EXTENDED CONSOLIDATED INTERIM REPORT

of TAURON Polska Energia S.A. Capital Group
for the first half of 2020

August 2020

TAURON.PL

Selected consolidated financial data of TAURON Polska Energia S.A. Capital Group

	in PLN '000		in EUR '000	
	2020 from 01.01.2020 to 30.06.2020	2019 from 01.01.2019 to 30.06.2019 (adjusted data)	2020 from 01.01.2020 to 30.06.2020	2019 from 01.01.2019 to 30.06.2019 (adjusted data)
Sales revenue	9 888 017	9 325 844	2 226 379	2 174 870
Operating profit (EBIT)	1 139 502	924 658	256 569	215 639
Pre-tax profit	895 490	801 732	201 628	186 971
Net profit from continued operations	464 373	597 237	104 558	139 281
Net profit (loss) from discontinued operations	(781 455)	75 149	(175 952)	17 525
Net profit (loss)	(317 082)	672 386	(71 394)	156 806
Net profit (loss) attributable to shareholders of the parent company	(316 046)	671 543	(71 161)	156 610
Net profit (loss) attributable to non-controlling shares	(1 036)	843	(233)	197
Other total net income	(190 755)	4 065	(42 950)	948
Total aggregate income	(507 837)	676 451	(114 344)	157 754
Total aggregate income attributable to shareholders of the parent company	(506 656)	675 589	(114 078)	157 553
Total aggregate income attributable to non-controlling shares	(1 181)	862	(266)	201
Profit (loss) per share (in PLN/EUR) (basic and diluted from the profit for the period attributable to shareholders of the parent company)	(0.18)	0.38	(0.04)	0.09
Profit per share (in PLN/EUR) (basic and diluted from the profit from continued operations for the period attributable to shareholders of the parent company)	0.27	0.34	0.06	0.08
Weighted average number of shares (in pcs) (basic and diluted)	1 752 549 394	1 752 549 394	1 752 549 394	1 752 549 394
Net cash flows from operating activities	2 523 280	1 065 698	568 140	248 530
Net cash flows from investing activities	(2 158 988)	(1 889 762)	(486 116)	(440 709)
Net cash flows from financing activities	(963 214)	957 628	(216 877)	223 327
Increase/(decrease) in net cash and equivalents	(598 922)	133 564	(134 853)	31 148
	As of 30.06.2020	As of 31.12.2019	As of 30.06.2020	As of 31.12.2019
Fixed assets	33 188 440	35 052 287	7 431 357	8 231 135
Current assets	6 821 897	6 865 478	1 527 518	1 612 182
Total assets	40 010 337	41 917 765	8 958 875	9 843 317
Share capital	8 762 747	8 762 747	1 962 102	2 057 707
Equity attributable to shareholders of the parent company	17 684 743	18 192 226	3 959 862	4 271 980
Equity attributable to non-controlling shares	899 840	900 434	201 487	211 444
Total equity	18 584 583	19 092 660	4 161 349	4 483 424
Long term liabilities	16 145 402	14 963 274	3 615 182	3 513 743
Short term liabilities	5 280 352	7 861 831	1 182 345	1 846 150
Total liabilities	21 425 754	22 825 105	4 797 527	5 359 893

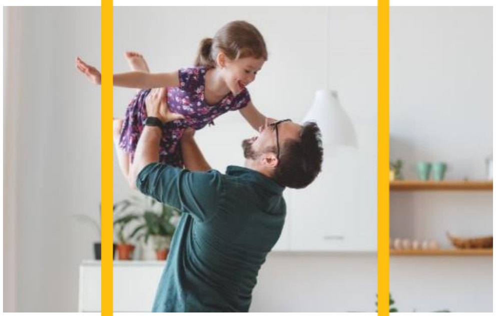
Selected standalone financial data of TAURON Polska Energia S.A.

	in PLN '000		in EUR '000	
	2020 from 01.01.2020 to 30.06.2020	2019 from 01.01.2019 to 30.06.2019 (adjusted data)	2020 from 01.01.2020 to 30.06.2020	2019 from 01.01.2019 to 30.06.2019 (adjusted data)
Sales revenue	5 206 920	4 877 470	1 172 386	1 137 470
Operating profit (EBIT)	65 550	6 407	14 759	1 494
Pre-tax loss	(1 996 497)	(516 207)	(449 530)	(120 384)
Net loss	(1 955 125)	(613 022)	(440 215)	(142 962)
Other total net income	(107 340)	(2 629)	(24 169)	(613)
Total aggregate income	(2 062 465)	(615 651)	(464 383)	(143 575)
Loss per share (in PLN/EUR) (basic and diluted from net loss)	(1,12)	(0,35)	(0,25)	(0,08)
Weighted average number of shares (in pcs) (basic and diluted)	1 752 549 394	1 752 549 394	1 752 549 394	1 752 549 394
Net cash flows from operating activities	742 272	(114 412)	167 129	(26 682)
Net cash flows from investing activities	(1 115 763)	226 840	(251 224)	52 901
Net cash flows from financing activities	(998 056)	634 769	(224 722)	148 034
Increase/(decrease) in net cash and equivalents	(1 371 547)	747 197	(308 817)	174 253
	As of 30.06.2020	As of 31.12.2019	As of 30.06.2020	As of 31.12.2019
Fixed assets	25 129 661	27 010 590	5 626 883	6 342 747
Current assets	3 348 918	3 474 539	749 870	815 907
Total assets	28 478 579	30 485 129	6 376 753	7 158 654
Share capital	8 762 747	8 762 747	1 962 102	2 057 707
Equity	12 745 712	14 808 177	2 853 944	3 477 322
Long term liabilities	12 450 107	10 947 500	2 787 753	2 570 741
Short term liabilities	3 282 760	4 729 452	735 056	1 110 591
Total liabilities	15 732 867	15 676 952	3 522 809	3 681 332

The above financial data was converted into EUR according to the following principles:

- individual items of the statement of financial position - at the average NBP exchange rate announced on June 30, 2020 - PLN/EUR 4.4660 (as of December 31, 2019 - PLN/EUR 4.2585),
- individual items of the statement of comprehensive income and the statement of cash flows - at the exchange rate representing the arithmetic mean of average NBP exchange rates announced on the last day of each month of the financial period from January 1, 2020 to June 30, 2020 - PLN/EUR 4.4413 (for the period from January 1, 2019 to June 30, 2019: PLN/EUR 4.2880).

TAURON



STATEMENT OF THE MANAGEMENT BOARD

of TAURON Polska Energia S.A.

TAURON.PL

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

The Management Board of TAURON Polska Energia S.A., represents that, to its 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.

The Management Board of TAURON Polska Energia S.A., also certifies 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:

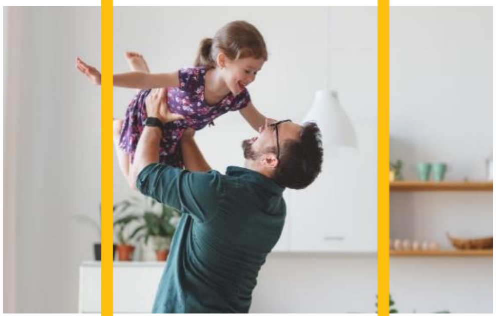
1. Wojciech Ignacok -President of the Management Board

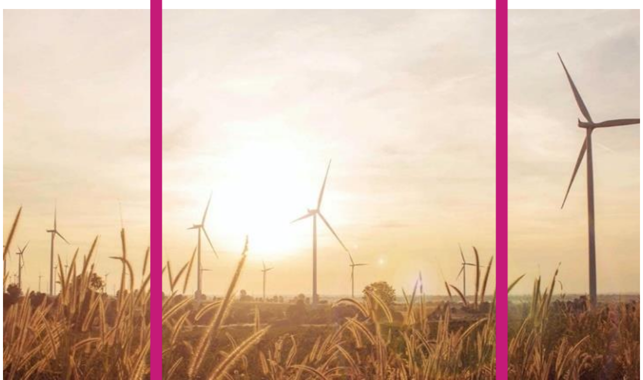
2. Jerzy Topolski -Vice President of the Management Board

3. Marek Wadowski -Vice President of the Management Board

18 August 2020
date

TAURON





INDEPENDENT AUDITOR'S REPORT ON REVIEW

of interim condensed consolidated financial statements of TAURON Polska Energia S.A. Capital Group for the first half of 2020

Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k.
Rondo ONZ 1
00-124 Warszawa

+48 (0) 22 557 70 00
+48 (0) 22 557 70 01
www.ey.com/pl

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 interim condensed consolidated financial statements of Capital Group of TAURON Polska Energia S.A. (the 'Group'),for which the holding company is TAURON Polska Energia S.A. ('the Company') registered office located in Katowice, Ks. Piotra Ściegiennego Street, 3, containing: the interim condensed consolidated statement of comprehensive income for the period from 1 January 2020 to 30 June 2020, the interim condensed consolidated statement of financial position as at 30 June 2020, the interim condensed consolidated statement of changes in equity, the interim condensed consolidated statement of cash flows for the period from 1 January 2020 to 30 June 2020 and other explanatory notes (the 'interim condensed consolidated financial statements').

The Company's Management is responsible for the preparation and presentation of the 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 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 National Council of Statutory Auditors. 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 National Council of Statutory Auditors 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

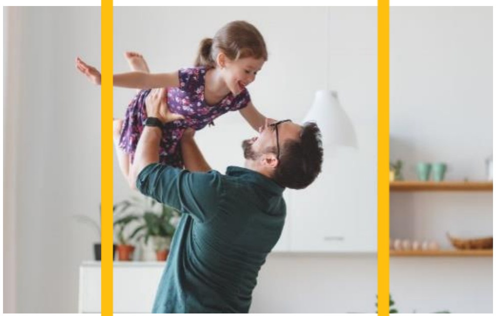
Based on our review, nothing has come to our attention that causes us to believe that the interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with the requirements of International Accounting Standard 34 *Interim Financial Reporting* as adopted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

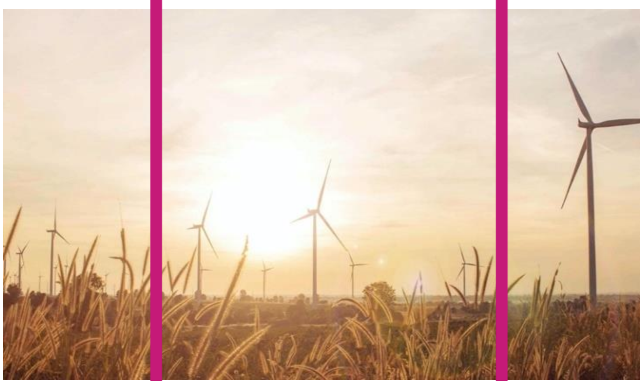
Warsaw, 18 August 2020

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





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 2020

TAURON.PL

TAURON Polska Energia S.A. Capital Group

Interim condensed consolidated financial statements
in accordance with the International Financial Reporting Standards,
as endorsed by the European Union
for the 6-month period ended 30 June 2020

(in PLN thousand)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	3-month period ended 30 June 2020 *(unaudited)*	6-month period ended 30 June 2020 *(unaudited)*	3-month period ended 30 June 2019 *(unaudited restated figures)*	6-month period ended 30 June 2019 *(unaudited restated figures)*
Sales revenue	11	4 622 401	9 888 017	4 238 729	9 325 844
Recompensation revenue		-	-	721 502	721 502
Cost of sales	12	(3 986 146)	(8 581 846)	(4 449 725)	(8 667 974)
Profit on sale		**636 255**	**1 306 171**	**510 506**	**1 379 372**
Selling and distribution expenses	12	(82 173)	(208 577)	(124 879)	(229 249)
Administrative expenses	12	(129 248)	(280 906)	(137 638)	(286 968)
Other operating income and expenses	13	278 046	281 900	2 310	11 478
Share in profit/(loss) of joint ventures	22	6 955	40 914	7 202	50 025
Operating profit		**709 835**	**1 139 502**	**257 501**	**924 658**
Interest expense on debt	14	(72 666)	(144 372)	(61 527)	(119 309)
Finance income and other finance costs	14	70 608	(99 640)	15 036	(3 617)
Profit before tax		**707 777**	**895 490**	**211 010**	**801 732**
Income tax expense	15	(367 062)	(431 117)	(82 267)	(204 495)
Net profit on continuing operations		**340 715**	**464 373**	**128 743**	**597 237**
Profit/loss on discontinued operations	16	**(819 272)**	**(781 455)**	**7 881**	**75 149**
Net profit (loss)		**(478 557)**	**(317 082)**	**136 624**	**672 386**
Measurement of hedging instruments	32.4	(41 555)	(131 745)	(592)	(3 363)
Foreign exchange differences from translation of foreign entity		210	(1 814)	936	(215)
Income tax	15	7 896	25 032	112	639
Other comprehensive income on continuing operations to be reclassified in the financial result		**(33 449)**	**(108 527)**	**456**	**(2 939)**
Actuarial gains (losses)	34.1	(104 173)	(99 647)	5 073	7 721
Income tax	15	19 789	18 932	(961)	(1 465)
Share in other comprehensive income of joint ventures	22	198	360	156	278
Other comprehensive income on continuing operations not to be reclassified in the financial result		**(84 186)**	**(80 355)**	**4 268**	**6 534**
Other comprehensive income on discontinued operations	16	**(2 188)**	**(1 873)**	**357**	**470**
Other comprehensive income, net of tax		**(119 823)**	**(190 755)**	**5 081**	**4 065**
Total comprehensive income		**(598 380)**	**(507 837)**	**141 705**	**676 451**
Net profit:					
Attributable to equity holders of the Parent		(478 112)	(316 046)	136 279	671 543
Attributable to non-controlling interests		(445)	(1 036)	345	843
Total comprehensive income:					
Attributable to equity holders of the Parent		(597 776)	(506 656)	141 349	675 589
Attributable to non-controlling interests		(604)	(1 181)	356	862
Profit (loss) per share (in PLN):					
basic and diluted from profit for the period attributable to equity holders of the Parent		(0,27)	(0,18)	0,08	0,38
basic and diluted from profit on continuing operations for the period attributable to equity holders of the Parent		0,19	0,27	0,07	0,34

(in PLN thousand)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	As at 30 June 2020 *(unaudited)*	As at 31 December 2019
ASSETS			
Non-current assets			
Property, plant and equipment	**17**	29 682 972	31 099 071
Right-of-use assets	**18**	1 633 438	1 773 498
Goodwill	**19**	26 183	26 183
Energy certificates and CO_2 emission allowances for surrender	**20.1**	106 302	468 197
Other intangible assets	**21**	476 247	478 261
Investments in joint ventures	**22**	598 753	559 144
Loans granted to joint ventures	**23**	305 623	238 035
Other financial assets	**24**	200 699	235 522
Other non-financial assets	**25.1**	130 542	152 288
Deferred tax assets	**26**	27 681	22 088
		33 188 440	**35 052 287**
Current assets			
Energy certificates and CO_2 emission allowances for surrender	**20.2**	709 209	1 285 193
Inventories	**27**	691 723	684 152
Receivables from buyers	**28**	2 116 237	2 290 746
Income tax receivables		811	255 702
Receivables arising from other taxes and charges	**29**	139 367	384 714
Loans granted to joint ventures	**23**	14 906	4 999
Other financial assets	**24**	642 106	599 035
Other non-financial assets	**25.2**	141 697	100 275
Cash and cash equivalents	**30**	634 837	1 237 952
Assets classified as held for sale	**31**	1 731 004	22 710
		6 821 897	**6 865 478**
TOTAL ASSETS		**40 010 337**	**41 917 765**

The notes to the interim condensed consolidated financial statements
form an integral part thereof

(in PLN thousand)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION - continued

	Note	As at 30 June 2020 *(unaudited)*	As at 31 December 2019
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the Parent			
Issued capital	**32.1**	8 762 747	8 762 747
Reserve capital	**32.3**	6 801 584	6 801 584
Revaluation reserve from valuation of hedging instruments	**32.4**	(91 047)	15 666
Foreign exchange differences from translation of foreign entities		12 707	14 521
Retained earnings/(Accumulated losses)	**32.5**	2 198 752	2 597 708
		17 684 743	**18 192 226**
Non-controlling interests	**32.6**	**899 840**	**900 434**
Total equity		**18 584 583**	**19 092 660**
Non-current liabilities			
Debt	**33**	13 177 984	11 830 183
Provisions for employee benefits	**34**	917 885	1 313 480
Provisions for disassembly of fixed assets, land restoration and other provisions	**35**	690 279	663 130
Accruals, deferred income and government grants	**38**	367 373	460 003
Deferred tax liabilities	**26**	835 785	605 285
Other financial liabilities	**43**	147 051	79 417
Other non-financial liabilities		9 045	11 776
		16 145 402	**14 963 274**
Current liabilities			
Debt	**33**	476 666	2 484 093
Liabilities to suppliers	**39**	734 956	847 226
Capital commitments	**40**	387 249	757 943
Provisions for employee benefits	**34**	102 364	118 418
Provisions for liabilities due to energy certificates and CO_2 emission allowances	**36**	694 772	1 378 233
Other provisions	**37**	455 688	563 753
Accruals, deferred income and government grants	**38**	302 170	185 544
Income tax liabilities	**41**	35 867	3 853
Liabilities arising from other taxes and charges	**42**	491 924	589 001
Other financial liabilities	**43**	814 716	560 455
Other non-financial liabilities	**44**	413 766	364 376
Liabilities directly related to assets classified as held for sale	**31**	370 214	8 936
		5 280 352	**7 861 831**
Total liabilities		**21 425 754**	**22 825 105**
TOTAL EQUITY AND LIABILITIES		**40 010 337**	**41 917 765**

(in PLN thousand)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

6-MONTH PERIOD ENDED 30 June 2020 *(not audited)*

	Equity attributable to the equity holders of the Parent							
	Issued capital	Reserve capital	Revaluation reserve on valuation of hedging instruments	Foreign exchange differences from translation of foreign entities	Retained earnings/ (Accumulated losses)	Total	Non-controlling interests	Total equity
As at 1 January 2020	**8 762 747**	**6 801 584**	**15 666**	**14 521**	**2 597 708**	**18 192 226**	**900 434**	**19 092 660**
Transactions with non-controlling shareholders	-	-	-	-	(827)	**(827)**	587	**(240)**
Transactions with shareholders	**-**	**-**	**-**	**-**	**(827)**	**(827)**	**587**	**(240)**
Net loss	-	-	-	-	(316 046)	**(316 046)**	(1 036)	**(317 082)**
Other comprehensive income	-	-	(106 713)	(1 814)	(82 083)	**(190 610)**	(145)	**(190 755)**
Total comprehensive income	**-**	**-**	**(106 713)**	**(1 814)**	**(398 129)**	**(506 656)**	**(1 181)**	**(507 837)**
As at 30 June 2020 *(unaudited)*	**8 762 747**	**6 801 584**	**(91 047)**	**12 707**	**2 198 752**	**17 684 743**	**899 840**	**18 584 583**

6-MONTH PERIOD ENDED 30 JUNE 2019 *(not audited restated data)*

	Equity attributable to the equity holders of the Parent							
	Issued capital	Reserve capital	Revaluation reserve on valuation of hedging instruments	Foreign exchange differences from translation of foreign entities	Retained earnings/ (Accumulated losses)	Total	Non-controlling interests	Total equity
As at 1 January 2019	**8 762 747**	**8 511 437**	**3 371**	**14 016**	**1 004 253**	**18 295 824**	**132 657**	**18 428 481**
Coverage of prior years loss	-	(1 709 853)	-	-	1 709 853	**-**	-	**-**
Shares subscribed for by non-controling shareholders	-	-	-	-	4 162	**4 162**	252 763	**256 925**
Transactions with shareholders	**-**	**(1 709 853)**	**-**	**-**	**1 714 015**	**4 162**	**252 763**	**256 925**
Net profit	-	-	-	-	671 543	**671 543**	843	**672 386**
Other comprehensive income	-	-	(2 724)	(215)	6 985	**4 046**	19	**4 065**
Total comprehensive income	**-**	**-**	**(2 724)**	**(215)**	**678 528**	**675 589**	**862**	**676 451**
As at 30 June 2019 *(unaudited restated figures)*	**8 762 747**	**6 801 584**	**647**	**13 801**	**3 396 796**	**18 975 575**	**386 282**	**19 361 857**

(in PLN thousand)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASHFLOWS

	Note	6-month period ended 30 June 2020 *(unaudited)*	6-month period ended 30 June 2019 *(unaudited restated figures)*
Cash flows from operating activities			
Profit before taxation	**45.1**	**116 786**	**881 950**
Share in (profit)/loss of joint ventures		(40 914)	(50 025)
Depreciation and amortization	**45.1**	999 286	958 177
Impairment losses on non-financial non-current assets		240 106	267 518
Impairment on disposal group due to revaluation to fair value		806 419	-
Exchange differences		150 738	(40 771)
Interest and commissions		149 544	122 961
Other adjustments of profit before tax		80 917	(3 255)
Change in working capital	**45.1**	(87 497)	(747 324)
Income tax paid	**45.1**	107 895	(323 533)
Net cash from operating activities		**2 523 280**	**1 065 698**
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets	**45.2**	(2 100 411)	(1 919 658)
Loans granted	**45.2**	(78 475)	(10 375)
Purchase of financial assets		(21 481)	(10 344)
Total payments		**(2 200 367)**	**(1 940 377)**
Proceeds from sale of property, plant and equipment and intangible assets		7 230	13 255
Redemption of share units		26 747	-
Dividends received		-	32 666
Repayment of loans granted		5 401	3 770
Other proceeds		2 001	924
Total proceeds		**41 379**	**50 615**
Net cash used in investing activities		**(2 158 988)**	**(1 889 762)**
Cash flows from financing activities			
Redemption of debt securities		(3 100)	(670 000)
Repayment of loans and borrowings	**45.3**	(3 046 380)	(58 580)
Interest paid	**45.3**	(46 818)	(21 787)
Repayment of lease liabilities		(70 965)	(49 732)
Other payments		(11 837)	(16 916)
Total payments		**(3 179 100)**	**(817 015)**
Issue of debt securities		-	500 000
Proceeds from non-controlling interests		-	256 925
Proceeds from contracted loans	**45.3**	2 200 000	1 000 000
Subsidies and recompensations received		15 886	17 718
Total proceeds		**2 215 886**	**1 774 643**
Net cash from financing activities		**(963 214)**	**957 628**
Net increase/(decrease) in cash and cash equivalents		**(598 922)**	**133 564**
Net foreign exchange difference		(110)	(1 064)
Cash and cash equivalents at the beginning of the period	**30**	**1 203 601**	**807 972**
Cash and cash equivalents at the end of the period, *of which*:	**30**	**604 679**	**941 536**
restricted cash	**30**	269 321	218 999

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

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

TAURON Polska Energia S.A. Capital Group ("Group", "Group of Companies", "TAURON Group") consists of TAURON Polska Energia S.A. ("parent entity", "Company", "Parent Company") and its subsidiaries. TAURON Polska Energia S.A., based in Katowice at ul. ks. Piotra Ściegiennego 3, operates in the form of a joint stock company, established by a notarial 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 sources and generation of heat), Renewable Energy Sources (encompassing generation of electricity from renewable sources), Distribution, Sales and other activities, including customer service, as more fully described in note 10 of the interim condensed consolidated financial statements.

The interim condensed consolidated financial statements of the Group cover the 6-month period ended on 30 June 2020 and contain comparative data for the period of 6 months ended on 30 June 2019 and as at 31 December 2019. The data included in these interim condensed consolidated financial statements for the 6-month period ended 30 June 2020 and comparative data for the 6-month period ended 30 June 2019 were subject to a review by the auditor. The comparative data as at 31 December 2019 were audited by the auditor. Interim condensed consolidated statement of comprehensive income including the data for the 3-month period ended 30 June 2020 and comparative data for the 3-month period ended 30 June 2019 were not subject to an audit or review by the auditor.

These interim condensed consolidated financial statements for the 6-month period ended 30 June 2020 were approved for publication on 18 August 2020.

Composition of the Management Board

As at 30 June 2020, the composition of the Management Board was as follows:

- Filip Grzegorczyk - President of the Management Board;
- Jarosław Broda - Vice-President of the Management Board;
- Marek Wadowski - Vice-President of the Management Board.

After the balance sheet date of 14 July 2020, the Supervisory Board recalled, with effect from the end of 14 July 2020, all Members of the Management Board of the Company and appointed as of 15 July 2020 the following persons to the Management Board:

- Wojciech Ignacok as President of the Management Board,
- Marek Wadowski as Vice-President of the Management Board,
- Jerzy Topolski as Vice-President of the Management Board.

2. Composition of the TAURON Capital Group and joint ventures

As at 30 June 2020, TAURON Polska Energia S.A. held direct and indirect interest in the following key subsidiaries:

(in PLN thousand)

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	85.88%	85.88%
4	TAURON Serwis Sp. z o.o.	Katowice	Generation	95.61%	95.61%
5	TAURON Ekoenergia Sp. z o.o.	Jelenia Góra	Renewable Energy Sources	100.00%	100.00%
6	Marselwind Sp. z o.o.	Katowice	Renewable Energy Sources	100.00%	100.00%
7	TEC1 Sp. z o.o.	Katowice	Renewable Energy Sources	100.00%	100.00%
8	TEC2 Sp. z o.o.	Katowice	Renewable Energy Sources	100.00%	100.00%
9	TEC3 Sp. z o.o.	Katowice	Renewable Energy Sources	100.00%	100.00%
10	TEC1 spółka z ograniczoną odpowiedzialnością Mogilno I sp.k.	Katowice	Renewable Energy Sources	n/a	100.00%
11	TEC1 spółka z ograniczoną odpowiedzialnością Mogilno II sp.k.	Katowice	Renewable Energy Sources	n/a	100.00%
12	TEC1 spółka z ograniczoną odpowiedzialnością Mogilno III sp.k.	Katowice	Renewable Energy Sources	n/a	100.00%
13	TEC1 spółka z ograniczoną odpowiedzialnością Mogilno IV sp.k.	Katowice	Renewable Energy Sources	n/a	100.00%
14	TEC1 spółka z ograniczoną odpowiedzialnością Mogilno V sp.k.	Katowice	Renewable Energy Sources	n/a	100.00%
15	TEC1 spółka z ograniczoną odpowiedzialnością Mogilno VI sp.k.	Katowice	Renewable Energy Sources	n/a	100.00%
16	TEC1 spółka z ograniczoną odpowiedzialnością EW Śniatowo sp.k.	Katowice	Renewable Energy Sources	n/a	100.00%
17	TEC1 spółka z ograniczoną odpowiedzialnością EW Dobrzyń sp.k.	Katowice	Renewable Energy Sources	n/a	100.00%
18	TEC1 spółka z ograniczoną odpowiedzialnością EW Gołdap sp.k.	Katowice	Renewable Energy Sources	n/a	100.00%
19	TEC1 spółka z ograniczoną odpowiedzialnością Ino 1 sp.k.	Katowice	Renewable Energy Sources	n/a	100.00%
20	TAURON Dystrybucja S.A.	Kraków	Distribution	99.75%	99.75%
21	TAURON Dystrybucja Pomiary Sp. z o.o.[1]	Tarnów	Distribution	99.75%	99.75%
22	TAURON Sprzedaż Sp. z o.o.	Kraków	Sales	100.00%	100.00%
23	TAURON Sprzedaż GZE Sp. z o.o.	Gliwice	Sales	100.00%	100.00%
24	TAURON Czech Energy s.r.o.	Ostrawa, Czech Republic	Sales	100.00%	100.00%
25	TAURON Nowe Technologie S.A. [2]	Wrocław	Sales	100.00%	100.00%
26	TAURON Obsługa Klienta Sp. z o.o.	Wrocław	Other	100.00%	100.00%
27	Kopalnia Wapienia Czatkowice Sp. z o.o.	Krzeszowice	Other	100.00%	100.00%
28	Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o.	Warszawa	Other	100.00%	100.00%
29	Finanse Grupa TAURON Sp. z o.o.	Katowice	Other	100.00%	100.00%
30	Bioeko Grupa TAURON Sp. z o.o.	Stalowa Wola	Other	100.00%	100.00%
31	Wsparcie Grupa TAURON Sp. z o.o.[1]	Tarnów	Other	99.75%	99.75%
32	TAURON Ciepło Sp. z o.o.	Katowice	Discontinued operations[3]	100.00%	100.00%

[1] TAURON 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. is a usufructuary of TAURON Dystrybucja Pomiary Sp. z o.o. shares.
[2] On 1 June 2020, the company name was changed from TAURON Dystrybucja Serwis S.A. to TAURON Nowe Technologie S.A.
[3] As at the balance sheet date, TAURON Ciepło Sp. z o.o. operating in the field of Generation, due to the classification as a disposal group, was presented as discontinued operations.

As at 30 June 2020, 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.

Changes in the TAURON Group

Merger of TAURON Dystrybucja Serwis S.A. (currently TAURON Nowe Technologie S.A.) with Magenta Grupa TAURON Sp. z o.o.

On 29 October 2019, the Extraordinary General Meeting of Shareholders of TAURON Dystrybucja Serwis S.A. (currently TAURON Nowe Technologie S.A.) with its registered office in Wrocław and the Extraordinary General Meeting of Shareholders of Magenta Grupa TAURON Sp. z o.o. with its registered office in Katowice adopted resolutions on the merger of TAURON Dystrybucja Serwis S.A. (currently TAURON Nowe Technologie S.A., merging company) with Magenta Grupa TAURON Sp. z o.o. (merged company). On 2 January 2020, the merger was registered in the National Court Register maintained by the District Court in Wrocław.

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

On 2 March 2020, the Extraordinary General Shareholders' Meeting of Nowe Jaworzno Grupa TAURON Sp. z o.o. adopted a resolution to increase the company's issued capital by PLN 4 551 thousand. All the shares were acquired by the Company for the total amount of PLN 455 100 thousand. On 5 March 2020, the Company provided funds for capital increase. As a result of the transaction, the Company's share in the capital and the decision-making body increased from 84.76% to 85.88% The increase in the capitals was registered on 18 May 2020.

As at 30 June 2020, the TAURON Polska Energia S.A.'s share in the capital and decision-making body of other significant subsidiaries and joint ventures has not changed since 31 December 2019.

3. Statement of compliance

These interim condensed 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 interim condensed consolidated financial statements do not include all the information and disclosures required in the annual consolidated financial statements and should be read together with the Group's consolidated financial statements prepared in accordance with IFRS for the year ended 31 December 2019.

4. Going concern

The interim condensed consolidated financial statements have been prepared in accordance with the going concern principle regarding the Group companies in the foreseeable future. As at the date of approving these interim condensed consolidated financial statements no circumstances have been detected that could put the going concern operation of the Group's companies at risk.

During the 6-month period ended 30 June 2020, an epidemic of COVID-19 appeared in the area of the Group's operations, causing disruption to the economic and administrative system in Poland and causing significant changes in the market environment, which may affect the financial situation of the Group and the Company. At the moment, the Management Board has analysed the situation in the context of COVID-19 and, based on the scenarios under consideration, in the area of liquidity, financing and securing the continuation of operations does not identify any risk for the continuation of operations in the foreseeable future, including the description of the impact of the COVID-19 epidemic on the Group's operations, as further detailed in note 52 of these interim condensed consolidated financial statements.

5. Functional and presentation currency

The Polish zloty has been used as the presentation currency of these interim condensed consolidated financial statements and the functional currency of the Parent and the subsidiaries included in these interim condensed consolidated financial statements, except TAURON Czech Energy s.r.o. The functional currency of TAURON Czech Energy s.r.o. is the Czech crown ("CZK"). Individual items of the financial statements of TAURON Czech Energy s.r.o. are translated to the presentation currency of the TAURON Group using applicable exchange rates.

These interim condensed 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 as regards the issues referred to below, professional judgement of the management, along with accounting estimates, have been of key importance; they have impacted the figures disclosed in these interim condensed 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 interim condensed consolidated financial statements, there were no significant changes in estimates or estimation methods applied, which would affect the current or future periods, other than presented below or described further in these interim condensed consolidated financial statements.

6.1. Impact of COVID-19 on the level of expected credit losses and fair value measurement of financial instruments

Impact of COVID-19 on the level of expected credit losses of receivables from customers

Estimates and assumptions

As regard to receivables from customers, the Group estimates the amount of write-offs on expected credit losses based on probability-weighted credit loss to be incurred should any of the following events occur:

• material payment delay;

• debtor is put in liquidation, declared bankrupt or undergoes restructuring procedures;

• receivables are claimed at administrative or common court, or undergo enforcement.

Amounts receivable from buyers are divided into the portfolios of strategic and other counterparties. The risk of insolvency on the part of strategic counterparties is assessed based on ratings assigned to the counterparties using an internal scoring model and appropriately restated to account for the probability of default, taking into consideration estimates of potential recoveries from the securities lodged.

It is expected that the adjusted 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.

Impact of COVID-19 on estimation and assumption methodology

The economic impact of COVID-19 is expected to affect the quality of the Group companies portfolio of financial assets and reduce the level of repayment of receivables form customers. The projected impact varies depending on the economic sector in which the counterparty operates. Due to the uncertainties associated with the further development of the COVID-19 and the expected impact of the aid schemes, the possibility of accurately estimating the future repayment of receivables from customers is limited.

In order to take into consideration the impact of future factors (including COVID-19) on the portfolio of strategic and other customers, the Group has made:

• an update of the expected credit loss model parameters with respect to the appropriate ratios and recovery rate,

• take a forward-looking approach into account.

Impact of COVID-19 on the level of estimates made

Estimates with uncertainties related to the effect of the impact of COVID-19 on expected credit losses of receivables from customers in future periods amounted to PLN 5 598 thousand, which affected the burden on the Group’s operating result for the 6-month period ended 30 June 2020. The total expected credit loss as at 30 June 2020 calculated for receivables from customers (except for receivables claimed in court) was estimated at PLN 46 492 thousand.

The Group assumes that the volume of data available for analysis in future periods will increase and will allow to extend the scope of analysis for the expected credit losses for the needs of the next interim condensed consolidated financial statements.

Impact of COVID-19 on the level of expected credit losses and fair value measurement of loans granted and guarantee issued

Estimates and assumptions

For loans classified as assets measured at amortised cost, the Group estimates the amount of write-offs on their value. The risk of insolvency on the part of borrowers is estimated based on ratings assigned to the counterparties using an internal scoring model and appropriately restated to account for the probability of default taking into account the time value of money.

The loan valuation classified as an asset measured at fair value is estimated as the present value of future cash flows, taking into account the borrower's credit risk.

The guarantees issued are estimated at the amount of expected credit losses.

Impact of COVID-19 on estimation and assumption

In order to take into account the impact of future factors (including COVID-19), the Group has made adjustments to the probability of expected credit losses on Credit Default Swap (CDS) quotations, diversified depending on the internal counterparty rating.

Impact of COVID-19 on the level of estimates made

The effect of taking into account the impact of COVID-19 on the estimation methodology made resulted in the following changes affecting the total charging of the Group's financial expenses in the 6-month period ended 30 June 2020 in the amount of PLN 12 271 thousand:

• an increase in expected credit losses calculated for loans granted to joint ventures by PLN 1 414 thousand and for other financial assets by PLN 69 thousand,

• a decrease in the fair value of loans granted to joint ventures by PLN 3 720 thousand,

• an increase in expected credit losses on the off-balance sheet liability under the guarantee issued by the Company by PLN 7 068 thousand, which according to IFRS 9 *Financial Instruments* was recognised as an increase in financial liabilities.

The Group assumes that the volume of data available for analysis in future periods will increase and will allow to extend the scope of analysis for the expected credit losses for the needs of the next interim condensed consolidated financial statements.

6.2. Other material values based on professional judgement and estimates

The remaining items of the interim condensed consolidated financial statements which involve a significant risk of a significant adjustment to the carrying amounts of assets and liabilities are presented below.

(in PLN thousand)

Item	Note	Estimates and assumptions
Property, plant and equipment	Note 17	As at the end of each reporting period, the Group estimates whether there are objective indications of impairment of a given item of property, plant and equipment. If such indications occur, the Group is obliged to test the property, plant and equipment for impairment. Impairment tests include estimation of the recoverable amount of an asset or the cash-generating unit ("CGU") to which the asset belongs. The recoverable amount of an asset or CGU is the higher of the fair value less cost to sell and the value in use. The value in use of CGUs is estimated based on their future cash flows discounted subsequently to the present value using a discount rate. The Group reviews, at least as at the end of every financial year, the economic useful life of property, plant and equipment and any adjustments to the depraciation are effective as of the beginning of the reporting period in which the review was completed.
Right-of-use assets	Note 18	At the commencement date of the lease, the Group measures the right-of-use assets, inter alia, using the present value of lease payments that are not paid at that date. The lease payments are discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the Group uses the incremental borrowing rate, in line with the adopted method, depending on the ratings of individual companies in the TAURON Group. The Group applies a portfolio approach to leases with similar characteristics (same assets used in a similar way). When accounting for leases under the portfolio approach, the Group uses estimates and assumptions that reflect the size and composition of the portfolio, including estimates of the weighted average lease term. To determine the leasing period for lease agreements without termination date, the Group makes estimates.
Disposal group	Note 31	As at the balance sheet date, the Company assessed that the conditions of IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* were met in relation to the operations of the subsidiary TAURON Ciepło Sp. z o.o. with regard to the classification of its operations as discontinued. Therefore, as at 30 June 2020, the Group presents in the statement of financial position the group for sale as part of assets classified as held for sale and liabilities related to these assets. As at the balance sheet date, the Group recognized a write-down for impairment of the group for sale to the amount of fair value less costs of sale.
Deferred tax assets	Note 26	At the end of each reporting period, the Group verifies whether or not the deferred tax assets may be realized.
Provisions	Note 34 Note 35 Note 36 Note 37	The Group estimates the amount of provisions created on the basis of the adopted assumptions, methodology and method of calculation appropriate for a given title of provisions, assessing the probability of disbursement of funds containing economic benefits and determining a reliable level of the amount necessary to meet the obligation. The Group creates provisions when the probability of disbursement of funds containing economic benefits is higher than 50%. Due to a decrease in market interest rates as at the balance sheet date, the Group changed its estimate of the discount rate adopted for the valuation of long-term provisions, which is described in more detail in the individual notes to these interim condensed consolidated financial statements.
Derivative instruments	Note 46.2	The Group measures financial derivatives at fair value at each balance sheet date. Derivatives purchased and held to secure their own needs are not subject to valuation as at the balance sheet date. Due to the delay in commissioning the power unit in Jaworzno, as at the balance sheet date, the Group has a significant surplus of CO_2 emission rights contracted to be acquired to be redeemed by the subsidiary in connection with the emission for 2020. The Company intends to acquire the CO_2 emission rights at maturity in order to allocate it for own redemption needs in subsequent reporting periods, therefore these contracts are recognised as excluded from IFRS 9 *Financial Instruments* and therefore are not measured at fair value as at the balance sheet date.

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 49 hereto.

7. Standards and amendments to standards which have been published but are not yet effective

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

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

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

(in PLN thousand)

Standard	Effective date specified in the Standard, not endorsed by the EU *(annual periods beginning on or after the date provided)*
IFRS 14 *Regulatory Deferral Accounts*	1 January 2016*
Amendments to IFRS 16 *Leasing*	1 June 2020
IFRS 17 *Insurance contracts*	1 January 2023
Revised IFRS 10 *Consolidated Financial Statements and* IAS 28 *Investments in Associates and Joint Ventures: Sale or Contribution of Assets between Investor and its Associate or Joint Venture* with subsequent amendments	the effective date has been postponed
Amendments to IFRS 4 *Insurance Contracts*	1 January 2021
Amendments to IFRS 3 *Business Combinations*	1 January 2022
Amendments to IAS 16 *Property, Plant and Equipment*	1 January 2022
Amendments to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*	1 January 2022
Annual Improvements to IFRS (Cycle 2018-2020):	
IFRS 1 *First-time Adoption of International Financial Reporting Standards*	1 January 2022
IFRS 9 *Financial Instruments*	1 January 2022
IAS 41 *Agriculture*	1 January 2022
Amendments to IAS 1 *Presentation of Financial Statements: Classification of Liabilities as Current or Non-current*	1 January 2023

** 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 Regulatory Deferral Accounts.*

8. Changes in the accounting policies

8.1. Application of amendments to standards

The accounting principles (policy) adopted for the preparation of these interim condensed 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 2019, except for the application of the amendments to standards and changes to the accounting principles applied by the Group and discussed below.

According to the Management Board, the introduction of the following amendments to standards 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 IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors: Definition of Material*	1 January 2020
Amendments to References to the Conceptual Framework in IFRS	1 January 2020
Amendments to IFRS 9 *Financial Instruments*, IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 7 *Financial Instruments: Disclosures*: Interest Rate Benchmark Reform	1 January 2020

On 1 January 2020, amendments to IFRS 3 *Business Combinations* came into force. The most important changes introduced to the above mentioned standard include the clarification of the definition of an undertaking. The amendments shall be applied prospectively for reporting periods beginning on or after 1 January 2020. The Group believes that the changes may affect possible future transactions covered by IFRS 3 *Business Combinations* related to the acquisition of undertakings.

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

Leases

In the interim condensed consolidated financial statements for the 6-month period ended 30 June 2019, in connection with the entry into force of IFRS 16 *Leases*, the Group, as at 1 January 2019, estimated and recognized the rights to use the assets and liabilities under the lease to the best of its knowledge at the time the above statements were approved for publication. The key areas included as per IFRS 16 *Leases* were the rights of perpetual usufruct of land and lease agreements for the development of heating substations and transformer stations.

The need to restate the comparable data for the 6-month period ended 30 June 2019 results from a change in the estimate of the amount of recognised lease assets and liabilities as at 1 January 2019. As a result of the summary of decisions taken at public meetings, issued by the IFRS Interpretation Committee in June 2019, concerning, among other things, the interpretation of the recognition of rights to underground parts of land with respect to IFRS 16 *Leases,* the TAURON Group has carried out additional analyses regarding chosen group of agreements considering whether they are covered by IFRS 16 *Leases.* The groups of agreements covered by these additional analyses included in particular lease, tenancy, usufruct, easement and other unnamed agreements concerning a part of land for line infrastructure and decisions concerning placing the equipment in a public road lane. As a result of the works carried out, the Group stated that the above agreements constitute leasing within the meaning of IFRS 16 *Leases* and consequently, in the consolidated financial statements for the year ended 31 December 2019, it adjusted the estimate of the amount of recognized rights to use the assets as at 1 January 2019. In order to ensure the comparability of data in the interim condensed consolidated financial statements for the 6-month period ended 30 June 2020, the Group has made an appropriate transformation of the comparable data.

(in PLN thousand)

Discontinued operations

In connection with the classification as at 30 June 2020 of the assets and liabilities of the subsidiary as a disposal group, as more fully described in Notes 16 and 31 of these interim condensed consolidated financial statements, the comparative data were restated accordingly to present the result on discontinued operations.

The effect of the changes described above on the interim condensed consolidated statement of comprehensive income for the 6-month period ended 30 June 2019 is presented in the table below:

	6-month period ended 30 June 2019 *(unaudited, approved figures)*	Recognition of right-of-use assets and lease liabilities	Discontinued operations	6-month period ended 30 June 2019 *(unaudited restated figures)*
Sales revenue	9 676 352	-	(350 508)	9 325 844
Recompensation revenue	721 502	-	-	721 502
Cost of sales	(8 950 024)	13 571	268 479	(8 667 974)
Profit on sale	**1 447 830**	**13 571**	**(82 029)**	**1 379 372**
Selling and distribution expenses	(231 801)	-	2 552	(229 249)
Administrative expenses	(299 103)	-	12 135	(286 968)
Other operating income and expenses	21 672	-	(10 194)	11 478
Share in profit/(loss) of joint ventures	50 025	-	-	50 025
Operating profit	**988 623**	**13 571**	**(77 536)**	**924 658**
Interest expense on debt	(113 401)	(6 848)	940	(119 309)
Finance income and other finance costs	5		(3 622)	(3 617)
Profit before tax	**875 227**	**6 723**	**(80 218)**	**801 732**
Income tax expense	(208 287)	(1 277)	5 069	(204 495)
Net profit on continuing operations	**666 940**	**5 446**	**(75 149)**	**597 237**
Net profit on discontinued operations	**-**	**-**	**75 149**	**75 149**
Net profit	**666 940**	**5 446**	**-**	**672 386**
Measurement of hedging instruments	(3 363)	-	-	(3 363)
Foreign exchange differences from translation of foreign entity	(215)	-	-	(215)
Income tax	639	-	-	639
Other comprehensive income on continuing operations to be reclassified in the financial result	**(2 939)**	**-**	**-**	**(2 939)**
Actuarial gains (losses)	8 301	-	(580)	7 721
Income tax	(1 575)	-	110	(1 465)
Share in other comprehensive income of joint ventures	278	-	-	278
Other comprehensive income on continuing operations not to be reclassified in the financial result	**7 004**	-	**(470)**	**6 534**
Other comprehensive income on discontinued operations	**-**	**-**	**470**	**470**
Other comprehensive income, net of tax	**4 065**	**-**	**-**	**4 065**
Total comprehensive income	**671 005**	**5 446**	**-**	**676 451**

9. Seasonality of activities

The Group's operations are characterised by seasonality.

Sale of heat depends on weather conditions, especially air temperature and is higher in the autumn-winter period. The level of electricity sales to individual customers depends on the length of the day, which means that the sales of electricity to this group of customers are usually lower in the spring-summer period and higher in the autumn-winter period. Sales of coal to individual customers are higher in the autumn-winter season. The seasonality of other areas of the Group's operations is low.

BUSINESS 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) before tax, finance income and finance costs, i.e. operating profit/(loss) on continuing and discontinued operations.

Change in the division of the Group's reporting into operating segments

The division of the Group's reporting in the period from 1 January 2020 to 30 June 2020 is based on operating segments presented in the table below. As of 1 January 2020, the Group separated a new operating segment *Renewable energy sources,* assigning to it the data of companies whose activities are related to the generation of electricity from renewable sources, i.e. wind and water. The core business of TAURON Ekoenergia Sp. z o.o. and limited partnerships assigned to the new segment is production of electricity from renewable energy sources. The companies TEC1 Sp. z o.o., TEC2 Sp. z o.o. and TEC3 Sp. z o.o. are project companies established in order to implement the project of acquiring wind farms from the in.ventus group. Currently, these companies act as the general partner and limited partner of the limited partnerships acquired under the above transaction. Marselwind Sp. z o.o. is also a project company in the area of renewable energy sources, not currently conducting production activities. Until 31 December 2019, the companies currently assigned to the *Renewable Energy Sources* segment were allocated to the *Generation* operating segment. The data for the comparable period, i.e. for the 6-month period ended 30 June 2019 and as at 31 December 2019 were restated accordingly.

Separation of the RES operating segment is related to the 2019 update of the strategic directions which supplement the TAURON Group Strategy for 2016-2025. In this update, the TAURON Group stressed the need to adapt to environmental requirements and focus on the development of low and zero emission sources while making the Group's asset portfolio more flexible. The update of the strategic directions has strengthened the importance of the development of clean energy, which will be the basis for building the value of the TAURON Group and assumes an increased share of renewable sources in the TAURON Group's generation assets.

As part of the implementation of the above strategy, on 3 September 2019, the transaction documentation was signed for the acquisition by the companies TEC1 Sp. z o.o., TEC2 Sp. z o.o., TEC3 Sp. z o.o. of five wind farms belonging to the in.ventus group. As a result of this transaction, the production potential related to the Group's renewable energy sources has significantly increased and, consequently, the significance of financial data related to production activities in the area of renewable energy sources has increased.

Presentation of the subsidiary as a discontinued operations

As at 30 June 2020 the Group presents the subsidiary TAURON Ciepło Sp. z o.o. as a disposal group, as described in more detail in Notes 16 and 31 of these interim condensed consolidated financial statements. Therefore, the company's operations have been presented under discontinued operations. Previously, it was disclosed under the Generation segment. The comparable data has been appropriately transformed.

Operating segments	Core business	Subsidiaries/ Entities recognized with the equity method
Mining 	*Hard coal mining*	TAURON Wydobycie S.A.
Generation  	*Generation of electricity using conventional sources, including combined heat and power generation, as well as generation of electricity using joint combustion of biomass and other energy acquired thermally. Key fuels include hard coal, biomass, coal gas and coke-oven gas.* *Generation and sales of heat*	TAURON Wytwarzanie S.A. Nowe Jaworzno Grupa TAURON Sp. z o.o. TAURON Serwis Sp. z o.o. *TAMEH HOLDING Sp. z o.o.* [1] *TAMEH POLSKA Sp. z o.o.* [1] *TAMEH Czech s.r.o.* [1] *Elektrociepłownia Stalowa Wola S.A.* [1]
Renewable Energy Sources 	*Generation of electricity using renewable sources*	TAURON Ekoenergia Sp. z o.o. Marselwind Sp. z o.o. TEC1 Sp. z o.o. TEC2 Sp. z o.o. TEC3 Sp. z o.o. TEC1 spółka z ograniczoną odpowiedzialnością Mogilno I sp.k. TEC1 spółka z ograniczoną odpowiedzialnością Mogilno II sp.k. TEC1 spółka z ograniczoną odpowiedzialnością Mogilno III sp.k. TEC1 spółka z ograniczoną odpowiedzialnością Mogilno IV sp.k. TEC1 spółka z ograniczoną odpowiedzialnością Mogilno V sp.k. TEC1 spółka z ograniczoną odpowiedzialnością Mogilno VI sp.k. TEC1 spółka z ograniczoną odpowiedzialnością EW Śniatowo sp.k. TEC1 spółka z ograniczoną odpowiedzialnością EW Dobrzyń sp.k. TEC1 spółka z ograniczoną odpowiedzialnością EW Gołdap sp.k. TEC1 spółka z ograniczoną odpowiedzialnością Ino 1 sp.k.
Distribution 	*Distribution of electricity*	TAURON Dystrybucja S.A. TAURON Dystrybucja Pomiary Sp. z o.o.
Sales 	*Wholesale trading in electricity, trading in CO_2 emission allowances and energy certificates and sale of electricity to domestic end users or entities which further resell electricity*	TAURON Polska Energia S.A. TAURON Sprzedaż Sp. z o.o. TAURON Sprzedaż GZE Sp. z o.o. TAURON Czech Energy s.r.o. TAURON Nowe Technologie S.A.[2]

[1] *Entities recognized with the equity method.*
[2] *On 1 June 2020, the company name was changed from TAURON Dystrybucja Serwis S.A. to TAURON Nowe Technologie S.A.*

(in PLN thousand)

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., Finanse Grupa TAURON Sp. z o.o., Bioeko 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.

10.1. Operating segments

6-month period ended on 30 June 2020 or as at 30 June 2020 *(unaudited)*

	Mining	Generation	Renewable Energy Sources	Distribution	Sales	Other	Unallocated items / Eliminations	Total continuing operations	Discontinued operations	Total continuing and discontinued operations
Revenue										
Sales to external customers	173 068	1 183 316	86 394	1 613 197	6 614 821	64 018	-	**9 734 814**	**451 964**	**10 186 778**
Inter-segment sales	329 102	340 109	262 628	1 742 372	1 308 253	442 844	(4 425 308)	**-**	**-**	**-**
Sales to discontinued operations	801	28 901	-	2 985	91 427	29 089	-	**153 203**	**(153 203)**	**-**
Total Segment revenue	**502 971**	**1 552 326**	**349 022**	**3 358 554**	**8 014 501**	**535 951**	**(4 425 308)**	**9 888 017**	**298 761**	**10 186 778**
Profit/(loss) of the segment	**(271 305)**	**(196 392)**	**88 083**	**1 115 446**	**379 186**	**118 190**	**(84 242)**	**1 148 966**	**(777 506)**	**371 460**
Share in profit/(loss) of joint ventures	-	40 914	-	-	-	-	-	**40 914**	**-**	**40 914**
Unallocated expenses	-	-	-	-	-	-	(50 378)	**(50 378)**	**-**	**(50 378)**
EBIT	**(271 305)**	**(155 478)**	**88 083**	**1 115 446**	**379 186**	**118 190**	**(134 620)**	**1 139 502**	**(777 506)**	**361 996**
Net finance income (costs)	-	-	-	-	-	-	(244 012)	**(244 012)**	**(1 198)**	**(245 210)**
Profit/(loss) before income tax	**(271 305)**	**(155 478)**	**88 083**	**1 115 446**	**379 186**	**118 190**	**(378 632)**	**895 490**	**(778 704)**	**116 786**
Income tax expense	-	-	-	-	-	-	(431 117)	**(431 117)**	**(2 751)**	**(433 868)**
Net profit/(loss) for the period	**(271 305)**	**(155 478)**	**88 083**	**1 115 446**	**379 186**	**118 190**	**(809 749)**	**464 373**	**(781 455)**	**(317 082)**
Assets and liabilities										
Segment assets	1 390 938	9 228 357	2 403 664	19 569 783	3 932 067	643 602	-	**37 168 411**	**1 704 518**	**38 872 929**
Investments in joint ventures	-	598 753	-	-	-	-	-	**598 753**	**-**	**598 753**
Unallocated assets	-	-	-	-	-	-	538 655	**538 655**	**-**	**538 655**
Total assets	**1 390 938**	**9 827 110**	**2 403 664**	**19 569 783**	**3 932 067**	**643 602**	**538 655**	**38 305 819**	**1 704 518**	**40 010 337**
Segment liabilities	982 587	1 252 765	222 014	1 739 156	1 641 400	390 206	-	**6 228 128**	**361 518**	**6 589 646**
Unallocated liabilities	-	-	-	-	-	-	14 836 108	**14 836 108**	**-**	**14 836 108**
Total liabilities	**982 587**	**1 252 765**	**222 014**	**1 739 156**	**1 641 400**	**390 206**	**14 836 108**	**21 064 236**	**361 518**	**21 425 754**
EBIT	**(271 305)**	**(155 478)**	**88 083**	**1 115 446**	**379 186**	**118 190**	**(134 620)**	**1 139 502**	**(777 506)**	**361 996**
Depreciation/amortization	**(98 364)**	**(118 100)**	**(75 482)**	**(576 093)**	**(23 718)**	**(44 557)**	**-**	**(936 314)**	**(62 972)**	**(999 286)**
Impairment	**(179 720)**	**(63 616)**	**-**	**2 838**	**-**	**368**	**-**	**(240 130)**	**(806 318)**	**(1 046 448)**
EBITDA	**6 779**	**26 238**	**163 565**	**1 688 701**	**402 904**	**162 379**	**(134 620)**	**2 315 946**	**91 784**	**2 407 730**
Other segment information										
Capital expenditure *	118 084	660 772	5 541	908 275	21 383	65 786	-	**1 779 841**	**32 440**	**1 812 281**

** Capital expenditure includes expenditures for property, plant and equipment and intangible assets, excluding acquisition of CO_2 emission allowances and energy certificates.*

6-month period ended on 30 June 2019 *(not audited restated data)* or as at 31 December 2019 *(restated data)*

	Mining	Generation	Renewable Energy Sources	Distribution	Sales	Other	Unallocated items / Eliminations	Total continuing operations	Discontinued operations	Total continuing and discontinued operations
Revenue										
Sales to external customers	185 453	1 313 526	46 117	1 567 247	5 995 813	53 445	-	**9 161 601**	**514 751**	**9 676 352**
Inter-segment sales	291 619	396 711	166 514	1 705 103	863 692	399 588	(3 823 227)	**-**	**-**	**-**
Sales to discontinued operations	54 618	11 449	-	2 992	65 288	29 896	-	**164 243**	**(164 243)**	**-**
Total Segment revenue	**531 690**	**1 721 686**	**212 631**	**3 275 342**	**6 924 793**	**482 929**	**(3 823 227)**	**9 325 844**	**350 508**	**9 676 352**
Recompensation revenue	**-**	**-**	**-**	**-**	**721 502**	**-**	**-**	**721 502**	**-**	**721 502**
Profit/(loss) of the segment	**(511 331)**	**123 684**	**79 424**	**778 076**	**403 630**	**39 365**	**13 443**	**926 291**	**77 536**	**1 003 827**
Share in profit/(loss) of joint ventures	-	50 025	-	-	-	-	-	**50 025**	**-**	**50 025**
Unallocated expenses	-	-	-	-	-	-	(51 658)	**(51 658)**	**-**	**(51 658)**
EBIT	**(511 331)**	**173 709**	**79 424**	**778 076**	**403 630**	**39 365**	**(38 215)**	**924 658**	**77 536**	**1 002 194**
Net finance income (costs)	-	-	-	-	-	-	(122 926)	**(122 926)**	**2 682**	**(120 244)**
Profit/(loss) before income tax	**(511 331)**	**173 709**	**79 424**	**778 076**	**403 630**	**39 365**	**(161 141)**	**801 732**	**80 218**	**881 950**
Income tax expense	-	-	-	-	-	-	(204 495)	**(204 495)**	**(5 069)**	**(209 564)**
Net profit/(loss) for the period	**(511 331)**	**173 709**	**79 424**	**778 076**	**403 630**	**39 365**	**(365 636)**	**597 237**	**75 149**	**672 386**
Assets and liabilities										
Segment assets	1 294 329	10 249 984	1 693 053	19 176 164	4 730 135	648 705	-	**37 792 370**	**2 758 401**	**40 550 771**
Investments in joint ventures	-	559 144	-	-	-	-	-	**559 144**	**-**	**559 144**
Unallocated assets	-	-	-	-	-	-	807 850	**807 850**	**-**	**807 850**
Total assets	**1 294 329**	**10 809 128**	**1 693 053**	**19 176 164**	**4 730 135**	**648 705**	**807 850**	**39 159 364**	**2 758 401**	**41 917 765**
Segment liabilities	928 077	1 743 616	122 547	2 011 950	1 855 630	511 992	-	**7 173 812**	**487 910**	**7 661 722**
Unallocated liabilities	-	-	-	-	-	-	15 163 383	**15 163 383**	**-**	**15 163 383**
Total liabilities	**928 077**	**1 743 616**	**122 547**	**2 011 950**	**1 855 630**	**511 992**	**15 163 383**	**22 337 195**	**487 910**	**22 825 105**
EBIT	**(511 331)**	**173 709**	**79 424**	**778 076**	**403 630**	**39 365**	**(38 215)**	**924 658**	**77 536**	**1 002 194**
Depreciation/amortization	**(99 051)**	**(107 188)**	**(45 495)**	**(580 605)**	**(19 612)**	**(44 823)**	**-**	**(896 774)**	**(61 403)**	**(958 177)**
Impairment	**(269 355)**	**20**	**481**	**1 377**	**-**	**(274)**	**-**	**(267 751)**	**(654)**	**(268 405)**
EBITDA	**(142 925)**	**280 877**	**124 438**	**1 357 304**	**423 242**	**84 462**	**(38 215)**	**2 089 183**	**139 593**	**2 228 776**
Other segment information										
Capital expenditure *	236 730	469 120	3 860	862 672	10 250	31 827	-	**1 614 459**	**27 642**	**1 642 101**

** Capital expenditure includes expenditures for property, plant and equipment and intangible assets, excluding acquisition of CO_2 emission allowances and energy certificates*

(in PLN thousand)

3 month-period ended 30 June 2020 (not audited)

	Mining	Generation	Renewable Energy Sources	Distribution	Sales	Other	Unallocated items / Eliminations	Total continuing operations	Discontinued operations	Total continuing and discontinued operations
Revenue										
Sales to external customers	106 137	521 042	28 753	754 316	3 118 723	34 731	-	**4 563 702**	**155 312**	**4 719 014**
Inter-segment sales	159 609	212 306	121 102	813 925	639 368	219 299	(2 165 609)	**-**	**-**	**-**
Sales to discontinued operations	801	11 590	-	1 288	25 568	19 452	-	**58 699**	**(58 699)**	**-**
Total Segment revenue	**266 547**	**744 938**	**149 855**	**1 569 529**	**3 783 659**	**273 482**	**(2 165 609)**	**4 622 401**	**96 613**	**4 719 014**
									-	**-**
Profit/(loss) of the segment	**(187 414)**	**(109 686)**	**4 801**	**715 011**	**208 415**	**100 460**	**(4 519)**	**727 068**	**(821 890)**	**(94 822)**
Share in profit/(loss) of joint ventures	-	6 955	-	-	-	-	-	**6 955**	**-**	**6 955**
Unallocated expenses	-	-	-	-	-	-	(24 188)	**(24 188)**	**-**	**(24 188)**
EBIT	**(187 414)**	**(102 731)**	**4 801**	**715 011**	**208 415**	**100 460**	**(28 707)**	**709 835**	**(821 890)**	**(112 055)**
Net finance income (costs)	-	-	-	-	-	-	(2 058)	**(2 058)**	**(509)**	**(2 567)**
Profit/(loss) before income tax	**(187 414)**	**(102 731)**	**4 801**	**715 011**	**208 415**	**100 460**	**(30 765)**	**707 777**	**(822 399)**	**(114 622)**
Income tax expense	-	-	-	-	-	**-**	(367 062)	**(367 062)**	**3 127**	**(363 935)**
Net profit/(loss) for the period	**(187 414)**	**(102 731)**	**4 801**	**715 011**	**208 415**	**100 460**	**(397 827)**	**340 715**	**(819 272)**	**(478 557)**
									-	**-**
EBIT	**(187 414)**	**(102 731)**	**4 801**	**715 011**	**208 415**	**100 460**	**(28 707)**	**709 835**	**(821 890)**	**(112 055)**
Depreciation/amortization	**(52 358)**	**(67 160)**	**(37 694)**	**(290 520)**	**(12 058)**	**(23 146)**	**-**	**(482 936)**	**(31 265)**	**(514 201)**
Impairment	**(178 190)**	**(64 016)**	**-**	**373**	**1**	**7**	**-**	**(241 825)**	**(806 358)**	**(1 048 183)**
EBITDA	**43 134**	**28 445**	**42 495**	**1 005 158**	**220 472**	**123 599**	**(28 707)**	**1 434 596**	**15 733**	**1 450 329**
									-	**-**
Other segment information									**-**	**-**
Capital expenditure *	62 803	313 174	4 370	422 939	9 927	40 613	-	**853 826**	**18 613**	**872 439**

** Capital expenditure includes expenditures for property, plant and equipment and intangible assets, excluding acquisition of CO_2 emission allowances and energy certificates.*

3-month period ended 30 June 2019 *(not audited restated data)*

	Mining	Generation	Renewable Energy Sources	Distribution	Sales	Other	Unallocated items / Eliminations	Total continuing operations	Discontinued operations	Total continuing and discontinued operations
Revenue										
Sales to external customers	77 708	643 169	19 321	783 475	2 627 033	28 082	-	**4 178 788**	**184 756**	**4 363 544**
Inter-segment sales	148 597	172 279	81 534	809 156	360 355	190 547	(1 762 468)	**-**	**-**	**-**
Sales to discontinued operations	13 519	3 165	-	1 490	25 983	15 784	-	**59 941**	**(59 941)**	**-**
Total Segment revenue	**239 824**	**818 613**	**100 855**	**1 594 121**	**3 013 371**	**234 413**	**(1 762 468)**	**4 238 729**	**124 815**	**4 363 544**
Recompensation revenue	**-**	**-**	**-**	**-**	**721 502**	**-**	**-**	**721 502**	**-**	**721 502**
									-	**-**
Profit/(loss) of the segment	**(415 414)**	**7 811**	**30 330**	**374 556**	**248 406**	**17 339**	**7 847**	**270 875**	**21**	**270 896**
Share in profit/(loss) of joint ventures	-	7 202	-	-	-	-	-	**7 202**	**-**	**7 202**
Unallocated expenses	-	-	-	-	-	-	(20 576)	**(20 576)**	**-**	**(20 576)**
EBIT	**(415 414)**	**15 013**	**30 330**	**374 556**	**248 406**	**17 339**	**(12 729)**	**257 501**	**21**	**257 522**
Net finance income (costs)	-	-	-	-	-	-	(46 491)	**(46 491)**	**3 040**	**(43 451)**
Profit/(loss) before income tax	**(415 414)**	**15 013**	**30 330**	**374 556**	**248 406**	**17 339**	**(59 220)**	**211 010**	**3 061**	**214 071**
Income tax expense	-	-	-	-	-	-	(82 267)	**(82 267)**	**4 820**	**(77 447)**
Net profit/(loss) for the period	**(415 414)**	**15 013**	**30 330**	**374 556**	**248 406**	**17 339**	**(141 487)**	**128 743**	**7 881**	**136 624**
									-	-
EBIT	**(415 414)**	**15 013**	**30 330**	**374 556**	**248 406**	**17 339**	**(12 729)**	**257 501**	**21**	**257 522**
Depreciation/amortization	**(47 415)**	**(53 947)**	**(22 708)**	**(283 066)**	**(9 905)**	**(22 528)**	**-**	**(439 569)**	**(31 214)**	**(470 783)**
Impairment	**(269 355)**	**(49)**	**481**	**1 288**	**-**	**(151)**	**-**	**(267 786)**	**(361)**	**(268 147)**
EBITDA	**(98 644)**	**69 009**	**52 557**	**656 334**	**258 311**	**40 018**	**(12 729)**	**964 856**	**31 596**	**996 452**
									-	**-**
Other segment information									**-**	**-**
Capital expenditure *	117 872	245 925	2 629	511 909	5 855	15 237	-	**899 427**	**16 130**	**915 557**

** Capital expenditure includes expenditures for property, plant and equipment and intangible assets, excluding acquisition of CO_2 emission allowances and energy certificates*

(in PLN thousand)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

11. Sales revenue

	6-month period ended 30 June 2020 *(unaudited)*	6-month period ended 30 June 2019 *(unaudited restated figures)*
Sale of goods for resale, finished goods and materials without elimination of excise	**6 637 514**	**6 218 661**
Excise	(51 727)	(87 471)
Sale of goods for resale, finished goods and materials	**6 585 787**	**6 131 190**
Electricity	5 860 884	5 469 892
Heat energy	82 017	63 505
Gas	181 223	173 664
Coal	221 192	256 043
Energy certificates and similar	118 274	56 625
Other goods for resale, finished goods and materials	122 197	111 461
Rendering of services	**3 269 838**	**3 165 158**
Distribution and trade services	3 112 804	3 002 240
Maintenance of road lighting	59 044	58 930
Connection fees	34 686	39 788
Other services	63 304	64 200
Other revenue	**32 392**	**29 496**
Total	**9 888 017**	**9 325 844**

In the 6-month period ended 30 June 2020, sales revenues increased in relation to the comparable period, and the main changes concerned revenues from sales of the following products, goods and services:

- electricity – the increase results from the increase in prices with a lower volume of electricity sold on the wholesale market and to retail customers;
- coal – the decrease in revenue from coal sales results from a lower sales volume;
- energy certificates of origin – the increase in revenues from the certificates of origin is mainly related to the increase in the production volume of energy certificates of origin from renewable sources in the Group's wind farms, including those as a result of the Group's acquisition on 3 September 2019 of five wind farms previously belonging to the in.ventus group;
- distribution and trade services – higher revenues from sales of distribution and trade services are associated with an increase in the distribution service rate, with a simultaneous decrease in the sales volume.

Sales revenue by operating segment has been presented in the tables below.

6 month-period ended 30 June 2020 *(not audited)*

	Mining	Generation	Renewable Energy Sources	Distribution	Sales	Other	Total
Sale of goods for resale, finished goods and materials	**165 752**	**1 200 487**	**85 371**	**1 363**	**5 065 577**	**67 237**	**6 585 787**
Electricity	-	1 086 579	3 204	-	4 764 913	6 188	**5 860 884**
Heat energy	21	81 996	-	-	-	-	**82 017**
Gas	-	-	-	-	181 223	-	**181 223**
Coal	152 118	-	-	-	69 074	-	**221 192**
Energy certificates and similar	857	30 392	82 167	-	572	4 286	**118 274**
Other goods for resale, finished goods and materials	12 756	1 520	-	1 363	49 795	56 763	**122 197**
Rendering of services	**7 313**	**6 020**	**765**	**1 597 063**	**1 638 862**	**19 815**	**3 269 838**
Distribution and trade services	-	-	-	1 541 786	1 571 018	-	**3 112 804**
Maintenance of road lighting	-	-	-	7	59 037	-	**59 044**
Connection fees	-	-	-	34 657	-	29	**34 686**
Other services	7 313	6 020	765	20 613	8 807	19 786	**63 304**
Other revenue	**804**	**5 710**	**258**	**17 756**	**1 809**	**6 055**	**32 392**
Total	**173 869**	**1 212 217**	**86 394**	**1 616 182**	**6 706 248**	**93 107**	**9 888 017**

(in PLN thousand)

6-month period ended 30 June 2019 *(not audited restated data)*

	Mining	Generation	Renewable Energy Sources	Distribution	Sales	Other	Total
Sale of goods for resale, finished goods and materials	**229 136**	**1 315 088**	**45 322**	**1 319**	**4 481 809**	**58 516**	**6 131 190**
Electricity	-	1 234 795	2 577	-	4 232 520	-	**5 469 892**
Heat energy	13	63 492	-	-	-	-	**63 505**
Gas	-	-	-	-	173 664	-	**173 664**
Coal	218 185	-	-	-	37 858	-	**256 043**
Energy certificates and similar	-	13 777	42 742	-	106	-	**56 625**
Other goods for resale, finished goods and materials	10 938	3 024	3	1 319	37 661	58 516	**111 461**
Rendering of services	**10 234**	**4 773**	**570**	**1 552 897**	**1 577 670**	**19 014**	**3 165 158**
Distribution and trade services	-	-	-	1 491 571	1 510 669	-	**3 002 240**
Maintenance of road lighting	-	-	-	-	58 930	-	**58 930**
Connection fees	-	-	-	39 788	-	-	**39 788**
Other services	10 234	4 773	570	21 538	8 071	19 014	**64 200**
Other revenue	**701**	**5 114**	**225**	**16 023**	**1 622**	**5 811**	**29 496**
Total	**240 071**	**1 324 975**	**46 117**	**1 570 239**	**6 061 101**	**83 341**	**9 325 844**

Revenue from sales of electricity by sales market and customer group is presented in the following table.

	6-month period ended 30 June 2020 *(unaudited)*	6-month period ended 30 June 2019 *(unaudited restated figures)*
Revenue from sales of electricity	**5 860 884**	**5 469 892**
Retail sale	**4 158 319**	**3 636 080**
Strategic clients	490 038	580 386
Business clients	1 937 790	1 557 698
Mass clients, *including:*	1 752 445	1 549 794
G group	1 368 075	1 191 976
Other	29 773	35 673
Excise duty	(51 727)	(87 471)
Wholesale	**1 380 369**	**1 481 754**
Operational capacity reserve	**84 175**	**102 230**
Other	**238 021**	**249 828**

12. Expenses by type

	6-month period ended 30 June 2020 *(unaudited)*	6-month period ended 30 June 2019 *(unaudited restated figures)*
Depreciation of property, plant and equipment, right-of-use assets and amortization of intangible assets	(936 314)	(896 774)
Impairment of property, plant and equipment, right-of-use assets and intangible assets	(240 106)	(267 682)
Materials and energy	(578 400)	(718 849)
Maitenance and repair services	(84 094)	(97 221)
Distribution services	(797 311)	(760 554)
Other external services	(378 584)	(346 403)
Cost of obligation to remit the CO_2 emission allowances	(342 283)	(270 978)
Other taxes and charges	(354 677)	(300 046)
Employee benefits expense	(1 154 163)	(1 371 560)
Allowance for trade receivables expected credit losses	(25 522)	(19 313)
Other	(33 319)	(33 713)
Total costs by type	**(4 924 773)**	**(5 083 093)**
Change in inventories, prepayments, accruals and deferred income	172 463	36 928
Cost of goods produced for internal purposes	387 686	374 495
Selling and distribution expenses	208 577	229 249
Administrative expenses	280 906	286 968
Cost of goods for resale and materials sold	(4 706 705)	(4 512 521)
Cost of sales	**(8 581 846)**	**(8 667 974)**

In the 6-month period ended 30 June 2020, the main changes in the cost of goods, products, materials and services sold in comparison with the comparable period were related to:

- decrease in the consumption of materials and energy mainly as a result of a decrease in the cost of consumed fuels, which is due to lower realized production of electricity in the first half of the year 2020 in relation to the comparable period;
- increase in the cost of distribution services, resulting from the increases in the tariff for distribution services for Polskie Sieci Elektroenergetyczne S.A., which came into force on 6 April 2019 and 1 January 2020;
- increase in the cost of the obligation to redeem CO_2 emission allowances, which mainly results from the inclusion in the cost of fulfilling the obligation to redeem CO_2 emission allowances in the comparable period of 883 000 units of Certified Emission Reductions (CERs), whose purchase price was significantly lower than EUA. In addition, the average EUA price included in the calculation of the provision for the first half year of 2020 was higher than the EUA price included in the redemption cost for the comparable period. At the same time, there was a decrease in emissions in the current period compared to the comparable period;
- increase in the costs of taxes and fees, mainly due to the costs of real estate taxes on the wind farms acquired in September 2019;
- decrease in the cost of employee benefits, which is mainly related to the recognition in the current period of the effects of the release by the Group companies of the actuarial provisions for the employee tariff in part for current employees as future pensioners in the amount of PLN 299 408 thousand (including in the Distribution segment in the amount of PLN 228 648 thousand). The above mentioned events have been presented in detail in Note 34.1 hereto;
- increase in the value of goods and materials sold, which is an effect of recognition in the current period of:
    - a higher cost of electricity sold as a result of an increase in the purchase price in relation to the comparable period while lower volume of electricity purchased from the market;
    - the effects of the change in the Company's strategy in terms of securing the redemption needs of the Generation segment. The transactions concluded as part of the implementation of the strategy change affected the Group's burden of the value of goods and materials sold in the amount of PLN 124 559 thousand. As part of the management of the CO_2 emission allowance portfolio of the subsidiaries, the company acquires allowances for redemption purposes of the Group's manufacturing companies. The main purpose of concluding the above transactions by the Company is to secure the expected level of volume and costs of acquiring CO_2 emission allowances, which the Group's generation companies are obliged to redeem. In the first quarter of 2020, the Group decided to change its strategy for securing the redemption needs of the Generation area, consisting in a one-time replacement of exchange contracts with the delivery date in December 2020 with OTC contracts with the delivery date in March 2021. The decision to change the strategy was made taking into account the current market circumstances that are difficult to predict at the time of the transaction. These circumstances include, in particular, increasing costs of maintaining the position on the stock exchange, which was connected, among others, with the need to make current contributions to the stock exchange deposits, changes in legal and market circumstances in the area of CO_2 emission allowance trading, related to Brexit and the COVID-19 pandemic. In order to implement the above change of strategy, the Company resold the forward position with the delivery date in December 2020 held on the exchange (entered into an opposite transaction on the stock exchange) and at the same time purchased the same volume in contracts with the delivery date in March 2021 from OTC counterparties. The counter-transaction resulted in the original contract not being settled by physical delivery, and therefore the Company recognised this contract and the counter-transaction contract in accordance with IFRS 9 *Financial Instruments* at fair value. All new transactions concluded on the OTC market will be used for the purpose of fulfilling the obligation of redemption by manufacturing companies of TAURON Group, therefore, as excluded from the scope of IFRS 9 *Financial Instruments* are not measured at fair value. At the same time, the purchase of the volume with the delivery date in March 2021 from OTC counterparties, at prices lower than those originally contracted, will reduce the cost of creating a provision for CO_2 emission liabilities by the Group for subsequent reporting periods. As a result of the above, the Group believes that the total impact of the strategy change on the operating result will not be significant. In the Group's opinion, the change of strategy allows, in the current market situation, to secure the redemption needs of the Group's manufacturing companies in a way that minimizes the risks to which the Group is exposed.

(in PLN thousand)

In the 6-month period ended 30 June 2020, the cost of impairment losses on property, plant and equipment, rights-to-use assets and intangible assets amounted to PLN 240 106 thousand, of which PLN 227 030 thousand was recognised as a result of the tests performed as at 30 June 2020 for impairment and PLN 13 076 thousand relates to write-offs for individual assets.

13. Other operating revenue and expenses

The increase in other operating income in the 6-month period ended 30 June 2020 as compared to the corresponding period is primarily related to recognition of the effects of reversal by the Group companies of the actuarial provisions for the employee tariff in part for pensioners in the current period. The effect of the said reversal on an increase in the Group's other operating revenue was PLN 233 911 thousand (including PLN 196 409 thousand in the Distribution segment). The above mentioned events have been presented in detail in Note 34.1 hereto.

Other operating income in the current period also includes income from co-financing the costs of employee benefits under the so-called anti-crisis shield in the amount of PLN 44 045 thousand.

14. Finance income and costs

	6-month period ended 30 June 2020 *(unaudited)*	6-month period ended 30 June 2019 *(unaudited restated figures)*
Income and costs from financial instruments	**(225 748)**	**(89 493)**
Dividend income	458	488
Interest income	17 223	12 790
Interest costs	(144 372)	(119 309)
Commission relating to borrowings and debt securities	(7 244)	(10 897)
Gain/loss on derivative instruments	44 387	(21 344)
Exchange differences	(145 183)	40 814
Remeasurement of loans granted	8 253	8 564
Other	730	(599)
Other finance income and costs	**(18 264)**	**(33 433)**
Interest on employee benefits	(12 331)	(15 989)
Interest on discount of other provisions	(5 591)	(6 532)
Other	(342)	(10 912)
Total, *including recognized in the statement of comprehensive income:*	**(244 012)**	**(122 926)**
Interest expense on debt	(144 372)	(119 309)
Finance income and other finance costs	(99 640)	(3 617)

In the 6-month period ended 30 June 2020 in relation to the comparable period, the main changes in financial income and expenses were as follows:

- surplus of negative exchange rate differences over positive ones in the amount of PLN 145 183 thousand, in the comparable period there was a surplus of positive exchange rate differences over negative ones in the amount of PLN 40 814 thousand. The exchange rate differences relate mainly to exchange rate differences related to the Company's obligations in relation to debt in EUR. In the 6-month period ended 30 June 2020, the surplus of exchange losses exceeded exchange gains amounted to PLN 178 852 thousand and, in the comparative period, the surplus of positive exchange rate differences over negative ones to PLN 41 544 thousand. At the same time, in the 6-month period ended 30 June 2020, the Group capitalised foreign exchange differences of PLN 29 620 thousand for investment tasks;
- recognition of a positive result on derivatives on account of measurement and realisation of derivatives, mainly currency forwards and CCIRS;
- an increase in interest costs by PLN 25 063 thousand, which is mainly due to higher interest costs resulting from new debt obligations, with higher capitalization of costs for investment tasks. In the 6-month period ended 30 June 2020 interest expenses were capitalized in the amount of PLN 92 383 thousand, and in the comparative period PLN 87 329 thousand.

(in PLN thousand)

15. Tax expense in the statement of comprehensive income

	6-month period ended 30 June 2020 *(unaudited)*	6-month period ended 30 June 2019 *(unaudited restated figures)*
Current income tax	**(170 046)**	**(268 421)**
Current income tax expense	(162 137)	(273 965)
Adjustments to current income tax from previous years	(7 909)	5 544
Deferred tax	**(261 071)**	**63 926**
Income tax expense in profit/(loss)	**(431 117)**	**(204 495)**
Income tax expense relating to other comprehensive income, *including:*	**43 964**	**(826)**
reclassified to profit or loss	25 032	639
not reclassified to profit or loss	18 932	(1 465)

The lower current income tax burden on the Group's financial result in the 6-month period ended 30 June 2020 is to a large extent connected with higher income tax deductible costs of the CO_2 emission allowances redeemed compared to the comparable period.

The higher burden of deferred income tax on the Group's financial result for the 6-month period ended 30 June 2020 results from the fact that as at the balance sheet date the deferred income tax assets of the Mining segment company were written off in the amount of PLN 249 402 thousand. Based on the analyses carried out as at the balance sheet date, the Group estimated that it is not possible to realise the above asset in the foreseeable future.

16. Discontinued operations

	6-month period ended 30 June 2020 *(unaudited)*	6-month period ended 30 June 2019 *(unaudited restated figures)*
Sales revenue	298 761	350 508
Cost of sales	(271 363)	(268 479)
Profit on sale	**27 398**	**82 029**
Selling and distribution expenses	(3 149)	(2 552)
Administrative expenses	(11 432)	(12 135)
Other operating income and expenses	16 096	10 194
Write-off for revaluation to fair value less costs of sale	(806 419)	-
Operating profit (loss)	**(777 506)**	**77 536**
Finance income and finance costs	(1 198)	2 682
Profit before tax on discontinued operations	**(778 704)**	**80 218**
Income tax resulting from profit before tax	(2 751)	(5 069)
Income tax resulting from write-off to fair value less costs of sale	-	-
Income tax expense	(2 751)	(5 069)
Profit/loss on discontinued operations	**(781 455)**	**75 149**
	-	-
Actuarial gains	(2 313)	580
Income tax	440	(110)
Other comprehensive income on discontinued operations not reclassified to profit or loss	**(1 873)**	**470**
Total comprehensive income from discontinued operations	**(783 328)**	**75 619**
	-	-
Net profit on discontinued operations attributable to:	**(781 455)**	**75 149**
Equity holders of the Parent	(781 455)	75 149
Total comprehensive income on discontinued operations attributable to:	**(783 328)**	**75 619**
Equity holders of the Parent	(783 328)	75 619

The discontinued operations is the activity of the subsidiary TAURON Ciepło Sp. z o.o., which is related to the classification by the Company of 100% of shares held in TAURON Ciepło Sp. z o.o. as held for sale.

The purpose of the sale of the Company's shares in TAURON Ciepło Sp. z o.o. is in line with the update of the strategic directions, adopted by the Management Board of the Company and positively assessed by the Supervisory Board in May 2019, which supplement the TAURON Group Strategy for 2016-2025. Taking into account the need for the Group's energy transformation, optimisation of the investment portfolio and maintenance of financial stability, it was decided to carry out market-based verification of, among others, the strategic option involving making the Group's asset portfolio more flexible by adjusting the mining assets to the Group's planned demand for fuel, reorganisation of the Generation segment and the capital investment portfolio. The above option includes, among others, market verification of the possibility of the sale of shares in the subsidiary TAURON Ciepło Sp. z o.o.

As a result of the above events, the Company launched a project aimed at market verification of the possibility of selling shares of the subsidiary TAURON Ciepło Sp. z o.o. and possible continuation of the sales process. As part of the project, on 22 November 2019, the Management Board of the Company received preliminary non-binding offers to purchase shares in TAURON Ciepło Sp. z o.o., among others, decided to admit bidders to the due diligence of the company.

On 16 June 2020, the Management Board of the Company decided to proceed to the next stage of the process of selling shares in TAURON Ciepło Sp. z o.o. and commencement of negotiations on the agreement for the sale of shares in TAURON Ciepło Sp. z o.o. with Polskie Górnictwo Naftowe i Gazownictwo S.A. in the exclusivity mode established for a period of six weeks, which was subsequently extended by another eight weeks i.e. until 22 September 2020. On the basis of the course of negotiations, the Company may decide to extend the exclusivity period granted to the bidder for the time necessary to finalise the negotiations of the transaction documentation. The Company anticipates that a possible loss of control over TAURON Ciepło Sp. z o.o. will occur not earlier than in first quarter of 2021.

As at the balance sheet date, the Company assessed that the conditions of IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* were met in relation to TAURON Ciepło Sp. z o.o.'s operations with regard to the classification of its operations as discontinued. The core business of TAURON Ciepło sp. z o.o. is the generation, distribution and sale of thermal energy for heating, domestic hot water preparation and ventilation. In addition, as at the date of classifying the net assets of TAURON Ciepło Sp. z o.o. into the disposal group classified as held for sale, the Group carried out a valuation of the disposal group at fair value. The fair value was estimated at the level of PLN 1 343 000 thousand, based on the information collected in the course of the market process of selling shares in TAURON Ciepło Sp. z o.o. Due to the fact that the disposal group fair value is lower than its book value, the Group recognized an impairment loss for non-financial fixed assets in the amount of PLN 806 419 thousand.

(in PLN thousand)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

17. Property, plant and equipment

6 month-period ended 30 June 2020 *(not audited)*

	Land	Buildings, premises and civil engineering structures	Plant and machinery	Mine workings	Other	Assets under construction	Property, plant and equipment, total
COST							
Opening balance	**140 554**	**25 480 506**	**20 297 298**	**265 001**	**957 959**	**7 777 093**	**54 918 411**
Direct purchase	-	-	-	260	-	1 441 983	**1 442 243**
Borrowing costs	-	-	-	-	-	121 362	**121 362**
Transfer of assets under construction	729	1 374 564	875 865	-	21 443	(2 272 601)	**-**
Sale	(260)	(3 832)	(59 747)	-	(2 704)	-	**(66 543)**
Liquidation	(8)	(30 813)	(87 733)	(92 310)	(7 140)	-	**(218 004)**
Received free of charge	700	4 821	-	-	-	-	**5 521**
Transfers to/from assets held for sale	(2 145)	(1 788 634)	(1 868 924)	-	(55 367)	(100 991)	**(3 816 061)**
Overhaul expenses	-	-	-	-	-	95 528	**95 528**
Items generated internally	-	-	-	52 693	-	75 769	**128 462**
Cost of disassembly of wind farms and decommissioning of mines	-	83 400	5 276	-	-	-	**88 676**
Other movements	240	(2 352)	6 845	-	(2 323)	4 452	**6 862**
Foreign exchange differences from translation of foreign entity	-	-	(3)	-	(2)	-	**(5)**
Closing balance	**139 810**	**25 117 660**	**19 168 877**	**225 644**	**911 866**	**7 142 595**	**52 706 452**
ACCUMULATED DEPRECIATION							
Opening balance	**(341)**	**(10 756 599)**	**(12 008 192)**	**(116 238)**	**(655 060)**	**(282 910)**	**(23 819 340)**
Depreciation for the period	-	(423 423)	(389 781)	(58 921)	(33 508)	(65)	**(905 698)**
Increase of impairment	(15)	(92 576)	(86 861)	(20 942)	(1 194)	(64 231)	**(265 819)**
Decrease of impairment	-	2 565	201	-	67	26 631	**29 464**
Sale	168	3 380	58 892	-	2 629	-	**65 069**
Liquidation	-	27 599	82 749	92 310	7 133	-	**209 791**
Transfers to/from assets held for sale	-	742 913	877 081	-	38 140	13 939	**1 672 073**
Other movements	-	(60)	(1 766)	-	1 580	(8 778)	**(9 024)**
Foreign exchange differences from translation of foreign entity	-	-	2	-	2	-	**4**
Closing balance	**(188)**	**(10 496 201)**	**(11 467 675)**	**(103 791)**	**(640 211)**	**(315 414)**	**(23 023 480)**
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	**140 213**	**14 723 907**	**8 289 106**	**148 763**	**302 899**	**7 494 183**	**31 099 071**
NET CARRYING AMOUNT AT THE END OF THE PERIOD	**139 622**	**14 621 459**	**7 701 202**	**121 853**	**271 655**	**6 827 181**	**29 682 972**
of which operating segments:							
Mining	**3 146**	**388 528**	**235 846**	**117 738**	**5 460**	**281 843**	**1 032 561**
Generation	**40 391**	**1 030 605**	**1 397 483**	**-**	**6 693**	**5 430 768**	**7 905 940**
Renewable Energy Sources	**765**	**901 902**	**1 287 448**	**-**	**1 303**	**2 117**	**2 193 535**
Distribution	**78 462**	**11 798 316**	**4 662 540**	**-**	**236 816**	**1 047 667**	**17 823 801**
Other segments and other operations	**16 858**	**502 108**	**117 885**	**4 115**	**21 383**	**64 786**	**727 135**

(in PLN thousand)

6-month period ended 30 June 2019 *(not audited restated data)*

	Land	Buildings, premises and civil engineering structures	Plant and machinery	Mine workings	Other	Assets under construction	Property, plant and equipment, total
COST							
Opening balance	**125 869**	**23 775 062**	**19 133 480**	**221 074**	**943 340**	**6 376 491**	**50 575 316**
Direct purchase	-	-	-	349	-	1 335 076	**1 335 425**
Borrowing costs	-	-	-	-	-	86 970	**86 970**
Transfer of assets under construction	493	599 517	347 396	-	34 849	(982 255)	**-**
Sale	(7)	(1 178)	(45 361)	-	(19 595)	(4)	**(66 145)**
Liquidation	(4)	(16 322)	(19 806)	(60 876)	(4 747)	-	**(101 755)**
Received free of charge	-	4 346	112	-	-	-	**4 458**
Transfers to/from assets held for sale	-	(3 201)	(46)	-	(32)	-	**(3 279)**
Overhaul expenses	-	-	-	-	-	72 272	**72 272**
Items generated internally	-	-	-	90 070	-	24 310	**114 380**
Other movements	32	(2 206)	543	-	807	(3 119)	**(3 943)**
Foreign exchange differences from translation of foreign entity	-	-	-	-	-	-	**-**
Closing balance	**126 383**	**24 356 018**	**19 416 318**	**250 617**	**954 622**	**6 909 741**	**52 013 699**
ACCUMULATED DEPRECIATION							
Opening balance	**(404)**	**(9 599 896)**	**(10 765 131)**	**(52 458)**	**(611 258)**	**(139 502)**	**(21 168 649)**
Depreciation for the period	-	(402 368)	(373 787)	(45 971)	(37 398)	-	**(859 524)**
Increase of impairment	-	(91 985)	(72 432)	(36 600)	(2 141)	(66 018)	**(269 176)**
Decrease of impairment	-	2 005	97	-	3	5 681	**7 786**
Sale	-	595	44 202	-	18 430	-	**63 227**
Liquidation	-	13 450	18 741	60 876	4 739	-	**97 806**
Transfers to/from assets held for sale	-	1 734	38	-	32	-	**1 804**
Other movements	-	(451)	914	-	45	-	**508**
Foreign exchange differences from translation of foreign entity	-	-	-	-	-	-	**-**
Closing balance	**(404)**	**(10 076 916)**	**(11 147 358)**	**(74 153)**	**(627 548)**	**(199 839)**	**(22 126 218)**
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	**125 465**	**14 175 166**	**8 368 349**	**168 616**	**332 082**	**6 236 989**	**29 406 667**
NET CARRYING AMOUNT AT THE END OF THE PERIOD	**125 979**	**14 279 102**	**8 268 960**	**176 464**	**327 074**	**6 709 902**	**29 887 481**
of which operating segments:							
Mining	**3 118**	**421 254**	**345 671**	**173 489**	**10 074**	**357 271**	**1 310 877**
Generation	**42 550**	**1 554 000**	**2 439 851**	**-**	**25 865**	**5 189 811**	**9 252 077**
Renewable Energy Sources	**173**	**648 846**	**905 799**	**-**	**1 641**	**868**	**1 557 327**
Distribution	**63 278**	**11 190 415**	**4 462 119**	**-**	**270 489**	**1 133 925**	**17 120 226**
Other segments and other operations	**16 860**	**464 587**	**115 520**	**2 975**	**19 005**	**28 027**	**646 974**

In the 6-month period ended 30 June 2020, the Group acquired property, plant and equipment of PLN 1 563 605 thousand (including capitalized borrowing costs). The major purchases were made in connection with investments in the following operating segments:

Operating segment	6-month period ended 30 June 2020 *(unaudited)*	6-month period ended 30 June 2019 *(unaudited restated figures)*
Distribution	883 377	843 411
Generation	553 090	404 070
Mining	58 413	142 914

Impairment tests

As at 30 June 2020, the Group recognized impairment loss on property, plant and equipment as a result of asset impairment tests conducted as at 30 June 2020.

