EXTENDED CONSOLIDATED INTERIM REPORT OF TAURON POLSKA ENERGIA S.A. CAPITAL GROUP FOR THE FIRST HALF OF 2016

KATOWICE, 17 AUGUST 2016

TAURON POLSKA ENERGIA

SELECTED FIGURES	in thousands PLN		in thousands EUR	
	2016 period from 01.01.2016 to 30.06.2016	**2015** period from 01.01.2015 to 30.06.2015 *(adjusted figures)*	**2016** period from 01.01.2016 to 30.06.2016	**2015** period from 01.01.2015 to 30.06.2015 *(adjusted figures)*
Selected consolidated figures of TAURON Polska Energia S.A. Capital Group				
Sales revenue	8 942 857	9 256 614	2 041 515	2 239 088
Operating profit	133 645	1 044 302	30 509	252 607
Profit before tax	32 675	858 803	7 459	207 736
Net profit	4 717	720 387	1 077	174 255
Net profit attributable to shareholders of the parent company	3 435	718 524	784	173 804
Net profit attributable to non-controlling interests	1 282	1 863	293	451
Other comprehensive income	48 369	40 324	11 042	9 754
Total comprehensive income	53 086	760 711	12 119	184 009
Total comprehensive income attributable to shareholders of the parent company	51 804	758 846	11 826	183 558
Total comprehensive income attributable to non-controlling interests	1 282	1 865	293	451
Earnings per share (in PLN/EUR) (basic and diluted)	0,00	0,41	0,00	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	1 417 171	1 621 060	323 518	392 119
Cash flows from investing activities	(1 904 372)	(1 813 261)	(434 739)	(438 611)
Cash flows from financing activities	453 459	(337 570)	103 518	(81 655)
Net increase (decrease) in cash and cash equivalents	(33 742)	(529 771)	(7 703)	(128 147)
	As of 30.06.2016	**As of 31.12.2015**	**As of 30.06.2016**	**As of 31.12.2015**
Non-current assets	27 904 122	28 124 185	6 305 304	6 599 597
Current assets	3 757 700	3 947 248	849 102	926 258
Total assets	31 661 822	32 071 433	7 154 406	7 525 855
Issued capital	8 762 747	8 762 747	1 980 058	2 056 259
Equity attributable to shareholders of the parent company	16 056 107	16 018 328	3 628 089	3 758 847
Equity attributable to non-controlling interests	28 016	29 829	6 331	7 000
Total equity	16 084 123	16 048 157	3 634 420	3 765 847
Long-term liabilities	11 387 310	8 583 950	2 573 112	2 014 302
Short-term liabilities	4 190 389	7 439 326	946 874	1 745 706
Total liabilities	15 577 699	16 023 276	3 519 986	3 760 008

	in thousands PLN		in thousands EUR	
	2016 period from 01.01.2016 to 30.06.2016	**2015** period from 01.01.2015 to 30.06.2015	**2016** period from 01.01.2016 to 30.06.2016	**2015** period from 01.01.2015 to 30.06.2015
Selected standalone figures of TAURON Polska Energia S.A.				
Sales revenue	3 990 123	4 643 560	910 883	1 123 234
Operating profit (loss)	19 025	31 286	4 343	7 568
Profit before tax	552 238	1 539 774	126 067	372 457
Net profit	549 911	1 537 158	125 536	371 824
Other comprehensive income	39 587	39 398	9 037	9 530
Total comprehensive income	589 498	1 576 556	134 573	381 354
Earnings per share (in PLN/EUR) (basic and diluted)	0,31	0,88	0,07	0,21
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	(148 907)	152 973	(33 993)	37 003
Cash flows from investing activities	128 447	253 885	29 322	61 412
Cash flows from financing activities	394 791	(359 621)	90 125	(86 989)
Net increase (decrease) in cash and cash equivalents	374 331	47 237	85 454	11 426
	As of 30.06.2016	**As of 31.12.2015**	**As of 30.06.2016**	**As of 31.12.2015**
Non-current assets	25 706 909	24 866 370	5 808 815	5 835 121
Current assets	1 578 232	1 607 786	356 622	377 282
Total assets	27 285 141	26 474 156	6 165 437	6 212 403
Issued capital	8 762 747	8 762 747	1 980 058	2 056 259
Total equity	17 181 995	16 592 497	3 882 498	3 893 581
Long-term liabilities	7 916 502	5 069 118	1 788 838	1 189 515
Short-term liabilities	2 186 644	4 812 541	494 101	1 129 307
Total liabilities	10 103 146	9 881 659	2 282 939	2 318 822

The aforementioned financial information for H1 2016 and 2015 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 2016 – 4.4255 PLN/EUR (as of 31 December 2015 – 4.2615 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 period from 1 January 2016 to 30 June 2016 – 4.3805 PLN/EUR (for the period from 1 January 2015 to 30 June 2015 – 4.1341 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 2016

AUGUST 2016

Deloitte.

Deloitte Polska
Spółka z ograniczoną odpowiedzialnością sp. k.
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AUDITOR'S REPORT ON THE REVIEW OF THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD FROM 1 JANUARY 2016 TO 30 JUNE 2016

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 2016, 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 2016 to 30 June 2016 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.

Deloitte.

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, 16 August 2016

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 2016

STATEMENT

of the Management Board of TAURON Polska Energia S.A. on the compliance of the interim condensed consolidated financial statements of TAURON Capital Group and the Management Board's interim report on the activities of TAURON 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 applicable accounting rules and give the true and fair picture of the assets, financial standing and performance of TAURON Polska Energia S.A. and TAURON Capital Group.

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

Management Board Members:

Remigiusz Nowakowski	– President of the Management Board	....
Jarosław Broda	– Vice-President of the Management Board	....
Kamil Kamiński	– Vice-President of the Management Board	....
Marek Wadowski	– Vice-President of the Management Board	....
Piotr Zawistowski	– Vice-President of the Management Board	....

16 August 2016

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 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:

Remigiusz Nowakowski	– President of the Management Board	....
Jarosław Broda	– Vice-President of the Management Board	....
Kamil Kamiński	– Vice-President of the Management Board	....
Marek Wadowski	– Vice-President of the Management Board	....
Piotr Zawistowski	– Vice-President of the Management Board	....

16 August 2016

date

TAURON POLSKA ENERGIA S.A. CAPITAL GROUP

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH THE INTERNATIONAL FINANCIAL REPORTING STANDARDS, AS ENDORSED BY THE EUROPEAN UNION FOR THE 6-MONTH PERIOD ENDED 30 JUNE 2016

AUGUST 2016

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(in PLN '000)

CONDENSED INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	6-month period ended 30 June 2016 (*unaudited*)	6-month period ended 30 June 2015 (*unaudited restated figures*)
Sales revenue	**11**	8 942 857	9 256 614
Cost of sales	**12**	(8 286 129)	(7 612 275)
Profit on sale		**656 728**	**1 644 339**
Selling and distribution expenses	**12**	(220 397)	(237 832)
Administrative expenses	**12**	(317 979)	(312 824)
Other operating income and expenses	**41**	15 293	(49 381)
Operating profit		**133 645**	**1 044 302**
Share in profit/(loss) of joint ventures	**21**	59 861	4 870
Finance income	**13**	55 939	41 418
Interest expense on debt	**14**	(137 959)	(144 216)
Other finance costs	**14**	(78 811)	(87 571)
Profit before tax		**32 675**	**858 803**
Income tax expense	**15**	(27 958)	(138 416)
Net profit		**4 717**	**720 387**
Measurement of hedging instruments		48 846	48 628
Foreign exchange differences from translation of foreign entities		9 922	28
Income tax	**15**	(9 281)	(9 239)
Other comprehensive income subject to reclassification to profit or loss		**49 487**	**39 417**
Actuarial gains/(losses)		(1 429)	1 123
Income tax	**15**	270	(216)
Share in other comprehensive income of joint ventures		41	–
Other comprehensive income not subject to reclassification to profit or loss		**(1 118)**	**907**
Other comprehensive income, net of tax		**48 369**	**40 324**
Total comprehensive income		**53 086**	**760 711**
Net profit:			
Attributable to equity holders of the Parent		3 435	718 524
Attributable to non-controlling interests		1 282	1 863
Total comprehensive income:			
Attributable to equity holders of the Parent		51 804	758 846
Attributable to non-controlling interests		1 282	1 865
Basic and diluted earnings per share in PLN:		0.00	0.41

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

(in PLN '000)

CONDENSED INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	As at 30 June 2016 (*unaudited*)	As at 31 December 2015
ASSETS			
Non-current assets			
Property, plant and equipment	**17**	25 066 173	24 882 817
Goodwill	**18**	40 156	92 059
Energy certificates and emission allowances for surrender	**19.1**	94 988	510 840
Other intangible assets	**20**	1 197 136	1 182 765
Investments in joint ventures	**21**	462 202	418 127
Loans granted to joint ventures	**22**	225 837	221 803
Other financial assets	**23**	237 582	211 215
Other non-financial assets	**24.1**	514 318	550 375
Deferred tax assets	**15.2**	65 730	54 184
		27 904 122	**28 124 185**
Current assets			
Energy certificates and emission allowances for surrender	**19.2**	648 516	805 388
Inventories	**25**	404 983	433 279
Receivables from clients	**26**	1 695 043	1 830 033
Receivables arising from taxes and charges	**27**	115 174	228 345
Other financial assets	**23**	253 372	34 334
Other non-financial assets	**24.2**	205 206	233 059
Cash and cash equivalents	**28**	422 123	364 912
Non-current assets classified as held for sale		13 283	17 898
		3 757 700	**3 947 248**
TOTAL ASSETS		**31 661 822**	**32 071 433**

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

(in PLN '000)

CONDENSED INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION – continued

	Note	As at 30 June 2016 (*unaudited*)	As at 31 December 2015
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the Parent			
Issued capital	**29.1**	8 762 747	8 762 747
Reserve capital	**29.2**	7 823 339	11 277 247
Revaluation reserve from valuation of hedging instruments	**29.3**	(33 849)	(73 414)
Foreign exchange differences from translation of foreign entities		9 131	(791)
Retained earnings/(Accumulated losses)	**29.4**	(505 261)	(3 947 461)
		16 056 107	**16 018 328**
Non-controlling interests		**28 016**	**29 829**
Total equity		**16 084 123**	**16 048 157**
Non-current liabilities			
Debt	**31**	7 754 327	4 924 127
Provisions for employee benefits	**33**	1 767 471	1 735 206
Provisions for disassembly of fixed assets, land restoration and other provisions	**34**	442 561	377 372
Accruals, deferred income and government grants	**37**	642 503	650 364
Deferred tax liabilities	**15.2**	732 661	795 176
Other financial liabilities	**41**	47 787	101 705
		11 387 310	**8 583 950**
Current liabilities			
Debt	**31**	1 070 720	3 214 520
Derivative instruments	**32**	125 840	96 953
Liabilities to suppliers		694 023	790 706
Capital commitments		368 703	766 843
Provisions for employee benefits	**33**	146 575	172 505
Provisions for liabilities due to energy certificates and greenhouse gas emission allowances	**35**	508 587	1 018 134
Other provisions	**36**	198 189	178 044
Accruals, deferred income and government grants	**37**	304 205	254 337
Liabilities arising from taxes and charges	**38**	286 637	429 649
Other financial liabilities		182 643	243 713
Other non-financial liabilities	**39**	304 267	273 922
		4 190 389	**7 439 326**
Total liabilities		**15 577 699**	**16 023 276**
TOTAL EQUITY AND LIABILITIES		**31 661 822**	**32 071 433**

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

(in PLN '000)

CONDENSED INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

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

	Note	Equity attributable to the equity holders of the Parent						Non-controlling interests	Total equity
		Issued capital	Reserve capital	Revaluation reserve on valuation of hedging instruments	Foreign exchange differences from translation of foreign entities	Retained earnings/ (Accumulated losses)	Total		
As at 1 January 2016		**8 762 747**	**11 277 247**	**(73 414)**	**(791)**	**(3 947 461)**	**16 018 328**	**29 829**	**16 048 157**
Dividends		–	–	–	–	–	**–**	(3 043)	**(3 043)**
Accounting for acquisition of ZCP Brzeszcze	30	–	–	–	–	(14 041)	**(14 041)**	–	**(14 041)**
Other transactions with non-controlling shareholders		–	–	–	–	16	**16**	(52)	**(36)**
Coverage of prior years loss	29.2	–	(3 453 908)	–	–	3 453 908	**–**	–	**–**
Transactions with shareholders		**–**	**(3 453 908)**	**–**	**–**	**3 439 883**	**(14 025)**	**(3 095)**	**(17 120)**
Net profit (loss)		–	–	–	–	3 435	**3 435**	1 282	**4 717**
Other comprehensive income		–	–	39 565	9 922	(1 118)	**48 369**	–	**48 369**
Total comprehensive income		**–**	**–**	**39 565**	**9 922**	**2 317**	**51 804**	**1 282**	**53 086**
As at 30 June 2016 (*unaudited*)		**8 762 747**	**7 823 339**	**(33 849)**	**9 131**	**(505 261)**	**16 056 107**	**28 016**	**16 084 123**

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

	Note	Equity attributable to the equity holders of the Parent						Non-controlling interests	Total equity
		Issued capital	Reserve capital	Revaluation reserve on valuation of hedging instruments	Foreign exchange differences from translation of foreign entities	Retained earnings/ (Accumulated losses)	Total		
As at 1 January 2015		**8 762 747**	**10 393 686**	**(143 019)**	**(1 386)**	**(1 045 580)**	**17 966 448**	**30 116**	**17 996 564**
Dividends	16	–	–	–	–	(262 882)	**(262 882)**	(2 787)	**(265 669)**
Other transactions with non-controlling shareholders		–	–	–	–	(45)	**(45)**	(154)	**(199)**
Distribution of prior year profits		–	883 561	–	–	(883 561)	**–**	–	**–**
Transactions with shareholders		**–**	**883 561**	**–**	**–**	**(1 146 488)**	**(262 927)**	**(2 941)**	**(265 868)**
Net profit (loss)		–	–	–	–	718 524	**718 524**	1 863	**720 387**
Other comprehensive income		–	–	39 389	28	905	**40 322**	2	**40 324**
Total comprehensive income		**–**	**–**	**39 389**	**28**	**719 429**	**758 846**	**1 865**	**760 711**
As at 30 June 2015 (*unaudited restated figures*)		**8 762 747**	**11 277 247**	**(103 630)**	**(1 358)**	**(1 472 639)**	**18 462 367**	**29 040**	**18 491 407**

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

(in PLN '000)

CONDENSED INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	6-month period ended 30 June 2016 (*unaudited*)	6-month period ended 30 June 2015 (*unaudited*)
Cash flows from operating activities			
Profit before taxation		**32 675**	**858 803**
Share in (profit)/loss of joint ventures		(59 861)	(4 870)
Depreciation and amortization		821 372	870 603
Impairment losses on property, plant and equipment and intangible assets	**40.1**	699 070	(166)
Interest and commissions		126 386	137 277
Other adjustments of profit before tax		10 130	27 510
Change in working capital	**40.1**	6 786	(196 896)
Income tax paid	**40.1**	(219 387)	(71 201)
Net cash from operating activities		**1 417 171**	**1 621 060**
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets	**40.2**	(1 769 630)	(1 850 110)
Public aid refund	**40.2**	(131 077)	–
Purchase of financial assets	**40.2**	(29 534)	(21 734)
Loans granted	**40.2**	(7 600)	(8 150)
Total payments		**(1 937 841)**	**(1 879 994)**
Proceeds from sale of property, plant and equipment and intangible assets		15 403	19 379
Repayment of loans granted		–	14 500
Redemption of debt securities		–	21 732
Other proceeds		18 066	11 122
Total proceeds		**33 469**	**66 733**
Net cash used in investing activities		**(1 904 372)**	**(1 813 261)**
Cash flows from financing activities			
Redemption of debt securities	**40.3**	(2 250 000)	(150 000)
Repayment of loans and borrowings	**40.3**	(44 724)	(44 739)
Interest paid	**40.3**	(117 339)	(135 386)
Other payments		(17 495)	(15 141)
Total payments		**(2 429 558)**	**(345 266)**
Issue of debt securities	**40.3**	2 860 000	–
Proceeds from contracted loans/borrowings		916	–
Subsidies received		22 101	7 696
Total proceeds		**2 883 017**	**7 696**
Net cash from (used in) financing activities		**453 459**	**(337 570)**
Net increase/(decrease) in cash and cash equivalents		**(33 742)**	**(529 771)**
Net foreign exchange difference		879	314
Cash and cash equivalents at the beginning of the period	**28**	**327 715**	**1 408 071**
Cash and cash equivalents at the end of the period, of which:	**28**	**293 973**	**878 300**
restricted cash	**28**	179 404	164 421

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

(in PLN '000)

INTRODUCTION

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

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

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

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

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

The Group's condensed interim consolidated financial statements cover the 6-month period ended 30 June 2016 and present comparative data for the 6-month period ended 30 June 2015 as well as figures as at 31 December 2015. The data for the 6-month period ended 30 June 2016 and the comparative data for the 6-month period ended 30 June 2015, as contained herein, have been reviewed by a certified auditor. The comparative data as at 31 December 2015 were audited by a certified auditor.

These condensed interim consolidated financial statements for the 6-month period ended 30 June 2016 were approved for publication on 16 August 2016.

2. Composition of the TAURON Capital Group and joint ventures

As at 30 June 2016, TAURON Polska Energia S.A. held direct and indirect interest in the following key subsidiaries:

Item	Company name	Registered office	Operating segment	Interest in the share capital and in the decision-making body held by TAURON Polska Energia S.A.
1	TAURON Wydobycie S.A.	Jaworzno	Mining	100.00%
2	Nowe Brzeszcze Grupa TAURON Sp. z o.o.[1]	Brzeszcze	Mining	100.00%
3	TAURON Wytwarzanie S.A.	Jaworzno	Generation	100.00%
4	TAURON Ekoenergia Sp. z o.o.	Jelenia Góra	Generation	100.00%
5	Marselwind Sp. z o.o.	Katowice	Generation	100.00%
6	TAURON Ciepło Sp. z o.o.	Katowice	Generation	100.00%
7	TAURON Dystrybucja S.A.	Kraków	Distribution	99.72%
8	TAURON Dystrybucja Serwis S.A.[2]	Wrocław	Distribution	99.72%
9	TAURON Dystrybucja Pomiary Sp. z o.o.[2]	Tarnów	Distribution	99.72%
10	TAURON Sprzedaż Sp. z o.o.	Kraków	Sales	100.00%
11	TAURON Sprzedaż GZE Sp. z o.o.	Gliwice	Sales	100.00%
12	TAURON Czech Energy s.r.o.	Ostrawa, Czech Republic	Sales	100.00%
13	TAURON Obsługa Klienta Sp. z o.o.	Wrocław	Other	100.00%
14	Kopalnia Wapienia Czatkowice Sp. z o.o.	Krzeszowice	Other	100.00%
15	Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. in liquidation	Warszawa	Other	100.00%

(in PLN '000)

Item	Company name	Registered office	Operating segment	Interest in the share capital and in the decision-making body held by TAURON Polska Energia S.A.
16	TAURON Sweden Energy AB (publ)	Sztokholm, Sweden	Other	100.00%
17	Biomasa Grupa TAURON Sp. z o.o.	Stalowa Wola	Other	100.00%

[1] *On 1 January 2016, Nowe Brzeszcze Grupa TAURON Sp. z o.o. acquired an organized part of an enterprise (Zakład Górniczy Brzeszcze). The company has been consolidated as of the aforesaid date.*

[2] *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.*

As at 30 June 2016 TAURON Polska Energia S.A. held direct and indirect interest in the following jointly-controlled entities:

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

[1] *Elektrociepłownia Stalowa Wola S.A. and Elektrownia Blachownia Nowa Sp. z o.o. through a subsidiary, TAURON Wytwarzanie S.A.*

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

STATEMENT OF COMPLIANCE WITH IFRS

3. Statement of compliance

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

The condensed interim consolidated financial statements do not contain all information and disclosures required for annual consolidated financial statements and they should be read jointly with the Group's consolidated financial statements prepared in accordance with IFRS for the year ended 31 December 2015.

4. Going concern

These condensed interim consolidated financial statements have been prepared on the assumption that the Group companies will continue as a going concern, except for Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. in liquidation. As at the date of approval of these financial statements, no circumstances posing a risk to the remaining Group companies' ability to continue as a going concern had been identified.

5. Functional and presentation currency

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

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

(in PLN '000)

ACCOUNTING POLICIES

6. Material values based on professional judgment and estimates

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

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

Item	Value of item to which the estimate figure applies		Details regarding assumptions made and calculation of significant estimates
	As at 30 June 2016 (*unaudited*)	As at 31 December 2015	
Property, plant and equipment	25 066 173	24 882 817	• As at 30 June 2016, having performed impairment tests, the Group recognized an impairment loss on property, plant and equipment of PLN 1 361 037 thousand and derecognized an impairment loss of PLN 703 162 thousand (as at 31 December 2015, the Group had recognized an impairment loss on property, plant and equipment of PLN 3 410 726 thousand). note 17
Goodwill	40 156	92 059	• As at 30 June 2016, having performed impairment tests, the Group recognized an impairment loss on goodwill of PLN 51 903 thousand (vs. an impairment loss on goodwill of PLN 154 998 thousand recognized as at 31 December 2015). note 18
Provisions for employee benefits	1 914 046	1 907 711	• Description of actuarial assumptions made and valuation method. note 33
Provision for gas emission obligations	124 199	153 083	• Provision calculation note 35
Provision for obligation to submit energy certificates	384 388	865 051	• Provision calculation note 35
Provision for mine decommissioning costs	179 739	111 675	• Provision calculation note 34
Provision for restoration of land and dismantling and removal of fixed assets	102 624	101 244	• Provision calculation note 34
Provision for onerous contracts	193 183	182 877	• Provision calculation note 34
Deferred tax assets	976 621	936 795	• Realisation of deferred tax assets. note 15.2
Derivative instruments: Assets Liabilities	 91 504 125 852	 5 684 112 109	• Fair value measurement note 32
Receivables from clients	1 695 043	1 830 033	• Impairment loss – as at the end of the reporting period impairment losses on receivables from clients amounted to PLN 258 633 thousand. note 26

(in PLN '000)

7. New standards and interpretations

The Group did not choose an early application of any standards or amendments to standards which were published but are not yet mandatorily effective. The following standards and amendments to standards issued by the International Accounting Standards Board ("IASB") have not been endorsed by the European Union yet and are not yet effective.

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

Standard details	Estimated impact	Effective date specified in the Standard, not endorsed by the EU*
IFRS 9 *Financial Instruments*		
The standard introduces a business model-based approach to classification and measurement of financial assets and the characteristics of cash flows. IFRS 9 provides a new loss impairment model which requires a more timely disclosure of expected credit losses. The new model also assumes a standardized impairment approach applied to all financial instruments. Moreover, IFRS 9 includes an enhanced general hedge accounting model. The amendments are aimed at adjusting the principles of recognizing risk management issues in financial statements and enable more adequate presentation of actions taken in the financial statements.	Preliminary analysis of IFRS 9's impact on the accounting policies applied indicates one change important for the Group, i.e. replacing the existing classification and measurement models under IAS 39 with a single classification model assuming two categories only, i.e. amortized cost or fair value. IFRS 9 classification complies with the business model applied to manage financial assets. Additionally, the standard introduces a new hedge accounting model which requires detailed risk management disclosures. Evaluation of effects of IFRS 9 on the consolidated financial statements is subject to further analyses due to the large scope of amendments.	1 January 2018
IFRS 15 *Revenue from Contracts with Customers*		
The Standard 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. On 11 September 2015 the IASB published an amendment to the standard introducing a new effective date – annual periods beginning on or after 1 January 2018. The original effective date was set at annual period beginning on or after 1 January 2017.	Preliminary analysis of the effects of IFRS 15 on the accounting policies applied has shown that the new standard changes the method of accounting for contracts with customers, in particular if services and goods are provided under a single contract, which may be particularly important for the Sales segment. The new guidelines of IFRS 15 may result in the need to change the systems, but before the standard enters into force the Group intends to carry out a five-step analysis of contracts with customers including contract (or contract group) identification, indication of individual liabilities, determining prices, assigning them to individual liabilities and revenue recognition. The new standard requires considerably more detailed disclosure of sales and revenue in financial statements. Evaluation of effects of IFRS 15 on the consolidated financial statements is subject to further analyses due to the large scope of amendments.	1 January 2018
IFRS 16 *Leases*		
Under IFRS 16 the lessee recognizes the right to use an asset and a lease liability. The right to use the asset is treated similarly to other non-financial assets and is depreciated. Lease liabilities are initially measured at the present value of future lease payments due in the lease period, discounted using the lease rate if its determination is not difficult. If that rate cannot be readily determined, the lessee shall use their incremental borrowing rate. Leases are classified by lessors the same as in accordance with IAS 17 – as an operating lease or a finance lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of the underlying asset. Otherwise a lease is classified as an operating lease. In finance lease the lessor recognizes finance income over the lease term, based on pattern reflecting a constant periodic rate of return on the net investment. A lessor recognizes operating lease payments as income on a straight-line basis, or if more representative of the pattern in which benefit from use of the underlying asset is diminished, another systematic basis.	Preliminary analysis of IFRS 16's impact on the accounting policies applied indicates certain changes important for the Group, i.e. the need to recognize lease assets and lease liabilities for leases currently classified as operating leases in the financial statements and the change in the presentation method applied to finance lease assets, which are currently recognized in property plant and equipment or intangible assets. The Group intends to analyse all lease agreements concluded to identify leases which require recognition of assets and liabilities or presentational changes. As the effective date of IFRS 16 is still distant, and it has not yet been approved by the EU, as at the date of approving these financial statements for publication the Group had not carried out any analyses which would enable determining the impact of the planned changes on the financial statements. The analysis will be conducted in future.	1 January 2019

** Annual periods beginning on or after the date.*

(in PLN '000)

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

Standard	Effective date specified in the Standard, not endorsed by the EU (*annual periods beginning on or after the date provided*)
IFRS 14 *Regulatory Deferral Accounts*	1 January 2016
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*	1 January 2016
Revised IFRS 10 *Consolidated Financial Statements*, IFRS 12 *Disclosure of Interests in Other Entities* and IAS 28 *Investments in Associates and Joint Ventures – Investment Entities: Applying the Consolidation Exception*	1 January 2016
Revised IAS 12 *Income Taxes – Recognition of Deferred Tax Assets for Unrealized Losses* – explains the method of recognition of a deferred tax asset that is related to a debt instrument measured at fair value.	1 January 2017
Revised IAS 7 *Statement of Cash Flows – Disclosure Initiative*. The amendments are intended to clarify IAS 7 to improve information provided to users of financial statements about an entity's financing activities.	1 January 2017
Revised IFRS 2 *Share-based Payments: Classification and Measurement of Share-based Payment Transactions*	1 January 2018

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

8. Changes in the accounting policies

The accounting principles (policy) adopted for the preparation of these condensed interim consolidated financial statements are consistent with those adopted for the preparation of the annual consolidated financial statements of the Group for the year ended 31 December 2015, except for the following revised standards:

Standard	Effective in the EU as of (*annual periods beginning on or after this date*)
Revised IAS 19 *Employee Benefits – Defined Benefit Plans: Employee Contributions*	1 February 2015
Annual Improvements to *IFRS (Cycle 2010–2012)*	1 February 2015
Revised IFRS 11 *Joint Arrangements: Accounting for Acquisitions of Interests in Joint Operations.*	1 January 2016
Revised IAS 1 *Presentation of Financial Statements – Disclosure Initiative*	1 January 2016
Revised IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets: Clarification of Acceptable Methods of Depreciation and Amortization*	1 January 2016
Revised IAS 16 *Property, Plant and Equipment* and IAS 41 *Agriculture: Bearer Plants*	1 January 2016
Revised IAS 27 *Separate Financial Statements: Equity Method in Separate Financial Statements*	1 January 2016
Annual Improvements to *IFRS (Cycle 2012–2014)*	1 January 2016

According to the Management Board, the introduction of the aforesaid amendments to standards has not materially impacted the accounting policies applied thus far.

Additionally, in the 6-month period ended 30 June 2016, the Group decided to change the presentation of actuarial provisions for the employee tariff for the existing pensioners in the interim financial statements, which has been discussed below.

(in PLN '000)

Changes in comparative data

In the 6-month period ended 30 June 2016, the Group decided to change the presentation of actuarial provisions for the employee tariff for the existing pensioners in the interim financial statements. In the interim financial statements, actuarial provisions are recognized based on actuarial projections. Previously, a change in the provision reflected the proportional change in its balance during the year. The new presentation considers the fact that payments from the said provision are not made evenly throughout the year; therefore, the Group decided that changes in the balance of the provision during an interim period, which are not proportional, would present more accurately actuarial provisions for the employee tariff. The aforementioned change affects other comprehensive income of the Group (but not its profit or loss). The comparative data for the 6-month period ended 30 June 2015 and as at 30 June 2015, as presented in these condensed interim consolidated financial statements, have been restated as appropriate.

- Other net comprehensive income for the 6-month period ended 30 June 2015 was reduced by PLN 387 thousand vs. the accepted data (a decrease from PLN 1 294 thousand to PLN 907 thousand);
- The balance of provision for employee benefits as at 30 June 2015 increased by the total of PLN 478 thousand and deferred tax asset by PLN 91 thousand.

With a view to increasing the usefulness of the financial statements for its readers, in the year ended 31 December 2015, the Group decided to change the method of presentation of revenue and expenses relating to property rights arising from certificates of energy generated from renewable sources in the Group's windfarms and hydroelectric power stations as well as the definition of EBITDA, considering impairment of non-financial assets. Therefore, the comparative data for the 6-month period ended 30 June 2015, as presented in these condensed interim consolidated financial statements, have been restated as appropriate.

	6-month period ended 30 June 2015 (*approved figures*)	Change in presentation of income from generation of energy certificates	6-month period ended 30 June 2015 (*unaudited restated figures*)
Sales revenue	9 184 291	72 323	9 256 614
Cost of sales	(7 539 952)	(72 323)	(7 612 275)

	6-month period ended 30 June 2015 (*approved figures*)	Including impairment of non-financial assets in the definition of EBITDA	6-month period ended 30 June 2015 (*unaudited restated figures*)
Operating profit – EBIT	1 044 302	–	1 044 302
Depreciation/amortization	(870 558)	–	(870 558)
Impairment	–	6 988	6 988
EBITDA	**1 914 860**	**(6 988)**	**1 907 872**

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.

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

10. Information on operating segments

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

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

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

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

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

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

Segment liabilities do not include deferred tax, income tax liability or financial liabilities, except for liabilities to suppliers, investment liabilities and payroll liabilities, which represent segment liabilities.

The Group's financing (including finance income and costs) and income tax are monitored at the Group level and they are not allocated to segments.

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

The Management Board separately monitors operating results of the segments to take decisions on how to allocate the resources, to assess the effects of the allocation and to evaluate performance. Evaluation of performance is based on EBITDA and operating profit or loss. EBITDA is defined as EBIT increased by amortization/depreciation and impairment of non-financial assets. EBIT is the profit/(loss) on continuing operations before tax, finance income and finance costs, i.e. operating profit (loss).

The Group's reporting format for the period from 1 January 2016 to 30 June 2016 and for the comparative period was based on the following operating segments:

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

** Entities recognized with the equity method.*

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

(in PLN '000)

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

	Mining	Generation	Distribution	Sales	Other	Unallocated items/ Eliminations	Total
Revenue							
Sales to external customers	171 962	1 363 979	1 535 529	5 831 997	39 390	–	**8 942 857**
Inter-segment sales	340 170	978 655	1 608 977	1 155 189	389 453	(4 472 444)	**–**
Segment revenue	**512 132**	**2 342 634**	**3 144 506**	**6 987 186**	**428 843**	**(4 472 444)**	**8 942 857**
Profit/(loss) of the segment	**(230 536)**	**(558 311)**	**643 524**	**273 890**	**29 822**	**14 900**	**173 289**
Unallocated expenses	–	–	–	–	–	(39 644)	**(39 644)**
EBIT	**(230 536)**	**(558 311)**	**643 524**	**273 890**	**29 822**	**(24 744)**	**133 645**
Share in profit/(loss) of joint ventures	–	59 861	–	–	–	–	**59 861**
Net finance income (costs)	–	–	–	–	–	(160 831)	**(160 831)**
Profit/(loss) before income tax	**(230 536)**	**(498 450)**	**643 524**	**273 890**	**29 822**	**(185 575)**	**32 675**
Income tax expense	–	–	–	–	–	(27 958)	**(27 958)**
Net profit/(loss) for the period	**(230 536)**	**(498 450)**	**643 524**	**273 890**	**29 822**	**(213 533)**	**4 717**
Assets and liabilities							
Segment assets	1 954 277	9 689 631	16 152 899	2 310 378	443 449	–	**30 550 634**
Investments in joint ventures	–	462 202	–	–	–	–	**462 202**
Unallocated assets	–	–	–	–	–	648 986	**648 986**
Total assets	**1 954 277**	**10 151 833**	**16 152 899**	**2 310 378**	**443 449**	**648 986**	**31 661 822**
Segment liabilities	671 223	1 461 407	2 230 333	1 142 224	270 721	–	**5 775 908**
Unallocated liabilities	–	–	–	–	–	9 801 791	**9 801 791**
Total liabilities	**671 223**	**1 461 407**	**2 230 333**	**1 142 224**	**270 721**	**9 801 791**	**15 577 699**
EBIT	**(230 536)**	**(558 311)**	**643 524**	**273 890**	**29 822**	**(24 744)**	**133 645**
Depreciation/amortization	**(61 285)**	**(205 983)**	**(512 105)**	**(5 914)**	**(36 085)**	**–**	**(821 372)**
Impairment	**(3)**	**(706 289)**	**8 032**	**–**	**(129)**	**–**	**(698 389)**
EBITDA	**(169 248)**	**353 961**	**1 147 597**	**279 804**	**66 036**	**(24 744)**	**1 653 406**
Other segment information							
Capital expenditure*	90 654	599 820	744 339	757	16 560	–	**1 452 130**

* *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 2015 *(restated, unaudited)* or as at 31 December 2015

	Mining	Generation	Distribution	Sales	Other	Unallocated items/ Eliminations	Total
Revenue							
Sales to external customers	192 557	1 161 298	1 473 670	6 386 071	43 018	–	**9 256 614**
Inter-segment sales	349 394	1 585 790	1 754 687	1 707 909	460 128	(5 857 908)	**–**
Segment revenue	**541 951**	**2 747 088**	**3 228 357**	**8 093 980**	**503 146**	**(5 857 908)**	**9 256 614**
Profit/(loss) of the segment	**(214 265)**	**181 936**	**758 416**	**329 755**	**27 896**	**11 363**	**1 095 101**
Unallocated expenses	–	–	–	–	–	(50 799)	**(50 799)**
EBIT	**(214 265)**	**181 936**	**758 416**	**329 755**	**27 896**	**(39 436)**	**1 044 302**
Share in profit/(loss) of joint ventures	–	4 870	–	–	–	–	**4 870**
Net finance income (costs)	–	–	–	–	–	(190 369)	**(190 369)**
Profit/(loss) before income tax	**(214 265)**	**186 806**	**758 416**	**329 755**	**27 896**	**(229 805)**	**858 803**
Income tax expense	–	–	–	–	–	(138 416)	**(138 416)**
Net profit/(loss) for the period	**(214 265)**	**186 806**	**758 416**	**329 755**	**27 896**	**(368 221)**	**720 387**
Assets and liabilities							
Segment assets	1 657 407	10 370 286	15 974 893	2 706 907	478 618	–	**31 188 111**
Investments in joint ventures	–	418 127	–	–	–	–	**418 127**
Unallocated assets	–	–	–	–	–	465 195	**465 195**
Total assets	**1 657 407**	**10 788 413**	**15 974 893**	**2 706 907**	**478 618**	**465 195**	**32 071 433**
Segment liabilities	537 234	1 735 686	2 505 890	1 652 586	303 352	–	**6 734 748**
Unallocated liabilities	–	–	–	–	–	9 288 528	**9 288 528**
Total liabilities	**537 234**	**1 735 686**	**2 505 890**	**1 652 586**	**303 352**	**9 288 528**	**16 023 276**
EBIT	**(214 265)**	**181 936**	**758 416**	**329 755**	**27 896**	**(39 436)**	**1 044 302**
Depreciation/amortization	**(56 362)**	**(290 975)**	**(484 863)**	**(5 398)**	**(32 960)**	**–**	**(870 558)**
Impairment	**(1)**	**6 509**	**619**	**–**	**(139)**	**–**	**6 988**
EBITDA	**(157 902)**	**466 402**	**1 242 660**	**335 153**	**60 995**	**(39 436)**	**1 907 872**
Other segment information							
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.*

(in PLN '000)

11. Sales revenue

	6-month period ended 30 June 2016 (*unaudited*)	6-month period ended 30 June 2015 (*unaudited restated figures*)
Sale of goods for resale, finished goods and materials without elimination of excise	**5 912 281**	**6 153 685**
Excise	(196 638)	(213 838)
Sale of goods for resale, finished goods and materials, of which:	**5 715 643**	**5 939 847**
Electricity	4 786 686	5 107 197
Heat energy	350 102	339 041
Energy certificates and greenhouse gas emission allowances	201 184	230 567
Coal	171 367	181 814
Gas	120 922	29 246
Other goods for resale, finished goods and materials	85 382	51 982
Rendering of services, of which:	**3 197 417**	**3 288 807**
Distribution and trade services	3 044 416	3 121 755
Connection fees	45 531	62 395
Maintenance of road lighting	56 763	57 092
Other services	50 707	47 565
Other revenue	**29 797**	**27 960**
Total sales revenue	**8 942 857**	**9 256 614**

12. Expenses by type

	6-month period ended 30 June 2016 (*unaudited*)	6-month period ended 30 June 2015 (*unaudited restated figures*)
Costs by type		
Depreciation of property, plant and equipment and amortization of intangible assets	(821 372)	(870 558)
Impairment of property, plant and equipment and intangible assets	(699 070)	83
Materials and energy	(915 800)	(923 447)
Maitenance and repair services	(185 134)	(153 318)
Distribution services	(891 266)	(859 549)
Other external services	(325 384)	(320 986)
Taxes and charges	(477 135)	(329 920)
Employee benefits expense	(1 288 710)	(1 233 652)
Allowance for doubtful debts	(5 831)	(16 313)
Other	(47 122)	(52 343)
Total costs by type	**(5 656 824)**	**(4 760 003)**
Change in inventories, prepayments, accruals and deferred income	(14 760)	(175 593)
Cost of goods produced for internal purposes	239 370	328 800
Selling and distribution expenses	220 397	237 832
Administrative expenses	317 979	312 824
Cost of goods for resale and materials sold	(3 392 291)	(3 556 135)
Cost of sales	**(8 286 129)**	**(7 612 275)**

Costs of impairment losses on property, plant and equipment and intangible assets in the 6-month period ended 30 June 2016 include:

- recognized impairment losses on property, plant and equipment in the amount of PLN 1 372 513 thousand (out of which PLN 1 361 037 thousand includes impairment losses recognized as a result of impairment tests, as described in details in Note 17 to these condensed interim consolidated financial statements);
- derecognized impairment losses on property, plant and equipment in the amount of PLN 724 741 thousand (out of which PLN 703 162 thousand includes impairment losses derecognized as a result of impairment tests, as described in details in Note 17 to these condensed interim consolidated financial statements);

(in PLN '000)

- recognized impairment losses on goodwill in the Generation segment of PLN 51 903 thousand as described in details in Note 18 to these condensed interim consolidated financial statements;
- recognized impairment losses on other intangible assets of PLN 1 738 thousand;
- derecognized impairment losses on other intangible assets of PLN 2 490 thousand;
- recognized impairment loss on non-current assets held for sale of PLN 147 thousand.

An increase in costs of taxes and charges in the 6-month period ended 30 June 2016 vs. the comparative period has resulted mostly from an increase in the costs of provision for the obligatory redemption of emission allowances. In the 6-month period ended 30 June 2016 the Group recognized a provision of PLN 146 073 thousand (a surplus of the recognized amount over the derecognized one) vs. PLN 10 305 thousand in the comparative period.

13. Finance income

	6-month period ended 30 June 2016 (*unaudited*)	6-month period ended 30 June 2015 (*unaudited*)
Income from financial instruments, of which:	**51 681**	**39 467**
Dividend income	6 592	3 961
Interest income	16 491	23 243
Measurement of derivative instruments	22 991	–
Foreign exchange gains	–	11 506
Net gain on realized derivative instruments	5 537	–
Gain on the disposal of investments	–	757
Measurement of other financial instruments	70	–
Other finance income	**4 258**	**1 951**
Total finance income	**55 939**	**41 418**

14. Finance costs

	6-month period ended 30 June 2016 (*unaudited*)	6-month period ended 30 June 2015 (*unaudited*)
Financial instrument costs, of which:	**(175 121)**	**(201 590)**
Interest costs	(137 959)	(144 216)
Measurement of derivative instruments	–	(43 654)
Surplus of impairment losses recognised	(435)	(488)
Foreign exchange losses	(27 556)	–
Commission relating to borrowings and debt securities	(8 850)	(6 375)
Net costs from realized derivative instruments	–	(6 857)
Sale of receivables	(321)	–
Other finance costs, of which:	**(41 649)**	**(30 197)**
Interest on employee benefits	(25 002)	(22 797)
Other finance costs	(16 647)	(7 400)
Total finance costs, including recognized in the statement of comprehensive income:	**(216 770)**	**(231 787)**
Interest expense on debt	(137 959)	(144 216)
Other finance costs	(78 811)	(87 571)

(in PLN '000)

15. Income tax

15.1. Tax expense in the statement of comprehensive income

	6-month period ended 30 June 2016 (*unaudited*)	6-month period ended 30 June 2015 (*unaudited restated figures*)
Current income tax	**(107 890)**	**(28 822)**
Current income tax expense	(102 082)	(56 252)
Adjustments to current income tax from previous years	(5 808)	27 430
Deferred tax	**79 932**	**(109 594)**
Income tax expense in profit/(loss)	**(27 958)**	**(138 416)**
Income tax expense relating to other comprehensive income	**(9 011)**	**(9 455)**

15.2. Deferred income tax

	As at 30 June 2016 (*unaudited*)	As at 31 December 2015
– difference between tax base and carrying amount of fixed and intangible assets	1 505 850	1 490 408
– difference between tax base and carrying amount of financial assets	31 581	29 609
– different timing of recognition of sales revenue for tax purposes	53 353	69 064
– difference between tax base and carrying amount of energy certificates	20 202	48 817
– other	32 566	39 889
Deferred tax liabilities	**1 643 552**	**1 677 787**
– provisions	610 965	685 405
– difference between tax base and carrying amount of fixed and intangible assets	137 346	6 359
– power infrastructure received free of charge and received connection fees	54 466	57 071
– difference between tax base and carrying amount of financial assets and financial liabilities	48 159	49 471
– valuation of hedging instruments	9 012	18 139
– different timing of recognition of cost of sales for tax purposes	71 877	58 333
– tax losses	22 395	12 758
– difference between tax base and carrying amount of emission allowances	5 169	26 985
– other	17 232	22 274
Deferred tax assets	**976 621**	**936 795**
After setting off balances at the level of individual Group companies, deferred tax for the Group is presented as:		
Deferred tax asset	**65 730**	**54 184**
Deferred tax liability	**(732 661)**	**(795 176)**

As at 30 June 2016 and 31 December 2015, the deferred tax asset was set off against deferred tax liabilities of companies from the Tax Capital Group ("TCG") due to the fact that the said companies had filed a combined tax return under the new Tax Capital Group agreement for the years 2015–2017, concluded on 22 September 2014.

Based on the forecasts prepared for the TCG, according to which taxable income will be earned in 2016 and in the following years, it has been concluded that there is no risk that the deferred tax asset recognized in these condensed interim consolidated financial statements will not be realized.

(in PLN '000)

16. Dividends paid and proposed

On 10 March 2016, the Management Board adopted a resolution to put forward a recommendation to the Ordinary General Shareholders' Meeting, concerning the use of the Company's reserve capital representing amounts transferred from prior year profit for purposes of dividend payment to the Company's shareholders in the amount of PLN 175 255 thousand, which equals to PLN 0.10 per share. On 17 March 2016 the recommendation presented by the Management Board was approved by the Supervisory Board of the Company.

On 8 June 2016 Ordinary General Shareholders' Meeting did not pass any resolution regarding the use of the reserve capital of the Company in the portion including the amount of previous years' profit brought forward, i.e. using its portion for purposes of dividend payment to the Company's shareholders.

On 23 April 2015, the Ordinary General Shareholders' Meeting of the Company adopted a resolution to pay a dividend of PLN 262 882 thousand to the Company's shareholders from the net profit generated by the Company in 2014 (PLN 0.15 per share). The dividend was paid out in August 2015.

17. Property, plant and equipment

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

	Land	Buildings, premises and civil engineering structures	Plant and machinery	Other	Assets under construction	Property, plant and equipment, total
COST						
Opening balance	**119 536**	**19 928 399**	**16 910 428**	**804 020**	**2 599 980**	**40 362 363**
Direct purchase	–	–	7	44	1 339 547	**1 339 598**
Borrowing costs	–	–	–	–	49 313	**49 313**
Transfer of assets under construction	539	874 600	834 210	23 392	(1 732 741)	**–**
Sale, disposal	(117)	(1 426)	(7 031)	(13 032)	(10)	**(21 616)**
Liquidation	–	(29 240)	(60 619)	(3 874)	–	**(93 733)**
Received free of charge	–	3 888	191	–	–	**4 079**
Transfers to/from assets held for sale	(43)	(292)	60	4	–	**(271)**
Overhaul expenses	–	–	–	–	3 723	**3 723**
Items generated internally	–	–	–	–	20 878	**20 878**
Acquisition of ZCP Brzeszcze	1 544	165 401	22 429	1 637	14 405	**205 416**
Other movements	(22)	7 962	(6 216)	(420)	(1 077)	**227**
Foreign exchange differences from translation of foreign entities	–	–	11	15	–	**26**
Closing balance	**121 437**	**20 949 292**	**17 693 470**	**811 786**	**2 294 018**	**41 870 003**
ACCUMULATED DEPRECIATION						
Opening balance	**(466)**	**(6 692 656)**	**(8 304 965)**	**(467 731)**	**(13 728)**	**(15 479 546)**
Depreciation for the period	–	(399 948)	(344 770)	(39 274)	–	**(783 992)**
Increase of impairment	–	(454 701)	(898 571)	(1 556)	(17 685)	**(1 372 513)**
Decrease of impairment	47	166 686	557 457	522	29	**724 741**
Sale, disposal	–	558	6 059	12 355	–	**18 972**
Liquidation	–	25 936	58 696	3 822	–	**88 454**
Transfers to/from assets held for sale	16	(44)	(13)	(4)	–	**(45)**
Other movements	–	(763)	778	97	–	**112**
Foreign exchange differences from translation of foreign entities	–	–	(6)	(7)	–	**(13)**
Closing balance	**(403)**	**(7 354 932)**	**(8 925 335)**	**(491 776)**	**(31 384)**	**(16 803 830)**
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	**119 070**	**13 235 743**	**8 605 463**	**336 289**	**2 586 252**	**24 882 817**
NET CARRYING AMOUNT AT THE END OF THE PERIOD	**121 034**	**13 594 360**	**8 768 135**	**320 010**	**2 262 634**	**25 066 173**
of which operating segments:						
Mining	**2 732**	**739 680**	**615 162**	**14 522**	**218 600**	**1 590 696**
Generation	**41 541**	**2 534 530**	**4 008 715**	**39 570**	**1 351 852**	**7 976 208**
Distribution	**59 934**	**10 220 913**	**4 012 340**	**247 409**	**688 237**	**15 228 833**
Other segments and other operations	**16 827**	**99 237**	**131 918**	**18 509**	**3 945**	**270 436**

On 1 January 2016, a subsidiary, Nowe Brzeszcze Grupa TAURON Sp. z o.o., purchased property, plant and equipment of PLN 205 416 thousand under an agreement on the purchase of a designated part of Zakład Górniczy Brzeszcze as an organized part of the enterprise, which has been discussed in more detail in Note 30 to these condensed interim consolidated financial statements.

(in PLN '000)

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

	Land	Buildings, premises and civil engineering structures	Plant and machinery	Other	Assets under construction	Property, plant and equipment, total
COST						
Opening balance	**117 142**	**18 195 456**	**14 819 091**	**808 607**	**1 364 263**	**35 304 559**
Direct purchase	–	–	–	133	1 651 835	**1 651 968**
Borrowing costs	–	–	–	–	27 618	**27 618**
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**
Closing balance	**118 539**	**18 646 278**	**15 205 599**	**823 841**	**2 185 401**	**36 979 658**
ACCUMULATED DEPRECIATION						
Opening balance	**(458)**	**(5 049 663)**	**(4 957 467)**	**(440 706)**	**(5 323)**	**(10 453 617)**
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)**
Closing balance	**(451)**	**(5 426 466)**	**(5 332 730)**	**(476 141)**	**(5 747)**	**(11 241 535)**
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	**116 684**	**13 145 793**	**9 861 624**	**367 901**	**1 358 940**	**24 850 942**
NET CARRYING AMOUNT AT THE END OF THE PERIOD	**118 088**	**13 219 812**	**9 872 869**	**347 700**	**2 179 654**	**25 738 123**
of which operating segments:						
Mining	**1 181**	**573 489**	**530 306**	**15 504**	**237 971**	**1 358 451**
Generation	**42 476**	**2 857 046**	**5 569 344**	**40 644**	**1 249 870**	**9 759 380**
Distribution	**58 927**	**9 684 414**	**3 645 344**	**271 276**	**675 884**	**14 335 845**
Other segments and other operations	**15 504**	**104 863**	**127 875**	**20 276**	**15 929**	**284 447**

In the 6-month period ended 30 June 2016, the Group acquired property, plant and equipment of PLN 1 388 911 thousand, including capitalized costs of external financing. The major purchases were related to investments in the following operating segments:

Purchase of property, plant and equipment by segment	6-month period ended 30 June 2016 *(unaudited)*	6-month period ended 30 June 2015 *(unaudited)*
Distribution	716 082	678 740
Generation	574 159	824 108
Mining	90 376	145 454

Impairment tests

As at 30 June 2016, impairment tests were performed for property, plant and equipment based on the following indications:

- the market value of the Company's net assets remaining below their carrying amount for a long period;
- a decrease in prices of green certificates;
- new regulations introduced with regard to renewable energy sources;
- the continued adverse trend regarding power prices and the projected increase in the supply of power from competitive sources to the domestic coal-based generation.

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

The impairment test for property, plant and equipment and non-current intangible assets was carried out at the level of individual companies, except for:

- TAURON Wytwarzanie S.A. – where cash generating units ("CGU") were identified based on the cost nature and analysis of the applied methods of contracting and allocating generation from particular generation units. Consequently, the test was performed for CGU understood as generation units or groups of generation units;
- TAURON Ekoenergia Sp. z o.o. – where hydroelectric power stations and windfarms were individually tested for impairment;
- TAURON Ciepło Sp. z o.o. – where generation of heat and electricity was separated from transmission and distribution of heat (former thermal energy companies). Additional tests were carried out for individual generation units.

Key assumptions made 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 actual decrease in the price of power coal assumed by 2025 approximates 6%, while after 2025 slight fluctuations have been assumed of prices seen during that year (fixed prices);
- The adopted electricity wholesale price path for the years 2016–2025, taking into account such factors as the effect of the balance of the market supply and demand for electricity, costs of fuel as well as costs of acquiring greenhouse gas emission allowances; A decrease of approx. 7% has been assumed by 2020; a rapid price growth has been assumed by 2025 (13% vs. 2020); for 2025–2040 an 18% increase has been assumed and maintaining of the prices of that year after 2040 (fixed prices);
- Estimated changes in the Polish market model aimed at implementation of the capacity market mechanism or other mechanisms awarding for generation capacity were included;
- Emission limits for generating electricity specified in the regulation of the Ministry of Economy, adjusted by capital expenditure incurred and the limits for heat generation compliant with the regulation of the Council of Ministers, adjusted by the level of operations, i.e. generation of heat.
- The adopted greenhouse gas emission allowances price path for the years 2016–2025. An increase in the market price by approx. 50% has been assumed by 2025; for the period 2025–2040 an increase by approx. 20% and after 2040, the price level of that year has been maintained (fixed prices);
- Green, red and yellow energy production volumes depending on the production capacity, along with the price path for individual energy certificates. A decrease of approx. 7% in prices of energy from renewable sources has been assumed by 2020; a price growth has been assumed by 2025 (11% vs. 2020); for 2025–2040 a 22% increase has been assumed and maintaining of the prices of that year after 2040 (fixed prices);
- For green energy, limited subsidy period has been included pursuant to the assumed provisions of the Act on renewable energy sources (the "Act on RES") determining new mechanisms of granting support to power generated in renewable sources. The support period has been limited to 15 years counted from the moment of first-time supply of the power covered with the certificate to the distribution grid. At the same time, hydroelectric power plants with capacity exceeding 5 MW have been eliminated from the support;
- Support for cogeneration complies with the present regulations. The assumptions included existence of property rights and the necessity to redeem red, purple and yellow energy certificates by 2018. After that year, no support has been projected for cogeneration of power and heat;
- 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 6.34% to 9.63% in nominal terms before tax.

The impairment test of assets carried out as at 30 June 2016 indicated that an additional impairment loss of PLN 1 361 037 thousand should be recognized for a portion of assets in the Generation segment. The recoverable amount of that asset group is equal to its value in use. Impairment loss has been charged to cost of sales. The test has justified the derecognition of impairment loss of PLN 703 162 thousand in this segment. The loss and its derecognition is related to the following cash-generating units:

CGU	Company	Discount rate (before tax) assumed in tests as at:		Recoverable amount	Impairment loss recognized	Impairment loss derecognized
		30 June 2016 (*unaudited*)	31 December 2015			
Elektrownia Jaworzno II	TAURON Wytwarzanie S.A.	7.49%	7.69%	147 072	269 823	–
Elektrownia Jaworzno III				1 057 073	–	433 638
Elektrownia Łaziska				288 295	–	13 289
Elektrownia Siersza				(66 383)	232 253	–
Elektrownia Stalowa Wola				48 522	–	46 802
Capital projects in progress				–	16 691	–
ZW Bielsko Biała EC 1	TAURON Ciepło Sp. z o.o.	7.17%	7.61%	726 607	–	209 433
ZW Bielsko Biała EC 2				(1 348)	3 587	–
ZW Tychy				280 112	382 719	–
Hydropower plants	TAURON Ekoenergia Sp. z o.o.	8.25%	8.39%	551 112	42 310	–
FW Lipniki		6.34%	8.90%	61 810	24 799	–
FW Wicko		6.48%	8.17%	136 515	101 386	–
FW Marszewo		6.49%	8.14%	418 561	287 469	–
Total					**1 361 037**	**703 162**

The sensitivity analyses for each CGU revealed that most of all, the capacity market mechanism and to a lesser extent, changes in electricity prices and hard coal, as well as in the weighted average cost of capital are the key factors having the most significant effect on the value in use of the tested assets. The impact of changes in the prices of greenhouse gas emission allowances and property rights arising under certificates of origin on the measurement is somewhat lower. Estimated changes in the impairment loss on the Generation segment assets following the impact of its derecognition as at 30 June 2016 as a result of changes to key assumptions have been presented below. Should the capacity market mechanism not be included in assumptions underlying estimation of value in use of property, plant and equipment, the additional net allowance charged to the profit/loss of the Group would approximate PLN 2 500 million.

Parameter	Change	Net impact on impairment loss (i.e. reduced by derecognized amounts, in PLN million)	
		Increase of impairment loss (net)	Decrease of impairment loss (net)
Change of electricity prices in the forecast period	+1%		123
	-1%	164	
Change of coal prices in the forecast period	+1%	53	
	-1%		53
Change of WACC (net)	+0.1 p.p.	32	
	-0.1 p.p.		32
Change of CO_2 emission allowances prices in the forecast period	+1%	25	
	-1%		25
Change in prices of property rights arising from renewable energy sources	+1%		5
	-1%	5	
No recognition of Capacity Market		2 500	–

(in PLN '000)

18. Goodwill

Goodwill in segment	As at 30 June 2016 (*unaudited*)	As at 31 December 2015
Mining	13 973	13 973
Distribution	25 602	25 602
Generation	581	52 484
Total	**40 156**	**92 059**

Impairment tests

As at 30 June 2016, an impairment test was performed for the carrying amount of net assets increased by goodwill in each operating segment, except Generation, where the test was performed at the level of individual companies.

The recoverable amount in each company was determined based on the value in use.

The test was performed based on the present value of estimated operating cash flows. The calculations were based on detailed projections for the period from 2016 to 2025 and the estimated residual value. The projection period for the generation units covers the whole period of their operation. Reliance on projections covering a period longer than 5 years results mainly from the fact that investment processes in the power industry are time-consuming. The macroeconomic and sector assumptions serving as the basis for projections are updated as frequently as any indications for their modification are observed on the market. Projections also take into account changes in the legal environment known as at the date of the test.

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

The discount rate used for calculation reflects the weighted average cost of capital (WACC), taking into account the risk-free rate determined by reference to the yield on 10-year treasury bonds (3.27%) and the risk premium for operations appropriate for the power industry (6%). The growth rate used for extrapolation of projected cash flows beyond the detailed planning period is at the level of 2.5% and it corresponds to the estimated long-term inflation rate.

