TAURON Polska Energia S.A.

Condensed Interim Financial Statements

prepared in accordance with the International Financial Reporting Standards,

as endorsed by the European Union

for the 6-month period ended 30 June 2017

(PLN '000)

CONDENSED INTERIM STATEMENT OF COMPREHENSIVE INCOME

	Note	6-month period ended 30 June 2017 *(unaudited)*	6-month period ended 30 June 2016 *(unaudited restated figures)*
Sales revenue	**11**	3 620 652	3 888 292
Cost of sales	**12**	(3 319 950)	(3 799 149)
Profit on sale		**300 702**	**89 143**
Selling and distribution expenses	**12**	(12 151)	(9 794)
Administrative expenses	**12**	(53 374)	(44 191)
Other operating income and expenses		(1 279)	(6 364)
Operating profit		**233 898**	**28 794**
Dividend income	**13**	560 832	1 485 152
Interest income on bonds and loans	**13**	252 377	240 340
Interest expense on debt	**13**	(155 229)	(184 733)
Revaluation of shares and loans	**13**	10 267	(997 051)
Other finance income and costs	**13**	57 297	(20 264)
Profit before tax		**959 442**	**552 238**
Income tax expense	**14.1**	(59 111)	(2 327)
Net profit		**900 331**	**549 911**
Measurement of hedging instruments	**28.4**	(9 075)	48 846
Income tax expense	**14.1**	1 724	(9 281)
Other comprehensive income subject to reclassification to profit or loss		**(7 351)**	**39 565**
Actuarial gains/(losses)		27	27
Income tax expense	**14.1**	(5)	(5)
Other comprehensive income not subject to reclassification to profit or loss		**22**	**22**
Other comprehensive income, net of tax		**(7 329)**	**39 587**
Total comprehensive income		**893 002**	**589 498**
Earnings per share (in PLN):			
- basic and diluted, for net profit		0.51	0.31

Notes to the condensed interim financial statements form their integral part

(PLN '000)

CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION

	Note	As at 30 June 2017 *(unaudited)*	As at 31 December 2016
ASSETS			
Non-current assets			
Property, plant and equipment	**16**	739	1 276
Investment property	**17**	23 510	25 318
Intangible assets	**18**	1 676	2 191
Shares	**19**	19 105 463	14 874 418
Bonds	**20**	6 359 920	9 615 917
Loans granted	**21**	1 252 324	1 292 800
Derivative instruments	**22**	26 051	35 814
Other financial assets	**23**	2 854	1 524
Other non-financial assets		11 167	6 071
		26 783 704	**25 855 329**
Current assets			
Inventories	**24**	238 938	284 799
Receivables from clients	**25**	368 319	840 656
Receivables arising from taxes and charges	**26**	52 083	120 586
Bonds	**20**	586 149	242 465
Loans granted	**21**	320 455	30 966
Derivative instruments	**22**	11 813	20 603
Other financial assets	**23**	662 611	55 354
Other non-financial assets		4 456	23 528
Cash and cash equivalents	**27**	56 720	198 090
		2 301 544	**1 817 047**
TOTAL ASSETS		**29 085 248**	**27 672 376**

Notes to the condensed interim financial statements form their integral part

(PLN '000)

CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION – continued

	Note	As at 30 June 2017 *(unaudited)*	As at 31 December 2016
EQUITY AND LIABILITIES			
Equity			
Issued capital	**28.1**	8 762 747	8 762 747
Reserve capital	**28.3**	7 657 086	7 823 339
Revaluation reserve from valuation of hedging instruments	**28.4**	22 309	29 660
Retained earnings / (Accumulated losses)	**28.3**	981 128	(85 478)
		17 423 270	**16 530 268**
Non-current liabilities			
Debt	**29**	8 776 938	8 754 047
Other financial liabilities	**30**	20 166	27 918
Derivative instruments	**22**	21	-
Deferred income tax liabilities	**14.2**	51 274	32 364
Provisions for employee benefits		2 717	2 534
Other provisions	**31**	-	152 943
Accruals, deferred income and government grants		-	170
		8 851 116	**8 969 976**
Current liabilities			
Debt	**29**	2 311 321	1 433 929
Liabilities to suppliers	**32**	285 078	473 637
Other financial liabilities	**30**	117 688	111 759
Derivative instruments	**22**	4 043	560
Liabilities arising from taxes and charges	**33**	11 085	20 209
Other non-financial liabilities		151	-
Provisions for employee benefits		308	299
Other provisions	**31**	66 576	110 406
Accruals, deferred income and government grants		14 612	21 333
		2 810 862	**2 172 132**
Total liabilities		**11 661 978**	**11 142 108**
TOTAL EQUITY AND LIABILITIES		**29 085 248**	**27 672 376**

(PLN '000)

CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY

FOR THE 6-MONTH PERIOD ENDED 30 JUNE 2017 *(unaudited)*

	Note	Issued capital	Reserve capital	Revaluation reserve from valuation of hedging instruments	Retained earnings/ (Accumulated losses)	Total equity
As at 1 January 2017		**8 762 747**	**7 823 339**	**29 660**	**(85 478)**	**16 530 268**
Coverage of prior years loss	**28.3**	-	(166 253)	-	166 253	**-**
Transactions with shareholders		**-**	**(166 253)**	**-**	**166 253**	**-**
Net profit		-	-	-	900 331	**900 331**
Other comprehensive income		-	-	(7 351)	22	**(7 329)**
Total comprehensive income		**-**	**-**	**(7 351)**	**900 353**	**893 002**
As at 30 June 2017 *(unaudited)*		**8 762 747**	**7 657 086**	**22 309**	**981 128**	**17 423 270**

FOR THE 6-MONTH PERIOD ENDED 30 JUNE 2016 (*unaudited*)

	Issued capital	Reserve capital	Revaluation reserve from valuation of hedging instruments	Retained earnings/ (Accumulated losses)	Total equity
As at 1 January 2016	**8 762 747**	**11 277 247**	**(73 414)**	**(3 374 083)**	**16 592 497**
Coverage of prior years loss	-	(3 453 908)	-	3 453 908	**-**
Transactions with shareholders	**-**	**(3 453 908)**	**-**	**3 453 908**	**-**
Net profit	-	-	-	549 911	**549 911**
Other comprehensive income	-	-	39 565	22	**39 587**
Total comprehensive income	**-**	**-**	**39 565**	**549 933**	**589 498**
As at 30 June 2016 *(unaudited)*	**8 762 747**	**7 823 339**	**(33 849)**	**629 758**	**17 181 995**

(PLN '000)

CONDENSED INTERIM STATEMENT OF CASH FLOWS

	Note	6-month period ended 30 June 2017 *(unaudited)*	6-month period ended 30 June 2016 *(unaudited)*
Cash flows from operating activities			
Profit before taxation		959 442	552 238
Depreciation and amortization		2 892	4 450
Interest and dividends, net		(657 563)	(1 538 907)
Impairment losses on shares and loans		(10 267)	997 051
Foreign exchange difference		(72 290)	27 831
Other adjustments of profit before tax		14 513	(20 879)
Change in working capital	**34.1**	109 022	(164 146)
Income tax paid		111	(6 545)
Net cash from (used in) operating activities		**345 860**	**(148 907)**
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets		(532)	(1 035)
Purchase of bonds	**34.2**	(350 000)	(1 680 000)
Purchase of shares	**34.2**	(4 160 200)	(429 120)
Loans granted	**34.2**	(295 992)	(7 600)
Purchase of investment fund units		-	(25 000)
Total payments		**(4 806 724)**	**(2 142 755)**
Sale of property, plant and equipment and intangible assets		-	1
Redemption of bonds	**34.2**	3 162 110	340 000
Repayment of loans granted		-	142 024
Dividends received		3 991	1 460 154
Interest received	**34.2**	326 904	323 041
Other proceeds		-	5 982
Total proceeds		**3 493 005**	**2 271 202**
Net cash from (used in) investing activities		**(1 313 719)**	**128 447**
Cash flows from financing activities			
Payment of finance lease liabilities		(1 691)	(1 576)
Repayment of loans and borrowings	**34.3**	(40 909)	(40 909)
Redemption of debt securities	**34.3**	(300 000)	(2 250 000)
Interest paid	**34.3**	(112 906)	(165 763)
Commission paid		(8 178)	(6 961)
Total payments		**(463 684)**	**(2 465 209)**
Issue of debt securities	**34.3**	600 000	2 860 000
Total proceeds		**600 000**	**2 860 000**
Net cash from financing activities		**136 316**	**394 791**
Net increase / (decrease) in cash and cash equivalents		**(831 543)**	**374 331**
Net foreign exchange difference		267	770
Cash and cash equivalents at the beginning of the period	**27**	**(1 045 441)**	**(679 175)**
Cash and cash equivalents at the end of the period, *of which:*	**27**	**(1 876 984)**	**(304 844)**
restricted cash	**27**	40 499	83 134

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

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

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

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

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

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

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

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

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

The Company’s condensed interim financial statements cover the 6-month period ended 30 June 2017 and present comparative data for the 6-month period ended 30 June 2016 as well as figures as at 31 December 2016. The data for the 6-month period ended 30 June 2017 and the comparative data for the 6-month period ended 30 June 2016, as contained herein, have been reviewed by a certified auditor. The comparative data as at 31 December 2016 were audited by a certified auditor.

These condensed interim financial statements for the 6-month period ended 30 June 2017 were approved for publication on 16 August 2017.

The Company also prepared condensed interim consolidated financial statements for the 6-month period ended 30 June 2017, which were approved by the Management Board for publication on 16 August 2017.

These condensed interim financial statements are part of the consolidated report, which also includes the condensed interim consolidated financial statements for the 6-month period ended 30 June 2017.

2. Shares in related parties

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

(PLN '000)

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

[1] *On 3 April 2017 TAURON Wytwarzanie S.A. was divided and an organised part of the enterprise was separated to form Nowe Jaworzno Grupa TAURON Sp. z. o.o*

.[2] *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.*

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

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

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

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

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

3. Statement of compliance

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

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

4. Going concern

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

5. Functional and presentation currency

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

6. Changes in estimates

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

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

(PLN '000)

Item	Value of item to which the estimate figure applies		Details regarding assumptions made and calculation of significant estimates
	As at 30 June 2017 *(unaudited)*	As at 31 December 2016	
Shares	19 105 463	14 870 418	• Impairment In the 6-month period ended 30 June 2017, the Company reversed part of the write-down recognized against the shares in TAURON Wytwarzanie S.A. of PLN 120 057 thousand and recognized a write-down against the shares in Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. of PLN 49 212 thousand. As at 30 June 2017, the impairment write-down of shares referred to the following companies: TAURON Wytwarzanie S.A. – PLN 5 283 768 thousand, TAURON Ekoenergia Sp. z o.o. – PLN 939 765 thousand and Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. – PLN 49 212 thousand. Note 19
Loan granted to a subsidiary	1 015 839	1 051 849	• Impairment The impairment tests performed as at 30 June 2017 with respect to shares, bonds and loans from subsidiaries showed the need to recognize an additional write-down due to the impairment of a loan granted to a subsidiary of PLN 60 578 thousand. As at 30 June 2017, the write-down amounted to PLN 258 531 thousand (as at 31 December 2016: PLN 197 953 thousand). • Classification as non-current assets. Note 21
Provision for onerous contracts and for costs	-	198 844	•In the 6-month period ended 30 June 2017, the Company reversed the whole provision for the power agreement, the provision for the 'take or pay" clause and the provision for the costs of operation of Elektrociepłownia Stalowa Wola S.A. Note 31
Deferred tax assets	21 333	50 115	• Unrecognised deferred tax assets; • Realisation of deferred tax assets. Note 14.2
Derivative instruments: Assets Liabilities	 37 864 4 064	 56 417 560	• Fair value measurement. Note 22
Intragroup bonds	6 946 069	9 858 382	• Classification as non-current or current assets. Note 20
Loan received from a subsidiary	28 075	29 286	• Classification as non-current or current liabilities. Note 29.3

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

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

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

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

IFRS 9 *Financial Instruments*

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

Major changes introduced by IFRS 9 *Financial Instruments*:

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

  The existing four categories of financial assets, as defined in IAS 39 *Financial Instruments: Recognition and Measurement*, will be replaced by two categories, namely amortized cost and fair value;

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

Impact on the financial statements

A change in the principles of classification and measurement of financial assets will drive a change in the classification of financial assets in the financial statements of the Company, but preliminary analysis showed that it is not expected to have a considerable impact on the measurement, profit/loss or equity of the Company. An analysis of the financial assets held by the Company as at 30 June 2017 has shown that, provided that the Company maintains similar financial assets when IFRS 9 *Financial Instruments* becomes effective, the new classification should not materially change the measurement and hence the Company's profit/loss or equity. The instruments which have thus far been classified as loans and receivables meet the conditions to be classified as assets measured at amortized cost. Hence, the change will not result in any changes in the measurement. The Company does not have any assets held to maturity. Other categories of financial assets measured at fair value in line with IFRS 9 *Financial Instruments* are assets measured at fair value.

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

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

As at 30 June 2017 the Company holds instruments hedging cash flows from issued bonds against the interest rate risk arising from fluctuations in the interest rates. The said IRS instruments are subject to hedge accounting. The implementation of IFRS 9 *Financial Instruments* is not expected to have a significant impact on the Company's financial statements in respect of the hedge accounting applied by the Company.

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 requires such entities to provide users of financial statements with more informative, relevant disclosures. It replaces IAS 18 *Revenue*, IAS 11 *Construction Contracts*, IFRIC 18 *Transfers of Assets from Customers* and a number of interpretations applicable to revenue recognition.