The recoverable amount of the above group of assets corresponds to their value in use. Impairment loss was charged to the cost of sales.

The impairment loss recognized as a result of tests carried out as at 30 June 2020 concerns the following entities generating cash flows:

(in PLN thousand)

CGU	Company	Discount rate (before tax) assumed in tests as at:		Recoverable amount	Impairment loss recognized	Impairment loss derecognized
		30 June 2020 *(unaudited)*	31 December 2019	As at 30 June 2020 *(unaudited)*	6-month period ended 30 June 2020 *(unaudited)*	
Mining	TAURON Wydobycie S.A.	14.99%	14.01%	375 631	(179 237)	-
Generation - Coal	TAURON Wytwarzanie S.A. / Nowe Jaworzno Grupa TAURON Sp. z o.o.	9.34%	8.60%	7 563 445	(41 545)	-
Generation - Biomass		8.04%	8.60%	-	(6 248)	-
ZW Bielsko EC1	TAURON Ciepło Sp. z o.o.	9.30%	8.57%	363 684	-	-
ZW Bielsko EC2				2 579	-	-
ZW Katowice				879 574	-	-
ZW Tychy				647 453	-	-
Local generators				70 189	-	-
Transmission		7.47%	7.51%	806 324	-	-
Hydropower plants	TAURON Ekoenergia Sp. z o.o. / TEC	8.27%	8.90%	800 515	-	-
Wind farms		8.65%	8.94%	2 167 453	-	-
Distribution	TAURON Dystrybucja S.A.	6,44%	7,02%	18 605 012		
Total					**(227 030)**	**-**

As at 30 June 2020, 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 net asset carrying amount for a long period;
- changes in global prices of energy resources, electricity and dynamic changes in the prices of CO_2 emission allowances;
- significant fluctuations of energy prices on the future/forward market and continuing liquidity problems;
- decrease in domestic electricity consumption due to the increase in winter temperatures and the impact of the COVID-19 pandemic;
- regulatory activities aimed at the limiting of end user price increases;
- increased risks in commercial coal production;
- tightening the European Union's climate policy by increasing the CO_2 reduction target;
- the effects of the results of the RES auctions to date and the very dynamic development of the prosumer and microinstallation sub-sector in connection with the support programmes launched;
- effects of introducing winter package provisions (including emission standards) that adversely impact the capability of coal-based units to participate in the power market after 1 July 2025;
- toughening emission standards, persisting unfavourable market conditions for the conventional power industry;
- a decrease in the risk-free rate.

The tests conducted as at 30 June 2020 required estimating the value in use of cash generating units, based on their future cash flows discounted subsequently to the present value using a discount rate.

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 the identification of cash-generating units ("CGUs") was recognized at a different level by identifying two centres generating economic benefits in the area of activity of the companies TAURON Wytwarzanie S.A. and Nowe Jaworzno Grupa TAURON Sp. z o.o: CGU Generation - Coal and CGU Generation - Biomass. Key indications included: publishing the provisions regarding the new Capacity Market mechanism in 2018, launching a new product: capacity obligation; the strategy of joining the Capacity Market consisting in the portfolio approach, where maximizing the total Capacity Market revenue matters; allocating power to suppliers; determining the reserve sources level for the other power contracted at the Capacity Market and high dependence of cash proceeds among generators. The settlement of the first three Capacity Market auctions in 2018 allows for additional cash inflows from 2021 onwards;

(in PLN thousand)

- TAURON Ciepło Sp. z o.o. - where separated generation of heat and electricity and transmission and distribution of heat. In addition, tests were also conducted on the "generation" activity for individual generation plants: CGU ZW Katowice, CGU ZW Tychy, CGU ZW Bielsko EC1, CGU ZW Bielsko EC2, CGU Local Generators;
- TAURON Ekoenergia Sp. z o.o. and other generation companies of the Renewable Energy Sources segment, where the test was carried out separately for hydroelectric power generation activities - CGU Hydropower Plants and for total wind farm electricity generation activities - CGU Wind Farms. Consolidation of wind farms in one CGU resulted mainly from the specificity and nature of the basic service contracts and technical management of individual wind parks allowing for optimisation of the production process aimed at improving economic indicators of the operated wind farms. Moreover, from the point of view of management analysis, the notion of a group of assets producing energy in wind technology is important, not a single operation of wind farms. This is also important for the integrated management of the portfolio of produced volume from wind farms and the sale of electricity and property rights within the TAURON Group;
- TAURON Nowe Technologie S.A., where as of 30 June 2020 the activity related to lighting and providing solutions related to modern technologies was separated.

The tests were conducted based on the present value of projected cash flows from operations of the CGUs, by reference to detailed projections by 2025 for CGU Distribution and by 2029 for other CGUs 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 tests performed as at 30 June 2020:

Category	Description
Coal	Coal prices in the coming years were adopted at a slightly declining level. In the long term, coal prices will fall more sharply as a result of the implementation of climate policy and the shift away from coal to other countries, as well as the growing production of energy from RES sources. It has been assumed that in the years 2021-2040 the prices of power coal will decrease by 7.1%.
Electricity	The adopted forecast of wholesale electricity prices for 2020-2029 with an outlook until 2040, due to uncertainty as to the final shape of the market architecture and the introduction of the scarcity pricing mechanism, has been updated and adapted to current price levels of forward contracts for 2020-2023. The projected levels of wholesale electricity prices assume that the COVID-19 pandemic should have the greatest impact on prices in the years 2020-2021, when a 12.7% drop from the prices projected at the end of 2019 will be visible. In the period from 2024 to 2040 the price levels used in the tests were adopted as at 31 December 2019. The forecast assumes, among other things, the impact of the demand and supply balance on electricity, fuel purchase costs and CO_2 emission allowances. In 2021, a slight increase in energy prices by 1.3% in relation to 2020 was assumed, which results, inter alia, from the prediction of further impact of the COVID-19 pandemic on fuel prices and the decreasing level of margins obtained on sales of electricity from hard coal fired sources. The price increase in the period up to 2029 results from the increase in prices of CO_2 emission allowances and planned shutdowns of coal and nuclear units in Germany affecting the level of the cross-system exchange balance. An increase of 25% is assumed in relation to 2021 followed by a drop by 13.6% between 2030 and 2040 (fixed prices) vs. 2029. 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 the expected level of margin.
CO_2	CO_2 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 CO_2 emission allowance price growth path for the years 2021-2029 with the perspective by 2040 has been adopted. Due to the impact of the COVID-19 pandemic, it was assumed that the price of CO_2 emission allowances in 2020 will be 4% lower than the average price in 2019. In 2021 the price of CO_2 emission allowances was assumed to be 9% higher than the average price in 2019. It has been assumed that the market price will increase by ca. 34% by 2028, comparing to the average price observed in 2019, with slight CO_2 emission allowances price decreases in 2029-2040 vs. 2028 (fixed prices), totalling 11%. This results from the assumed increase in decarbonization of the economy and the resultant drop in demand for emission allowances in 2030-2040. The long-term projections assume the purchase of CO_2 emission allowances at the level of the total planned shortfall in the year following the year to which the emissions relate. This assumes the dissolution of the reserve for CO_2 deficiency also in the following year.
Energy certificates	The price path assumed for emission certificates and the obligatory redemption in the subsequent years are based on the currently applicable Act on Renewable Energy Sources.

Category	Description
Capacity Market	It was assumed that the operational mechanism of the power reserve will be excluded from the beginning of 2021, i.e. from the moment of implementation of the Capacity Market. The Capacity Market mechanism implementation has been taken into account (in line with the adopted and notified Act on the Capacity Market and the Capacity Market Regulations). With regard to the operating coal-based units that do not meet the EPS 550 criterion (for which the unit emission allowance exceeds 550 kg/MWh), commencement of payments for power in 2021 to be continued to 2025 has been assumed.
RES	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 electricity generated from renewable sources. The support period has been limited to 15 years as from the date of the first supply of electricity qualifying for an energy certificate to the network.
WACC	The weighted average cost of capital (WACC) during the projection period for individual CGUs, as used in the calculations, ranges from 5.90% to 14.99% in nominal terms before tax, taking into account the risk free rate determined by reference to the yield on 10-year treasury bonds (1.99%) and the risk premium for operations appropriate for the power industry (6.75%). 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 2020, the level of WACC decreased compared to the level as at 31 December 2019 mainly due to a decrease of the risk-free rate and an increase in the cost of debt with the simultaneous increase of market risk premium.
Regulated and tariff revenue	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. In the second half of 2020, the impact of COVID-19 on the reduction of electricity supply to non-household customers was taken into account. It is assumed that between 2021 and 2025 there will be an increase in electricity supply. In the first three years, growth of 2% per annum, while for the others, growth of 1% per annum. Tariff revenue generated by heat companies, ensuring coverage of reasonable costs and a reasonable level of return on capital has been assumed.
Sales volume and capacity	The assumed sales volume to end customers was based on GDP growth, the competitive situation on the market, a significant increase in financial costs (trade credit costs) charged to the sales companies. This will result in a decrease in volume between 2021 and 2023. Since 2024, a gradual recovery of the lost volume is planned. Additionally, it is assumed that in the second half of 2020 there will be a decrease in volume due to the COVID-19 pandemic. Periods of economic utility of fixed assets and maintenance of production capacity as a result of replacement investments were taken into account.

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

The necessity to write down CGU Mining and CGU Generation - Coal assets in the first half of 2020 resulted in particular from updating market assumptions regarding the cost of capital for coal assets, resulting, among others, from the risk of deterioration of the economic situation affected by the COVID-19 pandemic.

The necessity to write down CGU Generation - Biomass assets in the first half of 2020 resulted in particular from the decrease in the margin on electricity as a result of the reduction of electricity price in biomass units.

Sensitivity analysis for mining and generation assets (including TAURON Ciepło Sp. z o.o. operations)

A sensitivity analysis performed for each CGU revealed that the value in use of the tested assets was mainly affected by the forecast electricity prices, CO_2 emission allowance prices, discount rates and hard coal prices. The estimated changes in impairment losses on mining and generation assets (including TAURON Ciepło Sp. z o.o. operations) as at 30 June 2020 as a result of changes in the key assumptions, have been presented below.

Parameter	Change	Impact on impairment loss *(in PLN million)*	
		Increase of impairment loss (net)	Decrease of impairment loss (net)
Change of electricity prices in the forecast period	+1%	-	338
	-1%	338	-
Change of CO_2 emission allowances prices in the forecast period	+1%	136	-
	-1%	-	136
Change of WACC (net)	+0.1 p.p.	112	-
	-0.1 p.p.	-	114
Change of coal prices in the forecast period	+1%	46	-
	-1%	-	46

Sensitivity analysis for the Distribution segment

The sensitivity analysis was conducted for a change in the discount rate and a change in the WACC level adopted for the calculation of regulated income in the years 2022-2025 and in the residual period. The table below presents the estimated inflows to impairment losses on the Distribution segment assets as at 30 June 2020.

Parameter	Change	Impact on increase of impairment loss *(in PLN million)*
Change of WACC (net)	+0.1 p.p.	678
	-0.1 p.p.	-
Change in the WACC adopted for the calculation of regulated income in 2022-2025 and in the residual period	+0,1 p.p.	-
	-0,1 p.p.	515

18. Right-of-use assets

6 month-period ended 30 June 2020 *(not audited)*

	Land	Perpetual usufruct right	Buildings, premises and civil engineering structures	Plant and machinery	Motor vehickles	Transmission easements	Right-of-use assets in progress	Right-of-use assets total
COST								
Opening balance	**475 863**	**1 076 085**	**176 424**	**64 789**	**6 571**	**121 144**	**6 256**	**1 927 132**
Increase due to a new lease contract	27 362	13	1 460	11 335	38	171	-	**40 379**
Increase(decrease) due to lease changes	(2 640)	7 921	6 455	(2 854)	(8)	24	-	**8 898**
Transfer of assets held for sale	(13 081)	(107 644)	(21 340)	-	(282)	(4 196)	-	**(146 543)**
Other movements	(388)	(752)	641	(3 076)	1 034	5 010	(843)	**1 626**
Closing balance	**487 116**	**975 623**	**163 640**	**70 194**	**7 353**	**122 153**	**5 413**	**1 831 492**
ACCUMULATED DEPRECIATION								
Opening balance	**(20 176)**	**(60 097)**	**(15 341)**	**(34 713)**	**(2 210)**	**(21 097)**	**-**	**(153 634)**
Depreciation for the period	(12 188)	(16 240)	(8 171)	(9 097)	(1 463)	(2 913)	-	**(50 072)**
Increase of impairment	(8)	(396)	(7)	(4 240)	(20)	(3)	-	**(4 674)**
Decrease of impairment	-	1 206	-	-	-	-	-	**1 206**
Transfer of assets held for sale	890	2 240	2 240	-	115	708	-	**6 193**
Other movements	61	39	137	3 022	(341)	9	-	**2 927**
Closing balance	**(31 421)**	**(73 248)**	**(21 142)**	**(45 028)**	**(3 919)**	**(23 296)**	**-**	**(198 054)**
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOI	**455 687**	**1 015 988**	**161 083**	**30 076**	**4 361**	**100 047**	**6 256**	**1 773 498**
NET CARRYING AMOUNT AT THE END OF THE PERIOD	**455 695**	**902 375**	**142 498**	**25 166**	**3 434**	**98 857**	**5 413**	**1 633 438**

6-month period ended 30 June 2019 (not audited restated data)

	Land	Perpetual usufruct right	Buildings, premises and civil engineering structures	Plant and machinery	Motor vehickles	Transmission easements	Right-of-use assets in progress	Right-of-use assets, total
COST								
Opening balance	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Impact of IFRS 16	393 110	1 071 236	166 028	28 978	3 739	96 489	12 931	**1 772 511**
Restated opening balance	**393 110**	**1 071 236**	**166 028**	**28 978**	**3 739**	**96 489**	**12 931**	**1 772 511**
Increase due to a new lease contract	794	3	3 725	12 444	1 448	340	-	**18 754**
Increase(decrease) due to lease changes	641	(24)	472	(179)	167	11	-	**1 088**
Other movements	(53)	4 159	(161)	-	(98)	1 355	12	**5 214**
Closing balance	**394 492**	**1 075 374**	**170 064**	**41 243**	**5 256**	**98 195**	**12 943**	**1 797 567**
ACCUMULATED DEPRECIATION								
Opening balance	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Impact of IFRS 16	-	(25 384)	-	-	-	(15 987)	-	**(41 371)**
Restated opening balance	**-**	**(25 384)**	**-**	**-**	**-**	**(15 987)**	**-**	**(41 371)**
Depreciation for the period	(9 078)	(16 275)	(7 477)	(8 656)	(857)	(2 410)	-	**(44 753)**
Decrease of impairment	-	102	-	-	-	-	-	**102**
Other movements	2	(189)	(18)	(5 512)	(36)	-	-	**(5 753)**
Closing balance	**(9 076)**	**(41 746)**	**(7 495)**	**(14 168)**	**(893)**	**(18 397)**	**-**	**(91 775)**
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOI	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
NET CARRYING AMOUNT AT THE END OF THE PERIOD	**385 416**	**1 033 628**	**162 569**	**27 075**	**4 363**	**79 798**	**12 943**	**1 705 792**

(in PLN thousand)

19. Goodwill

Operating segment	As at 30 June 2020 *(unaudited)*	As at 31 December 2019
Distribution	25 602	25 602
Other	581	581
Total	**26 183**	**26 183**

Impairment tests

The test was carried out with reference to net assets increased by goodwill in the Distribution segment and other activities. 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 made on the basis of detailed forecasts until 2025 and the estimated residual value, with the forecasts covering the entire period of their operation for the mining units. 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 level of weighted average cost of capital (WACC) assumed for calculations during the projection period for individual CGUs, as used in the calculations, ranges from 6.44% to 7.61% in nominal terms before tax, taking into account the risk free rate determined by reference to the yield on 10-year treasury bonds (1.99%) and the risk premium for operations appropriate for the power industry (6.75%). 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 2020, the level of WACC decreased compared to the level as at 31 December 2019 mainly due to a decrease of the risk-free rate and an increase in the cost of debt with the simultaneous increase of market risk premium.

The key assumptions affecting the estimated value in use and the discount rates applied during tests:

Operating segment	Key assumptions	Discount rate (before tax) assumed in tests as at:	
		30 June 2020 *(unaudited)*	31 December 2019
Distribution	Regulated revenue generated by distribution companies, ensuring coverage of reasonable costs and a reasonable level of return on capital. The return level depends on the Regulatory Value of Assets. Maintaining generation capacity of the existing non-current assets as a result of replacement investments.	6.44%	7.02%

The impairment test conducted as at 30 June 2020 did not reveal impairment of the carrying amount of goodwill.

20. Energy certificates and CO_2 emission allowances

20.1. Long-term energy certificates and CO_2 emission allowances

	6-month period ended 30 June 2020 *(unaudited)*			6-month period ended 30 June 2019 *(unaudited)*		
	Energy certificates	CO_2 emission allowances	Total	Energy certificates	CO_2 emission allowances	Total
Opening balance	**306 221**	**161 976**	**468 197**	**208 585**	**453 018**	**661 603**
Direct purchase	39 577	-	**39 577**	70 053	-	**70 053**
Reclassification	(289 137)	(112 335)	**(401 472)**	(191 943)	(406 301)	**(598 244)**
Closing balance	**56 661**	**49 641**	**106 302**	**86 695**	**46 717**	**133 412**

(in PLN thousand)

20.2. Short-term energy certificates and CO_2 emission allowances

	6-month period ended 30 June 2020 *(unaudited)*			6-month period ended 30 June 2019 *(unaudited)*		
	Energy certificates	CO_2 emission allowances	Total	Energy certificates	CO_2 emission allowances	Total
Opening balance	**594 968**	**690 225**	**1 285 193**	**90 267**	**111 396**	**201 663**
Direct purchase	119 454	168 532	**287 986**	232 992	-	**232 992**
Generated internally	120 901	-	**120 901**	62 394	-	**62 394**
Surrendered	(595 494)	(776 602)	**(1 372 096)**	(165 722)	(113 646)	**(279 368)**
Reclassification	289 137	112 335	**401 472**	191 943	406 301	**598 244**
Transfers to assets held for sale	(46)	(14 201)	**(14 247)**	-	-	**-**
Closing balance	**528 920**	**180 289**	**709 209**	**411 874**	**404 051**	**815 925**

21. Other Intangible Assets

6 month-period ended 30 June 2020 *(not audited)*

	Development expenses	Perpetual usufruct right	Software, concessions, patents, licenses and similar items	Other intangible assets	Intangible assets not made available for use	Intangible assets total
COST						
Opening balance	**8 946**	**15 605**	**822 069**	**183 967**	**114 253**	**1 144 840**
Direct purchase	-	-	-	-	45 110	**45 110**
Transfer of intangible assets not made available for use	2 695	-	65 262	898	(68 855)	**-**
Sale/Liquidation	(1 309)	-	(18 726)	(66)	(36)	**(20 137)**
Transfers to/from assets held for sale	(1 622)	-	(14 590)	(639)	(521)	**(17 372)**
Other movements	3	-	(27)	111	384	**471**
Foreign exchange differences from translation of foreign entity	-	-	(7)	-	-	**(7)**
Closing balance	**8 713**	**15 605**	**853 981**	**184 271**	**90 335**	**1 152 905**
ACCUMULATED AMORTIZATION						
Opening balance	**(6 250)**	**-**	**(562 534)**	**(97 765)**	**(30)**	**(666 579)**
Amortization for the period	(456)	-	(37 603)	(5 457)	-	**(43 516)**
Impairment	(8)	-	(153)	(9)	(5)	**(175)**
Sale/Liquidation	1 306	-	18 726	66	-	**20 098**
Transfers to/from assets held for sale	333	-	12 660	514	-	**13 507**
Foreign exchange differences from translation of foreign entity	-	-	7	-	-	**7**
Closing balance	**(5 075)**	**-**	**(568 897)**	**(102 651)**	**(35)**	**(676 658)**
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	**2 696**	**15 605**	**259 535**	**86 202**	**114 223**	**478 261**
NET CARRYING AMOUNT AT THE END OF THE PERIOD	**3 638**	**15 605**	**285 084**	**81 620**	**90 300**	**476 247**

(in PLN thousand)

6-month period ended 30 June 2019 ***(not audited restated data)***

	Development expenses	Perpetual usufruct right	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**	**774 682**	**776 434**	**271 336**	**85 486**	**1 914 341**
Impact of IFRS 16	-	(758 941)	-	(94 809)	(12 931)	**(866 681)**
Restated opening balance	**6 403**	**15 741**	**776 434**	**176 527**	**72 555**	**1 047 660**
Direct purchase	-	-	-	-	33 054	**33 054**
Transfer of intangible assets not made available for use	136	-	23 471	8 802	(32 409)	**-**
Sale/Liquidation	-	-	(19 897)	(554)	-	**(20 451)**
Other movements	-	-	(471)	57	702	**288**
Foreign exchange differences from translation of foreign entities	-	-	(1)	-	-	**(1)**
Closing balance	**6 539**	**15 741**	**779 536**	**184 832**	**73 902**	**1 060 550**
ACCUMULATED AMORTIZATION						
Opening balance	**(5 744)**	**(25 387)**	**(493 665)**	**(101 835)**	**(7)**	**(626 638)**
Impact of IFRS 16	-	25 387	-	15 987	-	**41 374**
Restated opening balance	**(5 744)**	**-**	**(493 665)**	**(85 848)**	**(7)**	**(585 264)**
Amortization for the period	(101)	-	(46 729)	(9 092)	-	**(55 922)**
Impairment	-	-	(311)	(23)	(10)	**(344)**
Sale/Liquidation	-	-	19 895	543	-	**20 438**
Foreign exchange differences from translation of foreign entities	-	-	1	-	-	**1**
Closing balance	**(5 845)**	**-**	**(520 809)**	**(94 420)**	**(17)**	**(621 091)**
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	**659**	**749 295**	**282 769**	**169 501**	**85 479**	**1 287 703**
NET CARRYING AMOUNT AT THE END OF THE PERIOD	**694**	**15 741**	**258 727**	**90 412**	**73 885**	**439 459**

Under other intangible assets, the Group presents rights of perpetual usufruct of land in the amount of PLN 15 605 thousand, which refer to the limestone mine belonging to the subsidiary, excluded from IFRS 16 *Leases*.

22. Investments in joint ventures

Investments in joint ventures accounted for using the equity method are presented in the table below:

	Elektrociepłownia Stalowa Wola S.A.	TAMEH HOLDING Sp. z o.o. *	As at 30 June 2020 or for the 6-month period ended 30 June 2020 *(unaudited)*	Elektrociepłownia Stalowa Wola S.A.	TAMEH HOLDING Sp. z o.o. *	As at 31 December 2019 or for the 6-month period ended 30 June 2019 *(unaudited)*
Non-current assets	1 762 772	2 126 550	**3 889 322**	1 623 476	2 186 422	**3 809 898**
Current assets, *including:*	129 836	549 037	**678 873**	136 404	644 722	**781 126**
cash and cash equivalents	*83 068*	*279 408*	***362 476***	*90 830*	*284 503*	***375 333***
Non-current liabilities (-), *including:*	(1 870 016)	(838 128)	**(2 708 144)**	(1 719 704)	(922 262)	**(2 641 966)**
debt	*(1 863 822)*	*(746 094)*	***(2 609 916)***	*(1 716 142)*	*(827 878)*	***(2 544 020)***
Current liabilities (-), *including:*	(554 825)	(558 472)	**(1 113 297)**	(519 395)	(709 111)	**(1 228 506)**
debt	*(31 278)*	*(184 029)*	***(215 307)***	*(34 961)*	*(184 095)*	***(219 056)***
Total net assets	(532 233)	1 278 987	**746 754**	(479 219)	1 199 771	**720 552**
Share in net assets	(266 117)	639 494	**373 377**	(239 610)	599 886	**360 276**
Investment in joint ventures	**-**	**598 753**	**598 753**	**-**	**559 144**	**559 144**
Share in revenue of joint ventures	1 105	466 486	**467 591**	175	411 104	**411 279**
Share in profit/(loss) of joint ventures	**-**	**40 914**	**40 914**	**-**	**50 025**	**50 025**
Share in other comprehensive income of joint ventures	**-**	**360**	**360**	**-**	**278**	**278**

** Presented information concerns 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.*

Elektrociepłownia Stalowa Wola S.A.

Elektrociepłownia Stalowa Wola S.A. is a special purpose vehicle established in 2010 on the initiative of TAURON Polska Energia S.A. and PGNiG S.A. The entity was registered to carry out an investment project, i.e. construction of a gas and steam unit fuelled with natural gas in Stalowa Wola with the gross maximum electrical capacity of 450 MWe and the net heat capability of 240 MWt.

TAURON Polska Energia S.A. has an indirect share of 50% in the company's capital and in the body performed by 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.

In addition, the Company has receivables due to loans granted to Elektrociepłownia Stalowa Wola S.A. in the carrying amount of PLN 320 529 thousand, as further described in Note 23 to these interim condensed consolidated financial statements.

Judgement of the Court of Arbitration at the Polish Chamber of Commerce on the claims of Abener Energia S.A. against Elektrociepłownia Stalowa Wola S.A.

On 25 April 2019 a judgement of the Court of Arbitration at the Polish Chamber of Commerce in Warsaw was issued in the case brought by Abener Energia S.A. ("Abener") against Elektrociepłownia Stalowa Wola S.A. ("ECSW"), a joint venture of the TAURON Group, in which the Company holds, indirectly through its subsidiary TAURON Wytwarzanie S.A., 50% of shares in the share capital.

The proceedings before the Court of Arbitration concerned a claim for payment, for establishing the legal relationship and for the obligation to submit a declaration of intent in connection with the terminated contract concluded between Abener (general contractor) and ECSW (contracting authority) for the construction of a CCGT unit in Stalowa Wola. Under the Arbitration Court's judgement, ECSW was obligated to pay to Abener the amount of PLN 333 793 thousand together with statutory interest for delay and costs of the arbitration proceedings. On 24 June 2019, ECSW filed a complaint with the Court of Appeals in Rzeszów against the said judgement. The complaint procedure is pending.

On 15 July 2019, ECSW received a request from Abener addressed to the Court of Appeals in Rzeszów to declare the judgement enforceable. In its ruling of 5 August 2019, the Court of Appeals in Rzeszów postponed consideration of the case from the application for a declaration of enforceability until the completion of the proceedings on the complaint.

On 20 December 2019, ECSW received a new suit filed by Abener with the Court of Arbitration. The subject matter of the statement of claim is the payment by ECSW to Abener of the total amount of PLN 156 447 thousand and EUR 537 thousand together with statutory interest for late payment as compensation for damages resulting from requesting and obtaining by the ECSW at Abener's expense the payment from the performance bond or possibly returning the unjustified enrichment obtained by the ECSW at Abener's expense in connection with obtaining payment from the performance bond. The performance bond was granted to ECSW by Abener pursuant to the contract concluded between the parties for the construction of the CCGT unit in Stalowa Wola. The statement of claim was filed by ECSW on 20 March 2020. The assessment of the claims and the grounds on which they are based indicates that they are unfounded. The arbitration proceedings are pending.

On 30 December 2019, ECSW submitted a summons for arbitration for Abener to pay the amount of PLN 177 853 thousand and EUR 461 thousand plus interest, as compensation for the damage corresponding to the costs of rectifying defects, faults and inadequacies of works, supplies and services improperly performed by Abener under the contract for the construction of the CCGT unit in Stalowa Wola. The proceedings are pending.

In connection with the above judgement Elektrociepłownia Stalowa Wola S.A. recognized in the statement of financial position for 2018 a provision in the amount of PLN 397 965 thousand, which reduced the share in net assets attributable to the TAURON Group. In 2019, the provision was increased by accrued interest of PLN 23 366 thousand.

The CCGT unit construction contract concluded between ECSW and Abener does not contain any regulations obliging the Company to pay remuneration to Abener in any form for ECSW.

TAMEH HOLDING Sp. z o.o. and subsidiaries

In 2014 a shareholders' agreement was concluded by and between the TAURON Group and the ArcelorMittal Group regarding TAMEH HOLDING Sp. z o.o., which is responsible for investment and operational projects related to the industrial power sector. The duration of the agreement is 15 years and may be extended. 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., incorporated by the following entities contributed by the TAURON Group: Zakład Wytwarzania Nowa and Elektrownia Blachownia along with Kraków Heat and Power Plant contributed by the ArcelorMittal Group. Moreover, TAMEH HOLDING Sp. z o.o. holds 100% of shares in TAMEH Czech s.r.o., based on the Ostrava Heat and Power Plant.

(in PLN thousand)

23. Loans granted to joint ventures

Loans granted to the joint venture Elektrociepłownia Stalowa Wola S.A. as at 30 June 2020 and 31 December 2019 are presented in the table below:

	Agreement date	Loan amount	As at 30 June 2020 *(unaudited)*			As at 31 December 2019			Maturity date	Interest rate
			Gross value	Impairment allowance	Total	Gross value	Impairment allowance	Total		
Loans measured at fair value										
Debt consolidation agreement	28.02.2018	609 951	225 064	n.a.	**225 064**	216 018	n.a.	**216 018**	30.06.2033	fixed
Loans measured at amortized cost										
VAT loan	11.04.2018	15 000	15 018	(112)	**14 906**	5 109	(110)	**4 999**	30.09.2020	WIBOR 1M+mark-up
Other loans	30.03.2018	7 290	8 232	(231)	**8 001**	7 955	(218)	**7 737**	30.06.2033	fixed
	19.12.2018	9 500	9 517	(268)	**9 249**	9 197	(252)	**8 945**		
	12.03.2019	5 175	5 682	(160)	**5 522**	5 485	(150)	**5 335**		
	20.02.2020	59 175	59 458	(1 671)	**57 787**	-	-	**-**		
Total			**322 971**	**(2 442)**	**320 529**	**243 764**	**(730)**	**243 034**		
Non-current			307 953	(2 330)	**305 623**	238 655	(620)	**238 035**		
Current			15 018	(112)	**14 906**	5 109	(110)	**4 999**		

Under the agreement consolidating the borrower's debt of 28 February 2018 for the total amount of PLN 609 951 thousand, all existing liabilities of Elektrociepłownia Stalowa Wola S.A. towards the Company resulting from the loans granted and not repaid by 28 February 2018 were renewed. As at the balance sheet date, the nominal amount of the loan is PLN 310 851 thousand (the capital of PLN 299 100 thousand was repaid on 30 April 2018). The debt in question is subordinated debt, valued as at the balance sheet date at fair value of PLN 225 064 thousand.

Taking into account the impact of the epidemiological situation related to COVID-19 resulted decreasing the fair value of the agreement consolidating the debt by the amount of PLN 3 720 thousand and an increase in revaluation write-offs on loans measured at amortised cost by PLN 1 414 thousand. The estimates taking into account the uncertainties relating to the effect of the impact of COVID-19 on the value of loans granted Elektrociepłownia Stalowa Wola S.A. are further described in Note 6.1 of these interim condensed consolidated financial statements.

The increase in the gross value of the VAT loan in the amount of PLN 9 909 thousand results mainly from granting of loan tranches by the Company in the 6-month period ended 30 June 2020 in the total amount of PLN 13 600 thousand and repayment of the loan tranche by Elektrociepłownia Stalowa Wola S.A. in the amount of PLN 3 700 thousand.

On 20 February 2020, the Company and Elektrociepłownia Stalowa Wola S.A. entered into a loan agreement of up to PLN 59 175 thousand to finance liabilities related mainly to the completion of the construction of the gas-steam unit and the Back-Up Heat Source in Stalowa Wola. A security for the repayment of the loan, accrued interest, costs and other amounts due to the Company under the agreement is a blank promissory note of the borrower together with a promissory note declaration. As at the balance sheet date, the balance of the loan granted was equal to the maximum amount resulting from the agreement in question.

24. Other financial assets

	As at 30 June 2020 *(unaudited)*	As at 31 December 2019
Derivative instruments	407 659	105 529
Variation margin deposits arising from stock exchange transactions	117 092	25 113
Initial deposits arising from stock exchange transactions	53 292	184 353
Shares	106 412	140 508
Bid bonds, deposits and collateral transferred	60 993	131 192
Deposits and term deposits for Mining Decommissioning Fund	53 810	50 228
Receivables due to financial compensation for traiding companies	-	151 114
Investment fund units	-	26 622
Loans granted	12 339	12 451
Other	31 208	7 447
Total	**842 805**	**834 557**
Non-current	200 699	235 522
Current	642 106	599 035

(in PLN thousand)

Assets on account of positive valuation of derivatives refer to commodity derivatives (including a significant part of forwards on account of transactions for which the underlying commodity are CO_2 emission allowances) and currency forwards. Due to the market situation in the current reporting period related mainly to COVID-19, significant changes in commodity derivative prices and weakening of the Polish zloty, in the 6-month period ended 30 June 2020 there was an increase in assets due to valuation of the above derivatives compared to the end of 2019. Derivatives have been presented in detail in Note 46.2 hereto.

Variation and initial margins are related mostly to futures transactions on the CO_2 emissions allowances concluded on foreign regulated markets. The change in the value of margins compared to the comparable period results mainly from the Company's position on the stock exchange as at the balance sheet date and, in the case of variation margins, also from a significant increase in the prices of allowances. Variation margins stated as cash paid by the Company arising from current stock exchange transitions, due to change in valuation of futures contracts, open as at the end of reported period.

As at 30 June 2020 and 31 December 2019 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 30 528 thousand;
- ECC Magenta Sp. z o.o. 2 ASI SKA, in the amount of PLN 14 855 thousand.
- PGE EJ 1 Sp. z o.o., in the amount of PLN 14 402 thousand;
- ElectroMobility Poland S.A., in the amount of PLN 11 847 thousand;
- AVAL-1 Sp. z o.o., in the amount of PLN 10 375 thousand;

The decrease in the value of shares is related to the reclassification of the assets of the subsidiary TAURON Ciepło Sp. z o.o. to assets classified as held for sale, as a result of which the shares held in other companies were recognised in the asset item classified as held for sale.

The value of bid bonds, security deposits and collaterals transferred relates mainly to collaterals transferred under the settlement guarantee system of the Commodity Clearing House (WCCH). As at 30 June 2020, the hedges on this account amounted to PLN 44 066 thousand and as at 31 December 2019 – PLN 82 607 thousand.

Receivables from compensation for trading companies for the fourth quarter of 2019 in the amount of PLN 151 114 thousand, due to trading companies under *the Act on Amending the Excise Tax Act and certain other acts* was received in full within the 6-month period ended 30 June 2020.

25. Other non-financial assets

25.1. Other non-current non-financial assets

	As at 30 June 2020 *(unaudited)*	As at 31 December 2019
Prepayments for assets under construction and intangible assets *including:*	73 214	79 296
related to project realization: Construction of 910 MW Power Unit in Jaworzno	*69 458*	*74 774*
Prepayments for debt charges	11 204	10 767
Contract acquisition costs and costs of discounts	8 936	3 365
Other prepayments	37 188	58 860
Total	**130 542**	**152 288**

(in PLN thousand)

25.2. Other current non-financial assets

	As at 30 June 2020 *(unaudited)*	As at 31 December 2019
Costs settled over time	**88 455**	**87 416**
IT, telecom and postal services	21 047	24 449
Property and tort insurance	28 413	45 222
Contract acquisition costs and costs of discounts	18 087	8 399
Prepayments for debt charges	4 583	3 796
Other prepayments	16 325	5 550
Other current non-financial assets	**53 242**	**12 859**
Advance payments for deliveries	4 103	3 521
Surplus of Social Benefit Foud assets over liabilities	-	825
Transfers made to the Social Benefit Fund	34 218	-
Other current assets	14 921	8 513
Total	**141 697**	**100 275**

26. Deferred income tax

	As at 30 June 2020 *(unaudited)*	As at 31 December 2019
difference between tax base and carrying amount of property, plant and equipment, intangible assets and right-of-use assets	1 875 871	1 880 816
difference between tax base and carrying amount of financial assets	93 677	48 137
different timing of recognition of sales revenue for tax purposes	278 765	327 914
difference between tax base and carrying amount of energy certificates	11 926	17 623
other	50 181	66 780
Deferred tax liabilities	**2 310 420**	**2 341 270**
provisions and accruals	588 215	665 886
difference between tax base and carrying amount of property, plant and equipment, intangible assets and right-of-use assets	505 887	495 875
power infrastructure received free of charge and received connection fees	4 549	7 859
difference between tax base and carrying amount of financial assets and financial liabilities	411 227	292 771
different timing of recognition of sales revenue and cost of sales for tax purposes	208 528	277 964
tax losses	12 579	6 533
other	20 733	11 185
Deferred tax assets	**1 751 718**	**1 758 073**
Impairment of deferred tax assets	(249 402)	-
Deferred tax assets after impairment	**1 502 316**	**1 758 073**
After setting off balances at the level of individual Group companies, deferred tax for the Group is presented as:		
Deferred tax asset	**27 681**	**22 088**
Deferred tax liability	**(835 785)**	**(605 285)**

As at 30 June 2020 and 31 December 2019, the deferred tax assets was set off against deferred tax liability of companies from the Tax Group of Companies ("TGC") due to the fact that the said companies had filed a combined tax return under the agreements Tax Group of Companies.

In the 6-month period ended 30 June 2020, the Group recognized a revaluation write-off on the company's deferred tax assets relating to the Mining segment in the amount of PLN 249 402 thousand, which is described in more detail in Note 15 to these interim condensed consolidated financial statements. The recognition of the above write-down results, among others, from the assumptions adopted for the analysis of the recoverability of the deferred tax asset as of the composition of the possible future Tax Capital Group within which TAURON Wydobycie S.A. was not included.

(in PLN thousand)

27. Inventories

	As at 30 June 2020 *(unaudited)*	As at 31 December 2019
Gross value		
Coal, *of which:*	513 052	557 472
Raw materials	*123 503*	*253 514*
Semi-finished goods and work-in-progress	*383 417*	*295 471*
CO_2 emission allowances	21 063	-
Other inventories	158 494	137 906
Total	**692 609**	**695 378**
Measurement to fair value		
CO_2 emission allowances	4 285	-
Measurement to net realisable value		
Coal	(519)	-
Other inventories	(4 652)	(11 226)
Total	**(886)**	**(11 226)**
Fair value		
CO_2 emission allowances	25 348	-
Net realisable value		
Coal, *of which:*	512 533	557 472
Raw materials	*123 503*	*253 514*
Semi-finished goods and work-in-progress	*383 417*	*295 471*
Other inventories	153 842	126 680
Total	**691 723**	**684 152**

28. Receivables from buyers

	As at 30 June 2020 *(unaudited)*	As at 31 December 2019
Value of items before allowance/write-down		
Receivables from buyers	1 446 887	1 616 813
Receivables from buyers – additional assessment of revenue from sales of electricity and distribution services	715 847	689 395
Receivables claimed at court	181 378	213 900
Total	**2 344 112**	**2 520 108**
Allowance/write-down		
Receivables from buyers	(46 492)	(39 655)
Receivables claimed at court	(181 378)	(189 707)
Total	**(227 870)**	**(229 362)**
Value of item net of allowance (carrying amount)		
Receivables from buyers	1 400 395	1 577 158
Receivables from buyers – additional assessment of revenue from sales of electricity and distribution services	715 847	689 395
Receivables claimed at court	-	24 193
Total, *of which:*	**2 116 242**	**2 290 746**
Current	2 116 237	2 290 746

Taking into account the impact of COVID-19 on the level of write-offs for expected credit losses of receivables from customers resulted in an increase of the above write-downs by PLN 5 598 thousand, which is described in more detail in Note 6.1 hereto.

(in PLN thousand)

29. Receivables arising from other taxes and charges

	As at 30 June 2020 *(unaudited)*	As at 31 December 2019
VAT receivables	126 697	362 745
Excise duty receivables	8 876	10 974
Other	3 794	10 995
Total	**139 367**	**384 714**

The decrease in VAT receivables results mainly from the settlement of VAT receivables as at 31 December 2019 in the companies of the Generation segment in the 6-month period ended 30 June 2020, resulting from transactions of acquisition of CO_2 emission allowances by these companies from the Parent Company.

30. Cash and cash equivalents

	As at 30 June 2020 *(unaudited)*	As at 31 December 2019
Cash at bank and in hand	617 132	1 231 112
Short-term deposits (up to 3 months)	17 553	4 898
Other	152	1 942
Total cash and cash equivalents presented in the statement of financial position, *of which*:	**634 837**	**1 237 952**
restricted cash, *including:*	269 321	729 450
collateral of settlements with Izba Rozliczeniowa Giełd Towarowych S.A.	*181 532*	*599 059*
bank accounts related to subsidies received	*46 595*	*71 606*
cash on VAT bank accounts (split payment)	*40 241*	*58 428*
Bank overdraft	(13 101)	(23 339)
Cash pool	(22 063)	(10 973)
Cash reclassifed to assets held for sale	4 935	-
Foreign exchange	71	(39)
Total cash and cash equivalents presented in the statement of cash flows	**604 679**	**1 203 601**

The decrease of the balance of restricted cash resources in relation to the comparable period in total amount of PLN 460 129 thousand concerns mainly the clearings with the Warsaw Commodity Clearing House (decrease of the cash balance by the amount of PLN 417 527 thousand) and results from decrease of the value of required collateral margins and establishment of further non-monetary collaterals for the benefit of the Warsaw Commodity Clearing House, which is described in more detail in Note 50 hereto.

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.

(in PLN thousand)

31. Assets held for sale and liabilities related to assets held for sale

	As at 30 June 2020 *(unaudited)*	As at 31 December 2019
Disposal group assets classified as held for sale, *including:*	1 704 518	-
Property, plant and equipment	1 385 068	-
Right-of-use assets	89 383	-
Other non-current assets	*56 460*	-
Inventories	*87 019*	-
Receivables from buyers	*55 126*	-
Other current assets	*31 462*	-
Other non-current assets classified as held for sale	26 486	22 710
Total	**1 731 004**	**22 710**
	-	-
Disposal group liabilities classified as held for sale, *including:*	361 518	-
Accruals, deferred income and government grants	95 302	-
Other non-current liabilities	*82 392*	-
Provisions for liabilities due to energy certificates and CO_2 emission allowances	*59 597*	-
Other provisions	*48 035*	-
Other current liabilities	*76 192*	-
Other liabilities directly related to non-current assets classified as held for sale	8 696	8 936
Total	**370 214**	**8 936**

The disposal group classified as held for sale are the net assets of TAURON Ciepło Sp. z o.o., which is described in more detail in Note 16 of these interim condensed consolidated financial statements.

As at the balance sheet date, the Group assessed that in relation to the assets and liabilities of TAURON Ciepło Sp. z o.o., the conditions of IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* were met as regards the classification of the above assets as a disposal group held for sale, in particular, the net assets are, in the Company's opinion, available for immediate sale in their current condition, taking into account only normal and customary terms for sale. Therefore, the Group reclassified the assets and liabilities of TAURON Ciepło Sp. z o.o. as disposal groups to the following items, respectively: assets classified as held for sale and liabilities related to assets held for sale. As at the date of the above reclassification of the disposal group, the Group performed its valuation at fair value, which is described in more detail in Note 16 hereto. Due to the fact that the fair value is lower than the current carrying amount of the disposal group accounting to PLN 2 149 419 thousand, the Group recognized an impairment loss for non-financial fixed assets in the amount of PLN 806 419 thousand, which decreased the value of:

- property, plant and equipment in the amount of PLN 756 251 thousand,
- right-of-use assets in the amount of PLN 48 803 thousand,
- intangible assets in the amount of PLN 1 365 thousand.

32. Equity

32.1. Issued capital

Issued capital as at 30 June 2020 *(not audited)*

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 2020, the value of issued capital, the number of shares and the nominal value of shares had not changed as compared to 31 December 2019.

(in PLN thousand)

Shareholding structure as at 30 June 2020 and as at 31 December 2019 *(to the best of the Company's knowledge)*

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 Otwarty Fundusz Emerytalny	88 742 929	443 715	5.06%	5.06%
Other shareholders	954 847 515	4 774 237	54.49%	54.49%
Total	**1 752 549 394**	**8 762 747**	**100%**	**100%**

32.2. Shareholder rights

The voting rights of the shareholders holding more than 10% of the total votes in the Company have been limited in such a manner that none of them is entitled to exercise the right to more than 10% of votes at the General Shareholders' Meeting of the Company.

The voting right limitation mentioned above does not apply to the State Treasury and State Treasury owned companies in the period when the State Treasury and State Treasury owned companies hold shares in the Company entitling to not less than 25% of the total votes in the Company.

32.3. Reserve capital

	As at 30 June 2020 *(unaudited)*	As at 31 December 2019
Amounts subject to distribution	**4 886 520**	**4 886 520**
Amounts from distribution of prior years profits	4 886 520	4 886 520
Non-distributable amounts	**1 915 064**	**1 915 064**
Decrease in the value of issued capital	1 680 184	1 680 184
Settlement of mergers with subsidiaries	234 880	234 880
Total reserve capital	**6 801 584**	**6 801 584**

32.4. Revaluation reserve from valuation of hedging instruments

	6-month period ended 30 June 2020 *(unaudited)*	6-month period ended 30 June 2019 *(unaudited)*
Opening balance	**15 666**	**3 371**
Remeasurement of hedging instruments	(131 478)	(3 373)
Remeasurement of hedging instruments charged to profit or loss	(267)	10
Deferred income tax	25 032	639
Closing balance	**(91 047)**	**647**

The revaluation reserve from valuation of hedging instruments results from valuation of Interest Rate Swaps (IRS) hedging the interest rate risk arising from debt, which has been discussed in more detail in Note 46.2 to these interim condensed consolidated financial statements. For concluded hedging transactions covered by the financial risk management policy, the Company applies hedge accounting.

As at 30 June 2020, the Company recognised PLN (91 047) thousand of revaluation reserve from valuation of hedging instruments. It represents a liability arising from valuation of interest rate swaps as at the end of the reporting period, totalling PLN 112 550 thousand, adjusted by a portion of valuation relating to interest accrued on debt as at the end of the reporting period, including deferred tax.

32.5. 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 2020 and as at the date of approving these interim condensed consolidated financial statements for publication no other dividend restriction occurred.

(in PLN thousand)

On 29 March 2020, the Management Board of TAURON Polska Energia S.A. adopted a resolution on submitting a motion to the Ordinary General Meeting of TAURON Polska Energia S.A. to cover the Company's net loss for the financial year 2019 in the amount of PLN 462 830 thousand from the Company's reserve capital. After the balance sheet date, on 15 July 2020, the Ordinary General Meeting of Shareholders of the Company adopted a resolution in accordance with the recommendation of the Management Board.

32.6. Non-controlling interest

The non-controlling interest of PLN 899 840 thousand relates mainly to the shares in the share capital of the subsidiary Nowe Jaworzno Grupa TAURON Sp. z o.o. taken up by the Infrastructure Investments Fund - Closed-end Private Assets Capital Investment Fund and PFR Inwestycje Fundusz Inwestycji Zamkniętych totaling PLN 880 000 thousand.

32.7. Dividends paid and proposed

In the 6-month period ended 30 June 2020 and in the comparative period, the Company did not propose to pay or pay any dividends to its shareholders.

33. Debt

	As at 30 June 2020 *(unaudited)*	As at 31 December 2019
Unsubordinated bonds	4 520 774	4 343 595
Subordinated bonds	1 986 990	1 913 427
Loans and borrowings	6 202 860	7 050 651
Lease liabilities	944 026	1 006 603
Total	**13 654 650**	**14 314 276**
Non-current	13 177 984	11 830 183
Current	476 666	2 484 093

33.1. Loans and borrowings

Loans and borrowings taken out as at 30 June 2020 *(not audited)*

Currency	Interest rate	Value of loans and borrowings as at the balance sheet date		of which maturing within *(after the balance sheet date)*:					
		currency	PLN	less than 3 months	3-12 months	1-2 years	2-3 years	3-5 years	over 5 years
PLN	floating	5 026 908	5 026 908	24 133	3 166	4 059	3 250 427	847 209	897 914
	fixed	1 138 103	1 138 103	34 640	123 147	157 789	108 372	655 993	58 162
Total PLN		**6 165 011**	**6 165 011**	**58 773**	**126 313**	**161 848**	**3 358 799**	**1 503 202**	**956 076**
EUR	floating	2 934	13 101	13 101	-	-	-	-	-
Total EUR		**2 934**	**13 101**	**13 101**	**-**	**-**	**-**	**-**	**-**
Total			**6 178 112**	**71 874**	**126 313**	**161 848**	**3 358 799**	**1 503 202**	**956 076**
Interest increasing carrying amount			24 748						
Total			**6 202 860**						

Loans and borrowings taken out as at 31 December 2019

Currency	Interest rate	Value of loans and borrowings as at the balance sheet date		of which maturing within *(after the balance sheet date)*:					
		currency	PLN	less than 3 months	3-12 months	1-2 years	2-3 years	3-5 years	over 5 years
PLN	floating	6 313 602	6 313 602	1 617 085	503 014	4 135	3 191 792	99 806	897 770
	fixed	690 834	690 834	34 590	122 114	156 704	108 082	196 712	72 632
Total PLN		**7 004 436**	**7 004 436**	**1 651 675**	**625 128**	**160 839**	**3 299 874**	**296 518**	**970 402**
EUR	floating	5 304	22 585	22 585	-	-	-	-	-
Total EUR		**5 304**	**22 585**	**22 585**	**-**	**-**	**-**	**-**	**-**
USD	floating	198	754	754	-	-	-	-	-
Total USD		**198**	**754**	**754**	**-**	**-**	**-**	**-**	**-**
Total			**7 027 775**	**1 675 014**	**625 128**	**160 839**	**3 299 874**	**296 518**	**970 402**
Interest increasing carrying amount			22 876						
Total			**7 050 651**						

(in PLN thousand)

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 2020 *(unaudited)*	As at 31 December 2019
Loans	Consortium of banks	Redemption of bonds, investment expenditures and general expenses of the Group	Floating	28.06.2020 *	-	1 839 159
				02.09.2020 *	151 439	151 376
				10.09.2020 *	302 653	302 555
				01.10.2020 *	603 407	604 070
				14.10.2020 *	301 151	301 714
				31.01.2020	-	502 358
				30.04.2020	-	502 330
				28.02.2020	-	501 195
				13.01.2020	-	600 868
				14.04.2021*	602 189	-
				30.04.2021*	200 558	-
				29.06.2021*	1 098 948	-
Loans	Bank Gospodarstwa Krajowego	Group's capital expenditures and refinancing of a portion of debt	Floating	20.12.2033	998 086	998 458
Loans	European Investment Bank	Construction of a boiler fired with biomass at Jaworzno III Power Plant and renovation of a steam turbine	Fixed	15.12.2021	40 710	40 047
		Construction and start-up of a co-generation unit at EC Bielsko Biała	Fixed	15.12.2021	58 214	57 294
		Modernization and extension of power grid	Fixed	15.06.2024	156 557	175 298
			Fixed	15.09.2024	80 994	89 820
			Fixed	15.09.2024	101 557	112 661
		Modernization and extension of power grid and improvement of hydropower plants	Fixed	15.03.2027	204 972	219 415
Loans	Intesa Sanpaolo S.P.A.	Group's investment expenditure, except for financing or refinancing projects related to coal assets	Floating	19.12.2024	252 294	-
					252 168	-
					251 696	-
Loans	SMBC BANK EU AG	Group's general corporate expenses, excluding financing and refinancing of coal-fired power plants	Fixed	23.03.2025	498 676	-
Overdraft facility	Bank Gospodarstwa Krajowego	financing of CO_2 emission allowance, electricity and gas transactions on EU stock exchanges	Floating	31.12.2020	13 101	20 456
Borrowings	Regional Fund for Environmental Protection and Water Management	Construction of renewable power unit at Jaworzno III Power Plant	Floating	15.12.2022	11 047	12 000
Other loans and borrowings					22 443	19 577
Total					**6 202 860**	**7 050 651**

** Tranche classified as a long-term liability*

Pursuant to the provisions of the credit agreement of 19 June 2019 concluded with the Bank Consortium, the maximum period for drawing down individual credit tranches is 12 months. However, the financing available under the agreement is revolving, and its availability period is the end of 2022. All the tranches as at 30 June 2020 and some tranches as at 31 December 2019 were drawn with a 12-month repayment term. Due to the intention and ability to maintain financing under the said agreement for a period exceeding 12 months from the balance sheet date with respect to credit tranches with a 12-month repayment date, this liability is presented as a long-term liability. The remaining tranches with an original maturity of less than 1 year are classified as short-term liabilities in accordance with the contractual repayment date (as at 30 June 2020, all tranches were contracted with a 12-month repayment date).

The change in the balance of loans and borrowings without interest increasing the carrying amount in the 6-month period ended 30 June 2020 and in the comparative period is presented in the table below.

(in PLN thousand)

	6-month period ended 30 June 2020 *(unaudited)*	6-month period ended 30 June 2019 *(unaudited)*
Opening balance	**7 027 775**	**881 582**
Movement in bank overdrafts and cash pool loans received	**(4 369)**	**2 295**
Movement in other loans and borrowings:	**(845 294)**	**2 781 972**
Repaid	(7 096 380)	(58 580)
Taken*	6 243 926	997 446
Replacing bond issue scheme with loan arrangement*	-	1 837 822
Change in valuation	7 160	5 284
Closing balance	**6 178 112**	**3 665 849**

** Inclusive of the borrowing costs*

In the 6-month period ended 30 June 2020 the Group made the following loan and borrowing transaction (at nominal value), excluding overdraft facilities:

Lender	Description	6-month period ended 30 June 2020 *(unaudited)*	
		Drawdown	Repayment
Consortium of banks	Drawdown of new tranches and repayment of tranches according to credit agreement deadline	5 000 000	(7 039 600)
Intesa Sanpaolo S.P.A.	Drawdown of 3 tranches of PLN 250 000 thousand each (total available financing)	750 000	
SMBC BANK EU AG	Drawdown of total of available financing	500 000	
European Investment Bank	Repayment of capital instalments according to schedule		(55 659)
Other borrowings			(1 121)
Total, *including:*		**6 250 000**	**(7 096 380)**
Cash flows		2 200 000	(3 046 380)
Net settlement (without cash flow)		4 050 000	(4 050 000)

Credit agreement with bank SMBC BANK EU AG

On 16 March 2020, TAURON Polska Energia S.A. concluded a credit agreement with SMBC BANK EU AG for the amount of PLN 500 000 thousand, from which funds may be used to finance the Group's general corporate objectives, excluding the construction, purchase, expansion of coal-fired power plants and refinancing of any financial commitments or expenses incurred for such purposes.

On 23 March 2020, the Company drew down funds under the agreement in the amount of PLN 500 000 thousand.

Syndicated loan agreement

On 25 March 2020, TAURON Polska Energia S.A. concluded a syndicated credit agreement for the amount of PLN 500 000 thousand with Banca IMI S.P.A., London Branch, Banca IMI S.P.A., Intesa Sanpaolo S.P.A. acting through Intesa Sanpaolo S.P.A. S.A. Branch in Poland and China Construction Bank (Europe) S.A. acting through China Construction Bank (Europe) S.A. (Joint-Stock Company) Branch in Poland.

The funds under the loan agreement may be used to finance the general corporate objectives of the Company and the TAURON Group, excluding financing of any new projects related to coal assets.

According to the loan agreement, the financing period is 5 years from the date of conclusion of the loan agreement with the possibility of double extension by one year, i.e. up to a maximum of 7 years ("Financing Period"). The Company will be able to use the funds during the entire Financing Term (upon satisfaction of conditions precedent standard for this type of financing). The interest rate will be calculated on the basis of a variable WIBOR rate appropriate for a given interest period, increased by a margin depending, among other things, on the degree of utilization of the loan and the fulfilment of environmentally friendly contractual conditions, i.e. reduction of the emission volume and increase of the share of renewable energy sources in the TAURON Group's generation structure.

As at the balance sheet date and until the date of approval for publication of these interim condensed consolidated financial statements, the Company has not incurred any liabilities under the above agreement.

(in PLN thousand)

Bank overdrafts

As at 30 June 2020 the balance of overdraft facilities amounted to PLN 13 101 thousand (as at 31 December 2019 PLN 23 339 thousand). The available financing and the balance of overdraft facilities of TAURON Polska Energia S.A. broken down into individual agreements for individual balance sheet dates is presented in the table below.

	Bank	Purpose	Currency	Currency financing available	Repayment date	As at 30 June 2020 *(unaudited)*		As at 31 December 2019	
						currency	PLN	currency	PLN
intraday limit	PKO BP	intraday limit	PLN	300 000	17.12.2020		-		-
overdraft facility	PKO BP	financing of ongoing operations	PLN	300 000	29.12.2020		-		-
	BGK	financing of CO_2 emission allowance, electricity and gas transactions on EU stock exchanges	EUR	45 000	31.12.2020	2 934	13 101	4 804	20 456
	mBank	financing of security deposits and commodity transactions	USD	200	31.03.2020	-	-	198	754
Total							**13 101**		**21 210**

33.2. Bonds issued

Bonds issued as at 30 June 2020 *(not audited)*

Issuer	Investor	Interest	Currency	Bonds at nominal value in currency	Maturity date	As at balance sheet date			of which maturing within *(after the balance sheet date):*			
						Total carrying amount	Interest accrued	Principal at amortised cost	up to 1 year	1-2 years	2-5 years	Over 5 years
TAURON Polska Energia S.A.	Bank Gospodarstwa Krajowego	floating, based on WIBOR 6M	PLN	800 000	2021-2028	799 233	416	798 817	-	99 929	299 620	399 268
				630 000	2021-2029	630 062	324	629 738	-	69 985	209 925	349 828
	BNP Paribas Bank Polska S.A.[1]	floating, based on WIBOR 6M	PLN	6 300	9.11.2020	6 315	17	6 298	6 298	-	-	-
				51 000	29.12.2020	50 987	4	50 983	50 983	-	-	-
	Eurobonds	fixed	EUR	500 000	5.07.2027	2 272 230	52 454	2 219 776	-	-	-	2 219 776
Finanse Grupa TAURON Sp. z o.o.	International investors	fixed	EUR	168 000	3.12.2029	761 947	15 324	746 623	-	-	-	746 623
Unsubordinated bonds						**4 520 774**	**68 539**	**4 452 235**	**57 281**	**169 914**	**509 545**	**3 715 495**
TAURON Polska Energia S.A.	Bank Gospodarstwa Krajowego	floating, based on WIBOR 6M	PLN	400 000	29.03.2031[3]	399 941	517	399 424	-	-	-	399 424
	European Investment Bank	fixed[2]	EUR	190 000	16.12.2034[3]	821 373	21 156	800 217	-	-	800 217	-
			PLN	400 000	17.12.2030[3]	408 600	16 321	392 279	-	-	-	392 279
			PLN	350 000	19.12.2030[3]	357 076	13 835	343 241	-	-	-	343 241
Subordinated bonds						**1 986 990**	**51 829**	**1 935 161**	**-**	**-**	**800 217**	**1 134 944**
Total bonds issued						**6 507 764**	**120 368**	**6 387 396**	**57 281**	**169 914**	**1 309 762**	**4 850 439**

[1] Bond Issue Scheme dated 24 November 2015
[2] In the case of hybrid (subordinated) financing - bonds covered by the European Investment Bank, two periods are distinguished. In the first period the interest rate is fixed, while in the second period the interest rate is variable based on the base rate (EURIBOR/WIBOR) plus a fixed margin.
[3] In the case of subordinated bonds, the maturity shall take into account the two financing periods referred to below. The redemption dates presented in the table above are the final contractual redemption dates after two financing periods. The valuation of bonds as at the balance sheet date takes into account the earlier redemption, due to the intention to redeem the bonds after the first financing period. The ageing takes into account the repayment estimate after the first financing period.

Bonds issued as at 31 December 2019

Issuer	Investor	Interest	Currency	Bonds at nominal value in currency	Maturity date	As at balance sheet date			of which maturing within *(after the balance sheet date):*			
						Total carrying amount	Interest accrued	Principal at amortised cost	up to 1 year	1-2 years	2-5 years	Over 5 years
TAURON Polska Energia S.A.	Bank Gospodarstwa Krajowego	floating, based on WIBOR 6M	PLN	800 000	2021-2028	799 551	856	798 695	-	99 906	299 568	399 221
				630 000	2021-2029	630 368	657	629 711	-	69 980	209 914	349 817
	BNP Paribas Bank Polska S.A.[1]	floating, based on WIBOR 6M	PLN	3 100	25.03.2020	3 123	24	3 099	3 099	-	-	-
				6 300	9.11.2020	6 323	27	6 296	6 296	-	-	-
				51 000	29.12.2020	50 979	13	50 966	50 966	-	-	-
	Eurobonds	fixed	EUR	500 000	5.07.2027	2 140 700	24 870	2 115 830	-	-	-	2 115 830
Finanse Grupa TAURON Sp. z o.o.	International investors	fixed	EUR	168 000	3.12.2029	712 551	2 127	710 424	-	-	-	710 424
Unsubordinated bonds						**4 343 595**	**28 574**	**4 315 021**	**60 361**	**169 886**	**509 482**	**3 575 292**
TAURON Polska Energia S.A.	Bank Gospodarstwa Krajowego	floating, based on WIBOR 6M	PLN	400 000	29.03.2031[3]	400 123	761	399 362	-	-	-	399 362
	European Investment Bank	fixed[2]	EUR	190 000	16.12.2034[3]	771 161	1 630	769 531	-	-	769 531	-
			PLN	400 000	17.12.2030[3]	395 901	1 243	394 658	-	-	-	394 658
			PLN	350 000	19.12.2030[3]	346 242	922	345 320	-	-	-	345 320
Subordinated bonds						**1 913 427**	**4 556**	**1 908 871**	**-**	**-**	**769 531**	**1 139 340**
Total bonds issued				**-**		**6 257 022**	**33 130**	**6 223 892**	**60 361**	**169 886**	**1 279 013**	**4 714 632**

[1] Bond Issue Scheme dated 24 November 2015

(in PLN thousand)

[2] In the case of hybrid (subordinated) financing - bonds covered by the European Investment Bank, two periods are distinguished. In the first period the interest rate is fixed, while in the second period the interest rate is variable based on the base rate (EURIBOR/WIBOR) plus a fixed margin.
[3] In the case of subordinated bonds, the maturity shall take into account the two financing periods referred to below. The redemption dates presented in the table above are the final contractual redemption dates after two financing periods. The valuation of bonds as at the balance sheet date takes into account the earlier redemption, due to the intention to redeem the bonds after the first financing period. The ageing takes into account the repayment estimate after the first financing period.

The Company has issued unsecured coupon bonds priced at the nominal value, except for Eurobonds with the issue price accounting for 99.44% of the nominal value. The eurobonds have been admitted to trading on the London Stock Exchange.

Bonds acquired by the European Investment Bank ("EIB") are subordinated, which means that they have priority of satisfaction only before the amounts due to the Company's shareholders in the event of its bankruptcy or liquidation. This in turn has a positive impact on the Company's financial stability, as the bonds are excluded from the calculation of the net debt/EBITDA ratio, which is a covenant in some financing agreements concluded by the Company. Additionally, 50% of the subordinated bond amount has been classified by the rating agency as equity in the rating model, which has had a beneficial effect on the rating of the TAURON Group.

In the case of bonds covered by the EIB, two financing periods are distinguished. The Company cannot early buy-back the bonds in the first (non-call) period, nor can EIB early sell them to third parties (in both cases except for cases indicated in the subscription agreement). The interest rate during this period is fixed, while after the non-call period the interest rate is variable based on the base rate (WIBOR for bonds issued in PLN and EURIBOR for bonds issued in EUR) plus a fixed margin. In the case of bonds issued in PLN, the maturity date was set at 12 years from the issue date, i.e. 17 and 19 December 2030, while according to the characteristics of hybrid financing, the first financing period was defined as 7 years and the next one as 5 years. In the case of bonds issued in EUR, the maturity date was set at 18 years from the issue date, i.e. 16 December 2034, while according to the characteristics of hybrid financing, the first financing period was defined as 8 years and the next one as 10 years.

The bonds issued under the agreement of 6 September 2017 concluded with Bank Gospodarstwa Krajowego with a nominal value of PLN 400 000 thousand are also of a subordinated nature. In the case of these bonds, two periods are also distinguished. In the first 7-year period (the so-called non-call), it is not possible for the Company to redeem the bonds early and it is not possible for BGK to sell them to third parties (in both cases, subject to exceptions specified in the documentation). The interest rate is variable based on WIBOR 6M plus a fixed margin, with the margin being additionally increased after the 7-year financing period.

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

	6-month period ended 30 June 2020 *(unaudited)*	6-month period ended 30 June 2019 *(unaudited)*
Opening balance	**6 223 892**	**10 034 904**
Issue*	-	499 312
Redemption	(3 100)	(670 000)
Replacing bond issue scheme with loan arrangement	-	(1 839 600)
Change in valuation	166 604	(47 621)
Closing balance	**6 387 396**	**7 976 995**

** Costs of issue have been included.*

The change in the bond valuation results mainly from the foreign currency valuation of liabilities incurred in EUR.

Establishment of a bond issue scheme

On 6 February 2020, TAURON Polska Energia S.A. concluded a Scheme Agreement with Santander Bank Polska S.A., under which a bond issue scheme was established (the "Scheme").

Under the Scheme, the Company has the option to issue bonds up to a maximum of PLN 2 000 000 thousand, with the value of the issue being determined each time the decision on the issue is made. The bonds shall take the form of dematerialized, unsecured bearer securities denominated in PLN, with a maturity of 5 to 10 years (inclusive). It is the Company's intention to introduce the bonds to trading and listing in the alternative trading system Catalyst operated by the Warsaw Stock Exchange.

The funds from the bond issue will support the implementation of the Group's energy transformation, including increasing the share of low- and zero-emission sources in its generation structure.

The terms and conditions of the bond issue, including the maturity date and the amount and method of interest payment will be determined for particular series of issued bonds. The terms and conditions of the bonds issued under the Scheme will include sustainable development indicators in the form of the CO_2 emission reduction index and the RES capacity increase index. The level of realization of specific threshold values of these indicators will affect the level of interest margin of the bonds. Final decisions on individual bond issues under the Scheme will be approved by appropriate corporate approvals of the Company and will depend on market conditions.

(in PLN thousand)

As at the balance sheet date and until the date of approval of these interim condensed consolidated financial statements for publication, the Company has not issued any bonds under the Scheme.

33.3. Debt agreement covenants

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 long-term credit agreements and the domestic bond issue schemes) which sets the debt less cash in relation to generated EBITDA. The permissible limit value of the net debt/EBITDA ratio is 3.5. The net debt/EBITDA ratio is calculated on the basis of consolidated data.

As of 30 June 2020, the net debt/EBITDA ratio was 2,66, therefore, the covenant was not exceeded.

The other terms and conditions of the financing agreements were also not affected.

33.4. Liabilities under lease

	As at 30 June 2020 *(unaudited)*	As at 31 December 2019
Within 1 year	117 450	110 893
Within 1 to 5 years	290 282	309 789
Within 5 to 10 years	283 384	298 093
Within 10 to 20 years	487 685	500 368
More than 20 years	602 411	708 324
Gross lease liabilities	**1 781 212**	**1 927 467**
Discount	(837 186)	(920 864)
Present value of lease payments	**944 026**	**1 006 603**
Lease agreements that do not meet the conditions for recognition as a finance lease as defined in the financing agreements	944 026	1 006 603
Lease contracts included in the covenant calculation (as defined in financing contracts)	**-**	**-**

34. Provisions for employee benefits

	As at 30 June 2020 *(unaudited)*	As at 31 December 2019
Provision for post-employment benefits and jubilee bonuses	980 672	1 397 489
Provision for employment termination benefits and other provisions for employee benefits	39 577	34 409
Total	**1 020 249**	**1 431 898**
Non-current	917 885	1 313 480
Current	102 364	118 418

(in PLN thousand)

34.1. Provisions for post-employment benefits and jubilee bonuses

6 month-period ended 30 June 2020 *(not audited)*

	Provision for retirement, disability and similar benefits	Employee electricity rates	Social Fund	Jubilee bonuses	Provisions, total
Opening balance	**378 423**	**450 154**	**119 410**	**449 502**	**1 397 489**
Current service costs	13 917	6 063	2 294	19 513	**41 787**
Actuarial gains and losses	9 061	79 488	13 411	11 324	**113 284**
Benefits paid	(7 508)	(5 970)	(2 065)	(14 384)	**(29 927)**
Past-service costs	-	(533 319)	-	-	**(533 319)**
Interest expense	3 554	3 584	1 216	4 236	**12 590**
Reclassification to liabilities associated with assets held for sale	(21 232)	-	-	-	**(21 232)**
Closing balance	**376 215**	**-**	**134 266**	**470 191**	**980 672**
Non-current	349 519	-	130 264	423 783	**903 566**
Current	26 696	-	4 002	46 408	**77 106**

The costs of past employment result from agreements concluded in May 2020 between the management boards of selected subsidiaries and representative trade unions and signed additional protocols amending the company collective labour agreements in those companies. On the basis of additional protocols, changes were introduced in the scope of cash equivalent payments for the reduced use of electricity by pensioners, disability pensioners and other entitled persons who are not employees of the above companies, which in the meaning of the regulation of IAS 19 *Employee Benefits* were the basis for the release of provisions for the employee tariff.

The total impact of the above-mentioned changes on the release of provisions for employee tariffs in the 6-month period ended 30 June 2020 amounted to PLN 533 319 thousand, of which PLN 299 408 thousand relating to employees as future pensioners reduced the Group's operating expenses, while PLN 233 911 thousand relating to current pensioners increased the Group's other operating income.

6 month-period ended 30 June 2019 *(not audited)*

	Provision for retirement, disability and similar benefits	Employee electricity rates	Social Fund	Jubilee bonuses	Provisions, total
Opening balance	**331 270**	**370 267**	**91 720**	**395 572**	**1 188 829**
Current service costs	7 802	4 534	1 370	11 365	**25 071**
Actuarial gains and losses	(8 340)	-	39	(9 712)	**(18 013)**
Benefits paid	(8 585)	(5 683)	(1 606)	(13 243)	**(29 117)**
Interest expense	4 462	5 355	1 282	5 245	**16 344**
Closing balance	**326 609**	**374 473**	**92 805**	**389 227**	**1 183 114**
Non-current	295 574	361 576	89 730	346 577	**1 093 457**
Current	31 035	12 897	3 075	42 650	**89 657**

Valuation of provisions for employment benefits

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

The valuation of provisions for employment benefits as at 30 June 2020 was prepared based on actuarial forecasts using a sensitivity analysis in relation to the discount rate level. The assumptions adopted by the actuary to prepare the forecast for 2020 were the same as those adopted for the valuation of provisions as at 31 December 2019. However, taking into account the fact that in the 6-month period ended 30 June 2020, the market interest rates dropped, the Group decided to apply a discount rate of 1.5% as at the balance sheet date (as at 31 December 2019 the discount rate was 2.1%). The other key actuarial assumptions as at 31 December 2019 to calculate the liability amount presented below have not changed::

(in PLN thousand)

	31 December 2019
Estimated inflation rate (%)	2.50%
Employee rotation rate (%)	0.93% - 8.98%
Estimated salary increase rate (%)	2.50%*
Estimated electricity price increase rate (%)	3.50%
Estimated increase rate for contribution to the Social Fund (%)	3.50%
Remaining average employment period	12.18 – 22.67

** Remuneration growth rate 2.5% since 2021. In 2020, the adopted remuneration growth rate for some companies differs from that adopted for the following years.*

34.2. Provisions for employment termination benefits and other provisions for employee benefits

	6-month period ended 30 June 2020 *(unaudited)*			6-month period ended 30 June 2019 *(unaudited)*		
	Voluntary redundancy schemes	Other provisions	Total	Voluntary redundancy schemes	Other provisions	Total
Opening balance	**21 032**	**13 377**	**34 409**	**31 991**	**10 658**	**42 649**
Recognition	354	7 731	**8 085**	-	853	**853**
Reversal	-	-	**-**	(13 392)	-	**(13 392)**
Utilization	(1 599)	(1 318)	**(2 917)**	(3 292)	(848)	**(4 140)**
Closing balance	**19 787**	**19 790**	**39 577**	**15 307**	**10 663**	**25 970**
Non-current	8 398	5 921	**14 319**	4 985	-	**4 985**
Current	11 389	13 869	**25 258**	10 322	10 663	**20 985**

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

	6-month period ended 30 June 2020 *(unaudited)*			6-month period ended 30 June 2019 *(unaudited)*		
	Provision for mine decommissioning costs	Provision for land restoration and dismantling and removal of fixed assets	Provisions total	Provision for mine decommissioning costs	Provision for land restoration and dismantling and removal of fixed assets	Provisions total
Opening balance	**305 885**	**194 082**	**499 967**	**202 599**	**135 878**	**338 477**
Unwinding of the discount	3 211	2 041	**5 252**	3 039	1 898	**4 937**
Discount rate adjustment	76 244	15 252	**91 496**	-	-	**-**
Recognition/(reversal), net	135	(1 095)	**(960)**	80	(13 344)	**(13 264)**
Utilisation	-	(1 069)	**(1 069)**	-	(2 018)	**(2 018)**
Closing balance	**385 475**	**209 211**	**594 686**	**205 718**	**122 414**	**328 132**
Non-current	385 078	191 814	**576 892**	205 718	103 647	**309 365**
Current	397	17 397	**17 794**	-	18 767	**18 767**
Other provisions, long-term portion			**113 387**			**85 876**
Total			**690 279**			**395 241**

35.1. 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 ("MDF"), 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 2020, the balance of the provision amounted to PLN 385 475 thousand, and the change is primarily related to the revaluation of the provision due to the change in the discount rate adopted for the calculation of the provision - a decrease in the discount rate from 2.1% to 1.5%.

(in PLN thousand)

35.2. 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 and RES segment companies:

- provision for ash pile reclamation costs, which totalled PLN 31 063 thousand as at 30 June 2020 (versus PLN 30 976 thousand as at 31 December 2019);
- provision for windfarm dismantling costs, which totalled PLN 148 174 thousand as at 30 June 2020 (versus PLN 132 860 thousand as at 31 December 2019);
- provision for costs of liquidation of fixed assets – a chimney in Elektrownia Jaworzno as well as cooling towers and a unit in Elektrownia Łagisza and amounts to PLN 29 974 thousand as at 30 June 2020 (versus PLN 30 246 thousand as at 31 December 2019).

The most significant change in the above provisions was the change in the discount rate adopted for the valuation of provisions as at the balance sheet date. Due to a decrease in the discount rate, provisions increased by PLN 15 252 thousand.

36. Provisions for liabilities due to CO_2 emission and energy certificates

	6-month period ended 30 June 2020 *(unaudited)*			6-month period ended 30 June 2019 *(unaudited)*		
	Provisions for liabilities due to CO_2 emission allowances	Provision for obligation to submit energy certificates	Provisions total	Provisions for liabilities due to CO_2 emission allowances	Provision for obligation to submit energy certificates	Provisions total
Opening balance	**772 299**	**605 934**	**1 378 233**	**111 406**	**384 066**	**495 472**
Recognition	398 865	352 870	**751 735**	318 938	275 172	**594 110**
Reversal	-	(3 336)	**(3 336)**	(76)	(3 845)	**(3 921)**
Utilisation	(776 602)	(595 661)	**(1 372 263)**	(113 646)	(373 304)	**(486 950)**
Reclassification to liabilities associated with assets held for sale	(56 473)	(3 124)	**(59 597)**	-	-	**-**
Closing balance	**338 089**	**356 683**	**694 772**	**316 622**	**282 089**	**598 711**

The increase in the cost of creating a provision for CO_2 emission liabilities in the 6-month period ended 30 June 2020 as compared to the comparable period is described in Note 12 of these interim condensed consolidated financial statements. The use of the provision in the 6-month period ended 30 June 2020 in the amount of PLN 776 602 thousand relates in full to the obligation to redeem the provision for 2019 (the Group fulfilled the entire obligation for 2019 in the first half of 2020). In the comparable period, the use of the provision relating to the obligation to redeem CO_2 emission allowances for 2018 amounted to PLN 113 646 thousand, while the remaining obligation to redeem for 2018 was already fulfilled in 2018 (PLN 498 369 thousand).

The increase in the costs of creating a provision for the obligation to present certificates of origin of energy in the 6-month period ended 30 June 2020 as compared to the comparable period is mainly related to the increase in the prices of property rights to energy from renewable sources and the increase in 2020 of the obligation to present certificates of origin of energy from renewable sources to 19.5% of the volume of electricity sold to end users.

37. Other provisions

	6-month period ended 30 June 2020 *(unaudited)*				6-month period ended 30 June 2019 *(unaudited)*			
	Provision for use of real estate without contract	Provision for onerous contracts	Provision for counterparty claims, court dispute and other provisions	Provisions total	Provision for use of real estate without contract	Provision for onerous contracts	Provision for counterparty claims, court dispute and other provisions	Provisions, total
Opening balance	**88 070**	**241 796**	**397 050**	**726 916**	**92 110**	**213 996**	**311 295**	**617 401**
Unwinding of discount	-	33	41	**74**	-	-	1 595	**1 595**
Recognition/(reversal), net	(2 504)	4 939	(21 385)	**(18 950)**	870	68 333	3 303	**72 506**
Utilisation	(158)	(96 579)	(2 428)	**(99 165)**	(210)	(100 999)	(1 944)	**(103 153)**
Other movements	(44 442)	-	(13 152)	**(57 594)**	-	-	-	**-**
Closing balance	**40 966**	**150 189**	**360 126**	**551 281**	**92 770**	**181 330**	**314 249**	**588 349**
Non-current	-	35 091	78 296	**113 387**	-	6 850	79 026	**85 876**
Current	40 966	115 098	281 830	**437 894**	92 770	174 480	235 223	**502 473**
Current portion of provisions for the costs of disassembly of fixed assets and land restoration and other provisions				**17 794**				**18 767**
Total				**455 688**				**521 240**

37.1. Provision for use of real estate without contract

The Group companies recognize provisions for all claims filed by the owners of the real estate on which distribution systems and heat installations are located. As at 30 June 2020, the relevant provision amounted to PLN 40 966 thousand and was related to the following segments:

- Generation – PLN 5 202 thousand;
- Distribution – PLN 34 641 thousand;
- Renewable Energy Sources – PLN 1 123 thousand.

The decrease in provisions is mainly related to the reclassification of provisions of the subsidiary TAURON Ciepło Sp. o.o. to liabilities related to assets classified as held for sale.

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*. Due to the classification as at the balance sheet date of the subsidiary TAURON Ciepło Sp. z o.o. as disposal group, the above provision was presented in the statement of financial position as liabilities related to assets classified as held for sale.

37.2. Provisions for onerous contracts

Provisions for onerous contracts in connection with the approval by the President of the Energy Regulatory Office ("the President of ERO") of the electricity sales tariff

As at 31 December 2019 a provision for onerous contracts was created in the amount of PLN 237 445 thousand. This provision relates primarily to households, including customers using tariff prices approved by the President of the Energy Regulatory Office ("G Tariff") in the amount of PLN 130 287 thousand and individual customers who have used the Company's product price lists ("GD price lists") in the amount of PLN 99 570 thousand.

The need to create the above provision for the G tariff resulted from the adoption of the parameters specified in the invitation of the President of ERO to calculate the sales price for these customers for 2020, the approval of which in December 2019 results in the impossibility of obtaining revenue from the sale of electricity in a value covering the justified costs of conducting business in this respect.

The price level approved by the President of ERO for tariff group G for 2020 was also an important reason for the losses incurred on GD price lists for which a reserve was created. Some product agreements in the household segment tie the electricity rates to the price of the G tariff, thus making it impossible to obtain revenue from sales in an amount ensuring coverage of full variable costs of the business.

At the same time, on 7 January 2020, the subsidiary TAURON Sprzedaż Sp. z o.o. submitted an application for the approval of the change of the electricity tariff for the consumers of tariff G-groups for 2020, which is to transfer all justified costs that were not accepted in the application approved in December 2019. By order of 8 July 2020, the President of ERO refused to approve the change in the electricity tariff for these consumers. On 29 July 2020, the Management Board of TAURON Sprzedaż sp. z o.o. appealed to the Court of Competition and Consumer Protection against the Decision of the President of the Energy Regulatory Office of 8 July 2020.

In the 6-month period ended 30 June 2020, the above provision was partially used in the amount of PLN 95 469 thousand.

Other provisions for onerous contracts

As at 31 December 2019, a provision was created for onerous contracts in the amount of PLN 4 213 thousand in connection with the partial acceptance by the Court of Appeal in Warsaw of the request for security by ordering the subsidiary Polska Energia - Pierwsza Kompania Handlowa Sp. z o.o. to execute in full the provisions of the contracts under the existing terms and conditions, in accordance with their contents, until the legal conclusion of the proceedings in the action brought by Pękanino Wind Invest Sp. z o.o. against Polska Energia - Pierwsza Kompania Handlowa Sp. z o.o. In the 6-month period ended 30 June 2020, the provision was partially used in the amount of PLN 1 110 thousand. As at the balance sheet date, the company updated the value of the provision, as a result of which the provision was increased by PLN 5 099 thousand, to PLN 8 202 thousand.

(in PLN thousand)

37.3. Provisions for counterparty claims, court disputes and other provisions

Material provisions recognized as other provisions have been discussed below:

Item	Operating segment	Description	As at 30 June 2020 *(unaudited)*	As at 31 December 2019
Provision for counterparty claims	Generation	The provision relates to claims raised by contractors relating to the construction of 910 MW Block in Jaworzno. For additional, increased costs related to ongoing contracts, in the year ended 31 December 2019 the company from the Generation segment created a provision in the amount of PLN 93 539 thousand. In the 6-month period ended 30 June 2020 the company created a provision in the amount of PLN 5 137 thousand due to new claims and partially released the provision in the amount of PLN 31 157 thousand. The cost of creating and releasing the provision was recognized for capital expenditures.	67 519	93 539
Provision for increased transmission easement charges	Distribution	The provision relates to the risk of increased periodical fees for transmission easement for energy infrastructure located in the areas of forest districts of the Regional Directorate of State Forests in Wrocław in connection with the change in the nature of land from forest areas to land related to business activities. In the 6-month period ended 30 June 2020 the company from Distribution segment utilised a provision in the amount of PLN 314 thousand.	67 009	67 323
Provision for a fine to the Energy Regulatory Office ("ERO")	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 real estate tax	Distribution	Provision for the business risk regarding tax on real estate classified as power grid assets.	39 356	39 356
	Renewable Energy Sources	The provision concerns the ruling of the Constitutional judgment of 22 July 2020 on real estate tax of wind farms in 2018.	16 776	-
Provision for VAT	Sales	The provision was created in connection with the ongoing control proceedings initiated in year 2014 and 2016 by the Director of the Tax Control Office in Warsaw ("Director of UKS") with respect to value added tax. The duration of control proceedings was repeatedly extended by the Director of UKS, and then by the Head of the Mazovian Customs and Tax Office. The current new deadlines for completion of the proceedings were set for 30 September 2020, including one of the proceedings that it was extended due to the need to develop the content of the document constituting the resolution in these control proceedings. In the 6-month period ended 30 June 2020 the provision was increased by accrued interest in the amount of PLN 2 093 thousand.	79 187	77 094

(in PLN thousand)

38. Accruals, deferred income and government grants

38.1. Deferred income and government grants

	As at 30 June 2020 *(unaudited)*	As at 31 December 2019
Deferred income	**32 884**	**48 623**
Donations, subsidies received for the purchase or fixed assets received free-of-charge	27 625	44 521
Other	5 259	4 102
Government grants	**361 574**	**443 433**
Subsidies obtained from EU funds	294 164	349 335
Forgiven loans from environmental funds	17 808	32 764
Measurement of preferential loans	30 335	32 567
Other	19 267	28 767
Total	**394 458**	**492 056**
Non-current	366 504	460 003
Current	27 954	32 053

38.2. Accrued expenses

	As at 30 June 2020 *(unaudited)*	As at 31 December 2019
Bonuses	166 915	59 827
Unused holidays	74 642	46 612
Environmental protection charges	15 232	25 600
Other accrued expenses	18 296	21 452
Total	**275 085**	**153 491**
Non-current	869	-
Current	274 216	153 491

39. Liabilities to suppliers

Current liabilities to suppliers as at 30 June 2020 and 31 December 2019 are presented in the table below:

Operating segment	As at 30 June 2020 *(unaudited)*	As at 31 December 2019 *(restated figures)*
Mining	120 077	122 602
Generation	87 263	124 057
Renewable Energy Sources	10 600	13 552
Distribution, *including:*	211 280	223 173
liability to Polskie Sieci Elektroenergetyczne S.A.	*172 623*	*172 790*
Sales	242 701	287 827
Other	63 035	76 015
Total	**734 956**	**847 226**

40. Capital commitments

Short-term capital commitments as at 30 June 2020 and 31 December 2019 are presented in the table below:

(in PLN thousand)

Operating segment	As at 30 June 2020 *(unaudited)*	As at 31 December 2019 *(restated figures)*
Mining	25 649	62 059
Generation	181 258	426 419
Renevable Energy Sources	623	2 588
Distribution	152 120	182 150
Sales and Other	27 599	84 727
Total	**387 249**	**757 943**

Long-term capital commitments have been presented in the interim condensed consolidated statement of financial position within other financial liabilities. As at 30 June 2020 the liability amounted to PLN 3 707 thousand (as at 31 December 2019 - PLN 7 414 thousand).

Commitments to incur capital expenditure

As at 30 June 2020 and 31 December 2019, the Group committed to incur expenditure on property, plant and equipment and intangible assets of PLN 3 674 274 thousand and PLN 3 981 923 thousand, respectively, with the key items presented below:

Operating segment	Agreement/investment project	As at 30 June 2020 *(unaudited)*	As at 31 December 2019
Generation	Construction of 910 MW Power Unit in Jaworzno	407 695	598 758
	Project of adjusting generation units to the BAT (Best Available Techniques) conclusions	113 282	313 110
Distribution	Construction of new electrical connections	1 526 931	1 227 019
	Modernization and reconstruction of existing networks	822 743	918 317
Mining	Construction of the "Grzegorz" shaft with the accompanying infrastructure and excavations	126 901	146 380
	Construction of the 800 m drift at "Janina" Mining Plant	11 980	30 681
	Investment Program in "Brzeszcze" Mining Plant	21 497	51 606
Other	Construction of a broadband Internet network under the Operational Programme Digital Poland	215 312	249 798

41. Income tax liabilities

Income tax liabilities in the amount of PLN 35 867 thousand arise mainly from the Tax Capital Group's tax liabilities in the amount of PLN 34 123 thousand, representing a TCG tax charge excess for the 6-month period ended 30 June 2020 of PLN 164 429 thousand over the advance payments made for the first five months of 2020 in the amount of PLN 130 306 thousand.

The Agreement of Tax Group of Companies for 2018 – 2020 was registered on 30 October 2017. The main companies forming the Tax Group of Companies have been operating since 1 January 2018: 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.

(in PLN thousand)

42. Liabilities arising from other taxes and charges

	As at 30 June 2020 *(unaudited)*	As at 31 December 2019
VAT	144 494	297 343
Personal Income Tax	31 591	53 974
Excise	10 638	12 063
Social security	292 064	215 340
Other	13 137	10 281
Total	**491 924**	**589 001**

The decrease in VAT liabilities results mainly from the settlement of the VAT liability as at 31 December 2019, resulting from the Company's disposal of CO_2 emission allowances to subsidiaries in the Generation segment, during the 6-month period ended 30 June 2020.

Regulations concerning taxes 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 may be audited by authorities competent to impose substantial penalties and fines, whereas any additional tax liabilities resulting from final decision of tax inspection authorities have to be paid together with interest. Consequently, the figures presented and disclosed in these interim condensed consolidated financial statements may change in the future.

43. Other financial liabilities

	As at 30 June 2020 *(unaudited)*	As at 31 December 2019
Derivative instruments	653 330	124 527
Wages, salaries	117 454	223 679
Bid bonds, deposits and collateral received	84 158	94 340
Liabilities due to obligation to repay overpaid amounts to customers in connection with the entry into force of the amended Act*	-	41 720
Other	106 825	155 606
Total	**961 767**	**639 872**
Non-current	147 051	79 417
Current	814 716	560 455

** The Act of 28 December 2018, amending the Excise Duty Act and Certain Other Acts.*

The liability on account of negative valuation of derivatives refers to commodity derivatives (including a significant part of forwards on account of transactions for which the underlying commodity are CO_2 emission allowances) IRS and CCIRS instruments and currency forwards. Due to the market situation in the current reporting period related mainly to COVID-19, significant changes in prices of commodity derivatives and weakening of the Polish zloty and decrease in interest rates, there was an increase in liabilities due to valuation of the above derivatives compared to the end of 2019. Derivatives have been presented in detail in Note 46.2 hereto.

The obligation to return the overpaid amounts to the customers concerning the adjustments recognised by the Group reducing the customers' revenues for the first half of 2019, which resulted from the need to adjust the prices in that period to the provisions of the amended *Act of 28 December 2018 amending the Excise Tax Act and certain other acts*, was settled in full in the 6-month period ended 30 June 2020.

