securities

On 29 February 2016, the Company purchased 22 500 bonds out of 30 000 C series bonds issued on 12 December 2011 as part of the bond issue scheme of 16 December 2010, for purposes of redemption. The remaining 7 500 C series bonds are not subject to early buyback and are to be bought back on 12 December 2016 in accordance with the terms of issue. The bonds were purchased at the issue price of PLN 100 thousand. Thus, the total par value of the bonds purchased and redeemed by the Company is PLN 2 250 000 thousand. The purchase price was increased by interest due from the beginning of the last interest period preceding the purchase to the bond purchase date. The bonds were purchased for purposes of redemption under bilateral agreements concluded by TAURON and the C series bond holders, primarily with a view to prolonging the due date of the debt assumed by the Company in the form of bonds. The funds necessary to refinance the bonds were secured as part of a new bond issue scheme of 24 November 2015. Under the new scheme, on 29 February 2016 the Company issued 22 500 bonds with the total par value of PLN 2 250 000 thousand, maturing on 29 December 2020. The bonds were issued in PLN as unsecured, dematerialized and coupon securities. They were acquired at the issue price equal to the par value, i.e. PLN 100 thousand. Interest was determined by reference to WIBOR 6M plus a fixed margin. The bonds will be bought back at the issue price at the buyback date and interest will be payable in arrears, at the end of each interest period, to bond holders holding the bonds as at the record date. Interest on bonds is payable on a semi-annual basis (with the first period of four months). The bonds were acquired by the financial institutions being parties to the bond issue scheme agreements, i.e. Bank BGŻ BNP Paribas S.A., Bank Handlowy w Warszawie S.A., Bank of Tokyo-Mitsubishi UFJ (Holland) BV, Bank of Tokyo-Mitsubishi UFJ (Polska) S.A., Bank Zachodni WBK S.A., CaixaBank S.A. (Spółka Akcyjna) Branch in Poland, Industrial and Commercial Bank of China (Europe) S.A. Branch in Poland, ING Bank Śląski S.A., mBank S.A. and Powszechna Kasa Oszczędności Bank Polski S.A.

These consolidated financial statements of the TAURON Polska Energia S.A. Capital Group, prepared for the year ended 31 December 2015 in accordance with the International Financial Reporting Standards as endorsed by the European Union have been presented on 91 consecutive pages.

Management Board of the Company:

Katowice, 8 March 2016

Remigiusz Nowakowski – President of the Management Board

Jarosław Broda – Vice-President of the Management Board

Kamil Kamiński – Vice-President of the Management Board

Marek Wadowski – Vice-President of the Management Board

Piotr Zawistowski – Vice-President of the Management Board

Oliwia Tokarczyk – Head of the Accounting and Tax Department

CAPITAL GROUP TAURON POLSKA ENERGIA S.A.

**INDEPENDENT AUDITOR'S OPINION
AND REPORT ON THE AUDIT OF
THE CONSOLIDATED FINANCIAL STATEMENTS OF
THE TAURON POLSKA ENERGIA S.A. CAPITAL GROUP
FOR THE YEAR 2016**

**TAURON POLSKA ENERGIA S.A.
CAPITAL GROUP**

**KATOWICE, KS. PIOTRA
ŚCIEGIENNEGO 3**

**CONSOLIDATED FINANCIAL STATEMENTS
FOR THE 2016 FINANCIAL YEAR**

**WITH
AUDITOR'S OPINION
AND
AUDIT REPORT**

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**CONSOLIDATED FINANCIAL STATEMENTS OF THE CAPITAL GROUP FOR THE 2016
FINANCIAL YEAR**

1. Consolidated Statement of Financial Position
2. Consolidated Statement of Comprehensive Income
3. Consolidated Statement of Changes in Equity
4. Consolidated Statement of Cash Flows
5. Notes comprising a summary of significant accounting policies and other explanatory
information

REPORT ON THE ACTIVITIES OF THE CAPITAL GROUP FOR THE 2016 FINANCIAL YEAR

AUDITOR'S OPINION

To the Shareholders and Supervisory Board of TAURON Polska Energia S.A.

Auditor's report

We have audited the attached financial statements of the TAURON Polska Energia S.A. Capital Group (hereinafter: the "Capital Group"), for which TAURON Polska Energia S.A. (hereinafter: the "Parent") with its registered office in Katowice, at ul. ks. Piotra Ściegiennego 3 is the Parent. These consolidated financial statements include: the consolidated statement of financial position prepared as at 31 December 2016, consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows for the financial year from 1 January 2016 to 31 December 2016 and notes.

Responsibility of the Company's manager and those charged with governance for the financial statements

The Management Board of the Parent is responsible for the preparation of the consolidated financial statements, based on properly kept accounting records, and their fair presentation in accordance with the International Accounting Standards, International Financial Reporting Standards, related interpretations published as European Commission regulations and applicable laws. It is also obliged to ensure internal control as it determines necessary for the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Under the Accounting Act of 29 September 1994 (Journal of Laws of 2016 item 1047 as amended), hereinafter referred to as the "Accounting Act" the Management Board of the Parent and members of its Supervisory Board are obliged to ensure that the consolidated financial statements meet the requirements of the Accounting Act.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit works.

We conducted our audit in accordance with Section 7 of the Accounting Act and the National Auditing Standards in line with the wording of the International Standards on Auditing adopted by Resolution No. 2783/52/2015 of the National Council of Statutory Auditors of 10 February 2015 as amended. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Parent's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Parent's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Management Board of Parent, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the attached consolidated financial statements:

- give a true and fair view of the economic and financial position of the Capital Group as at 31 December 2016 and its financial performance for the financial year from 1 January 2016 to 31 December 2016 in accordance with the International Accounting Standards, International Financial Reporting Standards, related interpretations published as European Commission regulations and the adopted accounting principles (policies) of the Parent,
- comply, with respect to their form and content, with the applicable provisions of law and the articles of association of the Capital Group.

Report on other legal and regulatory requirements

Opinion on the report on the activities

We do not express an opinion on the report on the activities of the Capital Group.

It is the responsibility of the Management Board of the Parent to prepare the report on the activities of the Capital Group in accordance with the Accounting Act and other applicable laws. Moreover, the Management Board of the Parent and members of the Supervisory Board are obliged to ensure that the financial statements and the report on the activities meet the requirements of the Accounting Act.

When auditing the consolidated financial statements we were obliged to examine the report on the activities and indicate whether the information contained therein complies with Article 49 of the Accounting Act and the Ordinance of the Minister of Finance of 19 February 2009 on current and periodic information published by issuers of securities and the rules of equal treatment of the information required by the laws of non-member states (Journal of Laws of 2014 item 133 as amended) and is consistent with underlying information disclosed in the attached financial statements. Additionally, it was our responsibility to indicate whether we have detected any material misstatement in the report on the activities based on our knowledge of the Capital Group and its business environment obtained in the course of the audit.

In our opinion, the information contained in the report on the activities of the Capital Group complies with Article 49 of the Accounting Act and the Ordinance of the Minister of Finance of 19 February 2009 on current and periodic information published by issuers of securities and the rules of equal treatment of the information required by the laws of non-member states (Journal of Laws of 2014 item 133 as amended) and is consistent with underlying information disclosed in the attached financial statements. Moreover, based on our knowledge of the Capital

Group and its business environment obtained in the course of the audit, we have not detected any material misstatements in the report on the activities.

Statement of compliance with corporate governance principles

In relation to our audit of the consolidated financial statements, it was our responsibility to examine the Parent's statement of compliance with corporate governance principles, which constitutes a separate part of the report on the activities of the Capital Group. In our opinion, the Parent's statement provides all information required by the secondary legislation issued under Article 60.2 of the Act on public offering, conditions governing the introduction of financial instruments to organized trading, and public companies of 29 July 2005 (Journal of Laws of 2016 item 1639 as amended) and regulations issued under Article 61 thereof. The information is compliant with the applicable laws and information presented in the consolidated financial statements.



Artur Maziarka
Key certified auditor
conducting the audit
No. 90108

On behalf of Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. – entity authorized to audit financial statements entered under number 73 on the list kept by the National Council of Statutory Auditors:



Artur Maziarka – Vice-President of the Management Board of Deloitte Polska Sp. z o.o. – which is the General Partner of Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k.

Warsaw, 13 March 2017

The above audit opinion together with audit report is a translation from the original Polish version. In case of any discrepancies between the Polish and English version, the Polish version shall prevail.

**REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS
OF THE TAURON POLSKA ENERGIA S.A. CAPITAL GROUP
FOR THE 2016 FINANCIAL YEAR**

I. GENERAL INFORMATION

1. Details of the audited Parent

The Parent of the Capital Group operates under the business name TAURON Polska Energia S.A. (hereinafter: the "Parent"). The Company's registered office is located in Katowice, Ks. Piotra Ściegiennego 3 Street.

The Parent operates as a joint stock company. The Parent is recorded in the Register of Entrepreneurs kept by the District Court for Katowice-Wschód, VIII Commercial Division of National Court Register under KRS number 0000271562.

The Parent operates based on the provisions of the Code of Commercial Companies.

As of 31 December 2016, the Parent's share capital equaled PLN 8.762.747 thousand and was divided into 1.752.549.394 shares with a face value of PLN 5 each.

Composition of the Management Board of the Parent as at the date of the opinion:

- Filip Grzegorzczak	- President of the Management Board,
- Jarosław Broda	- Vice-President of the Management Board,
- Kamil Kamiński	- Vice-President of the Management Board,
- Marek Wadowski	- Vice-President of the Management Board,
- Piotr Zawistowski	- Vice-President of the Management Board.

Changes in the composition of the Management Board of the Parent during the audited period and until the date of the opinion:

- on 8 January 2016 the Supervisory Board dismissed Mrs Anna Striżyk from the position of Vice-President of the Management Board,
- on 29 January 2016 the Supervisory Board appointed Mr. Marek Wadowski to hold the position of the Vice-President of the Management Board,
- on 14 November 2016 the Supervisory Board dismissed Mr. Remigiusz Nowakowski from the position of President of the Management Board and appointed Mr Filip Grzegorzczak to hold this position.

As of 15 December 2016 (the date of the last Shareholders' Meeting) the Parent's shareholders included:

- State Treasury – 30,06% shares,
- KGHM Polska Miedź S.A. – 10,39% shares,
- Nationale Nederlanden Otwarty Fundusz Emerytalny – 5,06% shares,
- other shareholders – 54,49% shares.

During the audited period, the shareholding structure of the Parent's share capital did not undergo any changes.

After the balance-sheet date there were no changes in the Parent's share capital.

As of 31 December 2016, the Parent's equity amounted to PLN 16.530.268 thousand.

2. Structure of the Capital Group

The consolidated financial statements as of 31 December 2016 included the following entities:

a) Parent – TAURON Polska Energia S.A.

We have audited the financial statements of the Parent for the period from 1 January to 31 December 2016. As a result of our audit, on 13 March 2017 we issued an unqualified opinion.

b) Companies subject to full consolidation:

Name and address of the Company	Interest in the share capital (%)	Name of entity that audited the financial statements and type of opinion issued	Balance sheet date of the consolidated entity
TAURON Wytwarzanie S.A.	100%	Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. – unqualified opinion	31 December 2016
TAURON Ekoenergia Sp. z o.o.	100%	Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. – unqualified opinion	31 December 2016
TAURON Dystrybucja S.A.	99,72%	Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. – unqualified opinion	31 December 2016
TAURON Sprzedaż Sp. z o.o.	100%	Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. – unqualified opinion	31 December 2016
TAURON Czech Energy s.r.o.	100%	COTAX AUDIT s.r.t. – unqualified opinion	31 December 2016
TAURON Sprzedaż GZE Sp. z o.o.	100%	Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. – unqualified opinion	31 December 2016
TAURON Ciepło Sp. z o.o.	100%	Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. – unqualified opinion	31 December 2016
TAURON Obsługa Klienta Sp. z o.o.	100%	Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. – unqualified opinion	31 December 2016
Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. w likwidacji	100%	Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. – qualified opinion	31 December 2016
TAURON Wydobywanie S.A.	100%	Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. – unqualified opinion	31 December 2016
TAURON Sweden Energy AB (publ)	100%	Deloitte AB - audit opinion has not been issued by the date of this report.	31 December 2016
TAURON Dystrybucja Pomiary Sp. z o.o.	99,72%	Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. – unqualified opinion	31 December 2016
TAURON Dystrybucja Serwis S.A.	99,72%	Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. – unqualified opinion	31 December 2016
TAURON Serwis Sp. z o.o.	95,61%	Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. – unqualified opinion	31 December 2016
Komfort-Zet Sp. z o.o.	99,72%	Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. – unqualified opinion	31 December 2016
Biomasa Grupa TAURON Sp. z o.o.	100%	Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. – unqualified opinion	31 December 2016
Kopalnia Wapienia Czatkowice Sp. z o.o.	100%	Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. – unqualified opinion	31 December 2016

TAURON POLSKA ENERGIA S.A. CAPITAL GROUP

Name and address of the Company	Interest in the share capital (%)	Name of entity that audited the financial statements and type of opinion issued	Balance sheet date of the consolidated entity
Marselwind Sp. z o.o.	100%	ATAC Audytorzy i Partnerzy spółka z ograniczoną odpowiedzialnością – opinion with emphasis of matter	31 December 2016

c) Companies subject to consolidation using the equity method:

Name and address of the Company	Interest in the share capital (%)	Name of entity that audited the financial statements and type of opinion issued	Balance sheet date of the consolidated entity
Elektrociepłownia Stalowa Wola S.A.	50%	Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. – opinion with emphasis of matter	31 December 2016
Elektrownia Blachownia Nowa Sp. z o.o. w likwidacji	50%	Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. – opinio with emphasis of matter	31 December 2016
Tameh Holding Sp. z o.o.	50%	Not issued	31 March 2017
Tameh Polska Sp. z o.o.	50%	Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. – unqualified opinion	31 December 2016
Tameh Czech s.r.o	50%	Deloitte Audit s.r.o. - unqualified opinion	31 December 2016

In the audited financial year, the Parent included in consolidation entities TAURON Serwis Sp. z o.o. and Komfor-Zet Sp. z o.o. Effect of this decision was reflected in the consolidated financial statements.

3. Information about the consolidated financial statements for the prior financial year

The activities of the Capital Group in 2015 resulted in a net loss of PLN 1.804.215 thousand. The consolidated financial statements of the Capital Group for 2015 were audited by a certified auditor. The audit was performed by authorized entity Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. The certified auditor issued an unqualified opinion on those financial statements.

The General Shareholders' Meeting which approved the consolidated financial statements for the 2015 financial year was held on 8 June 2016.

In accordance with applicable laws, the consolidated financial statements for the 2015 financial year were submitted to the National Court Register (KRS) on 13 June 2016.

4. Details of the authorized entity and the key certified auditor acting on its behalf

The entity authorized to audit the financial statements was appointed by the Supervisory Board. The audit of the consolidated financial statements was performed based on the agreement of 15 June 2016 concluded between the Parent and Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. with its registered office in Warsaw, al. Jana Pawła II 22, recorded under number 73 on the list of entities authorized to provide audit services kept by the National Council of Statutory Auditors. On behalf of the authorized entity, the audit of the consolidated financial statements was conducted under the supervision of Artur Maziarka, key certified auditor (No. 90108) in the registered office of the Parent from 20 to 24 February 2017 as well as outside the Company's premises until the date of this opinion.

Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. and the key certified auditor conducting audit confirm that they are authorized to carry out audits and meet the requirements of Article 56 of the Act on certified auditors and their self-government, entities authorized to audit financial statements and public supervision (Journal of Laws of 2016 item 1000 as amended) to express an unbiased and independent opinion on the consolidated financial statements of the Capital Group.

5. Availability of data and management's representations

The scope of our audit was not limited.

During the audit, necessary documents and data as well as detailed information and explanations, were provided to the authorized entity and the key certified auditor, as confirmed e.g. in the written representation of the Management Board of the Parent of 13 March 2017.

II. ECONOMIC AND FINANCIAL POSITION OF THE CAPITAL GROUP

Presented below are the main items from the consolidated statement of comprehensive income, consolidated statement of financial position as well as financial ratios describing the financial performance of the Capital Group and its economic and financial position compared to the prior year.

Main financial data from consolidated statement of comprehensive income (PLN '000)

	2016	2015
Sales revenue	17.646.489	18.264.440
Operating expenses	(16.829.480)	(20.137.894)
Operating profit (loss)	801.522	(1.901.216)
Net profit (loss)	370.137	(1.804.215)

Main financial data from consolidated statement of financial position (PLN '000)

Inventory	486.120	433.279
Receivables from clients	1.894.065	1.830.033
Current assets	4.308.641	3.947.248
Total assets	33.456.894	32.071.433
Equity	16.679.318	16.048.157
Short-term liabilities (including short-term provisions and accruals)	4.808.857	7.439.326
Liabilities to suppliers	829.729	790.706
Total liabilities and provisions	16.777.576	16.023.276

Profitability and efficiency ratios

	2016	2015
- return on sales	5%	-10%
- net return on equity	2%	-10%
- assets turnover ratio	0,53	0,57
- receivables turnover in days	38	37
- liabilities turnover in days	17	15
- inventory turnover in days	10	9

Liquidity/Net working capital

- debt ratio	50%	50%
- equity to fixed assets ratio	50%	50%
- net working capital (PLN '000)	(500.216)	(3.492.078)
- current ratio	0,90	0,53
- quick ratio	0,79	0,47

An analysis of the above figures and ratios indicated the following trends in 2016:

- increase of return on sales and net return on equity;
- decrease of assets turnover ratio;
- increase of receivables, liabilities and inventory turnover ratios;
- no change of debt ratio and equity to fixed assets ratio;
- decrease of net working capital deficit;
- increase of liquidity ratios.

III. DETAILED INFORMATION

1. Information about the audited consolidated financial statements

The audited consolidated financial statements were prepared as at 31 December 2016 and include:

- consolidated statement of financial position prepared as of 31 December 2016, with total assets and liabilities plus equity of PLN 33.456.894 thousand,
- consolidated statement of comprehensive income for the period from 1 January 2016 to 31 December 2016, with a net profit of PLN 370.137 thousand and total comprehensive income of PLN 647.885 thousand,
- consolidated statement of changes in equity for the period from 1 January 2016 to 31 December 2016, disclosing an increase in equity of PLN 631.161 thousand,
- consolidated statement of cash flows for the period from 1 January 2016 to 31 December 2016, showing a cash inflow of PLN 27.018 thousand,
- notes, comprising a summary of significant accounting policies and other explanatory information.

The audit covered the period from 1 January 2016 to 31 December 2016 and focused mainly on:

- verification of the correctness and fairness of the consolidated financial statements prepared by the Management Board of the Parent;
- verification of the consolidation documentation;
- evaluation of the correctness of the consolidation methods and procedures applied during consolidation;
- review of opinions and reports on audits of financial statements of subsidiaries and associated companies included in consolidation, prepared by other certified auditors.

2. Consolidation documentation

The Parent presented the consolidation documentation including:

- financial statements of controlled entities, adjusted to the accounting principles (policy) applied during consolidation;
- financial statements of controlled entities translated into the Polish currency;
- consolidation adjustments and eliminations necessary for preparation of the consolidated financial statements;
- calculation of non-controlling interests;
- calculation of exchange differences arising from translation of the financial statements of controlled entities denominated in foreign currencies.

The financial statements of the subsidiaries were consolidated using the full method, i.e. full amounts of all relevant items of the financial statements of the Parent and the subsidiaries included in consolidation were summed up.

The equity method was applied with respect to associated entities. The value of the Parent's interest in the associated company was adjusted by increases or decreases in the equity of the associated company attributable to the Parent, which occurred in the period covered by consolidation, and decreased by dividends due from such companies.

The Parent preparing the consolidated financial statements has not applied any material simplifications and exceptions to the consolidation principles with respect to the controlled entities.

3. Completeness and correctness of drawing up consolidated statement of cash flows, consolidated statement of changes in equity, notes and explanations and the report on the activities of the Capital Group

The Parent confirmed the validity of the going concern basis in preparation of the consolidated financial statements. The notes and explanations to the consolidated financial statements gives a description of measurement principles regarding assets, equity, liabilities, financial performance and principles of preparation of the consolidated financial statements.

The Parent prepared notes in the form of tables to individual items of the consolidated statement of financial position and consolidated statement of comprehensive income as well as narrative descriptions in line with the requirement of IFRS.

The Parent prepared the consolidated cash flow statement and consolidated statement of changes in equity in accordance with the requirements of IFRS.

The Management Board of the Parent prepared and supplemented the consolidated financial statements with a report on the activities of the Capital Group in the 2016 financial year. The report contains information determined by Article 49 of the Accounting Act and the Ordinance of the Minister of Finance Ordinance of 19 February 2009 on current and periodic information published by issuers of securities and the rules of equal treatment of the information required by the laws of non-member states (Journal of Laws of 2014 item 133 as amended). We have audited the report with respect to the disclosed information derived directly from the audited consolidated financial statements.

IV. FINAL NOTES

Management Board's Representations

Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. and the key certified auditor received a representation letter from the Parent's Management Board, in which the Board stated that the Capital Group complied with the laws in force.



Artur Maziarka
Key certified auditor
conducting the audit
No. 90108

On behalf of Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. – entity authorized to audit financial statements entered under number 73 on the list kept by the National Council of Statutory Auditors:



Artur Maziarka – Vice-President of the Management Board of Deloitte Polska Sp. z o.o. – which is the General Partner of Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k.

Warsaw, 13 March 2017

TAURON POLSKA ENERGIA S.A. CAPITAL GROUP

**CONSOLIDATED FINANCIAL STATEMENTS
PREPARED ACCORDING TO THE INTERNATIONAL FINANCIAL
REPORTING STANDARDS,
AS ENDORSED BY THE EUROPEAN UNION
FOR THE YEAR ENDED 31 DECEMBER 2016**

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CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Year ended 31 December 2016	Year ended 31 December 2015 (restated figures)
Sales revenue	12	17 646 489	18 264 440
Cost of sales, of which:	13	(15 717 462)	(19 028 962)
Impairment of non-financial non-current assets	13.3	(832 092)	(3 594 654)
Profit (loss) on sale		1 929 027	(764 522)
Selling and distribution expenses	13	(459 191)	(489 963)
Administrative expenses	13	(652 827)	(618 969)
Other operating income and expenses	14	(15 487)	(27 762)
Operating profit (loss)		801 522	(1 901 216)
Share in profit/(loss) of joint ventures	22	60 040	7 933
Interest expense on debt	15	(259 564)	(279 673)
Other finance income and costs	15	(93 137)	(14 815)
Profit (loss) before tax		508 861	(2 187 771)
Income tax expense	16	(138 724)	383 556
Net profit (loss)		370 137	(1 804 215)
Measurement of hedging instruments	30.5	127 252	85 932
Foreign exchange differences from translation of foreign entities		9 991	595
Income tax	16	(24 178)	(16 327)
Other comprehensive income subject to reclassification to profit or loss		113 065	70 200
Actuarial gains/(losses)	34.1	204 597	64 523
Income tax	16	(38 874)	(12 260)
Share in other comprehensive income of joint ventures	22	(1 040)	(387)
Other comprehensive income not subject to reclassification to profit or loss		164 683	51 876
Other comprehensive income, net of tax		277 748	122 076
Total comprehensive income		647 885	(1 682 139)
Net profit (loss):			
Attributable to equity holders of the Parent		367 468	(1 807 317)
Attributable to non-controlling interests		2 669	3 102
Total comprehensive income:			
Attributable to equity holders of the Parent		644 944	(1 685 301)
Attributable to non-controlling interests		2 941	3 162
Basic and diluted earnings (loss) per share (in PLN):	17	0.21	(1.03)

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	As at 31 December 2016	As at 31 December 2015
ASSETS			
Non-current assets			
Property, plant and equipment	18	26 355 189	24 882 817
Goodwill	19	40 156	92 059
Energy certificates and emission allowances for surrender	20.1	126 260	510 840
Other intangible assets	21	1 224 427	1 182 765
Investments in joint ventures	22	461 348	418 127
Loans granted to joint ventures	23	240 951	221 803
Other financial assets	24	227 140	211 215
Other non-financial assets	25.1	422 400	550 375
Deferred tax assets	16.3	50 382	54 184
		29 148 253	28 124 185
Current assets			
Energy certificates and emission allowances for surrender	20.2	980 348	805 388
Inventories	26	486 120	433 279
Receivables from clients	27	1 894 065	1 830 033
Receivables arising from taxes and charges	28	263 854	228 345
Other financial assets	24	94 753	34 334
Other non-financial assets	25.2	185 008	233 059
Cash and cash equivalents	29	384 881	364 912
Non-current assets classified as held for sale		19 612	17 898
		4 308 641	3 947 248
TOTAL ASSETS		33 456 894	32 071 433

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION – continued

	Note	As at 31 December 2016	As at 31 December 2015
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the Parent			
Issued capital	30.1	8 762 747	8 762 747
Reserve capital	30.3	7 823 339	11 277 247
Revaluation reserve from valuation of hedging instruments	30.5	29 660	(73 414)
Foreign exchange differences from translation of foreign entities		9 200	(791)
Retained earnings/(Accumulated losses)	30.4	24 320	(3 947 461)
		16 649 266	16 018 328
Non-controlling interests			
		30 052	29 829
Total equity		16 679 318	16 048 157
Non-current liabilities			
Debt	33	8 759 789	4 924 127
Provisions for employee benefits	34	1 373 385	1 735 206
Provisions for disassembly of fixed assets, land restoration and other provisions	35	449 310	377 372
Accruals, deferred income and government grants	38	554 293	650 364
Deferred tax liabilities	16.3	759 568	795 176
Other financial liabilities	42	72 374	101 705
		11 968 719	8 583 950
Current liabilities			
Debt	33	219 740	3 214 520
Liabilities to suppliers	39	829 729	790 706
Capital commitments	40	1 033 804	766 843
Provisions for employee benefits	34	158 228	172 505
Provisions for liabilities due to energy certificates and greenhouse gas emission allowances	36	964 821	1 018 134
Other provisions	37	366 456	178 044
Accruals, deferred income and government grants	38	267 662	254 337
Liabilities arising from taxes and charges	41	410 943	429 649
Other financial liabilities	42	256 295	340 666
Other non-financial liabilities	43	301 179	273 922
		4 808 857	7 439 326
Total liabilities		16 777 576	16 023 276
TOTAL EQUITY AND LIABILITIES		33 456 894	32 071 433

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Note	Equity attributable to the equity holders of the Parent					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)			Total
As at 1 January 2015		8 762 747	10 393 686	(143 019)	(1 386)	(1 045 580)	17 966 448	30 116	17 996 564
Dividends	30.6, 31	–	–	–	–	(262 882)	(262 882)	(2 787)	(265 669)
Other transactions with non-controlling shareholders	30.6	–	–	–	–	63	63	(662)	(599)
Distribution of prior year profits		–	883 561	–	–	(883 561)	–	–	–
Transactions with shareholders		–	883 561	–	–	(1 146 380)	(262 819)	(3 449)	(266 268)
Net profit (loss)		–	–	–	–	(1 807 317)	(1 807 317)	3 102	(1 804 215)
Other comprehensive income		–	–	69 605	595	51 816	122 016	60	122 076
Total comprehensive income		–	–	69 605	595	(1 755 501)	(1 685 301)	3 162	(1 682 139)
As at 31 December 2015		8 762 747	11 277 247	(73 414)	(791)	(3 947 461)	16 018 328	29 829	16 048 157
Dividends	30.6, 31	–	–	–	–	–	–	(3 043)	(3 043)
Accounting for acquisition of ZCP Brzeszcze	32	–	–	–	–	(14 041)	(14 041)	–	(14 041)
Other transactions with non-controlling shareholders	30.6	–	–	–	–	35	35	325	360
Coverage of prior years loss	30.3	–	(3 453 908)	–	–	3 453 908	–	–	–
Transactions with shareholders		–	(3 453 908)	–	–	3 439 902	(14 006)	(2 718)	(16 724)
Net profit (loss)		–	–	–	–	367 468	367 468	2 669	370 137
Other comprehensive income		–	–	103 074	9 991	164 411	277 476	272	277 748
Total comprehensive income		–	–	103 074	9 991	531 879	644 944	2 941	647 885
As at 31 December 2016		8 762 747	7 823 339	29 660	9 200	24 320	16 649 266	30 052	16 679 318

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

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Year ended 31 December 2016	Year ended 31 December 2015
Cash flows from operating activities			
Profit (loss) before taxation		508 861	(2 187 771)
Share in (profit)/loss of joint ventures		(60 040)	(7 933)
Depreciation and amortization		1 668 726	1 832 780
Impairment losses on property, plant and equipment, intangible assets and goodwill	44.1	867 109	3 595 895
Interest and commissions		249 719	273 502
Other adjustments of profit before tax		(2 703)	329
Change in working capital	44.1	227 335	(7 628)
Income tax paid	44.1	(394 792)	(111 716)
Net cash from operating activities		3 064 215	3 387 458
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets	44.2	(3 516 296)	(3 973 510)
Public aid refund	44.2	(131 077)	–
Purchase of financial assets	44.2	(36 621)	(29 067)
Loans granted	44.2	(23 575)	(26 100)
Total payments		(3 707 569)	(4 028 677)
Proceeds from sale of property, plant and equipment and intangible assets		33 260	36 554
Repayment of loans granted		–	14 500
Redemption of debt securities		–	21 732
Dividends received	44.2	29 728	4 684
Other proceeds		17 123	9 085
Total proceeds		80 111	86 555
Net cash used in investing activities		(3 627 458)	(3 942 122)
Cash flows from financing activities			
Redemption of debt securities	44.3	(3 300 000)	(450 000)
Repayment of loans and borrowings	44.3	(140 331)	(140 585)
Dividends paid to equity holders of the Parent		–	(262 882)
Interest paid	44.3	(255 116)	(276 305)
Other payments		(29 697)	(44 059)
Total payments		(3 725 144)	(1 173 831)
Issue of debt securities	44.3	4 284 607	310 000
Proceeds from contracted loans/borrowings		914	295 000
Subsidies received		29 884	43 139
Total proceeds		4 315 405	648 139
Net cash from (used in) financing activities		590 261	(525 692)
Net increase / (decrease) in cash and cash equivalents		27 018	(1 080 356)
Net foreign exchange difference		1 283	1 169
Cash and cash equivalents at the beginning of the period	29	327 715	1 408 071
Cash and cash equivalents at the end of the period, of which:	29	354 733	327 715
restricted cash	29	144 404	206 254

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

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

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

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

The Parent has been entered in the Register of Entrepreneurs of the National Court Register kept by the District Court for Katowice-Wschód, Business Division of the National Court Register, Entry No. KRS 0000271562. The Parent has been assigned statistical number REGON 240524697.

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, Distribution, Sale and other operations, which has been discussed in more detail in Note 10 to these consolidated financial statements.

The Group's consolidated financial statements cover the year ended 31 December 2016 and present comparative data for the year ended 31 December 2015.

These consolidated financial statements were approved for publication by the Management Board on 13 March 2017.

Composition of the Management Board

As at 31 December 2016, the composition of the Management Board was as follows:

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

As at the date of approval of these financial statements for publication the composition of the Management Board had not changed.

As at 31 December 2015, the composition of the Management Board was as follows:

- Remigiusz Nowakowski – President of the Management Board;
- Jarosław Broda – Vice-President of the Management Board;
- Kamil Kamiński – Vice-President of the Management Board;
- Anna Strzyżuk – Vice-President of the Management Board;
- Piotr Zawistowski – Vice-President of the Management Board.

Changes in the composition of the Management Board in the year ended 31 December 2016 have been presented in the Management Board's Report on the Activities of the TAURON Polska Energia S.A. Capital Group for the year ended 31 December 2016 (Section 6.11.1).

2. Composition of the TAURON Capital Group and joint ventures

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

The TAURON Polska Energia S.A. Capital Group

*Consolidated financial statements for the year ended 31 December 2016 prepared in accordance with IFRS, as endorsed by the EU
(in PLN '000)*

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. ¹	Jaworzno	Mining	100.00%
2	TAURON Wytwarzanie S.A.	Jaworzno	Generation	100.00%
3	TAURON Ekoenergia Sp. z o.o.	Jelenia Góra	Generation	100.00%
4	Marselwind Sp. z o.o.	Katowice	Generation	100.00%
5	TAURON Ciepło Sp. z o.o.	Katowice	Generation	100.00%
6	TAURON Serwis Sp. z o.o. ²	Katowice	Generation	95.61%
7	TAURON Dystrybucja S.A.	Kraków	Distribution	99.72%
8	TAURON Dystrybucja Serwis S.A. ³	Wrocław	Distribution	99.72%
9	TAURON Dystrybucja Pomiary Sp. z o.o. ³	Tarnów	Distribution	99.72%
10	TAURON Sprzedaż Sp. z o.o.	Kraków	Sales	100.00%
11	TAURON Sprzedaż GZE Sp. z o.o.	Gliwice	Sales	100.00%
12	TAURON Czech Energy s.r.o.	Ostrawa, Czech Republic	Sales	100.00%
13	TAURON Obsługa Klienta Sp. z o.o.	Wrocław	Other	100.00%
14	Kopalnia Wapienia Czatkowice Sp. z o.o.	Krzeszowice	Other	100.00%
15	Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. in liquidation ⁴	Warszawa	Other	100.00%
16	TAURON Sweden Energy AB (publ)	Sztokholm, Sweden	Other	100.00%
17	Biomasa Grupa TAURON Sp. z o.o.	Stalowa Wola	Other	100.00%
18	KOMFORT-ZET Sp. z o.o. ³	Tarnów	Other	99.72%

¹ On 1 December 2016, the business combination under common control of TAURON Wydobycie S.A. and Nowe Brzeszcze Grupa TAURON Sp. z o.o. was registered, which has been discussed in more detail in Note 32 to these consolidated financial statements.

² On 2 November 2016, a business combination under common control of TAURON Serwis Sp. z o.o. and TAURON Wytwarzanie Serwis Sp. z o.o. was registered.

³ TAURON Polska Energia S.A. holds indirect interest in TAURON Dystrybucja Serwis S.A., TAURON Dystrybucja Pomiary Sp. z o.o. and KOMFORT-ZET Sp. z o.o. through a subsidiary, TAURON Dystrybucja S.A. Additionally, TAURON Polska Energia S.A. uses the shares of TAURON Dystrybucja Serwis S.A. and TAURON Dystrybucja Pomiary Sp. z o.o.

⁴ 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 annulment of the liquidation of the company.

As at 31 December 2016, TAURON Polska Energia S.A. held direct and indirect interest in the following key jointly-controlled entities, which are measured in the consolidated financial statements using the equity method:

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	Elektrownia Blachownia Nowa Sp. z o.o. in liquidation ¹	Kędzierzyn Koźle	Generation	50.00%
3	TAMEH HOLDING Sp. z o.o. ²	Dąbrowa Górnicza	Generation	50.00%
4	TAMEH POLSKA Sp. z o.o. ²	Dąbrowa Górnicza	Generation	50.00%
5	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. and Elektrownia Blachownia Nowa Sp. z o.o. in liquidation through a subsidiary, TAURON Wytwarzanie S.A.

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

3. Statement of compliance

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

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

The Group companies and the Parent keep their accounting records and prepare their financial statements in accordance with the International Financial Reporting Standards, as endorsed by the European Union, except KOMFORT-ZET Sp. z o.o., which maintains its accounting records and prepares financial statements in accordance with the Accounting Act, as well as TAURON Czech Energy s.r.o. and TAURON Sweden Energy AB (publ), whose accounting records are kept and financial statements prepared in accordance with the accounting principles adopted in the Czech Republic and Sweden, respectively.

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

4. Going concern

These 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, no circumstances posing a risk to the Group companies' ability to continue as a going concern had been identified.

5. Functional and presentation currency

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

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

6. 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 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 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 notes to these consolidated financial statements, in line with the table below.

Item	Value of item to which the estimate figure applies		Accounting policy description	Details regarding assumptions made and calculation of significant estimates
	As at 31 December 2016	As at 31 December 2015		
Property, plant and equipment	26 355 189	24 882 817	note 9.2 note 9.6	In the year ended 31 December 2016, having performed impairment tests, the Group recognized an impairment loss on property, plant and equipment of PLN 1 942 937 thousand and derecognized an impairment loss of PLN 1 208 245 thousand. note 18
Goodwill	40 156	92 059	note 9.3 note 9.6	In the year ended 31 December 2016 as a result of impairment test performed as at 30 June 2016 the Group recognized an impairment loss on goodwill of PLN 51 903 thousand. The impairment tests as at 31 December 2016 did not indicate the need to recognise impairment losses. note 19
Provisions for employee benefits	1 531 613	1 907 711	note 9.18	Description of actuarial assumptions made and valuation method. note 34
Provision for gas emission obligations	209 736	153 083	note 9.20	Provision calculation note 36
Provision for obligation to submit energy certificates	755 085	865 051	note 9.20	Provision calculation note 36
Provision for mine decommissioning costs	146 885	111 675	note 9.19	Provision calculation note 35
Provision for restoration of land and dismantling and removal of fixed assets	115 302	101 244	note 9.19	Provision calculation note 35
Provision for onerous contracts	198 844	182 877	note 9.21	Provision calculation note 35
Accrued revenue from sales of electricity and distribution services in the Sales segment	15 573 358	16 284 291	note 9.26	Additional assessment of revenue from sales of electricity and distribution services in the Sales segments at the end of the reporting period in the amount of PLN 353 065 thousand. note 12
Deferred tax assets	957 118	936 795	note 9.25	Realisation of deferred tax assets. note 16.3
Derivative instruments:				
Assets	56 417	5 684	note 9.16	Fair value measurement note 45.3
Liabilities	560	112 109		
Receivables from clients	1 894 065	1 830 033	note 9.12	Impairment loss – as at the end of the reporting period impairment losses on receivables from clients amounted to PLN 205 647 thousand. note 27

7. New standards and interpretations

The Group did not choose an early application of any standards or 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 and are not yet effective**

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

IFRS 9 *Financial Instruments*

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

Key amendments introduced by IFRS 9 *Financial Instruments*:

- amendments to classification and measurement of financial assets based on the business model for managing the financial assets and their contractual cash flow characteristics. The existing four categories of financial assets

defined in IAS 39 *Financial Instruments: Recognition and Measurement* will be replaced by two categories: amortized cost and fair value;

- a new impairment model based on expected credit losses;
 - new hedge accounting model.
-

Effect 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 financial statements, however, this will not have a material impact on the measurement as well as the Group's profit/loss and capitals. An analysis of the financial assets held by the Group as at 31 December 2016 has shown that, provided that the Group maintains similar financial assets when IFRS 9 *Financial Instruments* becomes effective, the new classification will not materially change the measurement and hence the Company's profit/loss and capitals. The instruments which have so far been classified to loans and receivables meet the conditions for classification to assets measured at amortized cost and hence the amendment will not result in any changes in measurement. The Group does not hold any assets held to maturity. Other categories of financial assets measured at fair value in line with IFRS 9 are assets measured at fair value.

The above outcomes of the analysis do not apply to shares held by the Group in entities not quoted in active markets, which cannot be reliably measured and therefore are currently measured at cost less any impairment. Effects of IFRS 9 *Financial Instruments* on the consolidated financial statements with respect to this asset group have not been fully analysed yet.

With respect to expected credit losses, an analysis of receivables from the Sales segment buyers has been carried out. This class of financial instruments constitutes the most important item of the Group's financial assets. These receivables have been classified by client groups demonstrating material differences in terms of credit losses based on historical data. Subsequently, for each group, an allowance recognition coefficient has been determined, including the effects of available information regarding future on historical ratios.

Preliminary analysis performed indicates that application of IFRS 9 will not materially affect the consolidated financial statements.

As at 31 December 2016 the Group held hedging instruments to hedge fluctuations in cash flows related to issued bonds due to interest rate risk. These interest rate swaps are subject to hedge accounting. IFRS 9 *Financial Instruments* coming into effect is not expected to materially affect the consolidated financial statements of the Group with respect to hedge accounting.

IFRS 15 Revenue from Contracts with Customers

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

The standard specifies how and when to recognize revenue and requires more detailed disclosures. The Standard replaces IAS 18 *Revenue*, IAS 11 *Construction Contracts* and a number of interpretations concerning revenue recognition.

Effect on the consolidated financial statements

The Group is carrying out an analysis of contracts with clients in five steps, which are necessary from the viewpoint of correct determination of revenue in line with IFRS 15 *Revenue from Contracts with Customers* and include: identifying a contract (or a contract group); indicating individual performance obligations and defining prices; assigning the prices to individual performance obligations and determining the revenue. The new standard requires considerably more detailed disclosure of sales and revenue in financial statements. Evaluation of the effects of IFRS 15 on the consolidated financial statements is still being analysed due to a broad range of the related changes. The new guidance included in IFRS 15 may necessitate system change.

Preliminary analysis of impact of IFRS 15 on the accounting policies applied has shown that the new standard changes the method of accounting for contracts with customers, in particular if services and goods are provided under a single contract, which may be particularly important for the Sales segment, mainly with regard to contracts for sales of electricity and gas, which offer customers additional services or devices included in the sales prices. With respect to the Group, these services shall include providing customers with support of engineers or servicemen in case of power or gas supply failure. Another analysed aspect involves fees for so-called price guarantee in sales contracts, which enable clients to ensure that during a given period, prices paid by them will not change. Pursuant to the new standard, the Group is obliged to separately recognise each identifiable performance obligations, and therefore to allocate transaction price to these obligations. At present, the Group has been analysing its contractual obligations in order to identify individual obligations and allocate transaction prices to them.

