

**EXTENDED CONSOLIDATED  
INTERIM REPORT  
OF TAURON POLSKA ENERGIA S.A.  
CAPITAL GROUP  
FOR THE FIRST HALF OF 2015**

**KATOWICE, 20 AUGUST 2015**

SELECTED FIGURES	in thousands PLN		in thousands EUR	
	2015 period from 01.01.2015 to 30.06.2015	2014 period from 01.01.2014 to 30.06.2014	2015 period from 01.01.2015 to 30.06.2015	2014 period from 01.01.2014 to 30.06.2014
<b>Selected consolidated figures of TAURON Polska Energia S.A. Capital Group</b>				
Sales revenue	9 184 291	9 226 315	2 221 594	2 208 098
Operating profit	1 044 302	1 082 454	252 607	259 059
Profit before tax	858 803	925 543	207 736	221 507
Net profit	720 387	733 922	174 255	175 646
Net profit attributable to shareholders of the parent company	718 524	730 290	173 804	174 777
Net profit attributable to non-controlling interests	1 863	3 632	451	869
Other comprehensive income	40 711	(12 770)	9 847	(3 056)
Total comprehensive income	761 098	721 152	184 102	172 590
Total comprehensive income attributable to shareholders of the parent company	759 233	717 505	183 651	171 717
Total comprehensive income attributable to non-controlling interests	1 865	3 647	451	873
Earnings per share (in PLN/EUR) (basic and diluted)	0,41	0,42	0,10	0,10
Weighted average number of shares (pcs.) (basic and diluted)	1 752 549 394	1 752 549 394	1 752 549 394	1 752 549 394
Cash flows from operating activities	1 621 060	997 673	392 119	238 769
Cash flows from investing activities	(1 813 261)	(1 712 282)	(438 611)	(409 794)
Cash flows from financing activities	(337 570)	404 871	(81 655)	96 896
Net increase (decrease) in cash and cash equivalents	(529 771)	(309 738)	(128 147)	(74 129)
	As of 30.06.2015	As of 31.12.2014	As of 30.06.2015	As of 31.12.2014
Non-current assets	28 691 479	28 162 749	6 840 425	6 607 407
Current assets	5 630 595	6 396 444	1 342 408	1 500 702
Total assets	34 322 074	34 559 193	8 182 833	8 108 109
Issued capital	8 762 747	8 762 747	2 089 154	2 055 873
Equity attributable to shareholders of the parent company	18 462 754	17 966 448	4 401 763	4 215 200
Equity attributable to non-controlling interests	29 040	30 116	6 924	7 066
Total equity	18 491 794	17 996 564	4 408 687	4 222 266
Long-term liabilities	11 777 452	11 744 092	2 807 899	2 755 341
Short-term liabilities	4 052 828	4 818 537	966 247	1 130 502
Total liabilities	15 830 280	16 562 629	3 774 146	3 885 843

	in thousands PLN		in thousands EUR	
	2015 period from 01.01.2015 to 30.06.2015	2014 period from 01.01.2014 to 30.06.2014	2015 period from 01.01.2015 to 30.06.2015	2014 period from 01.01.2014 to 30.06.2014
<b>Selected standalone figures of TAURON Polska Energia S.A.</b>				
Sales revenue	4 643 560	4 275 556	1 123 234	1 023 252
Operating profit	31 286	25 613	7 568	6 130
Profit before tax	1 539 774	1 106 355	372 457	264 780
Net profit	1 537 158	1 089 212	371 824	260 677
Other comprehensive income	39 398	(18 270)	9 530	(4 373)
Total comprehensive income	1 576 556	1 070 942	381 354	256 304
Earnings per share (in PLN/EUR) (basic and diluted)	0,88	0,62	0,21	0,15
Weighted average number of shares (pcs.) (basic and diluted)	1 752 549 394	1 752 549 394	1 752 549 394	1 752 549 394
Cash flows from operating activities	152 973	21 699	37 003	5 193
Cash flows from investing activities	253 885	(342 667)	61 412	(82 009)
Cash flows from financing activities	(359 621)	499 605	(86 989)	119 568
Net increase (decrease) in cash and cash equivalents	47 237	178 637	11 426	42 752
	As of 30.06.2015	As of 31.12.2014	As of 30.06.2015	As of 31.12.2014
Non-current assets	27 963 419	26 617 011	6 666 846	6 244 753
Current assets	3 238 972	3 723 519	772 213	873 594
Total assets	31 202 391	30 340 530	7 439 059	7 118 347
Issued capital	8 762 747	8 762 747	2 089 154	2 055 873
Total equity	21 553 241	20 239 567	5 138 575	4 748 508
Long-term liabilities	7 459 458	7 511 096	1 778 433	1 762 217
Short-term liabilities	2 189 692	2 589 867	522 051	607 622
Total liabilities	9 649 150	10 100 963	2 300 484	2 369 839

The aforementioned financial information for H1 2015 and 2014 has been converted into EUR in accordance with the following rules:

- particular items in the statement of financial standing – in accordance with the average NBP exchange rate announced as of 30 June 2015 – 4.1944 PLN/EUR (as of 31 December 2014 – 4.2623 PLN/EUR)
- particular items in the statement of comprehensive income and statement of cash flows – in accordance with the exchange rate which constitutes an arithmetic average of average NBP exchange rates announced on the last day of each month of the financial year from 1 January 2015 to 30 June 2015 – 4.1341 PLN/EUR (for the financial year started 1 January 2014 and ended 30 June 2014 – 4.1784 PLN/EUR).

**INDEPENDENT AUDITOR'S REVIEW REPORT  
ON THE INTERIM CONDENSED CONSOLIDATED  
FINANCIAL STATEMENTS  
OF TAURON POLSKA ENERGIA S.A.  
CAPITAL GROUP  
FOR THE FIRST HALF OF 2015**

**AUGUST 2015**

## **AUDITOR'S REPORT ON THE REVIEW OF THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD FROM 1 JANUARY 2015 TO 30 JUNE 2015**

### **To the Shareholders and Supervisory Board of TAURON Polska Energia S.A.**

We have reviewed the attached condensed interim consolidated financial statements of the TAURON Polska Energia S.A. Capital Group with TAURON Polska Energia S.A. having its registered office in Katowice at ks. Piotra Ściegiennego 3 Street, as the Parent Company, including an interim condensed consolidated statement of financial position prepared as of 30 June 2015, interim condensed consolidated statement of comprehensive income, interim condensed consolidated statement of changes in equity, interim condensed consolidated statement of cash flows for the period from 1 January 2015 to 30 June 2015 and notes, comprising a summary of significant accounting policies and other explanatory information.

Compliance of these condensed interim consolidated financial statements with the requirements laid down in IAS 34 "Interim Financial Reporting" as endorsed by the European Union ("MSR 34") and with other regulations in force is the responsibility of the Management Board and Supervisory Board of the Parent Company. Our responsibility was to review the financial statements.

Our review has been conducted in accordance with the national auditing standards issued by the National Council of Statutory Auditors. These Standards require that we plan and conduct the review in such a way as to obtain reasonable assurance that the consolidated financial statements are free from material misstatement.

Our review has been conducted mainly based on an analysis of data included in the financial statements, examination of the accounting records as well as information provided by the management and the financial and accounting personnel of the Group.

The scope and methodology of a review of condensed interim financial statements differ significantly from an audit, which serves as the basis for expressing an opinion on compliance of annual financial statements with the applicable accounting principles (policy) and an opinion on their fairness and clarity. Therefore, no such opinion on the attached financial statements may be issued.

Based on our review, we have not identified any issues which would prevent us from concluding that the condensed interim consolidated financial statements have been prepared, in all material respects, in compliance with the requirements laid down in IAS 34 “Interim Financial Reporting” as endorsed by the European Union.

.....  
Artur Maziarka  
Key certified auditor  
conducting the review  
No. 90108

On behalf of Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. – entity authorized to audit financial statements entered under number 73 on the list kept by the National Council of Statutory Auditors:

.....  
Artur Maziarka – Vice-President of the Management Board of Deloitte Polska Sp. z o.o. - which is the General Partner of Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k.

Warsaw, 19 August 2015

*The above auditor’s report on the review is a translation from the original Polish version. In case of any discrepancies between the Polish and English version, the Polish version shall prevail.*



**STATEMENTS OF THE MANAGEMENT BOARD OF  
TAURON POLSKA ENERGIA S.A.**

**AUGUST 2015**

## STATEMENT

**of the Management Board of TAURON Polska Energia S.A. on the compliance  
of the interim condensed consolidated financial statements of  
TAURON Polska Energia S.A. Capital Group  
and the Management Board's interim report on the activities of  
TAURON Polska Energia S.A. Capital Group**

I, the undersigned, represent that, to my best knowledge, the interim condensed consolidated financial statements of TAURON Polska Energia S.A. Capital Group and comparable figures were prepared in accordance with accounting rules and give the true and fair picture of the assets, financial standing and performance of TAURON Polska Energia S.A. and TAURON Polska Energia S.A. Capital Group.

I also certify that the interim report on the activities of TAURON Polska Energia S.A. Capital Group gives the true picture of the development, achievements and situation of TAURON Polska Energia S.A. Capital Group, including the description of key risks and threats.

Management Board Members:

Dariusz Lubera	– President of the Management Board	.....
Aleksander Grad	– Vice-President of the Management Board	.....
Katarzyna Rozenfeld	– Vice-President of the Management Board	.....
Stanisław Tokarski	– Vice-President of the Management Board	.....
Krzysztof Zawadzki	– Vice-President of the Management Board	.....

18 August 2015

*date*



## STATEMENT

**of the Management Board of TAURON Polska Energia S.A.  
on the appointment of an entity authorised to audit financial statements  
(interim financial statements)**

I, the undersigned, represent that the entity authorised to audit financial statements and review the interim condensed consolidated financial statements of TAURON Polska Energia S.A. Capital Group was appointed in accordance with legal regulations, and this entity and auditors examining the statements have met conditions for developing an impartial and independent report on the review of the audited interim consolidated financial statements in accordance with applicable regulations and professional standards.

Management Board Members:

Dariusz Lubera	– President of the Management Board	.....
Aleksander Grad	– Vice-President of the Management Board	.....
Katarzyna Rozenfeld	– Vice-President of the Management Board	.....
Stanisław Tokarski	– Vice-President of the Management Board	.....
Krzysztof Zawadzki	– Vice-President of the Management Board	.....

18 August 2015

*date*



**TAURON POLSKA ENERGIA S.A. CAPITAL GROUP**

**CONDENSED INTERIM CONSOLIDATED  
FINANCIAL STATEMENTS**

**PREPARED IN ACCORDANCE WITH THE INTERNATIONAL  
FINANCIAL REPORTING STANDARDS**

**FOR THE 6-MONTH PERIOD ENDED 30 JUNE 2015**

**AUGUST 2015**

## TABLE OF CONTENTS

CONDENSED INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME . . . . .	4
CONDENSED INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION . . . . .	5
CONDENSED INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION – continued . . . . .	6
CONDENSED INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY . . . . .	7
CONDENSED INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS . . . . .	8
<b>INTRODUCTION . . . . .</b>	<b>9</b>
1. General information about the TAURON Polska Energia S.A. Capital Group and its Parent . . . . .	9
2. Composition of the Capital Group . . . . .	9
<b>STATEMENT OF COMPLIANCE WITH IFRS . . . . .</b>	<b>11</b>
3. Statement of compliance . . . . .	11
4. Going concern . . . . .	11
5. Functional and presentation currency . . . . .	11
<b>ACCOUNTING POLICIES . . . . .</b>	<b>12</b>
6. Material values based on professional judgment and estimates . . . . .	12
7. New standards or interpretations which have been published, but have not entered into force yet . . . . .	13
8. Changes to accounting policies . . . . .	15
<b>EXPLANATORY NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS . . . . .</b>	<b>16</b>
9. Seasonality of operations . . . . .	16
10. Information on operating segments . . . . .	16
11. Sales revenue . . . . .	19
12. Expenses by type . . . . .	19
13. Income tax . . . . .	20
13.1. Tax expense in the statement of comprehensive income . . . . .	20
13.2. Deferred income tax . . . . .	20
13.3. Income tax receivables and payables . . . . .	21
14. Dividends paid and proposed . . . . .	21
15. Property, plant and equipment . . . . .	22
16. Goodwill . . . . .	24
17. Non-current intangible assets . . . . .	25
18. Shares in joint ventures . . . . .	26
19. Current intangible assets . . . . .	28
20. Inventories . . . . .	29
21. Trade and other receivables . . . . .	29
22. Cash and cash equivalents . . . . .	30
23. Non-current assets and a disposal group classified as held for sale . . . . .	31
24. Equity . . . . .	32
24.1. Issued capital . . . . .	32
24.2. Revaluation reserve from valuation of hedging instruments . . . . .	32
24.3. Retained earnings and dividend limitation . . . . .	33
25. Acquisition of non-controlling interests and organizational changes . . . . .	33
26. Interest-bearing loans and borrowings . . . . .	34
26.1. Loans and borrowings . . . . .	34
26.2. Bonds issued . . . . .	35
27. Derivative instruments . . . . .	37
28. Provisions for employee benefits . . . . .	37
28.1. Provisions for post-employment benefits and jubilee bonuses . . . . .	37
28.2. Provisions for employment termination benefits . . . . .	38

29.	Other provisions . . . . .	39
29.1.	Changes in provisions . . . . .	39
29.2.	Description of significant provision items . . . . .	39
29.2.1.	Provision for use of real estate without contract . . . . .	40
29.2.2.	Provision for gas emission obligations . . . . .	40
29.2.3.	Provision for the obligation to submit energy certificates . . . . .	40
29.2.4.	Provision for counterparty claims, court disputes and other provisions . . . . .	40
30.	Accruals, deferred income and government grants . . . . .	41
30.1.	Deferred income and government grants . . . . .	41
30.2.	Accrued expenses – current . . . . .	41
31.	Significant items of the consolidated statement of cash flows . . . . .	41
31.1.	Cash flows from investing activities . . . . .	41
31.2.	Cash flows from financing activities . . . . .	42
32.	Details of other significant changes in the reporting period . . . . .	42
	<b>OTHER INFORMATION . . . . .</b>	<b>43</b>
33.	Contingent liabilities . . . . .	43
34.	Collateral against liabilities . . . . .	46
35.	Capital commitments . . . . .	48
36.	Related party disclosures . . . . .	49
36.1.	Transactions with jointly-controlled entities . . . . .	49
36.2.	Transactions with State Treasury companies . . . . .	49
36.3.	Executive compensation . . . . .	50
37.	Financial instruments . . . . .	51
37.1.	Carrying amount and fair value of financial instrument classes and categories . . . . .	51
37.2.	Fair value hierarchy . . . . .	53
37.3.	Description of significant items included in individual categories of financial instruments . . . . .	53
38.	Principles and objectives of financial risk management . . . . .	54
39.	Financial and capital management . . . . .	55
40.	Events after the end of the reporting period . . . . .	55

## CONDENSED INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	6-month period ended 30 June 2015 (unaudited)	6-month period ended 30 June 2014 (unaudited)
Sales revenue	11	9 184 291	9 226 315
Cost of sales	12	(7 539 952)	(7 565 188)
<b>Profit on sale</b>		<b>1 644 339</b>	<b>1 661 127</b>
Other operating income		73 322	79 801
Selling and distribution expenses		(237 832)	(257 189)
Administrative expenses		(312 824)	(332 199)
Other operating expenses	32	(122 703)	(69 086)
<b>Operating profit</b>		<b>1 044 302</b>	<b>1 082 454</b>
Finance income	32	42 078	28 961
Finance costs	32	(232 447)	(185 096)
Share in profit/(loss) of joint ventures	18	4 870	(776)
<b>Profit before tax</b>		<b>858 803</b>	<b>925 543</b>
Income tax expense	13	(138 416)	(191 621)
<b>Net profit for the period</b>		<b>720 387</b>	<b>733 922</b>
<b>Other comprehensive income subject to reclassification to profit or loss:</b>		<b>39 417</b>	<b>(18 153)</b>
Change in the value of hedging instruments		48 628	(22 462)
Foreign exchange differences from translation of foreign entities		28	41
Income tax		(9 239)	4 268
<b>Other comprehensive income not subject to reclassification to profit or loss:</b>		<b>1 294</b>	<b>5 383</b>
Actuarial gains/(losses) related to provisions for post-employment benefits		1 601	6 643
Income tax		(307)	(1 260)
<b>Other comprehensive income for the period, net of tax</b>		<b>40 711</b>	<b>(12 770)</b>
<b>Total comprehensive income for the period</b>		<b>761 098</b>	<b>721 152</b>
<b>Net profit:</b>			
Attributable to equity holders of the Parent		718 524	730 290
Attributable to non-controlling interests		1 863	3 632
<b>Total comprehensive income:</b>			
Attributable to equity holders of the Parent		759 233	717 505
Attributable to non-controlling interests		1 865	3 647
<b>Earnings per share (in PLN):</b>			
– basic and diluted, for net profit for the period attributable to equity holders of the Parent		0.41	0.42

## CONDENSED INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	As at 30 June 2015 (unaudited)	As at 31 December 2014
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	15	25 738 123	24 850 942
Goodwill	16	195 155	195 155
Intangible assets	17	1 271 029	1 604 634
Investments in joint ventures	18	417 429	414 584
Other financial assets		401 622	377 383
Other non-financial assets		618 471	657 943
Deferred tax asset	13.2	49 650	62 108
		<b>28 691 479</b>	<b>28 162 749</b>
<b>Current assets</b>			
Intangible assets	19	646 617	733 048
Inventories	20	404 450	527 596
Corporate income tax receivable	13.3	53 805	26 489
Trade and other receivables	21	1 879 766	1 969 169
Other financial assets		6 359	27 539
Other non-financial assets		380 516	353 989
Cash and cash equivalents	22	915 135	1 420 909
Non-current assets and assets of a disposal group classified as held for sale	23	1 343 947	1 337 705
		<b>5 630 595</b>	<b>6 396 444</b>
<b>TOTAL ASSETS</b>		<b>34 322 074</b>	<b>34 559 193</b>

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

## CONDENSED INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION – continued

	Note	As at 30 June 2015 (unaudited)	As at 31 December 2014
<b>EQUITY AND LIABILITIES</b>			
<b>Equity attributable to equity holders of the Parent</b>			
Issued capital	24.1	8 762 747	8 762 747
Reserve capital		11 277 247	10 393 686
Revaluation reserve from valuation of hedging instruments	24.2	(103 630)	(143 019)
Foreign exchange differences from translation of foreign entities		(1 358)	(1 386)
Retained earnings/Accumulated losses	24.3	(1 472 252)	(1 045 580)
		<b>18 462 754</b>	<b>17 966 448</b>
<b>Non-controlling interests</b>		<b>29 040</b>	<b>30 116</b>
<b>Total equity</b>		<b>18 491 794</b>	<b>17 996 564</b>
<b>Non-current liabilities</b>			
Interest-bearing loans and borrowings	26	7 367 670	7 422 332
Liabilities under finance leases		39 652	46 443
Trade and other payables		64 058	48 986
Derivative instruments	27	93 800	93 501
Provisions for employee benefits	28	1 940 365	1 948 323
Other provisions	29	166 795	165 278
Accruals, deferred income and government grants	30	643 584	662 072
Deferred tax liability	13.2	1 461 528	1 357 157
		<b>11 777 452</b>	<b>11 744 092</b>
<b>Current liabilities</b>			
Current portion of interest-bearing loans and borrowings	26	513 116	631 530
Current portion of liabilities under finance leases		13 114	13 461
Trade and other payables		1 702 823	1 866 865
Derivative instruments	27	98 289	102 615
Provisions for employee benefits	28	128 598	158 954
Other provisions	29	611 345	1 081 415
Accruals, deferred income and government grants	30	293 190	245 520
Income tax payable	13.3	1 312	13 518
Other non-financial liabilities		606 884	619 689
Liabilities of a disposal group classified as held for sale	23	84 157	84 970
		<b>4 052 828</b>	<b>4 818 537</b>
<b>Total liabilities</b>		<b>15 830 280</b>	<b>16 562 629</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>34 322 074</b>	<b>34 559 193</b>

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

## CONDENSED INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

### FOR THE 6-MONTH PERIOD ENDED 30 JUNE 2015 *(unaudited)*

	Note	Equity attributable to the equity holders of the Parent					Total	Non-controlling interests	Total equity
		Issued capital	Reserve capital	Revaluation reserve from valuation of hedging instruments	Foreign exchange differences from translation of foreign entities	Retained earnings/ Accumulated losses			
<b>As at 1 January 2015</b>		<b>8 762 747</b>	<b>10 393 686</b>	<b>(143 019)</b>	<b>(1 386)</b>	<b>(1 045 580)</b>	<b>17 966 448</b>	<b>30 116</b>	<b>17 996 564</b>
Profit for the period		–	–	–	–	718 524	718 524	1 863	720 387
Other comprehensive income		–	–	39 389	28	1 292	40 709	2	40 711
<b>Total comprehensive income for the period</b>		<b>–</b>	<b>–</b>	<b>39 389</b>	<b>28</b>	<b>719 816</b>	<b>759 233</b>	<b>1 865</b>	<b>761 098</b>
Distribution of prior year profits	14	–	883 561	–	–	(883 561)	–	–	–
Dividends	14	–	–	–	–	(262 882)	(262 882)	(2 787)	(265 669)
Mandatory squeeze-out	25	–	–	–	–	(45)	(45)	(154)	(199)
<b>As at 30 June 2015 <i>(unaudited)</i></b>		<b>8 762 747</b>	<b>11 277 247</b>	<b>(103 630)</b>	<b>(1 358)</b>	<b>(1 472 252)</b>	<b>18 462 754</b>	<b>29 040</b>	<b>18 491 794</b>

### FOR THE 6-MONTH PERIOD ENDED 30 JUNE 2014 *(unaudited)*

	Note	Equity attributable to the equity holders of the Parent					Total	Non-controlling interests	Total equity
		Issued capital	Reserve capital	Revaluation reserve from valuation of hedging instruments	Foreign exchange differences from translation of foreign entities	Retained earnings/ Accumulated losses			
<b>As at 1 January 2014</b>		<b>8 762 747</b>	<b>9 037 699</b>	<b>(126 651)</b>	<b>(1 631)</b>	<b>(344 999)</b>	<b>17 327 165</b>	<b>466 334</b>	<b>17 793 499</b>
Profit for the period		–	–	–	–	730 290	730 290	3 632	733 922
Other comprehensive income		–	–	(18 194)	41	5 368	(12 785)	15	(12 770)
<b>Total comprehensive income for the period</b>		<b>–</b>	<b>–</b>	<b>(18 194)</b>	<b>41</b>	<b>735 658</b>	<b>717 505</b>	<b>3 647</b>	<b>721 152</b>
Distribution of prior year profits		–	1 355 987	–	–	(1 355 987)	–	–	–
Dividends	14	–	–	–	–	(332 984)	(332 984)	(1 163)	(334 147)
Acquisition of non-controlling interests		–	–	–	–	76 938	76 938	(407 596)	(330 658)
Mandatory squeeze-out		–	–	–	–	5 241	5 241	(32 459)	(27 218)
Change in non-controlling interests due to division of a subsidiary		–	–	–	–	(811)	(811)	811	–
<b>As at 30 June 2014 <i>(unaudited)</i></b>		<b>8 762 747</b>	<b>10 393 686</b>	<b>(144 845)</b>	<b>(1 590)</b>	<b>(1 216 944)</b>	<b>17 793 054</b>	<b>29 574</b>	<b>17 822 628</b>

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



## CONDENSED INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	6-month period ended 30 June 2015 (unaudited)	6-month period ended 30 June 2014 (unaudited)
<b>Cash flows from operating activities</b>			
Profit/(loss) before taxation		858 803	925 543
<b>Adjustments for:</b>			
Share in (profit)/loss of joint ventures	18	(4 870)	776
Depreciation and amortization		870 603	912 105
(Gain)/loss on foreign exchange differences		(11 427)	25
Interest and dividends, net		137 277	137 034
(Gain)/loss on investing activities		38 771	29 869
Change in receivables		91 476	211 343
Change in inventories		121 565	31 400
Change in payables excluding loans and borrowings		(358 148)	(644 965)
Change in other non-current and current assets		442 249	474 289
Change in deferred income, government grants and accruals		11 210	32 735
Change in provisions		(505 248)	(915 736)
Income tax paid		(71 201)	(196 157)
Other		–	(588)
<b>Net cash generated from operating activities</b>		<b>1 621 060</b>	<b>997 673</b>
<b>Cash flows from investing activities</b>			
Proceeds from sale of property, plant and equipment and intangible assets		19 379	30 295
Purchase of property, plant and equipment and intangible assets	31.1	(1 850 110)	(1 742 014)
Redemption of debt securities	31.1	21 732	–
Proceeds from sale of financial assets		1 917	1 272
Purchase of financial assets	31.1	(21 734)	(4 400)
Dividends received		3 585	2 096
Interest received		5 620	469
Repayment of loans granted	31.1	14 500	5 850
Loans granted	31.1	(8 150)	(5 850)
<b>Net cash used in investing activities</b>		<b>(1 813 261)</b>	<b>(1 712 282)</b>
<b>Cash flows from financing activities</b>			
Payment of finance lease liabilities		(7 716)	(9 899)
Repayment of loans and borrowings	31.2	(44 739)	(60 708)
Issue of debt securities		–	1 000 000
Redemption of debt securities	31.2	(150 000)	(300 000)
Dividends paid to non-controlling interests		(1 821)	(990)
Interest paid	31.2	(135 386)	(136 960)
Acquisition of non-controlling interests		(140)	(125 227)
Subsidies received		7 696	43 322
Commission paid		(5 464)	(4 667)
<b>Net cash generated from (used in) financing activities</b>		<b>(337 570)</b>	<b>404 871</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>(529 771)</b>	<b>(309 738)</b>
Net foreign exchange difference		314	60
<b>Cash and cash equivalents at the beginning of the period</b>		<b>1 408 071</b>	<b>541 148</b>
<b>Cash and cash equivalents at the end of the period, of which:</b>	<b>22</b>	<b>878 300</b>	<b>231 410</b>
restricted cash	<b>22</b>	164 421	154 406

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

## INTRODUCTION

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

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

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

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

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

The Group’s condensed interim consolidated financial statements cover the 6-month period ended 30 June 2015 and present comparative data for the 6-month period ended 30 June 2014 as well as figures as at 31 December 2014. The data for the 6-month period ended 30 June 2015 and the comparative data for the 6-month period ended 30 June 2014, as contained herein, have been reviewed by a certified auditor. The comparative data as at 31 December 2014 were audited by a certified auditor.

These condensed interim consolidated financial statements for the 6-month period ended 30 June 2015 were approved for publication on 18 August 2015.

### 2. Composition of the Capital Group

As at 30 June 2015, TAURON Polska Energia S.A. held direct and indirect interest in the following key subsidiaries:

Item	Company name	Registered office	Segment	Interest in the share capital and in the decision-making body held by TAURON Polska Energia S.A.
1	TAURON Wydobycie S.A.	Jaworzno	Mining	100.00%
2	TAURON Wytwarzanie S.A.	Katowice	Generation	100.00%
3	TAURON Ekoenergia Sp. z o.o.	Jelenia Góra	Generation	100.00%
4	TAURON Ciepło Sp. z o.o.	Katowice	Generation	100.00%
5	TAURON Dystrybucja S.A.	Kraków	Distribution	99.71%
6	TAURON Dystrybucja Serwis S.A. <sup>1</sup>	Wrocław	Distribution	99.71%
7	TAURON Dystrybucja Pomiary Sp. z o.o. <sup>1</sup>	Tarnów	Distribution	99.71%
8	TAURON Sprzedaż Sp. z o.o.	Kraków	Sales	100.00%
9	TAURON Sprzedaż GZE Sp. z o.o.	Gliwice	Sales	100.00%
10	TAURON Czech Energy s.r.o.	Ostrawa, Czech Republic	Sales	100.00%
11	TAURON Obsługa Klienta Sp. z o.o.	Wrocław	Other	100.00%
12	Kopalnia Wapienia Czatkowice Sp. z o.o.	Krzyszowice	Other	100.00%
13	Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. in liquidation	Warszawa	Other	100.00%
14	TAURON Sweden Energy AB (publ)	Sztokholm, Sweden	Other	100.00%
15	Biomasa Grupa TAURON Sp. z o.o. <sup>2</sup>	Stalowa Wola	Other	100.00%

<sup>1</sup> TAURON Polska Energia S.A. holds indirect interest in TAURON Dystrybucja Serwis S.A. and TAURON Dystrybucja Pomiary Sp. z o.o. through a subsidiary TAURON Dystrybucja S.A. Additionally, TAURON Polska Energia S.A. uses shares held by TAURON Dystrybucja S.A.

<sup>2</sup> On 1 July 2015, a business combination under common control of Energopower Sp. z o.o. and Biomasa Grupa TAURON Sp. z o.o. was registered, as discussed in detail in Note 40 hereto.

As at 30 June 2015, TAURON Polska Energia S.A. held direct and indirect interest in the following key jointly-controlled entities:

Item	Company name	Registered office	Segment	Interest in the share capital and in the decision-making body held by TAURON Polska Energia S.A.
1	Elektrociepłownia Stalowa Wola S.A. <sup>1</sup>	Stalowa Wola	Generation	50.00%
2	Elektrownia Blachownia Nowa Sp. z o.o. <sup>1</sup>	Kędzierzyn Koźle	Generation	50.00%
3	TAMEH HOLDING Sp. z o.o. <sup>2</sup>	Dąbrowa Górnicza	Generation	50.00%
4	TAMEH POLSKA Sp. z o.o. <sup>2</sup>	Dąbrowa Górnicza	Generation	50.00%
5	TAMEH Czech s.r.o. <sup>2</sup>	Ostrawa, Czech Republic	Generation	50.00%

<sup>1</sup> TAURON Polska Energia S.A. holds indirect interest in Elektrociepłownia Stalowa Wola S.A. and Elektrownia Blachownia Nowa Sp. z o.o. through a subsidiary TAURON Wytwarzanie S.A.

<sup>2</sup> The companies form the Capital Group. TAMEH HOLDING Sp. z o.o. holds 100% interest in the capital and the governing body of TAMEH POLSKA Sp. z o.o. and TAMEH Czech s.r.o.

## **STATEMENT OF COMPLIANCE WITH IFRS**

### **3. Statement of compliance**

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

The condensed interim consolidated financial statements do not contain all information and disclosures required for annual consolidated financial statements and they should be read jointly with the Group's consolidated financial statements prepared in accordance with IFRS for the year ended 31 December 2014.

### **4. Going concern**

The condensed interim consolidated financial statements have been prepared in accordance with the going concern principle regarding the Group companies, except for Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. in liquidation. As at the date of approving these financial statements no circumstances have been detected that could put the going concern operation of the remaining Group's companies at risk.

### **5. Functional and presentation currency**

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

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

## **ACCOUNTING POLICIES**

### **6. Material values based on professional judgment and estimates**

In the 6-month period ended 30 June 2015 there were no significant changes in estimates and estimation methods applied, which would affect the current or future periods, other than those presented below or discussed further in these condensed interim consolidated financial statements.

#### **Provision for gas emission liabilities**

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

As at 31 December 2014 the number of free-of-charge emission allowances attributable to installations owned by TAURON Wytwarzanie S.A. exceeded the actual emission for 2014. Consequently, the Group did not recognize a provision for liabilities due to gas emission in these installations. The number of free-of-charge allowances for the installations of TAURON Ciepło Sp. z o.o. was lower than the actual emission in 2014, hence a provision of PLN 8 130 thousand was recognized for the shortage.

As at 30 June 2015 the provision amounted to PLN 12 595 thousand and it also covered installations of TAURON Ciepło Sp. z o.o. The Group has not recognized a provision for installations of TAURON Wytwarzanie S.A., because the number of free-of-charge emission allowances exceeded the actual emission in the first six months of 2015.

The change in the provision in the 6-month period ended 30 June 2015 has been presented in Note 29.2.2. to these condensed interim consolidated financial statements.

#### **Impairment tests**

In accordance with IAS 36, the Group carried out impairment tests for cash-generating units ("CGU") including goodwill, i.e. for operating segments of Mining and Distribution and in the Generation segment for cash-generating units related to generation, distribution and sale of heat (formerly a separate Heat segment) and impairment tests for property, plant and equipment and intangible assets as at 30 June 2015. The tests required estimating the value in use of the cash-generating units, based on future cash flows generated thereby, adjusted to the present value using a discount rate. Impairment tests of production assets for individual cash generating units took into account changes in macroeconomic and sector assumptions, low sales prices of electricity and changes in useful lives of production units in the Generation segment.

Following the tests, the Group did not recognize any impairment losses. The assumptions and significant information concerning impairment tests have been presented in Notes 15, 16 and 17 to the condensed interim consolidated financial statements for the 6-month period ended 30 June 2015.

#### **Deferred tax**

Based on the forecasts prepared for the Tax Capital Group ("TCG"), according to which taxable income will be earned in 2015 and in subsequent years, it has been concluded that there is no risk that the deferred tax asset recognized in these condensed interim consolidated financial statements will not be realized.

#### **Measurement of provisions for employee benefits**

Provisions for post-employment benefits and jubilee bonuses have been estimated using actuarial methods. Moreover, the Group recognized provisions for benefits resulting from Voluntary Redundancy Schemes. A detailed description of the provisions in question has been provided in Note 28.

The provisions for post-employment benefits and jubilee bonuses have been measured as at 30 June 2015, based on actuarial projections. As a number of employees decided to participate in the Voluntary Redundancy Scheme in the Generation segment entity, actuarial provisions were revalued as at 30 June 2015. Consequently, the number of employees for whom the actuarial provisions were recognized decreased considerably, therefore the provision has been reduced by PLN 10 205 thousand, as discussed in detail in note 28.1. hereof.

Actuarial assumptions made in preparing the projections for 2015 were the same as those used for measuring provisions as at 31 December 2014. Key actuarial assumptions made as at 31 December 2014 for the purpose of the provision calculation:

	31 December 2014
Discount rate (%)	2.25%
Estimated inflation rate (%)	2.35%
Employee rotation rate (%)	1.25% – 10.63%
Estimated salary increase rate (%)	1.40% – 2.79%
Estimated electricity price increase rate (%)	4.80%
Estimated increase rate for contribution to the Social Fund (%)	4.50%
Remaining average employment period	9.00 – 15.30

### Measurement of derivatives

Fair value of currency forwards is based on discounted future cash flows from the concluded transactions based on the difference between the forward price and the transaction price. The forward price is calculated based on the fixing of the National Bank of Poland and the curve implied by FX Swap transactions.

Fair value of interest rate swaps is determined using discounted future cash flows from the concluded transactions based on the difference between the forward price and the transaction price. The forward price is calculated based on a zero coupon yield curve.

The fair value of forwards for acquisition and sale of power and emission allowances and other goods is based on prices quoted in an active market.

The fair value of hedging derivatives subject to hedge accounting and derivatives measured at fair value through profit or loss as described above has been presented in Note 37.

### Tax inspection proceedings

TAURON Polska Energia S.A. is a party to inspection proceedings instigated by the Director of the Tax Inspection Office in Warsaw ("Director of the TIO"). The inspection covers the reliability of declared taxable amounts and the correctness of calculation and payment of value-added tax for individual months from October 2013 to April 2014.

In its subsequent letters the Company responded to requests sent by the Director of the TIO presenting all explanations and documents required. The period of the inspection proceedings was prolonged by the Director of TIO a few times and the new deadline has been set at 28 August 2015.

Due to its initial stage, a precise deadline of the inspection proceedings cannot be determined. As at the date of preparing these condensed interim consolidated financial statements the Director of the TIO did not present any opinion on the evidence collected, hence at this stage any possible consequences of his final decision cannot be indicated yet.

## 7. New standards or interpretations which have been published, but have not entered into force yet

Revised standards issued by the International Accounting Standards Board ("IASB") which have been endorsed by the European Union ("EU") and are not yet effective:

- Revised IAS 19 *Employee Benefits – Defined Benefit Plans: Employee Contributions* published by the IASB on 21 November 2013, endorsed by the EU on 17 December 2014 and applicable in the EU to annual periods beginning on or after 1 February 2015;
- Annual Improvements to IFRS (Cycle 2010–2012) – published by the IASB on 12 December 2013, endorsed by the EU on 17 December 2014 and applicable in the EU to annual periods beginning on or after 1 February 2015.

New standards and revised standards issued by the International Accounting Standards Board, which have not been endorsed by the European Union and are not yet effective:

- IFRS 9 *Financial Instruments* was published by the IASB on 24 July 2014 and applies to annual periods beginning on or after 1 January 2018. The standard introduces a business model-based approach to classification and measurement of financial assets and the characteristics of cash flows. IFRS 9 provides a new loss impairment model which requires a more timely disclosure of expected credit losses. The new model

also assumes a standardized impairment approach applied to all financial instruments. Moreover, IFRS 9 includes an enhanced general hedge accounting model. The amendments are aimed at adjusting the principles of recognizing risk management issues in financial statements and enable more adequate presentation of actions taken in the financial statements.

- IFRS 14 *Regulatory Deferral Accounts* was published by the IASB on 30 January 2014 and applies to annual periods beginning on or after 1 January 2016. IFRS 14 has been introduced as a transitional standard for first-time adopters;
- IFRS 15 *Revenue from Contracts with Customers* was published by the IASB on 28 May 2014. On 22 July 2015 the IASB postponed the effective date of the Standard by one year, hence it applies to annual periods beginning on or after 1 January 2018. The IASB intends to publish an amendment to the standard introducing a new effective date in September 2015. IFRS specifies how and when revenue is recognized and requires more informative, relevant disclosures. The Standard replaces IAS 18 *Revenue*, IAS 11 *Construction Contracts* and a number of interpretations concerning revenue recognition;
- Revised IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures: Sale or Contribution of Assets between Investor and its Associate or Joint Venture* were published by the IASB on 11 September 2014 and apply to annual periods beginning on or after 1 January 2016;
- Revised IFRS 10 *Consolidated Financial Statements*, IFRS 12 *Disclosure of Interests in Other Entities*, IAS 28 *Investments in Associates and Joint Ventures: Investment Entities: Applying the Consolidation Exception* published on 18 December 2014 and applicable to annual periods beginning on or after 1 January 2016;
- Revised IFRS 11 *Joint Arrangements: Accounting for Acquisitions of Interests in Joint Operations* – published by the IASB on 6 May 2014 and applicable to annual periods beginning on or after 1 January 2016. The amendments provide new guidelines on accounting for acquisitions of interests in joint operations constituting businesses;
- Revised IAS 1 *Presentation of Financial Statements – Disclosure Initiative* published on 18 December 2014 and applicable to annual periods beginning on or after 1 January 2016;
- Revised IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets: Clarification of Acceptable Methods of Depreciation and Amortization* published by the IASB on 12 May 2014 and applicable to annual periods beginning on or after 1 January 2016;
- Revised IAS 16 *Property, Plant and Equipment* and IAS 41 *Agriculture: Bearer Plants* published by the IASB on 30 June 2014 and applicable to annual periods beginning on or after 1 January 2016;
- Revised IAS 27 *Separate Financial Statements: Equity Method in Separate Financial Statements* – published by the IASB on 12 August 2014 and applicable to annual periods beginning on or after 1 January 2016;
- *Annual Improvements to IFRS (Cycle 2012–2014)* – published by the IASB on 25 September 2014, applicable to annual periods beginning on or after 1 January 2016.

In addition, hedge accounting for financial assets and liabilities portfolio is still beyond the scope of IFRS as its principles have not been endorsed by the EU.

The Group has analyzed the impact of the abovementioned standards and revised standards on the accounting policies applied and carried out preliminary analysis of the impact of IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers* published in 2014.

Preliminary analysis of IFRS 15's impact on the accounting policies applied has shown that the new standard changes the method of accounting for contracts with customers, in particular if services and goods are provided under a single contract, which may be particularly important for the Sales segment. The new guidelines of IFRS 15 may result in the need to change the systems, but before the standard enters into force the Group intends to carry out an analysis of contracts with customers including contract (or contract group) identification, indication of individual liabilities, determining prices, assigning them to individual liabilities and revenue recognition. The new standard requires considerably more detailed disclosure of sales and revenue in financial statements.

Preliminary analysis of IFRS 9's impact on the accounting policies applied indicates one change important for the Group, i.e. replacing the existing classification and measurement models under IAS 39 with a single classification model assuming two categories only, i.e. amortized cost or fair value. IFRS 9 classification complies with the business model applied to manage financial assets. Additionally, the standard introduces a new hedge accounting model which requires detailed risk management disclosures.



According to the Management Board, the introduction of other aforementioned standards and revised standards will not materially affect the accounting principles (policies) adopted by the Group. In view of the significant scope of changes, the impact of IFRS 15 and IFRS 9 on the consolidated financial statements is the subject of further analysis.

The Group has not decided to early adopt any standards or revised standards which have been published but not entered into force yet.

## **8. Changes to accounting policies**

The accounting principles (policy) adopted for the preparation of these condensed interim consolidated financial statements are consistent with those adopted for the preparation of the annual consolidated financial statements of the Group for the year ended 31 December 2014, except for the following revised standards and a new interpretation:

- IFRIC 21 *Levies* (published on 20 May 2013, endorsed by the EU on 13 June 2014). IFRIC 21 is an interpretation of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* – applicable in the EU to annual periods beginning on or after 17 June 2014;
- *Annual Improvements to IFRS* (Cycle 2011–2013) – published by the IASB on 12 December 2013, endorsed by the EU on 18 December 2014 and applicable in the EU to annual periods beginning on or after 1 January 2015.

The Company analyzed the impact of the aforementioned revised standards and the new interpretation on the accounting policies applied by the Group.

According to the Management Board the application of the revised standards and the new interpretation in question has not materially impacted the existing accounting policy.



## **EXPLANATORY NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

### **9. Seasonality of operations**

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

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

### **10. Information on operating segments**

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

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

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

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

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

Segment assets do not include deferred tax, income tax receivables or financial assets, except for trade and other financial receivables and cash and cash equivalents, which do represent segment assets.

Segment liabilities do not include deferred tax, income tax liability or financial liabilities, except for trade payables, liabilities due to acquisition of fixed assets and intangible assets and payroll liabilities, which do represent segment liabilities.

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






The Management Board separately monitors operating results of the segments to take decisions on how to allocate the resources, to evaluate the effects of the allocation and to evaluate performance. Evaluation of performance is based on EBITDA and operating profit or loss. EBITDA is defined by the Group as EBIT increased by amortization/depreciation. EBIT is the profit/(loss) on continuing operations before deducting taxes, financial income and expenses. The Group's financing (including financial expense and revenue) and income tax are monitored at the Group level and they are not allocated to segments.

In the 6-month period ended 30 June 2015 the Management Board decided to no longer distinguish the following operating segments: Renewable Sources of Energy, Heat and Customer Service. The Management Board monitors performance of the Generation segment encompassing all companies generating power and heat from conventional and renewable sources. Activities which used to be included in the Customer Service segment have been reclassified to other business activities of the Group. Comparable data were appropriately restated.

The decision in question was compliant with IFRS 8, which states that one of the conditions of separating an operating segment is that the chief operating decision maker regularly reviews the segment's operating performance. Combining the Renewable Sources of Energy and Heat with the Generation segment has been carried out to allocate resources more efficiently, assess performance of the operations related to generating power from renewable sources and in cogeneration, which were presented in separate segments before. Moreover, the former Customer Service segment provides services mainly to the Capital Group companies, hence generating very insignificant revenue and profit from transactions outside the Group, therefore the data added no informative value for the readers of the Group's financial statements. The former segments Renewable Sources of Energy, Heat and Customer Service

did not exceed quantitative thresholds specified in IFRS 8, which, if met, would require presenting the related financial data separately.

The Group's reporting format for the period from 1 January 2015 to 30 June 2015 and for the comparative period was based on the following operating segments:

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

\* Entities recognized with the equity method.

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

**For the 6-month period ended 30 June 2015 or as at 30 June 2015 (unaudited)**

	Mining	Generation	Distribution	Sales	Other	Unallocated items/ Eliminations	Total
<b>Revenue</b>							
Sales to external customers	192 557	1 088 975	1 473 670	6 386 071	43 018	–	9 184 291
Inter-segment sales	349 394	1 585 790	1 754 687	1 707 909	460 128	(5 857 908)	–
<b>Segment revenue</b>	<b>541 951</b>	<b>2 674 765</b>	<b>3 228 357</b>	<b>8 093 980</b>	<b>503 146</b>	<b>(5 857 908)</b>	<b>9 184 291</b>
<b>Profit/(loss) of the segment</b>	<b>(214 265)</b>	<b>181 936</b>	<b>758 416</b>	<b>329 755</b>	<b>27 896</b>	<b>11 363</b>	<b>1 095 101</b>
Unallocated expenses	–	–	–	–	–	(50 799)	(50 799)
<b>EBIT</b>	<b>(214 265)</b>	<b>181 936</b>	<b>758 416</b>	<b>329 755</b>	<b>27 896</b>	<b>(39 436)</b>	<b>1 044 302</b>
Share in profit/(loss) of joint ventures	–	4 870	–	–	–	–	4 870
Net finance income (costs)	–	–	–	–	–	(190 369)	(190 369)
<b>Profit/(loss) before income tax</b>	<b>(214 265)</b>	<b>186 806</b>	<b>758 416</b>	<b>329 755</b>	<b>27 896</b>	<b>(229 805)</b>	<b>858 803</b>
Income tax expense	–	–	–	–	–	(138 416)	(138 416)
<b>Net profit/(loss) for the period</b>	<b>(214 265)</b>	<b>186 806</b>	<b>758 416</b>	<b>329 755</b>	<b>27 896</b>	<b>(368 221)</b>	<b>720 387</b>
<b>Assets and liabilities</b>							
Segment assets	1 728 184	13 187 855	15 222 418	2 836 963	448 459	–	33 423 879
Investments in joint ventures	–	417 429	–	–	–	–	417 429
Unallocated assets	–	–	–	–	–	480 766	480 766
<b>Total assets</b>	<b>1 728 184</b>	<b>13 605 284</b>	<b>15 222 418</b>	<b>2 836 963</b>	<b>448 459</b>	<b>480 766</b>	<b>34 322 074</b>
Segment liabilities	663 699	1 536 909	2 238 117	1 129 776	276 058	–	5 844 559
Unallocated liabilities	–	–	–	–	–	9 985 721	9 985 721
<b>Total liabilities</b>	<b>663 699</b>	<b>1 536 909</b>	<b>2 238 117</b>	<b>1 129 776</b>	<b>276 058</b>	<b>9 985 721</b>	<b>15 830 280</b>
<b>EBIT</b>	<b>(214 265)</b>	<b>181 936</b>	<b>758 416</b>	<b>329 755</b>	<b>27 896</b>	<b>(39 436)</b>	<b>1 044 302</b>
<b>Depreciation/amortization</b>	<b>(56 362)</b>	<b>(290 975)</b>	<b>(484 863)</b>	<b>(5 398)</b>	<b>(32 960)</b>	<b>–</b>	<b>(870 558)</b>
<b>EBITDA</b>	<b>(157 903)</b>	<b>472 911</b>	<b>1 243 279</b>	<b>335 153</b>	<b>60 856</b>	<b>(39 436)</b>	<b>1 914 860</b>
<b>Other segment information</b>							
Capital expenditure*	146 245	885 569	696 246	2 531	40 136	–	1 770 727

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

**For the 6-month period ended 30 June 2014 (unaudited restated data) or as at 31 December 2014 (restated data)**

	Mining	Generation	Distribution	Sales	Other	Unallocated items/ Eliminations	Total
<b>Revenue</b>							
Sales to external customers	211 321	1 430 449	1 316 265	6 226 843	41 437	–	9 226 315
Inter-segment sales	318 091	889 825	1 732 686	1 348 266	383 897	(4 672 765)	–
<b>Segment revenue</b>	<b>529 412</b>	<b>2 320 274</b>	<b>3 048 951</b>	<b>7 575 109</b>	<b>425 334</b>	<b>(4 672 765)</b>	<b>9 226 315</b>
<b>Profit/(loss) of the segment</b>	<b>(23 785)</b>	<b>38 421</b>	<b>700 012</b>	<b>373 508</b>	<b>45 367</b>	<b>(3 647)</b>	<b>1 129 876</b>
Unallocated expenses	–	–	–	–	–	(47 422)	(47 422)
<b>EBIT</b>	<b>(23 785)</b>	<b>38 421</b>	<b>700 012</b>	<b>373 508</b>	<b>45 367</b>	<b>(51 069)</b>	<b>1 082 454</b>
Share in profit/(loss) of joint ventures	–	(776)	–	–	–	–	(776)
Net finance income (costs)	–	–	–	–	–	(156 135)	(156 135)
<b>Profit/(loss) before income tax</b>	<b>(23 785)</b>	<b>37 645</b>	<b>700 012</b>	<b>373 508</b>	<b>45 367</b>	<b>(207 204)</b>	<b>925 543</b>
Income tax expense	–	–	–	–	–	(191 621)	(191 621)
<b>Net profit/(loss) for the period</b>	<b>(23 785)</b>	<b>37 645</b>	<b>700 012</b>	<b>373 508</b>	<b>45 367</b>	<b>(398 825)</b>	<b>733 922</b>
<b>Assets and liabilities</b>							
Segment assets	1 742 510	12 745 464	15 012 125	3 715 551	459 596	–	33 675 246
Investments in joint ventures	–	414 584	–	–	–	–	414 584
Unallocated assets	–	–	–	–	–	469 363	469 363
<b>Total assets</b>	<b>1 742 510</b>	<b>13 160 048</b>	<b>15 012 125</b>	<b>3 715 551</b>	<b>459 596</b>	<b>469 363</b>	<b>34 559 193</b>
Segment liabilities	706 921	1 672 567	2 457 586	1 489 054	323 730	–	6 649 858
Unallocated liabilities	–	–	–	–	–	9 912 771	9 912 771
<b>Total liabilities</b>	<b>706 921</b>	<b>1 672 567</b>	<b>2 457 586</b>	<b>1 489 054</b>	<b>323 730</b>	<b>9 912 771</b>	<b>16 562 629</b>
<b>EBIT</b>	<b>(23 785)</b>	<b>38 421</b>	<b>700 012</b>	<b>373 508</b>	<b>45 367</b>	<b>(51 069)</b>	<b>1 082 454</b>
<b>Depreciation/amortization</b>	<b>(51 959)</b>	<b>(350 512)</b>	<b>(469 676)</b>	<b>(18 126)</b>	<b>(21 871)</b>	<b>–</b>	<b>(912 144)</b>
<b>EBITDA</b>	<b>28 174</b>	<b>388 933</b>	<b>1 169 688</b>	<b>391 634</b>	<b>67 238</b>	<b>(51 069)</b>	<b>1 994 598</b>
<b>Other segment information</b>							
Capital expenditure*	82 268	282 303	841 488	801	43 217	–	1 250 077

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

## 11. Sales revenue

	6-month period ended 30 June 2015 (unaudited)	6-month period ended 30 June 2014 (unaudited)
<b>Sale of goods for resale, finished goods and materials without elimination of excise</b>	<b>6 081 362</b>	<b>6 316 264</b>
Excise	(213 838)	(225 523)
<b>Sale of goods for resale, finished goods and materials, of which:</b>	<b>5 867 524</b>	<b>6 090 741</b>
Electricity	5 107 197	5 236 113
Heat energy	339 041	343 514
Energy certificates	92 572	109 806
Greenhouse gas emission allowances	65 672	3 643
Coal	181 814	196 442
Furnace blast	–	83 140
Compressed air	28	35 527
Milling products	15 033	14 633
Gas	29 246	3 499
Other goods for resale, finished goods and materials	36 921	64 424
<b>Rendering of services, of which:</b>	<b>3 288 807</b>	<b>3 109 899</b>
Distribution and trade services	3 121 755	2 927 210
Connection fees	62 395	67 437
Maintenance of road lighting	57 092	54 973
Charges for illegal electricity consumption	3 740	3 250
Revenue due to power and heat collisions	12 530	9 098
Other services	31 295	47 931
<b>Other revenue</b>	<b>27 960</b>	<b>25 675</b>
<b>Total sales revenue</b>	<b>9 184 291</b>	<b>9 226 315</b>

The revenue from sale of furnace blast and compressed air decreased because in December 2014 Zakład Wytwarzania Nowa was contributed in kind by the TAURON Group to TAMEH POLSKA Sp. z o.o., being a part of a joint arrangement, as discussed in detail in Note 18 to these condensed interim consolidated financial statements. Zakład Wytwarzania Nowa was a major provider of the Group's products in question in the comparable period.

## 12. Expenses by type

	6-month period ended 30 June 2015 (unaudited)	6-month period ended 30 June 2014 (unaudited)
<b>Costs by type</b>		
Depreciation of property, plant and equipment and amortization of intangible assets	(870 558)	(912 144)
Impairment of property, plant and equipment and intangible assets	83	(4 711)
Materials and energy	(923 447)	(1 011 562)
Maintenance and repair services	(153 318)	(164 121)
Distribution services	(859 549)	(766 416)
Other external services	(320 986)	(357 766)
Taxes and charges	(329 920)	(287 107)
Employee benefits expense	(1 233 652)	(1 276 139)
Inventory write-downs	(198)	(5 306)
Allowance for doubtful debts	(16 313)	(15 714)
Other	(52 145)	(50 656)
<b>Total costs by type</b>	<b>(4 760 003)</b>	<b>(4 851 642)</b>
Change in inventories, prepayments, accruals and deferred income	(175 593)	85 972
Cost of goods produced for internal purposes	328 800	221 930
Selling and distribution expenses	237 832	257 189
Administrative expenses	312 824	332 199
Cost of goods for resale and materials sold	(3 483 812)	(3 610 836)
<b>Cost of sales</b>	<b>(7 539 952)</b>	<b>(7 565 188)</b>

### 13. Income tax

#### 13.1. Tax expense in the statement of comprehensive income

Key items of the tax expense disclosed in the statement of comprehensive income:

	6-month period ended 30 June 2015 (unaudited)	6-month period ended 30 June 2014 (unaudited)
<b>Current income tax</b>	<b>(28 822)</b>	<b>(57 987)</b>
Current income tax expense	(56 252)	(67 773)
Adjustments to current income tax from previous years	27 430	9 786
<b>Deferred tax</b>	<b>(109 594)</b>	<b>(133 634)</b>
<b>Income tax in profit or loss</b>	<b>(138 416)</b>	<b>(191 621)</b>
<b>Income tax relating to other comprehensive income</b>	<b>(9 546)</b>	<b>3 008</b>

The key item of current income tax adjustments related to prior years was the income tax overpayment of PLN 22 250 thousand for 2013 related mainly to component repair costs and new technology tax relief returned to the Company as an entity representing the Tax Capital Group.

#### 13.2. Deferred income tax

	As at 30 June 2015 (unaudited)	As at 31 December 2014
<b>Deferred tax liability</b>		
– difference between tax base and carrying amount of fixed and intangible assets	2 078 255	2 037 038
– difference between tax base and carrying amount of financial assets	22 452	21 505
– different timing of recognition of sales revenue for tax purposes	83 920	59 105
– recognition of estimated revenue from sale of power distribution services	2 961	8 326
– difference between tax base and carrying amount of property rights arising from energy certificates	44 163	47 490
– other	19 045	14 487
<b>Deferred tax liability</b>	<b>2 250 796</b>	<b>2 187 951</b>
<b>Deferred tax assets</b>		
– difference between tax base and carrying amount of fixed and intangible assets	6 706	5 620
– difference between tax base and carrying amount of inventories	2 696	5 130
– power infrastructure received free of charge and received connection fees	59 625	62 177
– provisions	605 134	667 464
– difference between tax base and carrying amount of financial assets	27 984	27 323
– difference between tax base and carrying amount of financial liabilities	28 667	20 680
– valuation of hedging instruments	25 178	34 377
– different timing of recognition of cost of sales for tax purposes	43 198	38 632
– other accrued expenses	4 547	3 467
– tax losses	12 758	12 758
– other	22 425	15 274
<b>Deferred tax assets</b>	<b>838 918</b>	<b>892 902</b>
<b>After setting off balances at the level of individual Group companies, deferred tax for the Group is presented as:</b>		
<b>Deferred tax asset</b>	<b>49 650</b>	<b>62 108</b>
<b>Deferred tax liability</b>	<b>(1 461 528)</b>	<b>(1 357 157)</b>

As at 30 June 2015 deferred tax assets were set off against deferred tax liabilities of companies from the Tax Capital Group due to the fact that the companies have filed combined tax returns under the new Tax Capital Group agreement for the years 2015–2017 concluded on 22 September 2014.

Pursuant to the first agreement, the Tax Capital Group was registered for the period of three fiscal years from 1 January 2012 to 31 December 2014. As at 31 December 2014 deferred tax assets were set off against deferred tax liabilities of companies being members of the Tax Capital Group as at that date.

### **13.3. Income tax receivables and payables**

A Tax Capital Group agreement for the years 2015–2017 was concluded on 22 September 2014. Pursuant to the previous agreement, the Tax Capital Group was registered for the period of three fiscal years from 1 January 2012 to 31 December 2014.

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

As at 30 June 2015 the Group had the following income tax receivables and payables:

- income tax receivable of PLN 53 805 thousand, where the amount of PLN 52 404 thousand has been income tax receivables of the Tax Capital Group;
- income tax payable of PLN 1 312 thousand not related to the settlements of the Tax Capital Group.

In the 6-month period ended 30 June 2015 income tax expense of the Tax Capital Group amounted to PLN 54 005 thousand. At the same time, the Tax Capital Group prepaid CIT of PLN 106 466 thousand for the 6-month period ended 30 June 2015. Moreover, as at 30 June 2015, the Group had a CIT liability for previous years of PLN 57 thousand.

### **14. Dividends paid and proposed**

On 16 March 2015, the Management Board decided to recommend to the Ordinary General Shareholders' Meeting the amount of dividend payment to the shareholders of the Company of PLN 262 882 thousand from the net profit of the Company generated in the financial year 2014, i.e. PLN 0.15 per share. At the same time, the Management Board decided to provide recommendation to the Ordinary General Shareholders' Meeting determining the record date at 22 July 2015 and the payment date at 12 August 2015.

On 23 March 2015 the Supervisory Board approved the recommendation concerning profit distribution and determining the record and payment dates presented to the Ordinary General Shareholders' Meeting by the Management Board.

On 23 April 2015, the Ordinary General Shareholders' Meeting of the Company adopted a resolution approving the dividend amount to be paid out in line with the recommendation of the Management Board. The remaining portion of the Company's net profit for 2014 of PLN 883 561 thousand was allocated to reserve capital.

On 15 May 2014, the Ordinary General Shareholders' Meeting of the Company adopted a resolution to allocate PLN 332 984 thousand to dividend payment to the Company's shareholders (PLN 0.19 per share). The dividend was paid out from the net profit generated by the Company in 2013, which amounted to PLN 1 688 972 thousand. The record date was set at 14 August 2014 and the payment date at 4 September 2014.



## 15. Property, plant and equipment

For the 6-month period ended 30 June 2015 (unaudited)

	Land	Buildings, premises and civil engineering	Plant and machinery	Other	Assets under construction	Property, plant and equipment, total
<b>COST</b>						
<b>Opening balance</b>	<b>117 142</b>	<b>18 195 456</b>	<b>14 819 091</b>	<b>808 607</b>	<b>1 364 263</b>	<b>35 304 559</b>
Direct purchase	–	–	–	133	1 679 453	1 679 586
Transfer of assets under construction	1 664	466 137	400 669	25 564	(894 034)	–
Sale, disposal	(255)	(1 781)	(3 210)	(7 397)	(170)	(12 813)
Liquidation	–	(26 447)	(21 406)	(3 332)	–	(51 185)
Received free of charge	–	11 150	226	–	–	11 376
Spare parts allocated to fixed assets	–	493	10 650	–	(10 070)	1 073
Overhaul expenses	–	–	1 848	–	38 951	40 799
Items generated internally	–	–	–	–	20 101	20 101
Transfers to/from assets held for sale	(7)	(998)	(678)	(1)	(13 518)	(15 202)
Other movements	(5)	2 268	(1 591)	267	425	1 364
<b>Closing balance</b>	<b>118 539</b>	<b>18 646 278</b>	<b>15 205 599</b>	<b>823 841</b>	<b>2 185 401</b>	<b>36 979 658</b>
<b>ACCUMULATED DEPRECIATION</b>						
<b>Opening balance</b>	<b>(458)</b>	<b>(5 049 663)</b>	<b>(4 957 467)</b>	<b>(440 706)</b>	<b>(5 323)</b>	<b>(10 453 617)</b>
Depreciation for the period	–	(400 833)	(394 412)	(42 614)	–	(837 859)
Increase of impairment	–	(251)	(129)	(13)	(424)	(817)
Decrease of impairment	7	987	18	39	–	1 051
Sale, disposal	–	389	2 326	6 707	–	9 422
Liquidation	–	22 895	18 840	3 017	–	44 752
Transfers to/from assets held for sale	–	325	(6)	10	–	329
Other movements	–	(315)	(1 899)	(2 580)	–	(4 794)
Foreign exchange differences from translation of foreign entities	–	–	(1)	(1)	–	(2)
<b>Closing balance</b>	<b>(451)</b>	<b>(5 426 466)</b>	<b>(5 332 730)</b>	<b>(476 141)</b>	<b>(5 747)</b>	<b>(11 241 535)</b>
<b>NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD</b>	<b>116 684</b>	<b>13 145 793</b>	<b>9 861 624</b>	<b>367 901</b>	<b>1 358 940</b>	<b>24 850 942</b>
<b>NET CARRYING AMOUNT AT THE END OF THE PERIOD</b>	<b>118 088</b>	<b>13 219 812</b>	<b>9 872 869</b>	<b>347 700</b>	<b>2 179 654</b>	<b>25 738 123</b>

For the 6-month period ended 30 June 2014 (unaudited)

	Land	Buildings, premises and civil engineering	Plant and machinery	Other	Assets under construction	Property, plant and equipment, total
<b>COST</b>						
<b>Opening balance</b>	<b>114 112</b>	<b>17 385 870</b>	<b>14 909 785</b>	<b>738 450</b>	<b>1 213 948</b>	<b>34 362 165</b>
Direct purchase	–	–	211	206	1 145 196	1 145 613
Transfer of assets under construction	1 388	547 232	367 748	26 651	(943 019)	–
Sale, disposal	(29)	(3 042)	(2 070)	(6 723)	(13)	(11 877)
Liquidation	–	(17 475)	(84 448)	(4 157)	–	(106 080)
Received free of charge	10	8 195	260	69	–	8 534
Reclassification	–	17 647	(17 850)	203	–	–
Spare parts allocated to fixed assets	–	–	1 260	–	–	1 260
Overhaul expenses	–	205	738	–	33 906	34 849
Items generated internally	–	–	–	–	21 060	21 060
Transfers to/from assets held for sale	(74)	(530)	(6)	67	–	(543)
Other movements	(791)	3	3 009	(49)	(4 547)	(2 375)
<b>Closing balance</b>	<b>114 616</b>	<b>17 938 105</b>	<b>15 178 637</b>	<b>754 717</b>	<b>1 466 531</b>	<b>35 452 606</b>
<b>ACCUMULATED DEPRECIATION</b>						
<b>Opening balance</b>	<b>(645)</b>	<b>(4 360 059)</b>	<b>(4 490 207)</b>	<b>(377 855)</b>	<b>(5 760)</b>	<b>(9 234 526)</b>
Depreciation for the period	–	(398 670)	(434 404)	(41 771)	–	(874 845)
Increase of impairment	–	–	(57)	(1)	(4 539)	(4 597)
Decrease of impairment	–	–	–	14	67	81
Sale, disposal	–	1 454	1 871	5 720	–	9 045
Liquidation	–	12 253	82 330	3 696	–	98 279
Transfers to/from assets held for sale	–	61	4	(67)	–	(2)
Other movements	–	(1 630)	1 868	(20)	–	218
<b>Closing balance</b>	<b>(645)</b>	<b>(4 746 591)</b>	<b>(4 838 595)</b>	<b>(410 284)</b>	<b>(10 232)</b>	<b>(10 006 347)</b>
<b>NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD</b>	<b>113 467</b>	<b>13 025 811</b>	<b>10 419 578</b>	<b>360 595</b>	<b>1 208 188</b>	<b>25 127 639</b>
<b>NET CARRYING AMOUNT AT THE END OF THE PERIOD</b>	<b>113 971</b>	<b>13 191 514</b>	<b>10 340 042</b>	<b>344 433</b>	<b>1 456 299</b>	<b>25 446 259</b>

In the 6-month period ended 30 June 2015, the Group acquired property, plant and equipment for PLN 1 679 586 thousand. Major purchases were related to investments in the following operating segments:

Purchase of property, plant and equipment by segment	6-month period ended 30 June 2015 (unaudited)	6-month period ended 30 June 2014 (unaudited)
Distribution	678 740	825 205
Generation	824 108	225 753
Mining	145 454	82 128

### **Impairment tests**

Taking into account the indications that the market value of the Company's net assets had been below their carrying amount as well as the general situation in the power sector, the Group tested its property, plant and equipment for impairment as at 30 June 2015.

