

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 9-month period ended 30 September 2017

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TAURON Polska Energia S.A.
Condensed interim financial statements for the 9-month period ended 30 September 2017
prepared according to International Financial Reporting Standards as endorsed by the European Union
(in PLN '000)

CONDENSED INTERIM STATEMENT OF COMPREHENSIVE INCOME

| | Note | 3-month period ended 30 September 2017 (unaudited) | 9-month period ended 30 September 2017 (unaudited) | 3-month period ended 30 September 2016 (unaudited restated figures) | 9-month period ended 30 September 2016 (unaudited restated figures) |
|---|------|--|--|--|--|
| Sales revenue | 11 | 1 774 029 | 5 394 681 | 1 790 415 | 5 678 707 |
| Cost of sales | 12 | (1 742 639) | (5 062 589) | (1 768 785) | (5 567 934) |
| Profit on sale | | 31 390 | 332 092 | 21 630 | 110 773 |
| Selling and distribution expenses | 12 | (5 356) | (17 507) | (4 388) | (14 182) |
| Administrative expenses | 12 | (32 632) | (86 006) | (31 809) | (76 000) |
| Other operating income and expenses | | 48 | (1 231) | (23) | (6 387) |
| Operating profit (loss) | | (6 550) | 227 348 | (14 590) | 14 204 |
| Dividend income | 13 | - | 560 832 | - | 1 485 152 |
| Interest income on bonds and loans | 13 | 107 073 | 359 450 | 130 975 | 371 315 |
| Interest expense on debt | 13 | (90 320) | (245 549) | (84 900) | (269 633) |
| Revaluation of shares and loans | 13 | - | 10 267 | - | (997 051) |
| Other finance income and costs | 13 | (56 291) | 1 006 | (80 322) | (100 586) |
| Profit (loss) before tax | | (46 088) | 913 354 | (48 837) | 503 401 |
| Income tax expense | 14.1 | 5 572 | (53 539) | (1 915) | (4 242) |
| Net profit (loss) | | (40 516) | 859 815 | (50 752) | 499 159 |
| Measurement of hedging instruments | 28.4 | 748 | (8 327) | 35 092 | 83 938 |
| Income tax expense | 14.1 | (142) | 1 582 | (6 667) | (15 948) |
| Other comprehensive income subject to reclassification to profit or loss | | 606 | (6 745) | 28 425 | 67 990 |
| Actuarial gains/(losses) | | 74 | 101 | 17 | 44 |
| Income tax expense | 14.1 | (14) | (19) | (4) | (9) |
| Other comprehensive income not subject to reclassification to profit or loss | | 60 | 82 | 13 | 35 |
| Other comprehensive income, net of tax | | 666 | (6 663) | 28 438 | 68 025 |
| Total comprehensive income | | (39 850) | 853 152 | (22 314) | 567 184 |
| Earnings per share (in PLN): | | | | | |
| - basic and diluted, for net profit | | (0.02) | 0.49 | (0.03) | 0.28 |

CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION

| | Note | As at 30 September 2017 (unaudited) | As at 31 December 2016 |
|--|------|---|---------------------------|
| ASSETS | | | |
| Non-current assets | | | |
| Property, plant and equipment | 16 | 502 | 1 276 |
| Investment property | 17 | 22 606 | 25 318 |
| Intangible assets | 18 | 1 439 | 2 191 |
| Shares | 19 | 19 306 529 | 14 874 418 |
| Bonds | 20 | 6 421 150 | 9 615 917 |
| Loans granted | 21 | 1 267 191 | 1 292 800 |
| Derivative instruments | 22 | 27 610 | 35 814 |
| Other financial assets | 23 | 2 813 | 1 524 |
| Other non-financial assets | | 12 496 | 6 071 |
| | | 27 062 336 | 25 855 329 |
| Current assets | | | |
| Inventories | 24 | 245 626 | 284 799 |
| Receivables from clients | 25 | 573 720 | 840 656 |
| Receivables arising from taxes and charges | 26 | 46 169 | 120 586 |
| Bonds | 20 | 516 626 | 242 465 |
| Loans granted | 21 | 338 796 | 30 966 |
| Derivative instruments | 22 | 26 280 | 20 603 |
| Other financial assets | 23 | 182 156 | 55 354 |
| Other non-financial assets | | 5 174 | 23 528 |
| Cash and cash equivalents | 27 | 1 970 315 | 198 090 |
| | | 3 904 862 | 1 817 047 |
| TOTAL ASSETS | | 30 967 198 | 27 672 376 |

CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION — CONTINUED

| | Note | As at 30 September 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 | 22 915 | 29 660 |
| Retained earnings / (Accumulated losses) | 28.3 | 940 672 | (85 478) |
| | | 17 383 420 | 16 530 268 |
| Non-current liabilities | | | |
| Debt | 29 | 10 610 132 | 8 754 047 |
| Other financial liabilities | 30 | 20 226 | 27 918 |
| Derivative instruments | 22 | 45 | - |
| Deferred income tax liabilities | 14.2 | 32 765 | 32 364 |
| Provisions for employee benefits | | 2 809 | 2 534 |
| Other provisions | 31 | - | 152 943 |
| Accruals, deferred income and government grants | | - | 170 |
| | | 10 665 977 | 8 969 976 |
| Current liabilities | | | |
| Debt | 29 | 2 221 174 | 1 433 929 |
| Liabilities to suppliers | 32 | 340 166 | 473 637 |
| Other financial liabilities | 30 | 122 305 | 111 759 |
| Derivative instruments | 22 | 22 009 | 560 |
| Liabilities arising from taxes and charges | 33 | 128 947 | 20 209 |
| Other non-financial liabilities | | 18 | - |
| Provisions for employee benefits | | 312 | 299 |
| Other provisions | 31 | 67 651 | 110 406 |
| Accruals, deferred income and government grants | | 15 219 | 21 333 |
| | | 2 917 801 | 2 172 132 |
| Total liabilities | | 13 583 778 | 11 142 108 |
| TOTAL EQUITY AND LIABILITIES | | 30 967 198 | 27 672 376 |

CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY

FOR THE 9-MONTH PERIOD ENDED 30 SEPTEMBER 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 | | - | - | - | 859 815 | 859 815 |
| Other comprehensive income | | - | - | (6 745) | 82 | (6 663) |
| Total comprehensive income | | - | - | (6 745) | 859 897 | 853 152 |
| As at 30 September 2017 (unaudited) | | 8 762 747 | 7 657 086 | 22 915 | 940 672 | 17 383 420 |

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

| | | 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 | | - | - | - | 499 159 | 499 159 |
| Other comprehensive income | | - | - | 67 990 | 35 | 68 025 |
| Total comprehensive income | | - | - | 67 990 | 499 194 | 567 184 |
| As at 30 September 2016 (unaudited restated figures) | | 8 762 747 | 7 823 339 | (5 424) | 579 019 | 17 159 681 |

CONDENSED INTERIM STATEMENT OF CASH FLOWS

| | Note | 9-month period ended 30 September 2017 <i>(unaudited)</i> | 9-month period ended 30 September 2016 <i>(unaudited restated figures)</i> |
|--|------|--|---|
| Cash flows from operating activities | | | |
| Profit before taxation | | 913 354 | 503 401 |
| Depreciation and amortization | | 4 270 | 6 129 |
| Interest and dividends, net | | (678 518) | (1 584 044) |
| Impairment losses on shares and loans | | (10 267) | 997 051 |
| Foreign exchange difference | | (9 850) | 6 154 |
| Other adjustments of profit before tax | | 18 379 | 77 211 |
| Change in working capital | 34.1 | 19 502 | 102 114 |
| Income tax paid | | 28 817 | (17 984) |
| Net cash from (used in) operating activities | | 285 687 | 90 032 |
| Cash flows from investing activities | | | |
| Purchase of property, plant and equipment and intangible assets | | (532) | (1 239) |
| Purchase of bonds | 34.2 | (350 000) | (1 870 000) |
| Purchase of shares | 34.2 | (4 160 270) | (434 103) |
| Loans granted | 34.2 | (301 542) | (10 775) |
| Purchase of investment fund units | | (50 000) | (25 000) |
| Total payments | | (4 862 344) | (2 341 117) |
| Sale of property, plant and equipment and intangible assets | | 14 | 1 |
| Redemption of bonds | 34.2 | 3 197 110 | 340 000 |
| Repayment of loans granted | | - | 142 024 |
| Dividends received | | 356 458 | 1 485 152 |
| Interest received | 34.2 | 388 697 | 395 344 |
| Other proceeds | | - | 5 985 |
| Total proceeds | | 3 942 279 | 2 368 506 |
| Net cash from (used in) investing activities | | (920 065) | 27 389 |
| Cash flows from financing activities | | | |
| Payment of finance lease liabilities | | (2 559) | (2 385) |
| Repayment of loans and borrowings | 34.3 | (104 241) | (61 364) |
| Redemption of debt securities | 34.3 | (700 000) | (2 550 000) |
| Interest paid | 34.3 | (128 039) | (182 934) |
| Commission paid | | (15 048) | (10 706) |
| Total payments | | (949 887) | (2 807 389) |
| Issue of debt securities | 34.3 | 2 707 462 | 2 860 000 |
| Total proceeds | | 2 707 462 | 2 860 000 |
| Net cash from financing activities | | 1 757 575 | 52 611 |
| Net increase / (decrease) in cash and cash equivalents | | 1 123 197 | 170 032 |
| Net foreign exchange difference | | 1 316 | 2 340 |
| 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 | 77 756 | (509 143) |
| restricted cash | 27 | 46 001 | 100 854 |

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

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

The Company also prepared condensed interim consolidated financial statements for the 9-month period ended 30 September 2017, which were approved by the Management Board for publication on 3 November 2017.

These condensed interim financial statements are part of the consolidated report, which also includes the condensed interim consolidated financial statements for the 9-month period ended 30 September 2017.

2. Shares in related parties

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

TAURON Polska Energia S.A.

Condensed interim financial statements for the 9-month period ended 30 September 2017
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(in 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. | Wrocław | Services | 100,00% |
| 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 | Wsparcie Grupa TAURON Sp. z o.o. ^{2,4} | Tarnów | Services | 99.72% |

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

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

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

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

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

| Item | Company name | Registered office | 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% |
| 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. 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 judgement of the management, along with accounting estimates, have been of key importance; they have impacted figures disclosed in the 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.

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| Item | Value of item to which the estimate figure applies | | Details regarding assumptions made and calculation of significant estimates |
|--|--|------------------------|---|
| | As at 30 September 2017 (unaudited) | As at 31 December 2016 | |
| Shares | 19 306 529 | 14 874 418 | <ul style="list-style-type: none"> • Impairment <p>In the 9-month period ended 30 September 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 September 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.</p> <p>Note 19</p> |
| Loan granted to a subsidiary | 1 028 571 | 1 051 849 | <ul style="list-style-type: none"> • Impairment <p>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 September 2017, the write-down amounted to PLN 258 531 thousand (as at 31 December 2016: PLN 197 953 thousand).</p> <ul style="list-style-type: none"> • Classification as non-current assets. <p>Note 21</p> |
| Provisions for onerous contracts and for costs | - | 198 844 | <ul style="list-style-type: none"> • In the 9-month period ended 30 September 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. <p>Note 31</p> |
| Deferred tax assets | 36 428 | 50 115 | <ul style="list-style-type: none"> • Unrecognised deferred tax assets; • Realisation of deferred tax assets. <p>Note 14.2</p> |
| Derivative instruments: | | | <ul style="list-style-type: none"> • Fair value measurement. |
| Assets | 53 890 | 56 417 | Note 22 |
| Liabilities | 22 054 | 560 | |
| Intragroup bonds | 6 937 776 | 9 858 382 | <ul style="list-style-type: none"> • Classification as non-current or current assets. <p>Note 20</p> |
| Loan received from a subsidiary | - | 29 286 | <ul style="list-style-type: none"> • Classification as non-current or current liabilities. <p>Note 29.3</p> |

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.