Additionally, in the Distribution segment, the Group is analysing contracts that underlie the recognition of revenue from connecting new customers and contracts for distribution and comprehensive services in light of IFRS 15, with regard to separate identification of these services as required by the Standard. To this end the Group analyses its contracts among others in terms of sources of law underlying the provision of these services, legal obligations imposed on the company with regard to the connecting of new customers, service pricing freedom and interrelation of the compensation received for the provision of these services, possibility to include both services into a single agreement and the right of the customer who has concluded the following agreements: the connection agreement and distribution/comprehensive service agreement to resign from the purchasing of these services.

- **Standards, revised 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 standard will or 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 a right-of-use asset and a 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 their incremental borrowing rate. Lessors continue to classify leases as operating or finance, 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 recognises 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 recognises 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.

Effect on the consolidated financial statements

A preliminary analysis of the impact of IFRS 16 *Leases* on the accounting principles 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 analyse 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 still distant, and it has not yet been approved by the EU, as at the date of approving these financial statements for publication the Group had not carried out any analyses which would enable determining the impact of the planned changes on the financial statements. The analysis will be conducted at a later time.

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

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

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

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

8. Changes in the accounting policies

The accounting principles (policy) adopted for the preparation of these consolidated financial statements are consistent with those used for the preparation of the annual consolidated financial statements of the Group for the year ended 31 December 2015, except for the application of amendments to the standards specified below as well as a change in the presentation of gains/losses on trading in emission allowances purchased for resale and generation of profit on market price fluctuations as well as gains/losses on derivative commodity instruments.

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

Standard	Effective in the EU as of (annual periods beginning on or after this date)
Revised IAS 19 <i>Employee Benefits – Defined Benefit Plans: Employee Contributions</i>	1 February 2015
Annual Improvements to IFRS (Cycle 2010–2012)	1 February 2015
Revised IFRS 11 <i>Joint Arrangements: Accounting for Acquisitions of Interests in Joint Operations.</i>	1 January 2016
Revised IAS 1 <i>Presentation of Financial Statements – Disclosure Initiative</i>	1 January 2016
Revised IAS 16 <i>Property, Plant and Equipment</i> and IAS 38 <i>Intangible Assets: Clarification of Acceptable Methods of Depreciation and Amortization</i>	1 January 2016
Revised IAS 16 <i>Property, Plant and Equipment</i> and IAS 41 <i>Agriculture: Bearer Plants</i>	1 January 2016
Revised IAS 27 <i>Separate Financial Statements: Equity Method in Separate Financial Statements</i>	1 January 2016
Annual Improvements to IFRS (Cycle 2012–2014)	1 January 2016
Revised IFRS 10 <i>Consolidated Financial Statements</i> , IFRS 12 <i>Disclosure of Interests in Other Entities</i> and IAS 28 <i>Investments in Associates and Joint Ventures Investment Entities: Applying the Consolidation Exception</i>	1 January 2016

Presentation change

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.

Before, gains/losses on derivative commodity instruments were recognized within financing activities. As these gains/losses are linked with operating activities with respect to commodity trading and gains/losses on trading activities are aimed to be recognized in one place in the statement of comprehensive income and volatility of profit is to be reduced in different parts of the statement of comprehensive income, i.e. operating and financing activities, the Management Board decided to introduce a presentation change.

Currently, the aggregate gain/loss on the emission allowances purchased for resale and generation of profit due to volatility of market prices, comprising the aggregate gain/loss on:

- trading in the inventory of greenhouse gas emission allowances classified to the trading portfolio;
- change in fair value measurement of the inventory of greenhouse gas emission allowances classified to the trading portfolio;
- change in measurement and gains/losses on derivative commodity instruments falling within the scope of IAS 39, related to purchases and sales of greenhouse gas emission allowances;

is presented within revenue from sales of goods (gain) or cost of sales (loss).

The cost of fees and charges relating to the aforesaid transactions is also recognized within operating activities.

Additionally, operating revenue or expenses include gain (loss) on change in measurement and on exercising derivative commodity instruments falling within the scope of IAS 39, related to purchases and sales of other commodities.

According to the Management Board, the aforementioned changes concerning aggregate presentation of gains/losses on a specific trading strategy within operating activities will reflect the Company's activities in the field of trading in commodities and the related derivatives in a more accurate manner.

The effect of the presentation change on the consolidated statement of comprehensive income for the year ended 31 December 2015 is presented in the table below. The change has not had any effect on the Group's profit/loss.

	Year ended 31 December 2015 (approved figures)	Change in presentation of gains/losses on trading in emission allowances and on commodity derivative instruments	Year ended 31 December 2015 (restated figures)
Sales revenue	18 375 224	(110 784)	18 264 440
Cost of sales	(19 140 775)	111 813	(19 028 962)
Profit (loss) on sale	(765 551)	1 029	(764 522)
Selling and distribution expenses	(488 859)	(1 104)	(489 963)
Operating profit (loss)	(1 901 141)	(75)	(1 901 216)
Other finance income and costs	(14 890)	75	(14 815)
Net profit (loss)	(1 804 215)	–	(1 804 215)

9. Significant accounting policies

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

9.1.1. Consolidation

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

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

9.1.2. Business acquisitions

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

Goodwill is measured as the excess of the aggregate of the consideration transferred for the acquisition, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree over the net of the acquisition-date fair values of the identifiable assets acquired and the liabilities assumed. The accounting policy applicable to goodwill has been presented in Note 9.3.

9.1.3. Acquisition of businesses under common control of the State Treasury

Note 32

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

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

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

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

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

9.2. Property, plant and equipment

Note 18

Key fixed assets by segment:

- With respect to Generation:
 - boilers with accessories, turbines with generators, transformers and thermal stations as well as equipment used for purposes of fuel unloading and transportation, pumping stations and sulfur-recovery facilities;
 - thermal stations, equipment used for purposes of fuel unloading and transportation as well as pumping stations and water treatment facilities;
 - wind farms, water turbine sets as well as weirs and dams.;
- With respect to Distribution: power lines and stations. Power lines are located on the area of 57,000 square meters, with the total length of ca. 267,000 km. The Group holds over 59,000 electrical substations in its assets;
- With respect to Mining: mechanized lining, pit shafts and dip-headings and fixed assets located in the mine walls and the coal processing plant.

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

The cost includes:

- acquisition price or manufacturing cost;
- costs directly attributable to the purchase and bringing the asset to a usable condition;
- the expected cost of disassembly and removal of items of property, plant and equipment, and restoration of their current location to its original condition (the accounting policy on provisioning for these costs has been presented in Note 9.19);
- borrowing costs (the accounting policy on capitalizing these costs has been presented in Note 9.7).

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

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

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

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

Average residual useful lives by fixed asset group:

Asset group	Average remaining depreciation period (number of years)
Buildings, premises, civil and water engineering structures	17 years
Plant and machinery	13 years
Other tangible fixed assets	5 years

Items of property, plant and equipment are tested for impairment if there is any indication of impairment. Impairment tests for property, plant and equipment are carried out in line with the accounting policy presented in Note 9.6.

9.3. Goodwill

Note 19

Goodwill is carried at its initial amount (determined in line with the accounting policy presented in Note 9.1.2) less accumulated impairment losses. Goodwill is not amortized but it is tested for impairment on an annual basis or more frequently if any indications of impairment occur.

As at the acquisition date, goodwill acquired is allocated to each cash-generating unit ("CGU") that may derive benefits from synergy effects. An operating segment is the lowest level in the Group with attributable goodwill and with goodwill monitored for internal management purposes in the Group (except the Generation segment). In the Generation segment, however, the lowest level units are cash-generating units related to electricity generation from conventional sources, including in CHP units, in co-firing of biomass and other thermal energy (TAURON Wytwarzanie S.A.), cash-generating units related to generation of electricity from renewable sources (TAURON Ekoenergia Sp. z o.o.) and cash-generating units related to generation, distribution and sale of heat (TAURON Ciepło Sp. z o.o.).

Impairment tests for goodwill are performed in line with the accounting principles presented in Note 9.6.

9.4. Energy certificates and gas emission allowances

Note 20

Energy certificates and gas emission allowances include:

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

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

- current intangible assets – energy certificates and gas emission allowances designated for internal purposes, where the Group has the intention to surrender them so as to fulfil the obligation for the current or future year, if the Group intends to surrender the allowances in the same year;
- non-current intangible assets – energy certificates and gas emission allowances designated for internal purposes, where they are intended to be used for purposes of the fulfilment of the surrendering obligation for the following years and they are planned to be surrendered within more than one year of the end of the reporting period;
- inventories – energy certificates and gas emission allowances designated for sale.

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

	Acquired	Granted/Received free of charge	Release
Energy certificates	Acquisition cost	Fair value as at the receipt date	Weighted average
Greenhouse gas emission allowances	Acquisition cost or fair value*	Nominal value (i.e. zero)	Obtained free of charge in the first place, subsequently acquired ones (according to weighted average)

* Fair value – greenhouse gas emission allowances in the trading portfolios.

The energy certificates and the emission allowances are surrendered (in correspondence with settlement of the provision amount) at the date of their being redeemed. The principles applicable to the recognition of provisions relating to the energy certificate surrendering obligation and for liabilities arising from gas emissions have been presented in Note 9.20.

9.5. Other intangible assets

Note 21

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

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

Other intangible assets, except those which have not been made available for use, are amortized over their estimated useful lives. Amortization is calculated by reference to the initial value less the residual value.

Residual value is included in determining the basis for calculation of depreciation charges, if for a given asset, an active market exists or a third party has committed to buy the asset upon completion of its useful life. For the right to perpetual usufruct of land, the residual value has been determined on the basis of market prices. As the residual value is similar to the carrying amount, the said right has not been amortized.

Average residual useful lives by other intangible asset group:

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

9.6. Impairment of non-financial non-current assets

Note 11

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

Impairment tests include estimation of the recoverable amount of an asset or the cash-generating unit (CGU) to which the asset belongs. Information concerning identification of CGU which goodwill is allocated to has been presented in Note 9.3.

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

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

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

9.7. Borrowing costs

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

Borrowing costs include mainly interest on specific and general borrowings calculated using the effective interest method and financial charges relating to finance lease agreements. The effective portion of the hedge for contracts that satisfy the hedge accounting criteria and are entered into in connection with financing the development of non-current assets is also capitalized (the hedge accounting policy has been presented in Note 9.17).

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

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

9.8. Shares in joint ventures

Note 22

Joint arrangements of the Group are classified as joint ventures. Shares in joint ventures where the Group exercises joint control are accounted for using the equity method.

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

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

9.9. Loans granted to joint ventures

Note 23

Loans granted to a joint venture do not satisfy the criteria to be recognized as a net investment in a joint venture. Initially, loans are recognized at fair value and measured at amortized cost less impairment losses as at the end of the reporting period.

9.10. Other non-financial assets

Note 25

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

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

9.11. Inventories

Note 26

The Group's inventories include mainly the inventory of fuels (being materials, semi-finished products or finished products) as well as energy certificates (property rights) and greenhouse gas emission allowances designated for sale.

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

9.12. Receivables from buyers

Note 27

Receivables from buyers include amounts due which have been billed and those which have been recognized on account of revenue but have not been measured and billed due to the buyer settlement system used. The accounting policy applicable to accrued revenue has been presented in Note 9.26.

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

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

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

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

9.13. Cash and cash equivalents

Note 29

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

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

9.14. Issued capital

Note 30.1

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

9.15. Debt

Note 33

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

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

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

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

9.16. Derivative financial instruments

Note 45.3

Derivative financial instruments falling within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* are classified as financial assets/financial liabilities measured at fair value through profit or loss, except derivatives which are designated as hedging instruments and subject to hedge accounting. Derivative instruments acquired and held for internal purposes as excluded from the scope of IAS 39 are not measured at the end of the reporting period.

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

As at the end of the reporting period, Interest Rate Swaps (IRS) acquired and held to hedge the interest rate risk relating to bonds issued are subject to hedge accounting (the accounting policy has been discussed in detail in Note 9.17). Other derivative instruments held by the Group as at the end of the reporting period are not subject to hedge accounting.

At the end of the reporting period, the Group held the following derivative instruments:

Classification	Instrument type
Derivatives subject to hedge accounting	Interest Rate Swaps concluded to hedge against risk related to interest rate changes. Subject to hedge accounting; detailed policy presented in Note 9.17.
Derivatives not subject to hedge accounting, classified as "assets/liabilities measured at fair value through profit or loss"	- forward contracts concluded in order to hedge against risk related to foreign exchange rate fluctuations; - forwards and futures for purchase and sales of emission allowances, energy and other commodities, concluded and maintained for speculation purposes.
Derivatives excluded from the scope of IAS 39	Forwards and futures for purchase and sales of non-financial assets, concluded and maintained for own use purposes.

9.17. Hedge accounting

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

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

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

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

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

9.18. Provisions for employee benefits

Note 34

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

- retirement and disability benefits – paid on a one-off basis, when an employee retires or is vested with the right to receive disability benefits;

- death benefits;
- cash equivalent resulting from special tariff for energy sector employees;
- in-kind benefits granted in coal or as a cash equivalent;
- benefits from the Company's Social Benefit Fund.

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

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

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

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

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

9.19. Provisions for dismantling fixed assets and restoration of land

Note 35

Provision for mine decommissioning costs

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

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

For coal mines a corresponding entry is made in line with IAS 16 *Property, Plant and Equipment* as a fixed asset item of a mine and changes in estimates are disclosed in line with IFRIC 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities*, i.e. as adjustments to the provision and capitalized future mine decommissioning costs. The related accounting policy has been presented in Note 9.2. The unwinding of discount is recognized in profit or loss.

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

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

9.20. Provision for liabilities due to gas emission and energy certificates

9.20.1. Provision for the obligation to surrender energy certificates

Note 36.1

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

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

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

- in the portion corresponding to energy certificates held at the end of the reporting period – at the value of certificates held (the accounting policy applicable to certificates held has been presented in Note 9.4);
- in the portion not covered by energy certificates held at the end of the reporting period – first, at the amount resulting from futures and forwards for the purchase of certificates with the intention to fulfil the obligation for the current year; then at the market value of certificates necessary to fulfil the obligation at the end of the reporting period or at the amount of the substitution fee – in accordance with the Group's intention concerning the method of fulfilling the obligation.

The provision is charged to operating expenses.

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

9.20.2. Provision for greenhouse gas emission liabilities

Note 36.2

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

The accounting policy concerning emission allowances received and acquired has been presented in Note 9.4.

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

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

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

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

9.21. Other provisions

Note 35.3, 37

Other provisions include:

- A provision for use of real estate without contract. The Group recognizes provisions for all claims filed by owners of real estate on which distribution systems and heat installations are located in amounts of probable cost of claims due to land owners until the end of the reporting period. The Group does not establish a provision for possible claims of owners of land with unregulated status, which have not been lodged. Recognition and reversal of the provision is charged to other operating revenue or other operating expenses and interest accrued is charged to finance income or finance costs.
- A provision for onerous contracts. At the end of the reporting period, the Group recognized a provision for onerous contracts. It was recognized for a surplus of the expected costs of fulfilment of the obligations under the agreements entered into with a joint venture over the expected benefits.
- Other provisions relate to court cases, counterparty claims or other claims, possible fines resulting from administrative proceedings carried out by the Energy Regulatory Office and the Office of Competition and Consumer Protection and tax settlements.

9.22. Accruals and government grants

Note 38

The Group's deferred income and government grants include mainly deferred connection fees as well as grants and subsidies received to acquire property, plant and equipment. Deferred connection fees result from transactions

which fall within the scope of IFRIC 18 *Transfers of Assets from Customers* and were received before 1 July 2009. Effective from 1 July 2009, in accordance with IFRIC 18, the said connection fees are recognized within revenue from sales of services.

Grants and subsidies received to acquire property, plant and equipment are recognized at the value of cash received as other operating revenue matching the corresponding depreciation expense related to items of property, plant and equipment.

9.23. Liabilities to suppliers, capital commitments and other financial liabilities **Note 39, 40, 42**

Liabilities to suppliers, capital commitments and other financial liabilities are measured at the amount due, as the effect of discounting is immaterial.

9.24. Receivables / Liabilities due to taxes and charges **Note 28, 41**

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

- Income tax receivables and liabilities;
- VAT and excise duty;
- PIT and social insurance;
- Environmental fees and other regulatory settlements.

9.25. Current and deferred income tax **Note 16**

Current tax

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

Deferred tax

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

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

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

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

9.26. Sales revenue **Note 12**

Revenue is recognized at the fair value of the payment, received or due, following reduction by VAT, excise duty, other sales taxes, charges and discounts.

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

9.26.1. Revenue from sales of electricity distribution services in the Distribution segment

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

Electricity distribution services are considered sold upon service provision to the client, as registered by the electricity meter, i.e.:

- for VAT invoices raised by reference to the meter reading – the reading date;
- For VAT invoices raised in a billing period exceeding one month, by reference to the forecast energy consumption – the forecast period; at present one- and two-month periods are settled based on actual use, while six- and twelve-month periods are settled based on projections;

- For billing periods specified in contracts with buyers exceeding one month, revenue includes revenue which has not been measured and billed. The said revenue is estimated based on the average daily consumption of electricity in prior billing periods and the number of days in the analysed billing period. Additional sales are calculated using the weighted average selling price of the financial year or using prices quoted on the last issued invoice;
- Adjustments to sales revenue are recognized in the period of their identification or in the period to which they relate (only when material).

The Group recognizes revenue relating to fixed assets received free of charge due to rendering services of removing power or heat infrastructure collision in sales revenue. Moreover, since 1 July 2009, the Group has also recognized transactions included in the scope of IFRIC 18 *Transfer of Assets from Customers* in this item. Revenue falling within the scope of IFRIC 18 *Transfer of Assets from Customers*, relating to fixed assets received from clients free of charge and used for connecting such clients to the infrastructure and providing them with constant access to supplies of services, or revenue relating to cash received from clients for acquisition or development of the said fixed assets (connection fees) is carried at the estimated fair value or the amount of cash received and recognized as revenue from sales of services in the period when such assets are actually received from clients.

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

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

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

- Additional assessment of sales to clients, unbilled as at the end of the reporting period
Measurement and billing systems showing the electricity volume sold to retail clients are read and invoices are issued mainly in periods not corresponding to reporting periods. Therefore, the Group companies from the Sales segment make appropriate estimates of sales at the end of each reporting period. For clients being parties to complex contracts and sales contracts, the additional assessment is made in the billing systems on the basis of the average daily consumption of electricity between the last actual reading date and the end of the reporting period.
- Additional assessment of sales related to client migration to an integrated billing system
Due to the implementation of an integrated billing system, at the end of each reporting period additional assessments are made to comply with technical requirements of the billing system in relation to earlier meter reading dates and changes to the client billing model versus the previous billing systems.
- Additional assessment of sales resulting from reconciliation of the energy balance
The Group companies from the Sales segment reconcile the energy balance by estimating the non-balancing sales or purchase volume at the end of each reporting period. An amount increasing or reducing revenue from sales of electricity, determined as the product of the estimated non-balancing volume and the weighted average purchase price of electricity is also accounted for.

Revenue from sales of gas fuel and distribution services provided to retail and wholesale buyers (balancing market sales) is classified to the Sales segment. Revenue from sales is determined on the basis of the billed volume and price, including additional assessments.

Revenue from sales of gas fuel and distribution services is estimated using two methods:

- Additional assessment of sales to clients, unbilled as at the end of the reporting period
Measurement and billing systems showing the gas volume sold to retail clients are read and invoices are issued mainly in periods not corresponding to reporting periods. Therefore, relevant estimates are performed as at the end of the reporting period. For clients who have concluded comprehensive contracts, the additional assessments regarding gas fuel sales are made in the billing systems based on daily average consumption of gas fuel in the period from the last actual reading date until the end of the reporting period. Additional assessments regarding distribution services are made as a difference between the costs of purchasing the gas fuel distribution services and billed revenue from sales of the distribution services.
- Additional assessment of sales resulting from reconciliation of the energy balance
The company reconciles the energy balance by estimating the non-balancing gas fuel sales or purchase volume at the end of each reporting period. The additional assessment includes the amount increasing or reducing

revenue from sales of gas fuel, calculated as the product of the estimated non-balancing volume and the monthly average reference price of high-methane gas published by Operator Gazociągów Przesyłowych GAZ-SYSTEM S.A.

9.26.3. Revenue from wholesale of electricity in the Generation segment

Wholesale of electricity from the generation units managed centrally and as part of trading operations requires the client and the supplier's notification of the volume of electricity declared per each hour to the Transmission System Operator through the centralized computerized Energy Market Information Exchange System, which volume a Generation segment company is obliged to provide under specific contracts as a supplier (sales of energy generated internally or purchased as part of trading operations) or ensure its provision (through energy purchases on the Balancing Market) and the client is obliged to accept. Both the price and volume per each hour is determined on the basis of transactions signed in advance or (in the case of the Polish Power Exchange) recorded electronically. The Transmission System Operator, which kind of guarantees volume settlements, ensures reliability of data concerning the supplied volume of energy. As billing is based on reports generated by the Transmission System Operator, all electricity wholesale invoices are raised following electricity supply, with a clearly determined volume and value of such energy.

Sales invoices relating to electricity supplied to the Balancing Market are raised on the basis of reports from the centralized system balancing sales in the Polish National Power System. Such settlements are made every decade. The invoicing procedure, including the price setting algorithms and principles as well as the due dates, is set out in the Transmission System Operation and Maintenance Instruction approved by the President of the Energy Regulatory Office.

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

9.26.4. Revenue from sales of heat in the Generation segment

Heat is sold under heat sale contracts entered into with institutional clients and consumers.

Institutional clients incur charges twice a month: fixed ones for power contracted in advance at rates specified in the tariff in force and floating ones calculated regularly based on progressive readings. Meters are read between the first and the last reading date. Charges are imposed regularly, on a monthly basis. Seldom, institutional buyers are charged once a month with the total of fixed and floating charges or just with fixed charges in accordance with concluded contracts. Fixed and variable charges are imposed on consumers once a month, in line with the meter reading schedule, on a specific meter reading date, at rates specified in the tariff in force. Variable charges are imposed periodically, by reference to meter readings on an accrual basis. Meters are read between the first and the last reading date. Charges are imposed regularly, on a monthly basis.

Revenue is measured by reference to the tariff in force, the volume of power billed, heat, carrier, lease rate, excess amount and other actual consumption of products, based on rates and prices listed in the current tariffs. It includes mainly charges for contracted power as well as fixed and variable transmission.

Heat is sold by reference to readings on an accrual basis. Therefore, an additional assessment of sales is made for accounting purposes from the reading date to the end of the month so as to determine the monthly sales volume from the first to the last day of the month. Additional assessments of sales are made separately for each reading point. Additional assessment for a given point includes billed sales minus an additional assessment for the previous month, plus an additional assessment for the current month.

9.26.5. Revenue from sales of coal in the Mining segment

Sales of fine coal supplied under sales contracts to power and heat and power stations of the TAURON Group represent the intragroup market for the Mining segment. Entities operating in the Company's sales network in the Mining segment, i.e. Authorized Coal Sellers and Coal Sellers, play a strategic role in coal sales. Coal sales are performed also under agreements with final buyers, in the form of Intracommunity Delivery of Goods and export, as well as retail sales.

Sales are made on a continuous basis in the form of railroad and truck sales, in accordance with the railroad supply schedule and truck sales advice notes. Sales are made when coal is handed over to the carrier, whether in truck or railroad transport.

Revenue from sales of coal is measured on the basis of sales values resulting from the billed volume and price. Revenue from sales of coal is adjusted, in particular, based on discounts, price reductions as well as accepted volume and quality complaints.

9.27. Operating expenses

Note 13

Operating expenses include:

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

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

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

9.28. Foreign currency transactions translated into the presentation currency of foreign operations

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

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

Exchange rates applied for the purpose of balance sheet measurement:

Currency	31 December 2016	31 December 2015
USD	4.1793	3.9011
EUR	4.4240	4.2615
CZK	0.1637	0.1577

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

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

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

9.29. Statement of cash flows

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

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, administrative expenses of the Parent are presented under unallocated expenses. 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 2016 to 31 December 2016 and for the comparative period was based on the following operating segments:

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

* Entities recognized with the equity method.

In addition to the key operating segments listed above, the TAURON Group also conducts operations in quarrying stone (including limestone) for the power industry, metallurgy, construction and highway engineering industry as well as in the area of production of sorbents for use in wet 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., KOMFORT-ZET Sp. z o.o. and Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. in liquidation are also treated as other operations of the Group.

10.1. Operating segments

Revenue, profit or loss, assets and liabilities of individual operating segments of the Group for the years ended 31 December 2016 and 31 December 2015 have been presented below.

The TAURON Polska Energia S.A. Capital Group

*Consolidated financial statements for the year ended 31 December 2016 prepared in accordance with IFRS, as endorsed by the EU
(in PLN '000)*

Year ended 31 December 2016	Mining	Generation	Distribution	Sales	Other	Unallocated items / Eliminations	Total
Revenue							
Sales to external customers	492 231	2 457 280	3 100 495	11 513 348	83 135	–	17 646 489
Inter-segment sales	818 912	1 898 821	3 209 721	2 502 842	744 793	(9 175 089)	–
Segment revenue	1 311 143	4 356 101	6 310 216	14 016 190	827 928	(9 175 089)	17 646 489
Profit/(loss) of the segment	(205 163)	(752 813)	1 363 236	479 374	42 642	(20 472)	906 804
Unallocated expenses	–	–	–	–	–	(105 282)	(105 282)
EBIT	(205 163)	(752 813)	1 363 236	479 374	42 642	(125 754)	801 522
Share in profit/(loss) of joint ventures	–	60 040	–	–	–	–	60 040
Net finance income (costs)	–	–	–	–	–	(352 701)	(352 701)
Profit/(loss) before income tax	(205 163)	(692 773)	1 363 236	479 374	42 642	(478 455)	508 861
Income tax expense	–	–	–	–	–	(138 724)	(138 724)
Net profit/(loss) for the year	(205 163)	(692 773)	1 363 236	479 374	42 642	(617 179)	370 137
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	(205 163)	(752 813)	1 363 236	479 374	42 642	(125 754)	801 522
Depreciation/amortization	(123 031)	(425 742)	(1 037 789)	(10 631)	(71 533)	–	(1 668 726)
Impairment	(2)	(872 382)	6 213	–	(395)	–	(866 566)
EBITDA	(82 130)	545 311	2 394 812	490 005	114 570	(125 754)	3 336 814
Other segment information							
Capital expenditure*	283 169	1 661 215	1 806 054	1 452	64 921	–	3 816 811

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

Year ended 31 December 2015 (restated figures)	Mining	Generation	Distribution	Sales	Other	Unallocated items / Eliminations	Total
Revenue							
Sales to external customers	459 304	2 226 869	3 006 443	12 486 908	84 916	–	18 264 440
Inter-segment sales	746 640	3 149 411	3 443 831	3 386 447	843 037	(11 569 366)	–
Segment revenue	1 205 944	5 376 280	6 450 274	15 873 355	927 953	(11 569 366)	18 264 440
Profit/(loss) of the segment	(104 328)	(3 477 076)	1 371 577	369 529	32 596	(6 379)	(1 814 081)
Unallocated expenses	–	–	–	–	–	(87 135)	(87 135)
EBIT	(104 328)	(3 477 076)	1 371 577	369 529	32 596	(93 514)	(1 901 216)
Share in profit/(loss) of joint ventures	–	7 933	–	–	–	–	7 933
Net finance income (costs)	–	–	–	–	–	(294 488)	(294 488)
Profit/(loss) before income tax	(104 328)	(3 469 143)	1 371 577	369 529	32 596	(388 002)	(2 187 771)
Income tax expense	–	–	–	–	–	383 556	383 556
Net profit/(loss) for the year	(104 328)	(3 469 143)	1 371 577	369 529	32 596	(4 446)	(1 804 215)
Assets and liabilities							
Segment assets	1 657 407	10 370 286	15 974 893	2 709 132	478 618	–	31 190 336
Investments in joint ventures	–	418 127	–	–	–	–	418 127
Unallocated assets	–	–	–	–	–	462 970	462 970
Total assets	1 657 407	10 788 413	15 974 893	2 709 132	478 618	462 970	32 071 433
Segment liabilities	537 234	1 735 686	2 505 890	1 654 794	303 352	–	6 736 956
Unallocated liabilities	–	–	–	–	–	9 286 320	9 286 320
Total liabilities	537 234	1 735 686	2 505 890	1 654 794	303 352	9 286 320	16 023 276
EBIT	(104 328)	(3 477 076)	1 371 577	369 529	32 596	(93 514)	(1 901 216)
Depreciation/amortization	(113 473)	(647 963)	(992 771)	(10 876)	(67 607)	–	(1 832 690)
Impairment	8	(3 583 864)	(7 781)	–	(117)	–	(3 591 754)
EBITDA	9 137	754 751	2 372 129	380 405	100 320	(93 514)	3 523 228
Other segment information							
Capital expenditure*	211 458	1 934 229	1 924 886	4 604	100 293	–	4 175 470

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

10.2. Geographic areas of operations

The majority of the Group's business operations is carried out in Poland. In the years ended 31 December 2016 and 31 December 2015, export sales amounted to PLN 259 166 thousand and PLN 469 756 thousand, respectively.

The aforesaid value of export sales includes sales of emission allowances in the trading portfolio presented less cost of sales in the statement of comprehensive income as the total gain/loss on transactions from this portfolio. Gains/losses on derivative commodity instruments are not taken into account.

IMPAIRMENT OF NON-FINANCIAL ASSETS

11. Impairment of non-financial assets

11.1. Impairment of property, plant and equipment

In the year ended 31 December 2016, the Group recognized and reversed impairment losses on property, plant and equipment as a result of impairment tests performed as at 31 December 2016 and 30 June 2016.

As at 31 December 2016, 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;
- a drop in the prices of certificates for energy produced from renewable sources;
- introduction of new RES regulations;
- the continued unfavorable market conditions in the coal power industry;
- an increase in the risk-free rate.

The tests conducted as at 31 December 2016 and 30 June 2016 required estimating the value in use of cash-generating units, based on their future cash flows discounted subsequently to the present value using a discount rate.

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

- TAURON Wytwarzanie S.A. – 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 a generation unit or a group of generation units;
- TAURON Ekoenergia Sp. z o.o. – where hydroelectric power stations and wind farms 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 31 December 2016:

- the adopted price path for power coal, other coal sizes and gaseous fuels. It is assumed that the price of power coal will increase by ca. 9% in real terms by 2026 and after 2026 insignificant changes in 2026 year prices (fixed) are anticipated;
- the adopted electricity wholesale price path for the years 2017–2026 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. A drop of ca. 5% is assumed by 2020 with a dynamic growth rate by 2026 (16% vs. 2020), an increase of 11% between 2026 and 2040 and 2040 year prices thereafter (fixed);
- estimated changes in the Polish market model aimed to introduce the capacity market or other incentive mechanisms for production capacity have been taken into account;
- emission limits for generating electricity specified in the regulation of the Council of Ministers, adjusted by capital expenditure incurred and the limits for heat generation compliant with the regulation of the Council of Ministers, adjusted by the level of operations, i.e. generation of heat;
- the adopted greenhouse gas emission allowance price path for the years 2017–2026 with the perspective by 2040. It is assumed that the market price will increase by ca. 70% by 2026, followed by a rise of ca. 16% between 2026 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. A drop of ca. 6% is assumed for renewable energy prices by 2020, followed by a rise by 2026 (13% vs. 2020), an increase of 13% between 2026 and 2040 and 2040 year prices thereafter (fixed);
- limited support periods for green energy have been assumed in accordance with the Act on Renewable Energy Sources (the "RES Act"), which provides for new support mechanisms for renewable energy. The support period has been limited to 15 years as from the date of the first supply of electricity qualifying for an energy certificate to the distribution network. At the same time, hydropower plants with installed capacity of more than 5 MW do not qualify for support;

- support for CHP in line with the regulations which are currently in force. It is assumed that property rights exist for red, yellow and purple energy and that they will have to be surrendered by 2018. No support for CHP has been assumed thereafter;
- regulated revenue generated by distribution companies, ensuring coverage of reasonable costs and a reasonable level of return on capital. The return on capital is conditional on the Regulatory Asset Value;
- the adopted electricity retail price path based on the wholesale price of black energy, taking into account the costs of excise duty, the obligation to surrender energy certificates as well as an appropriate level of margin;
- sales volumes taking into account GDP growth and increased market competition;
- tariff revenue generated by heat companies, ensuring coverage of reasonable costs and a reasonable level of return on capital;
- maintaining 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 5.94% to 8.44% in nominal terms before tax.

Key assumptions made for purposes of tests performed as at 30 June 2016:

- the adopted price path for power coal, other coal sizes and gaseous fuels. It is assumed that the price of power coal will decrease by ca. 6% in real terms by 2025 and after 2025 insignificant changes in 2025 year prices (fixed) are anticipated;
- the adopted electricity wholesale price path for the years 2016–2025, taking into account such factors as the effect of the balance of the market supply and demand for electricity, costs of fuel as well as costs of acquiring greenhouse gas emission allowances. A drop of ca. 7% is assumed by 2020 with a dynamic growth rate by 2025 (13% vs. 2020), an increase of 18% between 2025 and 2040 and 2040 year prices thereafter (fixed);
- the adopted greenhouse gas emission allowance price path for the years 2016–2025. It is assumed that the market price will increase by ca. 50% by 2025, followed by a rise of ca. 20% between 2025 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. A drop of ca. 7% is assumed for renewable energy prices by 2020, followed by a rise by 2025 (11% vs. 2020), an increase of 22% between 2025 and 2040 and 2040 year prices thereafter (fixed);
- the level of the weighted average cost of capital (WACC) during the projection period, as used in the calculations, ranges from 6.34% to 9.63% in nominal terms before tax;
- other assumptions were the same as adopted for tests performed as at 31 December 2016.

In the year ended 31 December 2016, the Group recognized and reversed impairment losses on property, plant and equipment as a result of impairment tests performed:

- as at 31 December 2016: the impairment test revealed that an additional impairment loss of PLN 581 900 thousand should be recognized on a portion of the Generation segment assets. The test also identified the possibility to reverse an impairment loss in this segment in the amount of PLN 505 083 thousand.
- as at 30 June 2016: the impairment test revealed that an additional impairment loss of PLN 1 361 037 thousand should be recognized on a portion of the Generation segment assets. The test also showed that it would be reasonable to reverse an impairment loss in this segment in the amount of PLN 703 162 thousand.

The recoverable amount of this asset group corresponds to the value in use. The impairment losses were charged to the cost of sales.

The impairment loss and its reversal as a result of tests performed as at 31 December 2016 and 30 June 2016 concerned the following cash-generating units:

CGU	Company	Discount rate (before tax) assumed in tests as at:			Recoverable amount As at 31 December 2016	Impairment loss recognized	Impairment loss derecognized
		31 December 2016	30 June 2016	31 December 2015		Year ended 31 December 2016	
Elektrownia Jaworzno II	TAURON Wytwarzanie S.A.				235 750	269 823	86 034
Elektrownia Jaworzno III					1 024 583	14 410	433 638
Elektrownia Łaziska					319 744	–	54 124
Elektrownia Łagisza		7.78%	7.49%	7.69%	1 289 344	193 430	–
Elektrownia Siersza					157 356	232 253	156 571
Elektrownia Stalowa Wola					(99 426)	40 216	46 802
Capital projects in progress					–	19 328	–
ZW Bielsko Biała EC 1	TAURON Ciepło Sp. z o.o.				615 489	–	209 433
ZW Bielsko Biała EC 2		7.63%	7.17%	7.61%	(45 965)	7 061	–
ZW Tychy					499 172	382 719	221 643
Hydropower plants	TAURON Ekoenergia Sp. z o.o.	8.44%	8.25%	8.39%	611 273	42 310	–
FW Lipniki		6.71%	6.34%	8.90%	19 112	65 513	–
FW Wicko		6.97%	6.48%	8.17%	69 309	164 121	–
FW Marszewo		7.04%	6.49%	8.14%	228 352	464 839	–
Total CGU						1 896 023	1 208 245
Common assets	TAURON Wytwarzanie S.A.	7.78%	7.49%	7.69%	(19 511)	46 914	–
Total impairment losses						1 942 937	1 208 245

A sensitivity analysis performed for each CGU revealed that the value in use of the tested assets was mainly affected by the issue of the capacity market, followed by changes in electricity prices, in hard coal prices and in the weighted average cost of capital. The measurement is also affected by changes in greenhouse gas emission allowances, though to a lesser extent. The estimated changes in impairment losses on Generation assets, considering also the effect of their reversal as at 31 December 2016 as a result of changes in the key assumptions, have been presented below. If the capacity market mechanism was disregarded in the process of estimation of the value in use of property, plant and equipment, an additional net loss of ca. PLN 2 666 thousand would be recognized in the Group's profit/loss.

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%	–	237
	-1%	366	–
Change of WACC (net)	+0.1 p.p.	92	–
	-0.1 p.p.	–	44
Change of CO ₂ emission allowances prices in the forecast period	+1%	41	–
	-1%	–	41
Change of coal prices in the forecast period	+1%	105	–
	-1%	–	85
No recognition of Capacity Market		2 666	–

11.2. Impairment of goodwill

The test was performed for the net assets increased by goodwill in each operating segment, except Generation, where the test was carried out at each company level. 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 (in tests performed on 30 June 2016 for the period from 2016 to 2025) and the estimated residual value. In tests performed on 30 June 2016 for the generation units

the projection period covers the whole period of their operation. Reliance on projections covering a period longer than 5 years results mainly from the fact that investment processes in the power industry are time-consuming. The macroeconomic and sector assumptions serving as the basis for projections are updated as frequently as any indications for their modification are observed on the market. Projections also take into account changes in the regulatory environment known as at the date of the test.

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 (3.63%) (in the tests carried out as at 30 June 2016 – 3.27%) 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 values determined reflect the past experience and are consistent with information from external sources.

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

Impairment test for the carrying amount of goodwill as at 31 December 2016

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

Goodwill in the segment	Key assumptions	Discount rate (before tax) assumed in tests as at:	
		31 December 2016	31 December 2015
Mining	- The adopted price path of power coal and other coal sizes. The actual increase in the price of power coal assumed by 2026 approximates 9%, with slight fluctuations of 2026 prices thereafter (fixed); - 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.	6.95%	9.05%
Distribution	- Regulated revenue generated by distribution companies, ensuring coverage of reasonable costs and a reasonable level of return on capital. The return level depends on the so-called Regulatory Value of Assets; - Maintaining generation capacity of the existing non-current assets as a result of replacement investments.	6.39%	7.50%

The impairment test performed as at 31 December 2016 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, WACC and greenhouse gas emission allowances as well as the prices of green certificates 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.

Impairment test for the carrying amount of goodwill as at 30 June 2016

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

Goodwill in the segment (company)	Key assumptions	Discount rate (before tax) assumed in tests as at:	
		30 June 2016 (unaudited)	31 December 2015
Mining	- The adopted price path of power coal and other coal sizes. The actual decrease in the price of power coal assumed by 2025 approximates 6%, with slight fluctuations of 2025 prices thereafter (fixed); - 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.	9.57% – 9.63%	9.05%
Distribution	- Regulated revenue generated by distribution companies, ensuring coverage of reasonable costs and a reasonable level of return on capital. The return level depends on the so-called Regulatory Value of Assets; - Maintaining generation capacity of the existing non-current assets as a result of replacement investments.	7.50%	7.50%
Generation (TAURON Ekoenergia Sp. z o.o.)	- Green energy production volumes depending on the production capacity, along with the price path for energy certificates. A drop of approx. 7% in prices of electricity from renewable sources has been assumed by 2020; a growth has been assumed by 2025 (11% in relation to 2020); a rise of ca. 22% is assumed for the years 2025–2040, with 2040 prices thereafter (fixed); - For green energy, limited support periods have been included, in accordance with the provisions of the Act on renewable energy sources determining new mechanisms of supporting generation of electricity from renewable sources. 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 exceeding 5 MW have been excluded from the support; - Maintaining generation capacity of the existing non-current assets as a result of replacement investments.	8.25% (for hydropower plants) 6.34% – 8.92% (for windfarms)	8.39% (for hydropower plants) 8.14% – 8.90% (for windfarms)

The impairment test performed as at 30 June 2016 revealed impairment of the carrying amount of goodwill in the Generation segment (TAURON Ekoenergia Sp. z o.o.). As a result, the Group recognized an impairment loss on goodwill of PLN 51 903 thousand. The impairment loss was charged to cost of sales.

CGU	Company	Discount rate (before tax) assumed in tests as at:		Recoverable amount	Impairment loss recognized
		30 June 2016 (unaudited)	31 December 2015		
Generation	TAURON Ekoenergia Sp. z o.o.	8.25% (for hydropower plants) 6.34% – 8.92% (for windfarms)	8.39% (for hydropower plants) 8.14% – 8.90% (for windfarms)	1 225 935	51 903

The impairment loss was recognized as a result of a drop in the prices of green certificates as well as introduction of new RES regulations.

The sensitivity analyses for each CGU revealed that changes in electricity prices and in the weighted average cost of capital were the key factors having the most significant effect on the value in use of the tested assets.

EXPLANATORY NOTES TO THE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

12. Sales revenue

	Year ended 31 December 2016	Year ended 31 December 2015 (restated figures)
Sale of goods for resale, finished goods and materials without elimination of excise	11 575 033	12 080 940
Excise	(395 601)	(425 691)
Sale of goods for resale, finished goods and materials, of which:	11 179 432	11 655 249
Electricity	9 521 948	10 099 333
Heat energy	650 625	613 660
Energy certificates	127 791	272 896
Coal	467 962	439 608
Gas	230 466	117 867
Other goods for resale, finished goods and materials	180 640	111 885
Rendering of services, of which:	6 409 430	6 552 945
Distribution and trade services	6 051 410	6 184 958
Connection fees	102 657	124 866
Maintenance of road lighting	116 463	116 042
Other services	138 900	127 079
Other revenue	57 627	56 246
Total sales revenue	17 646 489	18 264 440

Additional assessment of the revenue from sale of electricity and distribution services in the Sales segment

Additional assessment of the revenue from the sale of electricity and distribution services has been discussed in Note 9.26 Sales revenue.

