

Extended consolidated interim report of TAURON Polska Energia S.A. Capital Group for the first half of 2018

22 August 2018

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Selected consolidated figures of TAURON Polska Energia S.A.Capital Group

	in thousands PLN		in thousands EUR	
	2018	2017	2018	2017
	period from 01.01.2018 to 30.06.2018	period from 01.01.2017 to 30.06.2017 (adjusted figures)	period from 01.01.2018 to 30.06.2018	period from 01.01.2017 to 30.06.2017 (adjusted figures)
Sales revenue	9 202 371	8 758 024	2 170 626	2 061 973
Operating profit (loss)	954 884	1 295 524	225 235	305 016
Profit (loss) before tax	725 367	1 240 592	171 097	292 083
Net profit (loss)	568 436	1 005 477	134 081	236 727
Net profit (loss) attributable to shareholders of the parent company	567 029	1 004 167	133 749	236 419
Net profit (loss) attributable to non-controlling interests	1 407	1 310	332	308
Other comprehensive income	3 585	(15 473)	846	(3 643)
Total comprehensive income	572 021	990 004	134 927	233 085
Total comprehensive income attributable to shareholders of the parent company	570 605	988 688	134 593	232 775
Total comprehensive income attributable to non-controlling interests	1 416	1 316	334	310
Earnings (loss) per share (in PLN/EUR) (basic and diluted)	0,32	0,57	0,08	0,13
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	1 177 540	1 907 765	277 755	449 160
Cash flows from investing activities	(1 405 414)	(2 297 997)	(331 505)	(541 036)
Cash flows from financing activities	(108 392)	173 866	(25 567)	40 935
Net increase (decrease) in cash and cash equivalents	(336 266)	(216 366)	(79 317)	(50 941)
	As of 30.06.2018	As of 31.12.2017 (adjusted figures)	As of 30.06.2018	As of 31.12.2017 (adjusted figures)
Non-current assets	31 074 587	31 048 542	7 124 585	7 444 087
Current assets	3 978 095	4 786 474	912 072	1 147 588
Total assets	35 052 682	35 835 016	8 036 657	8 591 675
Issued capital	8 762 747	8 762 747	2 009 067	2 100 925
Equity attributable to shareholders of the parent company	18 686 055	18 036 446	4 284 221	4 324 354
Equity attributable to non-controlling interests	33 180	31 367	7 607	7 520
Total equity	18 719 235	18 067 813	4 291 828	4 331 874
Long-term liabilities	12 325 264	12 738 264	2 825 858	3 054 081
Short-term liabilities	4 008 183	5 028 939	918 971	1 205 720
Total liabilities	16 333 447	17 767 203	3 744 829	4 259 801

Selected standalone figures of TAURON Polska Energia S.A.

	in thousands PLN		in thousands EUR	
	2018	2017	2018	2017
	period from 01.01.2018 to 30.06.2018	period from 01.01.2017 to 30.06.2017	period from 01.01.2018 to 30.06.2018	period from 01.01.2017 to 30.06.2017
Sales revenue	3 711 779	3 620 652	875 523	852 440
Operating profit (loss)	(36 441)	233 898	(8 596)	55 069
Profit (loss) before tax	(1 007 731)	959 442	(237 700)	225 889
Net profit (loss)	(1 011 726)	900 331	(238 643)	211 972
Other comprehensive income	(10 549)	(7 329)	(2 488)	(1 726)
Total comprehensive income	(1 022 275)	893 002	(241 131)	210 246
Earnings (loss) per share (in PLN/EUR) (basic and diluted)	(0,58)	0,51	(0,14)	0,12
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	(65 123)	345 860	(15 361)	81 429
Cash flows from investing activities	192 724	(1 313 719)	45 459	(309 300)
Cash flows from financing activities	(201 294)	136 316	(47 480)	32 094
Net increase (decrease) in cash and cash equivalents	(73 693)	(831 543)	(17 382)	(195 777)
	As of 30.06.2018	As of 31.12.2017 (adjusted figures)	As of 30.06.2018	As of 31.12.2017 (adjusted figures)
Non-current assets	26 896 624	27 371 684	6 166 688	6 562 537
Current assets	1 852 146	2 949 690	424 648	707 207
Total assets	28 748 770	30 321 374	6 591 336	7 269 744
Issued capital	8 762 747	8 762 747	2 009 067	2 100 925
Total equity	15 967 080	17 377 906	3 660 831	4 166 465
Long-term liabilities	9 581 658	9 530 787	2 196 822	2 285 067
Short-term liabilities	3 200 032	3 412 681	733 683	818 212
Total liabilities	12 781 690	12 943 468	2 930 505	3 103 279

The above financial data was converted into EUR, cumulatively for the second quarter 2018 and 2017, according to the following principles:

- individual items of the statement of financial standing - according to the average NBP exchange rate announced as at 29 June 2018 - 4.3616 PLN/EUR (as at 29 December 2017 - 4.1709 PLN/EUR),
- individual items of the statement of comprehensive income and the statement of cash flows - according to the exchange rate representing the arithmetic mean of average NBP exchange rates announced on the last day of each month of the financial period from 1 January 2018 to 30 June 2018 - 4.2395 PLN/EUR (for the period from 1 January 2017 to 30 June 2017 - 4.2474 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 2018**

22 August 2018

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Independent Auditor's Report
on review of interim condensed consolidated financial statements

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

Introduction

We have reviewed the accompanying interim condensed consolidated financial statements of Capital Group of TAURON Polska Energia S.A. ('the Group'), with parent's company TAURON Polska Energia S.A. ('the Company') registered office located in Katowice, ks. Piotra Ściegiennego Street, 3 as of 30 June 2018 and the related condensed interim consolidated statement of financial position as at 30 June 2018, condensed interim consolidated statement of comprehensive income, condensed interim consolidated statement of changes in equity, condensed interim consolidated statement of cash flows for the 6 month period ended 30 June 2018 and other explanatory notes ('the interim condensed consolidated financial statements').

The Company's Management is responsible for the preparation and presentation of the accompanying interim condensed consolidated financial statements in accordance with the requirements of International Accounting Standard 34 *Interim Financial Reporting* as adopted by the European Union.

Our responsibility is to express a conclusion on the accompanying interim condensed consolidated financial statements based on our review.

Scope of review

We conducted our review in accordance with National Review Standard 2410 in the wording of the International Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* ('standard'), adopted by the resolution no. 2041/37a/2018 of the National Council of Statutory Auditors of 5 March 2018. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, applying analytical and other review procedures.

A review is substantially less in scope than an audit conducted in accordance with National Auditing Standards in the wording of the International Auditing Standards adopted by the resolution no. 2041/37a/2018 of the National Council of Statutory Auditors of 5 March 2018 and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with the requirements of International Accounting Standard 34 *Interim Financial Reporting* as adopted by the European Union.

Warsaw, 22 August 2018

Key Certified Auditor

Leszek Lerch
certified auditor
no in the register: 9886

on behalf of
Ernst & Young Audyt Polska
spółka z ograniczoną odpowiedzialnością sp. k.
Rondo ONZ 1,
00-124 Warsaw
no on audit firms list: 130



Statements of the Management Board of TAURON Polska Energia S.A.

22 August 2018

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STATEMENT

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

I, the undersigned, represent that, to my best knowledge, the interim condensed consolidated financial statement of TAURON 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 Management Board's report on the operations 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:

President of the Management Board - Filip Grzegorzczak

Vice-President of the Management Board - Jarosław Broda

Vice-President of the Management Board - Kamil Kamiński

Vice-President of the Management Board - Marek Wadowski

22 August 2018
date



STATEMENT

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

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

Management Board Members:

President of the Management Board - Filip Grzegorzczak

Vice-President of the Management Board - Jarosław Broda

Vice-President of the Management Board - Kamil Kamiński

Vice-President of the Management Board - Marek Wadowski

22 August 2018
date



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 June 2018

22 August 2018

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 2018

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CONDENSED INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	6-month period ended 30 June 2018 <i>(unaudited)</i>	6-month period ended 30 June 2017 <i>(unaudited restated figures)</i>
Sales revenue	11	9 202 371	8 758 024
Cost of sales, of which:	12	(7 926 786)	(7 016 774)
<i>Impairment of non-financial non-current assets</i>	12	(383 849)	(33 127)
Profit on sale		1 275 585	1 741 250
Selling and distribution expenses	12	(228 322)	(225 527)
Administrative expenses	12	(283 605)	(304 563)
Other operating income and expenses	13	145 784	26 034
Share in profit/(loss) of joint ventures	21	45 442	58 330
Operating profit		954 884	1 295 524
Interest expense on debt	14	(81 430)	(98 977)
Finance income and other finance costs	14	(148 087)	44 045
Profit before tax		725 367	1 240 592
Income tax expense	15.1	(156 931)	(235 115)
Net profit		568 436	1 005 477
Measurement of hedging instruments	29.3	(13 184)	(9 075)
Foreign exchange differences from translation of foreign entities		8 871	(12 675)
Income tax	15.1	2 505	1 724
Other comprehensive income subject to reclassification to profit or loss		(1 808)	(20 026)
Actuarial gains/(losses)	31.1	6 239	5 630
Income tax	15.1	(1 184)	(1 070)
Share in other comprehensive income of joint ventures	21	338	(7)
Other comprehensive income not subject to reclassification to profit or loss		5 393	4 553
Other comprehensive income, net of tax		3 585	(15 473)
Total comprehensive income		572 021	990 004
Net profit:			
Attributable to equity holders of the Parent		567 029	1 004 167
Attributable to non-controlling interests		1 407	1 310
Total comprehensive income:			
Attributable to equity holders of the Parent		570 605	988 688
Attributable to non-controlling interests		1 416	1 316
Basic and diluted earnings per share (in PLN):		0.32	0.57

CONDENSED INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	As at 30 June 2018 <i>(unaudited)</i>	As at 31 December 2017 <i>(restated figures)</i>
ASSETS			
Non-current assets			
Property, plant and equipment	17	28 402 897	28 079 886
Goodwill	18	26 183	40 156
Energy certificates and emission allowances for surrender	19.1	77 570	303 130
Other intangible assets	20	1 255 282	1 254 077
Investments in joint ventures	21	536 412	499 204
Loans granted to joint ventures	22	199 521	240 767
Other financial assets	23	233 728	238 354
Other non-financial assets	24.1	303 232	346 846
Deferred tax assets	15.2	39 762	46 122
		31 074 587	31 048 542
Current assets			
Energy certificates and emission allowances for surrender	19.2	399 894	652 260
Inventories	25	364 456	295 463
Receivables from buyers	26	1 847 250	2 032 813
Receivables arising from taxes and charges	27	223 718	244 126
Loans granted to joint ventures	22	2	329 665
Other financial assets	23	491 439	219 933
Other non-financial assets	24.2	146 896	87 055
Cash and cash equivalents	28	491 378	909 249
Non-current assets classified as held for sale		13 062	15 910
		3 978 095	4 786 474
TOTAL ASSETS		35 052 682	35 835 016

CONDENSED INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION – CONTINUED

	Note	As at 30 June 2018 <i>(unaudited)</i>	As at 31 December 2017 <i>(restated figures)</i>
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	8 511 437	7 657 086
Revaluation reserve from valuation of hedging instruments	29.3	12 372	23 051
Foreign exchange differences from translation of foreign entities		15 647	6 776
Retained earnings/(Accumulated losses)	29.4	1 383 852	1 586 786
		18 686 055	18 036 446
Non-controlling interests		33 180	31 367
Total equity		18 719 235	18 067 813
Non-current liabilities			
Debt	30	9 579 171	9 501 414
Provisions for employee benefits	31	1 080 793	1 380 650
Provisions for disassembly of fixed assets, land restoration and other provisions	32	355 721	351 138
Accruals, deferred income and government grants	35	360 717	541 318
Deferred tax liabilities	15.2	858 237	871 865
Other financial liabilities	39	90 625	91 879
		12 325 264	12 738 264
Current liabilities			
Debt	30	287 669	351 382
Liabilities to suppliers	36	832 995	1 042 427
Capital commitments	37	465 222	797 304
Provisions for employee benefits	31	92 358	134 273
Provisions for liabilities due to energy certificates and greenhouse gas emission allowances	33	476 136	948 946
Other provisions	34	351 419	353 271
Accruals, deferred income and government grants	35	299 101	296 576
Liabilities arising from taxes and charges	38	320 851	451 748
Other financial liabilities	39	544 454	342 162
Other non-financial liabilities	40	337 978	310 850
		4 008 183	5 028 939
Total liabilities		16 333 447	17 767 203
TOTAL EQUITY AND LIABILITIES		35 052 682	35 835 016

TAURON Polska Energia S.A. Capital Group
Condensed interim consolidated financial statements for the 6-month period ended 30 June 2018
prepared in accordance with the International Financial Reporting Standards, as endorsed by the European Union
(in PLN '000)

CONDENSED INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE 6-MONTH PERIOD ENDED 30 JUNE 2018 (unaudited)

	Note	Equity attributable to the equity holders of the Parent					Total	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)			
As at 31 December 2017		8 762 747	7 657 086	23 051	6 776	1 586 786	18 036 446	31 367	18 067 813
Impact of IFRS 9	8	-	-	-	-	(100 422)	(100 422)	(14)	(100 436)
Impact of IFRS 15	8	-	-	-	-	179 426	179 426	411	179 837
As at 1 January 2018		8 762 747	7 657 086	23 051	6 776	1 665 790	18 115 450	31 764	18 147 214
Distribution of prior years profits	29.2	-	854 351	-	-	(854 351)	-	-	-
Transactions with shareholders		-	854 351	-	-	(854 351)	-	-	-
Net profit		-	-	-	-	567 029	567 029	1 407	568 436
Other comprehensive income		-	-	(10 679)	8 871	5 384	3 576	9	3 585
Total comprehensive income		-	-	(10 679)	8 871	572 413	570 605	1 416	572 021
As at 30 June 2018 (unaudited)		8 762 747	8 511 437	12 372	15 647	1 383 852	18 686 055	33 180	18 719 235

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

	Equity attributable to the equity holders of the Parent					Total	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)			
As at 1 January 2017	8 762 747	7 823 339	29 660	9 200	24 320	16 649 266	30 052	16 679 318
Dividends	-	-	-	-	-	-	(564)	(564)
Coverage of prior years loss	-	(166 253)	-	-	166 253	-	-	-
Transactions with shareholders	-	(166 253)	-	-	166 253	-	(564)	(564)
Net profit	-	-	-	-	1 004 167	1 004 167	1 310	1 005 477
Other comprehensive income	-	-	(7 351)	(12 675)	4 547	(15 479)	6	(15 473)
Total comprehensive income	-	-	(7 351)	(12 675)	1 008 714	988 688	1 316	990 004
As at 30 June 2017 (unaudited)	8 762 747	7 657 086	22 309	(3 475)	1 199 287	17 637 954	30 804	17 668 758

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

CONDENSED INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	6-month period ended 30 June 2018 <i>(unaudited)</i>	6-month period ended 30 June 2017 <i>(unaudited)</i>
Cash flows from operating activities			
Profit before taxation		725 367	1 240 592
Share in (profit)/loss of joint ventures		(45 442)	(58 330)
Depreciation and amortization		855 598	826 678
Impairment losses on non-financial non-current assets		383 849	33 127
Exchange differences		145 456	(73 035)
Interest and commissions		90 370	99 376
Other adjustments of profit before tax		(21 209)	9 427
Change in working capital	41.1	(736 067)	(68 725)
Income tax paid	41.1	(220 382)	(101 345)
Net cash from operating activities		1 177 540	1 907 765
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets	41.2	(1 668 896)	(2 020 232)
Loans granted	41.2	(39 815)	(295 992)
Purchase of financial assets		(9 362)	(5 157)
Total payments		(1 718 073)	(2 321 381)
Proceeds from sale of property, plant and equipment and intangible assets		10 778	15 711
Repayment of loans granted	41.2	299 100	-
Other proceeds		2 781	7 673
Total proceeds		312 659	23 384
Net cash used in investing activities		(1 405 414)	(2 297 997)
Cash flows from financing activities			
Redemption of debt securities		-	(300 000)
Repayment of loans and borrowings	41.3	(58 539)	(44 904)
Interest paid	41.3	(26 745)	(65 260)
Other payments		(30 866)	(16 528)
Total payments		(116 150)	(426 692)
Issue of debt securities		-	600 000
Subsidies received		7 758	558
Total proceeds		7 758	600 558
Net cash from financing activities		(108 392)	173 866
Net increase / (decrease) in cash and cash equivalents		(336 266)	(216 366)
Net foreign exchange difference		3 734	89
Cash and cash equivalents at the beginning of the period	28	801 353	354 733
Cash and cash equivalents at the end of the period, of which :	28	465 087	138 367
restricted cash	28	140 117	135 136

INFORMATION ABOUT THE CAPITAL GROUP AND BASIS OF PREPARATION OF THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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, under number KRS 0000271562.

The duration of the Parent and the companies in the Capital Group is unlimited. The entities operate based on appropriate licenses 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 2018 and present comparative information for the 6-month period ended 30 June 2017 as well as figures as at 31 December 2017. The data for the 6-month period ended 30 June 2018 and the comparative information for the 6-month period ended 30 June 2017, as contained herein, have been reviewed by a certified auditor. The comparative information as at 31 December 2017 was audited by a certified auditor.

These condensed interim consolidated financial statements for the 6-month period ended 30 June 2018 were approved for publication on 22 August 2018.

2. Composition of the TAURON Capital Group and joint ventures

As at 30 June 2018, 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 by TAURON Polska Energia S.A.	Interest in the decision-making body held by TAURON Polska Energia S.A.
1	TAURON Wydobycie S.A.	Jaworzno	Mining	100.00%	100.00%
2	TAURON Wytwarzanie S.A.	Jaworzno	Generation	100.00%	100.00%
3	Nowe Jaworzno Grupa TAURON Sp. z o.o.	Jaworzno	Generation	100.00%	100.00%
4	TAURON Ekoenergia Sp. z o.o.	Jelenia Góra	Generation	100.00%	100.00%
5	Marselwind Sp. z o.o.	Katowice	Generation	100.00%	100.00%
6	TAURON Ciepło Sp. z o.o.	Katowice	Generation	100.00%	100.00%
7	TAURON Serwis Sp. z o.o.	Katowice	Generation	95.61%	95.61%
8	TAURON Dystrybucja S.A.	Kraków	Distribution	99.74%	99.75%
9	TAURON Dystrybucja Serwis S.A.	Wrocław	Distribution	100.00%	100.00%
10	TAURON Dystrybucja Pomiary Sp. z o.o. ¹	Tarnów	Distribution	99.74%	99.75%
11	TAURON Sprzedaż Sp. z o.o.	Kraków	Sales	100.00%	100.00%
12	TAURON Sprzedaż GZE Sp. z o.o.	Gliwice	Sales	100.00%	100.00%
13	TAURON Czech Energy s.r.o.	Ostrawa, Czech Republic	Sales	100.00%	100.00%
14	TAURON Obsługa Klienta Sp. z o.o.	Wrocław	Other	100.00%	100.00%
15	Kopalnia Wapienia Czatkowice Sp. z o.o.	Krzeszowice	Other	100.00%	100.00%
16	Polska Energia Pierwsza Kompania Handlowa Sp. z o.o.	Warszawa	Other	100.00%	100.00%
17	TAURON Sweden Energy AB (publ)	Sztokholm, Sweden	Other	100.00%	100.00%
18	Biomasa Grupa TAURON Sp. z o.o.	Stalowa Wola	Other	100.00%	100.00%
19	Wsparcie Grupa TAURON Sp. z o.o. ¹	Tarnów	Other	99.74%	99.75%

¹TAURON Polska Energia S.A. holds indirect interest in TAURON Dystrybucja Pomiary Sp. z o.o. and Wsparcie Grupa TAURON Sp. z o.o. through its subsidiary, TAURON Dystrybucja S.A. TAURON Polska Energia S.A. uses shares in TAURON Dystrybucja Pomiary Sp. z o.o.

As at 30 June 2018, TAURON Polska Energia S.A. held direct and indirect interest in the following key 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	TAMEH HOLDING Sp. z o.o. ²	Dąbrowa Górnicza	Generation	50.00%
3	TAMEH POLSKA Sp. z o.o. ²	Dąbrowa Górnicza	Generation	50.00%
4	TAMEH Czech s.r.o. ²	Ostrawa, Czech Republic	Generation	50.00%

¹ TAURON Polska Energia S.A. holds indirect interest in Elektrociepłownia Stalowa Wola S.A. through a subsidiary, TAURON Wytwarzanie S.A.

² 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 capital and the governing bodies of TAMEH POLSKA Sp. z o.o. and TAMEH Czech s.r.o.

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 2017.

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 in the foreseeable future. As at the date of approval of these condensed interim consolidated financial statements for publication, no circumstances had been identified which would indicate a risk to the Group companies' ability to continue as a going concern.

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 zloty ("PLN") and all figures are in PLN thousand, unless stated otherwise.

6. Material values based on professional judgement and 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 consolidated financial statements and in the explanatory notes. The 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 condensed interim consolidated financial statements exposed to a considerable risk of material adjustment of the carrying amounts of assets and liabilities are presented below.

Item	Note	Estimates and assumptions
Property, plant and equipment	Note 17	At the end of each reporting period, the Group verifies whether or not there are objective indications of impairment of items of property, plant and equipment. If there are objective indications of impairment, the Group is obliged to perform impairment tests for items of property, plant and equipment. The Group reviews, at least at the end of each financial year, the useful lives of property, plant and equipment, and depreciation charges may be adjusted effective from the beginning of the reporting period when the review was completed.
Goodwill	Note 18	Goodwill is tested for impairment annually and at the end of each reporting period if indications of impairment are identified.
Loans granted	Note 22	In line with IFRS 9 <i>Financial Instruments</i> the Group adequately classifies and measures originated loans and estimates impairment allowances, as discussed in detail in Note 8 to these condensed interim consolidated financial statements.
Receivables from buyers	Note 26	In line with IFRS 9 <i>Financial Instruments</i> the Group estimates impairment allowances on receivables from buyers, as discussed in detail in Note 8 to these condensed interim consolidated financial statements.
Derivative instruments	Note 42.2	Derivative financial instruments are measured at fair value at the end of each reporting period. Derivative instruments acquired and held for internal purposes are not measured at the end of the reporting period.
Deferred tax assets	Note 15.2	At the end of each reporting period, the Group verifies whether or not the deferred tax assets may be realized.
Provisions	Note 31 Note 32 Note 33 Note 34	The value of provisions is determined based on assumptions made by the Group as well as a methodology and calculation method that is appropriate for a specific provision. To this end, the Group verifies the probability of an outflow of resources embodying economic benefits and estimates reliably the amount necessary to fulfil the obligation. Provisions are recognized if the probability of an outflow of resources embodying economic benefits is higher than 50%.

Additionally, the Group's material estimates include contingent liabilities recognized, in particular, in relation to legal proceedings to which the Group companies are parties. Contingent liabilities have been presented in detail in Note 45 hereto.

7. Standards and interpretations which have been published but are not yet effective

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

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

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

IFRS 16 Leases

Effective date in the EU: annual periods beginning on or after 1 January 2019.

Under IFRS 16 *Leases*, the lessee recognizes the right-of-use asset and the lease liability. The right-of-use asset is treated similarly to other non-financial assets and depreciated accordingly. The lease liability is initially measured at the present value of the lease payments payable over the lease term, discounted at the rate implicit in the lease if that can be readily determined. If that rate cannot be readily determined, the lessee uses the incremental borrowing rate. Determination of the lease term under IFRS 16 *Leases* will require an assessment which has not previously been needed for operating leases as it did not affect the recognition of expenditure in the financial statements. Variable lease payments should be taken account of in the determination of lease payments where their variability depends on an index or an interest rate or where they are, in fact, fixed payments. Lessors continue to classify leases as operating or finance leases, with the approach to lessor accounting substantially unchanged from IAS 17 *Leases*. A lessor classifies lease as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. Otherwise, a lease is classified as an operating lease. A lessor recognizes finance income over the lease term of a finance lease, based on a pattern reflecting a constant periodic rate of return on the net investment. A lessor recognizes operating lease payments as income on a straight-line basis or another systematic basis if that basis is more representative of the pattern in which benefit from the use of the underlying asset is diminished.

Impact on the consolidated financial statements

A preliminary analysis of the impact of IFRS 16 *Leases* on the accounting policies has shown a change material for the Group, i.e. the need to recognize lease assets and liabilities for leases currently classified as operating leases in the financial statements. The Group has already completed the verification of all its agreements aimed to identify those which will be affected by IFRS 16 *Leases*. Currently, an analysis is being conducted to determine the effects of identified agreements under IFRS 16 *Leases*, specifically as regards the necessity to recognize assets and liabilities in the financial statements. Additionally, the Group has identified key areas for which the impact of IFRS 16 *Leases* is being analyzed, including land and transmission easement, decisions to deploy its equipment next to public roads, the right of perpetual usufruct as well as lease and rental agreements, particularly those relating to the construction of heating substations, transformer stations and linear infrastructure. The Group is currently developing a methodology of determining the incremental borrowing rate. As at the date of approval of these condensed interim consolidated financial statements for publication, the Group had not finished the analyses that would determine the impact of the planned changes on the consolidated financial statements.

According to the Management Board, the amendments to IFRS 9 *Financial Instruments*, entering into force as of 1 January 2019, will not materially impact the accounting policies applied thus far.

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

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

Standard	Effective date specified in the Standard, not endorsed by the EU (annual periods beginning on or after the date provided)
IFRS 14 <i>Regulatory Deferral Accounts</i>	1 January 2016*
IFRS 17 <i>Insurance contracts</i>	1 January 2021
Revised IFRS 10 <i>Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures: Sale or Contribution of Assets between Investor and its Associate or Joint Venture</i> with subsequent amendments	the effective date has been postponed
<i>Annual Improvements to IFRS (Cycle 2015-2017):</i>	
IAS 12 <i>Income Taxes</i>	1 January 2019
IAS 23 <i>Borrowing Costs</i>	1 January 2019
IFRS 3 <i>Business Combinations</i>	1 January 2019
IFRS 11 <i>Joint Arrangements</i>	1 January 2019
IFRIC 23 <i>Uncertainty over Income Tax Treatments</i>	1 January 2019
Revised IAS 19 <i>Employee Benefits</i>	1 January 2019
Revised IAS 28 <i>Investments in Associates and Joint Ventures</i>	1 January 2019
Amendments to References to the Conceptual Framework in IFRS	1 January 2020

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

Hedge accounting principles applicable to the portfolio of financial assets and liabilities also remain outside the scope of the regulations adopted by the EU, as they have not been approved for use in 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 2017, except for the application of new standards, amendments to standards and changes to the accounting principles applied by the Group and discussed below.

8.1. Application of new standards and amendments to standards

According to the Management Board, the following new standards and amendments to standards have a material impact on the accounting policies applied thus far:

IFRS 9 *Financial Instruments*

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

Key changes introduced by IFRS 9 *Financial Instruments*:

- **Change in the classification and measurement of financial assets**

Instead of the four classes of financial assets identified by IAS 39 *Financial Instruments: Recognition and Measurement*, IFRS 9 *Financial Instruments* identifies three categories of financial assets:

- financial assets measured at amortized cost;
- financial assets measured at fair value through other comprehensive income;
- financial assets measured at fair value through profit or loss.

Pursuant to IFRS 9 *Financial Instruments*, financial assets are classified upon initial recognition based on:

- cash flow characteristics (SPPI test; Solely Payments of Principal and Interest);
- business model for managing the financial asset.

- **Introduction of a new impairment testing model based on expected credit losses**

IFRS 9 *Financial Instruments* replaces the incurred credit losses with the concept of expected credit losses, resulting in the recognition of a loss allowance upon initial recognition of an asset. The requirements regarding impairment of financial assets apply to financial assets measured at amortized cost and at fair value through other comprehensive income.

Impact on the consolidated financial statements as at 1 January 2018

The Group decided to apply IFRS 9 *Financial Instruments* with effect as of 1 January 2018. The Group decided not to restate the comparative information, as permitted by the standard. The data as at 31 December 2017 and for the 6-month period ended 30 June 2017 were presented in line with IAS 39 *Financial Instruments: Recognition and Measurement*.

Impact of the application of IFRS 9 *Financial Instruments* on retained earnings as at 1 January 2018:

Categories and classes of financial instruments in line with IAS 39	IAS 39		IFRS 9		Effect of change
	At amortized/historical cost	At fair value	At amortized cost	Fair value through:	
				Profit/loss	Other comprehensive income
1 Financial assets at fair value through profit or loss - held for trading	-	154 574	-	154 574	-
Derivative instruments	-	53 216	-	53 216	-
Investment fund units	-	101 358	-	101 358	-
2 Financial assets available for sale	141 698	2 719	-	118 386	(26 031)
Long-term shares	141 656	-	-	115 625	(26 031)
Short-term shares	42	-	-	42	-
Investment fund units	-	2 719	-	2 719	-
3 Loans and receivables	2 734 059	-	2 427 299	177 275	(129 485)
Receivables from buyers	2 032 813	-	2 001 342	-	(31 471)
Gross value	2 226 180	-	2 226 180	-	-
Impairment loss	(193 367)	-	(224 838)	-	(31 471)
Deposits	39 756	-	39 756	-	-
Loans granted	580 979	-	332 005	150 960	(98 014)
Gross value	580 979	-	340 212	150 960	(89 807)
Impairment loss	-	-	(8 207)	-	(8 207)
Other financial receivables	80 511	-	54 196	26 315	-
4 Hedging derivative instruments	-	28 482	-	28 482	-
5 Cash and cash equivalents	-	909 249	-	909 249	-
Total effect of the application of IFRS 9 on financial assets					(155 516)
1 Financial liabilities measured at amortised cost	470 239	-	437 184	-	33 055
Loan granted by European Investment Bank	470 239	-	437 184	-	33 055
Total effect of the application of IFRS 9 on financial liabilities					33 055
Effect on retained earnings					(122 461)
Deferred tax					22 025
Effect on retained earnings after deferred tax					(100 436)

The data presented above, which, according to the Group, comply with the requirements of IFRS 9 *Financial Instruments* in all material respects, were not audited by a certified auditor. Consequently, the final figures disclosed in the consolidated financial statements for 2018 may differ from those presented in these condensed interim consolidated financial statements.

• Change in the classification and measurement of financial assets

Assuming that the categories of financial assets identified in IAS 39 *Financial Instruments: Recognition and Measurement* cannot be directly translated into those identified in IFRS 9 *Financial instruments*, the Group has developed a method of classification of financial assets which sets out the terms of the SPPI and the business model tests. On such basis the Group carried out the business model and SPPI tests for all financial assets material as at 1 January 2018.

The analysis revealed that a considerable portion of financial assets presented in the above table generates cash flows corresponding solely to the repayment of principal and interest and they are maintained under a business model based solely on the generation of cash flows, which translates into their classification as financial assets measured at amortized cost.

The subordinated loan and the loans used for the purposes of repayment of debt originated to the joint venture Elektrociepłownia Stalowa Wola S.A., measured at amortized cost in line with IAS 39 *Financial Instruments: Recognition and Measurement*, with the carrying amount as at 1 January 2018 of PLN 240 767 thousand, have been classified to financial assets measured at fair value through profit or loss in the amount of PLN 150 960 thousand, since the cash flows they generate do not correspond solely to the repayment of principal and interest. The application of IFRS 9 *Financial Instruments* reduced the Group's retained earnings as at 1 January 2018 by PLN 89 807 thousand.

Under IFRS 9 *Financial Instruments* equity interests in other entities have to be measured at fair value. This also applies to those shares which, due to limited access to information, have so far been measured at cost less impairment. Therefore, the Group estimated the fair value of the said instruments using the adjusted net assets method, considering its share in the net assets and adjusting the value by relevant factors affecting the measurement, such as the non-controlling interest discount and the discount for the limited liquidity of the above instruments. The application of IFRS 9 *Financial Instruments* to the measurement of equity interests reduced the Group's retained earnings as at 1 January 2018 by PLN 26 031 thousand. The above equity instruments are measured at fair value through profit or loss in line with IFRS 9 *Financial Instruments*.

- **Introduction of a new impairment testing model based on expected credit losses**

The Group has identified the following categories of financial assets for which it has verified the impact of the calculation of expected credit losses in line with IFRS 9 *Financial Instruments* on the consolidated financial statements:

- receivables from buyers; and
- originated loans.

As far as receivables from buyers are concerned, the Group has designated a portfolio of strategic counterparties in the case of which it is expected that the historical performance (lack of material delinquencies) does not provide full information on the expected credit losses that the Group may be exposed to. The risk of insolvency on the part of strategic counterparties has been assessed based on ratings assigned to the counterparties using an internal scoring model and appropriately restated to account for the probability of default. The expected credit loss, in line with IFRS 9 *Financial Instruments*, is calculated based on the estimated potential recoveries from security interests. It is expected that the historical performance information concerning receivables from other counterparties may reflect the credit risk that will be faced in future periods. The expected credit losses for this group of counterparties have been estimated through an analysis of ageing of receivables and percentage ratios assigned to individual ranges and groups (such as receivables claimed at court, receivables from counterparties in bankruptcy) which help estimate the value of receivables from buyers which are not expected to be paid.

The total value of the loss allowance for expected credit losses due to receivables from buyers, following the application of IFRS 9 *Financial Instruments* increased compared to the value of the allowance calculated based on previous terms, which resulted in a decrease in retained earnings as at 1 January 2018 by PLN 31 471 thousand.

As far as originated loans are concerned, the Group assesses the risk of insolvency on the part of borrowers based on ratings assigned to counterparties using an internal scoring model, appropriately restated to account for the probability of default. The expected credit loss, in line with IFRS 9 *Financial Instruments*, is calculated based on the estimated potential recoveries from security interests and the time value of money.

The application of IFRS 9 *Financial Instruments* to the expected credit losses on originated loans measured at amortized cost resulted in a decrease in the Group's retained earnings as at 1 January 2018 by PLN 8 207 thousand.

- **Change in the basis of measurement for liabilities in the event of modification of contractual cash flows**

IFRS 9 *Financial Instruments* also introduces a change in the basis of measurement for liabilities if the contractual cash flows have been modified. The TAURON Group has liabilities under loans from the European Investment Bank and the liabilities are modified through a change in interest rates at an agreed date. The application of IFRS 9 *Financial Instruments* increased the Group's retained earnings as at 1 January 2018 by PLN 33 055 thousand.

- **Hedge accounting**

As at 1 January 2018, the Group held instruments hedging fluctuations in cash flows related to issued bonds and resulting from the interest rate risk. These interest rate swaps are subject to hedge accounting.

An analysis of risks and rewards related to the adoption of the hedge accounting solutions introduced by IFRS 9 *Financial Instruments* in light of the Group's portfolio of financial instruments revealed that the principles defined in IAS 39 *Financial Instruments: Recognition and Measurement* should still be applied. It is not expected that the application of IFRS 9 *Financial Instruments* in the part concerning hedge accounting will have a material impact on the Group's consolidated financial statements as regards its transactions. The Company has been monitoring the work carried out by the International Accounting Standards Board with respect to IFRS 9 *Financial Instruments* related to hedge accounting and the date of the obligatory application of the hedge accounting principles.

- **Measurement of financial guarantee liabilities**

The Group has analyzed the impact of IFRS 9 *Financial Instruments* on the measurement of financial guarantee liabilities. The analysis did not reveal any significant impact of IFRS 9 *Financial Instruments* on the measurement of liabilities in the loss allowance for expected credit losses.

IFRS 15 Revenue from Contracts with Customers

Clarifications to IFRS 15 Revenue from Contracts with Customers

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

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

The key principles introduced by IFRS 15 *Revenue from Contracts with Customers* are:

- five steps of revenue recognition: identify the contract(s) with a customer; identify the performance obligations in the contract; determine the transaction price; allocate the transaction price to each performance obligation; and recognize revenue when (or as) the entity satisfies a performance obligation;
- revenue is recognized when (or as) the entity satisfies the obligation to transfer an asset. The asset has been transferred as control has passed;
- the transaction price is the amount of consideration to which an entity expects to be entitled in exchange for transferring promised assets or services to a customer, excluding amounts collected on behalf of third parties.

The new standard requires significantly extended disclosures regarding sales and revenue to enable users of financial statements to understand the nature, timing, amount as well as risk and uncertainty of revenue and cash flows arising from contracts with customers. In particular, an entity has to disclose quantitative and qualitative information about: its contracts with customers, its material judgements and estimates and capitalized costs of contract acquisition and performance.

Impact on the consolidated financial statements as at 1 January 2018

The Group has decided to apply the modified retrospective approach allowed by IFRS 15 *Revenue from Contracts with Customers*, i.e. with the cumulative effect of initially applying this standard recognized at the date of initial application. The Group decided not to restate the comparative information, as permitted by the standard. The data as at 31 December 2017 and for the 6-month period ended 30 June 2017 were prepared in line with IAS 18 *Revenue*, IAS 11 *Construction Contracts*, IFRIC 18 *Transfer of Assets from Customers* and interpretations related to revenue recognition issued before IFRS 15 *Revenue from Contracts with Customers* was endorsed.

The Group has conducted a five-step analysis of its contracts with customers, which is necessary for proper measurement of its revenue in accordance with IFRS 15 *Revenue from Contracts with Customers* – from identification of contracts (or contract groups), through selection of liability items and determination of prices, their allocation to individual liability items to revenue recognition.

Impact of the application of IFRS 15 *Revenue from Contracts with Customers* on retained earnings as at 1 January 2018:

Impact on retained earnings	
Distribution segment	
Write-off of deferred income (connection fees)	195 666
	195 666
Sales segment	
Recognition of assets relating to variable consideration and discounts	7 426
Recognition of assets relating to contract acquisition costs	18 929
	26 355
Total impact of IFRS 15	222 021
Deferred tax	(42 184)
Impact on retained earnings, taking account of deferred tax	179 837

The data presented above, which, according to the Group, comply with the requirements of IFRS 15 *Revenue from Contracts with Customers* in all material respects, were not audited by a certified auditor. Consequently, the final figures disclosed in the consolidated financial statements for 2018 may differ from those presented in these condensed interim consolidated financial statements.

In the Distribution segment, the Group analyzed contracts constituting the basis for recognition of revenue from the connection of new buyers as well as distribution and comprehensive services contracts in light of IFRS 15 *Revenue from Contracts with Customers* so as to identify separate services as required by the standard. Considering the findings of this analysis, the Group decided that, in accordance with IFRS 15 *Revenue from Contracts with Customers*, the distribution and comprehensive services contracts and the connection contracts are not a single obligation and should not be recognized together. Consequently, the Group recognizes revenue from the connection contracts on a non-recurring basis when the promised service, i.e. connection to the grid, has been performed. Such recognition is consistent with the Group's accounting policy and will not change its profit/loss.

As far as the recognition of revenue from connection fees for services performed before 1 July 2009 is concerned, the Group has concluded that, if a retrospective approach is adopted, as at 1 January 2018 PLN 195 666 thousand of deferred income will be transferred to the Group's equity and revenue from the recognition of the above deferred income in the Group's future profit or loss will not be recognized (with approx. PLN 22 million in the year ended 31 December 2018).

One of the measures taken to implement IFRS 15 *Revenue from Contracts with Customers* was the Group's analysis of the following key issues that affect its profit or loss and as well as revenue and expenses in the Sale segment:

- Customer acquisition costs – costs to execute new contracts with customers, incurred by the companies in the Sale segment on external counterparties and other companies in the Group.

The Group has analyzed whether such costs may be recognized as contract acquisition costs in line with IFRS 15 *Revenue from Contracts with Customers* and capitalized throughout the term of the contract. The costs of commissions the payment of which depends on a specific contract and which were charged to profit or loss on a non-recurring basis by 31 December 2017 satisfy the conditions for classification as contract acquisition costs and thus they may be capitalized as of 1 January 2018. The application of IFRS 15 *Revenue from Contracts with Customers* with respect to customer acquisition costs increased the Group's retained earnings as at 1 January 2018 by PLN 18 929 thousand.

- Variable consideration, discounts – a customer who signs a contract or acquires additional goods or services is entitled to a cash discount.

The Group decided that the discounts given to buyers under the customer schemes in place should be included in the calculation of the transaction price and should reduce revenue from sales of products or services. In the opinion of the Group, the discounts offered by the companies in the Sale segment are not a separate performance obligation. Consequently, the discount offered to the buyer is deferred, i.e. it is recognized as a reduction in revenue over the average outstanding duration of the relevant contract, as determined by the Group. The application of IFRS 15 *Revenue from Contracts with Customers* with respect to variable consideration increased the Group's retained earnings by PLN 7 426 thousand as at 1 January 2018.

Other issues analyzed by the Group in terms of IFRS 15 *Revenue from Contracts with Customers* which did not have an impact on the Group's equity as at 1 January 2018:

- Multiple-element arrangements – contracts whereby the buyer is offered multiple products of the Group which guarantees more favorable terms and conditions than if the products were sold under separate contracts. This applies mainly to combined sales of gaseous fuels and electricity. The Group assumed that the prices set in the contracts with buyers may be applied directly to separate recognition of revenue from the supplies of electricity and gas and no further reallocation of the discount is necessary. Moreover, the Group identified its role of an intermediary in the transmission of gaseous fuels.
- Agreements to sell the Group's products and services combined with after-sale services – the Group has made an agreement with a buyer to sell products/services with additional after-sale services (e.g. electrician services) and a property insurance contract with a business partner (insurer) whereby the insurer provides the additional service directly to the buyer. The fee for the additional service has been included in the commercial fee. The Group is of the opinion that it performs the role of an intermediary under the said agreements. In view of the above, in accordance with IFRS 15 *Revenue from Contracts with Customers*, the Group recognizes revenue from the above services at the amount of consideration net of the fee paid to the third party for the services provided by the party.
- Heat sales contracts in the Generation segment – in the opinion of the Group, the customer who is party to a contract cannot derive benefits from individual chargeable elements listed in the contract. This means that individual elements of a contract do not meet the criteria necessary for being treated as separate performance obligations. Therefore, every contract with a customer contains one performance obligation in the form of a comprehensive heat supply service.

As the Group has decided to apply the modified retrospective approach with the cumulative effect of initially applying IFRS 15 *Revenue from Contracts with Customers* recognized as at 1 January 2018, the condensed interim consolidated statement of financial position as at 30 June 2018 has been compared with the statement of financial position prepared as at the same date in line with the accounting principles applicable before IFRS 15 *Revenue from Contracts with Customers* was endorsed, i.e. in accordance with IAS 18 *Revenue*, IAS 11 *Construction Contracts*, IFRIC 18 *Transfer of Assets from Customers* and other interpretations related to revenue recognition.

	As at 30 June 2018 <i>(unaudited)</i>	Restatement to comply with the principles applicable before IFRS 15 was endorsed	As at 30 June 2018 <i>(unaudited restated figures)</i>
ASSETS			
Non-current assets	31 074 587	(13 065)	31 061 522
Other non-financial assets	303 232	(17 325)	285 907
Deferred tax assets	39 762	4 260	44 022
Current assets	3 978 095	(15 270)	3 962 825
Receivables arising from taxes and charges	223 718	2 386	226 104
Other non-financial assets	146 896	(17 656)	129 240
TOTAL ASSETS	35 052 682	(28 335)	35 024 347
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the Parent	18 686 055	(174 055)	18 512 000
Retained earnings/(Accumulated losses)	1 383 852	(174 055)	1 209 797
Non-controlling interests	33 180	(388)	32 792
Total equity	18 719 235	(174 443)	18 544 792
Non-current liabilities	12 325 264	126 103	12 451 367
Accruals, deferred income and government grants	360 717	161 151	521 868
Deferred tax liabilities	858 237	(35 048)	823 189
Current liabilities	4 008 183	20 005	4 028 188
Accruals, deferred income and government grants	299 101	20 005	319 106
Total liabilities	16 333 447	146 108	16 479 555
TOTAL EQUITY AND LIABILITIES	35 052 682	(28 335)	35 024 347

The table below presents the comparison of the condensed interim consolidated statement of comprehensive income for the 6-month period ended 30 June 2018 with the statement of comprehensive income prepared for the same period in line with the principles applicable before IFRS 15 *Revenue from Contracts with Customers* was endorsed, i.e. in accordance with IAS 18 *Revenue*, IAS 11 *Construction Contracts*, IFRIC 18 *Transfer of Assets from Customers*

and other interpretations related to revenue recognition.

	6-month period ended 30 June 2018 <i>(unaudited)</i>	Restatement to comply with the principles applicable before IFRS 15 was endorsed	6-month period ended 30 June 2018 <i>(unaudited restated figures)</i>
Sales revenue	9 202 371	10 770	9 213 141
Cost of sales	(7 926 786)	(3 382)	(7 930 168)
Profit on sale	1 275 585	7 388	1 282 973
Selling and distribution expenses	(228 322)	(1 504)	(229 826)
Operating profit	954 884	5 884	960 768
Profit before tax	725 367	5 884	731 251
Income tax expense	(156 931)	(490)	(157 421)
Net profit	568 436	5 394	573 830
Other comprehensive income subject to reclassification to profit or loss	(1 808)	-	(1 808)
Other comprehensive income not subject to reclassification to profit or loss	5 393	-	5 393
Other comprehensive income, net of tax	3 585	-	3 585
Total comprehensive income	572 021	5 394	577 415
Net profit:			
Attributable to equity holders of the Parent	567 029	5 370	572 399
Attributable to non-controlling interests	1 407	24	1 431
Total comprehensive income:			
Attributable to equity holders of the Parent	570 605	5 370	575 975
Attributable to non-controlling interests	1 416	24	1 440
Basic and diluted earnings per share (in PLN):	0,32	-	0,32

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

Standard	Effective in the EU as of <i>(annual periods beginning on or after the date provided)</i>
Revised IFRS 4 <i>Insurance Contracts</i>	1 January 2018
Revised IFRS 2 <i>Share-based Payments: Classification and Measurement of Share-based Payment Transactions</i>	1 January 2018
Revised IAS 40 <i>Investment Property – Transfers of Investment Property</i>	1 January 2018
IFRIC 22 <i>Foreign Currency Transactions and Advance Consideration</i>	1 January 2018
<i>Annual Improvements to IFRS (cycle 2014-2016):</i>	
IFRS 1 <i>First-time Adoption of International Financial Reporting Standards</i>	1 January 2018
IAS 28 <i>Investments in Associates and Joint Ventures</i>	1 January 2018

8.2. Other changes in accounting and presentation principles applied by the Group

• A change in the method of measuring the release of energy certificates and emission allowances

The Group has analyzed the methods of measuring the release of energy certificates and emission allowances allowed by the law and used in the competitive environment. In the opinion of the Group, the release of energy certificates and emission allowances measured using the FIFO method helps to measure the Group's inventories at the most valid prices, which may be significant considering fluctuations in the market prices of such assets. The analysis has also revealed that the FIFO method is the most commonly used method in the power sector to measure the release of energy certificates and emission allowances. Considering the above, the Group decided to change the method of measuring the release of energy certificates and emission allowances as of 1 January 2018. After the change, the release of energy certificates and emission allowances has been measured using the FIFO method. Previously, the release was measured using the weighted average cost formula.

The change has not had any effect on the Group's profit or loss.

• **A change in the presentation of a share of profit or loss of joint ventures measured using the equity method in the consolidated statements of comprehensive income**

Investments in joint ventures relate to Elektrociepłownia Stalowa Wola S.A. and TAMEH HOLDING Sp. z o.o. The said companies are active in the power sector and their operations and performance are linked with the operating activities of the Generation segment. According to the Group, recognition of a share of profit or loss of joint ventures in the operating profit or loss of the Group more accurately reflects the nature of these joint ventures and the Group's involvement in managing and monitoring their performance on a day-to-day basis. In view of the above, the Group decided to change the presentation of its share of profit or loss of joint ventures with effect as of 1 January 2018. Consequently, the share of profit or loss of joint ventures is presented within the operating profit or loss of the Group. Before, the share of profit or loss of joint ventures was not recognized within the operating profit or loss of the Group but within its gross profit or loss.

The change has not had any effect on the Group's profit or loss.

• **A change in the presentation of derivative financial instruments**

As of 1 January 2018, the Group has been presenting the effects of measurement and realized gains or losses on forwards and futures (derivative financial instruments) separately in assets and liabilities, disclosing a gain or loss on a single contract. Previously, the Group applied a simplified approach involving the recognition of the effects of measurement and realized gains or losses on contracts taking into account the short and the long positions.

The change has not had any effect on the Group's profit or loss.

The impact of the changes in question on the condensed interim consolidated statement of comprehensive income for the 6-month period ended 30 June 2017 and on the statement of financial position as at 31 December 2017 has been presented in the tables below.

	6-month period ended 30 June 2017 <i>(authorised figures)</i>	Change of the method of measuring the release of energy certificates and emission allowances	Change of the method of presenting the share in profit (loss) of joint ventures	6-month period ended 30 June 2017 <i>(unaudited restated figures)</i>
Sales revenue	8 755 366	2 658	-	8 758 024
Cost of sales	(7 014 116)	(2 658)	-	(7 016 774)
Profit on sale	1 741 250	-	-	1 741 250
Share in profit/(loss) of joint ventures	-	-	58 330	58 330
Operating profit	1 237 194	-	58 330	1 295 524
Share in profit/(loss) of joint ventures	58 330	-	(58 330)	-
Profit before tax	1 240 592	-	-	1 240 592
Net profit	1 005 477	-	-	1 005 477

	As at 31 December 2017 <i>(authorised figures)</i>	Change of the method of measuring the release of energy certificates and emission allowances	Change of the method of presenting derivative instruments	As at 31 December 2017 <i>(restated figures)</i>
ASSETS				
Non-current assets	31 049 127	(844)	259	31 048 542
Other financial assets	238 095	-	259	238 354
Deferred tax assets	46 966	(844)	-	46 122
Current assets	4 742 894	(4 443)	48 023	4 786 474
Energy certificates and emission allowances for surrender	656 703	(4 443)	-	652 260
Other financial assets	171 910	-	48 023	219 933
TOTAL ASSETS	35 792 021	(5 287)	48 282	35 835 016
EQUITY AND LIABILITIES				
Total equity	18 067 813	-	-	18 067 813
Non-current liabilities	12 738 005	-	259	12 738 264
Other financial liabilities	91 620	-	259	91 879
Current liabilities	4 986 203	(5 287)	48 023	5 028 939
Provisions for liabilities due to energy certificates and greenhouse gas emission allowances	953 389	(4 443)	-	948 946
Liabilities arising from taxes and charges	452 592	(844)	-	451 748
Other financial liabilities	294 139	-	48 023	342 162
Total liabilities	17 724 208	(5 287)	48 282	17 767 203
TOTAL EQUITY AND LIABILITIES	35 792 021	(5 287)	48 282	35 835 016

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.

OPERATING SEGMENTS

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 buyers and other financial receivables, assets relating to gain on measurement of commodity derivative instruments 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, capital commitments and payroll liabilities as well as liabilities relating to loss on measurement of commodity derivative instruments, 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 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 2018 to 30 June 2018 and for the comparative period was based on the following operating segments:

TAURON Polska Energia S.A. Capital Group

Condensed interim consolidated financial statements for the 6-month period ended 30 June 2018
prepared in accordance with the International Financial Reporting Standards, as endorsed by the European Union
(in PLN '000)

Operating segments	Core business	Subsidiaries/ Entities recognized with the equity method
<p>Mining</p> 	<p>Hard coal mining</p>	<p>TAURON Wydobywanie S.A.</p>
<p>Generation</p>   	<p>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</p> <p>Generation of electricity using renewable sources</p> <p>Generation, distribution and sales of heat</p>	<p>TAURON Wytwarzanie S.A. TAURON Ekoenergia Sp. z o.o. TAURON Ciepło Sp. z o.o. TAURON Serwis Sp. z o.o. Marselwind Sp. z o.o. Nowe Jaworzno Grupa TAURON Sp. z o.o.</p> <p>TAMEH HOLDING Sp. z o.o.* TAMEH POLSKA Sp. z o.o.* TAMEH Czech s.r.o.* Elektrociepłownia Stalowa Wola S.A.*</p>
<p>Distribution</p> 	<p>Distribution of electricity</p>	<p>TAURON Dystrybucja S.A. TAURON Dystrybucja Serwis S.A. TAURON Dystrybucja Pomiary Sp. z o.o.</p>
<p>Sales</p> 	<p>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.</p>	<p>TAURON Polska Energia S.A. TAURON Sprzedaż Sp. z o.o. TAURON Sprzedaż GZE Sp. z o.o. TAURON Czech Energy s.r.o.</p>

* 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 desulphurization 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., Wsparcie Grupa TAURON Sp. z o.o. and Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. are also treated as other operations of the Group.

TAURON Polska Energia S.A. Capital Group
Condensed interim consolidated financial statements for the 6-month period ended 30 June 2018
prepared in accordance with the International Financial Reporting Standards, as endorsed by the European Union
(in PLN '000)

10.1. Operating segments

For the 6-month period ended 30 June 2018 or as at 30 June 2018 (unaudited)

	Mining	Generation	Distribution	Sales	Other	Unallocated items / Eliminations	Total
Revenue							
Sales to external customers	315 468	1 321 489	1 754 313	5 765 618	45 483	-	9 202 371
Inter-segment sales	363 318	797 863	1 709 495	849 514	369 123	(4 089 313)	-
Segment revenue	678 786	2 119 352	3 463 808	6 615 132	414 606	(4 089 313)	9 202 371
Profit/(loss) of the segment							
Share in profit/(loss) of joint ventures	-	45 442	-	-	-	-	45 442
Unallocated expenses	-	-	-	-	-	(57 731)	(57 731)
EBIT	(866 166)	740 849	796 451	322 560	44 272	(83 082)	954 884
Net finance income (costs)	-	-	-	-	-	(229 517)	(229 517)
Profit/(loss) before income tax	(866 166)	740 849	796 451	322 560	44 272	(312 599)	725 367
Income tax expense	-	-	-	-	-	(156 931)	(156 931)
Net profit/(loss) for the period	(866 166)	740 849	796 451	322 560	44 272	(469 530)	568 436
Assets and liabilities							
Segment assets	1 397 631	11 682 243	17 611 246	2 748 081	511 896	-	33 951 097
Investments in joint ventures	-	536 412	-	-	-	-	536 412
Unallocated assets	-	-	-	-	-	565 173	565 173
Total assets	1 397 631	12 218 655	17 611 246	2 748 081	511 896	565 173	35 052 682
Segment liabilities	729 955	1 170 904	1 843 168	1 265 819	308 094	-	5 317 940
Unallocated liabilities	-	-	-	-	-	11 015 507	11 015 507
Total liabilities	729 955	1 170 904	1 843 168	1 265 819	308 094	11 015 507	16 333 447
EBIT	(866 166)	740 849	796 451	322 560	44 272	(83 082)	954 884
Depreciation/amortization	(67 568)	(201 335)	(538 807)	(3 798)	(44 090)	-	(855 598)
Impairment	(732 931)	350 434	(555)	-	(350)	-	(383 402)
EBITDA	(65 667)	591 750	1 335 813	326 358	88 712	(83 082)	2 193 884
Other segment information							
Capital expenditure *	90 841	569 523	793 478	4 302	22 186	-	1 480 330

* 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 2017 (restated, unaudited) or as at 31 December 2017 (restated)

	Mining	Generation	Distribution	Sales	Other	Unallocated items / Eliminations	Total
Revenue							
Sales to external customers	358 882	961 164	1 622 655	5 773 133	42 190	-	8 758 024
Inter-segment sales	422 802	1 323 665	1 745 339	903 863	350 398	(4 746 067)	-
Segment revenue	781 684	2 284 829	3 367 994	6 676 996	392 588	(4 746 067)	8 758 024
Profit/(loss) of the segment							
Share in profit/(loss) of joint ventures	-	58 330	-	-	-	-	58 330
Unallocated expenses	-	-	-	-	-	(50 102)	(50 102)
EBIT	(65 816)	138 772	677 320	540 417	37 947	(33 116)	1 295 524
Net finance income (costs)	-	-	-	-	-	(54 932)	(54 932)
Profit/(loss) before income tax	(65 816)	138 772	677 320	540 417	37 947	(88 048)	1 240 592
Income tax expense	-	-	-	-	-	(235 115)	(235 115)
Net profit/(loss) for the period	(65 816)	138 772	677 320	540 417	37 947	(323 163)	1 005 477
Assets and liabilities							
Segment assets	2 085 538	11 298 814	17 409 160	3 090 248	508 825	-	34 392 585
Investments in joint ventures	-	499 204	-	-	-	-	499 204
Unallocated assets	-	-	-	-	-	943 227	943 227
Total assets	2 085 538	11 798 018	17 409 160	3 090 248	508 825	943 227	35 835 016
Segment liabilities	849 728	1 858 246	2 339 080	1 406 589	386 693	-	6 840 336
Unallocated liabilities	-	-	-	-	-	10 926 867	10 926 867
Total liabilities	849 728	1 858 246	2 339 080	1 406 589	386 693	10 926 867	17 767 203
EBIT	(65 816)	138 772	677 320	540 417	37 947	(33 116)	1 295 524
Depreciation/amortization	(61 102)	(194 540)	(527 906)	(4 467)	(38 663)	-	(826 678)
Impairment	2	(31 489)	1 916	(512)	(25)	-	(30 108)
EBITDA	(4 716)	364 801	1 203 310	545 396	76 635	(33 116)	2 152 310
Other segment information							
Capital expenditure *	55 872	813 917	604 630	582	20 241	-	1 495 242

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

EXPLANATORY NOTES TO THE CONDENSED INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

11. Sales revenue

	6-month period ended 30 June 2018 <i>(unaudited)</i>	6-month period ended 30 June 2017 <i>(unaudited restated figures)</i>
Sale of goods for resale, finished goods and materials without elimination of excise	5 840 973	5 503 647
Excise	(204 723)	(207 931)
Sale of goods for resale, finished goods and materials	5 636 250	5 295 716
Electricity	4 759 190	4 373 096
Heat energy	348 049	372 480
Energy certificates	31 536	28 925
Coal	278 363	333 825
Gas	125 576	103 948
Other goods for resale, finished goods and materials	93 536	83 442
Rendering of services	3 535 562	3 431 806
Distribution and trade services	3 378 715	3 253 095
Connection fees	36 787	59 691
Maintenance of road lighting	59 766	54 109
Other services	60 294	64 911
Other revenue	30 559	30 502
Total	9 202 371	8 758 024

The Group's sales revenue by operating segment has been presented below.

For the 6-month period ended 30 June 2018 (unaudited)

	Mining	Generation	Distribution	Sales	Other	Total
Sale of goods for resale, finished goods and materials	297 454	1 199 543	2 036	4 101 012	36 205	5 636 250
Electricity	208	817 966	-	3 941 015	1	4 759 190
Heat energy	-	348 049	-	-	-	348 049
Energy certificates	-	30 982	-	554	-	31 536
Coal	278 363	-	-	-	-	278 363
Gas	-	-	-	125 576	-	125 576
Other goods for resale, finished goods and materials	18 883	2 546	2 036	33 867	36 204	93 536
Rendering of services	17 274	114 577	1 735 781	1 664 519	3 411	3 535 562
Distribution and trade services	53	111 000	1 604 005	1 663 657	-	3 378 715
Connection fees	-	587	36 200	-	-	36 787
Maintenance of road lighting	-	-	59 766	-	-	59 766
Other services	17 221	2 990	35 810	862	3 411	60 294
Other revenue	740	7 369	16 496	87	5 867	30 559
Total	315 468	1 321 489	1 754 313	5 765 618	45 483	9 202 371

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

	Mining	Generation	Distribution	Sales	Other	Total
Sale of goods for resale, finished goods and materials	342 444	828 388	9 400	4 083 091	32 393	5 295 716
Electricity	180	422 428	-	3 950 488	-	4 373 096
Heat energy	-	372 480	-	-	-	372 480
Energy certificates	-	27 606	-	1 319	-	28 925
Coal	333 825	-	-	-	-	333 825
Gas	-	-	-	103 948	-	103 948
Other goods for resale, finished goods and materials	8 439	5 874	9 400	27 336	32 393	83 442
Rendering of services	15 735	124 919	1 597 727	1 690 030	3 395	3 431 806
Distribution and trade services	64	116 014	1 448 676	1 688 341	-	3 253 095
Connection fees	-	4	59 687	-	-	59 691
Maintenance of road lighting	-	-	54 109	-	-	54 109
Other services	15 671	8 901	35 255	1 689	3 395	64 911
Other revenue	703	7 857	15 528	12	6 402	30 502
Total	358 882	961 164	1 622 655	5 773 133	42 190	8 758 024

12. Expenses by type

	6-month period ended 30 June 2018	6-month period ended 30 June 2017
	<i>(unaudited)</i>	<i>(unaudited restated figures)</i>
Depreciation of property, plant and equipment and amortization of intangible assets	(855 598)	(826 678)
Impairment of non-financial non-current assets	(383 849)	(33 127)
Materials and energy	(680 249)	(624 689)
Maintenance and repair services	(100 234)	(99 725)
Distribution services	(1 090 238)	(1 043 124)
Other external services	(393 504)	(410 141)
Cost of obligation to remit the emission allowances	(167 658)	(146 308)
Other taxes and charges	(347 475)	(365 623)
Employee benefits expense	(1 176 858)	(1 309 143)
Allowance for doubtful debts	(9 116)	(14 300)
Other	(44 304)	(35 135)
Total costs by type	(5 249 083)	(4 907 993)
Change in inventories, prepayments, accruals and deferred income	(78 407)	(133 775)
Cost of goods produced for internal purposes	267 514	196 089
Selling and distribution expenses	228 322	225 527
Administrative expenses	283 605	304 563
Cost of goods for resale and materials sold	(3 378 737)	(2 701 185)
Cost of sales	(7 926 786)	(7 016 774)

An increase in the value of impairment losses on non-financial non-current assets in the 6-month period ended 30 June 2018 versus the comparative period resulted mainly from the recognition of the effects of impairment tests performed as at 30 June 2018, as a consequence of which the Group recognized a net impairment loss of PLN 388 101 thousand, covering the following items:

- property, plant and equipment – a net impairment of PLN 299 022 thousand;
- other non-financial assets – an impairment of PLN 74 119 thousand;
- goodwill – an impairment of PLN 13 973 thousand;
- intangible assets – an impairment of PLN 987 thousand.

Impairment tests have been discussed in more detail in Notes 17 and 18 to these condensed interim consolidated financial statements.

A decrease in employee benefit costs in the 6-month period ended 30 June 2018 versus the comparative period results mainly from the recognition of the effects of the reversal of actuarial provisions for the employee tariff and the Company's Social Benefits Fund in the part related to the existing employees as future pensioners by a company in the Generation segment in the current period, in the amount of PLN 49 270 thousand and PLN 5 469 thousand, respectively, and the reversal of provisions for jubilee bonuses of PLN 121 172 thousand. Additionally, following the reversal of provisions for jubilee bonuses, the company paid PLN 79 316 thousand in compensation to employees, which was charged to the Group's employee benefit costs. The above events have been discussed in more detail in Note 31 to these condensed interim consolidated financial statements.

An increase in the value of goods and materials sold during the 6-month period ended 30 June 2018 versus the comparative period arises from the recognition of the effects of the Company's reversal of provisions for onerous contracts with a joint venture in the net amount of PLN 201 174 thousand in the comparative period, as described in Note 32.3 to these condensed interim consolidated financial statements.

13. Other operating revenue and expenses

In the 6-month period ended 30 June 2018, a company from the Generation segment reversed provisions for the employee tariff and the Company's Social Benefits Fund in the portion related to pensioners. The effect of the said reversal on an increase in the Group's other operating revenue was PLN 127 051 thousand and PLN 12 419 thousand, respectively.

14. Finance income and costs

	6-month period ended 30 June 2018 <i>(unaudited)</i>	6-month period ended 30 June 2017 <i>(unaudited)</i>
Income and costs from financial instruments	(203 889)	(24 957)
Dividend income	1 058	6 935
Interest income	13 972	10 183
Interest costs	(81 430)	(98 977)
Commission relating to borrowings and debt securities	(11 510)	(8 820)
Gain/loss on derivative instruments	31 179	(6 899)
Foreign exchange gains/losses	(149 931)	71 468
Remeasurement of originated loans	(5 808)	-
Other	(1 419)	1 153
Other finance income and costs	(25 628)	(29 975)
Interest on employee benefits	(17 430)	(20 398)
Interest on discount of other provisions	(6 329)	(8 278)
Other	(1 869)	(1 299)
Total, including recognized in the statement of comprehensive income:	(229 517)	(54 932)
Interest expense on debt	(81 430)	(98 977)
Finance income and other finance costs	(148 087)	44 045

In the 6-month period ended 30 June 2018, exchange losses exceeded exchange gains by PLN 149 931 thousand. Exchange losses are mainly exchange differences related to the Company's debt in the euro, i.e. a loan obtained from a subsidiary, subordinated bonds and eurobonds. On that basis, exchange losses exceeded exchange gains by PLN 165 858 thousand. In the 6-month period ended 30 June 2018, the Group capitalized exchange differences of PLN 17 365 thousand in relation to investment projects.

15. Income tax

15.1. Tax expense in the statement of comprehensive income

	6-month period ended 30 June 2018 <i>(unaudited)</i>	6-month period ended 30 June 2017 <i>(unaudited)</i>
Current income tax	(183 741)	(144 981)
Current income tax expense	(174 971)	(140 731)
Adjustments to current income tax from previous years	(8 770)	(4 250)
Deferred tax	26 810	(90 134)
Income tax expense in profit/(loss)	(156 931)	(235 115)
Income tax expense relating to other comprehensive income	1 321	654

A reduction in the deferred tax expense in the 6-month period ended 30 June 2018 versus the comparative period results mainly from the recognition of a deferred tax asset associated with a change in the carrying amount of property, plant and equipment, intangible assets and other non-financial assets identified by impairment tests carried out as at 30 June 2018, which produced a decrease in the deferred tax expense by PLN 73 739 thousand.

15.2. Deferred income tax

	As at 30 June 2018 <i>(unaudited)</i>	As at 31 December 2017 <i>(restated figures)</i>
difference between tax base and carrying amount of fixed and intangible assets	1 443 287	1 546 630
difference between tax base and carrying amount of financial assets	75 553	46 806
different timing of recognition of sales revenue for tax purposes	117 025	107 511
difference between tax base and carrying amount of energy certificates	5 340	7 964
other	35 436	47 841
Deferred tax liabilities	1 676 641	1 756 752
provisions	485 895	579 336
difference between tax base and carrying amount of fixed and intangible assets	111 947	167 531
power infrastructure received free of charge and received connection fees	9 069	46 669
difference between tax base and carrying amount of financial assets and financial liabilities	167 140	63 336
different timing of recognition of cost of sales for tax purposes	40 008	41 842
tax losses	14 514	13 386
other	29 593	18 909
Deferred tax assets	858 166	931 009
After setting off balances at the level of individual Group companies, deferred tax for the Group is presented as:		
Deferred tax asset	39 762	46 122
Deferred tax liability	(858 237)	(871 865)

As at 30 June 2018 and 31 December 2017, the deferred tax asset was set off against deferred tax liability of companies from the Tax Capital Group ("TCG") due to the fact that the said companies had filed a combined tax return under the Tax Capital Group agreements.

Based on the forecasts prepared for the TCG, according to which taxable income will be earned in future periods, 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.

16. Dividends paid and proposed

On 12 March 2018, the Management Board of TAURON Polska Energia S.A. adopted a resolution to file a motion with the Ordinary General Shareholders' Meeting of TAURON Polska Energia S.A. to allocate the Company's net profit for the 2017 financial year of PLN 854 351 thousand to the Company's reserve capital. On 16 April 2018, the Ordinary General Shareholders' Meeting of the Company adopted a resolution following the recommendation of the Management Board.

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

EXPLANATORY NOTES TO THE CONDENSED INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

17. Property, plant and equipment

For the 6-month period ended 30 June 2018 (unaudited)

	Land	Buildings, premises and civil engineering structures	Plant and machinery	Other	Assets under construction	Property, plant and equipment, total
COST						
Opening balance	122 780	22 580 965	18 647 127	895 144	4 856 088	47 102 104
Direct purchase	-	-	6	2	1 310 249	1 310 257
Borrowing costs	-	-	-	-	80 713	80 713
Transfer of assets under construction	1 036	518 574	280 051	18 687	(818 348)	-
Sale	(6)	(988)	(34 417)	(13 771)	(14)	(49 196)
Liquidation	(29)	(34 863)	(33 067)	(4 551)	(18)	(72 528)
Received free of charge	-	7 742	12	-	-	7 754
Transfers to/from assets held for sale	(164)	(2 062)	(7 565)	(1 878)	(702)	(12 371)
Overhaul expenses	-	-	-	-	29 109	29 109
Items generated internally	-	-	-	-	17 110	17 110
Other movements	(351)	(1 345)	1 695	(2 626)	(1 981)	(4 608)
Foreign exchange differences from translation of foreign entities	-	-	12	18	-	30
Closing balance	123 266	23 068 023	18 853 854	891 025	5 472 206	48 408 374
ACCUMULATED DEPRECIATION						
Opening balance	(407)	(8 553 035)	(9 866 322)	(565 315)	(37 139)	(19 022 218)
Depreciation for the period	-	(401 819)	(370 989)	(38 566)	-	(811 374)
Increase of impairment	-	(281 295)	(227 901)	(5 888)	(131 393)	(646 477)
Decrease of impairment	-	130 018	221 499	38	20	351 575
Sale	-	677	32 932	13 314	-	46 923
Liquidation	-	29 473	31 565	4 537	-	65 575
Transfers to/from assets held for sale	-	1 335	7 145	1 521	-	10 001
Other movements	-	66	(1 303)	1 771	-	534
Foreign exchange differences from translation of foreign entities	-	-	(8)	(8)	-	(16)
Closing balance	(407)	(9 074 580)	(10 173 382)	(588 596)	(168 512)	(20 005 477)
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	122 373	14 027 930	8 780 805	329 829	4 818 949	28 079 886
NET CARRYING AMOUNT AT THE END OF THE PERIOD	122 859	13 993 443	8 680 472	302 429	5 303 694	28 402 897
<i>of which operating segments:</i>						
Mining	2 774	505 417	411 363	10 162	214 275	1 143 991
Generation	41 909	2 401 373	3 869 258	32 463	4 117 403	10 462 406
Distribution	61 316	10 998 608	4 287 449	246 679	967 700	16 561 752
Other segments and other operations	16 860	88 045	112 402	13 125	4 316	234 748

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

	Land	Buildings, premises and civil engineering structures	Plant and machinery	Other	Assets under construction	Property, plant and equipment, total
COST						
Opening balance	121 980	21 603 044	18 164 046	850 102	3 261 173	44 000 345
Direct purchase	-	-	-	-	1 342 535	1 342 535
Borrowing costs	-	-	-	-	48 257	48 257
Transfer of assets under construction	299	372 397	260 523	12 997	(646 216)	-
Sale	(117)	(3 309)	(17 948)	(9 956)	(3)	(31 333)
Liquidation	(2)	(11 944)	(47 617)	(3 232)	-	(62 795)
Received free of charge	-	3 152	8	-	-	3 160
Transfers to/from assets held for sale	(30)	(14 909)	(2 394)	(15)	(11)	(17 359)
Overhaul expenses	-	-	-	-	45 758	45 758
Items generated internally	-	-	-	-	19 494	19 494
Other movements	(111)	(344)	973	135	(1 154)	(501)
Foreign exchange differences from translation of foreign entities	-	-	(17)	(22)	(1)	(40)
Closing balance	122 019	21 948 087	18 357 574	850 009	4 069 832	45 347 521
ACCUMULATED DEPRECIATION						
Opening balance	(433)	(7 825 966)	(9 268 038)	(517 062)	(33 657)	(17 645 156)
Depreciation for the period	-	(394 030)	(355 805)	(37 268)	-	(787 103)
Increase of impairment	-	(105 151)	(309 878)	(402)	(210)	(415 641)
Decrease of impairment	30	134 353	254 043	534	22	388 982
Sale	-	2 111	17 110	9 428	-	28 649
Liquidation	-	9 792	46 611	3 173	-	59 576
Transfers to/from assets held for sale	-	9 507	2 101	15	-	11 623
Other movements	-	98	90	(164)	-	24
Foreign exchange differences from translation of foreign entities	-	-	10	7	-	17
Closing balance	(403)	(8 169 286)	(9 613 756)	(541 739)	(33 845)	(18 359 029)
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	121 547	13 777 078	8 896 008	333 040	3 227 516	26 355 189
NET CARRYING AMOUNT AT THE END OF THE PERIOD	121 616	13 778 801	8 743 818	308 270	4 035 987	26 988 492
<i>of which operating segments:</i>						
Mining	2 774	738 405	664 263	16 115	271 152	1 692 709
Generation	41 257	2 385 557	3 785 612	35 522	3 001 720	9 249 668
Distribution	60 724	10 562 118	4 170 993	240 102	759 781	15 793 718
Other segments and other operations	16 861	92 721	122 950	16 531	3 334	252 397

In the 6-month period ended 30 June 2018, the Group acquired property, plant and equipment of PLN 1 390 970 thousand, including capitalized costs of external financing. The major purchases were made in connection with investments in the following operating segments:

Operating segment	6-month period ended 30 June 2018 (unaudited)	6-month period ended 30 June 2017 (unaudited)
Distribution	769 948	580 093
Generation	527 332	755 382
Mining	85 328	48 763

Impairment tests

In the 6-month period ended 30 June 2018, the Group recognized new and reversed previous impairment losses on property, plant and equipment as a result of impairment tests.

The recoverable amounts of items of property, plant and equipment are equal to their values in use. The impairment losses were charged to the cost of sales.

The impairment loss and its reversal resulting from the tests performed as at 30 June 2018 are related to the following cash generating units:

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CGU	Company	Discount rate (before tax) assumed in tests as at:		Recoverable amount	Impairment loss recognized	Impairment loss derecognized
		30 June 2018 <i>(unaudited)</i>	31 December 2017			
Mining	TAURON Wydobycie S.A.	10.95%	10.20%	667 210	643 851	-
Generation - Coal	TAURON Wytwarzanie S.A. / Nowe Jaworzno Grupa TAURON	8.47%	8.35% - 8.39%	6 550 497	-	-
Generation - Biomass	Sp. z o.o.	8.36%	8.35% - 8.39%	(103 789)	-	-
ZW Bielsko Biąta				522 258	-	-
ZW Katowice				1 090 586	-	-
ZW Tychy	TAURON Ciepło Sp. z o.o.	7.62%	7.58%	472 806	-	-
Local generators				78 789	-	-
Transmission		7.55%	7.55%	1 001 501	-	-
Hydropower plants	TAURON Ekoenergia Sp. z o.o.	8.92%	8.64%	743 627	-	-
Wind farms		10.57%	9.54%	753 577	-	344 829

As at 30 June 2018, 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;
- changes in global commodity prices and in the local power coal market following the consolidation in the mining sector;
- high volatility in the mining and geological industries;
- disadvantageous excavation front structure (short face runs), which generates additional costs of reinforcements;
- limited competition in the market of mining materials and services, which results in price increases;
- amendments to the Act on Renewable Energy Sources and publication of related obligations for the years 2018 and 2019, which affected the prices of renewable energy certificates;
- adoption of the Act on the Capacity Market and discussion of the functional solutions set out in the proposed capacity market regulations;
- the continued unfavorable market conditions in the conventional power industry;
- an increase in the risk-free rate.

The tests performed as at 30 June 2018 required the estimation of the value in use of cash generating units, based on their future cash flows discounted to their present value.