Key changes introduced by IFRS 9 *Financial Instruments*:

- amendments to classification and measurement of financial assets based on the business model for managing the financial assets and their contractual cash flow characteristics. The existing four categories of financial assets

defined in IAS 39 *Financial Instruments: Recognition and Measurement* will be replaced by two categories: amortized cost and fair value;

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

Impact on the financial statements

The amendments to classification and measurement of financial assets will lead to changes in the classification of financial assets in the Company's financial statements, however, preliminary analysis has shown that this will not have a material impact on the measurement as well as the Company's profit/loss and equity. An analysis of the financial assets held by the Company as at 30 September 2017 has shown that, provided that the Company maintains similar financial assets when IFRS 9 *Financial Instruments* becomes effective, the new classification is not likely to materially change the measurement and hence the 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 outcomes of the analysis do not apply to shares held by the Company in entities not quoted in active markets, which cannot be reliably measured and therefore are currently measured at cost less any impairment. Effects of IFRS 9 *Financial Instruments* on the financial statements with respect to this asset group have not been fully analysed yet.

As far as the expected credit losses on receivables from buyers are concerned, the new impairment model should not have a material impact on the financial statements in the way that additional allowance for expected credit losses is recognised. 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 September 2017, the Company held instruments hedging fluctuations in cash flows related to issued bonds due to interest rate risk. These interest rate swaps are subject to hedge accounting. It is not expected that the entry into force of IFRS 9 *Financial Instruments* will have a material impact on the Company's financial statements as regards the applied hedge accounting principles.

IFRS 15 Revenue from Contracts with Customers

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

The standard specifies how and when to recognize revenue and requires more detailed disclosures. The Standard replaces IAS 18 *Revenue*, IAS 11 *Construction Contracts*, IFRIC 18 *Transfer of Assets from Customers* and a number of interpretations concerning revenue recognition.

Impact on the financial statements

A preliminary analysis of the impact of IFRS 15 *Revenue from Contracts with Customers* on the accounting policies applied, has shown that the new standard changes the method of accounting for contracts with customers, in particular if services and goods are provided under a single contract, which happens rarely in the Company. The new guidance of IFRS 15 *Revenue from Contracts with Customers* 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 a right-of-use asset and a lease liability. The right-of-use asset is treated similarly to other non-financial assets and depreciated accordingly. The lease liability is initially measured at the present value of the lease payments payable over the lease term, discounted at the rate implicit in the lease if that can be readily determined. If that rate cannot be readily determined, the lessee shall use the incremental borrowing rate. Lessors continue to classify leases as operating or finance, with the approach to lessor accounting substantially unchanged from IAS 17 *Leases*. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. Otherwise, a lease is classified as an operating lease. A lessor recognises finance income over the lease term of a finance lease, based on a pattern reflecting a constant periodic rate of return on the net investment. A lessor recognises operating lease payments as income on a straight-line basis or another systematic basis if that basis is more representative of the pattern in which benefit from the use of the underlying asset is diminished.

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 interpretation will not materially impact the accounting policies applied thus far:

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

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

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

8. 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 revised standards and new interpretations applicable to annual periods beginning on or after 1 January 2016 were issued after 1 January 2016. Standards and interpretations which were issued, but are not yet effective, because they have not been endorsed by the European Union or those which have been endorsed by the European Union but have not been applied early by the Capital Group were presented in the annual financial statements for 2016.

Presentation change

In the year ended 31 December 2016, the 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 9-month period ended 30 September 2016 is presented in the table below. The change affected the Company's profit/loss.

TAURON Polska Energia S.A.
Condensed interim financial statements for the 9-month period ended 30 September 2017
prepared according to International Financial Reporting Standards as endorsed by the European Union
(in PLN '000)

| | 9-month period ended 30 September 2016 <i>(unaudited authorised figures)</i> | Change in presentation of gains/losses on trading in emission allowances and on commodity derivative instruments | 9-month period ended 30 September 2016 <i>(unaudited restated figures)</i> |
|-----------------------------------|--|--|--|
| Sales revenue | 5 810 862 | (132 155) | 5 678 707 |
| Cost of sales | (5 700 452) | 132 518 | (5 567 934) |
| Profit on sale | 110 410 | 363 | 110 773 |
| Selling and distribution expenses | (16 833) | 2 651 | (14 182) |
| Operating profit | 11 190 | 3 014 | 14 204 |
| Other finance income and costs | (97 814) | (2 772) | (100 586) |
| Profit before tax (loss) | 503 159 | 242 | 503 401 |
| Income tax expense | (4 196) | (46) | (4 242) |
| Net profit (loss) | 498 963 | 196 | 499 159 |
| Total comprehensive income | 566 988 | 196 | 567 184 |

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. During the 9-month period ended 30 September 2017, the Company recognized dividend income of PLN 560 832 thousand vs. PLN 1 485 152 thousand in the comparative period.

OPERATING SEGMENTS

10. Information on operating segments

The Company carries out its business in two operating segments, i.e. "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.

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Condensed interim financial statements for the 9-month period ended 30 September 2017
prepared according to International Financial Reporting Standards as endorsed by the European Union
(in PLN '000)

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

| | Sales | Holding activity | Unallocated items | Total |
|---|------------------|-------------------|-------------------|-------------------|
| Revenue | | | | |
| Sales outside the Group | 734 446 | - | - | 734 446 |
| Sales within the Group | 4 628 850 | 31 385 | - | 4 660 235 |
| Segment revenue | 5 363 296 | 31 385 | - | 5 394 681 |
| Profit/(loss) of the segment | | | | |
| Unallocated expenses | - | - | (86 006) | (86 006) |
| EBIT | 281 969 | 31 385 | (86 006) | 227 348 |
| Net finance income/(costs) | - | 683 930 | 2 076 | 686 006 |
| Profit/(loss) before income tax | 281 969 | 715 315 | (83 930) | 913 354 |
| Income tax expense | - | - | (53 539) | (53 539) |
| Net profit/(loss) for the period | 281 969 | 715 315 | (137 469) | 859 815 |
| Assets and liabilities | | | | |
| Segment assets | 2 956 458 | 27 934 895 | - | 30 891 353 |
| Unallocated assets | - | - | 75 845 | 75 845 |
| Total assets | 2 956 458 | 27 934 895 | 75 845 | 30 967 198 |
| Segment liabilities | 480 244 | 12 810 550 | - | 13 290 794 |
| Unallocated liabilities | - | - | 292 984 | 292 984 |
| Total liabilities | 480 244 | 12 810 550 | 292 984 | 13 583 778 |
| EBIT | 281 969 | 31 385 | (86 006) | 227 348 |
| Depreciation/amortization | (4 270) | - | - | (4 270) |
| Impairment | 212 | - | - | 212 |
| EBITDA | 286 027 | 31 385 | (86 006) | 231 406 |
| 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 9-month period ended 30 September 2016 (unaudited, restated figures) or as at 31 December 2016

| | Sales | Holding activity | Unallocated items | Total |
|---|------------------|-------------------|-------------------|-------------------|
| Revenue | | | | |
| Sales outside the Group | 1 263 509 | - | - | 1 263 509 |
| Sales within the Group | 4 412 628 | 2 570 | - | 4 415 198 |
| Segment revenue | 5 676 137 | 2 570 | - | 5 678 707 |
| Profit/(loss) of the segment | | | | |
| Unallocated expenses | - | - | (76 000) | (76 000) |
| EBIT | 87 634 | 2 570 | (76 000) | 14 204 |
| Net finance income (costs) | - | 501 341 | (12 144) | 489 197 |
| Profit/(loss) before income tax | 87 634 | 503 911 | (88 144) | 503 401 |
| Income tax expense | - | - | (4 242) | (4 242) |
| Net profit/(loss) for the period | 87 634 | 503 911 | (92 386) | 499 159 |
| 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 | 87 634 | 2 570 | (76 000) | 14 204 |
| Depreciation/amortization | (6 129) | - | - | (6 129) |
| Impairment | 148 | - | - | 148 |
| EBITDA | 93 615 | 2 570 | (76 000) | 20 185 |
| Other segment information | | | | |
| Capital expenditure * | 799 | - | - | 799 |

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

In the 9-month period ended 30 September 2017, revenue from sales to two major clients, being members of the TAURON Capital Group, represented 70% and 11% of the Company's total revenue in the "Sales" segment, amounting to PLN 3 769 689 thousand and PLN 592 316 thousand, respectively.

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Condensed interim financial statements for the 9-month period ended 30 September 2017
prepared according to International Financial Reporting Standards as endorsed by the European Union
(in PLN '000)

In the 9-month period ended 30 September 2016, revenue from sales to two major clients, being members of the TAURON Capital Group, represented 61% and 10% of the Company's total revenue in the "Sales" segment, amounting to PLN 3 532 752 thousand and PLN 599 936 thousand, respectively.

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

| | Sales | Holding activity | Unallocated items | Total |
|---|------------------|------------------|-------------------|------------------|
| Revenue | | | | |
| Sales outside the Group | 236 280 | - | - | 236 280 |
| Sales within the Group | 1 537 749 | - | - | 1 537 749 |
| Segment revenue | 1 774 029 | - | - | 1 774 029 |
| Profit/(loss) of the segment | 26 082 | - | - | 26 082 |
| Unallocated expenses | - | - | (32 632) | (32 632) |
| EBIT | 26 082 | - | (32 632) | (6 550) |
| Net finance income (costs) | - | (48 472) | 8 934 | (39 538) |
| Profit/(loss) before income tax | 26 082 | (48 472) | (23 698) | (46 088) |
| Income tax expense | - | - | 5 572 | 5 572 |
| Net profit/(loss) for the period | 26 082 | (48 472) | (18 126) | (40 516) |
| EBIT | 26 082 | - | (32 632) | (6 550) |
| Depreciation/amortization | (1 378) | - | - | (1 378) |
| Impairment | - | - | - | - |
| EBITDA | 27 460 | - | (32 632) | (5 172) |
| Other segment information | | | | |
| Capital expenditure * | - | - | - | - |

* Investment expenditure includes outlays on property, plant and equipment as well as non-current intangible assets, except for energy certificates acquired by the Company.

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

| | Sales | Holding activity | Unallocated items | Total |
|---|------------------|------------------|-------------------|------------------|
| Revenue | | | | |
| Sales outside the Group | 403 918 | - | - | 403 918 |
| Sales within the Group | 1 386 497 | - | - | 1 386 497 |
| Segment revenue | 1 790 415 | - | - | 1 790 415 |
| Profit/(loss) of the segment | 17 219 | - | - | 17 219 |
| Unallocated expenses | - | - | (31 809) | (31 809) |
| EBIT | 17 219 | - | (31 809) | (14 590) |
| Net finance income (costs) | - | (23 403) | (10 844) | (34 247) |
| Profit/(loss) before income tax | 17 219 | (23 403) | (42 653) | (48 837) |
| Income tax expense | - | - | (1 915) | (1 915) |
| Net profit/(loss) for the period | 17 219 | (23 403) | (44 568) | (50 752) |
| EBIT | 17 219 | - | (31 809) | (14 590) |
| Depreciation/amortization | (1 679) | - | - | (1 679) |
| Impairment | (53) | - | - | (53) |
| EBITDA | 18 951 | - | (31 809) | (12 858) |
| Other segment information | | | | |
| Capital expenditure * | 266 | - | - | 266 |

* Investment expenditure includes outlays on property, plant and equipment as well as non-current intangible assets, except for energy certificates acquired by the Company.

EXPLANATORY NOTES TO THE CONDENSED INTERIM STATEMENT OF COMPREHENSIVE INCOME

11. Sales revenue

| | 9-month period ended 30 September 2017 <i>(unaudited)</i> | 9-month period ended 30 September 2016 <i>(unaudited restated figures)</i> |
|---|---|--|
| Sale of goods for resale, finished goods and materials without elimination of excise | 5 314 079 | 5 632 481 |
| Excise | (609) | - |
| Revenue from sales of goods for resale and materials, of which: | 5 313 470 | 5 632 481 |
| Electricity | 5 152 615 | 5 283 774 |
| Gas | 141 151 | 170 375 |
| Property rights arising from energy certificates | 14 909 | 26 072 |
| Emission allowances | 923 | 147 961 |
| Other | 3 872 | 4 299 |
| Rendering of services, of which: | 81 211 | 46 226 |
| Trading income | 38 603 | 37 757 |
| Other | 42 608 | 8 469 |
| Total sales revenue | 5 394 681 | 5 678 707 |

The Company has been acting as an agent in transactions involving coal purchase for the Group companies. In the 9-month period ended 30 September 2017 the Company purchased raw materials from third parties and from the TAURON Group companies, which were subsequently sold to related parties. It recognizes revenue from agency services (supply management). Since 1 April 2017, TAURON Polska Energia S.A. has acted as an agent coordinating and supervising purchases, supplies and transportation of fuels.

