



***Additional information to
TAURON Polska Energia Capital Group's extended and
consolidated Q3 2017 report***

November 8, 2017

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1. TAURON Capital Group's organization and structure

1.1 Basic information on TAURON Capital Group

As of September 30, 2017, TAURON Polska Energia Capital Group (TAURON Capital Group) included the parent company, TAURON Polska Energia S.A. (hereinafter referred to as TAURON, TAURON Polska Energia, the Company or the Issuer), and 19 units (subsidiaries) subject to consolidation. Furthermore, as of September 30, 2017 the Company held, directly or indirectly, shares in 39 other companies.

The main companies subject to consolidation included: TAURON Wydobycie S.A. (TAURON Wydobycie) dealing with hard coal mining, TAURON Wytwarzanie S.A. (TAURON Wytwarzanie) dealing with generation of electricity from conventional sources and biomass co-firing, TAURON Ekoenergia sp. z o.o. (TAURON Ekoenergia) dealing with generation of electricity from renewable sources, TAURON Dystrybucja S.A. (TAURON Dystrybucja) providing electricity distribution services, TAURON Sprzedaż sp. z o.o. (TAURON Sprzedaż) and TAURON Sprzedaż GZE sp. z o.o. (TAURON Sprzedaż GZE) dealing with the supply of electricity to retail customers, TAURON Obsługa Klienta sp. z o.o. (TAURON Obsługa Klienta), dealing with customer service as well as providing intra-group services in the area of accounting, HR and IT, and TAURON Ciepło sp. z o.o. (TAURON Ciepło) dealing with generation, distribution and supply of heat. Furthermore, TAURON Capital Group included 11 other subsidiaries subject to consolidation, dealing, inter alia, with electricity trading as well as extraction of limestone and stone (rocks) for construction purposes.

TAURON Capital Group has put into place TAURON Group's Business Model that defines TAURON Capital Group's operational (management) assumptions and outlines the split of tasks and responsibilities among the defined units:

Corporate Center – the superior organizational unit responsible for managing TAURON Capital Group's operations and taking the most important decisions affecting TAURON Capital Group, Lines of Business, Shared Services Centers and TAURON Capital Group's subsidiaries;

Lines of Business – TAURON Capital Group's seven core lines of business defined in accordance with the electricity and heat production value chain's links, i.e.: Trading, Mining, Generation, Renewable Energy Sources (RES), Heat, Distribution and Supply;

Shared Services Centers – units responsible for the provision of specific support services (e.g. accounting, IT, HR and payroll, insurance, customer service) for the benefit of the Group's other units.

The Business Model's structure is underpinned by five defined process streams that TAURON Group's operations are to focus on, i.e.: Strategy, Finance, Asset Management and Development, Customer, Corporate Governance and Support. The objective of defining such process streams is to place more emphasis on cross-sectional issues, relating to more than one Line of Business.

TAURON Group's primary normative act is TAURON Group's Code adopted by the Company's Management Board that governs its performance, ensuring the accomplishment of its goals based on specially designed solutions with respect to managing TAURON Group's entities, including in particular, defining the objectives of the subsidiaries' operations that would enable achieving the results assumed.

The companies listed below obtained the TAURON Group member status as of the date of adopting the resolutions on joining TAURON Group by their general meetings/ shareholder meetings.

As of September 30, 2017, the following subsidiaries were included in TAURON Group:

Table no. 1. List of subsidiaries included in TAURON Group

#	Subsidiary name	Date of joining TAURON Group
1.	TAURON Sprzedaż sp. z o.o.	26.10.2010
2.	TAURON Obsługa Klienta sp. z o.o.	26.10.2010
3.	TAURON EKOENERGIA sp. z o.o.	26.10.2010
4.	TAURON Wytwarzanie S.A.	28.10.2010
5.	TAURON Czech Energy s.r.o.	10.11.2010
6.	TAURON Dystrybucja S.A.	6.12.2010
7.	Kopalnia Wapienia „Czatkowice” sp. z o.o.	5.01.2011
8.	TAURON Wydobycie S.A.	13.01.2011
9.	TAURON Sprzedaż GZE sp. z o.o.	24.01.2012
10.	TAURON Ubezpieczenia sp. z o.o.	17.09.2013
11.	TAURON Ciepło sp. z o.o.	16.10.2013
12.	TAURON Dystrybucja Pomiarów sp. z o.o.	19.11.2013
13.	TAURON Ekoserwis sp. z o.o.	19.11.2013
14.	Spółka Usług Górniczych sp. z o.o.	4.12.2013
15.	TAURON Wytwarzanie Serwis sp. z o.o.	26.02.2014
16.	SCE Jaworzno III sp. z o.o.	19.12.2014
17.	Biomasa Grupa TAURON sp. z o.o. (formerly: Energopower sp. z o.o.)	1.07.2015
18.	TAURON Serwis sp. z o.o.	22.12.2016

As of the day of publishing this quarterly report additionally the following companies obtained the TAURON Group member status: Nowe Jaworzno Grupa TAURON sp. z o.o. (on 6.10.2017), Marselwind sp. z o.o. (on 6.10.2017) and Wsparcie Grupa TAURON sp. z o.o. (on 16.10.2017).

TAURON Group's standing Committees are operating within TAURON Group, including:

- a) Investment Committee
- b) Risk Committee.

The above Committees were established in order to enable conducting of the operations in accordance with TAURON Group's operational integrity assumptions, in compliance with the law and interests of TAURON Group and those of its stakeholders.

The Committees' primary task is to oversee the implementation by all of TAURON Group's members of consistent actions in compliance with TAURON Group's Code and in the interest of TAURON Group. The Committees' detailed tasks are defined in the by-laws of their operations adopted by the Company's Management Board.

1.2 Units subject to consolidation

As of September 30, 2017, the parent company, TAURON Polska Energia, and the following subsidiaries were subject to consolidation:

1. TAURON Wydobycie S.A.
2. TAURON Wytwarzanie S.A.
3. Nowe Jaworzno Grupa TAURON sp. z o.o.
4. TAURON Ekoenergia sp. z o.o.

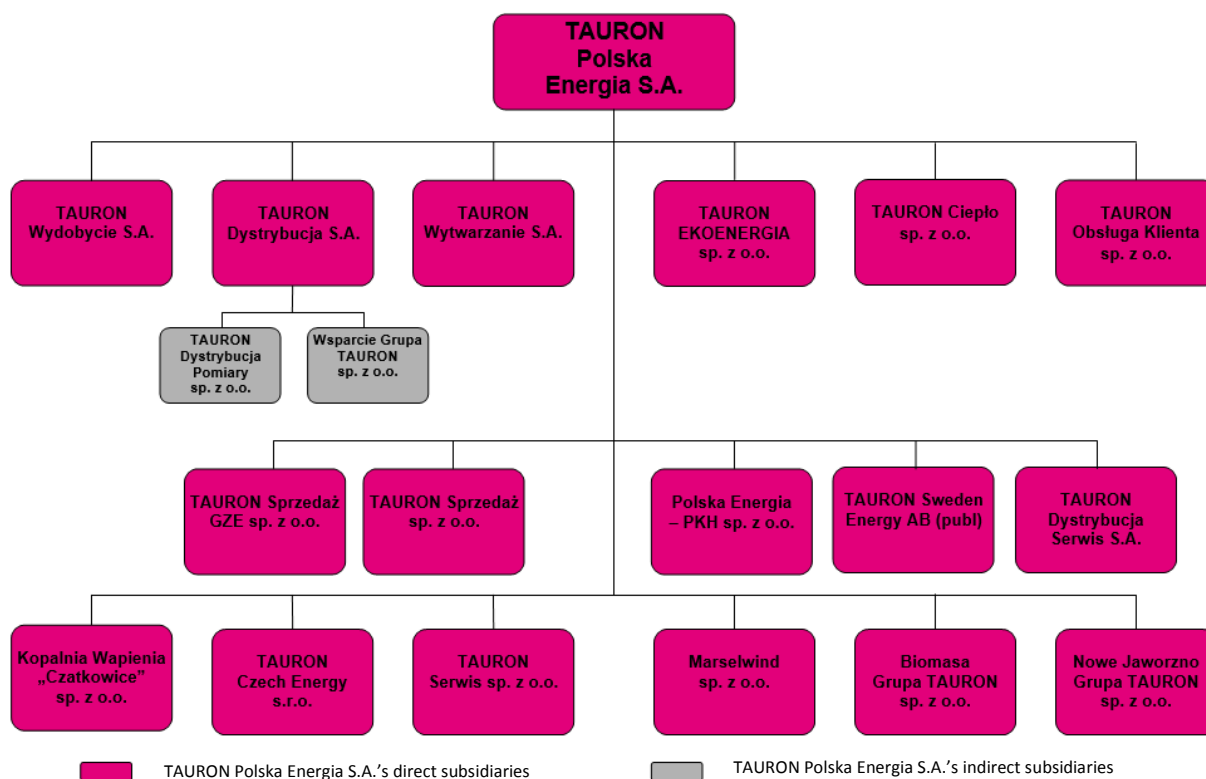
5. Marselwind Sp. z o.o.
6. TAURON Ciepło sp. z o.o.
7. TAURON Dystrybucja S.A.
8. TAURON Dystrybucja Serwis S.A.
9. TAURON Dystrybucja Pomiary sp. z o.o.
10. TAURON Sprzedaż sp. z o.o.
11. TAURON Sprzedaż GZE sp. z o.o.
12. TAURON Czech Energy s.r.o.
13. TAURON Obsługa Klienta sp. z o.o.
14. Kopalnia Wapienia „Czatkowice” sp. z o.o.
15. Polska Energia Pierwsza Kompania Handlowa sp. z o.o.
16. TAURON Sweden Energy AB (publ)
17. Biomasa Grupa TAURON sp. z o.o.
18. TAURON Serwis sp. z o.o.
19. Wsparcie Grupa TAURON sp. z o.o.

TAURON Polska Energia Capital Group also holds stakes in joint ventures: Elektrociepłownia Stalowa Wola S.A. and TAMEH HOLDING sp. z o.o. Capital Group (composed of TAMEH HOLDING sp. z o.o., holding a 100% stake in the capital and the governing body of the subsidiaries: TAMEH POLSKA sp. z o.o. and TAMEH Czech s.r.o.), that are valued using the equity method in the consolidated financial statements.

1.3 TAURON Capital Group and material changes to its structure

The below figure presents the subsidiaries whose earnings are consolidated within TAURON Capital Group as of September 30, 2017.

Figure no. 1. Subsidiaries whose earnings are consolidated within TAURON Capital Group



Material changes to the structure of TAURON Capital Group's subsidiaries and the consequences of changes that occurred in Q3 2017 and after the balance sheet day are described below:

Increase of the share capital of Nowe Jaworzno Grupa TAURON sp. z o.o.

An increase of the share capital of Nowe Jaworzno Grupa TAURON sp. z o.o. from PLN 31 850 000 to PLN 35 850 000, i.e. by PLN 4 000 000.00, by way of issuing 80 000 new shares worth PLN 50.00 each, passed by the Extraordinary General Meeting of the Company's Shareholders on June 29, 2017, was registered in the National Court Register on July 13, 2017. All the new shares were taken up by the existing sole shareholder of the company, i.e. TAURON Polska Energia S.A.

Establishing Komfort Zarządzanie Aktywami sp. z o.o. with its seat in Katowice

Komfort Zarządzanie Aktywami sp. z o.o. with its seat in Katowice, established on May 25, 2017, was registered in the National Court Register on August 1, 2017. Its share capital is PLN 5 000.00 and is split into 100 shares with a nominal value of PLN 50.00 each, that were taken up in the following manner:

- a) Wsparcie Grupa TAURON sp. z o.o. (formerly Komfort-ZET sp. z o.o.) with its seat in Tarnów took up 99 shares,
- b) TAURON Dystrybucja Pomiaru sp. z o.o. with its seat in Tarnów took up 1 share.

The company was established in order to concentrate therein minority shares held by TAURON Capital Group's subsidiaries in commercial law companies that are not subsidiaries, joint subsidiaries and associated companies, including companies undergoing liquidation and bankruptcy proceedings, and then sell the company outside of TAURON Group.

Establishing limited liability companies

On August 1, 2017 TAURON Polska Energia S.A. established four limited liability companies with their seats in Katowice, under the following names:

- En-Energia I sp. z o.o. (registered in the National Court Register on September 8, 2017);
- En-Energia II sp. z o.o. (registered in the National Court Register on August 30, 2017);
- En-Energia III sp. z o.o. (registered in the National Court Register on September 1, 2017);
- En-Energia IV sp. z o.o. (registered in the National Court Register on September 14, 2017).

In each of the above-mentioned companies all 100 shares with a nominal value of PLN 50 per share and the total nominal value of PLN 5 000 were taken up by TAURON Polska Energia S.A. The above-mentioned companies were established in conjunction with the restructuring, both underway and planned by TAURON Group.

Conversion of Komfort – ZET sp. z o.o. into Wsparcie Grupa TAURON sp. z o.o.

Conversion of Komfort – ZET sp. z o.o. with its seat in Tarnów into Wsparcie Grupa TAURON sp. z o.o. was registered in the National Court Register on September 6, 2017.

Transfer of ownership of shares in TAURON Dystrybucja Serwis S.A.

In conjunction with the August 9, 2017 conclusion of the agreement between TAURON Polska Energia S.A. and TAURON Dystrybucja S.A. on the transfer of shares in TAURON Dystrybucja Serwis S.A. in order to release TAURON Dystrybucja S.A. from the obligation to pay out a dividend to TAURON Polska Energia S.A. (datio in solutum), TAURON Polska Energia S.A. became the owner of 5 101 003 shares in TAURON Dystrybucja Serwis S.A., used up to now from TAURON Dystrybucja S.A., representing 100% of shares in its share capital, worth PLN 201 045 thousand.

Registration of an increase of the share capital of Marselwind sp. z o.o.

An increase of the share capital of Marselwind sp. z o.o. from PLN 105 000 to PLN 110 000, i.e. by PLN 5 000.00, by way of issuing 100 new shares worth PLN 50.00 each, with the total nominal value of PLN 5 000.00, passed by the Ordinary General Meeting of the Shareholders of Marselwind sp. z o.o. on June 28, 2017, was registered in the National Court Register on October 13, 2017. All the new shares were taken up by the existing sole shareholder of the company, i.e. TAURON Polska Energia S.A.

Increase of the share capital of TAURON EKOENERGIA sp. z o.o.

On October 24, 2017, the Extraordinary General Meeting of the Shareholders of TAURON EKOENERGIA sp. z o.o. passed a resolution on increasing the share capital by PLN 10 000 000 by way of issuing 10 000 new shares with the nominal value of PLN 1 000 each and the total nominal value of PLN 10 000 000. All the new shares were taken up by the existing sole shareholder of the company, i.e. TAURON Polska Energia S.A.

Increase of the share capital of Magenta Grupa TAURON sp. z o.o.

On October 24, 2017, the Extraordinary General Meeting of the Shareholders of Magenta Grupa TAURON sp. z o.o. passed a resolution on increasing the share capital from PLN 500 000 to PLN 1 500 000, i.e. by PLN 1 000 000.00, by way of issuing 20 000 new shares with the nominal value of PLN 50 each, with the total nominal value of PLN 1 000 000. All the new shares were taken up by the existing sole shareholder of the company, i.e. TAURON Polska Energia S.A.

Increase of the share capital of TAURON Dystrybucja S.A.

On October 26, 2017, the Extraordinary General Meeting of TAURON Dystrybucja S.A. passed a resolution on increasing the share capital from PLN 511 925 759.22 to PLN 560 611 250.96, i.e. by PLN 48 685 491.74, by way of issuing 2 434 274 587 new shares with the nominal value of PLN 0.02 each. All the new shares will be offered to be taken up by way of a private placement to TAURON Polska Energia S.A.

As of the day of drawing up this information the increases of the share capitals of: TAURON EKOENERGIA sp. z o.o., Magenta Grupa TAURON sp. z o.o., TAURON Dystrybucja S.A. were not registered in the National Court Register.

2. Basic information on TAURON Polska Energia

2.1 Composition of the Management Board and the Supervisory Board of TAURON Polska Energia

Composition of the Management Board as of September 30, 2017 and as of the day of publishing this information:

- | | |
|-----------------------|--|
| 1. Filip Grzegorzczak | - President of the Management Board, |
| 2. Jarosław Broda | - Vice-President of the Management Board for Asset Management and Development, |
| 3. Kamil Kamiński | - Vice-President of the Management Board for Customer and Corporate Support, |
| 4. Marek Wadowski | - Vice-President of the Management Board for Finance. |

Changes to the Management Board's composition in Q3 2017 and by the day of publishing this information

No changes to the Management Board's composition took place in Q3 2017 and by the day of publishing this information.

Composition of the Supervisory Board as of September 30, 2017 and as of the day of publishing this information:

- | | |
|---------------------------------|--|
| 1. Beata Chłodzińska | - Chair of the Supervisory Board, |
| 2. Teresa Famulska | - Deputy Chair of the Supervisory Board, |
| 3. Jacek Szyke | - Secretary of the Supervisory Board, |
| 4. Radosław Domagalski-Łabędzki | - Member of the Supervisory Board, |

- | | |
|--------------------------|------------------------------------|
| 5. Barbara Łasak-Jarszak | - Member of the Supervisory Board, |
| 6. Paweł Pampuszko | - Member of the Supervisory Board, |
| 7. Jan Płudowski | - Member of the Supervisory Board, |
| 8. Agnieszka Woźniak | - Member of the Supervisory Board. |

Changes to the Supervisory Board's composition in Q3 2017 and by the day of publishing this information

No changes to the Supervisory Board's composition took place in Q3 2017 and by the day of publishing this information.

2.2 Structure of the share capital

As of September 30, 2017, the share capital of TAURON Polska Energia S.A. amounted to PLN 8,762,746,970.00 and it was divided into 1,752,549,394 shares with the nominal value of PLN 5.00 per share, including 1,589,438,762 ordinary bearer shares of AA series and 163,110,632 ordinary registered shares of BB series.

2.3 Shareholders holding at least 5% of the total number of votes

In accordance with the notifications received from the Company, as of the date of publishing this interim report, i.e. as of November 8, 2017, the structure of shareholders holding at least 5 per cent of the total number of votes at the General Meeting of the Company, either directly or indirectly, through subsidiaries, is as follows:

Table no. 2. Structure of shareholders of TAURON Polska Energia

Shareholders	Number of shares held	Percentage share in share capital	Number of votes held	Percentage share in the total number of votes
State Treasury	526 848 384*	30.06%	526 848 384	30.06%
KGHM Polska Miedź S.A.	182 110 566**	10.39%	182 110 566	10.39%
Nationale-Nederlanden Otwarty Fundusz Emerytalny (Open Pension Fund)	88 742 929***	5.06%	88 742 929	5.06%

*in accordance with the shareholder's notification of February 28, 2013

**in accordance with the shareholder's notification of March 23, 2011

***in accordance with the shareholder's notification of December 28, 2011

Since the day of publishing the previous periodical report, i.e. since August 17, 2017, until the day of publishing this report there were no changes in the ownership structure of substantial blocks of the Company's shares.