The tests required estimating the value in use of cash generating units, based on their future cash flows discounted to the current value with the discount rate.

The impairment test for property, plant and equipment was carried out the level of individual companies, except for:

- TAURON Wytwarzanie S.A. – where cash generating units were identified based on the cost nature and analysis of the applied methods of contracting and allocating generation from particular generation units. Consequently, the test was performed for cash-generating units understood as generation units or groups of generation units;
- TAURON Ekoenergia Sp. z o.o. – where only water power plants operations were tested for impairment, because wind plants were classified as a disposal group held for sale as at the balance sheet date;
- TAURON Ciepło Sp. z o.o. – where the activities related to generation of heat and electricity were separated from the activities related to transmission and distribution of heat (former thermal energetics companies).

Key assumptions made to estimate the value in use of property, plant and equipment:

- The adopted price path of power coal, other coal sizes and gaseous fuels;
- The adopted electricity wholesale price path for the years 2015–2024, taking into account such factors as the effect of the balance of the market supply and demand for electricity, costs of fuel as well as costs of acquiring CO<sub>2</sub> emission allowances;
- Emission limits for generating electricity specified in the regulation of the Council of Ministers, adjusted by capital expenditure incurred and the limits for heat generation compliant with the regulation of the Council of Ministers, adjusted by the level of operations, i.e. generation of heat;
- Green, red and yellow energy production volumes depending on the production capacity, along with the price path for individual energy certificates;
- Regulated revenue generated by distribution companies, ensuring coverage of reasonable costs and a reasonable level of return on capital. The return on capital is conditional on the Regulatory Asset Value;
- The adopted electricity retail price path based on the wholesale price of black energy, taking into account the costs of excise duty, the obligation to surrender energy certificates as well as an appropriate level of margin;
- Sales volumes taking into account GDP growth and increased market competition;
- Tariff revenue generated by heat companies, ensuring coverage of reasonable costs and a reasonable level of return on capital;
- Maintenance of the production capacity of the existing non-current assets as a result of replacement investments;
- The level of the weighted average cost of capital (WACC) during the projection period, as used in the calculations, ranges from 7.68% to 9.98% in nominal terms before tax.

The results of the impairment test of assets as at 30 June 2015 did not indicate the need to recognize impairment losses.



## 16. Goodwill

As at the acquisition date the goodwill acquired is allocated to each cash-generating unit ("CGU") that derives benefits from synergy effects. Operating segment, as defined in IFRS 8 *Operating Segments*, is the lowest level unit in the Group with attributable goodwill and with goodwill monitored for internal management purposes (except for the Generation segment). In the Generation segment, however, the lowest level units are cash-generating units related to electricity generation from conventional sources, in cogeneration, in co-firing of biomass and other thermal energy, cash-generating units related to generation to electricity from renewable sources and cash-generating units related to generation, distribution and sale of heat.

Goodwill in segment	As at 30 June 2015 (unaudited)	As at 31 December 2014
Mining	13 973	13 973
Distribution	25 602	25 602
Generation	155 580	155 580
<b>Total</b>	<b>195 155</b>	<b>195 155</b>

As at 30 June 2015, a carrying amount impairment test was performed for the net assets increased by goodwill for individual operating segments: Mining and Distribution and in the Generation segment for cash-generating units related to generation, distribution and sale of heat (formerly constituting the Heat segment).

The recoverable amount in each cash-generating unit was determined based on the value in use.

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

### **Mining segment**

- The adopted price path of power coal and other coal sizes;
- The adopted electricity retail price path based on the wholesale price of black energy, taking into account the costs of excise duty, the obligation to surrender energy certificates as well as an appropriate level of margin;
- Maintenance of the production capacity of the existing non-current assets as a result of replacement investments.

### **Distribution segment**

- Regulated revenue generated by distribution companies, ensuring coverage of reasonable costs and a reasonable level of return on capital. The return on capital is conditional on the Regulatory Asset Value;
- Maintenance of the electricity distribution capacity of the existing non-current assets as a result of replacement investments.

### **Generation, distribution and sale of heat in the Generation segment**

- Tariff revenue generated by heat companies, ensuring coverage of reasonable costs and a reasonable level of return on capital;
- Green, red and yellow energy production volumes depending on the production capacity, along with the price path for individual energy certificates;
- Emission limits for generating electricity and heat in line with regulations of the Council of Ministers;
- Maintenance of the heat generation, distribution and sales capacity of the existing non-current assets as a result of replacement investments.

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

The test was performed based on the present value of estimated operating cash flows. The calculations were based on detailed projections for the period from the second half of 2015 to 2024 and the estimated residual value. The basis for cash flow calculations is the planned EBIT for 2015 (the second half of the year) – 2024 and amortization/depreciation for this period. The expected EBIT is determined in the long-term plan of the Group companies covering the period until 2024. For purposes of impairment testing of generation, distribution and sale of heat activity, detailed projections covering the whole period of their operations were used, while the residual value was not determined. Using projections longer than five years results in particular from the long-term nature of investment processes in the power industry. The macroeconomic and sector assumptions serving as the basis

for projections are updated as frequently as any indications for their modification are observed on the market. Projections also take into account changes in the legal environment known as at the date of the test.

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

The discount rate used for calculation reflects the weighted average cost of capital (WACC), taking into account the risk-free rate determined by reference to the yield on 10-year treasury bonds (4.3%) and the risk premium for operations appropriate for the power industry (5.5%). The growth rate used for extrapolation of projected cash flows beyond the detailed planning period is at the level of 2.5% and it corresponds to the estimated long-term inflation rate.

Discount rates used for calculation of the value in use for each cash-generating unit, before tax:

- Mining segment: 9.98%
- Distribution segment: 8.25%
- Generation, distribution and sale of heat in the Generation segment: 7.95%

Sensitivity analyses conducted reveal that the projected wholesale prices of electricity and the adopted discount rates are the key factors exerting an effect on the estimated value in use of cash generating units.

According to the Company's forecasts, no rationally possible and highly probable change in any key assumption made in the analyses will increase the carrying amount of the net assets plus goodwill to a level exceeding their recoverable amount.

The results of the test did not indicate the necessity to recognize any impairment losses on goodwill of any of the cash-generating units.

## 17. Non-current intangible assets

### For the 6-month period ended 30 June 2015 (unaudited)

	Development expenses	Perpetual usufruct	Software, concessions, patents, licenses and similar items	Energy certificates	Greenhouse gas emission allowances	Other intangible assets	Intangible assets not made available for use	Intangible assets, total
<b>COST</b>								
<b>Opening balance</b>	<b>4 670</b>	<b>789 670</b>	<b>475 291</b>	<b>207 397</b>	<b>265 103</b>	<b>153 770</b>	<b>53 436</b>	<b>1 949 337</b>
Direct purchase	–	–	81	7 263	–	–	30 160	37 504
Transfer of intangible assets not made available for use	–	1 794	13 471	–	–	13 839	(29 104)	–
Sale, disposal	–	(832)	(8 154)	–	–	–	–	(8 986)
Liquidation	(147)	–	(123)	–	–	(48)	–	(318)
Received free of charge	–	–	–	–	–	254	–	254
Transfers from assets under construction	–	–	27	–	–	–	1 025	1 052
Reclassification	–	–	–	(199 483)	(138 518)	–	–	(338 001)
Other movements	–	(649)	115	–	–	(153)	(16)	(703)
Foreign exchange differences from translation of foreign entities	–	–	1	–	–	–	3	4
<b>Closing balance</b>	<b>4 523</b>	<b>789 983</b>	<b>480 709</b>	<b>15 177</b>	<b>126 585</b>	<b>167 662</b>	<b>55 504</b>	<b>1 640 143</b>
<b>ACCUMULATED AMORTIZATION</b>								
<b>Opening balance</b>	<b>(3 822)</b>	<b>(15 297)</b>	<b>(289 949)</b>	<b>–</b>	<b>–</b>	<b>(35 635)</b>	<b>–</b>	<b>(344 703)</b>
Amortization for the period	(238)	–	(25 927)	–	–	(6 534)	–	(32 699)
Increase of impairment	–	(128)	–	–	–	–	–	(128)
Decrease of impairment	–	60	–	–	–	–	–	60
Sale, disposal	–	–	8 124	–	–	–	–	8 124
Liquidation	146	–	123	–	–	47	–	316
Other movements	–	–	(73)	–	–	(8)	–	(81)
Foreign exchange differences from translation of foreign entities	–	–	(3)	–	–	–	–	(3)
<b>Closing balance</b>	<b>(3 914)</b>	<b>(15 365)</b>	<b>(307 705)</b>	<b>–</b>	<b>–</b>	<b>(42 130)</b>	<b>–</b>	<b>(369 114)</b>
<b>NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD</b>	<b>848</b>	<b>774 373</b>	<b>185 342</b>	<b>207 397</b>	<b>265 103</b>	<b>118 135</b>	<b>53 436</b>	<b>1 604 634</b>
<b>NET CARRYING AMOUNT AT THE END OF THE PERIOD</b>	<b>609</b>	<b>774 618</b>	<b>173 004</b>	<b>15 177</b>	<b>126 585</b>	<b>125 532</b>	<b>55 504</b>	<b>1 271 029</b>

**For the 6-month period ended 30 June 2014 (unaudited)**

	Development expenses	Perpetual usufruct	Software, concessions, patents, licenses and similar items	Energy certificates	Greenhouse gas emission allowances	Other intangible assets	Intangible assets not made available for use	Intangible assets, total
<b>COST</b>								
<b>Opening balance</b>	<b>4 030</b>	<b>810 712</b>	<b>379 236</b>	<b>20 250</b>	<b>34 528</b>	<b>109 979</b>	<b>84 633</b>	<b>1 443 368</b>
Direct purchase	–	–	123	4 695	97 510	–	48 432	150 760
Transfer of intangible assets not made available for use	–	3 774	31 167	–	–	30 976	(65 917)	–
Sale, disposal	–	(297)	–	–	–	–	–	(297)
Liquidation	–	(16)	(2 054)	–	–	(7)	–	(2 077)
Received free of charge	–	33	–	–	–	238	–	271
Transfers from assets under construction	–	–	8	–	–	–	4 939	4 947
Reclassification	–	–	–	(16 183)	–	–	–	(16 183)
Other movements	640	–	1 256	–	–	–	(5)	1 891
Foreign exchange differences from translation of foreign entities	–	–	1	–	–	–	–	1
<b>Closing balance</b>	<b>4 670</b>	<b>814 206</b>	<b>409 737</b>	<b>8 762</b>	<b>132 038</b>	<b>141 186</b>	<b>72 082</b>	<b>1 582 681</b>
<b>ACCUMULATED AMORTIZATION</b>								
<b>Opening balance</b>	<b>(3 442)</b>	<b>(14 449)</b>	<b>(242 012)</b>	<b>–</b>	<b>–</b>	<b>(23 460)</b>	<b>–</b>	<b>(283 363)</b>
Amortization for the period	(43)	–	(30 389)	–	–	(6 867)	–	(37 299)
Liquidation	–	–	2 031	–	–	6	–	2 037
Other movements	–	–	(1 147)	–	–	–	–	(1 147)
Foreign exchange differences from translation of foreign entities	–	–	1	–	–	–	–	1
<b>Closing balance</b>	<b>(3 485)</b>	<b>(14 449)</b>	<b>(271 516)</b>	<b>–</b>	<b>–</b>	<b>(30 321)</b>	<b>–</b>	<b>(319 771)</b>
<b>NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD</b>	<b>588</b>	<b>796 263</b>	<b>137 224</b>	<b>20 250</b>	<b>34 528</b>	<b>86 519</b>	<b>84 633</b>	<b>1 160 005</b>
<b>NET CARRYING AMOUNT AT THE END OF THE PERIOD</b>	<b>1 185</b>	<b>799 757</b>	<b>138 221</b>	<b>8 762</b>	<b>132 038</b>	<b>110 865</b>	<b>72 082</b>	<b>1 262 910</b>

**Impairment tests**

Taking into account the indications that the market value of the Company's net assets has been below their carrying amount as well as the general situation in the power sector, the Group tested its intangible assets for impairment as at 30 June 2015.

The value in use of intangible assets was estimated using the assumptions adopted to goodwill testing, as described in Note 16. The tests did not indicate the necessity to recognize any impairment losses.

**18. Shares in joint ventures**

Investments in joint-ventures measured using the equity method as at 30 June 2015 and for the 6-month period ended 30 June 2015 have been presented below:

	Elektrociepłownia Stalowa Wola S.A.	Elektrownia Blachownia Nowa Sp. z o.o.	TAMEH HOLDING Sp. z o.o.*	As at 30 June 2015 or for the 6-month period ended 30 June 2015 (unaudited)
Non-current assets	1 004 694	27 351	1 073 282	2 105 327
Current assets	6 403	36 972	303 654	347 029
Non-current liabilities (-)	(944 932)	–	(244 213)	(1 189 145)
Current liabilities (-)	(35 340)	(81)	(295 388)	(330 809)
<b>Total net assets</b>	<b>30 825</b>	<b>64 242</b>	<b>837 335</b>	<b>932 402</b>
Share in net assets	15 413	32 121	418 668	466 202
Elimination of transactions with Group companies	(13 152)	–	–	(13 152)
<b>Investment in joint ventures</b>	<b>2 261</b>	<b>32 121</b>	<b>383 047</b>	<b>417 429</b>
Share in revenue of joint ventures	10	253	279 881	280 144
<b>Share in profit/(loss) of joint ventures</b>	<b>(1 190)</b>	<b>15</b>	<b>6 045</b>	<b>4 870</b>

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

Investments in joint-ventures measured using the equity method as at 31 December 2014 and for the 6-month period ended 30 June 2014 have been presented below:

	Elektrociepłownia Stalowa Wola S.A.	Elektrownia Blachownia Nowa Sp. z o.o.	TAMEH HOLDING Sp. z o.o.*	As at 31 December 2014 or for the 6-month period ended 30 June 2014 (unaudited)
Non-current assets	973 128	27 351	985 875	<b>1 986 354</b>
Current assets	53 283	36 920	319 756	<b>409 959</b>
Non-current liabilities (-)	(900 635)	-	(34 085)	<b>(934 720)</b>
Current liabilities (-)	(92 570)	(59)	(433 758)	<b>(526 387)</b>
<b>Total net assets</b>	<b>33 206</b>	<b>64 212</b>	<b>837 788</b>	<b>935 206</b>
Share in net assets	16 603	32 106	418 894	<b>467 603</b>
Elimination of transactions with Group companies	(11 127)	-	-	<b>(11 127)</b>
<b>Investment in joint ventures</b>	<b>5 476</b>	<b>32 106</b>	<b>377 002</b>	<b>414 584</b>
Share in revenue of joint ventures	44	262	-	<b>306</b>
<b>Share in profit/(loss) of joint ventures</b>	<b>(941)</b>	<b>165</b>	<b>-</b>	<b>(776)</b>

\* The above information about the TAMEH HOLDING Sp. z o.o. Capital Group is of a preliminary nature, because as at 31 December 2014 the acquisition of subsidiaries by TAMEH HOLDING Sp. z o.o. was not finally accounted for.

#### **Elektrociepłownia Stalowa Wola S.A.**

Elektrociepłownia Stalowa Wola S.A. is a special purpose vehicle set up in 2010 on the initiative of TAURON Polska Energia S.A. and PGNiG S.A.

As a joint venture it is accounted for using the equity method in the condensed interim consolidated financial statements. TAURON Polska Energia S.A. holds an indirect interest amounting to 50% in the share capital of this company and 50% in its governing body through TAURON Wytwarzanie S.A.

Under the agreements of 20 June 2012 among PGNiG S.A., TAURON Polska Energia S.A. and Elektrociepłownia Stalowa Wola S.A., TAURON Polska Energia S.A. granted loans to Elektrociepłownia Stalowa Wola S.A. with a view to satisfying the necessary conditions for provision of funding to Elektrociepłownia Stalowa Wola S.A. by the European Bank for Reconstruction and Development and the European Investment Bank. The outstanding amounts of these loans as at the balance sheet date have been presented below:

	As at 30 June 2015 (unaudited)		As at 31 December 2014	
	Principal	Interest	Principal	Interest
Subordinated loan	177 000	25 152	177 000	21 331
VAT loan	-	-	5 850	12
<b>Total loans granted to Elektrociepłownia Stalowa Wola S.A., of which:</b>	<b>177 000</b>	<b>25 152</b>	<b>182 850</b>	<b>21 343</b>
Non-current	177 000	25 152	177 000	21 331
Current	-	-	5 850	12

As at the end of the reporting period, the amount disbursed under the subordinated loan agreement was PLN 177 000 thousand, i.e. the maximum contractual amount. The loan with interest due is to be finally repaid no later than by the end of 2032.

Originated loans and amounts repaid in the 6-month period ended 30 June 2015 have been presented in Note 31.1. to these condensed interim consolidated financial statements.

In the 6-month period ended 30 June 2015, the interest income due to loans granted reached PLN 3 858 thousand. The Group presented interest income due to originated loans of Elektrociepłownia Stalowa Wola S.A. in the portion corresponding to unrelated investors' interests in the joint venture in the condensed interim consolidated financial statements.

#### **Elektrownia Blachownia Nowa Sp. z o.o.**

Elektrownia Blachownia Nowa Sp. z o.o. is a special purpose vehicle set up in 2012 by TAURON Wytwarzanie S.A. and KGHM Polska Miedź S.A. The Company was set up to perform a comprehensive investment project including preparation, construction and operation of a combined cycle gas and steam unit with the capacity of ca. 850 MWe on the land of TAURON Wytwarzanie S.A. – Oddział Elektrownia Blachownia.

As a joint venture Elektrownia Blachownia Nowa Sp. z o.o. is accounted for in the condensed interim consolidated financial statements using the equity method. TAURON Polska Energia S.A. holds an indirect interest amounting to 50% in the share capital of this company and 50% in its governing body through TAURON Wytwarzanie S.A.

Pursuant to the agreement concluded by TAURON Polska Energia S.A., KGHM Polska Miedź S.A. and TAURON Wytwarzanie S.A. on 30 December 2013 the project of construction of gas and steam power unit in Elektrownia Blachownia Nowa Sp. z o.o. has been suspended due to the general situation in the electricity and gas markets entailing an increased investment risk and a necessity to review and optimize the project. In the 6-month period ended 30 June 2015 no further developments in the project implementation occurred.

The parties undertook to ensure further business operations of Elektrownia Blachownia Nowa Sp. z o.o., securing deliverables provided thus far, in particular updating project documentation and ensuring on-going monitoring of the energy market and regulatory environment in view of the possibility to restart project performance as soon as possible. The parties agreed that the decision to recommence the project will be adopted in the form of a separate agreement which is expected to be concluded by 31 December 2016.

#### **The TAMEH HOLDING Sp. z o.o. Capital Group**

In 2014 the TAURON Group entered into an agreement with the ArcelorMittal Group. The shareholders agreement states that TAMEH HOLDING Sp. z o.o. shall carry out investment and operational projects related to industrial power sector. The Agreement was concluded for the period of 15 years with possible term extension. Following the transactions concluded last year, both capital groups have held 50% of shares in TAMEH HOLDING Sp. z o.o. each.

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

The value of shares in TAMEH HOLDING Sp. z o.o. taken up by the Company in 2014 was PLN 374 883 thousand. The purchase price for shares taken up was increased by acquisition costs of PLN 873 thousand. The net assets contributed by the Group amounted to PLN 335 918 thousand.

## **19. Current intangible assets**

**For the 6-month period ended 30 June 2015 (unaudited)**

	Energy certificates	Greenhouse gas emission allowances	Current intangible assets, total
<b>COST</b>			
<b>Opening balance</b>	<b>724 918</b>	<b>8 130</b>	<b>733 048</b>
Direct purchase	221 439	3 100	224 539
Generated internally	136 704	–	136 704
Cancellation	(776 631)	(5 941)	(782 572)
Reclassification	195 816	139 082	334 898
<b>Closing balance</b>	<b>502 246</b>	<b>144 371</b>	<b>646 617</b>
<b>IMPAIRMENT</b>			
<b>Opening balance</b>	–	–	–
<b>Closing balance</b>	–	–	–
<b>NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD</b>	<b>724 918</b>	<b>8 130</b>	<b>733 048</b>
<b>NET CARRYING AMOUNT AT THE END OF THE PERIOD</b>	<b>502 246</b>	<b>144 371</b>	<b>646 617</b>

**For the 6-month period ended 30 June 2014 (unaudited)**

	Energy certificates	Greenhouse gas emission allowances	Current intangible assets, total
<b>COST</b>			
<b>Opening balance</b>	<b>695 427</b>	<b>461 123</b>	<b>1 156 550</b>
Direct purchase	417 028	5 875	422 903
Generated internally	177 723	–	177 723
Cancellation	(831 676)	(463 362)	(1 295 038)
Sales	(1 465)	–	(1 465)
Reclassification	43 393	–	43 393
<b>Closing balance</b>	<b>500 430</b>	<b>3 636</b>	<b>504 066</b>
<b>IMPAIRMENT</b>			
<b>Opening balance</b>	–	–	–
<b>Closing balance</b>	–	–	–
<b>NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD</b>	<b>695 427</b>	<b>461 123</b>	<b>1 156 550</b>
<b>NET CARRYING AMOUNT AT THE END OF THE PERIOD</b>	<b>500 430</b>	<b>3 636</b>	<b>504 066</b>

**20. Inventories**

	As at 30 June 2015 (unaudited)	As at 31 December 2014
<b>Historical cost</b>		
Raw materials	269 358	285 135
Semi-finished goods and work-in-progress	128 114	239 426
Finished goods	9 318	1 600
Goods for resale	865	707
Energy certificates	8 956	20 055
Emission allowances	2 022	1 761
<b>Total</b>	<b>418 633</b>	<b>548 684</b>
<b>Write-downs to net realizable value</b>		
Raw materials	(7 251)	(7 305)
Finished goods	(116)	(12)
Goods for resale	(21)	(21)
Energy certificates	(6 795)	(13 750)
<b>Total</b>	<b>(14 183)</b>	<b>(21 088)</b>
<b>Net realizable value</b>		
Raw materials	262 107	277 830
Semi-finished goods and work-in-progress	128 114	239 426
Finished goods	9 202	1 588
Goods for resale	844	686
Energy certificates	2 161	6 305
Emission allowances	2 022	1 761
<b>Total</b>	<b>404 450</b>	<b>527 596</b>

**21. Trade and other receivables**

Current trade and other receivables as at 30 June 2015 and 31 December 2014 have been presented in the table below.

	As at 30 June 2015 (unaudited)	As at 31 December 2014
Trade receivables	1 503 383	1 664 191
Loans granted	–	6 368
Other financial receivables, of which:	376 383	298 610
Receivables from sales of fixed and intangible assets	455	483
Receivables claimed at court	20 328	20 328
Other receivables	355 600	277 799
<b>Total</b>	<b>1 879 766</b>	<b>1 969 169</b>

Non-current trade and other receivables are disclosed as other financial assets under non-current assets in the statement of financial position. As at 30 June 2015 the Group did not disclose any non-current trade receivables, while other non-current receivables amounted to PLN 31 043 thousand.

As at 31 December 2014 non-current trade receivables amounted to PLN 38 thousand, while other non-current receivables totaled PLN 30 492 thousand.

Current trade and other receivables with related allowance as at 30 June 2015 and 31 December 2014 have been presented in the tables below.

#### Trade and other receivables as at 30 June 2015 (unaudited)

	Trade receivables	Other financial receivables	Total
Accounts receivable (without allowance for doubtful debt)	1 573 963	587 657	2 161 620
Allowance for doubtful debt	(70 580)	(211 274)	(281 854)
<b>Net value</b>	<b>1 503 383</b>	<b>376 383</b>	<b>1 879 766</b>

#### Trade and other receivables as at 31 December 2014

	Trade receivables	Loans granted	Other financial receivables	Total
Accounts receivable (without allowance for doubtful debt)	1 737 996	6 368	507 653	2 252 017
Allowance for doubtful debt	(73 805)	–	(209 043)	(282 848)
<b>Net value</b>	<b>1 664 191</b>	<b>6 368</b>	<b>298 610</b>	<b>1 969 169</b>

Trade receivables bear no interest and in case of cooperation with institutional contractors they usually have a 30-day maturity period. In case of individual clients, payments are made on a monthly or bi-monthly basis.

Except for sales to individual clients, sales are made only to customers who have undergone an appropriate verification procedure. As a result, the Management believe that there is no additional credit risk that would exceed the allowance for bad debts recognized for trade receivables of the Group.

## 22. Cash and cash equivalents

Cash in bank bears a floating interest rate determined based on interest on overnight deposits. Short-term deposits are made for various periods, mainly from one day to one month, depending on the Group's current demand for cash and bear interest that is calculated according to applicable interest rates.

The balance of cash and cash equivalents disclosed in the statement of cash flows includes:



	As at 30 June 2015 (unaudited)	As at 31 December 2014
Cash at bank and in hand	244 397	410 082
Short-term deposits (up to 3 months)	670 003	1 009 991
Other	735	836
<b>Total cash and cash equivalents presented in the statement of financial position, of which:</b>	<b>915 135</b>	<b>1 420 909</b>
– restricted cash	164 421	116 568
Bank overdraft	(13 152)	(11 918)
Cash pool	(26 930)	(4 481)
Foreign exchange and other differences	3 247	3 561
<b>Total cash and cash equivalents presented in the statement of cash flows</b>	<b>878 300</b>	<b>1 408 071</b>

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

As at 30 June 2015 the balance of restricted cash included mainly cash on the accounts for bid bonds of PLN 92 364 thousand and cash on the accounts used for settling electricity trading and emission allowances on the Polish Power Exchange, i.e. Towarowa Giełda Energii S.A., of PLN 58 584 thousand.

### 23. Non-current assets and a disposal group classified as held for sale

A disposal group includes the assets and liabilities of four existing wind farms classified as held for sale in relation to the followed off-balance sheet asset financing policy aimed at selling interest in the existing wind farms to an external investor. The original idea was to sell (with the buy-back option) a majority interest in the existing wind farms to a financial investor and to refinance the existing debt allocated to the wind farms using bank debt when the Company becomes a minority shareholder. As the market terms of the transaction changed dramatically, the Company decided to discontinue negotiations with financial investors. On 2 July 2015 the Company and ENEA S.A. concluded a letter of intent concerning partnership in the implementation of a common strategy on the optimal increase in the use of renewable sources of energy and financing acquisition of wind farm assets.

Main categories of assets and liabilities of the disposal group classified as held for sale as at 30 June 2015 and 31 December 2014:

	As at 30 June 2015 (unaudited)	As at 31 December 2014
Property, plant and equipment	1 222 773	1 208 545
Goodwill and other intangible assets	52 127	52 077
Other non-current non-financial assets	27 783	36 678
Trade and other receivables (current)	5 373	1 937
Other current non-financial assets	22 533	21 695
<b>Total assets of a disposal group</b>	<b>1 330 589</b>	<b>1 320 932</b>
Other non-current provisions	58 993	58 336
Deferred income tax liability	9 475	7 325
Trade and other payables (current)	6 023	10 484
Other current provisions	1 405	1 038
Accruals, deferred income and government grants (current)	8 261	7 787
<b>Total liabilities directly related to the disposal group</b>	<b>84 157</b>	<b>84 970</b>
<b>Net assets of a disposal group classified as held for sale</b>	<b>1 246 432</b>	<b>1 235 962</b>

Non-current assets and the disposal group, classified as held for sale, as presented in the statement of financial position as at 30 June 2015 and 31 December 2014:



	As at 30 June 2015 (unaudited)	As at 31 December 2014
Disposal group	1 330 589	1 320 932
Other non-current assets	13 358	16 773
<b>Non-current assets and assets of a disposal group classified as held for sale</b>	<b>1 343 947</b>	<b>1 337 705</b>
<b>Liabilities of a disposal group classified as held for sale</b>	<b>84 157</b>	<b>84 970</b>

## 24. Equity

### 24.1. Issued capital

#### Issued capital as at 30 June 2015 (unaudited)

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

As at 30 June 2015, the value of issued capital, the number of shares and the par value of shares did not change compared to 31 December 2014.

#### Shareholding structure as at 30 June 2015 (unaudited, to the best of the Company's knowledge)

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

To the best of the Company's knowledge, the shareholding structure as at 30 June 2015 has not changed since 31 December 2014.

### 24.2. Revaluation reserve from valuation of hedging instruments

	6-month period ended 30 June 2015 (unaudited)	6-month period ended 30 June 2014 (unaudited)
<b>Opening balance</b>	<b>(143 019)</b>	<b>(126 651)</b>
Remeasurement of hedging instruments	48 417	(22 263)
Remeasurement of hedging instruments charged to profit or loss for the period	211	(199)
Deferred income tax	(9 239)	4 268
<b>Closing balance</b>	<b>(103 630)</b>	<b>(144 845)</b>

The revaluation reserve from valuation of hedging instruments results from valuation of Interest Rate Swaps (IRS) hedging the interest rate risk arising from bonds issued. As at 30 June 2015 the Group concluded hedging transactions subject to specific risk management policy. Pursuant to a decision of the Financial Risk Management Committee of 30 January 2012, in March 2012 the Parent hedged the interest rate risk arising from bonds issued under the Bond Issue Scheme (Tranche A and Tranche C), by entering into an interest rate swap (IRS) transaction

for a term of 5 years. The aforementioned transaction was concluded due to fluctuations in the projected future cash flows from interest payments resulting from the issue of bonds in PLN with a floating interest rate based on WIBOR 6M. The Company hedged 80% of such cash flows. Following early redemption of Tranche A bonds carried out on 29 December 2014, the Group no longer applied hedge accounting to IRS contracts hedging the bonds redeemed. The Group still applies hedge accounting to the remaining IRS contracts hedging Tranche C bonds.

As at 30 June 2015 the Company recognized PLN (103 630) thousand of revaluation reserve from measurement of hedging instruments. It represents a liability arising from measurement of interest rate swaps as at the end of the reporting period, totaling to PLN 132 515 thousand, adjusted by a portion of measurement relating to interest accrued on bonds as at the end of the reporting period, including deferred tax.

The profit/loss for the period was charged with PLN 42 404 thousand, where PLN 42 193 thousand was the amount paid in respect of hedges used in relation to closed interest periods and PLN 211 thousand resulted from remeasurement of instruments related to interest on bonds accrued as at the end of the reporting period. The aforementioned costs of hedging IRS transactions increased financial expenses arising from interest on bonds issued in the statement of comprehensive income.

### **24.3. Retained earnings and dividend limitation**

In the current period, changes in retained earnings included:

- net profit for the period attributable to the shareholders of the Parent of PLN 718 524 thousand;
- actuarial gains/losses on provisions for post-employment benefits charged to other comprehensive income of PLN 1 292 thousand;
- allocation of the Company's profit for 2014 to increase the reserve capital by PLN 883 561 thousand and dividend payment of PLN 262 882 thousand;
- PLN (45) thousand due to settlement of mandatory squeeze-out of non-controlling interests.

The amount of PLN 1 146 456 thousand, disclosed as retained earnings, was still distributable to shareholders of the Parent as at the beginning of the reporting period. On 23 April 2015, the Ordinary General Shareholders' Meeting adopted a resolution on distribution of the Company's profit for 2014 of PLN 1 146 443 thousand.

## **25. Acquisition of non-controlling interests and organizational changes**

### **Purchase of shares in Biomasa Grupa TAURON Sp. z o.o.**

Under an agreement dated 14 January 2015, TAURON Polska Energia S.A. acquired 4 267 shares in Biomasa Grupa TAURON Sp. z o.o., constituting 100% of the issued capital of the entity for PLN 1 224 thousand from TAURON Wytwarzanie S.A., a subsidiary. The title to shares was transferred under Article 453 of the Civil Code in order to release TAURON Wytwarzanie S.A. from the liability towards the Company arising from issued bonds with the value of PLN 1 230 thousand. The remaining portion of the liability of PLN 6 thousand was repaid in cash.

The transaction in question has not affected these condensed interim consolidated financial statements.

### **Mandatory squeeze-out**

The process of squeeze-out of treasury shares for redemption purposes is continued in TAURON Dystrybucja S.A. Consequently, the value of non-controlling interest has decreased by PLN 154 thousand and the retained earnings have dropped by PLN 45 thousand.

## 26. Interest-bearing loans and borrowings

	As at 30 June 2015 (unaudited)	As at 31 December 2014
Loans and borrowings	1 210 900	1 232 032
Bonds issued	6 669 886	6 821 830
<b>Total</b>	<b>7 880 786</b>	<b>8 053 862</b>
Current	513 116	631 530
Non-current	7 367 670	7 422 332

### 26.1. Loans and borrowings

The balance of loans and borrowings taken out as at 30 June 2015 and 31 December 2014 has been presented in tables below.

#### Loans and borrowings taken out as at 30 June 2015 (unaudited)

Currency	Interest rate	Value of loans as at the balance sheet date (unaudited)		of which principal amount maturing within (after the balance sheet date):					
		currency	PLN	less than 3 months	3–12 months	1–2 years	2–3 years	3–5 years	over 5 years
PLN	floating	78 573	78 573	28 547	6 093	7 370	7 333	13 549	15 681
	fixed	1 113 163	1 113 163	20 444	112 296	132 739	132 739	265 478	449 467
<b>Total PLN</b>		<b>1 191 736</b>	<b>1 191 736</b>	<b>48 991</b>	<b>118 389</b>	<b>140 109</b>	<b>140 072</b>	<b>279 027</b>	<b>465 148</b>
EUR	floating	2 773	11 632	11 632	–	–	–	–	–
<b>Total EUR</b>		<b>2 773</b>	<b>11 632</b>	<b>11 632</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>
USD	floating	402	1 515	1 515	–	–	–	–	–
<b>Total USD</b>		<b>402</b>	<b>1 515</b>	<b>1 515</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>
<b>Total</b>			<b>1 204 883</b>	<b>62 138</b>	<b>118 389</b>	<b>140 109</b>	<b>140 072</b>	<b>279 027</b>	<b>465 148</b>
Interest increasing carrying amount			6 017						
<b>Total loans and borrowings</b>			<b>1 210 900</b>						

#### Loans and borrowings taken out as at 31 December 2014

Currency	Interest rate	Value of loans as at the balance sheet date		of which principal maturing within (after the balance sheet date):					
		currency	PLN	less than 3 months	3–12 months	1–2 years	2–3 years	3–5 years	over 5 years
PLN	floating	59 697	59 697	6 116	6 126	7 534	7 333	18 466	14 122
	fixed	1 153 997	1 153 997	20 443	112 289	132 733	132 733	265 464	490 335
<b>Total PLN</b>		<b>1 213 694</b>	<b>1 213 694</b>	<b>26 559</b>	<b>118 415</b>	<b>140 267</b>	<b>140 066</b>	<b>283 930</b>	<b>504 457</b>
EUR	floating	2 796	11 918	11 918	–	–	–	–	–
<b>Total EUR</b>		<b>2 796</b>	<b>11 918</b>	<b>11 918</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>
<b>Total</b>			<b>1 225 612</b>	<b>38 477</b>	<b>118 415</b>	<b>140 267</b>	<b>140 066</b>	<b>283 930</b>	<b>504 457</b>
Interest increasing carrying amount			6 420						
<b>Total loans and borrowings</b>			<b>1 232 032</b>						

Change in the balance of loans and borrowings excluding interest accrued in the 6-month period ended 30 June 2015 and in the comparable period has been presented below.

	6-month period ended 30 June 2015 (unaudited)	6-month period ended 30 June 2014 (unaudited)
<b>Opening balance</b>	<b>1 225 612</b>	<b>1 477 456</b>
<b>Movement in bank overdrafts and cash pool loans</b>	<b>23 683</b>	<b>(81 079)</b>
<b>Movement in loans and borrowings (excluding bank overdrafts and cash pool loans):</b>	<b>(44 412)</b>	<b>(60 273)</b>
Repaid	(44 739)	(60 708)
Change in valuation and other movements	327	435
<b>Closing balance</b>	<b>1 204 883</b>	<b>1 336 104</b>

As at 30 June 2015 the Group's liabilities arising from received loans and borrowings amounted to PLN 1 210 900 thousand and resulted from:

- loans of PLN 1 119 150 thousand received from the European Investment Bank, including interest accrued of PLN 5 988 thousand (PLN 1 160 411 thousand as at 31 December 2014).
- overdrafts of PLN 13 152 thousand (PLN 11 918 thousand as at 31 December 2014);
- loans and borrowings taken by the Group companies for investment or refunding purposes, including:
  - loan from the Regional Fund for Environmental Protection and Water Management taken out by TAURON Wytwarzanie S.A. to fund investment projects related to energy generation from renewable sources in the Jaworzno III power plant. As at the balance sheet date the outstanding amount was PLN 30 000 thousand (PLN 32 000 thousand as at 31 December 2014).
  - loan from the Regional Fund for Environmental Protection and Water Management granted to TAURON Ciepło Sp. z o.o. to fund green investment projects. As at the balance sheet date the outstanding amount was PLN 20 504 thousand (PLN 21 747 thousand as at 31 December 2014).

After the balance sheet date, on 17 July 2015, a portion of the loan granted by the European Investment Bank under the agreement of July 2014 was disbursed in the amount of PLN 295 000 thousand. The purpose of the loan was financing an investment project related to energy production from renewable sources and energy distribution. The tranche in question will be repaid in equal principal installments payable every 6 months from 15 September 2017 to 15 March 2027, while interest will be paid every 6 months from 15 September 2015. Interest rate is fixed and applies until 15 September 2019.

## 26.2. Bonds issued

The tables below present the balances of the Group's liabilities arising from bonds issued, together with accrued interest, as at 30 June 2015 and 31 December 2014.

### Bonds issued as at 30 June 2015 (unaudited)

Issuer	Tranche/ Bank	Redemption date	Interest rate	Currency	As at the balance sheet date (unaudited)		of which maturing within (after the balance sheet date)					
					Interest accrued	Principal at amortised cost	less than 3 months	3–12 months	1–2 years	2–3 years	3–5 years	Over 5 years
TAURON Polska Energia S.A.	B	12 December 2015	floating	PLN	417	299 861	–	299 861	–	–	–	–
	C	12 December 2016	floating	PLN	4 170	2 998 081	–	–	2 998 081	–	–	–
		20 December 2019	floating	PLN	98	99 815	–	–	–	–	99 815	–
		20 December 2020	floating	PLN	98	99 806	–	–	–	–	–	99 806
		20 December 2021	floating	PLN	98	99 801	–	–	–	–	–	99 801
		20 December 2022	floating	PLN	98	99 796	–	–	–	–	–	99 796
	BGK*	20 December 2023	floating	PLN	98	99 792	–	–	–	–	–	99 792
		20 December 2024	floating	PLN	98	99 791	–	–	–	–	–	99 791
		20 December 2025	floating	PLN	98	99 788	–	–	–	–	–	99 788
		20 December 2026	floating	PLN	98	99 784	–	–	–	–	–	99 784
	20 December 2027	floating	PLN	98	99 783	–	–	–	–	–	99 783	
TPEA1119		4 November 2019	floating	PLN	7 119	1 748 925	–	–	–	–	1 748 925	–
TAURON Sweden Energy AB (publ)		3 December 2029	fixed	EUR	14 122	698 153	–	–	–	–	–	698 153
<b>Total bonds</b>					<b>26 710</b>	<b>6 643 176</b>	<b>–</b>	<b>299 861</b>	<b>2 998 081</b>	<b>–</b>	<b>1 848 740</b>	<b>1 496 494</b>

\* Bank Gospodarstwa Krajowego.

**Bonds issued as at 31 December 2014**

Issuer	Tranche/ Bank	Redemption date	Interest rate	Currency	As at the balance sheet date		of which maturing within (after the balance sheet date)					
					Interest accrued	Principal at amortised cost	less than 3 months	3-12 months	1-2 years	2-3 years	3-5 years	Over 5 years
	B	12 December 2015	floating	PLN	485	299 716	-	299 716	-	-	-	-
	B	30 January 2015	floating	PLN	2 287	150 000	150 000	-	-	-	-	-
	C	12 December 2016	floating	PLN	4 849	2 997 442	-	-	2 997 442	-	-	-
		20 December 2019	floating	PLN	115	99 797	-	-	-	-	99 797	-
		20 December 2020	floating	PLN	115	99 791	-	-	-	-	-	99 791
		20 December 2021	floating	PLN	115	99 787	-	-	-	-	-	99 787
		20 December 2022	floating	PLN	115	99 784	-	-	-	-	-	99 784
TAURON Polska Energia S.A.	BGK*	20 December 2023	floating	PLN	115	99 781	-	-	-	-	-	99 781
		20 December 2024	floating	PLN	115	99 781	-	-	-	-	-	99 781
		20 December 2025	floating	PLN	115	99 780	-	-	-	-	-	99 780
		20 December 2026	floating	PLN	115	99 777	-	-	-	-	-	99 777
		20 December 2027	floating	PLN	115	99 776	-	-	-	-	-	99 776
	TPEA1119	4 November 2019	floating	PLN	7 953	1 748 810	-	-	-	-	1 748 810	-
TAURON Sweden Energy AB (publ)		3 December 2029	fixed	EUR	1 923	709 276	-	-	-	-	-	709 276
<b>Total bonds</b>					<b>18 532</b>	<b>6 803 298</b>	<b>150 000</b>	<b>299 716</b>	<b>2 997 442</b>	<b>-</b>	<b>1 848 607</b>	<b>1 507 533</b>

\* Bank Gospodarstwa Krajowego.

Bonds were issued by the Parent in a dematerialized form. These are unsecured coupon bonds with a floating interest rate plus a fixed margin. Interest is WIBOR 6M-based and is payable on a semi-annual basis.

Bonds issued by TAURON Sweden Energy AB (publ), a subsidiary, are fixed-rate securities with interest payable annually with the euro as the issue currency and repayment currency. As at 30 June 2015, the carrying amount with interest accrued in the bond currency reached EUR 169 816 thousand (as at 31 December 2014 it was EUR 166 858 thousand). The Parent granted a corporate guarantee to TAURON Sweden Energy AB (publ) to secure the bonds in question. The guarantee is valid in the entire bond period, i.e. until 3 December 2029, and amounts to EUR 168 000 thousand.

Change in the balance of bonds excluding interest accrued in the 6-month period ended 30 June 2015 and in the comparable period has been presented below.

	6-month period ended 30 June 2015 (unaudited)	6-month period ended 30 June 2014 (unaudited)
<b>Opening balance</b>	<b>6 803 298</b>	<b>4 291 460</b>
Issue*	-	998 329
Redemption	(150 000)	(300 000)
Change in valuation	(10 122)	1 758
<b>Closing balance</b>	<b>6 643 176</b>	<b>4 991 547</b>

\* Costs of issue have been included.

On 30 January 2015, TAURON Polska Energia S.A. redeemed Tranche B bonds with the par value of PLN 150 000 thousand at their maturity.

Moreover, 17 500 TPEA1119 series bearer bonds with the total face value of PLN 1 750 000 thousand and the unit face value of PLN 100 thousand issued by TAURON Polska Energia S.A. in 2014 were listed in the Catalyst market in the 6-month period ended 30 June 2015. The first listing was planned for 12 March 2015 and the last listing for 22 October 2019.

In July 2015 the Company concluded an annex to the scheme agreement with Bank Gospodarstwa Krajowego concerning the bond issue scheme organization. Pursuant to the annex, the bond issue scheme amount was increased from PLN 1 000 000 thousand to PLN 1 700 000 thousand (as discussed in detail in Note 40 hereto).

The Company hedges a portion of interest cash flows related to bonds issued under Tranche C using IRS contracts. The instruments are subject to hedge accounting, as discussed in Note 24.2 hereto.

The contracts signed by the Company with banks include legal and financial covenants which are commonly used in such transactions. As at 30 June 2015, none of these covenants were breached and the contractual provisions were complied with.

## 27. Derivative instruments

	As at 30 June 2015 (unaudited)				As at 31 December 2014			
	Charged to profit or loss	Charged to other comprehensive income	Total		Charged to profit or loss	Charged to other comprehensive income	Total	
			Assets	Liabilities			Assets	Liabilities
CCIRS	(51 398)	–	1 307	(52 705)	258	–	1 499	(1 241)
IRS	(11 447)	(127 937)	–	(139 384)	(17 746)	(176 567)	–	(194 313)
Commodity forwards/futures	1 205	–	1 205	–	(250)	–	312	(562)
Currency forwards	37	–	37	–	–	–	–	–
<b>Total derivative instruments, including:</b>			<b>2 549</b>	<b>(192 089)</b>			<b>1 811</b>	<b>(196 116)</b>
Current			<b>2 307</b>	<b>(98 289)</b>			<b>1 811</b>	<b>(102 615)</b>
Non-current			<b>242</b>	<b>(93 800)</b>			<b>–</b>	<b>(93 501)</b>

Derivative instrument CCIRS relates to the Coupon Cross Currency Swap contract entered into by the Company on 24 November 2014 – swap of interest payments from the nominal value of EUR 168 000 thousand. The contract was concluded for the period of 15 years. In accordance with the contract, the Company pays interest accrued based on a floating interest rate in PLN and receives fixed interest-rate payments in EUR. Hedge accounting principles do not apply to the transaction in question.

Derivatives – IRS include interest rate swap contracts concluded in order to hedge interest cash flows related to bonds issued, as presented in detail in Note 24.2 to these condensed interim consolidated financial statements. The interest rate swap contract related to Tranche A redeemed at the end of 2014 has been excluded from hedge accounting and it has been measured through profit or loss. As at 30 June 2015 the liability amounted to PLN 6 869 thousand. The remaining IRS contracts are subject to hedge accounting with the remeasurement recognized in other comprehensive income. As at 30 June 2015 the liability amounted to PLN 132 515 thousand.

Commodity futures and forwards include contracts for purchase and sale of commodities, mainly emission allowances. Hedge accounting principles do not apply to the transactions in question.

Moreover, in the 6-month period ended 30 June 2015 the Company entered into currency forward contracts hedging foreign currency cash flows resulting from trading in emission allowances. These transactions are not subject to hedge accounting.

## 28. Provisions for employee benefits

	As at 30 June 2015 (unaudited)	As at 31 December 2014
Provision for post-employment benefits and jubilee bonuses	2 033 367	2 044 405
Provision for employment termination benefits	35 596	62 872
<b>Total</b>	<b>2 068 963</b>	<b>2 107 277</b>
Current	128 598	158 954
Non-current	1 940 365	1 948 323

### 28.1. Provisions for post-employment benefits and jubilee bonuses

The Group determines provisions for future post-employment benefits and jubilee bonuses at an amount estimated using actuarial methods, taking into account the discount rate defined based on market rates of return from treasury bonds.

**For the 6-month period ended 30 June 2015 (unaudited)**

	Provision for retirement, disability and similar benefits	Employee electricity rates	Social Fund	Provision for coal allowances	Jubilee bonuses	Provisions, total
<b>Opening balance</b>	<b>357 017</b>	<b>769 975</b>	<b>170 242</b>	<b>67 661</b>	<b>679 510</b>	<b>2 044 405</b>
Current service costs	7 180	4 070	1 769	843	19 085	32 947
Actuarial gains and losses	2 299	(3 407)	(546)	53	(6 979)	(8 580)
Benefits paid	(14 659)	(11 320)	(2 087)	(995)	(18 936)	(47 997)
Past service costs	(2 232)	(2 321)	(221)	–	(5 431)	(10 205)
Interest expense	3 965	8 594	1 909	760	7 569	22 797
<b>Closing balance</b>	<b>353 570</b>	<b>765 591</b>	<b>171 066</b>	<b>68 322</b>	<b>674 818</b>	<b>2 033 367</b>
<b>Current</b>	<b>24 116</b>	<b>24 336</b>	<b>4 918</b>	<b>1 302</b>	<b>54 406</b>	<b>109 078</b>
<b>Non-current</b>	<b>329 454</b>	<b>741 255</b>	<b>166 148</b>	<b>67 020</b>	<b>620 412</b>	<b>1 924 289</b>

Past service costs of PLN 10 205 thousand concern the revaluation of actuarial provisions as at 30 June 2015, which resulted from the fact that employees had decided to participate in the Voluntary Redundancy Schemes. The item relates to persons who decided to take part in the Employment Cost Reduction Scheme implemented on 30 December 2014 in TAURON Wytwarzanie S.A. According to Scheme regulations, employees could declare their intention to take part in the initiative in the 3-month period ended 31 March 2015. In the 6-month period ended 30 June 2015, 174 persons decided to take part in the Scheme and the employment relationship was terminated with 166 people. 8 persons decided to go on a fixed-term leave before retiring. As at 30 June 2015, the provision for employee benefits was revalued to exclude employees participating in the Employment Cost Reduction Scheme. Consequently, the number of employees for whom actuarial provisions are recognized decreased dramatically.

Benefits paid out in the 6-month period ended 30 June 2015 included PLN 5 182 thousand of benefits paid to employees covered by voluntary redundancy schemes (in the 6-month period ended 30 June 2014 it was PLN 4 378 thousand).

**For the 6-month period ended 30 June 2014 (unaudited)**

	Provision for retirement, disability and similar benefits	Employee electricity rates	Social Fund	Provision for coal allowances	Jubilee bonuses	Provisions, total
<b>Opening balance</b>	<b>282 621</b>	<b>569 140</b>	<b>121 571</b>	<b>49 457</b>	<b>582 840</b>	<b>1 605 629</b>
Current service costs	6 684	3 863	1 485	471	19 540	32 043
Actuarial gains and losses	(4 569)	(1 652)	(462)	40	(12 444)	(19 087)
Benefits paid	(10 229)	(10 953)	(1 686)	(1 044)	(17 648)	(41 560)
Past service costs	(1 319)	(3 166)	(378)	–	(3 836)	(8 699)
Interest expense	5 481	11 231	2 439	979	11 429	31 559
<b>Closing balance</b>	<b>278 669</b>	<b>568 463</b>	<b>122 969</b>	<b>49 903</b>	<b>579 881</b>	<b>1 599 885</b>
<b>Current</b>	<b>25 377</b>	<b>25 100</b>	<b>4 329</b>	<b>2 097</b>	<b>59 732</b>	<b>116 635</b>
<b>Non-current</b>	<b>253 292</b>	<b>543 363</b>	<b>118 640</b>	<b>47 806</b>	<b>520 149</b>	<b>1 483 250</b>

**28.2. Provisions for employment termination benefits**

**For the 6-month period ended 30 June 2015 (unaudited)**

	Voluntary redundancy schemes in operating segments		Other activity	Total
	Generation	Distribution		
<b>Opening balance</b>	<b>38 867</b>	<b>22 236</b>	<b>1 769</b>	<b>62 872</b>
Recognition	5 037	–	–	5 037
Reversal	(545)	–	–	(545)
Utilisation	(20 423)	(9 576)	(1 769)	(31 768)
<b>Closing balance</b>	<b>22 936</b>	<b>12 660</b>	<b>–</b>	<b>35 596</b>
<b>Current</b>	<b>6 860</b>	<b>12 660</b>	<b>–</b>	<b>19 520</b>
<b>Non-current</b>	<b>16 076</b>	<b>–</b>	<b>–</b>	<b>16 076</b>



In the 6-month period ended 30 June 2015, TAURON Group companies paid out funds under schemes implemented in prior periods. In the 6-month period ended 30 June 2015 another Voluntary Redundancy Scheme was implemented in the Generation segment. The costs of the provision recognized concern this scheme in particular.

**For the 6-month period ended 30 June 2014 (unaudited)**

	Voluntary redundancy schemes in operating segments		Other activity	Total
	Generation	Distribution		
<b>Opening balance</b>	<b>28 787</b>	<b>17 584</b>	<b>8 182</b>	<b>54 553</b>
Recognition	2 630	–	–	2 630
Utilisation	(15 064)	(3 063)	(2 084)	(20 211)
<b>Closing balance</b>	<b>16 353</b>	<b>14 521</b>	<b>6 098</b>	<b>36 972</b>
<b>Current</b>	<b>5 061</b>	<b>14 521</b>	<b>6 098</b>	<b>25 680</b>
<b>Non-current</b>	<b>11 292</b>	<b>–</b>	<b>–</b>	<b>11 292</b>

**29. Other provisions**

**29.1. Changes in provisions**

**For the 6-month period ended 30 June 2015 (unaudited)**

	Provision for use of real estate without contract	Provision for mine decommis- sioning costs	Provision for restoration of land and dismantling and removal of fixed assets	Provision for gas emission obligations	Provision for obligation to submit energy certificates	Provision for counterparty claims, court dispute and other provisions	Provisions, total
<b>Opening balance</b>	<b>93 818</b>	<b>120 704</b>	<b>42 774</b>	<b>8 130</b>	<b>914 926</b>	<b>66 341</b>	<b>1 246 693</b>
Discount rate adjustment	–	1 498	488	–	–	–	1 986
Recognition	4 311	115	–	12 595	439 112	3 817	459 950
Reversal	(6 413)	–	–	(2 290)	(2 111)	(2 830)	(13 644)
Utilisation	(561)	–	–	(5 840)	(905 643)	(4 787)	(916 831)
Foreign exchange differences from translation of foreign entities	–	–	–	–	–	(14)	(14)
<b>Closing balance</b>	<b>91 155</b>	<b>122 317</b>	<b>43 262</b>	<b>12 595</b>	<b>446 284</b>	<b>62 527</b>	<b>778 140</b>
<b>Current</b>	<b>91 155</b>	<b>–</b>	<b>888</b>	<b>12 595</b>	<b>446 284</b>	<b>60 423</b>	<b>611 345</b>
<b>Non-current</b>	<b>–</b>	<b>122 317</b>	<b>42 374</b>	<b>–</b>	<b>–</b>	<b>2 104</b>	<b>166 795</b>

**For the 6-month period ended 30 June 2014 (unaudited)**

	Provision for use of real estate without contract	Provision for mine decommis- sioning costs	Provision for restoration of land and dismantling and removal of fixed assets	Provision for gas emission obligations	Provision for obligation to submit energy certificates	Provision for counterparty claims, court dispute and other provisions	Provisions, total
<b>Opening balance</b>	<b>104 827</b>	<b>44 620</b>	<b>96 280</b>	<b>461 123</b>	<b>905 561</b>	<b>92 016</b>	<b>1 704 427</b>
Discount rate adjustment	–	893	1 848	–	–	–	2 741
Recognition	18 943	208	–	24 725	447 674	17 891	509 441
Reversal	(7 024)	–	(12 791)	–	(2 766)	(9 410)	(31 991)
Utilisation	(5 065)	–	–	(463 362)	(899 042)	(4 617)	(1 372 086)
Foreign exchange differences from translation of foreign entities	–	–	–	–	–	9	9
<b>Closing balance</b>	<b>111 681</b>	<b>45 721</b>	<b>85 337</b>	<b>22 486</b>	<b>451 427</b>	<b>95 889</b>	<b>812 541</b>
<b>Current</b>	<b>111 681</b>	<b>–</b>	<b>–</b>	<b>22 486</b>	<b>451 427</b>	<b>86 405</b>	<b>671 999</b>
<b>Non-current</b>	<b>–</b>	<b>45 721</b>	<b>85 337</b>	<b>–</b>	<b>–</b>	<b>9 484</b>	<b>140 542</b>

**29.2. Description of significant provision items**

In the period ended 30 June 2015 there were no significant changes in provision items, except for those presented below and in Note 6 – concerning the estimation of the provisions for gas emission liabilities.



### **29.2.1. Provision for use of real estate without contract**

The Group companies recognize provisions for all claims filed by the owners of the real estate on which distribution systems and heat installations are located. The Group does not establish provision for possible unlodged claims of owners of land with unregulated status. As at 30 June 2015, the relevant provision amounted to PLN 91 155 thousand (versus PLN 93 818 thousand as at 31 December 2014).

In 2012 a third party lodged a claim against TAURON Ciepło S.A. (currently: TAURON Ciepło Sp. z o.o.) related to the regulation of legal status of the network located in its property. The Company has questioned both the claim amount and the claimant's title to offset it with its current liabilities regarding heat supply. Consequently, the Company commenced collection litigation against the debtor. The final amount of the defendant's claim regarding the use of its property shall be determined in the course of the litigation. With regard to the dispute, in light of the adopted accounting policy, a provision has been recognized for the estimated cost of the above claim. Bearing in mind the pending litigation, and in accordance with IAS 37.92, the Group does not disclose all information regarding the above issue as required by IAS 37.

### **29.2.2. Provision for gas emission obligations**

As at 30 June 2015 the provision for gas emission liabilities amounted to PLN 12 595 thousand and was related to the provision recognized for installations of TAURON Ciepło Sp. z o.o. The Group has not recognized a provision for installations of TAURON Wytwarzanie S.A., because the number of free-of-charge emission allowances exceeded the actual emission in the first six months of 2015. The derecognition of the provision of PLN 2 290 thousand was related to the fact that the Group had adjusted the estimated provision for gas emission liabilities for 2014, hence increasing its profit by this amount. As at 31 December 2014 the provision amounted to PLN 8 130 thousand and it also covered installations of TAURON Ciepło Sp. z o.o.

As at 30 June 2015, the number of allowances recorded on the Group's account in the National Register of Allowances reached 18 783 448.

### **29.2.3. Provision for the obligation to submit energy certificates**

Due to the sales of electricity to end users, the Group is required to cancel a specified amount of certificates of electricity generated using renewable sources, cogeneration and energy efficiency certificates.

In the 6-month period ended 30 June 2015 the Group completely fulfilled the requirement to surrender certificates of electricity generated using renewable sources, in cogeneration and energy efficiency certificates for 2014. Therefore, a provision of PLN 905 643 thousand has been utilized. As at 30 June 2015, the provision recognized for the obligation to surrender energy certificates amounted to PLN 446 284 thousand and was related to the obligation for 2015.

### **29.2.4. Provision for counterparty claims, court disputes and other provisions**

#### **Provision for proceedings before the Office for Competition and Consumer Protection**

As at 30 June 2015, the Group has still recognized a provision for a fine of PLN 7 302 thousand imposed by the President of Office for Competition and Consumer Protection related to anti-monopoly proceedings carried out by the Office for Competition and Consumer Protection against the company from the Distribution segment. The provision has not changed since 31 December 2014.

#### **Provision for real estate tax**

The provision for real property tax in the Distribution segment has not changed since 31 December 2014 and amounts to PLN 12 000 thousand.

As at 30 June 2015, in the Mining segment, a provision for real estate tax from constructions situated in underground excavations with interest amounted to PLN 3 742 thousand (PLN 3 420 thousand as at 31 December 2014).

### 30. Accruals, deferred income and government grants

#### 30.1. Deferred income and government grants

	As at 30 June 2015 <i>(unaudited)</i>	As at 31 December 2014
<b>Deferred income, of which:</b>	<b>341 843</b>	<b>358 247</b>
Donations, fixed assets received free-of-charge	87 219	92 998
Non-government subsidies	50	50
Subsidies received for the purchase of fixed assets	1 493	1 601
Connection fees	251 690	262 895
Other	1 391	703
<b>Government grants, of which:</b>	<b>357 851</b>	<b>359 190</b>
Subsidies obtained from EU funds	267 115	267 438
Forgiven loans from environmental funds	9 183	8 740
Measurement of preferential loans	40 289	41 177
Other	41 264	41 835
<b>Total, of which:</b>	<b>699 694</b>	<b>717 437</b>
Non-current	643 584	662 072
Current	56 110	55 365

Other settlements of government grants include mainly government grants to greenfield investments in hard coal mines received by TAURON Wydobycie S.A. – as at 30 June 2015 they amounted to PLN 19 674 thousand.

#### 30.2. Accrued expenses – current

	As at 30 June 2015 <i>(unaudited)</i>	As at 31 December 2014
Unused holidays	62 439	41 403
Bonuses	150 460	140 372
Environmental protection charges	17 992	4 688
Other	6 189	3 692
<b>Total</b>	<b>237 080</b>	<b>190 155</b>

### 31. Significant items of the consolidated statement of cash flows

#### 31.1. Cash flows from investing activities

##### Purchase of property, plant and equipment and intangible assets

Expenditure on acquisition of property, plant and equipment and intangible assets of PLN 1 850 110 thousand were mainly related to the acquisition of property, plant and equipment of PLN 1 679 586 thousand in the 6-month period ended 30 June 2015, which has been presented in detail in Note 15 hereto. The amount was adjusted by change in capital liabilities, excluding VAT in the amount of PLN 73 769 thousand.

##### Redemption of debt securities

Proceeds from redemption of debt securities of PLN 21 732 thousand are related to the repayment of a liability due to debt securities of TAMEH HOLDING Sp. z o.o., a jointly-controlled entity.

##### Purchase of financial assets

Expenditure for acquisition of financial assets of PLN 21 734 thousand resulted primarily from the Parent's purchase of 10% of shares in PGE EJ 1 Sp. z o.o. for PLN 16 046 thousand, as discussed in detail in Note 37.3 hereto.

### **Loans granted and repaid**

In the period of 6 months ended 30 June 2015 the Company transferred funds due to a VAT loan of PLN 8 150 thousand to Elektrociepłownia Stalowa Wola S.A. In the same period Elektrociepłownia Stalowa Wola S.A. returned PLN 14 000 thousand due to a VAT loan to the Company. Additionally, TAMEH HOLDING Sp. z o.o., a jointly controlled entity, repaid PLN 500 thousand of a short-term loan to the Company.