In the 9-month period ended 30 September 2017, the value of raw materials purchased and subsequently resold in the aforementioned transactions was PLN 614 678 thousand. The Company recognized revenue from agency services of PLN 23 996 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 9-month period ended 30 September 2017 sales to subsidiaries totalled PLN 923 thousand (versus PLN 147 961 thousand in the comparative period); and
- the aggregate gain on trading in emission allowances purchased for resale and generation of profit in the short term due to volatility of market prices (trading portfolio). In the 9-month period ended 30 September 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 resulted mainly from higher revenue from using shares in subsidiaries.

12. Expenses by type

| | 9-month period ended 30 September 2017 <i>(unaudited)</i> | 9-month period ended 30 September 2016 <i>(unaudited restated figures)</i> |
|---|---|--|
| Costs by type | | |
| Depreciation of property, plant and equipment and amortization of intangible assets | (4 270) | (6 129) |
| Materials and energy | (1 093) | (867) |
| Consultancy services | (4 067) | (6 221) |
| IT services | (9 782) | (9 746) |
| Other external services | (21 950) | (12 495) |
| Taxes and charges | (3 363) | (2 388) |
| Employee benefits expense | (63 306) | (56 129) |
| Impairment loss on inventories | 212 | (50) |
| Allowance for receivables from clients | 1 | 1 547 |
| Advertising expenses | (17 421) | (18 661) |
| Other | (1 404) | (1 464) |
| Total costs by type | (126 443) | (112 603) |
| Selling and distribution expenses | 17 507 | 14 182 |
| Administrative expenses | 86 006 | 76 000 |
| Cost of goods for resale and materials sold | (5 039 659) | (5 545 513) |
| Cost of sales | (5 062 589) | (5 567 934) |

13. Finance income and costs

| | 9-month period ended 30 September 2017 <i>(unaudited)</i> | 9-month period ended 30 September 2016 <i>(unaudited restated figures)</i> |
|---|---|--|
| Income and costs from financial instruments, of which: | 688 050 | 496 952 |
| Dividend income | 560 832 | 1 485 152 |
| Interest income on bonds and loans | 359 450 | 371 315 |
| Other interest income | 11 014 | 5 628 |
| Interest expense | (245 549) | (269 633) |
| Commissions due to external financing | (10 938) | (10 859) |
| Gain/(loss) on derivative instruments | (4 683) | 9 407 |
| Exchange gains/(losses) | 6 808 | (8 967) |
| Surplus of impairment losses (recognised)/reversed on shares | 70 845 | (997 051) |
| Recognition of impairment loss on loan | (60 578) | - |
| Loss on disposal of investment in a subsidiary | - | (88 311) |
| Other | 849 | 271 |
| Other finance income and costs | (2 044) | (7 755) |
| Interest on discount (other provisions) | (2 330) | (10 935) |
| Other | 286 | 3 180 |
| Total finance income and costs, including recognized in the statement of comprehensive income: | 686 006 | 489 197 |
| Dividend income | 560 832 | 1 485 152 |
| Interest income on bonds and loans | 359 450 | 371 315 |
| Interest expense on debt | (245 549) | (269 633) |
| Revaluation of shares and loans | 10 267 | (997 051) |
| Other finance income and costs | 1 006 | (100 586) |

In the 9-month period ended 30 September 2017 the Company recognized an impairment loss on shares in Polska Energia Pierwsza Kompania Handlowa Sp. z o.o., a subsidiary, of PLN 49 212 thousand and reversed a portion of an impairment loss on shares in TAURON Wytwarzanie S.A. of PLN 120 057 thousand. Additionally, the Company

recognized an impairment loss on a loan granted to a subsidiary of PLN 60 578 thousand. Impairment losses on shares and loans granted have been presented in detail in Note 19 hereto.

In the 9-month period ended 30 September 2017, exchange gains exceeded exchange losses by PLN 6 808 thousand. Exchange gains were mainly related to the Company's debt in the euro, i.e. loans obtained from a subsidiary, subordinated bonds issued in December 2016 and eurobonds issued in July 2017. The related surplus of exchange gains over exchange losses was PLN 8 472 thousand. In the comparative period, exchange losses exceeded exchange gains.

14. Income tax

14.1. Tax expense in the statement of comprehensive income

| | 9-month period ended 30 September 2017 <i>(unaudited)</i> | 9-month period ended 30 September 2016 <i>(unaudited restated figures)</i> |
|---|---|--|
| Current income tax | (51 575) | (24 437) |
| Current income tax expense | (51 839) | (24 437) |
| Adjustments of current income tax from prior years | 264 | - |
| Deferred tax | (1 964) | 20 195 |
| Income tax expense in profit or loss | (53 539) | (4 242) |
| Income tax expense in other comprehensive income | 1 563 | (15 957) |

14.2. Deferred income tax

| | As at 30 September 2017 <i>(unaudited)</i> | As at 31 December 2016 |
|---|--|---------------------------|
| due interest on bonds and loans | 52 410 | 66 356 |
| difference between tax base and carrying amount of other financial assets | 9 261 | 4 861 |
| valuation of hedging instruments | 5 452 | 6 962 |
| other | 2 070 | 4 300 |
| Deferred tax liabilities | 69 193 | 82 479 |
| provision for employee benefits | 593 | 544 |
| other provisions and accruals | 2 276 | 31 122 |
| difference between tax base and carrying amount of fixed and intangible assets | 902 | 1 107 |
| difference between tax base and carrying amount of financial liabilities | 31 889 | 15 887 |
| other | 768 | 1 455 |
| Deferred tax assets | 36 428 | 50 115 |
| Deferred tax assets/(liabilities), net, of which: | (32 765) | (32 364) |
| Deferred tax assets/(liabilities), net - recognized in profit or loss | (27 313) | (25 349) |
| Deferred tax assets/(liabilities), net - recognized in other comprehensive income | (5 452) | (7 015) |

Deferred tax asset related to deductible differences related to investments in subsidiaries is recognized insofar as their reversal is probable in the foreseeable future and where taxable income will be available to enable realization of deductible differences. According to the Company, deductible 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 258 531 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 forecasted for 2017 for the Tax Capital Group ("TCG") of which the Company is a member, and taxable profit is forecasted 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. Dividends paid and proposed

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

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

EXPLANATORY NOTES TO THE CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION

16. Property, plant and equipment

For the 9-month period ended 30 September 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) | - |
| Sale | - | (286) | - | - | (286) |
| Closing balance | 5 918 | 6 571 | 11 667 | - | 24 156 |
| ACCUMULATED DEPRECIATION | | | | | |
| Opening balance | (5 917) | (5 732) | (11 485) | - | (23 134) |
| Depreciation for the period | (1) | (706) | (99) | - | (806) |
| Sale | - | 286 | - | - | 286 |
| Closing balance | (5 918) | (6 152) | (11 584) | - | (23 654) |
| NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD | 1 | 1 125 | 150 | - | 1 276 |
| NET CARRYING AMOUNT AT THE END OF THE PERIOD | - | 419 | 83 | - | 502 |

For the 9-month period ended 30 September 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 | - | - | - | 799 | 799 |
| Allocation of assets under construction | - | - | 770 | (770) | - |
| Sale | (21) | - | - | - | (21) |
| Closing balance | 6 740 | 6 857 | 11 568 | 29 | 25 194 |
| ACCUMULATED DEPRECIATION | | | | | |
| Opening balance | (6 438) | (4 771) | (9 771) | - | (20 980) |
| Depreciation for the period | (264) | (721) | (1 600) | - | (2 585) |
| Sale | 21 | - | - | - | 21 |
| Closing balance | (6 681) | (5 492) | (11 371) | - | (23 544) |
| 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 | 59 | 1 365 | 197 | 29 | 1 650 |

17. Investment property

| | 9-month period ended 30 September 2017 <i>(unaudited)</i> | 9-month period ended 30 September 2016 <i>(unaudited)</i> |
|---|---|---|
| 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 | (2 712) | (2 712) |
| Closing balance | (13 563) | (9 946) |
| NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD | 25 318 | 28 935 |
| NET CARRYING AMOUNT AT THE END OF THE PERIOD | 22 606 | 26 223 |

The investment property is composed of buildings located in Katowice Szopienice, at ul. Lwowska 23 used based on a finance lease agreement with PKO Leasing S.A. The monthly lease payment is ca. PLN 344 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 9-month period ended 30 September 2017, the revenue from investment property lease reached PLN 4 230 thousand.

18. Non-current intangible assets

For the 9-month period ended 30 September 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 | (189) | (563) | (752) |
| Closing balance | (2 235) | (2 710) | (4 945) |
| NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD | 213 | 1 978 | 2 191 |
| NET CARRYING AMOUNT AT THE END OF THE PERIOD | 24 | 1 415 | 1 439 |

For the 9-month period ended 30 September 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 | (256) | (576) | (832) |
| Liquidation | 1 280 | 60 | 1 340 |
| Closing balance | (1 961) | (1 956) | (3 917) |
| NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD | 554 | 2 745 | 3 299 |
| NET CARRYING AMOUNT AT THE END OF THE PERIOD | 298 | 2 169 | 2 467 |

19. Shares

Changes in shares from 1 January 2017 to 30 September 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 Wytwarzanie S.A. | 841 755 | - | 160 000 | 1 001 755 | - | - | - | 841 755 | 1 001 755 | |
| 2 | TAURON Wytwarzanie S.A. | 7 236 727 | (151 026) | - | 7 085 701 | (5 403 825) | 120 057 | (5 283 768) | 1 832 902 | 1 801 933 | |
| 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. | - | - | 3 551 026 | 3 551 026 | - | - | - | - | 3 551 026 | |
| 8 | TAURON Dystrybucja S.A. | 9 511 628 | - | - | 9 511 628 | - | - | - | 9 511 628 | 9 511 628 | |
| 9 | TAURON Dystrybucja Serwis S.A. | - | - | 201 045 | 201 045 | - | - | - | - | 201 045 | |
| 10 | TAURON Sprzedaż Sp. z o.o. | 613 505 | - | - | 613 505 | - | - | - | 613 505 | 613 505 | |
| 11 | TAURON Sprzedaż GZE Sp. z o.o. | 129 823 | - | - | 129 823 | - | - | - | 129 823 | 129 823 | |
| 12 | TAURON Czech Energy s.r.o. | 4 223 | - | - | 4 223 | - | - | - | 4 223 | 4 223 | |
| 13 | Kopalnia Wapienia Czatkowice Sp. z o.o. | 41 178 | - | - | 41 178 | - | - | - | 41 178 | 41 178 | |
| 14 | Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. | 55 056 | - | - | 55 056 | - | (49 212) | (49 212) | 55 056 | 5 844 | |
| 15 | TAURON Sweden Energy AB (publ) | 28 382 | - | - | 28 382 | - | - | - | 28 382 | 28 382 | |
| 16 | Biomasa Grupa TAURON Sp. z o.o. | 1 269 | - | - | 1 269 | - | - | - | 1 269 | 1 269 | |
| 17 | TAURON Obsługa Klienta Sp. z o.o. | 39 831 | - | - | 39 831 | - | - | - | 39 831 | 39 831 | |
| 18 | TAMEH HOLDING Sp. z o.o. | 415 852 | - | - | 415 852 | - | - | - | 415 852 | 415 852 | |
| 19 | PGE EJ 1 Sp. z o.o. | 26 546 | - | - | 26 546 | - | - | - | 26 546 | 26 546 | |
| 20 | ElectroMobility Poland S.A. | 2 500 | - | - | 2 500 | - | - | - | 2 500 | 2 500 | |
| 21 | Other | 550 | - | 21 | 571 | - | - | - | 550 | 571 | |
| Total | | 21 218 008 | (151 026) | 4 512 292 | 25 579 274 | (6 343 590) | 120 057 | (49 212) | (6 272 745) | 14 874 418 | 19 306 529 |

Changes in long-term investments in the 9-month period ended 30 September 2017 resulted from the following transactions:

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

On 21 March 2017, the Extraordinary General 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, through the issue of 160 000 new shares with the nominal value of PLN 10 each, which were taken up by the Company for PLN 1 000 per one share, i.e. for the total of PLN 160 000 thousand.