As at 31 December 2016, additionally assessed revenue from sale of electricity and distribution services in the Sales segment totaled PLN 353 065 thousand and, when reversed estimations from the prior year have been accounted for, the impact on the profit or loss for the period was PLN 104 592 thousand.

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

13.1. Expenses by type

	Year ended 31 December 2016	Year ended 31 December 2015 (restated figures)
Costs by type		
Depreciation of property, plant and equipment and amortization of intangible assets	(1 668 726)	(1 832 690)
Impairment of property, plant and equipment and intangible assets	(867 109)	(3 598 926)
Materials and energy	(1 537 285)	(1 848 777)
Maintenance and repair services	(265 300)	(382 641)
Distribution services	(1 771 651)	(1 706 894)
Other external services	(759 687)	(674 265)
Cost of obligation to remit the emission allowances	(381 883)	(150 794)
Other taxes and charges	(667 415)	(619 698)
Employee benefits expense	(2 613 984)	(2 560 784)
Allowance for doubtful debts	(22 943)	(29 461)
Other	(106 892)	(130 155)
Total costs by type	(10 662 875)	(13 535 085)
Change in inventories, prepayments, accruals and deferred income	61 655	(164 328)
Cost of goods produced for internal purposes	471 286	610 506
Selling and distribution expenses	459 191	489 963
Administrative expenses	652 827	618 969
Cost of goods for resale and materials sold	(6 699 546)	(7 048 987)
Cost of sales	(15 717 462)	(19 028 962)

13.2. Employee benefits expenses

	Year ended 31 December 2016	Year ended 31 December 2015
Wages and salaries	(2 036 168)	(1 952 987)
Social security costs	(399 157)	(380 096)
Jubilee bonuses	84 473	(19 367)
Social Fund	(57 881)	(56 215)
Post-employment benefit expenses, of which:	(85 478)	(31 863)
Provision for retirement, disability and similar benefits	5 368	(11 824)
Coal allowances and special electricity rates and charges	(13 665)	32 287
Social Benefits Fund	(9 754)	16 387
Contributions to employee retirement plans	(67 427)	(68 713)
Voluntary termination scheme	(20 866)	(46 172)
Other employee benefit expenses	(98 907)	(74 084)
Employee benefits expenses, of which:	(2 613 984)	(2 560 784)
Items included in cost of sales	(1 687 692)	(1 705 021)
Items included in selling and distribution expenses	(203 799)	(226 328)
Movement in stock of finished goods	(89 010)	(5 941)
Items included in administrative expenses	(403 571)	(376 309)
Items included in cost of goods produced for internal purposes	(229 912)	(247 185)

As at 31 December 2016, provisions for post-employment benefits and jubilee bonuses were remeasured. Past service costs were recognized within the Group's operating expenses in relation to:

- Jubilee bonuses – operating expenses were reduced by PLN 84 487 thousand, where PLN 37 027 thousand concerned changes in Collective Labor Agreements, while PLN 47 460 thousand concerned the change in the retirement age;
- post-employment benefit expenses – operating expenses were reduced by PLN 6 603 thousand, where PLN 61 236 thousand related to the reduction of provisions due to changes in Collective Labor Agreements, while PLN 54 633 thousand increased provisions due to the change in the retirement age.

The change in provisions for post-employment benefits and for jubilee bonuses has been discussed in more detail in Note 34.1 to these consolidated financial statements.

13.3. Depreciation and amortization charges and impairment losses

	Year ended 31 December 2016	Year ended 31 December 2015
Items included in cost of sales:	(2 409 461)	(5 337 505)
Depreciation of property, plant and equipment	(1 532 717)	(1 703 932)
Impairment of property, plant and equipment	(757 974)	(3 437 907)
Amortization of intangible assets	(43 487)	(36 909)
Impairment of intangible assets	(22 215)	(1 749)
Impairment of goodwill	(51 903)	(154 998)
Other	(1 165)	(2 010)
Items included in selling and distribution expenses:	(33 318)	(33 291)
Depreciation of property, plant and equipment	(17 639)	(16 999)
Amortization of intangible assets	(15 679)	(16 292)
Items included in administrative expenses:	(75 640)	(42 354)
Depreciation of property, plant and equipment	(27 868)	(25 286)
Impairment of property, plant and equipment	(33 245)	(2 262)
Amortization of intangible assets	(14 308)	(14 806)
Impairment of intangible assets	(219)	–
Items included in cost of goods produced for internal purposes:	(17 416)	(18 466)
Depreciation of property, plant and equipment	(16 751)	(18 117)
Impairment of property, plant and equipment	(388)	–
Amortization of intangible assets	(277)	(349)
Total depreciation/amortization expense and impairment, of which:	(2 535 835)	(5 431 616)
Depreciation and amortization	(1 668 726)	(1 832 690)
Impairment	(867 109)	(3 598 926)

In the year ended 31 December 2016, the Group recognized impairment losses on property, plant and equipment as well as goodwill, in addition to reversing in part the impairment losses recognized before in the Generation segment, which was due to impairment tests performed as at 31 December 2016 and 30 June 2016. The total effect on the Group's gross profit/loss for 2016 was PLN 786 595 thousand (surplus of recognition over reversal). The tests and their results have been discussed in more detail in Note 11 to these consolidated financial statements.

Additionally in the year ended 31 December 2016, the Group companies recognized and derecognized impairment losses on individual assets. The related total charges to operating expenses of the Group amounted to PLN 80 514 thousand. The key items include impairment losses recognized by a Generation segment company on property, plant and equipment in relation to a subsidy obtained under contracts on co-funding of RES units construction of PLN 68 875 thousand, and intangible assets regarding land used for waste storage purposes of PLN 22 734 thousand.

Depreciation and amortization rates

A review of the estimated useful lives of fixed assets and intangible assets, conducted in 2016, had a material effect on the amortization and depreciation expense in the following operating segments:

Increase (decrease) in depreciation and amortization costs	Year ended 31 December 2016	Year ended 31 December 2015
Mining	(13 286)	(1 744)
Generation	520	5 567
Distribution	(25 900)	(10 000)

A review of the estimated useful lives in the remaining segments did not have a considerable effect on the amortization and depreciation expense.

14. Other operating revenue and expenses

	Year ended 31 December 2016	Year ended 31 December 2015
Penalties, fines, compensations received or receivable	48 256	28 043
Surplus of (recognition)/reversal of actuarial provisions for the existing pensioners and disability pensioners	58 528	45 557
Surplus of other provisions (recognized)/derecognized	(115 733)	(12 616)
Subsidies/grants and revenue representing the equivalent of amortization/depreciation charges on subsidies/grants to fixed assets or fixed assets received free of charge	38 434	39 404
Surplus of subsidies written-off over provision created for their return	29 684	–
Loss on the disposal of property, plant and equipment / intangible assets and costs of damages to non-current assets	(116)	(14 973)
Write-off for abandoned investments and production as well as liquidated materials	(2 821)	(81 540)
Costs of court proceedings, fines and damages	(24 675)	(12 322)
Costs of participation in Polish National Foundation	(32 500)	–
Other operating income	22 208	43 878
Other operating expenses	(36 752)	(63 193)
Total other operating income and expenses	(15 487)	(27 762)

In the year ended 31 December 2016, following the modification of their Collective Labor Agreements, some Group companies reversed their provisions for post-employment benefits for their existing pensioners. Consequently, PLN 58 528 thousand was recognized within other operating revenue.

In the year ended 31 December 2016 the amount of provisions recognized in the Group exceeded the amount of unrecognized ones by PLN 115 733 thousand. The basis for provisions which were recognized or remeasured and had a material effect on the profit/loss of the Group have been presented in Note 37 to these consolidated financial statements.

A decrease in the cost of writing off discontinued investments was driven by a write-off of capitalized costs of work relating to drilling drifts and reinforcing walls of PLN 78 610 thousand in the comparative period, as they were no longer suitable for economic use.

15. Finance income and costs

	Year ended 31 December 2016	Year ended 31 December 2015 (restated figures)
Income and costs from financial instruments, of which:	(252 206)	(242 535)
Interest income	35 314	60 385
Interest costs	(259 564)	(279 673)
Commission relating to borrowings and debt securities	(18 767)	(12 514)
Gain/loss on derivative instruments	14 138	(7 089)
Foreign exchange gains/losses	(30 261)	524
Dividend income	5 728	4 684
Other	1 206	(8 852)
Other finance income and costs, of which:	(100 495)	(51 953)
Interest on employee benefits	(50 101)	(44 491)
Interest on discount of other provisions	(19 106)	(5 272)
Other	(31 288)	(2 190)
Total finance income and costs, including recognized in the statement of comprehensive income:	(352 701)	(294 488)
Interest expense on debt	(259 564)	(279 673)
Other finance income and costs	(93 137)	(14 815)

In the year ended 31 December 2016, exchange losses exceeded exchange gains by PLN 30 261 thousand, which was mainly driven by exchange losses on an intra-group loan in the euro.

16. Income tax

16.1. Tax expense in the statement of comprehensive income

	Year ended 31 December 2016	Year ended 31 December 2015
Current income tax	(229 134)	(206 255)
Current income tax expense	(223 825)	(233 398)
Adjustments to current income tax from previous years	(5 309)	27 143
Deferred tax	90 410	589 811
Income tax expense in profit/(loss)	(138 724)	383 556
Income tax expense relating to other comprehensive income	(63 052)	(28 587)

16.2. Reconciliation of the effective tax rate

	Year ended 31 December 2016	Year ended 31 December 2015
Profit/(loss) before taxation	508 861	(2 187 771)
Tax at Poland's statutory tax rate of 19%	(96 684)	415 676
Adjustments to income tax from previous years	(5 309)	27 143
Tax effects of the following items:	(46 169)	(62 376)
Recognition of non-deductible provisions and write-downs/allowances	(25 072)	(9 183)
National Disabled Persons Rehabilitation Fund (PFRON)	(4 857)	(4 551)
Permanent differences on costs related to tangible assets	(27 426)	(5 135)
Impairment of goodwill	(9 862)	(29 450)
Settlement of a tax loss which was not recognized as a tax asset	16 595	–
Other tax non-deductible costs	(16 658)	(19 692)
Share in profit/loss of joint ventures	11 408	1 507
Other income not included in taxable base	9 703	4 128
Other	9 438	3 113
Tax at the effective rate of 27.3% (2015 – 17.5%)	(138 724)	383 556
Income tax (expense) in profit/(loss)	(138 724)	383 556

16.3. Deferred income tax

	As at 31 December 2016	As at 31 December 2015
difference between tax base and carrying amount of fixed and intangible assets	1 511 102	1 490 408
difference between tax base and carrying amount of financial assets	45 981	29 609
different timing of recognition of sales revenue for tax purposes	49 299	69 064
difference between tax base and carrying amount of energy certificates	15 766	48 817
other	44 156	39 889
Deferred tax liabilities	1 666 304	1 677 787
provisions	638 914	685 405
difference between tax base and carrying amount of fixed and intangible assets	143 403	6 359
power infrastructure received free of charge and received connection fees	51 811	57 071
difference between tax base and carrying amount of financial assets and financial liabilities	50 387	49 471
valuation of hedging instruments	–	18 139
different timing of recognition of cost of sales for tax purposes	39 940	58 333
tax losses	12 758	12 758
difference between tax base and carrying amount of emission allowances	–	26 985
other	19 905	22 274
Deferred tax assets	957 118	936 795
After setting off balances at the level of individual Group companies, deferred tax for the Group is presented as:		
Deferred tax asset	50 382	54 184
Deferred tax liability	(759 568)	(795 176)

As at 31 December 2016 and 31 December 2015, 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 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 consolidated financial statements will not be realized.

Change in deferred tax liability

	Year ended 31 December 2016	Year ended 31 December 2015
Opening balance	1 677 787	2 187 951
<i>Change in the balance:</i>		
corresponding to profit/(loss)	(27 405)	(529 019)
reclassification from disposal group classified as held for sale	–	18 910
acquisition of ZCP Brzeszcze	15 239	–
other changes	683	(55)
Closing balance	1 666 304	1 677 787

Change in deferred tax asset

	Year ended 31 December 2016	Year ended 31 December 2015
Opening balance	936 795	892 902
<i>Change in the balance:</i>		
corresponding to profit/(loss)	63 005	60 792
corresponding to other comprehensive income	(63 052)	(28 587)
reclassification from disposal group classified as held for sale	–	11 585
acquisition of ZCP Brzeszcze	18 366	–
other changes	2 004	103
Closing balance	957 118	936 795

17. Earnings (loss) per share

Earnings (loss) per share (in PLN)	Year ended 31 December 2016	Year ended 31 December 2015
Basic and diluted, for profit (loss) for the year attributable to equity holders of the Parent	0.21	(1.03)

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

	Year ended 31 December 2016	Year ended 31 December 2015
Net profit (loss) for the year attributable to equity holders of the Parent	367 468	(1 807 317)
Number of ordinary shares	1 752 549 394	1 752 549 394

EXPLANATORY NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

18. Property, plant and equipment

For the year ended 31 December 2016

	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	–	–	85	253	3 495 992	3 496 330
Borrowing costs	–	–	–	–	94 018	94 018
Transfer of assets under construction	1 409	1 587 221	1 373 628	79 288	(3 041 546)	–
Sale, disposal	(385)	(7 610)	(14 329)	(24 203)	(48)	(46 575)
Liquidation	–	(55 360)	(124 965)	(13 342)	–	(193 667)
Received free of charge	9	16 912	766	–	–	17 687
Transfers to/from assets held for sale	(43)	(11 789)	64	(2 062)	(13)	(13 843)
Overhaul expenses	–	–	–	–	60 685	60 685
Items generated internally	–	–	–	–	38 332	38 332
Acquisition of ZCP Brzeszcze	1 544	165 401	22 429	1 637	14 405	205 416
Cost of disassembly of wind farms and decommissioning of mines	–	(31 863)	(1 552)	–	–	(33 415)
Other movements	(90)	11 733	(2 520)	4 495	(632)	12 986
Foreign exchange differences from translation of foreign entities	–	–	12	16	–	28
Closing balance	121 980	21 603 044	18 164 046	850 102	3 261 173	44 000 345
ACCUMULATED DEPRECIATION						
Opening balance	(466)	(6 692 656)	(8 304 965)	(467 731)	(13 728)	(15 479 546)
Depreciation for the period	–	(802 997)	(712 304)	(79 674)	–	(1 594 975)
Increase of impairment	(30)	(540 226)	(929 441)	(3 964)	(19 958)	(1 493 619)
Decrease of impairment	47	156 917	546 123	835	29	703 951
Sale, disposal	–	3 952	12 695	22 662	–	39 309
Liquidation	–	47 448	121 256	13 050	–	181 754
Transfers to/from assets held for sale	16	2 948	(16)	657	–	3 605
Other movements	–	(1 352)	(1 379)	(2 890)	–	(5 621)
Foreign exchange differences from translation of foreign entities	–	–	(7)	(7)	–	(14)
Closing balance	(433)	(7 825 966)	(9 268 038)	(517 062)	(33 657)	(17 645 156)
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	121 547	13 777 078	8 896 008	333 040	3 227 516	26 355 189
<i>of which operating segments:</i>						
Mining	2 774	724 056	612 225	16 706	341 810	1 697 571
Generation	41 303	2 394 113	3 935 303	37 148	2 252 690	8 660 557
Distribution	60 610	10 562 543	4 222 354	260 139	620 819	15 726 465
Other segments and other operations	16 860	96 366	126 126	19 047	12 197	270 596

For the year ended 31 December 2015

	Land	Buildings, premises and civil engineering structures	Plant and machinery	Other	Assets under construction	Property, plant and equipment, total
COST						
Opening balance	117 142	18 195 456	14 819 091	808 607	1 364 263	35 304 559
Direct purchase	–	–	228	401	3 808 063	3 808 692
Borrowing costs	–	–	–	–	68 656	68 656
Transfer of assets under construction	3 608	1 320 193	1 400 437	102 850	(2 827 088)	–
Sale	(1 181)	(5 172)	(8 327)	(17 875)	(586)	(33 141)
Liquidation	–	(64 089)	(174 717)	(9 238)	(4)	(248 048)
Received free of charge	–	19 830	403	3	–	20 236
Transfers to/from assets held for sale	(7)	470 453	793 329	(8 536)	21 192	1 276 431
Overhaul expenses	–	–	–	–	139 078	139 078
Items generated internally	–	–	–	–	41 899	41 899
Cost of disassembly of wind farms and decommissioning of mines	–	(10 039)	(660)	–	–	(10 699)
Other movements	(26)	1 767	80 637	(72 202)	(15 493)	(5 317)
Foreign exchange differences from translation of foreign entities	–	–	7	10	–	17
Closing balance	119 536	19 928 399	16 910 428	804 020	2 599 980	40 362 363
ACCUMULATED DEPRECIATION						
Opening balance	(458)	(5 049 663)	(4 957 467)	(440 706)	(5 323)	(10 453 617)
Depreciation for the period	–	(839 414)	(837 677)	(87 243)	–	(1 764 334)
Increase of impairment	(81)	(826 976)	(2 608 593)	(5 036)	(8 421)	(3 449 107)
Decrease of impairment	51	8 954	143	770	16	9 934
Sale	–	1 890	7 290	16 500	–	25 680
Liquidation	–	52 057	169 981	8 821	–	230 859
Transfers to/from assets held for sale	22	(39 254)	(43 328)	4 610	–	(77 950)
Other movements	–	(250)	(35 310)	34 557	–	(1 003)
Foreign exchange differences from translation of foreign entities	–	–	(4)	(4)	–	(8)
Closing balance	(466)	(6 692 656)	(8 304 965)	(467 731)	(13 728)	(15 479 546)
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	116 684	13 145 793	9 861 624	367 901	1 358 940	24 850 942
NET CARRYING AMOUNT AT THE END OF THE PERIOD	119 070	13 235 743	8 605 463	336 289	2 586 252	24 882 817
<i>of which operating segments:</i>						
Mining	1 189	582 131	596 130	14 595	161 732	1 355 777
Generation	41 638	2 514 623	3 977 254	38 806	1 662 593	8 234 914
Distribution	59 414	10 037 164	3 892 698	260 861	754 370	15 004 507
Other segments and other operations	16 829	101 825	139 381	22 027	7 557	287 619

Property, plant and equipment used based on finance leases	As at 31 December 2016	As at 31 December 2015
Buildings	34 117	33 962
Plant and machinery	17 226	3 715
Motor vehicles	406	870

In the year ended 31 December 2016, the Group purchased property, plant and equipment of PLN 3 590 348 thousand, including capitalized borrowing costs. The major purchases were related to investments in the following operating segments:

Purchase of property, plant and equipment by segment	Year ended 31 December 2016	Year ended 31 December 2015
Distribution	1 717 236	1 858 807
Generation	1 560 458	1 750 548
Mining	282 420	210 574

The average capitalization rate of borrowing costs in the year ended 31 December 2016 was 4.10% vs. 4.33% in the year ended 31 December 2015.

The key investment projects carried out by the Group in the 2016 financial year have been discussed in Section 1.5.2. of the Management Board's report on the activities of the TAURON Polska Energia S.A. Capital Group for the 2016 financial year.

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

	Year ended 31 December 2016				Year ended 31 December 2015			
	Generation	Distribution	Other	Total	Generation	Distribution	Other	Total
Increase of impairment	(1 487 766)	(5 853)	–	(1 493 619)	(3 430 917)	(18 173)	(17)	(3 449 107)
Decrease of impairment	689 181	14 770	–	703 951	609	9 322	3	9 934
Total impact on the profit (loss) for the period	(798 585)	8 917	–	(789 668)	(3 430 308)	(8 851)	(14)	(3 439 173)

19. Goodwill

	Year ended 31 December 2016	Year ended 31 December 2015
Opening balance	92 059	195 154
Impairment loss	(51 903)	(154 998)
Reclassification from disposal group classified as held for sale	–	51 903
Closing balance, of which operating segments:	40 156	92 059
Mining	13 973	13 973
Distribution	25 602	25 602
Generation	581	52 484

In the year ended 31 December 2016, the Group recognized an impairment loss on the carrying amount of goodwill in the Generation segment, totaling PLN 51 903 thousand. The impairment loss was recognized following the performance of impairment tests as at 30 June 2016. The tests performed as at 31 December 2016 did not identify a necessity to recognize an impairment loss on the carrying amount of goodwill. The performed tests have been described in Note 11.2 hereof.

20. Energy certificates and gas emission allowances

20.1. Long-term energy certificates and gas emission allowances

For the year ended 31 December 2016

	Energy certificates	Greenhouse gas emission allowances	Total
Opening balance	232 973	277 867	510 840
Direct purchase	110 430	15 830	126 260
Reclassification	(232 973)	(277 867)	(510 840)
Closing balance	110 430	15 830	126 260

For the year ended 31 December 2015

	Energy certificates	Greenhouse gas emission allowances	Total
Opening balance	207 397	265 103	472 500
Direct purchase	85 240	129 548	214 788
Reclassification	(59 664)	(116 784)	(176 448)
Closing balance	232 973	277 867	510 840

20.2. Short-term energy certificates and gas emission allowances

For the year ended 31 December 2016

	Energy certificates	Greenhouse gas emission allowances	Total
Opening balance	652 305	153 083	805 388
Direct purchase	283 978	318 127	602 104
Generated internally	102 149	–	102 149
Cancellation	(709 538)	(325 230)	(1 034 768)
Reclassification	227 607	277 867	505 475
Closing balance	556 501	423 847	980 348

For the year ended 31 December 2015

	Energy certificates	Greenhouse gas emission allowances	Total
Opening balance	724 918	8 130	733 048
Direct purchase	411 854	33 643	445 497
Generated internally	235 484	–	235 484
Cancellation	(781 711)	(5 941)	(787 652)
Reclassification	61 760	117 251	179 011
Closing balance	652 305	153 083	805 388

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

CO ₂ emissions allowances	Year ended 31 December 2016	Year ended 31 December 2015
Allowances recorded at the beginning of the financial year	23 737 448	26 878 236
Allowances surrendered:		
in the installations of TAURON Wytwarzanie S.A. (previous year's emissions)	(14 736 415)	(12 508 585)
in the installations of TAURON Ciepło Sp. z o.o. (previous year's emissions)	(1 562 047)	(1 571 376)
in the installations of TAURON Wytwarzanie S.A. (current year's emissions)	(7 501 634)	–
Allocation of free-of-charge allowances	3 627 599	6 985 193
Allowances purchased on the secondary market	24 673 500	8 745 500
Allowances sold on the secondary market	(8 755 500)	(3 698 500)
Other changes – transferred to TAMEH	–	(1 093 020)
Allowances recorded at the end of the financial year, of which:	19 482 951	23 737 448
Allowances intended for surrender for a given year:		
in the installations of TAURON Wytwarzanie S.A.	(7 395 649)	(14 604 360)
in the installations of TAURON Ciepło Sp. z o.o.	(5 863 776)	(13 040 086)
in the installations of TAURON Wytwarzanie S.A.	(1 531 873)	(1 564 274)

The third phase of the EU Emissions Trading System (EU ETS) started on 1 January 2013. For that phase, one EU-wide emission limit has been imposed, which will gradually be reduced by 1.74% a year by 2020. In accordance with Directive 2009/29/EC of the European Parliament and of the Council of 23 April 2009 (the "Directive") amending Directive 2003/87/EC so as to improve and extend the greenhouse gas emission allowance trading scheme of the Community, auctioning has become the key method of obtaining EU emission allowances. It is expected that during the third phase each EU member state will auction over 40% of allowances awarded in 2013–2020. The remaining allowances are allocated free of charge to: energy-intensive sectors (exposed to the risk of carbon leakage), other sectors (in line with the strategy to gradually eliminate free allocation) – pursuant to Article 10a of the Directive, and electric power sectors in selected member states, including Poland, qualifying for derogation under Article 10c ("derogation allowances"). Derogation allowances have been awarded for the years 2013–2020 based on costs of investments, which are a condition for obtaining allowances.

In 2016, the TAURON Group companies obtained emission allowances free of charge under Article 10a of the Directive in the following quantity: 585 344 EUA for heat generation (based on the List of facilities covered by the National Implementation Measures, including the quantity of emission allowances for 2013–2020 – to be awarded in 2016) and 3 042 255 EUA for electricity generation (based on the List of electricity generation facilities covered by the greenhouse gas emissions trading system, including the quantity of allowances to be granted in 2016 – allocation for 2015).

In the financial and factual reports filed by the TAURON Group in 2016, which concerned investment task performance covered by National Investment Plan for the settlement period from 1 July 2015 to 30 June 2016, the value of free-of-charge allowances related to modernization of the electricity generation process for 2016, i.e. 1 680 838 EUA were balanced. The Group expects that the allowances will have been obtained by the end of April 2017.

21. Other intangible assets

For the year ended 31 December 2016

	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	–	127 408	127 446
Transfer of intangible assets not made available for use	–	184	63 062	22 492	(85 738)	–
Sale, disposal	–	(2 373)	(4)	–	(55)	(2 432)
Liquidation	(256)	(65)	(3 996)	(89)	–	(4 406)
Acquisition of ZCP Brzeszcze	–	10 266	95	147	–	10 508
Transfers to/from assets held for sale	–	(8 728)	–	–	–	(8 728)
Other movements	–	495	449	1 319	(440)	1 823
Foreign exchange differences from translation of foreign entities	–	–	42	–	–	42
Closing balance	5 434	786 283	610 578	211 873	93 060	1 707 228
ACCUMULATED AMORTIZATION						
Opening balance	(4 893)	(13 064)	(332 862)	(49 391)	–	(400 210)
Amortization for the period	(159)	–	(58 046)	(15 546)	–	(73 751)
Increase of impairment	(403)	(23 094)	(1 359)	(138)	(7)	(25 001)
Decrease of impairment	79	1 773	1 619	16	–	3 487
Sale, disposal	–	–	3	–	–	3
Liquidation	256	–	3 917	81	–	4 254
Transfers to/from assets held for sale	–	8 768	–	–	–	8 768
Other movements	–	–	(312)	(4)	–	(316)
Foreign exchange differences from translation of foreign entities	–	–	(35)	–	–	(35)
Closing balance	(5 120)	(25 617)	(387 075)	(64 982)	(7)	(482 801)
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	314	760 666	223 503	146 891	93 053	1 224 427

For the year ended 31 December 2015

	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	4 670	789 670	475 291	153 770	53 436	1 476 837
Direct purchase	–	–	80	–	117 065	117 145
Transfer of intangible assets not made available for use	–	1 123	89 290	33 451	(123 864)	–
Sale	–	(2 132)	(8 072)	–	–	(10 204)
Liquidation	(256)	(1)	(5 925)	(433)	–	(6 615)
Other movements	1 276	(2 156)	200	1 216	5 248	5 784
Foreign exchange differences from translation of foreign entities	–	–	28	–	–	28
Closing balance	5 690	786 504	550 892	188 004	51 885	1 582 975
ACCUMULATED AMORTIZATION						
Opening balance	(3 822)	(15 297)	(289 949)	(35 635)	–	(344 703)
Amortization for the period	(474)	–	(53 959)	(13 922)	–	(68 355)
Increase of impairment	(853)	(383)	(2 845)	(259)	–	(4 340)
Decrease of impairment	–	2 616	–	–	–	2 616
Sale	–	–	8 072	–	–	8 072
Liquidation	256	–	5 916	430	–	6 602
Other movements	–	–	(75)	(5)	–	(80)
Foreign exchange differences from translation of foreign entities	–	–	(22)	–	–	(22)
Closing balance	(4 893)	(13 064)	(332 862)	(49 391)	–	(400 210)
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	848	774 373	185 342	118 135	53 436	1 132 134
NET CARRYING AMOUNT AT THE END OF THE PERIOD	797	773 440	218 030	138 613	51 885	1 182 765

In the year ended 31 December 2016 an impairment loss on perpetual usufruct of land of PLN 22 734 thousand was recognized relating to land used for storage of waste coming from power generation in Jaworzno II and Jaworzno III Power Plants.

22. Shares in joint ventures

	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
Non-current assets	1 126 668	–	1 479 845	2 606 513
Current assets, including:	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 (-) including:	(1 028 954)	–	(664 603)	(1 693 557)
<i>debt</i>	(980 977)	–	(536 585)	(1 517 562)
Current liabilities (-) including:	(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	6 675	449	559 624	566 748
Share in profit/(loss) of joint ventures	–	18	60 022	60 040
Share in other comprehensive income of joint ventures	–	–	(1 040)	(1 040)

* 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.

	Elektrociepłownia Stalowa Wola S.A.	Elektrownia Blachownia Nowa Sp. z o.o.	TAMEH HOLDING Sp. z o.o.*	As at 31 December 2015
Non-current assets	1 085 917	–	1 295 743	2 381 660
Current assets, including:	12 387	37 008	341 716	391 111
<i>cash and cash equivalents</i>	91	36 943	14 880	51 914
Non-current liabilities (-) including:	(965 514)	–	(378 507)	(1 344 021)
<i>debt</i>	(963 766)	–	(295 503)	(1 259 269)
Current liabilities (-) including:	(125 610)	(85)	(377 432)	(503 127)
<i>debt</i>	(40 149)	–	(2 134)	(42 283)
Total net assets	7 180	36 923	881 520	925 623
Share in net assets	3 590	18 461	440 760	462 811
Investment in joint ventures	–	18 461	399 666	418 127
Share in revenue of joint ventures	18	490	545 175	545 683
Share in profit/(loss) of joint ventures	(1 474)	(13 644)	23 051	7 933
Share in other comprehensive income of joint ventures	–	–	(387)	(387)

* 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 in Stalowa Wola fueled with natural gas, with the gross 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, which has been discussed in more detail in Note 35 to these consolidated financial statements.

The agreement reflects the will of the Company and PGNiG S.A. to continue the construction of the gas and steam unit. According to the Management Board of the Company, the aforesaid documents enable completion of the investment in 2019 (preliminary estimate).

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. 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 due to loans granted to Elektrociepłownia Stalowa Wola S.A. in the amount of PLN 256 067 thousand, which has been discussed in more detail in Note 23, as well as provisions for onerous commercial contracts in the amount of PLN 198 844 thousand, which have been discussed in Note 35.3.

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 Elektrociepłownia Blachownia Nowa Sp. z o.o., with its registered address in Kędzierzyn Koźle. The company was set up to perform a comprehensive investment project including preparation, construction and operation of a gas and steam unit with the capacity of ca. 850 MWe on the site of TAURON Wytwarzanie S.A. – Oddział Elektrociepłownia 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 Elektrociepłownia 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 liquidation of the company, in line with its articles of association and laws of general application. On 11 October 2016, the Extraordinary General Shareholders' Meeting dissolved Elektrociepłownia Blachownia Nowa Sp. z o.o. and placed it into liquidation, in addition to appointing a receiver. As Elektrociepłownia Blachownia Nowa Sp. z o.o. in liquidation holds current assets which may be subject to distribution among the partners in the joint venture to a considerable extent, the Group does not recognize any additional impairment losses on its interest in the company.

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 Elektrociepłownia 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 2016, the General Shareholders' Meeting of TAMEH HOLDING Sp. z o.o. decided to allocate PLN 48 000 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 24 000 thousand.

23. Loans granted to joint ventures

Loans granted to the joint venture Elektrociepłownia Stalowa Wola S.A. as at 31 December 2016 and 31 December 2015:

	Agreement date	Contractual loan amount	As at 31 December 2016		As at 31 December 2015		Maturity date	Purpose
			Principal	Interest	Principal	Interest		
Subordinated loan	20 June 2012	177 000	177 000	36 381	177 000	28 922	31.12.2032	Project performance: the borrower to obtain external funding
Loan for repayment of debt	14 December 2015	15 850	15 850	699	15 850	31	31.12.2027	Repayment of the principal instalment with interest with regard to loans granted to the borrower by European Investment Bank, European Bank for Reconstruction and Development and Bank Polska Kasa Opieki S.A.
	15 December 2016	15 300	11 000	21	–	–		
	25 November 2015	2 600	2 600	117	2 100	6		
Other loans	22 January 2016	5 500	5 500	214	–	–	30.06.2017	Financing of current operations
	22 April 2016	1 200	600	17	–	–		
	27 May 2016	3 100	3 100	65	–	–		
	31 August 2016	3 800	2 875	28	–	–		
Total loans			218 525	37 542	194 950	28 959		
Non-current			203 850	37 101	192 850	28 953		
Current			14 675	441	2 100	6		

In the year ended 31 December 2016, the interest income on loans granted amounted to PLN 8 583 thousand.

24. Other financial assets

	As at 31 December 2016	As at 31 December 2015
Shares	127 698	136 488
Deposits	38 472	39 724
Derivative instruments	56 417	5 684
Investment fund units	27 761	2 405
Loans granted	15 166	2 108
Bid bonds, deposits and collateral transferred	41 818	54 106
Other	14 561	5 034
Total	321 893	245 549
Non-current	227 140	211 215
Current	94 753	34 334

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 Cieplnej 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 23 046 thousand;
- Energetyka Cieszyńska Sp. z o.o., in the amount of PLN 15 063 thousand.

In the year ended 31 December 2016, the Parent acquired units in investment funds in the total amount of PLN 25 000 thousand. As at 31 December 2016, the carrying amount of these units measured at fair value was PLN 25 316 thousand.

Deposits constitute financial assets of Mine Decommissioning Fund.

25. Other non-financial assets

25.1. Other non-current non-financial assets

	As at 31 December 2016	As at 31 December 2015
Prepayments for assets under construction and intangible assets including: <i>related to project realization: Construction of 910 MW Power Unit in Jaworzno III Power Plant</i>	274 301	358 673
Costs of preparing production in hard coal mines	271 667	337 531
Other prepayments	132 862	159 159
	15 237	32 543
Total	422 400	550 375

25.2. Other current non-financial assets

	As at 31 December 2016	As at 31 December 2015
Costs settled over time, including:	78 457	104 251
Costs of preparing production in hard coal mines	36 175	33 411
Property and tort insurance	10 922	15 888
IT, telecom and postal services	17 994	26 367
Other prepayments	13 366	28 585
Other current non-financial assets, including:	106 551	128 808
Advance payments for deliveries	103 601	120 342
Surplus of Social Benefit Fund assets over its liabilities	338	3 984
Other current assets	2 612	4 482
Total	185 008	233 059

Social Benefit Fund

The Group entities offset the Fund assets with their liabilities to the Fund as the assets are not classified as separate assets of the Group. An analysis of the fund is presented in the following table.

	As at 31 December 2016	As at 31 December 2015
Loans granted to employees	30 671	31 087
Cash	17 093	20 144
Other Fund assets and liabilities	2 822	(382)
Social Fund liabilities	(50 248)	(46 865)
Net balance	338	3 984
Transfers made to the Social Fund during the period	(62 180)	(60 388)

26. Inventories

	As at 31 December 2016	As at 31 December 2015
Historical cost		
Coal, of which:	320 201	324 635
<i>Raw materials</i>	98 759	163 644
<i>Semi-finished goods and work-in-progress</i>	216 831	154 555
Energy certificates	783	1 319
Emission allowances	45 912	3 424
Other inventories	115 591	114 037
Total	482 487	443 415
Write-downs to net realisable value / Revaluation		
Emission allowances	13 226	–
Other inventories	(9 593)	(10 136)
Total	3 633	(10 136)
Net realisable value / Fair value		
Coal, of which:	320 201	324 635
<i>Raw materials</i>	98 759	163 644
<i>Semi-finished goods and work-in-progress</i>	216 831	154 555
Energy certificates	783	1 319
Emission allowances	59 138	3 424
Other inventories	105 998	103 901
Total	486 120	433 279

Movement in write-downs to net realizable value / Revaluation

	Year ended 31 December 2016	Year ended 31 December 2015
Opening balance	(10 136)	(21 088)
Recognition	(5 417)	(3 220)
Reversal	2 682	10 392
Utilization	3 278	3 780
Fair value measurement of emission allowances	13 226	–
Closing balance	3 633	(10 136)

The inventory of emission allowances purchased for resale and generation of profit in the short term due to volatility of market prices is measured at fair value as at the end of the reporting period. The Group recognized a gain on measurement of PLN 13 226 thousand as at 31 December 2016 following an increase in the prices of emission allowances. The measurement the change of the allowances should be analyzed jointly with the measurement change of forward contracts of allowances.

27. Receivables from buyers

Current receivables from buyers as at 31 December 2016 and 31 December 2015 have been presented in the table below.

	As at 31 December 2016	As at 31 December 2015
Value of items before allowance/write-down		
Receivables from clients	1 527 921	1 581 863
Receivables from clients – additional assessment of revenue from sales of electricity and distribution services	425 705	298 805
Receivables claimed at court	146 086	227 739
Total	2 099 712	2 108 407
Allowance/write-down		
Receivables from clients	(84 036)	(74 828)
Receivables claimed at court	(121 611)	(203 546)
Total	(205 647)	(278 374)
Value of item net of allowance (carrying amount)		
Receivables from clients	1 443 885	1 507 035
Receivables from clients – additional assessment of revenue from sales of electricity and distribution services	425 705	298 805
Receivables claimed at court	24 475	24 193
Total	1 894 065	1 830 033

Information on allowances/write-downs on receivables from buyers and other financial receivables has been presented in Note 46.1.1 to these consolidated financial statements.

28. Receivables due to taxes and charges

	As at 31 December 2016	As at 31 December 2015
Corporate Income Tax receivables	83 468	909
VAT receivables	154 181	205 713
Excise duty receivables	24 205	20 314
Other	2 000	1 409
Total	263 854	228 345

As at 31 December 2016, the Group had the following income tax assets and liabilities:

- income tax receivables of PLN 83 468 thousand, where PLN 83 153 thousand relates to settlements of the Tax Capital Group;
- income tax liability of PLN 2 371 thousand not included in the settlements of the Tax Capital Group.

Tax Capital Group

A Tax Capital Group ("TCG") agreement for the years 2015–2017 was concluded on 22 September 2014. The Tax Capital Group was registered by the Head of the First Śląski Tax Office in Sosnowiec under a tax identification number

NIP 2050004308 pursuant to a decision of 20 November 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.

In the year ended 31 December 2016, the income tax charge of the Tax Capital Group was PLN 217 201 thousand. At the same time, the Tax Capital Group made advance payments relating to income tax of PLN 300 053 thousand and reported receivables arising from tax overpaid by a subsidiary before joining the Tax Capital Group in the amount of PLN 301 thousand.

29. Cash and cash equivalents

	As at 31 December 2016	As at 31 December 2015
Cash at bank and in hand	368 274	353 428
Short-term deposits (up to 3 months)	16 450	10 722
Other	157	762
Total cash and cash equivalents presented in the statement of financial position, of which:	384 881	364 912
restricted cash	144 404	206 254
Bank overdraft	(15 156)	(10 206)
Cash pool	(16 095)	(29 377)
Foreign exchange	1 103	2 386
Total cash and cash equivalents presented in the statement of cash flows	354 733	327 715

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 31 December 2016, the balance of restricted cash included mainly cash on the accounts for bid bonds of PLN 79 227 thousand and cash on the accounts used for the settlement of electricity and emission allowances traded on the Polish Power Exchange, i.e. Towarowa Giełda Energii S.A., of PLN 49 000 thousand.

30. Issued capital and other capitals

30.1. Issued capital

Issued capital as at 31 December 2016

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

As at 31 December 2016, the value of issued capital, the number of shares and the nominal value of shares had not changed as compared to 31 December 2015.

Shareholding structure as at 31 December 2016 (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 Otworthy Fundusz Emerytalny	88 742 929	443 715	5.06%	5.06%
Other shareholders	954 847 515	4 774 237	54.49%	54.49%
Total	1 752 549 394	8 762 747	100.00%	100.00%

To the best of the Company's knowledge, the shareholding structure as at 31 December 2016 had not changed as compared to 31 December 2015.

30.2. Shareholders' rights

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

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

Detailed information concerning the limitations on exercising the voting rights has been presented in Section 6.6 of the Management Board's Report on the Activities of the TAURON Polska Energia S.A. Capital Group for the 2016 financial year.

30.3. Reserve capital

On 8 June 2016, the Ordinary General Shareholders' Meeting adopted a resolution to offset the net loss for the 2015 financial year, totaling PLN 3 453 908 thousand, against the reserve capital.

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

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

As at 31 December 2016 and as at the date of approval of these financial statements for publication no other dividend restriction occurred.

The Company's Management Board recommends the net loss for the year 2016 in the amount of PLN 166 253 thousand to be covered from the Company's reserve capital.

30.5. Revaluation reserve from valuation of hedging instruments

	Year ended 31 December 2016	Year ended 31 December 2015
Opening balance	(73 414)	(143 019)
Remeasurement of hedging instruments	132 108	85 466
Remeasurement of hedging instruments charged to profit or loss	(4 856)	466
Deferred income tax	(24 178)	(16 327)
Closing balance	29 660	(73 414)

The revaluation reserve from valuation of hedging instruments results from valuation of Interest Rate Swaps (IRS) hedging the interest rate risk arising from bonds issued, which has been discussed in more detail in Note 45.3 to these 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 31 December 2016, the Company recognized PLN 29 660 thousand of revaluation reserve from valuation of hedging instruments. It represents receivables arising from valuation of interest rate swaps as at the end of the reporting period, totaling PLN 36 641 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 was charged with PLN 80 658 thousand, where PLN 85 514 thousand was the amount paid in respect of hedges used in relation to closed interest periods and PLN (4 856) thousand resulted from a change in valuation of instruments related to interest on bonds accrued as at the end of the reporting period. The aforementioned costs of IRS hedging transactions adjusted finance costs arising from interest on bonds issued in the statement of comprehensive income.