(in PLN thousand)

44. Other current non-financial liabilities

	As at 30 June 2020 *(unaudited)*	As at 31 December 2019
Payments from customers relating to future periods	**399 384**	**360 602**
Amounts overpaid by customers	324 082	299 558
Prepayments for connection fees	32 302	21 085
Other	43 000	39 959
Other current non-financial liabilities	**14 382**	**3 774**
Net liabilities of the Company's Social Benefits Fund	10 196	-
Other	4 186	3 774
Total	**413 766**	**364 376**

NOTES TO THE INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

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

45.1. Cash flows from operating activities

Profit before taxation

	6-month period ended 30 June 2020 *(unaudited)*	6-month period ended 30 June 2019 *(unaudited restated figures)*
Profit before tax on continuing operations	895 490	801 732
Profit before tax on discontinued operations	(778 704)	80 218
Total	**116 786**	**881 950**

Depreciation and amortization

	6-month period ended 30 June 2020 (unaudited)	6-month period ended 30 June 2019 (unaudited restated figures)
Amortisation and depreciation regarding continuing operations	(936 314)	(896 774)
Amortisation and depreciation regarding discontinued operations	(62 972)	(61 403)
Total	**(999 286)**	**(958 177)**

(in PLN thousand)

Changes in working capital

	6-month period ended 30 June 2020 *(unaudited)*	6-month period ended 30 June 2019 *(unaudited restated figures)*
Change in receivables	**362 097**	**(714 872)**
Change in receivables from buyers in statement of financial position	174 504	32 425
Change in other financial receivables	236 639	(746 415)
Adjustment due to change in receivables due to disposal of property, plant and equipment and financial assets	(1 297)	-
Reclassification to assets classified as held for sale	(57 946)	-
Other adjustments	10 197	(882)
Change in inventories	**(96 900)**	**(59 107)**
Change in inventories in statement of financial position	(7 571)	(50 225)
Reclassification to assets classified as held for sale	(87 019)	-
Adjustment related to transfer of invetories to/from property, plant and equipment	(2 310)	(8 882)
Change in payables excluding loans and borrowings	**(386 572)**	**(74 601)**
Change in liabilities to suppliers in statement of financial position	(115 672)	(354 017)
Change in payroll, social security and other financial liabilities	(199 799)	393 004
Change in non-financial liabilities in statement of financial position	46 659	27 438
Change in liabilities arising from taxes excluding income tax	(97 077)	(76 688)
Adjustment of VAT change related to capital commitments	(72 656)	(68 319)
Reclassification to liabilities directly related to assets classified as held for sale	57 080	-
Other adjustments	(5 107)	3 981
Change in other non-current and current assets	**1 138 421**	**(59 814)**
Change in other current and non-current non-financial assets in statement of financial position	(19 676)	(39 105)
Change in receivables arising from taxes excluding income tax	245 347	74 332
Change in non-current and current CO_2 emission allowances	622 271	113 646
Change in non-current and current energy certificates	315 608	(199 717)
Change in advance payments for property, plant and equipment and intangible assets	(6 081)	(6 045)
Reclassification to assets classified as held for sale	(23 822)	-
Other adjustments	4 774	(2 925)
Change in deferred income, government grants and accruals	**110 456**	**111 751**
Change in deferred income, government grants and accruals in statement of financial position	23 996	134 482
Adjustmet related to property, plant and equipment and intangible assets received free of charge	(5 542)	(5 503)
Adjustment related to subsidies received and refunded	(14 942)	(17 149)
Reclassification of accruals and government grants to assets classified as held for sale	108 895	-
Other adjustments	(1 951)	(79)
Change in provisions	**(1 214 999)**	**49 319**
Change of short term and long term provisions in statement of financial position	(1 176 026)	41 448
Adjustment related to actuarial gains/losses from provisions for post-employment benefits charged to other comprehensive income	(99 647)	8 301
Adjustement related to provisions recognized in correspondence with property, plant and equipment	(62 656)	-
Reclassification of provisions to liabilities directly related to assets classified as held for sale	123 832	-
Other adjustments	(502)	(430)
Total	**(87 497)**	**(747 324)**

Income tax paid

In the 6-month period ended 30 June 2020, the Group achieved a net inflow due to tax income amounted to PLN 107 895 thousand, which resulted primarily from the Group's tax settlements of PLN 117 260 thousand consisting of:

- outflows amounting to PLN 131 981 thousand resulting from the payment of income tax advances for five months of 2020 in the amount of PLN 130 306 thousand and income tax settlements for previous years resulting in an outflow of PLN 1 675 thousand;
- inflows of PLN 249 241 thousand resulting from income tax settlements for 2019.

(in PLN thousand)

In the comparable 6-month period ended 30 June 2019, income taxes paid totalled PLN 323 533 thousand and included PLN 323 274 thousand relating to the Tax Capital Group and resulting from the income tax advance payments for the first five months of 2019 paid by the Tax Capital Group in the amount of PLN 268 940 thousand as well as the income tax for the previous years paid by the Tax Capital Group in the amount of PLN 54 334 thousand.

45.2. Cash from/used in investing activities

Purchase of property, plant and equipment and intangible assets

	6-month period ended 30 June 2020 *(unaudited)*	6-month period ended 30 June 2019 *(unaudited)*
Purchase of property, plant and equipment	(1 533 985)	(1 422 395)
Purchase of intangible assets	(45 110)	(33 054)
Change in the balance of VAT-adjusted capital commitments	(301 745)	(293 987)
Change in the balance of advance payments	6 081	6 045
Costs of overhaul and internal manufacturing	(223 990)	(186 652)
Other	(1 662)	10 385
Total	**(2 100 411)**	**(1 919 658)**

Loans granted

The expenses related to the granting of loans in the amount of PLN 78 475 thousand are mainly related to the transfer by the Company of tranches of a loan to the co-subsidiary Elektrociepłownia Stalowa Wola S.A. in the total amount of PLN 72 775 thousand and a loan to PGE EJ 1 Sp. z o.o. in the amount of PLN 4 000 thousand.

45.3. Cash from/used in financing activities

Loans and borrowings repaid

Expenditures on repayment of loans and borrowings shown in the interim condensed consolidated statement of cash flows in the amount of PLN 3 046 380 thousand arise mainly from repayment by the Parent Company during the 6-month period ended 30 June 2020:

- tranches of loans to the Consortium of banks in the amount of PLN 2 989 600 thousand;
- instalments of the loan to the European Investment Bank in the amount of PLN 55 659 thousand.

Interest paid

	6-month period ended 30 June 2020 *(unaudited)*	6-month period ended 30 June 2019 *(unaudited restated figures)*
Interest paid in relation to debt securities	(35 108)	-
Interest paid in relation to loans	(5 964)	(18 388)
Interest paid in relation to the lease and other	(5 746)	(3 399)
Total	**(46 818)**	**(21 787)**

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 2020, interest paid constituting borrowing costs which were capitalized in the value of property, plant and equipment and intangible assets amounted to PLN 92 383 thousand.

(in PLN thousand)

Loans taken out

Proceeds from the loans taken out, disclosed in the interim condensed consolidated statement of cash flows in the amount of PLN 2 200 000 thousand, were related to the disbursement by the Parent Company:

- loan tranches under an agreement concluded with a Consortium of Banks in the amount of PLN 950 000 thousand;
- all available financing under the loan agreement concluded with the bank Intesa Sanpaolo S.P.A., acting through Intesa Sanpaolo S.P.A. S.A. Branch in Poland, totalling PLN 750 000 thousand;
- the total available financing under the loan agreement concluded with SMBC BANK EU AG in the amount of PLN 500 000 thousand.

45.4. Cash from/used in discontinued operations

In the interim condensed consolidated statement of cash flows, the Group presents total cash flows from continuing and discontinued operations.

Net cash flows attributable to operating, investing and financing activities of discontinued operations are presented in the table below.

	6-month period ended 30 June 2020 *(unaudited)*	6-month period ended 30 June 2019 *(unaudited restated figures)*
Net cash from operating activity	125 818	175 032
Net cash from investment activity	(40 905)	(30 391)
Net cash from financing activity	(2 841)	(2 867)
Net increase/(decrease) in cash and cash equivalents from discontinued operations	**82 072**	**141 774**

(in PLN thousand)

FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

46. Financial instruments

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

Categories and classes of financial assets	As at 30 June 2020 *(unaudited)*		As at 31 December 2019	
	Carrying amount	Fair value	Carrying amount	Fair value
1 Financial assets measured at amortized cost	**2 369 894**		**2 582 793**	
Receivables from buyers	2 171 369	2 171 369	2 290 746	2 290 746
Deposits	53 810	53 810	50 228	50 228
Loans granted	107 804	107 804	39 467	39 467
Other financial receivables	36 911	36 911	202 352	202 352
2 Financial assets measured at fair value through profit or loss (FVTPL)	**1 646 486**		**2 004 034**	
Derivative instruments	407 659	407 659	86 067	86 067
Shares	145 503	145 503	140 508	140 508
Loans granted	225 064	225 064	216 018	216 018
Other financial receivables	228 488	228 488	296 867	296 867
Investment fund units	-	-	26 622	26 622
Cash and cash equivalents	639 772	639 772	1 237 952	1 237 952
3 Derivative hedging instruments	**-**	**-**	**19 462**	**19 462**
4 Financial assets excluded from the scope of IFRS 9 *Finanical Instruments*	**598 753**		**559 144**	
Investments in joint ventures	598 753		559 144	
Total financial assets, *of which in the statement of financial position:*	**4 615 133**		**5 165 433**	
Non-current assets	**1 105 075**		**1 032 701**	
Investments in joint ventures	598 753		559 144	
Loans granted to joint ventures	305 623		238 035	
Other financial assets	200 699		235 522	
Current assets	**3 510 058**		**4 132 732**	
Receivables from buyers	2 116 237		2 290 746	
Loans granted to joint ventures	14 906		4 999	
Other financial assets	642 106		599 035	
Cash and cash equivalents	634 837		1 237 952	
Assets classified as held for sale	101 972		-	

Following an analysis, transferred collateral, amounting to PLN 228 488 thousand as at 30 June 2020, was classified as other financial receivables measured at fair value through profit or loss, since the classification provides reflection of the nature of these financial assets. The remaining other financial receivables are classified as measured at amortized cost.

The Group classifies a loan granted to Elektrociepłownia Stalowa Wola S.A. under an agreement of 28 February 2018 with a value of PLN 225 064 thousand to assets measured at fair value though profit or loss, as discussed in detail in Note 23 to these interim condensed consolidated financial statements.

(in PLN thousand)

Categories and classes of financial liabilities	As at 30 June 2020 *(unaudited)*		As at 31 December 2019	
	Carrying amount	Fair value	Carrying amount	Fair value
1 Financial liabilities measured at amortized cost	**14 192 901**		**15 428 187**	
Preferential loans and borrowings	11 416	11 416	12 488	12 488
Arm's length loans and borrowings	6 178 343	6 218 100	7 014 824	7 030 597
Bank overdrafts	13 101	13 101	23 339	23 339
Bonds issued	6 507 764	6 894 031	6 257 022	6 537 537
Liabilities to suppliers	766 171	766 171	850 628	850 628
Other financial liabilities	167 487	167 487	223 920	223 920
Capital commitments	395 668	395 668	765 357	765 357
Salaries and wages	123 266	123 266	223 679	223 679
Insurance contracts	29 685	29 685	56 930	56 930
2 Financial liabilities measured at fair value through profit or loss (FVTPL)	**540 780**		**124 527**	
Derivative instruments	540 780	540 780	124 527	124 527
3 Derivative hedging instruments	**112 550**	**112 550**	**-**	**-**
4 Financial liabilities excluded from the scope of IFRS 9 *Finanical Instruments*	**1 017 347**		**1 006 603**	
Liabilities under leases	1 017 347		1 006 603	
Total financial liabilities, *of which in the statement of financial position:*	**15 863 578**		**16 559 317**	
Non-current liabilities	**13 325 035**		**11 909 600**	
Debt	13 177 984		11 830 183	
Other financial liabilities	147 051		79 417	
Current liabilities	**2 538 543**		**4 649 717**	
Debt	476 666		2 484 093	
Liabilities to suppliers	734 956		847 226	
Capital commitments	387 249		757 943	
Other financial liabilities	814 716		560 455	
Liabilities associated with assets classified as held for sale	124 956		-	

The description of the methodology for measuring the fair value of the financial instruments and assigning a level of the fair value hierarchy is presented in the table below

Financial asset/liability classes	Fair value measurement level	Fair value measurement methodology
Financial assets/liability measured at fair value		
Derivatives, *including:*		Derivatives have been measured in line with the methodology presented in Note 46.2 hereto.
IRS and CCIRS	2	
Currency forwards	2	
Commodity forwards and futures	1	
Shares	3	The Group estimated the fair value of shares held in not listed companies 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 or using a mixed approach, i.e. a weighted average of the values determined using the adjusted net assets method and the discounted dividend method. 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 Group assumes that the historical cost is an acceptable approximation of the fair value.
Loans granted	3	Fair value measurement of the loan had the form of the current value of future cash flows, including borrower's credit risk.
Financial liabilities whose fair value is disclosed		
Loans, borrowings and bonds issued	2	Liabilities arising from fixed interest debt are 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.

(in PLN thousand)

The fair value of other financial instruments as at 30 June 2020 and as at 31 December 2019 (except from those excluded from the scope of IFRS 9 *Financial Instruments*) did not differ considerably from the amounts presented in the financial statements for individual periods 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.

46.2. Derivative instruments and hedge accounting

Measurement of derivatives as at each reporting period end is presented in the following table.

	As at 30 June 2020 *(unaudited)*				**As at 31 December 2019**			
	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**
Derivatives subject to hedge accounting								
IRS	(146)	(112 404)	**-**	**(112 550)**	121	19 341	**19 462**	**-**
Derivatives measured at fair value through profit or loss								
CCIRS, IRS	(14 091)	-	**-**	**(14 091)**	(12 885)	-	**-**	**(12 885)**
Commodity forwards/futures	(127 903)	-	**395 849**	**(523 752)**	4 248	-	**86 067**	**(81 819)**
Currency forwards	8 873	-	**11 810**	**(2 937)**	(29 823)	-	**-**	**(29 823)**
Total			**407 659**	**(653 330)**			**105 529**	**(124 527)**
Non-current			17 946	(107 013)			20 352	(16 848)
Current			389 713	(546 317)			85 177	(107 679)

Derivative instruments (subject to hedge accounting)

In the 6-month period ended 30 June 2020, the Company hedged part of the interest rate risk in relation to the cash flows related to the exposure to WIBOR 6M determined under the dynamic risk management strategy, i.e:

- interest on a loan with a nominal value of PLN 250 000 thousand by concluding hedging transactions for interest rate swaps (IRS) for periods starting from 30 July 2020, expiring on 19 December 2024;
- interest on a loan with a nominal value of PLN 250 000 thousand by concluding hedging transactions for interest rate swaps (IRS) for periods starting from 5 August 2020, expiring on 19 December 2024;
- interest on a loan with a nominal value of PLN 250 000 thousand by concluding hedging transactions for interest rate swaps (IRS) for periods starting from 28 August 2020, expiring on 19 December 2024.

In the year ended 31 December 2019, 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 bonds with the total par value of PLN 1 490 000 thousand, through the entry into interest rate swap (IRS) transactions for terms beginning on 20 December 2019 and subsequently expiring from 2023 to 2029.

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 with the par value of PLN 2 051 000 thousand, through the entry into interest rate swap (IRS) transactions for a term of 4 to 5 years.

Effects of hedge accounting on revaluation reserve regarding hedging instruments are presented in Note 32.4 to these interim condensed consolidated financial statements.

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

As at 30 June 2020, 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 CO_2 emission allowance and other commodity purchase and sale transactions;
- FX forward transactions hedging foreign currency cash flows resulting from the Company's operations.

(in PLN thousand)

The CCIRSs have been used with respect to the Company's Coupon Only Cross Currency Swap fixed-fixed transactions concluded in 2017 and in 2018 and involve an exchange of interest payments on the total par 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.

In the 6-month period ended 30 June 2020, due to the market situation in the current reporting period related mainly to COVID-19, in which there were significant changes in prices of commodity derivatives, in particular those for which CO_2 emission allowances are the underlying commodity, the valuation of commodity derivatives increased compared to the end of 2019 (both positive – assets, and negative – liabilities).

Due to the delayed commissioning of the power unit in Jaworzno, as at the balance sheet date, the Group has a significant surplus of CO_2 emission allowances contracted to be acquired for redemption by the subsidiary in connection with the emissions for 2020. The Company intends to acquire CO_2 emission rights at maturity, therefore these contracts are recognised as excluded from IFRS 9 *Financial Instruments* and therefore are not measured at fair value as at the balance sheet date.

The fair value with respect to individual derivative financial 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. Reuters' 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 CO_2 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 2020 *(unaudited)*		As at 31 December 2019	
	Level 1	**Level 2**	**Level 1**	**Level 2**
Assets				
Derivative instruments - commodity	395 849	-	86 067	-
Derivative instruments - currency	-	11 810	-	-
Derivative instruments-IRS	-	-	-	19 462
Total	**395 849**	**11 810**	**86 067**	**19 462**
Liabilities				
Derivative instruments - commodity	523 752	-	81 819	-
Derivative instruments - currency	-	2 937	-	29 823
Derivative instruments-IRS	-	112 913	-	-
Derivative instruments-CCIRS	-	13 728	-	12 885
Total	**523 752**	**129 578**	**81 819**	**42 708**

47. Principles and objectives of financial risk management

The objectives and principles of financial risk management have not changed in relation to the situation as at 31 December 2019.

As at 30 June 2020, the Parent Company held hedging transactions covered by the financial risk management policy, concluded in order to hedge interest cash flows related to debt. For transactions concluded, the Parent Company applies hedge accounting. The accounting treatment of the hedging transactions described above is described in more detail in Note 46.2 of these interim condensed consolidated financial statements.

48. Finance and capital management

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

OTHER INFORMATION

49. Contingent liabilities

Claims related to termination of long-term contracts

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

In 2015 companies of the following groups of companies: in.ventus, Polenergia and Wind Invest filed a case against Polska Energia - Pierwsza Kompania Handlowa Sp. z o.o. to declare notices of termination submitted by Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o. with regard to power purchase and ownership titles concluded with these companies ineffective. In the course of court proceedings, plaintiffs extend their scope raising new contractual penalty- and contract termination related claims, or they file separate suits for the payment of damages.

As of the date of approval of these interim condensed consolidated financial statements for publication, the amount of damages claimed in lawsuits is as follows: companies of the Polenergia group - PLN 115 566 thousand (including Amon Sp. z o.o. – PLN 69 488 thousand, Talia Sp. z o.o. – PLN 46 078 thousand), Wind Invest group companies – PLN 322 313 thousand.

In the case of the claims of the companies Amon Sp. z o.o. and Talia Sp. z o.o., partial and preliminary judgements were issued, in which the courts determined that the statements of Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o. on termination of long-term contracts concluded between Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o. and Amon Sp. z o.o. and concluded between Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o. and Talia Sp. z o.o. for the purchase of electricity and property rights arising from certificates of origin are ineffective and do not have legal effect in the form of termination of both agreements, as a result of which these agreements after the notice period, i.e. after 30 April 2015 remain in force for all provisions and are binding on the parties. Moreover, the Courts recognized the claims of Amon Sp. z o.o. and Talia Sp. z o.o. for payment of damages as justified in principle, but they did not prejudge the amount of possible damages. The judgements are not valid.

In the case of the claim by Amon Sp. z o.o., the judgement was issued on 25 July 2019; Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o. on 25 October 2019, appealed against the judgement. In the case of the Talia Sp. z o.o. claim, the verdict was issued on 6 March 2020; After the balance sheet date, in August 2020 Polska Energia - Pierwsza Kompania Handlowa Sp. z o.o. appealed against the judgment.

The above partial and preliminary judgements do not change the Group's assessment that the chances of losing a case are not higher than the chance of winning it.

In the case regarding the motion of the company Pękanino Wind Invest Sp. z o.o. to secure the claims for establishing that the termination of long-term agreements submitted by Polska Energia - Pierwsza Kompania Handlowa Sp. z o.o. is ineffective, the Court of Appeal in Warsaw on 6 November 2019 partially accepted the motion for security by ordering Polska Energia - Pierwsza Kompania Handlowa Sp. z o.o. to execute in full the provisions of the agreements on the existing terms and conditions, in accordance with their contents, until the legal conclusion of the proceedings in the action brought by Pękanino Wind Invest Sp. z o.o. against Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o., pending before the District Court in Warsaw. The security order is final and binding. This provision does not prejudge the merits of the action, which can only take place in a judgement which is final and binding, but only temporarily regulates the parties' relations for the duration of the proceedings. Bearing in mind the need to implement the provision on collateral referred to above, as at the balance sheet date the company Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o. created a provision for onerous contracts in the amount of PLN 8 202 thousand.

The remaining proceedings are pending before the courts of first instance (including one which was referred to the second instance court for re-examination by the first instance court).

In light of the current status of the proceedings and the related circumstances, the Group believes that the chances of losing other cases both as regards declaration of ineffectiveness of the termination notices and securing non-monetary claims and the claims for compensation are not higher than the chances for winning them. Therefore, no provision for the related costs except for the reserve created for the proceedings of Pękanino Wind Invest Sp. z o.o. as referred to above) will be created.

In connection with the transaction of purchase on 3 September 2019 by subsidiaries of TAURON Polska Energia S.A., i.e. TEC1 Sp. z o.o, TEC2 Sp. z o.o. and TEC3 Sp. z o.o. five wind farms belonging to the in.ventus group and financial claims of Hamburg Commercial Bank AG against the companies operating the wind farms, the cases from the in.ventus group companies brought against Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o. were suspended by the court, at the joint request of the parties. In March 2020, the parties filed an application to initiate proceedings in order to withdraw the claimant’s statement of claim together with a waiver of the claim. In June 2020, the court took up the proceedings and the companies submitted statements of withdrawal of the waiver of claims. By order of 3 July 2020, the court discontinued the proceedings in the above-mentioned cases.

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

In 2017 and 2018 companies of the following capital groups: in.ventus, Polenergia and Wind Invest filed cases against TAURON Polska Energia S.A. regarding damages and liability for potential future losses resulting from tort, including unfair competition. According to the plaintiffs notices of termination submitted by Polska - Energia Pierwsza Kompania Handlowa S.A. regarding long-term contracts for the purchase of power and property titles related to energy certificates allegedly directed by TAURON Polska Energia S.A., provided the factual basis for these claims.

As at the date of approval of these interim condensed consolidated financial statements for publication, the amount of damages claimed in lawsuits is as follows: companies of the in.ventus group - EUR 12 286 thousand, companies of the Polenergia group - PLN 78 855 thousand, companies of the Wind Invest group - PLN 129 947 thousand.

Moreover, the claimants' companies indicate in their lawsuits the following values of estimated damages that may arise in the future: companies of the in.ventus group - EUR 35 706 thousand, companies of the Polenergia group - PLN 265 227 thousand, companies of the Wind Invest group - PLN 1 119 363 thousand.

The court competent for hearing the claims is the Regional Court for Katowice. All cases are held before the first instance courts. Those filed by Wind Invest group companies are held in camera. As at the date of approval of these interim condensed consolidated financial statements for publication, the Company's chances of obtaining a positive resolution in disputes should be assessed positively, i.e. the chances of losing are no higher than the chances of winning it.

In connection with the transaction of purchase on 3 September 2019 by subsidiaries of TAURON Polska Energia S.A., i.e. TEC1 Sp. z o.o, TEC2 Sp. z o.o. and TEC3 Sp. z o.o. five wind farms belonging to the in.ventus group and financial claims of Hamburg Commercial Bank AG against the companies operating the wind farms, the cases from the in.ventus group companies brought against TAURON Polska Energia S.A. were suspended by the court, at the joint request of the parties. In the first quarter of 2020, the parties filed an application to initiate proceedings in order to withdraw the claimant's statement of claim together with a waiver of the claim. The court has taken action at the unanimous request of the parties. By letter dated 5 June 2020, the claimant party withdrew its waiver of the claim. By order of 6 August 2020, the court discontinued the proceedings in the above-mentioned cases.

Claims relating to termination of long-term contracts by a subsidiary TAURON Sprzedaż Sp. z o.o.

In 2018, the subsidiary TAURON Sprzedaż Sp. z o.o. was notified of cases filed against it by two Polenergia group companies with regard to settlement related to damages in the total amount of PLN 78 855 thousand for an alleged loss incurred by the Polenergia group companies as a result of groundless termination of the long-term agreement concluded between them and Polska Energia - Pierwsza Kompania Handlowa Sp. z o.o. The companies indicated in their conclusions that the Company, Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o. and liquidators of Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o. have caused and continue to cause damage to the companies from the Polenergia group, and TAURON Sprzedaż Sp. z o.o. has consciously benefited from this damage and - according to the companies from the Polenergia group - is responsible for it. TAURON Sprzedaż Sp. z o.o. considered the claims of the Polenergia group companies groundless; thus, no settlement was reached. Based on the analysis of the legal situation, in the opinion of the Management Board of TAURON Sprzedaż Sp. z o.o., there are no grounds for creating a provision for the above case. The case is not subject to court proceedings.

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

On 13 March 2015, a consortium consisting of WorleyParsons Nuclear Services JSC, WorleyParsons International Inc, WorleyParsons Group Inc (hereinafter referred to as the “WorleyParsons Consortium"), which is the research contractor for the investment process related to the construction of a nuclear power plant by PGE EJ 1 Sp. z o.o. (hereinafter referred to as the “Agreement”), reported in connection with the Agreement – in a call for payment to PGE EJ 1 Sp. z o.o. - claims for a total amount of PLN 92 315 thousand. As a result, on 15 April 2015 the Company (as a holder of 10% of shares in the issued capital of PGE EJ 1 Sp. z o.o.) concluded an agreement with PGE EJ 1 Sp. z o.o. and its other shareholders (i.e. PGE Polska Grupa Energetyczna S.A., KGHM Polska Miedź S.A. and ENEA S.A.) that regulated mutual relations related to these claims, including principles of providing additional funds (if any) to PGE EJ 1 Sp. z o.o. by its shareholders.

In the company's view, its potential additional exposure to PGE EJ 1 Sp. z o.o. arising from the agreement shall not exceed its percentage capital exposure to that entity.

In November 2015 the District Court in Warsaw delivered to PGE EJ 1 Sp. z o.o. a lawsuit of WorleyParsons consortium for the amount of about PLN 59 million, subsequently extended in 2017 and 2019 to about PLN 128 million.

PGE EJ1 Sp. z o.o. did not accept the claim and believed that the probability that the court would decide in favour of the plaintiffs was remote. No provisions were recognized in relation to the above events.

Claims filed by Huta Łaziska S.A.

In connection with the company's merger with Górnośląskie Zakład Elektroenergetyczny S.A. ("GZE") - TAURON Polska Energia S.A. became a party to a court dispute with Huta Łaziska S.A. ("Huta") against GZE and the State Treasury represented by the President of ERO. Currently, the trial is pending before the Court of Appeal 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 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.

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 was heard by the court of first instance. By judgement of 28 May 2019, the Regional Court in Warsaw dismissed Huta's claim in its entirety and ruled that Huta reimbursed each of the respondents for the costs of the proceedings. The judgement is not final. Huta appealed (dated 25 July 2019), challenging the above judgement in its entirety and requesting that it be amended by upholding the claim in its entirety and awarding the costs of the proceedings against the respondents in favour of Huta, or alternatively that the contested judgement be set aside in its entirety and the case be referred back to the court of first instance. In response to the appeal of 9 August 2019, the Company requested that the appeal be dismissed in its entirety as manifestly unfounded and that the costs of the appeal proceedings be awarded against Huta in favour of the Company.

Based on the legal analysis of the claims, as well as taking into account the above judgement, the Company believes that the claims are unfounded and the risk of having to satisfy them is negligible. As a result, no provision has been recognized by the Company for any costs associated with those claims.

Claim filed by ENEA S.A.

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 30 June 2015 until the payment date. The actual basis of ENEA's claim are allegations concerning unjust enrichment of the Company in connection with possible errors in the determination of aggregated measurement and settlement data by ENEA Operator Sp. z o.o. (as a Distribution System Operator, DSO), constituting the basis for settlements of ENEA and the Company with Polskie Sieci Elektroenergetyczne S.A. on account of imbalance on the Balancing Market in the period from January to 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. Among the entities subsidised were two subsidiaries of TAURON Polska Energia S.A., i.e.: TAURON Sprzedaż Sp. z o.o. (with respect to which ENEA S.A. has applied for the award of the amount of PLN 4 934 thousand with statutory interest from the date of delivery of the copy of the application for extension of the suit until the date of payment), and TAURON Sprzedaż GZE Sp. z o.o. (with respect to which ENEA S.A. has applied for the award of the amount of PLN 3 480 thousand with statutory interest from the date of delivery of the copy of the application for extension of 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 before the first-instance 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 recognised by the subsidiaries of TAURON Polska Energia S.A. in the total amount of PLN 5 839 thousand (TAURON Sprzedaż Sp. z o.o.) and in the total amount of PLN 4 151 thousand (TAURON Sprzedaż GZE Sp. z o.o.). The said provisions cover the principal, interest reviewed as at 30 June 2020 and the cost of the proceedings.

As at 30 June 2020, the value of the claim against the Company is PLN 17 086 thousand, including statutory interest accrued between 30 June 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)

In 2016, 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 were instigated against TAURON Dystrybucja S.A. By virtue of a decision of 10 July 2017, the company was fined with PLN 350 thousand. In July 2017 the company recognized a provision of PLN 351 thousand and filed an appeal against the decision to the Court of Competition and Consumer Protection. By order of April 2020, the court admitted evidence from a supplementary expert opinion in the case. The hearing is scheduled for 20 October 2020.

In 2017 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, were instigated against TAURON Ekoenergia Sp. z o.o. The company provided the President of the Energy Regulatory Office with relevant explanations in writing. In the last one, dated 29 June 2018 indicated that the Supreme Administrative Court had 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. By virtue of a decision of 15 February 2019, the company was fined with PLN 2 thousand. The Company has filed an appeal against the decision with the District Court in Warsaw and is waiting for the date of the hearing to be set. According to the company, the facts underlying the procedure cannot provide the basis to a fine; therefore no provision has been recognized in relation to the case.

As at the end of the reporting period, the companies in the Sales segment have been subject to the following proceedings:

- On 18 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. In November 2018, the company received a decision of the President of the Energy Regulatory Office on the change of the concession, from which it appealed to the SOKiK. As at the date of approval of these interim condensed consolidated financial statements for publication, no hearing was scheduled.
- On 15 October 2018 proceedings were instigated against TAURON Sprzedaż GZE Sp. z o.o. in relation to discontinued supply of electricity to end users. The proceedings have been suspended.
- On 31 December 2019 and 9 January 2020, TAURON Sprzedaż GZE Sp. z o.o. initiated administrative proceedings to impose fines in connection with the disclosure of the possibility of non-compliance with the obligations set out in Article 9a Section 1, Article 9a Section 8 of the Energy Law and Article 12 Section 1 of the Energy Efficiency Act. By virtue of a decision of the President of ERO of 26 March 2020, the company was fined with PLN 2 934 thousand in total. The company appealed against the decision issued to the Court of Competition and Consumer Protection. In December 2019, due to the above-mentioned proceedings, the company created provisions in the total amount of PLN 6 320 thousand. In April 2020, the Management Board of the company decided to update the value of the provisions to the amount of fines imposed on the company, and therefore the company dissolved the provisions in the total amount of PLN 6 320 thousand and created provisions in the total amount of PLN 2 934 thousand.
- On 11 May 2020, TAURON Polska Energia S.A. initiated proceedings to impose fines on the Company in connection with the disclosure of the possibility of failure to fully comply with the obligation to obtain and submit for redemption certificates of origin for electricity generated from RES or certificates of origin for agricultural biogas. According to the Company's estimates, the total amount of the threatened penalties is about PLN 90 thousand. The Company has submitted relevant explanations, at the same time applying for discontinuation of the proceedings, due to the fact that in the Company's opinion the above mentioned obligations were properly fulfilled.

The companies have been providing relevant explanations on an ongoing basis. The companies do not recognize provisions for potential fines that may be imposed in the above proceedings (except for proceedings instigated on 31 December 2019 and 9 January 2020) as in the opinion of the Management Boards of the companies the risk of adverse rulings and fines is low.

Administrative and explanatory proceedings instigated by the President of the Office for Competition and Consumer Protection (“OCCP”)

The President of UOKiK instigated the following proceedings against the companies from the Sales segment pending as at the balance sheet date:

- The investigation procedure initiated on 13 July 2017 against TAURON Sprzedaż GZE Sp. z o.o. concerning the contents of the calls for payment in the scope of additional deadlines for the payment of receivables under pain of initiating the procedure of suspension of electricity supply and termination of the agreement.

- Proceedings instituted on 13 October and 8 November 2017 against TAURON Sprzedaż GZE Sp. z o.o. and TAURON Sprzedaż Sp. z o.o. with regard to the alleged violation of collective interests of consumers, which consisted in hindering a change of the electricity supplier.
- Explanatory proceedings instigated on 27 April 2018 against TAURON Sprzedaż Sp. z o.o. in relation to the alleged infringement of collective interest of consumers by sending out letters regarding personal data updates.
- The preliminary investigation instigated on 31 December 2018 against TAURON Sprzedaż Sp. z o.o. in relation to suspected violation of collective interests of consumers through application of practices involving conclusion of electricity sales agreements on the phone.
- The preliminary investigation initiated on 8 January 2019 against TAURON Sprzedaż Sp. z o.o. in connection with the suspicion of a practice by the company infringing the collective interests of consumers by introducing changes in the scope of information made available to consumers in applications for conclusion or amendment of the terms and conditions of a comprehensive agreement concerning electricity.
- Proceedings of 18 March 2020 initiated ex officio against TAURON Sprzedaż Sp. z o.o. and TAURON Sprzedaż GZE Sp. z o.o. in cases of declaring the provisions of the model contract as prohibited in connection with the mechanism used by companies to automatically extend the period of settlement of fees for the sale of electricity according to the Price List (renewal offers). Cases were previously subject to investigations.
- Preliminary investigation initiated on 30 March 2020 against TAURON Sprzedaż Sp. z o.o. and TAURON Sprzedaż GZE Sp. z o.o. concerning the possibility of the companies applying practices infringing the collective interests of consumers related to the way of informing consumers that the acceptance of settlements of fees for the sale of electricity at the rates specified in the price list is connected with obtaining a guarantee of a fixed discount, not a guarantee of a fixed price.
- The preliminary investigation initiated on 29 April 2020 against TAURON Sprzedaż Sp. z o.o. and TAURON Sprzedaż GZE Sp. z o.o. with respect to determining whether the companies may have abused their dominant position on the market for reserve sales of electricity in the areas of electricity distribution of individual operators and whether the cases are antitrust in nature.

The companies have been providing relevant explanations and take up remedial actions on an ongoing basis. The Companies do not recognize provisions for potential fines that may be imposed in the above proceedings as in the opinion of the Management Boards of the companies the risk of adverse rulings and fines is low.

Use of real estate without contract

The Group companies do not have legal titles to all lands on which distribution networks, heating installations and related equipment are located. In the future, the Group may be required to incur costs due to use of real estate without contract, but it should be noted that the risk of losing assets is negligible. The Group recognizes provisions for all court disputes reported in this respect. The Group does not establish a provision for possible claims by land owners of land with unregulated status, which have not been lodged, due to the lack of detailed records of unsettled land and, consequently, the inability to reliably estimate the amount of potential claims. However, taking into account the previous history of lodged claims and costs incurred in this respect in previous years, the risk related to the need to incur significant costs on this account can be considered as low.

Provisions for the court disputes in the amount of PLN 40 966 thousand were recognized in the statement of financial position under other provisions (Note 37.1) and PLN 44 442 thousand recognised under liabilities related to assets classified as held for sale (created by a subsidiary classified as a disposal group as at the balance sheet date).

Claim for reimbursement of expenses incurred to protect a facility against the effects of mining operations

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. Additionally, on 5 April 2018, the Company was serviced petition for payment filed by Galeria Galena Sp. z o.o. against the legal successors of Kompania Węglowa S.A. together with an application for combining this case for joint examination with the case against TAURON Wydobycie S.A. Currently, the case has been combined for joint examination against the defendants by Galeria Galena Sp. z o.o., i.e. against the State Treasury - Director of the Regional Mining Office in Katowice and legal successors of Kompania Węglowa S.A. in Katowice. The parties have been providing explanations and serving pleadings on an ongoing basis. The case is pending before District Court in Katowice (the first instance). In the course of the proceedings, a court expert's opinion was drawn up, about which objections were raised. A request for a supplementary opinion was submitted in February 2020.

With regard to the broadening of the scope of the claim to include other defendants, i.e. the legal successors of former 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 Court or to estimate the amount that may be awarded by the Court no provision has been recognised for the above.

The commitment of the Funds in the subsidiary Nowe Jaworzno Grupa TAURON Sp. z o.o.

The investment agreement signed by the Company with the Closed Investment Funds (“the Funds”) managed by the Polish Development Fund provides for a number of situations whose occurrence constitutes a material breach of the agreement by the Company. The above situations, some of which are beyond the direct control of the Company, include, among others, the occurrence of events of legal and material nature, events relating to the financial situation of the TAURON Group, decisions of an investment and operational nature taken by the Group with respect to the financing and construction of the 910 MW unit, as well as events relating to the future operation of the unit. A possible material breach of the agreement on the part of the Group's companies may lead to the potential launch of a procedure which may result in the Closed Investment Funds demanding (triggering of options) the repurchase of the shares in the subsidiary Nowe Jaworzno Grupa TAURON Sp. z o.o. held by those Funds, in the amount invested by the Funds in the shares, increased by the agreed return and a material breach bonus and reduced by the distribution of funds by Nowe Jaworzno Grupa TAURON Sp. z o.o. to the Funds.

On 27 March 2020 an annex to the investment agreement was concluded, removing from the catalogue of significant breaches of the agreement on the part of the Company the breaches referring to debt ratios combined with a simultaneous amendment to the shareholders' agreement, consisting in granting the Funds special rights in case of exceeding the agreed levels of these ratios.

On 4 May 2020, the subsidiary Nowe Jaworzno Grupa TAURON Sp. z o.o. and the contractor signed an agreement relating to the performance of the 910 MW Unit construction contract, in which the estimated date of commissioning of the 910 MW Unit was postponed to 15 November 2020, which is described in more detail in Note 52 of these interim condensed consolidated financial statements. After the balance sheet date, on 5 August 2020 the Company, the subsidiary Nowe Jaworzno Grupa TAURON Sp. z o.o. and the Funds concluded annexes to the investment agreement as well as an annex to the conditional agreement on the sale of the Funds' shares in Nowe Jaworzno Grupa TAURON Sp. z o.o. concluded by the Company with the Funds. On the basis of the above annexes (the terms of which were agreed and confirmed between the parties before 30 June 2020), in particular, the cut-off date for commissioning of the unit specified in the investment agreement was postponed by six months. In connection with the postponement of the commissioning of 910 MW Unit, having regard to the annexes to the investment agreement signed, the Company does not identify any delay of the commissioning of the unit and thus does not idenify risk of material breach of the investment agreement.

As at the date of approval of these interim condensed consolidated financial statements for publication, the Company does not identify on its part any risk of material breach of the agreement, which is beyond the Company's direct control, and is of the opinion that there is no real possibility, including in the future, of occurrence of material breaches of the agreement. Therefore, the Group, bearing in mind the provisions of IAS 32 *Financial Instruments: Presentation*, does not recognize the Funds' involvement as liabilities but as non-controlling interests.

As at the balance sheet date, the Closed Investment Funds hold shares of Nowe Jaworzno Grupa TAURON Sp. z o.o. in the amount of PLN 880 000 thousand.

Claim concerning the change of agreement concerning the construction of the Grzegorz Shaft in TAURON Wydobycie S.A.

The general contractor of the investment task conducted by TAURON Wydobycie S.A., entitled: "Construction works performed by the General Contractor of Stage I of the construction of the Grzegorz Shaft together with the construction of surface infrastructure for TAURON Wydobycie S.A." stopped the works indicating as the reason safety hazard caused by the disclosure of a change in hydrogeological conditions in the area of works and applied to the company for an amendment to the agreement being the basis for their conduct, including changes in the amount of remuneration. In the Group's opinion, supported by an expert's opinion, the contractor has no grounds to claim that it is necessary to change the design documentation and, therefore, the company TAURON Wydobycie S.A. ordered the contractor to immediately continue work under pain of withdrawal from the contract. The company, in accordance with the request for a payment guarantee for construction works submitted by the contractor, granted the contractor a payment guarantee in the form of a bank letter of credit. The Group estimates that, as at the balance sheet date, there is no basis for making provisions for the effects of the above events. The case is not subject to court proceedings.

Claims related to additional works concerning the contract for construction of the 910 MW power unit

Nowe Jaworzno Grupa TAURON Sp. z o.o. created a provision for claims for inflationary adjustment made by the contractors related to the construction of Block 910 MW in the amount of PLN 67 519 thousand, which is described in more detail in Note 37.3 of these interim condensed consolidated financial statements.

In the 6-month period ended 30 June 2020, the consortium of Rafako S.A. and Mostostal Warszawa S.A. submitted further claims to the subsidiary Nowe Jaworzno Grupa TAURON sp. z o.o. relating to additional work on the main contract concluded by the parties for the construction of the 910 MW power unit. More than 95% of the value of all the claims submitted concerns works related to the replacement of dust nozzles, works related to restoring the unit infrastructure to the state before the failure of one of the boiler elements and the scope of works carried out during the COVID-19 epidemic. Nowe Jaworzno Grupa TAURON Sp. z o.o. has recognized the above-mentioned claims under the agreement on mediation before the Court of Arbitration at the General Prosecutor's Office. The Group estimates that the probability of disbursement of cash for their implementation does not exceed 40%.

At the same time, as part of mediation, Nowe Jaworzno Grupa TAURON Sp. z o.o. filed a claim with Rafako S.A. for penalties for delayed commissioning of the 910 MW Unit. The Group estimates that, with respect to the claims covered by the mediation, an agreement will be reached under which the parties' claims may be mutually waived.

50. Security for liabilities

Key items of collateral established and binding as at 30 June 2020 in the Group are presented in the following table and regard contracts concluded by the Parent Company.

(in PLN thousand)

Collateral	Collateral amount			Due date	Agreement/transaction
	Currency		PLN		
Declarations of submission to enforcement			7 284 000	31.12.2025	Loan arrangement with a consortium of banks of 19 June 2019
			2 550 000	20.12.2032	Long-term Bond Issue Scheme in Bank Gospodarstwa Krajowego of 31 July 2013
			1 500 000	31.12.2036	Overdraft agreement with Bank Gospodarstwa Krajowego of 19 December 2018
			900 000	31.12.2027	Credit agreements with Intesa Sanpaolo S.P.A. of 19 December 2019
			621 000	31.07.2020	Bank guarantee agreement dated 5 February 2019 with MUFG Bank, Ltd.*
			621 000	31.10.2021	Bank guarantee agreement dated 28 January 2020 with MUFG Bank, Ltd.*
			600 000	30.06.2034	Subordinated Bond Issue Scheme in Bank Gospodarstwa Krajowego of 6 September 2017
			600 000	17.12.2021	Bank account agreement (intraday limit) with PKO Bank Polski S.A. of 9 October 2017
			600 000	31.12.2028	Credit agreement with SMBC Bank EU AG of 16 March 2020
			600 000	31.12.2030	Credit agreement with a consortium of banks of 25 March 2020
			600 000	14.03.2023	Agreement concluded with BGK for bank guarantees in favour of Izba Rozliczeniowa Giełd Towarowych S.A. of 13 March 2020
			600 000	31.03.2021	Agreement for membership in the Stock Exchange Clearing House run by Izba Rozliczeniowa Giełd Towarowych S.A.
			360 000	29.12.2021	Overdraft agreement with PKO Bank Polski S.A. of 9 October 2017
			300 000	24.04.2024	Agreement concluded with Santander Bank Polska S.A. for bank guarantees for Izba Rozliczeniowa Giełd Towarowych S.A. of 24 April 2020
			240 000	31.12.2023	Bond Issue Scheme of 24 November 2015
			180 000	25.05.2024	Conditional contract concluded with Intesa Sanpaolo S.P.A. Spółka Akcyjna Branch in Poland for bank guarantees for Izba Rozliczeniowa Giełd Towarowych S.A. of 25 May 2020
	EUR	24 000	107 184	31.12.2021	Overdraft agreement with Bank Gospodarstwa Krajowego of 8 May 2017
	EUR	50 000	223 300		
			96 000	27.05.2024	Framework bank guarantee agreements with CaixaBank S.A. of 27 May 2019
			24 000	27.05.2029	
Bank account mandates			500 000	13.03.2022	Agreement concluded with BGK for bank guarantees in favour of Izba Rozliczeniowa Giełd Towarowych S.A. of 13 March 2020
			300 000	17.12.2020	Bank account agreement (intraday limit) with PKO Bank Polski S.A. of 9 October 2017
			300 000	29.12.2020	Overdraft agreement with PKO Bank Polski S.A. of 9 October 2017
	EUR	45 000	200 970	31.12.2020	Overdraft agreement with Bank Gospodarstwa Krajowego of 8 May 2017
			80 000	26.05.2023	Framework bank guarantee agreements with CaixaBank S.A. of 27 May 2019
			20 000	26.05.2028	
Bank guarantees			200 000	31.07.2020	Bank guarantee issued by BGK to Izba Rozliczeniowa Giełd Towarowych S.A. as a collateral of transactions concluded on Power Commodity Exchange
			500	31.12.2020	Bank guarantees issued by CaixaBank S.A. for GAZ-SYSTEM S.A. as a security for the proper performance of the transmission contract

** The collateral in the form of a declaration on submission to enforcement submitted to the Agreement of 5 February 2019 on a guarantee limit concluded with MUFG Bank, Ltd. relates to a bank guarantee in favour of BGK, which expired on 11 April 2020, while the collateral in the form of a declaration on submission to enforcement submitted to the Agreement of 28 January 2020 on a guarantee limit concluded with MUFG Bank, Ltd. refers to the annex to the above bank guarantee, which extends by its term from 12 April 2020 to 11 April 2021, as more fully described below in this note.*

In order to secure liabilities of the Company resulting from significant transactions entered into by the Company on the Polish Power Exchange (POLPX) through the agency of the Izba Rozliczeniowa Giełd Towarowych S.A. ("IRGiT"), the Company, apart from the cash collaterals, also provides the IRGiT with non-cash collaterals. They include:

- Declaration of submission to enforcement

In connection with entering into force of the act of 14 May 2020 on amending some acts within the scope of protection activities in connection with spread of the SARS-CoV-2 virus, from 1 June 2020 the IRGiT regulations concerning, among others, extension of the catalogue of accepted non-cash collaterals established and provided in connection with the transactions being entered into. In accordance with the aforementioned act the changes introduced by the IRGiT are of temporary nature and will be in force until 30 September 2020.

Under the above changes, the Company provided a collateral for IRGiT – and made a declaration of submission to enforcement in the form of a notarial deed up to the maximum amount of PLN 600 000 thousand, with the deadline – for the deed to be declared enforceable against the Company for all or part of the cash receivables by 31 March 2021.

- Bank guarantees

In March 2020, Bank Gospodarstwa Krajowego, on the grounds of the agreement for granting of the guarantees within the framework of the line, it has issued bank guarantees for the benefit of the IRGiT, commissioned by the Company, in total amount of PLN 500 000 thousand, with expiration dates from 30 June 2020 to 31 August 2020. At the Company's request the bank guarantees in total amount of PLN 300 000 thousand have been removed from the IRGiT collateral register and the bank has been released from all liabilities resulted from the guarantees in question. As of 30 June 2020, bank guarantees in the total amount of PLN 200 000 thousand, valid until 31 July 2020, are in force under the agreement.

(in PLN thousand)

After the balance sheet date, on 1 July 2020, a bank guarantee issued by Bank Gospodarstwa Krajowego in the amount of PLN 30 000 thousand came into force, with the term of validity until 17 August 2020. Under the annex of 21 July 2020, the amount of the guarantee was reduced to PLN 20 000 thousand and the validity period was extended to 17 September 2020.

In the second quarter of 2020, the Company concluded the following agreements on limits for bank guarantees in favour of the IRGiT:

- an agreement of 24 April 2020 concluded with Santander Bank Polska S.A. for a limit on bank guarantees up to PLN 250 000 thousand, under which the Company is authorised to order the issuance of bank guarantees with a validity period until 31 December 2022 (the agreement is secured with a declaration of submission to enforcement of PLN 300 000 thousand);
- a conditional agreement of 25 May 2020 concluded with Intesa Sanpaolo S.P.A. Spółka Akcyjna Branch in Poland for a guarantee line, under which the bank granted the Company a guarantee line for bank guarantees in the maximum amount of PLN 150 000 thousand, with the deadline for availability of the guarantee line until 25 May 2021 (the agreement in question is secured by a declaration of submission to enforcement in the amount of PLN 180 000 thousand).

After the balance sheet date, on 24 July 2020, two bank guarantees (each for the amount of PLN 100 000 thousand) were issued under the above agreement with Santander Bank Polska S.A., with the term from 1 August 2020 to 30 August 2020.

- Transfer of the ownership title to CO_2 emission allowances and property rights to certificates of origin

In November and December 2019 as well as in February 2020 the agreements on transfer of CO_2 emission allowances in favour of IRGiT were concluded between the Company and the IRGiT as well as between the Company, the subsidiary of TAURON Wytwarzanie S.A. and IRGiT. As of 30 June 2020, the object of the established collateral amounted in total to 3 021 799 tons of CO_2 emission allowances, including:

- the Company has deposited 2 205 000 tonnes of CO_2 emission allowances on its account in the Union Registry and
- the subsidiary of TAURON Wytwarzanie S.A. transferred to IRGiT allowances owned by TAURON Wytwarzanie S.A. in the total amount of 816 799 tonnes.

On 10 February 2020, two agreements of transfer of ownership as collateral concerning the property rights of the certificates of origin were concluded between the Company, the subsidiary TAURON Sprzedaż Sp. z o.o. and IRGiT as well as between the Company, the subsidiary TAURON Sprzedaż GZE Sp. z o.o. and IRGiT. On 30 June 2020, on the grounds of the concluded agreements the subsidiaries submitted to the Certificate of Origin Register kept by the Polish Power Exchange (POLPX) an instruction to block the property rights in total number of 1 930 594.92 MWh.

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

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.

	As at 30 June 2020 *(unaudited)*	As at 31 December 2019
Other financial receivables	53 292	184 353
Real estate	8 860	10 482
Cash	9	45
Total	**62 161**	**194 880**

Collaterals of forwards and futures (derivative financial instruments) concluded by the Company on foreign exchange markets is the key item. As at 30 June 2020 and 31 December 2019 the collateral amount was PLN 53 292 thousand and PLN 184 353 thousand, respectively.

(in PLN thousand)

Other forms of collateral against liabilities of the Group

As at 30 June 2020, other material forms of collateral regarding liabilities of TAURON Capital Group included:

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

Under the agreement of 15 May 2015, annexed on 15 September 2016, the Parent Company established 3 293 403 shares in the share capital of TAMEH HOLDING Sp. z o.o, with the nominal value of PLN 100 and the total nominal value of PLN 329 340 thousand, constituting approximately 50% of the shares in the share capital, a financial pledge and registered pledges, i.e. a registered pledge with the highest priority of satisfaction on the shares up to the maximum security amounting to CZK 3 950 000 thousand and a registered pledge with the highest priority of satisfaction on the shares up to the maximum security amounting to PLN 1 370 000 thousand in favour 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.

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 company 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 2020, 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 598 753 thousand.

- Blank promissory notes

Agreement/transaction secured by blank promissory notes	Issuer of a blank promissory note	As at 30 June 2020 *(unaudited)*	As at 31 December 2019
Agreements concerning loans granted to subsidiary 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*	70 000*
Performance bonds under contracts and agreements concluded by the company, including co-funding of engagements being carried out.	TAURON Dystrybucja S.A.	208 630	212 284
Performance bonds under the co-funding agreements concluded with the National Fund for Environmental Protection and Water Management in Warsaw and reimbursement as well as performance bonds under the co-funding agreements concluded with Regional Fund for Environmental Protection and Water Management in Katowice.	TAURON Ciepło Sp. z o.o.	87 251	87 251
Performance bonds under the co-funding agreements concluded with Centrum Projektów Polska Cyfrowa in Warsaw.	TAURON Obsługa Klienta Sp. z o.o.	187 841	187 841
An agreement with PSE S.A. to provide electricity supply services, an agreement with the National Fund for Environmental Protection and Water Management in Warsaw concerning partial cancellation of a loan and an agreement with the National Centre for Research and Development in Warsaw for the funding of a project.	TAURON Wytwarzanie S.A.	63 708	63 708

** As at the balance sheet date, the outstanding amount of loans secured with the promissory notes was PLN 11 000 thousand.*

(in PLN thousand)

- Guarantees and surety agreements

Company in respect of which contingent liability has been granted	Beneficiary	Due date	As at 30 June 2020 (unaudited)		As at 31 December 2019		Transaction
			Currency	PLN	Currency	PLN	
Corporate and bank guarantees							
Finanse Grupa TAURON Sp. z o.o. (former TAURON Sweden Energy AB (publ))	Bondholders	3.12.2029	EUR 168 000	750 288	168 000	715 428	Corporate guarantee granted by the Company to secure bonds issued by a subsidiary.
Elektrociepłownia Stalowa Wola S.A.	Bank Gospodarstwa Krajowego	11.04.2021		517 500		517 500	Bank guarantee issued at the Company's request by MUFG Bank, Ltd. to secure BGK's receivables under the loan agreement concluded on 8 March 2018 between the borrower Elektrociepłownia Stalowa Wola S.A. and Bank Gospodarstwa Krajowego and Polskie Górnictwo Naftowe i Gazownictwo S.A.
TAURON Czech Energy s.r.o.	various entities	31.01.2021-30.06.2021	CZK 95 000	15 827	95 000	15 922	Payment guarantees issued at TAUORN Czech Energy s.r.o. request by PKO BP S.A. Czech Branch and UniCredit Bank Czech Republic and Slovakia, a.s. for securing contracts concluded with market operators and contracts for supply of electricity and natural gas.
			EUR 1 000	4 466	1 200	5 110	
various subsidiaries	various entities	31.07.2020-28.07.2029		34 455		8 821	Bank guarantees issued at the Company's request by CaixaBank S.A. for securing liabilities of subsidiaries under concluded contracts.
Surety agreements							
TAURON Sprzedaż Sp. z o.o.	Polska Spółka Gazownictwa Sp. z o.o.	30.11.2020		20 000		20 000	Surety by the Company of liabilities of the subsidiary under the concluded distribution agreement.
Nowe Jaworzno Grupa TAURON Sp. z o.o.	Polskie Sieci Elektroenergetyczne S.A.	31.12.2020		33 024		33 024	Surety by the Company of liabilities of a subsidiary resulting from the obligation of the subsidiary under the Capacity Market Act to establish and maintain a security.
Elektrociepłownia Stalowa Wola S.A.	Bank Gospodarstwa Krajowego	30.01.2021		9 959		9 959	Surety by the Company of liabilities of a jointly-controlled company under bank guarantee agreements and overdraft loan agreements concluded between BGK and ECSW S.A.
		31.10.2020-24.04.2021	USD 4 993	19 875	4 993	18 962	

The term of validity of the bank guarantee issued by MUFG Bank, Ltd. to Bank Gospodarstwa Krajowego at the Company's request up to the amount of PLN 517 500 thousand expired on 11 April 2020. The guarantee was issued under a guarantee limit agreement concluded in February 2019 with MUFG Bank, Ltd. (the exposure of MUFG Bank, Ltd. to the Company was secured with a declaration of submission to enforcement up to PLN 621 000 thousand, valid until 31 July 2020). In January 2020, the Company concluded a guarantee limit agreement with MUFG Bank, Ltd. under which, at the Company's request, an annex was issued to the above bank guarantee extending its validity until 11 April 2021 (the receivables of MUFG Bank, Ltd. towards the Company are secured by a statement of submission to enforcement up to the amount of PLN 621 000 thousand, valid until 31 October 2021). In connection with the guarantee issued, the Company recognised a liability in the amount of expected credit losses, whose value as at 30 June 2020 amounted to PLN 12 210 thousand (as at 31 December 2019 – PLN 15 265 thousand).

After the balance sheet date, bank guarantees for the total amount of PLN 854 thousand issued by CaixaBank S.A. to secure the liabilities of its subsidiaries under the concluded contracts entered into force, with terms of validity from 30 July 2021 to 30 January 2022.

In order to provide funds to cover future mine decommissioning costs, the subsidiaries TAURON Wydobycie S.A. and Kopalnia Wapienia Czatkowice Sp. z o.o., included in the Group, have established the Mine Decommissioning Fund.

(in PLN thousand)

51. Related-party disclosures

51.1. 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 22 to these interim condensed 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 2020 *(unaudited)*	6-month period ended 30 June 2019 *(unaudited)*
Revenue	76 477	49 648
Costs	(43 395)	(20 649)

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 23 to these interim condensed consolidated financial statements.

The Company provided collateral to joint ventures to secure loan liabilities, as described in detail in Note 50 hereto.

51.2. 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 2020 *(unaudited)*	6-month period ended 30 June 2019 *(unaudited)*
Revenue	1 081 049	1 082 372
Costs	(1 207 199)	(1 313 325)

Receivables and liabilities

	As at 30 June 2020 *(unaudited)*	As at 31 December 2019
Receivables	270 772	277 032
Payables	302 485	290 373

As at 30 June 2020, receivables presented in the table above comprised advance payments for purchases of fixed assets of PLN 2 458 thousand (as at 31 December 2019 - PLN 2 439 thousand).

Among the companies of the State Treasury, the largest clients of the TAURON Polska Energia S.A. Group during the 6-month period ended 30 June 2020 were KGHM Polska Miedź S.A., PSE S.A., Polska Grupa Górnicza S.A. and Spółka Restrukturyzacji Kopalń S.A. The total sales to the above contractors amounted to 88% of the volume of revenues generated in transactions with State Treasury companies. The largest purchase transactions were made by the Group from PSE S.A., Polska Grupa Górnicza S.A. and Węglokoks S.A. Purchases from the above contractors constituted 87% of the value of purchases from State Treasury companies in the 6-month period ended 30 June 2020.

Among the companies of the State Treasury, the largest clients of the TAURON Polska Energia S.A. Group during the 6-month period ended 30 June 2019 were KGHM Polska Miedź S.A., PSE S.A., Polska Grupa Górnicza S.A. oraz Jastrzębska Spółka Węglowa S.A. The total sales to the above contractors amounted to 90% of the volume of revenues generated in transactions with State Treasury companies. The largest purchase transactions were made by the Group from PSE S.A., Polska Grupa Górnicza S.A. and Węglokoks S.A. Purchases from the above contractors constituted 89% of the value of purchases from State Treasury companies in the 6-month period ended 30 June 2019.

(in PLN thousand)

The 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, it was decided not to 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.

51.3. Compensation of the executives

The amount of compensation and other benefits paid and/or due to the Management Board, Supervisory Boards and other key executives of the Parent and the subsidiaries in the 6-month period ended 30 June 2020 and in the comparative period has been presented in the table below.

	6-month period ended 30 June 2020 *(unaudited)*		6-month period ended 30 June 2019 *(unaudited)*	
	Parent	Subsidiaries	Parent	Subsidiaries
Management Board	**1 328**	**11 779**	**1 585**	**8 389**
Short-term benefits (with surcharges)	1 165	11 675	1 555	7 819
Employment termination benefits	111	97	15	570
Other	52	7	15	-
Supervisory Board	**408**	**642**	**492**	**518**
Short-term employee benefits (salaries and surcharges)	408	594	492	467
Other	-	48	-	51
Other key management personnel	**9 938**	**25 347**	**9 990**	**19 985**
Short-term employee benefits (salaries and surcharges)	8 639	24 484	8 670	19 243
Jubilee bonuses	-	77	-	8
Employment termination benefits	765	110	693	110
Other	534	676	627	624
Total	**11 674**	**37 768**	**12 067**	**28 892**

The amounts paid or payable until 30 June 2020 have been presented above. Moreover, in accordance with the adopted accounting policy, the Group recognizes provisions for termination of management contracts and employment agreements for members of the Management Board and other key executives, which may be paid or due in future reporting periods.

52. Other material information

Change of the commissioning date for a 910 MW power unit

In connection with the failure of one of the boiler elements during the last phase of the 910 MW power unit (the "Unit") tests in Jaworzno, the Consortium RAFAKO S.A. - MOSTOSTAL WARSZAWA S.A., being the contractor of the Unit, the designer of the boiler and the entity responsible for the start-up of the boiler indicated that it was necessary to postpone the commissioning of the Unit. On 6 March 2020, the subsidiary Nowe Jaworzno Grupa TAURON Sp. z o.o. received information from the contractor that the estimated commissioning of the Unit was to take place by the end of July 2020. On 4 May 2020, a subsidiary of Nowe Jaworzno Grupa TAURON Sp. z o.o. and the contractor signed an agreement relating to the performance of the Unit construction contract. In the signed agreement, the parties agreed on the causes of damage to one of the boiler elements referred to above. According to the conclusions of the emergency committee consisting of representatives of the parties, the failure was a consequence of an adverse combination of events during the start-up of the Unit. In addition, the emergency committee agreed on a way of repairing damaged boiler components to avoid similar failures in the future.

The agreement also established a schedule of actions including procedures to prevent the risk of recurrence of failure and procedures for tuning and starting up the Unit. The contractor shall immediately begin to carry out the work provided for in the agreed schedule and to implement the findings of the emergency committee. The contractor estimates that the Unit will be commissioned by 15 November 2020. This period shall take into account the additional time necessary to deal with the consequences of the failure referred to above. The current level of work advancement is in line with the schedule of activities adopted by the parties.

Due to the impact of the COVID-19 epidemic on the Group's operations as further described below, the Company does not identify, as of the date of approval of these interim condensed consolidated financial statements for publication, any difficulties in meeting the commissioning date described above due to the impact of the epidemic.

Impact of the COVID-19 epidemic on the Group's operations

In the 6-month period ended 30 June 2020 an increase in the incidence of COVID-19 was observed in Poland. As a result, particularly at the beginning of the period of growing incidence, a number of restrictions have been introduced in the country to stop the spread of SARS-CoV-2. This situation caused disturbances in the economic and administrative system in Poland. A similar situation was observed in other countries around the world, including the countries of Poland's main trading partners. As a result, the epidemic significantly limited economic activity in the first half of 2020, affecting the work of industrial plants and companies from the segment of small and medium-sized enterprises, and disturbed the functioning of the entire economic system of the country. Consequently, in the medium and long term, the epidemic will have an impact on the national, European and global economic situation, affecting the economic growth in Poland in 2020 and subsequent years.

As a result of the epidemic, changes in the market environment have been observed, in particular in the form of changes in the prices of financial and commodity instruments. In particular, prices of CO_2 emission allowances and, consequently, electricity prices on the wholesale market have been subject to high volatility. As regards financial factors, a weakening of the Polish zloty and a drop in interest rates was observed, including a threefold interventional reduction of the NBP reference interest rate by 140 basis points.

The situation related to COVID-19 affects in particular the level of demand for electricity in the National Power System and the volumes of distribution and sales of electricity in the TAURON Group. In recent months, several percent decreases in demand for electricity have been observed, resulting in a drop in revenue in the area of electricity, distribution and sales. In particular, the Group estimates that in the Distribution segment, the negative impact of the epidemic on the EBITDA amounted to PLN 86 862 thousand, which results from the loss of part of the sales volume to recipients outside households. As far as the Sales segment is concerned, the estimated negative impact of the epidemic on the EBITDA was PLN 54 500 thousand, which results from the loss of margin associated with the drop in electricity sales and the need to balance the purchase position. The situation related to COVID-19 epidemic also results in a decrease in production in the area of conventional production and, consequently, a decrease in demand for hard coal. Due to this situation, renegotiations of price and quantity conditions were undertaken with coal suppliers.

So far, the Group has not identified any significant problems in making payments by customers, however due to the effects of the epidemic, financial disturbances may be expected in the Group's customers, which can cause problems in settling current payments for electricity, heat and gas. In the period from March to May, there was an increase in overdue receivables due to the introduction of restrictions in the operation of entrepreneurs. In order to limit potential credit losses, credit risk management criteria have been tightened and soft debt collection activities have been intensified. In order to limit potential credit losses, credit risk management criteria were tightened and soft debt collection activities were intensified. In particular, the epidemic of COVID-19 affected the need to create additional write-offs for expected credit losses for financial instruments and to change the fair value measurement of loans granted, which increased the Group's operating costs by PLN 5 598 thousand and financial costs by PLN 12 271 thousand.

In terms of funding, the effect of the COVID-19 epidemic was a significant reduction in the functioning of the financial markets, and even the closure of part of those markets, thus limiting the availability of new funding instruments to operators. In addition, higher margins were expected for the new instruments. It should be noted, however, that the TAURON Group consistently pursues a policy of obtaining financing 12 to 24 months in advance of the planned date of its use. The purpose of such an approach is, among other things, to increase the Company's liquidity security to protect it against loss of liquidity in cases of sudden changes in the market situation. By implementing this policy and entering into negotiations with financial institutions at an early stage, the Company led at the beginning of the epidemic to the conclusion of new financing agreements increasing the liquidity security of the TAURON Group.

Price volatility in the market for electricity and related products, taking into account the contract position held in individual markets, result in changes in variation margins and translate into the level of cash employed. Within the framework of activities and initiatives aimed at limiting the epidemic influence on the Group's financial liquidity, within the 6-month period ending on 30 June 2020, the Company concluded guarantee limit agreements allowing to lodge the required cash collaterals concerning the exchange transactions in non-monetary form to the IRGiT and to exchange the collaterals established so far in cash for bank guarantees. The Company has also taken advantage of legal solutions of the so-called "anti-crisis shield" by submitting to the IRGiT a declaration of submission to execution, thus lowering the level of lodged deposits both in cash form and in established bank guarantees.

As a result of the COVID-19 epidemic, several areas of disruption in the Group's strategic investment projects were identified. In case of the investment, the construction of 910 MW unit in Jaworzno and the construction of a unit at EC Stalowa Wola S.A. they occurred in the initial period of the pandemic as a result of the introduction of strict access control to infrastructure and additional security procedures. With regard to the construction of a 910 MW power unit, the COVID-19 epidemic was one of the reasons for the amendment of the contract with Consortium consisting of Rafako

S.A. and Mostostal Warszawa S.A., as well as the contractor's claims related to additional work, also described in more detail in Note 49 to these interim condensed consolidated financial statements. In order to minimize the consequences of disruptions in the projects, all contractors carrying out the investments cooperate closely and on an ongoing basis with the Group companies responsible for the investments, which monitor the situation in the projects and react adequately to the situation using the available tools. As part of the response to the epidemic, actions were also taken in the Group to review and limit investment expenditure.

Despite the gradual lifting of further restrictions in May and June 2020, it cannot be ruled out that the COVID-19 epidemic may have a significant impact on the operations of the TAURON Group also in the following periods, including the level of revenues and costs incurred, and consequently on the Group's financial liquidity and debt level. However, the future effects and the scale of the epidemic are currently difficult to estimate precisely. The duration of the epidemic, its severity and extent, as well as its impact on economic growth in Poland in the short, medium and long term will be important. Already implemented and future regulatory actions aiming at introducing COVID-19 mitigation mechanisms are also important. In the second quarter of 2020, as part of mitigating measures, a number of legal provisions entered into force, the so-called "anti-crisis shield", which are designed to support entrepreneurs in the existing epidemiological situation and maintain financial liquidity. The TAURON Group, aware of the risks associated with the epidemiological situation, takes active measures to minimize the impact of the current and expected economic situation as well as to protect itself against extreme events. In particular, in the company of the Mining segment, an agreement was signed between the Management Board of the company and the social side, limiting the working time and reducing the remuneration of the Management Board and employees of the company by 20% in the 3-month period, starting from 1 May 2020. In turn, in the company of the Generation segment, an agreement signed between the Management Board of the company and the social side reduced the working time and reduced the remuneration of the Management Board and employees of the company by 10% in the same period of time. These agreements helped to reduce costs and obtain funds under the anti-crisis shield for reduced working hours for employees.

Regardless of the economic effects, the current situation affects the operating activities of individual business areas through increased employee absenteeism, increased operating costs resulting from the need to meet epidemiological conditions (costs of purchasing materials, costs of organizational changes), as well as relations with key subcontractors and contractors of the Group. In this respect, the TAURON Group undertakes a number of organisational and material preventive measures aimed at protecting the employees of the Group's individual companies and maintaining the continuity of the critical infrastructure. In particular, a dedicated crisis management team was appointed in the Parent Company to assess the situation in particular areas of activity and to prepare detailed plans in case of disturbances in the continuity of key processes functioning in the Group. Crisis teams operate in the Group's individual companies to coordinate and implement measures to prevent disturbances of the core business as a result of the risks associated with COVID-19. The necessary changes in the organisation of work in the companies were made to ensure work safety.

It should be noted that the situation with COVID-19 is very volatile. The Company's management is and will continue to monitor the potential impact and will take all possible steps to mitigate any negative impact of COVID-19 on the TAURON Group.

These interim condensed consolidated financial statements of the TAURON Polska Energia S.A. Capital Group prepared for the 6-month period ended 30 June 2020 in accordance with International Accounting Standard 34 include 79 pages.

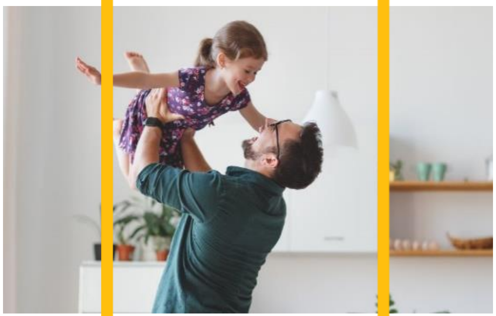
Katowice, 18 August 2020

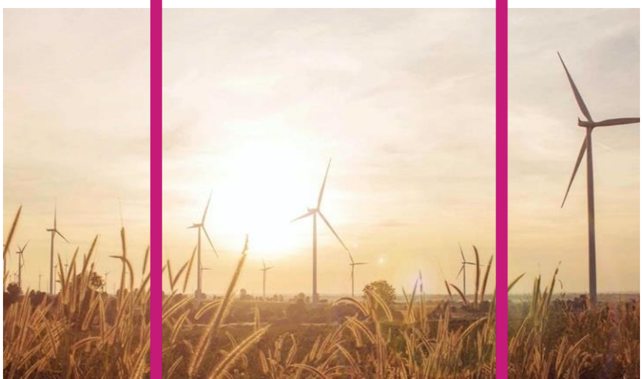
Wojciech Ignacok – President of the Management Board

Jerzy Topolski – 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 REPORT ON REVIEW

of interim condensed financial statements of TAURON Polska Energia S.A. for the first half of 2020

Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k.
Rondo ONZ 1
00-124 Warszawa

+48 (0) 22 557 70 00
+48 (0) 22 557 70 01
www.ey.com/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 interim condensed financial statements of TAURON Polska Energia S.A. (the 'Company') located in Katowice at Ks. Piotra Ściegiennego Street, 3 containing: interim condensed statement of comprehensive income for the period from 1 January 2020 to 30 June 2020, interim condensed statement of financial position as at 30 June 2020, interim condensed statement of changes in equity, interim condensed statement of cash flows for the period from 1 January 2020 to 30 June 2020 and other explanatory notes (the 'interim condensed financial statements').

The Company's Management is responsible for the preparation and presentation of the 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 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 National Council of Statutory. 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 National Council of Statutory Auditors 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 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, 18 August 2020

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 the audit firms list: 130

TAURON

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 2020

TAURON Polska Energia S.A.

Interim condensed financial statements
in accordance with the International Financial Reporting Standards,
as endorsed by the European Union
for the 6-month period ended 30 June 2020

(in PLN thousand)

INTERIM CONDENSED STATEMENT OF COMPREHENSIVE INCOME

	Note	3-month period ended 30 June 2020 *(unaudited)*	6-month period ended 30 June 2020 *(unaudited)*	3-month period ended 30 June 2019 *(unaudited)*	6-month period ended 30 June 2019 *(unaudited)*
Sales revenue	11	2 585 677	5 206 920	2 361 423	4 877 470
Cost of sales	12	(2 415 895)	(5 064 643)	(2 301 649)	(4 796 733)
Profit on sale		**169 782**	**142 277**	**59 774**	**80 737**
Selling and distribution expenses	12	(7 270)	(12 278)	(8 569)	(12 867)
Administrative expenses	12	(28 911)	(60 329)	(23 681)	(57 915)
Other operating income and expenses		(1 033)	(4 120)	(1 633)	(3 548)
Operating profit		**132 568**	**65 550**	**25 891**	**6 407**
Dividend income	13	-	-	32 883	32 883
Interest income on loans and bonds	13	60 728	126 782	102 211	188 528
Interest expense on debt	13	(106 894)	(217 633)	(102 008)	(196 222)
Revaluation of shares	13	(17 616)	(17 616)	(102 050)	(102 050)
Revaluation of loans and bonds	13	65 080	(429 592)	(314 904)	(458 321)
Revaluation write-off to fair value of non-current assets classified as held for sale	13	(1 395 883)	(1 395 883)	-	-
Other finance income and costs	13	39 211	(128 105)	22 149	12 568
Loss before tax		**(1 222 806)**	**(1 996 497)**	**(335 828)**	**(516 207)**
Income tax expense	14	(11 296)	41 372	(121 477)	(96 815)
Net loss		**(1 234 102)**	**(1 955 125)**	**(457 305)**	**(613 022)**
Measurement of hedging instruments	27.4	(41 555)	(131 745)	(592)	(3 363)
Income tax expense	14	7 896	25 032	112	639
Other comprehensive income subject to reclassification to profit or loss		**(33 659)**	**(106 713)**	**(480)**	**(2 724)**
Actuarial gains (losses)		(844)	(774)	59	117
Income tax expense	14	160	147	(10)	(22)
Other comprehensive income not subject to reclassification to profit or loss		**(684)**	**(627)**	**49**	**95**
Other comprehensive income, net of tax		**(34 343)**	**(107 340)**	**(431)**	**(2 629)**
Total comprehensive income		**(1 268 445)**	**(2 062 465)**	**(457 736)**	**(615 651)**
Loss per share (in PLN):					
- basic and diluted, for net profit (loss)		(0.71)	(1.12)	(0.26)	(0.35)

Additional notes to the interim condensed financial statements
form an integral part thereof

(in PLN thousand)

INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION

	Note	As at 30 June 2020 *(unaudited)*	As at 31 December 2019
ASSETS			
Non-current assets			
Investment property	**15**	17 891	19 737
Right-of-use assets	**16**	32 563	34 177
Shares	**17**	20 543 428	21 844 183
Loans granted	**18**	4 377 138	5 047 552
Derivative instruments	**19**	17 946	20 352
Deferred tax assets	**20**	117 790	23 418
Other financial assets	**21**	2 459	2 348
Other non-financial assets	**22**	20 446	18 823
		25 129 661	**27 010 590**
Current assets			
Inventories	**23**	173 257	149 364
Receivables from buyers	**24**	759 035	1 472 462
Income tax receivables		-	255 490
Loans granted	**18**	1 027 671	265 202
Derivative instruments	**19**	389 713	85 177
Other financial assets	**21**	288 699	316 949
Other non-financial assets	**22**	7 516	6 167
Cash and cash equivalents	**25**	339 007	923 728
Non-current assets classified as held for sale	**26**	364 020	-
		3 348 918	**3 474 539**
TOTAL ASSETS		**28 478 579**	**30 485 129**

Additional notes to the interim condensed financial statements
form an integral part thereof

This is a translation of the document originally issued and signed in Polish

(in PLN thousand)

INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION – CONTINUED

	Note	As at 30 June 2020 *(unaudited)*	As at 31 December 2019
EQUITY AND LIABILITIES			
Equity			
Issued capital	**27.1**	8 762 747	8 762 747
Reserve capital	**27.3**	6 801 584	6 801 584
Revaluation reserve from valuation of hedging instruments	**27.4**	(91 047)	15 666
Retained earnings / (Accumulated losses)	**27.5**	(2 727 572)	(771 820)
		12 745 712	**14 808 177**
Non-current liabilities			
Debt	**28**	12 326 719	10 909 597
Other financial liabilities	**29**	12 570	15 126
Derivative instruments	**19**	107 013	16 848
Provisions for employee benefits		3 805	5 929
		12 450 107	**10 947 500**
Current liabilities			
Debt	**28**	2 135 155	3 607 266
Liabilities to suppliers	**30**	316 912	424 486
Other financial liabilities	**29**	99 382	272 744
Derivative instruments	**19**	546 317	107 679
Income tax liabilities	**31**	34 028	-
Other non-financial liabilities	**32**	51 369	223 035
Provisions for employee benefits		296	292
Other provisions	**33**	79 187	77 094
Accruals, deferred income and government grants		20 114	16 856
		3 282 760	**4 729 452**
Total liabilities		**15 732 867**	**15 676 952**
TOTAL EQUITY AND LIABILITIES		**28 478 579**	**30 485 129**

Additional notes to the interim condensed financial statements
form an integral part thereof

(in PLN thousand)

INTERIM CONDENSED STATEMENT OF CHANGES IN EQUITY

FOR THE 6-MONTH PERIOD ENDED 30 June 2020 *(not audited)*

	Issued capital	Reserve capital	Revaluation reserve from valuation of hedging instruments	Retained earnings/ (Accumulated losses)	Total equity
As at 1 January 2020	**8 762 747**	**6 801 584**	**15 666**	**(771 820)**	**14 808 177**
Net loss	-	-	-	(1 955 125)	**(1 955 125)**
Other comprehensive income	-	-	(106 713)	(627)	**(107 340)**
Total comprehensive income	**-**	**-**	**(106 713)**	**(1 955 752)**	**(2 062 465)**
As at 30 June 2020 *(unaudited)*	**8 762 747**	**6 801 584**	**(91 047)**	**(2 727 572)**	**12 745 712**

FOR THE 6-MONTH PERIOD ENDED 30 June 2019 *(not audited)*

	Issued capital	Reserve capital	Revaluation reserve from valuation of hedging instruments	Retained earnings/ (Accumulated losses)	Total equity
As at 1 January 2019	**8 762 747**	**8 511 437**	**3 371**	**(2 017 719)**	**15 259 836**
Coverage of prior years loss	-	(1 709 853)	-	1 709 853	-
Transactions with shareholders	**-**	**(1 709 853)**	**-**	**1 709 853**	**-**
Net loss	-	-	-	(613 022)	**(613 022)**
Other comprehensive income	-	-	(2 724)	95	**(2 629)**
Total comprehensive income	**-**	**-**	**(2 724)**	**(612 927)**	**(615 651)**
As at 30 June 2019 *(unaudited)*	**8 762 747**	**6 801 584**	**647**	**(920 793)**	**14 644 185**

(in PLN thousand)

INTERIM CONDENSED STATEMENT OF CASHFLOWS

	Note	6-month period ended 30 June 2020 *(unaudited)*	6-month period ended 30 June 2019 *(unaudited)*
Cash flows from operating activities			
Loss before tax		(1 996 497)	(516 207)
Depreciation and amortization		6 950	6 528
Interest net		113 790	26 787
Impairment losses on shares		17 616	102 050
Impairment losses on bonds and loans		429 592	458 321
Revaluation write-off to fair value of non-current assets classified as held for sale		1 395 883	-
Exchange differences		178 958	(40 485)
Other adjustments of profit before tax		92 085	8 603
Change in working capital	**34.1**	479 553	(118 094)
Income tax paid		24 342	(41 915)
Net cash from operating activities		**742 272**	**(114 412)**
Cash flows from investing activities			
Purchase of bonds		-	(420 000)
Loans granted	**34.2**	(719 636)	(265 061)
Purchase of shares	**34.2**	(476 764)	(5 840)
Other		(1 706)	(2 019)
Total payments		**(1 198 106)**	**(692 920)**
Redemption of bonds		-	720 000
Dividends received		-	32 175
Investment fund units alienation		26 747	-
Repayment of loans granted		3 700	3 770
Interest received	**34.2**	51 864	163 542
Other		32	273
Total proceeds		**82 343**	**919 760**
Net cash from investing activities		**(1 115 763)**	**226 840**
Cash flows from financing activities			
Repayment of loans	**34.3**	(3 045 259)	(55 659)
Redemption of debt securities		(3 100)	(670 000)
Payment of lease liabilities		(4 660)	(3 621)
Interest paid	**34.3**	(133 330)	(119 041)
Commission paid		(11 707)	(16 910)
Total payments		**(3 198 056)**	**(865 231)**
Issue of debt securities		-	500 000
Contracted loans	**34.3**	2 200 000	1 000 000
Total proceeds		**2 200 000**	**1 500 000**
Net cash from financing activities		**(998 056)**	**634 769**
Net increase / (decrease) in cash and cash equivalents		**(1 371 547)**	**747 197**
Net foreign exchange difference		(106)	(1 065)
Cash and cash equivalents at the beginning of the period	**25**	**(49 080)**	**(1 560 034)**
Cash and cash equivalents at the end of the period, *of which:*	**25**	**(1 420 627)**	**(812 837)**
restricted cash	**25**	170 676	70 103

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

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

The interim condensed financial statements was prepared by TAURON Polska Energia Spółka Akcyjna (the "Company") with its registered seat in Katowice at ul. ks. Piotra Ściegiennego 3, whose shares are allowed for public trading.

The Company was established by the Notarial Deed on 6 December 2006 under the business name Energetyka Południe S.A. On 8 January 2007, the District Court Katowice-Wschód Commercial Division of the National Court Register registered the Company under the KRS number 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. Group of Companies (the "Group", the "TAURON Group").

The Company prepared interim condensed financial statements covering the 6-month period ended 30 June 2020 and containing comparative data for the 6-month period ended 30 June 2019 and as at 31 December 2019. The data included in these interim condensed financial statements for the 6-month period ended 30 June 2020 and comparative data for the 6-month period ended 30 June 2019 have been reviewed by a certified auditor. The comparative data as at 31 December 2019 were audited by a certified auditor. Interim condensed statement of comprehensive income for the 3-month period ended 30 June 2020 and comparative data for the 3-month period ended 30 June 2019 have not been audited or reviewed by a certified auditor.

These interim condensed financial statements for the 6-month period ended 30 June 2020 were approved for publication on 18 August 2020.

The Company also prepared the condensed interim consolidated financial statements for the 6-month period ended 30 June 2020, which were approved for publication by the Management Board on 18 August 2020.

These interim condensed 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 2020.

Composition of the Management Board

As at 30 June 2020, the composition of the Management Board was as follows:

- Filip Grzegorczyk – President of the Management Board;
- Jarosław Broda – Vice President of the Management Board;
- Marek Wadowski – Vice President of the Management Board.

After the end of the reporting period, on 14 July 2020, the Supervisory Board recalled all Members of the Management Board of the Company with effect from the end of 14 July 2020, and appointed as of 15 July 2020 the following members to the Management Board:

- Wojciech Ignacok as President of the Management Board,
- Marek Wadowski as Vice President of the Management Board,
- Jerzy Topolski as Vice President of the Management Board.

(in PLN thousand)

2. Shares in related parties

As at 30 June 2020, TAURON Polska Energia S.A. held direct and indirect interest in the following key subsidiaries:

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 of electricity	85.88%	85.88%
4	TAURON Ciepło Sp. z o.o.	Katowice	Production and distribution of heat	100.00%	100.00%
5	TAURON Serwis Sp. z o. o.	Katowice	Services	95.61%	95.61%
6	TAURON Ekoenergia Sp. z o.o.	Jelenia Góra	Generation of electricity	100.00%	100.00%
7	Marselwind Sp. z o.o.	Katowice	Generation of electricity	100.00%	100.00%
8	TEC1 Sp. z o.o.	Katowice	Head office and holding operations	100.00%	100.00%
9	TEC2 Sp. z o.o.	Katowice	Head office and holding operations	100.00%	100.00%
10	TEC3 Sp. z o.o.	Katowice	Head office and holding operations	100.00%	100.00%
11	TEC1 spółka z ograniczoną odpowiedzialnością Mogilno I sp.k.	Katowice	Generation of electricity	n/a	100.00%
12	TEC1 spółka z ograniczoną odpowiedzialnością Mogilno II sp.k.	Katowice	Generation of electricity	n/a	100.00%
13	TEC1 spółka z ograniczoną odpowiedzialnością Mogilno III sp.k.	Katowice	Generation of electricity	n/a	100.00%
14	TEC1 spółka z ograniczoną odpowiedzialnością Mogilno IV sp.k.	Katowice	Generation of electricity	n/a	100.00%
15	TEC1 spółka z ograniczoną odpowiedzialnością Mogilno V sp.k.	Katowice	Generation of electricity	n/a	100.00%
16	TEC1 spółka z ograniczoną odpowiedzialnością Mogilno VI sp.k.	Katowice	Generation of electricity	n/a	100.00%
17	TEC1 spółka z ograniczoną odpowiedzialnością EW Śniatowo sp.k.	Katowice	Generation of electricity	n/a	100.00%
18	TEC1 spółka z ograniczoną odpowiedzialnością EW Dobrzyń sp.k.	Katowice	Generation of electricity	n/a	100.00%
19	TEC1 spółka z ograniczoną odpowiedzialnością EW Gołdap sp.k.	Katowice	Generation of electricity	n/a	100.00%
20	TEC1 spółka z ograniczoną odpowiedzialnością Ino 1 sp.k.	Katowice	Generation of electricity	n/a	100.00%
21	TAURON Dystrybucja S.A.	Kraków	Distribution of electricity	99.75%	99.75%
22	TAURON Dystrybucja Pomiary Sp. z o.o.	Tarnów	Services	99.75%	99.75%
23	TAURON Sprzedaż Sp. z o.o.	Kraków	Sale of electricity	100.00%	100.00%
24	TAURON Sprzedaż GZE Sp. z o.o.	Gliwice	Sale of electricity	100.00%	100.00%
25	TAURON Czech Energy s.r.o.	Ostrawa, Czech Republic	Sale of electricity	100.00%	100.00%
26	TAURON Nowe Technologie S.A. *	Wrocław	Services	100.00%	100.00%
27	TAURON Obsługa Klienta Sp. z o.o.	Wrocław	Services	100.00%	100.00%
28	Kopalnia Wapienia Czatkowice Sp. z o.o.	Krzeszowice	Limestone quarrying and stone quarrying	100.00%	100.00%
29	Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o.	Warszawa	Sale of electricity	100.00%	100.00%
30	Finanse Grupa TAURON Sp. z.o.o.	Katowice	Services	100.00%	100.00%
31	Bioeko Grupa TAURON Sp. z o.o.	Stalowa Wola	Wholesale of fuel and derivative products	100.00%	100.00%
32	Wsparcie Grupa TAURON Sp. z o.o.	Tarnów	Services	99.75%	99.75%

[1] *TAURON 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. is a usufructuary of TAURON Dystrybucja Pomiary Sp. z o.o. shares.*
[2] *On 1 June 2020, the company name was changed from TAURON Dystrybucja Serwis S.A. to TAURON Nowe Technologie S.A.*

Changes in the share of TAURON Polska Energia S.A. in the issued capital and governing body of Nowe Jaworzno Grupa TAURON Sp. z o.o.

In the 6-month period ended 30 June 2020, the capital of subsidiary Nowe Jaworzno Grupa TAURON Sp. z o.o. was increased, as further described in Note 17 to these interim condensed financial statements. As at 30 June 2020, the Company's share in the issued capital and governing body was 85.88% (as of 31 December 2019 – 84.76%).

As at 30 June 2020, the TAURON Polska Energia S.A.'s share in the issued capital and governing bodies of other significant subsidiaries and joint ventures has not changed since 31 December 2019.

As at 30 June 2020, TAURON Polska Energia S.A. held direct and indirect interest in the following key jointly-controlled entities:

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

[1] TAURON Polska Energia S.A. holds indirect interest in Elektrociepłownia Stalowa Wola S.A. through a subsidiary, TAURON Wytwarzanie S.A.
[2] 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 interim condensed financial statements have been prepared in accordance with International Accounting Standard 34 Interim Financial Reporting ("IAS 34") as approved by the European Union ("EU").

The interim condensed financial statements do not include all the information and disclosures required for annual financial statements and should be read in conjunction with the Company's financial statements prepared in accordance with IFRS for the year ended 31 December 2019.

4. Going concern

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

During the 6-month period ended 30 June 2020, an epidemic of COVID-19 appeared in the area of the Group's operations, causing disruption to the economic and administrative system in Poland and causing significant changes in the market environment, which may affect the financial situation of the Group and the Company. At the moment, the Management Board has analysed the situation in the context of COVID-19 and, based on the scenarios under consideration, in the area of liquidity, financing and securing the continuation of operations does not identify any risk for the continuation of operations in the foreseeable future, including the description of the impact of the COVID-19 epidemic on the Group's operations, as further detailed in Note 41 of these interim condensed financial statements.

5. Functional and presentation currency

Polish zloty is the functional currency of the parent company and the presentation currency of these interim condensed financial statements. These interim condensed 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 in view of the below presented issues, professional judgement of the management, along with accounting estimates, have been of key importance; they have impacted the figures disclosed in these interim condensed 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 interim condensed 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 interim condensed financial statements.

6.1. Impact of COVID-19 on the level of expected credit losses and fair value measurement of financial instruments

Impact of COVID-19 on the level of expected credit losses of receivables from customers

Estimates and assumptions

With regard to receivables from buyers, the Company estimates the amount of allowances for expected credit losses based on a weighted probability of credit loss to be incurred as a consequence of any of the following events:

• there will be a significant (material) delay in payment;

• the debtor will be put into liquidation or bankruptcy or restructuring;

• the claims will be submitted to administrative enforcement, court proceedings or judicial execution.

For receivables from buyers, the Company has separated the portfolio of strategic counterparties and the portfolio of other counterparties. The risk of insolvency of strategic counterparties is assessed on the basis of ratings assigned to counterparties using an internal scoring model, appropriately transformed into the probability of default, taking into account the estimates of potential recoveries from the collateral provided.

In the case of receivables from other counterparties, it is expected that adjusted historical default data may reflect the credit risk that will be incurred in future periods. The expected credit losses for this group of counterparties have been estimated using an aging matrix of receivables, and percentage ratios assigned to particular ranges and groups (including, among others, receivables claimed in court, receivables from counterparties in bankruptcy) to estimate the value of receivables from buyers that are not expected to be repaid.