The impairment tests for property, plant and equipment and intangible assets were carried out at the level of individual companies, except for:

- TAURON Wytwarzanie S.A. and Nowe Jaworzno Grupa TAURON Sp. z o.o., where identification of cash generating units changed as compared to the tests carried out as at 31 December 2017. The Group recognized CGUs at a different level, by identifying two cash generating units in the operations of TAURON Wytwarzanie S.A. and Nowe Jaworzno Grupa TAURON Sp. z o.o. (which had been classified as a generation unit or a group of generation units before): CGU Generation - Coal and CGU Generation - Biomass. The key reason for the change in the approach to CGU classification, justifying consolidation of coal generation units, is the fairly advanced legislative process relating to the implementation of the Capacity Market mechanism and introducing the net available capacity as the product. The Act on the Capacity Market of 8 December 2017 was published on 3 January 2018, while the Capacity Market Regulations were approved by Decision of the President of the Energy Regulatory Office of 30 March 2018. On 7 February 2018, the European Commission notified the Capacity Market mechanism in Poland and it published the decision of 7 February 2018 approving the Capacity Market mechanism in Poland on 18 April 2018. The above legal measures justify the change in the approach to CGU in the tests performed as at 30 June 2018. The strategy adopted by the TAURON Group for purposes of joining the Capacity Market is a portfolio-based approach, with maximization of the total revenue from the Capacity Market as its core objective. Decisions regarding the operation of or the entry into capacity contracts by specific generation units and the provision of standby or reserve capacity by other units will support the implementation of the TAURON Group's strategy, in which the interest of the whole Generation Segment is overriding, which rules out the independence of cash inflows generated by individual units. The only exception to this rule will be dedicated biomass units (renewable energy sources – RES) whose cash streams are partly independent and generated with the use of support mechanisms available for the renewable energy sector. In addition to the Capacity Market mechanism, the change in CGU

identification in the Generation Segment has also been driven by electricity sales contract planning and fulfilment. The production portfolio is planned, coordinated and secured, both during the sales contracting process and electricity production planning and at the fuel procurement phase, at the level of the TAURON Group. Therefore, the decision-making capability of individual generation units with respect to generation of cash flows is limited;

- TAURON Ekoenergia Sp. z o.o. – where a test was carried out with respect to generation of electricity in hydroelectric power stations and one shared, integrated CGU for wind farms;
- TAURON Ciepło Sp. z o.o. – where generation of heat and electricity was separated from transmission and distribution of heat. Additional tests were carried out for individual generation units on “generation” operations.

Key assumptions made for purposes of tests performed as at 30 June 2018:

- The prices of coal in the coming years have been assumed at a stable high level due to the continuing high global prices and increasing transport costs. After the year 2021, according to international institutions, in the long-term perspective, coal prices will decrease as a result of the implementation of climate policy and the replace coal with increasing energy from renewable sources followed by a growing number of countries. Prices forecast by the World Bank by 2030 show a downward trend. It has been assumed that in the years 2021–2040 the prices of power coal will decrease by 15%;
- The electricity wholesale price path for the years 2019-2027 with the perspective by 2040 has been adopted, 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. In relation to the average SPOT price in the first half of the year 2018, the price increase by 13% for 2019 was assumed. A 3% drop of energy prices has been assumed by 2021 comparing to 2019, what results i.a. from the improvement of capacity balance due to launch of new units in Jaworzno and Opole. At the same time, the price in 2021 is by 9% higher than the average SPOT price in 2018. In the period from 2021 till 2027 an increase of 7.75% is assumed (vs. 2021) followed by a growth of 1% between 2028 and 2040 (fixed prices) comparing to 2027;
- The operating reserve capacity mechanism is to remain in place until the end of 2020, i.e. until the Capacity Market has been implemented;
- Planned changes in the Polish market model aimed to introduce the Capacity Market mechanism have been taken into account (in line with the adopted and notified Act on the Capacity Market and the Capacity Market Regulation). It has been assumed that capacity-related payments will begin as of 2021 and that they will be made until 2030. Auctions will take the form of a single basket solution, broken down by the length of the capacity contract depending on the level of capital expenditure (new, modernized and existing units). The average annual Capacity Market budget during the period when the mechanism is applied is PLN 4 billion;
- Greenhouse gas emission limits for heat generation have been set in line with the regulation of the Council of Ministers and adjusted by the level of operations, i.e. generation of heat;
- The greenhouse gas emission allowance growing price path for the years 2019-2027 with the perspective by 2040 has been adopted. It has been assumed that the market price will increase by ca. 40% by 2027, comparing to 2019, and ca. 90% comparing to the average price in the first half of 2018, with 2027 year price path followed in 2028-2040 (constant);
- The price path for certificates of origin and surrender obligations were adopted in the following years on the basis of the amended last year Act on Renewable Energy Sources. Assumptions arise i.a. from the need to meet the indicative target of renewable energy sources for 2020;
- Limited support periods for green energy have been assumed in accordance with the Act on Renewable Energy Sources, which provides for new support mechanisms for renewable energy. The support period has been limited to 15 years as from the date of the first supply of electricity qualifying for an energy certificate to the distribution network;

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- In line with the amended Energy Law and certain other acts, the applicable CHP support system settlements for 2018 will be carried out until 30 June 2019. After the year 2019 no support for CHP in existing coal units has been assumed thereafter;
- Regulated revenue generated by distribution companies, ensuring coverage of reasonable costs and a reasonable level of return on capital has been assumed. The return on capital is conditional on the Regulatory Asset Value;
- The electricity retail price path has been adopted 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 to end users taking into account GDP growth and increased market competition have been applied;
- Tariff revenue generated by heat companies, ensuring coverage of reasonable costs and a reasonable level of return on capital has been assumed;
- Maintaining the production capacity of the existing non-current assets as a result of replacement investments has been assumed;
- The weighted average cost of capital (WACC) during the projection period, as used in the calculations, ranges from 7.16% to 10.95% in nominal terms before tax, taking into account the risk free rate determined by reference to the yield on 10-year treasury bonds (4.08%) 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 2.5% and it corresponds to the estimated long-term inflation rate. As at 30 June 2018, WACC increased comparing to 31 December 2017 mainly due to a higher risk free rate and higher costs of debt financing.

The need to write off the CGU Mining assets as at 30 June 2018 was mainly due to the following circumstances:

- high volatility of mining and geological conditions in the mines belonging to the TAURON Group. In the 6-month period ended 30 June 2018, unfavorable conditions in aforementioned area were identified affecting the volumes of commercial coal production in the current period and forecasted for subsequent years;
- disadvantageous excavation front structure (short face runs), which generates additional costs of reinforcements;
- limited competition in the market of mining materials and services, which results in price increases in the first half of the year 2018 and subsequent years.

The possibility of reversing the impairment loss of CGU Wind farms assets as at 30 June 2018 was due in particular to changes in regulations regarding renewable energy sources concerning the method of determining the replacement fee and wind farm taxation, as well as the increase in energy prices and energy certificates from renewable sources.

A sensitivity analysis performed for each CGU revealed that the value in use of the tested assets was affected by the issue of the Capacity Market, with other market conditions remaining unchanged, forecast electricity prices, emission allowance prices, discount rates and hard coal prices. Presented below are estimated changes in the impairment loss on the Mining and Generation segment assets taking account of the effect of its reversal as at 30 June 2018 as a result of changes to key assumptions.

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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%	-	579
	-1%	583	-
Change of coal prices in the forecast period	+1%	21	-
	-1%	-	19
Change of gas emission allowances prices in the forecast period	+1%	170	-
	-1%	-	167
Change of WACC (net)	+0.1 p.p.	149	-
	-0.1 p.p.	-	151
Change of the rate on capacity market for 1MW	+1%	-	54
	-1%	54	-
Lack of recognition of payments relating to the Capacity Market		6 403	-

If the Capacity Market mechanism was disregarded in the process of estimation of the value in use of property, plant and equipment, with other market conditions and the internal sales strategy remaining unchanged, an additional net impairment loss of PLN 6 403 million would be recognized in the Group's profit or loss.

18. Goodwill

Operating segment	As at 30 June 2018 (unaudited)	As at 31 December 2017
Mining	-	13 973
Distribution	25 602	25 602
Generation	581	581
Total	26 183	40 156

Impairment tests

The test was performed for the net assets increased by goodwill in each operating segment. The recoverable amount in each company was determined based on the value in use.

The test was performed based on the present value of projected cash flows from operations. The calculations were based on detailed projections for the period from 2018 to 2027 and the estimated residual value. For the Mining segment detailed projections by the date of depletion of the available coal resources were used. Reliance on projections covering a period longer than 5 years results mainly from the fact that investment processes in the power industry are time-consuming. The macroeconomic and sector assumptions serving as the basis for projections are updated as frequently as any indications for their modification are observed on the market. Projections also take into account changes in the regulatory environment known as at the date of the test.

The weighted average cost of capital (WACC) during the projection period, as used in the calculations, ranges from 7.74% to 10.95% in nominal terms before tax, taking into account the risk free rate determined by reference to the yield on 10-year treasury bonds (4.08%) 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 2.5% and it corresponds to the estimated long-term inflation rate. As at 30 June 2018, WACC increased versus 31 December 2017 mainly due to a higher risk free rate and higher costs of debt financing.

The key assumptions affecting the estimated value in use and the discount rates applied to significant segments are as follows:

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Operating segment	Key assumptions	Discount rate (before tax) assumed in tests as at:	
		30 June 2018 (unaudited)	31 December 2017
Mining	<ul style="list-style-type: none"> The adopted price path for power coal, other coal sizes and gaseous fuels. In 2019-2021 lower supply of power coal is expected, which will be compensated by higher imports of the commodity. At the same time, the global coal prices will remain high. It has been assumed that in the years 2021–2040 the prices of power coal will decrease by 15%; 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; Maintaining the production capacity of the existing non-current assets as a result of replacement investments. 	10.95%	10.20%
Distribution	<ul style="list-style-type: none"> 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. 	7.74%	7.61%

The impairment test performed as at 30 June 2018 resulted in recognition of impairment of the carrying amount of goodwill in the Mining segment of PLN 13 973 thousand.

A sensitivity analysis performed for each CGU revealed that changes in the key factors, such as electricity prices, hard coal prices, the prices of greenhouse gas emission allowances as well as the weighted average cost of capital would have to be material to change the value in use of the tested assets to the extent necessary to recognize further impairment losses on goodwill.

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 2018 (unaudited)

	Energy certificates	Greenhouse gas emission allowances	Total
Opening balance	95 795	207 335	303 130
Direct purchase	37 763	420	38 183
Reclassification	(82 019)	(181 724)	(263 743)
Closing balance	51 539	26 031	77 570

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

	Energy certificates	Greenhouse gas emission allowances	Total
Opening balance	110 430	15 830	126 260
Direct purchase	14 749	-	14 749
Reclassification	(100 884)	(15 830)	(116 714)
Closing balance	24 295	-	24 295

19.2. Short-term energy certificates and gas emission allowances

For the 6-month period ended 30 June 2018 (unaudited)

	Energy certificates	Greenhouse gas emission allowances	Total
Opening balance	327 324	324 936	652 260
Direct purchase	218 658	-	218 658
Generated internally	32 058	-	32 058
Cancellation	(439 548)	(326 748)	(766 296)
Reclassification	81 490	181 724	263 214
Closing balance	219 982	179 912	399 894

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

	Energy certificates	Greenhouse gas emission allowances	Total
Opening balance	543 536	423 847	967 383
Direct purchase	204 221	-	204 221
Generated internally	27 741	-	27 741
Cancellation	(653 826)	(209 652)	(863 478)
Reclassification	99 810	15 830	115 640
Closing balance	221 482	230 025	451 507

20. Other intangible assets

For the 6-month period ended 30 June 2018 (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	6 403	773 287	644 480	236 548	148 502	1 809 220
Direct purchase	-	3 926	-	-	39 215	43 141
Transfer of intangible assets not made available for use	-	1 323	51 601	10 038	(62 962)	-
Sale/ Liquidation	-	(275)	(11 894)	(90)	-	(12 259)
Other movements	-	301	(165)	1 499	1 807	3 442
Foreign exchange differences from translation of foreign entities	-	-	37	-	-	37
Closing balance	6 403	778 562	684 059	247 995	126 562	1 843 581
ACCUMULATED AMORTIZATION						
Opening balance	(5 265)	(25 371)	(439 639)	(84 861)	(7)	(555 143)
Amortization for the period	(127)	-	(35 530)	(8 567)	-	(44 224)
Increase of impairment	-	(7)	(850)	(79)	(56)	(992)
Decrease of impairment	-	27	-	-	-	27
Sale/ Liquidation	-	-	11 839	89	-	11 928
Other movements	-	-	141	-	-	141
Foreign exchange differences from translation of foreign entities	-	-	(36)	-	-	(36)
Closing balance	(5 392)	(25 351)	(464 075)	(93 418)	(63)	(588 299)
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	1 138	747 916	204 841	151 687	148 495	1 254 077
NET CARRYING AMOUNT AT THE END OF THE PERIOD	1 011	753 211	219 984	154 577	126 499	1 255 282

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	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	5 434	786 283	610 578	211 873	93 060	1 707 228
Direct purchase	-	-	11	-	39 187	39 198
Transfer of intangible assets not made available for use	-	105	19 777	5 258	(25 140)	-
Sale / Liquidation	-	(841)	(287)	(100)	-	(1 228)
Other movements	15	(2 410)	(6 074)	6 268	10	(2 191)
Foreign exchange differences from translation of foreign entities	-	-	(53)	-	-	(53)
Closing balance	5 449	783 137	623 952	223 299	107 117	1 742 954
ACCUMULATED AMORTIZATION						
Opening balance	(5 120)	(25 617)	(387 075)	(64 982)	(7)	(482 801)
Amortization for the period	(39)	-	(31 069)	(8 467)	-	(39 575)
Increase of impairment	(16)	(227)	(329)	(23)	-	(595)
Decrease of impairment	73	234	11	32	-	350
Sale/ Liquidation	-	-	282	38	-	320
Other movements	(15)	227	2 152	(2 114)	-	250
Foreign exchange differences from translation of foreign entities	-	-	46	-	-	46
Closing balance	(5 117)	(25 383)	(415 982)	(75 516)	(7)	(522 005)
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	314	760 666	223 503	146 891	93 053	1 224 427
NET CARRYING AMOUNT AT THE END OF THE PERIOD	332	757 754	207 970	147 783	107 110	1 220 949

21. Interests in joint ventures

Investments in joint ventures measured using the equity method as at 30 June 2018 and for the 6-month period ended 30 June 2018 have been presented below:

	Elektrociepłownia Stalowa Wola S.A.	TAMEH HOLDING Sp. z o.o. *	As at 30 June 2018 or for the 6-month period ended 30 June 2018 (unaudited)
Non-current assets	1 311 235	1 847 672	3 158 907
Current assets, including:	3 661	567 173	570 834
<i>cash and cash equivalents</i>	634	185 048	185 682
Non-current liabilities (-), including:	(1 304 925)	(786 384)	(2 091 309)
<i>debt</i>	(1 254 441)	(688 223)	(1 942 664)
Current liabilities (-), including:	(71 457)	(473 947)	(545 404)
<i>debt</i>	(3 234)	(50 527)	(53 761)
Total net assets	(61 486)	1 154 514	1 093 028
Share in net assets	(30 743)	577 257	546 514
Investment in joint ventures	-	536 412	536 412
Share in revenue of joint ventures	30	371 452	371 482
Share in profit/(loss) of joint ventures	-	45 442	45 442
Share in other comprehensive income of joint ventures	-	338	338

* The data presented concern the TAMEH HOLDING Sp. z o.o. Capital Group. The value of the interest held in TAMEH HOLDING Sp. z o.o. differs from the value of net assets attributable to the Group, because the cost of shares in TAMEH HOLDING Sp. z o.o. was calculated taking into account the fair value of the share contributed to the joint venture by companies from the ArcelorMittal Capital Group.

Investments in joint ventures measured using the equity method as at 31 December 2017 and for the 6-month period ended 30 June 2017 have been presented below:

	Elektrociepłownia Stalowa Wola S.A.	TAMEH HOLDING Sp. z o.o. *	As at 31 December 2017 or for the 6-month period ended 30 June 2017 (unaudited)
Non-current assets	1 219 954	1 658 016	2 877 970
Current assets, including:	3 830	552 456	556 286
<i>cash and cash equivalents</i>	2 673	197 401	200 074
Non-current liabilities (-), including:	(538 278)	(670 240)	(1 208 518)
<i>debt</i>	(488 440)	(588 368)	(1 076 808)
Current liabilities (-), including:	(726 070)	(460 096)	(1 186 166)
<i>debt</i>	(659 374)	(49 415)	(708 789)
Total net assets	(40 564)	1 080 136	1 039 572
Share in net assets	(20 282)	540 068	519 786
Investment in joint ventures	-	499 204	499 204
Share in revenue of joint ventures	5	323 914	323 919
Share in profit/(loss) of joint ventures	-	58 230	58 230
Share in other comprehensive income of joint ventures	-	(7)	(7)

* 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 fueled with natural gas in Stalowa Wola with the gross maximum electrical capacity of 450 MWe and the net heat capability of 240 MWt.

On 27 October 2016, a conditional agreement was made among the Company, PGNiG S.A. and Elektrociepłownia Stalowa Wola S.A. to set out the key boundary conditions for project restructuring along with a conditional annex to the electricity sales contract. Furthermore, PGNiG S.A. and Elektrociepłownia Stalowa Wola S.A. executed a conditional annex to the gaseous fuel supply contract.

The conditions precedent were satisfied on 31 March 2017, which was followed by the entry into force of the aforesaid agreement and annexes. The issue has been discussed in more detail in Note 32.3 to these condensed interim consolidated financial statements.

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 of 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 of any further losses of the joint venture.

Additionally, the Company has receivables arising from loans disbursed to Elektrociepłownia Stalowa Wola S.A. with the carrying amount of PLN 199 523 thousand, which has been discussed in more detail in Note 22 to these condensed interim consolidated financial statements.

TAMEH HOLDING Sp. z o.o. and subsidiaries

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

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., which constitutes Elektrociepłownia in Ostrawa.

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On 28 June 2018, the General Shareholders' Meeting of TAMEH HOLDING Sp. z o.o. decided to allocate PLN 32 520 thousand to pay dividends to the shareholders. The Group's interest in the joint venture TAMEH HOLDING Sp. z o.o. was reduced by the value of the dividend payable to the Group in the amount of PLN 16 260 thousand.

22. Loans to joint ventures

Loans to the joint venture Elektrociepłownia Stalowa Wola S.A. as at 30 June 2018 and 31 December 2017 have been presented below.

	Agreement date	Loan amount	As at 30 June 2018 (unaudited)				Maturity date	Interest rate
			Principal*	Interest	Impairment allowance	Total		
Debt consolidation agreement	28.02.2018	609 951	191 565	-	-	191 565	The principal of PLN 310 851 thousand and interest mature on 30 June 2033. The principal amount of PLN 299 100 thousand was repaid on 30 April 2018.	fixed
Loan for financing current operations	30.03.2018	7 290	7 000	120	(156)	6 964	30.06.2033	fixed
VAT loan	11.04.2018	13 000	1 015	2	(23)	994	30.09.2020	floating/ WIBOR 1M+mark-up
Total			199 580	122	(179)	199 523		
Non-current			199 580	120	(179)	199 521		
Current			-	2	-	2		

*Including measurement of principal at amortized cost, except the subordinated loan, which is measured at fair value.

	Agreement date	Loan amount	As at 31 December 2017			Maturity date	Interest rate	Purpose
			Principal	Interest	Total			
Subordinated loan	20.06.2012	177 000	177 000	35 052	212 052	31.12.2032	floating/ WIBOR 3M+mark-up	Project performance: the borrower to obtain external funding
Loan for repayment of debt	14.12.2015	15 850	15 850	1 370	17 220	31.12.2027	floating/ WIBOR 3M+mark-up	Repayment of the principal instalment with interest with regard to loans granted to the borrower by European Investment Bank, European Bank for Reconstruction and Development and Bank Polska Kasa Opieki S.A.
	15.12.2016	15 300	11 000	495	11 495			
Arrangements to consolidate the borrower's debt	30.06.2017	150 000	150 000	3 259	153 259	28.02.2018	floating/ WIBOR 6M+mark-up	Payment of total liabilities under loan agreements entered into by the borrower with the European Investment Bank, the European Bank for Reconstruction and Development and Bank Polska Kasa Opieki S.A. and financing of current operations
	31.10.2017	175 157	175 157	1 249	176 406			
Total			529 007	41 425	570 432			
Non-current			203 850	36 917	240 767			
Current			325 157	4 508	329 665			

On 12 January 2018, the Company and Elektrociepłownia Stalowa Wola S.A. signed a loan agreement totaling PLN 27 000 thousand to be used for the operations of the borrower. Under the agreement, the loan and interest, accrued based on the 1M WIBOR rate increased by a margin, should be repaid by 28 February 2018. The repayment of the principal, interest and other expenses and amounts due to the Company was secured with the borrower's blank promissory note and a promissory note agreement.

On 28 February 2018, the Company and Elektrociepłownia Stalowa Wola S.A. concluded an agreement to consolidate the debt of the borrower totaling PLN 609 951 thousand by renewing all the existing liabilities of the borrower arising from loans extended and outstanding by 28 February 2018. Under the agreement, the consolidated amounts comprised the principal amounts of originated loans with the carrying amount as at 31 December 2017 of PLN 529 007 thousand; the principal amount of a loan of 12 January 2018 totaling PLN 27 000 thousand and related interest accrued as at 28 February 2018 and totaling PLN 53 944 thousand.

In accordance with the consolidation agreement in question, on 30 April 2018 a portion of the principal amount of the loan of PLN 299 100 thousand was repaid, while the remaining portion of the debt of PLN 310 851 thousand with interest accrued since 1 March 2018 will be repaid by the borrower by 30 June 2033. The loan bears a fixed interest rate and is secured with a blank promissory note and a promissory note agreement.

As the debt consolidation agreement changed significant contractual terms, the Company no longer discloses funds from loans under the agreement. It derecognized their carrying amount of PLN 511 952 thousand and disclosed a new asset measured at fair value at initial recognition of PLN 481 582 thousand, which has increased the financial expenses by PLN 30 370 thousand.

On 8 March 2018 Elektrociepłownia Stalowa Wola S.A. entered into a loan agreement with Bank Gospodarstwa Krajowego and Polskie Górnictwo Naftowe i Gazownictwo S.A., whereby Bank Gospodarstwa Krajowego and PGNiG S.A. provided a loan of up to PLN 450 000 thousand each to Elektrociepłownia Stalowa Wola S.A. The loan matures on 14 June 2030. The exposure of Bank Gospodarstwa Krajowego is secured with a bank guarantee issued upon request of the Company on 11 April 2018, as discussed in detail in Note 46 to these condensed interim consolidated financial statements.

In view of the aforementioned agreement, on 8 March 2018 Elektrociepłownia Stalowa Wola S.A. as a borrower, Polskie Górnictwo Naftowe i Gazownictwo S.A., PGNiG Termika S.A., TAURON Polska Energia S.A., TAURON Wytwarzanie S.A. as subordinated creditors and Bank Gospodarstwa Krajowego as the Agent, entered into a debt subordination agreement. Pursuant to the agreement, the debt of Elektrociepłownia Stalowa Wola S.A. owed to the Company under the debt consolidation agreement of 28 February 2018 for a total amount of PLN 609 951 thousand constitutes "subordinated debt". As at the date of approval of these condensed interim consolidated financial statements for publication, the nominal value of the loan, constituting subordinated debt owed to the Company, was PLN 310 851 thousand and its fair value was PLN 191 565 thousand.

On 30 March 2018, the Company and Elektrociepłownia Stalowa Wola S.A. signed a loan agreement of up to PLN 7 290 thousand to be used for the operations of the borrower. Under the agreement the loan and interest accrued at a fixed interest rate should be repaid by 30 June 2033. The repayment of the principal, interest and other expenses and amounts due to the Company is secured with the borrower's blank promissory note and a promissory note agreement. As at 30 June 2018, the loan with accrued interest measured at amortized cost totaled PLN 6 964 thousand.

On 11 April 2018 Polskie Górnictwo Naftowe i Gazownictwo S.A., TAURON Polska Energia S.A. and the borrower - Elektrociepłownia Stalowa Wola S.A. concluded a VAT loan agreement up to the total amount of PLN 13 000 thousand, to finance the borrower's VAT obligations related to completion of the construction of the gas and steam unit in Stalowa Wola. Under the agreement, the Company will grant a loan of up to PLN 6 500 thousand to Elektrociepłownia Stalowa Wola S.A. In accordance with the agreement the principal amount of the loan will be repaid by 30 September 2020 and interest accrued based on WIBOR 1M increased by a margin will be paid by the 15th day of each calendar month. The repayment of the principal, interest and other expenses and amounts due to the Company is secured with the borrower's blank promissory note and a promissory note agreement. As at 30 June 2018, the loan with accrued interest measured at amortized cost totaled PLN 994 thousand.

23. Other financial assets

	As at 30 June 2018 <i>(unaudited)</i>	As at 31 December 2017 <i>(restated figures)</i>
Shares	121 880	141 698
Deposits and deposits for Mine Decommissioning Fund	43 931	39 756
Derivative instruments	245 715	81 698
Investment fund units	105 090	104 077
Loans granted	9 720	10 547
Bid bonds, deposits and collateral transferred	82 258	61 817
Initial margins	95 599	11 140
Other	20 974	7 554
Total	725 167	458 287
Non-current	233 728	238 354
Current	491 439	219 933

As at 30 June 2018, the shares held by the Group are mainly shares in the following entities:

- SCE Jaworzno III Sp. z o.o., in the amount of PLN 30 789 thousand;
- Przedsiębiorstwo Energetyki Ciepłej Sp. z o.o., in the amount of PLN 24 241 thousand;
- Energetyka Cieszyńska Sp. z o.o., in the amount of PLN 14 817 thousand;
- PGE EJ 1 Sp. z o.o., in the amount of PLN 12 651 thousand;
- Magenta Grupa TAURON Sp. z o.o. in the amount of PLN 9 500 thousand.

The value of the shares decreased in the 6-month period ended 30 June 2018 following fair value measurement of shares as at 1 January 2018 in line with IFRS 9 *Financial Instruments*, as discussed in detail in Note 8 to the condensed interim consolidated financial statements. As at 31 December 2017 the shares were measured at cost less impairment losses.

24. Other non-financial assets

24.1. Other non-current non-financial assets

	As at 30 June 2018 <i>(unaudited)</i>	As at 31 December 2017
Prepayments for assets under construction and intangible assets, <i>including:</i>	135 791	163 906
<i>related to project realization: Construction of 910 MW Power Unit in</i>		
<i>Jaworzno III Power Plant</i>	131 779	162 589
Costs of preparing production in hard coal mines	108 822	144 061
Prepayments for debt charges	13 409	12 252
Contract acquisition costs and costs of discounts	13 149	-
Other prepayments	32 061	26 627
Total	303 232	346 846

A decrease in production preparation costs incurred by coal mines was driven primarily by recognition of an impairment loss on the related assets as a result of impairment tests carried out as at 30 June 2018, which totaled PLN 59 836 thousand.

24.2. Other current non-financial assets

	As at 30 June 2018 <i>(unaudited)</i>	As at 31 December 2017
Costs settled over time	91 790	79 935
Costs of preparing production in hard coal mines	25 469	52 123
Property and tort insurance	13 842	3 010
IT, telecom and postal services	17 000	15 074
Prepayments for debt charges	3 954	3 917
Contract acquisition costs and costs of discounts	14 626	-
Other prepayments	16 899	5 811
Other current non-financial assets	55 106	7 120
Advance payments for deliveries	3 388	4 858
Transfers made to the Social Benefit Fund	25 349	-
Other current assets	26 369	2 262
Total	146 896	87 055

A decrease in production preparation costs incurred by coal mines was driven primarily by recognition of an impairment loss on the related assets as a result of impairment tests carried out as at 30 June 2018, which totaled PLN 14 283 thousand.

25. Inventories

	As at 30 June 2018 <i>(unaudited)</i>	As at 31 December 2017
Gross value		
Coal, of which:	236 522	189 464
<i>Raw materials</i>	118 454	33 260
<i>Semi-finished goods and work-in-progress</i>	118 068	155 180
Emission allowances	9 100	382
Other inventories	127 426	114 450
Total	373 048	304 296
Measurement to fair value		
Emission allowances	(199)	8
Measurement to net realisable value		
Other inventories	(8 393)	(8 841)
Total	(8 592)	(8 833)
Fair value		
Gas emission allowances	8 901	390
Net realisable value		
Coal, of which:	236 522	189 464
<i>Raw materials</i>	118 454	33 260
<i>Semi-finished goods and work-in-progress</i>	118 068	155 180
Other inventories	119 033	105 609
Total	364 456	295 463

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

26. Receivables from buyers

	As at 30 June 2018 <i>(unaudited)</i>	As at 31 December 2017
Value of items before allowance/write-down		
Receivables from buyers	1 340 424	1 521 554
Receivables from buyers – additional assessment of revenue from sales of electricity and distribution services	519 700	499 601
Receivables claimed at court	208 538	205 025
Total	2 068 662	2 226 180
Allowance/write-down		
Receivables from buyers	(37 079)	(12 849)
Receivables claimed at court	(184 333)	(180 518)
Total	(221 412)	(193 367)
Value of item net of allowance (carrying amount)		
Receivables from buyers	1 303 345	1 508 705
Receivables from buyers – additional assessment of revenue from sales of electricity and distribution services	519 700	499 601
Receivables claimed at court	24 205	24 507
Total	1 847 250	2 032 813

27. Receivables arising from taxes and charges

	As at 30 June 2018 <i>(unaudited)</i>	As at 31 December 2017
Corporate Income Tax receivables	3 375	2 128
VAT receivables	141 048	211 520
Excise duty receivables	76 056	29 718
Other	3 239	760
Total	223 718	244 126

Tax Capital Group

On 30 October 2017 the agreement of the Tax Capital Group for the years 2018–2020 was registered. Under the previous agreement, TCG was registered for the period of three fiscal years from 2015 to 2017.

The major companies constituting the Tax Capital Group as from 1 January 2018 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 2018, the Tax Capital Group had income tax receivables of PLN 2 360 thousand. The entire amount relates to the 6-month period ended 30 June 2018 and constitutes a surplus of advance income tax payments of PLN 172 753 thousand over the tax charge of the Tax Capital Group in the amount of PLN 170 393 thousand.

28. Cash and cash equivalents

	As at 30 June 2018 <i>(unaudited)</i>	As at 31 December 2017
Cash at bank and in hand	282 988	703 202
Short-term deposits (up to 3 months)	208 388	205 889
Other	2	158
Total cash and cash equivalents presented in the statement of financial position, of which :	491 378	909 249
restricted cash	140 117	152 952
Bank overdraft	(959)	(93 503)
Cash pool	(20 881)	(13 676)
Foreign exchange	(4 451)	(717)
Total cash and cash equivalents presented in the statement of cash flows	465 087	801 353

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 2018, the balance of restricted cash included mainly cash on the accounts for bid bonds of PLN 78 400 thousand and cash on the accounts used for the settlement of electricity and emission allowances traded on the Polish Power Exchange, i.e. Towarowa Gielda Energii S.A., of PLN 59 365 thousand.

29. Equity

29.1. Issued capital

Issued capital as at 30 June 2018 (*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 2018, the value of issued capital, the number of shares and the nominal value of shares did not change compared to 31 December 2017.

Shareholding structure as at 30 June 2018 (*to the best of the Company's knowledge, unaudited*)

Shareholder	Number of shares	Nominal 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 Otworthy Fundusz Emerytalny	88 742 929	443 715	5.06%	5.06%
Other shareholders	954 847 515	4 774 237	54.49%	54.49%
Total	1 752 549 394	8 762 747	100%	100%

* The voting rights of shareholders holding over 10% of the total number of votes in the Company are limited in such a way that none of them can exercise more than 10% of the total votes in the Company at the General Shareholders' Meeting. This limitation does not apply to the State Treasury and subsidiaries of the State Treasury in the period in which the State Treasury together with subsidiaries of the State Treasury holds the number of the Company's shares entitling to exercise at least 25% of the total votes in the Company.

To the best of the Company's knowledge, the shareholding structure as at 30 June 2018 had not changed since 31 December 2017.

29.2. Reserve capital

On 16 April 2018, the Ordinary General Shareholders' Meeting adopted a resolution to allocate the Company's net profit for the 2017 financial year, totaling PLN 854 351 thousand to the Company's reserve capital.

29.3. Revaluation reserve from valuation of hedging instruments

	6-month period ended 30 June 2018 (<i>unaudited</i>)	6-month period ended 30 June 2017 (<i>unaudited</i>)
Opening balance	23 051	29 660
Remeasurement of hedging instruments	(13 171)	(9 070)
Remeasurement of hedging instruments charged to profit or loss	(13)	(5)
Deferred income tax	2 505	1 724
Closing balance	12 372	22 309

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 42.2 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 2018 the Company recognized PLN 12 372 thousand of revaluation reserve from valuation of hedging instruments. It represents an asset arising from valuation of interest rate swaps as at the end of the reporting period, totaling PLN 15 285 thousand, adjusted by a portion of valuation relating to interest accrued on bonds as at the end of the reporting period, including deferred tax.

The profit/loss for the period includes PLN 747 thousand, with PLN 760 thousand of the amount received in respect of hedges used in relation to closed interest periods and PLN (13) thousand resulting from remeasurement of instruments related to interest on bonds accrued as at the end of the reporting period.

29.4. Retained earnings and accumulated losses and restrictions on dividend payment

Prior year profit/loss arising from settlement of business combinations with subsidiaries and actuarial gains and losses related to provisions for post-employment benefits recognized through other comprehensive income are not distributable.

As at 30 June 2018 and as at the date of approval of these condensed interim consolidated financial statements for publication no other dividend restrictions existed.

30. Debt

	As at 30 June 2018 <i>(unaudited)</i>	As at 31 December 2017
Loans and borrowings	1 006 893	1 191 388
Bonds issued	8 859 921	8 637 435
Finance lease	26	23 973
Total	9 866 840	9 852 796
Non-current	9 579 171	9 501 414
Current	287 669	351 382

30.1. Loans and borrowings

Loans and borrowings taken out as at 30 June 2018 *(unaudited)*

Currency	Interest rate	Value of loans and borrowings as at the balance sheet date		of which maturing within <i>(after the balance sheet date)</i> :					
		currency	PLN	less than 3 months	3-12 months	1-2 years	2-3 years	3-5 years	over 5 years
PLN	floating	54 782	54 782	24 541	5 769	7 341	7 326	9 805	-
	fixed	946 338	946 338	34 694	120 924	155 617	155 617	263 354	216 132
Total PLN		1 001 120	1 001 120	59 235	126 693	162 958	162 943	273 159	216 132
USD	floating	201	753	753	-	-	-	-	-
Total USD		201	753	753	-	-	-	-	-
Total			1 001 873	59 988	126 693	162 958	162 943	273 159	216 132
Interest increasing carrying amount			5 020						
Total			1 006 893						

Loans and borrowings taken out as at 31 December 2017

Currency	Interest rate	Value of loans and borrowings as at the balance sheet date		of which maturing within <i>(after the balance sheet date)</i> :					
		currency	PLN	less than 3 months	3-12 months	1-2 years	2-3 years	3-5 years	over 5 years
PLN	floating	55 757	55 757	22 297	5 496	7 341	7 341	13 282	-
	fixed	1 036 011	1 036 011	35 187	127 054	162 240	162 240	273 506	275 784
Total PLN		1 091 768	1 091 768	57 484	132 550	169 581	169 581	286 788	275 784
EUR	floating	22 060	92 009	92 009	-	-	-	-	-
Total EUR		22 060	92 009	92 009	-	-	-	-	-
USD	floating	418	1 454	1 454	-	-	-	-	-
Total USD		418	1 454	1 454	-	-	-	-	-
Total			1 185 231	150 947	132 550	169 581	169 581	286 788	275 784
Interest increasing carrying amount			6 157						
Total			1 191 388						

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Changes in the balance of loans and borrowings, excluding interest increasing their carrying amount in the 6-month period ended 30 June 2018 and in the comparative period, have been presented below.

	6-month period ended 30 June 2018 <i>(unaudited)</i>	6-month period ended 30 June 2017 <i>(unaudited)</i>
Opening balance	1 185 231	1 256 467
Impact of IFRS 9	(33 055)	-
Opening balance after adjustment	1 152 176	1 256 467
Movement in bank overdrafts and cash pool loans received	(91 028)	47 659
Movement in loans and borrowings (excluding bank overdrafts and cash pool loans):	(59 275)	(44 607)
Repaid	(58 539)	(44 904)
Change in valuation	(736)	297
Closing balance	1 001 873	1 259 519

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 2018 <i>(unaudited)</i>	As at 31 December 2017
		Construction of a boiler fired with biomass at Jaworzno III Power Plant and renovation of a steam turbine	Fixed	15.12.2021	78 849	84 039
		Construction and start-up of a co-generation unit at EC Bielsko Biala	Fixed	15.12.2021	112 858	120 061
Loans	European Investment Bank	Modernization and extension of power grid	Fixed	15.06.2024	230 395	266 139
			Fixed	15.09.2024	116 055	128 711
			Fixed	15.09.2024	145 710	160 819
		Modernization and extension of power grid and improvement of hydropower plants	Fixed – agreed until 15 September 2019	15.03.2027	267 469	282 341
Overdraft facility	Bank Gospodarstwa Krajowego	Financing of transactions involving emission allowance, energy and gas	Floating	31.12.2018	2	92 048
Borrowings	Regional Fund for Environmental Protection and Water Management	Construction of renewable power unit at Jaworzno III Power Plant	Floating	15.12.2022	18 000	20 000
		Construction of biomass infeed installation and modernization of fluid bed at Tychy Generation Plant	Floating	15.12.2022	13 279	13 881
Other loans and borrowings					24 276	23 349
Total					1 006 893	1 191 388

30.2. Bonds issued

Bonds issued as at 30 June 2018 (unaudited)

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Issuer	Tranche/ Bank	Redemption date	Currency	Principal at nominal value in currency	As at balance sheet date		of which maturing within (after the balance sheet date):		
					Interest accrued	Principal at amortised cost	up to 2 years	2-5 years	Over 5 years
TAURON Polska Energia S.A.	Bank Gospodarstwa Krajowego	20.12.2019	PLN	100 000	97	99 901	99 901	-	-
		20.12.2020	PLN	100 000	97	99 864	-	99 864	-
		20.12.2021	PLN	100 000	97	99 839	-	99 839	-
		20.12.2022	PLN	100 000	97	99 819	-	99 819	-
		20.12.2023	PLN	100 000	97	99 803	-	-	99 803
		20.12.2024	PLN	100 000	97	99 793	-	-	99 793
		20.12.2025	PLN	100 000	97	99 782	-	-	99 782
		20.12.2026	PLN	100 000	97	99 773	-	-	99 773
		20.12.2027	PLN	100 000	97	99 766	-	-	99 766
		20.12.2028	PLN	100 000	97	99 762	-	-	99 762
		20.12.2020	PLN	70 000	67	69 969	-	69 969	-
		20.12.2021	PLN	70 000	67	69 965	-	69 965	-
		20.12.2022	PLN	70 000	67	69 963	-	69 963	-
		20.12.2023	PLN	70 000	67	69 961	-	-	69 961
		20.12.2024	PLN	70 000	67	69 960	-	-	69 960
		20.12.2025	PLN	70 000	67	69 959	-	-	69 959
		20.12.2026	PLN	70 000	67	69 958	-	-	69 958
		20.12.2027	PLN	70 000	67	69 957	-	-	69 957
		20.12.2028	PLN	70 000	67	69 957	-	-	69 957
		20.12.2029	PLN	70 000	67	69 956	-	-	69 956
	Bond Issue Scheme of 24.11.2015	29.12.2020	PLN	1 600 000	257	1 597 638	-	1 597 638	-
	TPEA1119	4.11.2019	PLN	1 750 000	7 531	1 749 338	1 749 338	-	-
	European Investment Bank	16.12.2034	EUR	190 000	20 557	827 560	-	-	827 560
	Eurobonds EURBD050727	5.07.2027	EUR	500 000	51 226	2 164 588	-	-	2 164 588
TAURON Sweden Energy AB (publ)		3.12.2029	EUR	168 000	14 755	727 124	-	-	727 124
Total					95 966	8 763 955	1 849 239	2 107 057	4 807 659

Bonds issued as at 31 December 2017

Issuer	Tranche/ Bank	Redemption date	Currency	Principal at nominal value in currency	As at balance sheet date		of which maturing within (after the balance sheet date):		
					Interest accrued	Principal at amortised cost	up to 2 years	2-5 years	Over 5 years
TAURON Polska Energia S.A.	Bank Gospodarstwa Krajowego	20.12.2019	PLN	100 000	107	99 869	99 869	-	-
		20.12.2020	PLN	100 000	107	99 838	-	99 838	-
		20.12.2021	PLN	100 000	107	99 817	-	99 817	-
		20.12.2022	PLN	100 000	107	99 800	-	99 800	-
		20.12.2023	PLN	100 000	107	99 787	-	-	99 787
		20.12.2024	PLN	100 000	107	99 778	-	-	99 778
		20.12.2025	PLN	100 000	107	99 770	-	-	99 770
		20.12.2026	PLN	100 000	107	99 761	-	-	99 761
		20.12.2027	PLN	100 000	107	99 756	-	-	99 756
		20.12.2028	PLN	100 000	107	99 752	-	-	99 752
		20.12.2020	PLN	70 000	74	69 963	-	69 963	-
		20.12.2021	PLN	70 000	74	69 961	-	69 961	-
		20.12.2022	PLN	70 000	74	69 959	-	69 959	-
		20.12.2023	PLN	70 000	74	69 958	-	-	69 958
		20.12.2024	PLN	70 000	74	69 957	-	-	69 957
		20.12.2025	PLN	70 000	74	69 956	-	-	69 956
		20.12.2026	PLN	70 000	74	69 956	-	-	69 956
		20.12.2027	PLN	70 000	74	69 955	-	-	69 955
		20.12.2028	PLN	70 000	74	69 955	-	-	69 955
		20.12.2029	PLN	70 000	74	69 955	-	-	69 955
	Bond Issue Scheme of 24.11.2015	29.12.2020	PLN	1 600 000	389	1 597 188	-	1 597 188	-
	TPEA1119	4.11.2019	PLN	1 750 000	7 609	1 749 277	1 749 277	-	-
	European Investment Bank	16.12.2034	EUR	190 000	1 597	791 355	-	-	791 355
	Eurobonds EURBD050727	5.07.2027	EUR	500 000	24 425	2 069 193	-	-	2 069 193
TAURON Sweden Energy AB (publ)		3.12.2029	EUR	168 000	1 950	695 139	-	-	695 139
Total					37 780	8 599 655	1 849 146	2 106 526	4 643 983

The Bond Issue Scheme of 24 November 2015 was extended on 9 March 2018. Under annexes to the agency and depositary agreement and to the guarantee agreement some banks extended the period of availability of funds under the Bond Issue Scheme. Therefore, the maximum value of Bond Issue Scheme:

- until 31 December 2021 is PLN 6 070 000 thousand (before the annexes were signed it had been PLN 5 320 000 thousand);
- until 31 December 2022 is PLN 5 820 000 thousand (before the annexes were signed it had been PLN 2 450 000 thousand).

By 31 December 2020 the scheme's value will not change and will not exceed PLN 6 270 000 thousand.

The annexes were concluded with the following banks participating in the Scheme: Bank Handlowy w Warszawie S.A., Bank BGŻ BNP Paribas 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., MUFG Bank (Europe) N.V., MUFG Bank (Europe) N.V. S.A. Branch in Poland and Powszechna Kasa Oszczędności Bank Polski S.A. Due to the extension, the financing margin in the Scheme has not changed.

Key instruments recognized under bonds issued by the Group as at the end of the reporting period:

- eurobonds of the total face value of EUR 500 000 thousand and issue price accounting for 99.438% of the face value, with fixed interest paid on an annual basis. The bonds have been admitted to trading on the London Stock Exchange. They were rated "BBB" by the Fitch rating agency;
- bonds issued under the Bond Issue Scheme dated 24 November 2015 of the face value of PLN 1 600 000 thousand. The bonds were issued as unsecured, dematerialized coupon securities. Their interest was determined by reference to WIBOR 6M increased by a fixed margin;
- bonds issued on 4 November 2014 for the amount of PLN 1 750 000 thousand. Those are five-year unsecured bonds with floating interest based on WIBOR 6M increased by a margin and with a six-month interest period;
- bonds of the face value of PLN 1 700 000 thousand issued under the Long-Term Bond Issue Scheme in line with contracts concluded with Bank Gospodarstwa Krajowego. Those are dematerialized, unsecured and coupon bonds. The interest rate is floating, based on WIBOR 6M increased by the bank's fixed margin.

Changes in the balance of bonds, excluding interest which increase their carrying amount

	6-month period ended 30 June 2018 <i>(unaudited)</i>	6-month period ended 30 June 2017 <i>(unaudited)</i>
Opening balance	8 599 655	7 666 081
Issue*	-	599 543
Redemption	-	(300 000)
Change in valuation	164 300	(68 220)
Closing balance	8 763 955	7 897 404

*Costs of issue have been included.

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 42.2 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. The key covenant is the net debt to EBITDA ratio (for the domestic bond issue schemes) which sets the maximum allowed debt less cash in relation to generated EBITDA. As at 30 June 2018, none of these covenants were breached and the contractual provisions were complied with.

31. Provisions for employee benefits

	As at 30 June 2018 <i>(unaudited)</i>	As at 31 December 2017
Provision for post-employment benefits and jubilee bonuses	1 146 806	1 469 108
Provision for employment termination benefits	26 345	45 815
Total	1 173 151	1 514 923
Non-current	1 080 793	1 380 650
Current	92 358	134 273

31.1. Provisions for post-employment benefits and jubilee bonuses

For the 6-month period ended 30 June 2018 *(unaudited)*

	Provision for retirement, disability and similar benefits	Employee electricity rates	Social Fund	Jubilee bonuses	Provisions, total
Opening balance	321 894	530 215	106 321	510 678	1 469 108
Current service costs	8 141	4 691	1 377	11 278	25 487
Actuarial gains and losses	(6 203)	-	(36)	(10 391)	(16 630)
Benefits paid	(11 625)	(6 130)	(1 606)	(13 895)	(33 256)
Past service costs	218	(176 321)	(17 371)	(121 859)	(315 333)
Interest expense	4 401	5 974	1 371	5 684	17 430
Closing balance	316 826	358 429	90 056	381 495	1 146 806
Non-current	287 673	345 953	86 825	341 733	1 062 184
Current	29 153	12 476	3 231	39 762	84 622

Past service costs, which reduced provisions in the 6-month period ended 30 June 2018 by PLN 315 333 thousand result mainly from reversal of the following provisions by a company in the Generation segment:

- provision for the employee tariff in the part related to pensioners, in the amount of PLN 127 051 thousand, and to employees as future pensioners, in the amount of PLN 49 270 thousand, based on the Management Board's agreement with the social side and approved amendments to the Collective Labor Agreement;
- provision for jubilee bonuses of PLN 121 172 thousand based on arrangements amending employment contracts under which the bonuses will not be paid out;
- provision for the Company's Social Benefits Fund in the part related to pensioners, in the amount of PLN 12 419 thousand, and to employees as future pensioners, in the amount of PLN 5 469 thousand.

The reversal of the above provisions decreased the Group's operating expenses by PLN 175 911 thousand and increased its other operating revenue by PLN 139 470 thousand.

Additionally, following the reversal of the provisions for jubilee bonuses, the company paid out PLN 79 316 thousand in compensation to employees, which was charged to the Group's operating expenses.

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

	Provision for retirement, disability and similar benefits	Employee electricity rates	Social Fund	Provision for coal allowances	Jubilee bonuses	Provisions, total
Opening balance	307 281	532 184	112 469	2 248	526 209	1 480 391
Current service costs	7 386	5 800	1 176	-	14 210	28 572
Actuarial gains and losses	(5 311)	14	(333)	-	(12 153)	(17 783)
Benefits paid	(12 318)	(9 710)	(1 842)	-	(16 474)	(40 344)
Past service costs	(1 040)	(355)	(43)	-	(6 266)	(7 704)
Interest expense	4 079	7 668	1 619	-	7 032	20 398
Closing balance	300 077	535 601	113 046	2 248	512 558	1 463 530
Non-current	271 027	519 553	108 639	-	460 255	1 359 474
Current	29 050	16 048	4 407	2 248	52 303	104 056

Measurement of provisions for employee benefits

Provisions for post-employment benefits and jubilee bonuses have been estimated using actuarial methods.

The provisions for employee benefits were measured as at 30 June 2018 based on actuarial projections. Actuarial assumptions made in preparing the projections for 2018 were the same as those used for measuring provisions as at 31 December 2017. Key actuarial assumptions made as at 31 December 2017 for the purpose of calculation of the liability:

	31 December 2017
Discount rate (%)	3.00%
Estimated inflation rate (%)	2.50%
Employee rotation rate (%)	1.15% - 8.64%
Estimated salary increase rate (%)	1.80% - 2.50%
Estimated electricity price increase rate (%)	3.50%
Estimated increase rate for contribution to the Social Fund (%)	3.50%
Remaining average employment period	9.89 – 20.40

31.2. Provisions for employment termination benefits

For the 6-month period ended 30 June 2018 (unaudited)

	Voluntary redundancy schemes			Total
	Segment Generation	Segment Distribution	Other	
Opening balance	29 567	10 542	5 706	45 815
Recognition	384	-	-	384
Reversal	(2 245)	(6 834)	-	(9 079)
Utilization	(3 447)	(1 622)	(5 706)	(10 775)
Closing balance	24 259	2 086	-	26 345
Non-current	18 609	-	-	18 609
Current	5 650	2 086	-	7 736

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

	Voluntary redundancy schemes			Total
	Segment Generation	Segment Distribution	Other	
Opening balance	17 599	17 062	16 561	51 222
Recognition	11 218	-	-	11 218
Reversal	-	(4 982)	-	(4 982)
Utilization	(4 086)	(8 701)	(9 538)	(22 325)
Closing balance	24 731	3 379	7 023	35 133
Non-current	11 709	-	-	11 709
Current	13 022	3 379	7 023	23 424

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

For the 6-month period ended 30 June 2018 (unaudited)

	Provision for mine decommissioning costs	Provision for restoration of land and dismantling and removal of fixed assets	Provisions, total
Opening balance	191 975	124 091	316 066
Interest cost (discounting)	2 882	1 853	4 735
Recognition/(reversal), net	160	(163)	(3)
Closing balance	195 017	125 781	320 798
Non-current	195 017	100 716	295 733
Current	-	25 065	25 065
Other provisions, long-term portion			59 988
Total			355 721

For the 6-month period ended 30 June 2017 (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 and provision for costs	Provisions, total
Opening balance	146 885	115 302	198 844	461 031
Interest cost (discounting)	2 571	1 852	2 330	6 753
Recognition/(reversal), net	60	174	(201 174)	(200 940)
Closing balance	149 516	117 328	-	266 844
Non-current	149 516	100 460	-	249 976
Current	-	16 868	-	16 868
Other provisions, long-term portion				46 727
Total				296 703

32.1. 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 and current financial assets, while the balance of the Fund is recognized under the provision for future costs of mine decommissioning.

As at 30 June 2018, the balance of the provision was PLN 195 017 thousand, and the change concerned mainly the unwinding of discount – PLN 2 882 thousand.

32.2. 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 totaled PLN 41 494 thousand as at 30 June 2018 (versus PLN 40 990 thousand as at 31 December 2017);
- provision for wind farm dismantling costs, which totaled PLN 58 755 thousand as at 30 June 2018 (versus PLN 57 887 thousand as at 31 December 2017);
- provision for costs of liquidation of fixed assets – a chimney in Elektrownia Jaworzno as well as cooling towers and a unit in Elektrownia Łagisza, which totaled PLN 25 532 thousand as at 30 June 2018 (versus PLN 25 214 thousand as at 31 December 2017).

32.3. Provisions for onerous contracts with a joint venture and for costs

In the comparative 6-month period ended 30 June 2017, following the entry into force of the agreement to set out the key boundary conditions for the restructuring of "Construction of a gas and steam unit in Stalowa Wola" project concluded by TAURON Polska Energia S.A., Polskie Górnictwo Naftowe i Gazownictwo S.A. and Elektrociepłownia Stalowa Wola S.A., an annex to the contract to sell electricity of 11 March 2011 among the Company, Polskie Górnictwo Naftowe i Gazownictwo S.A. and Elektrociepłownia Stalowa Wola S.A. and an annex to the contract to supply gaseous fuel of 11 March 2011 between Polskie Górnictwo Naftowe i Gazownictwo S.A. and Elektrociepłownia Stalowa Wola S.A., the Company released in full the following provisions:

- a provision resulting from the fact that under a long-term contract to sell electricity, concluded among Elektrociepłownia Stalowa Wola S.A., the Company and PGNiG Energia S.A., the Company was obliged to purchase half of the volume of electricity generated by Elektrociepłownia Stalowa Wola S.A. at a price calculated in line with the "cost plus" formula, which covers the production costs and the financing costs;
- a provision resulting from the fact that the Company was obliged to cover losses which may have been incurred under the take-or-pay clause of the comprehensive gaseous fuel supply contract entered into by PGNiG S.A. and Elektrociepłownia Stalowa Wola S.A. Pursuant to the said clause, Elektrociepłownia Stalowa Wola S.A. was obliged to pay PGNiG S.A. for uncollected gas;

- a provision for necessary additional costs which the Company may have been required to incur for the operation of Elektrociepłownia Stalowa Wola S.A. due to delays in project completion.

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

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

For the 6-month period ended 30 June 2018 (unaudited)

	Provision for gas emission obligations	Provision for obligation to submit energy certificates	Provisions, total
Opening balance	324 937	624 009	948 946
Recognition	167 716	307 692	475 408
Reversal	(58)	(8 601)	(8 659)
Utilisation	(326 748)	(612 811)	(939 559)
Closing balance	165 847	310 289	476 136

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

	Provision for gas emission obligations	Provision for obligation to submit energy certificates	Provisions, total
Opening balance	209 736	742 120	951 856
Recognition	146 392	356 972	503 364
Reversal	(84)	(10 471)	(10 555)
Utilisation	(209 652)	(761 436)	(971 088)
Closing balance	146 392	327 185	473 577

33.1. 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 facilities 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 2018, the provision for gas emission liabilities amounted to PLN 165 847 thousand and regarded the obligatory redemption of emission allowances for the 6-month period ended 30 June 2018 by the following entities:

- TAURON Wytwarzanie S.A.: PLN 145 699 thousand;
- TAURON Ciepło Sp. z o.o.: PLN 20 148 thousand.

33.2. Provision for the obligation to surrender energy certificates

As at 30 June 2018, the Group's short-term provision for the obligation to surrender energy certificates totaled PLN 310 289 thousand and was related to the obligation for the 6-month period ended 30 June 2018.

The obligation in the amount of PLN 139 879 thousand was covered by certificates held as at the end of the reporting period, the obligation in the amount of PLN 81 794 thousand the Group plans to meet through the purchase of property rights, whereas the obligation in the amount of PLN 88 616 thousand is planned to be paid in the form of a substitution fee. The planned fulfillment of the obligation in the form of payment of a substitution fee concerns the partial fulfillment of the obligation to surrender energy certificates from cogeneration.

34. Other provisions

For the 6-month period ended 30 June 2018 (unaudited)

	Provision for use of real estate without contract	Provision for counterparty claims, court dispute and other provisions	Provisions, total
Opening balance	92 030	296 313	388 343
Interest cost (discounting)	-	1 594	1 594
Recognition/(reversal), net	359	6 963	7 322
Utilisation	(189)	(10 728)	(10 917)
Closing balance	92 200	294 142	386 342
Non-current	-	59 988	59 988
Current	92 200	234 154	326 354
Current portion of provisions for the costs of disassembly of fixed assets and land restoration and other provisions			25 065
Total			351 419

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

	Provision for use of real estate without contract	Provision for counterparty claims, court dispute and other provisions	Provisions, total
Opening balance	92 143	262 592	354 735
Interest cost (discounting)	-	1 525	1 525
Recognition/(reversal), net	851	(1 447)	(596)
Utilisation	(274)	(11 967)	(12 241)
Closing balance	92 720	250 703	343 423
Non-current	-	46 727	46 727
Current	92 720	203 976	296 696
Current portion of provisions for the costs of disassembly of fixed assets and land restoration and other provisions			16 868
Total			313 564

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 2018, the relevant provision amounted to PLN 92 200 thousand and was related to the following segments:

- Generation: PLN 51 076 thousand;
- Distribution: PLN 41 124 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 *Provisions, Contingent Liabilities and Contingent Assets*.

Provisions for counterparty claims, court disputes and other provisions

Material provisions recognized as other provisions have been discussed below:

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Item	Operating segment	Description	As at 30 June 2018 (unaudited)	As at 31 December 2017
Provisions for penalties fixed by the contracts	Generation	Considering the risk that the two projects listed below will not be continued (their continuity is required under the subsidy contracts): <ul style="list-style-type: none"> • construction of a biomass boiler in Elektrownia Jaworzno III; • construction of a system of power generation from renewable sources in Stalowa Wola; in 2016 a provision has been recognised for the costs of returning the subsidy totalling PLN 52 297 thousand. The revalued provision as at 30 June 2018 amounted to PLN 56 912 thousand.	56 912	55 358
Provision for a fine to the Energy Regulatory Office	Distribution	The provision was recognized due to the risk of violation of the Energy Law of 10 April 1997 by misleading the President of the Energy Regulatory Office, following his demand for information.	6 000	6 000
Provision for increased transmission easement charges	Distribution	The provision was recognized due to the risk of increased periodic charges for transmission easement related to energy infrastructure located within the Forestry Commission areas overseen by the Regional State Forest Directorate in Wroclaw, following the change of designation of the land from forestry to industrial.	47 650	47 650
Provision for real estate tax	Mining	Provision for proceedings regarding real property tax on underground structures.	1 839	3 446
	Distribution	Provision for the business risk regarding tax on real property classified as power grid assets.	39 356	39 356
Provision for VAT	Sales	The provision was recognized in connection with pending inspection proceedings instituted by the Director of the Tax Inspection Office in Warsaw in relation to the value added tax. The duration of the proceedings was extended by the Director of the Tax Inspection Office a number of times and then by the Head of the Mazovian Customs and Tax Office. Currently, the new deadline for the completion of the inspection proceedings has been set for 22 and 28 August 2018. As at 30 June 2018, the provision was PLN 70 776 thousand. An increase in the provision by PLN 2 082 thousand is attributable to interest accrued for the 6-month period ended 30 June 2018.	70 776	68 694

35. Accruals, deferred income and government grants

35.1. Deferred income and government grants

	As at 30 June 2018 (unaudited)	As at 31 December 2017
Deferred income	63 958	259 220
Donations, subsidies received for the purchase or fixed assets received free-of-charge	57 547	62 342
Connection fees	-	195 666
Other	6 411	1 212
Government grants	330 266	333 556
Subsidies obtained from EU funds	234 221	235 065
Forgiven loans from environmental funds	26 789	26 258
Measurement of preferential loans	35 488	36 251
Other	33 768	35 982
Total	394 224	592 776
Non-current	360 399	541 318
Current	33 825	51 458

Following the endorsement of IFRS 15 *Revenue from Contracts with Customers*, as discussed in detail in Note 8 to these condensed interim consolidated financial statements, the balance of deferred income from connection fees for services performed before 1 July 2009 of PLN 195 666 thousand was recognized in the Group's equity.

35.2. Accrued expenses

	As at 30 June 2018 <i>(unaudited)</i>	As at 31 December 2017
Unused holidays	72 166	54 679
Bonuses	154 875	108 037
Environmental protection charges	24 120	45 133
Other	14 433	37 269
Total	265 594	245 118
Non-current	318	-
Current	265 276	245 118

36. Liabilities to suppliers

Current liabilities to suppliers as at 30 June 2018 and 31 December 2017 are presented in the table below:

Operating segment	As at 30 June 2018 <i>(unaudited)</i>	As at 31 December 2017
Distribution	280 213	355 374
<i>liability to Polskie Sieci Elektroenergetyczne S.A.</i>	<i>224 076</i>	<i>231 973</i>
Sales	287 547	265 660
Mining	127 475	172 758
Generation	92 199	164 980
Other	45 561	83 655
Total	832 995	1 042 427

37. Capital commitments

Short-term capital commitments as at 30 June 2018 and 31 December 2017 are presented in the table below:

Operating segment	As at 30 June 2018 <i>(unaudited)</i>	As at 31 December 2017
Distribution	246 428	438 492
Generation	153 810	227 084
Mining	39 286	74 682
Sales and Other	25 698	57 046
Total	465 222	797 304

A drop in capital commitments in the Generation segment concerned mainly a decrease related to the construction of unit no. 910 in Jaworzno, which totaled PLN 136 135 thousand as at 30 June 2018. As at 31 December 2017, capital commitments totaled PLN 208 844 thousand.

Long-term capital commitments have been presented in the condensed interim consolidated statement of financial position within other financial liabilities. As at 30 June 2018 and 31 December 2017, the related commitments totaled PLN 10 606 thousand and PLN 10 666 thousand, respectively.

Commitments to incur capital expenditure

As at 30 June 2018 and 31 December 2017, the Group committed to incur expenditure on property, plant and equipment and intangible assets of PLN 3 719 084 thousand and PLN 3 891 230 thousand, respectively, with the key items presented below:

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Operating segment	Agreement/investment project	As at 30 June 2018 <i>(unaudited)</i>	As at 31 December 2017
Generation	Constructin new capacity in Jaworzno III Power Plant (910 MW)	1 871 248	2 277 479
Distribution	Construction of new electrical connections	565 298	594 627
	Modernization and reconstruction of existing networks	689 917	451 907
Mining	Construction of the "Grzegorz" shaft with the accompanying infrastructure and excavations	215 717	235 377
	Construction of the 800 m drift at Janina Mining Plant	103 434	112 065
	Investment Program in Brzeszcze Mining Plant	29 781	25 617

38. Liabilities arising from taxes and charges

	As at 30 June 2018 <i>(unaudited)</i>	As at 31 December 2017 <i>(restated figures)</i>
Corporate Income Tax	2 420	38 446
Personal Income Tax	33 384	54 161
Excise	40 864	43 760
VAT	106 446	110 867
Social security	127 365	190 443
Other	10 372	14 071
Total	320 851	451 748

Regulations concerning VAT, corporate income tax and social insurance charges are frequently amended. The applicable regulations may also contain ambiguous issues, which lead to differences in opinions concerning the legal interpretation of tax legislation both among the tax authorities and between such authorities and enterprises.

Tax reports and other matters (e.g. customs or foreign currency transactions) may be audited by authorities competent to impose substantial penalties and fines, whereas any additional tax liabilities assessed during such audits have to be paid together with interest. Consequently, the figures presented and disclosed in these condensed interim consolidated financial statements may change in the future if a final decision is issued by tax inspection authorities.

39. Other financial liabilities

	As at 30 June 2018 <i>(unaudited)</i>	As at 31 December 2017 <i>(restated figures)</i>
Wages, salaries	113 729	203 544
Bid bonds, deposits and collateral received	78 435	86 233
Insurance contracts	13 059	3 246
Derivative instruments	209 960	62 466
Margin deposits	138 915	7 163
Other	80 981	71 389
Total	635 079	434 041
Non-current	90 625	91 879
Current	544 454	342 162

40. Other current non-financial liabilities

	As at 30 June 2018 <i>(unaudited)</i>	As at 31 December 2017
Payments from customers relating to future periods	335 521	309 298
Amounts overpaid by customers	272 936	253 182
Prepayments for connection fees	15 483	16 741
Excess of the Company's Social Benefits Fund's liabilities over assets	6 960	91
Other	40 142	39 284
Other current non-financial liabilities	2 457	1 552
Total	337 978	310 850

EXPLANATORY NOTES TO THE CONDENSED INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

41. Significant items of the condensed interim consolidated statement of cash flows

41.1. Cash flows from operating activities

Changes in working capital

	6-month period ended 30 June 2018	6-month period ended 30 June 2017
	<i>(unaudited)</i>	<i>(unaudited restated figures)</i>
Change in receivables	55 240	102 545
Change in receivables from buyers in statement of financial position	185 563	151 416
Change in other financial receivables	(118 320)	(61 679)
Adjustment for the movement in dividend receivables from a joint venture	16 260	15 500
Adjustment accounting for impairment allowances recognized in correspondence with retained earnings following the endorsement of IFRS 9 <i>Financial Instruments</i>	(31 471)	-
Other adjustments	3 208	(2 692)
Change in inventories	(73 623)	127 512
Change in inventories in statement of financial position	(68 993)	129 209
Adjustment related to transfer of inventories to/from property, plant and equipment	(4 630)	(1 697)
Change in payables excluding loans and borrowings	(318 634)	(314 807)
Change in liabilities to suppliers in statement of financial position	(204 844)	(102 681)
Change in payroll, social security and other financial liabilities	49 016	(61 934)
Change in non-financial liabilities in statement of financial position	27 128	13 945
Change in liabilities due to taxes excluding income tax	(94 871)	(34 826)
Adjustment of VAT change related to capital commitments	(90 713)	(132 234)
Other adjustments	(4 350)	2 923
Change in other non-current and current assets	405 368	675 956
Change in other current and non-current non-financial assets in statement of financial position	(16 227)	94 732
Change in receivables arising from taxes excluding income tax	21 655	23 877
Change in non-current and current emission allowances	326 328	209 652
Change in non-current and current energy certificates	151 598	408 189
Change in advance payments for property, plant and equipment and intangible assets	(28 358)	(58 735)
Adjustment accounting for costs of acquiring new contracts and bonuses capitalized in correspondence with retained earnings as a result of endorsement of IFRS 15 <i>Revenue from Contracts with Customers</i>	26 355	-
Adjustment by impairment losses on other non-financial assets following impairment tests	(74 119)	-
Other adjustments	(1 864)	(1 759)
Change in deferred income, government grants and accruals	1 299	51 742
Change in deferred income, government grants and accruals in statement of financial position	(178 076)	55 588
Adjustment related to property, plant and equipment and intangible assets received free of charge	(9 255)	(3 288)
Adjustment related to subsidies received	(7 036)	(558)
Adjustment accounting for recognizing deferred income from connection fees in retained earnings following the endorsement of IFRS 15 <i>Revenue from Contracts with Customers</i>	195 666	-
Change in provisions	(805 717)	(711 673)
Change of short term and long term provisions in statement of financial position	(811 851)	(716 728)
Adjustment related to actuarial gains/losses from provisions for post-employment benefits charged to other comprehensive income	6 239	5 630
Other adjustments	(105)	(575)
Total	(736 067)	(68 725)

Income tax paid

Income tax paid in the amount of PLN 220 382 thousand is mainly related to income tax paid by the Tax Capital Group, which totaled PLN 219 088 thousand, where PLN 172 753 thousand was the advance income tax for the first quarter of 2018 and PLN 46 335 thousand was income tax paid for 2017.

41.2. Cash flows from investing activities

Purchase of property, plant and equipment and intangible assets

	6-month period ended 30 June 2018	6-month period ended 30 June 2017
	<i>(unaudited)</i>	<i>(unaudited)</i>
Purchase of property, plant and equipment	(1 373 606)	(1 390 792)
Purchase of intangible assets	(43 141)	(39 198)
Change in the balance of VAT-adjusted capital commitments	(241 429)	(584 200)
Change in the balance of advance payments	28 358	58 735
Costs of overhaul and internal manufacturing	(46 219)	(65 252)
Other	7 141	475
Total	(1 668 896)	(2 020 232)

Loans granted

The Parent's expenses related to loan granting include:

- a loan disbursed to Elektrociepłownia Stalowa Wola S.A., a jointly-controlled entity, in the total amount of PLN 35 015 thousand, which has been discussed in more detail in Note 22 to these condensed interim consolidated financial statements; and
- a loan granted to PGE EJ 1 Sp. z o.o. of PLN 4 800 thousand.

Repayment of loans granted

This item includes repayment of a portion of a loan of PLN 299 100 thousand granted to Elektrociepłownia Stalowa Wola S.A., which has been discussed in more detail in Note 22 to these condensed interim consolidated financial statements.

41.3. Cash flows from financing activities

Loans and borrowings repaid

Payments to repay loans and borrowings of PLN 58 539 thousand disclosed in the condensed interim consolidated statement of cash flows result mainly from the Parent's repayment of installments of a loan obtained from the European Investment Bank in the amount of PLN 55 659 thousand in the 6-month period ended 30 June 2018.

Interest paid

	6-month period ended 30 June 2018	6-month period ended 30 June 2017
	<i>(unaudited)</i>	<i>(unaudited)</i>
Interest paid in relation to debt securities	(10 247)	(42 782)
Interest paid in relation to loans and borrowings	(16 302)	(22 075)
Interest paid in relation to the lease	(196)	(403)
Total	(26 745)	(65 260)

The Group's consolidated statement of cash flows presents incurred borrowing costs which were capitalized in the current period in the value of assets as payments to acquire property, plant and equipment and intangible assets in cash flows from investing activities. In the 6-month period ended 30 June 2018, interest representing borrowing costs capitalized in the value of property, plant and equipment and intangible assets amounted to PLN 63 584 thousand.

OTHER INFORMATION

42. Financial instruments

42.1. Carrying amount and fair value of financial instrument classes and categories

Categories and classes of financial assets	As at 30 June 2018 (unaudited)		Categories and classes of financial assets	As at 31 December 2017 (restated figures)	
	Carrying amount	Fair value		Carrying amount	Fair value
1 Financial assets measured at amortized cost	2 002 507		1 Assets at fair value through profit or loss, held for trading	154 574	
Receivables from buyers	1 847 250	1 847 250	Derivative instruments	53 216	53 216
Deposits	43 931	43 931	Investment fund units	101 358	101 358
Loans granted	17 678	17 678	2 Financial assets available for sale	144 417	
Other financial receivables	93 648	93 648	Shares (non-current)	141 656	
2 Financial assets measured at fair value through profit or loss (FVTPL)	1 245 526		Shares (current)	42	
Derivative instruments	230 430	230 430	Investment fund units	2 719	2 719
Shares (non-current)	121 838	121 838	3 Loans and receivables	2 734 059	
Shares (current)	42	42	Receivables from buyers	2 032 813	2 032 813
Loans granted	191 565	191 565	Deposits	39 756	39 756
Other financial receivables	105 183	105 183	Loans granted	580 979	491 171
Investment fund units	105 090	105 090	Other financial receivables	80 511	80 511
Cash and cash equivalents	491 378	491 378	4 Financial assets excluded from the scope of IAS 39	499 204	
3 Derivative hedging instruments	15 285	15 285	Investments in joint ventures	499 204	
4 Financial assets excluded from the scope of IFRS 9	536 412		5 Derivative hedging instruments	28 482	28 482
Investments in joint ventures	536 412		6 Cash and cash equivalents	909 249	909 249
Total financial assets, of which in the statement of financial position:	3 799 730		Total financial assets, of which in the statement of financial position:	4 469 985	
Non-current assets	969 661		Non-current assets	978 325	
Investments in joint ventures	536 412		Investments in joint ventures	499 204	
Loans granted to joint ventures	199 521		Loans granted to joint ventures	240 767	
Other financial assets	233 728		Other financial assets	238 354	
Current assets	2 830 069		Current assets	3 491 660	
Receivables from buyers	1 847 250		Receivables from buyers	2 032 813	
Loans granted to joint ventures	2		Loans granted to joint ventures	329 665	
Other financial assets	491 439		Other financial assets	219 933	
Cash and cash equivalents	491 378		Cash and cash equivalents	909 249	

Categories and classes of financial liabilities	As at 30 June 2018 (unaudited)		Categories and classes of financial liabilities	As at 31 December 2017 (restated figures)	
	Carrying amount	Fair value		Carrying amount	Fair value
1 Financial liabilities measured at amortized cost	11 590 150		1 Financial liabilities measured at amortized cost	12 040 129	
Preferential loans	31 813	31 813	Preferential loans	34 506	34 506
Arm's length loans	974 121	1 012 558	Arm's length loans	1 063 379	1 065 694
Bank overdrafts	959	959	Bank overdrafts	93 503	93 503
Bonds issued	8 859 921	8 936 054	Bonds issued	8 637 435	8 695 096
Liabilities to suppliers	837 583	837 583	Liabilities to suppliers	1 042 427	1 042 427
Other financial liabilities	283 137	283 137	Other financial liabilities	154 119	154 119
Capital commitments	475 828	475 828	Capital commitments	807 970	807 970
Salaries and wages	113 729	113 729	Salaries and wages	203 544	203 544
Insurance contracts	13 059	13 059	Insurance contracts	3 246	3 246
2 Financial liabilities measured at fair value through profit or loss (FVTPL)	209 960		2 Financial liabilities at fair value through profit or loss, held for trading	62 466	
Derivative instruments	209 960	209 960	Derivative instruments	62 466	62 466
3 Financial liabilities excluded from the scope of IFRS 9	26		3 Liabilities under guarantees, factoring and excluded from the scope of IAS 39	23 973	
Liabilities under finance leases	26		Obligations under finance leases	23 973	
Total financial liabilities, of which in the statement of financial position:	11 800 136		Total financial liabilities, of which in the statement of financial position:	12 126 568	
Non-current liabilities	9 669 796		Non-current liabilities	9 593 293	
Debt	9 579 171		Debt	9 501 414	
Other financial liabilities	90 625		Other financial liabilities	91 879	
Current liabilities	2 130 340		Current liabilities	2 533 275	
Debt	287 669		Debt	351 382	
Liabilities to suppliers	832 995		Liabilities to suppliers	1 042 427	
Capital commitments	465 222		Capital commitments	797 304	
Other financial liabilities	544 454		Other financial liabilities	342 162	

The classification of financial instruments to categories and classes is compliant with the accounting standards applicable at the balance sheet date (as of 30 June 2018 – IFRS 9 *Financial Instruments*; as of 31 December 2017 – IAS 39 *Financial Instruments: Recognition and Measurement*).

Instruments measured at fair value through profit or loss (FVTPL):

- Derivative financial instruments measured at fair value as at the end of the reporting period and classified as assets and liabilities measured at fair value through profit or loss, or designated as hedging derivatives (subject to hedge accounting), have been measured in line with the method described in Note 42.2 hereto. Disclosure regarding the fair value hierarchy has been given in Note 42.2 to these condensed interim consolidated financial statements.
- The measurement of investment fund units has been classified to Level 1 in the fair value hierarchy.
- IFRS 9 *Financial Instruments* requires that equity interests in other entities be measured at fair value, also with respect to those interests which – due to limited availability of information – have so far been measured at cost less any impairment losses. Therefore, the Group estimated the fair value of interests held, which has been discussed in detail in Note 8 hereto. The measurement of the interests in question resulted in Level 3 classification in the fair value hierarchy. The measurement of other financial receivables measured at fair value was also classified to Level 3.
- The Group classifies a loan granted to Elektrociepłownia Stalowa Wola S.A. under an agreement of 28 February 2018 to assets measured at fair value through profit or loss, as discussed in detail in Note 22 to these condensed interim consolidated financial statements. The measurement of the loan in question resulted in Level 3 classification in the fair value hierarchy.

Financial instruments classified to other categories of financial instruments:

- Fixed-rate financial instruments, which included loans obtained from the European Investment Bank, subordinated bonds and eurobonds issued as well as 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 to given bonds or loans, i.e. applying market interest rates. The measurement resulted in Level 2 classification in the fair value hierarchy.
- The fair value of other financial instruments as at 30 June 2018 and 31 December 2017 (except for those excluded from the scope of IFRS 9 *Financial Instruments* and IAS 39 *Financial Instruments: Recognition and Measurement*) did not differ considerably from the amounts presented in the financial statements for the following reasons:
 - the potential discounting effect relating to short-term instruments is not significant;
 - the instruments are related to arm's length transactions.
- Shares in jointly-controlled entities excluded from the scope of IFRS 9 *Financial Instruments* are measured using the equity method.

42.2. Derivative instruments

	As at 30 June 2018 (unaudited)				As at 31 December 2017 (restated figures)			
	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	6 573	-	11 451	(4 878)	(9 299)	-	-	(9 299)
IRS	10	15 275	15 285	-	23	28 459	28 482	-
Commodity forwards/futures	(1 268)	-	203 814	(205 082)	395	-	53 216	(52 821)
Currency forwards	15 165	-	15 165	-	(346)	-	-	(346)
Total			245 715	(209 960)			81 698	(62 466)
Non-current			34 483	(7 213)			26 704	(5 217)
Current			211 232	(202 747)			54 994	(57 249)

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

Derivative instrument	Methodology of determining fair value hierarchy
IRS	Difference between the discounted interest cash flows based on the floating and fixed interest rates. Reuters' interest rate curve is the input data.
CCIRS	Difference between the discounted interest cash flows of the payable and receivables streams, in two various currencies, denominated in the measurement currency. Reuters' interest rate curve, basis spreads and NBP fixing for relevant currencies are the input data.
Forward currency contracts	Difference between the discounted future cash flows between the future price as at the valuation date and the transaction price multiplied by the par value of the FX contract. Reuter's NBP fixing and the interest rate curve implied from fx swap transaction for a relevant currency is the input data.
Commodity forwards, futures	The fair value of forwards for the purchase and sale of emission allowances, electricity and other commodities is based on prices quoted on an active market or based on cash flows being the difference between the price reference index (forward curve) and the contract price.