30.6. Non-controlling interest

	Year ended 31 December 2016	Year ended 31 December 2015
At the beginning of the period	29 829	30 116
Dividends for non-controlling interests	(3 043)	(2 787)
Share in actuarial gains/(losses) related to provisions for post-employment benefits	272	60
Acquisition of non-controlling interests by the Group and mandatory squeeze-out	325	(662)
Share in subsidiaries' net profit or loss	2 669	3 102
At the end of the period	30 052	29 829

31. Dividends paid

	Year ended 31 December 2016	Year ended 31 December 2015
Dividends paid in the period		
Dividends paid by subsidiaries	(2 787)	(2 630)
Dividends paid by the Parent	–	(262 882)
Total dividends paid	(2 787)	(265 512)

Dividend per share paid out by the parent for individual years was the following:

	Year ended 31 December 2016	Year ended 31 December 2015
Dividend paid per share (PLN)	–	0.15

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

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

On 23 April 2015, the Ordinary General Shareholders' Meeting adopted a resolution to pay dividend to the shareholders of the Company of PLN 262 882 thousand from the net profit of the Company generated in the 2014 financial year, i.e. PLN 0.15 per share. The dividend was paid in August 2015.

32. Acquisition under common control

Acquisition of an organized part of the enterprise of Zakład Górniczy Brzeszcze

On 31 December 2015, Nowe Brzeszcze Grupa TAURON Sp. z o.o and Spółka Restrukturyzacji Kopalń S.A. ("SRK") entered into an agreement for sale of a designated part of Zakład Górniczy Brzeszcze as an organized part of the enterprise ("ZCP Brzeszcze"). The aforesaid agreement was entered into in performance of the preliminary agreement of 19 October 2015 and under Article 8a.4 of the Act on Hard Coal Mining of 7 September 2007. Under the sale agreement, the date of the provision of the object of sale and making the acquired ZCP Brzeszcze available for use to Nowe Brzeszcze Grupa TAURON Sp. z o.o was 1 January 2016, as of which date the risks and rewards relating to the object of sale were transferred onto Nowe Brzeszcze Grupa TAURON Sp. z o.o.

The ZCP Brzeszcze selling price agreed by the parties and payable to SRK is PLN 1.00. Due to the fact that KWK Brzeszcze incurred losses at the time of its operation as part of SRK, under an agreement of 29 May 2015 between the Minister of Economy and SRK, funds from the government budget were allocated to SRK for purposes of offsetting current production losses of the mining company in 2015 ("Public Aid"). At the same time, in accordance with the aid refund agreement, Nowe Brzeszcze Grupa TAURON Sp. z o.o. committed to return the Public Aid, including interest accrued as of each date of disbursement of the Public Aid by its provider to SRK. Thus, the acquisition price comprises the agreed price of PLN 1.00 and the Public Aid amount to be refunded, including interest due as at 31 December 2015, i.e. PLN 130 218 thousand. In the year ended 31 December 2016, Nowe Brzeszcze Grupa

TAURON Sp. z o.o. refunded the aforementioned Public Aid amount along with interest accrued by the repayment date. The expenditure relating to the Public Aid refund has been presented under investing activities in the consolidated statement of cash flows.

As the transaction involving the acquisition of ZCP Brzeszcze is carried out under common control of the State Treasury, Nowe Brzeszcze Grupa TAURON Sp. z o.o. accounted for the business combination using the pooling of interest method, as provided for by the accounting policies adopted by the Group, on the assumption that comparative data could not be presented.

Presented below is the balance sheet as at the date of the acquisition of the designated part of Zakład Górniczy Brzeszcze by Nowe Brzeszcze Grupa TAURON Sp. z o.o.

	As at 1 January 2016		As at 1 January 2016
Non-current assets		Equity	(14 041)
Property, plant and equipment and intangible assets	215 924	Provisions and liabilities	
Deferred tax assets	3 127	Provision for mine decommissioning	65 992
	219 051	Provisions for employee benefits	26 462
		Accruals (provision for unused annual leave)	4 203
Current assets		Obligations under leases	3 132
Inventories	1 349	Liabilities arising from public aid refund	130 218
Other financial assets	25	Other financial liabilities	4 459
	1 374		234 466
Total assets	220 425	Total equity and liabilities	220 425

As Zakład Górniczy Brzeszcze did not prepare its financial statements in conformity with IFRS, for purposes of accounting for the transaction, the Group prepared the balance sheet of ZCP Brzeszcze in accordance with its own accounting policies. To this end, the following procedures were performed:

- fixed assets were measured by an independent property appraiser. In the absence of an active market, the major part of such assets were measured at amortized replacement cost.
- The following provisions were recognized:
 - a mine decommissioning provision – estimated on the basis of third-party expert calculations;
 - an actuarial provision – estimated using actuarial methods on the basis of agreements setting out the terms of calculation and payment of retirement and disability benefits and jubilee bonuses at Kompania Węglowa S.A.;
 - a provision for unused annual leave – estimated by an actuary.

Following the acquisition of ZCP Brzeszcze, no trade receivables or liabilities relating to that part of the enterprise were transferred onto Nowe Brzeszcze Grupa TAURON Sp. z o.o. As regards inventories, only materials of PLN 1 349 thousand were transferred.

Business combination under common control of Nowe Brzeszcze Grupa TAURON Sp. z o.o. and TAURON Wydobyćie S.A.

On 1 December 2016, the business combination under common control of TAURON Wydobyćie S.A. (acquirer) and Nowe Brzeszcze Grupa TAURON Sp. z o.o. (acquiree) was registered. The business combination under common control was effected in accordance with Article 492.1.1 of the Code of Commercial Companies as an acquisition, through the transfer of all the assets, equity and liabilities of Nowe Brzeszcze Grupa TAURON Sp. z o.o. onto TAURON Wydobyćie S.A. The business combination has not affected these consolidated financial statements.

33. Debt

	As at 31 December 2016	As at 31 December 2015
Loans and borrowings	1 263 553	1 411 776
Bonds issued	7 681 128	6 680 433
Finance lease	34 848	46 438
Total	8 979 529	8 138 647
Non-current	8 759 789	4 924 127
Current	219 740	3 214 520

33.1. Loans and borrowings

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 (after the balance sheet date):					
		currency	PLN	less than 3 months	3–12 months	1–2 years	2–3 years	3–5 years	over 5 years
PLN	floating	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	–	–	–	–	–
	fixed	–	–	–	–	–	–	–	–
Total EUR		3 032	13 415	13 415	–	–	–	–	–
USD	floating	410	1 716	1 716	–	–	–	–	–
	fixed	–	–	–	–	–	–	–	–
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						

Loans and borrowings taken out as at 31 December 2015

Currency	Interest rate	Value of loans and borrowings as at the balance sheet date		of which maturing within (after the balance sheet date):					
		currency	PLN	less than 3 months	3–12 months	1–2 years	2–3 years	3–5 years	over 5 years
PLN	floating	77 350	77 350	29 993	6 864	7 333	7 308	14 316	11 536
	fixed	1 316 062	1 316 062	20 444	112 297	147 478	162 214	324 429	549 200
Total PLN		1 393 412	1 393 412	50 437	119 161	154 811	169 522	338 745	560 736
EUR	floating	2 025	8 630	8 630	–	–	–	–	–
	fixed	–	–	–	–	–	–	–	–
Total EUR		2 025	8 630	8 630	–	–	–	–	–
USD	floating	404	1 576	1 576	–	–	–	–	–
	fixed	–	–	–	–	–	–	–	–
Total USD		404	1 576	1 576	–	–	–	–	–
Total			1 403 618	60 643	119 161	154 811	169 522	338 745	560 736
Interest increasing carrying amount			8 158						
Total loans and borrowings			1 411 776						

Changes in the balance of loans and borrowings, excluding interest increasing their carrying amounts, in the year ended 31 December 2016 and in the year ended 31 December 2015, have been presented below.

	Year ended 31 December 2016	Year ended 31 December 2015
Opening balance	1 403 618	1 225 612
Movement in bank overdrafts and cash pool loans	(8 332)	23 184
Movement in loans (excluding bank overdrafts and cash pool loans):	(138 819)	154 822
Repaid	(140 331)	(140 585)
Taken out*	914	294 705
Change in valuation	598	702
Closing balance	1 256 467	1 403 618

* Costs of granting the loan have been included.

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

Loans/ borrowings	Borrowing institution	Purpose	Interest rate	Maturity date	As at 31 December 2016	As at 31 December 2015
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	105 039	126 218
		Construction and start-up of a co-generation unit at EC Bielsko Biala	Fixed	15.12.2021	150 056	180 303
		Modernization and extension of power grid	Fixed – agreed until 15 December 2017	15.06.2024	307 362	348 325
			Fixed – agreed until 15 March 2018	15.09.2024	147 091	165 467
			Fixed – agreed until 15 March 2018	15.09.2024	183 783	206 746
		Modernization and extension of power grid and improvement of hydropower plants	Fixed – agreed until 15 September 2019	15.03.2027	297 170	297 132
Borrowings	Regional Fund for Environmental Protection and Water Management	Construction of renewable power unit at Jaworzno III Power Plant	Floating	15.12.2022	24 000	28 000
		Construction of biomass infeed installation and modernization of fluid bed at Tychy Generation Plant	Floating	15.12.2022	16 561	19 216
Other loans and borrowings					32 491	40 369
Total					1 263 553	1 411 776

33.2. Bonds issued

Bonds issued as at 31 December 2016

Issuer	Tranche/ Bank	Redemption date	Currency	As at balance sheet date		of which maturing within (after the balance sheet date):				
				Interest accrued	Principal at amortised cost	up to 3 months	3–12 months	1–2 years	2–5 years	Over 5 years
TAURON Polska Energia S.A.	Bank Gospodarstwa Krajowego	20 December 2019	PLN	107	99 805	–	–	–	99 805	–
		20 December 2020	PLN	107	99 786	–	–	–	99 786	–
		20 December 2021	PLN	107	99 773	–	–	–	99 773	–
		20 December 2022	PLN	107	99 763	–	–	–	–	99 763
		20 December 2023	PLN	107	99 754	–	–	–	–	99 754
		20 December 2024	PLN	107	99 749	–	–	–	–	99 749
		20 December 2025	PLN	107	99 744	–	–	–	–	99 744
		20 December 2026	PLN	107	99 738	–	–	–	–	99 738
		20 December 2027	PLN	107	99 734	–	–	–	–	99 734
		20 December 2028	PLN	107	99 733	–	–	–	–	99 733
		20 December 2020	PLN	74	69 976	–	–	–	69 976	–
		20 December 2021	PLN	74	69 976	–	–	–	69 976	–
		20 December 2022	PLN	74	69 976	–	–	–	–	69 976
		20 December 2023	PLN	74	69 976	–	–	–	–	69 976
		20 December 2024	PLN	74	69 975	–	–	–	–	69 975
		20 December 2025	PLN	74	69 975	–	–	–	–	69 975
		20 December 2026	PLN	74	69 975	–	–	–	–	69 975
		20 December 2027	PLN	74	69 975	–	–	–	–	69 975
		20 December 2028	PLN	74	69 975	–	–	–	–	69 975
		20 December 2029	PLN	74	69 975	–	–	–	–	69 975
TAURON Sweden Energy AB (publ)	European Investment Bank	Bond Issue Scheme of 24.11.2015	PLN	549	2 244 801	–	–	–	2 244 801	–
		25 March 2020	PLN	790	99 771	–	–	–	99 771	–
		9 December 2020	PLN	560	298 761	–	–	–	298 761	–
		TPEA1119	4 November 2019	PLN	7 578	1 749 155	–	–	–	1 749 155
TAURON Sweden Energy AB (publ)	European Investment Bank	16 December 2034	EUR	1 693	839 330	–	–	–	–	839 330
		3 December 2029	EUR	2 067	736 930	–	–	–	–	736 930
Total debentures				15 047	7 666 081	–	–	–	4 831 804	2 834 277

Bonds issued as at 31 December 2015

Issuer	Tranche/ Bank	Redemption date	Currency	As at balance sheet date		of which maturing within (after the balance sheet date):				
				Interest accrued	Principal at amortised cost	up to 3 months	3–12 months	1–2 years	2–5 years	Over 5 years
TAURON Polska Energia S.A.	C	12 December 2016	PLN	4 389	2 998 938	2 249 203	749 735	–	–	–
	Bank Gospodarstwa Krajowego	20 December 2019	PLN	106	99 836	–	–	–	99 836	–
		20 December 2020	PLN	106	99 823	–	–	–	99 823	–
		20 December 2021	PLN	106	99 815	–	–	–	–	99 815
		20 December 2022	PLN	106	99 808	–	–	–	–	99 808
		20 December 2023	PLN	106	99 802	–	–	–	–	99 802
		20 December 2024	PLN	106	99 800	–	–	–	–	99 800
		20 December 2025	PLN	106	99 796	–	–	–	–	99 796
		20 December 2026	PLN	106	99 792	–	–	–	–	99 792
		20 December 2027	PLN	106	99 790	–	–	–	–	99 790
		20 December 2028	PLN	97	99 790	–	–	–	–	99 790
		20 December 2020	PLN	12	70 000	–	–	–	70 000	–
		20 December 2021	PLN	12	70 000	–	–	–	–	70 000
		20 December 2022	PLN	12	70 000	–	–	–	–	70 000
TPEA1119	4 November 2019	PLN	7 508	1 749 043	–	–	–	1 749 043	–	
TAURON Sweden Energy AB (publ)	3 December 2029	EUR	1 921	709 495	–	–	–	–	709 495	
Total debentures				14 905	6 665 528	2 249 203	749 735	–	2 018 702	1 647 888

Changes in the balance of bonds, excluding interest which increased the carrying amount, in the year ended 31 December 2016 and in the comparative period, have been presented below.

	Year ended 31 December 2016	Year ended 31 December 2015
Opening balance	6 665 528	6 803 298
Issue*	4 273 379	309 789
Redemption	(3 300 000)	(450 000)
Change in valuation	27 174	2 441
Closing balance	7 666 081	6 665 528

* Costs of issue have been included.

In the year ended 31 December 2016, the Parent issued (par value) and repurchased the following bonds:

Date of issue/ redemption	Agreement/ Scheme	Description	Year ended 31 December 2016	
			Par value of issue	Redemption
8.01.2016	Agreement with Bank Gospodarstwa Krajowego	Issue of three bond tranches with the par value of PLN 70 000 thousand each, maturing on 20 December 2023, 2024 and 2025, respectively.	210 000	
29.02.2016	Bond Issue Scheme dated 16 December 2010	Early repurchase of C tranche bonds with the par value of PLN 2 250 000 thousand, issued on 12 December 2011.		(2 250 000)
29.02.2016		Issue of bonds with the par value of PLN 2 250 000 thousand, maturing on 29 December 2020.	2 250 000	
25.03.2016		Issue of bonds with the par value of PLN 100 000 thousand, maturing on 25 March 2020.	100 000	
30.03.2016	Bond Issue Scheme dated 24 November 2015	Issue of bonds with the par value of PLN 300 000 thousand, maturing on 30 March 2020.	300 000	
30.09.2016		Early repurchase of a tranche of PLN 300 000 thousand, issued in March 2016.		(300 000)
9.12.2016		Issue of bonds with the par value of PLN 300 000 thousand, maturing on 9 December 2020.	300 000	
9.12.2016	Agreement with Bank Gospodarstwa Krajowego	Issue of four bond tranches with the par value of PLN 70 000 thousand each, maturing on 20 December 2026, 2027, 2028 and 2029, respectively.	280 000	
12.12.2016	Bond Issue Scheme dated 16 December 2010	Repurchase of C tranche bonds with the par value of PLN 750 000 thousand, issued on 12 December 2011, at maturity.		(750 000)
16.12.2016	Agreement with European Investment Bank	Issue of bonds with the par value of EUR 190 000 thousand, maturing on 16 December 2034.	844 607	
Total			4 284 607	(3 300 000)

The major issues and repurchases have been discussed below:

- Under the bond issue scheme of 16 December 2010, the debt balance as at 1 January 2016 was PLN 3 000 000 thousand. On 29 February 2016, the Company repurchased 22 500 out of 30 000 Tranche C bonds issued on 12 December 2011, for purposes of redemption. The remaining 7 500 Tranche C bonds were not repurchased early. In accordance with the terms of issue, they were repurchased on 12 December 2016. The aforesaid bonds were repurchased at the issue price of PLN 100 thousand. Thus, the total par value of bonds which were repurchased and redeemed by the Company was PLN 2 250 000 thousand. This amount was increased by interest due between the beginning of the interest period of the repurchase and the repurchase date. The bonds were repurchased for redemption under bilateral agreements concluded by the Company with Tranche C bond holders, mainly to prolong the date of the Company's repayment of debt incurred in the form of bonds. The funds necessary to refinance the bonds were secured as part of a new bond issue scheme of 24 November 2015.
- Under the new bond issue scheme of 24 November 2015, the Company issued 22 500 bonds with the total par value of PLN 2 250 000 thousand on 29 February 2016. The bonds will mature on 29 December 2020. The bonds were issued as unsecured, dematerialized coupon securities. They were purchased at the issue price equal to the par value of PLN 100 thousand. The interest on issued bonds was determined by reference to WIBOR 6M increased by a fixed margin. The bonds will be repurchased at the issue price at maturity, while interest will be paid in arrears at the end of each interest period to bond holders determined at the record date. The bonds were purchased by financial institutions being parties to the bond issue scheme agreements, i.e. Bank BGŻ BNP Paribas S.A., Bank Handlowy w Warszawie S.A., Bank of Tokyo-Mitsubishi UFJ (Holland) BV, Bank of Tokyo-Mitsubishi UFJ (Polska) S.A., Bank Zachodni WBK S.A., CaixaBank S.A. (Spółka Akcyjna) Branch in Poland, Industrial and Commercial Bank of China (Europe) S.A. Branch in Poland, ING Bank Śląski S.A., mBank S.A. and Powszechna Kasa Oszczędności Bank Polski S.A. As part of the aforesaid scheme lower value issues took place as well. They have been presented in the table above.
- On 14 December 2016, the Company entered into agreements with the European Investment Bank ("EIB") serving as the basis for the issue of hybrid bonds of EUR 190 000 thousand. The purpose of the issue is to finance the expenditures of an entity from the Distribution segment, planned for 2016–2020 in relation to the development and modernization of electric energy grid infrastructure.

The bonds were issued on 16 December 2016 as subordinated, unsecured coupon bearer securities, and they were acquired by EIB as part of the operations of the European Fund for Strategic Investments, launched by EIB and the European Commission to implement the Juncker Plan. The bonds will mature 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 Capital Group as the bonds are not taken into account for purposes of calculation of the debt ratio, which is a covenant in some funding schemes. Additionally, 50% of the bond amount has been classified by the rating agency as equity in the rating model, which has had a beneficial effect on the rating of the TAURON Group. The rating assigned to the bonds by Fitch is BB+.

Other bonds issued 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.

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 31 December 2016, the carrying amount of the bonds in the bond currency, increased by accrued interest, was EUR 167 043 thousand (versus EUR 166 941 thousand as at 31 December 2015). 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.

The Company hedges a portion of interest cash flows related to bonds issued using IRS contracts. The instruments are subject to hedge accounting, which has been discussed in more detail in Note 45.3 to these 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 31 December 2016, none of these covenants were breached and the contractual provisions were complied with.

33.3. Finance lease

	As at 31 December 2016		As at 31 December 2015	
	Minimum lease payments	Present value of lease payments	Minimum lease payments	Present value of lease payments
Within 1 year	12 026	11 301	13 909	12 715
Within 1 to 5 years	23 724	23 527	34 691	33 701
More than 5 years	22	20	24	22
Minimum lease payments, total	35 772	34 848	48 624	46 438
Less amounts representing finance charges	(924)	–	(2 186)	–
Present value of minimum lease payments, of which:	34 848	34 848	46 438	46 438
Non-current	23 546	23 546	33 723	33 723
Current	11 302	11 302	12 715	12 715

Key finance lease items as at 31 December 2016:

- liability due to lease of buildings in Katowice in the amount of PLN 26 974 thousand (versus PLN 30 169 thousand as at 31 December 2015);
- liability due to lease of technical equipment and machines as well as real property of PLN 6 642 thousand (versus PLN 15 785 thousand as at 31 December 2015).

34. Provisions for employee benefits

	As at 31 December 2016	As at 31 December 2015
Provision for post-employment benefits and jubilee bonuses	1 480 391	1 850 375
Provision for employment termination benefits	51 222	57 336
Total	1 531 613	1 907 711
Non-current	1 373 385	1 735 206
Current	158 228	172 505

34.1. Provisions for post-employment benefits and jubilee bonuses

Change in provisions for employee benefits in the year ended 31 December 2016

	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	17 093	14 003	2 170	–	37 519	70 785
Actuarial gains and losses, of which:	(27 145)	(148 051)	(29 401)	–	(40 296)	(244 893)
arising from changes in financial assumptions	(6 026)	(54 665)	(15 892)	–	(7 245)	(83 828)
arising from changes in demographic assumptions	10 566	(32 751)	(3 966)	–	3 035	(23 116)
arising from other changes	(31 685)	(60 635)	(9 543)	–	(36 086)	(137 949)
Benefits paid	(22 065)	(22 432)	(3 677)	(2 241)	(74 090)	(124 505)
Past service costs	(20 470)	(53 901)	8 677	–	(84 487)	(150 181)
Interest expense	9 308	19 831	3 590	–	17 372	50 101
Acquisition of ZCP Brzeszcze	9 436	–	–	–	17 026	26 462
Other changes	–	–	–	2 247	–	2 247
Closing balance	307 281	532 184	112 469	2 248	526 209	1 480 391
Non-current	271 934	512 671	108 116	–	468 963	1 361 684
Current	35 347	19 513	4 353	2 248	57 246	118 707

Change in provisions for employee benefits in the year ended 31 December 2015

	Provision for retirement, disability and similar benefits	Employee electricity rates	Social Fund	Provision for coal allowances	Jubilee bonuses	Provisions, total
Opening balance	357 017	769 975	170 242	67 661	679 510	2 044 405
Current service costs	14 533	8 144	2 960	983	39 023	65 643
Actuarial gains and losses, of which:	(11 222)	(47 439)	(6 084)	222	(8 683)	(73 206)
arising from changes in financial assumptions	(29 065)	(63 451)	(12 090)	–	(39 657)	(144 263)
arising from changes in demographic assumptions	2 439	15 946	3 749	–	6 687	28 821
arising from other changes	15 404	66	2 257	222	24 287	42 236
Benefits paid	(24 011)	(22 784)	(3 943)	(1 321)	(61 515)	(113 574)
Past service costs	(3 115)	(2 321)	(35 561)	(68 432)	(10 197)	(119 626)
Interest expense	7 922	17 159	3 496	887	15 027	44 491
Other changes	–	–	–	2 242	–	2 242
Closing balance	341 124	722 734	131 110	2 242	653 165	1 850 375
Non-current	318 390	699 207	126 824	–	581 372	1 725 793
Current	22 734	23 527	4 286	2 242	71 793	124 582

In the year ended 31 December 2016, the Group reduced its provisions for post-employment benefits and jubilee bonuses relating to past service costs by the total of PLN 150 181 thousand, which increased the Group's profit/loss. Past service costs resulted mainly from:

- modification of the Collective Labor Agreements in companies mainly from the Distribution segment – reversal of provisions totaling PLN 156 792 thousand;
- changes in the retirement age – increase in provisions by PLN 7 174 thousand.

Following a change in actuarial assumptions made for purposes of the actuarial valuation as at 31 December 2016, provisions were reduced by PLN 244 893 thousand, which drove an increase in other comprehensive income by PLN 204 597 thousand (provisions for post-employment benefits) and in the Group's profit/loss by PLN 40 296 thousand (provisions for jubilee bonuses).

Measurement of provisions for employee benefits

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

	31 December 2016	31 December 2015
Discount rate (%)	3.00%	2.75%
Estimated inflation rate (%)	2.50%	2.35%
Employee rotation rate (%)	0.04% – 7.95%	1.14% – 9.10%
Estimated salary increase rate (%)	1.00% – 3.50%	0.23% – 2.43%
Estimated electricity price increase rate (%)	3.50%	4.30%
Estimated increase rate for contribution to the Social Fund (%)	3.50%	4.50%
Remaining average employment period	9.27 – 25.00	9.80 – 14.90

Sensitivity analysis

As at 31 December 2016, the Group analyzed sensitivity of measurement results to changes in the financial discount rates and changes in the planned increases in the base amounts in the range of -0.5 p.p./+0.5 p.p.

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

Provision title	Carrying amount as at 31 December 2016	Financial discount rate		Planned base increases	
		-0.5 p.p.	+0.5 p.p.	-0.5 p.p.	+0.5 p.p.
Provision for retirement, disability and similar benefits	307 281	321 730	293 961	294 146	321 401
Employee electricity rates	532 184	575 395	493 934	493 934	574 953
Costs of appropriation to Social Benefits Fund	112 469	123 616	106 232	106 294	123 453
Jubilee bonuses	526 209	544 509	509 054	512 185	541 052
Total		1 565 250	1 403 181	1 406 559	1 560 859

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

Provision title	Carrying amount	Deviations			
		Financial discount rate		Planned base increases	
		-0.5 p.p.	+0.5 p.p.	-0.5 p.p.	+0.5 p.p.
Provision for retirement, disability and similar benefits	307 281	14 449	(13 320)	(13 135)	14 120
Employee electricity rates	532 184	43 211	(38 250)	(38 250)	42 769
Costs of appropriation to Social Benefits Fund	112 469	11 147	(6 237)	(6 175)	10 984
Jubilee bonuses	526 209	18 300	(17 155)	(14 024)	14 843
Total, including:		87 107	(74 962)	(71 584)	82 716
effect on profit/loss		18 300	(17 155)	(14 024)	14 843
effect on other comprehensive income		68 807	(57 807)	(57 560)	67 873

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

Provisions for employee benefits by maturity

	Retirement, disability and similar benefits	Employee electricity rates	Social Fund	Coal allowances	Jubilee bonuses	Provisions, total
2017	35 347	19 513	4 353	2 248	57 246	118 707
2018	14 346	21 557	4 421	–	48 304	88 628
2019	14 675	21 067	4 321	–	44 081	84 144
2020	14 167	20 606	4 227	–	39 598	78 598
2021	13 702	20 130	4 134	–	37 973	75 939
Other years	215 044	429 311	91 013	–	299 007	1 034 375
Total	307 281	532 184	112 469	2 248	526 209	1 480 391

34.2. Provisions for employment termination benefits

For the year ended 31 December 2016

	Voluntary redundancy schemes in operating segments		Other	Total
	Generation	Distribution		
Opening balance	23 460	25 432	8 444	57 336
Recognition	5 383	8 290	14 036	27 709
Reversal	(571)	(3 797)	(2 504)	(6 872)
Utilization	(10 673)	(12 863)	(3 415)	(26 951)
Closing balance	17 599	17 062	16 561	51 222
Non-current	11 701	–	–	11 701
Current	5 898	17 062	16 561	39 521

For the year ended 31 December 2015

	Voluntary redundancy schemes in operating segments			Other	Total
	Mining	Generation	Distribution		
Opening balance	–	38 867	22 236	1 769	62 872
Recognition	4 750	9 864	24 898	8 444	47 956
Reversal	(4 750)	(419)	(3 563)	–	(8 732)
Utilization	–	(24 852)	(18 139)	(1 769)	(44 760)
Closing balance	–	23 460	25 432	8 444	57 336
Non-current	–	9 413	–	–	9 413
Current	–	14 047	25 432	8 444	47 923

In the year ended 31 December 2016, the TAURON Group continued the Voluntary Redundancy Schemes introduced in previous years and implemented new schemes.

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

For the year ended 31 December 2016

	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	Provisions, total
Opening balance	111 675	101 244	182 877	395 796
Interest cost (discounting)	4 904	2 700	11 502	19 106
Discount rate adjustment	(35 846)	(9 854)	2 257	(43 443)
Recognition/(reversal), net	160	21 212	2 208	23 580
Acquisition of ZCP Brzeszcze	65 992	–	–	65 992
Closing balance	146 885	115 302	198 844	461 031
Non-current	146 885	102 984	152 943	402 812
Current	–	12 318	45 901	58 219
Other provisions, long-term portion				46 498
Total				449 310

For the year ended 31 December 2015

	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	Provisions, total
Opening balance	120 704	42 774	–	163 478
Interest cost (discounting)	2 996	961	–	3 957
Discount rate adjustment	(13 308)	(675)	–	(13 983)
Recognition/(reversal), net	1 283	(1 205)	182 877	182 955
Reclassification to liabilities of a disposal group classified as held for sale	–	59 389	–	59 389
Closing balance	111 675	101 244	182 877	395 796
Non-current	111 675	100 339	163 449	375 463
Current	–	905	19 428	20 333
Other provisions, long-term portion				1 909
Total				377 372

35.1. Provision for mine decommissioning costs

The provision is recognized for mines included in the Group based on estimated costs of facility decommissioning and reclaiming land after completion of the exploitation process. More details on the calculation of the provision have been presented in Note 9.19 to these consolidated financial statements.

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.

In the year ended 31 December 2016, the provision increased by PLN 65 992 thousand following the acquisition of an organized part of the enterprise of Zakład Górniczy Brzeszcze, which has been discussed in more detail in Note 32 to these consolidated financial statements.

A decrease in the provision by PLN 35 846 thousand in the year ended 31 December 2016 was driven by the adoption of higher discount rates (3.50%) for purposes of valuation as at 31 December 2016 than as at 31 December 2015 (2.75%–3.04%). In the comparative period, following an increase in the discount rate used for purposes of valuation of provisions as at 31 December 2015 (up from 2.25%–2.50% to 2.75%–3.04%), the Group derecognized a provision of PLN 13 308 thousand.

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

Mine Decommissioning Fund financial assets

	Year ended 31 December 2016	Year ended 31 December 2015
Assets as at 1 January	42 129	38 232
Contributions made	4 112	4 463
Interest	730	809
Use	(6 051)	(1 375)
Other changes	243	–
Assets as at 31 December	41 163	42 129
Transfers made to the MDF in the period	(4 446)	(4 113)

Provision for mine decommissioning costs

	Year ended 31 December 2016	Year ended 31 December 2015
Mine Decommissioning Fund	44 442	43 731
Surplus of discounted estimated decommissioning costs	102 443	67 944
Total	146 885	111 675

35.2. 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 39 415 thousand as at 31 December 2016 (versus PLN 41 855 thousand as at 31 December 2015).
- Provision for wind farm dismantling costs, which totaled PLN 51 088 thousand as at 31 December 2016 (versus PLN 59 389 thousand as at 31 December 2015).
- In 2016, a provision was recognized for the costs of removal of fixed assets in the amount of PLN 24 799 thousand related to the decommissioning of a chimney in Elektrownia Jaworzno as well as cooling towers and a unit in Elektrownia Łagisza.

35.3. Provision for onerous contracts with a joint venture

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

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

In the year ended 31 December 2016, the Company remeasured 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 11 502 thousand in total, and recognized additional provisions of PLN 4 465 thousand (net).

As at the end of the reporting period, the balance of provisions for onerous contracts amounted to PLN 198 844 thousand and included:

- a provision of PLN 133 327 thousand resulting from the fact that under a multi-annual electricity sales contract among Elektrociepłownia Stalowa Wola S.A., the Company and PGNiG Energia S.A., the Company is obliged to purchase half of the volume of electricity at a price determined in the "cost plus" formula, which covers the production costs and the financing costs. The provision was estimated taking account of the difference between the planned market prices of electricity and the costs resulting from the "cost plus" formula;

- a provision of PLN 54 837 thousand resulting from the fact that the Company may be obliged to cover losses which may be incurred under the take or pay clause of the comprehensive gaseous fuel supply contract entered into by PGNiG S.A. and Elektrociepłownia Stalowa Wola S.A. In accordance with the aforesaid clause, Elektrociepłownia Stalowa Wola S.A. is obliged to make a payment to PGNiG S.A. for uncollected gas or resell it on the market. The provision was estimated on the assumption that the gas volume for 2016–2018 was the same as the one specified in the contract. The short-term portion of the provision is PLN 38 608 thousand;
- a provision for costs of PLN 10 680 thousand (PLN 7 293 thousand of which is the short-term portion). The Company may be required to incur additional costs necessary for the operation of Elektrociepłownia Stalowa Wola S.A. due to delays in project completion.

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

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 aforesaid agreements and annexes will enter into force once the conditions precedent have been satisfied, i.e. the binding financing agreements have been amended or the amounts due to the last institution which currently provides funding to Elektrociepłownia Stalowa Wola S.A. have been paid. 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 the financing institutions, totaling PLN 314 486 thousand.

The agreements and annexes reflect the will of the Company and PGNiG S.A. to continue the construction of the gas and steam unit. According to the Management Board of the Company, the aforesaid documents enable completion of the investment in 2019 (preliminary estimate). As the aforesaid agreements are conditional, the Management Board decided not to modify the key assumptions constituting the basis for provision calculation.

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

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

For the year ended 31 December 2016

	Provision for gas emission obligations	Provision for obligation to submit energy certificates	Provisions, total
Opening balance	153 083	865 051	1 018 134
Recognition	381 946	743 312	1 125 258
Reversal	(63)	(3 884)	(3 947)
Utilisation	(325 230)	(849 394)	(1 174 624)
Closing balance	209 736	755 085	964 821

For the year ended 31 December 2015

	Provision for gas emission obligations	Provision for obligation to submit energy certificates	Provisions, total
Opening balance	8 130	914 926	923 056
Recognition	153 084	863 210	1 016 294
Reversal	(2 290)	(2 202)	(4 492)
Utilisation	(5 841)	(910 883)	(916 724)
Closing balance	153 083	865 051	1 018 134

36.1. Provision for the obligation to surrender energy certificates

As at 31 December 2016, the Group recognized a short-term provision for the obligation to surrender energy certificates in the amount of PLN 755 085 thousand, out of which the amount of PLN 556 223 thousand was covered by certificates

held as at the end of the reporting period, the amount of PLN 145 727 thousand was planned to be paid in the form of a substitution fee and the amount of PLN 53 135 thousand through the purchase of property rights.

In the year ended 31 December 2016, the Group fulfilled the obligation to surrender certificates of electricity generated using renewable sources, in CHP units and energy efficiency certificates for 2015. Therefore, a provision of PLN 849 394 thousand was used.

36.2. 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 at 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 31 December 2016, the provision for gas emission liabilities amounted to PLN 209 736 thousand and regarded the obligatory surrendering of emission allowances for the year ended 31 December 2016. As at 31 December 2016, the provision was recognized both for facilities owned by TAURON Wytwarzanie S.A. and by TAURON Ciepło Sp. z o.o.

In the year ended 31 December 2016, the Group fulfilled the surrendering obligation for 2015 and in part for 2016. A change in the balance of the provision in the year ended 31 December 2016 arises from:

- remeasurement of the provision for the obligation for 2015: TAURON Wytwarzanie S.A. recognized an additional provision of PLN 21 937 thousand and TAURON Ciepło Sp. z o.o. reversed a provision of PLN 63 thousand;
- recognition of the provision for the obligation for 2016: TAURON Wytwarzanie S.A. recognized a provision of PLN 319 620 thousand and TAURON Ciepło Sp. z o.o. a provision of PLN 40 389 thousand;
- use of the provision due to the fulfilment of the obligation for 2015 and surrender of emission allowances in the amount of PLN 174 957 thousand;
- use of the provision due to the fulfilment of the obligation for 2016 and surrender of emission allowances in the amount of PLN 150 273 thousand in December 2016.

As at 31 December 2016, 19 482 951 emission allowances were registered in the Group's accounts with the Union Registry, out of which 7 395 649 allowances were planned to be surrendered in fulfillment of the remaining obligation for 2016.

37. Other provisions

For the year ended 31 December 2016

	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	902	201 928	202 830
Utilisation	(642)	(7 258)	(7 900)
Other changes	(26)	211	185
Closing balance	92 143	262 592	354 735
Non-current	–	46 498	46 498
Current	92 143	216 094	308 237
Current portion of provisions for the costs of disassembly of fixed assets and land restoration and other provisions			58 219
Total current other provisions			366 456

For the year ended 31 December 2015

	Provision for use of real estate without contract	Provision for counterparty claims, court dispute and other provisions	Provisions, total
Opening balance	93 818	66 341	160 159
Recognition/(reversal), net	3 587	5 840	9 427
Utilisation	(5 496)	(6 240)	(11 736)
Other movements	–	1 771	1 771
Foreign exchange differences from translation of foreign entities	–	(1)	(1)
Closing balance	91 909	67 711	159 620
Non-current	–	1 909	1 909
Current	91 909	65 802	157 711
Current portion of provision for the costs of disassembly of fixed assets and land restoration and other provisions			20 333
Total current other provisions			178 044

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 facilities are located. As at 31 December 2016, the relevant provision amounted to PLN 92 143 thousand and was related to the following segments:

- Generation: PLN 50 196 thousand;
- Distribution: PLN 41 947 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 for counterparty claims, court disputes and other provisions

Material provisions recognized as other provisions have been discussed below:

Item	Operating segment	Description	As at 31 December 2016	Effect on gross profit/loss for 2016
Provision 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): • Construction of a biomass boiler in Elektrownia Jaworzno III – Elektrownia II; • Construction of a system of power generation from renewable sources in Stalowa Wola, a provision has been recognised for the costs of returning the subsidy totalling PLN 52,297 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, a provision totalling PLN 11,250 has been recognised.	63 547	(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)
Proceedings before the Office of Competition and Consumer Protection	Distribution	A provision for fines imposed by the President of the Office of Competition and Consumer Protection for the abuse by ENION S.A. (now TAURON Dystrybucja S.A.) of its dominant position on the electricity distribution market. As at 31 December 2016, the provision was recognized for fines related to proceedings before the Court of Competition and Consumer Protection which had not been closed as at that date. The balance of the provision had not changed as compared to 31 December 2015.	7 302	–
Provision for real estate tax	Mining	Provisions for proceedings related to real estate tax on underground mining excavations.	23 008	(20 860)
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 period of the inspection proceedings was prolonged by the Director of the Tax Inspection Office a few times and the new deadline has been set at 28 April 2017.	64 494	(64 494)

38. Accruals, deferred income and government grants

38.1. Deferred income and government grants

	As at 31 December 2016	As at 31 December 2015
Deferred income, of which:	293 284	325 861
Donations, subsidies received for the purchase or fixed assets received free-of-charge	71 849	83 308
Connection fees	218 075	240 485
Other	3 360	2 068
Government grants, of which:	317 505	382 660
Subsidies obtained from EU funds	211 981	286 222
Forgiven loans from environmental funds	28 068	11 801
Measurement of preferential loans	37 777	39 401
Other	39 679	45 236
Total	610 789	708 521
Non-current	553 874	650 364
Current	56 915	58 157

38.2. Accruals

	As at 31 December 2016	As at 31 December 2015
Unused holidays	48 640	37 468
Bonuses	140 930	140 946
Environmental protection charges	3 806	4 449
Other	17 790	13 317
Total	211 166	196 180
Non-current	419	–
Current	210 747	196 180

39. Liabilities to suppliers

Current liabilities to suppliers as at 31 December 2016 and 31 December 2015 are presented in the table below:

Liabilities to suppliers in operating segments	As at 31 December 2016	As at 31 December 2015
Distribution	294 573	281 839
<i>including from Polskie Sieci Elektroenergetyczne S.A.</i>	<i>200 732</i>	<i>176 859</i>
Sales	247 487	245 424
Mining	144 722	83 111
Generation	100 857	130 606
Other	42 090	49 726
Total	829 729	790 706

40. Capital commitments

Short-term capital commitments as at 31 December 2016 and 31 December 2015 are presented in the table below:

Capital commitments in operating segments	As at 31 December 2016	As at 31 December 2015
Generation	511 403	290 916
Distribution	336 624	420 735
Mining	159 138	30 603
Sales and other	26 639	24 589
Total	1 033 804	766 843

An increase in capital commitments in the Generation segment concerned mainly a rise in commitments relating to construction of unit 910 in Jaworzno, which totaled PLN 458 484 thousand as at 31 December 2016 versus PLN 124 690 thousand as at 31 December 2015.

A rise in capital commitments in the Mining segment concerned mainly a commitment relating to development of a longwall system in Zakład Górniczy Brzeszcze in the amount of PLN 89 080 thousand. No such commitment was recognized as at 31 December 2015.

Long-term capital commitments have been presented in the consolidated statement of financial position within other financial liabilities. As at 31 December 2016 and 31 December 2015, the related commitments totaled PLN 299 thousand (Distribution) and PLN 916 thousand (Distribution: PLN 416 thousand, Sales: PLN 500 thousand), respectively.