COVID-19 impact on the methodology of estimates and assumptions

The economic impact of COVID-19 is expected to affect the quality of the Company portfolios of financial assets and reduce the level of repayment of receivables from buyers. The projected impact varies depending on the economic sector in which the counterparty operates. Due to the uncertainty related to further development of COVID-19 and the expected impact of aid programs, the possibility of precise estimation of future repayment of receivables from buyers is limited.

In order to take into account the impact of future factors (including COVID-19) on the portfolio of strategic and other customers, the Company has performed:

• updating of the expected credit loss model parameters with respect to the terms of appropriate factors and recovery rate,

• includes a forecasting approach (forward-looking rate).

COVID-19 impact on the level of estimates made

The estimates taking into account the uncertainties related to the effect of COVID-19 for expected credit losses with regard to receivables from buyers was PLN 3 796 thousand, which affected the burden on the Company’s operating result for the 6-month period ended 30 June 2020. The total expected credit loss as at 30 June 2020 calculated for receivables from customers (except for receivables claimed in court) was estimated at PLN 4 708 thousand.

The Company assumes that the volume of data available for analysis in future periods will increase and will allow to extend the scope of analysis for the expected credit losses for the needs of the next interim condensed financial statements.

Impact of COVID-19 on the level of expected credit losses and valuation of loans granted and guarantee issued at fair value

Estimates and assumptions

For loans classified as assets measured at amortized cost, the Company estimates the amount of write-offs revaluating their value. The risk of borrowers' insolvency is estimated on the basis of ratings assigned to counterparties using an internal scoring model, appropriately transformed into probability of default, taking into account the time value of money.

The measurement of a loan classified as an asset measured at fair value is estimated as the present value of future cash flows, taking into account the borrower's credit risk.

The guarantees issued are estimated at the amount of expected credit losses.

COVID-19 impact on the methodology of estimates and assumptions

In order to take into account the impact of future factors (including COVID-19), the Company made adjustments to the probability of expected credit losses based on Credit Default Swap (CDS) quotations, diversified according to the internal counterparty rating.

COVID-19 impact on the level of estimates made

The effect of taking into account the impact of COVID-19 on the estimation methodology made resulted in the following changes affecting the Company's financial costs result for the 6-month period ended 30 June 2020 in the amount of PLN 39 643 thousand:

• an increase in expected credit losses calculated for loans granted by PLN 28 855 thousand (including loans granted to subsidiaries by amount of PLN 16 955 thousand, receivables due to cash pool loans by amount of PLN 10 417 thousand, loans granted to joint ventures companies by amount of PLN 1 414 thousand, other loans by amount of PLN 69 thousand),

• a decrease in the fair value of loans granted to joint ventures by PLN 3 720 thousand,

• an increase in expected credit losses calculated for contingent liabilities under the guarantee issued by the Company by PLN 7 068 thousand, which according to IFRS 9 *Financial Instruments* was recognised as an increase in financial liabilities.

The Company assumes that the volume of data available for analysis in future periods will increase and will allow to extend the scope of analysis for the expected credit losses for the needs of the next interim condensed financial statements.

6.2. Other material values based on professional judgement and estimates

The following are other items of the financial statements which involve a significant risk of a significant adjustment to the carrying amounts of assets and liabilities. Detailed information on the adopted assumptions are presented in the relevant notes to these interim condensed financial statements, as indicated in the table below.

(in PLN thousand)

Item	Note	Estimates and assumptions
Shares	Note 17	Due to the existence as at the balance sheet date of objective premises indicating impairment of the shares and stock item, including long-term maintenance of the Company's capitalization at a level below the balance sheet value of net assets, the Company carried out impairment tests on shares and stock and intragroup loans. The result of the tests carried out as at 30 June 2020 did not indicate the necessity of creating or reversing impairment losses on shares and stocks and intragroup loans.
Loans granted	Note 18	The Company makes appropriate classification and valuation of granted loans. Granted loans with a maturity of less than one year, for which an extension of the repayment period is planned, are classified as long-term instruments. In accordance with the requirements of IFRS 9 *Financial Instruments* for loans measured at amortised cost, the Company estimates the amount of write-offs due to expected credit losses. As at the balance sheet date, the Company also has loans granted, initially recognised as impaired financial assets due to credit risk. The amount of credit loss as at the date of recognition was estimated on the basis of scenarios assumed by the Company for repayment of the loan granted, taking into account the results of the asset impairment test.
Derivative instruments	Note 19	As at each balance sheet date, the Company measures derivative financial instruments at fair value. The methods of determining the fair value is presented in Note 19 of these interim condensed financial statements. Derivatives purchased and held to secure their own needs are not subject to valuation as at the balance sheet date. Due to the delay in commissioning the power unit in Jaworzno, as at the balance sheet date, the Company has a significant surplus of CO_2 emission rights contracted to be acquired in 2021 for resale to a subsidiary for redemption in connection with the emission for 2020. The Company intends to acquire CO_2 emission rights at maturity, therefore these contracts are recognised as excluded from IFRS 9 *Financial Instruments and* therefore are not measured at fair value as at the balance sheet date.
Deferred tax assets	Note 20	As at the end of each reporting period, the Company asses the realisation of deferred tax assets and verifies deferred tax assets which were not recognized.
Non-current assets classified as held for sale	Note 26	As at the balance sheet date, the Company assessed that, in relation to the shares in the subsidiary TAURON Ciepło Sp. z o.o., the conditions of IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* in terms of classification as non-current assets held for sale were met. Therefore, as at 30 June 2020, the Company presents in the statement of financial position the shares under fixed assets classified as held for sale and recognised a write-off for revaluation to fair value less selling costs.
Provisions	Note 33	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%.

Additionally, the Company makes significant estimates as regards the contingent liabilities disclosed thereby, and in particular as regards court cases it is a party to. Contingent liabilities have been presented in detail in Note 37 hereto.

7. Published standards and amendments to standards which have been published but are not yet effective

The Company has not decided to apply any standard or amendment to a standard that has been published but has not yet entered into force.

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

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

(in PLN thousand)

Standard	Effective date specified in the Standard, not endorsed by the EU *(annual periods beginning on or after the date provided)*
IFRS 14 *Regulatory Deferral Accounts*	1 January 2016*
Amendments to IFRS 16 *Leasing*	1 June 2020
IFRS 17 *Insurance contracts*	1 January 2023
Revised IFRS 10 *Consolidated Financial Statements and* IAS 28 *Investments in Associates and Joint Ventures: Sale or Contribution of Assets between Investor and its Associate or Joint Venture* with subsequent amendments	the effective date has been postponed
Amendments to IFRS 4 *Insurance Contracts*	1 January 2021
Amendments to IFRS 3 *Business Combinations*	1 January 2022
Amendments to IAS 16 Property, Plant and Equipment	1 January 2022
Amendments to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*	1 January 2022
Annual Improvements to IFRS (Cycle 2018-2020):	
IFRS 1 *First-time Adoption of International Financial Reporting Standards*	1 January 2022
IFRS 9 *Financial Instruments*	1 January 2022
IAS 41 *Agriculture*	1 January 2022
Amendments to IAS 1 P*resentation of Financial Statements: Classification of Liabilities as Current or Non-current*	1 January 2023

** 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 Regulatory Deferral Accounts.*

8. Changes in the accounting policies

The accounting principles (policy) adopted for the preparation of these interim condensed 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 2019, except for the application of changes to the standards below.

According to the Management Board, the introduction of the following amendments to standards 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 IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors: Definition of Material*	1 January 2020
Amendments to IFRS 3 *Business Combinations: Definition of a Business*	1 January 2020
Amendments to References to the Conceptual Framework in IFRS	1 January 2020
Amendments to IFRS 9 *Financial Instruments*, IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 7 *Financial Instruments: Disclosures: Interest Rate Benchmark Reform*	1 January 2020

9. Seasonality of activities

The Company's activity related to electricity trading is not seasonal in nature, therefore in this respect the presented results of the Company do not record significant fluctuations during the year. Due to the holding activity, the Company may show significant financial revenues from dividends recognised in the dates of resolutions on the payment of dividends, unless these resolutions indicate other dates for determining the right to dividend. In the 6-month period ended on 30 June 2020, the Company did not recognise income from dividends. In the comparable period, the Company recognised dividend income of PLN 32 883 thousand.

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 mainly:

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

As at 30 June 2020 in the segment "Holding operations" the segment's assets also include shares in the subsidiary TAURON Ciepło Sp. z o.o., which have been classified as fixed assets held for sale.

The liabilities of the “Holding activity” segment are:

- bonds issued by the Company, credits received (except for credits in the account) and liabilities resulting from the valuation of hedging instruments related to the incurred financing;
- 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 and revaluation write-offs on shares and stocks and loans (in the comparable period also write-offs on bonds), constituting assets of the “Holding activity” segment.

The “Sales” segment includes mainly assets, liabilities, revenues and operating costs related to sales of electricity, gas, fuels and commodity derivative instruments..

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 amortisation/depreciation and revaluation write-offs on non-financial assets.

(in PLN thousand)

6-month period ended on 30 June 2020 or as at 30 June 2020 *(not audited)*

	Sales	Holding activity	Unallocated items	Total
Revenue				
Sales outside the Group	486 496	-	-	**486 496**
Sales within the Group	4 720 419	5	-	**4 720 424**
Segment revenue	**5 206 915**	**5**	**-**	**5 206 920**
Profit/(loss) of the segment	**125 874**	**5**	**-**	**125 879**
Unallocated expenses	-	-	(60 329)	**(60 329)**
EBIT	**125 874**	**5**	**(60 329)**	**65 550**
Revaluation of shares	**-**	(17 616)	**-**	**(17 616)**
Revaluation of loans	**-**	(429 592)	-	**(429 592)**
Revaluation write-off to fair value of non-current assets classified as held for sale	**-**	(1 395 883)	**-**	**(1 395 883)**
Other net finance income/(costs)	-	(277 641)	58 685	**(218 956)**
Profit/(loss) before income tax	**125 874**	**(2 120 727)**	**(1 644)**	**(1 996 497)**
Income tax expense	-	-	41 372	**41 372**
Net profit/(loss) for the period	**125 874**	**(2 120 727)**	**39 728**	**(1 955 125)**
Assets and liabilities				
Segment assets	1 964 797	26 384 183	-	**28 348 980**
Unallocated assets	-	-	129 599	**129 599**
Total assets	**1 964 797**	**26 384 183**	**129 599**	**28 478 579**
Segment liabilities	999 474	14 475 240	**-**	**15 474 714**
Unallocated liabilities	-	-	258 153	**258 153**
Total liabilities	**999 474**	**14 475 240**	**258 153**	**15 732 867**
EBIT	**125 874**	**5**	**(60 329)**	**65 550**
Depreciation/amortization	**(6 950)**	**-**	**-**	**(6 950)**
Impairment	**(29)**	**-**	**-**	**(29)**
EBITDA	**132 853**	**5**	**(60 329)**	**72 529**
Other segment information				
Capital expenditure *	2 098	-	-	**2 098**

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

6 month-period ended 30 June 2019 (*not audited*) or as at 31 December 2019

	Sales	Holding activity	Unallocated items	Total
Revenue				
Sales outside the Group	427 237	-	-	**427 237**
Sales within the Group	4 450 228	5	-	**4 450 233**
Segment revenue	**4 877 465**	**5**	**-**	**4 877 470**
Profit/(loss) of the segment	**64 317**	**5**	**-**	**64 322**
Unallocated expenses	-	-	(57 915)	**(57 915)**
EBIT	**64 317**	**5**	**(57 915)**	**6 407**
Revaluation of shares	**-**	(102 050)	-	**(102 050)**
Revaluation of loans and bonds	-	(458 321)	-	**(458 321)**
Other net finance income (costs)	-	48 289	(10 532)	**37 757**
Profit/(loss) before income tax	**64 317**	**(512 077)**	**(68 447)**	**(516 207)**
Income tax expense	-	-	(96 815)	**(96 815)**
Net profit/(loss) for the period	**64 317**	**(512 077)**	**(165 262)**	**(613 022)**
Assets and liabilities				
Segment assets	3 003 016	27 176 583	-	**30 179 599**
Unallocated assets	-	-	305 530	**305 530**
Total assets	**3 003 016**	**27 176 583**	**305 530**	**30 485 129**
Segment liabilities	836 660	14 685 415	**-**	**15 522 075**
Unallocated liabilities	-	-	154 877	**154 877**
Total liabilities	**836 660**	**14 685 415**	**154 877**	**15 676 952**
EBIT	**64 317**	**5**	**(57 915)**	**6 407**
Depreciation/amortization	**(6 528)**	**-**	**-**	**(6 528)**
Impairment	**142**	**-**	**-**	**142**
EBITDA	**70 703**	**5**	**(57 915)**	**12 793**
Other segment information				
Capital expenditure *	1 721	-	-	**1 721**

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

(in PLN thousand)

In the 6-month period ended 30 June 2020, revenue from sales to two major clients from the TAURON Group accounted for 74% and 10% of the Company's total revenue in the "Sales" segment and amounted to PLN 3 845 720 thousand and PLN 527 033 thousand, respectively. In the 6-month period ended 30 June 2019, revenue from sales to two major clients from the TAURON Group accounted for 79% and 11% of the Company's total revenue in the "Sales" segment and amounted to PLN 3 835 057 thousand and PLN 537 364 thousand, respectively.

3-month period ended 30 June 2020 *(not audited)*

	Sales	Holding activity	Unallocated items	Total
Revenue				
Sales outside the Group	296 636	-	-	**296 636**
Sales within the Group	2 289 041	-	-	**2 289 041**
Segment revenue	**2 585 677**	**-**	**-**	**2 585 677**
Profit/(loss) of the segment	**161 479**	**-**	**-**	**161 479**
Unallocated expenses	-	**-**	(28 911)	**(28 911)**
EBIT	**161 479**	**-**	**(28 911)**	**132 568**
Revaluation of loans and bonds	**-**	(17 616)	**-**	**(17 616)**
Revaluation of loans	**-**	65 080	**-**	**65 080**
Revaluation write-off to fair value of non-current assets classified as held for sale	**-**	(1 395 883)	**-**	**(1 395 883)**
Other net finance income (costs)	-	12 490	(19 445)	**(6 955)**
Profit/(loss) before income tax	**161 479**	**(1 335 929)**	**(48 356)**	**(1 222 806)**
Income tax expense	-	-	(11 296)	**(11 296)**
Net profit/(loss) for the period	**161 479**	**(1 335 929)**	**(59 652)**	**(1 234 102)**
EBIT	**161 479**	**-**	**(28 911)**	**132 568**
Depreciation/amortization	**(3 481)**	**-**	**-**	**(3 481)**
Impairment	**(17)**	**-**	**-**	**(17)**
EBITDA	**164 977**	**-**	**(28 911)**	**136 066**
Other segment information				
Capital expenditure *	1 050	-	-	**1 050**

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

3-month period ended 30 June 2019 *(not audited)*

	Sales	Holding activity	Unallocated items	Total
Revenue				
Sales outside the Group	192 838	-	-	**192 838**
Sales within the Group	2 168 585	-	-	**2 168 585**
Segment revenue	**2 361 423**	**-**	**-**	**2 361 423**
Profit/(loss) of the segment	**49 572**	**-**	**-**	**49 572**
Unallocated expenses	-	**-**	(23 681)	**(23 681)**
EBIT	**49 572**	**-**	**(23 681)**	**25 891**
Revaluation of shares	(102 050)	-	(102 050)	**-**
Revaluation of loans and bonds	-	(314 904)	-	**(314 904)**
Other net finance income (costs)	-	63 163	(7 928)	**55 235**
Profit/(loss) before income tax	**49 572**	**(353 791)**	**(31 609)**	**(335 828)**
Income tax expense	-	-	(121 477)	**(121 477)**
Net profit/(loss) for the period	**49 572**	**(353 791)**	**(153 086)**	**(457 305)**
EBIT	**49 572**	**-**	**(23 681)**	**25 891**
Depreciation/amortization	**(3 285)**	**-**	**-**	**(3 285)**
Impairment	**146**	**-**	**-**	**146**
EBITDA	**52 711**	**-**	**(23 681)**	**29 030**
Other segment information				
Capital expenditure *	882	-	-	**882**

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

(in PLN thousand)

NOTES TO THE INTERIM CONDENSED STATEMENT OF COMPREHENSIVE INCOME

11. Sales revenue

	6-month period ended 30 June 2020 *(unaudited)*	6-month period ended 30 June 2019 *(unaudited)*
Revenue from sales of goods for resale and materials	**5 137 268**	**4 803 835**
Electricity	4 784 691	4 620 197
Gas	178 118	177 572
CO_2 emission allowances	169 481	2 116
Other	4 978	3 950
Rendering of services	**69 652**	**73 635**
Trading income	52 124	54 103
Other	17 528	19 532
Total	**5 206 920**	**4 877 470**

The increase in revenue from sales of electricity in the 6-month period ended 30 June 2020 in relation to the comparable period is mainly related to the to the execution of unrealised production contracted on the energy forward market in order to secure the subsidiary Nowe Jaworzno Grupa TAURON Sp. z o.o. in connection with the delay in commissioning the unit. Moreover, the increase in revenue from sales is related to the electricity prices, with a simultaneous slight decrease in the volume of trade.

The increase in revenue from the sale of CO_2 emission allowances results mainly from the sale of CO_2 emission allowances to a subsidiary in April 2020 for the purpose of CO_2 emission allowance redemption by that company.

TAURON Polska Energia S.A. acts as an agent coordinating and supervising purchases, supplies and transportation of fuels. The Company buys coal from entities outside and from the TAURON Group, while the sale is made to related companies. It recognises revenue from agency services (supply management) in the trading income line.

In the 6-month period ended 30 June 2020, the value of raw materials purchased and subsequently resold in the aforementioned transactions was PLN 562 757 thousand. The Company recognised revenue from agency services of PLN 14 101 thousand.

12. Expenses by type

	6-month period ended 30 June 2020 *(unaudited)*	6-month period ended 30 June 2019 *(unaudited)*
Depreciation of property, plant and equipment, right-of-use assets and amortization of intangible assets	(6 950)	(6 528)
Materials and energy	(1 278)	(716)
External services	(23 851)	(21 853)
Taxes and charges	(4 338)	(2 912)
Employee benefits expense	(46 994)	(51 157)
Advertising expenses	(6 766)	(7 589)
Other	(3 165)	(295)
Total costs by type	**(93 342)**	**(91 050)**
Costs of performances intended for internal purposes	99	104
Selling and distribution expenses	12 278	12 867
Administrative expenses	60 329	57 915
Cost of goods for resale and materials sold	(5 044 007)	(4 776 569)
Cost of sales	**(5 064 643)**	**(4 796 733)**

In the 6-month period ended 30 June 2020 in relation to the comparable period, there was an increase in the cost of goods, materials and services sold in the amount of PLN 267 910 thousand. The value of cost of goods, materials and services sold includes the cost of CO_2 emission allowances sold to the subsidiary in the amount of PLN 170 019 thousand and includes the effects of the change in the strategy of securing the redemption needs of the Group's

(in PLN thousand)

Generation segment. The transactions concluded as part of the implementation of the strategy change affected the Company's burden of the value of goods and materials sold in the amount of PLN 124 559 thousand.

As part of the management of the CO_2 emission allowance portfolio of the subsidiaries, the Company acquires allowances for redemption purposes of the Group's generating companies. The main purpose of concluding the above transactions by the Company is to secure the expected level of volume and costs of acquiring CO_2 emission allowances, which the Group's generation companies are obliged to redeem. In the first quarter of 2020 the Group decided to change the strategy of securing the redemption needs of the Group's Generation area by replacing the exchange contracts with the delivery date in December 2020 with OTC contracts with the delivery date in March 2021. The decision to change the strategy was made taking into account the circumstances difficult to predict at the time of concluding the transactions. These circumstances include, in particular, the growing costs of maintaining the position on the exchange, which was related to, inter alia, with the need to make ongoing contributions to stock exchange deposits, a change in the legal and market circumstances in the area of trading CO_2 emission allowances related to Brexit and the COVID-19 pandemic. Pursuing the above change in strategy, the Company resold the forward positions with a delivery date in December 2020 held on the exchange (entered into an opposite transaction on the stock exchange) with the simultaneous purchase of the same volume in contracts with a delivery date in March 2021 from counterparties on the OTC market. The counter-transaction resulted in the original contract not being settled by physical delivery, and therefore the Company recognised this contract and the counter-transaction contract in accordance with IFRS 9 *Financial Instruments* at fair value. All new transactions concluded on the OTC market will be used for the purpose of fulfilling the obligation of redemption by manufacturing companies of TAURON Group, therefore, as excluded from the scope of IFRS 9 *Financial Instruments* are not measured at fair value. In the Company's opinion, the change of strategy allows, in the current market situation, to secure the redemption needs of the Group's generating companies in a way that minimizes the risks to which the Group is exposed.

13. Finance income and costs

	6-month period ended 30 June 2020 *(unaudited)*	6-month period ended 30 June 2019 *(unaudited)*
Dividend income	-	32 883
Interest income on loans and bonds	126 782	188 528
Interest expense	(217 633)	(196 222)
Realuation of shares	(17 616)	(102 050)
Revaluation of bonds and loans	(429 592)	(458 321)
Revaluation write-off to fair value of non-current assets classified as held for sale	(1 395 883)	-
Other finance income and costs, *of which:*	**(128 105)**	**12 568**
Other interest income	4 596	2 384
Gain/(loss) on derivative instruments	44 387	(21 344)
Commissions due to external financing	(7 267)	(10 920)
Exchange differences	(173 662)	40 416
Other	3 841	2 032
Total, *of which:*	**(2 062 047)**	**(522 614)**
Income and costs from financial instruments	(2 062 724)	(523 121)
Other finance income and costs	677	507

Significant changes in the items of financial income and expenses in the 6-month period ended 30 June 2020 resulted mainly from recognising:

- of a write-off for the revaluation to fair value of shares in TAURON Ciepło Sp. z o.o. in the amount of PLN 1 395 883 thousand in connection with the classification as at the balance sheet date of the shares as fixed assets classified as held for sale;
- net cost of revaluation of loans in the amount of PLN 429 592 thousand, which resulted mainly from:
  - the valuation of loans with a total nominal value of PLN 421 000 thousand granted in the current period to a subsidiary in the Extraction segment, which were initially recognised as an impaired financial assets, as a result of which the Company's profit/(loss) was charged with a negative valuation of PLN 374 035 thousand, and;

(in PLN thousand)

- recognition in accordance with IFRS 9 *Financial Instruments* a loss of PLN 62 131 thousand due to modification of financial instruments, in connection with a change in the contractual provisions of intragroup loans;

- surplus of negative exchange rate differences over positive ones in the amount of PLN 173 662 thousand (in the comparable period there was a surplus of positive exchange rate differences over negative ones in the amount of PLN 40 416 thousand. Exchange differences are mainly exchange differences related to the Company's debt in the EUR, i.e. a loan obtained from a subsidiary, subordinated bonds and eurobonds;
- a positive result on derivatives due to the measurement and realization mainly of FX forwards and CCIRS.

14. Tax expense in the statement of comprehensive income

	6-month period ended 30 June 2020 *(unaudited)*	6-month period ended 30 June 2019 *(unaudited)*
Current income tax	**(27 821)**	**(15 778)**
Current income tax expense	(27 562)	(25 496)
Adjustments of current income tax from prior years	(259)	9 718
Deferred tax	**69 193**	**(81 037)**
Income tax expense in profit or loss	**41 372**	**(96 815)**
Income tax expense in other comprehensive income	**25 179**	**617**

A decrease in the deferred income tax burden is primarily related to an increase in deferred income tax assets on debt liabilities during the 6-month period ended 30 June 2020.

NOTES TO THE INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION

15. Investment property

	6-month period ended 30 June 2020 *(unaudited)*	6-month period ended 30 June 2019 *(unaudited)*
COST		
Opening balance	**41 513**	**40 095**
Impact of IFRS 16 *Leases*	-	1 526
Restated opening balance	**41 513**	**41 621**
Closing balance	**41 513**	**41 621**
ACCUMULATED DEPRECIATION		
Opening balance	**(21 776)**	**(18 085)**
Depreciation for the period	(1 846)	(1 846)
Closing balance	**(23 622)**	**(19 931)**
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	**19 737**	**22 010**
NET CARRYING AMOUNT AT THE END OF THE PERIOD, *of which:*	**17 891**	**21 690**
Buildings	12 659	16 276
Perpetual usufruct of land	5 232	5 414

The investment property is composed of a perpetual fructose right to land and buildings located in Katowice Szopienice, at Lwowska 23. The Company concluded a lease agreement with a subsidiary for the lease of property. The income from lease during the 6-month period ending on 30 June 2020 was PLN 2 737 thousand.

The Company decided that assets from the right-of-use assets meeting the definition of investment property, which refer to rights of perpetual fructose of land, are presented in investment property. Therefore, as at 1 January 2019, the right of perpetual usufruct of land constituting an investment property was increased by the value of discounted lease payments of PLN 1 526 thousand.

(in PLN thousand)

16. Right-of-use assets

6-month period ended 30 June 2020 *(not audited)*

	Buildings and premises	Motor vehicles	Total right-of-use assets
COST			
Opening balance	**40 262**	**1 817**	**42 079**
Increase/(decrease) due to lease changes	2 692	-	**2 692**
Liquidation	-	(34)	**(34)**
Closing balance	**42 954**	**1 783**	**44 737**
ACCUMULATED DEPRECIATION			
Opening balance	**(7 226)**	**(676)**	**(7 902)**
Depreciation for the period	(3 933)	(356)	**(4 289)**
Liquidation	-	17	**17**
Closing balance	**(11 159)**	**(1 015)**	**(12 174)**
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	**33 036**	**1 141**	**34 177**
NET CARRYING AMOUNT AT THE END OF THE PERIOD	**31 795**	**768**	**32 563**

6-month period ended 30 June 2019 *(not audited)*

	Buildings and premises	Motor vehicles	Total right-of-use assets
COST			
Opening balance	**-**	**-**	**-**
Impact of IFRS 16	38 468	1 502	**39 970**
Restarted opening balance	**38 468**	**1 502**	**39 970**
New lease agreement	-	183	**183**
Increase(decrease) due to lease changes	(262)	54	**(208)**
Closing balance	**38 206**	**1 739**	**39 945**
ACCUMULATED DEPRECIATION			
Opening balance	**-**	**-**	**-**
Depreciation for the period	(3 558)	(317)	**(3 875)**
Closing balance	**(3 558)**	**(317)**	**(3 875)**
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	**-**	**-**	**-**
NET CARRYING AMOUNT AT THE END OF THE PERIOD	**34 648**	**1 422**	**36 070**

(in PLN thousand)

17. Shares

17.1. Change in share balance

Change in share balance in the period from 1 January 2020 to 30 June 2020 *(not audited)*

No.	Company	Gross value			Impairment losses			Net value	
		Opening balance	(Decreases) Increases	Closing balance	Opening balance	Decreases (Increases)	Closing balance	Opening balance	Closing balance
1	TAURON Wydobycie S.A.	1 341 755	-	1 341 755	(1 341 755)	-	(1 341 755)	-	-
2	TAURON Wytwarzanie S.A.	7 865 701	-	7 865 701	(7 635 126)	-	(7 635 126)	230 575	230 575
3	TAURON Ciepło Sp. z o.o.	1 928 043	(1 928 043)	-	(168 140)	168 140	-	1 759 903	-
4	TAURON Ekoenergia Sp. z o.o.	1 939 765	-	1 939 765	-	-	-	1 939 765	1 939 765
5	Marselwind Sp. z o.o.	307	-	307	-	-	-	307	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.	4 861 026	455 100	5 316 126	-	-	-	4 861 026	5 316 126
8	TAURON Dystrybucja S.A.	10 511 628	-	10 511 628	-	-	-	10 511 628	10 511 628
9	TAURON Nowe Technologie S.A.*	640 362	9 500	649 862	-	-	-	640 362	649 862
10	TAURON Sprzedaż Sp. z o.o.	613 505	-	613 505	-	-	-	613 505	613 505
11	TAURON Sprzedaż GZE Sp. z o.o.	129 823	-	129 823	-	-	-	129 823	129 823
12	TAURON Czech Energy s.r.o.	4 223	-	4 223	-	-	-	4 223	4 223
13	Kopalnia Wapienia Czatkowice Sp. z o.o.	41 178	-	41 178	-	-	-	41 178	41 178
14	Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o.	61 056	17 616	78 672	(61 056)	(17 616)	(78 672)	-	-
15	Bioeko 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	Finanse Grupa TAURON Sp. z o.o.	28 482	-	28 482	(23 925)	-	(23 925)	4 557	4 557
18	TAMEH HOLDING Sp. z o.o.	415 852	-	415 852	-	-	-	415 852	415 852
19	PGE EJ 1 Sp. z o.o.	14 402	-	14 402	-	-	-	14 402	14 402
20	Magenta Grupa TAURON Sp. z o.o.	9 500	(9 500)	-	-	-	-	9 500	-
21	ElectroMobility Poland S.A.	11 847	-	11 847	-	-	-	11 847	11 847
22	EEC Magenta Sp. z o.o. ASI spółka komandytowo–akcyjna	1 058	143	1 201	-	-	-	1 058	1 201
23	EEC Magenta Sp. z o.o. 2 ASI spółka komandytowo–akcyjna	10 950	3 905	14 855	-	-	-	10 950	14 855
24	TEC1 Sp. z o.o.	725	-	725	-	-	-	725	725
25	TEC2 Sp. z o.o.	225	-	225	-	-	-	225	225
26	TEC3 Sp. z o.o.	600 025	-	600 025	-	-	-	600 025	600 025
27	Other	379	-	379	-	-	-	379	379
	Total	**31 074 185**	**(1 451 279)**	**29 622 906**	**(9 230 002)**	**150 524**	**(9 079 478)**	**21 844 183**	**20 543 428**

* *On 1 June 2020, the company name was changed from TAURON Dystrybucja Serwis S.A. to TAURON Nowe Technologie S.A.*

Classification of shares in TAURON Ciepło Sp. z o.o. as non-current assets held for sale

As the prerequisites for the classification of shares in the subsidiary TAURON Ciepło Sp. z o.o. as held for sale were met, the Company reclassified shares in TAURON Ciepło Sp. z o.o. with a net value of PLN 1 759 903 thousand to assets held for sale, as described in more detail in Note 26 of these interim condensed financial statements.

Merger of TAURON Dystrybucja Serwis S.A. (now: TAURON Nowe Technologie S.A.) with Magenta Grupa TAURON Sp. z o.o.

On 29 October 2019, the Extraordinary General Meeting of Shareholders of TAURON Dystrybucja Serwis S.A. (now: TAURON Nowe Technologie S.A.) with its registered office in Wrocław and the Extraordinary General Meeting of Shareholders of Magenta Grupa TAURON Sp. z o.o. with its registered office in Katowice adopted resolutions on the merger of TAURON Dystrybucja Serwis S.A. (now: TAURON Nowe Technologie S.A., the acqiuer) with Magenta Grupa TAURON Sp. z o.o. (the acquiree). On 2 January 2020, the merger was registered in the National Court Register maintained by the District Court in Wrocław.

As a result of the merger, the Company relocated its shares in Magenta Grupa TAURON Sp. z o.o. in the net amount of PLN 9 500 thousand to the value of shares in TAURON Nowe Technologie S.A.

Additional payments to thecapital of Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o.

On 8 January 2020, the Extraordinary General Meeting of Shareholders of Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o. adopted a resolution on making additional payments to the company's capital in the amount of PLN 8 016 thousand. The cash in the additional payments was contributed by the Company on 10 January 2020.

On 16 June 2020, the Extraordinary General Meeting of Shareholders of Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o. adopted a resolution on making additional payments to the company's capital in the amount of PLN 9 600 thousand. The cash in the additional payments was contributed by the Company on 18 June 2020.

(in PLN thousand)

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

On 2 March 2020, the Extraordinary General Shareholders' Meeting of Nowe Jaworzno Grupa TAURON Sp. z o.o. adopted a resolution to increase the company's share capital by PLN 4 551 thousand. All the shares were acquired by the Company for the total amount of PLN 455 100 thousand. On 5 March 2020, the Company provided funds for capital increase. As a result of the transaction, the Company's share in the issued capital and the governing body will be increased from 84.76% to 85.88% The increase in the share capital was registered on 18 May 2020.

Other changes in long-term investments that took place in the 6-month period ended 30 June 2020 resulted from the issued capital increases of the following companies:

- EEC Magenta Sp. z o.o. ASI spółka komandytowo-akcyjna in the amount of PLN 143 thousand;
- EEC Magenta Sp. z o.o. 2 ASI spółka komandytowo-akcyjna in the amount of PLN 3 905 thousand;

Change in share balance in the period from 1 January 2019 to 30 June 2019 *(not audited)*

No.	Company	Gross value			Impairment losses			Net value	
		Opening balance	(Decreases) Increases	Closing balance	Opening balance	Decreases (Increases)	Closing balance	Opening balance	Closing balance
1	TAURON Wydobycie S.A.	1 341 755	-	1 341 755	(1 242 697)	(99 058)	(1 341 755)	99 058	-
2	TAURON Wytwarzanie S.A.	7 865 701	-	7 865 701	(7 635 126)	-	(7 635 126)	230 575	230 575
3	TAURON Ciepło Sp. z o.o.	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	(185 172)	-	(185 172)	1 754 593	1 754 593
5	Marselwind Sp. z o.o.	307	-	307	-	-	-	307	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.	4 611 026	-	4 611 026	-	-	-	4 611 026	4 611 026
8	TAURON Dystrybucja S.A.	10 511 628	-	10 511 628	-	-	-	10 511 628	10 511 628
9	TAURON Nowe Technologie S.A. *	640 362	-	640 362	-	-	-	640 362	640 362
10	TAURON Sprzedaż Sp. z o.o.	613 505	-	613 505	-	-	-	613 505	613 505
11	TAURON Sprzedaż GZE Sp. z o.o.	129 823	-	129 823	-	-	-	129 823	129 823
12	TAURON Czech Energy s.r.o.	4 223	-	4 223	-	-	-	4 223	4 223
13	Kopalnia Wapienia Czatkowice Sp. z o.o.	41 178	-	41 178	-	-	-	41 178	41 178
14	Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o.	61 056	-	61 056	(61 056)	-	(61 056)	-	-
15	TAURON Sweden Energy AB (publ)	28 382	-	28 382	(20 933)	(2 992)	(23 925)	7 449	4 457
16	Bioeko Grupa TAURON Sp. z o.o.	1 269	-	1 269	-	-	-	1 269	1 269
17	TAURON Obsługa Klienta Sp. z o.o.	39 831	-	39 831	-	-	-	39 831	39 831
18	TAMEH HOLDING Sp. z o.o.	415 852	-	415 852	-	-	-	415 852	415 852
19	PGE EJ 1 Sp. z o.o.	18 651	-	18 651	-	-	-	18 651	18 651
20	Magenta Grupa TAURON Sp. z o.o.	9 500	-	9 500	-	-	-	9 500	9 500
21	ElectroMobility Poland S.A.	17 500	-	17 500	-	-	-	17 500	17 500
22	EEC Magenta Sp. z o.o. ASI spółka komandytowo–akcyjna	12	890	902	-	-	-	12	902
23	EEC Magenta Sp. z o.o. 2 ASI spółka komandytowo–akcyjna	24	4 775	4 799	-	-	-	24	4 799
24	Other	379	175	554	-	-	-	379	554
	Total	**30 221 040**	**5 840**	**30 226 880**	**(9 144 984)**	**(102 050)**	**(9 247 034)**	**21 076 056**	**20 979 846**

* *On 1 June 2020, the company name was changed from TAURON Dystrybucja Serwis S.A. to TAURON Nowe Technologie S.A.*

17.2. Impairment tests

As at 30 June 2020, the Company carried out impairment tests focusing on shares and intra-group loans, taking into account the following factors:

- the Company's capitalization remaining below the carrying amount of its net assets for a long period;
- changes in global prices of energy commodities, electricity and rapid increases in the prices of CO_2 emissions allowances;
- material fluctuations of energy prices on the future/forward market and continuing liquidity problems;
- decrease in domestic electricity consumption due to the increase in winter temperatures and the impact of the COVID-19 pandemic;
- regulatory activities aimed at the limiting of end user price increases;
- increased risk related to the production of marketable coal;
- tightening of the European Union's climate policy in the form of increasing the target of reducing CO_2;
- effects of the results of the previous RES auction, as well as those of very dynamic development of the prosumer and micro-installation subsector in connection with the launched support programs;

(in PLN thousand)

- proceeding winter package provisions (including emission standards) that adversely impact the capability of coal-based units to participate in the power market after 1 July 2025;
- tightening emission standards and persisting unfavorable market conditions for the conventional power industry;
- a decrease in the risk-free rate.

Shares and intra-group loans 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.

The tests were conducted based on the present value of projected cash flows from operations of the significant companies, by reference to detailed projections by 2025 for TAURON Dystrybucja S.A. and by 2029 for other companies and the estimated residual value. The detailed 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 2020

Category	Description
Coal	Coal prices were assumed to remain stable in the coming years. In the long run, 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 2030 show a downward trend. It has been assumed that in the years 2021–2040 the prices of power coal will decrease by 7.1%.
Electricity	The electricity wholesale price projections for the years 2020-2029 with the perspective by 2040, due to uncertainties about the final shape of the market architecture and the introduction of the scarcity pricing mechanism has been updated and adapted to current price levels in the years 2020-2023. The projected levels of wholesale electricity prices assume that the COVID-19 pandemic should have the greatest impact on prices in the years 2020-2021, in which it will be visible a decline compared to the prices forecasted at the end of 2019 at the level of 12.7%. In the period from 2024 to 2040 the price levels used in the tests were adopted as at 31 December 2019. The forecast assumes, among other things, the impact of the demand and supply balance on electricity, fuel purchase costs and CO_2 emission allowances. In 2021, a slight increase in energy prices by 1.3% in relation to 2020 was assumed, which results, inter alia, from the prediction of further impact of the COVID-19 pandemic on fuel prices and the decreasing level of margins obtained on sales of electricity from hard coal fired sources. The price increase in the period up to 2029 results from the increase in prices of CO_2 emission allowances and planned shutdowns of coal and nuclear units in Germany affecting the level of the cross-system exchange balance. An increase of 25% is assumed in relation to 2021 followed by a drop by 13.6% between 2030 and 2040 (fixed prices) vs. 2029. 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 expected level of margin.
CO_2	CO_2 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 CO_2 emission allowance price growth path for the years 2021-2029 with the perspective by 2040 has been adopted. Due to the impact of the COVID-19 pandemic, it was assumed that the price of CO_2 emission allowances in 2020 will be 4% lower than the average price in 2019. In 2021 the price of CO_2 emission allowances was assumed to be 9% higher than the average price in 2019. It has been assumed that by 2028 the market price will increase by ca. 34% comparing to the average price observed in 2019, with slight CO_2 emission allowance price decreases in 2029-2040 vs. 2028 (fixed prices), totaling 11%. This results from the assumed increase in decarbonization of the economy and the resultant drop in demand for emission allowances in 2030 -2040. The long-term projections assume the purchase of CO_2 emission allowances at the level of the total planned deficit in the next year to which the emissions relate. It was thus assumed that the provision for CO_2 deficiency will be dissolved at the end of the next year to which the provision applies.
Energy dertificates	The price path assumed for emission certificates and the obligatory redemption in the subsequent years are based on the Act on Renewable Energy Sources.
Power Market	The operating reserve capacity mechanism is to be excluded from the beginning of 2021, i.e. from the time the Capacity Market has been implemented. The Capacity Market mechanism implementation has been taken into account (in line with the adopted and notified Act on the Capacity Market and the draft Capacity Market Regulations). It is assumed that payments for capacity will be launched from 2021 and maintained until 2025 for existing coal units which do not meet the EPS 550 criterion (for which the unit emission capacity exceeds 550 kg/MWh).
RES	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 network.

Category	Description
WACC	The weighted average cost of capital (WACC) during the projection period, for particular CGUs, as used in the calculations, ranges from 6.44% to 14.99% in nominal terms before tax, taking into account the risk free rate determined by reference to the yield on 10-year treasury bonds (1.99%) and the risk premium for operations appropriate for the power industry (6.75%). 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. The level of WACC as at 30 June 2020 decreased compared to the level as at 31 December 2019 mainly due to the decrease in the risk free rate and the cost of debt with a simultaneous increase in the market risk premium.
Regulated and tariff revenue	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. In the second half of 2020, the impact of COVID-19 on the reduction of electricity supply to non-household customers was taken into account. In the years 2021-2025, an increase in electricity supplies was assumed. In the first three years, growth of 2% per annum, in the case of the remaining years, an increase of 1% per annum. Tariff revenue generated by heat companies, ensuring coverage of reasonable costs and a reasonable level of return on capital has been assumed.
Sales volume and production capacity	The assumed sales volume to end customers was based on GDP growth, the competitive situation on the market, a significant increase in financial costs (trade credit costs) charged to the sales companies. This resulted in a decrease in volume in the years 2021-2023. From 2024, it is planned to gradually recover the lost volume. Additionally, in the second half of 2020, a decrease in volume caused by the COVID-19 pandemic was assumed. Periods of economic utility of fixed assets and maintenance of production capacity as a result of replacement and development investments were taken into account.

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

Sensitivity analysis for the Mining and Generation units (including TAURON Ciepło Sp. z o.o.)

Sensitivity analyses conducted by the Company reveal that the projected prices of electricity, those of CO_2 emission allowances and the adopted discount rates, as well as coal prices are the key factors exerting an effect on the estimated cash flows of the key entities.

The table below presents the estimated changes in write-offs on shares and intra-group loans in mining and generating companies (including TAURON Ciepło Sp. z o.o.), after taking into account the impact of its reversal as at 30 June 2020 as a result of changes in the most significant assumptions.

Parameter	Change	Impact on impairment loss *(in PLN million)*	
		Increase of impairment loss (net)	Decrease of impairment loss (net)
Change of electricity prices in the forecast period	+1%	-	186
	-1%	186	-
Change of CO_2 emission allowances prices in the forecast period	+1%	92	-
	-1%	-	92
Change of WACC (net)	+0.1 p.p.	65	-
	-0.1 p.p.	-	65
Change of coal prices in the forecast period	+1%	8	-
	-1%	-	8

Test results

The impairment tests carried out in line with IAS 36 *Impairment of Assets* as at 30 June 2019 did not indicate an increase or loss in the carrying amount of shares in and intra-group loans.

Loans to Elektrociepłownia Stalowa Wola S.A. were also tested for impairment. The results of the test showed that there is no need for an impairment loss provided that the assumptions are the same as those for the impairment tests on shares.

(in PLN thousand)

18. Loans granted

Loans granted by the Company as at 30 June 2020 and 31 December 2019 are presented in the table below.

	As at 30 June 2020 *(unaudited)*			As at 31 December 2019		
	Gross value	Impairment loss	Total	Gross value	Impairment loss	Total
Loans measured at amortized cost						
Loans granted to subsidiaries	4 760 982	(54 692)	**4 706 290**	4 623 619	(37 284)	**4 586 335**
Loans granted to EC Stalowa Wola S.A.	97 907	(2 442)	**95 465**	27 746	(730)	**27 016**
Loans granted to PGE EJ 1 Sp. z o.o.	12 442	(112)	**12 330**	8 252	(45)	**8 207**
Granted cash pool loans including accrued interest	411 171	(45 511)	**365 660**	537 404	(62 226)	**475 178**
Loans measured at fair value						
Loans granted to EC Stalowa Wola S.A.	225 064	n.a.	**225 064**	216 018	n.a	**216 018**
Total	**5 507 566**	**(102 757)**	**5 404 809**	**5 413 039**	**(100 285)**	**5 312 754**
Non-current	4 453 586	(76 448)	**4 377 138**	5 139 751	(92 199)	**5 047 552**
Current	1 053 980	(26 309)	**1 027 671**	273 288	(8 086)	**265 202**

18.1. Loans to subsidiaries

As part of the operation of intra-group financing, the Company grants loans to its subsidiaries.

The balances of loans granted as at 30 June 2020 and as at 31 December 2019, broken down by individual companies are presented in the table below.

Company	As at 30 June 2020 *(unaudited)*				As at 31 December 2019			
	Contractual loan value	Gross value	Impairment loss	Total	Contractual loan value	Gross value	Impairment loss	Total
TAURON Dystrybucja S.A.	3 000 000	2 991 140	(10 977)	**2 980 163**	3 000 000	3 014 526	(7 453)	**3 007 073**
TAURON Ciepło Sp. z o.o.	975 000	985 440	(6 460)	**978 980**	975 000	978 752	(19 879)	**958 873**
TAURON Wydobycie S.A.	2 391 000	331 479	(19 534)	**311 945**	1 970 000	268 576	(3 596)	**264 980**
TAURON Wytwarzanie S.A.	200 000	199 111	(10 833)	**188 278**	200 000	200 768	(5 582)	**195 186**
TAURON Ekoenergia Sp. z o.o.	160 000	153 482	(1 411)	**152 071**	160 000	160 997	(774)	**160 223**
TAURON Sprzedaż Sp. z o.o.	100 000	100 330	(5 477)	**94 853**	-	-	-	-
Total	**6 826 000**	**4 760 982**	**(54 692)**	**4 706 290**	**6 305 000**	**4 623 619**	**(37 284)**	**4 586 335**
Non-current		3 736 162	(28 600)	**3 707 562**		4 612 447	(33 632)	**4 578 815**
Current		1 024 820	(26 092)	**998 728**		11 172	(3 652)	**7 520**

As at 30 June 2020, the nominal value of loans with a repayment term of less than one year, which have been classified as long-term due to the planned extension of the repayment period, amounted to PLN 1 631 000 thousand.

In the first quarter of 2020, the Company amended the loan agreements granted to its subsidiaries with regard to changes in the interest rate. In accordance with IFRS 9 *Financial Instruments*, the Company recognised the change in the contractual provisions as a modification of financial instruments, therefore a loss of PLN 62 131 thousand was recognised in financial expenses, which decreased the gross value of loans.

In the 6-month period ended 30 June 2020, the Company granted a loans to a subsidiary TAURON Wydobycie S.A. with a nominal value of PLN 421 000 thousand, which was initially recognised as an impaired financial asset due to credit risk, with the result that the loss on the initial measurement of PLN 374 035 thousand reduced the gross value of the loan and charged to the Company's profit/(loss). The amount of credit loss as at the date of recognition was estimated on the basis of scenarios assumed by the Company for repayment of the loan granted, taking into account the results of the asset impairment test carried out as at 30 June 2020. Company repaid the cash pool loan for the funds obtained from the loan. Thus, as at the balance sheet date, the loans granted to TAURON Wydobycie S.A. with a nominal value of PLN 2 391 000 thousand were valued at PLN 311 945 thousand.

Taking into account the impact epidemiological situation related to COVID-19, resulted in an increase in impairment losses on loans granted to subsidiaries by PLN 16 955 thousand, as further described in Note 6.1 to these interim condensed financial statements.

In the first half of 2020, the Company also granted a loan to TAURON Sprzedaż Sp. z o.o. with a nominal value of PLN 100 000 thousand.

The loans granted to TAURON Ciepło Sp. z o.o. were classified as short-term assets as at the balance sheet date. The above classification is related to the project conducted by the Company aimed at market verification of the possibility of selling shares in the subsidiary TAURON Ciepło Sp. z o.o. and to the reclassification, as at the balance sheet date, of the shares in TAURON Ciepło Sp. z o.o. held by the Company to assets held for sale, which is described in more detail in Note 26 of these interim condensed financial statements. The Company is of the opinion that a possible sale of TAURON Ciepło shares will involve an earlier termination of the debt financing of TAURON Ciepło Sp. z o.o. by the Company.

(in PLN thousand)

After the balance sheet date, the Company granted new loans to the subsidiaries TAURON Wydobycie S.A. with a total nominal value of PLN 277 354 thousand and TAURON Wytwarzanie S.A. with a nominal value of PLN 500 000 thousand

18.2. Loans granted to Elektrociepłownia Stalowa Wola S.A.

Loans granted to the joint venture Elektrociepłownia Stalowa Wola S.A. as at 30 June 2020 and 31 December 2019 are presented in the table below.

	Agreement date	Loan amount	As at 30 June 2020 *(unaudited)*			As at 31 December 2019			Maturity date	Interest rate
			Gross value	Impairment loss	Total	Gross value	Impairment loss	Total		
Loans measured at fair value										
Debt consolidation agreement	28.02.2018	609 951	225 064	n.a.	**225 064**	216 018	n.a.	**216 018**	30.06.2033	fixed
Loans measured at amortized cost										
VAT loan	11.04.2018	15 000	15 018	(112)	**14 906**	5 109	(110)	**4 999**	30.09.2020	WIBOR 1M+mark-up
Other loans	30.03.2018	7 290	8 232	(231)	**8 001**	7 955	(218)	**7 737**	30.06.2033	fixed
	19.12.2018	9 500	9 517	(268)	**9 249**	9 197	(252)	**8 945**		
	12.03.2019	5 175	5 682	(160)	**5 522**	5 485	(150)	**5 335**		
	20.02.2020	59 175	59 458	(1 671)	**57 787**	-	-	**-**		
Total			**322 971**	**(2 442)**	**320 529**	**243 764**	**(730)**	**243 034**		
Non-current			307 953	(2 330)	**305 623**	238 655	(620)	**238 035**		
Current			15 018	(112)	**14 906**	5 109	(110)	**4 999**		

Under the agreement consolidating the borrower's debt of 28 February 2018 for the total amount of PLN 609 951 thousand, under which all existing liabilities of Elektrociepłownia Stalowa Wola S.A. towards the Company resulting from the loans granted and not repaid by 28 February 2018 were renewed. As at the balance sheet date, the par value of the loan was PLN 310 851 thousand (the principal of PLN 299 100 thousand was repaid on 30 April 2018). The debt in question is subordinated debt, valued as at the balance sheet date at fair value of PLN 225 064 thousand.

Taking into account the impact of epidemiological situation related to COVID-19 resulted in an decrease of debt consolidation agreement's value by PLN 3 720 thousand and an increase in impairment losses on loans measured at amortized cost by PLN 1 414 thousand. Impact of COVID-19 on valuation of loans granted to Elektrociepłowania Stalowa Wola S.A. have been described in more detail in Note 6.1 to these interim condensed financial statements.

The increase in the gross value of the VAT loan in the amount of PLN 9 909 thousand results mainly from granting loan tranches in the 6-month period ended 30 June 2020 in the total amount of PLN 13 600 thousand and repayment of the loan tranche by Elektrociepłownia Stalowa Wola S.A. in the amount of PLN 3 700 thousand.

On 20 February 2020, the Company and Elektrociepłownia Stalowa Wola S.A. entered into a loan agreement of up to PLN 59 175 thousand to finance liabilities related mainly to the completion of the construction of the gas-steam unit and the Back-Up Heat Source in Stalowa Wola. A security for the repayment of the loan, accrued interest, costs and other amounts due to the Company under the agreement is a blank promissory note of the borrower together with a promissory note declaration. As at the balance sheet date, the balance of the loan granted was equal to the maximum amount resulting from the agreement in question.

18.3. Loans granted under cash pool agreement

In order to optimise cash management, financial liquidity and finance income and costs, the TAURON Group has implemented a cash pool structure. On 9 October 2017, the Company concluded a cash pooling agreement with PKO Bank Polski S.A. with the expiration date of 17 December 2020, with TAURON Polska Energia S.A. acting as an agent.

	As at 30 June 2020 *(unaudited)*			As at 31 December 2019		
	Gross value	Impairment loss	Total	Gross value	Impairment loss	Total
Receivables from cash pool loans granted	409 256	(45 511)	363 745	525 938	(62 226)	463 712
Interest on loans granted under cash pool	1 915	-	1 915	11 466	-	11 466
Total	**411 171**	**(45 511)**	**365 660**	**537 404**	**(62 226)**	**475 178**
Non-current	405 412	(45 466)	359 946	283 551	(57 917)	225 634
Current	5 759	(45)	5 714	253 853	(4 309)	249 544

(in PLN thousand)

Detailed information on liabilities under cash pool service has been presented in Note 28.5 to these interim condensed financial statements.

Taking into account in the calculation of expected credit losses the impact of the epidemiological situation related to COVID-19 resulted in an increase in impairment losses on loans granted under cash pool agreement by amount of PLN 10 417 thousand, as further described in Note 6.1 to these interim condensed financial statements.

19. Derivative instruments

	As at 30 June 2020 *(unaudited)*				As at 31 December 2019			
	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
Derivative instruments subject to hedge accounting								
IRS	(146)	(112 404)	**-**	**(112 550)**	121	19 341	**19 462**	**-**
Derivative instruments measured at fair value through profit or loss								
CCIRS, IRS	(14 091)	-	**-**	**(14 091)**	(12 885)	-	**-**	**(12 885)**
Commodity future/forward	(127 903)	-	**395 849**	**(523 752)**	4 248	-	**86 067**	**(81 819)**
Currency forward	8 873	-	**11 810**	**(2 937)**	(29 823)	-	**-**	**(29 823)**
Total			**407 659**	**(653 330)**			**105 529**	**(124 527)**
Non-current			17 946	(107 013)			20 352	(16 848)
Current			389 713	(546 317)			85 177	(107 679)

Hedging derivative instruments (subject to hedge accounting)

In the 6-month period ended 30 June 2020, the Company hedged part of the interest rate risk in relation to the cash flows related to the exposure to WIBOR 6M determined under the dynamic risk management strategy, i.e:

- interest on a credit with a nominal value of PLN 250 000 thousand by concluding interest rate swap (IRS) hedging transactions for periods beginning on 30 July 2020 and expiring on 19 December 2024;
- interest on a credit with a nominal value of PLN 250 000 thousand by concluding interest rate swap (IRS) hedging transactions for periods beginning on 5 August 2020 and expiring on 19 December 2024;
- interest on a credit with a nominal value of PLN 250 000 thousand by concluding interest rate swap (IRS) hedging transactions for periods beginning on 28 August 2020 and expiring on 19 December 2024.

In the year ended 31 December 2019, 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 bonds with the total par value of PLN 1 490 000 thousand, through the entry into interest rate swap (IRS) transactions for terms beginning on 20 December 2019 and subsequently expiring from 2023 to 2029.

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 with the par value of PLN 2 051 000 thousand, through the entry into interest rate swap (IRS) transactions for a term of 4 to 5 years.

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

As at 30 June 2020, 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) covering forward transactions for the purchase and sale of CO_2 emission allowances and other derivatives;
- 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 par 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.

(in PLN thousand)

In the 6-month period ended 30 June 2020, due to the market situation in the current reporting period related mainly to COVID-19, the occurrence of significant changes in commodity derivatives prices, including those which are basis on CO_2 emission allowances, there was an increase in commodity derivatives in compared to end of 2019 (positive – assets as well as negative – liabilities).

Due to the delay in commissioning the power unit in Jaworzno, as at the balance sheet date, the Company has significant surplus of CO_2 emission allowance, contracted to be purchased for resale to a subsidiary, for redemption in connection with the emission for 2020. The Company intends to acquire CO_2 emission allowances on time maturity, therefore these contracts are recognised as excluded from IFRS 9 *Financial Instruments* and thus are not measured at fair value as at the balance sheet date.

The fair value with respect to individual derivative financial instruments is determined as follows:

Derivative instrument	Methodology of determining fair value
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 CO_2 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 hierarchy of fair value with respect to derivative financial instruments is as follows:

	As at 30 June 2020 *(unaudited)*		As at 31 December 2019	
	1 level	2 level	1 level	2 level
Assets				
Derivative instruments - commodity	395 849	-	86 067	-
Derivative instruments - currency	-	11 810	-	-
Derivative instruments - IRS	-	-	-	19 462
Total	**395 849**	**11 810**	**86 067**	**19 462**
Liabilities				
Derivative instruments - commodity	523 752	-	81 819	-
Derivative instruments - currency	-	2 937	-	29 823
Derivative instruments - IRS	-	112 913	-	-
Derivative instruments - CCIRS	-	13 728	-	12 885
Total	**523 752**	**129 578**	**81 819**	**42 708**

(in PLN thousand)

20. Deferred income tax

	As at 30 June 2020 *(unaudited)*	As at 31 December 2019
difference between tax base and carrying amount of financial assets	79 757	23 181
difference between tax base and carrying amount of property, plant and equipment and intangible assets and right-of-use assets	6 615	7 599
valuation of hedging instruments	-	3 698
difference between tax base and carrying amount of ficiancial liabilities	16	7 884
other	4 464	-
Deferred tax liabilities	**90 852**	**42 362**
difference between tax base and carrying amount of financial assets	5 919	5 367
difference between tax base and carrying amount of financial liabilities	156 860	38 976
valuation of hedging instruments	21 384	-
difference between tax base and carrying amount of non-current assets classified as held for sale	363 198	-
different timing of recognition of revenue and cost of sales for tax purposes	17 761	14 851
provisions and accruals	3 463	3 594
difference between tax base and carrying amount of fixed and intangible assets	2 014	2 458
other	1 241	534
Deferred tax assets	**571 840**	**65 780**
Write-off of deferred tax assets	(363 198)	**-**
Deferred tax assets/(liabilities), net	**117 790**	**23 418**

Deferred tax assets on deductible temporary differences arising from investments in subsidiaries is recognised insofar as their reversal is probable in the foreseeable future and where taxable income will be available to enable realisation of deductible differences. According to the Company, deductible temporary differences related to recognition of impairment allowances on shares in subsidiaries of PLN 9 079 478 thousand will not be reversed in the foreseeable future, as the investments are not intended for sale. In the 6-month period ended on 30 June 2020, the Company recognised a deferred tax asset in the amount of PLN 363 198 thousand related to the difference between tax base and carrying amount of shares in the subsidiary TAURON Ciepło Sp. z o.o. in connection with the intention to sell and the classification of shares as assets held for sale, while making a write-off for this asset due to the fact that it cannot be realized in the foreseeable future.

In addition, the Company does not recognise a deferred tax asset related to revaluation write-offs on loans granted. As at 30 June 2020, the impairment loss for loans granted was PLN 102 757 thousand.

In connection with the forecast tax income for 2020 for the Tax Group of Companies ("TGC") to which the Company belongs and the forecasted tax incomes in subsequent years, a deferred tax asset on all negative temporary differences other than those described above was recognised in the financial statements in full.

(in PLN thousand)

21. Other financial assets

	As at 30 June 2020 *(unaudited)*	As at 31 December 2019
Variation margin deposits arising from stock exchange transactions	117 092	25 113
Initial deposits arising from stock exchange transactions	53 292	184 353
Bid bonds, deposits, collateral transferred	48 796	82 951
Receivables arising from income tax settlements of the TCG companies	71 850	-
Units in investment funds	-	26 622
Other	128	258
Total	**291 158**	**319 297**
Non-current	2 459	2 348
Current	288 699	316 949

Variation and initial margins are related mostly to futures transactions on the CO_2 emissions allowances concluded on foreign regulated markets. The change in the value of margins compared to the comparable period results mainly from the Company's position on the stock exchange as at the balance sheet date and, in the case of variation margins, also from a significant increase in the prices of allowances. Variation margins constituted funds paid by the Company for current stock exchange settlements in connection with the change of valuation of concluded futures contracts opened as at the balance sheet date.

The decrease in the value of bid bonds, security deposits and collaterals transferred in relation to the comparable period in the amount of PLN 34 155 thousand relates mainly to collaterals transferred under the settlement guarantee system of the Izba Rozliczeniowa Giełd Towarowych S.A. As at 30 June 2020, the hedges on this account amounted to PLN 44 066 thousand and as at 31 December 2019 – PLN 80 237 thousand.

22. Other non-financial assets

	As at 30 June 2020 *(unaudited)*	As at 31 December 2019
Prepaid expenses, *including:*	17 120	15 126
Prepaid fee on debt	*15 787*	*14 563*
Advance payments for deliveries	4 652	4 957
Other	6 190	4 907
Total	**27 962**	**24 990**
Non-current	20 446	18 823
Current	7 516	6 167

23. Inventories

	As at 30 June 2020 *(unaudited)*	As at 31 December 2019
Gross Value		
CO_2 emission allowances	168 728	149 151
Energy certificates	250	250
Materials	60	-
Total	**169 038**	**149 401**
Measurement to net realisable value		
CO_2 emission allowances	-	-
Energy certificates	(66)	(37)
Measurement to fair value		
CO_2 emission allowances	4 285	-
Total	**4 219**	**(37)**
Net value		
CO_2 emission allowances	173 013	149 151
Energy certificates	184	213
Materials	60	-
Total	**173 257**	**149 364**

(in PLN thousand)

Inventories are measured at the net realisable value, except for the inventory of CO_2 emission allowances purchased for sale and short-term profit from market price volatility, which as at the balance sheet date is measured at fair value.

24. Receivables from buyers

	As at 30 June 2020 *(unaudited)*	As at 31 December 2019
Gross Value		
Receivables from buyers	763 743	1 474 635
Receivables claimed at court	1 022	1 005
Total	**764 765**	**1 475 640**
Allowance/write-down		
Receivables from buyers	(4 708)	(2 173)
Receivables claimed at court	(1 022)	(1 005)
Total	**(5 730)**	**(3 178)**
Net Value		
Receivables from buyers	759 035	1 472 462
Receivables claimed at court	-	-
Total	**759 035**	**1 472 462**

As at 30 June 2020 and 31 December 2019, the largest item of receivables from buyers was receivables from TAURON Sprzedaż Sp. z o.o., a subsidiary, amounting to PLN 511 646 thousand and PLN 694 511 thousand, respectively. Related-party transactions as well as related party receivables and liabilities have been presented in Note 40.1 hereto.

The decrease in receivables from customers is mainly due to an decrease in amounts due from companies in the Generation segment due to the sale of CO_2 emission allowances sold to companies at the end of 2019. As at 31 December 2019, the related balance was PLN 561 340 thousand.

The impact of COVID-19 on the level of write-offs for expected credit losses of receivables from have been described in more detail in Note 6.1 hereto.

25. Cash and cash equivalents

	As at 30 June 2020 *(unaudited)*	As at 31 December 2019
Cash at bank and in hand	338 989	923 721
Short-term deposits (up to 3 months)	18	7
Total cash and cash equivalents presented in the statement of financial position, *including*:	**339 007**	**923 728**
restricted cash, *including:*	170 676	593 682
collateral of settlements with Izba Rozliczeniowa Giełd Towarowych S.A.	*169 429*	*571 699*
Cash pool	(1 746 605)	(951 564)
Overdraft	(13 101)	(21 210)
Foreign exchange	72	(34)
Total cash and cash equivalents presented in the statement of cash flows	**(1 420 627)**	**(49 080)**

The decrease in the balance of restricted cash in relation to the comparable period in total amount of PLN 423 006 thousand concerns mainly the settlements with Izba Rozliczeniowa Giełd Towarowych S.A. (a decrease in the balance of cash on this account by PLN 402 270 thousand) and results from a reduction in the value of the required margin deposits and establishment of subsequent non-cash collaterals by the Company for the Izba Rozliczeniowa Giełd Towarowych S.A., as further described in Note 38 of these interim condensed financial statements.

The balances of short-term 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.

Detailed information on cash pool balances has been presented in Note 18.3 and Note 28.5 to these interim condensed financial statements.

(in PLN thousand)

26. Non-current assets classified as held for sale

	As at 30 June 2020 *(unaudited)*
Current book value	1 759 903
Revaluation to fair value less sale costs	(1 395 883)
Fair value less sale costs	**364 020**

Non-current assets classified as held for sale constitute 100% of shares held by the Company in the subsidiary TAURON Ciepło Sp. z o.o.

The purpose of the disposal of shares in TAURON Ciepło Sp. z o.o. is in line with the update of the strategic directions, adopted by the Management Board of the Company and approved by the Supervisory Board in May 2019, which supplement the TAURON Group Strategy for 2016-2025. Taking into account the need for the Group's energy transformation, optimisation of the investment portfolio and maintenance of financial stability, it was decided to carry out market-based verification of, inter alia, a strategic option involving making the Group's asset portfolio more flexible by adjusting the mining assets to the Group's planned demand for fuel, reorganisation of the Generation segment and the capital investment portfolio. The above option includes, among others, market verification of the possibility of selling shares in the subsidiary TAURON Ciepło Sp. z o.o.

As a result of the above events, the Company launched a project aimed at market verification of the possibility of selling shares of the subsidiary TAURON Ciepło Sp. z o.o. and possible continuation of the sales process. As part of the project, on 22 November 2019, the Management Board of the Company received preliminary non-binding offers to purchase shares in TAURON Ciepło Sp. z o.o., among others, decided to admit bidders to the due diligence of the company which may result in binding offers.

On 16 June 2020, the Management Board of the Company decided to proceed to the next stage of the process of selling shares in TAURON Ciepło Sp. z o.o. and commencement of negotiations on the agreement for the sale of shares in TAURON Ciepło with Polskie Górnictwo Naftowe i Gazownictwo S.A. in the exclusivity mode established for a period of six weeks, which was then extended for another eight weeks, i.e. until 22 September 2020. On the basis of the course of negotiations, the Company may decide to extend the exclusivity period granted to the bidder for the time necessary to finalise the negotiations of the transaction documentation. The Company anticipates that a possible loss of control over TAURON Ciepło Sp. z o.o. will occur not earlier than in the first quarter of 2021.

As at the balance sheet date, the Company assessed that in relation to the shares in TAURON Ciepło Sp. z o.o. the conditions of IFRS 5 *Non-current assets held for sale and discontinued operations* were met as regards the classification of the above assets as held for sale, in particular the shares are, in the Company's opinion, available for immediate sale in their current condition, taking into account only normal and customary conditions for sale and therefore the Company reclassified the shares in TAURON Ciepło Sp. z o.o. as non-current assets classified as held for sale. As at the date of the above reclassification, the Company assessed to fair value the total involvement in TAURON Ciepło in the form of its shares with a balance sheet value of PLN 1 759 903 thousand, and whereas, in the Company's opinion, a possible sale of TAURON Ciepło Sp. z o.o.'s shares will involve an earlier termination of the company's debt financing of the intra-group loans granted to TAURON Ciepło Sp. z o.o. with a value of PLN 978 980 thousand. The fair value of the said involvement was estimated at the level of PLN 1 343 000 thousand, based on the information collected in the course of the market process of selling shares in TAURON Ciepło Sp. z o.o. Due to the fact that the fair value less costs of sale is lower than the accounting value of the shares held to date and loans granted, the Company recognised non-current assets classified as held for sale at fair value less costs of sale and recognised financial costs due to revaluation of shares to fair value in the amount of PLN 1 395 883 thousand.

(in PLN thousand)

27. Equity

27.1. Issued capital

Issued capital as at 30 June 2020 *(not audited)*

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 2020, the value of issued capital, the number of shares and the par value of shares had not changed as compared to 31 December 2019.

27.2. Major shareholders

Ownership structure as at 30 June 2020 and as at 31 December 2019 *(to the best of the Company's knowledge)*

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

** The voting rights of the shareholders holding more than 10% of the total votes in the Company have been limited in such a manner that none of them is entitled to exercise the right to more than 10% of votes at the General Shareholders' Meeting of the Company. The limitation does not apply to the State Treasury and State Treasury owned companies in the period when the State Treasury and State Treasury owned companies hold shares in the Company entitling to not less then 25% of the total votes in the Company.*

27.3. Reserve capital

Reserve capital

	As at 30 June 2020 *(unaudited)*	As at 31 December 2019
Amounts subject to distribution	**4 886 520**	**4 886 520**
Amounts from distribution of prior years profits	4 886 520	4 886 520
Non-distributable amounts	**1 915 064**	**1 915 064**
Decrease in the value of issued capital	1 680 184	1 680 184
Settlement of mergers with subsidiaries	234 880	234 880
Total reserve capital	**6 801 584**	**6 801 584**

27.4. Revaluation reserve from valuation of hedging instruments

	6-month period ended 30 June 2020 *(unaudited)*	6-month period ended 30 June 2019 *(unaudited)*
Opening balance	**15 666**	**3 371**
Remeasurement of hedging instruments	(131 478)	(3 373)
Remeasurement of hedging instruments charged to profit or loss	(267)	10
Deferred income tax	25 032	639
Closing balance	**(91 047)**	**647**

The revaluation reserve from valuation of hedging instruments results from valuation of Interest Rate Swaps (IRS) hedging the interest rate risk arising from debt, which has been discussed in more detail in Note 19 to these interim condensed financial statements.

(in PLN thousand)

For concluded hedging transactions covered by the financial risk management policy, the Company applies hedge accounting.

As at 30 June 2020, the Company recognised PLN (91 047) thousand of revaluation reserve from valuation of hedging instruments. It represents a liability arising from valuation of interest rate swaps as at the end of the reporting period, totalling PLN 112 550 thousand, adjusted by a portion of valuation relating to interest accrued on debt as at the end of the reporting period, including deferred tax.

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

As at 30 June 2020, only PLN 13 thousand out of retained earnings was distributed among the shareholders.

On 29 March 2020, the Management Board of TAURON Polska Energia S.A. adopted a resolution on submitting a motion to the Ordinary General Meeting of TAURON Polska Energia S.A. to cover the Company's net loss for the financial year 2019 in the amount of PLN 462 830 thousand from the Company's reserve capital. On 15 July 2020, the Ordinary General Meeting of Shareholders of the Company adopted a resolution in accordance with the recommendation of the Management Board.

27.6. Dividends paid and proposed

In the 6-month period ended 30 June 2020 and in the comparative period, the Company did not propose to pay or pay any dividends to its shareholders.

28. Debt

	As at 30 June 2020 *(unaudited)*	As at 31 December 2019
Long-term portion of debt		
Unsubordinated bonds	3 648 331	3 544 236
Subordinated bonds	1 935 161	1 908 871
Bank loans	5 973 782	4 719 385
Loans from the subsidiary	743 392	708 831
Lease	26 053	28 274
Total	**12 326 719**	**10 909 597**
Short-term portion of debt		
Unsubordinated bonds	110 496	86 808
Subordinated bonds	51 829	4 556
Bank loans	195 588	2 300 443
Loans from the subsidiary	16 211	2 125
Cash pool loans received	1 752 364	1 205 417
Lease	8 667	7 917
Total	**2 135 155**	**3 607 266**

(in PLN thousand)

28.1. Bonds issued

Bonds as at 30 June 2020 *(not audited)*

Investor	Interest rate	Currency	Bonds at nominal value in currency	Maturity date	As at balance sheet date			of which maturing within *(after the balance sheet date)*			
					Total carrying amount	Accrued interest	Principal at amortized cost	up to 1 year	1-2 years	2 - 5 years	over 5 years
Bank Gospodarstwa Krajowego	floating, based on WIBOR 6M	PLN	800 000	2021-2028	799 233	416	798 817	-	99 929	299 620	399 268
			630 000	2021-2029	630 062	324	629 738	-	69 985	209 925	349 828
BNP Paribas Bank Polska S.A.[1]	floating, based on WIBOR 6M	PLN	6 300	9.11.2020	6 315	17	6 298	6 298	-	-	-
			51 000	29.12.2020	50 987	4	50 983	50 983	-	-	-
Eurobonds	fixed	EUR	500 000	5.07.2027	2 272 230	52 454	2 219 776	-	-	-	2 219 776
Unsubordinated bonds					**3 758 827**	**53 215**	**3 705 612**	**57 281**	**169 914**	**509 545**	**2 968 872**
Bank Gospodarstwa Krajowego	floating, based on WIBOR 6M	PLN	400 000	29.03.2031[3]	399 941	517	399 424	-	-	-	399 424
European Investment Bank	fixed[2]	EUR	190 000	16.12.2034[3]	821 373	21 156	800 217	-	-	800 217	-
		PLN	400 000	17.12.2030[3]	408 600	16 321	392 279	-	-	-	392 279
		PLN	350 000	19.12.2030[3]	357 076	13 835	343 241	-	-	-	343 241
Subordinated bonds					**1 986 990**	**51 829**	**1 935 161**	**-**	**-**	**800 217**	**1 134 944**
Total bonds					**5 745 817**	**105 044**	**5 640 773**	**57 281**	**169 914**	**1 309 762**	**4 103 816**

[1] Bond Issue Scheme dated 24 November 2015
[2] In the case of hybrid (subordinated) financing – bonds covered by the European Investment Bank, two periods are distinguished. In the first period the interest rate is fixed, while in the second period the interest rate is variable based on the base rate (EURIBOR/WIBOR) plus a fixed margin.
[3] In the case of subordinated bonds, the maturity shall take into account the two financing periods referred to below. The redemption dates presented in the table above are the final contractual redemption dates after two financing periods. The valuation of bonds as at the balance sheet date takes into account the earlier redemption, due to the intention to redeem the bonds after the first financing period. The ageing takes into account the repayment estimate after the first financing period.

Bonds as at 31 December 2019

Investor	Interest rate	Currency	Bonds at nominal value in currency	Maturity date	As at balance sheet date			of which maturing within *(after the balance sheet date)*			
					Total carrying amount	Accrued interest	Principal at amortized cost	up to 1 year	1-2 years	2 - 5 years	over 5 years
Bank Gospodarstwa Krajowego	floating, based on WIBOR 6M	PLN	800 000	2021-2028	799 551	856	798 695	-	99 906	299 568	399 221
			630 000	2021-2029	630 368	657	629 711	-	69 980	209 914	349 817
BNP Paribas Bank Polska S.A.[1]	floating, based on WIBOR 6M	PLN	3 100	25.03.2020	3 123	24	3 099	3 099	-	-	-
			6 300	9.11.2020	6 323	27	6 296	6 296	-	-	-
			51 000	29.12.2020	50 979	13	50 966	50 966	-	-	-
Eurobonds	fixed	EUR	500 000	5.07.2027	2 140 700	24 870	2 115 830	-	-	-	2 115 830
Unsubordinated bonds					**3 631 044**	**26 447**	**3 604 597**	**60 361**	**169 886**	**509 482**	**2 864 868**
Bank Gospodarstwa Krajowego	floating, based on WIBOR 6M	PLN	400 000	29.03.2031[3]	400 123	761	399 362	-	-	-	399 362
European Investment Bank	fixed[2]	EUR	190 000	16.12.2034[3]	771 161	1 630	769 531	-	-	769 531	-
		PLN	400 000	17.12.2030[3]	395 901	1 243	394 658	-	-	-	394 658
		PLN	350 000	19.12.2030[3]	346 242	922	345 320	-	-	-	345 320
Subordinated bonds					**1 913 427**	**4 556**	**1 908 871**	**-**	**-**	**769 531**	**1 139 340**
Total bonds					**5 544 471**	**31 003**	**5 513 468**	**60 361**	**169 886**	**1 279 013**	**4 004 208**

[1] Bond Issue Scheme dated 24 November 2015
[2] In the case of hybrid (subordinated) financing – bonds covered by the European Investment Bank, two periods are distinguished. In the first period the interest rate is fixed, while in the second period the interest rate is variable based on the base rate (EURIBOR/WIBOR) plus a fixed margin.
[3] In the case of subordinated bonds, the maturity shall take into account the two financing periods referred to below. The redemption dates presented in the table above are the final contractual redemption dates after two financing periods. The valuation of bonds as at the balance sheet date takes into account the earlier redemption, due to the intention to redeem the bonds after the first financing period. The ageing takes into account the repayment estimate after the first financing period.

The Company has issued unsecured coupon bonds priced at the nominal value, except for Eurobonds with the issue price accounting for 99.44% of the nominal value. The Europeans have been admitted to trading on the London Stock Exchange.

Bonds acquired by the European Investment Bank ("EIB") are subordinated, which means that they have priority of satisfaction only before the amounts due to the Company's shareholders in the event of its bankruptcy or liquidation. This in turn has a positive impact on the Company's financial stability, as the bonds are excluded from the calculation of the net debt/EBITDA ratio, which is a covenant in part of financing agreements concluded by the Company. Additionally, 50% of the subordinated bond amount has been classified by the rating agency as equity in the rating model, which has had a beneficial effect on the rating of the TAURON Group.

In the case of bonds covered by the EIB, two financing periods are distinguished. The Company cannot early buy-back the bonds in the first (non-call) period, nor can EIB early sell them to third parties (in both cases except for cases indicated in the subscription agreement). The interest rate during this period is fixed, while after the non-call period the interest rate is variable based on the base rate (WIBOR for bonds issued in PLN and EURIBOR for bonds issued in EUR) plus a fixed margin. In the case of bonds issued in PLN, the maturity date was set at 12 years from the issue date, i.e. 17 and 19 December 2030, while according to the characteristics of hybrid financing, the first financing period was defined as 7 years and the next one as 5 years. In the case of bonds issued in EUR, the maturity date was set at 18 years from the issue date, i.e. 16 December 2034, while according to the characteristics of hybrid financing, the first financing period was defined as 8 years and the next one as 10 years.

(in PLN thousand)

The bonds issued under the agreement of 6 September 2017 concluded with Bank Gospodarstwa Krajowego with a nominal value of PLN 400,000 thousand are also of a subordinated nature. In the case of these bonds, two periods are also distinguished. In the first 7-year period (the so-called non-call), it is not possible for the Company to redeem the bonds early and it is not possible for BGK to sell them to third parties (in both cases, subject to exceptions specified in the documentation). The interest rate is variable based on WIBOR 6M plus a fixed margin, with the margin being additionally increased after the 7-year financing period.

The change in the balance of bonds without interest increasing the carrying amount in the 3-month period ended 30 June 2020 and in the comparative period is presented in the table below. The change in the bond valuation results mainly from the foreign currency valuation of liabilities incurred in EUR.

	6-month period ended 30 June 2020 *(unaudited)*	6-month period ended 30 June 2019 *(unaudited)*
Opening balance	**5 513 468**	**9 317 854**
Issue*	-	499 312
Redemption	(3 100)	(670 000)
Replacing the bond issue scheme by the loan arrangement	-	(1 839 600)
Measurement change	130 405	(39 820)
Closing balance	**5 640 773**	**7 267 746**

**Costs of issue have been included.*

Establishment of a bond issue scheme

On 6 February 2020, TAURON Polska Energia S.A. concluded a Scheme Agreement with Santander Bank Polska S.A., under which a bond issue scheme was established (the “Scheme”).

Under the Scheme, the Company has the option to issue bonds up to a maximum of PLN 2 000 000 thousand, with the value of the issue being determined each time the decision on the issue is made. The bonds shall take the form of dematerialised, unsecured bearer securities denominated in PLN, with a maturity of 5 to 10 years (inclusive). It is the Company’s intention to introduce the bonds to trading and listing in the alternative trading system Catalyst operated by the Warsaw Stock Exchange.

The funds from the bond issue will support the implementation of the Group’s energy transformation, including increasing the share of low- and zero-emission sources in its generation structure.

The terms and conditions of the bond issue, including the maturity date and the amount and method of interest payment will be determined for particular series of issued bonds. The terms and conditions of the bonds issued under the Scheme will include sustainable development indicators in the form of the CO_2 emission reduction index and the RES capacity increase index. The level of realisation of specific threshold values of these indicators will affect the level of interest margin of the bonds. Final decisions on individual bond issues under the Scheme will be approved by appropriate corporate approvals of the Company and will depend on market conditions.

As at the balance sheet date and until the date of approval of these interim condensed financial statements for publication, the Company has not issued any bonds under the Scheme.

(in PLN thousand)

28.2. Bank credits

Borrowing institution	Purpose	Interest rate	Maturity date	As at 30 June 2020 *(unaudited)*	As at 31 December 2019
Consortium of banks	Redemption of bonds, investment and Group's general expenditures	floating	28.06.2020 *	-	1 839 159
			02.09.2020 *	151 439	151 376
			10.09.2020 *	302 653	302 555
			01.10.2020 *	603 407	604 070
			14.10.2020 *	301 151	301 714
			31.01.2020	-	502 358
			30.04.2020	-	502 330
			28.02.2020	-	501 195
			13.01.2020	-	600 868
			14.04.2021*	602 189	-
			30.04.2021*	200 558	-
			29.06.2021*	1 098 948	-
Bank Gospodarstwa Krajowego	Group's capital expenditures and refinancing of a portion of debt	floating	20.12.2033	998 086	998 458
European Investment Bank	Construction of a boiler fired with biomass at Jaworzno III Power Plant and renovation of a steam turbine	fixed	15.12.2021	40 710	40 047
	Construction and start-up of a co-generation unit at EC Bielsko Biała	fixed	15.12.2021	58 214	57 294
	Modernization and extension of power grid	fixed	15.06.2024	156 557	175 298
		fixed	15.09.2024	80 994	89 820
		fixed	15.09.2024	101 557	112 661
	Modernization and extension of power grid and improvement of hydropower plants	fixed	15.03.2027	204 972	219 415
Intesa Sanpaolo S.P.A.	Group's investment expenditure, except for financing or refinancing projects related to coal assets	floating	19.12.2024	252 294	-
				252 168	-
				251 696	-
SMBC BANK EU AG	Group's general corporate expenses, excluding financing and refinancing of coal-fired power plants	fixed	23.03.2025	498 676	-
Bank Gospodarstwa Krajowego (bank overdrafts)	Financing of CO_2 emission allowance, electricity and gas transactions on EU stock exchanges	floating	31.12.2020	13 101	20 456
mBank (bank overdrafts)	Financing of performance bonds and commodity transactions	floating	31.03.2020	-	754
Total				**6 169 370**	**7 019 828**

* Tranche classified as a long-term liability

Pursuant to the provisions of the credit agreement of 19 June 2019 concluded with the Bank Consortium, the maximum period for drawing down individual credit tranches is 12 months. However, the financing available under the agreement is revolving, and its availability period is the end of 2022. All the tranches as at 30 June 2020 and some of the tranches as at 31 December 2019 were drawn with a 12-month repayment term. Due to the intention and ability to maintain financing under the said agreement for a period exceeding 12 months from the balance sheet date with respect to credit tranches with a 12-month repayment date, this liability is presented as a long-term liability. The remaining tranches with an original maturity of less than 1 year are classified as short-term liabilities in accordance with the contractual repayment date (as at 30 June 2020, all tranches were contracted with a 12-month repayment date).

The change in the balance of credits without interest increasing the carrying amount in the 6-month period ended 30 June 2020 and in the comparative period is presented in the table below.

(in PLN thousand)

	6-month period ended 30 June 2020 (unaudited)	6-month period ended 30 June 2019 (unaudited)
Opening balance	**6 996 963**	**846 751**
Movement in bank overdrafts	**(8 109)**	**(36)**
Movement in loans (excluding bank overdrafts):	**(844 183)**	**2 784 887**
Repaid	(7 095 259)	(55 659)
Taken*	6 243 926	997 446
Replacing the bond issue scheme by the loan arrangement*	-	1 837 822
Change in valuation	7 150	5 278
Closing balance	**6 144 671**	**3 631 602**
Interest increasing the carrying amount	24 699	5 578
Total bank loans	**6 169 370**	**3 637 180**

** Inclusive of the borrowing costs*

In the 6-month period ended on 31 March 2020, the Company carried out the following transactions relating to bank credits (in nominal value), excluding overdrafts:

Lender	Description	6-month period ended 30 June 2020 (unaudited)	
		Drawdown	Repayment
Consortium of banks	Drawdown of new tranches and repayment of tranches according to maturity date	5 000 000	(7 039 600)
Intesa Sanpaolo S.P.A.	Drawdown of 3 tranches of PLN 250 000 thousand each (total available financing)	750 000	
SMBC BANK EU AG	Drawdown of total of available financing	500 000	
European Investment Bank	Repayment of capital instalments according to schedule		(55 659)
Total, *including:*		**6 250 000**	**(7 095 259)**
Cash flows		2 200 000	(3 045 259)
Net settlement (without cash flow)		4 050 000	(4 050 000)

Credit agreement with SMBC BANK EU AG

On 16 March 2020, TAURON Polska Energia S.A. concluded a loan agreement with SMBC BANK EU AG for the amount of PLN 500 000 thousand, from which funds may be used to finance the Group's general corporate objectives, excluding the construction, purchase, expansion of coal-fired power plants and refinancing of any financial commitments or expenses incurred for such purposes.

On 23 March 2020, the Company drew down funds under the agreement in the amount of PLN 500 000 thousand.

Syndicated loan agreement

On 25 March 2020, TAURON Polska Energia S.A. concluded a syndicated loan agreement for the amount of PLN 500 000 thousand with Banca IMI S.P.A., London Branch, Banca IMI S.P.A., Intesa Sanpaolo S.P.A. acting through Intesa Sanpaolo S.P.A. S.A. Branch in Poland and China Construction Bank (Europe) S.A. acting through China Construction Bank (Europe) S.A. (Joint-Stock Company) Branch in Poland.

The funds under the loan agreement may be used to finance the general corporate objectives of the Company and the TAURON Group, excluding financing of any new projects related to coal assets.

According to the loan agreement, the financing period is 5 years from the date of conclusion of the loan agreement with the possibility of double extension by one year, i.e. up to a maximum of 7 years ("Financing Period"). The Company will be able to use the funds during the entire Financing Term (upon satisfaction of conditions precedent standard for this type of financing). The interest rate will be calculated on the basis of a variable WIBOR rate appropriate for a given interest period, increased by a margin depending, among other things, on the degree of utilisation of the loan and the fulfilment of environmentally friendly contractual conditions, i.e. reduction of the issue volume and increase of the share of renewable energy sources in the TAURON Group's generation structure.

As at the balance sheet date and until the date of approval for publication of these interim condensed financial statements, the Company has not incurred any liabilities under the above agreement.

(in PLN thousand)

Bank overdrafts

The Company has available financing under credits, including overdraft facilities. Available financing and the balance of loans as at individual balance sheet dates are presented in the table below.

	Bank	Purspose	Currency	Currency financing available	Repayment date	As at 30 June 2020 *(unaudited)*		As at 31 December 2019	
						currency	PLN	currency	PLN
intraday limit	PKO BP	intraday limit	PLN	300 000	17.12.2020		-		-
overdraft facility	PKO BP	financing of ongoing operations	PLN	300 000	29.12.2020		-		-
	BGK	financing of CO_2 emission allowance, electricity and gas transactions on EU stock exchanges	EUR	45 000	31.12.2020	2 934	13 101	4 804	20 456
	mBank	financing of security deposits and commodity transactions	USD	200	31.03.2020	-	-	198	754
Total							**13 101**		**21 210**

28.3. Debt agreement covenants

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 long-term credit agreements and the bond issue schemes) which sets the debt less cash in relation to generated EBITDA. The permissible limit value of the net debt/EBITDA ratio is 3.5. The net debt/EBITDA ratio is calculated on the basis of consolidated data.

As of 30 June 2020, the net debt/EBITDA ratio amounted to 2.66 and therefore the covenant was not exceeded.

The other terms and conditions of the financing agreements were also not affected.

28.4. Loans from a subsidiary

As of 30 June 2020, the carrying amount of the liability to the subsidiary Finanse Grupa TAURON Sp. z o.o. on account of the loan received was PLN 759 603 thousand (EUR 170 086 thousand), including interest accrued as of the balance sheet date of PLN 16 211 thousand (EUR 3 630 thousand). As at 31 December 2019, the carrying amount of the loan was PLN 710 956 thousand (EUR 166 950 thousand), including interest accrued as at the balance sheet date of PLN 2 125 thousand (EUR 499 thousand).

The Company's liability is a long-term loan received under an agreement entered into in December 2014 by TAURON Polska Energia S.A. and TAURON Sweden Energy AB (publ) (currently Finanse Grupa TAURON Sp. z o.o.). 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.

28.5. Loans received as part of the cash pool service

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

	As at 30 June 2020 *(unaudited)*	As at 31 December 2019
Liabilities from cash pool loans received	1 752 364	1 204 453
Interest payable on loans received under cash pool agreement	-	964
Total, *of which:*	**1 752 364**	**1 205 417**
Current	1 752 364	1 205 417

At the same time, the company has receivables arising from cash pool transactions, which is presented in Note 18.3 of these interim condensed financial statements.

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

(in PLN thousand)

28.6. Liability under lease

As at 30 June 2020, the Company had a lease liability of PLN 34 720 thousand. The liability relates to the right of perpetual fructose of land, lease of office and warehouse premises, parking spaces and cars.

Ageing of liability under lease

Maturity within *(after the balance sheet date)*	As at 30 June 2020 *(unaudited)*	As at 31 December 2019
Within 1 year	9 784	9 339
Within 1 to 5 years	26 219	29 116
Within 5 to 10 years	331	331
Within 10 to 20 years	662	662
More than 20 years	3 290	3 356
Gross lease liabilities	**40 286**	**42 804**
Discount	(5 566)	(6 613)
Present value of lease payments	**34 720**	**36 191**

29. Other financial liabilities

	As at 30 June 2020 *(unaudited)*	As at 31 December 2019
Liabilities arising from income tax settlements of the TCG companies	47 093	212 598
Bid bonds, deposits and collateral received	23 009	16 164
Measurement of financial guarantee	12 210	15 265
Commissions related to borrowings	7 503	7 564
Wages and salaries as well as other employee related liabilities	3 744	7 571
Other	18 393	28 708
Total	**111 952**	**287 870**
Non-current	12 570	15 126
Current	99 382	272 744

Income tax liabilities of the Tax Capital Group of Companies are described in more detail in Note 31 to these interim condensed financial statements.

30. Liabilities to suppliers

As at 30 June 2020 the largest balance of liabilities towards suppliers were liabilities towards the subsidiaries TAURON Wydobycie S.A. and TAURON Wytwarzanie S.A. and the State Treasury company - Polska Grupa Górnicza S.A. and amounted to PLN 84 012 thousand, PLN 63 713 thousand and PLN 55 597 thousand respectively.

As at 31 December 2019 the largest balance of liabilities towards suppliers were liabilities towards the subsidiaries TAURON Sprzedaż Sp. z o.o. and TAURON Wytwarzanie S.A. and the State Treasury company - Polska Grupa Górnicza S.A. and amounted respectively to PLN 150 454 thousand, PLN 51 887 thousand and PLN 43 517 thousand.

31. Income tax liabilities and Tax Group of Companies

The Agreement of Tax Group of Companies for 2018-2020 was registered on 30 October 2017. The main companies forming the Tax Group of Companies have been operating since 1 January 2018: 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 2020, the Tax Group of Companies had an income tax liability of PLN 34 028 thousand, mainly consisting of a TGC’s liability for the 6-month period ended 30 June 2020 in the amount of PLN 34 123 thousand representing the excess of TGC's tax burden of PLN 164 429 thousand over advances paid in the amount of PLN 130 306 thousand. The surplus of the tax burden over the advance payments is related to the fact that in the year 2020, TGC pays fixed monthly advance payments for corporate income tax of PLN 26 061 thousand.