2.4 List of shareholdings by members of the Management Board and the Supervisory Board

Members of the Management Board

As of the day of publishing this quarterly report i.e. as of November 8, 2017, the members of TAURON Polska Energia's Management Board did not hold any shares or rights to the Company's shares. Since the day of publishing the previous periodical report, i.e. since August 17, 2017, until the day of publishing this report there were no changes to the number of shares or rights to the Company's shares held by the members of the Management Board.

Members of the Supervisory Board

As of the day of publishing this quarterly report i.e. as of November 8, 2017, the members of TAURON Polska Energia's Supervisory Board did not hold any shares or rights to the Company's shares. Since the day of publishing the previous periodical report, i.e. since August 17, 2017, until the day of publishing this report there were no changes to the number of shares or rights to the Company's shares held by the members of the Supervisory Board.

2.5 Subject of TAURON Polska Energia's operations

TAURON Polska Energia's core business operations include:

- 1) operations of head offices and holding companies, excluding financial holding companies (PKD 70.10 Z),
- 2) electricity trading (PKD 35.14 Z),
- 3) fuels and derivative products wholesale trading (coal and biomass trading) (PKD 46.71 Z),
- 4) gas fuel trading (PKD 35.23 Z).

As a parent entity TAURON is performing the consolidation and management function in TAURON Capital Group.

The Company's core operations, besides managing TAURON Capital Group, include wholesale trading of electricity, related products, gas, CO2 emission allowances and production fuels in order maximize the financial results from the operations conducted in this area.

As a result of implementing its business model and centralizing functions TAURON concentrated many competences related to TAURON Capital Group's subsidiaries' operations and it currently carries out operations, among others, in the following areas:

- 1) wholesale trading of electricity and related products, in particular with respect to commercial services provided to the subsidiaries, securing the needs with regard to fuels, including gas fuel, CO2 emission allowances and certificates of electricity origin,
- 2) procurement management,
- 3) finance management,
- 4) corporate risk management,
- 5) IT model management,
- 6) coordinating research and development works carried out by TAURON Capital Group,
- 7) advisory services with respect to accounting and taxes,
- 8) legal services,
- 9) audit.

The above functions are gradually downsized at TAURON Capital Group's subsidiaries. The centralization is aimed at improving TAURON Capital Group's efficiency.

The Company is focusing on purchasing and selling of electricity for the needs of hedging the buy and sell positions of TAURON Capital Group's subsidiaries and on proprietary wholesale electricity trading. Electricity

sales performed by the Company during the first three quarters of 2017 were mainly to the following subsidiaries: TAURON Sprzedaż and TAURON Sprzedaż GZE.

Electricity trading, both for the needs of entities that are members of TAURON Capital Group as well as proprietary trading, is carried out mainly on the Polish Power Exchange (Towarowa Giełda Energii S.A.) and on brokerage platforms operating on the Polish market. Additionally, the Company is trading in electricity contracts on the European Energy Exchange (EEX) and carrying out electricity trading on the available international links as well as it is present on the most important European spot and intraday wholesale markets - EPEX spot and NordPool spot.

TAURON's competences also include management, for the needs of TAURON Capital Group, of certificates of origin that constitute a confirmation of electricity generation from renewable sources, including from sources that use agricultural biogas, using high-efficiency co-generation, gas-fired co-generation, mining methane-fired or biomass gas-fired co-generation.

The Company is the competence center with respect to management and trading in CO2 emission allowances for TAURON Capital Group's subsidiaries. Due to the centralization of trading in emission allowances a synergy effect was obtained that involves optimizing the costs of using the resources of entities that are members of TAURON Capital Group. Along with the centralization of this function at TAURON the Company is responsible for clearing CO2 emission allowances on behalf of its subsidiaries, securing the emission needs of its subsidiaries taking into account the allowances allocated and the support in the process of acquiring the allowance quotas for the subsequent periods. While accomplishing the above mentioned goals the Company is an active participant of trading in CO2 emission allowances.

In addition, TAURON also acts as Market Operator (maker) and the entity responsible for trade balancing for TAURON Capital Group's subsidiaries and for external customers with respect to electricity. The function of Market Operator and the Entity responsible for trade balancing is performed based on the transmission Agreement concluded with the Transmission System Operator (TSO) – PSE. The Company currently holds exclusive generation capacity with respect to meeting trading and technical requirements, is responsible for optimizing generation, i.e. selecting generation units for operation as well as for the relevant distribution of loads in order to perform the contracts concluded, taking into account technical conditions of the generation units, grid constraints and other factors, under various time horizons. As part of services provided for the Generation segment the Company participates in preparing overhaul schedules, available (dispatchable) capacity schedules as well as production plans for the generation units, under various time horizons, as well as in agreeing them with the relevant grid operator.

In accordance with the adopted business model TAURON is performing the management function with respect to production fuel procurement management for the needs of TAURON Capital Group's generation entities.

In the first three quarters of 2017 approximately 53% of coal supplies for electricity and heat production was satisfied by coal from TAURON Capital Group's own coal mines. The balance of the demand was covered from external sources.

The Company is expanding its operations with respect to trading in gas fuel. With respect to gas wholesale trading TAURON has been an active participant of the gas market since obtaining the license in 2012. It is actively conducting trading operations on the domestic market, i.e. on the Polish Power Exchange (Towarowa Giełda Energii S.A.) and on the OTC market. The Company is also conducting trading operations on the European natural gas market.

Furthermore, the Company is conducting trading operations in the Gasoil Futures contracts based on the valuations of the diesel oil. The product is available on the ICE Futures Europe platform that TAURON has been a member of since 2012. The Gasoil contracts can be used by the market participants both as a hedging instrument as well as a trading tool. The Gasoil products are characterized by high liquidity and contract prices are a price reference for all the trade distillates in Europe and beyond.

Moreover, the Company is trading in crude oil market products: Brent Crude, WTI Crude, the pricing of which is tied to oil prices and Heating Oil – a product priced based on the heating oil quotations. With respect to the above mentioned products trading is focused not only on trading in individual contracts (outright) but also on trading in spreads, created both between given products as well as calendar spreads that correspond to the dates of settling (clearing) individual contracts.

The Company is present on the most important European wholesale gas markets within the areas of Gaspool, New Connect Germany (NCG) and Tittle Transfer Facility (TTF) hubs. Through PRISMA and GSA auction platforms the Company purchases interconnector capacity enabling cross-border trading in gas and physical deliveries of gas for the needs of TAURON Capital Group's subsidiaries and consumers. TAURON Capital Group's competences with respect to gas sales are split: TAURON conducts wholesale gas trading on the domestic and European markets through access to exchanges and sources of gas, while TAURON Sprzedaz conducts comprehensive gas sales to the final consumers.

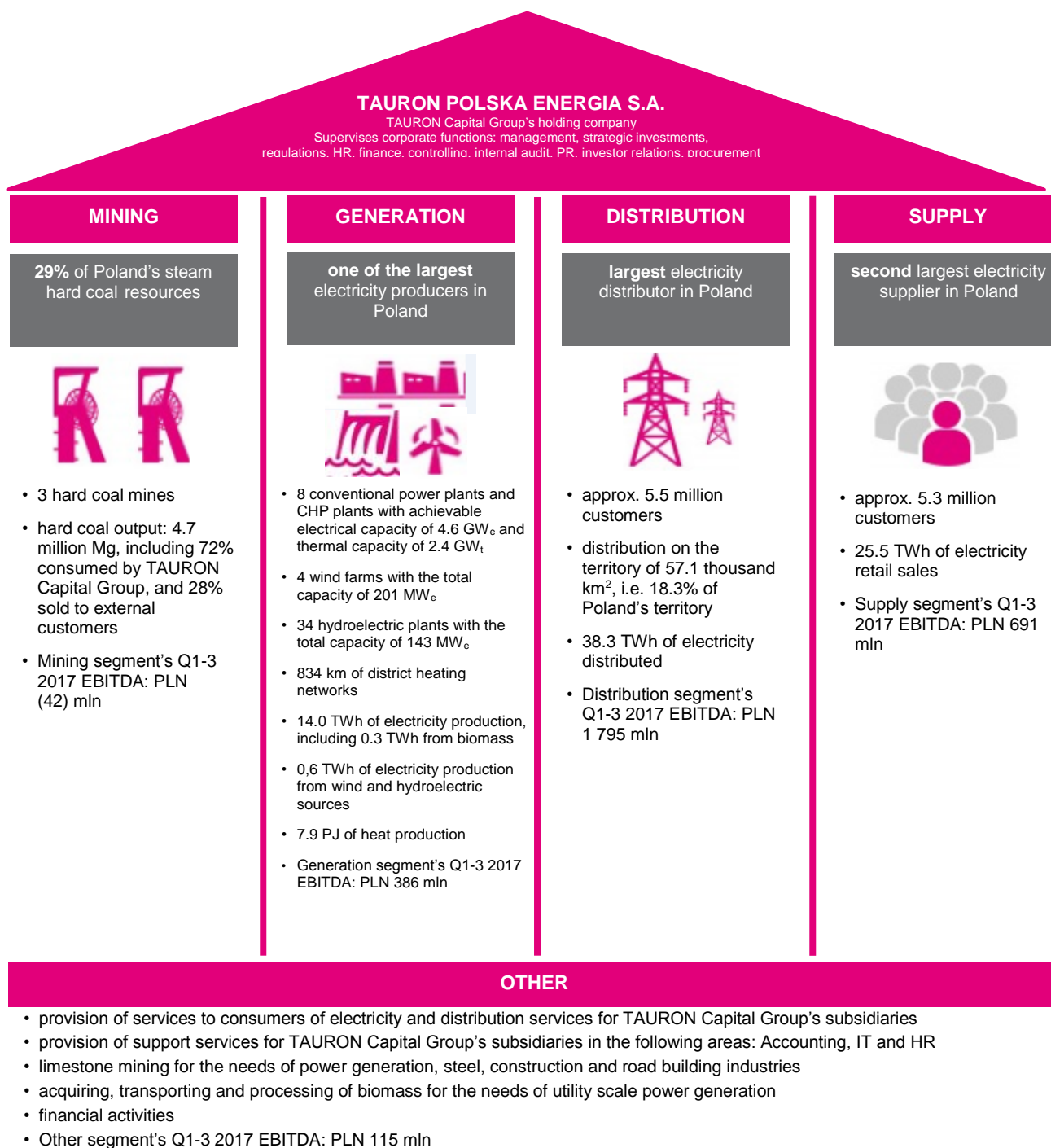
Due to the implementation of the new Strategy the mass market has become an important area of the Company's operations: coordinating the Customer Area. The Company is expanding its competences by planning the retail market sales, developing a range of products and services and tools to support the sales process on this market. An important element associated with this area are also activities related to research and development.

3. TAURON Capital Group's operations

3.1 TAURON Capital Group's lines of business (segments)

TAURON Polska Energia Capital Group is a vertically integrated energy group located in the south of Poland. TAURON Capital Group conducts its operations in all key segments of the energy market (excluding electricity transmission which is the sole responsibility of the Transmission System Operator (TSO)), i.e. hard coal mining as well as electricity and heat generation, distribution and trading.

Figure no. 2. TAURON Capital Group



For the needs of reporting TAURON Capital Group's results from operations TAURON Group's operations are split into the following five Segments, hereinafter also referred to as Lines of Business:



Mining segment, comprising mainly hard coal mining, enriching and selling in Poland with such operations conducted by TAURON Wydobycie S.A. (TAURON Wydobycie). As of December 1, 2016, Nowe Brzeszcze Grupa TAURON sp. z o.o. (Nowe Brzeszcze GT) subsidiary was merged with TAURON Wydobycie.



Generation Segment, comprising mainly electricity generation using conventional sources, including co-generation, as well as electricity generation from renewable energy sources, including biomass burning and co-firing, and hydroelectric power plants and wind farms. The Segment also includes heat generation, distribution and supply. This Segment's operations are conducted by TAURON Wytwarzanie S.A. (TAURON Wytwarzanie), TAURON Ciepło sp. z o.o. (TAURON Ciepło) and TAURON EKOENERGIA sp. z o.o. (TAURON EKOENERGIA). The Segment also includes TAURON Serwis sp. z o.o. (TAURON Serwis) subsidiary, dealing primarily with the generation equipment's overhauls and Nowe Jaworzno Grupa TAURON Sp. z o.o. (Nowe Jaworzno GT) subsidiary responsible for the construction of the new power generation unit at Jaworzno.



Distribution segment, comprising electricity distribution using distribution grids located in southern Poland. The operations are conducted by TAURON Dystrybucja S.A. (TAURON Dystrybucja). This segment also includes the following subsidiaries: TAURON Dystrybucja Serwis S.A. (TAURON Dystrybucja Serwis) and TAURON Dystrybucja Pomiarów sp. z o.o. (TAURON Dystrybucja Pomiarów).



Supply segment, comprising electricity supply to the final consumers and electricity wholesale trading, as well as trading and management of CO₂ emission allowances and property rights arising from certificates of origin as well as fuels. The operations in this segment are conducted by the following subsidiaries: TAURON Polska Energia S.A. (TAURON or the Company), TAURON Sprzedaż sp. z o.o. (TAURON Sprzedaż), TAURON Sprzedaż GZE sp. z o.o. (TAURON Sprzedaż GZE) and TAURON Czech Energy s.r.o. (TAURON Czech Energy).

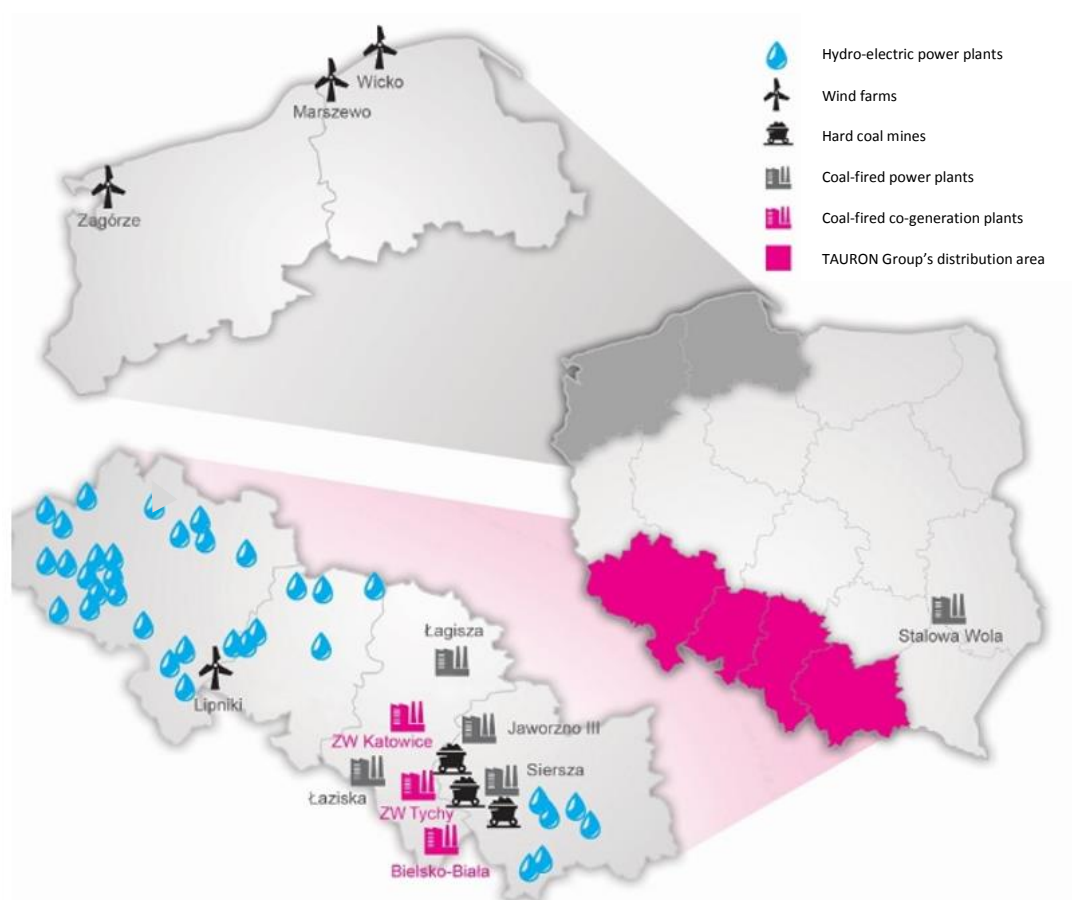


Other operations, comprising operations with respect to customer service for TAURON Capital Group and provision of support services for TAURON Capital Group's subsidiaries with respect to accounting, HR and ICT, conducted by TAURON Obsługa Klienta sp. z o.o. (TAURON Obsługa Klienta) subsidiary, as well as operations related to extraction of stone, including limestone, for the needs of the power generation, steel, construction and road building industries as well as production of sorbing agents for wet flue gas desulphurization installations and for use in fluidized bed boilers, carried out by Kopalnia Wapienia "Czatkowice" sp. z o.o. (KW Czatkowice) subsidiary. This segment also includes the following subsidiaries: TAURON Sweden Energy AB (publ) (TAURON Sweden Energy), dealing with financial operations, Biomasa Grupa TAURON sp. z o.o., (Biomasa Grupa TAURON), dealing mainly with biomass acquisition, transportation and processing, KOMFORT-ZET sp. z o.o. (KOMFORT-ZET) dealing primarily with real estate administration as well as the technical support of vehicles and Polska Energia - Pierwsza Kompania Handlowa sp. z o.o. (PEPKH).

TAURON Capital Group conducts its operations and generates its revenue mainly from electricity and heat supply and distribution, electricity and heat generation, as well as from hard coal sales.

The below figure presents the location of TAURON Capital Group's key assets as well as the distribution area where TAURON Dystrybucja conducts operations as a Distribution System Operator.

Figure no. 3. Location of TAURON Capital Group's key assets



3.2 Implementation of TAURON Capital Group's capital expenditures program

Key strategic investment projects underway

The below table below presents the activities carried out by TAURON Capital Group by the end of Q3 2017, in connection with the implementation of the key strategic investment projects.