The key business assumptions affecting the estimated value in use and the discount rates applied to individual segments are:

Goodwill in the segment (company)	Key assumptions	Discount rate (before tax) assumed in tests as at:	
		30 June 2016 (*unaudited*)	31 December 2015
Mining	• The adopted price path of power coal and other coal sizes. The actual decrease in the price of power coal assumed by 2025 approximates 6%, with slight fluctuations of 2025 prices thereafter (fixed); • The adopted retail price path of electricity based on the wholesale price of black energy including excise costs, cost of energy certificates surrender and a relevant markup; • Maintaining generation capacity of the existing non-current assets as a result of replacement investments.	9.57% – 9.63%	9.05%
Distribution	• Regulated revenue generated by distribution companies, ensuring coverage of reasonable costs and a reasonable level of return on capital. The return level depends on the so-called Regulatory Value of Assets; • Maintaining generation capacity of the existing non-current assets as a result of replacement investments.	7.50%	7.50%
Generation (TAURON Ekoenergia Sp. z o.o.)	• Green energy production volumes depending on the production capacity, along with the price path for energy certificates. A drop of approx. 7% in prices of electricity from renewable sources has been assumed by 2020; a growth has been assumed by 2025 (11% in relation to 2020); a rise of ca. 22% is assumed for the years 2025–2040, with 2040 prices thereafter (fixed); • For green energy, limited support periods have been included, in accordance with the provisions of the Act on renewable energy sources determining new mechanisms of supporting generation of electricity from renewable sources. The support period has been limited to 15 years as from the date of the first supply of electricity qualifying for an energy certificate to the distribution network. At the same time, hydropower plants with installed capacity exceeding 5 MW have been excluded from the support; • Maintaining generation capacity of the existing non-current assets as a result of replacement investments.	8.25% (for hydropower plants) 6.34% – 8.92% (for windfarms)	8.39% (for hydropower plants) 8.14% – 8.90% (for windfarms)

(in PLN '000)

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

The impairment test performed as at 30 June 2016 revealed impairment of the carrying amount of goodwill in the Generation segment (TAURON Ekoenergia Sp. z o.o.). As a result, the Group recognized an impairment loss of PLN 51 903 thousand. Impairment loss has been charged to cost of sales.

CGU	Company	Discount rate (before tax) assumed in tests as at:		Recoverable amount	Impairment loss recognized
		30 June 2016 (*unaudited*)	31 December 2015		
Generation	TAURON Ekoenergia Sp. z o.o.	8.25% (for hydropower plants) 6.34% – 8.92% (for windfarms)	8.39% (for hydropower plants) 8.14% – 8.90% (for windfarms)	1 225 935	51 903

The recognition of the impairment loss has resulted from the increase in prices of green certificates and new regulations introduced with regard to renewable energy sources.

The sensitivity analyses for each CGU revealed that changes in the weighted average cost of capital and in electricity prices are the key factors having the most significant effect on the value in use of the tested assets.

19. Energy certificates and gas emission allowances

19.1. Long-term energy certificates and gas emission allowances

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

	Energy certificates	Greenhouse gas emission allowances	Total
Opening balance	**232 973**	**277 867**	**510 840**
Direct purchase	62 850	–	**62 850**
Reclassification	(232 973)	(245 729)	**(478 702)**
Closing balance	**62 850**	**32 138**	**94 988**

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

	Energy certificates	Greenhouse gas emission allowances	Total
Opening balance	**207 397**	**265 103**	**472 500**
Direct purchase	7 263	–	**7 263**
Reclassification	(199 483)	(138 518)	**(338 001)**
Closing balance	**15 177**	**126 585**	**141 762**

19.2. Short-term energy certificates and gas emission allowances

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

	Energy certificates	Greenhouse gas emission allowances	Total
Opening balance	**652 305**	**153 083**	**805 388**
Direct purchase	189 228	–	**189 228**
Generated internally	66 939	–	**66 939**
Cancellation	(707 361)	(174 957)	**(882 318)**
Reclassification	223 550	245 729	**469 279**
Closing balance	**424 661**	**223 855**	**648 516**

(in PLN '000)

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

	Energy certificates	Greenhouse gas emission allowances	Total
Opening balance	**724 918**	**8 130**	**733 048**
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**
Closing balance	**502 246**	**144 371**	**646 617**

20. Other intangible assets

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

	Development expenses	Perpetual usufruct	Software, concessions, patents, licenses and similar items	Other intangible assets	Intangible assets not made available for use	Intangible assets, total
COST						
Opening balance	**5 690**	**786 504**	**550 892**	**188 004**	**51 885**	**1 582 975**
Direct purchase	–	–	28	–	38 590	**38 618**
Transfer of intangible assets not made available for use	–	57	11 928	14 130	(26 115)	**–**
Sale, disposal	–	(1 159)	–	–	(55)	**(1 214)**
Liquidation	–	(36)	(1 877)	(60)	–	**(1 973)**
Received free of charge	–	11	–	613	–	**624**
Acquisition of ZCP Brzeszcze	–	10 266	95	147	–	**10 508**
Other movements	–	1 363	84	(5)	1 041	**2 483**
Foreign exchange differences from translation of foreign entities	–	–	42	–	–	**42**
Closing balance	**5 690**	**797 006**	**561 192**	**202 829**	**65 346**	**1 632 063**
ACCUMULATED AMORTIZATION						
Opening balance	**(4 893)**	**(13 064)**	**(332 862)**	**(49 391)**	**–**	**(400 210)**
Amortization for the period	(78)	–	(29 602)	(7 700)	–	**(37 380)**
Increase of impairment	(72)	(19)	(1 538)	(102)	(7)	**(1 738)**
Decrease of impairment	51	810	1 625	4	–	**2 490**
Liquidation	–	–	1 877	60	–	**1 937**
Foreign exchange differences from translation of foreign entities	–	–	(26)	–	–	**(26)**
Closing balance	**(4 992)**	**(12 273)**	**(360 526)**	**(57 129)**	**(7)**	**(434 927)**
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	**797**	**773 440**	**218 030**	**138 613**	**51 885**	**1 182 765**
NET CARRYING AMOUNT AT THE END OF THE PERIOD	**698**	**784 733**	**200 666**	**145 700**	**65 339**	**1 197 136**

(in PLN '000)

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

	Development expenses	Perpetual usufruct	Software, concessions, patents, licenses and similar items	Other intangible assets	Intangible assets not made available for use	Intangible assets, total
COST						
Opening balance	**4 670**	**789 670**	**475 291**	**153 770**	**53 436**	**1 476 837**
Direct purchase	–	–	81	–	30 160	**30 241**
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**
Other movements	–	(649)	142	(153)	1 009	**349**
Foreign exchange differences from translation of foreign entities	–	–	1	–	3	**4**
Closing balance	**4 523**	**789 983**	**480 709**	**167 662**	**55 504**	**1 498 381**
ACCUMULATED AMORTIZATION						
Opening balance	**(3 822)**	**(15 297)**	**(289 949)**	**(35 635)**	**–**	**(344 703)**
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)**
Closing balance	**(3 914)**	**(15 365)**	**(307 705)**	**(42 130)**	**–**	**(369 114)**
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	**848**	**774 373**	**185 342**	**118 135**	**53 436**	**1 132 134**
NET CARRYING AMOUNT AT THE END OF THE PERIOD	**609**	**774 618**	**173 004**	**125 532**	**55 504**	**1 129 267**

21. Shares in joint ventures

Investments in joint-ventures measured using the equity method as at 30 June 2016 and for the 6-month period ended 30 June 2016 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 2016 or for the 6-month period ended 30 June 2016 (*unaudited*)
Non-current assets	1 090 986	–	1 336 041	**2 427 027**
Current assets	16 370	37 004	383 892	**437 266**
Non-current liabilities (-)	(961 197)	–	(482 968)	**(1 444 165)**
Current liabilities (-)	(142 867)	(83)	(267 543)	**(410 493)**
Total net assets	3 292	36 921	969 422	**1 009 635**
Share in net assets	1 646	18 461	484 711	**504 818**
Investment in joint ventures	**–**	**18 461**	**443 741**	**462 202**
Share in revenue of joint ventures	6 599	229	294 849	**301 677**
Share in profit/(loss) of joint ventures	**–**	**(1)**	**59 862**	**59 861**
Share in other comprehensive income of joint ventures	**–**	**–**	**41**	**41**

** 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 2015 and for the 6-month period ended 30 June 2015 have been presented below:

(in PLN '000)

	Elektrociepłownia Stalowa Wola S.A.	Elektrownia Blachownia Nowa Sp. z o.o.	TAMEH HOLDING Sp. z o.o.*	As at 31 December 2015 or for the 6-month period ended 30 June 2015 (*unaudited*)
Non-current assets	1 085 917	–	1 295 743	**2 381 660**
Current assets	12 387	37 008	341 716	**391 111**
Non-current liabilities (-)	(965 514)	–	(378 507)	**(1 344 021)**
Current liabilities (-)	(125 610)	(85)	(377 432)	**(503 127)**
Total net assets	7 180	36 923	881 520	**925 623**
Share in net assets	3 590	18 461	440 760	**462 811**
Investment in joint ventures	**–**	**18 461**	**399 666**	**418 127**
Share in revenue of joint ventures	10	253	279 881	**280 144**
Share in profit/(loss) of joint ventures	**(1 190)**	**15**	**6 045**	**4 870**

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

Elektrociepłownia Stalowa Wola S.A.

Elektrociepłownia Stalowa Wola S.A. is a special purpose vehicle established in 2010 on the initiative of TAURON Polska Energia S.A. and PGNiG S.A. The entity was registered to carry out an investment project, i.e. construction of a gas and steam unit fuelled with natural gas in Stalowa Wola with the gross maximum electrical capacity of 400 MWe and the net heat capability of 240 MWt.

TAURON Polska Energia S.A. indirectly holds 50% interest in the company's issued capital and in its governing body, exercised through TAURON Wytwarzanie S.A. Due to the fact that in 2015 the accumulated share in losses of the joint venture and the adjustment to "top-down" transactions between the Group companies and the joint venture exceeded the value of the interest in the joint venture, the Company discontinued to recognize its share in any further losses of the joint venture.

Additionally, the Company has receivables due to loans granted to Elektrociepłownia Stalowa Wola S.A. in the amount of PLN 235 704 thousand, which has been discussed in more detail in Note 22, as well as provisions for onerous commercial contracts in the amount of PLN 193 183 thousand, which have been discussed in Note 34.

Elektrownia Blachownia Nowa Sp. z o.o.

On 5 September 2012, TAURON Wytwarzanie S.A., a subsidiary, and KGHM Polska Miedź S.A. established a special purpose vehicle named Elektrownia Blachownia Nowa Sp. z o.o. with the registered address in Kędzierzyn Koźle. The company was set up to perform a comprehensive investment project including preparation, construction and operation of a combined cycle gas and steam unit with the capacity of ca. 850 MWe on the site of TAURON Wytwarzanie S.A. – Oddział Elektrownia Blachownia.

TAURON Polska Energia S.A. holds 50% indirect interest in the issued capital of this company and in its governing body through TAURON Wytwarzanie S.A.

On 30 December 2013, TAURON Polska Energia S.A., KGHM Polska Miedź S.A. and TAURON Wytwarzanie S.A. concluded an agreement, based on which the construction of the gas and steam unit in Elektrownia Blachownia Nowa Sp. z o.o. has been suspended. The decision resulted from the current situation on the electricity and gas market entailing higher investment risk, which made the entities review and optimize the project.

On 28 July 2016 TAURON Polska Energia S.A., KGHM Polska Miedź S.A. and TAURON Wytwarzanie S.A. signed an agreement pursuant to which they have unanimously decided to discontinue the construction of gas and steam unit in Elektrownia Blachownia Nowa Sp. z o.o. and terminate the shareholders agreement concluded by KGHM Polska Miedź S.A. and TAURON Wytwarzanie S.A. as described in details in Note 50 to these condensed interim consolidated financial statements.

TAMEH HOLDING Sp. z o.o. and subsidiaries

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

(in PLN '000)

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.

On 29 June 2016 the General Shareholders' Meeting of TAMEH HOLDING Sp. z o.o. decided to assign the amount of PLN 48 000 thousand to dividend payment to shareholders. The Group's interest in the joint venture named TAMEH HOLDING Sp. z o.o. has been reduced by the dividend payable to the Group of PLN 24 000 thousand.

22. Loans granted to joint ventures

	As at 30 June 2016 (*unaudited*)		As at 31 December 2015	
	Principal	**Interest**	**Principal**	**Interest**
Loans originated to EC Stalowa Wola S.A.:	202 550	33 154	194 950	28 959
Subordinated loan	177 000	32 624	177 000	28 922
Loan for debt repayment	15 850	363	15 850	31
Other loans	9 700	167	2 100	6
Total	**202 550**	**33 154**	**194 950**	**28 959**
Non-current	192 850	32 987	192 850	28 953
Current	9 700	167	2 100	6

Loans granted to Elektrociepłownia Stalowa Wola 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 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. At the end of the reporting period, the balance of the subordinated loan was PLN 177 000 thousand and the VAT loan had fully been repaid. The subordinated loan with interest due is to be finally repaid no later than by the end of 2032.
- In 2015 the Company entered into a loan agreement with Elektrociepłownia Stalowa Wola S.A., under which the Company extended a loan to Elektrociepłownia Stalowa Wola S.A. with the maximum amount of PLN 15 850 thousand for repayment of the first instalment with accrued interest of credit facilities granted to the borrower by the European Investment Bank, the European Bank for Reconstruction and Development and Bank Polska Kasa Opieki S.A. As at the reporting date the outstanding amount under the loan agreement equalled the maximum contractual amount.
- Other loans to Elektrociepłownia Stalowa Wola S.A. in the total amount of PLN 9 700 thousand were originated to finance its current operations.
    - A short-term loan of up to PLN 2 600 thousand originated in 2015. As at the reporting date the outstanding amount under the loan agreement equalled the maximum contractual amount.
    - A cash loan of PLN 5 500 thousand granted on 22 January 2016. Under the loan agreement, the loan will be repaid in one instalment, along with accrued interest, by 31 December 2016.
    - A cash loan of up to PLN 1 200 thousand granted pursuant to an agreement of 22 April 2016. Under the loan agreement, the loan will be repaid in one instalment, along with accrued interest, by 31 December 2016. As at the reporting date the outstanding amount under the loan agreement was PLN 600 thousand.
    - A cash loan of up to PLN 3 100 thousand granted pursuant to an agreement of 27 May 2016. Under the loan agreement, the loan will be repaid in one instalment, along with accrued interest, by 31 December 2016. As at the reporting date the outstanding amount under the loan agreement was PLN 1 000 thousand.

In the 6-month period ended 30 June 2016, the interest income due to loans granted amounted to PLN 4 195 thousand.

(in PLN '000)

23. Other financial assets

	As at 30 June 2016 (*unaudited*)	As at 31 December 2015
Shares	134 385	136 488
Bonds, T-bills and other debt securities	1 890	1 890
Deposits	40 160	39 724
Derivative instruments	91 504	5 684
Investment fund units	27 440	2 405
Bid bonds, deposits and collateral transferred	42 512	54 106
Non-refundable additional deposits	111 285	410
Other	41 778	4 842
Total	**490 954**	**245 549**
Non-current	237 582	211 215
Current	253 372	34 334

Shares held include mostly interests in the following companies:

- SCE Jaworzno III Sp. z o.o., in the amount of PLN 36 283 thousand;
- Przedsiębiorstwo Energetyki Cieplnej Tychy Sp. z o.o. in the amount of PLN 32 049 thousand;
- PGE EJ 1 Sp. z o.o. in the amount of PLN 23 046 thousand;
- Energetyka Cieszyńska Sp. z o.o. in the amount of PLN 15 063 thousand.

Non-refundable additional deposits of PLN 111 285 thousand arise from stock exchange settlement of forward transactions concluded by the Company. As at 30 June 2016 item "Other" in the above table included mostly dividend of PLN 24 000 thousand, receivable from TAMEH HOLDING Sp. z o.o., a joint venture.

24. Other non-financial assets

24.1. Other non-current non-financial assets

	As at 30 June 2016 (*unaudited*)	As at 31 December 2015
Prepayments for assets under construction and intangible assets	347 528	358 673
Costs of preparing production in hard coal mines	151 049	159 159
Other prepayments	15 741	32 543
Total	**514 318**	**550 375**

As at 30 June 2016 advance payments made for fixed assets under construction and intangible assets were mainly related to an investment project entitled "Construction of a 910 MW unit in Elektrownia Jaworzno III" and they totalled PLN 344 049 thousand.

(in PLN '000)

24.2. Other current non-financial assets

	As at 30 June 2016 (*unaudited*)	As at 31 December 2015
Costs settled over time, including:	**110 113**	**104 251**
Costs of preparing production in hard coal mines	60 595	33 411
Property and tort insurance	7 554	15 888
IT, telecom and postal services	16 172	26 367
Other prepayments	25 792	28 585
Other current non-financial assets, including:	**95 093**	**128 808**
Advance payments for deliveries	49 862	120 342
Surplus of Social Benefit Fund assets over its liabilities	–	3 984
Transfers made to the Social Benefit Fund	30 539	–
Other current assets	14 692	4 482
Total	**205 206**	**233 059**

25. Inventories

	As at 30 June 2016 (*unaudited*)	As at 31 December 2015
Historical cost		
Raw materials	238 526	273 523
Semi-finished goods and work-in-progress	166 970	155 586
Finished goods	8 431	5 510
Goods for resale	511	4 053
Energy certificates	–	1 319
Emission allowances	–	3 424
Total	**414 438**	**443 415**
Write-downs to net realisable value		
Raw materials	(9 404)	(10 097)
Finished goods	(16)	(4)
Goods for resale	(35)	(35)
Total	**(9 455)**	**(10 136)**
Net realisable value		
Raw materials	229 122	263 426
Semi-finished goods and work-in-progress	166 970	155 586
Finished goods	8 415	5 506
Goods for resale	476	4 018
Energy certificates	–	1 319
Emission allowances	–	3 424
Total	**404 983**	**433 279**

(in PLN '000)

26. Receivables from clients

Current receivables from clients as at 30 June 2016 and 31 December 2015 have been presented in the table below.

	As at 30 June 2016 (*unaudited*)	As at 31 December 2015
Value of items before allowance/write-down		
Receivables from clients	1 464 558	1 581 863
Receivables from clients – additional assessment of revenue from sales of electricity and distribution services	279 708	298 805
Receivables claimed at court	209 410	227 739
Total	**1 953 676**	**2 108 407**
Allowance/write-down		
Receivables from clients	(73 416)	(74 828)
Receivables claimed at court	(185 217)	(203 546)
Total	**(258 633)**	**(278 374)**
Value of item net of allowance (carrying amount)		
Receivables from clients	1 391 142	1 507 035
Receivables from clients – additional assessment of revenue from sales of electricity and distribution services	279 708	298 805
Receivables claimed at court	24 193	24 193
Total	**1 695 043**	**1 830 033**

27. Receivables due to taxes and charges

	As at 30 June 2016 (*unaudited*)	As at 31 December 2015
Corporate Income Tax receivables	27 726	909
VAT receivables	82 917	205 713
Excise duty receivables	2 234	20 314
Other	2 297	1 409
Total	**115 174**	**228 345**

Income tax receivables and liabilities

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

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

As at 30 June 2016, the Group had the following corporate income tax receivables and liabilities:

- income tax receivables of PLN 27 726 thousand, where PLN 27 231 thousand relates to settlements of the Tax Capital Group;
- income tax liability of PLN 681 thousand, which did not concern the settlements of the Tax Capital Group.

In the 6-month period ended 30 June 2016 income tax expense of the Tax Capital Group amounted to PLN 99 652 thousand. At the same time, the Tax Capital Group prepaid CIT of PLN 126 603 thousand.

(in PLN '000)

28. Cash and cash equivalents

	As at 30 June 2016 (*unaudited*)	As at 31 December 2015
Cash at bank and in hand	407 079	353 428
Short-term deposits (up to 3 months)	14 612	10 722
Other	432	762
Total cash and cash equivalents presented in the statement of financial position, of which:	**422 123**	**364 912**
restricted cash	179 404	206 254
Bank overdraft	(111 571)	(10 206)
Cash pool	(18 086)	(29 377)
Foreign exchange	1 507	2 386
Total cash and cash equivalents presented in the statement of cash flows	**293 973**	**327 715**

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

As at 30 June 2016, the balance of restricted cash included mainly cash on the accounts for bid bonds of PLN 75 259 thousand and cash on the accounts used for the settlement of electricity and emission allowances traded on the Polish Power Exchange, i.e. Towarowa Giełda Energii S.A., of PLN 64 935 thousand.

29. Equity

29.1. Issued capital

Issued capital as at 30 June 2016 *(unaudited)*

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

As at 30 June 2016, the value of issued capital, the number of shares and the par value of shares did not change compared to 31 December 2015.

Shareholding structure as at 30 June 2016 *(to the best of the Company's knowledge, unaudited)*

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

To the best of the Company's knowledge, the shareholding structure as at 30 June 2016 has not changed since 31 December 2015.

29.2. Reserve capital

On 8 June 2016 Ordinary General Shareholders' Meeting passed a resolution regarding absorption of the net loss for 2015 in the amount of PLN 3 453 908 thousand from the reserve capital of the Company.

(in PLN '000)

29.3. Revaluation reserve from valuation of hedging instruments

	6-month period ended 30 June 2016 (*unaudited*)	6-month period ended 30 June 2015 (*unaudited*)
Opening balance	**(73 414)**	**(143 019)**
Remeasurement of hedging instruments	49 075	48 417
Remeasurement of hedging instruments charged to profit or loss	(229)	211
Deferred income tax	(9 281)	(9 239)
Closing balance	**(33 849)**	**(103 630)**

The revaluation reserve from valuation of hedging instruments results from valuation of Interest Rate Swaps (IRS) hedging the interest rate risk arising from issued bonds, which has been discussed in more detail in Note 32 to these condensed interim consolidated financial statements.

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

As at 30 June 2016 the Company recognized PLN (33 849) 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, totalling to PLN 46 392 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 46 253 thousand, where PLN 46 482 thousand was the amount paid in respect of hedges used in relation to closed interest periods and PLN (229) thousand resulted from remeasurement of instruments related to interest on bonds accrued as at the end of the reporting period. In the statement of comprehensive income, the above expense on IRS hedging transactions increased finance costs arising from such interest.

29.4. Retained earnings and dividend limitation

In the current period, changes in retained earnings (unabsorbed loss) included:

- net profit for the period attributable to the shareholders of the Parent of PLN 3 435 thousand;
- actuarial losses on provisions for post-employment benefits, recognized in other comprehensive income, of PLN 1 118 thousand.
- absorption of loss of PLN 3 453 908 thousand incurred by the Company in 2015 with the reserve capital;
- settlement of the acquisition of an organized part of ZCP Brzeszcze: a loss of PLN 14 041 thousand;
- other transactions with non-controlling shareholders that increase retained earnings by PLN 16 thousand.

Only PLN 13 thousand out of retained earnings may be distributed among the shareholders of the Parent.

30. Jointly-controlled acquisition and changes due to reorganization

Acquisition of an organized part of the enterprise of Zakład Górniczy Brzeszcze

On 31 December 2015, Nowe Brzeszcze Grupa TAURON Sp. z o.o. and Spółka Restrukturyzacji Kopalń S.A. ("SRK") entered into an agreement for sale of a designated part of Zakład Górniczy Brzeszcze as an organized part of the enterprise ("ZCP Brzeszcze"). The aforesaid agreement was entered into in performance of the preliminary agreement of 19 October 2015 and under Article 8a.4 of the Act on Hard Coal Mining of 7 September 2007. Under the sale agreement, the date of the provision of the object of sale and making the acquired ZCP Brzeszcze available for use to Nowe Brzeszcze Grupa TAURON Sp. z o.o. was 1 January 2016, as of which date the risks and rewards relating to the object of sale were transferred onto Nowe Brzeszcze Grupa TAURON Sp. z o.o.

The ZCP Brzeszcze selling price agreed by the parties and payable to SRK is PLN 1.00. Due to the fact that KWK Brzeszcze incurred losses at the time of its operation as part of SRK, under an agreement of 29 May 2015 between the Minister of Economy and SRK, funds from the government budget were allocated to SRK for purposes of offsetting current manufacturing losses of the mining company in 2015 ("Public Aid"). At the same time, in accordance with the aid refund agreement, Nowe Brzeszcze Grupa TAURON Sp. z o.o. committed to return the Public Aid, including interest accrued as of each date of disbursement of the Public Aid by its provider to SRK. Thus, the acquisition price comprises the agreed price of PLN 1.00 and the Public Aid amount to be refunded, including interest due as at 31 December 2015, i.e. PLN 130 218 thousand. In the 6-month period ended 30 June 2016, Nowe Brzeszcze Grupa TAURON Sp. z o.o. refunded the aforementioned Public Aid amount along with interest accrued by the repayment date. The expenditure relating to the Public Aid refund has been presented under investing activities in the consolidated statement of cash flows.

(in PLN '000)

As the transaction involving the acquisition of ZCP Brzeszcze is carried out under joint control of the State Treasury, Nowe Brzeszcze Grupa TAURON Sp. z o.o. accounted for the business combination using the pooling of interest method, as provided for by the accounting policies adopted by the Group, on the assumption that comparative data could not be presented.

Presented below is the balance sheet as at the date of the acquisition of the designated part of Zakład Górniczy Brzeszcze by Nowe Brzeszcze Grupa TAURON Sp. z o.o.

	As at 1 January 2016		As at 1 January 2016
Non-current assets		**Equity**	**(14 041)**
Property, plant and equipment and intangible assets	215 924	**Provisions and liabilities**	
Deferred tax assets	3 127	Provision for mine decommissioning	65 992
	219 051	Provisions for employee benefits	26 462
		Accruals (provision for unused annual leave)	4 203
Current assets		Obligations under leases	3 132
Inventories	1 349	Liabilities arising from public aid refund	130 218
Other financial assets	25	Other financial liabilities	4 459
	1 374		**234 466**
Total assets	**220 425**	**Total equity and liabilities**	**220 425**

As Zakład Górniczy Brzeszcze did not prepare its financial statements in conformity with IFRS, for purposes of accounting for the transaction, the Group prepared the balance sheet of ZCP Brzeszcze in accordance with its own accounting policies. To this end, the following procedures were performed:

- fixed assets were measured by an independent property appraiser. In the absence of an active market, the major part of such assets were measured at amortized replacement cost.
- The following provisions were recognized:
  - a mine decommissioning provision – estimated on the basis of third-party expert calculations;
  - actuarial provision – estimated using actuarial methods on the basis of agreements setting out the terms of calculation and payment of retirement and disability benefits and jubilee bonuses at Kompania Węglowa S.A.;
  - provision for unused annual leave – estimated by an actuary.

Following the acquisition of ZCP Brzeszcze, no trade receivables or liabilities relating to that part of the enterprise were transferred onto Nowe Brzeszcze Grupa TAURON Sp. z o.o., while the acquired inventory was limited to materials of PLN 1 349 thousand.

31. Debt

	As at 30 June 2016 (*unaudited*)	As at 31 December 2015
Loans and borrowings	1 457 860	1 411 776
Bonds issued	7 325 363	6 680 433
Finance lease	41 824	46 438
Total	**8 825 047**	**8 138 647**
Current	1 070 720	3 214 520
Non-current	7 754 327	4 924 127

(in PLN '000)

31.1. Loans and borrowings

Loans and borrowings taken out as at 30 June 2016 *(unaudited)*

Currency	Interest rate	Value of loans and borrowings as at the balance sheet date		of which maturing within (*after the balance sheet date*):					
		currency	PLN	less than 3 months	3–12 months	1–2 years	2–3 years	3–5 years	over 5 years
PLN	floating	63 741	63 741	20 018	5 935	7 544	7 377	14 666	8 201
	fixed	1 275 239	1 275 239	20 444	112 303	162 223	162 223	324 447	493 599
Total PLN		**1 338 980**	**1 338 980**	**40 462**	**118 238**	**169 767**	**169 600**	**339 113**	**501 800**
EUR	floating	24 844	109 946	109 946	–	–	–	–	–
Total EUR		**24 844**	**109 946**	**109 946**	**–**	**–**	**–**	**–**	**–**
USD	floating	408	1 625	1 625	–	–	–	–	–
Total USD		**408**	**1 625**	**1 625**	**–**	**–**	**–**	**–**	**–**
Total			**1 450 551**	**152 033**	**118 238**	**169 767**	**169 600**	**339 113**	**501 800**
Interest increasing carrying amount			7 309						
Total loans and borrowings			**1 457 860**						

Loans and borrowings taken out as at 31 December 2015

Currency	Interest rate	Value of loans and borrowings as at the balance sheet date		of which maturing within (*after the balance sheet date*):					
		currency	PLN	less than 3 months	3–12 months	1–2 years	2–3 years	3–5 years	over 5 years
PLN	floating	77 350	77 350	29 993	6 864	7 333	7 308	14 316	11 536
	fixed	1 316 062	1 316 062	20 444	112 297	147 478	162 214	324 429	549 200
Total PLN		**1 393 412**	**1 393 412**	**50 437**	**119 161**	**154 811**	**169 522**	**338 745**	**560 736**
EUR	floating	2 025	8 630	8 630	–	–	–	–	–
Total EUR		**2 025**	**8 630**	**8 630**	**–**	**–**	**–**	**–**	**–**
USD	floating	404	1 576	1 576	–	–	–	–	–
Total USD		**404**	**1 576**	**1 576**	**–**	**–**	**–**	**–**	**–**
Total			**1 403 618**	**60 643**	**119 161**	**154 811**	**169 522**	**338 745**	**560 736**
Interest increasing carrying amount			8 158						
Total loans and borrowings			**1 411 776**						

Change in the balance of loans and borrowings excluding interest increasing their carrying amount, accrued in the 6-month period ended 30 June 2016 and in the comparable period, has been presented below.

	6-month period ended 30 June 2016 (*unaudited*)	6-month period ended 30 June 2015 (*unaudited*)
Opening balance	**1 403 618**	**1 225 612**
Movement in bank overdrafts and cash pool loans	**90 074**	**23 683**
Movement in loans (excluding bank overdrafts and cash pool loans):	**(43 141)**	**(44 412)**
Repaid	(44 724)	(44 739)
Taken	916	–
Change in valuation	667	327
Closing balance	**1 450 551**	**1 204 883**

(in PLN '000)

The major liabilities due to loans and borrowings have been presented in the table below:

Loans/ borrowings	Borrowing institution	Purpose	Interest rate	Maturity date	As at 30 June 2016 *(unaudited)*	As at 31 December 2015
Loans	European Investment Bank	Coal unit at Jaworzno III Power Plant	Fixed	15.12.2021	126 039	126 218
		EC Bielsko Biała coal unit	Fixed	15.12.2021	180 055	180 303
		Modernization and extension of power grid	Fixed – agreed until 15 December 2017	15.06.2024	327 798	348 325
			Fixed – agreed until 15 March 2018	15.09.2024	156 263	165 467
			Fixed – agreed until 15 March 2018	15.09.2024	195 244	206 746
		Modernization and extension of power grid and improvement of hydropower plants	Fixed – agreed until 15 September 2019	15.03.2027	297 129	297 132
Borrowings	Regional Fund for Environmental Protection and Water Management	Construction of renewable power unit at Jaworzno III Power Plant	Floating	15.12.2022	26 000	28 000
		Construction of biomass infeed installation and modernization of fluid bed at Tychy Generation Plant	Floating	15.12.2022	17 912	19 216
Other loans and borrowings					131 420	40 369
Total					**1 457 860**	**1 411 776**

31.2. Bonds issued

Bonds issued as at 30 June 2016 *(unaudited)*

Issuer	Tranche/ Bank	Redemption date	Currrency	As at balance sheet date		of which maturing within (*after the balance sheet date*):				
				Interest accrued	Principal at amortised cost	up to 3 months	3–12 months	1–2 years	2–5 years	Over 5 years
TAURON Polska Energia S.A.	C	12 December 2016	PLN	1 033	749 847	–	749 847	–	–	–
	BGK*	20 December 2019	PLN	97	99 857	–	–	–	99 857	–
		20 December 2020	PLN	97	99 839	–	–	–	99 839	–
		20 December 2021	PLN	97	99 829	–	–	–	–	99 829
		20 December 2022	PLN	97	99 820	–	–	–	–	99 820
		20 December 2023	PLN	97	99 813	–	–	–	–	99 813
		20 December 2024	PLN	97	99 810	–	–	–	–	99 810
		20 December 2025	PLN	97	99 805	–	–	–	–	99 805
		20 December 2026	PLN	97	99 800	–	–	–	–	99 800
		20 December 2027	PLN	97	99 797	–	–	–	–	99 797
		20 December 2028	PLN	97	99 796	–	–	–	–	99 796
		20 December 2020	PLN	67	70 000	–	–	–	70 000	–
		20 December 2021	PLN	67	70 000	–	–	–	–	70 000
		20 December 2022	PLN	67	70 000	–	–	–	–	70 000
		20 December 2023	PLN	67	70 000	–	–	–	–	70 000
		20 December 2024	PLN	67	70 000	–	–	–	–	70 000
		20 December 2025	PLN	67	70 000	–	–	–	–	70 000
	Bond Issue Scheme of 24.11.2015	29 December 2020	PLN	362	2 244 189	–	–	–	2 244 189	–
		25 March 2020	PLN	776	99 737	–	–	–	99 737	–
		30 March 2020	PLN	2 209	299 209	–	–	–	299 209	–
	TPEA1119	4 November 2019	PLN	7 406	1 749 093	–	–	–	1 749 093	–
TAURON Sweden Energy AB (publ)		3 December 2029	EUR	14 972	736 992	–	–	–	–	736 992
Total debentures				**28 130**	**7 297 233**	**–**	**749 847**	**–**	**4 661 924**	**1 885 462**

** Bank Gospodarstwa Krajowego*

(in PLN '000)

Bonds issued as at 31 December 2015

Issuer	Tranche/ Bank	Redemption date	Currrency	As at balance sheet date		of which maturing within (*after the balance sheet date*):				
				Interest accrued	Principal at amortised cost	up to 3 months	3–12 months	1–2 years	2–5 years	Over 5 years
TAURON Polska Energia S.A.	C	12 December 2016	PLN	4 389	2 998 938	2 249 203	749 735	–	–	–
	BGK*	20 December 2019	PLN	106	99 836	–	–	–	99 836	–
		20 December 2020	PLN	106	99 823	–	–	–	99 823	–
		20 December 2021	PLN	106	99 815	–	–	–	–	99 815
		20 December 2022	PLN	106	99 808	–	–	–	–	99 808
		20 December 2023	PLN	106	99 802	–	–	–	–	99 802
		20 December 2024	PLN	106	99 800	–	–	–	–	99 800
		20 December 2025	PLN	106	99 796	–	–	–	–	99 796
		20 December 2026	PLN	106	99 792	–	–	–	–	99 792
		20 December 2027	PLN	106	99 790	–	–	–	–	99 790
		20 December 2028	PLN	97	99 790	–	–	–	–	99 790
		20 December 2020	PLN	12	70 000	–	–	–	70 000	–
		20 December 2021	PLN	12	70 000	–	–	–	–	70 000
		20 December 2022	PLN	12	70 000	–	–	–	–	70 000
	TPEA1119	4 November 2019	PLN	7 508	1 749 043	–	–	–	1 749 043	–
TAURON Sweden Energy AB (publ)		3 December 2029	EUR	1 921	709 495	–	–	–	–	709 495
Total debentures				**14 905**	**6 665 528**	**2 249 203**	**749 735**	**–**	**2 018 702**	**1 647 888**

* *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. The euro is the issue currency and repayment currency As at 30 June 2016, the carrying amount of the bonds with interest in the bond currency was EUR 169 916 thousand (versus EUR 166 941 thousand as at 31 December 2015). The Company granted a corporate guarantee to TAURON Sweden Energy AB (publ) to secure the bonds in question. The guarantee is valid in the entire bond period, i.e. until 3 December 2029, and amounts to EUR 168 000 thousand.

Change in the balance of bonds excluding interest accrued in the 6-month period ended 30 June 2016 and in the comparable period has been presented below.

	6-month period ended 30 June 2016 (*unaudited*)	6-month period ended 30 June 2015 (*unaudited*)
Opening balance	**6 665 528**	**6 803 298**
Issue*	2 852 461	–
Redemption	(2 250 000)	(150 000)
Change in valuation	29 244	(10 122)
Closing balance	**7 297 233**	**6 643 176**

* *Costs of issue have been included.*

The change in the balance of bonds during the six months ended 30 June 2016 resulted from the following events:

- On 8 January 2016, the Company issued long-term bonds with the total par value of PLN 210 000 thousand under the agreement with Bank Gospodarstwa Krajowego with the following maturity dates:
  - Tranche of PLN 70 000 thousand with the maturity date on 20 December 2023;
  - Tranche of PLN 70 000 thousand with the maturity date on 20 December 2024;
  - Tranche of PLN 70 000 thousand with the maturity date on 20 December 2025.

Condensed interim consolidated financial statements for the 6-month period ended 30 June 2016 prepared according to IFRS, as endorsed by the European Union (in PLN '000)

- On 29 February 2016, the Company repurchased 22 500 out of 30 000 Tranche C bonds issued on 12 December 2011 under the bond issue scheme of 16 December 2010, for purposes of redemption. The remaining 7 500 Tranche C bonds were not repurchased early. In accordance with the terms of issue, they will be repurchased on 12 December 2016. The aforesaid bonds were repurchased at the issue price of PLN 100 thousand. Thus, the total par value of bonds which were repurchased and redeemed by the Company was PLN 2 250 000 thousand. This amount was increased by interest due between the beginning of the last interest period preceding the repurchase and the repurchase date. The bonds were repurchased for redemption under bilateral agreements concluded by TAURON Polska Energia S.A. with Tranche C Bond holders, mainly to prolong the date of the Company's repayment of debt incurred in the form of bonds. The funds for bond repurchase were secured under a new bond issue scheme of 24 November 2015, which has been discussed in more detail below.
- Under the new bond issue scheme of 24 November 2015, the Company issued 22 500 bonds with the total par value of PLN 2 250 000 thousand on 29 February 2016. The bonds will mature on 29 December 2020. The bonds were issued in the Polish zloty as unsecured, dematerialized coupon securities. They were purchased at the issue price equal to the par value of PLN 100 thousand. The interest on issued bonds was determined by reference to WIBOR 6M increased by a fixed margin. The bonds will be repurchased at the issue price at maturity, while interest will be paid in arrears at the end of each interest period to bond holders determined at the record date. Interest on the aforesaid bonds is payable in semi-annual periods (with the proviso that the first period is four months). The bonds were purchased by financial institutions being parties to the bond issue scheme agreements, i.e. Bank BGŻ BNP Paribas S.A., Bank Handlowy w Warszawie S.A., Bank of Tokyo-Mitsubishi UFJ (Holland) BV, Bank of Tokyo-Mitsubishi UFJ (Polska) S.A., Bank Zachodni WBK S.A., CaixaBank S.A. (Spółka Akcyjna) Branch in Poland, Industrial and Commercial Bank of China (Europe) S.A. Branch in Poland, ING Bank Śląski S.A., mBank S.A. and Powszechna Kasa Oszczędności Bank Polski S.A.
- In March 2016, the Company issued further bonds under the agreement of 24 November 2015:
  - Tranche of PLN 100 000 thousand with the maturity date on 25 March 2020;
  - Tranche of PLN 300 000 thousand with the maturity date on 30 March 2020.

The Company hedges a portion of interest cash flows related to issued bonds using IRS contracts. The instruments are subject to hedge accounting, which has been discussed in more detail in Note 32 to these condensed interim consolidated financial statements.

The agreements signed by the Company with the banks include legal and financial covenants which are commonly used in such transactions. As at 30 June 2016, none of these covenants were breached and the contractual provisions were complied with.

32. Derivative instruments

	As at 30 June 2016 (*unaudited*)				As at 31 December 2015			
	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	–	–	**–**	**–**	(11 368)	–	**3 055**	**(14 423)**
IRS	(4 604)	(41 788)	**1 040**	**(47 432)**	(4 833)	(90 634)	**–**	**(95 467)**
Commodity forwards/futures/swap	10 517	–	**88 937**	**(78 420)**	17	–	**2 225**	**(2 208)**
Currency forwards	1 527	–	**1 527**	**–**	393	–	**404**	**(11)**
Total derivative instruments, including:			**91 504**	**(125 852)**			**5 684**	**(112 109)**
Current			79 453	(125 840)			5 668	(96 953)
Non-current			12 051	(12)			16	(15 156)

(in PLN '000)

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

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

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

	As at 30 June 2016 (*unaudited*)		As at 31 December 2015	
	Level 1	Level 2	Level 1	Level 2
Assets				
Commodity-related derivatives	88 937	–	2 225	–
Derivate instruments – CCIRS	–	–	–	3 055
Derivative instruments – IRS	–	1 040	–	–
Derivative instruments – currency	–	1 527	–	404
Liabilities				
Commodity-related derivatives	78 420	–	2 208	–
Currency derivatives	–	–	–	11
Derivate instruments – CCIRS	–	–	–	14 423
Derivative instruments – IRS	–	47 432	–	95 467

Hedging derivative instruments (subject to hedge accounting) – IRS

Pursuant to a decision of the Financial Risk Management Committee of 30 January 2012, the Company hedged the interest rate risk arising from bonds issued under the Bond Issue Scheme (Tranche A and Tranche C), by entering into an interest rate swap (IRS) transaction for a term of 5 years. The aforementioned transaction was concluded due to fluctuations in the projected future cash flows from interest payments resulting from the issue of bonds in PLN with a floating interest rate based on WIBOR 6M. The Company hedged 80% of such cash flows. The Tranche A transaction was settled at maturity of the instrument, i.e. in December 2015. On 29 February 2016, the Company repurchased and redeemed a portion of Tranche C bonds with the par value of PLN 2 250 000 thousand, which had been hedged using IRS, and at the same time issued bonds with the same par value under an agreement entered into in November 2015, which has been discussed in more detail in Note 31.2 to these condensed interim consolidated financial statements. In accordance with the dynamic interest rate risk hedging strategy adopted by the Company, whereby cash flows related to the exposure to the WIBOR 6M interest rate risk are the hedged instrument, the Company maintained the hedging relationship for the IRS transactions concluded in March 2012 with respect to the newly issued bonds. As the effectiveness of the hedge was considered high, the transactions are covered by hedge accounting.

In the 6-month period ended 30 June 2016, pursuant to the decision of the Financial and Credit Risk Management Committee, the Company hedged a portion of interest rate risk arising from cash flows exposed to WIBOR 6M, designed under a dynamic risk management strategy, i.e. interest on debt securities with the nominal value of PLN 1 100 000 thousand through conclusion of IRS hedging transactions for the period from 4 to 5 years. The aforementioned transactions are subject to hedge accounting with the exception of the first interest period. This is due to the fact that the floating interest rate in the first interest period was determined in advance, hence the entity may not apply hedge accounting principles to cash flows resulting from the first interest period.

On 5 July 2016 certain IRS transactions concluded in March 2012 were prematurely settled. The amount paid by the Group under the settlement was PLN 7 697 thousand.

(in PLN '000)

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

In the first quarter of 2016, the Company closed a transaction involving a coupon cross currency swap (CCIRS), which was not subject to hedge accounting. Following the settlement of the aforesaid transaction in February 2016, the Company received PLN 5 400 thousand. The transaction involved a swap of interest payments on the nominal amount of EUR 168 000 thousand and its original maturity was 15 years. In accordance with the contract, the Company paid interest accrued based on a floating interest rate in PLN and received fixed-rate payments in EUR.

As at 30 June 2016, derivative instruments which did not fall within the scope of hedge accounting and were classified as financial assets or financial liabilities measured at fair value through profit or loss comprised:

- commodity derivatives (futures, forward, swap) including emission allowance, electricity and other commodity purchase and sale transactions;
- FX forward transactions hedging foreign currency cash flows resulting from trading and financial activities.

33. Provisions for employee benefits

	As at 30 June 2016 (*unaudited*)	As at 31 December 2015
Provision for post-employment benefits and jubilee bonuses	1 868 205	1 850 375
Provision for employment termination benefits	45 841	57 336
Total	**1 914 046**	**1 907 711**
Current	146 575	172 505
Non-current	1 767 471	1 735 206

33.1. Provisions for post-employment benefits and jubilee bonuses

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

	Provision for retirement, disability and similar benefits	Employee electricity rates	Social Fund	Provision for coal allowances	Jubilee bonuses	Provisions, total
Opening balance	**341 124**	**722 734**	**131 110**	**2 242**	**653 165**	**1 850 375**
Current service costs	6 881	10 279	946	–	18 075	**36 181**
Actuarial gains and losses	1 434	–	(5)	–	(11 614)	**(10 185)**
Benefits paid	(13 180)	(11 116)	(1 833)	(909)	(32 592)	**(59 630)**
Interest expense	4 640	9 915	1 790	–	8 657	**25 002**
Acquisition of ZCP Brzeszcze	9 436	–	–	–	17 026	**26 462**
Closing balance	**350 335**	**731 812**	**132 008**	**1 333**	**652 717**	**1 868 205**
Current	22 982	23 807	4 309	1 333	57 158	**109 589**
Non-current	327 353	708 005	127 699	–	595 559	**1 758 616**

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

	Provision for retirement, disability and similar benefits	Employee electricity rates	Social Fund	Provision for coal allowances	Jubilee bonuses	Provisions, total
Opening balance	**357 017**	**769 975**	**170 242**	**67 661**	**679 510**	**2 044 405**
Current service costs	7 180	4 070	1 769	843	19 085	**32 947**
Actuarial gains and losses	2 299	(2 929)	(546)	53	(6 979)	**(8 102)**
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**
Closing balance (*unaudited restated figures*)	**353 570**	**766 069**	**171 066**	**68 322**	**674 818**	**2 033 845**
Current	24 116	24 341	4 918	1 302	54 406	**109 083**
Non-current	329 454	741 728	166 148	67 020	620 412	**1 924 762**

(in PLN '000)

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.

The provisions for employee benefits have been measured as at 30 June 2016 based on actuarial projections. Actuarial assumptions made in preparing the projections for 2016 were the same as those used for measuring provisions as at 31 December 2015. Key actuarial assumptions made as at 31 December 2015 for the purpose of calculation of the liability:

	31 December 2015
Discount rate (%)	2.75%
Estimated inflation rate (%)	2.35%
Employee rotation rate (%)	1.14% – 9.10%
Estimated salary increase rate (%)	0.23% – 2.43%
Estimated electricity price increase rate (%)	4.30%
Estimated increase rate for contribution to the Social Fund (%)	4.50%
Remaining average employment period	9.80 – 14.90

33.2. Provisions for employment termination benefits

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

	Voluntary redundancy schemes in operating segments		Other	Total
	Generation	Distribution		
Opening balance	**23 460**	**25 432**	**8 444**	**57 336**
Recognition	5 041	–	–	**5 041**
Reversal	–	–	(2 468)	**(2 468)**
Utilization	(5 820)	(6 830)	(1 418)	**(14 068)**
Closing balance	**22 681**	**18 602**	**4 558**	**45 841**
Current	13 826	18 602	4 558	**36 986**
Non-current	8 855	–	–	**8 855**

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

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

(in PLN '000)

34. Provisions for dismantling fixed assets, restoration of land and other

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

	Provision for mine decommissioning costs	Provision for restoration of land and dismantling and removal of fixed assets	Provision for onerous contracts with a jointly-controlled entity	Provisions, total
Opening balance	**111 675**	**101 244**	**182 877**	**395 796**
Interest cost (discounting)	1 545	1 380	8 160	**11 085**
Recognition/(reversal), net	527	–	2 146	**2 673**
Acquisition of ZCP Brzeszcze	65 992	–	–	**65 992**
Closing balance	**179 739**	**102 624**	**193 183**	**475 546**
Current	–	905	33 973	**34 878**
Non-current	179 739	101 719	159 210	**440 668**
Other provisions, long-term portion				**1 893**
Total				**442 561**

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

	Provision for mine decommissioning costs	Provision for restoration of land and dismantling and removal of fixed assets	Provisions, total
Opening balance	**120 704**	**42 774**	**163 478**
Interest cost (discounting)	1 498	488	**1 986**
Recognition/(reversal), net	115	–	**115**
Closing balance	**122 317**	**43 262**	**165 579**
Current	–	888	**888**
Non-current	122 317	42 374	**164 691**
Other provisions, long-term portion			**2 104**
Total			**166 795**

34.1. Provision for mine decommissioning costs

The provision is recognized for mines included in the Group based on estimated costs of liquidating buildings and reclaiming land after completion of the exploitation process. The provision for mine decommissioning costs includes the balance of the Mine Decommissioning Fund, which is created under the Geological and Mining Law and the related implementing provisions, by the Group's mining companies as a pre-determined ratio of the tax depreciation charge on fixed assets or, for the exploitation fee, the equivalent of the charge transferred to a separate bank account. Financial assets of the Fund are presented in the statement of financial position under non-current financial assets, while the balance of the Fund is recognized under the provision for future costs of mine decommissioning.

In the 6-month period ended 30 June 2016, the provision increased by PLN 65 992 thousand following the acquisition of an organized part of the enterprise of Zakład Górniczy Brzeszcze, which has been discussed in more detail in Note 30 to these condensed interim consolidated financial statements.

34.2. Provision for restoration of land and dismantling and removal of fixed assets

The provision for restoration of land and dismantling and removal of fixed assets comprises the following provisions recognized by the Generation segment companies:

- provision for ash pile reclamation costs, which totalled PLN 42 418 thousand as at 30 June 2016 (versus PLN 41 855 thousand as at 31 December 2015);
- provision for windfarm dismantling costs, which totalled PLN 60 206 thousand as at 30 June 2016 (versus PLN 59 389 thousand as at 31 December 2015).

34.3. Provision for onerous contracts with a joint venture

As the schedule had not been met and the material technical terms of the contract signed with the general contractor on the gas and steam unit construction project in Stalowa Wola, determining the safety and failure-free operation as well as the future efficiency and costs of operation of the unit, had been breached, Elektrociepłownia Stalowa Wola S.A. terminated the contract with the general contractor on 29 January 2016. At present, analyses are being performed with a view to determining the further course of action and selecting a project implementation scenario. Elektrociepłownia Stalowa Wola S.A., its business partners and the banks financing the project shall agree on the project completion formula. All the parties expressed their willingness to continue the project. A solution aimed at restoring financing is being worked out with the banks. The construction site is being taken over from the general contractor and works aimed at securing the equipment and its maintenance are being performed. The Company is negotiating amendments to the gas and electricity contracts with PGNIG S.A.

(in PLN '000)

In view of the foregoing, in the year ended 31 December 2015, the Company recognized provisions for onerous contracts with a joint venture, Elektrociepłownia Stalowa Wola S.A., totalling PLN 182 877 thousand.

In the 6-month period ended 30 June 2016, the Company revalued the provisions for onerous contracts with a joint venture due to the unwinding of discount as at the end of the reporting period, which increased the provisions by PLN 8 160 thousand in total, and recognized additional provisions of PLN 2 146 thousand (net amount).

As at the end of the reporting period, the balance of provisions for onerous contracts amounted to PLN 193 183 thousand and included:

- a provision of PLN 129 607 thousand resulting from the fact that under a multi-annual electricity sales contract among Elektrociepłownia Stalowa Wola S.A., the Company and PGNiG Energia S.A., the Company is obliged to purchase half of the volume of electricity at a price determined in the "cost plus" formula, which covers the manufacturing costs and the financing costs. The provision was estimated taking account of the difference between the planned market prices of electricity and the costs resulting from the "cost plus" formula;
- a provision of PLN 53 190 thousand resulting from the fact that the Company may be obliged to cover losses which may be incurred under the take or pay clause of the comprehensive gaseous fuel supply contract entered into by PGNiG S.A. and Elektrociepłownia Stalowa Wola S.A. Pursuant to the said clause, Elektrociepłownia Stalowa Wola S.A. shall pay PGNiG S.A. for uncollected gas or resell it on the market. The provision was estimated on the assumption that the gas volume for 2016–2018 was the same as the one specified in the contract. The short-term portion of the provision is PLN 28 671 thousand;
- a provision for costs of PLN 10 386 thousand (PLN 5 302 thousand of which is the short-term portion). The Company may be required to incur additional costs necessary for the operation of Elektrociepłownia Stalowa Wola S.A. due to delays in project completion.

The provisions for the costs of fulfilment of the gas contract and for additional costs of operation have been recognized in proportion to the Company's interest in the joint venture.

35. Provisions for liabilities due to gas emission and energy certificates

Provisions for liabilities due to gas emission and energy certificates concern the current year. Therefore, they are only short-term provisions.

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

	Provision for gas emission obligations	Provision for obligation to submit energy certificates	Provisions, total
Opening balance	**153 083**	**865 051**	**1 018 134**
Recognition	146 136	370 428	**516 564**
Reversal	(63)	(3 874)	**(3 937)**
Utilisation	(174 957)	(847 217)	**(1 022 174)**
Closing balance	**124 199**	**384 388**	**508 587**

(in PLN '000)

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

	Provision for gas emission obligations	Provision for obligation to submit energy certificates	Provisions, total
Opening balance	**8 130**	**914 926**	**923 056**
Recognition	12 595	439 112	**451 707**
Reversal	(2 290)	(2 111)	**(4 401)**
Utilisation	(5 840)	(905 643)	**(911 483)**
Closing balance	**12 595**	**446 284**	**458 879**

35.1. Provision for the obligation to surrender energy certificates

As at 30 June 2016, the Group recognized a short-term provision for the obligation to surrender energy certificates for cancellation of PLN 384 388 thousand, out of which: the amount of PLN 265 696 thousand is covered with the energy certificates held as at the end of the reporting period; the amount of PLN 70 018 thousand shall be provided by the Group's paying a replacement fee; the amount of PLN 48 674 thousand shall be provided through the purchase of property rights.

In the 6-month period ended 30 June 2016, the Group fulfilled the obligation to surrender certificates of electricity generated using renewable sources, in cogeneration and energy efficiency certificates for 2015. Therefore, a provision of PLN 847 217 thousand has been utilized.

35.2. Provision for gas emission liabilities

According to the accounting policy adopted by the Group, the provision for liabilities arising from emission of gas included in the allowance distribution plan is charged to operating expenses if the actual emission level exceeds the volume of emission allowances received free of charge, including allocation of free-of-charge emission allowances to individual 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 30 June 2016 the provision for gas emission liabilities amounted to PLN 124 199 thousand and regarded the obligatory redemption of emission rights for the 6-month period ended 30 June 2016. As at 30 June 2016 the provision was recognized both for installations owned by TAURON Wytwarzanie S.A. and by TAURON Ciepło Sp. z o.o. – in both companies, the emission in the 6-month period ended 30 June 2016 exceeded the number of free-of-charge allowances. The provision for the costs of eliminating the deficit, i.e. emissions in excess of the free-of-charge allowances, was recognized at the value of the emission allowances purchased by the Group and presented as current intangible assets.

In the 6-month period ended 30 June 2016 the Group fulfilled the obligation to surrender gas emission allowances for 2015 for redemption. A change in the balance of provision in the 6-month period ended 30 June 2016 in the portion pertaining to 2015 arises from:

- revaluation of the provision: TAURON Wytwarzanie S.A. recognized an additional provision of PLN 21 937 thousand and TAURON Ciepło Sp. z o.o. derecognized a provision of PLN 63 thousand;
- utilization of the provision due to the fulfilment of the obligation for 2015 and redemption of emission allowances in the amount of PLN 174 957 thousand.

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36. Other provisions

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

	Provision for use of real estate without contract	Provision for counterparty claims, court dispute and other provisions	Provisions, total
Opening balance	**91 909**	**67 711**	**159 620**
Recognition/(reversal), net	1 685	7 193	**8 878**
Utilisation	(418)	(2 876)	**(3 294)**
Closing balance	**93 176**	**72 028**	**165 204**
Current	93 176	70 135	**163 311**
Non-current	–	1 893	**1 893**
Current portion of provisions for the costs of disassembly of fixed assets and land restoration and other provisions			**34 878**
Total current other provisions			**198 189**

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

	Provision for use of real estate without contract	Provision for counterparty claims, court dispute and other provisions	Provisions, total
Opening balance	**93 818**	**66 341**	**160 159**
Recognition/(reversal), net	(2 102)	987	**(1 115)**
Utilisation	(561)	(4 787)	**(5 348)**
Foreign exchange differences from translation of foreign entities	–	(14)	**(14)**
Closing balance	**91 155**	**62 527**	**153 682**
Current	91 155	60 423	**151 578**
Non-current	–	2 104	**2 104**
Current portion of provision for the costs of disassembly of fixed assets and land restoration			**888**
Total current other provisions			**152 466**

Provision for use of real estate without contract

The Group companies recognize provisions for all claims filed by the owners of the real estate on which distribution systems and heat installations are located. As at 30 June 2016, the relevant provision amounted to PLN 93 176 thousand and was related to the following segments:

- Generation: PLN 51 355 thousand;
- Distribution: PLN 41 821 thousand.

In 2012, a third party lodged a claim against TAURON Ciepło S.A. (currently: TAURON Ciepło Sp. z o.o.) related to clarification of the legal status of the transmission equipment located on its property. The Company has questioned both the legitimacy of the claims and of the basis for offsetting their amounts against the current liabilities to the company arising from heat supplies. Consequently, the company went to court to recover its current receivables from the debtor. The amount of the potential claims of the aforesaid entity in respect of clarification of the legal status of the company's transmission equipment will be reviewed in the course of the proceedings. With regard to the dispute, in light of the adopted accounting policy, a provision has been recognized for the estimated cost of the above claim. Bearing in mind the pending litigation, in accordance with IAS 37.92, the Group does not disclose all information regarding the above issue as required by IAS 37.