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

	As at 30 June 2018 <i>(unaudited)</i>		As at 31 December 2017 <i>(restated figures)</i>	
	Level 1	Level 2	Level 1	Level 2
Assets				
Commodity - related derivatives	203 814	-	53 216	-
Derivative instruments - currency	-	15 165	-	-
Derivative instruments - IRS	-	15 285	-	28 482
Derivative instruments - CCIRS	-	11 451	-	-
Total	203 814	41 901	53 216	28 482
Liabilities				
Commodity - related derivatives	205 082	-	52 821	-
Derivative instruments - currency	-	-	-	346
Derivative instruments - CCIRS	-	4 878	-	9 299
Total	205 082	4 878	52 821	9 645

Hedging derivative instruments (subject to hedge accounting) – IRS

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

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

As at 30 June 2018, 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:

- CCIRSs that hedge foreign currency cash flows resulting from the payment of interest on the issued eurobonds;
- commodity derivatives (futures, forward) including emission allowance and other commodity purchase and sale transactions;
- FX forward transactions hedging foreign currency cash flows resulting from the Company's operations.

The CCIRSs have been used with respect to the Company's Coupon Only Cross Currency Swap fixed-fixed transactions concluded in 2017 and in January 2018 and involve an exchange of interest payments on the total nominal value of EUR 500 000 thousand. They mature in July 2027.

In accordance with the contract, the Company pays interest at a fixed rate in PLN and receives fixed interest-rate payments in EUR. Hedge accounting principles do not apply to the transaction in question.

43. Principles and objectives of financial risk management

The objectives and principles of financial risk management have not changed since 31 December 2017.

As at 30 June 2018, 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 detail in Note 42.2 to these condensed interim consolidated financial statements.

44. 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.

45. Contingent liabilities

Item	Description
	<p>Claims relating to termination of long-term contracts against subsidiary Polska Energia Pierwsza Kompania Handlowa Sp. z o.o.</p> <p>On 18 March 2015 the subsidiary in liquidation terminated long-term contracts concluded in the years 2009-2010 to purchase electricity and property rights from wind farms owned by the companies in the in.ventus group, Polenergia and Wind Invest. The reason for the termination of the contracts by Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. was that the counterparties had breached the contractual provisions by refusing to negotiate in good faith the terms and conditions of the contracts. A case was brought against the Company for the statements made in the notice of termination be declared void. In the case brought by Dobieslaw Wind Invest Sp. z o.o. in 2016 the Regional Court in Warsaw dismissed the claim for declaring the termination of the contracts void. The claimant appealed against the ruling. On 16 March 2018 the Court of Appeals overruled the decision and remanded the case for re-examination by the Regional Court in Warsaw.</p> <p>In 2016 the claims against the company were changed to include claims for compensation for termination of the contracts totalling approx. PLN 39 993 thousand.</p> <p>In October 2017 Dobieslaw Wind Invest Sp. z o.o. filed a new lawsuit against Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. for payment of PLN 42 095 thousand of compensation and liquidated damages.</p> <p>In January 2018 the claims brought by Amon Sp. z o.o., Talia Sp. z o.o. and Mogilno III-VI have been amended by extending them with further claims for liquidated damages related to the termination of contracts in the total amount of approximately PLN 69 645 thousand.</p> <p>In February 2018, claims filed by Pękanino Wind Invest Sp. z o.o. and Nowy Jaroslaw Wind Invest Sp. z o.o., have been amended by including in them additional claims for damages related to the termination of contracts in the total amount of about PLN 54 149 thousand.</p> <p>In April 2018 Mogilno I-II filed a claim against Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. for payment of damages in the total amount of PLN 6 204 thousand. The defendant responded in June 2018.</p> <p>In light of the current status of the proceedings and the related circumstances, the Group believes that the probability of losing the cases both as regards declaration of ineffectiveness of the termination notices and securing non-monetary claims and the claims for compensation does not exceed 50%. Therefore, no provision for the related costs has been recognized.</p>
Claims related to termination of long-term contracts	<p>Claims relating to termination of long-term contracts against the subsidiary Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. and TAURON Polska Energia S.A.</p> <p>In November 2014 an action was brought against Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. and TAURON Polska Energia S.A. by Dobieslaw Wind Invest Sp. z o.o. to prevent an imminent danger of loss. It was claimed that the Company should revoke the liquidation of Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. in liquidation. A subsidiary claim was that TAURON Polska Energia S.A. should be obliged to provide security in the amount of PLN 183 391 thousand as a court deposit.</p> <p>On 8 March 2017, pursuant to a decision of the Shareholders' Meeting of Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. the liquidation of the company was revoked. Therefore, in accordance with the order of the Regional Court in Krakow issued on 15 March 2017, the parties to the dispute exchanged pleadings to respond to the change in the company in which the claimant upheld their demands.</p> <p>On 2 August 2017 the Company's representative in the case received pleadings from Dobieslaw Wind Invest Sp. z o.o. which changed the claims. The claimant withdrew the initial claim against the subsidiary Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. and changed the claim against the Company from a claim for prevention of an imminent danger of loss to a claim for compensation. Dobieslaw Wind Invest Sp. z o.o. demands payment of approx. PLN 34 700 thousand with statutory interest as of the date of the claim to the date of payment. Moreover, the claimant seeks a ruling that the Company is liable for future damages of Dobieslaw Wind Invest Sp. z o.o., which the latter estimates at approx. PLN 254 000 thousand, (resulting from the Company's alleged torts) and a security of approx. PLN 254 000 thousand in case the court does not establish the Company's liability for future losses. The factual basis of the claim, according to the claimant, is the termination of the long-term contracts to sell electricity and property rights by the subsidiary Polska Energia Pierwsza Kompania Handlowa Sp. z o.o.</p> <p>An analysis of the justification of the statements of the claim shows that they are wholly groundless. At a hearing on 4 October 2017, upon request of TAURON Polska Energia S.A., the Court decided that the new statement of claim against TAURON Polska Energia S.A. would be examined separately. As far as the initial claims against TAURON Polska Energia S.A. and Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. (demand that the liquidation be revoked) are concerned, the Court referred the case to be examined at a closed-door hearing and dismissed. On 12 April 2018, the Court issued a decision whereby it dismissed the entire case against Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. The case against TAURON Polska Energia S.A. was partially dismissed with respect to obligating the Company to revoke the liquidation of Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. Dobieslaw Wind Invest Sp. z o.o. lodged a complaint against the decision in question to the Court. In its decision of 26 June 2018 the Court rejected a complaint of Dobieslaw Wind Invest Sp. z o.o.</p>
	<p>Claims relating to termination of long-term contracts against TAURON Polska Energia S.A.</p> <p>On 20 July 2017 the Company was served with a claim dated 29 June 2017 of Gorzyca Wind Invest Sp. z o.o. against TAURON Polska Energia S.A. for damages of approx. PLN 39 700 thousand and assessment of liability for any future damages resulting from torts, including unfair competition, estimated by the claimant at approx. PLN 465 900 thousand. The case will be heard by a Regional Court in Katowice. On 18 September 2017, the Company responded to the claim requesting that it be dismissed in whole as unsubstantiated. On 1 December 2017, Gorzyca Wind Invest Sp. z o.o. responded by upholding its position in addition to questioning the position adopted by the Company and the arguments put forward in its response to the claim. Following a decision of the Regional Court in Katowice of 8 February 2018, the suit brought by Gorzyca Wind Invest Sp. z o.o. against TAURON Polska Energia S.A. is heard in camera, though the final ruling will be given in public.</p> <p>A claim dated 29 June 2017, filed by Pękanino Wind Invest Sp. z o.o. against TAURON Polska Energia S.A. for damages of PLN 28 500 thousand and assessment of liability for future damages resulting from torts, including unfair competition, estimated by the claimant at PLN 201 600 thousand, was delivered to the Company on 21 August 2017. On 5 October 2017, the Company responded to the claim requesting that it be dismissed in whole as unsubstantiated. On 1 December 2017, Pękanino Wind Invest Sp. z o.o. responded by upholding its position in addition to questioning the position adopted by the Company and the arguments put forward in its response to the claim. Following a decision of the Regional Court in Katowice, the suit brought by Pękanino Wind Invest Sp. z o.o. against TAURON Polska Energia S.A. is heard in camera, though the final ruling will be given in public.</p>

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Item	Description
	<p>On 16 October 2017 the Company was served with a claim dated 29 June 2017 of Nowy Jaroslaw Wind Invest Sp. z o.o. against TAURON Polska Energia S.A. for damages of approx. PLN 27 000 thousand and assessment of liability for future damages resulting from torts, including unfair competition, estimated by the claimant at PLN 197 800 thousand. On 28 December 2017, the Company responded to the claim requesting that it be dismissed in whole as unsubstantiated. Following a decision of the Regional Court in Katowice, the suit brought by Nowy Jaroslaw Wind Invest Sp. z o.o. against TAURON Polska Energia S.A. is heard in camera, though the final ruling will be given in public.</p> <p>The factual basis of all the claims, according to the claimants, is the termination of the long-term contracts to purchase electricity and property rights resulting from energy certificates by the subsidiary Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. and the total amount of the future loss incurred by all members of the Wind Invest group estimated by the claimant will be PLN 1 212 900 thousand. As at the date of approval of these condensed interim financial statements for publication, the probability that the rulings will be favourable for the Company is high (70%).</p>
Claims relating to termination of long-term contracts - continued	<p>On 18 June 2018 the Company was served with a copy of a claim lodged against it by Amon Sp. z o.o. and Talia Sp. z o.o., which are members of the Capital Group of Polenergia S.A. In their claim Amon Sp. z o.o. and Talia Sp. z o.o. demand payment of damages: of PLN 47 556 thousand to Amon Sp. z o.o. and of PLN 31 299 thousand to Talia Sp. z o.o. and determination of the Company's liability for any future damages which may result from torts: in the total amount of PLN 158 262 thousand to Amon Sp. z o.o. and in the total amount of PLN 106 965 thousand to Talia Sp. z o.o.</p> <p>According to the claim filed by Amon Sp. z o.o. and Talia Sp. z o.o., the grounds for the suit are the following torts:</p> <ul style="list-style-type: none"> - entrusting a subsidiary, Polska Energia Pierwsza Kompania Handlowa w likwidacji Sp. z o.o. with making purchases of electricity and property rights resulting from certificates of origin confirming generation of energy from renewable sources and the purchase of property rights arising from certificates of origin, confirming the generation of energy from renewable energy sources (wind farm) for the needs of the Company (and its Capital Group), based on long-term contracts concluded by Polska Energia Pierwsza Kompania Handlowa Sp. o.o. with Amon Sp. z o.o. and Talia Sp. z o.o. and then - in the absence of consent to amend the aforementioned contracts - putting Polska Energia Pierwsza Kompania Handlowa Sp. o.o. in the state of liquidation and taking actions in the course of liquidation resulting in the termination of the said contracts; - intentionally taking advantage from the damage caused to Amon Sp. z o.o. and Talia Sp. z o.o. <p>a tort committed by Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. and persons acting as liquidators of Polska Energia Pierwsza Kompania Handlowa Sp. z o.o., performing activities entrusted by the Company on its behalf, consisting in the breaking of long-term contracts and the cessation of purchase of electricity and property rights from the complainants.</p> <p>The court competent for hearing the claim is the Regional Court for Katowice. The Company with its legal representative for the purpose of litigation has started analysing the claim and it will respond to it in due time. Based on preliminary analysis of demands and the rationale presented in the claims the Company finds them groundless and entirely unsubstantiated.</p>
	<p>On 29 June 2018, the Company received a copy of the claim filed against it by In.Ventus Sp. z o.o. Mogilno I Sp. k. for payment of damages of EUR 12 286 thousand (i.e. PLN 53 587 thousand translated at the average exchange rate of the National Bank of Poland of 29 June 2018) and assessment of liability for any future damages resulting from tort, with a total estimated amount of EUR 35 706 thousand (i.e. PLN 155 735 thousand translated at the average exchange rate of the National Bank of Poland of 29 June 2018).</p> <p>In the claim in question In.Ventus Sp. z o.o. Mogilno I Sp. k. seeks redress for own claims and those transferred by: In.Ventus Sp. z o.o. Mogilno II Sp. k., In.Ventus Sp. z o.o. Mogilno III Sp. k., In.Ventus Sp. z o.o. Mogilno IV Sp. k., In.Ventus Sp. z o.o. Mogilno V Sp. k., In.Ventus Sp. z o.o. Mogilno VI Sp. k.</p> <p>As stated in the claim filed by In.Ventus Sp. z o.o. Mogilno I Sp. k., the claim is based on torts, which consist in entrusting a subsidiary, Polska Energia Pierwsza Kompania Handlowa with making purchases of electricity and property rights resulting from certificates of origin confirming generation of energy from renewable sources for the needs of the Company and its Capital Group, based on long-term contracts concluded and persuading Polska Energia Pierwsza Kompania Handlowa Sp. o.o. and its liquidators to terminate and non to perform the contracts in question and intentionally benefiting from the damages resulting from contract termination.</p> <p>The court competent for hearing the claim is the Regional Court for Katowice. The Company with its legal representative for the purpose of litigation has started analysing the claim and it will respond to it in due time. Based on the preliminary analysis of the demands and the rationale, the claim has been found entirely unsubstantiated.</p>
	<p>Termination of long-term contracts to purchase property rights by TAURON Sprzedaż Sp. z o.o.</p> <p>On 28 February 2017, TAURON Sprzedaż Sp. zo.o., a subsidiary, submitted termination notices regarding long-term contracts for the purchase of property rights resulting from certificates from renewable energy sources by the subsidiary. The party to the contracts in 2008 are companies from the in.ventus group. The contracts were terminated after the parties were unable to reach an agreement in renegotiation of the contracts in line with the terms and conditions provided for therein. Total net contractual liabilities of TAURON Sprzedaż Sp. z o.o. under the terminated contracts for the years 2017-2023, as at the date of the termination would be approx. PLN 417 000 thousand net.</p> <p>There are no pending court disputes in connection with the termination of the contracts by TAURON Sprzedaż Sp. z o.o. Based on an analysis of the legal circumstances, supported by an analysis performed by independent legal firms, the Group does not see any reason to recognize provisions in connection with the termination of the contracts by TAURON Sprzedaż Sp. z o.o.</p>
Use of real estate without contract	<p>Companies in the Group do not hold legal titles to all land crossed by distribution networks or the land on which heat installations and related devices are sited. 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 there are no detailed records of such land. 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.</p>
Amount	<p>As at the end of the reporting period, a provision was recognized for costs of court disputes in the amount of PLN 92 200 thousand (Note 34).</p>

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Item	Description
Claims filed by Huta Łaziska S.A.	<p>Following the Company's business combination with Górnoląski Zakład Elektroenergetyczny S.A. ("GZE"), TAURON Polska Energia S.A. became a party to a court dispute with Huta Łaziska S.A. ("Huta"), against GZE and the State Treasury represented by the President of the Energy Regulatory Office. At present, the case is pending at the Regional Court in Warsaw.</p> <p>Based on a decision of 12 October 2001, the President of the Energy Regulatory Office ordered GZE to resume electricity supplies to Huta (suspended on 11 October 2001 since Huta had not paid its liabilities) on such terms as set out in the agreement of 30 July 2001, in particular at the price of PLN 67/MWh, until final resolution of the dispute, and on 14 November 2001 the dispute was finally resolved pursuant to a decision stating that discontinuation of electricity supplies was not unjustified. Huta appealed against that decision. On 25 July 2006, the Court of Appeals in Warsaw issued a final and binding decision ending the dispute concerning GZE's energy supplies to Huta. The court dismissed Huta's appeal against the decision of the Regional Court in Warsaw dated 19 October 2005, in which the court had dismissed Huta's appeal against the decision of the President of the Energy Regulatory Office. Huta filed a cassation appeal against the 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 issue of the above decision by the President of the Energy Regulatory Office on 14 November 2001 and due to the growing indebtedness of Huta to GZE due to power supply) GZE again suspended power supply. Therefore, Huta has sued GZE for damages.</p> <p>Under a suit of 12 March 2007 against GZE and the State Treasury represented by the President of the Energy Regulatory Office (jointly and severally) Huta claimed the payment of PLN 182 060 thousand together with interest from the date of filing the suit to the date of payment, in respect of damages for alleged losses resulting from GZE's failure to comply with the decision of the President of the Energy Regulatory Office dated 12 October 2001.</p> <p>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 decision of the Regional Court and remanded the case for re-examination by the latter. Since 27 November 2012 the case has been heard by the court of first instance.</p> <p>Based on a legal analysis of claims the Company believes that they are unsubstantiated 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.</p>
Amount	Claim regarding payment of damages of PLN 182 060 thousand.
Claim filed by ENEA S.A.	<p>The claim filed by ENEA S.A. ("ENEA") against TAURON Polska Energia S.A., which has been heard by the Regional Court in Katowice since 2016, regards the payment of PLN 17 086 thousand with statutory interest from 31 March 2015 until the payment date. The basis of the claim brought by ENEA is unjust enrichment of the Company due to potential errors in the calculation of aggregated measurement and billing data by ENEA Operator Sp. z o.o. (being the Distribution System Operator), which are the basis of ENEA and the Company's settlements with Polskie Sieci Elektroenergetyczne S.A., due to an imbalance in the Balancing Market between January and December 2012.</p> <p>During the proceedings, at the request of ENEA S.A. the court decided to extend the suit against seven sellers for which TAURON Polska Energia S.A. acted as an entity in charge of trade balances in the distribution area of ENEA Operator Sp. z o.o. in 2012. The sellers included two subsidiaries of TAURON Polska Energia S.A., i.e.: TAURON Sprzedaż Sp. z o.o. from which ENEA S.A. demanded PLN 4 934 thousand with statutory interest as of the date of serving a copy of the request to extend the suit until the date of payment; and TAURON Sprzedaż GZE Sp. z o.o. from which ENEA S.A. demanded PLN 3 480 thousand with statutory interest as of the date of serving a copy of the request to extend the suit until the date of payment. The demand for payment of the above amounts as well as the amounts claimed from the other five sellers was submitted by the petitioner in case the claim against TAURON Polska Energia S.A. is dismissed. The case is pending. By the date of approval of these condensed interim financial statements for issue, the case had been adjourned until the date specified by the court.</p> <p>The Company did not recognize any provision as, in the opinion of the Company, the risk of losing the case is below 50%. Provisions were recognized by the subsidiaries of TAURON Polska Energia S.A. in the total amount of PLN 5 359 thousand (TAURON Sprzedaż Sp. z o.o.) and in the total amount of PLN 3 813 thousand (TAURON Sprzedaż GZE Sp. z o.o.). The said provisions cover the principal, interest accrued as at 30 June 2018 and the cost of the proceedings.</p>
Amount	As at 30 June 2018, the value of the claim against the Company was PLN 17 086 thousand, including statutory interest accrued between 31 March 2015 and the payment date. Should the claim filed against the Company be dismissed, the claim for payment by the Group companies totals PLN 8 414 thousand, including statutory interest accrued between the date of service of a copy of the request filed by ENEA S.A. to extend the suit by a specific Group company and the payment date. As new measurement data were presented by ENEA Operator Sp. z o.o. during the proceedings, the values of the claims against the Company and the Group companies may be expected to change.
Administrative proceedings instigated by the President of the Energy Regulatory Office (ERO)	<p>In a notice of 5 April 2016, the President of the Energy Regulatory Office informed TAURON Dystrybucja S.A. of the instigation of administrative proceedings to impose a fine for a failure to maintain facilities, installations and equipment in a proper technical condition and for non-compliance with the terms of the electricity distribution licence. In a notice of 30 March 2017, the President of the Energy Regulatory Office informed the Company that the matter would be looked into on 30 April 2017. In subsequent letters of 8 May and 1 June 2017 the President of the Energy Regulatory Office extended the proceedings until 31 May and 30 June 2017, respectively. On 10 July 2017 the Company received a decision of the President of the Energy Regulatory Office to impose an administrative fine totalling PLN 350 thousand. In July 2017 the Company recognized a provision of PLN 351 thousand and on 24 July appealed to the Court of Competition and Consumer Protection through the President of the Energy Regulatory Office. On 30 January 2018 the company received a copy of the response of the President of the Energy Regulatory Office to the appeal sent to the Court of Competition and Consumer Protection. The Court has not set the date of the next hearing yet.</p> <p>On 12 December 2017 against the company from Generation segment the President of the Energy Regulatory Office instigated administrative proceedings regarding a fine to be imposed with respect to the alleged business activity consisting in generation of electricity in Elektrownia Wodna Dąbie and Elektrownia Wodna Przewóz without the necessary permits for special use of water of the Vistula river for energy generation, as required under the Water Law of 20 July 2017. On 12 January 2018 the company provided required explanations about the proceedings pending with relation to the permits in question. In a letter of 22 March 2018, the President of the Energy Regulatory Office enquired whether the company had obtained decisions regarding water law permits, indicating at the same time that the matter should be resolved by 22 May 2018. On 29 June 2018 the Company informed the President of the Energy Regulatory Office in writing that the Supreme Administrative Court passed judgements on 17 May 2018 and on 27 June 2018 overruling decisions of administrative authorities (which had been disadvantageous for the company) related to permits for special use of water of the Vistula river for energy generation in Elektrownia Wodna Dąbie and Elektrownia Wodna Przewóz. The company is of the opinion that the facts based on which the proceedings were instigated may not be the grounds for imposition of a fine. Therefore, it is unable to estimate the amount of such a fine reliably and recognize a provision on that basis.</p>

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Administrative proceedings instigated by the President of the Energy Regulatory Office (ERO) (continued)	<p>The companies in the Sales segment have been subject to the following proceedings:</p> <ul style="list-style-type: none"> - On 26 September 2017, proceedings were instigated over unjustified suspension of electricity supplies to an end user by TAURON Sprzedaż Sp. z o.o. with the involvement of TAURON Dystrybucja S.A. On 12 February 2018, the President of the Energy Regulatory Office issued a decision whereby the said suspension of electricity supplies to the end user was considered unjustified. - On 4 January 2018 and 14 May 2018 proceedings were instituted against companies from the Sales segment regarding a fine for unjustified suspension of electricity supplies to end users. As for proceedings instituted on 4 January 2018, TAURON Sprzedaż Sp. z o.o. was served with decisions dated 29 June 2018 imposing fines totalling to PLN 5 thousand. The fines were paid on 23 July 2018. TAURON Sprzedaż Sp. z o.o. and TAURON Sprzedaż GZE Sp. z o.o. were served with notices informing of completion of evidence proceedings related to the proceedings instigated on 14 May 2018. - On 18 and 27 February 2018, proceedings were instituted against the subsidiary TAURON Sprzedaż GZE Sp. z o.o. over irregularities which consisted in a failure to offer end users the choice of a specific offer or tariff group. The company has provided adequate explanations. - On 12 March 2018, proceedings were instigated against the subsidiary TAURON Sprzedaż GZE Sp. z o.o. with respect to a failure to submit data to the Agency for Cooperation of Energy Regulators within the set deadlines, in line with Article 8.1. of Regulation (EU) No 1227/2011 of the European Parliament and of the Council of 25 October 2011 on wholesale energy market integrity and transparency. The company has provided adequate explanations. - On 25 June 2018 proceedings were instigated against TAURON Sprzedaż Sp. z o.o. related to the legitimacy of the decision to suspend electricity supplies to end buyers. The company was requested to provide explanations and documents. The response is being prepared. - After the balance sheet date, on 23 July 2018 proceedings were instigated against TAURON Sprzedaż Sp. z o.o. regarding the adjustment of the terms of the electricity distribution licence to meet the requirements of the applicable law. The response is being prepared. <p>The companies do not recognize provisions for potential fines that may be imposed in the above proceedings as in the opinion of the Management Board of the companies the risk of adverse rulings and fines is low.</p>
Administrative and Explanatory proceedings instigated by the President of the Office for Competition and Consumer Protection (UOKiK)	<p>President of UOKiK instigated the following procedures against the Sales segment companies:</p> <ul style="list-style-type: none"> - 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 undertook to discontinue practices that violate 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 the Office for Competition and Consumer Protection closing the evidentiary proceedings. On 14 December 2015 the President of the Office for Competition and Consumer Protection demanded that the company answer whether the practices had been discontinued. The company responded in February 2016 informing that the practices had been discontinued and requested that the fine be waived. On 22 February 2018 the President of the Office for Competition and Consumer Protection issued a decision stating that the company had used practices violating collective consumers' interests and it had discontinued such practices on 1 February 2016. The President of the Office for Competition and Consumer Protection did not impose any fine on the company, but obliged the entity to issue a statement with the content specified in the decision. The company appealed against the decision to the Court of Competition and Consumer Protection. After the balance sheet date, on 2 July 2018 the President of the Office for Competition and Consumer Protection changed his previous decision of 22 February 2018 (under the self-auditing procedure) and the company was requested to publish appropriate statements with the content and within deadlines specified in the decision. The decision of 2 July 2018 will become final and binding on 13 August 2018. - Explanatory proceedings instigated on 27 January 2015 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. With a decision of 15 October 2015 the President of the Office for Competition and Consumer Protection instigated anti-trust proceedings. On 1 February 2016 the Office for Competition and Consumer Protection accepted the company's statement regarding presentation of a specific commitment. On 24 August 2016 the President of the Office for Competition and Consumer Protection issued a decision obliging the company to take appropriate measures aimed at preventing the alleged breaches within two months of the date on which the decision of the President of UOKiK becomes final. On 29 September 2016 the company appealed against the decision to the Court of Competition and Consumer Protection. On 2 December 2016 the President of the Office for Competition and Consumer Protection issued a decision whereby it changed the rationale of the previous decision. The decision became final on 2 February 2017. A report on its implementation was prepared and sent to Office for Competition and Consumer Protection on 31 March 2017. The proceedings were closed. - Explanatory proceedings instigated on 11 May 2017 against TAURON Sprzedaż Sp. z o.o. with respect to the mechanism of automatic extension of the period of settling fees for the sale of electricity in line with the pricing list if a consumer does not respond to the new offer presented (renewal offer). The company was requested to provide explanations by the President of the Office for Competition and Consumer Protection. The explanations were advanced by the company on 16 October 2017. - On 13 July 2017 the explanatory proceedings were instigated against TAURON Sprzedaż GZE Sp. o.o. with respect to violation of the provisions of Article 6b.3 of the Energy Law Act in respect of determining additional deadlines for payment of overdue amounts specified in demands for payment. The company took remedial action, which consisted in changing the communication distributed to consumers. The draft reminder message sent to consumers was approved by President of the Office for Competition and Consumer Protection on 19 May 2018. Notwithstanding the above, the company was requested to provide three sample reminders sent to consumers after 1 July 2018. The company provided the documents requested on 23 July 2018. - Proceedings instituted on 13 October and 8 November 2017 with regard to the alleged violation of collective interests of consumers by entities from the Sales segment, which consisted in hindering a change of the electricity supplier. The said entities were requested under Article 49a of the Act on Competition and Consumer Protection to answer the allegation levelled by the President of the Office of Competition and Consumer Protection about their hindering a change of the seller and misinforming consumers about the possibility to terminate their contracts with another seller without costs. They responded on 3 November and 29 December 2017. - Explanatory proceedings instigated on 27 April 2018 with relation to the alleged infringement of collective interest of consumers by sending out letters regarding personal data updates. TAURON Sprzedaż Sp. z o.o. provided appropriate explanations in this respect. <p>Companies in the Sales segment are also subject to explanatory proceedings instigated by the Office for Competition and Consumer Protection in order to determine whether the activities taken by the companies breached the provisions of the Act on competition and consumer protection. The companies provide requested documents and explanations and respond to the statements included in the letters of the Office for Competition and Consumer Protection. The companies' Management believe that, considering the explanatory nature of the proceedings instigated, the probability of an unfavourable outcome of the cases is low; hence no provision has been recognized for these events.</p>

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Real estate tax	<p>There are different interpretations regarding the approach to real estate tax on electricity generation and transmission facilities and underground excavation equipment. Since the tax is imposed by local authorities, there is no unified approach of taxation authorities and in several cases the method of calculation of the tax basis has been questioned. Depending on court decisions and possible amendments to relevant regulations, the status of real estate tax on excavations may change in future. The legal status of taxation of electricity generation and transmission facilities has changed in 2018. The amended Act on renewable energy sources and certain other acts was signed on 29 June 2018, changing the definition of construction facilities which had been defined in the Act on investments in wind farms. The Act entered into force on 14 July 2018 and the amended regulations on wind farms apply as of 1 January 2018. The taxable amount used in taxation of wind farms in 2017 will be determined by the Supreme Administrative Court on 24 September 2018.</p>
Amount	<p>As at 30 June 2018, the provisions recognized for disputed real estate tax and the related business risk totalled PLN 41 195 thousand. Additionally, accruals of PLN 2 314 thousand were recognized for the tax on wind farms for 2017.</p>
Claim for reimbursement of expenses incurred to protect a facility against the effects of mining operations	<p>In December 2017, a claim was filed against the subsidiary TAURON Wydobycie S.A. by Galeria Galena Sp. z o.o. with its registered office in Gliwice for the payment of PLN 22 785 thousand as reimbursement of expenses incurred to protect a facility located in Jaworzno against the effects of mining operations. The company filed its response with the Regional Court in Katowice on 7 March 2018. On 5 April 2018, the company received a claim for payment, lodged by Galeria Galena Sp. z o.o. against the legal successors of Kompania Węglowa S.A., along with a request to examine the case together with the one against TAURON Wydobycie S.A. The claims against the State Treasury – the Director of the Regional Mining Authority in Katowice and legal successors of Kompania Węglowa S.A. in Katowice instituted by Galeria Galena Sp. z o.o. were combined for joint consideration. The subsidiary TAURON Wydobycie S.A., as a defendant, has not received any statement of defence from the remaining defendants. Moreover, the Court has not requested the company to take a stance on these positions. The Court requested the plaintiff to take a stance on all statements of defence in cases instituted thereby by 31 August 2018.</p> <p>No provision has been recognized for the event. The company is of the opinion that it is too early to recognize a provision, considering the early stage of the case, the broadening of the scope of the claim to include other defendants, i.e. the legal successors of Kompania Węglowa S.A. and doubts over the facts and legal uncertainties, which make it impossible to decide on the final outcome of the case heard by the Regional Court in Katowice or to estimate the amount that may be awarded by the Court.</p>
Claim against PGE EJ 1 Sp. z o.o.	<p>On 13 March 2015, a consortium of WorleyParsons Nuclear Services JSC, WorleyParsons International Inc, WorleyParsons Group Inc (the "WorleyParsons consortium") responsible for conducting research as part of an investment project relating to the construction of a nuclear power plant by PGE EJ 1 Sp. z o.o. filed claims against PGE EJ 1 Sp. z o.o. for the payment of PLN 92 315 thousand as compensation for termination of the contract by PGE EJ 1 Sp. z o.o. PGE EJ 1 Sp. z o.o. did not accept the claims, considering them to be unsubstantiated. In view of the foregoing, the WorleyParsons consortium has initiated litigation against PGE EJ 1 Sp. z o.o., which is being conducted by the Regional Court in Warsaw.</p> <p>As an investor holding a 10% interest in the issued capital of PGE EJ 1 Sp. z o.o., the company has made an agreement with the remaining shareholders, namely PGE Polska Grupa Energetyczna S.A., KGHM Polska Miedź S.A. and ENEA S.A. regulating the relations between the shareholders and PGE EJ 1 Sp. z o.o. in the context of the claims lodged by the WorleyParsons consortium. The agreement sets out the terms on which additional funding may be provided by the shareholders to PGE EJ 1 Sp. z o.o. in the event that the claims are upheld, in whole or in part, and a specified amount is awarded by a final and enforceable court decision to the WorleyParsons consortium.</p> <p>A contingent liability has been recognized by the Company based on the aforesaid agreement. The Company expects that its potential additional exposure under the agreement should not exceed 10% of the claims filed against PGE EJ 1 Sp. z o.o.</p>

46. 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 2018 (unaudited)	As at 31 December 2017
Real estate	45 740	68 251
Other financial receivables	94 730	11 139
Cash	45	9
Total	140 515	79 399

Other forms of collateral

The Group also uses other forms of collateral to secure the payment of liabilities than listed below, of which the most significant ones as at 30 June 2018 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 6 900 000 thousand, valid until 31 December 2018
Long-term Bond Issue Scheme in Bank Gospodarstwa Krajowego	declaration of submission to enforcement	up to PLN 2 550 000 thousand, valid until 20 December 2032
Bond Issue Scheme dated 24 November 2015	declaration of submission to enforcement	up to PLN 7 524 000 thousand, valid until 31 December 2023
Bank guarantee agreement dated 25 October 2016 with MUFG Bank, Ltd.	declaration of submission to enforcement	up to PLN 377 383 thousand, valid until 27 October 2018
Bank guarantee agreement dated 4 April 2018 with MUFG Bank, Ltd.	declaration of submission to enforcement	up to PLN 621 000 thousand, valid until 31 July 2019
Hybrid financing contract governing the issue of subordinated bonds dated 6 September 2017	declaration of submission to enforcement	up to PLN 600 000 thousand, valid until 30 June 2034
Framework bank guarantee agreement concluded with CaixaBank S.A. The Company and TAURON Group companies can use the limit for guarantees to secure transactions (the maximum guarantee limit amount was determined at PLN 100 000 thousand).	authorization to debit the bank account maintained by CaixaBank S.A.	up to PLN 100 000 thousand
	declaration of submission to enforcement	up to PLN 120 000 thousand valid until 11 July 2021
Agreement with Bank Zachodni WBK S.A. on bank guarantees for Izba Rozliczeniowa Gield Towarowych S.A.	authorization to debit the bank account maintained by BZ WBK S.A.	up to PLN 150 000 thousand
	authorizations to debit the bank account maintained by PKO Bank Polski S.A.	up to the total amount of PLN 800 000 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)	declaration of submission to enforcement	up to PLN 600 000 thousand, valid until 17 December 2021
	declaration of submission to enforcement	up to PLN 360 000 thousand, valid until 29 December 2021
Overdraft agreement with Bank Gospodarstwa Krajowego (in EUR, up to EUR 45 000 thousand)	authorization to debit the bank account maintained by Bank Gospodarstwa Krajowego	up to PLN 196 272 thousand (EUR 45 000 thousand)
	declaration of submission to enforcement	up to PLN 104 678 thousand (EUR 24 000 thousand) valid until 31 December 2019
	declaration of submission to enforcement	up to PLN 218 080 thousand (EUR 50 000 thousand) valid until 31 December 2020
Overdraft agreement with mBank (in USD, up to USD 2 000 thousand)	declaration of submission to enforcement	up to PLN 11 232 thousand (USD 3 000 thousand) valid until 31 March 2019

Other forms of collateral against liabilities of the Group

As at 30 June 2018, other material forms of collateral regarding liabilities of the TAURON Capital Group included:

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

On 15 May 2015 the Parent established a financial pledge and registered pledges on 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, accounting for 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 on shares with the maximum collateral amount of CZK 3 950 000 thousand and a first lien registered pledge on shares with the maximum collateral amount of PLN 840 000 thousand for the benefit of RAIFFEISEN BANK INTERNATIONAL AG. The Company also agreed to establish a financial pledge and registered pledges on new shares acquired or taken up. Moreover, the Company assigned the rights to dividend and other payments. On 15 September 2016, Annex 1 was executed to the aforementioned agreement, whereby the maximum collateral amount was changed from PLN 840 000 thousand to PLN 1 370 000 thousand.

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

As at 30 June 2018, the carrying amount of the investment in a joint venture measured using the equity method in the TAMEH HOLDING Sp. z o.o. Capital Group was PLN 536 412 thousand.

- Blank promissory notes

Agreement/transaction secured by blank promissory notes	Issuer of a blank promissory note	As at 30 June 2018 (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.	244 032
Performance bonds under the co-funding agreements concluded with the National Fund for Environmental Protection and Water Management and reimbursement and performance bond under the co-funding agreements concluded with the Regional Fund for Environmental Protection and Water Management.	TAURON Ciepło Sp. z o.o.	228 606
Agreements to provide electricity supply services, an agreement with the National Fund for Environmental Protection and Water Management concerning partial cancellation of a loan and an agreement with the National Centre for Research and Development for the funding of a project.	TAURON Wytwarzanie S.A.	49 570

- The Company issued a corporate guarantee to secure the bonds issued by TAURON Sweden Energy AB (publ). The guarantee remains valid until 3 December 2029, i.e. until the date of redemption of bonds, and amounts to EUR 168 000 thousand. The beneficiaries of the guarantee are the bondholders.
- Under the bank guarantee agreement made with CaixaBank S.A. (Spółka Akcyjna) Branch in Poland, at the request of the Company the bank issued bank guarantees to secure liabilities and transactions of the subsidiaries of TAURON Polska Energia S.A. totaling PLN 14 077 thousand and to secure the transactions performed by the Company for Operator Gazociągów Przesyłowych GAZ-SYSTEM S.A. totaling PLN 4 500 thousand, valid until 30 November 2018.
- Liabilities to banks

On 11 April 2018, a bank guarantee of PLN 444 000 thousand was issued for the benefit of Bank Gospodarstwa Krajowego at the request of the Company. The guarantee secures bank exposure under a loan agreement concluded on 8 March 2018 among the borrower, Elektrociepłownia Stalowa Wola S.A., Bank Gospodarstwa Krajowego and Polskie Górnictwo Naftowe i Gazownictwo S.A., which has been described in more detail in Note 22 to these condensed interim consolidated financial statements. The guarantee was issued by MUFG Bank, Ltd., and is valid until 11 April 2019. It will be renewed on an annual basis. The exposure of MUFG Bank, Ltd. to the Company under a guarantee agreement dated 4 April 2018 is secured with a declaration of submission to enforcement up to PLN 621 000 thousand, valid until 31 July 2019.

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

47. Related-party disclosures

47.1. Transactions with joint ventures

The Group has interest in the following joint ventures: Elektrociepłownia Stalowa Wola S.A. 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 2018 <i>(unaudited)</i>	6-month period ended 30 June 2017 <i>(unaudited)</i>
Revenue	23 911	32 506
Costs	(19 956)	(21 126)

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 46 to these condensed interim consolidated financial statements.

47.2. 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 expenses

	6-month period ended 30 June 2018 <i>(unaudited)</i>	6-month period ended 30 June 2017 <i>(unaudited)</i>
Revenue	1 039 442	874 499
Costs	(1 601 701)	(1 555 264)

Receivables and liabilities

	As at 30 June 2018 <i>(unaudited)</i>	As at 31 December 2017
Receivables	227 043	253 834
Payables	362 314	322 002

As at 30 June 2018 and 31 December 2017, receivables presented in the table above comprised advance payments for purchases of fixed assets of PLN 12 196 thousand and PLN 9 757 thousand, respectively.

In the 6-month period ended 30 June 2018, KGHM Polska Miedź S.A., PSE S.A., Jastrzębska Spółka Węglowa S.A. and Polska Grupa Górnicza 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 contracting parties accounted for 88% of revenue generated on transactions with State Treasury companies. The Group concluded the largest purchase transactions with PSE S.A. and Polska Grupa Górnicza S.A. They accounted for 85% of the total value of purchases from State Treasury companies in the 6-month period ended 30 June 2018.

In the 6-month period ended 30 June 2017, KGHM Polska Miedź S.A., PSE S.A., Jastrzębska Spółka Węglowa S.A., Polska Grupa Górnicza Sp. z o.o. (now: Polska Grupa Górnicza S.A.) and Energa-Obrót S.A. 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 86% of revenue from transactions with State Treasury companies. The largest purchase transactions were concluded by the Group with PSE S.A. and Polska Grupa Górnicza Sp. z o.o. (now: Polska Grupa Górnicza S.A.). Purchases from these contracting parties accounted for 89% of the value of purchases from State Treasury companies during the 6-month period ended 30 June 2017.

The Capital Group concludes material transactions on the energy markets 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.

47.3. 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 2018 and in the comparative period, has been presented in the table below.

	6-month period ended 30 June 2018 (unaudited)		6-month period ended 30 June 2017 (unaudited)	
	Parent	Subsidiaries	Parent	Subsidiaries
Board of Directors	4 029	6 980	4 382	13 507
Short-term benefits (with surcharges)	3 379	6 563	2 992	10 792
Employment termination benefits	620	190	1 144	2 341
Other	30	227	246	374
Supervisory Board	401	448	379	301
Short-term employee benefits (salaries and surcharges)	401	448	379	301
Other key management personnel	8 875	20 663	7 271	21 105
Short-term employee benefits (salaries and surcharges)	7 770	18 354	6 093	20 267
Jubilee bonuses	-	1 880	-	272
Employment termination benefits	495	212	726	340
Other	610	217	452	226
Total	13 305	28 091	12 032	34 913

In accordance with the adopted accounting policy, the Group recognizes provisions for termination benefits for members of the Management Board and other key executives, which may be paid or due in future reporting periods. The amounts paid or due until 30 June 2018 have been presented in the above table.

48. Other material information

Signing transaction documentation related to the investment in a subsidiary Nowe Jaworzno Grupa TAURON Sp. z o.o. made by Closed-end Investment Funds managed by Polski Fundusz Rozwoju S.A.

On 28 March 2018, the Company, its subsidiary, i.e. Nowe Jaworzno Grupa TAURON Sp. z o.o. and the Infrastructure Investment Fund - Closed-End Investment Fund (Private Equity) and Infrastructure Investment Fund (Private Equity) Closed-End Debt Fund (Private Equity) ("Funds"), with a portion of the investment portfolio managed by Polski Fundusz Rozwoju S.A., signed transaction documentation specifying the terms of the Fund's equity investment in Nowe Jaworzno Grupa TAURON Sp. z o.o.

Transaction documentation included an investment agreement and a shareholders' agreement together with appendices, including draft long-term electricity sales contracts and a long-term coal sale contract, which were concluded until reporting date by the Company and its subsidiary Nowe Jaworzno Grupa TAURON Sp. z o.o.

The shareholders' agreement sets out the principles of corporate governance in Nowe Jaworzno Grupa TAURON Sp. z o.o. This agreement grants the Funds a personal right to appoint, suspend and dismiss one member of the Management Board and one member of the Supervisory Board of Nowe Jaworzno Grupa TAURON Sp. z o.o. It also specifies the matters for which a unanimous resolution of the Management Board, Supervisory Board or General Shareholders' Meeting of Nowe Jaworzno Grupa TAURON Sp. z o.o. will be required. The shareholders' agreement will enter into force as soon as the Funds become members of Nowe Jaworzno Grupa TAURON Sp. z o.o.

The investment agreement specifies the terms and conditions of the equity investment of the Funds in Nowe Jaworzno Grupa TAURON Sp. z o.o. This investment project assumes the Funds' becoming members of Nowe Jaworzno Grupa TAURON Sp. z o.o. and their participation in subsequent capital contributions to Nowe Jaworzno Grupa TAURON Sp. z o.o., by taking up new shares in exchange for cash contributions up to a total maximum amount of PLN 880 000 thousand, i.e. PLN 440 000 thousand by each of the Funds. As at the date when the 910 MW power unit in Jaworzno is put into operation, the interests of the Funds in the issued capital of Nowe Jaworzno Grupa TAURON Sp. z o.o. should be approx. 14% and the interests of the Company should never fall below 50%+1 share. The Company will be obliged to make a capital contribution to its subsidiary – Nowe Jaworzno Grupa TAURON Sp. z o.o. – sufficient to build a 910 MW power unit in Jaworzno, after the Funds have reached their maximum equity interest.

Under the investment agreement, the Funds will become members of Nowe Jaworzno Grupa TAURON Sp. z o.o. after specified conditions precedent have been met. The conditions precedent include obtaining the consent of the President of the Office for Competition and Consumer Protection for concentration, obtaining a decision of the Head of the National Revenue Administration approving the terms of the contract for the sale of electricity as an advance pricing agreement ("APA Decision"), conclusion by the Company and its subsidiary Nowe Jaworzno Grupa TAURON Sp. z o.o. of specified contracts, including a contract for the sale of electricity and a contract for the sale of coal, and performance (or the Company ensuring the performance) of certain activities by the governing bodies of Nowe Jaworzno Grupa TAURON Sp. z o.o. Conditions precedent were to be met within four months of the investment agreement, except for the condition related to the APA Decision, which should be satisfied within seven months.

After the end of the reporting period, on 17 July 2018, the Company was served with a decision of the President of the Office for Competition and Consumer Protection of 13 July 2018 granting unconditional consent for concentration consisting in the creation of a joint venture Nowe Jaworzno Grupa Tauron Sp. z o.o. by the Company and Polski Fundusz Rozwoju S.A., acting through the Funds, on the terms set out in the application filed by the Company and Polski Fundusz Rozwoju S.A.

In view of the foregoing, the Company believes that as at the date of approval of these condensed interim consolidated financial statements for publication, all conditions precedent which had to be satisfied for the Funds to become members of Nowe Jaworzno Grupa TAURON Sp. z o.o. within four months of the date of the investment agreement, i.e. by 28 July 2018, had been met. The Company filed an APA Decision application with the Head of the National Revenue Administration. The APA Decision, which should be issued by 28 October 2018, is the last document that the Company should obtain to satisfy conditions precedent necessary for the Funds to become members of Nowe Jaworzno Grupa TAURON Sp. z o.o.

Conclusion of investment agreements to establish corporate venture capital funds

On 13 June 2018, the Company concluded two investment agreements to establish corporate venture capital funds. The agreements are conditional and their entry into force required the satisfaction of a condition precedent obtaining the consent of the President of the Office for Competition and Consumer Protection. After the balance sheet date, on 8 August 2018, the condition precedent had been fulfilled.

Under the above-mentioned agreements, the Company will participate in two funds established as part of the PFR Starter - FIZ and PFR NCBR CVC programs. Creation of the funds will allow the Company to provide multi-stage support to innovative businesses, including by enabling them to participate in acceleration programs, investing in start-ups under the PFR Starter FIZ program, and ensuring further financing rounds under the PFR NCBR CVC program. Ultimately, the capitalization of the fund established under the PFR Starter FIZ program is expected to be PLN 50 000 thousand, and of the one created under the PFR NCBR CVC program: PLN 160 000 thousand. The Company's interests in the funds will not exceed 25% and 49%, respectively.

49. Events after the end of the reporting period

Consent of the President of the Office for Competition and Consumer Protection for concentration consisting in the creation of a joint venture by the Company and Polski Fundusz Rozwoju S.A.

After the end of the reporting period, on 17 July 2018, the Company was served with a decision of the President of the Office for Competition and Consumer Protection of 13 July 2018 granting unconditional consent for concentration consisting in the creation of a joint venture Nowe Jaworzno Grupa TAURON Sp. z o.o., which has been described in detail in Note 48 to these condensed interim consolidated financial statements.

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

On 9 August 2018 the Extraordinary General Shareholders' Meeting of PGE EJ 1 Sp. z o.o. adopted a resolution to increase the issued capital of the company from PLN 310 858 thousand to PLN 370 858 thousand, i.e. by PLN 60 000 thousand, by creating 425 530 new shares with a face value of PLN 141 per one share. All new shares will be taken up and paid for by the shareholders of the company in proportion to the shares contributed. The Company will take up and pay for 10% of the increased capital, i.e. PLN 6 000 thousand, and will take up 42 553 new shares.

These condensed interim consolidated financial statements of the TAURON Polska Energia S.A. Capital Group, prepared for the 6-month period ended 30 June 2018 in accordance with International Accounting Standard 34 have been presented on 74 consecutive pages.

Katowice, 22 August 2018

Filip Grzegorzczak – 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

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 2018**

22 August 2018

tauron.pl

Independent Auditor's Report
on review of interim condensed financial statements

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

Introduction

We have reviewed the accompanying interim condensed financial statements of TAURON Polska Energia S.A. ('the Company') with registered office located in Katowice, ss. Piotra Ściegiennego Street, 3 as of 30 June 2018 and the related condensed interim statement of financial position as at 30 June 2018, condensed interim statement of comprehensive income, condensed interim statement of changes in equity and condensed interim statement of cash flows for the 6 month period ended 30 June 2018 and other explanatory notes ('the interim condensed financial statements').

The Company's Management is responsible for the preparation and presentation of the accompanying interim condensed financial statements in accordance with the requirements of International Accounting Standard 34 *Interim Financial Reporting* as adopted by the European Union.

Our responsibility is to express a conclusion on the accompanying interim condensed financial statements based on our review.

Scope of review

We conducted our review in accordance with National Review Standard 2410 in the wording of the International Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* ('standard'), adopted by the resolution no. 2041/37a/2018 of the National Council of Statutory Auditors of 5 March 2018. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, applying analytical and other review procedures.

A review is substantially less in scope than an audit conducted in accordance with National Auditing Standards in the wording of the International Auditing Standards adopted by the resolution no. 2041/37a/2018 of the National Council of Statutory Auditors of 5 March 2018 and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed financial statements are not prepared, in all material respects, in accordance with the requirements of International Accounting Standard 34 *Interim Financial Reporting* as adopted by the European Union.

Warsaw, 22 August 2018

Key Certified Auditor

Leszek Lerch
certified auditor
no in the register: 9886

on behalf of
Ernst & Young Audyt Polska
spółka z ograniczoną odpowiedzialnością sp. k.
Rondo ONZ 1,
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no on audit firms list: 130



**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 June 2018**

22 August 2018

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 2018

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CONDENSED INTERIM STATEMENT OF COMPREHENSIVE INCOME

	Note	6-month period ended 30 June 2018 <i>(unaudited)</i>	6-month period ended 30 June 2017 <i>(unaudited)</i>
Sales revenue	11	3 711 779	3 620 652
Cost of sales	12	(3 669 031)	(3 319 950)
Profit on sale		42 748	300 702
Selling and distribution expenses	12	(10 418)	(12 151)
Administrative expenses	12	(64 720)	(53 374)
Other operating income and expenses		(4 051)	(1 279)
Operating profit (loss)		(36 441)	233 898
Dividend income	13	17 000	560 832
Interest income on bonds and loans	13	167 186	252 377
Interest expense on debt	13	(156 015)	(155 229)
Revaluation of shares	13	(1 003 061)	70 845
Revaluation of bonds and loans	13	145 477	(60 578)
Other finance income and costs	13	(141 877)	57 297
Profit (loss) before tax		(1 007 731)	959 442
Income tax expense	14.1	(3 995)	(59 111)
Net profit (loss)		(1 011 726)	900 331
Measurement of hedging instruments	26.4	(13 184)	(9 075)
Income tax expense	14.1	2 505	1 724
Other comprehensive income subject to reclassification to profit or loss		(10 679)	(7 351)
Actuarial gains/(losses)		160	27
Income tax expense	14.1	(30)	(5)
Other comprehensive income not subject to reclassification to profit or loss		130	22
Other comprehensive income, net of tax		(10 549)	(7 329)
Total comprehensive income		(1 022 275)	893 002
Earnings (loss) per share (in PLN):			
- basic and diluted, for net profit		(0.58)	0.51

CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION

	Note	As at 30 June 2018 <i>(unaudited)</i>	As at 31 December 2017 <i>(restated figures)</i>
ASSETS			
Non-current assets			
Investment property	16	23 819	21 701
Shares	17	20 596 724	20 912 679
Bonds	18	5 363 799	6 009 920
Loans granted	19	769 365	382 989
Derivative instruments	20	34 483	26 704
Deferred tax assets	14.2	89 008	-
Other financial assets	21	2 847	2 724
Other non-financial assets		16 579	14 967
		26 896 624	27 371 684
Current assets			
Inventories	22	207 463	198 428
Receivables from buyers	23	616 593	719 133
Receivables arising from taxes and charges	24	15 794	36 094
Bonds	18	46 367	562 776
Loans granted	19	148 152	520 191
Derivative instruments	20	211 232	54 994
Other financial assets	21	279 609	131 640
Other non-financial assets		6 588	4 857
Cash and cash equivalents	25	320 348	721 577
		1 852 146	2 949 690
TOTAL ASSETS		28 748 770	30 321 374

CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION - CONTINUED

	Note	As at 30 June 2018 <i>(unaudited)</i>	As at 31 December 2017 <i>(restated figures)</i>
EQUITY AND LIABILITIES			
Equity			
Issued capital	26.1	8 762 747	8 762 747
Reserve capital	26.3	8 511 437	7 657 086
Revaluation reserve from valuation of hedging instruments	26.4	12 372	23 051
Retained earnings / (Accumulated losses)	26.3	(1 319 476)	935 022
		15 967 080	17 377 906
Non-current liabilities			
Debt	27	9 553 479	9 472 454
Other financial liabilities	28	17 626	20 126
Derivative instruments	20	7 213	5 217
Deferred tax liabilities	14.2	-	29 843
Provisions for employee benefits		3 340	3 147
		9 581 658	9 530 787
Current liabilities			
Debt	27	2 355 257	2 725 763
Liabilities to suppliers	30	309 093	413 265
Other financial liabilities	28	219 596	62 590
Derivative instruments	20	202 747	57 249
Liabilities arising from taxes and charges	31	23 483	70 119
Other non-financial liabilities		163	-
Provisions for employee benefits		337	330
Other provisions	29	70 914	68 771
Accruals, deferred income and government grants		18 442	14 594
		3 200 032	3 412 681
Total liabilities		12 781 690	12 943 468
TOTAL EQUITY AND LIABILITIES		28 748 770	30 321 374

CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY

FOR THE 6-MONTH PERIOD ENDED 30 JUNE 2018 (unaudited)

	Note	Issued capital	Reserve capital	Revaluation reserve from valuation of hedging instruments	Retained earnings/ (Accumulated losses)	Total equity
As at 31 December 2017		8 762 747	7 657 086	23 051	935 022	17 377 906
Impact of IFRS 9	8	-	-	-	(388 551)	(388 551)
As at 1 January 2018		8 762 747	7 657 086	23 051	546 471	16 989 355
Distribution of prior year profit	26.3	-	854 351	-	(854 351)	-
Transactions with shareholders		-	854 351	-	(854 351)	-
Net profit (loss)		-	-	-	(1 011 726)	(1 011 726)
Other comprehensive income		-	-	(10 679)	130	(10 549)
Total comprehensive income		-	-	(10 679)	(1 011 596)	(1 022 275)
As at 30 June 2018 <i>(unaudited)</i>		8 762 747	8 511 437	12 372	(1 319 476)	15 967 080

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

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

CONDENSED INTERIM STATEMENT OF CASH FLOWS

	Note	6-month period ended 30 June 2018 <i>(unaudited)</i>	6-month period ended 30 June 2017 <i>(unaudited)</i>
Cash flows from operating activities			
Profit (loss) before taxation		(1 007 731)	959 442
Depreciation and amortization		2 486	2 892
Interest and dividends, net		(5 478)	(657 563)
Impairment losses on shares		1 003 061	(70 845)
Impairment losses on bonds and loans		(145 477)	60 578
Foreign exchange difference		162 157	(72 290)
Other adjustments of profit before tax		(30 406)	14 513
Change in working capital	32.1	47 460	109 022
Income tax paid		(91 195)	111
Net cash from operating activities		(65 123)	345 860
Cash flows from investing activities			
Purchase of investment property		(3 926)	-
Purchase of bonds		(160 000)	(350 000)
Purchase of shares	32.2	(701 000)	(4 160 200)
Loans granted	32.2	(658 464)	(295 992)
Other		(463)	(532)
Total payments		(1 523 853)	(4 806 724)
Redemption of bonds	32.2	1 090 000	3 162 110
Dividends received		-	3 991
Repayment of loans granted	32.2	419 100	-
Interest received	32.2	207 349	326 904
Other		128	-
Total proceeds		1 716 577	3 493 005
Net cash from investing activities		192 724	(1 313 719)
Cash flows from financing activities			
Payment of finance lease liabilities		(23 519)	(1 691)
Repayment of loans and borrowings	32.3	(55 659)	(40 909)
Redemption of debt securities		-	(300 000)
Interest paid	32.3	(114 850)	(112 906)
Commission paid		(7 266)	(8 178)
Total payments		(201 294)	(463 684)
Issue of debt securities		-	600 000
Total proceeds		-	600 000
Net cash from financing activities		(201 294)	136 316
Net increase / (decrease) in cash and cash equivalents		(73 693)	(831 543)
Net foreign exchange difference		3 698	267
Cash and cash equivalents at the beginning of the period	25	(1 559 232)	(1 045 441)
Cash and cash equivalents at the end of the period, of which:	25	(1 632 925)	(1 876 984)
restricted cash	25	52 511	40 499

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

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

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

The Company was established by a notarized deed on 6 December 2006 under the name of Energetyka Południe S.A. On 8 January 2007, the Company was registered at the District Court for 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 core business of TAURON Polska Energia S.A. is:

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

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

The Company's condensed interim financial statements cover the 6-month period ended 30 June 2018 and present comparative data for the 6-month period ended 30 June 2017 as well as figures as at 31 December 2017. The data for the 6-month period ended 30 June 2018 and the comparative data for the 6-month period ended 30 June 2017, as contained herein, have been reviewed by a certified auditor. The comparative data as at 31 December 2017 were audited by a certified auditor.

These condensed interim financial statements for the 6-month period ended 30 June 2018 were approved for publication on 22 August 2018.

The Company also prepared the condensed interim consolidated financial statements for the 6-month period ended 30 June 2018, which were approved for publication by the Management Board on 22 August 2018.

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 2018.

2. Shares in related parties

As at 30 June 2018, TAURON Polska Energia S.A. held direct and indirect interest in the following key subsidiaries:

TAURON Polska Energia S.A.
Condensed interim financial statements for the 6-month period ended 30 June 2018
prepared in accordance with the IFRS, as endorsed by the European Union
(in PLN '000)

Item	Company name	Registered office	Core business	Share of TAURON Polska Energia S.A. in the entity's capital	Share of TAURON Polska Energia S.A. in the governing body
1	TAURON Wydobycie S.A.	Jaworzno	Hard coal mining	100.00%	100.00%
2	TAURON Wytwarzanie S.A.	Jaworzno	Generation, transmission and distribution of electricity and heat	100.00%	100.00%
3	Nowe Jaworzno Grupa TAURON Sp. z o.o.	Jaworzno	Generation, transmission and distribution of electricity and heat and sale of electricity	100.00%	100.00%
4	TAURON Ekoenergia Sp. z o.o.	Jelenia Góra	Generation of electricity	100.00%	100.00%
5	Marselwind Sp. z o.o.	Katowice	Production, transmission and sale of electricity	100.00%	100.00%
6	TAURON Ciepło Sp. z o.o.	Katowice	Production and distribution of heat	100.00%	100.00%
7	TAURON Serwis Sp. z o.o.	Katowice	Services	95.61%	95.61%
8	TAURON Dystrybucja S.A.	Kraków	Distribution of electricity	99.74%	99.75%
9	TAURON Dystrybucja Serwis S.A.	Wrocław	Services	100.00%	100.00%
10	TAURON Dystrybucja Pomiarów Sp. z o.o. ¹	Tarnów	Services	99.74%	99.75%
11	TAURON Sprzedaż Sp. z o.o.	Kraków	Sale of electricity	100.00%	100.00%
12	TAURON Sprzedaż GZE Sp. z o.o.	Gliwice	Sale of electricity	100.00%	100.00%
13	TAURON Czech Energy s.r.o.	Ostrawa, Czech Republic	Sale of electricity	100.00%	100.00%
14	TAURON Obsługa Klienta Sp. z o.o.	Wrocław	Services	100.00%	100.00%
15	Kopalnia Wapienia Czatkowice Sp. z o.o.	Krzyszowice	Limestone quarrying and stone quarrying	100.00%	100.00%
16	Polska Energia Pierwsza Kompania Handlowa Sp. z o.o.	Warszawa	Sale of electricity	100.00%	100.00%
17	TAURON Sweden Energy AB (publ)	Sztokholm, Sweden	Services	100.00%	100.00%
18	Biomasa Grupa TAURON Sp. z o.o.	Stalowa Wola	Wholesale of waste and scrap	100.00%	100.00%
19	Wsparcie Grupa TAURON Sp. z o.o. ¹	Tarnów	Services	99.74%	99.75%

¹TAURON Polska Energia S.A. holds indirect interest in TAURON Dystrybucja Pomiarów Sp. z o.o. and Wsparcie Grupa TAURON Sp. z o.o. through its subsidiary, TAURON Dystrybucja S.A. TAURON Polska Energia S.A. uses shares in TAURON Dystrybucja Pomiarów Sp. z o.o.

As at 30 June 2018, TAURON Polska Energia S.A. held direct and indirect interest in the following jointly-controlled entities:

Item	Company name	Registered office	Core business	Share of TAURON Polska Energia S.A. in the entity's capital and governing body
1	Elektrociepłownia Stalowa Wola S.A. ¹	Stalowa Wola	Generation of electricity	50.00%
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%

¹TAURON Polska Energia S.A. holds indirect interest in Elektrociepłownia Stalowa Wola S.A. through a subsidiary, TAURON Wytwarzanie S.A.

²TAURON 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 capital and the governing bodies of TAMEH POLSKA Sp. z o.o. and TAMEH Czech s.r.o.

3. Statement of compliance

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

The condensed interim financial statements do not contain all information and disclosures required for annual financial statements and they should be read jointly with the Company's financial statements prepared in accordance with IFRS for the year ended 31 December 2017.

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 condensed interim financial statements for publication, no circumstances had been identified which would indicate a risk to the Company's ability to continue as a going concern.

5. Functional and Presentation Currency

Polish zloty is the functional currency of the parent and the presentation currency of these condensed interim financial statements. These condensed interim financial statements have been presented in the Polish zlotys ("PLN") and all figures are in PLN thousand, unless stated otherwise.

6. Material values based on professional judgement and 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. The 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.

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

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(in PLN '000)

Item	Note	Estimates and assumptions
Shares	Note 17	As at every balance sheet date the Company assesses if there is any objective indication that the shares may be impaired. If any significant indications of impairment are identified, the Company has to carry out impairment tests for shares and to recognize an impairment loss or to reverse an impairment loss recognized before. In line with IFRS 9 <i>Financial Instruments</i> the Company adequately classifies shares in entities other than subsidiaries and jointly-controlled entities and remeasures them to fair value, as discussed in detail in Note 8 to these condensed interim financial statements.
Intra-group bonds	Note 18	At each balance sheet date the Company classifies intra-group bonds to current or non-current assets. Intra-group bonds maturing within one year, intended for rollover, are classified as long-term instruments. In accordance with IFRS 9 <i>Financial Instruments</i> the Company estimates impairment losses for intra-group bonds, as discussed in more detail in Note 8 to these condensed interim financial statements.
Loans granted	Note 19	In line with IFRS 9 <i>Financial Instruments</i> the Company adequately classifies and measures originated loans and estimates impairment allowances, as discussed in detail in Note 8 to these condensed interim financial statements.
Derivative instruments	Note 20	The Company measured derivative financial instruments at fair value at the end of each reporting period. Derivative instruments acquired and held for internal purposes are not measured at the end of the reporting period.
Receivables from buyers	Note 23	In line with IFRS 9 <i>Financial Instruments</i> the Company estimates impairment allowances on receivables from buyers, as discussed in detail in Note 8 to these condensed interim financial statements.
Deferred tax assets	Note 14.2	As at the end of each reporting period, the Company assesses the realisation of deferred tax assets and verifies deferred tax assets which were not recognized.
Provisions	Note 29	The value of provisions is determined based on assumptions made by the Company as well as a methodology and calculation method that is appropriate for a specific provision. To this end, the Company verifies the probability of an outflow of resources embodying economic benefits and estimates reliably the amount necessary to fulfil the obligation. The Company recognized provisions if the probability of an outflow of resources embodying economic benefits is higher than 50%.

Apart from the above, the Company makes significant estimates as regards the contingent liabilities it discloses, and in particular as regards court cases the Company is party to. Contingent liabilities have been presented in detail in Note 35 hereto.

7. Standards and interpretations which have been published but are not yet effective

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

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

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

IFRS 16 Leases

Effective date in the EU: annual periods beginning on or after 1 January 2019.

Under IFRS 16 *Leases*, the lessee recognizes the right-of-use asset and the lease liability. The right-of-use asset is treated similarly to other non-financial assets and depreciated accordingly. Lease liabilities are initially measured at the present value of the lease payments due over the lease term, discounted at the rate implicit in the lease, if that can be determined. If that rate cannot be determined, the lessee uses the incremental borrowing rate. Lessors continue to classify leases as operating or finance leases, i.e. in line with IAS 17 *Leases*. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. Otherwise, a lease is classified as an operating lease. A lessor recognizes finance income over the lease term of a finance lease, based on a pattern reflecting a constant periodic rate of return on the net investment. A lessor recognizes operating lease payments as income on a straight-line basis or another systematic basis if that basis is more representative of the pattern in which benefit from the use of the underlying asset is diminished.

Impact on the financial statements

A preliminary analysis of the impact of IFRS 16 *Leases* on the accounting policies has shown a change material for the Company, i.e. the need to recognize lease assets and liabilities for leases currently classified as operating leases in financial statements. The Company has already completed the verification of all its agreements aimed to identify those which will be affected by IFRS 16 *Leases*. Currently, an analysis is being conducted to determine the effects of identified agreements under IFRS 16 *Leases*, specifically as regards the necessity to recognize assets and liabilities in the financial statements. The Company is currently developing a methodology of determining the incremental borrowing rate. As at the date the condensed interim financial statements were authorized for issue, the Company had not completed the analyses that would determine the impact of planned changes on the financial statements. Such analysis will be completed at a later date.

According to the Management Board revised IFRS 9 *Financial Instruments*, entering into force as of 1 January 2019, will not materially impact the accounting policies applied.

- **Standards, revised standards and interpretations issued by the International Accounting Standards Board (IASB) which have not been endorsed by the European Union and are not yet effective**

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

Standard	Effective date specified in the Standard, not endorsed by the EU (annual periods beginning on or after the date provided)
IFRS 14 <i>Regulatory Deferral Accounts</i>	1 January 2016*
IFRS 17 <i>Insurance contracts</i>	1 January 2021
Revised IFRS 10 <i>Consolidated Financial Statements</i> and IAS 28 <i>Investments in Associates and Joint Ventures: Sale or Contribution of Assets between Investor and its Associate or Joint Venture</i> with subsequent amendments	the effective date has been postponed
<i>Annual Improvements to IFRS (cycle 2015-2017):</i>	
IAS 12 <i>Income Taxes</i>	1 January 2019
IAS 23 <i>Borrowing Costs</i>	1 January 2019
IFRS 3 <i>Business Combinations</i>	1 January 2019
IFRS 11 <i>Joint Arrangements</i>	1 January 2019
IFRIC 23 <i>Uncertainty over Income Tax Treatments</i>	1 January 2019
Revised IAS 19 <i>Employee Benefits</i>	1 January 2019
Revised IAS 28 <i>Investments in Associates and Joint Ventures</i>	1 January 2019
Amendments to References to the Conceptual Framework in IFRS	1 January 2020

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

Hedge accounting principles applicable to the portfolio of financial assets and liabilities also remain outside the scope of the regulations adopted by the EU, as they have not been approved for use in the EU.

8. Changes in the 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 2017, except for the application of the new standards and amendments to standards and changes to the accounting principles (policy) applied by the Company, as discussed below.

According to the Management Board, the following new standards and revised standards have a material impact on the accounting policies applied thus far:

IFRS 9 *Financial Instruments*

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

Key changes introduced by IFRS 9 *Financial Instruments*:

- **Change in the classification and measurement of financial assets**

Instead of the four classes of financial assets identified by IAS 39 *Financial Instruments: Recognition and Measurement*, IFRS 9 *Financial Instruments* identifies three categories of financial assets:

- financial assets measured at amortized cost;
- financial assets measured at fair value through other comprehensive income;
- financial assets measured at fair value through profit or loss.

Pursuant to IFRS 9 *Financial Instruments*, financial assets are classified upon initial recognition based on:

- cash flow characteristics (SPPI test; Solely Payments of Principal and Interest);
- business model for managing the financial asset.

- **Introduction of a new impairment testing model based on expected credit losses**

IFRS 9 *Financial Instruments* replaces the incurred credit losses with the concept of expected credit losses, resulting in the recognition of a loss allowance upon initial recognition of an asset. The requirements regarding impairment of financial assets apply to financial assets measured at amortized cost and at fair value through other comprehensive income.

Impact on the financial statements as at 1 January 2018

The Company decided to apply IFRS 9 *Financial Instruments* with the effect as of 1 January 2018. It also decided not to restate the comparable data, as permitted by the standard. The data as at 31 December 2017 and for the 6-month period ended 30 June 2017 were presented in line with IAS 39 *Financial Instruments: Recognition and Measurement*.

Impact of the application of IFRS 9 *Financial Instruments* on retained earnings as at 1 January 2018:

TAURON Polska Energia S.A.
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prepared in accordance with the IFRS, as endorsed by the European Union
(in PLN '000)

Categories and classes of financial instruments in line with IAS 39	IAS 39		IFRS 9		Effect of change Increase/ (decrease)	
	At amortised /at historical cost	At fair value	At amortised cost	Fair value through:		
				Profit/loss		Other comprehensive income
1 Financial assets at fair value through profit or loss, held for trading	-	154 574	-	154 574	-	
Derivative instruments	-	53 216	-	53 216	-	
Investment fund units	-	101 358	-	101 358	-	
2 Financial assets available for sale	39 244	-	-	25 351	(13 893)	
Long-term shares	39 244	-	-	25 351	(13 893)	
3 Loans and receivables	8 228 015	-	7 551 955	177 275	(498 785)	
Receivables from buyers	719 133	-	717 558	-	(1 575)	
Gross value	720 057	-	720 057	-	-	
Impairment loss	(924)	-	(2 499)	-	(1 575)	
Bonds	6 572 696	-	6 176 103	-	(396 593)	
Gross value	6 572 696	-	6 572 696	-	-	
Impairment loss	-	-	(396 593)	-	(396 593)	
Loans granted under cash pool agreement	190 526	-	190 526	-	-	
Other loans granted	712 654	-	461 077	150 960	(100 617)	
Gross value	712 654	-	471 887	150 960	(89 807)	
Impairment loss	-	-	(10 810)	-	(10 810)	
Other financial receivables	33 006	-	6 691	26 315	-	
4 Hedging derivative instruments	-	28 482	-	28 482	-	
5 Cash and cash equivalents	-	721 577	-	721 577	-	
Total estimated effect of the application of IFRS 9 on financial assets					(512 678)	
1 Financial liabilities measured at amortised cost	470 239	-	437 184	-	33 055	
Loan granted by European Investment Bank	470 239	-	437 184	-	33 055	
Total estimated effect of the application of IFRS 9 on financial liabilities					33 055	
Estimated effect on retained earnings					(479 623)	
Deferred tax					91 072	
Estimated effect on retained earnings after deferred tax					(388 551)	

The data presented above, which according to the Company, comply with the requirements of IFRS 9 *Financial Instruments* in all material respects, were not audited by a certified auditor. Consequently, the final figures disclosed in the financial statements for 2018 may differ from those presented in these condensed interim financial statements.

- Change in the classification and measurement of financial assets**

The categories of financial assets identified in IAS 39 *Financial Instruments: Recognition and Measurement* cannot be directly translated into those identified in IFRS 9 *Financial instruments* and therefore the Company has developed a method of classification of financial assets which sets the terms of the SPPI and the business model tests. On such basis the Company carried out the business model and SPPI tests for all financial assets material as at 1 January 2018.

The analysis revealed that a considerable portion of financial assets presented in the above table generates cash flows corresponding solely to the repayment of principal and interest and they are maintained under a business model based solely on acquiring cash flows, which translates into classification as financial assets measured at amortized cost.

The subordinated loan and the loans used for the purposes of debt repayment originated to the joint venture Elektrociepłownia Stalowa Wola S.A., measured at amortized cost in line with IAS 39 *Financial Instruments: Recognition and Measurement*, with the carrying amount as at 1 January 2018 of PLN 240 767 thousand, have been classified to financial assets measured at fair value through profit or loss at PLN 150 960 thousand, since the cash flows they generated do not correspond solely to the repayment of principal and interest. The application of IFRS 9 *Financial instruments* reduced the Company's retained earnings as at 1 January 2018 by PLN 89 807 thousand.

IFRS 9 *Financial Instruments* requires that interests in other entities be measured at fair value, also with respect to those interests which — due to a limited availability of information — have so far been measured at cost less any impairment losses. Therefore, the Company, estimated the fair value of shares held in PGE EJ 1 Sp. z o.o. in line with the adjusted net assets method considering its share in the net assets and adjusting the value by relevant factors affecting the measurement such as the non-controlling interest discount and the discount for the lack of liquidity of the above instruments. As the key factors affecting the value of the assumed shares had not changed at a given end of the reporting period compared to the initial recognition, in the case of other instruments the Company assumes that the historical cost is an acceptable approximation of the fair value. The application of IFRS 9 *Financial Instruments* to measurement of equity investments reduced the Company's retained earnings as at 1 January 2018 by PLN 13 893 thousand. The above instruments comply with IFRS 9 *Financial Instruments* measured at fair value through profit or loss.

- **Introduction of a new impairment testing model based on expected credit losses**

The Company has identified the following categories of financial assets for which it has verified the impact of the calculation of expected credit losses in line with IFRS 9 *Financial Instruments* on the financial statements;

- receivables from buyers and
- held bonds of subsidiaries and originated loans.

As far as the receivables from buyers are concerned, the Company has designated a portfolio of strategic counterparties in the case of which it is expected that the historical performance (lack of material delinquencies) does not provide full information on the expected credit losses that the Company may be exposed to. The risk of insolvency on the part of the strategic counterparties has been assessed based on the ratings assigned to the counterparties using an internal scoring model and appropriately restated to account for the probability of default. The expected credit loss, in line with IFRS 9 *Financial Instruments*, is calculated based on the estimated potential recovery due to the security lodged. It is expected that the historical performance information concerning the receivables from other counterparties may reflect the credit risk that will be faced in future periods. The expected credit losses for such a group of counterparties have been estimated through an analysis of ageing of receivables and percentage ratios assigned to individual ranges and groups (such as receivables claimed at court, receivables from counterparties in bankruptcy) which help estimate the value of receivables from buyers which are not expected to be paid.

Based on the analyses, the total value of the loss allowance for expected credit losses due to receivables from buyers, following the application of IFRS 9 *Financial Instruments* increased compared to the value of the allowance calculated based on previous terms, which resulted in a decrease in retained earnings as at 1 January 2018 by PLN 1 575 thousand.

As far as originated loans and held bonds are concerned, the Company assesses the risk of insolvency on the part of the borrowers and issuers based on the ratings assigned to the counterparties using an internal scoring model, appropriately restated to account for the probability of default. The expected credit loss, in line with IFRS 9 *Financial Instruments*, is calculated based on the estimated potential recovery due to the security lodged and the time value of money.

The application of IFRS 9 *Financial Instruments* to the expected credit losses under purchased bonds and originated loans measured at amortized cost resulted in a decrease of the Company's retained earnings as at 1 January 2018 by PLN 396 593 thousand and PLN 10 810 thousand, respectively.

- **Change in the basis of measurement for liabilities in the event of modification of contractual cash flows**

IFRS 9 *Financial Instruments* also introduces a change in the basis of measurement for liabilities if the contractual cash flows have been modified. The Company has liabilities due to loans from the European Investment Bank and the liabilities have been modified through a change in interest rates at an agreed date. The application of IFRS 9 *Financial Instruments* increased the Company's retained earnings as at 1 January 2018 by PLN 33 055 thousand.

- **Hedge accounting**

As at 1 January 2018 the Company held instruments hedging fluctuations in cash flows related to issued bonds and resulting from the interest rate risk. These interest rate swaps are subject to hedge accounting.