### **31.2. Cash flows from financing activities**

#### **Repayment of loans and borrowings**

Expenditure on repayment of loans and borrowings of PLN 44 739 thousand disclosed in the statement of cash flows results mainly from repayment of PLN 40 909 thousand of the loan granted by the European Investment Bank by the Parent.

#### **Redemption of debt securities**

Expenditure for redemption of debt securities result from redemption of Tranche B bonds in the amount of PLN 150 000 thousand by the Parent in the 6-month period ended 30 June 2015, as presented in detail in Note 26.2 to these condensed interim consolidated financial statements.

#### **Interest paid**

During the 6-month period ended 30 June 2015 the total value of interest paid by the Group on loans, borrowings, debt securities and finance leases amounted to PLN 163 318 thousand. The Group's consolidated statement of cash flows discloses borrowing costs capitalized in the current period for asset financing as expenditure for acquisition of property, plant and equipment and intangible assets in cash flows from investing activities. In the 6-month period ended 30 June 2015, the cost of external financing capitalized in property, plant and equipment and intangible assets amounted to PLN 27 932 thousand.

### **32. Details of other significant changes in the reporting period**

#### **Other operating expenses**

Other operating expenses grew by PLN 53 617 thousand versus the comparable period primarily as a consequence of accounting for the detected shortage of coal and semi-finished products in TAURON Wydobycie S.A. of PLN 39 084 thousand following the physical count of assets. Another factor was settling prepayments due to works related to drilling drifts and reinforcing working faces in TAURON Wydobycie S.A. of PLN 47 136 thousand following the stocktaking by way of comparing accounting data with corresponding accounting evidence and checking the actual values.

#### **Finance income**

Finance income grew in the 6-month period ended 30 June 2015 by PLN 13 117 thousand vs. the comparative period, mainly because of the surplus of exchange gains over exchange losses of PLN 10 742 thousand reported in the current period by the Parent.

#### **Finance costs**

An increase in finance costs in the 6-month period ended 30 June 2015 by PLN 47 351 thousand vs. the comparative period resulted mainly from the costs of negative measurement of CCIRS of PLN 51 656 thousand.

## OTHER INFORMATION

### 33. Contingent liabilities

#### ***Non-contractual use of real estate***

Companies in the Distribution and Generation segments, distributing power and heat, do not hold legal titles to all plots of land where distribution systems and heat installations with the related devices are located. The Group may have to incur costs related to non-contractual use of property in the future; the risk of losing assets is close to nil, though. The Group has established a provision for all court disputes regarding the issue. No provision has been recognized for potential not submitted claims of owners of land with unregulated legal status, since their detailed records do not exist. As a consequence, potential claim amounts cannot be reliably estimated. In light of the history of claims submitted and the related costs incurred in the previous years, though, the risk of incurring material costs with this regard is low.

#### ***Administrative proceedings instigated by the President of the Office for Competition and Consumer Protection***

On 12 December 2012 the President of the Office for Competition and Consumer Protection ("UOKiK"), Branch in Wrocław, instigated proceedings against TAURON Sprzedaż Sp. z o.o. with regard to the company's alleged use of practices violating collective consumers' interests. The practices consisted in charging interest for overdue payments for projected use of electricity groundlessly. Such interest was determined by the automatic payment management system as a result of linking payments made by electricity users with amounts payable in future and leaving the oldest liabilities unpaid. In response, the Company applied for issuing a decision requesting the company to fulfil an obligation to discontinue activities violating the Act of 16 February 2007 on competition and consumer protection (Journal of Laws of 2007, No. 50, item 331 as amended; "Act on competition and consumer protection") and to take steps preventing continued existence of the alleged violations. On 16 April 2013 the President of the Office for Competition and Consumer Protection accepted the company's proposal and issued a decision requesting the company to discontinue the activities. The company has followed the provisions of the Decision. On 30 June 2015 the company filed a report concerning obligations met. As at the date of preparing these financial statements, the risk of imposing a fine was very limited, therefore the company did not recognize any provision.

On 17 September 2013 the President of the Office for Competition and Consumer Protection (UOKiK), Branch in Warsaw, instigated proceedings against TAURON Sprzedaż Sp. z o.o. with regard to the company's alleged use of practices violating collective consumers' interests. The practices consisted in quoting electricity prices in pricing lists and information materials without VAT, which constituted a breach of the Act of counteracting unfair market practices of 23 August 2007 (Journal of Laws No. 171 item 1206) and therefore constitutes a breach of the Act on competition and consumer protection. The Company submitted requested documents, accepted the entire argumentation of the President of UOKiK and committed to discontinue practices violating the Act on competition and consumer protection. Further, it motioned for proceedings aimed at the issue of a binding decision. The company provided further information and explanations requested by UOKiK. On 22 December 2014 the company received a decision of UOKiK dated 12 December 2014 closing the evidentiary proceedings.

In its letter dated 23 April 2013 UOKiK instigated proceedings against TAURON Sprzedaż Sp. z o.o. and TAURON Sprzedaż GZE Sp. z o.o., the objective of which was to determine whether the Act on competition and consumer protection was breached in reservation agreements for the sale of electricity, including restricted financial covenants. The companies provided requested documents and explanations and responded to statements included in the letter of UOKiK. Under a decision of 19 December 2014 anti-monopoly proceedings were instigated regarding the alleged abuse of the dominant position on the reserve electricity distribution market. In 2015, the companies applied for a decision requesting them to discontinue activities violating the Act on competition and consumer protection and to take steps preventing the alleged violations. After the balance sheet date, in July 2015, the President of the Office for Competition and Consumer Protection issued a decision requesting the companies to take certain steps. No fine was imposed on the companies. No provision has been recognized for the event in individual companies.

UOKiK has commenced the following explanatory procedures regarding the Sales Segment companies:

- In its letter dated 7 May 2013 UOKiK notified TAURON Sprzedaż Sp. z o.o. of the instigation of the explanatory proceedings with respect to preliminary determination if the ability to terminate an agreement for sale of electricity in the "Good Decision 2014" product offer was limited for contractors of TAURON Sprzedaż Sp. z o.o., which, in turn, would be in breach of the Act on competition and consumer protection. Explanatory proceedings were aimed at preliminary determination if the Act in question has been breached, which would justify initiating antimonopoly proceedings. In particular, the proceedings were to decide whether

the case is of anti-monopoly nature and if the breach has occurred which would justify instigation of proceedings to prohibit applying practices violating collective consumers' interests. The company provided all documents requested and commented on statements included in the letter from UOKiK.

- In its letter dated 10 July 2013 UOKiK notified TAURON Sprzedaż Sp. z o.o. of the instigation of the explanatory proceedings with respect to preliminary determination whether the actions of the company related to concluding agreements for sale of electricity under the "Fixed Price Guaranteed" product offer through the call center were in breach of the Act on competition and consumer protection. The company provided all documents requested and commented on statements included in the letter from UOKiK. In 2013 and 2014 the company received more letters from UOKiK requesting further information, with the most recent one served in December 2014. The company provided further information requested by UOKiK and responded to all demands received. The most recent response was sent in June 2015.
- In its letter dated 26 September 2013, UOKiK notified TAURON Sprzedaż GZE Sp. z o.o. of the instigation of explanatory proceedings aimed at preliminary determination whether the actions of the company related to imposition of fines for early termination of agreements for sale of electricity were in breach of the Act on competition and consumer protection. In response, the company provided information requested by the President of UOKiK in the proceedings. No further information concerning any steps taken by the President of UOKiK in this respect is available.
- In its letter dated 28 October 2013 UOKiK notified TAURON Sprzedaż Sp. z o.o. of the instigation of the explanatory proceedings with respect to preliminary determination whether the actions of the company related to obtaining consumers' consents to process their personal data regarding products called "Bezpieczny", "Eko" and "EkoOszczędny" with an option of electricity price reduction were in breach of collective interests of the consumers and therefore of the Act on competition and consumer protection. The company provided all documents requested and commented on statements included in the letter.
- In its letter dated 1 July 2014 the President of UOKiK notified TAURON Sprzedaż Sp. z o.o. of the instigation of the explanatory proceedings aimed at preliminary determination if the application of the system used to settle payments from electricity buyers could contradict the provisions of the Act on competition and consumer protection. Consequently, the company provided all documents requested and commented on statements included in the letter.
- On 4 September 2014 TAURON Sprzedaż GZE Sp. z o.o. received a letter from UOKiK requesting further information on the method of communication with consumers regarding acquisition of "Bezpieczny" product and automatic contract renewal. Explanatory proceedings ex officio were instigated to preliminarily determine if the actions of the company have been in breach of the Act on competition and consumer protection.
- On 27 January 2015 the President of the Office for Competition and Consumer Protection instigated explanatory proceedings to provisionally determine if actions taken by TAURON Sprzedaż Sp. z o.o. towards small hydroelectric power stations constitute a breach of the Act on competition and consumer protection, and in particular Article 9 thereof. The actions in question include enforcing unfair terms of purchase of electricity generated using renewable sources and conditioning the energy purchase on meeting with the commercial balancing requirement. The company provided detailed explanation in a letter dated 4 March 2015.

The companies' Management believe that, considering the explanatory nature of the proceedings instigated, the probability of an unfavorable outcome of the above-mentioned cases is low; hence no provision has been recognized for these events.

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

Following the Company's business combination with Górnośląski Zakład Elektroenergetyczny S.A. ("GZE"), TAURON Polska Energia S.A. has become a party to a court dispute with Huta Łaziska S.A. ("Huta").

The key reason was the latter's failure to fulfil its obligation to pay the amounts due for electricity supplies, which led to discontinuation of electricity supplies to Huta Łaziska by GZE in 2001.

Based on a decision of 12 October 2001, the President of Energy Regulatory Office ("ERO") ordered GZE to resume electricity supplies to Huta on such terms as set out in the agreement of 30 July 2001, at the price of PLN 67/MWh until final resolution of the dispute, and on 14 November 2001 the dispute was finally resolved pursuant to a decision stating that discontinuation of electricity supplies was not unjustified. Huta appealed against that decision. On 25 July 2006, the Court of Appeals in Warsaw passed a final judgment ending the dispute over the decision



of the President of ERO dated 14 November 2001. Huta filed a cassation appeal against the judgment of the Court of Appeals, which was dismissed by the judgment of the Supreme Court dated 10 May 2007.

Due to discontinuation of electricity supplies, Huta has raised a claim against GZE for damages amounting to PLN 182 060 thousand. Currently, an action is pending under Huta's suit of 12 March 2007 against GZE and the State Treasury represented by the President of ERO for the payment of PLN 182 060 thousand together with interest from the date of filing the suit to the date of payment, in respect of damages for alleged losses resulting from GZE's failure to comply with the decision of the President of the Energy Regulatory Office dated 12 October 2001. In this case, the courts of the first and second instance passed judgments favorable for GZE; however, in its judgment of 29 December 2011 the Supreme Court overruled the judgment of the Court of Appeals and remanded the case for reexamination by that Court. On 5 June 2012, the Court of Appeals overruled the judgment of the Regional Court and remanded the case for reexamination by the latter. The first hearing before the first instance court was held on 27 November 2012. The most recent court hearing was held on 12 May 2014 and the date of the next hearing has not been determined yet. In May 2015 a court expert prepared an opinion on correctness of settlements between the parties to the dispute. On 30 June 2015 TAURON Polska Energia S.A. lodged complaints against the opinion in question.

Based on the Company's legal analysis of the claims raised by Huta and by its main shareholder, GEMI Sp. z o.o., the Company believes that they are groundless and the risk of their satisfaction is remote. As a result, no provision has been recognized by the Company for any costs associated with those claims.

#### **Claims filed by IPW Polin Sp. z o.o.**

As at 31 December 2014 TAURON Ciepło Sp. z o.o. recognized a contingent liability due to claims made. Possible claims result from trade contracts related to the operations of the organized part of the enterprise separated to TAMEH POLSKA Sp. z o.o. Claims filed by IPW Polin Sp. z o.o. were transferred to TAMEH POLSKA Sp. z o.o., a joint arrangement, which established an appropriate provision in the 6-month period ended 30 June 2015. Consequently, the company decided that the claims in question entailed no risk for the entity as at the balance sheet date, because the contracts for separation of an organized part of an enterprise did not impose any financial responsibility for any adverse effects of claims filed.

#### **Security of a bank guarantee for Elektrociepłownia Stalowa Wola S.A.**

In November 2014 TAURON Polska Energia S.A. concluded a surety agreement with a joint venture Elektrociepłownia Stalowa Wola S.A. It secures a guarantee issued by the bank in order to collateralize transactions concluded by Elektrociepłownia Stalowa Wola S.A. with an entity from outside the Group. The surety amount is PLN 62 582 thousand and the agreement is valid until 12 September 2018.

#### **Registered pledges and a financial pledge on shares of TAMEH HOLDING Sp. z o.o.**

On 15 May 2015 TAURON Polska Energia S.A. established a financial pledge and registered pledges on 3 293 403 shares in the issued capital of a jointly-controlled entity, TAMEH HOLDING Sp. z o.o., with the unit face value of PLN 100 and the total face value of PLN 329 340 thousand, constituting 50% of shares in the issued capital of the entity for the benefit of RAIFFEISEN BANK INTERNATIONAL AG. As at 30 June 2015 the carrying amount of the investment in the joint arrangement measured using the equity method, i.e. in the TAMEH HOLDING Sp. z o.o. Capital Group, was PLN 383 047 thousand.

The Company established a first lien registered pledge of shares with the maximum collateral amount of CZK 3 950 000 thousand and a first lien registered pledge of shares with the maximum collateral amount of PLN 840 000 thousand for the benefit of RAIFFEISEN BANK INTERNATIONAL AG. The Company also agreed to establish registered pledges of new shares acquired or taken. Moreover, the Company assigned the rights to dividend and other payments.

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

**Income tax – an increase in tax-deductible costs by the amount of component repair cost in TAURON Wytwarzanie S.A. and TAURON Ekoenergia Sp. z o.o.**

In accordance with the tax ruling, companies in the Tax Capital Group (“TCG”) expensed costs incurred on component repairs over time. At the same time the Company, representing the TCG, appealed against the tax ruling, as in its opinion the repairs in question should be expensed when incurred, on one-off basis, irrespective of the way they are accounted for in the accounting records. Such position was confirmed by the Regional Administrative Court in Gliwice in its decision dated 18 September 2014. On 30 December 2014 the Company filed an application to acknowledge tax excess payment and a tax return correction for 2013, where the component repairs were recognized in tax-deductible expense on one-off basis. At the same time, an impairment loss for income tax receivable has been recognized with relation to the excess payment. In the 6-month period ended 30 June 2015 the excess payment was returned to the Tax Capital Group, as presented in Note 13.1. to these condensed interim consolidated financial statements. The impairment loss has been reversed, thus reducing the tax expense for 2015.

Following a cassation appeal filed by the Minister of Finance, as at 30 June 2015 the case was awaiting the final decision of the Supreme Administrative Court.

The status of the remaining contingent liabilities has not changed considerably comparing to that presented in the consolidated financial statements for the year ended 31 December 2014.

**34. Collateral against liabilities**

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

The carrying amounts of assets pledged as security for liabilities at particular balance sheet dates are presented in the table below.

**Carrying amount of assets pledged as collateral against liabilities of the Group**

	As at 30 June 2015 (unaudited)	As at 31 December 2014
Real estate	97 671	115 202
Plant and machinery	40 635	41 719
Cash	12 036	5 792
<b>Total assets pledged as security for liabilities</b>	<b>150 342</b>	<b>162 713</b>

**Other forms of collateral**

The Group also uses other forms of collateral to secure payment of liabilities, of which the most significant ones as at 30 June 2015 regard the following contracts concluded by the Parent:

**Bond issue schemes**

Under the bond issue scheme dated 16 December 2010 with subsequent annexes, the Company filed declarations of submission to enforcement:

- up to PLN 1 560 000 thousand, valid until 31 December 2016 – as regards Tranche A and Tranche B;
- up to PLN 6 900 000 thousand, valid until 31 December 2018 – as regards Tranche C, Tranche D and Tranche E.

With a view to collateralizing the agreement made on 31 July 2013 with Bank Gospodarstwa Krajowego, concerning a long-term bond issue scheme, the Company has filed a declaration of submission to enforcement up to PLN 1 500 000 thousand, valid until 20 December 2029. In July 2015 an annex increasing the scheme value up to PLN 1 700 000 thousand was concluded. Consequently, on 29 July 2015 the Company filed a declaration of submission to enforcement up to PLN 1 950 000 thousand with Bank Gospodarstwa Krajowego related to the long-term bond issue scheme and valid until 20 December 2032.

### **Framework bank guarantee agreement with PKO Bank Polski S.A.**

With a view to collateralizing a framework bank guarantee agreement with PKO Bank Polski S.A., TAURON Polska Energia S.A. submitted a declaration of submission to enforcement up to PLN 125 000 thousand, with the maximum validity term until 31 December 2017. Additionally, the agreement has been collateralized by an authorization to debit the bank account maintained by PKO Bank Polski S.A. As at 30 June 2015 the guarantee limit amounted to PLN 100 000 thousand. The agreement is valid until 31 December 2016.

Under the agreement, at the request of the Company, as at 30 June 2015 PKO Bank Polski S.A. extended bank guarantees in order to collateralize liabilities of the subsidiaries of TAURON Polska Energia S.A. totaling PLN 1 789 thousand and to collateralize transactions entered into by the Company:

- a guarantee for CAO Central Allocation Office GmbH up to EUR 1 000 thousand (PLN 4 194 thousand), valid until 5 February 2016;
- a performance bond up to PLN 18 859 thousand (Polskie Sieci Elektroenergetyczne S.A.) valid until 11 February 2016. On 1 August 2015 the guarantee amount was reduced to PLN 10 600 thousand.

### **Agreement with Bank Zachodni WBK S.A. on bank guarantees for Izba Rozliczeniowa Giełd Towarowych S.A.**

Agreement with Bank Zachodni WBK S.A. on bank guarantees concluded in May 2013 expired on 6 May 2015. A declaration of submission to enforcement up to PLN 187 500 thousand collateralizing the agreement is valid until 6 May 2017.

In June 2015, the Company signed an agreement on a bank guarantee limit up to PLN 150 000 thousand with Bank Zachodni WBK S.A., with Izba Rozliczeniowa Giełd Towarowych S.A. as the beneficiary. The agreement was entered into for the period of 36 months with possible term extension by 60 months since the date of concluding. The bank guarantee limit securing transactions may be used by the Company and the TAURON Group companies. The agreement has been collateralized with a declaration of submission to enforcement up to the amount of PLN 200 000 thousand valid until 1 August 2016.

As at 30 June 2015, the agreement covered a bank guarantee up to PLN 50 000 thousand valid until 14 July 2015. On 14 July 2015 another guarantee was issued for PLN 50 000 thousand valid until 13 August 2015.

### **Overdraft facility agreements**

Overdraft in NORDEA Bank Polska S.A. (currently: PKO Bank Polski S.A.) is collateralized with:

- authorization to debit a bank account up to EUR 25 000 thousand (PLN 104 860 thousand);
- declaration of submission to enforcement up to EUR 31 250 thousand (PLN 131 075 thousand) valid until 31 December 2018.

As at 30 June 2015, the Company's outstandings under the overdraft agreement amounted to EUR 2 774 thousand (PLN 11 636 thousand).

Overdraft agreements with PKO Bank Polski S.A. up to PLN 300 000 thousand and an intraday limit agreement up to PLN 500 000 thousand have been collateralized with:

- authorization to debit a bank account up to the total amount of PLN 800 000 thousand;
- two declarations of submission to enforcement up to the total amount of PLN 960 000 thousand valid until 18 December 2018.

As at 30 June 2015 the Company did not have any liabilities related to the above mentioned agreement.

The facility agreement with Polska Kasa Opieki S.A. expired on 31 December 2014. A declaration of submission to enforcement up to PLN 360 000 thousand collateralizing the facility is valid until 31 December 2017.

In the 6-month period ended 30 June 2015, the Company entered into an overdraft agreement with the limit up to USD 2 000 thousand with mBank S.A. The agreement has been collateralized with a declaration of submission to enforcement up to the amount of USD 2 400 thousand (PLN 9 035 thousand) valid until 15 April 2017. As at 30 June 2015, the Company's outstandings under the overdraft agreement amounted to USD 402 thousand (PLN 1 516 thousand).



### **Other forms of collateral regarding Group's liabilities**

As at 30 June 2015, other significant collateral for the liabilities of the TAURON Group included:

- Blank promissory notes issued by TAURON Polska Energia S.A. for the benefit of TAURON Wytwarzanie S.A. and TAURON Ciepło Sp. z o.o. with a view to collateralizing loans granted to them by the Regional Fund for Environmental Protection and Water Management in Katowice (totaling to PLN 71 180 thousand as at 30 June 2015). The companies have provided declarations of submission to enforcement as collateral for the loans in question;
- In order to secure proper performance of the contracts and of the agreements signed by TAURON Dystrybucja S.A., including those relating to the funding of investment projects, TAURON Dystrybucja S.A. issued blank promissory notes (for the total amount of PLN 131 390 thousand as at 30 June 2015);
- Blank promissory notes issued by TAURON Ciepło Sp. z o.o. in the total amount of PLN 61 896 thousand collateralizing due performance of obligations arising from funding agreements concluded with the National Fund for Environmental Protection and Water Management;
- Blank promissory notes issued by TAURON Wytwarzanie S.A. with a view to collateralizing agreements for connecting to the industrial network, agreements for power transmission services and agreements for partial loan cancelling concluded with the National Fund for Environmental Protection and Water Management (totaling to PLN 62 416 thousand as at 30 June 2015);
- The Company granted a corporate guarantee to TAURON Sweden Energy AB (publ), a subsidiary, to secure bonds issued by the entity in December 2014. The guarantee is valid in the entire bond period, i.e. until 3 December 2029, and amounts to EUR 168 000 thousand;
- TAURON Ciepło Sp. z o.o. issued a blank promissory note for the amount of PLN 92 215 thousand to secure the sale and leaseback agreement concluded in 2007. This agreement is additionally secured by the assignment of receivables, assignment of rights under insurance policies, mortgage on real estate, plant and machinery and authorization to debit bank accounts.
- TAURON Polska Energia S.A. is a party to a finance lease agreement concerning real property in Katowice with the carrying amount of PLN 30 744 thousand as at 30 June 2015. The agreement is collateralized by two blank promissory notes, assignment of receivables and authorization to debit a bank account. As at 30 June 2015, the lease liabilities amounted to PLN 31 690 thousand.
- The following agreements concluded to collateralize claims of Izba Rozliczeniowa Giełd Towarowych S.A. ("IRGIT") were valid in the 6-month period ended 30 June 2015 and expired during this period:
  - surety agreement between TAURON Wytwarzanie S.A. and IRGIT for the liabilities of TAURON Polska Energia S.A. (up to PLN 80 000 thousand), pursuant to the alienation agreement concluded by TAURON Wytwarzanie S.A. and IRGIT, under which the freeze on EUA emission allowances of TAURON Wytwarzanie S.A. has been made in the Register of Allowances (12 820 668 EUA);
  - alienation agreement concluded by TAURON Polska Energia S.A. and IRGIT, establishing collateral for the Company's transactions on the Polish Power Exchange (Towarowa Giełda Energii S.A.) in the form of 6 600 000 EUA emission allowances.

On 27 April 2015 TAURON Polska Energia S.A. concluded another alienation agreement with IRGIT, under which the Company deposited 5 183 500 EUA emission allowances on the Allowance Account. The agreement is binding until 31 March 2016.

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

### **35. Capital commitments**

As at 30 June 2015 and 31 December 2014 the Group committed to incur expenditure on property, plant and equipment of PLN 6 422 950 thousand and PLN 6 648 379 thousand, respectively, with the key items presented below:

Operating segment	Agreement/investment project	As at 30 June 2015 (unaudited)	As at 31 December 2014
<b>Generation</b>	Construction of a power-generating unit with the capacity of 910 MW for supercritical parameters in Jaworzno III Power Plant	4 104 328	4 390 240
	Constructing new cogeneration capacity in Tychy Heat and Power Plant	212 113	393 949
	Pilot launch and commissioning of a part of external coal handling system for a power-generating unit with the capacity of 910 MW for supercritical parameters in Jaworzno III Power Plant	100 065	–
	Construction of Marszewo wind farm with the capacity of 100 MW	88 110	72 824
	Adjusting a boiler in Jaworzno III Power Plant to reduce the greenhouse gas emissions	39 491	65 929
<b>Distribution</b>	Implementation of Smart City Wrocław, an intelligent measurement system	126 232	–
<b>Mining</b>	Construction of a shaft inlet and developing infrastructure in Janina shaft	50 877	65 333

## 36. Related party disclosures

### 36.1. Transactions with jointly-controlled entities

The Group has the following jointly-controlled entities: Elektrociepłownia Stalowa Wola S.A., Elektrownia Blachownia Nowa Sp. z o.o. and the TAMEH HOLDING Sp. z o.o. Capital Group, which have been presented in detail in note 18 hereto.

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

	6-month period ended 30 June 2015 (unaudited)	6-month period ended 30 June 2014 (unaudited)
Revenue	48 423	5 228
Costs	(19 538)	–

The increase in the transactions value versus the comparative period results from the recognition of a joint arrangement, the TAMEH HOLDING Sp. z o.o. Capital Group, since December 2014. Transactions recognized in the 6-month period ended 30 June 2014 did not include transactions with this joint arrangement.

The key item in receivables and payables with jointly-controlled entities is a loan granted to Elektrociepłownia Stalowa Wola S.A. presented in detail in note 18 hereto.

The Company also granted collateral to joint arrangements, as discussed in detail in note 33 to these condensed interim consolidated financial statements:

- security of a bank guarantee for Elektrociepłownia Stalowa Wola S.A.;
- registered pledges and a financial pledge on shares in TAMEH HOLDING Sp. z o.o. securing term loans and working capital loans of TAMEH Czech s.r.o. and TAMEH POLSKA Sp. z.o.o.

### 36.2. Transactions with State Treasury companies

The majority shareholder of the Group is the State Treasury of the Republic of Poland; therefore State Treasury companies are treated as related parties.

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

## Revenue and expense

	6-month period ended 30 June 2015 <i>(unaudited)</i>	6-month period ended 30 June 2014 <i>(unaudited)</i>
Revenue	1 314 734	1 278 547
Costs	(1 426 740)	(1 333 816)

## Receivables and liabilities

	As at 30 June 2015 <i>(unaudited)</i>	As at 31 December 2014
Receivables	425 374	413 102
Payables	322 586	302 646

As at 30 June 2015 receivables presented in the table above included assets held for sale of PLN 3 822 thousand, advance payment for deliveries of coal deposited with the supplier of PLN 140 244 thousand and advance payments for purchase of fixed assets of PLN 3 649 thousand. As at 31 December 2014 receivables included deposited coal with the value of PLN 115 344 thousand.

Among the State Treasury companies, in the 6-month period ended 30 June 2015, KGHM Polska Miedź S.A., PSE S.A., PKP Energetyka S.A., Kompania Węglowa S.A. and Jastrzębska Spółka Węglowa S.A. were the major clients of the TAURON Polska Energia S.A. Capital Group. Total sales to these contracting parties accounted for 79% of revenue from transactions with State Treasury companies. The largest purchase transactions were concluded by the Group with PSE S.A. and Kompania Węglowa S.A. Purchases from these counterparties accounted for 82% of the value of purchases from State Treasury companies during the 6-month period ended 30 June 2015.

Among the State Treasury companies, in the 6-month period ended 30 June 2014, KGHM Polska Miedź S.A., PSE S.A., PKP Energetyka S.A. and Kompania Węglowa S.A. were the major clients of the TAURON Polska Energia S.A. Capital Group. Total sales to these contracting parties accounted for 80% of revenue from transactions with State Treasury companies. The largest purchase transactions were concluded by the Group with PSE S.A. and Kompania Węglowa S.A. Purchases from these counterparties accounted for 88% of the value of purchases from State Treasury companies during the 6-month period ended 30 June 2014.

The Capital Group enters into material transactions in energy markets through Izba Rozliczeniowa Giełd Towarowych S.A. As such entities are only responsible for organization of commodities exchange trading, the Group has decided not to classify purchase and sales transactions made through this entity as related-party transactions.

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

### 36.3. Executive compensation

The amount of compensation and other benefits granted to the Management Board, Supervisory Boards and other key executives of the Parent and subsidiaries in the 6-month period ended 30 June 2015 and in the comparative period has been presented in the table below.

	6-month period ended 30 June 2015 (unaudited)		6-month period ended 30 June 2014 (unaudited)	
	Parent	Subsidiaries	Parent	Subsidiaries
<b>Management Board</b>	<b>5 022</b>	<b>11 897</b>	<b>4 495</b>	<b>11 796</b>
Short-term employee benefits (salaries and surcharges)	3 614	10 986	3 122	11 386
Jubilee bonuses	–	350	–	–
Post-service benefits for a Member of the Management Board	–	–	905	–
Post-employment benefits	–	258	–	–
Employment termination benefits	900	–	–	89
Other	508	303	468	321
<b>Supervisory Board</b>	<b>592</b>	<b>482</b>	<b>440</b>	<b>525</b>
Short-term employee benefits (salaries and surcharges)	592	458	440	484
Other	–	24	–	41
<b>Other key management personnel</b>	<b>7 644</b>	<b>20 916</b>	<b>7 010</b>	<b>21 758</b>
Short-term employee benefits (salaries and surcharges)	6 809	20 278	6 317	21 322
Jubilee bonuses	–	271	–	298
Post-employment benefits	–	227	140	20
Employment termination benefits	285	32	–	–
Other	550	108	553	118
<b>Total</b>	<b>13 258</b>	<b>33 295</b>	<b>11 945</b>	<b>34 079</b>

## 37. Financial instruments

### 37.1. Carrying amount and fair value of financial instrument classes and categories

Categories and classes of financial assets	As at 30 June 2015 (unaudited)		As at 31 December 2014	
	Carrying amount	Fair value	Carrying amount	Fair value
<b>1 Assets at fair value through profit or loss</b>	<b>2 549</b>		<b>1 811</b>	
Derivative instruments	2 549	2 549	1 811	1 811
<b>2 Financial assets available for sale</b>	<b>131 605</b>		<b>116 695</b>	
Shares (non-current)	123 186	–	108 399	–
Shares (current)	4 052	–	3 997	–
Investment fund units	2 477	2 477	2 409	2 409
Bonds, T-bills and other debt securities	1 890	1 890	1 890	1 890
<b>3 Loans and receivables</b>	<b>2 153 593</b>		<b>2 255 585</b>	
Trade receivables	1 503 383	1 503 383	1 664 229	1 664 229
Deposits	40 632	40 632	35 823	35 823
Loans granted	202 152	202 152	204 699	204 699
Bonds, T-bills and other debt securities	–	–	21 732	22 893
Other	407 426	407 426	329 102	329 102
<b>4 Financial assets excluded from the scope of IAS 39</b>	<b>417 429</b>		<b>414 584</b>	
Investments in joint ventures	417 429	–	414 584	–
<b>5 Cash and cash equivalents</b>	<b>915 135</b>	<b>915 135</b>	<b>1 420 909</b>	<b>1 420 909</b>
<b>Total financial assets, including in the statement of financial position:</b>	<b>3 620 311</b>		<b>4 209 584</b>	
<b>Non-current assets</b>	<b>819 051</b>		<b>791 967</b>	
Investments in joint ventures	417 429		414 584	
Other financial assets	401 622		377 383	
<b>Current assets</b>	<b>2 801 260</b>		<b>3 417 617</b>	
Trade and other receivables	1 879 766		1 969 169	
Other financial assets	6 359		27 539	
Cash and cash equivalents	915 135		1 420 909	

Categories and classes of financial liabilities	As at 30 June 2015 (unaudited)		As at 31 December 2014	
	Carrying amount	Fair value	Carrying amount	Fair value
<b>1 Financial liabilities at fair value through profit or loss</b>	<b>59 574</b>		<b>15 183</b>	
Derivative instruments	59 574	59 574	15 183	15 183
<b>2 Financial liabilities measured at amortized cost</b>	<b>9 647 667</b>		<b>9 969 713</b>	
Preferential loans	51 668	51 668	55 222	55 222
Arm's length loans	1 146 080	1 183 896	1 164 892	1 202 546
Bank overdrafts	13 152	13 152	11 918	11 918
Bonds issued	6 669 886	6 669 886	6 821 830	6 821 830
Trade payables	781 064	781 064	916 744	916 744
Dividend payable of the Parent	262 882	262 882	–	–
Other financial liabilities	134 352	134 352	232 215	232 215
Liabilities due to purchases of fixed and intangible assets	481 979	481 979	595 550	595 550
Salaries and wages	100 932	100 932	154 718	154 718
Insurance contracts	5 672	5 672	16 624	16 624
<b>3 Liabilities under guarantees, factoring and excluded from the scope of IAS 39</b>	<b>52 766</b>		<b>59 904</b>	
Liabilities under finance leases	52 766	52 766	59 904	59 904
<b>4 Derivative hedging instruments (liabilities)</b>	<b>132 515</b>	<b>132 515</b>	<b>180 933</b>	<b>180 933</b>
<b>Total financial liabilities, including in the statement of financial position:</b>	<b>9 892 522</b>		<b>10 225 733</b>	
<b>Non-current liabilities</b>	<b>7 565 180</b>		<b>7 611 262</b>	
Interests bearing loans and borrowings	7 367 670		7 422 332	
Liabilities under finance leases	39 652		46 443	
Trade and other payables	64 058		48 986	
Derivative instruments	93 800		93 501	
<b>Current liabilities</b>	<b>2 327 342</b>		<b>2 614 471</b>	
Current portion of interest-bearing loans and borrowings	513 116		631 530	
Current portion of liabilities under finance leases	13 114		13 461	
Trade and other payables	1 702 823		1 866 865	
Derivative instruments	98 289		102 615	

Financial instruments measured at fair value as at the end of the reporting period, i.e. assets and liabilities measured at fair value through profit or loss, hedging derivatives and assets available for sale, except for shares (as described below), were measured using the method described in Note 6 to these condensed interim consolidated financial statements. Fair value hierarchy disclosures are discussed in Note 37.2.

Financial instruments classified to other categories of financial instrument categories:

- Following a significant decrease in interest rates in relation to fixed-rate financial instruments, which as at 30 June 2015 and 31 December 2014 included bonds acquired by the Company ("loans and receivables" category), loans granted by the European Investment Bank as well as bonds issued by a subsidiary, the Group measured their fair value. The fair value of fixed-rate bonds issued by a subsidiary is close to its carrying amount. Fair value measurement of other fixed rate financial instruments was carried out based on the present value of future cash flows discounted using an interest rate applicable to a given bond or loan, i.e. by reference to market interest rates. The measurement resulted in Level 2 classification in fair value hierarchy.
- The fair value of other financial instruments (except for shares classified as financial assets available for sale and excluded from the scope of IAS 39, as described below) as at 30 June 2015 and 31 December 2014 did not significantly differ from their values presented in the financial statements for the respective periods, for the following reasons:
  - the potential discounting effect relating to short-term instruments is insignificant;
  - the instruments are related to arm's length transactions.

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

- The Group did not disclose the fair value of shares in companies not quoted on active markets, categorized to financial assets available for sale. The Group is unable to reliably estimate the fair value of shares held in companies which are not quoted on active markets. They are measured at cost less impairment losses as at the end of the reporting period. Similarly, in accordance with the Group's accounting policy, shares in joint ventures – financial assets excluded from the scope of IAS 39 – are measured using the equity method.

### 37.2. Fair value hierarchy

Fair value hierarchy of financial instruments measured at fair value as at 30 June 2015 and 31 December 2014:

Classes of financial instruments	As at 30 June 2015 (unaudited)		As at 31 December 2014	
	Level 1	Level 2	Level 1	Level 2
<b>Assets</b>				
Commodity-related derivatives	1 205	–	312	–
Currency derivatives	–	37	–	–
Derivate instruments – CCIRS	–	1 307	–	1 499
Investment fund units	2 477	–	2 409	–
Bonds, T-bills and other debt securities	1 890	–	1 890	–
<b>Liabilities</b>				
Commodity-related derivatives	–	–	562	–
Derivate instruments – CCIRS	–	52 705	–	1 241
IRS derivatives	–	139 384	–	194 313

The methods of fair value measurement of financial instruments have been described in Note 6 to these condensed interim consolidated financial statements and have not changed since 31 December 2014.

### 37.3. Description of significant items included in individual categories of financial instruments

#### Financial assets available for sale

As at 30 June 2015, financial assets available for sale included mainly shares in the following companies:

- shares in Spółka Ciepłowniczo-Energetyczna Jaworzno III Sp. z o.o. with the value of PLN 35 694 thousand;
- shares in Przedsiębiorstwo Energetyki Ciepłej Sp. z o.o. w Tychach with the value of PLN 32 690 thousand;
- shares in PGE EJ 1 Sp. z o.o. with the value of PLN 16 046 thousand;
- shares in Energetyka Cieszyńska Sp. z o.o. with the value of PLN 15 028 thousand.

The change in the period of 6 months ended 30 June 2015 results mainly from purchase of shares in PGE EJ 1 Sp. z o.o. On 15 April 2015 the Company, Polska Grupa Energetyczna S.A., KGHM Polska Miedź S.A. and ENEA S.A. concluded an agreement for acquisition of shares in PGE EJ 1 Sp. z o.o., a special purpose vehicle, managing the preparation and performance of an investment project covering construction and operation of the first Polish nuclear power plant with a capacity of ca. 3,000 MWe ("Project"). The Company, KGHM Polska Miedź S.A. and ENEA S.A. acquired 10% of shares in PGE EJ 1 Sp. z o.o. each (the total of 30% of shares) from PGE S.A. The price paid by the Company for the shares in question was PLN 16 046 thousand.

In accordance with the Shareholders' Agreement dated 3 September 2014 the parties will jointly finance the initial phase of the Project proportionally to the number of shares held. The initial phase will cover determining project elements, such as selecting potential partners, including the strategic partner, technology providers, EPC (Engineering, Procurement, Construction) contractors, nuclear fuel providers, acquiring funds for Project financing and ensuring appropriate organization and competences of PGE EJ 1 Sp. z o.o. to act as a future nuclear plant operator responsible for its security and efficiency.

Additionally, on 29 July 2015 the Extraordinary Shareholders' Meeting of PGE EJ 1 Sp. z o.o. adopted a resolution to increase the issued capital of the entity. Under the resolution in question the issued capital was increased from PLN 205 860 thousand to PLN 275 859 thousand, i.e. by PLN 69 999 thousand, by way of creating 496 450 new shares with the face value of PLN 141 per one share. TAURON Polska Energia S.A. will take up 49 645 new shares

with the total face value of PLN 7 000 thousand for a cash contribution of PLN 7 000 thousand. The issued capital increase will be covered with a cash contribution within 14 days of the resolution date.

In accordance with the Financing Schedule, the total value of capital increases in PGE EJ 1 Sp. z o.o. in 2015, including the increase of 29 July 2015, will not exceed PLN 160 000 thousand, where TAURON Polska Energia S.A. will be obliged to take up shares proportionally to the interest held in the issued capital of the entity at a given time. The timeframe of further investments in PGE EJ 1 Sp. z o.o. by its shareholders will be determined in subsequent reporting periods.

#### **Loans and receivables**

Trade and other receivables have been presented in detail in Note 21 hereto.

Loans granted include a subordinated loan extended to Elektrociepłownia Stalowa Wola S.A. of PLN 177 000 thousand plus interest accrued of PLN 25 152 thousand, as described in detail in Note 18 hereto.

#### **Financial assets excluded from the scope of IAS 39**

As at 30 June 2015 the Group had the following joint ventures accounted for using the equity method:

- the TAMEH Holding Sp. z o.o. Capital Group – PLN 383 047 thousand;
- Elektrownia Blachownia Nowa Sp. z o.o., special purpose vehicle – PLN 32 121 thousand;
- Elektrociepłownia Stalowa Wola S.A. special purpose vehicle – PLN 2 261 thousand.

The above investments have been described in detail in Note 18 hereto.

#### **Financial liabilities measured at amortized cost**

Liabilities due to loans and borrowings, and arising from issued bonds have been presented in detail in Note 26 hereto.

#### **Derivative instruments**

Hedging derivative instruments (related to liabilities) of PLN 132 515 thousand are derivative instruments subject to hedge accounting. They encompass interest rate swap contracts concluded in order to hedge interest cash flows related to bonds issued, as presented in detail in Note 24.2 to these condensed interim consolidated financial statements.

Derivative instruments categorized as financial liabilities measured at fair value through profit or loss include:

- the interest rate swap contract related to Tranche A bonds redeemed at the end of 2014, excluded from hedge accounting due to closing the hedged item: PLN 6 869 thousand;
- long-term portion of CCIRS of PLN 52 705 thousand.

Financial assets – derivative instruments categorized as financial assets measured at fair value through profit or loss include:

- currency forwards of PLN 37 thousand;
- commodity futures and forwards of PLN 1 205 thousand;
- short-term portion of CCIRS of PLN 1 307 thousand.

The above derivative instruments have been described in detail in Note 27 hereto.

### **38. Principles and objectives of financial risk management**

The objectives and principles of financial risk management have not changed since 31 December 2014.

As at 30 June 2015, the Parent was a party to hedging transactions covered by the policy for specific risk management in the area of finance, entered into with a view to hedging interest cash flows from issued bonds. The parent applies hedge accounting to the aforementioned transactions. The accounting treatment of the aforementioned hedging transactions has been presented in detail in Note 24.2 hereto.



### **39. Financial and capital management**

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

### **40. Events after the end of the reporting period**

#### **Increase in the bond issue scheme by PLN 700 000 thousand**

In July 2015 TAURON Polska Energia S.A. concluded an annex to the scheme agreement with Bank Gospodarstwa Krajowego concerning the bond issue scheme organization. Pursuant to the annex, the bond issue scheme amount was increased from PLN 1 000 000 thousand to PLN 1 700 000 thousand.

The purpose of the bond issue scheme is to finance capital expenditure, in particular projects carried out in the Distribution and Generation segments, in accordance with the TAURON Capital Group development strategy. Bank Gospodarstwa Krajowego participates in the project under the "Polish investments" scheme.

The value of the bond scheme with securities of at maximum 15-year maturity periods and 6-month interest periods is PLN 1 700 000 thousand. As at the date of concluding the annex PLN 300 000 thousand, constituting a portion of the amount increasing the bond issue scheme, was underwritten. In accordance with the financing structure bonds will be issued in series in the years 2015–2016 and they will mature from 2020 to 2029. Bank Gospodarstwa Krajowego will act as an arranger, underwriter and depositary.

#### **Investment agreement concluded by a subsidiary**

In July 2015 TAURON Wytwarzanie S.A., a subsidiary, entered into an Investment Agreement ("the Agreement") with Polskie Inwestycje Rozwojowe S.A. ("PIR") related to a project entitled "Construction of a Gas and Steam Unit with the Capacity of 413 MWe in TAURON Wytwarzanie Spółka Akcyjna Oddział Elektrownia Łagisza in Będzin" ("the Project"). The Agreement was concluded for the period of 30 years with possible term extension.

The Agreement determines the terms and conditions of joint Project performance by TAURON Wytwarzanie S.A. and PIR. In particular, the Agreement includes the investment obligation of the parties to establish Łagisza Grupa TAURON sp. z o.o. ("the SPV"), the objective of which will be to manage the investment process and the operation of the gas and steam unit with the capacity of 413 MWe ("the Unit").

PIR intends to invest not more than PLN 750 000 thousand in the Project and it will take up 50% interest less one share in the SPV. The total Project value is estimated at ca. PLN 1 500 000 thousand.

PIR's obligation to access the SPV depends on a number of conditions (apart from establishing the SPV and contributing initial capital by TAURON Wytwarzanie S.A.) such as: concluding further agreements enabling Project performance, including the shareholders agreement between the parties, TAURON Polska Energia S.A. and the SPV, concluding an agreement on Unit connection to the power grid, agreeing all Project-related issues (such as the management and other organizational and technical issues), obtaining a consent for concentration and any other necessary consents. A significant event of default of TAURON Wytwarzanie S.A. would be if it discontinues or fails to generate electricity in the Unit and if it discontinues or fails to supply gas to the Unit in the period exceeding 6 months.

#### **Disbursement of funds from the loan granted by the European Investment Bank**

PLN 295 000 thousand constituting a tranche of the loan granted by the European Investment Bank under the agreement of July 2014 was disbursed on 17 July 2015. The purpose of the loan was financing an investment projects related to energy production from renewable sources and energy distribution.

#### **Business combination under common control of Energopower Sp. z o.o. and Biomasa Grupa TAURON Sp. z o.o.**

On 1 July 2015, a business combination under common control of Energopower Sp. z o.o. (the acquirer) and Biomasa Grupa TAURON Sp. z o.o. (the acquiree) was registered by the District Court in Rzeszów, XII Business Division of the National Court Register. The business combination was carried out under Article 492.1.1 of the Code of Commercial Companies through the transfer of the acquiree's all assets onto the acquirer.



**Capital increase and a loan granted by TAURON Sweden Energy AB (publ)**

On 13 July 2015 the Extraordinary Shareholders' Meeting of TAURON Sweden Energy AB (publ) adopted a resolution to increase the registered issued capital of the entity amounting to EUR 55 thousand by a maximum amount of EUR 6 645 thousand by way of issuing 6 645 thousand new shares. On 22 July 2015, the Parent paid EUR 6 645 thousand for newly issued shares of TAURON Sweden Energy AB (publ).

On 27 July 2015, TAURON Polska Energia S.A. concluded a loan agreement with TAURON Sweden Energy AB (publ), under which TAURON Sweden Energy AB (publ) granted a loan of EUR 6 600 thousand to the Company on 30 July 2015. The maturity date of the entire outstanding amount was set at 30 July 2016.

These condensed interim consolidated financial statements of the TAURON Polska Energia S.A. Capital Group, prepared for the 6-month period ended 30 June 2015 in accordance with International Accounting Standard 34 have been presented on 57 consecutive pages.

Katowice, 18 August 2015

Dariusz Lubera – President of the Management Board .....

Aleksander Grad – Vice-President of the Management Board .....

Katarzyna Rozenfeld – Vice-President of the Management Board .....

Stanisław Tokarski – Vice-President of the Management Board .....

Krzysztof Zawadzki – Vice-President of the Management Board .....



**INDEPENDENT AUDITOR'S REVIEW REPORT  
ON THE INTERIM CONDENSED  
FINANCIAL STATEMENTS  
OF TAURON POLSKA ENERGIA S.A.  
FOR THE FIRST HALF OF 2015**

**AUGUST 2015**

## **AUDITOR'S REPORT ON THE REVIEW OF THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE PERIOD FROM 1 JANUARY 2014 TO 30 JUNE 2014**

### **To the Shareholders and Supervisory Board of TAURON Polska Energia S.A.**

We have reviewed the attached interim condensed financial statements of TAURON Polska Energia S.A. with its registered office in Katowice at ks. Piotra Ściegiennego 3 Street, including an interim condensed statement of financial position prepared as of 30 June 2014, interim condensed statement of comprehensive income, interim condensed statement of changes in equity, interim condensed statement of cash flows for the period from 1 January 2014 to 30 June 2014 and additional explanatory information.

Compliance of these interim condensed financial statements with the requirements laid down in IAS 34 "Interim Financial Reporting" as endorsed by the European Union ("IAS 34") and with other regulations in force is the responsibility of the Management Board and Supervisory Board of the Company. Our responsibility was to review the financial statements.

Our review has been conducted in accordance with the national auditing standards issued by the National Council of Statutory Auditors. These Standards require that we plan and conduct the review in such a way as to obtain reasonable assurance that the interim condensed financial statements are free from material misstatement.

Our review has been conducted mainly based on an analysis of data included in the interim condensed financial statements, examination of the accounting records as well as information provided by the management and the financial and accounting personnel of the Company.

The scope and methodology of a review of interim condensed financial statements differs significantly from an audit, which serves as the basis for expressing an opinion on compliance of annual financial statements with the applicable accounting principles (policy) and an opinion on their fairness and clarity. Therefore, no such opinion on the attached financial statements may be issued.

Based on our review, we have not identified any issues which would prevent us from concluding that the interim condensed financial statements have been prepared, in all material respects, in compliance with the requirements laid down in IAS 34 as endorsed by the European Union.

.....  
Artur Maziarka  
Key certified auditor  
conducting the review  
No. 90108

On behalf of Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. – entity authorized to audit financial statements entered under number 73 on the list kept by the National Council of Statutory Auditors:

.....  
Artur Maziarka – Vice-President of the Management Board of Deloitte Polska Sp. z o.o. - which is the General Partner of Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k.

Warsaw, 19 August 2014

***The above auditor's report on the review is a translation from the original Polish version. In case of any discrepancies between the Polish and English version, the Polish version shall prevail.***



**TAURON POLSKA ENERGIA S.A.**

**CONDENSED INTERIM FINANCIAL STATEMENTS  
PREPARED IN ACCORDANCE WITH THE INTERNATIONAL  
FINANCIAL REPORTING STANDARDS  
FOR THE 6-MONTH PERIOD ENDED 30 JUNE 2015**

**AUGUST 2015**

## TABLE OF CONTENTS

CONDENSED INTERIM STATEMENT OF COMPREHENSIVE INCOME . . . . .	4
CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION . . . . .	5
CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION – continued . . . . .	6
CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY . . . . .	7
CONDENSED INTERIM STATEMENT OF CASH FLOWS . . . . .	8
<b>INTRODUCTION . . . . .</b>	<b>9</b>
1. General information about TAURON Polska Energia S.A. . . . .	9
2. Shares in related parties . . . . .	9
<b>STATEMENT OF COMPLIANCE WITH IFRS . . . . .</b>	<b>11</b>
3. Statement of compliance . . . . .	11
4. Going concern . . . . .	11
5. Functional and presentation currency . . . . .	11
<b>ACCOUNTING POLICIES . . . . .</b>	<b>12</b>
6. Change in estimates . . . . .	12
7. New standards or interpretations which have been published, but have not entered into force yet . . . . .	13
8. Significant accounting policies . . . . .	15
<b>EXPLANATORY NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS . . . . .</b>	<b>16</b>
9. Seasonality of operations . . . . .	16
10. Information on operating segments . . . . .	16
11. Sales revenue . . . . .	18
12. Expenses by type . . . . .	19
13. Other finance income . . . . .	19
14. Finance costs . . . . .	20
15. Income tax . . . . .	20
15.1. Tax expense in the statement of comprehensive income . . . . .	20
15.2. Deferred income tax . . . . .	20
15.3. Tax Capital Group . . . . .	21
16. Dividends paid and proposed . . . . .	22
17. Property, plant and equipment . . . . .	22
18. Investment property . . . . .	23
19. Non-current intangible assets . . . . .	23
20. Shares . . . . .	24
21. Bonds . . . . .	25
22. Loans granted . . . . .	26
23. Derivative instruments . . . . .	27
24. Current intangible assets . . . . .	27
25. Inventories . . . . .	28
26. Trade and other receivables . . . . .	28
27. Cash and cash equivalents . . . . .	29
28. Equity . . . . .	30
28.1. Issued capital . . . . .	30
28.2. Major shareholders . . . . .	30
28.3. Revaluation reserve from valuation of hedging instruments . . . . .	30
28.4. Dividend limitation . . . . .	31
29. Interest-bearing loans and borrowings . . . . .	31
29.1. Bonds issued . . . . .	32
29.2. Loans from the European Investment Bank . . . . .	33
29.3. Loan granted by a subsidiary . . . . .	33

29.4.	Cash pool . . . . .	33
29.5.	Overdraft facilities . . . . .	34
30.	Other provisions . . . . .	34
31.	Significant items of the statement of cash flows . . . . .	34
31.1.	Cash flows from investing activities . . . . .	34
31.2.	Cash flows from financing activities . . . . .	35
	<b>OTHER INFORMATION . . . . .</b>	<b>36</b>
32.	Contingent liabilities . . . . .	36
33.	Collateral against liabilities . . . . .	37
34.	Capital commitments . . . . .	39
35.	Related party disclosures . . . . .	39
35.1.	Transactions with related parties and State Treasury companies . . . . .	39
35.2.	Executive compensation . . . . .	40
36.	Financial instruments . . . . .	41
36.1.	Carrying amount and fair value of financial instrument classes and categories . . . . .	41
36.2.	Fair value hierarchy . . . . .	43
37.	Finance and financial risk management . . . . .	43
37.1.	Financial risk management . . . . .	43
37.2.	Financial and capital management . . . . .	43
38.	Events after the end of the reporting period . . . . .	44



## CONDENSED INTERIM STATEMENT OF COMPREHENSIVE INCOME

	Note	6-month period ended 30 June 2015 <i>(unaudited)</i>	6-month period ended 30 June 2014 <i>(unaudited)</i>
Sales revenue	11	4 643 560	4 275 556
Cost of sales	12	(4 550 669)	(4 186 416)
<b>Gross profit</b>		<b>92 891</b>	<b>89 140</b>
Other operating income		5 643	2 407
Selling and distribution expenses		(9 606)	(11 641)
Administrative expenses		(55 700)	(53 111)
Other operating expenses		(1 942)	(1 182)
<b>Operating profit</b>		<b>31 286</b>	<b>25 613</b>
Dividend income		1 510 624	1 076 836
Other finance income	13	233 705	181 791
Finance costs	14	(235 841)	(177 885)
<b>Profit before tax</b>		<b>1 539 774</b>	<b>1 106 355</b>
Income tax expense	15	(2 616)	(17 143)
<b>Net profit for the period</b>		<b>1 537 158</b>	<b>1 089 212</b>
<b>Other comprehensive income subject to reclassification to profit or loss:</b>		<b>39 389</b>	<b>(18 194)</b>
Change in the value of hedging instruments		48 628	(22 462)
Income tax expense		(9 239)	4 268
<b>Other comprehensive income not subject to reclassification to profit or loss:</b>		<b>9</b>	<b>(76)</b>
Actuarial gains/(losses) related to provisions for post-employment benefits		11	(94)
Income tax expense		(2)	18
<b>Other comprehensive income for the period, net of tax</b>		<b>39 398</b>	<b>(18 270)</b>
<b>Total comprehensive income for the period</b>		<b>1 576 556</b>	<b>1 070 942</b>
<b>Earnings per share (in PLN):</b>			
– basic and diluted, for net profit		0.88	0.62

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

## CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION

	Note	As at 30 June 2015 <i>(unaudited)</i>	As at 31 December 2014
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	17	4 550	5 263
Investment property	18	30 744	32 552
Intangible assets	19	3 893	8 278
Shares	20	20 827 108	20 809 799
Bonds	21	6 879 375	5 522 725
Loans granted	22	202 152	198 331
Derivative instruments	23	242	–
Other financial assets		5 263	5 286
Other non-financial assets		2 867	3 636
Deferred tax asset	15.2	7 225	31 141
		<b>27 963 419</b>	<b>26 617 011</b>
<b>Current assets</b>			
Intangible assets	24	–	20 215
Inventories	25	121 106	177 272
Income tax receivables	15.3	52 420	8 384
Trade and other receivables	26	899 490	982 582
Bonds	21	217 550	1 276 001
Loans granted	22	1 150 194	6 367
Derivative instruments	23	2 307	1 811
Other non-financial assets		49 996	22 007
Cash and cash equivalents	27	745 909	1 228 880
		<b>3 238 972</b>	<b>3 723 519</b>
<b>TOTAL ASSETS</b>		<b>31 202 391</b>	<b>30 340 530</b>

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

## CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION – continued

	Note	As at 30 June 2015 <i>(unaudited)</i>	As at 31 December 2014
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Issued capital	28.1	8 762 747	8 762 747
Reserve capital	28.4	11 277 247	10 393 686
Revaluation reserve from valuation of hedging instruments	28.3	(103 630)	(143 019)
Retained earnings/Accumulated losses	28.4	1 616 877	1 226 153
		<b>21 553 241</b>	<b>20 239 567</b>
<b>Non-current liabilities</b>			
Interest-bearing loans and borrowings	29	7 323 570	7 374 836
Liabilities under finance leases		28 593	30 169
Other financial liabilities		5 740	5 239
Derivative instruments	23	93 800	93 501
Provisions for employee benefits		7 755	7 351
		<b>7 459 458</b>	<b>7 511 096</b>
<b>Current liabilities</b>			
Current portion of interest-bearing loans and borrowings	29	1 196 154	1 800 265
Current portion of liabilities under finance leases		3 097	2 990
Trade and other payables		876 161	631 125
Derivative instruments	23	98 289	102 615
Provisions for employee benefits		698	665
Other provisions	30	8	34 189
Accruals, deferred income and government grants		11 624	13 185
Other non-financial liabilities		3 661	4 833
		<b>2 189 692</b>	<b>2 589 867</b>
<b>Total liabilities</b>		<b>9 649 150</b>	<b>10 100 963</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>31 202 391</b>	<b>30 340 530</b>

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

## CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY

### FOR THE 6-MONTH PERIOD ENDED 30 JUNE 2015 (unaudited)

	Note	Issued capital	Reserve capital	Revaluation reserve from valuation of hedging instruments	Retained earnings/ Accumulated losses	Total equity
<b>As at 1 January 2015</b>		<b>8 762 747</b>	<b>10 393 686</b>	<b>(143 019)</b>	<b>1 226 153</b>	<b>20 239 567</b>
Profit for the period		–	–	–	1 537 158	1 537 158
Other comprehensive income		–	–	39 389	9	39 398
<b>Total comprehensive income for the period</b>		<b>–</b>	<b>–</b>	<b>39 389</b>	<b>1 537 167</b>	<b>1 576 556</b>
Distribution of prior years profits	28.4	–	883 561	–	(883 561)	–
Dividends	16	–	–	–	(262 882)	(262 882)
<b>As at 30 June 2015 (unaudited)</b>		<b>8 762 747</b>	<b>11 277 247</b>	<b>(103 630)</b>	<b>1 616 877</b>	<b>21 553 241</b>

### FOR THE 6-MONTH PERIOD ENDED 30 JUNE 2014 (unaudited)

	Note	Issued capital	Reserve capital	Revaluation reserve from valuation of hedging instruments	Retained earnings/ Accumulated losses	Total equity
<b>As at 1 January 2014</b>		<b>8 762 747</b>	<b>9 037 699</b>	<b>(126 651)</b>	<b>1 769 367</b>	<b>19 443 162</b>
Profit for the period		–	–	–	1 089 212	1 089 212
Other comprehensive income		–	–	(18 194)	(76)	(18 270)
<b>Total comprehensive income for the period</b>		<b>–</b>	<b>–</b>	<b>(18 194)</b>	<b>1 089 136</b>	<b>1 070 942</b>
Distribution of prior years profits		–	1 355 987	–	(1 355 987)	–
Dividends	16	–	–	–	(332 984)	(332 984)
<b>As at 30 June 2014 (unaudited)</b>		<b>8 762 747</b>	<b>10 393 686</b>	<b>(144 845)</b>	<b>1 169 532</b>	<b>20 181 120</b>

## CONDENSED INTERIM STATEMENT OF CASH FLOWS

	Note	6-month period ended 30 June 2015 <i>(unaudited)</i>	6-month period ended 30 June 2014 <i>(unaudited)</i>
<b>Cash flows from operating activities</b>			
Profit/(loss) before taxation		1 539 774	1 106 355
<b>Adjustments for:</b>			
Depreciation and amortization		3 902	13 190
(Gain)/loss on foreign exchange differences		(11 441)	(58)
Interest and dividends, net		(1 550 128)	(1 092 459)
(Gain)/loss on investing activities		44 961	873
(Increase)/decrease in receivables		166 828	428 563
(Increase)/decrease in inventories		56 166	8 819
Increase/(decrease) in payables excluding loans and borrowings		(57 079)	(407 881)
Change in other non-current and current assets		(2 296)	59 759
Change in deferred income, government grants and accruals		(689)	(1 526)
Change in provisions		(33 738)	(94 944)
Income tax paid		(3 287)	1 008
<b>Net cash generated from (used in) operating activities</b>		<b>152 973</b>	<b>21 699</b>
<b>Cash flows from investing activities</b>			
Proceeds from sale of property, plant and equipment and intangible assets		–	2 612
Purchase of property, plant and equipment and intangible assets		(1 205)	(4 043)
Purchase of shares		(16 956)	(98 197)
Purchase of bonds	31.1	(3 585 000)	(3 055 520)
Redemption of bonds	31.1	2 217 266	1 570 000
Loans granted	31.1	(8 150)	(5 850)
Repayment of loans granted	31.1	14 500	5 850
Dividends received		1 504 487	1 071 645
Interest received	31.1	128 943	170 836
<b>Net cash generated from (used in) investing activities</b>		<b>253 885</b>	<b>(342 667)</b>
<b>Cash flows from financing activities</b>			
Repayment of loans and borrowings	31.2	(40 909)	(40 909)
Issue of debt securities		–	1 000 000
Redemption of debt securities	31.2	(150 000)	(300 000)
Payment of finance lease liabilities		(1 469)	(1 616)
Interest paid	31.2	(161 768)	(153 202)
Commission paid		(5 475)	(4 668)
<b>Net cash generated from (used in) financing activities</b>		<b>(359 621)</b>	<b>499 605</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>47 237</b>	<b>178 637</b>
Net foreign exchange difference		297	58
<b>Cash and cash equivalents at the beginning of the period</b>		<b>68 935</b>	<b>(1 198 421)</b>
<b>Cash and cash equivalents at the end of the period, of which:</b>	<b>27</b>	<b>116 172</b>	<b>(1 019 784)</b>
restricted cash		63 455	81 665

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

## **INTRODUCTION**

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

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

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

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

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

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

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

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

The Company's condensed interim financial statements cover the 6-month period ended 30 June 2015 and present comparative data for the 6-month period ended 30 June 2014 as well as figures as at 31 December 2014. The data for the 6-month period ended 30 June 2015 and the comparative data for the 6-month period ended 30 June 2014, as contained herein, have been reviewed by a certified auditor. The comparative data as at 31 December 2014 were audited by a certified auditor.

These condensed interim financial statements for the 6-month period ended 30 June 2015 were approved for publication on 18 August 2015.

The Company also prepared the condensed interim consolidated financial statements for the 6-month period ended 30 June 2015, which were approved for publication by the Management Board on 18 August 2015.

These condensed interim financial statements are part of the consolidated report, which also includes the condensed interim consolidated financial statements for the 6-month period ended 30 June 2015.