(in PLN '000)

37. Accruals, deferred income and government grants

37.1. Deferred income and government grants

	As at 30 June 2016 (*unaudited*)	As at 31 December 2015
Deferred income, of which:	**308 865**	**325 861**
Donations, subsidies received for the purchase or fixed assets received free-of-charge	77 572	83 308
Connection fees	229 280	240 485
Other	2 013	2 068
Government grants, of which:	**392 365**	**382 660**
Subsidies obtained from EU funds	288 680	286 222
Forgiven loans from environmental funds	22 551	11 801
Measurement of preferential loans	38 512	39 401
Other	42 622	45 236
Total	**701 230**	**708 521**
Non-current	642 503	650 364
Current	58 727	58 157

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 2016, they amounted to PLN 17 678 thousand.

37.2. Short-term accruals

	As at 30 June 2016 (*unaudited*)	As at 31 December 2015
Unused holidays	66 967	37 468
Bonuses	151 906	140 946
Environmental protection charges	13 936	4 449
Other	12 669	13 317
Total	**245 478**	**196 180**

38. Liabilities due to taxes and charges

	As at 30 June 2016 (*unaudited*)	As at 31 December 2015
Corporate Income Tax	681	85 357
Personal Income Tax	32 036	46 841
Excise	37 861	42 467
VAT	85 883	46 787
Social security	114 475	156 635
Environmental charges	9 847	46 889
Other	5 854	4 673
Total	**286 637**	**429 649**

(in PLN '000)

39. Other current non-financial liabilities

	As at 30 June 2016 (*unaudited*)	As at 31 December 2015
Payments from customers relating to future periods, of which:	**285 004**	**273 168**
Prepayments for connection fees	23 143	25 366
Amounts overpaid by customers	255 538	240 700
Other	6 323	7 102
Other current non-financial liabilities, of which:	**19 263**	**754**
Surplus of Social Benefit Fund liabilities over its assets	9 586	–
Other non-financial liabilities	9 677	754
Total	**304 267**	**273 922**

40. Significant items of the consolidated statement of cash flows

40.1. Cash flows from operating activities

Impairment losses on property, plant and equipment and intangible assets

Impairment losses of PLN 699 070 thousand that adjust the Group's profit before tax have been described in details in Note 12 to these condensed interim consolidated financial statements.

Changes in working capital

	6-month period ended 30 June 2016 (*unaudited*)	6-month period ended 30 June 2015 (*unaudited*)
Change in receivables	29 916	91 476
Change in inventories	27 672	121 565
Change in payables excluding loans and borrowings	(310 295)	(358 148)
Change in other non-current and current assets	760 141	442 249
Change in deferred income, government grants and accruals	11 428	11 210
Change in provisions	(512 076)	(505 248)
Total	**6 786**	**(196 896)**

Income tax paid

Income tax paid in the amount of PLN 219 387 thousand includes mostly tax advances the Tax Capital Group paid in the 6-month period ended 30 June 2016 in the amount of PLN 126 603 thousand and for Q4 2015 in the amount of PLN 88 784 thousand.

40.2. Cash flows from investing activities

Purchase of property, plant and equipment and intangible assets

	6-month period ended 30 June 2016 (*unaudited*)	6-month period ended 30 June 2015 (*unaudited*)
Purchase of property, plant and equipment	(1 388 911)	(1 679 586)
Purchase of intangible assets	(38 618)	(30 241)
Change in the balance of VAT – adjusted capital commitments	(325 229)	(73 767)
Change in the balance of advance payments	11 145	(3 648)
Costs of overhaul and internal manufacturing	(27 781)	(60 900)
Other	(236)	(1 968)
Total	**(1 769 630)**	**(1 850 110)**

(in PLN '000)

Public aid refund

Payments to refund public aid in the amount of PLN 131 077 thousand are related to the refund made by Nowe Brzeszcze Grupa TAURON Sp. z o.o. under the public aid refund agreement, which has been discussed in more detail in Note 30 to these condensed interim consolidated financial statements.

Acquisition of financial assets

Expenses arising from acquisition of financial assets in the 6-month period ended 30 June 2016 in the amount of PLN 29 534 thousand include purchase of invetment fund units of PLN 25 000 thousand by the parent.

Loans granted

Payments to grant loans result from the loans disbursed by the Parent to Elektrociepłownia Stalowa Wola S.A., a jointly-controlled entity, in the total amount of PLN 7 600 thousand under agreements entered into in November 2015 and in the 6-month period ended 30 June 2016, which has been discussed in more detail in Note 22 to these condensed interim consolidated financial statements.

40.3. Cash flows from financing activities

Repurchase of debt securities

Payments to repurchase debt securities result from the Company's repurchase and redemption of a portion of Tranche C bonds in the amount of PLN 2 250 000 thousand in the 6-month period ended 30 June 2016, which has been discussed in more detail in Note 31.2 to these condensed interim consolidated financial statements.

Loans and borrowings repaid

Payments to repay loans and borrowings, as presented in the consolidated statement of cash flows in the amount of PLN 44 724 thousand, arise mainly from the Parent's repayment of loan instalments to the European Investment Bank, totaling PLN 40 909 thousand, during the 6-month period ended 30 June 2016.

Interest paid

	6-month period ended 30 June 2016 (*unaudited*)	6-month period ended 30 June 2015 (*unaudited*)
Interest paid in relation to debt securities	(136 923)	(133 975)
Interest paid in relation to loans and borrowings	(29 560)	(28 651)
Interest paid in relation to the finance lease	(481)	(692)
Total	**(166 964)**	**(163 318)**
financing cash outflows	(117 339)	(135 386)
investing cash outflows	(49 625)	(27 932)

Issue of debt securities

Proceeds from the issue of debt securities in the 6-month period ended 30 June 2016 are related to:

- the issue of bonds with the total par value of PLN 2 650 000 thousand under a bond issue scheme of November 2015, which has been discussed in more detail in Note 31.2 to these condensed interim financial statements;
- the Company's issue of bond tranches under the agreement with Bank Gospodarstwa Krajowego in the total amount of PLN 210 000 thousand.

41. Details of other significant changes in the reporting period

Other operating revenue and expense

In the 6-month period ended 30 June 2016, the Group recognized a surplus of other operating revenue over other operating expense in the amount of PLN 15 293 thousand.

In the comparative period, i.e. during the six months ended 30 June 2015 a surplus of other operating expense over other operating revenue occurred, mostly as a result of TAURON Wydobycie S.A. recognizing costs arising from settlement of a shortage in the inventory of commercial coal and other half-products of PLN 39 084 thousand and from settlement of prepaid expenses related to drilling drifts and reinforcing working faces of PLN 47 136 thousand.

Other long-term financial liabilities

A decrease in other financial liabilities by PLN 53 918 thousand results mostly from a decrease in long-term guarantees and collateral received by TAURON Wytwarzanie S.A. in the amount of PLN 38 710 thousand.

(in PLN '000)

OTHER INFORMATION

42. Contingent liabilities

Item	Description
Use of real estate without contract	Entities of the Group do not hold legal titles to all plots of land where distribution networks, heating installation and the related devices are located. The Group may have to incur costs related to non-contractual use of property in the future; the risk of losing assets is close to nil, though. The Group has established a provision for all court disputes regarding the issue. No provision has been recognized for potential not submitted claims of owners of land with unregulated legal status, since their detailed records do not exist. As a consequence, potential claim amounts cannot be reliably estimated. In light of the history of claims submitted and the related costs incurred in the previous years, though, the risk of incurring material costs with this regard is low.
Amount	As at the end of the reporting period, a provision was recognized for costs of court disputes in the amount of PLN 93 176 thousand (Note 36).
Claims filed by Huta Łaziska S.A.	Following the Company's business combination with Górnośląski Zakład Elektroenergetyczny S.A. ("GZE"), TAURON Polska Energia S.A. became a party to a court dispute with Huta Łaziska S.A. ("Huta"), against GZE and the State Treasury represented by the President of Energy Regulatory Office (ERO). At present, the case is pending at District Court in Warsaw. Based on a decision of 12 October 2001, the President of the Energy Regulatory Office (ERO) ordered GZE to resume electricity supplies to Huta (suspended on 11 October 2001 since Huta had failed to pay its liabilities) on such terms as set out in the agreement of 30 July 2001, in particular at the price of PLN 67/MWh, until final resolution of the dispute, and on 14 November 2001 the dispute was finally resolved pursuant to a decision stating that discontinuation of electricity supplies was not unjustified. Huta appealed against that decision. On 25 July 2006 the Court of Appeals in Warsaw issued a final and binding decision ending the dispute concerning GZE's energy supplies to Huta. The court dismissed Huta's appeal against the decision of the Regional Court in Warsaw dated 19 October 2005, in which the court had dismissed Huta's appeal against the decision of the President of the Energy Regulatory Office. Huta filed a cassation appeal against the judgement of the Court of Appeals in Warsaw, which was dismissed by the judgement of the Supreme Court dated 10 May 2007. On 15 November 2011 (following the above decision issued by the President of ERO on 14 November 2001 and due to the growing indebtedness of Huta to GZE due to power supply) GZE again suspended power supply. Therefore, Huta has sued GZE for damages. Under a suit of 12 March 2007 against GZE and the State Treasury represented by the President of the Energy Regulatory Office Huta has claimed the payment of PLN 182 060 thousand together with interest from the date of filing the suit to the date of payment, in respect of damages for alleged losses resulting from GZE's failure to comply with the decision of the President of ERO dated 12 October 2001. In this case, the courts of the first and second instance passed judgements favourable for GZE; however, in its judgement of 29 November 2011 the Supreme Court overruled the judgement of the Court of Appeals and remanded the case for re-examination by that Court. On 5 June 2012, the Court of Appeals overruled the judgement of the Regional Court and remanded the case for re-examination by the latter. The first hearing before the first instance court was held on 27 November 2012. In May 2015, a court expert prepared an opinion on correctness of settlements between the parties to the dispute. On 30 June 2015, TAURON Polska Energia S.A. lodged complaints against the opinion in question. Complaints against the opinion were also filed by Huta and the State Treasury. In its decision dated 16 September 2015 the court admitted an additional court expert's opinion concerning charges levelled by the parties as evidence. After the issue of the decision, the Company tried to change the proceeding concept adopted by the Court stating that taking evidence from a court expert opinion is unacceptable. Finally, the Court commissioned an additional opinion to be prepared by the court expert. As at the date of these condensed interim consolidated financial statements the Company has not received the opinion yet. The Company is waiting for decisions of the Court, to include the delivery of the opinion and determining the date of the hearing. Based on a legal analysis of claims the Company believes that they are unjustified and the risk that they must be satisfied is remote. As a result, no provision has been recognized by the Company for any costs associated with those claims.
Amount	Claim regarding payment of damages of PLN 182 060 thousand.
Litigation related to termination of long-term contracts	On 18 March 2015 Polska Energia – Pierwsza Kompania Handlowa Sp. z o.o. in liquidation terminated long-term agreements regarding purchase of power and property rights from windfarms. Court proceedings were instigated against the Company to consider the termination notices invalid and to secure non-monetary claims arising from the above agreements. In the 6-month period ended 30 June 2016 the claims against the company were extended by lost revenue for the period from the date of termination until the date of claim extension totaling PLN 40 032 thousand. Since the court proceedings regarding the above issues are pending, the final amount of possible financial effects on the Company and the Group cannot be reliably estimated. In light of the current status of the proceedings and the related circumstances, the Group believes that the probability of losing the cases both in terms of the termination notes being declared invalid and of securing both non-monetary claims and the claimed lost revenue does not exceed 50%. Therefore, no provision for the related costs has been recognized.

(in PLN '000)

Item	Description
Claim filed by ENEA S.A.	The claim filed by ENEA S.A. ("ENEA") to the District Court in Katowice regards the payment of PLN 17 086 thousand with statutory interest calculated from 31 March 2015 until the payment date for unjust enrichment of the Company arising from settlement of balances on the Balancing Market performed with Polskie Sieci Elektroenergetyczne S.A. in the period from January to December 2012. The claim was delivered to the Company on 11 January 2016. As stated by ENEA, the improper settlement was caused by inconsistency in measurement data collected by ENEA Operator Sp. z o.o. (as the Distribution System Operator, DSO) and made available to the Balancing Market participants (PSE S.A., ENEA S.A. and the Company) for the settlement purposes. The error resulted in PSE S.A. assigning to ENEA S.A. (as the official seller in the distribution area of ENEA Operator Sp. z o.o.) the amount of consumed power that should have been assigned to the Company (as the entity in charge of trade balances of power sellers operating in the distribution area of ENEA Operator Sp. z o.o.). The dispute concerns the fact that pursuant to the Power Transmission Grid Traffic and Operation Instruction (IRiESP) binding all participants of the Balancing Market, settlements regarding trade balances for a given period may be adjusted within 2 months, 4 months and 15 months after the settlement period. According to IRiESP, after 15 months the settlements become final. ENEA Operator Sp. z o.o. informed TAURON Polska Energia S.A. about the necessity to adjust measurement data and the entire settlement after the permitted adjustment period. Therefore, settlements between PSE S.A. and ENEA S.A. and between PSE S.A. and the Company have not been adjusted. TAURON Polska Energia S.A. responded to the claim with a series of charges. The Court obliged ENEA to reply to the response. The reply has not yet been delivered to TAURON Polska Energia S.A. On 5 April 2016 ENEA S.A. filed a preparatory document with the court, replying to the response to the claim by TAURON Polska Energia S.A. On 20 June 2016 a hearing was held. During the hearing, TAURON Polska Energia S.A. motioned to call ENEA Operator Sp. z o.o. to participate in the proceedings. On 4 July 2016 TAURON Polska Energia S.A. filed a process document with the court. The case is pending. No provision has been recognized as the company believes that the risk of losing the case is below 50%.
Amount	The claim regards the payment of PLN 17 086 thousand.
Registered pledges and a financial pledge on shares of TAMEH HOLDING Sp. z o.o.	On 15 May 2015 TAURON Polska Energia S.A. established a financial pledge and registered pledges of 3 293 403 shares in the issued capital of TAMEH HOLDING Sp. z o.o., with the unit face value of PLN 100 and the total face value of PLN 329 340 thousand, constituting ca. 50% of shares in the issued capital of the entity for the benefit of RAIFFEISEN BANK INTERNATIONAL AG. The Company established a first lien registered pledge of shares with the maximum collateral amount of CZK 3 950 000 thousand and a first lien registered pledge of shares with the maximum collateral amount of PLN 840 000 thousand for the benefit of RAIFFEISEN BANK INTERNATIONAL AG. The Company also agreed to establish a financial pledge and registered pledges of new shares acquired or taken. Moreover, the Company assigned the rights to dividend and other payments. Agreement on establishing registered pledges and a financial pledge was concluded to secure transactions including the agreement for term loans and working capital loans, entered into by TAMEH Czech s.r.o. and TAMEH POLSKA Sp. z o.o. as original borrowers, TAMEH HOLDING Sp. z o.o. as the parent and the guarantor, and RAIFFEISEN BANK INTERNATIONAL AG as the agent and the collateral agent. Registered pledges are valid in the collateral period, i.e. until the total repayment or until release of the pledge by the pledgee. The financial pledge is valid in the entire collateral period or until a release by the pledgee, not later than on 31 December 2028.
Amount	As at 30 June 2016 the carrying amount of investments in joint venture recognized using the equity method in the TAMEH HOLDING Sp. z o.o. capital group was PLN 443 741 thousand.

Condensed interim consolidated financial statements for the 6-month period ended 30 June 2016 prepared according to IFRS, as endorsed by the European Union (in PLN '000)

Item	Description
Administrative proceedings instigated by the President of the Office for Competition and Consumer Protection (UOKiK)	President of UOKiK instigated the following procedures against the Sales segment companies: – Proceedings instigated on 17 September 2013 against TAURON Sprzedaż Sp. z o.o. with regard to the company's alleged use of practices violating collective consumers' interests. The practices consisted in quoting electricity prices in pricing lists and information materials without VAT, which constituted a breach of the Act of counteracting unfair market practices of 23 August 2007 and therefore constitutes a breach of the Act on competition and consumer protection of 16 February 2007 (Journal of Laws of 2007 No. 50, item 331 as amended; "Act on competition and consumer protection"). The company committed to discontinue practices violating the Act on competition and consumer protection. Further, it motioned for proceedings aimed at the issue of a binding decision. On 22 December 2014 the company received a decision of UOKiK closing the evidentiary proceedings. On 14 December 2015 the President of UOKiK requested the Company to demonstrate whether the practices have been discontinued. The Company responded to the request in February 2016 informing that the practices have been discontinued and motioned for a decision not to charge a fine. – Under a decision of 19 December 2014 anti-trust proceedings were instigated regarding the alleged abuse of the dominant position by TAURON Sprzedaż Sp. z o.o. and TAURON Sprzedaż GZE Sp. z o.o. on the reserve electricity distribution market. In 2015 the companies applied for a decision requesting the entities to discontinue activities violating the Act on competition and consumer protection and to take steps preventing the alleged violations. In July 2015 the President of the Office for Competition and Consumer Protection, issued a decision requesting the entities to take appropriate steps to prevent the alleged infringements within four months from the date when the decision becomes final and binding. The entities were obliged to report on fulfilling the obligations within 6 months from the date the decision becomes final and binding. On 22 February 2016 the companies informed the office that the obligation had been fulfilled and filed the required reports. – On 27 January 2015 explanatory proceedings were instigated to provisionally determine if actions taken by TAURON Sprzedaż Sp. z o.o. towards small hydroelectric power stations constitute a breach of the Act on competition and consumer protection. The actions in question include enforcing unfair terms of purchase of electricity generated using renewable sources and conditioning the energy purchase on meeting with the commercial balancing requirement. By a decision of 15 October 2015 the President of UOKiK instigated anti-trust proceedings. On 1 February 2016 UOKiK accepted the company's decision regarding presentation of a specific commitment. The proceedings are to be closed on 31 August 2016. The companies do not recognize provisions for fines related to the above proceedings, since their management boards believe the risk of losing the cases and paying the fines is low.
Explanatory proceedings instigated by the President of UOKiK	Explanatory proceedings have been instigated against companies from the Sales segment to preliminarily determine whether their actions have been in breach of the Act on competition and consumer protection. The companies provided requested documents and explanations and responded to statements included in the letters of UOKiK. The companies' Management believe that, considering the explanatory nature of the proceedings instigated, the probability of an unfavorable outcome of the above-mentioned cases is low; hence no provision has been recognized for these events.
Administrative proceedings instigated by the President of the Energy Regulatory Office (ERO)	In a letter dated 8 July 2016 the President of ERO notified TAURON Dystrybucja S.A. that administrative proceedings had been instigated with regard to a fine to be imposed for a breach of law, which involved misinforming the President of ERO in response to his request for information regarding determination of clients who had failed to meet the requirement to adjust to power supply and consumption restriction introduced in the period from 10 to 31 August 2015. The President of ERO requested the Company to present relevant explanations and information.

(in PLN '000)

43. Contingent assets and liabilities related to tax returns

Tax returns may be inspected within five years, starting from the end of the year when the tax was paid. As a result of such inspections the Group's tax settlements may be increased by additional tax liabilities. As of 30 June 2016, according to the Group assessments, provisions recognized for identified and measurable tax risk were sufficient.

As at the date of these condensed interim consolidated financial statements, the following proceedings regarding settlements under public law were pending in the Capital Group companies:

Item	Description
Excise duty	In view of the differences between the Polish and EU regulations concerning excise duty on electricity, following the judgment of the European Court of Justice ("ECJ") in Luksemburg of 12 February 2009 power and heat and power plants from the TAURON Capital Group filed tax return correction and applications to acknowledge excise tax excess payment for the years 2006–2008 and for January and February 2009. In the judgment in question ECJ conceded that Polish regulations determining the timing of recognition for excise tax purposes were not adjusted to the requirements of the Energy Directive neither before nor after the transition period. Proceedings concerning individual companies from the TAURON Capital Group (TAURON Wytwarzanie S.A. and TAURON Ciepło Sp. z o.o.) have been carried out before competent tax authorities and Administrative Courts. As the final outcome of this dispute is highly unpredictable, the Group has not recognized any effects of possible reimbursement of excise duty overpayment or claims and possible claims of electricity buyers in these condensed interim consolidated financial statements.
Amount	The overpaid amounts claimed by the Group approximate PLN 908 500 thousand.
Income tax – an increase in tax-deductible costs by the amount of component repair cost	In accordance with the tax ruling, companies in the Tax Capital Group ("TCG") (TAURON Wytwarzanie S.A. and TAURON Ekoenergia Sp. z o.o.) expensed costs incurred on component repairs over time. At the same time the Company, representing the TCG, appealed against the tax ruling, as in its opinion the repairs in question should be expensed when incurred, on one-off basis, irrespective of the way they are accounted for in the accounting records. Such position was confirmed by the Regional Administrative Court in Gliwice in its decision dated 18 September 2014. On 30 December 2014 the Company filed an application to acknowledge tax excess payment and a tax return correction for 2013, where the component repairs were recognized in tax-deductible expense on one-off basis. At the same time, an impairment loss for income tax receivable has been recognized with relation to the excess payment. In 2015, TCG received an overpayment refund of PLN 22 250 thousand. The impairment loss has been reversed, thus reducing the tax expense for 2015. Following a cassation appeal filed by the Minister of Finance, as at 30 June 2016 the case was awaiting the final decision of the Supreme Administrative Court.
Amount	The refunded overpayment of PLN 22 250 thousand.
Real estate tax	There are different interpretations regarding the approach to real estate tax on electricity generation and transmission facilities and on equipment used in underground excavations. Since the tax is imposed on the local self-government level, there is no unified approach and in several cases, the tax base calculation has been questioned. Depending on court decisions and possible amendments to relevant regulations, the status of real estate tax on electricity generation and transmission facilities, as well as on underground excavations, may change in future.
Amount	As at the end of the reporting period, provisions were recognized for costs of disputes regarding real estate tax (totaling to PLN 19 521 thousand).
Tax inspection proceedings	The Company is a party to inspection proceedings instigated by the Director of the Tax Inspection Office in Warsaw ("Director of the TIO"). The inspection covers the reliability of declared taxable amounts and the correctness of calculation and payment of value-added tax for individual months from October 2013 to April 2014. The Director of the TIO carries out evidentiary proceedings in the form of written communication with the Company and questioning witnesses. In its subsequent letters the Company responded to requests sent by the Director of the TIO and presented all explanations and documents required. The period of the inspection proceedings was prolonged by the Director of TIO a few times and the new deadline has been set at 28 August 2016. The inspection proceedings are expected to be closed in 2016 but no precise closing date can be determined. As at the date of preparing these interim condensed consolidated financial statements the Director of the TIO did not present any opinion on the evidence collected, at this stage any possible consequences of his final decision cannot be indicated yet.

(in PLN '000)

44. Collateral against liabilities

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

The carrying amounts of assets pledged as collateral for the payment of liabilities at the end of each reporting period have been presented in the table below.

Carrying amounts of assets pledged as collateral against liabilities of the Group

	As at 30 June 2016 (*unaudited*)	As at 31 December 2015
Real estate	79 328	82 250
Plant and machinery	280	614
Cash	38 572	22 067
Total	**118 180**	**104 931**

Other forms of collateral

The Group also uses other forms of collateral to secure payment of liabilities, of which the most significant ones as at 30 June 2016 regard the following contracts concluded by the parent:

Agreement	Collateral form	Collateral amount
Bond Issue Scheme dated 16 December 2010 with subsequent annexes	declaration of submission to enforcement	• up to PLN 1 560 000 thousand, valid until 31 December 2016 – as regards Tranche A and Tranche B (repaid) • up to PLN 6 900 000 thousand, valid until 31 December 2018 – as regards Tranche C, Tranche D and Tranche E (not disbursed)
Bond Issue Scheme in Bank Gospodarstwa Krajowego	declaration of submission to enforcement	up to PLN 2 550 000 thousand, valid until 20 December 2032
Long-term Bond Issue Scheme dated 24 November 2015	declaration of submission to enforcement	up to PLN 7 524 000 thousand, valid until 31 December 2023
Framework bank guarantee agreement with PKO Bank Polski S.A. The bank guarantee limit securing transactions may be used by the Company and the TAURON Group companies. As at 30 June 2016 the guarantee limit amounted to PLN 100 000 thousand.	authorization to debit the bank account maintained by PKO Bank Polski S.A.	up to PLN 125 000 thousand
Agreement with Bank Zachodni WBK S.A. on bank guarantees for Izba Rozliczeniowa Giełd Towarowych S.A.	authorization to debit the bank account maintained by BZ WBK S.A.	up to PLN 150 000 thousand
overdraft agreements with PKO Bank Polski S.A. (up to PLN 300 000 thousand and an intraday limit agreement up to PLN 500 000 thousand)	authorizations to debit the bank account maintained by PKO Bank Polski S.A.	up to the total amount of PLN 800 000 thousand
overdraft agreement with Bank Gospodarstwa Krajowego (in EUR, up to EUR 25 000 thousand)	authorization to debit the bank account maintained by Bank Gospodarstwa Krajowego	up to PLN 110 638 thousand (EUR 25 000 thousand)
	declaration of submission to enforcement	up to PLN 221 275 thousand (EUR 50 000 thousand) valid until 31 December 2019
overdraft agreement with mBank (in USD, up to USD 2 000 thousand)	declaration of submission to enforcement	up to PLN 11 941 thousand (USD 3 000 thousand) valid until 31 March 2019

Other forms of collateral against liabilities of the Group

As at 30 June 2016, other material forms of collateral regarding liabilities of the TAURON Capital Group included:

(in PLN '000)

- Blank bills of exchange

Agreement/transaction secured by blank promissory notes	Capital Group company that has issued a blank promissory note	Value as at 30 June 2016 (*unaudited*)
Agreements concerning loans granted to TAURON Wytwarzanie S.A. and TAURON Ciepło Sp. z o.o. by Regional Fund for Environmental Protection and Water Management in Katowice. The companies have provided declarations of submission to enforcement as collateral for the loans in question.	TAURON Polska Energia S.A.	70 000
Performance bonds to include co-funding of engagements carried out	TAURON Dystrybucja S.A.	131 390
Performance bonds related to co-funding agreements concluded with the National Fund for Environmental Protection and Water Management	TAURON Ciepło Sp. z o.o.	87 251
Agreements for connecting to the industrial network, agreements for power transmission services and agreements for partial loan cancelling concluded with the National Fund for Environmental Protection and Water Management	TAURON Wytwarzanie S.A.	66 844

- Collateral under finance lease agreements

Finance lease agreement	Lessee	Carrying amount of the leased asset as at 30 June 2016 (*unaudited*)	Collateral
Leaseback agreement concerning real estate, plant and machinery	TAURON Ciepło Sp. z o.o.	5 006	Blank promissory note for PLN 92 215 thousand. This agreement is additionally secured by the assignment of receivables, assignment of rights under insurance policies, mortgage on real estate, plant and machinery and authorization to debit bank accounts.
Finance lease agreement concerning real estate in Katowice	TAURON Polska Energia S.A.	27 127	The agreement is collateralized by two blank promissory notes, assignment of receivables and authorization to debit a bank account.

- The Company granted a corporate guarantee to TAURON Sweden Energy AB (publ), a subsidiary, to secure bonds issued by the entity in December 2014. The guarantee is valid in the entire bond period, i.e. until 3 December 2029, and amounts to EUR 168 000 thousand.
- Under the framework agreement for bank guarantees entered into with PKO Bank Polski S.A., at the request of the Company the bank issued bank guarantees securing liabilities of TAURON Polska Energia S.A. subsidiaries totalling PLN 2 515 thousand and securing the Company's transactions:
  - a guarantee of up to EUR 1 000 thousand (PLN 4 426 thousand), given for the benefit of Joint Allocation Office S.A., valid until 30 December 2016;
  - a performance bond of up to PLN 3 864 thousand (Operator Gazociągów Przesyłowych GAZ – SYSTEM S.A.), valid until 30 November 2016.
- Under the bank guarantee agreement concluded with Bank Zachodni WBK S.A.,the latter has issued guarantees securing exchange transactions arising from membership in Commodity Clearing House up to PLN 70 000 thousand valid until 31 August 2016 (the guarantee amount has been reduced to PLN 50 000 thousand as of 1 July 2016).
- Collateral for transactions on the Polish Power Exchange:
  - Alienation agreement entered into by TAURON Polska Energia S.A. and Izba Rozliczeniowa Giełd Towarowych S.A. ("IRGIT"). As part of the collateral, the Company deposited 5 183 500 EUA in its account in the National Register of Allowances. The term of the agreement was extended until 15 June 2016. On that date, the agreement expired and the EUA were returned to the Company's account.
  - Alienation agreement between TAURON Wytwarzanie S.A., a subsidiary, and IRGiT. The agreement provided for a freeze on the emission allowances in the Register of Allowances, held by TAURON Wytwarzanie S.A.:
    - 8 000 000 EUA – for the liabilities taken on by TAURON Polska Energia S.A. to IRGiT;
    - 5 040 086 EUA – originally; in December 2015, 5 000 000 EUA were returned to TAURON Wytwarzanie S.A., as a result of which the number of emission allowances pledged as collateral for transactions entered into on TGE S.A. by TAURON Wytwarzanie S.A. was reduced to 40 086 EUA. In February 2016, the additional 900 000 EUA were frozen under an annex to the agreement.

(in PLN '000)

Consequently, in February and March 2016, the margin deposit for the transactions entered into by TAURON Wytwarzanie S.A. on TGE was 940 086 EUA.

The agreement between TAURON Wytwarzanie S.A. and IRGIT expired on 31 March 2016. In April 2016, 8 940 086 EUA were returned to the account of TAURON Wytwarzanie S.A.

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

45. Capital commitments

As at 30 June 2016 and 31 December 2015, the Group committed to incur expenditure on property, plant and equipment and intangible assets of PLN 5 441 847 thousand and PLN 5 597 990 thousand, respectively, with the key items presented below:

Operating segment	Agreement / investment project	As at 30 June 2016 (*unaudited*)	As at 31 December 2015
Generation	Construction of a power-generating unit with the capacity of 910 MW for supercritical parameters in Jaworzno III Power Plant	3 430 449	3 773 520
	Commissioning of a part of external coal handling system and an ash removal system for a power-generating unit with the capacity of 910 MW for supercritical parameters in Jaworzno III Power Plant	246 669	144 325
	Constructing new cogeneration capacity in Tychy Heat and Power Plant	10 650	98 970
Distribution	Redevelopment of the double track overhead line Przybków--Kąty Wrocławskie-Klecina	73 140	73 140
	Implementation of Smart City Wrocław, an intelligent measurement system	52 563	91 126
	Construction of Grid Management Centre in Kraków	29 142	32 308
Mining	Construction of the 800 m drift at Janina Mining Plant	35 477	37 986

46. Related-party disclosures

46.1. Transactions with joint ventures

The Group has interest in the following joint ventures: Elektrociepłownia Stalowa Wola S.A., Elektrownia Blachownia Nowa Sp. z o.o. and the TAMEH HOLDING Sp. z o.o. Capital Group, which has been discussed in more detail in Note 21 to these condensed interim consolidated financial statements.

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

	6-month period ended 30 June 2016 (*unaudited*)	6-month period ended 30 June 2015 (*unaudited*)
Revenue	37 846	48 423
Costs	(24 664)	(19 538)

The key income item arises from transactions with TAMEH HOLDING Sp. z o.o., a joint venture. Transactions with this joint venture for the 6-month period ended 30 June 2016 and for the 6-month period ended 30 June 2015 amounted to PLN 32 502 thousand and PLN 43 596 thousand, respectively.

The key item of receivables from and liabilities to jointly-controlled entities is a loan granted to Elektrociepłownia Stalowa Wola S.A., which has been discussed in more detail in Note 22 to these condensed interim consolidated financial statements.

The Company has also pledged collateral for the benefit of joint ventures, in the form of a pledge on the shares in TAMEH HOLDING Sp. z o.o., which has been discussed in more detail in Note 42 to these condensed interim consolidated financial statements.

In relation to agreements entered into with a joint venture, Elektrociepłownia Stalowa Wola S.A., in the financial year ended 31 December 2015, the Company recognized provisions for onerous contracts totalling PLN 182 877 thousand. During the six months ended 30 June 2016, the Company remeasured provisions related to the discount reversed as at the end of the reporting period in the total amount of PLN 8 160 thousand and recognized additional net provisions of PLN 2 146 thousand as described in details in note 34 of these condensed interim consolidated financial statements.

(in PLN '000)

46.2. Transactions with State Treasury companies

As the State Treasury of the Republic of Poland is the Company's major shareholder, State Treasury companies are treated as related parties.

The total value of transactions with State Treasury companies has been presented in the table below.

Revenue and expense

	6-month period ended 30 June 2016 (*unaudited*)	6-month period ended 30 June 2015 (*unaudited*)
Revenue	1 268 832	1 314 734
Costs	(1 200 438)	(1 426 740)

Receivables and liabilities

	As at 30 June 2016 (*unaudited*)	As at 31 December 2015
Receivables	340 015	367 207
Payables	248 254	270 429

As at 30 June 2016, receivables presented in the table above included advance payments of PLN 50 911 thousand, mainly advance payments for deliveries of coal of PLN 47 257 thousand and advance payments for purchases of fixed assets of PLN 3 649 thousand. As at 31 December 2015, receivables comprised advance payments totalling PLN 128 650 thousand, including advance payments for deliveries of coal of PLN 124 996 thousand and advance payments for purchases of fixed assets of PLN 3 649 thousand.

In the 6-month period ended 30 June 2016, KGHM Polska Miedź S.A., PSE S.A., Jastrzębska Spółka Węglowa S.A., Kompania Węglowa S.A. and Polska Grupa Górnicza Sp. z o.o. incorporated on 1 May 2016 were the major customers of the TAURON Polska Energia S.A. Capital Group out of the State Treasury companies. Total sales to these contracting parties accounted for 87% of revenue from transactions with State Treasury companies. The largest purchase transactions were concluded by the Group with PSE S.A., Kompania Węglowa S.A. and Polska Grupa Górnicza Sp. z o.o. Purchases from these counterparties accounted for 85% of the value of purchases from State Treasury companies during the 6-month period ended 30 June 2016.

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 customers of the TAURON Polska Energia S.A. Capital Group out of the State Treasury companies. The total sales to these counterparties accounted for 79% of revenue generated on transactions with State Treasury companies. The Group concluded the largest purchase transactions with PSE S.A. and Kompania Węglowa S.A. They accounted for 82% of the total value of purchases from the State Treasury companies in the 6-month period ended 30 June 2015.

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

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

(in PLN '000)

46.3. 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 paid and due in the 6-month period ended 30 June 2016 and in the comparative period has been presented in the table below.

	6-month period ended 30 June 2016 (*unaudited*)		6-month period ended 30 June 2015 (*unaudited*)	
	Parent	Subsidiaries	Parent	Subsidiaries
Board of Directors	**7 064**	**11 507**	**5 022**	**11 897**
Short-term employee benefits (salaries and surcharges)	3 122	8 567	3 614	10 986
Jubilee bonuses	–	–	–	350
Post-employment benefits	–	101	–	258
Employment termination benefits	3 702	2 465	900	–
Other	240	374	508	303
Supervisory Board	**609**	**295**	**592**	**482**
Short-term employee benefits (salaries and surcharges)	609	293	592	458
Other	–	2	–	24
Other key management personnel	**7 815**	**20 853**	**7 644**	**20 916**
Short-term employee benefits (salaries and surcharges)	5 665	19 496	6 809	20 278
Jubilee bonuses	–	741	–	271
Post-employment benefits	–	16	–	227
Employment termination benefits	1 715	373	285	32
Other	435	227	550	108
Total	**15 488**	**32 655**	**13 258**	**33 295**

As regards employment termination benefits paid to Members of the Management Board, as presented in the table above, the amount of PLN 2 725 thousand was accounted for as the use of a provision recognized as at 31 December 2015 by the Parent and the amount of PLN 690 thousand as the use of provisions recognized as at 31 December 2015 by the subsidiaries.

Additionally, in the 6-month period ended 30 June 2016, the Group companies recognized provisions for termination benefits payable to Members of the Management Board, in the amount of PLN 3 082 thousand. The aforesaid benefits have not become due yet. The costs incurred for purposes of recognition of the provisions have not been presented in the table above.

(in PLN '000)

47. Financial instruments

Categories and classes of financial assets	Note	As at 30 June 2016 (*unaudited*)		As at 31 December 2015	
		Carrying amount	Fair value	Carrying amount	Fair value
1 Assets at fair value through profit or loss, held for trading		**115 536**		**5 684**	
Derivative instruments	**32**	90 464	90 464	5 684	5 684
Investment fund units		25 072	25 072	–	–
2 Financial assets available for sale		**138 643**		**140 783**	
Shares (non-current)	**23**	130 281		132 383	
Shares (current)	**23**	4 104		4 105	
Investment fund units		2 368	2 368	2 405	2 405
Bonds, T-bills and other debt securities		1 890	1 890	1 890	1 890
3 Loans and receivables		**2 156 615**		**2 150 918**	
Receivables from clients	**26**	1 695 043	1 695 043	1 830 033	1 830 033
Deposits		40 160	40 160	39 724	39 724
Loans granted		236 031	236 031	223 911	223 911
Other financial receivables		185 381	185 381	57 250	57 250
4 Financial assets excluded from the scope of IAS 39		**462 202**		**418 127**	
Investments in joint ventures	**21**	462 202		418 127	
5 Derivative hedging instruments	**32**	**1 040**	**1 040**	**–**	**–**
6 Cash and cash equivalents	**28**	**422 123**	**422 123**	**364 912**	**364 912**
Total financial assets, of which in the statement of financial position:		**3 296 159**		**3 080 424**	
Non-current assets		**925 621**		**851 145**	
Investments in joint ventures		462 202		418 127	
Loans granted to joint ventures		225 837		221 803	
Other financial assets		237 582		211 215	
Current assets		**2 370 538**		**2 229 279**	
Receivables from clients		1 695 043		1 830 033	
Other financial assets		253 372		34 334	
Cash and cash equivalents		422 123		364 912	

(in PLN '000)

Categories and classes of financial liabilities	Note	As at 30 June 2016 (*unaudited*)		As at 31 December 2015	
		Carrying amount	Fair value	Carrying amount	Fair value
1 Financial liabilities at fair value through profit or loss, held for trading		**78 420**		**16 642**	
Derivative instruments	**32**	78 420	78 420	16 642	16 642
2 Financial liabilities measured at amortized cost		**10 076 367**		**9 980 020**	
Preferential loans	**31.1**	45 348	45 348	47 999	47 999
Arm's length loans	**31.1**	1 300 941	1 307 581	1 353 571	1 375 724
Bank overdrafts	**31.1**	111 571	111 571	10 206	10 206
Bonds issued	**31.2**	7 325 363	7 385 745	6 680 433	6 683 707
Liabilities to suppliers		694 023	694 023	790 706	790 706
Other financial liabilities		117 552	117 552	157 240	157 240
Capital commitments		369 061	369 061	767 759	767 759
Salaries and wages		106 743	106 743	155 957	155 957
Insurance contracts		5 765	5 765	16 149	16 149
3 Liabilities under guarantees, factoring and excluded from the scope of IAS 39		**41 824**		**46 438**	
Obligations under finance leases		41 824	41 824	46 438	46 438
4 Derivative hedging instruments	32	**47 432**	**47 432**	**95 467**	**95 467**
Total financial liabilities, of which in the statement of financial position:		**10 244 043**		**10 138 567**	
Non-current liabilities		**7 802 114**		**5 025 832**	
Debt		7 754 327		4 924 127	
Other financial liabilities		47 787		101 705	
Current liabilities		**2 441 929**		**5 112 735**	
Debt		1 070 720		3 214 520	
Liabilities to suppliers		694 023		790 706	
Capital commitments		368 703		766 843	
Derivative instruments		125 840		96 953	
Other financial liabilities		182 643		243 713	

Derivative financial instruments classified as assets and liabilities measured at fair value through profit or loss and designated as hedging instruments, which are measured at fair value as at the end of the reporting period, were measured in line with the method described in Note 32 to these condensed interim consolidated financial statements. Fair value hierarchy disclosures are also provided in Note 32. Measurement of investment fund units has been classified to Level 1 in the fair value hierarchy.

Financial instruments classified to other categories of financial instruments:

- fixed-rate financial instruments, which, as at 30 June 2016, included loans obtained from the European Investment Bank and bonds issued by a subsidiary, were measured by the Group at fair value. The fair value measurement was carried out based on the present value of future cash flows discounted using an interest rate applicable currently to a given bond or loan, i.e. applying market interest rates. The measurement resulted in Level 2 classification in fair value hierarchy;
- The fair value of other financial instruments held by the Company (without shares classified as financial assets available for sale excluded from the scope of IAS 39, as discussed below) as at 30 June 2016 and 31 December 2015 did not significantly differ from their values presented in the financial statements for the respective periods, due to the following reasons:
  - the potential discounting effect relating to short-term instruments is not significant;
  - the instruments are related to arm's length transactions.

  Consequently, the fair value of the instruments in question has been disclosed in the tables above at the carrying amount.
- The Group does not disclose the fair value of shares in companies not quoted on active markets, categorized to financial assets available for sale. The Group is unable to reliably estimate the fair value of shares held in companies which are not quoted on active markets. They are measured at cost less impairment losses as at the end of the reporting period. Similarly, interest in joint ventures – financial assets excluded from the scope of IAS 39 – are measured using the equity method in line with the accounting policies adopted by the Group.

48. Principles and objectives of financial risk management

The objectives and principles of financial risk management have not changed since 31 December 2015.

As at 30 June 2016, the Parent was a party to hedging transactions covered by the policy for specific risk management in the area of finance, entered into with a view to hedging interest cash flows from issued bonds. The parent applies hedge accounting to the aforementioned transactions. The accounting treatment of the aforementioned hedging transactions has been discussed in more detail in Note 32 to these condensed interim consolidated financial statements.

49. Finance and capital management

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

50. Events after the end of the reporting period

Decision to discontinue a joint venture

On 28 July 2016 TAURON Polska Energia S.A., KGHM Polska Miedź S.A. and TAURON Wytwarzanie S.A. signed an agreement pursuant to which they have unanimously decided to discontinue the construction of gas and steam unit in Elektrownia Blachownia Nowa Sp. z o.o. and terminate the shareholders agreement concluded by KGHM Polska Miedź S.A. and TAURON Wytwarzanie S.A., which denotes expiration of all contractual obligations and completion of all contractual works, in particular those determined in the draft Project implementation schedule, as well as in other arragements. The parties shall cooperate with one another and with the Company on implementation of the agreement. The parties have unanimously decided to terminate the agreement of 30 December 2013 pursuant to which the construction of the gas and steam unit in the Company had been suspended. KGHM Polska Miedź S.A. and TAURON Wytwarzanie S.A. have unanimously decided to commence the winding up of the company, which will follow its articles of association and common law provisions.

Since Elektrownia Blachownia Nowa Sp. z o.o. holds current assets that may to a significant extent be distributed among the shareholders, the Group has not recognized additional impairment losses on shares held in the company.

These condensed interim consolidated financial statements of the TAURON Polska Energia S.A. Capital Group, prepared for the 6-month period ended 30 June 2016 in accordance with International Accounting Standard 34 have been presented on 65 consecutive pages.

Katowice, 16 August 2016

Remigiusz Nowakowski	– President of the Management Board	....
Jarosław Broda	– Vice-President of the Management Board	....
Kamil Kamiński	– Vice-President of the Management Board	....
Marek Wadowski	– Vice-President of the Management Board	....
Piotr Zawistowski	– Vice-President of the Management Board	....

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

INDEPENDENT AUDITOR'S REVIEW REPORT ON THE INTERIM CONDENSED FINANCIAL STATEMENTS OF TAURON POLSKA ENERGIA S.A. FOR THE FIRST HALF OF 2016

AUGUST 2016

Deloitte.

Deloitte Polska
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AUDITOR'S REPORT ON THE REVIEW OF THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE PERIOD FROM 1 JANUARY 2016 TO 30 JUNE 2016

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 2016, 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 2016 to 30 June 2016 and comprising a summary of significant accounting policies and other 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.

Deloitte.

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 "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, 16 August 2016

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, AS ENDORSED BY THE EUROPEAN UNION FOR THE 6-MONTH PERIOD ENDED 30 JUNE 2016

AUGUST 2016

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(in PLN '000)

CONDENSED INTERIM STATEMENT OF COMPREHENSIVE INCOME

	Note	6-month period ended 30 June 2016 *(unaudited)*	6-month period ended 30 June 2015 *(unaudited)*
Sales revenue	**11**	3 990 123	4 643 560
Cost of sales	**12**	(3 907 941)	(4 550 669)
Gross profit		**82 182**	**92 891**
Selling and distribution expenses	**12**	(12 602)	(9 606)
Administrative expenses	**12**	(44 191)	(55 700)
Other operating income and expenses		(6 364)	3 701
Operating profit		**19 025**	**31 286**
Dividend income	**13**	1 485 152	1 510 624
Interest income on bonds and loans	**13**	240 340	211 292
Other finance income	**13**	34 632	22 413
Interest expense on debt	**14**	(184 733)	(177 748)
Revaluation of shares	**14**	(997 051)	–
Other finance costs	**14**	(45 127)	(58 093)
Profit before tax		**552 238**	**1 539 774**
Income tax expense	**15**	(2 327)	(2 616)
Net profit		**549 911**	**1 537 158**
Measurement of hedging instruments		48 846	48 628
Income tax expense	**15**	(9 281)	(9 239)
Other comprehensive income subject to reclassification to profit or loss		**39 565**	**39 389**
Actuarial gains/(losses)		27	11
Income tax expense	**15**	(5)	(2)
Other comprehensive income not subject to reclassification to profit or loss		**22**	**9**
Other comprehensive income, net of tax		**39 587**	**39 398**
Total comprehensive income		**589 498**	**1 576 556**
Earnings per share (in PLN):			
– basic and diluted, for net profit		0.31	0.88

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

(in PLN '000)

CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION

	Note	As at 30 June 2016 (*unaudited*)	As at 31 December 2015
ASSETS			
Non-current assets			
Property, plant and equipment	**17**	1 881	3 436
Investment property	**18**	27 127	28 935
Intangible assets	**19**	2 745	3 299
Shares	**20**	15 365 143	15 933 194
Bonds	**21**	8 796 851	7 451 601
Loans granted	**22**	1 451 700	1 417 165
Derivative instruments	**23**	12 051	16
Other financial assets	**34**	30 434	5 263
Other non-financial assets		8 273	23 461
Deferred tax assets	**15.2**	10 704	–
		25 706 909	**24 866 370**
Current assets			
Inventories	**25**	105 286	249 492
Receivables from clients	**26**	694 511	579 446
Receivables arising from taxes and charges	**27**	62 017	43 763
Bonds	**21**	91 172	215 040
Loans granted	**22**	9 867	144 150
Derivative instruments	**23**	79 453	5 668
Other financial assets	**34**	220 292	130 148
Other non-financial assets		43 021	71 824
Cash and cash equivalents	**28**	272 613	168 255
		1 578 232	**1 607 786**
TOTAL ASSETS		**27 285 141**	**26 474 156**

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

(in PLN '000)

CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION – CONTINUED

	Note	As at 30 June 2016 (*unaudited*)	As at 31 December 2015
EQUITY AND LIABILITIES			
Equity			
Issued capital	**29.1**	8 762 747	8 762 747
Reserve capital	**29.5**	7 823 339	11 277 247
Revaluation reserve from valuation of hedging instruments	**29.4**	(33 849)	(73 414)
Retained earnings/(Accumulated losses)	**29.5**	629 758	(3 374 083)
		17 181 995	**16 592 497**
Non-current liabilities			
Debt	**30**	7 743 844	4 876 546
Other financial liabilities		5 239	5 739
Derivative instruments	**23**	12	15 156
Deferred income tax liabilities		–	385
Provisions for employee benefits		8 197	7 843
Other provisions	**31**	159 210	163 449
		7 916 502	**5 069 118**
Current liabilities			
Debt	**30**	1 562 192	4 057 048
Liabilities to suppliers		374 954	493 936
Liabilities arising from taxes and charges	**32**	4 184	101 670
Derivative instruments	**23**	125 840	96 942
Provisions for employee benefits		752	722
Other provisions	**31**	33 979	19 443
Accruals, deferred income and government grants		13 382	19 496
Other financial liabilities	**34**	71 266	23 284
Other non-financial liabilities		95	–
		2 186 644	**4 812 541**
Total liabilities		**10 103 146**	**9 881 659**
TOTAL EQUITY AND LIABILITIES		**27 285 141**	**26 474 156**

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

(in PLN '000)

CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY

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

		Issued capital	Reserve capital	Revaluation reserve from valuation of hedging instruments	Retained earnings/ (Accumulated losses)	Total equity
As at 1 January 2016		**8 762 747**	**11 277 247**	**(73 414)**	**(3 374 083)**	**16 592 497**
Coverage of prior years loss	**29.3**	–	(3 453 908)	–	3 453 908	**–**
Transactions with shareholders		**–**	**(3 453 908)**	**–**	**3 453 908**	**–**
Net profit		–	–	–	549 911	**549 911**
Other comprehensive income		–	–	39 565	22	**39 587**
Total comprehensive income		**–**	**–**	**39 565**	**549 933**	**589 498**
As at 30 June 2016 (*unaudited*)		**8 762 747**	**7 823 339**	**(33 849)**	**629 758**	**17 181 995**

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

		Issued capital	Reserve capital	Revaluation reserve from valuation of hedging instruments	Retained earnings/ (Accumulated losses)	Total equity
As at 1 January 2015		**8 762 747**	**10 393 686**	**(143 019)**	**1 226 153**	**20 239 567**
Dividends	**16**	–	–	–	(262 882)	**(262 882)**
Approporiation of prior years profits		–	883 561	–	(883 561)	**–**
Transactions with shareholders		**–**	**883 561**	**–**	**(1 146 443)**	**(262 882)**
Net profit		–	–	–	1 537 158	**1 537 158**
Other comprehensive income		–	–	39 389	9	**39 398**
Total comprehensive income		**–**	**–**	**39 389**	**1 537 167**	**1 576 556**
As at 30 June 2015 (*unaudited*)		**8 762 747**	**11 277 247**	**(103 630)**	**1 616 877**	**21 553 241**

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

(in PLN '000)

CONDENSED INTERIM STATEMENT OF CASH FLOWS

	Note	6-month period ended 30 June 2016 *(unaudited)*	6-month period ended 30 June 2015 *(unaudited)*
Cash flows from operating activities			
Profit before taxation		552 238	1 539 774
Depreciation and amortization		4 450	3 902
Interest and dividends, net		(1 538 907)	(1 550 128)
Impairment losses on shares		997 051	–
Other adjustments of profit before tax		6 952	33 520
Change in working capital	**33.1**	(164 146)	129 192
Income tax paid		(6 545)	(3 287)
Net cash from (used in) operating activities		**(148 907)**	**152 973**
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets		(1 035)	(1 205)
Purchase of bonds	**33.2**	(1 680 000)	(3 585 000)
Purchase of shares	**33.2**	(429 120)	(16 956)
Loans granted	**33.2**	(7 600)	(8 150)
Purchase of investment fund units		(25 000)	–
Total payments		**(2 142 755)**	**(3 611 311)**
Sale of property, plant and equipment and intangible assets		1	–
Redemption of bonds	**33.2**	340 000	2 217 266
Repayment of loans granted	**33.2**	142 024	14 500
Dividends received		1 460 154	1 504 487
Interest received	**33.2**	323 041	128 943
Other proceeds		5 982	–
Total proceeds		**2 271 202**	**3 865 196**
Net cash from investing activities		**128 447**	**253 885**
Cash flows from financing activities			
Payment of finance lease liabilities		(1 576)	(1 469)
Repayment of loans and borrowings	**33.3**	(40 909)	(40 909)
Redemption of debt securities	**33.3**	(2 250 000)	(150 000)
Interest paid	**33.3**	(165 763)	(161 768)
Commission paid		(6 961)	(5 475)
Total payments		**(2 465 209)**	**(359 621)**
Issue of debt securities	**33.3**	2 860 000	–
Total proceeds		**2 860 000**	**–**
Net cash from (used in) financing activities		**394 791**	**(359 621)**
Net increase/(decrease) in cash and cash equivalents		**374 331**	**47 237**
Net foreign exchange difference		770	297
Cash and cash equivalents at the beginning of the period	**28**	**(679 175)**	**68 935**
Cash and cash equivalents at the end of the period, of which:	**28**	**(304 844)**	**116 172**
restricted cash	**28**	83 134	63 455

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 ("Company") with its registered office at ul. ks. Piotra Ściegiennego 3 in Katowice, Poland, whose shares are publicly traded.

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

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

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

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

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

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

The Company's condensed interim financial statements cover the 6-month period ended 30 June 2016 and present comparative data for the 6-month period ended 30 June 2015 as well as figures as at 31 December 2015. The data for the 6-month period ended 30 June 2016 and the comparative data for the 6-month period ended 30 June 2015, as contained herein, have been reviewed by a certified auditor. The comparative data as at 31 December 2015 were audited by a certified auditor.

These condensed interim financial statements for the 6-month period ended 30 June 2016 were approved for publication on 16 August 2016.

The Company also prepared the condensed interim consolidated financial statements for the 6-month period ended 30 June 2016, which were approved for publication by the Management Board on 16 August 2016.

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 2016.

2. Shares in related parties

As at 30 June 2016, TAURON Polska Energia S.A. held direct and indirect interest in the following key subsidiaries:

(in PLN '000)

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

[1] *On 1 January 2016, Nowe Brzeszcze Grupa TAURON Sp. z o.o. acquired an organized part of an enterprise (Zakład Górniczy Brzeszcze). The company has been consolidated as of the aforesaid date.*

[2] *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.*

As at 30 June 2016 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 in the entity's capital and governing body
1	Elektrociepłownia Stalowa Wola S.A.[1]	Stalowa Wola	Generation of electricity	50.00%
2	Elektrownia Blachownia Nowa Sp. z o.o.[1]	Kędzierzyn Koźle	Generation of electricity	50.00%
3	TAMEH HOLDING Sp. z o.o.[2]	Dąbrowa Górnicza	Head office and holding operations	50.00%
4	TAMEH POLSKA Sp. z o.o.[2]	Dąbrowa Górnicza	Generation, transmission, distribution and sale of electricity and heat	50.00%
5	TAMEH Czech s.r.o.[2]	Ostrawa, Czech Republic	Production, trade and services	50.00%

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

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

STATEMENT OF COMPLIANCE WITH IFRS

3. Statement of compliance

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

The condensed interim financial statements do not contain all information and disclosures required for annual financial statements and they should be read jointly with the Company's financial statements prepared in accordance with IFRS for the year ended 31 December 2015.

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.

(in PLN '000)

ACCOUNTING POLICIES

6. Changes in estimates

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

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

Item	Value of item to which the estimate figure applies		Details regarding assumptions made and calculation of significant estimates
	As at 30 June 2016 (*unaudited*)	As at 31 December 2015	
Shares	15 365 143	15 933 194	• As at 30 June 2016 the Company recognized impairment losses on shares in TAURON Ekoenergia Sp. z o.o. and TAURON Wytwarzanie S.A. of PLN 1 440 303 thousand and derecognized an impairment loss on shares in TAURON Ciepło Sp. z o.o. in the amount of PLN 443 252 thousand. Note 20
Provision for onerous contracts	193 183	182 877	• Provision valuation and description. Note 31
Deferred tax assets	60 403	62 691	• Unrecognised deferred tax assets; • Realisation of deferred tax assets. Note 15.2
Derivative instruments: Assets Liabilities	 91 504 125 852	 5 684 112 098	• Fair value measurement. Note 23
Intragroup bonds	8 888 023	7 666 641	• Classification as non-current or current assets. Note 21
Loan granted to a subsidiary	1 225 863	1 195 362	• Classification as non-current assets. Note 22

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

The Company did not choose an early application of any standards, or amendments to standards, which were published, but are not yet mandatorily effective. The following standards and amendments to standards issued by the International Accounting Standards Board have not been endorsed by the European Union yet and are not yet effective.