Impact on the financial statements

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

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

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

IFRS 16 *Leases*

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

Under IFRS 16 *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 financial statements

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

Clarifications to IFRS 15 *Revenue from Contracts with Customers*

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

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

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

(PLN '000)

Standard	Effective date specified in the Standard, not endorsed by the EU *(annual periods beginning on or after the date provided)*
IFRS 14 *Regulatory Deferral Accounts*	1 January 2016*
IFRS 17 *Insurance contracts*	1 January 2021
Revised IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures: Sale or Contribution of Assets between Investor and its Associate or Joint Venture with subsequent amendments	the effective date has been postponed
Revised IAS 12 *Income Taxes – Recognition of Deferred Tax Assets for Unrealized Losses*	1 January 2017
Revised IAS 7 *Statement of Cash Flows – Disclosure Initiative.* The amendments are intended to clarify IAS 7 to improve information provided to users of financial statements about an entity's financing activities.	1 January 2017
Revised IFRS 2 *Share-based Payments: Classification and Measurement of Share-based Payment Transactions*	1 January 2018
Revised IFRS 4 *Insurance Contracts – application of IFRS 9 Financial Instruments along with IFRS 4 Insurance Contracts*	1 January 2018
Annual Improvements to IFRS (2014-2016):	
IFRS 12 *Disclosure of Interests in Other Entities*	1 January 2017
IFRS 1 *First-time Adoption of International Financial Reporting Standards*	1 January 2018
IAS 28 *Investments in Associates and Joint Ventures*	1 January 2018
IFRIC 22 *Foreign Currency Transactions and Advance Consideration*	1 January 2018
Revised IAS 40 *Investment Property – Transfers of Investment Property*	1 January 2018
IFRIC 23 *Uncertainty over Income Tax Treatments*	1 January 2019

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

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

8. Significant accounting policies

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

No new or amended standards or interpretations applicable to annual periods beginning after 1 January 2016 were issued after 1 January 2016. The standards and interpretations that have been issued but are not yet effective since they have not been endorsed by the EU or that have been endorsed by the EU but have not been early applied by the Company are presented in the annual financial statements for the year 2016. In the first half of 2017, only IFRS 17 *Insurance Contracts* was issued.

Presentation change

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

The effect of the presentation change on the condensed interim statement of comprehensive income for the 6-month period ended 30 June 2016 is presented in the table below. The change has not had any effect on the Company's profit/loss.

(PLN '000)

	6-month period ended 30 June 2016 *(unaudited authorised figures)*	Change in presentation of gains/losses on trading in emission allowances and on commodity derivative instruments	6-month period ended 30 June 2016 *(unaudited restated figures)*
Sales revenue	3 990 123	(101 831)	3 888 292
Cost of sales	(3 907 941)	108 792	(3 799 149)
Profit on sale	**82 182**	**6 961**	**89 143**
Selling and distribution expenses	(12 602)	2 808	(9 794)
Operating profit	**19 025**	**9 769**	**28 794**
Other finance income and costs	(10 495)	(9 769)	(20 264)
Net profit	**549 911**	**-**	**549 911**

9. Seasonality of operations

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

As the Company carries out holding operations, it reports significant dividend income recognized under finance income as at the dates of the resolutions on dividend payment, unless such resolutions set other record dates. In the 6-month period ended 30 June 2017 the Company recognized dividend income in the amount of PLN 560 832 thousand and in the comparative period PLN 1 485 152 thousand.

OPERATING SEGMENTS

10. Information on operating segments

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

"Holding activity" segment assets include:

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

"Holding activity" segment liabilities include:

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

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

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

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

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

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

(PLN '000)

For the 6-month period ended 30 June 2017 or as at 30 June 2017 (*unaudited)*

	Sales	Holding activity	Unallocated items	Total
Revenue				
Sales outside the Group	498 166	-	-	**498 166**
Sales within the Group	3 091 101	31 385	-	**3 122 486**
Segment revenue	**3 589 267**	**31 385**	**-**	**3 620 652**
Profit/(loss) of the segment	**255 887**	**31 385**	**-**	**287 272**
Unallocated expenses	-	-	(53 374)	**(53 374)**
EBIT	**255 887**	**31 385**	**(53 374)**	**233 898**
Net finance income/(costs)	-	732 402	(6 858)	**725 544**
Profit/(loss) before income tax	**255 887**	**763 787**	**(60 232)**	**959 442**
Income tax expense	-	-	(59 111)	**(59 111)**
Net profit/(loss) for the period	**255 887**	**763 787**	**(119 343)**	**900 331**
Assets and liabilities				
Segment assets	776 274	28 245 359	-	**29 021 633**
Unallocated assets	-	-	63 615	**63 615**
Total assets	**776 274**	**28 245 359**	**63 615**	**29 085 248**
Segment liabilities	384 061	11 099 662	**-**	**11 483 723**
Unallocated liabilities	-	-	178 255	**178 255**
Total liabilities	**384 061**	**11 099 662**	**178 255**	**11 661 978**
EBIT	**255 887**	**31 385**	**(53 374)**	**233 898**
Depreciation/amortization	**(2 892)**	**-**	**-**	**(2 892)**
Impairment	**212**	**-**	**-**	**212**
EBITDA	**258 567**	**31 385**	**(53 374)**	**236 578**
Other segment information				
Capital expenditure *	32	-	-	**32**

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

For the 6-month period ended 30 June 2016 (*restated, unaudited*) or as at 31 December 2016

	Sales	Holding activity	Unallocated items	Total
Revenue				
Sales outside the Group	859 591	-	-	**859 591**
Sales within the Group	3 026 131	2 570	-	**3 028 701**
Segment revenue	**3 885 722**	**2 570**	**-**	**3 888 292**
Profit/(loss) of the segment	**70 415**	2 570	**-**	**72 985**
Unallocated expenses	-	-	(44 191)	**(44 191)**
EBIT	**70 415**	**2 570**	**(44 191)**	**28 794**
Net finance income (costs)	-	524 744	(1 300)	**523 444**
Profit/(loss) before income tax	**70 415**	**527 314**	**(45 491)**	**552 238**
Income tax expense	-	-	(2 327)	**(2 327)**
Net profit/(loss) for the period	**70 415**	**527 314**	**(47 818)**	**549 911**
Assets and liabilities				
Segment assets	1 450 322	26 114 360	-	**27 564 682**
Unallocated assets	-	-	107 694	**107 694**
Total assets	**1 450 322**	**26 114 360**	**107 694**	**27 672 376**
Segment liabilities	785 879	10 221 533	**-**	**11 007 412**
Unallocated liabilities	-	-	134 696	**134 696**
Total liabilities	**785 879**	**10 221 533**	**134 696**	**11 142 108**
EBIT	**70 415**	**2 570**	**(44 191)**	**28 794**
Depreciation/amortization	**(4 450)**	**-**	**-**	**(4 450)**
Impairment	**201**	**-**	**-**	**201**
EBITDA	**74 664**	**2 570**	**(44 191)**	**33 043**
Other segment information				
Capital expenditure *	533	-	-	**533**

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

In the 6-month period ended 30 June 2017, revenue from sales to two major clients, being members of the TAURON Group, represented 70% and 11% of the Company's total revenue in the "Sales" segment, amounting to PLN 2 516 281 thousand and PLN 405 070 thousand, respectively.

In the 6-month period ended 30 June 2016, revenue from sales to two major clients, being members of the TAURON Group, represented 60% and 10% of the Company's total revenue in the "Sales" segment, amounting to PLN 2 376 192 thousand and PLN 415 824 thousand, respectively.

(PLN '000)

EXPLANATORY NOTES TO THE CONDENSED INTERIM STATEMENT OF COMPREHENSIVE INCOME

11. Sales revenue

	6-month period ended 30 June 2017 *(unaudited)*	6-month period ended 30 June 2016 *(unaudited restated figures)*
Revenue from sales of goods for resale and materials, *of which*:	**3 556 723**	**3 854 966**
Electricity	3 430 471	3 558 130
Gas	109 883	121 865
Property rights arising from energy certificates	13 193	17 436
Emission allowances	495	147 961
Other	2 681	9 574
Rendering of services, *of which*:	**63 929**	**33 326**
Trading income	25 624	26 311
Other	38 305	7 015
Total sales revenue	**3 620 652**	**3 888 292**

The Company acts as an agent in transactions involving coal purchases for the Group companies. In the 6-month period ended 30 June 2017 The Company purchases raw materials from third parties and from the TAURON Group companies, which are subsequently sold to related parties. It recognizes revenue from agency services (supply management). Since 1 April 2017 TAURON Polska Energia S.A. has been operating as an agent responsible for coordination and supervision of activities relating to purchase, supply and transport of fuel.

In the 6-month period ended 30 June 2017, the value of raw materials purchased and subsequently resold in the aforementioned transactions was PLN 439 354 thousand. The Company recognized revenue from agency services of PLN 15 622 thousand.

Greenhouse gas emission allowances include:

- sales to the Group companies for purposes of allowance surrendering in fulfilment of the obligations related to greenhouse gas emissions – in the 6-month period ended 30 June 2017 sales to subsidiaries totalled PLN 495 thousand (versus PLN 147 961 thousand in the comparative period); and
- the aggregate gain on the turnover of emission allowances purchased for resale and generation of profit in the short term due to volatility of market prices (trading portfolio). In the 6-month period ended 30 June 2017 and in the comparative period, the Company incurred a loss, which was recognized within operating expenses.

The increase in other revenue from sale of services is mainly due to the increase of revenue from using the shares of subsidiaries.

(PLN '000)

12. Expenses by type

	6-month period ended 30 June 2017 *(unaudited)*	6-month period ended 30 June 2016 *(unaudited restated figures)*
Costs by type		
Depreciation of property, plant and equipment and amortization of intangible assets	(2 892)	(4 450)
Materials and energy	(679)	(552)
Consultancy services	(2 414)	(3 774)
IT services	(6 308)	(6 500)
Other external services	(14 645)	(7 047)
Taxes and charges	(1 968)	(1 401)
Employee benefits expense	(43 774)	(37 723)
Impairment loss on inventories	212	3
Allowance for receivables from clients	3	1 542
Advertising expenses	(9 774)	(9 421)
Other	(974)	(956)
Total costs by type	**(83 213)**	**(70 279)**
Selling and distribution expenses	12 151	9 794
Administrative expenses	53 374	44 191
Cost of goods for resale and materials sold	(3 302 262)	(3 782 855)
Cost of sales	**(3 319 950)**	**(3 799 149)**

13. Finance income and costs

	6-month period ended 30 June 2017 *(unaudited)*	6-month period ended 30 June 2016 *(unaudited restated figures)*
Income and costs from financial instruments, *of which:*	**726 964**	**529 244**
Dividend income	560 832	1 485 152
Interest income on bonds and loans	252 377	240 340
Other interest income	2 318	3 252
Interest expense	(155 229)	(184 733)
Commissions due to external financing	(8 844)	(8 873)
Gain/(loss) on derivative instruments	(6 899)	18 289
Exchange gains/(losses)	71 537	(27 189)
Surplus of impairment losses (recognised)/reversed on shares	70 845	(997 051)
Recognition of impairment loss on loan	(60 578)	-
Other	605	57
Other finance income and costs	**(1 420)**	**(5 800)**
Interest on discount (other provisions)	(2 330)	(8 160)
Other	910	2 360
Total finance income and costs, ***including recognized in the statement of comprehensive income:***	**725 544**	**523 444**
Dividend income	560 832	1 485 152
Interest income on bonds and loans	252 377	240 340
Interest expense on debt	(155 229)	(184 733)
Revaluation of shares and loans	10 267	(997 051)
Other finance income and costs	57 297	(20 264)

During the 6-months period ended 30 June 2017, the Company created a revaluation allowance on the value of shares in subsidiary Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. in the amount of PLN 49 212 thousand and partially dissolved the allowance on shares in TAURON Wytwarzanie S.A. in the amount of PLN 120 057 thousand. In addition, an impairment loss was recognized for a loan granted to subsidiary in the amount of PLN 60 578 thousand. Revaluation allowances on shares and loans are described in more details in Note 19 to these condensed interim financial statements.

(PLN '000)

An increase in other finance income and costs in the 6-month period ended 30 June 2017 was mainly driven by a surplus of exchange gains over exchange losses of PLN 71 537 thousand. Exchange gains were mainly related to the Company's debt in the euro, i.e. loans obtained from a subsidiary and subordinated bonds issued in December 2016. The related surplus of exchange gains over exchange losses was PLN 72 025 thousand.

14. Income tax

14.1. Tax expense in the statement of comprehensive income

	6-month period ended 30 June 2017 *(unaudited)*	6-month period ended 30 June 2016 *(unaudited)*
Current income tax	**(38 482)**	**(22 702)**
Current income tax expense	(38 747)	(22 702)
Adjustments of current income tax from prior years	265	-
Deferred tax	**(20 629)**	**20 375**
Income tax expense in profit or loss	**(59 111)**	**(2 327)**
Income tax expense in other comprehensive income	**1 719**	**(9 286)**

14.2. Deferred income tax

	As at 30 June 2017 *(unaudited)*	As at 31 December 2016
due interest on bonds and loans	44 601	66 356
difference between tax base and carrying amount of other financial assets	13 511	4 861
valuation of hedging instruments	5 237	6 962
other	9 258	4 300
Deferred tax liabilities	**72 607**	**82 479**
provision for employee benefits	574	544
other provisions and accruals	2 682	31 122
difference between tax base and carrying amount of fixed and intangible assets	970	1 107
difference between tax base and carrying amount of financial liabilities	15 698	15 887
other	1 409	1 455
Deferred tax assets	**21 333**	**50 115**
Deferred tax assets/(liabilities), net, *of which:*	**(51 274)**	**(32 364)**
Deferred tax assets/(liabilities), net - recognized in profit or loss	(45 979)	(25 349)
Deferred tax assets/(liabilities), net - recognized in other comprehensive income	(5 295)	(7 015)

Deferred tax asset related to deductible differences concerning investments in subsidiaries is recognized insofar as their reversal is probable in the foreseeable future and where taxable income will be available to enable realization of deductible differences. According to the Company, deductible temporary differences related to recognition of impairment losses on shares in subsidiaries of PLN 6 272 745 thousand and a loan granted to a subsidiary of PLN 258 351 thousand will not be reversed in the foreseeable future, as the investments are not intended for sale. Consequently, no related deferred tax asset has been recognized.