### **2. Shares in related parties**

As at 30 June 2015, TAURON Polska Energia S.A. held direct and indirect interest in the following key subsidiaries:

**TAURON Polska Energia S.A.**  
Condensed interim financial statements for the 6-month period ended 30 June 2015  
(in PLN '000)

Item	Entity's name	Registered office	Core business	Share of TAURON Polska Energia S.A. in the entity's capital and governing body
1	TAURON Wydobycie S.A.	Jaworzno	Hard coal mining	100.00%
2	TAURON Wytwarzanie S.A.	Katowice	Generation, transmission and distribution of electricity and heat	100.00%
3	TAURON Ekoenergia Sp. z o.o.	Jelenia Góra	Generation and sale of electricity	100.00%
4	TAURON Ciepło Sp. z o.o.	Katowice	Production and distribution of heat	100.00%
5	TAURON Dystrybucja S.A.	Kraków	Distribution of electricity	99.71%
6	TAURON Dystrybucja Serwis S.A. <sup>1</sup>	Wrocław	Services	99.71%
7	TAURON Dystrybucja Pomiary Sp. z o.o. <sup>1</sup>	Tarnów	Services	99.71%
8	TAURON Sprzedaż Sp. z o.o.	Kraków	Sale of electricity	100.00%
9	TAURON Sprzedaż GZE Sp. z o.o.	Gliwice	Sale of electricity	100.00%
10	TAURON Czech Energy s.r.o.	Ostrawa, Czech Republic	Sale of electricity	100.00%
11	TAURON Obsługa Klienta Sp. z o.o.	Wrocław	Services	100.00%
12	Kopalnia Wapienia Czatkowice Sp. z o.o.	Krzeszowice	Limestone quarrying, crushing and grinding; stone quarrying	100.00%
13	Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. in liquidation	Warszawa	Sale of electricity	100.00%
14	TAURON Sweden Energy AB (publ)	Sztokholm, Sweden	Services	100.00%
15	Biomasa Grupa TAURON Sp. z o.o. <sup>2</sup>	Stalowa Wola	Sourcing of and trading in biomass	100.00%

<sup>1</sup> TAURON Polska Energia S.A. holds indirect interest in TAURON Dystrybucja Serwis S.A. and TAURON Dystrybucja Pomiary Sp. z o.o. through a subsidiary TAURON Dystrybucja S.A. Additionally, TAURON Polska Energia S.A. uses shares held by TAURON Dystrybucja S.A.

<sup>2</sup> On 1 July 2015, a business combination under common control of Energopower Sp. z o.o. and Biomasa Grupa TAURON Sp. z o.o. was registered, as discussed in detail in Note 38 hereto.

As at 30 June 2015 TAURON Polska Energia S.A. held direct and indirect interest in the following jointly-controlled entities:

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

<sup>1</sup> TAURON Polska Energia S.A. holds indirect interest in Elektrociepłownia Stalowa Wola S.A. and Elektrownia Blachownia Nowa Sp. z o.o. through a subsidiary TAURON Wytwarzanie S.A.

<sup>2</sup> The companies form the Capital Group. TAMEH Holding Sp. z o.o. holds 100% interest in the capital and the governing body of TAMEH POLSKA Sp. z o.o. and TAMEH Czech s.r.o.

## **STATEMENT OF COMPLIANCE WITH IFRS**

### **3. Statement of compliance**

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

The condensed interim financial statements do not contain all information and disclosures required for annual financial statements and they should be read jointly with the Company's financial statements prepared in accordance with IFRS for the year ended 31 December 2014.

### **4. Going concern**

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

### **5. Functional and presentation currency**

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



## ACCOUNTING POLICIES

### 6. Change in estimates

In the period covered by these condensed interim financial statements there were no significant changes in estimates and estimation methods applied, which would affect the current or future periods, other than those presented below or mentioned further in these condensed interim financial statements.

#### Deferred tax

Due to the forecasted taxable income in 2015 of the Tax Capital Group ("TCG"), of which the Company is a member, and projected taxable income of the Company in subsequent years, the deferred tax asset has been recognized in these financial statements in the full amount.

#### Impairment of assets

Taking into account the indications that the Company's capitalization has been below the carrying amount as well as the situation in the energy market, as at 30 June 2015 the Company tested its shares disclosed under non-current assets for impairment. Shares constitute about 67% of the balance sheet total.

The test was conducted based on the present value of projected cash flows from operations of major companies, by reference to detailed projections from the second half of 2015 to 2024 and the estimated residual value. Reliance on projections covering a period longer than 5 years results mainly from the fact that investment processes in the power industry are time-consuming. The macroeconomic and sector assumptions serving as the basis for projections are updated as frequently as any indications for their modification are observed on the market. Projections also take into account changes in the legal environment known as at the date of the test.

The level of the weighted average cost of capital (WACC) during the projection period, as used in the calculations, ranges from 7.91% – 9.98% in nominal terms before tax. WACC is calculated taking into account the risk-free rate determined by reference to the yield on 10-year treasury bonds (4.3%) and the risk premium for operations appropriate for the power industry (5.5%). The growth rate used for extrapolation of projected cash flows beyond the detailed planning period is at the level of 2.5% and it corresponds to the estimated long-term inflation rate.

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

- The adopted price path of power coal, other coal sizes and gaseous fuels;
- The adopted electricity wholesale price path, taking into account such factors as the effect of the balance of the market supply and demand for electricity, costs of fuel as well as costs of acquiring CO<sub>2</sub> emission allowances;
- Emission limits for generating electricity published by the Ministry of Economy, adjusted by capital expenditure incurred and the limits for heat generation compliant with the regulation of the Council of Ministers, adjusted by the level of operations, i.e. generation of heat;
- Green, red and yellow energy production volumes depending on the production capacity, along with the price path for individual energy certificates;
- Regulated revenue generated by distribution companies, ensuring coverage of reasonable costs and a reasonable level of return on capital. The return on capital is conditional on the Regulatory Asset Value;
- The adopted electricity retail price path based on the wholesale price of black energy, taking into account the costs of excise duty, the obligation to cancel energy certificates as well as an appropriate level of margin;
- Sales volumes taking into account GDP growth and increased market competition;
- Tariff revenue generated by heat companies, ensuring coverage of reasonable costs and a reasonable level of return on capital;
- Maintaining or growing the production capacity of the existing non-current assets as a result of replacement and development investments.

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

The results of the tests did not indicate the necessity to recognize any impairment losses on assets held.

Sensitivity analyses conducted by the Company reveal that the projected prices of electricity and the adopted discount rates are the key factors exerting an effect on the estimated cash flows of the key companies. According to the Company, no rationally possible and highly probable change in any key assumption made in the analyses will increase the carrying amount of shares and fixed assets to a level exceeding their recoverable amount.

#### **Measurement of derivatives**

Fair value of currency forwards is based on discounted future cash flows from the concluded transactions based on the difference between the forward price and transaction price. The forward price is calculated based on the fixing of the National Bank of Poland and the curve implied by FX Swap transactions.

Fair value of interest rate swaps is based on discounted future cash flows from the concluded transactions based on the difference between the forward price and the transaction price. The forward price is calculated based on a zero coupon yield curve.

The fair value of forwards for acquisition and sale of power and emission allowances and other goods is based on prices quoted in an active market.

#### **Intra-group bonds**

Intra-group bonds redeemable within up to one year intended for rollover are classified as long-term instruments (as at 30 June 2015 the face value of such bonds reached PLN 60 000 thousand). Such classification reflects the nature of funding under the intra-group bond issue scheme, which enables cash management in the medium and long term. The agreements assume the possibility to roll over the bonds in question.

#### **Tax inspection proceedings**

The Company is a party to inspection proceedings instigated by the Director of the Tax Inspection Office in Warsaw ("Director of the TIO"). The inspection covers the reliability of declared taxable amounts and the correctness of calculation and payment of value-added tax for individual months from October 2013 to April 2014.

In its subsequent letters the Company responded to requests sent by the Director of the TIO presenting all explanations and documents required. The period of the inspection proceedings was prolonged by the Director of the TIO a few times and the new deadline has been set at 28 August 2015.

Due to its initial stage, a precise deadline of the inspection proceedings cannot be determined. As at the date of preparing these condensed interim financial statements the Director of the TIO did not present any opinion on the evidence collected, hence at this stage any possible consequences of his final decision cannot be indicated yet.

### **7. New standards or interpretations which have been published, but have not entered into force yet**

Revised standards issued by the International Accounting Standards Board ("IASB") which have been endorsed by the European Union ("EU") and are not yet effective:

- Revised IAS 19 *Employee Benefits – Defined Benefit Plans: Employee Contributions* published by the IASB on 21 November 2013, endorsed by the EU on 17 December 2014 and applicable in the EU to annual periods beginning on or after 1 February 2015;
- Annual Improvements to IFRS (Cycle 2010–2012) – published by the IASB on 12 December 2013, endorsed by the EU on 17 December 2014 and applicable in the EU to annual periods beginning on or after 1 February 2015.

New standards and revised standards issued by the International Accounting Standards Board which have not been endorsed by the European Union and are not yet effective:

- IFRS 9 *Financial Instruments* was published by the IASB on 24 July 2014 and applies to annual periods beginning on or after 1 January 2018. The standard introduces a business model-based approach to classification and measurement of financial assets and the characteristics of cash flows. IFRS 9 provides a new loss impairment model which requires a more timely disclosure of expected credit losses. The new model also assumes a standardized impairment approach applied to all financial instruments. Moreover, IFRS 9 includes an enhanced general hedge accounting model. The amendments are aimed at adjusting the principles of recognizing

risk management issues in financial statements and enable more adequate presentation of actions taken in the financial statements;

- IFRS 14 Regulatory Deferral Accounts was published by the IASB on 30 January 2014 and applies to annual periods beginning on or after 1 January 2016. IFRS 14 has been introduced as a transitional standard for first-time adopters;
- IFRS 15 *Revenue from Contracts with Customers* was published by the IASB on 28 May 2014. On 22 July 2015 the IASB postponed the effective date of the Standard by one year, hence it applies to annual periods beginning on or after 1 January 2018. The IASB intends to publish an amendment to the standard introducing a new effective date in September 2015. IFRS specifies how and when revenue is recognized and requires more informative, relevant disclosures. The Standard replaces IAS 18 *Revenue*, IAS 11 *Construction Contracts* and a number of interpretations concerning revenue recognition;
- Revised IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures: Sale or Contribution of Assets between Investor and its Associate or Joint Venture* were published by the IASB on 11 September 2014 and apply to annual periods beginning on or after 1 January 2016;
- Revised IFRS 10 *Consolidated Financial Statements*, IFRS 12 *Disclosure of Interests in Other Entities*, IAS 28 *Investments in Associates and Joint Ventures: Investment Entities: Applying the Consolidation Exception* published on 18 December 2014 and applicable to annual periods beginning on or after 1 January 2016;
- Revised IFRS 11 *Joint Arrangements: Accounting for Acquisitions of Interests in Joint Operations* – published by the IASB on 6 May 2014 and applicable to annual periods beginning on or after 1 January 2016. The amendments provide new guidelines on accounting for acquisitions of interests in joint operations constituting businesses;
- Revised IAS 1 *Presentation of Financial Statements – Disclosure Initiative* published on 18 December 2014 and applicable to annual periods beginning on or after 1 January 2016;
- Revised IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets: Clarification of Acceptable Methods of Depreciation and Amortization* published by the IASB on 12 May 2014 and applicable to annual periods beginning on or after 1 January 2016;
- Revised IAS 16 *Property, Plant and Equipment* and IAS 41 *Agriculture: Bearer Plants* published by the IASB on 30 June 2014 and applicable to annual periods beginning on or after 1 January 2016;
- Revised IAS 27 *Separate Financial Statements: Equity Method in Separate Financial Statements* – published by the IASB on 12 August 2014 and applicable to annual periods beginning on or after 1 January 2016;
- *Annual Improvements to IFRS (Cycle 2012–2014)* – published by the IASB on 25 September 2014, applicable to annual periods beginning on or after 1 January 2016.

At the same time, hedge accounting of the portfolio of financial assets and liabilities remains beyond the scope of EU-approved regulations.

The Company analyzed the impact of the abovementioned standards and revised standards on the accounting policies applied and carried out preliminary analysis of the impact of IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers* published in 2014.

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

Preliminary analysis of IFRS 9's impact on the accounting policies applied indicates one change important for the Company, i.e. replacing the existing classification and measurement models under IAS 39 with a single classification model assuming two categories only, i.e. amortized cost or fair value. IFRS 9 classification complies with the business model applied by the Company to manage financial assets. Additionally, the standard introduces a new hedge accounting model which requires detailed risk management disclosures.

According to the Management Board other standards and revised standards in question do not materially impact the existing accounting policies.

The Company did not choose an early application of any standard or revised standard, which was published, but is not yet mandatorily effective.

## **8. Significant accounting policies**

The accounting principles (policy) adopted for the preparation of these condensed interim financial statements are consistent with those adopted for the preparation of the annual financial statements of TAURON Polska Energia S.A. for the year ended 31 December 2014, except for the application of the following revised standards and new interpretations:

- IFRIC 21 *Levies* (published on 20 May 2013, endorsed by the EU on 13 June 2014). IFRIC 21 is an interpretation of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* – applicable in the EU to annual periods beginning on or after 17 June 2014;
- Annual Improvements to IFRS (Cycle 2011–2013) – published by the IASB on 12 December 2013, endorsed by the EU on 18 December 2014 and applicable in the EU to annual periods beginning on or after 1 January 2015.

The introduction of the abovementioned revised standards and interpretation has not exerted a significant effect on the accounting principles (policy) adopted by the Company.

## **EXPLANATORY NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS**

### **9. Seasonality of operations**

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

As the Company carries out holding operations, it discloses significant dividend income recognized under financial revenue as at the dates of the resolutions on dividend payment, unless such resolutions set other record dates.

In the 6-month period ended 30 June 2015, the Company recognized dividend income of PLN 1 510 624 thousand (versus PLN 1 076 836 thousand recognized in the 6-month period ended 30 June 2014).

### **10. Information on operating segments**

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

"Holding activity" segment assets include:

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

"Holding activity" segment liabilities include:

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

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

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

Unallocated expenses include the Company's general and administrative expense, as they are incurred for the Group as a whole and are not directly attributable to a specific operating segment.

EBIT is the profit/loss on continuing operations before deducting taxes, finance income and expenses.

EBITDA is the profit/loss on continuing operations before tax, finance income and expense, increased by amortization/depreciation.

**For the 6-month period ended 30 June 2015 or as at 30 June 2015 (unaudited)**

	Sales	Holding activity	Unallocated items	Total
<b>Revenue</b>				
Sales outside the Group	1 086 480	–	–	<b>1 086 480</b>
Sales within the Group	3 557 080	–	–	<b>3 557 080</b>
<b>Segment revenue</b>	<b>4 643 560</b>	<b>–</b>	<b>–</b>	<b>4 643 560</b>
<b>Profit/(loss) of the segment</b>				
<b>Profit/(loss) of the segment</b>	<b>86 986</b>	<b>–</b>	<b>–</b>	<b>86 986</b>
Unallocated expenses	–	–	(55 700)	<b>(55 700)</b>
<b>EBIT</b>	<b>86 986</b>	<b>–</b>	<b>(55 700)</b>	<b>31 286</b>
Net finance income (costs)	–	1 505 125	3 363	<b>1 508 488</b>
<b>Profit/(loss) before income tax</b>	<b>86 986</b>	<b>1 505 125</b>	<b>(52 337)</b>	<b>1 539 774</b>
Income tax expense	–	–	(2 616)	<b>(2 616)</b>
<b>Net profit/(loss) for the period</b>	<b>86 986</b>	<b>1 505 125</b>	<b>(54 953)</b>	<b>1 537 158</b>
<b>Assets and liabilities</b>				
Segment assets	1 746 317	29 395 185	–	<b>31 141 502</b>
Unallocated assets	–	–	60 889	<b>60 889</b>
<b>Total assets</b>	<b>1 746 317</b>	<b>29 395 185</b>	<b>60 889</b>	<b>31 202 391</b>
Segment liabilities	563 672	8 758 765	–	<b>9 322 437</b>
Unallocated liabilities	–	–	326 713	<b>326 713</b>
<b>Total liabilities</b>	<b>563 672</b>	<b>8 758 765</b>	<b>326 713</b>	<b>9 649 150</b>
<b>EBIT</b>				
<b>EBIT</b>	<b>86 986</b>	<b>–</b>	<b>(55 700)</b>	<b>31 286</b>
<b>Depreciation/amortization</b>	<b>(3 902)</b>	<b>–</b>	<b>–</b>	<b>(3 902)</b>
<b>EBITDA</b>	<b>90 888</b>	<b>–</b>	<b>(55 700)</b>	<b>35 188</b>
<b>Other segment information</b>				
Capital expenditure*	2 397	–	–	<b>2 397</b>

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

In the 6-month period ended 30 June 2015, revenue from sales to two major clients, being members of the TAURON Group, represented 55% and 11% of the Company's total revenue in the "Sales" segment, amounting to PLN 2 538 566 thousand and PLN 530 114 thousand, respectively.

**For the 6-month period ended 30 June 2014 (unaudited) or as at 31 December 2014**

	Sales	Holding activity	Unallocated items	Total
<b>Revenue</b>				
Sales outside the Group	1 362 308	–	–	<b>1 362 308</b>
Sales within the Group	2 913 248	–	–	<b>2 913 248</b>
<b>Segment revenue</b>	<b>4 275 556</b>	<b>–</b>	<b>–</b>	<b>4 275 556</b>
<b>Profit/(loss) of the segment</b>				
Unallocated expenses	–	–	(53 111)	<b>(53 111)</b>
<b>EBIT</b>	<b>78 724</b>	<b>–</b>	<b>(53 111)</b>	<b>25 613</b>
Net finance income (costs)	–	1 085 593	(4 851)	<b>1 080 742</b>
<b>Profit/(loss) before income tax</b>	<b>78 724</b>	<b>1 085 593</b>	<b>(57 962)</b>	<b>1 106 355</b>
Income tax expense	–	–	(17 143)	<b>(17 143)</b>
<b>Net profit/(loss) for the period</b>	<b>78 724</b>	<b>1 085 593</b>	<b>(75 105)</b>	<b>1 089 212</b>
<b>Assets and liabilities</b>				
Segment assets	2 452 176	27 848 516	–	<b>30 300 692</b>
Unallocated assets	–	–	39 838	<b>39 838</b>
<b>Total assets</b>	<b>2 452 176</b>	<b>27 848 516</b>	<b>39 838</b>	<b>30 340 530</b>
Segment liabilities	656 978	9 380 216	–	<b>10 037 194</b>
Unallocated liabilities	–	–	63 769	<b>63 769</b>
<b>Total liabilities</b>	<b>656 978</b>	<b>9 380 216</b>	<b>63 769</b>	<b>10 100 963</b>
<b>EBIT</b>	<b>78 724</b>	<b>–</b>	<b>(53 111)</b>	<b>25 613</b>
<b>Depreciation/amortization</b>	<b>(13 190)</b>	<b>–</b>	<b>–</b>	<b>(13 190)</b>
<b>EBITDA</b>	<b>91 914</b>	<b>–</b>	<b>(53 111)</b>	<b>38 803</b>
<b>Other segment information</b>				
Capital expenditure*	638	–	–	<b>638</b>

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

In the 6-month period ended 30 June 2014, revenue from sales to two major clients, being members of the TAURON Group, represented 45% and 12% of the Company's total revenue in the "Sales" segment, amounting to PLN 1 909 581 thousand and PLN 507 177 thousand, respectively.

## 11. Sales revenue

	6-month period ended 30 June 2015 (unaudited)	6-month period ended 30 June 2014 (unaudited)
<b>Revenue from sales of goods for resale and materials (excise duty not excluded)</b>	<b>4 608 917</b>	<b>4 234 282</b>
Excise duty	–	(7 379)
<b>Revenue from sales of goods for resale and materials, of which:</b>	<b>4 608 917</b>	<b>4 226 903</b>
Electricity	4 310 106	3 916 369
Gas	29 463	31 217
Energy certificates	140 338	202 404
Emission allowances	127 208	73 661
Other	1 802	3 252
<b>Rendering of services, of which:</b>	<b>34 643</b>	<b>48 653</b>
Trading services	29 886	25 655
Other	4 757	22 998
<b>Total sales revenue</b>	<b>4 643 560</b>	<b>4 275 556</b>

The Company has been acting as an agent in transactions involving biomass and coal purchase for the Group companies. The Company purchases raw materials from third parties and from the TAURON Group companies, which are subsequently sold to the Group companies and joint ventures only. It recognizes revenue only from agency services (supply management).



In the 6-month period ended 30 June 2015, raw materials purchased and subsequently resold in the abovementioned transactions amounted to PLN 954 325 thousand, while revenue from agency services amounted to PLN 20 331 thousand, which represents a major part of revenue from trading services.

## 12. Expenses by type

	6-month period ended 30 June 2015 <i>(unaudited)</i>	6-month period ended 30 June 2014 <i>(unaudited)</i>
<b>Costs by type</b>		
Depreciation of property, plant and equipment and amortization of intangible assets	(3 902)	(13 190)
Materials and energy	(600)	(1 326)
Consultancy services	(4 301)	(1 860)
IT services	(6 378)	(18 450)
Other external services	(8 278)	(7 193)
Taxes and charges	(600)	(5 373)
Employee benefits expense	(38 985)	(36 357)
Inventory write-downs	(640)	(26)
Allowance for doubtful debts	(1 275)	(11)
Advertising costs	(14 655)	(14 645)
Other	(1 119)	(934)
<b>Total costs by type</b>	<b>(80 733)</b>	<b>(99 365)</b>
Selling and distribution expenses	9 606	11 641
Administrative expenses	55 700	53 111
Cost of goods for resale and materials sold	(4 535 242)	(4 151 803)
<b>Cost of sales</b>	<b>(4 550 669)</b>	<b>(4 186 416)</b>

In the 6-month period ended 30 June 2015, amortization and depreciation expense decreased by PLN 9 288 thousand comparing to the same time last year. The key reason was that in the 6-month period ended 30 June 2014 the Company sold intangible assets to its subsidiary, TAURON Obsługa Klienta Sp. z o.o., with a vast majority sold in June 2014. Consequently, amortization and depreciation expense in the comparable period includes amortization of the assets sold.

## 13. Other finance income

	6-month period ended 30 June 2015 <i>(unaudited)</i>	6-month period ended 30 June 2014 <i>(unaudited)</i>
Interest income	222 486	180 737
Exchange gains	10 742	–
Measurement of derivative instruments	–	494
Net income from realized derivative instruments	–	180
Other finance income	477	380
<b>Total other finance income</b>	<b>233 705</b>	<b>181 791</b>

An increase in the finance income in the 6-month period ended 30 June 2015 by PLN 51 914 thousand vs. the comparative period resulted mainly from:

- an increase in interest on intra-group bonds and loans amounting to PLN 34 989 thousand. Interest income earned on bonds acquired and loans granted for the 6-month period ended 30 June 2015 amounted to PLN 209 457 thousand compared to PLN 174 468 thousand in the 6-month period ended 30 June 2014;
- a surplus of exchange gains over exchange losses of PLN 10 742 thousand in the 6-month period ended 30 June 2015, which results mainly from exchange gains on a loan granted by a subsidiary – TAURON Sweden Energy AB (publ) in December 2014. In the comparable period the Company reported a surplus of exchange losses over exchange gains, which was presented in financial expense.



## 14. Finance costs

	6-month period ended 30 June 2015 <i>(unaudited)</i>	6-month period ended 30 June 2014 <i>(unaudited)</i>
Interest expense	(177 843)	(170 596)
Exchange losses	–	(337)
Measurement of derivative instruments	(43 654)	–
Impairment losses	(419)	(48)
Commissions	(6 375)	(6 812)
Net expense due to realized derivative instruments	(6 857)	–
Other finance costs	(693)	(92)
<b>Total finance costs</b>	<b>(235 841)</b>	<b>(177 885)</b>

An increase in finance costs in the 6-month period ended 30 June 2015 by PLN 57 956 thousand vs. the comparative period resulted mainly from a growth of finance costs due to negative measurement of CCIRS of PLN 51 656 thousand.

## 15. Income tax

### 15.1. Tax expense in the statement of comprehensive income

Key items of the tax expense disclosed in the statement of comprehensive income:

	6-month period ended 30 June 2015 <i>(unaudited)</i>	6-month period ended 30 June 2014 <i>(unaudited)</i>
Current income tax	12 058	(80)
Current income tax liability	–	(116)
Adjustments of current income tax from prior years	12 058	36
Deferred tax	(14 674)	(17 063)
<b>Income tax expense in profit/(loss)</b>	<b>(2 616)</b>	<b>(17 143)</b>
<b>Income tax expense relating to other comprehensive income</b>	<b>(9 241)</b>	<b>4 286</b>

Current income tax adjustments related to prior years included:

- income tax overpayment for 2013 of PLN 2 200 thousand returned to the Company related mainly to component repair costs and new technology tax relief;
- income tax overpayment for 2009 and 2010 in the total amount of PLN 2 826 thousand returned to the Company and related to the cost of public offering of the Company's shares;
- change in the income tax resulting from the difference between the tax amount disclosed in the financial statements for the year 2014 and the tax amount paid in accordance with CIT-8A tax returns in the amount of PLN 7 032 thousand.

### 15.2. Deferred income tax

Deferred income tax results from:

	As at 30 June 2015 (unaudited)	As at 31 December 2014
– difference between tax base and carrying amount of fixed and intangible assets	172	198
– due interest on bonds and loans	42 796	26 515
– difference between tax base and carrying amount of other financial assets	674	414
– other	421	406
<b>Deferred tax liability</b>	<b>44 063</b>	<b>27 533</b>

	As at 30 June 2015 (unaudited)	As at 31 December 2014
– provisions for the obligation to surrender energy certificates	2	6 496
– provisions for employee benefits	1 606	1 523
– other provisions and accruals	1 960	2 070
– difference between tax base and carrying amount of fixed and intangible assets	1 147	1 118
– difference between tax base and carrying amount of financial liabilities	20 088	12 020
– valuation of hedging instruments	25 178	34 377
– other	1 307	1 070
<b>Deferred tax assets, of which:</b>	<b>51 288</b>	<b>58 674</b>
Deferred tax assets recognized in profit or loss	25 020	24 934
Deferred tax assets recognized in other comprehensive income	26 268	33 740
<b>Deferred tax asset, net</b>	<b>7 225</b>	<b>31 141</b>
<b>Deferred tax in the statement of financial position</b>	<b>7 225</b>	<b>31 141</b>

### 15.3. Tax Capital Group

A Tax Capital Group agreement for the years 2015–2017 was concluded on 22 September 2014. Pursuant to the previous agreement, the Tax Capital Group was registered for the period of three fiscal years from 1 January 2012 to 31 December 2014.

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

As at 30 June 2015, the Tax Capital Group had income tax receivable of PLN 52 404 thousand, including:

- a surplus of tax prepaid by the Tax Capital Group for the 3-month period ended 31 March 2015 over the tax due of PLN 52 461 thousand;
- income tax liability of PLN 57 thousand for prior years related to tax settlements for prior years.

The Company has disclosed the income tax receivable of the Tax Capital Group with interest receivable of PLN 7 thousand and receivables due to withholding tax of PLN 9 thousand in the statement of financial position. Consequently, income tax receivable of PLN 52 420 thousand has been presented in the statement of financial position of the Company.

At the same time, due to the Company's settlements, as the Representative Company, with the Tax Capital Group companies, it disclosed liabilities to these subsidiaries arising from tax overpayment of PLN 60 106 thousand, which have been presented in the statement of financial position under "Trade and other payables", as well as receivables from the Tax Capital Group companies arising from tax underpayment of PLN 14 288 thousand, which have been presented in the statement of financial position under "Trade and other receivables".

## 16. Dividends paid and proposed

On 16 March 2015, the Management Board decided to recommend to the Ordinary General Shareholders' Meeting the amount of dividend payment to the shareholders of the Company of PLN 262 882 thousand from the net profit of the Company generated in the financial year 2014, i.e. PLN 0.15 per share. At the same time, the Management Board decided to provide recommendation to the Ordinary General Shareholders' Meeting determining the record date at 22 July 2015 and the payment date at 12 August 2015.

On 23 March 2015 the Supervisory Board approved the recommendation concerning profit distribution and determining the record and payment dates presented to the Ordinary General Shareholders' Meeting by the Management Board.

On 23 April 2015, the Ordinary General Shareholders' Meeting of the Company adopted a resolution following the recommendation of the Management Board.

On 15 May 2014, the Ordinary General Shareholders' Meeting adopted a resolution to allocate PLN 332 984 thousand to dividend payment to the Company's shareholders (PLN 0.19 per share). The dividend was paid out from the net profit generated by the Company in 2013, which amounted to PLN 1 688 972 thousand. The record date was set at 14 August 2014 and the payment date at 4 September 2014.

## 17. Property, plant and equipment

### For the 6-month period ended 30 June 2015 (unaudited)

	Plant and machinery	Motor vehicles	Other	Assets under construction	Property, plant and equipment, total
<b>Cost</b>					
<b>Opening balance</b>	<b>6 819</b>	<b>5 876</b>	<b>10 677</b>	<b>92</b>	<b>23 464</b>
Direct purchase	–	–	–	847	847
Allocation of assets under construction	–	831	108	(939)	–
Other changes	(6)	–	–	–	(6)
<b>Closing balance</b>	<b>6 813</b>	<b>6 707</b>	<b>10 785</b>	<b>–</b>	<b>24 305</b>
<b>ACCUMULATED DEPRECIATION</b>					
<b>Opening balance</b>	<b>(6 129)</b>	<b>(4 369)</b>	<b>(7 703)</b>	<b>–</b>	<b>(18 201)</b>
Depreciation for the period	(184)	(287)	(1 089)	–	(1 560)
Other changes	6	–	–	–	6
<b>Closing balance</b>	<b>(6 307)</b>	<b>(4 656)</b>	<b>(8 792)</b>	<b>–</b>	<b>(19 755)</b>
<b>NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD</b>	<b>690</b>	<b>1 507</b>	<b>2 974</b>	<b>92</b>	<b>5 263</b>
<b>NET CARRYING AMOUNT AT THE END OF THE PERIOD</b>	<b>506</b>	<b>2 051</b>	<b>1 993</b>	<b>–</b>	<b>4 550</b>

### For the 6-month period ended 30 June 2014 (unaudited)

	Plant and machinery	Motor vehicles	Other	Assets under construction	Property, plant and equipment, total
<b>Cost</b>					
<b>Opening balance</b>	<b>7 125</b>	<b>4 714</b>	<b>11 519</b>	<b>2</b>	<b>23 360</b>
Donations	(97)	–	–	–	(97)
Liquidation	(114)	–	(490)	–	(604)
Other changes	–	(34)	–	–	(34)
<b>Closing balance</b>	<b>6 914</b>	<b>4 680</b>	<b>11 029</b>	<b>2</b>	<b>22 625</b>
<b>ACCUMULATED DEPRECIATION</b>					
<b>Opening balance</b>	<b>(3 840)</b>	<b>(3 416)</b>	<b>(6 915)</b>	<b>–</b>	<b>(14 171)</b>
Depreciation for the period	(2 093)	(459)	(926)	–	(3 478)
Donations	97	–	–	–	97
Liquidation	114	–	490	–	604
<b>Closing balance</b>	<b>(5 722)</b>	<b>(3 875)</b>	<b>(7 351)</b>	<b>–</b>	<b>(16 948)</b>
<b>NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD</b>	<b>3 285</b>	<b>1 298</b>	<b>4 604</b>	<b>2</b>	<b>9 189</b>
<b>NET CARRYING AMOUNT AT THE END OF THE PERIOD</b>	<b>1 192</b>	<b>805</b>	<b>3 678</b>	<b>2</b>	<b>5 677</b>

## 18. Investment property

	6-month period ended 30 June 2015 <i>(unaudited)</i>	6-month period ended 30 June 2014 <i>(unaudited)</i>
<b>COST</b>		
Opening balance	36 169	36 169
Closing balance	36 169	36 169
<b>ACCUMULATED DEPRECIATION</b>		
Opening balance	(3 617)	–
Depreciation for the period	(1 808)	(1 808)
Closing balance	(5 425)	(1 808)
<b>NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD</b>	<b>32 552</b>	<b>36 169</b>
<b>NET CARRYING AMOUNT AT THE END OF THE PERIOD</b>	<b>30 744</b>	<b>34 361</b>

The investment property is composed of buildings located in Katowice Szopienice at ul. Lwowska 23 used under a finance lease agreement with PKO Bankowy Leasing Sp. z o.o. The monthly lease payment is ca. PLN 310 thousand, while monthly depreciation charge is ca. PLN 301 thousand.

The Company is a party to a lease agreement with TAURON Wytwarzanie S.A. (the lessee) valid until 30 April 2018, specifying terms and conditions of subleasing buildings and structures discussed in the lease agreement mentioned above. In the 6-month period ended 30 June 2015, the revenue from investment property lease reached PLN 2 820 thousand.

## 19. Non-current intangible assets

For the 6-month period ended 30 June 2015 *(unaudited)*

	Software and licenses	Energy certificates	Other intangible assets	Intangible assets not made available for use	Intangible assets, total
<b>COST</b>					
Opening balance	3 560	5 401	2 676	–	11 637
Direct purchase	–	–	–	1 550	1 550
Allocation of intangible assets not made available for use	–	–	1 520	(1 520)	–
Liquidation	(1)	–	(47)	–	(48)
Reclassification	–	(5 401)	–	–	(5 401)
Closing balance	3 559	–	4 149	30	7 738
<b>ACCUMULATED AMORTIZATION</b>					
Opening balance	(2 646)	–	(713)	–	(3 359)
Amortization for the period	(188)	–	(346)	–	(534)
Liquidation	1	–	47	–	48
Closing balance	(2 833)	–	(1 012)	–	(3 845)
<b>NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD</b>	<b>914</b>	<b>5 401</b>	<b>1 963</b>	<b>–</b>	<b>8 278</b>
<b>NET CARRYING AMOUNT AT THE END OF THE PERIOD</b>	<b>726</b>	<b>–</b>	<b>3 137</b>	<b>30</b>	<b>3 893</b>

In the 6-month period ended 30 June 2015, the Company reclassified energy certificates held for surrendering for 2015 with the value of PLN 5 401 thousand to inventories, which resulted from the possibility to recognize a lower provision for the obligation to surrender energy certificates, as discussed in detail in note 30 hereto.

**For the 6-month period ended 30 June 2014 (unaudited)**

	Software and licenses	Energy certificates	Other intangible assets	Intangible assets not made available for use	Intangible assets, total
<b>COST</b>					
<b>Opening balance</b>	<b>54 015</b>	<b>20 250</b>	<b>1 337</b>	<b>4 016</b>	<b>79 618</b>
Direct purchase	4	1 333	–	634	1 971
Allocation of intangible assets not made available for use	2 102	–	64	(2 166)	–
Sales	(33 220)	–	–	(2 481)	(35 701)
Liquidation	(1 166)	–	–	–	(1 166)
Reclassification	–	(16 182)	–	–	(16 182)
<b>Closing balance</b>	<b>21 735</b>	<b>5 401</b>	<b>1 401</b>	<b>3</b>	<b>28 540</b>
<b>ACCUMULATED AMORTIZATION</b>					
<b>Opening balance</b>	<b>(21 949)</b>	<b>–</b>	<b>(696)</b>	<b>–</b>	<b>(22 645)</b>
Amortization for the period	(7 785)	–	(119)	–	(7 904)
Sales	14 110	–	–	–	14 110
Liquidation	1 158	–	–	–	1 158
<b>Closing balance</b>	<b>(14 466)</b>	<b>–</b>	<b>(815)</b>	<b>–</b>	<b>(15 281)</b>
<b>NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD</b>	<b>32 066</b>	<b>20 250</b>	<b>641</b>	<b>4 016</b>	<b>56 973</b>
<b>NET CARRYING AMOUNT AT THE END OF THE PERIOD</b>	<b>7 269</b>	<b>5 401</b>	<b>586</b>	<b>3</b>	<b>13 259</b>

**20. Shares**

**Changes in the balance of long-term investments from 1 January 2015 to 30 June 2015 (unaudited)**

No.	Company	Opening balance	Increases/Decreases	Closing balance
1	TAURON Wytwarzanie S.A.	7 236 727	–	7 236 727
2	TAURON Dystrybucja S.A.	9 511 628	–	9 511 628
3	TAURON Ciepło Sp. z o.o.	1 328 043	–	1 328 043
4	TAURON Ekoenergia Sp. z o.o.	939 765	–	939 765
5	TAURON Sprzedaż Sp. z o.o.	613 505	–	613 505
6	TAURON Obsługa Klienta Sp. z o.o.	39 831	–	39 831
7	Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. in liquidation	49 056	–	49 056
8	TAURON Czech Energy s.r.o.	4 223	–	4 223
9	TAURON Sprzedaż GZE Sp. z o.o.	129 823	–	129 823
10	TAURON Wydobywanie S.A.	494 755	–	494 755
11	TAURON Wytwarzanie GZE Sp. z o.o.	4 935	–	4 935
12	Kopalnia Wapienia Czatkowice Sp. z o.o.	41 178	–	41 178
13	TAURON Sweden Energy AB (publ)	232	19	251
14	Biomasa Grupa TAURON Sp. z o.o.	–	1 224	1 224
15	CONCORDE INVESTISSEMENT S.A.	12	–	12
16	CC Poland Plus Sp. z o.o.	12	–	12
17	Energopower Sp. z o.o.	45	–	45
18	Enpower Sp. z o.o.	45	20	65
19	TAURON Ubezpieczenia Sp. z o.o.	25	–	25
20	TAMEH HOLDING Sp. z o.o.	415 852	–	415 852
21	Marselwind Sp. z o.o.	107	–	107
22	PGE EJ1 Sp. z o.o.	–	16 046	16 046
<b>Total</b>		<b>20 809 799</b>	<b>17 309</b>	<b>20 827 108</b>

Changes in the balance of long-term investments in the 6-month period ended 30 June 2015 resulted mainly from the following events:

**Purchase of shares in PGE EJ 1 Sp. z o.o.**

On 15 April 2015 the Company, Polska Grupa Energetyczna S.A., KGHM Polska Miedź S.A. and ENEA S.A. concluded an agreement for acquisition of shares in PGE EJ 1 Sp. z o.o., a special purpose vehicle, managing

the preparation and performance of an investment project covering construction and operation of the first Polish nuclear power plant with a capacity of ca. 3,000 MWe ("Project"). The Company, KGHM Polska Miedź S.A. and ENEA S.A. acquired 10% of shares in PGE EJ 1 Sp. z o.o. each (the total of 30% of shares) from PGE S.A. The price paid by the Company for the shares in question was PLN 16 046 thousand.

In accordance with the Shareholders' Agreement dated 3 September 2014 the parties will jointly finance the initial phase of the Project proportionally to the number of shares held. The initial phase will cover determining project elements, such as selecting potential partners, including the strategic partner, technology providers, EPC (Engineering, Procurement, Construction) contractors, nuclear fuel providers, acquiring funds for Project financing and ensuring appropriate organization and competences of PGE EJ 1 Sp. z o.o. to act as a future nuclear plant operator responsible for its security and efficiency.

Additionally, after the balance sheet date, the issued capital of PGE EJ 1 Sp. z o.o. was increased, hence the Company will take up 49 645 new shares with the total face value of PLN 7 000 thousand for a cash contribution of PLN 7 000 thousand, as discussed in detail in note 38 hereof.

#### **Purchase of shares in Biomasa Grupa TAURON Sp. z o.o.**

Under an agreement dated 14 January 2015, TAURON Polska Energia S.A. acquired 4 267 shares in Biomasa Grupa TAURON Sp. z o.o., constituting 100% of the issued capital of the entity for PLN 1 224 thousand from TAURON Wytwarzanie S.A., a subsidiary. The title to shares was transferred under Article 453 of the Civil Code in order to release TAURON Wytwarzanie S.A. from the liability towards the Company arising from issued bonds with the value of PLN 1 230 thousand. The remaining portion of the liability of PLN 6 thousand was repaid in cash.

#### **Changes in the balance of long-term investments from 1 January 2014 to 30 June 2014 (unaudited)**

No.	Company	Opening balance	Increases/Decreases	Closing balance
1	TAURON Wytwarzanie S.A.	7 590 778	(337 068)	<b>7 253 710</b>
2	TAURON Dystrybucja S.A.	9 511 628	–	<b>9 511 628</b>
3	TAURON Ciepło S.A.	1 335 738	(1 335 738)	–
4	TAURON Ekoenergia Sp. z o.o.	939 765	–	<b>939 765</b>
5	TAURON Sprzedaż Sp. z o.o.	613 505	–	<b>613 505</b>
6	TAURON Obsługa Klienta Sp. z o.o.	39 831	–	<b>39 831</b>
7	Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. in liquidation	49 056	–	<b>49 056</b>
8	TAURON Czech Energy s.r.o.	4 223	–	<b>4 223</b>
9	TAURON Sprzedaż GZE Sp. z o.o.	129 823	–	<b>129 823</b>
10	TAURON Wydobywanie S.A.	–	310 000	<b>310 000</b>
11	TAURON Wytwarzanie GZE Sp. z o.o.	4 935	–	<b>4 935</b>
12	CONCORDE INVESTISSEMENT S.A.	12	–	<b>12</b>
13	CC Poland Plus Sp. z o.o.	12	–	<b>12</b>
14	Energopower Sp. z o.o.	45	–	<b>45</b>
15	TAURON Ciepło Sp. z o.o. (formerly: Enpower Service Sp. z o.o.)	49	1 693 463	<b>1 693 512</b>
16	Enpower Sp. z o.o.	25	20	<b>45</b>
17	TAURON Ubezpieczenia Sp. z o.o.	25	–	<b>25</b>
18	Przedsiębiorstwo Energetyki Ciepłej Sp. z o.o. w Tychach	1 872	–	<b>1 872</b>
<b>Total</b>		<b>20 221 322</b>	<b>330 677</b>	<b>20 551 999</b>

Changes in long-term investments in the 6-month period ended 30 June 2014 resulted from the following events:

- Separation of ZEC Bielsko Biąta from TAURON Wytwarzanie S.A. to TAURON Ciepło S.A.;
- Purchase of shares in TAURON Wydobywanie S.A.;
- Business combination under common control of TAURON Ciepło S.A. and Enpower Service Sp. z o.o.

## **21. Bonds**

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

The table below presents the balances of acquired bonds and interest accrued as at the end of the reporting period, as at 30 June 2015 and 31 December 2014, broken down by individual companies issuing the bonds.

Company	As at 30 June 2015 (unaudited)		As at 31 December 2014	
	nominal value of purchased bonds	accrued interest	nominal value of purchased bonds	accrued interest
TAURON Wytwarzanie S.A.	2 298 770	12 773	1 940 000	11 645
TAURON Dystrybucja S.A.	2 600 000	137 166	2 050 000	85 744
TAURON Ekoenergia Sp. z o.o.	60 000	695	1 180 000	5 393
TAURON Ciepło Sp. z o.o.	1 263 260	9 314	1 033 780	8 605
TAMEH POLSKA Sp. z o.o.	–	–	21 740	–
TAURON Wydobywanie S.A.	620 000	4 554	370 000	3 823
TAURON Obsługa Klienta Sp. z o.o.	85 000	5 393	85 000	2 996
<b>Total bonds, including:</b>	<b>6 927 030</b>	<b>169 895</b>	<b>6 680 520</b>	<b>118 206</b>
Non-current	6 877 030	2 345	5 522 030	695
Current	50 000	167 550	1 158 490	117 511

Intra-group bonds with the par value of PLN 60 000 thousand issued by a subsidiary TAURON Ekoenergia Sp. z o.o. and acquired by TAURON Polska Energia S.A. with the term to maturity of less than one year have been classified as long-term instruments due to the company's rollover intention.

## 22. Loans granted

On 27 February 2015 the Company entered into an agreement with its subsidiary, TAURON Ekoenergia Sp. z o.o., under which TAURON Polska Energia S.A. granted a one-year loan of PLN 1 120 000 thousand to TAURON Ekoenergia Sp. z o.o. The purpose of the loan was to redeem the same amount of intra-group bonds issued by the borrower in prior years to finance construction of wind farms. The set-off of the loan against the bonds did not result in any cash flows of the Company due to loan granting or bond redemption by TAURON Ekoenergia Sp. z o.o.

Under the agreements of 20 June 2012 among PGNiG S.A., TAURON Polska Energia S.A. and Elektrociepłownia Stalowa Wola S.A., TAURON Polska Energia S.A. granted a subordinated loan and a VAT loan to Elektrociepłownia Stalowa Wola S.A. with a view to satisfying the necessary conditions for provision of funding to Elektrociepłownia Stalowa Wola S.A. by the European Bank for Reconstruction and Development and the European Investment Bank.

In October 2014 the Company granted a short-term loan of PLN 500 thousand to TAMEH HOLDING Sp. z o.o. The loan with interest was repaid to the Company during the 6-month period ended 30 June 2015.

As at the end of the reporting period the balance of the loans granted was the following:

	As at 30 June 2015 (unaudited)		As at 31 December 2014	
	Principal	Interest	Principal	Interest
Loan granted to TAURON Ekoenergia Sp. z o.o.	1 120 000	30 194	–	–
Subordinated loan – EC Stalowa Wola S.A.	177 000	25 152	177 000	21 331
VAT loan – EC Stalowa Wola S.A.	–	–	5 850	12
Other loans	–	–	500	5
<b>Total loans, including:</b>	<b>1 297 000</b>	<b>55 346</b>	<b>183 350</b>	<b>21 348</b>
Non-current	177 000	25 152	177 000	21 331
Current	1 120 000	30 194	6 350	17



## 23. Derivative instruments

	As at 30 June 2015 (unaudited)				As at 31 December 2014			
	Charged to profit or loss	Charged to other comprehensive income	Total		Charged to profit or loss	Charged to other comprehensive income	Total	
			Assets	Liabilities			Assets	Liabilities
CCIRS	(51 398)	–	1 307	(52 705)	258	–	1 499	(1 241)
IRS	(11 447)	(127 937)	–	(139 384)	(17 746)	(176 567)	–	(194 313)
Commodity future/forward	1 205	–	1 205	–	(250)	–	312	(562)
Currency forward	37	–	37	–	–	–	–	–
<b>Total derivative instruments, including:</b>			<b>2 549</b>	<b>(192 089)</b>			<b>1 811</b>	<b>(196 116)</b>
Current			<b>2 307</b>	<b>(98 289)</b>			<b>1 811</b>	<b>(102 615)</b>
Non-current			<b>242</b>	<b>(93 800)</b>			<b>–</b>	<b>(93 501)</b>

Derivative instrument CCIRS relates to the Coupon Cross Currency Swap contract entered into by the Company on 24 November 2014 – swap of interest payments from the nominal value of EUR 168 000 thousand. The contract was concluded for the period of 15 years. In accordance with the contract, the Company pays interest accrued based on a floating interest rate in PLN and receives fixed interest-rate payments in EUR. Hedge accounting principles do not apply to the transaction in question.

Derivatives – IRS include interest rate swap contracts concluded in order to hedge interest cash flows related to bonds issued, as presented in detail in Note 37.1 to these condensed interim financial statements. The interest rate swap contract related to Tranche A redeemed at the end of 2014 has been excluded from hedge accounting and it has been measured through profit or loss. As at 30 June 2015 the liability amounted to PLN 6 869 thousand. The remaining IRS contracts are subject to hedge accounting with the remeasurement recognized in other comprehensive income. As at 30 June 2015 the liability amounted to PLN 132 515 thousand.

Commodity futures and forwards include contracts for purchase and sale of commodities, mainly emission allowances. Hedge accounting principles do not apply to the transactions in question.

Moreover, in the 6-month period ended 30 June 2015 the Company entered into currency forward contracts hedging foreign currency cash flows resulting from trading in emission allowances. These transactions are not subject to hedge accounting.

## 24. Current intangible assets

Under current intangible assets, the Company discloses energy certificates.

	6-month period ended 30 June 2015 (unaudited)	6-month period ended 30 June 2014 (unaudited)
<b>COST</b>		
<b>Opening balance</b>	<b>20 215</b>	<b>98 149</b>
Direct purchase	1 671	2 866
Cancellation	(21 885)	(98 182)
Reclassification	(1)	12 380
<b>Closing balance</b>	<b>–</b>	<b>15 213</b>
<b>IMPAIRMENT ALLOWANCES</b>		
<b>Opening balance</b>	<b>–</b>	<b>–</b>
<b>Closing balance</b>	<b>–</b>	<b>–</b>
<b>NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD</b>	<b>20 215</b>	<b>98 149</b>
<b>NET CARRYING AMOUNT AT THE END OF THE PERIOD</b>	<b>–</b>	<b>15 213</b>

In the 6-month period ended 30 June 2015, the Company surrendered energy certificates of PLN 21 885 thousand to fulfil the obligation for 2014.



## 25. Inventories

	As at 30 June 2015 (unaudited)	As at 31 December 2014
<b>Historical cost</b>		
Energy certificates	3 539	3 389
Emission allowances	117 800	173 571
Materials	319	372
<b>Total</b>	<b>121 658</b>	<b>177 332</b>
<b>Write-downs to net realizable value</b>		
Energy certificates	(552)	(60)
<b>Total</b>	<b>(552)</b>	<b>(60)</b>
<b>Net realizable value</b>		
Energy certificates	2 987	3 329
Emission allowances	117 800	173 571
Materials	319	372
<b>Total</b>	<b>121 106</b>	<b>177 272</b>

## 26. Trade and other receivables

	As at 30 June 2015 (unaudited)	As at 31 December 2014
Trade receivables	767 670	941 842
Other financial receivables, including:	131 820	40 740
Cash pool loans received, including accrued interest	96 863	29 224
Dividend receivable	6 137	-
Collateral paid	14 242	6 870
TCG receivables	14 288	4 353
Other financial receivables	290	293
<b>Total</b>	<b>899 490</b>	<b>982 582</b>

Trade receivables bear no interest and usually have a 30-day maturity period. Sales transactions are only entered into with clients subject to a verification procedure. As a result, the management believe that there is no additional credit risk over the level of the allowances recognized for bad debts of the Company's trade receivables.

Related-party transactions as well as the related party receivables and liabilities have been presented in Note 35 hereto.

The ageing analysis and allowances/write-downs for trade and other receivables have been presented below.

**Ageing analysis of trade and other receivables as at 30 June 2015 (unaudited)**

	Not past due	Past due			Total
		<30 days	30–360 days	>360 days	
<b>Value of item before allowance/write-down</b>					
Trade receivables	766 791	988	492	–	<b>768 271</b>
Other financial receivables	131 820	13	1 276	828	<b>133 937</b>
<b>Total</b>	<b>898 611</b>	<b>1 001</b>	<b>1 768</b>	<b>828</b>	<b>902 208</b>
<b>Allowance/write-down</b>					
Trade receivables	(121)	(196)	(284)	–	<b>(601)</b>
Other financial receivables	–	(13)	(1 276)	(828)	<b>(2 117)</b>
<b>Total</b>	<b>(121)</b>	<b>(209)</b>	<b>(1 560)</b>	<b>(828)</b>	<b>(2 718)</b>
<b>Value of item net of allowance (carrying amount)</b>					
Trade receivables	766 670	792	208	–	<b>767 670</b>
Other financial receivables	131 820	–	–	–	<b>131 820</b>
<b>Total</b>	<b>898 490</b>	<b>792</b>	<b>208</b>	<b>–</b>	<b>899 490</b>

**Ageing analysis of trade and other receivables as at 31 December 2014**

	Not past due	Past due			Total
		<30 days	30–360 days	>360 days	
<b>Value of item before allowance/write-down</b>					
Trade receivables	931 635	8 900	1 400	–	<b>941 935</b>
Other financial receivables	40 740	–	–	931	<b>41 671</b>
<b>Total</b>	<b>972 375</b>	<b>8 900</b>	<b>1 400</b>	<b>931</b>	<b>983 606</b>
<b>Allowance/write-down</b>					
Trade receivables	–	(93)	–	–	<b>(93)</b>
Other financial receivables	–	–	–	(931)	<b>(931)</b>
<b>Total</b>	<b>–</b>	<b>(93)</b>	<b>–</b>	<b>(931)</b>	<b>(1 024)</b>
<b>Value of item net of allowance (carrying amount)</b>					
Trade receivables	931 635	8 807	1 400	–	<b>941 842</b>
Other financial receivables	40 740	–	–	–	<b>40 740</b>
<b>Total</b>	<b>972 375</b>	<b>8 807</b>	<b>1 400</b>	<b>–</b>	<b>982 582</b>

**27. Cash and cash equivalents**

The balance of cash and cash equivalents disclosed in the statement of cash flows includes:

	As at 30 June 2015 (unaudited)	As at 31 December 2014
Cash at bank and in hand	94 695	264 260
Short-term deposits (up to 3 months)	651 214	964 620
<b>Total cash and cash equivalents presented in the statement of financial position, of which:</b>	<b>745 909</b>	<b>1 228 880</b>
restricted cash	63 455	44 765
Cash pool	(619 841)	(1 151 591)
Overdraft	(13 152)	(11 918)
Foreign exchange and other differences	3 256	3 564
<b>Total cash and cash equivalents presented in the statement of cash flows</b>	<b>116 172</b>	<b>68 935</b>

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

The balance of restricted cash consists mainly of:

- cash held in the settlement account for trading in electricity on the Polish Power Exchange (Towarowa Giełda Energii S.A.), amounting to PLN 50 466 thousand, and
- cash held in special purpose accounts for transactions carried out on the European Energy Exchange and ICE Futures Europe of PLN 12 036 thousand.

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

## 28. Equity

### 28.1. Issued capital

#### Issued capital as at 30 June 2015 (unaudited)

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

As at 30 June 2015, the value of issued capital, the number of shares and the par value of shares did not change compared to 31 December 2014.

### 28.2. Major shareholders

#### Shareholding structure as at 30 June 2015 (unaudited, to the best of the Company's knowledge)

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

### 28.3. Revaluation reserve from valuation of hedging instruments

	6-month period ended 30 June 2015 (unaudited)	6-month period ended 30 June 2014 (unaudited)
<b>Opening balance</b>	<b>(143 019)</b>	<b>(126 651)</b>
Revaluation of hedging instruments	48 417	(22 263)
Revaluation of hedging instruments charged to profit or loss for the period	211	(199)
Deferred income tax	(9 239)	4 268
<b>Closing balance</b>	<b>(103 630)</b>	<b>(144 845)</b>

The revaluation reserve from valuation of hedging instruments results from valuation of Interest Rate Swaps (IRS) hedging the interest rate risk arising from issued bonds, as presented in detail in Note 37.1 to these condensed interim financial statements.

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

As at 30 June 2015 the Company recognized PLN (103 630) thousand of revaluation reserve from measurement of hedging instruments. It represents a liability arising from measurement of interest rate swaps as at the end of the reporting period, totaling PLN 132 515 thousand, adjusted by a portion of measurement relating to interest accrued on bonds as at the end of the reporting period, including deferred tax.

The profit/loss for the period was charged with PLN 42 404 thousand, where PLN 42 193 thousand was the amount paid in respect of hedges used in relation to closed interest periods and PLN 211 thousand resulted from remeasurement of instruments related to interest on bonds accrued as at the end of the reporting period. The aforementioned costs of hedging IRS transactions increased finance costs arising from interest on bonds issued in the statement of comprehensive income.

#### 28.4. Dividend limitation

##### Reserve capital – dividend limitation

	As at 30 June 2015 (unaudited)	As at 31 December 2014
<b>distributable amounts, including:</b>	<b>4 032 169</b>	<b>3 148 608</b>
distribution of prior years profits	4 032 169	3 148 608
<b>non-distributable amounts, including:</b>	<b>7 245 078</b>	<b>7 245 078</b>
decrease in the value of issued capital	7 010 198	7 010 198
settlement of mergers with subsidiaries	234 880	234 880
<b>Total reserve capital</b>	<b>11 277 247</b>	<b>10 393 686</b>

##### Retained earnings – dividend limitation

	As at 30 June 2015 (unaudited)	As at 31 December 2014
<b>distributable amounts, including:</b>	<b>13</b>	<b>1 146 456</b>
undistributed profit for the year ended 31 December 2014	–	1 146 443
adjustment of prior years profit	13	13
<b>non-distributable amounts, including:</b>	<b>1 616 864</b>	<b>79 697</b>
actuarial gains and losses on provisions for post-employment benefits	(812)	(821)
settlement of mergers with subsidiaries	80 518	80 518
profit for the 3-month period ended 30 June 2015	1 537 158	–
<b>Total retained earnings</b>	<b>1 616 877</b>	<b>1 226 153</b>

On 23 April 2015, the Ordinary General Shareholders' Meeting of TAURON Polska Energia S.A. adopted a resolution on distribution of the profit for the financial year 2014 of PLN 1 146 443 thousand, where PLN 262 882 thousand was allocated to dividend for the shareholders and PLN 883 561 thousand – to reserve capital.

#### 29. Interest-bearing loans and borrowings

	As at 30 June 2015 (unaudited)	As at 31 December 2014
<b>Non-current portion of loans and borrowings, including issued bonds:</b>		
Issued bonds	5 645 162	5 644 306
Loans from the European Investment Bank	980 423	1 021 263
Loan from the subsidiary	697 985	709 267
<b>Total</b>	<b>7 323 570</b>	<b>7 374 836</b>
<b>Current portion of loans and borrowings, including issued bonds:</b>		
Issued bonds	312 449	466 325
Cash pool loans received, including accrued interest	716 704	1 180 815
Loans from the European Investment Bank	138 727	139 148
Loan from the subsidiary	15 122	2 059
Overdraft	13 152	11 918
<b>Total</b>	<b>1 196 154</b>	<b>1 800 265</b>

## 29.1. Bonds issued

The tables below present the balances of the Company's liabilities arising from bonds issued, together with accrued interest, as at 30 June 2015 and 31 December 2014.

### Bonds as at 30 June 2015 (unaudited)

Tranche/ Bank	Maturity date	Currency	As at balance sheet date (unaudited)		of which principal amount maturing within (after the balance sheet date)					
			Accrued interest	Principal at amortized cost	less than 3 months	3–12 months	1–2 years	2–3 years	3–5 years	over 5 years
B	12 December 2015	PLN	417	299 861	–	299 861	–	–	–	–
C	12 December 2016	PLN	4 170	2 998 081	–	–	2 998 081	–	–	–
BGK*	20 December 2019	PLN	98	99 815	–	–	–	–	99 815	–
BGK*	20 December 2020	PLN	98	99 806	–	–	–	–	–	99 806
BGK*	20 December 2021	PLN	98	99 801	–	–	–	–	–	99 801
BGK*	20 December 2022	PLN	98	99 796	–	–	–	–	–	99 796
BGK*	20 December 2023	PLN	98	99 792	–	–	–	–	–	99 792
BGK*	20 December 2024	PLN	98	99 791	–	–	–	–	–	99 791
BGK*	20 December 2025	PLN	98	99 788	–	–	–	–	–	99 788
BGK*	20 December 2026	PLN	98	99 784	–	–	–	–	–	99 784
BGK*	20 December 2027	PLN	98	99 783	–	–	–	–	–	99 783
TPEA1119	4 November 2019	PLN	7 119	1 748 925	–	–	–	–	1 748 925	–
<b>Total bonds</b>			<b>12 588</b>	<b>5 945 023</b>	<b>–</b>	<b>299 861</b>	<b>2 998 081</b>	<b>–</b>	<b>1 848 740</b>	<b>798 341</b>

\* Bank Gospodarstwa Krajowego.

### Bonds as at 31 December 2014

Tranche/ Bank	Maturity date	Currency	As at balance sheet date		of which principal amount maturing within (after the balance sheet date)					
			Accrued interest	Principal at amortized cost	less than 3 months	3–12 months	1–2 years	2–3 years	3–5 years	over 5 years
B	12 December 2015	PLN	485	299 716	–	299 716	–	–	–	–
B	30 January 2015	PLN	2 287	150 000	150 000	–	–	–	–	–
C	12 December 2016	PLN	4 849	2 997 442	–	–	2 997 442	–	–	–
BGK*	20 December 2019	PLN	115	99 797	–	–	–	–	99 797	–
BGK*	20 December 2020	PLN	115	99 791	–	–	–	–	–	99 791
BGK*	20 December 2021	PLN	115	99 787	–	–	–	–	–	99 787
BGK*	20 December 2022	PLN	115	99 784	–	–	–	–	–	99 784
BGK*	20 December 2023	PLN	115	99 781	–	–	–	–	–	99 781
BGK*	20 December 2024	PLN	115	99 781	–	–	–	–	–	99 781
BGK*	20 December 2025	PLN	115	99 780	–	–	–	–	–	99 780
BGK*	20 December 2026	PLN	115	99 777	–	–	–	–	–	99 777
BGK*	20 December 2027	PLN	115	99 776	–	–	–	–	–	99 776
TPEA1119	4 November 2019	PLN	7 953	1 748 810	–	–	–	–	1 748 810	–
<b>Total bonds</b>			<b>16 609</b>	<b>6 094 022</b>	<b>150 000</b>	<b>299 716</b>	<b>2 997 442</b>	<b>–</b>	<b>1 848 607</b>	<b>798 257</b>

\* Bank Gospodarstwa Krajowego.

Bonds were issued in a dematerialized form. These are unsecured coupon bonds with a floating interest rate plus a fixed margin. Interest is WIBOR 6M-based and is payable on a semi-annual basis.

Change in the balance of bonds excluding interest accrued in the 6-month period ended 30 June 2015 and in the comparable period has been presented below.

	6-month period ended 30 June 2015 (unaudited)	6-month period ended 30 June 2014 (unaudited)
<b>Opening balance</b>	<b>6 094 022</b>	<b>4 291 460</b>
Issue*	–	998 329
Redemption	(150 000)	(300 000)
Change in valuation	1 001	1 758
<b>Closing balance</b>	<b>5 945 023</b>	<b>4 991 547</b>

\* Costs of issue have been included.

On 30 January 2015, the Company redeemed Tranche B bonds with the par value of PLN 150 000 thousand at their maturity.

Moreover, 17 500 TPEA1119 series bearer bonds with the total face value of PLN 1 750 000 thousand and the unit face value of PLN 100 thousand issued by TAURON Polska Energia S.A. in 2014 were listed in the Catalyst market in the 6-month period ended 30 June 2015. The first listing was planned for 12 March 2015 and the last listing for 22 October 2019.

In July 2015 the Company concluded an annex to the scheme agreement concerning the bond issue scheme organization. Pursuant to the annex, the bond issue scheme amount was increased from PLN 1 000 000 thousand to PLN 1 700 000 thousand (as discussed in detail in Note 38 hereto).

The Company hedges a portion of interest cash flows related to bonds issued under Tranche C using IRS contracts. The instruments are subject to hedge accounting, as discussed in Note 37.1 hereto.

The contracts signed by the Company with banks include legal and financial covenants which are commonly used in such transactions. As at 30 June 2015, none of these covenants were breached and the contractual provisions were complied with.

### **29.2. Loans from the European Investment Bank**

As at 30 June 2015, the balance of loans obtained from the European Investment Bank was PLN 1 119 150 thousand, including interest accrued of PLN 5 988 thousand. As at 31 December 2014, the outstanding amount was PLN 1 160 411 thousand.

In the 6-month period ended 30 June 2015, the Company repaid PLN 40 909 thousand of the principal amount and PLN 27 372 thousand of interest.

After the balance sheet date, on 17 July 2015, a portion of the loan granted by the European Investment Bank under the agreement of July 2014 was disbursed in the amount of PLN 295 000 thousand. The purpose of the loan was to finance an investment project related to energy production from renewable sources and energy distribution.

The portion in question will be repaid in equal principal installments payable every 6 months from 15 September 2017 to 15 March 2027, while interest will be paid every 6 months from 15 September 2015. Interest rate is fixed and applies until 15 September 2019.

### **29.3. Loan granted by a subsidiary**

In December 2014 TAURON Polska Energia S.A. was granted a long-term loan by a subsidiary TAURON Sweden Energy AB (publ). The interest rate on a loan is fixed and interest will be paid annually, in December, until the final loan repayment. The loan will be fully repaid on 29 November 2029.