An analysis of risks and rewards related to the adoption of the hedge accounting solutions introduced by IFRS 9 *Financial Instruments* in light of the Company's portfolio of financial instruments revealed that the principles defined in IAS 39 *Financial Instruments: Recognition and Measurement* should still be applied. It is not expected that the application of the provisions of IFRS 9 *Financial Instruments* concerning hedge accounting will have a material impact on the Company's financial statements as regards its transactions. The Company has been monitoring the work carried out by the International Accounting Standards Board with respect to IFRS 9 *Financial Instruments* related to hedge accounting and the date of obligatory application of the hedge accounting provisions.

- **Measurement of financial guarantee liabilities**

The Company has analysed the impact of IFRS 9 *Financial Instruments* on the measurement of financial guarantee liabilities. The analysis did not reveal any significant impact of IFRS 9 *Financial Instruments* on the measurement of liabilities in the loss allowance for expected credit losses.

IFRS 15 Revenue from Contracts with Customers

Clarifications to IFRS 15 Revenue from Contracts with Customers

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

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

The key principles introduced by IFRS 15 *Revenue from Contracts with Customers* are:

- five steps of revenue recognition: identify the contract(s) with a customer; identify the performance obligations in the contract; determine the transaction price; allocate the transaction price to each performance obligation; and recognize revenue when (or as) the entity satisfies a performance obligation;
- revenue is recognized when (or as) the Company satisfies the obligation to transfer an asset. The asset has been transferred as control has passed;
- the transaction price is the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties

The new standard requires significantly extended disclosures regarding sales and revenue to enable users of financial statements to understand the nature, timing, amount as well as risk and uncertainty of revenue and cash flows arising from contracts with customers. In particular, an entity should disclose quantitative and qualitative information about: its contracts with customers, its significant judgements and estimates and any assets recognized from the costs to obtain or fulfil a contract with a customer.

Impact on the financial statements as at 1 January 2018

The Company has decided to apply the modified retrospective approach allowed by IFRS 15 *Revenue from Contracts with Customers*, i.e. with the cumulative effect of initially applying this standard recognized at the date of initial application. It also decided not to restate the comparable data, as permitted by the standard. The data as at 31 December 2017 and for the 6-month period ended 30 June 2017 were prepared in line with IAS 18 *Revenue*, IAS 11 *Construction Contracts*, IFRIC 18 *Transfer of Assets from Customers* and interpretations related to revenue recognition issued before IFRS 15 *Revenue from Contracts with Customers* was endorsed.

The Company has conducted a five-step analysis of its contracts with customers, which is necessary for proper measurement of its revenue in accordance with IFRS 15 *Revenue from Contracts with Customers* — from identification of contracts (or contract groups), through selection of liability items and determination of prices, their allocation to individual liability items to revenue recognition.

As part of the analysis, the Company reviewed concluded contracts, in terms of the amount of variable compensation, a guarantee for the sold goods, fulfilment of the conditions for recognizing combined contracts and the existence of elements of financing in the contracts.

Based on an analysis of contracts with customers the Company concludes that the implementation of IFRS 15 *Revenue from Contracts with Customers* does not have an impact on the Company's equity as at 1 January 2018.

According to the Management Board, the introduction of the following revised standards and interpretations has not materially impacted the accounting policies applied thus far.

Standard	Effective date in the EU (annual periods beginning on or after the date provided)
Revised IFRS 4 <i>Insurance Contracts</i>	1 January 2018
Revised IFRS 2 <i>Share-based Payments: Classification and Measurement of Share-based Payment Transactions</i>	1 January 2018
Revised IAS 40 <i>Investment Property – Transfers of Investment Property</i>	1 January 2018
IFRIC 22 <i>Foreign Currency Transactions and Advance Consideration</i>	1 January 2018
<i>Annual Improvements to IFRS (cycle 2014-2016):</i>	
IFRS 1 <i>First-time Adoption of International Financial Reporting Standards</i>	1 January 2018
IAS 28 <i>Investments in Associates and Joint Ventures</i>	1 January 2018

Other changes in accounting principles applied by the Company

As of 1 January 2018, the Company presents the measurement effects and the gain or loss on forwards and futures - derivative instruments separately in assets and liabilities, disclosing a gain or loss on a single contract. Previously, the Company applied a simplified approach involving the recognition of the effects of measurement and realized transaction gain or loss taking into account the short and the long positions.

The effect of the presentation change on the statement of financial position for the year ended 31 December 2017 is presented in the table below. The change has not had any effect on the Company's profit/loss.

	As at 31 December 2017 <i>(authorised figures)</i>	Change in presentation of derivative instruments	As at 31 December 2017 <i>(restated figures)</i>
ASSETS			
Non-current assets	27 371 425	259	27 371 684
Derivative instruments	26 445	259	26 704
Current assets	2 901 667	48 023	2 949 690
Derivative instruments	6 971	48 023	54 994
TOTAL ASSETS	30 273 092	48 282	30 321 374
EQUITY AND LIABILITIES			
Non-current liabilities	9 530 528	259	9 530 787
Derivative instruments	4 958	259	5 217
Current liabilities	3 364 658	48 023	3 412 681
Derivative instruments	9 226	48 023	57 249
TOTAL EQUITY AND LIABILITIES	30 273 092	48 282	30 321 374

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 may report 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 2018, the Company recognized dividend income of PLN 17 000 thousand vs. PLN 560 832 thousand in the comparative period.

BUSINESS SEGMENTS

10. Information on operating segments

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

The assets of the “Holding activity” segment are:

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

The liabilities of the “Holding activity” segment are:

- bonds issued by the Company, including liabilities arising from valuation of hedging instruments relating to such bonds;
- loans 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.

The “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.

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

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

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

TAURON Polska Energia S.A.
Condensed interim financial statements for the 6-month period ended 30 June 2018
prepared in accordance with the IFRS, as endorsed by the European Union
(in PLN '000)

For the 6-month period ended 30 June 2018 or as at 30 June 2018 (unaudited)

	Sales	Holding activity	Unallocated items	Total
Revenue				
Sales outside the Group	421 223	-	-	421 223
Sales within the Group	3 290 551	5	-	3 290 556
Segment revenue	3 711 774	5	-	3 711 779
Profit/(loss) of the segment	28 274	5	-	28 279
Unallocated expenses	-	-	(64 720)	(64 720)
EBIT	28 274	5	(64 720)	(36 441)
Net finance income/(costs)	-	(999 192)	27 902	(971 290)
Profit/(loss) before income tax	28 274	(999 187)	(36 818)	(1 007 731)
Income tax expense	-	-	(3 995)	(3 995)
Net profit/(loss) for the period	28 274	(999 187)	(40 813)	(1 011 726)
Assets and liabilities				
Segment assets	1 514 112	27 014 068	-	28 528 180
Unallocated assets	-	-	220 590	220 590
Total assets	1 514 112	27 014 068	220 590	28 748 770
Segment liabilities	634 150	11 532 679	-	12 166 829
Unallocated liabilities	-	-	614 861	614 861
Total liabilities	634 150	11 532 679	614 861	12 781 690
EBIT	28 274	5	(64 720)	(36 441)
Depreciation/amortization	(2 486)	-	-	(2 486)
Impairment	135	-	-	135
EBITDA	30 625	5	(64 720)	(34 090)
Other segment information				
Capital expenditure *	4 284	-	-	4 284

* 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 2017 (unaudited) or as at 31 December 2017 (restated figures)

	Sales	Holding activity	Unallocated items	Total
Revenue				
Sales outside the Group	498 166	-	-	498 166
Sales within the Group	3 091 101	31 385	-	3 122 486
Segment revenue	3 589 267	31 385	-	3 620 652
Profit/(loss) of the segment	255 887	31 385	-	287 272
Unallocated expenses	-	-	(53 374)	(53 374)
EBIT	255 887	31 385	(53 374)	233 898
Net finance income (costs)	-	732 402	(6 858)	725 544
Profit/(loss) before income tax	255 887	763 787	(60 232)	959 442
Income tax expense	-	-	(59 111)	(59 111)
Net profit/(loss) for the period	255 887	763 787	(119 343)	900 331
Assets and liabilities				
Segment assets	1 796 606	28 423 410	-	30 220 016
Unallocated assets	-	-	101 358	101 358
Total assets	1 796 606	28 423 410	101 358	30 321 374
Segment liabilities	591 436	12 115 606	-	12 707 042
Unallocated liabilities	-	-	236 426	236 426
Total liabilities	591 436	12 115 606	236 426	12 943 468
EBIT	255 887	31 385	(53 374)	233 898
Depreciation/amortization	(2 892)	-	-	(2 892)
Impairment	212	-	-	212
EBITDA	258 567	31 385	(53 374)	236 578
Other segment information				
Capital expenditure *	32	-	-	32

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

In the 6-month period ended 30 June 2018, revenue from sales to two major clients, being members of the TAURON Capital Group, represented 74% and 10% of the Company's total revenue in the "Sales" segment, amounting to PLN 2 750 540 thousand and PLN 383 870 thousand, respectively. In the 6-month period ended 30 June 2017, revenue from sales to two major clients, being members of the TAURON Capital Group, represented 70% and 11% of the Company's total revenue in the "Sales" segment, amounting to PLN 2 516 281 thousand and PLN 405 070 thousand, respectively.

EXPLANATORY NOTES TO THE CONDENSED INTERIM STATEMENT OF COMPREHENSIVE INCOME

11. Sales revenue

	6-month period ended 30 June 2018	6-month period ended 30 June 2017
	<i>(unaudited)</i>	<i>(unaudited)</i>
Revenue from sales of goods for resale and materials	3 680 058	3 556 723
Electricity	3 543 197	3 430 471
Gas	133 409	109 883
Property rights arising from energy certificates	553	13 193
Emission allowances	1 117	495
Other	1 782	2 681
Rendering of services	31 721	63 929
Trading income	31 297	25 624
Other	424	38 305
Total	3 711 779	3 620 652

TAURON Polska Energia S.A. acts as an agent coordinating and supervising purchases, supplies and transportation of fuels. The Company purchases coal from third parties and from the TAURON Group companies, which are subsequently sold to related parties. It recognizes revenue from agency services (supply management).

In the 6-month period ended 30 June 2018, the value of raw materials purchased and subsequently resold in the aforementioned transactions was PLN 429 398 thousand. The Company recognized revenue from agency services of PLN 15 246 thousand.

12. Expenses by type

	6-month period ended 30 June 2018	6-month period ended 30 June 2017
	<i>(unaudited)</i>	<i>(unaudited)</i>
Depreciation of property, plant and equipment and amortization of intangible assets	(2 486)	(2 892)
Materials and energy	(634)	(679)
Consultancy services	(3 195)	(2 414)
IT services	(6 552)	(6 308)
Rental services	(5 883)	(5 205)
Stock market services	(5 129)	(4 765)
Other external services	(5 570)	(4 675)
Taxes and charges	(2 398)	(1 968)
Employee benefits expense	(44 786)	(43 774)
Advertising expenses	(11 244)	(9 774)
Other	325	(759)
Total costs by type	(87 552)	(83 213)
Selling and distribution expenses	10 418	12 151
Administrative expenses	64 720	53 374
Cost of goods for resale and materials sold	(3 656 617)	(3 302 262)
Cost of sales	(3 669 031)	(3 319 950)

The increase in the value of goods and materials sold during the 6-month period ended 30 June 2018 versus the comparable period arises mainly from the recognition of the effects of the release of provisions for onerous contracts with a joint venture in the amount of PLN 203 424 thousand, recognized in the comparable period, as described in Note 29 to these condensed interim financial statements.

13. Finance income and costs

	6-month period ended 30 June 2018	6-month period ended 30 June 2017
	<i>(unaudited)</i>	<i>(unaudited)</i>
Income and costs from financial instruments	(970 798)	726 964
Dividend income	17 000	560 832
Interest income on bonds and loans	167 186	252 377
Other interest income	3 564	2 318
Interest expense	(156 015)	(155 229)
Commissions due to external financing	(11 533)	(8 844)
Gain/(loss) on derivative instruments	31 179	(6 899)
Exchange gains/(losses)	(165 824)	71 537
Surplus of impairment losses (recognised)/reversed on shares	(1 003 061)	70 845
Revaluation of bonds and loans	145 477	(60 578)
Other	1 229	605
Other finance income and costs	(492)	(1 420)
Interest on discount	-	(2 330)
Other	(492)	910
Total, including recognized in the statement of comprehensive income:	(971 290)	725 544
Dividend income	17 000	560 832
Interest income on bonds and loans	167 186	252 377
Interest expense on debt	(156 015)	(155 229)
Revaluation of shares	(1 003 061)	70 845
Revaluation of bonds and loans	145 477	(60 578)
Other finance income and costs	(141 877)	57 297

In the 6-month period ended 30 June 2018, exchange losses exceeded exchange gains by PLN 165 824 thousand. The exchange losses are mainly the exchange difference related to the Company's debt in the euro, i.e. a loan obtained from a subsidiary, subordinated bonds and Eurobonds. Consequently, the exchange losses exceeded exchange gains by PLN 165 858 thousand. In the comparative period, exchange gains exceeded exchange losses.

In the 6-month period ended 30 June 2018, impairment losses recognized on shares exceeded those which were reversed by PLN 1 003 061 thousand, which was mainly caused by the recognition of impairment tests results, as discussed in detail in Note 17 to these condensed interim financial statements.

14. Income tax

14.1. Tax expense in the statement of comprehensive income

	6-month period ended 30 June 2018	6-month period ended 30 June 2017
	<i>(unaudited)</i>	<i>(unaudited)</i>
Current income tax	(29 299)	(38 482)
Current income tax expense	(22 518)	(38 747)
Adjustments of current income tax from prior years	(6 781)	265
Deferred tax	25 304	(20 629)
Income tax expense in profit or loss	(3 995)	(59 111)
Income tax expense in other comprehensive income	2 475	1 719

In the 6-month period ended 30 June 2018, the effective tax rate was approximately 0%. This was mainly a result of the recognition of impairment losses on shares in the amount of PLN 1 003 061 thousand. Consequently, the Company did not recognize a deferred tax asset assuming that differences between the carrying amount and the tax value of the said assets will not be reversed in the foreseeable future.

14.2. Deferred income tax

	As at 30 June 2018 <i>(unaudited)</i>	As at 31 December 2017 <i>(restated figures)</i>
resulting from interest and impairment losses on bonds and loans	-	29 275
difference between tax base and carrying amount of other financial assets	45 595	9 694
valuation of hedging instruments	2 904	5 412
other	6 278	4 812
Deferred tax liabilities	54 777	49 193
provision for employee benefits	699	660
other provisions and accruals	2 372	2 270
difference between tax base and carrying amount of fixed and intangible assets	1 505	821
difference between tax base and carrying amount of financial assets	62 374	258
difference between tax base and carrying amount of financial liabilities	75 380	13 299
other	1 455	2 042
Deferred tax assets	143 785	19 350
Deferred tax assets/(liabilities), net, of which:	89 008	(29 843)
Deferred tax assets/(liabilities), net - recognized in profit or loss	901	(24 403)
Deferred tax assets/(liabilities), net - recognized in other comprehensive income	(2 965)	(5 440)
Deferred tax assets/(liabilities), net - recognized with retained profits	91 072	-

Deferred tax assets on deductible temporary differences arising from investments in subsidiaries is recognized insofar as their reversal is probable in the foreseeable future and where taxable income will be available to enable realization of deductible differences. According to the Company, deductible temporary differences related to recognition of impairment losses on shares in subsidiaries of PLN 7 678 975 thousand will not be reversed in the foreseeable future, as the investments are not intended for sale. Consequently, no related deferred tax asset has been recognized.

As taxable profit is forecast for 2018 for the Tax Capital Group ("TCG") of which the Company is a member, and taxable profit is forecast for the subsequent years, the deferred tax asset related to all deductible differences, except those described above, has been recognized in these financial statements in the full amount.

The increase in the deferred tax asset arising from the difference between the tax values and carrying amounts of financial assets is mainly the effect of the recognition of an impairment loss on bonds, loans granted and receivables under a cash-pooling agreement and measurement of loans granted, recognized as at 30 June 2018 in accordance with IFRS 9 *Financial Instruments* in the total amount of PLN 71 515 thousand.

15. Dividends paid and proposed

On 12 March 2018, the Management Board of TAURON Polska Energia S.A. adopted a resolution to file a motion with the Ordinary General Shareholders' Meeting of TAURON Polska Energia S.A. to allocate the Company's net profit the 2017 financial year of PLN 854 351 thousand to the Company's reserve capital. On 16 April 2018, the Ordinary General Shareholders' Meeting of the Company adopted a resolution following the recommendation of the Management Board.

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

EXPLANATORY NOTES TO THE CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION

16. Investment property

	6-month period ended 30 June 2018	6-month period ended 30 June 2017
	<i>(unaudited)</i>	<i>(unaudited)</i>
COST		
Opening balance	36 169	36 169
Direct purchase	3 926	-
Closing balance	40 095	36 169
ACCUMULATED DEPRECIATION		
Opening balance	(14 468)	(10 851)
Depreciation for the period	(1 808)	(1 808)
Closing balance	(16 276)	(12 659)
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	21 701	25 318
NET CARRYING AMOUNT AT THE END OF THE PERIOD	23 819	23 510

The investment property is composed of a perpetual usufruct right to land and buildings located in Katowice Szopienice, at ul. Lwowska 23. On 17 April 2018, the Management Board decided to acquire a perpetual usufruct right to land located in Katowice-Szopienice, in ul. Lwowska 23 with the right to buildings located in the land from PKO Leasing S.A. The objective of the decision was to fulfil the Company's obligations under a preliminary sales agreement concluded in 2008. On 25 April 2018 the Company's Supervisory Board agreed to the purchase of the real property by the Company. On 30 May 2018 the Company and PKO Leasing S.A. entered into a sales agreement under which the Company acquired the investment property in question.

17. Shares

Changes in shares from 1 January 2018 to 30 June 2018 *(unaudited)*

No.	Company	Gross value				Impairment losses			Net value		
		Opening balance	Impact of applying IFRS 9	Restated opening balance	(Decreases) Increases	Closing balance	Opening balance	(Decreases) (Increases)	Closing balance	Opening balance	Closing balance
1	TAURON Wytwarzanie S.A.	1 001 755	-	1 001 755	340 000	1 341 755	(147 870)	(1 040 754)	(1 188 624)	853 885	153 131
2	TAURON Wytwarzanie S.A.	7 085 701	-	7 085 701	-	7 085 701	(5 347 296)	(473 517)	(5 820 813)	1 738 405	1 264 888
3	TAURON Ciepło Sp. z o.o.	1 928 043	-	1 928 043	-	1 928 043	-	-	-	1 928 043	1 928 043
4	TAURON Ekoenergia Sp. z o.o.	1 939 765	-	1 939 765	-	1 939 765	(1 125 693)	538 144	(587 549)	814 072	1 352 216
5	Marselwind Sp. z o.o.	307	-	307	-	307	-	-	-	307	307
6	TAURON Serwis Sp. z o.o.	1 268	-	1 268	-	1 268	-	-	-	1 268	1 268
7	Nowe Jaworzno Grupa TAURON Sp. z o.o.	3 551 026	-	3 551 026	350 000	3 901 026	-	-	-	3 551 026	3 901 026
8	TAURON Dystrybucja S.A.	10 511 628	-	10 511 628	-	10 511 628	-	-	-	10 511 628	10 511 628
9	TAURON Dystrybucja Serwis S.A.	201 045	-	201 045	-	201 045	-	-	-	201 045	201 045
10	TAURON Sprzedaż Sp. z o.o.	613 505	-	613 505	-	613 505	-	-	-	613 505	613 505
11	TAURON Sprzedaż GZE Sp. z o.o.	129 823	-	129 823	-	129 823	-	-	-	129 823	129 823
12	TAURON Czech Energy s.r.o.	4 223	-	4 223	-	4 223	-	-	-	4 223	4 223
13	Kopalnia Wapienia Czatkowice Sp. z o.o.	41 178	-	41 178	-	41 178	-	-	-	41 178	41 178
14	Polska Energia Pierwsza Kompania Handlowa Sp. z o.o.	55 056	-	55 056	6 000	61 056	(55 056)	(6 000)	(61 056)	-	-
15	TAURON Sweden Energy AB (publ)	28 382	-	28 382	-	28 382	-	(20 933)	(20 933)	28 382	7 449
16	Biomasa Grupa TAURON Sp. z o.o.	1 269	-	1 269	-	1 269	-	-	-	1 269	1 269
17	TAURON Obsługa Klienta Sp. z o.o.	39 831	-	39 831	-	39 831	-	-	-	39 831	39 831
18	TAMEH HOLDING Sp. z o.o.	415 852	-	415 852	-	415 852	-	-	-	415 852	415 852
19	PGE EU 1 Sp. z o.o.	26 546	(13 895)	12 651	-	12 651	-	-	-	26 546	12 651
20	Magenta Grupa TAURON Sp. z o.o.	9 500	-	9 500	-	9 500	-	-	-	9 500	9 500
21	ElectroMobility Poland S.A.	2 500	-	2 500	5 000	7 500	-	-	-	2 500	7 500
22	Other	391	-	391	-	391	-	-	-	391	391
Total		27 588 594	(13 895)	27 574 699	701 000	28 275 699	(6 675 915)	(1 003 060)	(7 678 975)	20 912 679	20 596 724

Changes in the balance of long-term investments in the 6-month period ended 30 June 2018 resulted from the following transactions:

- Increase in the issued capital of ElectroMobility Poland S.A.

On 3 January 2018, the Extraordinary General Shareholders' Meeting of ElectroMobility Poland S.A. adopted a resolution to increase the issued capital of the entity by PLN 20 000 thousand by way of increasing the par value of the shares from PLN 2 500 thousand up to PLN 7 500 thousand in exchange for a cash contribution of PLN 5 000 thousand. On 16 January 2018 the Company advanced monies to increase the capital. The aforesaid increase in the issued capital of ElectroMobility Poland S.A. was registered on 23 April 2018.

- Contributions to the capital of Polska Energia Pierwsza Kompania Handlowa Sp. z o.o.

On 1 March 2018, the Extraordinary General Shareholders' Meeting of Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. adopted a resolution concerning capital contributions to the company in the amount of PLN 6 000 thousand.

The contributions are aimed to enable the company to finance its operations. The cash was contributed by the Company on 7 March 2018.

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

On 29 March 2018, the Extraordinary General Shareholders' Meeting of Nowe Jaworzno Grupa TAURON Sp. z o.o. adopted a resolution to increase the company's issued capital by PLN 3 500 thousand, through the issue of 70 000 new shares with the nominal value of PLN 50 each. The nominal value of shares held by the Company was increased from PLN 35 850 thousand to PLN 39 350 thousand. The new shares were taken by the Company at the price of PLN 5 000 per share, i.e. for the total amount of PLN 350 000 thousand. On 12 April 2018 the Company provided funds to increase the capital. The increase in the issued capital of Nowe Jaworzno Grupa TAURON Sp. z o.o. was registered on 27 April 2018.

- Increase in the issued capital of TAURON Wydobywanie S.A.

On 26 April 2018, the Extraordinary General Shareholders' Meeting of TAURON Wydobywanie S.A. adopted a resolution to increase the company's issued capital by PLN 3 400 thousand, through the issue of 340 000 new shares with the nominal value of PLN 10 each. The nominal value of shares held by the Company was increased from PLN 357 111 thousand to PLN 360 511 thousand. The new shares were taken by the Company at the price of PLN 1 000 per share, i.e. for the total amount of PLN 340 000 thousand. On 9 May 2018 the Company provided funds to increase the capital. The aforesaid increase in the issued capital of TAURON Wydobywanie S.A. was registered on 25 May 2018.

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

In the 6-month period ended 30 June 2018, the Company recognized an impairment loss on its shares in a subsidiary of PLN 6 000 thousand.

- Impairment loss on shares in TAURON Sweden Energy AB (publ)

In the 6-month period ended 30 June 2018, the Company recognized an impairment loss on its shares in a subsidiary of PLN 20 933 thousand.

Impairment tests

Considering external factors and their impact on the Company's market cap, which has been lower than its carrying amount for a long time, changes in global commodity prices and in the local power coal market following the consolidation in the mining sector, significant changes in mining and geological conditions, disadvantageous excavation front structure (short face runs), which generates additional costs of reinforcements, limited competition in the market of mining materials and services, which results in the price growth, amendments to the Act on Renewable Energy Sources and publication of related obligations for the years 2018 and 2019 which affected the prices of renewable energy certificates, the Act on the Capacity Market passed and discussion of the functional solutions set out in the capacity Market regulations, persisting unfavourable market conditions for the profitability of conventional power industry, an increase in the risk-free rate as at 30 June 2018 the Company tested shares, intra-group bonds and loans for impairment. Shares and intra-group loans and bonds accounted for about 92% of the balance sheet total as at the end of the reporting period.

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

Relevant tests were conducted based on the present value of projected cash flows from operations of the key entities, by reference to detailed projections by 2027 and the estimated residual value. The projections used for the power generating and mining units cover the entire 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 regulatory environment known as at the date of the test.

Key assumptions made for purposes of the tests performed as at 30 June 2018

The weighted average cost of capital (WACC) during the projection period, as used in the calculations, ranges from 7.16% to 10.95% in nominal terms before tax, taking into account the risk free rate determined by reference to the yield on 10-year treasury bonds (4.08%) 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 2.5% and it corresponds to the estimated long-term inflation rate. As at 30 June 2018, WACC increased versus 31 December 2017 mainly due to a higher risk free rate and higher costs of debt financing.

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

- The prices of coal in the coming years have been assumed at a stable high level due to the continuing high global prices and increasing transport costs. After the year 2021, according to international institutions, in the long-term perspective, coal prices will decrease as a result of the implementation of climate policy and the strategy to replace coal with energy from renewable sources followed by a growing number of countries. Prices forecast by the World Bank by 2030 show a downward trend. It has been assumed that in the years 2021–2040 the prices of power coal will decrease by 15%;
- The electricity wholesale price path for the years 2019-2027 with the perspective by 2040 has been adopted, 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. In relation to the average SPOT price in the first half of the year 2018, the price increase by 13% for 2019 was assumed. A 3% drop of energy prices has been assumed by 2021 comparing to 2019, what results i.a. from the improvement of capacity balance due to launch of new units in Jaworzno and Opole. At the same time, the price in 2021 is by 9% higher than the average SPOT price in 2018. In the period from 2021 till 2027 an increase of 7.75% is assumed (vs. 2021) followed by a growth of 1% between 2028 and 2040 (fixed prices) comparing to 2027;
- The operating reserve capacity mechanism is to remain in place until the end of 2020, i.e. until the Capacity Market has been implemented;
- Planned changes in the Polish market model aimed to introduce the Capacity Market mechanism have been taken into account (in line with the adopted and notified Act on the Capacity Market and the Capacity Market Regulation). It has been assumed that capacity-related payments will begin as of 2021 and that they will be made until 2030. Auctions will take the form of a single basket solution, broken down by the length of the capacity contract depending on the level of capital expenditure (new, modernized and existing units). The average annual Capacity Market budget during the period when the mechanism is applied is ca. PLN 4 billion;
- Greenhouse gas emission limits for heat generation have been set in line with the regulation of the Council of Ministers and adjusted by the level of operations, i.e. generation of heat;
- The greenhouse gas emission allowance price path for the years 2019-2027 with the perspective by 2040 has been adopted. It has been assumed that the market price will increase by ca. 40% by 2027, comparing to 2019, and ca. 90% comparing to the average price in the first half of 2018, with 2027 year price path followed in 2028-2040 (constant);
- The price path for certificates of origin and surrender obligations were adopted in the following years on the basis of the amended last year Act on Renewable Energy Sources. Assumptions arise i.a. from the need to meet the indicative target of renewable energy sources for 2020;
- Limited support periods for green energy have been assumed in accordance with the Act on Renewable Energy Sources, which provides for new support mechanisms for renewable energy. The support period has been limited to 15 years as from the date of the first supply of electricity qualifying for an energy certificate to the distribution network;
- In line with the amended Energy Law and certain other acts, the applicable CHP support system settlements for 2018 will be carried out until 30 June 2019. After the year 2019 no support for CHP in existing coal units has been assumed thereafter;
- Regulated revenue generated by distribution companies, ensuring coverage of reasonable costs and a reasonable level of return on capital has been assumed. The return on capital is conditional on the Regulatory Asset Value;
- The electricity retail price path has been adopted 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 to end users taking into account GDP growth and increased market competition have been applied;

- Tariff revenue generated by heat companies, ensuring coverage of reasonable costs and a reasonable level of return on capital has been assumed;
- Maintaining the production capacity of the existing non-current assets as a result of replacement investments has been assumed.

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

Sensitivity analyses conducted by the Company reveal that the Capacity Market mechanism (assuming that other market factors remain unchanged), the projected prices of electricity, the adopted discount rates, the prices of greenhouse gas emission allowances and of coal are the key factors exerting an effect on the estimated cash flows of the key entities. If the Capacity Market mechanism was disregarded in the process of estimation of the value in use of shares and intra-group loans and bonds, with other market conditions remaining unchanged, an additional net impairment loss of ca. PLN 3 656 million would be charged to the Company's profit or loss.

Test results

The impairment tests carried out in line with IAS 36 *Impairment of Assets* as at 30 June 2018 indicated impairment of the carrying amount of shares in subsidiaries of PLN 1 514 271 thousand and reversal of an impairment loss on shares in a subsidiary of PLN 538 144 thousand.

They were related to the following entities:

Company	WACC* assumed in tests as at		Recoverable amount As at 30 June 2018 (unaudited)	Impairment loss (recognized)/reversed in the period of 6 months ended 30 June 2018 (unaudited)
	30 June 2018 (unaudited)	31 December 2017		
TAURON Wytwarzanie S.A.	8.36%	8.39%	1 704 611	(473 517)
TAURON Ekoenergia Sp. z o.o.	9.51%	8.78%	1 573 467	538 144
TAURON Wydobycie S.A.	10.95%	10.20%	564 275	(1 040 754)

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

The impairment loss on shares in a subsidiary TAURON Wydobycie S.A. was recognized as at 30 June 2018 for the following reasons:

- significant changes in mining and geological conditions in mines operated by the TAURON Group. In the period of 6-months ended 30 June 2018, unfavorable conditions in aforementioned area were identified affecting the volumes of commercial coal production in the current period and forecasted for subsequent years;
- disadvantageous excavation front structure (short face runs), which generates additional costs of reinforcements;
- limited competition in the market of mining materials and services, which results in the price growth in first half of year 2018 and for subsequent years.

The impairment loss on shares in a subsidiary TAURON Wytwarzanie S.A. was recognized as at 30 June 2018 for the following reasons in particular:

- increase in prices of carbon-based fuel and greenhouse gas emission allowances;
- increase in cost of transportation resulting from higher volumes of imported coal.

The possibility of reversing the impairment loss on shares in a subsidiary TAURON Ekoenergia Sp. z o.o. as at 30 June 2018 was due in particular to changes in regulations regarding renewable energy sources concerning the method of determining the replacement fee and wind farm taxation, as well as the increase in energy prices and energy certificates from renewable sources.

The loans extended to Elektrociepłownia Stalowa Wola S.A. were tested for impairment. The results of the test showed that there is no need for an impairment loss provided that the assumption are compliant with the impairment tests on shares.

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

No.	Company	Gross value			Impairment losses			Net value	
		Opening balance	(Decreases) Increases	Closing balance	Opening balance	(Decreases) Increases	Closing balance	Opening balance	Closing balance
1	TAURON Wydobywanie S.A.	841 755	160 000	1 001 755	-	-	-	841 755	1 001 755
2	TAURON Wytwarzanie S.A.	7 236 727	(157 797)	7 078 930	(5 403 825)	120 057	(5 283 768)	1 832 902	1 795 162
3	TAURON Ciepło Sp. z o.o.	1 328 043	600 000	1 928 043	-	-	-	1 328 043	1 928 043
4	TAURON Ekoenergia Sp. z o.o.	939 765	-	939 765	(939 765)	-	(939 765)	-	-
5	Marselwind Sp. z o.o.	107	200	307	-	-	-	107	307
6	TAURON Serwis Sp. z o.o.	1 268	-	1 268	-	-	-	1 268	1 268
7	Nowe Jaworzno Grupa TAURON Sp. z o.o.	-	3 557 797	3 557 797	-	-	-	-	3 557 797
8	TAURON Dystrybucja S.A.	9 511 628	-	9 511 628	-	-	-	9 511 628	9 511 628
9	TAURON Sprzedaż Sp. z o.o.	613 505	-	613 505	-	-	-	613 505	613 505
10	TAURON Sprzedaż GZE Sp. z o.o.	129 823	-	129 823	-	-	-	129 823	129 823
11	TAURON Czech Energy s.r.o.	4 223	-	4 223	-	-	-	4 223	4 223
12	Kopalnia Wapienia Czatkowice Sp. z o.o.	41 178	-	41 178	-	-	-	41 178	41 178
13	Polska Energia Pierwsza Kompania Handlowa Sp. z o.o.	55 056	-	55 056	-	(49 212)	(49 212)	55 056	5 844
14	TAURON Sweden Energy AB (publ)	28 382	-	28 382	-	-	-	28 382	28 382
15	Biomasa Grupa TAURON Sp. z o.o.	1 269	-	1 269	-	-	-	1 269	1 269
16	TAURON Obsługa Klienta Sp. z o.o.	39 831	-	39 831	-	-	-	39 831	39 831
17	TAMEH HOLDING Sp. z o.o.	415 852	-	415 852	-	-	-	415 852	415 852
18	PGE EJ 1 Sp. z o.o.	23 046	3 500	26 546	-	-	-	23 046	26 546
19	ElectroMobility Poland S.A.	2 500	-	2 500	-	-	-	2 500	2 500
20	Other	50	500	550	-	-	-	50	550
Total		21 214 008	4 164 200	25 378 208	(6 343 590)	70 845	(6 272 745)	14 870 418	19 105 463

18. 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 30 June 2018 and 31 December 2017 broken down by individual companies issuing the bonds.

Company	As at 30 June 2018 (unaudited)				As at 31 December 2017		
	Par value of purchased bonds	Accrued interest	Impairment loss	Total	Par value of purchased bonds	Accrued interest	Total
TAURON Wytwarzanie S.A.	444 920	2 646	(7 843)	439 723	1 064 920	10 689	1 075 609
TAURON Dystrybucja S.A.	3 300 000	22 606	(7 695)	3 314 911	3 770 000	62 326	3 832 326
TAURON Ciepło Sp. z o.o.	1 075 000	17 530	(7 863)	1 084 667	1 075 000	15 169	1 090 169
TAURON Wydobywanie S.A.	570 000	4 494	(163 350)	411 144	570 000	4 592	574 592
TAURON Ekoenergia Sp. z o.o.	160 000	395	(674)	159 721	-	-	-
Total	5 549 920	47 671	(187 425)	5 410 166	6 479 920	92 776	6 572 696
Non-current	5 549 920	-	(186 121)	5 363 799	6 009 920	-	6 009 920
Current	-	47 671	(1 304)	46 367	470 000	92 776	562 776

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 2018, the par value of bonds maturing within one year, which were classified as long-term bonds, was PLN 524 920 thousand.

The change in the impairment of bonds has been presented in the table below.

	6-month period ended 30 June 2018 (unaudited)
As at 31 December 2017	-
Impact of IFRS 9	(396 593)
As at 1 January 2018	(396 593)
(Increases)/decreases of impairment loss	159 118
Transfer of impairment loss to receivables under a cash pool agreement	50 050
As at 31 June 2018	(187 425)

A change in the Company's estimates of the credit risk related to bonds issued by the subsidiary TAURON Wytwarzanie S.A. and repayment of a portion of bonds by the subsidiary TAURON Wytwarzanie S.A. in the amount of PLN 620 000 thousand were the key factors determining a reduction in the impairment losses on bonds. At the same time, The

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Company keeps the commitment in subsidiary TAURON Wytwarzanie S.A. in the form of granted loans under cash pool agreement (which caused the move of allowances/write-downs to the receivables from cash pool loans granted).

19. Loans granted

	As at 30 June 2018 (unaudited)			As at 31 December 2017			
	Principal*	Interest	Impairment loss	Total	Principal	Interest	Total
Loan granted to TAURON Ekoenergia Sp. z o.o.	-	-	-	-	120 000	19 268	139 268
Loans granted to EC Stalowa Wola S.A.	199 580	122	(179)	199 523	529 007	41 425	570 432
Loans granted to PGE EJ 1 Sp. z o.o.	7 740	118	(42)	7 816	2 940	14	2 954
Granted cash pool loans including accrued interest	764 320	3 184	(57 326)	710 178	189 928	598	190 526
Total	971 640	3 424	(57 547)	917 517	841 875	61 305	903 180
Non-current	825 969	238	(56 842)	769 365	326 790	56 199	382 989
Current	145 671	3 186	(705)	148 152	515 085	5 106	520 191

* Including measurement of principal at amortized cost, except the subordinated loan to EC Stalowa Wola S.A., which is measured at fair value.

Loan to a subsidiary

On 27 February 2018, a subsidiary - TAURON Ekoenergia Sp. z o.o. - repaid the total loan amounting to PLN 120 000 thousand with interest accrued of PLN 20 113 thousand, granted under a loan agreement concluded in 2015 for the amount of PLN 1 120 000 thousand for the purpose of redemption of intra-group bonds issued by the borrower in prior years to finance the construction of wind farms.

Loans to joint ventures

On 12 January 2018, the Company and Elektrociepłownia Stalowa Wola S.A. signed a loan agreement totalling PLN 27 000 thousand to be used for the operations of the borrower. Under the agreement the loan and interest, accrued based on the 1M WIBOR rate increased by margin, should be repaid by 28 February 2018. The repayment of the principal, interest and other expenses and amounts due to the Company was secured with the borrower's blank promissory note and a promissory note agreement.

On 28 February 2018 the Company and Elektrociepłownia Stalowa Wola S.A. concluded an agreement to consolidate the debt of the borrower totalling PLN 609 951 thousand by renewing all the existing liabilities of the borrower arising from loans extended and outstanding by 28 February 2018. Under the agreement the consolidated amounts comprised the principal amounts of originated loans with the carrying amount as at 31 December 2017 of PLN 529 007 thousand; the principal amount of a loan of 12 January 2018 totalling PLN 27 000 thousand and related interest accrued as at 28 February 2018 totalling PLN 53 944 thousand.

In accordance with the agreement in question on 30 April 2018 a portion of the loan of PLN 299 100 thousand was repaid, while the remaining part of the debt of PLN 310 851 thousand with interest accrued since 1 March 2018 will be repaid by 30 June 2033. The loan bears a fixed interest rate and is secured with a blank promissory note and a promissory note agreement.

As the debt consolidation agreement changed significant contractual terms, the Company no longer discloses funds from loans under the agreement. It derecognized their carrying amount of PLN 511 952 thousand and disclosed a new asset measured at fair value at initial recognition of PLN 481 582 thousand, which has increased the financial expenses by PLN 30 370 thousand.

On 8 March 2018 Elektrociepłownia Stalowa Wola S.A. entered into a loan agreement with Bank Gospodarstwa Krajowego and Polskie Górnictwo Naftowe i Gazownictwo S.A., whereby Bank Gospodarstwa Krajowego and PGNiG S.A. provided a PLN 450 000 thousand loan each to Elektrociepłownia Stalowa Wola S.A. The loan matures on 14 June 2030. The exposure of Bank Gospodarstwa Krajowego is secured with a bank guarantee issued upon request of the Company on 11 April 2018, as discussed in detail in Note 35 to these condensed interim financial statements.

In view of the aforementioned agreement, on 8 March 2018 Elektrociepłownia Stalowa Wola S.A. as a borrower, Polskie Górnictwo Naftowe i Gazownictwo SA, PGNiG Termika S.A., TAURON Polska Energia S.A., TAURON Wytwarzanie S.A. as subordinated creditors and the Bank Gospodarstwa Krajowego as the Agent, entered into a debt subordination agreement. Pursuant to the concluded agreement, the debt of Elektrociepłownia Stalowa Wola S.A. due to the Company under the debt consolidation agreement of 28 February 2018 for a total amount of PLN 609 951 thousand has constituted subordinated debt. As at the date of approval of these condensed interim financial statements for publication, the nominal value of the loan, constituting subordinated debt owed to the Company, was PLN 310 851 thousand and its fair value was PLN 191 565 thousand.

On 30 March 2018, the Company and Elektrociepłownia Stalowa Wola S.A. signed a loan agreement of up to PLN 7 290 thousand to be used for the operations of the borrower. Under the agreement the loan and interest accrued at a fixed interest rate should be repaid by 30 June 2033. The repayment of the principal, interest and other expenses and amounts due to the Company is secured with the borrower's blank promissory note and a promissory note agreement. As at 30 June 2018, the loan with accrued interest measured at amortized cost totalled PLN 6 964 thousand.

On 11 April 2018 Polskie Górnictwo Naftowe i Gazownictwo S.A., TAURON Polska Energia S.A. and the borrower - Elektrociepłownia Stalowa Wola S.A. concluded a VAT loan agreement for the total amount of PLN 13 000 thousand, to finance the borrower's VAT obligations related to completion of the construction of the gas and steam unit in Stalowa Wola. Pursuant to an agreement the Company will grant a loan up to PLN 6 500 thousand to Elektrociepłownia Stalowa Wola S.A. Under the agreement the principal amount of the loan will be repaid by 30 September 2020 and interest calculated based on WIBOR 1M increased by margin will be repaid by the 15th day of each calendar month. The repayment of the principal, interest and other expenses and amounts due to the Company is secured with the borrower's blank promissory note and a promissory note agreement. As at 30 June 2018, the loan with accrued interest measured at amortized cost totalled PLN 994 thousand.

Loans granted under cash pool agreement

Detailed information on the cash pool service has been presented in Note 27.4 to these condensed interim financial statements.

20. Derivative instruments

	As at 30 June 2018 (unaudited)				As at 31 December 2017 (restated figures)			
	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	6 573	-	11 451	(4 878)	(9 299)	-	-	(9 299)
IRS	10	15 275	15 285	-	23	28 459	28 482	-
Commodity future/forward	(1 268)	-	203 814	(205 082)	395	-	53 216	(52 821)
Currency forward	15 165	-	15 165	-	(346)	-	-	(346)
Total			245 715	(209 960)			81 698	(62 466)
Non-current			34 483	(7 213)			26 704	(5 217)
Current			211 232	(202 747)			54 994	(57 249)

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

Derivative instrument	Methodology of determining fair value hierarchy
IRS	The difference between discounted floating-rate interest cash flows and those based on fixed interest rates. Reuters interest rate curve is the input data.
CCIRS	The difference between discounted interest cash flows relating to payments and receipts, in two different currencies, expressed in the valuation currency. Interest rate curves, basis spreads and NBP fixing for the relevant currencies from Reuters are the input data.
Forward currency contracts	The difference between discounted future cash flows: the forward price at the valuation date and the transaction price, multiplied by the nominal value of the contract in a foreign currency. NBP fixing and the implied interest rate curve from FX swap transactions for the relevant currency from Reuters are the input data.
Commodity forwards, futures	The fair value of forwards for the purchase and sale of emission allowances, electricity and other commodities is based on prices quoted on an active market or based on cash flows being the difference between the price reference index (forward curve) and the contract price.

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

	As at 30 June 2018 (unaudited)		As at 31 December 2017 (restated figures)	
	1 level	2 level	1 level	2 level
Assets				
Derivative instruments - commodity	203 814	-	53 216	-
Derivative instruments - currency	-	15 165	-	-
Derivative instruments - IRS	-	15 285	-	28 482
Derivative instruments - CCIRS	-	11 451	-	-
Total	203 814	41 901	53 216	28 482
Liabilities				
Derivative instruments - commodity	205 082	-	52 821	-
Derivative instruments - currency	-	-	-	346
Derivative instruments - CCIRS	-	4 878	-	9 299
Total	205 082	4 878	52 821	9 645

Hedging derivative instruments (subject to hedge accounting) — IRS

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

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

As at 30 June 2018, 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:

- CCIRSs that hedge foreign currency cash flows resulting from the payment of interest on the issued Eurobonds;
- commodity derivatives (futures, forward) including emission allowance and other commodity purchase and sale transactions and
- FX forward transactions hedging foreign currency cash flows resulting from the Company's operations.

The CCIRSs have been used with respect to the Company's Coupon Only Cross Currency Swap fixed-fixed transactions concluded in 2017 and in January 2018 and involve an exchange of interest payments on the total nominal value of EUR 500 000 thousand. They mature in July 2027. In accordance with the terms and conditions, the Company pays interest at a fixed rate in PLN and receives fixed interest-rate payments in EUR. Hedge accounting principles do not apply to the transaction in question.

21. Other financial assets

	As at 30 June 2018 (unaudited)	As at 31 December 2017
Dividend receivables	17 005	-
Receivables arising from income tax settlements of the TCG companies	57 218	6 133
Units in investment funds	102 608	101 358
Bid bonds, deposits, collateral transferred	9 751	15 343
Initial margin deposits	95 599	11 140
Other	275	390
Total	282 456	134 364
Non-current	2 847	2 724
Current	279 609	131 640

22. Inventories

	As at 30 June 2018 (unaudited)	As at 31 December 2017
Gross Value		
Energy certificates	250	250
Greenhouse gas emission allowances	207 597	198 459
Materials	9	40
Total	207 856	198 749
Remeasurement to net realisable value		
Energy certificates	(140)	(184)
Greenhouse gas emission allowances	(54)	(145)
Remeasurement to fair value		
Greenhouse gas emission allowances	(199)	8
Total	(393)	(321)
Net value		
Energy certificates	110	66
Greenhouse gas emission allowances	207 344	198 322
Materials	9	40
Total	207 463	198 428

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

23. Receivables from buyers

	As at 30 June 2018 (unaudited)	As at 31 December 2017
Gross Value		
Receivables from buyers	617 038	719 144
Receivables claimed at court	933	913
Total	617 971	720 057
Allowance/write-down		
Receivables from buyers	(445)	(11)
Receivables claimed at court	(933)	(913)
Total	(1 378)	(924)
Net Value		
Receivables from buyers	616 593	719 133
Receivables claimed at court	-	-
Total	616 593	719 133

As at 30 June 2018 and 31 December 2017, the largest item of receivables from buyers was receivables from TAURON Sprzedaż Sp. z o.o., a subsidiary, amounting to PLN 378 694 thousand and PLN 481 526 thousand, respectively.

Related-party transactions as well as related-party receivables and liabilities have been presented in Note 38.1 to these condensed interim financial statements.

24. Receivables arising from taxes and charges

	As at 30 June 2018 (unaudited)	As at 31 December 2017
Corporate Income Tax	2 360	-
VAT receivables	13 434	36 094
Total	15 794	36 094

Income tax receivables

On 30 October 2017 the articles of association of the Tax Capital Group for the years 2018–2020 were registered. Pursuant to the previous agreement, TCG was registered for the period of three fiscal years from 2015 to 2017.

The major companies constituting the Tax Capital Group as from 1 January 2018 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 2018, the Tax Capital Group had income tax receivable of PLN 2 360 thousand. The entire amount relates to a 6-month period ended 30 June 2018 and constitutes a surplus of advance income tax payments of PLN 172 753 thousand over the tax charge of the TCG in the amount of PLN 170 393 thousand.

At the same time, due to the settlements of the Company, acting as the Representative Company, with the Tax Capital Group companies, the Company reported a liability to these subsidiaries arising from tax overpayment of PLN 64 015 thousand, which has been presented in the condensed interim statement of financial position as "Other financial liabilities", as well as receivables from the Tax Capital Group companies arising from tax underpayment of PLN 57 218 thousand, which have been presented in the condensed interim statement of financial position as "Other financial assets".

25. Cash and cash equivalents

	As at 30 June 2018 (unaudited)	As at 31 December 2017
Cash at bank and in hand	120 137	521 343
Short-term deposits (up to 3 months)	200 211	200 234
Total cash and cash equivalents presented in the statement of financial position, including:	320 348	721 577
restricted cash	52 511	49 792
Cash pool	(1 947 817)	(2 186 508)
Overdraft	(959)	(93 502)
Foreign exchange	(4 497)	(799)
Total cash and cash equivalents presented in the statement of cash flows	(1 632 925)	(1 559 232)

The balances of current loans granted and taken out in a cash pool transaction are not cash flows from investing or financing activities, but a cash adjustment, as their main objective is to manage the Group's liquidity on a day-to-day basis.

Restricted cash includes mainly cash held in the settlement account for trading in electricity on the Polish Power Exchange (Towarowa Giełda Energii S.A), amounting to PLN 51 153 thousand.

Information on cash pool balances has been presented in Note 27.4 to these condensed interim financial statements.

26. Equity

26.1. Issued capital

Issued capital as at 30 June 2018 (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 2018, the value of issued capital, the number of shares and the par value of shares did not change compared to 31 December 2017.

26.2. Major shareholders

Shareholding structure as at 30 June 2018 (unaudited)

Shareholder	Number of shares	Nominal value of shares	% of issued capital	% of total vote*
State Treasury	526 848 384	2 634 242	30.06%	30.06%
KGHM Polska Miedź S.A.	182 110 566	910 553	10.39%	10.39%
Nationale - Nederlanden Otworthy Fundusz Emerytalny	88 742 929	443 715	5.06%	5.06%
Other shareholders	954 847 515	4 774 237	54.49%	54.49%
Total	1 752 549 394	8 762 747	100%	100%

* The voting rights of shareholders holding over 10% of the total number of votes in the Company are limited in such a way that none of them can exercise more than 10% of the total votes in the Company at the General Shareholders' Meeting. This limitation does not apply to the State Treasury and subsidiaries of the State Treasury in the period in which the State Treasury together with subsidiaries of the State Treasury holds the number of the Company's shares entitling to exercise at least 25% of the total votes in the Company.

To the best of the Company's knowledge, the shareholding structure as at 30 June 2018 has not changed since 31 December 2017.

26.3. Retained earnings and dividend limitation

Reserve capital — dividend limitation

	As at 30 June 2018 (unaudited)	As at 31 December 2017
amounts subject to distribution	4 886 520	4 032 169
amounts from distribution of prior years profits	4 886 520	4 032 169
non-distributable amounts	3 624 917	3 624 917
decrease in the value of issued capital	3 390 037	3 390 037
settlement of mergers with subsidiaries	234 880	234 880
Total reserve capital	8 511 437	7 657 086

Retained earnings — dividend limitation

Only PLN 13 thousand out of retained earnings may be distributed among the shareholders as at 30 June 2018.

On 16 April 2018, the Ordinary General Shareholders' Meeting adopted a resolution to allocate the Company's net profit for the 2017 financial year, totalling PLN 854 351 thousand to the Company's reserve capital.

26.4. Revaluation reserve — measurement of hedging instruments

	6-month period ended 30 June 2018 <i>(unaudited)</i>	6-month period ended 30 June 2017 <i>(unaudited)</i>
Opening balance	23 051	29 660
Remeasurement of hedging instruments	(13 171)	(9 070)
Remeasurement of hedging instruments charged to profit or loss	(13)	(5)
Deferred income tax	2 505	1 724
Closing balance	12 372	22 309

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 20 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 2018 the Company recognized PLN 12 372 thousand of revaluation reserve from measurement of hedging instruments. It represents an asset arising from valuation of interest rate swaps as at the end of the reporting period, totalling PLN 15 285 thousand, adjusted by a portion of valuation relating to interest accrued on bonds as at the end of the reporting period, including deferred tax.

The profit/loss for the period includes PLN 747 thousand, with PLN 760 thousand of the amount received in respect of hedges used in relation to closed interest periods and PLN (13) thousand resulting from remeasurement of instruments related to interest on bonds accrued as at the end of the reporting period.

27. Debt

	As at 30 June 2018 <i>(unaudited)</i>	As at 31 December 2017
Long-term portion of debt		
Subordinated hybrid bonds	827 560	791 355
Other issued bonds	7 209 271	7 113 161
Loans received from the European Investment Bank	790 721	873 770
Loans from the subsidiary	725 927	694 168
Total	9 553 479	9 472 454
Short-term portion of debt		
Subordinated hybrid bonds	20 557	1 597
Other issued bonds	60 654	34 233
Cash pool loans received, including accrued interest	2 096 672	2 377 034
Loans from the European Investment Bank	160 615	168 340
Loans from the subsidiary	15 800	27 112
Overdraft	959	93 502
Finance lease	-	23 945
Total	2 355 257	2 725 763

TAURON Polska Energia S.A.
Condensed interim financial statements for the 6-month period ended 30 June 2018
prepared in accordance with the IFRS, as endorsed by the European Union
(in PLN '000)

27.1. Bonds issued

Bonds as at 30 June 2018 (unaudited)

Tranche/Bank	Maturity date	Currency	Principal at nominal value in currency	As at balance sheet date		of which maturing within (after the balance sheet date)		
				Accrued interest	Principal at amortized cost	up to 2 years	2 - 5 years	over 5 years
	20.12.2019	PLN	100 000	97	99 901	99 901	-	-
	20.12.2020	PLN	100 000	97	99 864	-	99 864	-
	20.12.2021	PLN	100 000	97	99 839	-	99 839	-
	20.12.2022	PLN	100 000	97	99 819	-	99 819	-
	20.12.2023	PLN	100 000	97	99 803	-	-	99 803
	20.12.2024	PLN	100 000	97	99 793	-	-	99 793
	20.12.2025	PLN	100 000	97	99 782	-	-	99 782
	20.12.2026	PLN	100 000	97	99 773	-	-	99 773
	20.12.2027	PLN	100 000	97	99 766	-	-	99 766
Bank Gospodarstwa Krajowego	20.12.2028	PLN	100 000	97	99 762	-	-	99 762
	20.12.2020	PLN	70 000	67	69 969	-	69 969	-
	20.12.2021	PLN	70 000	67	69 965	-	69 965	-
	20.12.2022	PLN	70 000	67	69 963	-	69 963	-
	20.12.2023	PLN	70 000	67	69 961	-	-	69 961
	20.12.2024	PLN	70 000	67	69 960	-	-	69 960
	20.12.2025	PLN	70 000	67	69 959	-	-	69 959
	20.12.2026	PLN	70 000	67	69 958	-	-	69 958
	20.12.2027	PLN	70 000	67	69 957	-	-	69 957
	20.12.2028	PLN	70 000	67	69 957	-	-	69 957
	20.12.2029	PLN	70 000	67	69 956	-	-	69 956
Bond Issue Scheme of 24 November 2015	29.12.2020	PLN	1 600 000	257	1 597 638	-	1 597 638	-
TPEA1119	4.11.2019	PLN	1 750 000	7 531	1 749 338	1 749 338	-	-
European Investment Bank	16.12.2034	EUR	190 000	20 557	827 560	-	-	827 560
Eurobonds EURBD050727	5.07.2027	EUR	500 000	51 226	2 164 588	-	-	2 164 588
Total				81 211	8 036 831	1 849 239	2 107 057	4 080 535

Bonds as at 31 December 2017

Tranche/Bank	Maturity date	Currency	Principal at nominal value in currency	As at balance sheet date		of which maturing within (after the balance sheet date)		
				Accrued interest	Principal at amortized cost	up to 2 years	2 - 5 years	over 5 years
	20.12.2019	PLN	100 000	107	99 869	99 869	-	-
	20.12.2020	PLN	100 000	107	99 838	-	99 838	-
	20.12.2021	PLN	100 000	107	99 817	-	99 817	-
	20.12.2022	PLN	100 000	107	99 800	-	99 800	-
	20.12.2023	PLN	100 000	107	99 787	-	-	99 787
	20.12.2024	PLN	100 000	107	99 778	-	-	99 778
	20.12.2025	PLN	100 000	107	99 770	-	-	99 770
	20.12.2026	PLN	100 000	107	99 761	-	-	99 761
	20.12.2027	PLN	100 000	107	99 756	-	-	99 756
Bank Gospodarstwa Krajowego	20.12.2028	PLN	100 000	107	99 752	-	-	99 752
	20.12.2020	PLN	70 000	74	69 963	-	69 963	-
	20.12.2021	PLN	70 000	74	69 961	-	69 961	-
	20.12.2022	PLN	70 000	74	69 959	-	69 959	-
	20.12.2023	PLN	70 000	74	69 958	-	-	69 958
	20.12.2024	PLN	70 000	74	69 957	-	-	69 957
	20.12.2025	PLN	70 000	74	69 956	-	-	69 956
	20.12.2026	PLN	70 000	74	69 956	-	-	69 956
	20.12.2027	PLN	70 000	74	69 955	-	-	69 955
	20.12.2028	PLN	70 000	74	69 955	-	-	69 955
	20.12.2029	PLN	70 000	74	69 955	-	-	69 955
Bond Issue Scheme of 24 November 2015	29.12.2020	PLN	1 600 000	389	1 597 188	-	1 597 188	-
TPEA1119	4.11.2019	PLN	1 750 000	7 609	1 749 277	1 749 277	-	-
European Investment Bank	16.12.2034	EUR	190 000	1 597	791 355	-	-	791 355
Eurobonds EURBD050727	5.07.2027	EUR	500 000	24 425	2 069 193	-	-	2 069 193
Total				35 830	7 904 516	1 849 146	2 106 526	3 948 844

The bond issue scheme of 24 November 2015 was extended on 9 March 2018. Under annexes to the agency and depositary agreement and to the guarantee agreement some banks extended the period of availability of the scheme's funds. Therefore, the maximum bond issue scheme value:

- until 31 December 2021 is PLN 6 070 000 thousand (before the annexes were signed it had been PLN 5 320 000 thousand);
- until 31 December 2022 is PLN 5 820 000 thousand (before the annexes were signed it had been PLN 2 450 000 thousand).

By 31 December 2020 the scheme's value will not change and will not exceed PLN 6 270 000 thousand.

The annexes were concluded with the following banks participating in the Scheme: Bank Handlowy w Warszawie S.A., Bank BGŻ BNP Paribas 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., MUFG Bank (Europe) N.V., MUFG Bank (Europe) N.V. S.A. Branch in Poland and Powszechna Kasa Oszczędności Bank Polski S.A. Due to the extension, the financing margin in the Scheme did not change.

Key instruments recognized under bonds issued by the Company as at the end of the reporting period:

- Eurobonds of the total face value of EUR 500 000 thousand and issue price accounting for 99.438% of the face value, with fixed interest paid on an annual basis. The bonds have been admitted to trading on the London Stock Exchange. They were rated "BBB" by the Fitch rating agency;
- bonds issued under the Bond Issue Scheme dated 24 November 2015 of the face value of PLN 1 600 000 thousand. The bonds were issued as unsecured, dematerialized coupon securities. Their interest was determined by reference to WIBOR 6M increased by a fixed margin;
- bonds issued on 4 November 2014 for the amount of PLN 1 750 000 thousand. Those are five-year unsecured bonds with floating interest based on WIBOR 6M increased by margin and with a six-month interest period;
- bonds of the face value of PLN 1 700 000 thousand issued under the Long-Term Bond Issue Scheme in line with contracts concluded with Bank Gospodarstwa Krajowego. Those are dematerialized, unsecured and coupon bonds. The interest rate is floating, based on WIBOR 6M increased by the bank's margin.

Change in the balance of bonds excluding interest accrued in the 6-month period ended 30 June 2018 and in the comparable period has been presented below.

	6-month period ended 30 June 2018 <i>(unaudited)</i>	6-month period ended 30 June 2017 <i>(unaudited)</i>
Opening balance	7 904 516	6 929 151
Issue*	-	599 543
Redemption	-	(300 000)
Measurement change	132 315	(35 510)
Closing balance	8 036 831	7 193 184

*Costs of issue have been included.

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 20 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. The key covenant is the net debt to EBITDA ratio (for the domestic bond issue schemes) which sets the maximum allowed debt less cash in relation to generated EBITDA. As at 30 June 2018, none of these covenants were breached and the contractual provisions were complied with.

27.2. Loans from the European Investment Bank

As at 30 June 2018, the balance of loans obtained from the European Investment Bank was PLN 951 336 thousand, including interest accrued of PLN 4 997 thousand. As at 31 December 2017, the balance of loans from the European Investment Bank was PLN 1 042 110 thousand, including interest accrued of PLN 6 100 thousand.

In the 6-month period ended 30 June 2018, the Company repaid PLN 55 659 thousand of the principal amount and PLN 15 496 thousand of interest.

27.3. Loans from a subsidiary

As at 30 June 2018 the carrying amount of the loans granted by a subsidiary TAURON Sweden Energy AB (publ) was PLN 741 727 thousand (EUR 170 059 thousand), including PLN 15 800 thousand (EUR 3 623 thousand) of interest accrued as at the end of the reporting period. As at 31 December 2017, the carrying amount of loans from a subsidiary, TAURON Sweden Energy AB (publ), was PLN 721 280 thousand (EUR 172 932 thousand), including interest of PLN 27 112 thousand (EUR 6 500 thousand) accrued as at the end of the reporting period.

In the 6-month period ended 30 June 2018, the Company paid interest of EUR 6 000 thousand (PLN 25 251 thousand) under Annex 1 to the loan agreement of 1 December 2014, which was executed on 30 November 2017. Under the Annex, the payment of interest due on 30 November 2017 was postponed until 31 March 2018.

The Company's liability is a long-term loan granted under an agreement entered into in December 2014 by TAURON Polska Energia S.A. and TAURON Sweden Energy AB (publ). The loan bears interest at a fixed rate and interest is paid annually, in December, until the loan has been fully repaid i.e. until 29 November 2029.

27.4. 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 three-year zero-balancing agreement with PKO Bank Polski S.A., which may be extended by 12 months, with TAURON Polska Energia S.A. acting as an agent. The interest rate is at arm's length.

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

	As at 30 June 2018 <i>(unaudited)</i>	As at 31 December 2017
Receivables from cash pool loans granted	764 320	189 928
Interest receivable on loans granted under cash pool agreement	3 184	598
Impairment loss	(57 326)	-
Total Receivables	710 178	190 526
Loans received under cash pool agreement	2 094 562	2 374 430
Interest payable on loans received under cash pool agreement	2 110	2 604
Total Liabilities	2 096 672	2 377 034

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 2018, the related liability of the Company was PLN 204 thousand.

The Company recognized an impairment loss for credit losses due to a loans granted to a subsidiaries from the Mining and Generation segments under a cash pooling agreement as at the balance sheet date, because it intends to continue providing financial support to the entities in the form other than a cash pooling loan.

27.5. Overdraft facilities

As at 30 June 2018, the balance of overdraft facilities mainly included:

- 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 201 thousand (PLN 753 thousand);
- an agreement for an overdraft in PLN with PKO Bank Polski S.A. under the cash pool agreement of PLN 204 thousand.

As at 31 December 2017, the balance of overdraft facilities was PLN 93 502 thousand.

28. Other financial liabilities

	As at 30 June 2018 <i>(unaudited)</i>	As at 31 December 2017
Liabilities arising from income tax settlements of the TCG companies	64 015	34 836
Margin deposits	138 915	7 163
Commissions related to securities	6 986	5 889
Bid bonds, deposits and collateral received	878	5 400
Wages and salaries, deductions on wages and salaries as well as other employee related liabilities	3 619	6 424
Other	22 809	23 004
Total	237 222	82 716
Non-current	17 626	20 126
Current	219 596	62 590

29. Other provisions

As at 30 June 2018, other provisions included mainly the provisions for tax risks due to the pending inspection proceedings. As at 31 December 2017 the Company recognized a related provision of PLN 68 694 thousand. As at 30 June 2018, the related provision was PLN 70 776 thousand. An increase in the provision by PLN 2 082 thousand is attributable to interest accrued for the 6-month period ended 30 June 2018. The Company is a party to VAT inspection proceedings instigated by the Director of the Tax Inspection Office in Warsaw ("Director of the TIO"). The duration of the proceedings was extended by the Director of the Tax Inspection Office a number of times and then by the Head of the Mazovian Customs and Tax Office. The proceedings are set to be closed on 22 and 28 August 2018.

The change in other provisions in the comparative period is presented in the following table.

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

Provision for onerous contracts with a joint venture and for costs

In the 6-month period ended 30 June 2017, following the entry into force of the agreement to set out they key boundary conditions for the restructuring of "Construction of a gas and steam unit in Stalowa Wola" project concluded by TAURON Polska Energia S.A., Polskie Górnictwo Naftowe i Gazownictwo S.A. and Elektrociepłownia Stalowa Wola S.A., an annex to the agreement to sell electricity of 11 March 2011 between the Company, Polskie Górnictwo Naftowe i Gazownictwo S.A. and Elektrociepłownia Stalowa Wola S.A. and an annex to the agreement to supply gaseous fuel of 11 March 2011 between Polskie Górnictwo Naftowe i Gazownictwo S.A. and Elektrociepłownia Stalowa Wola S.A., the Company released in full the following provisions:

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

30. Liabilities to suppliers

As at 30 June 2018 the largest liabilities to suppliers were the liabilities towards subsidiary TAURON Wytwarzanie S.A. totalling PLN 87 274 thousand and towards the state-owned Polska Grupa Górnicza S.A. totalling PLN 68 027 thousand. As at 31 December 2017, these were the liabilities towards subsidiaries TAURON Wytwarzanie S.A. and TAURON Sprzedaż Sp. z o.o. totalling PLN 163 952 thousand and PLN 87 255 thousand, respectively.

31. Liabilities arising from taxes and charges

	As at 30 June 2018 (<i>unaudited</i>)	As at 31 December 2017
Corporate Income Tax	-	37 629
Personal Income Tax	1 557	1 878
VAT	19 017	25 385
Excise	-	880
Social security	2 681	4 311
Real estate tax	187	-
Other	41	36
Total	23 483	70 119

Regulations concerning VAT, corporate income tax and social insurance charges are frequently amended. The applicable regulations may also contain ambiguous issues, which lead to differences in opinions concerning the legal interpretation of tax legislation both among the tax authorities and between such authorities and enterprises.

Tax reports and other matters (e.g. customs or foreign currency transactions) may be audited by authorities competent to impose substantial penalties and fines, whereas any additional tax liabilities assessed during such audits have to be paid together with interest. Consequently, the figures presented and disclosed in these condensed interim financial statements may change in future if a final decision is issued by tax control authorities.

EXPLANATORY NOTES TO THE CONDENSED INTERIM STATEMENT OF CASH FLOWS

32. Significant items of the condensed interim statement of cash flows

32.1. Cash from/used in operating activities

Changes in working capital

	6-month period ended 30 June 2018 <i>(unaudited)</i>	6-month period ended 30 June 2017 <i>(unaudited)</i>
Change in receivables	22 216	436 637
Change in inventories	(9 035)	45 861
Change in payables excluding loans and borrowings	10 795	(205 610)
Change in other non-current and current assets	17 134	35 579
Change in deferred income, government grants and accruals	3 847	(6 891)
Change in provisions	2 503	(196 554)
Change in working capital	47 460	109 022

32.2. Cash from/used in investing activities

Purchase of bonds

Payments to purchase bonds, in the amount of PLN 160 000 thousand, are related to purchases of intra-group bonds issued by TAURON Ekoenergia Sp. z o.o., subsidiary.

Acquisition of shares

Payments to acquire shares of PLN 701 000 thousand were related to the Company's transfer of funds to increase the capital of the following companies:

- Nowe Jaworzno Grupa TAURON Sp. z o.o., totalling PLN 350 000 thousand;
- TAURON Wydobywanie S.A., totalling PLN 340 000 thousand;
- Polska Energia Pierwsza Kompania Handlowa Sp. z o.o., totalling PLN 6 000 thousand;
- ElectroMobility Poland S.A., totalling PLN 5 000 thousand.

Loans granted

The Company's expenses related to loan granting include:

- a loan disbursed to Elektrociepłownia Stalowa Wola S.A., a jointly-controlled entity, in the total amount of PLN 35 015 thousand, which has been discussed in more detail in Note 19 to these condensed interim financial statements and
- a loan granted to PGE EJ 1 Sp. z o.o. of PLN 4 800 thousand.

As the loans granted, the Company classifies increase in the balance of loans granted to the subsidiaries under a cash pool agreement with a long-term commitment in the amount of PLN 618 649 thousand.

Redemption of bonds

Proceeds from redemption of bonds, in the amount of PLN 1 090 000 thousand, are related to redemption of intra-group bonds issued by the following subsidiaries:

- TAURON Wytwarzanie S.A., totalling PLN 620 000 thousand;
- TAURON Dystrybucja S.A., totalling PLN 470 000 thousand;

Repayment of loans granted

Repayment of loans of PLN 419 100 thousand includes:

- repayment of a portion of a loan of PLN 299 100 granted to Elektrociepłownia Stalowa Wola S.A., which has been discussed in more detail in Note 19 to these condensed interim financial statements;
- repayment of a loan of PLN 120 000 granted to TAURON Ekoenergia Sp. z o.o., a subsidiary, which has been discussed in more detail in Note 19 to these condensed interim financial statements.

Interest received

	6-month period ended 30 June 2018	6-month period ended 30 June 2017
	<i>(unaudited)</i>	<i>(unaudited)</i>
Interest received in relation to debt securities	187 232	326 904
Interest received in relation to loans granted	20 117	-
Total	207 349	326 904

32.3. Cash from/used in financing activities

Loan repayment

Expenditures due to repayment of loans resulted from repayment of instalments of a loan granted by the European Investment Bank of PLN 55 659 thousand in the 6-month period ended 30 June 2018.

Interest paid

	6-month period ended 30 June 2018	6-month period ended 30 June 2017
	<i>(unaudited)</i>	<i>(unaudited)</i>
Interest paid in relation to debt securities	(73 832)	(91 379)
Interest paid in relation to loans and borrowings	(40 822)	(21 191)
Interest paid in relation to the finance lease	(196)	(336)
Total	(114 850)	(112 906)

TAURON Polska Energia S.A.
Condensed interim financial statements for the 6-month period ended 30 June 2018
prepared in accordance with the IFRS, as endorsed by the European Union
(in PLN '000)

OTHER INFORMATION

33. Financial instruments

Categories and classes of financial assets	As at 30 June 2018 (unaudited)		Categories and classes of financial assets	As at 31 December 2017 (restated figures)	
	Carrying amount	Fair value		Carrying amount	Fair value
1 Financial assets measured at amortized cost	6 827 375	6 952 869	1 Financial assets at fair value through profit or loss, held for trading	154 574	154 574
Receivables from buyers	616 593	616 593	Derivative instruments	53 216	53 216
Bonds	5 410 166	5 535 660	Investment fund units	101 358	101 358
Loans granted under cash pool agreement	710 178	710 178	2 Financial assets available for sale	39 244	
Other loans granted	15 774	15 774	Long-term shares	39 244	
Other financial receivables	74 664	74 664	3 Loans and receivables	8 228 015	8 072 480
2 Financial assets measured at fair value through profit or loss (FVTPL)	980 484	980 484	Receivables from buyers	719 133	719 133
Derivative instruments	230 430	230 430	Bonds	6 572 696	6 506 729
Long-term shares	30 349	30 349	Loans granted under cash pool agreement	190 526	190 526
Loans granted	191 565	191 565	Other loans granted	712 654	623 086
Other financial receivables	105 184	105 184	Other financial receivables	33 006	33 006
Investment fund units	102 608	102 608	4 Financial assets excluded from the scope of IAS 39	20 873 435	
Cash and cash equivalents	320 348	320 348	Shares in subsidiaries	20 457 583	
3 Derivative hedging instruments	15 285	15 285	Shares in jointly-controlled entities	415 852	
4 Financial assets excluded from the scope of IFRS 9	20 566 375		5 Hedging derivative instruments	28 482	28 482
Shares in subsidiaries	20 150 523		6 Cash and cash equivalents	721 577	721 577
Shares in jointly-controlled entities	415 852				
Total financial assets, of which in the statement of financial position:	28 389 519		Total financial assets, of which in the statement of financial position:	30 045 327	
Non-current assets	26 767 218		Non-current assets	27 335 016	
Shares	20 596 724		Shares	20 912 679	
Bonds	5 363 799		Bonds	6 009 920	
Loans granted	769 365		Loans granted	382 989	
Derivative instruments	34 483		Derivative instruments	26 704	
Other financial assets	2 847		Other financial assets	2 724	
Current assets	1 622 301		Current assets	2 710 311	
Receivables from buyers	616 593		Receivables from buyers	719 133	
Bonds	46 367		Bonds	562 776	
Loans granted	148 152		Loans granted	520 191	
Derivative instruments	211 232		Derivative instruments	54 994	
Other financial assets	279 609		Other financial assets	131 640	
Cash and cash equivalents	320 348		Cash and cash equivalents	721 577	

Categories and classes of financial liabilities	As at 30 June 2018 (unaudited)		Categories and classes of financial liabilities	As at 31 December 2017 (restated figures)	
	Carrying amount	Fair value		Carrying amount	Fair value
1 Financial liabilities measured at amortized cost	12 455 051	12 563 766	1 Financial liabilities measured at amortized cost	12 670 253	12 699 476
Arm's length loans, of which:	3 789 735	3 848 806	Arm's length loans, of which:	4 140 424	4 135 000
Liability under the cash pool loan	2 096 672	2 096 672	Liability under the cash pool loan	2 377 034	2 377 034
Loans from the European Investment Bank	951 336	989 773	Loans from the European Investment Bank	1 042 110	1 044 424
Loans from the subsidiary	741 727	762 361	Loans from the subsidiary	721 280	713 542
Overdraft	959	959	Overdraft	93 502	93 502
Bonds issued	8 118 042	8 167 686	Bonds issued	7 940 346	7 974 993
Liabilities to suppliers	309 093	309 093	Liabilities to suppliers	413 265	413 265
Other financial liabilities	237 222	237 222	Other financial liabilities	82 586	82 586
Liabilities due to purchases of fixed and intangible assets	-	-	Liabilities due to purchases of fixed and intangible assets	130	130
2 Financial liabilities measured at fair value through profit or loss (FVTPL)	209 960	209 960	2 Financial liabilities at fair value through profit or loss, held for trading	62 466	62 466
Derivative instruments	209 960	209 960	Derivative instruments	62 466	62 466
3 Financial liabilities excluded from the scope of IFRS 9	-		3 Liabilities under guarantees, factoring and excluded from the scope of IAS 39	23 945	
Liabilities under finance leases	-		Liabilities under finance leases	23 945	
Total financial liabilities, of which in the statement of financial position:	12 665 011		Total financial liabilities, of which in the statement of financial position:	12 756 664	
Non-current liabilities	9 578 318		Non-current liabilities	9 497 797	
Debt	9 553 479		Debt	9 472 454	
Other financial liabilities	17 626		Other financial liabilities	20 126	
Derivative instruments	7 213		Derivative instruments	5 217	
Current liabilities	3 086 693		Current liabilities	3 258 867	
Debt	2 355 257		Debt	2 725 763	
Liabilities to suppliers	309 093		Liabilities to suppliers	413 265	
Derivative instruments	202 747		Derivative instruments	57 249	
Other financial liabilities	219 596		Other financial liabilities	62 590	

The classification of financial instruments to categories and classes is compliant with the accounting standards applicable at the balance sheet date (as of 30 June 2018 – IFRS 9 *Financial Instruments*; as of 31 December 2017 – IAS 39 *Financial Instruments: Recognition and Measurement*).

Instruments measured at fair value through profit or loss (FVTPL):

- Derivative financial instruments measured at fair value as at the end of the reporting period and classified as assets and liabilities measured at fair value through profit or loss, or designated as hedging derivatives (subject to hedge accounting), have been measured in line with the method described in Note 20 to these condensed interim financial statements. Disclosures regarding the hierarchy of the fair value have been given in Note 20 to these condensed interim financial statements.
- The measurement of investment fund units has been classified to Level 1 in the fair value hierarchy.
- IFRS 9 *Financial Instruments* requires that interests in other entities be measured at fair value, also with respect to those interests which — due to a limited availability of information — have so far been measured at cost less any impairment losses. Therefore, the Company estimated the fair value of the interests held, as discussed in detail in Note 8 hereto. The measurement of interests in question resulted in Level 3 classification in fair value hierarchy. The measurement of other financial receivables measured at fair value was also classified as Level 3.
- The Company classifies a loan granted to Elektrociepłownia Stalowa Wola S.A. under an agreement of 28 February 2018 to assets measured at fair value through profit or loss, as discussed in detail in Note 19 to these condensed interim financial statements. The measurement of the loan in question resulted in Level 3 classification in fair value hierarchy.