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

(in PLN '000)

Standard Details	Estimated impact	Effective date specified in the Standard, not endorsed by the EU*
IFRS 9 *Financial Instruments* The standard introduces a business model-based approach to classification and measurement of financial assets and the characteristics of cash flows. IFRS 9 provides a new loss impairment model which requires a more timely disclosure of expected credit losses. The new model also assumes a standardized impairment approach applied to all financial instruments. Moreover, IFRS 9 includes an enhanced general hedge accounting model. The amendments are aimed at adjusting the principles of recognizing risk management issues in financial statements and enable more adequate presentation of actions taken in the financial statements.	Preliminary analysis of IFRS 9's impact on the accounting policies applied indicates one change important for the 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. Evaluation of effects of IFRS 9 on the financial statements is subject to further analyses due to the large scope of amendments.	1 January 2018
IFRS 15 *Revenue from Contracts with Customers* The Standard 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. On 11 September 2015 the IASB published an amendment to the standard introducing a new effective date – annual periods beginning on or after 1 January 2018. The original effective date was set at annual period beginning on or after 1 January 2017.	Based on 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.	1 January 2018
IFRS 16 *Leases* Under IFRS 16 the lessee recognizes the right to use an asset and a lease liability. The right to use the asset is treated similarly to other non-financial assets and is depreciated. Lease liabilities are initially measured at the present value of future lease payments due in the lease period, discounted at the rate implicit in the lease if that can be readily determined. If that rate cannot be readily determined, the lessee shall use their incremental borrowing rate. Leases are classified by lessors in accordance with IAS 17 – as an operating lease or a finance lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of the underlying asset. Otherwise a lease is classified as an operating lease. In finance lease the lessor recognizes finance income over the lease term of a finance lease, based on a pattern reflecting a constant periodic rate of return on the net investment. A lessor recognizes operating lease payments as income on a straight-line basis, or if more representative of the pattern in which benefit from use of the underlying asset is diminished, another systematic basis.	Preliminary analysis of IFRS 16's impact on the accounting policies applied indicates certain changes important for the Company, i.e. the need to recognize in the financial statements assets and liabilities for all leases currently classified as operating leases and the change in the presentation method applied to finance lease assets, which are currently recognized in property plant and equipment or intangible assets. The Company intends to analyse all lease agreements concluded to identify leases which require recognition of assets and liabilities or presentational changes. As the effective date of IFRS 16 is still distant, and it has not yet been approved by the EU, as at the date of approving these financial statements for publication the Company had not carried out any analyses which would enable determining the impact of the planned changes on the financial statements. The analysis will be conducted in future.	1 January 2019

** Annual periods beginning on or after the date provided.*

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

(in PLN '000)

Standard	Effective date specified in the Standard, not endorsed by the EU (*annual periods beginning on or after the date provided*)
IFRS 14 *Regulatory Deferral Accounts*	1 January 2016
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*	1 January 2016
Revised IFRS 10 *Consolidated Financial Statements*, IFRS 12 *Disclosure of Interests in Other Entities* and IAS 28 *Investments in Associates and Joint Ventures Investment Entities: Applying the Consolidation Exception*	1 January 2016
Revised IAS 12 *Income Taxes – Recognition of Deferred Tax Assets for Unrealized Losses.* Revised IAS 12 explains the method of recognition of a deferred tax asset that is related to a debt instrument measured at fair value.	1 January 2017
Revised IAS 7 *Statement of Cash Flows – Disclosure Initiative*. The amendments are intended to clarify IAS 7 to improve information provided to users of financial statements about an entity's financing activities.	1 January 2017
Revised IFRS 2 *Share-based Payments: Classification and Measurement of Share-based Payment Transactions*	1 January 2018

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

8. Significant accounting policies

The accounting principles (policy) adopted for the preparation of these condensed interim financial statements are consistent with those used for the preparation of the annual financial statements of TAURON Polska Energia S.A. for the year ended 31 December 2015, except for the application of the following amendments to standards:

Standard	Effective in the EU as of (*annual periods beginning on or after the date provided*)
Revised IAS 19 *Employee Benefits – Defined Benefit Plans: Employee Contributions*	1 February 2015
Annual Improvements to *IFRS (Cycle 2010–2012)*	1 February 2015
Revised IFRS 11 *Joint Arrangements: Accounting for Acquisitions of Interests in Joint Operations*.	1 January 2016
Revised IAS 1 *Presentation of Financial Statements – Disclosure Initiative*	1 January 2016
Revised IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets: Clarification of Acceptable Methods of Depreciation and Amortization*	1 January 2016
Revised IAS 16 *Property, Plant and Equipment* and IAS 41 *Agriculture: Bearer Plants*	1 January 2016
Revised IAS 27 *Separate Financial Statements: Equity Method in Separate Financial Statements*	1 January 2016
Annual Improvements to *IFRS (Cycle 2012–2014)*	1 January 2016

The introduction of the abovementioned amendments to standards 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 reports significant dividend income recognized under finance income as at the dates of the resolutions on dividend payment, unless such resolutions set other record dates. In the 6-month period ended 30 June 2016, the Company recognized dividend income of PLN 1 485 152 thousand vs. PLN 1 510 624 thousand in the comparative period.

10. Information on operating segments

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

"Holding activity" segment assets include:

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

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

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 tax, finance income and finance costs, i.e. operating profit (loss). EBITDA is the profit/loss on continuing operations before tax, finance income and finance costs, increased by amortization/depreciation and impairment of non-financial assets. In the year ended 31 December 2015 the Management Board decided to change the definition of EBITDA, considering impairment of non-financial assets. Therefore, comparative data for the six months ended 30 June 2015 as presented below have been restated accordingly.

(in PLN '000)

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

	Sales	Holding activity	Unallocated items	Total
Revenue				
Sales outside the Group	961 422	–	–	**961 422**
Sales within the Group	3 028 701	–	–	**3 028 701**
Segment revenue	**3 990 123**	**–**	**–**	**3 990 123**
Profit/(loss) of the segment	**63 216**	**–**	**–**	**63 216**
Unallocated expenses	–	–	(44 191)	**(44 191)**
EBIT	**63 216**	**–**	**(44 191)**	**19 025**
Net finance income/(costs)	–	524 744	8 469	**533 213**
Profit/(loss) before income tax	**63 216**	**524 744**	**(35 722)**	**552 238**
Income tax expense	–	–	(2 327)	**(2 327)**
Net profit/(loss) for the period	**63 216**	**524 744**	**(38 049)**	**549 911**
Assets and liabilities				
Segment assets	1 187 919	25 943 751	–	**27 131 670**
Unallocated assets	–	–	153 471	**153 471**
Total assets	**1 187 919**	**25 943 751**	**153 471**	**27 285 141**
Segment liabilities	597 927	9 260 268	–	**9 858 195**
Unallocated liabilities	–	–	244 951	**244 951**
Total liabilities	**597 927**	**9 260 268**	**244 951**	**10 103 146**
EBIT	**63 216**	**–**	**(44 191)**	**19 025**
Depreciation/amortization	**(4 450)**	**–**	**–**	**(4 450)**
Impairment	**201**	**–**	**–**	**201**
EBITDA	**67 465**	**–**	**(44 191)**	**23 274**
Other segment information				
Capital expenditure*	533	–	–	**533**

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

For the 6-month period ended 30 June 2015 *(restated, unaudited)* or as at 31 December 2015

	Sales	Holding activity	Unallocated items	Total
Revenue				
Sales outside the Group	1 086 480	–	–	**1 086 480**
Sales within the Group	3 557 080	–	–	**3 557 080**
Segment revenue	**4 643 560**	**–**	**–**	**4 643 560**
Profit/(loss) of the segment	**86 986**	**–**	**–**	**86 986**
Unallocated expenses	–	–	(55 700)	**(55 700)**
EBIT	**86 986**	**–**	**(55 700)**	**31 286**
Net finance income (costs)	–	1 505 125	3 363	**1 508 488**
Profit/(loss) before income tax	**86 986**	**1 505 125**	**(52 337)**	**1 539 774**
Income tax expense	–	–	(2 616)	**(2 616)**
Net profit/(loss) for the period	**86 986**	**1 505 125**	**(54 953)**	**1 537 158**
Assets and liabilities				
Segment assets	1 188 954	25 282 574	–	**26 471 528**
Unallocated assets	–	–	2 628	**2 628**
Total assets	**1 188 954**	**25 282 574**	**2 628**	**26 474 156**
Segment liabilities	727 714	9 009 672	–	**9 737 386**
Unallocated liabilities	–	–	144 273	**144 273**
Total liabilities	**727 714**	**9 009 672**	**144 273**	**9 881 659**
EBIT	**86 986**	**–**	**(55 700)**	**31 286**
Depreciation/amortization	**(3 902)**	**–**	**–**	**(3 902)**
Impairment	**(492)**	**–**	**–**	**(492)**
EBITDA	**91 380**	**–**	**(55 700)**	**35 680**
Other segment information				
Capital expenditure*	2 397	–	–	**2 397**

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

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

(in PLN '000)

In the 6-month period ended 30 June 2015, revenue from sales to two major clients, being members of the TAURON Capital 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.

11. Sales revenue

	6-month period ended 30 June 2016 (*unaudited*)	6-month period ended 30 June 2015 (*unaudited*)
Revenue from sales of goods for resale and materials (excise duty not excluded)	**3 956 797**	**4 608 917**
Excise duty	–	–
Revenue from sales of goods for resale and materials, of which:	**3 956 797**	**4 608 917**
Electricity	3 558 130	4 310 106
Gas	121 865	29 463
Property rights arising from energy certificates	17 436	140 338
Emission allowances	257 804	127 208
Other	1 562	1 802
Rendering of services, of which:	**33 326**	**34 643**
Trading income	26 311	29 886
Other	7 015	4 757
Total sales revenue	**3 990 123**	**4 643 560**

The Company acts as an agent in transactions involving coal purchases for the Group companies (in the comparative period, also with respect to biomass purchases). The Company purchases raw materials from third parties and from the TAURON Group companies, which are subsequently sold to the Group companies only. It recognizes revenue from agency services (supply management).

During the six months ended 30 June 2016 raw materials acquired and resold as a result of the transactions in question amounted to PLN 624 071 thousand. The Company recognized revenue due to agency services of PLN 14 545 thousand.

12. Expenses by type

	6-month period ended 30 June 2016 (*unaudited*)	6-month period ended 30 June 2015 (*unaudited*)
Costs by type		
Depreciation of property, plant and equipment and amortization of intangible assets	(4 450)	(3 902)
Materials and energy	(552)	(600)
Consultancy services	(3 774)	(4 301)
IT services	(6 500)	(6 378)
Other external services	(6 518)	(8 278)
Taxes and charges	(1 401)	(600)
Employee benefits expense	(37 723)	(38 985)
Impairment loss on inventories	(3 275)	(640)
Allowance for receivables from clients	1 542	(1 275)
Advertising expenses	(9 421)	(14 655)
Other	(1 015)	(1 119)
Total costs by type	**(73 087)**	**(80 733)**
Selling and distribution expenses	12 602	9 606
Administrative expenses	44 191	55 700
Cost of goods for resale and materials sold	(3 891 647)	(4 535 242)
Cost of sales	**(3 907 941)**	**(4 550 669)**

(in PLN '000)

13. Finance income

	6-month period ended 30 June 2016 (*unaudited*)	6-month period ended 30 June 2015 (*unaudited*)
Income from financial instruments, of which:	**1 757 342**	**1 743 852**
Dividend income	1 485 152	1 510 624
Interest income on bonds and loans	240 340	211 292
Other interest income	3 252	11 194
Exchange gains	–	10 742
Measurement of derivative instruments	22 991	–
Net gain on realized derivative instruments	5 537	–
Measurement of other financial instruments	70	–
Other finance income	**2 782**	**477**
Total finance income, including recognized in the statement of comprehensive income:	**1 760 124**	**1 744 329**
Dividend income	1 485 152	1 510 624
Interest income on bonds and loans	240 340	211 292
Other finance income	34 632	22 413

14. Finance costs

	6-month period ended 30 June 2016 (*unaudited*)	6-month period ended 30 June 2015 (*unaudited*)
Financial instrument costs, of which:	**(1 217 859)**	**(235 053)**
Interest expense	(184 733)	(177 748)
Exchange losses	(27 189)	–
Measurement of derivative instruments	–	(43 654)
Surplus of impairment losses recognised on shares	(997 051)	–
Surplus of other impairment losses recognised	(13)	(419)
Commissions due to external financing	(8 873)	(6 375)
Net expense due to realized derivative instruments	–	(6 857)
Other finance costs	**(9 052)**	**(788)**
Interest on discount (other provisions)	(8 160)	–
Other	(892)	(788)
Total finance costs, including recognized in the statement of comprehensive income:	**(1 226 911)**	**(235 841)**
Interest expense on debt	(184 733)	(177 748)
Revaluation of shares	(997 051)	–
Other finance costs	(45 127)	(58 093)

As at 30 June 2016 the Company carried out impairment tests of shares in subsidiaries as described in details in Note 20 of these condensed interim financial statements. Following the tests, the Company recognized impairment losses on shares in TAURON Wytwarzanie S.A. (of PLN 600 068 thousand) and in TAURON Ekoenergia Sp. z o.o. (of PLN 840 235 thousand) and derecognized the entire impairment loss on shares in TAURON Ciepło Sp. z o.o. (of PLN 443 252 thousand), which had been recognized at the end of 2015.

In the 6-month period ended 30 June 2016, a surplus of exchange losses over exchange gains of PLN 27 189 thousand occurred, mainly as a result of exchange losses accrued on a loan obtained from TAURON Sweden Energy AB (publ). In the comparable period the Company reported a surplus of exchange gains over exchange losses.

(in PLN '000)

15. Income tax

15.1. Tax expense in the statement of comprehensive income

	6-month period ended 30 June 2016 (*unaudited*)	6-month period ended 30 June 2015 (*unaudited*)
Current income tax	**(22 702)**	**12 058**
Current income tax expense	(22 702)	–
Adjustments of current income tax from prior years	–	12 058
Deferred tax	**20 375**	**(14 674)**
Income tax expense in profit or loss	**(2 327)**	**(2 616)**
Income tax expense in other comprehensive income	**(9 286)**	**(9 241)**

15.2. Deferred income tax

	As at 30 June 2016 (*unaudited*)	As at 31 December 2015
– due interest on bonds and loans	45 602	61 547
– other	4 097	1 529
Deferred tax liabilities	**49 699**	**63 076**
– provision for employee benefits	1 699	1 627
– other provisions and accruals	28 966	28 336
– difference between tax base and carrying amount of fixed and intangible assets	1 223	1 189
– difference between tax base and carrying amount of financial liabilities	18 335	11 908
– valuation of hedging instruments	9 012	18 139
– other	1 168	1 492
Deferred tax assets, of which:	**60 403**	**62 691**
Deferred tax assets recognized in profit or loss	52 303	45 305
Deferred tax assets recognized in other comprehensive income	8 100	17 386
Deferred tax assets/(liabilities), net	**10 704**	**(385)**

Deferred tax asset related to deductible differences related to investments in subsidiaries is recognized insofar as their reversal is probable in the foreseeable future and where taxable income will be available to enable realization of deductible differences. According to the Company, deductible temporary differences related to recognition of impairment losses for shares in subsidiaries: TAURON Wytwarzanie S.A. and TAURON Ekoenergia Sp. z o.o. will not be reversed in foreseeable future, as the investments are not intended for sale. Consequently, no related deferred tax asset has been recognized.

As taxable profit is forecast for 2016 and for the subsequent years for the Tax Capital Group ("TCG") of which the Company is a member, the deferred tax asset related to all deductible differences except for the ones described above has been recognized in these financial statements in the full amount.

16. Dividends paid and proposed

On 10 March 2016, the Management Board adopted a resolution to put forward a recommendation to the Ordinary General Shareholders' Meeting, concerning the use of the Company's reserve capital representing amounts transferred from prior year profit for purposes of dividend payment to the Company's shareholders in the amount of PLN 175 255 thousand, which equals to PLN 0.10 per share. On 17 March 2016 the recommendation presented by the Management Board was approved by the Supervisory Board of the Company.

On 8 June 2016 Ordinary General Shareholders' Meeting did not pass any resolution regarding the use of the reserve capital of the Company in the portion including the amount of previous years' profit brought forward, i.e. using its portion for purposes of dividend payment to the Company's shareholders.

(in PLN '000)

On 23 April 2015, the Ordinary General Shareholders' Meeting of the Company adopted a resolution to pay a dividend of PLN 262 882 thousand to the Company's shareholders from the net profit generated by the Company in 2014 (PLN 0.15 per share). The dividend was paid out in August 2015.

17. Property, plant and equipment

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

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

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

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

18. Investment property

	6-month period ended 30 June 2016 (*unaudited*)	6-month period ended 30 June 2015 (*unaudited*)
COST		
Opening balance	**36 169**	**36 169**
Closing balance	**36 169**	**36 169**
ACCUMULATED DEPRECIATION		
Opening balance	**(7 234)**	**(3 617)**
Depreciation for the period	(1 808)	(1 808)
Closing balance	**(9 042)**	**(5 425)**
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	**28 935**	**32 552**
NET CARRYING AMOUNT AT THE END OF THE PERIOD	**27 127**	**30 744**

(in PLN '000)

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 313 thousand, while the monthly depreciation charge is PLN 301 thousand.

The Company is a party to a lease agreement with a subsidiary (the lessee) valid until 30 April 2018, whereby buildings and structures the rights to which result from the aforesaid lease agreement have been subleased. In the 6-month period ended 30 June 2016, the revenue from investment property lease reached PLN 2 820 thousand.

19. Non-current intangible assets

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

	Software and licenses	Energy certificates	Other intangible assets	Intangible assets not commissioned for use	Intangible assets, total
COST					
Opening balance	**3 539**	**–**	**4 185**	**–**	**7 724**
Liquidation	(1 280)	–	(60)	–	**(1 340)**
Closing balance	**2 259**	**–**	**4 125**	**–**	**6 384**
ACCUMULATED AMORTIZATION					
Opening balance	**(2 985)**	**–**	**(1 440)**	**–**	**(4 425)**
Amortization for the period	(170)	–	(384)	–	**(554)**
Liquidation	1 280	–	60	–	**1 340**
Closing balance	**(1 875)**	**–**	**(1 764)**	**–**	**(3 639)**
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	**554**	**–**	**2 745**	**–**	**3 299**
NET CARRYING AMOUNT AT THE END OF THE PERIOD	**384**	**–**	**2 361**	**–**	**2 745**

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

	Software and licenses	Energy certificates	Other intangible assets	Intangible assets not commissioned for use	Intangible assets, total
COST					
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**
ACCUMULATED AMORTIZATION					
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)**
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	**914**	**5 401**	**1 963**	**–**	**8 278**
NET CARRYING AMOUNT AT THE END OF THE PERIOD	**726**	**–**	**3 137**	**30**	**3 893**

(in PLN '000)

20. Shares

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

No.	Company	Opening balance	Increases/ (Decreases)	Closing balance
1	TAURON Wydobycie S.A.	494 755	250 000	**744 755**
2	Nowe Brzeszcze Grupa TAURON Sp. z o.o.	2 102	179 000	**181 102**
3	TAURON Wytwarzanie S.A.	2 748 832	(600 068)	**2 148 764**
4	TAURON Wytwarzanie GZE Sp. z o.o. in liquidation	4 935	–	**4 935**
5	TAURON Ciepło Sp. z o.o.	884 791	443 252	**1 328 043**
6	TAURON Ekoenergia Sp. z o.o.	939 765	(840 235)	**99 530**
7	Marselwind Sp. z o.o.	107	–	**107**
8	TAURON Dystrybucja S.A.	9 511 628	–	**9 511 628**
9	TAURON Sprzedaż Sp. z o.o.	613 505	–	**613 505**
10	TAURON Sprzedaż GZE Sp. z o.o.	129 823	–	**129 823**
11	TAURON Czech Energy s.r.o.	4 223	–	**4 223**
12	Kopalnia Wapienia Czatkowice Sp. z o.o.	41 178	–	**41 178**
13	Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. in liquidation	49 056	–	**49 056**
14	TAURON Sweden Energy AB (publ)	28 382	–	**28 382**
15	Biomasa Grupa TAURON Sp. z o.o.	1 269	–	**1 269**
16	TAURON Obsługa Klienta Sp. z o.o.	39 831	–	**39 831**
17	TAMEH HOLDING Sp. z o.o.	415 852	–	**415 852**
18	PGE EJ 1 Sp. z o.o.	23 046	–	**23 046**
19	Other	114	–	**114**
	Total	**15 933 194**	**(568 051)**	**15 365 143**

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

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

  On 31 December 2015, the Extraordinary General Shareholders' Meeting of Nowe Brzeszcze Grupa TAURON Sp. z o.o. adopted a resolution to increase the issued capital of the entity by PLN 2 900 thousand by way of issuing 29 000 shares with the nominal value of PLN 100 each, which were acquired by the Company at PLN 1 000 per share, for the total amount of PLN 29 000 thousand. The funds increasing the capital were paid by the Company on 8 January 2016. The capital increase was registered on 29 January 2016.

  On 22 March 2016, the Extraordinary General Shareholders' Meeting of Nowe Brzeszcze Grupa TAURON Sp. z o.o. adopted a resolution to increase the issued capital of the entity by PLN 50 000 thousand by way of issuing 500 000 shares with the nominal value of PLN 100 each, which have been acquired by the Company at PLN 300 per share, for the total amount of PLN 150 000 thousand. The capital increase was registered on 6 May 2016.

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

  On 29 April 2016 the Extraordinary General Shareholders' Meeting of TAURON Wydobycie S.A. decided to increase the issued capital of the entity by PLN 2 500 thousand by way of issuing 250 000 shares with the par value of PLN 10 each, which were acquired by the Company for PLN 1 000 per one share for the total amount of PLN 250 000 thousand. The capital increase was registered on 28 June 2016.

Impairment of assets

Taking into account the indications that for some time the market value of the Company's net assets has been below their carrying amount, the general unfavourable situation in the energy market, as well as a decrease in the price of green certificates and introduction of new regulations regarding renewable energy sources, as at 30 June 2016 the Company tested its shares, loans and intra-group bonds for impairment. Shares, loans and intra-group bonds constitute about 93% of the balance sheet total.

The test was conducted based on the present value of projected cash flows from operations of the key entities, by reference to detailed projections for 2016–2025 and the estimated residual value. The projection period for the generation units covers the whole period of their operation. Reliance on projections covering a period longer than 5 years results mainly from the fact that investment processes in the power industry are time-consuming. The macroeconomic and sector assumptions serving as the basis for projections are updated as frequently as any indications for their modification are observed on the market. Projections also take into account changes in the 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 7.09% to 9.63% 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 (3.27%) and the risk premium for operations appropriate for the power industry (6%). The growth rate used for extrapolation of projected cash flows beyond the detailed planning period is at the level of 2.5% and it corresponds to the estimated long-term inflation rate.

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

- The adopted price path of power coal, other coal sizes and gaseous fuels. The actual decrease in the price of coal assumed by 2025 approximates 6%, while after 2025 slight fluctuations have been assumed of prices seen during that year (fixed prices);
- The adopted electricity wholesale price path for the years 2016–2025, taking into account such factors as the effect of the balance of the market supply and demand for electricity, costs of fuel as well as costs of acquiring greenhouse gas emission allowances; An increase of approx. 1% has been assumed by 2020; a faster price growth has been assumed by 2025 (13% vs. 2020); for 2025–2040 an 18% increase has been assumed and maintaining of the prices of that year after 2040 (fixed prices);
- Estimated changes in the Polish market model aimed at implementation of the capacity market or other mechanisms awarding for generation capacity were included;
- Emission limits for generating electricity specified in the regulation of the Ministry of Economy, adjusted by capital expenditure incurred and the limits for heat generation compliant with the regulation of the Council of Ministers, adjusted by the level of operations, i.e. generation of heat;
- The adopted price path of greenhouse gas emission allowances for 2016–2025. An increase in the market price by approx. 50% has been assumed by 2025; for the period 2025–2040 an increase by approx. 20% and after 2040, the price level of that year has been maintained (fixed prices);
- Green, red and yellow energy production volumes depending on the production capacity, along with the price path for individual energy certificates. A decrease of approx. 7% in prices of energy from renewable sources has been assumed by 2020; a price growth has been assumed by 2025 (11% vs. 2020); for 2025–2040 a 22% increase has been assumed and maintaining of the prices of that year after 2040 (fixed prices);
- For green energy, limited subsidy period has been included pursuant to the assumed provisions of the Act on renewable energy sources ("the RES Act") determining new mechanisms of granting support to power generated in renewable sources. The support period has been limited to 15 years counted from the moment of first-time supply of the power covered with the certificate to the distribution grid. At the same time, hydroelectric power plants with capacity exceeding 5 MW have been eliminated from the support;
- Support for cogeneration complies with the present regulations. Existence of property rights and the obligation to surrender them by 2018 for red, yellow and purple energy has been assumed. After that year, no support has been considered for cogeneration of power and heat;
- Regulated revenue generated by distribution companies, ensuring coverage of reasonable costs and a reasonable level of return on capital; The return on capital is conditional on the Regulatory Asset Value;
- The adopted electricity retail price path based on the wholesale price of black energy, taking into account the costs of excise duty, the obligation to surrender energy certificates as well as an appropriate level of margin;
- Sales volumes taking into account GDP growth and increased market competition;
- Tariff revenue generated by heat companies, ensuring coverage of reasonable costs and a reasonable level of return on capital;
- Maintaining or 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 end, the Company applied assumptions used for impairment testing of shares.

Sensitivity analyses conducted by the Company reveal that the projected prices of electricity, hard coal and the adopted discount rates are the key factors exerting an effect on the estimated cash flows of the key subsidiaries.

(in PLN '000)

The impairment tests carried out in line with IAS 36 "Impairment of Assets" indicated impairment of shares in subsidiaries of PLN 1 440 303 thousand and the necessity to derecognize an impairment loss of PLN 443 252 thousand. Impairment loss has been charged to finance costs of the Company and was related to the following entities:

Company	WACC* assumed in tests as at		Recoverable amount of shares, intra-group loans and bonds	Impairment loss recognized in the period of 6 months ended 30 June 2016
	30 June 2016 (*unaudited*)	31 December 2015		
TAURON Wytwarzanie S.A.	7.49%	7.69%	4 876 955	(600 068)
TAURON Ciepło Sp. z o.o.	7.39%	7.68%	3 926 500	443 252
TAURON Ekoenergia Sp. z o.o.	7.09%	8.09%	1 325 393	(840 235)

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

The impairment loss has been recognized due to the following reasons:

- a decrease in prices of green certificates;
- new regulations introduced with regard to renewable energy sources;
- the continued adverse trend regarding power prices and the projected increase in the supply of power from competitive sources to the domestic coal-based generation.

The derecognition of the impairment loss is possible as a result of pro-efficiency measures implemented by TAURON Ciepło Sp. z o.o. and involving among others re-allocation of heat generation.

The change in impairment losses in the 6-month period ended 30 June 2016 is presented in the following table.

Company	Impairment as at 1 January 2016	Impairment loss recognized in the period of 6 months ended 30 June 2016	Impairment as at 30 June 2016	Carrying amount of shares including impairment losses as at 30 June 2016
TAURON Wytwarzanie S.A.	(4 487 895)	(600 068)	(5 087 963)	2 148 764
TAURON Ciepło Sp. z o.o.	(443 252)	443 252	–	1 328 043
TAURON Ekoenergia Sp. z o.o.	–	(840 235)	(840 235)	99 530

Changes in shares from 1 January 2015 to 30 June 2015 *(unaudited)*

No.	Company	Opening balance	Increases/ (Decreases)	Closing balance
1	TAURON Wydobycie S.A.	494 755	–	**494 755**
2	TAURON Wytwarzanie S.A.	7 236 727	–	**7 236 727**
3	TAURON Wytwarzanie GZE Sp. z o.o.	4 935	–	**4 935**
4	TAURON Ciepło Sp. z o.o.	1 328 043	–	**1 328 043**
5	TAURON Ekoenergia Sp. z o.o.	939 765	–	**939 765**
6	Marselwind Sp. z o.o.	107	–	**107**
7	TAURON Dystrybucja S.A.	9 511 628	–	**9 511 628**
8	TAURON Sprzedaż Sp. z o.o.	613 505	–	**613 505**
9	TAURON Sprzedaż GZE Sp. z o.o.	129 823	–	**129 823**
10	TAURON Czech Energy s.r.o.	4 223	–	**4 223**
11	Kopalnia Wapienia Czatkowice Sp. z o.o.	41 178	–	**41 178**
12	Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. in liquidation	49 056	–	**49 056**
13	TAURON Sweden Energy AB (publ)	232	19	**251**
14	Biomasa Grupa TAURON Sp. z o.o.	–	1 224	**1 224**
15	TAURON Obsługa Klienta Sp. z o.o.	39 831	–	**39 831**
16	TAMEH HOLDING Sp. z o.o.	415 852	–	**415 852**
17	PGE EJ 1 Sp z o.o.	–	16 046	**16 046**
18	Other	139	20	**159**
	Total	**20 809 799**	**17 309**	**20 827 108**

(in PLN '000)

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 2016 and 31 December 2015, broken down by individual companies issuing the bonds.

Company	As at 30 June 2016 (*unaudited*)		As at 31 December 2015	
	par value of purchased bonds	accrued interest	par value of purchased bonds	accrued interest
TAURON Wytwarzanie S.A.	2 698 770	29 421	2 498 770	13 260
TAURON Dystrybucja S.A.	3 800 000	25 050	2 600 000	174 565
TAURON Ekoenergia Sp. z o.o.	–	–	60 000	705
TAURON Ciepło Sp. z o.o.	1 633 260	32 207	1 603 260	18 675
TAURON Wydobycie S.A.	570 000	4 494	600 000	4 787
TAURON Obsługa Klienta Sp. z o.o.	85 000	9 821	85 000	7 619
Total bonds, including:	**8 787 030**	**100 993**	**7 447 030**	**219 611**
Non-current	8 787 030	9 821	7 447 030	4 571
Current	–	91 172	–	215 040

Intra-group bonds maturing within one year, intended for rollover, are classified as long-term instruments. Such classification reflects the nature of funding under the intra-group bond issue scheme, which enables cash management in the medium and long term. The agreements provide for the possibility to roll over the bonds. As at 30 June 2016 all bonds maturing within one year (par value PLN 230 000 thousand) were classified as long-term bonds.

22. Loans granted

	As at 30 June 2016 (*unaudited*)		As at 31 December 2015	
	Principal	Interest	Principal	Interest
Loan granted to TAURON Ekoenergia Sp. z o.o.	1 120 000	105 863	1 120 000	75 362
Loans granted to EC Stalowa Wola S.A., of which:	202 550	33 154	194 950	28 959
Subordinated loan	177 000	32 624	177 000	28 922
Loan for repayment of debt	15 850	363	15 850	31
Other loans	9 700	167	2 100	6
Other loans	–	–	142 024	20
Total loans, of which:	**1 322 550**	**139 017**	**1 456 974**	**104 341**
Non-current	1 312 850	138 850	1 312 850	104 315
Current	9 700	167	144 124	26

On 27 February 2015, the Company entered into an agreement with its subsidiary, TAURON Ekoenergia Sp. z o.o., whereby TAURON Polska Energia S.A. granted a one-year loan of PLN 1 120 000 thousand to TAURON Ekoenergia Sp. z o.o. The purpose of the loan was to repurchase and redeem the same amount of intra-group bonds issued by the borrower in prior years to finance construction of wind farms. On 25 February 2016 the annex to the loan agreement was entered into, extending the term to maturity of the principal amount and interest until 27 February 2017.

The Company has classified the loan as a long-term asset as its repayment is expected to take place in a period exceeding 12 months as of the end of the reporting period.

Loans granted to Elektrociepłownia Stalowa Wola 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 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. At the end of the reporting period, the balance of the subordinated loan was PLN 177 000 thousand and the VAT loan had fully been repaid.

(in PLN '000)

- In 2015, the Company entered into loan agreements with Elektrociepłownia Stalowa Wola S.A., whereby it granted a loan to Elektrociepłownia Stalowa Wola S.A. in the maximum amount of PLN 15 850 thousand to finance the first payment of principal and interest on loans provided to the borrower by the European Investment Bank, the European Bank for Reconstruction and Development and Bank Polska Kasa Opieki S.A. As at the end of the reporting period, the balance of loans granted was equal to the maximum amounts specified in the aforesaid agreements.
- Other loans to Elektrociepłownia Stalowa Wola S.A. in the total amount of PLN 9 700 thousand were originated to finance its current operations:
  - A short-term loan of up to PLN 2 600 thousand originated in 2015. As at the reporting date the outstanding amount under the loan agreement equalled the maximum contractual amount.
  - A cash loan of PLN 5 500 thousand granted on 22 January 2016. Under the loan agreement, the loan will be repaid in one instalment, along with accrued interest, by 31 December 2016.
  - A cash loan of up to PLN 1 200 thousand granted pursuant to an agreement of 22 April 2016. Under the loan agreement, the loan will be repaid in one instalment, along with accrued interest, by 31 December 2016. As at the reporting date the outstanding amount under the loan agreement was PLN 600 thousand.
  - A cash loan of up to PLN 3 100 thousand granted pursuant to an agreement of 27 May 2016. Under the loan agreement, the loan will be repaid in one instalment, along with accrued interest, by 31 December 2016. As at the reporting date the outstanding amount under the loan agreement was PLN 1 000 thousand.

A decrease in the balance of other loans in the 6-month period ended 30 June 2016 was driven by the Company's resale of 4 100 thousand emission allowances (EUA) to a subsidiary, TAURON Wytwarzanie S.A., in March 2016 at the price of PLN 35.05 per EUA, i.e. the total price of PLN 143 705 thousand. The aforesaid emission allowances were purchased by the Company from TAURON Wytwarzanie S.A. under agreements entered into in December 2015, whereby the Company assumed the obligation to resell the same quantity of EUA in March 2016 at an agreed price. Due to its nature, the transaction was recognized as a loan (buy-sell-back transaction), because according to the Company it did not entail a transfer of risks and rewards, including the risk of fair value change, onto the Company. Interest earned on the aforesaid loan transaction totalled PLN 1 681 thousand. Proceeds from resale of EUA under the transaction in question have been presented in the statement of cash flows as Loans repaid in investing activities.

23. Derivative instruments

	Balance as at 30 June 2016 (*unaudited*)				As at 31 December 2015			
	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	–	–	**–**	**–**	(11 368)	–	**3 055**	**(14 423)**
IRS	(4 604)	(41 788)	**1 040**	**(47 432)**	(4 833)	(90 634)	**–**	**(95 467)**
Commodity future/forward/swap	10 517	–	**88 937**	**(78 420)**	17	–	**2 225**	**(2 208)**
Currency forward	1 527	–	**1 527**	**–**	404	–	**404**	**–**
Total derivative instruments, including:			**91 504**	**(125 852)**			**5 684**	**(112 098)**
Current			79 453	(125 840)			5 668	(96 942)
Non-current			12 051	(12)			16	(15 156)

(in PLN '000)

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

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

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

	As at 30 June 2016 (*unaudited*)		As at 31 December 2015	
	1 level	2 level	1 level	2 level
Assets				
Derivative instruments – commodity	88 937	–	2 225	–
Derivative instruments – currency	–	1 527	–	404
Derivative instruments – CCIRS	–	–	–	3 055
Derivative instruments – IRS	–	1 040	–	–
Liabilities				
Derivative instruments – commodity	78 420	–	2 208	–
Derivative instruments – CCIRS	–	–	–	14 423
Derivative instruments – IRS	–	47 432	–	95 467

Hedging derivative instruments (subject to hedge accounting) – IRS

Pursuant to a decision of the Financial Risk Management Committee of 30 January 2012, the Company hedged the interest rate risk arising from bonds issued under the Bond Issue Scheme (Tranche A and Tranche C), by entering into an interest rate swap (IRS) transaction for a term of 5 years. The aforementioned transaction was concluded due to fluctuations in the projected future cash flows from interest payments resulting from the issue of bonds in PLN with a floating interest rate based on WIBOR 6M. The Company hedged 80% of such cash flows. The Tranche A transaction was settled at maturity of the instrument, i.e. in December 2015. On 29 February 2016, the Company repurchased and redeemed a portion of Tranche C bonds with the par value of PLN 2 250 000 thousand, which had been hedged using IRS, and at the same time issued bonds with the same par value under an agreement entered into in November 2015, which has been discussed in more detail in Note 30.1 to these condensed interim financial statements. In accordance with the dynamic interest rate risk hedging strategy adopted by the Company, whereby cash flows related to the exposure to the WIBOR 6M interest rate risk are the hedged instrument, the Company maintained the hedging relationship for the IRS transactions concluded in March 2012 with respect to the newly issued bonds. As the effectiveness of the hedge was considered high, the transactions are covered by hedge accounting.

In the 6-month period ended 30 June 2016, pursuant to the decision of the Financial and Credit Risk Management Committee, the Company hedged a portion of interest rate risk arising from cash flows exposed to WIBOR 6M, designed under a dynamic risk management strategy, i.e. interest on debt securities with the nominal value of PLN 1 100 000 thousand through conclusion of IRS hedging transactions for the period from 4 to 5 years. The aforementioned transactions are subject to hedge accounting with the exception of the first interest period. This is due to the fact that the floating interest rate in the first interest period was determined in advance, hence the entity may not apply hedge accounting principles to cash flows resulting from the first interest period.

On 5 July 2016 certain IRS transactions concluded in March 2012 were prematurely settled. The amount paid by the Company under the settlement was PLN 7 697 thousand.

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

In the first quarter of 2016, the Company closed a transaction involving a coupon cross currency swap (CCIRS), which was not subject to hedge accounting. Following the settlement of the aforesaid transaction in February 2016, the Company received PLN 5 400 thousand. The transaction involved a swap of interest payments on the nominal amount of EUR 168 000 thousand and its original maturity was 15 years. In accordance with the contract, the Company paid interest accrued based on a floating interest rate in PLN and received fixed-rate payments in EUR.

(in PLN '000)

As at 30 June 2016, derivative instruments which did not fall within the scope of hedge accounting and were classified as financial assets or financial liabilities measured at fair value through profit or loss comprised:

- commodity derivatives (futures, forward, swap) including emission allowance, electricity and other commodity purchase and sale transactions;
- FX forward transactions hedging foreign currency cash flows resulting from trading and financial activities.

24. Current intangible assets

Under current intangible assets, the Company discloses energy certificates.

	6-month period ended 30 June 2016 (*unaudited*)	6-month period ended 30 June 2015 (*unaudited*)
Opening balance	**–**	**20 215**
Direct purchase	13	1 671
Cancellation	(13)	(21 885)
Reclassification	–	(1)
Closing balance	**–**	**–**

25. Inventories

	As at 30 June 2016 (*unaudited*)	As at 31 December 2015
Historical cost		
Energy certificates	250	1 720
Greenhouse gas emission allowances	105 248	248 342
Materials	213	56
Total	**105 711**	**250 118**
Write-downs to net realizable value		
Energy certificates	(149)	(198)
Greenhouse gas emission allowances	(276)	(428)
Total	**(425)**	**(626)**
Net realizable value		
Energy certificates	101	1 522
Greenhouse gas emission allowances	104 972	247 914
Materials	213	56
Total	**105 286**	**249 492**

A decrease in the balance of emission allowances in the 6-month period ended 30 June 2016 results mostly from sale of these allowances held as at 31 December 2015 in the amount of PLN 139 760 thousand to TAURON Wytwarzanie S.A., a subsidiary.

(in PLN '000)

26. Receivables from clients

	As at 30 June 2016 (*unaudited*)	As at 31 December 2015
Value of items before allowance/write-down		
Receivables from clients	694 511	579 605
Receivables claimed at court	1 024	2 423
Total	**695 535**	**582 028**
Allowance/write-down		
Receivables from clients	–	(159)
Receivables claimed at court	(1 024)	(2 423)
Total	**(1 024)**	**(2 582)**
Value of item net of allowance (carrying amount)		
Receivables from clients	694 511	579 446
Receivables claimed at court	–	–
Total	**694 511**	**579 446**

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

As at 30 June 2016 and 31 December 2015, the largest item of receivables from clients was receivables from TAURON Sprzedaż Sp. z o.o., a subsidiary, amounting to PLN 318 269 thousand and PLN 257 446 thousand, respectively.

Related-party transactions as well as related-party receivables and liabilities have been presented in Note 38 to these condensed interim financial statements.

27. Receivables due to taxes and charges

	As at 30 June 2016 (*unaudited*)	As at 31 December 2015
Corporate Income Tax receivables	27 231	–
VAT receivables	33 036	42 013
Excise duty receivables	1 750	1 750
Total	**62 017**	**43 763**

Receivables due to income tax

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.

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

As at 30 June 2016 an amount receivable of PLN 27 231 thousand arising from income tax occurred in the Tax Capital Group (TCG), comprising mostly a surplus of the tax advance payment made by the TCG over the tax payable for the 6-month period ended 30 June 2016 in the amount of PLN 26 951 thousand.

At the same time, due to the Company's settlements, as the Representative Company, with the Tax Capital Group companies, it has reported liabilities to these subsidiaries arising from tax overpayment of PLN 46 964 thousand, which have been presented in the statement of financial position as Other financial liabilities, as well as receivables from the Tax Capital Group companies arising from tax underpayment of PLN 11 227 thousand, which have been presented in the statement of financial position as Other financial assets.

Condensed interim financial statements for the 6-month period ended 30 June 2016 prepared according to IFRS, as endorsed by the European Union (in PLN '000)

28. Cash and cash equivalents

	As at 30 June 2016 (*unaudited*)	As at 31 December 2015
Cash at bank and in hand	272 180	168 024
Short-term deposits (up to 3 months)	433	231
Total cash and cash equivalents presented in the statement of financial position, including:	**272 613**	**168 255**
restricted cash	83 134	70 927
Cash pool	(467 534)	(839 642)
Overdraft	(111 571)	(10 206)
Foreign exchange	1 648	2 418
Total cash and cash equivalents presented in the statement of cash flows	**(304 844)**	**(679 175)**

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

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 42 060 thousand, and
- cash held in special purpose accounts for transactions carried out on the European Energy Exchange, ICE Futures Europe and Powernext S.A. of PLN 38 571 thousand.

Information on cash pool balances has been presented in Note 30.4 to these condensed interim financial statements.

29. Equity

29.1. Issued capital

Issued capital as at 30 June 2016 *(unaudited)*

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

As at 30 June 2016, the value of issued capital, the number of shares and the par value of shares did not change compared to 31 December 2015.

29.2. Major shareholders

Shareholding structure as at 30 June 2016 (*unaudited*, *to the best of the Company's knowledge)*

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

29.3. Reserve capital

On 8 June 2016 Ordinary General Shareholders' Meeting passed a resolution regarding absorption of the net loss for 2015 in the amount of PLN 3 453 908 thousand from the reserve capital of the Company.

(in PLN '000)

29.4. Revaluation reserve from valuation of hedging instruments

	6-month period ended 30 June 2016 (*unaudited*)	6-month period ended 30 June 2015 (*unaudited*)
Opening balance	**(73 414)**	**(143 019)**
Remeasurement of hedging instruments	49 075	48 417
Remeasurement of hedging instruments charged to profit or loss	(229)	211
Deferred income tax	(9 281)	(9 239)
Closing balance	**(33 849)**	**(103 630)**

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 23 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 2016 the Company recognized PLN (33 849) 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, totalling to PLN 46 392 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 46 253 thousand, where PLN 46 482 thousand was the amount paid in respect of hedges used in relation to closed interest periods and PLN (229) thousand resulted from remeasurement of instruments related to interest on bonds accrued as at the end of the reporting period. In the statement of comprehensive income, the expense related to a change in measurement of instruments relating to interest accrued on bonds increased finance costs arising from such interest.

29.5. Dividend limitation

Reserve capital – dividend limitation

	As at 30 June 2016 (*unaudited*)	As at 31 December 2015
amounts subject to distribution, including:	**4 032 169**	**4 032 169**
amounts from distribution of prior years profits	4 032 169	4 032 169
non-distributable amounts, including:	**3 791 170**	**7 245 078**
decrease in the value of issued capital	3 556 290	7 010 198
settlement of mergers with subsidiaries	234 880	234 880
Total reserve capital	**7 823 339**	**11 277 247**

Retained earnings – dividend limitation

	As at 30 June 2016 (*unaudited*)	As at 31 December 2015
distributable amounts or losses to be covered, including:	**13**	**(3 453 895)**
profit for the year ended 31 December 2015	–	(3 453 908)
adjustment of prior years profit	13	13
non-distributable amounts, including:	**629 745**	**79 812**
profit for the 6-month period ended 30 June 2016	549 911	–
actuarial gains and losses on provisions for post-employment benefits	(684)	(706)
settlement of mergers with subsidiaries	80 518	80 518
Total retained earnings (accumulated losses)	**629 758**	**(3 374 083)**

(in PLN '000)

30. Debt

	As at 30 June 2016 *(unaudited)*	As at 31 December 2015
Long-term portion of debt		
Issued bonds	5 810 394	2 957 095
Loans received from the European Investment Bank	1 142 491	1 183 320
Loans from the subsidiary	765 689	709 170
Finance lease	25 270	26 961
Total	**7 743 844**	**4 876 546**
Short-term portion of debt		
Issued bonds	763 005	3 011 922
Cash pool loans received, including accrued interest	528 030	860 585
Loans from the European Investment Bank	140 037	140 871
Loans from the subsidiary	16 226	30 256
Overdraft	111 571	10 206
Finance lease	3 323	3 208
Total	**1 562 192**	**4 057 048**

30.1. Bonds issued

Bonds as at 30 June 2016 *(unaudited)*

Tranche/ Bank	Maturity date	Currency	As at balance sheet date (*unaudited*)		of which maturing within (after the balance sheet date)				
			Accrued interest	Principal at amortized cost	up to 3 months	3–12 months	1–2 years	2–5 years	over 5 years
C	12 December 2016	PLN	1 033	749 847	–	749 847	–	–	–
BGK*	20 December 2019	PLN	97	99 857	–	–	–	99 857	–
	20 December 2020	PLN	97	99 839	–	–	–	99 839	–
	20 December 2021	PLN	97	99 829	–	–	–	–	99 829
	20 December 2022	PLN	97	99 820	–	–	–	–	99 820
	20 December 2023	PLN	97	99 813	–	–	–	–	99 813
	20 December 2024	PLN	97	99 810	–	–	–	–	99 810
	20 December 2025	PLN	97	99 805	–	–	–	–	99 805
	20 December 2026	PLN	97	99 800	–	–	–	–	99 800
	20 December 2027	PLN	97	99 797	–	–	–	–	99 797
	20 December 2028	PLN	97	99 796	–	–	–	–	99 796
	20 December 2020	PLN	67	70 000	–	–	–	70 000	–
	20 December 2021	PLN	67	70 000	–	–	–	–	70 000
	20 December 2022	PLN	67	70 000	–	–	–	–	70 000
	20 December 2023	PLN	67	70 000	–	–	–	–	70 000
	20 December 2024	PLN	67	70 000	–	–	–	–	70 000
	20 December 2025	PLN	67	70 000	–	–	–	–	70 000
Bond Issue Scheme of 24 November 2015	29 December 2020	PLN	362	2 244 189	–	–	–	2 244 189	–
	25 March 2020	PLN	776	99 737	–	–	–	99 737	–
	30 March 2020	PLN	2 209	299 209	–	–	–	299 209	–
TPEA1119	4 November 2019	PLN	7 406	1 749 093	–	–	–	1 749 093	–
Total bonds			**13 158**	**6 560 241**	**–**	**749 847**	**–**	**4 661 924**	**1 148 470**

* *Bank Gospodarstwa Krajowego*.

(in PLN '000)

Bonds as at 31 December 2015

Tranche/ Bank	Maturity date	Currency	As at balance sheet date		of which maturing within (after the balance sheet date)				
			Accrued interest	Principal at amortized cost	up to 3 months	3–12 months	1–2 years	2–5 years	over 5 years
C	12 December 2016	PLN	4 389	2 998 938	2 249 203	749 735	–	–	–
BGK*	20 December 2019	PLN	106	99 836	–	–	–	99 836	–
	20 December 2020	PLN	106	99 823	–	–	–	99 823	–
	20 December 2021	PLN	106	99 815	–	–	–	–	99 815
	20 December 2022	PLN	106	99 808	–	–	–	–	99 808
	20 December 2023	PLN	106	99 802	–	–	–	–	99 802
	20 December 2024	PLN	106	99 800	–	–	–	–	99 800
	20 December 2025	PLN	106	99 796	–	–	–	–	99 796
	20 December 2026	PLN	106	99 792	–	–	–	–	99 792
	20 December 2027	PLN	106	99 790	–	–	–	–	99 790
	20 December 2028	PLN	97	99 790	–	–	–	–	99 790
	20 December 2020	PLN	12	70 000	–	–	–	70 000	–
	20 December 2021	PLN	12	70 000	–	–	–	–	70 000
	20 December 2022	PLN	12	70 000	–	–	–	–	70 000
TPEA1119	4 November 2019	PLN	7 508	1 749 043	–	–	–	1 749 043	–
Total bonds			**12 984**	**5 956 033**	**2 249 203**	**749 735**	**–**	**2 018 702**	**938 393**

* *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 2016 and in the comparable period has been presented below.

	6-month period ended 30 June 2016 (*unaudited*)	6-month period ended 30 June 2015 (*unaudited*)
Opening balance	**5 956 033**	**6 094 022**
Issue*	2 852 461	–
Redemption	(2 250 000)	(150 000)
Measurement change	1 747	1 001
Closing balance	**6 560 241**	**5 945 023**

* *Costs of issue have been included.*

The change in the balance of bonds during the six months ended 30 June 2016 resulted from the following events:

- On 8 January 2016, the Company issued long-term bonds with the total par value of PLN 210 000 thousand under the agreement with Bank Gospodarstwa Krajowego with the following maturity dates:
  - Tranche of PLN 70 000 thousand with the maturity date on 20 December 2023;
  - Tranche of PLN 70 000 thousand with the maturity date on 20 December 2024;
  - Tranche of PLN 70 000 thousand with the maturity date on 20 December 2025.
- On 29 February 2016, the Company repurchased 22 500 out of 30 000 Tranche C bonds issued on 12 December 2011 under the bond issue scheme of 16 December 2010, for purposes of redemption. The remaining 7 500 Tranche C bonds were not repurchased early. In accordance with the terms of issue, they will be repurchased on 12 December 2016. The aforesaid bonds were repurchased at the issue price of PLN 100 thousand. Thus, the total par value of bonds which were repurchased and redeemed by the Company was PLN 2 250 000 thousand. This amount was increased by interest due between the beginning of the last interest period preceding the repurchase and the repurchase date. The bonds were repurchased for redemption under bilateral agreements concluded by TAURON Polska Energia S.A. with Tranche C Bond holders, mainly to prolong the date of the Company's repayment of debt incurred in the form of bonds. The funds for bond repurchase were secured under a new bond issue scheme of 24 November 2015, which has been discussed in more detail below.

- Under the new bond issue scheme of 24 November 2015, the Company issued 22 500 bonds with the total par value of PLN 2 250 000 thousand on 29 February 2016. The bonds will mature on 29 December 2020. The bonds were issued in the Polish zloty as unsecured, dematerialized coupon securities. They were purchased at the issue price equal to the par value of PLN 100 thousand. The interest on issued bonds was determined by reference to WIBOR 6M increased by a fixed margin. The bonds will be repurchased at the issue price at maturity, while interest will be paid in arrears at the end of each interest period to bond holders determined at the record date. Interest on the aforesaid bonds is payable in semi-annual periods (with the proviso that the first period is four months). The bonds were purchased by financial institutions being parties to the bond issue scheme agreements, i.e. Bank BGŻ BNP Paribas S.A., Bank Handlowy w Warszawie S.A., Bank of Tokyo-Mitsubishi UFJ (Holland) BV, Bank of Tokyo-Mitsubishi UFJ (Polska) S.A., Bank Zachodni WBK S.A., CaixaBank S.A. (Spółka Akcyjna) Branch in Poland, Industrial and Commercial Bank of China (Europe) S.A. Branch in Poland, ING Bank Śląski S.A., mBank S.A. and Powszechna Kasa Oszczędności Bank Polski S.A.
- In March 2016, the Company issued further bonds under the agreement of 24 November 2015:
  - Tranche of PLN 100 000 thousand with the maturity date on 25 March 2020;
  - Tranche of PLN 300 000 thousand with the maturity date on 30 March 2020.

The Company hedges a portion of interest cash flows related to issued bonds using IRS contracts. The instruments are subject to hedge accounting, as discussed in more detail in Note 23 to these condensed interim financial statements.

The agreements signed by the Company with the banks include legal and financial covenants which are commonly used in such transactions. As at 30 June 2016, none of these covenants were breached and the contractual provisions were complied with.

30.2. Loans from the European Investment Bank

As at 30 June 2016, the balance of loans obtained from the European Investment Bank was PLN 1 282 528 thousand, including interest accrued of PLN 7 290 thousand. As at 31 December 2015, the related liability was PLN 1 324 191 thousand.

In the 6-month period ended 30 June 2016, the Company repaid PLN 40 909 thousand of the principal amount and PLN 28 246 thousand of interest.

30.3. Loans from a subsidiary

As at 30 June 2016 the carrying amount of the loans granted by the subsidiary TAURON Sweden Energy AB (publ) was PLN 781 915 thousand (EUR 176 684 thousand), including PLN 16 226 thousand (EUR 3 666 thousand) of interest accrued as at the end of the reporting period. As at 31 December 2015, the carrying amount of a loan from the subsidiary was PLN 739 426 thousand (EUR 173 513 thousand).

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

- PLN 752 545 thousand (EUR 170 048 thousand) of a long-term loan granted under an agreement entered into in December 2014 between TAURON Polska Energia S.A. and TAURON Sweden Energy AB (publ). The interest rate on the loan is fixed and interest is paid annually, in December, until the final loan repayment date. The loan will be fully repaid on 29 November 2029.
- PLN 29 370 thousand (EUR 6 636 thousand) of a loan granted under the agreement dated 27 July 2015, whereby TAURON Sweden Energy AB (publ) granted a loan of EUR 6 600 thousand to the Company on 30 July 2015. The initial maturity date of the loan and interest was 30 July 2016. Pursuant to an annex concluded to the loan agreement of 27 July 2015 its repayment was extended by one year. Interest was repaid on 1 August 2016.

30.4. Cash pool service

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

(in PLN '000)

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

	As at 30 June 2016 (*unaudited*)	As at 31 December 2015
Receivables from cash pool loans granted	60 304	20 846
Interest receivable on loans granted under cash pool agreement	192	97
Total Receivable	**60 496**	**20 943**
Loans received under cash pool agreement	527 465	859 575
Interest payable on loans received under cash pool agreement	565	1 010
Total Liabilities	**528 030**	**860 585**

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

Under the cash pool agreement, the Company may use external financing in the form of an overdraft of up to PLN 300 000 thousand and an intraday limit of up to PLN 500 000 thousand. As at 30 June 2016 the Company did not have any related liabilities.

30.5. Overdraft facilities

As at 30 June 2016, the balance of overdraft facilities was PLN 111 571 thousand and included:

- an agreement for an overdraft in EUR with Bank Gospodarstwa Krajowego, concluded by the Company to finance transactions in emission allowances, power and gas, of EUR 24 844 thousand (PLN 109 946 thousand);
- an agreement for an overdraft in USD with mBank S.A., concluded by the Company for the purpose of financing margin deposits and commodity transactions, of USD 408 thousand (PLN 1 625 thousand).

As at 31 December 2015, the balance of overdraft facilities was PLN 10 206 thousand.

31. Other provisions

Provision for onerous contracts with a joint venture

As the schedule had not been met and the material technical terms of the contract signed with the general contractor on the gas and steam unit construction project in Stalowa Wola, determining the safety and failure-free operation as well as the future efficiency and costs of operation of the unit, had been breached, Elektrociepłownia Stalowa Wola S.A. terminated the contract with the general contractor on 29 January 2016. At present, analyses are being performed with a view to determining the further course of action and selecting a project implementation scenario. Elektrociepłownia Stalowa Wola S.A., its business partners and the banks financing the project agreed on the project completion formula. All the parties expressed their willingness to continue the project. A solution aimed at restoring financing is being worked out with the banks. The construction site is being taken over from the general contractor and works aimed at securing the equipment and its maintenance are being performed. The Company is negotiating amendments to the gas and electricity contracts with PGNIG S.A.

In view of the foregoing, in the year ended 31 December 2015, the Company recognized provisions for onerous contracts with a joint venture, Elektrociepłownia Stalowa Wola S.A., totalling PLN 182 877 thousand.

In the 6-month period ended 30 June 2016, the Company revalued the provisions for onerous contracts with a joint venture due to the unwinding of discount as at the end of the reporting period, which increased the provisions by PLN 8 160 thousand in total, and recognized additional provisions of PLN 2 146 thousand (net amount).

As at the end of the reporting period, the balances of provisions for onerous contracts totaled PLN 193 183 thousand and included:

- a provision of PLN 129 607 thousand resulting from the fact that under a multi-annual electricity sales contract among Elektrociepłownia Stalowa Wola S.A., the Company and PGNiG Energia S.A., the Company is obliged to purchase half of the volume of electricity at a price determined in the "cost plus" formula, which covers the manufacturing costs and the financing costs. The provision was estimated taking account of the difference between the planned market prices of electricity and the costs resulting from the "cost plus" formula;

(in PLN '000)

- a provision of PLN 53 190 thousand resulting from the fact that the Company may be obliged to cover losses which may be incurred under the take or pay clause of the comprehensive gaseous fuel supply contract entered into by PGNiG S.A. and Elektrociepłownia Stalowa Wola S.A. Pursuant to the said clause, Elektrociepłownia Stalowa Wola S.A. shall pay PGNiG S.A. for uncollected gas or resell it on the market. The provision was estimated on the assumption that the gas volume for 2016–2018 was the same as the one specified in the contract. The short-term portion of the provision is PLN 28 671 thousand;
- a provision for costs of PLN 10 386 thousand (PLN 5 302 thousand of which is the short-term portion). The Company may be required to incur additional costs necessary for the operation of Elektrociepłownia Stalowa Wola S.A. due to delays in project completion.

The provisions for the costs of fulfilment of the gas contract and for additional costs of operation have been recognized in proportion to the Company's interest in the joint venture.

Provision for the obligation to surrender energy certificates

In order to meet its obligation to surrender energy certificates, the Company recognized a dedicated provision in the amount of PLN 6 thousand as at the end of the reporting period.

32. Liabilities due to taxes and charges

	As at 30 June 2016 (*unaudited*)	As at 31 December 2015
Corporate Income Tax	–	82 935
Personal Income Tax	1 702	1 580
VAT	–	14 539
Social security	2 456	2 594
Other	26	22
Total	**4 184**	**101 670**

A decrease in liabilities arising from taxes and charges results mostly from a decrease in CIT liabilities of the Tax Capital Group. As at 30 June 2016 an amount receivable arising from income tax occurred in the Group, as described in details in Note 27 hereof. As at 31 December 2015, income tax liability for 2015 occurred in the Tax Capital Group in the amount of PLN 82 944 thousand.

33. Significant items of the statement of cash flows

33.1. Cash flows from operating activities

Changes in working capital

	6-month period ended 30 June 2016 (*unaudited*)	6-month period ended 30 June 2015 (*unaudited*)
Change in receivables	(226 556)	166 828
Change in inventories	144 206	56 166
Change in payables excluding loans and borrowings	(129 690)	(57 079)
Change in other non-current and current assets	43 300	(2 296)
Change in deferred income, government grants and accruals	(6 114)	(689)
Change in provisions	10 708	(33 738)
Change in working capital	**(164 146)**	**129 192**

33.2. Cash flows from investing activities

Purchase of bonds

Payments to purchase bonds, in the amount of PLN 1 680 000 thousand, are related to purchases of intra-group bonds issued by the following subsidiaries:

(in PLN '000)

- TAURON Dystrybucja S.A., totalling PLN 1 200 000 thousand;
- TAURON Wydobycie S.A., totalling PLN 250 000 thousand;
- TAURON Wytwarzanie S.A., amounting to PLN 200 000 thousand;
- TAURON Ciepło Sp. z o.o., totalling PLN 30 000 thousand.