The aforesaid increase in the issued 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 spun off under Article 529.1.4 of the Code of Commercial Companies by way of separation and transfer of an organized part of the enterprise involved in the preparation, development and operations of a new unit with the capacity of 910 MW in Elektrownia Jaworzno III to Nowe Jaworzno Grupa TAURON Sp. z o.o. An appropriate resolution was taken by the Extraordinary General Shareholders' Meeting of TAURON Wytwarzanie S.A. on 31 January 2017. Following the spin-off the Company reclassified the investment in TAURON Wytwarzanie S.A. in the amount of PLN 151 026 thousand to Nowe Jaworzno Grupa TAURON Sp. z o.o.

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

On 11 May 2017, the Extraordinary General Shareholders' Meeting of TAURON Ciepło Sp. 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, through the issue of 120 000 new shares with the nominal value of PLN 50 each and the total nominal value of PLN 6 000 thousand. The shares were acquired for PLN 5 thousand each, i.e. the total value of PLN 600 000 thousand. The aforesaid increase in the issued capital of TAURON Ciepło Sp. o.o. was registered on 20 June 2017.

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

On 16 May 2017, the Extraordinary General Shareholders' Meeting of Nowe Jaworzno Grupa TAURON Sp. z o.o. adopted a resolution (to change the terms and conditions of increasing the issued capital of the company determined by the Extraordinary General 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, through the issue of 600 000 new shares with the nominal value of PLN 50 each and the total nominal value of PLN 30 000 thousand. The shares were acquired for PLN 5 thousand each, i.e. the total value of PLN 3 000 000 thousand. The aforesaid increase in the issued capital of Nowe Jaworzno Grupa TAURON Sp. z o.o. was registered on 26 June 2017.

On 29 June 2017, the Extraordinary General Shareholders' Meeting of Nowe Jaworzno Grupa TAURON Sp. z o.o. adopted a resolution to increase the company's issued capital by PLN 4 000 thousand, through the issue of 80 000 new shares with the nominal value of PLN 50 each. TAURON Polska Energia S.A. took up 100% of new shares in the company for PLN 5 thousand per share, i.e. the total acquisition price of PLN 400 000 thousand. The increase in the issued capital of Nowe Jaworzno Grupa TAURON Sp. z o.o. was registered on 13 July 2017.

- Agreement for the transfer of shares in TAURON Dystrybucja Serwis S.A.

On 9 August 2017, the Company concluded an agreement for the transfer of shares with TAURON Dystrybucja S.A., a subsidiary, under the acceptance in lieu scheme in accordance with Article 453 of the Civil Law Act of 23 April 1964 (Journal of Laws of 2017 item 459 as amended). In line with the agreement TAURON Dystrybucja S.A. transferred 5 101 003 shares, constituting 100% of the issued capital of TAURON Dystrybucja Serwis S.A. with the value of PLN 201 045 thousand to the Company in order to be discharged from a portion of its obligation to pay out dividend to the Company in the amount of PLN 201 046 thousand.

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

In the 9-month period ended 30 September 2017 the Company recognized an impairment loss on its shares in Polska Energia Pierwsza Kompania Handlowa Sp. z o.o., a subsidiary, of PLN 49 212 thousand.

Impairment tests

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

The analysis did not identify any market factors in that period whose negative effect would justify revision of long-term forecasts versus the information available as at 30 June 2017.

Therefore, it was assumed that the most recent results of impairment tests focusing on shares and intra-group loans and bonds recognized in non-current assets, which were performed as at 30 June 2017, were up-to-date.

Shares and intra-group loans and bonds accounted for about 90% of the balance sheet total as at 30 September 2017.

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 of power coal, other coal sizes and gaseous fuels. It is assumed that the price of power coal will increase by ca. 11% in real terms by 2027, from 2027 to 2040 a 3% decrease is anticipated, and after 2040 the (fixed) prices of that year have been assumed;
- The adopted electricity wholesale price path for the years 2018-2027 with the perspective by 2040, taking into account such factors as the effect of the balance of the market supply and demand for electricity, costs of fuel as well as costs of acquiring greenhouse gas emission allowances. A drop of ca. 5% is assumed by 2020, with a 9% growth rate by 2027 (vs. 2020), an increase of 10% between 2027 and 2040 and 2040 year prices thereafter (fixed);
- Planned changes in the Polish market model aimed to introduce the capacity market have been taken into account;
- Emission limits for generating electricity specified in the regulation of the Council of Ministers, adjusted by capital expenditure incurred and the limits for heat generation compliant with the regulation of the Council of Ministers, adjusted by the level of operations, i.e. generation of heat;
- The adopted greenhouse gas emission allowance price path for the years 2018-2027 with the perspective by 2040. It is assumed that the market price will increase by ca. 134% by 2027, followed by a rise of ca. 15% between 2027 and 2040, with 2040 year price level thereafter (fixed);
- Green, red and yellow energy production volumes depending on the production capacity, along with the price path for individual energy certificates;
- Limited support periods for green energy have been assumed in accordance with the Act on Renewable Energy Sources, which provides for new support mechanisms for renewable energy. The support period has been limited to 15 years as from the date of the first supply of electricity qualifying for an energy certificate to the distribution network. At the same time, hydroelectric power plants with capacity exceeding 5 MW have been eliminated from the 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.

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

Sensitivity analyses conducted by the Company reveal that the capacity market mechanism (assuming that other market factors remain unchanged), the projected prices of electricity and coal, the prices of greenhouse gas emission allowances and the adopted discount rates are the key factors exerting an effect on the estimated cash flows of the key entities.

Test results

The impairment tests carried out in line with IAS 36 *Impairment of Assets* as at 30 June 2017 indicated impairment of the carrying amount of a loan of PLN 60 578 thousand and reversal of an impairment loss on shares in a subsidiary of PLN 120 057 thousand. They were related to the following entities:

| Company | WACC* assumed in tests as at | | Recoverable amount of shares, intra-group loans and bonds as at 30 June 2017 | Impairment loss (recognized)/reversed in the period of 9 months ended 30 September 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) |

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

The impairment loss was recognized for the following reasons:

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

The impairment could be reversed for the following reasons:

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

The total impairment loss on shares and loans as at 30 September 2017 broken down by individual companies has been presented in the table below.

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

Changes in impairment losses on shares during the 9-month period ended 30 September 2017 have been presented in the table below.

| Company | Impairment as at 1 January 2017 | Impairment loss reversed in the period of 9 months ended 30 September 2017 (unaudited) | Impairment as at 30 September 2017 (unaudited) | Carrying amount of shares including impairment losses as at 30 September 2017 (unaudited) |
|------------------------------|---------------------------------|--|--|---|
| TAURON Wytwarzanie S.A. | (5 403 825) | 120 057 | (5 283 768) | 1 801 933 |
| TAURON Ekoenergia Sp. z o.o. | (939 765) | - | (939 765) | - |

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

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(in PLN '000)

Changes in shares from 1 January 2016 to 30 September 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 | (185 002) | 182 900 | - | - | - | - | - | 2 102 | - |
| 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 | - | 1 203 | 1 317 | - | - | - | - | 114 | 1 317 |
| Total | | 20 864 341 | (185 002) | 434 103 | 21 113 442 | (4 931 147) | 443 252 | (1 440 303) | (5 928 198) | 15 933 194 | 15 185 244 |

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 September 2017, and as at 31 December 2016, broken down by individual companies issuing the bonds.

| Company | As at 30 September 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 | 18 944 | 3 548 770 |
| TAURON Dystrybucja S.A. | 3 770 000 | 43 586 | 3 800 000 | 62 470 |
| TAURON Ciepło Sp. z o.o. | 1 075 000 | 16 680 | 1 673 260 | 46 848 |
| TAURON Wydobycie S.A. | 670 000 | 13 437 | 570 000 | 4 592 |
| TAURON Obsługa Klienta Sp. z o.o. | 50 000 | 15 209 | 85 000 | 12 046 |
| Total bonds | 6 829 920 | 107 856 | 9 677 030 | 181 352 |
| Non-current | 6 421 150 | - | 9 612 030 | 3 887 |
| Current | 408 770 | 107 856 | 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 September 2017, the par value of bonds maturing within one year, which were classified as long-term bonds, was PLN 720 000 thousand.

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21. Loans granted

| | As at 30 September 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 | 167 102 | 1 287 102 | 1 120 000 | 129 802 | 1 249 802 |
| Loans granted to EC Stalowa Wola S.A. | 523 908 | 38 226 | 562 134 | 218 525 | 37 542 | 256 067 |
| Granted cash pool loans including accrued interest | 15 161 | 121 | 15 282 | 15 306 | 544 | 15 850 |
| Total | 1 659 069 | 205 449 | 1 864 518 | 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) | | | 1 605 987 | | | 1 323 766 |
| Non-current | | | 1 267 191 | | | 1 292 800 |
| Current | | | 338 796 | | | 30 966 |

Loan granted to a 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 subsequent annexes, 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 exposure to 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 9-month period ended 30 September 2017, the Company recognized an additional impairment loss of PLN 60 578 thousand following impairment tests carried out as at 30 June 2017.

On 26 and 27 October 2017 a portion of the loan extended by the Company to subsidiary TAURON Ekoenergia Sp. z o.o. was prematurely repaid. On both dates the amount prepaid by the subsidiary was PLN 500 000 thousand, i.e. PLN 1 000 000 thousand in total. The outstanding amount of the loan is PLN 120 000 thousand.

Loans granted to joint ventures

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

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

TAURON Polska Energia S.A.
Condensed interim financial statements for the 9-month period ended 30 September 2017
prepared according to International Financial Reporting Standards as endorsed by the European Union
(in PLN '000)

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

Loans granted by the Company to Elektrociepłownia Stalowa Wola S.A. under agreements dated 30 March 2017 for purposes of debt repayment 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.

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

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

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

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

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

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

The fair value of individual derivative 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 September 2017 (unaudited) | | As at 31 December 2016 | |
|------------------------------------|--|---------|------------------------|---------|
| | 1 level | 2 level | 1 level | 2 level |
| Assets | | | | |
| Derivative instruments - commodity | 25 195 | - | 16 559 | - |
| Derivative instruments - currency | - | - | - | 3 217 |
| Derivative instruments - IRS | - | 28 695 | - | 36 641 |
| Liabilities | | | | |
| Derivative instruments - commodity | 20 695 | - | 560 | - |
| Derivative instruments - currency | - | 1 359 | - | - |

Hedging derivative instruments (subject to hedge accounting) — IRS

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

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

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

- commodity derivatives (futures, forward) including emission allowance and other commodity purchase and sale transactions;

- FX forward transactions hedging foreign currency cash flows resulting from the Company's operations.