Financial instruments classified to other categories of financial instruments:

- Fixed rate financial instruments — bonds purchased by the Company, loans from the European Investment Bank, a loan from a subsidiary, subordinated bonds and Eurobonds issued — were measured at fair value. The fair value measurement was carried out based on the present value of future cash flows discounted using an interest rate applicable to given bonds or loans, i.e. applying market interest rates. The measurement resulted in Level 2 classification in fair value hierarchy.
- The fair value of other financial instruments as at 30 June 2018 and 31 December 2017 (except from those excluded from the scope of IFRS 9 *Financial Instruments* and IAS 39 *Financial Instruments: Recognition and Measurement*) did not differ considerably from the amounts presented in the financial statements for the following reasons:
 - the potential discounting effect relating to short-term instruments is not significant;
 - the instruments are related to arm's length transactions.
- Shares in subsidiaries and jointly-controlled entities excluded from the scope of IFRS 9 *Financial Instruments* are measured at cost less any impairment losses.

34. Finance and financial risk management

34.1. 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 principles which set out the terms and conditions and types of hedge accounting, along with the accounting treatment of hedging instruments and hedged items, to be applied as part of hedge accounting under IFRS. The policy for specific risk management in the area of finance and hedge accounting principles are applicable to the cash flow risk.

Hedge accounting

As at 30 June 2018, 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 20 to these condensed interim financial statements.

34.2. 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.

35. Contingent liabilities

As at 30 June 2018 and 31 December 2017 the Company's contingent liabilities were mainly the effect of securities and guarantees given on the instruction of related parties and were as follows:

Type of contingent liability	Company in respect of which contingent liability has been granted	Beneficiary	Validity	As at 30 June 2018 (unaudited)		As at 31 December 2017	
				EUR	PLN	EUR	PLN
corporate guarantee	TAURON Sweden Energy AB (publ)	holders of bonds issued by TAURON Sweden Energy AB (publ)	3.12.2029	168 000	732 749	168 000	700 711
corporate guarantee	TAURON Ekoenergia Sp. z o.o.	Business entities and buyers being parties to contracts with TAURON Ekoenergia Sp. z o.o. based on the electricity trading licence issued by the President of the Energy Regulatory Office	31.12.2030		16 400		16 400
blank promissory note with a promissory note declaration	TAURON Wytwarzanie S.A.	Regional Fund for Environmental Protection and Water Management in Katowice	15.12.2022		40 000		40 000
	TAURON Ciepło Sp. z o.o.		15.12.2022		30 000		30 000
registered pledges and financial pledge of shares in TAMEH HOLDING Sp. z o.o.	TAMEH Czech s.r.o. TAMEH POLSKA Sp. z o.o.	RAIFFEISEN BANK INTERNATIONAL AG	31.12.2028*		415 852		415 852
surety contract	Kopalnia Wapienia Czatkowice Sp. z o.o.	Regional Fund for Environmental Protection and Water Management in Kraków	15.06.2021		914		914
surety contract	Nowe Jaworzno Grupa TAURON Sp. z o.o.	Fund Advisors	28.09.2025		2 500		2 350
surety contract	TAURON Wytwarzanie S.A.	Polskie Sieci Elektroenergetyczne S.A.	indefinite		5 000		5 000
	TAURON Sprzedaż Sp. z o.o.	Polska Spółka Gazownictwa Sp. z o.o.	31.03.2019		15 000		15 000
	Elektrociepłownia Stalowa Wola S.A.	Operator Gazociągów Przesyłowych GAZ-SYSTEM S.A.	30.07.2020		1 667		1 667
liability towards CaixaBank S.A. being result of guarantees issued by the bank for subsidiaries	TAURON Ciepło Sp. z o.o.	Elektrobudowa S.A.	31.12.2018		12 300		12 300
	other subsidiaries	various entities	2018-2020		1 777		1 534
liability towards MUFG Bank, Ltd. under guarantees issued by the bank for jointly-controlled entities	Elektrociepłownia Stalowa Wola S.A.	Bank Gospodarstwa Krajowego	11.04.2019		444 000		-

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

Key contingent liabilities have been presented below:

- Corporate guarantee

Corporate guarantee given to secure the bonds issued by TAURON Sweden Energy AB (publ). The guarantee remains valid until 3 December 2029, i.e. until the date of redemption of bonds, and amounts to EUR 168 000 thousand (PLN 732 749 thousand). The beneficiaries of the guarantee are the bondholders.

- Registered and financial pledges on shares

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

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

As at 30 June 2018, the carrying amount of shares in TAMEH HOLDING Sp. z o.o. was PLN 415 852 thousand.

- Blank promissory notes

The Company issued blank promissory notes along with promissory note agreements, totalling PLN 70 000 thousand, as collateral for loan agreements entered into by its subsidiaries with the Regional Fund for Environmental Protection and Water Management in Katowice. The collateral in the form of promissory notes is valid until the subsidiaries' payment of all their liabilities to the lender. The promissory notes are valid until 15 December 2022.

- Liabilities to banks

On 11 April 2018, a bank guarantee up to PLN 444 000 thousand was issued for the benefit of Bank Gospodarstwa Krajowego at the request of the Company. The guarantee secures bank exposure under a loan agreement concluded on 8 March 2018 among the borrower, Elektrociepłownia Stalowa Wola S.A. and Bank Gospodarstwa Krajowego and Polskie Górnictwo Naftowe i Gazownictwo S.A., which has been described in more detail in Note 19 to these condensed interim financial statements. The guarantee was issued by MUFG Bank, Ltd., and is valid until 11 April 2019. It will be renewed on an annual basis. The exposure of MUFG Bank, Ltd. to the Company in the form of a guarantee agreement dated 4 April 2018 is secured with a declaration of submission to enforcement up to PLN 621 000 thousand valid until 31 July 2019 (Note 36 to these condensed interim financial statements).

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

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

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

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

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

In this case, the courts of the first and second instance passed judgements favourable for GZE; however, in its judgement of 29 November 2011 the Supreme Court overruled the judgement of the Court of Appeals and remanded the case for re-examination by that Court. On 5 June 2012, the Court of Appeals overruled the decision of the Regional Court and remanded the case for re-examination by the latter. Since 27 November 2012 the case has been heard by the court of first instance.

Based on a legal analysis of claims the Company believes that they are unsubstantiated 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.

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

The claim filed by ENEA S.A. ("ENEA") against TAURON Polska Energia S.A., which has been heard by the Regional Court in Katowice since 2016, regards the payment of PLN 17 086 thousand with statutory interest from 31 March 2015 until the payment date. The basis of the claim brought by ENEA is unjust enrichment of the Company due to potential errors in the calculation of aggregated measurement and billing data by ENEA Operator Sp. z o.o. (being the Distribution System Operator), which are the basis of ENEA and the Company's settlements with Polskie Sieci Elektroenergetyczne S.A., due to an imbalance in the Balancing Market between January and December 2012.

During the proceedings, at the request of ENEA S.A. the court decided to extend the suit against seven sellers for which TAURON Polska Energia S.A. acted as an entity in charge of trade balances in the distribution area of ENEA Operator Sp. z o.o. in 2012. The sellers included two subsidiaries of TAURON Polska Energia S.A., i.e.: TAURON Sprzedaż Sp. z o.o. from which ENEA S.A. demanded PLN 4 934 thousand with statutory interest as of the date of serving a copy of the request to extend the suit until the date of payment; and TAURON Sprzedaż GZE Sp. z o.o. from which ENEA S.A. demanded PLN 3 480 thousand with statutory interest as of the date of serving a copy of the request to extend the suit until the date of payment. The demand for payment of the above amounts as well as the amounts claimed from the other five sellers was submitted by the petitioner in case the claim against TAURON Polska Energia S.A. is dismissed. The case is pending. By the date of approval of these condensed interim financial statements for issue, the case had been adjourned until the date specified by the court.

The Company did not recognize any provision as, in the opinion of the Company, the risk of losing the case is below 50%. Provisions were recognized by the subsidiaries of TAURON Polska Energia S.A. in the total amount of PLN 5 359 thousand (TAURON Sprzedaż Sp. z o.o.) and in the total amount of PLN 3 813 thousand (TAURON Sprzedaż GZE Sp. z o.o.). The said provisions cover the principal, interest accrued as at 30 June 2018 and the cost of the proceedings.

As at 30 June 2018, the value of the claim against the Company was PLN 17 086 thousand, including statutory interest accrued between 31 March 2015 and the payment date. Should the claim filed against the Company be dismissed, the claim for payment by the Group companies totals PLN 8 414 thousand, including statutory interest accrued between the date of service of a copy of the request filed by ENEA S.A. to extend the suit by a specific Group company and the payment date. As new measurement data were presented by ENEA Operator sp. z o.o. during the proceedings, the values of the claims against the Company and the Group companies may be expected to change.

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

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

On 18 March 2015 a subsidiary in liquidation terminated long-term contracts concluded in the years 2009-2010 to purchase electricity and property rights from wind farms owned by the companies in the in.ventus group, Polenergia and Wind Invest. The reason for the termination of the contracts by Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. was that the counterparties had breached the contractual provisions by refusing to renegotiate the terms of the contracts in good faith. A case was brought against the Company for the statements made in the notice of termination to be declared void. In the case brought by Dobiesław Wind Invest Sp. z o.o., in 2016 the Regional Court in Warsaw dismissed the claim for declaring the termination of the contracts void. The claimant appealed against the ruling. On 16 March 2018 the Court of Appeals overruled the decision and remanded the case for re-examination by the Regional Court in Warsaw.

In 2016 the claims against the Company were changed to include claims for compensation for termination of the contracts totalling approx. PLN 39 993 thousand.

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

In January 2018, claims filed by Amon Sp. z o.o., Talia Sp. z o.o. and Mogilno III-VI were changed to incorporate additional claims for compensation relating to contract termination in the total amount of approx. PLN 69 645 thousand.

In February 2018 the claims filed by Pękanino Wind Invest Sp. z o.o. and Nowy Jarosław Wind Invest Sp. z o.o. were changed to include claims related to the termination of contracts totalling approx. PLN 54 149 thousand.

In April 2018 Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. received a claim filed by Mogilno I-II demanding that the entity pay the total amount of ca. PLN 6 204 thousand. The defendant responded in June 2018.

In light of the current status of the proceedings and the related circumstances, the Group believes that the probability of losing the cases both as regards declaration of ineffectiveness of the termination notices and securing non-monetary claims and the claims for compensation does not exceed 50%. Therefore, no provision for the related costs has been recognized.

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

In November 2014 an action was brought against Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. and TAURON Polska Energia S.A. by Dobiesław Wind Invest Sp. z o.o. to prevent an imminent danger of loss. It was claimed that the Company should revoke the liquidation of Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. in liquidation. A subsidiary claim was that TAURON Polska Energia S.A. should be obliged to provide security in the amount of PLN 183 391 thousand as a court deposit.

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

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

An analysis of the justification of the statements of the claim shows that they are wholly groundless. At a hearing on 4 October 2017, upon request of TAURON Polska Energia S.A., the Court decided that the new statement of claim against TAURON Polska Energia S.A. would be examined separately. As far as the initial claims against TAURON Polska Energia S.A. and Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. (demand that the liquidation be revoked) are concerned, the Court referred the case to be examined at a closed-door hearing and dismissed. On 12 April 2018, the Court issued a decision whereby it dismissed the entire case against Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. The case against TAURON Polska Energia S.A. was partially dismissed with respect to obligating the Company to revoke the liquidation of Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. Dobiesław Wind Invest Sp. z o.o. lodged a complaint against the decision in question to the Court. In its decision of 26 June 2018 the Court rejected a complaint of Dobiesław Wind Invest Sp. z o.o.

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

On 20 July 2017 the Company was served with a claim dated 29 June 2017 of Gorzyca Wind Invest Sp. z o.o. against TAURON Polska Energia S.A. for damages of approx. PLN 39 700 thousand and assessment of liability for any future damages resulting from torts, including unfair competition, estimated by the claimant at approx. PLN 465 900 thousand. The case will be heard by a Regional Court in Katowice. On 18 September 2017, the Company responded to the claim requesting that it be dismissed in whole as unsubstantiated. On 1 December 2017, Gorzyca Wind Invest Sp. z o.o. responded by upholding its position in addition to questioning the position adopted by the Company and the arguments put forward in its response to the claim. Following a decision of the Regional Court in Katowice of 8 February 2018, the suit brought by Gorzyca Wind Invest Sp. z o.o. against TAURON Polska Energia S.A. is heard in camera, though the final ruling will be given in public.

A claim dated 29 June 2017, filed by Pękanino Wind Invest Sp. z o.o. against TAURON Polska Energia S.A. for damages of PLN 28 500 thousand and assessment of liability for future damages resulting from torts, including unfair competition, estimated by the claimant at PLN 201 600 thousand, was delivered to the Company on 21 August 2017. On 5 October 2017, the Company responded to the claim requesting that it be dismissed in whole as unsubstantiated. On 1 December 2017, Pękanino Wind Invest Sp. z o.o. responded by upholding its position in addition to questioning the position adopted by the Company and the arguments put forward in its response to the claim. Following a decision of the Regional Court in Katowice, the suit brought by Pękanino Wind Invest Sp. z o.o. against TAURON Polska Energia S.A. is heard in camera, though the final ruling will be given in public.

On 16 October 2017 the Company was served with a claim dated 29 June 2017 of Nowy Jarosław Wind Invest Sp. z o.o. against TAURON Polska Energia S.A. for damages of PLN 27 000 thousand and assessment of liability for future damages resulting from torts, including unfair competition, estimated by the claimant at PLN 197 800 thousand. On 28 December 2017, the Company responded to the claim requesting that it be dismissed in whole as unsubstantiated. Following a decision of the Regional Court in Katowice, the suit brought by Nowy Jarosław Wind Invest Sp. z o.o. against TAURON Polska Energia S.A. is heard in camera, though the final ruling will be given in public.

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

As at the date of approval of these condensed interim financial statements for publication, the probability that the rulings will be favourable for the Company is high (70%).

On 18 June 2018 the Company was served with a copy of a claim lodged against it by Amon Sp. z o.o. and Talia Sp. z o.o., which are members of the Capital Group of Polenergia S.A. In their claim Amon Sp. z o.o. and Talia Sp. z o.o. demand payment of damages: of PLN 47 556 thousand to Amon Sp. z o.o. and of PLN 31 299 thousand to Talia Sp. z o.o. and determination of the Company's liability for any future damages which may result from torts: in the total amount of PLN 158 262 thousand to Amon Sp. z o.o. and in the total amount of PLN 106 965 thousand to Talia Sp. z o.o.

According to the claim filed by Amon Sp. z o.o. and Talia Sp. z o.o., the grounds for the suit are the following torts:

- entrusting a subsidiary, Polska Energia Pierwsza Kompania Handlowa in liquidation Sp. z o.o. with making purchases of electricity and property rights resulting from certificates of origin confirming generation of energy from renewable sources and the purchase of property rights arising from certificates of origin, confirming the generation of energy from renewable energy sources (wind farm) for the needs of the Company (and its Capital Group), based on long-term contracts concluded by Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. with Amon Sp. z o.o. and Talia Sp. z o.o. and then - in the absence of consent to amend the aforementioned contracts - putting Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. in the state of liquidation and taking actions in the course of liquidation resulting in the termination of the said contracts;
- intentionally taking advantage from the damage caused to Amon Sp. z o.o. and Talia Sp. z o.o.

a tort committed by Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. and persons acting as liquidators of Polska Energia Pierwsza Kompania Handlowa Sp. z o.o., performing activities entrusted by the Company on its behalf, consisting in the breaking of long-term contracts and the cessation of purchase of electricity and property rights from the complainants.

The court competent for hearing the claim is the Regional Court for Katowice. The Company with its legal representative for the purpose of litigation has started analysing the claim and it will respond to it in due time. Based on preliminary analysis of demands and the rationale presented in the claims by Amon Sp. z o.o. and Talia Sp. z o.o., the Company finds them groundless and entirely unsubstantiated.

On 29 June 2018, the Company received a copy of the claim filed against it by In.Ventus Sp. z o.o. Mogilno I Sp. k. for payment of damages of EUR 12 286 thousand (i.e. PLN 53 587 thousand translated at the average exchange rate of the National Bank of Poland of 29 June 2018) and assessment of liability for any future damages resulting from tort, with a total estimated amount of EUR 35 706 thousand (i.e. PLN 155 735 thousand translated at the average exchange rate of the National Bank of Poland of 29 June 2018).

In the claim in question In.Ventus Sp. z o.o. Mogilno I Sp. k. seeks redress for own claims and those transferred by: In.Ventus Sp. z o.o. Mogilno II Sp. k., In.Ventus Sp. z o.o. Mogilno III Sp. k., In.Ventus Sp. z o.o. Mogilno IV Sp. k., In.Ventus Sp. z o.o. Mogilno V Sp. k., In.Ventus Sp. z o.o. Mogilno VI Sp. k.

As stated in the claim filed by In.Ventus Sp. z o.o. Mogilno I Sp. k., the claim is based on torts, which consist in entrusting a subsidiary, Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. with making purchases of electricity and property rights resulting from certificates of origin confirming generation of energy from renewable sources for the needs of the Company and its Capital Group, based on long-term contracts concluded and persuading Polska Energia Pierwsza Kompania Handlowa Sp. o.o and its liquidators to terminate and non to perform the contracts in question and intentionally benefiting from the damages resulting from contract termination.

The court competent for hearing the claim is the Regional Court for Katowice. The Company with its legal representative for the purpose of litigation has started analysing the claim and it will respond to it in due time. Based on the preliminary analysis of the demands and the rationale, the claim has been found entirely unsubstantiated.

- **Claim against PGE EJ 1 Sp. z o.o.**

On 13 March 2015, a consortium of WorleyParsons Nuclear Services JSC, WorleyParsons International Inc, WorleyParsons Group Inc (the "WorleyParsons consortium") responsible for conducting research as part of an investment project relating to the construction of a nuclear power plant by PGE EJ 1 Sp. z o.o. filed claims against PGE EJ 1 Sp. z o.o. for the payment of PLN 92 315 thousand as compensation for termination of the contract by PGE EJ 1 Sp. z o.o. PGE EJ 1 Sp. z o.o. did not accept the claims, considering them to be unsubstantiated. In view of the foregoing, the WorleyParsons consortium has initiated litigation against PGE EJ 1 Sp. z o.o., which is being conducted by the Regional Court in Warsaw.

As an investor holding a 10% interest in the issued capital of PGE EJ 1 Sp. z o.o., the company has made an agreement with the remaining shareholders, namely PGE Polska Grupa Energetyczna S.A., KGHM Polska Miedź S.A. and ENEA S.A. regulating the relations between the shareholders and PGE EJ 1 Sp. z o.o. in the context of the claims lodged by the WorleyParsons consortium. The agreement sets out the terms on which additional funding may be provided by the shareholders to PGE EJ 1 Sp. z o.o. in the event that the claims are upheld, in whole or in part, and a specified amount is awarded by a final and enforceable court decision to the WorleyParsons consortium.

A contingent liability has been recognized by the company based on the aforesaid agreement. The company expects that its potential additional exposure under the agreement should not exceed 10% of the claims filed against PGE EJ 1 Sp. z o.o.

36. Security for liabilities

Key types of security for the Company's liabilities and transactions have been presented below.

TAURON Polska Energia S.A.
Condensed interim financial statements for the 6-month period ended 30 June 2018
prepared in accordance with the IFRS, as endorsed by the European Union
(in PLN '000)

Agreement/transaction	Collateral	Collateral amount
Bond Issue Scheme dated 16 December 2010 with subsequent annexes	declaration of submission to enforcement	up to PLN 6 900 000 thousand, valid until 31 December 2018
Long-term Bond Issue Scheme in Bank Gospodarstwa Krajowego	declaration of submission to enforcement	up to PLN 2 550 000 thousand, valid until 20 December 2032
Bond Issue Scheme dated 24 November 2015	declaration of submission to enforcement	up to PLN 7 524 000 thousand, valid until 31 December 2023
Bank guarantee agreement dated 25 October 2016 with MUFG Bank, Ltd.	declaration of submission to enforcement	up to PLN 377 383 thousand, valid until 27 October 2018
Bank guarantee agreement dated 4 April 2018 with MUFG Bank, Ltd.	declaration of submission to enforcement	up to PLN 621 000 thousand valid until 31 July 2019
Agreement for hybrid funding in the form of a subordinated bond issue scheme of 6 September 2017	declaration of submission to enforcement	up to PLN 600 000 thousand, valid until 30 June 2034
Framework bank guarantee agreement concluded with CaixaBank S.A. The Company and TAURON Group companies can use the limit for guarantees to secure transactions (the maximum guarantee limit amount was determined at PLN 100 000 thousand).	authorization to debit the bank account maintained by CaixaBank S.A.	up to PLN 100 000 thousand
	declaration of submission to enforcement	up to PLN 120 000 thousand valid until 11 July 2021
Bank guarantee issued by CaixaBank S.A. for the benefit of the Company as requested by Operator Gazociągów Przesyłowych GAZ-SYSTEM S.A. – as security of transmission agreement	bank guarantee	up to PLN 4 500 thousand valid until 30 November 2018
Agreement with Bank Zachodni WBK S.A. on bank guarantees for Izba Rozliczeniowa Gield Towarowych S.A.	authorization to debit the bank account maintained by BZ WBK S.A.	up to PLN 150 000 thousand
Overdraft agreement and intra-day limit (bank account agreement) at PKO Bank Polski S.A. (overdraft of up to PLN 300 000 thousand and intra-day limit of 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
	declaration of submission to enforcement	up to PLN 600 000 thousand, valid until 17 December 2021
	declaration of submission to enforcement	up to PLN 360 000 thousand, valid until 29 December 2021
Overdraft agreement with Bank Gospodarstwa Krajowego (in EUR, up to EUR 45 000 thousand)	authorization to debit the bank account maintained by Bank Gospodarstwa Krajowego	up to PLN 196 272 thousand (EUR 45 000 thousand)
	declaration of submission to enforcement	up to PLN 104 678 thousand (EUR 24 000 thousand) valid until 31 December 2019
	declaration of submission to enforcement	up to PLN 218 080 thousand (EUR 50 000 thousand) valid until 31 December 2020
Overdraft agreement with mBank (in USD, up to USD 2 000 thousand)	declaration of submission to enforcement	up to PLN 11 232 thousand (USD 3 000 thousand) valid until 31 March 2019
Security for adequate performance of obligations under Grant Agreements with the National Centre for Research and Development	blank promissory notes to secure the payment of the Company's liabilities	up to the total amount of PLN 4 244 thousand

37. Capital commitments

As at 30 June 2018 and 31 December 2017 the Company did not have any material capital commitments.

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 terms.

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

TAURON Polska Energia S.A.
Condensed interim financial statements for the 6-month period ended 30 June 2018
prepared in accordance with the IFRS, as endorsed by the European Union
(in PLN '000)

Revenue and expense

	6-month period ended 30 June 2018 <i>(unaudited)</i>	6-month period ended 30 June 2017 <i>(unaudited)</i>
Revenue from subsidiaries	3 891 137	4 432 848
Revenue from operating activities	3 719 954	3 603 085
Dividend income	740	542 474
Other operating income	3 092	1 501
Other finance income	167 351	285 788
Revenue from jointly-controlled entities	35 463	43 965
Revenue from State Treasury companies	69 143	187 332
Costs from subsidiaries	(931 516)	(1 607 219)
Costs of operating activities	(906 279)	(1 585 788)
Finance costs	(25 237)	(21 431)
Costs incurred with relation to transactions with jointly-controlled entities	(2 128)	(1 736)
Costs from State Treasury companies	(393 631)	(265 900)

Receivables and liabilities

	As at 30 June 2018 <i>(unaudited)</i>	As at 31 December 2017
Loans granted to subsidiaries and receivables from subsidiaries	6 985 204	7 561 140
Receivables from buyers	562 300	658 936
Loans granted under cash pool agreement plus interest accrued	765 600	182 933
Other loans granted	-	139 268
Receivables arising from the TCG	57 054	6 078
Bonds	5 597 591	6 572 696
Dividend receivables	745	-
Other financial receivables	153	240
Other non-financial receivables	1 761	989
Loans granted to jointly-controlled entities and receivables from jointly-controlled entities	348 150	579 381
Receivables from State Treasury companies	14 477	49 941
Liabilities to subsidiaries	3 023 041	3 406 474
Liabilities to suppliers	142 951	288 965
Loans received under cash pool agreement plus interest accrued	2 073 887	2 355 765
Other loans received	741 727	721 280
Liabilities arising from the TCG	64 015	34 836
Other financial liabilities	18	5 257
Other non-financial liabilities	443	371
Liabilities to jointly-controlled entities	345	503
Liabilities to State Treasury companies	110 467	28 952

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

In the 6-month period ended 30 June 2018, the major contracting party as regards sales revenue from transactions made by TAURON Polska Energia S.A. with State Treasury companies was PSE S.A. Sales to that entity accounted for 96% of the total revenue from State Treasury companies.

In the 6-month period ended 30 June 2018, Polska Grupa Górnicza S.A., Węglkokoks S.A. and Jastrzębska Spółka Węglowa S.A. were the major contracting parties of TAURON Polska Energia S.A. as regards costs incurred in relation

to transactions with State Treasury companies. Costs incurred in transactions with those entities represented 93% of total costs incurred in purchase transactions entered into with State Treasury companies.

The Company concludes material transactions on the energy market through Izba Rozliczeniowa Gield 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. Compensation of the executives

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 2018 and in the comparative period has been presented in the table below.

	6-month period ended 30 June 2018	6-month period ended 30 June 2017
	<i>(unaudited)</i>	<i>(unaudited)</i>
Management Board	4 029	4 382
Short-term benefits (with surcharges)	3 379	2 992
Termination benefits	620	1 144
Other	30	246
Supervisory Board	401	379
Short-term employee benefits (salaries and surcharges)	401	379
Other members of key management personnel	8 875	7 271
Short-term employee benefits (salaries and surcharges)	7 770	6 093
Termination benefits	495	726
Other	610	452
Total	13 305	12 032

In accordance with the adopted accounting policy, the Company recognizes provisions for termination benefits allocated to members of the Management Board and other key executives, which may be paid or payable in future reporting periods. The amount paid or payable until 30 June 2018 have been presented above.

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

39. Other material information

Signing transaction documentation related to the investment in a subsidiary Nowe Jaworzno Grupa TAURON Sp. z o.o. made by Closed-end Investment Funds managed by Polski Fundusz Rozwoju S.A.

On 28 March 2018, the Company, its subsidiary, i.e. Nowe Jaworzno Grupa TAURON Sp. z o.o. and the Infrastructure Investment Fund - Closed-End Investment Fund (Private Equity) and Infrastructure Investment Fund (Private Equity) Closed-End Debt Fund (Private Equity) ("Funds"), with a portion of the investment portfolio managed by Polski Fundusz Rozwoju S.A., signed transaction documentation specifying the terms of the Fund's equity investment in Nowe Jaworzno Grupa TAURON Sp. z o.o.

Transaction documentation includes an investment agreement and a shareholders' agreement together with appendices, including draft long-term electricity sales agreements and a long-term coal sale agreement, which were concluded till balance sheet date by the Company and its subsidiary Nowe Jaworzno Grupa TAURON Sp. z o.o.

The shareholders' agreement sets out the principles of corporate governance in Nowe Jaworzno Grupa TAURON Sp. z o.o. This agreement grants the Funds a personal right to appoint, suspend and dismiss one member of the Management Board and one member of the Supervisory Board of Nowe Jaworzno Grupa TAURON Sp. z o.o. It also specifies the matters for which a unanimous resolution of the Management Board, Supervisory Board or General Shareholders' Meeting of Nowe Jaworzno Grupa TAURON Sp. z o.o. will be required. The shareholders' agreement will enter into force as soon as the Funds become members of Nowe Jaworzno Grupa TAURON Sp. z o.o.

The investment agreement specifies the terms and conditions of the equity investment of the Funds in Nowe Jaworzno Grupa TAURON Sp. z o.o. This investment project assumes the Funds' accessing to Nowe Jaworzno Grupa TAURON Sp. z o.o. and their participation in subsequent capital contributions to Nowe Jaworzno Grupa TAURON Sp. z o.o., by taking up new shares in exchange for cash contributions up to a total maximum amount of PLN 880 000 thousand, i.e. PLN 440 000 thousand by each of the Funds. As at the date the 910 MW power unit in Jaworzno will be put into service the interests of Funds in the issued capital of Nowe Jaworzno Grupa TAURON Sp. z o.o. should amount to approx. 14%

and the interests of the Company should never fall below 50%+1 share. The Company will be obliged to make a capital contribution to its subsidiary - Nowe Jaworzno Grupa TAURON Sp. z o.o. - sufficient to build a 910 MW power unit in Jaworzno, after the Funds have reached their maximum capital contribution.

Under the investment agreement the Funds will make contributions to Nowe Jaworzno Grupa TAURON Sp. z o.o. after specified conditions precedent have been met. Conditions precedent include obtaining the consent of the President of the Office for Competition and Consumer Protection for concentration, obtaining a decision of the Head of the National Revenue Administration approving the terms of the contract for the sale of electricity as an advance pricing agreement ("APA Decision"), conclusion by the Company and its subsidiary Nowe Jaworzno Grupa TAURON Sp. z o.o. of specified contracts, including a contract for the sale of electricity and a contract for the sale of coal, and the accomplishment (or assurance) of certain activities by the Company through the authorities of Nowe Jaworzno Grupa TAURON Sp. z o.o. Conditions precedent had to be met within four months of concluding the investment agreement, except for the condition related to the APA Decision, which should be satisfied within seven months.

After the balance sheet date, on 17 July 2018, the Company was served with a decision of the President of the Office for Competition and Consumer Protection of 13 July 2018 granting unconditional consent to the concentration consisting in the creation of a joint venture Nowe Jaworzno Grupa TAURON Sp. o.o. by the Company and the Polski Fundusz Rozwoju S.A., acting through the Funds, on the terms set out in the application of the Company and Polski Fundusz Rozwoju S.A.

In view of the foregoing, the Company believes that as at the date of approval of these condensed interim financial statements for publication, all conditions precedent which had to be satisfied for the Funds to become members of Nowe Jaworzno Grupa TAURON Sp. z o.o. within four months of the date of the investment agreement, i.e. by 28 July 2018, had been met. The Company filed an APA Decision application with the Head of the National Revenue Administration. The APA Decision, which should be issued by 28 October 2018, is the last document that the Company should obtain to satisfy conditions precedent necessary for the Funds to become members of Nowe Jaworzno Grupa TAURON Sp. z o.o.

Signing of investment agreements to establish corporate venture capital funds

On 13 June 2018, the Company concluded two investment agreements to establish corporate venture capital funds. The agreements are conditional and their entry into force requires the satisfaction of a condition precedent. After the balance sheet date, on 8 August 2018 the condition precedent was fulfilled.

Under the aforementioned agreements, the Company will participate in two funds established as part of the PFR Starter - FIZ and PFR NCBR CVC programs. Creation of the funds will allow the Company to provide multi-stage support to innovative businesses, including by enabling them to participate in acceleration programs, investing in start-ups under the PFR Starter FIZ program, and ensuring further financing rounds under the PFR NCBR CVC program. Ultimately, the capitalization of the fund established under the PFR Starter FIZ program is expected to be PLN 50 000 thousand, and of the one created under the PFR NCBR CVC program: PLN 160 000 thousand. The Company's interests in the funds will not exceed 25% and 49%, respectively.

40. Events after the end of the reporting period

Increase in the capital of TAURON Dystrybucja Serwis S.A.

After the end of the reporting period, on 3 July 2018, the Company advanced monies to increase the capital in amount of PLN 439 317 thousand, in accordance with resolution of the Extraordinary General Shareholders' Meeting of TAURON Dystrybucja Serwis S.A. adopted on 18 June 2018. By virtue of the resolution the issued capital of the entity was increased by PLN 4 393 thousand through the issue of 4 393 170 new shares with the nominal value of PLN 1 each, which will be taken by the Company at the price of PLN 100 per share. At the date of approval of these condensed interim financial statements for publication the increase in the capital of TAURON Dystrybucja Serwis S.A. was not registered by the National Court Register yet.

Consent of the President of the Office for Competition and Consumer Protection to the concentration consisting in the registration of a joint venture by the Company and Polski Fundusz Rozwoju S.A.

After the end of the reporting period, on 17 July 2018, the Company was served with a decision of the President of the Office for Competition and Consumer Protection of 13 July 2018 granting unconditional consent to the concentration consisting in the creation of a joint venture Nowe Jaworzno Grupa TAURON Sp. z o.o., as described in detail in Note 39 to these condensed interim financial statements.

Dividends due from subsidiaries

After the end of the reporting period, in July 2018, the governing bodies of some of the Company's subsidiaries adopted resolutions to distribute the net profit for the 2017 financial year to the Company as a shareholder. On that basis, the Company recognized finance income of PLN 802 437 thousand.

Increase in the capital of PGE EJ 1 Sp. z o.o.

On 9 August 2018 the Extraordinary General Shareholders' Meeting of PGE EJ 1 Sp. z o.o. adopted a resolution to increase the company's issued capital from PLN 310 858 thousand up to PLN 370 858 thousand, i.e. by PLN 60 000 thousand, through the issue of 425 530 new shares with the nominal value of PLN 141 each. The new shares will be taken and paid by the Shareholders in proportion of value of shares. The Company will take and pay for 10% of increase the capital i.e. for the total amount of PLN 6 000 thousand and will take 42 553 new issued shares.

Increase in the capital of TAURON Wytwarzanie S.A.

On 9 August 2018 the Extraordinary General Shareholders' Meeting of TAURON Wytwarzanie S.A. adopted a resolution to increase the company's issued capital from PLN 1 494 459 thousand up to PLN 1 502 259 thousand, i.e. by PLN 7 800 thousand, through the issue of 780 000 new registered F series shares, with the face value of PLN 10 each. All shares will be taken by the Company for PLN 1 thousand per share, i.e. for the total amount of PLN 780 000 thousand, where the surplus of the shares' issue price in the increased capital over their face value in the total amount of PLN 772 200 thousand will be transferred to reserve capital (agio).

These condensed interim financial statements of TAURON Polska Energia S.A., prepared for the 6-month period ended 30 June 2018 in accordance with International Accounting Standard 34 have been presented on 56 consecutive pages.

Katowice, 22 August 2018

Filip Grzegorzczak — 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

Oliwia Tokarczyk — Executive Director in Charge of Taxes and Accounting



Report of the Management Board on the operations of TAURON Polska Energia S.A. Capital Group in the first half of 2018

22 August 2018

tauron.pl



**REPORT OF THE MANAGEMENT BOARD
ON THE OPERATIONS OF
TAURON POLSKA ENERGIA S.A. CAPITAL GROUP
IN THE FIRST HALF OF 2018**

AUGUST 2018

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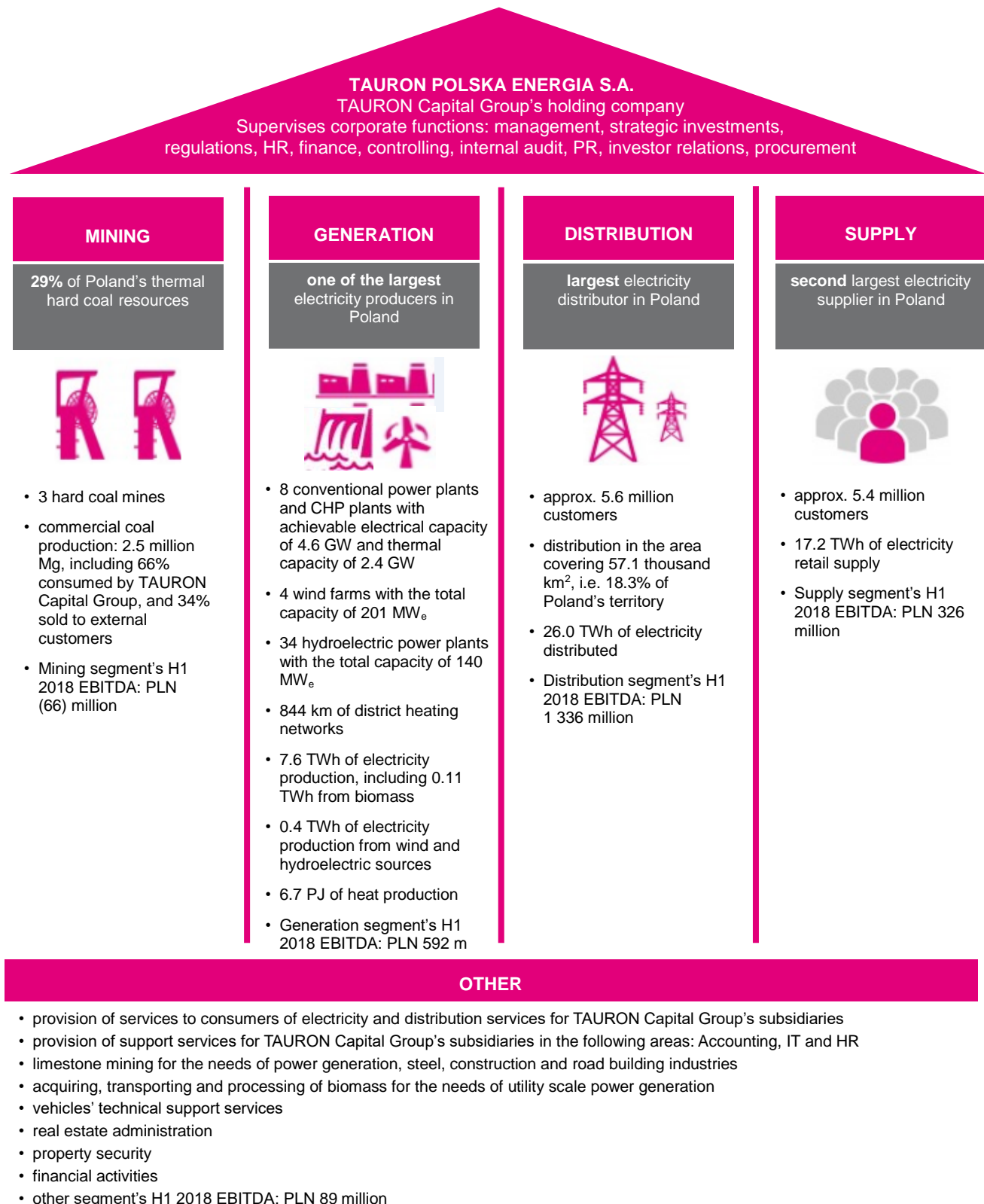
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1. TAURON CAPITAL GROUP

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. hard coal mining, as well as electricity and heat generation, distribution and trading.

Figure 1. TAURON Capital Group



1.2. Business segments (lines of business)

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



Mining segment comprising mainly hard coal mining, enriching and selling in Poland with such operations conducted by TAURON Wydobycie S.A. (TAURON Wydobycie).



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



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



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

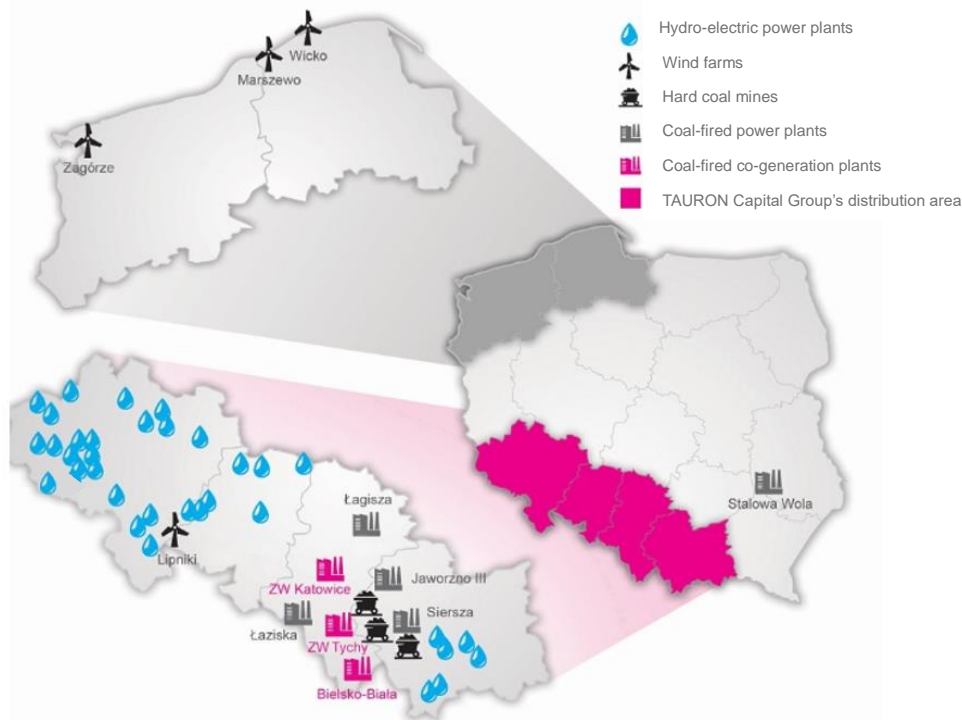


Other operations comprising, among others, customer service for TAURON Capital Group's customers, provision of support services for TAURON Capital Group's subsidiaries with respect to accounting, HR and ICT, conducted by TAURON Obsługa Klienta sp. z o.o. (TAURON Obsługa Klienta) subsidiary, as well as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

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

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

Figure 2. Location of TAURON Capital Group's key assets



In H1 and Q2 2018 TAURON Capital Group posted the following key operating data as compared to the same periods of 2017:

Table 1. TAURON Capital Group's key operating data

Key operating data	Unit	H1 2018	H1 2017	% change 2018/2017	Q2 2018	Q2 2017	% change 2018/2017
Commercial coal production	Mg m	2.53	3.32	76%	1.10	1.81	61%
Electricity generation	TWh	7.55	9.46	80%	3.62	4.56	79%
Electricity generation from renewable sources	TWh	0.51	0.66	77%	0.27	0.33	82%
<i>Generation from biomass</i>	<i>TWh</i>	<i>0.11</i>	<i>0.18</i>	<i>61%</i>	<i>0.09</i>	<i>0.08</i>	<i>113%</i>
<i>Generation from hydroelectric power plants and wind farms</i>	<i>TWh</i>	<i>0.39</i>	<i>0.48</i>	<i>81%</i>	<i>0.18</i>	<i>0.25</i>	<i>72%</i>
Heat generation	PJ	6.73	7.09	95%	1.05	1.80	58%
Electricity distribution	TWh	26.01	25.70	101%	12.59	12.40	102%
Electricity supply (by the Supply and Generation segments)	TWh	22.51	22.56	100%	10.48	10.64	98%
- <i>retail sales</i>	<i>TWh</i>	<i>17.20</i>	<i>17.21</i>	<i>100%</i>	<i>7.93</i>	<i>8.08</i>	<i>98%</i>
- <i>wholesale</i>	<i>TWh</i>	<i>5.30</i>	<i>5.35</i>	<i>99%</i>	<i>2.55</i>	<i>2.55</i>	<i>100%</i>
Number of customers - Distribution	'000	5 563	5 501	101%	5 563	5 501	101%

1.3. TAURON Capital Group's organization and structure

TAURON Polska Energia S.A. parent (holding) company ("TAURON", "Company") was established on December 6, 2006 as part of the *Program for the Power Generation Sector*. The founders of the Company included: State Treasury represented by the Minister of Treasury, EnergiaPro S.A. with its seat in Wrocław (currently: TAURON Dystrybucja), ENION S.A. with its seat in Cracow (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 January 8, 2007 under the name: Energetyka Południe S.A. The change of the Company's name to its current one, i.e. TAURON Polska Energia S.A., was registered on November 16, 2007.

The company does not have any branches (plants).

As of June 30, 2018 TAURON Capital Group's key subsidiaries, besides the TAURON parent company, included 19 subsidiaries subject to consolidation, listed in section 1.3.1. of this report. Furthermore, the Company held, directly or indirectly, shares in the other 37 subsidiaries.

"TAURON Group's" management rules

"TAURON Group" is made up of TAURON Capital Group's subsidiaries selected by the Management Board that are managed jointly as a consolidated business entity composed of autonomous commercial law companies, headed by TAURON Polska Energia S.A. as a parent (holding) company.

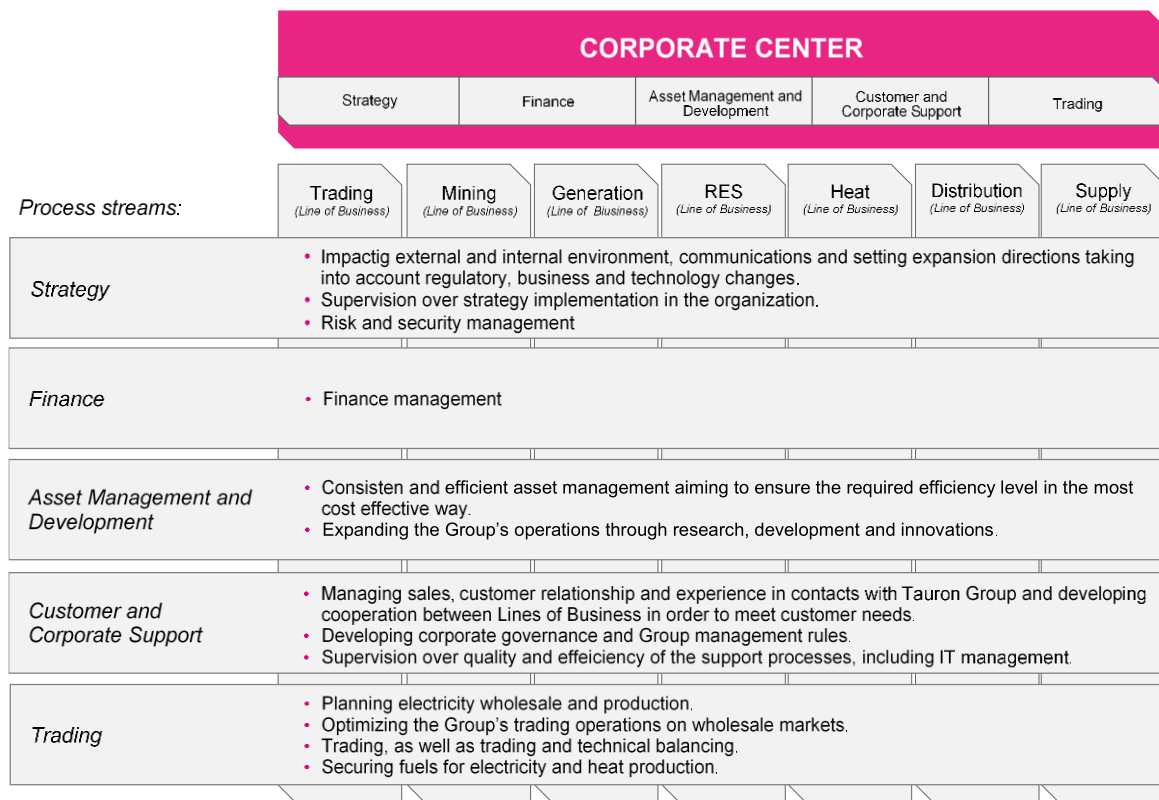
"TAURON Group's" primary normative act is *TAURON Group's Code* adopted by the Company's Management Board that governs its performance, ensuring the accomplishment of its goals based on specially designed solutions with respect to managing "TAURON Group's" entities, including in particular, defining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

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

- 1) Corporate Center – the superior organizational unit responsible for managing TAURON Capital Group's operations and taking the most important decisions affecting TAURON Capital Group, Lines of Business, Shared Services Centers and TAURON Capital Group's subsidiaries;
- 2) Lines of Business – TAURON Capital Group's seven core lines of business defined in accordance with the electricity and heat production value chain's links, i.e.: Trade, Mining, Generation, Renewable Energy Sources (RES), Heat, Distribution and Supply;
- 3) Shared Services Centers – units responsible for the provision of specific support services (e.g. accounting, IT, HR and payroll, insurance, customer service, vehicles' technical support services as well as personnel and property protection) for TAURON Capital Group's other units.

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

Figure 3. TAURON Capital Group's Business Model process streams



As of January 1, 2018 TAURON Capital Group completed the implementation of the process based management at seven of its key subsidiaries, i.e. TAURON Dystrybucja, TAURON Wytwarzanie, TAURON Ciepło, TAURON Sprzedaż,

TAURON EKOENERGIA, TAURON Obsługa Klienta, TAURON Wydobycie, by way of the Management Boards of these companies adopting the process based documentation in the form of internal regulations coming into force as of January 1, 2018 (the implementation of the processes at TAURON was completed in mid-2017). At the same time, as of the beginning of 2018 works aimed at implementing processes at 10 subsidiaries covered by *TAURON Group's Business and Operational Model* were commenced.

"TAURON Group's" standing Committees are operating within "TAURON Group" and they were established in order to enable conducting of the operations in accordance with "TAURON Group's" operational integrity assumptions, in compliance with the law and interests of "TAURON Group" and those of its stakeholders. They include:

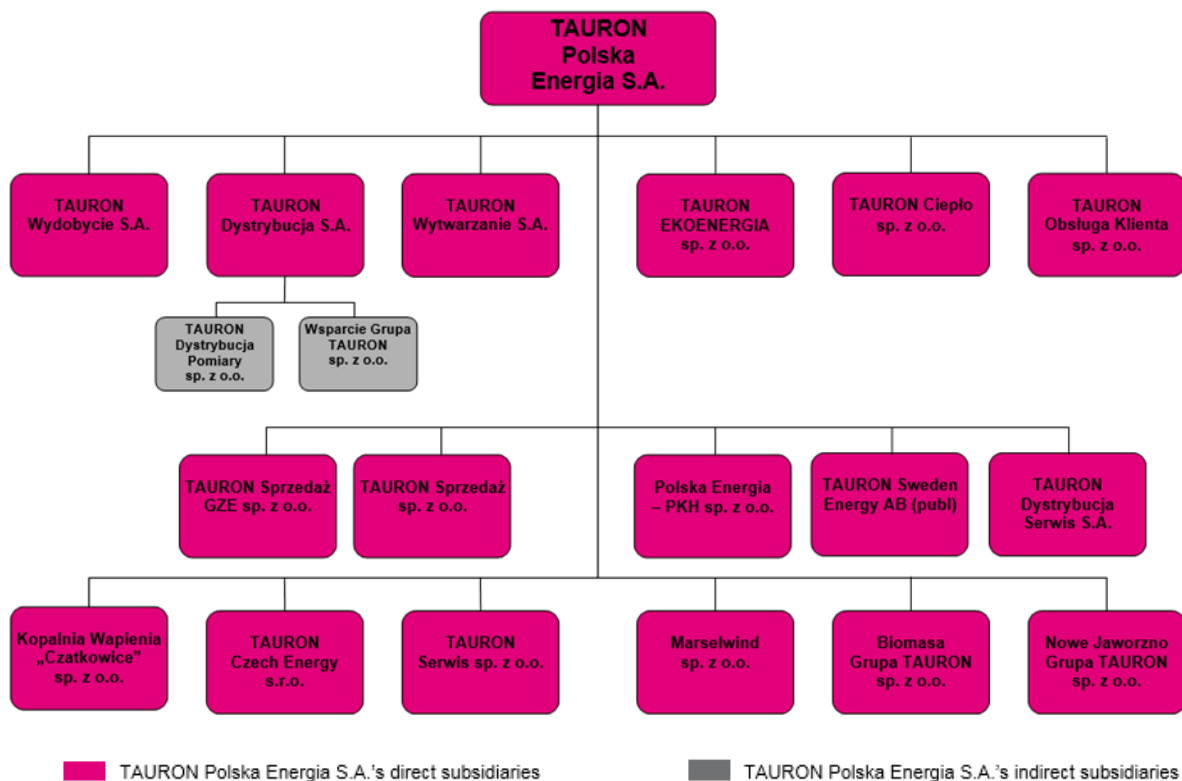
- 1) Investment Committee and
- 2) Risk Committee.

The Committees' primary task is to oversee the implementation by all of "TAURON Group's" members of consistent actions in compliance with *TAURON Group's Code* and in the interest of "TAURON Group".

1.3.1. Units subject to consolidation

The below figure presents TAURON Capital Group's structure, including the subsidiaries subject to consolidation, as of June 30, 2018.

Figure 4. TAURON Capital Group's structure, including the subsidiaries subject to consolidation, as of June 20, 2018



TAURON Capital Group also holds stakes in joint ventures: Elektrociepłownia Stalowa Wola S.A. and TAMEH HOLDING sp. z o.o. (TAMEH HOLDING), TAMEH POLSKA sp. z o.o. (TAMEH POLSKA) and TAMEH Czech s.r.o. (TAMEH Czech) that are valued using the equity method in the consolidated financial statements.

1.3.2. Changes to TAURON Capital Group's organization

In the 1st half of 2018 and by the day of drawing up this report the following changes to TAURON Capital Group's organization had taken place:

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

On January 11, 2018, the District Court for Katowice – Wschód, 8th Commercial Department, registered in the National Court Register an increase in the share capital of Magenta Grupa TAURON sp. z o.o., passed by the Extraordinary General Meeting of the company's shareholders on October 24, 2017. The subsidiary's share capital was increased from PLN 500 000.00 to PLN 1 500 000.00, i.e. by PLN 1 000 000.00, by way of issuance of 20 000 new shares with the nominal value of PLN 50.00 per share and the total nominal value of PLN 1 000 000.00. All of the new shares were taken

up by the subsidiary's existing sole shareholder, i.e. TAURON Polska Energia S.A. at the price of PLN 450.00 per share, i.e. for the total amount of PLN 9 000 000.00.

The surplus of the price of taking up each new share in the company's increased share capital above its nominal value in the amount of PLN 400.00 per new share, i.e. in the total amount of PLN 8 000 000.00, was allocated to the company's spare capital.

Increase of the share capital of En-Energia II sp. z o.o.

On January 22, 2018, the District Court for Katowice – Wschód, 8th Commercial Department, registered in the National Court Register an increase in the share capital of En-Energia II sp. z o.o., passed by the Extraordinary General Meeting of the company's shareholders on December 15, 2017. The subsidiary's share capital was increased from PLN 5 000.00 to PLN 5 800.00, i.e. by PLN 800.00, by way of issuance of 16 new shares with the nominal value of PLN 50.00 per share and the total nominal value of PLN 800.00. All of the new shares were taken up by TAURON Polska Energia S.A. at the price of PLN 5 000.00 per share, i.e. for the total amount of PLN 80 000.00.

The surplus of the price of taking up each new share in the company's increased share capital above its nominal value in the amount of PLN 4 950.00 per new share, i.e. in the total amount of PLN 79 200.00, was allocated to the company's spare capital.

Increase of the share capital of En-Energia I sp. z o.o.

On January 24, 2018, the District Court for Katowice – Wschód, 8th Commercial Department, registered in the National Court Register an increase in the share capital of En-Energia I sp. z o.o., passed by the Extraordinary General Meeting of the company's shareholders on December 15, 2017. The subsidiary's share capital was increased from PLN 5 000.00 to PLN 5 800.00, i.e. by PLN 800.00, by way of issuance of 16 new shares with the nominal value of PLN 50.00 per share and the total nominal value of PLN 800.00. All of the new shares were taken up by TAURON at the price of PLN 5 000.00 per share, i.e. for the total amount of PLN 80 000.00.

The surplus of the price of taking up each new share in the company's increased share capital above its nominal value in the amount of PLN 4 950.00 per new share, i.e. in the total amount of PLN 79 200.00, was allocated to the company's spare capital.

Restoring the share capital of TAURON EKOENERGIA sp. z o.o. to the level from before the company's split.

On January 30, 2018 the District Court for Wrocław – Fabryczna in Wrocław, 9th Commercial Department, registered in the National Court Register a change in the share capital of TAURON EKOENERGIA sp. z o.o., restoring its value to the level from before the company's split by spinning off and transferring to Marselwind sp. z o.o. of the spun off asset components constituting an organized part of the enterprise and the decrease of the share capital of TAURON EKOENERGIA sp. z o.o. related thereto, passed by the Extraordinary General Meeting of the shareholders of TAURON EKOENERGIA sp. z o.o. on February 9, 2015, by way of resolution no. 1/2015. Due to the restoration of the share capital from before the company's split the capital was increased from PLN 444 888 000.00 to PLN 573 423 000.00 and the number of shares held by the sole shareholder of the company – TAURON Polska Energia S.A. increased from 444 888 shares to 573 423 shares.

Increase of the share capital of Komfort Zarządzanie Aktywami sp. z o.o.

On February 15, 2018, the District Court for Katowice – Wschód, 8th Commercial Department, registered in the National Court Register an increase in the share capital of Komfort Zarządzanie Aktywami passed by the Extraordinary General Meeting of the company's shareholders on December 8, 2017. The subsidiary's share capital was increased from PLN 5 000.00 to PLN 52 500.00, i.e. by PLN 47 500.00, by way of issuance of 950 new shares with the nominal value of PLN 50.00 per share and the total nominal value of PLN 47 500.00. All of the new shares were taken up by the existing sole shareholder of the company – TAURON Dystrybucja Pomiary at the price of PLN 100.00 per share, i.e. for the total amount of PLN 95 000.00.

The surplus of the price of taking up each new share in the company's increased share capital above its nominal value in the amount of PLN 50.00 per new share, i.e. in the total amount of PLN 47 500.00, was allocated to the company's spare capital.

Increase of the share capital of En-Energia IV sp. z o.o.

On February 26, 2018, the District Court for Katowice – Wschód, 8th Commercial Department, registered in the National Court Register an increase in the share capital of En-Energia IV sp. z o.o., passed by the Extraordinary General Meeting of the company's shareholders on December 15, 2017. The subsidiary's share capital was increased from PLN 5 000.00 to PLN 5 800.00, i.e. by PLN 800.00, by way of issuance of 16 new shares with the nominal value of PLN 50.00 per share and the total nominal value of PLN 800.00. All of the new shares were taken up by TAURON Polska Energia S.A. at the price of PLN 5 000.00 per share, i.e. for the total amount of PLN 80 000.00.

The surplus of the price of taking up each new share in the company's increased share capital above its nominal value in the amount of PLN 4 950.00 per new share, i.e. in the total amount of PLN 79 200.00, was allocated to the company's spare capital.

Contribution of additional payments to the capital of PE-PKH subsidiary

On March 1, 2018, the Extraordinary General Meeting of the shareholders of PE-PKH subsidiary passed a resolution on contributing by the company's sole shareholder, i.e. TAURON, of additional payments in the amount equal to 1.25 times the nominal value of each share, i.e. in the amount of PLN 7 500.00 to each share held, i.e. in the total amount of PLN 6 000 000.00.

The funds (additional payments) were contributed by TAURON on March 7, 2018.

Increase of the share capital of TAURON EKOENERGIA

On March 2, 2018, the District Court for Wrocław – Fabryczna in Wrocław, 9th Commercial Department, registered in the National Court Register an increase in the share capital of TAURON EKOENERGIA passed by the Extraordinary General Meeting of the company's shareholders on October 24, 2017. The subsidiary's share capital was increased by PLN 10 000 000.00 by way of issuing 10 000 new shares with the nominal value of PLN 1 000.00 each and the total nominal value of PLN 10 000 000.00. All the new shares were taken up by the existing sole shareholder of the company - TAURON at the price of PLN 100 000.00 per share, i.e. for the total amount of PLN 1 000 000 000.00.

The surplus of the price of taking up each new share in the company's increased share capital above its nominal value in the amount of PLN 99 000.00 per new share, i.e. in the total amount of PLN 990 000 000.00, was allocated to the company's spare capital.

Increase of the share capital of En-Energia III sp. z o.o.

On March 8, 2018, the District Court for Katowice – Wschód, 8th Commercial Department, registered in the National Court Register an increase in the share capital of En-Energia III sp. z o.o passed by the Extraordinary General Meeting of the company's shareholders on December 15, 2017. The subsidiary's share capital was increased from PLN 5 000.00 to PLN 5 800.00, i.e. by PLN 800.00, by way of issuing 10 000 new shares with the nominal value of PLN 1 000.00 each and the total nominal value of PLN 10 000 000.00. All of the new shares were taken up by TAURON at the price of PLN 5 000.00 per share, i.e. for the total amount of PLN 80 000.00.

The surplus of the price of taking up each new share in the company's increased share capital above its nominal value in the amount of PLN 4 950.00 per new share, i.e. in the total amount of PLN 79 200.00 was allocated to the company's spare capital.

Increase of the share capital of ElectroMobility Poland S.A.

On April 23, 2018, the District Court for the Capital City of Warsaw in Warsaw, 12th Commercial Department, registered in the National Court Register an increase in the share capital of ElectroMobility Poland, passed by the Extraordinary General Meeting of the company's shareholders on January 3, 2018. The subsidiary's share capital was increased from PLN 10 000 000,00 to PLN 30 000 000,00, i.e. by PLN 20 000 000,00, by way of increasing the nominal value of the existing shares from PLN 1 000.00 each share to PLN 3 000.00 each share. TAURON took up, in proportion to the shares held, an increased nominal value of 2 500 shares held from the total amount of PLN 2 500 000.00 to the total amount of PLN 7 500 000.00, i.e. in the total amount of PLN 5 000 000.00.

Increase of the share capital of Nowe Jaworzno GT

On April 27, 2018, the District Court for Katowice – Wschód, 8th Commercial Department, registered in the National Court Register an increase in the share capital of Nowe Jaworzno GT, passed by the Extraordinary General Meeting of the company's shareholders on March 29, 2018. The subsidiary's share capital was increased by PLN 3 500 000.00 by way of issuing 70 000 new shares with the nominal value of PLN 50.00 each and the total nominal value of PLN 3 500 000.00. All of the new shares were taken up by the existing sole shareholder of the company - TAURON at the price of PLN 5 000.00 per share, i.e. for the total amount of PLN 350 000 000.00.

The surplus of the price of taking up each new share in the company's increased share capital above its nominal value in the amount of PLN 4 950.00 per new share, i.e. in the total amount of PLN 346 500 000.00, was allocated to the company's spare capital.

Increase of the share capital of TAURON Wydobywanie

On May 25, 2018, the District Court for Katowice – Wschód, 8th Commercial Department, registered in the National Court Register an increase in the share capital of TAURON Wydobywanie, passed by the Extraordinary General Meeting of the company's shareholders on April 26, 2018. The subsidiary's share capital was increased from PLN 357 110 780.00 to PLN 360 510 780.00, i.e. by PLN 3 400 000.00 by way of issuance of 340 000 new registered shares with the nominal value of PLN 10.00 per share, i.e. with the total nominal value of PLN 3 400 000.00. All of the shares were taken up by TAURON at the price of PLN 1 000.00 per share, i.e. for the total amount of PLN 340 000 000.00.

The surplus of the issue price of the shares in the company's increased share capital above their nominal value in the total amount of PLN 336 600 000.00 was allocated to the company's spare capital.

Increase of the share capital of TAURON Dystrybucja Serwis

On June 18, 2018, the Extraordinary General Meeting of the Shareholders of TAURON Dystrybucja Serwis passed a resolution on increasing the company's share capital from PLN 5 101 003.00 to PLN 9 494 173.00, i.e. by PLN 4 393 170.00, by way of issuance of 4 393 170 registered "H" series shares numbered from 1 to 4 393 170 with the nominal value of PLN 1.00 each, i.e. with the total nominal value of PLN 4 393 170.00. The issue price of an "H" series share was PLN 100.00. All of the new shares were taken up, by way of a private placement, by the sole shareholder of the company - TAURON.

The surplus of the issue price of each "H" series share in the Company's increased share capital above its nominal value, in the amount of PLN 99.00 per such share, i.e. in the total amount of PLN 434 923 830.00, was allocated to the company's spare capital.

As of the day of drawing up this report the increase of the share capital was not registered in the National Court Register.

Increase of the share capital of TAURON Wytwarzanie

On August 9, 2018, the Extraordinary General Meeting of the Shareholders of TAURON Wytwarzanie passed a resolution on increasing the company's share capital from PLN 1 494 459 310.00 to PLN 1 502 259 310.00, i.e. by PLN 7 800 000.00, by way of issuance of 780 000 registered "F" series shares with the nominal value of PLN 10.00 each, i.e. with the total nominal value of PLN 7 800 000.00. All of the new shares will be taken up by TAURON at the price of PLN 1 000.00 per share, i.e. for the total amount of PLN 780 000 000.00.

The surplus of the issue price of the shares in the company's increased share capital above their nominal value in the total amount of PLN 772 200 000.00 will be allocated to the company's spare capital (premium).

As of the day of drawing up this report the increase of the share capital was not registered in the National Court Register.

Increase of the share capital of PGE EJ 1 sp. z o.o.

On August 9, 2018, the Extraordinary General Meeting of the Shareholders of PGE EJ passed a resolution on increasing the company's share capital from PLN 310 858 470.00 to PLN 370 858 200.00, i.e. by PLN 59 999 730.00, by way of issuance of 425 530 new shares with the nominal value of PLN 141.00 per share and the total nominal value of PLN 59 999 730.00.

All of the new shares will be taken up and paid for by the company's shareholders in proportion to the contributions made. TAURON will take up and pay for 10% of the increased capital amount, i.e. PLN 5 999 973.00, and will take up 42 553 new shares.

As of the day of drawing up this report the increase of the share capital was not registered in the National Court Register.

Due to the changes to the TAURON Capital Group organization, as of the day of drawing up this report the Company holds, directly or indirectly, shares in 56 companies.

1.4. Major domestic and foreign investment projects

1.4.1. Purchase of equity securities

Taking up or purchasing share securities

With respect to purchasing or taking up shares in TAURON Capital Group's subsidiaries major investments made by the Company include:

1. Taking up by TAURON of 20 000 new shares in the increased share capital of Magenta GT at the price of PLN 450.00 per share, for the total amount of PLN 9 000 thousand.
2. Taking up by TAURON of 10 000 new shares in the increased share capital of TAURON EKOENERGIA at the price of PLN 100 thousand per share, for the total amount of PLN 1 000 000 thousand.
3. Taking up by TAURON, in proportion to 2 500 shares in ElectroMobility Poland held, of increased share value from PLN 2 500 thousand to PLN 7 500 thousand, in exchange for a cash contribution of PLN 5 000 thousand.

4. Taking up by TAURON of 70 000 new shares in the increased share capital of Nowe Jaworzno GT at the price of PLN 5 thousand per share, for the total amount of PLN 350 000 thousand.
5. Taking up by TAURON 340 000 new shares in the increased share capital of TAURON Wydobywanie at the price of PLN 1 thousand per share, for the total amount of PLN 340 000 thousand.

Additional contributions to the share capital

With respect to additional contributions to the share capital by TAURON Capital Group, TAURON's additional contribution to the share capital of PE-PKH in the amount of PLN 6 000 thousand should be mentioned.

Major investments in loans

TAURON Capital Group's major investments in financial assets include granting by TAURON, as a holding (parent) company of loans for the its co-owned subsidiary EC Stalowa Wola in the total amount of PLN 35 015 thousand and for PGE EJ 1 in the amount of PLN 4 800 thousand.

1.4.2. Implementation of strategic investment projects

Key strategic investment projects underway

The below table below presents the activities carried out by TAURON Capital Group in the 1st half of 2018, in connection with the implementation of the key strategic investment projects.

Table 2. Key strategic investment projects' work progress

#	Investment project	Work progress
1.	<p>Construction of a 449 MWe CCGT unit, including a 240 MWt heat generation component at Stalowa Wola (Project implemented jointly with a strategic partner - Polskie Górnictwo Naftowe i Gazownictwo S.A. (PGNiG))</p> <p>Contractor: the contract with Abener Energia S.A. was terminated. The project's completion is envisaged under the EPCM formula (contract manager).</p> <p>Planned project completion date: 2019</p> <p>Work progress: 86%</p> <p>Expenditures incurred: PLN 1 045.2 million</p>	<p>In the 1st half of 2018 maintenance works were conducted on installed machines and devices on an ongoing basis, works related to the startup of the auxiliary devices were conducted, power supply was provided to the unit's switchgears, structural and construction works on the cooling water duct are carried out and negotiations with the suppliers and sub-suppliers of the main devices were conducted. ECSW announced, with the EPCM support, the first proceeding aimed at selecting the critical path contractor – the startup (commissioning) group, the agreement was concluded on June 15, 2018. Further tender proceedings were announced in March, April and June 2018 – performance of the works related to completing and commissioning of the electric systems (installations), to select the contractor to complete the construction of the backup heat source, to supply the materials needed to install the steam system's pipelines, to perform the task involving completing the implementation of the unit control system, to dismantle the steam system's piping, to complete the erection and repair of the process systems. As a result of the proceedings announced 3 implementation agreements were concluded.</p> <p>On March 8, 2018 ECSW's financing was launched under the agreement on the loan granted by BGK / PGNiG.</p>
2.	<p>Construction of a new 910 MW_e power generation unit with supercritical parameters at Jaworzno Power Plant</p> <p>Contractor: RAFAKO S.A. and MOSTOSTAL WARSZAWA S.A. Consortium</p> <p>Planned project completion date: 2019</p> <p>Work progress: 70,8%</p> <p>Expenditures incurred: PLN 3 767 million</p>	<p>On March 28, 2018 TAURON signed with the Investment Funds managed by the Polish Development Fund (Polski Fundusz Rozwoju – PFR) an investment agreement and a shareholders' agreement defining the terms of engagement in the implementation of the construction of a 910 MW power generation unit at Jaworzno. As a result PFR will invest up to PLN 880 million in the construction of the 910 MW unit. By July 27, 2018, the suspending conditions had been met. Left to obtain, within 7 months, is APA (Advance Pricing Agreement), i.e. a request to conclude a unilateral national agreement on establishing transaction prices.</p> <p>In the first half of 2018 the focus was on installing the parts related to the unit's technological process and continuing the construction works. The boiler's pressure test was successfully completed within the boiler island. The erection works on the air and flue gases ducts and the dust mixture ducts were underway as well as the electrical branch and building insulation works were continued. Turbine installation works were underway in the machine room with respect to the turbine set, furnishing of the ion exchange regeneration station, the condensate polishing station and the GRP plastic piping. Construction and installation works related to the auxiliary and accompanying systems were continued.</p>

#	Investment project	Work progress
3.	<p>Construction of the "Grzegorz" shaft including the infrastructure and the accompanying headings (TAURON Wydobycie).</p> <p>Contractor: KOPEX Przedsiębiorstwo Budowy Szybów S.A. FAMUR Pemug Sp. z o.o. (main task – Stage I), LINTER S.A. Consortium (main task – Stage I), LINTER S.A.</p> <p>Planned project completion date: 2023</p> <p>Work progress: 22%</p> <p>Expenditures incurred: PLN 127.9 million</p>	<p>In the first half of 2018 the drilling of the horizontal headings to the "Grzegorz" shaft on the 540 m level was continued; a 967 m long heading was drilled by mid-2018. As part of the works conducted by the general contractor performing the shaft drilling the ground freezing plate was prepared, freezing holes drilling was conducted to the ultimate depth of 485 m and the construction of the above the ground facilities was commenced required to commence the deepening of the shaft.</p> <p>On May 29, 2018, the agreement on the horizontal headings drilling to the "Grzegorz" shaft on the 800 m level was signed with LINTER S.A.</p>
4.	<p>Construction of the 800 m level at Janina Coal Mine (TAURON Wydobycie).</p> <p>Contractor: Mostostal Zabrze - SIEMAG Tecberg Consortium – contractors constructing the ultimate above the ground and underground infrastructure including the Mine Shaft Elevator (GWSZ), KOPEX</p> <p>Planned project completion date: 2021</p> <p>Work progress: 58%</p> <p>Expenditures incurred: PLN 309.1 million</p>	<p>In the first half of 2018 the works related to the drilling of the horizontal headings on the 800 m level were continued.</p> <p>As part of the works related to the construction of the ultimate above the ground and underground infrastructure, including the Mine Shaft Elevator, the construction site was handed over to the General Contractor (Mostostal Zabrze SIEMAG Tecberg consortium). The construction site was handed over to the contractor on April 15, 2018.</p>
5.	<p>Brzeszcze CAPEX Program</p> <p>Contractors: TRANS-JAN, FAMUR and KOPEX Machinery Consortium, FAMUR and KPRGIBS Consortium, MAS and Carbospec Consortium, Elektrometal Cieszyn</p> <p>Planned Program completion date: 2025</p> <p>Work progress: 31%</p> <p>Expenditures incurred: PLN 171.2 million</p>	<p>In the first half of 2018 the works related to the alteration of the ventilation excavations on the 900 m level and as part of providing access to the 405/1 deposit were continued.</p> <p>The primary compressor station and the water and ash mixture dumping station as well as the mine's upgraded Mining Rescue Station were commissioned, and also the mine dewatering system was upgraded. The reactive power compensation was also completed. drilling of the horizontal headings on the 800 m level were continued.</p>
6.	<p>Implementing heat production at unit no. 10 and construction of peaking and backup boilers at Łagisza Power Plant</p> <p>Contractor: proceedings to select General Contractors to carry out individual scopes are underway. Turbine upgrade contractor – General Electric.</p> <p>Planned project completion date: 2020</p> <p>Work progress: 19%</p> <p>Expenditures incurred: PLN 0.79 million</p>	<p>In the first half of 2018 all the main tender proceedings to select the contractors for the specific tasks were announced. On June 13, 2018 an agreement on the turbine set upgrade was signed with General Electric.</p> <p>The project's goal is to adapt unit no. 10 at Łagisza Power Plant to produce heat by upgrading the turbine, installing heat-producing heaters at unit no. 10's turbine and upgrading the heating station - 150 MWt.</p> <p>in order to secure the heat supply during the peak demand and provide backup the peaking and backup boilers are built.</p>
7.	<p>Low Emission Elimination Program (PLNE – Program Likwidacji Niskiej Emisji) on the territory of the Silesia and Dąbrowa conurbation</p> <p>Contractor: Contractors are being selected to carry out specific projects.</p> <p>Planned project completion date: 2023</p> <p>Work progress: 9%</p> <p>Expenditures incurred: PLN 6.3 million</p>	<p>The program's goal is to reduce smog in the Silesia and Dąbrowa conurbation. The scope of the project includes construction and alteration of the district heating networks: transmission ones, housing estate ones and connections, as well as the construction of heating nodes to the extent required to connect heat consumers. Connecting of 183 MWt of thermal capacity to the district heating network as well as an expansion of heat supply and distribution is planned.</p> <p>The program is carried out on the territory of the following cities: Będzin, Chorzów, Czeladź, Dąbrowa Górnicza, Katowice, Siemianowice Śląskie, Sosnowiec, Świętochłowice.</p> <p>Up to now TAURON Ciepło has signed a funding agreement for the amount of approximately PLN 141 million. The total funds envisaged to carry out the program amount to approximately PLN 250 million. As part of the Program connections of new heat consumers are implemented on an ongoing basis.</p>

Nuclear power plant construction project

In the first half of 2018 PGE EJ 1 was carrying out the design works related to the nuclear power plant construction project in accordance with the scope of works including mainly conducting environmental and siting research at Żarnowiec and Lubiatowo-Kopalino sites.

The above actions were taken as a result of the Partners' (Shareholders') Agreement concluded on September 3, 2014 by TAURON, ENEA S.A. (ENEA) and KGHM Polska Miedź S.A.(KGHM) (Business Partners) with PGE. The Partners' Agreement governs the rules of cooperation in the implementation of Poland's first nuclear power plant construction project. On April 15, 2015 the above entities concluded the agreement on the purchase of shares in PGE EJ 1 – a

special purpose vehicle responsible for preparing and implementing an investment project involving the construction and operation of a nuclear power plant with the capacity of approximately 3 thousand MWe (Project). Each Business Partner acquired from PGE a 10% stake (30% of shares in total) in the PGE EJ 1 special purpose vehicle. TAURON paid PLN 16 044 000 for the acquired stake. This way one of the commitments under the Partners' Agreement, according to which the parties undertook to jointly, in proportion to the stakes held, finance the operations as part of a project development milestone, was fulfilled.

The Partners' Agreement envisages that the successive decisions related to the project, including the decision on the declaration to further continue participation in a subsequent project stage by the individual parties (including TAURON), will be taken following the completion of the preliminary stage.

413 MWe CCGT unit construction project including an approx. 250 MWt, heat production unit at Łagisza Power Plant's site

In the first half of 2018 analyses related to the possibility of resuming the CCGT unit construction project at the Łagisza Power Plant site in connection with the coming into force of the act of December 8, 2017 on capacity market (Journal of Laws of 2018, item 9) and the publishing of the draft act on promoting electricity generated using high efficiency cogeneration were conducted.