Acquisition of shares

Payments to acquire shares of PLN 429 120 thousand concern acquisition of shares in a subsidiary, Nowe Brzeszcze Grupa TAURON Sp. z o.o., amounting to PLN 179 000 thousand, as well as acquiring shares in TAURON Wydobycie S.A. in the amount of PLN 250 000 thousand, which has been discussed in more detail in Note 20 to these condensed interim financial statements.

Loans granted

Payments to grant loans result from the loans disbursed to Elektrociepłownia Stalowa Wola S.A., a jointly-controlled entity, in the total amount of PLN 7 600 thousand.

Repurchase of bonds

Inflows related to redemption of bonds, in the amount of PLN 340 000 thousand, are related to redemption of intra-group bonds by the following subsidiaries:

- TAURON Wydobycie S.A., totalling PLN 280 000 thousand;
- TAURON Ekoenergia Sp. z o.o., amounting to PLN 60 000 thousand.

Loans repaid

Proceeds from resale of 4 100 thousand emission allowances to TAURON Wytwarzanie S.A., a subsidiary, in the amount of PLN 142 024 thousand, purchased in December 2015 under the buy-sell-back transaction, as discussed in more detail in Note 22 to these interim condensed financial statements, have been presented as repayment of loans granted in the statement of cash flows.

Interest received

	6-month period ended 30 June 2016 (*unaudited*)	6-month period ended 30 June 2015 (*unaudited*)
Interest received in relation to debt securities	321 360	123 709
Interest received in relation to loans granted	1 681	60
Interest received in relation to deposits (more than 3 months)	–	5 174
Total	**323 041**	**128 943**

33.3. 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 2016.

Repurchase of debt securities

Payments to repurchase debt securities result from the Company's repurchase and redemption of a portion of Tranche C bonds in the amount of PLN 2 250 000 thousand in the 6-month period ended 30 June 2016.

(in PLN '000)

Interest paid

	6-month period ended 30 June 2016 (*unaudited*)	6-month period ended 30 June 2015 (*unaudited*)
Interest paid in relation to debt securities	136 923	133 975
Interest paid in relation to loans and borrowings	28 538	27 418
Interest paid in relation to the finance lease	302	375
Total	**165 763**	**161 768**

Issue of debt securities

Proceeds from the issue of debt securities in the 6-month period ended 30 June 2016 are related to:

- the issue of bonds with the total par value of PLN 2 650 000 thousand under a bond issue scheme of November 2015, which has been discussed in more detail in Note 30.1 to these condensed interim financial statements;
- the issue of bond tranches under the agreement with Bank Gospodarstwa Krajowego in the total amount of PLN 210 000 thousand.

34. Details of other significant changes in the reporting period

Other financial assets

An increase in the balance of other non-current financial assets results mostly from the acquisition of investment fund units by the Company. In the 6-month period ended 30 June 2016, the Company acquired funds' units for the total amount of PLN 25 000 thousand. As at 30 June 2016 the carrying amount of these units measured at fair value was PLN 25 072 thousand. The Company has decided to classify these instruments as non-current assets since it plans to maintain the investment for a period longer than one year.

An increase in other short-term financial assets is related mostly to a growth in non-refundable additional deposits arising from settlement of forward transactions concluded by the Company at the commodity exchange. As at 30 June 2016, they amounted to PLN 111 285 thousand.

Other short-term financial liabilities

An increase in other short-term financial liabilities by PLN 47 982 thousand has resulted mostly from a growth in the Company's liabilities to its subsidiaries included in the Tax Capital Group, arising from tax overpayment of PLN 40 401 thousand. As at 30 June 2016, the related liability amounted to PLN 46 964 thousand (vs. PLN 6 563 thousand as at 31 December 2015).

(in PLN '000)

OTHER INFORMATION

35. Contingent liabilities

The Company's contingent liabilities arise mainly from collateral and guarantees granted to related parties. As at 30 June 2016, the structure of the Company's contingent liabilities were as follows:

Type of contingent liability	Company in respect of which contingent liability has been granted	Beneficiary	As at 30 June 2016 (*unaudited*)		As at 31 December 2015	
			EUR	PLN	EUR	PLN
corporate guarantee	TAURON Sweden Energy AB (publ)	holders of bonds issued by TAURON Sweden Energy AB (publ)	168 000	743 484	168 000	715 932
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
collateral of a bank guarantee	TAURON Sprzedaż Sp. z o.o.	Powszechna Kasa Oszczędności Bank Polski S.A.		–		593
	Kopalnia Wapienia Czatkowice Sp. z o.o.			1 858		912
	TAURON Wydobycie S.A.			76		76
	TAURON Dystrybucja S.A.			97		97
	TAURON Dystrybucja Serwis S.A.			484		507
collateral of a loan	Kopalnia Wapienia Czatkowice Sp. z o.o.	Regional Fund for Environmental Protection and Water Management in Kraków		2 075		1 145
collateral of a contract	TAURON Wytwarzanie S.A.	Polskie Sieci Elektroenergetyczne S.A.		5 000		5 000
collateral of a contract	TAURON Sprzedaż Sp. z o.o.	Polska Spółka Gazownictwa Sp. z o.o.		15 000		–
collateral of a lease agreement	Nowe Brzeszcze Grupa TAURON Sp. z o.o.	Millennium Leasing Sp. z o.o.		2 900		–
collateral of a contract	TAURON Czech Energy s.r.o.	CEZ a.s.	1 500	6 638	–	–
collateral of a contract	TAURON Czech Energy s.r.o.	SPP CZ a.s.	–	–	300	1 278
registered pledges and financial pledge of shares in TAMEH HOLDING Sp. z o.o.	TAMEH Czech s.r.o. TAMEH POLSKA Sp. z o.o.	RAIFFEISEN BANK INTERNATIONAL AG		415 852		415 852

Changes in the 6-month period ended 30 June 2016:

- under the framework agreement for bank guarantees concluded with PKO Bank Polski S.A., the bank issues guarantees for subsidiaries at the Company's request. As at 30 June 2016 the total balance of bank guarantees granted reached PLN 2 515 thousand (versus PLN 2 185 thousand as at 31 December 2015);
- the collateral of a contract concluded by a subsidiary, TAURON Czech Energy s.r.o., to the benefit of SPP CZ a.s., totalling EUR 300 thousand expired on 31 January 2016;
- On 1 May 2016 collateral in the form of a blank bill of exchange issued by the Company to secure a loan originated to TAURON Ciepło Sp. z o.o. by Regional Fund for Environmental Protection and Water Management in Katowice expired;
- new collateral provided in the period of six months ended 30 June 2016 by TAURON Polska Energia S.A. regards contracts concluded by its subsidiaries:
  - TAURON Sprzedaż Sp. z o.o. – to Polska Spółka Gazownictwa Sp. z o.o. up to PLN 15 000 thousand expiring on 31 March 2017;
  - Nowe Brzeszcze Grupa TAURON Sp. z o.o. – collateral of a lease concluded with Millennium Leasing Sp. z o.o. up to PLN 2 900 thousand expiring on 30 October 2017;
  - TAURON Czech Energy s.r.o. – collateral in favour of CEZ a.s. up to EUR 1 500 thousand expiring on 31 December 2016.

Claims filed by Huta Łaziska S.A.

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

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

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

In this case, the courts of the first and second instance passed judgements favourable for GZE; however, in its judgement of 29 November 2011 the Supreme Court overruled the judgement of the Court of Appeals and remanded the case for re-examination by that Court. On 5 June 2012, the Court of Appeals overruled the judgement of the Regional Court and remanded the case for re-examination by the latter. The first hearing before the first instance court was held on 27 November 2012. In May 2015, a court expert prepared an opinion on correctness of settlements between the parties to the dispute. On 30 June 2015, TAURON Polska Energia S.A. lodged complaints against the opinion in question. Complaints against the opinion were also filed by Huta and the State Treasury. In its decision dated 16 September 2015 the court admitted an additional court expert's opinion concerning charges levelled by the parties as evidence. After the issue of the decision, the Company tried to change the proceeding concept adopted by the Court stating that taking evidence from a court expert opinion is unacceptable. Finally, the Court commissioned an additional opinion to be prepared by the court expert. As at the date of these condensed interim financial statements the Company has not received the opinion yet. The Company is waiting for decisions of the Court, to include the delivery of the opinion and determining the date of the hearing.

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

Tax inspection proceedings

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

The Director of the TIO carries out evidentiary proceedings in the form of written communication with the Company and questioning witnesses. In its subsequent letters the Company responded to requests sent by the Director of the TIO and presented all explanations and documents required. The period of the inspection proceedings was prolonged by the Director of TIO a few times and the new deadline has been set at 28 August 2016.

The inspection proceedings are expected to be closed in 2016 but no precise closing date can be determined. As at the date of preparing these condensed interim financial statements the Director of the TIO did not present any opinion on the evidence collected, at this stage no possible consequences of his final decision can be indicated yet.

Claims filed by ENEA S.A.

The claim filed by ENEA S.A. ("ENEA") to the District Court in Katowice regards the payment of PLN 17 086 thousand with statutory interest calculated from 31 March 2015 until the payment date for unjust enrichment of the Company arising from settlement of balances on the Balancing Market performed with Polskie Sieci Elektroenergetyczne S.A. in the period from January to December 2012. The claim was delivered to the Company on 11 January 2016. As stated by ENEA S.A., the improper settlement was caused by inconsistency in measurement data collected by ENEA Operator Sp. z o.o. (as the Distribution System Operator, DSO) and made available to the Balancing Market participants (PSE S.A., ENEA S.A. and the Company) for the settlement purposes.

(in PLN '000)

The error resulted in PSE S.A. assigning to ENEA S.A. (as the official seller in the distribution area of ENEA Operator Sp. z o.o.) the amount of consumed power that should have been assigned to the Company (as the entity in charge of trade balances of power sellers operating in the distribution area of ENEA Operator Sp. z o.o.).

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

TAURON Polska Energia S.A. responded to the claim with a series of charges. The Court obliged ENEA to reply to the response. The reply has not yet been delivered to the Company. On 5 April 2016 ENEA S.A. filed a preparatory document with the court, replying to the response to the claim by TAURON Polska Energia S.A.

On 20 June 2016 a hearing was held. During the hearing, TAURON Polska Energia S.A. motioned to call ENEA Operator Sp. z o.o. to participate in the proceedings. On 4 July 2016 TAURON Polska Energia S.A. filed a process document with the court. The case is pending. No provision has been recognized as the Company believes that the risk of losing the case is below 50%.

36. Collateral against liabilities

Agreement/transaction	Collateral	Collateral amount
Bond Issue Scheme dated 16 December 2010 with subsequent annexes	declaration of submission to enforcement	• up to PLN 1 560 000 thousand, valid until 31 December 2016 – as regards Tranche A and Tranche B (repaid); • up to PLN 6 900 000 thousand, valid until 31 December 2018 – as regards Tranche C, Tranche D and Tranche E (not disbursed)
Bond Issue Scheme in Bank Gospodarstwa Krajowego	declaration of submission to enforcement	up to PLN 2 550 000 thousand, valid until 20 December 2032
Long-term Bond Issue Scheme dated 24 November 2015	declaration of submission to enforcement	up to PLN 7 524 000 thousand, valid until 31 December 2023
Framework bank guarantee agreement with PKO Bank Polski S.A. The bank guarantee limit securing transactions may be used by the Company and the TAURON Group companies. As at 30 June 2016 the guarantee limit amounted to PLN 100 000 thousand.	authorization to debit the bank account maintained by PKO Bank Polski S.A.	up to PLN 125 000 thousand
collateral of transactions made by the Company	bank guarantee under the framework agreement with PKO Bank Polski S.A. for bank guarantees extended at the request of the Company to secure transactions with unrelated entities	• up to EUR 1 000 thousand (PLN 4 426 thousand) – a guarantee for Joint Allocation Office S.A., valid until 30 December 2016 • a performance bond up to PLN 3 864 thousand (Operator Gazociągów Przesyłowych GAZ – SYSTEM S.A.) valid until 30 November 2016
collateral of transactions made by subsidiaries	bank guarantees under the framework agreement with PKO Bank Polski S.A. for bank guarantees extended at the request of the Company to secure transactions and liabilities of subsidiaries	for the total amount of PLN 2 515 thousand (Note 35 to these condensed interim financial statements)
Agreement with Bank Zachodni WBK S.A. on bank guarantees for Izba Rozliczeniowa Giełd Towarowych S.A.	authorization to debit the bank account maintained by BZ WBK S.A.	up to PLN 150 000 thousand
Agreement with Bank Zachodni WBK S.A. on bank guarantees for Izba Rozliczeniowa Giełd Towarowych S.A. The bank guarantee limit securing transactions may be used by the Company and the TAURON Group companies.	bank guarantee extended at the request of the Company to secure stock exchange transactions made by members of IRGiT (Commodity Clearing House)	up to PLN 70 000 thousand valid until 31 August 2016 (as of 1 July 2016 the guarantee amount was reduced to PLN 50 000 thousand)

(in PLN '000)

Agreement/transaction	Collateral	Collateral amount
overdraft agreements with PKO Bank Polski S.A. (up to PLN 300 000 thousand and an intraday limit agreement up to PLN 500 000 thousand)	authorizations to debit the bank account maintained by PKO Bank Polski S.A.	up to the total amount of PLN 800 000 thousand
overdraft agreement with Bank Gospodarstwa Krajowego (in EUR, up to EUR 25 000 thousand)	authorization to debit the bank account maintained by Bank Gospodarstwa Krajowego	up to PLN 110 638 thousand (EUR 25 000 thousand)
	declaration of submission to enforcement	up to PLN 221 275 thousand (EUR 50 000 thousand) valid until 31 December 2019
overdraft agreement with mBank (in USD, up to USD 2 000 thousand)	declaration of submission to enforcement	up to PLN 11 941 thousand (USD 3 000 thousand) valid until 31 March 2019
securing transactions entered into on European exchanges	Deposits related to transactions entered into on European exchanges to secure transactions concluded thereon, mainly future contracts concerning emission allowances. The Company transfers margin deposits for such transactions to separate bank accounts.	as at 30 June 2016, the total amount was PLN 38 571 thousand
collateral for the Company's transactions entered into on Polish Power Exchange	Alienation agreement between TAURON Polska Energia S.A. and Izba Rozliczeniowa Giełd Towarowych S.A. ("IRGIT")	As part of the collateral, the Company deposited 5 183 500 EUA in its account in the National Register of Allowances. The term of the agreement was extended until 15 June 2016. On that date, the agreement expired and the EUA were returned to the Company's account.
	Alienation agreement between TAURON Wytwarzanie S.A., a subsidiary and IRGiT	The agreement provided for a freeze on the CO_2 emission allowances in the Register of Allowances, held by TAURON Wytwarzanie S.A. in the amount of 8 000 000 EUA. Under the alienation agreement, TAURON Wytwarzanie S.A. guaranteed the repayment of the Company's liabilities to IRGiT. The collateral was valid in the first quarter of 2016 and the agreement expired on 31 March 2016.
finance lease agreement concerning an investment property	The agreement covers an investment property. The agreement is collateralized by two blank promissory notes, assignment of receivables and authorization to debit a bank account.	As at 30 June 2016 the carrying amount of the leased asset was PLN 27 127 thousand.

37. Capital commitments

In relation to investment made in PGE EJ 1 Sp. z o.o., the Company plans to provide funds to increase the issued capital of PGE EJ 1 Sp. z o.o. in the total amount of PLN 11 000 thousand in 2016 in accordance with the financing plan adopted for this company. Following current verification of financial needs of the company, its corporate bodies have decided not to increase the issued capital. Therefore, on 30 June 2016 the funds to increase the issued capital were not transferred.

38. Related-party disclosures

38.1. Transactions with related parties and State Treasury companies

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

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

(in PLN '000)

Revenue and expense

	6-month period ended 30 June 2016 (*unaudited*)	6-month period ended 30 June 2015 (*unaudited*)
Revenue from subsidiaries, of which:	**5 339 374**	**6 172 752**
Revenue from operating activities	3 641 745	4 451 299
Dividend income	1 458 951	1 510 624
Other operating income	2 317	3 208
Other finance income	236 361	207 621
Revenue from jointly-controlled entities	**58 049**	**44 329**
Revenue from State Treasury companies	**111 747**	**413 566**
Costs from subsidiaries, of which:	**(1 301 228)**	**(2 046 218)**
Costs of operating activities	(1 282 527)	(2 026 585)
Finance costs	(18 701)	(19 633)
Costs incurred with relation to transactions with jointly-controlled entities	**(6 118)**	**(1 037)**
Costs from State Treasury companies	**(263 963)**	**(497 573)**

Receivables and liabilities

	As at 30 June 2016 (*unaudited*)	As at 31 December 2015
Loans granted to subsidiaries and receivables from subsidiaries, of which:	**10 820 384**	**9 584 859**
Receivables from clients	633 952	462 421
Loans granted under cash pool agreement plus interest accrued	60 168	20 941
Loans granted	1 225 863	1 337 406
Other financial receivables	152	302
Dividend receivables	999	–
Receivables from the TCG	11 227	97 148
Bonds	8 888 023	7 666 641
Loans granted to jointly-controlled entities and receivables from jointly-controlled entities	**267 366**	**224 046**
Receivables from State Treasury companies	**54 838**	**133 784**
Liabilities to subsidiaries, of which:	**1 622 513**	**1 919 518**
Liabilities to suppliers	278 805	337 087
Loans received under cash pool agreement plus interest accrued	509 617	831 205
Other loans received	781 915	739 426
Liabilities arising from the TCG	46 911	6 440
Other financial liabilities	5 239	5 239
Other non-financial liabilities	26	121
Liabilities to jointly-controlled entities	**1 450**	**729**
Liabilities to State Treasury companies	**42 816**	**62 372**

Revenue from related parties includes revenue from sales of coal (in the comparative period also 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.

A decrease in operating expenses in the 6-month period ended 30 June 2016 year-on-year was mainly due to a decrease in purchases of electricity from TAURON Wytwarzanie S.A. The value of purchased electricity was PLN 619 832 thousand and PLN 1 278 662 thousand, respectively.

(in PLN '000)

In the 6-month period ended 30 June 2016, PSE S.A. Energa-Obrót S.A., Kompania Węglowa S.A. and Polska Grupa Górnicza Sp. z o.o. incorporated on 1 May 2016 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 82% of the total revenue generated in transactions with State Treasury companies.

The highest costs have been incurred on transactions with Katowicki Holding Węglowy S.A., PSE S.A., Jastrzębska Spółka Węglowa S.A., Kompania Węglowa S.A. and Polska Grupa Górnicza Sp. z o.o. incorporated on 1 May 2016. Expense incurred by these transactions represented 92% of the total expenses incurred in transactions with State Treasury companies.

In relation to agreements entered into with a joint venture, Elektrociepłownia Stalowa Wola S.A., in the financial year ended 31 December 2015, the Company recognized provisions for onerous contracts totalling PLN 182 877 thousand. During the six months ended 30 June 2016, the Company remeasured provisions related to the discount reversed as at the end of the reporting period in the total amount of PLN 8 160 thousand and recognized additional provisions of PLN 2 146 thousand as described in details in note 31 to these condensed interim financial statements.

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

38.2. Executive compensation

The amount of compensation and other benefits granted to the Management Board, Supervisory Board and other key executives of the Company paid or due in the 6-month period ended 30 June 2016 and in the comparative period has been presented in the table below.

	6-month period ended 30 June 2016 (*unaudited*)	6-month period ended 30 June 2015 (*unaudited*)
Management Board	**7 064**	**5 022**
Short-term employee benefits (salaries and surcharges)	3 122	3 614
Termination benefits	3 702	900
Other	240	508
Supervisory Board	**609**	**592**
Short-term employee benefits (salaries and surcharges)	609	592
Other members of key management personnel	**7 815**	**7 644**
Short-term employee benefits (salaries and surcharges)	5 665	6 809
Temination benefits	1 595	285
Post-service benefits	120	–
Other	435	550
Total	**15 488**	**13 258**

As regards termination benefits paid to Members of the Management Board, as presented in the table above, the amount of PLN 2 725 thousand was accounted for as the use of a provision recognized as at 31 December 2015, while the amount of PLN 450 thousand is the use of a provision recognized in the 6-month period ended 30 June 2016.

As regards post-service benefits paid to key executives, as presented in the table above, the amount of PLN 120 thousand was accounted for as the use of a provision recognized as at 31 December 2015.

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.

(in PLN '000)

39. Financial instruments

Categories and classes of financial assets	Note	As at 30 June 2016 (*unaudited*)		As at 31 December 2015	
		Carrying amount	Fair value	Carrying amount	Fair value
1 Financial assets at fair value through profit or loss		**115 536**	**115 536**	**5 684**	**5 684**
Derivative instruments	23	90 464	90 464	5 684	5 684
Investment fund units	34	25 072	25 072	–	–
2 Financial assets available for sale		**28 095**	**–**	**30 302**	**–**
Long-term shares	20	28 095	–	30 302	–
3 Loans and receivables		**11 269 755**	**11 207 418**	**9 942 813**	**10 049 948**
Receivables from clients	26	694 511	694 511	579 446	579 446
Bonds	21	8 888 023	8 817 475	7 666 641	7 772 086
Loans granted under cash pool agreement	30.4	60 496	60 496	20 943	20 943
Other loans granted	22	1 461 567	1 469 778	1 561 315	1 563 005
Other financial receivables		165 158	165 158	114 468	114 468
4 Financial assets excluded from the scope of IAS 39		**15 337 048**	**–**	**15 902 892**	**–**
Shares in subsidiaries	20	14 921 196	–	15 487 040	–
Shares in jointly-controlled entities	20	415 852	–	415 852	–
5 Hedging derivative instruments	23	**1 040**	**1 040**	**–**	**–**
6 Cash and cash equivalents	28	**272 613**	**272 613**	**168 255**	**168 255**
Total financial assets, of which in the statement of financial position:		**27 024 087**		**26 049 946**	
Non-current assets		**25 656 179**		**24 807 239**	
Shares		15 365 143		15 933 194	
Bonds		8 796 851		7 451 601	
Loans granted		1 451 700		1 417 165	
Derivative instruments		12 051		16	
Other financial assets		30 434		5 263	
Current assets		**1 367 908**		**1 242 707**	
Receivables from clients		694 511		579 446	
Bonds		91 172		215 040	
Loans granted		9 867		144 150	
Derivative instruments		79 453		5 668	
Other financial assets		220 292		130 148	
Cash and cash equivalents		272 613		168 255	

Categories and classes of financial liabilities	Note	As at 30 June 2016 (*unaudited*)		As at 31 December 2015	
		Carrying amount	Fair value	Carrying amount	Fair value
1 Financial liabilities at fair value through profit or loss		**78 420**	**78 420**	**16 631**	**16 631**
Derivative instruments	23	78 420	78 420	16 631	16 631
2 Financial liabilities measured at amortized cost		**9 728 902**	**9 788 269**	**9 426 384**	**9 445 560**
Arm's length loans, of which:		2 592 473	2 651 840	2 924 202	2 943 378
Liability under the cash pool loan	30.4	528 030	528 030	860 585	860 585
Loans from the European Investment Bank	30.2	1 282 528	1 289 168	1 324 191	1 346 344
Loans from the subsidiary	30.3	781 915	834 642	739 426	736 449
Overdraft	30.5	111 571	111 571	10 206	10 206
Bonds issued	30.1	6 573 399	6 573 399	5 969 017	5 969 017
Liabilities to suppliers		374 954	374 954	493 936	493 936
Other financial liabilities		76 000	76 000	28 017	28 017
Liabilities due to purchases of fixed and intangible assets		505	505	1 006	1 006
3 Liabilities under guarantees, factoring and excluded from the scope of IAS 39		**28 593**	**28 593**	**30 169**	**30 169**
Liabilities under finance leases	30	28 593	28 593	30 169	30 169
4 Hedging derivative instruments	23	**47 432**	**47 432**	**95 467**	**95 467**
Total financial liabilities, of which in the statement of financial position:		**9 883 347**		**9 568 651**	
Non-current liabilities		**7 749 095**		**4 897 441**	
Debt		7 743 844		4 876 546	
Other financial liabilities		5 239		5 739	
Derivative instruments		12		15 156	
Current liabilities		**2 134 252**		**4 671 210**	
Debt		1 562 192		4 057 048	
Liabilities to suppliers		374 954		493 936	
Derivative instruments		125 840		96 942	
Other financial liabilities		71 266		23 284	

Derivative financial instruments measured at fair value as at the end of the reporting period and classified as assets and liabilities measured at fair value through profit or loss, or designated as hedging instruments (subject to hedge accounting), have been measured in line with the method described in Note 23 to these condensed interim consolidated financial statements. Disclosures regarding fair value hierarchy have been presented in Note 23. Measurement of investment fund units has been classified to Level 1 in the fair value hierarchy.

Financial instruments classified to other categories of financial instruments:

- fixed-rate financial instruments, which included bonds purchased by the Company, a loan granted to a subsidiary, loans obtained from the European Investment Bank and a loan from a subsidiary as at 30 June 2016 and 31 December 2015, were measured at fair value. The fair value measurement was carried out based on the present value of future cash flows discounted using an interest rate applicable to a given bond or loan, i.e. applying market interest rates. The measurement resulted in Level 2 classification in fair value hierarchy;
- The fair value of other financial instruments held by the Company (without financial assets available for sale excluded from the scope of IAS 39, as discussed below) as at 30 June 2016 and 31 December 2015 did not significantly differ from their values presented in the financial statements for the respective periods, due to the following reasons:
  - the potential discounting effect relating to short-term instruments is not significant;
  - the instruments are related to arm's length transactions.

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

  As at 30 June 2016 the Company tested shares in subsidiaries for impairment as described in details in Note 20 to these condensed interim financial statements. As a result, it has recognized an impairment loss on shares in TAURON Wytwarzanie S.A. (PLN 600 068 thousand) and in TAURON Ekoenergia Sp. z o.o. (PLN 840 235 thousand) and derecognized in whole an impairment loss on shares in TAURON Ciepło Sp. z o.o. (PLN 443 252 thousand) that had been recognized at the end of 2015.

40. Finance and financial risk management

40.1. Financial risk management

The TAURON Group has implemented the policy for management of specific risks in the area of finance, which defines the strategy for management of the currency and interest rate risk. The policy has also introduced hedge accounting in the Group, which lays down the principles and defines the types of hedge accounting, along with the accounting treatment of hedging instruments and hedged items, to be applied as part of hedge accounting under IFRS. The policy for specific risk management in the area of finance and hedge accounting principles are applicable to the cash flow risk and not to the fair value risk due to its limited significance for the Group.

Hedge accounting

As at 30 June 2016, the Company was a party to hedging transactions covered by the policy for specific risk management in the area of finance and subject to hedge accounting. The Company hedges a portion of the interest rate risk inherent in cash flows related to issued bonds, which has been discussed in more detail in Note 23 to these condensed interim financial statements.

40.2. Finance and capital management

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

41. Events after the end of the reporting period

On 4 August 2016 an agreement was concluded transferring the title to 63 910 shares in TAURON Wytwarzanie Serwis Sp. z o.o. constituting 95.54% of its share capital from TAURON Wytwarzanie S.A. to TAURON Polska Energia S.A. The acquisition price of the shares was PLN 1 072 thousand.

These condensed interim financial statements of TAURON Polska Energia S.A., prepared for the 6-month period ended 30 June 2016 in accordance with International Accounting Standard 34 have been presented on 48 consecutive pages.

Katowice, 16 August 2016

Remigiusz Nowakowski – President of the Management Board ....

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

Kamil Kamiński – Vice-President of the Management Board ....

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

Piotr Zawistowski – Vice-President of the Management Board ....

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

REPORT OF THE MANAGEMENT BOARD ON OPERATIONS OF TAURON POLSKA ENERGIA S.A. CAPITAL GROUP IN THE FIRST HALF OF 2016

AUGUST 2016

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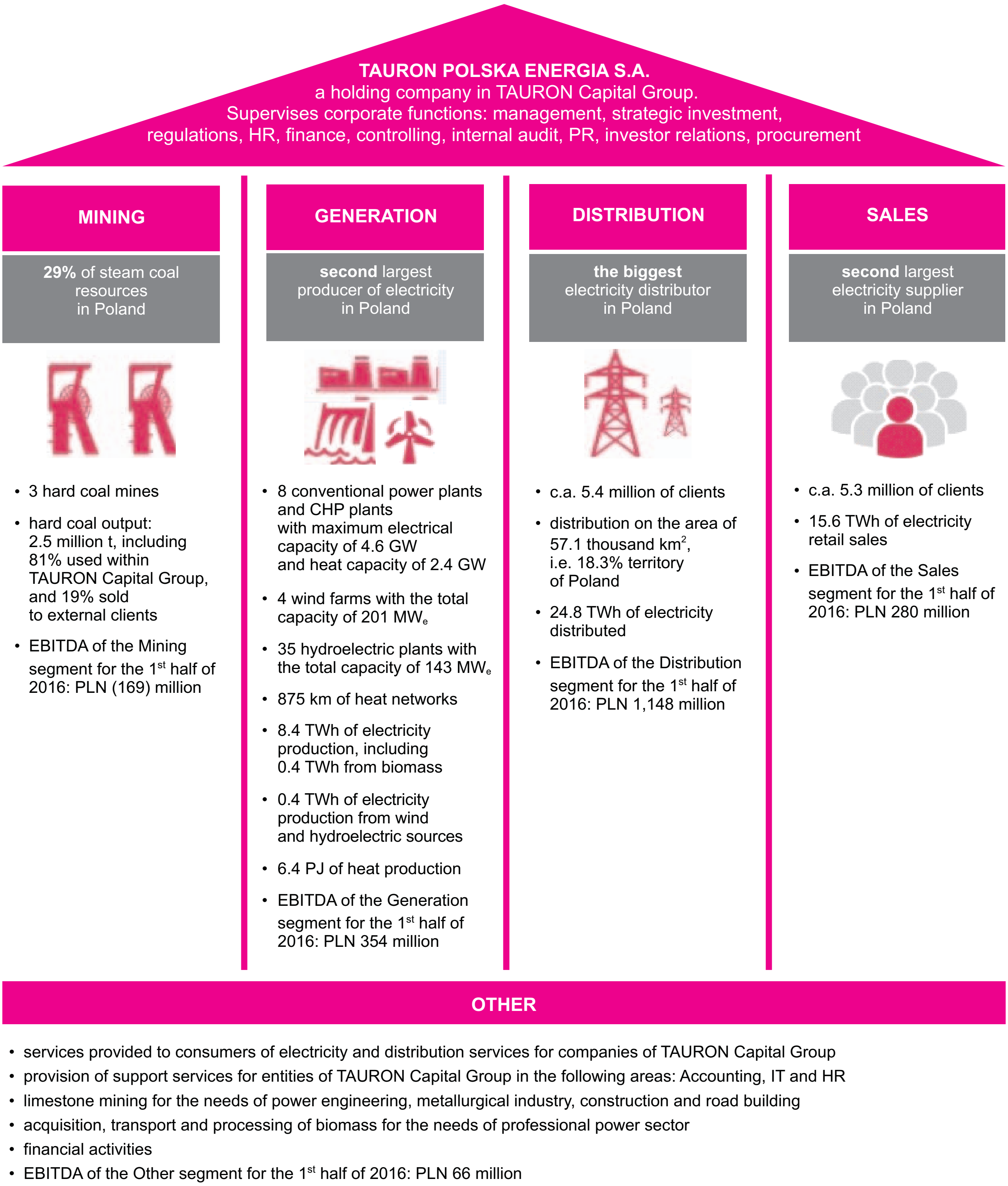
1. TAURON CAPITAL GROUP

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

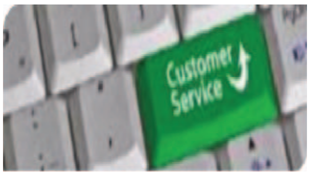
TAURON Capital Group conducts its operations in the following Business Areas (hereinafter also referred to as Segments):

Mining Area, comprising mainly mining, preparation and sales of hard coal in Poland – the activity provided by TAURON Wydobycie S.A. (TAURON Wydobycie). As of 1 January 2016 the Segment also comprises the company Nowe Brzeszcze Grupa TAURON sp. z o.o. (Nowe Brzeszcze GT), established as a result of acquisition of assets of a designated part of the Mining Plant in Brzeszcze, as an organised part of the enterprise.

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).

Distribution Area, comprising the distribution of electricity energy with the use of 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 in electricity, as well as trading and management of CO_2 emission allowances and property rights arising from energy certificates of origin and trading in 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).

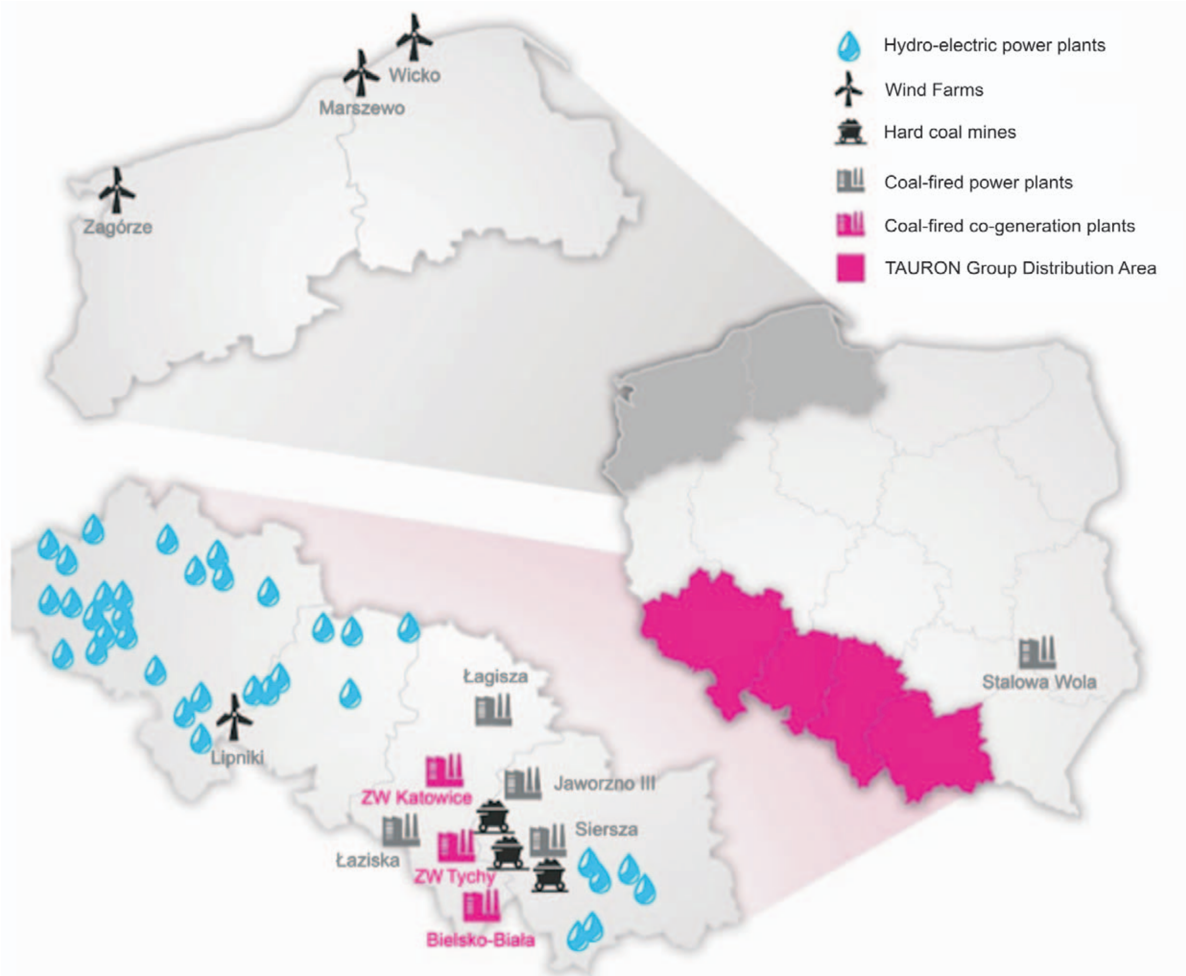


Other Area, comprising activity in the scope of customer service for clients of TAURON Capital Group and provision of support services for companies of TAURON Capital Group in the scope of accounting and ICT, provided by TAURON Obsługa Klienta sp. z o.o. company (TAURON Obsługa Klienta), as well as extraction of stone, including limestone, for the needs of energy 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 – the activity carried out by Kopalnia Wapienia "Czatkowice" sp. z o.o. company (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 acquisition, transport and processing and Polska Energia Pierwsza Kompania Handlowa sp. z o.o. in liquidation (PEPKH in liquidation).

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.

Figure no. 2 Location of key assets of TAURON Capital Group



In the first half and in the second quarter of 2016 TAURON Capital Group reached the following key operating parameters as compared to the corresponding periods of 2015:

Table no 1. Key operating parameters of TAURON Capital Group

Key operating parameters	unit	1st half 2016	1st half 2015	Change in % 2016/2015	Q 2 2016	Q 2 2015	Change in % 2016/2015
Commercial coal production	M Mg	**2.48**	2.01	23%	**1.27**	1.04	22%
Generation of electricity	TWh	**8.45**	8.76	(4)%	**4.14**	4.36	(5)%
Generation of electricity from renewable sources	TWh	**0.77**	0.97	(21)%	**0.36**	0.44	(18)%
Production from biomass	*TWh*	***0.37***	*0.51*	*(27)%*	***0.17***	*0.22*	*(13)%*
Production of hydroelectric power plants and wind farms	*TWh*	***0.40***	*0.46*	*(13)%*	***0.19***	*0.21*	*(10)%*
Heat generation	PJ	**6.43**	6.84	(6)%	**1.59**	1.67	(5)%
Distribution of electricity	TWh	**24.77**	24.59	1%	**12.04**	12.09	0%
Sales of electricity (by Sales and Generation Areas)	TWh	**24.05**	25.83	(7)%	**11.52**	12.50	(8)%
– retail sales	*TWh*	***15.58***	*18.03*	*(14)%*	***7.21***	*8.58*	*(16)%*
– wholesale	*TWh*	***8.47***	*7.80*	*9%*	***4.31***	*3.92*	*10%*
Number of clients – Distribution	thou.	**5,446**	5,392	1%	**5,446**	5,392	1%

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: The 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 2016, the key companies of TAURON Capital Group, besides the parent company, TAURON, included 17 subsidiaries subject to consolidation, indicated in item 1.3.1. hereof. Moreover, the Company holds, directly or indirectly, shares in other 39 companies.

Management rules of "TAURON Group"

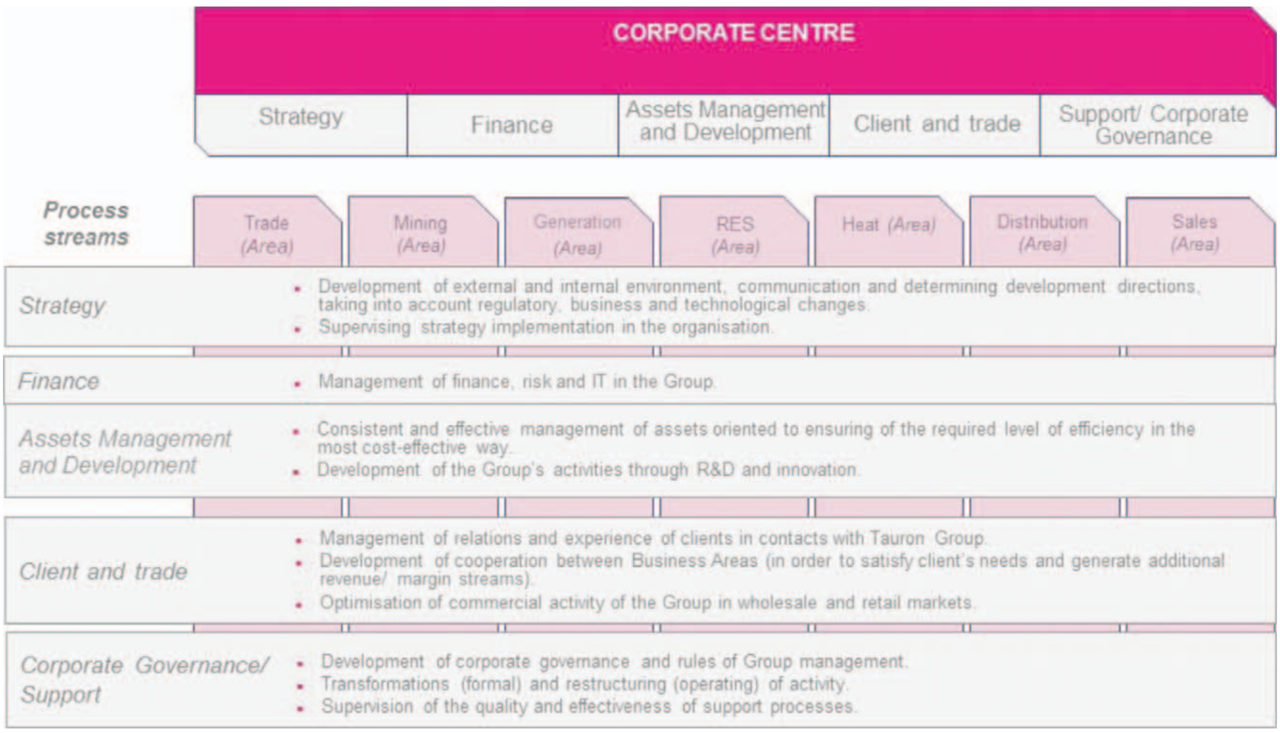
"TAURON Group" comprises companies of TAURON Capital Group, selected by the Management Board, managed jointly as a uniform economic body consisting of autonomous commercial law companies, led by TAURON Polska Energia S.A. as a parent entity.

Taking into account changes taking place in the environment of TAURON Capital Group as well as challenges it will have to face, the Management Board has adopted a new *Business Model of TAURON Group*, defining the assumptions of operation (management) of the Group and indicating the distribution of tasks and responsibilities among defined units:

1) Corporate Centre – the superior organisational unit responsible for management of TAURON Capital Group activities and taking the most important decisions affecting TAURON Capital Group, Business Areas, Centres of Common Services and companies belonging to TAURON Capital Group;
2) Business Areas – seven areas of TAURON Capital Group core activity, defined in accordance with the links of electricity and heat production value chain, i.e.: Trade, Mining, Generation, Renewable Energy Sources (RES), Heat, Distribution and Sales;
3) Centres of Common Services – units responsible for provision of specific support services (e.g. Accounting, IT, HR and payroll, insurance, customer service) in favour of other entities of TAURON Capital Group.

Five defined process streams around which activities of TAURON Capital Group shall concentrate underpin the construction of the Business Model, i.e.: Strategy, Finance, Assets Management and Development, Client and Trade, Corporate Governance and Support. The objective of distinguishing process streams is to pay greater attention to cross-sectional issues, referring to more than one Business Area.

Figure no. 3 Business Model of TAURON Group



The basic normative act of "TAURON Group" is the *Code of TAURON Group* adopted by the Management Board of the Company, which regulates its performance, ensuring the implementation of the goals through tailored solutions in the area of managing entities of "TAURON Group", including, in particular, defining companies' operating objectives, enabling the achievement of the effects assumed in the *TAURON Group's Corporate Strategy for the years 2014–2017 with estimates up to the year 2023* (Corporate Strategy).

Within "TAURON Group", besides Business Areas adopted by the Company Management Board, comprising the companies of "TAURON Group", the established Management Areas operate within which the relevant cooperation rules apply.

In addition, within "TAURON Group" permanent committees of "TAURON Group" operate, including:

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 conducting of activities in accordance with principles of operational unity of "TAURON Group", in compliance with law and interests of "TAURON Group" and its stakeholders.

The Committees fulfil the following functions:

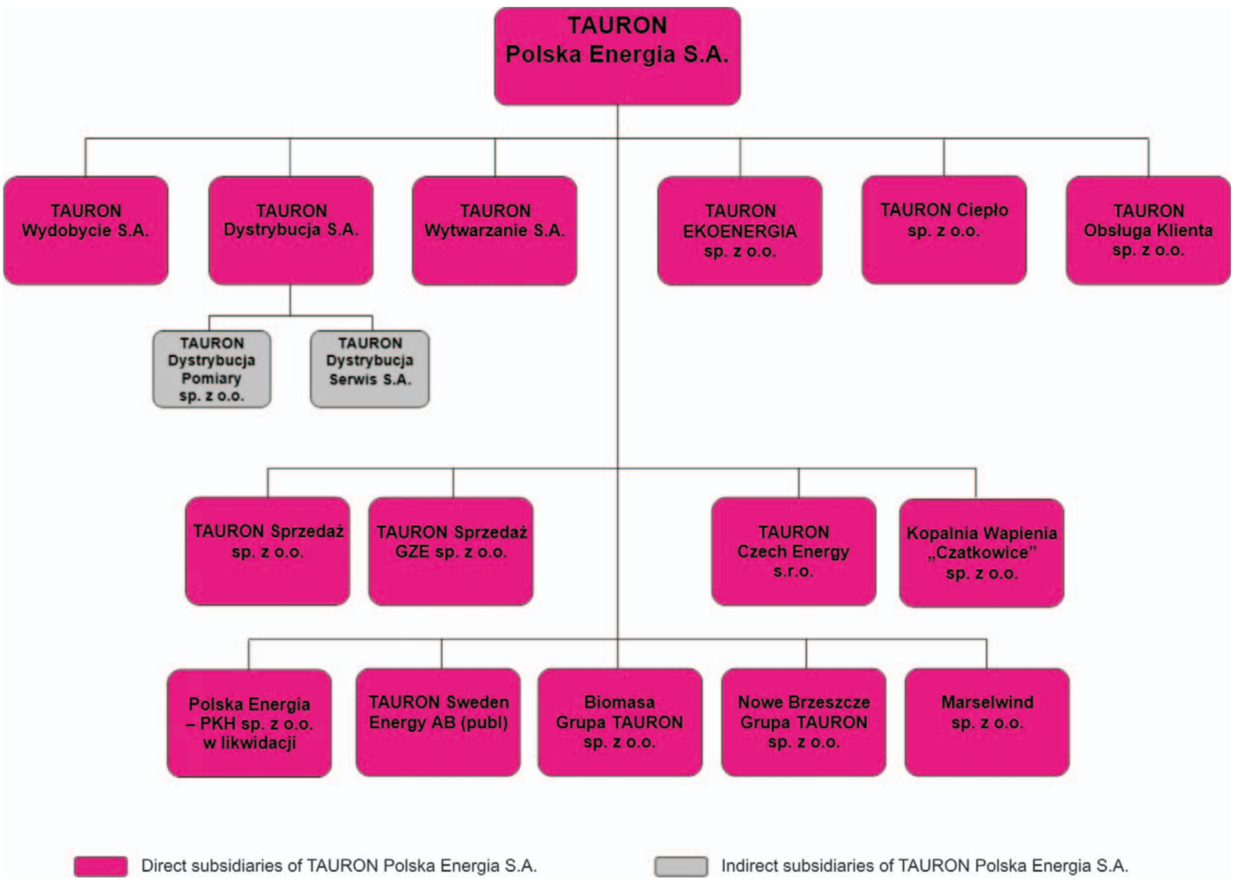
1) opinion-making function for the Company Management Board,
2) decision-making function,
3) supervisory function for the management boards of TAURON subsidiaries.

The underlying task of the Committees is to provide surveillance over the implementation of consistent actions by all the participants of "TAURON Group", compliant with the *TAURON Group Code* and satisfying interests of "TAURON Group". The specific tasks of the Committees are defined in detail in the by-laws of their operations adopted by the Company Management Board.

1.3.1. Entities subject to consolidation

The figure below presents the structure of TAURON Capital Group, including the companies subject to consolidation, according to the status as at 30 June 2016.

Figure no. 4 Structure of TAURON Capital Group, including companies subject to consolidation as at 30 June 2016



Moreover, TAURON Capital Group holds investments in joint projects: Elektrociepłownia Stalowa Wola S.A. (EC Stalowa Wola), Elektrownia Blachownia Nowa sp. z o.o. (Elektrownia Blachownia Nowa) and TAMEH HOLDING sp. z o.o. Capital Group (TAMEH HOLDING) (consisting of TAMEH HOLDING, holding 100% share in the capital and the governing body of subsidiaries: TAMEH POLSKA sp. z o.o. (TAMEH POLSKA) and TAMEH Czech s.r.o. (TAMEH Czech)). The aforementioned companies 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 2016 until the day of this report, the following changes in the organisation of TAURON Capital Group took place:

Increase in the share capital of companies

1. On 29 January 2016 the District Court for Katowice-Wschód, 8th Commercial Department, registered the increase in the share capital of the Nowe Brzeszcze GT company in the National Court Register, as adopted by the Extraordinary Shareholders' Meeting (SM) of Nowe Brzeszcze GT on 31 December 2015. The share capital of the company was increased from the amount of PLN 2,100,000 to the amount of PLN 5,000,000, i.e. by the amount of PLN 2,900,000, by way of issuance of 29,000 new shares with the nominal value of PLN 100 per share, with the total nominal value of PLN 2,900,000. The shares were taken up by TAURON as the existing sole shareholder of the company, in exchange for the cash contribution at a price of PLN 1,000 per share, i.e. For the total amount of PLN 29,000,000.

   The surplus of the price of taking up each new share in the increased share capital of the company over its nominal value, in the total amount of PLN 26,100,000 was transferred to the supplementary capital of the company which had been established under the aforementioned resolution.

   On 6 May 2016 the District Court for Kraków-Śródmieście in Kraków, 12th Commercial Department of the National Court Register, registered the increase in the share capital of the Nowe Brzeszcze GT company in the National Court Register, as adopted by the Extraordinary SM of Nowe Brzeszcze GT on 22 March 2016. The share capital of the company was increased from the amount of PLN 5,000,000 to the amount of PLN 55,000,000, i.e. by the amount of PLN 50,000,000 by way of issuance of 500,000 new shares with the nominal value of PLN 100 per share, with the total nominal value of PLN 50,000,000. The shares were taken up by TAURON as the existing sole shareholder of the company, in exchange for the cash contribution at a price of PLN 300 per share, i.e. for the total amount of PLN 150,000,000.

   The surplus of price for taking up each share in the increased share capital of the company over its nominal value, at a level of PLN 200 per share, i.e. in the total amount of PLN 100,000,000 was transferred to the supplementary capital of the company.

2. On 28 June 2016 the District Court for Katowice-Wschód, 8th Commercial Department, registered the increase in the share capital of the TAURON Wydobycie, company in the National Court Register, as adopted by the Extraordinary General Meeting (GM) of TAURON Wydobycie on 29 April 2016. The share capital of the company was increased from the amount of PLN 352,040,780 to the amount of PLN 354,540,780, i.e. by the amount of PLN 2,500,000, by way of issuance of 250,000 new shares with the nominal value of PLN 10 per share, with the total nominal value of PLN 2,500,000. The shares were taken up by TAURON as the existing sole shareholder of the company, in exchange for the cash contribution at a price of PLN 1,000 per share, i.e. for the total amount of PLN 250,000,000.

   The surplus of the issue of each new share in the increased share capital of the company over its nominal value, at a level of PLN 990 per share, i.e. in the total amount of PLN 247,500,000 was transferred to the supplementary capital of the company.

Change in the level of share capital

On 25 February 2016, the District Court Katowice-Wschód, 8th Commercial Department of the National Court Register, issued a decision on entry to the National Court Register of the increase in the share capital of Marselwind sp. z o.o. company by the amount of PLN 151,925,750 by way of issuance of 3,038,515 new shares with the nominal value of PLN 50 per share and the total nominal value of PLN 151,925,750, which were taken up by TAURON as the sole shareholder of the company. The aforementioned increase in the share capital resulted from the resolution of the Extraordinary SM of Marselwind sp. z o.o. company of 9 February 2015 concerning the de-merger of the TAURON EKOENERGIA company through the separation and transfer of separated components of assets forming an organised part of an enterprise to Marselwind sp. z o.o. company.

Due to the fact that the aforementioned decision was issued during the suspension period of the registration proceedings concerning the above case (on request of Marselwind sp. z o.o., the proceedings were suspended pursuant to the decision of the District Court for Katowice-Wschód on 5 October 2015) and considering the failure to file a motion for resumption of the suspended proceedings, the Management Board of the Marselwind sp. z o.o. company lodged a complaint against the decision on entry to the register to the District Court for Katowice-Wschód, 8th Commercial Department of the National Court Register.

In connection with the complaint lodged, the aforementioned decision was waived pursuant to the decision of the District Court for Katowice-Wschód in Katowice of 16 May 2016 and a corresponding decrease of the share capital of the Marselwind sp. z o.o. Company by the amount of PLN 151,925,750 to the amount of PLN 105,000 was performed.

Redemption of minority shareholders' shares

On 20 May 2016 the Extraordinary SM of TAURON Wytwarzanie Serwis sp. z o.o. (TAURON Wytwarzanie Serwis) adopted the resolution concerning the redemption of 18,763 shares in the share capital of the TAURON Wytwarzanie Serwis company, from the net profit, against remuneration and with the consent of shareholders.

Taking into account the above event and the redemption of 847 shares of deceased shareholders by the Management Board of the Company, the share of TAURON in the TAURON Wytwarzanie Serwis company increased from 73.88% to 95.54% (TAURON uses the whole number of TAURON Wytwarzanie Serwis shares held by TAURON Wytwarzanie).

Dissolution of companies

1. On 15 February 2016 the District Court for Kraków-Śródmieście, 12th Commercial Department of the National Court Register issued the decision on removal of the company: Ośrodek Szkoleniowo-Wypoczynkowy "JAGA" sp. z o.o. in liquidation bankruptcy (a subsidiary of TAURON Dystrybucja) from the National Court Register, which became final on 1 March 2016.

   The aforementioned removal from the Register was a consequence of closure of the bankruptcy proceedings of the company, comprising liquidation of its asset, in 2015.
2. On 8 June 2016 the Extraordinary SM of the company: TAURON Wytwarzanie GZE sp. z o.o., in accordance with Article 288 § 1 of the Code of Commercial Companies, approved the liquidation report of the company and acknowledged that the liquidation of TAURON Wytwarzanie GZE sp. z o.o., adopted pursuant to the resolution of the Extraordinary GM of the TAURON Wytwarzanie GZE sp. z o.o. company of 29 September 2015, had been closed.

   On 9 December 2015 the District Court in Gliwice, 10th Commercial Department of the National Court Register issued the order opening the liquidation of TAURON Wytwarzanie GZE sp. z o.o. in liquidation.

   As at the day of drawing up this report, the TAURON Wytwarzanie GZE sp. z o.o company has not been removed from the National Court Register (KRS) yet.

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 56 companies.

1.4. Major domestic and foreign investment

1.4.1. Purchase of equity securities

In the period until 30 June 2016 TAURON took up shares of Nowe Brzeszcze GT company and TAURON Wydobycie company within the framework of increase in the share capital of those companies included in TAURON Capital Group.

Detailed information concerning the purchase of the aforementioned shares is included in section 1.3.2. hereof.

Events after 30 June 2016

On 4 August 2016 TAURON acquired 63,910 shares of the TAURON Wytwarzanie Serwis company from TAURON Wytwarzanie, constituting 95.54% of the share in the share capital of that company, formerly used by TAURON. The acquisition of the company shares in one of the milestones under the implementation of the programme entitled: "Reorganisation of service area in TAURON Group".

1.4.2. Implementation of strategic investment

Major strategic investment projects under implementation

The table below presents the activities carried out in TAURON Capital Group in the 1st half of 2016, in connection with implementation of the key strategic investment projects.