As at 30 June 2015 the carrying amount of the loan was EUR 170 014 thousand (PLN 713 107 thousand), including EUR 3 605 thousand (PLN 15 122 thousand) of interest accrued as at the end of the reporting period. As at 31 December 2014 the carrying amount of the loan was EUR 166 888 thousand (PLN 711 326 thousand), including EUR 483 thousand (PLN 2 059 thousand) of interest accrued as at the end of the reporting period.

On 29 July 2015 the Company entered into another loan agreement with TAURON Sweden Energy AB (publ), as discussed in detail in note 38 hereof.

### **29.4. Cash pool**

In order to optimize cash management, financial liquidity and finance income and expense the TAURON Capital Group has introduced a cash pooling structure. On 18 December 2014 the Company concluded a new zero balancing agreement with PKO Bank Polski S.A. for a 3-year period with the possibility to extend the period by 12 months, with TAURON Polska Energia S.A. acting as the pool leader. The interest rates were determined on market terms.

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

	As at 30 June 2015 (unaudited)	As at 31 December 2014
Receivables from cash pool loans granted	96 351	29 166
Interest receivable on loans granted under cash pool agreement	512	58
<b>Total Receivables</b>	<b>96 863</b>	<b>29 224</b>
Loans received under cash pool agreement	715 662	1 178 761
Interest payable on loans received under cash pool agreement	1 042	2 054
<b>Total Liabilities</b>	<b>716 704</b>	<b>1 180 815</b>

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

Under the cash pool agreement the Company is entitled to use external financing in the form of an overdraft up to PLN 300 000 thousand and an intraday limit up to PLN 500 000 thousand. As at 30 June 2015 the Company did not have any related liabilities.

### 29.5. Overdraft facilities

As at 30 June 2015, the balance of overdraft facilities was PLN 13 152 thousand and included:

- foreign currency overdraft agreement with NORDEA Bank Polska S.A. (currently: PKO Bank Polski S.A.) concluded by the Company for the purpose of financing margin deposits and transactions in power and emission allowances – EUR 2 774 thousand (PLN 11 636 thousand);
- foreign currency (USD) overdraft agreement with mBank S.A. concluded by the Company for the purpose of financing margin deposits and commodity transactions – USD 402 thousand (PLN 1 516 thousand).

## 30. Other provisions

	6-month period ended 30 June 2015 (unaudited)	6-month period ended 30 June 2014 (unaudited)
<b>Opening balance</b>	<b>34 189</b>	<b>110 580</b>
Recognition	8	15 263
Reversal	(163)	(993)
Utilization	(34 026)	(109 587)
<b>Closing balance</b>	<b>8</b>	<b>15 263</b>

In the 6-month period ended 30 June 2015 changes in other provisions were related to the provision for the obligation to surrender energy certificates. In 2015, in order to fulfil the obligation to surrender energy certificates for 2014, the Company surrendered energy certificates of PLN 21 885 thousand, paid a substitution fee of PLN 12 113 thousand and incurred expenses of PLN 28 thousand related to surrendering, hence utilizing the provision in the amount of PLN 34 026 thousand. The surplus of the provision recognized at the end of 2014 over the amount applied of PLN 163 thousand was reversed, reducing costs in 2015.

As the end of the reporting period, the Company recognized a provision for PLN 8 thousand. The Company was obliged to recognize a lower provision for the obligation to surrender energy certificates in the period of 6 months ended 30 June 2015 than in the comparable period because it had introduced organizational changes in the Group's electricity trading function, hence it did not sell electricity to end-buyers in the current reporting period.

## 31. Significant items of the statement of cash flows

### 31.1. Cash flows from investing activities

#### Purchase of bonds

Payments related to acquisition of bonds, in the amount of PLN 3 585 000 thousand, are related to acquisition of intra-group bonds issued by the following subsidiaries:

- TAURON Dystrybucja S.A., amounting to PLN 2 600 000 thousand;
- TAURON Wytwarzanie S.A., amounting to PLN 360 000 thousand;
- TAURON Ciepło Sp. z o.o., amounting to PLN 325 000 thousand;
- TAURON Wydobycie S.A., amounting to PLN 250 000 thousand;
- TAURON Obsługa Klienta Sp. z o.o., amounting to PLN 50 000 thousand.

#### **Redemption of bonds**

Inflows related to redemption of bonds, in the amount of PLN 2 217 266 thousand, are related to redemption of intra-group bonds by the related parties:

- TAURON Dystrybucja S.A., amounting to PLN 2 050 000 thousand;
- TAURON Ciepło Sp. z o.o., amounting to PLN 95 528 thousand;
- TAURON Obsługa Klienta Sp. z o.o., amounting to PLN 50 000 thousand;
- TAMEH HOLDING Sp. z o.o., amounting to PLN 21 732 thousand;
- TAURON Wytwarzanie S.A., amounting to PLN 6 thousand.

#### **Loans granted**

Expenses related to loans granted result from the transfer of funds under the VAT loan for Elektrociepłownia Stalowa Wola S.A., a jointly-controlled entity, in the total amount of PLN 8 150 thousand.

#### **Loans repaid**

Inflows due to repayment of loans are related to amounts repaid by Elektrociepłownia Stalowa Wola S.A. due under the VAT loan agreement in the total amount of PLN 14 000 thousand and repayment of a loan of PLN 500 thousand by TAMEH Holding Sp. z o.o., a jointly-controlled entity.

#### **Interest received**

Most proceeds from interest received are related to interest on acquired bonds of subsidiaries of PLN 123 709 thousand.

### **31.2. Cash flows from financing activities**

#### **Loans and borrowings repaid**

Expenditures due to repayment of loans and borrowings resulted from repayment of instalments of a loan granted by the European Investment Bank of PLN 40 909 thousand in the 6-month period ended 30 June 2015.

#### **Redemption of debt securities**

Expenditures due to redemption of debt securities result from redemption of Tranche B bonds in the amount of PLN 150 000 thousand in the 6-month period ended 30 June 2015.

#### **Interest paid**

Expenditures due to interest paid were related to the fact that the Company paid interest on bonds issued of PLN 133 975 thousand and interest on loans of PLN 27 418 thousand.



## OTHER INFORMATION

### 32. Contingent liabilities

The Company's contingent liabilities arise mainly from collateral and guarantees granted to related parties. As at 30 June 2015, the structure of the Company's contingent liabilities was as follows:

Type of contingent liability	Company in respect of which contingent liability has been granted	Beneficiary	As at 30 June 2015 (unaudited)		As at 31 December 2014	
			EUR	PLN	EUR	PLN
corporate guarantee	TAURON Sweden Energy AB (publ)	holders of bonds issued by TAURON Sweden Energy AB (publ)	168 000	704 659	168 000	716 066
blank promissory note	TAURON Wytwarzanie S.A.	Regional Fund for Environmental Protection and Water Management in Katowice		40 000		40 000
	TAURON Ciepło Sp. z o.o.		30 000		30 000	
	TAURON Ciepło Sp. z o.o.		1 180		1 180	
collateral of a bank guarantee	TAURON Sprzedaż Sp. z o.o.	Powszechna Kasa Oszczędności Bank Polski S.A.		593		281
	Kopalnia Wapienia Czatkowice Sp. z o.o.		592		492	
	TAURON Dystrybucja Serwis S.A.		604		217	
collateral of a loan	Kopalnia Wapienia Czatkowice Sp. z o.o.	Regional Fund for Environmental Protection and Water Management in Kraków		1 145		1 145
collateral of a contract	TAURON Wytwarzanie S.A.	Polskie Sieci Elektroenergetyczne S.A.		5 000		5 000
collateral of a contract	TAURON Czech Energy s.r.o.	SPP CZ a.s.	300	1 258	300	1 279
collateral of a contract	TAURON Czech Energy s.r.o.	CEZ a.s.	3 500	14 680	–	–
collateral of a bank guarantee	Elektrociepłownia Stalowa Wola S.A.	Bank BGŻ BNP Paribas S.A.		62 582		62 582
registered pledges and financial pledge of shares	TAMEH Czech s.r.o. TAMEH POLSKA Sp. z o.o.	RAIFFEISEN BANK INTERNATIONAL AG		415 852		–

Changes in the 6-month period ended 30 June 2015:

- The Company provided collateral in the amount of EUR 3 500 thousand (PLN 14 680 thousand) for the benefit of CEZ a.s. to secure a trade contract of TAURON Czech Energy s.r.o.;
- Under the framework agreement for bank guarantees concluded with PKO Bank Polski S.A., the bank issues guarantees for subsidiaries. As at 30 June 2015 the total balance of bank guarantees granted reached PLN 1 789 thousand (versus PLN 990 thousand as at 31 December 2014);
- On 15 May 2015 TAURON Polska Energia S.A. established a financial pledge and registered pledges of 3 293 403 shares in the issued capital of TAMEH HOLDING Sp. z o.o., with the unit face value of PLN 100 and the total face value of PLN 329 340 thousand, constituting 50% of shares in the issued capital of the entity for the benefit of RAIFFEISEN BANK INTERNATIONAL AG. As at 30 June 2015 the carrying amount of shares in TAMEH HOLDING Sp. z o.o. was PLN 415 852 thousand. The Company established a first lien registered pledge of shares with the maximum collateral amount of CZK 3 950 000 thousand and a first lien registered pledge of shares with the maximum collateral amount of PLN 840 000 thousand for the benefit of RAIFFEISEN BANK INTERNATIONAL AG. The Company also agreed to establish registered pledges of new shares acquired or taken. Moreover, the Company assigned the rights to dividend and other payments.

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

#### Claims filed by Huta Łaziska S.A.

Following the Company's business combination with Górnośląski Zakład Elektroenergetyczny S.A. ("GZE"), TAURON Polska Energia S.A. has become a party to a court dispute with Huta Łaziska S.A. ("Huta").

The key reason was the latter's failure to fulfil its obligation to pay the amounts due for electricity supplies, which led to discontinuation of electricity supplies to Huta by GZE in 2001.

Based on a decision of 12 October 2001, the President of Energy Regulatory Office (ERO) ordered GZE to resume electricity supplies to Huta on such terms as set out in the agreement of 30 July 2001, at the price of PLN 67/MWh until final resolution of the dispute, and on 14 November 2001 the dispute was finally resolved pursuant to a decision stating that discontinuation of electricity supplies was not unjustified. Huta appealed against that decision. On 25 July 2006, the Court of Appeals in Warsaw passed a final judgment ending the dispute over the decision of the President of ERO dated 14 November 2001. Huta filed a cassation appeal against the judgment of the Court of Appeals, which was dismissed by the judgment of the Supreme Court dated 10 May 2007.

Due to discontinuation of electricity supplies, Huta has raised a claim against GZE for damages amounting to PLN 182 060 thousand. Currently, an action is pending under Huta's suit of 12 March 2007 against GZE and the State Treasury represented by the President of ERO for the payment of PLN 182 060 thousand together with interest from the date of filing the suit to the date of payment, in respect of damages for alleged losses resulting from GZE's failure to comply with the decision of the President of the Energy Regulatory Office dated 12 October 2001. In this case, the courts of the first and second instance passed judgments favorable for GZE; however, in its judgment of 29 December 2011 the Supreme Court overruled the judgment of the Court of Appeals and remanded the case for reexamination by that Court. On 5 June 2012, the Court of Appeals overruled the judgment of the Regional Court and remanded the case for reexamination by the latter. The first hearing before the first instance court was held on 27 November 2012. The most recent court hearing was held on 12 May 2014 and the date of the next hearing has not been determined yet. In May 2015 a court expert prepared an opinion on correctness of settlements between the parties to the dispute. On 30 June 2015 TAURON Polska Energia S.A. lodged complaints against the opinion in question.

Based on the Company's legal analysis of the claims raised by Huta and by its main shareholder, GEMI Sp. z o.o., the Company believes that the claims are groundless and the risk of their satisfaction is remote. As a result, no provision has been recognized by the Company for any costs associated with those claims.

### **33. Collateral against liabilities**

The most common forms of collateral against liabilities and transactions entered into by TAURON Polska Energia S.A. include declarations of submission to enforcement, authorizations to debit bank accounts as well as bank guarantees given by banks at the Company's request.

The key items collateralize the following agreements:

#### ***Bond issue schemes***

Under the bond issue scheme dated 16 December 2010 with subsequent annexes, the Company filed declarations of submission to enforcement:

- up to PLN 1 560 000 thousand, valid until 31 December 2016 – as regards Tranche A and Tranche B;
- up to PLN 6 900 000 thousand, valid until 31 December 2018 – as regards Tranche C, Tranche D and Tranche E.

With a view to collateralizing the agreement made on 31 July 2013 with Bank Gospodarstwa Krajowego, concerning a long-term bond issue scheme, the Company has filed a declaration of submission to enforcement up to PLN 1 500 000 thousand, valid until 20 December 2029. In July 2015 an annex increasing the scheme value up to PLN 1 700 000 thousand was concluded. Consequently, on 29 July 2015 the Company filed a declaration of submission to enforcement up to PLN 1 950 000 thousand with Bank Gospodarstwa Krajowego related to the long-term bond issue scheme and valid until 20 December 2032.

#### ***Framework bank guarantee agreement with PKO Bank Polski S.A.***

With a view to collateralizing a framework bank guarantee agreement with PKO Bank Polski S.A., TAURON Polska Energia S.A. submitted a declaration of submission to enforcement up to PLN 125 000 thousand, with the maximum validity term until 31 December 2017. Additionally, the agreement has been collateralized by an authorization to debit the bank account maintained by PKO Bank Polski S.A. As at 30 June 2015 the guarantee limit amounted to PLN 100 000 thousand. The agreement is valid until 31 December 2016.

Under the agreement, at the request of the Company, as at 30 June 2015 PKO Bank Polski S.A. extended bank guarantees in order to collateralize liabilities of the subsidiaries of TAURON Polska Energia S.A. totaling PLN 1 789 thousand (Note 32 hereto) and to collateralize transactions entered into by the Company:

- a guarantee for CAO Central Allocation Office GmbH up to EUR 1 000 thousand (PLN 4 194 thousand), valid until 5 February 2016;

- a performance bond up to PLN 18 859 thousand (Polskie Sieci Elektroenergetyczne S.A.) valid until 11 February 2016. On 1 August 2015 the guarantee amount was reduced to PLN 10 600 thousand.

**Agreement with Bank Zachodni WBK S.A. on bank guarantees for Izba Rozliczeniowa Giełd Towarowych S.A.**

Agreement with Bank Zachodni WBK S.A. on bank guarantees concluded in May 2013 expired on 6 May 2015. A declaration of submission to enforcement up to PLN 187 500 thousand collateralizing the agreement is valid until 6 May 2017.

In June 2015, the Company signed an agreement on a bank guarantee limit up to PLN 150 000 thousand with Bank Zachodni WBK S.A., with Izba Rozliczeniowa Giełd Towarowych S.A. as the beneficiary. The agreement was entered into for the period of 36 months with possible term extension by 60 months since the date of concluding. The bank guarantee limit securing transactions may be used by the Company and the TAURON Group companies. The agreement has been collateralized with a declaration of submission to enforcement up to the amount of PLN 200 000 thousand valid until 1 August 2016.

As at 30 June 2015, the agreement covered a bank guarantee up to PLN 50 000 thousand valid until 14 July 2015. On 14 July 2015 another guarantee was issued for PLN 50 000 thousand valid until 13 August 2015.

**Overdraft facility agreements**

Overdraft in NORDEA Bank Polska S.A. (currently: PKO Bank Polski S.A.) is collateralized with:

- authorization to debit a bank account up to EUR 25 000 thousand (PLN 104 860 thousand);
- declaration of submission to enforcement up to EUR 31 250 thousand (PLN 131 075 thousand) valid until 31 December 2018.

As at 30 June 2015, the Company's outstandings under the overdraft agreement amounted to EUR 2 774 thousand (PLN 11 636 thousand).

Overdraft agreements with PKO Bank Polski S.A. up to PLN 300 000 thousand and an intraday limit agreement up to PLN 500 000 thousand have been collateralized with:

- authorization to debit a bank account up to the total amount of PLN 800 000 thousand;
- two declarations of submission to enforcement up to the total amount of PLN 960 000 thousand valid until 18 December 2018.

As at 30 June 2015 the Company did not have any liabilities related to the above mentioned agreement.

The facility agreement with Polska Kasa Opieki S.A. expired on 31 December 2014. A declaration of submission to enforcement up to PLN 360 000 thousand collateralizing the facility is valid until 31 December 2017.

In the 6-month period ended 30 June 2015, the Company entered into an overdraft agreement with the limit up to USD 2 000 thousand with mBank S.A. The agreement has been collateralized with a declaration of submission to enforcement up to the amount of USD 2 400 thousand (PLN 9 035 thousand) valid until 15 April 2017. As at 30 June 2015, the Company's outstandings under the overdraft agreement amounted to USD 402 thousand (PLN 1 516 thousand).

**Other**

With a view to collateralizing transactions entered into on the ICE Futures Europe and the European Energy Exchange, mainly future contracts concerning emission allowances, the Company transfers margin deposits for such transactions to separate bank accounts – as at 30 June 2015, such deposits amounted to PLN 12 036 thousand.

The following agreements concluded to collateralize claims of Izba Rozliczeniowa Giełd Towarowych S.A. ("IRGIT") were valid in the 6-month period ended 30 June 2015 (and expired in this period);

- surety agreement between TAURON Wytwarzanie S.A. and IRGIT for the liabilities of TAURON Polska Energia S.A. (up to PLN 80 000 thousand), pursuant to the alienation agreement concluded by TAURON Wytwarzanie S.A. and IRGIT, under which the freeze on EUA emission allowances of TAURON Wytwarzanie S.A. has been made in the Register of Allowances (12 820 668 EUA);
- alienation agreement concluded by TAURON Polska Energia S.A. and IRGIT, establishing collateral for the Company's transactions on the Polish Power Exchange (Towarowa Giełda Energii S.A.) in the form of 6 600 000 EUA emission allowances.

On 27 April 2015 TAURON Polska Energia S.A. concluded another alienation agreement with IRGIT, under which the Company deposited 5 183 500 EUA emission allowances on the Allowance Account. The agreement is binding until 31 March 2016.

TAURON Polska Energia S.A. is a party to a finance lease agreement concerning real property in Katowice with the carrying amount of PLN 30 744 thousand as at 30 June 2015. The agreement is collateralized by two blank promissory notes, assignment of receivables and authorization to debit a bank account.

#### **34. Capital commitments**

As at 30 June 2015 the Company had no capital commitments.

#### **35. Related party disclosures**

##### **35.1. Transactions with related parties and State Treasury companies**

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

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

#### **Revenue and expense**

	6-month period ended 30 June 2015 <i>(unaudited)</i>	6-month period ended 30 June 2014 <i>(unaudited)</i>
<b>Revenue from subsidiaries, of which:</b>	<b>6 172 752</b>	<b>5 005 642</b>
Revenue from operating activities	4 451 299	3 736 329
Dividend income	1 510 624	1 075 565
Other operating income	3 208	21 603
Finance income	207 621	172 145
<b>Revenue from jointly controlled entities</b>	<b>44 329</b>	<b>12 278</b>
<b>Revenue from State Treasury companies</b>	<b>413 566</b>	<b>360 694</b>
<b>Costs from subsidiaries, of which:</b>	<b>(2 046 218)</b>	<b>(1 313 580)</b>
Costs of operating activities	(2 026 585)	(1 296 881)
Finance costs	(19 633)	(16 699)
<b>Costs incurred with relation to transactions with jointly-controlled entities</b>	<b>(1 037)</b>	<b>-</b>
<b>Costs from State Treasury companies</b>	<b>(497 573)</b>	<b>(342 659)</b>

## Receivables and liabilities

	As at 30 June 2015 (unaudited)	As at 31 December 2014
<b>Loans granted to subsidiaries and receivables from subsidiaries, of which:</b>	<b>9 007 161</b>	<b>7 523 690</b>
Trade receivables	642 505	712 846
Dividend receivable	6 137	–
Loans granted under cash pool agreement plus interest accrued	96 863	29 223
Loans granted	1 150 194	–
Other financial receivables	249	282
TCG receivables	14 288	4 353
Bonds	7 096 925	6 776 986
<b>Loans granted to jointly-controlled entities and receivables from these entities</b>	<b>202 300</b>	<b>226 471</b>
<b>Receivables from State Treasury companies</b>	<b>93 759</b>	<b>95 890</b>
<b>Liabilities to subsidiaries, of which:</b>	<b>1 794 169</b>	<b>2 218 946</b>
Trade payables	326 013	299 189
Loans received under cash pool agreement plus interest accrued	689 774	1 180 815
Other loans received	713 107	711 326
Liabilities arising from the TCG	59 902	21 480
Other financial liabilities	5 239	5 239
Other non-financial liabilities	134	897
<b>Liabilities to jointly-controlled entities</b>	<b>638</b>	<b>4 966</b>
<b>Liabilities to State Treasury companies</b>	<b>116 309</b>	<b>114 941</b>

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

An increase in costs of operating activities in the 6-month period ended 30 June 2015 year-on-year was mainly due to an increase in purchases of electricity from TAURON Wytwarzanie S.A. The value of purchased electricity was PLN 1 278 662 thousand and PLN 650 596 thousand, respectively.

In the 6-month period ended 30 June 2015, PSE S.A. and PKP Energetyka S.A. were the major business partners of TAURON Polska Energia S.A. among State Treasury companies in terms of sales revenue. The revenue from the aforementioned entities represented 87% of the total revenue generated in transactions with State Treasury companies.

The highest costs resulted from transactions with Kompania Węglowa S.A., PGE Polska Grupa Energetyczna S.A., Katowicki Holding Węglowy S.A. and Jastrzębska Spółka Węglowa S.A. and they accounted for 90% of total expenses incurred as a result of purchases from State Treasury companies.

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

### 35.2. Executive compensation

The amount of compensation and other benefits granted to the Management Board, Supervisory Board and other key executives of the Company in the 6-month period ended 30 June 2015 and in the comparative period has been presented in the table below.

	6-month period ended 30 June 2015 <i>(unaudited)</i>	6-month period ended 30 June 2014 <i>(unaudited)</i>
<b>Management Board</b>	<b>5 022</b>	<b>4 495</b>
Short-term employee benefits (salaries and surcharges)	3 614	3 122
Post-service benefits for a Member of the Management Board	–	905
Termination benefits	900	–
Other	508	468
<b>Supervisory Board</b>	<b>592</b>	<b>440</b>
Short-term employee benefits (salaries and surcharges)	592	440
<b>Other members of key management personnel</b>	<b>7 644</b>	<b>7 010</b>
Short-term employee benefits (salaries and surcharges)	6 809	6 317
Post-employment benefits	–	140
Termination benefits	285	–
Other	550	553
<b>Total</b>	<b>13 258</b>	<b>11 945</b>

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

### 36. Financial instruments

#### 36.1. Carrying amount and fair value of financial instrument classes and categories

Categories and classes of financial assets	Note	As at 30 June 2015 <i>(unaudited)</i>		As at 31 December 2014	
		Carrying amount	Fair value	Carrying amount	Fair value
<b>1 Financial assets at fair value through profit or loss</b>		<b>2 549</b>	<b>2 549</b>	<b>1 811</b>	<b>1 811</b>
Derivative instruments	23	2 549	2 549	1 811	1 811
<b>2 Financial assets available for sale</b>		<b>21 247</b>	<b>–</b>	<b>5 181</b>	<b>–</b>
Long-term shares	20	21 247	–	5 181	–
<b>3 Loans and receivables</b>		<b>9 354 024</b>	<b>9 392 937</b>	<b>7 991 292</b>	<b>8 204 820</b>
Trade receivables	26	767 670	767 670	941 842	941 842
Bonds	21	7 096 925	7 135 838	6 798 726	7 012 254
Loans granted under cash pool agreement	29.4	96 863	96 863	29 224	29 224
Other loans granted	22	1 352 346	1 352 346	204 698	204 698
Dividend receivable		6 137	6 137	–	–
Other financial receivables		34 083	34 083	16 802	16 802
<b>4 Financial assets excluded from the scope of IAS 39</b>		<b>20 805 861</b>	<b>–</b>	<b>20 804 618</b>	<b>–</b>
Shares in subsidiaries	20	20 390 009	–	20 388 766	–
Shares in jointly-controlled entities	20	415 852	–	415 852	–
<b>5 Cash and cash equivalents</b>	27	<b>745 909</b>	<b>745 909</b>	<b>1 228 880</b>	<b>1 228 880</b>
<b>Total financial assets, including in the statement of financial position:</b>		<b>30 929 590</b>		<b>30 031 782</b>	
<b>Non-current assets</b>		<b>27 914 140</b>		<b>26 536 141</b>	
Shares	20	827 108		809 799	
Bonds		6 879 375		5 522 725	
Loans granted		202 152		198 331	
Derivative instruments		242		–	
Other financial assets		5 263		5 286	
<b>Current assets</b>		<b>3 015 450</b>		<b>3 495 641</b>	
Trade and other receivables		899 490		982 582	
Bonds		217 550		1 276 001	
Loans granted		1 150 194		6 367	
Derivative instruments		2 307		1 811	
Cash and cash equivalents		745 909		1 228 880	



Categories and classes of financial liabilities	Note	As at 30 June 2015 (unaudited)		As at 31 December 2014	
		Carrying amount	Fair value	Carrying amount	Fair value
<b>1 Financial liabilities at fair value through profit or loss</b>		<b>59 574</b>	<b>59 574</b>	<b>15 183</b>	<b>15 183</b>
Derivative instruments	23	59 574	59 574	15 183	15 183
<b>2 Financial liabilities measured at amortized cost</b>		<b>9 401 625</b>	<b>9 439 441</b>	<b>9 811 465</b>	<b>9 849 118</b>
Arm's length loans, of which:		2 548 961	2 586 777	3 052 552	3 090 205
Liability under the cash pool loan	29.4	716 704	716 704	1 180 815	1 180 815
Loans from the European Investment Bank	29.2	1 119 150	1 156 966	1 160 411	1 198 064
Loan from the subsidiary	29.3	713 107	713 107	711 326	711 326
Overdraft	29.5	13 152	13 152	11 918	11 918
Bonds issued	29.1	5 957 611	5 957 611	6 110 631	6 110 631
Trade payables		535 901	535 901	594 007	594 007
Dividend payable		262 882	262 882	–	–
Other financial liabilities		81 769	81 769	42 244	42 244
Liabilities due to purchases of fixed and intangible assets		1 349	1 349	113	113
<b>3 Liabilities under guarantees, factoring and excluded from the scope of IAS 39</b>		<b>31 690</b>	<b>31 690</b>	<b>33 159</b>	<b>33 159</b>
Liabilities under finance leases		31 690	31 690	33 159	33 159
<b>4 Hedging instruments (relating to liabilities)</b>	23	<b>132 515</b>	<b>132 515</b>	<b>180 933</b>	<b>180 933</b>
<b>Total financial liabilities, including in the statement of financial position:</b>		<b>9 625 404</b>		<b>10 040 740</b>	
<b>Long-term liabilities</b>		<b>7 451 703</b>		<b>7 503 745</b>	
Interest-bearing loans and borrowings		7 323 570		7 374 836	
Liabilities under finance leases		28 593		30 169	
Other financial liabilities		5 740		5 239	
Derivative instruments		93 800		93 501	
<b>Short-term liabilities</b>		<b>2 173 701</b>		<b>2 536 995</b>	
Current portion of interest-bearing loans and borrowings		1 196 154		1 800 265	
Current portion of liabilities under finance leases		3 097		2 990	
Trade and other payables		876 161		631 125	
Derivative instruments		98 289		102 615	

Financial instruments measured at fair value as at the end of the reporting period, i.e. assets and liabilities measured at fair value through profit or loss and hedging derivatives were measured in line with the method described in Note 6 to these condensed interim financial statements. Fair value hierarchy disclosures are discussed in Note 36.2.

Financial instruments classified to other categories of financial instrument categories:

- Following a significant decrease in interest rates the Company carried out fair value measurement of fixed-rate financial instruments, which included bonds acquired by the Company, loans granted by the European Investment Bank and a loan from a subsidiary as at 30 June 2015 and 31 December 2014. The fair value of the loan extended by the subsidiary is close to its carrying amount. Fair value measurement of other fixed rate financial instruments was carried out based on the present value of future cash flows discounted using an interest rate applicable to a given bond or loan, i.e. by reference to market interest rates. The measurement resulted in Level 2 classification in fair value hierarchy.
- The fair value of other financial instruments held by the Company (without financial assets available for sale and excluded from the scope of IAS 39, as discussed below) as at 30 June 2015 and 31 December 2014 did not significantly differ from their values presented in the financial statements for the respective periods, due to the following reasons:
  - the potential discounting effect relating to short-term instruments is insignificant;
  - the instruments are related to arm's length transactions.

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

- The Company has not disclosed the fair value of shares in companies not quoted on active markets, categorized to financial assets available for sale. The Company is unable to reliably estimate the fair value of shares held

in companies which are not listed on active markets. They are measured at cost less impairment losses as at the end of the reporting period. Similarly, in accordance with the Company's accounting policy, shares in subsidiaries and jointly-controlled entities (joint arrangements) – financial assets excluded from the scope of IAS 39 – are also measured at cost less impairment losses.

### 36.2. Fair value hierarchy

Fair value hierarchy of financial instruments measured at fair value as at 30 June 2015 and 31 December 2014:

Classes of financial instruments	As at 30 June 2015 (unaudited)		As at 31 December 2014	
	Level 1	Level 2	Level 1	Level 2
<b>Assets</b>				
Derivative instruments – commodity	1 205	–	312	–
Derivative instruments – currency	–	37	–	–
Derivative instruments – CCIRS	–	1 307	–	1 499
<b>Liabilities</b>				
Derivative instruments – commodity	–	–	562	–
Derivative instruments – CCIRS	–	52 705	–	1 241
Derivative instruments – IRS	–	139 384	–	194 313

The methods of estimating the fair value of derivatives, discussed in detail in note 6 hereto, have not changed since 31 December 2014.

## 37. Finance and financial risk management

### 37.1. Financial risk management

The TAURON Capital Group has implemented the policy for management of specific risks in the area of finance, which defines the strategy for management of the currency and interest rate risk. The policy has also introduced hedge accounting principles in the Group, which lays down the principles and defines the types of hedge accounting, along with the accounting treatment of hedging instruments and hedged items, to be applied as part of hedge accounting under IFRS. The policy for specific risk management in the area of finance and hedge accounting principles are applicable to the cash flow risk and not to the fair value risk due to its limited significance for the Group.

#### Hedge accounting

As at 30 June 2015, the Company was a party to hedging transactions covered by the policy for specific risk management in the area of finance. Pursuant to a decision of the Financial Risk Management Committee of 30 January 2012, in March 2012 the Company hedged the interest rate risk arising from bonds issued under the Bond Issue Scheme (Tranche A and Tranche C), by entering into an interest rate swap (IRS) transaction for a term of 5 years. The aforementioned transaction was concluded due to fluctuations in the projected future cash flows from interest payments resulting from the issue of bonds in PLN with a floating interest rate based on WIBOR 6M. The Company hedged 80% of such cash flows. Following early redemption of Tranche A bonds carried out on 29 December 2014, the Company no longer applied hedge accounting to IRS contracts hedging the bonds redeemed. The Company still applies hedge accounting to the remaining IRS contracts hedging Tranche C bonds. The accounting treatment of the aforementioned hedging transactions has been presented in detail in Note 28.3 to these condensed interim financial statements.

### 37.2. Financial and capital management

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



### **38. Events after the end of the reporting period**

#### **Business combination under common control of Energopower Sp. z o.o. and Biomasa Grupa TAURON Sp. z o.o.**

On 1 July 2015, a business combination under common control of Energopower Sp. z o.o. (the acquirer) and Biomasa Grupa TAURON Sp. z o.o. (the acquiree) was registered by the District Court in Rzeszów, XII Business Division of the National Court Register. The business combination was carried out under Article 492.1.1 of the Code of Commercial Companies through the transfer of the acquiree's all assets onto the acquirer.

#### **Increase in the bond issue scheme by PLN 700 000 thousand**

In July 2015 TAURON Polska Energia S.A. concluded an annex to the scheme agreement with Bank Gospodarstwa Krajowego concerning the bond issue scheme organization. Pursuant to the annex, the bond issue scheme amount was increased from PLN 1 000 000 thousand to PLN 1 700 000 thousand.

The purpose of the bond issue scheme is to finance capital expenditure of the TAURON Group. Bank Gospodarstwa Krajowego participates in the project under the "Polish investments" scheme.

The value of the bond scheme with securities of at maximum 15-year maturity periods and 6-month interest periods is PLN 1 700 000 thousand. As at the date of concluding the annex PLN 300 000 thousand, constituting a portion of the amount increasing the bond issue scheme, was underwritten. In accordance with the financing structure bonds will be issued in series in the years 2015–2016 and they will mature from 2020 to 2029. Bank Gospodarstwa Krajowego will act as an arranger, underwriter and depositary.

#### **Disbursement of funds from the loan granted by European Investment Bank**

PLN 295 000 thousand constituting a portion of the loan granted by the European Investment Bank under the agreement of July 2014 was disbursed on 17 July 2015. The purpose of the loan was financing an investment project related to energy production from renewable sources and energy distribution.

#### **Capital increase of PGE EJ 1 Sp. z o.o.**

On 29 July 2015 the Extraordinary Shareholders' Meeting of PGE EJ 1 Sp. z o.o. adopted a resolution to increase the issued capital of the entity. Under the resolution in question the issued capital of the company was increased from PLN 205 860 thousand to PLN 275 859 thousand, i.e. by PLN 69 999 thousand, by way of creating 496 450 new shares with the face value of PLN 141 per one share. TAURON Polska Energia S.A. will take up 49 645 new shares with the total face value of PLN 7 000 thousand for a cash contribution of PLN 7 000 thousand. The issued capital increase will be covered with a cash contribution within 14 days of the resolution date.

In accordance with the Financing Schedule, the total value of capital increases in PGE EJ 1 Sp. z o.o. in 2015, including the increase of 29 July 2015, will not exceed PLN 160 000 thousand, where TAURON Polska Energia S.A. will be obliged to take up shares proportionally to the interest held in the issued capital of the entity at a given time. The timeframe of further investments in PGE EJ 1 Sp. z o.o. by its shareholders will be determined in subsequent reporting periods.

#### **Capital increase and a loan granted by TAURON Sweden Energy AB (publ)**

On 13 July 2015 the Extraordinary Shareholders' Meeting of TAURON Sweden Energy AB (publ) adopted a resolution to increase the registered issued capital of the entity amounting to EUR 55 thousand by a maximum amount of EUR 6 645 thousand by way of issuing 6 645 thousand new shares. On 22 July 2015, the Company paid EUR 6 645 thousand for newly issued shares of TAURON Sweden Energy AB (publ).

On 27 July 2015, TAURON Polska Energia S.A. concluded a loan agreement with TAURON Sweden Energy AB (publ), under which TAURON Sweden Energy AB (publ) granted a loan of EUR 6 600 thousand to the Company on 30 July 2015. The maturity date of the entire outstanding amount was set at 30 July 2016.

These condensed interim financial statements of TAURON Polska Energia S.A., prepared for the 6-month period ended 30 June 2015 in accordance with International Accounting Standard 34 have been presented on 45 consecutive pages.

Katowice, 18 August 2015

Dariusz Lubera – President of the Management Board .....

Aleksander Grad – Vice-President of the Management Board .....

Katarzyna Rozenfeld – Vice-President of the Management Board .....

Stanisław Tokarski – Vice-President of the Management Board .....

Krzysztof Zawadzki – Vice-President of the Management Board .....



**REPORT OF THE MANAGEMENT BOARD  
ON OPERATIONS OF  
TAURON POLSKA ENERGIA S.A. CAPITAL GROUP  
IN THE FIRST HALF OF 2015**

**AUGUST 2015**

## TABLE OF CONTENTS

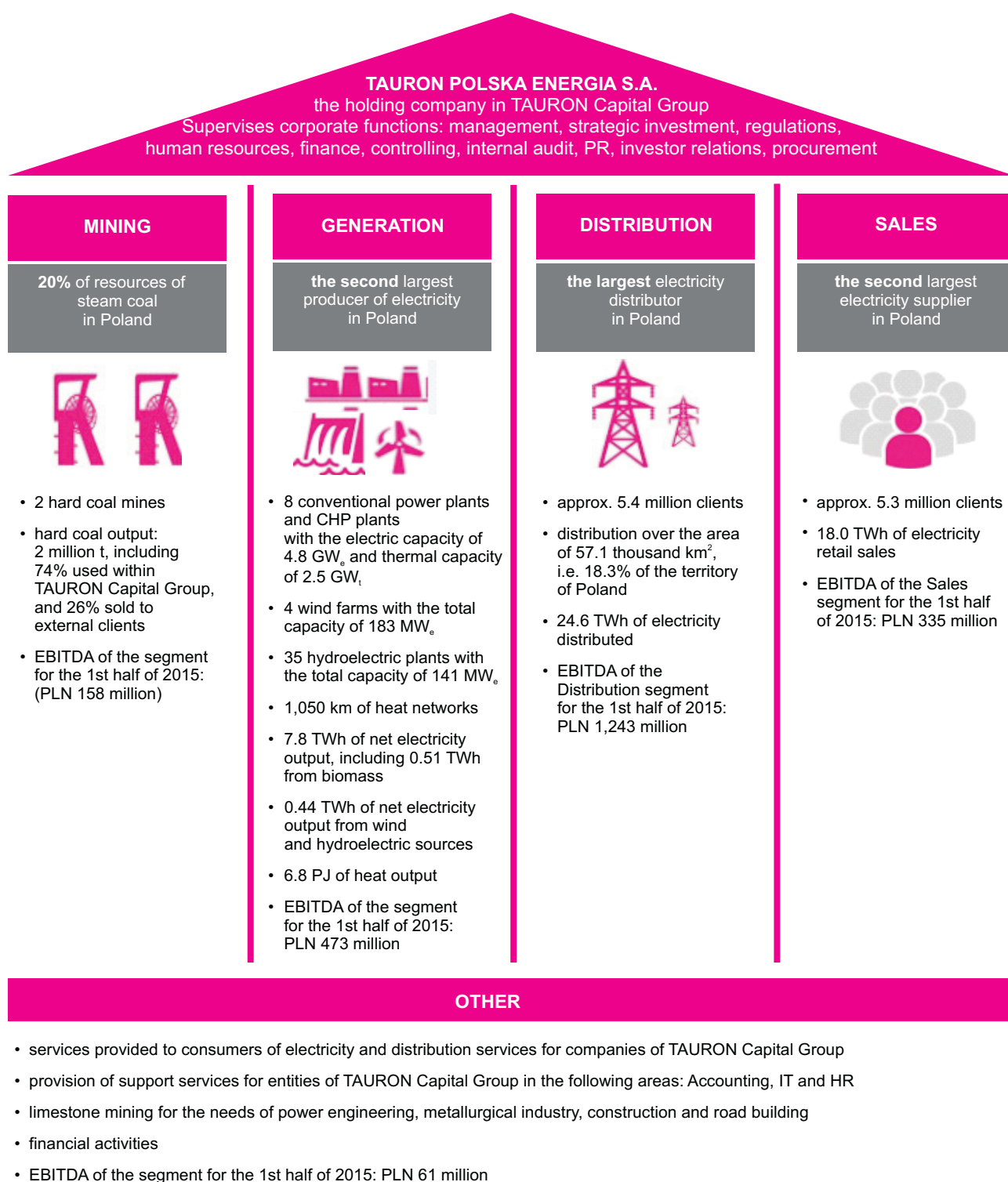
<b>1. TAURON CAPITAL GROUP</b>	<b>3</b>
1.1. Information on TAURON Capital Group	3
1.2. Areas of activity	4
1.3. Organisation and structure of TAURON Capital Group	5
1.3.1. Entities subject to consolidation	6
1.3.2. Changes in organisation of TAURON Capital Group	7
1.4. Major domestic and foreign investment	8
1.4.1. Purchase of equity securities	8
1.4.2. Implementation of strategic investments	9
<b>2. BUSINESS OPERATIONS OF TAURON CAPITAL GROUP</b>	<b>12</b>
2.1. Factors to affect the results achieved within the perspective of at least the next half a year	12
2.2. Financial results of TAURON Capital Group	16
2.2.1. Sales structure according to Business areas	16
2.2.2. Financial results of TAURON Capital Group	18
2.2.2.1. Mining Area	19
2.2.2.2. Generation Area	20
2.2.2.3. Distribution Area	22
2.2.2.4. Sales Area	23
2.2.2.5. Other Area	25
2.3. Important events and achievements of TAURON Capital Group significant affecting its operations	26
2.4. Information on agreements concluded by companies of TAURON Capital Group	31
2.4.1. Significant transactions with affiliated entities concluded under conditions other than on arm's length basis	31
2.4.2. Credit guarantees and sureties or loans granted	31
2.5. Information concerning employment	31
<b>3. RISK MANAGEMENT IN TAURON CAPITAL GROUP</b>	<b>33</b>
<b>4. ANALYSIS OF FINANCIAL AND ECONOMIC SITUATION OF TAURON CAPITAL GROUP</b>	<b>40</b>
4.1. Principles of compiling the semi-annual condensed consolidated financial statements	40
4.2. Financial situation of TAURON Capital Group after the first half of 2015	40
4.3. Status of assets	43
4.4. Cash Flows	47
4.5. Position of the Management Board concerning a possibility to implement forecasts of results for a given year, published earlier	49
<b>5. SHARES AND SHAREHOLDERS</b>	<b>50</b>
5.1. Structure of shareholding	50
5.2. Shareholders holding at least 5% of the total number of votes	50
5.3. Specification of the status of shares held by the members of the management and supervisory bodies	51
<b>6. INFORMATION CONCERNING THE PARENT ENTITY</b>	<b>52</b>
6.1. Composition of the Management Board and the Supervisory Board	52
6.1.1. Management Board	52
6.1.2. Supervisory Board	53
6.2. Subject and scope of conducted business operations	55
<b>7. OTHER SIGNIFICANT INFORMATION AND EVENTS</b>	<b>57</b>
7.1. Proceedings pending before the court, competent arbitration authority or public administration authority	57
7.2. Other information significant for the evaluation of the staffing, economic, financial situation, financial result and changes thereof, as well as information which is essential for the assessment of the ability of TAURON Capital Group to fulfil the obligations	57
<b>APPENDIX A: GLOSSARY OF TERMS AND LIST OF ABBREVIATIONS</b>	<b>60</b>
<b>APPENDIX B: LIST OF TABLES AND FIGURES</b>	<b>63</b>

## 1. TAURON CAPITAL GROUP

### 1.1. Basic Information on TAURON Capital Group

TAURON Polska Energia S.A. Capital Group (TAURON 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. in the area of coal mining, generation, distribution as well as trading in electricity and heat.

Figure no. 1. TAURON Capital Group



## 1.2. Areas of activity

TAURON Capital Group conducts its operations within the following Areas (hereinafter also referred to as Segments):



**Mining Area**, comprising mainly mining, preparation and sales of hard coal in Poland – the activity provided by TAURON Wydobycie S.A. (TAURON Wydobycie).



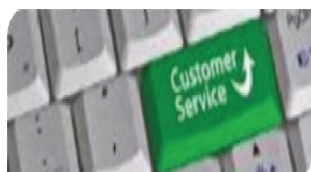
**Generation Area**, comprising mainly generation of electricity in conventional sources, including co-generation, as well as generation of electricity from renewable energy sources, including combustion and co-firing of biomass, and in hydroelectric power plants and wind farms. The Area also comprises generation, distribution and sales of heat. The basic fuels used by the Generation Area comprise hard coal, biomass and gas. Operations in this area are carried out by TAURON Wytwarzanie S.A. company. (TAURON Wytwarzanie), TAURON Ciepło sp. z o.o. (TAURON Ciepło) and TAURON EKOENERGIA sp. z o.o. (TAURON EKOENERGIA). Until the end of 2014 companies of TAURON Ciepło and TAURON EKOENERGIA were assigned to the separately operating Areas, respectively, Heat and Renewable Energy Sources (RES), whereas since 2015 the aforementioned companies are recognised within the Generation Segment.



**Distribution Area**, comprising the distribution of electricity using distribution grids located in southern Poland. The activities are conducted by TAURON Dystrybucja S.A. (TAURON Dystrybucja). This area also comprises companies: TAURON Dystrybucja Serwis S.A. (TAURON Dystrybucja Serwis) and TAURON Dystrybucja Pomiary sp. z o.o. (TAURON Dystrybucja Pomiary).



**Sales Area**, comprising sales of electricity to end-customers and wholesale trading of electricity, as well as trading and management of CO<sub>2</sub> emission allowances and property rights arising from the energy certificates of origin and trading of fuels. Operations in this area are conducted by the following companies: 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).



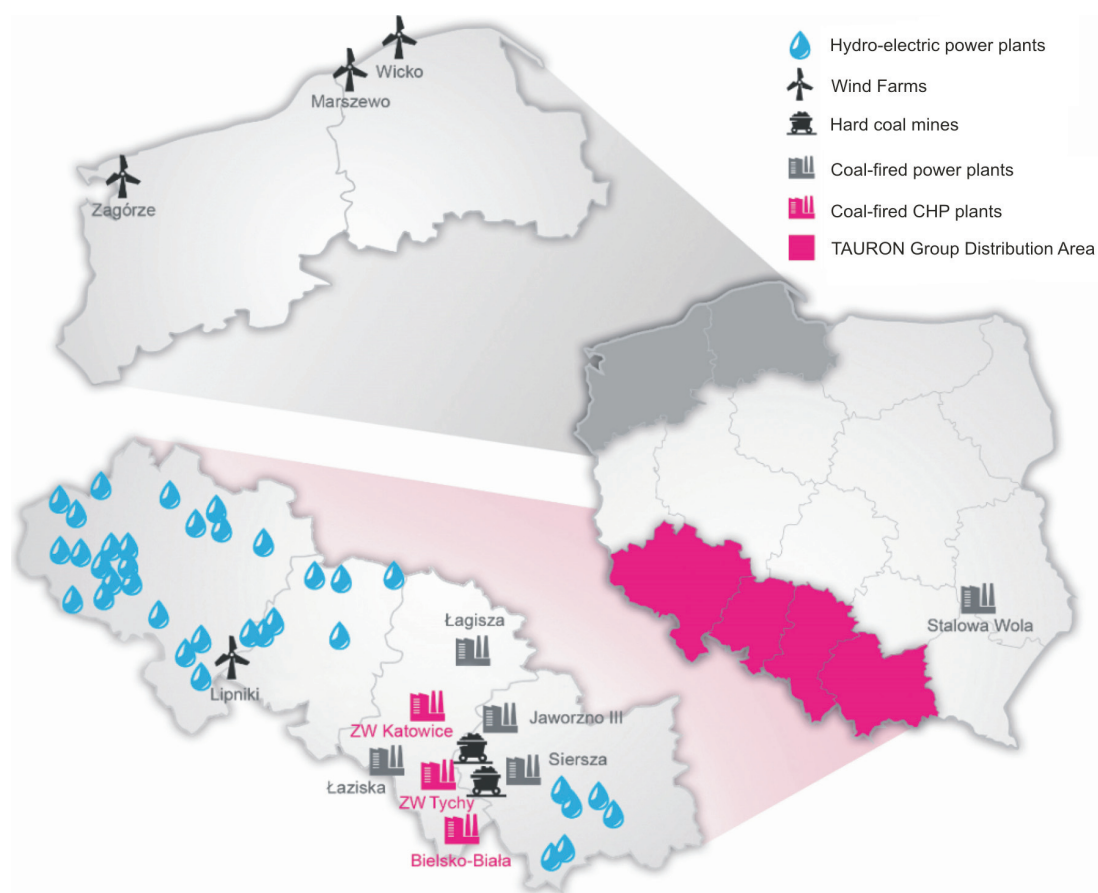
**Other Area**, comprising the activity in the area of customer service of TAURON Capital Group clients (provided by the TAURON Obsługa Klienta sp. z o.o. (TAURON Obsługa Klienta)), extraction of stone, including limestone, for the needs of power engineering industry, metallurgy, construction and road building as well as production of sorbing agents for installations of flue gas desulphurisation using the wet method and for application in fluidized bed boilers (activity provided by the company Kopalnia Wapienia “Czatkowice” sp. z o.o (KW Czatkowice)). This Area also comprises the following companies: TAURON Sweden Energy AB (publ) (TAURON Sweden Energy), dealing with financial activities, Biomasa Grupa TAURON sp. z o.o., (Biomasa GT), dealing mainly with biomass supplies and Polska Energia Pierwsza Kompania Handlowa under liquidation (PEPKH under liquidation). Until the end of 2014, TAURON Obsługa Klienta company was assigned to the separately operating the Customer Service Area, whereas since 2015 this company has been recognised within the Other Segment.

TAURON Capital Group conducts its operations and acquires its revenues mainly from sales and distribution of electricity and heat, generation of electricity and heat, as well as from sales of hard coal.

The figure below shows the location of key assets of TAURON Capital Group as well as the distribution area where TAURON Dystrybucja acts as the Distribution System Operator (DSO).



Figure no. 2. Location of key assets of TAURON Capital Group



In the 1<sup>st</sup> half and in the 2<sup>nd</sup> quarter of 2015 TAURON Capital Group reached the following key operating parameters as compared to the corresponding periods of 2014:

Table no. 1. Key operating parameters of TAURON Capital Group

Key operating parameters	unit	1st half 2015	1st half 2014	Dynamics 2015/2014	Q 2 2015	Q 2 2014	Dynamics 2015/2014
Commercial coal production	M Mg	<b>2.01</b>	2.55	78.8%	<b>1.04</b>	1.30	80.0%
Electricity generation (net production)	TWh	<b>7.84</b>	7.29	107.5%	<b>3.92</b>	3.59	109.2%
Generation of electricity and heat from renewable sources	TWh	<b>0.95</b>	0.91	104.4%	<b>0.43</b>	0.44	97.7%
<i>Production from biomass</i>	TWh	<b>0.51</b>	0.54	94.4%	<b>0.22</b>	0.26	84.6%
<i>Production of hydroelectric plants and wind farms</i>	TWh	<b>0.44</b>	0.37	118.9%	<b>0.21</b>	0.18	116.7%
Heat generation	PJ	<b>6.84</b>	7.82	87.5%	<b>1.67</b>	1.90	87.9%
Distribution of electricity	TWh	<b>24.59</b>	23.88	103.0%	<b>12.09</b>	11.63	104.0%
Retail sales of electricity (by Sales and Generation Areas)	TWh	<b>18.03</b>	18.20	99.1%	<b>8.58</b>	8.54	100.5%
Number of clients – Distribution	thous.	<b>5,392.2</b>	5,359.4	100.6%	<b>5,392.2</b>	5,359.4	100.6%

### 1.3. Organisation and structure of TAURON Capital Group

The parent entity, TAURON Polska Energia S.A. was established on 6 December 2006 under the implementation of the *Programme for Power Engineering*. The founders of the Company included: State Treasury represented by the Minister of Treasury, EnergiaPro S.A. with its seat in Wrocław (currently: TAURON Dystrybucja), ENION S.A. with its seat in Kraków (currently: TAURON Dystrybucja) and Elektrownia Stalowa Wola S.A. with its seat in Stalowa Wola (currently: TAURON Wytwarzanie). The Company was registered in the National Court Register on 8 January 2007 under the enterprise name: Energetyka Południe S.A. The change of the Company enterprise to its current name, i.e. TAURON Polska Energia S.A., was registered on 16 November 2007. The company does not have any branches (plants).

As of 30 June 2015, the key companies of TAURON Capital Group, besides the parent company, TAURON, included 15 subsidiaries subject to consolidation, indicated in item 1.3.1. hereof. Moreover, the Company held, directly or indirectly, shares in other 43 companies.

Detailed information concerning the activities of TAURON Capital Group companies in individual Business Areas is contained in item 1.2. of this report.

### **Management rules of “TAURON Group”**

“TAURON Group” comprises selected companies of TAURON Capital Group, managed jointly as a uniform economic body consisting of independent commercial law companies, led by the Company, as the parent entity.

The main normative act of “TAURON Group” is the *Code of TAURON Group* adopted by the Management Board of the Company, which regulates its operations, ensuring the implementation of the goals through the specially tailored solutions in the area of managing “TAURON Group” entities, including, in particular, defining companies’ operating objectives, enabling the achievement of the effects assumed in the *Corporate Strategy of TAURON Group for 2014–2017 with an outlook until 2023* (Corporate Strategy).

In the 1st half of 2015 the improvement of TAURON Capital Group management process was continued. Considering the changes in the organisation of the TAURON Capital Group, the Management Board of the Company updated the allocation of membership of the companies to “TAURON Group”.

Within “TAURON Group”, Business Areas operate, established by the Company Management Board, comprising the companies of “TAURON Group” as well as the established Management Areas within which the relevant cooperation rules apply. In addition, within “TAURON Group” permanent committees of “TAURON Group” operate:

- 1) Project Assessment Committee,
- 2) TAURON Group Management Committee,
- 3) TAURON Group Compliance Committee,
- 4) Risk Committee.

The aforementioned Committees were established in order to enable the performance of activities in accordance with the principles of operational consistence of the “TAURON Group”, in compliance with the law and the interests of “TAURON Group” and its stakeholders.

The Committees fulfil the following functions:

- 1) opinion-making function for the Company Management Board,
- 2) decision-making function,
- 3) supervisory function for the management boards of TAURON subsidiaries.

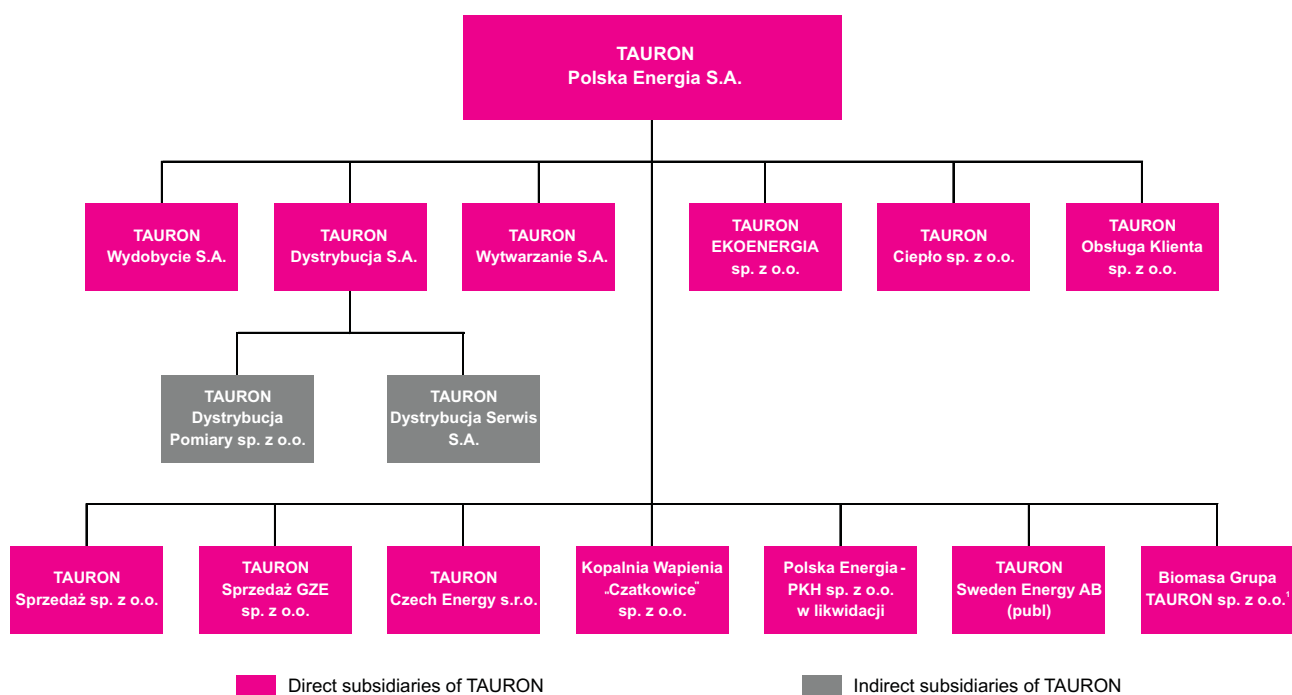
The core task of the Committees is to provide surveillance over implementation of the consistent actions by all the participants of the “TAURON Group”, compliant with the *TAURON Group Code* and to the benefit of “TAURON Group” interests. The specific functions of the Committees are provided in detail in the by-laws of their operations adopted by the Company Management Board.

### **1.3.1. Entities subject to consolidation**

The chart below presents the structure of TAURON Capital Group, including the companies subject to consolidation, according to the status as at 30 June 2015.



**Figure no. 3. Structure of TAURON Capital Group, including companies subject to consolidation, as at 30 June 2015**



<sup>1</sup> On 1 July 2015 merger of companies: Energopower sp. z o.o. (Energopower) as the Acquiring Company and Biomasa Grupa TAURON sp. z o.o. (Biomasa GT) as the Acquired Company. At the same time, the name of the company enterprise was changed to "Biomasa Grupa TAURON sp. z o.o.". The Acquiring Company was subject to consolidation using full consolidation method.

TAURON Capital Group also holds investments in joint projects: Elektrociepłownia Stalowa Wola S.A., Elektrownia Blachownia Nowa sp. z o.o. (Elektrownia Blachownia Nowa) and TAMEH HOLDING sp. z o.o. (TAMEH HOLDING), which are measured by equity method in the consolidated financial statements.

### 1.3.2. Changes in organisation of TAURON Capital Group

In the 1st half of 2015 until the day of this report, the following changes in the organisation of TAURON Capital Group took place:

#### Events related to organizational changes in the 1st half of 2015

- On 14 January 2015, the Company purchased 4,267 shares of the company Biomasa GT, with the total nominal value of PLN 237,885.25, representing 100% share in the initial capital, from its subsidiary, TAURON Wytwarzanie. The transfer of ownership of Biomasa GT shares took place through datio in solutum, under the agreement concluded between TAURON and TAURON Wytwarzanie in exchange for the waiver of TAURON Wytwarzanie liability towards TAURON due to the partial redemption of bonds with the value of PLN 1,230 thousand. The remaining part of the liability in the amount of PLN 6 thousand was paid in cash.

The purpose of the above transaction was to gain 100% direct interest in the share capital of Biomasa GT by TAURON, in order to incorporate it in the Tax Capital Group (PGK).

- On 9 February 2015 the Extraordinary GM of companies TAURON EKOENERGIA and Marselwind sp. z o.o. (Marselwind) adopted the resolutions concerning the division of TAURON EKOENERGIA company (the Divided Company), pursuant to Article 529 § 1 item 4 of the Code of Commercial Companies, i.e. through the transfer of a part of the Divided Company assets, constituting an organised part of the enterprise, consisting of fixed assets and intangible assets associated with electricity generation in renewable energy sources – wind farms, to Marselwind (the Acquiring Company), in exchange for the interest in the increased share capital of the Acquiring Company, to be taken over by the sole shareholder of the Divided Company – TAURON (division through separation).

As at the day of drawing up this information, the separation of wind assets from TAURON EKOENERGIA and their transfer to the Marselwind special purpose vehicle has not taken place.

## Events concerning the organizational changes after 30 June 2015

1. On 1 July 2015 the District Court in Rzeszów, 12th Commercial Department of the National Court Register entered the merger of the following companies to the register: Energopower (the Acquiring Company) with Biomasa GT company (the Acquired Company). The merger was executed pursuant to Article 492 § 1 item 1 of the Code of Commercial Companies, i.e. through the transfer of the total assets of the Acquired Company to the Acquiring Company. At the same time, the name of the enterprise name of the Acquiring Company was changed to "Biomasa Grupa TAURON sp. z o.o."

As a result of the merger, the share capital of the Acquiring Company was increased from the amount of PLN 45,000 thousand to the amount of PLN 9,000,000, i.e. by the amount of PLN 8,955,000, through creating 179,100 new shares with the nominal value of PLN 50 per share., i.e. with the total nominal value of PLN 8,955,000. TAURON, as the sole shareholder of the Acquired Company, took up all newly created shares.

The merger of the companies enabled inclusion of Biomasa GT company into the PGK.

2. On 13 July 2015 the Extraordinary Meeting of Shareholders of TAURON Sweden Energy company adopted the resolution concerning increasing the share capital of this company from the amount of EUR 55,000 by the maximum amount of EUR 6,645,000, through the issue of the maximum number of 6,645,000 of new shares. All new shares were acquired by the sole shareholder of this company – TAURON, in exchange for cash contribution in the amount of EUR 6,645,000. The increase of the share capital and the issue of new shares was reported to the Swedish Company Registration Office on 24 July 2015 for registration.

The increase in the share capital of TAURON Sweden Energy company is associated with the process of fund raising for TAURON Capital Group on the German market implemented by the company.

3. On 17 July 2015 the company Łagisza Grupa TAURON sp. z o.o. with its registered office in Katowice (Łagisza GT) was founded by the subsidiary, TAURON Wytwarzanie. TAURON Wytwarzanie, as the sole founder, took up all 50 shares with the nominal value of PLN 100 per share, i.e. with the total nominal value of PLN 5,000.

The Łagisza GT company was established as a special purpose vehicle for the implementation of the project on the construction of the CCGT unit of 413 MW<sub>e</sub> class in TAURON Wytwarzanie Oddział Elektrownia Łagisza in Będzin, under the implementation of the provisions of the investment agreement concluded on 13 July 2015 by TAURON Wytwarzanie with Polskie Inwestycje Rozwojowe S.A. company (PIR), in order to agree on the rules of joint implementation of the project.

Detailed information concerning the investment agreement concluded by the subsidiary is included in item 2.3 hereof.

The aforementioned activity is in line with the Corporate Strategy, stipulating building of the sustainable generation portfolio consisting of units based on coal, gas technologies and RES.

4. On 31 July 2015 the company R S G sp. z o.o. with its registered office in Katowice was founded by TAURON. TAURON, as the sole founder of the company, took up all 1,000 shares with the nominal value of PLN 100 per share, i.e. with the total nominal value of PLN 100,000.

R S G sp. z o.o. was established as a special purpose vehicle in connection with the restructuring processes carried out in TAURON Capital Group.

In connection with the changes in the organisation of TAURON Capital Group, as at the day of completing this report, the Company holds, directly or indirectly, shares in 58 companies.

### 1.4. Major domestic and foreign investment

#### 1.4.1. Purchase of equity securities

##### Purchase of Biomasa GT company shares

On 14 January 2015, TAURON purchased 4,267 shares of the company Biomasa GT, with the total nominal value of PLN 237,885.25, representing 100% interest in the share capital of this company, from its subsidiary, TAURON Wytwarzanie.

##### Purchase of PGE EJ 1 company shares

On 15 April 2015, TAURON and Polska Grupa Energetyczna S.A. (PGE), KGHM Polska Miedź S.A. (KGHM) and ENEA S.A. (ENEA) concluded the agreement for purchase of shares in PGE EJ1 sp. z o.o. (PGE EJ1) – the special purpose vehicle which is responsible for preparation and execution of the investment comprising the construction and operation of the first Polish nuclear power plant with the capacity of approximately 3 thousand MW<sub>e</sub>. TAURON, KGHM and ENEA purchased from PGE 10% of shares each (30% of shares in total) in PGE EJ 1. In accordance with the Shareholders' Agreement of 3 September 2014, the parties will jointly, proportionally to the shares held, finance activities under the preliminary stage of the project. The price for the shares purchased by TAURON amounted to PLN 16,044 thousand.