In accordance with *TAURON Group's 2016-2025 Strategy*, as part of the priority to ensure TAURON Capital Group's financial stability, the CCGT unit construction project at Łagisza Power Plant was halted by TAURON Wytwarzanie due to the loss of its business justification. The project continues to maintain the halted project status and it will be possible to resume it in case the regulatory and market environment turns favorable.

Capital expenditures

In the first half of 2018 TAURON Capital Group's capital expenditures reached PLN 1 480 million and were 1% lower than the expenditures incurred in the same period of last year (in H1 2017 CAPEX came in at PLN 1 495 million). This is primarily due to the decreased outlays in the Generation line of business, while higher capital expenditures were reported in the Distribution and Mining segments.

The below table presents selected capital expenditures incurred in H1 2018, the highest outlays by value, by TAURON Capital Group's Lines of Business:

Table 3. Selected capital expenditures incurred in H1 2018 by Lines of Business

Item	Capital expenditures (PLN m)
Distribution	
Existing grid assets' upgrades (refurbishments) and replacements	436
Construction of new connections	288
Generation	
Construction of new capacity at Jaworzno III Power Plant (910 MW)	437
CAPEX on upgrades (refurbishments) and replacements as well as components at TAURON Wytwarzanie	34
New facility connections	9
Investment projects related to the expansion and maintenance of district heating networks	5
Connecting facilities heated using low emission sources to the district heating networks	3
Mining	
Brzeszcze Coal Mine's CAPEX Program	33
Construction of the "Grzegorz" shaft, including the infrastructure and the accompanying headings	31
Construction of the 800 m level at Janina Coal Mine	15

2. TAURON CAPITAL GROUP'S OPERATIONS

2.1. Factors that will impact earnings over at least the next six months

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

- 1) macroeconomic conditions, especially in Poland, as well as the economic situation in the area where TAURON Capital Group conducts its operations and at the European Union and global economy level, including changes of interest rates, FX rates, etc., impacting the valuation of assets and liabilities recognized by the Company in the financial statements,
- 2) political environment, especially in Poland as well as at the European Union level, including positions and decisions taken by public administration (government) institutions and authorities, for example: Office for Competition and Consumer Protection (UOKiK), Energy Regulatory Office (ERO) and the European Commission,
- 3) changes to the regulations related to the energy sector as well as changes to the legal environment, including: tax law, commercial law, environmental protection law,
- 4) introduction of the generation capacity remuneration mechanism (the so-called capacity market), in particular the results of the main auctions for the delivery of electricity in 2021-2023 and the decisions on the future shape of the operational capacity reserve (ORM) and the cold intervention reserve (IRZ) mechanisms,
- 5) support system for electricity generation by high efficiency co-generation plants, leading, on one hand, to the costs of redeeming the "red" and "yellow" certificates for electricity suppliers to the final consumers, and, on the other hand, to the revenue from the sales of the "red" and "yellow" certificates for electricity generators using co-generation plants. The current support system is in force until the end of 2018; legislative work is underway on the new law governing the support system for the cogeneration past 2018 the effect of which is to be, among others, an improvement of the quality of the environment, including the quality of the air in Poland, due to increasing the efficiency of the use of fuels for electricity and heat production,
- 6) new RES support system, the so-called RES auctions,
- 7) modification of the regulatory model for the DSO operations the goal of which is to make electricity distribution qualitative indicators jest (SAIDI, SAIFI) independent of the weather conditions, including natural disasters,
- 8) situation in the electricity sector, including the actions and measures undertaken by competition on the power market,
- 9) number of CO₂ emission allowances allocated free of charge, as well as prices of the emission allowances purchased – in case of the deficit of free emission allowances,
- 10) electricity prices on the wholesale market,
- 11) electricity and hard coal sales prices as well as distribution tariffs due to the DSO regulatory model adopted, as factors impacting the level of revenues,
- 12) prices of certificates of origin of electricity from renewable sources and from co-generation,
- 13) energy related commodity prices,
- 14) high probability of a deficit of appropriate quality fuels for the generating units on the domestic market,
- 15) environment protection requirements as a consequence of changes to the Natural Environment Law (Journal of Laws of 2001 no. 62, item 627 as amended), the so-called anti-smog resolutions,
- 16) planned changes to the regulations related to the law of August 25, 2006 on the fuel quality monitoring and quality system (Journal of Laws of 2006 no. 169, item 1200), among others quality requirements for the solid fuels,
- 17) science (research) and technical progress,
- 18) demand for electricity and other energy market products, including changes due to seasonal factors and weather conditions.

Internal factors

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

- 1) steadfast implementation of the Strategy and achieving the assumed financial and non-financial effects,
- 2) actions with respect to optimizing processes taken by all of TAURON Capital Group's subsidiaries,
- 3) decisions with respect to the implementation of the key investment projects,
- 4) developing and implementing the *2018-2015 Strategic Asset Management Plan* – one of the fundamental documents constituting the core of the integrated asset management system at TAURON Capital Group,
- 5) resolution of the tenders related to the investment projects with respect to adapting TAURON Capital Group's power plants to the so-called BAT conclusions by reducing, starting from 2021, emissions of sulphur and nitrogen compounds as well as chlorine and mercury,
- 6) geological and mining conditions of hard coal extraction,
- 7) potential failures of TAURON Capital Group's equipment, installations and grids.

TAURON Capital Group's operations are characterized by seasonality which is applicable, in particular, to heat production, distribution and supply, electricity distribution and supply to individual consumers as well as hard coal sales to individual consumers for heating purposes. Heat sales depend on weather conditions, in particular, on air

temperature, and are higher in the autumn and winter season. Volume of electricity supply to individual consumers depends on the length of day which usually makes electricity supply to this group of consumers lower in the spring and summer season and higher in the autumn and winter season.

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

The impact of the above mentioned factors on the financial result achieved in H1 2018 is described in section 4 of this report. The effects of this impact are visible both in the short term as well as in the long term outlook.

Macroeconomic environment

TAURON Capital Group's core business operations are conducted on the Polish market and the Company takes advantage of the positive trends occurring thereupon, as well as it is affected by the changes thereof. The macroeconomic situation, both in the individual sectors of the economy as well as on the financial markets, is a significant factor impacting the earnings generated by TAURON Capital Group.

According to the Q1 2018 data published by the Central Statistics Office (GUS) Poland's Gross Domestic Product (GDP) grew at a 5.1% rate (year on year). This means an acceleration versus Q4 2017 when the GDP grew at a 4.9% rate. It is a consequence of the rise in the construction and assembly production (approx. 26% q/q) and increased retail sales due to higher consumption (retail sales data suggests that the households' consumption growth rate rose to 5.2% y/y). Meanwhile the industrial output data was worse. The impact of net exports on the economy's growth rate was slightly negative or neutral, however it is estimated that this situation may change in subsequent quarters of 2018. The data published by the Central Statistics Office (GUS) indicates that investments in Q1 rose 8.1% y/y (CPI came in at, respectively, 1.35 y/y and – 0.1% m/m), while the domestic demand went up by 6.8% y/y. The unemployment rate calculated according to BAEL reached 4.2% versus 4.5% in Q4 2017.

Among the top three rating agencies Poland's credit rating is highest according to Moody's – A2. Poland's rating according to Fitch is A- (one notch lower than Moody's). The outlooks for both ratings are stable. S&P's rating is BBB+ (two notches lower than Moody's rating).

Experts participating in NBP's macroeconomic survey forecast that Poland's GDP growth rate in the coming years will be gradually weakening. In 2018 it should be within the 3.9%-4.6% range. However, in the subsequent years an increase of Poland's economic activity can be expected. Poland's 2018 GDP growth rate most up to date forecasts are presented below:

- a) 4% – EBRD's forecast of May 2018,
- b) 4% – World Bank's forecast of April 2018,
- c) 4.3% – European Commission's forecast of May 2018,
- d) 4.2% – OECD's forecast of March 2018,
- e) 4.2% – NBP's forecast of March 2018

The key factor impacting the Company's and TAURON Capital Group's earnings, to a large degree dependent on the GDP growth rate, is the demand for electricity and heat.

According to the data published by Polskie Sieci Elektroenergetyczne S.A. (PSE, TSO) gross domestic electricity consumption (KZEE) rose (1.54% year on year) in the January-May 2018 time frame reaching 71.66 TWh, while the domestic power plants' production decreased (2.6% year on year). The intersystem exchange balance during the above mentioned period was positive (imports topped exports) reaching 3.14 TWh (during the same period of 2017 the balance was also positive, coming in at 0.23 TWh).

Market environment

National Power System's balance

In accordance with the data provided by the TSO during the first 6 months of 2018 versus the same period of 2017 the following was observed:

- 1) Rise in domestic electricity consumption by 1.9% (approx. 1.6 TWh), covered by the domestic production in 95.5% and electricity imports in 4.5%.
- 2) Decline of domestic electricity production year by 2.1% (approx. 1.7 TWh) and an increase of the cross-border exchange balance by 648% (approx. 3.3 TWh).
- 3) Domestic electricity production came from:
 - a) hard coal-fired power plants – a decrease by 0.1% (approx. 0.05 TWh),
 - b) lignite-fired power plants – a decrease by 8.9% (approx. 2.26 TWh),
 - c) gas-fired power plants – an increase by 50.9% (approx. 1.61 TWh),
 - d) wind power plants – a decrease by 12.9% (approx. 0.87 TWh),

e) industrial power plants – a decrease by 2.6% (approx. 0.13 TWh).

The low temperatures in February and March 2018 led to the rise of demand for electricity. The record evening peak demand for electric capacity took place on February 28, 2018 with the peak demand reaching 26 448 MW on that day and it was 2.73% (by 702 MW) higher than in the same period in February 2017.

The National Power System's 2018 summer morning peak demand for electric capacity was also record breaking: on June 21, 2018 it reached 23 503 MW and it was 2.75% (by 628 MW) higher than in the same period in 2017.

Electricity

In the first half of 2018 there were no significant changes to Poland's electricity market rules of operation. Both the SPOT market as well as the futures market were governed by the same rules as in 2017. A similar situation occurred with respect to the OCR (ORM) services where the only change was the setting of the new CRRM price at 42.79 PLN/MWh (up by 0.79 PLN/MWh) and the hourly budget at approx. PLN 150 thousand (up by approx. PLN 6 thousand).

The SPOT prices in Poland reached an average level of 197.23 PLN/MWh (46.67 EUR/MWh) in the first half of 2018 and rose y/y by 45.67 PLN/MWh (10.82 EUR/MWh). Power exchanges in the adjacent countries also reported increased electricity SPOT prices that was caused by high commodity prices (including coal) and a significant rise of the CO₂ emission allowances prices. In Germany, on EPEX SPOT, the prices in the first half of 2018 reached an average of 35.83 EUR/MWh, i.e. 2.87 EUR/MWh higher than in H2 2017 and 0.31 EUR/MWh higher than in H1 2017. January stands out in the first six months of this year with the EPEX SPOT price of 29.46 EUR/MWh that was caused by the record high generation from renewable sources, and also relatively mild weather conditions (the average temperature in Germany and in Poland in January reached, respectively, 4.8 °C and 1.3 °C). Also in Poland in January the lowest average monthly price of 161.12 PLN/MWh (38.7 EUR/MWh) was reported. Colder and less windy February ended with the average prices of, respectively, 185.51 PLN/MWh and 205.69 PLN/MWh. Q2 was characterized by normal, as for this time of year, wind conditions (close to the multi-year average), and also quite high average monthly temperatures that in the subsequent months reached, respectively, 13, 17 and 19 °C. The SPOT prices in Q2 2018 were higher than in the same months of the previous year and reached an average of 180.41 PLN/MWh in April, 221.21 PLN/MWh in May and 228.42 PLN/MWh in June.

A reference BASE_Y-19 forward contract, with the delivery in 2019, was priced within a range between the low of 175.13 PLN/MWh, observed on February 8, 2018 and the high of 215.8 PLN/MWh on May 29, 2018. The prices of the above contract in the first two months of the year were stable and moved within the 175-182 PLN/MWh range. In the subsequent months of the first half of the year the prices were in an upward trend that was broken only at the beginning of June. The rising prices of the BASE_Y-19 contract reflected high commodity and CO₂ emission allowances prices. Similar volatility characterized the PEAK5_Y-19 contract that featured low volatility (224-230 PLN/MWh) in January and February, and from the beginning of March its price was gradually rising. The upward trend was also broken at the beginning of June, however starting in the middle of that month the upward trend returned. The average price of the above contract, in the first half of 2018, reached 254.37 PLN/MWh, with the low of 224.25 PLN/MWh reported on February 8 and the high of 286.8 PLN/MWh on June 26, 2018. Summing up, the forward market transactions featured substantial volatility from the beginning of March until the end of June 2018.

Property rights

In the first half of 2018 the PMOZE_A property rights market was directly affected by the works on the amendment to the law on renewable energy sources underway. The "green" property rights index was in a strong upward trend in the first months. The prices rose, in the first three months, from the low of 45.53 PLN/MWh in January, by as much as 75%, reaching the high of 79.59 PLN/MWh in March. The subsequent months were less dynamic and fluctuated between 68.02 PLN/MWh and 79.54 PLN/MWh. The average weighted OZEX_A index price reached 68.89 PLN/MWh at the end of June and it was more than two times higher than in the same period of the preceding year. On average the property rights prices were 42% higher than the substitution fee that is 48.53 PLN/MWh this year. The certificates register balance reached a surplus of 28,63 TWh as of the end of June 2018, and taking into account the certificates blocked to be redeemed this balance decreased to 27.90 TWh. The obligation to present PMOZE_A for redemption rose to 17.5% in the first half of 2018. On the other hand, the obligation to redeem property rights confirming electricity generation from agricultural biogas ("blue" certificates) dropped to 0.5%. The "blue" property rights balance reached 163.5 GWh as of the end of H1 2018. Taking into account certificates blocked to be redeemed this obligation is 149.4 GWh. The average weighted TGEozebio index price reached 316.59 PLN/MWh at the end of June and it was less than 6% higher than the substitution fee in force that invariably is 300.03 PLN/MWh this year.

The main subject of the cogeneration certificates trading in the first half of 2018 were the 2017 settlements, as in accordance with the Energy Law Act until June 30, 2018 it was possible to redeem property rights for the units that had generated electricity in the preceding year. Due to the lack of the possibility to shift rights between years their prices stayed at a level close to the substitution fee. During the period under review the average weighted price of the PMGM-2017 property rights confirming electricity production using gas cogeneration reached 117.51 PLN/MWh (with the

substitution fee of 120 PLN/MWh), for the P MEC-2017 coal cogeneration property rights the price was 9.80 PLN/MWh (with the substitution fee of 10 PLN/MWh), and for the P MET-2017 property rights related to electricity production by burning methane the price reached 55.39 PLN/MWh (with the substitution fee of 56 PLN/MWh). There were also contracts on the power exchange that confirmed electricity generation in 2018. The weighted average prices for P M GM-2018, P MEC-2018 and P MET-2018 were, respectively, 107.83 PLN/MWh (substitution fee: 115 PLN/MWh), 8.53 PLN/MWh (substitution fee: 9 PLN/MWh) and 54.89 PLN/MWh (substitution fee: 56 PLN/MWh).

The value of the "white" P M EF property rights index, confirming the fulfillment of the obligation to implement projects aiming to improve energy efficiency during the period under review, was on average 707.39 PLN/toe. The substitution fee set for 2018 is 1 575 PLN/toe.

Natural gas

The average price of gas on the Day Ahead Market on the Polish Power Exchange (Towarowa Gielda Energii S.A.) reached 101.62 PLN/MWh in H1 2018 and it was higher by 17.13 PLN/MWh (+20.3%) as compared to the same period of the previous year.

A significant increase of the value of contracts with the delivery on the day ahead was primarily due to the record high prices at the end of February and the beginning of March. During that period gas markets throughout Europe reported all time highs due to the prevailing freezing temperatures. A substantially higher demand for gas at the end of the winter season, i.e. at the time when gas storage facilities were largely empty, led to the rise of the spot contract prices to the levels never seen before on the Polish exchange. Furthermore, in each month of Q2 2018 the spot contract price was above the levels reached in the same period of the previous year. At the beginning of March 2018 the SPOT prices surged by approx. 60%, topping 200 PLN/MWh. Very high prices prevailed for a week and then they returned to the previous levels (approx. 90-95 PLN/MWh). In the middle of March very low temperatures returned which led to another rise of the spot contract prices. This rise was not as strong as the one observed at the beginning of March, however the price fluctuated around approx. 110 PLN/MWh. The average price in March was the highest since the beginning of the listing of gas contracts on TGE (121.72 PLN/MWh). The price topping 100 PLN/MWh was also reported more than a dozen times in the second half of May, as well as in June (the average price in June reached 100.80 PLN/MWh).

The gas trading volume reached 8.83 TWh in the first six months of 2018 and it was 1.11 TWh (i.e. by 11.2%) lower than in the first half of 2017 (9.94 TWh), however the trading volume in March was almost twice as high (nearly 3 TWh, 191% higher) as compared to March last year.

The problems with nuclear reactors in France, and also in Belgium at the end of June, had a direct impact on the increase of electricity prices in Belgium, France or Germany, as well as they led to nervousness on all energy related commodity markets.

At gas hubs that are the benchmarks for the Polish market the average prices in H1 2018 reached: 20.96 EUR/MWh (+23% year on year) on German Gaspool and 21.16 EUR/MWh (+24% year on year) on Dutch TTF.

For the reference one year contract on the futures market the highest prices in H1 2018 were reached in May (103.93 PLN/MWh). At the beginning of January the price of this contract stood at 86 PLN/MWh, and then it dropped to approx. 80 PLN/MWh in February, while in May it topped 100 PLN/MWh. Finally, at the end of June the price fluctuated slightly above 100 PLN/MWh. The average GAS_BASE_Y-19 price reached 88.48 PLN/MWh in the first six months of 2018 and it was a 7.7% increase versus the same contract in 2017 (the average price was 82.18 PLN/MWh).

According to the data of GIE (Gas Infrastructure Europe), as of June 30, 2018 the Polish storage facilities with the total capacity close to 2.8 bn m³ were approx. 69% filled. It was 12 pp more than in the same period of last year (approx. 57%). Taking into account the entire European Union, the storage facilities located on its territory (with the total capacity of almost 100 bn m³) were, as of the end of June 2018, were filled more or less to the same degree as a year ago (50% on June 30, 2018 as compared to 51% on June 30, 2017).

CO₂ emission allowances

During the period under review the CO₂ emission allowances market continued its upward trend commenced in June last year. In the first half of 2018 the EUA prices maximum rise reached as much as 9.1 EUR/MgCO₂ which represented an almost 120% increase. It should be noted that the lowest reported price in the first six months of 2018 was 7.6 EUR/MgCO₂, while the highest one came in at 16.70 EUR/MgCO₂.

The new MiFID II regulations package, aimed at strengthening the financial instruments, came into force in January. In particular, as a result of the newly introduced regulations the CO₂ emission allowances became a financial instrument as of the beginning of the year. The EUA prices in March were characterized by the increased transaction volume, related to the need to purchase CO₂ emission allowances for the redemption purposes. Increased demand led to a rise of the EUA prices and, as a consequence, in March the EUA prices on the SPOT market were highest in the entire settlement period – 14.13 EUR/MgCO₂. A factor that had an additional impact on the price rise were market analyses suggesting an increase of the system emissions in 2017 due to the improving economic conditions in the European Union countries. Finally, in accordance with forecasts, for the first time in seven years the CO₂ emissions went up in 2017 by 0.3 % year on year. In the subsequent months the main factor impacting the EUA prices was the surfacing information on the situation of nuclear reactors in France and in Belgium. The period covered by this report was characterized by increased demand for electricity which was the result of the daily average temperatures staying at a relatively high level, and, as a consequence, the highest EUA price in the entire III EU ETS settlement period was reached in May, i.e. 16.70 EUR/MgCO₂.

Crude oil and coal

Coal prices were relatively high between January and June 2018. The upward trend has already continued for more than 2 years. Coal prices have risen by almost 150% since the beginning of 2016.

The correction came in the first quarter of 2018 – during that time coal prices with the delivery in 2019 dropped by approx. 10% to 72 USD/Mg. At the end of the second quarter the price of this one year contract returned to the levels close to 90 USD/Mg. The prices of the quarterly contracts were slightly above 97 USD/Mg at the end of June. High coal prices are related to the supply and demand situation worldwide. The Pacific region continues to be the area that is affecting prices the most. The policies of China and India continue to have a decisive impact on the market. Starting from April China experienced very high temperatures which reduced the supply of electricity from hydroelectric plants, while the electricity consumption and demand for electricity produced from coal were higher than usually at this time of year.

Coal imports to China rose 5% in the first quarter of 2018 as compared to the same period of last year. Strong demand for the imported commodity came also from such countries as India, Japan, Vietnam, South Korea.

Poland also experienced a negative supply balance on the coal market which, in combination with high coal prices on the world market, led to an increase of domestic coal prices. Polish Steam Coal Market Index (PSCMI1) rose to 10.73 PLN/GJ in May 2018, while the 2017 average was 9.26 PLN/GJ. The coal price index for sales to industrial and municipal heat plants (PSCMI2) reached 12.41 PLN/GJ at the end of May.

During the 2017/2018 winter season there was a serious threat of the strategic coal inventory level being not achieved by utility scale power plants. Because of this situation, starting from the second half of 2017, increased coal imports can be observed, including also to utility scale power plants.

Even stronger price increases were observed in case of the Brent crude oil. At the beginning of 2016 the price dropped to the minimum level (27 USD/bbl). At the end of Q2 2018 the price recovered and fluctuated around 80 USD. In the first half of 2018 the oil prices were rising steadily, without any major correction.

Oil production cuts introduced by OPEC and Russia, as well as the reduction of oil supply by Venezuela and Syria, brought the desired effect of rising prices. Oil inventory levels on the world market dropped to the five year average.

Regulatory environment

Act of December 8, 2017 on capacity market

The act on capacity market (Journal of Laws of 2018, item 9), that will have a significant impact on the functioning of the Polish energy sector, came into force on January 18, 2018. The goal of the law is to ensure the security of electricity supply to the final consumer in the medium and long term, by supporting the construction of new or the refurbishment of the existing generation capacity or providing electricity demand reduction services at the instruction of the power TSO. This goal is to be achieved by changing the architecture of the electricity market from the existing single product energy market into the dual product market: energy and capacity.

The law defines, among others:

- 1) The rules of fulfilling by the so-called capacity providers (entities that control the individual generating units connected to the grid) of the capacity obligation for the benefit of TSO, i.e. providing of the service of maintaining readiness to deliver electric capacity and the actual delivering of such capacity to the National Power System during the stress periods announced by the TSO and the principles of remuneration for fulfilling such obligation,
- 2) organization of the capacity market, including the rules of organizing and conducting periodic capacity auctions by TSO in order to conclude capacity agreements with capacity providers,
- 3) rights and obligations of the capacity market participants.

By way of the decision of March 30, 2018 the President of ERO (URE) approved the Capacity Market Regulations that defined in detail, among others: general certification rules (mandatory for all physical units with the gross achievable capacity of not less than 2 MW the goal of which is to register such units in the so-called Capacity Market Register), rules of certification for capacity auctions (i.e. admitting entities representing individual units and such units to capacity auctions), individual stages of the auctions and monitoring the implementation of the capacity contracts.

Between April 3, 2018 and May 29, 2018 Polskie Sieci Elektroenergetyczne S.A. (TSO) conducted the first general certification. The next process will be certification for main auctions for 2021-2023 that will commence on September 5, 2018 and will last until October 31, 2018.

The first main auctions for 2021, 2022 and 2023 are to be held in November and December 2018. Since 2019 the main auctions will be held 5 years forward. Additionally, in the year preceding the given delivery year, TSO will be conducting the so-called additional auctions, with the delivery periods falling in the individual quarters of that year.

Zarządca Rozliczeń S.A. (Settlements Manager) will be responsible for the payments of the remuneration and potential bonuses for the fulfillment of the capacity obligation. The support amount paid out will, however, be reduced by deducting the amount of state aid of investment nature to be used to construct or refurbish the given unit.

The law also envisages the possibility of trading the capacity obligation on the secondary market.

The introduction of the law entailed the need to amend other legal acts, including the following ones: energy law, environment protection law, the act on the rules of covering the costs for generators arising due to the early termination of the long term capacity and power purchase agreements and the act on the renewable energy sources.

The capacity market constitutes a very important potential source of income for TAURON Capital Group that can bring a positive financial effect. Statutory solutions will contribute to increasing the security of electricity supply to consumers, and will also bring about an improvement of economic profitability of the conventional power generation industry.

In accordance with the adopted law, an electric utility dealing with electricity generation shall be obligated to sell not less than 30% of electricity generated in the given year on commodity (power) exchanges. This obligation for 2018 is fulfilled by the electric utility dealing with electricity generation with respect to electricity generated from January 1, 2018. Furthermore, the Minister of Energy announced the intention to present legislative changes introducing a 100% exchange obligation for electricity excluding cogeneration and renewable energy sources.

In line with the statutory authorization the Minister of Energy will issue a regulation on the parameters of main auctions with the delivery periods falling in 2021 – 2023. It will include, among others, values determining capacity demand, market entry price for a new generating unit, price increasing factor, maximum price for the price taker and the maximum number of rounds of the auction.

Amendment to the act on trading of financial instruments

On April 21, 2018 the act of March 1, 2018 on amending the act on trading of financial instruments and some other acts (Journal of Laws of 2018, item 685) came into force. The goal of this law was to implement into the Polish legal system the European Parliament and Council Directive 2014/65/UE of May 15, 2014 on financial instruments markets and changing directive 2002/92/WE and directive 2011/61/UE (Journal of Laws EU L no. 173, p. 349 and the subsequent ones, as amended, the so-called "MiFID II"). MiFID II, along with a number of executive (implementation) regulations, including the regulation of the European Parliament and Council (EU) no. 600/2014 of May 15, 2014 on financial instruments markets and changing regulation (EU) no. 648/2012 (Journal of Laws EU L no. 173, p. 84 and the subsequent ones, "MiFIR"), and also numerous regulatory technical and implementation standards, has been applied in the European Union since January 3, 2018.

The amended law modified the rules of exercising the exemptions from the obligation to obtain a license for conducting broker operations. The existing exemption for persons entering into transactions on their own account (proprietary) or providing investment services with respect to commodity related derivative financial instruments (including ones related to electricity and natural gas), emission allowances and their derivative instruments, on the condition that these are the so-called additional activities in relation to the main subject of such persons' operations, was maintained. A novelty is, however, the need to conduct, by the interested entities, annually, in the first quarter of every financial year, two of the so-

called additional activities tests. Such tests are aimed at determining: (i) percentage share of the speculative activities of the given entity trading in commodity related derivative financial instruments, emission allowances and their derivative instruments in the total transactions related operations in the European Union on such instruments in each of eight separate assets classes, and (ii) percentage share of such speculative activities of the given entity in the total transactions related operations of such entity's capital group in respect of commodity related derivative financial instruments, emission allowances and their derivative instruments. Furthermore, the precondition for exercising the exemption from the obligation to hold a broker's license and the regulatory obligations that an investment company is subject to is an annual notification of the supervision authority competent based on the given entity's seat, of the interested entity's intention to exercise such exemption, including the obligation to prove, at the authority's request, the fulfillment of the prerequisites for the said exemption in the form of the positive results of the above mentioned tests. However, entities operating on their own account in performing customer orders, including ones using the so-called matched principal trading (back – to – back transactions) with respect to financial instruments, shall not be allowed to exercise the exemption.

The law introduced a dedicated exemption with respect to purchasing emission allowances in SPOT transactions for the so-called installation operators in the understanding of the regulations on the CO₂ emission allowances trading system and maintained the existing exemption for the investment activities or services provided for other entities – members of the capital group.

The law, in line with the MIFID II / MIFIR package, also introduced changes to the definitions of financial instruments, so as to cover CO₂ emission allowances SPOT contracts and derivative contracts on such emissions, irrespective of the place they are concluded at, their settlement method or their additional parameters. Derivative contracts on commodities, including electricity or natural gas, implemented through physical delivery and concluded bilaterally, if they are equivalent (with respect to all of their parameters) to contracts concluded on the regulated market or in the alternative trading system, were also classified as financial instruments. The change of such contracts' status entails additional obligations with respect to reporting concluding, amending or terminating transactions related thereto and the need to apply the so-called risk mitigation techniques described in the so-called EMIR regulation with respect to contracts concluded.

The amended regulations are also forcing changes with respect to the organization of financial instruments trading systems, stating that operations involving running a multilateral system can be conducted solely by organizing a regulated market, operating an alternative trading system or the so-called organized trading platform (OTF), on terms defined in these regulations. Furthermore, it is possible to establish and introduce, by the competent regulatory authorities, the so-called net position (exposure) limits, i.e. the maximum net position (exposure) in commodity related derivative instruments that the given entity, also covered by the exemption from the obligation to hold a broker's license, may have in trading (in the financial instruments trading system or outside it).

The goal of the changes is to increase the security and transparency of the contracting as well as strengthening of the regulatory oversight over the commodity related derivative instruments, emission allowances and their derivative instruments market.

Amendment to the Act on Renewable Energy Sources (RES)

On June 29, 2018 the President signed the act of June 7, 2018 on the amendment to the act on renewable energy sources. The act was published on the same day (Journal of Laws of 2018, item 1276). The amended regulations, mostly, came into force on July 14, 2018.

The goal of the amendment was primarily to enable organizing and conducting by the President of ERO of successive RES auctions, aimed at increasing the share of renewable energy in Poland's energy mix by stimulating new investment and to ensure full compliance of the regulations of the above act with the public aid regulations in line with Poland's commitment towards the European Commission made in the notification procedure on Poland's RES development support system and exempting energy intensive users.

The changes presented in the amendment make the provisions of the Act on RES fully compliant with the requirements defined in the "Guidelines on public aid related to environment protection and energy goals in 2014-2020", that permit, as compliant with the common market principles, such market instruments as auctions or tender procedures in line with the principles of competition that are open for all producers generating electricity from RES, competing against one another on equal terms that should substantially ensure that subsidies are reduced to the minimum.

The amended provisions related to the principles of taking into account public aid when submitting a bid at RES auctions will make the bidding process easier and will mitigate a substantial part of identified risks stemming from the existing provisions. Furthermore, there was a need to align the provisions of the act on RES to the changing market and economic conditions and eliminate legal and editorial interpretation doubts in various areas of this act. The amendment to the act on renewable energy sources, among others: clarifies some of the existing definitions of the Act on RES; introduces changes that streamline the auction system with respect to, among others, split into the so-called baskets (five baskets are distinguished with the assignment criterion based on the type of the energy source used and installed

capacity); proposes system-wide changes to the RES support that involve introducing, next to the auction system, also the *feed-in-tariff* (FIT), *feed-in-premium* (FIP) system for electricity generators from renewable sources using solely biogas or hydroelectricity.

The amendment allows for conducting an overhaul and performing other activities required to correctly operate the existing wind farms that do not comply with the requirements of the act of May 20, 2016, on investments in wind based power plants (Journal of Laws of 2016, item 961), on the condition that the environmental impact of the given power plant will not be greater and its installed capacity will not increase.

Comprehensive amendment to the Water Law Act

The act of July 20, 2017 r. – Water Law came into force on January 1, 2018 (Journal of Laws of 2017, item 1566, As amended). However, the legislator envisaged that some regulations will come into force earlier, i.e. on August 24, 2017, while for some regulations the *vacatio legis* period was extended until January 1 of three successive years following 2018, i.e. until 2019, 2020 and 2021.

The goal of the above act is to implement into the Polish law the EU regulations defined in the Water Framework Directive, stating that all water users must incur the costs thereof. The fees shall be applicable to the energy sector, fish growers, farmers and businesses using large quantities of water for their production.

In case of the energy sector it is assumed that the fee for water consumption by hydroelectric power plants is to be borne by the owners of hydroelectric power plants solely for the volume of electricity generated using the reclaimable water (i.e. water taken, used and then discharged in the same quantity and with quality that is not worse) and for the intake of non-reclaimable process water, i.e. the water not be used directly to produce electricity. The new Water Law act defines the cap on unit fee rates at: PLN 1.24 for 1 MWh of electricity produced and PLN 0.35 for non-reclaimable water intake of 1 m³ of the process water. The same rates are defined in the Ministry of Energy's regulation of December 22, 2017, on unit rates for water services.

On the other hand, with respect to the fee for water intake to ensure operation of cooling systems of power plants or combined heat and power plants such fee will be borne solely for the differences between the quantity of water taken for such purposes, and the quantity of water discharged to water streams or to the ground from the cooling systems. The act defines the cap on variable fee rates, dependent on the quantity of water taken under the water law permit or the integrated permit, at PLN 0.70 for 1 m³ of the difference for the underground waters and PLN 0.35 for 1 m³ of the difference for the surface waters.

The regulation envisages a unit rate that is lower than the cap, respectively: PLN 0.115 and PLN 0.057 for 1 m³ of the difference.

Another fee envisaged by the Water Law is the fee for discharging the water from the cooling systems of power plants or combined heat and power plants to water streams or to the ground. This fee will depend on the temperature of the discharged water. The rates are, respectively: for 1 dam³ (1 dekameter³ = 1 000 m³): PLN 0.68 if the temperature of such water is higher than +26°C and does not exceed +32°C; PLN 1.36 if the temperature of such water is higher than +32°C and does not exceed +35°C; PLN 4.24 if the temperature of such water is higher than +35°C. Discharging of water with its temperature not exceeding +26°C will be exempt from the fees or if the difference between the temperature of water taken and discharged to water streams or to the ground from the cooling systems will be less than 11°C.

Draft act on promoting electricity generated using high efficiency cogeneration

Ministry of Energy is working on the regulations supporting the expansion of high efficiency cogeneration installations. The planned regulations are aiming to promote the optimal use of fuels and contribute to improving air quality on the territory of Poland as well as to introduce new forms of operational support to replace the system of certificates of origin of electricity produced in cogeneration the functioning of which will stop as of the end of 2018. An additional advantage of expanding cogeneration is ensuring the security of heat and electricity supply to consumers.

Greenhouse gases emission allowances trading system

The Government Legislation Center (Rządowe Centrum Legislacji) published on its website a draft amendment to the act of June 12, 2015 on the greenhouse gases emission allowances trading system and some other acts. The goal of the changes proposed in the draft was to align the national regulations related to the greenhouse gases emission allowances trading system to the prevailing economic and social conditions after two years of applying the act.

With respect to settling the CO₂ emission allowances under the derogations the following changes to the act were proposed:

- 1) list of entities authorized to carry out investment tasks was limited – the possibility to carry out tasks under the National Investment Plan (Krajowy Plan Inwestycyjny - KPI) by a special purpose vehicle was deleted,

- 2) requirements with respect to verifying compliance indicators were tightened, more restrictive requirements will have an impact in case the settlement period is extended or the National Investment Plan (KPI) is changed,
- 3) a possibility to change generation capacity for tasks carried out under the National Investment Plan (KPI) (art. 38 clause 6a),
- 4) possibility to replace halted tasks or tasks leading to not achieving compliance indicators with other tasks carried out under the National Investment Plan (KPI) (art. 40a) and balance the CO₂ allocations with them was added,
- 5) it was proposed to block the possibility to exceed the limit of investment costs defined for the tasks under the National Investment Plan (KPI).

Additionally, the provisions of the act with respect to forms and applications related to investor obligations were made more precise and clear. It was proposed that document samples currently published in the regulation should be announced in BIP which would make it easier to faster align them to the legal changes, and also they would be available to investors on an ongoing basis.

It should also be mentioned that on April 8, 2018 the directive of the European Parliament and the European Council 2018/410 of March 14, 2018, changing directive 2003/87/WE in order to strengthen cost effective emission reductions and low emission investments and decision (EU) 2015/1814 (Journal of Laws UE L no. 76 p. 3 and the following ones), came into force. This document introduced, among others, a number of reforms to the existing system. The changes are related to the 4th period of the system's functioning in 2021-2030. The main assumptions of the 4th phase of the EU ETS system include:

- 1) launching of the MSR (Market Stability Reserve) mechanism,
- 2) raising the LRF (Linear Reduction Factor) factor,
- 3) establishing the Innovation and Modernization Funds.

BAT conclusions

Best Available Technologies (BAT) mean the most efficient and advanced stage of development and methods of conducting the given operations that indicate the possible use of individual techniques as the base when setting the admissible emissions values and other conditions aimed at preventing arising, and if it is not possible, reducing emissions and impact on the environment as a whole.

BAT conclusions is a document drawn up based on the reference document on the best available technologies, the so-called BREF. BAT conclusions for large combustion plants (LCP) as an executive decision to directive 2010/75/EU on industrial emissions (IED Directive) will be directly applicable. They define the new requirements with respect to admissible emissions values and the monitoring obligation. A consequence of their implementation will be the need to adapt the fuel combustion installations to the requirements defined in the BAT Conclusions by constructing or refurbishing generation sources, flue gases cleaning (scrubbing) installations and in certain cases additionally installing the continuous monitoring systems for the pollutants so far not covered by such an obligation which means the need to bear exceptionally high capital expenditures.

On April 28, 2017 the representatives of the member states in the European Commission passed the new standards tightening the emission standards for the manufacturing industry, i.e. the so-called BAT conclusions for large utility scale combustion facilities. On August 17, 2017 the executive decision of the European Commission (EU) 2017/1442 of July 31, 2017, introducing the conclusions related to the best available technologies (BAT) with respect to large utility scale combustion facilities, was published in the Official Journal of the European Union. Upon publishing the BAT conclusions became a part of the legal order in force in Poland and they will be the basis for issuing the integrated permits. Apart from more stringent restrictions for the SO₂, NO_x and dust emissions the BAT conclusions introduce emission standards for substances not covered thereby so far, namely for mercury, hydrogen chloride, hydrogen fluoride and ammonia, and also in specific cases order installing continuous monitoring for the pollutants not covered by such an obligation so far. The existing installations have 4 years to adapt to the new requirements and they will have to comply therewith after August 17, 2021. BAT conclusions will be applicable to the facilities and installations burning fuels with the capacity not lower than 50 MW in fuel. They are applicable to both the new facilities that will obtain an integrated permit following the publishing of the conclusions, as well as to the facilities already in operation. New, more stringent requirements related to the permitted values of pollutant emissions will have a significant impact on the future of the European coal-fired power plants.

According to the Ministry of the Environment adapting large industrial installations, including the ones generating electricity and heat, to the tighter SO₂, NO_x and dust emission standards and, introduced for the first time, binding emission levels for mercury, hydrogen chloride, hydrogen fluoride and ammonia will cost at least PLN 10 bln. Both, the costs, as well as the schedule of the investment projects aimed at adapting the installations covered by the tightening will be an enormous challenge for the energy sector, especially due to the fact that the refurbishing will have to encompass practically all the power generation units currently in operation. Although the IED Directive provides for an option to

obtain temporary derogations from meeting the limit emission values defined based on the BAT conclusions, but such derogation may be granted only if achieving the limit emission values were to lead to disproportionately high costs in relation to the benefits for the environment due to the geographical location of the installations, local environmental conditions or the technical features of the installation.

Further tightening of the emission limits is to take place as a result of subsequent revisions of the conclusions that are to be published every 8 years.

Within TAURON Capital Group TAURON Wytwarzanie subsidiary is conducting activities aimed at adapting the generating units to the operational conditions based on the BAT Conclusions. Such refurbishments will allow for meeting the emission requirements with respect to air and sewage, and also the requirements with respect to monitoring of pollutions (with respect to the emissions of such pollutants as SO₂, NO_x, dust and HCl). In May 2018 TAURON Wytwarzanie announced the main tender proceeding to select contractors to carry out the tasks for the individual sites. Applications to participate in the tender proceedings have been received from contractors and they are currently being evaluated by TAURON Wytwarzanie. Works are also underway to prepare the Terms of Reference for the individual tasks.

2.2. TAURON Capital Group's financial results

2.2.1. Sales structure by Lines of Business

The below table below presents TAURON Capital Group's volumes and structure of sales per individual lines of business (business segments) in H1 2018 and Q2 2018, as compared to the same periods of 2017.

Table 4. TAURON Capital Group's volumes and structure of sales per individual lines of business (business segments)

Item	Unit	H1 2018	H1 2017	% change 2018/2017	Q2 2018	Q2 2017	% change 2018/2017
Mining segment's hard coal sales	Mg m	2.50	3.56	70%	1.07	1.77	60%
Generation segment's electricity and heat sales	TWh	7.26	9.59	76%	3.47	4.78	73%
	PJ	8.93	9.80	91%	1.24	2.31	54%
Distribution segment's distribution services sales	TWh	26.01	25.70	101%	12.59	12.40	102%
Supply segment's electricity retail sales	TWh	17.19	17.20	100%	7.92	8.08	98%

Mining segment

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

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

The hard coal sales volume came in at 2.50 million Mg in H1 2018, which means a decrease by 30% as compared to the same period of 2017 and is the consequence of the lower coal production and lower initial inventory level.

In H1 2018 the Mining segment delivered to TAURON Capital Group 66% of the coal volume sold (1.66 million Mg), which covered 50% of TAURON Capital Group's demand for coal to be used to generate electricity and heat.

Commercial coal production reached 2.53 million Mg in H1 2018 and it was 24% lower than in the same period of last year as a result of difficult geological conditions occurring at Janina Coal Mine and Sobieski Coal Mine as well as a delay of commissioning on one of the coal faces Sobieski Coal Mine.

Generation segment

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

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

The total achievable capacity of the Generation segment's generation units reached 5.0 GW of electric capacity and 2.4 GW of heat capacity at the end of June 2018. Generation segment is also conducting operations with respect to heat transmission and distribution.

Generation segment produced 7.6 TWh of electricity in H1 2018, i.e. 20% less than last year (9.5 TWh), which was due to the lower sales of electricity from own production year on year and the adopted trading strategy.

Production from RES reached 0.51 TWh, i.e. 23% less as compared to last year (0.66 TWh), which was due to the less favorable hydrological wind conditions, as well as the reduction of biomass burning.

Sales of electricity from own production including electricity purchased for trading came in at 7.3 TWh in H1 2018, which meant a 24% decrease in relation to the same period of 2017. Purchased electricity resale volume was lower than in 2017 (0.5 TWh in H1 2018; 1.1 TWh in H1 2017).

Heat sales reached 8.9 PJ in H1 2018, i.e. 9% less versus the same period of last year, which was due to the higher outside temperatures year on year and lower consumer demand.

50% of the Generation segment subsidiaries' demand for coal to be used to generate electricity and heat was covered with the hard coal coming from TAURON Capital Group's own coal mines in H1 2018. The balance of the demand was covered using external sources.

Distribution segment

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

In H1 2018 the Distribution segment delivered, in total, approximately 26.0 TWh of electricity, including 25.0 TWh to the final consumers. During this period the Distribution segment provided distribution services to 5.56 million consumers. In the same period of 2017 the Distribution segment delivered, in total, approximately 25.7 TWh of electricity to approx. 5.50 million consumers, including 24.4 TWh to the final consumers. The increase in the volume delivered to the final consumers year on year is mainly due to the GDP growth and increased electricity consumption by industrial consumers.

Supply segment

Supply segment is conducting its operations on the domestic and foreign markets, comprising wholesale trading and retail supply of electricity and natural gas, as well as related products, property rights arising from certificates of electricity origin, CO₂ emission allowances and fuels. Supply segment is supplying electricity to business and mass customer segments, including to households. Additionally, the Supply segment supplies electricity to TAURON Dystrybucja S.A. to cover grid losses related to electricity distribution.

In the first half of 2018 the Supply segment's subsidiaries supplied, in total, 17.19 TWh of electricity to approx. 5.4 million customers (retail supply), both households, as well as businesses, i.e. 0.01 TWh less than in the same period of last year. Slightly lower electricity supply is a consequence of lower supply to business customers and operating on a competitive market.

In H1 2018 the household (individual customers) market continued to be subject to the obligation to have sales prices approved by the President of ERO. However, due to the partial liberalization of the energy market, sales offerings tailored to the individual customer needs are available on the market. The decision to switch the supplier is impacted by such factors as: the degree of customer awareness and their motivation to switch the supplier, ease of switching the supplier and the number of competitive offerings available, therefore TAURON Capital Group is developing products, sales channels and marketing communications taking into account the steps taken by the competition. Furthermore, the Group is launching innovative solutions in line with the market development stage and the expectations of the given customer segment.

According to the data available, in the January to May 2018 time frame the number of households that switched their electricity suppliers reached slightly more than 573.6 thousand, which meant a 4.9% increase since the end of 2017. However, taking into account the potential of this segment, i.e. the overall number of households in Poland, this is just the beginning of this market segment's liberalization.

In the institutions and business entities (business customer) segment where the competition is strong and companies have already been taking advantage of the liberalization of electricity prices for several years, the progress of the liberalization process made the ever more knowledgeable customers expect competitive solutions. Intensifying sales campaigns run by electric utilities lead to growing price pressures; new entities competing for customers came to the market and transparency of the energy market mechanisms is a must in any activities conducted in this segment. In the January to May 2018 time frame the number of business customers that switched their electricity suppliers reached more than 196.1 thousand, which meant a 4.2% increase since the end of 2017.

2.2.2. TAURON Capital Group's financial results by Lines of Business

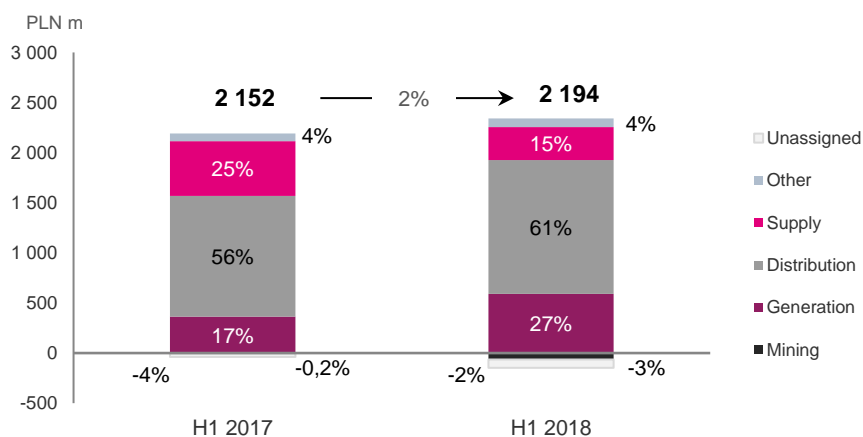
The below table below presents TAURON Capital Group's EBITDA per individual lines of business (business segments) in H1 2018 and Q2 2018, as compared to the same periods of 2017. The data for the individual segments do not include exclusions from consolidation.

Table 5. TAURON Capital Group's EBITDA per individual lines of business (business segments)

EBITDA (PLN '000)	H1 2018	H1 2017	% change 2018/2017	Q2 2018	Q2 2017	% change 2018/2017
Mining	(65 667)	(4 716)	-	(76 005)	24 737	-
Generation	591 750	364 801	162%	126 438	136 894	92%
Distribution	1 335 813	1 203 310	111%	697 700	596 299	117%
Supply	326 358	545 396	60%	148 570	165 425	90%
Other	88 712	76 635	116%	49 009	40 909	120%
Unassigned items and exclusions	(83 082)	(33 116)	-	(44 071)	(34 436)	-
Total EBITDA	2 193 884	2 152 310	102%	901 641	929 828	97%

The below figure presents TAURON Capital Group's EBITDA structure in H1 2017 and H1 2018.

Figure 5. TAURON Capital Group's EBITDA structure



The Distribution and Generation segments make the biggest contributions to TAURON Capital Group's EBITDA in H1 2018.

2.2.2.1. Mining segment

The below table presents the Mining segment's results.

Table 6. Mining segment's results

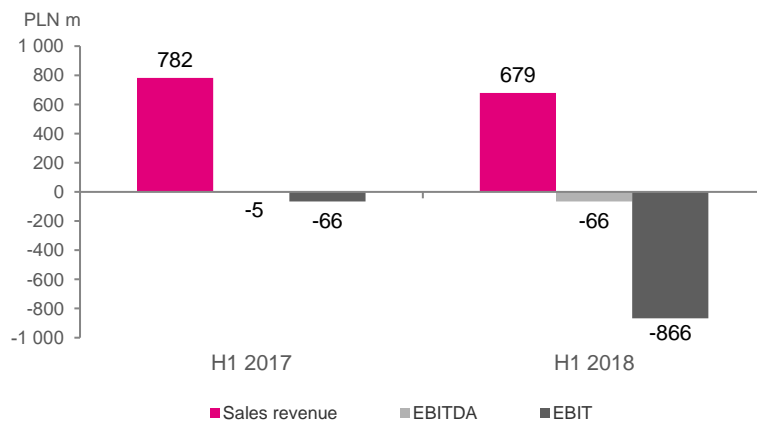
Item (PLN '000)	H1 2018	H1 2017	% change 2018/2017	Change (2018 - 2017)
Mining				
Sales revenue	678 786	781 684	87%	(102 898)
<i>coal – large and medium size lump coal</i>	198 194	244 581	81%	(46 387)
<i>thermal coal</i>	440 132	510 869	86%	(70 737)
<i>other products, materials and services</i>	40 460	26 234	154%	14 226
EBIT	(866 166)	(65 816)	-	(800 350)
Depreciation and write-offs	800 499	61 100	-	739 399
EBITDA	(65 667)	(4 716)	-	(60 951)

Mining segment's EBITDA and EBIT were lower in H1 2018 than in the same period of 2017. The results posted were affected by the following factors:

- 1) 24% lower commercial coal production that led to a 30% coal sales volume drop,
- 2) 20% higher average sales price which partially offset revenue decline due to lower coal sales volume,
- 3) higher commercial coal unit production cost due to higher costs of: materials consumption (purchase on the market of 94 thousand Mg larger coal volume for processing), renting of machines and equipment (increased daily rent rates), labor costs (higher costs of provisions for untaken leaves and lower utilization of own personnel during preparatory works), demethanization, in connection with extraction from two coal faces by Brzeszcze Coal Mine and other services,
- 4) sales in the first half of 2018 of coal from the current production (low inventory level at the end of 2017), with commercial coal production and sales on the same level (2.45 million Mg) in H1 2018. In H1 2017 a substantial portion of coal sold came from the inventory which led to including the value of the inventory as own cost.

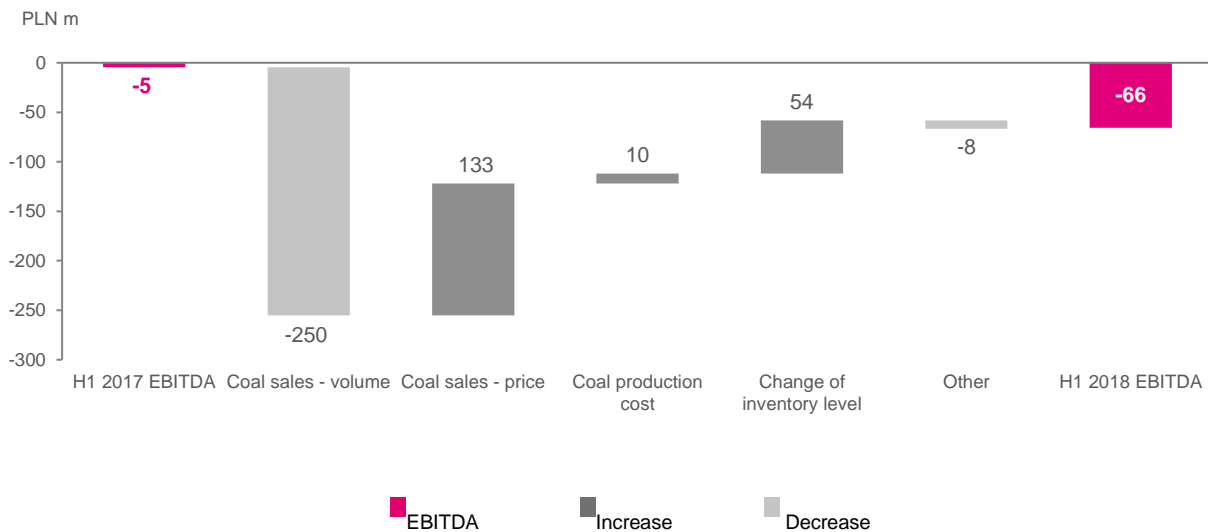
The below figure presents the Mining segment's H1 2018 financial data versus H1 2017.

Figure 6. Mining segment's H1 2017 and H1 2018 financial data



The below figure presents the Mining segment's EBITDA including the significant factors impacting the change in relation to H1 2017.

Figure 7. Mining segment's EBITDA



2.2.2.2. Generation segment

The below table presents the Generation segment's results.

Table 7. Generation segment's results

Item (PLN '000)	H1 2018	H1 2017	% change 2018/2017	Change (2018 - 2017)
Generation				
Sales revenue	2 119 352	2 284 829	93%	(165 477)
<i>electricity</i>	1 567 435	1 691 440	93%	(124 005)
<i>heat (incl. heat transmission)</i>	459 438	488 830	94%	(29 392)
<i>property rights related to certificates of electricity origin</i>	68 252	71 347	96%	(3 095)
<i>other</i>	24 227	33 212	73%	(8 985)
EBIT	740 849	138 772	534%	602 077
Depreciation and write-offs	(149 099)	226 029	-	(375 128)
EBITDA	591 750	364 801	162%	226 949

Generation segment's sales revenue was 7% lower in H1 2018 as compared to the same period of last year, mainly due to the lower revenue from electricity and heat sales (as a result of lower sales volumes).

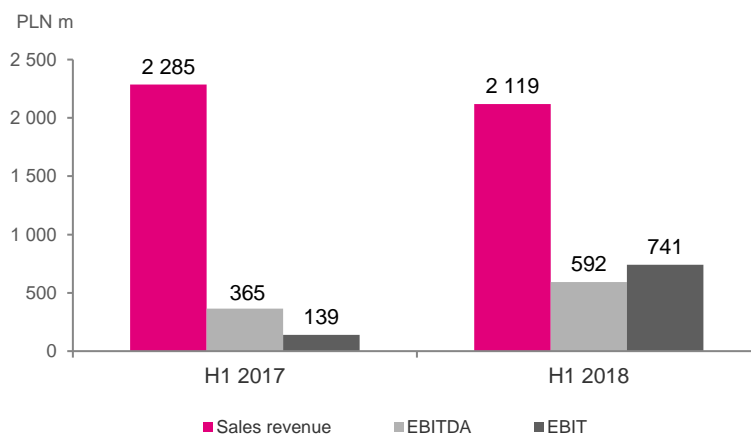
Generation segment's EBITDA and EBIT were higher in H1 2018 than in the same period of last year. The results posted were affected by the following factors:

- 1) higher margin on electricity – primarily due to the higher electricity sales price year on year,
- 2) lower margin on heat – lower heat and transmission services volume (result of higher outside temperature (mainly in April and May) and higher heat production unit costs (increase of coal and biomass prices year on year),
- 3) higher costs of the CO₂ reserve (provision) – which is the result of: a smaller number of free CO₂ emission allowances (1.7 million of free allowances related to electricity in H1 2017), lower CO₂ emission volume (lower electricity production year on year) and higher CO₂ emission allowances prices year on year,
- 4) dissolving of the provision for employee benefits (cash equivalent for the discounted use of electricity (employee tariff), anniversary bonuses and the Company's Social Benefits Fund) at TAURON Wytwarzanie – a one-off event,
- 5) other (mainly lower costs of the property tax related to wind farms and lower costs related to employee benefits and the Voluntary Redundancy Program year on year).

TAURON Capital Group recognized in the H1 2018 earnings the reversal of the write-downs due to the reduction of the Generation segment's generation units' carrying amount on the balance sheet (CGU Wind farms): PLN 345 million.

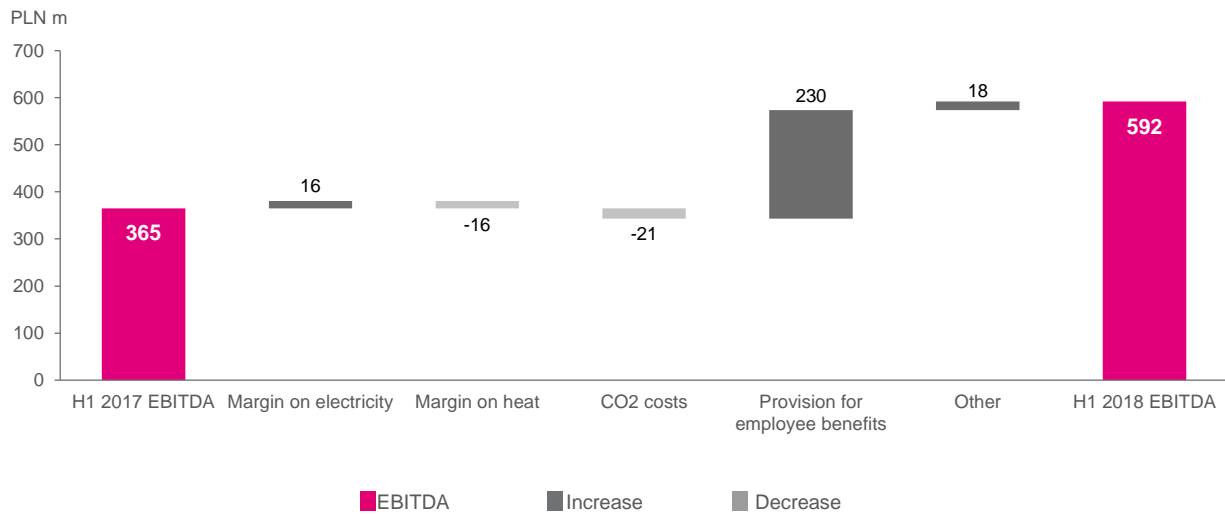
The below figure presents the Generation segment's H1 2018 financial data versus H1 2017.

Figure 8. Generation segment's H1 2017 and H1 2018 financial data



The below figure presents the Generation segment's EBITDA including the significant factors impacting the change in relation to H1 2017.

Figure 9. Generation segment's EBITDA



2.2.2.3. Distribution segment

The below table presents the Distribution segment's results.

Table 8. Distribution segment's results

Item (PLN '000)	H1 2018	H1 2017	% change 2018/2017	Change (2018 - 2017)
Distribution				
Sales revenue	3 463 808	3 367 994	103%	95 814
<i>distribution services</i>	3 291 424	3 168 690	104%	122 734
<i>connection fees</i>	36 204	62 965	57%	(26 761)
<i>street lighting maintenance</i>	59 766	54 109	110%	5 657
<i>other services</i>	76 414	82 230	93%	(5 816)
EBIT	796 451	677 320	118%	119 131
Depreciation and write-offs	539 362	525 990	103%	13 372
EBITDA	1 335 813	1 203 310	111%	132 503

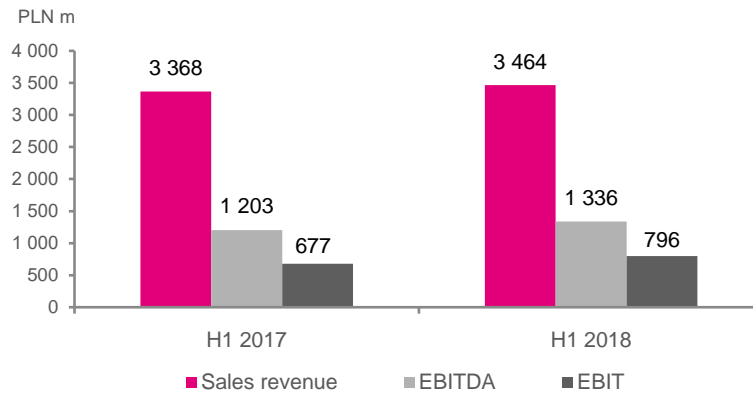
Distribution segment's sales revenue was approx. 3% higher in H1 2018 as compared to H1 2017, while EBIT and EBITDA rose, respectively, approx. 18% and 11%. The results posted were affected by the following factors:

- 1) decrease of the actual rate for the distribution service sales to the final consumers,
- 2) increase of distribution to industrial consumers as a result of the growth of the GDP, increase of the manufacturing output and reduction of the customers' own generation,
- 3) increase of electricity distribution volume to households as a result of the rising demand for electricity for heating purposes in Q1 and for air conditioning needs in Q2,
- 4) decrease of revenue from connection fees as a result of earlier than assumed completion of some investment projects and the change of IFRS 15 and an increase of revenue due to collisions,
- 5) lower grid losses indicator year on year, as a resultant of TAURON Capital Group's electricity purchase and resale prices and lower volume to cover the balancing difference,
- 6) decrease of the costs of purchasing transmission services, mainly as a result of the "zero" RES fee rate in 2018,
- 7) decrease of the labor costs as a result of the lower headcount, making indirect costs (overhead) on investment projects carried out using in-house resources realistic, effects of the voluntary redundancy programs and the efficiency improvement program,
- 8) higher balance of provisions for wages due to the signed agreement with the workforce,

- 9) increase of the costs of tax on grid assets as a consequence of the investment projects completed and an increase of the assets' value.

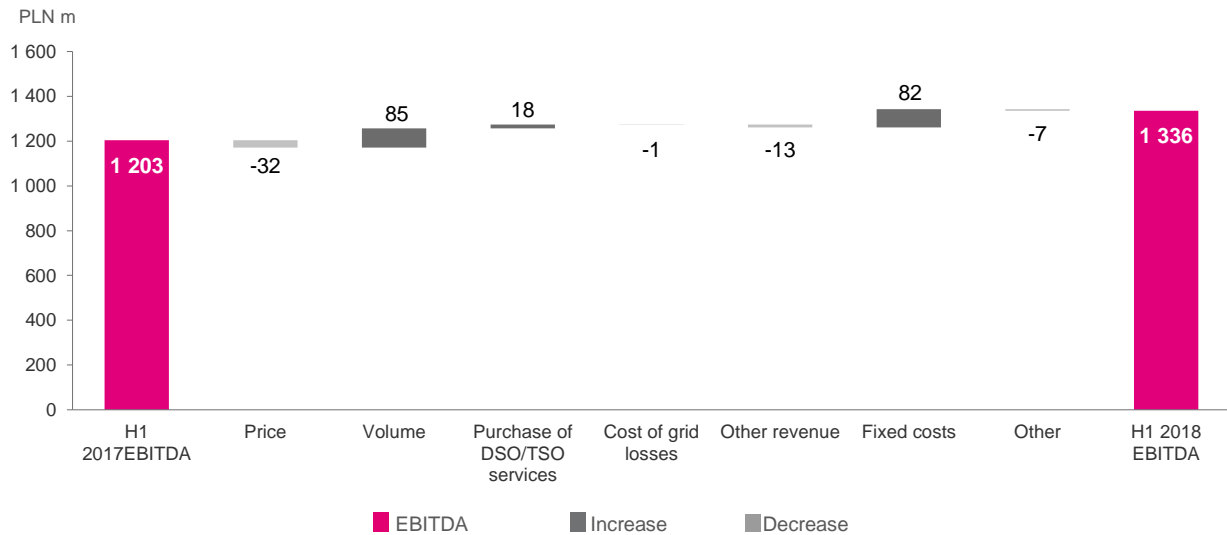
The below figure presents the Distribution segment's H1 2018 financial data versus H1 2017.

Figure 10. Distribution segment's H1 2017 and H1 2018 financial data



The below figure presents the Distribution segment's EBITDA including the significant factors impacting the change in relation to H1 2017.

Figure 11. Distribution segment's EBITDA



2.2.2.4. Supply segment

The below table presents the Supply segment's results.

Table 9. Supply segment's results

Item (PLN '000)	H1 2018	H1 2017	% change 2018/2017	Change (2018 - 2017)
Supply				
Sales revenue	6 615 132	6 676 996	99%	(61 864)
<i>electricity, including:</i>	4 319 767	4 304 534	100%	15 233
<i>electricity retail sales revenue</i>	3 849 722	3 742 301	103%	107 421
<i>greenhouse gas emission allowances</i>	1 117	495	226%	622
<i>fuel</i>	559 670	621 988	90%	(62 318)
<i>distribution service (transferred)</i>	1 702 239	1 721 405	99%	(19 166)
<i>other services, incl. commercial services</i>	32 339	28 574	113%	3 765
EBIT	322 560	540 417	60%	(217 857)
Depreciation and write-offs	3 798	4 979	76%	(1 181)
EBITDA	326 358	545 396	60%	(219 038)

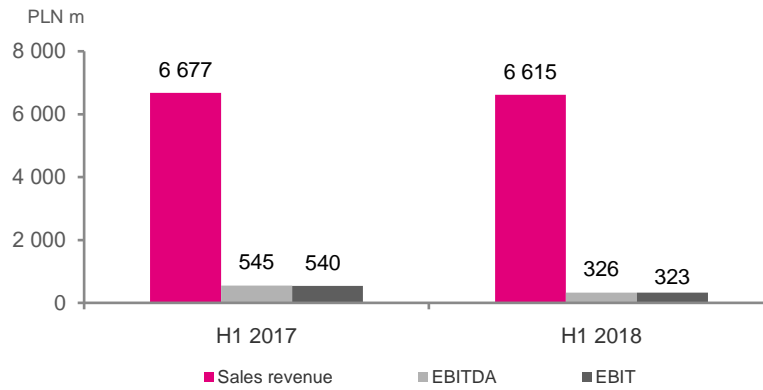
Supply segment's sales revenue was 1% lower in H1 2018 as compared to the same period of last year due to the lower fuel sales revenue (-10%) as a consequence of a change to the coal supply model (since May 2017) and lower distribution service sales revenue along with an increase of electricity retail supply revenue (+3%) as a result of an increase of the electricity sales price.

Supply segment's EBITDA and EBIT were significantly lower in H1 2018 than in the same period of 2017 which was primarily due to the dissolving of the ECSW related provision that improved the results in H1 2017. The results posted were affected by the following factors:

- 1) electricity price and volume – a negative impact on the result was mainly due to the increase of electricity market prices with the purchase price growth faster than the sales price rise. This situation had a direct impact on the decline of the margin in the mass segment (a large share of customers with a fixed electricity sales price), with total electricity sales volume falling at the same time,
- 2) property rights prices – a positive impact on the result due to taking advantage of the favorable market situation, mainly related to the "green" certificates (contracting and purchasing PMOZE for the redemption obligation at lower prices),
- 3) property rights redemption obligation – a negative impact on the result due to an increase of the obligation level for the "green" certificates from 15.4% to 17.5%, for the "violet" certificates from 1.8% to 2.3%, for the "yellow" certificates from 7.0% to 8.0%, maintaining of the obligation to redeem certificates from cogeneration for the "red" certificates at the level of 23.2% and the reduction of the obligation for PMOZE-BIO (the so-called "blue" property rights from 0.60% to 0.50%),
- 4) dissolving of the provision for the agreements related to the joint venture (ECSW) took place in H1 2017 and led to an improvement of the Supply segment's result by PLN 203 million due to the coming into force of the Agreement concluded between TAURON and PGNiG on the gas and electricity agreement and the amendments to the long term gas and electricity sale agreements related to the CCGT unit construction project at Stalowa Wola,
- 5) other revenues/costs – the balance from the other operating activity and margins achieved on the other energy market products.

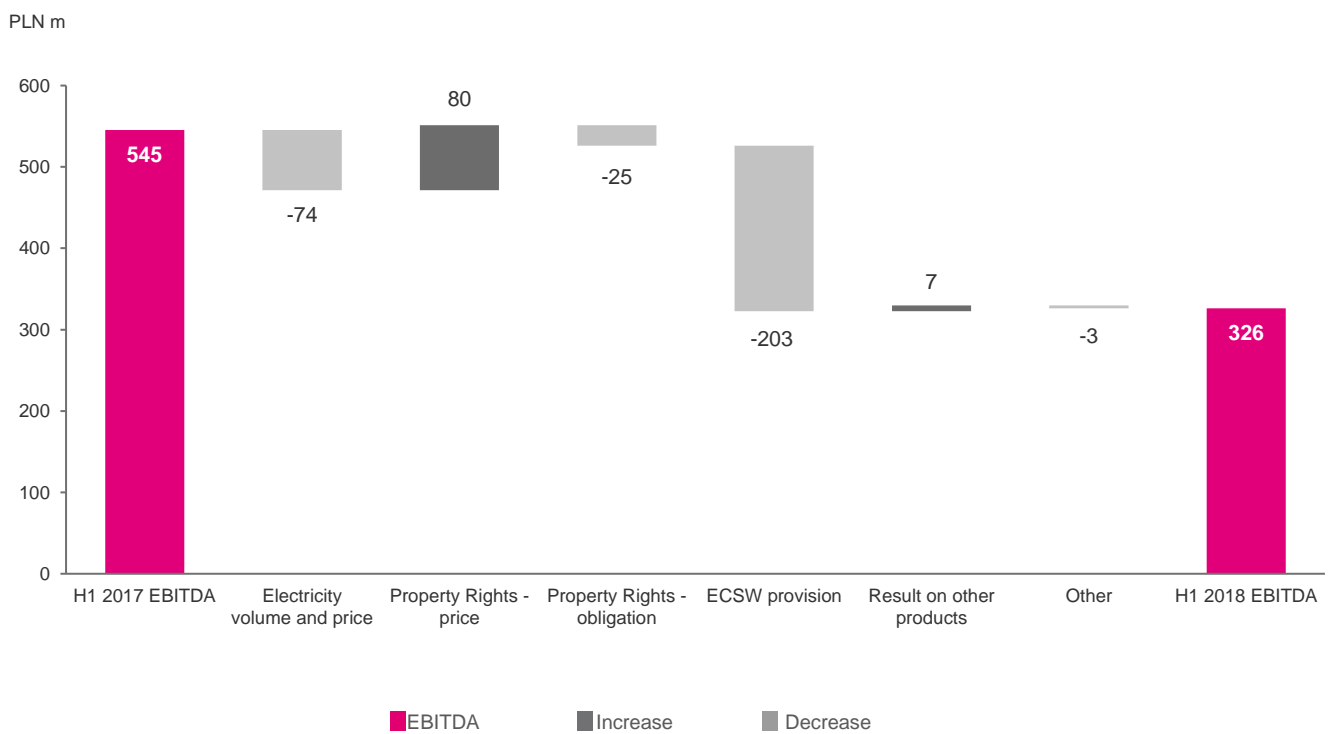
The below figure presents the Supply segment's H1 2018 financial data versus H1 2017.

Figure 12. Supply segment's H1 2017 and H1 2018 financial data



The below figure presents the Supply segment's EBITDA including the significant factors impacting the change in relation to H1 2017.

Figure 13. Supply segment's EBITDA



2.2.2.5. Other operations

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

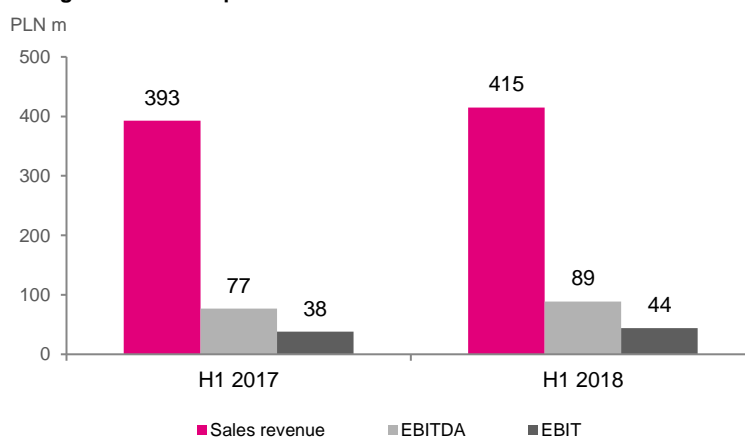
Table 10. Other operations' results

Item (PLN '000)	H1 2018	H1 2017	% change 2018/2017	Change (2018 - 2017)
Other operations				
Sales revenue	414 606	392 588	106%	22 018
<i>customer service, accounting and IT services</i>	98 201	95 528	103%	2 673
<i>electricity and property rights arising from certificates of electricity origin</i>	211 891	193 517	109%	18 374
<i>biomass</i>	29 576	37 233	79%	(7 657)
<i>aggregates</i>	47 603	47 330	101%	273
<i>other revenue</i>	27 335	18 980	144%	8 355
EBIT	44 272	37 947	117%	6 325
Depreciation and write-offs	44 440	38 688	115%	5 752
EBITDA	88 712	76 635	116%	12 077

Other operations' H1 2018 sales revenue was 6% higher than in the same period of last year which was primarily due to the increase of revenue from the support services sales (+9%) (i.e. the provision of additional services for TAURON Capital Group, among others real estate management services, property security services, maintenance services), with the declining biomass sales revenue (lower sales volume) at the same time.

The below figure presents the Other operations' H1 2017 and H1 2018 financial data.

Figure 14. Other operations' H1 2017 and H1 2018 financial data



2.3. Key events and TAURON Capital Group's accomplishments with a significant impact on its operations

The more important events and accomplishments that had a significant impact on TAURON Capital Group's operations that occurred in H1 2018, as well as ones that took place until the day of drawing up this report include:

Key business events in H1 2018

Conclusion of the coal purchase agreement with Polska Grupa Górnicza S.A.

On January 18, 2018 a coal purchase agreement was signed between the Company and Polska Grupa Górnicza S.A. The subject of the Agreement is the purchase of thermal coal for the production needs of TAURON Capital Group's power generating units. The agreement was concluded for an indefinite period of time. The estimated value of coal supplies in the 2018-2021 time frame, based on the coal price agreed for 2018, will reach the net amount of approximately PLN 2.15 billion.

The coal price was agreed for the first year of the Agreement's term, while in the subsequent years the coal price will be indexed based on the formula included in the agreement, taking into account changes of the market conditions.

The agreement provides for liquidated damages in the amount of 10 percent of the value of unrealized deliveries in the given year.

The Company disclosed information on the above event in the regulatory filing (current report) no. 1/2018 of January 18, 2018.

Financing for Elektrociepłownia Stalowa Wola S.A.

On March 8, 2018 EC Stalowa Wola S.A. signed a loan agreement with Bank Gospodarstwa Krajowego ("BGK") and Polskie Górnictwo Naftowe i Gazownictwo S.A. ("PGNiG").

Under the above mentioned agreement BGK and PGNiG granted EC Stalowa Wola a loan in the amount of PLN 450 million each, to be used to refinance EC Stalowa Wola's debt towards the TAURON and PGNiG (PLN 600 million) and to cover EC Stalowa Wola's new capital expenditures required to complete the EC Stalowa Wola Project (PLN 300 million). The date of the final repayment of the loan shall fall on June 14, 2030.

On April 26, 2018, TAURON received from BGK information that all the suspending conditions, specified in the loan agreement concluded between EC Stalowa Wola, and BGK and PGNiG, had been fulfilled, which enabled payment of the funds from the loan to EC Stalowa Wola.

The above events were described in detail in the regulatory filing (current report) no. 5/2018 of March 8, 2018 and in the regulatory filing (current report) no. 20/2018 of April 26, 2018.

Signing of amendments related to the bond issue program

On March 9, 2018 amendments were signed to the agency and custody agreement as well as to the underwriting agreement, as disclosed by TAURON in the regulatory filings (current reports) no. 49/2015 of November 24, 2015 and no. 29/2017 of June 20, 2017, on, respectively, signing and extending the agreement related to the bond issue program the result of which is an extension by some banks of the period of availability of the funds under the bond issue program.

This means that the maximum value of the program:

- a) is PLN 6.27 billion until December 31, 2020 (this amount did not change as a result of signing the amendments),
- b) is PLN 6.07 billion until December 31, 2021 (it had been PLN 5.32 billion before the amendments were signed),
- c) is PLN 5.82 billion until December 31, 2022 (it had been PLN 2.45 billion before the amendments were signed).

The amendments were signed with the following banks taking part in the Program: Bank Handlowy in Warsaw S.A., Bank BGŻ BNP Paribas S.A., Bank Zachodni WBK S.A., CaixaBank S.A. (Joint Stock Company) Branch in Poland, Industrial and Commercial Bank of China (Europe) S.A. Branch in Poland, ING Bank Śląski S.A., mBank S.A., MUFG Bank (Europe) N.V., MUFG Bank (Europe) N.V. S.A. Branch in Poland and Powszechna Kasa Oszczędności Bank Polski S.A.

The information on the signing of the amendments was disclosed by TAURON in the regulatory filing (current report) no. 6/2018 of March, 2018.