23. Other financial assets

| | As at 30 September 2017 (unaudited) | As at 31 December 2016 |
|---|---|---------------------------|
| Receivables from the TCG | 52 327 | 20 945 |
| Dividend receivables | 3 476 | - |
| Units in investment funds | 75 843 | 25 316 |
| Bid bonds, deposits, collateral transferred | 13 733 | 10 156 |
| Initial margin deposits | 39 389 | - |
| Other | 201 | 461 |
| Total | 184 969 | 56 878 |
| Non-current | 2 813 | 1 524 |
| Current | 182 156 | 55 354 |

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

24. Inventories

| | As at 30 September 2017 (unaudited) | As at 31 December 2016 |
|---|---|---------------------------|
| Gross Value | | |
| Energy certificates | 250 | 250 |
| Greenhouse gas emission allowances | 239 759 | 271 729 |
| Materials | 153 | 23 |
| Total | 240 162 | 272 002 |
| Measurement to net realisable value / fair value | | |
| Energy certificates | (217) | (195) |
| Greenhouse gas emission allowances | 5 681 | 12 992 |
| Total | 5 464 | 12 797 |
| Net realizable value / Fair value | | |
| Energy certificates | 33 | 55 |
| Greenhouse gas emission allowances | 245 440 | 284 721 |
| Materials | 153 | 23 |
| Total | 245 626 | 284 799 |

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

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

25. Receivables from buyers

| | As at 30 September 2017 <i>(unaudited)</i> | As at 31 December 2016 |
|---|--|---------------------------|
| Value of items before allowance/write-down | | |
| Receivables from clients | 573 728 | 840 665 |
| Receivables claimed at court | 909 | 890 |
| Total | 574 637 | 841 555 |
| Allowance/write-down | | |
| Receivables from clients | (8) | (9) |
| Receivables claimed at court | (909) | (890) |
| Total | (917) | (899) |
| Value of item net of allowance (carrying amount) | | |
| Receivables from clients | 573 720 | 840 656 |
| Receivables claimed at court | - | - |
| Total | 573 720 | 840 656 |

As at 30 September 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 364 775 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 September 2017 <i>(unaudited)</i> | As at 31 December 2016 |
|-------------------------|--|---------------------------|
| Corporate Income Tax | - | 83 162 |
| VAT receivables | 45 028 | 35 674 |
| Excise duty receivables | 1 141 | 1 750 |
| Total | 46 169 | 120 586 |

27. Cash and cash equivalents

| | As at 30 September 2017 <i>(unaudited)</i> | As at 31 December 2016 |
|---|--|---------------------------|
| Cash at bank and in hand | 665 088 | 198 087 |
| Short-term deposits (up to 3 months) | 1 305 227 | 3 |
| Total cash and cash equivalents presented in the statement of financial position, including: | 1 970 315 | 198 090 |
| restricted cash | 46 001 | 56 787 |
| Cash pool | (1 890 964) | (1 229 639) |
| Overdraft | (1 518) | (15 131) |
| Foreign exchange | (77) | 1 239 |
| Total cash and cash equivalents presented in the statement of cash flows | 77 756 | (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 Gielda Energii S.A), amounting to PLN 45 638 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 September 2017 (unaudited)

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

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

28.2. Major shareholders

Shareholding structure as at 30 September 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 Otworthy Fundusz Emerytalny | 88 742 929 | 443 715 | 5.06% | 5.06% |
| Other shareholders | 954 847 515 | 4 774 237 | 54.49% | 54.49% |
| Total | 1 752 549 394 | 8 762 747 | 100.00% | 100.00% |

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

28.3. Dividend limitation

Reserve capital — dividend limitation

| | As at 30 September 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 September 2017 (unaudited) | As at 31 December 2016 |
|--|---|---------------------------|
| distributable amounts or losses to be covered, including: | 13 | (166 240) |
| profit (loss) for the year ended 31 December 2016 | - | (166 253) |
| adjustment of prior years profit | 13 | 13 |
| non-distributable amounts, including: | 940 659 | 80 762 |
| profit for the 9-month period ended 30 September 2017 | 859 815 | - |
| actuarial gains and losses on provisions for post-employment benefits | 326 | 244 |
| settlement of mergers with subsidiaries | 80 518 | 80 518 |
| Total retained earnings (accumulated losses) | 940 672 | (85 478) |

On 29 May 2017, the Ordinary General Shareholders' Meeting adopted a resolution to offset the Company's net loss for the 2016 financial year, totalling PLN 166 253 thousand, against the reserve capital.

28.4. Revaluation reserve from valuation of hedging instruments

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

The revaluation reserve from valuation of hedging instruments results from valuation of Interest Rate Swaps (IRS) hedging the interest rate risk arising from issued bonds, 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 September 2017, the Company recognized PLN 22 915 thousand in the revaluation reserve from valuation of hedging instruments. It represents an asset arising from valuation of interest rate swaps as at the end of the reporting period, totalling PLN 28 291 thousand, adjusted by a portion of valuation relating to interest accrued on bonds as at the end of the reporting period, including deferred tax.

The profit/loss for the period includes PLN 1 141 thousand, with PLN 760 thousand of the amount received in respect of hedges used in relation to closed interest periods and PLN 381 thousand resulting from remeasurement of instruments related to interest on bonds accrued as at the end of the reporting period. In the statement of comprehensive income, the expense related to a change in valuation of instruments relating to interest accrued on bonds increased finance costs arising from such interest.

29. Debt

| | As at 30 September 2017 <i>(unaudited)</i> | As at 31 December 2016 |
|--|--|---------------------------|
| Long-term portion of debt | | |
| Subordinated hybrid bonds | 817 564 | 839 330 |
| Other issued bonds | 8 130 224 | 6 089 821 |
| Loans received from the European Investment Bank | 945 185 | 1 035 927 |
| Loans from the subsidiary | 717 159 | 765 450 |
| Finance lease | - | 23 519 |
| Total | 10 610 132 | 8 754 047 |
| Short-term portion of debt | | |
| Subordinated hybrid bonds | 29 794 | 1 693 |
| Other issued bonds | 67 480 | 11 287 |
| Cash pool loans received, including accrued interest | 1 906 246 | 1 245 489 |
| Loans from the European Investment Bank | 168 863 | 154 574 |
| Loans from the subsidiary | 22 449 | 2 300 |
| Overdraft | 1 518 | 15 131 |
| Finance lease | 24 824 | 3 455 |
| Total | 2 221 174 | 1 433 929 |

29.1. Bonds issued

Bonds as at 30 September 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 2 years | 2 - 5 years | over 5 years |
| | 20.12.2019 | PLN | 100 000 | 920 | 99 888 | - | 99 888 | - |
| | 20.12.2020 | PLN | 100 000 | 920 | 99 861 | - | 99 861 | - |
| | 20.12.2021 | PLN | 100 000 | 920 | 99 841 | - | 99 841 | - |
| | 20.12.2022 | PLN | 100 000 | 920 | 99 826 | - | - | 99 826 |
| | 20.12.2023 | PLN | 100 000 | 920 | 99 814 | - | - | 99 814 |
| | 20.12.2024 | PLN | 100 000 | 920 | 99 806 | - | - | 99 806 |
| | 20.12.2025 | PLN | 100 000 | 920 | 99 798 | - | - | 99 798 |
| | 20.12.2026 | PLN | 100 000 | 920 | 99 791 | - | - | 99 791 |
| | 20.12.2027 | PLN | 100 000 | 920 | 99 786 | - | - | 99 786 |
| Bank Gospodarstwa Krajowego | 20.12.2028 | PLN | 100 000 | 920 | 99 783 | - | - | 99 783 |
| | 20.12.2020 | PLN | 70 000 | 634 | 69 985 | - | 69 985 | - |
| | 20.12.2021 | PLN | 70 000 | 634 | 69 983 | - | 69 983 | - |
| | 20.12.2022 | PLN | 70 000 | 634 | 69 982 | - | - | 69 982 |
| | 20.12.2023 | PLN | 70 000 | 634 | 69 981 | - | - | 69 981 |
| | 20.12.2024 | PLN | 70 000 | 634 | 69 980 | - | - | 69 980 |
| | 20.12.2025 | PLN | 70 000 | 634 | 69 980 | - | - | 69 980 |
| | 20.12.2026 | PLN | 70 000 | 634 | 69 979 | - | - | 69 979 |
| | 20.12.2027 | PLN | 70 000 | 634 | 69 979 | - | - | 69 979 |
| | 20.12.2028 | PLN | 70 000 | 634 | 69 979 | - | - | 69 979 |
| | 20.12.2029 | PLN | 70 000 | 634 | 69 978 | - | - | 69 978 |
| Bond Issue Scheme of 24 November 2015 | 29.12.2020 | PLN | 2 250 000 | 17 152 | 2 245 730 | - | 2 245 730 | - |
| | 9.12.2020 | PLN | 300 000 | 2 773 | 299 418 | - | 299 418 | - |
| TPEA1119 | 4.11.2019 | PLN | 1 750 000 | 19 678 | 1 749 246 | - | 1 749 246 | - |
| European Investment Bank | 16.12.2034 | EUR | 190 000 | 29 794 | 817 564 | - | - | 817 564 |
| Eurobonds EURBD050727 | 5.07.2027 | EUR | 500 000 | 12 337 | 2 137 830 | - | - | 2 137 830 |
| Total bonds | | | | 97 274 | 8 947 788 | - | 4 733 952 | 4 213 836 |

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 2 years | 2 - 5 years | over 5 years |
| | 20.12.2019 | PLN | 100 000 | 107 | 99 805 | - | 99 805 | - |
| | 20.12.2020 | PLN | 100 000 | 107 | 99 786 | - | 99 786 | - |
| | 20.12.2021 | PLN | 100 000 | 107 | 99 773 | - | 99 773 | - |
| | 20.12.2022 | PLN | 100 000 | 107 | 99 763 | - | - | 99 763 |
| | 20.12.2023 | PLN | 100 000 | 107 | 99 754 | - | - | 99 754 |
| | 20.12.2024 | PLN | 100 000 | 107 | 99 749 | - | - | 99 749 |
| | 20.12.2025 | PLN | 100 000 | 107 | 99 744 | - | - | 99 744 |
| | 20.12.2026 | PLN | 100 000 | 107 | 99 738 | - | - | 99 738 |
| | 20.12.2027 | PLN | 100 000 | 107 | 99 734 | - | - | 99 734 |
| Bank Gospodarstwa Krajowego | 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 |

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

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

Other bonds issued 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 the Company signed annexes to the agency and depositary agreement and the guarantee agreement of 24 November 2015 whereby the scheme was extended:

- by one year, i.e. until 31 December 2021 ("1st Extension Period"). During the 1st Extension Period, the scheme's maximum value will be PLN 5 320 000 thousand, and the extension will include the following banks: MUFG Bank (Europe) N.V., MUFG Bank (Europe) N.V. S.A. Branch in Poland, Bank Zachodni WBK S.A., CaixaBank S.A. (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.
- by two years, i.e. until 31 December 2022 ("2nd Extension Period"). During the 2nd Extension Period, the scheme's maximum value will be PLN 2 450 000 thousand, and the extension will include the following banks: MUFG Bank (Europe) N.V., MUFG Bank (Europe) N.V. S.A. Branch in Poland and Powszechna Kasa Oszczędności Bank Polski S.A.

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

Changes in the balance of bonds excluding interest increasing the carrying amount accrued in the 9-month period ended 30 September 2017 and in the comparable period have been presented below.

| | 9-month period ended 30 September 2017 | 9-month period ended 30 September 2016 |
|------------------------|---|---|
| | <i>(unaudited)</i> | <i>(unaudited)</i> |
| Opening balance | 6 929 151 | 5 956 033 |
| Issue* | 2 707 005 | 2 852 461 |
| Redemption | (700 000) | (2 550 000) |
| Measurement change | 11 632 | 3 036 |
| Closing balance | 8 947 788 | 6 261 530 |

*Costs of issue have been included.

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

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

- a tranche of PLN 100 000 thousand with the maturity date on 31 July 2017.

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

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

The Company hedges a portion of interest cash flows related to issued bonds using IRS contracts. The instruments are subject to hedge accounting, as 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 September 2017, none of these covenants were breached and the contractual provisions were complied with.

29.2. Loans from the European Investment Bank

As at 30 September 2017, the balance of loans obtained from the European Investment Bank was PLN 1 114 048 thousand, including interest accrued of PLN 6 623 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 9-month period ended 30 September 2017, the Company repaid PLN 76 114 thousand of the principal amount and PLN 31 013 thousand of interest.

29.3. Loans from a subsidiary

As at 30 September 2017 the carrying amount of the loans granted by subsidiary TAURON Sweden Energy AB (publ) was PLN 739 608 thousand (EUR 171 639 thousand), including PLN 22 449 thousand (EUR 5 210 thousand) of interest accrued as at the end of the reporting period. As at 31 December 2016, the carrying amount of loans from subsidiary TAURON Sweden Energy AB (publ), was PLN 767 750 thousand (EUR 173 542 thousand).