Table no. 3. Key strategic investment projects' work progress

#	Investment project	Work progress
1.	<p>Construction of a 449 MW_e CCGT unit, including a 240 MW_t heat generation component at Stalowa Wola (Project implemented jointly with the strategic partner - Polskie Górnictwo Naftowe i Gazownictwo S.A. (PGNiG)).</p> <p>Contractor: the contract with Abener Energia S.A. was terminated. The Project's completion is envisaged under the EPCM formula (contract manager). EPCM – consortium of Energoprojekt Katowice – Energopomiar Gliwice.</p> <p>Planned project completion date: 2019</p> <p>Work progress: 86%</p> <p>Expenditures incurred: PLN 977.5 mln</p>	<p>On March 31, 2017, all liabilities under ECSW's loan agreements towards the financing banks (EIB, EBR&D, PEKAO) were totally repaid. Once the financing institutions' bank accounts were credited the suspending conditions were met and at the same time the following documents came into force, i.e. the agreement on establishing the basic boundary conditions of the Project's restructuring among TAURON, PGNiG and ECSW, the amendment to the electricity sale agreement among TAURON, PGNiG and ECSW and the amendment to the gas supply agreement between PGNiG and ECSW.</p> <p>Talks aimed at acquiring the financing required to complete the investment project are continued.</p> <p>Maintenance works on the machines and devices installed are continued on an ongoing basis. Also works related to the startup of</p>

# Investment project	Work progress
	<p>auxiliary devices and talks with suppliers and sub-suppliers of the main devices are underway.</p> <p>Concept of the project's completion under the contract manager - EPCM and contracting of contractors formula was prepared. The proceeding aimed at selecting the EPCM was completed. Energoprojekt Katowice – Energopomiar Gliwice consortium was selected as the project's EPCM.</p> <p>The proceeding aimed at selecting the Contractor to construct the cooling water's duct was completed. IDS-BUD S.A. was selected. The contractor is providing the compiled design documentation to be agreed with ECSW on an ongoing basis. Preparations to commence the construction works are underway.</p> <p>The project's scope was extended by adding the construction of the back-up source of heat for the CCGT unit – preparation works – technical and commercial ones – are underway.</p>
<p>2. Construction of a new 910 MWe power generation unit for supercritical parameters at Jaworzno III Power Plant (TAURON Wytwarzanie).</p> <p>Contractor: consortium of RAFAKO S.A. and Mostostal Warszawa S.A.</p> <p>Planned project completion date: 2019</p> <p>Work progress: 45%</p> <p>Expenditures incurred: PLN 3 012 mln</p>	<p>The project's implementation was transferred to Nowe Jaworzno GT company (SPV) that was established in April 2017 as a result of the spin-off out of TAURON Wytwarzanie.</p> <p>The main implementation works in Q3 2017 focused on installing the boiler room's and machine room's process part. Works completed: installation of the boiler room's building's main steel structure, installation of the cooling water pump station's enclosure, welding of the feeding water tank, heavy installation of the burners and the rotating air heater (LUVO). Benson cylinder that constitutes a key component of the boiler was also lifted. Works continued included, among others: cooling tower painting (coating), installation of the coal mills (pulverizers), electric switchgears, roof and enclosure of the boiler room, turbine and condenser building. With respect to the carburization system technology supplies and installations of the skew bridge enclosure and the steel structure of the distribution tower no. 2 were underway. Earth works related to the compressor building and foundation laying for the office building were continued.</p> <p>Works with respect to the de-ashing system, ignition oil installation, water supply system, water treatment station and pipeline flyovers were continued at the construction site. The contractor for the construction of the telecommunications network and the water and sewage Network was selected.</p> <p>The project's due diligence was commenced as a result of the agreement between TAURON and the Polish Fund for Development (Polski Fundusz Rozwoju S.A. - PFR) concluded in June this year, defining the preliminary terms of engagement in the construction of the new 910 MW power generation unit in Jaworzno. The Company is continuing its efforts aimed at attracting another external partner to join Nowe Jaworzno GT company and thus obtain financing to carry out the investment project.</p>
<p>3. Construction of the "Grzegorz" shaft including the infrastructure and the accompanying headings (TAURON Wydobycie).</p> <p>Contractor: Consortium KOPEX Przedsiębiorstwo Budowy Szybów S.A. FAMUR Pemug Sp. z o.o. (main task – Stage I), LINTER S.A.</p> <p>Planned project completion date: 2023</p> <p>Work progress: 20%</p> <p>Expenditures incurred: PLN 93.7 mln</p>	<p>The general contractor of the works: "<i>Construction works performed by the General Contractor of Stage I of Grzegorz shaft construction, including the construction of the above the ground infrastructure for TAURON Wydobycie S.A.</i>" was selected – consortium of KOPEX Przedsiębiorstwo Budowy Szybów S.A. and FAMUR Pemug Sp. z o.o.</p> <p>The agreement with the general contractor of the works was signed in May and the construction site was handed over in September. As part of the project works related to drilling the horizontal headings to the "Grzegorz" shaft on level 540 m were continued.</p>
<p>4. Construction of the 800 m level at ZG Janina (TAURON Wydobycie).</p> <p>Contractor: Tender proceeding aimed at selecting the contractor for the ultimate above the ground and underground infrastructure including the mine shaft elevator is underway (GWSZ), KOPEX</p> <p>Planned project completion date: 2020</p> <p>Work progress: 53%</p>	<p>Works associated with shaft drilling and furnishing as well as the installation of the shaft pipe to the ultimate depth were completed in H1 2017. The bottom stopper was installed, whereby the works connected with deepening of the shaft were completed – project's milestone was achieved. The infrastructure used to deepen the shaft was dismantled and the area where the works had been conducted was cleaned up and secured.</p>

#	Investment project	Work progress
	Expenditures incurred: PLN 277.3 mln	Works associated with horizontal heading drilling on the 800 m level are continued – ventilation system on the 800 m level was closed – project’s milestone was achieved. Also, works aimed at contracting the further scope of works are continued. Therefore, among others, an open public tender to select the contractor to complete the task: “Construction of the ultimate above the ground and underground infrastructure including the Janina VI shaft Mine Shaft Elevator” was announced and conducted. The contractor selection process is currently underway. Also, a tender on drilling the headings as part of the project’s 4th stage was announced.
5.	Brzeszcze Investment Program Contractors: TRANS-JAN, FAMUR and KOPEX Machinery Consortium, FAMUR and KPRGiBSz Consortium, MAS and Carbospec Consortium, Elektrometal Cieszyn Planned Program completion date: 2025 Work progress: 25% Expenditures incurred: PLN 114.9 mln	Planned shipments of powered roof supports with the operational range adjusted to the 510 deposit were completed. A longwall shearer (mining system) was installed in the 05 wall – program’s milestone was achieved. As part of revitalizing and shortening of the main ventilation routes works related to the alteration and reconstruction of the ventilation excavations on the 900 m level were continued – stage I and stage II of the works. As part of adjusting the technical infrastructure to the specific operational needs the construction of the fine coal (nut coal and pea coal) sales facility and the construction of the water and ash blending station were underway. The mine’s upgraded mining rescue station was commissioned - project’s milestone was achieved.
6.	Low Emission Elimination Program Contractors: Contractors selected to carry out individual projects Planned Program completion date: 2023 Work progress: 2% Expenditures incurred: PLN 1.4 mln	Program carried out by TAURON Ciepło sp. z o.o. The program’s objective is to eliminate non-ecological sources of heat and replace them with district heating. Connecting of more than 180 MWt of thermal capacity to the district heating network in 8 cities of the Silesia and Dąbrowa conurbation is planned as part of the program’s implementation. This will allow for achieving an annual reduction of carbon dioxide by 50 thousand tons and approximately 250 tons less dust suspended in the atmosphere. construction or upgrade of more than 100 km long district heating networks based on the modern pre-insulated networks standard is planned as part of the program’s scope. The entire Program covering all 8 cities of the Silesia and Dąbrowa conurbation was co-financed (subsidized) using the funds of the Regional Environment Protection and Water Management Fund (Wojewódzki Fundusz Ochrony Środowiska i Gospodarki Wodnej) in Katowice amounting to more than PLN 141 mln in total. The total funds envisaged to carry out the program amount to approximately PLN 250 mln. In Q3 of this year the first construction works were commenced, i.e. connecting of the buildings at ul. Modrzejowska in Sosnowiec. The project works are carried out on as needed basis.

Nuclear power plant construction project

On September 3, 2014 PGE Polska Grupa Energetyczna S.A. (PGE), TAURON, ENEA S.A. and KGHM Polska Miedź S.A. concluded the Partners’ Agreement governing the rules of cooperation among Business Partners in the implementation of Poland’s first nuclear power plant construction project.

On April 15, 2015 TAURON, KGHM Polska Miedź S.A. (KGHM) and ENEA S.A., as Business Partners and PGE Polska Grupa Energetyczna S.A. (PGE) concluded the agreement on the purchase of shares in PGE EJ 1 1 sp. z o.o. (PGE EJ 1) - the special purpose vehicle responsible for preparing and implementing of an investment project involving the construction and operation of Poland’s first nuclear power plant with the capacity of approximately 3 thousand MWe (Nuclear Power Plant Project). Each Business Partner acquired a 10% stake (30% of shares in total) in the PGE EJ 1 special purpose vehicle.

In accordance with the Partners' Agreement the Parties made a commitment to jointly, in proportion to the stakes held, finance the operations of the PGE EJ 1 special purpose vehicle at the Nuclear Power Plant Project Development Stage. In accordance with the 2017 schedule PGE EJ 1 was conducting design works encompassing mainly performance of environmental and siting research.

Coal gasification project

On April 20, 2017 TAURON signed a letter of intent with Grupa Azoty S.A. defining general rules of commencing cooperation aimed at implementing the coal gasification project (Coal Gasification Project). The product of the technological process system that the letter of intent is applicable to is primarily the synthesis gas (syngas) with the composition that would allow using it directly to produce hydrogen, ammonia, methanol or other chemicals. The parties came to the conclusion that the current natural gas consumption in the nitrogen fertilizers manufacturing industry could partly be replaced with the synthesis gas (syngas) obtained as a result of coal gasification. This opens new prospects for the mining industry, increasing Poland's security of electricity supply by developing low emission technology.

TAURON has declared its participation in the Coal Gasification Project in accordance with the rules that will be defined by the Parties in separate agreements, including assuming selecting and completing an installation that would ensure maximizing the use of hard coal coming from TAURON Capital Group's coal mines. If TAURON is not able to provide appropriate quantity or parameters of coal required by the installation, it shall be permitted to supplement the supply with coal coming from other suppliers.

The Coal Gasification Project's estimated value will reach between EUR 400 mln and EUR 600 mln, depending on the selected technology version.

Currently Grupa Azoty is at the stage of accepting the preFeed (Preliminary Front End Engineering Design) works and accompanying analyses, including market research related to the Coal Gasification Project. A group of licensors of the main technology islands was initially selected.

Having received the products (outcomes) of the commissioned works from Grupa Azoty TAURON will carry out a detailed analysis and evaluation thereof aimed at assessing the possibility of signing further agreements, including agreements related to establishing a joint special purpose vehicle (SPV).

The letter of intent shall be valid until December 31, 2017. Either Party shall have the right to terminate the letter of intent with one month's notice.

Capital expenditures

After 3 quarters of 2017 TAURON Capital Group's capital expenditures reached PLN 2 217 mln and were 9.5% lower than the expenditures incurred in the same period of last year (after 3 quarters of 2016 capex reached PLN 2 450 mln). This is primarily due to the reduced capex in the Distribution and Mining segments.

The below table presents selected capital expenditures incurred in Q1-3 2017, highest by value, by TAURON Capital Group's business segments:

Table no. 4. Selected capital expenditures incurred in Q1-3 2017 by Lines of Business

Item	Capital expenditures (PLN m)
Distribution	
Grid assets' upgrades (refurbishments) and replacements	463
Construction of new connections	397
Generation	
Construction of new capacity at Jaworzno III Power Plant (910 MW)	957
Investment projects related to the maintenance and development of district heating networks	12
Connecting new facilities	10
Mining	
Construction of the 800 m level at Janina Coal Mine	24
Brzeszcze Coal Mine's Investment Program	14
Construction of the "Grzegorz" shaft, including the infrastructure and the accompanying headings	9

4. Analysis of TAURON Capital Group's financial standing and assets

4.1 Selected financial data of TAURON Polska Energia and TAURON Capital Group

Table no. 5. Selected financial data of TAURON Polska Energia and TAURON Capital Group

SELECTED FINANCIAL DATA	in PLN '000		in EUR '000	
	2017 period from 01.01.2017 to 30.09.2017	2016 period from 01.01.2016 to 30.09.2016 (converted data)	2017 period from 01.01.2017 to 30.09.2017	2016 period from 01.01.2016 to 30.09.2016 (converted data)
Selected consolidated financial data of TAURON Polska Energia S.A. Capital Group				
Sales revenue	12 871 320	12 991 590	3 023 850	2 973 720
Operating profit	1 579 740	525 955	371 127	120 389
Pre-tax profit	1 481 655	369 786	348 084	84 642
Net profit	1 194 230	276 328	280 560	63 250
Net profit attributable to shareholders of the parent company	1 192 197	274 479	280 082	62 827
Net profit attributable to non-controlling shares	2 033	1 849	478	423
Other total income	3 278	70 393	770	16 113
Total aggregate income	1 197 508	346 721	281 330	79 363
Total aggregate income attributable to shareholders of the parent company	1 195 466	344 872	280 850	78 940
Total aggregate income attributable to non-controlling shares	2 042	1 849	480	423
Profit per share (in PLN/EUR) (basic and diluted)	0.68	0.16	0.16	0.04
Weighted average number of shares (in pcs) (basic and diluted)	1 752 549 394	1 752 549 394	1 752 549 394	1 752 549 394
Net cash flows from operating activities	2 921 491	2 405 354	686 344	550 575
Net cash flows from investing activities	(2 990 224)	(2 730 803)	(702 491)	(625 069)
Net cash flows from financing activities	1 851 827	129 191	435 048	29 571
Increase/(decrease) in net cash and equivalents	1 783 094	(196 258)	418 901	(44 923)
	As of 30.09.2017	As of 31.12.2016	As of 30.09.2017	As of 31.12.2016
Fixed assets	29 927 056	29 148 253	6 945 083	6 588 665
Current assets	5 692 852	4 308 641	1 321 123	973 924
Total Assets	35 619 908	33 456 894	8 266 206	7 562 589
Share capital	8 762 747	8 762 747	2 033 545	1 980 729
Equity attributable to shareholders of the parent company	17 844 827	16 649 266	4 141 196	3 763 396
Equity attributable to non-controlling shares	31 315	30 052	7 267	6 793
Total equity	17 876 142	16 679 318	4 148 463	3 770 189
Long-term liabilities	13 691 332	11 968 719	3 177 307	2 705 407
Short-term liabilities	4 052 434	4 808 857	940 436	1 086 993
Total liabilities	17 743 766	16 777 576	4 117 743	3 792 400

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Selected financial data of TAURON Polska Energia S.A. on a standalone basis				
	in PLN '000		in EUR '000	
	2017 period from 01.01.2017 to 30.09.2017	2016 period from 01.01.2016 to 30.09.2016 <i>(converted data)</i>	2017 period from 01.01.2017 to 30.09.2017	2016 period from 01.01.2016 to 30.09.2016 <i>(converted data)</i>
Sales revenue	5 394 681	5 678 707	1 267 369	1 299 832
Operating profit (loss)	227 348	14 204	53 411	3 251
Gross profit	913 354	503 401	214 574	115 226
Net profit	859 815	499 159	201 996	114 255
Other total income	(6 663)	68 025	(1 565)	15 571
Total aggregate income	853 152	567 184	200 431	129 826
Profit per share (in PLN/EUR) (basic and diluted)	0.49	0.28	0.12	0.06
Weighted average number of shares (in pcs) (basic and diluted)	1 752 549 394	1 752 549 394	1 752 549 394	1 752 549 394
Net cash flows from operating activities	285 687	90 032	67 116	20 608
Net cash flows from investing activities	(920 065)	27 389	(216 150)	6 269
Net cash flows from financing activities	1 757 575	52 611	412 906	12 042
Increase/(decrease) in net cash and equivalents	1 123 197	170 032	263 872	38 919
	As of 30.09.2017	As of 31.12.2016	As of 30.09.2017	As of 31.12.2016
Fixed assets	27 062 336	25 855 329	6 280 276	5 844 333
Current assets	3 904 862	1 817 047	906 190	410 725
Total Assets	30 967 198	27 672 376	7 186 466	6 255 058
Share capital	8 762 747	8 762 747	2 033 545	1 980 729
Equity	17 383 420	16 530 268	4 034 118	3 736 498
Long-term liabilities	10 665 977	8 969 976	2 475 222	2 027 572
Short-term liabilities	2 917 801	2 172 132	677 125	490 988
Total liabilities	13 583 778	11 142 108	3 152 347	2 518 560

The above Q3 2017 and Q3 2016 financial data was converted into EUR according to the following principles:

- individual items of the statement of financial standing - at the average NBP exchange rate announced on September 29, 2017: PLN/EUR 4.3091 (as of December 30, 2016: PLN/EUR 4.4240),
- individual items of the statement of comprehensive income and the statement of cash flows - at the exchange rate representing the arithmetic mean of average NBP exchange rates announced on the last day of each month of the financial period from January 1, 2017 to September 30, 2017: PLN/EUR 4.2566 (for the period from January 1, 2016 to September 30, 2016: PLN/EUR 4.3688).

4.2 Key operating data of TAURON Capital Group

In the first three quarters of 2017 and in Q1 2017 TAURON Capital Group posted the following key operating data:

Table no. 6. Key operating data of TAURON Capital Group

Key operating data	Unit	Q1-3 2017	Q1-3 2016	% change 2017/2016	Q3 2017	Q3 2016	% change 2017/2016
Commercial coal production	m Mg	4.68	4.21	11.2%	1.36	1.73	(21.1)%
Electricity generation (gross production)	TWh	14.03	12.45	12.7%	4.57	4.00	14.3%
Generation of electricity from renewable sources	TWh	0.94	1.00	(6.7)%	0.28	0.23	20.8%
<i>Production from biomass</i>	TWh	0.29	0.45	(34.9)%	0.11	0.08	42.0%
<i>Production from hydroelectric power plants and wind farms</i>	TWh	0.65	0.56	15.9%	0.17	0.16	10.1%
Heat generation	PJ	7.91	7.00	13.1%	0.82	0.57	45.3%
Electricity distribution	TWh	38.31	36.82	4.0%	12.61	12.05	4.6%
Electricity supply (by the Supply and Generation Segments)	TWh	33.44	35.46	(5.7)%	10.88	11.40	(4.6)%
- retail sales	TWh	25.56	23.19	10.2%	8.35	7.61	9.7%
- wholesale	TWh	7.89	12.27	(35.7)%	2.53	3.80	(33.3)%
Number of customers - Distribution	'000	5 517	5 458	1%	5 517	5 458	1%

4.3 Sales structure by lines of business

The below table presents TAURON Capital Group's Q1-3 2017 and Q3 2017 sales volumes and structure broken down into individual lines of business (segments).

Table no. 7. TAURON Capital Group's sales volumes and structure broken down into individual lines of business (segments)

Item	Unit	Q1-3 2017	Q1-3 2016	% change 2017/2016	Q3 2017	Q3 2016	% change 2017/2016
Mining segment's hard coal sales	m Mg	5.01	4.10	22.1%	1.45	1.64	(11.2)%
Generation segment's electricity and heat sales	TWh	14.58	11.48	27.0%	4.99	3.72	34.1%
	PJ	10.66	9.56	11.5%	0.86	0.69	24.2%
Distribution segment's distribution services sales	TWh	38.31	36.82	4.0%	12.61	12.05	4.6%
Supply segment's electricity retail sales	TWh	25.54	23.18	10.2%	8.34	7.60	9.7%

Mining segment

Core business operations conducted by TAURON Capital Group's Mining segment comprise mining, enrichment and sales of hard coal as well as sales of methane as accompanying fossil from the Brzeszcze deposit.