Table no 2. Implementation status of the major strategic investment projects

No.	Investment	Status of investment implementation
1.	Construction of the CCGT unit of 449 MW_e capacity, including the heat generation component of 240 MW_t capacity at Stalowa Wola (investment implemented with participation of the strategic partner – Polskie Górnictwo Naftowe i Gazownictwo S.A.). **Contractor:** Abener Energia S.A. **Scheduled date of investment project completion:** 2018/2019 (it will be possible to estimate the precise date after performing the inventory of the project) **Progress level:** 85% **Expenditure incurred:** PLN 956.7 million	After withdrawal from the contract with the General Contractor (Abener Energia S.A.), the site was handed over and secured. The progress of the comprehensive project inventory is estimated at approximately 50% and its completion is scheduled in autumn 2016. The technical audit of the project confirming, inter alia, the progress of the works at a level of 85% and the scope of works required to deliver the investment was completed. Works in the scope of maintenance of the installed machines and equipment as well as discussions with subcontractors and suppliers are on-going. In the scope of the procedure for completion of the investment and contracting of contractors, technical and legal analyses are in progress. Negotiations in the scope of formula of further financing of the investment ware carried out, with the participation of the strategic partner.
2.	Construction of new generation capacity in co-generation at a level of 50 MW_e and 86 MW_t at ZW Tychy (TAURON Ciepło). **Contractor:** Elektrobudowa S.A. **Scheduled date of investment project completion:** 2016 **Progress level:** 99% **Expenditure incurred:** PLN 769.8 million	The unit passed the required tests and trials, consequently it was commissioned on 20 June 2016. The financial settlement of the project is carried out.
3.	Construction of a new power unit with the capacity of 910 MW_e, for supercritical parameters on the premises of Jaworzno III Power Plant (TAURON Wytwarzanie). **Contractor:** The RAFAKO S.A. and Mostostal Warszawa S.A. consortium **Scheduled date of investment project completion:** 2019 **Progress level:** 21.68% **Expenditure incurred:** PLN 1,178 million	In the reporting period works in the scope of production and assembly of the boiler load-bearing construction as well as the reinforced concrete electric nave construction, cooling water pumping station and boiler control room, were continued. Detailed designs were prepared and the production process of steel construction of main buildings of the unit was continued. Construction of foundations for the absorber and IOS pumping station is in progress. The contractor for the external ash disposal system and external carburisation system – part 1 and 2, has been selected. Public procurement procedures are underway in the scope of: water treatment station and wastewater treatment plant; auxiliary fuel installation; compressed air system; water supply system; power discharge system; track layout system; water and sewage network; fire protection; road; macro-levelling; greenery as well as flyovers of pipelines, heat and steam network, storage of hydrogen, technical gases, oil and lubricants.
4.	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). **Contractor:** Jaworzno III Fortum Power and Heat Oy i ZRE K-ce, Łaziska – Strabag Sp. z o.o. and Strabag AG **Scheduled date of investment project completion:** 2016 **Progress level:** Łaziska – 100%, Jaworzno – 93% **Expenditure incurred:** Łaziska – PLN 418.4 million; Jaworzno – PLN 655.3 million	At Elektrownia Jaworzno III, modernisation of installation of six units with the capacity of 200 MW was completed, using the SNCR technology, i.e. selective non-catalytic reduction. Currently, measurements of guarantee parameters are carried out and the optimisation process is in progress in three units. At Elektrownia Łaziska the modernisation was completed in 2015.
5.	Construction of the CCGT unit with the capacity of 413 MW_e, including the heat generation component with the capacity of 266 MWt on the premises of Elektrownia Łagisza (TAURON Wytwarzanie). **Contractor:** selection process in progress **Scheduled date of investment project completion:** 2019 **Progress level:** 5% **Expenditure incurred:** PLN 15.6 million	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 was prepared. Demolition works associated with releasing of land for the reserve heat source are in progress. The works associated with the preparation of the documentation required to obtain a building permit and the design works in the scope of the generation unit are also on-going. The Environmental Impact Assessment Report and the study for the gas connection route were prepared. Arrangements 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 Polskie Inwestycje Rozwojowe S.A. The final version of the ToR for the selection of the General Contractor of the unit is under preparation.

No.	Investment	Status of investment implementation
6.	Construction of the “Grzegorz” shaft, including the infrastructure and the accompanying headings (TAURON Wydobycie). **Contractor:** Call for tender announced in 2016 **Scheduled date of investment project completion:** 2023 **Progress level:** 20% **Expenditure incurred:** PLN 77.3 million	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 electrical switching station was constructed, including the supply lines. Public procurement procedure for the selection of the general contractor was announced for the following works: “*Construction works performed by the General Contractor of Stage I of Grzegorz shaft construction, including the construction of the surface infrastructure for TAURON Wydobycie S.A.*”.
7.	Construction of a 800 m level at ZG Janina (TAURON Wydobycie). **Contractor:** Consortium of KOPEX and Przedsiębiorstwo Budowy Szybów S.A. (main task – shaft drilling) **Scheduled date of investment project completion:** 2020 **Progress level:** 41% **Expenditure incurred:** PLN 218 million	Works associated with shaft drilling and development of the shaft pipe to the target depth were completed. The bottom stopper was built in, whereby works connected with shaft deepening were completed. In the scope of the project, the purchase of underground infrastructure and modernisation of the coal mechanical processing plant, connected with the commissioning of the fourth longwall trail, was abandoned. Works associated with horizontal heading drilling are continued.

Project associated with the construction of the nuclear power plant

In relation to earlier activities arrangements concerning the joint implementation of the nuclear energy project in Poland, on 15 April 2015, TAURON, KGHM Polska Miedź S.A. (KGHM) and ENEA S.A., as Business Partners and PGE Polska Grupa Energetyczna S.A. (PGE) concluded the agreement for purchase of shares in PGE EJ 1 sp. z o.o. (PGE EJ1) – the special purpose vehicle which is responsible for the preparation and execution of an investment consisting in construction and operation of the first Polish nuclear power plant with the capacity of approximately 3 thousand MW_e (the project). Business Partners acquired 10% of shares each (30% of shares in total) in PGE EJ 1 company from PGE. TAURON paid the amount of PLN 16,044,000 for the shares purchased. At the same time, one of the obligations arising from the Shareholders’ Agreement concluded between 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). The Shareholders’ Agreement provides that further decisions related to the project, including the decision concerning the declaration of continued participation of individual parties (including TAURON) in the subsequent stage of the Project, will be made after the completion of the preliminary stage, directly prior to the settlement of the integrated procedure.

Under the execution of the aforementioned Shareholders’ Agreement, on 29 July 2015 the Extraordinary SM of PGE EJ 1 company adopted the resolution on increasing of 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 the total nominal value of PLN 6,999,945, which were covered by the cash contribution in the amount of PLN 6,999,945.

On 16 October 2015 the increase in the share capital of the PGE EJ 1 sp. z o.o. company was registered in the National Court Register.

In 2016, pursuant to the concluded Agreements, TAURON carried out surveillance works in the PGE EJ 1 company in the framework of operations of the PGE EJ 1 Supervisory Board. The major scope of works focused around tasks aimed at launching the Integrated Procedure, commencing environmental and location studies as well as on other project activities implemented by PGE EJ 1.

Project on construction of the CCGT unit at Elektrownia Blachownia

The portfolio of investment projects of TAURON Capital Group also comprised the project on the construction of a new CCGT unit with the capacity in the range of 850 MW on the premises of Elektrownia Blachownia. 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. In the reporting period the said project was under suspension.

At the end of the 1st half of 2016, talks were undertaken in the scope of further activities under the project on the construction of a new CCGT unit with the capacity of 850 MW on the premises of Elektrownia Blachownia. Taking into consideration the results of conducted analyses and the recommendations of the Management Board of the Elektrownia Blachownia Nowa company, the decision to abandon its implementation and terminate the Shareholders' Agreement binding KGHM and TAURON Wytwarzanie was made. The decision was also taken to terminate the memorandum of understanding of 30 December 2013, pursuant to which the implementation of the project was temporarily suspended. In this scope, on 28 July 2016, KGHM, TAURON and TAURON Wytwarzanie signed the relevant agreement communicated by the Company in the current report no. 32/2016 of 28 July 2016, the content of which is described in section 2.3. hereof.

Capital expenditures

In the 1st half of 2016, the capital expenditures of TAURON Capital Group amounted to PLN 1,452 million and were lower by c.a. 18% as compared to the expenditures incurred in the corresponding period of the previous year (in the 1st half of 2015, they amounted to PLN 1,771 million). This results mainly from the decline of expenditure in Generation and Mining as well as Other Area. At the same time, expenditures in the Distribution Area increased.

The table below presents the selected capital expenditures incurred in the 1st half of 2016, highest in terms of value, within TAURON Capital Group Business Areas:

Table no 3. Selected capital expenditures incurred in the 1st half of 2016 within Business Areas

Specification	Capital expenditures (PLN M)
Distribution	
Modernisation and replacement of grid assets	387
Construction of new connections	277
Generation	
Construction of new capacity at Elektrownia Jaworzno III (910 MW)	361
Construction of new capacity in co-generation at ZW Tychy (50 MW), including the construction of the BC-50 unit	107
Investment associated with maintenance and development of heating networks	28
Construction of the NO_x emission abatement installation	10
Adjustment of the source at ZW Katowice to the needs of the heat market after 2015	9
Mining	
Construction of a 800 m level at ZG Janina	26
Construction of the "Grzegorz" shaft, including the infrastructure and the accompanying headings	17
Nowe Brzeszcze GT	4

Detailed information concerning the capital expenditure incurred in individual Business Areas of TAURON Capital Group is included in section 2.4. of this report.

2. OPERATIONS OF TAURON CAPITAL GROUP

2.1. Factors which will affect the results to be achieved within the perspective of at least the next half a year

External factors

As in the past, the following external factors will affect the results of TAURON Capital Group operations:

1) the macroeconomic situation, especially in Poland, as well as the economic situation of the area where TAURON Capital Group operates and at the European Union 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 European Union level, including the positions and decisions of public administration institutions and authorities, for example: Office for Competition and Consumer Protection (UOKiK), 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 energy generators in co-generation,
5) situation in the electricity sector, including the activity and measures undertaken by competition in the energy market,
6) The number of CO_2 emission allowances allocated free of charge, as well as prices 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) environmental protection requirements,
12) research and technical progress,
13) demand for electricity and other products of the energy market, including changes arising from seasonality and weather conditions.

Internal factors

The following internal factors affecting the result of TAURON Capital Group activity are most significant:

1) activities in the area of optimisation of processes in all companies of TAURON Capital Group,
2) assumed effects of the *Effectiveness improvement programme in TAURON Group for the years 2016–2018*,
3) decisions in the scope of implementation of key investment projects,
4) marketing activities in the scope of acquisition of new clients and loyalty activities in terms of maintaining existing clients,
5) 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,
6) activity of the Tax Capital Group, mainly aimed at optimising the implementation of the obligations associated with the settlement of corporate income tax by key companies of TAURON Capital Group,
7) procurement management by TAURON, in particular, fuel purchases for the needs of generation entities included in TAURON Capital Group,

8) geological and mining conditions of extraction,
9) potential failures of equipment, installations and grids belonging to TAURON Capital Group.

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 depend 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 are higher in the autumn and winter season. The seasonality of the remaining areas of TAURON Capital Group operations is limited.

Impact of the aforementioned factors on the financial result achieved in the 1st half of 2016 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 associated, to a large extent, with the economic situation in the European Union and in international markets. In the 1st half of 2016, the situation in global markets changed very dynamically.

In January 2016 the exchange crisis occurred in China. The slumps were so big that trading was suspended twice during sessions on Shanghai and Shenzhen stock exchanges. The 1st half of 2016 was a period marked by central banks' interventions in order to prevent continued declines on exchanges. Such interventions were undertaken by: People's Bank of China, European Central Bank and Bank of Japan. In the USA, the FED (Federal Reserve System) refrained from consecutive increases in interest rates planned for this year.

Currently, the strongest factor affecting financial markets is the result of the referendum of 23 June 2016 concerning the so-called Brexit, during which citizens of the United Kingdom voted for leaving the European Union. It will be possible to evaluate effects of this event only in several months, however, its adverse impact on the currency market, market of goods and real estate in the United Kingdom can be seen even now.

As far as Polish economy is concerned, the macro data recorded in the 1st quarter of 2016 were lower than planned. According to the data of the Central Statistical Office, Gross Domestic Product (GDP) in the 1st quarter of 2016 decreased by 0.1% in relation to the previous quarter and increased by 2.6% in relation to the 4th quarter of 2015.

At the beginning of 2016 Standard & Poors agency downgraded the rating of Poland from A- to BBB+. In May 2016, other agency – Moody's – affirmed the credit rating of Poland at A2 level, however, downgraded its outlook from stable to negative. All those circumstances resulted in slight weakening of Polish zloty in relation to other currencies.

In the recent report published in July 2016, the International Monetary Fund downgraded the forecast of Poland's GDP for 2016 to 3.5% (from 3.6%), simultaneously upgrading the estimate for 2017 to 3.7% (from 3.6%). The Organisation for Economic Cooperation and Development decreased expectations concerning the growth of Poland's GDP in 2016 from 3.4% to 3%.

Market environment

Balance of the National Power System (KSE)

In accordance with the data provided by the TSO, the weighted average price of energy sold freely on the Balancing Market (RB) in the 1st half of 2016 was higher than the price in the 1st half of 2015 by over PLN 40/MWh, which was mainly affected by:

1) growth in the use of hard coal sources with higher variable costs,
2) significant decline in low cost production based on lignite,
3) launch of the Intervention Cold Power Reserve service (830 MW), which may generate the maximum CRO price on the RB (balancing market) and does not participate in the wholesale market for electricity,
4) the increasing phenomenon of cash deficit ("missing money") arising from continued dynamic growth in capacity of installed RES sources, which influences searching for opportunities to acquire a higher unit margin for the decreasing volume of production for conventional units.

As a result of modification of the payment mechanism for the Operating Power Reserve (ORM), in 2016 the reference price for this reserve (CRRM) increased by almost PLN 4/MWh in relation to 2015, and the settlement mechanism adopted in 2016 guarantees payment of practically the whole budget foreseen for this service to generators, which was also the driver of growth in energy prices.

According to the TSO data for the 1st half of 2016, in relation to the 1st half of 2015, the following trends were recorded:

1) growth in production of system coal-fired power plants (by approximately 3.2%),
2) decline in production of system lignite-fired power plants (by approximately 10%),
3) increase in electricity production from wind farms (by approximately 17.7%),
4) significant increase in electricity production from gas (by about 31%),
5) practically unchanged electricity production in the country (growth by about 0.2%),
6) growth in domestic electricity consumption (by about 2.2%),
7) growth in energy imports from abroad by approximately 1.5 TWh, arising from the development of cross-border connections in the country and abroad.

The 1st half of 2016 was a period of significant volatility of prices on the RB, arising mainly from weather conditions and availability of capacity in the system. In the second half of January 2016, for two hours maximum CRP prices occurred on the RB, resulting from the use of capacity of units constituting the intervention reserve for trade balancing of the National Power System.

The consecutive period of high prices appeared in the 2nd half of 2016 and resulted mainly from high temperatures (increase in demand) at low generation of wind sources and one-off events affecting wholesale market turnover. On 24 June 2016 the all-time peak demand of the National Power System for electric capacity for the summer period occurred, amounting to 22,750 MW.

Electricity

As of the beginning of 2016 rules concerning remunerating power plants for ORM maintaining have changed. In addition, the Intervention Cold Power Reserve (IRZ) was commenced, withdrawing 830 MW of the capacity from the market. The uncertainty arising from the impact of those mechanisms triggered the growth in prices on the Day-Ahead Market (RDN) on the Polish Power Exchange (TGE) at the beginning of January 2016, on average, to over PLN 200/MWh.

However, in the consecutive weeks the impact of IRZ and ORM was found insufficient to balance the record wind generation in the Polish system and the impact of cheap energy imports from Sweden via Lithuania, owing to opening of the undersea NordBalt connection at the beginning of February 2016.

Prices of energy commodities in February 2016 also reached their multiannual minimum levels. All those circumstances made energy prices remain at very low levels until the end of May 2016.

June brought the reversal of this situation – numerous cases of decommissioning of JWCD units for overhaul, the heat wave and very low wind generation as well as frequent failures of cross-border connections with Lithuania and Sweden triggered the growth in prices by over 30% both in relation to June 2015 as well as the average of the first five months of 2016. The average RDN price in June amounted to PLN 209.43/MWh.

Overall, throughout the 1st half of 2016, the average RDN price amounted to PLN 163.10/MWh and was higher by PLN 12.90 YoY. At the same time, Poland was the most expensive market in the region, with the average RDN price at a level of EUR 37.34/MWh. For comparison, the corresponding price in Germany amounted to EUR 24.98/MWh, in the Czech Republic – to EUR 26.71/MWh, in Slovakia – to EUR 27.51/MWh, and in Lithuania – to EUR 36.26/MWh.

In forward contracts, listed mainly on the forward market (RTT) of the Polish Power Exchange, like on the RDN market, a strong growth in prices was recorded at the beginning of this year. Factors such as uncertainty related to the IRZ and ORM impact contributed to this situation. However, as early as in the 2nd half of January 2016 very strong slumps in prices occurred, reaching minimum levels in mid-February 2016. Since then, prices of forward contracts were growing slowly but systematically, reaching their maximum levels at the end of June 2016.

Price of base contracts with the delivery in 2017, Base Y-17 increased by PLN 10 in January 2016 (to almost PLN 170/MWh), followed by the decline to PLN 151/MWh until mid-February 2016; on the other hand, by 20 June 2016, their price increased to PLN 165.50/MWh. At the end of June 2016 their price amounted to PLN 162.50/MWh.

Property rights

In the 1st half of 2016, the following adopted acts of law had a direct impact on the PMOZE_A market of property rights: *Act of 20 February 2015 on renewable energy sources* and *Act of 20 May 2016 on investment in the scope of wind farms.*

Their provisions have significantly changed the existing investment trends for the renewable energy sector. The rules restricting the current mechanisms of RES development and the continuing surplus of certificates resulted in the decline recorded in prices of property rights, confirming energy generation in renewable sources – PMOZE_A in the period from the beginning of January until the end of June 2016 from PLN 110.72/MWh to PLN 69.00/MWh. The balance of the register of "green" certificates at the end of June 2016 reached a surplus at a level of approximately 21.8 TWh, i.e. by 2.8 TWh more than at the end of June 2015.

According to the *Act of 10 April 1997 on Energy Law*, amended in 2014, until 30 June 2016 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 2016. 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 2016.

In the period under discussion, the average price of property rights confirming energy production in coal co-generation, PMEC-2015, amounted to PLN 10.76/MWh. Analogically, the average price of rights for gas co-generation, PMGM-2015, amounted to PLN 118.85/MWh, and for the property rights confirming energy production during methane combustion, PMMET-2015, amounted to PLN 62.24/MWh.

The provisions of the new *Act of 20 May 2016 on energy efficiency* did not affect the market of property rights, operating still on the basis of former regulations, confirming the obligation to implement PMEF projects aimed at improvement of energy efficiency. The average PMEF price in the 1st half of 2016 settled at a level of PLN 980.09/toe, i.e. Slightly lower than the substitution fee.

Natural gas

The average price on the gas RDN on the Polish TGE in the 1st half of 2016 amounted to PLN 65.35/MWh. As compared to the corresponding period of the previous year, a decline by PLN 31.63 occurred (-32.6%).

Such a significant price reduction resulted from the global slump in energy commodity prices, including mainly crude oil and coal, as well as a warmer winter in comparison with previous years. January was the most expensive month (average: PLN 72.54/MWh), whereas March is the cheapest (average: PLN 60.11/MWh). In the analysed period, the volume of trade on the SPOT market amounted to almost 8.2 TWh which was almost a double of the volume recorded in the 1st half of 2015.

Similar declines as on the Polish market occurred also on other European gas markets. The average price of contracts with the delivery on the following day at the German gas hub – Gaspool, amounted to EUR 13.35/MWh (-7.71 EUR), whereas at the Dutch TTF – EUR 13.08/MWh (-7.97 EUR).

In the 1st half of 2016 practically all contracts on the forward market lost their value. The price of the reference contract with the delivery in 2017 decreased by almost PLN 11, amounting to PLN 65/MWh on 31 March 2016. However, short-term trends were reversed and still before the end of April it was possible to recoup all the losses generated at the beginning of the year. Ultimately, the GAS_BASE_Y-17 contract was priced at PLN 79.35/MWh as at 30 June 2016.

As at 30 June 2016 the Storage System Operator indicated the status of storage occupation at a level of 59%. In the corresponding period of the previous year, 61% of storage space was occupied. According to the data of the European Association Gas Infrastructure Europe (GIE), the average status of reserves in the European Union amounted to 52% against 48% in the previous year.

CO_2 emission allowances

In the 1st half of 2016 the market of CO_2 emission allowances demonstrated very high volatility. During the 6-week period of declines which started at the beginning of January 2016, the price of allowances decreased from EUR 8.28/t to EUR 4.62/t. It was the lowest level recorded since March 2014.

Several factors simultaneously affected over 30% decline of prices at the beginning of 2016. The first one was the negative response of market participants to the conclusions of the 21st climate change conference in Paris. In addition, official statements of European Commission representatives indicating that the stabilisation reserve will be the sole instrument to combat the oversupply of allowances at least until 2022 had a key influence. Concerns appeared among market participants that considerable oversupply of allowances may continue even until 2030.

In April 2016, following two months of stabilisation around EUR 5/t, the EUA DEC-16 contract recovered, reaching values above EUR 7/t within one session. The situation changed dramatically once again after the referendum won by supporters of the United Kingdom's exit from the European Union. After the announcement of the results, on 24 June 2016 quotations dropped below EUR 5/t, remaining at this level until the end of the month. On 30 June 2016 the value of a unit of allowances amounted to EUR 4.46/t. The average price of CO_2 emission allowances in the 1st half of 2016 reached the level of EUR 5.70/t, which means the decline by EUR 1.52 (-21.1%) as compared to the corresponding period of 2015.

Crude oil and coal

At the beginning of the year prices of oil and coal decreased to the lowest level recorded within the last 13 years. The price of Brent oil with the delivery in the nearest month on the ICE exchange reached even the level of USD 27/bbl. During the 1st half of 2016, on many occasions OPEC conducted discussions with oil producers beyond the cartel, with the purpose of leading to production level control, however, no measures have been undertaken.

The second half of the 1st quarter and the 2nd quarter of 2016 were the periods of recovery of commodity prices. During the 1st half of 2016 oil prices increased even by almost 100%, to the level of about USD 53/bbl in June. It was the effect of decrease in supply; in connection with the low price of the commodity producers with the highest costs limited or abandoned production. The growth in prices was also supported by extraordinary events which limited oil supply, such as fires in Canada, attacks in Nigeria or production distortions in Venezuela. Growths in prices on the oil market stopped with the perspective of the United Kingdom's exit from the European Union. The impact of the aforementioned extraordinary factors has also decreased.

Coal prices reached their multiannual minimum in February 2016, falling to USD 36/Mg for the annual CIF ARA contract with the delivery in 2017. Coal prices, like oil prices, increased in the 2nd quarter of 2016, reaching the level of USD 55 in June.

In the 1st half of 2016 prices of steam coal purchased by TAURON decreased in relation to the corresponding period of 2015 by approximately 14%.

Regulatory environment

Act on investment in the scope of wind farms

On 20 May 2016 the *Act on investment in the scope of wind farms* was passed, entering into force on 16 July 2016.

The Act defines a permissible distance between residential buildings and location and construction of wind farms. In accordance with its provisions, the minimum distance of a wind farm from a residential building or a building with a residential function, as well as from natural protection forms and promotional forest complexes, should be equal to or higher than ten-fold total height of a wind turbine.

In case of power plants existing before the day of entry into force of the aforementioned Act which do not fulfil the condition of the minimum distance, it will be only possible to perform overhauls and activities required for the due utilisation of a power plant, excluding a possibility to increase useful parameters of a power plant or increase its environmental impact.

Deployment of new wind farms will be possible only on the basis of the local spatial development plan. Consequently, investment in new wind farms will be more difficult due to the necessity to search for appropriate location meeting the distance criterion and included in the spatial development plan. In addition, due to the change of the definition of a wind farm and recognising the whole facility as a construction facility, the principles related to the assessment of a real estate tax will change and, consequently, the resulting costs will increase.

Amendment to the Act on Renewable Energy Sources (RES)

On 27 June 2016 the President of the Republic of Poland signed the amendment to the *Act of 20 February 2015 on renewable energy sources*, which entered into force as of 1 July 2016.

The objective of the amendment is to eliminate interpretation doubts concerning the provisions of the Act which have not yet entered into force, in particular, to streamline the situation of generators of electricity from renewable energy sources and rules of granting public aid to such generators. Accordingly, the definition of prosumer was introduced into the Act – the end consumer purchasing electricity under a comprehensive agreement, generating electricity only from renewable energy sources in a micro installation in order to use it for own needs not associated with the conducted economic activity.

The regulation covered a wide range of entities, including small and medium-sized entrepreneurs. The existing support system based on feed-in tariffs for the smallest generators in micro installations was abandoned in favour of clearing of electricity surplus generated by a given micro installation, so-called discounts by a prosumer.

New Draft Act on Energy Efficiency

On 20 May 2016 a new *Act on energy efficiency* was adopted, to enter into force as of 1 October 2016. The aforementioned Act implements the provisions of Directive 2012/27/EU of 25 October 2012 on *energy efficiency* and it shall replace the Act of 15 April 2011. The provisions of the Act envisage activities in the area of increasing energy savings by end consumers and increasing energy savings in the scope of energy generation, its transmission and distribution. The market mechanism leading to accomplishment of the objectives of the Act will be a system of energy efficiency certificates ("white" certificates) submitted for redemption by energy undertakings as a fulfilment of the obligation to implement projects aimed at energy efficiency improvement.

The Act waives the obligation to conduct a tender as a result of which the ERO President selected projects aimed at energy efficiency improvement, for which energy efficiency certificates could be obtained. It increases the flexibility in acquisition of efficiency investment. In addition, enterprises will have a possibility to clear the obligation within 3 years.

The new regulations also stipulate gradual waiver of a possibility to pay the substitution fee for the failure to fulfil the obligation. Undertakings using at least 100 GWh per year will have a possibility to use an alternative mechanism of energy efficiency improvement.

The Act introduces a new obligation to conduct an energy audit every 4 years for an undertaking defined in the Act on freedom of economic activity, excluding micro, small and medium-sized entrepreneurs. The circle of entities subject to this obligation is very broad, since it includes all big entrepreneurs, irrespective of the industry and electricity, heat or natural gas consumption. The audit should take into account at least 90% of the energy consumed.

The Act defines the principles of development of the national action plan related to energy efficiency improvement by the Minister of Energy every three years. An obliged undertaking must perform the first audit within a period of 12 months as of the entry into force of the Act.

Draft amendments to the Act on Water Law

The draft amendments to the *Act of 18 July 2001 on Water Law* are aimed at, inter alia, implementation of the EU regulations defined in the Framework Water Directive into the Polish law, providing that all water users must incur costs thereof. The fees will be related both to energy sector and to fish growers, farmers and entrepreneurs using large quantities of water for their production.

In case of the energy sector the cap on the fee shall amount to approximately PLN 1.20/MWh. The rates currently proposed oscillate at a level of PLN 0.70/m^3 of non-reclaimable underground water intake and PLN 0.35/m^3 of non-reclaimable surface water intake, for the use of water for the purpose of generation and supply of electricity, gas, steam, hot water and air for air conditioning systems as well as for ensuring operation of cooling systems of power plants and combined heat and power plants for installations existing on the day of entry into force of the Act.

In case of power installations commissioned after the day of entry into force of the aforementioned Act, for the use of water in cooling systems of power plants and combined heat and power plants, the additional fee will be charged for reclaimable water intake at a level of PLN 0.164/m^3 in case of underground water and PLN 0.082/m^3 in case of surface water.

In case of water use in hydroelectric power plants, the proposed rate is PLN 1.24/MWh of electricity produced, for the reclaimable water intake and PLN 1.05/m^3 for intake of technological water which is not directly allocated for electricity production. The rates introduced shall encourage more rational use of water and funds acquired from the fees will allow for introducing measures to improve the water conditions, reduce flood risk and improve retention at the national level.

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 2016 and 2nd quarter of 2015, compared to the compared to the corresponding periods of 2014.

Table no 4. Volumes and structure of sales of TAURON Capital Group according to individual Areas of operations

Specification	unit	1st half 2016	1st half 2015	Change in % 2016/2015	Q 2 2016	Q 2 2015	Change in % 2016/2015
Sales of coal by the Mining Area	M Mg	**2.46**	2.29	7%	**1.24**	1.15	8%
Sales of electricity and heat by the Generation Area	TWh	**7.76**	10.61	(27)%	**3.81**	4.91	(22)%
	PJ	**8.87**	8.99	(1)%	**1.98**	2.05	(3)%
Sales of electricity distribution services by the Distribution Area	TWh	**24.77**	24.59	1%	**12.04**	12.09	0%
Retail sales of electricity by the Sales Area	TWh	**15.57**	18.01	(14)%	**7.21**	8.57	(16)%

Mining Area

The basic activity conducted by TAURON Capital Group within the Mining Area comprises mining, enrichment and sales of hard coal as well as sales of methane as accompanying fossil from Brzeszcze deposit. Within TAURON Group three mines operate: ZG Sobieski and ZG Janina operated by the TAURON Wydobycie company and, since 1 January 2016, the Mining Plant (ZG) in Brzeszcze operated by the Nowe Brzeszcze GT company. The Mining Plants are producers of coal offered for sale on the market in coarse, medium coal assortments and as power coal dust.

Companies of Mining Area carry out sales of coal in two directions:

1) sales of fine coal and coal mud to power plants and co-generation plants,
2) sales of thick, medium and limited amount of fine coal assortments through the organised sales network across the country.

Sales of coal are mainly provided in the region of southern and central Poland, in particular, in the following provinces: Śląskie, Małopolskie, Podkarpackie, Świętokrzyskie and Dolnośląskie.

The volume of coal sales in the 1st half of 2016 amounted to approximately 2.46 million Mg, which means an increase by about 7%, as compared to the corresponding period of 2015 and results from recognising the volume of the Nowe Brzeszcze GT company in 2016. Without recognising of the new company, the volume of coal sales by TAURON Wydobycie was lower (by 4%) than the volume accomplished in the 1st half of 2015, in particular, for steam coal dust. The reason is the continuing difficult market situation, resulting mainly from oversupply of coal dust in relation to the demand and its selling off by competitive companies below production costs.

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 combined heat and power plants,
2) hydroelectric power plants,
3) wind farms.

The total capacity of generation units of the Generation Area at the end of June 2016 reached 5.0 GW of electrical capacity and 2.4 GW of heat capacity.

In the 1st half of 2016 the Generation Area produced approximately 8.45 TWh of electricity and it was the level close to that recorded in the previous year. Production from RES reached 0.77 TWh, i.e. by approximately 21% less as compared to the corresponding period of 2015 (0.97 TWh), which resulted from the reduction of biomass co-burning in the 1st half of 2016 and lower production from hydroelectric plants and wind farms, as a result of less favourable hydrological and wind conditions than in 2015.

Sales of electricity from own production, including energy purchased for trading purposes in the 1st half of 2016 reached approximately 7.8 TWh, which means an increase by c.a. 27%, in relation to the corresponding period of 2015. It is mainly the consequence of lower resale of energy purchased, in relation to 2015 (0.2 TWh in the 1st half of 2016; 2.8 TWh in the 1st half of 2015). Heat sales in the 1st half of 2016 amounted to 8.9 PJ (a level close to the previous year).

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 operates distribution grids of considerable range, located in the southern part of Poland.

In the 1st half of 2016, the Distribution Area supplied, in total, approximately 24.8 TWh of electricity, including 23.8 TWh to end consumers. During this period, the Distribution Area provided distribution services to 5.45 million consumers. In the corresponding period of the previous year, the Distribution Area supplied, in total, approximately 24.6 TWh of electricity to about 5.39 million consumers, including 22.5 TWh to end consumers. The increase in the volume of supplies to end consumers YoY results mainly from the GDP growth and increased electricity uptake by industrial consumers.

Sales Area

Sales Area comprises activities in the scope of retail sales of electricity and gas fuel as well as wholesale of electricity and other products of the energy market (trade and management of CO_2 emission allowances, property rights arising from certificates of electricity origin and fuel).

In the 1st half of 2016 companies of the Sales Area, in total, sold 15.6 TWh of electricity to approximately 5.3 million clients (retail sales), both households and entrepreneurs, i.e. by c.a. 2.4 TWh less than the corresponding period of the previous year. Lower sales are a consequence of reduced demand for electricity from the distribution grid as well as activity on the competitive market.

In the 1st half of 2016, the market of households (individual clients), continued to be the subject to the obligation of sales price approval by the President of ERO. However, in connection with the partial liberalisation of the energy market, offers tailored to individual clients' needs appeared. TAURON Capital Group creates products, sales channels and marketing communication taking into account the activities of the competition. Moreover, the Group initiates innovative solutions adapted to the level of market development and expectations of a given segment of clients.

In the 1st half of 2016, the number of households which changed energy supplier slightly exceeded 35.9 thousand, which means a growth by 9.2% since the end of 2015. However, taking into account the potential of this segment, i.e. the overall number of households in Poland, this figure indicates only the beginning of the liberalisation process of this market segment.

In the segment of institutions and economic operators (business client), where the competition is high and companies have already been using the liberalisation of electricity prices for several years, the progress of the liberalisation made more and more aware clients expect competitive solutions. The intensified sales activity of energy companies exerts increasing price pressure; new entities competing for a client appeared and the transparency of the mechanisms of the energy market is a must in any activities in this segment. In the 1st half of 2016 over 11.5 thousand business clients decided to change suppliers, which means a growth by 7.3% since the end of 2015.

2.2.2. Financial results of TAURON Capital Group

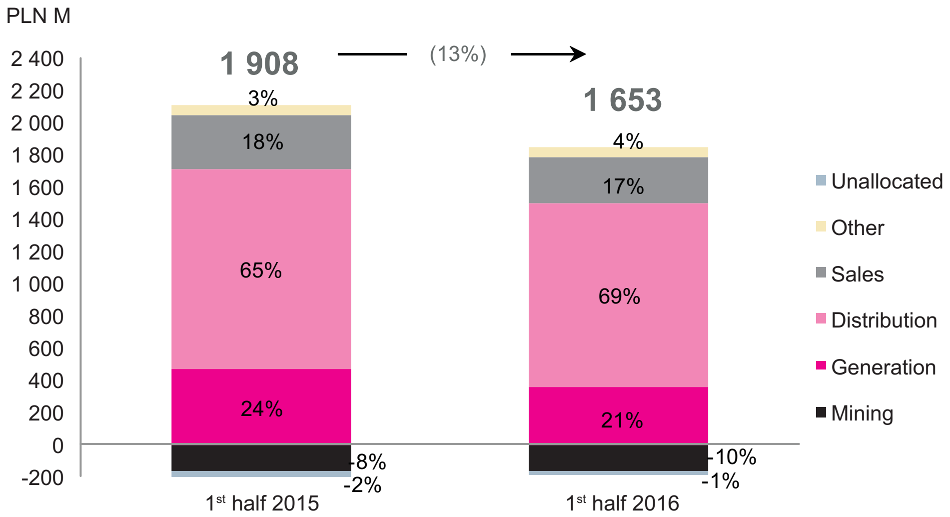
The table below shows the results of TAURON Capital Group, with the breakdown into individual Areas (Segments) of operations for the 1st half of 2016 and the 2nd quarter of 2016, as compared to analogical periods of 2015. The data for individual Areas do not include consolidation exclusions.

Table no 5. EBITDA of TAURON Capital Group according to Areas of operations

EBITDA (PLN thous.)	1st half of 2016	1st half of 2015	Change in % 2016/2015	Q 2 2016	Q 2 2015	Change in % 2016/2015
Mining	**(169,248)**	(157,902)	–	**(104,490)**	(113,811)	–
Generation	**353,961**	466,402	(24)%	**162,812**	188,031	(13)%
Distribution	**1,147,597**	1,242,660	(8)%	**604,338**	696,000	(13)%
Sales	**279,804**	335,153	(17)%	**113,042**	141,382	(20)%
Other	**66,036**	60,995	8%	**35,550**	17,622	102%
Unallocated items and exemptions	**(24,744)**	(39,436)	–	**(30,759)**	(36,287)	–
Total EBITDA	**1,653,406**	**1,907,872**	(13)%	**780,493**	**892,937**	(13)%

The figure below shows the EBITDA structure of TAURON Capital Group for the 1st half of 2015 and 2016.

Figure no. 5 EBITDA structure of TAURON Capital Group



The Distribution Area and the Generation Area have the highest share in EBITDA of TAURON Capital Group.

2.2.2.1. Mining Area

The table below shows the results of the Mining Area.

Table no 6. Results of Mining Area

Specification (PLN thous.)	1st half 2016	1st half 2015	Change in % 2016/2015	Change (2016–2015)
Mining				
Revenue on sales	**512,132**	541,951	**(6)%**	**(29,819)**
coal – coarse and medium assortments	*128,928*	*134,932*	*(4)%*	*(6,004)*
steam coal	*362,424*	*396,144*	*(9)%*	*(33,720)*
other products, materials and services	*20,780*	*10,875*	*91%*	*9,905*
EBIT	**(230,536)**	(214,265)	**–**	**(16,271)**
Depreciation and write-offs	61,288	56,363	9%	4,925
EBITDA	**(169,248)**	**(157,902)**	**–**	**(11,346)**

In the 1st half of 2016, revenue on sales, as compared to the corresponding period of 2015, was lower by 6%, due to the decline in prices of commercial coal YoY, which is the result of significant competition on the coal market and, as a consequence, price reduction by the biggest domestic producers.

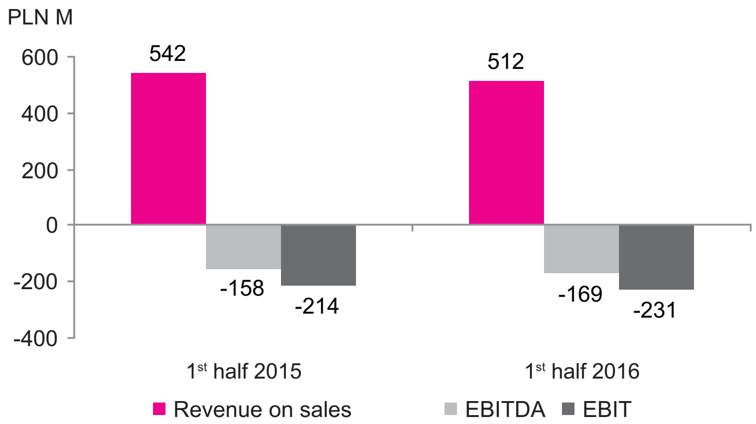
EBITDA and EBIT results of the Mining Segment in the 1st half of 2016 reached a lower level than in the analogical period of 2015. The level of the results obtained was affected by the following factors:

1) recognising of the result of the Nowe Brzeszcze GT company in the 1st half of 2016,
2) sales of the volume of coal dust lower by 5.1%,
3) a price of coal dust sold lower by 16.3%,
4) obtaining lower revenues for other assortments, as a result of sales of a volume of medium assortments lower by 10.1% and coarse assortments – by 1.2%, obtaining a price lower by 1.8% and 1.2%, respectively, as a result of coal oversupply in the domestic market and, accordingly, considerable price competition among market participants,
5) a lower own cost of coal sold, as a result of:
   a) labour costs lower by 6.9% as a consequence of a lower average employment (by 564 FTEs),
   b) costs of materials and energy lower by 3.1% due to reduced electricity consumption, which is the effect of a lower level of coal extraction by TAURON Wydobycie,
   c) partial sales of coal from stocks in 2015, which resulted in recognising of a higher value of coal stocks in own cost in this period,
   d) allocation of a higher value of preparatory works in the costs of the 1st half of 2016,

6) recognising in the result of the 1st half of 2015 of the costs of adjusting the quantity of commercial coal stocks 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.

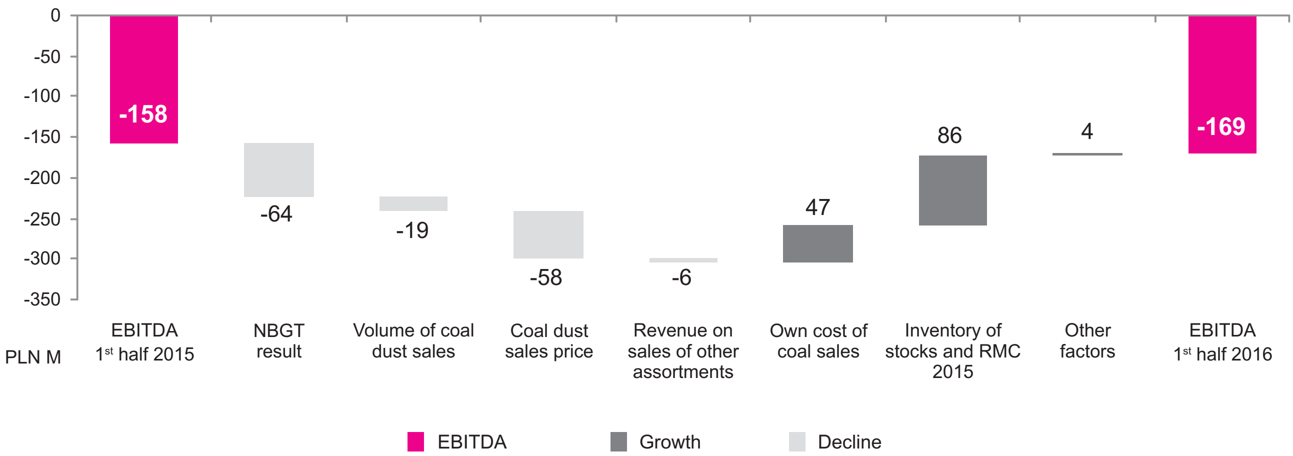
The figure below shows the financial data of the Mining Area for the 1st half of 2016 as compared to the 1st half of 2015.

Figure no. 6. Financial results of the Mining Area for the 1st half of 2015 and 2016



The figure below shows the EBITDA result of the Mining Area, including the significant factors influencing the change in relation to the 1st half of the previous year.

Figure no. 7 EBITDA result of Mining Area



2.2.2.2. Generation Area

The table below shows the results of the Generation Area.

Table no 7. Results of the Generation Area

Specification (PLN thous.)	1st half 2016	1st half 2015	Change in % 2016/2015	Change (2016–2015)
Generation				
Revenues on sales	**2,342,634**	**2,747,088**	**(15)%**	**(404,454)**
electricity	*1,584,086*	*1,966,541*	*(19)%*	*(382,455)*
heat (including heat transmission)	*460,892*	*450,980*	*2%*	*9,911*
property rights arising from certificates of electricity origin	*269,624*	*306,510*	*(12)%*	*(36,886)*
other	*28,004*	*23,056*	*21%*	*4,948*
EBIT	**(558,311)**	181,936	**–**	**(740,247)**
Depreciation and write-offs	912,272	284,466	221%	627,806
EBITDA	**353,961**	**466,402**	**(24)%**	**(112,441)**

In the 1st half of 2016, the revenues on sales in the Generation Segment were lower by approximately 15% as compared to the corresponding period of the previous year, due to lower revenue on electricity sales (mainly as a result of a lower volume of sales of energy purchased, due to market conditions different than a year ago) and lower revenue on sales of property rights of electricity certificates of origin (lower volume of production from RES, lower price of PR RES, lack of support for hydroelectric power plants with the electrical capacity above 5 MW_e) as well as restriction of support for co-burning as of 1 January 2016).

EBITDA and EBIT results of the Generation Segment in the 1st half of 2016 reached a lower level than in the analogical period of 2015. The level of the results obtained was affected by the following factors:

1) higher costs of CO_2 reserve – in the 1st half of 2015 TAURON Wytwarzanie held a surplus of free CO_2 allowances in relation to emission (carried forward from 2014), accordingly, no CO_2 costs occurred in this company. In the 1st half of 2016 both in TAURON Wytwarzanie and in TAURON Ciepło deficit of free allowances occurred in relation to emission, resulting in higher costs,
2) higher revenues from the ORM – the effect of a higher volume of available capacity (lower contracting of electricity sales) and a higher unit rate of the OPR YoY,
3) revenues from the IRZ (gained since 1 January 2016),
4) lower unit variable generation costs, mainly due to the decline in unit costs of coal and biomass consumption,
5) decline in electricity prices on the wholesale forward market YoY,
6) a lower price and volume of property rights from RES (effect of oversupply in the market, lack of support for hydroelectric power plants with the installed electrical capacity over 5 MW_e and restriction of support for co-burning as of 1 January 2016),
7) recognising impairment write-offs for tangible fixed assets, intangible assets and goodwill – the most significant reason of the negative EBIT result.

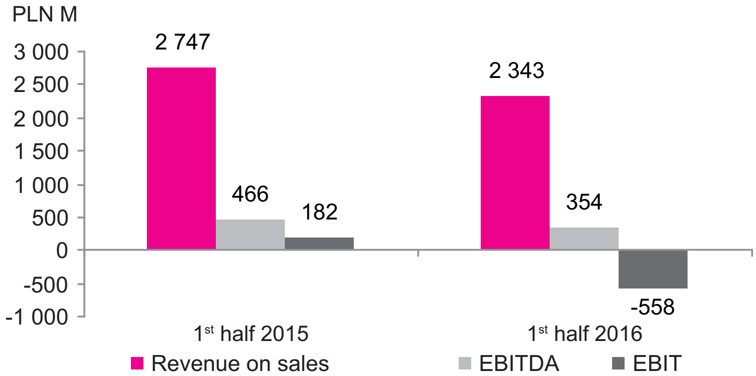
The results of the impairment test of assets, conducted as at 30 June 2016 indicated that a part of assets of the Generation Segment should be covered by an additional write-off in the amount of PLN 1,361,037 thousand. The recoverable value of this group of assets corresponds to their useful value. The impairment write-off charged own cost of sales. The conducted impairment test has also indicated a possibility to reverse the write-off in this segment in the amount of PLN 703,162. The write-off and its reversal refers to the following entities generating cash flows: Elektrownia Jaworzno II, Elektrownia Jaworzno III, Elektrownia Łaziska, Elektrownia Siersza, Elektrownia Stalowa Wola, Nowy Blok Łagisza, Zakład Wytwórczy Bielsko-Biała EC1, Zakład Wytwórczy Bielsko-Biała EC2, Zakład Wytwórczy Tychy, hydroelectric power plants, FW Lipniki, FW Wicko and FW Marszewo.

Results of the sensitivity analysis for individual entities generating cash flows indicated that changes in electricity prices, change in hard coal prices and changes in the average weighted cost of capital were the major factor significantly influencing the useful value of the assets tested. Changes in CO_2 emission allowances and property rights from RES have a lower impact on the valuation.

The impairment test conducted as at 30 June 2016 demonstrated the loss in the carrying amount of goodwill related to the Generation Segment (company of TAURON EKOENERGIA). As a result of the foregoing, TAURON Capital Group applied the impairment write-off due to the permanent loss in goodwill in the amount of PLN 51,903 thousand. The impairment write-off charged own cost of sales. The requirement to apply the write-off results from the decline in prices of certificates of origin of energy from renewable sources and introduction of new regulations in the RES area.

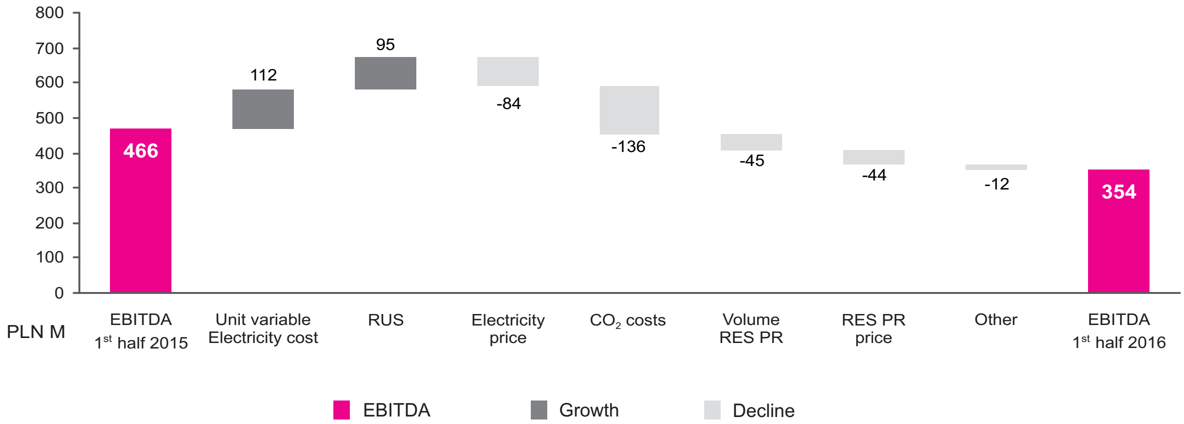
The figure below shows the financial data of the Generation Area for the 1st half of 2016 as compared to the 1st half of 2015.

Figure no. 8. Financial data of the Generation Area for the 1st half of 2015 and 2016



The figure below shows the EBITDA result of the Generation Area, including the significant factors affecting the change in relation to the 1st half of 2015.

Figure no. 9 EBITDA result of the Generation Area



2.2.2.3. Distribution Area

The table below shows the results of the Distribution Area.

Table no 8. Results of the Distribution Area

Specification (PLN thous.)	1st half 2016	1st half 2015	Change in % 2016/2015	Change (2016–2015)
Distribution				
Revenues on sales	**3,144,506**	**3,228,357**	**(3)%**	**(83,851)**
distribution services	*2,957,410*	*3,029,943*	*(2)%*	*(72,533)*
connection fees	*47,032*	*62,290*	*(24)%*	*(15,258)*
maintenance of street lightning	*56,763*	*57,092*	*(1)%*	*(329)*
other services	*83,301*	*79,032*	*5%*	*4,269*
EBIT	**643,524**	**758,416**	**(15)%**	**(114,892)**
Depreciation and write-offs	504,073	484,244	4%	19,829
EBITDA	**1,147,597**	**1,242,660**	**(8)%**	**(95,063)**

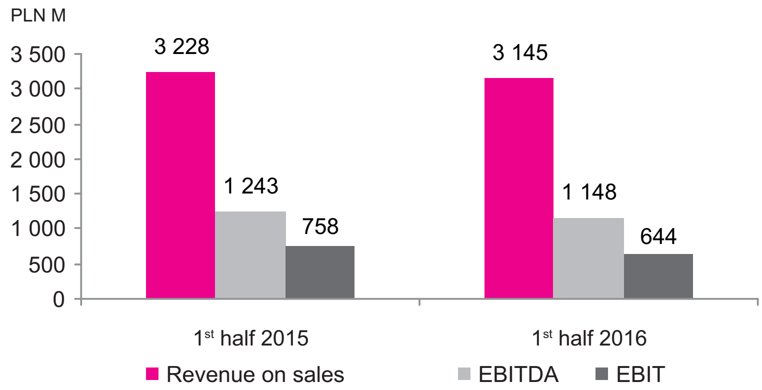
In the 1st half of 2016, as compared to the 1st half of 2015, the Distribution Segment gained revenue on sales lower by about 3%, whereas the decline of results at the EBIT and EBITDA level reached 15% and 8%, respectively. The following factors affected the level of the results obtained:

1) reduction of the average rate of distribution service sales to end consumers in each tariff group, excluding A group,

2) growth of supplies to industrial consumers as a result of GDP and production growth, in particular, among consumers in B group; the growth also applies to SME consumers,
3) decline in energy volume supplied to households as a result of one-off recognition of a favourable estimation associated with migration of clients to the Central Billing System in the previous year,
4) decline in revenues from connection fees from entities connected to HV and MV grids,
5) significantly lower price of balancing of energy losses, as the resultant of prices of energy purchase and resale in TAURON Capital Group,
6) in accounting terms (with additional estimation), a higher indicator of grid losses YoY, mainly as a result of recognition of a favourable estimation associated with migration of clients to the Central Billing System in the 1st half of 2015,
7) growth of purchase costs of transmission services as a result of a higher rate of qualitative fee applied for higher electricity consumption, higher ordered contractual capacity, lower local generation,
8) lower costs of tree logging, costs of allowances for uncollectible accounts and costs of service and measurement function,
9) growth in costs of tax on grid assets as a consequence of the implemented investment and growth in the value of assets,
10) higher result on other core activities and other operating activities.

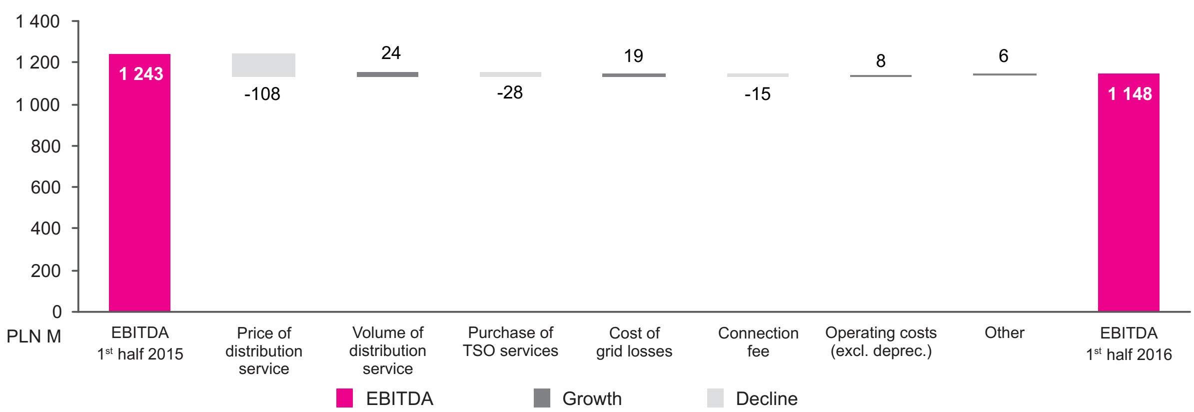
The figure below shows the financial data of the Distribution Area for the 1st half of 2016 as compared to the 1st half of 2015.

Figure no. 10 Financial data of the Distribution Area for the 1st half of 2015 and 2016



The figure below shows the EBITDA result of the Distribution Area, including the significant factors influencing the change in relation to the 1st half of 2015.

Figure no. 11 EBITDA result of the Distribution Area



2.2.2.4. Sales Area

The table below shows results of the Sales Area.

Table no 9. Results of the Sales Area

Specification (PLN thous.)	1st half 2016	1st half 2015	Change in % 2016/2015	Change (2016–2015)
Sales				
Revenues on sales	**6,987,186**	**8,093,980**	**(14)%**	**(1,106,794)**
electricity, including:	*4,363,522*	*5,281,747*	*(17)%*	*(918,225)*
revenue on retail sales of electricity	*3,487,093*	*4,089,697*	*(15)%*	*(602,604)*
greenhouse gas emission allowances	*257,804*	*127,208*	*103%*	*130,596*
fuel	*764,221*	*927,350*	*(18)%*	*(163,129)*
distribution service (transferred)	*1,573,969*	*1,718,837*	*(8)%*	*(144,868)*
other services, incl. commercial services	*27,669*	*38,838*	*(29)%*	*(11,169)*
EBIT	**273,890**	**329,755**	**(17)%**	**(55,865)**
Depreciation and write-offs	5,914	5,398	10%	516
EBITDA	**279,804**	**335,153**	**(17)%**	**(55,349)**

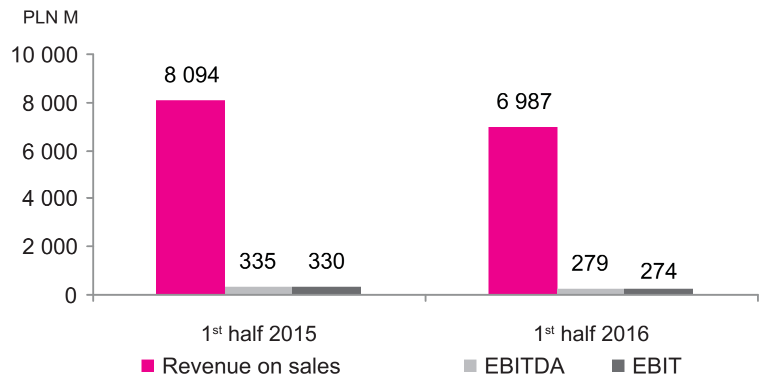
In the 1st half of 2016 revenue on sales in the Sales Segment was lower by 14% than the revenue gained in the corresponding period of 2015, mainly due to lower revenue on electricity sales (lower volume of sales), including lower revenue on retail sales of energy (sales price lower by approximately 1%) and fuel (in the 1st half of 2016 – lack of biomass sales, revenue on sales of coal lower by 14% – as a result of lower volume of sales and lower sales price, higher revenue on gas sales).

EBITDA and EBIT results of the Sales Segment in the 1st half of 2016 reached a lower level than in the analogical period of 2015. The level of the results obtained was affected by the following factors:

1) energy price and volume – adverse impact on the result is caused by the decline in retail sales (by 2.4 TWh) due to the lower demand of business clients for energy (approximately 1.8 TWh) and the lower sales to SME clients (approximately 0.4 TWh) as well as the decline in the volume of wholesale – as a result of reduced liquidity of term products and limiting of trade on interconnector exchange depending on the level of transmission capacity made available by the PSE operator. At the same time, in the months of January and June significant volatility of SPOT market prices occurred, which enabled to implement a higher margin on the concluded transactions.
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 purchases for the purpose of redemption obligation 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 14% to 15%, for "violet" certificates from 1.3% to 1.6%, for "green" certificates from 4.9% to 6% and maintaining of the obligation to redeem certificates from co-generation for "red" certificates at a level of 23.2%,
4) lower level of revenue on commercial fees – the effect of a lower rate of acquisition of loyal customers,
5) other revenues/costs – the balance on other operating activity and margins achieved on other products of the energy market.

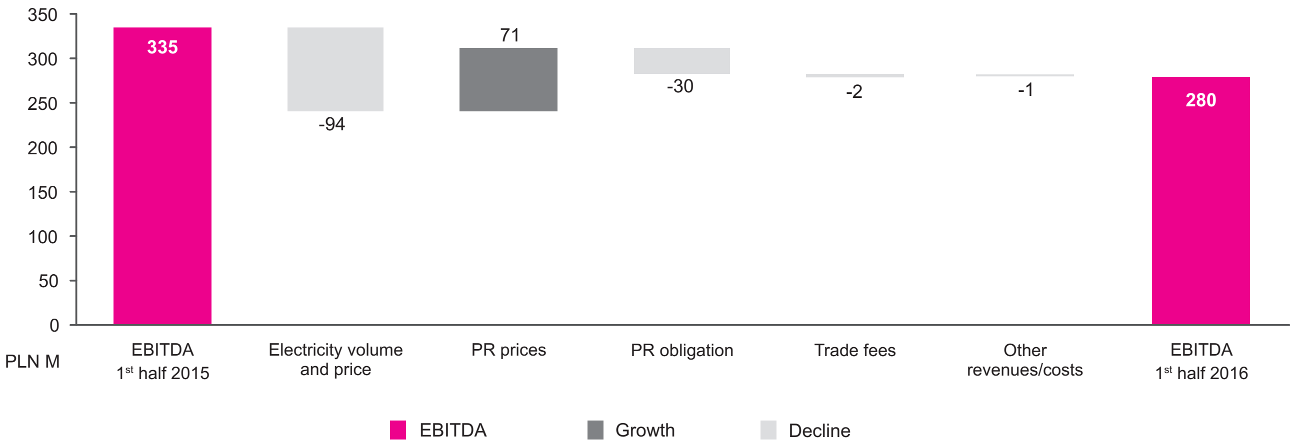
The figure below shows the financial data of the Sales Area for the 1st half of 2016 as compared to the 1st half of 2015.