Pursuant to the resolution of the Extraordinary SM of PGE EJ 1 of 29 July 2015 concerning increasing of the share capital, TAURON acquired 49,645 new shares with the total nominal value of PLN 6,999,945, in exchange for cash contribution in the amount of PLN 6,999,945. Other shareholders of PGE EJ 1 also participated in increasing of the share capital, accordingly, after the increasing, the interest of TAURON in the share capital of the special purpose vehicle has not changed, amounting to 10% as at the day of completing this report.

Detailed information concerning the acquisition of the PGE EJ 1 company shares is included in item 1.4.2 hereof.

#### 1.4.2. Implementation of strategic investments

##### Key strategic investment projects under implementation

The table below presents the activities carried out in TAURON Capital Group in the 1st half of 2015, in connection with implementation of the key strategic investment projects.

**Table no. 2. Implementation status of the key strategic investment projects**

No.	Investment	Status of investment project implementation
1.	<p>Construction of the CCGT unit with 449 MW<sub>e</sub> capacity, including the heat generation component with 240 MW<sub>t</sub> capacity in Stalowa Wola (investment implemented with participation of the strategic partner – Polskie Górnictwo Naftowe i Gazownictwo S.A.).</p> <p><b>Contractor:</b> Abener Energia S.A.</p> <p><b>Scheduled date of investment project completion:</b> 2016</p>	<p>The process of trials and tests of technological systems of the unit was launched. The assembly of the pressure part of the heat recovery boiler and mechanic assembly of the gas steam turbine was completed. The pressure systems of the unit were subject to tests, with a positive result. The construction of the retaining dam on the San river was completed. A building of cooling water pump station was constructed. The implementation of the works within the electric, control systems and process visualisation is in progress. The staff training programme for the needs of the new unit servicing is ongoing.</p>
2.	<p>Construction of new generation capacity in co-generation at a level of 50 MW<sub>e</sub> and 86 MW<sub>t</sub> at ZW Tychy (TAURON Ciepło).</p> <p><b>Contractor:</b> Elektrobudowa S.A.</p> <p><b>Scheduled date of investment project completion:</b> 2016</p>	<p>Construction and finishing works within the new unit are in progress, in accordance with the schedule submitted by the Contractor. The assembly of the steel structure of the boiler and the assembly of the boiler drum was completed. The water test of the boiler was conducted. The generator was founded. The turbine and the transformers (step-up and tap transformers) were installed.</p>
3.	<p>Construction of a new power unit with 910 MW<sub>e</sub> capacity, for supercritical parameters on the premises of Jaworzno III Power Plant (TAURON Wytwarzanie).</p> <p><b>Contractor:</b> The RAFAKO S.A. and Mostostal Warszawa S.A. consortium.</p> <p><b>Scheduled date of investment project completion:</b> 2019</p>	<p>Preparation of detailed designs is in progress concerning the foundation of the following facilities: the main building and the cooling tower. The excavations as well as earthworks and reinforcement works for the foundations of the main building and the cooling tower are under implementation. In the scope of the remaining contracts the agreement with the contractor of the first part of the carburisation system was signed. Specifications are developed and public procurement procedures are conducted for the construction of the ash removal system, water treatment station and wastewater treatment plant, auxiliary fuel systems and water supply to the unit. The construction design for the reconstruction of the track system is under preparation.</p>
4.	<p>The construction of the installation for flue gas de-nitrification in 6 units of Jaworzno III Power Plant and 4 units of Łaziska Power Plant (TAURON Wytwarzanie).</p> <p><b>Contractor:</b> Jaworzno III Fortum Power and Heat Oy i ZRE K-ce, Łaziska – Strabag Sp. z o.o. and Strabag AG</p> <p><b>Scheduled date of investment project completion:</b> 2016</p>	<p>The implementation of the project is aimed at reducing nitrogen oxide emission of 200 MW class units to the level of 200 mg/Nm<sup>3</sup>, to be applicable as of 2018. In Elektrownia Jaworzno III in the years 2015–2016 the modernisation process of the remaining 2 of 6 units will be completed, i.e. units 1 and 5. In case of Elektrownia Łaziska the modernisation was completed in the 1st half of 2015.</p>
5.	<p>Construction of the CCGT unit with 413 MW<sub>e</sub> capacity, including the heat generation component with 266 MW<sub>t</sub> capacity on the premises of Elektrownia Łagisza (TAURON Wytwarzanie).</p> <p><b>Contractor:</b> selection process in progress</p> <p><b>Scheduled date of investment project completion:</b> 2018</p>	<p>Within the procedure concerning the selection of the general contractor, five potential contractors of the unit were selected. The final version of the ToR for the installation of peak load/ reserve boilers included in the project (60 MW<sub>t</sub>) was prepared. The works associated with the preparation of the documentation required to obtain the building permit and the design works in the scope of the generation unit are in progress. The Environmental Impact Assessment Report and the study for the gas connection route were prepared. Negotiations with Polskie Sieci Elektroenergetyczne S.A. (PSE) are ongoing in the scope of detailed defining of the connecting agreement provisions. On 13 July 2015 the Investment Agreement was concluded with PIR. The objective of the Agreement is to define the rules of Project implementation.</p>

No.	Investment	Status of investment project implementation
6.	<p>Construction of the "Grzegorz" shaft (TAURON Wydobycie), including the infrastructure (surface and underground) and the accompanying headings.</p> <p><b>Contractor:</b> tender scheduled in 2015</p> <p><b>Scheduled date of investment project completion:</b> 2022</p>	<p>The access road to the investment site was constructed, including the reconstruction of the transportation system and the site was provided with the required connections. The complete technical documentation was developed. The construction of the electrical switching station and supply power lines is in progress. Preparations to launch the public procurement procedure for the selection of the general contractor are in progress.</p>
7.	<p>Construction of a 800 m level, including the commissioning of the fourth wall at ZG Janina in Libiąż (TAURON Wydobycie).</p> <p><b>Contractor:</b> Consortium of KOPEX and Przedsiębiorstwo Budowy Szybów S.A. (main task – shaft drilling)</p> <p><b>Scheduled date of investment project completion:</b> 2019</p>	<p>The 1st stage of shaft drilling was completed, i.e. the ventilation connection of corridor workings and the drilled shaft was achieved. The 2nd stage of shaft deepening and drilling of access excavation voids is in progress. Supplies of mining infrastructure equipment are under implementation. The modernisation of the Coal Mechanical Processing Plant – the construction of the haulage and stone container is under implementation.</p>
8.	<p>Construction of the 18 MW Marszewo Wind Farm, constituting the 2nd stage of construction of the wind farm with the total capacity of 100 MW in Marszewo location.</p> <p><b>Contractor:</b> Iberdrola Engineering and Construction Poland sp. z o. o. and Iberdrola Ingeniería y Construcción S.A.U. consortium</p> <p><b>Scheduled date of investment project completion:</b> 2015</p>	<p>The construction of roads and assembly yards as well as foundations for all turbines (9 pcs.) was completed. The commissioning of anchoring elements for towers and turbine blades was performed. Final works in the scope of construction of the medium voltage grid and connecting of the farm to the electrical substation are in progress.</p>

#### **Project associated with the construction of the nuclear power plant**

With reference to the earlier measures and arrangements concerning the joint implementation of the nuclear energy project in Poland, on 15 April 2015 TAURON, KGHM and ENEA, as Business Partners, and PGE concluded the agreement for purchase of shares in PGE EJ 1 – a special purpose vehicle which is responsible for development and execution of the investment covering construction and operation of the first Polish nuclear power plant with the capacity of approximately 3 thousand MW<sub>e</sub> (the project). Business Partners acquired from PGE 10% of shares each (30% of shares in total) in PGE EJ 1 company. TAURON paid the amount of PLN 16,044 million for the shares purchased. At the same time, one of the obligations arising from the Shareholders' Agreement concluded between the Business Partners and PGE on 3 September 2014 was fulfilled.

In accordance with the Shareholders' Agreement, the parties committed jointly, proportionally to the shares held, to finance activities scheduled under the preliminary stage of the project, in order to define such elements as prospective partners, including the strategic partner, technology suppliers, EPC (Engineering, Procurement, Construction) contractors, nuclear fuel supplier and acquiring funds for the project, as well as organisational and competence related preparation of PGE EJ 1 to the role of the future operator of the nuclear power plant responsible for its safe and efficient operation (integrated procedure). Parties to the Shareholders' Agreement estimate that further decisions concerning the project, including the decision on declaring continued participation of individual parties (including TAURON) at the following stage of the Project, will be taken after the completion of the preliminary stage, directly before the settlement of the integrated procedure.

Under the execution of the aforementioned Shareholders' Agreement, on 29 July 2015 the Extraordinary SM of the company PGE EJ 1 adopted the resolution on increasing the share capital from the amount of PLN 205,860,000 to the amount of PLN 275,859,450, i.e. by the amount of PLN 69,999,450 through creating 496,450 new shares with the nominal value of PLN 141 per share and the total nominal value of PLN 69,999,450. Accordingly, TAURON took up 49,645 new shares with the nominal value of PLN 141 per share and with the total nominal value of PLN 6,999,945, covered by the cash contribution at a level of PLN 6,999,945.

The Company informed of signing the agreement on purchasing shares in PGE EJ 1 in the current report no. 12/2015 of 15 April 2015.

#### **Project on construction of CCGT unit at Blachownia Power Plant**

The portfolio of investment projects of TAURON Capital Group also comprises the project on the construction of the new CCGT unit with the capacity within the range of 850 on the premises of Blachownia Power Plant. Pursuant to the Memorandum of Understanding concluded on 30 December 2013 by KGHM, TAURON and TAURON Wytwarzanie, under which it was decided to temporarily suspend the implementation of the project on construction of the CCGT unit in the company Elektrownia Blachownia Nowa (KGHM share: 50%, TAURON Wytwarzanie share: 50%), expressing the willingness to continue the project, the Parties undertook to ensure the continued functioning of the company Elektrownia Blachownia Nowa, securing the existing results of the Project, in particular to update

its documentation, and also committed to continuous monitoring of the energy market and the regulatory environment for possible early resumption of the project. As at the day of compiling this report, the aforementioned project is still suspended.

### **Investment expenditure**

In the 1st half of 2015, the capital expenditure of TAURON Capital Group amounted to approximately PLN 1,771 million and it was higher by c.a. 42% as compared to the expenditure incurred in the corresponding period of the previous year (in the 1st half of 2014, it amounted to PLN 1,250 million). It results mainly from the increase of expenditure in the Areas: Generation and Mining; simultaneously the expenditure in the Areas: Distribution and Other decreased.

The aforementioned capital expenditure was mainly incurred for the implementation of the following tasks:

#### **Distribution Area:**

Construction of new connections (capital expenditure: PLN 229 million) as well as modernisation and replacement of grid assets (capital expenditure: PLN 396 million).

#### **Generation Area:**

1. Construction of the 910 MW capacity at Elektrownia Jaworzno III (capital expenditure: PLN 303 million).
2. Construction of new capacity in co-generation at ZW Tychy, including the construction of the BC-50 unit (capital expenditure: PLN 212 million).
3. Construction of the NO<sub>x</sub> emission abatement installation (capital expenditure: PLN 131 million).
4. Construction of stage II of Marszewo wind farm (capital expenditure: PLN 13 million) and modernisation of wind farms (capital expenditure: PLN 26 million).
5. Investments associated with maintenance and development of heating networks (capital expenditure: PLN 29 million) and adjustment of the ZW Katowice source to the needs of the heat market after 2015 (capital expenditure: PLN 10 million).
6. Installation of supply of the Eastern and Southern Main from Łagisza source (capital expenditure: PLN 19 million), installation of supply of the Western and Southern Main from ELCHO source (capital expenditure: PLN 10 million).

#### **Mining Area:**

1. Purchase of an additional set of enclosure and equipment for longwalls in seam 207 for ZG Janina (capital expenditure: PLN 71 million).
2. Increasing the production capacity of TAURON Wydobywanie through construction of the 800 m level (capital expenditure: PLN 41 million).



## 2. BUSINESS OPERATIONS OF TAURON CAPITAL GROUP

### 2.1. Factors to affect the results achieved within the perspective of at least the next half a year

#### External factors

Results of TAURON Capital Group operations will be affected mainly, as in the past, by the following external factors:

- 1) the macroeconomic situation, especially in Poland, as well as the economic situation in the area where TAURON Capital Group operates and at the European Union (EU) level and global economy level, including volatility of interest rates, currency rates, etc., influencing the measurement of assets and liabilities recognised by the Company in the statement of financial situation,
- 2) political environment, especially in Poland as well as at the EU level, including the positions and decisions of public administration institutions and bodies, e.g.: Office for Competition and Consumer Protection (OCCP), Energy Regulatory Office (ERO) and the European Commission,
- 3) changes in regulations concerning the energy sector as well as changes in the legal environment, including: tax law, commercial law, environmental protection law, in particular: the announced liberalisation of electricity prices for households, the announcement of the ERO President related to the application of maximum prices in tariffs for G group (instead of fixed priced), in order to protect consumers against rapid changes of prices upon full liberalisation,
- 4) resumption of the support system for electricity generation in high-performance co-generation, resulting, on the one hand, in the growth of redemption costs of “red” and “yellow” certificates of electricity sellers to end consumers, and, on the other hand, in the growth of revenues on sales of “red” and “yellow” certificates of generators of energy in co-generation,
- 5) situation in electricity sector, including the activity and measures undertaken by competition in the energy market,
- 6) the number of CO<sub>2</sub> emission allowances allocated free of charge, as well as the price of the allowances purchased – under the circumstances of the deficit in free allowances,
- 7) electricity prices on the wholesale market;
- 8) sales prices of electricity and coal as well as distribution tariffs, as factors influencing the level of revenues,
- 9) prices of certificates of origin of energy from renewable sources and co-generation,
- 10) prices of energy resources,
- 11) geological and mining conditions,
- 12) environmental protection requirements,
- 13) scientific and technical progress,
- 14) potential failures of equipment, installations and grids owned by TAURON Capital Group,
- 15) demand for electricity and other products of the energy market, including changes arising from seasonality and weather conditions.

The activity of TAURON Capital Group demonstrates seasonality which refers, in particular, to production, distribution and sales of heat, distribution and sales of electricity to individual consumers and sales of coal to individual consumers for heating purposes. Sales of heat depends on the atmospheric conditions, in particular, on air temperature, and it is higher in the autumn and winter season. The level of electricity sales to individual consumers depends on the length of a day, which usually makes electricity sales in this group of consumers lower in the spring and summer season and higher in the autumn and winter season. Sales of coal to individual consumers is higher in the autumn and winter season. The seasonality of the remaining areas of TAURON Capital Group operations is limited.

#### Internal factors

The following internal factors affecting the result of TAURON Capital Group activity are most significant:

- 1) implementation of the *Effectiveness Improvement Programme in TAURON Capital Group for the years 2013–2015* and preparation of a new Programme for the years 2016–2018, including the consolidation and restructuring programmes, voluntary redundancy programmes,

- 2) implementation of key investment projects, in particular, in the scope of construction of new and modernisation of the existing generation capacity, building new connections and modernisation of the existing distribution grids, heating networks, construction of underground excavations,
- 3) marketing activities in the scope of acquisition of new clients and loyalty activities in terms of maintaining existing clients,
- 4) centralising the financial management area in TAURON Capital Group, supported by such tools as: central model of financing, cash flow management policy with the cash pool, risk management policy in the financial area, insurance policy,
- 5) PGK activity, aimed mainly at optimising the implementation of the obligations associated with the settlement of corporate income tax by key companies of TAURON Capital Group,
- 6) procurement management by TAURON, in particular, fuel purchases for the needs of generation entities included in TAURON Capital Group.

Impact of the aforementioned factors on the financial result achieved in the 1st half of 2015 is described in item 4 of this report. Effects of this impact are visible both in a short-term and long-term perspective.

### **Macroeconomic environment**

The basic area of TAURON Capital Group operations is the Polish market within which the Company uses positive trends occurring in it as well as is affected by such changes. The macroeconomic situation, both in individual sectors of economy and in financial markets, is a significant factor affecting the results achieved by TAURON Capital Group.

The condition of the Polish economy is considerably associated with the economic trends in the EU and in international markets.

In Europe, in the 1st half of 2015, positive factors influencing economy included the policy of maintaining low interest rates and the continued decline in prices of energy raw materials. On the other hand, the mutual embargoes imposed on the exchange of goods with Russia and problems of the indebted Greece had an adverse impact on economy. According to forecasts published by Ernst&Young and Oxford Economics, the economic growth in the euro area during the whole 2015 will reach approximately 1.5%, whereas in 2014 it amounted to 0.9%. The main factors to contribute to the growth include low crude oil prices and the bond redemption programme carried out by the European Central Bank. Still higher growth was achieved by Polish economy where Gross Domestic Product (GDP), according to the data of the Central Statistical Office in the 1st quarter of 2015 increased by 1% in relation to the preceding quarter and by 3.5% in relation to the 1st quarter of 2014. According to the estimates provided by experts, GDP during the entire 2015 may even increase by 3.8%. These data are supported by the continuing high domestic demand, growing investments and exports as well as declining unemployment and the policy of low interest rates.

A significant factor affecting the results of TAURON Capital Group, taking into account strong sales exposure of TAURON Capital Group in the electricity market, is the demand for and heat. In the 1st half of 2015 gross domestic electricity consumption increased by 1.8% in relation to the corresponding period of 2014. Besides positive economic factors, weather conditions and temperatures lower than in the previous year have also contributed to this growth. However, the demand for electricity produced in generation units using hard coal in the production process still shows the downward tendency. This fact was directly reflected in the decline of steam coal demand.

### **Market environment**

#### **Balance of the National Power System (KSE)**

According to the TSO data for the 1st half of 2015, in relation to the corresponding period of 2014, the following changes occurred:

- 1) growth in domestic production by 2.94% (c.a. 2.3 TWh) arising from:
  - a) growth in domestic energy consumption by 1.85% (c.a. 1.4 TWh),
  - b) decline in imports by 68.83% (c.a. 0.85 TWh).
- 2) growth in domestic production was covered by the production of:
  - a) lignite-fired power plants – growth by 2.02% (c.a. 0.5 TWh),
  - b) gas-fired power plants – growth by 67.44% (c.a. 0.9 TWh),
  - c) wind farms – growth by 21.94% (c.a. 0.8 TWh),
  - d) industrial power plants – growth by 11.17% (c.a. 0.5 TWh),
  - e) at the decline in production of hard coal-fired power plants by 1.21% (c.a. -0.5 TWh).



## **Electricity**

In the 1st half of 2015 amended payment rules for power plants due to maintaining the Operating Power Reserve (OPR) were applicable, which resulted in the decline of its average price by approximately PLN 7 in relation to the corresponding period of 2014. The decline in global commodity prices and the situation of the Polish coal sector facing the significant oversupply of the raw material and financial problems, contributed to the reduction of coal prices in offers presented to the energy sector. The Polish index of coal sold to the energy sector decreased in the period from January to May 2015 by PLN 1.39/GJ, i.e. to the level of PLN 9.04/GJ (in May 2014 it amounted to PLN 10.43/GJ). On the other hand, the weather conditions and low temperatures influenced the growth of domestic electricity consumption by 1.84% in relation to the corresponding period of the previous year. Weather has also fostered the increased production in wind farms that generated approximately 4.7 TWh of energy, which constitutes the growth by 226% in relation to the corresponding period of the previous year. At the same time, the decline in production of energy generated from hard coal occurred, which had an adverse effect on the volume of current sales of energy from generation units of TAURON Capital Group.

The factors described above have contributed to the decline in electricity prices on the wholesale SPOT market. The average price on the Day-Ahead Market (RDN) on the Polish Power Exchange (TGE) until the end of June 2015 amounted to PLN 150.20/MWh and it was lower by PLN 18.46 in relation to the corresponding period of 2014. Despite low prices on the SPOT market, the average prices of energy sold in the 1st half of 2015, published by ERO, amounted to PLN 172.30/MWh, while in 2014 – to PLN 161.11/MWh.

In forward contracts, listed mainly on the forward market (RTT) of the Polish Power Exchange, a systematic decline in prices has been noted since the beginning of this year. The aforementioned factors as well as the low prices in the SPOT market contributed to this situation.

Base Y-2016 contracts, calculating from the end of December 2014 until the end of June 2015, lost several PLN/MWh. BASE Y-2016 declined from PLN 181/MWh to PLN 161.90/MWh, whereas PEAK dropped by as much as PLN 34.57/MWh, reaching the price of PLN 205.43/MWh as at 30 June 2015.

## **Property rights**

In the 1st half of 2015 significant changes on the market of property rights occurred, associated mainly with the *Adopted Act of 20 February 2015 on Renewable Energy Sources*. Introduction of auction mechanisms and the support for prosumers resulted in uncertainty related to investment in RES sources. Market uncertainty and the still growing surplus of certificates caused that prices of property rights, confirming energy generation in renewable sources – PMOZE\_A in the period from the beginning of January to the end of June 2015 recorded the decline to PLN 106.51/MWh. The balance of the “green” certificates register at the end of June 2015 reached a surplus at a level of approximately 19 TWh, i.e. by 6.2 TWh higher than at the end of 2014.

According to the *Act of 10 April 1997 on Energy Law*, amended in 2014, until 30 June 2015 it was possible to redeem property rights issued to co-generation units for the production in the previous year. Accordingly, the settlements for the previous year constituted the main subject of trading in co-generation certificates in the 1st half of 2015. Due to the lack of possibility to transfer the rights between the consecutive years, their prices remained at a level close to the substitution fee. Only the perspective of not managing to sell the certificates caused the decline in prices during the last sessions of the 1st half of 2015.

In the period under discussion, the average price of property rights confirming energy production in coal co-generation, PMEC-2014, amounted to PLN 10.78/MWh.

Analogically, the average price of property rights for gas co-generation, PMGM-2014, amounted to PLN 107.59/MWh, and for the property rights confirming energy production during methane combustion, PMMET-2014, amounted to PLN 61.84/MWh.

## **Natural gas**

In Poland, on the gas Day-Ahead market (RDNg) at TGE in the first four months of 2015 a considerable price volatility could have been observed. Quotations ranged from PLN 75.96/MWh to even PLN 116.82/MWh. In the last three months of the winter gas season, i.e. from January to March 2015, the price on the SPOT market was significantly determined by the current average daily temperature in the country. The political environment had also a considerable impact on the volatility, more specifically, the Ukrainian-Russian conflict, and the associated concerns related to the potential failure of delivery of relevant gas quantities to the west of Europe by the Russian GAZPROM company. Since the beginning of May 2015 the quotations on RDNg have stabilised, reaching the level in the range from PLN 88.33/MWh to PLN 93.79/MWh. In the corresponding period of the previous year the price of gas on the SPOT market did not exceed PLN 87.00/MWh, falling below PLN 70.00/MWh several times. The average weighted price in the 1st half of 2015 amounted to PLN 96.98/MWh, whereas the volume reached a level slightly above 4.1 TWh. The average weighted spot price of gas on the neighbouring markets in the 1st half of 2015 amounted to, respectively, PLN 86.95/MWh and PLN 87.98/MWh at German gas hubs, Gaspool and NCG, PLN 87.65/MWh at the Czech OTE exchange, and PLN 86.93/MWh at the Dutch TTF hub.

### **CO<sub>2</sub> emission allowances**

In the 1st half of 2015 prices of CO<sub>2</sub> emission allowances showed an upward trend. In January the price per one tonne of CO<sub>2</sub> emission allowances reached the average level of EUR 7.06/T, in April – EUR 7.13/T, and in June – EUR 7.50/T. The allowances responded to each information concerning the planned reform of the ETS market, understood as the entry into force of the Market Stability Reserve (MSR). On 24 February 2015, in response to the positive opinion of the environmental commission – ENVI, suggesting the accelerated start of the mechanism as early as on 1 January 2018, the price of allowances reached the highest level recorded since 2012, i.e. EUR 7.90/T. On 8 July 2015 the European Parliament adopted the reform of the European Union Emission Trading System (EU ETS), to be applicable as of 2019. According to the new system, some part of CO<sub>2</sub> emission allowances will be recovered from the market and transferred to the MSR. The average price of CO<sub>2</sub> emission allowances in the 1st half of 2015 reached the level of EUR 7.22/T.

### **Crude oil and coal**

At the beginning of the 1st half of 2015 the price of Brent crude oil followed the downward trend started already in the 2nd half of 2014. This trend was triggered by the general global oversupply of this raw material and the reduced demand for oil derivative products from their biggest consumer – the economy of China. Countries extracting crude oil, in their strive to prevent losing market share, were forced to sell the commodity at exceptionally low prices. In January 2015 the average price for crude oil barrel at the ICE market was below USD 50/bbl. The average price of Brent crude in the 1st half of 2015 reached the level of USD 59/bbl and it was lower by almost USD 50/bbl in relation to the 1st half of 2014.

The world market of steam coal, strongly correlated with the crude oil market, reached multiannual minima also in January 2015. The annual CIF ARA Y-16 contract in this period was quoted at USD 55.60/T. It was the lowest level of prices recorded since 2005. In February 2015 the price recovered to the level of USD 62/T, to decline again below USD 60/T, soon after the data from the Chinese economy had been released, which decreased imports of steam coal in the first months of 2015 even by over 50% in relation to the previous year. Ultimately, the average price of CIF ARA Y-16 annual contract in the 1st half of 2015 reached the level of EUR 59.13/T.

### **Regulatory environment**

#### ***Entry into force of the Act on Renewable Energy Sources***

On 20 February 2015 the *Act on Renewable Energy Sources* was adopted and entered into force on 3 May 2015, excluding chapter 4, defining new rules of support for RES installations, to enter into force as of 1 January 2016. The new rules of support envisage the introduction of the auction system the newly constructed RES installations will be able to join. Installations which started energy production before 1 January 2016 will be entitled to continue using of the certificate system, or to transfer to the auction system. The duration of the support in both cases has been limited to the period of 15 years following the first production of electricity in RES, for which the aid was received. In addition, the RES Act introduced the support system for the smallest RES micro-installations (up to 10 kW) in the form of feed-in tariffs.

The RES Act has also verified the former rules concerning the acquisition of certificates of origin, which will result in the acquisition of lower volumes of property rights by energy generators (including TAURON Capital Group). The new Act has eliminated the support for hydroelectric power plants with the installed capacity over 5 MW. The support for multi-fuel combustion installations has been also limited. Such installations may acquire certificates of origin in the amount corresponding to the average quantity of electricity generated in the years 2011–2013. In addition, the certificates of origin issued to such installations will be adjusted by applying the 0.5 coefficient. The aforementioned provisions may result in significant decline of energy production based on co-firing. At the same time, due to the introduction of the lower redemption obligation for industrial consumers, the demand for property rights redeemed by sales companies in TAURON Capital Group will decrease.

#### ***Amendment to the Act on Energy Law (application of the REMIT Regulation)***

On 23 July 2015 the *Act on the amendment to the Act on Energy Law and certain other acts* was adopted to ensure the application of the *Regulation of the European Parliament and the Council no. 1227/2011 of 25 October 2011 on wholesale energy market integrity and transparency* (the so-called REMIT Regulation). The Act was passed to the Senate. The main objective of the REMIT Regulation is the monitoring of wholesale markets of energy and gas, detecting manipulation on the market and combating market abuse consisting in inappropriate use of inside information. The solutions introduced will foster elimination of unfair exchange practices from the market and manipulation of wholesale prices of energy products. In particular, the competence of the ERO President was extended and the basis for cooperation with ERO with other regulatory entities were created in the scope of compliance with the requirements set by the REMIT regulation. Moreover, the ERO President has been committed to submit information to the Agency

for the Cooperation of Energy Regulators concerning the suspected energy market manipulation; it will also be able to impose financial penalties for the infringement of the provisions of REMIT Regulation. The draft Act also contains amendments to Article 44 of the *Act on Energy Law*, referring to the methods of drawing up and storage of financial statements of electricity undertakings and aims at reducing the reporting obligations imposed on some electricity undertakings.

### **Draft Act on Energy Efficiency**

In the 1st half of 2015 works concerning the draft to replace the applicable *Act of 15 April 2011 on energy efficiency* were continued. The aim of the draft is to maintain legal framework for the measures to improve energy efficiency of economy, defined by Directive 2006/32/EC of the European Parliament and the Council of 5 April 2006 on *energy end-use efficiency and energy services* and to create basis in the national legislation for new solutions envisaged in the new Directive 2012/27/EU on *energy efficiency*. The provisions of the new draft envisage measures in areas of increasing energy savings by end users and increasing energy savings in the scope of energy generation, transmission and distribution. Works on the draft are still continued as well as consultations of industry environments concerning individual provisions of the draft.

### **Modification of OPR settlement rules**

As of 1 January 2015, the update card of the Instructions of Transmission Grid Operation and Maintenance – System balancing and management of system congestions, constituting the modification of the OPR settlement rules, entered into force. The basic element of this modification is the adjustment of the method of developing the price for OPR, which should ensure the stability of accomplishment of this mechanism's budget in the period of effectiveness of the TSO tariff and mitigation of external factors' impact on the performance of this mechanism. This change shall affect the decline of revenues due to OPR in 2015, gained by the TAURON Wytwarzanie company.

### **Arrangements in the scope of CO<sub>2</sub> emission allowances**

On 13 May 2015 at the COREPER meeting, EU Member States approved the implementation of the stability reserve in the CO<sub>2</sub> emission allowances market (MSR). The reserve would be established in 2018 (through its supplying with allowances originating from backloading), but its physical functioning, i.e. operations performed within the reserve would start as of 1 January 2019. EUA not allocated until 2020 would be transferred directly to the reserve, whereas a possibility of their future utilisation would be subject to considerations during the EU ETS review.

### **Act on the greenhouse gas emission allowance trading scheme**

In June 2015 the *Act on the greenhouse gas emission allowance trading scheme* was adopted, to enter into force after 14 days following the day of its announcement. The Act adopted supplements the implementation of Directive 2009/29/EC into Polish law, aimed at improvement and extension of the greenhouse gas emission allowance trading scheme of the Community and implements the regulations required for full functioning of the system in our country. The Directive has essentially changed this system in the third settlement period, i.e. in the years 2013–2020, among others, by introducing a new, auction-based method of emission allowance distribution by Member States. Owing to this Act it will be possible, under the tender procedure, to select the national auction platform managed by companies operating on the regulated market, under the condition of obtaining the licence of the Polish Financial Supervisory Authority (KNF).

The Act introduced 2 exceptions against the auction system: derogations for the energy sector and national enforcement measures. Within the derogation for the energy sector installations generating electricity gained a possibility to obtain the specific quantity of free emission allowances in exchange for the investments made. The Act also regulates the method of acquisition of emission allowances for installations from the general European Union reserve in case of commissioning of new installations or modernisation of the existing ones.

## **2.2. Financial results of TAURON Capital Group**

### **2.2.1. Sales structure according to Business areas**

The table below shows the volumes and structure of sales of TAURON Capital Group, divided into individual Business Areas (Segments) for the 1st half of 2015 and 2nd quarter of 2014, compared to the corresponding periods of 2014.

**Table no. 3. Volumes and structure of sales of TAURON Capital Group according to individual Business Areas**

Specification	unit	1st half 2015	1st half 2014	Dynamics 2015/2014	Q 2 2015	Q 2 2014	Dynamics 2015/2014
Sales of coal by the Mining Area	M Mg	<b>2.29</b>	2.19	104.6%	<b>1.15</b>	1.18	97.5%
Sales of electricity and heat by the Generation Area	TWh PJ	<b>10.61</b> <b>8.99</b>	7.81 9.20	135.8% 97.7%	<b>4.91</b> <b>2.05</b>	3.85 2.10	127.5% 97.6%
Sales of electricity distribution services by the Distribution Area	TWh	<b>24.59</b>	23.88	103.0%	<b>12.09</b>	11.63	104.0%
Retail sales of electricity by the Sales Area	TWh	<b>18.01</b>	18.01	100.0%	<b>8.57</b>	8.44	101.5%

### **Mining Area**

The basic activity conducted by TAURON Capital Group within the Mining Area covers mining, enrichment and sales of hard coal. Through TAURON Wydobycie, TAURON Capital Group indirectly holds and runs ZG Sobieski and ZG Janina.

The volume of coal sales in the 1st half of 2015 amounted to 2.29 million Mg, which means a decrease by over 4.6%, as compared to the corresponding period of 2014. The main reason of the growth in volume of sales is the increased sales of fine coal both to power plants and to combined heat and power plants of TAURON Capital Group, as well as external customers.

Only in the 2nd quarter of 2015 the decline in the volume of sales by approximately 2.5% (mainly fine coal) occurred, resulting from the significant reduction of production due to the deteriorated geological conditions, lower quality of the excavated material and delays in longwall reinforcement.

In the 1st half of 2015, about 43% of the current demand of TAURON Capital Group for coal for electricity and heat production was satisfied by hard coal coming from own mining plants of TAURON Capital Group. The remaining part of the demand was covered from external sources.

In the scope of commercial coal production, contrary to the deviation in the volume of sales, decline against the corresponding period of last year can be observed. In the 1st half of 2015, the production of commercial coal was by 0.5 million Mg lower than in the 1st half of 2014 (by c.a. 21.2%). The main reason of the decline in the production level is the lower efficiency of mining longwalls in the reporting period, arising from the occurrence of the endogenous fire in the longwall goaf, which contributed to the delay in commissioning of the consecutive wall. An additional factor is the occurrence of an increased quantity of the rock mass, limiting the progress of longwalls in mining plants. For the aforementioned reasons, in the reporting period, a significant decline in coal reserves occurred (by 83.1%) as compared to the status as at 31 December 2014.

### **Generation Area**

The basic activity of the Generation Area within TAURON Capital Group comprises generation of electricity and heat in:

- 1) coal-fired and biomass burning power plants and co-generation plants,
- 2) hydroelectric power plants,
- 3) wind farms.

The total available capacity of generation units of the Generation Area at the end of June 2015 amounted to 5.1 GW<sub>e</sub> of electric capacity and 2.5 GW<sub>t</sub> of thermal capacity.

In the 1st half of 2015, the Generation Area produced about 7.8 TWh of net electricity (including about 0.95 TWh from RES), i.e. by about 7.5% more than in the corresponding period of 2014 when the production of net electricity reached approximately 7.3 TWh (including 0.91 TWh from RES). Sales of electricity from own production, including energy purchased for trading purposes in the 1st half of 2015 reached approximately 10.6 TWh, which means the increase by c.a. 36%, in relation to the corresponding period of the previous year. It is mainly the consequence of the higher resale of energy purchased in relation to the corresponding period of the previous year (2.7 TWh in the 1st half of 2015; 0.5 TWh in the 1st half of 2014).

The higher production of electricity results mainly from the beneficial trends in the electricity market as well as favourable hydrological and wind conditions. In relation to the corresponding period of last year the growth in the domestic energy consumption by 1.85% occurred, with the simultaneous growth in total electricity production by 2.94%.

Heat sales of the Generation Area in the 1st half of 2015 amounted to 9.0 PJ and it was lower by c.a. 2.3% in relation to the corresponding period of 2014, which results from taking into account in 2014 of heat sales by entities separated to TAMEH POLSKA sp. z o.o. (TAMEH POLSKA) (after applying the comparability the growth in heat sales by c.a. 8% occurred, which resulted from lower temperatures YoY).

### Distribution Area

TAURON Capital Group is the largest electricity distributor in Poland, both in terms of the volume of the electricity supplied and the revenue gained from distribution activity. The Distribution Area exploits distribution grids of considerable range, located in the southern part of Poland.

In the 1st half of 2015, the Distribution Area supplied the total of 24.6 TWh of electricity, including 23.5 TWh to the end consumers. During this period, the Distribution Area provided distribution services to of 5.4 million consumers. In the corresponding period of the previous year, the Distribution Area supplied, in total, approximately 23.9 TWh of electricity to about 5.36 million consumers, including 22.8 TWh to the end consumers. The increase in the volume of supplies to end consumers YoY results mainly from the good situation in the domestic economy and the increased consumption, determined by the growth of the output sold.

### Sales Area

Sales Area comprises activities in the scope of electricity sales and wholesale trading of electricity and other products of the energy market. Operations in the area of sales comprise sales of electricity to end customers, including key accounts. On the other hand, operations within wholesale trading comprise mainly wholesale trading in electricity, trade and management of CO<sub>2</sub> emission allowances, property rights arising from the certificates of electricity origin and fuels.

In the 1st half of 2015 companies of the Sales Area sold the total of 18.0 TWh of electricity to approx. 5.3 million clients, both households and enterprises, i.e. at the same level as in the corresponding period of the previous year.

## 2.2.2. Financial results of TAURON Capital Group

The table below shows the results of TAURON Capital Group, divided into individual Core Business Areas (Segments) of operations for the 1st half of 2015 and the 2nd quarter of 2014, as compared to the analogical periods of 2014. The data for individual Business Areas do not include consolidation exclusions.

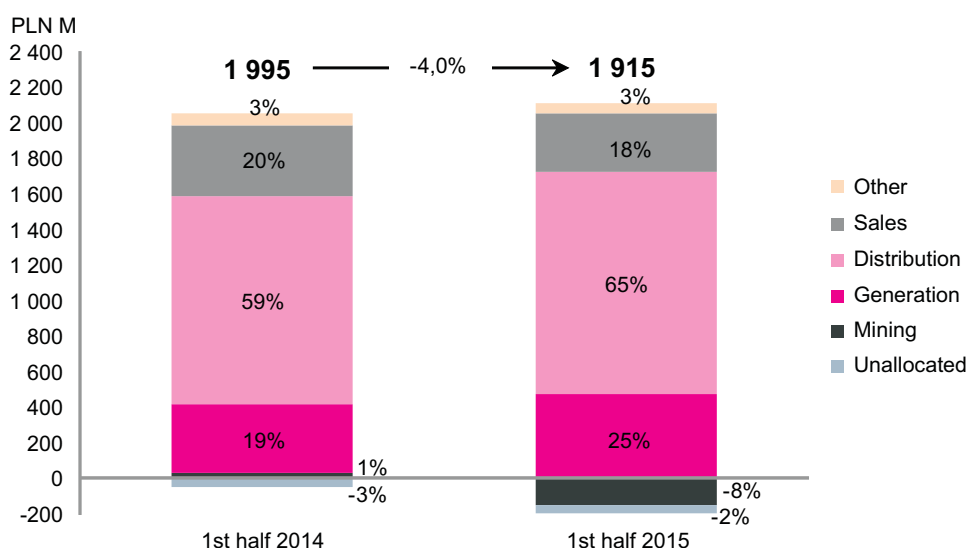
**Table no. 4. EBITDA of TAURON Capital Group according to business Areas**

EBITDA (PLN thous.)	1 <sup>st</sup> half of 2015	1 <sup>st</sup> half of 2014	Dynamics 2015/2014	Q 2 2015	Q 2 2014	Dynamics 2015/2014
Mining	<b>(157,903)</b>	28,174	–	<b>(113,717)</b>	8,471	–
Generation	<b>472,911</b>	388,933	121.6%	<b>188,570</b>	136,494	138.2%
Distribution	<b>1,243,279</b>	1,169,688	106.3%	<b>696,539</b>	612,000	113.8%
Sales	<b>335,153</b>	391,634	85.6%	<b>141,382</b>	153,290	92.2%
Other	<b>60,856</b>	67,238	90.5%	<b>17,517</b>	22,700	77.2%
Non-attributable items and exemptions	(39,436)	(51,069)	77.2%	(36,287)	(26,565)	136.6%
<b>Total EBITDA</b>	<b>1,914,860</b>	1,994,598	96.0%	<b>894,004</b>	906,390	98.6%

The figure below shows the EBITDA structure of TAURON Capital Group for the 1st half of 2014 and 2015.



Figure no. 4. EBITDA structure of TAURON Capital Group



The Distribution Area and the Generation Area have the highest share in EBITDA of TAURON Capital Group. As compared to the corresponding period of 2014 the growth in the share in EBITDA structure occurred mainly in the Distribution and Generation Area, due to better results obtained in the 1st half of 2015.

#### 2.2.2.1. Mining Area

The table below shows the results of Mining Area.

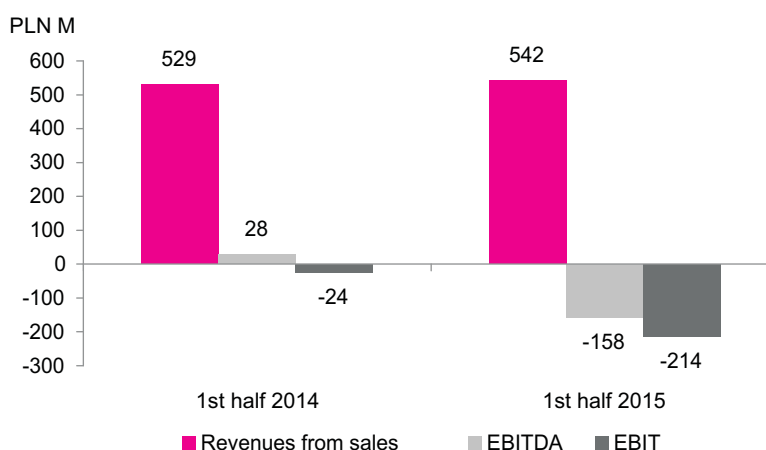
Table no. 5. Results of Mining Area

Specification (PLN thous.)	1st half 2015	1st half 2014	Dynamics 2015/2014	Change (2015-2014)
<b>Mining</b>				
Revenues on sales	<b>541,951</b>	<b>529,412</b>	<b>102.4%</b>	<b>12,539</b>
<i>coal – coarse and medium assortments</i>	<i>134,932</i>	<i>154,176</i>	<i>87.5%</i>	<i>(19,244)</i>
<i>steam coal</i>	<i>396,144</i>	<i>360,333</i>	<i>109.9%</i>	<i>35,811</i>
<i>other products, materials and services</i>	<i>10,875</i>	<i>14,903</i>	<i>73.0%</i>	<i>(4,028)</i>
Operating profit	<b>(214,265)</b>	<b>(23,785)</b>	–	<b>(190,480)</b>
Depreciation	56,362	51,959	108.5%	4,403
<b>EBITDA</b>	<b>(157,903)</b>	<b>28,174</b>	–	<b>(186,077)</b>

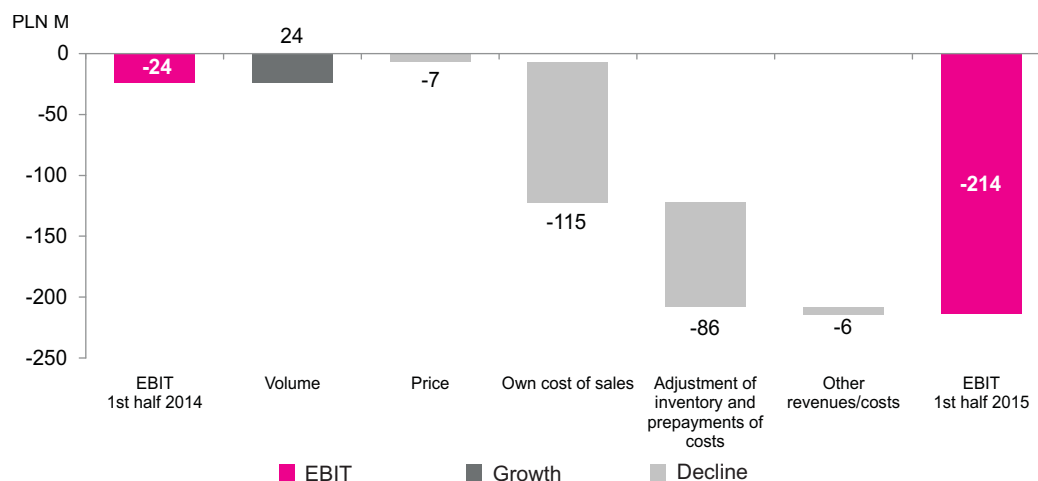
The operating results, EBIT and EBITDA of the Mining Segment in the 1st half of 2015 reached a lower level than in 2014, due to the following factors:

- 1) growth in the volume of the sold coal by 4.6%, which results from higher sales of fine coal (by 9.9%), and medium assortments (by 9.1%), with the simultaneous decline in sales of coarse assortments (by 8.8%),
- 2) lower prices of the sold coal, on average, by 1.3%, mainly as a result of the decline in coarse assortments (by 5.3%), medium assortments (by 4.7%) and the increased share of cheaper fine coal in the structure of sales,
- 3) growth of own cost of the sold coal, mainly as a result of the unfavourable relation of coal production and sales and the settlement of the preparatory works. The aforementioned factors were partly mitigated by savings generated by the company of the Mining Area in the scope of consumption costs of materials, energy and external services,
- 4) growth in other operating costs, which is associated with the adjustment in the quantity of commercial coal reserves and semi-products after stock-taking and the verification of the real value of cost prepayments due to works associated with drilling of production longwall pits and wall reinforcement.

The figure below shows the financial data of the Mining Area for the 1st half of 2015 as compared to the 1st half of 2014.

**Figure no. 5. Financial data of the Mining Area for the 1st half of 2014 and 2015**


The figure below shows the EBIT result of the Mining Area, including the significant factors influencing the YoY change.

**Figure no. 6. EBIT result of Mining Area**


#### 2.2.2.2. Generation Area

The table below shows the results of the Generation Area.

**Table no. 6. Results of the Generation Area**

Specification (PLN thous.)	1st half 2015	1st half 2014	Dynamics 2015/2014	Change (2015-2014)
<b>Generation</b>				
Revenues on sales	<b>2,674,765</b>	<b>2,320,274</b>	<b>115.3%</b>	<b>354,491</b>
<i>electricity</i>	1,966,541	1,509,381	130.3%	457,160
<i>heat (including heat transmission)</i>	450,980	447,618	100.8%	3,362
<i>property rights arising from certificates of electricity origin</i>	234,187	218,849	107.0%	15,338
<i>wind of blast furnace</i>	0	83,140	-	(83,140)
<i>compressed air</i>	28	35,507	0.1%	(35,479)
<i>other</i>	23,029	25,779	89.3%	(2,750)
Operating profit	<b>181,936</b>	<b>38,421</b>	<b>473.5%</b>	<b>143,515</b>
Depreciation	290,975	350,512	83.0%	(59,537)
<b>EBITDA</b>	<b>472,911</b>	<b>388,933</b>	<b>121.6%</b>	<b>83,978</b>

\* Data for the 1st half of 2014, in order to maintain comparability, comprise three areas presented in the previous year: Generation, RES and Heat.



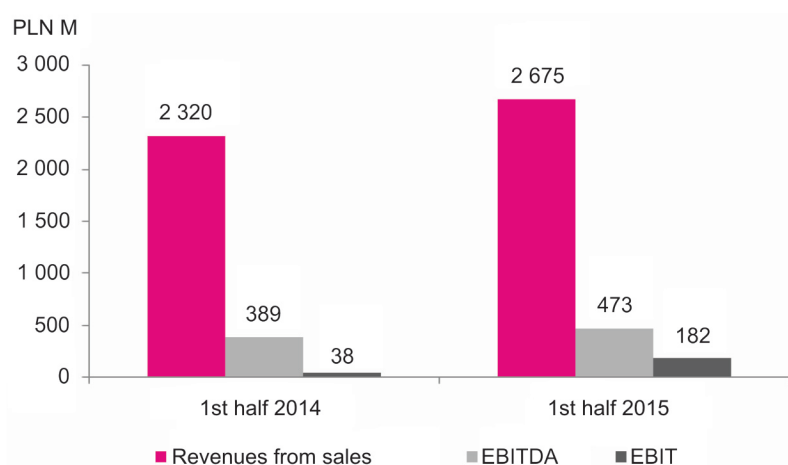
In the 1st half of 2015, the revenues on sales in the Generation Segment were higher by approximately 15% as compared to the corresponding period of the previous year, mainly due to higher revenues from electricity sales (higher volume and sales price) and higher revenues from sales of property rights arising from electricity certificates of origin (higher volume of production and sales of property rights from RES and support of co-generation in the form of “red” and “yellow” certificates of origin, which did not occur in the period from January to April 2014). In addition, the revenues of the Generation Segment in the 1st half of 2014 included revenues from sales of wind of blast furnace and compressed air, accomplished by ZW Nowa, transferred as a contribution in-kind in December 2014 to TAMEH POLSKA company (the joint venture recognised in the consolidated financial statement by applying the equity method).

EBITDA and EBIT results of the Generation Segment in the 1st half of 2015 reached a higher level than in the analogical period of 2014, which arises from the following factors:

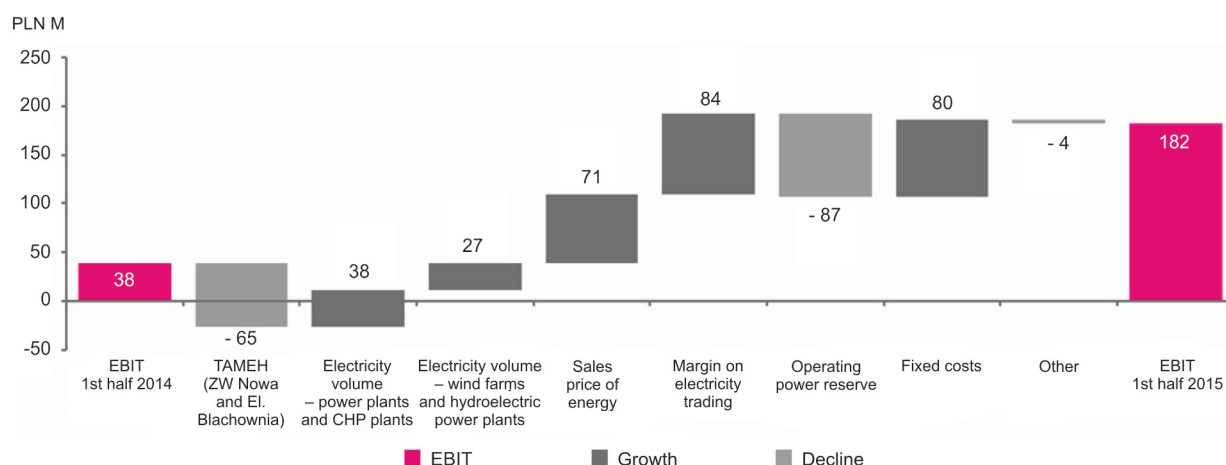
- 1) higher margin on trading in electricity – as a result of both higher volume of trade and higher unit margin; higher volume of electricity sales within the trade of the 1st half of 2015 arises from the adopted sales strategies,
- 2) lower average price of electricity sales YoY,
- 3) higher volume of electricity sales from production of power plants and conventional combined heat and power plants,
- 4) higher volume of electricity sales from production of hydroelectric plants and wind farms, mainly due to favourable hydrological and wind conditions in the 1st half of 2015,
- 5) low revenues from OPR – the consequence of the lower level of prices of this service and higher volume of contractual sales in relation to 2014,
- 6) lower fixed costs (mainly depreciation, labour costs and costs of repairs),
- 7) separation of assets of ZW Nowa and Elektrownia Blachownia to TAMEH POLSKA company (share in the EBIT result in the 1st half of 2014: approximately PLN 65 million).

The figure below shows the financial data of the Generation Area for the 1st half of 2015 as compared to the 1st half of 2014.

**Figure no. 7. Financial data of the Generation Area for the 1st half of 2014 and 2015**



The figure below shows the EBIT result of the Generation Area, including the significant factors influencing the YoY change.

**Figure no. 8. EBIT result of the Generation Area**


### 2.2.2.3. Distribution Area

The table below shows the results of the Distribution Area.

**Table no. 7. Results of Distribution Area**

Specification (PLN thous.)	1st half 2015	1st half 2014	Dynamics 2015/2014	Change (2015–2014)
<b>Distribution</b>				
Revenues on sales	<b>3,228,357</b>	<b>3,048,951</b>	<b>105.9%</b>	<b>179,406</b>
<i>distribution services</i>	3,029,943	2,840,366	106.7%	189,577
<i>connection fees</i>	62,290	66,714	93.4%	(4,424)
<i>maintenance of street lightning</i>	57,092	43,695	130.7%	13,397
<i>other services</i>	79,032	98,176	80.5%	(19,144)
Operating profit	<b>758,416</b>	<b>700,012</b>	<b>108.3%</b>	<b>58,404</b>
Depreciation	484,863	469,676	103.2%	15,187
<b>EBITDA</b>	<b>1,243,279</b>	<b>1,169,688</b>	<b>106.3%</b>	<b>73,591</b>

In the 1st half of 2015, as compared to the corresponding period of 2014, the Distribution Segment recorded increase of revenues by about 5.9%, increase of results at the operating level by about 8.3%, and EBITDA result by about 6.3%. The following factors determined the growth of results.

The total revenues reached in the 1st half of 2015 were higher as compared to the corresponding period of 2014, mainly due to the growth of supplies in each tariff group, in particular, among the biggest consumers from A and B tariff groups, where the growth is correlated with the growth in the output sold. The growth of the rate for distribution services provided to end consumers has also significantly affected the growth in revenues. On the other hand, lower revenue from connection fees had an adverse impact, as a result of significant reduction of connection fee rates by the ERO.

In the scope of variable costs, the lower rate of the TSO interim and qualitative fee and the higher price of balancing energy losses, as a result of purchase and resale prices in TAURON Capital Group, had a significant impact on the results achieved. On the other hand, the lower level of the balancing difference in relation to the supply volume had a positive impact.

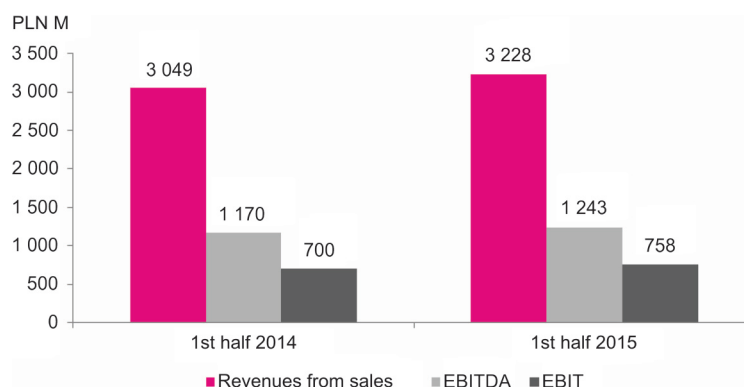
In the scope of fixed costs, in relation to the corresponding period of 2014, the growth referred to depreciation and tax on grid assets – as a result of the implemented investments and rates of real property tax imposed by municipalities.

The most important factors influencing the result on operating activity gained in the 2nd quarter of 2015 included:

- 1) growth of demand for energy among industrial consumers,
- 2) growth of revenues and volume of supplies,
- 3) decline in the revenues due to new connections,
- 4) improvement of the balancing difference indicator,
- 5) significant growth of the TSO interim fee (transferred in the tariff).

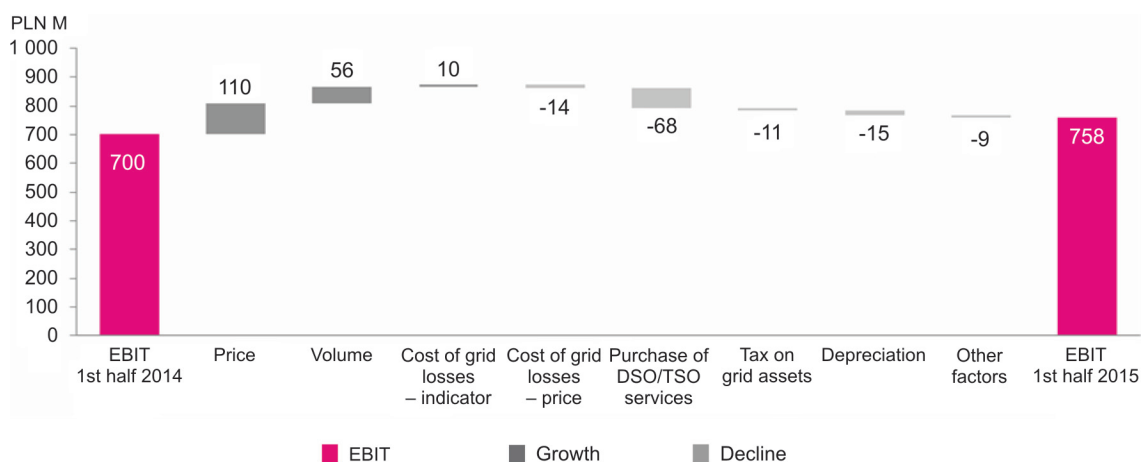
The figure below shows the financial data of the Distribution Area for the 1st half of 2015 as compared to the 1st half of 2014.

**Figure no. 9. Financial data of the Distribution Area for the 1st half of 2014 and 2015**



The figure below shows the EBIT result of the Distribution Area, including the significant factors influencing the YoY change.

**Figure no. 10. EBIT result of the Distribution Area**



#### 2.2.2.4. Sales Area

The table below shows the results of Sales Area.

**Table no. 8. Results of Sales Area**

Specification (PLN thous.)	1st half 2015	1st half 2014	Dynamics 2015/2014	Change (2015-2014)
<b>Sales</b>				
Revenues on sales	<b>8,093,980</b>	<b>7,575,109</b>	<b>106.8%</b>	<b>518,871</b>
<i>electricity, including:</i>	5,281,747	4,891,843	108.0%	389,904
<i>revenue on retail sales of electricity</i>	4,089,697	3,984,530	102.6%	105,167
<i>greenhouse gas emission allowances</i>	127,208	73,661	172.7%	53,547
<i>fuel</i>	927,350	850,050	109.1%	77,300
<i>distribution service (transferred)</i>	1,718,837	1,697,733	101.2%	21,104
<i>other services, including commercial services</i>	38,838	61,822	62.8%	(22,984)
Operating profit	<b>329,755</b>	<b>373,508</b>	<b>88.3%</b>	<b>(43,753)</b>
Depreciation	5,398	18,126	29.8%	(12,728)
<b>EBITDA</b>	<b>335,153</b>	<b>391,634</b>	<b>85.6%</b>	<b>(56,481)</b>

In the 1st half of 2015 revenues from sales in the Sales Segment were higher by approximately 6.8% as compared to the corresponding period of the previous year, mainly as a result of higher revenues from sales of electricity (higher

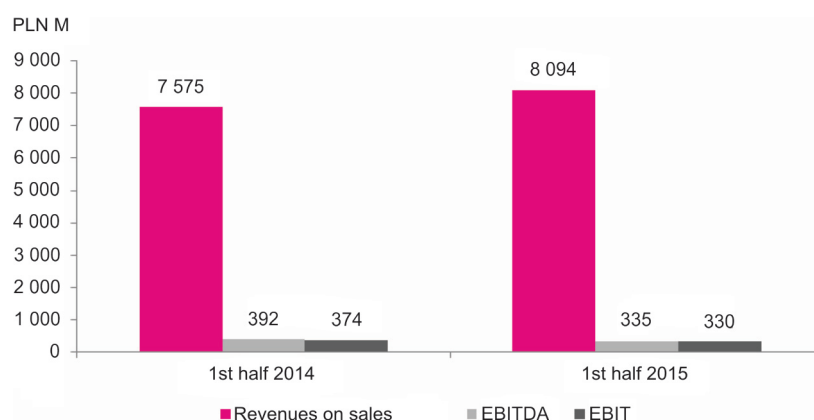
sales volume), including higher revenues from sales of retail energy (sales price higher by approximately 2.6%) and revenues from sales of greenhouse gas emission allowances (volume of sales higher by 48% as a result of trading activities) and fuels (coal sales volume higher by 19%).

EBITDA and EBIT results of the Sales Segment in the 1st half of 2015 reached a lower level than in the corresponding period of 2014, which was affected by the following factors:

- 1) energy prices – the negative impact on the result arises from the change in the structure of customers (higher share of industrial clients), which is reflected in the reduced sales price due to the change in the structure of price components (through recognising the cost of only “white” certificates and reduction in the share of excise costs); prices resulting from loyalty actions and the high share of sales of exchange products, where the sales price depends on the level of conventional energy quotations at the TGE and the higher level of the average purchase price of electricity,
- 2) prices of property rights – positive impact on the result by taking advantage of the favourable market situation, mainly in the scope of “green” certificates (execution of the PMOZE and PMEC at lower prices),
- 3) obligation to redeem property rights – adverse impact on the result as a consequence of growth in the level of the obligation for “green” certificates from 13% to 14%, for “violet” certificates from 1.1% to 1.3% and recovery of the obligation to redeem certificates from co-generation (for “red” certificates – to 23.2% and for “yellow” certificates – to 4.9%),
- 4) growth in the level of revenues from commercial fees – as a result of the undertaken sales activities aimed at reducing the variable component of the sales price (which is imposed by the market) and transfer of this revenue to the fixed component,
- 5) other revenues/costs – positive impact on result associated with higher revenues from other operating activities, lower allowance on uncollectible accounts and higher margins gained on products associated with electricity (property rights, CO<sub>2</sub> emission allowances and gas – as a consequence of accelerated contracting and use of favourable trends in the gas market).

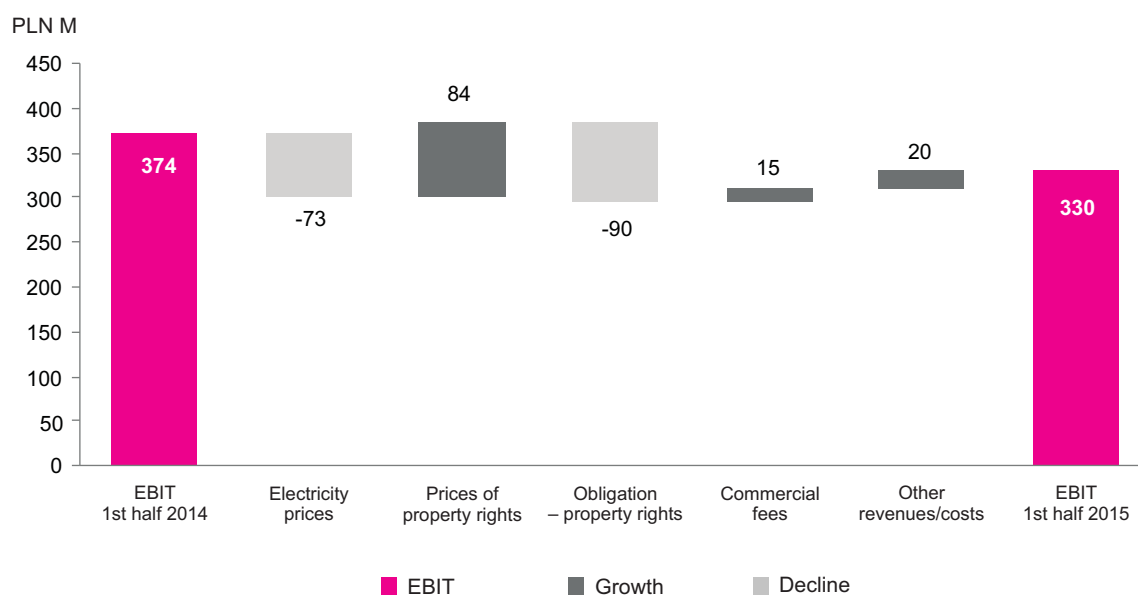
The figure below shows the financial data of the Sales Area for the 1st half of 2015 as compared to the 1st half of 2014.