(in PLN thousand)

At the same time, due to the Company's settlements, as the Representative Company, with the subsidiaries of the Tax Group of Companies, it has reported a liability to these subsidiaries arising from tax overpayment of PLN 47 093 thousand which has been presented as Other financial liabilities, as well as receivables from the Tax Group of Companies arising from tax underpayment of PLN 71 850 thousand, which have been presented as Other financial assets.

Regulations concerning taxes 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 may be audited by authorities competent to impose substantial penalties and fines, whereas any additional tax liabilities resulting from final decision of tax inspection authorities have to be paid together with interest. Consequently, the figures presented and disclosed in these interim condensed consolidated financial statements may change in the future.

32. Other non-financial liabilities

	As at 30 June 2020 *(unaudited)*	As at 31 December 2019
VAT	46 343	215 605
Social security	3 130	5 200
Personal Income Tax	1 648	2 186
Net liabilities of the Company's Social Benefits Fund	192	-
Other	56	44
Total	**51 369**	**223 035**

The decrease in VAT liabilities results mainly from the settlement of the VAT liability as at 31 December 2019, resulting from the Company's disposal of CO_2 emission allowances to subsidiaries in the Generation segment, during the 6-month period ended 30 June 2020.

33. Other provisions

As at 30 June 2020 other provisions included the provisions for tax risks due to the pending control proceedings. As at 30 June 2020, the Company recognised a related provision of PLN 79 187 thousand. As at 31 December 2019, the related provision was PLN 77 094 thousand. An increase in the provision by PLN 2 093 thousand is attributable to interest accrued for the 6-month period ended 30 June 2020. The Company is a party to VAT inspection proceedings instigated in 2014 and 2016 by the Director of the Tax Inspection Office in Warsaw ("Director of the TIO"). The duration of these proceedings was several times extended by the TIO Director and by the Head of Mazowiecki Customs and Tax Office. The new inspection completion dates have been determined at 30 September 2020, including one of the proceedings that has been extended due to the need to develop the content of the document that constitutes the decision in this inspection procedure.

(in PLN thousand)

NOTES TO THE INTERIM CONDENSED STATEMENT OF CASH FLOWS

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

34.1. Cash flows from operating activities

Change in working capital

	6-month period ended 30 June 2020 (unaudited)	6-month period ended 30 June 2019 (unaudited)
Change in receivables	786 794	6 663
Change in inventories	(23 893)	1 305
Change in payables excluding loans	(287 332)	(135 095)
Change in other non-current and current assets	1 525	(35)
Change in deferred income, government grants and accruals	3 258	6 584
Change in provisions	(799)	2 484
Change in working capital	**479 553**	**(118 094)**

34.2. Cash flows from investing activities

Loans granted

The loans of PLN 719 636 thousand were granted:

- change in the balance of loans granted to subsidiaries under a long-term commitment cash pool agreement in the amount of PLN 121 861 thousand;
- granting a loan to the subsidiary TAURON Wydobycie S.A. in the amount of PLN 421 000 thousand;
- granting a loan to the subsidiary TAURON Sprzedaż Sp. z o.o. in the amount of PLN 100 000 thousand;
- granting a loan to the co-subsidiary Elektrociepłownia Stalowa Wola S.A. in the total amount of PLN 72 775 thousand,
- a loan granted to PGE EJ 1 Sp. z o.o. of PLN 4 000 thousand.

Acquisition of shares

Payments to acquire shares of PLN 476 764 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 455 100 thousand;
- EEC Magenta Sp. z o.o. 2 ASI spółka komandytowo–akcyjna in the amount of PLN 3 905 thousand;
- EEC Magenta Sp. z o.o. ASI spółka komandytowo–akcyjna in the amount of PLN 143 thousand;

and capital contribution to Polska Energia – Pierwsza Kompania Handlowa Sp. z o.o. of PLN 17 616 thousand.

Interest received

	6-month period ended 30 June 2020 (unaudited)	6-month period ended 30 June 2019 (unaudited)
Interest received in relation to debt securities	-	163 490
Interest received in relation to loans granted	51 864	52
Total	**51 864**	**163 542**

(in PLN thousand)

34.3. Cash from/used in financing activities

Loans repaid

Expenditure on repayment of loans is related to the repayment by the Company within six months ended on 30 June 2020:

- loan tranches under the agreement concluded with the Consortium of Banks in the amount of PLN 2 989 600 thousand;
- instalments of the loan to the European Investment Bank in the amount of PLN 55 659 thousand.

Interest paid

	6-month period ended 30 June 2020 *(unaudited)*	6-month period ended 30 June 2019 *(unaudited)*
Interest paid in relation to loans	(98 092)	(32 565)
Interest paid in relation to debt securities	(35 108)	(85 552)
Other interest	(130)	(924)
Total	**(133 330)**	**(119 041)**

Loans taken out

Proceeds from credits taken out in the amount of PLN 2 200 000 thousand in the 6-month period ended 30 June 2020 were related to disbursement of:

- loan tranches under the agreement concluded with the Consortium of banks in the amount of PLN 950 000 thousand;
- all available financing under the credit agreement concluded with the bank Intesa Sanpaolo S.P.A., acting through Intesa Sanpaolo S.P.A. S.A. Branch in Poland, totalling PLN 750 000 thousand;
- all available financing under the credit agreement concluded with SMBC BANK EU AG totalling PLN 500 000 thousand.

(in PLN thousand)

OTHER INFORMATION

35. Financial instruments

Categories and classes of financial assets	As at 30 June 2020 *(unaudited)*		As at 31 December 2019	
	Carrying amount	Fair value	Carrying amount	Fair value
1 Financial assets measured at amortized cost	**6 013 032**	**6 013 032**	**6 569 821**	**6 569 821**
Receivables from buyers	759 035	759 035	1 472 462	1 472 462
Loans granted under cash pool agreement	365 660	365 660	475 178	475 178
Other loans granted	4 814 085	4 814 085	4 621 558	4 621 558
Other financial receivables	74 252	74 252	623	623
2 Financial assets measured at fair value through profit or loss (FVTPL)	**1 231 320**	**1 231 320**	**1 592 623**	**1 592 623**
Derivative instruments	407 659	407 659	86 067	86 067
Long-term shares	42 684	42 684	48 136	48 136
Loans granted	225 064	225 064	216 018	216 018
Other financial receivables	216 906	216 906	292 052	292 052
Investment fund units	-	-	26 622	26 622
Cash and cash equivalents	339 007	339 007	923 728	923 728
3 Derivative hedging instruments	**-**	**-**	**19 462**	**19 462**
4 Financial assets excluded from the scope of IFRS 9 *Finanical Instruments*	**20 864 764**		**21 796 047**	
Shares in subsidiaries	20 084 892		21 380 195	
Shares in a subsidiary classified as non-current assets held for sale	364 020	364 020	-	**-**
Shares in jointly-controlled entities	415 852		415 852	
Total financial assets, *of which in the statement of financial position:*	**28 109 116**		**29 977 953**	
Non-current assets	**24 940 971**		**26 914 435**	
Shares	20 543 428		21 844 183	
Loans granted	4 377 138		5 047 552	
Derivative instruments	17 946		20 352	
Other financial assets	2 459		2 348	
Current assets	**3 168 145**		**3 063 518**	
Receivables from buyers	759 035		1 472 462	
Loans granted	1 027 671		265 202	
Derivative instruments	389 713		85 177	
Other financial assets	288 699		316 949	
Cash and cash equivalents	339 007		923 728	
Non-current assets classified as held for sale	364 020		-	

(in PLN thousand)

Categories and classes of financial liabilities	As at 30 June 2020 *(unaudited)*		As at 31 December 2019	
	Carrying amount	Fair value	Carrying amount	Fair value
1 Financial liabilities measured at amortized cost	**14 856 018**	**15 276 867**	**15 193 028**	**15 483 307**
Arm's length loans, *of which:*	8 668 236	8 804 902	8 914 991	9 001 735
Liability under the cash pool loan	1 752 364	1 752 364	1 205 417	1 205 417
Bank loans	6 156 269	6 196 026	6 998 618	7 014 391
Loans from the subsidiary	759 603	856 512	710 956	781 927
Overdraft	13 101	13 101	21 210	21 210
Bonds issued	5 745 817	6 030 000	5 544 471	5 748 006
Liabilities to suppliers	316 912	316 912	424 486	424 486
Other financial liabilities	111 418	111 418	287 819	287 819
Liabilities due to purchases of fixed and intangible assets	534	534	51	51
2 Financial liabilities measured at fair value through profit or loss (FVTPL)	**540 780**	**540 780**	**124 527**	**124 527**
Derivative instruments	540 780	540 780	124 527	124 527
3 Derivative hedging instruments	**112 550**	**112 550**	**-**	**-**
4 Financial liabilities excluded from the scope of IFRS 9 *Finanical Instruments*	**34 720**		**36 191**	
Liabilities under leases	34 720		36 191	
Total financial liabilities, *of which in the statement of financial position:*	**15 544 068**		**15 353 746**	
Non-current liabilities	**12 446 302**		**10 941 571**	
Debt	12 326 719		10 909 597	
Other financial liabilities	12 570		15 126	
Derivative instruments	107 013		16 848	
Current liabilities	**3 097 766**		**4 412 175**	
Debt	2 135 155		3 607 266	
Liabilities to suppliers	316 912		424 486	
Derivative instruments	546 317		107 679	
Other financial liabilities	99 382		272 744	

The fair value measurement methodology applied to financial instruments and fair value hierarchy levels assigned to these instruments are presented in the following tables.

Financial asset/liabilities classes	Fair value measurement level	Fair value measurement methodology
Financial assets/liabilities measured at fair value		
Derivatives, *including:*		Derivatives have been measured in line with the methodology presented in Note 19 hereto.
IRS and CCIRS	2	
Currency forwards	2	
Commodity forwards and futures	1	
Non-current shares	3	The Company estimated the fair value of shares held in other entities 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. In justify cases, the Company assumes that the historical cost is an acceptable approximation of the fair value.
Loans granted	3	Fair value measurement of the loan had the form of the current value of future cash flows, including borrower's credit risk.
Financial liabilities whose fair value is disclosed		
Loans, borrowings and bonds issued	2	Liabilities arising from fixed interest debt are 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 fair value of other financial instruments as at 30 June 2020 and as at 31 December 2019 (except from those excluded from the scope of IFRS 9 *Financial Instruments*) did not differ considerably from the amounts presented in the financial statements for the following reasons:

(in PLN thousand)

- 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 allowances.

36. Finance and financial risk management

36.1. Financial risk management

There is a *Financial Risk Management Policy* in the TAURON Group, which defines the strategy of interest rate and currency risk management. At the same time the Policy introduces hedge accounting principles which define the principles and types of hedge accounting and the accounting treatment of hedging instruments and hedged items under hedge accounting according to IFRS. The financial risk management policy and hedge accounting policies relate to cash flow risk.

Hedge accounting

As at 30 June 2020, the Company had hedging transactions covered by the financial risk management policy and covered by hedge accounting. The Company hedges part of the interest rate risk on account of debt, as further described in Note 19 to these interim condensed financial statements.

36.2. Finance and capital management

Finance and capital management is carried out at the level of TAURON Polska Energia S.A. Group. In the period covered by these interim condensed financial statements, there were no significant changes in the objectives, principles and procedures of finance and capital management

37. Contingent liabilities

As at 30 June 2020 and 31 December 2019 the Company's contingent liabilities were mainly the effect of securities and guarantees given to related parties and were as follows:

Type of contingent liability	Company in respect of which contingent liability has been granted	Beneficiary		As at 30 June 2020 *(unaudited)*			As at 31 December 2019	
			Validity	Currency		PLN	Currency	PLN
corporate guarantee	Finanse Grupa TAURON Sp. z o.o. (formerly TAURON Sweden Energy AB (publ))	Bondholders	3.12.2029	EUR	168 000	750 288	168 000	715 428
liability towards MUFG Bank, Ltd. under guarantees issued by the bank for jointly-controlled entity	Elektrociepłownia Stalowa Wola S.A.	Bank Gospodarstwa Krajowego	11.04.2021			517 500		517 500
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
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.					30 000		30 000
surety contract	Kopalnia Wapienia Czatkowice Sp. z o.o.	Regional Fund for Environmental Protection and Water Management in Kraków	15.06.2021			914		914
			31.12.2023			293		293
	Nowe Jaworzno Grupa TAURON Sp. z o.o.	Fund Advisors	28.09.2025			2 500		2 500
		Polskie Sieci Elektroenergetyczne S.A.	31.12.2020			33 024		33 024
	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.	30.11.2020			20 000		20 000
	Elektrociepłownia Stalowa Wola S.A.	Operator Gazociągów Przesyłowych GAZ-SYSTEM S.A.	30.07.2020			1 667		1 667
		Bank Gospodarstwa Krajowego	30.01.2021			9 959		9 959
			31.10.2020-24.04.2021	USD	4 993	19 875	4 993	18 962
liability towards CaixaBank S.A. being result of guarantees issued by the bank for subsidiaries	various subsidiaries	various entities	31.07.2020-28.07.2029			34 455		8 821

* *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.*

The most significant items of contingent liabilities concern:

- Corporate guarantee for an amount of EUR 168 000 thousand

  The corporate guarantee was granted in 2014 to secure the bonds Finances TAURON Group Sp. z o.o. (formerly by TAURON Sweden Energy AB (publ)). The guarantee is valid until 3 December 2029, i.e. the bond redemption date and amounts to EUR 168 000 thousand (PLN 750 288 thousand), and the beneficiaries of the guarantee are the bondholders who purchased the issued bonds.

- Liabilities towards MUFG Bank, Ltd.

  At the Company's request, MUFG Bank, Ltd. issued a bank guarantee as security for the receivables of Bank Gospodarstwa Krajowego, resulting from the loan agreement concluded in March 2018 between the borrower Elektrociepłownia Stalowa Wola S.A. and Bank Gospodarstwa Krajowego and Polskie Górnictwo Naftowe i Gazownictwo S.A.

  The bank guarantee issued up to the amount of PLN 517 500 thousand expired on 11 April 2020. The guarantee was issued under a guarantee limit agreement concluded in February 2019 with MUFG Bank, Ltd. (the exposure of MUFG Bank, Ltd. to the Company was secured with a declaration of submission to enforcement up to PLN 621 000 thousand, valid until 31 July 2020).

  On 28 January 2020, the Company concluded a guarantee limit agreement with MUFG Bank, Ltd. under which, at the Company's request, an annex was issued extending the guarantee period to 11 April 2021. The exposure of MUFG Bank, Ltd. to the Company is secured with a declaration of submission to enforcement up to PLN 621 000 thousand, valid until 31 October 2021.

  In connection with the guarantee issued, the Company recognised a liability in the amount of expected credit losses, whose value as at 30 June 2020 amounted to PLN 12 210 thousand (as at 31 December 2019 – PLN 15 265 thousand).

- Registered and financial pledges on shares

  Under the agreement of 15 May 2015, annexed on 15 September 2016, TAURON Polska Energia S.A. established on 3 293 403 shares in the share capital of TAMEH HOLDING Sp. z o.o, constituting approximately 50% of the shares in the share capital, a financial pledge and registered pledges in favour of RAIFFEISEN BANK INTERNATIONAL AG, i.e. a registered pledge with the highest priority of satisfaction on the shares up to the maximum security amounting to CZK 3 950 000 thousand and a registered pledge with the highest priority of satisfaction on the shares up to the maximum security amounting to PLN 1 370 000 thousand. The Company also agreed to establish a financial pledge and registered pledges on new shares acquired or taken up. Moreover, the Company assigned the rights to dividend and other payments.

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

  The carrying amount of shares in TAMEH HOLDING Sp. z o.o. as at 30 June 2020 was PLN 415 852 thousand.

- Blank bill of exchanges together with bill of exchange declarations

  The Company issued two blank bills of exchange together with bill of exchange declarations with a total value of PLN 70 000 thousand in order to secure loan agreements received by its subsidiaries from the Provincial Fund for Environmental Protection and Water Management in Katowice. The security in the form of bills of exchange is valid until all liabilities to the lender are paid by the subsidiaries. The bills of exchange are valid until 15 December 2022. As at the balance sheet date, the outstanding amount of loans secured with the promissory notes was PLN 11 000 thousand.

After the end of reporting period, bank guarantees for the total amount of PLN 854 thousand issued by CaixaBank S.A. to secure the liabilities of its subsidiaries under the concluded contracts entered into force, with terms of validity from 30 July 2021 to 30 January 2022.

Significant items of the Company's contingent liabilities due to court proceedings and concluded agreements:

Claims related to termination of long-term contracts

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

In 2015 companies of the following capital groups: in.ventus, Polenergia and Wind Invest filed a case against Polska Energia - Pierwsza Kompania Handlowa Sp. z o.o. to declare notices of termination submitted by Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o. with regard to electricity purchase and property rights concluded with these companies ineffective. In the course of court proceedings, plaintiffs extend their scope raising new contractual penalty- and contract termination related claims, or they file separate suits for the payment of damages.

As of the date of approval of these interim condensed financial statements for publication, the amount of damages claimed in lawsuits is as follows: Polenergia group companies - PLN 115 566 thousand (including Amon Sp. z o.o. – PLN 69 488 thousand, Talia Sp. z o.o. – PLN 46 078 thousand), Wind Invest group companies – PLN 322 313 thousand.

In the case of the claims of Amon Sp. z o.o. and Talia Sp. z o.o., partial and preliminary judgements were issued, in which the courts determined that the statements of Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o. on termination of long-term contracts concluded between Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o. and Amon Sp. z o.o. and concluded between Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o. and Talia Sp. z o.o. for the purchase of electricity and property rights arising from certificates of origin are ineffective and do not have legal effect in the form of termination of both agreements, as a result of which these agreements after the notice period, i.e. after 30 April 2015 remain in force for all provisions and are binding on the parties. Moreover, the Courts recognized the claims of Amon Sp. z o.o. and Talia Sp. z o.o. for payment of damages as justified in principle, but they did not prejudge the amount of possible damages. The judgements are not valid.

In the case of the claim by Amon Sp. o.o., the judgement was issued on 25 July 2019; Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o. on 25 October 2019, appealed against the judgement. In the case of the Talia Sp. o.o. claim, the verdict was issued on 6 March 2020; Polska Energia – after the end of reporting period, in August 2020 Pierwsza Kompania Handlowa Sp. z o.o. appealed the verdict.

The above partial and preliminary judgements do not change the Group's assessment that the chances of losing a case are no higher than the chance of winning it.

In the case filed by Pękanino Wind Invest Sp. z o.o. to secure the claims for establishing that the termination of long-term agreements submitted by Polska Energia - Pierwsza Kompania Handlowa Sp. z o.o. is ineffective, the Court of Appeal in Warsaw on 6 November 2019 partially accepted the motion for security by ordering Polska Energia - Pierwsza Kompania Handlowa Sp. z o.o. to execute in full the provisions of the agreements on the existing terms and conditions, in accordance with their contents, until the legal conclusion of the proceedings in the action brought by Pękanino Wind Invest Sp. z o.o. vs. Polska Energia - Pierwsza Kompania Handlowa Sp. z o.o., pending before the District Court in Warsaw. The security order is binding. This provision does not prejudge the merits of the action, which can only take place in a judgement which is final and binding, but only temporarily regulates the parties' relations for the duration of the proceedings. Bearing in mind the need to implement the provision on collateral referred to above Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o created a provision for onerous contracts which value as at balance sheet day is amounted PLN 8 202 thousand.

The remaining proceedings are pending before the courts of first instance (including one which was referred to the second instance court for re-examination by the first instance court).

In light of the current status of the proceedings and the related circumstances, the Group believes that the chances of losing other cases both as regards declaration of ineffectiveness of the termination notices and securing non-monetary claims and the claims for compensation are not higher than the chances for winning them. Therefore, no provision for the related costs (except for the reserve created for the proceedings of Pękanino Wind Invest Sp. z o.o. as referred to above) will be created.

In connection with the transaction of purchase on 3 September 2019 by subsidiaries of TAURON Polska Energia S.A., i.e. TEC1 Sp. z o.o, TEC2 Sp. z o.o. and TEC3 Sp. z o.o. five wind farms belonging to the in.ventus group and financial claims of Hamburg Commercial Bank AG against the companies operating the wind farms, the cases from the in.ventus group companies brought against Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o. were suspended by the court, at the joint request of the parties. In March 2020, the parties filed an application to initiate proceedings in order to withdraw the claimant's statement of claim together with a waiver of the claim. In June 2020, the court took up the proceedings and the companies submitted statements of withdrawal of the waiver of claims. By order of 3 July 2020, the court discontinued the proceedings in the above-mentioned cases.

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

In 2017 and 2018 companies of the following capital groups: in.ventus, Polenergia and Wind Invest filed cases against TAURON Polska Energia S.A. regarding damages and liability for potential future losses resulting from tort, including unfair competition. According to the plaintiffs notices of termination submitted by Polska - Energia Pierwsza Kompania Handlowa Sp. z o.o. regarding long-term contracts for the purchase of electricity and property rights related to energy certificates allegedly directed by TAURON Polska Energia S.A., provided the factual basis for these claims.

As at the date of approval of these interim condensed financial statements for publication, the amount of damages claimed in lawsuits is as follows: in.ventus group companies - EUR 12 286 thousand, Polenergia group companies- PLN 78 855 thousand, Wind Invest group companies - PLN 129 947 thousand.

Moreover, the claimants' companies indicate in their lawsuits the following values of estimated damages that may arise in the future: in.ventus group companies - EUR 35 706 thousand, Polenergia group companies - PLN 265 227 thousand, Wind Invest group companies - PLN 1 119 363 thousand.

The court competent for hearing the claims is the Regional Court in Katowice. All cases are held before the first instance courts. Those filed by Wind Invest group companies are held in camera. As at the date of approval of these interim condensed financial statements for publication, the Company's chances of obtaining a positive resolution in disputes should be assessed positively, i.e. the chances of losing are no higher than the chances of winning it.

In connection with the transaction of purchase on 3 September 2019 by subsidiaries of TAURON Polska Energia S.A., i.e. TEC1 Sp. z o.o, TEC2 Sp. z o.o. and TEC3 Sp. z o.o. five wind farms belonging to the in.ventus group and financial claims of Hamburg Commercial Bank AG against the companies operating the wind farms, the cases from the in.ventus group companies brought against TAURON Polska Energia S.A. were suspended by the court, at the joint request of the parties. In first quarter of 2020, the parties filed an application to initiate proceedings in order to withdraw the claimant's statement of claim together with a waiver of the claim. The court has taken action at the unanimous request of the parties. By letter dated 5 June 2020, the claimant party withdrew its waiver of the claim. By order of 6 August 2020, the court discontinued the proceedings in the above-mentioned case.

Claims relating to termination of long-term contracts by a subsidiary TAURON Sprzedaż Sp. z o.o.

In 2018, the subsidiary TAURON Sprzedaż Sp. z o.o. was notified of cases filed against it by two Polenergia group companies with regard to settlement related to damages in the total amount of PLN 78 855 thousand for an alleged loss incurred by the Polenergia group companies as a result of groundless termination of the long-term agreement concluded between them and Polska Energia - Pierwsza Kompania Handlowa Sp. z o.o. The companies indicated in their conclusions that the Company, Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o. and liquidators of Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o. have caused and continue to cause damage to the companies from the Polenergia group, and TAURON Sprzedaż Sp. z o.o. has consciously benefited from this damage and - according to the companies from the Polenergia group - is responsible for it. TAURON Sprzedaż Sp. z o.o. considered the claims of the Polenergia group companies groundless; thus, no settlement was reached. Based on the analysis of the legal situation, in the opinion of the Management Board of TAURON Sprzedaż Sp. z o.o., there are no grounds for creating a provision for the above case. The case is not subject to court proceedings.

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

On 13 March 2015, a consortium consisting of WorleyParsons Nuclear Services JSC, WorleyParsons International Inc, WorleyParsons Group Inc (hereinafter referred to as the "WorleyParsons Consortium"), which is the research contractor for the investment process related to the construction of a nuclear power plant by PGE EJ 1 Sp. z o.o. (hereinafter referred to as the "Agreement"), reported in connection with the Agreement - in a call for payment to PGE EJ 1 Sp. z o.o. - claims for a total amount of PLN 92 315 thousand. As a result, on 15 April 2015 the Company (as a holder of 10% of shares in the issued capital of PGE EJ 1 Sp. z o.o.) concluded an agreement with PGE EJ 1 Sp. z o.o. and its other shareholders (i.e. PGE Polska Grupa Energetyczna S.A., KGHM Polska Miedź S.A. and ENEA S.A.) that regulated mutual relations related to these claims, including principles of providing additional funds (if any) to PGE EJ 1 Sp. z o.o. by its shareholders.

In the Company's view, its potential additional exposure to PGE EJ 1 Sp. z o.o. arising from the agreement shall not exceed its percentage capital exposure to that entity.

In November 2015 the District Court in Warsaw delivered to PGE EJ 1 Sp. z o.o. a lawsuit of WorleyParsons consortium for the amount of about PLN 59 million, subsequently extended in 2017 and 2019 to about PLN 128 million.

PGE EJ1 Sp. z o.o. did not accept the claim and believed that the probability that the court would decide in favour of the plaintiffs was remote. No provisions were recognized in relation to the above events.

Claims filed by Huta Łaziska S.A.

In connection with the Company's merger with Górnośląskie Zakład Elektroenergetyczny S.A. ("GZE") - TAURON Polska Energia S.A. became a party to a court dispute with Huta Łaziska S.A. ("Huta") against GZE and the State Treasury represented by the President of ERO. Currently, the trial is pending before the Court of Appeal in Warsaw.

The ERO President, by virtue of a decision of 12 October 2001, ordered GZE to resume the supply of electricity to the Huta (suspended on 11 October 2001 due to the fact that Huta did not pay its payment obligations) under the terms of the agreement of 30 July 2001, in particular at the price of PLN 67 per MWh, until the dispute was finally resolved, and on 14 November 2001 it finally settled the dispute by issuing a decision stating that the suspension 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 electricity supply) GZE again suspended 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 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 ERO President 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 was heard by the court of first instance. By judgement of 28 May 2019, the Regional Court in Warsaw dismissed Huta's claim in its entirety and ruled that Huta reimbursed each of the respondents for the costs of the proceedings. The judgement is not final and binding. Huta appealed (dated 25 July 2019), challenging the above judgement in its entirety and requesting that it be amended by upholding the claim in its entirety and awarding the costs of the proceedings against the respondents in favour of Huta, or alternatively that the contested judgement be set aside in its entirety and the case be referred back to the court of first instance. In response to the appeal of 9 August 2019, the Company requested that the appeal be dismissed in its entirety as manifestly unfounded and that the costs of the appeal proceedings be awarded against Huta in favour of the Company.

Based on the legal analysis of the claims, as well as taking into account the above judgement, the Company believes that the claims are unfounded and the risk of having to satisfy them is negligible. As a result, no provision has been recognized by the Company for any costs associated with those claims.

Claim filed by ENEA S.A.

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 actual basis of ENEA's claim are allegations concerning unjust enrichment of the Company in connection with possible errors in the determination of aggregated measurement and settlement data by ENEA Operator Sp. z o.o. (as a Distribution System Operator, DSO), constituting the basis for settlements of ENEA and the Company with Polskie Sieci Elektroenergetyczne S.A. on account of imbalance on the Balancing Market in the period from January to 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. Among the entities sued were two subsidiaries of TAURON Polska Energia S.A., i.e: TAURON Sprzedaż Sp. z o.o. (with respect to which ENEA S.A. has applied for the award of the amount of PLN 4 934 thousand with statutory interest from the date of delivery of the copy of the application for extension of the suit until the date of payment), and TAURON Sprzedaż GZE Sp. z o.o. (with respect to which ENEA S.A. has applied for the award of the amount of PLN 3 480 thousand with statutory interest from the date of delivery of the copy of the application for extension of 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 before the first-instance 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 5 839 thousand (TAURON Sprzedaż Sp. z o.o.) and in the total amount of PLN 4 151 thousand (TAURON Sprzedaż GZE Sp. z o.o.). The said provisions cover the principal, interest reviewed as at 31 March 2020 and the cost of the proceedings.

As at 30 June 2020, the value of the claim against the Company is PLN 17 086 thousand, including statutory interest accrued between 30 June 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.

The commitment of the Funds in the subsidiary Nowe Jaworzno Grupa TAURON Sp. z o.o.

The investment agreement signed by the Company with the Closed-End Investment Funds ("Funds") managed by the Polish Development Fund provides for a number of situations whose occurrence constitutes a material breach of the agreement by the Company. The above situations, some of which are beyond the direct control of the Company, include, among others, the occurrence of events of a legal nature, events relating to the financial and material situation of the TAURON Group, decisions of an investment and operational nature taken by the Group with respect to the financing and construction of the 910 MW unit, as well as events relating to the future operation of the unit. Any possible material breach of the agreement on the part of the Group's companies may lead to a potential launch of a procedure, the effect of which may be a request (activation of an option) by the Closed-End Investment Funds to repurchase from the Closed Investment Funds the shares in the subsidiary Nowe Jaworzno Grupa TAURON Sp. z o.o. held by those Funds, in the amount invested by the Funds in the shares, increased by the agreed return and a material breach bonus and reduced by the distribution of funds by Nowe Jaworzno Grupa TAURON Sp. z o.o. to the Funds.

On 27 March 2020 an annex to the investment agreement was concluded, removing from the catalogue of significant breaches of the agreement on the part of the Company the breaches referring to debt ratios combined with a simultaneous amendment to the shareholders' agreement, consisting in granting the Funds special rights in case of exceeding the agreed levels of these ratios.

On 4 May 2020, the subsidiary Nowe Jaworzno Grupa TAURON Sp. z o.o. and the contractor signed an agreement relating to the performance of the 910 MW Unit construction contract, in which the estimated date of commissioning of the 910 MW Unit was postponed to 15 November 2020, which is described in more detail in Note 41 of these interim condensed financial statements. After the reporting period end, on 5 August 2020, the Company, the subsidiary Nowe Jaworzno Grupa TAURON Sp. z o.o. and the Funds concluded annexes to the investment agreement as well as an annex to the conditional agreement on the sale of the Funds' shares in Nowe Jaworzno Grupa TAURON Sp. z o.o. concluded by the Company with the Funds. On the basis of the above annexes, (whose terms have been agreed and confirmed between the parties before 30 June 2020) in particular, the deadline for commissioning of the unit specified in the investment agreement was postponed by six months. In connection with the postponement of the commissioning of 910 MW Unit, having regard to the annexes to the investment agreement signed, the Company does not identify any delays in putting into operation, and thus a breach of the investment agreement.

As at the date of approval of these interim condensed financial statements for publication, the Company does not identify on its part any risk of material breach of the agreement, which is beyond the Company's direct control, and is of the opinion that there is no real possibility, including in the future, of occurrence of material breaches of the agreement.

As at the balance sheet date, the Closed Investment Funds hold shares of Nowe Jaworzno Grupa TAURON Sp. z o.o. in the amount of PLN 880 000 thousand.

38. Security for liabilities

The most significant types of collateral securing the Company's liabilities as at 30 June 2020 are presented in the table below.

(in PLN thousand)

Collateral	Collateral amount			Due date	Agreement/transaction
	Currency		PLN		
Declarations of submission to enforcement			7 284 000	31.12.2025	Loan arrangement with a consortium of banks of 19 June 2019
			2 550 000	20.12.2032	Long-term Bond Issue Scheme in Bank Gospodarstwa Krajowego of 31 July 2013
			1 500 000	31.12.2036	Overdraft agreement with Bank Gospodarstwa Krajowego of 19 December 2018
			900 000	31.12.2027	Credit agreements with Intesa Sanpaolo S.P.A. of 19 December 2019
			621 000	31.07.2020	Bank guarantee agreement dated 5 February 2019 with MUFG Bank, Ltd.*
			621 000	31.10.2021	Bank guarantee agreement dated 28 January 2020 with MUFG Bank, Ltd.*
			600 000	30.06.2034	Subordinated Bond Issue Scheme in Bank Gospodarstwa Krajowego of 6 September 2017
			600 000	17.12.2021	Bank account agreement (intraday limit) with PKO Bank Polski S.A. of 9 October 2017
			600 000	31.12.2028	Credit agreement with SMBC Bank EU AG of 16 March 2020
			600 000	31.12.2030	Credit agreement with a consortium of banks of 25 March 2020
			600 000	14.03.2023	Agreement concluded with BGK for bank guarantees in favour of Izba Rozliczeniowa Giełd Towarowych S.A. of 13 March 2020
			600 000	31.03.2021	Membership agreement in the Exchange Clearing Chamber operated by Izba Rozliczeniowa Giełd Towarowych S.A.
			360 000	29.12.2021	Overdraft agreement with PKO Bank Polski S.A. of 9 October 2017
			300 000	24.04.2024	Agreement concluded with Santander Bank Polska S.A. for bank guarantees for the benefit of Izba Rozliczeniowa Giełd Towarowych S.A. of 24 April 2020
			240 000	31.12.2023	Bond Issue Scheme of 24 November 2015
			180 000	25.05.2024	Contingent agreement concluded with Intesa Sanpaolo S.P.A. Spółka Akcyjna Branch in Poland for bank guarantees for the benefit of Izba Rozliczeniowa Giełd Towarowych S.A. of 25 May 2020
	EUR	24 000	107 184	31.12.2021	Overdraft agreement with Bank Gospodarstwa Krajowego of 8 May 2017
	EUR	50 000	223 300		
			96 000	27.05.2024	Framework bank guarantee agreements with CaixaBank S.A. of 27 May 2019
			24 000	27.05.2029	
Bank account madates			500 000	13.03.2022	Agreement concluded with BGK for bank guarantees in favour of Izba Rozliczeniowa Giełd Towarowych S.A. of 13 March 2020
			300 000	17.12.2020	Bank account agreement (intraday limit) with PKO Bank Polski S.A. of 9 October 2017
			300 000	29.12.2020	Overdraft agreement with PKO Bank Polski S.A. of 9 October 2017
	EUR	45 000	200 970	31.12.2020	Overdraft agreement with Bank Gospodarstwa Krajowego of 8 May 2017
			80 000	26.05.2023	Framework bank guarantee agreements with CaixaBank S.A. of 27 May 2019
			20 000	26.05.2028	
Bank guarantees			200 000	31.07.2020	Bank guarantee issued by BGK to Izba Rozliczeniowa Giełd Towarowych S.A. as a collateral of transactions concluded on Power Commodity Exchange
			500	31.12.2020	Bank guarantees issued by CaixaBank S.A. to GAZ-SYSTEM S.A. as transmission contract performance security.
Blank promissory notes to secure the payment of the Company's liabilities			7 559	-	Security for adequate performance of obligations under the concluded grants agreements

* *The collateral in the form of a declaration on submission to enforcement submitted to the Agreement of 5 February 2019 on a guarantee limit concluded with MUFG Bank, Ltd. relates to a bank guarantee in favour of BGK, which expired on 11 April 2020, while the collateral in the form of a declaration on submission to enforcement submitted to the Agreement of 28 January 2020 on a guarantee limit concluded with MUFG Bank, Ltd. refers to the annex to the above bank guarantee, which extends its term to 11 April 2021, as further described in Note 37 to these interim condensed financial statements.*

In order to secure liabilities of the Company resulting from significant transactions entered into by the Company on the Polish Power Exchange (POLPX) through the agency of the Izba Rozliczeniowa Giełd Towarowych S.A. ("IRGiT"), the Company, apart from the cash collaterals, also provides the IRGiT with non-cash collaterals. They include:

Declaration of submission to enforcement

In connection with entering into force of the act of 14 May 2020 on amending some acts within the scope of protection activities in connection with spread of the SARS-CoV-2 virus, from 1 June 2020 the IRGiT regulations concerning, among others, extension of the catalogue of non-cash collaterals established and paid in connection with the transactions. In accordance with the aforementioned act the changes introduced by the IRGiT are of temporary nature and will be in force until 30 September 2020.

Pursuant to the above changes, the Company provided to IRGiT a security in the form of a notarial deed up to the maximum amount of PLN 600 000 thousand, with the deadline for the deed to be declared enforceable against the Company for all or part of the cash receivables by 31 March 2021.

Bank guarantees

In March 2020, Bank Gospodarstwa Krajowego, on the grounds of the agreement for granting of the guarantees within the framework of the line, it has issued bank guarantees for the benefit of the IRGiT, commissioned by the Company, in total amount of PLN 500 000 thousand, with expiration dates from 30 June 2012 to 31 August 2020. At the Company's request the bank guarantees in total amount of PLN 300 000 thousand have been removed from the IRGiT collateral register and the bank has been released from all liabilities resulted from the guarantees in question. As of 30 June 2020, bank guarantees in the total amount of PLN 200 000 thousand, valid until 31 July 2020, are in force under the agreement.

After the balance sheet date, on 1 July 2020, a bank guarantee issued by Bank Gospodarstwa Krajowego in the amount of PLN 30 000 thousand came into force, with the term of validity until 17 August 2020. Na podstawie aneksu z dnia 21 lipca 2020 roku kwota gwarancji została obniżona do 20 000 tysięcy złotych, a termin ważności przedłużono do dnia 17 września 2020 roku.

In the second quarter of 2020, the Company concluded the following agreements on limits for bank guarantees in favour of the IRGiT:

- an agreement of 24 April 2020 concluded with Santander Bank Polska S.A. for a limit on bank guarantees up to PLN 250 000 thousand, under which the Company is authorised to order the issuance of bank guarantees with a validity period until 31 December 2022 (the agreement is secured with a declaration of submission to enforcement of PLN 300 000 thousand);
- a conditional agreement of 25 May 2020 concluded with Intesa Sanpaolo S.P.A. Spółka Akcyjna Branch in Poland for a guarantee line, under which the bank granted the Company a guarantee line for bank guarantees in the maximum amount of PLN 150 000 thousand, with the deadline for availability of the guarantee line until 25 May 2021 (the agreement in question is secured by a declaration of submission to enforcement in the amount of PLN 180 000 thousand).

After the balance sheet date, on 24 July 2020, two bank guarantees (each for the amount of PLN 100 000 thousand) were issued under the above agreement with Santander Bank Polska S.A., with the term from 1 August 2020 to 30 August 2020.

Transfer of the ownership title to CO_2 emission allowances and property rights to certificates of origin

In November and December 2019 as well as in February 2020 the agreements on transfer of CO_2 emission allowances in favour of the IRGiT were concluded between the Company and the IRGiT as well as between the Company, the subsidiary of TAURON Wytwarzanie S.A. and the IRGiT. On 30 June 2020, the subject of the established collateral amounted in total to 3 021 799 tonnes of CO_2 emission allowances, including:

- the Company has deposited 2 205 000 tonnes of CO_2 emission allowances on its account in the Union Registry and
- the subsidiary of TAURON Wytwarzanie S.A. transferred to IRGiT allowances owned by TAURON Wytwarzanie S.A. in the total amount of 816 799 tonnes.

On 10 February 2020, two agreements of transfer of ownership as collateral concerning the property rights of the certificates of origin were concluded between the Company, the subsidiary TAURON Sprzedaż Sp. z o.o. and the IRGiT as well as between the Company, the subsidiary TAURON Sprzedaż GZE Sp. z o.o. and the IRGiT. On 30 June 2020, on the grounds of the concluded agreements the subsidiaries submitted to the Certificate of Origin Register kept by the Polish Power Exchange (POLPX) an instruction to block the property rights in total number of 1 930 594,92 MWh.

39. Capital commitments

As at 30 June 2020 and 31 December 2019, the Company did not have any material capital commitments.

40. Related-party disclosures

40.1. Transactions with related parties and State Treasury companies

The Company enters into transactions with related parties, as presented in Note 2 to these interim condensed 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.

(in PLN thousand)

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

Revenue and expenses

	6-month period ended 30 June 2020 *(unaudited)*	6-month period ended 30 June 2019 *(unaudited)*
Revenue from subsidiaries	**5 461 491**	**5 096 816**
Revenue from operating activities	5 289 897	4 908 127
Finance income	171 594	188 689
Revenue from jointly-controlled entities	**70 047**	**77 242**
Revenue from State Treasury companies	**115 344**	**123 381**
Costs from subsidiaries	**(1 126 481)**	**(946 640)**
Costs of operating activities	(1 109 064)	(924 034)
Finance costs	(17 417)	(22 606)
Costs incurred with relation to transactions with jointly-controlled entities	**(2 832)**	**(4 267)**
Costs from State Treasury companies	**(244 203)**	**(411 954)**

Receivables and liabilities

	As at 30 June 2020 *(unaudited)*	As at 31 December 2019
Loans granted to subsidiaries and receivables from subsidiaries	**8 194 414**	**8 322 763**
Receivables from buyers	736 761	1 434 004
Loans granted under cash pool agreement with interest accrued	411 162	532 174
Other loans granted	6 970 530	6 351 775
Receivables arising from the TCG	71 259	-
Other financial receivables	72	178
Other non-financial receivables	4 630	4 632
Loans granted to jointly-controlled entities and receivables from jointly-controlled entities	**474 642**	**388 189**
Receivables from State Treasury companies	**11 127**	**25 912**
Liabilities to subsidiaries	**2 784 420**	**2 392 415**
Liabilities to suppliers	226 348	264 063
Loans received under cash pool agreement with interest accrued	1 730 292	1 189 214
Other loans received	759 603	710 956
Liabilities arising from the TCG	47 093	212 446
Other financial liabilities	20 416	15 015
Other non-financial liabilities	668	721
Liabilities to jointly-controlled entities	**-**	**633**
Liabilities to State Treasury companies	**68 242**	**73 399**

Revenues from the subsidiaries include revenues from the sale of coal to TAURON Wytwarzanie S.A., TAURON Ciepło Sp. z o.o. and Nowe Jaworzno Grupa TAURON Sp. z o.o., which in the statement of comprehensive income are presented after deduction of acquisition costs, in the value of the surplus constituting remuneration for agency, as referred to in Note 11 to these interim condensed financial statements.

As regards revenues from sales resulting from transactions with State Treasury companies in the 6-month period ended 30 June 2020, the largest counterparty of TAURON Polska Energia S.A. was PSE S.A. Sales to this counterparty accounted for 95% of total revenues from State Treasury companies.

As regards the costs incurred in connection with transactions with State Treasury companies in the 6-month period ended 30 June 2020, the largest counterparties of TAURON Polska Energia S.A. were Polska Grupa Górnicza S.A., Węglokoks S.A. and Jastrzębska Spółka Węglowa S.A. The costs in transactions with these counterparties accounted for 91% of the total costs incurred in the purchase transactions with State Treasury companies.

(in PLN thousand)

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

40.2. Compensation of the executives

The amount of compensation and other benefits paid or payable to the Management Board, Supervisory Board and other key executives of the Company in the 6-month period ended 30 June 2020 and in the comparative period has been presented in the table below.

	6-month period ended 30 June 2020 *(unaudited)*	6-month period ended 30 June 2019 *(unaudited)*
Management Board	**1 328**	**1 585**
Short-term benefits (with surcharges)	1 165	1 555
Temination benefits	111	15
Other	52	15
Supervisory Board	**408**	**492**
Short-term employee benefits (salaries and surcharges)	408	492
Other members of key management personnel	**9 938**	**9 990**
Short-term employee benefits (salaries and surcharges)	8 639	8 670
Temination benefits	765	693
Other	534	627
Total	**11 674**	**12 067**

The amounts paid or payable until 30 June 2020 have been presented above. Moreover, in accordance with the adopted accounting policy, the Company recognises provisions for termination benefits for members of the Management Board and other key executives, which may be paid or due in future reporting periods.

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

41. Other material information

Judgement of the Court of Arbitration at the Polish Chamber of Commerce on the claims of Abener Energia S.A. against Elektrociepłownia Stalowa Wola S.A.

On 25 April 2019, a judgement of the Court of Arbitration at the Polish Chamber of Commerce in Warsaw was issued in the case brought by Abener Energia S.A. ("Abener") against Elektrociepłownia Stalowa Wola S.A. ("ECSW"), a joint venture of the TAURON Group, in which the Company holds, indirectly through its subsidiary TAURON Wytwarzanie S.A., 50% of shares in the share capital.

The proceedings before the Court of Arbitration concerned a claim for payment, for establishing the legal relationship and for the obligation to submit a declaration of intent in connection with the terminated contract concluded between Abener (general contractor) and ECSW (contracting authority) for the construction of a gas and steam unit in Stalowa Wola. Under the Arbitration Court's judgement, ECSW was obligated to pay to Abener the amount of PLN 333 793 thousand together with statutory interest for delay and costs of the arbitration proceedings. On 24 June 2019, ECSW filed a complaint with the Court of Appeals in Rzeszów against the said judgement. The complaint procedure is pending.

On 15 July 2019, ECSW received a request from Abener addressed to the Court of Appeals in Rzeszów to declare the judgement enforceable. In its ruling of 5 August 2019, the Court of Appeals in Rzeszów postponed consideration of the case from the application for a declaration of enforceability until the completion of the proceedings on the complaint.

On 20 December 2019, ECSW received a new suit filed by Abener with the Court of Arbitration. The subject matter of the statement of claim is the payment by ECSW to Abener of the total amount of PLN 156 447 thousand and EUR 537 thousand together with statutory interest for late payment of damages resulting from requesting and obtaining by the ECSW at Abener's expense the payment from the performance bond or possibly returning the unjustified enrichment obtained by the ECSW at Abener's expense in connection with obtaining payment from the performance bond. The performance bond was granted to ECSW by Abener pursuant to the contract concluded between the parties for the construction of the gas and steam unit in Stalowa Wola. The statement of claim was filed by ECSW on 20 March 2020. The assessment of the claims and the grounds on which they are based indicates that they are unfounded. The arbitration proceedings are pending.

On 30 December 2019, ECSW submitted a summons for arbitration for Abener to pay the amount of PLN 177 853 thousand and EUR 461 thousand with an interest, as compensation for the damage corresponding to the costs of rectifying defects, faults and inadequacies of works, supplies and services improperly performed by Abener under the contract for the construction of the gas and steam unit in Stalowa Wola. The proceedings are pending.

In connection with the above judgement Elektrociepłownia Stalowa Wola S.A. recognised in the statement of financial position for 2018 a provision in the amount of PLN 397 965 thousand, which reduced the share in net assets attributable to the TAURON Group. In 2019, the provision was increased by accrued interest of PLN 23 366 thousand.

The gas and steam unit construction contract concluded between ECSW and Abener does not contain any regulations obliging the Company to pay remuneration to Abener in any form for ECSW.

Change of the commissioning date for a 910 MW power unit

In connection with the failure of one of the boiler elements during the last phase of the 910 MW power unit ("Unit") tests in Jaworzno, the Consortium RAFAKO S.A. - MOSTOSTAL WARSZAWA S.A., being the contractor of the Unit, the designer of the boiler and the entity responsible for the start-up of the boiler indicated that it was necessary to postpone the commissioning of the Unit. On 6 March 2020, the subsidiary Nowe Jaworzno Grupa TAURON Sp. z o.o. received information from the Contractor that the estimated commissioning of the Unit was to take place by the end of July 2020. On 4 May 2020, a subsidiary of Nowe Jaworzno Grupa TAURON Sp. z o.o. and the Contractor signed an agreement relating to the performance of the Unit construction contract. In the signed agreement, the parties agreed on the causes of damage to one of the boiler elements referred to above. According to the conclusions of the Emergency Committee consisting of representatives of the Parties, the failure was a consequence of an adverse combination of events during the start-up of the Unit. In addition, the Emergency Committee agreed on a way of repairing damaged boiler components to avoid similar failures in the future.

The agreement also established a schedule of actions including procedures to prevent the risk of recurrence of failure and procedures for tuning and starting up the Unit. The Contractor shall immediately begin to carry out the work provided for in the agreed schedule and to implement the findings of the Emergency Committee. The contractor estimates that the unit will be commissioned by 15 November 2020. This period shall take into account the additional time necessary to deal with the consequences of the failure referred to above. The current level of work progress is in line with the schedule of activities adopted by the parties.

Due to the impact of the COVID-19 epidemic on the Group's operations as further described below, the Company does not identify, as of the date of approval of these interim condensed financial statements for publication, any difficulties in meeting the commissioning date described above due to the impact of the epidemic.

Impact of the COVID-19 epidemic on the Group's operations

In the 6-month period ended 30 June 2020 an increase in the incidence of COVID-19 was observed in Poland. As a result, particularly at the beginning of the period of growing incidence, a number of restrictions have been introduced in the country to stop the spread of SARS-CoV-2. This situation caused disturbances in the economic and administrative system in Poland. A similar situation was observed in other countries around the world, including the countries of Poland's main trading partners. As a result, the epidemic significantly limited economic activity in the first half of 2020, affecting the work of industrial plants and companies from the segment of small and medium-sized enterprises, and disturbed the functioning of the entire economic system of the country. Consequently, in the medium and long term, the epidemic will have an impact on the national, European and global economic situation, affecting the economic growth in Poland in 2020 and subsequent years.

As a result of the epidemic, changes in the market environment have been observed, in particular in the form of changes in the prices of financial and commodity instruments. In particular, prices of CO_2 emission allowances and, consequently, electricity prices on the wholesale market have been subject to high volatility. As regards financial factors, a weakening of the Polish zloty and a drop in interest rates was observed, including a threefold interventional reduction of the NBP reference interest rate by 140 basis points.

The situation related to COVID-19 affects in particular the level of demand for electricity in the National Power System and the volumes of distribution and sales of electricity in the TAURON Group. In recent months, several percent decreases in demand for electricity have been observed, resulting in a drop in revenue in the area of electricity distribution and sales. In particular, the Group estimates that in the Distribution segment, the negative impact of the epidemic on the Group's EBITDA amounted to PLN 86 862 thousand, which results from the loss of part of the sales volume to recipients outside households. As far as the Sales segment is concerned, the estimated negative impact of the epidemic on the Group's EBITDA was PLN 54 500 thousand, which results from the loss of margin associated with the drop in electricity sales and the need to balance the purchase position. This situation also results in a decrease in production in the area of conventional production and, consequently, a decrease in demand for hard coal. Due to this situation, renegotiations of price and quantity conditions were undertaken with coal suppliers.

So far, the Group has not identified any significant problems in making payments by customers, however due to the effects of the epidemic, financial disturbances may be expected in the Group's customers, which can cause problems in settling current payments for electricity, heat and gas. In the period from March to May, there was an increase in overdue receivables due to the introduction of restrictions in the operation of entrepreneurs. In order to limit potential credit losses, credit risk management criteria have been tightened and soft debt collection activities have been intensified. In order to limit potential credit losses, credit risk management criteria were tightened and soft debt collection activities were intensified. In particular, the epidemic of COVID-19 affected the need to create additional write-offs for expected losses of credit facilities and to change the fair value measurement of loans granted, which increased the Company's operating costs by PLN 3 796 thousand and financial costs by PLN 39 643 thousand.

In terms of funding, the effect of the COVID-19 epidemic was a significant reduction in the functioning of the financial markets, and even the closure of part of those markets, thus limiting the availability of new funding instruments to operators. In addition, higher margins were expected for the new instruments. It should be noted, however, that the TAURON Group consistently pursues a policy of obtaining financing 12 to 24 months in advance of the planned date of its use. The purpose of such an approach is, among other things, to increase the Company's liquidity security to protect it against loss of liquidity in cases of sudden changes in the market situation. By implementing this policy and entering into negotiations with financial institutions at an early stage, the Company led at the beginning of the epidemic to the conclusion of new financing agreements increasing the liquidity security of the TAURON Group.

Price volatility in the market for electricity and related products, taking into account the contract position held in individual markets, result in changes in variation margins and translate into the level of cash employed. Within the framework of activities and initiatives aimed at limiting the epidemic influence on the Group's financial liquidity, within the 6-month period ending on 30 June the 2020, the Company concluded guarantee limit agreements allowing to lodge the required collaterals established in cash concerning the exchange transactions in non-monetary form to the WCCH and to exchange the collaterals established so far in cash for bank guarantees. The Company has also taken advantage of legal solutions of the so-called "anti-crisis shield" by submitting to the WCCH a declaration of submission to execution, thus lowering the level of lodged deposits both in cash form and in established bank guarantees.

As a result of the COVID-19 epidemic, several areas of disruption in the Group's strategic investment projects were identified. In case of the investment, the construction of 910 MW unit in Jaworzno and the construction of a unit at EC Stalowa Wola S.A. they occurred in the initial period of the pandemic as a result of the introduction of strict access control to infrastructure and additional security procedures. In order to minimize the consequences of disruptions in the projects, all contractors carrying out the investments cooperate closely and on an ongoing basis with the Group companies responsible for the investments, which monitor the situation in the projects and react adequately to the situation using the available tools. As part of the response to the epidemic, actions were also taken in the Group to review and limit investment expenditure.

Despite the gradual lifting of further restrictions in May and June 2020, it cannot be ruled out that the COVID-19 epidemic may have a significant impact on the operations of the company and TAURON Group also in the following periods, including the level of revenues and costs incurred, and consequently on the Group's financial liquidity and debt level. However, the future effects and the scale of the epidemic are currently difficult to estimate precisely. The duration of the epidemic, its severity and extent, as well as its impact on economic growth in Poland in the short, medium and long term will be important. Already implemented and future regulatory actions aiming at introducing COVID-19 mitigation mechanisms are also important. In the second quarter of 2020, as part of mitigating measures, a number of legal provisions entered into force, the so-called "anti-crisis shield", which are designed to support entrepreneurs in the existing epidemiological situation and maintain financial liquidity. The TAURON Group, aware of the risks associated with the epidemiological situation, takes active measures to minimize the impact of the current and expected economic situation as well as to protect itself against extreme events. In particular, in the company of the Mining segment, an agreement was signed between the Management Board of the company and the social side, limiting the working time and reducing the remuneration of the Management Board and employees of the company by 20% in the 3-month period, starting from 1 May 2020. In turn, in the company of the Generation segment, an agreement signed between the

Management Board of the company and the social side reduced the working time and reduced the remuneration of the employees of the company by 10% in the same period of time. These agreements helped to reduce costs and obtain funds under the anti-crisis shield for reduced working hours for employees.

Regardless of the economic effects, the current situation affects the operating activities of individual business areas through increased employee absenteeism, increased operating costs resulting from the need to meet epidemiological conditions (costs of purchasing materials, costs of organizational changes), as well as relations with key subcontractors and contractors of the Group. In this respect, the TAURON Group undertakes a number of organisational and material preventive measures aimed at protecting the employees of the Group's individual companies and maintaining the continuity of the critical infrastructure. In particular, a dedicated crisis management team was appointed in the Parent Company to assess the situation in particular areas of activity and to prepare detailed plans in case of disturbances in the continuity of key processes functioning in the Group. Crisis teams operate in the Group's individual companies to coordinate and implement measures to prevent disturbances of the core business as a result of the risks associated with COVID-19. The necessary changes in the organisation of work in the companies were made to ensure work safety.

It should be noted that the situation with COVID-19 is very volatile. The Company's management is and will continue to monitor the potential impact and will take all possible steps to mitigate any negative impact of COVID-19 on the TAURON Group.

42. Events after the end of the reporting period

Loans granted to subsidiaries

After the balance sheet date the Comapny granted new loans to subsidiaries of TAURON Wydobycie S.A. with a total nominal value of PLN 277 354 thousand and TAURON Wytwarzanie S.A. with a nominal value of PLN 500 000 thousand.

These interim condensed financial statements of TAURON Polska Energia S.A. prepared for the 6-month period ended on 30 June 2020 in accordance with International Accounting Standard 34 include 60 pages.

Katowice, 18 August 2020

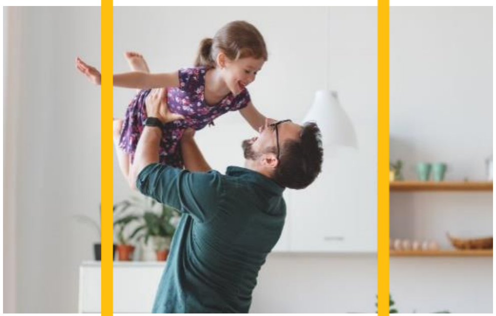
Wojciech Ignacok – President of the Management Board

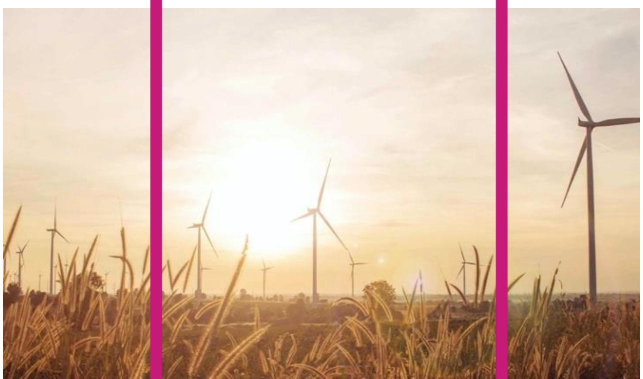
Jerzy Topolski – Vice-President of the Management Board

Marek Wadowski – Vice-President of the Management Board

Oliwia Tokarczyk – Executive Director in Charge of Taxes and Accounting

TAURON





REPORT
OF THE MANAGEMENT BOARD

on the operations
of TAURON Polska Energia S.A. Capital Group
in the first half of 2020

TAURON.PL

TABLE OF CONTENTS

1. TAURON POLSKA ENERGIA S.A. AND TAURON CAPITAL GROUP

1.1. Basic information on TAURON Polska Energia S.A. and TAURON Capital Group

TAURON Capital Group's parent (holding) company is TAURON Polska Energia S.A. (hereinafter called the Company or TAURON), that was established on December 6, 2006 as part of the Program for the Power Sector. 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 name, i.e. TAURON Polska Energia S.A., was registered on November 16, 2007.

The Company does not have any branches (plants).

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 supply.

Figure no. 1. TAURON Capital Group

TAURON Polska Energia S.A.
TAURON Capital Group's holding company
oversees corporate functions: management, strategic investments
regulations, human resources, finance, controlling, internal audit, PR, investor relations, purchasing

MINING

29% of Poland's thermal coal resources

- 3 hard coal mines,
- commercial coal production: 2.49 million Mg, including 78% consumed within TAURON Capital Group, and 22% sold to external customers,
- segment's H1 2020 EBITDA : PLN 7 million.

GENERATION

One of the largest electricity producers in Poland

- 5 conventional power plants with electric capacity of 4.3 GWe and thermal capacity of 1.3 GWt,
- 4.5 TWh of gross electricity production, including 0.2 TWh from biomass,
- 2.6 PJ of heat production,
- segment's H1 2020 EBITDA: PLN 26 million.

RES

Material producer of green energy in Poland

- 9 wind farms with total capacity of 381 MWe,
- 34 hydroelectric power plants with total capacity of 133 MWe,
- 0.8 TWh of gross electricity production from wind and hydro sources,
- segment's H1 2020 EBITDA: PLN 180 million.

DISTRIBUTION

Largest electricity distributor in Poland

- approx. 5.7 million customers,
- distribution in the area covering 57.1 thousand km^2, i.e. 18.3% of Poland's territory,
- 24,6 TWh of electricity distributed,
- segment's H1 2020 EBITDA: PLN 1 689 million.

SUPPLY

Second largest electricity supplier in Poland

- approx. 5.6 million customers,
- 16 TWh of retail electricity supply,
- segment's H1 2020 EBITDA: PLN 391 million.

OTHER OPERATIONS

- provision of services to consumers of electricity and distribution services for TAURON Capital Group's subsidiaries
- provision of support services for TAURON Capital Group's subsidiaries in the following areas: Accounting, IT and HR
- limestone mining for the needs of power generation, steel, construction and road building industries
- acquiring, transporting and processing of biomass for the needs of utility scale power generation
- utilization of the hard coal burning and extraction processes by-products
- vehicles' technical support services
- real estate administration
- property security
- financial operations
- segment's H1 2020 EBITDA: PLN 162 million.

Due to the classification by the Company of 100% of the shares in TAURON Ciepło sp. z o. o. (TAURON Ciepło) as held for sale, the operations of TAURON Ciepło are presented under Discontinued Operations in this report (instead of the previous inclusion as part of the Generation Segment). The comparable data is restated (adjusted) accordingly.

1.2. Business segments (lines of business)

In accordance with *TAURON Group's Business and Operational Model* (Business Model) in force, TAURON Capital Group's business operations are conducted by the units defined as: Corporate Center, 7 Lines of Business: Trading, Mining, Generation, Renewable Energy Sources (RES), Heat, Distribution and Supply as well as Shared Services Centers (Centra Usług Wspólnych - CUW).

For the needs of reporting TAURON Capital Group's results the operations of TAURON Capital Group are assigned to the following 6 Segments, hereinafter also referred to as Lines of Business:

Mining Segment comprising mainly hard coal mining, enrichment and sales in Poland. This Segment's operations are 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 biomass burning. This Segment also includes heat generation and supply. This Segment's operations are conducted by TAURON Wytwarzanie S.A. (TAURON Wytwarzanie) and Nowe Jaworzno Grupa TAURON sp. z o.o. (Nowe Jaworzno Grupa TAURON). This Segment also includes TAURON Serwis sp. z o.o. (TAURON Serwis) subsidiary, dealing primarily with the generation equipment's overhauls.

The operations of TAURON Ciepło (thus far included as part of the Generation Segment) are presented under Discontinued Operations which is due to the classification of 100% of the shares therein as held for sale. The core operations of TAURON Ciepło comprise the production, distribution and supply of thermal energy (heat) for the purpose of heating, domestic hot water conditioning and ventilation.

RES Segment comprising electricity generation from renewable energy sources: hydroelectric power plants and wind farms. This Segment's operations are conducted by TAURON EKOENERGIA sp. z o.o. (TAURON EKOENERGIA), Marselwind sp. z o.o., TEC1 sp. z o.o. (TEC1), TEC2 sp. z o.o. (TEC2) and TEC3 sp. z o.o. (TEC3), as well as 10 subsidiaries acquired in September 2019, i.e.: TEC1 sp. z o.o. Mogilno I spółka komandytowa (limited partnership), TEC1 sp. z o.o. Mogilno II spółka komandytowa (limited partnership), TEC1 sp. z o.o. Mogilno III spółka komandytowa (limited partnership), TEC1 sp. z o.o. Mogilno IV spółka komandytowa (limited partnership), TEC1 sp. z o.o. Mogilno V spółka komandytowa (limited partnership), TEC1 sp. z o.o. Mogilno VI spółka komandytowa (limited partnership), TEC1 sp. z o.o. EW Śniatowo spółka komandytowa (limited partnership), TEC1 sp. z o.o. EW Dobrzyń spółka komandytowa (limited partnership), TEC1 sp. z o.o. EW Gołdap spółka komandytowa (limited partnership), TEC1 sp. z o.o. Ino 1 spółka komandytowa (limited partnership).

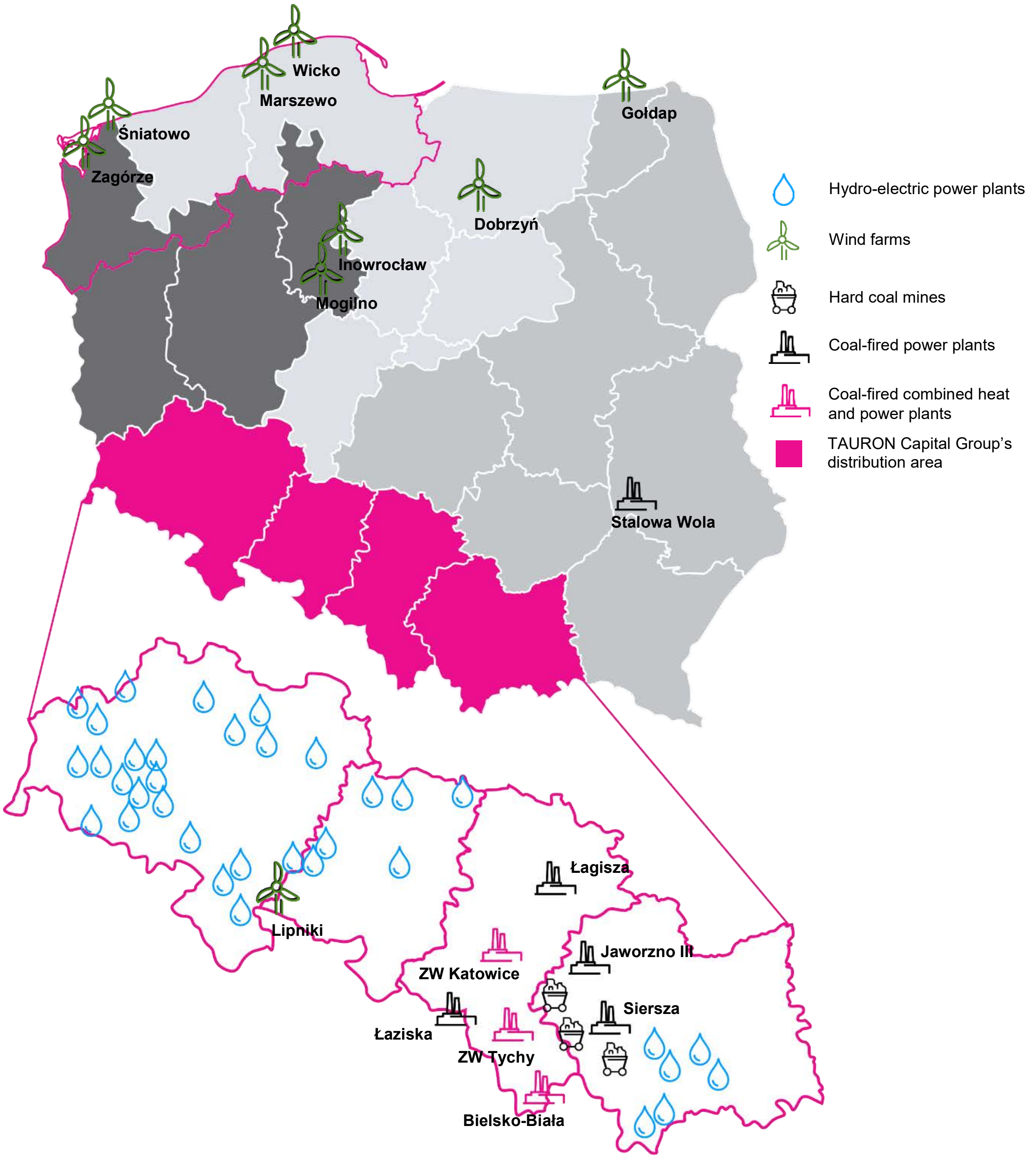
Distribution Segment comprising electricity distribution using the distribution grids located on the territory of the following voivodeships (regions): Małopolska, Lower Silesia, Opole, Silesia, partly: Świętokrzyskie, Podkarpackie, Łódź, Wielkopolska and Lubuskie. This Segment's operations are conducted by TAURON Dystrybucja S.A. (TAURON Dystrybucja). The Company uses modern technological solutions and has the potential to guarantee security of electricity supply and a high quality standard of the services provided to the customers. To ensure the achievement of the strategic goals, it is actively looking for innovative solutions, participating in the research and development works, as well as implementing new technologies, with a particular emphasis on the smart grid technology. In addition, it is aiming to build a modern distribution segment by integrating the segment's structures and processes, maintaining the leading position on the Polish market with respect to the grid security and efficiency as well as preparing the grid infrastructure and organization for the development of the distributed power generation sources. This Segment also includes TAURON Dystrybucja Pomiary sp. z o.o. (TAURON Dystrybucja Pomiary) subsidiary, dealing mainly with technical support services related to electricity metering systems and metering data acquisition

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 the CO_2 emission allowances, property rights arising from the certificates of origin that confirm electricity generation from renewable sources, in cogeneration and property rights arising from the energy efficiency certificates, as well as fuels, and, as of January 2019, also the lighting services sales. This Segment's operations are conducted by TAURON Polska Energia S.A., TAURON Sprzedaż sp. z o.o. (TAURON Sprzedaż), TAURON Sprzedaż GZE sp. z o.o. (TAURON Sprzedaż GZE), TAURON Czech Energy s.r.o. (TAURON Czech Energy) and TAURON Nowe Technologie S.A. (formerly: TAURON Dystrybucja Serwis S.A.) subsidiary providing services for the business and individual customers with respect to, among others, innovative products and services related to the Led modern lighting systems, smart city, e-mobility products as well as energy efficiency, operating the MV/LV grids, the construction of electric vehicle charging stations.

Other operations comprising, among others, customer service for TAURON Capital Group's customers, provision of the support services for TAURON Capital Group's subsidiaries with respect to accounting, HR management and ICT, conducted by TAURON Obsługa Klienta sp. z o.o. (TAURON Obsługa Klienta) subsidiary, as well as the operations related to the extraction of stone (rocks), including limestone, for the needs of the power generation, steel making, construction and road building industries, as well as the 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: Finanse Grupa TAURON sp. z o.o. (Finanse Grupa TAURON) dealing with the financial operations, Bioeko Grupa TAURON sp. z o.o. (Bioeko Grupa TAURON) dealing mainly with the utilization of the hard coal burning and extraction processes' by-products, 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).

The below figure presents the location of TAURON Capital Group's key assets, as well as the distribution area where TAURON Dystrybucja is conducting operations as the Distribution System Operator (DSO).

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



1.3. TAURON Capital Group’s organization and structure

As of June 30, 2020, and as of the date of drawing up this report TAURON Capital Group’s key subsidiaries, besides TAURON parent company, included 32 subsidiaries subject to consolidation, listed in section 1.3.2. of this report.

Furthermore, as of June 30, 2020, and as of the date of drawing up this report, the Company held, directly or indirectly, shares in the other 39 companies.

1.3.1. Composition of the Management Board and the Supervisory Board of TAURON Polska Energia S.A. and changes thereto

1.3.1.1. Management Board

The current 6th term of office the Company’s Management Board began on July 15, 2020. On July 14, 2020, the Company’s Supervisory Board dismissed, effective as of the end of the day, all Members of the Company’s Management Board, and appointed, as of July 15, 2020, Members of the Company’s Management Board of the 6th common term. In accordance with the *Articles of Association of TAURON Polska Energia S.A.* (the Company’s Articles of Association) the common term of office shall last 3 years.

Composition of the Company’s Management Board as of June 30, 2020

1. Filip Grzegorczyk - President of the Management Board,
2. Jarosław Broda - Vice President of the Management Board for Asset Management and Development,
3. Marek Wadowski - Vice President of the Management Board for Finance.

Composition of the Company’s Management Board as of the date of drawing up this report

1. Wojciech Ignacok - President of the Management Board,
2. Jerzy Topolski - Vice President of the Management Board for Asset Management,
3. Marek Wadowski - Vice President of the Management Board for Finance.

Changes to the composition of the Company’s Management Board in the first half of 2020 and by the date of drawing up this report

As of January 1, 2020, the Company’s Management Board was composed of the following members: Filip Grzegorczyk (President of the Management Board), Jarosław Broda (Vice President of the Management Board for Asset Management and Development) and Marek Wadowski (Vice President of the Management Board for Finance).

On July 14, 2020, the Company’s Supervisory Board dismissed, effective as of the end of the day, all of the Members of the Company’s Management Board of the 5th common term, and appointed, as of July 15, 2020, Wojciech Ignacok, Jerzy Topolski and Marek Wadowski to be Members of the Company’s Management Board of the 6th common term.

No other changes to the composition of the Company’s Management Board had taken place by the date of drawing up this report.

Experience and competences of Members of the Company’s Management Board as of the date of drawing up this report

Wojciech Ignacok - President of the Management Board (CEO)

A graduate of the Faculty of the Automatic Control Engineering and Robotics of the AGH University of Science and Technology in Cracow.

He has professional experience with respect to the operations of the power sector, in particular regarding district heating. In addition, he had an opportunity to apply his knowledge in conducting complex investment projects.

Since 2016 he held the position of the President of the Management Board at PEC Geotermia Podhalańska S.A., a company conducting operations with respect to the generation, transmission and distribution of heat generated from geothermal sources, as well as the production of electricity in cogeneration.

Between 2003 and 2016 he had been running his own business operations dealing, among others, with preparing tender documentation and technical support for investment projects financed, among others, using the European Union funds.

In 2009-2016 he had been associated with Scott Wilson Sp. z o.o./URS/Aecom Company, where he provided the services of a consultant / consultant engineer / project manager / deputy director as part of the implementation of projects with respect to the modernization of the Wrocław flood control canal system in order to provide flood protection and the construction of the Lower Silesian Center of Materials and Biomaterials Wroclaw Research Center EIT +. Since 2013, he had also been responsible for the construction of the Racibórz Dolny flood control reservoir on the Odra River.

While at PEC Geotermia Podhalańska S.A., in 2007–2008 he was the President of the Management Board, in 1997–2003 he had held the positions of: a marketing specialist, the marketing department manager and the Vice President of the Management Board – the Director for Operations and Investments.

In 1995-1997 he had worked in the logistics and IT department at the "CZS" Production and Commercial Plant.

He was awarded the Silver Cross of Merit.

Jerzy Topolski - Vice President of the Management Board

A graduate of the Faculty of Electrical Engineering, Automatics and Electronics of the AGH University of Science and Technology in Cracow. He also completed the postgraduate studies in the field of energy enterprise management and new techniques in power engineering management.

He has professional experience with respect to the operations of the power sector, including management of the development of the distribution grid and the provision of electricity distribution services. He was involved in setting up the organization of the electricity market in Poland.

From the beginning of his professional career, he had been associated with the energy industry and TAURON Group or its legal predecessors, i.e. ENION S.A. and Zakład Energetyczny Kraków S.A.

Since 2016, he was the Vice President of the Management Board for Operator at TAURON Dystrybucja S.A. (Issuer's subsidiary), where he was responsible, among others, for the development of the distribution grid, provision of electricity distribution services, metering and grid operation management.

In addition to the above mentioned position, in 2016 he was the Director of TAURON Dystrybucja S.A. Cracow and Tarnów branches. In 2015-2016 he had worked as a coordinator and had been responsible, among others, for customer service quality. From 2013 to 2014 he had been the chief specialist, and in 2011-2012 he had been the head of the Office of Tariffs and the Energy Regulatory Office (URE) Relations.

In 2010 - 2011 he had been holding the position of the Director of the Tariff Department at ENION S.A. and had been responsible in particular for regulated revenue management. In 2007 - 2010 he had been the Director of the Distribution Services Department and had been responsible for ensuring profitability of the distribution services sales. From 2005 to 2007, he had been the President of the Management Board, in 2004 - 2005 - a Member of the Management Board for Trading, and until 2004 - a Member of the Management Board and the Director of Energy Trading.

In 1989 - 2000 he had been holding the following positions at Zakład Energetyczny Kraków S.A.: the director of the high voltage region; deputy head of the high voltage region for technical affairs as well as the grid foreman and engineer.

Marek Wadowski - Vice President of the Management Board

A graduate of the University of Economics in Katowice. He also completed post graduate studies at École Supérieure de Commerce Toulouse where he obtained the Mastère Spécialisé en Banque et Ingéniere 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 processes management in various industries (power sector, mining, steel industries), as well as in financing of investment projects and international commercial transactions.

Since January 29, 2016, he has been holding the position of the Vice President of the Management Board of TAURON Polska Energia S.A. and overseeing the operations of the following business areas: finance management, controlling, accounting and tax policy, analytics, procurement and administration, IT, market operator and trading services, trading, fuel trading, portfolio management, as well as the Personal Data Protection Inspector.

In 2008 - 2015 he had been associated with Jastrzębska Spółka Węglowa S.A. capital group (JSW). In 2008 - 2009, as the Vice President of the Management Board – the Director for Finance of Polski Koks S.A. (a JSW subsidiary), he had been responsible for structuring commercial transactions, implementing the currency risk hedging policy, reducing financial costs, liquidity management. In 2009 - 2012, as the Vice President of the Management Board of JSW for Economic Affairs, he had been involved in the company's IPO (implementation of the International Accounting Standards, modification of the management information system, drafting of the IPO prospectus, talks with investors). In 2012 - 2015, as the Vice President of the Management Board - Director for Economic Affairs of Spółka Energetyczna Jastrzębie S.A. (a JSW subsidiary), he had been involved in the implementation of the Power

Sector 2016 (Energetyka 2016) investment program, as part of which he has been dealing with the business plan development as well as structuring and acquisition of financing from the consortium of banks in the form of a bond issue program. He had also been implementing the risk management procedures related to interest rates, CO_2 and prices of certificates of origin, as well as developing and implementing the liquidity management policy.

In 2005 - 2008 he had worked at Huta Cynku Miasteczko Śląskie S.A., where he had held the positions of: the management board's plenipotentiary for restructuring, the Director for Economics and Finance, a Member of the Management Board - the Director for Economics and Finance, the President of the Management Board - General Manager.

In 1999 - 2005 he had worked as a consultant at BRE Corporate Finance S.A., responsible for the due diligence projects and enterprise valuations.

1.3.1.2. Supervisory Board

The current 6th term of office of the Supervisory Board, began on July 15, 2020, i.e. on the day of holding the Ordinary General Meeting (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 5th term, i.e. for the financial year 2019. In accordance with the Company's Articles of Association it shall be a common term of office and it shall last for 3 years.

Composition of the Company's Supervisory Board as of June 30, 2020

1. Andrzej Kania - Chair of the Supervisory Board,
2. Teresa Famulska - Vice Chair of the Supervisory Board,
3. Katarzyna Taczanowska - Secretary of the Supervisory Board,
4. Barbara Łasak-Jarszak - Member of the Supervisory Board,
5. Grzegorz Peczkis - Member of the Supervisory Board,
6. Barbara Piontek - Member of the Supervisory Board.

Composition of the Company's Supervisory Board as of the date of drawing up this report

1. Andrzej Kania - Chair of the Supervisory Board,
2. Teresa Famulska - Vice Chair of the Supervisory Board,
3. Katarzyna Taczanowska - Secretary of the Supervisory Board,
4. Ryszard Madziar - Member of the Supervisory Board,
5. Grzegorz Peczkis - Member of the Supervisory Board,
6. Barbara Piontek - Member of the Supervisory Board.

Changes to the composition of the Supervisory Board the first half of 2020 and by the date of drawing up this report

As of January 1, 2020, the Company's 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), Barbara Łasak – Jarszak (Member of the Supervisory Board), Grzegorz Peczkis (Member of the Supervisory Board), Jan Płudowski (Member of the Supervisory Board), Marcin Szlenk (Member of the Supervisory Board), Katarzyna Taczanowska (Member of the Supervisory Board) and Agnieszka Woźniak (Member of the Supervisory Board).

On March 24, 2020, the Minister of State Assets, acting pursuant to § 23, section 1, clauses 1) and 3) of the Company's Articles of Association, dismissed Agnieszka Woźniak from the Company's Supervisory Board and appointed Andrzej Śliwka to be a member of the Company's Supervisory Board.

On April 20, 2020, Jacek Szyke and Marcin Szlenk submitted statements on their resignations from the membership of the Company's Supervisory Board, without providing the reasons for their resignations.

On April 27, 2020, Beata Chłodzińska submitted a statement on her resignation from the membership of the Company's Supervisory Board, without providing the reasons for her resignation.

On May 22, 2020, the Minister of State Assets, acting pursuant to § 23, section 1, clauses 1) and 3) of the Company's Articles of Association, appointed, as of May 22, 2020, Andrzej Kania to be a member of the Company's Supervisory Board.

On May 25, 2020, the Company's Supervisory Board appointed Andrzej Kania to be the Chair of the Company's Supervisory Board and Katarzyna Taczanowska to be the Secretary of the Company's Supervisory Board.

On June 5, 2020, the Minister of State Assets, acting pursuant to § 23, section 1, clauses 1) and 3) of the Company's Articles of Association, dismissed Jan Płudowski from the Company's Supervisory Board and appointed Barbara Piontek to be a member of the Company's Supervisory Board.

On June 16, 2020, Andrzej Śliwka submitted a statement on his resignation from the membership of the Company's Supervisory Board, without providing the reasons for his resignation.

On July 15, 2020, i.e. on the date of the Ordinary General Meeting (GM) of the Company approving the financial statements for the last full financial year of performing the function of the Members of the Supervisory Board of the 5th common term of office, i.e. for the financial year 2019, the mandates of all Members of the Company's Supervisory Board expired.

On July 15, 2020, the Minister of State Assets, acting pursuant to § 23, section 1, clauses 1) and 3) of the Company's Articles of Association, appointed Andrzej Kania, Ryszard Madziar and Barbara Piontek to be Members of the Company's Supervisory Board of the 6th common term of office.

On July 15, 2020, the Ordinary General Meeting (GM) of the Company, acting pursuant to § 22, section 1) of the Company Articles of Association, appointed Grzegorz Peczkis and Katarzyna Taczanowską to be Members of the Company's Supervisory Board of the 6th common term of office.

On August 3, 2020, the Minister of State Assets, acting pursuant to § 23, section 1, clauses 1) and 3) of the Company's Articles of Association, appointed, as of August 3, 2020, Teresa Famulska to be a Member of the Company's Supervisory Board of the 6th common term of office.

On August 3, 2020, the Company's Supervisory Board of the 6th common term of office was formed and it elected Andrzej Kania to be the Chair of the Company's Supervisory Board, Teresa Famulska to be the Vice-Chair of the Company's Supervisory Board and Katarzyna Taczanowska as the Secretary of the Company's Supervisory Board.

No other changes to the composition of the Company's Supervisory Board had taken place by the date of drawing up this report.

Memberships of the Committees of the Company's Supervisory Board as of the date of drawing up this report

Pursuant to the *Regulations of the Supervisory Board of TAURON Polska Energia S.A.* the Company's Supervisory Board may appoint from among its members permanent or temporary (ad-hoc) working groups committees to perform specific actions. The Company's Supervisory Board's standing committees shall be

1. Audit Committee of the Supervisory Board of TAURON Polska Energia S.A. (Audit Committee),
2. Nominations and Compensation Committee of the Supervisory Board of TAURON Polska Energia S.A. (Nominations and Compensation Committee),
3. Strategy Committee of the Supervisory Board of TAURON Polska Energia S.A. (Strategy Committee).

In connection with the appointment of the Members of the Company's Supervisory Board of the 6th common term of office, on August 3, 2020, the Company's Supervisory Board appointed for the next term of office the Members of the Audit Committee, the Nominations and Compensation Committee and the Strategy Committee from among its members.

Due to the above the composition of the Company's Supervisory Board Committees as of the date of drawing up this report is as follows:

Audit Committee

1. Teresa Famulska - Head of the Audit Committee,
2. Grzegorz Peczkis - Member of the Audit Committee,
3. Katarzyna Taczanowska - Member of the Audit Committee.

Nominations and Compensation Committee

1. Andrzej Kania - Head of the Nominations and Compensation Committee,
2. Ryszard Madziar - Member of the Nominations and Compensation Committee,
3. Barbara Piontek - Member of the Nominations and Compensation Committee.

Strategy Committee

1. Grzegorz Peczkis - Head of the Strategy Committee,
2. Ryszard Madziar - Member of the Strategy Committee,
3. Barbara Piontek - Member of the Strategy Committee.

Experience and competences of the members of the Company's Supervisory Board as of the date of drawing up this report

Andrzej Kania - Chair of the Supervisory Board

A graduate of the Rzeszów University of Technology (Politechnika Rzeszowska), where he completed his studies in 1991. Andrzej Kania is also a graduate of the National School of Public Administration in Warsaw (Krajowa Szkoła Administracji Publicznej) and the doctoral studies that he completed at the Warsaw School of Economics (Szkoła Główna Handlowa)

He has held important functions at public institutions. He was a Department Head at the Energy Regulatory Office and the Director of the Energy Department at the Ministry of Economy. He also held the position of the Office Director of the Polish Electricity Association.

Andrzej Kania has extensive experience with respect to investment project evaluation and implementation based on measurable results in the management of large scale and high risk investment projects.

He also served as a Member of the Supervisory Board at six companies operating in the energy and infrastructure sector. He was a Member of the Supervisory Board of Polimex Mostostal S.A. from November 30, 2017, until March 15, 2020.

He is currently holding the position of the Director of the Department of Security and Crisis Management at the Ministry of State Assets.

He has been a Member of the Supervisory Board of TAURON Polska Energia S.A. since May 22, 2020.

In the Supervisory Board of the 6th common term of office he is the Chair of the Supervisory Board and the Head of the Nominations and Compensation Committee of the Supervisory Board.

Teresa Famulska - Vice Chair of the Supervisory Board

A graduate of the University of Economics in Katowice (currently the University of Economics in Katowice). She holds a title of 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 is a professional tax advisor.

Since graduation she has been associated with the University of Economics in Katowice. She is currently the Head of the Public Finance Department holding the full Professor's position. In 1998 - 2013 she had been working at the School of Banking and Finance, recently as a dean, holding the full Professor's position.

An author of more than 150 domestic and foreign publications in the field of finance, mainly public finance 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 conducted numerous lectures and training courses for the finance and management personnel of enterprises and for the tax authorities staff. In 2007 - 2018 she had worked for three consecutive terms at the State Examination Commission on Tax Advisory Services, where, since 2010, for two consecutive terms based on the Minister of Finance's appointment, she was the Head of the Commission. In 2007 - 2019 a member of the Financial Education Committee of the Polish Academy of Science, where, in 2011 - 2015, she was a member of the Board of the Committee. Furthermore, she is a member of the Polish Finance and Banking Association (since 2004, a member of the Board), International Fiscal Association, Center for Information and Organization of Public Finance and Tax Law Research of Central and Eastern European Countries and Polish Economic Society.

Vice Chair of the Supervisory Board and the Chair of the Audit Committee of the Supervisory Board of TAURON Polska Energia S.A. of the fifth common term of office.

She was awarded the following orders and accolades: Silver Cross of Merit, Silver Medal for Long Term Service, Medal of the Commission of National Education, 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 August 3, 2020.

In the Supervisory Board of the 6th common term of office she is the Vice Chair of the Company's Supervisory Board and the Head of the Audit Committee of the Supervisory Board.

Katarzyna Taczanowska - Secretary of the Supervisory Board

A graduate of the Faculty of Law of the University of Warsaw, registered on the list of attorneys-at-law of the Warsaw Bar Association (Okręgowa Izba Radców Prawnych w Warszawie).

Katarzyna Taczanowska has many years of professional experience in providing legal services for business entities that she has been offering since 2003. She was a partner at the GWW Woźny and Partners (GWW Woźny i Wspólnicy) law firm, since 2009 until now she has been a partner at the Kudlak, Taczanowska-Wileńska sp.k. law firm. In 2009 - 2012 she had been the Director of the Legal Office at Towarzystwo Funduszy Inwestycyjnych PZU S.A. (PZU S.A. Investment Funds Company). She was a member of the Supervisory Boards of PZU Życie S.A., LOT Aircraft Maintenance Services sp. z o.o. and IDA Management sp. z o.o.

Since July 2018 Katarzyna Taczanowska has been holding the position of the General Director for Corporate and Legal Affairs at KGHM Polska Miedź S.A.

She has been a Member of the Supervisory Board of TAURON Polska Energia S.A. since May 8, 2019.

In the Supervisory Board of the 6th common term of office she is the Secretary of the Company's Supervisory Board and a member of the Audit Committee of the Supervisory Board.

Ryszard Madziar - Member of the Supervisory Board

A graduate of the faculty of political science of the University of Warsaw. He holds an MBA degree obtained at the Warsaw Management University (Wyższa Szkoła Menedżerska w Warszawie).

He has an extensive experience in public administration. He has held the following positions: the Mayor of Wołomin, the Head of the Political Cabinet of the Vice Chairman of the Council of Ministers, and prior to that, the Deputy Director of the Mazovian Regional Office of the Agency for Restructuring and Modernization of Agriculture (Agencja Restrukturyzacji i Modernizacji Rolnictwa).

He is a member of the Supervisory Board of, among others, Totalizator Sportowy.

Currently, he is the Head of the Political Cabinet at the Ministry of State Assets.

He has been a Member of the Supervisory Board of TAURON Polska Energia S.A. since July 15, 2020.

In the Supervisory Board of the 6th common term of office he is a Member of the Nominations and Compensation Committee of the Supervisory Board and a Member of the Strategy Committee of the Supervisory Board.

Grzegorz Peczkis - Member of the Supervisory Board

A graduate of the Faculty of Environment and Energy Engineering of the Silesian University of Technology, specializing in Machine Mechanics and Design. He holds a PhD degree in technical science in the field of machine design and operation. He also completed post-graduate studies in enterprise (business) management and pedagogical professional development studies for university lecturers.

Grzegorz Peczkis gained experience both in business, as a proxy at the Diapom sp. z o.o. company, as well as at academic institutions as an Assistant Lecturer and then an Assistant Professor at the Silesian University of Technology.

He is holding the position of the Vice Chair of the Supervisory Board of Grupa Azoty Zakłady Azotowe Kędzierzyn S.A.

He is an author of several dozen scientific (research) and popular (journalistic) publications. He holds rights under ten patents granted by the Patent Office of the Republic of Poland.

He has been a Member of the Supervisory Board of TAURON Polska Energia S.A. since December 6, 2019.

In the Supervisory Board of the 6th common term of office he is the Head of the Strategy Committee of the Supervisory Board and a Member of the Audit Committee of the Supervisory Board.

Barbara Piontek - Member of the Supervisory Board

An economist, the Vice President of Katowicka Specjalna Strefa Ekonomiczna S.A., a Professor at the WSB Academy in Dąbrowa Górnicza.

A highly valued expert in the field of public management (at the central as well as the local government level), development of strategic industries as well as in developing business models and promoting innovation of the economy. An expert in the field of strategic management and restructuring processes of strategic areas, including those related to the strategic and energy security. A market analyst and a specialist in the field of new technology implementations. A strategic advisor to large as well as small and medium size enterprises.

She created development (growth) strategies for cities, developed business plans for strategic investment projects, took part in international as well as national research and development projects. A graduate of the University of Economics in Katowice and the Catholic University of Lublin, she obtained her academic degrees at the Cracow University of Economics and the Wrocław University of Economics and Business. She is a member of, among others, the Social Economic Council at the Silesian Voivode, as well as the Steering Committee of the "Program for Silesia" of the Silesian Voivode and the Executive Council for the Program for Silesia of the Chancellery of the Prime Minister.

She has many years of experience in the field of business oversight (supervision). From 2016 until June 4, 2020, she had been the Vice Chair of the Supervisory Board of TAURON Wytwarzanie S.A. Since 2018 she has been the Chair of the Supervisory Board of the Pomeranian Special Economic Zone.