Figure no. 12 Financial data of the Sales Area for the 1st half of 2015 and 2016



The figure below shows the EBITDA result of the Sales Area, including the significant factors influencing the change in relation to the 1st half of 2015.

Figure no. 13 EBITDA result of the Sales Area



2.2.2.5. Other Area

The table below shows the results of Other Area.

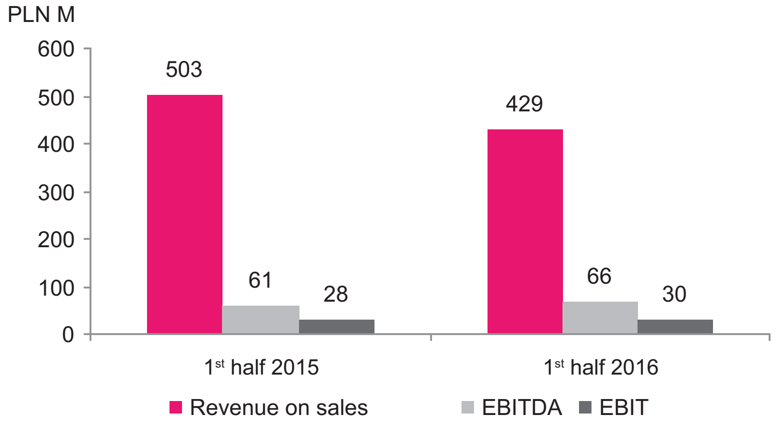
Table no 10. Results of Other Area

Specification (PLN thous.)	1st half 2016	1st half 2015	Change in % 2016/2015	Change (2016–2015)
Other				
Revenues on sales	**428,843**	503,146	**(15)%**	**(74,303)**
customer service, accounting and IT services	*282,717*	*294,423*	*(4)%*	*(11,706)*
electricity and property rights arising from certificates of electricity origin	*6,298*	*66,178*	*(90)%*	*(59,880)*
biomass	*85,209*	*94,542*	*(10)%*	*(9,333)*
aggregates	*43,523*	*43,651*	*0%*	*(128)*
other revenues	*11,096*	*4,352*	*155%*	*6,744*
EBIT	**29,822**	27,896	**7%**	**1,926**
Depreciation and write-offs	36,214	33,099	9%	3,115
EBITDA	**66,036**	**60,995**	**8%**	**5,041**

Revenue on sales of the Other Area in the 1st half of 2016 reached the level lower by approximately 15% than the revenue gained in the corresponding period of the previous year, which mainly results from termination of trading in property rights of electricity origin and a lower level of energy trade.

The figure below shows the financial data of the Other Area for the period of the 1st half of 2015 and 2016.

Figure no. 14. Financial data of the Other Area for the 1st half of 2015 and 2016



2.3. Important events and achievements of TAURON Capital Group significantly affecting its operations

The most important events significantly affecting the operations of TAURON Capital Group, which occurred in the 1st half of 2016, as well as until the day of drawing up this report are as follows:

Important corporate events in the 1st half of 2016

Changes in the Management Board composition:

On 8 January 2016 the Supervisory Board dismissed Anna Striżyk – Vice-President of the Management Board for Economics and Finance, from the Management Board.

As of 29 January 2016, the Supervisory Board appointed Marek Wadowski as Vice-President of the Management Board for Economics and Finance.

The Company informed of changes in the personal composition of the Management Board in current reports: no. 2/2016 of 8 January 2016 and no. 5/2016 of 29 January 2016.

Changes in the Supervisory Board composition

On 6 June 2016 the Company received statements from the following Supervisory Board Members concerning the resignation from the function of Member of TAURON Polska Energia S.A. Supervisory Board, in which they declared that they had resigned for personal reason:

1) Maciej Koński,
2) Renata Wiernik-Gizicka.

On 8 June 2016 the Extraordinary GM of the Company, acting pursuant to § 22 (1) of the Company Articles of Association, adopted the resolution on appointment of the following new members to the Company Supervisory Board of the fourth common term of office:

1) Jacek Rawecki,
2) Stefan Świątkowski.

The Company informed of the aforementioned events in current reports no. 23/2016 of 6 June 2016 and no. 28/2016 of 8 June 2016.

Management Board's recommendation on dividend pay-out from the reserve capital

On 10 March 2016 the Management Board of the Company adopted the resolution to recommend to the Ordinary GM allocation of a part of the Company reserve capital in the amount covering sums carried forward from previous years' profits to pay PLN 175,254,939.40 as a dividend to the Company shareholders, which means that the dividend per share would amount to PLN 0.10. Simultaneously, the Management Board decided to submit the recommendation to the Company Ordinary GM determining:

1) dividend record day on the 90th (ninetieth) day counting from the day of adoption of the General Meeting resolution concerning the use of the Company reserve capital,
2) dividend payment day on the 14th (fourteenth) business day counting from the dividend record day.

The recommendation of the Management Board concerning the amount of dividend to be paid to Company shareholders shows the intention to continue the existing adopted practice of dividend payment by the Company and takes into account in particular the financial result for the year 2015 as well as the level of reserve capital established from profits for previous years, the investment programme of the TAURON Group under implementation and the covenants defined in financing agreements. The proposed level of the dividend would allow the Company to maintain the debt ratio at a safe level.

On 17 March 2016 the Supervisory Board approved the aforementioned recommendation of the Management Board concerning the dividend.

The Ordinary GM of the Company held on 8 June 2016 did not adopt the resolution concerning use of the Company reserve capital by allocation of its part for payment of dividend to shareholders of the Company.

The Company informed of the aforementioned events in current reports: no. 14/2016 of 10 March 2016, no. 15/2016 of 17 March 2016 and no. 24/2016 of 8 June 2016.

Shareholder's request to convene the General Meeting of the Company and include particular items on the agenda

On 30 March 2016, KGHM – a shareholder representing 10.39% of the Company share capital, submitted a request to convene the GM of the Company and to include adoption of a resolution to change the composition of the Company Supervisory Board on the agenda. In the rationale KGHM stressed that convening the GM would enable KGHM, as the Company shareholder, to present a motion to introduce a change in the composition of the Company Supervisory Board. At the same time, the Company Management Board informed that the General Meeting would be convened in line with applicable legal regulations and relevant information about convening the meeting and its agenda would be announced in a separate report and published on the Company website.

The Company informed of the Shareholder's request in the current report no. 17/2016 of 30 March 2016.

Decisions of the Ordinary General Meeting of TAURON

On 8 June 2016 the Ordinary GM of the Company was held, which adopted resolutions concerning, inter alia: the approval of the Consolidated financial statements of TAURON Capital Group and the Report of the Management Board on the operations of TAURON Capital Group for the financial year 2015, Financial statements of TAURON and the Report of the Management Board on the operations of the Company for the financial year 2015, covering of net loss for the financial year 2015 from the reserve capital, acknowledgement of the fulfilment of duties by members of the Company Management Board and Supervisory Board, amendments to the Company Articles of Association, amendment to the By-laws of the General Meeting of the Company, determining the number of members of the Company Supervisory Board, appointment of members of the Supervisory Board.

It was decided to cover the net loss of the Company for the financial year 2015 in the amount of PLN 3,453,908,315.26 (say: three billion four hundred fifty three million nine hundred eight thousand three hundred fifteen and 26/100) from the Company reserve capital.

The Company informed of convening of the GM and on the provisions of draft resolutions in current reports no. 19/2016 and no. 20/2016 of 12 April 2016. The Company informed of decisions of the GM concerning: covering of net loss, adopted resolutions, specification of shareholders holding at least 5% of votes at the GM, amendments to the Company Articles of Association and appointment of Supervisory Board members, in current reports: no. 24/2016, no. 25/2016, no. 26/2016, no. 27/2016 and no. 28/2016 of 8 June 2016.

Amendments to Articles of Association of TAURON Polska Energia S.A.

On 12 April 2016 the Management Board of the Company publicly informed of its intention to amend the Company Articles of Association, thus, in the agenda of the Ordinary GM of the Company including of an item concerning the amendments to the Articles of Association of TAURON Polska Energia S.A. was planned. The draft resolution including rationale containing the proposed amendments to the Company Articles of Association was published in the current report concerning convening of the Ordinary GM. It should be mentioned that on 8 March 2016 the Supervisory Board of the Company issued positive opinion concerning the motion of the Management Board to the GM for the amendment to the Company Articles of Association.

On 8 June 2016 the Ordinary GM of the Company adopted the resolution on the amendment to the Company Articles of Association.

On 30 June 2016 the District Court for Katowice-Wschód, 8th Commercial Department of the National Court Register issued the decision on entry of the amendments to the Company Articles of Association, adopted by resolution no. 44 of the Company Ordinary GM of 8 June 2016 concerning the amendments to the Company Articles of Association to the register of entrepreneurs of the National Court Register.

On 26 July 2016 the Supervisory Board of TAURON Polska Energia S.A. acting pursuant to § 20 section 1 item 13 of the Company Articles of Association adopted a uniform text of the Articles of Association of TAURON Polska Energia S.A. that includes the amendment to the Articles of Association entered by the District Court for Katowice-Wschód in Katowice, 8th Commercial Division to the National Court Register.

Introduction of the amendments to the Company Articles of Association was aimed at implementing recommendations and detailed rules contained in "*Best Practice of GPW Listed Companies 2016*" to be applied in the Company, which will facilitate maintaining good relations with investors and provide an effective tool supporting the respect of shareholders' rights. Moreover, the said implementation will have a positive impact on development of TAURON relations with its market environment.

In the scope of amendments to the Company Articles of Association, changes of streamlining and editorial nature were also proposed, including, inter alia, deleting in Section IX. "Transitional provisions" of the wording applicable until the day of filing of the motion by TAURON for admission of at least one Company share to trading in the regulated market, which had taken place in 2010.

The Company informed of the aforementioned events in the current reports no. 18/2016 of 12 April 2016, no. 27/2016 of 8 June 2016, no. 29/2016 of 1 July 2016 and 31/2016 of 26 July 2016.

Important business events in the 1st half of 2016

Settlement of agreement with Kompania Węglowa

On 19 January 2016 the settlement of the agreement with Kompania Węglowa was carried out, whose signing was reported by the Company in the current report no 7/2013 of 1 March 2013, and whose subject was the purchase of hard coal by the TAURON. The Agreement was concluded for a period of three years from 1 January 2013 until 31 December 2015 and its estimated net value determined as at the day of concluding of the agreement amounted to PLN 2.4 billion net.

Pursuant to the performed settlement, the value of the turnover accomplished under the agreement amounted to PLN 2.014 billion net, i.e. approximately 84% of the net value of the agreement estimated initially and approximately 7% less than equivalent of 10% of Company equity used as the threshold value for material agreements as at the day of submission of the report.

The Company informed of the aforementioned event in the current report no. 4/2016 of 19 January 2016.

Convening Bondholders' Meeting of bonds series TPEA1119 and agreements signed with some Bondholders

On 10 February 2016 the Management Board of TAURON, acting pursuant to the *By-laws of Bondholders' Meeting* constituting the attachment to the Terms and Conditions of the issue of bonds series TPEA1119, designated by the Central Securities Depository of Poland with the code PLTAURN00037 and listed in the Alternative Trading System on the Catalyst market organised by BondSpot S.A., with maturity falling on 4 November 2019, convened, on their own initiative, the Meeting of Bondholders to take place on 3 March 2016. The subject of the Bondholders' Meeting was the adoption of the resolution on the amendment to terms and conditions of the bonds' issue through amending of the definition of "Financial Debt" included in item 1.1 of the Terms and Conditions of the Bonds' Issue and the amendment to the provisions of Grounds for Early Redemption contained in item 9.1(e) of the Terms and Conditions of the Bonds' Issue.

The detailed description of the amendments to the Terms and Conditions of the Bonds' Issue is contained in the current report no. 8/2016 of 10 February 2016.

On 3 March 2016, Bondholders representing 91.44% of votes appeared at the Bondholders' Meeting, accordingly, the Bondholders' Meeting was unable to adopt the resolution concerning the amendments to the terms and conditions of the bond issue. Considering the foregoing, TAURON, as the Issuer, proposed Bondholders who attended the Bondholders' Meeting to sign, against agreed remuneration, bilateral agreements under which Bondholders who sign these agreements commit irrevocably with respect to the Issuer, to take part in every bondholders' meeting concerning the bonds during the effective term of a given agreement and vote at every bondholders meeting, with all bonds, against the resolution allowing bondholders to submit to the Issuer a request for early redemption in the event of a potential breach, i.e. if the debt ratio defined in the terms and conditions of the bond issue exceeds 3.0x but does not exceed 3.5x, taking into consideration the new definition of financial debt and the principles for calculation of the financial ratio included in the agreement. In addition, Bondholders would undertake to refrain from disposing of the bonds until their maturity date. The Issuer set the deadline for submitting of the signed agreements by Bondholders on 21 March 2016. At the same time, the Bondholders who did not appear at the Bondholders' Meeting on 3 March 2016, had the opportunity to read the text of the agreement and conclude it in accordance with the aforementioned deadline. The text of the agreement is available at Dentons Europe Oleszczuk sp. k. Law Firm and the condition to obtain access to the text of the agreement was to present to the Law Firm a valid bond deposit certificate pertaining to the bonds which were to be subject to the aforementioned agreement. TPEA1119 series bonds were issued on 4 November 2014 in the amount of 17,500 pieces, as bearer, uncollateralized, coupon bonds with floating interest rate and nominal value of PLN 100,000 each.

The Company informed of the aforementioned event in the current report no. 12/2016 of 3 March 2016.

On 22 March 2016 the Majority informed that in execution of the proposal presented to the Bondholders at that meeting, until 21 March 2016 agreements were signed with Bondholders representing 6,937 Bonds of TPEA1119 series which constitute 39.64% of the total nominal value of all TPEA1119 series Bonds and entitles to exercising of 39.64% of votes resulting from all Bonds. Each of the Bondholders who signed these agreements committed irrevocably with respect to TAURON to take part in every Bondholders' Meeting concerning the Bonds during the effective term of a given agreement and vote at every Bondholders Meeting, with all Bonds, against the resolution allowing Bondholders to submit to TAURON a request for early redemption in the event of a potential breach, i.e. if the debt ratio defined in the terms and conditions of the bond issue exceeds 3.0x but does not exceed 3.5x, taking into consideration the new definition of financial debt and the principles for calculation of the financial ratio included in the agreement. In addition, Bondholders undertook not to dispose of Bonds until maturity date, except for cases resulting from unconditionally binding legal regulations.

Under the concluded agreements, TAURON will pay each Bondholder who is a party to the agreement a remuneration in the amount of 0.20% per year of the total nominal value of the Bonds held by a given Bondholder that are the subject of such agreement.

According to the by-laws of the Bondholders' meeting constituting an annex to Terms and Conditions of TPEA1119 Bonds Issue, to adopt resolution of the Bondholders' meeting, presence of Bondholders representing at least 50% of votes is required. Resolutions are passed with 66 and 2/3 percent of votes of Bondholders present at the meeting. TPEA1119 series bonds were issued on 4 November 2014 in the amount of 17,500 pieces, as bearer, uncollateralized, coupon bonds with floating interest rate and nominal value of PLN 100,000 each. The Bonds are dematerialized at the securities depository operated by KDPW S.A., assigned ISIN code: PLTAURN00037 and traded in the Alternative Trading System on the Catalyst market organised by BondSpot S.A. The maturity date of the Bonds falls on 4 November 2019.

The Company informed of the aforementioned event in the current report no. 16/2016 of 22 March 2016.

Information about planned write-off of impaired generation assets of the Generation Segment in financial statements for 2015

On 15 February 2016, following the completion of main works related to impairment tests on assets, in line with the requirements of the International Accounting Standard 36, the Management Board of TAURON publicly announced information on the expected impact of non-cash one-off event in the form of a write-off of unprofitable generation units in the Generation Segment. The Generation Segment comprises companies generating electricity and heat from conventional and renewable sources.

For testing purposes, the recoverable amount has been determined based on analysis of discounted cash flow generated by individual cash-generating centres. Key business assumptions affecting the evaluation of the recoverable amount included the adopted curves of electricity and fuel prices, CO_2 emission limits for electricity generation, tariff revenue of heat companies and maintenance of generation capacity of existing fixed assets as a result of executing capacity replacement investments.

The reason behind the write-offs lies primarily in market conditions that have been unfavourable for electricity generators and the resulting application of more conservative forecasts of electricity prices and reduced generation volumes in future.

To partially set off the impact of negative market conditions and improve the situation of the TAURON Capital Group over longer perspective, the Company Management Board has launched works on Corporate Strategy update. Within that process a review of the investment portfolio has been initiated to verify investment projects. The Company also finalised works on the new Effectiveness Improvement Programme for 2016–2018 which should generate further savings. In addition, achievement of synergies inside the Group was planned through simplification of the management model. The Company indicated that market trends were dominating in terms of development of long-term perspective for planning electricity generation profitability, which could have led to the necessity to apply further write-offs if the unfavourable trends persisted.

In relation to the consolidated financial statements of TAURON Capital Group for the financial year ended on 31 December 2015, the conducted tests have indicated that it was necessary to write-off major part of the TAURON Capital Group's generation assets in the electricity and heat generation segment due to partial or full impairment – including generation units of various capacities (in particular, 200 MW and 150 MW), biomass-fired units and co-generation units. The total value of estimated write-offs resulting from impairment of tangible and intangible assets and goodwill in the Generation segment, charging prime costs, amounts to PLN 3,564 million and their impact on net result amounts to PLN 2,916 million. The write-offs will have no impact on EBITDA understood by TAURON Capital Group as EBIT increased by depreciation and write-offs for non-financial assets.

In relation to separate financial statements of TAURON for the financial year ended on 31 December 2015 the conducted test indicated that it was necessary to write-off the impairment of shares in TAURON Wytwarzanie and TAURON Ciepło in the total amount of PLN 4,931 million. The expected impact of these write-offs on the net result in separate statements amounts to PLN 4,931 million.

The Company reserves that the values presented above represent estimated values and may be subject to change. The final results of tests and amounts of impairment write-offs were presented in financial statements of TAURON and TAURON Capital Group for 2015, published on 9 March 2016.

Detailed information concerning the aforementioned issue is included in the current report no. 9/2016 of 15 February 2016.

Exceeding of the 10% equity threshold in trade turnover between companies of TAURON Capital Group and companies of PSE Group

On 29 February 2016, the Company received documents concerning the mutual provision of services to companies of TAURON Capital Group enabling the settlement with companies of PSE Group, in reference to current reports no. 1/2012 of 5 January 2012, no. 37/2012 of 7 November 2012, no. 42/2013 of 15 October 2013, no. 30/2014 of 8 July 20144 and current report no. 11/2015 of 10 April 2015, regarding trade turnover between companies of TAURON Capital Group and PSE. In accordance with the aforementioned documents, as of 10 April 2015, i.e. as of the day of submission of the current report no. 11/2015, the net trade turnover generated between companies of TAURON Capital Group and companies of PSE Group amounted to approximately PLN 2,180 million (including approximately PLN 1,500 million of cost items for TAURON Capital Group companies, and about PLN 680 million of revenue items), accordingly, the value of turnover exceeded 10% of the Company equity.

The turnover of the highest value, i.e. approximately PLN 1,400 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 indefinite period of time, 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 this event in the current report no. 10/2016 of 29 February 2016.

Purchasing of own bonds by TAURON and issue of bonds under the bond issue programme

On 29 February 2016 the Company purchased, with the intention to redeem, 22,500 bonds (“Bought Back Bonds”) out of 30,000 tranche C bonds (“Tranche C Bonds”) issued on 12 December 2011 under the bond issue programme of 16 December 2010. TAURON informed of the issue of the said bonds in the current report no. 60/2011. The early buyback does not cover the remaining 7,500 Tranche C Bonds which, according to the terms and conditions of the bond issue, will be redeemed on 12 December 2016.

The Bought Back Bonds were purchased at the issue price of PLN 100,000, thus the total nominal value of bought back and redeemed bonds amounts to PLN 2,250,000,000. The amount of buy-back was increased by interest due from the first day of the last interest period preceding the buy-back until the day of that buy-back (excluding that day). The purchase with the intention to redeem was executed based on bilateral agreements concluded between TAURON and bondholders of Tranche C Bonds and the main purpose of the transaction is to extend the maturity of debt incurred by the Company in the form of bonds. Funds to refinance the Bought Back Bonds were obtained by TAURON under a new bond issue programme (TAURON informed of signing of the agreement for the new bond issue programme in the current report No. 49/2015 of 24 November 2015), under which, on 29 February 2016 the Company issued 22,500 bonds with the total nominal value of PLN 2,250,000,000 (“Bonds”) with the maturity date on 29 December 2020. The Bonds were issued in PLN as uncollateralized, dematerialized, coupon securities and taken up at the issue price equal to the nominal value amounting to PLN 100,000. The interest rate on bonds was determined based on WIBOR 6M rate increased by a fixed margin. The Bonds will be redeemed at the issue price on the maturity date and interest will be paid in arrears at the end of each interest period to bondholders who hold the Bonds on the record date. Interest payable under the Bonds will be paid in semi-annual periods (subject to the first, four-month period). On account of Bond holding, the Bondholders will be entitled to cash payments only. The Bonds have been taken up by financial institutions that are parties to the bond issue programme, i.e. Bank BGŻ BNP Paribas S.A., Bank Handlowy w Warszawie S.A., Bank of Tokyo-Mitsubishi UFJ (Holland) BV, Bank of Tokyo-Mitsubishi UFJ (Polska) S.A., Bank Zachodni WBK S.A., CaixaBank S.A. (Spółka Akcyjna) Oddział w Polsce, Industrial and Commercial Bank of China (Europe) S.A. Oddział w Polsce, ING Bank Śląski S.A., mBank S.A. (mBank) and PKO BP. As a result of the transaction TAURON improved its debt structure by moving the maturity date of the bonds in the amount referred to above by five years, which has a positive impact on the Issuer’s financial and economic standing in view of investment expenditure planned for the coming years. As of the day of bond issue, the Management Board of the Company does not recognise any threats in relation to complying with the commitments resulting from the Bonds. The Company informed that as of 31 December 2015 the value of its liabilities amounted to PLN 9.7 billion. At the same time due to, inter alia, the execution of its investment programme, the Issuer anticipates that the debt level may increase during the period until the maturity date of the Bonds.

The Company informed of this event in the current report no. 11/2016 of 29 February 2016.

Adoption of efficiency improvement programme in TAURON Group for 2016–2018

On 9 March 2016 the Management Board adopted the Efficiency Improvement Programme in TAURON Group for the years 2016–2018.

The Programme was drafted with account being taken of current market conditions and the need to keep financial standing of the Company stable. Initiatives were developed whose implementation will bring efficiency improvement at a level of approximately PLN 1.3 billion over the years 2016–2018 (cumulative effect of the Programme over three years). Execution of the Programme will allow for increase of EBITDA of TAURON Capital Group by approximately PLN 400 million in 2018 (sustainable, recurring effect at this level in subsequent years). TAURON Capital Group expects to improve its operational efficiency in most areas – the largest share falling in Distribution and Generation Areas.

Figure no. 15 Planned distribution of savings in the years 2016–2018

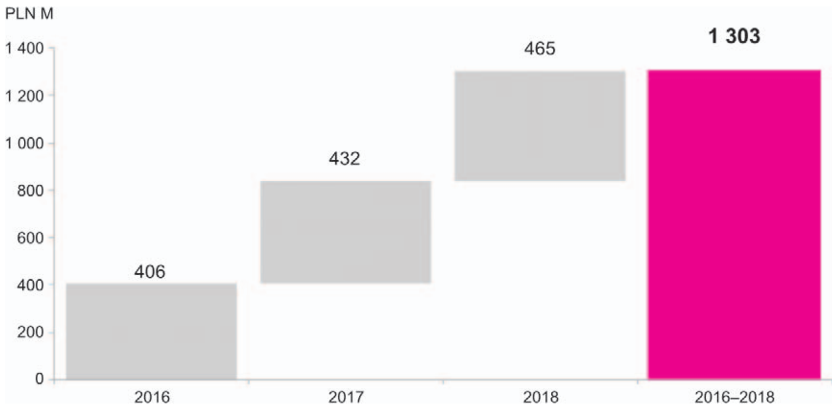
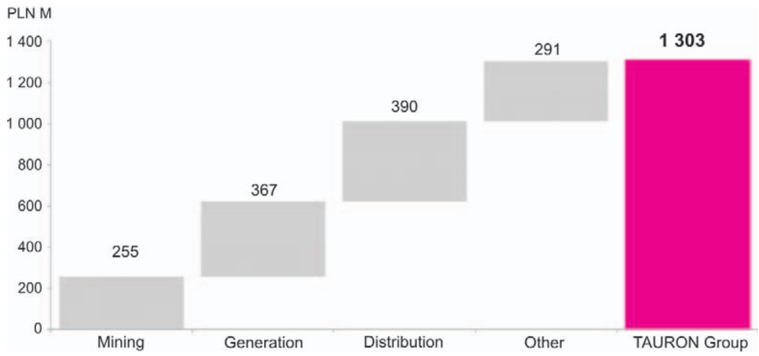


Figure no. 16 Planned distribution of savings to individual Business Areas



The Company informed of the adoption of the Programme in the current report no. 13/2016 of 9 March 2016.

Other important events in the 1st half of 2016

Appointment of certified auditor

On 10 May 2016, the Supervisory Board of the Company, acting pursuant to § 20 section 1 item 6) of the Articles of Association appointed Deloitte Polska Spółka z ograniczoną odpowiedzialnością Spółka komandytowa with its registered office in Warsaw as the entity authorised to examine standalone and consolidated financial statements of the Company for the year 2016.

Subsequently, on 19 May 2016 the Supervisory Board of the Company appointed the same company as the entity authorised to review standalone and consolidated interim financial statements of the Company for the period ending on 30 June 2016.

To date, services provided by Deloitte for the Company included examination of standalone and consolidated financial statements for the years: 2007, 2013, 2014 and 2015 as well as review of standalone and consolidated interim financial statements for the periods ending on 30 June 2013, 2014 and 2015. TAURON also used advisory and training services provided the scope that in no way limited the impartiality and independence of the auditor.

The certified auditor was appointed following a single-source non-public procurement procedure. The agreement with Deloitte was concluded by the Management Board of the Company for a period necessary to perform the contracted services.

The Company informed of the aforementioned events in the current reports: no. 21/2016 of 10 May 2016 and no. 22/2016 of 20 May 2016.

Important events after 30 June 2016

Information about planned recognition of write-off of impaired generation assets of the Generation Segment in financial statements for the 1st half of 2016

On 26 July 2016, following the completion of main works related to impairment tests on assets, in line with the requirements of the International Accounting Standard 36, Impairment of Assets, the Management Board of TAURON publicly announced information on the expected impact of non-cash one-off event in the form of a write-off of unprofitable generation units in the Generation Segment. The Generation Segment comprises companies generating electricity and heat from conventional and renewable sources.

The reason behind the write-offs lies primarily in changes in market environment that have been unfavourable for electricity generators and must have been taken into account for test purposes, including the decline in prices of certificates of electricity origin from renewable sources and new regulations in the RES segment. The value of write-off related to conventional sources results from continued unfavourable trend in electricity prices and expected higher supply of electricity from sources competitive to Polish coal-fired plants. At the same time, in the forecast assumptions account has been taken of estimated impact of introduction of the so-called capacity market. The abovementioned market conditions have an impact on decrease of cash flows that determine the recoverable amount of individual units on the one hand, and lead to reversal of impairment write-offs made previously for heat and electricity generation units on the other.

In reference to consolidated financial statements of TAURON Capital Group for the 1st half of 2016 ended on 30 June 2016 the conducted tests indicated that it was necessary to write-off the impairment of tangible and intangible assets and company value as well as to reverse the write-off made previously in the Generation segment. Total net write-off (i.e. the excess of write-offs over reversals) amounts to approx. PLN 0.7 billion. This amount includes impairment write-off for wind farms for approx. PLN 0.5 billion and impairment write-off for electricity and heat generation assets for approx. PLN 0.2 billion net. Total estimated impact on reduction of financial net result is approx. PLN 0.6 billion. The value of the abovementioned write-offs will have no impact on EBITDA understood by the Group as EBIT increased by amortisation, depreciation and write-offs for non-financial assets.

In reference to standalone financial statements of TAURON for the 1st of 2016 ended on 30 June 2016 the conducted tests indicated that it was necessary to write-off the impairment of shares in TAURON Wytwarzanie and TAURON Ekoenergia companies as well as to reverse the write-off previously made for the company TAURON Ciepło in the total amount of approx. PLN 1.0 billion. Expected estimated impact of the above write-offs on the net result presented in standalone financial statements is approx. PLN 1.0 billion.

The Company reserves that the values presented above represent estimated values and may be subject to change. The final results of tests and amounts of impairment write-offs due to the loss of the carrying amount of assets will be presented in the financial statements of TAURON and TAURON Capital Group for 2016, to be published on 17 August 2016.

Information concerning the aforementioned issue is included in the current report no. 30/2016 of 26 July 2016.

Withdrawal from execution of project for the construction of CCGT unit in Elektrownia Blachownia

In reference to current report No. 31/2016 of 30 December 2013 on suspending the project for the construction of CCGT unit in Elektrownia Blachownia Nowa, on 28 July 2016 the companies: TAURON, KGHM and TAURON Wytwarzanie signed the agreement under which they jointly decided to withdraw from execution of the project for the construction of CCGT unit in Elektrownia Blachownia Nowa and terminate the Shareholders' Agreement binding KGHM and TAURON Wytwarzanie, which meant expiry of all obligations specified in the Shareholders' Agreement and termination of all works defined therein, in particular, those defined in the preliminary schedule of project execution, as well as in further arrangements and covenants.

KGHM and TAURON Wytwarzanie jointly agreed to participate in winding up of the Elektrownia Blachownia Nowa which would be carried out in line with the provisions of the articles of association of the Company and generally applicable laws.

The Parties will cooperate with each other and with the Company to guarantee execution of the Agreement. The Parties agreed to terminate the agreement of 30 December 2013 under which they decided to suspend temporarily the project for the construction of CCGT unit in Elektrownia Blachownia Nowa.

The Company informed of the aforementioned event in the current report no. 32/2016 of 28 July 2016.

Estimated consolidated financial figures for the first half of 2016

On 29 July 2016 the Management Board of the Company published selected estimated consolidated financial figures of TAURON Capital Group for the first half of 2016. Sales revenue: approx. PLN 8,940 million; EBITDA (operating profit increased by depreciation, amortisation and write-offs for non-financial assets): approx. PLN 1,650 million; EBIT (operating profit): approx. PLN 130 million; Net loss: approx. PLN 10 million. The above results take into account the write-off of impaired generation assets from the Generation segment to be included in the consolidated financial statements for the 1st half of 2016 of which the Company informed in the current report no. 30/2016 of 26 July 2016, and which resulted in EBIT decrease by approx. PLN 710 million and net result decrease by approx. PLN 590 million. In addition, the Company reserved that the consolidated financial statements of TAURON Capital Group are reviewed by the certified auditor which means that the presented values are estimated and may change until the day of publication of the consolidated report for the 1st half of 2016.

Information concerning the aforementioned issue is included in the current report no. 33/2016 of 29 July 2016.

2.4. Information on agreements concluded by companies of TAURON Capital Group

2.4.1. Transactions with affiliated entities concluded under conditions other than arm's length basis

All transactions with affiliated entities are concluded on arm's length basis.

Information concerning transactions with affiliated entities has been provided in note 46 of the Consolidated interim financial statement for the period of six months, ended on 30 June 2016.

2.4.2. Credit guarantees and sureties or loans granted

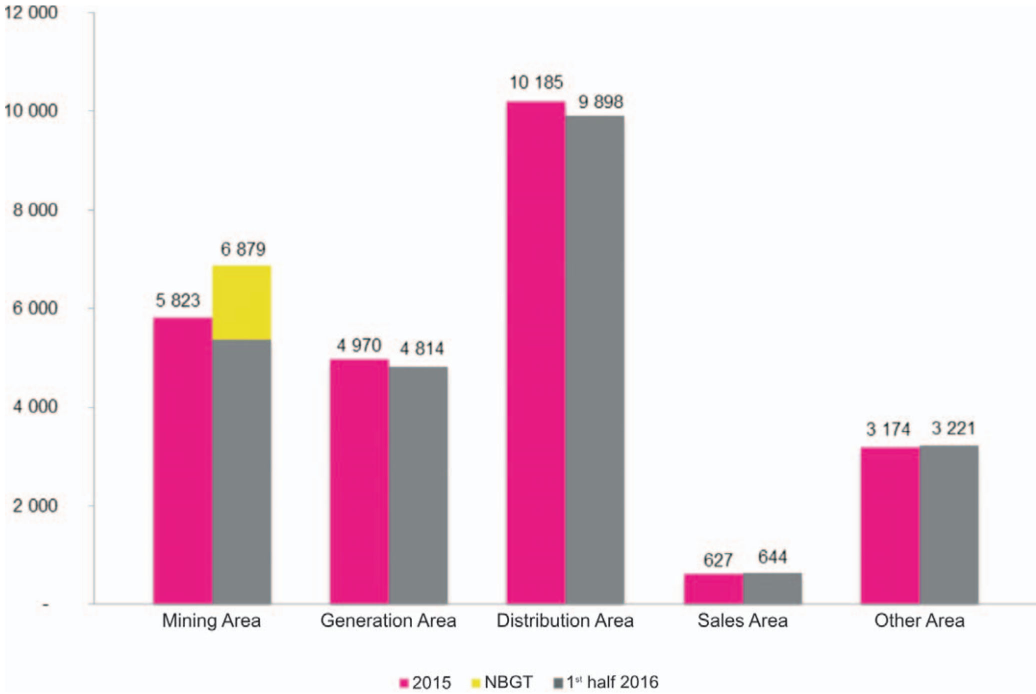
In the 1st half of 2016, TAURON and its subsidiaries did not grant any credit sureties or guarantees, or loans – jointly to one entity or such entity's subsidiary, where the aggregate value of the existing guarantees or sureties would be equivalent to the value of at least 10% of the Company equity.

2.5. Information concerning employment

In the 1st half of 2016, the average employment in TAURON Capital Group reached 25,456 FTEs, which means an increase against the employment in 2015, when the average employment amounted to 24,778 FTEs.

The figure below shows the levels of average employment in TAURON Capital Group in FTEs (rounded up to the full FTE), in 2015 and in the 1st half of 2016, divided into individual Segments of operations.

Figure no. 17. Average employment in TAURON Capital Group in 2015 and in the 1st half of 2016* (FTEs)



** The average employment comprises the Nowe Brzeszcze GT company which has been covered by consolidated reporting since 1 January 2016.*

Changes in the level of average employment in individual Areas in the 1st half of 2016, in relation to the average employment in 2015 arise, inter alia, from covering the Nowe Brzeszcze GT company by consolidated financial reporting as of 1 January 2016 and from the implemented *Voluntary Redundancy Programmes* in the Distribution, Generation and Other Areas, as well as employees leaving TAURON Capital Group.

As at 30 June 2016, 25,171 persons were employed in companies of TAURON Capital Group. The increase in employment by 894 persons was recorded, as compared to the employment status as at 31 December 2015 which reached 24,277 persons.

The figure below presents the employment in TAURON Capital Group in persons, according to the status as at 31 December 2015 and 30 June 2016.

Figure no. 18 Employment in TAURON Capital Group as at 31 December 2015 and 30 June 2016* (persons)

** The employment in persons comprises the Nowe Brzeszcze GT company which has been covered by consolidated reporting since 1 January 2016.*

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 strategic goals, identifies potential deviations against the planned result of TAURON Capital Group and increases the predictability of its accomplishment, at the same time, enabling risk level control to provide for its possibly neutral impact on the implementation of strategic goals of TAURON Capital Group. In particular, risk management should ensure sustainable 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 this context, the risk management system covers all elements of the TAURON Capital Group value chain and all employees of TAURON Capital Group take part in the risk management process.

The process of risk-taking control in TAURON Capital Group is centralised. Within the risk management process the Risk Committee fulfils a particular role, as the team of experts that permanently and continuously initiates, analyses, monitors, controls, supports and supervises the performance of the corporate risk management system in TAURON Capital Group. The Risk Committee comprises persons with relevant knowledge on the Company and its environment as well as the required qualifications and powers. 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. Risk management in TAURON Capital Group is based on three pillars:

1) enterprise risk,
2) commercial risk,
3) credit and financial risk.

In TAURON Capital Group, Executive Director for Risk is responsible for the operational implementation of tasks associated with the risk management process.

Enterprise risk management

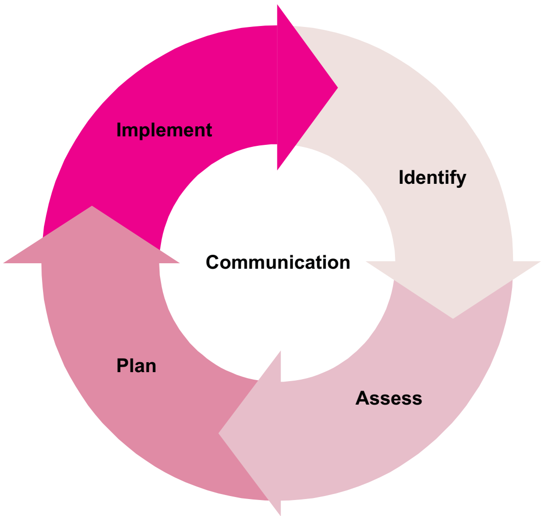
The comprehensive enterprise risk management system (ERM) in TAURON Capital Group supports the implementation of the strategic goals of TAURON Capital Group through:

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 TAURON Capital Group and the coherent 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 undertaken by TAURON Capital Group towards the specific risk,
4) harmonisation of the risk management process in the entire TAURON Capital Group.

In the period of the 1st half of 2016, the risk management process was improved and developed, by controlling risk level and verifying the effectiveness of the determined risk response through monitoring of early warning indicators adopted for individual risks, allocated risk limits and values of prudential thresholds agreed on the basis thereof. The identification and measurement of new risks was also performed as well as the measurement of risks identified earlier was updated, in particular, those which may significantly affect the implementation of strategic goals adopted by the Company.

The figure below shows stages in the process of enterprise risk management in TAURON Capital Group.

Figure no. 19. 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 the 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 11. 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 the 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 enterprise risk management in TAURON Capital Group (approving risk policies and levels of global limits), 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) recommends maximum risk tolerance in TAURON Capital Group and global limit for risks to the Management Board, 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 Area 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.	Risk Area 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 risk, the value of parameters measuring risk and the conducted and planned risk response,

No.	Participant	Roles and responsibilities of the risk management process participants
		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 bears responsibility 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.	Executor of risk response	1) provides and manages the resources, 2) performs tasks included in the risk response plan, for which he/she has been appointed, 3) bears responsibility for the quality and timeliness of implementation of those tasks.
12.	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.

Commercial risk management

The Company manages the commercial risk based on the developed *Policy of risk management in the commercial activities of TAURON Group*, adopted for application, which defines the set of rules and principles of commercial risk management at the level of TAURON Capital Group. The above document implements market practices and solutions used in the scope of commercial risk management in electricity and related products trading (CO_2 emission allowances, property rights, fuels), including their adjustment to the structures of TAURON Capital Group, considering the specific nature of the energy sector.

The commercial risk management in TAURON Capital Group is understood as mitigation 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, commercial risk management in TAURON Capital Group is decentralised, however, commercial risk control 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 Area. 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

In accordance with the model adopted in TAURON Capital Group, financial and credit risk management in TAURON Capital Group is decentralised, however, control of the said risks is performed centrally from the Company level.

The operating credit risk management system comprises, in particular, credit risk control, mitigation, monitoring and reporting. The elements listed above are regulated by the *Policy of credit risk management in TAURON Group*, which defines the set of rules and principles of credit risk management at a level of TAURON Capital Group. The goal of risk management is to lead to the effective mitigation of credit risk impact on the implementation of TAURON Capital Group objectives.

Due to the profile of TAURON Group activities, the trade area is particularly exposed to credit risk effects. In this case, the risk factor is customers' credit exposure 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 *Act of 10 April 1997 Energy Law*. Within the operating process, customers are individually assessed in terms of their creditworthiness whereas the credit exposure is controlled in relation to allocated credit limits. The general rule is that prior to concluding a contract, each customer should receive a credit limit, providing basis for control of the process of assuming 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.

The Company also 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 enterprise risks associated with the performance 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 extent of their impact on the implementation of strategic goals of TAURON Capital Group.

Table no 12. Description of risk factors

No.	Risk Name	Risk description
I.	**Risks – period of impact after 2016**	
1.	Risk of growth in prices of CO_2 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_2 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 failure to allocate CO_2 emission allowances	The risk associated with the failure to allocate free emission allowances included in the plan for 2019 and the growth in prices of allowances available in the market, triggering the necessity to incur additional costs for the fulfilment of regulatory obligations.
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 adverse 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 operating activity.
4.	Market risk	Risk associated with the unfavourable change in prices in the energy market and related markets as well as other markets, where transactions are performed by individual areas of TAURON Capital Group operations, exerting adverse impact on the financial result of TAURON Capital Group.
5.	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.
6.	Risk of changes in the rules of Balancing Market (RB) functioning	Risk associated with the possibility of changes in the RB functioning, resulting in the development of negative prices on the RB and finally, on the SPOT market, which may consequently have an adverse impact on the financial result of TAURON Capital Group.
7.	Risk of change in the tariff development method for distribution	Risk associated with the change in tariff development for distribution, planned as of 2018, through introduction of qualitative regulations, which may consequently have an impact on the reduction in the level of revenues due to the activity conducted, posing adverse impact on the financial result of TAURON Capital Group.

No.	Risk Name	Risk description
8.	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 in legal regulations, Polish and European Union regulations as well as to the legislative environment uncertainty. Those 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, necessity 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.
9.	Risk of capacity deficit after 2020	Risk associated with the loss of competitiveness of production units due to competition created by cheap electricity from neighbouring countries and RES production, causing the deterioration of the financial result of TAURON Capital Group and a possibility to lose goodwill through the necessity to apply a write-off on generation assets.
10.	Risk of failure to identify resource base	Risk associated with poor identification of the perspective resource base arising from the lack of economic, technical and organisational capacity of the Company. Risk materialisation creates threat for the implementation of tasks and production plans, causing the adverse impact on the financial result of TAURON Capital Group.
II.	**Risks – period of impact in 2016**	
1.	Commercial risk	The risk is associated with the volatility in prices of electricity, property rights, CO_2 emission allowances and significant and/or unexpected changes in prices of coal and other fuels, as well as volatility of sales volumes and generation. 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 need to fulfil legal requirements related to maintaining of the relevant fuel reserves or imposing a fine in case of failure to fulfil those requirements. The Company manages the commercial risk based on the developed *Policy of risk management in commercial activities of TAURON Group*, adopted for application, which defines 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 trading in electricity and related products (CO_2 emission allowances, property rights, fuels), including their adjustment to the structure of TAURON Capital Group, considering the specific nature of the energy sector.
2.	Risk of failure to maintain availability of generation units	The risk arises from inadequate adjustment of units and distribution of loads in the scheduling process of units, emergency conditions of generation equipment, unplanned unit shutdowns, changes (enforced) in operating plans by the TSO, changes in fuel prices other than adopted in the assumptions, failures of the transmission system, control systems and ICT systems. 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.
3.	Compliance risk	Risk associated with the failure to comply with the legal regulations, wrong interpretation of new provisions and regulations, requirements imposed by ERO/UOKiK/KNF, the requirements of the Act on personal data protection as well as risk associated with the failure to observe procedures associated with the external control conducted in TAURON Capital Group, which may result in imposing corresponding sanctions by authorised entities.
4.	Assets failure risk	Risk connected with the 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.
5.	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 many have adverse impact on TAURON Capital Group operations, its financial situation or results of its activities through the lack of optimum use of the assets, its faster wear arising from inadequate maintenance, the need to incur costs of remedying failures arising from wrong asset management.
6.	Risk of loss of planned revenue from the Operating Power Reserve	Risk associated with the decline in planned revenues from the Operating Power Reserve, arising from high sales of energy from own production than assumed, or unavailability of power units resulting from their failure; the risk factors may have an adverse effect on operations of TAURON Capital Group, its financial situation or results through lower revenues from ORM than planned.

No.	Risk Name	Risk description
7.	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 into the national law, administrative decisions), as well as a possibility of occurrence of environmental damage or serious industrial accident or failure. The risk factors may have an adverse effect on operations of TAURON Capital Group, its financial situation or results of its activities through the requirement to incur significant costs of compliance, pay damages, or the potential threat to the implementation of production tasks.
8.	Risk of sales of distribution services	Risk associated with the reduction of revenues for the provision of distribution services to individual groups of consumers in relation to the level included in the operating plan, arising, in particular, from the change in consumers' demand for electricity or the change of capacity they order.
9.	Risk of lack of coverage of activity costs in the period subject to the tariff	Risk associated with the lack of possibility to cover the overall costs of conducting the activity by the Company in the tariff for electricity, in particular, operating costs included in the tariff for a given year negatively affecting the financial result of TAURON Capital Group.
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 the mining plant maintenance or staff safety 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 mining plants (water and fire conditions, rock bumps).
11.	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 financial revenues and additional costs associated with the purchase of new elements or entire machines.
12.	Risk of cyber attack	The risk refers to the attack against 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 drawing up the interim condensed consolidated financial statements

The interim condensed consolidated financial statement was drawn up in accordance with the International Accounting Standard 34 *Interim Financial Reporting*, according to the template approved by the European Union.

The interim condensed consolidated financial statement for the period of 6 months, ended on 30 June 2016 was drawn up with the assumption of business continuity of TAURON Capital Group companies in the foreseeable future, excluding 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 2016 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 the 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 2016.

4.2. Financial situation of TAURON Capital Group after the 1st half of 2016

Analysis of financial situation

In the table below the analysis of financial situation of TAURON Capital Group for the 1st half of 2016 is presented, as compared to the status as at the end of 2015.

Table no 13. Structure of the interim condensed consolidated statement of financial situation

Consolidated statement of financial situation	Status as at 30 June 2016	Status as at 31 December 2015	Change in % (2016/2015)
ASSETS			
Fixed assets	**27,904,122**	**28,124,185**	**(1)%**
Current assets	**3,757,700**	**3,947,248**	**(5)%**
TOTAL ASSETS	**31,661,822**	**32,071,433**	**(1)%**
LIABILITIES			
Equity attributable to shareholders of the parent entity	**16,056,107**	**16,018,328**	0%
Non-controlling shares	28,016	29,829	(6)%
Total equity	**16,084,123**	**16,048,157**	**0%**
Long-term liabilities	**11,387,310**	**8,583,950**	33%
Short-term liabilities	**4,190,389**	**7,439,326**	(44)%
Total liabilities	**15,577,699**	**16,023,276**	**(3)%**
TOTAL LIABILITIES	**31,661,822**	**32,071,433**	**(1)%**
Financial liabilities	8,825,047	8,138,647	8%
Net financial liabilities	8,319,366	7,763,963	9%
Net debt/EBITDA ratio	2.54	2.20	17%
Current liquidity ratio	0.89	0.53	68%

As at 30 June 2016 the statement of financial situation of TAURON Capital Group indicates balance sheet total lower by o 1%, as compared to the status as at 31 December 2015.

The structure of assets presented as at 30 June 2016 did not change significantly in relation to values presented at the end of 2015. Fixed assets still make a significant share – approximately 88% of the balance sheet total. The value of fixed and current assets decreased by approximately 1% and 5%, respectively.

In the structure of liabilities as at 30 June 2016 the liabilities make about 50% of the total liabilities, out of which, long-term liabilities make approximately 36%, short-term liabilities – about 13% of the balance sheet total, which means a significant change in the structure of debt as compared to the status as at the end of 2015 when the share of long- and short-term liabilities amounted to, respectively: 27% and 23%.

In relation to 2015, in the 1st half of 2016 the increase in net financial liabilities by approximately 9% was recorded, which translated into the growth of net debt/EBITDA ratio – to the level of 2.58x (the ratio expressed in relation to EBITDA for the last 12 months).

The current liquidity ratio increased to the level of 0.89. The liquidity of the Company is not at risk – the indicators are maintained at a high, safe level.

Consolidated statement of comprehensive income

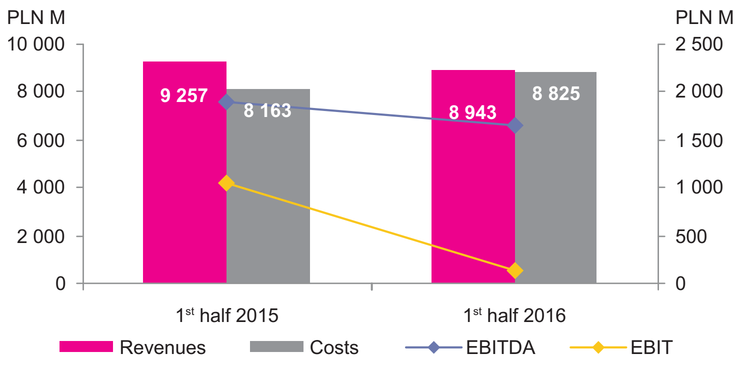
The table below presents the selected items of the consolidated statement on comprehensive income of TAURON Capital Group for the period of 6 months, ended on 30 June 2016, as well as comparative data for the period of 6 months ended on 30 June 2015. These items are provided in accordance with the interim 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 2016.

Table no 14. Condensed interim consolidated statement of comprehensive income

Specification (PLN thous.)	1st half of 2016 (not audited)	1st half of 2015 (not audited)	Change in % (2016/2015)
Revenues on sales	**8,942,857**	**9,256,614**	(3)%
Own cost of sales	(8,824,505)	(8,162,931)	8%
Other operating revenues	59,053	73,322	(19)%
Other operating costs	(43,760)	(122,703)	(64)%
Operating profit (loss)	**133,645**	**1,044,302**	(87)%
Operating profit margin (%)	*1.5%*	*11.3%*	(87)%
Financial revenues	55,939	41,418	35%
Financial expenses	(216,770)	(231,787)	(6)%
Share in profit of the affiliate	59,861	4,870	1,129%
Gross profit (loss)	**32,675**	**858,803**	(96)%
Gross profit margin (%)	*0.4%*	*9.3%*	(96)%
Income Tax	(27,958)	(138,416)	(80)%
Net profit (loss) for the period	**4,717**	**720,387**	(99)%
Net profit margin (%)	*0.1%*	*7.8%*	(99)%
Total income for the period	**53,086**	**760,711**	(93)%
Profit attributable to:			
Shareholders of the parent entity	3,435	718,524	(99.5)%
Non-controlling shares	1,282	1,863	(31)%
EBIT and EBITDA			
EBIT	**133,645**	**1,044,302**	(87)%
EBITDA	**1,653,406**	**1,907,872**	(13)%

The figure below shows the financial results of TAURON Capital Group for the 1st half of 2016 as compared to the 1st half of 2015.

Figure no. 20 Financial results of TAURON Capital Group for the 1st half of 2014 and 2016



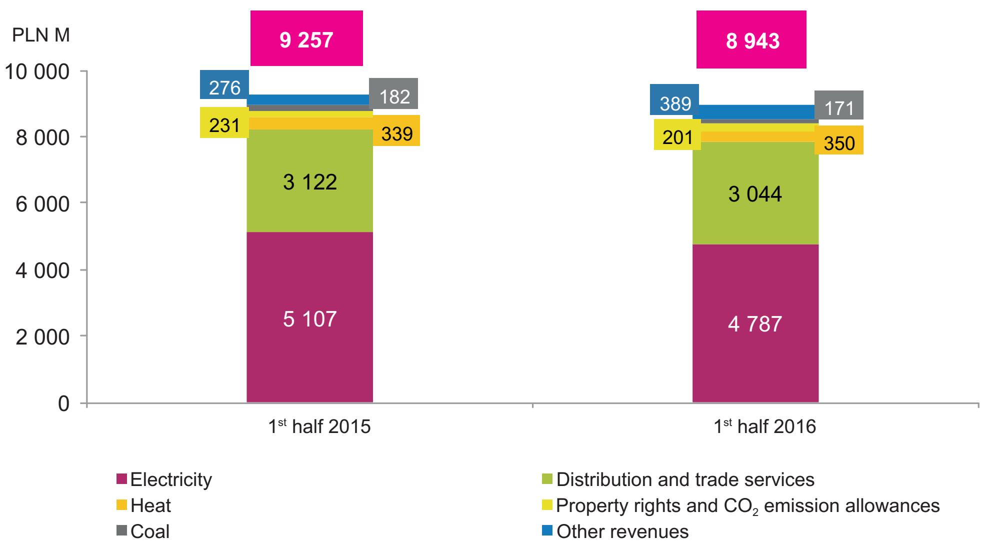
In the 1st half of 2016 TAURON Capital Group generated revenue at a level of over PLN 8.9 billion, constituting 97% of the level gained in the 1st half of 2015. The main factors affecting the decline in revenue include lower revenue on sales of:

1) electricity – due to the lower volume of retail sales and wholesale of electricity,
2) coal – due to oversupply on the market and the applied pricing policy of the largest domestic producer (sales of coal volume outside TAURON Capital Group lower by 22%)
3) distribution service – a rate for distribution services delivered to end consumers lower by 3.6% and lower revenue from connecting fees.

The aforementioned declines were partly mitigated through gaining higher revenues on gas sales (due to the increase in the volume as a result of acquisition of new clients), heat energy (higher prices) and the operating power reserve. Moreover, as of 1 January 2016 TAURON Capital Group gained revenues from the IRZ.

The figure below shows the structure of revenues of TAURON Capital Group for the 1st half of 2016 as compared to the 1st half of 2015.

Figure no. 21 Structure of revenues of TAURON Capital Group for the 1st half of 2015 and 2016



In the 1st half of 2016 costs of TAURON Capital Group operations amounted to approximately PLN 8.3 billion, which means that their level was higher by about 8% than the costs incurred in the 1st half of 2015.

The main reason of the growth is the write-off created as at 30 June 2016 due to impairment in the carrying amount of generation units of the Generation segment, arising mainly from including the changes in the market environment unfavourable for energy generators in the performed impairment tests, such as the decline in prices of certificates of origin for energy from renewable sources and new regulations in the RES area.

The value of the write-off related to conventional sources results from continued unfavourable trend in electricity prices and the expected higher supply of electricity from sources competitive to Polish coal-fired plants. At the same time, in the assumptions to the forecasts account has been taken of estimated impact of introduction of the so-called capacity market.

The abovementioned market conditions have an impact on decrease of cash flows that determine the recoverable amount of individual units on the one hand, and lead to reversal of impairment write-offs made previously for heat and electricity generation units on the other. The conducted tests indicated that it was justified to create write-offs due to impairment of the carrying amount of tangible and intangible assets and the goodwill as well as to reverse the write-offs created previously in the Generation Segment. The total net amount of write-offs is approximately PLN 0.7 billion, which includes the impairment write-off related to wind farms at a level of approximately PLN 0.5 billion and impairment write-offs in the area of electricity and heat generation in the net amount of approximately PLN 0.2 billion.

Should the aforementioned one-off event be disregarded in the results, the level of TAURON Capital Group costs in the 1st half of 2016 was comparable to the level of costs incurred in the 1st half of 2015, which results from the following factors:

1) commencement of activity of the new company, Nowe Brzeszcze GT in the Mining Segment as of 1 January 2016, which affected the growth in operating costs YoY,
2) growth in costs of taxes and fees, which is associated with higher costs of CO_2 reserve due to the failure to create a reserve by TAURON Wytwarzanie in the 1st half of 2015, as a result of transfer of free allowances from 2014 to 2015, which did not take place in the 1st half of 2016,
3) growth in costs of distribution services, mainly as a result of higher purchase costs of transmission services due to a higher rate of the qualitative fee applied to higher electricity consumption,
4) lower costs of electricity sold due to a lower volume,
5) lower costs of amortisation and depreciation – the effect of write-offs due to the impairment in the value of tangible fixed assets and intangible assets applied at the end of 2015,
6) sales of a lower volume of coal stocks in the 1st half of 2016 than in the corresponding period of 2015 – the effect of limited production in the 1st half of 2015 as a result of geological and mining disturbances and deterioration of qualitative parameters of dredging material, which significantly affected a higher unit cost of the coal sold.

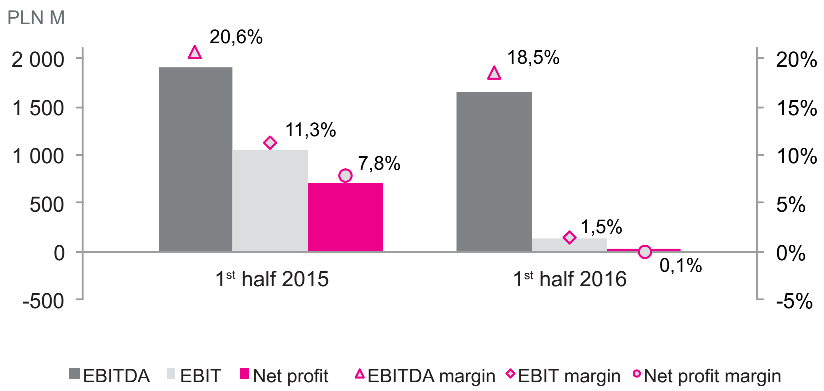
The EBITDA margin gained in the 1st half of 2016 amounted to 18.5% and was lower by approximately 2 percentage points as compared to the 1st half of 2015. As a result of the applied write-offs the EBIT margin and net profit reached a level significantly lower than the results obtained a year ago and amounted to 1.5% and (0.1)%, respectively. Should the effects of the impairment write-off be disregarded, the EBIT margin would reach 9.4%, and net profit – 6.5%.