TAURON Capital Group operates three coal mines: ZG Sobieski, ZG Janina and ZG Brzeszcze. The above coal mines are the producers of the hard coal offered for sale on the market as large size lump coal, medium size lump coal and thermal coal dust.

Q1-3 2017 hard coal sales volume reached 5.01 million Mg, i.e. a 22% increase as compared to the same period of 2016, and was the consequence of higher production output and stronger demand on the coal market. Coal sales to TAURON Group reached 3.18 mln Mg.

53% of TAURON Capital Group's current demand for coal to be used to generate electricity and heat was covered with hard coal coming from its own coal mines in Q1-3 2017. The balance of the demand was covered from external sources.

Commercial coal production in the reported period was 11% higher than in the same period of last year as a result of increasing ZG Brzeszcze's extraction capabilities and a favorable setup of extraction coal faces at ZG Janina.

Generation segment

Core operations conducted by TAURON Capital Group's Generation segment comprise electricity and heat generation using:

- 1) hard coal- and biomass-fired power plants and combined heat and power plants,
- 2) hydroelectric power plants,
- 3) wind farms.

Total achievable capacity of the Generation segment's generating units reached 5.0 GW of electric capacity and 2.4 GW of thermal capacity at the end of September 2017. Generation segment is also conducting heat transmission and distribution operations.

In the first three quarters of 2017 the Generation segment produced 14.0 TWh of electricity, i.e. 13% more than last year (12.4 TWh) which was due to higher sales under contracts year on year.

Production from RES reached 0.94 TWh, i.e. 7% less as compared to last year (1.00 TWh) which was due to the reduction of biomass burning.

Sales of electricity from own production, including electricity purchased for trading, reached 14.6 TWh in the first three quarters of 2017, i.e. a 27% increase in relation to the same period of 2016. Purchased electricity resale volume was higher than in 2016 (2.0 TWh in the first three quarters of 2017; 0.4 TWh in the same period of 2016).

Heat sales in the first three quarters of 2017 reached 10.7 PJ, i.e. 11% more versus the same period of 2016 which was due to lower outside temperatures year on year and higher consumer demand.

Distribution segment

TAURON Capital Group is Poland's largest electricity distributor, both in terms of electricity volume delivered as well as revenue from distribution operations. Distribution segment is operating large area distribution grids, located in the south of Poland.

In the first three quarters of 2017 the Distribution segment delivered, in total, approximately 38.3 TWh of electricity, including 36.5 TWh to the final consumers. During this period the Distribution segment provided distribution services to 5.52 million consumers. In the same period of 2016 the Distribution segment delivered, in total, approximately 36.8 TWh of electricity to approx. 5.46 million consumers, including 35.3 TWh to the final consumers. The increase in the volume delivered to the final consumers year on year is due to the GDP growth and increased electricity consumption by industrial consumers.

Supply segment

Supply segment comprises operations with respect to retail sales of electricity as well as wholesale trading of electricity and other energy market products. The supply operations include electricity supply to final consumers, including also to key accounts.

While the wholesale trading operations include mainly wholesale trading of electricity as well as trading and managing CO2 emission allowances, property rights arising from certificates of electricity origin and fuels.

In the first three quarters of 2017 the Supply segment subsidiaries supplied, in total, 31.4 TWh of electricity, including 25.5 TWh to 5.3 million customers, both households as well as businesses, i.e. 0.5 TWh more than in the same period of last year. Higher sales are a consequence of a larger supply to business customers and the operations on the competitive market.

4.4 TAURON Capital Group's financial standing after Q3 2017

4.4.1 Analysis of the financial standing

The below table presents an analysis of TAURON Capital Group's financial standing in Q1-3 2017 as compared to the end of 2016.

Table no. 8. Structure of the interim abbreviated consolidated statements of the financial position

Consolidated statements of the financial position	As of September 30, 2017	As of December 31, 2016	% change (2017 / 2016)
ASSETS			
Fixed assets	84.0%	87.1%	96.4%
Current assets	16.0%	12.9%	124.1%
TOTAL ASSETS	100.0%	100.0%	
LIABILITIES			
Equity attributable to shareholders of the parent company	50.1%	49.8%	100.7%
Non-controlling shares	0.1%	0.1%	97.9%
Total equity	50.2%	49.9%	100.7%
Long-term liabilities	38.4%	35.8%	107.5%
Short-term liabilities	11.4%	14.4%	79.1%
Total liabilities	49.8%	50.1%	99.3%
TOTAL LIABILITIES	100.0%	100.0%	
Financial liabilities	10 166 265	8 165 142	124.5%
Net financial liabilities	7 919 103	7 730 238	102.4%
Net debt/EBITDA ratio	2.11	2.32	91.1%
Current liquidity ratio	1.40	0.89	157.1%

In the structure of assets, as of September 30, 2017, fixed assets represent 84% of the balance sheet total which means a (3.6%) change versus the end of 2016.

The share of current assets rose to 16% of the total assets as of September 30, 2017.

In the structure of liabilities, as of September 30, 2017, liabilities represent approximately 49.8% of total liabilities, with long-term liabilities representing approximately 38.4% and short-term liabilities – approx. 11.4% of the balance sheet total, which means a change of the structure of liabilities versus the end of 2016 when the share of long- and short-term liabilities was, respectively: 35.8% and 14.4%.

In relation to 2016 in the first three quarters of 2017 net financial liabilities rose 2.4% which did not lead to the deterioration of the net debt/EBITDA ratio due to the increase of EBITDA - the ratio dropped to 2.11x (the ratio expressed in relation to EBITDA for the last 12 months).

The current liquidity ratio rose to 1.40. The Company's liquidity is not at risk, the indicators continue to stay at a high, safe level.

Consolidated statement of comprehensive income

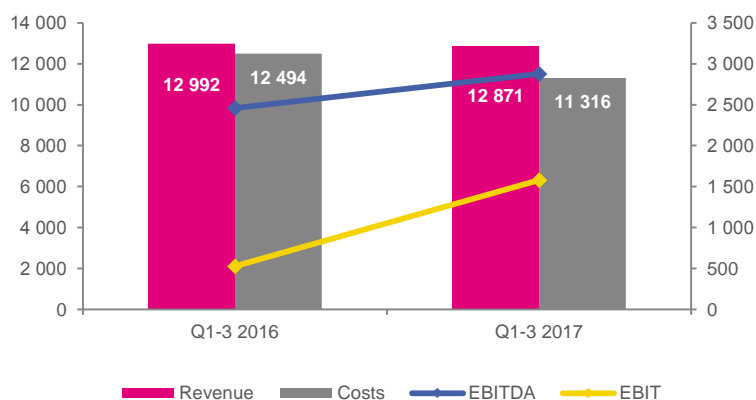
The below table presents selected items of the consolidated statement of comprehensive income of TAURON Capital Group for the period of 9 months ended on September 30, 2017, as well as the comparative data for the period of 9 months ended on September 30, 2016. These items are provided in accordance with the interim abbreviated consolidated financial statements of TAURON Capital Group, compliant with the International Financial Reporting Standards for the period of 9 months ended on September 30, 2017.

Table no. 9. Interim abbreviated consolidated statement of comprehensive income

Item (PLN '000)	Q1-3 2017 (unaudited)	Q1-3 2016 (unaudited)	% change (2017 /2016)
Sales revenue	12 871 320	12 991 590	99.1%
Own cost of sales	(11 315 629)	(12 493 614)	90.6%
Other operating revenues and costs	24 049	27 979	86.0%
Operating profit (loss)	1 579 740	525 955	300.4%
<i>Operating profit margin (%)</i>	12.3%	4.0%	303.1%
Financial revenue	50 245	48 937	102.7%
Financial expenses	(217 865)	(283 444)	76.9%
Share in profit of the affiliate	69 535	78 338	88.8%
Gross profit (loss)	1 481 655	369 786	400.7%
<i>Gross profit margin (%)</i>	11,5%	2,8%	404.3%
Income tax	(287 425)	(93 458)	307.5%
Net profit (loss) for the period	1 194 230	276 328	432.2%
<i>Net profit margin (%)</i>	9.3%	2.1%	436.1%
Total income for the period	1 197 508	346 721	345.4%
Profit attributable to:			
Shareholders of the parent entity	1 192 197	274 479	434.3%
Non-controlling shares	2 033	1 849	110.0%
EBIT and EBITDA			
EBIT	1 579 740	525 955	300.4%
EBITDA	2 877 185	2 460 526	116.9%

The below figure presents TAURON Capital Group's Q1-3 2017 financial results as compared to the same period of 2016.

Figure no. 4. TAURON Capital Group's financial results in Q1-3 2016 and in Q1-3 2017

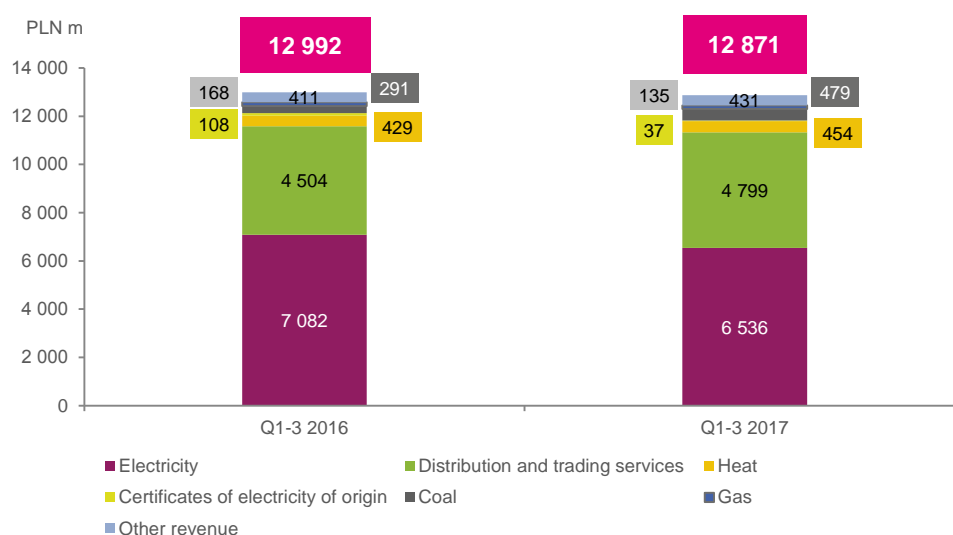


In the first three quarters of 2017 TAURON Capital Group generated slightly lower revenue than reported in the first three quarters of 2016, which was due to the following factors:

- 1) lower electricity sales revenue – higher retail electricity sales volume and lower electricity wholesale volume, with lower electricity sales prices,
- 2) higher heat sales revenue – higher heat and transmission services sales volume and a higher rate for transmission services,
- 3) lower revenue from the sales of property rights related to the certificates of electricity origin, mainly due to the significant drop of PMOZE market prices,
- 4) higher revenue from the distribution services sales due to the increase of the distribution services sales volume (by 4%) and the increase of the rate for the distribution services for the final consumers,
- 5) higher coal sales revenue due to the increase of the coal sales volume (by 78%) – higher consumer demand and higher coal sales price.

The below figure presents TAURON Capital Group's revenue structure in the first three quarters of 2017 as compared to the first three quarters of 2016.

Figure no. 5. TAURON Capital Group's revenue structure in first three quarters of 2016 and in first three quarters of 2017



In the first three quarters of 2017 the costs of TAURON Capital Group's operations reached PLN 11.3 bln, i.e. they were 9.4% lower than the costs incurred in the first three quarters of 2016.

The main cause of the decline is the write-down booked as of June 30, 2016 due to the loss on the Generation segment's generating units' carrying amount on the balance sheet, arising mainly from including in the impairment tests performed of the unfavorable for electricity generators changes in the market environment, such as the declining prices of certificates of origin for electricity coming from renewable energy sources and the new regulations related to the RES.

The amount of the write-down related to the conventional sources is based on the continued unfavorable trend in electricity prices and the forecast higher supply of electricity coming from sources competitive versus Polish coal-fired plants. At the same time the assumptions on which the forecasts are based take into account the estimated impact of the introduction of the so-called capacity market.

The above mentioned market conditions cause, on one hand, a decrease of cash flows that determine the recoverable value of the individual units, while on the other hand they lead to a reversal of the write-downs booked previously due to the loss on the carrying amount on the balance sheet of the electricity and heat generation units.

The impairment tests performed as of June 30, 2017 also indicated the need to book and reverse an impairment charge related to the carrying amount on the balance sheet of the Generations segment's generating units in the net amount of PLN 0.03 bln:

- net write-downs booked (i.e. excess of write-downs booked over the reversed write-downs) related to wind farms and hydroelectric power plants: PLN 0.07 bln,
- net reversed write-downs (i.e. excess of reversed write-downs over the write-downs booked) related to the generation assets in the electricity and heat generation line of business: PLN 0.04 bln.

In Q3 2017 no factors occurred whose negative impact would have provided a justification for a change of long term forecasts versus the information available as of June 30, 2017. For this reason, it was decided that the results of the latest impairment tests related to the loss on the carrying amount on the balance sheet of the fixed assets and the company's goodwill performed as of June 30, 2017 were valid.

Excluding the above mentioned one-off events TAURON Capital Group's costs in the first three quarters of 2017 would have been 4% lower due to the following factors:

- 1) lower costs of electricity purchased for resale, mainly due to the lower volume of electricity sold (wholesale),
- 2) higher costs of the distribution service, mainly as a result of the higher distribution service volume,
- 3) rising costs of the maintenance of devices, overhauls and other services,
- 4) rising costs of taxes, mainly the real estate tax,
- 5) higher labor costs as a consequence of setting up a provision for a one-off bonus related to the signing of the agreement with the workforce,
- 6) lower cost of redeemed property rights due to the decline of the prices thereof,
- 7) coal inventory sales as result of the increase of the coal sales (by 78%) due to the rising demand.

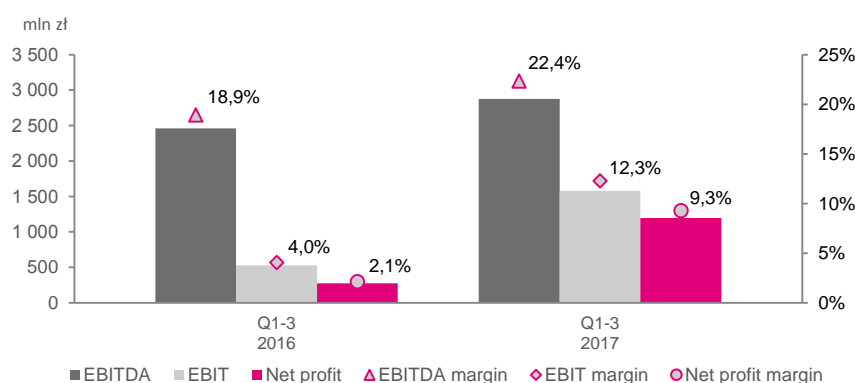
EBITDA margin generated in the first three quarters of 2017 reached 22.4% and was 3.5 pp higher than in the same period of last year. As a result of the booked write-downs, the amount of which in 2016 was significantly higher than the amount of the write-downs booked in 2017, the EBIT and net profit margins were significantly higher than the results generated a year ago and they reached 12.3% and 9.3%, respectively. Excluding the effects of the impairment charges the EBIT and net profit margins in Q1-3 2017 would have reached 12.5% and 9.5%, respectively, while in Q1-3 2016 they would have been 9.5% and 6.5%, respectively.

In accordance with the consolidated statement of comprehensive income presented, the total income of TAURON Capital Group, taking into account the net profit increased or decreased by the change in value of hedging instruments, FX differences arising from the conversion of a foreign unit and other revenues, after tax, reached PLN 1 197.9 mln in the first three quarters of 2017, as compared to PLN 346.7 mln generated in the same period of 2016.

Total income attributable to the shareholders of the parent company reached PLN 1 195.5 million, as compared to PLN 344.9 million posted in the first three quarters of 2016, while the profit attributable to the shareholders of the parent company was PLN 1 192.2 million, as compared to PLN 274.5 million posted in the same period of last year.

The below figure presents TAURON Capital Group's financial results and the margins generated in the first three quarters of 2017 as compared to the first three quarters of 2016.

Figure no. 6. TAURON Capital Group's financial results and the margins generated



4.4.2 Financial results by lines of business

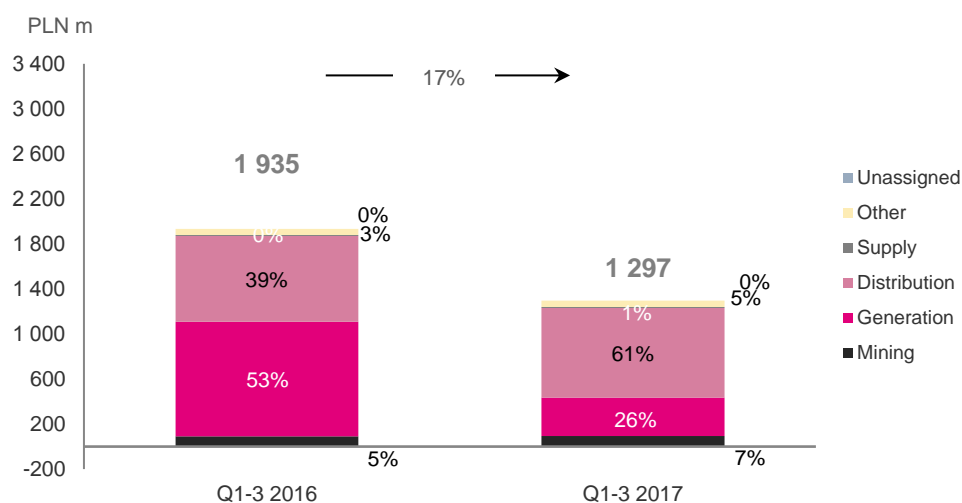
The below table below presents TAURON Capital Group's EBITDA by individual lines of business (business segments) in Q1-3 2017 and in Q3 2017, compared to the same periods of 2016. The data for the individual segments do not include consolidation exclusions.

Table no. 10. TAURON Capital Group's EBITDA by individual lines of business (business segments)

EBITDA (PLN '000)	Q1-3 2017	Q1-3 2016	% change 2017/2016	Q3 2017	Q3 2016	% change 2017/2016
Mining	(41 684)	(136 658)	-	(36 968)	32 590	-
Generation	386 394	447 109	86.4%	79 923	93 148	85.8%
Distribution	1 794 598	1 709 660	105.0%	591 288	562 063	105.2%
Supply	690 978	400 133	172.7%	145 582	110 560	131.7%
Other	114 612	102 268	112.1%	37 977	36 232	104.8%
Unassigned items and exclusions	(67 713)	(61 986)	-	(34 597)	(37 242)	-
Total EBITDA	2 877 185	2 460 526	116.9%	783 205	797 351	98.2%

The below figure presents TAURON Capital Group's EBITDA structure in the first three quarters of 2016 and the first three quarters of 2017.