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

15. Dividend paid and proposed

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

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

(PLN '000)

EXPLANATORY NOTES TO THE CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION

16. Property, plant and equipment

For the 6-month period ended 30 June 2017 (*unaudited*)

	Plant and machinery	Motor vehicles	Other	Assets under construction	Property, plant and equipment, total
COST					
Opening balance	**5 918**	**6 857**	**11 635**	**-**	**24 410**
Direct purchase	-	-	-	32	**32**
Allocation of assets under construction	-	-	32	(32)	**-**
Closing balance	**5 918**	**6 857**	**11 667**	**-**	**24 442**
ACCUMULATED DEPRECIATION					
Opening balance	**(5 917)**	**(5 732)**	**(11 485)**	**-**	**(23 134)**
Depreciation for the period	-	(480)	(89)	-	**(569)**
Closing balance	**(5 917)**	**(6 212)**	**(11 574)**	**-**	**(23 703)**
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	**1**	**1 125**	**150**	**-**	**1 276**
NET CARRYING AMOUNT AT THE END OF THE PERIOD	**1**	**645**	**93**	**-**	**739**

For the 6-month period ended 30 June 2016 (*unaudited*)

	Plant and machinery	Motor vehicles	Other	Assets under construction	Property, plant and equipment, total
COST					
Opening balance	**6 761**	**6 857**	**10 798**	**-**	**24 416**
Direct purchase	-	-	-	533	**533**
Allocation of assets under construction	-	-	533	(533)	**-**
Sale	(21)	-	-	-	**(21)**
Closing balance	**6 740**	**6 857**	**11 331**	**-**	**24 928**
ACCUMULATED DEPRECIATION					
Opening balance	**(6 438)**	**(4 771)**	**(9 771)**	**-**	**(20 980)**
Depreciation for the period	(178)	(480)	(1 430)	-	**(2 088)**
Sale	21	-	-	-	**21**
Closing balance	**(6 595)**	**(5 251)**	**(11 201)**	**-**	**(23 047)**
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	**323**	**2 086**	**1 027**	**-**	**3 436**
NET CARRYING AMOUNT AT THE END OF THE PERIOD	**145**	**1 606**	**130**	**-**	**1 881**

17. Investment property

	6-month period ended 30 June 2017 (*unaudited*)	6-month period ended 30 June 2016 (*unaudited*)
COST		
Opening balance	**36 169**	**36 169**
Closing balance	**36 169**	**36 169**
ACCUMULATED DEPRECIATION		
Opening balance	**(10 851)**	**(7 234)**
Depreciation for the period	(1 808)	(1 808)
Closing balance	**(12 659)**	**(9 042)**
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	**25 318**	**28 935**
NET CARRYING AMOUNT AT THE END OF THE PERIOD	**23 510**	**27 127**

The investment property is composed of buildings located in Katowice Szopienice at ul. Lwowska 23, used under a finance lease agreement with PKO Leasing S.A. The monthly lease payment is ca. PLN 338 thousand, while the monthly depreciation charge is PLN 301 thousand.

The Company is a party to a lease agreement with a subsidiary (the lessee) valid until 30 April 2018, whereby buildings and structures the rights to which result from the aforesaid lease agreement have been subleased. In the 6-month period ended 30 June 2017, the rental income related to the investment property amounted to PLN 2 820 thousand.

(PLN '000)

18. Non-current intangible assets

For the 6-month period ended 30 June 2017 (*unaudited*)

	Software and licenses	Other intangible assets	Intangible assets, total
COST			
Opening balance	**2 259**	**4 125**	**6 384**
Closing balance	**2 259**	**4 125**	**6 384**
ACCUMULATED AMORTIZATION			
Opening balance	**(2 046)**	**(2 147)**	**(4 193)**
Amortization for the period	(137)	(378)	**(515)**
Closing balance	**(2 183)**	**(2 525)**	**(4 708)**
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	**213**	**1 978**	**2 191**
NET CARRYING AMOUNT AT THE END OF THE PERIOD	**76**	**1 600**	**1 676**

For the 6-month period ended 30 June 2016 (*unaudited*)

	Software and licenses	Other intangible assets	Intangible assets, total
COST			
Opening balance	**3 539**	**4 185**	**7 724**
Liquidation	(1 280)	(60)	**(1 340)**
Closing balance	**2 259**	**4 125**	**6 384**
ACCUMULATED AMORTIZATION			
Opening balance	**(2 985)**	**(1 440)**	**(4 425)**
Amortization for the period	(170)	(384)	**(554)**
Liquidation	1 280	60	**1 340**
Closing balance	**(1 875)**	**(1 764)**	**(3 639)**
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	**554**	**2 745**	**3 299**
NET CARRYING AMOUNT AT THE END OF THE PERIOD	**384**	**2 361**	**2 745**

19. Shares

Changes in shares from 1 January 2017 to 30 June 2017 (*unaudited*)

No.	Company	Gross value				Impairment losses				Net value	
		Opening balance	(Decreases)	Increases	Closing balance	Opening balance	Decreases	(Increases)	Closing balance	Opening balance	Closing balance
1	TAURON Wydobycie S.A.	841 755	-	160 000	1 001 755	-	-	-	-	841 755	1 001 755
2	TAURON Wytwarzanie S.A.	7 236 727	(157 797)	-	7 078 930	(5 403 825)	120 057	-	(5 283 768)	1 832 902	1 795 162
3	TAURON Ciepło Sp. z o.o.	1 328 043	-	600 000	1 928 043	-	-	-	-	1 328 043	1 928 043
4	TAURON Ekoenergia Sp. z o.o.	939 765	-	-	939 765	(939 765)	-	-	(939 765)	-	-
5	Marselwind Sp. z o.o.	107	-	200	307	-	-	-	-	107	307
6	TAURON Serwis Sp. z o.o.	1 268	-	-	1 268	-	-	-	-	1 268	1 268
7	Nowe Jaworzno Grupa TAURON Sp. z o.o.	-	-	3 557 797	3 557 797	-	-	-	-	-	3 557 797
8	TAURON Dystrybucja S.A.	9 511 628	-	-	9 511 628	-	-	-	-	9 511 628	9 511 628
9	TAURON Sprzedaż Sp. z o.o.	613 505	-	-	613 505	-	-	-	-	613 505	613 505
10	TAURON Sprzedaż GZE Sp. z o.o.	129 823	-	-	129 823	-	-	-	-	129 823	129 823
11	TAURON Czech Energy s.r.o.	4 223	-	-	4 223	-	-	-	-	4 223	4 223
12	Kopalnia Wapienia Czatkowice Sp. z o.o.	41 178	-	-	41 178	-	-	-	-	41 178	41 178
13	Polska Energia Pierwsza Kompania Handlowa Sp. z o.o.	55 056	-	-	55 056	-	-	(49 212)	(49 212)	55 056	5 844
14	TAURON Sweden Energy AB (publ)	28 382	-	-	28 382	-	-	-	-	28 382	28 382
15	Biomasa Grupa TAURON Sp. z o.o.	1 269	-	-	1 269	-	-	-	-	1 269	1 269
16	TAURON Obsługa Klienta Sp. z o.o.	39 831	-	-	39 831	-	-	-	-	39 831	39 831
17	TAMEH HOLDING Sp. z o.o.	415 852	-	-	415 852	-	-	-	-	415 852	415 852
18	PGE EJ 1 Sp. z o.o.	23 046	-	3 500	26 546	-	-	-	-	23 046	26 546
19	ElectroMobility Poland S.A.	2 500	-	-	2 500	-	-	-	-	2 500	2 500
20	Other	50	-	500	550	-	-	-	-	50	550
	Total	**21 214 008**	**(157 797)**	**4 321 997**	**25 378 208**	**(6 343 590)**	**120 057**	**(49 212)**	**(6 272 745)**	**14 870 418**	**19 105 463**

Movements in the balance of long-term investments which occurred in the 6-month period ended 30 June 2017 resulted from the following transactions:

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

On 21 March 2017, the Extraordinary Shareholders' Meeting of TAURON Wydobycie S.A. adopted a resolution to increase the company's issued capital from PLN 355 511 thousand to PLN 357 111 thousand, i.e. by PLN 1 600 thousand, by issuing 160 000 shares with a nominal value of PLN 10 each, which were taken up by the Company at the price of PLN 1 000 per share, for the total amount of PLN 160 000 thousand.

The increase of the share capital of TAURON Wydobycie S.A. was registered on 7 April 2017.

- Transfer of shares from TAURON Wytwarzanie S.A. to Nowe Jaworzno Grupa TAURON Sp. z o.o.

On 3 April 2017, TAURON Wytwarzanie S.A. was divided pursuant to Article 529 § 1 item 4 of the Code of Commercial Companies, by separating and transferring an organised part of the enterprise involved in the preparation, construction and operation of the new 910 MW power unit in the Jaworzno III Power Plant to Nowe Jaworzno Grupa TAURON Sp. z o.o. The relevant resolution was adopted by the Extraordinary General Shareholders' Meeting of TAURON Wytwarzanie S.A. on 31 January 2017. As a result of the division, the Company reclassified its investments in TAURON Wytwarzanie S.A. to investments in Nowe Jaworzno Grupa TAURON Sp. z o.o. at an amount of PLN 157 797 thousand.

- Increase of the issued capital of TAURON Ciepło Sp. z o.o.

On 11 May 2017, the Extraordinary Shareholders' Meeting of TAURON Ciepło Sp. z o.o. adopted a resolution to increase the company's issued capital from PLN 1 098 348 thousand to PLN 1 104 348 thousand, i.e. by PLN 6 000 thousand, by creating 120 000 new shares with a nominal value of PLN 50 each and the total nominal value of PLN 6 000 thousand. The shares were acquired at the price of PLN 5 thousand per share, for the total amount of PLN 600 000 thousand. The increase of the issued capital of TAURON Ciepło Sp. z o.o. was registered on 20 June 2017.

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

On 16 May 2017, the Extraordinary Shareholders' Meeting of Nowe Jaworzno Grupa TAURON Sp. z o.o. adopted a resolution (amending the terms and conditions for the increase of the company's share capital as resolved by its Extraordinary Shareholders' Meeting on 19 April 2017) to increase the Company's issued capital from PLN 1 850 thousand to PLN 31 850 thousand, i.e. by PLN 30 000 thousand, by creating 600 000 new shares with a nominal value of PLN 50 per share and the total nominal value of PLN 30 000 thousand. The shares were acquired at the price of PLN 5 thousand per share for the total amount of PLN 3 000 000 thousand. The increase of the issued capital of Nowe Jaworzno Grupa TAURON Sp. z o.o. was registered on 26 June 2017.

On 29 June 2017 the Extraordinary Shareholders' Meeting of Nowe Jaworzno Grupa TAURON Sp. z o.o. resolved to increase the company's issued capital by PLN 4 000 thousand, by creating 80 000 new shares of PLN 50 each. All the new shares were taken up by TAURON Polska Energia S.A. at the price of PLN 5 thousand per share, i.e. for the total amount of PLN 400 000 thousand. The increase of the company's issued capital has been registered after the balance sheet date, which has been discussed in more detail in Note 41 to these condensed interim financial statements.

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

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

- Impairment on shares in Polska Energia Pierwsza Kompania Handlowa Sp. z o.o.

In the 6-month period ended 30 June 2017 the Company created impairment write-off on shares in subsidiary in amount of PLN 49 212 thousand.

Impairment tests

Given external conditions keeping the Company's capitalization below the carrying amount for a long time as well as changes in the prices of commodities on global markets and a change in the situation on the domestic power coal market following mining sector consolidation, the decrease in the prices of RES certificates, amendment of the RES law and implementation of the auction system, the proceeding of functional solutions for the capacity market as described in the Capacity Market Bill, continuing unfavourable market conditions from the perspective of profitability in the conventional power sector i.e. the emergence of the proposed solutions in the so-called winter package which are unfavourable for the conventional power sector, and the rise of the risk-free rate, as at 30 June 2017 the Company performed impairment tests for shares, loans and intra-group bonds. Shares, loans and intra-group bonds account for approx. 94% of total assets at the balance sheet date.

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

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

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

The level of the weighted average cost of capital (WACC) during the projection period, as used in the calculations, ranges from 7.06% to 10.20% in nominal terms before tax. WACC is calculated by taking into account the risk-free rate determined by reference to the yield on 10-year treasury bonds (3.81%) and the risk premium for operations appropriate for the power industry (6%). The growth rate used for extrapolation of projected cash flows beyond the detailed planning period is at the level of 2.5% and it corresponds to the estimated long-term inflation rate.

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

- the adopted price path for power coal, other coal sizes and gaseous fuels. It is assumed that the price of power coal will increase in real terms by approx. 11% by 2027, then it will decrease by 3% in the period 2027-2040, and after 2040 the prices will remain at the same level as in that year (fixed prices);
- the adopted electricity wholesale price path for the years 2018-2027, with a perspective to 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 approx. 5% is assumed by 2020, with a price increase of 9% in relation to 2020 by 2027. An increase of 10% is assumed in the years 2027-2040, and after 2040 the prices are assumed to remain at the same level as in that year (fixed prices);
- proceeded changes in the Polish market model aimed to introduce the capacity market mechanism;
- emission limits for generating electricity specified in the regulation of the Council of Ministers, adjusted for the capital expenditure incurred, and the limits for heat generation compliant with the regulation of the Council of Ministers, adjusted for the level of operations i.e. generation of heat;
- the adopted price path of greenhouse gas emission allowances for 2018-2027 with a perspective to 2040. An increase in the market price of approx. 134% has been assumed by 2027, an increase of approx. 15% for the period 2027-2040, and after 2040 the prices have been assumed to remain at the same level as in that year (fixed prices);
- green, red and yellow energy production volumes depending on the production capacity, along with the price path for individual energy certificates;
- limited support periods for green energy have been assumed in accordance with the Act on Renewable Energy Sources, which provides for new support mechanisms for renewable energy. The support period has been limited to 15 years as from the date of the first supply of electricity qualifying for an energy certificate to the distribution network. At the same time, hydropower plants with installed capacity of more than 5 MW do not qualify for support;
- support for CHP in line with the regulations which are currently in force. It is assumed that property rights exist for red, yellow and purple energy and that they will have to be surrendered by 2018. No support for CHP has been assumed thereafter;
- regulated revenue generated by distribution companies, ensuring coverage of reasonable costs and a reasonable level of return on capital. The return on capital is conditional on the Regulatory Asset Value;
- the adopted electricity retail price path based on the wholesale price of black energy, taking into account the costs of excise duty, the obligation to surrender energy certificates as well as an appropriate level of margin;
- sales volumes taking into account GDP growth and increased market competition;
- tariff revenue generated by heat companies, ensuring coverage of reasonable costs and a reasonable level of return on capital;
- maintaining or expanding the production capacity of the existing non-current assets as a result of replacement and development investments.