The Company's liability is a long-term loan granted under an agreement entered into in December 2014 by TAURON Polska Energia S.A. and TAURON Sweden Energy AB (publ), the subsidiary. 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.

In the 9-month period ended 30 September 2017, on 31 July 2017, the Company repaid the loan extended by subsidiary TAURON Sweden Energy AB (publ) on 27 July 2015 of PLN 28 127 thousand (EUR 6 600 thousand) with interest of PLN 197 thousand (EUR 46 thousand).

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.

TAURON Polska Energia S.A.
Condensed interim financial statements for the 9-month period ended 30 September 2017
prepared according to International Financial Reporting Standards as endorsed by the European Union
(in PLN '000)

| | As at 30 September 2017 (<i>unaudited</i>) | As at 31 December 2016 |
|--|--|---------------------------|
| Receivables from cash pool loans granted | 15 161 | 15 306 |
| Interest receivable on loans granted under cash pool agreement | 121 | 544 |
| Total Receivable | 15 282 | 15 850 |
| Loans received under cash pool agreement | 1 904 256 | 1 244 471 |
| Interest payable on loans received under cash pool agreement | 1 990 | 1 018 |
| Total Liabilities | 1 906 246 | 1 245 489 |

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

Under the cash pool agreement, the Company may use external financing in the form of an overdraft of up to PLN 300 000 thousand and an intraday limit of up to PLN 500 000 thousand. As at 30 September 2017 The Company did not have any such commitment.

29.5. Overdraft facilities

As at 30 September 2017 the balance of overdraft facilities due to an agreement for an overdraft in USD with mBank S.A., concluded by the Company for the purpose of financing margin deposits and commodity transactions, of USD 416 thousand (PLN 1 518 thousand).

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

30. Other financial liabilities

| | As at 30 September 2017 (<i>unaudited</i>) | As at 31 December 2016 |
|--|--|---------------------------|
| Liabilities arising from the TCG | 5 586 | 75 662 |
| Margin deposits | 91 895 | 13 106 |
| Commissions related to securities | 3 411 | 8 020 |
| Bid bonds, deposits and collateral received | 5 501 | 5 681 |
| Wages and salaries, deductions on wages and salaries as well as other employee related liabilities | 3 421 | 3 770 |
| Contributions to Polish National Foundation | 32 500 | 32 500 |
| Other | 217 | 938 |
| Total | 142 531 | 139 677 |
| Non-current | 20 226 | 27 918 |
| Current | 122 305 | 111 759 |

31. Other provisions

For the 9-month period ended 30 September 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 |
| Recognition | 2 250 | 3 157 | 5 407 |
| Reversal | (203 424) | - | (203 424) |
| Utilisation | - | (11) | (11) |
| Closing balance | - | 67 651 | 67 651 |
| Non-current | - | - | - |
| Current | - | 67 651 | 67 651 |

For the 9-month period ended 30 September 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 | 10 935 | - | 10 935 |
| Recognition | 2 190 | 9 | 2 199 |
| Reversal | (14) | (1) | (15) |
| Utilisation | - | (16) | (16) |
| Closing balance | 195 988 | 7 | 195 995 |
| Non-current | 156 594 | - | 156 594 |
| Current | 39 394 | 7 | 39 401 |

Provisions for onerous contracts with a joint venture and for costs

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

| | Provision for electricity contract | Provision for "take or pay" clause in gas contract | Provision for costs | 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 |
| Recognition | - | - | 2 250 | 2 250 |
| Reversal | (134 953) | (55 312) | (13 159) | (203 424) |
| Closing balance | - | - | - | - |

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

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

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

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

Reversal of the provision for costs relating to the electricity sales contract and the provision for losses which might be incurred under the take-or-pay clause was the result of the fulfilment of the conditions precedent under the conditional arrangement made on 27 October 2016 to determine the main boundary conditions of the restructuring of the "Construction of a gas and steam unit in Stalowa Wola" project. The conditions precedent were discharged on 31 March 2017 when Elektrociepłownia Stalowa Wola paid all its liabilities to the financing institutions, i.e. the European Investment Bank, European Bank for Reconstruction and Development and Bank Polska Kasa Opieki S.A. The funds for repayment of the said bank loans were obtained by Elektrociepłownia Stalowa Wola S.A. under loan agreements entered into with the Company and Polskie Górnictwo Naftowe i Gazownictwo S.A. as the lenders. 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 discharged the following documents came into effect:

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

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

The changes 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 the project, the annex to the gaseous fuel supply contract provides for changes in the amount, time limits and methodologies of imposition of liquidated damages. According to the Management Board of the Company, the 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 September 2017 other provisions included mainly the provisions for tax risks due to the pending control proceedings. As at 31 December 2016 the Company recognized a related provision of PLN 64 494 thousand. As at 30 September 2017, the provision was PLN 67 635 thousand. An increase in the provision by PLN 3 141 thousand, which was charged to finance costs, is attributable to interest accrued for the 9-month period ended 30 September 2017.

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. Currently, the new deadline for the completion of the inspection proceedings has been set for 28 December 2017.

32. Liabilities to suppliers

As at 30 September 2017 the biggest liabilities to suppliers were the liabilities towards subsidiary TAURON Wytwarzanie S.A. totalling PLN 158 851 thousand. As at 31 December 2016 these were the liabilities towards subsidiary TAURON Wytwarzanie S.A. and TAURON Wydobycie S.A. totalling PLN 106 417 thousand and PLN 98 682 thousand, respectively.

33. Liabilities due to taxes and charges

| | As at 30 September 2017 (<i>unaudited</i>) | As at 31 December 2016 |
|----------------------|--|---------------------------|
| Corporate Income Tax | 98 688 | - |
| Personal Income Tax | 2 053 | 1 484 |
| VAT | 25 784 | 15 850 |
| Social security | 2 386 | 2 846 |
| Other | 36 | 29 |
| Total | 128 947 | 20 209 |

Income tax liabilities

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

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

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

At the same time, the Company, being the Representative Company, reported a liability to its subsidiaries arising from tax overpayment of PLN 5 586 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 52 327 thousand, which have been presented in the statement of financial position as "Other financial assets".

Regulations concerning VAT, corporate income tax and social insurance charges are frequently amended. Applicable laws can also contain ambiguous which leads to discrepancies in opinions as regards the legal interpretation of the tax law, both among state authorities as well as state authorities and businesses.

Tax treatments and other aspects of business activities (e.g. customs or foreign exchange issues) may be controlled by the authorities which may impose heavy fines and any additional tax liabilities determined during the control must be paid along with interest. Consequently, the figures presented and disclosed in these condensed interim financial statements may change in future if a final decision is issued by tax control authorities.

On 15 July 2016 the Tax Ordinance was amended to account for the General Anti-Avoidance Rule (GAAR). GAAR is intended to prevent the creation and use of artificial legal arrangements to avoid payment of tax in Poland. GAAR defines tax avoidance as an act carried out primarily in order to achieve a tax benefit, contrary in the circumstances to the object and goal of a provision of the tax law. GAAR states that tax avoidance will not result in a tax benefit, if the mode of action was not genuine. Any (i) unjustified split of operations, (ii) involvement of intermediary entities without any economic or business justification, (iii) elements that compensate or exclude each other, (iv) elements that lead to a result similar to the ones above, may be considered an artificial mode of action subject to GAAR. The new regulations will require significantly more judgement when determining the tax effects of individual transactions.

GAAR provisions should be applied to transactions carried out after GAAR entered into force and to transactions carried out before GAAR entered into force, but for which after GAAR entered into force, the benefits were or still are achieved.

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

| | 9-month period ended 30 September 2017 <i>(unaudited)</i> | 9-month period ended 30 September 2016 <i>(unaudited restated figures)</i> |
|---|---|--|
| Change in receivables | 224 230 | 100 350 |
| Change in inventories | 39 173 | 141 215 |
| Change in payables excluding loans and borrowings | (45 713) | (209 061) |
| Change in other non-current and current assets | 3 405 | 62 172 |
| Change in deferred income, government grants and accruals | (6 284) | (6 287) |
| Change in provisions | (195 309) | 13 725 |
| Change in working capital | 19 502 | 102 114 |

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 4 160 270 thousand were mainly related to the Company's transfer of funds to increase the issued capital of subsidiaries:

- Nowe Jaworzno Grupa TAURON Sp. z o.o. totalling PLN 3 400 000 thousand;
- TAURON Ciepło Sp. z o.o., totalling PLN 600 000 thousand;
- TAURON Wydobycie S.A., totalling PLN 160 000 thousand;
- Marselwind Sp. z o.o. totalling 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 301 542 thousand, which has been discussed in more detail in Note 21 to these condensed interim financial statements.

Redemption of bonds

Proceeds from redemption of bonds, in the amount of PLN 3 197 110 thousand, are related to redemption of intra-group bonds issued by the following subsidiaries:

- Nowe Jaworzno Grupa TAURON Sp. z o.o. totalling PLN 2 533 850 thousand;
- TAURON Ciepło Sp. z o.o., totalling PLN 598 260 thousand;
- TAURON Dystrybucja S.A., totalling PLN 30 000 thousand;
- TAURON Obsługa Klienta Sp. z o.o., amounting to PLN 35 000 thousand.

Interest received

| | 9-month period ended 30 September 2017 | 9-month period ended 30 September 2016 |
|--|---|---|
| | <i>(unaudited)</i> | <i>(unaudited)</i> |
| Interest received in relation to debt securities | 388 697 | 393 663 |
| Interest received in relation to loans granted | - | 1 681 |
| Total | 388 697 | 395 344 |

34.3. Cash flows from financing activities

Loans and borrowings repaid

The expenditure on repayment of loans and borrowings in the 9-month period ended 30 September 2017 totalling PLN 104 241 thousand is the repayment of:

- the loan extended by the European Investment Bank totalling PLN 76 114 thousand;
- the borrowing extended by subsidiary TAURON Sweden Energy AB (publ) totalling PLN 28 127 thousand.

Redemption of debt securities

Payments on the redemption of debt securities in the 9-month period ended 30 September 2017 resulted from the redemption of a tranche of bonds with the par value of PLN 700 000 thousand under a bond issue scheme of November 2015, as described in Note 29.1 to these interim condensed financial statements.

Interest paid

| | 9-month period ended 30 September 2017 | 9-month period ended 30 September 2016 |
|---|---|---|
| | <i>(unaudited)</i> | <i>(unaudited)</i> |
| Interest paid in relation to debt securities | (96 062) | (142 750) |
| Interest paid in relation to loans and borrowings | (31 481) | (39 734) |
| Interest paid in relation to the finance lease | (496) | (450) |
| Total | (128 039) | (182 934) |

Issue of debt securities

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

- the issue of tranches of bonds with the total par value of PLN 600 000 thousand under a bond issue scheme of November 2015, which has been discussed in more detail in Note 29.1 to these condensed interim financial statements;
- the issue of eurobonds totalling PLN 2 107 462 thousand, which has been described in more detail in note 29.1 to these condensed interim financial statements.