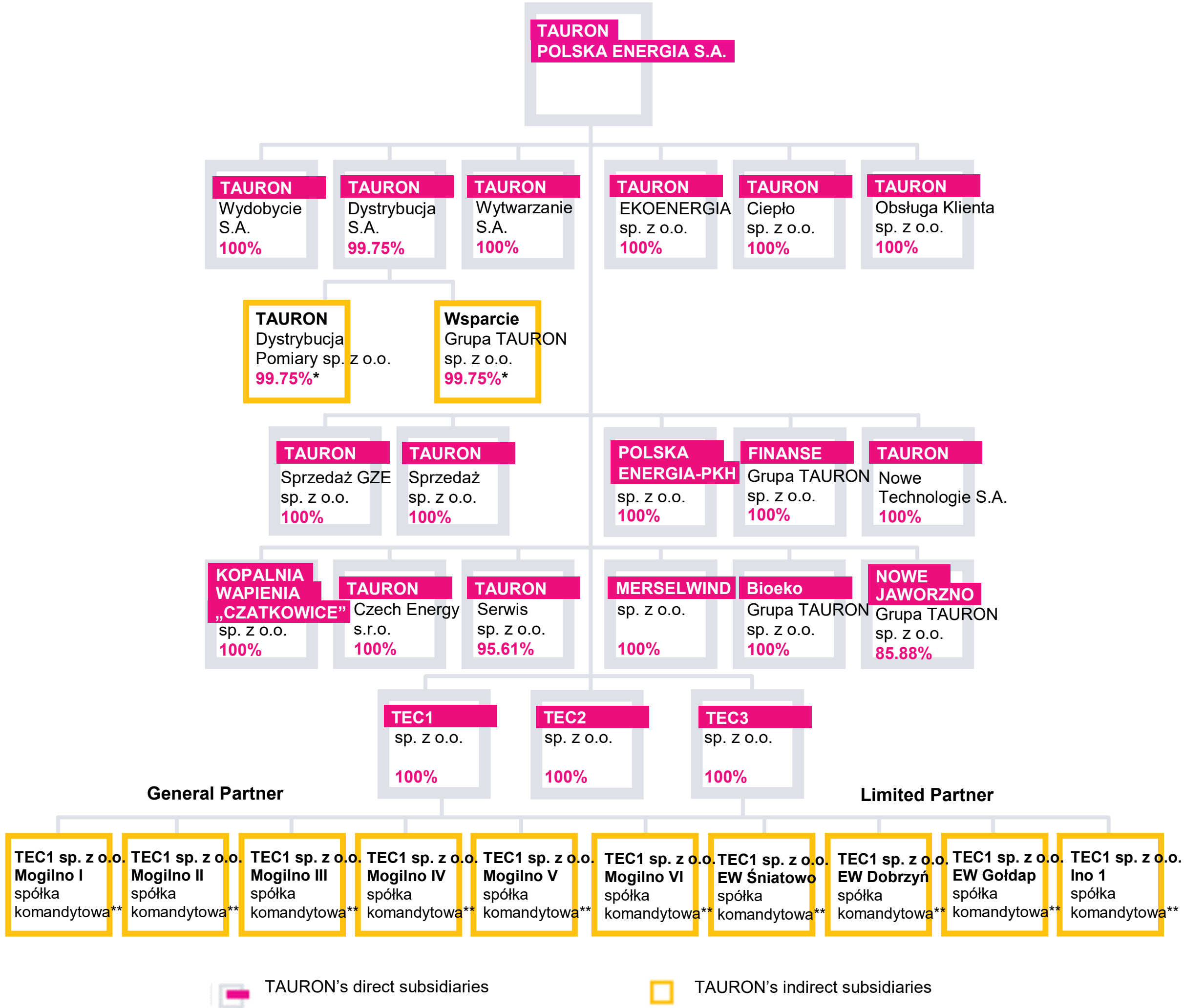
She has been a Member of the Supervisory Board of TAURON Polska Energia S.A. since June 5, 2020.

In the Supervisory Board of the 6th 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.

1.3.2. Entities subject to consolidation

The below figure presents TAURON Capital Group's structure, including the subsidiaries subject to consolidation, as of June 30, 2020.

Figure no. 3. TAURON Capital Group's structure, including the subsidiaries subject to consolidation as of June 30, 2020



**The shares in TAURON Dystrybucja Pomiary and Wsparcie Grupa TAURON are held by TAURON indirectly via TAURON Dystrybucja subsidiary, The Company is a user of the shares of TAURON Dystrybucja Pomiary.*
***In the limited partnership companies indicated: TEC1 is the General Partner, TEC3 is the Limited Partner*

1.3.3. Changes to TAURON Capital Group's organization

The following changes to the organization of TAURON Capital Group had taken place in the first half of 2020 and by the date of drawing up this report:

Merger of TAURON Nowe Technologie S.A. (formerly: TAURON Dystrybucja Serwis S.A.) with Magenta Grupa TAURON sp. z o.o. (Magenta Grupa TAURON)

On January 2, 2020, the District Court for Wrocław – Fabryczna in Wrocław, 6th Commercial Department of the National Court Register registered the merger of the company TAURON Nowe Technologie S.A. (formerly: TAURON Dystrybucja Serwis S.A.) (Acquiring Company) with the company Magenta Grupa TAURON sp. z o.o. (Acquired Company).

The above event was the result of adopting, on October 29, 2019, of the resolutions regarding the merger of the above mentioned companies, by the Extraordinary General Meeting (GM) of the Acquiring Company and the Extraordinary General Meeting (GM) of the Acquired Company.

As a result of the merger the share capital of the Acquiring Company was raised from the amount of PLN 9 494 173 to the amount of PLN 9 535 649, i.e. by the amount of PLN 41 476, by way of establishing (issuing) 41 476 ordinary registered shares with the nominal value of PLN 1 each. As a sole shareholder of Magenta Grupa TAURON, TAURON received, in exchange for 30 000 shares in the share capital of Magenta Grupa TAURON, 41 476 shares in the increased share capital of TAURON Dystrybucja Serwis (currently: TAURON Nowe Technologie).

The merger of TAURON Nowe Technologie S.A. (formerly: TAURON Dystrybucja Serwis S.A.) and Magenta Grupa TAURON was aimed at integrating resources and competences as well as optimizing operational efficiency at TAURON Capital Group by integrating the mutually complementary entities with respect to creating and implementing new solutions at TAURON Capital Group as well as selling them on the external market in the form of various types of products and services.

On March 3, 2020, the Extraordinary General Meeting (GM) of TAURON Dystrybucja Serwis S.A. adopted a resolution to change the company's name to TAURON Nowe Technologie S.A.

On June 1, 2020, the District Court for Wrocław – Fabryczna in Wrocław, 6th Commercial Department of the National Court Register registered the change of the name of the company TAURON Dystrybucja Serwis S.A. to TAURON Nowe Technologie S.A.

Acquisition by TAURON EKOENERGIA sp. z o.o. of 100% of the shares in AVAL-1 sp. z o.o. (AVAL-1)

On January 2, 2020, TAURON EKOENERGIA acquired 100% shares in AVAL-1 sp. z o.o. (AVAL-1) with its registered office in Szczecin, i.e. 50 shares with a nominal value of PLN 100 each and the total value of PLN 5 000.

AVAL-1 is implementing a 6 MW solar farm construction project in the municipality of Choszczno in the West Pomerania Region.

The implementation of the investment project is in line with the assumptions of the *Update of the strategic directions in TAURON Capital Group's Strategy for 2016 - 2025* (Update of the strategic directions), assuming an increase of the share of low- and zero-emission sources in TAURON Capital Group's generation structure (mix) to more than 65% in 2030.

Cessation of the legal existence of German limited partnerships

On April 1, 2020, TEC3 – the limited partner of the below listed companies, acquired from TEC2 – the general partner of the below listed companies, the general rights and obligations of the general partner in the German limited partnerships, i.e.:

1. SCE Wind Mogilno 2008 I GmbH & Co. KG,
2. SCE Wind Mogilno 2008 II GmbH & Co. KG,
3. SCE Wind Mogilno 2008 III GmbH & Co. KG,
4. SCE Wind Mogilno 2008 IV GmbH & Co. KG,
5. SCE Wind Mogilno 2008 V GmbH & Co. KG,
6. SCE Wind Mogilno 2008 VI GmbH & Co. KG,
7. Windpark Sniatowo GmbH & Co. KG,
8. Windpark Dobrzyn 2008 GmbH & Co. KG,
9. Windpark Goldap GmbH & Co. KG,
10. Windpark Ino 1 GmbH & Co. KG.

As a result of completing the above transaction, as of April 1, 2020, the legal existence of the German limited partnerships ceased without conducting the liquidation proceedings (the so-called collapse based on the provisions of the German law), and thus the assets and liabilities of the German limited partnerships were transferred, by way of a universal succession, to TEC3.

The purpose of the above action was to simplify the structure of TAURON Capital Group.

1.3.4. Organizational or equity ties with other entities

Apart from the equity ties with the companies presented in section 1.3.2 of this information, the material joint subsidiaries in which TAURON held, directly or indirectly, shares as of June 30, 2020 include the companies listed in the below table.

Table no. 1. List of material joint subsidiaries as of June 30, 2020

#	Company name	Seat	Main subject of operations	TAURON's share in the company's capital and in the parent company
1.	Elektrociepłownia Stalowa Wola S.A.*	Stalowa Wola	Electricity generation	50.00%
2.	TAMEH HOLDING sp. z o.o.**	Dąbrowa Górnicza	Central (head office) companies and holding operations	50.00%
3.	TAMEH POLSKA sp. z o.o.**	Dąbrowa Górnicza	Electricity and heat generation, transmission, distribution and trading	50.00%
4.	TAMEH Czech s.r.o.**	Ostrawa, Republika Czeska	Production, trading and services	50.00%

**Shares in Elektrociepłownia Stalowa Wola S.A. (EC Stalowa Wola) are held by TAURON indirectly via TAURON Wytwarzanie subsidiary.*
***Companies form a capital group. TAURON holds a direct stake in the share capital and in the parent company TAMEH HOLDING sp. z o.o. (TAMEH HOLDING), that holds a 100% stake in the share capital and in the parent company of TAMEH POLSKA sp. z o.o. and TAMEH Czech s.r.o.*

1.3.5. Major domestic and foreign investments as well as equity investments

Taking up or acquiring share securities in TAURON Capital Group companies

The below table presents a summary of equity increases in TAURON Capital Group subsidiaries in the first half of 2020 and by the date of drawing up this report.

Table no. 2. Summary of equity increases in TAURON Capital Group's subsidiaries in the first half of 2020 and by the date of drawing up this information

#	Subsidiary	Share capital increase (total price for taking up shares)	Company taking up shares	Nominal value of shares taken up	Date of passing the resolution by the GM	Structure of the share capital following the increase
1.	AVAL-1	**PLN 4 500 000**	TAURON EKOENERGIA	PLN 45 000	27.02.2020	TAURON EKOENERGIA 100%
2.	Nowe Jaworzno Grupa TAURON	**PLN 455 100 000**	TAURON	PLN 4 551 000	02.03.2020	TAURON 85.88% FIIKFIZAN 7.06% PFR IFIZ 7.06%
3.	AVAL-1	**PLN 11 060 000**	TAURON EKOENERGIA	PLN 110 600	10.06.2020	TAURON EKOENERGIA 100%

Making additional contributions to the capital of Polska Energia - Pierwsza Kompania Handlowa sp. z o.o.

As part of the implementation of the resolution of the Extraordinary General Meeting (GM) of PEPKH of January 8, 2020, regarding the imposition on TAURON, as the sole shareholder, of the obligation to make additional payments, on January 10, 2020, TAURON made additional contributions to the share capital of the above mentioned company in the total amount of PLN 8 016 thousand.

The resolution of the Extraordinary General Meeting (GM) was adopted in connection with the pending licensing proceedings before the Energy Regulatory Office (URE) for granting PEPKH a new license for trading in electricity.

The purpose of the additional contributions was to meet the requirements of the President of the Energy Regulatory Office (URE) with respect to PEPKH having certain financial resources.

As part of the implementation of the resolution of the Extraordinary General Meeting (GM) of PEPKH of June 16, 2020, regarding the imposition on TAURON, as the sole shareholder, of the obligation to make additional payments, on June 18, 2020, TAURON made additional contributions to the share capital of the above mentioned company in the total amount of PLN 9 600 thousand.

The purpose of the above mentioned contributions to the shares was to enable PEPKH to continue its business operations with respect to its main subject of operations, based on the granted license for electricity trading.

Making additional contributions to the capital of KOMFORT Zarządzanie Aktywami sp. z o.o. (KOMFORT Zarządzanie Aktywami)

As part of the implementation of the resolution of the Extraordinary General Meeting (GM) of KOMFORT Zarządzanie Aktywami of June 5, 2020, regarding the imposition on TAURON Dystrybucja Pomiary, as the sole shareholder, of the obligation to make additional payments, on June 9, 2020, TAURON Dystrybucja Pomiary made additional contributions to the share capital of the above mentioned company in the total amount of PLN 35 175.00.

The purpose of the above mentioned contributions to the shares was to enable KOMFORT Zarządzanie Aktywami to continue its business operations.

Taking up or acquiring share securities in the other companies in which TAURON holds an equity stake

The below table presents a summary of equity increases in the other companies in which TAURON holds an equity stake in the first half of 2020 and by the date of drawing up this report.

Table no. 3. Summary of equity increases in the other companies in which TAURON held an equity stake in the first half of 2020 and by the date of drawing up this report

#	Company	Share capital increase (total price for taking up shares)	Company taking up shares	Nominal value of shares taken up	Date of passing the resolution by the GM	Structure of the share capital following the increase
1.	EEC Magenta spółka z ograniczoną odpowiedzialnością ASI spółka komandytowo – akcyjna (EEC Magenta limited liability company ASI	**PLN 17 200**	EEC Ventures spółka z ograniczoną odpowiedzialnością spółka komandytowa (EEC Ventures limited liability company limited partnership) (EEC Ventures)	PLN 172	02.03.2020	EEC Ventures 3%
		PLN 414 600	PFR Starter FIZ	PLN 4 146		PFR Starter FIZ 72.1%

#	Company	Share capital increase (total price for taking up shares)	Company taking up shares	Nominal value of shares taken up	Date of passing the resolution by the GM	Structure of the share capital following the increase
	limited joint stock partnership)	**PLN 143 200**	TAURON	PLN 1 432		TAURON 24.9%
2.	EEC Magenta spółka z ograniczoną odpowiedzialnością 2 ASI spółka komandytowo – akcyjna (EEC Magenta limited liability company 2 ASI limited joint stock partnership) (EEC Magenta 2 ASI)	**PLN 60 200**	EEC Ventures spółka z ograniczoną odpowiedzialnością 2 spółka komandytowa (EEC Ventures limited liability company 2 limited partnership) (EEC Ventures 2)	PLN 1 790	04.05.2020	EEC Ventures 2 2.95%
		PLN 2 986 000	PFR NCBR CVC FIZAN	PLN 29 860		PFR NCBR CVC FIZAN 49.02%
		PLN 2 925 800	TAURON	PLN 29 258		TAURON 48.03 %
		PLN 20 500	EEC Ventures 2	PLN 601	28.05.2020	EEC Ventures 2 2.95%
		PLN 1 000 000	PFR NCBR CVC FIZAN	PLN 10 000		PFR NCBR CVC FIZAN 49.02%
		PLN 979 500	TAURON	PLN 9 795		TAURON 48.03 %

The other most significant equity investments in the financial assets as of June 30, 2020, include stakes in the following entities:

1. Spółka Ciepłowniczo Energetyczna Jaworzno III sp. z o.o. with the balance sheet value of PLN 30 528 thousand,
2. EEC Magenta 2 ASI with the balance sheet value of PLN 14 855 thousand,
3. PGE EJ 1 sp. z o.o. (PGE EJ 1) with the balance sheet value of PLN 14 402 thousand,
4. ElectroMobility Poland S.A. with the balance sheet value of PLN 11 847 thousand,
5. AVAL-1 with the balance sheet value of PLN 10 375 thousand.

Major investments in financial assets

TAURON Capital Group's investments in financial assets made in the first half of 2020 include loan agreements concluded with the below listed companies:

1. PGE EJ 1 in the amount of PLN 4 000 thousand with the repayment date of January 30, 2023,
2. EC Stalowa Wola in the amount of PLN 59 175 thousand with the repayment date of June 30, 2033.

As of June 30, 2020 the loans had been drawn down in the full amount.

Investments in the financial assets were financed using own funds and the funds obtained as part of the financing model in place at TAURON Capital Group.

On February 11, 2020, the Company retired all of its participation units in the investment funds worth PLN 26 747 thousand.

1.3.6. Implementation of the strategic investment (CAPEX) projects

Key strategic investment (CAPEX) projects underway

The below table presents the activities carried out by TAURON Capital Group in the first half of 2020 and by the date of drawing up this report in connection with the implementation of the key strategic investment (CAPEX) projects.

Table no. 4. Key strategic investment (CAPEX) projects' work progress in the first half of 2020 and by the date of drawing up this report

#	Investment project	Investment project's work progress
1.	Construction of a new 910 MW_e supercritical parameters power generation unit in Jaworzno **Contractor:** Konsorcjum RAFAKO S.A. - MOSTOSTAL WARSZAWA S.A. **Planned project completion date:** Q4 2020 **Work progress:** 98% **Expenditures incurred:** PLN 5 678.2 million*	The test run of the unit was begun in January 2020 and the test runs of the auxiliary and accompanying systems (installations) were continued. The contractual deadline for commissioning the unit was January 31, 2020. On January 30, 2020, the RAFAKO S.A. - MOSTOSTAL WARSZAWA S.A. Consortium provided the information that the unit would be ready for commissioning on February 4, 2020. In February 2020, in the final phase of the unit's test run, a failure occurred, as a result of which the boiler components - dust burners - were damaged. Thus, the General Contractor failed to meet the above mentioned deadline. On March 6, 2020, the RAFAKO S.A. - MOSTOSTAL WARSZAWA S.A. Consortium estimated that the unit's commissioning should take place by July 31, 2020. On May 4, 2020, Nowe Jaworzno Grupa TAURON sp. z o.o., the RAFAKO S.A. - MOSTOSTAL WARSZAWA S.A. Consortium and E003B7 sp. z o.o. (SPV) signed

#	Investment project	Investment project's work progress
		an Agreement in which the Parties determined the causes of damage to one of the boiler components. According to the conclusions presented by the fact finding commission composed of the representatives of NJGT, the Consortium and SPV the failure was a consequence of an unfavorable coincidence of circumstances that had occurred during the start-up of the unit. Each of these circumstances, occurring individually, could not have led to an occurrence of the failure. In addition, the fact finding commission has agreed on how to repair the damaged boiler components, which will allow for avoiding similar failures in the future. As part of the agreement, a schedule of actions has also been agreed upon, including procedures aimed at providing protection against the risk of a recurrence of a failure as well as procedures for tuning (adjusting) and the commissioning works related to the unit. On June 10, 2020, an amendment to the Contract was concluded in accordance with the intentions expressed in the above mentioned agreement and the rules for the further implementation of the Contract were established. The new Contract implementation schedule has been introduced, confirming the date of commissioning the unit as November 15, 2020. The parties also provided for regulating the other mutual relations and settlements in a separate amendment/ agreement. The repair of the damaged components of the boiler has been completed on site. The start-up works are underway to prepare the unit to fire up the boiler again and to synchronize the unit with the National Power System (KSE). In addition, a permit to use the buildings of the new unit was obtained and the test run with respect to the auxiliary and accompanying systems (installations) was completed. The fulfillment of the above conditions enabled the Employer to take over, as of February 28, 2020, the auxiliary and accompanying systems (installations). In March 2020, the Supreme Administrative Court (Naczelny Sąd Administracyjny) dismissed the cassation appeal against the ruling of the Voivodeship Administrative Court (Wojewódzki Sąd Administracyjny) in Warsaw of November 21, 2017, regarding the decision granting the integrated permit to Nowe Jaworzno Grupa TAURON. The decision is legally binding (final), which allows Nowe Jaworzno Grupa TAURON to finally operate the new unit in accordance with the applicable *BAT Conclusions* and the environmental protection regulations.
2.	Construction of a 449 MW_e CCGT unit, including a 240 MW_t heat generation unit at Stalowa Wola (Project implemented jointly with the strategic partner – Polskie Górnictwo Naftowe i Gazownictwo S.A. (PGNiG)). **Contractor:** the contract with Abener Energia S.A. (Abener Energia) was terminated. The project's completion is implemented under the EPCM formula (contract manager) – Energoprojekt Gliwice – Energopomiar Katowice consortium **Planned project completion date:** Q3 2020 **Work progress:** 98% **Expenditures incurred: PLN** 1 347.8 million	All of the mechanical, construction and finishing works have been completed. The unit has been granted a valid use permit (certificate). On March 4, 2020, the first synchronization of the gas turbine with the electricity grid was carried out. The steam purging process had been commenced, which was completed in the second week of April 2020. The restoration of the systems after the purging was completed. The unit's hot start-up is currently underway. The project's schedule has been revised and the new date for the commissioning of the unit has been set as the third quarter of 2020 The total budget of the project remains unchanged.
3.	Construction of the "Grzegorz" shaft (TAURON Wydobycie) including the infrastructure (above the ground and underground) and the accompanying longwall faces (headings) **Contractor:** Przedsiębiorstwo Budowy Szybów S.A. (formerly KOPEX Przedsiębiorstwo Budowy Szybów S.A.), FAMUR Pemug sp. z o.o. (main task – Stage I), LINTER S.A. Consortium **Planned project completion date:** 2023 **Work progress:** 48% **Expenditures incurred:** PLN 267.7 million	The works related to passing of the fault are underway on the 540 m level, and after it has been passed, the drilling towards the shaft will be resumed in order to merge the longwalls. Due to the hydrogeological hazard, the deepening (sinking) of the shaft was suspended in Q2 2020, until the analysis of the impact of the hydrological conditions on the further drilling of the shaft has been completed and the decision on the potential changes to the project (design) has been taken. By June 2020, the shaft had been deepened and the outer casing had been completed down to the depth of -78,5/-870 m. 384/2120 meters of headings and 167/238 meters of longwall ventilation had been drilled on the 800 m level by the end of June 2020.
4.	Construction of the 800 m level at the Janina Coal Mine (ZG Janina) (TAURON Wydobycie). **Contractor:** Consortium of Mostostal Zabrze GPBP S.A. and SIEMAG TECBERG POLSKA S.A. (Construction of the ultimate above the ground and underground infrastructure including the Janina VI shaft mine shaft elevator), KOPEX S.A. and KOPEX Przedsiębiorstwo Budowy Szybów S.A. (task completed – shaft drilling) **Planned project completion date:** 2021 **Work progress:** 84% **Expenditures incurred:** PLN 436.4 million	In connection with the COVID-19 pandemic, there was a partial stoppage in the performance of the works due to the departure of foreign workers from Poland. The equipment (furnishings) of the hoisting machine and the shaft cage were installed during the epidemic. A flyover was constructed for the crew to access the newly built tower, which connects the new and the old infrastructure. The engine (motor) of the hoisting machine had been installed by the end of March 2020. Installation works related to the heating and ventilation systems, as well as cabling and woodwork (carpentry) in the headframe building have been completed. Concrete pouring works on the shaft bottom were carried out for the needs of installing the shaft equipment (furnishings) at the 800 m level. Additionally, the tender for the drilling of the horizontal headings on the 800 m level is being prepared, the announcement of which was delayed until 2020 due to the optimization of the scope thereof.

#	Investment project	Investment project's work progress
5.	Brzeszcze CAPEX Program **Contractors:** TRANS-JAN, Consortium of FAMUR and KOPEX Machinery, Consortium of FAMUR and KPRGiBSz, Consortium of MAS and Carbospec, Elektrometal Cieszyn **Planned Program completion date:** 2025 **Work progress:** 65% **Expenditures incurred:** PLN 310.1 million	The extraction of the 510 deposit was conducted in the first half of 2020. The works aimed at altering and improving the efficiency of the ventilation system are continued. As part of the program the total of 6 062 meters of headings had been drilled and altered by June 2020.
6.	Implementing heat generation at unit no. 10 and the construction of the peaking and backup boilers in Łagisza **Contractor:** GE Power (steam turbine set refurbishment), Mostostal Warszawa (implementing the heat generation unit including refurbishing the heat production part), SBB Energy (construction of the peaking and backup boilers). **Planned project completion date:** Q4 2019 / Q2 2020 **Work progress:** 99% **Expenditures incurred:** PLN 126.2 million	The steam turbine set refurbishment and the implementation of the heat generation unit including the station's adaptation were completed. The systems were tested, commissioned and handed over for operation in the fourth quarter of 2019 The peaking and backup boilers were commissioned in the first half of 2020. The project's implementation has been completed. The final settlements with the Contractors and the preparations for conducting the performance tests are underway.
7.	Low Emission Elimination Program (PLNE – Program Likwidacji Niskiej Emisji) on the territory of the Silesia and Dąbrowa conurbation **Contractor:** Contractors are being selected to carry out specific work (project) stages (milestones). **Planned project completion date:** 2023 **Work progress:** 15% **Expenditures incurred:** PLN 21.1 million	The PLNE program is carried out on the territory of the following metropolitan areas: Będzin, Chorzów, Czeladź, Dąbrowa Górnicza, Katowice, Siemianowice Śląskie, Sosnowiec and Świętochłowice. The new agreement with the Voivodeship Fund for Environmental Protection and Water Management (Wojewódzki Fundusz Ochrony Środowiska i Gospodarki Wodnej - WFOŚiGW) was concluded on January 31, 2020, as a result of a new application submitted by TAURON Ciepło to WFOŚiGW in 2019, for the co-financing of the PLNE Program for a new scope of the program's implementation in the form of 22 MWt. The amount of the funding obtained is PLN 32 million. Network connections are currently being installed under the network connection agreements concluded and the process of acquiring new customers is underway.
8.	TAURON Internet (POPC) - implementation of the project in the areas awarded (7 projects on the territory of the following areas: Rybnik, Katowice and Tychy, Oświęcim, Kraków, Wałbrzych A, Wałbrzych B, Sosnowiec) **Contractor:** Atem Polska sp. z o.o. (Katowice-Tychy), MZUM sp. z o.o. (Sosnowiec), Atem Polska sp. z o.o. (Wałbrzych A), Mediamo Sp. z o.o. (Oświęcim), MX3 sp. z o.o. (Rybnik), MZUM sp. z o.o. (Wałbrzych B), ZICOM sp. z o.o. (Kraków-Tarnów) **Planned project completion date:** 2021 **Work progress:** 13% **Expenditures incurred:** PLN 39.3 million	The POPC program involves implementing an infrastructure to enable high speed internet connections for households (min 30 MB/s). The final product of the project will be the provision of the wholesale services enabling connecting of the end users by the retail operators. In January 2020, a contractor for the construction of the backbone network was selected. The contractor is carrying out the works contracted. All of the contractors began the deployment of the fiber optic network in the first half of 2020,. By June 2020, the contractors had begun actively connecting schools and installing the fiber optic line terminal cabinets (racks). The installation of the backbone infrastructure has also been commenced. It is planned that 80% of the implementation of the connected education facilities will be achieved in the third quarter of 2020.
9.	Program aimed at adapting TAURON Wytwarzanie's generating units to comply with the operational conditions in force beyond 2021 **Contractor:** Contractors are being selected to carry out specific projects. **Planned project completion date:** 2021 **Work progress:** 66% **Expenditures incurred:** PLN 177.1 million	As part of the program the refurbishment of the following power generating units, in accordance with the following scope of works, is planned: 1. Jaworzno II Power Plant, units no. 2 and 3 – the construction of the flue gas desulfurization (FGD) installation. The implementation of the project was halted due to the obtained derogations from the *BAT Conclusions*, which allowed for further operation of the units. The parties are preparing documents that will enable the termination of the contract and the mutual settlements. 2. Jaworzno III Power Plant, units no. 1, 3, 5 – the construction of the selective catalytic reduction (SCR). installation. The ground works for unit no. 5 are continued (among others, the foundations have been erected and backfilled). The assembly (erection) of the main structure for unit no. 1 has been completed and the reactor erection works have been commenced. The start-up tests of the flue gas fans, quality acceptances for unit no. 3 have been completed, the preparation of the acceptance documentation is underway, the unit's synchronization has been completed. The contractor has contracted all of the major supplies and subcontractors. 3. Łaziska Power Plant, units no. 9, 10, 11, 12 – the refurbishment of the selective catalytic reduction (SCR) installation. The hot start-up of the installation on units 9 and 10 is in progress. The detailed engineering designs for units no. 11 and 12 have been completed, the catalysts for these units have been shipped. The contractor has contracted all of the major supplies and subcontractors. 4. Łaziska Power Plant, units no. 9, 10, 11 and 12 – the refurbishment of the flue gas desulfurization (FGD) installation.

#	Investment project	Investment project's work progress
		The absorber modernization works have been completed. The works related to the rotary flue gas heater have been completed. The erection (assembly) of the flue gas piping has been completed. The hot start-up of the installation on units 9 and 10 is in progress. The contractor has contracted all of the major supplies and subcontractors. 5. Łaziska Power Plant – the refurbishment of the sewage treatment plant. The tests with respect to the selection of the chemicals have been carried out in the field, in order to optimize the scope of works. The technical dialogue has been conducted with the potential contractors. The decision has been taken to carry out the refurbishment based on the optimized scope of works in 2021. 6. Siersza Power Plant - the adaptation of the existing selective catalytic reduction (SCR) installations. The repeated bidding procedure was declared null and void. A turnaround plan to meet the Capacity Market Operational Milestone has been developed. The project implementation has been suspended due to the obtained derogations from the *BAT Conclusions*. 7. Łagisza Power Plant – the construction of the flue gas desulfurization (FGD) installation was substituted by the completion of the dry additives feeding installation. The tender procedure has been carried out. The project implementation has been halted due to the obtained derogations from the *BAT Conclusions*.

**the amount increased by, among others, training, fast wearing parts*

Other investment projects

Preparation and implementation of investment projects in the field of renewable energy sources

In accordance with the assumptions of the Update of the Strategic Directions, that assumes an increase in the share of the low- and zero-emission sources in the generation mix of TAURON Capital Group to more than 65% in 2030, TAURON Capital Group's subsidiaries have been steadfastly developing projects related to the new RES capacity.

The construction of a 5 MW photovoltaic (PV) farm in Jaworzno is underway - the first project prepared as part of the PV farm construction program on reclaimed land or land requiring rehabilitation as a result of the long term industrial activity. The program covers 5 sites with the total capacity of approximately 75-150 MWp. The project is co-financed by the Voivodeship Fund for Environmental Protection and Water Management (WFOŚiGW) in Katowice. The PV farm project is also advanced in Mysłowice, where preparations are underway to start the process of selecting the contractor for the farm and the connection, and the process of obtaining the zoning approval (decision on the land development and building conditions) for the farm and the connection is in progress.

The PV Choszczno project is also under construction - a complex of photovoltaic farms with the total capacity of 6 MW. The investment project is implemented as part of the acquisition of AVAL-1 shares by TAURON EKOENERGIA on January 2, 2020. The preparatory works are also underway to extend the scope of the project by an additional 6 MW and start the implementation.

Apart from developing their in-house projects, TAURON Capital Group's subsidiaries are also looking for the opportunities to acquire advanced RES projects ready for construction on the market. After the initial analyses, several preliminary contracts were signed, among others, for the purchase of 4 PV projects and 5 wind farm projects. Due diligence analyses of further projects are underway. All of the investment decisions will be made after the detailed analyses of the technical, legal and business risks have been completed, after positive financial results of the individual projects have been obtained and after the final terms have been agreed upon with the sellers.

Nuclear power plant construction project

PGE EJ 1 was carrying out the project's initial stage scope of works related to conducting environmental and siting studies at Żarnowiec and Lubiatowo-Kopalino sites in the first half of 2020. Having gathered the appropriate amount of data, the compiling of the environmental and siting reports began.

The project is carried out under the Partners' (Shareholders') Agreement concluded in 2014 by TAURON, Enea S.A. (Enea) and KGHM Polska Miedź S.A. (KGHM Polska Miedź) (Business Partners) with Polska Grupa Energetyczna S.A. (PGE). In accordance with the above agreement each of the Business Partners holds 10% 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.

The Partners' (Shareholders') Agreement governs the principles of cooperation in the project implementation, including the parties' commitment to jointly, in proportion to the stakes held, finance the operations as part of a project development milestone (stage).

413 MWe CCGT unit construction project including an approx. 250 MWt heat generation unit at TAURON Wytwarzanie Łagisza Power Plant Branch in Będzin (TAURON Wytwarzanie Oddział Elektrownia Łagisza w Będzinie)

In September 2016, in accordance with *TAURON Group's Strategy for 2016-2025 (Strategy)*, as part of the priority of ensuring TAURON Capital Group's financial stability, the 413 MWe CCGT unit construction project including a heat production unit at TAURON Wytwarzanie Łagisza Power Plant Branch in Będzin (TAURON Wytwarzanie Oddział Elektrownia Łagisza w Będzinie) was halted due to the loss of its business justification. TAURON Capital Group is currently conducting analyses, as well as works that would enable a potential resumption of the project. Taking of the investment decision will, on one hand, be based on the assessment of the project's profitability, and, on the other hand, on TAURON Capital Group's financial standing. The possibility of involving an equity partner to implement the project cannot be excluded.

Capital expenditures

TAURON Capital Group's capital expenditures came in at PLN 1 812 million in the first half of 2020 and they were 10% higher than the outlays incurred in the first half of 2019 that stood at PLN 1 642 million (excluding equity investments). This is primarily due to the higher spending in the Generation and Distribution Segments.

The below table presents the selected, highest by value, capital expenditures incurred by TAURON Capital Group's Lines of Business in the first half of 2020.

Table no. 5. The highest by value capital expenditures incurred by TAURON Capital Group's Lines of Business in the first half of 2020

Item	Capital expenditures (PLN m}
Distribution	
Existing grid assets' upgrades (refurbishments) and replacements	423
Installation of new connections	423
Dispatch Communications System	17
Generation	
Construction of a 910 MW_e super critical parameters generation unit in Jaworzno	310
Adaptation of TAURON Wytwarzanie generating units to the *BAT Conclusions*	135
CAPEX on replacements and upgrades (refurbishments), as well as components at TAURON Wytwarzanie	88
Connecting of new facilities	13
Implementing heat generation at the Łagisza Power Plant	17
Investment projects related to the development (expansion) and maintenance of district heating networks	6
Connecting of the facilities heated using the low emission sources to the district heating networks	5
Restoration of the SUW demineralized water preparation (conditioning) station	3
Mining	
Preparation of the future production	53
Construction of the 800 m level at the Janina Coal Mine (ZG Janina)	27
Brzeszcze Coal Mine's (ZG Brzeszcze) Investment (CAPEX) Program	15
Construction of the "Grzegorz" shaft at the Sobieski Coal Mine (ZG Sobieski)	9
Other operations	
Broadband Internet deployment as part of POPC III	36

2. OPERATIONS OF TAURON POLSKA ENERGIA S.A. AND TAURON CAPITAL GROUP

2.1. Factors and non-typical (one-off) events that have a significant impact on the abbreviated consolidated financial statements

2.1.1. Internal factors

The operations and earnings of the Company and TAURON Capital Group in the first half of 2020 were impacted, among others, by the following internal factors:

1. update of the strategic directions and steadfast implementation of the Strategy as well as achieving of the assumed financial and non-financial effects,
2. actions with respect to optimizing (streamlining) processes taken by all of TAURON Capital Group's subsidiaries,
3. decisions with respect to the implementation of the key investment projects,
4. measures implemented at TAURON Capital Group's subsidiaries in connection with the epidemic, aimed at ensuring the safety of the employees and customers, as well as securing business continuity, including reducing the operating expenses,
5. implementing the *Strategic Asset Management Plan for 2018 - 2025* – one of the fundamental documents constituting the core of the integrated asset management system at TAURON Capital Group,
6. implementation of the investment projects with respect to adapting TAURON Capital Group's power plants to the so-called *BAT Conclusions* by reducing, starting from 2021, the emissions of sulfur and nitrogen compounds as well as chlorine and mercury or obtaining of the derogations,
7. loyalty building measures aimed at retaining the existing customers and marketing activities with respect to acquiring new customers,
8. centralized TAURON Capital Group's financial management area, supported by the use of such tools as: central model of financing, cash flow (financial liquidity) management policy using the *cash pooling* mechanism, risk management policy in the financial area, insurance policy,
9. ability to obtain debt financing on the international markets,
10. Tax Capital Group's (Podatkowa Grupa Kapitałowa - PGK) operations, primarily aimed at optimizing the performance of the obligations associated with the payment of the corporate income tax by TAURON Capital Group's key subsidiaries,
11. TAURON's purchasing processes management, in particular, the management of fuel purchases for the needs of TAURON Capital Group's generation entities,
12. geological and mining conditions of hard coal extraction,
13. failures of TAURON Capital Group's equipment, installations and grids,
14. implementation of *TAURON Wydobycie Turnaround Program for 2020-2029*.

The detailed information related to the impact of the above mentioned factors on the financial result achieved in the first half of 2020 is provided in section 3 of this report. The effects of this impact are visible both in the short term as well as in the long term outlook.

During the first half of 2020, there had been no material, non-typical (one-off) internal events that would have a significant impact on the financial result achieved. It should be emphasized, however, that due to the current epidemiological situation, in March 2020, TAURON Capital Group's subsidiaries introduced extraordinary preventive measures aimed at ensuring the safety of the employees and customers and ensuring the security of the continuity of the critical infrastructure's operation.

As of June 30, 2020, the analyses were carried out as part of the impairment tests related to TAURON Capital Group's assets carrying amount, that demonstrated changes with respect to the recoverable carrying value of the fixed assets in the Mining segment and in the Generation Segment that were due, first and foremost, to the following factors:

- a change of the assumptions related to the cost of capital for the hard coal assets resulting, among others, from the risk of a deterioration of the economic situation due to the COVID 19 pandemic,
- a decrease of the margin on electricity as a consequence of the reduction of the electricity sales price at the biomass fired units.

As a consequence, the booking of the impairment charges related to the loss of the carrying value of the tangible and intangible fixed assets in the amount of PLN 227 million, which led to the reduction of the consolidated net financial result by PLN 184 million, was recognized in the earnings of TAURON Capital Group for the first half of 2020 presented in the consolidated financial statements.

The analyses carried out as part of the impairment tests related to the loss of the assets' carrying amount had not demonstrated the need to book impairment charges in TAURON's standalone financial statements.

As of the balance sheet date, TAURON Capital Group assessed that with respect to the assets and liabilities of TAURON Ciepło, the conditions for classifying the above assets as a group for disposal intended for sale, stemming from *IFRS 5 Fixed assets held for sale and discontinued operations*, were met. In connection with the above, the assets and liabilities of TAURON Ciepło were reclassified as a group for disposal (sale) to the following categories: fixed assets classified as held for sale and liabilities related to assets held for sale, respectively. As of the date of the above reclassification of the group for sale, TAURON Capital Group performed its valuation at fair value (mark to market), which is described in more detail in note 16 of the *Interim abbreviated consolidated financial statements of TAURON Polska Energia S.A. Capital Group. in accordance with the International Financial Reporting Standards approved by the European Union for the 6-month period ended on June 30, 2020.* Due to the fact that the fair value is lower than the current balance sheet value of the group for disposal (sale), TAURON Capital Group took an impairment charge due to the loss of the carrying value of the non-financial fixed assets in the amount of PLN 806 419 thousand.

2.1.2. External factors

The results of TAURON Capital Group's operations are impacted by the following external factors:

1. macroeconomic environment,
2. market environment,
3. regulatory environment,
4. competitive environment (landscape).

2.1.2.1. Macroeconomic environment

The Polish market is the core area of TAURON Capital Group's business operations and TAURON Capital Group 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 analysts, the COVID-19 pandemic is bringing more negative impacts for the global economy than previously thought, and the process of returning to growth will be slower than initially assumed.

The International Monetary Fund is forecasting that the global GDP decline will clock in at 4.9% in 2020, which represents a deterioration of the indicator by 1.9 percentage points as compared to the estimates from April 2020. The growth rate of the world economy is forecast to come in at 5.4% in 2021. According to the forecasts of the World Bank, the world's real GDP will decline by 5.2% in 2020, and the world economies will grow by 4.2% in 2021. The negative effects of pandemic will be felt most by the Eurozone countries, for which the real GDP growth rate forecast for 2020 stands at -9%.

According to the forecasts of the European Commission (EC), Poland's GDP will fall by 4.6% in 2020, and it will go up by 4.3% in 2021. The inflation rate will be at 2.7% in 2020, trending upward to reach 2.8% in 2021.

The consumption will drop in Poland, which will be influenced by the greater propensity of the consumers to save and refrain from spending due to uncertainty and the threat of the pandemic. Combined with the difficulties in maintaining supply chains and the decline in purchase orders in March and April 2020, this will result in a drop of investments.

According to the OECD estimates, Poland's GDP will clock in at -7.4% in 2020. However, taking into account the possibility of the second wave of the COVID-19 pandemic coming at the end of the year and the need to introduce further restrictions, the GDP may decline even by as much as up to 9.5%. The unemployment rate will then reach approx. 8%, and exports will fall even by as much as 12% in 2020. The high unemployment and persistent uncertainty may affect consumption and private investment, limiting and delaying the country's economic recovery.

The situation on the international coal market in May 2020 demonstrated that the demand for the commodity was headed for the greatest decline in the last few decades, and the pandemic only accelerated this process. The coal prices at ARA ports fell by approx. 20% in May 2020 from the beginning of 2020. At the end of May 2020, the price, in monthly contracts, stood at approx. 48 USD/t. The Polish coal price index for the power industry PSCMI 1 in the first five months of 2020 remained more or less at the constant level of about PLN 267/t.

A decline of electricity production has been observed in Poland in recent months. In the period from January to May 2020, electricity production went down by 7% as compared to the previous year, and the domestic electricity consumption decreased by approx. 5%, according to the data provided by Polskie Sieci Elektroenergetyczne S.A. (PSE). A significant drop in oil prices in the first four months of 2020 may translate into a decline of the electricity prices in 2020.

In April 2020, Standard & Poor's Global Ratings agency maintained a long-term foreign currency rating for Poland of A- and a stable outlook for this rating. The agency estimates that in 2020 Poland's GDP will drop by 2%.

2.1.2.2. Market environment

Electricity

The table below presents the volumes of electricity consumption, production and imports in Poland and the average electricity prices on the SPOT market, both in Poland and in the neighboring countries in the first half of 2020 and in the first half of 2019.

Table no. 6. Volumes of electricity consumption, production and imports in Poland and the average electricity prices on the SPOT market in Poland and in the neighboring countries in the first half of 2020 and in the first half of 2019

#	Volume	unit	H1 2020	H1 2019	Increase/Decrease
1.	Electricity consumption	GWh	80 641	85 028	-4 387 (-5.2%)
2.	Electricity production by domestic power plants	GWh	74 092	80 436	-6 344 (-7.9%)
3.	Electricity production by power plants fired with:				
	hard coal	GWh	33 836	39 111	-5 275 (-13.5%)
	lignite	GWh	18 668	21 431	-2 763 (-12.9%)
	gas	GWh	6 632	5 673	959 (+16.9%)
4.	Electricity production by wind farms	GWh	7 859	7 342	517 (+7.0%)
5.	Electricity imports	GWh	6 547	4 592	1 955 (+42.6%)
6.	Average electricity price on the SPOT market in:				
	Poland	PLN/MWh	177.90	228.26	- 50.36
		EUR/MWh	40.30	53.17	- 12.87
	Neighboring countries (on the example of German)	EUR/MWh	23.42	38.36	-14.94

The average temperature in the first quarter of 2020 came in at 3.7°C and it was higher by 1.1°C as compared to the average temperature in the same period of 2019, which stood at 2.6°C. The warmest and, as the same time, the most windy month was February 2020, with the average temperature standing at 4°C and the average generation from wind sources clocking in at 2 022 MWh. The average temperature in the second quarter of 2020 came in at 13°C, as compared to 15°C in the same period of 2019.

Price drops on the SPOT market in the first half of 2020 were caused by the higher wind generation, the lower electricity demand due to the mild winter and spring, as well as the COVID-19 pandemic and the restrictions introduced as a result of the pandemic, which further contributed to the decline in demand for electricity in the period from March to June 2020. The significant slump in electricity prices was also recorded on the neighboring markets. The generation from the wind and photovoltaic sources in Germany came in at 98.21 TWh, as compared to 88.24 TWh in the same period of 2019.

The prices of the futures contracts were characterized by high volatility in the first half of 2020, with a clear downward trend in the first quarter of 2020, mainly caused by the COVID-19 pandemic. The prices improved in the second quarter of 2020 due to an increase in the prices of commodities, CO_2 emission allowances and the lifting of the restrictions introduced in connection with the pandemic.

The price of the reference BASE_Y-21 futures contract (clearing price) came in, on average, at 232.59 PLN/MWh, i.e. it was 35.23 PLN/MWh lower than the average price for the same contract in the first half of 2019. In the period under review the high of 254.26 PLN/MWh was reached on January 10, 2020 and the low of 211.65 PLN/MWh was recorded on March 23 and 30, 2020. The main reasons for the decline of the futures contract prices in the first quarter of 2020 were: the situation related to the COVID-19 pandemic and the impact of the short term SPOT market.

Due to the low SPOT market prices the monthly and quarterly futures contracts were also systematically dropping in the first quarter of 2020. In the second quarter of 2020, despite the continued uncertainty related to the development of the COVID-19 pandemic and the continued declines in demand and production of electricity from the conventional sources, there was a marked increase in the prices of the CO_2 emission allowances, which led to an increase in the prices of all futures contracts, including the reference BASE_Y-21 futures contract, that rose to 239.30 PLN/MWh on June 23, 2020. Due to the above average generation from the wind sources and a decrease of the demand in the power system, an increase of the balance of electricity imports and the rapid expansion of the prosumer installations in the first half of 2020, the P/B ratio was degraded. The price of the reference PEAK_Y-21 futures contract (clearing price) in the first half of 2020 came in, on average, at 276.61 PLN/MWh, i.e. it was lower by 63.67 PLN/MWh than the average price for the same contract in the first half of 2019.

Oil and coal

The prices of oil on the global markets were low in the first half of 2020. The volume weighted average price of Brent crude on the ICE exchange came in at 42.71 USD/barrel in the above mentioned period and it was lower by 23.34 USD/barrel (a drop by 35.3%) as compared to the volume weighted average price of Brent crude in the same period of 2019. .

The total trading volume came in at approx. 33 billion barrels in the first half of 2020, while in the same period of 2019 it stood at 32.2 billion barrels (an increase by 2.4%).

The main factors that had an impact on the demand and supply situation on the oil markets in the first half of 2020 were the global events affecting the fuel industry. The material events impacting the oil prices in the first quarter of 2020 were in particular the COVID-19 pandemic, which led to the reduction of the demand for oil by approx. 25-30 million barrels a day, as well as a failure to extend the oil agreement during the OPEC+ talks on March 6, 2020, which led to a new oil price crisis as the price of a barrel of oil fell from around 55 USD/barrel to 30 USD/barrel. In the second quarter of 2020, the price of crude oil began to increase, which was influenced by the recovering demand for crude oil and the re-establishment of the OPEC+ agreement, on the basis of which the decision was taken to introduce record production cuts from the beginning of May 2020 in order to reduce the supply of the commodity on the market. The above events had an impact on the slump of the minimum crude oil price to 15.98 USD/barrel in the first half of 2020. It was the lowest price of the Brent crude in the 21st century.

The average CIF ARA coal price from the EEX exchange for the yearly contract came in at 55.36 USD/t in the first half of 2020, and it was lower by 18.76 USD/t (a drop by 25.3%) as compared to the average coal price in the first half of 2019.

The first half of 2020 was characterized by the declines of the coal price indices, the limitations or suspension of the terminal operations, the weak or low demand and the deteriorating forecasts for the entire coal industry. The COVID-19 pandemic led to the market chaos on an unprecedented scale.

Initially, the uncertainty about the development of the pandemic and the reduction of the production in China translated into the prospects of the lower coal production in that country and thus an increase in demand for imported coal. On the other hand, following the recovery of the economy after the COVID-19 pandemic, a sharp decline of the domestic thermal coal prices in China, caused by the imports' competition in view of the oversupply (glut), caused a concern in the country's government agencies. The domestic thermal coal prices have fallen to the critical levels, which may lead to an intervention in the form of the tighter policy towards the ports importing the commodity.

Natural gas

The average price of gas on the Day Ahead Market on Towarowa Giełda Energii S.A. (TGE - Polish Power Exchange) came in at 45.95 PLN/MWh in the first half of 2020 and it was lower by more than 38 PLN/MWh (a drop by 45,5%) as compared to the average price of gas in the first half of 2019.

The record deliveries of large volumes of the liquefied natural gas to the ports in the north of Europe and to Poland, the storage facilities with the highest inventory levels in many years, the COVID-19 pandemic, as well as the average daily temperatures that in the first part of the first half of 2020, coinciding the winter months, exceeded the seasonal norm, leading to the reduced demand for gas, had the biggest impact on the natural gas prices in the first half of 2020.

The lowest monthly average volume weighted price of the next day delivery contract in the first half of 2020 was recorded in June 2020, when it came in at 49.49 PLN/MWh, and the highest one in January 2020, when it clocked in at 58.98 PLN/MWh. The volume of trading on the above mentioned contract came in at 9 054 TWh in the first half of 2020, and it was 1.3% higher than the volume of trading on that contract in the first half of 2019, when it stood at 8 936 TWh.

The average volume weighted price of the yearly reference contract on the futures market came in at 69.10 PLN/MWh in the first half of 2020, and it was 25 PLN/MWh (a drop by 26.4%) lower than the average volume weighted price in the first half of 2019. The lowest average volume weighted price of that contract was recorded in June 2020, when it stood at 63.67 PLN/MWh, and the highest one in January 2020, when it stood at 78.32 PLN/MWh. The volume of trading on that contract came in at 35 618 TWh in the first half of 2020, and it was higher by 50.4% as compared to the volume of trading on that contract in the first half of 2019, when it stood at 23 682 TWh.

According to the Gas Infrastructure Europe association's data, as of June 30, 2020, the Polish storage facilities with the total capacity of approx. 3.2 billion m^3 were 69% filled and a year earlier they had been 67% filled (an increase by 2 pp). In Europe that level, as of June 30, 2020, stood at 80%, and a year earlier it had clocked in at 72.8% (+7.2 pp).

CO_2 emission allowances

The prices on the CO_2 emission allowances market were characterized by high volatility in the first half of 2020. The average price of the EUA allowances stood at 21.97 EUR/MgCO_2 in the above period.

The lowest EUA allowance price was recorded in March 2020, when it came in at 14.53 EUR/MgCO_2, and the highest one in February 2020, when it clocked in at 25.71 EUR/MgCO_2, which represented the difference of 11.18 EUR/MgCO_2. In April 2020 the prices of the EUA allowances stood at 22.55 EUR/MgCO2 (maximum price), and in May 2020, the average price clocked in at 20.04 EUR/MgCO2. In June 2020 the prices rose rapidly with the average price of the EUA allowances reaching 23.55 EUR/MgCO2, while the maximum price came in at 28.33 EUR/MgCO2.

The price fluctuations in the first quarter of 2020 were caused, first and foremost, by the COVID-19 pandemic, which contributed to large price drops on the CO_2 emission allowances market as well as on the commodity and financial markets. The freezing of the economic activity in a number of countries of the world, aimed at limiting the spread of the virus, led to a reduction of the industrial production, with the energy-intensive industry being hit hardest, and, as a consequence, the demand for the EUA allowances reported by the industrial installations dipped. In the second quarter of 2020 the prices of the allowances began to recover, eventually returning to the pre-pandemic price levels in June 2020. The COVID-19 pandemic lowered the rate of the economic growth in the world and slowed down the industrial production, indirectly affecting the demand for the CO_2 emission allowances and their price.

The further factors that affected the prices of the CO_2 emission allowances in the first half of 2020 included the continuation of the work of the European Commission on the concept of the Green Deal for the European Union (EU) (including the development of the hydrogen strategy for Europe) and the commencement of the works by the European Commission (EC) on accelerating the implementation of the objectives of the Paris Agreement (by 2030 the emissions reduction should reach at least 50%-55%). In Germany the government administration has officially confirmed the cancellation of the EUA volume from the power plants that are being shut down. Due to this, approximately 250-280 million CO_2 emission allowances will be cancelled in 2022-2030. Germany has also published an official coal exit plan according to which all coal fired power plants in Germany will be shut down by 2038.

Property rights

The prices on the *green certificates* market were stable in the first two months of 2020, while they were characterized by greater volatility in March 2020, caused, first and foremost, by the COVID-19 pandemic. In the second quarter of 2020, price fluctuations stabilized and the weighted average price of the TGEozea index reached the minimum price of 120.93 PLN/MWh, and the maximum of 133.12 PLN/MWh. Ultimately, the weighted average price of the *green certificates* index in the first half of 2020 came in at 137.79 PLN/MWh and it was 9% higher than the weighted average price of the *green certificates index* in the same period of 2019. As compared to the first half of 2019 the trading volume decreased by approx. 18%, from 5 787 GWh to 4 762 GWh. The balance of the PMOZE_A register at the end of June 2020 reached a surplus of 29.36 TWh, and taking into account the certificates blocked for retirement this balance decreased by almost 1.4 TWh to 27.97 TWh (a drop by approx. 2.13% year on year).

The prices on the *blue certificates* market were very stable in the first half of 2020. The TGEozebio index fluctuated around the substitution fee figure, which for 2020 is 300.03 PLN/MWh. Prices were moving within the range between the low of 299.85 PLN/MWh, reached at the end of March 2020, and the high of 301.38 PLN/MWh. reported in May 2020. The weighted average price of the TGEozebio index in the first half of 2020 came in at 300.15 PLN/MWh, while the trading volume reached 261.13 GWh and it was approximately 1% higher than the trading volume contracted in the first half of 2019. The balance of the PMOZE - BIO register reached 356.1 GWh at the end of June 2020, and taking into account the certificates blocked for retirement this balance dropped by almost 122 GWh to 234.2 GWh (an increase by 3% as compared to the first half of 2019)

The prices of the PMEF *white certificates* were moving mostly in an upward trend in the first half of 2020, and turned back lower only in June 2020. The prices of the *white certificates* fluctuated between the minimum price of 1735.61 PLN/toe, reached in January 2020, and the maximum price of 2000.98 PLN/toe reported in mid-February 2020. The highest prices were observed in May 2020, when the weighted average monthly price clocked in at 1 998.80 PLN/toe (on average the prices stood at more than 15% above the substitution fee figure which in 2020 for the *white certificates* is 1 736.44 PLN/ toe). The weighted average price for the first half of 2020 came in at 1 846.52 PLN/toe and it was higher by almost 311% as compared to 2019. In the first half of 2020 the trading volume reached 48 271 toe and it was lower by more than 70% as compared to the trading volume in the same period of 2019, when it came in at 161 436 toe.

The prices of the PMEF-2019, PMEF-2020 and PMEF_F certificates had continued moving in an upward trend until May 2020, only in June 2020 did the indices fall. The weighted average prices of the above certificates in the first half of 2020 were higher than the weighted average prices in the first half of 2019 and reached, respectively: for PMEF_F the level of 1 814.83 PLN/toe (an increase by more than 12%), for PMEF- 2019 the level of 1 837.40 PLN/toe (an increase by more than 12%) and for PMEF-2020 the level of 1 808.72 PLN/toe (the contract was listed only in 2020).

2.1.2.3. Regulatory environment

TAURON Capital Group is monitoring changes and taking actions in the regulatory area, both at the national as well as the EU level.

The below table below presents the most important changes in the regulatory environment of TAURON Capital Group in the first half of 2020.

Table no. 7. Most important changes in the regulatory environment of TAURON Capital Group in the first half of 2020

#	Name of the regulation	Description of the regulatory change	Status as of 30.06.2020	Impact on TAURON Capital Group
National regulations				
1.	Draft act on promoting electricity generation in off-shore wind farms	The draft act assumes the creation of a dedicated support system for the installations generating electricity in off-shore wind farms. The support system is divided into two stages. The first stage will be available for the most advanced projects, which, if the statutory criteria have been met, will receive individual support requiring an approval by the European Commission, as being in compliance with the principles of the EU internal market. The first phase is scheduled until June 30, 2021. As part of the second stage the support is to be granted in the form of an auction procedure. In addition, the draft act introduces certain modifications to facilitate the process of applying for the documents required in the course of the investment works carried out with respect to the offshore wind farm projects.	Public consultations	The adoption of the said regulation will have a positive impact on the investment opportunities in off-shore wind energy. Providing a dedicated support system may constitute an incentive for the potential investors wishing to develop this type of technology. In connection with the update of TAURON Capital Group's strategy, the adoption of the draft act may constitute the basis for further analyses of the investment potential of the electricity generation sector in off shore wind farms.
2.	Draft act on the amendment to the act – Energy law and certain other acts	The draft act introduces a number of changes, including, among others: • comprehensive regulations with respect to energy storage, • additional mechanisms for consumer protection on the energy market, • changes to the unbundling rules, • introduction of the central energy market information system to be correlated with the implementation of the remote readout electricity meters, • increasing the powers of the President of ERO in relation to the electric utilities, • defining the conditions and procedure for recognizing the given distribution system as a closed distribution system by the President of ERO.	Committee for European Affairs	The regulations contained in the draft are comprehensive in nature, affecting various areas of the business operations conducted by TAURON Capital Group's subsidiaries. The main impact will be made by the standards on deepening the principles of unbundling, the obligation to install remote readout electricity meters and changes in the rules for concluding contracts with the consumers.
3.	Draft act on the compensations due to the increase in the electricity prices in 2020	The draft act is intended to implement a compensation system aimed at maintaining a stable level of electricity prices in 2020, as compared to 2019. The beneficiaries of the aid are to be the final consumers of electricity within households who meet the criteria with respect to, among others: income, being connected to an appropriate electricity grid connection (point of electricity consumption) or the level of electricity consumption in 2020, defined in the draft. The amount of the compensations will depend on the amount of the electricity drawn from the grid and consumed by an eligible final customer. The compensations are to be granted in the form of an adjustment to the gross payment amount as listed on the first electricity invoice issued to the eligible entity after March 15, 2021 or by way of a payout of the compensation due to the bank account in the event that it would be impossible to adjust the account payable amount. The trading company will be applying to the price settlement manager (i.e. Zarządca Rozliczeń S.A.) for the payment of the equivalent of the total of the compensation amounts paid out. The payouts will be financed by the Price Difference Payout Fund. The deadline for submitting applications for the payment of the equivalent of the total of the compensation amounts is to be set by September 30, 2021. The deadline for the payment of the equivalent of the compensations by the price settlement manager is to depend on the number of electricity grid connections covered by the compensation in the given trading company. In case of the largest trading companies, given the possible deficiencies in the application and the need to supplement them,	Public consultations	The draft regulation will affect TAURON Sprzedaż, as it will act as an intermediary in the system of collecting the consumers' declarations and paying out the compensations. With respect to collecting applications, new obligations will appear, among others: informing the consumers about the possibility of obtaining the compensations, receiving and verifying the declarations. On the other hand, with regard to the payouts related to the applications, apart from the payouts themselves, the verification obligations are to be imposed. The operation of the system will also be supported by the distribution companies, i.e. TAURON Dystrybucja.

#	Name of the regulation	Description of the regulatory change	Status as of 30.06.2020	Impact on TAURON Capital Group
		the payment deadline may fall at the beginning of 2022.		
4.	Draft act on the amendment to the act on Renewable Energy Sources	The draft act provides for the introduction of the definition of energy wood applicable in the period between July 1, 2020, and December 31, 2021. The requirements defined in the regulation of the competent minister responsible for the environment on the detailed qualitative and dimensional characteristics of energy wood shall not be applicable to energy wood during that period.	Draft act has been referred to the Lower Chamber of the Parliament (Sejm)	The introduction of the definition of energy wood will lead to an extension of the possibility of sourcing energy wood for energy purposes (as forest originated biomass).
5.	Package of regulations with respect to distributed energy	The draft regulations expand and clarify the legal regulations with respect to the functioning of distributed energy mechanisms. The package includes the following regulations: • regulation with respect to the registration, balancing and sharing of the metering data and the settlements of the energy cooperatives, • regulation with respect to the technical requirements, grid connection conditions and the interoperation of the micro installations with the power system, • regulation with respect to the registration, balancing and sharing of the metering data and the settlements of the renewable energy prosumers.	Public consultations	The draft provisions will affect the principles of cooperation, including the processing of the metering data as well as the settlements and connecting of the micro installations to the grid, between TAURON Dystrybucja and TAURON Sprzedaż, prosumers, energy cooperatives and micro installation users.
6.	Package of regulations related to the COVID-19 epidemic	Regulations aimed at reducing the number of cases and eliminating the negative consequences of the COVID-19 disease caused by the COVID-19 pandemic that is spreading in Poland and around the world. The package includes the following regulations:	Legal acts have come into force	
		1. regulations introducing specific obligations and restrictions (including for the employers) in connection with the declaration of the state of the epidemic hazard on the territory of the Republic of Poland, and subsequently the state of the epidemic: • Regulation of the Minister of Health of March 20, 2020, *on announcing the state of the epidemic on the territory of the Republic of Poland*, • Regulation of the Council of Ministers of March 31, 2020, *on establishing certain restrictions, orders and bans in relation to the occurrence of the state of the epidemic (as subsequently amended)*		The said regulations will have an impact on all of TAURON Capital Group's subsidiaries, as they define the general obligations that all of the employers must comply with. Such obligations shall include: the employer's obligation to provide employees with disposable gloves or hand disinfectants, as well as to ensure a distance between work stations of at least 1.5 m, unless ensuring such a distance is impossible due to the nature of the activity performed at the given workplace (plant), and the plant provides personal protective equipment related to combating the COVID-19 pandemic.
		2. regulations related to the so-called anti-crisis shield (including the financial shield) constituting a collection of measures and solutions supporting entrepreneurs and the economy in connection with the negative effects of COVID-19: • Act of March 2, 2020, *on special solutions related to preventing, countering and combating COVID-19, other infectious diseases and the crisis situations caused thereby (as subsequently amended)*, • Act of March 31, 2020, *on amending the act on special solutions related to preventing, countering and combating COVID-19, other infectious diseases and the crisis situations caused thereby, as well as certain other acts (as subsequently amended)*, • Act of *April 16, 2020, on special support instruments in connection with the spreading of the SARS-CoV-2 virus*, • Act of June 19, 2020, *on the subsidies to the interest rate of the bank loans granted to the entrepreneurs (businesses) affected by the effects of COVID-19 and on the simplified proceedings aimed at obtaining an approval of the arrangement in connection with the occurrence of COVID-19.*		TAURON Capital Group's subsidiaries supplying electricity and gas to the consumers will be affected by the provisions of the said regulations, that exclude the possibility of the energy company stopping the supply of electricity or gas fuels to a consumer in the event of illegal consumption of fuels or electricity or a delay in the payment for services by the consumer, in case such a consumer is: the final consumer in a household or an entity on which operating restrictions or temporary restrictions with respect to the scope of its operations have been imposed, pursuant to the provisions of the Act of December 5, 2008, on preventing and combating infections and human infectious diseases. A favorable change for TAURON Capital Group's subsidiaries concluding transactions on the exchanges and trading platforms is the introduction of the possibility of posting non-cash collaterals to cover the margins securing such transactions in the form of the property rights stemming from the certificates of origin, emission allowances, bank guarantees, as well as sureties issued by the capital group's subsidiaries. A change that is important for TAURON Capital Group's subsidiaries that ensure the functioning of the critical infrastructure or the distribution grids is the introduction of greater flexibility with respect to the working time rules and enabling the employer to change the employee working time system or schedule, as well as to instruct the employees to perform work overtime within the

#	Name of the regulation	Description of the regulatory change	Status as of 30.06.2020	Impact on TAURON Capital Group
				scope and for the time required to ensure the continuity of the business operations. A significant change for TAURON Capital Group's subsidiaries that have concluded grid connection agreements for the renewable energy source installations is the obligation imposed on such subsidiaries to enable entities with which they have concluded the said agreements to extend (at the request of such entities) the deadline for delivering electricity to the grid for the first time, provided that such a deadline falls prior to June 30, 2022. From the point of view of TAURON Dystrybucja (as a DSO), a favorable change of these regulations is an extension until March 31, 2021, of the deadline for submitting a draft development plan to the President of the ERO. With respect to TAURON Capital Group's subsidiaries that have experienced a drop in the business operations turnover, the possibility of paying the employees, subject to the economic downtime, wages reduced by no more than 50% and the possibility of reducing working hours by 20% (but not more than down to ½ of full-time), introduced by the said regulations is significant. The solutions included in the regulations that are significant from the point of view of all of TAURON Capital Group's subsidiaries are favorable provisions aimed at limiting the spread of the epidemic, as well as securing and improving the financial situation of the entrepreneurs (businesses). They are related to the possibility to: • perform work remotely, • grant care allowance for the employees in the event of a release from the obligation to perform work for the purpose of taking care of a child up to 8 years of age, • to reduce income or revenue earned from the business operations in 2019 by deducting the amount of the loss incurred in 2020 due to COVID-19, • hold meetings by the companies' management boards and supervisory boards remotely, adopting resolutions remotely, as well as casting votes by the members of such bodies in writing through another member of the body (unless the company's shareholders' agreement or the company's articles of association provide otherwise) • obtain funding from the Guaranteed Employee Benefits Fund to subsidize the wages of the employees affected by the economic downtime or the reduced work time, • obtain financing (in particular in the form of a guarantee, loan, surety, public aid) from: Państwowy Fundusz Rozwoju S.A. (Polish Development Fund), Agencja Rozwoju Przemysłu S.A. (Industrial Development Agency), and Bank Gospodarstwa Krajowego (BGK).
European Union (EU) regulations				
7.	European Green Deal, including:	The *European Green Deal,* published by the European Commission (EC) in December 2019, which is a plan of actions aimed at achieving climate neutrality by the EU states by 2050. In accordance with the regulation the steps taken by the European Commission (EC) are to cover the entire economy, including the power, agriculture, transportation (land, sea, air) and manufacturing industry sectors. The European Commission (EC) has published a legislative schedule covering the next several years.	Public consultations of the draft legal acts and the assessments of the effects of the regulations	The *European Green Deal* is a major challenge for all sectors of the economy. It will be possible to evaluate the detailed goals for the power sector after the legislative acts related to the sector have been published. TAURON Capital Group is aligning its activities with the global and EU trends related to the power sector. The Update of the Strategic Directions (the so-called *Green Turn of TAURON*) was adopted in 2019, according to which the low and zero-emission sources will constitute 65% of the TAURON Capital Group's energy mix by 2030. Investments in photovoltaics (including on the post-industrial land), on-shore wind farms and an involvement in the off-shore wind farms are planned. The directions indicated are in line with the assumptions of the *European Green Deal*.

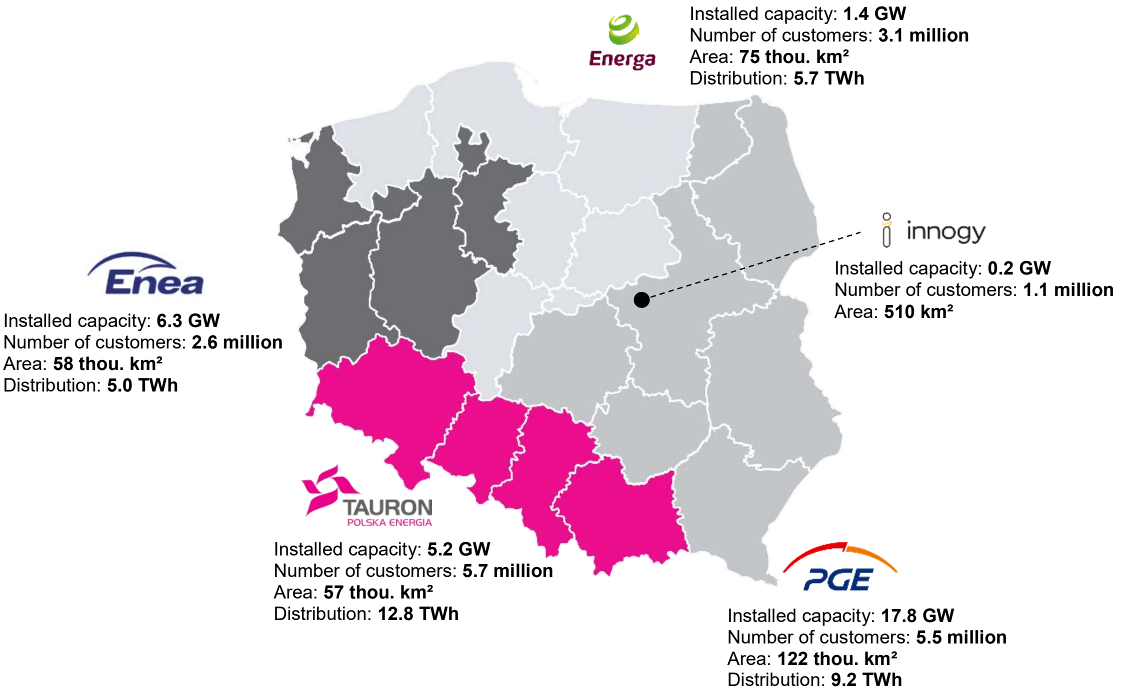
#	Name of the regulation	Description of the regulatory change	Status as of 30.06.2020	Impact on TAURON Capital Group
	Just Transition Mechanism	The proposed regulation, published in January 2020 by the European Commission as part of the implementation of the *European Green Deal*, consists of three pillars: • 1s pillar – Just Transition Fund, • 2nd pillar – InvestEU Program, • 3rd pillar – Loans for the public sector. In January 2020, the European Commission (EC) published a draft Regulation on the establishment of the Just Transition Fund, according to which the budget would amount to EUR 7.5 billion, with the maximum limit (cap) of support for a single country of EUR 2 billion. As part of the work on the Multi-Annual Financial Framework for 2021-2027, the European Commission (EC) proposed to increase the budget to EUR 40 billion, with the maximum limit (cap) of support for a single Member State of EUR 8 billion. In May 2020, the European Commission (EC) published a draft regulation establishing the InvestEU Program, according to which funds are to be secured in the EU budget, which will allow for the setting up of guarantees worth EUR 75.2 billion.	Works on the draft regulations in the European Parliament and the Council of the EU	The said regulation may provide support for TAURON Capital Group and its workforce in the following areas: investments in renewable energy sources (including on the post-industrial land), raising and changing the qualifications of, first and foremost, the personnel employed in the mining or generation lines of business, research and development of the low emission technologies, reclamation and management of the post-mining and post-industrial land.
	European Climate Law	The draft regulation published by the European Commission (EC) in March 2020 establishes the framework for achieving climate neutrality (European Climate Law) and, according to that regulation, the European Commission will propose a new target for reducing the greenhouse gas emissions at the EU level by 2030. Moreover, the European Commission (EC) is proposing the introduction of the EU level greenhouse gas emissions reduction trajectory for 2030 - 2050.	Works on the draft regulation in the European Parliament and the Council of the EU	Tightening of the target for reducing the greenhouse gas emissions to 50-55% by 2030 may have an impact on the costs of the CO_2 emission allowances and the commencement of works on other regulations related to the power sector, in particular on the revision of the ETS Directive.
	Regulation with respect to Taxonomy (sustainable financing)	On December 18, 2019, the European institutions reached an agreement on the Regulation on the establishment of a framework to facilitate sustainable investment, aimed at introducing the world's first classification system, the so-called Taxonomy, i.e. the green list for sustainable economic activities (Taxonomy). EU, the member states, financial market participants offering financial products (through the obligation to disclose information on how and to what extent the investments underlying their financial product support economic activity that meets all of the criteria for environmental sustainability), financial and non-financial companies covered by the non-financial reporting will be obligated to use Taxonomy starting from December 2021.	EC work on the delegated acts In April 2020, the European Commission (EC) published two draft delegated regulations for Regulation (EU) 2016/1011 on benchmarks	The final rules under the so-called sustainable financing package (in particular Taxonomy) may have an impact on the ability and conditions of obtaining capital for the implementation of investment projects by TAURON Capital Group.
	Regulation on the Modernization Fund	The draft regulation presented by the European Commission (EC) as part of the works related to the implementation of changes to the EU ETS system defines the general rules for submitting the project applications and cooperation between the Member States and the EU institutions and the EIB.	Works on the draft regulation are underway	The Modernization Fund may constitute significant support for the implementation of investment projects that are a part of the *Green Turn of TAURON*, and thus have a positive impact on TAURON Capital Group's transition process.
8.	European Recovery and Resilience Facility	In May 2020, the European Commission (EC) published a communication entitled *The EU budget powering the recovery plan for Europe* in which it presented the planned changes to the EU budget for 2021-2027 related to the need to combat the effects of the COVID-19 pandemic. The EC is planning, inter alia, to set up an additional support mechanism worth EUR 750 billion. As stated in the communication, the investment projects presented under the economic recovery and resilience plans should be in line with the EU's long term strategies, in particular the *European Green Deal*, the member states' national energy and climate plans, as well as the just transition plans.	Negotiations between the member states and within the EU institutions	The instrument may constitute significant support for the implementation of investment projects that are a part of the Green Turn of TAURON, and thus have a positive impact on TAURON Capital Group's transition process. The Recovery Fund's priorities include, among others, compliance of the projects with the *European Green Deal* or the national energy and climate plans.

2.1.2.4. Competitive environment (landscape)

Apart from TAURON Capital Group, three large, vertically integrated energy groups are currently operating on the Polish market: PGE, Enea and Energa S.A. (Energa). Furthermore, Innogy Polska is conducting its operations in Warsaw, managing Warsaw's power grid.

The below figure presents TAURON Capital Group's competitive environment (landscape) based on the Q1 2020 data.

Figure no. 4. TAURON Capital Group's competitive environment (landscape) based on the Q1 2020 data.



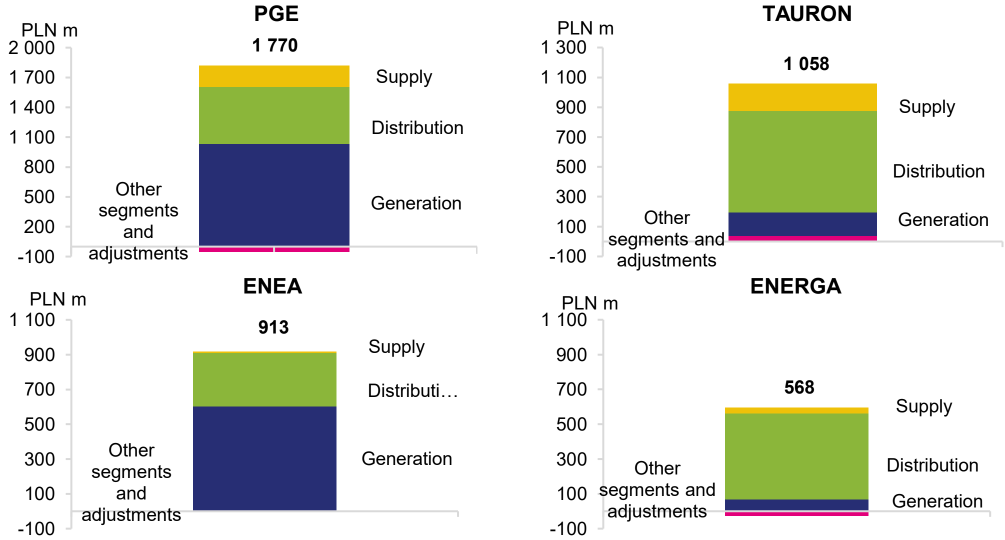
The consolidated energy groups (PGE, TAURON, Enea, Energa) held a 65% market share in the electricity generation sub-sector in the first quarter of 2020.

TAURON Capital Group is a fully vertically integrated energy enterprise (electric utility) that takes advantage of the synergies stemming from the size and scope of the operations conducted

TAURON Capital Group controls the value chain, from hard coal mining up to the delivery of electricity to the final consumers. TAURON Capital Group is conducting its operations in all of the key segments of the energy market (excluding electricity transmission), i.e. in hard coal mining, as well as electricity and heat generation, distribution, supply and trading.

The below figure presents information on the structure of EBITDA based on the main segments.

Figure no. 5. EBITDA - structure based on the main segments in the first quarter of 2020*



**In order to make the segments presented comparable the Generation Segment includes also Mining, RES and Heat.*
Source: Companies' interim reports

Generation

TAURON Capital Group is one of Poland's largest electricity producers

TAURON Capital Group's share in the domestic electricity generation market, based on the gross electricity production output, reached approx. 8% in 2019. TAURON Capital Group is the third largest electricity producer on the Polish market. TAURON Capital Group's generation assets are concentrated in the south of Poland. Also, the deposits of the hard coal used to fire TAURON Capital Group's power plants and combined heat and power plants are located in this region. The location of the generating assets in the vicinity of the hard coal deposits allows for the optimization of the costs related to the transportation of this commodity.

Nationwide, as of the end of the first quarter of 2020, TAURON Capital Group's hard coal fired units' installed capacity accounted for approx. 14% of the total installed capacity of all hard coal and lignite fired generating units in Poland. With respect to the installed capacity of the wind farms, biomass and biogas fired as well as hydro power plants, the share of TAURON Capital Group came in at approx. 7%, 13% and 6%, respectively.

87% of TAURON Capital Group's generation assets are, as of the end of the second quarter 2020, hard coal fired units, 10% of which are modern high efficiency generating units. TAURON Capital Group's total installed capacity stood at almost 5.2 GW as of June 30, 2020, with 659 MW of that figure coming from the renewable sources. Wind farms' installed capacity represents 7.4%, hydroelectric power plants' installed capacity accounts for 2.6%, biomass-fired generating units' installed capacity constitutes 2.8% of TAURON Capital Group's total installed capacity.

TAURON's electricity production clocked in at 5.9 TWh in the first half of 2020, with 4.9 TWh coming from the hard coal fired sources and 1.0 TWh from RES.

PGE is the largest electricity generator in Poland, with its share in the domestic electricity production market standing at approx. 41% in the first quarter of 2020, and the installed capacity of 17.8 GW, with 14.7 GW of that in coal assets. Enea is the second largest electricity producer in Poland. Enea's market share in Poland's electricity generation stood at approx. 14% in the first quarter of 2020 and its installed capacity clocked in at 6.3 GW. Energa, on the other hand, has the largest share of electricity produced from the renewable energy sources (RES) on the Polish market, and Energa Group's total installed capacity stands at approx. 1.4 TWh. out of the company's total production of 3.9 TWh (31% RES share). The total installed capacity of Energa is approx. 1.3 GW.

Energa produced 0.8 TWh of electricity in the first quarter of 2020, of which approx. 0.45 TWh (i.e. 57%) came from RES. Good weather conditions, in particular the high wind conditions, contributed to the increase of the electricity production from RES, which translated into high electricity production from the wind sources.

The below figures present estimated market shares of the individual energy groups in terms of electricity generated and installed capacity according to the data for the first quarter of 2020.

Figure no. 6. Gross electricity production - estimated market shares in the first quarter of 2020

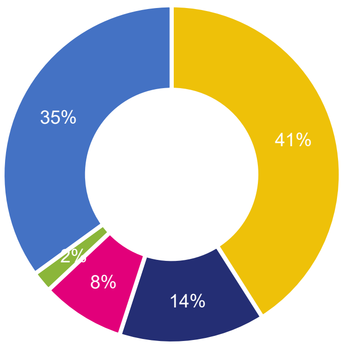
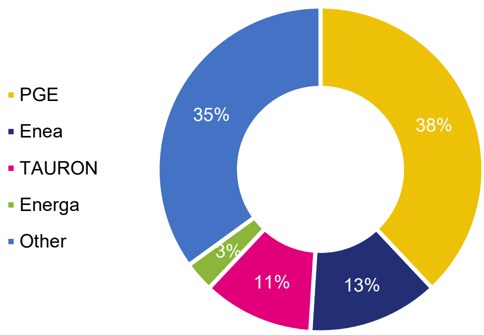


Figure no. 7. Installed capacity - estimated market shares in the first quarter of 2020



Source: Agencja Rynku Energii S.A. (ARE), information from the companies published on their websites

Distribution

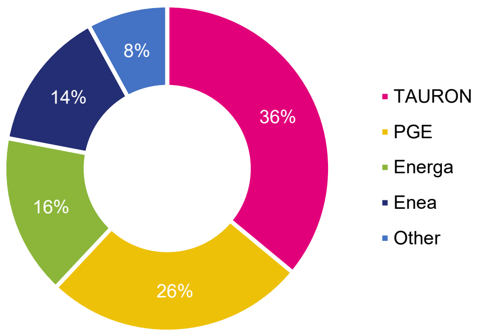
TAURON Capital Group is the Polish market leader in terms of the number of distribution customers and volume of electricity distributed

TAURON Capital Group is Poland's largest electricity distributor. TAURON Dystrybucja's share in electricity distribution to the final consumers reached approx. 36% in the first quarter of 2020. TAURON Capital Group's distribution grids cover more than 18% of Poland's territory. The volume of electricity delivered to the final consumers came in at 24.6 TWh in the first half of 2020. TAURON Capital Group is Poland's largest electricity distributor also in terms of revenue from the distribution operations.

It should be emphasized that TAURON Capital Group's distribution operations, due to the natural monopoly in the designated area, are a source of stable and predictable revenue, representing a material part of the consolidated revenue of the entire TAURON Capital Group. The electricity distribution geographical area on which the Distribution and Supply Segments' subsidiaries are historically operating is a heavily industrialized and densely populated area and therefore the grid is very well utilized. The number of the Distribution Segment's customers reached 5.69 million in the second quarter of 2020.

The below figure presents estimated market shares of the individual energy groups in terms of electricity distribution based on the Q1 2020 data.

Figure no. 8. Electricity distribution to the final consumers - estimated market shares in the first quarter of 2020



Source: ARE, information from the companies published on their websites

Supply

TAURON Capital Group is Poland's second largest electricity supplier

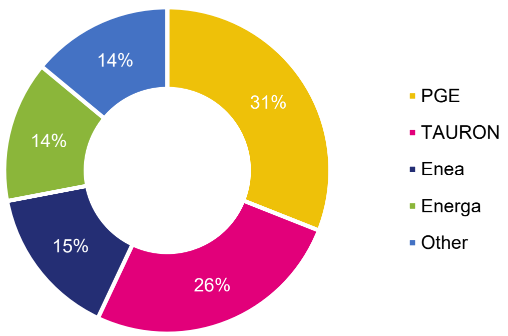
TAURON Capital Group holds a 26% share in the electricity supply market to the final consumers in Poland. The volume of the retail electricity supply of TAURON Capital Group came in at 16.0 TWh in the first half of 2020. The number of customers served by TAURON Capital Group's Supply Segment is approx. 5.6 million.

PGE is the largest retail electricity supplier with a 31% market share as of the first quarter of 2020. The other two groups, Enea and Energa, hold a 15% and a 14% market share respectively.

In the segment of electricity supply to the households the individual energy groups are geographically linked, first of all, with the areas in which they are acting as an ex officio electricity supplier. The need to submit household tariffs for approval to the President of the Energy Regulatory Office leads to limited options for positioning prices in the product offerings, and what follows, it impacts their attractiveness for the customers. These restrictions do not apply to business and institutional customers. A broader and more open competition exists in these sectors.

The below figure presents estimated market shares of the individual energy groups in terms of electricity supply to the final consumers based on the Q1 2020 data.

Figure no. 9. Electricity supply to the final consumers - estimated market shares in the first quarter of 2020



Source: ARE, information from the companies published on their websites

The below table presents information on the installed capacity and the volume of electricity generation, distribution and supply as well as the domestic market shares in the first quarter of 2020.

Table no. 8. Installed capacity, generation, distribution and supply of electricity by energy groups in the first quarter of 2020

#	Group	Installed capacity		Generation*		Distribution		Supply	
		Quantity (GW)	Share (%)	Volume (TWh)	Share (%)	Volume (TWh)	Share (%)	Volume (TWh)	Share (%)
1.	PGE	17.8	37.5	16.9	41.4	9.2	25.8	10.7	30.8
2.	TAURON	5.2	10.9	3.2	7.8	12.8	35.9	8.9	25.6
3.	Energa	1.4	2.9	0.8	2.0	5.7	16.0	4.9	14.1

#	Group	Installed capacity		Generation*		Distribution		Supply	
		Quantity (GW)	Share (%)	Volume (TWh)	Share (%)	Volume (TWh)	Share (%)	Volume (TWh)	Share (%)
4.	Enea	6.3	13.3	5.8	14.2	5.0	14.0	5.2	15.0
5.	Other	16.8	35.4	14.1	34.6	3.0	8.4	5.0	14.4
	Total	**47.5**	**100**	**40.8**	**100**	**35.7**	**100**	**34.7**	**100**

**Volume of gross electricity generated in the first quarter of 2020*
Source: ARE, information from the companies published on their websites, own estimates in case of the companies publishing the net production

At the end of June 2020 PGE commissioned two wind farms: Starza / Rybice and Karnice II, in the West Pomeranian Voivodeship, with the total capacity of approx. 100 MW and the annual electricity production of approx. 275 GWh. PGE's total installed capacity in wind assets increased to 647 MW.

Enea concluded an agreement with Iberdrola Eólica Marina S.A. related to a potential investment in the off-shore wind farm projects with the total capacity of up to approx. 3.3 GW in the area of the Polish economic zone of the Baltic Sea.

At the beginning of July 2020 Energa commissioned a wind farm in Przykona in Wielkopolska voivodeship, with the installed capacity of approx. 31 MW, thus increasing its installed capacity of wind assets to 242 MW. The farm was built in the reclaimed lignite mining areas, and the estimated annual electricity production is approximately 75 GWh.

The wind assets with the capacity of 180 MW acquired by TAURON in 2019 were operated in the first half of 2020 in accordance with the assumptions made at the transaction stage.

The analysis of the largest energy groups operating on the domestic market points to various sources of competitiveness in the selected segments of the energy market, depending on the operations conducted.

The below table presents the main sources of competitiveness of TAURON Capital Group.

Table no. 9. Sources of competitiveness of TAURON Capital Group

#	Line of Business	Initiatives	Sources of competitiveness
1.	Mining Generation	• Reducing the fuel price and supply risk • Investments in generating units • Operating expenses	• Concluded capacity market contracts. • High efficiency generating units with a competitive unit production cost • Improvement of operational efficiency
	RES Heat	• Operating expenses • Investments in district heating networks	• Improvement of operational efficiency • Development of low and zero emission generation sources – *Green Turn of TAURON* • Expanding regulated operations
2.	Distribution	• Operating expenses • Investment efficiency • Improvement of grid reliability indicators	• Implementing the ultimate business model • Implemented IT systems, separate processes, clear (transparent) split of responsibilities
3.	Supply	• Operating expenses • Sales margin, developing products tailored to customer needs, growth in new Lines of Business	• Efficiently allocated operating expenses • Brand, current customer base, sales channels in place, experience in product and purchasing portfolio management

2.2. Factors that may have an impact on the results achieved over at least the next half a year

The results of TAURON Capital Group's operations over at least the next half a year will be most materially impacted by the following factors:

1. macroeconomic situation in Poland at the EU and global economy level, including changes of interest rates, FX rates, etc., impacting valuation of assets and liabilities listed by the Company in the statement of financial position,
2. introduction of the state of epidemic in Poland, as of March 20, 2020, effective until cancelled due to the COVID-19 virus infections which, as a consequence, leads to a decrease of the demand for electricity, and thus a decline of the volume of electricity distributed and supplied, as well as a reduction in electricity production,
3. extraordinary preventive measures implemented at TAURON Capital Group's subsidiaries due to the state of epidemic, aimed at ensuring the safety of the employees and customers and ensuring the security of the continuity of the operations of the critical infrastructure,
4. political environment in Poland and at the EU level, including the positions and decisions of the state administration institutions and offices, e.g.: UOKiK, URE (ERO) and the European Commission (EC),
5. changes to the regulations related to the power sector, and also changes in the legal environment, including: tax law, commercial law, environment protection law,

6. change in the policies of the financial institutions with respect to the financing of coal fired electricity generation,
7. possibility of using the European funds supporting the transformation of the energy sector and mitigating the effects of the social changes,
8. introduction of the generation capabilities compensation mechanism (the so-called capacity market), in particular the impact on the results of the main auctions for the delivery of electricity in 2021 - 2024 and the decisions regarding the discontinuing of the operational capacity reserve and the interventional cold reserve mechanisms,
9. support system for electricity generation from the dedicated sources (*color certificates*), resulting, on one hand, in the costs of redeeming (retiring) certificates for the suppliers of electricity to the final consumers, on the other hand, in revenue from the sales of certificates for the generators of electricity,
10. RES support system, the so-called RES auctions,
11. situation in the power sector, including the activities and steps taken by the competition on the energy market,
12. number and price of the CO_2 emission allowances,
13. wholesale electricity prices,
14. level of tariff for the electricity supply to households (tariff group G) approved by the President of ERO,
15. prices of energy commodities in Poland and worldwide,
16. environment protection requirements as a consequence of changes to the *act of April 27, 2001, Environment Protection Law*, the so-called anti-smog resolutions,
17. planned changes to the regulations related to the *act of August 25, 2006 on the system for monitoring and inspecting fuel quality*, among others the quality requirements for solid fuels,
18. science (research) and technical progress,
19. demand for electricity and the other energy market products, taking into account changes due to seasonality and weather conditions.

TAURON Capital Group's operations are characterized by seasonality that is applicable, in particular, to heat production, distribution and supply, electricity distribution and supply to the individual consumers, as well as hard coal sales to the individual consumers for heating purposes. Heat supply depends on weather conditions, in particular on outdoor temperature, and it is higher in the autumn and winter season. The volume of electricity supply to the 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 the 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 factors on the financial result achieved in the first half of 2020 is presented in section 4 of this report. The effects of this impact are visible in both in the short term perspective, as well as in the long term outlook.

2.3. Subject of the operations of TAURON Polska Energia S.A. and TAURON Capital Group

TAURON Polska Energia S.A.