(PLN '000)

Additionally, the Company performed a test for the impairment of property, plant and equipment. The relevant assumptions from the test for the impairment of shares were used to this purpose.

The sensitivity analyses performed by the Company have shown that the most important factors affecting the estimated cash flows of significant companies are as follows: the treatment of the capacity market mechanism (with no change in other market condition), forecasted prices of electricity, hard coal prices, prices of greenhouse gas emission allowances and the adopted discount rates.

The result of impairment tests

The result of impairment tests performed as of 30 June 2017 in accordance with IFRS 36 *Impairment of assets* indicated a loss of the carrying amount of borrowings granted in total value of PLN 60 587 thousand and impairment reversal on shares in subsidiary in amount of PLN 120 057 thousand. Impairment applies to the following companies:

Company	WACC* assumed in tests as at		Recoverable amount of shares, intra-group loans and bonds	Impairment loss (recognized)/reversed in the period of 6 months ended 30 June 2017 *(unaudited)*
	30 June 2017 *(unaudited)*	31 December 2016		
TAURON Wytwarzanie S.A.	8.20%	7.69%	3 074 949	120 057
TAURON Ekoenergia Sp. z o.o.	8.42%	8.09%	1 015 839	(60 578)

* *WACC at nominal amount before taxation*

The impairment loss was recognized for the following reasons:

- a drop in the prices of certificates for energy produced from renewable sources, amendment of the RES Act and introduction of the auction system;
- increase of the risk-free rate and cost of capital for wind farms.

The impairment reversal was recognized for the following reasons:

- the proceeding of functional solutions for the capacity market as described in the Capacity Market Bill, which involves gaining more knowledge about the future of this market;
- extension of working time of generating units and increasing production volumes as a result of increased replacement and modernization expenditures.

The total impairment of shares and loans as at 30 June 2017 broken down by subsidiaries is presented in the table below.

Company	Impairment as at 30 June 2017 *(unaudited)*	
	Shares	Loans
TAURON Wytwarzanie S.A.	(5 283 768)	-
TAURON Ekoenergia Sp. z o.o.	(939 765)	(258 531)

The table below presents the movement in the balance of impairment on shares write-downs in the 6-month period ended 30 June 2017.

Company	Impairment as at 1 January 2017	Impairment loss reversed in the period of 6 months ended 30 June 2017 *(unaudited)*	Impairment as at 30 June 2017 *(unaudited)*	Carrying amount of shares including impairment losses as at 30 June 2017 *(unaudited)*
TAURON Wytwarzanie S.A.	(5 403 825)	120 057	(5 283 768)	1 795 162
TAURON Ekoenergia Sp. z o.o.	(939 765)	-	(939 765)	-

The impairment tests performed as at 30 June 2017 also included the value of loans granted to the joint venture – Elektrociepłownia Stalowa Wola S.A., which are described in more detail in Note 21 to these interim condensed financial statements. The tests were performed on assumptions consistent with the tests for impairment of shares. The results of the test indicated that there was no need to make an impairment write-down.

(PLN '000)

Changes in shares from 1 January 2016 to 30 June 2016 (*unaudited*)

No.	Company	Gross value				Impairment losses				Net value	
		Opening balance	(Decreases)	Increases	Closing balance	Opening balance	Decreases	(Increases)	Closing balance	Opening balance	Closing balance
1	TAURON Wydobycie S.A.	494 755	-	250 000	744 755	-	-	-	-	494 755	744 755
2	Nowe Brzeszcze Grupa TAURON Sp. z o.o.	2 102	-	179 000	181 102	-	-	-	-	2 102	181 102
3	TAURON Wytwarzanie S.A.	7 236 727	-	-	7 236 727	(4 487 895)	-	(600 068)	(5 087 963)	2 748 832	2 148 764
4	TAURON Wytwarzanie GZE Sp. z o.o. in liquidation	4 935	-	-	4 935	-	-	-	-	4 935	4 935
5	TAURON Ciepło Sp. z o.o.	1 328 043	-	-	1 328 043	(443 252)	443 252	-	-	884 791	1 328 043
6	TAURON Ekoenergia Sp. z o.o.	939 765	-	-	939 765	-	-	(840 235)	(840 235)	939 765	99 530
7	Marselwind Sp. z o.o.	107	-	-	107	-	-	-	-	107	107
8	TAURON Dystrybucja S.A.	9 511 628	-	-	9 511 628	-	-	-	-	9 511 628	9 511 628
9	TAURON Sprzedaż Sp. z o.o.	613 505	-	-	613 505	-	-	-	-	613 505	613 505
10	TAURON Sprzedaż GZE Sp. z o.o.	129 823	-	-	129 823	-	-	-	-	129 823	129 823
11	TAURON Czech Energy s.r.o.	4 223	-	-	4 223	-	-	-	-	4 223	4 223
12	Kopalnia Wapienia Czatkowice Sp. z o.o.	41 178	-	-	41 178	-	-	-	-	41 178	41 178
13	Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. in liquidation	49 056	-	-	49 056	-	-	-	-	49 056	49 056
14	TAURON Sweden Energy AB (publ)	28 382	-	-	28 382	-	-	-	-	28 382	28 382
15	Biomasa Grupa TAURON Sp. z o.o.	1 269	-	-	1 269	-	-	-	-	1 269	1 269
16	TAURON Obsługa Klienta Sp. z o.o.	39 831	-	-	39 831	-	-	-	-	39 831	39 831
17	TAMEH HOLDING Sp. z o.o.	415 852	-	-	415 852	-	-	-	-	415 852	415 852
18	PGE EJ 1 Sp z o.o.	23 046	-	-	23 046	-	-	-	-	23 046	23 046
19	Other	114	-	-	114	-	-	-	-	114	114
	Total	**20 864 341**	**-**	**429 000**	**21 293 341**	**(4 931 147)**	**443 252**	**(1 440 303)**	**(5 928 198)**	**15 933 194**	**15 365 143**

Movements in the balance of long-term investments which occurred in the 6-month period ended 30 June 2016 resulted from the following transactions:

- Increase of the share capitals of Nowe Brzeszcze Grupa TAURON Sp. z o.o. and TAURON Wydobycie S.A.
- Impairment write-downs of investments in TAURON Wytwarzanie S.A. and TAURON Ekoenergia Sp. z o.o.
- Reversal of the impairment write-down of shares in TAURON Ciepło Sp. z o.o.

20. Bonds

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

The table below presents the balances of acquired bonds and interest accrued as at the end of the reporting period, i.e. 30 June 2017, and as at 31 December 2016, broken down by individual companies issuing the bonds.

Company	As at 30 June 2017 *(unaudited)*		As at 31 December 2016	
	par value of purchased bonds	accrued interest	par value of purchased bonds	accrued interest
TAURON Wytwarzanie S.A.	1 264 920	14 867	3 548 770	55 396
TAURON Dystrybucja S.A.	3 770 000	24 905	3 800 000	62 470
TAURON Ciepło Sp. z o.o.	1 075 000	17 531	1 673 260	46 848
TAURON Wydobycie S.A.	670 000	9 610	570 000	4 592
TAURON Obsługa Klienta Sp. z o.o.	85 000	14 236	85 000	12 046
Total bonds	**6 864 920**	**81 149**	**9 677 030**	**181 352**
Non-current	6 359 920	-	9 612 030	3 887
Current	505 000	81 149	65 000	177 465

Intra-group bonds maturing within one year, intended for rollover, are classified as long-term instruments. Such classification reflects the nature of funding under the intra-group bond issue scheme, which enables cash management in the medium and long term. The agreements provide for the possibility to roll over the bonds. As at 30 June 2017, the par value of bonds maturing within one year, which were classified as long-term bonds, was PLN 500 000 thousand.

(PLN '000)

21. Loans granted

	As at 30 June 2017 *(unaudited)*			As at 31 December 2016		
	Principal	Interest	Total	Principal	Interest	Total
Value of items before allowance/write-down						
Loan granted to TAURON Ekoenergia Sp. z o.o.	1 120 000	154 370	1 274 370	1 120 000	129 802	1 249 802
Loans granted to EC Stalowa Wola S.A.	514 517	36 476	550 993	218 525	37 542	256 067
Granted cash pool loans including accrued interest	5 915	32	5 947	15 306	544	15 850
Total	**1 640 432**	**190 878**	**1 831 310**	**1 353 831**	**167 888**	**1 521 719**
Allowance/write-down						
Loan granted to TAURON Ekoenergia Sp. z o.o.			(258 531)			(197 953)
Value of item net of allowance (carrying amount)			**1 572 779**			**1 323 766**
Non-current			1 252 324			1 292 800
Current			320 455			30 966

Loan granted to subsidiary

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

The impairment tests performed as at 31 December 2016 for shares, bonds and loans in subsidiaries identified the necessity to recognize an impairment loss on a loan to a subsidiary in the amount of PLN 197 953 thousand. In the 6-month period ended 30 June 2017, as a result of impairment test performed as at 30 June 2017 the Company recognized the additional impairment loss in amount of PLN 60 578 thousand.

Loans granted to joint ventures

Loans granted to the joint venture Elektrociepłownia Stalowa Wola S.A. as at 30 June 2017 and 31 December 2016:

	Agreement date	Contractual loan amount	As at 30 June 2017 *(unaudited)*		As at 31 December 2016		Maturity date	Purpose
			Principal	Interest	Principal	Interest		
Subordinated loan	20.06.2012	177 000	177 000	31 347	177 000	36 381	31.12.2032	Project performance: the borrower to obtain external funding
Loan for repayment of debt	14.12.2015	15 850	15 850	1 032	15 850	699	31.12.2027	Repayment of the principal instalment with interest with regard to loans granted to the borrower by European Investment Bank, European Bank for Reconstruction and Development and Bank Polska Kasa Opieki S.A.
	15.12.2016	15 300	11 000	256	11 000	21		
	30.03.2017	145 991	145 991	1 531	-	-	30.06.2017	Payment of total liabilities under loan agreements entered into by the borrower with the European Investment Bank, the European Bank for Reconstruction and Development and Bank Polska Kasa Opieki S.A.
		73 518	73 518	771	-	-		
		71 233	71 233	747	-	-		
Other loans	25.11.2015	2 600	2 600	173	2 600	117	30.06.2017	Financing of current operations
	22.01.2016	5 500	5 500	326	5 500	214		
	22.04.2016	1 200	600	29	600	17		
	27.05.2016	3 100	3 100	128	3 100	65		
	31.08.2016	3 800	2 875	88	2 875	28		
	16.02.2017	3 000	3 000	38	-	-		
	28.04.2017	2 250	2 250	10	-	-		
Total loans			**514 517**	**36 476**	**218 525**	**37 542**		
Non-current			203 850	32 635	203 850	37 101		
Current			310 667	3 841	14 675	441		

In the 6-month period ended 30 June 2017, the loans granted by the Company to Elektrociepłownia Stalowa Wola S.A. for purposes of debt repayment totalled PLN 290 742 thousand. The said loans were granted for purposes of the debtor's early payment of liabilities under loan agreements entered into in relation to the construction of a heat and power unit in Stalowa Wola, which has been discussed in more detail in Note 31 to these condensed interim financial statements.

(PLN '000)

On 30 June 2017 the Company entered in two agreements with Elektrociepłownia Stalowa Wola S.A. consolidating the borrower's debt under the loan agreements maturing on 30 June 2017. Under these consolidating agreements, the principal amounts of the receivables and interest accrued as at 30 June 2017 were consolidated in the following way:

- Consolidating agreement of 30 June 2017 for the total amount of PLN 150 000 thousand – covered the whole principal amount of the receivable arising from the loan agreement for the repayment of the debt as at 30 March 2017 amounting to PLN 145 991 thousand and a portion of the principal of PLN 4 009 thousand arising from the loan agreement for the repayment of the debt as at 30 March 2017 amounting to PLN 73 518 thousand.
- Agreement of 30 June 2017 for the total amount of PLN 170 058 thousand covered:
  - the remaining principal of PLN 69 509 thousand under the loan agreement for the repayment of the debt as at 30 March 2017 amounting to PLN 73 518 thousand,
  - the entire principal under the loan agreement for the repayment of the debt as at 30 March 2017 amounting to PLN 71 233 thousand,
  - the entire principal under the other loan agreements concluded for the financing of the borrower's day-to-day operating activities, amounting in total to PLN 19 925 thousand,
  - interest accrued on the loans maturing on 30 June 2017, calculated for the period from the date of entering in the given agreement to 30 June 2017 inclusive, amounting in total to PLN 3 841 thousand,
  - the amount of the additional loan granted under this agreement by the Company to the borrower, amounting to PLN 5 550 thousand. This loan was mainly granted to finance the borrower's day-to-day operations, and the first tranche of PLN 1 000 thousand was paid on 7 July 2017.

The receivables covered by the above-mentioned agreements of 30 June 2017 together with interest accrued since 1 July 2017 will be repaid by 31 October 2017.