Figure no. 7. TAURON Capital Group's EBITDA structure



The Distribution segment as well as the Supply and Generation segments make the biggest contributions to TAURON Capital Group's EBITDA.

4.4.2.1 Mining segment

The below table presents the Mining segment's results.

Table no. 11. Mining segment's results

Item (PLN '000)	Q1-3 2017	Q1-3 2016	% change 2017/2016	Q3 2017	Q3 2016	% change 2017/2016
Mining						
Sales revenue	1 118 467	887 524	126.0%	336 783	375 392	89.7%
<i>coal – large and medium size lump</i>						
<i>coal</i>	362 830	231 660	156.6%	118 249	102 732	115.1%
<i>thermal coal</i>	714 154	618 491	115.5%	203 285	256 067	79.4%
<i>other products, materials and services</i>	41 483	37 373	111.0%	15 249	16 593	91.9%
EBIT	(135 236)	(228 703)	-	(69 420)	1 833	-
Depreciation and write-offs	93 552	92 045	101.6%	32 452	30 757	105.5%
EBITDA	(41 684)	(136 658)	-	(36 968)	32 590	-

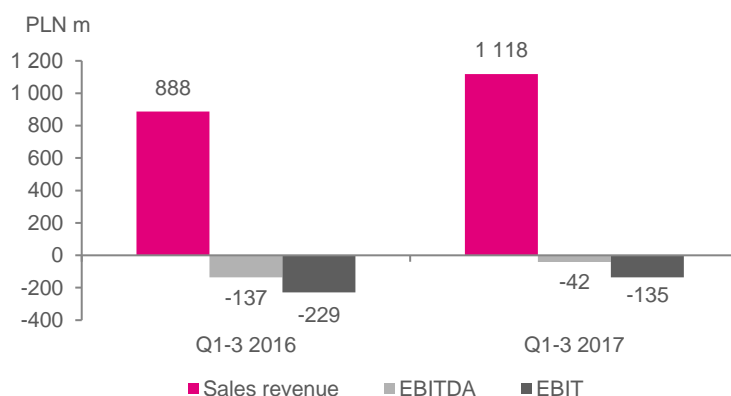
Mining segment's EBITDA and EBIT were better in the first three quarters of 2017 than in the same period of 2016. The results posted were affected by the following factors:

- 1) on average 22% higher sales volume of each coal product,
- 2) 5% higher average price of coal products sold,
- 3) lower commercial coal's unit production cost as a result of an 11 % higher production with a higher coal extraction and production cost due to the higher costs of mining services,

4) selling in the first three quarters of 2017 of a substantial part of coal inventory which led to recognizing the value of inventory as own cost in this period. The surplus of sales over production in the reported period reached 376 thousand Mg. In the same period of 2016 the situation was reverse and some unsold production (60 thousand Mg) was allocated as the Company's inventory and sold in the subsequent periods.

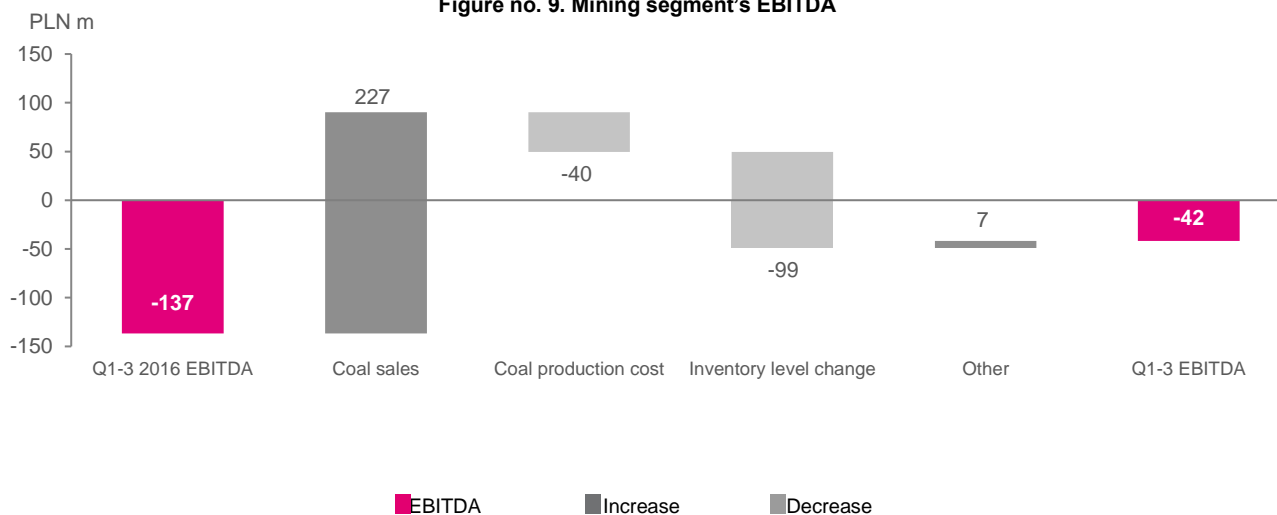
The below figure presents the Mining segment's Q1-3 2017 financial data versus Q1-3 2016.

Figure no. 8. Mining segment's Q1-3 2016 and Q1-3 2017 financial data



The below figure presents the Mining segment's EBITDA including the significant factors impacting the change year on year.

Figure no. 9. Mining segment's EBITDA



4.4.2.2 Generation segment

The below table presents the Generation segment's results.

Table no. 12. Generation segment's results

Item (PLN '000)	Q1-3 2017	Q1-3 2016	% change 2017/2016	Q3 2017	Q3 2016	% change 2017/2016
Generation						
Sales revenue	3 324 832	3 243 691	102.5%	1 042 661	901 057	115.7%
<i>electricity</i>	2 593 215	2 323 340	111.6%	901 272	739 254	121.9%
<i>heat (incl. heat transmission)</i>	601 992	572 150	105.2%	113 047	111 257	101.6%
<i>property rights related to certificates of electricity origin</i>	88 751	306 270	29.0%	20 062	36 646	54.7%
<i>other</i>	40 874	41 931	97.5%	8 280	13 900	59.6%
EBIT	44 184	(569 841)	-	(36 258)	(11 530)	-
Depreciation and write-offs	342 210	1 016 950	33.7%	116 181	104 678	111.0%
EBITDA	386 394	447 109	86.4%	79 923	93 148	85.8%

In the first three quarters of 2017 the Generation segment's sales revenue was 3% higher as compared to the same period of last year due to higher revenue from electricity and heat sales. Lower revenue from the sales of property rights related to the certificates of electricity origin are due to lower PMOZE sales volume and lower price.

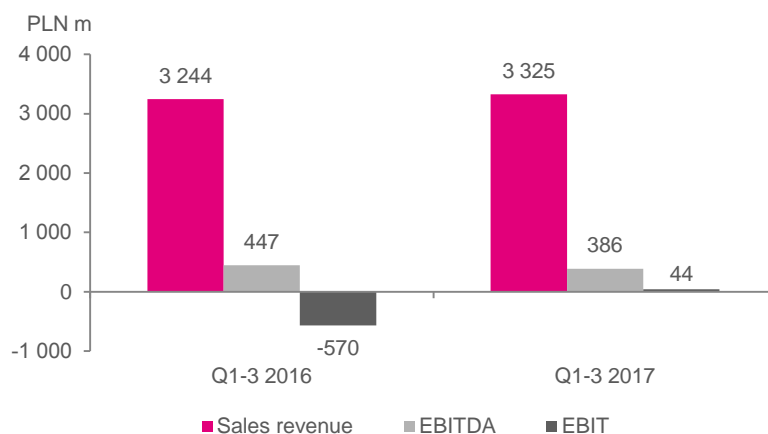
Generation segment's EBITDA was 14% lower in the first three quarters of 2017 than in the same period of 2016.

The results posted were affected by the following factors:

- 1) lower margin on electricity – primarily due to lower electricity sales price year on year,
- 2) lower price and volume of property rights from RES – due to PMOZE oversupply on the market and the decrease of the biomass-fired units' production,
- 3) higher margin on heat – higher heat and transmission services volume (due to the lower outside temperature during the heating season (I-IV 2016: 3.9°C, I-IV 2017: 2.3°C) and the higher rate for the transmission services,
- 4) similar costs of the CO₂ reserve year on year – which is the result of: a larger number of free allowances, higher CO₂ emission volume (due to the higher electricity and heat production) and lower CO₂ forward contract prices year on year,
- 5) other – mainly higher real estate tax on wind farms, higher Voluntary Redundancy Program costs, higher costs of electrical damages.

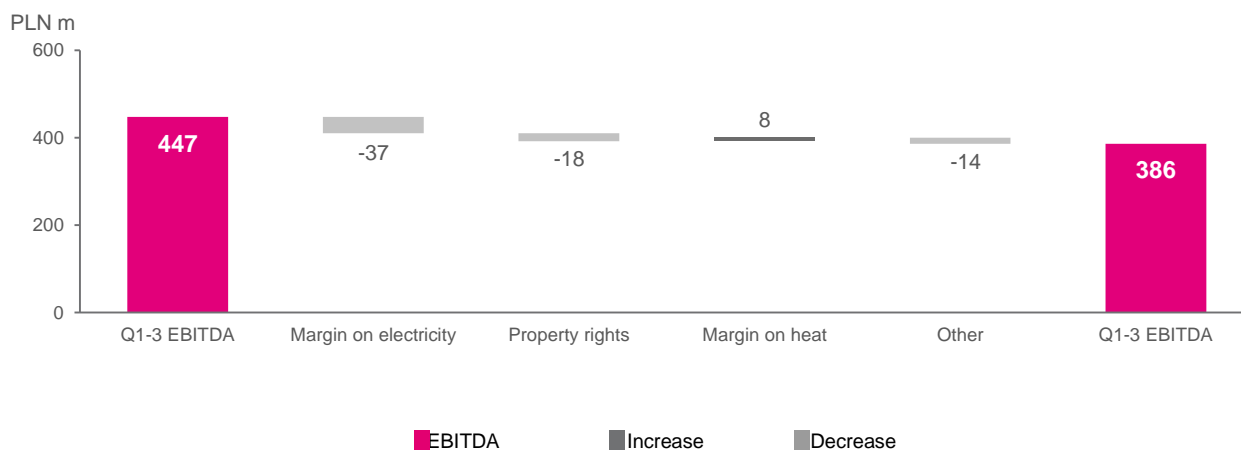
The below figure presents the Generation segment's Q1-3 2017 financial data versus Q1-3 2016.

Figure no. 10. Generation segment's Q1-3 2016 and Q1-3 2017 financial data



The below figure presents the Generation segment's EBITDA including the significant factors impacting the change year on year.

Figure no. 11. Generation segment's EBITDA



4.4.2.3 Distribution segment

The below table presents the Distribution segment's results.

Table no. 13. Distribution segment's results

Item (PLN '000)	Q1-3 2017	Q1-3 2016	% change 2017/2016	Q3 2017	Q3 2016	% change 2017/2016
Distribution						
Sales revenue	4 986 910	4 676 098	106.6%	1 618 916	1 531 592	105.7%
<i>distribution services</i>	4 694 558	4 393 587	106.9%	1 525 868	1 436 177	106.2%
<i>connection fees</i>	88 313	68 863	128.2%	25 349	21 831	116.1%
<i>street lighting maintenance</i>	85 044	86 589	98.2%	30 935	29 826	103.7%
<i>other services</i>	118 995	127 058	93.7%	36 764	43 757	84.0%

TAURON Polska Energia Capital Group
Additional information to the extended and consolidated Q3 2017 report

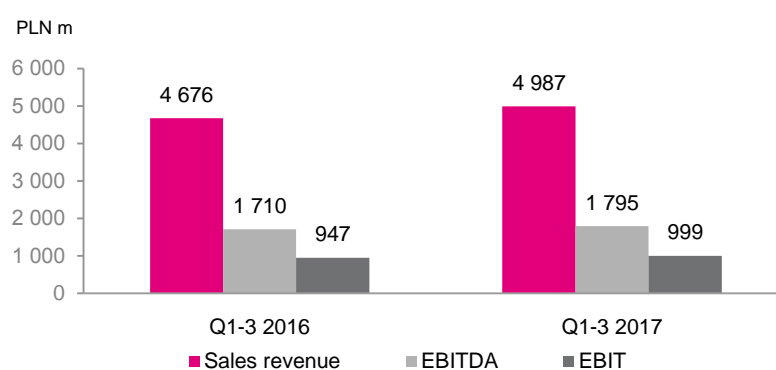
Item (PLN '000)	Q1-3 2017	Q1-3 2016	% change 2017/2016	Q3 2017	Q3 2016	% change 2017/2016
EBIT	998 769	946 514	105.5%	321 449	302 990	106.1%
Depreciation and write-offs	795 829	763 146	104.3%	269 839	259 073	104.2%
EBITDA	1 794 598	1 709 660	105.0%	591 288	562 063	105.2%

In the first three quarters of 2017 the Distribution segment's sales revenue was approx. 7% higher as compared to the same period of 2016, while EBIT and EBITDA rose approx. 6% and 5%, respectively. The results posted were affected by the following factors:

- 1) increase of the average rate for the distribution service sales to the final consumers in each tariff group,
- 2) increase of supplies to industrial consumers as a result of the GDP growth, increased manufacturing output and reduction of own generation (mainly among the A and B group consumers),
- 3) increase of electricity volume supplied to households as a result of the rising demand for electricity for heating purposes and the growing increase of the number of consumers in this segment
- 4) increase of revenue from connection fees as a result of earlier than assumed completion of some investment projects,
- 5) increase of charges for exceeding the contractual consumption of passive energy,
- 6) lower price of balancing energy losses as a result of a change of the structure of distribution, mainly an increase of the high and medium voltage distribution and an increase of energy delivered to the grid by local generation sources,
- 7) increase of the costs of purchasing transmission services as a result of a higher quality fee, higher transition fee rate and the RES fee introduced in Q3 2017,
- 8) increase of the labor costs as a result of the payout of the participation bonus due to the signing of the agreement with the workforce,
- 9) increase of the costs of tax on grid assets due to an increase of the assets' value as a consequence of the investment projects conducted.

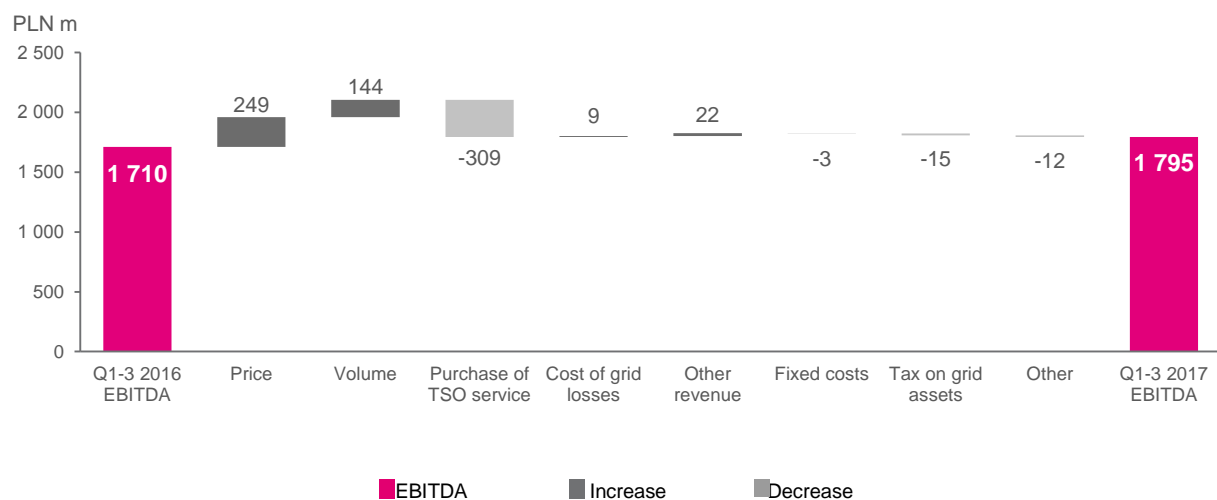
The below figure presents the Distribution segment's Q1-3 2017 financial data versus Q1-3 2016.

Figure no. 12. Distribution segment's Q1-3 2016 and Q1-3 2017 financial data



The below figure presents the Distribution segment's EBITDA including the significant factors impacting the change year on year.

Figure no. 13. Distribution segment's EBITDA



4.4.2.4 Supply segment

The below table presents the Supply segment's results.

Table no. 14. Supply segment's results

Item (PLN '000)	Q1-3 2017	Q1-3 2016	% change 2017/2016	Q3 2017	Q3 2016	% change 2017/2016
Supply						
Sales revenue	9 807 209	10 154 828	96.6%	3 130 213	3 269 473	95.7%
<i>electricity, including:</i>	6 391 553	6 439 491	99.3%	2 087 019	2 097 533	99.5%
<i>electricity retail sales revenue</i>	5 541 550	5 188 166	106.8%	1 799 249	1 701 073	105.8%
<i>fuel</i>	837 436	1 164 270	71.9%	215 448	406 577	53.0%
<i>distribution service (transferred)</i>	2 531 511	2 354 821	107.5%	810 106	759 273	106.7%
<i>other services, incl. commercial services</i>	46 710	196 247	24%	17 641	6 090	289.7%
EBIT	683 919	391 825	174.5%	143 502	108 166	132.7%
Depreciation and write-offs	7 059	8 308	85.0%	2 080	2 394	86.9%
EBITDA	690 978	400 133	172.7%	145 582	110 560	131.7%

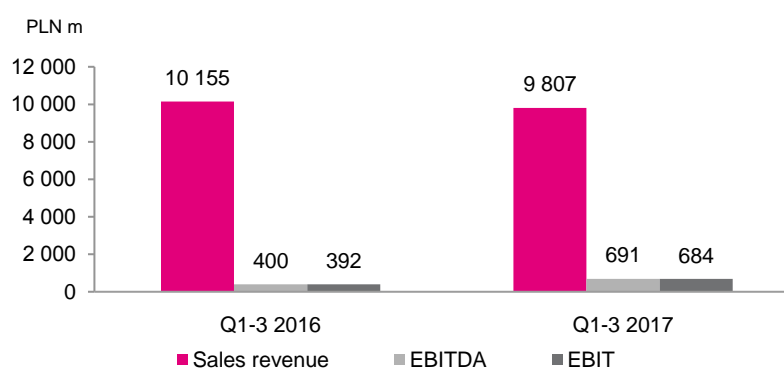
In the first three quarters of 2017 the Supply segment's sales revenue was 3% lower as compared to the same period of last year, mainly due to the lower electricity wholesale revenue (lower sales volume) along with an increase of electricity retail sales revenue (+7%). Also, the fuel sales revenue was lower (as a result of a change of the coal supply model). Lower revenue from the sales of other products and services was due to the change of the way the results on trading emission allowances and commodity related derivative financial instruments were presented.