TAURON, as the parent entity of TAURON Capital Group, performs the consolidating and management function at TAURON Capital Group. As a result of implementing the Business Model and centralizing of the functions, TAURON concentrated many competences related to the functioning of TAURON Capital Group's subsidiaries and is currently carrying out operations, among others, in the following areas:

1. wholesale trading in electricity, gas and related products, in particular, with respect to providing trading (commercial) services for the subsidiaries, securing the requirements with respect to fuel, CO_2 emission allowances and certificates of origin of electricity,
2. purchasing management,
3. finance management,
4. asset management,
5. corporate risk management,
6. managing the IT operations model in place,
7. coordinating the research and development (R&D) activities carried out within TAURON Capital Group,
8. advisory services with respect to accounting and taxes,
9. legal support services,
10. audit.

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

The core operations of the Company, besides managing TAURON Capital Group, include wholesale electricity trading on the territory of the Republic of Poland, based on the license for trading in electricity issued by the President of ERO for the period from June 1, 2008 until December 31, 2030.

The Company is focusing on purchasing and selling electricity for the needs of securing the buy and sell positions of TAURON Capital Group's entities and on wholesale electricity trading. The Company bought and sold 19.2 TWh of electricity in the first half of 2020. Electricity sales performed by TAURON during this period were mainly addressed to the following subsidiaries: TAURON Sprzedaż and TAURON Sprzedaż GZE, to which 85.3% of the electricity purchased was sold. The above subsidiaries are carrying out the retail electricity supply to the final consumers, and therefore TAURON is not dependent on any single electricity consumer. The other consumers (trading companies outside TAURON Capital Group, exchanges) accounted for less than 14.7% of the revenue and none of them exceeded 4% of the total revenue from electricity sales.

With respect to wholesale electricity trading, as of the end of 2019, the Company took over electricity trading from TAURON Wytwarzanie generation subsidiary, and in April 2020 from TAURON Ciepło, and centralized this activity at TAURON level. The principles of cooperation were defined in SLA services provision agreements with respect to the trading operations conducted by TAURON for TAURON Wytwarzanie and TAURON Ciepło, pursuant to which the Company provides, among others, the *market access* service, under which it is operating on the Polish Power Exchange (TGE) on its own behalf for the benefit of TAURON Wytwarzanie and TAURON Ciepło, fulfilling the exchange obligation for those subsidiaries.

The Company's additional operations include wholesale trading in natural gas on the territory of the Republic of Poland based on the license for trading in gas fuels issued by the President of ERO for the period from May 4, 2012 until May 4, 2022. In the first half of 2020 the Company purchased and sold 2.2 TWh of gas fuel. The Company is focusing on selling natural gas for the supply needs of TAURON Sprzedaż, with 57.8% of the purchased fuel gas sold thereto. The other volume was sold mainly on the exchange (34.2%). Other consumers accounted for 8% of the revenue and none of them exceeded 4% of the total revenue from gas sales.

The competences of the Company also include management, for the needs of TAURON Capital Group, of the property rights related to the certificates of origin of electricity, constituting the confirmation of electricity generation from the renewable sources (including sources using agricultural biogas), as well as the property rights related to electricity efficiency certificates. The Company did not carry out trading in the property rights in the first half of 2020, such trading was carried out by TAURON Capital Group's subsidiaries that were acquiring the individual rights and the subsidiaries obligated to redeem (retire) the above mentioned property rights.

TAURON is a competence center with respect to the management and trading in the CO_2 emission allowances for TAURON Capital Group's subsidiaries. As a result of centralizing trading in emissions a synergy effect was achieved, involving optimizing of the costs of utilizing the resources of TAURON Capital Group's entities. In pursuit of the above objectives with respect to the CO_2 emission allowances trading, the Company is actively participating in trading on the London ICE exchange, the EEX Leipzig exchange and on the OTC market. In connection with the centralizing of this function, TAURON is responsible for the settlements (clearing) of the subsidiaries' CO_2 emission allowances, securing the subsidiaries' emission needs taking into account the allowances allocated. In the first half of 2020 the Company changed the model of contracting the CO_2 emission allowances under which the CO_2 contracts concluded were transferred from the ICE exchange to the OTC market, at the same time aligning the settlement (clearing) date of the above mentioned contracts with the retirement (redemption) period.

TAURON also acts as the Market Operator and the entity responsible for trade balancing for TAURON Capital Group's subsidiaries and for external customers. These functions are carried out under the transmission agreement concluded with the TSO – Polskie Sieci Elektroenergetyczne S.A. (PSE – Transmission System Operator) and other regulations in this respect (Terms and Conditions for Balancing and the Transmission Grid Code).

The Company currently holds exclusive control over the generation capacity with respect to the trading and technical capabilities related thereto, it is responsible for optimizing the generation, i.e. the selection of the generation units for operation as well as the relevant distribution of loads in order to execute the contracts concluded, taking into consideration the technical conditions of the generation units, as well as the grid constraints and other factors, over various time frames. As part of the services provided for the Generation Segment the Company participates in preparing the overhaul plans, plans of available (dispatchable) capacity, as well as the production plans for the generation units, over various time frames, as well as in agreeing them with the relevant grid operator. TAURON is also developing its competences with respect to the Market Operator function for gas under the transmission agreement with GAZ-SYSTEM S.A. (GAZ-SYSTEM). In July 2015 TAURON, as one of the first entities in Poland, launched a balancing group for entities carrying out trading transactions on the gas market and is currently conducting balancing of the trading of two entities, i.e. TAURON Sprzedaż and an external entity added to the balancing group as of the end of 2019.

In 2019 TAURON conducted, on behalf of TAURON Capital Group's subsidiaries, the general certification of physical units, existing and planned as part of the capacity market. As a result, the physical generating units and controllable loads (demand reduction units) will be able to take part in the certification process for the main auctions for the delivery year 2025 and for the additional auctions for the individual quarters of the delivery year 2022, and subsequently they will be able to be offered as part of the above mentioned auctions.

Four additional capacity market auctions were held in the first quarter of 2020, for the individual quarters of the 2021 delivery year. The auctions were conducted by PSE in accordance with the *act of December 8, 2017, on the capacity market.*

On April 9, 2020, the President of the Energy Regulatory Office (ERO) published the information on the final results of the additional auctions in the Public Information Bulletin. According to the information, the closing price of each of the four auctions stood at 286.01 PLN/kW/year. TAURON Capital Group's subsidiaries concluded capacity contracts with the volume of:

1. 154.3 MW in the additional auction for the 1st quarter of 2021,
2. 163,3 MW in the additional auction for the 2nd quarter of 2021,
3. 16.0 MW in the additional auction for the 3rd quarter of 2021,
4. 146.3 MW in the additional auction for the 4th quarter of 2021

The total revenue of TAURON Capital Group stemming from the performance of the capacity contracts concluded as a result of the additional auctions will reach PLN 34.31 million.

Since February 2020 TAURON has participated in the so-called guaranteed program of the reduction of electricity demand at the request of PSE, acting as the Aggregator in this respect. Based on the reduction potential, jointly with the customers participating in the program, TAURON will reduce the demand for electricity at selected hours of the day, thus affecting the balancing of KSE (National Power System) and increasing the security of that system.

In accordance with TAURON Group's adopted Business Model the Company is performing the management function with respect to managing the purchasing of production fuels for the needs of TAURON Capital Group's generation entities and secures their fuel position. All of the hard coal for the production needs of TAURON Capital Group is contracted and secured by TAURON. In this respect the Company provides the deliveries of appropriate quality and quantity, guaranteeing that the mandatory reserves of coal are stored at all of the generation units of TAURON Capital Group.

TAURON Capital Group

TAURON Capital Group is conducting its operations and generating its revenue, first and foremost, from electricity and heat supply and distribution, electricity and heat production, as well as hard coal sales, in accordance with the description of the operations of its operating segments (lines of business) provided in section 1.2. of this report.

TAURON Capital Group's core products include electricity and heat, as well as hard coal. Additionally, TAURON Capital Group is trading in commodities: electricity and energy market products as well as coal and gas, and it is also providing electricity distribution and supply services, including to the final consumers, heat distribution and transmission and other services related to the operations conducted thereby.

TAURON Capital Group's discontinued operations constitute the operations of the TAURON Ciepło subsidiary, which is related to the classifying by the Company of its 100% of shares in TAURON Ciepło as held for sale. The core operations of TAURON Ciepło comprise the production, distribution and supply of thermal energy (heat) for the purpose of heating, domestic hot water conditioning and ventilation.

The detailed description of the individual operating segments (lines of business), including the operating data, as well as the results posted by those segments in the first half of 2020, is provided, respectively, in sections 4.3. and 4.4.2. of this report.

2.4. TAURON Capital Group's material accomplishments and failures in the first half of 2020 and after the balance sheet date

Material events that had occurred in the first half of 2020, as well as the ones that had taken place by the date of drawing up this report are listed below.

Major business events in the first half of 2020

Update of the information on the construction of the power generating unit in Jaworzno

On January 30, 2020, TAURON received from Nowe Jaworzno Grupa TAURON information on the change of the commissioning date of the 910 MWe supercritical parameters power generating unit at Jaworzno III Power Plant - Power Plant II. The unit's contractor, i.e. the RAFAKO S.A. and MOSTOSTAL WARSZAWA S.A. Consortium, notified Nowe Jaworzno Grupa TAURON that the unit would be ready for commissioning on February 4, 2020. Taking into account the information received from the Consortium, Nowe Jaworzno Grupa TAURON conducted an internal unit construction schedule viability analysis. Taking into account the course of the technical tests and the test (trial) run of the unit conducted so far, Nowe Jaworzno Grupa TAURON estimated that the commissioning of the unit should take place by February 15, 2020.

On February 13, 2020, Nowe Jaworzno Grupa TAURON received a letter from the company E003B7 sp. z o.o. (a subsidiary of RAFAKO SA) in which, in particular, it was indicated that during the last phase of the unit's tests one of the boiler's elements had been damaged. As a result, the commissioning of the Unit was not possible on the above indicated date. A team composed of the representatives of the contractor and Nowe Jaworzno Grupa TAURON was set up to determine the scope of works and the time required to replace the damaged components.

On March 6, 2020, Nowe Jaworzno Grupa TAURON received the information from RAFAKO S.A. regarding the estimated date of commissioning the unit. The RAFAKO S.A. - MOSTOSTAL WARSZAWA S.A. Consortium estimated that the unit should be commissioned by July 31, 2020.

On May 4, 2020, Nowe Jaworzno Grupa TAURON, the RAFAKO S.A. - MOSTOSTAL WARSZAWA S.A. consortium and E003B7 sp. z o.o. signed an Agreement related to the implementation of the contract for the construction of the 910 MW power generating unit in Jaworzno. The causes of damage to one of the boiler components are determined in the agreement. According to the conclusions presented by the fact finding commission composed of the representatives of Nowe Jaworzno Grupa TAURON, the RAFAKO S.A. - MOSTOSTAL WARSZAWA S.A. consortium and E003B7 sp. z o.o. the failure was a consequence of an unfavorable coincidence of circumstances that had occurred during the start-up of the unit. Each of these circumstances, occurring on its own, could not have led to an occurrence of the failure. In addition, the fact finding commission has agreed on how to repair the damaged boiler components, which will allow for avoiding similar failures in the future. As part of the agreement, a schedule of actions has also been agreed upon, including procedures aimed at providing protection against the risk of a recurrence of a failure as well as procedures for tuning (adjusting) and the commissioning works of the unit. The RAFAKO S.A. - MOSTOSTAL WARSZAWA S.A. consortium and E003B7 sp. z o.o. will forthwith commence implementing the steps provided for in the agreed schedule and enforcing the findings of the fact finding commission. The RAFAKO S.A. - MOSTOSTAL WARSZAWA S.A. consortium estimates that the unit will be commissioned by November 15, 2020. This deadline takes into account the additional time required to fix the effects of the failure referred to above.

TAURON disclosed the information on the above events in the regulatory filings (current reports): no. 2/2020 of January 30, 2020, no, 4/2020 of February 13, 2020, no. 7/2020 of March 6, 2020 and no. 19/2020 of May 4, 2020.

Bond issue program established

On February 6, 2020, TAURON concluded, with Santander Bank Polska S.A., a program agreement, pursuant to which a bond issue program was established, under which TAURON has an option to issue bonds up to the maximum amount of PLN 2 billion, with the amount of the issue to be determined each time at the time of making the decision on the issue.

Under the above program bonds will be issued pursuant to the *act of January 15, 2015, on bonds*. The procedure under which the bonds will be offered as part of the above program will not entail an obligation to draw up an issue prospectus. The bonds will take the form of dematerialized, unsecured bearer securities, denominated in PLN, with the maturity between 5 and 10 years inclusive. The Company's intention is to place the bonds on the market and introduce them to the trading in the alternative trading system Catalyst run by the Warsaw Stock Exchange (Giełda Papierów Wartościowych w Warszawie S.A.).

The proceeds from the bond issue will support the implementation of TAURON Capital Group's energy transition, including increasing the share of the low and zero emission sources in its generation mix, in particular, the proceeds from the bond issue will be used to:

1. finance the costs of developing / acquiring renewable energy sources (RES) projects,
2. finance the distribution, as well as TAURON Capital Group's general corporate operations related to RES or the energy transition to zero emission,
3. finance the costs of developing or acquiring projects where biomass or gas is used as fuel,
4. refinance TAURON Capital Group's debt taken on in order to finance the above undertakings

The proceeds from the bond issue will not be allowed to be used to finance new and existing coal fired units, the operations of TAURON Wydobycie and the operations of TAURON Wytwarzanie, in case of other undertakings than the ones indicated above.

The terms of the bond issue, including the ones related to the maturity, as well as the amount and manner of paying out interest, will be defined for the specific series of the bonds being issued.

The terms of the bonds issued as part of the above program will include sustainable development indicators (indices, metrics) in the form of the CO_2 emission reduction rate (indicator) and the RES capacity growth rate. The degree of achieving the defined threshold values of these indicators will have an impact on the level of the bonds' interest rate margin.

TAURON disclosed the information on the above event in the regulatory filing (current report) no. 3/2020 of February 6, 2020.

On May 6, 2020, TAURON concluded an additional agreement with Santander Bank Polska S.A. and PKO Bank Polski S.A. on the participation of PKO Bank Polski S.A. as an additional dealer in a bond issue under the above program agreement.

By the date of drawing up this report, the bonds had not been issued.

Conclusion of an agreement for the construction of a solar farm by TAURON Serwis and TAURON Dystrybucja Serwis as a consortium

On February 10, 2020, TAURON Serwis and TAURON Dystrybucja Serwis, as a Consortium, concluded with TAURON Wytwarzanie an agreement worth PLN 15 million for the construction of a 5 MW photovoltaic farm in Jaworzno.

It will be the first solar farm built on TAURON Capital Group's land.

The project is part of the *TAURON PV Program* aimed at constructing 75-150 MWp solar installations on reclaimed land or land that requires reclamation as a consequence of long term industrial activity. It will be the first undertaking of this type in Poland.

Signing of the loan agreement with SMBC BANK EU AG

On March 16, 2020, TAURON concluded a loan agreement with SMBC BANK EU AG worth PLN 500 million, the proceeds from which may be used to fund the Company's general corporate purposes, excluding the construction, acquisition, extension of any coal fired power plants and refinancing any financial debt or expenditures incurred for such purposes.

The loan will be repaid within 5 years from the date of concluding the above agreement. The interest will be calculated based on a fixed interest rate.

TAURON disclosed the information on the above event in the regulatory filing (current report) no. 8/2020 of March 16, 2020.

The loan was launched in the full amount in March 2020.

Signing of the memorandum of understanding on the preliminary terms of cooperation between TAURON and PFR with respect to investments in renewable energy sources (RES)

On March 23, 2020, TAURON signed a memorandum of understanding with the closed-end investment funds, a part of whose investment portfolio is managed by PFR (Polski Fundusz Rozwoju - Polish Development Fund).

The above memorandum of understanding sets out the preliminary terms of cooperation under consideration between TAURON and PFR with respect to investments in the renewable energy sources (RES). The Company and PFR have agreed that the potential investments in RES will be carried out as joint investments in assets in the RES segment, the so-called direct Investments, and have also allowed for investments in companies operating in the cleantech area. The Memorandum of Understanding sets out the general conditions for conducting direct investments, with the minimum level of each PFR investment in a company 100 percent owned by TAURON, which owns a portfolio of investment projects of a relevant size at the stage of readiness for construction, in terms of the total ultimate capital expenditures of such company, amounting to not less than PLN 50 million and will be implemented through successive capital injections for the purpose of implementing the capex projects. In addition, TAURON and PFR will be subject to a period of limitation in the disposal of the shares in the above mentioned company of between 5 and 7 years from the moment PFR acquires shares in the given company. The recapitalizations will each time take place in the form and proportions ensuring TAURON's ultimate share of at least 50 percent + 1 share, and PFR's share of no more than 50 percent - 1 share.

The primary goal of the investments will be on-shore wind farm projects and photovoltaic farm projects located in Poland. The parties envisage the possibility of acquiring an additional partner by selling shares thereto or have it join the company owned by TAURON.

The final terms of the cooperation between TAURON and PFR with respect to the direct investments will each time be agreed in the transaction documentation related to the specific investment projects.

The Memorandum of Understanding is intentional in its nature and does not constitute a binding commitment of the parties, does not give rise to financial obligations, does not oblige or guarantee any of the parties' exclusivity with respect to RES investments, nor does it preclude the possibility of their independent investments or cooperation with third parties.

TAURON disclosed the information on the above event in the regulatory filing (current report) no. 11/2020 of March 23, 2020.

Signing of the syndicated loan agreement

On March 25, 2020, TAURON concluded a syndicated loan agreement worth PLN 500 million with Banca IMI S.P.A., London Branch, Banca IMI S.P.A., Intesa Sanpaolo S.P.A. acting through Intesa Sanpaolo S.P.A. S.A. Oddział w Polsce (Polish Branch), and China Construction Bank (Europe) S.A. acting through China Construction Bank (Europe) S.A. (Spółka Akcyjna) (Joint Stock Company) Oddział w Polsce (Polish Branch).

In accordance with the above agreement the funds obtained may be used to finance the Company's and TAURON Capital Group's general corporate purposes, excluding the financing of any new projects related to the coal assets

The financing period was set as 5 years from the date of concluding the above agreement, with an option to extend it, twice, each time by a year, i.e. up to 7 years maximum. The Company will be able to use the funds throughout the entire financing period (after the suspending conditions that are standard for this type of financing have been met).

The interest rate will be calculated based on the variable WIBOR interest rate, applicable to the given interest period, increased by a margin depending, among others, on the degree of loan utilization and the fulfillment of the pro-ecological contractual conditions, i.e. the reduction of emissions and an increase of the share of renewable energy sources (RES) in TAURON Capital Group's generation fleet structure.

TAURON disclosed the information on the above event in the regulatory filing (current report) no. 13/2020 of March 25, 2020.

The loan had not been launched by the date of drawing up this report.

Decision to commence exclusive negotiations in the process of the sale of the shares in TAURON Ciepło

On June 16, 2020, the Management Board of TAURON took the decision to move to the next stage of the process of the sale of the shares in the TAURON Ciepło subsidiary and commence negotiations of the agreement on the sale of the shares in TAURON Ciepło with PGNiG on the condition of exclusivity for the period of six weeks.

The negotiations are aimed at defining the terms of the potential transaction of the sale by the Company of the entire stake held in TAURON Ciepło. TAURON expects that the potential takeover of control over TAURON Ciepło by the investor would take place not earlier than as of January 1, 2021.

The conclusion of the potential transaction will require, in particular, obtaining the relevant corporate approvals and clearances from the institutions providing the financing for the business operations of TAURON Capital Group. The Company allows for the possibility of canceling the process leading to the conclusion of the transaction.

On July 28, 2020 (an event occurring after the balance sheet date), the Management Board of TAURON took the decision to extend by 8 weeks the exclusive negotiation period granted to PGNiG in the process of the sale of the shares in TAURON Ciepło.

TAURON disclosed the information on the above events in the regulatory filings (current reports): no. 24/2020 of June 16, 2020 and no. 34/2020 of July 28, 2020.

Major corporate events in the first half of 2020

Changes to the composition of TAURON's Supervisory Board

There were changes to the composition of the Company's Supervisory Board in the first half of 2020, which are presented in section 1.3.1.2 of this report.

TAURON disclosed the information on the above events in the regulatory filings (current reports): no. 12/2020 of March 24, 2020, no. 14/2020 of March 30, 2020, no. 16/2020 of April 20, 2020, no. 17/2020 of April 27, 2020, no. 22/2020 of May 25, 2020, no. 23/2020 of June 5, 2020 and no. 25/2020 of June 16, 2020.

Recommendation of the Management Board of TAURON Polska Energia S.A. on covering the net loss for 2019 from the supplementary capital and not paying out a dividend from the supplementary capital

On March 30, 2020, the Management Board of TAURON made the decision to recommend to the Ordinary General Meeting (GM) of the Company to cover the loss of PLN 462 830 170.74 for the financial year 2019 from the supplementary capital. In addition, the decision was also taken that the Management Board of TAURON would not recommend to the Ordinary General Meeting (GM) of the Company the payout of the dividend in 2020 from the supplementary capital.

At the same time, the Company confirmed that the dividend policy announced in the current report (regulatory filing) no. 35/2016 of September 2, 2016, with respect to the dividend amount and the conditions that must be met for its payout remained unchanged.

TAURON disclosed the information on the above event in the regulatory filing (current report) no. 15/2020 of March 30, 2020.

Signing of the Additional Protocols amending the company collective bargaining agreements at the subsidiaries

In the first half of 2020, the Management Boards of TAURON subsidiaries, i.e. TAURON Dystrybucja, TAURON Dystrybucja Pomiary, TAURON Obsługa Klienta, TAURON Sprzedaż, TAURON Sprzedaż GZE, TAURON Nowe Technologie, TAURON Ekoenergia, TAURON Ciepło and TAURON, reached agreements with the representative trade union organizations and signed the Additional Protocols amending the company collective bargaining agreements, and in case of TAURON, the relevant amendment to the compensation regulations.

Pursuant to the above mentioned agreements, amendments were introduced with respect to the payouts of the cash equivalent due to the discount for the consumption of electricity by the retirees, pensioners and other eligible persons who were no longer employees of the subsidiaries. The signing of the Additional Protocols and in case of TAURON, the relevant amendment to the compensation regulations, enabled the subsidiaries to dissolve the provisions in the total amount of approx. PLN 533 million, that had been set up for this purpose. The positive impact of the dissolving of the provisions on the EBITDA of TAURON Capital Group was recognized in the consolidated financial statements of TAURON Capital Group for the first half of 2020.

The above mentioned Additional Protocols came into force upon the entry into the register of the company collective bargaining agreements maintained by the National Labor Inspectorate (Państwowa Inspekcja Pracy).

TAURON disclosed the information on the above events in the regulatory filings (current reports) no. 21/2020 of May 22, 2020, and no. 38/2020 of May 22, 2020.

Other major events in the first half of 2020

Petition of TAURON Sprzedaż for a change of the approved tariff

As of January 1, 2020, pursuant to the decision of the President of the Energy Regulatory Office (ERO) of December 17, 2019, the electricity tariff for the G tariff groups consumers entered into force, resulting in an increase in the payments for the household consumers by 19.9% as compared to the payments incurred in 2018/2019.

Due to the fact that the said decision prevented TAURON Sprzedaż from passing on the justified costs of the activities related to electricity trading, in a letter of January 7, 2020, it submitted to the President of the Energy Regulatory Office (ERO) a petition for a change of the tariff approved for 2020, thus initiating administrative proceedings.

Due to the particularly complex nature of the case and the COVID-19 pandemic, the deadline for resolving the case was set as July 29, 2020.

By way of the decision of July 8, 2020, the President of the Energy Regulatory Office (ERO) did not approve the above mentioned tariff change.

On July 30, 2020, TAURON Sprzedaż filed an appeal to the Regional Court in Warsaw - Court of Competition and Consumer Protection, against the decision of the President of the Energy Regulatory Office (ERO) of July 8, 2020.

Ruling of the Regional Court related to PEPKH

On March 6, 2020, the Regional Court in Gdańsk issued a partial and preliminary ruling in the lawsuit filed in 2015 against PEPKH by Talia sp. z o.o. (Talia), in which it determined that PEPKH's statements on the termination of the long term agreements, concluded between PEPKH and Talia, for the purchase of electricity and property rights arising from the certificates of origin had been ineffective and had not produced legal effects, such as the termination of both agreements, as a result of which these agreements, following the notice period, i.e. past April 30, 2015, shall continue to be in force with respect to all of the provisions and shall be binding for the parties, and determined that the demand for payment of damages for a failure to perform the agreement on the sale of the property rights arising from the certificates of origin had been justified in principle, however it did not determine the amount of the potential damages.

The decision was issued in the first instance and is not legally binding. PEPKH does not agree with the decision.

TAURON disclosed the information on the above event in the regulatory filing (current report) no. 6/2020 of March 6, 2020.

On March 12, 2020, PEPKH filed with the court its request that the court serve the decision, including the statement of reasons in writing, in order to analyze it and file an appeal.

In August 2020 PEPKH filed an appeal against the ruling to the court.

Revision of the ratings granted by the Fitch Ratings agency

On May 21, 2020, Fitch Ratings agency revised the ratings granted to the Company in such a way that selected ratings were affirmed unchanged, while some ratings were downgraded.

The full list of rating actions:

1. long-term foreign and local currency IDRs were downgraded to "BBB-" from "BBB", stable outlook,
2. short-term foreign and local currency IDRs were affirmed at "F3",
3. national long-term rating was downgraded to "A(pol)" from "A+(pol)", stable outlook,
4. foreign currency senior unsecured rating of EUR 500 million Eurobonds was downgraded to "BBB-" from "BBB",
5. EUR 190 million hybrid bonds (European Investment Bank – "EIB") rating was downgraded to "BB" from "BB+",
6. PLN 750 million hybrid bonds (EIB) rating was downgraded to "BB" from "BB+",
7. PLN 400 million hybrid bond program and hybrid bond issue (Bank Gospodarstwa Krajowego S.A.) rating was downgraded to "BB" from "BB+", while the national rating of the same program and bonds was downgraded to "BBB(pol)" from "BBB+(pol)".

TAURON disclosed the information on the above event in the regulatory filing (current report) no. 20/2020 of May 21, 2020.

Completion of the Pilot Maker Elektro ScaleUp program

On June 30, 2020, TAURON Capital Group ended the cooperation with the startups accelerated within the Pilot Maker Elektro ScaleUp program. As part of the work under the program, commenced in September 2018, TAURON experts were involved in 2 acceleration rounds, where work was carried out on 7 projects in the field of electromobility.

5 of TAURON Capital Group's subsidiaries were involved in the implementation of the pilot projects: TAURON, TAURON Nowe Technologie, TAURON Ekoenergia, TAURON Wytwarzanie and TAURON Sprzedaż.

The accelerated solutions include chargers for electric vehicles installed on the street lighting poles, enabling charging of several e-vehicles simultaneously, both cars as well as micro-mobility vehicles, such as electric bicycles, e-scooters or scooters (EV Charge and Born Electric). Another group of accelerated solutions is the software required for the operation of the charging station systems and billing of the electricity purchased at the charging stations. Solutions in this area were developed by Enelion, that worked on the software for managing a network of chargers, including a client application that allows for efficient use of the charging stations and settling (clearing) payments for the electricity purchased, as well as by MC2 Energy and Flexidao, that also included the possibility of purchasing green energy in their systems used for settling (clearing) purchases of electricity for the needs of charging e-cars. An important aspect of electromobility is also e-vehicle sharing and therefore works were also carried out on the development of software to support car-sharing services in cooperation with Fleetnet. As part of the acceleration program a solution for monitoring the operation of devices that make up the power grid supplying electricity to the charging network was also tested. The system offered by Elmodis, that allows for monitoring the operation of the key devices for efficient electricity generation and predict their potential malfunctions, was tested as part of the program,

Out of the 7 solutions tested by the end of June 2020, 3 of TAURON Capital Group's subsidiaries decided to continue the cooperation on a commercial basis and concluded appropriate agreements with 4 startups.

Protective measures for the energy industry in connection with the epidemic

Due to the epidemic situation in the country the government of the Republic of Poland decided to take protective measures for the energy sector as part of the anti-crisis program. The new legal regulations included, inter alia, area of operation of the Commodity Clearing House (IRGiT) that settles transactions concluded on Towarowa Giełda Energii S.A. (TGE – Polish Power Exchange). The scope of the possible forms of non-cash collaterals was expanded, including, in particular, collaterals based on the company's market rating. In addition, the concentration restrictions on the use of non-cash collaterals in the form of property rights stemming from RES production were lifted. These regulations significantly reduced TAURON's margin liabilities in cash.

Major events after June 30, 2020

Obtaining approvals from the financial institutions to change the method of calculating the net debt/EBITDA ratio

With respect to the financing agreements with a covenant in the form of the net debt/EBITDA ratio, TAURON obtained approvals from the financial institutions regarding the exclusion of the financing obtained by selected TAURON's special purpose vehicles (SPV) for the implementation of investments in RES. The changes make it possible to exclude from the calculation of the net debt/EBITDA ratio defined in the loan agreements, the debt financing obtained by the SPVs for the RES projects, while also symmetrically excluding EBITDA generated by such SPVs.

The SPV financing structure, based on the project finance formula, assumes obtaining debt financing on the financial market at the level achievable for this type of projects, without a recourse to TAURON. In case TAURON holds a controlling stake in the given SPV, then, from the accounting point of view, the data of such a company (including debt) will be fully included in the consolidated financial statements of TAURON Capital Group, while such data may be excluded from the calculation of the gearing ratio for the needs of the loan agreements.

The possibility of excluding the specific SPVs is at the discretion of an individual decision made by TAURON, i.e. TAURON will indicate the SPVs that will be excluded from the calculation of the net debt/EBITDA ratio at the end of the specific reporting periods. At the same time, a mechanism was implemented to enable TAURON to re-include the SPV in the calculation of the net debt/EBITDA ratio.

The implementation of the strategy described above and the approval of TAURON's financing banks for the exclusion of the SPV results from the calculation of the net debt/EBITDA ratio allows for a faster implementation of the green transition and the achievement of the assumed level of capacity in renewable energy sources.

Changes to the composition of TAURON's Supervisory Board

After the end of the reporting period there were changes to the composition of the Management Board and the Supervisory Board of the Company, which are presented, respectively, in section 1.3.1.1, and 1.3.1.2. of this report.

TAURON disclosed the information on the above events in the regulatory filings (current reports): no. 28/2020 of July 14, 2020, no. 29/2020 of July 15, 2020 and no. 35/2020 of August 3, 2020.

Ordinary General Meeting of TAURON

The Ordinary General Meeting (GM) of the Company was held on July 15, 2020, and it adopted the resolutions related to, inter alia, the approval of the *Financial Statements of TAURON Polska Energia S.A. for the year ended on December 31, 2019, in accordance with the International Financial Reporting Standards approved by the European Union, the Consolidated Financial Statements of TAURON Polska Energia S.A. Capital Group for the year ended on December 31, 2019, in accordance with the International Financial Reporting Standards approved by the European Union, the Report of the Management Board on the operations of TAURON Polska Energia S.A. and TAURON Capital Group for the financial year 2019,* the covering of the net loss for the financial year 2019, the acknowledgement of the fulfillment of duties by members of the Company's Management Board and Supervisory Board, amending the *Articles of Association of TAURON Polska Energia S.A.,* adopting the *Compensation Policy for the members of the Management Board and Supervisory Board at TAURON Polska Energia S.A.,* establishing the number of members of the Company's Supervisory Board and appointing the members of the Company's Supervisory Board of the 6th common term.

The decision was taken to cover the Company's net loss for the financial year 2019 in the amount of PLN 462 830 170.74 from the Company's spare (supplementary) capital.

TAURON disclosed the information on convening of the Ordinary General Meeting (GM) and on the content of the draft resolutions in the regulatory filings (current reports) no. 26/2020 of June 18, 2020, and no. 27/2020 of June 18, 2020. TAURON disclosed the information on the adopted resolutions of the Ordinary General Meeting (GM) in the regulatory filing (current report): no. 30/2020 of July 15, 2020.

Registration of amendments and adoption of the consolidated text of the Company's Articles of Association

On July 21, 2020, the District Court Katowice-Wschód in Katowice, the 8th Commercial Department of the National Court Register, registered the amendments to the Company's Articles of Association adopted by the Ordinary General Meeting (GM) of the Company on July 15, 2020.

On August 3, 2020, the Supervisory Board of the Company adopted the consolidated text of the Company's Articles of Association, taking into account the amendments adopted by the Ordinary General Meeting (GM) of the Company on July 15, 2020.

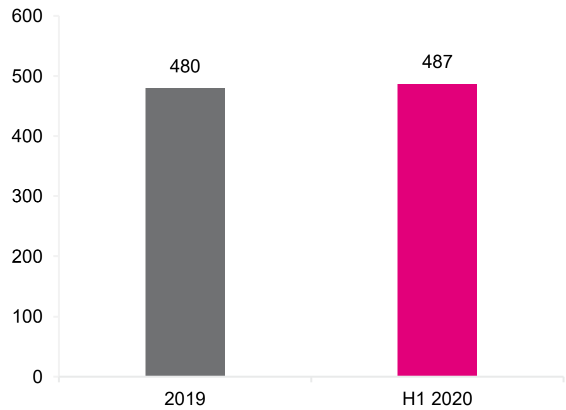
TAURON disclosed the information on the above events in the regulatory filings (current reports): no. 32/2020 of July 21, 2020 and no. 36/2020 of August 3, 2020.

2.5. Information on the employment at TAURON Polska Energia S.A. and TAURON Capital Group

TAURON's average headcount stood at 487 FTEs in the first half of 2020 which meant an increase by 7 FTEs (1.5%) versus the headcount in 2019, when the average headcount was 480 FTEs.

The below figure presents TAURON's average headcount in FTEs (rounded up to the full FTE) in 2019 and in the first half of 2020.

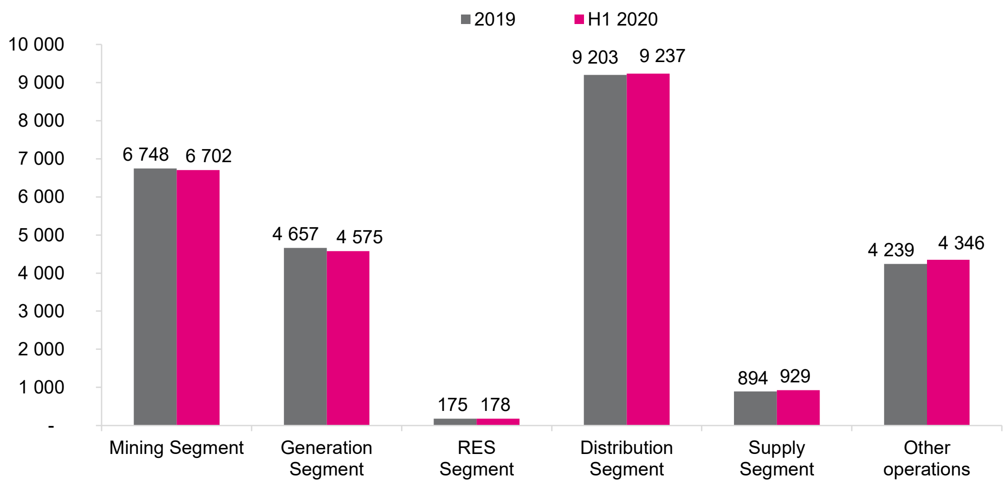
Figure no. 10. TAURON's average headcount in FTEs in 2019 and in the first half of 2020



TAURON Capital Group's average headcount came in at 25 967 FTEs in the first half of 2020, which meant an increase by 51 FTEs (0.2%) versus the headcount in 2010, when the average employment level was 25 916 FTEs. Changes in the average employment level at the individual Segments of operations in the first half of 2020, as compared to the average headcount in 2019, result, inter alia, from the takeover by TAURON Nowe Technologie of the employees of Magenta Grupa TAURON in January 2020, pursuant to art. 23' of the Labor Code, the implementation of the strategic initiatives and the Voluntary Redundancy Programs implemented in the Generation Line of Business, as well as employees leaving TAURON Capital Group.

The below figure presents TAURON Capital Group's average headcounts in FTEs (rounded up to the full FTE) per Segment of operations in 2019 and in the first half of 2020.

Figure no. 11. TAURON Capital Group's average headcounts in FTEs per Segment of operations in 2019 and in the first half of 2020



Key employment data

The below table below presents key data on employment at TAURON and TAURON Capital Group as of December 31, 2019 and June 30, 2020.

Table no. 10. Key data on employment at TAURON and TAURON Capital Group as of December 31, 2019 and June 30, 2020

#	Key employment data	unit	TAURON		TAURON Capital Group	
			December 31, 2019	June 30, 2020	December 31, 2019	June 30, 2020
1.	Headcount by segment, including:	persons	487	482	26 086	25 860*
	Mining Segment	*persons*	-	-	*6 811*	*6 602*
	Generation Segment	*persons*	-	-	*4 601*	*4 560*
	RES Segment	*persons*			*179*	*182*
	Distribution Segment	*persons*	-	-	*9 270*	*9 236*
	Supply Segment	*persons*	*487*	*482*	*917***	*929***
	Other operations	*persons*	-	-	*4 308*	*4 351*
2.	Headcount by education, including:	%	100.0	100.0	100.0	100.0
	College graduates	*%*	*97.5*	*97.7*	*33.8*	*34.2*
	High school graduates	*%*	*2.5*	*2.3*	*43.3*	*43.4*
	Vocational school graduates	*%*	*0.0*	*0.0*	*20.9*	*20.5*
	Elementary school graduates	*%*	*0.0*	*0.0*	*2.0*	*1.8*
3.	Headcount by age, including:	%	100.0	100.0	100.0	100.0
	Up to 30 years	*%*	*13.8*	*13.1*	*9.0*	*8.4*
	30 - 40 years	*%*	*38.0*	*36.7*	*22.3*	*22.1*
	40 - 50 years	*%*	*37.0*	*38,0*	*30.1*	*29.4*
	50 - 60 years	*%*	*9.0*	*9,8*	*32.2*	*32.4*

#	Key employment data	unit	TAURON		TAURON Capital Group	
			December 31, 2019	June 30, 2020	December 31, 2019	June 30, 2020
	Above 60 years	*%*	*2.2*	*2,5*	*6.4*	*7.7*
4.	Headcount by gender, including:	%	100.0	100,0	100.0	100.0
	Women	*%*	*45.0*	*44,8*	*21.4*	*21.6*
	Men	*%*	*55.0*	*55,2*	*78.6*	*78.4*

** Including 90 people employed under a fixed term labor contract to replace an absent employee.*
***Figure includes TAURON's headcount.*

3. RISK MANAGEMENT AT TAURON CAPITAL GROUP

3.1. Risk management objective and principles at TAURON Capital Group

At TAURON Capital Group risk 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 the sustainable generation of its financial results.

TAURON Capital Group's risk management:

- covers all elements of the value chain,
- provides centralized risk measurement, monitoring and control function, and also the ability to evaluate the full risk profile in the organization and coherent risk management principles,
- ensures independence of the risk taking function from its control and monitoring,
- ensures a clear split of competences and responsibilities, in particular by introducing the risk ownership function,
- is an active process, focused on an appropriately early identification of threats, allowing for taking preventive measures,
- 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,
- places a strong emphasis on developing awareness, training and encouraging the personnel to use the knowledge of risks in the daily activities,
- co-creates at TAURON Capital Group the internal audit system, constituting, along with the compliance and security management functions, an element of the three line defense

3.2. Risk management strategy

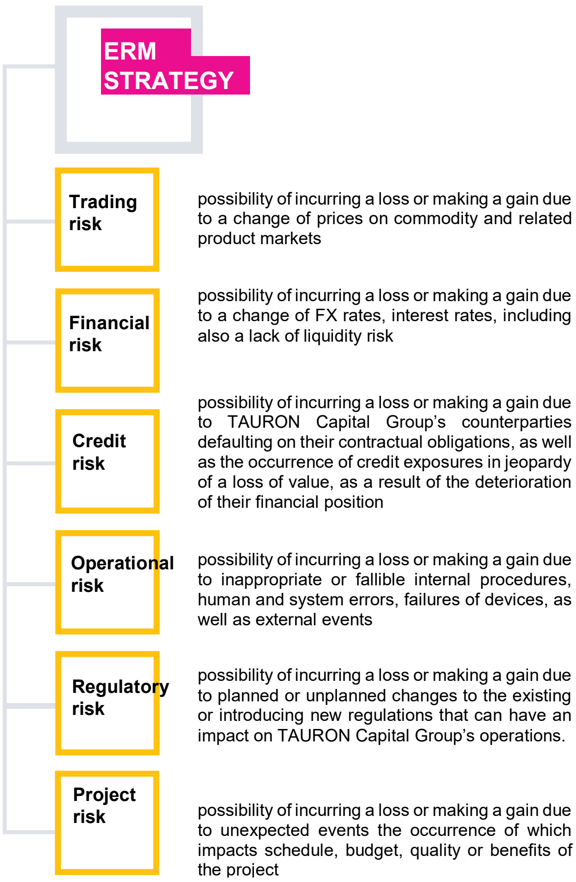
The enterprise risk management system (ERM System), implemented at TAURON Capital Group's level, constitutes a set of rules, standards and tools allowing for implementing the primary goal of risk management which is, broadly understood, ensuring safety (security) of TAURON Capital Group's operations. The ERM system is governed by the *Enterprise Risk Management Strategy at TAURON Group* (ERM Strategy) that defines TAURON Capital Group's enterprise risk management framework and rules, and its goal is to ensure the consistency of managing the individual risk categories that were detailed in separate regulations, aligned to the specifics of the individual threat groups.

As part of the ERM System, the following specific risks are identified within TAURON Capital Group, for which separate policies tailored to the nature and specifics of the given group of threats are defined:

1. Trading (commercial) risk,
2. Credit risk,
3. Financial risk,
4. Operational risk,
5. Regulatory risk,
6. Project risk.

The below figure presents the basic classification of the enterprise risk.

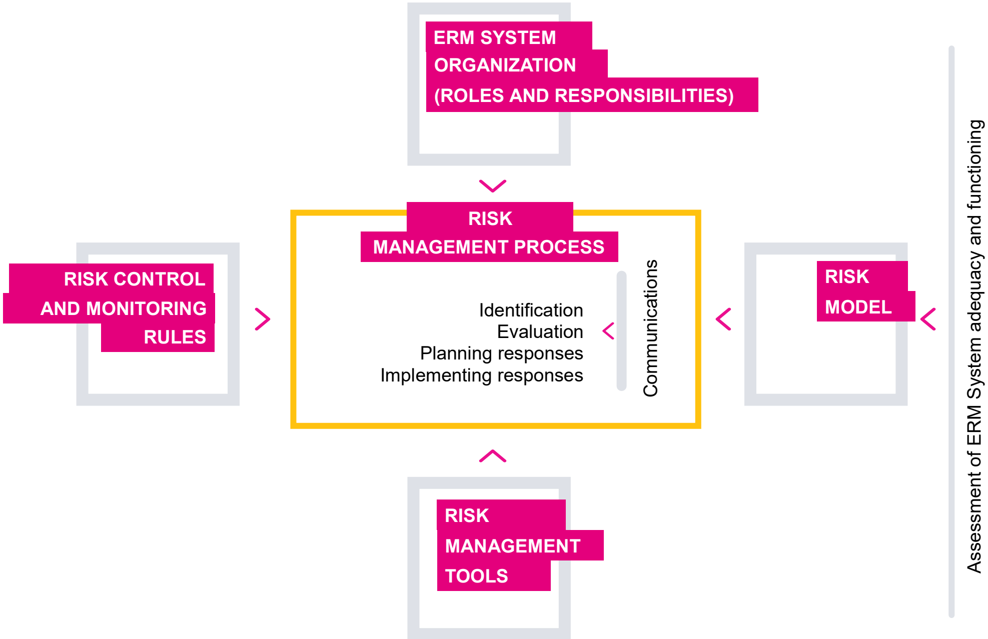
Figure no. 12. Basic classification of the enterprise risk



The center of the ERM System is a risk management process that includes continuous activities, i.e. risk identification, risk measurement as well as developing and implementing a response to risk. The architecture of the ERM system also includes elements that are to ensure the effective functioning of the process, including: organization of the ERM System, risk control and monitoring rules, risk model, risk management tools, assessment of the adequacy and functioning of the ERM system.

The below figure presents the architecture of the ERM system in place at TAURON Capital Group.

Figure no. 13. Architecture of the ERM system in place at TAURON Capital Group

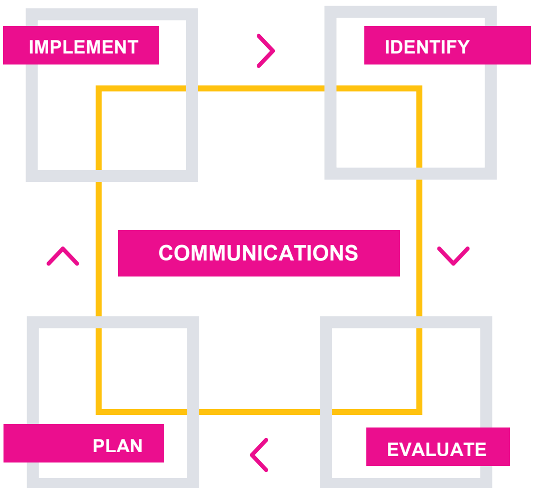


3.2.1. Risk management process

The process of enterprise risk management ensures the comprehensive and consistent risk management rules linked with one another in terms of methodology and information. The process of enterprise risk management means taking continuous measures comprising risk identification, risk assessment, planning of risk response, implementation of the adopted risk response and communication between risk management process participants.

The below figure presents the risk management process.

Figure no. 14. Risk management process



Risk identification consists in determining the potential events that may affect the implementation of business goals of TAURON Capital Group. The main purpose of this step is to create or update a list of risks that may affect the achievement of the business goals. The identified risks are described in accordance with the adopted methodology and have a specific context providing information on the impact of their materialization on the business goals.

Risk assessment consists in determining the potential financial and non-financial effects of the materialization of the risk affecting the implementation of specific goals and assigning the risk class thereto, defining the materiality of the risk from the point of view of its impact on the achievement of the goals.

Planning consists in the preparation of the dedicated response to the risk identified in order to achieve the desirable results. The planned actions constituting the prepared risk response are dependent and adapted to the current level of the Key Risk Indicators (KRI), and in particular those among them that act as Early Warning Indicators (EWI).

Implementation of risk response consists in practical implementation of the responses to the identified risk, prepared in the planning process. The defined set of actions as part of the risk response, specified in the planning process, is dependent on the current level of the EWI indicators. The implementation of the subsequent activities as part of the response to risk requires ongoing monitoring of risk indicators, which is to provide information on what set of activities should be implemented and, at the same time, indicate whether the activities carried out are effective and risk management is bringing the assumed effect of maintaining the value of the EWI indicators EWI within the acceptance range.

Communications consists in a continuous flow of information among the participants of the process, which is to ensure full knowledge on the current risk status and the effectiveness of the activities conducted as part of the response to risk. The periodical risk reporting is also an element of this process.

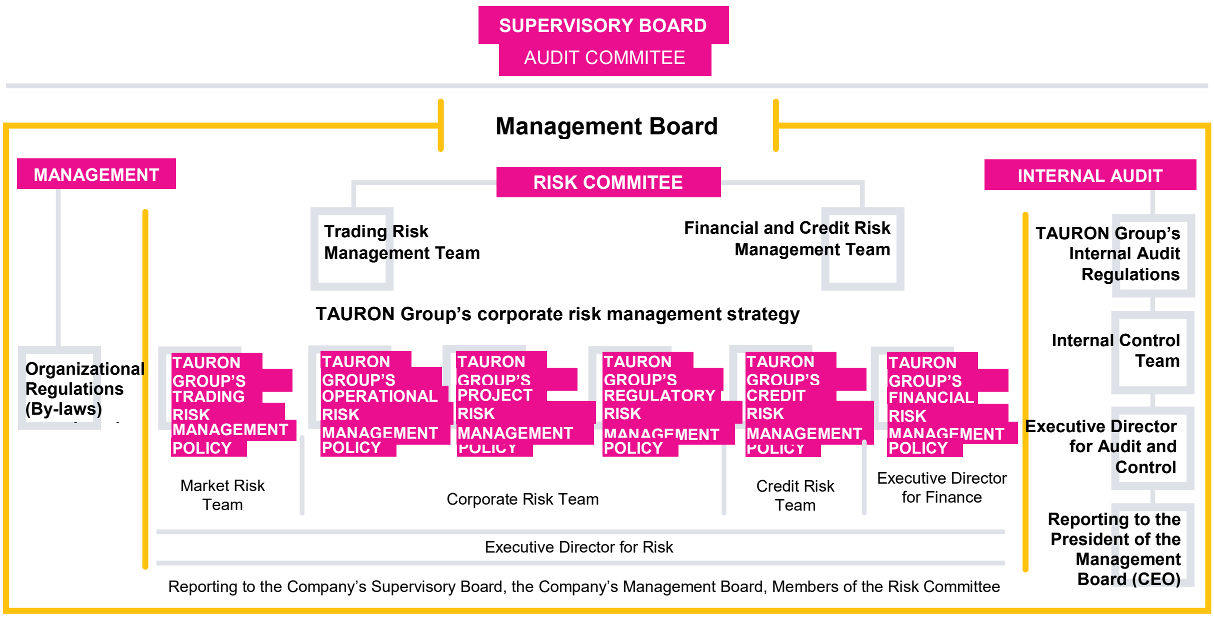
3.2.2. Organization of the risk management system (roles and responsibilities)

The key assumption of the risk management system is a clear and precise split of tasks and responsibilities, ensuring no conflict of interest. In particular, the system guarantees independence of the risk taking function from risk control and monitoring. This is achieved through the centralization of the control function at the parent Company level, while maintaining the organizational and functional separation of the risk taking function. The rules in place at TAURON Capital Group introduce the function of the risk owner, i.e. the person responsible for managing the given risk as well as developing and implementing an effective response to a threat. While the control function, process coordination, as well as the responsibility for the correct functioning of the risk management system was placed at the parent Company, in the Area of the Executive Director for Risk.

A special role, as part of the risk management process, is performed by the Risk Committee as an expert team that persistently and continuously initiates, analyzes, monitors, controls, supports and oversees the functioning of TAURON Capital Group's risk management system. The members of the Risk Committee include persons with appropriate knowledge of the Company and its environment as well as the required qualifications and empowerments. The task of the Risk Committee is to set norms and standards for risk management at TAURON Capital Group and oversight of the risk management process effectiveness. Within the Risk Committee two separate teams are set up, one for the trading (commercial) risk area and the other for the financial and credit risk area. Oversight of the enterprise risk management system is performed directly by the Risk Committee.

The below figure presents the links between the individual roles in the context of the ERM Strategy and the other documents regulating in detail TAURON Capital Group's ERM system.

Figure no. 15. Links between the individual roles in the context of the ERM Strategy and the documents regulating the ERM system



Within the ERM System the roles and responsibilities of all the participants of TAURON Capital Group's risk management system are defined in detail and they are provided in the below table.

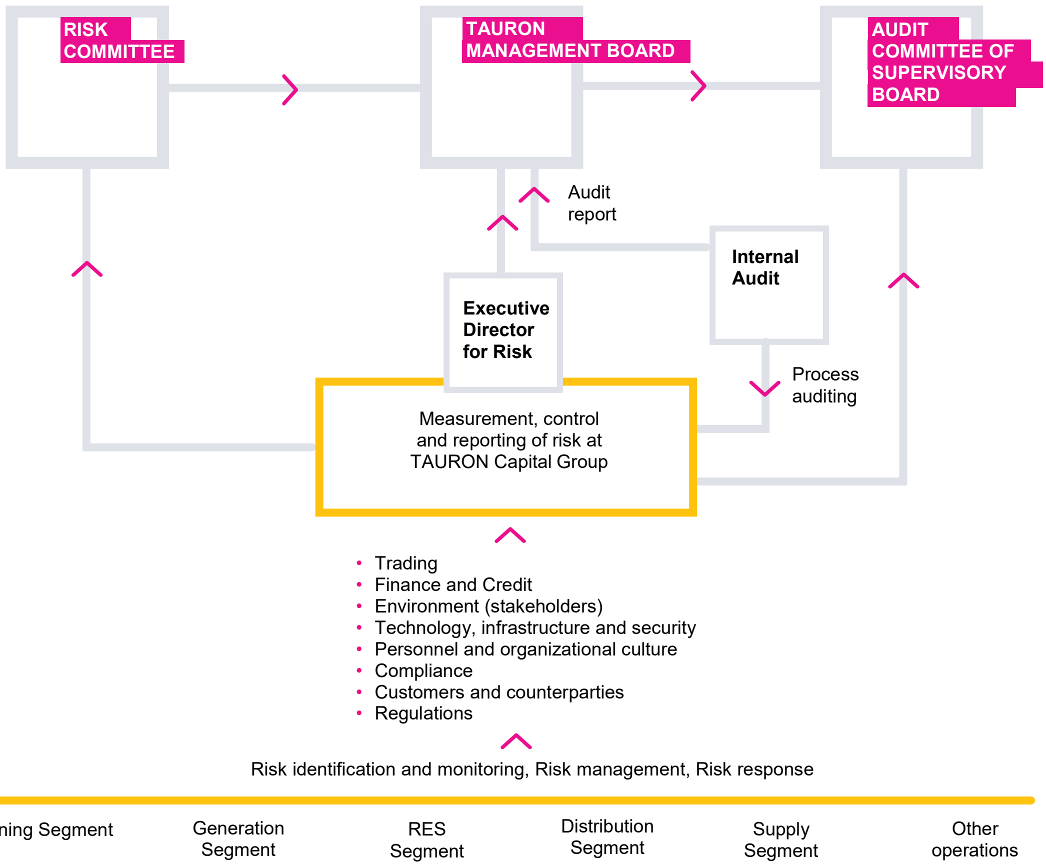
Table no. 11. Description of the ERM System participants' roles and responsibilities

#	Participant	Participant's roles and responsibilities
1.	TAURON Supervisory Board	• Assessment of the ERM System, especially of its adequacy and effectiveness. • Empowerment to audit the Company's operations with respect to enterprise risk management, in terms of compliance with the expectations of the shareholders, supervisory and regulatory authorities.
2.	Audit Committee of TAURON Supervisory Board	Monitoring the ERM System's effectiveness.
3.	TAURON Management Board	• Assessment of the ERM System's adequacy, effectiveness and efficiency.

#	Participant	Participant's roles and responsibilities
		• Taking formal decisions related to the key elements TAURON Capital Group's enterprise risk management, including approving the list of risks with respect to which the Company's Management Board will be performing the Risk Owner's function. • Approving TAURON Capital Group's risk tolerance and global limits for the key risks. • Managing the risks of special importance for TAURON Capital Group's operations.
4.	Risk Committee	• Overseeing TAURON Capital Group's risk management process. • Auditing TAURON Capital Group's risk exposure. • Providing opinions and recommending to the Company's Management Board the shape of the individual elements of the risk management infrastructure. • Defining TAURON Capital Group's risk tolerance and global limits for the key risks, and also applying to the Company's Management Board for the approval or change thereof. • Overseeing the preparation of the quarterly information for the Company's Management Board on all important issues related to TAURON Capital Group's risk
5	Executive Director for Risk	• Coordinating the risk management process on all levels and in all areas (lines of business) of the organization's operations. • Responsibility for the development of the ERM System (threat identification, evaluation monitoring and checking methods, processes and procedures). • Support and oversight over the system's participants in the risk management implementation and evaluation of its efficiency. • Preparing and providing the risk reports to authorized risk management process participants. • Actions aimed at developing organizational culture and raising awareness with respect to TAURON Capital Group's risk management.
6.	Executive Director for Audit and Control	Periodic review of the correctness of designing and implementing as well as the effects of actions taken within the ERM System.
7.	Management Board of a subsidiary	• Responsibility for risk management within a subsidiary. • Promoting risk management culture in a subsidiary. • Responsibility for the appropriate reactions to risk and the effectiveness thereof. • Appointing Risk Owners at the given subsidiary. • Approving plans of reaction to risks and taking ongoing decisions related to dealing with risk in case the established risk values (escalation threshold) are exceeded.
8.	Risk Owner	• Responsibility for actions related to the implementation of the risk management process as part of the entrusted area of responsibility, in context of an impact on the ongoing operations as well as on the implementation of the strategic, operational and financial goals of the unit. • Responsibility for preparing a plan and for implementing a reaction to risk in case its established values are exceeded, and also for the communications and reporting within the risk management implemented.

The below figure below presents the flow of information within the key participants of the risk management process.

Figure no. 16. Flow of information within the key participants of the risk management process



3.2.3. Risk control and monitoring rules

The purpose of the adopted risk control and monitoring rules is to limit TAURON Capital Group's exposure to factors that may have an adverse impact on its functioning. The basic risk control tool is the Risk Appetite approved by the Company's Management Board that defines the basic framework applied at TAURON Capital Group for risk management. In accordance with the adopted approach the priority of TAURON Capital Group is to maintain the maximum level of security that would allow for the implementation of TAURON Capital Group's strategic goals.

Risk Tolerance is approved based on the Risk Appetite and it defines the value of the maximum permitted risk exposure at TAURON Capital Group within the individual lines of business, in particular taking into account the specifics and scope of TAURON Capital Group's operations. Its level is defined as a value, and the rules of measurement of individual risks in the organization are defined in such a way that they ensure the consistency of risk measurement with the applied Tolerance definition. The Risk Tolerance constitutes the basis for allocation of its level to the global limits dedicated to a single risk or multiple specific risks and subsequently the global limits are allocated to the operating limits within the specific risk management. The key assumption is to guarantee independence of the risk taking function from risk control and monitoring which guarantees safety of the functioning of the organization.

A supplementary tool used for risk monitoring and its control comprises the Early Warning System based on the catalogue of Key Risk Indicators - KRI and Early Warning Indicators - EWI.

The system functioning based on the above mentioned indicators enables an appropriately early identification of threats by measuring the causes of the individual threats. At the same time this system allows for an appropriately early taking of remedy actions, before the individual threats actually materialize.

3.2.4. Risk management tools

Risk management tools used by TAURON Capital Group allow for effective implementation of the individual stages of the process. TAURON Capital Group uses, in particular, the following tools:

1. **Risk identification / review questionnaire** - a document in the form of a table, specifying the detailed information that should be collected in the risk identification or periodic review process,
2. **Risk card** - a document containing the detailed information on the identified risk,
3. **Risk register** - a document in the form of a table with a summary of the risks associated with the operations of TAURON Capital Group, containing, in particular, their descriptions, categories and valuations,
4. **Risk response plan** - a document containing a prepared action plan, the early enough launching of which will allow for reducing exposure to a given risk to an acceptable level before it occurs, as well as for limiting the effects of the risk at the time of its materialization,
5. **Risk assessment form** - a tabular summary of detailed information on risk measurement, including, among others, the determination of the impact and the probability associated therewith of risk materialization and the information on the current level of risk measurement parameters (KRI/EWI).

3.2.5. Risk model

Risk model defines a consistent risk classification, enabling a consistent and comprehensive capturing of risk across TAURON Capital Group. Each risk identified is assigned to specific categories and sub-categories.

The below table presents the main risk categories and sub-categories, in accordance with the Risk Model in place.

Table no. 12. Main risk categories and sub-categories, in accordance with the Risk Model in place

#	Main risk categories	Main risk sub-categories	Description of the main risk sub-categories
1.	Trading risk	Trading	Risks determining the market volatility of electricity and related products market prices to which the enterprise is exposed.
2.	Financial and credit risk	Finance and credit	Risks related to changes in exchange rates and interest rates, as well as the risk of TAURON Group's contractors (counterparties) defaulting on contractual obligations.
3.	Operational risk	Environment (stakeholders)	Risks determining the impact of the external environment (stakeholders) on the implementation of TAURON Capital Group's goals.
		Technology, infrastructure and security	All events having an adverse effect on the security of employees, information as well as the generation, transmission, mining or IT infrastructure.
		Employees and organizational culture	Risks related to employee issues and organizational culture.
		Compliance	Risks related to non-compliance, internal and external abuse as well as unethical behavior.
		Customers and contractors (counterparties)	Risks related to the volatility of the supplies / services market, failure of the customer / contractor (counterparty) to meet contractual obligations and the adverse changes or terminations of commercial contracts by customers, affecting both volume as well as margin.
4.	Regulatory risk	Regulations	Risks determining the adverse impact of changes in the legislation at the national and the European level having a direct impact on the operations of TAURON Capital Group.

The below figure presents the main risk categories defined by TAURON Capital Group, including the number of key threats.

Figure no. 17. Number of risks monitored, broken down into sub-categories

3.2.6. Assessment of the adequacy and the functioning of the risk management system

Risk management is a systematic process subject to continuous improvement 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. It is also subject to a periodic, internal and independent assessment of adequacy and reviews:

- ERM System is subject to continuous reviews with respect to its adequacy and alignment with the structure and specifics of TAURON Capital Group's operations, as well as to the changing environment,
- Executive Director for Risk, at least once a year, prepares a report on the assessment of adequacy of the ERM System's architecture for the members of the Risk Committee,
- Executive Director for Audit, as part of performing the institutional (third line of defense), periodically conducts an independent audit of risk management at TAURON Capital Group verifying the appropriate implementation of the rules by the process participants, as well as its adequacy and effectiveness.

3.3. Managing TAURON Capital Group's key risks

The Company is actively managing all risks, seeking to eliminate or to maximum degree reduce their potential negative impact, in particular on TAURON Capital Group's financial result.

3.3.1. Trading risk management

In accordance with *TAURON Group's Trading Risk Management Policy* in place trading risk is understood as the possibility of incurring a loss or making a gain due to price fluctuations on the commodity and related products markets. The 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 opposing positions in the above Lines of Business the risk is, to a certain degree, naturally diversified, however, since the above mentioned 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 trading risk management system was established, tied with respect to organization and information, to the trading position hedging strategy in place at TAURON Capital Group's level. In particular, *TAURON Group's trading risk management policy* introduces an early warning system and a system used to limit the risk exposure in the individual trading areas based on the Risk Tolerance approved by the Management Board.

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 (VaR) represents a dynamic risk measure which, in contrast to static measures, is characterized by a forward looking feature and allows for determining potential negative effects before their factual occurrence. However, being aware of certain limitations of the statistical measures of this type, the Risk Area also uses a number of supplementary risk measures aimed at enabling a safe operation of the trading areas.

Strategic measurement of market risk is carried out based on the mechanism of Hedging Curves which are to ensure the maximum level of security by optimizing open trade positions exposed to volatility of price factors in the individual areas of TAURON Capital Group's operations.

The organizational structure of the trading risk management system envisages a strict split of competences as part of which risk management is decentralized, where the supervision and risk control are performed centrally at TAURON level. In particular, an element of the organizational structure of the trading risk management system 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 it ensures an appropriate level of operational flexibility. For the needs of the risk management process such a placement of responsibility is assumed in order to ensure an optimal approach to the given type of threat, in particular taking advantage of the economy of scale and the synergy effect. Such an approach ensures efficiency of the trading processes conducted and appropriate supervision over one of the main business processes conducted by TAURON Capital Group.

The below figure presents a breakdown of TAURON Capital Group's trading operations.

Figure no. 18. Breakdown of TAURON Capital Group's trading operations

PARTICIPANT	ROLES AND RESPONSIBILITIES OF PARTICIPANTS
FRONT OFFICE	• Concludes transactions on commodity and related products market • Manages portfolio within TAURON Capital Group • Manages operationally trade risk within risk limits set
MIDDLE OFFICE	• Identifies, aggregates and measures trade risk exposure • Ensures independent risk evaluation and measurement of the result generated • Conducts monitoring or trade operations in terms of their compliance with the adopted policy, operational procedures and market conditions • Performs supervision (oversight) over the structure of portfolios with respect to its alignment with the trading operations
BACK OFFICE	• Responsible for confirming, settling and invoicing trade transactions • Responsible for archiving data related to trade transactions

3.3.2. Financial risk management

As part of the financial risk management, TAURON Capital Group is managing the FX risk and the interest rate risk, based on the developed and adopted for use *TAURON Group's Financial Risk Management Policy*, as well as the Risk Tolerance approved by the Management Board, the Global Limit for the financial risk including its decomposition into the individual types of financial risk. The main goal of managing these risks 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 transactions with the use of the derivative instruments. In cases when it is possible and economically justified, TAURON uses the derivative instruments the characteristics of which allow for applying the hedging accounting.

With respect to the financial risks TAURON Capital Group also identifies and actively manages the liquidity risk understood as a potential loss or limitation of the ability to pay the current expenses, due to an inadequate value or structure of liquid assets in relation to the short term obligations or an insufficient level of the actual net inflows from the operating activities.

As part of the identified financial risks TAURON is also managing the risk of financing understood as a lack of the possibility to acquire the new funding, an increase of the cost of funding and the risk of the termination of the existing financing agreements. In order to minimize the financing risk, TAURON conducts a policy of acquiring the funding for TAURON Capital Group with an appropriate advance notice in relation to the planned date of its use, i.e. up to 24 months in advance of the planned funding requirement. It means that TAURON Capital Group should hold signed programs of guaranteed financing or hedging this financing by accumulating the funds on TAURON Capital Group's accounts. Such a policy is, first and foremost, aimed at ensuring a flexible choice of the financing sources and taking advantage of favorable market conditions, as well as reducing the risk of the need to take on new liabilities under unfavorable market conditions. TAURON"s policy also covers standardizing of the covenants and the provisions of the financing agreements in the key elements of the documentation.

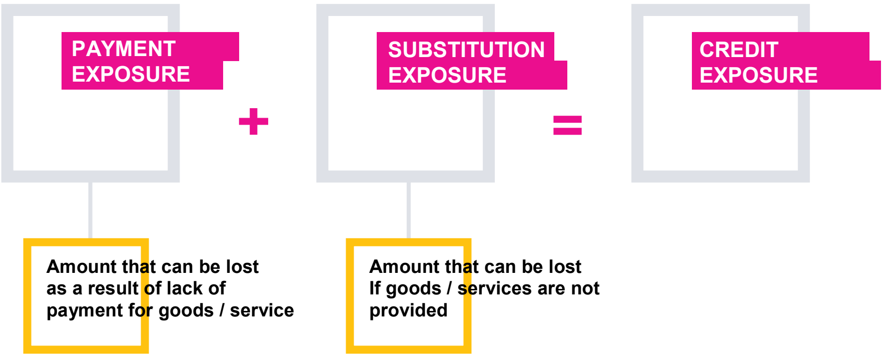
3.3.3. Credit risk management

In accordance with *TAURON Group's Credit Risk Management Policy* in place credit risk is understood as the possibility of incurring a loss or making a gain due to trade partners (counterparties) failing to fulfill their contractual obligations (default) as well as the occurrence of credit exposures at risk of impairment due to the deterioration of their financial position. TAURON Capital Group has a decentralized credit risk management system in place, 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* put in place defines credit risk management principles on TAURON Capital Group's level, aimed at effectively minimizing the impact of this risk on achieving 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 material 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 can be lost if a counterparty (business partner, contractor) fails to fulfill its obligations (defaults) within a certain time (taking into account the value of the collaterals submitted 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 no. 19. Credit exposure components



Based on the exposure value and the evaluation of the financial standing of specific customers, the global credit value at risk that TAURON Capital Group is exposed to is calculated using the statistical methods according to which the exposure value is calculated based on the total loss probability distribution CVaR. The CVaR measure constitutes the basic credit risk operational limit representing the allocation of the Risk Tolerance approved by the Management Board.

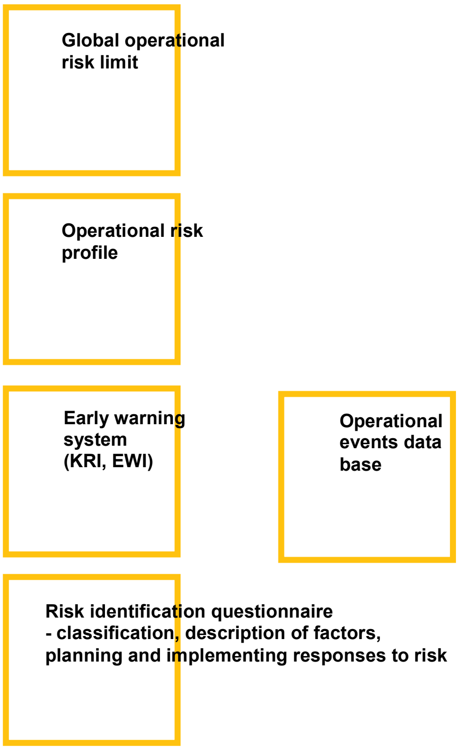
3.3.4. Operational risk management

Operational risk, in accordance with *TAURON Group's Operational Risk Management Policy* put in place, is understood as the possibility of incurring a loss or making a gain due to inappropriate or fallible internal procedures, human and system errors or as a consequence of external events. It also includes 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. The said 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 the IT systems and to the number of business processes conducted. 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 analysis methods.

In order to effectively manage the operational risk, TAURON Capital Group is using appropriate tools that, in particular, include the global operational risk limit, the operational risk profile, the early warning system functioning on a broad scale, the operational events database and the risk identification questionnaire. In particular, based on the approved Risk Tolerance, the operational limits are determined for the individual operational risks (or their groups) aimed at introducing the pre-emptive control of TAURON Capital Group's susceptibility to the specific operational risk factors and the implementation of the advance mitigation measures.

The below figure presents the risk management system tools.

Figure no. 20. Risk management system tools



Global operational risk limit is the basic tool for the operational risk control and represents the allocation of risk tolerance adopted by TAURON Capital Group. The global operational risk 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 threats stemming from specific operational risk factors. It is expressed in particular in the structural dimension that includes types of operational events, TAURON Capital Group's organizational structure and processes, and in the scale dimension that includes estimated potential losses, taking into account especially historical values of actual losses, as well as the tools used to mitigate the threats. For the needs of measuring the operational risk and defining the operational risk Profile the individual types of the operational risk are broken down (due to the nature of the occurrence thereof) into continuous and one-off risks.

Early Warning System is defined in order to monitor the operational risk level for each identified threat. Early Warning Indicators (EWI) are selected from the Key Risk Indicators (KRI) set as the ones that are subject to continuous control 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 new risk factors, and in parallel in order to define the risk profile for TAURON Capital Group. It allows for keeping the records of cases that are characterized by a potential or actual loss for the organization. The goal of maintaining the operational events database is to determine 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 the form of a tabular form 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 as part of this process.

3.3.5. Regulatory risk management

Regulatory risk, in accordance with *TAURON Group's Regulatory Risk Management Policy* put in place, is understood as the possibility of incurring a loss or making a gain due to the planned or unplanned changes to the existing or the introduction of the new regulations that may affect the operations of TAURON Capital Group. Regulatory risk, due to the specific nature of threats and limited options to manage them, is a separate category of the enterprise risk to which TAURON Capital Group is exposed as part of its operations. Regulatory risk management is based on the Regulatory Risk Management Process and is a refinement of the Risk Management Process specified in the ERM Strategy.

The main causes of the regulatory risk include:

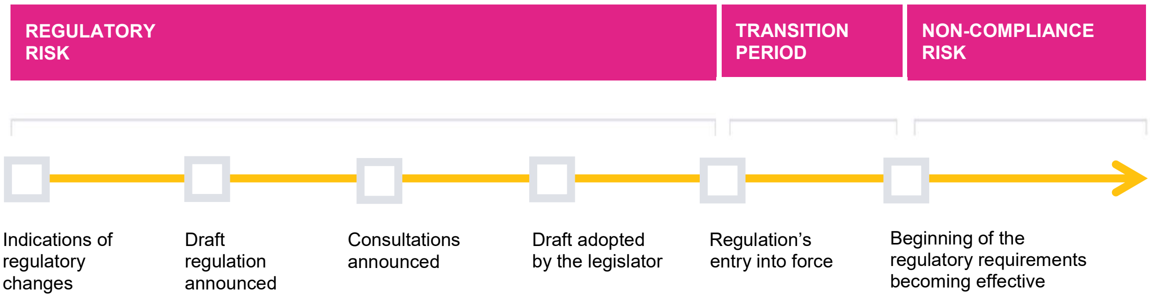
1. instability of the legal environment,
2. change in regulatory policy at national and European levels,
3. progressing integration of the European energy market,
4. uncertain political situation,
5. a significant increase in the requirements for specific regulation.

The main goal of the regulatory risk management at TAURON Capital Group is to minimize losses and maximize gains from the planned or unplanned changes to the existing or the introduction of the new regulations that may affect the operations of the organization. As a result, it allows for reducing the potential threats, to a level as neutral as possible to achieving TAURON Capital Group's strategic goals. The regulatory risk management is also aimed at building culture and awareness among the employees of TAURON Capital Group regarding the risk taken, as well as at the continuous improvement of the process of managing such risk.

Regulatory risk occurs when there are indications of regulatory changes, for example an entry into force of the EU directive, that will be implemented into the Polish legal regime or the positions of the legislators declaring the regulatory changes. Regulatory risk management does not cease when a specific regulation, which is frequently expected to provide executive regulations that specify its implementation method, comes into force (transition period). After the transition period has expired, the regulatory risk management turns into the risk of non-compliance monitored as part of the compliance risk.

The below figure presents the regulatory risk life cycle.

Figure no. 21. Regulatory risk life cycle



In accordance with the classification of the regulatory risk, as part of *TAURON Group's Regulatory Risk Management Policy,* 12 areas of regulatory risk have been identified at TAURON Capital Group. The classification is based on the identification of homogeneous groups of regulations, based on their impact on the operations of TAURON Capital Group, taking into account the possibility of undertaking an effective response to the given risk. The regulatory risk areas are divided into 2 basic categories:

1. **Sector regulatory risks** - regulatory risks that may affect the operations of TAURON Capital Group related to the generation and supply of electricity and heat. Within this category, independently, there are also risks related to the distribution of electricity and the extraction of commodities.
2. **Non-sector regulatory risks** - regulatory risks that may affect the operations of TAURON Capital Group related to, among others, the public procurement law, information security or compliance area, personal data protection, labor law, accounting and tax law, work (occupational) health and safety and corporate management.

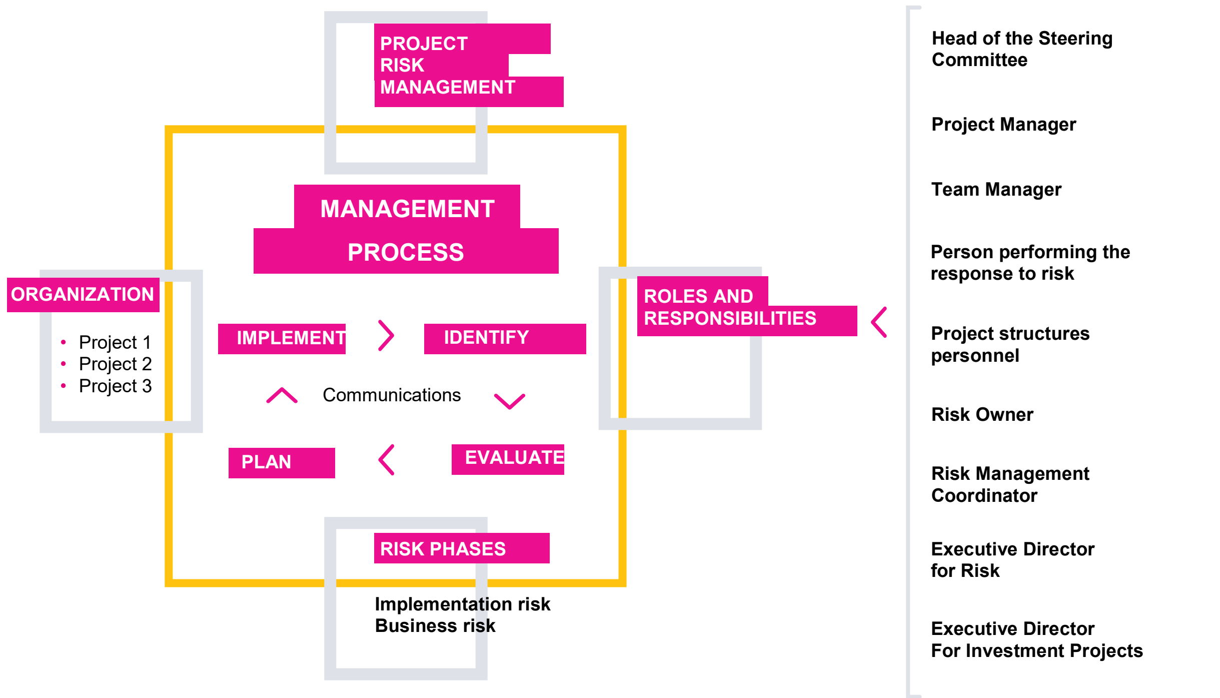
3.3.6. Project risk management

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 consistency, 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 achieve 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 the early warning indicators as well as planning and implementing actions related to managing such risks. In case of the risks having an impact on the organization, the risk valuation is made as the absolute value of the impact, including indicating the impact period broken down into the individual accounting periods, in reference to the assumed EBITDA or the assumptions made in the organization for the long term projections. In case of the most important risks having an impact on the organization, the Plans of responses to the risk and back-up Plans are developed. The evaluation of the project risks and the 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 no. 22. Project risk management model



3.4. Description of the most material risk categories related to TAURON Capital Group's operations

The below table presents the most material risk categories identified for TAURON Capital Group.

Table no. 13. Most material risk categories identified for TAURON Capital Group

#	Risk name	Risk description	Risk trend	Reaction to risk
Trading				
1.	Market risk	Risk related to the change in market conditions for the operations of TAURON Capital Group's subsidiaries, in particular as a result of the tightening of the EU climate policy, growing environmental awareness of the society, activities supporting energy efficiency (moving away from coal as fuel, prosumer development, support for thermal insulation and construction of in-house energy and heat sources) resulting in a decrease of the margin in the Generation Line of Business (CDS / volume) as well as an increase in the costs and a decrease in the revenues	↗	• Daily measurement and reporting of portfolio positions, • Ongoing monitoring of the levels of S-P, VaR and Stop Loss, • Adoption of an optimal trading strategy, • Implementing position hedging mechanisms, • Auditing compliance with risk mandates with specific limits.
Finance and credit				
2.	Interest rate risk	Risk related to an unfavorable impact of interest rates on TAURON Capital Group's financial results. TAURON Capital Group is observing an increase in risk as a result of the emergency reduction of interest rates by the Monetary Policy Council.	↗	• Ongoing monitoring of risk exposure in order to minimize negative impact of changes to the interest rates. • Transfer of risk through the use of derivative instruments
3.	FX rate risk	Risk related to an unfavorable impact of FX rates on TAURON Capital Group's financial results.	→	• Ongoing monitoring of risk exposure in order to minimize negative impact of changes to the FX rates, • Transfer of risk through the use of derivative instruments
4.	Liquidity risk	Risk related to the lack of TAURON Capital Group's ability of to pay its liabilities on an ongoing basis	→	• 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 a financing program.

#	Risk name	Risk description	Risk trend	Reaction to risk
5.	Financing risk	Risk related to the difficulties with accessing capital, change to the conditions for obtaining and servicing financing contracted and planned (including due to the tightening of the EU climate policy).	↗	• 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 a financing program. • Gradual withdrawal of anthropogenic sources of greenhouse gas emissions from fossil fuels through the development of renewable energy and zero and low-emission electricity generation technologies, • Active search for technical and organizational solutions that minimize the impact of TAURON Capital Group's operations on the climate change.
6.	Tax risk	Risk related to incorrect or untimely payment of tax obligations.	→	• Activities in accordance with legal regulations (Corporate Income Tax Act). • Issuing opinions on the economic events by TAURON Capital Group's tax advisors. • Jointly agreed positions at TAURON level. • Applying uniform accounting principles for companies within the PGK (Tax Capital Group). • Preparation of tax documentation for transactions between PGK companies and related entities outside PGK, requiring such documentation in accordance with the CIT Act, and auditing other transactions to confirm that they are concluded at arm's length.
7.	Credit risk	Risk related to a potential occurrence of overdue accounts payable or a conclusion of a contract with a counterparty (business partner, contractor) that may turn out to be insolvent. TAURON Capital Group is observing an increase in credit risk, which is the result of a rise of overdue accounts receivable. The main reason is the persistent epidemic.	↗	• Regular monitoring of the counterparties (business partners, contractors)' 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 agreements
Environment (stakeholders)				
8.	Reputational risk	Risk related to the current and future impact on the company's revenue and capital (equity) due to the negative public opinion backlash, including the risk related to not following the market trends related to the climate protection.	→	• 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 with the external and internal environment (stakeholders). • Striving to change the business profile to zero and low emission (carbon).
9.	License risk	Risk related to the lack of the possibility to conduct operations as a result of a prolonged process of obtaining a license or amending the licenses held, as well as the unfavorable legal changes with respect to the licensed operations.	→	• Ongoing control of the correct performance of the licensing obligations. • Monitoring changes to the legal acts with respect to the licensing obligations. • Legal support for the license extension and obtaining process.
10.	Macroeconomic risk	Risk related to the changes in the economic situation of the country, instability of the financial markets resulting in a decrease of the demand for electricity.	↗	• Diversification of the revenue sources. • Market analysis and the application of the pre-emptive actions for the anticipated crisis or a slowdown of the GDP growth rate.
11.	Climate change risk	Risk related to the tightening of the EU climate policy, as well as the environmental requirements resulting from the climate change, activities supporting energy efficiency (prosumer development, support for the thermal insulation, construction of in-house energy and heat sources, departure from coal as fuel), change in the conditions of TAURON Capital Group's operation (the need to adapt the company to the challenges of change resulting from the climate change). The implications of the risk are: difficulties or increase in the cost of raising capital to finance operations based on the fossil fuels, the need to incur additional expenditures as a result of the climate change (transition of the assets), difficulty or increase in the insurance costs of the assets based on the fossil fuels, an increase in the costs of the environmental fees and the need to incur additional capital expenditures for	↗	• Application of *TAURON Group's Climate Policy*. • Defining, updating and implementing the Strategy. • Update of *TAURON Group's Strategic Research Agenda*. • Adaptation of TAURON Group's Investment Strategy to the guidelines stemming from *TAURON Group's Climate Policy* and Investment Strategy. • Update and implementation of TAURON Group's sustainable development strategy.

#	Risk name	Risk description	Risk trend	Reaction to risk
		adapting the assets to the environmental requirements, an increase of the price of the CO_2 emission allowances, decreasing margins in the conventional energy segment, falling demand for electricity as a result of energy efficiency and the prosumer energy development, declining demand for the products offered by TAURON Capital Group's subsidiaries, limiting or discontinuing of the operations based on the fossil fuels and carbonates, the need to restructure employment due to a change in the profile of the operations, greater difficulties in all the administrative procedures with the participation of the public by the non-governmental organizations (NGOs), a decline in the value of the enterprise, the inability to meet market expectations due to the lack of the expected products in the portfolio.		
Technology, infrastructure and security (safety)				
12.	Environmental risk	Risk related to the impact of the business operations conducted on the natural environment and the use of its resources, including, in particular, the loss of control over the process that would enable the prevention of excessive pollution, damage, disruption or failures of the installations or equipment that would have a negative impact on the environment. The risk also related to the possibility of: lack of the validity of environmental decisions, depositing waste in places not intended for such purpose or not in accordance with the conditions of the use of the facilities intended for such a purpose, the occurrence of a crisis situation: e.g. fire, displacement of earth masses, extreme phenomena, the use of the waste not in accordance with the authorized destination, the lack of the appropriate safeguards limiting the negative impact of TAURON Capital Group's operations on the environment, release of the hazardous substances into the environment, social protests. The implications of the risk are: degradation of the natural environment and penalties for a failure to comply with environmental requirements, the need to remove such substances, the curtailment of the production, delays in the implementation of the investment projects, pollution of water sources in a way that would prevent their use, destruction of a habitat, object or valuable natural area - environmental compensation, restrictions on a further expansion of the business operations, a loss of the image of TAURON Capital Group, limitation of the ability to use the financial assistance programs. The risk also includes an increase in the environmental requirements due to the tightening of the EU's climate policy.	➔	• Adoption and implementation of *TAURON Group's Environmental Policy*. • Conducting business operations that affect the environment in accordance with the principles of the sustainable development. • 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 the activities with the legal requirements with respect to environment protection. • Implementing investment projects in the environment protection area in order to minimize the adverse impact of the mining and processing operations conducted on the environment and climate. • Active search for the technical and organizational solutions that would minimize the impact of TAURON Capital Group's operations on the climate change.
13.	Weather risk	Risk related to the more frequent occurrence of the temperatures oscillating around 0°C in winter, higher rainfall intensity that can cause floods at any time of the year, uneven precipitation, resulting in longer periods of no rainfall, intermittent abrupt rainfall, and the intensification of the evaporation processes, increased frequency and intensity of the hurricanes, strong winds incidentally accompanied by tornadoes and lightnings, more frequent occurrence of droughts and restrictions in access to water related thereto, as well as an increased risk of fires, a very high risk of weakening of the stands, making trees	➚	• Upgrading (refurbishing) the hydroelectric structures aimed at optimizing the utilization of the water resources. • Preparing of the plans of overhauls, inspections and maintenance activities with flexible provisions on deadlines for completing the works. • Continuous monitoring of the wind conditions and icing on the wind farms' blades. • Continuous technical oversight over the operation of the individual wind farms, conducted by the companies operating the farms. • Monitoring and analyzing new technological solutions that reduce the impact of the adverse weather conditions on the volume of the electricity generated. • Gradual adaptation of the production assets to the consequences of the extreme weather phenomena and the

#	Risk name	Risk description	Risk trend	Reaction to risk
		more susceptible to the damage caused by the wind. The implications of the risk include, in particular: increased costs of fixing of the failures, decrease of the volume of electricity and heat supply, decline of the production volume, deterioration of the quality indicators and an impact on the regulated revenue.		variability of the weather conditions, in particular in the Lines of Business sensitive to these factors.
14.	Company asset failure risk	Risk related to the machinery and equipment failures, distribution grid failures (electricity, heat) caused, among others, by random events including those related to the extreme weather conditions (storms, floods, hurricane winds, heat waves, fires) as a consequence of, among others, the climate change.	→	• Optimizing capital expenditures on asset replacements, ongoing monitoring of the condition of the 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 (safeguards). • Insuring assets against fortuitous events (excluding underground assets). • Introducing IT tools with respect to improving the monitoring and managing failure indicators (ratios). • Gradual adaptation of the production assets to the consequences of the extreme weather phenomena and the variability of the weather conditions, in particular in the Distribution Line of Business.
15.	IT risk	Risks related to the IT infrastructure security, failures of the IT infrastructure.	→	• Developing and maintaining plans aimed at ensuring continuity of the IT infrastructure's operation. • Periodic identifying and categorizing of the IT resources based on the service restoration targets. • Use of the IT solutions with the appropriate technical parameters, providing an acceptable level of reliability and performance of the operation (including also UPS devices, GSM modem, mobile phones). • Planning and conducting training courses on the IT infrastructure's continuity of operation and security. • Storing and protecting the back-up data.
16.	Asset (property) security and protection risk	Risk related to compromising the integrity of machines / devices and to the security of information, including its improper processing and unauthorized disclosure.	→	• Monitoring the implementation of the developed plans to protect the facilities that are subject to mandatory protection. • Maintaining and updating contingency procedures / plans. • Oversight over compliance with the information security rules in force. • Regular personnel training with respect to the security procedures in force.
17.	Geological risk	Risk related to the impact of geological factors on the mining operations	→	• Making test drillings for the better intelligence on the positioning of the 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)
Workforce and organizational culture				
18.	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.	→	• Conducting public consultations regarding 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
19.	Human resources risk	Risk related to the employee issues, including diversity, participation, employment and working conditions, relations with the trade unions and respect for the right to freedom of association, human capital management, career path and recruitment management, training systems, health and safety at work as well as, in the long run, the need to restructure employment due to the climate change, forcing a change in the profile of the business operations. The materialization of the risk may result in interruptions or disruptions to the operations, employee complaints, collective disputes, strikes, loss of specialized staff and difficulties in recreating it.	→	• Adoption and implementation of *TAURON Group's Subsidiaries Employee Recruitment, Selection and Adaptation Policy.* • Adoption and implementation of *the Policy of Compliance with the Principles of Ethics and Counteracting Mobbing and Discrimination at TAURON Group.* • Taking care of developing personnel competences through the participation in the training courses • Conducting consultations with the social organizations at TAURON Capital Group • Implementation of the human resources policy based on *TAURON Group's Competence Model* and the applicable remuneration and labor law regulations (Compensation Regulations, Company Collective Bargaining Agreement, Labor Regulations). • Adoption and implementation of *TAURON Group's Diversity Policy.* • Adoption and implementation of *TAURON Group's Respect for Human Rights Policy.*

#	Risk name	Risk description	Risk trend	Reaction to risk
20.	Risk of the lack of the employees' due diligence	Risk related to non-compliance with the procedures and the lack of the employees' due diligence in the performance of the official duties.	➔	• Implementation of *TAURON Group's Subsidiaries Employee Recruitment, Selection and Adaptation Policy*, • Systematic periodic employee training, • Analysis of the recurring cases of errors and mistakes of the employees, taking systemic remedial actions.
21.	Work Health and Safety (WHS) Risk	Risk related to ensuring health and safety at work. The materialization of the risk results in an employee injury, a loss of health or excessive exposure of an employee to factors harmful to health, the compensation paid out for personal injury.	➔	• Prioritizing safety of the employees, customers, contractors and stakeholders in the business activities undertaken • Adoption and implementation of *TAURON Group's WHS Policy,* • Ensuring optimal working conditions, • Conducting active monitoring of the working conditions and the correctness of its organization, • Raising the employees' qualifications with respect to improving work safety, • Conducting training courses, implementing and improving the OHS management system
22.	Communications risk	Risk related to providing inaccurate, untrue information or a lack of information disclosure at specific time.	➔	• Building relationships with the workforce of TAURON Capital Group and close cooperation with the Social Dialogue Ombudsman. • Use and development of the available communications tools to provide relevant information to the employees of TAURON Capital Group. • When providing the relevant information – organizing the direct meetings between the management and the employees. • Ongoing monitoring of the situation and events at TAURON Capital Group's subsidiaries that may cause social anxiety. • Regular meetings with the representatives of the subsidiaries dealing with the internal communications in order to exchange information. • Developing the Communications Strategy for TAURON Group
Compliance				
23.	Internal fraud risk	Risk related to the appropriation or use of the Company's assets, its devastation, theft, the use of the official position for personal gain resulting in the financial losses, criminal and administrative sanctions, criminal and civil law liability.	➔	• Educational and training activities for the employees, including the mandatory e-learning training with respect to the Compliance Management System at TAURON Group. • Effective use of the abuse (fraud) reporting (whistleblowing) system in the organization. • Conducting of the investigative probes by the Compliance Officer or Compliance Coordinators. • Building the organizational culture based on TAURON Capital Group's values and principles. • Adoption and implementation of *TAURON Group's Anti-Corruption Policy.* • Adoption and implementation of *TAURON Group's Corporate Social Responsibility Code of Conduct.* • Adoption and implementation of *TAURON Group's Rules for accepting and giving gifts.*
24.	External fraud risk	Risk related to the occurrence of an external fraud (abuse) that affects the operations of TAURON Capital Group through: disclosure of information to unauthorized persons, loss of information, commercial espionage, terrorist attack and hacker attacks, tax fraud, theft, vandalism, counterfeiting, money laundering, terrorist attack.	➔	• Raising the employees' awareness through training and information campaigns related to the existing threats of external fraud (abuse). • Adoption and implementation of the *Code of Conduct for Contractors of TAURON Group's Subsidiaries.* • Introduction of the anti-corruption clauses to contracts with the contractors (counterparties). • Adoption and implementation of *TAURON Group's Anti-Corruption Policy.* • Effective use of the abuse (fraud) reporting (whistleblowing) system in the organization. • Monitoring of the cooperation with the contractors (counterparties and testing their credibility at TAURON Capital Group. • Promoting of the best practices, improving the procedures, conducting training courses and applying *TAURON Group's Corporate Social Responsibility Code of Conduct* and the functioning of the abuse (fraud) reporting (whistleblowing) system. • Building the organizational culture based on TAURON Capital Group's values and principles.
25.	Risk of unethical behavior and mobbing	Risk related to the occurrence of unethical behavior resulting, in particular, in the lack of cooperation, bad atmosphere in the team, mobbing, harassment, insulting, discrimination of the employees.	➔	• Adoption and implementation of *TAURON Group's Respect for Human Rights Policy.* • Adoption and implementation of *Policy of Compliance with the Principles of Ethics and Counteracting Mobbing and Discrimination at TAURON Group.* • Effective use of the abuse (fraud) reporting (whistleblowing) system in the organization • Conducting of the investigative probes by the Compliance Officer or Compliance Coordinators with respect to the anonymous reports of mobbing and discrimination. • Reviewing of the reports of mobbing or discrimination by the Ethics Committee.