Loans granted under the cash pool service agreement

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

22. Derivative instruments

	As at 30 June 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	18	27 543	**27 561**	**-**	23	36 618	**36 641**	**-**
Commodity future/forward	9 813	-	**10 303**	**(490)**	15 999	-	**16 559**	**(560)**
Currency forward	(3 574)	-	**-**	**(3 574)**	3 217	-	**3 217**	**-**
Total derivative instruments			**37 864**	**(4 064)**			**56 417**	**(560)**
Non-current			26 051	(21)			35 814	-
Current			11 813	(4 043)			20 603	(560)

(PLN '000)

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

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

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

	As at 30 June 2017 *(unaudited)*		As at 31 December 2016	
	1 level	2 level	1 level	2 level
Assets				
Derivative instruments - commodity	10 303	-	16 559	-
Derivative instruments - currency	-	-	-	3 217
Derivative instruments - IRS	-	27 561	-	36 641
Liabilities				
Derivative instruments - commodity	490	-	560	-
Derivative instruments - currency	-	3 574	-	-

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

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

23. Other financial assets

	As at 30 June 2017 *(unaudited)*	As at 31 December 2016
Receivables from the TCG	36 715	20 945
Dividend receivables	556 841	-
Units in investment funds	25 592	25 316
Bid bonds, deposits, collateral transferred	9 828	10 156
Margin deposits and initial margins	36 290	-
Other	199	461
Total	**665 465**	**56 878**
Non-current	2 854	1 524
Current	662 611	55 354

(PLN '000)

24. Inventories

	As at 30 June 2017 *(unaudited)*	As at 31 December 2016
Gross Value		
Energy certificates	250	250
Greenhouse gas emission allowances	238 224	271 729
Materials	281	23
Total	**238 755**	**272 002**
Measurement to net realisable value / fair value		
Energy certificates	(217)	(195)
Greenhouse gas emission allowances	400	12 992
Total	**183**	**12 797**
Net realizable value / Fair value		
Energy certificates	33	55
Greenhouse gas emission allowances	238 624	284 721
Materials	281	23
Total	**238 938**	**284 799**

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

The Company recognized a gain on measurement of PLN 400 thousand as at 30 June 2017 following an increase in the prices of emission allowances.

25. Receivables from buyers

	As at 30 June 2017 *(unaudited)*	As at 31 December 2016
Value of items before allowance/write-down		
Receivables from clients	368 325	840 665
Receivables claimed at court	903	890
Total	**369 228**	**841 555**
Allowance/write-down		
Receivables from clients	(6)	(9)
Receivables claimed at court	(903)	(890)
Total	**(909)**	**(899)**
Value of item net of allowance (carrying amount)		
Receivables from clients	368 319	840 656
Receivables claimed at court	-	-
Total	**368 319**	**840 656**

As at 30 June 2017 and 31 December 2016, the largest item of receivables from buyers was receivables from TAURON Sprzedaż Sp. z o.o., a subsidiary, amounting to PLN 171 587 thousand and PLN 478 220 thousand, respectively.

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

26. Receivables due to taxes and charges

	As at 30 June 2017 *(unaudited)*	As at 31 December 2016
Corporate Income Tax	38 022	83 162
VAT receivables	12 311	35 674
Excise duty receivables	1 750	1 750
Total	**52 083**	**120 586**

(PLN '000)

Income tax receivables

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

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

As at 30 June 2017, the Tax Capital Group had a corporate income tax receivable of PLN 38 022 thousand, representing:

- the excess of the corporate income tax advances paid by the TCG for 2016, amounting to PLN 300 053 thousand and the overpayment of the subsidiary's income tax for the period prior to joining the TCG, amounting to PLN 301 thousand, over the TCG's tax liability for 2016 of PLN 221 535 thousand;
- the excess of the TCG's tax liability for the 6-month period ended 30 June 2017 of PLN 138 910 thousand over the fixed monthly corporate income tax advances of PLN 98 113 thousand paid by the TCG for the first half of 2017.

At the same time, due to the Company's settlements, as the Representative Company, with the Tax Capital Group companies, it has reported a liability to these subsidiaries arising from tax overpayment of PLN 84 783 thousand, which has been presented in the statement of financial position as "Other financial liabilities", as well as receivables from the Tax Capital Group companies arising from tax underpayment of PLN 36 715 thousand, which have been presented in the statement of financial position as "Other financial assets".

27. Cash and cash equivalents

	As at 30 June 2017 *(unaudited)*	As at 31 December 2016
Cash at bank and in hand	56 666	198 087
Short-term deposits (up to 3 months)	54	3
Total cash and cash equivalents presented in the statement of financial position, *including*:	**56 720**	**198 090**
restricted cash	40 499	56 787
Cash pool	(1 868 826)	(1 229 639)
Overdraft	(65 850)	(15 131)
Foreign exchange	972	1 239
Total cash and cash equivalents presented in the statement of cash flows	**(1 876 984)**	**(1 045 441)**

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

Restricted cash includes mainly cash held in the settlement account for trading in electricity on the Polish Power Exchange (Towarowa Giełda Energii S.A), amounting to PLN 40 092 thousand.

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

28. Equity

28.1. Issued capital

Issued capital as at 30 June 2017 (*unaudited*)

(PLN '000)

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

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

28.2. Major shareholders

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

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

To the best of the Company's knowledge, the shareholding structure as at 30 June 2017 had not changed since 31 December 2016.

28.3. Dividend limitation

Reserve capital – dividend limitation

	As at 30 June 2017 *(unaudited)*	As at 31 December 2016
amounts subject to distribution, *including*:	**4 032 169**	**4 032 169**
amounts from distribution of prior years profits	4 032 169	4 032 169
non-distributable amounts, *including*:	**3 624 917**	**3 791 170**
decrease in the value of issued capital	3 390 037	3 556 290
settlement of mergers with subsidiaries	234 880	234 880
Total reserve capital	**7 657 086**	**7 823 339**

Retained earnings – dividend limitation

	As at 30 June 2017 *(unaudited)*	As at 31 December 2016
distributable amounts or losses to be covered, *including*:	**13**	**(166 240)**
profit for the year ended 31 December 2016	-	(166 253)
adjustment of prior years profit	13	13
non-distributable amounts, *including*:	**981 115**	**80 762**
profit for the 6-month period ended 30 June 2017	900 331	-
actuarial gains and losses on provisions for post-employment benefits	266	244
settlement of mergers with subsidiaries	80 518	80 518
Total retained earnings (accumulated losses)	**981 128**	**(85 478)**

On 29 May 2017 the Ordinary General Shareholders' Meeting of the Company adopted a resolution to absorb the Company's net loss for the year 2016 of PLN 166 253 thousand from its reserve capital.

28.4. Revaluation reserve from valuation of hedging instruments

	6-month period ended 30 June 2017 *(unaudited)*	6-month period ended 30 June 2016 *(unaudited)*
Opening balance	**29 660**	**(73 414)**
Remeasurement of hedging instruments	(9 070)	49 075
Remeasurement of hedging instruments charged to profit or loss	(5)	(229)
Deferred income tax	1 724	(9 281)
Closing balance	**22 309**	**(33 849)**

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

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

As at 30 June 2017, the Company recognized PLN 22 309 thousand in the revaluation reserve from valuation of hedging instruments. It represents assets arising from valuation of interest rate swaps as at the end of the reporting period, totalling PLN 27 561 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 755 thousand of which PLN 760 thousand is the amount of collateral received for the completed interest periods, and the amount of PLN (5) thousand was recognized in profit/loss for the period as a change in valuation of instruments concerning interest on bonds accrued as at the end of the reporting period. In the statement of comprehensive income profit or loss arising from hedging transactions IRS was recognized in finance costs relating to the interest from issued bonds.

29. Interest-bearing loans and borrowings, including issued debentures

	As at 30 June 2017 *(unaudited)*	As at 31 December 2016
Long-term portion of debt		
Subordinated hybrid bonds	801 882	839 330
Other issued bonds	6 291 302	6 089 821
Loans received from the European Investment Bank	980 352	1 035 927
Loans from the subsidiary	703 402	765 450
Finance lease	-	23 519
Total	**8 776 938**	**8 754 047**
Short-term portion of debt		
Subordinated hybrid bonds	19 918	1 693
Other issued bonds	113 194	11 287
Cash pool loans received, including accrued interest	1 874 773	1 245 489
Loans from the European Investment Bank	168 930	154 574
Loans from the subsidiary	43 386	2 300
Overdraft	65 850	15 131
Finance lease	25 270	3 455
Total	**2 311 321**	**1 433 929**

(PLN '000)

29.1. Bonds issued

Bonds as at 30 June 2017 (*unaudited*)

Tranche/Bank	Maturity date	Currency	Principal at nominal value in currency	As at balance sheet date		of which maturing within *(after the balance sheet date)*			
				Accrued interest	Principal at amortized cost	up to 3 months	3 months - 2 years	2 - 5 years	over 5 years
Bank Gospodarstwa Krajowego	20.12.2019	PLN	100 000	98	99 872	-	-	99 872	-
	20.12.2020	PLN	100 000	98	99 847	-	-	99 847	-
	20.12.2021	PLN	100 000	98	99 830	-	-	99 830	-
	20.12.2022	PLN	100 000	98	99 817	-	-	-	99 817
	20.12.2023	PLN	100 000	98	99 806	-	-	-	99 806
	20.12.2024	PLN	100 000	98	99 799	-	-	-	99 799
	20.12.2025	PLN	100 000	98	99 792	-	-	-	99 792
	20.12.2026	PLN	100 000	98	99 785	-	-	-	99 785
	20.12.2027	PLN	100 000	98	99 780	-	-	-	99 780
	20.12.2028	PLN	100 000	98	99 778	-	-	-	99 778
	20.12.2020	PLN	70 000	68	69 982	-	-	69 982	-
	20.12.2021	PLN	70 000	68	69 981	-	-	69 981	-
	20.12.2022	PLN	70 000	68	69 980	-	-	-	69 980
	20.12.2023	PLN	70 000	68	69 979	-	-	-	69 979
	20.12.2024	PLN	70 000	68	69 979	-	-	-	69 979
	20.12.2025	PLN	70 000	68	69 978	-	-	-	69 978
	20.12.2026	PLN	70 000	68	69 978	-	-	-	69 978
	20.12.2027	PLN	70 000	68	69 978	-	-	-	69 978
	20.12.2028	PLN	70 000	68	69 977	-	-	-	69 977
	20.12.2029	PLN	70 000	68	69 977	-	-	-	69 977
Bond Issue Scheme of 24 November 2015	29.12.2020	PLN	2 250 000	365	2 245 415	-	-	2 245 415	-
	25.03.2020	PLN	100 000	795	99 805	-	-	99 805	-
	9.12.2020	PLN	300 000	535	299 374	-	-	299 374	-
	30.01.2020	PLN	100 000	1 233	99 800	-	-	99 800	-
	1.03.2020	PLN	100 000	989	99 798	-	-	99 798	-
	31.07.2017	PLN	100 000	8	100 000	100 000	-	-	-
TPEA1119	4.11.2019	PLN	1 750 000	7 609	1 749 215	-	-	1 749 215	-
European Investment Bank	16.12.2034	EUR	190 000	19 918	801 882	-	-	-	801 882
Total bonds				**33 112**	**7 193 184**	**100 000**	**-**	**5 032 919**	**2 060 265**

Bonds as at 31 December 2016

Tranche/Bank	Maturity date	Currency	Principal at nominal value in currency	As at balance sheet date		of which maturing within *(after the balance sheet date)*			
				Accrued interest	Principal at amortized cost	up to 3 months	3 months - 2 years	2 - 5 years	over 5 years
Bank Gospodarstwa Krajowego	20.12.2019	PLN	100 000	107	99 805	-	-	99 805	-
	20.12.2020	PLN	100 000	107	99 786	-	-	99 786	-
	20.12.2021	PLN	100 000	107	99 773	-	-	99 773	-
	20.12.2022	PLN	100 000	107	99 763	-	-	-	99 763
	20.12.2023	PLN	100 000	107	99 754	-	-	-	99 754
	20.12.2024	PLN	100 000	107	99 749	-	-	-	99 749
	20.12.2025	PLN	100 000	107	99 744	-	-	-	99 744
	20.12.2026	PLN	100 000	107	99 738	-	-	-	99 738
	20.12.2027	PLN	100 000	107	99 734	-	-	-	99 734
	20.12.2028	PLN	100 000	107	99 733	-	-	-	99 733
	20.12.2020	PLN	70 000	74	69 976	-	-	69 976	-
	20.12.2021	PLN	70 000	74	69 976	-	-	69 976	-
	20.12.2022	PLN	70 000	74	69 976	-	-	-	69 976
	20.12.2023	PLN	70 000	74	69 976	-	-	-	69 976
	20.12.2024	PLN	70 000	74	69 975	-	-	-	69 975
	20.12.2025	PLN	70 000	74	69 975	-	-	-	69 975
	20.12.2026	PLN	70 000	74	69 975	-	-	-	69 975
	20.12.2027	PLN	70 000	74	69 975	-	-	-	69 975
	20.12.2028	PLN	70 000	74	69 975	-	-	-	69 975
	20.12.2029	PLN	70 000	74	69 975	-	-	-	69 975
Bond Issue Scheme of 24 November 2015	29.12.2020	PLN	2 250 000	549	2 244 801	-	-	2 244 801	-
	25.03.2020	PLN	100 000	790	99 771	-	-	99 771	-
	9.12.2020	PLN	300 000	560	298 761	-	-	298 761	-
TPEA1119	4.11.2019	PLN	1 750 000	7 578	1 749 155	-	-	1 749 155	-
European Investment Bank	16.12.2034	EUR	190 000	1 693	839 330	-	-	-	839 330
Total bonds				**12 980**	**6 929 151**	**-**	**-**	**4 831 804**	**2 097 347**

(PLN '000)

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

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

On 20 June 2017, annexes were signed to the agency and deposit agreements as well as to the guarantee agreement of 24 November 2015, under which the scheme was extended:

- for 1 year i.e. until 31 December 2021 ("1st Extension Period"). The amount of the scheme in the 1st Extension Period will be PLN 5 320 000 thousand at the maximum, and the following banks joined the extension: MUFG Bank (Europe) N.V., MUFG Bank (Europe) N.V. S.A. Branch in Poland, Bank Zachodni WBK S.A., CaixaBank S.A. (Joint Stock Company) Branch in Poland, Industrial and Commercial Bank of China (Europe) S.A. Branch in Poland, ING Bank Śląski S.A., Powszechna Kasa Oszczędności Bank Polski S.A. and mBank S.A.;
- for 2 years i.e. until 31 December 2022 ("2nd Extension Period"). The amount of the scheme in the 2nd Extension Period will be PLN 2 450 000 thousand at the maximum, and the following banks joined the extension: MUFG Bank (Europe) N.V., MUFG Bank (Europe) N.V. S.A. Branch in Poland and Powszechna Kasa Oszczędności Bank Polski S.A.