Supply segment's EBITDA and EBIT were better in the first three quarters of 2017 than in the same period of 2016 which was primarily due to the dissolving of the ECSW provision in H1 2017 and the termination of the long term PMOZE contracts. The results posted were affected by the following factors:

- 1) electricity price and volume – a negative impact on the result is due to the lower electricity sales price as a result of the decline of sales prices to business customers as a result of the low PMOZE market prices, customers migrating from the tariff to the product offering and a 5% reduction of the G tariff year on year at TAURON Sprzedaż. The price was also affected by the high share of the exchange product sales where the sales price is dependent on the conventional electricity prices,
- 2) property rights' prices – a positive impact on the result due to taking advantage of the favorable market situation, mainly with respect to the "green" certificates (purchase of PMOZE to meet the redemption obligation at lower prices) and at the same time a change to the regulations with respect to calculating the property rights related to energy efficiency,
- 3) obligation to redeem property rights – a negative impact on the result as a consequence of an increase of the obligation for the "green" certificates from 15.0% to 15.4%, and since July this year a change to 14.35%, along with the simultaneous introduction of the obligation for PMOZE-BIO (the so-called "blue" property rights) at 0.65%; for the "violet" certificates from 1.5% to 1.8%, for the "yellow" certificates from 6.0% to 7.0% and maintaining of the obligation to redeem certificates from co-generation for the "red" certificates at 23.2%,
- 4) dissolving of the provision related to the agreements that gave rise to charges stemming from the joint venture (ECSW) led to improving the Supply segment's financial result by PLN 203 mln as a consequence of the Agreement between TAURON and PGNiG with respect to the gas and electricity agreements and amendments to the multi-year gas and electricity agreements related to the CCGT unit's construction project at Stalowa Wola coming into force,
- 5) other energy market products - margins achieved on the other energy market products, mainly the decline of the margin on gas,
- 6) other – the result on the other operating activities and lower costs of marketing and sales campaigns.

The below figure presents the Supply segment's Q1-3 2017 financial data versus Q1-3 2016.

Figure no. 14. Supply segment's Q1-3 2016 and Q1-3 2017 financial data



The below figure presents the Supply segment's EBITDA including the significant factors impacting the change year on year.

Figure no. 15. Supply segment's EBITDA



4.4.2.5 Other operations

The below table presents the results of the subsidiaries assigned to the Other operations.

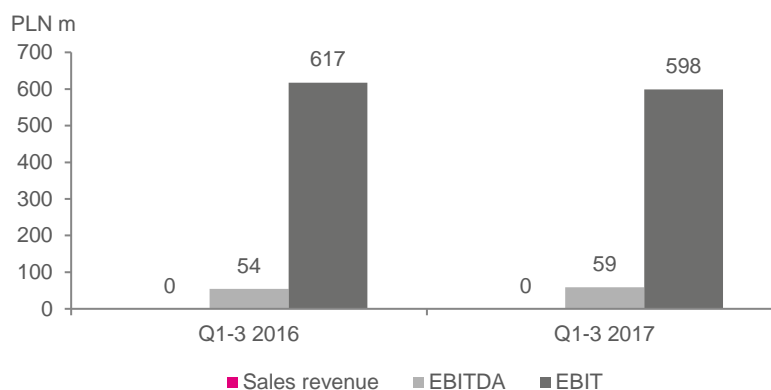
Table no. 15. Other operations subsidiaries' results

Item (PLN '000)	Q1-3 2017	Q1-3 2016	% change 2017/2016	Q3 2017	Q3 2016	% change 2017/2016
Other						
Sales revenue	598 362	616 896	97.0%	205 774	188 053	109.4%
<i>customer service, accounting and IT services</i>	408 403	426 426	95.8%	136 089	143 709	94.7%
<i>electricity and property rights arising from certificates of electricity origin</i>	9 472	8 307	114.0%	2 523	2 009	125.6%
<i>biomass</i>	59 822	100 188	59.7%	22 589	15 123	149.4%
<i>aggregates</i>	74 359	67 694	109.8%	27 163	23 828	114.0%
<i>other revenue</i>	46 306	14 281	324.2%	17 410	3 384	514.5%
EBIT	55 817	48 146	115.9%	17 870	18 324	97.5%
Depreciation and write-offs	58 795	54 122	108.6%	20 107	17 908	112.3%
EBITDA	114 612	102 268	112.1%	37 977	36 232	104.8%

Other operations' subsidiaries' Q1-3 2017 sales revenue was approx. 3% lower than in the same period of last year which was primarily due to the lower biomass volume sales at a lower price as a result of the substantial demand decline and lower revenue from the Shared Services Centre's sales to TAURON Group' subsidiaries. This decline was to a large degree offset by the rising revenue from the aggregates sales as a result of a change of the structure of sales and the increased other revenue, mainly due to real estate administration and technical maintenance of vehicles.

The below figure presents the Other segment's Q1-3 2017 financial data versus Q1-3 2016.

Figure no. 16. Other segment's Q1-3 2017 and Q1-3 2016 financial data



4.4.3 Assets

The below table presents the consolidated statements of financial position as of September 30, 2017, as compared to December 31, 2016.

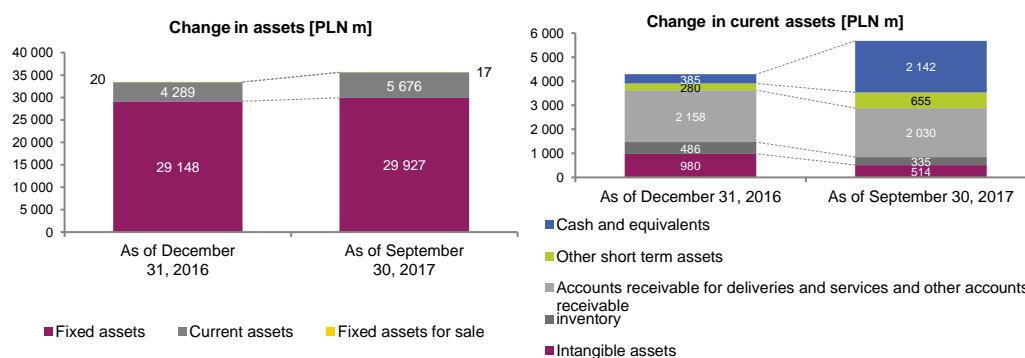
Table no. 16. Interim abbreviated consolidated statements of financial position – assets (material items)

Statements of financial position (PLN '000)	As of September 30, 2017	As of December 31, 2016	% change (2017 / 2016)
ASSETS			
Fixed assets	29 927 056	29 148 253	102.7%
Tangible fixed assets	27 287 025	26 355 189	103.5%
Current assets	5 692 852	4 308 641	132.1%
Cash and equivalents	2 141 776	384 881	556.5%
Fixed assets and the group's assets for disposal, classified as held for trade	17 262	19 612	88.0%
TOTAL ASSETS	35 619 908	33 456 894	106.5%

As of September 30, 2017, TAURON Capital Group's statement of financial position shows the balance sheet total that is 6.5% lower as compared to December 31, 2016.

The below figure presents the change in the assets and current assets as of September 30, 2017, as compared to December 31, 2016.

Figure no. 17. Change in assets and current assets



Fixed assets are the biggest item of assets at the end of September 2016, representing 84% of the balance sheet total. As compared to the end of last year the value of fixed assets is higher by PLN 779 million (2.7%) as a consequence of the changes in the below analytical fixed assets' items due to the following factors:

- 1) tangible fixed assets – an increase by 3.5% is the result of investment projects implemented by TAURON Capital Group's subsidiaries and the write-down booked due to the loss on the Generation segment's generating units' carrying amount on the balance sheet,
- 2) certificates of origin and gas emission allowances to be redeemed – a decline by 65.7% due to the reclassifying of the certificates of electricity origin and CO2 emission allowances as current assets in order to fulfill the obligation related to the redemption of the above mentioned assets for 2016,
- 3) value of stocks and shares in joint ventures – an increase by 8.3% due to the change of the net value of the shares in investments in joint ventures,
- 4) other long-term non-financial assets - a decline by 17.2% due to the settlement of the advance payment related to the fixed assets under construction and the intangible assets related to the implementation of the construction of a 910 MW unit at the Jaworzno III Power Plant.

The following factors had an impact on the rise in the value of current assets by PLN 1 384 million (32.1%):

- 1) balance of cash on hand and equivalents – an increase by 456.5%. The reasons for the change are described in section 4.4.4 of this report related to the cash flow,
- 2) loans to joint ventures – an increase by 2 040,2%. In the first three quarters of 2017 TAURON granted a loan to ECSW to be used for the early repayment by the loan taker of the liabilities arising from the loan agreements concluded in order to finance the construction of the CCGT unit at Stalowa Wola,
- 3) intangible assets - a decline by 47.5% due to the settlement of the obligation related to the redemption of the certificates of origin and CO2 emission allowances for 2016 and an increase of their balance due to the production and purchasing of the property rights and CO2 emission allowances in order to fulfill the obligation for this year,
- 4) inventory – a drop by 31.2% as a result of the declining level of inventory, mainly of hard coal,
- 5) accounts receivable from consumers – a drop by 5.9% and accounts receivable due to taxes – a drop by 6.3%, mainly related to the VAT and the corporate income tax,
- 6) other financial assets – an increase by 152.3% - primarily the value of non-refundable supplementary deposits and refundable initial deposits related to the forward contracts on the futures market and the reclassifying of the value of shares in Elektrownia Blachownia Nowa sp. z o.o in liquidation,
- 7) other non-financial assets - a decline by 29.7% due to the settlement of the advance payments related to the supplies and setting up a contribution towards Zakładowy Fundusz Świadczeń Socjalnych (Company Social Benefits Fund).

The below table presents interim consolidated statements of financial position - liabilities.

Table no. 17. Interim consolidated statements of financial position - liabilities (material items)

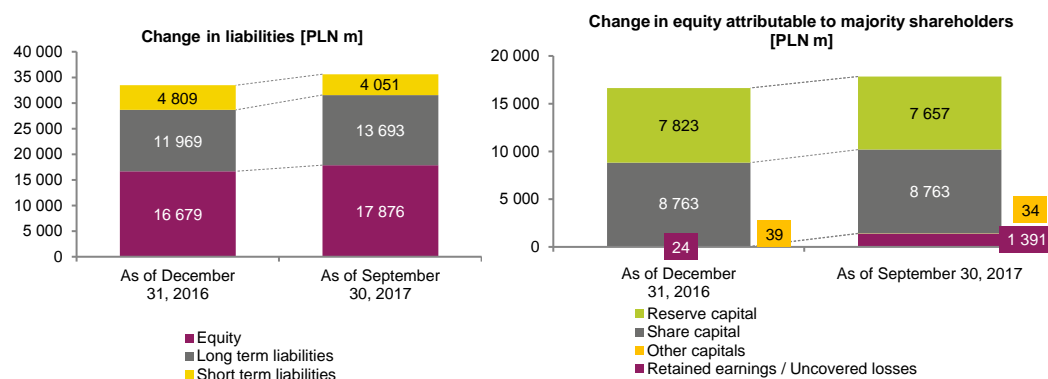
Statements of financial position (PLN '000)	As of September 30, 2017	As of December 31, 2016	% change (2017 / 2016)
LIABILITIES			
Equity attributable to shareholders of the parent entity	17 844 827	16 649 266	107.2%
Non-controlling shares	31 315	30 052	104.2%
Total equity	17 876 142	16 679 318	107.2%
Long-term liabilities	13 692 920	11 968 719	114.4%
Liabilities due to debt	10 641 045	8 759 789	121.5%
Short-term liabilities	4 050 846	4 808 857	84.2%

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Statements of financial position (PLN '000)	As of September 30, 2017	As of December 31, 2016	% change (2017 / 2016)
Liabilities due to debt	330 216	219 740	150.3%
Total liabilities	17 743 766	16 777 576	105.8%
TOTAL LIABILITIES	35 619 908	33 456 894	106.5%

The below figure presents a change in the liabilities and equity as of September 30, 2017 and December 31, 2016.

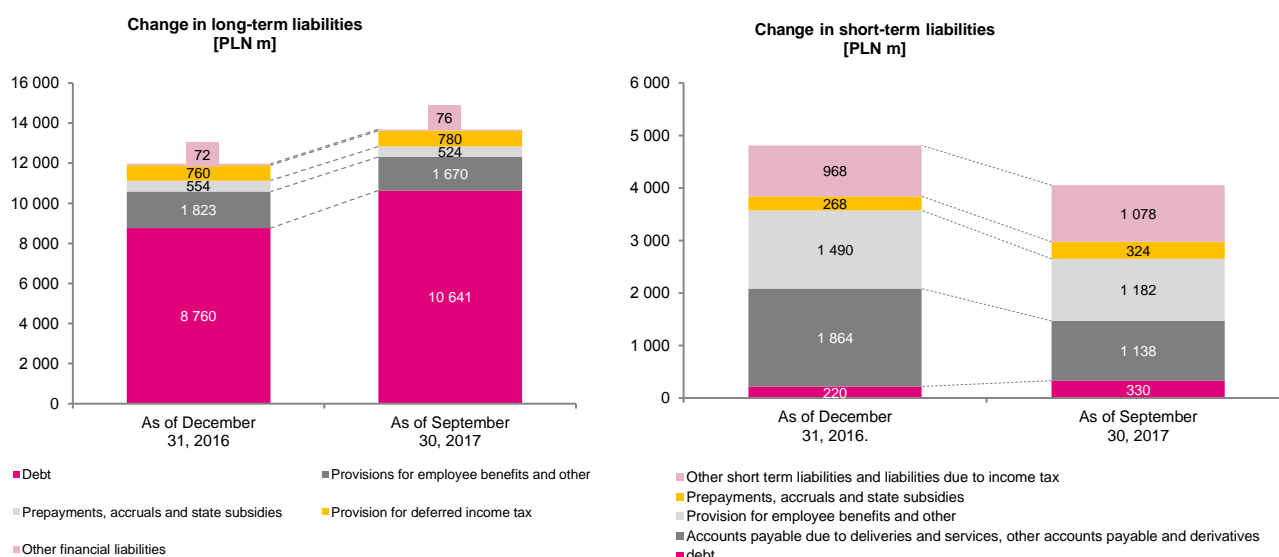
Figure no. 18. Change in liabilities and equity



Similar to previous years equity is still the dominating source of financing assets and its share in the balance sheet total increased to 50.2%.

The below figure presents a change in the liabilities as of September 30, 2017 and December 31, 2016.

Figure no. 19. Change in liabilities



The value of TAURON Capital Group's long-term liabilities in Q1-3 2017 rose by PLN 1 724 mln (14%) due to the following factors:

- 1) liabilities due to debt – an increase by 21% primarily due to an issue of eurobonds on July 5, 2017 of the total nominal value of EUR 500 mln and issue price at 99.438% of the nominal value and the maturity of 10 years.
- 2) dissolving of the provision for the costs related to the electricity sale agreement and of the provision to cover potential losses in conjunction with the enforcement of the "take or pay" contractual clause is related to the fulfilment of the suspending conditions stemming from the conditional agreement signed on October 27, 2016 on agreeing the basic boundary conditions of the "Construction of the CCGT unit in Stalowa Wola" project's restructuring.

The value of TAURON Capital Group's short-term liabilities fell by 16% due to the following factors:

- 1) liabilities due to debt – an increase by 50% primarily as a result of updating the value of the liability due to debt because of interest accrual,
- 2) liabilities towards suppliers – a drop by 3% and investment related liabilities – a drop by 68%,
- 3) provisions related to the liabilities due to the certificates of electricity origin and gas emissions – a decline by 25% which is the result of having used up the provision set up in 2016 towards the fulfillment of the obligation to submit the certificates of electricity origin for redemption, pursuant to the provisions of the *Act of April 10, 1997, the Energy Law*, and the CO2 emission allowances and setting up the provision towards the fulfillment of the obligations for the first three quarters of 2017,
- 4) prepayments, accruals and state subsidies – an increase by 21%, primarily as a result of setting up a provision for the payout of a bonus in accordance with the regulations in force at TAURON Group and higher fees due to environment protection,
- 5) liabilities due to taxes and fees – an increase by 14% as a result of the higher liability due to the corporate income tax and the VAT and lower liabilities due to the personal income tax and social security,
- 6) financial liabilities – an increase by 14% primarily as a result of higher liabilities mainly due to margin deposits and derivatives as well as lower liabilities mainly due to wages and withholdings on wages,
- 7) other non-financial liabilities - an increase by approx. 5% as a result of higher liabilities due to TAURON Capital Group's customers' overpayments.

4.4.4 Cash flows

Consolidated cash flow statement

The below table presents the interim abbreviated statement of cash flows for the first 9 months of 2017 as compared to the same period of 2016.

Table no. 18. Interim abbreviated statement of cash flows (PLN '000)

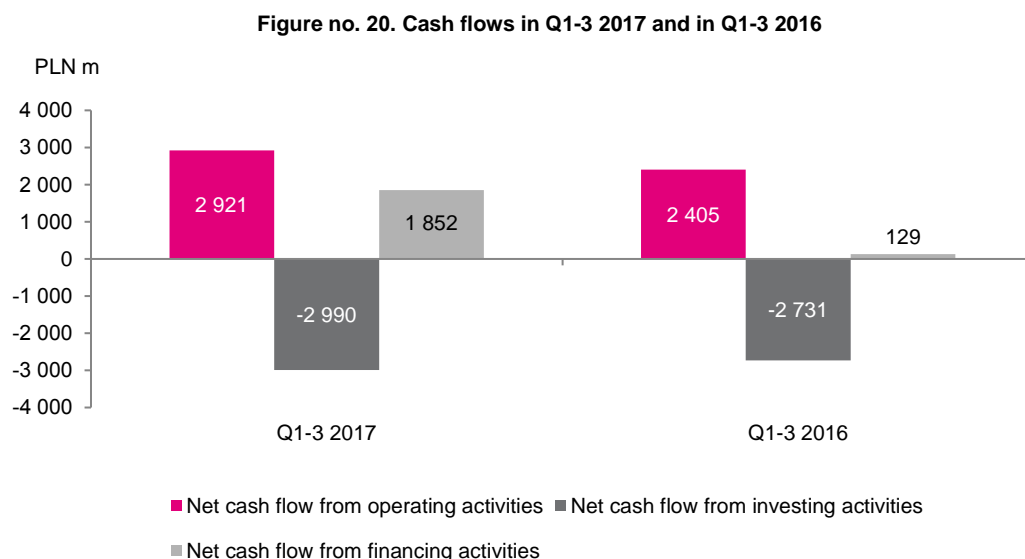
Statement of cash flows (PLN '000)	Q1-3 2017	Q1-3 2016	% change 2017/2016
Cash flows from operating activities			
Gross profit / (loss)	1 481 655	369 786	400.7%
Adjustments	1 439 836	2 035 568	70.7%
Net cash from operating activities	2 921 491	2 405 354	121.5%
Cash flows from investing activities			
Sale of tangible fixed assets and intangible assets	27 669	23 836	116.1%
Purchase of tangible fixed assets and intangible assets	(2 709 422)	(2 629 223)	103.1%

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Statement of cash flows (PLN '000)	Q1-3 2017	Q1-3 2016	% change 2017/2016
Return of public aid	0	(131 077)	-
Net cash from investing activities	(2 990 224)	(2 730 803)	109.5%
Cash flows from financing activities			
Issuance of debt securities	2 707 462	2 860 000	94.7%
Redemption of debt securities	(700 000)	(2 550 000)	27.5%
Repayment of loans/credits	(81 959)	(66 959)	122.4%
Interest paid	(52 810)	(114 419)	46.2%
Net cash from financing activities	1 851 827	129 191	1 433.4%
Increase/(decrease) in net cash and equivalents	1 783 094	(196 258)	-
Cash opening balance	354 733	327 715	108.2%
Cash closing balance	2 137 827	131 457	1 626.3%

The total amount of all net cash flows from operating, investing and financing activities in the first three quarters of 2017 reached PLN 1 783.1 mln.