Investment of the Closed-end Investment Funds managed by Polski Fundusz Rozwoju S.A. (Polish Development Fund) in the company carrying out the 910 MW power generating unit construction project in Jaworzno

On March 28, 2018 TAURON, Nowe Jaworzno GT and Fundusz Inwestycji Infrastrukturalnych – Kapitałowy Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych (Infrastructure Investments Fund – Non-public Assets Closed-end Equity Investment Fund) and Fundusz Inwestycji Infrastrukturalnych – Dłużny Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych (Infrastructure Investments Fund - Non-public Assets Closed-end Debt (Fixed Income) Investment Fund) (collectively the "Funds"), a part of whose investment portfolio is managed by Polski Fundusz Rozwoju S.A. (Polish Development Fund), signed the transaction documentation defining the terms of the Funds' equity investment in Nowe Jaworzno GT.

The transaction documentation includes the investment agreement and the shareholders agreement, along with appendices thereto, including the drafts of a multi-year electricity sale agreement and a multi-year coal sale agreement that are to be concluded by TAURON and Nowe Jaworzno GT.

The information on the continuation of activities aimed at cooperating in the implementation of the 910 MW power generating unit in Jaworzno was also disclosed by the Company in the regulatory filings (current reports) no. 25/2017 of June 1, 2018, no. 43/2017 of December 29, 2017 and no. 4/2018 of February 28, 2018.

The above event was described in detail in the regulatory filing (current report) no. 4/2018 of February 28, 2018 and in the regulatory filing (current report) no. 11/2018 of March 28, 2018.

Filing of lawsuits in connection with the termination of long-term contracts for the purchase of power and property rights

On June 18, 2018 TAURON received an official copy of the lawsuit filed by companies that are members of Polenergia S.A. Capital Group (Grupa Kapitałowa Polenergia S.A.):

- (i) company under the name of Amon sp. z o.o. with its seat in Łebcz ("Amon") for payment of damages in the amount of PLN 47,556,025.51 and the demand to determine the Issuer's liability for the losses that may arise in the future due to tort in the total amount of PLN 158,262,177.70,

- (ii) company under the name of Talia sp. z o.o. with its seat in Łebcz ("Talia") for payment of damages in the amount of PLN 31,299,182.52 and the demand to determine the Issuer's liability for the losses that may arise in the future due to tort in the total amount of PLN 106,964,520.73.

The basis for the lawsuit, according to the statements presented by Amon and Talia, is due to:

- a) tort involving entrusting the subsidiary – PE-PKH with making purchases, for the needs of TAURON (and its Capital Group), of electricity and property rights arising from certificates of origin, confirming generation of electricity from renewable energy sources and purchasing property rights arising from certificates of origin, constituting a confirmation of generation of electricity from a renewable energy source (wind farm), under the long term agreements concluded by PE-PKH with Amon and Talia (collectively called "Long Term Agreements"), and subsequently - in view of a lack of consent to introduce amendments to the Long Term Agreements – putting PE-PKH into liquidation (winding up) and taking, in the course of the liquidation (winding up), of the steps resulting in the termination of the Long Term Agreements;
- b) Issuer's tort involving the Company deliberately taking advantage of the damage inflicted upon Amon and Talia;
- c) tort committed by PE-PKH and persons performing the functions of liquidators of PE-PKH, carrying out the activities entrusted thereto by the TAURON on the account of the Company, involving the termination of the Long Term Agreements and stopping the purchasing of electricity and property rights from the plaintiffs.

On June 29, 2018 TAURON received an official copy of the lawsuit filed against the Company by in.ventus sp. z o.o. Mogilno I sp. k. in Wrocław ("Plaintiff") for:

- a) payment by the Company, as damages, for the benefit of the Plaintiff, of the amount of EUR 12 286 229.70 (i.e. PLN 53 587 619.46 at the NBP's average exchange rate of June 29, 2018),
- b) determining liability for damages that may arise in the future, due to tort, with the total value estimated to be worth EUR 35 705 848.71 (i.e. PLN 155 734 629,73 at the NBP's average exchange rate of June 29, 2018).

Under the lawsuit the Plaintiff is asserting its own claims, as well as those taken over by the Plaintiff by way of liability transfer agreements from: in.ventus sp. z o.o. Mogilno II sp. k., in.ventus sp. z o.o. Mogilno III sp. k., in.ventus sp. z o.o. Mogilno IV sp. k., in.ventus sp. z o.o. Mogilno V sp. k., in.ventus sp. z o.o. Mogilno VI sp. k.

The basis for the lawsuits, according to the statements presented by the Plaintiff, is due to TAURON's tort, involving in particular:

- a) entrusting the subsidiary – PE-PKH with making purchases, under the long term agreements, for the needs of the Company and its Capital Group, of electricity and property rights arising from certificates of origin, confirming generation of electricity from renewable energy sources ("Long Term Agreements"),
- b) inducing (urging) PE-PKH and persons performing the functions of its liquidators to terminate and not perform the Long Term Agreements,
- c) deliberately taking advantage by the Company of the damage inflicted as a result of terminating the Long Term Agreements.

TAURON disclosed the information on the termination of the Long Term Agreements by PE-PKH in the regulatory filing (current report) no. 7/2015 of March 19, 2015.

The competent court to rule on the lawsuits is the Regional Court in Katowice (Sąd Okręgowy w Katowicach). The preliminary assessment of the lawsuits and their justifications indicates that the lawsuits filed by Amon and Talia, as well as by Mogilno I are without merit and completely groundless.

The Company disclosed the information on the events in the regulatory filing (current report) no. 21/2018 of June 18, 2018 and in the regulatory filing (current report) no. 22/2018 of June 29, 2018.

Important corporate events in H1 2018

Shareholders' requests to include particular items on the agenda of the General Meeting of the Company

On March 23, 2018 the Company received from the shareholders representing more than one twentieth of TAURON's share capital requests to include the following items on the agenda of the Ordinary General Meeting of the Company convened on April 16, 2018:

- 1) from the Minister of Energy, exercising the rights of the shareholder State Treasury, the item: passing a resolution on amending the *Articles of Association of TAURON Polska Energia S.A.*,
- 2) from KGHM the items: passing a resolution on establishing the number of members of the Company's Supervisory Board, passing resolutions on making changes to the composition of the Company's Supervisory Board.

Minister of Energy sent a draft resolution of the Ordinary General Meeting on amending § 17 of the *Articles of Association of TAURON Polska Energia S.A.*, the content of which was disclosed in the regulatory filing (current report) no. 9/2018 of March 24, 2018, and provided the justification that the proposed amendment is aimed at optimizing the process of selecting a Member of the Management Board by way of a qualification procedure conducted by the Supervisory Board.

On the other hand, shareholder KGHM stated in the justification that inclusion of the above mentioned items on the agenda of the Ordinary General Meeting will enable shareholder KGHM to submit, during the Ordinary General Meeting, applicable motions enabling putting to the vote of the resolutions aimed at making changes to the current composition of the Company's Supervisory Board.

The Company disclosed the information on the above event in the regulatory filing (current report) no. 9/2018 of March 24, 2018. Furthermore, the Company disclosed the information on the content of the proposed amendments to the Articles of Association in the regulatory filing (current report) no. 10/2018 of March 24, 2018.

Ordinary General Meeting of the Company

On April 16, 2018 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 2017, distribution of net profit for the financial year 2017, acknowledgement of the fulfillment of duties by members of the Company's Management Board and Supervisory Board, establishing the number of members of the Company's Supervisory Board and appointing a new member of the Supervisory Board.

The decision was taken that the Company's net profit for the financial year 2017 in the amount of PLN 854 350 522.56 would be allocated to the Company's spare (supplementary) capital.

The amendments to the Articles of Association proposed by the shareholder, disclosed by TAURON in the regulatory filing (current report) no. 10/2018 of March 24, 2018, were not adopted during the Ordinary GM of the Company.

The Company disclosed information on convening the Ordinary GM and on the content of the draft resolutions in the regulatory filings (current reports) no. 7/2018 of March 20, 2018, no. 8/2018 of March 20, 2018, no. 9/2018 of March 24, 2018, no. 10/2018 of March 24, 2018, no. 13/2018 of April 10, 2018 and no. 14/2018 of April 13, 2018. The Company disclosed information on the adopted resolutions of the Ordinary GM in the regulatory filing (current report) no. 15/2018 of April 16, 2018.

Appointment of a Member of TAURON's Management Board

On April 16, 2018 the Ordinary GM of the Company, acting pursuant to § 22 clause 1 of the Company's Articles of Association, passed a resolution on appointing Mr. Marcin Szlenk to be a member of TAURON's Supervisory Board of the 5th common term of office.

The Company disclosed information on the appointment of the new member of the Supervisory Board in the regulatory filings (current reports) no. 16/2018 of April 16, 2018 and no. 18/2018 of April 18, 2018.

Other important events in H1 2018

Appointment of certified auditor

On February 26, 2018 TAURON's Supervisory Board selected the audit company Ernst & Young Audyt Polska Limited Liability Company Limited Joint-Stock Partnership ("Ernst & Young") to conduct an audit of TAURON's standalone and consolidated financial statements for the financial year 2018 and a review of TAURON's interim standalone and consolidated financial statements of TAURON Polska Energia S.A. for the six months ending on June 30, 2018.

The selection of the audit company was made in accordance with the applicable regulations in force and professional standards.

An amendment to the agreement with Ernst & Young was concluded for the period required to complete the entrusted activities.

The above event was described in detail in the regulatory filing (current report) no. 3/2018 of February 26, 2018.

Dissolving of the provisions related to employee benefits at TAURON Wytwarzanie

On April 6, 2018 the Management Board of TAURON Wytwarzanie passed a resolution pursuant to which it dissolved a provision in the amount of PLN 168 million for the cash equivalent for the discounted use of electricity (employee tariff) by retirees, pensioners and other authorized persons who are not employees (a positive impact on the Generation segment's EBIT in Q1 2018).

The resolution was passed based on the agreement reached between the Management Board of TAURON Wytwarzanie and the workforce, and the additional protocol to the Company's Collective Bargaining Agreement of TAURON Wytwarzanie, registered by the State Labor Inspection.

Additionally, TAURON Wytwarzanie concluded agreements with the workforce amending labor contracts, pursuant to which anniversary bonuses would not be paid out. As a result TAURON Wytwarzanie paid the workforce the applicable damages and dissolved the provision which led to an increase of the Generation segment's EBIT by PLN 43 million in Q1 2018.

Furthermore, TAURON Wytwarzanie dissolved the provision related to the Company's Social Benefits Fund for former employees in the amount of PLN 18 million (a positive impact on the Generation segment's EBIT in Q1 2018).

The above presented impact of one-off events on TAURON Capital Group's earnings is an estimate.

The Company disclosed the information on the above event in the regulatory filing (current report) no. 12/2018 of April 6, 2018.

Important events past June 30, 2018

The approval of the Chairman of the Office of Competition and Consumer Protection (UOKiK) for the concentration involving establishing a joint undertaking by the Issuer and the Polish Development Fund (Polski Fundusz Rozwoju S.A.)

On July 17, 2018 the Company received the decision of the Chairman of the Office of Competition and Consumer Protection (UOKiK) of July 13, 2018, on granting an unconditional approval for the concentration involving establishing a joint undertaking, named Nowe Jaworzno GT, by TAURON and PFR, acting via the Funds, on the terms defined in the application of TAURON and PFR. The joint undertaking mentioned in the above indicated decision of the Chairman of UOKiK will be the Special Purpose Vehicle.

Granting of the above approval by the Chairman of UOKiK means fulfillment of one of the suspending conditions envisaged by the Investment Agreement signed by TAURON, the Funds and the Special Purpose Vehicle on March 28, 2018, constituting one of the documents included in the transaction documentation that the Company disclosed information on in the regulatory filing (current report) no. 11/2018 of March 28, 2018.

The Company disclosed the information on the above event in the regulatory filing (current report) no. 23/2018 of July 17, 2018.

Information on the suspending conditions defined in the Investment Agreement

On July 26, 2018 TAURON disclosed information that, in its opinion, as of July 26, 2018, all the suspending conditions required for the Funds to join Nowe Jaworzno GT, defined in the investment agreement signed by the Company, the Funds and Nowe Jaworzno GT on March 28, 2018, that were supposed to be implemented within 4 months from the day of concluding the investment agreement, were fulfilled, i.e.:

- (i) TAURON and PFR obtained an unconditional approval of the Chairman of the Office of Competition and Consumer Protection (UOKiK) for the concentration involving establishing a joint undertaking by TAURON and PFR under the name of Nowe Jaworzno GT, which TAURON disclosed the information on in the regulatory filing (current report) no. 23/2018 of July 17, 2018,
- (ii) TAURON and Nowe Jaworzno GT concluded the electricity sale agreement and the coal sale agreement,
- (iii) TAURON and Nowe Jaworzno GT completed the legal actions agreed upon in the investment agreement.

In accordance with the investment agreement the Funds may present their position on the fulfillment of the above mentioned suspending conditions within 10 working days from the day they are served with the notification of the fulfillment of the last suspending condition.

TAURON also informed that it had submitted a request for the issuing by the Head of the National Treasury (Tax) Administration of the decision approving the terms of the electricity sale agreement as an advance pricing agreement ("APA Decision"). In accordance with the investment agreement this condition should be fulfilled within 7 months from the day of concluding the Investment Agreement, i.e. by October 28, 2018. The APA Decision will be the final document that TAURON should obtain as part of implementing the conditions suspending the Funds joining Nowe Jaworzno GT.

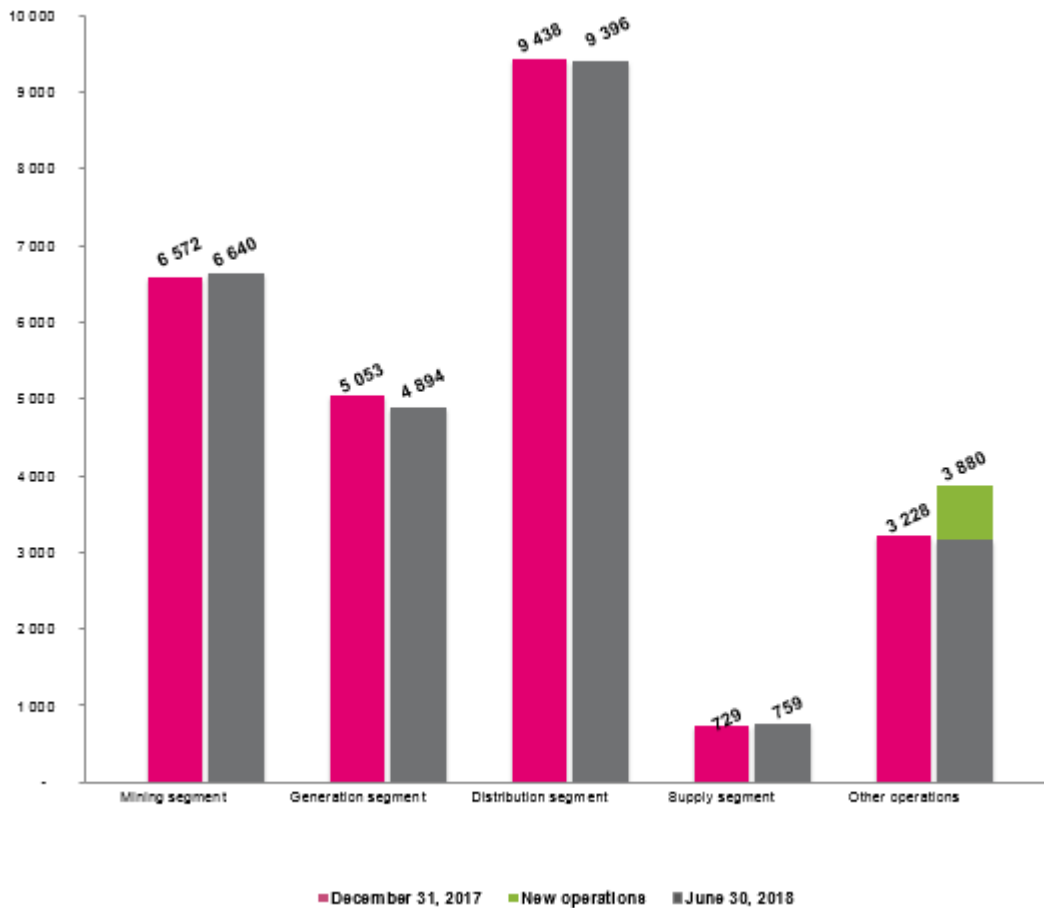
The Company disclosed the information on the above event, in reference to the regulatory filing (current report) no. 11/2018 of March 28, 2018, in the regulatory filing (current report) no. 24/2018 of July 26, 2018.

2.4. Headcount information

TAURON Capital Group's headcount reached 25 227 FTEs in H1 2018 which meant an increase versus the headcount in 2017, when the average employment level was 25 992 FTEs.

The below figure presents TAURON Capital Group's average headcount in FTEs (rounded up to the full FTE) per Line of Business in 2017 and in H1 2018.

Figure 15. TAURON Capital Group's average headcount in 2017 and in H1 2018* (FTEs)



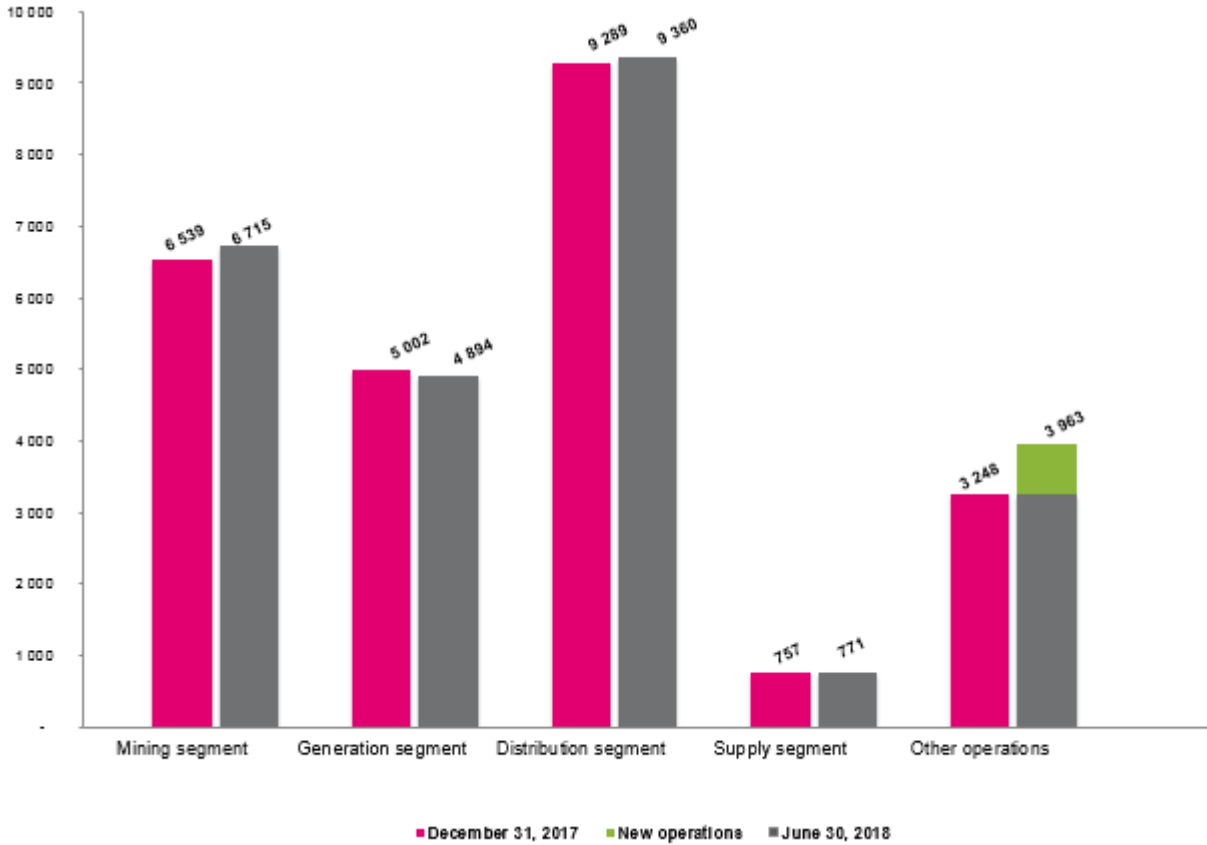
*Average headcount includes Wsparcie Grupa TAURON subsidiary that due to an increase of its scope of operations took over the security personnel as of January 1, 2018 (New operations).

Changes to the average headcount in individual Lines of Business in H1 2018 in relation to the average headcount in 2017 are, inter alia, due to the takeover, as of January 1, 2018, of the security personnel (from the existing employers, i.e. Impel Security Polska Sp. z o.o., GWARANT Agencja Ochrony S.A. and Impel Provider Security Partner Sp. z o.o.) by Wsparcie Grupa TAURON, the Voluntary Redundancy Programs underway in the Distribution and Generation segments, as well as employees leaving TAURON Capital Group and the activities carried out by TAURON Wydobycie, related to securing the production volume by providing support for its own preparatory works units, that assume hiring blue collar workers.

25 703 persons were employed by TAURON Capital Group's subsidiaries as of June 30, 2018. The headcount increased by 868 persons as compared to the headcount as of December 31, 2017 that stood at 24 835 persons.

The below figure presents TAURON Capital Group's headcount in persons as of December 31, 2017 and June 30, 2018.

Figure 16. TAURON Capital Group's headcount as of December 31, 2017 and June 30, 2018* (persons)



*Average headcount includes Wsparcie Grupa TAURON subsidiary that due to an increase of its scope of operations took over the security personnel as of January 1, 2018 (New operations).

3. TAURON CAPITAL GROUP'S RISK MANAGEMENT

3.1. Goal and key principles of TAURON Capital Group's risk management

Risk at TAURON Capital Group is understood as an uncertain occurrence or a group of occurrences that, in case of materializing, will have an impact on achieving by TAURON Capital Group of its defined strategic goals, both negatively (threat), as well as positively (opportunity).

In line with its Strategy the Company is implementing the process of managing the risk related to the operations of TAURON Capital Group. The primary goals of risk management include ensuring the broadly understood security of TAURON Capital Group's operations. In particular, risk management is to ensure increased predictability of TAURON Capital Group achieving its strategic goals, including sustainable financial generation of its financial results.

TAURON Capital Group's risk management:

- 1) covers all elements of the value chain,
- 2) provides centralized risk measurement, monitoring and control function, and also ability to evaluate the full risk profile in the organization and coherent risk management principles,
- 3) ensures independence of the risk taking function from its control and monitoring which ensures that no conflict of interest will arise,
- 4) ensures a clear split of competences and responsibilities, in particular by introducing the risk ownership function,
- 5) is an active process, focused on an appropriately early identification of threats, allowing for taking preventive measures,
- 6) is a systematic and continuously improved process which allows for aligning it on an ongoing basis to TAURON Capital Group's specifics and organizational structure, as well as to the changing environment,
- 7) places a lot of emphasis on developing awareness, training and encouraging personnel to use the knowledge of risks in daily activities,
- 8) co-participates in TAURON Capital Group's internal audit system, constituting, along with the compliance, security management and audit functions, an element of the three line defense model.

3.2. Enterprise risk management system (ERM)

The enterprise risk management (**ERM system**) system functioning at TAURON Capital Group's level is a set of principles, standards and tools allowing for achieving the primary risk management goal which is, broadly understood, ensuring security of TAURON Capital Group's operations. The system is based on the document entitled *TAURON Group's Enterprise Risk Management System* (ERM Strategy) that defines TAURON Capital Group's Enterprise Risk Management framework and principles. The goal of the ERM Strategy is to ensure coherent management of individual risk categories that are detailed in separate regulations, aligned to the specifics of the individual groups of threats.

The below figure presents the basic enterprise risk classification.

Figure 17. Enterprise risk classification



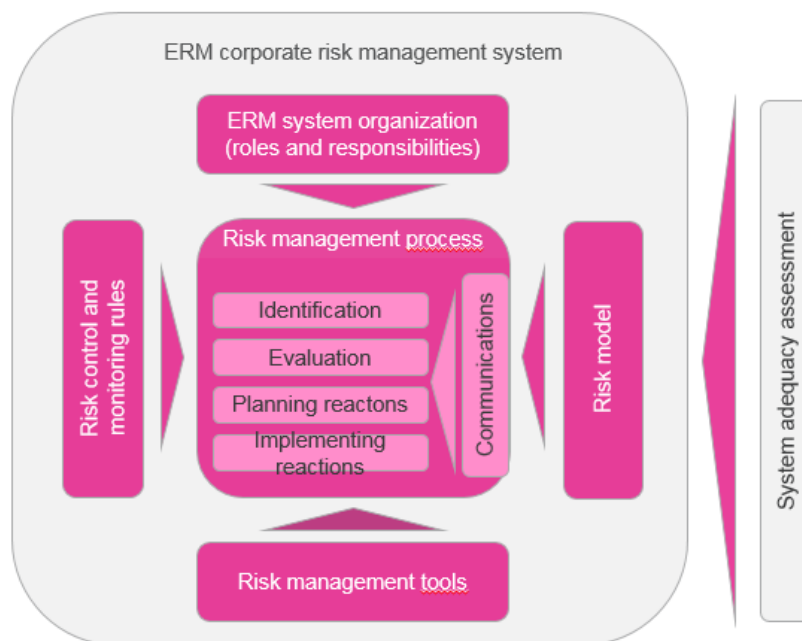
The detailed description of individual risk categories management principles and tools is provided further on in this report.

The center of the ERM System is a risk management process that includes continuous activities such as risk identification, its measurement and developing and implementing reactions to risk. The ERM System's architecture also includes elements that are to ensure effective functioning of the process, including:

- 1) risk management tools,
- 2) risk model,
- 3) control and monitoring principles (rules),
- 4) ERM system's organization,
- 5) assessment of the ERM system's adequacy and functioning.

The below figure presents the structure of the ERM system functioning at TAURON Capital Group.

Figure 18. ERM system architecture



Risk management tools used by TAURON Capital Group allow for an effective implementation of the individual stages of this process. TAURON Capital Group is applying the following tools in particular:

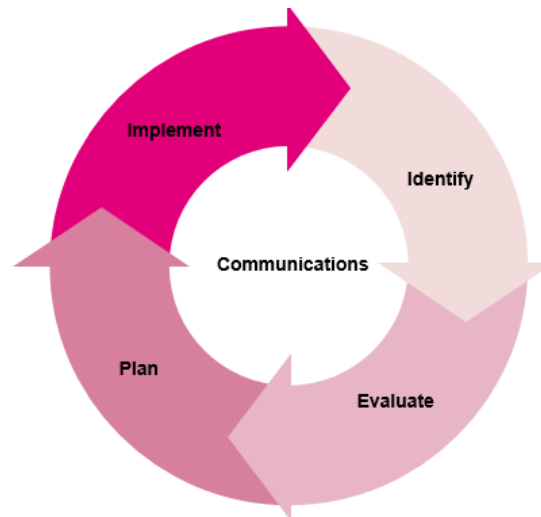
- 1) risk identification questionnaire, i.e. a table form specifying information that should be collected when identifying risk,
- 2) risk card containing detailed information on the identified risk,
- 3) risk register, i.e. a table summary of risks related to TAURON Capital Group's operations, containing in particular their descriptions, categories, valuations, and in justified cases also the reaction to risk, back up (contingency) plan and the system of indicators subject to monitoring,
- 4) risk model, i.e. their orderly list, allowing for systematizing risks occurring in TAURON Capital Group's operations,
- 5) risk map, i.e. graphical presentation of identified risks in a manner that takes into account the probability of them materializing and their potential,
- 6) risk tolerances and risk limits, i.e. the maximum, permitted by TAURON's Management Board, level of risk that may occur as part of the operations conducted,
- 7) key risk indicators and early warning indicators informing of exposure to a specific risk within a specific time frame.

3.2.1. Risk management process and its participants

Risk management is based on a process focused on an appropriately early prevention of the consequences of identified threats and effective decision making, and also on the possibly best understanding of potential undesirable consequences of risk materializing. The enterprise risk management process entails continuous actions that include identifying risk, measuring risk, planning reaction to risk, implementing the adopted reaction to risk and the communication among the risk management process participants.

The figure below presents stages of TAURON Capital Group's enterprise risk management process.

Figure 19. TAURON Capital Group's enterprise risk management process stages



TAURON Capital Group's enterprise risk management process stages:

Risk identification (*Identify*) based on determining potential events that may affect the accomplishment of TAURON Capital Group's business goals.

Risk assessment (*Assess*) based on determining potential financial and non-financial consequences of risk materializing in the context of achieving specific goals.

Planning reaction to risk (*Plan*) based on preparing dedicated responses to the risk identified in order to achieve the desirable outcomes.

Implementing the adopted reaction to risk (*Implement*) based on implementing in practice the prepared risk response to the risk identified.

Communication is based on the continuous information flow among the process participants which is to ensure full knowledge on the current level of risk and the effectiveness of the reaction thereto. Periodic risk reporting is also an element of this process.

The key assumption of the risk management system is a clear and precise split of tasks and responsibilities, ensuring no conflicts of interest. In particular, the system guarantees independence of the risk taking function from its control and monitoring. It is implemented by centralizing the control function at the parent Company level in the organizational and functional separation of the risk taking function. The principles in place at TAURON Capital Group implement a risk Owner function, i.e. a person responsible for managing the given risk as well as developing and implementing an effective reaction to a threat. On the other hand, the control function, the process coordination, as well as the responsibility for the correct functioning of the risk management system is placed in the Executive Director responsible for Risk's Area.

As part of the risk management process the Risk Committee plays a special role as an expert team that permanently and continuously initiates, analyzes, monitors, controls, supports and supervises the performance of TAURON Capital Group's risk management system. The Risk Committee is made up of persons with relevant knowledge on the Company and its environment, as well as the required qualifications and powers. The task of the Risk Committee is to define TAURON Capital Group's risk management norms and standards and to oversee the effectiveness of the risk management process. Two separate teams are established within the Risk Committee: for the commercial risk area and for the financial and credit risk area. The Risk Committee directly oversees the implementation of the enterprise risk management process.

The below table presents the relationships between the individual roles in the context of the ERM Strategy and the other documents that define TAURON Capital Group's risk management system in detail.

Table 11. Relationships among the individual roles in the context of the ERM Strategy and the documents that define the ERM System

Supervisory Board						
Audit Committee						
Management Board						
Management	Risk Committee					Internal Audit
	Commercial (Trade) Risk Management Team	Financial and Credit Risk Management Team				
Organizational by-laws	TAURON Group's corporate risk management strategy					
	TAURON Group's commercial risk (trade) management policy	TAURON Group's operational risk management policy	TAURON Group's project management risk policy	TAURON Group's credit risk management policy	TAURON Group's financial area specific risk management policy	Internal audit regulations
	Market Risk Team	Corporate Risk Team		Credit Risk Team	Executive Director for Finance	Internal Audit Team
	Executive Director for Risk					Executive Director for Internal Audit
	Reporting to Supervisory Board, Management Board of TAURON, Members of Risk Committee					Reporting to President of Management Board

The roles and responsibilities of all the participants of TAURON Group's risk management system are defined in the ERM System. The detailed description of roles and responsibilities is provided in the below table.

Table 12. The description of roles and responsibilities of the ERM System's participants

PARTICIPANT	PARTICIPANT'S ROLES AND RESPONSIBILITIES
TAURON's Supervisory Board	<ol style="list-style-type: none"> 1) Assess the ERM System, especially its adequacy and effectiveness. 2) Right to audit the Company's enterprise risk management activities with respect to compliance with the expectations of shareholders, governing and regulatory authorities.
TAURON's Supervisory Board's Audit Committee	<ol style="list-style-type: none"> 1) Monitor the ERM System's effectiveness.
TAURON's Management Board	<ol style="list-style-type: none"> 1) Assess the ERM System's adequacy, effectiveness and efficiency. 2) Take formal decisions related to the key elements of TAURON Capital Group's enterprise risk management, including approving the list of risks for which the Management Board will be performing the Risk Owner's function. 3) Approve TAURON Capital Group's risk tolerances and global limits for key risks. 4) Manage risks of particular importance for TAURON Capital Group's operations.
Risk Committee	<ol style="list-style-type: none"> 1) Supervise TAURON Capital Group's risk management process. 2) Control TAURON Capital Group's risk exposure. 3) Provide feedback and recommend to the Management Board solutions with respect to the individual elements of risk management infrastructure. 4) Define TAURON Capital Group's risk tolerances and global limits for key risks, and also apply to the Management Board for their approval or change. 5) Oversee the preparation of the quarterly information for the Management Board on TAURON Capital Group's all significant risk related issues.

Executive Director responsible for Risk	1) Coordinate risk management on all levels and in all areas of the organization's operations.
	2) Responsible for developing the ERM System (methods, identification processes and procedures, assessment, monitoring and control of threats).
	3) Support and oversee the system's participants in implementing risk management and assess its effectiveness.
	4) Prepare and provide risk reports to authorized risk management process participants.
	5) Actions aimed at developing supportive organizational culture and raising awareness with respect to TAURON Capital Group's risk management.

Executive Director responsible for Internal Audit	Periodic review of the correctness of design and implementation of the ERM System as well as effects of its operation.
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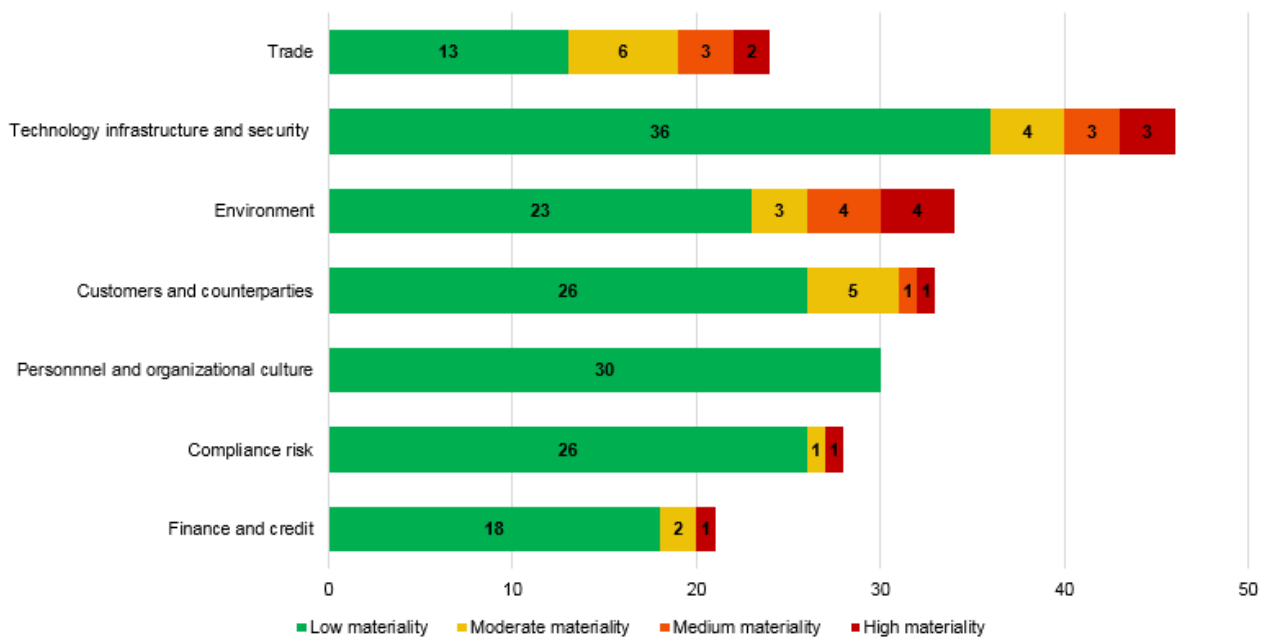
Subsidiary's Management Board	1) Responsible for the subsidiary risk management.
	2) Promote the subsidiary risk management culture.
	3) Responsible for the right reactions to risks and the effectiveness thereof.
	4) Appoint Risk Owners in the given subsidiary.
	5) Approve plans of reactions to risk and make ongoing decisions on dealing with risk in case the set risk values (escalation thresholds) are breached.

Risk Owner	1) Responsible for actions related to the implementation of the risk management process as part of the entrusted area of responsibility, in the context of an impact on the ongoing operations as well as on the accomplishment of the unit's strategic, operational and financial goals.
	2) Responsible for preparing the plan and implementing the reaction to risk in case its set values are breached, and also for the communications and reporting as part of the risk management performed.

3.2.2. Risk model

Risk model defines a coherent classification of risks, enabling their uniform and comprehensive analysis at the entire TAURON Capital Group's level. Each identified risk is assigned to a specific category and sub-category. The main risk categories, defined by TAURON Capital Group along with the number of key threats, are presented in the below figure:

Figure 20. Number of key risks broken down into categories



The most important risks identified at TAURON Capital Group's level broken down into individual risk categories are described further on in this report.

3.2.3. Control and monitoring principles (rules)

Adopted risk control and monitoring principles (rules) are aimed at reducing TAURON Capital Group's exposure to factors that may have an adverse impact on its operations. The basic risk control tool is the Management Board approved risk tolerance that defines TAURON Capital Group's maximum admissible risk exposure.

The process of defining risk tolerance takes into account TAURON Capital Group's specifics and scope of operations. It is given a value, and the organization's individual risk measurement principles are defined so as to ensure the coherence of risk measuring with the tolerance definition applied. Risk tolerance is the basis for allocating its value to the global Limits dedicated to a single or a number of key risks. Then, as part of key risk management, operational limits are allocated. The key assumption is to guarantee the independence of risk taking from its control which guarantees security of the organization's operations.

A supplementary tool used to monitor and control risk is the Early Warning System based on the catalog of Key Risk Indicators (KRI) and Early Warning Indicators (ERI). The system based on the KRI and EWI indicators enables an appropriately early identifying of threats by measuring the causes of the individual threats. At the same time this system allows for an appropriately early implementing of remedies, prior to the factual materializing of individual threats.

3.2.4. Assessing the ERM System's performance adequacy

Risk management is a systematic process that is subject to continuous improvement so as to keep aligning it to TAURON Capital Group's specifics and organizational structure as well as the changing environment on an ongoing basis. It is also subject to a periodic internal and independent adequacy assessment and reviews:

- ERM System is subject to continuous reviews with respect to its adequacy and alignment to TAURON Capital Group's structure and specifics of its operations as well as the changing environment,
- not less often than once a year, the Executive Director responsible for Risk prepares a report on the assessment of adequacy of the ERM System's architecture for the members of the Risk Committee.

Executive Director responsible for Audit, as part of exercising institutional oversight (third line of defense), performs an independent risk management audit at TAURON Capital Group with respect to the appropriate application of the principles by the participants of the process, as well as its adequacy and effectiveness.

3.3. Managing TAURON Capital Group's main risks

3.3.1. Commercial (trading) risk management

TAURON Capital Group's commercial (trading) risk management is understood as reducing the unplanned volatility of its operating result, due to price fluctuations on the commodity markets and volume deviations in the individual areas of TAURON Capital Group's commercial (trading) operations. The commercial (trading) risk, due to the specifics of the operations conducted, constitutes one of TAURON Capital Group's key risks. TAURON Capital Group is made up of subsidiaries operating both in the Mining and the Generation Lines of Business as well as in the Supply Line of Business. Due to the opposite positions (exposures) in these Lines of Business the risk is, to a certain degree, naturally diversified. However, since these Lines of Business do not fully offset each other, and due to the diverse nature of the exposures, TAURON Capital Group is displaying sensitivity to the volatility of the prices of electricity, gas and related products.

In order to efficiently manage this group of risks the commercial (trading) risk management system was established, tied on the organizational and information level to TAURON Capital Group's process used to develop a commercial (trading) position hedging strategy described in *TAURON Group's Portfolio Management Policy*. In particular *TAURON Group's commercial (trading) risk management policy* introduces an early warning system and a system used to limit risk exposure in the individual commercial (trading) areas. The basic operating measure of TAURON Capital Group's market risk is Value at Risk, defining the maximum admissible change of the position's value over the given time horizon and at a specific probability level. Value at Risk represents a dynamic risk measure which in contrast to static measures allows for determining potential negative effects before their factual occurrence. Due to the limitations of the statistical measures the commercial (trading) risk management system also uses a number of supplementary risk measures enabling a safe operation of the commercial (trading) areas.

The organizational structure of the commercial (trading) risk management system envisages centralizing of competences at the holding (parent) company level, with, however, a precise separation of the risk taking function from the risk control function, performed by the independent risk area. The key element of the above mentioned structure is the split of TAURON Capital Group's trading operations into: Front Office, Middle Office and Back Office. The goal of such a split of tasks is to guarantee the independence of the operating functions, carried out by the Front Office, from the risk control function carried out by the Risk Area, and furthermore it ensures an appropriate level of operational flexibility. Moreover, with respect to the Front Office such a split of responsibilities is assumed in order to ensure an optimal approach to the individual types of threats, especially taking advantage of the economy of scale and the synergy effect. This ensures efficiency of the trading (commercial) processes and appropriate supervision over one of the main business processes conducted within TAURON Capital Group.

The below figure presents the breakdown of TAURON Capital Group's trading operations.

Figure 21. Breakdown of TAURON Capital Group's trading operations



3.3.2. Financial risk management

TAURON Capital Group is managing the financial risk, understood as FX risk and interest rate risk, based on *TAURON Group's Financial Risk Management Policy*, which is a set of rules and standards in line with the best practices in this respect. Due to the correlation between the risk incurred, and the level of revenue potentially to be generated, these principles are applied in order to maintain the threats at the pre-agreed, considered as acceptable, level. The main goal of the financial risk management is to minimize the sensitivity of TAURON Capital Group's cash flows to the financial risk factors and to minimize the financial costs and the hedging costs as part of a transaction with the use of derivative instruments.

With respect to the financial risks TAURON Capital Group also identifies the liquidity risk that may result in a potential loss or limitation of the ability to pay current expenses, due to an inadequate size or structure of liquid assets in relation to short term obligations or an insufficient level of the actual net inflows from the operations. TAURON Capital Group's liquidity position is monitored on an ongoing basis for any potential deviations from the plans and the availability of external sources of financing the amount of which substantially exceeds the short term demand mitigates the risk of losing liquidity. Implemented *TAURON Group's Financial Liquidity Management Policy* defines the principles of determining the liquidity position both of the individual Subsidiaries as well of entire TAURON Capital Group, which allows for securing funds to cover a potential liquidity gap – both by allocating funds among subsidiaries (cash pool mechanism), as well as with the use of external financing, including overdrafts.

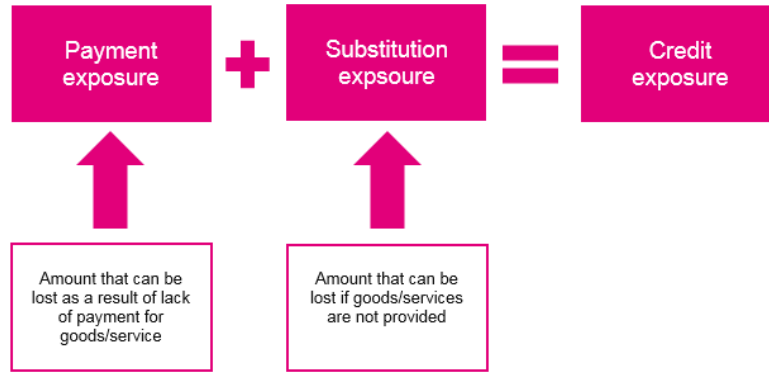
3.3.3. Credit risk management

Credit risk is understood as a possibility to incur a loss due to trade partners failing to fulfill their contractual obligations (default). TAURON Capital Group is using a decentralized credit risk management system, however the control, limiting and reporting of this risk category is carried out centrally, on the parent Company level. *TAURON Group's Credit Risk Management Policy* in place defines credit risk management principles on TAURON Capital Group's level, aimed at effectively minimizing the impact of this risk on the accomplishment of TAURON Capital Group's goals.

Credit risk management is carried out by controlling the credit exposure generated upon the conclusion of contracts by TAURON Capital Group's subsidiaries. The general rule is that prior to concluding a contract every entity is subjected to an examination of its financial standing and receives a credit limit which caps the maximum exposure due to the given trade. Credit exposure is, in this context, understood as an amount that may be lost if a counterparty fails to fulfill its obligations (defaults) within a certain time (taking into account the value of collaterals contributed thereby). Credit exposure is calculated as of the current day and is split into exposure due to payment (payment exposure) and replacement exposure.

The below figure presents credit exposure components.

Figure 22. Credit exposure components



Based on the exposure value and the evaluation of the financial standing of specific customers the credit risk value that TAURON Capital Group is exposed to is calculated using the statistical methods according to which value at risk (exposure value) is calculated based on the total loss probability distribution.

3.3.4. Operational risk management

Operational risk is understood as a possibility to incur a loss due to inappropriate or unreliable internal procedures, human and system errors or as a consequence of external events; also includes legal risk, reputational risk and non-compliance risk. Operational risk, due to the specific nature of the threats and the ability to manage them, constitutes a separate group of risks affecting TAURON Capital Group's operations. This risk is a complex issue, occurs in every process and type of operations, it is multi-dimensional and applies to various types of activities and operations. In particular, the exposure to the operational risk factors is related to the size and complexity of the organizational structure, the number and complexity of IT systems and to the number of business processes conducted. The operational risk is characterized by the lack of the ability to totally eliminate its sources, and the analysis of its factors and parameters (among others, frequency and severity), and also the evaluation thereof requires the use of complex measurement and analytical methods.

In order to effectively manage the operational risk TAURON Capital Group is using appropriate tools, presented on the below diagram. In particular, they include the operational risk profile, operational events database, global operational risk limit and the related system of operational limits as well as the early warning system operating on a large scale.

The below figure presents operational risk management system tools.

Figure 23. Operational risk management system tools



Global operational risk limit is a basic tool for the control thereof and represents the allocation of risk tolerance adopted by TAURON Capital Group. The global limit can be subsequently allocated to TAURON Capital Group's individual lines of business, the operational risk sub-categories as well as to the specific operational risks.

Operational risk profile is aimed at identifying areas, processes or activities with an excessive exposure to specific operational risks. It is expressed in particular in the structural dimension that includes types of operational events, TAURON Capital Group's organizational structure and processes, and that, in the scale dimension, includes estimated potential losses, taking into account especially the historical values of actual losses; the profile also includes the tools used to mitigate the threats. For the needs of measuring the operational risk and defining the operational risk profile its individual types are broken down into continuous and one-off risks.

Early warning system is defined in order to monitor the operational risk level for any identified threat. Early Warning Indicators (EWI) are selected from the Key Risk Indicators (KRI) set as the ones that are subject to continuous control (monitoring) with respect to the caution thresholds set for them, i.e. acceptance, mitigation and escalation thresholds.

Operational events database is created for the needs of identifying risk factors, and also in order to define the risk profile for TAURON Capital Group. It allows for keeping the records of cases that cause a potential or actual loss for the organization. Maintaining the operational events database enables determining the frequency and severity of the individual operational risk factors as well as the areas and processes they occur in.

Risk identification questionnaire is a document in a table form format that constitutes a tool supporting the performance of the risk management process with respect to risk identification, specifying the detailed information that should be collected in this process.

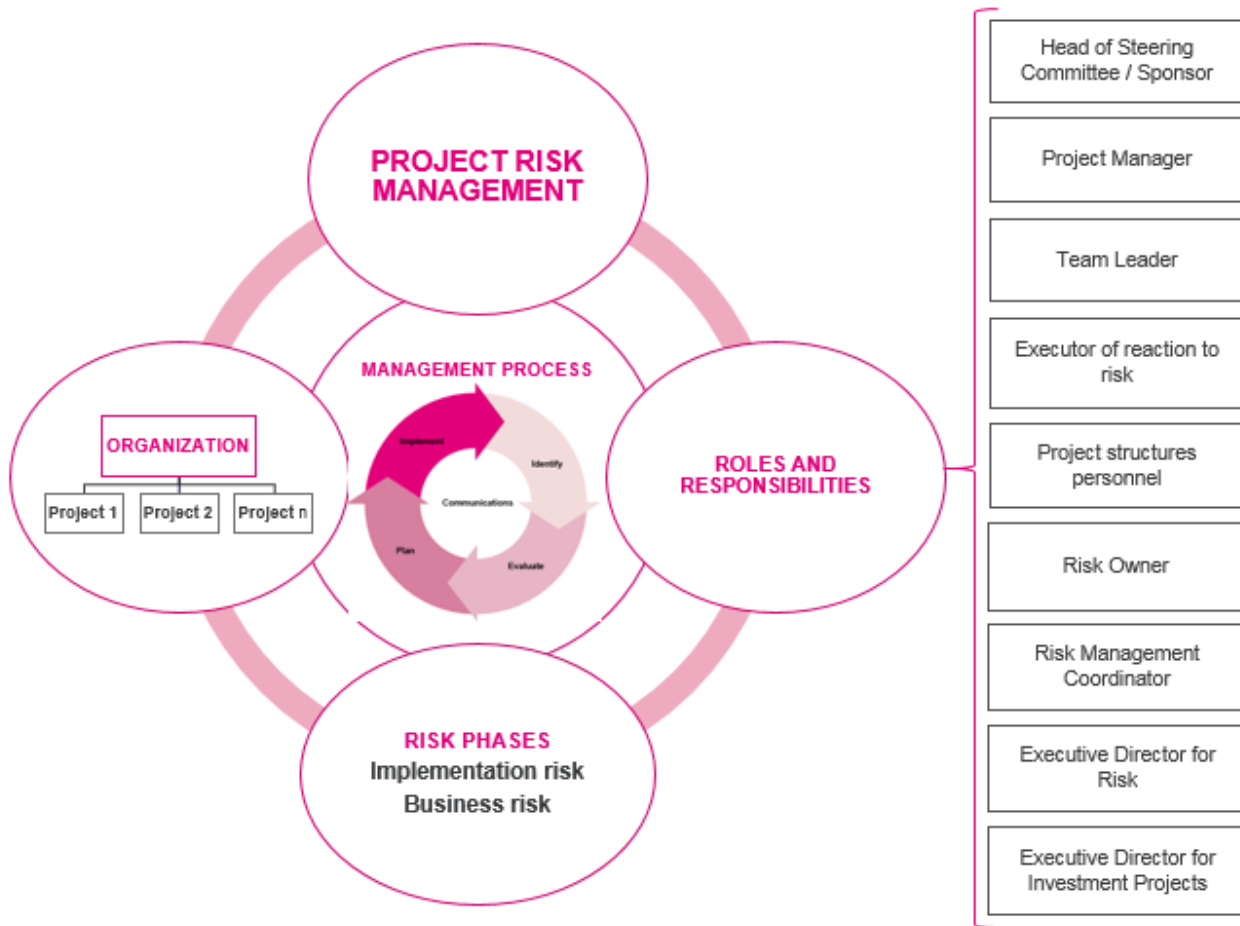
3.3.5. Project risk management

TAURON Capital Group is conducting a number of investment projects in many lines of its business operations. These projects, due to their scale and often very complicated nature of implementation, represent a source of threats that may have an impact on the schedule, budget or quality of the final products. Systematic use of the provisions of *TAURON Group's Project Risk Management Policy* is aimed at mitigating these risks, supporting at the same time the accomplishment of the organization's strategic goals. This regulation, in particular, defines the basic principles of project risk management, ensuring coherence, comprehensive approach and unequivocal understanding in this area. The goal of the actions taken is to achieve the required probability of the project's completion while complying with the defined schedule, budget and quality of the products received. The overall objective is to obtain the expected benefits from the project's completion and to accomplish TAURON Capital Group's strategic goals.

Project risk management is also applicable to managing the risk stemming from the projects and having an impact on the organization. The process of managing the risk stemming from the projects includes identification, valuation of such risks, defining and monitoring early warning indicators as well as planning and implementing actions related to managing such risks. In case of risks having an impact on the organization the risk valuation is made as the absolute value of the impact including the impact period, broken down into individual accounting periods, in reference to the assumed EBITDA or the assumptions made by the organization for the long term projections. In case of the most important risks having an impact on the organization the Plans of Reactions to the risk and the Back-up (Contingency) Plans are developed. The evaluation of project risks and risks stemming from the projects for the organization is taken into account when making the key decisions related to launching and implementing such projects.

The below figure presents the project risk management model.

Figure 24. Project risk management model



3.4. Description of the most significant risks related to TAURON Capital Group's operations

The Company is actively managing all of the risks, seeking to eliminate or, to the maximum degree, reduce their potential negative impact, in particular on TAURON Capital Group's financial results.

The below table presents the most significant risks and their potential impact on TAURON Capital Group's value levers.

Table 13. Description of risk factors

#	Risk name	Risk description	Risk trend	Reaction to risk (selected elements)
Finance and credit				
1.	Interest rate and FX rate risk	Risk related to an unfavorable impact of interest rates and FX rates on TAURON Capital Group's financial results.	↗	<ul style="list-style-type: none"> Ongoing monitoring of risk exposure in order to minimize negative impact of changes to the market factors. Transfer of risk through the use of derivative instruments.
2.	Liquidity / financing risk	Risk related to the manner of financing operations, due to the enterprise's capital structure.	→	<ul style="list-style-type: none"> Diversification of the sources of financing including arranging guaranteed financing programs and securing alternative sources of financing. Implementing the central financing policy. Analyzing the market and the availability of the sources of financing. Monitoring the schedules and the date of announcing the financing program.
3.	Credit risk	Risk related to a potential occurrence of overdue accounts payable or a conclusion of a contract with a counterparty that will turn out to be insolvent.	→	<ul style="list-style-type: none"> Regular monitoring of the counterparties' financial standing. Periodic customer scoring, credit rating of each customer prior to submitting an offer/concluding a contract. Use of protection mechanisms (hedging) in commercial (trading) agreements.

#	Risk name	Risk description	Risk trend	Reaction to risk (selected elements)
Trading				
4.	Market risk	Risk related to an unfavorable change of prices on the electricity market and on the related products markets, having a negative impact on TAURON Capital Group's financial results.	↗	<ul style="list-style-type: none"> Monitoring and updating the position hedging strategy. Ongoing monitoring of exposure to the above mentioned risk in order to minimize negative impact of changes to the market factors. Limits (caps) on trade positions within risk mandates.
Workforce and organizational culture				
5.	Social dispute risk	Risk related to collective disputes, strikes, social conflicts being the consequence of a lack of the personnel's satisfaction with the economic and social situation.	→	<ul style="list-style-type: none"> Conducting social consultations with respect to the planned changes. Conducting a policy of dialogue with the workforce. Preparing and implementing motivational solutions for the personnel. Standardizing the tasks and requirements towards the personnel. Developing organizational culture based on values. Conducting active internal communications on personnel matters.
6.	Human resources risk	Risk related to the temporary or permanent loss of specialized staff and difficulties in its restoration.	→	<ul style="list-style-type: none"> Taking measures aimed at developing a model that would enhance workforce motivation. Developing competences by training the personnel.
7.	Occupational Health and Safety Risk	Risk related to accidents at work resulting from non-compliance with the Occupational Health and Safety as well as Fire Protection regulations.	→	<ul style="list-style-type: none"> Implementing manuals and rules defining safe organization of work. Stimulating workforce development by conducting periodic Occupational Health and Safety and additional specialist training. Analyzing and updating, as needed, the evaluation of the professional risk at individual work stations (positions). Maintaining a high standard of equipping the personnel with protection means and enforcing the appropriate use thereof. Performing measurements of harmful factors in the work environment.
8.	Communications risk	Risk related to providing inaccurate, untrue information or not providing it at specific time.	→	<ul style="list-style-type: none"> Use of available communications tools to provide information. Organizing direct meeting between the management team and personnel. Developing good relations with workforce at TAURON Capital Group.
Customers and contractors				
9.	Customer service risk	Risk related to non-compliance with the customer service standards.	→	<ul style="list-style-type: none"> Monitoring and analyzing external customer satisfaction indicators and indicators related to complaints. Taking additional measures, e.g. with respect to internal regulations, defining standards of conduct as a result of the analysis of indicators. Taking additional measures, e.g. introducing new internal regulations in order to improve customer service standards. Developing key account managers' competences and skills. Continuous raising of customer service standards.
10.	Risk related to performance of agreements by subcontractors	Risk related to improper performance by subcontractors of the works commissioned, termination of the agreement and delays, changes to the budget, scope related thereto.	→	<ul style="list-style-type: none"> Concluding agreements with subcontractors in accordance with TAURON Capital Group's standards. Analyzing the performance of the subject of the agreement, examining the quality of services provided by subcontractors. Evaluating the financial standing and credibility of the

#	Risk name	Risk description	Risk trend	Reaction to risk (selected elements)
				subcontractors.
11.	Volume and margin risk	Adverse changes or terminations of commercial agreements by customers, leading to the declining revenue from operations.	→	<ul style="list-style-type: none"> Conducting marketing campaigns, acquiring new customers. Taking actions focused on retaining the existing customers and recovering the lost ones. Ongoing updating of the offering, launching sales of multi-package type products.
12	Purchasing process risk	Risk related to the volatility of the situation on the supplies/services market, volatility of demand for the given type of product/supply/service on the market, decline of the availability of supplies/services of appropriate quality, leading to the purchase order value increase risk.	↗	<ul style="list-style-type: none"> Preparing a Purchase Orders Plan and updating thereof. Aggregating purchases of selected product groups. Consolidating purchase orders. Concluding long term agreements. Taking into account the price risk related to commodity prices/FX rate fluctuations in contracts with contractors.
Compliance risk				
13.	Internal fraud risk	Appropriation or temporary use of the company's assets, destruction of TAURON Capital Group's property, abuse of work position to derive various types of personal gain by forcing specific customer behavior.	↘	<ul style="list-style-type: none"> Strict adherence to internal procedures aimed at achieving protection against abuse (security procedures, reviews of authorizations). Conducting <i>compliance</i> type activities. Promoting best practices, improving procedures, training. Enforcing and promoting the provisions of <i>TAURON Group's Business Ethics Code</i>.
14.	External fraud risk	Third party actions aimed at, among others, theft, robbery, physical burglary, computer hacking, information theft, forgery.	↘	<ul style="list-style-type: none"> Monitoring potential and actual security incidents. Anti-virus protection of workstations. Physical protection of facilities. Conducting security tests.
15.	Legal risk	Risk related to non-compliance with the legal regulations, misinterpretation of the new provisions and regulations, court disputes (litigations), requirements imposed by URE/UOKiK/KNF/GIODO, etc.	→	<ul style="list-style-type: none"> Continuous monitoring of the legal environment and changes to the legal regulations. Updating the internal regulations as per changes to the law. Appointing working groups tasked with preparing and implementing the required changes to the internal regulations. Continuous cooperation with the authorities overseeing the energy market and the capital market. Training for the personnel on the changes being introduced.
16.	Personal data protection (privacy) risk	Inappropriate storing and processing of personal data resulting in an undesired leak.	→	<ul style="list-style-type: none"> Defining and implementing appropriate technical or organizational means ensuring the degree of personal data security (protection, privacy). Monitoring of compliance with the personal data protection law regulations. Raising the level of awareness of the personnel with respect to personal data protection, in line with the regulations in force Informing and advising the organization's personnel with respect to personal data protection.
Environment				
17.	Reputational risk	Current and future impact on the company's revenue and capital due to the negative public opinion backlash.	→	<ul style="list-style-type: none"> Continuous monitoring of the Company's external and internal threats. Media monitoring, developing contacts and relationships with the media within TAURON Capital Group. Preparing procedures for the Company's communications

#	Risk name	Risk description	Risk trend	Reaction to risk (selected elements)
				with the external and internal environment (stakeholders).
18.	Regulatory risk	Adverse impact of the domestic and European level legislation due to the need to pass or adapt to the legal regulations and to incur the required financial costs in order to comply therewith.	↗	<ul style="list-style-type: none"> • Continuous monitoring of the legal environment and changes to the regulations. • Analyzing draft legal acts and planning the required adaptation steps. • Implementing the required changes to internal regulations.
19.	License risk	No ability to conduct operations as a result of a prolonged process of obtaining a license or amending the licenses held. Unfavorable legal changes with respect to licensed operations.	→	<ul style="list-style-type: none"> • Ongoing control (monitoring) of the correct performance of licensing obligations. • Monitoring changes to the legal acts with respect to licensing obligations. • Legal support for the license extension process.
Technology and infrastructure				
20.	Environmental risk	Potential negative impact of the operations on the environment and of non-alignment to and non-compliance with the environmental requirements of the domestic and community law.	→	<ul style="list-style-type: none"> • Ongoing supervision over compliance with the conditions of the environmental decisions. • Maintaining the required efficiency of the devices reducing the emission of pollutants. • Frequent evaluation of the compliance of actions with the legal requirements with respect to environment protection. • Implementing investment projects in environment protection in order to minimize the adverse impact of the mining and processing operations conducted.
21.	Weather risk	Impact of weather conditions on the operations of the enterprise, both with respect to technological aspects as well as the commercial ones.	→	<ul style="list-style-type: none"> • Upgrading (refurbishing) hydroelectric structures aimed at optimizing the utilization of water resources. • Preparing plans of overhauls, inspections and maintenance activities with flexible provisions on deadlines for completing the works. • Continuous monitoring of wind conditions and icing on the wind farms' blades. • Continuous technical oversight over the operation of individual wind farms, conducted by the companies operating the farms. • Monitoring and analyzing new technological solutions that reduce the impact of adverse weather conditions on the volume of electricity generated.
22.	Company asset failure risk	Impact of failures of machines and devices, overhauls, upgrades (refurbishments), maintenance and management of production and non-production assets on achieving the company's goals.	→	<ul style="list-style-type: none"> • Optimizing capital expenditures on asset replacements, ongoing monitoring of the condition of machines, devices and installations. • Raising professional qualifications and work culture of the personnel by organizing courses and training. • Responding to an emergency situation by the technical personnel and automatic process safety interlocks. • Insuring assets against fortuitous events (excluding underground assets). • Introducing IT tools with respect to improving the monitoring and managing failure indicators (ratios).
23.	IT risk	Risks related to the IT infrastructure security and reliability.	→	<ul style="list-style-type: none"> • Developing and maintaining plans aimed at ensuring continuity of IT infrastructure's operation. • Periodic identifying and categorizing of IT resources based on the service restoration targets. • Use of IT solutions with appropriate technical parameters, providing an acceptable level of reliability and efficiency of operation (including also UPS devices, GSM modems, mobile phones). • Planning and conducting training on IT infrastructure operation continuity and security. • Storing and protecting the back-up data.
24.	Asset security and protection	Risk related to compromising the integrity of	↘	<ul style="list-style-type: none"> • Monitoring the implementation of the plans developed to protect the facilities that are subject to mandatory

#	Risk name	Risk description	Risk trend	Reaction to risk (selected elements)
	risk	machines/devices and to the security of information, including its improper processing and unauthorized disclosure.		protection. <ul style="list-style-type: none"> • Maintaining and updating contingency procedures/plans. • Oversight over compliance with the information security rules in force. • Regular personnel training with respect to security procedures in force.
25.	Geological risk	Impact of geological factors on the mining operations.	→	<ul style="list-style-type: none"> • Making test drillings for the better intelligence on the positioning of coal deposits. • Continuing to take preventive measures in areas under threat in order to improve the geological and mining conditions and to provide protection against natural threats (including, among others, long-drilled blasting hole shooting in order to break the rock mass).

4. ANALYSIS OF TAURON CAPITAL GROUP'S FINANCIAL POSITION AND ASSETS

4.1. Principles of drawing up the interim abbreviated consolidated financial statements

The interim abbreviated consolidated financial statements were drawn up in accordance with the International Accounting Standard 34 Interim Financial Reporting, according to the template approved by the European Union.

The interim abbreviated consolidated financial statements for the period of 6 months ended on June 30, 2017 were drawn up under the assumption of business continuity (going concern) of TAURON Capital Group's subsidiaries in the foreseeable future. As of the date of approving the interim abbreviated consolidated financial statements for the period of 6 months ended on June 30, 2017 for publication no circumstances are recognized that would indicate any risk to business continuity (going concern) of TAURON Capital Group's other subsidiaries.

The accounting principles (policy) adopted for drawing up the interim abbreviated consolidated financial statements are provided in notes 6-8 to the Interim abbreviated consolidated financial statements for the period of 6 months ended on June 30, 2017.

4.2. TAURON Capital Group's financial position after H1 2018

Analysis of the financial position

The below table presents the analysis of TAURON Capital Group's financial position in H1 2018 as compared to the end of 2017.

Table 14. Structure of the interim abbreviated consolidated statement of the financial position

Consolidated statement of the financial position	As of June 30, 2018	As of December 31, 2017	% change (2018 / 2017)
ASSETS			
Fixed assets	88.7%	86.6%	102%
Current assets	11.3%	13.4%	85%
TOTAL ASSETS	100.0%	100.0%	
EQUITY AND LIABILITIES			
Equity attributable to shareholders of the parent entity	53.3%	50.3%	106%
Non-controlling shares	0.1%	0.1%	100%
Total equity	53.4%	50.4%	106%
Long-term liabilities	35.2%	35.5%	99%
Short-term liabilities	11.4%	14.0%	81%
Total liabilities	46.6%	49.6%	94%
TOTAL LIABILITIES	100.0%	100.0%	
Financial liabilities	9 223 805	9 059 844	102%
Net financial liabilities	8 418 546	8 042 225	105%
Net debt/EBITDA ratio	2.30	2,27	102%
Current liquidity ratio	0.99	0,95	104%

As of June 30, 2018 the statements of TAURON Capital Group's financial position indicate the balance sheet total lower by 2% as compared to December 31, 2017.

The structure of assets presented as of June 30, 2018 shows a slight (2 pp) drop of the current assets as compared to the values presented at the end of 2017. Fixed assets continue to represent a significant portion with their share of the balance sheet total reaching almost 89%.

In the structure of equity and liabilities, as of June 30, 2018, liabilities represent 47% of the total equity and liabilities, with long-term liabilities representing 35% and short-term liabilities accounting for 11% of the balance sheet total. As compared to the values presented as of December 31, 2017, the share of long-term liabilities dropped slightly (by 1%), which was related to taking on financial obligations with their maturity exceeding one year. The share of short-term liabilities fell by 19% which was the result of the payment of investment commitments and the reserves (provisions) in connection with fulfilling the statutory obligation to present for redemption the certificates of origin of electricity and gases emission certificates.

As compared to 2017 in H1 2018 net financial liabilities rose by 5% which, along with an increase of the rolling EBITDA, led to the rise of the net debt/EBITDA ratio - to 2.30x (the ratio expressed in relation to EBITDA for the last 12 months).

The current liquidity ratio rose to 0.99. The Company's liquidity is not at risk, the indicators continue to stay at a high, safe level.

Consolidated statement of comprehensive income

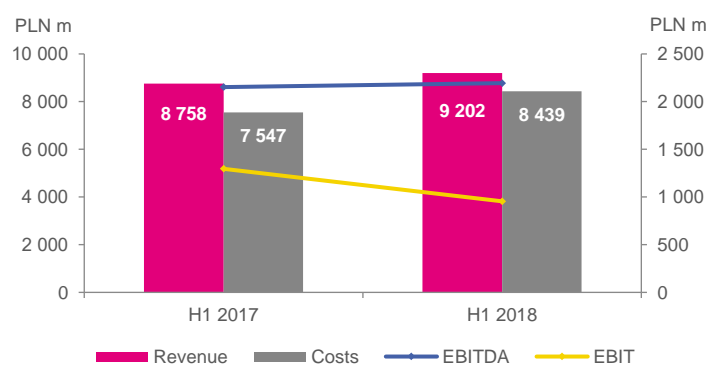
The below table presents selected items of the consolidated statement of comprehensive income of TAURON Capital Group for the period of 6 months ended on June 30, 2018, as well as the comparable data for the period of 6 months ended on June 30, 2017. These items are provided in accordance with the interim abbreviated consolidated financial statements of TAURON Capital Group, compliant with the International Financial Reporting Standards for the period of 6 months ended on June 30, 2018.

Table 15. Interim abbreviated consolidated statement of comprehensive income

Item (PLN '000)	H1 2018 (unaudited)	H1 2017 (unaudited)	% change (2018 /2017)
Sales revenue	9 202 371	8 758 024	105%
Own cost of sales	(8 438 713)	(7 546 864)	112%
Other revenue from operations and operating expenses	145 784	26 034	560%
Share in joint ventures' profits	45 442	58 330	78%
Operating profit (loss)	954 884	1 295 524	74%
<i>Operating profit margin (%)</i>	10.4%	14.8%	70%
Cost of interest on debt	(81 430)	(98 977)	82%
Other financial revenue and costs	(148 087)	44 045	-
Gross profit (loss)	725 367	1 240 592	58%
<i>Gross profit margin (%)</i>	7.9%	14.2%	56%
Income tax	(156 931)	(235 115)	67%
Net profit (loss) for the period	568 436	1 005 477	57%
<i>Net profit margin (%)</i>	6.2%	11.5%	54%
Total income for the period	572 021	990 004	58%
Profit attributable to:			
Shareholders of the parent entity	567 029	1 004 167	56%
Non-controlling shares	1 407	1 310	107%
EBIT and EBITDA			
EBIT	954 884	1 295 524	74%
EBITDA	2 193 884	2 152 310	102%

The below figure presents TAURON Capital Group's financial results in H1 2018 as compared to H1 2017.

Figure 25. TAURON Capital Group's financial results in H1 2017 and in H1 2018



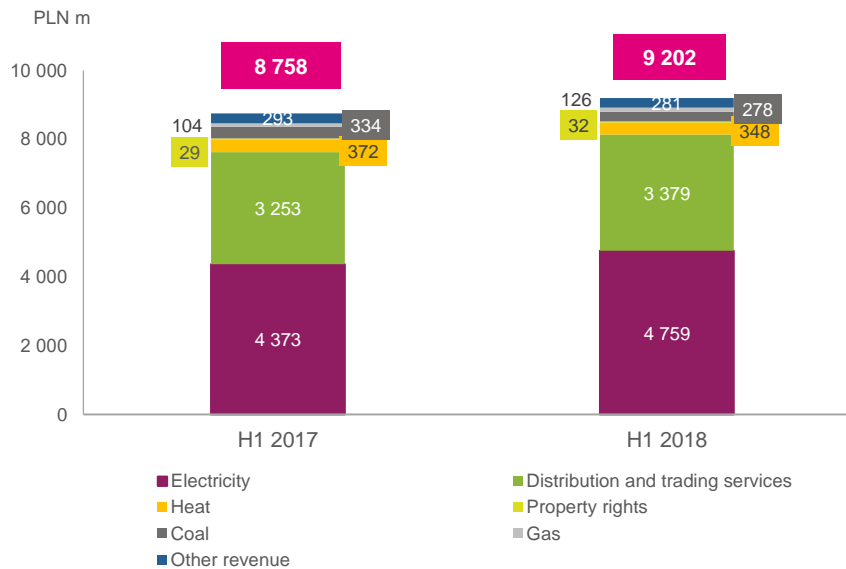
In H1 2018 TAURON Capital Group generated revenue of more than PLN 9.2 billion, i.e. 5% higher than in H1 2017. The change of TAURON Capital Group's revenue was due to the following factors:

- 1) increased electricity sales revenue mainly due to higher electricity sales prices and higher volume of electricity sold,

- 2) rising distribution services sales revenue due to the increase of the distribution services sales volume,
- 3) rising gas sales revenue due to higher sales prices achieved,
- 4) declining coal sales revenue due to lower volume of coal sold at a higher average sales price.

The below figure presents TAURON Capital Group's revenue structure in H1 2018 as compared to H1 2017.

Figure 26. TAURON Capital Group's revenue structure in H1 2017 and in H1 2018



In H1 2018 the costs of TAURON Capital Group's operations came in at approximately PLN 8.4 billion, i.e. they were higher by approximately 12% than the costs incurred in H1 2017.

The main cause of the increase is the write-down booked as of June 30, 2018 related to the loss of the Mining and Generation segments' assets' carrying amount on the balance sheet.

The need to write down the Cash Generating Unit of the Mining segment as at 30 June 2018 resulted mainly from the following circumstances:

- 1) high volatility of mining and geological conditions at coal mines belonging to TAURON Group, which has an adverse impact on the volumes of commercial coal production achieved in the current period and forecasted for future years,
- 2) adverse configuration of coal faces (short runs of the walls) which generates additional costs of longwall retooling,
- 3) limited competition on the mining materials and services market resulting in a significant increase of their prices in the first half of 2018 and in subsequent years.

On the other hand, the possibility to reverse the write down related to the Wind Farms Cash Generating Units in the Generation segment as at 30 June 2018 results in particular from changes in RES-related regulations concerning the method of calculating substitution fee and wind farm taxation, as well as from the price increase of electricity and certificates of origin of electricity from renewable sources.

Impairment tests conducted as of June 30, 2018, also demonstrated the need to:

- 1) book an impairment charge related to the Mining segment's mining assets' carrying amount on the balance sheet in the net amount of PLN 719 million,
- 2) reverse an impairment charge related to the Generation segment's generating assets' carrying amount on the balance sheet with respect to the wind farms in the net amount of PLN 345 million.

Additionally, the impairment test conducted as of June 30, 2018, with respect to net assets increased by goodwill for individual operational segments indicated the goodwill impairment in the Mining segment in the amount of PLN 14 million.

Excluding the above mentioned one-off events TAURON Capital Group's costs would have been 7% higher in H1 2018 due to the following factors:

- 1) higher costs of electricity purchased for resale, mainly due to the higher price,

- 2) higher cost of fuel consumption as a result of increased prices of coal purchased outside TAURON Capital Group and the purchase of the semi-product for processing by the Mining segment's subsidiary,
- 3) higher costs of the distribution service as a result of the higher volume,
- 4) higher costs of redeeming CO₂ emission allowances as a result of a smaller quantity of free CO₂ emission allowances (1.7 million free electricity related allowance were settled in H1 2017), lower CO₂ emission volume (lower electricity production year on year) and higher prices of CO₂ emission allowances year on year,
- 5) lower labor costs primarily as a consequence of dissolving the provision related to the employee tariff in the Generation segment as a result of the agreement between the management board of the subsidiary and the workforce, and registering changes to the Company's Collective Bargaining Agreement. Furthermore, as a result of signing agreements with the workforce amending labor contracts, pursuant to which anniversary bonuses would not be paid out, the actuarial provision set up in the previous years was dissolved. Due to the dissolving of the provision related to the anniversary bonuses the subsidiary paid the workforce the applicable damages which was charged to TAURON Capital Group's operating expenses,
- 6) lower costs of taxes and fees which was due to the lower property tax related to wind farms as result of the amendment of the act on RES,
- 7) increased scope of works carried out using in-house resources which led to the higher cost of providing services for the entity's own needs.

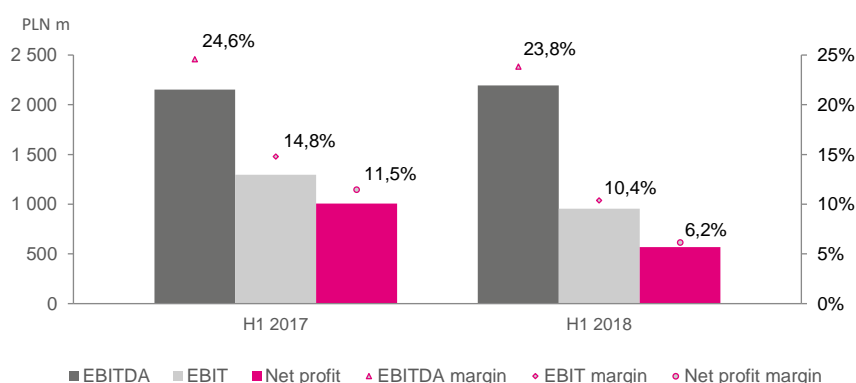
The EBITDA margin generated in H1 2018 reached 23.8% and was 0.8 pp lower than in H1 2017. As a result of the write-downs booked and dissolved as of June 30, 2018, the EBIT margin and the net profit margin were lower than the results generated a year ago and in H1 2018 they came in at 10.4% and 6.2%, respectively, while in H1 2017 they stood at 14.8% and 11.5%, respectively. Excluding the effects of the impairment charges the EBIT margin and the net profit margin in H1 2018 would have reached 14.5% and 9.6%, respectively.

In accordance with the consolidated statement of comprehensive income presented, the total income of TAURON Capital Group, taking into account the net profit increased or decreased by the change in value of hedging instruments, FX differences arising from the conversion of a foreign unit and other revenues, after tax, reached PLN 572.0 million in H1 2018, as compared to PLN 999.0 million in H1 2017.