Until 31 December 2020 the amount of the scheme will not change and is PLN 6 270 000 thousand at the maximum. The level of the margin of funding under the scheme did not change as a result of the extension.

The change in the balance of bonds excluding interest increasing the carrying amount in the 6-month period ended 30 June 2017 and in the comparative period has been presented below:

	6-month period ended 30 June 2017 *(unaudited)*	6-month period ended 30 June 2016 *(unaudited)*
Opening balance	**6 929 151**	**5 956 033**
Issue*	599 543	2 852 461
Redemption	(300 000)	(2 250 000)
Measurement change	(35 510)	1 747
Closing balance	**7 193 184**	**6 560 241**

**Costs of issue have been included.*

In the 6-month period ended 30 June 2017, the Company issued four tranches of bonds with the total par value of PLN 600 000 thousand under the Bond Issue Scheme of 24 November 2015:

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

The tranche of PLN 300 000 thousand was redeemed as scheduled i.e. on 30 June 2017.

(PLN '000)

The Company hedges a portion of interest cash flows related to issued bonds using IRS contracts. The instruments are subject to hedge accounting, which has been discussed in more detail in Note 22 to these condensed interim financial statements.

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

After the balance sheet date the Company issued eurobonds with a total nominal value of EUR 500 000 thousand, as discussed in detail in Note 41 of these condensed interim financial statements.

29.2. Loans from the European Investment Bank

As at 30 June 2017, the balance of loans obtained from the European Investment Bank was PLN 1 149 282 thousand, including accrued interest of PLN 6 693 thousand. As at 31 December 2016, the balance of loans obtained from the European Investment Bank was PLN 1 190 501 thousand, including interest accrued of PLN 7 085 thousand.

In the 6-month period ended 30 June 2017, the Company made principal payments totalling PLN 40 909 thousand and interest payments of PLN 20 968 thousand.

29.3. Loans from a subsidiary

As at 30 June 2017, the carrying amount of loans from a subsidiary, TAURON Sweden Energy AB (publ), was PLN 746 788 thousand (EUR 176 692 thousand), including interest of PLN 15 491 thousand (EUR 3 665 thousand) accrued as at the end of the reporting period. As at 31 December 2016, the carrying amount of loans from a subsidiary, TAURON Sweden Energy AB (publ), was PLN 767 750 thousand (EUR 173 542 thousand).

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

- PLN 718 713 thousand (EUR 170 049 thousand) of a long-term loan granted under an agreement entered into in December 2014 between TAURON Polska Energia S.A. and TAURON Sweden Energy AB (publ). The interest rate on the loan is fixed and interest is paid annually, in December, until the final loan repayment date. The loan will be fully repaid on 29 November 2029;
- PLN 28 075 thousand (EUR 6 643 thousand) of a loan granted under the agreement dated 27 July 2015, whereby TAURON Sweden Energy AB (publ) granted a loan of EUR 6 600 thousand to the Company on 30 July 2015. The maturity date of the loan and interest was set at 30 July 2016. The repayment date was postponed by one year under an annex to the loan agreement. As the loan is expected to be repaid on the date stated in the annex, as at 30 June 2017 the loan is classified under current liabilities.

29.4. Cash pool service

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

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

	As at 30 June 2017 *(unaudited)*	As at 31 December 2016
Receivables from cash pool loans granted	5 915	15 306
Interest receivable on loans granted under cash pool agreement	32	544
Total Receivable	**5 947**	**15 850**
Loans received under cash pool agreement	1 873 122	1 244 471
Interest payable on loans received under cash pool agreement	1 651	1 018
Total Liabilities	**1 874 773**	**1 245 489**

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

(PLN '000)

Under the cash pool agreement, the Company may use external financing in the form of an overdraft of up to PLN 300 000 thousand and an intraday limit of up to PLN 500 000 thousand. As at 30 June 2017, the related liability of the Company was PLN 17 739 thousand.

29.5. Overdraft facilities

As at 30 June 2017, the balance of overdraft facilities was PLN 65 850 thousand and resulted from:

- an agreement for an overdraft in PLN with PKO Bank Polski S.A. under the cash pool agreement of PLN 17 739 thousand;
- an agreement for an overdraft in EUR with Bank Gospodarstwa Krajowego, concluded by the Company to finance transactions in emission allowances, power and gas, of EUR 11 020 thousand (PLN 46 578 thousand);
- an agreement for an overdraft in USD with mBank S.A., concluded by the Company for the purpose of financing margin deposits and commodity transactions, of USD 414 thousand (PLN 1 533 thousand).

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

30. Other financial liabilities

	As at 30 June 2017 *(unaudited)*	As at 31 December 2016
Liabilities arising from the TCG	84 783	75 662
Non-refundable margin deposits	-	13 106
Commissions related to securities	11 395	8 020
Bid bonds, deposits and collateral received	5 542	5 681
Wages and salaries, deductions on wages and salaries as well as other employee related liabilities	3 282	3 770
Contributions to Polish National Foundation	32 500	32 500
Other	352	938
Total	**137 854**	**139 677**
Non-current	20 166	27 918
Current	117 688	111 759

31. Other provisions

For the 6-month period ended 30 June 2017 (*unaudited*)

	Provisions for onerous contracts with a jointly-controlled entity and provision for costs	Other provisions	Total provisions
Opening balance	**198 844**	**64 505**	**263 349**
Unwinding of discount and change in discount rate	2 330	-	**2 330**
Recognision	2 250	2 082	**4 332**
Reversal	(203 424)	-	**(203 424)**
Utilisation	-	(11)	**(11)**
Closing balance	**-**	**66 576**	**66 576**
Non-current	-	-	**-**
Current	-	66 576	**66 576**

(PLN '000)

For the 6-month period ended 30 June 2016 (*unaudited*)

	Provisions for onerous contracts with a jointly-controlled entity and provision for costs	Other provisions	Total provisions
Opening balance	**182 877**	**15**	**182 892**
Unwinding of discount and change in discount rate	8 160	-	**8 160**
Recognision	2 159	7	**2 166**
Reversal	(13)	-	**(13)**
Utilisation	-	(16)	**(16)**
Closing balance	**193 183**	**6**	**193 189**
Non-current	159 210	-	**159 210**
Current	33 973	6	**33 979**

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

Changes in provisions in the 6-month period ended 30 June 2017 have been presented in the table below:

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

As the schedule had not been met and the material technical terms of the contract signed with the general contractor on the gas and steam unit construction project in Stalowa Wola, determining the safety and failure-free operation as well as the future efficiency and costs of operation of the unit, had been breached, Elektrociepłownia Stalowa Wola S.A. terminated the contract with the general contractor on 29 January 2016 and officially took over the construction site on 22 February 2016. An inventory of the works performed by the general contractor has been completed. An inventory of the facility has been completed. Maintenance works are being carried out on an ongoing basis in respect of the installed machinery and equipment to prevent their degradation, and the auxiliary equipment is being prepared for commissioning. A concept of completing the investment project under the EPCM (Engineering, Procurement, Construction Management) formula and contracting contractors has been prepared. The proceeding for the selection of the EPCM is in progress.

As a result of the above, in 2015 the Company recognised provisions for onerous contracts with the joint venture Elektrociepłownia Stalowa Wola S.A. As at 31 December 2016, these provisions amounted to PLN 198 844 thousand.

In the 6-month period ended 30 June 2017, the Company revalued the provisions for onerous contracts with a joint venture due to the unwinding of discount as at the end of the reporting period, which increased the provisions by PLN 2 330 thousand. It also recognized an additional provision for costs of operation of PLN 2 250 thousand and reversed in whole the following provisions:

- a provision resulting from the fact that under a multi-annual electricity sales contract among Elektrociepłownia Stalowa Wola S.A., the Company and PGNiG Energia S.A., the Company was obliged to purchase half of the volume of electricity generated by Elektrociepłownia Stalowa Wola S.A. at a price determined in the "cost plus" formula, which covers the production costs and the financing costs;
- a provision resulting from the fact that the Company was obliged to cover losses which 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.

- a provision for costs associated with the fact that due to the delay of the project, the Company could be required to cover the additional operating costs of Elektrociepłownia Stalowa Wola S.A.

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

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

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

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

Other provisions

As at 30 June 2017, other provisions mainly related to provision concerning tax risks resulting from pending inspection proceedings. As at 31 December 2016 the Company recognized provision for the aforementioned risks in the amount of PLN 64 494 thousand. As at 30 June 2017 the provision amounted to PLN 66 576 thousand. An increase in the provision by PLN 2 082 thousand, which was charged to finance costs, is attributable to interest accrued for the 6-month period ended 30 June 2017.

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

32. Liabilities to suppliers

As at 30 June 2017 the largest balance of liabilities to suppliers consisted of liabilities to TAURON Wytwarzanie S.A., a subsidiary and amounted to PLN 164 821 thousand. As at 31 December 2016, the key item of liabilities to suppliers was liabilities to subsidiaries, TAURON Wytwarzanie S.A. and TAURON Wydobycie S.A. and they amounted to PLN 106 417 thousand and PLN 98 682 thousand, respectively.

(PLN '000)

33. Liabilities due to taxes and charges

	As at 30 June 2017 *(unaudited)*	As at 31 December 2016
Personal Income Tax	1 470	1 484
VAT	7 274	15 850
Social security	2 305	2 846
Other	36	29
Total	**11 085**	**20 209**

Regulations regarding VAT, corporate profits tax and social security contributions are subject to frequent changes. These changes result in there being little point of reference, inconsistent interpretations and few established precedents that may be followed. The binding regulations also contain uncertainties, resulting in differences in opinion regarding the legal interpretation of tax regulations both between government bodies, and between government bodies and companies.

Tax and other settlements (e.g. customs or foreign currency settlements) may be subject to inspection by administrative bodies authorised to impose high penalties and fines, and any additional taxation liabilities calculated as a result must be paid together with high interest. The above circumstances mean that tax exposure is greater in Poland than in countries that have a more established taxation system.

Accordingly, the amounts shown in these condensed interim financial statements may change at a later date as a result of the final decision of the tax authorities.

On 15 July 2016, amendments were made to the Tax Ordinance to introduce the provisions of General Anti-Avoidance Rule (GAAR). GAAR are targeted to prevent origination and use of factitious legal structures made to avoid payment of tax in Poland. GAAR define tax evasion as an activity performed mainly with a view to realising tax gains, which is contrary, under given circumstances, to the subject and objective of the tax law. In accordance with GAAR, an activity does not bring about tax gains, if its modus operandi was false. Any instances of (i) unreasonable division of an operation (ii) involvement of agents despite lack of economic rationale for such involvement, (iii) mutually exclusive or mutually compensating elements, as well as (iv) other activities similar to those referred to earlier may be treated as a hint of factitious activities subject to GAAR. New regulations will require considerably greater judgment in assessing tax effects of individual transactions.

The GAAR clause should be applied to the transactions performed after clause effective date and to the transactions which were performed prior to GAAR clause effective date, but for which after the clause effective date tax gains were realised or continue to be realised. The implementation of the above provisions will enable Polish tax authority challenge such arrangements realised by tax remitters as group restructuring or group reorganization.

(PLN '000)

EXPLANATORY NOTES TO THE CONDENSED INTERIM STATEMENT OF CASH FLOWS

34. Significant items of the statement of cash flows

34.1. Cash flows from operating activities

Changes in working capital

	6-month period ended 30 June 2017 *(unaudited)*	6-month period ended 30 June 2016 *(unaudited)*
Change in receivables	436 637	(226 556)
Change in inventories	45 861	144 206
Change in payables excluding loans and borrowings	(205 610)	(129 690)
Change in other non-current and current assets	35 579	43 300
Change in deferred income, government grants and accruals	(6 891)	(6 114)
Change in provisions	(196 554)	10 708
Change in working capital	**109 022**	**(164 146)**

34.2. Cash flows from investing activities

Purchase of bonds

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

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

Acquisition of shares

Payments to acquire shares of PLN 4 160 200 thousand were related to the Company's transfer of funds to increase the issued capital of the subsidiaries:

- Nowe Jaworzno Grupa TAURON Sp. z o.o. in amount of PLN 3 400 000 thousand;
- TAURON Ciepło Sp. z o.o. in amount of PLN 600 000 thousand;
- TAURON Wydobycie S.A. in amount of PLN 160 000 thousand;
- Marselwind Sp. z o.o. in amount of PLN 200 thousand.

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 295 992 thousand, which has been discussed in more detail in Note 21 to these condensed interim financial statements.

Bonds redemption

Proceeds from the redemption of bonds of PLN 3 162 110 thousand relate to the redemption of intra-group bonds issued by the subsidiaries:

- Nowe Jaworzno Grupa TAURON Sp. z o.o.: of PLN 2 533 850 thousand;
- TAURON Ciepło Sp. z o.o.: of PLN 598 260 thousand;
- TAURON Dystrybucja S.A.: of PLN 30 000 thousand.

(PLN '000)

Interests received

	6-month period ended 30 June 2017 (unaudited)	6-month period ended 30 June 2016 (unaudited)
Interest received in relation to debt securities	326 904	321 360
Interest received in relation to loans granted	-	1 681
Total	**326 904**	**323 041**

34.3. Cash flows from financing activities

Loans and borrowings repaid

Expenditures due to repayment of loans and borrowings resulted from the Company's repayment of instalments of a loan granted by the European Investment Bank of PLN 40 909 thousand in the 6-month period ended 30 June 2017.

Redemption of debt securities

Expenditure due to the redemption of debt securities in the 6-month period ended 30 June 2017 relates to the redemption of a tranche of bonds with a nominal value of PLN 300 000 thousand under the Bond Issue Scheme concluded in November 2015.