Commitments to incur capital expenditure

As at 31 December 2016 and 31 December 2015, the Group committed to incur expenditure on property, plant and equipment and intangible assets of PLN 4 368 685 thousand and PLN 5 597 990 thousand, respectively, with the key items presented below:

Operating segment	Agreement/investment project	As at 31 December 2016	As at 31 December 2015
Generation	Construction of a power-generating unit with the capacity of 910 MW for supercritical parameters in Jaworzno III Power Plant	2 579 313	3 773 520
	Commissioning of a part of external coal handling system and an ash removal system for a power-generating unit with the capacity of 910 MW for supercritical parameters in Jaworzno III Power Plant	229 150	144 325
	Constructing new cogeneration capacity in Tychy Heat and Power Plant	10 000	98 970
Distribution	Redevelopment of the double track overhead line Przybków-Kąty Wrocławskie-Klecina	31 446	73 140
	Implementation of Smart City Wrocław, an intelligent measurement system	18 880	91 126
	Construction of Grid Management Centre in Kraków and in Wrocław	30 951	55 176
Mining	Construction of the "Grzegorz" shaft with the accompanying infrastructure and excavations	16 484	22 105
	Construction of the 800 m drift at Janina Mining Plant	19 578	37 986
	Investment Program in Brzeszcze Mining Plant	32 731	–

41. Liabilities due to taxes and charges

	As at 31 December 2016	As at 31 December 2015
Corporate Income Tax	2 371	85 357
Personal Income Tax	51 084	46 841
Excise	41 549	42 467
VAT	98 114	46 787
Social security	170 039	156 635
Environmental charges	40 964	46 889
Other	6 822	4 673
Total	410 943	429 649

A decrease in corporate income tax liabilities was driven by the fact that as at 31 December 2016, the Tax Capital Group had receivables of PLN 83 153 thousand arising from income tax, which has been discussed in more detail in Note 28 to these consolidated financial statements. As at 31 December 2015, the Tax Capital Group had an income tax liability in the amount of PLN 82 944 thousand.

42. Other financial liabilities

	As at 31 December 2016	As at 31 December 2015
Wages, salaries and related charges	174 212	172 660
Bid bonds, deposits and collateral received	79 415	120 890
Insurance contracts	12 560	16 149
Derivative instruments	560	112 109
Other	61 922	20 563
Total	328 669	442 371
Non-current	72 374	101 705
Current	256 295	340 666

Derivative instruments have been discussed in Note 45.3 to these consolidated financial statements.

43. Other current non-financial liabilities

	As at 31 December 2016	As at 31 December 2015
Payments from customers relating to future periods, of which:	298 606	273 168
Prepayments for connection fees	21 369	25 366
Amounts overpaid by customers	245 544	240 700
Other	31 693	7 102
Other current non-financial liabilities	2 573	754
Total	301 179	273 922

EXPLANATORY NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

44. Significant items of the consolidated statement of cash flows

44.1. Cash flows from operating activities

Impairment losses on property, plant and equipment, intangible assets and goodwill

Impairment losses of PLN 867 109 thousand, which adjust the Group's profit/loss before tax, have been discussed in more detail in Note 11 to these consolidated financial statements.

Changes in working capital

	Year ended 31 December 2016	Year ended 31 December 2015
Change in receivables	(46 280)	118 806
Change in receivables from clients in statement of financial position	(64 032)	87 065
Adjustment related to acquisition of organized part of the enterprise (ZCP Brzeszcze) and inclusion of new companies in consolidation	12 496	13 200
Other adjustments	5 256	18 541
Change in inventories	(55 731)	90 497
Change in inventories in statement of financial position	(52 841)	94 317
Adjustment related to transfer of inventories to/from property, plant and equipment	(4 347)	(4 502)
Other adjustments	1 457	682
Change in payables excluding loans and borrowings	156 247	(180 636)
Change in liabilities to suppliers in statement of financial position	39 023	(126 038)
Change in payroll, social security and other financial liabilities	(1 536)	(74 211)
Change in non-financial liabilities in statement of financial position	27 257	(3 649)
Change in liabilities due to taxes excluding income tax	64 280	2 174
Adjustment related to acquisition of organized part of the enterprise (ZCP Brzeszcze) and inclusion of new companies in consolidation	(24 610)	(9 395)
Adjustment of VAT change related to capital commitments	50 570	33 574
Other adjustments	1 263	(3 091)
Change in other non-current and current assets	341 335	(104 176)
Change in other current and non-current non-financial assets	176 026	95 543
Change in receivables due to taxes excluding income tax	47 050	(94 481)
Change in non-current and current emission allowances	(8 727)	(157 717)
Change in non-current and current energy certificates	218 347	47 037
Change in advance payments for property, plant and equipment and intangible assets	(84 372)	(49 172)
Reclassification to/from assets held for sale	–	39 758
Other adjustments	(6 989)	14 856
Change in deferred income, government grants and accruals	(140 063)	(73 962)
Change in deferred income, government grants and accruals	(82 746)	(2 891)
Adjustment related to property, plant and equipment and intangible assets received free of charge	(18 919)	(21 348)
Adjustment related to subsidies received	(29 220)	(41 941)
Other adjustments	(9 178)	(7 782)
Change in provisions	(28 173)	141 843
Change of short term and long term provisions in statement of financial position	(169 061)	127 291
Adjustment related to actuarial gains/losses from provisions for post-employment benefits charged to other comprehensive income	204 597	64 523
Adjustment related to acquisition of organized part of the enterprise (ZCP Brzeszcze)	(92 454)	–
Adjustment related to change of provisions for disassembly of fixed assets and land restoration booked in correspondence with property, plant and equipment	33 415	10 699
Reclassification to/from assets held for sale	–	(59 375)
Other adjustments	(4 670)	(1 295)
Total	227 335	(7 628)

Income tax paid

Income tax paid in the amount of PLN 394 792 thousand results mainly from the Tax Capital Group's payment of advance income tax for 2016 totaling PLN 300 054 thousand in the year ended 31 December 2016 and advance income tax for the fourth quarter of 2015 totaling PLN 88 784 thousand.

44.2. Cash flows from investing activities

Purchase of property, plant and equipment and intangible assets

	Year ended 31 December 2016	Year ended 31 December 2015
Purchase of property, plant and equipment	(3 590 348)	(3 877 348)
Purchase of intangible assets	(127 446)	(117 145)
Change in the balance of VAT – adjusted capital commitments	214 984	138 635
Change in the balance of advance payments	84 372	49 172
Costs of overhaul and internal manufacturing	(99 017)	(180 912)
Other	1 159	14 088
Total	(3 516 296)	(3 973 510)

Public aid refund

Payments to refund public aid of PLN 131 077 thousand are related to the refund made by Nowe Brzeszcze Grupa TAURON Sp. z o.o. under the public aid refund agreement, which has been discussed in more detail in Note 32 to these consolidated financial statements.

Acquisition of financial assets

Payments to acquire financial assets in the year ended 31 December 2016 in the amount of PLN 36 621 thousand include mainly the Parent's purchase of units of PLN 25 000 thousand.

Loans granted

Payments to grant loans result from the loans disbursed by the Parent to Elektrociepłownia Stalowa Wola S.A., a jointly-controlled entity, in the total amount of PLN 23 575 thousand under agreements entered into in November 2015 and in the year ended 31 December 2016, which has been discussed in more detail in Note 23 to these consolidated financial statements.

Dividends received

Proceeds from dividends received in the amount of PLN 29 728 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 24 000 thousand.

44.3. Cash flows from financing activities

Repurchase of debt securities

Payments to repurchase debt securities result from the Company's repurchase of Tranche C bonds in the total amount of PLN 3 000 000 thousand in the year ended 31 December 2016 and the early repurchase (on 30 September 2016) of a Tranche of PLN 300 000 thousand issued in March 2016.

Loans and borrowings repaid

Payments to repay loans and borrowings of PLN 140 331 thousand disclosed in the consolidated statement of cash flows result mainly from the Parent's repayment of installments of a loan obtained from the European Investment Bank in the amount of PLN 132 818 thousand in the year ended 31 December 2016.

Interest paid

	Year ended 31 December 2016	Year ended 31 December 2015
Interest paid in relation to debt securities	(296 949)	(286 692)
Interest paid in relation to loans and borrowings	(53 183)	(57 536)
Interest paid in relation to the finance lease	(955)	(1 237)
Total, of which:	(351 087)	(345 465)
financing cash outflows	(255 116)	(276 305)
investing cash outflows	(95 971)	(69 160)

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.

Issue of debt securities

Proceeds from the issue of debt securities in the year ended 31 December 2016 are related to:

- the Company's issue of bonds with the total par value of PLN 2 950 000 thousand under a bond issue scheme of November 2015, which has been discussed in more detail in Note 33.2 to these consolidated financial statements;
- the Company's issue of bond tranches under the agreement with Bank Gospodarstwa Krajowego in the total amount of PLN 490 000 thousand;
- the Company's issue of subordinated hybrid bonds of PLN 844 607 thousand.

FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

45. Financial instruments

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

Categories and classes of financial assets	Note	As at 31 December 2016		As at 31 December 2015	
		Carrying amount	Fair value	Carrying amount	Fair value
1 Assets at fair value through profit or loss, held for trading		45 092		5 684	
Derivative instruments	45.3	19 776	19 776	5 684	5 684
Investment fund units	24	25 316	25 316	–	–
2 Financial assets available for sale		130 143		140 783	
Shares (non-current)	24	123 594		132 383	
Shares (current)	24	4 104		4 105	
Investment fund units	24	2 445	2 445	2 405	2 405
Bonds, T-bills and other debt securities		–	–	1 890	1 890
3 Loans and receivables		2 245 033		2 150 918	
Receivables from clients	27	1 894 065	1 894 065	1 830 033	1 830 033
Deposits	24	38 472	38 472	39 724	39 724
Loans granted		256 117	256 117	223 911	223 911
Other financial receivables		56 379	56 379	57 250	57 250
4 Financial assets excluded from the scope of IAS 39		461 348		418 127	
Investments in joint ventures	22	461 348		418 127	
5 Derivative hedging instruments	45.3	36 641	36 641	–	–
6 Cash and cash equivalents	29	384 881	384 881	364 912	364 912
Total financial assets, of which in the statement of financial position:		3 303 138		3 080 424	
Non-current assets		929 439		851 145	
Investments in joint ventures		461 348		418 127	
Loans granted to joint ventures		240 951		221 803	
Other financial assets		227 140		211 215	
Current assets		2 373 699		2 229 279	
Receivables from clients		1 894 065		1 830 033	
Other financial assets		94 753		34 334	
Cash and cash equivalents		384 881		364 912	

Categories and classes of financial liabilities	Note	As at 31 December 2016		As at 31 December 2015	
		Carrying amount	Fair value	Carrying amount	Fair value
1 Financial liabilities at fair value through profit or loss, held for trading		560		16 642	
Derivative instruments	45.3	560	560	16 642	16 642
2 Financial liabilities measured at amortized cost		11 136 323		9 980 020	
Preferential loans	33.1	41 748	41 748	47 999	47 999
Arm's length loans	33.1	1 206 649	1 209 558	1 353 571	1 375 724
Bank overdrafts	33.1	15 156	15 156	10 206	10 206
Bonds issued	33.2	7 681 128	7 719 015	6 680 433	6 683 707
Liabilities to suppliers	39	829 729	829 729	790 706	790 706
Other financial liabilities	42	158 383	158 383	157 240	157 240
Capital commitments	40	1 034 103	1 034 103	767 759	767 759
Salaries and wages		156 867	156 867	155 957	155 957
Insurance contracts	42	12 560	12 560	16 149	16 149
3 Liabilities under guarantees, factoring and excluded from the scope of IAS 39		34 848		46 438	
Obligations under finance leases	33.3	34 848	34 848	46 438	46 438
4 Derivative hedging instruments	45.3	–	–	95 467	95 467
Total financial liabilities, of which in the statement of financial position:		11 171 731		10 138 567	
Non-current liabilities		8 832 163		5 025 832	
Debt		8 759 789		4 924 127	
Other financial liabilities		72 374		101 705	
Current liabilities		2 339 568		5 112 735	
Debt		219 740		3 214 520	
Liabilities to suppliers		829 729		790 706	
Capital commitments		1 033 804		766 843	
Other financial liabilities		256 295		340 666	

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 45.3 to these consolidated financial statements. Disclosures regarding the fair value hierarchy have also been presented in Note 45.3. Measurement of units in investment funds has been classified to Level 1 in the fair value hierarchy.

Financial instruments classified to other categories of financial instruments:

- As at 31 December 2016, fixed-rate financial instruments, which included loans obtained from the European Investment Bank 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 bonds issued in December 2016 with the par value of EUR 190 000 thousand, bearing fixed interest in the first financing period, did not differ considerably from the carrying amount as the issue date was close to the end of the reporting period.
- The fair value of other financial instruments (except shares classified as financial assets available for sale and excluded from the scope of IAS 39, as discussed below) as at 31 December 2016 and 31 December 2015 did not significantly differ from their values presented in the financial statements for the respective periods, for the following reasons:
 - the potential discounting effect relating to short-term instruments is not significant;
 - the instruments are related to arm's length transactions.

Consequently, the fair value of the instruments in question 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 – are measured using the equity method in line with the accounting policies adopted by the Group.

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

For the year ended 31 December 2016

	Assets/ liabilities at fair value through profit or loss, held for trading	Financial assets available for sale	Loans and receivables	Financial liabilities at amortized cost	Hedging instruments	Financial assets/ liabilities excluded from the scope of IAS 39	Total
Dividends and shares in profits	–	5 728	–	–	–	–	5 728
Interest income / (expense)	7 412	–	27 902	(177 949)	(80 658)	(957)	(224 250)
Currency translation differences	(2 088)	–	183	(28 356)	–	–	(30 261)
Impairment / revaluation	14 495	(203)	(603)	–	–	–	13 689
Commission relating to borrowings and debt securities	–	–	–	(18 767)	–	–	(18 767)
Gain/ (loss) on disposal of investments	–	2 114	(416)	–	–	–	1 698
Other	(43)	–	–	–	–	–	(43)
Net financial income (costs)	19 776	7 639	27 066	(225 072)	(80 658)	(957)	(252 206)
Revaluation	15 982	–	(22 943)	–	–	–	(6 961)
Gain/loss on exercised commodity derivative instruments	(34 365)	–	–	–	–	–	(34 365)
Net operating income/(costs)	(18 383)	–	(22 943)	–	–	–	(41 326)
Remeasurement	–	–	–	–	127 252	–	127 252
Other comprehensive income	–	–	–	–	127 252	–	127 252

For the year ended 31 December 2015 (restated data)

	Assets/ liabilities at fair value through profit or loss, held for trading	Financial assets available for sale	Loans and receivables	Financial liabilities at amortized cost	Hedging instruments	Financial assets/ liabilities excluded from the scope of IAS 39	Total
Dividends and shares in profits	–	4 684	–	–	–	–	4 684
Interest income / (expense)	15 651	–	44 734	(189 057)	(89 380)	(1 236)	(219 288)
Currency translation differences	1 887	–	(24)	(2 152)	–	813	524
Impairment / revaluation	2 148	189	(9 798)	–	–	–	(7 461)
Commission relating to borrowings and debt securities	–	–	–	(12 514)	–	–	(12 514)
Gain/ (loss) on disposal of investments	3	754	–	–	–	–	757
Other	(9 237)	–	–	–	–	–	(9 237)
Net financial income (costs)	10 452	5 627	34 912	(203 723)	(89 380)	(423)	(242 535)
Revaluation	267	–	(29 461)	–	–	–	(29 194)
Gain/loss on exercised commodity derivative instruments	762	–	–	–	–	–	762
Net operating income/(costs)	1 029	–	(29 461)	–	–	–	(28 432)
Remeasurement	–	–	–	–	85 932	–	85 932
Other comprehensive income	–	–	–	–	85 932	–	85 932

45.3. Derivative instruments

	As at 31 December 2016				As at 31 December 2015			
	Charged to profit or loss	Charged to other com- prehensive income	Total		Charged to profit or loss	Charged to other com- prehensive income	Total	
			Assets	Liabilities			Assets	Liabilities
CCIRS	–	–	–	–	(11 368)	–	3 055	(14 423)
IRS	23	36 618	36 641	–	(4 833)	(90 634)	–	(95 467)
Commodity forwards/futures	15 999	–	16 559	(560)	17	–	2 225	(2 208)
Currency forwards	3 217	–	3 217	–	393	–	404	(11)
Total derivative instruments, including:			56 417	(560)			5 684	(112 109)
Non-current			35 814	–			16	(15 156)
Current			20 603	(560)			5 668	(96 953)

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 31 December 2016		As at 31 December 2015	
	Level 1	Level 2	Level 1	Level 2
Assets				
Commodity-related derivatives	16 559	–	2 225	–
Derivate instruments – CCIRS	–	–	–	3 055
Derivative instruments – IRS	–	36 641	–	–
Derivative instruments – currency	–	3 217	–	404
Liabilities				
Commodity-related derivatives	560	–	2 208	–
Currency derivatives	–	–	–	11
Derivate instruments – CCIRS	–	–	–	14 423
Derivate instruments – IRS	–	–	–	95 467

Hedging derivative instruments (subject to hedge accounting) – IRS

Pursuant to a decision of the Financial Risk Management Committee of 30 January 2012, the Company hedged the interest rate risk arising from bonds issued under the Bond Issue Scheme (Tranche A and Tranche C), by entering into an interest rate swap (IRS) transaction for a term of 5 years. The aforementioned transaction was concluded due to fluctuations in the projected future cash flows from interest payments resulting from the issue of bonds in PLN with a floating interest rate based on WIBOR 6M. The Company hedged 80% of such cash flows. The Tranche A transaction was settled at maturity of the instrument, i.e. in December 2015. On 29 February 2016, the Company repurchased and redeemed a portion of Tranche C bonds with the par value of PLN 2 250 000 thousand, which had been hedged using IRS, and at the same time issued bonds with the same par value under an agreement entered into in November 2015, which has been discussed in more detail in Note 33.2 to these consolidated financial statements. In accordance with the dynamic interest rate risk hedging strategy adopted by the Company, whereby cash flows related to the exposure to the WIBOR 6M interest rate risk are the hedged instrument, the Company maintained the hedging relationship for the IRS transactions concluded in March 2012 with respect to the newly issued bonds. As the effectiveness of the hedge was considered high, the transactions were covered by hedge accounting. On 5 July

2016, a portion of the IRS transactions concluded in March 2012 was settled earlier. The amount paid by the Company on that basis was PLN 7 697 thousand. On 12 December 2016, the remaining portion of the IRS transactions concluded in March 2012 was settled at maturity.

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

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

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

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

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

46. Principles and objectives of financial risk management

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

Risk exposure	Risk management	Regulation
Credit risk		
The possibility to incur a loss due to counterparty default on contractual obligations. The credit exposure means the amount that may be lost if a counterparty defaults on its obligations within the agreed time limit (taking into account any security provided by the counterparty).	The credit risk is managed with a view to minimizing the probability of the counterparty default as well as the effect of the credit risk on the achievement of the objectives of the TAURON Group. The credit risk is managed by way of steering the credit risk exposure generated at the time of the entry into contracts by each TAURON Group company. The Group has a decentralized risk management system, but credit risk control, credit risk limits and reporting are managed centrally at the Company's level. The value of the credit risk which the TAURON Group is exposed to is monitored using the Value at Risk method. The Group manages the counterparty credit risk mainly through the application of the following mechanisms and techniques: • evaluation of counterparty's financial standing and assignment of credit limits; • the requirement to provide specific collateral, imposed on clients with a poor financial standing; • standardization of contractual clauses relating to the credit risk and of collateral; • ongoing monitoring of payments and an early collection system; • regular measurement of the credit risk arising from trading operations; • credit risk diversification through a reduction of a high credit exposure both to a single counterparty and a counterparty's related parties.	Credit risk management policy for the TAURON Group
Liquidity risk		
Possible loss or limitation of the ability to make payments on a day-to-day basis due to an inappropriate volume or structure of liquid assets as compared to current liabilities or an insufficient level of the actual net proceeds from operating activities.	The liquidity situation of the TAURON Group is monitored on an ongoing basis for any differences versus the plans, while availability of external sources of funding, whose value exceeds the expected demand in the short term substantially, mitigates the liquidity risk. The Liquidity management policy for the TAURON Group implemented by the Group lays down the principles applicable to determination of the liquidity position of each company and the TAURON Group as a whole, which enables it to secure funds that may be necessary for purposes of closing a liquidity gap if it is identified, both through the allocation of funds among the companies (cash pool mechanism) and through the use of external funding, including overdrafts.	Liquidity management policy for the TAURON Group
Market risk – interest rate and currency risks		
The possibility of an adverse effect on the Group's performance through fluctuations in the fair value of financial instruments or the related future cash flows, driven by changes in interest rates or foreign exchange rates.	The key objective of financial risk management is to minimize the sensitivity of the TAURON Group's cash flows to financial risks and to minimize finance costs as well as the costs of hedging with the use of derivative instruments. The policy adopted by the Group has also introduced hedge accounting principles, including a definition of the types of cash flow hedges and the accounting treatment of hedging instruments and hedged items in accordance with the International Financial Reporting Standards. In line with the policy, wherever possible and commercially viable, the TAURON Group uses derivative instruments in the case of which hedge accounting may be applied.	Specific risk management policy in the area of finance for the TAURON Group
Market risk – price risk		
The possibility of an adverse effect on the Group's performance through fluctuations in the fair value of financial instruments or the related future cash flows, driven by changes in market prices. At the end of the reporting period, the Group identifies the raw material and commodity price risk for its commodity derivative instruments as well as the price risk for its units in investment funds.	The policy has introduced an early warning system as well as a system of limits related to the exposure to risk in each commercial area. Value at Risk is the key operational measure of the market risk used by the TAURON Group. The Company concludes derivative contracts, with underlying instruments being commodities and raw materials. The Group's exposure to the price risk inherent in commodity derivative instruments is related to a risk of changes in the fair value of the said instruments, driven by fluctuations in the prices of the underlying raw materials/commodities. In most cases the Group hedges the risk by entering into offsetting transactions. This way the Group hedges the price risk related to commodity derivative instruments. The risk is limited to open long and short positions concerning a given commodity or raw material.	Commercial risk management policy for the TAURON Group

46.1. Credit risk

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

Classes of financial instruments	As at 31 December 2016	As at 31 December 2015
Receivables from clients	1 894 065	1 830 033
Cash and cash equivalents	384 881	364 912
Loans granted	256 117	223 911
Deposits	38 472	39 724
Other financial receivables	56 379	57 250

46.1.1. Credit risk related to receivables from buyers and other financial receivables

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

	As at 31 December 2016	As at 31 December 2015
Institutional clients	73.20%	75.39%
Individual clients	26.80%	24.61%
Total	100%	100%

No material concentration of credit risk related to the core activity occurs in the Group. Amounts due from PSE S.A. represent the key item of receivables, while the share in the balance of receivables from buyers and other financial receivables was 4.64% as at 31 December 2016 and 6.97% as at 31 December 2015.

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

The ageing analysis of and allowances/write-downs on receivables from buyers and other financial receivables have been presented below.

Allowances/write-downs on receivables from buyers and other financial receivables

	Year ended 31 December 2016	Year ended 31 December 2015
Allowance/write-down at the beginning of period	(280 898)	(282 848)
Recognised	(99 945)	(106 039)
Utilized	23 334	18 438
Reversed	94 988	89 435
Other movements	(119)	116
Allowance/write-down at the end of period	(262 640)	(280 898)
Value of item before allowance	2 213 084	2 168 181
Value of item net of allowance (carrying amount)	1 950 444	1 887 283

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

Ageing analysis of receivables from buyers and other financial receivables as at 31 December 2016

	Not past due	Past due					Total
		<30 days	30-90 days	90-180 days	180-360 days	>360 days	
Before allowance/write-down	1 716 782	169 842	45 281	20 079	26 184	234 916	2 213 084
Allowance/write-down	(5 715)	(12 265)	(3 697)	(6 357)	(23 112)	(211 494)	(262 640)
After allowance/write-down	1 711 067	157 577	41 584	13 722	3 072	23 422	1 950 444

Ageing analysis of receivables from buyers and other financial receivables as at 31 December 2015

	Not past due	Past due					Total
		<30 days	30–90 days	90–180 days	180–360 days	>360 days	
Before allowance/write-down	1 643 946	173 145	36 604	22 435	40 656	251 395	2 168 181
Allowance/write-down	(1 753)	(3 298)	(3 060)	(8 037)	(29 922)	(234 828)	(280 898)
After allowance/write-down	1 642 193	169 847	33 544	14 398	10 734	16 567	1 887 283

46.1.2. Credit risk related to cash and cash equivalents

The Group manages credit risk related to cash by diversifying banks where it deposits its cash surplus. All entities the Group concludes deposit transactions with operate in the financial sector. They include high-rating banks with sufficient equity and stable, strong market position.

As at 31 December 2016, the share of three banks where the Group's largest cash balances were deposited was 68%.

46.1.3. Credit risk related to loans granted

Loans granted to joint ventures have been recognized under loans granted by the Group. The loans in question had not been overdue as at the end of the reporting period or before. According to the Group, credit risk due to originated loans was insignificant as at the balance sheet date. The key item was a subordinated loan of PLN 213 381 thousand, secured with a blank promissory note and a promissory note agreement.

46.2. Liquidity risk

The Group maintains a balance between continuity and flexibility of funding through the use of a variety of funding sources, such as overdraft facilities, bank loans, other loans, bonds and finance leases. Such use of the funding sources enables liquidity risk management and effective mitigation of its possible negative effects.

In order to minimize the possibility of cash flow disruption and liquidity risk, the TAURON Group, as in previous years, used the cash pooling mechanism. Regardless of funds collected by its individual members, cash pooling is linked to a flexible credit facility in the form of an overdraft. Under the cash pool agreement, the Company may use external financing in the form of an overdraft of up to PLN 300 000 thousand and an intraday limit of up to PLN 500 000 thousand.

Apart from an overdraft made available under the cash pool agreement, the Group is entitled to use foreign currency overdrafts:

- up to USD 2 000 thousand, with the outstanding amount of USD 410 thousand as at the end of the reporting period;
- up to EUR 25 000 thousand, with the outstanding amount of EUR 3 032 thousand as at the end of the reporting period.

The following tables present the Group's financial liabilities based on non-discounted contractual payments by maturity as at 31 December 2016 and 31 December 2015.

Financial liabilities as at 31 December 2016

Classes of financial instruments	Carrying amount	Non-discounted contractual payments	of which non-discounted contractual payments maturing within (after the balance sheet date)					
			less than 3 months	3–12 months	1–2 years	2–3 years	3–5 years	more than 5 years
Financial liabilities other than derivative instruments:								
Interest-bearing loans and borrowings and issued bonds	8 944 681	(11 054 364)	(69 029)	(405 917)	(452 691)	(2 296 657)	(3 680 323)	(4 149 747)
Liabilities to suppliers	829 729	(829 729)	(829 693)	(36)	–	–	–	–
Capital commitments	1 034 103	(1 034 103)	(1 033 711)	(93)	(113)	(113)	(73)	–
Other financial liabilities	327 810	(327 810)	(245 697)	(10 038)	(14 069)	(4 567)	(40 789)	(12 650)
Obligations under finance leases	34 848	(35 772)	(5 313)	(6 713)	(23 718)	(2)	(4)	(22)
Derivative financial liabilities:								
Derivate instruments – commodity	560	(538)	–	(538)	–	–	–	–
Total	11 171 731	(13 282 316)	(2 183 443)	(423 335)	(490 591)	(2 301 339)	(3 721 189)	(4 162 419)

Financial liabilities as at 31 December 2015

Classes of financial instruments	Carrying amount	Non-discounted contractual payments*	of which non-discounted contractual payments maturing within (after the balance sheet date)					
			less than 3 months	3–12 months	1–2 years	2–3 years	3–5 years	more than 5 years
Financial liabilities other than derivative instruments:								
Interest-bearing loans and borrowings and issued bonds	8 092 209	(9 236 101)	(2 335 274)	(1 046 480)	(316 908)	(324 752)	(2 596 757)	(2 615 930)
Liabilities to suppliers	790 706	(790 706)	(790 655)	(29)	(22)	–	–	–
Capital commitments	767 759	(767 759)	(766 749)	(93)	(613)	(113)	(191)	–
Other financial liabilities	329 346	(329 346)	(231 380)	(12 332)	(9 184)	(40 662)	(35 647)	(141)
Obligations under finance leases	46 438	(48 625)	(4 799)	(9 110)	(10 958)	(23 730)	(4)	(24)
Derivative financial liabilities:								
Derivate instruments – IRS	95 467	(96 559)	–	(96 559)	–	–	–	–
Derivate instruments – CCIRS	14 423	(68 165)	–	2 749	2 662	988	(4 350)	(70 214)
Derivate instruments – commodity	2 208	(985)	–	(251)	(734)	–	–	–
Total	10 138 556	(11 338 246)	(4 128 857)	(1 162 105)	(335 757)	(388 269)	(2 636 949)	(2 686 309)

* Negative values indicate a cash outflow. Estimations of future payments to be made in selected periods may be positive for some derivatives, i.e. they may indicate a cash inflow, but the value resulting from measurement of such instruments during the entire term to maturity is negative (liability).

As at 31 December 2016, the Group had a contingent liability relating to guarantees issued by The Bank of Tokyo-Mitsubishi UFJ, Ltd. at the request of the Company, totaling PLN 314 486 thousand, where the institutions financing Elektrociepłownia Stalowa Wola S.A. are the beneficiaries. All these bank guarantees are valid from 30 October 2016 to 14 April 2017. The said guarantees constitute contingent liabilities and do not considerably affect the liquidity risk of the Group.

46.3. Market risk

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

- interest rate risk;
- currency risk;
- raw material and commodity price risk related to commodity derivative instruments and risk of price change related to units held.

46.3.1. Interest rate risk

The Group's interest rate risk results mainly from debt, concluded IRS contracts, cash deposits and loans granted to joint ventures.

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

In order to hedge interest rate risk related to floating-rate bonds issued, the Group entered into interest rate swap (IRS) contracts, which has been discussed in more detail in Note 45.3.

The carrying amounts of financial instruments of the Group exposed to the interest rate risk have been presented in the tables below. Except hybrid bonds issued in December 2016, bearing fixed interest rate in the first financing period, other bonds issued by the Parent bear floating interest. As the Company has adopted a dynamic financial risk management strategy where the hedged item is cash flows relating to the exposure to the floating WIBOR 6M interest rate, the interest rate risk for a portion of interest cash flows has been reduced by the hedging Interest Rate Swap transactions. Thus, a portion of the carrying amount of bonds with interest cash flow fluctuations hedged with interest rate swaps has been presented in the tables below together with valuation of these hedging instruments as fixed-rate items.

Financial instruments by interest rate type as at 31 December 2016

Financial instruments	Fixed interest rate	Floating interest rate	Total
Financial assets			
Deposits	–	38 472	38 472
Loans granted	–	256 117	256 117
Cash and cash equivalents	–	384 881	384 881
Derivative instruments (CCIRS)	36 641	–	36 641
Financial liabilities			
Bank overdrafts	–	15 156	15 156
Preferential loans	–	41 748	41 748
Arm's length loans	1 190 501	16 148	1 206 649
Bonds issued	3 677 088	4 004 040	7 681 128
Obligations under finance leases	141	34 707	34 848

Financial instruments by interest rate type as at 31 December 2015

Financial instruments	Fixed interest rate	Floating interest rate	Total
Financial assets			
Deposits	–	39 724	39 724
Loans granted	–	223 911	223 911
Cash and cash equivalents	–	364 912	364 912
Derivative instruments (CCIRS)	–	3 055	3 055
Financial liabilities			
Bank overdrafts	–	10 206	10 206
Preferential loans	–	47 999	47 999
Arm's length loans	1 324 191	29 380	1 353 571
Bonds issued	3 714 744	2 965 689	6 680 433
Derivative instruments (IRS)	95 467	–	95 467
Obligations under finance leases	–	46 438	46 438
Derivative instruments (CCIRS)	–	14 423	14 423

Interest rate of floating-rate financial instruments is updated on a regular basis, more frequently than once a year. Interest on fixed-rate financial instruments is fixed throughout the entire term of the contract until maturity or until a specified point in time where the interest rates are verified and may be changed – this applies to loans from the European Investment Bank as well as hybrid bonds, which bear fixed interest in the first period and floating interest in the second period, which has been discussed in more detail in Notes 33.1 and 33.2.

Sensitivity analysis

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

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

In the interest rate risk sensitivity analysis, the effect of changes in risk factors has been determined for interest income/expense related to financial instruments measured at amortized cost and for the fair value of floating-rate financial instruments measured at fair value as at the end of the reporting period.

The Group identifies its exposure to the risk of changes in WIBOR, EURIBOR and LIBOR USD interest rates. As at 31 December 2016 and 31 December 2015, its exposure to changes in EURIBOR and LIBOR USD rates was immaterial. Debt to be repaid in the euro, except an overdraft facility, bears fixed interest. The tables below present sensitivity of the gross profit/loss as well as other comprehensive income (gross) of the Group to reasonably possible changes in interest rates within a horizon until the date of the next financial statements, assuming that all other risk factors remain unchanged.

For the year ended 31 December 2016

Classes of financial instruments	31 December 2016		Sensitivity analysis for interest rate risk as at 31 December 2016	
	Carrying amount	Value at risk	WIBOR	
			WIBOR + 60 bp	WIBOR -60 bp
			Profit or loss / other comprehensive income	
Deposits	38 472	38 472	231	(231)
Loans granted	256 117	256 117	1 537	(1 537)
Cash and cash equivalents	384 881	384 881	1 995	(1 995)
Derivatives (assets)	56 417	36 641	40 992	(40 992)
Preferential loans	41 748	41 748	(250)	250
Arm's length loans	1 206 649	16 148	(97)	97
Issued bonds	7 681 128	6 101 108	(36 607)	36 607
Obligations under finance leases	34 848	34 707	(208)	208
Total			7 593	(7 593)

The exposure to risk as at 31 December 2016 is representative for the Group's exposure to risk during the annual period preceding the aforementioned date.

For the year ended 31 December 2015

Classes of financial instruments	31 December 2015		Sensitivity analysis for interest rate risk as at 31 December 2015	
	Carrying amount	Value at risk	WIBOR	
			WIBOR + 66 bp	WIBOR -66 bp
			Profit or loss / other comprehensive income	
Deposits	39 724	39 724	262	(262)
Loans granted	223 911	223 911	1 478	(1 478)
Cash and cash equivalents	364 912	364 912	2 152	(2 152)
Derivatives (assets)	5 684	3 055	(3 360)	3 360
Preferential loans	47 999	47 999	(317)	317
Arm's length loans	1 353 571	29 380	(194)	194
Issued bonds	6 680 433	5 969 017	(39 396)	39 396
Obligations under finance leases	46 438	46 438	(306)	306
Derivatives (liabilities)	112 109	109 890	(24 358)	24 358
Total			(64 039)	64 039

The exposure to risk as at 31 December 2015 is representative for the Group's exposure to risk during the annual period preceding the aforementioned date.

46.3.2. Currency risk

The TAURON Group companies are exposed to transaction and translation currency risk. The Group companies are exposed to the risk of EUR/PLN, CZK/PLN, USD/PLN and GBP/PLN exchange rate changes in relation to their operating and financing activities. The Group's exposure to currency risk by financial instrument class in 2016 and in 2015 has been presented below.

Currency position as at 31 December 2016

Classes of financial instruments	Total carrying amount in PLN	EUR		CZK		USD		GBP	
		in currency	in PLN	in currency	in PLN	in currency	in PLN	in currency	in PLN
Financial assets									
Receivables from clients and other financial receivables	1 950 444	1 279	5 658	63 250	10 354	–	–	–	–
Cash and cash equivalents	384 881	7 456	32 986	95 406	15 618	306	1 280	499	2 566
Derivatives (assets)	56 417	3 649	16 143	–	–	100	416	–	–
Total		12 384	54 787	158 656	25 972	406	1 696	499	2 566
Financial liabilities									
Bank overdrafts	15 156	3 032	13 415	–	–	410	1 716	–	–
Issued bonds	7 681 128	357 147	1 580 020	–	–	–	–	–	–
Liabilities to suppliers and other financial liabilities	988 112	4 800	21 234	10 073	1 649	106	444	2	10
Derivatives (liabilities)	560	122	538	–	–	5	22	–	–
Total		365 101	1 615 207	10 073	1 649	521	2 182	2	10
Net currency position		(352 717)	(1 560 420)	148 583	24 323	(115)	(486)	497	2 556

Currency position as at 31 December 2015

Classes of financial instruments	Total carrying amount in PLN	EUR		CZK		USD	
		in currency	in PLN	in currency	in PLN	in currency	in PLN
Financial assets							
Receivables from clients and other financial receivables	1 887 283	1 586	6 759	57 819	9 118	96	376
Cash and cash equivalents	364 912	8 184	34 876	16 988	2 679	338	1 317
Derivatives (assets)	5 684	334	1 425	–	–	205	800
Total		10 104	43 060	74 807	11 797	639	2 493
Financial liabilities							
Bank overdrafts	10 206	2 025	8 630	–	–	404	1 576
Issued bonds	6 680 433	166 941	711 417	–	–	–	–
Liabilities to suppliers and other financial liabilities	947 946	3 173	13 523	13 139	2 072	1	4
Derivatives (liabilities)	112 109	242	1 032	70	11	301	1 176
Total		172 381	734 602	13 209	2 083	706	2 756
Net currency position		(162 277)	(691 542)	61 598	9 714	(67)	(263)

In 2016 and in 2015, in line with its currency risk management strategy, the TAURON Group used forward contracts as hedges against currency risk related to its operations. The Group did not use hedge accounting to hedge currency risk. As at the end of the reporting period, the Group presented an asset from valuation of FX forward contracts in the amount of PLN 3 217 thousand.

Sensitivity analysis

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

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

The Group identifies its exposure to currency risk related to EUR/PLN, CZK/PLN, USD/PLN and GBP/PLN exchange rates. The tables below present sensitivity of the gross profit/loss as well as other comprehensive income (gross) of the Group to reasonably possible changes in foreign exchange rates within a horizon until the date of the next financial statements, assuming that all other risk factors remain unchanged.

For the year ended 31 December 2016

Classes of financial instruments	31 December 2016		Sensitivity analysis for currency risk as at 31 December 2016							
	Carrying amount	Value at risk	EUR/PLN		CZK/PLN		USD/PLN		GBP/PLN	
			exchange rate	exchange rate	exchange rate	exchange rate	exchange rate	exchange rate	exchange rate	exchange rate
			EUR/PLN +7.8%	EUR/PLN -7.8%	CZK/PLN +9.98%	CZK/PLN -9.98%	USD/PLN +13.8%	USD/PLN -13.8%	GBP/PLN +11.55%	GBP/PLN -11.55%
			Profit or loss / other comprehensive income		Profit or loss / other comprehensive income		Profit or loss / other comprehensive income		Profit or loss / other comprehensive income	
Receivables from clients and other financial receivables	1 950 444	16 012	441	(441)	1 034	(1 034)	–	–	–	–
Cash and cash equivalents	384 881	52 450	2 573	(2 573)	1 559	(1 559)	177	(177)	296	(296)
Derivatives (assets)	56 417	19 776	6 624	(6 624)	–	–	57	(57)	–	–
Overdrafts	15 156	15 131	(1 046)	1 046	–	–	(237)	237	–	–
Bonds issued	7 681 128	1 580 020	(123 242)	123 242	–	–	–	–	–	–
Liabilities to suppliers and other financial liabilities	988 112	23 337	(1 657)	1 657	(165)	165	(2)	2	(1)	1
Derivatives (liabilities)	560	560	(42)	42	–	–	(3)	3	–	–
Total			(116 349)	116 349	2 428	(2 428)	(8)	8	295	(295)

The exposure to risk as at 31 December 2016 is representative for the Group's exposure to risk during the annual period preceding the aforementioned date, except for a transaction made at the end of 2016. It concerned a class of hybrid bonds issued by the Company in December 2016 with the euro as the issue and repayment currency, which has been discussed in more detail in Note 33.2 to these consolidated financial statements.

For the year ended 31 December 2015

Classes of financial instruments	31 December 2015		Sensitivity analysis for currency risk as at 31 December 2015					
	Carrying amount	Value at risk	EUR/PLN		CZK/PLN		USD/PLN	
			exchange rate	exchange rate	exchange rate	exchange rate	exchange rate	exchange rate
			EUR/PLN +7.15%	EUR/PLN -7.15%	CZK/PLN +8.22%	CZK/PLN -8.22%	USD/PLN +11.43%	USD/PLN -11.43%
			Profit or loss / other comprehensive income		Profit or loss / other comprehensive income		Profit or loss / other comprehensive income	
Receivables from clients and other financial receivables	1 887 283	16 253	483	(483)	749	(749)	43	(43)
Cash and cash equivalents	364 912	38 872	2 494	(2 494)	220	(220)	151	(151)
Derivatives (assets)	5 684	5 684	3 078	(3 078)	–	–	91	(91)
Overdrafts	10 206	10 206	(617)	617	–	–	(180)	180
Bonds issued	6 680 433	711 417	(50 866)	50 866	–	–	–	–
Liabilities to suppliers and other financial liabilities	947 946	15 599	(966)	966	(170)	170	–	–
Derivatives (liabilities)	112 109	16 642	21 587	(21 587)	(1)	1	(135)	135
Total			(24 807)	24 807	798	(798)	(30)	30

The exposure to risk as at 31 December 2015 is representative for the Group's exposure to risk during the annual period preceding the aforementioned date.

46.3.3. Raw material and commodity price risk related to commodity derivative instruments held

As at 31 December 2016, open positions included forwards and futures for emission allowances and a futures contract for gas. As at 31 December 2016, the total carrying amount of all derivative instruments related to emission allowances was PLN 15 012 thousand (the asset item of PLN 15 550 thousand and the liability item of PLN 538 thousand) and of the derivative contract for gas: PLN 593 thousand (the asset item) and as at 31 December 2015, the total carrying amount of all derivative instruments related to emission allowances was PLN 433 thousand (the asset item of PLN 1 425 thousand and the liability item of PLN 992 thousand) and of the derivative contract for gas: PLN 40 thousand (the liability item).