The total income attributable to the shareholders of the parent company came in at approx. PLN 570.6 million, as compared to PLN 988.7 million posted in the same period of 2017, while the profit attributable to the shareholders of the parent company reached PLN 567.0 million, as compared to PLN 1 004.2 million posted in the same period of 2017.

The below figure presents TAURON Capital Group's financial results and the margins generated in H1 2018 as compared to H1 2017.

Figure 27. TAURON Capital Group's financial results and the margins generated



4.3. Assets

The below table presents the consolidated statement of financial position as of June 30, 2018, as compared to December 31, 2017.

Table 16. Consolidated statement of financial position – assets (material items)

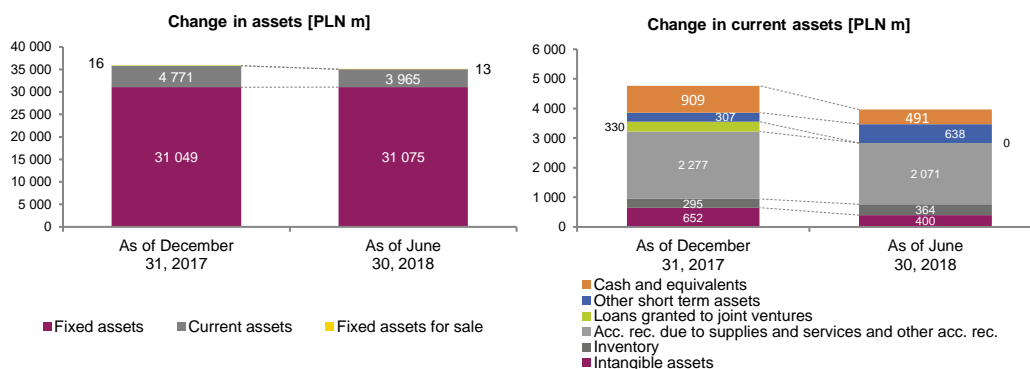
Statement of financial position (PLN '000)	As of June 30, 2018	As of December 31, 2017	% change (2018 / 2017)
ASSETS			
Fixed assets	31 074 587	31 048 542	100%

Statement of financial position (PLN '000)	As of June 30, 2018	As of December 31, 2017	% change (2018 / 2017)
Tangible fixed assets	28 402 897	28 079 886	101%
Current assets	3 978 095	4 786 474	83%
Cash and equivalents	491 378	909 249	54%
Fixed assets and the group's assets for disposal, classified as held for trade	13 062	15 910	82%
TOTAL ASSETS	35 052 682	35 835 016	98%

As of June 30, 2018 TAURON Capital Group's statement of financial position shows the balance sheet total that is 2% lower as compared to December 31, 2017.

The below figure presents the change in assets and current assets as of June 30, 2018, as compared to December 31 2017.

Figure 28. Change in assets and current assets



Fixed assets represent the biggest item of the assets at the end of H1 2018, representing 89% of the balance sheet total. As compared to the end of the 2017 the value of the fixed assets is higher by PLN 26 million as a consequence of the changes in the below analytical fixed assets' items due to the following factors:

- 1) tangible fixed assets – an increase by 1% is the result of investment projects implemented by TAURON Capital Group's subsidiaries and the booked and reversed write-down related to the loss on the Mining and Generation segments' assets' carrying amount on the balance sheet,
- 2) certificates of origin and gas emission allowances to be redeemed – a decline by 74% due to the reclassifying of the certificates of origin of electricity and CO₂ emission allowances as current assets in order to fulfill the obligation related to the redemption of the above mentioned assets for 2017,
- 3) value of stocks and shares in joint ventures – an increase by 7% due to the change of the net value of the shares in investments in joint ventures,
- 4) loans granted to joint ventures – a decline by 17% as a result of, among others, the consolidating agreement with ECSW and the repayment of a part of the principal amount of the loan granted by TAURON,
- 5) other long-term non-financial assets - a decline by 13% due to the settlement of the advance payment related to the fixed assets under construction and the intangible assets related to the implementation of the construction of a 910 MW unit at the Jaworzno III Power Plant.

The following factors had an impact on the decline in the value of current assets by PLN 808 million (17%):

- 1) certificates of origin of electricity and gas emission allowances to be redeemed – a decline by 39% due to the settlement of the obligation related to the redemption of the certificates of origin of electricity and CO₂ emission allowances for 2017 and an increase of their balance due to the production and purchasing of the property rights and CO₂ emission allowances in order to fulfill the obligation for this year,
- 2) inventory – an increase by 23% mainly as a result of the higher net value of the coal to be consumed by the Generation segment due to higher prices and volume,
- 3) accounts receivable due to supplies and services – a drop by 9% and accounts receivable due to taxes and fees – a drop by 8%, which is the result of a decrease of accounts receivable due to VAT and an increase of accounts receivable due to excise tax,

- 4) loans to joint ventures – a partial repayment by ECSW, as a result of the concluded agreement, of the principal amount of the loan received from TAURON,
- 5) other financial assets – an increase by 123% - primarily the values of refundable initial deposits related to the futures contracts and derivative instruments,
- 6) other non-financial assets – an increase by 69% due to setting up a contribution towards the Company's Social Benefits Fund and a rise in prepayments and accruals settled (reconciled) over time,
- 7) cash and equivalents – a decline by 46% – the reasons for the change are described in section 4.4. of this report, related to the cash flow statement.

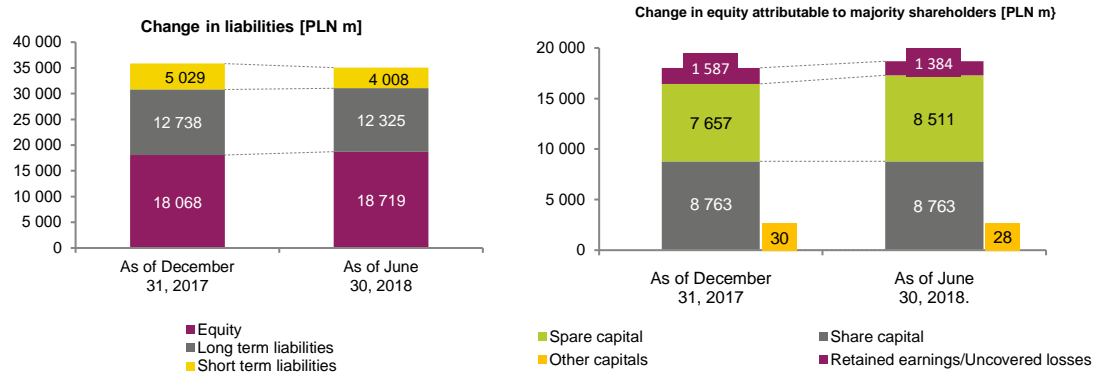
The below table presents the interim consolidated statements of financial position – liabilities.

Table 17. Interim consolidated statement of financial position – liabilities (material items)

Statement of financial position (PLN '000)	As of June 30, 2018	As of December 31, 2017	% change (2018/2017)
LIABILITIES			
Equity attributable to shareholders of the parent entity	18 686 055	18 036 446	104%
Non-controlling shares	33 180	31 367	106%
Total equity	18 719 235	18 067 813	104%
Long-term liabilities	12 325 264	12 738 264	97%
Liabilities due to debt	9 579 171	9 501 414	101%
Short-term liabilities	4 008 183	5 028 939	80%
Liabilities due to debt	287 669	351 382	82%
Total liabilities	16 333 447	17 767 203	92%
TOTAL LIABILITIES	35 052 682	35 835 016	98%

The below figure presents a change in the liabilities and equity as of June 30, 2018 and December 31, 2017.

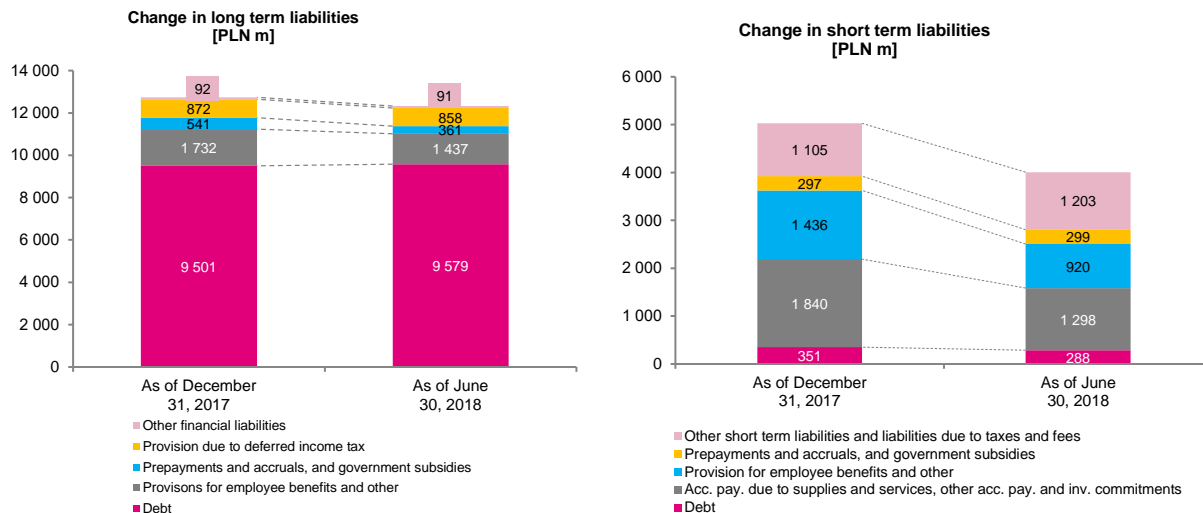
Figure 29. Change in liabilities and equity



Similar to previous years equity is still the dominating source of financing assets and its share in the balance sheet total rose to 53%.

The below figure presents a change in the liabilities as of June 30, 2018 and December 31, 2017.

Figure 30. Change in liabilities



The value of TAURON Capital Group's long-term liabilities was 3% lower as of June 30, 2018, than the value of its long-term liabilities reported as of December 31, 2017, and the decline thereof was the result of dissolving:

- of the provision related to the employee tariff in the part for retirees and employees as future retirees pursuant to the agreement between the management board of the subsidiary and the workforce, and the registered changes to the Company's Collective Bargaining Agreement,
- of the provision related to the anniversary bonuses as a result of signing agreements with the workforce amending labor contracts, pursuant to which anniversary bonuses would not be paid out,
- of the provision related to the Company's Social Benefits Fund in the part for retirees and employees as future retirees.

The value of the long-term liabilities due to debt did not change during the first half of 2018.

The value of TAURON Capital Group's short-term liabilities fell by 2% due to the following factors

- 1) liabilities due to debt – a drop by 18% as a result of the repayment of loan installments in line with the defined schedule,
- 2) accounts payable towards suppliers – a drop by 20% and investment related commitments – a drop by 42%,
- 3) provisions related to employee benefits – a drop by 31% as a result of the signed agreement with the workforce with respect to the employee tariff and the signed agreements with the workforce amending labor contracts of TAURON Wytwarzanie personnel,
- 4) provision related to the liabilities due to the certificates of origin of electricity and gas emissions – a decline by 50% which is the result of having used up the provision set up in 2017 towards the fulfillment of the obligation to submit the certificates of origin of electricity for redemption, pursuant to the provisions of the *Act of April 10, 1997, the Energy Law*, and the CO₂ emission allowances and setting up the provision towards the fulfillment of the obligations for H1 2018,
- 5) liabilities due to taxes and fees – a drop by 29% as a result of the lower liability due to personal income tax and social security,
- 6) financial liabilities – an increase by 59%, primarily as a result of higher liabilities due to the valuation of derivative instruments,
- 7) other non-financial liabilities – an increase by 9% which is due to the higher balance of overpayments from the customers.

4.4. Cash flows

The below table presents the interim abbreviated cash flow statement for H1 2018 as compared to H1 2017.

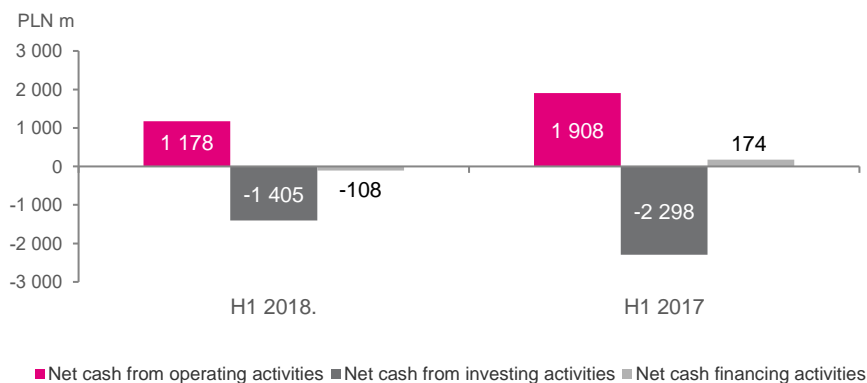
Table 18. Interim abbreviated cash flow statement (material items)

Cash flow statement (PLN '000)	H1 2018	H1 2017	% change (2018/2017)
Cash flows from operating activities			
Gross profit / (loss)	725 367	1 240 592	58%
Adjustments	452 173	667 173	68%
Net cash from operating activities	1 177 540	1 907 765	62%
Cash flows from investing activities			
Sale of tangible fixed assets and intangible assets	10 778	15 711	69%
Purchase of tangible fixed assets and intangible assets	(1 668 896)	(2 020 232)	83%
Granting of loans	(39 815)	(295 992)	13%
Repayment of loans granted	299 100	0	-
Net cash from investing activities	(1 405 414)	(2 297 997)	61%
Cash flows from financing activities			
Issuance of debt securities	0	600 000	0%
Redemption of debt securities	0	(300 000)	0%
Repayment of loans/credits	(58 539)	(44 904)	130%
Interest paid	(26 745)	(65 260)	41%
Net cash from financing activities	(108 392)	173 866	-
Increase/(decrease) in net cash and equivalents	(336 266)	(216 366)	155%
Cash opening balance	801 353	354 733	226%
Cash closing balance	465 087	138 367	336%

The total amount of all net cash flows of cash from operating, investing and financing activities in H1 2018 reached approximately PLN (336.3) million

The below figure presents cash flows in H1 2018 and in H1 2017.

Figure 31. Cash flows in H1 2018 and in H1 2017



Cash flows from operating activities in the reporting period were lower by approximately 38% than the cash flows generated in the same period of the previous year. The following factors had the biggest impact on the change in this item of the cash flow statement:

- 1) increase in the value of inventory, mainly coal, at one of the Generation segment's subsidiaries in H1 2018 and the sale by the Mining segment's subsidiary, of coal from the stock in H1 2017 resulted in a negative cash flow, year on year, in the amount of PLN 201 million,
- 2) negative change to the accounts receivable and accounts payable balance in the amount of PLN 51 million,
- 3) purchase of certificates of origin of electricity and payment of the substitution fee higher by PLN 37 million and PLN 173 million in H1 2018 than in the same period of 2017,
- 4) payment of PLN 79 million to the workforce as damages due to the dissolving of the provisions related to the anniversary bonuses,
- 5) payment of PLN 119 million more in income tax which was due to the tax paid by the Tax Capital Group in the amount of PLN 219.1 million, out of which PLN 172.8 million represented an advance payment on account of the Q1 2018

income tax, while PLN 46.3 million was related to the settlement of the 2017 income tax. In the same period of 2017 the Tax Capital Group paid advance payments on account of income tax in the amount of PLN 98.1 million.

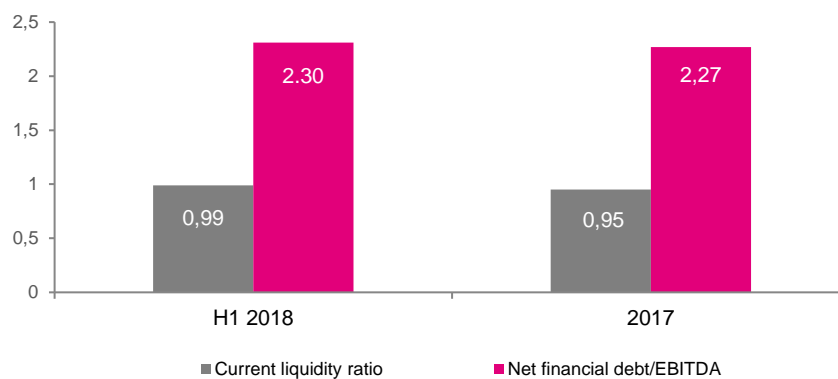
Expenditures for the purchase of tangible fixed assets made the biggest impact on the cash flows from investing activities and they were higher by 17% in the reporting period than the expenditures incurred in the same period of 2017. In H1 2018 the highest expenditures were incurred by the Distribution and Generation segments.

The negative balance of cash from investing activities is mainly due to the repayment of loans and credits in the amount of PLN 58.5 million and the interest payment in the amount of PLN 26.7 million.

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

The below figure presents the liquidity and net debt to EBITDA ratios at the end of H1 2018 and H1 2017.

Figure 32. Liquidity and debt ratios



TAURON Capital Group is effectively managing its financial liquidity using a central financing model put in place and the central financial risk management policy. The cash pooling mechanism is used in order to minimize potential cash flow disruptions and the risk of liquidity loss.

TAURON Capital Group is using various sources of funding, such as, for example, overdrafts, bank loans, loans from environmental funds, bond issues, financial lease agreements and lease agreements with a purchase option.

4.5. Factors and events, including non-typical ones, that have a significant impact on the interim abbreviated financial statements

Dissolving of the provisions related to employee benefits at TAURON Wytwarzanie

On April 6, 2018, the Management Board of TAURON Wytwarzanie passed a resolution pursuant to which it dissolved the provision in the amount of PLN 168 million for the cash equivalent for the discounted use of electricity (employee tariff) by retirees, pensioners and other authorized persons who are not employees (a positive impact on the Generation segment's EBIT in Q1 2018).

The resolution was passed based on the agreement reached between the Management Board of TAURON Wytwarzanie and the workforce, and the additional protocol to the Company's Collective Bargaining Agreement of TAURON Wytwarzanie, registered by the State Labor Inspection.

Additionally, TAURON Wytwarzanie concluded agreements with the workforce amending labor contracts, pursuant to which anniversary bonuses would not be paid out. As a result TAURON Wytwarzanie paid the workforce the applicable damages and dissolved the provision which led to an increase of the Generation segment's EBIT by PLN 43 million in Q1 2018.

Furthermore, TAURON Wytwarzanie dissolved the provision related to the Company's Social Benefits Fund for former employees in the amount of PLN 18 million (a positive impact on the Generation segment's EBIT in Q1 2018).

The above presented impact of one-off events on TAURON Capital Group's earnings is an estimate.

The Company disclosed the information on the above event in the regulatory filing (current report) no. 12/2018 of April 6, 2018.

Results of impairment tests

During the six months ended on June 30, 2018, TAURON Capital Group booked impairment charges and dissolved the earlier booked write-downs related to the tangible fixed assets as a result of asset impairment tests conducted as of June 30, 2018 with the following indications taken into account:

- 1) net market value of the Company's assets remaining persistently below the balance sheet value,
- 2) changes of commodity prices on the world markets and a change of the situation on the domestic thermal coal market following consolidation of the mining sector,
- 3) high volatility of the mining and geological conditions,
- 4) adverse configuration of the coal faces (short runs of the walls) which generates additional costs of longwall retooling,
- 5) limited competition on the mining materials and services market resulting in a significant increase of their prices,
- 6) changes in the RES law and publication of RES related requirements for the years 2018 and 2019, which had impact on the prices of certificates of origin for electricity generated from renewable sources,
- 7) passing the capacity market law and proceeding with functional solutions described in the draft capacity market rules,
- 8) persistent adverse market conditions from the point of view of the profitability of conventional power generation,
- 9) increase of the risk free interest rate.

With respect to TAURON's H1 2018 consolidated financial statements the analyses completed demonstrated the validity of booking write-downs due to the impairment of tangible and intangible fixed assets and the goodwill impairment in the Mining segment in the amount of PLN 733 million, and also of reversing the earlier booked write-downs in the Generation segment in the amount of PLN 345 million.

The surplus of the booked impairment charges over the reversed ones in the consolidated financial statements (net impairment charges) is PLN 388 million, and the total impact on the reduction of the consolidated net financial result reached PLN 303 million.

The Company disclosed information on the above in the regulatory filing (current report) no. 25/2018 of July 27, 2018.

Significant factors impacting H1 2018 earnings

The following factors made the biggest impact on the H1 2018 earnings versus the earnings posted in the same period of 2017:

- 1) booking write-downs due to the impairment of tangible and intangible fixed assets and the goodwill impairment in the Mining segment in the amount of PLN 733 million, and also reversing the earlier booked write-downs in the Generation segment in the amount of PLN 345 million. As a consequence the surplus of the booked impairment charges over the reversed ones in the consolidated financial statements (net impairment charges) came in at PLN 388 million, and the total impact on the reduction of the consolidated net financial result reached PLN 303 million,
- 2) financial costs due to negative FX rate differences on the EUR denominated debt which led to the decrease of TAURON Capital Group's H1 2018 gross financial result by PLN 126 million. In the same period of 2017 the booking of FX rate differences on the EUR denominated debt led to the decrease of TAURON Capital Group's gross financial result by PLN 3 million (no impact on EBITDA).

The Company disclosed information on the above in the regulatory filing (current report) no. 26/2018 of August 2, 2018.

4.6. Management Board's position on the ability to perform in line with the earlier published forecasts of results for the given year

TAURON Capital Group did not publish any forecasts of financial results for 2018. TAURON Capital Group's financial standing is stable and no negative events which could pose any threat to the continuity of its business operations or a significant deterioration of its financial standing occurred.

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

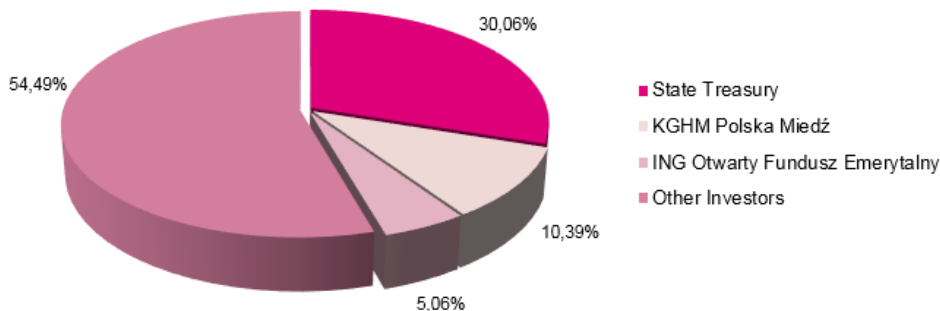
5. SHARES AND SHAREHOLDERS

5.1. Structure of shareholding

As of June 30, 2018 and as of the day of drawing up this report the Company's share capital was, in accordance with an entry in the National Court Register, PLN 8 762 746 970 and was split into 1 752 549 394 shares with a nominal value of PLN 5 per share, including 1 589 438 762 ordinary AA series bearer shares and 163 110 632 registered BB series shares.

The below figure presents the structure of shareholding as of June 30, 2018 and as of the day of drawing up this report.

Figure 33. Structure of shareholding as of June 30, 2018 and as of the day of drawing up this report



5.2. Shareholders holding at least 5% of the total number of votes

The below table presents shareholders holding, as of June 30, 2018 and as of the day of drawing up this report, directly or indirectly substantial blocks of TAURON shares.

Table 19. Shareholders holding, directly or indirectly, substantial blocks of shares

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

From the day of publishing the previous periodical report, i.e. since May 16, 2018, until the day of publishing this report the Company did not receive any notifications from its shareholders on any changes in the ownership structure of substantial blocks of TAURON shares.

5.3. List of shareholdings by members of the Management Board and the Supervisory Board

Members of the Management Board

As of the day of publishing this report the members of TAURON's Management Board do not hold any shares or rights to the Company's shares. From the day of publishing the previous periodical report, i.e. since May 16, 2018, until the day of publishing this report there were no changes to the number of shares or rights to the Company's shares held by the members of the Management Board.

Members of the Supervisory Board

As of the day of publishing this report the members of TAURON's Supervisory Board do not hold any shares or rights to the Company's shares. From the day of publishing the previous periodical report, i.e. since May 16, 2018, until the day of publishing this report there were no changes to the number of shares or rights to the Company's shares held by the members of the Supervisory Board.

6. INFORMATION ON THE PARENT COMPANY

6.1. Composition of the Management Board and the Supervisory Board

6.1.1. Management Board

The current, fifth term of office of the Management Board began its run on March 16, 2017. On March 15, 2017 the Supervisory Board appointed, as of March 16, 2017, members of the Management Board as members of the Management Board of the Company for the fifth common term of office. In accordance with the Company's Articles of Association the common term of office shall last 3 years.

Composition of the Management Board as of June 30, 2018 and as of the day of drawing up this report

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

Changes to the Management Board's composition

No changes to the Company's Management Board's composition occurred in H1 2018 and as of the day of drawing up this report.

Experience and competences of members of the Management Board



Filip Grzegorzczak – President of the Management Board

A graduate of the Faculty of Law and Administration and the Faculty of International and Political Studies of the Jagiellonian University in Cracow where he obtained a PhD degree in the EU law, and then a post-PhD degree in the business law.

He also completed the Summer Advanced Course program in the European Law at the University of London, King's College, Centre of European Law as well as the International Business and Trade Summer School program at Catholic University of America – Columbus School of Law and the Ecole de droit français Université d'Orléans. He holds the position of Professor at the University of Economics in Cracow, where he is a lecturer at the Faculties of Management and Economics and International Relations.

He has broad professional experience in the energy and fuel sector. In 2011-2013 he was associated with Kompania Węglowa as a management board proxy for energy sector development at Kompania Węglowa S.A. In 2007-2008 he was a member of the Management Board of TAURON. From November 2015 he served as the Undersecretary of State at the Ministry of State Treasury. He speaks fluent English and French.

He has been holding the position of President of the Management Board of TAURON Polska Energia S.A. since November 15, 2016. He is currently overseeing the following areas of the operations: strategic management and regulatory solutions, relationships with the environment (stakeholders), legal support and investor relations, risk management, legal and internal audit, security and compliance as well as human resources development and social dialogue policy.



Jarosław Broda – Vice-President of the Management Board

A graduate of the Warsaw School of Economics, a holder of a postgraduate diploma in project management from the Kozmiński University.

He has experience in the area of consolidation and operation of the energy sector, privatization of state-owned utility groups, developing processes associated with the restructuring and strategy building as well as energy entities' expansion projects.

Since the beginning of his professional career he has been associated with the energy sector's 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 developing the company's expansion strategy, regulatory management and M&A projects. He was also involved in developing the sales and marketing expansion

strategy in Europe. Since mid-2015 he was responsible for developing the commercial strategy and the contract for difference related to the nuclear project in Great Britain.

He has been holding the position of Vice-President of the Management Board of TAURON Polska Energia S.A. since December 8, 2015. He is currently overseeing the following areas of the operations: asset management, research and innovation, investment projects as well as occupational health and safety.



Kamil Kamiński – Vice-President of the Management Board

A graduate of the Faculty of Management and Social Communications of the Jagiellonian University. A holder of the MBA Executive diploma (Stockholm University School of Business/ Cracow University of Economics) and the Post-MBA Diploma in Strategic Financial Management (Rotterdam School of Management, Erasmus University/ GFKM).

He has experience in the area of building company value, mergers and acquisitions, business integration and strategy operationalization as well as management of comprehensive projects in the public and private sectors. He was involved in complex transformation and restructuring processes of enterprises in the energy and fuel as well as transportation logistics sectors.

He gained his professional experience acting in the capacity of 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 the consolidation of electricity and heat generation assets of Kompania Węglowa and Węglokoks. At that time he was the head of the Management Committee. Previous professional experience includes, among others, work at the Research and Development Centre of the Refining Industry (OBR) in Płock or Jan Paweł II International Cracow-Balice Airport. 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 the aviation fuel segment which resulted in the *joint venture* with Air BP Ltd. and the establishment of Lotos Air BP.

He has been holding the position of Vice-President of the Management Board of TAURON Polska Energia S.A. since December 8, 2015. He is currently overseeing the following areas of the operations: corporate management, human resources, marketing strategy and customer relations, IT systems functioning and management, personal data protection as well as procurement and administration.



Marek Wadowski – Vice-President of the Management Board

A graduate of the Faculty of Economics of the University of Economics in Katowice. He also completed post graduate studies at École Supérieure de Commerce Toulouse where he obtained Mastère Spécialisé en Banque et Ingénierie Financière diploma and the Executive MBA studies at the Kozminski University in Warsaw.

He has professional experience in the field of financial, controlling and accounting process management in industry (power sector, mining, steel industry), as well as in financing of investment projects and international trade transactions. He was involved in the implementation of the *due diligence* projects and valuations of many enterprises (using income, asset and market (comparable (peer) company analysis) based valuation methods).

From the beginning of his professional career he was associated with the energy, mining and steel sector entities, acting in the capacity of the President or the Vice-President of the Management Board and holding senior managerial positions. He gained his professional experience working at BRE Corporate Finance S.A., Huta Cynku Miasteczko Śląskie S.A. and at Jastrzębska Spółka Węglowa S.A. Capital Group's subsidiaries. From 2008, acting in the capacity of the Vice-President of the Management Board in charge of the financial division at Jastrzębska Spółka Węglowa S.A. Capital Group's subsidiaries, he was responsible, inter alia, for structuring commercial transactions, implementing the foreign exchange risk hedging policy, financial costs reduction, liquidity management, acquiring funds from the consortium of banks in the form of a bond issue program. He was also involved in the IPO of JSW S.A. (implementation of the International Accounting Standards, modification of the management information system, preparing the IPO prospectus, talks with investors). He held the position of the President of the Management Board at Towarzystwo Finansowe Silesia where he was involved in the bond issue program for Kompania Węglowa and was dealing with the acquisition of debt financing from the consortium of banks.

He has been holding the position of the Vice-President of the Management Board of TAURON Polska Energia S.A. since January 29, 2016. He is currently overseeing the following areas of the operations: finance and insurance policy,

controlling and planning, analyses, accounting and tax policy.

Additionally, until Vice-President of the Management Board for Commercial Affairs (Trade) is appointed, he also oversees the following areas: electricity and property rights trading, fuel trading, portfolio management and electricity trading.

The description of the experience and competences of the members of the Management Board is published on the Company's website <http://www.tauron.pl>.

6.1.2. Supervisory Board

The current, fifth term of office of the Supervisory Board, began on May 29, 2017, i.e. on the day of holding the Ordinary GM of the Company approving the financial statements for the last full financial year of the tenure of the members of the Supervisory Board of the fourth term, i.e. for the financial year 2016. In accordance with the Company's Articles of Association this shall be a common term of office and it shall last for 3 years.

The composition of the Supervisory Board as of June 30, 2018 and as of the date of drawing up this report

1. Beata Chłodzińska - Chair of the Supervisory Board,
2. Teresa Famulska - Vice-Chair of the Supervisory Board,
3. Jacek Szyke - Secretary of the Supervisory Board,
4. Radosław Domagalski - Łabędzki - Member of the Supervisory Board,
5. Katarzyna Łasak - Jarszak - Member of the Supervisory Board,
6. Paweł Pampuszko - Member of the Supervisory Board,
7. Jan Płudowski - Member of the Supervisory Board,
8. Marcin Szlenk - Member of the Supervisory Board,
9. Agnieszka Woźniak - Member of the Supervisory Board.

Changes to the Supervisory Board's composition

As of January 1, 2018 the Supervisory Board was composed of the following members: Beata Chłodzińska (Chair of the Supervisory Board), Teresa Famulska (Vice-Chair of the Supervisory Board), Jacek Szyke (Secretary of the Supervisory Board), Radosław Domagalski – Łabędzki, Katarzyna Łasak – Jarszak, Paweł Pampuszko, Jan Płudowski, Agnieszka Woźniak.

On April 16, 2018 the Ordinary GM of the Company appointed Marcin Szlenk as a member of the Company's Supervisory Board of the 5th common term of office.

No other changes to the Supervisory Board's composition occurred as of the day of publishing this report.

Experience and competences of the members of the Supervisory Board

Beata Chłodzińska – Chair of the Supervisory Board

A graduate of the Faculty of Law and Administration of the Warsaw University. She is a licensed legal counsel.

In 2001-2016 she was associated with the Ministry of State Treasury where she was providing legal services, most recently as the Deputy Director at the Legal and Litigation Department. She was coordinating the works of the Legal Counsels Team at the Legal Office of the Ministry of Energy. She is currently working at PKN Orlen S.A. in the legal area.

She gained professional experience associated with supervising the operations of the State Treasury owned companies by, among others, holding seats on the supervisory boards of the following companies: Polska Agencja Prasowa S.A. with its seat in Warsaw, Centrum Techniki Okrętowej S.A. with its seat in Gdańsk, Chemia Polska sp. z o.o. with its seat in Warsaw, Międzynarodowa Korporacja Gwarancyjna sp. z o.o. with its seat in Warsaw.

She has been a member of the Supervisory Board of TAURON Polska Energia S.A. since August 12, 2015. In the Supervisory Board of the 5th common term of office she is the Chair of the Supervisory Board, the Head of the Nominations and Compensation Committee of the Supervisory Board, as well as a member of the Strategy Committee of the Supervisory Board.

Teresa Famulska – Vice-Chair of the Supervisory Board

A graduate of the University of Economics in Katowice, a Professor of economics appointed by the President of the Republic of Poland at the request of the Board of the Faculty of Finance and Insurance of the University of Economics in

Katowice.

She has been associated with the University of Economics in Katowice since 1981. She is currently the Head of the Public Finance Department holding the full Professor's position. In 1998-2013 she was working at the School of Banking and Finance, recently as a dean, holding the full Professor's position.

An author of approximately 150 domestic and foreign publications in the field of finance, mainly public finance (including taxes and tax systems) and corporate finance. Apart from academic work she is continuously involved in business practice, participating, among others, in several dozen science and research projects. She conducts numerous lectures and training courses for the finance and management personnel of enterprises and for the tax authorities staff as part of the post-graduate studies and in cooperation with, among others, the Polish Economic Society (Polskie Towarzystwo Ekonomiczne) and the Accountants Association in Poland (Stowarzyszenie Księgowych w Polsce). Since 2007 she has been working at the State Examination Commission on Tax Advisory Services, where she has been the Head of the Commission since 2010. Since 2007 a member of the Financial Education Committee of the Polish Academy of Science, where she was a member of the Board of the Committee in 2011-2015. Furthermore, she is a member of the Main Board of the Polish Finance and Banking Association (Zarząd Główny Polskiego Stowarzyszenia Finansów i Bankowości), International Fiscal Association, Center for Information and Organization of Public Finance and Tax Law Research of Central and Eastern European Countries (Centrum Informacji i Organizacji Badań Finansów Publicznych i Prawa Podatkowego Krajów Europy Środkowej i Wschodniej) and Polish Economic Society (Polskie Towarzystwo Ekonomiczne).

She was awarded the following orders and accolades: Silver Cross of Merit (Srebrny Krzyż Zasługi), Silver Medal for Long-term Service (Srebrny Medal za Długoletnią Służbę), Medal of the Commission of National Education (Medal Komisji Edukacji Narodowej), awards of the Minister of National Education and of the President of the University of Economics in Katowice.

She has been a member of the Supervisory Board of TAURON Polska Energia S.A. since May 29, 2015. In the Supervisory Board of the 5th common term of office she is the Vice-Chair of the Supervisory Board and the Head of the Audit Committee of the Supervisory Board.

Jacek Szyke – Secretary of the Supervisory Board

A graduate of Faculty of Economics of Łódź University and of the Faculty of Electric Engineering of the Technical University in Poznań where he also obtained a PhD in technical science.

He has yearslong professional experience associated with the utility scale power industry where he climbed up all levels of the career ladder, starting with an intern, through foreman, Head of the Safety and Instrumentation and & Control Department (Zakład Energetyczny Kalisz and Łódź), Engineer On Duty Responsible for the Operation (Elektrociepłownia Łódź), up to the position of the Chief Engineer (Zakład Energetyczny Łódź and Płock) and General Manager (Zakład Energetyczny Płock and Elektrociepłownia Siekierki). He also worked as the Contract Manager in Libya. The owner and President of the JES ENERGY consulting company.

State orders awarded: Golden Cross of Merit (Złoty Krzyż Zasługi), Knight's Order (Krzyż Kawalerski). Industry orders awarded: Distinguished for the following sectors: Power, Construction, Communications, Firefigthing, Culture and Heat industry.

The author of more than 100 articles, publications and books, including: "Wspomnienia o tradycji i zwyczajach pracy w energetyce" (Memories of traditions and customs related to working in the power utilities sector), "O energetyce z sentymentem" (About electric utilities sector with a sentiment), "Historia Polskiej Elektroenergetyki" (History of Poland's Power Industry), "Złota Księga Elektroenergetyki" (Golden Book of Power Industry), "Grupa TAURON - monografia" (TAURON Group – monograph).

He has been a member of the Supervisory Board of TAURON Polska Energia S.A. since September 14, 2010. In the Supervisory Board of the 5th common term of office he is the Secretary of the Supervisory Board and the Head of the Strategy Committee of the Supervisory Board as well as a member of the Audit Committee of the Supervisory Board.

Radosław Domagalski-Łabędzki – Member of the Supervisory Board

A graduate of Łódź University (master's degree in law). Completed Executive MBA studies at Rutgers University in New Jersey. Visiting fellow at the German Munster and Mannheim Universities.

A manager with a broad practical experience in managing complex international business projects. He prepared and effectively implemented an expansion strategy in Asia for one of Poland's largest capital groups.

In 2006-2013 the President of the Management Board of Magellan Trading Shanghai Co. Ltd in China. Prior to that he worked as a lawyer at GSP Group Sp. z o.o. in Łódź, and also at American Enterprise Institute in Washington – one of the largest American think-thanks.

Between December 2015 and October 2016 the Undersecretary of State at the Ministry of Development, responsible, among others, for promoting the Polish economy, a member of the Financial Supervision Commission (Komisja Nadzoru Finansowego).

Since October 2016 until March 10, 2018 he was President of the Management Board of KGHM Polska Miedź S.A.

Co-founder of the Polish-Chinese Chamber of Industry and Commerce in Shanghai. An author of many business publications.

He has been a member of the Supervisory Board of TAURON Polska Energia S.A. since May 29, 2017. In the Supervisory Board of the 5th common term of office he is a member of the Audit Committee of the Supervisory Board.

Barbara Katarzyna Łasak - Jarszak – Member of the Supervisory Board

A graduate of the Faculty of Law and Administration of the Warsaw University.

Between January 1997 and February 2017 she was working at the Legal Department of the Ministry of State Treasury. Between April 1998 and February 2017 she headed an organizational unit of the Legal Department providing legal services for the Ministry. Since March 1 2017 the Head of the State Property and Finance Division of the State Treasury Department of the Chancellery of the Prime Minister where she is dealing with, among others, with the issues related to the new principles of managing the state owned property.

In 1999-2001 a member of the Disciplinary Commission of the Ministry of State Treasury. In 1999-2005 deputy public finance auditor for the Minister of State Treasury.

He has yearslong professional experience of holding seats on supervisory boards of State Treasury owned companies, including: ZPP "Lenora" sp. z o.o., Koneckie Zakłady Odlewnicze S.A., Uzdrowisko Busko-Zdrój S.A., ŚWVG Polmos S.A., Stocznia Gdynia S.A., Archimedes S.A., PSO "Maskpol" S.A., ZG "Dom Słowa Polskiego" S.A. in liquidation, Fundusz Rozwoju Spółek S.A., Zakłady Mięsne Nisko S.A.

She has been a member of the Supervisory Board of TAURON Polska Energia S.A. since May 29, 2017. In the Supervisory Board of the 5th common term of office she is a member of the Nominations and Compensation Committee of the Supervisory Board.

Paweł Pampuszko – Member of the Supervisory Board

A graduate of the Faculty of Law and Administration of the University of Silesia in Katowice, a lawyer entered on the list of counsels maintained by the Solicitors Regulation Authority (Izba Adwokacka) in Katowice.

During his yearslong professional career he gained significant experience with respect to negotiating contracts as part of major industrial and business undertakings, and also preparing and conducting significant court disputes where it was necessary to become familiar with non-legal specialist issues and close cooperation with specialists in other fields. He was also actively involved in identifying and eliminating deficiencies in the operations of the corporations' authorities.

He gained professional experience related to providing legal services for business entities by working in 2005-2009, among others, at Kancelaria Biura Prawne Babula i Wspólnicy sp. k., Kancelaria Adwokatów i Radców Prawnych Ślężak, Zapiór & Partnerzy, SILEGE S.C. and Wozym Technologies sp.j. In 2009-2011 he was running his own legal practice. Since 2011 till now he has been a founding partner at law firm Kuś-Zielińska, Pampuszko i Wspólnicy – Adwokaci i Radcy Prawni sp.j.

He was a member of supervisory authorities in the non-government organizations and corporations: CHK S.A. and Medicina Pro Humana Foundation.

He is an author of publications on medical law.

He has been a member of the Supervisory Board of TAURON Polska Energia S.A. since May 29, 2017. In the Supervisory Board of the 5th common term of office he is a member of the Strategy Committee of the Supervisory Board.

Jan Płudowski – Member of the Supervisory Board

A graduate of the Faculty of Electric Engineering of the Silesian University of Technology in Gliwice. He also completed post-graduate studies at the Faculty of Electric Engineering of the Gdańsk University of Technology, at the University of Economics (formerly K. Adamiecki Academy of Economics) in Katowice in the field of corporate finance management and at the Faculty of Management and Services Economics of the University of Szczecin in the field of marketing and corporate management.

Professionally associated with the power sector, he gained professional experience by climbing up all levels of the career ladder. He was working, among others, as the Regional Chief Power Engineer (PKP Śląska Dyrekcja Okręgowa Kolei Państwowych (Polish State Railways' Silesian Regional Board) in Katowice), Director of Zakład Energetyki Kolejowej

(Railways' Power Unit) in Katowice and the Head of the Power Management Department (PKP Dyrekcja Energetyki Kolejowej (Polish State Railways' Power Unit Board) in Warsaw), Director of the Cash Flow Office ("PKP Energetyka" sp. z o.o. in Warsaw). He is currently holding the position of the Project Coordinator Director at "PKP Energetyka" S.A. in Warsaw.

In 2007-2008 he was a member of the Supervisory Board of Spółka Energetyczna Jastrzębie S.A.

He has been a member of the Supervisory Board of TAURON Polska Energia S.A. since December 30, 2016. In the Supervisory Board of the 5th common term of office he is a member of the Audit Committee of the Supervisory Board and a member of the Strategy Committee of the Supervisory Board.

Marcin Szlenk – Member of the Supervisory Board

A graduate of Warsaw School of Economics – Master of Arts in Economics, a major in Management and Marketing as well as Finance and Banking.

He completed Executive MBA studies at Warsaw University and University of Illinois, as well as Post-graduate Studies of Finance, Economics and Legal Relations at Warsaw School of Economics. Since 2007 he has been a member of Chartered Institute of Management Accounting (CIMA). In 2016 he completed Global Management Development Program organized by Johnson Matthey Group.

A long time financial controller and director with a broad professional experience gained in various business environments. In 1999-2002 a Senior Auditor at Arthur Andersen. In 2002-2010 a Financial Controller, first at Magneti Marelli Aftermarket Sp. z o.o., and then at Automotive Lighting Polska Sp. z o.o. (both companies owned by FIAT Group). In 2010-2012 he worked as Axon group's European Financial Controller. Since 2012 he has been the Financial Director and a Member of the Management Board of Johnson Matthey Battery Systems Sp. z o.o., and since 2017 a Member of the Management Board of Johnson Matthey Poland Sp. z o. o.

He speaks the following languages fluently: English, German and Italian.

He has been a member of the Supervisory Board of TAURON Polska Energia S.A. since April 16, 2018. In the Supervisory Board of the 5th common term of office he is a member of the Audit Committee of the Supervisory Board.

Agnieszka Woźniak – Member of the Supervisory Board

A graduate of the Faculty of Law and Administration of the UMCS University in Lublin. A lawyer by education.

In 2001-2015 she worked at the Ministry of Economy where she climbed up all levels of the career ladder, starting from a referendary, through the positions of a specialist, chief specialist, head of division, deputy director and director. Since 2005 an appointed civil servant. She has been associated with the Ministry of Energy since it was formed, i.e. since November 2015, where she is currently holding the position of the Director of the Minister's Office.

She has yearslong experience in personnel management. She was dealing with matters related to audits, organizational affairs of the office, public procurement, personnel issues. She was also holding the position of the Plenipotentiary of the General Director for the Integrated Management System.

She has experience related to supervising the operations of State Treasury owned companies. Between January 2009 and June 2014 a member of the Supervisory Board of Węglkokoks S.A. with its seat in Katowice.

She has been a member of the Supervisory Board of TAURON Polska Energia S.A. since December 16, 2016. In the Supervisory Board of the 5th common term of office she is a member of the Nominations and Compensation Committee of the Supervisory Board and a member of the Strategy Committee of the Supervisory Board.

The detailed description of the experience and competences of the members of the Supervisory Board is published on the Company's website <http://www.tauron.pl/>.

6.2. Subject and scope of the business operations conducted

TAURON's core business operations include:

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

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

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

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

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

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

The Company is focusing on purchasing and selling of electricity for the needs of hedging the buy and sell positions of TAURON Capital Group's subsidiaries and on wholesale electricity trading. Electricity sales performed by the Company in H1 2018 were mainly to the following subsidiaries: TAURON Sprzedaż and TAURON Sprzedaż GZE.

Electricity trading, both for the needs of TAURON Capital Group's entities, as well as those of its own trading operations is carried out mainly on Towarowa Gielda Energii S.A. (Polish Power Exchange) and on broker platforms operating on the Polish market. Additionally, the Company is trading electricity contracts on the European Energy Exchange (EEX) and it is present on the most important European wholesale spot and intraday markets – EPEX spot and NordPool spot, carrying out electricity trading on available international connections. The Company is also actively operating on the OTC market in Poland. The counterparties in this respect are large electric utilities with generating assets in their groups, as well as most trading companies and also electricity generators from renewable energy sources (hydroelectric power plants, wind farms, photovoltaics, biogas plants), combined heat and power plants as well associations grouping generators operating on that market. The Company is also conducting electricity trading using Platforma WITH-Handel IT system that is used for this purpose.

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

As part of its competences the Company is managing electricity sales portfolios for the needs of TAURON Sprzedaż and TAURON Sprzedaż GZE as well as gas fuel portfolios for the needs of TAURON Sprzedaż. Additionally, TAURON is responsible for developing electricity and gas fuel demand forecasts in the medium term horizon.

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

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

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

The Company is expanding its operations with respect to trading in gas fuel. Since obtaining the license in 2012 TAURON has been an active participant of the gas market with respect to gas wholesale trading. It actively conducts trading operations on the domestic market, i.e. on the Polish Power Exchange (Towarowa Gielda Energii S.A.) and on the OTC market. The Company is also conducting trading operations on the European natural gas market. Moreover, as part of the competences held, the Company is establishing cooperation with OTC counterparties owning a virtual trading point (the so-called VTP) with respect to selling gas fuel.

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

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

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

In June 2018 the Company signed another agreement with the TSO to provide demand side response services. Based on TAURON Capital Group's areas of competence and assets, including the applicable roles and responsibilities with respect to coordinating and implementing processes related to demand side response at the TSO's instruction, the split of responsibilities among TAURON Capital Group's subsidiaries was agreed and made in this respect. The tasks and competences related to acquiring and concluding agreements with consumers providing the electricity demand side response service are performed by TAURON Sprzedaż. TAURON fulfilled the obligations related to performing the DSR service Aggregator's role for PSE for TAURON Capital Group.

As the new Strategy is implemented the mass market has become an important area of the Company's operations. The Company is expanding its competences by planning the retail market sales, developing a range of products and services, as well as tools to support the sales process on this market. An important element associated with this area includes also activities related to research and development.

7. OTHER MATERIAL INFORMATION AND EVENTS

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

The below table presents material proceedings pending before the court, related to the Company's and TAURON Capital Group's subsidiaries' accounts payable and accounts receivable.

Table 20. Material court proceedings

Proceedings involving TAURON		
No.	Parties to the proceeding	Description of the proceedings including the value of the object of litigation and the Company's position
1.	Huta Łaziska S.A. (plaintiff) TAURON (as a legal successor to Górnos Śląski Zakład Elektroenergetyczny S.A.) and the State Treasury represented by the President of ERO (defendants)	<p>Object of litigation: a lawsuit for the payment of compensation for alleged damage caused by non-performance of Górnos Śląski Zakład Elektroenergetyczny S.A. of the decision of the President of ERO of October 12, 2001 related to the resumption of electricity supply to the plaintiff.</p> <hr/> <p>Value of the object of litigation: PLN 182 060 000.00</p> <hr/> <p>Initiation of the proceeding: the lawsuit of March 12, 2007</p> <hr/> <p>Company's position: the Company considers the claims covered by the lawsuit as being without merit.</p>
2.	ENEA S.A. (plaintiff) TAURON (defendant)	<p>Object of litigation: a lawsuit for the payment due to the Company's alleged unjust enrichment in connection with the settlements related to the non balancing of the Balancing Market with Polskie Sieci Elektroenergetyczne S.A. between January and December 2012.</p> <hr/> <p>Value of the object of litigation: PLN 17 085 846.49</p> <hr/> <p>Initiation of the proceeding: the lawsuit of December 10, 2015</p> <hr/> <p>Company's position: the Company considers the claims covered by the lawsuit as being without merit.</p>
3.	Head of Mazovian Customs and Tax Office (authority conducting investigation) TAURON (party)	<p>Object of litigation: examining the accuracy of the tax base amounts declared by TAURON and the correctness of calculations and payments of the VAT tax. The subject of the three investigations carried out by the Head of Mazovian Customs and Tax Office are TAURON's deductions of the VAT assessed due to the purchase of electricity by TAURON on the German and Austrian electricity market from the following entities: Castor Energy sp. z o.o. and Virtuse Energy sp. z o.o.</p> <hr/> <p>Value of the object of litigation (deducted VAT amount): PLN 54 371 306.92, out of which: Castor Energy sp. z o.o. – PLN 52 494 671.92, Virtuse Energy sp. z o.o. – PLN 1 876 635.00</p> <hr/> <p>Date of initiating the proceeding: Castor Energy sp. z o.o. – October 2014 and December 2016, Virtuse Energy sp. z o.o. – December 2016</p> <hr/> <p>Company's position: in the Company's opinion, taking into account all the circumstances of the matter and the rulings of the Court of Justice of the European Union (CJEU), as well as the rulings, positive for the taxpayers, of WSA and NSA, surfacing since the end of 2016, in cases related to the right to deduct VAT in the event of unwitting participation in the missing trader fraud if, during the verification of both counterparties, due diligence was adhered to, the Company acted in good faith and should have the right to deduct the tax assessed on the invoices documenting the electricity purchase from the counterparties Castor and Virtuse</p>

Lawsuits pertaining to the termination, by the PE-PKH subsidiary, of the agreements related to the sale of electricity and property rights arising from the certificates of origin

No.	Parties to the proceeding	Description of the proceedings including the value of the object of litigation and the Company's position
4.	Dobiesław Wind Invest Sp. z o.o. (plaintiff) PE-PKH and TAURON (defendants)	Object of litigation: lawsuit for payment of damages and determination of liability for the future.
		Value of the object of litigation: PLN 34 746 692.31
		Initiation of the proceeding: the lawsuit of June 30, 2017
		Company's position: the Company considers the claims covered by the lawsuit as being without merit.
5.	Dobiesław Wind Invest Sp. z o.o. (plaintiff) PE-PKH and TAURON (defendants)	Object of litigation: lawsuit for submitting a security (collateral) by establishing an escrow deposit (set aside for a separate consideration outside the proceeding under section 4)
		Value of the object of litigation: PLN 183 391 495.00
		Date of initiating the proceeding: June 30, 2017
		Company's position: the Company considers the claims as being without merit.
6.	Gorzyca Wind Invest sp. z o.o. (plaintiff) TAURON (defendant)	Object of litigation: lawsuit for payment of damages and determination of TAURON's liability for the losses that may arise in the future due to tort, including acts of unfair competition.
		Value of the object of litigation: PLN 39 700 000.00
		Initiation of the proceeding: the lawsuit of June 29, 2017
		Company's position: the Company considers the claims covered by the lawsuit as being without merit.
7.	Pękanino Wind Invest sp. z o.o. (plaintiff) TAURON (defendant)	Object of litigation: lawsuit for payment of damages and determination of TAURON's liability for the losses that may arise in the future due to tort, including acts of unfair competition.
		Value of the object of litigation: PLN 28 500 000.00
		Initiation of the proceeding: the lawsuit of June 29, 2017
		Company's position: the Company considers the claims covered by the lawsuit as being without merit.
8.	Nowy Jarosław Wind Invest sp. z o.o. (plaintiff) TAURON (defendant)	Object of litigation: lawsuit for payment of damages and determination of TAURON's liability for the losses that may arise in the future due to tort, including acts of unfair competition.
		Value of the object of litigation: PLN 27 000 000.00
		Initiation of the proceeding: the lawsuit of June 29, 2017
		Company's position: the Company considers the claims covered by the lawsuit as being without merit.
9.	in.ventus sp. z o.o. Mogilno I sp. k. (plaintiff) TAURON (defendant)	Object of litigation: lawsuit for payment of damages and determination of TAURON's liability for the losses that may arise in the future due to tort, including acts of unfair competition.
		Value of the object of litigation: EUR 12 286 229.70 (i.e. PLN 53 587 619.46 at NBP's average exchange rate of June 29, 2018)

Initiation of the proceeding: the lawsuit of June 29, 2018

Company's position: the Company considers the claims covered by the lawsuit as being without merit.

Object of litigation: lawsuit for payment of damages and determination of TAURON's liability for the losses that may arise in the future due to tort, including acts of unfair competition.

10. Amon Sp. z o.o. and Talia Sp. z o.o. (formal co-participation on the plaintiff's side)
TAURON (defendant)

Value of the object of litigation: Amon – PLN 47 556 025.51; Talia – PLN 31 299 182.52

Initiation of the proceeding: the lawsuit of April 30, 2018

Company's position: the Company considers the claims covered by the lawsuit as being without merit.

Proceedings involving TAURON Capital Group's subsidiaries

%	Parties to the proceeding	Description of the proceedings including the value of the object of litigation and the Company's position
1.	Gorzyca Wind Invest sp. z o.o. Pękanino Wind Invest sp. z o.o. Dobiesław Wind Invest sp. z o.o. (plaintiff) PE-PKH (defendant)	<p>Object of litigation: plea to declare the termination, by PE-PKH, of the agreements related to the sale of electricity and property rights arising from the certificates of origin null and void, and to award damages.</p> <p>Value of the object of litigation: Gorzyca – PLN 1 141 991.61; Pękanino PLN 39 266 111.02</p> <p>Date of initiating the proceeding: Gorzyca – May 18, 2015, Pękanino – May 20, 2018, DWI – May 18, 2015</p> <p>Company's position: the Company considers the claims covered by the lawsuit as being without merit.</p>
2.	Dobiesław Wind Invest sp. z o.o. (plaintiff) PE-PKH (defendant)	<p>Object of litigation: plea to award damages</p> <p>Value of the object of litigation: PLN 42 095 462.00</p> <p>Initiation of the proceeding: the lawsuit of June 14, 2017</p> <p>Company's position: the Company considers the claims covered by the lawsuit as being without merit.</p>
3.	Nowy Jarosław Wind Invest sp. z o.o. (plaintiff) PE-PKH (defendant)	<p>Object of litigation: plea to declare the termination, by PE-PKH, of the agreements related to the sale of electricity and property rights arising from the certificates of origin null and void, and to award damages.</p> <p>Value of the object of litigation: 42 499 627.97</p> <p>Initiation of the proceeding: the lawsuit of June 3, 2015</p> <p>Company's position: the Company considers the claims covered by the lawsuit as being without merit.</p>
4.	Amon sp. z o.o. (plaintiff) PE-PKH (defendant)	<p>Object of litigation: plea to declare the termination, by PE-PKH, of the agreements related to the sale of electricity and property rights arising from the certificates of origin null and void, and to award damages.</p> <p>Value of the object of litigation: PLN 40 478 983.22</p>

		Initiation of the proceeding: the lawsuit of May 22, 2015
		Company's position: the Company considers the claims covered by the lawsuit as being without merit.
5.	Talia sp. z o.o. (plaintiff) PE-PKH (defendant)	Object of litigation: plea to declare the termination, by PE-PKH, of the agreements related to the sale of electricity and property rights arising from the certificates of origin null and void, and to award damages. Value of the object of litigation: PLN 26 769 159.48 Initiation of the proceeding: the lawsuit of May 21, 2015 Company's position: the Company considers the claims covered by the lawsuit as being without merit.
6.	Mogilno III Mogilno IV Mogilno V Mogilno VI (plaintiff) PE-PKH (defendant)	Object of litigation: plea to declare the termination, by PE-PKH, of the agreements related to the sale of electricity null and void, and to award damages. Value of the object of litigation: Mogilno III – equivalent of EUR 654 703.10; Mogilno IV – equivalent of EUR 735 413.73; Mogilno V – equivalent of EUR 601 357.79; Mogilno VI – equivalent of EUR 567 523.69 EUR Initiation of the proceeding: the lawsuit of May 25, 2015 Company's position: the Company considers the claims covered by the lawsuit as being without merit.
7.	Mogilno I Mogilno II (plaintiff) PE-PKH (defendant)	Object of litigation: lawsuit for payment of damages Value of the object of litigation: Mogilno I – equivalent of EUR 712 000.75; Mogilno II – equivalent of EUR 753 462.78 Initiation of the proceeding: the lawsuits of November 7, 2018 Company's position: the Company considers the claims covered by the lawsuit as being without merit.

7.2. Information on agreements concluded by TAURON Capital Group's subsidiaries

7.2.1. Transactions with related entities on terms other than at arm's length

All the transactions with related entities are concluded at arm's length.

The detailed information on the transactions with related entities is provided in note 47 to the Interim abbreviated consolidated financial statements for the 6 months ended on June 30, 2018.

7.2.2. Guarantees, credit or loan co-signings (sureties, endorsements) granted

In H1 2018 TAURON and its subsidiaries did not grant guarantees and credit or loan co-signings (sureties, endorsements) – in total to a single entity or such entity's subsidiary where the total value of the existing co-signings (sureties, endorsements) or guarantees would be significant.

7.3. Other information that is significant for the evaluation of the staffing, assets, financial standing, financial result and changes thereof, as well as information that is essential to evaluate the ability of TAURON Capital Group to fulfill its obligations

Conclusion of the Agreement with Polska Grupa Górnicza S.A.

A coal sale agreement was signed between TAURON and Polska Grupa Górnicza S.A. on January 18, 2018. The subject of the Agreement is the supply of coal from the coal mines of Polska Grupa Górnicza S.A. to TAURON Capital Group's power generating units, being part of its subsidiaries – TAURON Wytwarzanie and TAURON Ciepło. The agreement was concluded for an indefinite period of time and it defines annual volumes of coal supplies until 2021. The 2018 sales prices were defined in the agreement, while in the subsequent years the prices are to be indexed based on the formula included in the agreement. The agreement will help supplement the coal balance sourced from the Company's own coal mines being part of TAURON Wydobycie subsidiary.

Commencing cooperation with respect to innovations with American Electric Power Research Institute

Energy storage and identification of electricity consumers' needs are included within the scope of the first joint research programs carried out by TAURON and American Electric Power Research Institute (EPRI). The cooperation agreement was signed on March 8, 2018.

The selected areas of cooperation are of particular importance for TAURON Capital Group and stem directly from the technological challenges identified by TAURON Capital Group. Energy storage is one of the most important challenges for electricity distribution and effective dispersed power generation. On the other hand, understanding customer needs provides support for customer relations that are of key importance from the point of view of TAURON Capital Group's strategy.

The energy storage project uses modern tools that allow for estimating the costs of installing and operating energy storage facilities or software that enables verifying the benefits and requirements in specific energy storage cases. Such solutions will constitute the basis for implementing TAURON's research and development projects, i.e. the construction of an energy storage facility in order to provide uninterrupted power supply to electricity consumers, the second life for batteries, microgrids or demand side response (DSR) mechanisms.

Participation in the electricity consumers' needs identification program will enable TAURON Capital Group's subsidiaries to identify customer needs faster and more precisely, and, what follows, to develop a portfolio of energy services and products aligned with the changing market trends. The program will also allow for tailoring, to a larger degree, products and services that are just being developed in the new lines of business, such as electromobility or smart home, to customer expectations.

Signing of the Consortium Agreement between TAURON and Ericsson

On May 24, 2018 the Consortium Agreement with Ericsson sp. z o.o. was signed with its goal being a joint implementation of the services for the needs of a smart city with the use of the Internet of Things technology. The implementation of this type of solutions will be Poland's first project that utilizes the Internet of Things on such a large scale in a city with a population of several hundred thousand people.

The implementation assumes a comprehensive optimization of the use and development of new services based on the city, municipal, power and telecommunications infrastructure. It will be possible due to the use of the network of sensors supplying information facilitating management of the individual functions of the metropolitan area. Appropriately selected modern technological solutions will facilitate safe and effective management of street lighting or parking spots, making the city more comfortable for its inhabitants. TAURON Capital Group's existing distribution infrastructure will be used to provide advanced technological services for the population and businesses.

The project will be launched in 2018 in one of the large cities on the territory of TAURON Capital Group's distribution area as the program's pilot. An important element of the project will also be the use of modern communications technologies, as well as collecting, processing and analyzing large amounts of data coming from installed sensors and smart infrastructure.

Establishment of the Corporate Venture Capital fund for developing innovations

TAURON, the Polish Development Fund (Polski Fundusz Rozwoju – PFR) and the National Center for Research and Development signed an agreement on establishing a Corporate Venture Capital (CVC) type fund on June 13, 2018. The new fund, under the name of EEC Magenta sp. z o.o. (EEC Magenta), will focus on designing innovative solutions for the power sector that will respond to market challenges arising on the territory of TAURON Capital Group's operations. The established fund is the first entity of this type on the Polish market.

TAURON will be a participant of two funds established as part of the PFR Starter – FIZ and BRIdge VC / PFR NCBR CVC programs. This will enable TAURON to provide a multi-stage support for innovative companies, among others by

enabling participation in acceleration programs, investing in businesses at an early stage of their development under the PFR Starter FIZ program or providing successive rounds of financing as part of the PFR NCBR CVC program. The ultimate capitalization of the fund established as part of the PFR Starter FIZ program will reach PLN 50 million, while the capitalization of the fund established as part of the PFR NCBR CVC program will come in at PLN 160 million. TAURON's participation in the funds will not surpass, respectively, 25% and 49%.

The funds set up as part of the PFR NCBR CVC and PFR Starter programs will be managed by a professional, independent from investors, management entity called EEC Magenta. In accordance with the assumptions of the new fund, the growth of the portfolio companies' value will be achieved by providing funds required to develop projects. At the same time, the fund's intention is to provide, as part of its investments, the so-called smart money, i.e. provide the subject matter support with respect to developing competences related to the project's development. The emphasis will be placed on strategic planning and management, as well as strengthening relations in sectors at which the portfolio companies will be targeting their products and services.

General certification of TAURON Capital Group's subsidiaries

In Q2 2018 TAURON completed, with a positive result, on behalf of TAURON Capital Group's subsidiaries, the general certification of the existing physical units and the planned ones as part of the newly implemented capacity market. As a result, TAURON Capital Group's physical generating and demand side response units will be able to take part in the certification for auctions, and subsequently apply, as part of the auctions planned in Q4 2018, for revenue from the capacity market in 2021 and in the subsequent years.

Implementation of GDPR in TAURON Capital Group

Due to the coming into force, as of May 25, 2018, of the European Union's General Data Protection Regulation, the so-called GDPR, TAURON Capital Group completed a number of actions aimed at aligning the individual areas of the organization's operations to the requirements defined in the law.

In particular, as part of the actions taken:

- 1) documentation in four main subject matter streams was prepared and implemented: personal data protection and compliance with the law, process management, data and IT systems, as well as risk analysis;
- 2) *Personal Data Protection Policy* was prepared and adopted;
- 3) Data Protection Officers at 14 entities of TAURON Capital Group were appointed;
- 4) 12 new processes that involve personal data processing were developed and published, and 55 existing processes that involve personal data processing were modified;
- 5) model used to evaluate the criticality of IT systems processing personal data was developed and implemented, including guidelines for IT systems with respect to personal data protection;
- 6) personnel of entities involved in the project was trained with respect to knowledge of personal data protection issues stemming from the GDPR regulation (approx. 28 000 persons).

The above actions have prepared TAURON Capital Group to operate in line with the new requirements, and the adopted solutions will enable the persons whose data is processed by TAURON Capital Group's subsidiaries to exercise their rights defined in detail in the GDPR regulation.

Management Board of the Company

Katowice, August 22, 2018

Filip Grzegorzczak - 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

Appendix A: GLOSSARY OF TERMS AND LIST OF ABBREVIATIONS

The glossary of trade terms and the list of abbreviations and acronyms most commonly used in this report is presented below.

Table 21. Explanation of abbreviations and acronyms and trade terms used in the text of the report

#	Abbreviation and trade term	Full name/explanation
1.	BAT	Best Available Technology
2.	BGK	Bank Gospodarstwa Krajowego with its seat in Warsaw
3.	Biomasa Grupa TAURON	Biomasa Grupa TAURON sp. z o.o. with its seat in Stalowa Wola
4.	Cash pooling	Cash pooling used by the Company – the consolidation of balances of bank accounts through physical transferring of cash from the accounts of TAURON Capital Group’s subsidiaries in the bank in which cash pooling is operated to the bank account of the pool leader whose function is performed by the Company. At the end of each working day, cash is transferred from the bank accounts of TAURON Capital Group’s subsidiaries which show positive balance to the bank account of the pool leader. At the beginning of each working day the bank accounts of TAURON Capital Group’s subsidiaries are credited from the bank account of the pool leader with the amount required to maintain the financial liquidity of the TAURON Capital Group’s subsidiary on the given working day.
5.	Color certificates	Property rights resulting from the certificates of origin of electricity generated in the way subject to support, the so-called color certificates: 1) green - certificates of origin of electricity from RES, 2) violet - certificates of origin of electricity generated in co-generation fired using methane released and captured during underground mining works in active, in liquidation or liquidated hard coal mines, or using gas obtained 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 or with the total installed capacity below 1 MW, 5) blue - certificates of origin of electricity generated from agricultural biogas. White - energy efficiency certificates (mechanism stimulating and forcing pro-savings behaviors).
6.	Dz. U.	Journal of Laws of the Republic of Poland
7.	Dz. U. UE	Official Journal of the European Union
8.	EBI	European Investment Bank with its seat in Luxembourg
9.	EBIT	Earnings Before Interest and Taxes
10.	EBITDA	Earnings Before Interest, Taxes, Depreciation and Amortization
11.	EC Stalowa Wola/ECSW	Elektrociepłownia (Combined Heat and Power Plant – CHP) Stalowa Wola S.A. with its seat in Stalowa Wola
12.	EEC Magenta	EEC Magenta sp. z o.o. with its seat in Warsaw
13.	ElectroMobility Poland	ElectroMobility Poland S.A. with its seat in Warsaw
14.	ENEA	ENEA S.A. with its seat in Poznań
15.	En-Energia I En-Energia II En-Energia III En- Energia IV	En-Energia I sp. z o.o. with its seat in Katowice En-Energia II sp. z o.o. with its seat in Katowice En-Energia III sp. z o.o. with its seat in Katowice En- Energia IV sp. z o.o. with its seat in Katowice
16.	Ericsson	Ericsson sp. z o.o. with its seat in Warsaw
17.	ERM	Enterprise Risk Management system
18.	EU ETS	European Union CO ₂ Emission Trading System
19.	EUA	European Union Allowance – an allowance to introduce the carbon dioxide (CO ₂) equivalent to the air, within the meaning of Article 2 section 4 of the <i>Act of July 17, 2009 on the management system of emissions of greenhouse gases and other substances</i> (Journal of Laws of 2009 no. 130, item 1070 as amended), which is used for settlements of emission level within the system and which can be managed under the rules provided in the <i>act of June 12, 2015 on the system of greenhouse gases emission allowances trading</i> (Journal of Laws of 2015, No. 1223, as amended)

#	Abbreviation and trade term	Full name/explanation
20.	EUR	Euro - a common European currency introduced in some EU member states
21.	TAURON Capital Group	TAURON Polska Energia S.A. Capital Group
22.	GZE	Górnośląski Zakład Elektroenergetyczny
23.	KGHM	KGHM Polska Miedź S.A. with its seat in Lubin
24.	Komfort Zarządzanie Aktywami	Komfort Zarządzanie Aktywami sp. z o.o. with its seat in Katowice
25.	Audit Committee	Audit Committee of the Supervisory Board of TAURON Polska Energia S.A.
26.	Nominations and Compensation Committee	Nominations and Compensation Committee of the Supervisory Board of TAURON Polska Energia S.A.
27.	Strategy Committee	Strategy Committee of the Supervisory Board of TAURON Polska Energia S.A.
28.	KW Czatkowice	Kopalnia Wapienia (Limestone Mine) "Czatkowice" sp. z o.o. with its seat in Krzeszowice
29.	KZEE	National electricity consumption
30.	Magenta GT	Magenta Grupa TAURON sp. z o.o. with its seat in Katowice
31.	Marselwind	Marselwind sp. z o.o. with its seat in Katowice
32.	Mg	Mega gram – million grams (1 000 000 g) i.e. a ton
33.	MIFID II	European Parliament and Council Directive 2014/65/UE of May 15, 2014 on financial instruments markets and changing directive 2002/92/WE and directive 2011/61/UE (Journal of Laws EU L no. 173, p. 349 and the subsequent ones, as amended)
34.	MIFIR	European Parliament and Council (EU) no. 600/2014 of May 15, 2014 on financial instruments markets and changing regulation (EU) no. 648/2012 (Journal of Laws EU L no. 173, p. 84 and the subsequent ones)
35.	MSR	CO ₂ Emission Allowances Market Stability Reserve
36.	Nowe Jaworzno GT	Nowe Jaworzno Grupa TAURON sp. z o.o. with its seat in Jaworzno
37.	Line of Business	Seven areas of TAURON Capital Group's core operations set up by the Company: Trading, Mining, Generation, RES, Heat, Distribution and Supply.
38.	OPEC	Organization of the Petroleum Exporting Countries with its seat in Vienna
39.	ORM	Operational Capacity Reserve (OCR)
40.	OSD	Distribution System Operator (DSO)
41.	OSP	Transmission System Operator (TSO)
42.	OTC (rynek OTC)	Over The Counter Market
43.	OZE	Renewable Energy Sources (RES)
44.	OZEX_A	Green certificates index price
45.	PE-PKH	Polska Energia - Pierwsza Kompania Handlowa sp. z o.o. with its seat in Warsaw
46.	PFR	Polski Fundusz Rozwoju S.A. with its seat in Warsaw
47.	PGE	PGE Polska Grupa Energetyczna S.A. with its seat in Warsaw
48.	PGE EJ 1	PGE EJ 1 sp. z o.o. with its seat in Warsaw
49.	PGNiG	Polskie Górnictwo Naftowe i Gazownictwo S.A. with its seat in Warsaw
50.	PKB	Gross Domestic Product (GDP)
51.	PLN	Polish zloty currency symbol – zł
52.	PMEC	Property rights for certificates of origin confirming generation of electricity in the other co-generation sources
53.	PMEF	Property rights for energy efficiency certificates
54.	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
55.	PMMET	Property rights for certificates of origin confirming generation of electricity in co-generation fired

#	Abbreviation and trade term	Full name/explanation
		using methane released and captured during underground mining works in active, in liquidation or liquidated hard coal mines, or using gas obtained from biomass processing
56.	PMOZE	Property rights for certificates of origin confirming generation of electricity in RES before March 1, 2009
57.	PMOZE_A	Property rights for certificates of origin confirming generation of electricity in RES after March 1, 2009
58.	PSE	Polskie Sieci Elektroenergetyczne S.A. with its seat in Konstancin-Jeziorna
59.	RB	Balancing Market (Rynek Bilansujący)
60.	Segment, Segments of operations	TAURON Capital Group's segments of operations used in the statutory reporting process. TAURON Capital Group's results from operations are allocated to the following five Segments (also called Line of Business or Areas in this report): Mining, Generation, Distribution, Supply and Other.
61.	SIWZ	Terms of Reference
62.	SPOT (SPOT market)	With respect to electricity, it is the place where trade transactions for electricity are concluded for which the period of delivery falls, at the latest, three days after the date of the transaction's conclusion (usually it is one day before the date of delivery). Operation of the SPOT market for electricity is strongly tied to the operation of the balancing market run by the TSO
63.	Company/TAURON	TAURON Polska Energia S.A. with its seat in Katowice
64.	Strategy	Document entitled <i>TAURON Group's 2016 – 2025 Strategy</i> adopted by the Management Board on September 2, 2016
65.	TAMEH Czech	TAMEH Czech s.r.o. with its seat in Ostrava, Czech Republic
66.	TAMEH HOLDING	TAMEH HOLDING sp. z o.o. with its seat in Dąbrowa Górnicza
67.	TAMEH POLSKA	TAMEH POLSKA sp. z o.o. with its seat in Dąbrowa Górnicza
68.	TAURON/Company	TAURON Polska Energia S.A. with its seat in Katowice
69.	TAURON Ciepło	TAURON Ciepło sp. z o.o. with its seat in Katowice
70.	TAURON Czech Energy	TAURON Czech Energy s.r.o. with its seat in Ostrava, Czech Republic
71.	TAURON Dystrybucja	TAURON Dystrybucja S.A. with its seat in Kraków
72.	TAURON Dystrybucja Pomiary	TAURON Dystrybucja Pomiary sp. z o.o. with its seat in Tarnów
73.	TAURON Dystrybucja Serwis	TAURON Dystrybucja Serwis S.A. with its seat in Wrocław
74.	TAURON EKOENERGIA	TAURON EKOENERGIA sp. z o.o. with its seat in Jelenia Góra
75.	TAURON Obsługa Klienta	TAURON Obsługa Klienta sp. z o.o. with its seat in Wrocław
76.	TAURON Serwis	TAURON Serwis sp. z o.o. with its seat in Katowice
77.	TAURON Sprzedaż	TAURON Sprzedaż sp. z o.o. with its seat in Kraków
78.	TAURON Sprzedaż GZE	TAURON Sprzedaż GZE sp. z o.o. with its seat in Gliwice
79.	TAURON Sweden Energy	TAURON Sweden Energy AB (publ) with its seat in Stockholm, Sweden
80.	TAURON Ubezpieczenia	TAURON Ubezpieczenia sp. z o.o. with its seat in Katowice
81.	TAURON Wydobycie	TAURON Wydobycie S.A. with its seat in Jaworzno
82.	TAURON Wytwarzanie	TAURON Wytwarzanie S.A. with its seat in Jaworzno
83.	TAURON Wytwarzanie Serwis	TAURON Wytwarzanie Serwis sp. z o.o. with its seat in Jaworzno
84.	TGE	Towarowa Giełda Energii S.A. (Polish Power Exchange) with its seat in Warsaw
85.	UE	European Union
86.	UOKiK	Office of Competition and Consumer Protection (Urząd Ochrony Konkurencji i Konsumentów)
87.	USD	United States Dollar – US dollar's international acronym
88.	ERO (URE)	Energy Regulatory Office (Urząd Regulacji Energetyki)

#	Abbreviation and trade term	Full name/explanation
89.	Wsparcie Grupa TAURON	Wsparcie Grupa TAURON sp. z o.o. with its seat in Tarnów (formerly KOMFORT-ZET sp. z o.o.)
90.	WZ/ZW	General Meeting (GM) / Shareholders' Meeting
91.	ZG	Coal Mine (Zakład Górniczy) (Sobieski, Janina or Brzeszcze)
92.	ZW	Generation Plants (Zakłady Wytwarzania) in Bielsko-Biała, Kamienna Góra, Katowice or Tychy

Appendix B: INDEX OF TABLES AND FIGURES

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