Interest paid

	6-month period ended 30 June 2017 (unaudited)	6-month period ended 30 June 2016 (unaudited)
Interest paid in relation to debt securities	(91 379)	(136 923)
Interest paid in relation to loans and borrowings	(21 191)	(28 538)
Interest paid in relation to the finance lease	(336)	(302)
Total	**(112 906)**	**(165 763)**

Issue of debt securities

Proceeds from issue of debt securities in the 6-month period ended 30 June 2017 resulted from the issue of tranches of bonds with the total par value of PLN 600 000 thousand under a Bond Issue Scheme of November 2015, as described in detail in Note 29.1.

(PLN '000)

OTHER INFORMATION

35. Financial instruments

Categories and classes of financial assets	Note	As at 30 June 2017 *(unaudited)*		As at 31 December 2016	
		Carrying amount	Fair value	Carrying amount	Fair value
1 Financial assets at fair value through profit or loss, held for trading		**35 895**	**35 895**	**45 092**	**45 092**
Derivative instruments	22	10 303	10 303	19 776	19 776
Investment fund units	23	25 592	25 592	25 316	25 316
2 Financial assets available for sale		**29 703**	**-**	**29 703**	**-**
Long-term shares	19	29 703	-	29 703	-
3 Loans and receivables		**9 527 040**	**9 517 514**	**12 054 366**	**12 023 275**
Receivables from clients	25	368 319	368 319	840 656	840 656
Bonds	20	6 946 069	6 926 761	9 858 382	9 814 505
Loans granted under cash pool agreement	29.4	5 947	5 947	15 850	15 850
Other loans granted	21	1 566 832	1 576 614	1 307 916	1 320 702
Other financial receivables		639 873	639 873	31 562	31 562
4 Financial assets excluded from the scope of IAS 39		**19 075 760**	**-**	**14 844 715**	**-**
Shares in subsidiaries	19	18 659 908	-	14 428 863	-
Shares in jointly-controlled entities	19	415 852	-	415 852	-
5 Hedging derivative instruments	22	**27 561**	**27 561**	**36 641**	**36 641**
6 Cash and cash equivalents	27	**56 720**	**56 720**	**198 090**	**198 090**
Total financial assets, ***of which in the statement of financial position:***		**28 752 679**		**27 208 607**	
Non-current assets		**26 746 612**		**25 820 473**	
Shares		19 105 463		14 874 418	
Bonds		6 359 920		9 615 917	
Loans granted		1 252 324		1 292 800	
Derivative instruments		26 051		35 814	
Other financial assets		2 854		1 524	
Current assets		**2 006 067**		**1 388 134**	
Receivables from clients		368 319		840 656	
Bonds		586 149		242 465	
Loans granted		320 455		30 966	
Derivative instruments		11 813		20 603	
Other financial assets		662 611		55 354	
Cash and cash equivalents		56 720		198 090	

Categories and classes of financial liabilities	Note	As at 30 June 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		**4 064**	**4 064**	**560**	**560**
Derivative instruments	22	4 064	4 064	560	560
2 Financial liabilities measured at amortized cost		**11 485 921**	**11 500 604**	**10 774 316**	**10 808 300**
Arm's length loans, *of which:*		3 770 843	3 783 390	3 203 740	3 237 724
Liability under the cash pool loan	29.4	1 874 773	1 874 773	1 245 489	1 245 489
Loans from the European Investment Bank	29.2	1 149 282	1 148 478	1 190 501	1 193 410
Loans from the subsidiary	29.3	746 788	760 139	767 750	798 825
Overdraft	29.5	65 850	65 850	15 131	15 131
Bonds issued	29.1	7 226 296	7 228 432	6 942 131	6 942 131
Liabilities to suppliers	32	285 078	285 078	473 637	473 637
Other financial liabilities	30	137 854	137 854	139 177	139 177
Liabilities due to purchases of fixed and intangible assets		-	-	500	500
3 Liabilities under guarantees, factoring and excluded from the scope of IAS 39		**25 270**	**25 270**	**26 974**	**26 974**
Liabilities under finance leases	29	25 270	25 270	26 974	26 974
Total financial liabilities, ***of which in the statement of financial position:***		**11 515 255**		**10 801 850**	
Non-current liabilities		**8 797 125**		**8 781 965**	
Debt		8 776 938		8 754 047	
Other financial liabilities		20 166		27 918	
Derivative instruments		21		-	
Current liabilities		**2 718 130**		**2 019 885**	
Debt		2 311 321		1 433 929	
Liabilities to suppliers		285 078		473 637	
Derivative instruments		4 043		560	
Other financial liabilities		117 688		111 759	

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

Financial instruments classified to other categories of financial instruments:

- fixed rate financial instruments – bonds purchased by the Company, a loan to a subsidiary, loans from the European Investment Bank, a loan from a subsidiary and subordinated bonds issued – were measured at fair value. The fair value measurement was carried out based on the present value of future cash flows discounted using an interest rate applicable to a given bond or loan, i.e. applying market interest rates. The measurement resulted in Level 2 classification in fair value hierarchy;
- the fair value of other financial instruments held by the Company (except financial assets available for sale and excluded from the scope of IAS 39 *Financial Instruments: Recognition and Measurement*, as discussed below) as at 30 June 2017 and 31 December 2016 did not significantly differ from their values presented in the financial statements for the respective periods, for the following reasons:

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

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

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

36. Finance and financial risk management

36.1. Financial risk management

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

Hedge accounting

As at 30 June 2017, the Company was a party to hedging transactions covered by the policy for specific risk management in the area of finance and subject to hedge accounting. The Company hedges a portion of the interest rate risk inherent in cash flows related to issued bonds, which has been discussed in more detail in Note 22 to these condensed interim financial statements.

36.2. Finance and capital management

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

(PLN '000)

37. Contingent liabilities

The Company's contingent liabilities arise mainly from collateral and guarantees granted to related parties. As at 30 June 2017, the structure of the Company's contingent liabilities was as follows:

Type of contingent liability	Company in respect of which contingent liability has been granted	Beneficiary	As at 30 June 2017 *(unaudited)*			As at 31 December 2016	
			Validity	EUR	PLN	EUR	PLN
corporate guarantee	TAURON Sweden Energy AB (publ)	holders of bonds issued by TAURON Sweden Energy AB (publ)	3.12.2029	168 000	710 052	168 000	743 232
blank promissory note with a promissory note declaration	TAURON Wytwarzanie S.A.	Regional Fund for Environmental Protection and Water Management in Katowice	15.12.2022		40 000		40 000
	TAURON Ciepło Sp. z o.o.		15.12.2022		30 000		30 000
financing commitment	TAURON Ciepło Sp. z o.o.	Regional Fund for Environmental Protection and Water Management in Katowice	31.12.2017		178 300		178 300
guarantees issued by The Bank of Tokyo-Mitsubishi UFJ, Ltd.	Elektrociepłownia Stalowa Wola S.A.	Bank Polska Kasa Opieki S.A.			-		74 992
		European Investment Bank			-		156 000
		European Bank for Reconstruction and Development			-		83 494
registered pledges and financial pledge of shares in TAMEH HOLDING Sp. z o.o.	TAMEH Czech s.r.o. TAMEH POLSKA Sp. z o.o.	RAIFFEISEN BANK INTERNATIONAL AG	31.12.2028*		415 852		415 852
surety contract	Kopalnia Wapienia Czatkowice Sp. z o.o.	Regional Fund for Environmental Protection and Water Management in Kraków	2018-2021		1 546		2 059
surety contract	TAURON Wydobycie S.A.	Millennium Leasing Sp. z o.o.	30.10.2017		2 900		2 900
surety contract	TAURON Wytwarzanie S.A.	Polskie Sieci Elektroenergetyczne S.A.	4.08.2019		5 000		5 000
	TAURON Sprzedaż Sp. z o.o.	Polska Spółka Gazownictwa Sp. z o.o.	31.03.2018		15 000		15 000
	Elektrociepłownia Stalowa Wola S.A.	Operator Gazociągów Przesyłowych GAS-SYSTEM S.A.	30.07.2020		1 667		-
	TAURON Czech Energy s.r.o.	CEZ a.s.		-	-	1 500	6 636
liability towards Powszechna Kasa Oszczędności Bank Polski S.A. being result of guarantees issued by the bank for subsidiaries	subsidiaries				-		1 691
liability towards CaixaBank S.A. being result of guarantees issued by the bank for subsidiaries	subsidiaries		2017-2019		12 854		263

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

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

- Corporate guarantee

  A corporate guarantee granted to collateralize bonds issued by TAURON Sweden Energy AB (publ). The guarantee is valid until 3 December 2029. i.e. the bond repurchase date and is granted up to EUR 168 000 thousand (PLN 710 052 thousand). Bondholders are guarantee beneficiaries.

- Registered and financial pledges on shares

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

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

As at 30 June 2017, the carrying amount of shares in TAMEH HOLDING Sp. z o.o. was PLN 415 852 thousand.

- Financing commitment

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

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

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

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

  On 31 March 2017, Elektrociepłownia Stalowa Wola S.A. paid all its liabilities to the financing banks. The warranty expired on 14 April 2017.

- Blank promissory notes

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

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

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

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

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

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

In this case, the courts of the first and second instance passed judgments favourable for GZE; however, in its judgment of 29 November 2011 the Supreme Court overruled the judgment of the Court of Appeals and remanded the case for re-examination by that Court. On 5 June 2012, the Court of Appeals overruled the judgment of the Regional Court and remanded the case for re-examination by the latter. The first hearing before the first instance court was held on 27 November 2012. In May 2015, a court expert prepared an opinion on correctness of settlements between the parties to the dispute. On 30 June 2015, TAURON Polska Energia S.A. lodged complaints against the opinion in question. Complaints against the opinion were also filed by Huta and the State Treasury. In its decision dated 16 September 2015 the court admitted an additional court expert's opinion concerning charges levelled by the parties as evidence. After the issue of the decision, the Company tried to change the proceeding concept adopted by the Court stating that taking evidence from a court expert opinion is unacceptable. Finally, the Court ordered the court expert to prepare a supplementary opinion. On 5 September 2016, the Company received the supplementary opinion of the court expert and filed charges against the opinion on 12 and 19 September 2016. Charges against the opinion were also filed by Huta and the State Treasury. Another hearing was held on 24 March 2017, but the expert witness appointed by the court did not appear. The hearing was adjourned for an unspecified period. On 20 June 2017 the Court served the Order of 5 June 2017 (issued at a closed session) on admission of evidence in the form of a power industry expert opinion (excluding the previous expert appointed in the case) on the Company's attorneys.

Subsequently the Court asked several court experts and the Power Industry Institute about whether they could prepare an expert opinion in the case. In addition, under the order of 19 April 2017 the Court decided to withdraw the exemption from costs previously granted to Huta.

Based on a legal analysis of the 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 recognised by the Company for any costs associated with those claims.

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

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

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

TAURON Polska Energia S.A. responded to the claim with a series of charges. The court obliged ENEA to respond to the Company's reply, which was done on 5 April 2016. On 20 June 2016, TAURON Polska Energia S.A. filed a petition for inviting ENEA Operator Sp. z o.o. to take part in the litigation. The Court also admitted evidence from the witnesses' testimonies. On 4 July 2016, TAURON Polska Energia S.A. filed a process document with the court. Six witnesses were questioned in the course of the proceedings. The last hearing was held on 6 March 2017. During the hearing, at the request of ENEA S.A. (made in its pleading of 8 December 2016), the court decided on joinder of defendants in accordance with Article 194.1 of the Code of Civil Procedure – seven sellers for which TAURON Polska Energia S.A. acted as an entity in charge of trade balances in the distribution area of ENEA Operator Sp. z o.o. in 2012. The additional defendants include two subsidiaries of TAURON Polska Energia S.A.: TAURON Sprzedaż Sp. z o.o., sued by ENEA S.A. for payment of PLN 4 934 thousand plus statutory interest from the date of serving the summons of additional defendant to the date of payment and TAURON Sprzedaż GZE Sp. z o.o., sued by ENEA S.A. for payment of PLN 3 480 thousand plus statutory interest from the date of serving the summons of additional defendant to the date of payment. The demand for the payment of the aforementioned amounts as well as the amounts claimed from the other five sellers was made by the plaintiff in case of the court dismissing the claim raised against TAURON Polska Energia S.A. In April 2017 both companies: TAURON Sprzedaż Sp. z o.o. and TAURON Sprzedaż GZE Sp. z o.o. filed their replies to the suit, in which they requested the court to dismiss the claim in whole.

The case is still in progress. The hearing was adjourned to the date set by the Court to enable the additional defendants to file their replies to the suit, which have already been filed with the Court by all of them. No provision has been recognised by the Company as it believes that the risk of an unfavourable verdict in the case is below 50%. The subsidiaries of the Company have not recognised any provisions either as they also assess the risk of an unfavourable verdict to be below 50%.

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

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

On 18 March 2015, the subsidiary in liquidation terminated long-term contracts concluded in 2009–2010 for the purchase of power and property rights from the wind farms held by companies from in.ventus, Polenergia and Wind Invest groups. The reason for the termination of these contracts by Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. was a breach of their provisions by the counterparties, involving a refusal to enter, in good faith, into renegotiation of the terms of these contracts. Actions were brought against the subsidiary to declare its termination notices ineffective. In the lawsuit brought by Dobiesław Wind Invest Sp. z o.o., in 2016 the Regional Court in Warsaw issued a judgment dismissing the action to declare the termination notices ineffective. The plaintiff lodged an appeal against this judgment. In 2016 actions were amended by including in them claims for damages due to the termination of the said contracts, with a total amount of approx. PLN 40 000 thousand. As the relevant judicial proceedings are still in the initial phase, we are unable to estimate the final amount of the potential financial consequences for the company and for the Group. Considering the current status of the lawsuits and the accompanying circumstances, the Group believes that the risk of losing the lawsuits for both declaring the termination notices ineffective and securing non-monetary claims as well as claims for damages does not exceed 50%; hence, no provision has been recognized for the related costs.

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

A claim was filed against the subsidiary Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. and TAURON Polska Energia S.A. in November 2014 by Dobiesław Wind Invest Sp. z o.o. to reverse the risk of loss. It was claimed that the Company should revoke the liquidation of Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. in liquidation. The subsidiary's claim was that TAURON Polska Energia S.A. should be obliged to provide security in the amount of PLN 183 391 thousand as a court deposit.