OTHER INFORMATION

35. Financial instruments

| Categories and classes of financial assets | Note | As at 30 September 2017 (unaudited) | | As at 31 December 2016 | |
|---|------|--|------------------|------------------------|-------------------|
| | | Carrying amount | Fair value | Carrying amount | Fair value |
| 1 Financial assets at fair value through profit or loss, held for trading | | 101 038 | 101 038 | 45 092 | 45 092 |
| Derivative instruments | 22 | 25 195 | 25 195 | 19 776 | 19 776 |
| Investment fund units | 23 | 75 843 | 75 843 | 25 316 | 25 316 |
| 2 Financial assets available for sale | | 29 924 | - | 29 703 | - |
| Long-term shares | 19 | 29 924 | - | 29 703 | - |
| 3 Loans and receivables | | 9 226 609 | 9 176 035 | 12 054 366 | 12 023 275 |
| Receivables from clients | 25 | 573 720 | 573 720 | 840 656 | 840 656 |
| Bonds | 20 | 6 937 776 | 6 881 191 | 9 858 382 | 9 814 505 |
| Loans granted under cash pool agreement | 29.4 | 15 282 | 15 282 | 15 850 | 15 850 |
| Other loans granted | 21 | 1 590 705 | 1 596 716 | 1 307 916 | 1 320 702 |
| Other financial receivables | | 109 126 | 109 126 | 31 562 | 31 562 |
| 4 Financial assets excluded from the scope of IAS 39 | | 19 276 605 | - | 14 844 715 | - |
| Shares in subsidiaries | 19 | 18 860 753 | - | 14 428 863 | - |
| Shares in jointly-controlled entities | 19 | 415 852 | - | 415 852 | - |
| 5 Hedging derivative instruments | 22 | 28 695 | 28 695 | 36 641 | 36 641 |
| 6 Cash and cash equivalents | 27 | 1 970 315 | 1 970 315 | 198 090 | 198 090 |
| Total financial assets, of which in the statement of financial position: | | 30 633 186 | | 27 208 607 | |
| Non-current assets | | 27 025 293 | | 25 820 473 | |
| Shares | | 19 306 529 | | 14 874 418 | |
| Bonds | | 6 421 150 | | 9 615 917 | |
| Loans granted | | 1 267 191 | | 1 292 800 | |
| Derivative instruments | | 27 610 | | 35 814 | |
| Other financial assets | | 2 813 | | 1 524 | |
| Current assets | | 3 607 893 | | 1 388 134 | |
| Receivables from clients | | 573 720 | | 840 656 | |
| Bonds | | 516 626 | | 242 465 | |
| Loans granted | | 338 796 | | 30 966 | |
| Derivative instruments | | 26 280 | | 20 603 | |
| Other financial assets | | 182 156 | | 55 354 | |
| Cash and cash equivalents | | 1 970 315 | | 198 090 | |

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prepared according to International Financial Reporting Standards as endorsed by the European Union
(in PLN '000)

| Categories and classes of financial liabilities | Note | As at 30 September 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 | | 22 054 | 22 054 | 560 | 560 |
| Derivative instruments | 22 | 22 054 | 22 054 | 560 | 560 |
| 2 Financial liabilities measured at amortized cost | | 13 289 179 | 13 329 083 | 10 774 316 | 10 808 300 |
| Arm's length loans, of which: | | 3 759 902 | 3 771 172 | 3 203 740 | 3 237 724 |
| Liability under the cash pool loan | 29.4 | 1 906 246 | 1 906 246 | 1 245 489 | 1 245 489 |
| Loans from the European Investment Bank | 29.2 | 1 114 048 | 1 111 639 | 1 190 501 | 1 193 410 |
| Loans from the subsidiary | 29.3 | 739 608 | 753 287 | 767 750 | 798 825 |
| Overdraft | 29.5 | 1 518 | 1 518 | 15 131 | 15 131 |
| Bonds issued | 29.1 | 9 045 062 | 9 073 696 | 6 942 131 | 6 942 131 |
| Liabilities to suppliers | 32 | 340 166 | 340 166 | 473 637 | 473 637 |
| Other financial liabilities | 30 | 142 531 | 142 531 | 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 | | 24 824 | 24 824 | 26 974 | 26 974 |
| Liabilities under finance leases | 29 | 24 824 | 24 824 | 26 974 | 26 974 |
| Total financial liabilities, of which in the statement of financial position: | | 13 336 057 | | 10 801 850 | |
| Non-current liabilities | | 10 630 403 | | 8 781 965 | |
| Debt | | 10 610 132 | | 8 754 047 | |
| Other financial liabilities | | 20 226 | | 27 918 | |
| Derivative instruments | | 45 | | - | |
| Current liabilities | | 2 705 654 | | 2 019 885 | |
| Debt | | 2 221 174 | | 1 433 929 | |
| Liabilities to suppliers | | 340 166 | | 473 637 | |
| Derivative instruments | | 22 009 | | 560 | |
| Other financial liabilities | | 122 305 | | 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. Fair value hierarchy disclosures are also provided in Note 22. Measurement of investment fund participation units 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, subordinated bonds issued and Eurobonds 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 (excluding financial assets available for sale excluded from the scope of IAS 39 Financial Instruments: Measurement and Recognition, as described below) as at 30 September 2017 and 31 December 2016 did not significantly differ from their values presented in the financial statements for the respective periods, due to the following reasons:
 - the potential discounting effect relating to short-term instruments is not significant;
 - the instruments are related to arm's length transactions.

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

- The Company did not disclose the fair value of shares in companies not quoted in active markets, categorised 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 in 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 arrangements) — financial assets excluded from the scope of IAS 39 *Financial Instruments: Measurement and Recognition* — 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 September 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.

37. Contingent liabilities

The Company's contingent liabilities arise mainly from collateral and guarantees granted to related parties. As at 30 September 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 | Validity | As at 30 September 2017 (unaudited) | | As at 31 December 2016 | |
|--|---|---|-------------|-------------------------------------|---------|------------------------|---------|
| | | | | 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 | 723 929 | 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 | 2019-2021 | | 1 008 | | 2 059 |
| surety contract | TAURON Wydobycie S.A. | Millennium Leasing Sp. z o.o. | | | - | | 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 | | 13 847 | | 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

Corporate guarantee given to secure the bonds issued by TAURON Sweden Energy AB (publ). The guarantee remains valid until 3 December 2029, i.e. until the date of redemption of bonds and amounts to EUR 168 000 thousand (PLN 723 929 thousand). The beneficiaries of the guarantee are the bondholders.

- 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 September 2017, the carrying amount of shares in TAMEH HOLDING Sp. z o.o. was PLN 415 852 thousand.

- Funding commitments

In order to enable TAURON Ciepło Sp. z o.o. to apply for a non-refundable grant for the projects undertaken under the "Low emission liquidation in the Katowice urban area" scheme funded by the Regional Fund for Environmental Protection and Water Management in Katowice, the Company provided TAURON Ciepło Sp. z o.o. with a commitment to fund the latter with the total amount of PLN 178 300 thousand.

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

The Company requested bank guarantees to secure the liabilities of Elektrociepłownia Stalowa Wola S.A. under the standstill agreement. The bank guarantees, valid until 14 April 2017 and totalling PLN 314 486 thousand, were issued to:

- 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 guarantees 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 judgements favourable for GZE; however, in its judgement of 29 November 2011 the Supreme Court overruled the judgement of the Court of Appeals and remanded the case for re-examination by that Court. On 5 June 2012, the Court of Appeals overruled the judgement of the Regional Court and remanded the case for re-examination by the latter. The case has been heard before the first instance court since 27 November 2012. In May 2015, an expert witness prepared an opinion on the correctness of settlements between the parties to the dispute. On 30 June 2015, TAURON Polska Energia S.A. lodged complaints against the opinion in question. Complaints against the opinion were also filed by Huta and the State Treasury. In a decision dated 16 September 2015 the Court admitted an additional expert witness's opinion concerning charges levelled by the parties as evidence. After the decision was issued, the Company repeatedly tried to change the form of evidence proceedings adopted by the Court stating that admitting expert witness evidence is unacceptable. Finally, the Court ordered the expert witness to prepare a supplementary opinion. On 5 September 2016, the Company received the supplementary opinion of the expert witness and filed charges against the opinion on 12 and 19 September 2016. Charges against the opinion were also filed by Huta and the State Treasury. Another hearing was held on 24 March 2017 but the expert witness appointed by the court did not appear. The hearing was adjourned for an unspecified period. On 20 June 2017 the Court served on the Company's legal representative a copy of the Court's decision of 5 June 2017 (issued during a closed meeting) to admit expert witness evidence on energy matters (excluding the expert witness appointed so far) for the purposes of issuing an opinion.

Next the Court turned to several expert witness and the Institute of Power Engineering asking whether they could draft opinions in the matter. Moreover, in a decision of 19 April 2017, the Court revoked Huta's exemption from court fees. In a decision of 16 October 2017 issued during a closed meeting the Court revoked the earlier decision to admit expert witness evidence and decided to request that the Regional Court in Katowice and the Regional Court in Gliwice send copies of final rulings in other disputes between GZE (later: TAURON Polska Energia S.A.) and Huta.

The Court set the date of the hearing concerning Huta Łaziska S.A. at 23 February 2018.

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

- **The claims filed by ENEA S.A.**

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

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 claim, which was done on 5 April 2016. On 20 June 2016, TAURON Polska Energia S.A. filed a petition for inviting ENEA Operator Sp. z o.o. to take part in the litigation. The Court also admitted evidence from the witnesses' testimonies. On 4 July 2016, TAURON Polska Energia S.A. filed a process document with the court. Six witnesses were questioned in the course of the proceedings. The last hearing was held on 6 March 2017. During the hearing, at the request of ENEA S.A. (made in its pleading of 8 December 2016), under Article 194.1 of the Code of Civil Procedure, the court decided to extend the suit against seven sellers for which TAURON Polska Energia S.A. acted as an entity in charge of trade balances in the distribution area of ENEA Operator Sp. z o.o. in 2012. The sellers included two subsidiaries of TAURON Polska Energia S.A., i.e.: TAURON Sprzedaż Sp. z o.o. from which ENEA S.A. demanded PLN 4 934 thousand with statutory interest as of the date of serving a copy of the request to extend the suit until the date of payment; and TAURON Sprzedaż GZE Sp. z o.o. from which ENEA S.A. demanded PLN 3 480 thousand with statutory interest as of the date of serving a copy of the request to extend the suit until the date of payment. The demand for payment of the above amounts as well as the amounts claimed from the other five sellers was submitted by the petitioner in case the claim against TAURON Polska Energia S.A. is dismissed. In April 2017 both companies: TAURON Sprzedaż Sp. z o.o. and TAURON Sprzedaż GZE Sp. z o.o. responded to the claim by requesting that it be dismissed in its entirety.

The case was adjourned to the date set by the Court so that the sellers may respond to the claim (all of them responded). Next, on 15 September 2017 ENEA S.A. submitted pleadings concerning the responses.

The case is pending. By the date of approval of these condensed interim financial statements for issue, the Court had not set the date of the next hearing. The Company did not recognize any provision as, in the opinion of the Company, the risk of losing the case is below 50%. No provisions were recognized by the Company's subsidiaries which estimated the risk of an unfavourable ruling at less than 50%.

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

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

On 18 March 2015 the subsidiary in liquidation terminated long-term contracts concluded in the years 2009-2010 to purchase electricity and property rights from wind farms owned by the companies in the in.ventus group, Polenergia and Wind Invest. The reason for the termination of the contracts by Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. was that the counterparties had breached the contractual provisions by refusing to negotiate in good faith the terms and conditions of the contracts. A case was brought against the Company for the statements made in the notice of termination be declared void. In the case brought by Dobiesław Wind Invest Sp. z o.o. in 2016 the Regional Court in Warsaw dismissed the claim for declaring the termination of the contracts void. The claimant appealed against the ruling.

In 2016 the claims against the Company were changed to include claims for compensation for termination of the contracts totalling approx. PLN 40 000 thousand.

In October 2017 Dobiesław Wind Invest Sp. z o.o. filed a new lawsuit against Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. for payment of PLN 42 095 thousand of compensation and liquidated damages.

Since the court proceedings regarding the above issues are pending, the final amount of possible financial effects on the Company and the Group cannot be reliably estimated. In light of the current status of the proceedings and the related circumstances, the Group believes that the probability of losing the cases both as regards declaration of ineffectiveness of the termination notices and securing non-monetary claims and the claims for compensation does not exceed 50%. Therefore, no provision for the related costs has been recognized.

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

In November 2014 an action was brought against Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. and TAURON Polska Energia S.A. by Dobiesław Wind Invest Sp. z o.o. to prevent an imminent danger of loss. It was claimed that the Company should revoke the liquidation of Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. in liquidation.

A subsidiary claim was that TAURON Polska Energia S.A. should be obliged to provide security in the amount of PLN 183 391 thousand as a court deposit.

On 8 March 2017, pursuant to a decision of the Shareholders' Meeting of Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. the liquidation of the company was revoked. Therefore, in accordance with the order of the Regional Court in Krakow issued on 15 March 2017, the parties to the dispute exchanged pleadings to respond to the change in the company in which the claimant upheld their demands.