The below figure presents cash flows in the first three quarters of 2017 and of 2016.



Cash flows from operating activities in the reporting period were higher by approximately 21.5% than the cash flows generated in the same period of last year. The following factors had the biggest impact on the change in this item of the statement of cash flows:

- 1) inventory level reduction due to higher coal sales which is related to an increase of demand for coal + PLN 143 mln,
- 2) payment of income tax lower by PLN 195 mln which is due to the advance payments on account of the 2017 income tax made by the Tax Capital Group in the amount of PLN 157 mln in the first three quarters of 2017, while in the same period of 2016 the Group made advance payments on account of the income tax in the amount of PLN 185 mln and paid the income tax for 2015 in the amount of PLN 89 mln. Additionally, in the reporting period the Group received a refund of the overpaid 2016 income tax in the amount of PLN 79 mln,
- 3) positive change to the accounts receivable and accounts payable balance in the amount of PLN 201 mln,

- 4) incurring a lower expenditure in the total amount of PLN 34 mln for the purchase of certificates of origin and paying a lower substitution fee in the 2017 reporting period than in the same period of 2016.

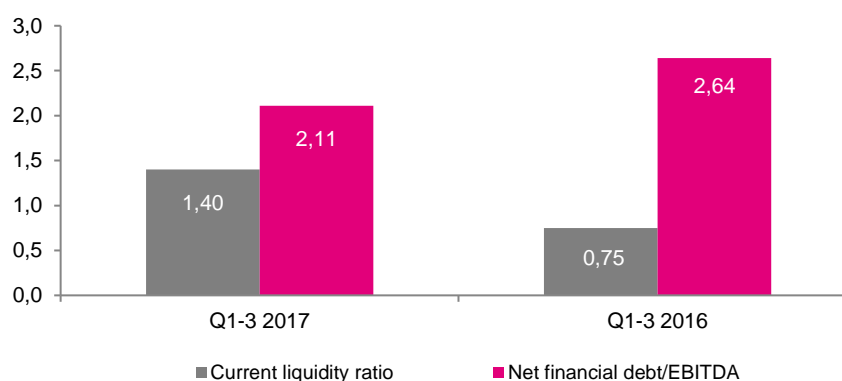
Expenditures for the purchase of tangible fixed assets have the biggest impact on the cash flows related to investing activities and they were higher by 3% in the reporting period than the expenditures incurred in the same period of 2016. In the current period the highest expenditures were incurred by the Generation and Distribution segments.

The positive cash balance related to financing activities is due to the issue of bonds with the nominal value of PLN 600 million, issue of eurobonds with the nominal value of EUR 500 million and the redemption of bonds with the nominal value of PLN 300 million carried out in the 2017 reporting period. Furthermore, TAURON Capital Group repaid loans and credits in the amount that was higher by PLN 15 mln than in the same period of 2016 and paid PLN 62 mln less in interest.

TAURON Capital Group continues its expansion process and keeps strengthening its market position. It should be noted that the value of operating cash flows is positive and therefore it allows TAURON Capital Group to finance its ongoing operations on its own, while investment projects carried out by TAURON Capital Group's subsidiaries are financed using the funds acquired from external sources. The current liquidity ratio and the net debt to EBITDA ratio continue to be at a safe level.

The below figure presents the liquidity and net debt to EBITDA ratios in the first three quarters of 2017 and of 2016.

Figure no. 21. Liquidity and debt ratios



TAURON Capital Group is effectively managing its financial liquidity using a central financing model put in place and the central financial risk management policy. The cash pooling mechanism is used in order to minimize potential cash flow disruptions and the risk of liquidity loss. TAURON Capital Group is currently using various sources of funding, such as, for example, overdrafts, bank loans, loans from environmental funds, bond issues, financial lease agreements and lease agreements with a purchase option.

4.5 Factors and events, including those of unusual nature, significantly affecting the abbreviated financial statements

In the third quarter of 2017 no factors or events of unusual nature occurred that would significantly affect the financial results achieved.

4.6 Factors that according to the Issuer may impact its earnings over at least the next quarter

External factors

As in the past the following external factors will primarily impact the results from TAURON Capital Group's operations:

- 1) macroeconomic situation, especially in Poland, as well as the economic situation of the area where TAURON Capital Group conducts its operations and at the European Union and global economy level, including changes of interest rates, FX rates, etc., impacting the valuation of assets and liabilities recognized by the Company in the financial statements,
- 2) political environment, especially in Poland as well as in the European Union, including positions and decisions taken by public administration institutions and authorities, for example: Office for Competition and Consumer Protection (UOKiK), Energy Regulatory Office (ERO) and the European Commission,
- 3) changes to the regulations related to the energy sector as well as changes to the legal environment, including: tax law, commercial law, environmental protection law,
- 4) planned introduction of the generation capacity remuneration mechanism (the so-called capacity market) and the decisions on the future shape of the operational capacity reserve (OCR) and the cold intervention reserve mechanisms,
- 5) support system for electricity generation by high efficiency co-generation plants, leading, on one hand, to the costs of redeeming the "red" and "yellow" certificates for electricity suppliers to the final consumers, and, on the other hand, to the revenue from the sales of the "red" and "yellow" certificates for electricity generators using co-generation plants,
- 6) new RES support system, the so-called RES auctions,
- 7) situation in the power sector, including the operations and measures undertaken by competition on the power market,
- 8) number of CO₂ emission allowances allocated free of charge, as well as prices of emission allowances purchased – in case of a deficit of free emission allowances,
- 9) electricity prices on the wholesale market,
- 10) electricity and hard coal sales prices as well as distribution tariffs due to the DSO regulatory model adopted, as factors impacting the level of revenues,
- 11) prices of certificates of origin of energy from renewable sources and co-generation,
- 12) energy related commodity prices,
- 13) environment protection requirements,
- 14) science (research) and technical progress,
- 15) demand for electricity and other energy market products, including changes due to seasonal factors and weather conditions.

Internal factors

The following internal factors impacting the results from TAURON Capital Group's operations are most significant:

- 1) actions with respect to optimizing processes taken by all of TAURON Capital Group's subsidiaries,
- 2) implementation of the Efficiency Improvement Program aimed at reducing TAURON Capital Group's operating expenses in 2016-2018, including the consolidation and restructuring projects, the Voluntary Redundancy Programs for the workforce,
- 3) steadfast implementation of the Strategy and achieving the assumed financial and non-financial effects,
- 4) decisions with respect to the implementation of key investment projects, in particular with respect to construction of new generation capacity and refurbishing the existing generation capacity, construction of new connections and upgrading (refurbishing) the existing distribution grids, district heating networks, construction of underground headings,

- 5) marketing activities with respect to acquiring new customers and loyalty building measures aimed at retaining the existing customers,
- 6) centralizing TAURON Capital Group's financial management, with the support of such tools as: central model of financing, financial liquidity management policy using the cash pooling mechanism, risk management policy in the financial area, insurance policy,
- 7) ability to obtain debt financing on international markets,
- 8) Tax Capital Group's operations, primarily aimed at optimizing the fulfilment of the obligations associated with the payment of the corporate income tax by TAURON Capital Group's key subsidiaries,
- 9) TAURON's procurement management, in particular management of fuel purchases for the needs of TAURON Capital Group's generation entities,
- 10) geological and mining conditions of hard coal extraction,
- 11) potential failures of TAURON Capital Group's equipment, installations and grids.

TAURON Capital Group's operations are characterized by seasonality which is applicable, in particular, to heat production, distribution and supply, electricity distribution and supply to individual consumers and hard coal sales to individual consumers for heating purposes. Heat sales depend on weather conditions, in particular on air temperature, and are higher in the autumn and winter season. Volume of electricity supply to individual consumers depends on the length of day which usually makes electricity supply to this group of consumers lower in the spring and summer season and higher in the autumn and winter season.

Hard coal sales to individual consumers are higher in the autumn and winter season. The seasonality of TAURON Capital Group's other lines of business is low.

The impact of the above mentioned factors on the financial result achieved in the first three quarters of 2017 is described in section 4 of this report. The effects of this impact are visible both in the short term perspective as well as in the long term outlook.

4.7 Management Board's position on the ability to meet forecasts of results for the given year

TAURON Capital Group did not publish any forecasts of 2017 financial results. TAURON Capital Group's financial standing is stable and no negative events which could pose any threat to the continuity of its business operations or cause a significant deterioration of its financial standing occurred.

The detailed description of the financial position understood as ensuring the provision of funds for both the operating as well as the investing activities is provided in section 4 of this document.

5. Other information and events that occurred in Q3 2017

5.1 Significant achievements or failures of the Issuer which occurred in Q3 2017

Change to the Articles of Association of TAURON Polska Energia S.A.

On May 29, 2017, the Ordinary GM of the Company adopted the resolutions on the amendments to the Company's Articles of Association.

As part of the passed amendments to the Company's Articles of Association the majority of the provisions of the Act of December 16, 2016 on the state assets management principles were implemented directly in the Company's Articles of Association. Also the competences of the Supervisory Board were extended and it shall express its consent for the conclusion of agreements on legal, marketing services, public relations and social communications services as well as consulting services related to management if the envisaged total net remuneration for the services provided exceeds PLN 500 000, on annualized basis, and with respect to donations granted or other agreements of similar effect with the value exceeding PLN 20 000 or 0.1 % of the

total assets, determined based on the last approved financial statements and relieving of debt exceeding PLN 50 000 or 0,1 % of the total assets. Furthermore, the competences of the Supervisory Board were extended by including: tasks related to determining the manner of exercising the voting rights at TAURON Capital Group's subsidiaries' GMs on issues regarding setting up companies, amending the Articles of Association or the Agreement, transformations or liquidations, raising or reducing share capital, divesting and leasing out the company's enterprises or its organized part and establishing a limited property right thereupon, redeeming shares, setting the remuneration of members of management boards or supervisory boards, claims for redressing damage inflicted upon formation of the company or exercising management or supervision, with respect to issues mentioned in art. 17 of the Act of December 16, 2016 on the state assets management principles. Also, the principles of divesting fixed asset components were defined and procedures for selecting members of the management board following the qualification proceeding by the Supervisory Board the goal of which will be to verify and evaluate the candidates' qualifications were introduced, as well as the requirements for candidates for members of management authorities were defined.

On July 12, 2017, the District Court for Katowice-Wschód (Katowice-East), the 8th Commercial Department of the National Court Register, entered into the Register of Entrepreneurs of the National Court Register the amendments to the Company's Articles of Association, adopted by the Ordinary GM of the Company by way of resolutions no. 39-45 of May 29, 2017 on amendments to the Company's Articles of Association.

On July 17, 2017, the Supervisory Board of TAURON, acting pursuant to § 20, clause 1, section 13 of the Company's Articles of Association, adopted a consolidated text of the Articles of Association of TAURON that includes the amendments to the Articles of Association entered into the National Court Register by the District Court for Katowice-Wschód (East) in Katowice, the 8th Commercial Division.

The information on the above events was disclosed in the regulatory filings (current reports): no. 24/2017 of May 29, 2017, 33/2017 of July 12, 2017 and 34/2017 of July 17, 2017.

Eurobond issue by TAURON

On June 14, 2017 TAURON, in agreement with a consortium of investment banks, commenced activities aimed at conducting a eurobond issue of a nominal value not higher than EUR 500 mln that included, in particular, conducting meetings with investors in Europe. Conducting of a eurobond issue was dependent on market conditions, and the issue size, the final issue price and the interest rate of the eurobonds were determined following the above mentioned meetings with investors. As a consequence, on June 28, 2017 the following parameters of the eurobonds were established:

- 1) total nominal value: EUR 500 mln,
- 2) maturity: 10 years,
- 3) interest periods: annual,
- 4) coupon: 2.375 % per annum,
- 5) yield as of issue date: 2.439% per annum (i.e. mid-swap + 1.63%),
- 6) issue price: 99.438% of the nominal value.

On July 5, 2017, the Company issued eurobonds with the above indicated parameters that were subsequently admitted to trading on the regulated market of the London Stock Exchange on July 10, 2017.

On the same day Fitch rating agency granted the "BBB" rating for unsecured and unsubordinated debt in the form of the Company's 10-year eurobonds with the total nominal value of EUR 500 mln. The rating reflects the Company's leading position in the regulated and stable distribution segment that generates a substantial part of TAURON Capital Group's EBITDA (72% in 2016). The full list of ratings includes:

- long term ratings in domestic and foreign currency affirmed as "BBB"; stable outlook,
- short term ratings in domestic and foreign currency affirmed as "F3",
- "BB+" rating for hybrid bond issue rating „BB+",
- domestic long term rating affirmed as "A+(pol)"; stable outlook,
- domestic rating for unsecured and unsubordinated debt affirmed as "A+(pol)",
- rating for unsecured and unsubordinated debt in a foreign currency at "BBB" for the eurobond issue.

The Company disclosed information on the above events in the following regulatory filings (current reports): no. 28/2017 of June 14, 2017, no. 30/2017 of June 28, 2017, no. 31/2017 of July 5, 2017 and no. 32/2017 of July 5, 2017.

Submission of the first lawsuit in connection with the termination of long-term contracts for the purchase of power and property rights

On July 20, 2017 TAURON received the lawsuit of June 29, 2017 of Gorzyca Wind Invest sp. z o.o. with its seat in Warsaw against TAURON for payment of damages in the amount of PLN 39.7 mln and determination of liability for damages that may arise in the future due to torts, including unfair competition acts, estimated by the plaintiff to be worth PLN 465.9 mln. The case is pending before the Regional Court in Katowice. The factual basis for the lawsuit, according to the plaintiff, is the termination by PEPKH - TAURON's subsidiary, of the long term contracts for the purchase of electricity and property rights arising from certificates of origin, and the total amount of the future damages suffered by all of Wind Invest's subsidiaries will reach, according to the plaintiff, PLN 1 212.9 mln. TAURON disclosed information on the termination of the above mentioned agreements in the regulatory filing (current report) no. 7/2015 of March 19, 2015.

The preliminary assessment of the justification for the claims contained in the lawsuit indicates that they are completely groundless.

The Company disclosed information on the above event in the regulatory filing (current report) no. 35/2017 of July 20, 2017.

Submission of the second lawsuit in connection with the termination of long-term contracts for the purchase of power and property rights

On August 2, 2017 a submission was made to TAURON's power of attorney appointed in the lawsuit conducted before the Regional Court in Cracow, file reference no. IX GC 983/14, filed by Dobiesław Wind Invest sp. z o.o. with its registered office in Warsaw against TAURON and its subsidiary, i.e. PEPKH (to prevent the imminent danger of damage to Dobiesław Wind Invest sp. z o.o., by obligating TAURON and PEPKH and to revoke the liquidation of PEPKH), of a pleading of Dobiesław Wind Invest sp. z o.o. containing a change to the lawsuit.

The plaintiff changed the lawsuit's claim in such a manner that it had withdrawn its original legal action against PEPKH, while it changed the legal action against TAURON from the claim to prevent the imminent danger of damage into the claim for the payment of compensation.

Dobiesław Wind Invest sp. z o.o. is demanding:

- 1) payment of PLN 34.7 mln including statutory interest accrued from the day the claim was filed until the payment date,
- 2) determination that TAURON is liable towards Dobiesław Wind Invest sp. z o.o. for damages that may arise in the future, estimated by the plaintiff at PLN 254 mln (and stemming from TAURON's alleged torts),
- 3) that injunctive relief be granted against TAURON for the amount of PLN 254 mln in case the court does not find TAURON liable for the damages that may arise in the future.

The factual basis for the lawsuit, according to the plaintiff, is the termination by TAURON's subsidiary: PEPKH with its registered office in Warsaw of the long-term contracts for the purchase of electricity and property rights arising from certificates of origin, as described by TAURON in the regulatory filing (current report) no. 7/2015 of March 19, 2015.

The preliminary assessment of the justification for the claims contained in the lawsuit indicates that they are completely groundless.

The Company disclosed information on the above event in the regulatory filing (current report) no. 37/2017 of August 3, 2017.

Submission of the third lawsuit in connection with the termination of long-term contracts for the purchase of power and property rights

On August 21, 2017 TAURON received the lawsuit of June 30, 2017 of Pękanino Wind Invest sp. z o. o. with its seat in Warsaw against the Issuer for payment of damages in the amount of PLN 28.5 mln and determination of liability for damages that may arise in the future due to torts, including unfair competition acts, estimated by the plaintiff to be worth PLN 201.6 mln.

The case is pending before the Regional Court in Katowice. The factual basis for the lawsuit, according to the plaintiff, is the termination by PEPKH – the Issuer’s subsidiary, of the long term contracts for the purchase of electricity and property rights arising from certificates of origin. The Issuer disclosed information on the termination of the above mentioned agreements in the regulatory filing (current report) no. 7/2015 of March 19, 2015.

The preliminary assessment of the justification for the claims contained in the lawsuit indicates that they are completely groundless.

The Company disclosed information on the above event in the regulatory filing (current report) no. 38/2017 of August 21, 2017.

5.2 Other events that occurred in Q3 2017

Conclusion of the agreement on a hybrid issue program

On September 6 TAURON and Bank Gospodarstwa Krajowego (BGK) concluded an agreement based on which a hybrid bond issue worth PLN 400 mln was set up. The program envisages an option to carry out the issue in several series until June 30, 2019.

The financing period is 12 years from the issue date, however the first 7 years are the so-called non-call period. BGK also made a commitment to hold the bonds on its balance sheet for 7 years.

The hybrid bond debt, due to its subordinate nature, will not be taken into account when calculating the net debt/EBITDA ratio. A feature of the hybrid financing is an option to classify a part thereof (typically 50%) as equity in the rating agencies’ financial models, which reduces the debt level and has a positive impact on the rating. By the day of publishing this quarterly report the Company did not conduct a bond issue under the above mentioned program, and the hybrid financing, due to its cost, is treated as an option in case of potential implementation of new investment projects and represents a financial security for the Group.

Revoking of the license for trading of natural gas abroad

As of September 30, 2017, the President of the Energy Regulatory Office (ERO-URE), by way of the decision no. DRG.DRG-1.4112.38.2017.KL, revoked the license of TAURON Polska Energia S.A. for trading of natural gas abroad.