On 8 March 2017 the Shareholders' Meeting of Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. decided to withdraw from the liquidation of that company. As a result, in accordance with the ruling of the Regional Court in Cracow issued at the hearing of 15 March 2017, the Parties to the dispute exchanged letters presenting their positions with regard to the change that had occurred at the company. The plaintiff upheld its claim as defined in the suit.

After the end of the reporting period, on 2 August 2017, the Company's attorney in the lawsuit above received an amended statement of claim from Dobiesław Wind Invest Sp. z o.o. The plaintiff amended its claims in such a way that it withdrew the original action against the subsidiary Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. and amended the action against the Company from an action to reverse the imminent danger of loss to an action for the payment of damages. Dobiesław Wind Invest Sp. z o.o. claims the amount of approx. PLN 34 700 thousand plus statutory interest from the date of filing the suit to the date of payment. Moreover, the plaintiff claims establishing the Company's liability to Dobiesław Wind Invest Sp. z o.o. for potential future losses estimated by the plaintiff at an amount of approx. PLN 254 000 thousand (resulting from the alleged torts of the Company) and establishing collateral from the Company of approx. PLN 254 000 thousand in case the court refuses to establish the Company's liability for losses that may arise in the future. The factual basis of the claim is, according to the plaintiff, the termination of long-term contracts for the sale of power and property rights by the subsidiary Polska Energia – Pierwsza Kompania Handlowa Sp. z o.o.

The Company started to analyze the statement of claim and the attached documents and to prepare a reply within the 6-week deadline set by the court. The preliminary assessment of the grounds for the plaintiff's claims indicates that they are completely unfounded.

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

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

After the balance sheet date, on 20 July 2017 the Company received a statement of claim of 29 June 2017 filed by Gorzyca Wind Invest Sp. z o.o. against TAURON Polska Energia S.A. for the payment of damages of approx. PLN 39 700 thousand and for establishing a liability for the losses that may arise in the future from torts, including acts of unfair competition, with a value estimated by the plaintiff at the amount of approx. PLN 465 900 thousand. The case is pending before the Regional Court in Katowice.

The factual basis of the claim is, according to the plaintiff, the termination of long-term contracts for the purchase of power and property rights arising from the certificates of origin (PPAs) by the Polska Energia – Pierwsza Kompania

(PLN '000)

Handlowa Sp. z o.o. subsidiary, and the total amount of the future loss that will be incurred by all of the Wind Invest Group companies is – as stated by the plaintiff company – PLN 1 212 900 thousand.

The Company started to analyse the statement of claim and the attached documents and to prepare a reply within the deadline set by the court i.e. 18 September 2017. The preliminary assessment of the grounds for the plaintiff's claims indicates that they are completely unfounded.

38. Collateral against liabilities

Agreement/transaction	Collateral	Collateral amount
Bond Issue Scheme dated 16 December 2010 with subsequent annexes	declaration of submission to enforcement	up to PLN 6 900 000 thousand, valid until 31 December 2018
Long-term Bond Issue Scheme in Bank Gospodarstwa Krajowego	declaration of submission to enforcement	up to PLN 2 550 000 thousand, valid until 20 December 2032
Bond Issue Scheme dated 24 November 2015	declaration of submission to enforcement	up to PLN 7 524 000 thousand, valid until 31 December 2023
Bank guarantee agreement with The Bank of Tokyo-Mitsubishi UFJ, Ltd.	declaration of submission to enforcement	up to PLN 377 383 thousand, valid until 27 October 2018
Framework bank guarantee agreement concluded with CaixaBank S.A. The Company and TAURON Group companies can use the limit for guarantees to secure transactions (the maximum guarantee limit amount was determined at PLN 100 000 thousand).	authorization to debit the bank account maintained by CaixaBank S.A.	up to PLN 100 000 thousand
	declaration of submission to enforcement	up to PLN 120 000 thousand valid until 11 July 2021
Agreement with Bank Zachodni WBK S.A. on bank guarantees for Izba Rozliczeniowa Giełd Towarowych S.A.	authorization to debit the bank account maintained by BZ WBK S.A.	up to PLN 150 000 thousand
Overdraft agreements with PKO Bank Polski S.A. (up to PLN 300 000 thousand and an intraday limit agreement up to PLN 500 000 thousand)	authorizations to debit the bank account maintained by PKO Bank Polski S.A.	up to the total amount of PLN 800 000 thousand
Overdraft agreement with Bank Gospodarstwa Krajowego (in EUR, up to EUR 45 000 thousand)	authorization to debit the bank account maintained by Bank Gospodarstwa Krajowego	up to PLN 190 193 thousand (EUR 45 000 thousand)
	declaration of submission to enforcement	up to PLN 312 761 thousand (EUR 74 000 thousand) valid until 31 December 2019
Overdraft agreement with mBank (in USD, up to USD 2 000 thousand)	declaration of submission to enforcement	up to PLN 11 119 thousand (USD 3 000 thousand) valid until 31 March 2019
Finance lease agreement concerning an investment property	The agreement covers an investment property. The agreement is collateralized by two blank promissory notes, assignment of receivables and authorization to debit a bank account.	As at 30 June 2017 the carrying amount of the leased asset was PLN 23 510 thousand.

Under the agreement for bank guarantees concluded with Bank Zachodni WBK S.A., the bank granted guarantees to secure stock exchange transactions arising from being a member of the Commodities' Exchange Clearing House. As at 30 June 2017, the total amount of the guarantees granted by the bank was PLN 50 000 thousand, valid until August 2017.

Under the agreement for bank guarantees concluded with CaixaBank S.A. (Joint Stock Company) Branch in Poland ("CaixaBank S.A."), at the Company's request the bank granted bank guarantees to secure the liabilities and transactions of the subsidiaries of TAURON Polska Energia S.A. for the total amount of PLN 12 854 thousand (Note 37) and to secure the transactions made 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 12 374 thousand, valid until 11 February 2018.

(PLN '000)

39. Capital commitments

As at 30 June 2017, the Company did not have any material capital commitments.

40. Related-party disclosures

40.1. Transactions with related parties and State Treasury companies

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

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

Revenue and expenses

	6-month period ended 30 June 2017 *(unaudited)*	6-month period ended 30 June 2016 *(unaudited)*
Revenue from subsidiaries, *of which*:	**4 432 848**	**5 339 374**
Revenue from operating activities	3 603 085	3 641 745
Dividend income	542 474	1 458 951
Other operating income	1 501	2 317
Other finance income	285 788	236 361
Revenue from jointly-controlled entities	**43 965**	**58 049**
Revenue from State Treasury companies	**187 332**	**111 747**
Costs from subsidiaries, *of which*:	**(1 607 219)**	**(1 301 228)**
Costs of operating activities	(1 585 788)	(1 282 527)
Finance costs	(21 431)	(18 701)
Costs incurred with relation to transactions with jointly-controlled entities	**(1 736)**	**(6 118)**
Costs from State Treasury companies	**(265 900)**	**(263 963)**

(PLN '000)

Receivables and liabilities

	As at 30 June 2017 *(unaudited)*	As at 31 December 2016
Loans granted to subsidiaries and receivables from subsidiaries, *of which*:	**9 111 891**	**11 940 640**
Receivables from clients	313 021	795 482
Loans granted under cash pool agreement plus interest accrued	-	15 800
Other loans granted	1 274 370	1 249 802
Receivables from the TCG	36 715	20 945
Bonds	6 946 069	9 858 382
Dividend receivables	541 341	-
Other financial receivables	128	229
Other non-financial receivables	247	-
Loans granted to jointly-controlled entities and receivables from jointly-controlled entities	**559 826**	**274 502**
Receivables from State Treasury companies	**37 281**	**25 210**
Liabilities to subsidiaries, *of which*:	**2 885 718**	**2 413 451**
Liabilities to suppliers	187 345	335 344
Loans received under cash pool agreement plus interest accrued	1 861 650	1 229 344
Other loans received	746 788	767 750
Liabilities arising from the TCG	84 639	75 415
Other financial liabilities	5 257	5 259
Other non-financial liabilities	39	339
Liabilities to jointly-controlled entities	**624**	**1 209**
Liabilities to State Treasury companies	**58 089**	**55 389**

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

In the 6-month period ended 30 June 2017, the major contracting party as regards sales revenue from transactions made by TAURON Polska Energia S.A. with State Treasury companies was PSE S.A. Sales to that entity accounted for 95% of the total revenue from State Treasury companies.

In the 6-month period ended 30 June 2017, Polska Grupa Górnicza Sp. z o.o., PSE S.A. and Jastrzębska Spółka Węglowa S.A. were the major contracting parties of TAURON Polska Energia S.A. as regards costs incurred in relation to transactions with State Treasury companies. Costs incurred in transactions with those entities represented 94% of total costs incurred in purchase transactions entered into with State Treasury companies.

In relation to agreements entered into with a joint venture, Elektrociepłownia Stalowa Wola S.A., the Company recognized provisions for onerous contracts and provision for costs. In the 6-month period ended 30 June 2017, the Company reversed the whole amount of provision, which has been discussed in more detail in Note 31 to these condensed interim financial statements.

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

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

40.2. Executive compensation

The amount of compensation and other benefits paid or payable to the Management Board, Supervisory Board and other key executives of the Company in the 6-month period ended 30 June 2017 and in the comparative period has been presented in the table below.

(PLN '000)

	6-month period ended 30 June 2017 (unaudited)	6-month period ended 30 June 2016 (unaudited)
Management Board	**4 382**	**7 064**
Short-term benefits (with surcharges)	2 992	3 122
Temination benefits	1 144	3 702
Other	246	240
Supervisory Board	**379**	**609**
Short-term employee benefits (salaries and surcharges)	379	609
Other members of key management personnel	**7 271**	**7 815**
Short-term employee benefits (salaries and surcharges)	6 093	5 665
Temination benefits	726	1 715
Other	452	435
Total	**12 032**	**15 488**

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

With respect to employment termination benefits paid to Management Board members, the amount of PLN 650 thousand represents utilisation of the provision recognised in previous years. Additionally, in the 6-month period ended 30 June 2017 the Company recognised a provision of PLN 900 thousand for termination benefits for Management Board members which are not yet due and payable. These costs have not been included in the table above.

In the 6-month period ended 30 June 2017 the Company recognised a provision of PLN 60 thousand for employment termination benefits to be paid to other members of key management personnel, of which PLN 10 thousand has been paid as at the balance sheet date. Costs of provisions for the amounts payable in the following reporting periods have not been included in the table above.

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

41. Events after the end of the reporting period

Eurobonds issue

On 5 July 2017 the Company issued eurobonds with a total nominal value of EUR 500 000 thousand and the issue price amounting to 99.438% of the nominal value. These bonds will mature in 10 years. They are fixed interest bonds with interest payable on an annual basis. They were admitted to trading on the regulated market of the London Stock Exchange. The Fitch rating agency awarded them the "BBB" rating.

The funds obtained from the issuance of the eurobonds will be used to refinance the costs of construction and acquisition of wind farms by one of the Group companies, to finance the Group's investments in the distribution segment and for general corporate purposes. The funds will not be used to carry out any new projects relating to generation of electricity from coal.

Receipt of a suit as a result of termination of long-term contracts for purchase of power and property rights (PPAs)

On 20 July 2017 the Company received a suit of 29 June 2017 filed by Gorzyca Wind Invest Sp. z o.o. with its registered office in Warsaw against TAURON Polska Energia S.A. for the payment of compensation of approx. PLN 39 700 thousand and for assessing the liability for the losses that may arise in the future from torts, including acts of unfair competition, with a value estimated by the plaintiff at the amount of approx. PLN 465 900 thousand, as described in Note 37 to these interim condensed financial statements.

Receipt of an amended statement of claim arising from termination of long-term contracts for the purchase of power and property rights

On 2 August 2017, the Company's attorney in the lawsuit held before the Regional Court in Cracow under the action brought by Dobiesław Wind Invest Sp. z o.o. with its registered office in Warsaw against the Company and its subsidiary Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. (to reverse the imminent danger of loss to Dobiesław Wind Invest Sp. z o.o. by obliging the Company and its subsidiary, Polska Energia Pierwsza Kompania Handlowa Sp. z o.o., to cancel the liquidation of the subsidiary, Polska Energia Pierwsza Kompania Handlowa Sp. z o.o.) received an amended statement of claim from Dobiesław Wind Invest Sp. z o.o. as described in Note 37 to these interim condensed financial statements.

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

On 13 July 2017, an increase in the share capital of Nowe Jaworzno Grupa TAURON Sp. z o.o. in the amount of PLN 400 000 thousand was registered in the National Court Register. The relevant resolution was adopted by the Extraordinary General Shareholders' Meeting of the company on 29 June 2017.

Bonds redemption

On 31 July 2017 the bonds issued under the bond issue scheme of 24 November 2015, with a nominal value of PLN 100 000 thousand and the original maturity date of 30 January 2020, were early redeemed.

Concluding an agreement with a subsidiary to transfer shares in order to be released from an obligation (datio in solutum)

On 9 August 2017, an agreement was concluded between the Company and its subsidiary, TAURON Dystrybucja S.A., for the transfer of shares in order to be released from an obligation (datio in solutum) under Article 453 of the Act of 23 April 1964 – The Civil Code (Journal of Laws of 2017, item 459 as amended). In accordance with the agreement, in order to be released from part of the obligation to pay a dividend of PLN 201 046 thousand to the Company, TAURON Dystrybucja S.A. will transfer 5 101 003 shares to the Company, representing 100% of shares in the issued capital of the subsidiary TAURON Dystrybucja Serwis S.A., with a value of PLN 201 045 thousand.

These condensed interim financial statements of TAURON Polska Energia S.A., prepared for the 6-month period ended 30 June 2017 in accordance with International Accounting Standard 34, have been presented on 56 consecutive pages.

Katowice, 16 August 2017

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

Jarosław Broda – Vice President of the Management Board ……………………………………..

Kamil Kaminski – Vice President of the Management Board ……………………………………..

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

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