On 2 August 2017 the Company's representative in the case received pleadings from Dobiesław Wind Invest Sp. z o.o. which changed the claims. The claimant withdrew the initial claim against subsidiary Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. and changed the claim against the Company from a claim for prevention of an imminent danger of loss to a claim for compensation. Dobiesław Wind Invest Sp. z o.o. demands payment of approx. PLN 34 700 thousand with statutory interest as of the date of the claim to the date of payment. Moreover, the claimant seeks a ruling that the Company is liable for future damages of Dobiesław Wind Invest Sp. z o.o., which the latter estimates at approx. PLN 254 000 thousand, (resulting from the Company's alleged torts) and a security of approx. PLN 254 000 thousand in case the court does not establish the Company's liability for future losses. The factual basis of the claim, in accordance with the claimant, is the termination of the long-term contracts to sell electricity and property rights by subsidiary Polska Energia Pierwsza Kompania Handlowa Sp. z o.o.

An analysis of the justification of the statements of the claim shows that they are wholly groundless. At a hearing on 4 October 2017, upon request of TAURON Polska Energia S.A., the Court decided that the new statement of claim against TAURON Polska Energia S.A. would be examined separately. As far as the initial claims against TAURON Polska Energia S.A. and Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. (demand that the liquidation be revoked), the Court referred the case to be examined at a closed-door hearing and dismissed.

As the court will have to examine extensive evidence and conduct an analysis of a legal issue which has not been resolved before, it is too early to anticipate the outcome of the proceedings, but it is very likely that the decision of the court will be favourable for the defendants.

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

On 20 July 2017 the Company was served with a summons dated 29 June 2017 of Gorzyca Wind Invest Sp. z o.o. against TAURON Polska Energia S.A. for damages of approx. PLN 39 700 thousand and assessment of liability for future damages resulting from torts, including unfair competition, estimated by the claimant at approx. PLN 465 900 thousand. The case will be heard by a Regional Court in Katowice.

Another summons, dated 29 June 2017, of Pękanino Wind Invest Sp. z o.o. against TAURON Polska Energia S.A. for damages of approx. PLN 28 500 thousand and assessment of liability for future damages resulting from torts, including unfair competition, estimated by the claimant at PLN 201 600 thousand was delivered to the Company on 21 August 2017.

After the end of the reporting period, on 16 October 2017 to the Company a summons dated 29 June 2017 was delivered in which Nowy Jarosław Wind Invest Sp. z o.o. sued TAURON Polska Energia S.A. for damages of approx. PLN 27 000 thousand and assessment of liability for future damages resulting from torts, including unfair competition, estimated by the claimant at PLN 197 800 thousand.

The factual basis of all the claims, in accordance with the claimants, is the termination of the long-term contracts to purchase electricity and property rights resulting from energy certificates by subsidiary Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. and the total amount of the future loss incurred by all members of the Wind Invest group estimated by the claimant will be PLN 1 212 900 thousand.

An analysis of the justification of the statements of the claim shows that they are wholly groundless. The Company responded to the summons in the case brought by Gorzyca Wind Invest Sp. z o.o. and Pękanino Wind Invest Sp. z o.o. within the dates specified by the courts.

38. Security for 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 Gield Towarowych S.A. | authorization to debit the bank account maintained by BZ WBK S.A. | up to PLN 150 000 thousand |
| Overdraft agreements with PKO Bank Polski S.A. (up to PLN 300 000 thousand and an intraday limit agreement up to PLN 500 000 thousand) | authorizations to debit the bank account maintained by PKO Bank Polski S.A. | up to the total amount of PLN 800 000 thousand |
| Overdraft agreement with Bank Gospodarstwa Krajowego (in EUR, up to EUR 45 000 thousand) | authorization to debit the bank account maintained by Bank Gospodarstwa Krajowego | up to PLN 193 910 thousand (EUR 45 000 thousand) |
| | declaration of submission to enforcement | up to PLN 318 873 thousand (EUR 74 000 thousand) valid until 31 December 2019 |
| Overdraft agreement with mBank (in USD, up to USD 2 000 thousand) | declaration of submission to enforcement | up to PLN 10 956 thousand (USD 3 000 thousand) valid until 31 March 2019 |
| 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 September 2017 the carrying amount of the leased asset was PLN 22 606 thousand. |

Under the bank guarantee agreement made with Bank Zachodni WBK S.A., the bank issued guarantees to secure stock exchange transactions resulting from the membership in the Commodity Clearing House. As at 30 September 2017, the guarantees issued by the bank totalled PLN 70 000 thousand and were valid until October 2017.

Under the bank guarantee agreement made with CaixaBank S.A. (joint-stock company) Branch in Poland ("CaixaBank S.A."), at the request of the Company the bank issued bank guarantees to secure liabilities and transactions of the subsidiaries of TAURON Polska Energia S.A. totalling PLN 13 847 thousand (Note 37 to these condensed interim financial statements) and to secure the transactions performed by the Company:

- for GAZ-SYSTEM S.A. — up to PLN 3 664 thousand, valid until 30 November 2017;
- for Polskie Sieci Elektroenergetyczne S.A. — up to PLN 8 666 thousand, valid until 11 February 2018.

39. Capital commitments

As at 30 September 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 expense

| | 9-month period ended 30 September 2017 <i>(unaudited)</i> | 9-month period ended 30 September 2016 <i>(unaudited)</i> |
|--|---|---|
| Revenue from subsidiaries, of which : | 6 258 510 | 7 311 466 |
| Revenue from operating activities | 5 324 737 | 5 386 540 |
| Dividend income | 542 474 | 1 458 951 |
| Revenue from sale of shares | - | 96 691 |
| Other operating income | 3 720 | 3 951 |
| Other finance income | 387 579 | 365 333 |
| Revenue from jointly-controlled entities | 50 995 | 90 296 |
| Revenue from State Treasury companies | 295 289 | 138 302 |
| Costs from subsidiaries, of which : | (2 351 881) | (2 029 290) |
| Costs of operating activities | (2 318 028) | (2 001 573) |
| Finance costs | (33 853) | (27 717) |
| Costs incurred with relation to transactions with jointly-controlled entities | (2 229) | (10 328) |
| Costs from State Treasury companies | (428 721) | (412 943) |

Receivables and liabilities

| | As at 30 September 2017 <i>(unaudited)</i> | As at 31 December 2016 |
|--|--|---------------------------|
| Loans granted to subsidiaries and receivables from subsidiaries, of which : | 8 803 027 | 11 940 640 |
| Receivables from clients | 514 576 | 795 482 |
| Loans granted under cash pool agreement plus interest accrued | 7 200 | 15 800 |
| Other loans granted | 1 287 102 | 1 249 802 |
| Receivables from the TCG | 52 174 | 20 945 |
| Bonds | 6 937 776 | 9 858 382 |
| Dividend receivables | 3 476 | - |
| Other financial receivables | 105 | 229 |
| Other non-financial receivables | 618 | - |
| Loans granted to jointly-controlled entities and receivables from jointly-controlled entities | 571 880 | 274 502 |
| Receivables from State Treasury companies | 43 674 | 25 210 |
| Liabilities to subsidiaries, of which : | 2 853 487 | 2 413 451 |
| Liabilities to suppliers | 207 165 | 335 344 |
| Loans received under cash pool agreement plus interest accrued | 1 895 764 | 1 229 344 |
| Other loans received | 739 608 | 767 750 |
| Liabilities arising from the TCG | 5 586 | 75 415 |
| Other financial liabilities | 5 239 | 5 259 |
| Other non-financial liabilities | 125 | 339 |
| Liabilities to jointly-controlled entities | 249 | 1 209 |
| Liabilities to State Treasury companies | 66 942 | 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 9-month period ended 30 September 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 9-month period ended 30 September 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 96% of total costs incurred in purchase transactions entered into with State Treasury companies.

In relation to agreements entered into with the joint venture Elektrociepłownia Stalowa Wola S.A., the Company recognizes provisions for onerous contracts and for costs. In the 9-month period ended 30 September 2017 the Company released all related provisions. This has been described 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 September 2017. After the end of the reporting period, on 5 October 2017, the Company repaid a portion of the liability towards Polska Fundacja Narodowa totalling PLN 10 000 thousand.

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 9-month period ended 30 September 2017 and in the comparative period has been presented in the table below.

| | 9-month period ended 30 September 2017 <i>(unaudited)</i> | 9-month period ended 30 September 2016 <i>(unaudited)</i> |
|--|---|---|
| Management Board | 5 633 | 9 276 |
| Short-term benefits (with surcharges) | 3 759 | 4 318 |
| Termination benefits | 1 624 | 4 632 |
| Other | 250 | 326 |
| Supervisory Board | 559 | 898 |
| Short-term employee benefits (salaries and surcharges) | 559 | 898 |
| Other members of key management personnel | 10 852 | 10 711 |
| Short-term employee benefits (salaries and surcharges) | 9 411 | 8 215 |
| Termination benefits | 756 | 1 876 |
| Other | 685 | 620 |
| Total | 17 044 | 20 885 |

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

The amount of PLN 905 thousand, out of the termination benefits paid to members of the Management Board, presented in the table above, has been taken from a provision recognized in prior years. Additionally, in the 9-month period ended 30 September 2017, the Company recognized a provision for termination benefits for members of the Management Board totalling PLN 900 thousand, with PLN 225 thousand paid out as at the end of the reporting period. The costs of provisions payable in future reporting periods have not been included in the table.

In the 9-month period ended 30 September 2017, the Company recognized a provision for termination benefits for other key executives totalling PLN 60 thousand, with PLN 40 thousand paid out as at the end of the reporting period. The costs of provisions payable in future reporting periods have not been included in the table.

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

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

On 16 October 2017 a summons of 29 June 2017 of Nowy Jaroslaw Wind Invest Sp. z o.o. against TAURON Polska Energia S.A. was served to the Company. This has been described in more detail in Note 37 to these condensed interim financial statements.

Increase in the capital of TAURON Ekoenergia Sp. z o.o.

On 24 October 2017 the Extraordinary Meeting of Shareholders of TAURON Ekoenergia Sp. z o.o. resolved to increase the issued capital of the company by PLN 10 000 thousand by creating 10 000 new shares with the nominal value of PLN 1000 each which were acquired by the Company for PLN 100 000 each, totalling PLN 1 000 000 thousand. On 26 and 27 October 2017 the Company advanced monies to increase the capital. By the date of approval of the financial statements for publication, the increase in the issued capital had not been registered.

Increase in the capital of Magenta Grupa TAURON Sp. z o.o.

On 24 October 2017 the Extraordinary Meeting of Shareholders of Magenta Grupa TAURON Sp. z o.o. resolved to increase the issued capital of the company by PLN 1 000 thousand by creating 20 000 new shares with the nominal value of PLN 50 each which were acquired by the Company for PLN 450 each, totalling PLN 9 000 thousand. On 26 October 2017 the Company advanced monies to increase the capital. By the date of approval of the financial statements for publication, the increase in the issued capital had not been registered.

Increase in the capital of TAURON Dystrybucja S.A.

On 26 October 2017 the Extraordinary Meeting of Shareholders of TAURON Dystrybucja S.A. resolved to increase the issued capital of the company by PLN 48 685 thousand by issuing 2 434 274 587 shares with the nominal value of PLN 0.02 each, which will be acquired by the Company for PLN 0.4108 each, totalling PLN 1 000 000 thousand. By the date of approval of the financial statements for publication, the Company had not advanced monies to increase the capital and the increase in the capital had not been registered.

Partial repayment of a loan to subsidiary TAURON Ekoenergia Sp. z o.o.

On 26 and 27 October 2017 a portion of the loan extended by the Company to subsidiary TAURON Ekoenergia Sp. z o.o. was prematurely repaid, which has been further described in note 21 to these condensed interim financial statements.

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

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

These condensed interim financial statements of TAURON Polska Energia S.A., prepared for the 9-month period ended 30 September 2017 in accordance with International Accounting Standard 34 have been presented on 57 consecutive pages.

Katowice, 3 November 2017

Filip Grzegorzcyk — President of the Management Board

Marek Wadowski — Vice President of the Management Board

Oliwia Tokarczyk — Executive Director in Charge of Taxes and Accounting