**Figure no. 11. Financial data of the Sales Area for the 1st half of 2014 and 2015**



The figure below shows the EBIT result of the Sales Area, including the significant factors influencing the YoY change.

Figure no. 12. EBIT result of the Sales Area



#### 2.2.2.5. Other Area

The table below shows the results of Other Area.

Table no. 9. Results of Other Area

Specification (PLN thous.)	1st half 2015	1st half 2014	Dynamics 2015/2014	Change (2015-2014)
<b>Other</b>				
Revenues on sales	<b>503,146</b>	<b>425,334</b>	<b>118.3%</b>	<b>77,812</b>
<i>customer service, accounting and IT services</i>	294,423	298,894	98.5%	(4,471)
<i>electricity and property rights arising from certificates of electricity origin</i>	66,178	84,890	78.0%	(18,712)
<i>biomass</i>	94,542	-	-	94,542
<i>aggregates</i>	43,651	39,553	110.4%	4,098
<i>other revenues</i>	4,352	1,997	217.9%	2,355
Operating profit	<b>27,896</b>	<b>45,367</b>	<b>61.5%</b>	<b>(17,471)</b>
Depreciation	32,960	21,871	150.7%	11,089
<b>EBITDA</b>	<b>60,856</b>	<b>67,238</b>	<b>90.5%</b>	<b>(6,382)</b>

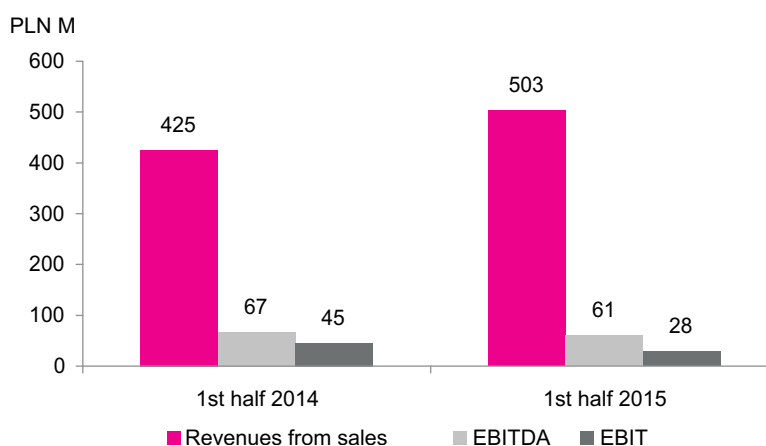
\* Data for the 1st half of 2014, in order to maintain comparability, comprise two areas presented in the previous year: Customer Service and Other.

In the 1st half of 2015, revenues on sales of the Other Area increased by approximately 18.3% in relation to the corresponding period of the previous year, which is mainly the result of recognising the financial data of Biomasa GT company as of 1 January 2015, due to increase of its turnover and significance level in TAURON Capital Group.

Lower results of the Other Area YoY are mainly the consequence of updating the price lists of services provided by the company TAURON Obsługa Klienta (in the 2nd quarter of 2015). The analogous operation was also performed in the 2nd half of 2014. The growth in costs of the conducted activity of the area results from recognising the costs associated with trading in biomass, which did not occur in the corresponding period of the previous year.

The figure below shows the financial data of the Other Area for the period of the 1st half of 2014 and 2015.

**Figure no. 13. Financial data of the Other Area for the 1st half of 2014 and 2015**



### 2.3. Important events and achievements of TAURON Capital Group significant affecting its operations

The most important events significantly affecting the operations of TAURON Capital Group, which occurred in the 1st half of 2015, as well as until the day of drawing up this report are as follows:

#### Important corporate events in the 1st half of 2015

##### **Recommendation of the Management Board concerning the payment of the dividend and the opinion of the Supervisory Board**

On 16 March 2015 the Management Board of the Company made the decision concerning the recommendation to the Company Ordinary GM concerning the level of dividend to be paid to the Company shareholders in the amount of PLN 262,882,409.10 from the net profit gained in the financial year 2014, which means the amount of PLN 0.15 per single share. At the same time, the Management Board indicated that the recommendation shall be subject to assessment by the Company Supervisory Board. Simultaneously, the Management Board decided to submit the recommendation to the Company Ordinary GM determining:

- 1) 22 July 2015 as the dividend record day,
- 2) 12 August 2015 as the dividend payment day.

The recommendation of the Management Board regarding the amount of dividend to be paid to Company shareholders was prepared after taking into account the current TAURON Capital Group development plan comprising the implementation of the adopted investment programme requiring significant financial resources exceeding the current cash flows from TAURON Group operating activities. The funds to remain in the Company will be used in total for the implementation of investments, at the same time, reducing the demand for further financing and limiting the growth of debt ratio level. On 23 March 2015 the Supervisory Board approved the aforementioned recommendation of the Management Board concerning the dividend.

On 23 April 2015 the Ordinary GM of the Company adopted the resolution on profit distribution for the financial year 2014, determining the amount allocated for payment of the dividend to shareholders as well as the dividend record day and the dividend payment day.

In accordance with the aforementioned resolution, the Ordinary GM allocated the amount PLN 262,882,409.10 for the payment of the dividend for shareholders from net profit for the financial year 2014, which means that the amount of the dividend per share is PLN 0.15. Simultaneously, the Ordinary GM determined the dividend record day for 22 July 2015 (dividend record day) and the date of the dividend payment for 12 August 2015 (dividend payment day).

The Company informed of the aforementioned events in current reports: no. 6/2015 of 16 March 2015, no. 8/2015 of 23 March 2015, no. 13/2015 of 23 April 2015 and 14/2015 of 24 April 2015.

##### **Ordinary General Meeting of TAURON**

On 23 April 2015 the Ordinary GM of the Company was held, which, among others, adopted the resolutions on approval of the Consolidated financial statement of TAURON Capital Group and the Report of the Management Board on Operations of TAURON Capital Group for the financial year 2014, the Financial Statement of TAURON and the Report of the Management Board on operations of the Company for the financial year 2014, on acknowledgement of the fulfilment of duties by members of the Management Board and the Supervisory Board of the Company, on profit distribution for the financial year 2014 and determining of the amount allocated for the payment of the dividend for shareholders as well as defining the dividend record day and the dividend payment day.

The Company informed of the aforementioned events in current reports: no. 9–10/2015 of 26 March 2015, no. 13/2015 of 23 April 2015 and 14/2015 of 24 April 2015.

### **Important business events in the 1st half of 2015**

#### ***The process of analysis of KWK Brzeszcze assets***

On 16 January 2015, in response to the inquiry of Kompania Węglowa S.A. (Kompania Węglowa) and Spółka Restrukturyzacji Kopalń S.A. (SRK) regarding possible purchase from SRK of all or part of mining assets belonging at that time to Kompania Węglowa, the Management Board of TAURON expressed initial interest in the acquisition of all or part of KWK Brzeszcze assets. The final decision regarding the purchase of all or a part of KWK Brzeszcze assets was to be preceded by a detailed analysis, including economic and technical analyses, that would confirm the possibility of economically viable coal mining.

In March 2015, the team of technical and economic advisers appointed for the analysis of the Brzeszcze coal mine assets, based on the conducted first stage of analyses, recommended the path for the purchase of these assets, in accordance with the variant assuming their takeover from SRK. The Management Board of TAURON approved the direction of this recommendation.

Until mid-May the works under the second stage of the comprehensive analysis of technical, geological, legal and economic-business aspects were continued. Within the framework of the team's work, the opportunities of potential cooperation with the financial or infrastructural partner were also analysed, including the terms of such cooperation supported by the conducted market research. Moreover, the analysis also focused on the structure of the transaction based on the special purpose vehicle (SPV), assuming the lack of consolidation of assets purchased and, at the same time, the elimination of risk associated with the potential deterioration of financial indicators of TAURON Capital Group, in particular, the net debt to EBITDA ratio.

On 15 May 2015 TAURON and SRK signed the Letter of Intent concerning the intention of the Parties to start cooperation in the scope of possible purchase of KWK Brzeszcze mine assets.

In accordance with the provisions of the Letter of Intent, the Parties expressed their intention to start works aimed at defining the assets of KWK Brzeszcze that would be the subject of possible purchase by TAURON and then possible legal and actual steps the purpose of which would be to prepare and execute the transaction of assets purchase. It should be emphasised that TAURON is interested in purchasing only of those assets that could be used as a basis for the development of a new mine capable of running profitable and effective business in the scope of hard coal and methane mining from deposits. The Parties declared also that they would start close cooperation on operation of KWK Brzeszcze in the transitional period, i.e. after the transfer of the mine to SRK and before potential purchase of KWK Brzeszcze assets by TAURON.

The prerequisite for TAURON to purchase the KWK Brzeszcze assets is the restructuring of the coal mine by SRK.

The Letter of Intent was signed for a definite period until 31 December 2015 with a possibility to extension.

On 4 August 2015 (event after 30 June 2015), the Management Board of TAURON, based on the results of the analyses conducted and the recommendations of the Company advisors, expressed its consent to submit an offer to purchase some assets of KWK Brzeszcze belonging to SRK, in a public tender, under the following boundary conditions:

1. due to the risk of potentially having to return illegal public aid, the offer will be submitted only if the assets are sold by SRK in a public tender,
2. the purchase price will be a "token sum" of PLN 1,
3. due to the necessity to recognise the assets purchase transaction by the Company as the off-balance sheet transaction, the offer to purchase the assets will be submitted by a Special Purpose Vehicle (SPV) to be established by Partners, including Małopolska Agencja Rozwoju Regionalnego S.A. (Małopolska Regional Development Agency),
4. the offer will be submitted provided that the Partners sign the Agreement defining the boundary terms and conditions of joint investment prior to the offer submission and then, before the day of concluding the final asset purchase agreement by the SPV, the partners to the SPV sign an agreement defining, in particular, their mutual obligations towards each other,
5. due to the business risk related to operation of the assets and the necessity to ensure profitability of this investment, before signing the final purchase agreement by the SPV, SRK should implement the asset restructuring programme, comprising, in particular:
  - 1) reducing the number of permanent employees to 828 FTEs,
  - 2) employing up to 715 outsourced employees,
  - 3) change of the existing remuneration system to a performance-related remuneration system (approx. PLN 5,000 of fixed remuneration plus variable remuneration depending on financial results),



- 4) bearing the previously planned – due to the division of assets – required expenditure on the ventilation system.

The basis for filing the asset purchase offer are the opinions and reports prepared by the Company's advisors that define the aforementioned minimum requirements for project profitability, including the level of estimated capital expenditure of PLN 253 million in the years 2016–2018 and assume the target annual output of approximately 1.5 million tons starting from the year 2017. In the opinion of the Company Management Board only meeting the above conditions may guarantee profitability of the project. Purchase of some assets of the KWK Brzeszcze mine by the special purpose vehicle would take place provided that the Supervisory Board of TAURON gives its consent to acquire shares in the increased share capital.

The Company informed of the aforementioned events in current reports: no. 2/2015 of 16 January 2015, no. 16/2015 of 15 May 2015 and no. 19/2015 of 4 August 2015.

#### **Listing of TAURON Polska Energia S.A. bonds on the Catalyst market**

On 18 February 2015 the Management Board of BondSpot S.A. adopted the resolution concerning the decision on listing 17,500 TPEA1119 series TAURON bearer bonds with the total nominal value of PLN 1,750,000 thousand and the unit nominal value of PLN 100 thousand, in the alternative trading system on Catalyst market. The resolution came into force as of the day of its adoption.

On 10 March 2015 the Management Board of BondSpot S.A., pursuant to resolution no. 43/15 decided to set 12 March 2015 as the first day of listing of 17,500 TAURON bearer bonds, TPEA1119 series, with the total nominal value of PLN 1,750,000,000 in the Catalyst alternative trading system. The bonds were assigned with code PLTAURN00037 by the Central Securities Depository of Poland (KDPW). The following details were also defined for the aforementioned bonds:

- 1) last day of listing – 22 October 2019,
- 2) trading unit – 1 bond,
- 3) obligatory unit – 1 bond
- 4) symbol – TPE1119.

The Company informed of the aforementioned events in current reports: no. 4/2015 of 18 February 2015 and no. 5/2015 of 10 March 2015.

#### **Termination of contracts for the purchase of electricity and property rights by a subsidiary**

On 18 March 2015 the subsidiary, Polska Energia – Pierwsza Kompania Handlowa sp. z o.o. in liquidation filed notices to terminate long-term contracts for the purchase of electricity and property rights arising from certificates of origin of energy from renewable sources by PEPKH. The aforementioned contracts were concluded in the years 2009–2010 with the below listed partners – owners of wind farms:

- 1) "in.ventus spółka z ograniczoną odpowiedzialnością Mogilno I" Sp. k.,
- 2) "in.ventus spółka z ograniczoną odpowiedzialnością Mogilno II" Sp. k.,
- 3) "in.ventus spółka z ograniczoną odpowiedzialnością Mogilno III" Sp. k.,
- 4) "in.ventus spółka z ograniczoną odpowiedzialnością Mogilno IV" Sp. k.,
- 5) "in.ventus spółka z ograniczoną odpowiedzialnością Mogilno V" Sp. k.,
- 6) "in.ventus spółka z ograniczoną odpowiedzialnością Mogilno VI" Sp. k.,
- 7) Amon sp. z o.o.,
- 8) Talia sp. z o.o.,
- 9) Dobiesław Wind Invest Sp. z o.o.,
- 10) Gorzyca Wind Invest Sp. z o.o.,
- 11) Pękanino Wind Invest Sp. z o.o.,
- 12) Nowy Jarosław Wind Invest Sp. z o.o.

The reason behind the termination of the Contracts by PEPKH was the breach of contractual provisions by Partners which consisted in the refusal to enter into renegotiations of the terms of Contracts in good faith.

The Company informed of the aforementioned events in the current report no. 7/2015 of 19 March 2015, with reference to current reports no. 29/2014 of 2 July 2014, no. 41/2014 of 27 October 2014 and 42/2014 of 16 December 2014.

### **Exceeding of the 10% equity threshold of the Company within the trading turnover between TAURON Capital Group companies and PSE Group companies**

On 10 April 2015, the Company received from PSE documents concerning the mutual provision of services to companies of TAURON Capital Group, enabling the settlement with PSE Group companies, with reference to the current reports: no. 1/2012 of 5 January 2012, no. 37/2012 of 7 November 2012, no. 42/2013 of 15 October 2013 and no. 30/2014 of 8 July 2014, regarding trade turnover between companies of TAURON Capital Group and PSE. In accordance with the aforementioned documents, as of 8 July 2014, i.e. as of the day of submission of the current report no. 30/2014, the net trade turnover generated between companies of TAURON Capital Group and companies of PSE Group amounted to about PLN 2,025 million (including approximately PLN 1,272 million of cost items for TAURON Capital Group companies, and about PLN 753 million of revenue items), accordingly, the value of turnover exceeded 10% of the Company equity.

The turnover of the highest value, i.e. about PLN 1,170 million net, was generated under the agreement of 16 December 2013, concluded between TAURON Dystrybucja and PSE. The subject of the aforementioned agreement, concluded for an undefined period, is the provision of transmission services by PSE, understood as the transport of electricity via the transmission grid. Its estimated value over a period of 5 years following its conclusion, is about PLN 7,478 million. The services are cleared in accordance with the rules and rates approved by the President of the ERO, defined in the tariff, and taking into account the provisions of the Instruction for Transmission System Operation and Maintenance. The above mentioned Agreement does not stipulate any liquidated damages and it does not contain any conditions precedent or terminating conditions.

The Company informed of the aforementioned event in the current report no.11/2015 of 10 April 2015.

### **Signed agreement for the purchase of shares in PGE EJ 1**

In reference to the Shareholders' Agreement signed on 3 September 2014 as a part of nuclear power plant preparation and construction project, and the consent to concentrate business granted on 7 October 2014 by the President of the Office for Competition and Consumer Protection (OCCP), on 15 April 2015, TAURON and PGE, KGHM and ENEA signed the agreement for the purchase of shares in PGE EJ 1 – a special purpose vehicle responsible for the preparation and execution of the investment covering the construction and operation of the first Polish nuclear power plant with the capacity of approximately 3,000 MW<sub>e</sub>. TAURON, KGHM and ENEA purchased from PGE 10% of shares each in the special purpose vehicle PGE EJ 1, i.e. 30% of shares in total. TAURON paid the amount of PLN 16 million for the shares purchased.

Detailed information on the aforementioned event is included in item 1.4.2 hereof.

The Company informed of the aforementioned events in current reports: no. 12/2015 of 15 April 2015, no. 38/2014 of 3 September 2014 and no. 39/2014 of 9 October 2014.

### **Other important events in the 1st half of 2015**

#### **Information concerning the impact of one-off events on results of TAURON Capital Group for the 4th quarter of 2014**

On 18 February 2015, the Management Board of TAURON publicly informed about the forecast impact of non-monetary one-off events that will consist in recognising provisions and write downs on assets in the amount of approximately PLN 150 million as costs of the 4th quarter of 2014, on consolidated financial result of TAURON Capital Group. The main reason behind increasing the provisions for employee benefits was the reduction of market interest rates, as a result of which the Company decided to reduce the discount rate. Actuarial gains and losses related to jubilee bonuses in the amount of approximately PLN 114 million have reduced the financial result of TAURON Group for the 4th quarter of 2014, whereas the amount of approximately PLN 322 million has been charged to "other comprehensive income" and has no impact on the financial result of TAURON Capital Group.

The Company informed of this event in the current report no. 3/2015 of 18 February 2015.

### **Events after 30 June 2015**

#### **Letter of intent concerning the joint development of renewable capacity**

In July 2015 TAURON and ENEA signed a letter of intent concerning joint implementation of the strategy ensuring the optimum method of increasing renewable capacity and financing the purchase transaction of wind assets. The letter of intent assumes establishing of working teams in order to develop the assumptions related to the cooperation, including, in particular, the schedule of activities and the financial model favourable for both parties. Any business decisions will be made only on the basis of results of working teams' performance. The strategy of both companies assumes the development of RES, in particular, wind farms. TAURON decided to resign from the continuation of negotiations with investors concerning the sales of rights to some part of wind assets belonging to TAURON Capital

Group. The reason of this decision is the significant change in market terms and conditions of the transaction, in particular, the low current level of prices, of the so-called “green” certificates and electricity and the expectations concerning the level of those prices in the future.

#### **Increasing the value of the bond issue programme**

In July 2015 TAURON signed the annex with Bank Gospodarstwa Krajowego to the programme agreement regarding the organisation of the bond issue programme. The objective of the bond issue is the financing of capital expenditure, mainly in the areas: Distribution and Generation, in accordance with the development strategy of TAURON Capital Group. Participation of Bank Gospodarstwa Krajowego in this project is implemented under the “Polish Investments” programme.

The level of the issue programme of bonds with the maximum maturity period of 15 years, with six-month interest payment period, pursuant to the concluded annex, amounts to PLN 1.7 billion. Within the amount by which the bond issue programme was increased (PLN 700 million), as at the day of concluding the annex, the amount of PLN 300 million was covered by the guarantee. The financial structure stipulates the bond issue in series in the years 2015–2016, with redemption terms due from 2020 to 2029. In this project, Bank Gospodarstwa Krajowego acts as the organiser, programme guarantor and depository.

#### **Concluding the investment agreement by the subsidiary**

On 13 July 2015 in relation to the execution of the project on “Construction of 413 MW<sub>e</sub> CCGT unit at TAURON Wytwarzanie Spółka Akcyjna Oddział Elektrownia Łagisza w Będzinie” (the “project”), the subsidiary – TAURON Wytwarzanie concluded an Investment Agreement with PIR.

The purpose of the Agreement was to determine the terms and conditions of joint execution of the project by TAURON Wytwarzanie and PIR, in particular, the obligation of the parties to make an investment by establishing a special purpose vehicle “Łagisza Grupa TAURON sp. z o.o.”, whose purpose would be to execute the investment process and then operate the 413 MW<sub>e</sub> class CCGT unit. TAURON Wytwarzanie undertook, under the terms and conditions defined in the aforementioned Agreement, to ensure the achievement of the purpose of the project by the special purpose vehicle, which consists in launching regular commercial operation of the unit on the date defined by the parties, following the successful completion of the technological start-up and fulfilment of the foreseen requirements.

PIR plans to invest in the project up to PLN 750 million, taking over 50% less one share in the SPV. The total value of project is estimated at approximately PLN 1.5 billion.

PIR’s obligation to join the special purpose vehicle depends on (apart from establishing the special purpose vehicle and contribution of initial capital by TAURON Wytwarzanie), among others, signing further agreements enabling the execution of the project (including shareholders’ agreement between the parties, TAURON and the special purpose vehicle, the agreement for unit connection to the grid) and agreeing on all the issues related to the execution of the project (including, inter alia, management-related, organisational and technical matters), obtaining antimonopoly clearance and any other necessary permissions. A major breach of agreement by TAURON Wytwarzanie would be discontinuation or lack of electricity generation in the unit as well as discontinuation or lack of gas supply to the unit for a period exceeding 6 months. Other terms and conditions of the Agreement (including possible termination by the parties) arise from the characteristics of the project and do not vary significantly from standard provisions typical for such agreements. The Agreement was concluded for a period of 30 years, with a possibility of its extension.

The Project is in line with the Corporate Strategy of TAURON Capital Group, presented in current reports no. 25/2011 and 28/2014, which stipulates building of the sustainable generation portfolio which would consist of units based on coal, gas technologies and renewable energy sources. The investment in the construction of the generation unit at Elektrownia Jaworzno III will also contribute to securing TAURON Capital Group position as the second largest electricity generator on the domestic market.

The Company informed of this event in the current report no. 17/2015 of 13 July 2015.

On 17 July 2015 TAURON Wytwarzanie established the company Łagisza GT with its registered office in Katowice. Detailed information concerning establishing of the special purpose vehicle is included in item 1.3.2 hereof.

#### **Fitch affirms TAURON ratings**

On 16 July 2015 Fitch rating agency affirmed the following ratings of the Company:

- 1) international long-term domestic and foreign currency rating at “BBB” with stable outlook,
- 2) international short-term domestic and foreign currency rating at “F3”,
- 3) national long-term rating at “A (pol)” with stable outlook,
- 4) national unsecured and unsubordinated debt rating at “A (pol)”.

Affirmed ratings reflect high share of regulated distribution segment in the EBITDA result of TAURON Capital Group (approximately 60%), which translates into higher predictability of cash flows and helps stabilise cash flows in the unfavourable period for the generation segment. According to Fitch the ratings take into account the balance of risk related to the stable distribution segment and generation segment operating in difficult environment.

The Company informed of this event in the current report no. 18/2015 of 17 July 2015.

#### **Changes in the composition of the Company Supervisory Board**

On 7 August 2015 at 11:38 a.m. CET the Company was notified that the State Treasury dismissed Mr. Marek Ściażko, the Member of the Supervisory Board, from the Supervisory Board of TAURON The dismissal took place as of 7 August 2015 pursuant to § 23 section 1 item 3 of the Company Articles of Association.

On 7 August 2015 at 3.55 p.m. CET the Company received the declaration of Mr Antoni Tajduś on his resignation from the function of the Member of the Company Supervisory Board, effective as of 7 August 2015, including the position of the Chairman of the Supervisory Board.

On 12 August 2015 the Company was informed of dismissing the following persons from the TAURON Supervisory Board by the State Treasury: Agnieszka Woś, who simultaneously acted in the capacity of the Vice Chairperson of the Supervisory Board, Andrzej Gorgol and Michał Michalewski. The dismissal took place as of 12 August 2015 pursuant to § 23 item 1 (3) of the Company Articles of Association.

On 12 August 2015 the Company received notifications, pursuant to which the Minister of Treasury, acting under § 23 item 1 (1) and (3) of the Company Articles of Association, appointed the following persons as members of the Supervisory Board of the Company of the 4<sup>th</sup> common term as of 12 August 2015: Grzegorz Barszcz, Beata Chłodzińska, Piotr Ciach, Katarzyna Kosińska and Jarosław Zagórowski.

The Company informed of the aforementioned events in current reports: no. 20/2015 and no. 21/2015 of 7 August 2015 and no. 22/2015 and no. 23/2015 of 12 August 2015.

## **2.4. Information on agreements concluded by companies of TAURON Capital Group**

### **2.4.1. Significant transactions with affiliated entities concluded under conditions other than on arm's length basis**

All transactions with affiliated entities are concluded on arm's length basis.

Detailed information on significant transactions with affiliated entities was provided in notes 18 and 36 of the Consolidated interim financial statement for the period of six months, ended on 30 June 2015.

### **2.4.2. Credit guarantees and sureties or loans granted**

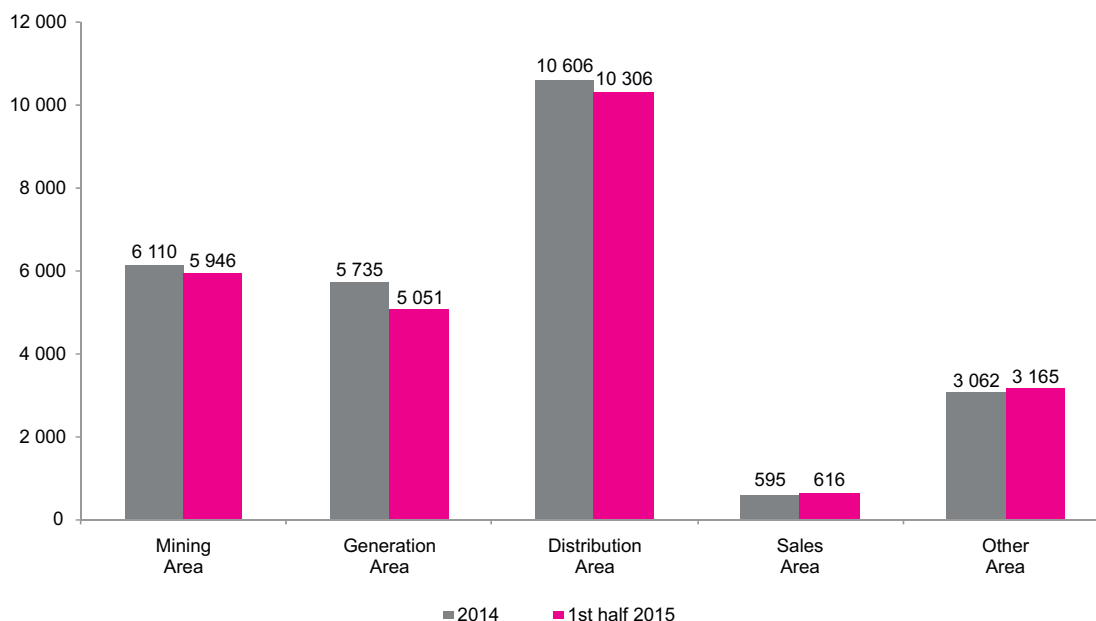
In the reporting period covering the 1st half of 2015, TAURON and its subsidiaries did not grant any credit sureties or guaranties, or loans – jointly to one entity or such entity's subsidiary, where the aggregate value of the existing guarantees or sureties would be equivalent to the value of at least 10% of the Company equity.

## **2.5. Information concerning employment**

In the 1st half of 2015, the average employment in TAURON Capital Group in FTEs reached 25,084 FTEs, which means the decrease against the average employment in 2014, which amounted to 26,108 FTEs.

The figure below shows the levels of average employment in TAURON Capital Group in FTEs (rounded up to the full FTE), in 2014 and in the 1st half of 2015, divided into individual Segments of operations.

**Figure no. 14. Average employment in TAURON Capital Group in 2014 and in the 1st half of 2015 (FTEs)**

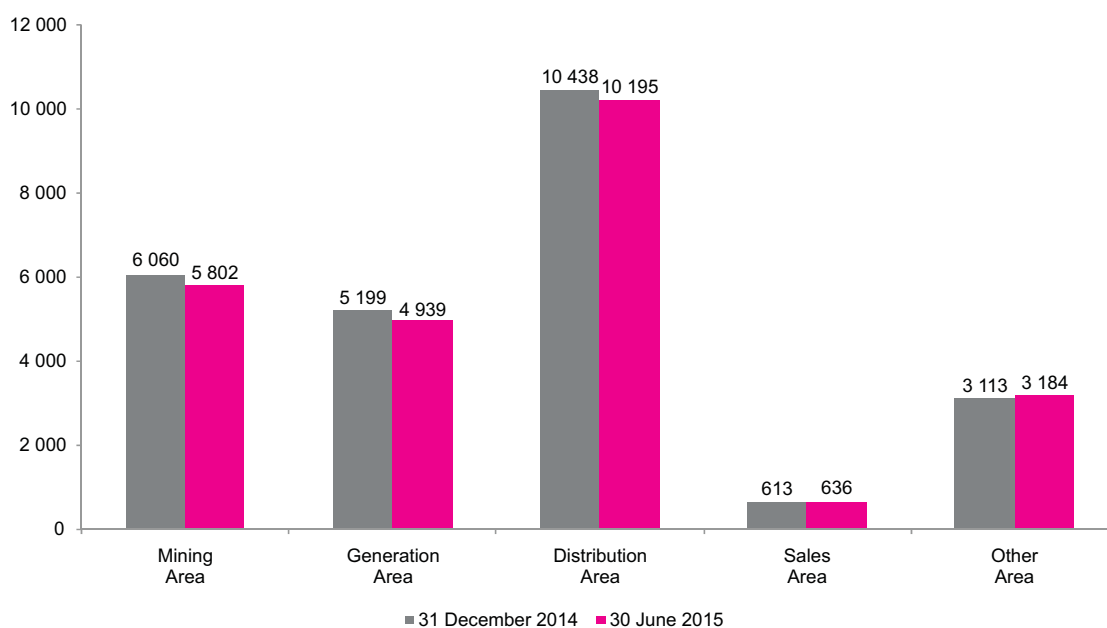


Changes in the level of the average employment in individual Areas in the 1st half of 2015, as compared to the average employment in 2014, result, among others, from the *Voluntary Redundancy Programmes* implemented in the following Areas: Distribution and Generation, as well as resignation of employees outside TAURON Capital Group (including the resignation of employees from the following Areas: Mining, Distribution and Generation).

At the same time, in the 1st half of 2015 the data presentation method was changed in the scope of recognising companies in individual Segments of operations. In 2014 Companies: TAURON Ciepło and TAURON EKOENERGIA were assigned to separately operating Areas, respectively, to the Heat Area and to the RES Area, whereas as of 2015 the aforementioned companies have been recognised within the Generation Segment. As of 2015, TAURON Obsługa Klienta company, previously assigned to the operating Customer Service Area, has been recognised within the Other Segment. As at 30 June 2015, 24,756 people were employed in companies of TAURON Capital Group. In relation to the employment status as at 31 December 2014, amounting to 25,423 people, the decline by 667 persons was recorded.

The figure below presents the employment in TAURON Capital Group in persons, according to the status as at 31 December 2014 and 30 June 2015.

**Figure no. 15. Employment in TAURON Capital Group in persons as at 31 December 2014 and 30 June 2015 (persons)**



### 3. RISK MANAGEMENT IN TAURON CAPITAL GROUP

#### Risk and threat factors

Taking care for implementation of the Corporate Strategy, the Company implements the risk management process in relation to operations of TAURON Capital Group. This process, particularly important for the implementation of the strategic goals, identifies potential deviations against the planned result of TAURON Capital Group and increases the predictability of its accomplishment, enabling risk level control to provide for its possibly neutral impact on the implementation of strategic goals of TAURON Capital Group. The Risk Management System covers all elements of the value chain implemented of TAURON Capital Group and all the employees of TAURON Capital Group take part in the risk management process.

Risk management should ensure value creation in TAURON Capital Group owing to the effective control of risk-taking, enhancing the transparency of risk-taking, independent risk assessment and increasing business concentration on optimisation of relations between profits and the risk assumed.

In TAURON Capital Group, Risk Department is responsible for the operational implementation of tasks associated with the risk management process.

Risk management in TAURON Capital Group is based on three pillars:

- 1) enterprise risk management,
- 2) commercial risk management,
- 3) financial and credit risk management.

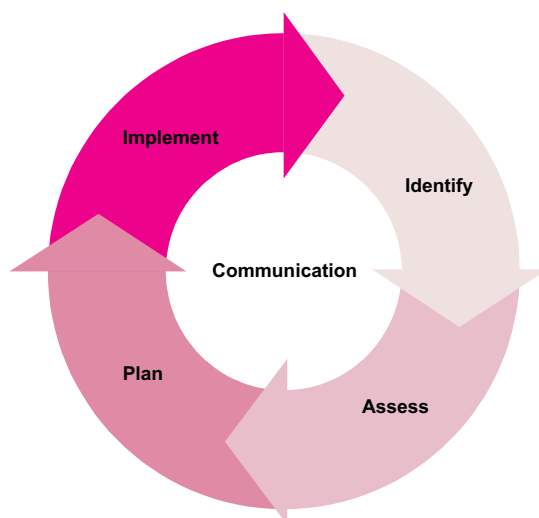
#### Enterprise risk management

The comprehensive enterprise risk management system (ERM) in TAURON Capital Group supports the implementation of the strategic goals of TAURON Capital Group through:

- 1) ability of TAURON Capital Group to predict deviations against the planned levels (material and financial plan) and, at the same time, the possibility to prepare effective instruments of response to such a risk,
- 2) assessment and identification of risks globally in TAURON Capital Group and the consistent approach to their measurement, as a result of which TAURON Capital Group manages risks posing the most significant impact on financial results and implementation of the adopted strategic goals in case of their materialisation,
- 3) development of effective and adequate measures to be taken by TAURON Capital Group in view of the specific risk,
- 4) harmonisation of the risk management process in the entire TAURON Capital Group.

The figure below shows stages in the process of enterprise risk management in TAURON Capital Group.

Figure no. 16. Stages in enterprise risk management in TAURON Capital Group



The risk management process includes the hereunder continuous measures comprising:

1. **Risk identification** – based on determining potential events that may affect the implementation of goals defined by TAURON Capital Group.



2. **Risk assessment** – based on determining the impact of the event classified as risk in the identification process on the implementation of the specific goals.
3. **Planning** – based on preparation of the dedicated response to the risk identified in order to achieve the desirable goals.
4. **Implementation** – based on practical implementation of the risk response prepared in the planning process.
5. **Communication** – based on the continuous information flow among ERM process participants. The periodical risk reporting is the element of this process.

The table below presents participants in the enterprise risk management process as well as the roles and responsibilities assigned to them.

**Table no. 10. Participants of the risk management process**

No.	Participant	Roles and responsibilities of the risk management process participants
1.	Supervisory Board of the Company	Authorised to controlling of activities undertaken by the Company in the scope of enterprise risk management, in terms of compliance with the expectations of shareholders, governing and regulatory bodies.
2.	Audit Committee	Authorised to monitoring of the effectiveness of the risk management system existing in TAURON Capital Group.
3.	Management Board of the Company	1) takes formal decisions related to the key elements of corporate management in TAURON Capital Group, 2) performs the assessment of effectiveness and efficiency of the risk management process.
4.	Risk Committee	1) supervises the risk management process in TAURON Capital Group, 2) recommends and provides opinions for the Management Board concerning the form of individual elements of risk management infrastructure, 3) defines maximum risk tolerance on TAURON Capital Group and global limit for risks, applies to the Management Board for their approval and change, 4) approves strategies, methods and plans for securing the position on the market of energy and associated products, comprising individual areas of activities, 5) supervises the preparation of the quarterly information for the Management Board in the scope of all significant issues related to risk in TAURON Capital Group.
5.	Internal Audit Department in TAURON	Conducts audit of the enterprise risk management process in TAURON Capital Group, comprising the assessment whether the enterprise risk management system is compliant with the requirements of the documentation and whether it is effectively implemented and maintained.
6.	Enterprise Risk Office in the Risk Department in TAURON	1) implements the risk management process in compliance with the rules defined in the relevant regulations, 2) acquires information concerning the current status of enterprise risk, the value of parameters measuring risk and the conducted and planned risk response, 3) prepares risk reports and submits them to the authorised participants of the enterprise risk management process, 4) cooperates with Risk Owners in the scope of tasks implemented by them, arising from their function.
7.	Risk Owner	1) manages risks occurring in the scope of a business unit reporting to it and is liable for their impact on the current activities as well as on the implementation of the goals assigned to it, 2) coordinates risk management within the scope of its responsibilities, 3) co-participates in the reporting process, is responsible for the effectiveness of risk communication in the area it is responsible for, 4) submits information concerning the current risk status.
8.	Risk Manager	1) supports and supervises business units within the implementation of the risk management process, its implementation, compliance and development, 2) verifies information on risk for the business unit he supports and assesses the effectiveness of the performed risk response.
9.	Risk Management Coordinator	1) supports the Risk Owner, as well as individual management levels within the implementation of the risk management process, 2) supports the harmonisation of procedures in the scope of risk identification, measurement and reporting, 3) supervises the presentation of the real risk picture in his unit and the application of the adequate instruments of risk response
10.	Risk Expert	1) performs risk analyses in accordance with the methodology adopted in the Company, 2) reports risk in accordance with the defined reporting rules, 3) recommends performing the specific risk responses and monitors the current status of their implementation.
11.	Other employees of organisational structures of TAURON and its subsidiaries	All employees of TAURON Capital Group should have the basic knowledge concerning the risk management system, be aware of the main risks in their areas of responsibility and should be responsible for decisions that may affect the associated risks and the result of the risk assumed. They are also responsible for identification of risks associated with the implementation of their obligations.



In the period of the 1st half of 2015, the process of changes in risk management initiated in 2014 was continued, in the regulatory scope as well as in terms of the sole approach to risk identification and measurement as well as methods of its reporting. Within ERM internal regulations have been introduced related to determining risk limits, early warning indicators (EWI) and prudential thresholds for the defined indicators which would provide basis for the development of detailed plans of response to significant risks for TAURON Capital Group.

The process of risk-taking in TAURON Capital Group has been centralised. Within the risk management process the Risk Committee fulfils a special role, as the team of experts that permanently and continuously initiates, analyses, monitors, controls, supports and supervises the performance of corporate risk management system in TAURON Capital Group. The Risk Committee comprises persons with relevant knowledge on the Company and its environment. The role of the Risk Committee is to define risk management norms and standards in TAURON Capital Group and to supervise the effectiveness of the risk management process. Within the Risk Committee two separate teams were established for the commercial risk area and for the financial and credit risk area. The Risk Committee directly supervises the implementation of the corporate risk management process.

During the 1st half of 2015 the risk management process was conducted in accordance with the adopted methodology of risk distribution and measurement, and new risks were also identified and measured (in particular, strategic risks), which may significantly affect the implementation of the strategic goals adopted by the Company.

Within the framework of the adopted risk management methodology in TAURON Capital Group:

- 1) three risk categories are identified and analysed, i.e. strategic, operational and disaster risks, depending on the perspective and level of their impact on the strategic goals of the Company,
- 2) the agreed method of risk measurement relevant for the specific category, is implemented,
- 3) within the adopted risk measurement methodology risk prioritising is performed and, depending on the result, the appropriate measures within risk response are applied.

### **Commercial risk management**

The Company manages the commercial risk based on the developed and adopted *Policy of risk management in the commercial activities of TAURON Group*, which specifies the set of rules and principles of commercial risk management at the level of TAURON Capital Group. The above document constitutes the implementation of market practices and solutions used in the scope of commercial risk management in relation to trading in electricity and related products, such as CO<sub>2</sub> emission allowances, property rights, fuels, including their adjustment to the structure of TAURON Capital Group, taking into account the specific nature of the energy sector.

The commercial risk management in TAURON Capital Group is understood as limiting of unplanned volatility of the operating result of TAURON Capital Group, with simultaneous use of the diversification effect, arising from the portfolio of assets held. The price risk is limited through defining of the maximum permissible level of deviation of the real result of TAURON Capital Group against the planned result, arising from the volatility of market prices of electricity and the associated products. The system of limits also comprises non-market risk factors which may potentially have an impact on the result of the commercial area. The control covers both the global limit constituting the acceptable commercial risk level comprising the full structure of TAURON Capital Group (risk appetite), as well as operating limits demonstrating the decomposition of the global limit into individual portfolios associated with the areas and types of commercial activities of TAURON Capital Group.

In accordance with the adopted model, risk management in TAURON Capital Group is decentralised, however, commercial risk controlling in TAURON Capital Group is also conducted centrally from the Company level, which ensures the appropriate supervision of one of the main Business Areas within TAURON Capital Group. The basic element of commercial risk management is the division of the commercial activities of TAURON Capital Group into Front, Middle and Back Office. The distribution of tasks is aimed at ensuring the independence of the operating functions executed by the Front Office in relation to the risk control functions fulfilled by the Risk Department. Such an organisation ensures security of the commercial activity and the transparency of the supervision over risk-taking in TAURON Capital Group companies.

### **Financial and credit risk management**

Credit risk refers to potential losses resulting from the failure of partners to fulfil the contractual obligations. Market risks and credit risks are closely associated with each other. High volatility of prices, in particular, their unforeseen growth, may significantly change a customer's credit risk. While measuring the transaction risk, information flowing from the market should be taken into consideration, which may be the first warning signal of the deterioration in the financial situation of a customer.

In accordance with the adopted model, risk management in TAURON Capital Group is decentralised, however, credit risk controlling in TAURON Capital Group is conducted centrally from the Company level, which ensures the appropriate supervision over risks assumed and the required transparency of exposure to credit risk. Risk exposure is understood as the amount that may be lost if a customer fails to fulfil its obligations within the specific period of time (considering the value of collaterals contributed by the customer). Credit exposure is calculated for the current day and divided into exposure due to payment and exposure of replacement, taking into consideration the exposure arising from the provisions of the Polish Energy Law.

TAURON Capital Group has a decentralised credit risk management system, however, the control, limiting and reporting of credit risk is provided centrally, from the Company level, in accordance with the *Policy of credit risk management in TAURON Grupa*. This policy defines the set of principles and rules for credit risk management at a level of TAURON Capital Group, to lead to the effective mitigation of credit risk impact on the implementation of the strategic goals of TAURON Capital Group.

The commercial activity of TAURON Capital Group is exposed to credit risk occurring on the market, which means that customers are evaluated from the perspective of their creditworthiness and that credit exposure must be confined within the defined and acceptable credit limits. The general rule is that each customer, prior to concluding a contract, should receive a credit limit, providing basis for controlling the process of taking such a risk. Moreover, in order to ensure its effectiveness, the rules have been defined, with the following goals:

- 1) defining the exposure to credit risk in TAURON Capital Group and
- 2) assigning competences and reporting obligations in the scope of credit risk to individual elements of the organisational structure.

Credit risk management results from controlling of the level of credit risk exposure generated upon concluding of a contract with customers by companies of TAURON Capital Group.

The Company manages financial risk (currency, interest rates, liquidity) based on the developed *Policy of managing risk specific in the financial area in TAURON Group*, adopted for application.

### Specification of the most significant risks associated with the operations of TAURON Capital Group

The description of risks presented below represents, according to the opinion of the Company, the specification of the most essential current threats associated with the operations of TAURON Capital Group. The sequence of presentation of individual risks does not reflect the scale of their impact on the implementation of strategic goals of TAURON Capital Group.

**Table no. 11. Description of risk factors**

No.	Types of risks	Risk description
<b>I. Strategic risks</b>		
1.	Risk of growth in prices of CO <sub>2</sub> emission allowances	The risk associated with the establishment of MSR in the market of emission trading, introducing the instrument for maintaining of the high level of prices by reduction of allowances pool. The growth in costs of CO <sub>2</sub> emission allowances may have an adverse effect on the operations of TAURON Capital Group, through the increase in costs and margin reduction.
2.	Risk of inflow of energy competitive in terms of prices for the Polish generators to the National Power System (KSE)	The risk of inflow of cheap energy to the KSE, both from conventional sources, wind farms located in Poland, and imported. Risk materialisation will result in the loss of revenues by companies of TAURON Capital Group, in connection with coal mining, generation of electricity and heat.
3.	Risk of fund raising and financial services	Risk associated with the lack of possibilities to raise funding for operational and investment needs or high costs of acquisition of such financing, arising from tightening of the crediting policy of banks, unfavourable market conditions, unstable macroeconomic situation, which may have material unfavourable effect on operations of TAURON Capital Group, its financial situation or results of its activities due to the lack of resources for projects included in the Corporate Strategy and in investment plans, and for operations.
4.	Concession risk	The risk associated with the withdrawal, failure to extend the validity term, or limiting the scope of any of the concessions held, causing the lack of possibility to conduct the activities in the planned scope, resulting in the loss of revenues and, consequently, the deterioration of the financial result of TAURON Capital Group.
5.	Risk of changes in the rules of Balancing Market (BM) functioning	The risk associated with the possibility of changes in the BM functioning, resulting in the development of negative prices on the BM and finally, on the SPOT market, which may consequently have an adverse impact on the financial result of TAURON Capital Group.

No.	Types of risks	Risk description
6.	Risk of limited budget for the operating reserve	The risk associated with the lack or reduced revenues due to maintenance of power units in production preparedness, which may have unfavourable impact on the financial result of TAURON Capital Group.
7.	Risk of unstable legal system and the European Union regulations connected with the functioning of the energy sector, including the environmental protection	Risk related to unfavourable legal changes, modifications in the Polish and the European Union regulations as well as to the legislative environment uncertainty. The risk factors may have significant adverse impact on operations of TAURON Capital Group and its financial situation through increase of operating costs of the enterprise, necessary to change the strategy of the Company or TAURON Capital Group companies, permanent exclusion of specific technologies arising from the requirement to implement the EU regulations, limiting the generation capacity of the Company and undermining its negotiation position against the institutions.
8.	Risk of tariff approval by the ERO President	Risk connected with the refusal of the President of ERO to approve the requested tariffs concerning the products offered and services provided, limited possibility to introduce amendments to the tariffs approved before and the refusal to recognise investment expenditure in the development plan, or in their part which does not cover the real costs of their generation. Risk factors may have adverse impact on operations of TAURON Capital Group, its financial standing or results of its activities through higher cost of operations, loss of income, reduced profitability of the business conducted and limitation of funds for development.
9.	Risk of loss of the Tax Capital Group (PGK) status	Risk associated with a possibility to lose the status by the PGK due to the failure to comply with the statutory requirements (e.g. too low profitability of the Group, ownership changes infringing the required levels in the capital structure of PGK companies), challenging of the settlements between PGK and other affiliated entities, unsettled tax liabilities of the PGK companies. The materialisation of the risk may result in the loss of tax optimisation, increased costs of fiscal year closing, the requirement to prepare additional documentation of transfer prices.
10.	Risk of non-compliance with the requirements of ERO / OCCP/ and the Instruction of Distribution Grid Operation and Maintenance	Risk associated with the possibility of the aforementioned authorities challenging the accuracy of the activity conducted by TAURON Capital Group in the scope of independence and equal treatment of entities on the market, infringement of antimonopoly regulations or abuse of the dominating position. The risk factors may have material adverse effect on TAURON Capital Group operations, its financial situation or results of its activities through withdrawal or change in the scope of the effective concessions, the requirement to change agreements for the supply of electricity, incurring additional costs and a possibility of imposing financial penalties.
11.	Risk of the lack of co-integration of electricity and CO <sub>2</sub> prices in the wholesale market of Poland	The risk, perceived from a long-term perspective, arising from the difference in the developments in the direction of price processes of assets, resulting in the change of relation between operating costs and the level of revenues assumed at a long term, generating adverse impact on the financial result of TAURON Capital Group, its financial situation or results of the business activity conducted.
<b>II. Operational risks</b>		
1.	Risk connected with the obligation to redeem the certificates of origin or pay the substitution fee	Risk connected with the failure to fulfil the obligation to redeem the certificates of origin or pay the substitution fee, due to the limited availability of certificates of origin on the market, change of support policy for energy generated in RES and in co-generation, or redemption of incorrect number of certificates of origin / payment of the incorrect value of the substitution fee, resulting in potential increase in costs of fulfilment of the statutory obligation, penalties imposed by ERO President and higher production costs of electricity sold.
2.	Weather risk in the Heat Area	Risk related to fluctuations of air temperatures which have significant impact on the demand for electricity and heat at a longer term, causing the significant increase or decrease of this demand, respectively, which may result in the failure to achieve the production plan in the assumed period or limitation of the possibility to satisfy the demand due to hydraulic constraints of the connection network, fixtures and the increased failure rate of sales.
3.	Market risk	The risk is associated with the volatility of prices of electricity, property rights, CO <sub>2</sub> emission allowances and the significant and/or unexpected changes in prices of coal and other fuels, as well as volatility of sales and generation volumes. The volatility referred to above, including the adverse change in a medium-term perspective, may significantly affect the financial result of TAURON Capital Group through the growth of costs, reduction of the margin and limitation of the revenues gained, as well as the fulfilment of the legal requirements related to maintaining of the relevant fuel reserves or imposing a fine in case of failure to fulfil those requirements.
4.	Risk connected with the obligation to redeem CO <sub>2</sub> emission allowances	Risk connected with emitting CO <sub>2</sub> to the atmosphere as well as the need to redeem the relevant quantity of CO <sub>2</sub> emission allowances. The risk factors may have adverse impact on operations of TAURON Capital Group, its financial standing or results of its activities, through the fines imposed for each unit of unredeemed allowance, or decreasing the planned electricity sales profitability and the increase in costs associated with the failure to issue free allowances and their incorrect redemption.

No.	Types of risks	Risk description
5.	Risk of variable generation cost	Risk associated with potential errors in selection of units and distribution of loads of unit scheduling. The selection of units is performed on the basis of TSO data and decision, maintenance information from power plants, plans of units, variable costs and data published by TSO. The risk factors may have material unfavourable effect on operations of TAURON Capital Group, through the necessity to select a more expensive generation unit or change in the optimum production schedule, which results in the increased variable cost of electricity production.
6.	Assets failure risk	Risk connected with occurrence of serious and/or permanent failures and damages of equipment used by the TAURON Capital Group companies. Risk factors may have material unfavourable effect on operations of TAURON Capital Group, its financial situation or results of its activities through loss of income arising from the interruptions and shutdowns, the necessity to incur additional costs of repairs of the grid infrastructure and non-grid infrastructure, the requirement to pay fines.
7.	Risk of fixed assets management	Risk associated with the lack of possibility to use fixed assets due to their ineffective management causing their poor technical condition, inadequate costs of fixed assets insurance resulting from their underestimation or overestimation, as well as the costs of holding redundant assets. Risk factors may have material adverse effect on TAURON Capital Group operations, its financial situation or results of its activities due to the lack of optimum use of the assets, its faster wear arising from inadequate exploitation, the need of incurring costs of remedying failures arising from wrong asset management.
8.	Environmental risk, including the risk associated with the atmospheric conditions	The risk consisting in a possibility to incur losses resulting from non-compliance with the legal regulations (including those arising from the way of implementation of the European law in the national law, administrative decisions), and including the possibility of occurrence of environmental damage or serious industrial accident or failure. The risk factors may have material adverse effect on operations of TAURON Capital Group, its financial situation or results of its activities through the necessity to incur significant costs of compliance, pay indemnities, or a potential of threat to implementation of production tasks.
9.	Risk of unregulated legal status of the real property utilised	Risk connected with a possibility of occurrence of massive financial claims of land owners due to unregulated legal status of the foundation of buildings on external land, undermining the legal status and third party claims in relation to certain components of assets. The risk factors may have material unfavourable impact on operations of TAURON Capital Group, its financial situation or results of its activities through higher cost of operations or interruption of operating activities.
10.	Risk of occurrence of natural hazards or unfavourable geological and mining conditions	Risk connected with threats to implementation of production tasks, hazards to safety of maintenance of the mining plant or safety of the staff due to natural risk factors within the development of the mining works, difficulties connected with the roof and floor conditions hampering the mining process, as well as natural hazards occurring in the mining plants (water and fire conditions, rock bumps).
11.	Risk of non-compliant activity of the customer	Risk associated with unreliable conduct of the Company customer, related to declared basis of taxation and accuracy of assessment and payment of value added tax, that may lead to questioning by authorised bodies of the accuracy of operations and establishing business relations with clients of TAURON Capital Group, and which may result in the requirement of payment of tax liabilities unsettled by customers by the Company.
12.	Risk of failure to comply with the qualitative coal parameters	The risk is associated with the deterioration of the quality of the coal sold, resulting in problems associated with its sales, which has an adverse impact on operations of TAURON Capital Group, its financial situation or results of this activity, due to the lack of implementation of commercial activity plans.
13.	Social risk	Risk associated with protests, strikes, industrial disputes, social conflicts, resulting in disruptions in the operations of companies of TAURON Capital Group, increase in costs of operations arising from the excess growth of wages, deterioration of services provided.
<b>III. Disaster Risks</b>		
1.	Risk of destruction of key machinery and equipment	The risk associated with a possibility of permanent destruction of machinery or equipment resulting in long-term decommissioning of a power unit, which may cause a significant loss of the Company financial revenues and additional costs associated with the purchase of new elements or entire machines.
2.	Risk of cyber attack	The risk refers to the attack on the IT network controlling the performance of power units or the transmission grid, causing shutdown of power units and, in extreme cases, destruction of key elements of electricity infrastructure, which may result in the lack of possibility of their performance over a longer period of time, leading to the deterioration of financial results through the decline in revenues and the necessity to incur additional costs to recover their efficiency.

The Company actively manages all risks aiming at maximum reduction or elimination of their potential adverse effects, in particular on the financial result of TAURON Capital Group.

## 4. ANALYSIS OF FINANCIAL AND ECONOMIC SITUATION OF TAURON CAPITAL GROUP

### 4.1. Principles of compiling the semi-annual condensed consolidated financial statements

The interim condensed consolidated financial statement was compiled in accordance with the International Accounting Standard 34 *Interim Financial Reporting*, according to the template approved by the EU.

The interim condensed consolidated financial statement for the period of 6 months, ended on 30 June 2015 was drawn up with the assumption of continuation of business operations by companies of TAURON Capital Group in the foreseeable future, excluding the company PEPKH in liquidation. As at the date of approval of this interim condensed consolidated financial statement for the period of 6 months, ended on 30 June 2015 for publication, no circumstances are recognised, indicating any risk to business continuity by other companies of TAURON Capital Group.

The accounting principles (policy) adopted for drawing up of the semi-annual interim condensed consolidated financial statement are provided in notes 6–8 to the interim condensed consolidated financial statement for the period of 6 months, ended on 30 June 2015.

### 4.2. Financial situation of TAURON Capital Group after the first half of 2015

#### Analysis of financial situation

In the table below the analysis of financial situation of TAURON Capital Group for the 1st half of 2015 is presented, as compared to the status as at the end of 2014.

**Table no. 12. Structure of the interim condensed consolidated statement of financial situation**

Consolidated statement of financial situation	Status as at 30 June 2015	Status as at 31 December 2014
<b>ASSETS</b>		
Fixed assets	84%	81%
Current assets	16%	19%
<b>TOTAL ASSETS</b>	<b>100%</b>	<b>100%</b>
<b>LIABILITIES</b>		
Equity attributable to shareholders of the parent company	54%	52%
Non-controlling shares	0.1%	0.1%
<b>Total equity</b>	<b>54%</b>	<b>52%</b>
Long-term liabilities	34%	34%
Short-term liabilities	12%	14%
<b>Total liabilities</b>	<b>46%</b>	<b>48%</b>
<b>TOTAL LIABILITIES</b>	<b>100%</b>	<b>100%</b>
Financial liabilities	7,933,552	8,113,766
Net financial liabilities	7,018,417	6,692,857
Net debt/EBITDA ratio	1.93	1.85
Current liquidity ratio	1.06	1.05

In the structure of assets as at 30 June 2015, fixed assets constitute about 84% of total assets which means change by almost 3% in relation to the status as at the end of 2014.

The share of current assets as at 30 June 2015 decreased to the level of 16% of total assets.

In the structure of liabilities as at 30 June 2015 the liabilities make about 46% of the total liabilities, out of which, long-term liabilities make approximately 34%, short-term liabilities – about 12% of total assets, which means a slight change in the structure of debt as compared to the end of 2014 when the share of liabilities, amounted to, respectively: 34% and 14%.

In relation to 2014, in the 1st half of 2015 the increase in net financial liabilities by approximately 5% occurred, which was reflected in the growth of net debt/EBITDA ratio – to the level of 1.93x (the ratio expressed in relation to



EBITDA for 2014). The ratio of current liquidity increased to the level of 1.06. The liquidity of the Company is not at risk – the indicators are maintained at a high, safe level.

### Consolidated statement of comprehensive income

The table below presents the selected items of the consolidated statement on comprehensive income of TAURON Capital Group for the period of 6 months, ended on 30 June 2015, as well as comparative data for the period of 6 months ended on 30 June 2014. These items are provided in accordance with the interim condensed consolidated financial statement of TAURON Capital Group, compliant with the International Financial Reporting Standards for the period of 6 months ended on 30 June 2015.

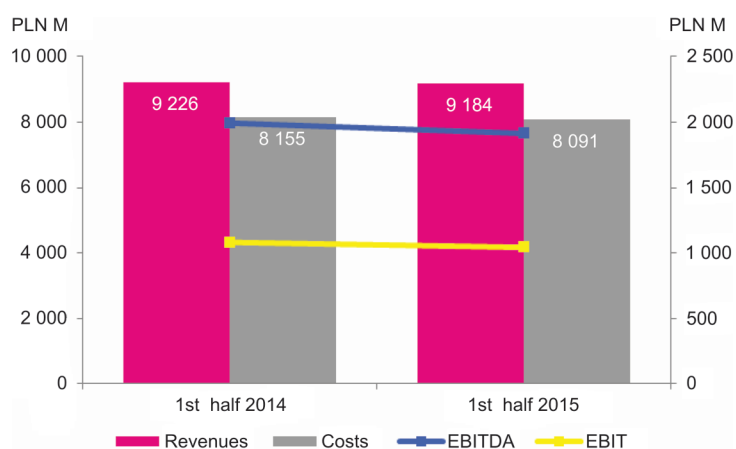
**Table no. 13. Interim condensed consolidated Statement of comprehensive income**

Statement of comprehensive income	1st half of 2015		1st half of 2014		Dynamics 2015/2014
	PLN thous.	% of total revenue on sales	PLN thous.	% of total revenue on sales	
<b>Continuing operations</b>					
<b>Revenues on sales</b>	<b>9,184,291</b>	<b>100.0%</b>	<b>9,226,315</b>	<b>100.0%</b>	<b>99.5%</b>
Own cost of sales	(7,539,952)	-82.1%	(7,565,188)	-82.0%	99.7%
<b>Gross profit (loss) on sales</b>	<b>1,644,339</b>	<b>17.9%</b>	<b>1,661,127</b>	<b>18.0%</b>	<b>99.0%</b>
Other operating revenue	73,322	0.8%	79,801	0.9%	91.9%
Costs of sales	(237,832)	2.6%	(257,189)	2.8%	92.5%
Overheads	(312,824)	3.4%	(332,199)	3.6%	94.2%
Other operating expenses	(122,703)	1.3%	(69,086)	0.7%	177.6%
<b>Operating profit (loss)</b>	<b>1,044,302</b>	<b>11.4%</b>	<b>1,082,454</b>	<b>11.7%</b>	<b>96.5%</b>
<i>Operating profit margin (%)</i>	<b>11.4%</b>		<b>11.7%</b>		<b>96.9%</b>
Financial revenues	42,078	0.5%	28,961	0.3%	145.3%
Financial expenses	(232,447)	2.5%	(185,096)	2.0%	125.6%
Share in profit (loss) of the affiliate	4,870	0.1%	(776)	0.0%	–
<b>Gross profit (loss)</b>	<b>858,803</b>	<b>9.4%</b>	<b>925,543</b>	<b>10.0%</b>	<b>92.8%</b>
<i>Gross profit margin (%)</i>	<b>9.4%</b>		<b>10.0%</b>		<b>93.2%</b>
Income Tax	(138,416)	1.5%	(191,621)	2.1%	72.2%
<b>Net profit (loss) for the financial year</b>	<b>720,387</b>	<b>7.8%</b>	<b>733,922</b>	<b>8.0%</b>	<b>98.2%</b>
<i>Net profit margin (%)</i>	<b>7.8%</b>		<b>8.0%</b>		<b>98.1%</b>
Other comprehensive income for the financial year including tax	40,711	0.4%	(12,770)	0.1%	–
<b>Total income for the financial year</b>	<b>761,098</b>	<b>8.3%</b>	<b>721,152</b>	<b>7.8%</b>	<b>105.5%</b>
<b>Profit attributable to</b>					
Shareholders of the parent company	<b>718,524</b>	<b>7.8%</b>	<b>730,290</b>	<b>7.9%</b>	<b>98.4%</b>
Non-controlling interests	1,863	0.0%	3,632	0.0%	51.3%
<b>Total income attributable to:</b>					
Shareholders of the parent company	759,233	8.2%	717,505	7.8%	105.8%
Non-controlling interests	1,865	0.0%	3,647	0.0%	51.1%
<b>EBIT and EBITDA</b>					
EBIT	<b>1,044,302</b>	<b>11.4%</b>	<b>1,082,454</b>	<b>11.7%</b>	<b>96.5%</b>
EBITDA	<b>1,914,860</b>	<b>20.8%</b>	<b>1,994,598</b>	<b>21.6%</b>	<b>96.0%</b>



The figure below shows the financial results of TAURON Capital Group for the 1st half of 2015 as compared to the 1st half of 2014.

**Figure no. 17. Financial results of TAURON Capital Group for the 1st half of 2014 and 2015**

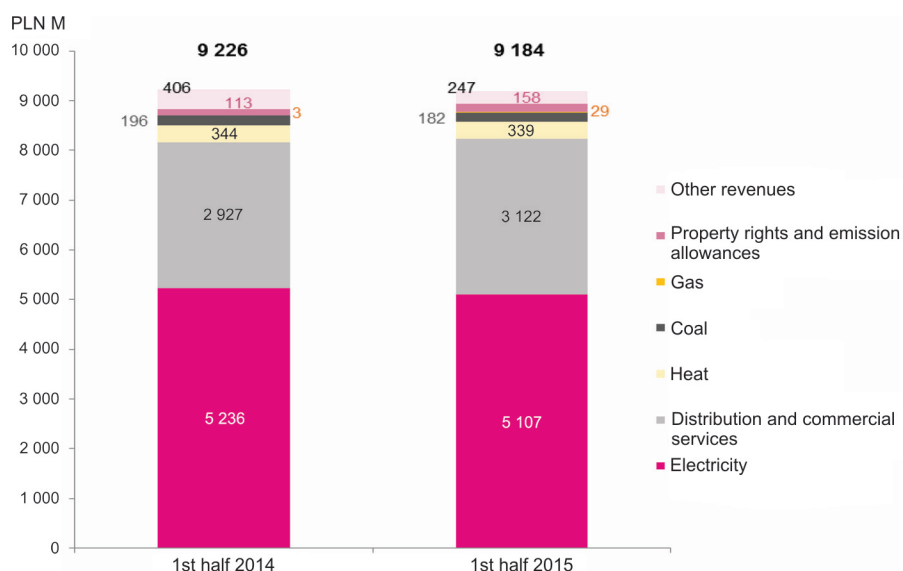


In the 1st half of 2015 TAURON Capital Group generated revenues at a level close to that reported for the 1st half of 2014. The loss of revenues due to sales of electricity, wind of blast furnace and compressed air as a result of separation of ZW Nowa and Elektrownia Blachownia from the structures of TAURON Capital Group to TAMEH POLSKA, was compensated by the growth of revenues due to the distribution service and sales of CO<sub>2</sub> emission allowances. The decline in the revenues from coal sales is another important factor, resulting from gaining lower prices from sales of coarse and medium assortments and the lower volume of coarse assortments sales. The growth in revenues from distribution services is the consequence of higher energy consumption by consumers connected to the HV and MV grid, as a result of the growth in production and new contracts in metallurgical industry, as well as commissioning of the successive railway lines in the 2nd quarter of 2015 after the modernisation. The growth of revenues from sales of CO<sub>2</sub> emission allowances arises from the growth in the volume and gaining a higher price than in the corresponding period of 2014.