Sensitivity analysis

The analysis of sensitivity to changes in emissions risk factors is conducted by the Group by means of a scenario analysis. The scenarios reflect the Group's assessment of individual risk factors in the future and are aimed to analyze the effect of changes in risks on the Group's financial performance.

For the year ended 31 December 2016

	Carrying amount as at 31 December 2016			Increase		Decrease	
	price (EUR)	Assets	Liabilities	price (EUR)	Impact on gross profit	price (EUR)	Impact on gross profit
Derivative instruments – commodity (emission allowances):							
EUA Dec17	6.57–6.58	5 410	319	10.18	(10 381)	4.14	6 988
EUA Jan 17	6.54	10 140	–	10.14	(21 421)	4.12	14 400
EUA Apr 17	6.55	–	219	10.15	(780)	4.13	524
EUA inventory – measurement to fair value	6.54	13 226	–	10.14	32 553	4.12	(21 883)
Total		28 776	538		(29)		29

For the year ended 31 December 2015

	Carrying amount as at 31 December 2015			Increase		Decrease	
	price (EUR)	Assets	Liabilities	price (EUR)	Impact on profit (loss)	price (EUR)	Impact on profit (loss)
Derivative instruments – commodity (emission allowances)	8.25–8.29	1 425	992	8.53–8.57	(122)	4.83–4.85	1 490

46.3.4. Unit price risk

As at 31 December 2016, the Group held units in investment funds with the carrying amount of PLN 25 316 thousand. As they are measured at fair value at the end of the reporting period, they are exposed to the price risk.

Sensitivity analysis

For purposes of the analysis of sensitivity to changes in the quoted prices of the units in investment funds held by the Group, the Group relies on a scenario analysis. The potential changes in the quoted prices are determined within a horizon until the date of the next financial statements and calculated by reference to the funds' monthly quoted prices within one year preceding the end of the reporting period.

For the year ended 31 December 2016

Investment fund units	31 December 2016		Sensitivity analysis for price risk as at 31 December 2016			
	Carrying amount	Value at risk	Price change		Price change	
			+1.0%	-1.0%	+0.7%	-0.7%
			Impact on gross profit			
UniKorona Pieniężny/UniFundusze FIO	2 519	2 519	25	(25)		
UniWIBID Plus/UniFundusze SFIO	22 797	22 797			160	(160)
Total	25 316	25 316	25	(25)	160	(160)

47. Operational risk

Commercial operational risk is managed at the level of the TAURON Group, which has been discussed in more detail in Section 3 of the Management Board's Report on the Activities of the TAURON Polska Energia S.A. Capital Group for the 2016 financial year. The Company manages its commercial risk following the Commercial risk management policy developed and adopted in the TAURON Group, which introduces an early warning system and a system of limiting risk exposure in each trade area.

The TAURON Polska Energia S.A. Group companies are exposed to adverse effects of risks related to changes in cash flows and financial performance in the domestic currency due to changes in prices of goods. The Group's exposure to the commodity price risk is reflected in the volume of purchases of the key raw materials and commodities, including hard coal, gas and energy. The volume and cost of purchases of the key raw materials from third-party suppliers have been presented in the table below.

Fuel type	Unit	2016		2015	
		Volume	Purchase cost	Volume	Purchase cost
Coal	tonne	3 522 216	608 619	4 821 241	947 360
Gas	MWh	2 928 639	241 432	1 235 889	122 189
Electricity	MWh	33 138 013	5 602 272	33 993 308	5 703 158
Heat energy	GJ	6 095 393	232 603	6 028 877	227 926
Total			6 684 926		7 000 633

OTHER INFORMATION

48. Contingent liabilities

Item	Description
Use of real estate without contract	Entities of the Group do not hold legal titles to all plots of land where distribution networks, heating installation and the related devices are located. 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 their detailed records do not exist. 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 92 143 thousand (Note 37).
Claims filed by Huta Łaziska S.A.	Following the Company's business combination with Górnosławski 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 Energy Regulatory Office (ERO). At present, the case is pending at District Court in Warsaw. Based on a decision of 12 October 2001, the President of the Energy Regulatory Office (ERO) ordered GZE to resume electricity supplies to Huta (suspended on 11 October 2001 since Huta had failed to pay 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 judgement of the Court of Appeals in Warsaw, which was dismissed by the judgement of the Supreme Court dated 10 May 2007. On 15 November 2001 (following the above decision issued by the President of ERO on 14 November 2001 and due to the growing indebtedness of Huta to GZE due to power supply) GZE again suspended power supply. Therefore, Huta has sued GZE for damages. Under a suit of 12 March 2007 against GZE and the State Treasury represented by the President of the Energy Regulatory Office Huta has 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 ERO dated 12 October 2001. 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 first hearing before the first instance court was held on 27 November 2012. In May 2015, a court expert prepared an opinion on correctness of settlements between the parties to the dispute. On 30 June 2015, TAURON Polska Energia S.A. lodged complaints against the opinion in question. Complaints against the opinion were also filed by Huta and the State Treasury. In its decision dated 16 September 2015 the court admitted an additional court expert's opinion concerning charges levelled by the parties as evidence. After the issue of the decision, the Company tried to change the proceeding concept adopted by the Court stating that taking evidence from a court expert opinion is unacceptable. Finally, the Court commissioned an additional opinion to be prepared by the court expert. On 5 September 2016, the additional opinion by the court expert was delivered to the Company. The Company filed charges against the said opinion on 12 and 19 September 2016. Charges were also brought by the State Treasury and Huta. The next hearing is to be held on 24 March 2017 in order to continue the questioning of the court expert with respect to the aforesaid opinions, which began during the hearing conducted on 21 December 2016. Based on a legal analysis of claims the Company believes that they are unjustified and the risk that they must be satisfied is remote. As a result, no provision has been recognized by the Company for any costs associated with those claims.
Amount	Claim regarding payment of damages of PLN 182 060 thousand.
Litigation related to termination of long-term contracts	On 18 March 2015 Polska Energia – Pierwsza Kompania Handlowa Sp. z o.o. in liquidation terminated long-term agreements regarding purchase of power and property rights from windfarms. Court proceedings were instigated against the Company to consider the termination notices invalid. In 2016 the claims against the company were changed through the incorporation of claims for damages related to termination of the agreements in the total amount of ca. PLN 40 074 thousand. 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 in terms of the termination notes being declared invalid and of securing both non-monetary claims and the claims for damages does not exceed 50%. Therefore, no provision for the related costs has been recognized.

Item	Description
Claim filed by ENEA S.A.	The claim filed by ENEA S.A. ("ENEA") to the District 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.). The dispute concerns the fact that pursuant to the Power Transmission Grid Traffic and Operation Instruction (IRiESP) binding all participants of the Balancing Market, settlements regarding trade balances for a given period may be adjusted within 2 months, 4 months and 15 months after the settlement period. According to IRiESP, after 15 months the settlements become final. ENEA Operator Sp. z o.o. informed TAURON Polska Energia S.A. about the necessity to adjust measurement data and the entire settlement after the permitted adjustment period. Therefore, settlements between PSE S.A. and ENEA S.A. and between PSE S.A. and the Company have not been adjusted. TAURON Polska Energia S.A. responded to the claim with a series of charges. The Court obliged ENEA to reply to the response, 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. The last hearing was conducted on 6 March 2017. During that hearing the Court following the motion filed by ENEA S.A. (expressed in its pleading of 8 December 2016) ruled to summon before the Court (in accordance with Article 194.1 of the Code of Civil Procedure) seven sellers for which TAURON Polska Energia S.A. acted as an entity in charge of trade balances in the distribution area of ENEA Operator Sp. z o.o. in 2012. The case is pending. The hearing was deferred with the deadline ex officio. No provision has been recognized as the Company believes that the risk of losing the case is below 50%.
Amount	The claim regards the payment of PLN 17 086 thousand.
Registered pledges and a financial pledge on shares of TAMEH HOLDING Sp. z o.o.	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, constituting ca. 50% of shares in the issued capital of the entity for the benefit of RAIFFEISEN BANK INTERNATIONAL AG. The Company established a first lien registered pledge 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. Moreover, the Company assigned the rights to dividend and other payments. Agreement on establishing 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. 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 a release by the pledgee, not later than on 31 December 2028. On 15 September 2016, Annex 1 was executed to the aforesaid agreement, whereby the maximum amount of the collateral was changed to PLN 1 370 000 thousand.
Amount	As at 31 December 2016 the carrying amount of investments in joint venture recognized using the equity method in the TAMEH HOLDING Sp. z o.o. capital group was PLN 442 869 thousand.
Bank guarantees issued at the request of TAURON Polska Energia S.A. to secure the payment of liabilities of a joint venture	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: – the European Investment Bank – in the amount of PLN 156 000 thousand; – the European Bank for Reconstruction and Development – in the amount of PLN 83 494 thousand; – Bank Polska Kasa Opieki S.A. – in the amount of PLN 74 992 thousand. All these bank guarantees are valid from 30 October 2016 to 14 April 2017. A notarized declaration of voluntary submission to enforcement is a security under the Agreement.
Amount	The total value of guarantees issued PLN 314 486 thousand.

Item	Description
	President of UOKiK instigated the following procedures against the Sales segment companies: – 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 committed to discontinue practices violating 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 requested the company to demonstrate whether the practices have been discontinued. The company responded to the request in February 2016 informing that the practices have been discontinued and motioned for a decision not to charge a fine. No such decision had been issued by the date of the financial statements. – Under a decision of 19 December 2014 anti-trust proceedings were instigated regarding the alleged abuse of the dominant position by TAURON Sprzedaż Sp. z o.o. and TAURON Sprzedaż GZE Sp. z o.o. on the reserve electricity distribution market. In 2015 the companies applied for a decision requesting the entities to discontinue activities violating the Act on competition and consumer protection and to take steps preventing the alleged violations. In July 2015 the President of the Office for Competition and Consumer Protection, issued a decision requesting the entities to take appropriate steps to prevent the alleged infringements within four months from the date when the decision becomes final and binding. The entities were obliged to report on fulfilling the obligations within 6 months from the date the decision becomes final and binding. On 22 February 2016 the companies informed the office that the obligation had been fulfilled and filed the required reports. – 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. By a decision of 15 October 2015 the President of UOKiK instigated anti-trust proceedings. On 1 February 2016 UOKiK accepted the company's decision regarding presentation of a specific commitment. On 24 August 2016, the President of UOKiK issued a decision obliging the company to fulfil the obligation to take steps to prevent the alleged violations through the employment of specific measures within two months of the said decision becoming final. On 29 September 2016, the company filed an appeal against the decision with the Court of Competition and Consumer Protection. On 2 December 2016, the President of the Office of Competition and Consumer Protection issued a decision amending the statement of reasons supporting the previous decision. The companies do not recognize provisions for fines related to the above proceedings, since their management boards believe the risk of losing the cases and paying the fines is low.
Administrative proceedings instigated by the President of the Office for Competition and Consumer Protection (UOKiK)	
Explanatory proceedings instigated by the President of UOKiK	Explanatory proceedings have been instigated against companies from the Sales segment to preliminarily determine whether their actions have been in breach of the Act on competition and consumer protection. The companies provided requested documents and explanations and responded to statements included in the letters of UOKiK. The companies' Management believe that, considering the explanatory nature of the proceedings instigated, the probability of an unfavorable outcome of the above-mentioned cases is low; hence no provision has been recognized for these events.
Administrative proceedings instigated by the President of the Energy Regulatory Office (ERO)	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 license. The company does not recognize a provision for potential fines related to the aforesaid proceedings, as the Management Board is of the opinion that the risk of an unfavorable ruling and imposition of a fine is low.

49. Contingent assets and liabilities related to tax returns

Tax returns may be inspected within five years, starting from the end of the year when the tax was paid. As a result of such inspections the Group's tax settlements may be increased by additional tax liabilities. According to the Group, as at 31 December 2016 appropriate provisions had been recognized for identified and measurable tax risk.

As at the date of the consolidated financial statements, the following proceedings regarding settlements under public law were pending in the Capital Group companies:

Item	Description
Excise duty	In view of the differences between the Polish and EU regulations concerning excise duty on electricity, following the judgment of the European Court of Justice ("ECJ") in Luksemburg of 12 February 2009 power and heat and power plants from the TAURON Capital Group filed tax return correction and applications to acknowledge excise tax excess payment for the years 2006–2008 and for January and February 2009. In the judgment in question ECJ conceded that Polish regulations determining the timing of recognition for excise tax purposes were not adjusted to the requirements of the Energy Directive neither before nor after the transition period. Proceedings concerning individual companies from the TAURON Capital Group (TAURON Wytwarzanie S.A. and TAURON Ciepło Sp. z o.o.) have been carried out before competent tax authorities and Administrative Courts. As the final outcome of this dispute is highly unpredictable, the Group has not recognized any effects of possible reimbursement of excise duty overpayment or claims and possible claims of electricity buyers in these consolidated financial statements. On 5 January 2017 and 23 January 2017 unfavorable decisions were issued by the Regional Administrative Court in Gliwice with respect to another application for ascertainment of overpayment for the period from July to December 2007. The Company will decide on the further course of the proceedings.
Amount	The overpaid amounts claimed by the Group approximate PLN 908 500 thousand.
Income tax – an increase in tax-deductible costs by the amount of component repair cost	In accordance with the tax ruling, companies in the Tax Capital Group ("TCG") (TAURON Wytwarzanie S.A. and TAURON Ekoenergia Sp. z o.o.) expensed costs incurred on component repairs over time. At the same time the Company, representing the TCG, appealed against the tax ruling, as in its opinion the repairs in question should be expensed when incurred, on one-off basis, irrespective of the way they are accounted for in the accounting records. Such position was confirmed by the Regional Administrative Court in Gliwice in its decision dated 18 September 2014. On 30 December 2014 the Company filed an application to acknowledge tax excess payment and a tax return correction for 2013, where the component repairs were recognized in tax-deductible expense on one-off basis. At the same time, an impairment loss for income tax receivable has been recognized with relation to the excess payment. In 2015, TCG received an overpayment refund of PLN 22 250 thousand. The impairment loss has been reversed, thus reducing the tax expense for 2015. Following a cassation appeal filed by the Minister of Finance the case was dismissed by the Supreme Administrative Court on 24 January 2017, which supported the position taken by the Company.
Amount	The refunded overpayment of PLN 22 250 thousand.
Real estate tax	There are different interpretations regarding the approach to real estate tax on electricity generation and transmission facilities and on equipment used in underground excavations. Since the tax is imposed on the local self-government level, there is no unified approach and in several cases, the tax base calculation has been questioned. Depending on court decisions and possible amendments to relevant regulations, the status of real estate tax on electricity generation and transmission facilities, as well as on underground excavations, may change in future.
Amount	As at the end of the reporting period, provisions were recognized for costs of disputes regarding real estate tax and for the related business risk (totaling PLN 35 008 thousand).

50. Collateral against liabilities

The Group uses various forms of collateral against 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 31 December 2016	As at 31 December 2015
Real estate	81 363	82 250
Plant and machinery	14 059	614
Cash	13 740	22 067
Total	109 162	104 931

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 31 December 2016 concerned the following contracts concluded by the Parent:

The TAURON Polska Energia S.A. Capital Group

*Consolidated financial statements for the year ended 31 December 2016 prepared in accordance with IFRS, as endorsed by the EU
(in PLN '000)*

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 – as regards Tranche C (repaid), Tranche D and Tranche E (not disbursed)
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 with PKO Bank Polski S.A. The bank guarantee limit securing transactions may be used by the Company and the TAURON Group companies (limit amounted to PLN 100 000 thousand).	authorization to debit the bank account maintained by PKO Bank Polski S.A.	up to PLN 125 000 thousand
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 25 000 thousand)	authorization to debit the bank account maintained by Bank Gospodarstwa Krajowego	up to PLN 110 600 thousand (EUR 25 000 thousand)
	declaration of submission to enforcement	up to PLN 221 200 thousand (EUR 50 000 thousand) valid until 31 December 2019
overdraft agreement with mBank (in USD, up to USD 2 000 thousand)	declaration of submission to enforcement	up to PLN 12 538 thousand (USD 3 000 thousand) valid until 31 March 2019

Other forms of collateral against liabilities of the Group

As at 31 December 2016, other significant collateral for the liabilities of the TAURON Group included:

- Blank promissory notes

Agreement/transaction secured by blank promissory notes	Capital Group company that has issued a blank promissory note	As at 31 December 2016
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.	170 888
Performance bonds related to co-funding agreements concluded with the National Fund for Environmental Protection and Water Management	TAURON Ciepło Sp. z o.o.	87 251
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 31 December 2016	Collateral
Leaseback agreement concerning real estate, plant and machinery	TAURON Ciepło Sp. z o.o.	22 857	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.
Finance lease agreement concerning real estate in Katowice	TAURON Polska Energia S.A.	25 318	The agreement is collateralized by two blank promissory notes, assignment of receivables and authorization to debit a bank account.

- The Company granted a corporate guarantee to TAURON Sweden Energy AB (publ), a subsidiary, to secure bonds issued by the entity in December 2014. The guarantee is valid in the entire bond period, i.e. until 3 December 2029, and amounts to EUR 168 000 thousand.
- 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 31 December 2016, the guarantees issued by the bank totaled PLN 100 000 thousand and were valid until January 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 263 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.
- Under the framework agreement for bank guarantees entered into with PKO Bank Polski S.A., at the request of the Company the bank issued bank guarantees securing liabilities of TAURON Polska Energia S.A. subsidiaries totaling PLN 1 691 thousand.
- Collateral for transactions on the Polish Power Exchange.

In the year ended 31 December 2016, emission allowances held by the Group were frozen in the National Registry of Allowances in order to collateralize transactions concluded at Polish Power Exchange. The alienation agreements expired during 2016.

Mining companies from the Capital Group have established a Mine Decommissioning Fund to ensure funds for covering future decommissioning costs. Detailed information is provided in Note 35.1.

51. Related-party disclosures

51.1. Transactions with joint ventures

The Group has the following joint ventures: Elektrociepłownia Stalowa Wola S.A., Elektrownia Blachownia Nowa Sp. z o.o. in liquidation and TAMEH HOLDING Sp. z o.o. with subsidiaries, which have been discussed in more detail in Note 22 to these consolidated financial statements.

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

	Year ended 31 December 2016	Year ended 31 December 2015
Revenue	117 451	58 013
Costs	(46 321)	(36 002)

The key income item arises from transactions with the TAMEH HOLDING Sp. z o.o. Capital Group, a joint venture. In the year ended 31 December 2016 and 31 December 2015, transactions with the joint venture amounted to PLN 106 703 thousand and PLN 48 483 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 23 to these 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 48 to these consolidated financial statements.

In relation to agreements entered into with a joint venture, Elektrociepłownia Stalowa Wola S.A., in the year ended 31 December 2015, the Company recognized provisions for onerous contracts totaling PLN 182 877 thousand. In the year ended 31 December 2016, the Company remeasured the provisions due to the unwinding of discount as at the end of the reporting period by the total amount of PLN 11 502 thousand and recognized additional provisions of PLN 4 465 thousand net, which has been discussed in more detail in Note 35 to these consolidated financial statements.

51.2. Transactions with State Treasury companies

The State Treasury of the Republic of Poland is the Group's major shareholder; therefore State Treasury companies are treated as related parties.

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

Revenue and expenses

	Year ended 31 December 2016	Year ended 31 December 2015
Revenue	2 293 142	2 558 894
Costs	(2 527 466)	(3 018 993)

Receivables and liabilities

	As at 31 December 2016	As at 31 December 2015
Receivables	356 595	367 207
Payables	298 786	270 429

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. As at 31 December 2015, receivables comprised advance payments totaling PLN 128 650 thousand, including advance payments for deliveries of coal of PLN 124 996 thousand and advance payments for purchases of fixed assets of PLN 3 649 thousand.

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 and other operating expenses of PLN 32 500 thousand.

In the year ended 31 December 2016, KGHM Polska Miedź S.A., PSE S.A., Jastrzębska Spółka 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 83% 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 contracting parties accounted for 87% of the value of purchases from State Treasury companies during the year ended 31 December 2016.

In the year ended 31 December 2015, KGHM Polska Miedź S.A., PSE S.A., PKP Energetyka S.A., Jastrzębska Spółka Węglowa S.A. and Kompania Węglowa S.A. 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 79% of revenue from transactions with State Treasury companies. The largest purchase transactions were concluded by the Group with PSE S.A. and Kompania Węglowa S.A. Purchases from these contracting parties accounted for 80% of the value of purchases from State Treasury companies during the year ended 31 December 2015.

The Capital Group enters into material transactions in the energy market through Izba Rozliczeniowa Giełd Towarowych S.A. As such entities are 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.

51.3. Executive compensation

The amount of compensation and other benefits paid and/or due to the Management Board, Supervisory Boards and other key executives of the Parent and the subsidiaries in the year ended 31 December 2016 and in the comparative period has been presented in the table below.

	Year ended 31 December 2016		Year ended 31 December 2015	
	Parent	Subsidiaries	Parent	Subsidiaries
Board of Directors	12 858	24 604	11 225	22 152
Short-term employee benefits (salaries and surcharges)	6 367	19 051	7 333	19 640
Post-employment benefits	–	–	–	599
Employment termination benefits	5 806	4 990	2 820	1 544
Other	685	563	1 072	369
Supervisory Board	1 159	641	1 118	990
Short-term employee benefits (salaries and surcharges)	1 159	612	1 118	927
Other	–	29	–	63
Other key management personnel	13 284	39 375	14 588	40 541
Short-term employee benefits (salaries and surcharges)	10 554	38 242	12 392	38 580
Jubilee bonuses	–	391	–	1 001
Post-employment benefits	–	16	507	607
Employment termination benefits	1 911	511	627	125
Other	819	215	1 062	228
Total	27 301	64 620	26 931	63 683

As regards termination benefits paid to members of the Management Board, as presented in the table above, the amount of PLN 4 585 thousand was accounted for as the use of a provision recognized as at 31 December 2015 by the Parent and the amount of PLN 1 435 thousand as the use of provisions recognized as at 31 December 2015 by the subsidiaries.

Additionally, in the year ended 31 December 2016, the Group companies recognized provisions for termination benefits payable to members of the Management Board, in the amount of PLN 2 592 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.

52. Operating leases

Under lease agreements, the Parent uses a real property located in Katowice at ul. ks. Piotra Ściegiennego 3, where its registered office is located. The usable area is 9 588.83 square meters and in 2016, the average monthly rental fee with the service charges was PLN 510 thousand.

Moreover, TAURON Wydobycie S.A. uses mining machines and equipment based on lease agreements. The annual cost of lease in the years 2016 and 2015 reached PLN 34 027 thousand and PLN 28 987 thousand, respectively.

53. Finance and capital management

The key tools enabling effective management of financial resources include the central financing model and the TAURON Group's liquidity management policy along with a cash pooling arrangement made by the Group. Additionally, the finance management system is supported by the Group's central specific risk management policy and central insurance policy with the Company acting as a manager directing activities, thus allowing relevant risk exposure limits to be established.

Detailed information regarding finance management has been provided in Section 4.10 of the Management Board's report on the activities of the TAURON Polska Energia S.A Capital Group.

In 2016, the TAURON Group was fully able to pay its liabilities at maturity.

The key objective of the capital management policy developed by the Group is maintaining a good credit rating and safe capital ratios supporting its operations and increasing its shareholder value. The Group manages its capital structure and modifies it in accordance with changes in economic conditions. In order to maintain or adjust the capital structure, the Group may establish a dividend policy for its shareholders, return equity to them, issue new shares or influence external debt level accordingly.

The Group focuses primarily on monitoring the debt ratio, which is defined as net financial debt relative to EBITDA.

Net financial debt is the financial debt of the TAURON Group arising from loans, borrowings and debt securities as well as finance leases, except the liability arising from the issue of subordinated bonds in December 2016 with the par value of EUR 190 000 thousand, less cash and short-term investments maturing within one year. EBITDA is the operating profit or loss of the TAURON Group increased by amortization/depreciation and impairment of non-financial assets. Financial debt means the obligation to pay or refund money (both principal and interest). The value of the ratio is also monitored by the institutions providing financing to the Company and rating agencies and has a measurable impact on the Company's ability to obtain funding and its cost, as well as on evaluation of its credit standing.

As at the end of the reporting period, the debt ratio was 2.3, which is regarded as safe according to the market standards and enables the entity to take on further financial liabilities.

	Year ended 31 December 2016	Year ended 31 December 2015 (restated figures)
Loans and borrowings	1 070 162	1 223 814
Bonds*	6 826 751	3 666 590
Finance lease	23 546	33 723
Non-current debt liabilities	7 920 459	4 924 127
Loans and borrowings	193 391	187 962
Bonds*	13 354	3 013 843
Finance lease	11 302	12 715
Short-term debt liabilities	218 047	3 214 520
Total debt	8 138 506	8 138 647
Cash and cash equivalents	384 881	364 912
Short-term investments maturing within one year	50 023	9 772
Net debt	7 703 602	7 763 963
EBITDA	3 336 814	3 523 228
Operating profit (loss)	801 522	(1 901 216)
Depreciation/amortization	(1 668 726)	(1 832 690)
Impairment	(866 566)	(3 591 754)
Net debt / EBITDA	2.3	2.2

* Debt does not include liabilities arising from subordinated bonds.

Change in the balance of debt has been presented below.

	Debt liabilities
As at 1 January 2015	8 113 766
Proceeds arising from debt taken out	604 494
financing received	605 000
transaction costs	(506)
Interest accrued	344 378
charged to profit or loss	275 218
capitalized to property, plant and equipment and intangible assets	69 160
Debt related payments	(950 476)
principal repaid	(605 011)
interest paid	(276 305)
interest paid, capitalized to investment projects	(69 160)
Change in the balance of overdraft facility and cash pooling	23 184
Change in debt measurement	3 143
Other non-monetary changes	158
As at 31 December 2015	8 138 647
Proceeds arising from debt taken out	4 274 293
financing received	4 285 521
transaction costs	(11 228)
Interest accrued	350 399
charged to profit or loss	254 428
capitalized to property, plant and equipment and intangible assets	95 971
Debt related payments	(3 806 689)
principal repaid	(3 455 602)
interest paid	(255 116)
interest paid, capitalized to investment projects	(95 971)
Change in the balance of overdraft facility and cash pooling	(8 332)
Change in debt measurement	27 772
Other non-monetary changes	3 439
As at 31 December 2016	8 979 529
subordinated bonds	(841 023)
As at 31 December 2016 – debt in the calculation of debt ratio	8 138 506

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

Information concerning the fee of the certified auditor has been presented in the Management Board's Report on the Activities of the TAURON Polska Energia S.A. Capital Group for the 2016 financial year (Section 4.12).

55. Events after the end of the reporting period

Termination of agreements by TAURON Sprzedaż Sp. z o.o., a subsidiary

On 28 February 2017, TAURON Sprzedaż Sp. z o.o., a subsidiary, submitted termination notices regarding long-term agreements for purchase of property rights resulting from green certificates. The agreements have been terminated with immediate effect, since the parties thereto failed to reach an agreement under contract renegotiation procedures provided for therein. The financial effect of the termination for TAURON Sprzedaż Sp. z o.o. is avoiding the loss calculated as a difference between contractual and market prices of green certificates. The estimated amount of the net contractual loss on the performance of these agreements until the end of their assumed term (i.e. by 2023) approximated PLN 343 million, including current market prices of green certificates. The total value of contractual liabilities of the company estimated for the years 2017–2023 approximates PLN 417 million. The call to renegotiate the agreements resulted from amendments to the law, which could not have been predicted by the company despite taking due care, and which affected the supply of green certificates and resulted in a significant and long-lasting decrease in their prices, at the same time dramatically changing the system of subsidies to power generation from renewable sources. The system had been the key reason underlying the conclusion of these agreements. Its modification constitutes a substantial change in legal environment and exerts a direct and decisive impact on their profitability.

Annulment of the liquidation of the company Polska Energia Pierwsza Kompania Handlowa Sp. z o.o.

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 annulment of the liquidation of the company.

These consolidated financial statements of the TAURON Polska Energia S.A. Capital Group, prepared for the year ended 31 December 2016 in accordance with the International Financial Reporting Standards, as endorsed by the European Union, have been presented on 100 consecutive pages.

Management Board of the Company

Katowice, 13 March 2017

Filip Grzegorzczuk – President of the Management Board

Jarosław Broda – Vice-President of the Management Board

Kamil Kamiński – Vice-President of the Management Board

Marek Wadowski – Vice-President of the Management Board

Piotr Zawistowski – Vice-President of the Management Board

Oliwia Tokarczyk – Executive Director for Taxes and Accounting

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 3-month period ended 31 March 2017

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CONDENSED INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	3-month period ended 31 March 2017 (unaudited)	3-month period ended 31 March 2016 (unaudited restated figures)
Sales revenue	11	4 589 537	4 564 505
Cost of sales	12	(3 554 543)	(3 842 319)
Profit on sale		1 034 994	722 186
Selling and distribution expenses	12	(110 209)	(107 069)
Administrative expenses	12	(153 492)	(167 643)
Other operating income and expenses		2 260	9 706
Operating profit		773 553	457 180
Share in profit/(loss) of joint ventures	20	37 241	23 035
Interest expense on debt	13	(50 073)	(72 739)
Other finance income and costs	13	58 386	4 119
Profit before tax		819 107	411 595
Income tax expense	14.1	(178 572)	(87 789)
Net profit		640 535	323 806
Measurement of hedging instruments	28.2	(4 217)	25 149
Foreign exchange differences from translation of foreign entities		(13 865)	(4)
Income tax	14.1	801	(4 778)
Other comprehensive income subject to reclassification to profit or loss		(17 281)	20 367
Actuarial gains/(losses)	30.1	2 130	(2 512)
Income tax	14.1	(404)	478
Share in other comprehensive income of joint ventures	20	(10)	28
Other comprehensive income not subject to reclassification to profit or loss		1 716	(2 006)
Other comprehensive income, net of tax		(15 565)	18 361
Total comprehensive income		624 970	342 167
Net profit:			
Attributable to equity holders of the Parent		639 830	323 245
Attributable to non-controlling interests		705	561
Total comprehensive income:			
Attributable to equity holders of the Parent		624 261	341 606
Attributable to non-controlling interests		709	561
Basic and diluted earnings per share (in PLN):		0.37	0.18

CONDENSED INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	As at 31 March 2017 (unaudited)	As at 31 December 2016
ASSETS			
Non-current assets			
Property, plant and equipment	16	26 577 498	26 355 189
Goodwill	17	40 156	40 156
Energy certificates and emission allowances for surrender	18.1	12 342	126 260
Other intangible assets	19	1 224 507	1 224 427
Investments in joint ventures	20	487 146	461 348
Loans granted to joint ventures	21	243 079	240 951
Other financial assets	22	227 583	227 140
Other non-financial assets	23.1	395 180	422 400
Deferred tax assets	14.2	43 537	50 382
		29 251 028	29 148 253
Current assets			
Energy certificates and emission allowances for surrender	18.2	593 390	980 348
Inventories	24	346 459	486 120
Receivables from clients	25	1 891 656	1 894 065
Receivables arising from taxes and charges	26	257 866	263 854
Loans granted to joint ventures	21	308 049	15 116
Other financial assets	22	119 984	79 637
Other non-financial assets	23.2	202 761	185 008
Cash and cash equivalents	27	229 386	384 881
Non-current assets classified as held for sale		15 552	19 612
		3 965 103	4 308 641
TOTAL ASSETS		33 216 131	33 456 894

CONDENSED INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION – continued

	Note	As at 31 March 2017 (unaudited)	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		7 823 339	7 823 339
Revaluation reserve from valuation of hedging instruments	28.2	26 244	29 660
Foreign exchange differences from translation of foreign entities		(4 665)	9 200
Retained earnings/(Accumulated losses)	28.3	665 862	24 320
		17 273 527	16 649 266
Non-controlling interests		30 761	30 052
Total equity		17 304 288	16 679 318
Non-current liabilities			
Debt	29	8 850 672	8 759 789
Provisions for employee benefits	30	1 377 726	1 373 385
Provisions for disassembly of fixed assets, land restoration and other provisions	31	303 029	449 310
Accruals, deferred income and government grants	34	544 219	554 293
Deferred tax liabilities	14.2	893 738	759 568
Other financial liabilities	38	68 476	72 374
		12 037 860	11 968 719
Current liabilities			
Debt	29	648 162	219 740
Liabilities to suppliers	35	775 241	829 729
Capital commitments	36	214 358	1 033 804
Provisions for employee benefits	30	154 944	158 228
Provisions for liabilities due to energy certificates and greenhouse gas emission allowances	32	488 519	964 821
Other provisions	33	329 562	366 456
Accruals, deferred income and government grants	34	229 974	267 662
Liabilities arising from taxes and charges	37	463 197	410 943
Other financial liabilities	38	190 654	256 295
Other non-financial liabilities	39	379 372	301 179
		3 873 983	4 808 857
Total liabilities		15 911 843	16 777 576
TOTAL EQUITY AND LIABILITIES		33 216 131	33 456 894

CONDENSED INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

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

	Equity attributable to the equity holders of the Parent						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)	Total		
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
Net profit	-	-	-	-	639 830	639 830	705	640 535
Other comprehensive income	-	-	(3 416)	(13 865)	1 712	(15 569)	4	(15 565)
Total comprehensive income	-	-	(3 416)	(13 865)	641 542	624 261	709	624 970
As at 31 March 2017 (unaudited)	8 762 747	7 823 339	26 244	(4 665)	665 862	17 273 527	30 761	17 304 288

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

	Equity attributable to the equity holders of the Parent						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)	Total		
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
Accounting for acquisition of ZCP Brzeszcze	-	-	-	-	(10 196)	(10 196)	-	(10 196)
Other transactions with non-controlling shareholders	-	-	-	-	-	-	(46)	(46)
Transactions with shareholders	-	-	-	-	(10 196)	(10 196)	(46)	(10 242)
Net profit	-	-	-	-	323 245	323 245	561	323 806
Other comprehensive income	-	-	20 371	(4)	(2 006)	18 361	-	18 361
Total comprehensive income	-	-	20 371	(4)	321 239	341 606	561	342 167
As at 31 March 2016 (unaudited)	8 762 747	11 277 247	(53 043)	(795)	(3 636 418)	16 349 738	30 344	16 380 082

CONDENSED INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	3-month period ended 31 March 2017 (unaudited)	3-month period ended 31 March 2016 (unaudited)
Cash flows from operating activities			
Profit (loss) before taxation		819 107	411 595
Share in (profit)/loss of joint ventures		(37 241)	(23 035)
Depreciation and amortization		410 270	413 618
Exchange differences		(75 630)	(1 666)
Interest and commissions		48 142	64 254
Other adjustments of profit before tax		12 553	(15 716)
Change in working capital	40.1	(260 214)	(164 810)
Income tax paid	40.1	(41 284)	(218 706)
Net cash from operating activities		875 703	465 534
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets	40.2	(1 251 411)	(993 936)
Public aid refund		-	(131 077)
Purchase of financial assets		(4 703)	(1 690)
Loans granted	40.2	(292 742)	(6 000)
Total payments		(1 548 856)	(1 132 703)
Proceeds from sale of property, plant and equipment and intangible assets		10 092	5 442
Other proceeds		1 749	661
Total proceeds		11 841	6 103
Net cash used in investing activities		(1 537 015)	(1 126 600)
Cash flows from financing activities			
Redemption of debt securities		-	(2 250 000)
Repayment of loans and borrowings	40.3	(22 462)	(22 323)
Interest paid	40.3	(12 677)	(25 165)
Other payments		(12 838)	(10 779)
Total payments		(47 977)	(2 308 267)
Issue of debt securities	40.3	500 000	2 860 000
Subsidies received		218	4 133
Total proceeds		500 218	2 864 133
Net cash from financing activities		452 241	555 866
Net increase / (decrease) in cash and cash equivalents		(209 071)	(105 200)
Net foreign exchange difference		(7)	2 680
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	145 662	222 515
restricted cash	27	141 511	177 743

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

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

2. Composition of the TAURON Capital Group and joint ventures

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

Item	Company name	Registered office	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.	Jaworzno	Generation	100.00%
3	TAURON Ekoenergia Sp. z o.o.	Jelenia Góra	Generation	100.00%
4	Marselwind Sp. z o.o.	Katowice	Generation	100.00%
5	TAURON Ciepło Sp. z o.o.	Katowice	Generation	100.00%
6	TAURON Serwis Sp. z o.o.	Katowice	Generation	95.61%
7	TAURON Dystrybucja S.A.	Kraków	Distribution	99.72%
8	TAURON Dystrybucja Serwis S.A. ¹	Wrocław	Distribution	99.72%
9	TAURON Dystrybucja Pomiary Sp. z o.o. ¹	Tarnów	Distribution	99.72%
10	TAURON Sprzedaż Sp. z o.o.	Kraków	Sales	100.00%
11	TAURON Sprzedaż GZE Sp. z o.o.	Gliwice	Sales	100.00%
12	TAURON Czech Energy s.r.o.	Ostrawa, Czech Republic	Sales	100.00%
13	TAURON Obsługa Klienta Sp. z o.o.	Wrocław	Other	100.00%
14	Kopalnia Wapienia Czatkowice Sp. z o.o.	Krzeszowice	Other	100.00%
15	Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. ²	Warszawa	Other	100.00%
16	TAURON Sweden Energy AB (publ)	Sztokholm, Sweden	Other	100.00%
17	Biomasa Grupa TAURON Sp. z o.o.	Stalowa Wola	Other	100.00%
18	KOMFORT - ZET Sp. z o.o. ¹	Tarnów	Other	99.72%

¹ TAURON Polska Energia S.A. holds indirect interest in TAURON Dystrybucja Serwis S.A., TAURON Dystrybucja Pomiary Sp. z o.o. and KOMFORT - ZET Sp. z o.o. through a subsidiary, TAURON Dystrybucja S.A. TAURON Polska Energia S.A. uses the shares of TAURON Dystrybucja Serwis S.A. and TAURON Dystrybucja Pomiary Sp. z o.o.

² On 8 March 2017, the Extraordinary General Shareholders' Meeting of Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. in liquidation adopted a resolution to revoke the liquidation of the company.

As at 31 March 2017, TAURON Polska Energia S.A. held direct and indirect interest in the following 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	Elektrownia Blachownia Nowa Sp. z o.o. in liquidation ¹	Kędzierzyn Koźle	Generation	50.00%
3	TAMEH HOLDING Sp. z o.o. ²	Dąbrowa Górnicza	Generation	50.00%
4	TAMEH POLSKA Sp. z o.o. ²	Dąbrowa Górnicza	Generation	50.00%
5	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. and Elektrownia Blachownia Nowa Sp. z o.o. in liquidation through a subsidiary, TAURON Wytwarzanie S.A.

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

3. Statement of compliance

These condensed interim 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.

Item	Value of item to which the estimate figure applies		Details regarding assumptions made and calculation of significant estimates
	As at 31 March 2017 (unaudited)	As at 31 December 2016	
Property, plant and equipment	26 577 498	26 355 189	An analysis of the environment, conducted as at 31 March 2017, did not reveal any considerable changes in the market situation in the first quarter of the year as compared to the information available as at 31 December 2016. Therefore, it was assumed that the most recent results of impairment tests focusing on property, plant and equipment, which were performed as at 31 December 2016, were up-to-date. Recognition/reversal of impairment losses in the current period concern individual asset items.
Goodwill	40 156	40 156	note 16 An analysis of the environment, conducted as at 31 March 2017, did not reveal any considerable changes in the market situation in the first quarter of the year as compared to the information available as at 31 December 2016. Therefore, it was assumed that the most recent results of impairment tests focusing on intangible assets, including goodwill, which were performed as at 31 December 2016, were up-to-date and that no additional impairment losses needed to be recognized as at the end of the reporting period.
Provisions for employee benefits	1 532 670	1 531 613	note 17 • Description of actuarial assumptions made and valuation method. note 30
Provision for gas emission obligations	96 246	209 736	• Provision calculation note 32
Provision for obligation to submit energy certificates	392 273	755 085	• Provision calculation note 32
Provision for mine decommissioning costs	148 198	146 885	• Provision calculation note 31
Provision for restoration of land and dismantling and removal of fixed assets	116 045	115 302	• Provision calculation note 31
Provision for onerous contracts and for costs	13 004	198 844	• In the 3-month period ended 31 March 2017, the provision relating to the electricity contract and the one relating to the "take or pay" clause were reversed in whole. The balance as at 31 March 2017 concerned the provision for costs of operation of Elektrociepłownia Stalowa Wola S.A. note 31
Other provisions	329 562	366 456	• Provision calculation. Description of key provision items. Note 33
Deferred tax assets	850 851	957 118	• Realisation of deferred tax assets. note 14.2
Derivative instruments:			
Assets	46 088	56 417	• Fair value measurement note 41.2
Liabilities	5 203	560	
Receivables from clients	1 891 656	1 894 065	• Impairment loss – as at the end of the reporting period impairment losses on receivables from clients amounted to PLN 206 820 thousand. note 25

7. New standards and interpretations

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

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

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

IFRS 9 *Financial Instruments*

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

Major changes introduced by IFRS 9 *Financial Instruments*:

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

The existing four categories of financial assets, as defined in IAS 39 *Financial Instruments: Recognition and Measurement*, will be replaced by two categories, namely amortized cost and fair value;

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

Impact on the consolidated financial statements

A change in the principles of classification and measurement of financial assets will drive a change in the classification of financial assets in the consolidated financial statements of the Group but it will not have a considerable impact on the measurement, profit/loss or equity of the Group. An analysis of the financial assets held by the Group as at 31 March 2017 has shown that, provided that the Group maintains similar financial assets when IFRS 9 *Financial Instruments* becomes effective, the new classification will not 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 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.