In accordance with the presented consolidated statement of comprehensive income, the total 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 a foreign unit and other revenues after considering of tax, amounted to PLN 43.5 million in the 1st half of 2016, as compared to PLN 760.7 million in the 1st half of 2015.

The total income attributable to shareholders of the parent company reached about PLN 42.2 million, as compared to PLN 758.8 million gained in the analogical period of 2015, whereas the profit attributable to shareholders of the parent company was negative, amounting to PLN (6.2) million, as compared to PLN 718.5 million gained in the same period of 2015.

The figure below shows the financial results of TAURON Capital Group and the level of margins accomplished in the 1st half of 2016 as compared to the 1st half of 2015.

Figure no. 22 Financial results of TAURON Capital Group and the level of accomplished margins



4.3. Status of assets

In the table below, the consolidated statement of financial standing as at 30 June 2016, as compared to 31 December 2015, is presented.

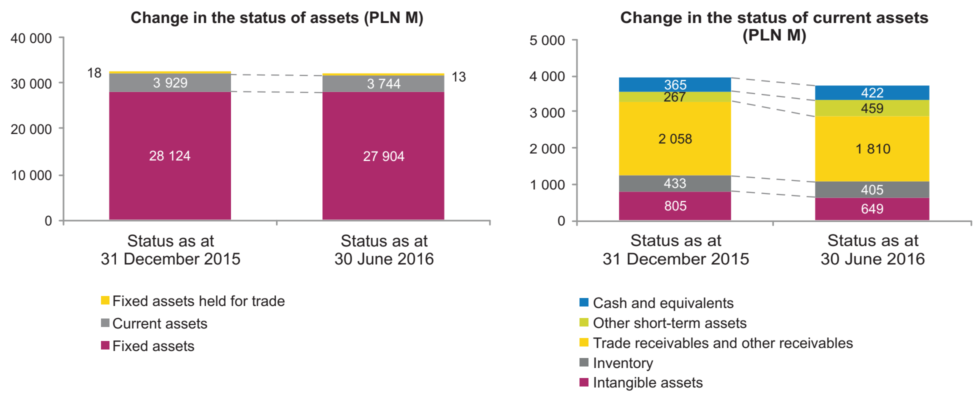
Table no 15. Consolidated statement of financial standing – assets (significant items)

Consolidated statement of financial situation (in PLN thous.)	Status as at 30 June 2016	Status as at 31 December 2015	Change in % (2016/2015)
ASSETS			
Fixed assets	**27,904,122**	**28,124,185**	**(1)%**
Tangible fixed assets	25,066,173	24,882,817	1%
Current assets	**3,757,700**	**3,947,248**	**(5)%**
Cash and equivalents	422,123	364,912	16%
Fixed assets and assets of the Group for disposal, classified as held for trade	13,283	17,898	(26)%
TOTAL ASSETS	**31,661,822**	**32,071,433**	**(1)%**

As at 30 June 2016 the statement of financial situation of TAURON Capital Group recognises balance sheet total lower by o 1%, as compared to 31 December 2015.

The figure below shows the change in the status of assets and current assets as at 30 June 2016, as compared to 31 December 2015.

Figure no. 23. 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 2016, with the share of 88% of the balance sheet total value. As compared to the status as at the end of the previous year, the value of fixed assets is lower by approximately PLN 220 million (1%), due to changes in the hereunder analytical items of fixed assets, which resulted from the following factors:

1) tangible fixed assets – a growth by 1% is the resultant of investment implemented in companies of TAURON Capital Group and the applied write-off due to impairment in the carrying amount of generation units in the Generation Segment,
2) goodwill – a decline by 56%, which is the result of the impairment test performed as at 30 June 2016, indicating the loss on the carrying amount of the goodwill of TAURON EKOENERGIA company presented in the Generation Segment,
3) intangible assets – decline by approximately 81% arising from reclassification of electricity certificates of origin and CO_2 emission allowances to current assets in order to fulfil the obligation related to redemption of the aforementioned assets for 2016,
4) value of stocks and shares in joint ventures – growth by 11% arising from the share of TAURON Capital Group in the profit generated by TAMEH HOLDING sp. z o.o. in the 1st quarter of 2016,
5) other long-term financial assets – growth by approximately 12% as a result of purchase of participation units in investment funds,
6) assets due to deferred income tax – growth by 126%, inter alia, as a result of assessed income tax arising from the created impairment loss on generation assets.

The following factors had an impact on the decline in the value of current assets by approximately PLN 190 million (5%):

1) lower status of intangible assets by 19%, which is caused by the settlement of the obligation to redeem certificates of electricity origin and CO_2 emission allowances for 2015 and the growth of their status in connection with the production and acquisition of property rights and CO_2 emission allowances on account of the obligation of the current year,
2) reduction in the status of inventory by 7% due to the decline in the level of inventory in companies of Generation and Mining Segments.
3) status of trade receivables lower by 7% and receivables due to taxes – by 50%, mainly those related to VAT,
4) status of other financial assets higher by 638% as a result of growth in the value of margin deposit and measurement of financial instruments,
5) higher status of cash and equivalents (by 16%) – the reasons of the change are described in item no 4.4. hereof, concerning the cash flow account.

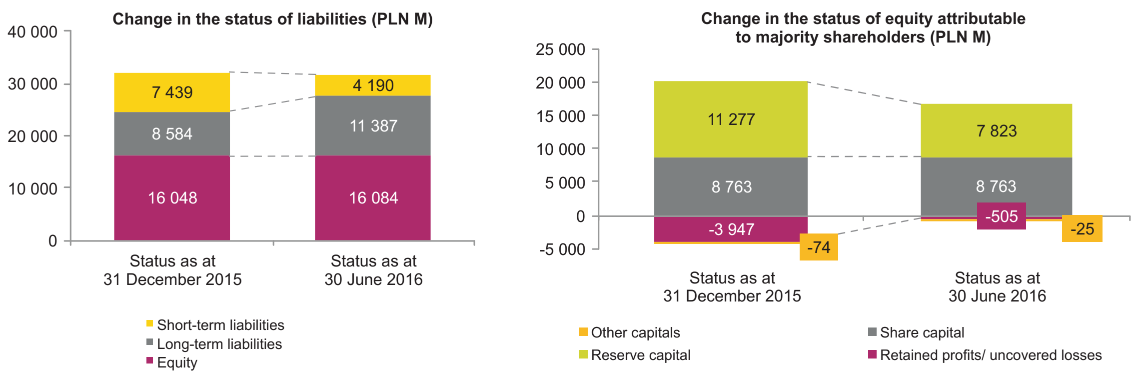
In the table below, the annual interim consolidated statement of financial situation – liabilities, is presented.

Table no 16. Consolidated statement of financial standing – liabilities (significant items)

Consolidated statement of financial situation (in PLN thous.)	Status as at 30 June 2016	Status as at 31 December 2015	Change in % (2016/2015)
LIABILITIES			
Equity attributable to shareholders of the parent entity	**16,056,107**	16,018,328	**0%**
Non-controlling shares	**28,016**	29,829	**(6)%**
Total equity	**16,084,123**	16,048,157	**0%**
Long-term liabilities	**11,387,310**	8,583,950	**33%**
Liabilities due to debt	7,754,327	4,924,127	**57%**
Short-term liabilities	**4,190,389**	7,439,326	(44)%
Liabilities due to debt	1,070,720	3,214,520	**(67)%**
Total liabilities	**15,577,699**	16,023,276	(3)%
TOTAL LIABILITIES	**31,661,822**	32,071,433	**(1)%**

The figure below shows the change in the status of liabilities and equity as at 30 June 2016 and 31 December 2015.

Figure no. 24 Change in the status of liabilities and equity

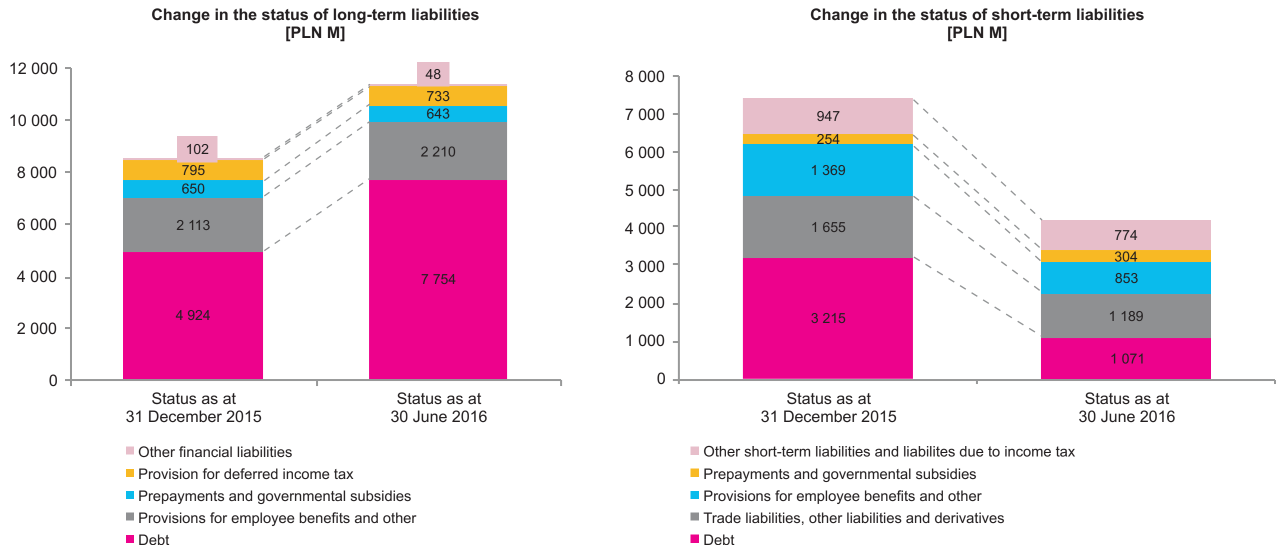


Similar to previous years, the equity is still the dominating source of financing of the assets, and its share in the balance sheet total increased to 51%.

In June 2016, in accordance with the decision of the Ordinary GM of TAURON, the net loss for the financial year 2015 in the amount of PLN 3,453,908,315.26 was covered by reserve capital.

The figure below shows the change in the status of assets and liabilities as at 30 June 2016 and 31 December 2015.

Figure no. 25 Change in the status of liabilities



The value of long-term liabilities of TAURON Capital Group in the 1st half of 2016 increased by 33%, which is associated with the issue of bonds with the nominal value of PLN 2,860 million in the reporting period.

The value of short-term liabilities of TAURON Capital Group decreased by approximately 44%, which resulted from the following factors:

1) decline by approximately 67% in liabilities due to debt as a result of redemption of bonds with the nominal value of PLN 2,250 million on 29 February 2016, with the purpose of their redemption,
2) decline in investment liabilities by 52% and liabilities to suppliers by 12%,
3) growth in the value of financial derivative instruments by 30%, which results from the measurement of commodity contracts (forward, futures, swap) for forward purchase and sales transactions, mainly for CO_2 emission allowances and electricity,
4) decline in other provisions by 38%, which is the resultant of use of the provision created in 2015 on account of the fulfilment of the obligation to submit electricity certificates of origin for redemption, arising from the provisions of the *Act of 10 April 1997 – Energy Law*, and CO_2 emission allowances as well as creating of the provision on account of fulfilment of the obligations described above for the 1st half of 2016,
5) growth in other non-financial liabilities by approximately 11%, which results from creating of monthly write-offs by companies of TAURON Capital Group, in accordance with the provisions of the *Act of 4 March 1994 on the Company Fund of Social Benefits*.

4.4. Cash Flows

In the table below, the interim condensed statement of cash flows is presented, for the 1st half of 2016, in relation to the 1st half of 2015.

Table no 17. Condensed interim statement of cash flows (data in PLN thousand)

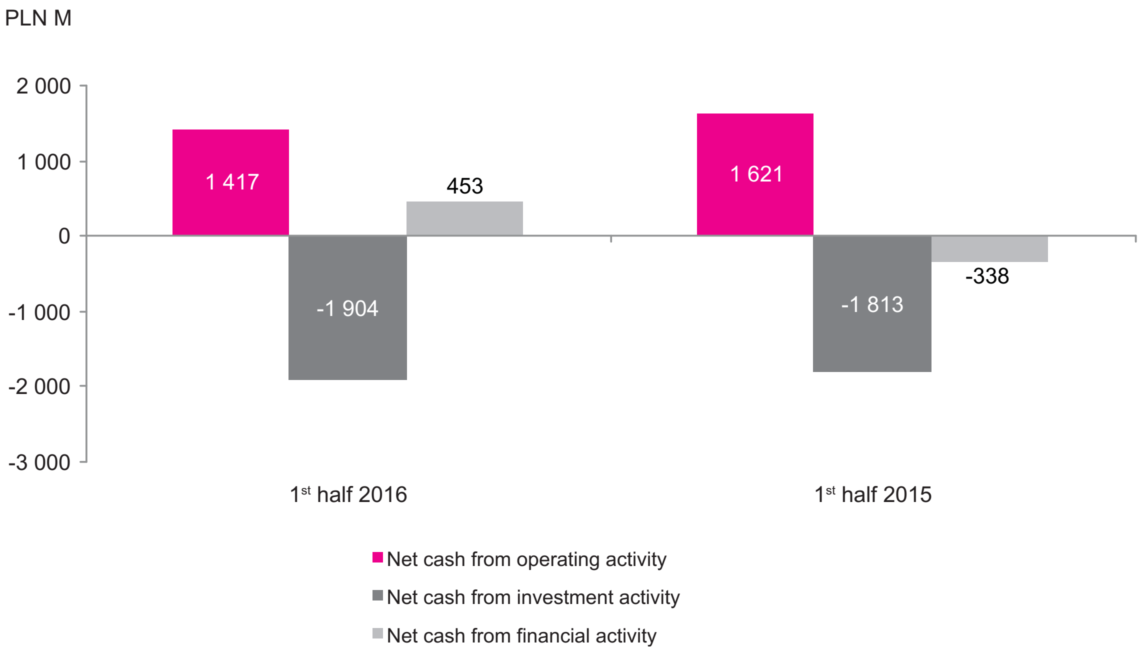
Statement of cash flows (data in PLN thousand)	1st half of 2016	1st half of 2015	Change in % (2016/2015)
Cash flows from operating activity			
Gross profit/(loss)	**32,675**	858,803	(96)%
Adjustments	1,384,496	762,257	82%
Net cash from operating activity	**1,417,171**	**1,621,060**	(13)%
Cash flows from investment activity			
Sales of tangible fixed assets and intangible assets	15,403	19,379	(21)%
Purchase of tangible fixed assets and intangible assets	(1,769,630)	(1,850,110)	(4)%
Return of public aid	(131,077)	–	
Net cash from investment activity	**(1,904,372)**	**(1,813,261)**	(5)%

Statement of cash flows (data in PLN thousand)	1st half of 2016	1st half of 2015	Change in % (2016/2015)
Cash flows from financial activities			
Issuance of debt securities	2,860,000	–	
Redemption of debt securities	(2,250,000)	(150,000)	1,400%
Repayment of loans/credits	(44,724)	(44,739)	0%
Interest paid	(117,339)	(135,386)	(13)%
Net cash from financial activity	**453,459**	**(337,570)**	–
Increase/(decrease) in net cash and equivalents	**(33,742)**	**(529,771)**	(94)%
Cash opening balance	**327,715**	**1,408,071**	(77)%
Cash closing balance	**293,973**	**878,300**	(67)%

The total amount of all cash streams of net flows of cash from operating, investment and financial activities in the 1st half of 2016 reached approximately PLN (33.7) million.

The figure below presents cash flows in the period of the 1st half of 2016 and 2015.

Figure no. 26 Cash flows in the 1st half of 2016 and 2015



The value of cash flows on operating activities achieved in the reporting period was lower by approximately 13% 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 item of cash flow account:

1) incurring of expenditure for the purchase of certificates of electricity origin lower by approximately PLN 32 million in the 1st half of 2016, which is associated with lower purchase prices,
2) income tax expenses higher by approximately PLN 146 million, which resulted from the advance payment on account of income tax, contributed by the Tax Capital Group in the amount of PLN 127 million and payment of income tax for 2015 in the amount of PLN 85 million. In the corresponding period of the previous year the Tax Capital Group contributed an advance payment for income tax at a level of PLN 106 million and received the return due to surplus payment of income tax in the amount of PLN 22 million.

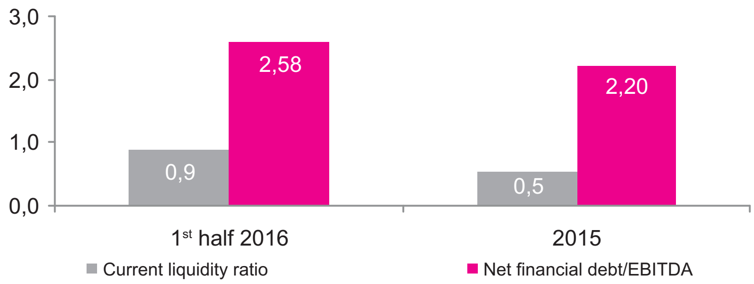
Expenditures due to the purchase of tangible fixed assets represented the factor of the highest impact on the developments of the cash stream of investment nature, which were lower by 4% in the reporting period than the expenditure incurred in the corresponding period of 2015. In the 1st half of 2016, the highest expenditure was incurred by the Generation and Distribution Segments. In addition, in the 1st quarter of 2016 the Nowe Brzeszcze GT company returned public aid in accordance with the provisions of the concluded agreement for return of the aid, in the amount of PLN 131 million.

The positive value of cash of financial nature results from the issue of bonds performed in the 1st quarter of 2016, with the nominal value of PLN 2,860 million and from the redemption of bonds issued in previous years, with the nominal value of PLN 2,250 million.

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 noted that the value of operating cash flows indicates a positive balance, therefore, it enables TAURON Capital Group to finance its current activity independently whereas investment projects carried out in companies of TAURON Capital Group are financed by the acquired external funds. The ratio of current liquidity and the net debt to EBITDA ratio remain at a safe level.

The figure below presents cash flow and debt ratio in the period of the 1st half of 2016 and 2015.

Figure no. 27 Liquidity and debt ratios



TAURON Capital Group effectively manages its cash flows, using the implemented central 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 loss of liquidity, the cash pooling mechanism was used.

TAURON Capital Group uses various sources of funding, such as, e.g., overdraft, bank facilities, loans from environmental funds, issue of bonds, financial leasing agreements and lease agreements with the purchase option.

4.5. Position of the Management Board concerning a possibility to accomplish forecasts of results for a given year, published earlier

TAURON Capital Group did not publish any forecasts of financial results for 2016. 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

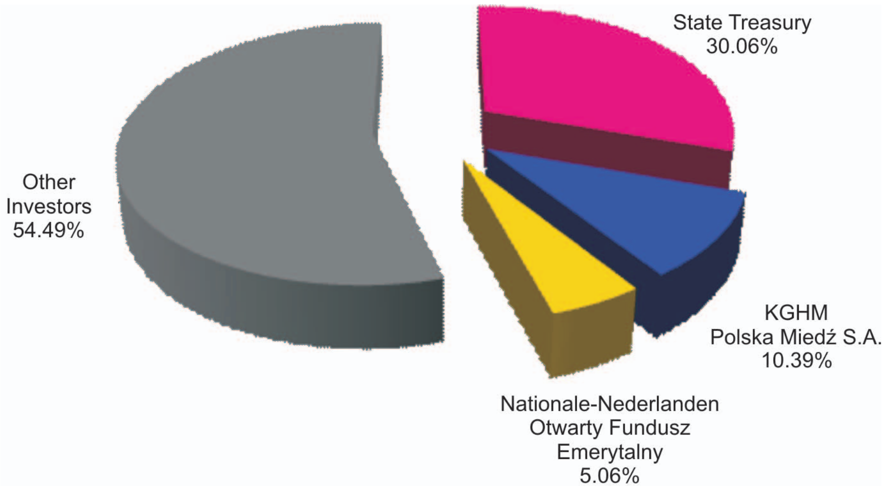
TAURON shares according to the series and type as at 30 June 2016 and as at the day of drawing up this report:

Table no 18. 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	in-kind contribution
	Total	**1,752,549,394**		**8,762,746,970**	

The figure below presents the structure of shareholding as at 30 June 2016 and as at the day of drawing up this report.

Figure no. 28 Structure of the shareholding as at 30 June 2016 and as at the day of drawing up 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 2016 and as at the day of drawing up this report, directly or indirectly, significant blocks of TAURON shares.

Table no 19. Shareholders holding, directly or indirectly, significant blocks of shares

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

** In accordance with the shareholder's notification of 28 February 2013.*
*** In accordance with the shareholder's notification of 23 March 2011.*
**** In accordance with the shareholder's notification of 28 December 2011.*

From the day of submission of the previous periodical report, i.e. 11 May 2016, until the date of publication of this report, the Company did not receive any notifications from shareholders concerning changes in proprietary structure of significant blocks of TAURON shares.

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 drawing up this report, indicating changes in the shareholding status in the period following the submission of the previous report.

Table no 20. Proprietary status of the Company shares – managing persons

No.	Name and surname	Number of shares as at 11 May 2016 (publication of report for 2016 Q1)	Change in number of shares held	Number of shares as at 17 August 2016 (publication of the report for the 1st half of 2016)
1.	Remigiusz Nowakowski	935	no change	935
2.	Jarosław Broda	0	no change	0
3.	Kamil Kamiński	0	no change	0
4.	Marek Wadowski	0	no change	0
5.	Piotr Zawistowski	0	no change	0

no change – lack of any changes

The table below presents the status of Company shares or authorisations to Company shares, held by persons supervising the Company as at the date of drawing up this report, indicating changes in the shareholding status in the period following the submission of the previous report.

Table no 21. Status of shareholding of Company shares by supervising persons

No.	Name and surname	Number of shares as at 11 May 2016 (publication of report for 2016 Q1)	Change in number of shares held	Number of shares as at 17 August 2016 (publication of the report for the 1st half of 2016)
1.	Beata Chłodzińska	0	no change	0
2.	Anna Mańk	0	no change	0
3.	Jacek Szyke	0	no change	0
4.	Anna Biesialska	0	no change	0
5.	Michał Czarnik	0	no change	0
6.	Leszek Koziorowski	0	no change	0
7.	Wojciech Myślecki	0	no change	0
8.	Jacek Rawecki	–	–	0
9.	Stefan Świątkowski	–	–	0

no change – lack of any changes

6. INFORMATION CONCERNING THE PARENT COMPANY

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, i.e. on the day of dismissal of all members of the Management Board of the third term by the Supervisory Board, and the appointment of the Management Board of the Company for the fourth common term of office. In accordance with the Company Articles of Association the common term of office lasts three years.

Personal composition of the Management Board as at 30 June 2016 and as at the day of this report

1. Remigiusz Nowakowski – President of the Management Board,
2. Jarosław Broda – Vice-President of the Management Board for Asset Management and Development,
3. Kamil Kamiński – Vice-President of the Management Board for Corporate Management,
4. Marek Wadowski – Vice-President of the Management Board for Finance,
5. Piotr Zawistowski – Vice-President of the Management Board for Customer and Commercial Affairs.

Changes in the Management Board composition:

On 8 January 2016 the Supervisory Board dismissed Anna Striżyk – Vice-President of the Management Board for Economics and Finance, from the Management Board.

As of 29 January 2016, the Supervisory Board appointed Marek Wadowski as a member of the Management board, entrusting him the position of the Vice-President of the Management Board for Economics and Finance.

Until the day of submission of this report, no other changes in the composition of the Management Board have taken place.

Experience and competences of members of the Management Board

Remigiusz Nowakowski – President of the Management Board

Graduate of the Faculty of Management and IT at Wrocław University of Economics and the Faculty of Law and Administration of University of Wrocław. PhD student in the Department of Strategy and Management Methods at the Faculty of Management, IT and Finance of Wrocław University of Economics.

Holds experience in the area of defining and implementation of development strategies in the electricity and heat sectors in Central and Northern Europe, including in particular strategic management of investments and fuel management in energy utilities as well as preparation and development of investment projects, design and implementation of public-private partnership models.

Since the beginning of his professional career, he has been associated with energy sector entities or companies associated with the energy sector, having acted in the capacity of the President or the Vice-President of the Management Board and holding senior executive positions. He gained his professional experience working in the INERCON consulting company, EnergiaPro Koncern Energetyczny S.A. (currently, a part of TAURON Dystrybucja), Fortum Power and Heat Polska, Fortum Zabrze and Fortum Bytom. From December 2012 he managed the business line of production optimisation and fuel management in the Heat Electricity Sales and Solutions Division of Fortum in Poland, where he was responsible, in particular, for the development of Fortum's strategy in Poland, development and implementation of fuel procurement strategy, coordination of fuel procurement process, planning and optimization of electricity and heat generation at combined heat and power plants, preparing analyses of the energy market and forecasting trends in fuel and energy prices.

He has been acting in the capacity of the President of the Management Board of TAURON Polska Energia S.A. since 8 December 2015. He oversees the following areas of the Company operation: strategy and regulations, public relations, legal, internal audit. In addition, he also supervises the functioning of security, compliance and risk management system as well as human resources development policy.

Jarosław Broda – Vice-President of the Management Board

Graduate of Warsaw School of Economics, holder of a postgraduate diploma in project management at Kozminski University.

Holds experience in the area of consolidation and operation of the energy sector, privatisation of state-owned energy groups, development of processes associated with the restructuring and strategy building as well as development projects of energy entities.

Since the beginning of his professional career he has been associated with energy sector entities, holding senior executive and managerial positions. He gained his professional experience working at the Ministry of State Treasury as well as at TAURON and GDF Suez Energia Polska. Recently associated with GDF Suez Energia Polska – Katowice and GDF Suez (Branch Energy Europe), where he was responsible for market analyses and preparation of the company development strategy, regulatory management and M&A projects. He also participated in drafting of sales and marketing development strategy in Europe. From mid-2015 he was responsible for the development of the commercial strategy and contract for difference under a nuclear project in Great Britain.

He has been acting in the capacity of the Vice-President of the Management Board of TAURON Polska Energia S.A. since 8 December 2015. As Vice-President of the Management Board for Asset Management and Development he oversees the following areas of the Company's operation: asset management, research and innovation, investment projects, project assessment and analyses and occupational health and safety.

Kamil Kamiński – Vice-President of the Management Board

Graduate of the Faculty of Management and Communications of Jagiellonian University. The holder of MBA Executive diploma (Stockholm University School of Business/ Cracow University of Economics) and post-MBA Diploma in Strategic Financial Management (Rotterdam School of Management, Erasmus University/ GFKM).

He has broad experience in the area of building company value, mergers and acquisitions, business integration, strategy operationalization as well as management of complex projects in public and private sectors. He took part in complex transformation and restructuring processes of enterprises in the sectors of energy and fuel and transport logistics.

He gained his professional experience acting in the capacity of the President or Vice-President of the Management Board and holding senior managerial positions. From the beginning of 2014 he was associated with Węglokoks Capital Group where, within the structures of Węglokoks Energia, he participated in consolidation of electricity and heat generation assets of Kompania Węglowa and Węglokoks. At that time he managed the works of the Management Committee. Previous professional experience includes, among other things, work at the Research and Development Centre of the Refining Industry (OBR) in Płock or Jan Paweł II International Airport in Kraków-Balice. He also managed the operations of John Menzies PLC in Poland. For many years he cooperated with Lotos Group, where he supported the development of aviation fuel segment, which resulted in the joint venture with Air BP Ltd. and establishment of Lotos Air BP.

He has been acting in the capacity of the Vice-President of the Management Board of TAURON Polska Energia S.A. since 8 December 2015. As Vice-President of the Management Board for Corporate Management he oversees the following areas of the Company's operation: corporate matters and support, human resources, procurement and administration, security and compliance.

Marek Wadowski – Vice President of the Management Board

Graduate of University of Economics in Katowice. He also completed post graduate studies École Supérieure de Commerce Toulouse where he obtained Mastère Spécialisé en Banque et Ingéniere Financière diploma and Executive MBA studies at Kozminski University in Warsaw.

He has professional experience in the field of accounting, controlling and financial processes management in industry (power sector, mining, metallurgical industry), as well as in financing of investments and international commercial transactions. He took part in the implementation of due diligence projects and enterprise valuation (using income-based, equity and comparison valuation methods).

Since the beginning of his professional career, he has been associated with energy, mining and metallurgical sector entities, having acted in the capacity of the President or the Vice-President of the Management Board and holding senior executive positions. He gained his professional experience working for BRE Corporate Finance S.A., Huta Cynku Miasteczko Śląskie S.A. and in companies of Jastrzębska Spółka Węglowa S.A. Capital Group. From 2008, acting in the capacity of the Vice-President of the Management Board in charge for the financial division in companies of Jastrzębska Spółka Węglowa Capital Group, he was responsible, inter alia, for structuring of commercial transactions, implementation of foreign exchange risk hedging policy, financial costs reduction, liquidity management, acquisition of funds from the consortium of banks in the form of a bond issue programme. He also took part in the IPO of JSW S.A. (implementation of International Accounting Standards, modification of management information system, development of IPO prospectus, talks with investors). Recently he has acted in the capacity of the President of the Management Board at Towarzystwo Finansowe Silesia where he was involved in bond issue program for Kompania Węglowa and dealt with the acquisition of debt financing from the consortium of banks.

He has been acting in the capacity of the Vice-President of the Management Board of TAURON Polska Energia S.A. since 29 January 2016. As Vice-President of the Management Board for Finance he oversees the following areas of the Company's operation: finance, controlling, accounting and taxes, risk and IT.

Piotr Zawistowski – Vice President of the Management Board

Graduate of Wrocław University of Economics where he completed MA studies in Enterprise Management. He also completed postgraduate studies in Sales Management at WSB University in Wrocław. He is a Commodity Exchange Broker.

He has experience in the area of trading in electricity, gas and related products in the country and abroad, commercial risk management, portfolio management in the scope of purchase and sales of electricity, property rights, CO_2 emission allowances and fuels. He took active part in works related to unbundling of electricity supply and distribution, in particular in establishment of EnergiaPro Gigawat (currently a part of TAURON Sprzedaż).

Since the beginning of his professional career he has been associated with energy sector entities, holding senior executive and managerial positions. He gained his professional experience working at Zakład Energetyczny Legnica, EnergiaPro Koncern Energetyczny (currently a part of TAURON Dystrybucja), EnergiaPro Gigawat and at TAURON, where he acted in the capacity of Portfolio Management Department from 2008, participating in many key projects, managing, among others, the works related to the development of the business model of TAURON Group or integration with GZE Group companies (Vattenfall) in the trading segment. From May 2014 he acted in the capacity of the President of the Management Board of TAURON Obsługa Klienta.

He has been acting in the capacity of the Vice-President of the Management Board of TAURON Polska Energia S.A. since 8 December 2015. As Vice-President of the Management Board for Customer and Commercial Affairs he oversees the following areas of the Company's operation: customers, analyses and planning, fuel trading, portfolio management, trading, settlements and sales reporting.

The detailed description of experience and competences of the 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, started on 15 May 2014, i.e. on the day of holding the Ordinary GM of the Company approving the financial statement for the last full financial year of the tenure of the members of the Supervisory Board of the third term, i.e. for the financial year 2013. In accordance with the Company Articles of Association this is a joint term of office and it shall last for three years.

Personal composition of the Supervisory Board as at 30 June 2016 and as at the date of drawing up this report

1. Beata Chłodzińska – Chairwoman of the Supervisory Board,
2. Anna Mańk – Deputy Chairwoman of the Supervisory Board,
3. Jacek Szyke – Secretary of the Supervisory Board,
4. Anna Biesialska – Member of the Supervisory Board,
5. Michał Czarnik – Member of the Supervisory Board,
6. Leszek Koziorowski – Member of the Supervisory Board,
7. Wojciech Myślecki – Member of the Supervisory Board,

8. Jacek Rawecki – Member of the Supervisory Board,
9. Stefan Świątkowski – Member of the Supervisory Board.

Changes in the Supervisory Board composition

As of 6 June 2016 the following persons submitted resignation from their functions as members of the Supervisory Board: Maciej Koński and Renata Wiernik-Gizicka.

On 8 June 2016 the Ordinary GM of the Company adopted the resolution concerning determining of the number of Supervisory Board members and the resolution concerning the appointment of Jacek Rawecki and Stefan Świątkowski to the Supervisory Board of the 4th joint term of office.

Until the day of submission of this report, no other changes in the composition of the Supervisory Board have taken place.

Experience and competences of members of the Supervisory Board

Beata Chłodzińska – Chairwoman of the Supervisory Board

Graduate of the Faculty of Law and Administration of Warsaw University. She is a legal counsel.

She has professional experience associated with supervising companies with State Treasury ownership. Professionally affiliated with the Ministry of State Treasury, currently working in the Department of Strategic Companies. She represented the State Treasury on supervisory boards of companies supervised by the Ministry.

Appointed to the Supervisory Board of TAURON Polska Energia S.A. as of 12 August 2015. Currently acting in the capacity of the Chairwoman of the Supervisory Board as well as the member of the Audit Committee of the Supervisory Board, the Nominations and Remunerations Committee of the Supervisory Board and the Strategy Committee of the Supervisory Board.

Anna Mańk – Deputy Chairwoman of the Supervisory Board

Graduate of Warsaw School of Economics and postgraduate studies in financial and economic law at University of Łódź.

She has professional experience in the scope of supervision and ownership transformations at the Ministry of State Treasury. Professionally associated with the Ministry of State Treasury, holding senior executive positions, currently acting in the capacity of Director General. She represented the State Treasury on supervisory boards of companies supervised by the Ministry, including those listed on the GPW.

Appointed to the Supervisory Board of TAURON Polska Energia S.A. as of 2 December 2015. Currently acting in the capacity of Deputy Chairwoman of the Supervisory Board and a member of the Strategy Committee of the Supervisory Board.

Jacek Szyke – Secretary of the Supervisory Board

Graduate of Faculty of Economics at Łódź University and Electric Faculty of Technical University in Poznań, where he also obtained PhD in technical sciences.

He has broad professional experience associated with power industry where he had climbed through all levels in the career ladder, working both in the country and abroad. Holding senior executive and managerial positions he worked, inter alia, at ZE Kalisz, EC Łódź, ZE Płock and EC Siekierki. He is an honorary President of the Chamber of Power Engineering and Energy Consumers. He is a consultant in electrical engineering matters. Author of many improvement recommendations, designs, publications and books on energy industry and power engineering.

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, Chairman of the Strategy Committee of the Supervisory Board and the Member of the Audit Committee of the Supervisory Board.

Anna Biesialska – Member of the Supervisory Board

Graduate of the Faculty of Law and Administration at Warsaw University and postgraduate studies in law and economy of the capital market at Warsaw School of Economics, legal counsel at the Regional Chamber of Legal Counsels in Warsaw.

She gained her professional experience at law firms. At present, she is employed at the Ministry of State Treasury where she provides legal support, in particular, in the scope of reviewing agreements for pre-privatisation analyses and privatisation-related tasks. She is a member of supervisory boards of companies as a representative of the State Treasury.

Appointed to the Supervisory Board of TAURON Polska Energia S.A. as of 02 December 2015. Currently acting as the member of the Nominations and Remuneration Committee of the Supervisory Board.

Michał Czarnik – Member of the Supervisory Board

Graduate of the Faculty of Law and Administration of Warsaw University, legal counsel at the Regional Chamber of Attorneys in Warsaw, tax advisor.

He gained his professional experience in international consulting companies and as an arbitrator of the Court of Arbitration at the Polish Financial Supervision Authority of the first term of office. At present he is a managing partner of a law firm specialising in economic law, in particular, in fiscal and commercial law. He is the head of the team of advisers to the Minister of State Treasury dealing with corporate governance reform and managing some of the elements of the public property.

Appointed to the Supervisory Board of TAURON Polska Energia S.A. as of 2 December 2015. Currently acting as the member of the Audit Committee of the Supervisory Board.

Leszek Koziorowski – Member of the Supervisory Board

Graduate of Faculty of Law and Administration of Warsaw University, legal counsel in the Regional Chamber of Attorneys in Warsaw.

He has rich experience in the scope of securities law, which he gained as a counsel in the Securities Commission, arbitrator in the Stock Exchange Court at the Warsaw Stock Exchange and in Arbitration Court at the Private Employers' Organisation "Lewiatan", and a judge of the Stock Exchange Court. At present, he is the general partner in a law firm where he deals with legal advice in the scope of capital market law and preparation of companies for listing at the stock exchange. Author of numerous publications concerning capital market law, received multiple recommendations as the best legal counsel in Poland in the aforementioned scope. He was the member of numerous supervisory boards.

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 third joint term of office 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 Nominations and Remuneration Committee of the Supervisory Board.

Wojciech Myślecki – Member of the Supervisory Board

Graduate of the Faculty of Electronics of Wrocław University of Technology, PhD, engineer in technical sciences.

Long-time researcher and lecturer, author of several dozen scientific publications in the field of telecommunications, industrial IT as well as political and economic issues. He managed or participated in numerous Polish and international economic programmes, in particular, in the field of power engineering. Several times he held the position of the CEO of large commercial law companies, including Polskie Sieci Elektroenergetyczne S.A. (Polish Transmission System Operator). At present, he is the President of the Management Board of a consulting company Global Investment Corporation sp. z o.o. and an advisor for strategic programmes at BZ WBK. He was the member of numerous supervisory boards.

Appointed as a member of the Supervisory Board of TAURON Polska Energia S.A. as of 2 December 2015. Currently acting as the Chairman of the Audit Committee of the Supervisory Board and the member of the Strategy Committee of the Supervisory Board.

Jacek Rawecki – Member of the Supervisory Board

Graduate of the Faculty of Social Sciences of the University of Wrocław. Currently, in the course of preparation of a PhD thesis at the Faculty of Law and Administration of the Cardinal Stefan Wyszyński University in Warsaw, taking part in the Master of Business Administration management studies at the University of Economics in Wrocław.

He has been performing management functions since 2006. At present, he is the First Vice-President of the Management Board of KGHM Polska Miedź S.A. for Supply Chain Management. Previously, he was, among others, member of the Management Board of Przedsiębiorstwo Budowlane ARS Sp. z o.o., President of the Management Board of KGHM Metraco S.A., President of the Management Board of Katowicki Węgiel Sp. z o.o., director of the local branch of Agencja Mienia Wojskowego, director for marketing and development of PUH Brajt. He has experience in ownership supervision – he was a member of the Supervisory Board of Grupa Energetyczna Katowice Sp. z o.o. and a secretary of the Supervisory Board of EnergiaPro Gigawat Sp. z o.o. Moreover, he was a member of the Experts Group of the European Innovation Partnership for Natural Resources. Currently he is the Deputy Chairman of the Council of the Economic Chamber for Non-Ferrous Metals and Recycling.

Appointed to the Supervisory Board of TAURON Polska Energia S.A. as of 8 June 2016. Currently acting as the member of the Audit Committee of the Supervisory Board.

Stefan Świątkowski – Member of the Supervisory Board

Graduate of Łódź University of Technology (Master's Degree in mathematics), the University of Leeds in the United Kingdom (Master of Science in mathematics), and INSEAD in France (MBA).

He has many years of experience in financial management, risk management, and strategic management. At present, he is the Vice-President of the Management Board for Finance at KGHM. Earlier he served as the Vice President of the Management Board of FM Bank/Polski Bank Przedsiębiorczości and the bank Powszechna Kasa Oszczędności Bank Polski S.A. responsible for risk management, Finance Director at Europejski Fundusz Leasingowy S.A. and the ALCO Director at Lukas Bank S.A. Moreover, he also worked in Bank Handlowy S.A. at various positions related to risk and strategy management and at McKinsey & Company Poland sp. z o.o. as a consultant. He has experience in supervising commercial companies and partnerships. Author of articles on economic issues and a novel about Polish privatisation.

Appointed to the Supervisory Board of TAURON Polska Energia S.A. as of 08 June 2016. Currently acting as the member of the Strategy Committee of the Supervisory Board.

The detailed description of experience and competences of the Supervisory Board 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) electricity trade (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 it currently 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, including gas fuel, CO_2 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 companies of TAURON Capital Group. The 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 electricity trading. Sales of electricity performed by the Company in the financial year 2016 were mainly oriented to the following companies: TAURON Sprzedaż and TAURON Sprzedaż GZE.

The competence of TAURON also includes management of certificates of origin for the needs of TAURON Capital Group, constituting the confirmation of electricity generation in renewable sources, in high-performance co-generation, in gas fuel fired co-generation, in mining methane fired or biomass burning co-generation, from sources using agricultural biogas and certificates of energy efficiency and guarantees of origin. The Company also secures the demand of TAURON Capital Group for guarantees of origin confirming electricity generation in renewable energy sources.

The Company also acts as the competence centre in the area of management and trading in CO_2 emission allowances for companies of TAURON Capital Group. Due to centralisation of trading in emission allowances, 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 clearing of CO_2 emission allowances, securing of emission needs of subsidiaries, taking into consideration the allowances allocated and the support in the process of acquisition of allowance limits for the consecutive periods. While implementing the aforementioned goals, the Company is an active participant of trading in CO_2 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 Transmission System Operator – 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. With the purpose of implementing the tasks in the scope of trading in coal, in the 1st half of 2016 the Company continued fuel supplies for TAURON Wytwarzanie and TAURON Ciepło.

In the 1st half of 2016, about 55% of coal supplies for electricity and heat production was satisfied by coal from own mining plants of TAURON Capital Group: TAURON Wydobycie and Nowe Brzeszcze GT. The remaining part of the demand was covered from external sources.

Additionally, as of 1 July 2015 TAURON launched the first balancing group in Poland for entities trading in gas.

As of 6 February 2015 the Company pursues trade in new products on the ICE Futures Europe platform in London. Since that date, besides trading in CO_2 emission allowances and Gasoil products, TAURON pursues trade in 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.

The Company develops activity in the scope of trading in gas fuel.

Since obtaining of the concession in 2012, TAURON has been an active participant of the gas market. It actively pursues commercial activity on the domestic market, i.e. on TGE and OTC market and develops competence in the scope of the European market.

In 2015 the Company obtained the status of member on the European POWERNEXT/PEGAS gas exchange, where it pursues trading in spot and forward gas markets.

The Company is present on the most important European wholesale gas markets within the areas of Gaspool, New Connect Germany and Tittle Transfer Facility hubs. Through PRISMA and GSA auction platforms the Company purchases interconnector capacity enabling cross-border trading in gas and physical deliveries of gas for the needs of companies of TAURON Capital Group and consumers. In TAURON Capital Group, distribution of competence in the scope of gas sales applies: TAURON conducts wholesale gas trade on the domestic and European market through access to exchanges and sources of gas acquisition whereas TAURON Sprzedaż conducts complex gas sales to end consumers.

7. OTHER SIGNIFICANT INFORMATION AND EVENTS

7.1. Proceedings pending before the court, competent arbitration authority or public authority body

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

Return of public aid granted for covering of KWK Brzeszcze losses

In the 1st quarter of 2016, Nowe Brzeszcze Grupa TAURON returned public aid, including interest, in the total amount of PLN 131,076,718.99. The first instalment of the returned public aid in the amount of PLN 5,083,644.50 was transferred on 15 January 2016 whereas the second instalment in the amount of 125,993,074.49 – on 31 March 2016.

The return of public aid resulted from the provisions of the agreement for the purchase of a part of KWK Brzeszcze assets from Spółka Restrukturyzacji Kopalń S.A. of 31 December 2015 (current report no. 63/2015), containing, in particular, the obligation of the buyer (i.e. Nowe Brzeszcze GT) to return public aid granted to Spółka Restrukturyzacji Kopalń S.A. to cover current production losses of KWK Brzeszcze Branch.

Concluding of agreement with Nowe Brzeszcze GT for coal sales

On 4 January 2016 the agreement for coal sales for energy generation purposes was concluded between TAURON and Nowe Brzeszcze GT, the subject matter of which is the purchase of coal by the Company for the needs of generation units of TAURON Wytwarzanie and TAURON Ciepło. The agreement was concluded for a period until 31 December 2016.

Rescission of the agreement for the construction of the CCGT unit in Stalowa Wola

On 29 January 2016, EC Stalowa Wola – a special purpose vehicle of TAURON Wytwarzanie and PGNiG Termika, rescinded the contract with the general contractor for the construction of the 450 MW CCGT unit – the Abener Energia company. The reason underlying the rescission of the agreement was the infringement of the schedule and significant technical conditions of the contract by Abener Energia and the failure to remedy the defaults indicated by the awarding entity within the determined time limit.

Analyses concerning further procedure and selection of the scenario for investment implementation are in progress. All parties agreed on the intention to continue the project. The measures undertaken are described in detail in item 1 of Table no. 2 under subsection 1.4.2 hereof.

Concluding the agreement with TGE for the fulfilment of a market maker function

On 1 February 2016 TAURON concluded the agreement with TGE for fulfilment of a market maker function in the scope of instruments for electricity at the RTT (commodity forward market). The aim of the cooperation is to increase the liquidity of animated instruments and to intensify the cooperation between TGE and TAURON.

The task of the animator is to ensure maintaining of trading liquidity and increase the number of transactions concluded on the TGE in products covered by the agreement. The effect of such 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.

Simultaneously, work with the Commodity Clearing House was carried out in order to negotiate and sign an agreement concerning the level of fees for the market maker. This agreement introduces reduced rates for the market maker in the period from 1 February 2016 to 31 January 2017, i.e. in the period of effectiveness of the agreement for the fulfilment of a market maker function.

Extension of activity on the POWERNEXT exchange

On 8 February 2016 TAURON extended its activity on the European POWERNEXT gas exchange to new hubs: New Connect Germany (NCG) and Tittle Transfer Facility (TTF). Activity on the POWERNEXT exchange carried out so far included GASPOOOL hub and enabled, inter alia, transport of gas from the German gas market. Besides prop trading, entering new NCG hubs (German market) will also enable physical gas deliveries to the Czech Republic and to Poland via the Czech Republic. On the other hand, entering TTF hub (Dutch market) provides access to the most liquid market on the continent, which will enable prop trading activity and increasing of gas trading volumes. The access to new hubs is a competence of the activity aimed increasing of TAURON gas competence and access to new sources.

Work on the new strategy of TAURON Group

In the 1st half of 2016 intensive work on the new TAURON Capital Group strategy was carried out. The principle part of the tasks was completed; the assumptions, major development directions and priorities for TAURON Capital Group have been defined. The capacity of the Group to finance current and planned investment projects was analysed to the extent enabling their implementation from funds generated from operating activity and by acquisition of debt financing. The update of the strategy is driven by significant changes in the market, legal and regulatory environment of the energy sector. The new strategy will respond to challenges arising from the current and forecast market situation. The purpose of the work is to develop the optimum development trail which will be incorporated into the energy policy of Poland, generate benefits to the company and its shareholders. The work is currently being finalised, the document is subject to internal consultations in order to present it to the Company Supervisory Board in the nearest time.

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 obtain free emission allowances pursuant to Article 10c of the aforementioned Directive (“derogation allowances”), for which TAURON Capital Group submitted the application in September 2015. In April 2016 accounts of installations were supplied with free allowances within the scope of the derogation due to electricity generation for 2015. At the same time, in February 2016 all installations belonging to companies of TAURON Capital Group obtained allocation of free emission allowances for heat production for 2016, pursuant to Article 10a of Directive 2003/87/EC. At present, taking into account the current level of electricity and heat production as well as the level of CO_2 contracting, generating companies of TAURON Capital Group hold the number of emission allowances sufficient to cover the demand for allowances in 2016.

Determining of the level of substitution fees by the ERO President

The binding *Act of 10 April 1997 on Energy Law* defines the rules of the support system for high-performance coal co-generation and gas co-generation in the years 2014–2018. The Act determines 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 23.3% of the volume of energy sold. In case of “yellow” certificates, this obligation shall increase from 3.9% in 2014 to 8% in 2018, which should contribute to the development of the co-generation sources operating based on gas fuel (in 2016 it amounts to 6%).

In accordance with the said Act, in the 2nd quarter of 2016 the ERO President determined and announced the following levels of substitution fees binding in 2017:

1) for “red” certificates: PLN 10/MWh in 2017 (PLN 11/MWh in 2016),
2) for “yellow” certificates: PLN 120/MWh in 2017 (PLN 125/MWh in 2016),
3) for “violet” certificates: PLN 56/MWh in 2017 (PLN 63/MWh in 2016).

The level of substitution fees for the consecutive years is 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.

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 in prices of certificates.

In case of certificates of energy efficiency the value of a unit substitution fee for 2016 and 2017 was defined in the *Act of 20 May 2016 on energy efficiency*. In accordance with its provisions, the level of a unit substitution fee is:

1) PLN 1,000/toe for 2016,
2) PLN 1,500/toe for 2017.

In the consecutive years, the level of a unit fee will be increased by 5% in relation to the level of the fee for the previous year.

For certificates of origin obtained from electricity production in renewable energy sources, the level of a unit substitution fee is defined in the Act on renewable energy sources at a fixed level of PLN 300.03/MWh effective throughout the entire period of support.

The value of announced unit substitution fees has a direct impact of the developments in TAURON Capital Group results. Costs of electricity for consumers buying energy for own use are additionally charged with the cost of purchase and submission of the relevant certificates to the ERO President for redemption and should be recognised as justified costs in the process of updating the tariff for electricity.

Completion of the construction of new generation capacity in co-generation at a level of 50 MW_e and 86 MW_t at ZW Tychy

On 20 June 2016 the co-generation unit was commissioned at ZW Tychy, with the electrical capacity of 59.2 MW_e in condensation performance (50.8 MW_e in heating performance) and heat capacity of 86 MW_t; the conversion of the biomass boiler and development of the water coal-fired WR boiler with the capacity of 40 MW_t was completed, including the management associated with the above mentioned units. The decision on reconstruction of capacity at ZW Tychy was made in accordance with the Corporate Strategy. The commencement of the project was driven by the necessity to adjust the existing source to more stringent emission standards applicable as of January 2016.

The implementation of the project enabled maintaining of the status of ZW Tychy as the basic heat generator for consumers located on the territory of Tychy city and the Katowice Special Economic Zone – Tychy sub-area. The financial settlement of the project is currently in progress.

Company Management Board

Katowice, 16 August 2016

Remigiusz Nowakowski	– President of the Management Board	....
Jarosław Broda	– Vice-President of the Management Board	....
Kamil Kamiński	– Vice-President of the Management Board	....
Marek Wadowski	– Vice-President of the Management Board	....
Piotr Zawistowski	– Vice-President of the Management Board	....

Appendix A: GLOSSARY OF TERMS AND LIST OF ABBREVIATIONS

Below the glossary of trade terms and the list of abbreviations and acronyms most commonly used in this report, is presented.

Table no 22. Explanation of abbreviations and acronyms, 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.	Coloured 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.	EC Stalowa Wola	Elektrociepłownia Stalowa Wola S.A. with the seat in Stalowa Wola
7.	Elektrownia Blachownia Nowa	Elektrownia Blachownia Nowa sp. z o.o. with the seat in Kędzierzyn Koźle.
8.	ERM	Complex System of Enterprise Risk Management
9.	EUA	(European Union Allowances) allowance to introduce the carbon dioxide (CO_2) equivalent to the air, within the meaning of Article 2 item 4 of the *Act of 17 July 2009 on the management system of emissions of greenhouse gases and other substances*, which is used for settlements of emission level within the system and which can be managed under the rules provided in the *Act of 28 April 2011 on the system of greenhouse gases emission allowances trading (Journal of Laws No. 122, item 695)*
10.	EUR	Euro – a single European currency introduced in some EU Member States
11.	FW	Wind farm
12.	TAURON Capital Group	TAURON Polska Energia S.A. Capital Group
13.	"TAURON Group"	TAURON Group established by the Management of the Company pursuant to the *Code of TAURON Group*, comprising TAURON and selected companies of TAURON Capital Group.
14.	GW, GWh	Gigawatt, Gigawatt hour
15.	GZE	Górnośląski Zakład Elektroenergetyczny
16.	KGHM	KGHM Polska Miedź S.A. with the seat in Lubin
17.	Audit Committee	Audit Committee of the Supervisory Board of TAURON Polska Energia S.A.
18.	Nominations and Remuneration Committee	Nominations and Remuneration Committee of the Supervisory Board of TAURON Polska Energia S.A.

No.	Abbreviation and trade term	Full name/explanation
19.	Strategy Committee	Strategy Committee of the Supervisory Board of TAURON Polska Energia S.A.
20.	Kompania Węglowa	Kompania Węglowa S.A. with the seat in Katowice
21.	KW Czatkowice	Kopalnia Wapienia Czatkowice sp. z o.o. with the seat in Krzeszowice
22.	KWK Brzeszcze	"Brzeszcze" Coal Mine with the seat in Brzeszcze
23.	Mg	Mega gram – million gram (1,000,000 g) i.e. a tonne
24.	SMEs	small and medium-sized enterprises
25.	MSR	(Market Stability Reserve) stabilisation reserve on the market of allowances
26.	MW, MW_e, MW_t, MWh	Megawatt, Megawatt of electrical capacity, Megawatt of heat capacity, Megawatt hour
27.	Nowe Brzeszcze GT, NBGT	Nowe Brzeszcze Grupa TAURON sp. z o.o. with the seat in Brzeszcze
28.	Business Area	Area of operations of subsidiaries included in TAURON Group, determined by the Company, constituting a business segment of TAURON Group
29.	ORM	Operating Power Reserve
30.	TSO	Transmission System Operator
31.	RES	Renewable Energy Sources
32.	PEPKH in liquidation	Polska Energia – Pierwsza Kompania Handlowa sp. z o.o. with the seat in Tarnów, in liquidation
33.	PGE	PGE Polska Grupa Energetyczna S.A. with the seat in Warsaw
34.	PGE EJ 1	PGE EJ1 sp. z o.o. with the seat in Warsaw
35.	GDP	Gross Domestic Product
36.	PMEC	Property rights for certificates of origin confirming generation of electricity in other co-generation sources
37.	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
38.	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.
39.	PMOZE	Property rights for certificates of origin confirming generation of electricity in RES in the period before 1 March 2009
40.	PMOZE_A	Property rights for certificates of origin confirming generation of electricity in RES in the period after 1 March 2009
41.	PSE	Polskie Sieci Elektroenergetyczne S.A. with the seat in Konstancin-Jeziorna
42.	RB	Balancing Market
43.	RDN	Day Ahead Market
44.	RM C	Prepayments
45.	RTT	Commodity Forward Market
46.	RUS	Regulatory system services
47.	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
48.	Company	TAURON Polska Energia S.A. with the seat in Katowice
49.	Corporate Strategy	The document entitled: *TAURON Group's Corporate Strategy for the years 2014–2017 with estimates up to the year 2023*
50.	TAMEH Czech	TAURON Czech s.r.o. with the seat in Ostrava, Czech Republic
51.	TAMEH HOLDING	TAMEH HOLDING sp. z o.o. with the seat in Dąbrowa Górnicza

No.	Abbreviation and trade term	Full name/explanation
52.	TAMEH POLSKA	TAMEH HOLDING sp. z o.o. with the seat in Dąbrowa Górnicza
53.	TAURON	TAURON Polska Energia S.A. with the seat in Katowice
54.	TAURON Ciepło	TAURON Ciepło sp. z o.o. with the seat in Katowice
55.	TAURON Czech Energy	TAURON Czech Energy s.r.o. with the seat in Ostrava, Czech Republic
56.	TAURON Dystrybucja	TAURON Dystrybucja S.A. with the seat in Kraków
57.	TAURON Dystrybucja Pomiary	TAURON Dystrybucja Pomiary sp. z o.o. with the seat in Tarnów
58.	TAURON Dystrybucja Serwis	TAURON Dystrybucja Serwis S.A. with the seat in Wrocław
59.	TAURON EKOENERGIA	TAURON EKOENERGIA sp. z o.o. with the seat in Jelenia Góra
60.	TAURON Obsługa Klienta	TAURON Obsługa Klienta sp. z o.o. with the seat in Wrocław
61.	TAURON Sprzedaż	TAURON Sprzedaż sp. z o.o. with its seat in Kraków
62.	TAURON Sprzedaż GZE	TAURON Sprzedaż GZE sp. z o.o. with the seat in Gliwice
63.	TAURON Sweden Energy	TAURON Sweden Energy AB (publ) with the seat in Stockholm, Sweden
64.	TAURON Wydobycie	TAURON Wydobycie S.A. with the seat in Jaworzno
65.	TAURON Wytwarzanie	TAURON Wytwarzanie S.A. with the seat in Jaworzno
66.	TGE	Towarowa Giełda Energii S.A. (Polish Power Exchange) with the seat in Warsaw
67.	toe	tonne of oil equivalent
68.	TWh	Terrawatt hour
69.	UOKiK	Office for Competition and Consumer Protection (Urząd Ochrony Konkurencji i Konsumentów)
70.	USD	(United States Dollar) international abbreviation of American dollar
71.	URE	Energy Regulatory Office
72.	GM/SM	General Meeting/ Shareholders' Meeting
73.	ZG Janina	Zakład Górniczy Janina
74.	ZG Sobieski	Zakład Górniczy Sobieski
75.	ZW Katowice	Zakład Wytwarzania Katowice in Katowice
76.	ZW Nowa	Zakład Wytwarzania Nowa in Dąbrowa Górnicza (formerly: Elektrociepłownia EC Nowa sp. z o.o.)
77.	ZW Tychy	Zakład Wytwarzania Tychy in Tychy (formerly: Elektrociepłownia Tychy S.A.)

Appendix B: INDEX OF TABLES AND FIGURES

Below the list of tables and figures occurring in this report is provided.

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