In relation to revenues outside TAURON Capital Group, the highest dynamics of growth, as compared to the corresponding period of 2014 (by 12.0%), was achieved by the Distribution Segment as a result of sales of a higher volume of distribution services, with the simultaneous increase in the rate for end consumers.

The figure below shows the structure of revenues of TAURON Capital Group for the 1st half of 2015 as compared to the 1st half of 2014.

**Figure no. 18. Structure of revenues of TAURON Capital Group for the 1st half of 2014 and 2015**



In the 1st half of 2015 the level of costs of TAURON Capital Group operations was slightly lower than in the corresponding period of 2014. The decline of prime costs YoY was, to a major extent, neutralised by recognising reserves of commercial coal sold and accruals associated with mining excavations in TAURON Wydobycie in costs, which is associated with sales of coal volume exceeding the production level.

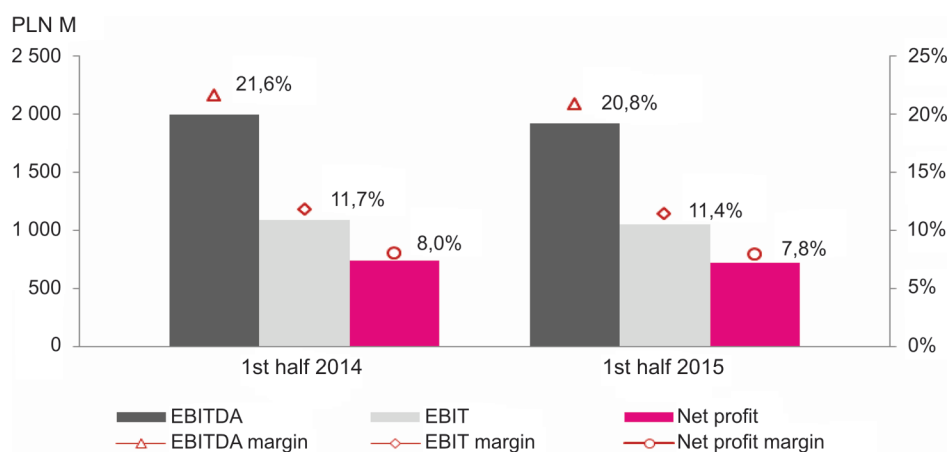
The margin of EBITDA, EBIT and net profit for the 1st half of 2015 reached a level slightly lower as compared to the corresponding period of the previous year, reaching, respectively, 20.8%, 11.4% and 7.8% in the 1st half of 2015 and 21.6%, 11.7% and 8.0% in the 1st half of 2014.

In accordance with the presented consolidated statement of comprehensive income presented herein, the total aggregate income of TAURON Capital Group, taking into account the net profit increased or decreased by the change in value of hedging instruments, currency translation differences arising from conversion of the foreign unit and other revenues after tax deduction, in the 1st half of 2015, amounted to PLN 761.1 million, as compared to PLN 721.2 million in the 1st half of 2014.

The total income attributable to shareholders of the parent company reached about PLN 759.2 million, as compared to PLN 717.5 million in the same period of 2014, and the profit attributable to shareholders of the parent company reached the level of over PLN 718.5 million, as compared to PLN 730.3 million gained in the same period of 2014.

The figure below shows the financial results of TAURON Capital Group and the level of margins accomplished in the 1st half of 2015 as compared to the 1st half of 2014.

**Figure no. 19. Financial results of TAURON Capital Group and the level of margins accomplished**



### 4.3. Status of assets

In the table below, consolidated statement of financial standing as at 30 June 2015 is presented, as compared to 31 December 2014.

**Table no. 14. Interim condensed consolidated statement of financial standing – assets (data in PLN thousand)**

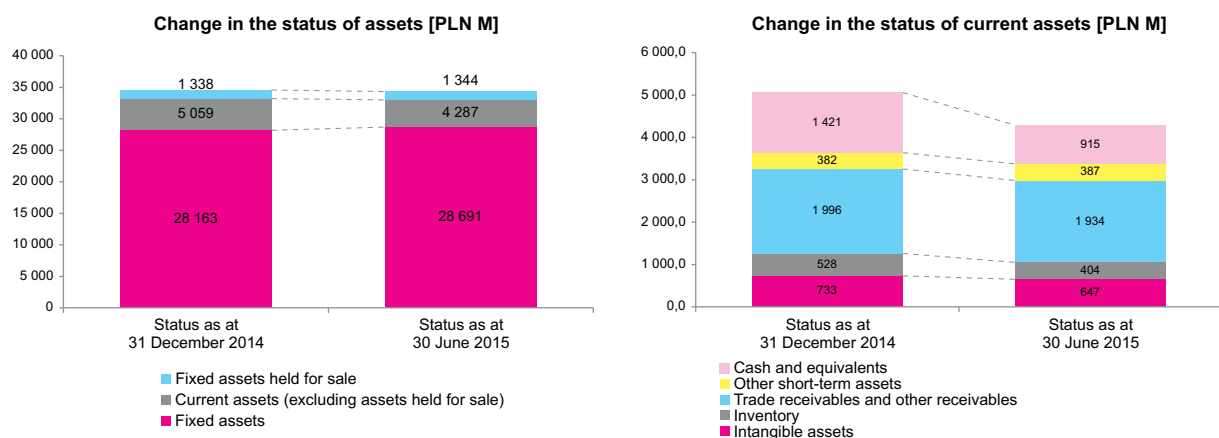
Statement of financial standing	Status as at 30 June 2015 (unaudited)	Status as at 31 December 2014	Dynamics (2015/2014)
<b>ASSETS</b>			
<b>Fixed assets</b>	<b>28,691,479</b>	<b>28,162,749</b>	<b>101.9%</b>
Tangible fixed assets	25,738,123	24,850,942	103.6%
Goodwill	195,155	195,155	100.0%
Intangible assets	1,271,029	1,604,634	79.2%
Shares and stocks in joint ventures	417,429	414,584	100.7%
Other financial assets	401,622	377,383	106.4%
Other non-financial assets	618,471	657,943	94.0%
Assets due to deferred tax	49,650	62,108	79.9%
<b>Current assets</b>	<b>5,630,595</b>	<b>6,396,444</b>	<b>88.0%</b>
Intangible assets	646,617	733,048	88.2%
Inventory	404,450	527,596	76.7%

Statement of financial standing	Status as at 30 June 2015 (unaudited)	Status as at 31 December 2014	Dynamics (2015/2014)
Receivables due to income tax	53,805	26,489	203.1%
Trade receivables and other receivables	1,879,766	1,969,169	95.5%
Other short-term financial assets	6,359	27,539	23.1%
Other short-term non-financial assets	380,516	353,989	107.5%
Cash and equivalents	915,135	1,420,909	64.4%
<b>Fixed assets and disposable assets of the group, classified as held for sale</b>	<b>1,343,947</b>	<b>1,337,705</b>	<b>100.5%</b>
<b>TOTAL ASSETS</b>	<b>34,322,074</b>	<b>34,559,193</b>	<b>99.3%</b>

As at 30 June 2015 the statement of financial situation of TAURON Capital Group recognises total assets lower by 0.7%, as compared to 31 December 2014.

The figure below shows the change in the status of assets and current assets as at 30 June 2015, as compared to 31 December 2014.

**Figure no. 20. Change in the status of assets and current assets**



Fixed assets constitute the biggest item of assets at the end of the 1st half of 2015, with the share of 84% of the value of balance sheet total. As compared to the previous year, the value of fixed assets is higher by approximately PLN 529 million (1.9%). The change results, among others, from investments in fixed assets of segments implemented in the 1st half of 2015, in particular, in the assets of the Distribution, Generation and Heat Areas.

Changes in analytical items of fixed assets resulted from the following factors:

- 1) tangible fixed assets – increase by 3.6% as a result of ongoing investments, implemented in the companies of TAURON Capital Group,
- 2) intangible assets – decline by 20.8% arising from re-classification of electricity certificates of origin to current assets, in connection with the fulfilment of the statutory obligation of their redemption for 2014,
- 3) value of stocks and shares in joint ventures – growth by 0.7% arising from the share of TAURON Capital Group in the profit generated by TAMEH HOLDING sp. z o.o. in the 1st quarter of 2015,
- 4) other long-term financial assets – growth by 6.4% arising from the purchase of shares in PGE EJ 1,
- 5) other long-term non-financial assets – decline by 6% arising from activation of costs of some preparatory works in longwall pits.

The following factors affected the growth in the value of current assets by 12%:

- 1) lower status of cash and equivalents (by 35.6%) – reasons of the change are described in item no 4.4. hereof, concerning the cash flow account,
- 2) lower status of intangible assets (by 11.8%), which is caused by the settlement of the obligation to redeem certificates of electricity origin for 2014 and the growth of their status in connection with the production and acquisition of property rights on account of the obligation of the current year,

- 3) the decline in inventory (by 23.3%) as a result of the partial liquidation of coal reserves due to the increased demand of customers of TAURON Capital Group, lower coal production by TAURON Wydobycie and increased consumption by companies of the Generation Segment, in connection with the growth in electricity production.

The value of tangible fixed assets and disposable assets classified as held for sale, results from the separation of wind farms from TAURON EKOENERGIA structures, in connection with the change of presentation in the statement of financial situation, and in relation to the end of 2014, it has not changed.

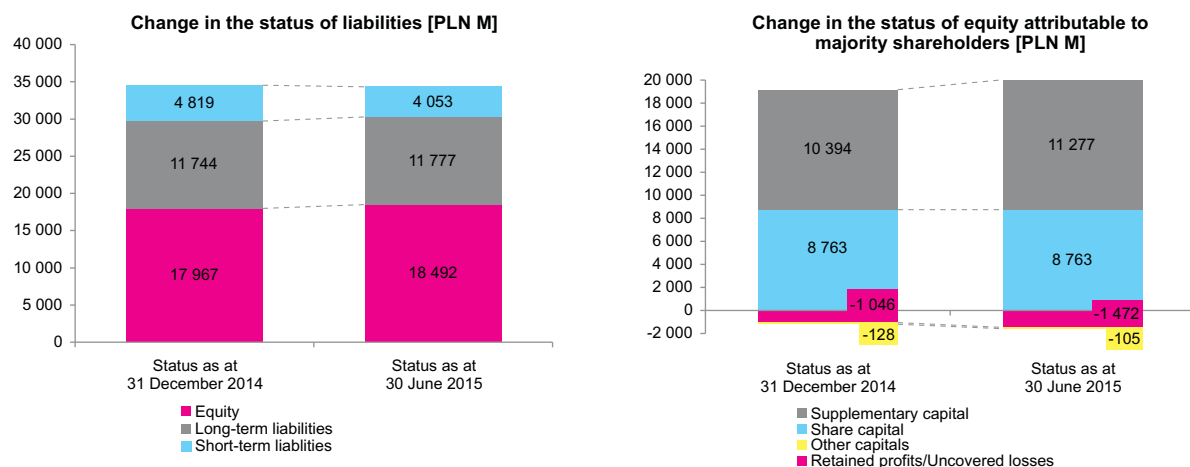
In the table below, the annual consolidated statement of financial situation – liabilities, is presented.

**Table no. 15. Interim condensed consolidated statement on financial situation – liabilities (data in thousand PLN)**

Statement of financial situation	Status as at 30 June 2015 (unaudited)	Status as at 31 December 2014	Dynamics (2015/2014)
<b>LIABILITIES</b>			
<b>Equity attributable to shareholders of the parent company</b>	<b>18,462,754</b>	<b>17,966,448</b>	<b>102.8%</b>
Share capital	8,762,747	8,762,747	100.0%
Supplementary capital	11,277,247	10,393,686	108.5%
Hedging instruments revaluation reserve	(103,630)	(143,019)	72.5%
Currency exchange differences due to translation of foreign units	(1,358)	(1,386)	98.1%
Retained profits/Uncovered losses	(1,472,252)	(1,045,580)	140.8%
<b>Non-controlling shares</b>	<b>29,040</b>	<b>30,116</b>	<b>96.4%</b>
<b>Total equity</b>	<b>18,491,794</b>	<b>17,996,564</b>	<b>102.8%</b>
<b>Long-term liabilities</b>	<b>11,777,452</b>	<b>11,744,092</b>	<b>100.3%</b>
Loans, credits and debt securities	7,367,670	7,422,332	99.3%
Liabilities due to financial leasing	39,652	46,443	85.4%
Trade liabilities and other financial liabilities	64,058	48,986	130.8%
Derivatives	93,800	93,501	100.3%
Provisions for employee benefits	1,940,365	1,948,323	99.6%
Other provisions	166,795	165,278	100.9%
Accruals and governmental subsidies	643,584	662,072	97.2%
Liabilities due to deferred income tax	1,461,528	1,357,157	107.7%
<b>Short-term liabilities</b>	<b>4,052,828</b>	<b>4,818,537</b>	<b>84.1%</b>
Current portion of interest-bearing credits, loans and debt securities	513,116	631,530	81.2%
Current part of liabilities due to financial leasing	13,114	13,461	97.4%
Trade liabilities and other liabilities	1,702,823	1,866,865	91.2%
Derivatives	98,289	102,615	95.8%
Provisions for employee benefits	128,598	158,954	80.9%
Other provisions	611,345	1,081,415	56.5%
Accruals and governmental subsidies	293,190	245,520	119.4%
Liabilities due to income tax	1,312	13,518	9.7%
Other non-financial liabilities	606,884	619,689	97.9%
Liabilities of the group for disposal, classified as held for trade	84,157	84,970	99.0%
<b>Total liabilities</b>	<b>15,830,280</b>	<b>16,562,629</b>	<b>95.6%</b>
<b>TOTAL LIABILITIES</b>	<b>34,322,074</b>	<b>34,559,193</b>	<b>99.3%</b>

The figure below shows the change in the status of assets and equity as at 30 June 2015 and 31 December 2014.

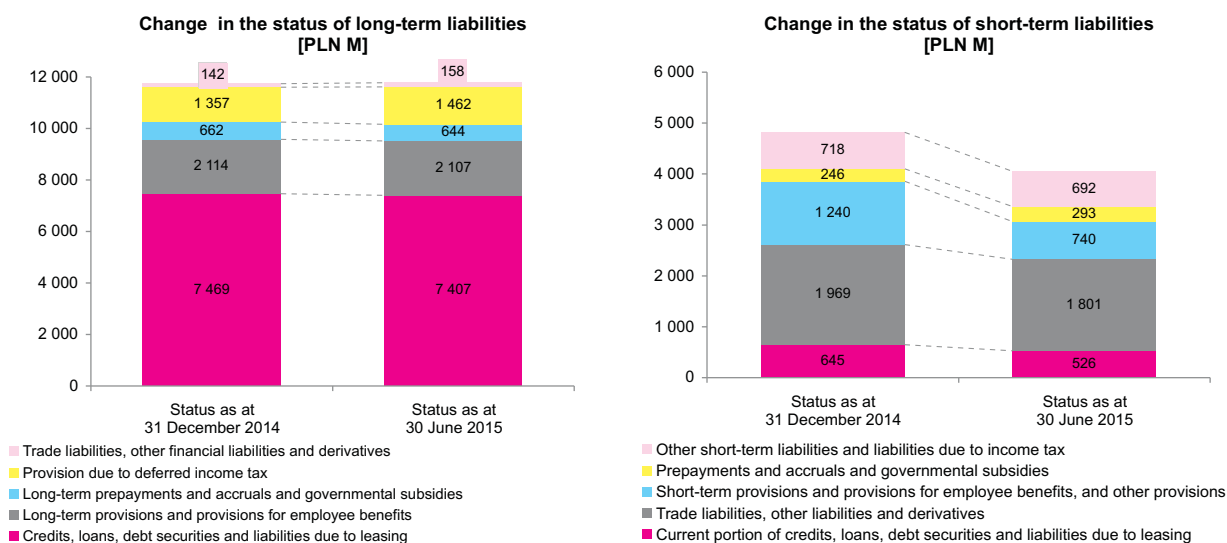
**Figure no. 21. Change in the status of liabilities and equity**



Similar to previous years, the equity is still the dominating source of financing of the assets, and its share in the balance sheet total increased to 53.9%.

The figure below shows the change in the status of assets and liabilities as at 30 June 2015 and 31 December 2014.

**Figure no. 22. Change in the status of liabilities**



The value of long-term liabilities of TAURON Capital Group in the 1st half of 2015 has not changed significantly, and the values of the analytical items reached levels similar to those recorded as at 31 December 2014. The only change to be emphasised is the slight decline in financial liabilities by 0.8%.

The value of short-term liabilities of TAURON Capital Group decreased by 15.9%, due to the following factors:

- 1) decline in the status of other provisions by approximately 43%, which results from the use of the provision (created in 2014), combined with the creation of the provision for the fulfilment of the obligation to submit electricity certificates of origin for redemption, for the period from January to June 2015, arising from the provisions of the Energy Law,
- 2) decline in trade liabilities and other liabilities by 8.8%,
- 3) reduction of financial liabilities by 18.4%, arising from their current repayment,
- 4) growth in prepayments and accruals and governmental subsidies by 19.4%, which results from the growth in provisions due to unused holiday leaves, bonuses and environmental protection fees.

#### 4.4. Cash Flows

In the table below, the interim condensed statement of cash flows is presented, for the 1st half of 2015, in relation to the 1st half of 2014.

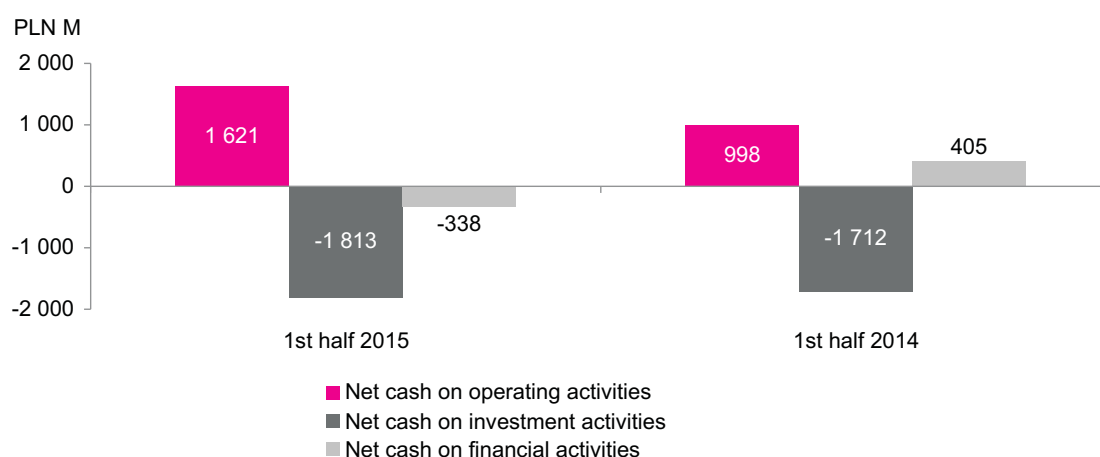
**Table no. 16. Interim Statement of Cash Flows (data in thousand PLN)**

Statement of Cash Flows	1st half of the year ended on 30 June 2015	1st half of the year ended on 30 June 2014
<b>Cash flows from operating activities</b>		
Gross profit/(loss)	858,803	925,543
Adjustments	762,257	72,130
<b>Net cash from operating activities</b>	<b>1,621,060</b>	<b>997,673</b>
<b>Cash flows from investment activities</b>		
Sales of tangible fixed assets and intangible assets	19,379	30,295
Purchase of tangible fixed assets and intangible assets	(1,850,110)	(1,850,014)
Sales of financial assets	23,649	1,272
Purchase of financial assets	(21,734)	(4,400)
Dividend received	3,585	2,096
Interest received	5,620	469
Repayment of loans granted	14,500	5,850
Loans granted	(8,150)	(5,850)
<b>Cash flows from investment activities</b>	<b>(1,850,261)</b>	<b>(1,850,282)</b>
<b>Cash flows from financial activities</b>		
Repayment of liabilities due to financial leasing	(7,716)	(9,899)
Repayment of loans/credits	(44,739)	(60,708)
Issue of debt securities	0	1,000,000
Redemption of debt securities	(150,000)	(300,000)
Dividends paid to non-controlling shareholders	(1,821)	(990)
Interest paid	(135,386)	(136,960)
Purchase of non-controlling shares	(140)	(125,227)
Subsidies received	7,696	43,322
Commissions paid	(5,464)	(4,667)
<b>Net cash from financial activities</b>	<b>(337,570)</b>	<b>404,871</b>
<b>Increase/(decrease) in net cash and equivalents</b>	<b>(529,771)</b>	<b>(309,738)</b>
Net exchange differences	314	60
<b>Cash opening balance</b>	<b>1,408,071</b>	<b>541,148</b>
<b>Cash closing balance</b>	<b>878,300</b>	<b>231,410</b>

The total amount of all cash streams of net flows of cash from operating, investment and financial activities in the 1st half of 2015 reached approximately PLN (529.8) million.

The figure below presents cash flows in the period of the 1st half of 2015 and 2014.

**Figure no. 23. Cash flows in the 1st half of 2015 and 2014**



The value of cash flows on operating activities accomplished in the reporting period was lower by approximately 62% than the cash stream acquired in the corresponding period of the previous year. The following factors had the most noticeable impact on the change in this position of cash flows account:

- 1) incurring expenses for the purchase of electricity certificates of origin, lower by approximately PLN 198 million in the 1st half of 2015, which is associated with the delays in issuance of certificates of origin by the ERO President in 2013, and the accumulation of the implementation of deliveries in the 1st quarter of 2014,
- 2) contribution of the substitution fee in the 2nd quarter of 2015, due to the fulfilment of the obligation for 2014, in the amount higher by PLN 62 million than in the corresponding period of 2014,
- 3) purchase of CO<sub>2</sub> emission allowances in the 1st half of 2015 for the amount of PLN 98 million, which did not take place in the corresponding period of the current year,
- 4) expenditure on income tax, lower by approximately PLN 125 million, which resulted from the surplus generated as at 31 March 2014 due to the settlement of the PGK and the resulting liability as at the balance sheet day of 2015,
- 5) liquidation and consumption of some part of coal stocks by companies of the Mining and Generation Areas, which results in the positive change of the status of inventory by approximately PLN 90 million,
- 6) positive change in the balance of receivables and liabilities resulting in the positive cash flow stream in the net amount of PLN 167 million.

Expenditures due to the purchase of tangible fixed assets represented the factor with the highest impact on the development of cash stream of investment nature, which were higher by 6% than the expenditures incurred in the corresponding period of 2014. In the current period, the highest expenditures were incurred by the Generation and Distribution Segments.

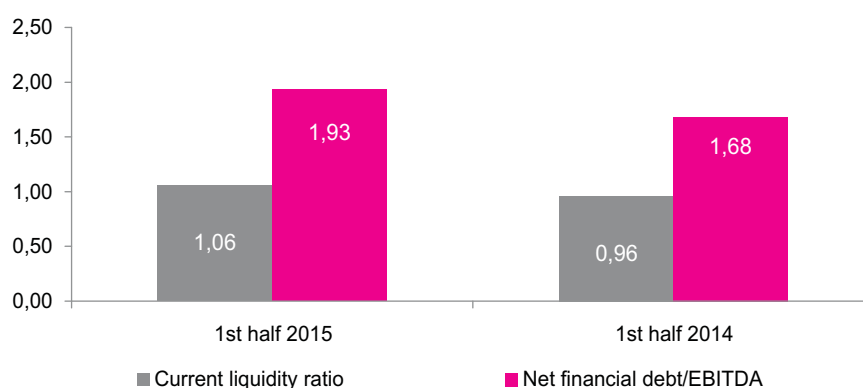
The negative value of cash of financial nature arises from the repayments of financial liabilities executed in the reporting period, through redemption of debt securities and the repayment of loans drawn. In the 1st half of 2015, TAURON Capital Group did not acquire any additional external financing.

Irrespective of the negative value of cash flows it can be stated that TAURON Group continues the development process and keeps strengthening its market position. It should be stressed that the value of operating flows shows a positive balance, thus enabling TAURON Capital Group to finance its current operations independently. In the analysed period, TAURON Capital Group did not raise any external financial resources. The ratio of current liquidity and the net debt to EBITDA ratio are maintained at a safe level.

The figure below presents cash flow and debt ratio in the period of the 1st half of 2015 and 2014.



Figure no. 24. Liquidity and debt ratios



TAURON Capital Group effectively manages cash flows, using the centrally implemented model of financing and the central policy of financial risk management. In order to minimise the potential disturbances in cash flows and the risk of liquidity loss, TAURON Capital Group uses the *cash pooling* mechanism. Currently TAURON Capital Group uses various sources of funding, such as, for example, overdraft, bank facilities, loans from environmental funds, issue of bonds, financial leasing contracts and lease contracts with the purchase option.

#### 4.5. Position of the Management Board concerning a possibility to implement forecasts of results for a given year, published earlier

TAURON Capital Group did not publish any forecasts of financial results for 2015. The financial situation of TAURON Capital Group is stable and no negative events occurred which would cause any threat to its business continuity or significant deterioration of its financial standing.

The detailed description concerning the financial situation understood as the provision of financial resources for both the operational and the investment activity is included in this chapter 4.

## 5. SHARES AND SHAREHOLDERS

### 5.1. Structure of shareholding

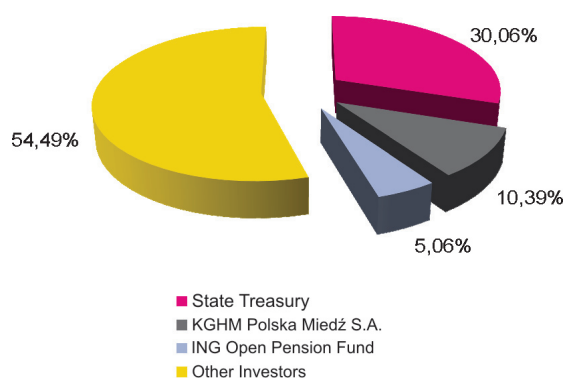
TAURON shares according to the series and type as at 30 June 2015 and as at the day of compiling this report:

**Table no. 17. TAURON shares according to the series and type**

Series/ issue	Type of shares	Number of shares	Nominal value of shares (in PLN)	Value of series/issue according to the nominal value	Method of capital coverage
AA	bearer shares	1,589,438,762	5	7,947,193,810	cash/contribution
BB	registered shares	163,110,632	5	815,553,160	contribution
<b>Total</b>		<b>1,752,549,394</b>		<b>8,762,746,970</b>	

The figure below presents the structure of the shareholding according to the status as at 30 June 2015 and on the day of this report.

**Figure no. 25. Structure of the shareholding as at 30 June 2015 and as at the day of compiling this report**



### 5.2. Shareholders holding at least 5% of the total number of votes

The table below presents shareholders holding, as at 30 June 2015 and as at the day of compiling this report, directly or indirectly, large blocks of shares of the Company.

**Table no. 18. Shareholders holding large blocks of shares, directly or indirectly**

No.	Shareholders	Number of shares held	Percentage share in share capital	Number of votes held	Percentage share in general number of votes
1.	State Treasury*	526,848,384	30.06%	526,848,384	30.06%
2.	KGHM Polska Miedź S.A.**	182,110,566	10.39%	182,110,566	10.39%
3.	ING Open Pension Fund***	88,742,929	5.06%	88,742,929	5.06%

\* In accordance with the shareholder's notification of 28.02.2013.

\*\* In accordance with the shareholder's notification of 23 March 2011.

\*\*\* In accordance with the shareholder's notification of 28 December 2011.

Since the day of submission of the previous periodical report, i.e. from 14 May 2015, until the date of publication of this report, the Company has not received any notifications from shareholders concerning changes in proprietary structure of significant blocks of shares of TAURON.

### 5.3. Specification of the status of shares held by the members of the management and supervisory bodies

The table below presents the status of the Company shares or authorisations to the Company shares, held by persons managing the Company as at the date of compiling this report, indicating changes in the shareholding status in the period following the submission of the previous report.

**Table no. 19. Proprietary status of the Company shares – managing persons**

No.	Name and surname	Number of shares as at 14 May 2015 (publication of the report for the 1st quarter 2015)	Change in number of shares held	Number of shares as at the date of the report
1.	Dariusz Lubera	6,576	no change	6,576
2.	Aleksander Grad	0	no change	0
3.	Katarzyna Rozenfeld	0	no change	0
4.	Stanisław Tokarski	30,000	no change	30,000
5.	Krzysztof Zawadzki	27,337	no change	27,337

*no change – lack of any changes*

Members of the Supervisory Board: Maciej Koński, Leszek Kozirowski, Jacek Szyke and Maciej Tybura, in the period from the submission of the previous report until completion of this report, did not hold shares of the Company or authorisations to the Company shares.

Members of the Supervisory Board: Grzegorz Barszcz, Beata Chłodzińska, Piotr Ciach, Katarzyna Kosińska and Jarosław Zagórowski, appointed to the Supervisory Board of the fourth joint term of office as of 12 August 2015 as of the date of this report did not hold shares of the Company or authorizations to the Company shares.

## 6. INFORMATION CONCERNING THE PARENT ENTITY

### 6.1. Composition of the Management Board and the Supervisory Board

#### 6.1.1. Management Board

The current, fourth term of office of the Management Board began to run on 17 March 2014. In accordance with the Company Articles of Association it is the common term of office lasting three years.

#### Personal composition of the Management Board as at 30 June 2015 and as at the day of compiling this report

1. Dariusz Lubera – President of the Management Board, responsible for the Division of the President of the Management Board
2. Aleksander Grad – Vice President of the Board responsible for the Division of the Vice-President of the Board for Corporate Affairs,
3. Katarzyna Rozenfeld – Vice President of the Board responsible for the Division of the Vice-President of the Board, Chief Commercial Officer,
4. Stanisław Tokarski – Vice President of the Board responsible for the Division of the Vice-President of the Board for Strategy and Development,
5. Krzysztof Zawadzki – Vice President of the Board responsible for the Division of the Vice-President of the Board for Economics and Finance.

#### Changes in the Management Board composition:

In the 1st half of 2015 and until the day of submission of this report, no changes in the composition of the Management Board occurred.

#### Experience and competences of members of the Management Board

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#### ***Dariusz Lubera – President of the Board***

Background: Electrician, MSc Eng. Graduate of AGH University of Science and Technology in Kraków and University of Economics in Kraków.

Acting as the President of the Management Board of TAURON Polska Energia S.A. since 8 March 2008. Currently supervises performance of the following business units: corporate bodies, legal department, HR, management of information resources, internal audit, market communication and PR, risk management, Health & Safety Issues and Protection of Classified Information.



#### ***Aleksander Grad – Vice President of the Management Board***

Graduate of Industrial Surveying Faculty at AGH University of Science and Technology in Kraków. Acted as the Undersecretary of State at the Ministry of Health and the Minister of Treasury. Member of Parliament of the 4th, 5th, 6th and 7th term. Among others, acted in the capacity of the Vice Chairman of the Commission on the European Union, Vice Chairman and Chairman of the Commission on State Treasury.

Acting as the Vice President of the Management Board of TAURON Polska Energia S.A. since 17 March 2014. Currently supervises the performance of the following business units: procurement department, corporate governance and reorganisation.



#### ***Katarzyna Rozenfeld – Vice President of the Management Board***

Graduated in economics at the Foreign Trade Faculty of Łódź University and the Catholic University of Nijmegen in the Netherlands. She also completed a training course for investment advisers.

Acting as the Vice President of the Management Board of TAURON Polska Energia S.A. since 17 March 2014. Currently supervises the performance of the following business units: trade, market operator and trade service, portfolio management, fuels and analyses.



**Stanisław Tokarski – Vice President of the Management Board**

Graduate of the Faculty of Electrical Engineering, Automatics and Electronics of the AGH University of Science and Technology in Kraków. Completed also a number of post-graduate studies, including, among others, in the field of nuclear energy in modern power engineering industry at the AGH University of Science and Technology in Kraków, in the field of the European Union legislation at Jagiellonian University and in the field of management in Warsaw School of Economics. In 2014 he obtained the title of doctor of technical sciences.

Acting as the Vice President of the Management Board of TAURON Polska Energia S.A. since 17 March 2014. Currently supervises performance of the following business units: development strategies, strategic projects, regulations and external funds as well as investment effectiveness.



**Krzysztof Zawadzki – Vice President of the Management Board**

Background: economist. Graduate of University of Economics in Katowice and PhD Studies at the University of Economics in Kraków. Postgraduate studies, inter alia, in international financial reporting standards, European standards in accountancy and finance and taxes. He is a certified auditor.

Acting as the Vice President of the Management Board of TAURON Polska Energia S.A. since 21 August 2009. Currently supervises performance of the following business units: accounting and taxes, financial management and controlling.

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The detailed description of experience and competences of Management Board members is published on the Company website <http://www.tauron.pl/>.

### 6.1.2. Supervisory Board

The current, fourth term of office of the Supervisory Board began to run on 15 May 2014. In accordance with the Company Articles of Association it is the common term of office lasting three years.

**Personal composition of the Supervisory Board as of 30 June 2015 and on the day of this report:**

1. Antoni Tajduś – Chairman of the Supervisory Board,
2. Agnieszka Woś – Vice Chairperson of the Supervisory Board,
3. Jacek Szyke – Secretary of the Supervisory Board,
4. Andrzej Gorgol – Member of the Supervisory Board,
5. Maciej Koński – Member of the Supervisory Board,
6. Leszek Koziorowski – Member of the Supervisory Board,
7. Michał Michalewski – Member of the Supervisory Board,
8. Marek Ściążko – Member of the Supervisory Board,
9. Maciej Tybura – Member of the Supervisory Board.

**Changes in the Supervisory Board composition**

In the 1st half of 2015 no changes in the composition of the Supervisory Board occurred.

On 7 August 2015 at 11:38 a.m. CET the Company was notified that the State Treasury dismissed Mr. Marek Ściążko, the Member of the Supervisory Board, from the Supervisory Board of TAURON The dismissal took place as of 7 August 2015 pursuant to § 23 section 1 item 3 of the Company Articles of Association.

On 7 August 2015 at 3.55 p.m. CET the Company received the declaration of Mr Antoni Tajduś on his resignation from the function of the Member of the Company Supervisory Board, effective as of 7 August 2015, including the position of the Chairman of the Supervisory Board.

On 12 August 2015 the Company was informed of dismissing the following persons from the TAURON Supervisory Board by the State Treasury: Agnieszka Woś, who simultaneously acted in the capacity of the Vice Chairperson of the Supervisory Board, Andrzej Gorgol and Michał Michalewski. The dismissal took place as of 12 August 2015 pursuant to § 23 item 1 (3) of the Company Articles of Association.

On 12 August 2015 the Company received notifications, pursuant to which the Minister of Treasury, acting under § 23 item 1 (1) and (3) of the Company Articles of Association, appointed the following persons as members of the Supervisory Board of the Company of the 4<sup>th</sup> common term as of 12 August 2015: Grzegorz Barszcz, Beata Chłodzińska, Piotr Ciach, Katarzyna Kosińska and Jarosław Zagórowski.

Until the day of submission of this report, no other changes in the composition of the Supervisory Board have taken place.

**Personal composition of the Supervisory Board as of the day of this report:**

1. Jacek Szyke – Secretary of the Supervisory Board,
2. Grzegorz Barszcz – Member of the Supervisory Board,
3. Beata Chłodzińska – Member of the Supervisory Board,
4. Piotr Ciach – Member of the Supervisory Board,
5. Maciej Koński – Member of the Supervisory Board,
6. Katarzyna Kosińska – Member of the Supervisory Board,
7. Leszek Koziorowski – Member of the Supervisory Board,
8. Maciej Tybura – Member of the Supervisory Board,
9. Jarosław Zagórowski – Member of the Supervisory Board.

**Experience and competences of members of the Supervisory Board**

***Jacek Szyke – Secretary of the Supervisory Board***

Graduate of the Faculty of Economics at Łódź University and Electric Faculty of University of Technology in Poznań, where he also obtained PhD in technical sciences.

Appointed to the Supervisory Board of TAURON Polska Energia S.A. as of 14 September 2010. Currently acting in the capacity of the Secretary of the Supervisory Board and the Member of the Audit Committee of the Supervisory Board.

***Grzegorz Barszcz – Member of the Supervisory Board***

Graduate of the Faculty of Organisation and Management at University of Warsaw.

Appointed to the Supervisory Board of TAURON Polska Energia S.A. as of 12 August 2015.

***Beata Chłodzińska – Member of the Supervisory Board***

Graduate of the Faculty of Law and Administration at University of Warsaw. She is a certified legal counsel.

Appointed to the Supervisory Board of TAURON Polska Energia S.A. as of 12 August 2015.

***Piotr Ciach – Member of the Supervisory Board***

Graduate of the Faculty of Law at Maria Skłodowska-Curie University in Lublin. He completed MBA studies.

Appointed to the Supervisory Board of TAURON Polska Energia S.A. as of 12 August 2015.

***Maciej Koński – Member of the Supervisory Board***

Graduate of Warsaw School of Economics, faculty of Finance and Banking. In 2014 he obtained the title of doctor of technical sciences at Wrocław University of Technology.

Appointed to the Supervisory Board of TAURON Polska Energia S.A. as of 1 September 2014. Currently acting as the member of the Strategy Committee of the Supervisory Board.

***Katarzyna Kosińska – Member of the Supervisory Board***

Graduate of the Faculty of Law at University of Białystok.

Appointed to the Supervisory Board of TAURON Polska Energia S.A. as of 12 August 2015.

**Leszek Kozirowski – Member of the Supervisory Board**

Graduate of Faculty of Law and Administration at University of Warsaw, Legal Counsel in the Regional Chamber of Attorneys in Warsaw.

Appointed as the member of the Supervisory Board of TAURON Polska Energia S.A. as of 14 September 2010, he acted as the member of the Supervisory Board in the period until 15 May 2014, i.e. the day of termination of the 3rd common term of the Supervisory Board. In the aforementioned period he acted as the secretary of the Supervisory Board and member of the Audit Committee of the Supervisory Board. Re-elected to the Supervisory Board as of 1 September 2014. Currently acting as the member of the Committee on Nominations and Remunerations of the Supervisory Board.

**Maciej Tybura – Member of the Supervisory Board**

A graduate of University of Economics in Poznań, faculty of Enterprise Finance and Accounting.

Appointed to the Supervisory Board of TAURON Polska Energia S.A. as of 1 September 2014. Currently acting as the member of the Audit Committee of the Supervisory Board.

**Jarosław Zagórowski – Member of the Supervisory Board**

Graduate of University of Technology on Gliwice, speciality: machine technology. In 2014 completed PhD studies at AGH University of Science and Technology in Kraków.

Appointed to the Supervisory Board of TAURON Polska Energia S.A. as of 12 August 2015

The detailed description of experience and competences of the Supervisory Members is published on the Company website <http://www.tauron.pl/>.

## **6.2. Subject and scope of conducted business operations**

The core business of TAURON comprises:

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

As the parent entity TAURON fulfils the consolidating and governing function in TAURON Capital Group.

The basic operations of the Company, besides managing TAURON Capital Group, include trading in wholesale electricity on the territory of the Republic of Poland, based on the concession on trading in electricity issued by the ERO President for the period from 1 June 2008 until 31 May 2018.

As a result of implementation of the business model and centralisation of functions, TAURON concentrated many competences related to the functioning of companies of TAURON Capital Group and currently it carries out operations, among others, in the following areas:

- 1) wholesale trading in electricity and related products, in particular, in the scope of commercial service provided to companies, securing the needs in the area of fuels, CO<sub>2</sub> emission allowances and certificates of energy origin,
- 2) procurement management,
- 3) financial management,
- 4) management of IT model functioning,
- 5) advisory services in the scope of accounting and taxes,
- 6) legal service,
- 7) audit.

The above functions are gradually limited in the companies of TAURON Capital Group. Such centralisation is aimed at improvement of effectiveness in TAURON Capital Group.

The Company has focused on the purchase and sales of electricity for the needs of securing the purchase and sales positions of entities included in TAURON Capital Group and on wholesale trading in electricity. Sales of electricity performed by the Company in the financial year 2015 was mainly oriented to the following companies: TAURON Sprzedaż and TAURON Sprzedaż GZE.



The competence of the Company also involves management of certificates of origin for the needs of the TAURON Capital Group, representing the confirmation of electricity generation in renewable sources, in high-performance co-generation, in gas-fired co-generation, in mining methane-fired or biomass burning co-generation, from sources using agricultural biogas.

The Company also acts as the competence centre in the area of management and trade of CO<sub>2</sub> emission allowances for the companies of the TAURON Capital Group. Due to centralisation of emission trading, the synergy effect was obtained, consisting in optimisation of available resources of the entities included in TAURON Capital Group. Along the centralisation of this function in TAURON, the Company is responsible for settlements of CO<sub>2</sub> emission allowances, securing of emission demand of the subsidiaries, taking into consideration the allowances allocated and the support in the process of acquisition of allowances limits for the following periods. While implementing the aforementioned goals, the Company is the active participant of trade of CO<sub>2</sub> emission allowances.

In addition, TAURON also acts as the Market Operator and the Entity responsible for trade balancing for companies of TAURON Capital Group and for external customers in the scope of electricity. The function of Market Operator and the Entity responsible for trade balancing is fulfilled on the basis of the transmission Agreement of 21 June 2012 concluded with the TSO – PSE. The Company currently holds exclusive generation capacity in the trade and technical scope, it is responsible for optimisation of generation, i.e. selection of generation units for operation as well as relevant distribution of loads in order to execute the contracts concluded, taking into consideration technical conditions of the generation units, network constraints and other factors, in various horizons. Within the services provided to the Generation Area, the Company participates in preparation of repair plans, plans of available capacity as well as production plans for generation units, in various time horizons, as well as in their settlement with the relevant grid operator.

In accordance with the adopted business model, TAURON fulfils governing functions in the scope of production fuel procurement management for the needs of the generating entities included in TAURON Capital Group. Accordingly, TAURON also develops competence as the Market Operator for gas based on the transmission agreement with the Gas Transmission Operator, GAZ-SYSTEM S.A. Additionally, as of 1 July 2015 TAURON launches the first balancing group in Poland for entities trading in gas.

Since 6 February 2015 the Company has been trading new products on the ICE Futures Europe platform in London. Since that date, besides trading in CO<sub>2</sub> emission allowances and Gasoil products, TAURON has been trading products of crude oil market – Brent Crude, WTI Crude, whose valuation is associated with oil prices, and Heating Oil, measured based on heating oil quotations.

## 7. OTHER SIGNIFICANT INFORMATION AND EVENTS

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

During the reporting period no proceedings were pending before any court, competent arbitration authority or public authority body, related to the Company or subsidiaries of TAURON Capital Group, whose single or aggregate value would exceed at least 10% of the Company equity.

### 7.2. Other information significant for the evaluation of the staffing, economic, financial situation, financial result and changes thereof, as well as information which is essential for the assessment of the ability of TAURON Capital Group to fulfil the obligations

#### Obtaining free carbon dioxide emission allowances

In accordance with Directive 2003/87/EC of the European Parliament and of the Council of 13 October 2003 establishing a scheme for greenhouse gas emission allowance trading within the Community and amending Council Directive 96/61/EC, TAURON Capital Group is entitled to receive free emission allowances pursuant to Article 10c of the aforementioned Directive ("derogation allowances"), for which TAURON Capital Group submitted the application in September 2014. In April 2015 accounts of installations were supplied with free allowances for heat production for 2015 and allowances within the scope of the derogation due to electricity generation for 2014. At present, taking into account the current level of electricity and heat production, generating companies of TAURON Capital Group hold the surplus of allowances, accordingly, they do not recognise costs of coverage of the deficit in CO<sub>2</sub> emission allowances.

#### Determining of the level of substitution fees for 2015 and 2016 by the ERO President

In accordance with the *Act on the amendment to the Act on Energy Law and certain other acts*, i.e. the so-called co-generation act adopted in 2014, effective as of 30 April 2014, the support system for the high-performance coal co-generation and gas co-generation has been recovered for the years 2014–2018. It means the obligation of purchase and redemption of energy certificates of origin (the so-called "yellow" certificates for gas co-generation, and the so-called "red" certificates for coal co-generation) or payment of the substitution fee by electricity suppliers to end consumers. For "red" certificates the redemption obligation amounts to 23.2% of the volume of energy sold, whereas in case of "yellow" certificates, this obligation increases from 3.9% in 2014 to 8% in 2018, amounting to 4.9% in 2015, which should contribute to the development of co-generation sources operating based on gas fuel.

In accordance with the said Act, the ERO President defined the so-called substitution fees for 2015 and 2016 at the following level:

- 1) for the "red" certificates: PLN 11/MWh, both in 2015 and in 2016,;
- 2) for the "yellow" certificates: PLN 121.63/MWh in 2015 and PLN 125.00/MWh in 2016,
- 3) for the "violet" certificates: PLN 63.26/MWh in 2015 and PLN 63.00/MWh in 2016.

The level of the substitution fees for the consecutive years will be defined by the ERO President according to the following rules:

- 1) in case of coal-fired co-generation, the level of the substitution fee, which represents the benchmark for the prices in the system of certificates, may not have a value lower than 5% and higher than 40% of the average price of electricity sales on the competitive market in the preceding year,
- 2) in case of gas-fired co-generation, the level of the substitution fee, may not be lower than 15% and higher than 110% of the average price of electricity sales on the competitive market.

The Act grants broad powers to the ERO President in the scope of developing the level of the substitution fee.

It will be possible to redeem the certificates originating from production in co-generation in individual years only within the settlement for a given year, i.e. until June of the consecutive year, which is a significant difference in relation to the previously operating mechanisms, when the possibility of "banking" the certificates of the previous years led to the disturbance of the balance between supply and demand and the instability of certificate price.

The amendment to the aforementioned Act, recovering the system of support for sources generating energy in high-performance co-generation, as well as the announcement by the ERO President of unit substitution fees for co-generation, applicable in 2015, directly affects the development of TAURON Capital Group results in the perspective until the end of 2015. As a consequence of the legislative changes, costs of electricity for consumers buying energy for own purposes are additionally charged with the cost of purchase of the relevant certificates

and their submission for redemption to the ERO President. The increased costs of electricity purchase for the needs of such consumers have not been included as justified costs in the Tariff applicable for electricity. Accordingly, in relation to the corresponding period of the previous year, when the co-generation Act did not apply, operating costs of the Sales Area will increase, on the other hand, in the Generation Area revenues due to the sales of “red” and “yellow” certificates will be generated, i.e. property rights confirming production of electricity in high-performance co-generation.

### **Central Billing System**

In the 1st half of 2015 a project aimed at implementation of the Central Billing System for mass clients in TAURON Capital Group was carried out. Currently, this system provides services to over 5 million clients of TAURON. It is one of the biggest settlement bases in the Polish energy sector. The new system has taken over tasks so far executed in 12 various billing systems. Approximately 5.4 million mass clients are currently settled using this system. The main purpose of the centralisation of several dozen billing systems for customer service was the need to harmonise the customer service processes. Accordingly, it was also possible to reduce the maintenance costs of the system significantly, and consequently, costs of the overall customer service process.

### **Concluding the agreement with TGE for acting in the capacity of a market maker**

On 30 January 2015 TAURON concluded the agreement with TGE for acting in the capacity of a market maker in the scope of instruments for electricity at the forward market (RTT). The aim of the cooperation is to increase the liquidity of animated instruments and to intensify the cooperation between TGE and TAURON.

The role of the so-called market maker is to ensure maintaining of trading liquidity and to increase the number of transactions concluded at the TGE. The effect of such an activity is to enable the execution of purchase and sales orders at market prices by market participants. Through the fulfilment of the market maker function at TGE, TAURON obtains preferential rates for transaction fees and, additionally, through increasing the share of transactions, the Company gains additional discounts on transaction fees in the general trade.

The above arrangement was supplemented by signing the Agreement with the Clearing House of Commodity Exchanges concerning the level of fees for the market maker. This Agreement introduces discounted rates for the market maker and it was signed by TAURON on 28 April 2015.

**Management Board of the Company**

Katowice, 18 August 2015

Dariusz Lubera – President of the Board .....

Aleksander Grad – Vice President of the Board .....

Katarzyna Rozenfeld – Vice President of the Board .....

Stanisław Tokarski – Vice President of the Board .....

Krzysztof Zawadzki – Vice President of the Board .....

## Appendix A: GLOSSARY OF TERMS AND LIST OF ABBREVIATIONS

Below the glossary of industry terms and the list of abbreviations most commonly used in this report, is presented.

**Table no. 20. Explanation of abbreviations and trade terms applied in the text of the report**

No.	Abbreviation and trade term	Full name/explanation
1.	Biomasa GT	Biomasa Grupa TAURON sp. z o.o. with the seat in Stalowa Wola
2.	Cash pooling	Cash pooling operating in the Company – consolidation of balances of bank accounts through physical cross-posting of cash from accounts of TAURON Capital Group in the bank in which cash pooling operates to the bank account of Pool Leader whose function is fulfilled by the Company. At the end of each working day, from cash is cross-posted from the bank accounts of companies of TAURON Capital Group which show positive balance to the bank account of Pool Leader. At the beginning of each working day, bank accounts of companies of TAURON Capital Group are credited from the bank account of the Pool Leader with the amount demanded to maintain cash flow of the company of TAURON Capital Group on a given working day.
3.	Colour certificates	Property rights resulting from certificates of origin of energy generated in the way subject to support, the so-called colour certificates: 1) “green” – certificates of origin of electricity from RES, 2) “violet” – certificates of origin of electricity generated in co-generation, burning methane released and captured during underground mining works in active, under liquidation or liquidated hard coal mines, or burning gas acquired from biomass processing, 3) “red” – certificates of origin of electricity from co-generation (CHP certificates – Combined Heat and Power), 4) “yellow” – certificates of origin of electricity generated in co-generation from gas-fired sources with the total installed capacity below 1 MW, 5) “white” – certificates confirming gaining of energy savings within the meaning of the Act of energy efficiency.
4.	EBIT	(Earnings Before Interest and Taxes) result on operating activity before taxing
5.	EBITDA	(Earnings before Interest, Taxes, Depreciation and Amortization) result on operating activity before taxing, increased by amortization and depreciation
6.	Elektrownia Blachownia Nowa	Elektrownia Blachownia Nowa sp. z o.o. with the seat in Kędzierzyn Koźle
7.	ENEA	ENEA S.A. with the seat in Poznań
8.	Energopower	Energopower sp. z o.o. with the seat in Stalowa Wola
9.	ERM	Complex System of Enterprise Risk Management
10.	EU ETS	(European Union Emission Trading System) the European system of CO <sub>2</sub> emission allowances trading
11.	EUA	(European Union Allowances) – allowance to introduce the equivalent carbon dioxide (CO <sub>2</sub> ) to the air, within the meaning of article 2 item 4 of the <i>Act of 17 July 2009 on the management system of emissions of greenhouse gases and other substances</i> , used for settlements of emission level within the system, which can be managed based on the rules defined in the <i>Act of 28 April 2011 on the system of greenhouse gases emission allowances trading (Journal of Laws No. 122, item 695)</i>
12.	EUR	Euro – a common European currency introduced in some EU Member States
13.	FITCH	FITCH rating agency
14.	TAURON Capital Group	TAURON Polska Energia S.A. Capital Group
15.	“TAURON Group”	TAURON Group established by the Management of the Company pursuant to the <i>Code of TAURON Group</i> , comprising the Company and selected companies of TAURON Capital Group
16.	GW, GW <sub>e</sub> , GW <sub>t</sub> , GWh	Gigawatt, Gigawatt of electric power, Gigawatt of thermal power, Gigawatt hours
17.	GZE	Górnośląski Zakład Elektroenergetyczny
18.	KGHM	KGHM Polska Miedź S.A. with the seat in Lubin
19.	Audit Committee	Audit Committee of the Supervisory Board of TAURON Polska Energia S.A.

No.	Abbreviation and trade term	Full name/explanation
20.	Nominations and Remuneration Committee	Nominations and Remuneration Committee of the Supervisory Board of TAURON Polska Energia S.A.
21.	Strategy Committee	Strategy Committee of the Supervisory Board of TAURON Polska Energia S.A.
22.	Kompania Węglowa	Kompania Węglowa S.A. with the seat in Katowice
23.	Ksh	Code of Commercial Companies
24.	KSE	National Power System
25.	KW Czatkowice	Kopalnia Wapienia Czatkowice sp. z o.o. with the seat in Krzeszowice
26.	KWK Brzeszcze	“Brzeszcze” Coal Mine with the seat in Brzeszcze
27.	Łagisza GT	Łagisza Grupa TAURON sp. z o.o. with the seat in Katowice
28.	Marselwind	Marselwind sp. z o.o. with the seat in Katowice
29.	Mg	Megagram – million gram (1,000,000 g) i.e. a tonne
30.	MSR	(Market Stability Reserve) stabilisation reserve on the market of allowances
31.	MW, MW <sub>e</sub> , MW <sub>t</sub> , MWh	Megawatt, Megawatt of electric power, Megawatt of thermal power, Megawatt hours
32.	Business Area	Area of operations of subsidiaries included in TAURON Group, determined by the Company, constituting the business segment of TAURON Group
33.	Governance Area	Governance Area indicated in the List of Governance Areas, i.e. the document issued by the Management Board of the Company, pursuant to the <i>Code of TAURON Group</i> , established based on Corporate Strategy and included in the business model of TAURON Group
34.	OPR	Operating Power Reserve
35.	DSO	Distribution System Operator
36.	TSO	Transmission System Operator
37.	RES	Renewable Energy Sources
38.	PEPKH in liquidation	Polska Energia – Pierwsza Kompania Handlowa sp. z o.o. with the seat in Tarnów, in liquidation
39.	PGE	PGE Polska Grupa Energetyczna S.A. with the seat in Warsaw
40.	PGE EJ 1	PGE EJ 1 sp. z o.o. with the seat in Warsaw
41.	PGK	Tax Capital Group
42.	PIR	Polskie Inwestycje Rozwojowe S.A. with the seat in Warsaw
43.	GDP	Gross Domestic Product
44.	PMEC	Property rights for certificates of origin confirming generation of electricity in other co-generation sources
45.	PMGM	Property rights for certificates of origin confirming generation of electricity in co-generation, from gas-fired sources or sources with the total installed capacity below 1 MW
46.	PMMET	Property rights for certificates of origin confirming generation of electricity in co-generation, burning methane released and captured during underground mining works in active, under liquidation or liquidated hard coal mines, or burning gas acquired from biomass processing
47.	PMOZE	Property rights for certificates of origin confirming generation of electricity in RES in the period before 1 March 2009
48.	PMOZE_A	Property rights for certificates of origin confirming generation of electricity in RES in the period after 1 March 2009
49.	PSE	Polskie Sieci Elektroenergetyczne S.A. with the seat in Konstancin-Jeziorna
50.	RB	Balancing Market
51.	RDN/RDNg	Day Ahead Market
52.	RTT	Commodity Forward Market

No.	Abbreviation and trade term	Full name/explanation
53.	SPOT (SPOT Market)	In relation to electricity, it is the place of concluding of trade transactions for electricity, for which the period of delivery falls at the latest, three days after the date of transaction (usually one day before the date of delivery). Functioning of SPOT market for electricity is strongly linked with RB operating provided by the TSO
54.	Company	TAURON Polska Energia S.A. with the seat in Katowice
55.	SRK	Spółka Restrukturyzacji Kopalń S.A. (Coal Mine Restructuring Company, Joint Stock Company) with the seat in Bytom
56.	Corporate Strategy	The document entitled: <i>Corporate Strategy of TAURON Group for 2014–2017 with an outlook until 2023.</i>
57.	TAMEH Czech	TAURON Czech s.r.o. with the seat in Ostrava, Czech Republic
58.	TAMEH HOLDING	TAMEH HOLDING sp. z o.o. with the seat in Dąbrowa Górnicza
59.	TAMEH POLSKA	TAMEH POLSKA sp. z o.o. with the seat in Dąbrowa Górnicza
60.	TAURON	TAURON Polska Energia S.A. with the seat in Katowice
61.	TAURON Ciepło	TAURON Ciepło sp. z o.o. with the seat in Katowice
62.	TAURON Czech Energy	TAURON Czech Energy s.r.o. with the seat in Ostrava, Czech Republic
63.	TAURON Dystrybucja	TAURON Dystrybucja S.A. with the seat in Kraków
64.	TAURON Dystrybucja Pomiary	TAURON Dystrybucja Pomiary sp. z o.o. with the seat in Tarnów
65.	TAURON Dystrybucja Serwis	TAURON Dystrybucja Serwis S.A. with the seat in Wrocław
66.	TAURON EKOENERGIA	TAURON EKOENERGIA sp. z o.o. with the seat in Jelenia Góra
67.	TAURON Obsługa Klienta	TAURON Obsługa Klienta sp. z o.o. with the seat in Wrocław
68.	TAURON Sprzedaż	TAURON Sprzedaż sp. z o.o. with the seat in Kraków
69.	TAURON Sprzedaż GZE	TAURON Sprzedaż GZE sp. z o.o. with the seat in Gliwice
70.	TAURON Sweden Energy	TAURON Sweden Energy AB (publ) with the seat in Stockholm, Sweden
71.	TAURON Wydobywanie	TAURON Wydobywanie S.A. with the seat in Jaworzno
72.	TAURON Wytwarzanie	TAURON Wytwarzanie S.A. with the seat in Katowice
73.	TGE	Towarowa Giełda Energii S.A. (Polish Power Exchange) with the seat in Warsaw
74.	TWh	Terrawatt hour
75.	EU	the European Union
76.	OCCP	Office for Competition and Consumer Protection (Urząd Ochrony Konkurencji i Konsumentów)
77.	USD	(United States Dollar) international abbreviation of American dollar
78.	ERO	Energy Regulatory Office (Urząd Regulacji Energetyki)
79.	GM/SM	General Meeting/ Shareholders' Meeting
80.	ZG Janina	Janina Mining Plant
81.	ZG Sobieski	Sobieski Mining Plant
82.	ZW Katowice	Zakład Wytwarzania Katowice in Katowice
83.	ZW Nowa	Zakład Wytwarzania Nowa in Dąbrowa Górnicza (formerly: Elektrociepłownia EC Nowa sp. z o.o.)
84.	ZW Tychy	Zakład Wytwarzania Tychy in Tychy (formerly: Elektrociepłownia Tychy S.A.)



## Appendix B: LIST OF TABLES AND FIGURES

Below the list of tables and figures occurring in this report is provided.

### List of Tables

Table no. 1.	Key operating parameters of TAURON Capital Group . . . . .	5
Table no. 2.	Implementation status of the key strategic investment projects . . . . .	9
Table no. 3.	Volumes and structure of sales of TAURON Capital Group according to individual Business Areas . . . . .	17
Table no. 4.	EBITDA of TAURON Capital Group according to business Areas . . . . .	18
Table no. 5.	Results of Mining Area . . . . .	19
Table no. 6.	Results of the Generation Area . . . . .	20
Table no. 7.	Results of Distribution Area . . . . .	22
Table no. 8.	Results of Sales Area . . . . .	23
Table no. 9.	Results of Other Area . . . . .	25
Table no. 10.	Participants of the risk management process . . . . .	34
Table no. 11.	Description of risk factors . . . . .	36
Table no. 12.	Structure of the interim condensed consolidated statement of financial situation . . . . .	40
Table no. 13.	Interim condensed consolidated Statement of comprehensive income . . . . .	41
Table no. 14.	Interim condensed consolidated statement of financial standing – assets (data in PLN thousand) . . . . .	43
Table no. 15.	Interim condensed consolidated statement on financial situation – liabilities (data in thousand PLN) . . . . .	45
Table no. 16.	Interim Statement of Cash Flows (data in thousand PLN) . . . . .	47
Table no. 17.	TAURON shares according to the series and type . . . . .	50
Table no. 18.	Shareholders holding large blocks of shares, directly or indirectly . . . . .	50
Table no. 19.	Proprietary status of the Company shares – managing persons . . . . .	51
Table no. 20.	Explanation of abbreviations and trade terms applied in the text of the report . . . . .	60

### List of Figures

Figure no. 1.	TAURON Capital Group . . . . .	3
Figure no. 2.	Location of key assets of TAURON Capital Group . . . . .	5
Figure no. 3.	Structure of TAURON Capital Group, including companies subject to consolidation, as at 30 June 2015 . . . . .	7
Figure no. 4.	EBITDA structure of TAURON Capital Group . . . . .	19
Figure no. 5.	Financial data of the Mining Area for the 1st half of 2014 and 2015 . . . . .	20
Figure no. 6.	EBIT result of Mining Area . . . . .	20
Figure no. 7.	Financial data of the Generation Area for the 1st half of 2014 and 2015 . . . . .	21
Figure no. 8.	EBIT result of the Generation Area . . . . .	22
Figure no. 9.	Financial data of the Distribution Area for the 1st half of 2014 and 2015 . . . . .	23
Figure no. 10.	EBIT result of the Distribution Area . . . . .	23
Figure no. 11.	Financial data of the Sales Area for the 1st half of 2014 and 2015 . . . . .	24
Figure no. 12.	EBIT result of the Sales Area . . . . .	25
Figure no. 13.	Financial data of the Other Area for the 1st half of 2014 and 2015 . . . . .	26
Figure no. 14.	Average employment in TAURON Capital Group in 2014 and in the 1st half of 2015 (FTEs) . . . . .	32
Figure no. 15.	Employment in TAURON Capital Group in persons as at 31 December 2014 and 30 June 2015 (persons) . . . . .	32
Figure no. 16.	Stages in enterprise risk management in TAURON Capital Group . . . . .	33
Figure no. 17.	Financial results of TAURON Capital Group for the 1st half of 2014 and 2015 . . . . .	42
Figure no. 18.	Structure of revenues of TAURON Capital Group for the 1st half of 2014 and 2015 . . . . .	42
Figure no. 19.	Financial results of TAURON Capital Group and the level of margins accomplished . . . . .	43
Figure no. 20.	Change in the status of assets and current assets . . . . .	44
Figure no. 21.	Change in the status of liabilities and equity . . . . .	46
Figure no. 22.	Change in the status of liabilities . . . . .	46
Figure no. 23.	Cash flows in the 1st half of 2015 and 2014 . . . . .	48
Figure no. 24.	Liquidity and debt ratios . . . . .	49
Figure no. 25.	Structure of the shareholding as at 30 June 2015 and as at the day of compiling this report . . . . .	50