As far as the expected credit losses are concerned, the Group is analyzing receivables from buyers in the Sales segment. This class of financial instruments constitutes the key item of the Group's financial assets. Receivables have been classified based on customer groups which, according to historical data, show considerable differences in credit losses. Next, impairment ratios have been defined for each group, considering the effect of available information about the future on the historical ratios.

A preliminary analysis has not revealed a significant impact of IFRS 9 on the consolidated financial statements.

As at 31 March 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. It replaces IAS 18 *Revenue*, IAS 11 *Construction Contracts* and a number of interpretations applicable to 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 on the consolidated financial statements is being analyzed further. It is likely that the new IFRS 15 guidance will necessitate changes to systems.

A preliminary analysis of the impact of IFRS 15 on the accounting policies applied thus far has shown that the new standard changes the method of accounting for contracts with customers, in particular if services and goods are provided under a single contract, which may be especially important in the Sales segment. This concerns mainly electricity and gas sales contracts whereby customers are offered additional services or equipment for the electricity and gas sales price. The scope of such services will include electrician or technician support to customers in the event of an electric power or gas failure. Another issue subject to analysis is the consideration for price guarantees in sales contracts, ensuring fixed prices for services over a specified term, which benefit is reflected in the price paid by the customer. In accordance with the new standard, the Group is required to recognize each identifiable obligation to provide a supply separately, thus to allocate the transaction price to such obligations. The Group is analyzing its contractual obligations so as to identify single items and allocate transaction prices accordingly.

Additionally, in the Distribution segment, the Group is analyzing 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 so identify separate services as required by the standard. To this end, the Group focuses on 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.

- **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 interpretation will not materially impact the accounting policies applied thus far:

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

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

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

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.

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 3-month period ended 31 March 2016 is presented in the table below. The change has not had any effect on the Group's profit/loss.

	3-month period ended 31 March 2016 (approved figures)	Change in presentation of gains/losses on trading in emission allowances and on commodity derivative instruments	3-month period ended 31 March 2016 (unaudited restated figures)
Sales revenue	4 647 035	(82 530)	4 564 505
Cost of sales	(3 923 059)	80 740	(3 842 319)
Profit on sale	723 976	(1 790)	722 186
Selling and distribution expenses	(110 057)	2 988	(107 069)
Operating profit	455 982	1 198	457 180
Other finance income and costs	5 317	(1 198)	4 119
Net profit	323 806	-	323 806

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 the 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 31 March 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 	Hard coal mining	TAURON Wydobycie S.A.
Generation 	Generation of electricity using conventional sources, including combined heat and power generation, as well as generation of electricity using joint combustion of biomass and other energy acquired thermally. Key fuels include hard coal, biomass, coal gas and coke-oven gas	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.
	Generation of electricity using renewable sources	Elektrownia Blachownia Nowa Sp. z o.o. in liquidation* TAMEH HOLDING Sp. z o.o.* TAMEH POLSKA Sp. z o.o.* TAMEH Czech s.r.o.*
	Generation, distribution and sales of heat	Elektrociepłownia Stalowa Wola S.A.*
Distribution 	Distribution of electricity	TAURON Dystrybucja S.A. TAURON Dystrybucja Serwis S.A. TAURON Dystrybucja Pomiary Sp. z o.o.
Sales 	Wholesale trading in electricity, trading in emission allowances and energy certificates and sale of electricity to domestic end users or entities which further resell electricity.	TAURON Polska Energia S.A. TAURON Sprzedaż Sp. z o.o. TAURON Sprzedaż GZE Sp. z o.o. TAURON Czech Energy s.r.o.

* Entities recognized with the equity method

In addition to the key operating segments listed above, the TAURON Group also conducts operations in quarrying stone (including limestone) for the power industry, metallurgy, construction and highway engineering industry as well as in the area of production of sorbents for use in wet 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., KOMFORT-ZET Sp. z o.o. and Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. are also treated as other operations of the Group.

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

	Mining	Generation	Distribution	Sales	Other	Unallocated items / Eliminations	Total
Revenue							
Sales to external customers	168 140	549 901	819 504	3 032 912	19 080	-	4 589 537
Inter-segment sales	215 953	669 256	913 917	584 525	175 701	(2 559 352)	-
Segment revenue	384 093	1 219 157	1 733 421	3 617 437	194 781	(2 559 352)	4 589 537
Profit/(loss) of the segment	(59 645)	92 258	345 611	377 274	16 735	24 386	796 619
Unallocated expenses	-	-	-	-	-	(23 066)	(23 066)
EBIT	(59 645)	92 258	345 611	377 274	16 735	1 320	773 553
Share in profit/(loss) of joint ventures	-	37 241	-	-	-	-	37 241
Net finance income (costs)	-	-	-	-	-	8 313	8 313
Profit/(loss) before income tax	(59 645)	129 499	345 611	377 274	16 735	9 633	819 107
Income tax expense	-	-	-	-	-	(178 572)	(178 572)
Net profit/(loss) for the period	(59 645)	129 499	345 611	377 274	16 735	(168 939)	640 535
Assets and liabilities							
Segment assets	2 011 921	10 307 567	16 773 561	2 252 443	461 173	-	31 806 665
Investments in joint ventures	-	487 146	-	-	-	-	487 146
Unallocated assets	-	-	-	-	-	922 320	922 320
Total assets	2 011 921	10 794 713	16 773 561	2 252 443	461 173	922 320	33 216 131
Segment liabilities	648 260	1 414 258	2 007 030	1 043 556	266 569	-	5 379 673
Unallocated liabilities	-	-	-	-	-	10 532 170	10 532 170
Total liabilities	648 260	1 414 258	2 007 030	1 043 556	266 569	10 532 170	15 911 843
EBIT	(59 645)	92 258	345 611	377 274	16 735	1 320	773 553
Depreciation/amortization	(30 194)	(97 505)	(261 438)	(2 185)	(18 948)	-	(410 270)
Impairment	2	(903)	38	(512)	(43)	-	(1 418)
EBITDA	(29 453)	190 666	607 011	379 971	35 726	1 320	1 185 241
Other segment information							
Capital expenditure *	29 221	334 693	262 087	249	9 838	-	636 088

* 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 31 March 2016 (restated, unaudited) or as at 31 December 2016

	Mining	Generation	Distribution	Sales	Other	Unallocated items / Eliminations	Total
Revenue							
Sales to external customers	89 651	769 760	777 223	2 910 115	17 756	-	4 564 505
Inter-segment sales	164 503	502 064	839 164	598 543	199 686	(2 303 960)	-
Segment revenue	254 154	1 271 824	1 616 387	3 508 658	217 442	(2 303 960)	4 564 505
Profit/(loss) of the segment	(103 507)	89 222	291 592	161 419	12 439	26 607	477 772
Unallocated expenses	-	-	-	-	-	(20 592)	(20 592)
EBIT	(103 507)	89 222	291 592	161 419	12 439	6 015	457 180
Share in profit/(loss) of joint ventures	-	23 035	-	-	-	-	23 035
Net finance income (costs)	-	-	-	-	-	(68 620)	(68 620)
Profit/(loss) before income tax	(103 507)	112 257	291 592	161 419	12 439	(62 605)	411 595
Income tax expense	-	-	-	-	-	(87 789)	(87 789)
Net profit/(loss) for the period	(103 507)	112 257	291 592	161 419	12 439	(150 394)	323 806
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	(103 507)	89 222	291 592	161 419	12 439	6 015	457 180
Depreciation/amortization	(34 950)	(102 590)	(254 848)	(3 263)	(17 967)	-	(413 618)
Impairment	(3 799)	663	3 181	(3 278)	(80)	-	(3 313)
EBITDA	(64 758)	191 149	543 259	167 960	30 486	6 015	874 111
Other segment information							
Capital expenditure *	63 417	255 934	328 315	679	5 378	-	653 723

* 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

	3-month period ended 31 March 2017 (unaudited)	3-month period ended 31 March 2016 (unaudited restated figures)
Sale of goods for resale, finished goods and materials without elimination of excise	2 915 119	2 993 878
Excise	(112 113)	(102 384)
Sale of goods for resale, finished goods and materials, of which :	2 803 006	2 891 494
Electricity	2 266 711	2 421 304
Heat energy	252 450	238 276
Energy certificates	17 663	57 387
Coal	155 942	77 710
Gas	67 162	69 091
Other goods for resale, finished goods and materials	43 078	27 726
Rendering of services, of which:	1 771 475	1 658 225
Distribution and trade services	1 690 733	1 586 731
Connection fees	20 726	20 529
Maintenance of road lighting	26 703	28 149
Other services	33 313	22 816
Other revenue	15 056	14 786
Total sales revenue	4 589 537	4 564 505

12. Expenses by type

	3-month period ended 31 March 2017 (unaudited)	3-month period ended 31 March 2016 (unaudited restated figures)
Costs by type		
Depreciation of property, plant and equipment and amortization of intangible assets	(410 270)	(413 618)
Impairment of property, plant and equipment and intangible assets	(4 373)	3 541
Materials and energy	(317 462)	(391 654)
Maintenance and repair services	(57 800)	(55 250)
Distribution services	(508 959)	(453 283)
Other external services	(207 568)	(178 048)
Cost of obligation to remit the emission allowances	(55 845)	(81 668)
Other taxes and charges	(192 723)	(175 348)
Employee benefits expense	(654 390)	(656 087)
Allowance for doubtful debts	(4 458)	(1 981)
Other	(13 567)	(22 977)
Total costs by type	(2 427 415)	(2 426 373)
Change in inventories, prepayments, accruals and deferred income	(81 006)	29 871
Cost of goods produced for internal purposes	90 010	109 114
Selling and distribution expenses	110 209	107 069
Administrative expenses	153 492	167 643
Cost of goods for resale and materials sold	(1 399 833)	(1 829 643)
Cost of sales	(3 554 543)	(3 842 319)

13. Finance income and costs

	3-month period ended 31 March 2017 (unaudited)	3-month period ended 31 March 2016 (unaudited restated figures)
Income and costs from financial instruments, of which :	24 370	(51 623)
Interest income	8 314	9 003
Interest costs	(50 073)	(72 739)
Commission relating to borrowings and debt securities	(1 913)	(2 782)
Gain/loss on derivative instruments	(6 489)	16 747
Foreign exchange gains/losses	74 043	(1 428)
Other	488	(424)
Other finance income and costs, of which:	(16 057)	(16 997)
Interest on employee benefits	(10 195)	(12 501)
Interest on discount of other provisions	(4 242)	(4 393)
Other	(1 620)	(103)
Total finance income and costs, including recognized in the statement of comprehensive income:	8 313	(68 620)
Interest expense on debt	(50 073)	(72 739)
Other finance income and costs	58 386	4 119

An increase in other finance income and costs in the 3-month period ended 31 March 2017 was mainly driven by a surplus of exchange gains over exchange losses of PLN 74 043 thousand. Exchange gains were mainly related to the Parent's debt in the euro, i.e. loans obtained from a subsidiary and subordinated bonds issued in December 2016. The related surplus of exchange gains over exchange losses was PLN 74 568 thousand.

14. Income tax

14.1. Tax expense in the statement of comprehensive income

	3-month period ended 31 March 2017 (unaudited)	3-month period ended 31 March 2016 (unaudited)
Current income tax	(37 159)	(19 707)
Current income tax expense	(33 041)	(13 899)
Adjustments to current income tax from previous years	(4 118)	(5 808)
Deferred tax	(141 413)	(68 082)
Income tax expense in profit/(loss)	(178 572)	(87 789)
Income tax expense relating to other comprehensive income	397	(4 300)

14.2. Deferred income tax

	As at 31 March 2017 (unaudited)	As at 31 December 2016
difference between tax base and carrying amount of fixed and intangible assets	1 514 441	1 511 102
difference between tax base and carrying amount of financial assets	52 867	45 981
different timing of recognition of sales revenue for tax purposes	72 561	49 299
difference between tax base and carrying amount of energy certificates	13 818	15 766
other	47 365	44 156
Deferred tax liabilities	1 701 052	1 666 304
provisions	518 492	638 914
difference between tax base and carrying amount of fixed and intangible assets	150 655	143 403
power infrastructure received free of charge and received connection fees	50 526	51 811
difference between tax base and carrying amount of financial assets and financial liabilities	54 769	50 387
different timing of recognition of cost of sales for tax purposes	48 509	39 940
tax losses	12 758	12 758
other	15 142	19 905
Deferred tax assets	850 851	957 118
After setting off balances at the level of individual Group companies, deferred tax for the Group is presented as:		
Deferred tax asset	43 537	50 382
Deferred tax liability	(893 738)	(759 568)

As at 31 March 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 10 March 2016, the Management Board adopted a resolution to put forward a recommendation to the Ordinary General Shareholders' Meeting, concerning the use of the Company's reserve capital representing amounts transferred from prior year profit for purposes of dividend payment to the Company's shareholders in the amount of PLN 175 255 thousand, which equals to PLN 0.10 per share. On 17 March 2016, the Supervisory Board of the Company approved the recommendation presented by the Management Board. On 8 June 2016, the Ordinary General Shareholders' Meeting did not adopt a resolution to use a portion of the Company's reserve capital representing amounts transferred from prior year profit for purposes of dividend payment to the Company's shareholders.

EXPLANATORY NOTES TO THE CONDENSED INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

16. Property, plant and equipment

For the 3-month period ended 31 March 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	-	-	-	-	561 401	561 401
Borrowing costs	-	-	-	-	22 201	22 201
Transfer of assets under construction	138	163 086	101 310	4 843	(269 377)	-
Sale, disposal	(76)	(2 173)	(2 304)	(6 100)	(3)	(10 656)
Liquidation	(3)	(6 243)	(29 766)	(1 851)	-	(37 863)
Received free of charge	-	1 779	-	-	-	1 779
Transfers to/from assets held for sale	-	(4 849)	(2 221)	(14)	(11)	(7 095)
Overhaul expenses	-	-	-	-	20 066	20 066
Items generated internally	-	-	-	-	10 540	10 540
Other movements	(111)	109	101	(26)	410	483
Foreign exchange differences from translation of foreign entities	-	-	(18)	(23)	-	(41)
Closing balance	121 928	21 754 753	18 231 148	846 931	3 606 400	44 561 160
ACCUMULATED DEPRECIATION						
Opening balance	(433)	(7 825 966)	(9 268 038)	(517 062)	(33 657)	(17 645 156)
Depreciation for the period	-	(195 955)	(176 712)	(18 092)	-	(390 759)
Increase of impairment	-	(38)	(71)	(23)	-	(132)
Decrease of impairment	-	690	297	40	-	1 027
Sale, disposal	-	1 577	2 177	5 828	-	9 582
Liquidation	-	5 290	29 398	1 793	-	36 481
Transfers to/from assets held for sale	-	3 227	1 966	14	-	5 207
Other movements	-	20	49	-	-	69
Foreign exchange differences from translation of foreign entities	-	-	11	8	-	19
Closing balance	(433)	(8 011 155)	(9 410 923)	(527 494)	(33 657)	(17 983 662)
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	121 495	13 743 598	8 820 225	319 437	3 572 743	26 577 498
<i>of which operating segments:</i>						
Mining	2 774	722 039	603 633	16 728	351 761	1 696 935
Generation	41 252	2 384 529	3 898 107	35 892	2 538 060	8 897 840
Distribution	60 609	10 542 913	4 190 722	249 214	678 431	15 721 889
Other segments and other operations	16 860	94 117	127 763	17 603	4 491	260 834

For the 3-month period ended 31 March 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	-	-	-	-	605 359	605 359
Borrowing costs	-	-	-	-	23 595	23 595
Transfer of assets under construction	236	310 671	196 506	10 985	(518 398)	-
Sale, disposal	(45)	(724)	(3 794)	(8 422)	(2)	(12 987)
Liquidation	-	(14 609)	(25 688)	(1 578)	-	(41 875)
Received free of charge	-	882	-	-	-	882
Transfers to/from assets held for sale	(43)	(1 639)	-	-	-	(1 682)
Overhaul expenses	-	-	-	-	55	55
Items generated internally	-	-	-	-	10 098	10 098
Acquisition of ZCP Brzeszcze	1 544	165 401	22 429	1 637	14 405	205 416
Other movements	(5)	8 072	(7 335)	(340)	(1 724)	(1 332)
Closing balance	121 223	20 396 453	17 092 546	806 302	2 733 368	41 149 892
ACCUMULATED DEPRECIATION						
Opening balance	(466)	(6 692 656)	(8 304 965)	(467 731)	(13 728)	(15 479 546)
Depreciation for the period	-	(202 052)	(172 506)	(20 401)	-	(394 959)
Increase of impairment	-	(11)	(67)	-	-	(78)
Decrease of impairment	43	2 888	279	38	5	3 253
Sale, disposal	-	389	3 066	8 068	-	11 523
Liquidation	-	13 325	25 168	1 537	-	40 030
Transfers to/from assets held for sale	16	163	-	-	-	179
Other movements	-	(763)	748	11	-	(4)
Closing balance	(407)	(6 878 717)	(8 448 277)	(478 478)	(13 723)	(15 819 602)
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	120 816	13 517 736	8 644 269	327 824	2 719 645	25 330 290
<i>of which operating segments:</i>						
Mining	2 732	744 685	626 507	14 802	201 001	1 589 727
Generation	41 611	2 586 035	3 960 962	39 751	1 760 372	8 388 731
Distribution	59 643	10 086 228	3 920 800	252 872	755 099	15 074 642
Other segments and other operations	16 830	100 788	136 000	20 399	3 173	277 190

In the 3-month period ended 31 March 2017, the Group acquired property, plant and equipment of PLN 583 602 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	3-month period ended 31 March 2017 (unaudited)	3-month period ended 31 March 2016 (unaudited)
Distribution	247 420	317 828
Generation	307 730	245 458
Mining	25 475	63 208

Impairment tests

Considering external factors resulting in the Company's market cap being lower than its carrying amount for a long time and the continued overall unfavorable conditions in the coal power industry, an analysis of the environment was conducted as at 31 March 2017 which revealed that the market situation in the first quarter of the year had not changed considerably as compared to 31 December 2016. Therefore, it was assumed that the most recent results of impairment tests focusing on property, plant and equipment, which were performed as at 31 December 2016, were up-to-date.

As at 31 December 2016, 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;
- a drop in the prices of certificates for energy produced from renewable sources;
- introduction of new RES regulations;
- the continued unfavorable market conditions in the coal power industry;
- an increase in the risk-free rate.

The tests conducted as at 31 December 2016 required estimating the value in use of cash-generating units, based on their future cash flows discounted subsequently to the present value using a discount rate.

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

- TAURON Wytwarzanie S.A. – 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 31 December 2016:

- the adopted price path for power coal, other coal sizes and gaseous fuels. It is assumed that the price of power coal will increase by ca. 9% in real terms by 2026 and after 2026 insignificant changes in 2026 year prices (fixed) are anticipated;
- the adopted electricity wholesale price path for the years 2017-2026 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 emission allowances. A drop of ca. 5% is assumed by 2020 with a dynamic growth rate by 2026 (16% vs. 2020), an increase of 11% between 2026 and 2040 and 2040 year prices thereafter (fixed);
- estimated changes in the Polish market model aimed to introduce the capacity market or other incentive mechanisms for production capacity have been taken into account;
- emission limits for generating electricity specified in the regulation of the Council of Ministers, adjusted by capital expenditure incurred and the limits for heat generation compliant with the regulation of the Council of Ministers, adjusted by the level of operations, i.e. generation of heat;
- the adopted emission allowance price path for the years 2017-2026 with the perspective by 2040. It is assumed that the market price will increase by ca. 70% by 2026, followed by a rise of ca. 16% between 2026 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. A drop of ca. 6% is assumed for renewable energy prices by 2020, followed by a rise by 2026 (13% vs. 2020), an increase of 13% between 2026 and 2040 and 2040 year prices thereafter (fixed);
- limited support periods for green energy have been assumed in accordance with the Act on Renewable Energy Sources, which provides for new support mechanisms for renewable energy. The support period has been limited to 15 years as from the date of the first supply of electricity qualifying for an energy certificate to the distribution network. At the same time, hydropower plants with installed capacity of more than 5 MW do not qualify for support;
- support for CHP in line with the regulations which are currently in force. It is assumed that property rights exist for red, yellow and purple energy and that they will have to be surrendered by 2018. No support for CHP has been assumed thereafter;
- regulated revenue generated by distribution companies, ensuring coverage of reasonable costs and a reasonable level of return on capital. The return on capital is conditional on the Regulatory Asset Value;
- the adopted electricity retail price path based on the wholesale price of black energy, taking into account the costs of excise duty, the obligation to surrender energy certificates as well as an appropriate level of margin;
- sales volumes taking into account GDP growth and increased market competition;
- tariff revenue generated by heat companies, ensuring coverage of reasonable costs and a reasonable level of return on capital;
- maintaining 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 5.94% to 8.44% in nominal terms before tax.

As at 31 December 2016, the impairment test revealed that an additional impairment loss of PLN 581 900 thousand should be recognized on a portion of the Generation segment assets. The test also identified the possibility to reverse an impairment loss in this segment in the amount of PLN 505 083 thousand.

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 in 2016 are related to the following cash-generating units:

CGU	Company	Discount rate (before tax) assumed in tests as at:			Recoverable amount	Impairment loss recognized	Impairment loss derecognized
		31 December 2016	30 June 2016	31 December 2015	As at 31 December 2016	Year ended 31 December 2016	
Elektrownia Jaworzno II	TAURON Wytwarzanie S.A.	7.78%	7.49%	7.69%	235 750	269 823	86 034
Elektrownia Jaworzno III					1 024 583	14 410	433 638
Elektrownia Łaziska					319 744	-	54 124
Elektrownia Łagisza					1 289 344	193 430	-
Elektrownia Siersza					157 356	232 253	156 571
Elektrownia Stalowa Wola					(99 426)	40 216	46 802
Capital projects in progress					-	19 328	-
ZW Bielsko Biala EC 1	TAURON Ciepło Sp. z o.o.	7.63%	7.17%	7.61%	615 489	-	209 433
ZW Bielsko Biala EC 2					(45 965)	7 061	-
ZW Tychy					499 172	382 719	221 643
Hydropower plants		8.44%	8.25%	8.39%	611 273	42 310	-
FW Lipniki	TAURON Ekoenergia Sp. z o.o.	6.71%	6.34%	8.90%	19 112	65 513	-
FW Wicko					69 309	164 121	-
FW Marszewo					228 352	464 839	-
Total CGU						1 896 023	1 208 245
Common assets	TAURON Wytwarzanie S.A.	7.78%	7.49%	7.69%	(19 511)	46 914	-
Total impairment losses						1 942 937	1 208 245

17. Goodwill

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

Impairment tests

Considering external factors resulting in the Company's market cap being lower than its carrying amount for a long time and the continued overall unfavorable conditions in the coal power industry, an analysis of the environment was conducted as at 31 March 2017, which revealed that the market situation in the first quarter of the year had not changed considerably as compared to 31 December 2016. Therefore, it was assumed that the most recent results of impairment tests focusing on intangible assets, including goodwill, which were performed as at 31 December 2016, were up-to-date and that no additional impairment losses needed to be recognized as at the end of the reporting period.

The tests were performed for the net assets increased by goodwill in each operating segment, except Generation, where the test was carried out at each company level. The recoverable amount in each company was determined based on the value in use.

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

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 (3.63%) and the risk premium for operations

appropriate for the power industry (6%). The growth rate used for extrapolation of projected cash flows beyond the detailed planning period is at the level of 2.5% and it corresponds to the estimated long-term inflation rate.

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

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

The key assumptions affecting the estimated value in use and the discount rates applied to individual segments in impairment tests focusing on the carrying amount of goodwill as at 31 December 2016 are as follows:

Goodwill in the segment	Key assumptions	Discount rate (before tax) assumed in tests as at: 31 December 2016
Mining	- The adopted price path of power coal and other coal sizes. The actual increase in the price of power coal assumed by 2026 approximates 9%, with slight fluctuations of 2026 prices thereafter (fixed); - 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.	6.95%
Distribution	- Regulated revenue generated by distribution companies, ensuring coverage of reasonable costs and a reasonable level of return on capital. The return level depends on the so-called Regulatory Value of Assets; - Maintaining generation capacity of the existing non-current assets as a result of replacement investments.	6.39%

The impairment test performed as at 31 December 2016 did not reveal impairment of the carrying amount of goodwill in the segments.

18. Energy certificates and gas emission allowances

18.1. Long-term energy certificates and gas emission allowances

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

	Energy certificates	Greenhouse gas emission allowances	Total
Opening balance	110 430	15 830	126 260
Direct purchase	8 606	-	8 606
Reclassification	(106 694)	(15 830)	(122 524)
Closing balance	12 342	-	12 342

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

	Energy certificates	Greenhouse gas emission allowances	Total
Opening balance	232 973	277 867	510 840
Direct purchase	-	-	-
Reclassification	(232 973)	(205 290)	(438 263)
Closing balance	-	72 577	72 577

18.2. Short-term energy certificates and gas emission allowances

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

	Energy certificates	Greenhouse gas emission allowances	Total
Opening balance	556 501	423 847	980 348
Direct purchase	137 675	-	137 675
Generated internally	15 685	-	15 685
Cancellation	(492 432)	(169 335)	(661 767)
Reclassification	105 619	15 830	121 449
Closing balance	323 048	270 342	593 390

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

	Energy certificates	Greenhouse gas emission allowances	Total
Opening balance	652 305	153 083	805 388
Direct purchase	134 849	-	134 849
Generated internally	45 264	-	45 264
Cancellation	(681 587)	-	(681 587)
Reclassification	223 548	205 290	428 838
Closing balance	374 379	358 373	732 752

19. Other intangible assets

For the 3-month period ended 31 March 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	-	-	-	-	21 880	21 880
Transfer of intangible assets not made available for use	-	-	8 952	2 601	(11 553)	-
Sale, disposal / Liquidation	-	(710)	(58)	(29)	-	(797)
Other movements	15	(918)	(6 142)	6 189	(763)	(1 619)
Foreign exchange differences from translation of foreign entities	-	-	(57)	-	-	(57)
Closing balance	5 449	784 655	613 273	220 634	102 624	1 726 635
ACCUMULATED AMORTIZATION						
Opening balance	(5 120)	(25 617)	(387 075)	(64 982)	(7)	(482 801)
Amortization for the period	(20)	-	(15 257)	(4 234)	-	(19 511)
Decrease of impairment	-	8	-	-	-	8
Sale, disposal / Liquidation	-	-	53	24	-	77
Other movements	(15)	-	2 178	(2 114)	-	49
Foreign exchange differences from translation of foreign entities	-	-	50	-	-	50
Closing balance	(5 155)	(25 609)	(400 051)	(71 306)	(7)	(502 128)
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	294	759 046	213 222	149 328	102 617	1 224 507

For the 3-month period ended 31 March 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	-	-	-	-	14 616	14 616
Transfer of intangible assets not made available for use	-	40	4 108	10 671	(14 819)	-
Sale, disposal / Liquidation	-	(68)	(1 874)	(60)	-	(2 002)
Acquisition of ZCP Brzeszcze	-	10 266	95	147	-	10 508
Other movements	-	1 368	118	163	1 214	2 863
Foreign exchange differences from translation of foreign entities	-	-	1	-	-	1
Closing balance	5 690	798 110	553 340	198 925	52 896	1 608 961
ACCUMULATED AMORTIZATION						
Opening balance	(4 893)	(13 064)	(332 862)	(49 391)	-	(400 210)
Amortization for the period	(39)	-	(14 905)	(3 715)	-	(18 659)
Decrease of impairment	-	189	-	-	-	189
Sale, disposal / Liquidation	-	-	1 874	60	-	1 934
Other movements	-	-	(26)	-	-	(26)
Closing balance	(4 932)	(12 875)	(345 919)	(53 046)	-	(416 772)
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	758	785 235	207 421	145 879	52 896	1 192 189

20. Shares in joint ventures

Investments in joint-ventures measured using the equity method as at 31 March 2017 and for the 3-month period ended 31 March 2017 have been presented below:

	Elektrociepłownia Stalowa Wola S.A.	Elektrownia Blachownia Nowa Sp. z o.o. in liquidation	TAMEH HOLDING Sp. z o.o. *	As at 31 March 2017 or for the 3-month period ended 31 March 2017 (unaudited)
Non-current assets	1 171 298	-	1 473 274	2 644 572
Current assets, including:	2 420	37 071	626 306	665 797
cash and cash equivalents	99	37 049	179 578	216 726
Non-current liabilities (-) including:	(523 874)	-	(599 343)	(1 123 217)
debt	(475 935)	-	(516 744)	(992 679)
Current liabilities (-) including:	(681 544)	(12)	(481 063)	(1 162 619)
debt	(616 139)	-	(24 359)	(640 498)
Total net assets	(31 700)	37 059	1 019 174	1 024 533
Share in net assets	(15 850)	18 529	509 587	512 266
Investment in joint ventures	-	18 529	468 617	487 146
Share in revenue of joint ventures	3	76	174 352	174 431
Share in profit/(loss) of joint ventures	-	50	37 191	37 241
Share in other comprehensive income of joint ventures	-	-	(10)	(10)

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

Investments in joint-ventures measured using the equity method as at 31 December 2016 and for the 3-month period ended 31 March 2016 have been presented 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 3-month period ended 31 March 2016 (unaudited)
Non-current assets	1 126 668	-	1 479 845	2 606 513
Current assets, including:	5 739	37 056	501 547	544 342
cash and cash equivalents	3 809	37 009	196 442	237 260
Non-current liabilities (-) including:	(1 028 954)	-	(664 603)	(1 693 557)
debt	(980 977)	-	(536 585)	(1 517 562)
Current liabilities (-) including:	(132 395)	(97)	(349 101)	(481 593)
debt	(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	6 540	115	147 737	154 392
Share in profit/(loss) of joint ventures	-	-	23 035	23 035
Share in other comprehensive income of joint ventures	-	-	28	28

* 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 heat capability 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. holds 50% indirect interest in the issued capital of this company and in its governing body 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 due to loans granted to Elektrociepłownia Stalowa Wola S.A. in the amount of PLN 551 128 thousand, which has been discussed in more detail in Note 21, as well as a provision costs of operation of Elektrociepłownia Stalowa Wola S.A. of PLN 13 004 thousand, which have been discussed in Note 31.3.

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 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 liquidation of the company, in line with its articles of association and laws of general application. 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. As Elektrownia Blachownia Nowa Sp. z o.o. in liquidation holds current assets which may be subject to distribution among the partners in the joint venture to a considerable extent, the Group does not recognize any additional impairment losses on its interest in the company.

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. shall carry out investment and operational projects related to industrial power sector. The agreement was concluded for a term of 15 years with possible term extension. 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.

21. Loans granted to joint ventures

Loans granted to the joint venture Elektrociepłownia Stalowa Wola S.A. as at 31 March 2017 and 31 December 2016:

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

In the 3-month period ended 31 March 2017, the loans granted by the Company to Elektrociepłownia Stalowa Wola S.A. for purposes of debt repayment totaled PLN 290 742 thousand. The said loans were granted for purposes of the debtor's early payment of liabilities under loan agreements entered into in relation to the construction of a steam and gas unit in Stalowa Wola, which has been discussed in more detail in Note 31.3 to these condensed interim consolidated financial statements.

In the 3-month period ended 31 March 2017, the interest income due to loans granted reached PLN 2 319 thousand.

22. Other financial assets

	As at 31 March 2017 (unaudited)	As at 31 December 2016
Shares	131 698	127 698
Deposits	42 168	38 472
Derivative instruments	46 088	56 417
Investment fund units	28 000	27 761
Loans granted	6 154	50
Bid bonds, deposits and collateral transferred	39 762	41 818
Other	53 697	14 561
Total	347 567	306 777
Non-current	227 583	227 140
Current	119 984	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.

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 31 March 2017 (unaudited)	As at 31 December 2016
Prepayments for assets under construction and intangible assets <i>including:</i>	247 383	274 301
<i>related to project realization: Construction of 910 MW Power Unit in Jaworzno III Power Plant</i>	244 795	271 667
Costs of preparing production in hard coal mines	132 473	132 862
Other prepayments	15 324	15 237
Total	395 180	422 400

23.2. Other current non-financial assets

	As at 31 March 2017 (unaudited)	As at 31 December 2016
Costs settled over time, including:	89 680	78 457
Costs of preparing production in hard coal mines	41 476	36 175
Property and tort insurance	14 633	10 922
IT, telecom and postal services	14 858	17 994
Other prepayments	18 713	13 366
Other current non-financial assets, including:	113 081	106 551
Advance payments for deliveries	47 191	103 601
Surplus of Social Benefit Fund assets over its liabilities	-	338
Transfers made to the Social Benefit Fund	42 249	-
Other current assets	23 641	2 612
Total	202 761	185 008

24. Inventories

	As at 31 March 2017 (unaudited)	As at 31 December 2016
Historical cost		
Coal, of which:	222 124	320 201
<i>Raw materials</i>	70 295	98 759
<i>Semi-finished goods and work-in-progress</i>	146 984	216 831
Energy certificates	-	783
Emission allowances	15 399	45 912
Other inventories	116 852	115 591
Total	354 375	482 487
Write-downs to net realisable value / Revaluation		
Emission allowances	(1 279)	13 226
Other inventories	(6 637)	(9 593)
Total	(7 916)	3 633
Net realisable value / Fair value		
Coal, of which:	222 124	320 201
<i>Raw materials</i>	70 295	98 759
<i>Semi-finished goods and work-in-progress</i>	146 984	216 831
Energy certificates	-	783
Emission allowances	14 120	59 138
Other inventories	110 215	105 998
Total	346 459	486 120

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

25. Receivables from buyers

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

	As at 31 March 2017 (unaudited)	As at 31 December 2016
Value of items before allowance/write-down		
Receivables from clients	1 467 814	1 527 921
Receivables from clients – additional assessment of revenue from sales of electricity and distribution services	483 211	425 705
Receivables claimed at court	147 451	146 086
Total	2 098 476	2 099 712
Allowance/write-down		
Receivables from clients	(83 845)	(84 036)
Receivables claimed at court	(122 975)	(121 611)
Total	(206 820)	(205 647)
Value of item net of allowance (carrying amount)		
Receivables from clients	1 383 969	1 443 885
Receivables from clients – additional assessment of revenue from sales of electricity and distribution services	483 211	425 705
Receivables claimed at court	24 476	24 475
Total	1 891 656	1 894 065

26. Receivables due to taxes and charges

	As at 31 March 2017 (unaudited)	As at 31 December 2016
Corporate Income Tax receivables	86 836	83 468
VAT receivables	131 175	154 181
Excise duty receivables	38 495	24 205
Other	1 360	2 000
Total	257 866	263 854

As at 31 March 2017 the Group had the following income tax receivables and liabilities:

- income tax receivables of PLN 86 836 thousand, where PLN 85 616 thousand relates to the Tax Capital Group;
- income tax liability of PLN 1 631 thousand, not related to the Tax Capital Group.

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

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

27. Cash and cash equivalents

	As at 31 March 2017 (unaudited)	As at 31 December 2016
Cash at bank and in hand	210 980	368 274
Short-term deposits (up to 3 months)	18 088	16 450
Other	318	157
Total cash and cash equivalents presented in the statement of financial position, of which :	229 386	384 881
restricted cash	141 511	144 404
Bank overdraft	(78 722)	(15 156)
Cash pool	(6 112)	(16 095)
Foreign exchange	1 110	1 103
Total cash and cash equivalents presented in the statement of cash flows	145 662	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 currency accounts.

As at 31 March 2017, the balance of restricted cash included mainly cash on the accounts for bid bonds of PLN 78 595 thousand and cash on the accounts used for the settlement of electricity and emission allowances traded on the Polish Power Exchange (Towarowa Giełda Energii S.A.) of PLN 60 105 thousand.

28. Equity

28.1. Issued capital

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

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

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

Shareholding structure as at 31 March 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 Otworthy Fundusz Emerytalny	88 742 929	443 715	5.06%	5.06%
Other shareholders	954 847 515	4 774 237	54.49%	54.49%
Total	1 752 549 394	8 762 747	100.00%	100.00%

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

28.2. Revaluation reserve from valuation of hedging instruments

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

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

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

28.3. Retained earnings and dividend limitation

In the current period, changes in retained earnings (unabsorbed loss) included:

- net profit for the period attributable to the shareholders of the Parent of PLN 639 830 thousand;
- actuarial gains on provisions for post-employment benefits, recognized in other comprehensive income, of PLN 1 712 thousand.

29. Debt

	As at 31 March 2017 (unaudited)	As at 31 December 2016
Loans and borrowings	1 300 863	1 263 553
Bonds issued	8 168 438	7 681 128
Finance lease	29 533	34 848
Total	9 498 834	8 979 529
Non-current	8 850 672	8 759 789
Current	648 162	219 740

29.1. Loans and borrowings

Loans and borrowings taken out as at 31 March 2017 (unaudited)

Currency	Interest rate	Value of loans and borrowings as at the balance sheet date		of which maturing within (after the balance sheet date):					
		currency	PLN	less than 3 months	3-12 months	1-2 years	2-3 years	3-5 years	over 5 years
PLN	floating	74 251	74 251	36 325	5 041	7 409	7 341	14 529	3 606
	fixed	1 163 000	1 163 000	20 445	141 786	162 231	162 231	324 464	351 843
Total PLN		1 237 251	1 237 251	56 770	146 827	169 640	169 572	338 993	355 449
EUR	floating	13 005	54 878	54 878	-	-	-	-	-
	fixed	-	-	-	-	-	-	-	-
Total EUR		13 005	54 878	54 878	-	-	-	-	-
USD	floating	412	1 625	1 625	-	-	-	-	-
	fixed	-	-	-	-	-	-	-	-
Total USD		412	1 625	1 625	-	-	-	-	-
Total			1 293 754	113 273	146 827	169 640	169 572	338 993	355 449
Interest increasing carrying amount			7 109						
Total loans and borrowings			1 300 863						

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 (after the balance sheet date):					
		currency	PLN	less than 3 months	3-12 months	1-2 years	2-3 years	3-5 years	over 5 years
PLN	floating	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	-	-	-	-	-
	fixed	-	-	-	-	-	-	-	-
Total EUR		3 032	13 415	13 415	-	-	-	-	-
USD	floating	410	1 716	1 716	-	-	-	-	-
	fixed	-	-	-	-	-	-	-	-
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 increasing their carrying amount, in the 3-month period ended 31 March 2017 and in the comparative period, have been presented below.

	3-month period ended 31 March 2017 (unaudited)	3-month period ended 31 March 2016 (unaudited)
Opening balance	1 256 467	1 403 618
Movement in bank overdrafts and cash pool loans received	59 688	97 726
Movement in loans (excluding bank overdrafts and cash pool loans):	(22 401)	(22 148)
Repaid	(22 462)	(22 323)
Change in valuation	61	175
Closing balance	1 293 754	1 479 196

* Costs of granting the loan have been included.