The decision of the President of URE (ERO) was preceded by a motion submitted by TAURON on revoking this license. The revoking of the license involves obtaining an exemption from the need to maintain mandatory natural gas inventory (stock), beginning as of 1, 2017, in connection with the coming into force of the amendment to the law of February 16, 2007 on the inventory (stock) of oil products and natural gas.

At the same time, taking into account the nature of its operations related to supplying TAURON Group’s subsidiaries with gas and the active participation in wholesale trading, TAURON has an option to purchase gas on the domestic market under its license for trading gas fuels. Gas contracting is conducted directly on the Polish Power Exchange (Towarowa Giełda Energii S.A.), both by way of futures market contracts, as well as spot market transactions. Furthermore, the Company contracts gas purchases and sales on the OTC market, based on commercial agreements concluded. Therefore, it should be pointed out that purchasing of gas fuel for the wholesale trading purpose as well as the security of supply and securing of the gas needs of TAURON Group’s subsidiaries are not in jeopardy.

5.3 Market and regulatory environment

Market environment

Situation on the energy market

In the third quarter of 2017 energy consumption in the National Power System (KSE) amounted to 40 578 GWh and it was 2.6% higher as compared to the corresponding period of last year. Higher electricity consumption was a consequence of the strong GDP growth rate and increased use of air conditioning devices. Rising demand for electricity caused an almost 2.5% increase of electricity production by the domestic power plants that reached 39 624 GWh in the third quarter of 2017. Electricity imports were also 2.5% higher, reaching 953 GWh.

Lignite-fired power plants' electricity production decreased by 5.3% due to outages related to overhauls of generating units. While hard coal-fired power plants increased their production by 4.3% to 19 432 GWh. Gas-fired power plants produced 1 609 GWh (up 24.4%) in the third quarter of 2017 more, mainly due to the operation of the new PKN Orlen's unit in Włocławek.

Tests of the new centrally dispatched generating unit (CDGU-JWCD) at the Koźienice Power Plant (KOZ24-11) were commenced in September. The new unit, built by Enea Group in Koźienice, has a capacity of 1075 MW and its electricity generating efficiency is close to 46%.

It is worth noting that wind conditions were favorable in the third quarter of 2017 which was reflected in a 26.1% higher generation of electricity from the wind (2 531 GWh), despite the fact that an increase of the wind farms' achievable capacity year on year reached only 70 MW. As a consequence, wind power plants covered approx. 6.2% of KSE's demand for electricity (5.1% in the third quarter of 2016).

Electricity prices on the wholesale market

The average daily temperature recorded in Poland reached 18.6°C in July 2017 and it was only 0.3°C higher than the average daily temperature recorded in June. In spite of stable temperatures, the total demand for electricity rose, reaching 13.43 TWh in July, a 2.3% increase.

The average electricity price on the SPOT market reached 155.23 PLN/MWh in July 2017. On a monthly basis, it represents an increase by 2.16 PLN/MWh, while on an annualized basis the price increase reached 3.66 PLN/MWh. Based on the August 2015 experience when it was necessary to introduce electricity supply curtailments Polskie Sieci Elektroenergetyczne (Transmission System Operator) scheduled the generating units' 2017 overhauls accordingly, which allowed for maintaining capacity reserve in the system at an appropriately high level. As a consequence, electricity prices on the balancing market reached an average level of 150.68 PLN/MWh, i.e. they were PLN 4.56 lower than on the SPOT market.

The average daily temperature in August 2017 reached 19.5°C, i.e. it was 1.3°C higher than in 2016. KSE's demand for electricity rose to 13 586 TWh (an increase by 2.9% year on year). The electricity prices on the SPOT market in August 2017 reached 162.78 PLN/MWh and they were higher than the July average by 7.55 PLN/MWh, while as compared to August 2016 the price increase was significant, topping 22 PLN/MWh. The rise of the SPOT prices was caused mainly by the growing demand for electricity by KSE, which in combination with the lower dispatchability (availability) of the system sources, primarily the lignite-fired power plants, led to the higher prices on the spot market.

The need to operate more expensive centrally dispatched generating units (CDGU-JWCD) also contributed to the rising prices on the balancing market. The average price on the balancing market in August 2017 reached 174.76 PLN/MWh (an increase by 24.08 PLN/MWh versus July 2017).

The decline of the average monthly temperature to 13.7°C in September 2017, in spite of the large generation from the wind sources reaching 1 054 GWh, led to the higher prices on the spot market. The average price reached 171.42 PLN/MWh, which represents an increase by 16.18 PLN/MWh year on year. The price rise was due, among others, to the increased system demand for capacity, which was also reflected in the balancing market prices (CRO). The average CRO price reached 202.32 PLN/MWh in September 2017, i.e. it was higher by 39.02 PLN/MWh than last year.

The average SPOT market price reached 163,14 PLN/MWh (38.31 EUR/MWh) in the third quarter of 2017, which represents an increase by 14.05 PLN/MWh year on year (i.e. by 3.97 EUR/MWh). The electricity price increases were even stronger on the exchanges in the neighboring countries, first of all due to high commodity and coal prices. In Germany on the EPEX spot exchange the prices reached 32.74 EUR/MWh on average, i.e. they were higher by 4.45 EUR/MWh than last year. The prices on the Czech OTE market rose even more, i.e. by EUR 6.19 (to 36.37 EUR/MWh). On the Scandinavian NordPool platform the electricity price rose year on year by EUR 3.28 to 28.51 EUR/MWh. In spite of an increase of the renewable energy sources' installed capacity the electricity prices continue to be very strongly correlated to the costs of generation and availability of electricity from conventional sources.

In the third quarter of 2017 the forward contracts market was characterized by a relatively high price volatility. The average price of the reference BASE_Y-18 forward contract reached 164.35 PLN/MWh in July.

The price of the BASE_Y-18 contract reached 163.81 PLN/MWh in August 2018 in spite of the fact that electricity prices were supported by the commodity prices upward trend.

As a result, we were dealing with rising prices of forward contracts on electricity markets almost throughout Europe, particularly in France, Spain and Germany.

Forward contracts were in a clear upward trend in September 2017 due to problems with balancing of the system in France, rising ARA coal prices and CO2 emission allowances prices. The average price of the BASE_Y-18 forward contract reached 166.80 PLN/MWh in September this year, i.e. it was higher by 3.00 PLN/MWh than in August.

Prices of CO2 emission allowances

In July 2017 CO2 emission allowances (EUA) prices were in an upward trend that had commenced in June 2017. The prices were within the 4.99 EUR/Mg of CO2 – 5.62 EUR/Mg of CO2 range, with the average price for the period under review reaching 5.27 EUR/Mg of CO2. The rising prices were to a large degree a consequence of weather conditions in Europe. A prolonged period of high temperatures and low precipitation led to increased demand for electricity and lower generation of electricity from hydroelectric sources. The above mentioned factors increased the utilization of coal-fired power plants and thus contributed to the growth of demand for EUAs.

CO2 emission allowances (EUA) prices were within the 5.21 EUR/Mg of CO2 – 6.18 EUR/Mg of CO2 range in August 2017, with the average price reaching 5.66 EUR/Mg of CO2. It is worth noting that only 46 mln emission allowances were placed on the market as a result of auctions conducted during this period. For comparison, the auction volume was much higher in September and reached 91.7 mln emission allowances.

A strong growth of CO2 emission allowances (EUA) prices was observed in September 2017. Within only 8 session days the price went up by nearly 33% to 7.72 EUR/Mg of CO2. The average EUA price reached 6.81 EUR/t.

Such a significant growth of CO2 emission allowances (EUA) prices was brought about by factors that also impacted prices on other commodity markets. First of all, attention should be paid to the coal market on which, as in case of EUAs, prices reached new historic highs. Furthermore, the prices of coal, gas and EUAs were impacted by the failures of nuclear power plants in France. Other growth supporting factors included the works aimed at tightening the 4th phase of the European Union Emissions Trading System (EU ETS).

Property rights

The renewable energy sources market was characterized by high volatility in the third quarter of 2017, both in the regulatory area, as well as with respect to the prices of green certificates (PM OZE_A). In July 2017, the Parliament passed the draft act on renewable energy sources prepared by the MPs and its primary goal was to tie a unit substitution fee to market prices stemming from the certificates of origin. The unit substitution fee is, in accordance with the passed law, equal to 125% of the average weighted annual property rights price from last year, both for the green as well as for the blue certificates, and the maximum price of this fee cannot exceed 300.03 PLN/MWh.

The ordinance on the change to the level of obligation to redeem green certificates in 2018 and 2019 came into force in the third quarter of 2017. In accordance with this regulation the redemption levels for the green

certificates shall be 17.5% in 2018 and 18.5% in 2019, while for the blue certificates they shall be 0.5% in each year. Changes to the redemption levels in the subsequent years are to result in the reduction of the PMOZE_A balance that, according to the data published by TGE, reached 29.5 TWh at the end of September 2017.

The prices of green certificates were rising sharply between July and August 2017, moving within the 23.07 PLN/MWh to 58.16 PLN/MWh range. As of the end of September 2017 the average weighted price of the OZEX_A index reached 36.34 PLN/MWh in 2017, with volume reaching 6 532 GWh.

In contrast to the green certificates market the blue property rights market was stable in the third quarter of 2017. TGEozebio index prices ranged between 300.23 PLN/MWh and 312.28 PLN/MWh, with the average weighted price between January and the end of September reaching 339.55 PLN/MWh, and the trading volume of almost 400 GWh. The balance of the blue certificates reached 242 GWh at the end of September 2017, while the value of the certificates to be redeemed was 73 GWh.

The co-generation property rights (red, yellow and violet certificates) market was stable. The average weighted contract prices were close to the substitution fees that currently are for the red, yellow and violet certificates, respectively: 10 PLN/MWh, 120 PLN/MWh and 56 PLN/MWh. The average weighted price since the beginning of 2017 until the end of September for the KECX (PMEC-2017) index was 9.70 PLN/MWh, for the KGMX (PMGM-2017) index it was 116.10 PLN/MWh, while for the KMETX (PMMET-2017) index it reached 54.56 PLN/MWh.

The index of the white property rights stemming from the energy efficiency certificates (PMEF) was in the downward trend in the third quarter of 2017, and the prices stayed within the 860.72 PLN/toe to 388.14 PLN/toe range. The average weighted value of the TGEef index between January and September 2017 r. was almost 870 PLN/toe, with volume reaching 136 672 toe.

Gas prices on the wholesale market

The average price of gas on the Next Day Market of the Polish Power Exchange (TGE) reached PLN 75.25 PLN/MWh in the third quarter of 2017. An increase by PLN 11.74 PLN as compared to the corresponding period of 2016. The biggest price jump took place in the second half of September when the prices rose from 76 PLN/MWh to 82 PLN/MWh. It was due, first of all, to the forthcoming gas winter season (lasting from October to March) that brings cooling off and the growth of demand for gas.

The total trading volume of contracts with the delivery on the next day reached more than 2.1 TWh in the third quarter of 2017 versus 1.7 TWh posted in 2016. The forward market contract prices were sharply rising from the beginning of the quarter. The value of the reference one year contract with deliveries in 2018 went up by PLN 7.87 in the quarter under review.

This contract was priced at 85.35 PLN/MWh as of the end of September. According to the data of Gas Infrastructure Europe Polish gas storage facilities were approx. 98% (European Union's average: 85%) filled as of September 30.

Regulatory environment

Capacity market draft law

On July 6, 2017, the government of the Republic of Poland submitted to the Parliament the approved draft capacity market law that will have a significant impact on the future of the Polish energy sector. The first reading of the law in the Parliament took place on October 25, 2017.

The draft law defines, among others:

- 1) rules of providing the service of maintaining readiness to deliver electric capacity and the principles of remuneration for fulfilling the capacity obligation,
- 2) organization of the capacity market,
- 3) rights and obligations of the capacity market participants.

The introduction of the capacity market law implies the need to make amendments to several other legal acts that include such acts as: the energy law, the environment protection law, the act on the principles of covering the costs incurred by electricity generators due to the early termination of long term capacity and electricity purchase agreements and the act on renewable energy sources.

Currently the energy sector is awaiting the publishing of the draft capacity market regulations. It is expected to be published in the coming months. The regulations will describe in detail the course of an auction, including the detailed description of the electricity demand curve. The first capacity auctions are planned to be held in 2018 and they will be applicable to the 2021-2023 time frame.

Amendment to the Act on Renewable Energy Sources (RES)

On September 24, 2017, the act of July 20, 2017 on the amendment to the act on renewable energy sources, prepared based on the July 12, 2017 draft submitted by the MPs, came into force.

The goal of the Act of July 20, 2017 is to tie the unit substitution fee to the market property rights prices stemming from the certificates of origin by changing the algorithm used to determine the substitution fee for the green certificates PMOZE_A. Making the levels of the substitution fees more flexible is to counteract sharp changes of the certificate prices by making the substitution fee more closely tied to the actual market prices.

Amendment to the Water Law Act

On August 3, 2017, the President of the Republic of Poland signed the Water Law Act that was published in the Journal of Laws on August 28, 2017.

The act implements into the Polish law, among others, the EU regulations defined in the Water Framework Directive, providing that all water users must incur the costs thereof. The fees are applicable to the energy sector, fish growers, farmers and businesses using large quantities of water for their production.

In case of the energy sector the fee for water consumption by hydroelectric power plants is to be borne by the owners of hydroelectric power plants solely for the volume of electricity generated using the reclaimable water (i.e. water taken, used and then discharged in the same quantity and with quality that is not worse) and for the intake of non-reclaimable process water (i.e. the water not be used directly to produce electricity).

With respect to the fee for water intake to ensure operation of cooling systems of power plants or combined heat and power plants such fee will be borne solely for the difference between the quantity of water taken for such purposes, and the quantity of water discharged to water streams or to the ground from the cooling systems.

Another fee is the fee for discharging the water from the cooling systems of power plants or combined heat and power plants to water streams or to the ground.

The majority of the new water law provisions will come into force on January 1, 2018.

BAT Conclusions

BAT conclusions is a document drawn up based on the reference document on the best available technologies (BAT) – the so-called BREF. BAT conclusions for large combustion plants (LCP) as an executive decision to directive 2010/75/EU on industrial emissions (IED Directive) will be directly applicable.

They define the new requirements with respect to admissible emissions values and the monitoring obligation. A consequence of their implementation will be the need to adapt the fuel combustion installations to the requirements defined in the BAT Conclusions, among others, by refurbishing generation sources or constructing flue gases cleaning (scrubbing) installations and in certain cases additionally installing the continuous monitoring systems for the pollutants so far not covered by such an obligation.

On April 28, 2017, the representatives of the member states in the European Commission passed the above standards tightening the emission standards for the manufacturing industry.

On August 17, 2017, the European Commission's executive decision (EU) 2017/1442 of July 31, 2017 introducing the BAT Conclusions was published in the European Union's Official Journal. They became a part of the law in force in Poland and they will be the basis for issuing integrated permits. The time to adapt to the new standards is 4 years from the publishing thereof which means that the new requirements will come into force starting from 2021.

6. Information and events that occurred after the balance sheet day

Submission of the last lawsuit in connection with the termination of long-term contracts for the purchase of power and property rights

On October 16, 2017 TAURON received the lawsuit of June 30, 2017 of Nowy Jarosław Wind Invest sp. z o.o. with its seat in Warsaw against the Issuer for payment of damages in the amount of PLN 27 mln and determination of liability for damages that may arise in the future due to torts, including unfair competition acts, estimated by the plaintiff to be worth PLN 197.8 mln. This is the last of four announced lawsuits by Grupa Wind Invest companies in this case. The case is pending before the Regional Court in Katowice. The factual basis for the lawsuit, according to the plaintiff, is the termination by the Issuer's subsidiary: Polska Energia – Pierwsza Kompania Handlowa sp. z o.o. with its seat in Warsaw, of the long term contracts for the purchase of electricity and property rights arising from certificates of origin. The Issuer disclosed information on the termination of the above mentioned agreements in the regulatory filing (current report) no. 7/2015 of March 19, 2015.

The preliminary assessment of the justification for the claims contained in the lawsuit indicates that they are completely groundless. The Company disclosed information on the above event in the regulatory filing (current report) no. 39/2017 of October 16, 2017.

Furthermore, the Issuer indicates that in the contractual disputes between the wind farms and the Issuer's subsidiary, i.e. Polska Energia-Pierwsza Kompania Handlowa sp. z o.o. (PE-PKH), claims for payment by PE-PKH of the total amount of PLN 82 086 055.87 were submitted. The amount includes the claims contained in the submissions extending the lawsuit in the already pending legal actions brought by companies: Amon sp. z o.o., Gorzyca Wind Invest sp. z o.o., In.ventus sp. z o.o. Mogilno III sp.k., In.ventus sp. z o.o. Mogilno IV sp.k., In.ventus sp. z o.o. Mogilno V sp.k., In.ventus sp. z o.o. Mogilno VI sp.k., Nowy Jarosław Wind Invest sp. z o.o., Pękanino Wind Invest sp. z o.o. and Talia sp. z o.o. and a separate claim for payment brought in 2017 by Dobiesław Wind Invest Sp. z o.o. including a demand for adjudging (ordering) payment of PLN 42 095 462 that Dobiesław Wind Invest sp. z o.o. is claiming due to compensation and liquidated damages.

Publishing of TAURON Group's estimated Q1-3 2017 and Q3 2017 financial results

On October 25, 2017 TAURON published TAURON Polska Energia S.A. Capital Group's selected estimated Q1-3 2017 and Q3 2017 consolidated financial data and operating data. Information on the estimated financial results was published in the regulatory filing no. 40/2017 of October 25, 2017.

7. Proceedings pending before the court, competent arbitration authority or public administration authority

In the third quarter of 2017 no proceedings were pending at TAURON Capital Group (in relation to the Issuer or its subsidiaries) concerning accounts payable and accounts receivable whose single or aggregate value would exceed 10% of TAURON Polska Energia's equity.

8. Information on transactions with related entities

All transactions with related entities are concluded at arm's length. Detailed information on transactions with related entities is provided in note 45 of the Consolidated interim financial statements for the period of nine months ended on September 30, 2017.

9. Information on granted guarantees, loan or credit co-signings (sureties, endorsements)

In the third quarter of 2017 neither TAURON Polska Energia, nor its subsidiaries granted any loan or credit co-signings (sureties, endorsements) or guaranties – jointly to a single entity or such entity's subsidiary, for the total value that would represent an equivalent of at least 10% of TAURON Polska Energia's equity.

10. Other information that, according to the Issuer, could be significant for the evaluation of the staffing, assets, financial standing, financial result and changes thereof as well as information that is essential to evaluate the ability of the Issuer's Capital Group to meet its obligations

Besides the reported events indicated above in this document no other events had occurred since July 1, 2017 until the day this report was published that could be significant for the evaluation of TAURON Capital Group's ability to meet its obligations.

TAURON's Management Board's position is that the information presented in this report describes the staffing, assets and financial standing of the Company in a comprehensive manner and that no other events occurred, undisclosed by the Company, that could be relevant for the evaluation of its situation.