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

Loans/ borrowings	Borrowing institution	Purpose	Interest rate	Maturity date	As at 31 March 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	105 603	105 039
		Construction and start-up of a co-generation unit at EC Bielsko Biala	Fixed	15.12.2021	150 859	150 056
		Modernization and extension of power grid	Fixed – agreed until 15 December 2017	15.06.2024	311 278	307 362
			Fixed – agreed until 15 March 2018	15.09.2024	136 540	147 091
			Fixed – agreed until 15 March 2018	15.09.2024	170 667	183 783
		Modernization and extension of power grid and improvement of hydropower plants	Fixed – agreed until 15 September 2019	15.03.2027	295 145	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	23 000	24 000
		Construction of biomass infeed installation and modernization of fluid bed at Tychy Generation Plant	Floating	15.12.2022	15 824	16 561
		Other loans and borrowings				91 947
Total					1 300 863	1 263 553

29.2. Bonds issued

Bonds issued as at 31 March 2017 (unaudited)

Issuer	Tranche/ Bank	Redemption date	Currency	As at balance sheet date		of which maturing within (after the balance sheet date):			
				Interest accrued	Principal at amortised cost	up to 3 months	3 months - 2 years	2-5 years	Over 5 years
TAURON Polska Energia S.A.	Bank Gospodarstwa Krajowego	20 December 2019	PLN	911	99 856	-	-	99 856	-
		20 December 2020	PLN	911	99 834	-	-	99 834	-
		20 December 2021	PLN	911	99 819	-	-	99 819	-
		20 December 2022	PLN	911	99 807	-	-	-	99 807
		20 December 2023	PLN	911	99 798	-	-	-	99 798
		20 December 2024	PLN	911	99 792	-	-	-	99 792
		20 December 2025	PLN	911	99 785	-	-	-	99 785
		20 December 2026	PLN	911	99 779	-	-	-	99 779
		20 December 2027	PLN	911	99 775	-	-	-	99 775
		20 December 2028	PLN	911	99 773	-	-	-	99 773
		20 December 2020	PLN	628	69 979	-	-	69 979	-
		20 December 2021	PLN	628	69 978	-	-	69 978	-
		20 December 2022	PLN	628	69 978	-	-	-	69 978
		20 December 2023	PLN	628	69 977	-	-	-	69 977
		20 December 2024	PLN	628	69 977	-	-	-	69 977
		20 December 2025	PLN	628	69 977	-	-	-	69 977
		20 December 2026	PLN	628	69 977	-	-	-	69 977
		20 December 2027	PLN	628	69 977	-	-	-	69 977
		20 December 2028	PLN	628	69 976	-	-	-	69 976
		20 December 2029	PLN	628	69 976	-	-	-	69 976
	Bond Issue Scheme of 24.11.2015	29 December 2020	PLN	16 969	2 245 106	-	-	2 245 106	-
		25 March 2020	PLN	57	99 788	-	-	99 788	-
		9 December 2020	PLN	2 749	299 331	-	-	299 331	-
		30 January 2020	PLN	495	99 782	-	-	99 782	-
		1 March 2020	PLN	251	99 780	-	-	99 780	-
	TPEA1119	30 June 2017	PLN	24	300 000	300 000	-	-	-
		4 November 2019	PLN	19 341	1 749 185	-	-	1 749 185	-
	European Investment Bank	16 December 2034	EUR	10 700	800 600	-	-	-	800 600
TAURON Sweden Energy AB (publ)		3 December 2029	EUR	8 091	703 009	-	-	-	703 009
Total debentures				74 067	8 094 371	300 000	-	5 032 438	2 761 933

Bonds issued as at 31 December 2016

Issuer	Tranche/ Bank	Redemption date	Currency	As at balance sheet date		of which maturing within (after the balance sheet date):			
				Interest accrued	Principal at amortised cost	up to 3 months	3 months - 2 years	2-5 years	Over 5 years
TAURON Polska Energia S.A.	Bank Gospodarstwa Krajowego	20 December 2019	PLN	107	99 805	-	-	99 805	-
		20 December 2020	PLN	107	99 786	-	-	99 786	-
		20 December 2021	PLN	107	99 773	-	-	99 773	-
		20 December 2022	PLN	107	99 763	-	-	-	99 763
		20 December 2023	PLN	107	99 754	-	-	-	99 754
		20 December 2024	PLN	107	99 749	-	-	-	99 749
		20 December 2025	PLN	107	99 744	-	-	-	99 744
		20 December 2026	PLN	107	99 738	-	-	-	99 738
		20 December 2027	PLN	107	99 734	-	-	-	99 734
		20 December 2028	PLN	107	99 733	-	-	-	99 733
		20 December 2020	PLN	74	69 976	-	-	69 976	-
		20 December 2021	PLN	74	69 976	-	-	69 976	-
		20 December 2022	PLN	74	69 976	-	-	-	69 976
		20 December 2023	PLN	74	69 976	-	-	-	69 976
		20 December 2024	PLN	74	69 975	-	-	-	69 975
		20 December 2025	PLN	74	69 975	-	-	-	69 975
		20 December 2026	PLN	74	69 975	-	-	-	69 975
		20 December 2027	PLN	74	69 975	-	-	-	69 975
		20 December 2028	PLN	74	69 975	-	-	-	69 975
		20 December 2029	PLN	74	69 975	-	-	-	69 975
	Bond Issue Scheme of 24.11.2015	29 December 2020	PLN	549	2 244 801	-	-	2 244 801	-
		25 March 2020	PLN	790	99 771	-	-	99 771	-
		9 December 2020	PLN	560	298 761	-	-	298 761	-
	TPEA1119	4 November 2019	PLN	7 578	1 749 155	-	-	1 749 155	-
	European Investment Bank	16 December 2034	EUR	1 693	839 330	-	-	-	839 330
TAURON Sweden Energy AB (publ)		3 December 2029	EUR	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 at nominal value EUR 190 000 thousand were subordinated, unsecured coupon bearer securities, and they were acquired by European Investment Bank as part of the operations of the European Fund for Strategic Investments, launched by EIB and the European Commission to implement the Juncker Plan. The euro is the currency of the issue. The bonds will mature 18 years of the issue date, with the proviso that in line with the description of hybrid funding the first funding period was defined to last 8 years ("1st Funding Period") during which the Company will not be allowed to repurchase the bonds early and the bonds may not be sold early by EIB to third parties (in both cases, subject to the exceptions set out in the agreement). The bonds bear fixed interest during the 1st Funding Period and during the next 10-year funding period ("2nd Funding Period") interest will be floating and determined by reference to Euribor 6M increased by an agreed margin. Under the agreement, interest on the bonds may be deferred. As the bonds are subordinated, any claims arising therefrom will have priority of satisfaction only before the amounts due to the Company's shareholders in the event of its bankruptcy or liquidation. The bond issue has had a positive effect on the financial stability of the Group as the bonds are not taken into account for purposes of calculation of the debt ratio, which is a covenant in some funding schemes. Additionally, 50% of the bond amount has been classified by the rating agency as equity in the rating model, which has had a beneficial effect on the rating of the TAURON Group. The rating assigned to the bonds by Fitch is BB+.

Other bonds issued 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.

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 repayment currency. As at 31 March 2017, the carrying amount of the bonds with interest in the bond currency was EUR 168 515 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.

Changes in the balance of bonds, excluding interest increasing their carrying amount, in the 3-month period ended 31 March 2017 and in the comparative period, have been presented below.

	3-month period ended 31 March 2017 (unaudited)	3-month period ended 31 March 2016 (unaudited)
Opening balance	7 666 081	6 665 528
Issue*	499 543	2 852 461
Redemption	-	(2 250 000)
Change in valuation	(71 253)	2 302
Closing balance	8 094 371	7 270 291

* Including the cost of issue.

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

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

The Company hedges a portion of interest cash flows related to issued bonds using IRS contracts. The instruments are subject to hedge accounting, which has been discussed in more detail in Note 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 31 March 2017, none of these covenants had been breached and the contractual provisions were complied with.

30. Provisions for employee benefits

	As at 31 March 2017 (unaudited)	As at 31 December 2016
Provision for post-employment benefits and jubilee bonuses	1 480 558	1 480 391
Provision for employment termination benefits	52 112	51 222
Total	1 532 670	1 531 613
Non-current	1 377 726	1 373 385
Current	154 944	158 228

30.1. Provisions for post-employment benefits and jubilee bonuses

For the 3-month period ended 31 March 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	3 675	2 901	586	-	7 064	14 226
Actuarial gains and losses	(1 964)	-	(166)	-	(6 417)	(8 547)
Benefits paid	(6 857)	(22)	(921)	-	(7 907)	(15 707)
Interest expense	2 039	3 832	809	-	3 515	10 195
Closing balance	304 174	538 895	112 777	2 248	522 464	1 480 558
Non-current	271 729	518 705	108 326	-	467 324	1 366 084
Current	32 445	20 190	4 451	2 248	55 140	114 474

For the 3-month period ended 31 March 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	3 442	8 414	470	-	9 046	21 372
Actuarial gains and losses	2 518	-	(6)	-	(6 976)	(4 464)
Benefits paid	(8 388)	(24)	(924)	(386)	(22 497)	(32 219)
Interest expense	2 319	4 957	896	-	4 329	12 501
Acquisition of ZCP Brzeszcze	9 436	-	-	-	17 026	26 462
Closing balance	350 451	736 081	131 546	1 856	654 093	1 874 027
Non-current	327 309	712 219	127 252	-	596 123	1 762 903
Current	23 142	23 862	4 294	1 856	57 970	111 124

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 31 March 2017 based on actuarial projections. Actuarial assumptions made in preparing the projections for 2017 were the same as those used for measuring 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 3-month period ended 31 March 2017 (*unaudited*)

	Voluntary redundancy schemes in operating segments		Other	Total
	Generation	Distribution		
Opening balance	17 599	17 062	16 561	51 222
Recognition	11 104	-	-	11 104
Utilization	(2 413)	(3 204)	(4 597)	(10 214)
Closing balance	26 290	13 858	11 964	52 112
Non-current	11 642	-	-	11 642
Current	14 648	13 858	11 964	40 470

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

	Voluntary redundancy schemes in operating segments		Other	Total
	Generation	Distribution		
Opening balance	23 460	25 432	8 444	57 336
Recognition	4 907	-	-	4 907
Utilization	(3 741)	(5 420)	(516)	(9 677)
Closing balance	24 626	20 012	7 928	52 566
Non-current	9 038	-	-	9 038
Current	15 588	20 012	7 928	43 528

In the 3-month period ended 31 March 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 year schemes. The amount recognized includes PLN 130 thousand related to the unwinding of discount.

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

For the 3-month period ended 31 March 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)	1 285	743	2 214	4 242
Recognition/(reversal), net	28	-	(188 054)	(188 026)
Closing balance	148 198	116 045	13 004	277 247
Non-current	148 198	103 728	4 625	256 551
Current	-	12 317	8 379	20 696
Other provisions, long-term portion				46 478
Total				303 029

For the 3-month period ended 31 March 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)	773	690	2 929	4 392
Recognition/(reversal), net	410	-	-	410
Acquisition of ZCP Brzeszcze	65 992	-	-	65 992
Closing balance	178 850	101 934	185 806	466 590
Non-current	178 850	101 030	158 803	438 683
Current	-	904	27 003	27 907
Other provisions, long-term portion	-	-	-	1 899
Total	-	-	-	440 582

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 31 March 2017, the balance of the provision was PLN 148 198 thousand, and the change concerned mainly the unwinding of discount – PLN 1 285 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 39 711 thousand as at 31 March 2017 (versus PLN 39 415 thousand as at 31 December 2016);
- provision for windfarm dismantling costs, which totaled PLN 51 535 thousand as at 31 March 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 Łagisza, which totaled PLN 24 799 thousand as at 31 March 2017 and did not change as compared to 31 December 2016.

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

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

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

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

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

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

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

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

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

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

The annexes to the gaseous fuel supply contract and the electricity sales contract 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 to the contracts enforced by the 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 as at 31 March 2017.

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

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 3-month period ended 31 March 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	55 927	185 484	241 411
Reversal	(82)	(23)	(105)
Utilisation	(169 335)	(548 273)	(717 608)
Closing balance	96 246	392 273	488 519

For the 3-month period ended 31 March 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	81 691	201 748	283 439
Reversal	(23)	(3 494)	(3 517)
Utilisation	-	(770 959)	(770 959)
Closing balance	234 751	292 346	527 097

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 installations 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 established in the amount of allowances acquired or contracted to cover the allowance deficit and in relation to unsecured allowance deficit (if any); the provision is determined based on market prices as at the end of the reporting period.

As at 31 March 2017, the provision for gas emission liabilities amounted to PLN 96 246 thousand and concerned:

- the obligation to surrender emission allowances for the year ended 31 December 2016 by TAURON Ciepło Sp. z o.o. in the amount of PLN 40 319 thousand.
- the obligation to surrender emission allowances for the 3-month period ended 31 March 2017. Provisions were recognized for current period emission allowances in the amount of:
 - TAURON Ciepło Sp. z o.o.: PLN 8 852 thousand;
 - TAURON Wytwarzanie S.A.: PLN 47 075 thousand.

A change in the balance of the provision in the 3-month period ended 31 March 2017 arises from:

- remeasurement of the provision for the obligation for 2016 - reversal of the provision of PLN 82 thousand;
- recognition of the provision for the obligation for the 3-month period ended 31 March 2017 – recognition of the provision of PLN 55 927 thousand;
- use of the provision due to the fulfilment of the remaining obligation for 2016 by TAURON Wytwarzanie S.A. and surrender of emission allowances in the amount of PLN 169 335 thousand. The obligation to surrender emission allowances for 2016 was partially fulfilled by TAURON Wytwarzanie S.A. in December 2016.

32.2. Provision for the obligation to surrender energy certificates

As at 31 March 2017, the Group recognized a short-term provision for the obligation to surrender energy certificates for 2017 and partly for 2016 in the estimated amount of PLN 392 273 thousand, out of which the amount of PLN 218 486 thousand was covered by certificates held as at the end of the reporting period, the amount of PLN 134 297 thousand was planned to be paid in the form of a substitution fee and the amount of PLN 39 490 thousand through the purchase of property rights.

In the 3-month period ended 31 March 2017, the Group fulfilled in part the obligation to surrender certificates of electricity generated using renewable sources, in cogeneration and energy efficiency certificates for 2016. Therefore, a provision of PLN 548 273 thousand was used.

33. Other provisions

For the 3-month period ended 31 March 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
Recognition/(reversal), net	369	2 518	2 887
Utilisation	(63)	(2 215)	(2 278)
Closing balance	92 449	262 895	355 344
Non-current	-	46 478	46 478
Current	92 449	216 417	308 866
Current portion of provisions for the costs of disassembly of fixed assets and land restoration and other provisions			20 696
Total current other provisions			329 562

For the 3-month period ended 31 March 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	2 151	3 471	5 622
Utilisation	(68)	(996)	(1 064)
Closing balance	93 992	70 186	164 178
Non-current	-	1 899	1 899
Current	93 992	68 287	162 279
Current portion of provisions for the costs of disassembly of fixed assets and land restoration and other provisions			27 907
Total current other provisions			190 186

Provision for use of real estate without contract

The Group companies recognize provisions for all claims filed by the owners of the real estate on which distribution systems and heat installations are located. As at 31 March 2017, the relevant provision amounted to PLN 92 449 thousand and was related to the following segments:

- Generation: PLN 50 278 thousand;
- Distribution: PLN 42 171 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 for counterparty claims, court disputes and other provisions

Material provisions recognized as other provisions have been discussed below:

Item	Operating segment	Description	As at 31 March 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): • Construction of a biomass boiler in Elektrownia Jaworzno III – Elektrownia II; • Construction of a system of power generation from renewable sources in Stalowa Wola, a provision has been recognised for the costs of returning the subsidy totalling PLN 52,297 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, a provision totalling PLN 11,250 has been recognised.	63 547	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
Proceedings before the Office of Competition and Consumer Protection	Distribution	A provision for fines imposed by the President of the Office of Competition and Consumer Protection for the abuse by ENION S.A. (now TAURON Dystrybucja S.A.) of its dominant position on the electricity distribution market. As at 31 March 2017, the provision was recognized for fines related to proceedings before the Court of Competition and Consumer Protection which had not been closed as at that date. The balance of the provision had not changed as compared to 31 December 2016.	7 302	7 302
Provision for real estate tax	Mining	Provisions for proceedings related to real estate tax on underground mining excavations.	23 810	23 008
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 period of the inspection proceedings was prolonged by the Director of the Tax Inspection Office a few times and the new deadline has been set at 28 June 2017. As at 31 March 2017 the provision amounts to PLN 65 530 thousand and the increase of the provision relates to interest accrued for the 3-month period ended 31 March 2017.	65 530	64 494

34. Accruals, deferred income and government grants

34.1. Deferred income and government grants

	As at 31 March 2017 (unaudited)	As at 31 December 2016
Deferred income, of which:	284 319	293 284
Donations, subsidies received for the purchase or fixed assets received free-of-charge	69 623	71 849
Connection fees	212 473	218 075
Other	2 223	3 360
Government grants, of which:	312 198	317 505
Subsidies obtained from EU funds	208 980	211 981
Forgiven loans from environmental funds	27 641	28 068
Measurement of preferential loans	37 425	37 777
Other	38 152	39 679
Total	596 517	610 789
Non-current	543 994	553 874
Current	52 523	56 915

34.2. Accruals

	As at 31 March 2017 (unaudited)	As at 31 December 2016
Unused holidays	65 781	48 640
Bonuses	93 594	140 930
Environmental protection charges	8 162	3 806
Other	10 139	17 790
Total	177 676	211 166
Non-current	225	419
Current	177 451	210 747

35. Liabilities to suppliers

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

Liabilities to suppliers in operating segments	As at 31 March 2017 (unaudited)	As at 31 December 2016
Distribution	296 998	294 573
<i>including from Polskie Sieci Elektroenergetyczne S.A.</i>	<i>230 814</i>	<i>200 732</i>
Sales	193 679	247 487
Mining	139 755	144 722
Generation	104 185	100 857
Other	40 624	42 090
Total	775 241	829 729

36. Capital commitments

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

Capital commitments in operating segments	As at 31 March 2017 (unaudited)	As at 31 December 2016
Generation	61 445	511 403
Distribution	126 217	336 624
Mining	23 699	159 138
Sales and other	2 997	26 639
Total	214 358	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 412 566 thousand, which totaled PLN 45 918 thousand as at 31 March 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 31 March 2017.

Long-term capital commitments have been presented in the condensed interim consolidated statement of financial position within other financial liabilities. As at 31 March 2017 and 31 December 2016, the related commitments totaled PLN 269 thousand (Distribution) and PLN 299 thousand (Distribution), respectively.

Commitments to incur capital expenditure

As at 31 March 2017 and 31 December 2016, the Group committed to incur expenditure on property, plant and equipment and intangible assets of PLN 4 097 480 thousand and PLN 4 368 685 thousand, respectively, with the key items presented below:

Operating segment	Agreement/investment project	As at 31 March 2017 (unaudited)	As at 31 December 2016
Generation	Construction of a power-generating unit with the capacity of 910 MW for supercritical parameters in Jaworzno III Power Plant	2 384 218	2 579 313
	Design, installation, set-up and launch of individual systems and facilities required for the operation of a 910 MW power unit in Elektrownia Jaworzno III	262 852	229 150
	Constructing new cogeneration capacity in Tychy Heat and Power Plant	10 000	10 000
Distribution	Redevelopment of the double track overhead line Przybków-Kąty Wrocławskie-Klecina	21 588	31 446
	Implementation of Smart City Wrocław, an intelligent measurement system	16 472	18 880
	Construction of Grid Management Centre in Kraków and in Wrocław	19 771	30 951
Mining	Construction of the "Grzegorz" shaft with the accompanying infrastructure and excavations	14 749	16 484
	Construction of the 800 m drift at Janina Mining Plant	12 118	19 578
	Investment Program in Brzeszcze Mining Plant	31 786	32 731

37. Liabilities due to taxes and charges

	As at 31 March 2017 (unaudited)	As at 31 December 2016
Corporate Income Tax	1 631	2 371
Personal Income Tax	39 829	51 084
Excise	45 852	41 549
VAT	200 873	98 114
Social security	161 436	170 039
Environmental charges	6 865	40 964
Other	6 711	6 822
Total	463 197	410 943

38. Other financial liabilities

	As at 31 March 2017 (unaudited)	As at 31 December 2016
Wages, salaries and related charges	125 114	174 212
Bid bonds, deposits and collateral received	78 853	79 415
Insurance contracts	11 030	12 560
Derivative instruments	5 203	560
Other	38 930	61 922
Total	259 130	328 669
Non-current	68 476	72 374
Current	190 654	256 295

39. Other current non-financial liabilities

	As at 31 March 2017 (unaudited)	As at 31 December 2016
Payments from customers relating to future periods, of which:	310 745	298 606
Prepayments for connection fees	20 474	21 369
Amounts overpaid by customers	252 980	245 544
Other	37 291	31 693
Other current non-financial liabilities, of which:	68 627	2 573
Surplus of Social Benefit Fund liabilities over its assets	54 396	-
Other non-financial liabilities	14 231	2 573
Total	379 372	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

	3-month period ended 31 March 2017 (unaudited)	3-month period ended 31 March 2016 (unaudited)
Change in receivables:	(40 392)	(85 570)
Change in receivables from clients in statement of financial position	2 409	18 663
Change in other financial receivables	(37 080)	(103 317)
Other adjustments	(5 721)	(916)
Change in inventories:	138 580	14 231
Change in inventories in statement of financial position	139 661	13 981
Adjustment related to transfer of inventories to/from property, plant and equipment	(1 081)	(1 099)
Other adjustments	-	1 349
Change in payables excluding loans and borrowings:	(143 995)	(119 081)
Change in liabilities to suppliers in statement of financial position	(54 488)	(97 985)
Change in payroll, social security and other financial liabilities	(74 152)	(110 085)
Change in non-financial liabilities in statement of financial position	78 193	67 532
Change in liabilities due to taxes excluding income tax	52 994	111 755
Adjustment of VAT change related to capital commitments	(154 060)	(96 456)
Other adjustments	7 518	6 158
Change in other non-current and current assets:	491 954	558 169
Change in other current and non-current non-financial assets	9 467	(43 508)
Change in receivables due to taxes excluding income tax	9 356	78 510
Change in non-current and current emission allowances	169 335	-
Change in non-current and current energy certificates	331 541	510 899
Change in advance payments for property, plant and equipment and intangible assets	(26 918)	21 101
Other adjustments	(827)	(8 833)
Change in deferred income, government grants and accruals:	(49 806)	(40 547)
Change in deferred income, government grants and accruals	(47 762)	(31 173)
Adjustment related to property, plant and equipment and intangible assets received free of charge	(1 826)	(1 050)
Adjustment related to subsidies received	(218)	(4 121)
Adjustment related to acquisition of organized part of the enterprise (ZCP Brzeszcze)	-	(4 203)
Change in provisions:	(656 555)	(492 012)
Change of short term and long term provisions in statement of financial position	(658 420)	(396 803)
Adjustment related to actuarial gains/losses from provisions for post-employment benefits charged to other comprehensive income	2 130	(2 512)
Adjustment related to acquisition of organized part of the enterprise (ZCP Brzeszcze)	-	(92 454)
Other adjustments	(265)	(243)
Total	(260 214)	(164 810)

Income tax paid

Income tax paid in the amount of PLN 41 284 thousand results mainly from the Tax Capital Group's payment of advance income tax for the first quarter of 2017 in the 3-month period ended 31 March 2017 totaling PLN 39 245 thousand.

40.2. Cash flows from investing activities

Purchase of property, plant and equipment and intangible assets

	3-month period ended 31 March 2017	3-month period ended 31 March 2016
	(unaudited)	(unaudited)
Purchase of property, plant and equipment	(561 401)	(605 359)
Purchase of intangible assets	(21 880)	(14 616)
Change in the balance of VAT-adjusted capital commitments	(665 416)	(343 664)
Change in the balance of advance payments	26 918	(21 101)
Costs of overhaul and internal manufacturing	(30 606)	(10 153)
Other	974	957
Total	(1 251 411)	(993 936)

Loans granted

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

40.3. Cash flows from financing activities

Loans and borrowings repaid

Payments to repay loans and borrowings, as presented in the consolidated statement of cash flows in the amount of PLN 22 462 thousand, arise mainly from the Parent's repayment of loan installments to the European Investment Bank, totaling PLN 20 455 thousand, during the 3-month period ended 31 March 2017.

Interest paid

	3-month period ended 31 March 2017	3-month period ended 31 March 2016
	(unaudited)	(unaudited)
Interest paid in relation to debt securities	(1 459)	(13 004)
Interest paid in relation to loans and borrowings	(11 001)	(11 916)
Interest paid in relation to the finance lease	(217)	(245)
Total	(12 677)	(25 165)

Issue of debt securities

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

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 31 March 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		38 744		45 092	
Derivative instruments	41.2	13 289	13 289	19 776	19 776
Investment fund units	22	25 455	25 455	25 316	25 316
2 Financial assets available for sale		134 243		130 143	
Shares (non-current)	22	127 594		123 594	
Shares (current)	22	4 104		4 104	
Investment fund units	22	2 545	2 545	2 445	2 445
3 Loans and receivables		2 584 565		2 245 033	
Receivables from clients	25	1 891 656	1 891 656	1 894 065	1 894 065
Deposits	22	42 168	42 168	38 472	38 472
Loans granted		557 282	557 282	256 117	256 117
Other financial receivables		93 459	93 459	56 379	56 379
4 Financial assets excluded from the scope of IAS 39		487 146		461 348	
Investments in joint ventures	20	487 146		461 348	
5 Derivative hedging instruments	41.2	32 799	32 799	36 641	36 641
6 Cash and cash equivalents	27	229 386	229 386	384 881	384 881
Total financial assets, of which in the statement of financial position:		3 506 883		3 303 138	
Non-current assets		957 808		929 439	
Investments in joint ventures		487 146		461 348	
Loans granted to joint ventures		243 079		240 951	
Other financial assets		227 583		227 140	
Current assets		2 549 075		2 373 699	
Receivables from clients		1 891 656		1 894 065	
Loans granted to joint ventures		308 049		15 116	
Other financial assets		119 984		79 637	
Cash and cash equivalents		229 386		384 881	

Categories and classes of financial liabilities	Note	As at 31 March 2017 (unaudited)		As at 31 December 2016	
		Carrying amount	Fair value	Carrying amount	Fair value
1 Financial liabilities at fair value through profit or loss, held for trading		5 203		560	
Derivative instruments	41.2	5 203	5 203	560	560
2 Financial liabilities measured at amortized cost		10 712 827		11 136 323	
Preferential loans	29.1	39 783	39 783	41 748	41 748
Arm's length loans	29.1	1 182 358	1 183 129	1 206 649	1 209 558
Bank overdrafts	29.1	78 722	78 722	15 156	15 156
Bonds issued	29.2	8 168 438	8 204 203	7 681 128	7 719 015
Liabilities to suppliers	35	775 241	775 241	829 729	829 729
Other financial liabilities		134 822	134 822	158 383	158 383
Capital commitments	36	214 627	214 627	1 034 103	1 034 103
Salaries and wages		107 806	107 806	156 867	156 867
Insurance contracts	38	11 030	11 030	12 560	12 560
3 Liabilities under guarantees, factoring and excluded from the scope of IAS 39		29 533		34 848	
Obligations under finance leases		29 533	29 533	34 848	34 848
Total financial liabilities, of which in the statement of financial position:		10 747 563		11 171 731	
Non-current liabilities		8 919 148		8 832 163	
Debt		8 850 672		8 759 789	
Other financial liabilities		68 476		72 374	
Current liabilities		1 828 415		2 339 568	
Debt		648 162		219 740	
Liabilities to suppliers		775 241		829 729	
Capital commitments		214 358		1 033 804	
Other financial liabilities		190 654		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. Disclosures regarding the fair value hierarchy have also been presented in Note 41.2. Measurement of units in investment funds has been classified to Level 1 in the fair value hierarchy.

Financial instruments classified to other categories of financial instruments:

- As at 31 March 2017, fixed-rate financial instruments, which included loans obtained from the European Investment Bank, subordinated bonds 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. applying market interest rates. The measurement resulted in Level 2 classification in fair value hierarchy;
- The fair value of other financial instruments (except for shares classified as financial assets available for sale and excluded from the scope of IAS 39, as described below) as at 31 March 2017 and 31 December 2016 did not significantly differ from their values presented in the financial statements for the respective periods, for the following reasons:
 - the potential discounting effect relating to short-term instruments is not significant;
 - the instruments are related to arm's length transactions.

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

- The 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 – are measured using the equity method in line with the accounting policies adopted by the Group.

41.2. Derivative instruments

	As at 31 March 2017 (unaudited)				As at 31 December 2016			
	Charged to profit or loss	Charged to other comprehensive income	Total		Charged to profit or loss	Charged to other comprehensive income	Total	
			Assets	Liabilities			Assets	Liabilities
IRS	398	32 401	32 799	-	23	36 618	36 641	-
Commodity forwards/futures	11 229	-	13 289	(2 060)	15 999	-	16 559	(560)
Currency forwards	(3 143)	-	-	(3 143)	3 217	-	3 217	-
Total derivative instruments, including:			46 088	(5 203)			56 417	(560)
Non-current			31 727	(36)			35 814	-
Current			14 361	(5 167)			20 603	(560)

The fair value of individual derivative 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 31 March 2017 (unaudited)		As at 31 December 2016	
	Level 1	Level 2	Level 1	Level 2
Assets				
Commodity-related derivatives	13 289	-	16 559	-
Derivative instruments - IRS	-	32 799	-	36 641
Derivative instruments - currency	-	-	-	3 217
Liabilities				
Commodity-related derivatives	2 060	-	560	-
Currency derivatives	-	3 143	-	-

Hedging derivative instruments (subject to hedge accounting) – IRS

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

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

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

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

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 31 March 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 more 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	Entities of the Group do not hold legal titles to all plots of land where distribution networks, heating installation and the related devices are located. 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 their detailed records do not exist. 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 92 449 thousand (Note 33).
Claims filed by Huta Łaziska S.A.	Following the Company's business combination with Górnośląski Zakład Elektroenergetyczny S.A. ("GZE"), TAURON Polska Energia S.A. became a party to a court dispute with Huta Łaziska S.A. ("Huta"), against GZE and the State Treasury represented by the President of Energy Regulatory Office (ERO). At present, the case is pending at District Court in Warsaw. Based on a decision of 12 October 2001, the President of the Energy Regulatory Office (ERO) ordered GZE to resume electricity supplies to Huta (suspended on 11 October 2001 since Huta had failed to pay 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 judgement of the Court of Appeals in Warsaw, which was dismissed by the judgement of the Supreme Court dated 10 May 2007. On 15 November 2001 (following the above decision issued by the President of ERO on 14 November 2001 and due to the growing indebtedness of Huta to GZE due to power supply) GZE again suspended power supply. Therefore, Huta has sued GZE for damages. Under a suit of 12 March 2007 against GZE and the State Treasury represented by the President of the Energy Regulatory Office Huta has 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 ERO dated 12 October 2001. 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 first hearing before the first instance court was held on 27 November 2012. In May 2015, a court expert prepared an opinion on correctness of settlements between the parties to the dispute. On 30 June 2015, TAURON Polska Energia S.A. lodged complaints against the opinion in question. Complaints against the opinion were also filed by Huta and the State Treasury. In its decision dated 16 September 2015 the court admitted an additional court expert's opinion concerning charges levelled by the parties as evidence. After the issue of the decision, the Company tried to change the proceeding concept adopted by the Court stating that taking evidence from a court expert opinion is unacceptable. Finally, the Court commissioned an additional opinion to be prepared by the court expert. On 5 September 2016, the additional opinion by the court expert was delivered to the Company. The Company filed charges against the said opinion on 12 and 19 September 2016. Charges were also brought by the State Treasury and Huta. Another hearing was held on 24 March 2017 but the expert witness appointed by the court did not appear. The hearing was adjourned for an unspecified period. Based on a legal analysis of claims the Company believes that they are unjustified and the risk that they must be satisfied is remote. As a result, no provision has been recognized by the Company for any costs associated with those claims.
Amount	Claim regarding payment of damages of PLN 182 060 thousand.
Litigation related to termination of long-term contracts	On 18 March 2015 Polska Energia - Pierwsza Kompania Handlowa Sp. z o.o. in liquidation terminated long-term agreements regarding purchase of power and property rights from windfarms. Court proceedings were instigated against the Company to consider the termination notices invalid. In 2016 the claims against the company were changed through the incorporation of claims for damages related to termination of the agreements in the total amount of ca. PLN 40 000 thousand. 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 in terms of the termination notes being declared invalid and of securing both non-monetary claims and the claims for damages does not exceed 50%. Therefore, no provision for the related costs has been recognized.

Item	Description
Claim filed by ENEA S.A.	The claim filed by ENEA S.A. ("ENEA") to the District 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.). The dispute concerns the fact that pursuant to the Power Transmission Grid Traffic and Operation Instruction (IRiESP) binding all participants of the Balancing Market, settlements regarding trade balances for a given period may be adjusted within 2 months, 4 months and 15 months after the settlement period. According to IRiESP, after 15 months the settlements become final. ENEA Operator Sp. z o.o. informed TAURON Polska Energia S.A. about the necessity to adjust measurement data and the entire settlement after the permitted adjustment period. Therefore, settlements between PSE S.A. and ENEA S.A. and between PSE S.A. and the Company have not been adjusted. TAURON Polska Energia S.A. responded to the claim with a series of charges. The Court obliged ENEA to reply to the response, 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 conducted on 6 March 2017. During that hearing the Court following the motion filed by ENEA S.A. (expressed in its pleading of 8 December 2016) ruled to summon before the Court (in accordance with Article 194.1 of the Code of Civil Procedure) seven sellers for which Taron Polska Energia S.A. acted as an entity in charge of trade balances in the distribution area of ENEA Operator Sp. z o.o. in 2012. The case is pending. The hearing was deferred with the deadline ex officio so that the additional defendants (sellers) could respond. No provision has been recognized as the Company believes that the risk of losing the case is below 50%.
Amount	The claim regards the payment of PLN 17 086 thousand.
Registered pledges and a financial pledge on shares of TAMEH HOLDING Sp. z o.o	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, constituting ca. 50% of shares in the issued capital of the entity for the benefit of RAIFFEISEN BANK INTERNATIONAL AG. The Company established a first lien registered pledge 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. Moreover, the Company assigned the rights to dividend and other payments. Agreement on establishing 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. 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 a release by the pledgee, not later than on 31 December 2028. On 15 September 2016, Annex 1 was executed to the aforesaid agreement, whereby the maximum amount of the collateral was changed to PLN 1 370 000 thousand.
Amount	As at 31 March 2017 the carrying amount of investments in joint venture recognized using the equity method in the TAMEH HOLDING Sp. z o.o. capital group was PLN 468 617 thousand.
Bank guarantees issued at the request of TAURON Polska Energia S.A. to secure the payment of liabilities of a joint venture	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: - the European Investment Bank – in the amount of PLN 156 000 thousand; - the European Bank for Reconstruction and Development – in the amount of PLN 83 494 thousand; - Bank Polska Kasa Opieki S.A. – in the amount of PLN 74 992 thousand. All these bank guarantees are valid from 30 October 2016 to 14 April 2017. A notarized declaration of voluntary submission to enforcement is a security under the Agreement. On 31 March 2017, Elektrociepłownia Stalowa Wola S.A. paid all its liabilities to the financing banks. Between the end of the reporting period and the guarantee expiry date, i.e. 14 April 2017, The Bank of Tokyo-Mitsubishi UFJ, Ltd. MUFG BANK (EUROPE) N.V. did not file any claims against the Company on the basis of the guarantees.
Amount	The total value of guarantees issued PLN 314 486 thousand.

Item	Description
Administrative proceedings instigated by the President of the Office for Competition and Consumer Protection (UOKiK)	President of UOKiK instigated the following procedures against the Sales segment company: - 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 committed to discontinue practices violating 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 requested the company to demonstrate whether the practices have been discontinued. The company responded to the request in February 2016 informing that the practices have been discontinued and motioned for a decision not to charge a fine. No such decision had been issued by the date of the financial statements. 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. By a decision of 15 October 2015 the President of UOKiK instigated anti-trust proceedings. On 1 February 2016 UOKiK accepted the company's decision regarding presentation of a specific commitment. On 24 August 2016, the President of UOKiK issued a decision obliging the company to fulfil the obligation to take steps to prevent the alleged violations through the employment of specific measures within two months of the said decision becoming final. On 29 September 2016, the company filed an appeal against the decision with the Court of Competition and Consumer Protection. On 2 December 2016, the President of the Office of Competition and Consumer Protection issued a decision amending the statement of reasons supporting the previous decision. The decision became final on 2 February 2017. A report on its implementation was prepared and sent to UOKiK on 31 March 2017. The company does not recognize provisions for fines related to the above proceedings, since its management board believe the risk of losing the cases and paying the fines is low.
Explanatory proceedings instigated by the President of UOKiK	Explanatory proceedings have been instigated against the company from the Sales segment to preliminarily determine whether their actions have been in breach of the Act on competition and consumer protection. The company provided requested documents and explanations and responded to statements included in the letters of UOKiK. The company's Management believe that, considering the explanatory nature of the proceedings instigated, the probability of an unfavorable outcome of the above-mentioned case is low; hence no provision has been recognized for these events.
Administrative proceedings instigated by the President of the Energy Regulatory Office (ERO)	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. The Company has not recognized any provisions for the potential penalties related to the aforesaid proceedings as the matter has not been decided yet and no forecasts concerning the amount of the potential penalty are available.
Real estate tax	There are different interpretations regarding the approach to real estate tax on electricity generation and transmission facilities and on equipment used in underground excavations. Since the tax is imposed on the local self-government level, there is no unified approach and in several cases, the tax base calculation has been questioned. Depending on court decisions and possible amendments to relevant regulations, the status of real estate tax on electricity generation and transmission facilities, as well as on underground excavations, may change in future. 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.
Amount	As at the end of the reporting period, provisions were recognized for costs of disputes regarding real estate tax and for the related business risk (totaling PLN 35 810 thousand). The potential disputed tax on wind farms is PLN 13 000 thousand.

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 31 March 2017 (unaudited)	As at 31 December 2016
Real estate	80 273	81 363
Plant and machinery	13 852	14 059
Cash	9	13 740
Total	94 134	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 31 March 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 25 000 thousand)	authorization to debit the bank account maintained by Bank Gospodarstwa Krajowego	up to PLN 105 495 thousand (EUR 25 000 thousand)
	declaration of submission to enforcement	up to PLN 210 990 thousand (EUR 50 000 thousand) valid until 31 December 2019
Overdraft agreement with mBank (in USD, up to USD 2 000 thousand)	declaration of submission to enforcement	up to PLN 11 837 thousand (USD 3 000 thousand) valid until 31 March 2019

Other forms of collateral against liabilities of the Group

As at 31 March 2017, other material forms of collateral regarding liabilities of the TAURON Group included:

- Blank promissory notes

Agreement/transaction secured by blank promissory notes	Capital Group company that has issued a blank promissory note	As at 31 March 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.	170 888
Performance bonds related to co-funding agreements concluded with the National Fund for Environmental Protection and Water Management and the return of funds	TAURON Ciepło Sp. z o.o.	87 251
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 31 March 2017 (unaudited)	Collateral
Leaseback agreement concerning real estate, plant and machinery	TAURON Ciepło Sp. z o.o.	22 479	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.
Finance lease agreement concerning real estate in Katowice	TAURON Polska Energia S.A.	24 414	The agreement is collateralized by two blank promissory notes, assignment of receivables and authorization to debit a bank account.

- The Company granted a corporate guarantee to TAURON Sweden Energy AB (publ), a subsidiary, to secure bonds issued by the entity in December 2014. The guarantee is valid in the entire bond period, i.e. until 3 December 2029, and amounts to EUR 168 000 thousand;
- 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 31 March 2017, the guarantees issued by the bank totaled PLN 50 000 thousand and were valid until April 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 13 554 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 17 007 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., Elektrownia Blachownia Nowa Sp. z o.o. in liquidation 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.

	3-month period ended 31 March 2017 (unaudited)	3-month period ended 31 March 2016 (unaudited)
Revenue	17 511	6 622
Costs	(13 345)	(15 488)

The key income item arises from transactions with the TAMEH HOLDING Sp. z o.o. Capital Group, a joint venture. In the 3-month periods ended 31 March 2017 and 31 March 2016, transactions with the joint venture amounted to PLN 14 736 thousand and PLN 3 682 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 recognizes provisions for onerous contracts and for costs. As at 31 March 2017, they totaled PLN 13 004 thousand. In the 3-month period ended 31 March 2017, the Company reversed provisions of PLN 190 265 thousand, which has been discussed in more detail in Note 31.3 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 expense

	3-month period ended 31 March 2017 (unaudited)	3-month period ended 31 March 2016 (unaudited)
Revenue	423 148	617 415
Costs	(773 536)	(615 104)

Receivables and liabilities

	As at 31 March 2017 (unaudited)	As at 31 December 2016
Receivables	250 379	356 595
Payables	323 317	298 786

As at 31 March 2017, receivables presented in the table above comprised advance payments of PLN 54 124 thousand, including advance payments for deliveries of coal of PLN 44 367 thousand and advance payments for purchases of fixed assets of PLN 9 757 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.

Among the State Treasury companies, in the 3-month period ended 31 March 2017, KGHM Polska Miedź S.A., PSE S.A., Jastrzębska Spółka Węglowa S.A., Katowicki Holding Węglowy S.A. and Polska Grupa Górnicza Sp. z o.o. were

the major customers of the TAURON Polska Energia S.A. Capital Group. Total sales to these contracting parties accounted for 84% of revenue from 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 contracting parties accounted for 87% of the value of purchases from State Treasury companies during the 3-month period ended 31 March 2017.

In the 3-month period ended 31 March 2016, KGHM Polska Miedź S.A., PSE S.A., Kompania Węglowa S.A. and Jastrzębska Spółka Węglowa S.A. were the major customers of the TAURON Polska Energia S.A. Capital Group out of the State Treasury companies. Total sales to these contracting parties accounted for 87% of revenue from transactions with State Treasury companies. The largest purchase transactions were concluded by the Group with PSE S.A. and Kompania Węglowa S.A. Purchases from these contracting parties accounted for 87% of the value of purchases from State Treasury companies during the 3-month period ended 31 March 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 31 March 2017.

The Capital Group enters into material transactions in the energy market through Izba Rozliczeniowa Giełd Towarowych S.A. As it is only responsible for organization of commodities exchange trading, the 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 to the Management Board, Supervisory Board and other key executives of the Parent and subsidiaries, paid or due in the 3-month period ended 31 March 2017 and in the comparative period, has been presented in the table below.

	3-month period ended 31 March 2017 (unaudited)		3-month period ended 31 March 2016 (unaudited)	
	Parent	Subsidiaries	Parent	Subsidiaries
Board of Directors	2 079	5 942	3 417	5 741
Short-term benefits (with surcharges)	1 239	4 751	1 216	4 446
Employment termination benefits	634	1 051	2 077	1 041
Other	206	140	124	254
Supervisory Board	214	164	305	137
Short-term employee benefits (salaries and surcharges)	214	146	305	137
Other	-	18	-	-
Other key management personnel	3 437	8 838	4 229	10 304
Short-term employee benefits (salaries and surcharges)	2 675	8 278	3 372	9 989
Jubilee bonuses	-	93	-	123
Employment termination benefits	530	292	609	134
Other	232	175	248	58
Total	5 730	14 944	7 951	16 182

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

As regards employment termination benefits for Members of the Management Board, presented in the table above, the amount of PLN 395 thousand was accounted for as the use of a provision recognized as at 31 December 2016 by the Parent and the amount of PLN 865 thousand as the use of provisions recognized as at 31 December 2016 by the subsidiaries.

Additionally, in the 3-month period ended 31 March 2017, the Group companies recognized provisions for employment termination benefits for Members of the Management Board, in the amount of PLN 1 093 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

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

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

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

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

These condensed interim consolidated financial statements of the TAURON Polska Energia S.A. Capital Group, prepared for the 3-month period ended 31 March 2017 in accordance with International Accounting Standard 34 have been presented on 63 consecutive pages.

Katowice, 9 May 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

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