#	Risk name	Risk description	Risk trend	Reaction to risk
				• Promoting of the best practices, improving the procedures, conducting training courses and applying *TAURON Group's Corporate Social Responsibility Code of Conduct* and the functioning of the abuse (fraud) reporting (whistleblowing) system. • Building the organizational culture based on TAURON Capital Group's values and principles. • Adoption and implementation of *TAURON Group's Anti-Corruption Policy.* • Adoption and implementation of *TAURON Group's Rules for accepting and giving gifts.*
26.	Legal risk	Risk related to non-compliance with the legal provisions, misinterpretation of the new laws and regulations, the requirements imposed by the regulator and the supervisory authorities. The materialization of the risk may result in the financial penalties, criminal and civil law liability, a loss of the image of TAURON Capital Group.	→	• Adoption and implementation of *TAURON Group's Compliance Policy.* • Continuous monitoring of the legal environment and changes to the legal regulations with respect to the non-sector regulations related to information security or the area of compliance in order to minimize the risk of non-compliance. • Monitoring of the implementation process or implementing of the changes to the internal regulations required by the law. • Setting up or participating in the working groups tasked with adapting the organizations to the changes stemming from the legal environment. • Consultations with the relevant organizational units with respect to the planned key regulations for the area of compliance. • Training of the personnel with respect to the changes to the legal regulations and the internal regulations.
27.	Risk of a breach of the contractual provisions (default)	Risk related to a breach of the contractual provisions with respect to the contract parameters or a failure to perform the contract (default).	→	• Updating and adapting the contract templates to the legal changes. • Monitoring of the complaints and proceedings of the Energy Regulatory Office (URE) / Office of Competition and Consumer Protection (UOKiK). • Process optimization.
28.	Personal data protection risk	Risk related to Inappropriate storing and processing of personal data resulting in an undesirable leak or violation of the rights of data subjects related to personal data protection	→	• Identifying and implementing the appropriate technical or organizational measures to ensure the adequate level of security of personal data. • Monitoring the compliance with the legal regulations related to personal data protection. • Raising the level of awareness of the workforce with respect to personal data protection, in accordance with the applicable regulations. • Defining and implementing the process of handling the data subjects' requests in accordance with the regulations and process documentation in force at TAURON Capital Group. • Providing information and advice on personal data protection to the employees of the organization.
Customers and counterparties (business partners, contractors)				
29.	Customer service risk	Risk related to non-compliance with the customer service standards leading to customer dissatisfaction with the service, customer complaints, loss of customers.	→	• Monitoring and analyzing the external customer satisfaction indicators and the indicators related to the complaints. • Taking the additional measures, e.g. with respect to the internal regulations, defining standards of conduct as a result of the analysis of indicators. • Taking the additional measures, e.g. introducing new internal regulations in order to improve the customer service standards. • Developing the key account managers' competences and skills. • Continued raising of the customer service standards.
30.	Risk related to performance of agreements by contractors and subcontractors	Risk related to the improper performance by the contractors and subcontractors of the works commissioned, the termination of the agreement and delays, changes to the budget and scope related thereto.	→	• Concluding of the agreements with the contractors and 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 the contractors and subcontractors. • Evaluating the financial standing and credibility of the contractors and the subcontractors.
31.	Volume and margin risk	Risk related to the decline in the volume of the sales of the products offered by TAURON Capital Group's subsidiaries, in particular as a result of the development of the energy efficiency solutions, building insulation, prosumer development, the impact of the climate factors causing a significant temperature deviation from the planned values. The implications of the risk include, first of all, the loss of revenue in the individual operating segments of TAURON Capital Group due to the reduced demand.	→	• Ongoing updating of the offering, launching of the sales of the multi-package type products. • Conducting the marketing campaigns, acquiring new customers. • Taking actions focused on retaining the existing customers and recovering the lost ones.

#	Risk name	Risk description	Risk trend	Reaction to risk
32.	Purchasing process risk	Risk related to the purchasing proceedings conducted, their erroneous implementation, an unplanned increase of the purchase costs, including the methods used to prevent violations of the human rights by the business partners, counteracting corruption and abuse (fraud) in the purchasing process and compliance with the ethical and moral standards during the implementation thereof. The materialization of the risk results in unfavorable purchase agreements, the need to cancel the tender procedures, a loss of the image of TAURON Capital Group and its credibility with the stakeholders.	→	• Adoption and implementation of the *Code of Conduct for Contractors of TAURON Group.* • Adoption and implementation of *TAURON Group's Anti-Corruption Policy.* • Adoption and implementation of *TAURON Group's Respect for Human Rights Policy.* • Standardization of the rules of conducting the proceedings in the purchasing process and the transparency thereof. • Building lasting relationships with the contractors based on trust and mutual respect. • Expecting the contractors to comply with the legal provisions, ethical standards and good commercial practices, including the work health and safety standards, the principles of countering discrimination and unequal treatment, respect for human rights and dignity of the employees, transparent personnel policy, environment protection, fair competition, preventing and combating fraud, and information security and protection. • Application of the contract forms (templates) and standard clauses in the contracts regarding compliance with the human rights by the business partners of TAURON Capital Group.
Regulations				
33.	Regulatory risk	Risk related to the change of the existing or the introduction of the new regulations that affect the operations of TAURON Capital Group and the need to adapt to the regulatory changes, in particular those resulting from a significant increase in the requirements of a specific regulation, including the environmental requirements stemming from the climate change, the support for the pro-climate activities (prosumer development, thermal insulation, development of in-house production sources). The implications of the risk are primarily: the loss of revenues in the individual operating segments of TAURON Capital Group, the increase in the operating expenses as a result of the need to adapt to the legislative changes.	↗	• Ongoing analysis of the draft regulations and acts. • Active participation in the works of the teams providing opinions on the drafts and proposing optimal solutions. • Gradual adaptation of the generation assets and the energy mix of TAURON Capital Group to the production of renewable energy as well as to the zero and low-emission electricity generation technologies.

3.5. Risk classification in the individual operating Segments

3.5.1. Mining Segment

The Mining segment, in particular with respect to the hard coal mining, is exposed to a number of risk factors, the materialization of which significantly hinders or completely reduces the mining capacity at the individual coal mines. The most material operational risks include:

1. risk of adverse geological and mining conditions characterized by, e.g. unfavorable positioning of the coal deposits in the coal seam, faults, or excessive presence of the rocks (stone),
2. risk of the lack of the timely commissioning of the coal faces involving the lack of the preparation of the mining fronts (headings) in advance,
3. risk of asset failures leading to the coal mining downtime, due to the occurrence of the machinery and equipment failures,
4. risk of the occurrence of natural geological and mining threats leading to the coal mining downtime, caused by the rock bursts, endogenous fires, presence of methane in the deposit, too much water inflow.

The material risks in the Mining Segment also include threats stemming from the regulatory environment, including the gradual introduction of the new environmental requirements tightening the emission standards for the coal fired power plants, which will result in a decline of the demand for coal with low quality parameters.

The Mining Segment will also be significantly affected by the climate policy that assumes a departure from the coal based generation technology in order to reduce pollution and achieve climate neutrality in the EU in the long term, which will, in effect, lead to the need to gradually phase out coal production. In addition, the withdrawal of the financial institutions from financing of the assets based on the fossil fuels has been intensifying recently, which results in the curtailment of the possibilities of financing the new investment projects in the Mining Segment.

3.5.2. Generation Segment

The Generation Segment is exposed, in particular, to the market risk, regulatory risk as well as the technical and organizational risks that will have a significant impact on the Segment's results in the coming years.

As part of the market risk, the material risk factors include: the gradually declining CDS margin and the plans to integrate the European electricity market (increase in the electricity imports). In addition, the development of renewable energy technologies and the ever growing share of RES in meeting the demand for electricity have a material impact on the Generation Line of Business, leading to the pushing of the conventional generating units out of the market. Also, the electricity imports and the introduction of the new coal fired capacity into the system, with the efficiency definitely higher than the efficiency of the 200 MW units, means that the use of such generating units in the Generation Segment will be declining.

With respect to the operational factors, the most material threat is the risk of not achieving the planned availability (dispatchability) rate of the units, which is closely related to the individual units' failure rate, high variability of the units' loads and the higher frequency of start-ups or the use of inadequate quality fuel.

The Generation Segment's operations will also be materially affected by the climate factors, including the climate policy, that assumes the ultimate departure from the coal fired generation technology to reduce pollution, which, as a consequence, will cause a drop in the profitability of this operating segment. In addition, the climate factors will lead to an increase of the average temperature during the year, causing, in turn, the reduction of the revenue from the heat supply. Furthermore, the withdrawal of the financial institutions from financing of the assets based on the fossil fuels has been intensifying recently, which results in the curtailment of the possibilities of financing the new investments in the Generation Segment.

Currently the material risk factors include planned refurbishments of the units, with the goal to adapt the units to the new environmental requirements defined in the *BAT Conclusions*. The implementation of the refurbishments on the existing facilities leads to the rise of the project and organizational risks related to, among others, the potential increase of the costs of the refurbishments or the reduction of the units' availability (dispatchability) rates.

In the long term, the regulatory risks, including the further tightening of the environmental requirements, will lead to the need to carry out the transition of the Generation Segment, both in terms of the technical, as well as the social aspects.

3.5.3. RES Segment

The RES segment is exposed, in particular, to market risks, risks related to the weather factors affecting the volume of electricity generation, in particular from water and wind, and the regulatory risks, the impact of which significantly affects the results of the RES Segment and its expansion opportunities.

The volume of electricity produced by the hydropower plants is dependent on the hydrological conditions, including the quantity and frequency of rainfall both in winter as well as during the rest of the year. Warm winters are reported more and more often, without sufficient snowfall which melts in the spring and feeds watercourses where hydro power plants are located. In case of wind energy, we are observing greater predictability of the volume produced, and thus the stability of the planned production volumes. The market risk related to the high volatility of the prices of electricity and related products has an equally significant impact on the results of the RES Segment, which translates into the amount of margin obtained on the operations conducted.

It should be noted as well that the results of the RES Segment are also influenced by the efficiency of the assets and the risk of its failure related thereto, and thus the temporary exclusion of some assets from use.

Taking into account the RES Segment's expansion opportunities and expectations, including those stemming from the climate policy, the regulatory restrictions related, in particular, to the construction of the new wind farms, should be noted.

3.5.4. Distribution Segment

One of the most important threats to the Distribution Segment is the distribution services sales risk related to the electricity supply volume decline, and, as a consequence, a drop of the revenue from the provision of the distribution services to the individual groups of consumers. The material reasons behind this risk include both the macroeconomic factors, i.e. a decline of the demand for electricity due to the economic slowdown, the epidemiological situation and the COVID-19 impact, as well as the factors stemming from the climate issues, i.e. an increase in the consumer awareness with respect to reducing energy intensity and the rapid growth of the prosumer energy.

An equally material risk is associated with the occurrence of an unfavorable deviation of the operating expenses resulting in the costs of the operations, and in particular the operating expenses and the costs of purchasing electricity to cover the balancing difference, not being covered by the tariff during the tariff period.

With respect to the operational factors, a material risk for the Distribution Segment is the risk of an asset failure, i.e. the risk related to maintaining the availability of the transmission networks (systems) and the costs of fixing the failures resulting from, among others, the climate changes leading to an increase in the frequency and intensity of the hurricanes, strong winds incidentally accompanied by tornadoes and lightnings causing failures of the distribution grids.

In the medium and long term, the material risks for the Distribution Segment include the risk of an adverse change in the structure and parameters determining the tariff amount (the factors behind this risk include, among others, the WACC rate, the amount of the capital expenditures, the balancing difference indicators and the amount of the transmission fees), the issues related to the compliance with the distribution's quality indicators that have an impact on the regulated revenue and the planned change to the distribution tariff model.

3.5.5. Supply Segment

In the Supply Segment, TAURON Capital Group identifies and manages the risks related to the supply of electricity to the final consumers, including the key customers (volume risk per individual customer segment, margin risk, profile risk and the risk of non-balancing).

A material threat to the accomplishment of the Supply Segment's assumed goals is the volume risk related to the non-achievement of the assumed electricity supply volume. The reasons behind this risk stem from such factors as: the competitive environment, the macroeconomic factors, i.e. a drop of the demand for electricity caused by the economic slowdown, the restrictions due to COVID-19 and the volatility of the electricity prices. In addition, this risk is fueled by the increased customer awareness, the trend to strengthen consumer protection and the regulatory pressure to reduce the price hikes.

At the same time, the Supply Segment is threatened by the market risk due to the high volatility of the electricity, gas and related products prices. This risk, as a consequence of the price fluctuations as well as the observed liquidity of the electricity market, affects the margin obtained due to the steps required to hedge the cost of the electricity supply.

The most important regulatory risks in the Supply Segment include the tariff risk, in particular related to the reduction of the Company's costs by the President of the Energy Regulatory Office to the level of the justified costs and the costs actually incurred not being covered by the tariff for the given year. The consequences of the materialization of this risk include the reduction of the planned revenue, profitability and funds for the development of the company's potential.

In the long run, the climate factors, the rapid expansion of the prosumer energy in particular, pose a threat to the stability (predictability) of achieving the Supply Segment's goals. The risk of the prosumer market growth is associated with an increase in the electricity production from the micro-installations, resulting in an increase of the costs of serving the prosumers as well as a loss of the supply volume and the planned margin on electricity supply.

3.5.6. Other operations

Other organizational units that are a part of TAURON Capital Group are primarily providing the support services for the above mentioned Segments. The main risks that are present in the Other operations segment are related to ensuring the availability and security of the IT services, the broadly understood compliance management, personal data protection as well as security and protection of property.

At TAURON Capital Group's level, the material threats affecting the entire value chain of TAURON Capital Group include the risk of financing resulting from the gradual withdrawal of the financial institutions from financing of the activities based on the fossil fuels, the regulatory and political issues related in particular to the environment and climate protection issues, the risks associated with the human resources management and the workforce expectations with respect to the growth of wages, as well as the pending court litigations against TAURON.

3.5.7. Risk category map

The below table presents the classification of risks based on TAURON Capital Group's operating segments. The risk categories indicated below are consistent with the Risk Model adopted by TAURON Capital Group described in section 3.2.5. of this report.

Table no. 14. Classification of risks based on TAURON Capital Group's operating segments

#	Risk	Term			Operating Segment*					
		Short	Medium	Long	Mining Segment	Generation Segment	RES Segment	Distribution Segment	Supply Segment	Other operations
1.	Market risk	x	x	x	5	5	5	3	5	0
2.	Interest rate risk	x	x	x	2	2	2	4	2	4
3.	FX rate risk	x	x	x	1	3	2	1	0	4
4.	Liquidity risk	x	x	x	4	4	2	2	2	2
5.	Financial risk	x	x	x	5	5	3	3	3	3
6.	Tax risk	x			3	3	3	3	3	3
7.	Credit risk	x	x		1	1	1	4	4	1

#	Risk	Term			Operating Segment*					
		Short	Medium	Long	Mining Segment	Generation Segment	RES Segment	Distribution Segment	Supply Segment	Other operations
8.	Reputational risk	x	x	x	2	2	2	3	3	2
9.	License risk	x	x	x	3	3	3	3	3	0
10.	Macroeconomic risk	x	x	x	4	4	3	5	5	2
11.	Climate change risk	x	x	x	5	5	4	4	4	4
12.	Environmental risk	x			2	2	2	1	0	0
13.	Weather risk	x			1	3	4	3	2	0
14.	Company asset failure risk	x			5	5	4	4	0	1
15.	IT risk	x			3	3	1	3	3	4
16.	Asset (property) security and protection risk	x			2	3	2	3	1	2
17.	Geological risk	x			5	0	0	0	0	0
18.	Social dispute risk	x			4	4	2	4	3	2
19.	Human resources risk	x	x		3	2	1	3	2	2
20.	Risk of the lack of the employees' due diligence	x			2	2	2	2	2	2
21.	Work Health and Safety (WHS) Risk	x			3	3	2	2	1	1
22.	Communications risk	x			2	2	1	2	2	1
23.	Internal fraud risk	x			2	2	2	2	2	2
24.	External fraud risk	x			3	3	3	3	3	3
25.	Risk of unethical behavior and mobbing	x			2	2	2	2	2	2
26.	Legal risk	x			3	3	2	3	2	2
27.	Risk of a breach of the contractual provisions (default)	x			2	2	2	2	2	2
28.	Personal data protection risk	x			2	2	2	3	3	3
29.	Customer service risk	x			1	1	0	3	3	1
30.	Risk related to performance of agreements by contractors and subcontractors	x			2	2	2	2	1	2
31.	Volume and margin risk	x	x		4	4	4	5	4	2
32.	Purchasing process risk	x			2	2	1	3	1	2
33.	Regulatory risk	x	x	x	5	5	4	4	3	2

**Values signifying the impact of the individual risks on TAURON Capital Group's operating segments: 0 - neutral, 1 – immaterial on the Company's level, 2 - material on the Company's level, 3 - serious on the Company's level, 4 – material on TAURON Capital Group's level, 5 – serious on TAURON Capital Group's level*

4. ANALYSIS OF FINANCIAL POSITION AND ASSETS OF TAURON CAPITAL GROUP

4.1. Selected financial data of TAURON Polska Energia S.A. and TAURON Capital Group

The below table presents selected financial data of TAURON Polska Energia S.A. and TAURON Capital Group.

Table no. 15. Selected financial data of TAURON Polska Energia S.A. and TAURON Capital Group

Selected consolidated financial data of TAURON Polska Energia S.A. Capital Group

Selected financial data	in PLN '000		in EUR '000	
	2020 period from 01.01.2020 to 30.06.2020 r.	2019 period from 01.01.2019 to 30.06.2019 (adjusted data)	2020 period from 01.01.2020 to 30.06.2020	2019 period from 01.01.2019 to 30.06.2019 (adjusted data)
Sales revenue	9 888 017	9 325 844	2 226 379	2 174 870
Operating profit	1 139 502	924 658	256 569	215 639
Pre-tax profit	895 490	801 732	201 628	186 971
Net profit from continued operations	464 373	597 237	104 558	139 281
Net profit (loss) from discontinued operations	(781 455)	75 149	(175 952)	17 525
Net profit (loss)	(317 082)	672 386	(71 394)	156 806
Net profit (loss) attributable to shareholders of the parent company	(316 046)	671 543	(71 161)	156 610
Net profit (loss) attributable to non-controlling shares	(1 036)	843	(233)	197
Other total net income	(190 755)	4 065	(42 950)	948
Total aggregate income	(507 837)	676 451	(114 344)	157 754
Total aggregate income attributable to shareholders of the parent company	(506 656)	675 589	(114 078)	157 553
Total aggregate income attributable to non-controlling shares	(1 181)	862	(266)	201
Profit (loss) per share (in PLN/EUR) (basic and diluted)	(0.18)	0.38	(0.04)	0.09
Weighted average number of shares (in pcs) (basic and diluted)	0.27	0.34	0.06	0.08
Net cash flows from operating activities	1 752 549 394	1 752 549 394	1 752 549 394	1 752 549 394
Net cash flows from investing activities	2 523 280	1 065 698	568 140	248 530
Net cash flows from financing activities	(2 158 988)	(1 889 762)	(486 116)	(440 709)
Increase/(decrease) in net cash and equivalents	(963 214)	957 628	(216 877)	223 327
	As of 30.06.2020	As of 31.12.2019 (adjusted data)	As of 30.06.2020	As of 31.12.2019 (adjusted data)
Fixed assets	33 188 440	35 052 287	7 431 357	8 231 135
Current assets	6 821 897	6 865 478	1 527 518	1 612 182
Total assets	40 010 337	41 917 765	8 958 875	9 843 317
Share capital	8 762 747	8 762 747	1 962 102	2 057 707
Equity attributable to shareholders of the parent company	17 684 743	18 192 226	3 959 862	4 271 980
Equity attributable to non-controlling shares	899 840	900 434	201 487	211 444
Total equity	18 584 583	19 092 660	4 161 349	4 483 424
Long term liabilities	16 145 402	14 963 274	3 615 182	3 513 743
Short term liabilities	5 280 352	7 861 831	1 182 345	1 846 150
Total liabilities	21 425 754	22 825 105	4 797 527	5 359 893

Selected standalone financial data of TAURON Polska Energia S.A.				
Selected financial data	in PLN '000		in EUR '000	
	2020 period from 01.01.2020 to 30.06.2020	2019 period from 01.01.2019 to 30.06.2019	2020 period from 01.01.2020 to 30.06.2020	2019 period from 01.01.2019 to 30.06.2019
Sales revenue	5 206 920	4 877 470	1 172 386	1 137 470
Operating profit	65 550	6 407	14 759	1 494
Pre-tax profit (loss)	(1 996 497)	(516 207)	(449 530)	(120 384)
Net profit (loss)	(1 955 125)	(613 022)	(440 215)	(142 962)
Other total net income	(107 340)	(2 629)	(24 169)	(613)
Total aggregate income	(2 062 465)	(615 651)	(464 383)	(143 575)
Profit (loss) per share (in PLN/EUR) (basic and diluted)	(1.12)	(0.35)	(0.25)	(0.08)
Weighted average number of shares (in pcs) (basic and diluted)	1 752 549 394	1 752 549 394	1 752 549 394	1 752 549 394
Net cash flows from operating activities	742 272	(114 412)	167 129	(26 682)
Net cash flows from investing activities	(1 115 763)	226 840	(251 224)	52 901
Net cash flows from financing activities	(998 056)	634 769	(224 722)	148 034
Increase/(decrease) in net cash and equivalents	(1 371 547)	747 197	(308 817)	174 253
	As of 30.06.2020	As of 31.12.2019	As of 30.06.2020	As of 31.12.2019
Fixed assets	25 129 661	27 010 590	5 626 883	6 342 747
Current assets	3 348 918	3 474 539	749 870	815 907
Total assets	28 478 579	30 485 129	6 376 753	7 158 654
Share capital	8 762 747	8 762 747	1 962 102	2 057 707
Equity	12 745 712	14 808 177	2 853 944	3 477 322
Long term liabilities	12 450 107	10 947 500	2 787 753	2 570 741
Short term liabilities	3 282 760	4 729 452	735 056	1 110 591
Total liabilities	15 732 867	15 676 952	3 522 809	3 681 332

The above financial data was converted into EUR according to the following principles:

1. individual items of the statement of financial position - at the average NBP exchange rate announced on June 30, 2020 - PLN/EUR 4.4660 (as of December 31, 2019 - PLN/EUR 4.2585),
2. individual items of the statement of comprehensive income and the statement of cash flows - at the exchange rate representing the arithmetic mean of average NBP exchange rates announced on the last day of each month of the financial period from January 1, 2020 to June 30, 2020 - PLN/EUR 4.4413 (for the period from January 1, 2019 to June 30, 2019: PLN/EUR 4.2880).

4.2. Key operating data of TAURON Capital Group

The below table presents the key operating data posted by TAURON Capital Group in the first half of 2020 and in the second quarter of 2020, as compared to the same periods of 2019.

Table no. 16. Key operating data posted by TAURON Capital Group in the first half of 2020 and in the second quarter of 2020, as compared to the same periods of 2019

Item	Unit	H1 2020	H1 2019	Change in % 2020/2019	Q2 2020	Q2 2019	Change in % 2020/2019
Commercial coal production	Mg m	**2.49**	2.26	110%	**1.30**	0.99	131%
Electricity generation (gross production)	TWh	**5.87**	7.15	82%	**2.66**	3.33	80%
including generation of electricity from renewable sources	TWh	**1.00**	0.69	145%	**0.42**	0.30	140%
Production from biomass	*TWh*	***0.24***	*0.17*	*141%*	***0.13***	*0.08*	*163%*
Production of hydroelectric power plants and wind farms	*TWh*	***0.75***	*0.52*	*144%*	***0.29***	*0.22*	*132%*

Item	Unit	H1 2020	H1 2019	Change in % 2020/2019	Q2 2020	Q2 2019	Change in % 2020/2019
Heat generation	PJ	**6.70**	6.41	105%	**1.73**	1.66	104%
Electricity distribution	TWh	**24.60**	26.08	94%	**11.35**	12.54	90%
Electricity supply	TWh	**21.67**	22.84	95%	**10.02**	10.82	93%
retail supply	*TWh*	***15.99***	*17.03*	*94%*	***7.13***	*8.10*	*88%*
wholesale	*TWh*	***5.68***	*5.81*	*98%*	***2.89***	*2.72*	*106%*
Number of customers - Distribution	'000	**5 693**	5 627	101%	**5 693**	5 627	101%

4.3. Sales structure by the Segments of operations (Lines of Business)

The below table presents TAURON Capital Group's sales volumes and structure broken down into individual Segments of operations (lines of business) for the first half of 2020 and for the second quarter of 2020, as compared to the same periods of 2019.

Table no. 17. TAURON Capital Group's sales volumes and structure broken down into individual Segments of operations (lines of business) for the first half of 2020 and for the second quarter of 2020, as compared to the same periods of 2019.

Item	Unit	H1 2020	H1 2019	Change in % 2020/2019	Q2 2020	Q2 2019	Change in % 2020/2019
Mining Segment's hard coal sales	Mg m	**1.88**	2.19	86%	**0.99**	0.99	100%
Generation Segment's electricity and heat sales	TWh	**4.67**	5.52	85%	**2.25**	2.54	89%
	PJ	**2.19**	1.68	130%	**0.57**	0.38	150%
Electricity and heat sales as part of the discontinued operations	TWh	**0.53**	0.77	69%	**0.18**	0.34	53%
	PJ	**6.94**	7.31	95%	**1.69**	1.70	99%
RES Segment's electricity sales	TWh	**0.77**	0.52	148%	**0.30**	0.23	130%
Distribution Segment's distribution services sales	TWh	**24.60**	26.08	94%	**11.35**	12.54	90%
Supply Segment's retail electricity supply	TWh	**15.98**	17.02	94%	**7.13**	8.09	88%

Mining Segment

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

TAURON Capital Group operates three coal mines: Sobieski Coal Mine (ZG Sobieski), Janina Coal Mine (ZG Janina) and Brzeszcze Coal Mine (ZG Brzeszcze). The above mentioned 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.

Hard coal sales volume reached 1.88 million Mg in the first half of 2020, i.e. a 14% decline as compared to the same period of 2019, as a consequence of the lower demand for coal. Coal sales within TAURON Capital Group came in at 1.47 million Mg, which meant that 78% of coal produced was sold to TAURON Capital Group's subsidiaries, while the balance of the sales was placed on the external market.

Commercial coal production stood at 2.49 million Mg in the reported period, i.e. it was 10% higher than in the same period of 2019, which was the result of the extraction of coal from two coal faces the Brzeszcze Coal Mine (ZG Brzeszcze) across the entire longwall face as well as the difficult geological conditions and the smaller number of coal faces for extraction both at the Sobieski Coal Mine (ZG Sobieski) as well as the Janina Coal Mine (ZG Janina).

Generation Segment

The core operations conducted by TAURON Capital Group's Generation Segment comprise electricity and heat generation by hard coal and biomass fired power plants.

Total achievable capacity of the Generation Segment's generating units reached 4.3 GW of electric capacity and 1.3 GW of thermal capacity as of the end of June 2020.

In the first half of 2020 the Generation Segment produced 4.5 TWh of electricity, i.e. 22% less than last year (5.8 TWh), which was due to the lower sales of electricity from in-house production year on year and the adopted trading strategy (taking into account the market conditions).

The production of the biomass burning units came in at 0.2 TWh, i.e. 54% more than last year (0.13 TWh).

Sales of electricity from in-house production plus electricity purchased for trading clocked in at 4.7 TWh in the first half of 2020, which meant a 15% decline in relation to the same period of 2019.

Heat sales reached 2.2 PJ in the first half of 2020, i.e. 31% more as compared to the same period of 2019, which was a consequence of the higher sales from the Łagisza Power Plant (the effect of the implementation of the investment project related to adding heat generation to unit no. 10).

63% of the Generation Segment's subsidiaries' demand for hard 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 the first half of 2020. The balance of the demand was covered from the external sources.

RES Segment

The core operations conducted by TAURON Capital Group's RES Segment comprise electricity generation by the hydroelectric power plans and wind farms.

Total achievable capacity of the RES Segment's generating units reached 519 MW of electric capacity as of the end of June 2020 and it was 180 MW higher than in the same period of 2019. The above mentioned increase is a consequence of the acquisition of wind farms by TAURON Capital Group in September 2019.

The RES Segment produced 0.75 TWh of electricity in the first half of 2020, i.e. 44% more as compared to last year (0.52 TWh), which was due to the favorable wind conditions and the production of electricity by the wind farms acquired in September 2019.

Distribution Segment

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

The Distribution Segment delivered, in total, 24.6 TWh of electricity, including 23.86 TWh to the final consumers, in the first half of 2020. During this period the Distribution Segment provided the distribution services for 5.69 million consumers. In the same period of 2019 the Distribution Segment delivered, in total, 26.08 TWh of electricity to 5.63 million consumers, including 25.23 TWh to the final consumers.

Supply Segment

The 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 the related products, property rights arising from the certificates of origin of electricity, CO_2 emission allowances and fuels. The Supply Segment is supplying electricity to the business and mass customer segments, including households. Additionally, the Supply Segment supplies electricity to TAURON Dystrybucja subsidiary to cover grid losses related to electricity distribution.

In the first half of 2020 the Supply Segment subsidiaries supplied, in total, 15.98 TWh of retail electricity to approx. 5.6 million customers, both households, as well as businesses, i.e. 6% less than in the same period of the previou year.

Other operations

TAURON Capital Group's other organizational units provide support services for TAURON Capital Group's subsidiaries with respect to accounting, human resources management and data communications, conducted by TAURON Obsługa Klienta (TAURON Customer Service), as well as the activities related to the extraction of stone (rocks), including limestone, for the needs of the power, steel making, construction and road building sectors, as well as the production of sorbents for wet flue gas desulphurization installations and for use in fluidized bed boilers, conducted by Kopalnia Wapienia (KW) "Czatkowice". This segment also includes: Finanse Grupa TAURON dealing with the financial operations, Bioeko TAURON Group dealing mainly with the management (utilization) of the combustion and coal mining by-products, sourcing, transportation and processing of biomass, Wsparcie Grupa TAURON dealing mainly with real estate administration, property protection as well as technical maintenance of vehicles and PEPKH.

Sales revenue of the Other Operations Segment companies came in at PLN 536 thousand in the first half of 2020, which was higher by 11% than the revenue posted in the same period of 2019, with the main reason being the higher sales of the customer service and support services provided by the Shared Service Centers to TAURON Capital Group's subsidiaries.

Discontinued operations

The discontinued operations include the operations of TAURON Ciepło whose core operations comprise heat generation, supply and distribution as well as electricity generation by hard coal and biomass fired combined heat and power plants.

Total achievable capacity of TAURON Ciepło's generating units reached 0.3 GW of electric capacity and 1.2 GW of thermal capacity as of the end of June 2020.

Heat sales reached 6.9 PJ in the first half of 2020, i.e. 5% less as compared to the same period of 2019, which was a consequence of the higher outside temperatures year on year and the lower consumer demand.

In the first half of 2020 TAURON Ciepło produced 0.59 TWh of electricity, i.e. 29% less than last year (0.83 TWh), which was due to the lower sales of electricity from in-house production year on year and the adopted trading strategy (taking into account the market conditions).

4.4. TAURON Capital Group's financial position after H1 2020

4.4.1. Analysis of the financial position

The below table presents an analysis of TAURON Capital Group's financial position as of June 30, 2020, and December 31, 2019.

Table no. 18. Structure of TAURON Capital Group's interim abbreviated consolidated statement of the financial position as of June 30, 2020, and December 31, 2019

Consolidated statement of the financial position	As of March 31, 2020	As of December 31, 2019 (adjusted data)	Change in % 2020/2019
ASSETS			
Fixed assets	82.9%	83.6%	99%
Current assets	17.1%	16.4%	103%
TOTAL ASSETS	**100.0%**	**100.0%**	
EQUITY AND LIABILITIES			
Equity attributable to shareholders of the parent company	44.2%	43.4%	104%
Non-controlling shares	2.2%	2.1%	104%
Total equity	**46.4%**	**45.5%**	104%
Long term liabilities	40.4%	35.7%	111%
Short term liabilities	13.2%	18.8%	70%
Total liabilities	**53.6%**	**54.5%**	97%
TOTAL EQUITY AND LIABILITIES	**100.0%**	**100.0%**	
Financial liabilities	12 710 624	11 394 246	112%
Net financial liabilities	10 098 348	10 129 572	100%
Net debt/EBITDA ratio	2.66	2.81	94%
Current liquidity ratio	0.96	0.87	111%

Fixed assets represent 82.9% of total assets in the structure of assets, as of June 30, 2020, i.e. a 1% decline as compared to their share as of the end of 2019.

The share of current assets, as of June 30, 2019, as compared to their share as of the end of 2019, rose by 3%.

Liabilities represent 53.6% of total equity and liabilities in the structure of equity and liabilities, as of June 30, 2020, with the long term liabilities accounting for 40.4% and the short term liabilities constituting 13.2% of the balance sheet total, which means a change of the debt structure versus the end of 2019, when such shares were, respectively: 35.7% and 18.8%.

Net financial liabilities rose by 12% and the net debt to EBITDA ratio dropped to 2.66x (the ratio expressed in relation to EBITDA for the trailing 12 months) in the first half of 2020, as compared to 2019. The maximum level of covenant (net debt ratio/EBITDA) specified in some contracts concluded between the Company and the financial institutions is not less than 3.5x. Exceeding it could potentially trigger an immediate repayment of TAURON's obligations. Due to the upward trend of this ratio observed in the first half of 2020, TAURON undertook a number of initiatives aimed at reducing the risk of exceeding it, including, among others, caps (limits) on capital expenditures for TAURON Capital Group's individual subsidiaries were introduced and options that could have a positive impact on EBITDA were identified. In addition, in the second quarter of 2020, in accordance with the agreement signed between the workforce and the management boards of the subsidiaries regarding amendments to the provisions of the corporate collective bargaining agreements resulting in a change to the principles of the payout of a cash equivalent due to the discount for the consumption of electricity by the retirees, pensioners and other eligible persons who are not employees of the above mentioned subsidiaries, the provisions related to the employee tariff were dissolved. The above event had a positive impact on the EBITDA and, consequently, on the level of the covenant.

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, 2020, as well as the comparable data for the period of 6 months ended on June 30, 2019. These items are provided in accordance with the *Interim abbreviated consolidated financial statements of TAURON Capital Group, drawn up in compliance with the International Financial Reporting Standards, approved by the European Union, for the period of 6 months ended on June 30, 2020.*

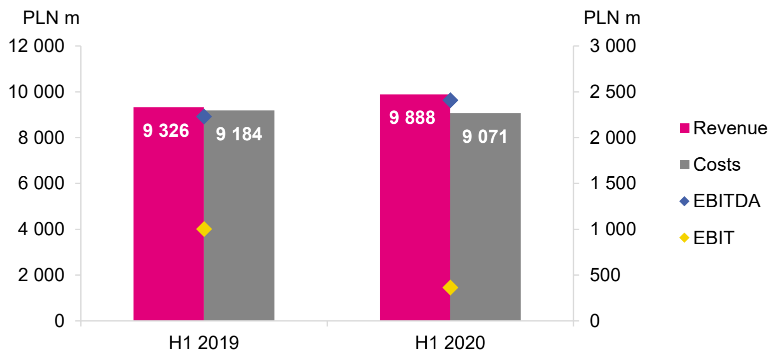
Table no. 19. TAURON Capital Group's interim abbreviated consolidated statement of comprehensive income for the first half of 2020 and for the first half of 2019

Item (PLN '000)	H1 2020 (unaudited)	H1 2019 (adjusted data)	Change in % 2020/2019
Sales revenue	9 888 017	9 325 844	106%
Compensations	0	721 502	0
Cost of goods sold	(9 071 329)	(9 184 191)	99%
including: impairment charge due to the loss of the carrying value of the non-financial fixed assets	(233 749)	(256 500)	91%
Other operating revenue and costs	281 900	11 478	2456%
Share in joint ventures' profits	40 914	50 025	82%
Operating profit	**1 139 502**	**924 658**	123%
Operating profit margin (%)	*11.5%*	*9.9%*	*116%*
Cost of interest on debt	(144 372)	(119 309)	121%
Other financial revenue and costs	(99 640)	(3 617)	2755%
Pre-tax profit	**895 490**	**801 732**	112%
Pre-tax profit margin (%)	*9.1%*	*8.6%*	105%
Income tax	(431 117)	(204 495)	211%
Net profit from the continued operations for the period	**464 373**	**597 237**	78%
Net profit margin from the continued operations (%)	*4.7%*	*6.4%*	144%
Net profit from the discontinued operations for the period	(781 455)	75 149	-
Net profit for the period	**(317 082)**	**672 386**	-
Net profit margin (%)	*-3.2%*	*7.2%*	-
Total comprehensive income for the period	**(507 837)**	**676 451**	-
Profit attributable to:			-
Shareholders of the parent entity	(506 656)	675 589	-
Non-controlling shares	(1 181)	862	-
EBIT and EBITDA			-
EBIT	**361 993**	**1 002 195**	36%
EBITDA	**2 407 723**	**2 228 777**	108%

The financial results generated by TAURON Capital Group in the first half of 2020 take into account the results of the impairment tests related to the loss of the carrying value of the fixed assets and intangible assets, in accordance with the information disclosed in the regulatory filing (current report) no. 37/2020 of August 5, 2020.

The below figure presents TAURON Capital Group's financial results for the first half of 2019 and for the first half of 2020.

Figure no. 23. TAURON Capital Group's financial results for the first half of 2019 and for the first half of 2020.

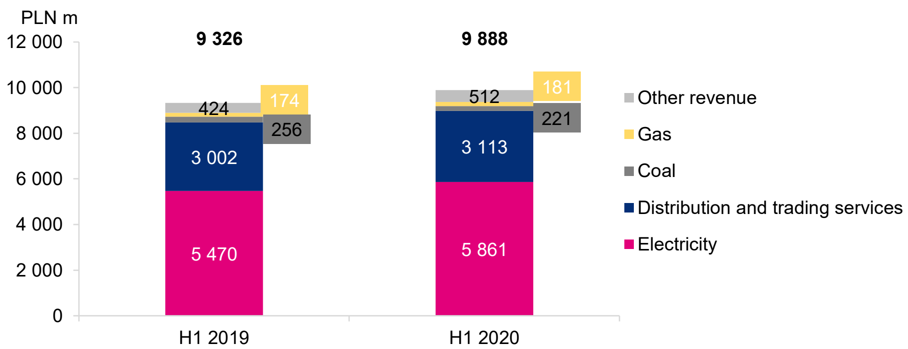


TAURON Capital Group generated 6% higher revenue in the first half of 2020 than the revenue reported for the first half of 2019, with the following factors responsible for it:

1. higher electricity sales revenue, which is a consequence of an increase in prices and a lower volume of electricity sold on the wholesale market and to the retail customers,
2. higher distribution and trading services sales revenue as a consequence of an increase of the distribution services rate along with the decline of the distribution service volume,
3. higher revenue from the valuation of certificates of origin of electricity received in connection with the higher electricity production generated by TAURON EKOENERGIA's wind farms and the wind farms acquired by TAURON Capital Group in September 2019,
4. higher heat sales revenue due to the higher sales volume which is related to adding heat generation to unit no. 10 at the Łagisza Power Plant,
5. lower hard coal sales revenue as a consequence of the lower volume.

The below figure presents TAURON Capital Group's revenue structure for the first half of 2019 and for the first half of 2020.

Figure no. 24. TAURON Capital Group's revenue structure for the first half of 2019 and for the first half of 2020



The costs of TAURON Capital Group's operations (operating expenses) came in at PLN 9.1 billion in the first half of 2020, i.e. they were 1% higher than the costs incurred in the first half of 2019, which was a consequence of the following factors:

1. higher costs of electricity sold, as a consequence of an increase in the purchase price year on year and, at the same time, the lower volume of electricity purchased on the market,
2. charging the *value of goods and materials sold* item with the resale transactions of the futures positions with the delivery date in December 2020 held on the power exchange, while at the same time purchasing the same volume in contracts with the delivery date in March 2021 from the counterparties on the OTC market. The above action was a consequence of a change in the hedging strategy involving a change of the method used to secure the Generation Segment's retirement needs. As a result of the above, a one-time swap of the exchange traded contracts with the delivery date in December 2020 to the OTC contracts with the delivery date in March 2021 was made. The decision to change the strategy was made taking into account the current market circumstances, difficult to predict at the time of the transaction, including: the rising costs of maintaining a position on the exchange, significantly higher than at the time of concluding the contracts, which is related to, among others, to the need to make ongoing margin payments; a change of the legal and market circumstances in the area of trading in the CO_2 emission allowances related to Brexit and the COVID-19 virus pandemic. Implementing the above mentioned strategy change, all of new transactions concluded on the OTC market will be used for the purpose of performing the retirement obligation by TAURON Capital Group's generation subsidiaries,

3. higher costs of the greenhouse gas emission allowances, which is the result of an increase in the price of the allowances and the lower CO_2 emissions by the generating units due to the lower production of electricity from the conventional sources. In addition, in the first quarter of 2019 TAURON Capital Group retired (settled), instead of the CO_2 emission allowances, the certified emission reduction (CER) units in the amount of 883 thousand, whose purchase price was much lower than the price of EUA,
4. lower labor costs, as a result of:
   a) recognition in the current period of the effects of the dissolution of the actuarial provisions by TAURON Capital Group's subsidiaries in connection with the amendment to the provisions of the corporate collective bargaining agreements of the subsidiaries with respect to the payout of a cash equivalent for the discounted use of electricity by the current employees of TAURON Capital Group who would acquire the rights to the tariff upon retirement or upon receiving a disability pension and other entitled persons,
   b) reduction of the working time in accordance with the signed agreement with the workforce, as a consequence of the COVID-19 pandemic,
   c) entry into force of the provisions of the wages agreement concluded with the workforce in September 2019, and therefore an increase in the costs of wages and social security premiums as well as the actuarial reserves,
   d) change in the discount rate from 2.1% to 1.5%, which led to an increase of the actuarial provisions,
   e) increase of the minimum wage,
   f) higher costs of the contribution to the Company's Social Benefits Fund, which is related to a 22% increase of the basis for its assessment,
   g) dissolution in 2019 of the provision related to the Voluntary Redundancy Program,
5. higher costs of the distribution services, which is due to an increase in the tariff for the distribution services for PSE, that entered into force on April 6, 2019 and January 1, 2020
6. higher costs of the other external services, which is associated with an increase of the rates for the purchased postal services, courier services and the multimedia customer service as well as of the cost of the services related to the performance of the task as part of the construction of the 910 MW unit at Jaworzno. In addition, the provision for the restoration of landfills was dissolved in the first half of 2019, which resulted in a reduction in the cost of the external services during this period,
7. higher costs of taxes and fees, mainly due to the costs of the real estate taxes on the wind farms acquired in September 2019 and the provision set up for the real estate tax in connection with the judgement of the Constitutional Tribunal of July 2020,
8. lower costs of the consumed materials and energy mainly as a result of a decrease in the costs of the consumed fuels, which is due to the lower electricity production in the first half of 2020 than in the same period of 2019. In addition, TAURON Capital Group booked the costs of the hard coal used to start up the 910 MW unit at Jaworzno in the current reporting period.
9. an increase in the hard coal inventory levels at TAURON Wydobycie and the Generation Segment Subsidiaries due to the lower demand for hard coal from the contractors from outside TAURON Capital Group and the lower electricity production due to the COVID-19 pandemic.

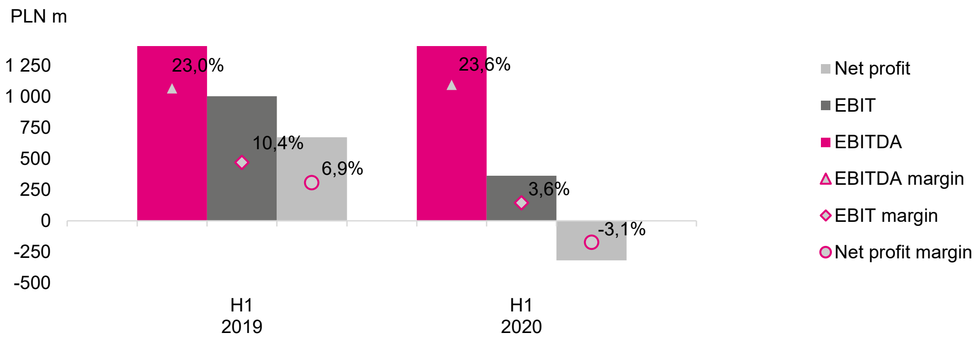
The EBITDA margin generated in the first half of 2020 came in at 24.3% and it was higher than the margin posted in the same period of 2019 by 0.5%. While the EBIT margin clocked in at 3.7% and it was lower by 7.1% than the margin achieved in the same period of 2019. The net profit margin realized in the reported period was negative, standing at -3.2%, and it was lower by 10.4 pp, which was mainly due to the booking of the impairment charge related to the loss of the carrying amount of TAURON Ciepło's net assets as of the moment of their revaluation to the fair value and the costs of the FX differences.

In accordance with the consolidated statement of comprehensive income presented, the total comprehensive income of TAURON Capital Group, taking into account the net profit increased or decreased by the change in the value of the hedging instruments, the FX differences arising from the conversion of a foreign unit and the other revenue, after tax, reached PLN -508 million in the first half of 2020, as compared to PLN 676 million generated in the same period of 2019.

The total income attributable to the shareholders of the parent company came in at PLN -507 million, as compared to PLN 676 million posted a year ago, while the net profit attributable to the shareholders of the parent company stood at PLN -316 million, as compared to PLN 672 million posted in the same period of 2019.

The below figure presents TAURON Capital Group's financial results and the margins generated in the first half of 2019 and in the first half of 2020.

Figure no. 25. TAURON Capital Group's financial results and the margins generated in the first half of 2019 and in the first half of 2020



4.4.2. Financial results by the Segments of operations (lines of business)

The below table presents TAURON Capital Group's EBITDA by the individual Segments of operations (lines of business) in the first half of 2020 and in the second quarter of 2020 as compared to the same periods of 2019. The data for the individual Segments of operations do not include the consolidation related exclusions.

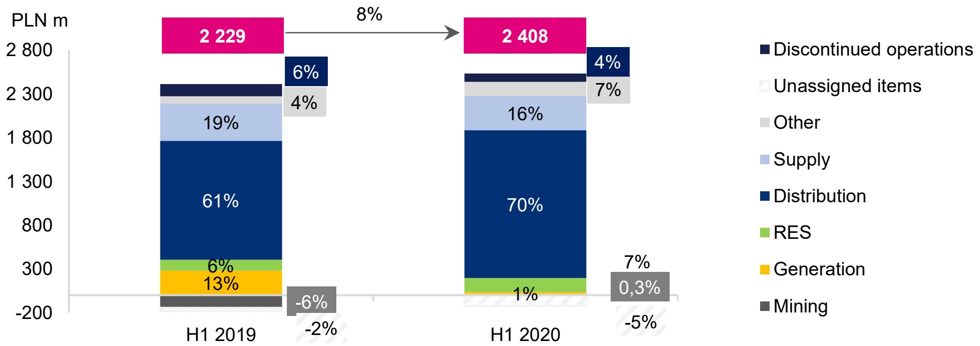
Table no. 20. TAURON Capital Group's EBITDA by the individual Segments of operations (lines of business) in the first half of 2020 and in the second quarter of 2020 as compared to the same periods of 2019

EBITDA (PLN '000)	H1 2020	H1 2019*	Change in % 2020/2019	Q2 2020	Q2 2019*	Change in % 2020/2019
Mining	**6 776**	(142 925)	-	**43 131**	(98 644)	-
Generation	**26 238**	280 878	9%	**28 445**	69 009	41%
RES	**163 565**	124 438	131%	**42 495**	52 557	81%
Distribution	**1 688 700**	**1 357 304**	124%	**1 005 157**	**656 334**	153%
Supply	**390 505**	423 242	92%	**208 073**	258 311	81%
Other operations	**162 379**	84 462	192%	**123 599**	40 018	309%
Unassigned items and exclusions	**(122 221)**	(38 215)	320%	**(28 946)**	(12 729)	227%
EBITDA from the continued operations	**2 315 942**	**2 089 184**	**111%**	**1 434 591**	**964 858**	**149%**
EBITDA from the discontinued operations	**91 784**	139 593	66%	**15 733**	31 596	50%
Total EBITDA	**2 407 723**	**2 228 777**	**108%**	**1 450 321**	**996 454**	**146%**

**adjusted data*

The below figure presents TAURON Capital Group's EBITDA structure for the first half of 2019 and for the first half of 2020.

Figure no. 26. TAURON Capital Group's EBITDA structure for the first half of 2019 and for the first half of 2020



The Distribution Segment and the Supply Segment make the biggest contributions to TAURON Capital Group's EBITDA.

4.4.2.1. Mining Segment

The below table presents the Mining Segment's results for the first half of 2020 and for the first half of 2019.

Table no. 21. Mining Segment's results for the first half of 2020 and for the first half of 2019.

Item (PLN '000)	H1 2020	H1 2019*	Change in % 2020/2019
Mining			
Sales revenue	**502 971**	**531 690**	95%
hard coal – large and medium size lump coal	*126 173*	*119 233*	*106%*
thermal coal	*350 049*	*389 778*	*90%*
other products, materials and services	*26 749*	*22 679*	*118%*
EBIT	**(271 305)**	**(511 331)**	-
Depreciation and write-offs	278 081	368 406	75%
EBITDA	**6 776**	**(142 925)**	-

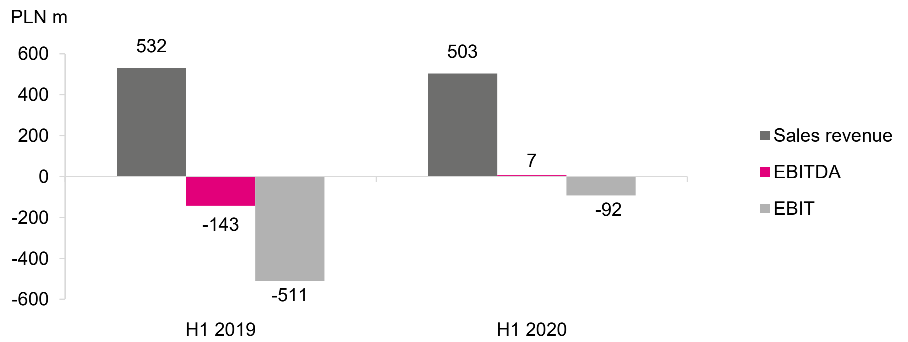
**adjusted data*

The Mining Segment's EBITDA and EBIT were higher in the first half of 2020 than in the same period of 2019. The results posted were impacted by the following factors:

1. an increase in the average coal price by 9%, i.e. from 232.76 PLN/Mg to 253.52 PLN/Mg, which was mainly due to an increase of the price of coal dust from 220.08 PLN/Mg to 243.05 PLN/Mg,
2. lower commercial coal sales volume by 14% as a result of the lower sales of the coal dust by 19% and the higher sales of the large size lump coal assortment by 13% and the medium size lump coal assortment by 20%,
3. receipt of the financing aid as part of the government anti-crisis shield package program,
4. other - mainly the allocation of costs to the balance sheet due to a decrease in coal sales and its placement on heaps.

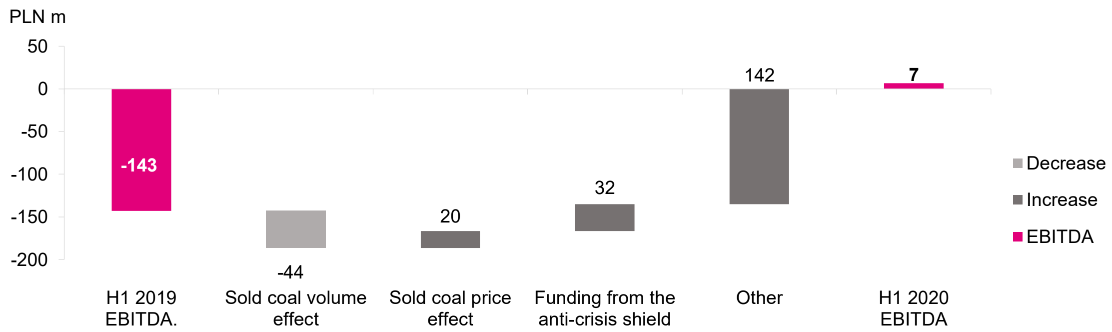
The below figure presents the Mining Segment's financial data for the first half of 2019 and for the first half of 2020.

Figure no. 27. Mining Segment's financial data for the first half of 2019 and for the first half of 2020



The below figure presents the Mining Segment's EBITDA, including the material factors impacting the change year on year.

Figure no. 28. Mining Segment's EBITDA, including the material factors impacting the change year on year



4.4.2.2. Generation Segment

The below table presents the Generation Segment's results for the first half of 2020 and for the first half of 2019.

Table no. 22. Generation Segment's results for the first half of 2020 and for the first half of 2019

Item (PLN '000)	H1 2020	H1 2019*	Change in % 2020/2019
Generation			
Sales revenue	**1 552 326**	**1 721 686**	**90%**
electricity	*1 384 820*	*1 602 971*	*86%*
heat	*81 996*	*63 492*	*129%*
property rights related to certificates of origin of electricity	*63 584*	*32 769*	*194%*
other	*21 926*	*22 454*	*98%*
EBIT	**-155 478**	**173 709**	**-**
Depreciation and write-offs	181 716	107 168	170%
EBITDA	**26 238**	**280 877**	**9%**

**adjusted data*

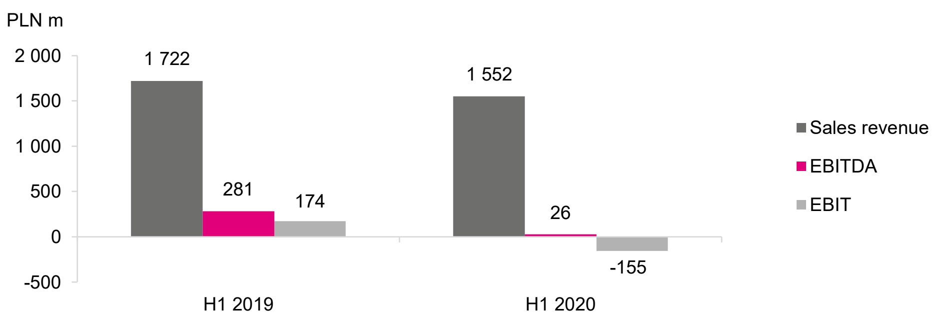
Generation Segment's sales revenue was 10% lower in the first half of 2020, as compared to the same period of 2019, mainly due to the lower electricity sales revenue (lower sales volume).

The Generation segment's EBITDA and EBIT were lower in the first half of 2020 than in the same period of 2019. The results posted were affected by the following factors:

1. lower margin on electricity (hard coal fired units) – primarily due to the lower Clean Dark Spread (CDS) year on year and the drop of the electricity sales volume. The CDS was materially positively impacted in 2019 by including 883 thousand Certified Emission Reduction (CER) units in the cost of the provision set up in connection with the obligation to present the CO_2 emission allowances to be retired,
2. higher margin on electricity (biomass fired units) – due to the higher PMOZE prices, as well as the higher production volume,
3. a swap of the CO_2 emission allowance purchase contracts – in the first quarter of 2020 TAURON Capital Group made a decision to change the hedging strategy related to securing the Generation Segment's retirement needs, involving a one-time swap of the exchange traded contracts with the delivery date in December 2020 to the OTC contracts with the delivery date in March 2021. All of the new transactions concluded on the OTC market will be used for the purpose of performing the retirement obligation by TAURON Capital Group's generation subsidiaries. The above transactions led to a charge to the Generation Segment's EBITDA result in the amount of PLN 112 million. At the same time, the completed purchase of the volume with the delivery date in March 2021 from the counterparties on the OTC market, taking into account the decrease of the CO_2 emission allowances prices at the time of the transaction, will lead to the reduction of the costs of TAURON Capital Group setting up a provision for the CO_2 emission liabilities for 2020.
4. receipt of the financing aid as part of the government anti-crisis shield package program,
5. other - primarily: dissolving of the provision related to the reclamation of the combustion waste landfill in the first quarter of 2019, the lower result of TAMEH year on year and the higher costs of the property insurance year on year).

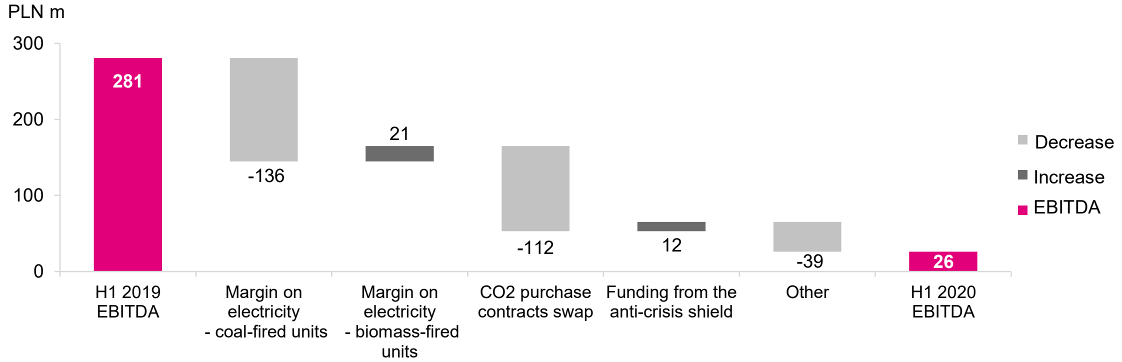
The below figure presents the Generation Segment's financial data for the first half of 2019 and for the first half of 2020.

Figure no. 29. Generation Segment's financial data for the first half of 2019 and for the first half of 2020.



The below figure presents the Generation Segment's EBITDA, including the material factors impacting the change year on year.

Figure no. 30. Generation Segment's EBITDA, including the material factors impacting the change year on year



4.4.2.3. RES Segment

The below table presents the RES Segment's results for the first half of 2020 and for the first half of 2019.

Table no. 23. RES Segment's results for the first half of 2020 and for the first half of 2019

Item (PLN '000)	H1 2020	H1 2019*	Change in % 2020/2019
RES			
Sales revenue	**349 022**	**212 631**	164%
Electricity	*156 235*[2]	*122 768*	*127%*
Certificates of origin of electricity	*190 068*	*88 849*	*214%*
Other	*2 720*	*1 014*	*268%*
EBIT	**104 859**	**79 424**	132%
Depreciation and write-offs	75 482	45 014	168%
EBITDA	**180 341**	**124 438**	145%

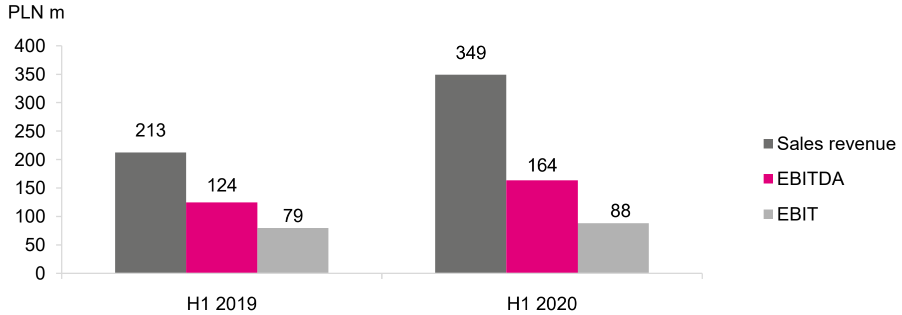
**adjusted data*

RES segment's EBITDA and EBIT were higher in the first half of 2020 than in the same period of 2019. The results posted were affected by the following factors:

1. a higher margin on electricity sales - mainly due to the higher electricity production by the wind farms due to the more favorable wind conditions, and the operation of the wind farms acquired in September 2019. The effect was partially offset by a drop of the electricity sales prices and a lower production volume by the hydro power plants as a result of the worse hydrological conditions,
2. higher revenues from the certificates of origin of electricity, which is a consequence of the higher property rights prices and the higher volume as a result of the higher production by the wind farms and the lower production by the hydro power plants,
3. higher fixed costs mainly as a result of setting up, in June 2020, of the provision for the real estate tax as a result of the judgement of the Constitutional Tribunal of July 2020 with respect to the constitutionality of the definition of a building structure and the costs of operating the wind farms acquired in September 2019.

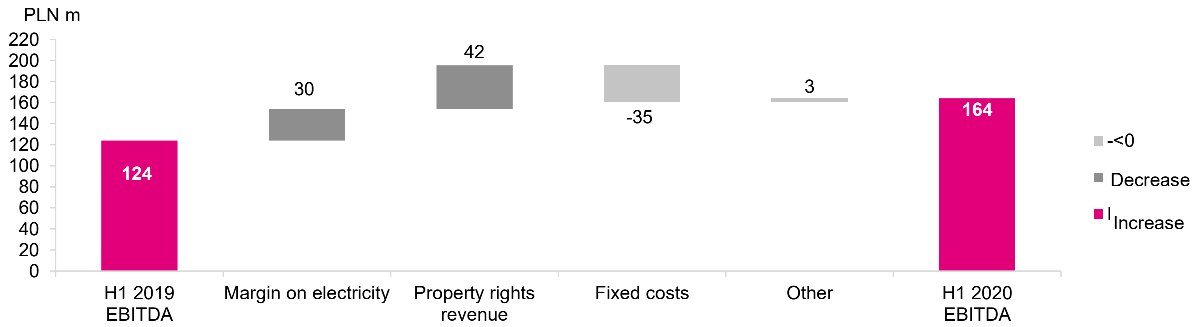
The below figure presents the RES Segment's financial data for the first half of 2019 and for the first half of 2020.

Figure no. 31. RES Segment's financial data for the first half of 2019 and for the first half of 2020



The below figure presents the RES Segment's EBITDA, including the material factors impacting the change year on year.

Figure no. 32. RES Segment's EBITDA, including the material factors impacting the change year on year



4.4.2.4. Distribution Segment

The below table presents the Distribution Segment's results for the first half of 2020 and for the first half of 2019.

Table no. 24. Distribution Segment's results for the first half of 2020 and for the first half of 2019

Item (PLN '000)	H1 2020	H1 2019*	Change in % 2020/2019
Distribution			
Sales revenue	**3 358 558**	**3 275 342**	103%
distribution services	*3 275 963*	*3 188 105*	*103%*
connection fees	*34 694*	*39 827*	*87%*
power line collisions fixing	*11 528*	*12 127*	*95%*
other revenue	*36 373*	*35 283*	*103%*
EBIT	**1 115 446**	**778 076**	143%
Depreciation and write-offs	573 254	579 228	99%
EBITDA	**1 688 700**	**1 357 304**	124%

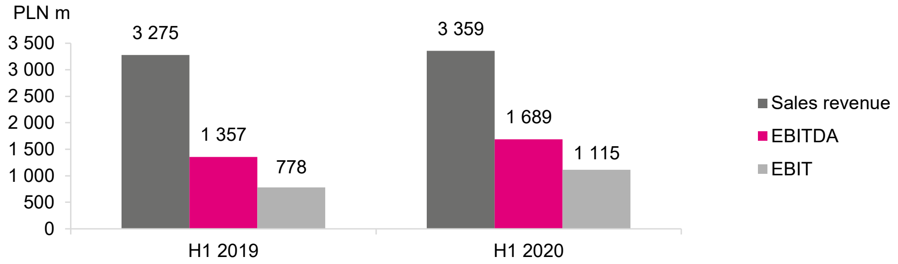
**adjusted data*

The Distribution Segment reported a 3% sales revenue increase, while EBIT and EBITDA went up by, respectively, 43% and 24% in the first half of 2020, as compared to the same period of 2019. The results posted were affected by the following factors:

1. increase of the average rate for the distribution service sales to the final consumers,
2. decline of the total electricity delivery by 1 488 GWh, including to the final consumers by 1 372 GWh, first of all in the B, C and A tariff groups, as a result of the economic slowdown and the visible impact of the SARS-CoV-2 pandemic on the economy,
3. higher costs of purchasing the transmission services as a result of an increase of the variable and fixed grid rates (fees),
4. an increase of the revenue from the passive energy,
5. an increase of the costs of purchasing electricity to cover the balancing difference as a result of the higher volume, the higher purchase price and the upward adjustment,
6. dissolution of the provision for the payment of the equivalent for electricity,
7. a rise of the other fixed costs, including labor costs due to the wages agreements signed, as well as the costs of the taxes on the grid assets due to the increase of the value of the assets as a result of the investment projects conducted.

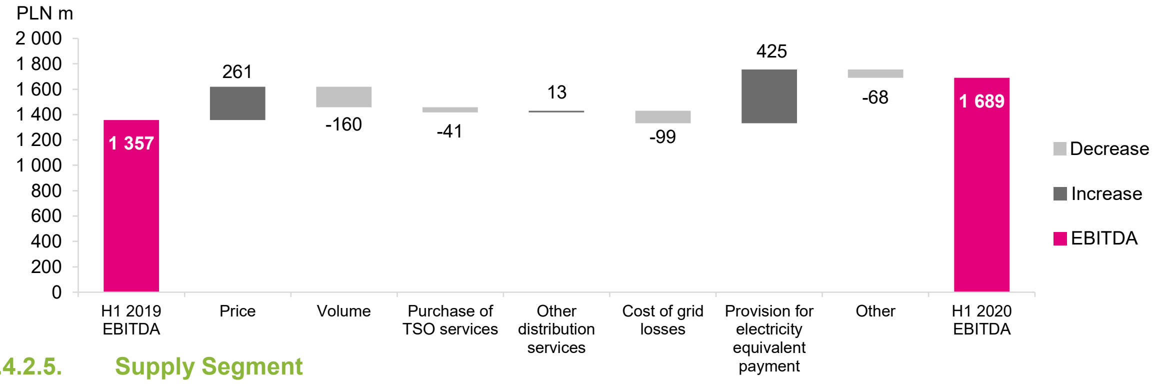
The below figure presents the Distribution Segment's financial data for the first half of 2019 and for the first half of 2020.

Figure no. 33. Distribution Segment's financial data for the first half of 2019 and for the first half of 2020



The below figure presents the Distribution Segment's EBITDA, including the material factors impacting the change year on year.

***Figure no. 34.* Distribution Segment's EBITDA, including the material factors impacting the change year on year**



4.4.2.5. Supply Segment

The below table presents the Supply Segment's results for the first half of 2020 and for the first half of 2019.

Table no. 25. Supply Segment's results for the first half of 2020 and for the first half of 2019

Item (PLN '000)	H1 2020	H1 2019*	Change in % 2020/2019
Supply			
Sales revenue	**8 014 501**	**6 924 793**	116%
electricity, including:	*5 377 548*	*4 649 992*	*116%*
retail electricity supply revenue	*4 672 803*	*3 859 395*	*121%*
greenhouse gas emission allowances	*169 481*	*2 116*	*8008%*
fuels	*745 744*	*633 392*	*118%*
distribution service (passed on)	*1 612 380*	*1 532 424*	*105%*
other services, incl. trading services	*109 348*	*106 869*	*102%*
EBIT	**379 186**	**403 630**	**94%**
Depreciation and write-offs	23 718	19 612	121%
EBITDA	**402 904**	**423 242**	**95%**

**adjusted data*

The Supply Segment's sales revenue was 16% higher in the first half of 2020 as compared to the same period of 2019, mainly due to the higher electricity sales revenue (higher electricity sales price) and the higher fuel sales revenue (higher coal and gas fuel sales volumes).

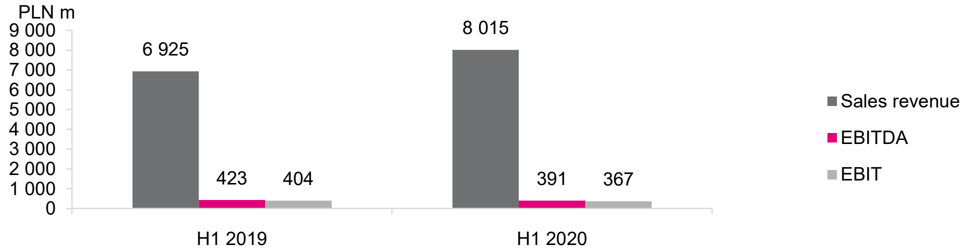
The Supply Segment's EBITDA and EBIT were lower in the first half of 2020 than in the same period of 2019. The results posted were affected by the following factors:

1. electricity volume and prices – a positive impact on the result is caused by the result generated on the electricity wholesale trading due to the completion of the buybacks of the volume contracted for the Nowe Jaworzno TAURON Group unit, and an increase of the electricity retail sales prices (increase of the tariff prices and price lists),

2. property rights prices – a negative impact on the result due to an increase of the prices of the *green certificates* (PMOZE),
3. obligation to retire the property rights – a negative impact on the result is a consequence of an increase of the obligation related to the *green certificates* (PMOZE) from 18.5% to 19.5%,
4. other – the recognized result on the sale of the other market (commercial) products, street lighting, the higher costs of sale and the balance of the other operations.

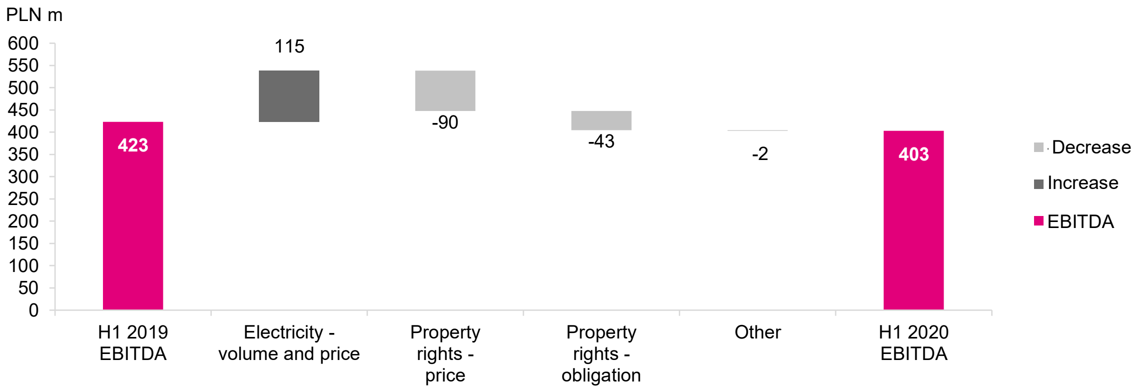
The below figure presents the Supply Segment's financial data for the first half of 2019 and for the first half of 2020.

Figure no. 35. Supply Segment's financial data for the first half of 2019 and for the first half of 2020



The below figure presents the Supply Segment's EBITDA, including the material factors impacting the change year on year.

Figure no. 36. Supply Segment's EBITDA, including the material factors impacting the change year on year.



4.4.2.6. Other Operations

The below table presents the Other Operations Segment's results for the first half of 2020 and for the first half of 2019.

Table no. 26. Other Operations Segment's results for the first half of 2020 and for the first half of 2019

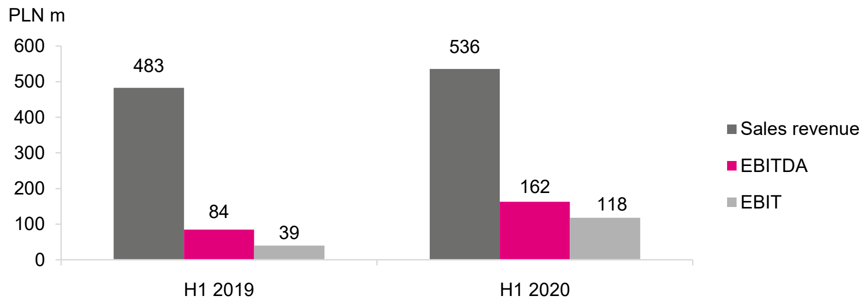
Item (PLN '000)	H1 2020	H1 2019*	Change in % 2020/2019
Other Operations			
Sales revenue	**535 951**	**482 929**	**111%**
customer service	*119 809*	*105 003*	*114%*
support services	*244 034*	*225 953*	*108%*
aggregates	*48 208*	*49 654*	*97%*
biomass	*70 646*	*62 209*	*114%*
other revenue	*53 255*	*40 111*	*133%*
EBIT	**118 190**	**39 365**	**300%**
Depreciation and write-offs	-44 189	-45 097	98%
EBITDA	**162 379**	**84 462**	**192%**

**adjusted data*

Other Operations Segment subsidiaries' sales revenue was higher (by 11%) in the first half of 2020 than in the same period of 2019, which was primarily due to the higher sales of the customer service and support services provided by the Shared Services Centers for TAURON Capital Group's subsidiaries.

The below figure presents the Other Operations Segment's financial data for the first half of 2019 and for the first half of 2020.

Figure no. 37. Other Operations Segment's financial data for the first half of 2019 and for the first half of 2020.



4.4.2.7. Discontinued operations

The below table presents the Discontinued operations' results for the first half of 2020 and for the first half of 2019.

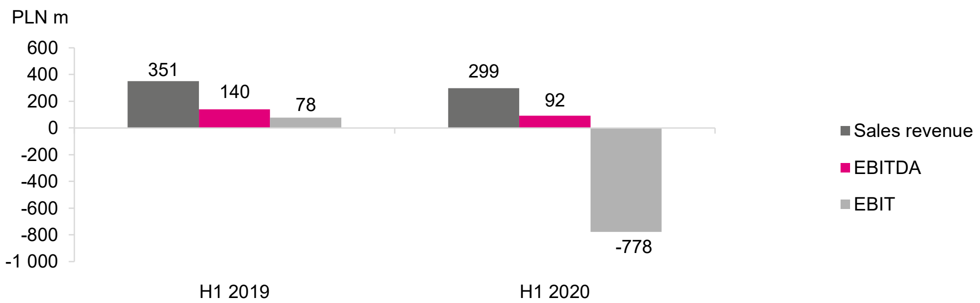
Table no. 27. Discontinued operations' results for the first half of 2020 and for the first half of 2019

Item (PLN '000)	H1 2020	H1 2019*	Change in % 2020/2019
Other Operations			
Sales revenue	**298 761**	**350 508**	**85%**
EBIT	**-777 506**	**77 536**	**-**
Depreciation and write-offs	-869 290	-62 057	-
EBITDA	**91 784**	**139 593**	**66%**

**adjusted data*

The below figure presents the Discontinued operations' results for the first half of 2019 and for the first half of 2020.

Figure no. 38. Discontinued operations' results for the first half of 2019 and for the first half of 2020



As of the day of placing TAURON Ciepło's net assets in the group for disposal, classified as held for sale, TAURON Capital Group performed a valuation of the group for disposal at fair value (mark to market). The fair value was determined at PLN 1 343 000 thousand. Due to the fact that the fair value of the group for disposal is lower than its current book value, TAURON Capital Group took an impairment charge related to the loss of the carrying value of the non-financial fixed assets in the amount of PLN 806 419 thousand.

4.4.3. Assets

The below table presents the consolidated statement of financial position – assets as of June 30, 2020 and December 31, 2019.

Table no. 28. Interim abbreviated consolidated statement of financial position – assets (material items) as of June 30, 2020 and December 31, 2019

Statement of financial position (PLN '000)	As of June 30, 2020 (unaudited)	As of December 31, 2019 (adjusted data)	Change in % 2020/2019
ASSETS			
Fixed assets	**33 188 440**	**35 052 287**	95%
Tangible fixed assets	29 682 973	31 099 071	95%
Current assets	**6 821 897**	**6 865 478**	99%

Statement of financial position (PLN '000)	As of June 30, 2020 (unaudited)	As of December 31, 2019 (adjusted data)	Change in % 2020/2019
Cash and equivalents	634 837	1 237 952	51%
Fixed assets and the assets of the group for disposal, classified as held for trade	1 731 004	22 710	7 622%
TOTAL ASSETS	**40 010 337**	**41 917 765**	**95%**

As of June 30, 2020, TAURON Capital Group's statement of financial position shows the balance sheet total that is 5% lower, as compared to the balance sheet total as of December 31, 2019.

The below figures present the change in assets and current assets as of December 31, 2019, and June 30, 2020.

Figure no. 39. Change in assets as of December 31, 2019, and June 30, 2020

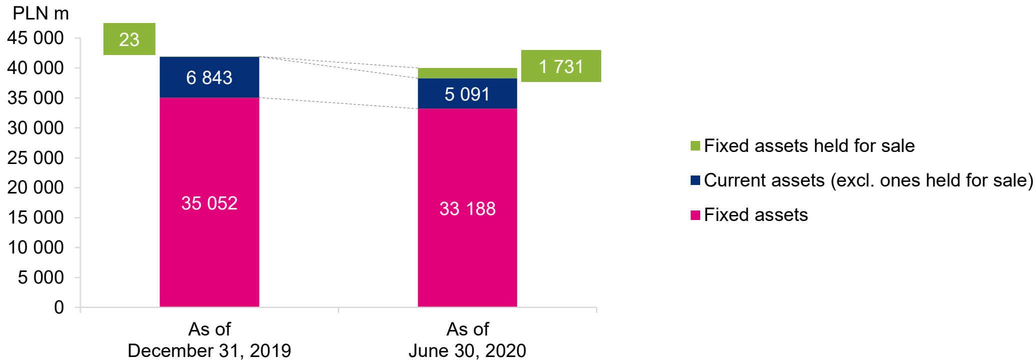
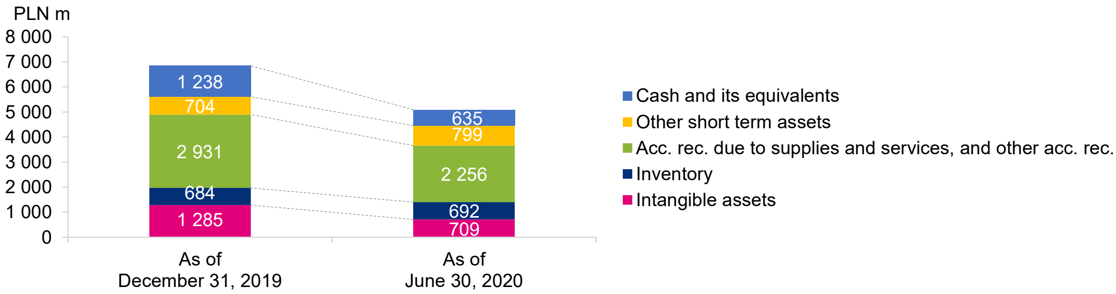


Figure no. 40. Change in current assets as of December 31, 2019, and June 30, 2020



Fixed assets represent the biggest item of the assets as of the end of June 2020, constituting 82.9% of the balance sheet total. As compared to the end of 2019, the value of the fixed assets is lower by PLN 1 864 million (5%), which was most influenced by the event related to the reclassification of TAURON Ciepło assets as held for sale (disposal). Excluding the above event, the value of the fixed assets as of the balance sheet date was at the same level as at the end of 2019. In addition, the following factors had an impact on the change in the value of the fixed assets:

1. tangible fixed assets – an increase by 1% is a result of the investment projects implemented by TAURON Capital Group's subsidiaries,
2. certificates of origin of electricity and the gas emission allowances to be retired – a decline by 77% due to the reclassifying of the certificates of origin of electricity and the CO_2 emission allowances as current assets held in order to fulfill the obligation related to the retirement of the above mentioned assets,
3. loans granted to the joint ventures – a rise by 28% due to the loan granted to the Company and the update of the valuation of the loan valued at fair value (marked to market),
4. other financial assets – a drop by 15%,
5. other non-financial assets – a drop by 14%,
6. deferred income tax assets - increase by 25%.

The following factors had an impact on the decline in the value of the current assets by PLN 44 million (1%):

1. recognition (booking) of the net assets of TAURON Ciepło classified as assets held for sale, which is related to the project conducted by TAURON Capital Group aimed at the market verification of the possibility of the sale of the shares in the TAURON Ciepło subsidiary and the potential continuation of the sale process,
2. balance of cash on hand and equivalents – a decline by 49%. The information on the reasons for the change is provided in section 4.4.4 of this report,
3. certificates of origin of electricity and the CO_2 emission allowances to be retired – a drop by 45% which is the result of the following events:

   a) transfer of the CO_2 emission allowances and certificates of origin of electricity for retirement due to the statutory settlement (retirement) for 2019,

b) recognition (booking) of the certificates of origin of electricity acquired or produced in-house for the fulfillment of the obligation to retire property rights,
c) reclassifying as short term assets a part of the property rights and the CO_2 emission allowances held, originally classified as long term assets, that were reclassified due to their allocation for the needs of the current fulfilling of the obligation to retire the above mentioned assets,

4. accounts receivable from the consumers – a fall by 8%,
5. accounts receivable due to income tax – a slump by 100% in connection with the received inflow due to the settlement of the corporate income tax for 2019,
6. loans granted to the joint ventures – a surge by 198%, as a result of updating of the loan valuation to fair value (mark to market),
7. accounts receivable due to the other taxes and fees – a fall by 64% mainly due to the settlement of the VAT which was the result of the transaction to purchase the CO_2 emission allowances by the Generation Segment subsidiaries from the parent entity,
8. other financial assets – an increase by 7%, which is the result of an increase in the valuation of the derivative instruments and the value of the variation margins due to the settlements of the exchange transactions along with a decrease in the value of the initial margins due to the settlements of the exchange transactions. In addition, the settlement in 2020 of the accounts receivable due to the compensations for the trading companies and the sale of the investment funds' participation units had an impact on the change in the value of the other financial assets,
9. other non-financial assets – an increase by 41%.

The below table presents the consolidated statement of financial position – equity and liabilities as of June 30, 2020 and December 31, 2019.

Table no. 29. Interim abbreviated consolidated statement of financial position – equity and liabilities (material items) as of June 30, 2020 and December 31, 2019

Statement of financial position (PLN '000)	As of June 30, 2020 (unaudited)	As of December 31, 2019 (adjusted data)	Change in % 2020/2019
EQUITY AND LIABILITIES			
Equity attributable to shareholders of the parent entity	**17 684 743**	18 192 226	97%
Non-controlling shares	899 840	900 434	100%
Total equity	**18 584 583**	**19 092 660**	97%
Long term liabilities	**16 145 402**	**14 963 274**	108%
Liabilities due to debt	13 177 984	11 830 183	111%
Short term liabilities	**5 280 352**	**7 861 831**	67%
Liabilities due to debt	476 666	2 484 093	19%
Total liabilities	**21 425 775**	**22 825 105**	94%
TOTAL EQUITY AND LIABILITIES	**40 010 337**	**41 917 765**	**95%**

The below figures present the change in equity and liabilities, as well as equity attributable to majority shareholders as of December 31, 2019, and June 30, 2020.

Figure no. 41. Change in equity and liabilities as of December 31, 2019, and June 30, 2020

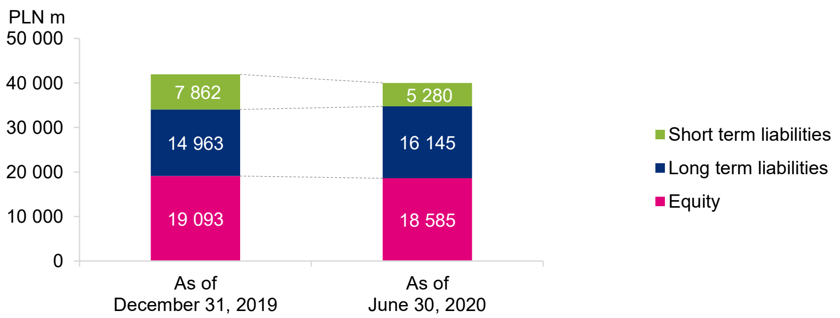
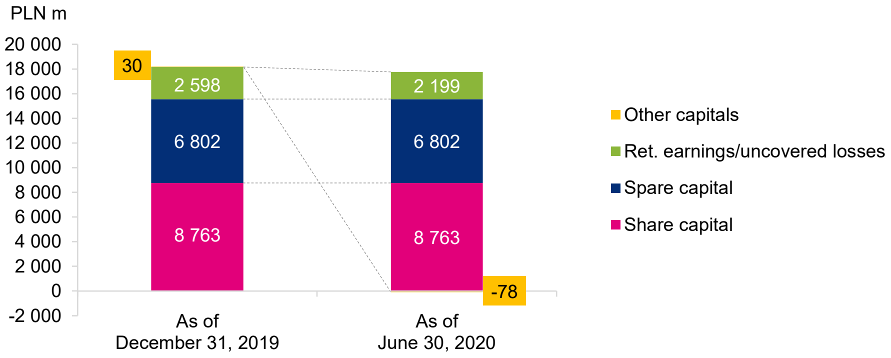


Figure no. 42. Change in equity attributable to majority shareholders as of December 31, 2019, and June 30, 2020r



Similar as in the previous years, equity continues to be a material source of financing the assets and its share in the balance sheet total stands at 46.4%.

The below figures present the change in the long term and short term liabilities as of December 31, 2019, and June 30, 2020.

Figure no. 43. Change in long term liabilities as of December 31, 2019, and June 30, 2020

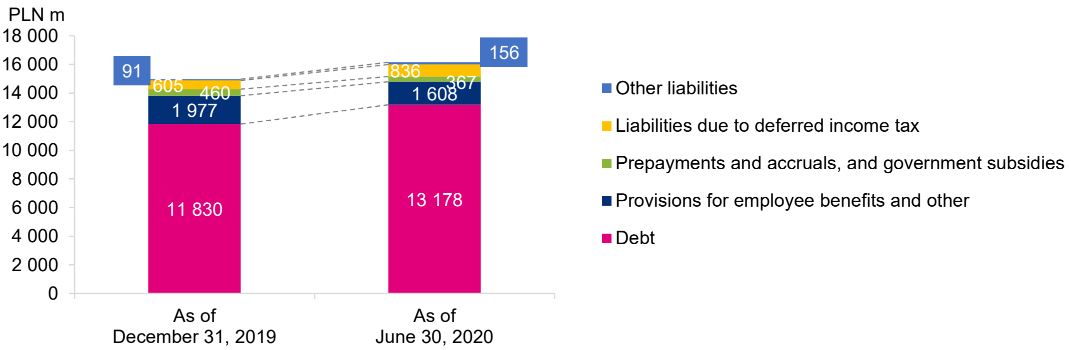
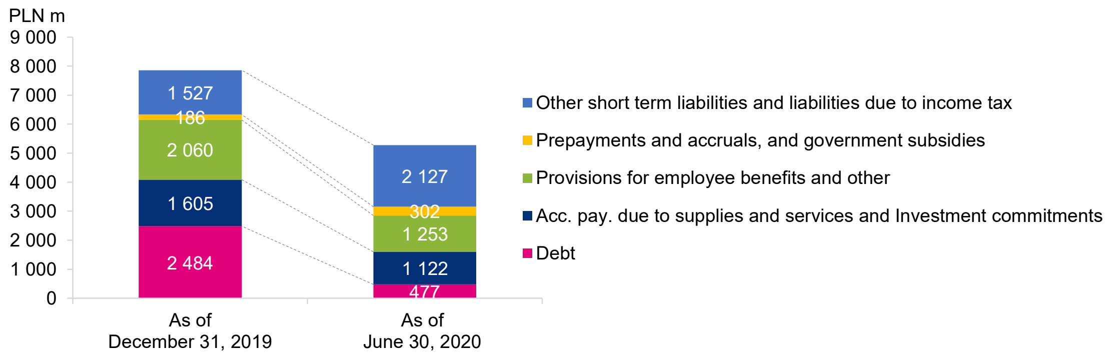


Figure no. 44. Change in short term liabilities as of December 31, 2019, and June 30, 2020



The amount of TAURON Capital Group's long term liabilities went up by PLN 1 182 million (8%) in the first half of 2020, which, apart from the reclassifying, was mainly a consequence of the following factors:

1. reclassifying of some liabilities as liabilities related to the assets classified as net assets of TAURON Ciepło held for sale, which is related to the project conducted by TAURON Capital Group aimed at the market verification of the possibility of the sale of the shares in the TAURON Ciepło subsidiary and the potential continuation of the sale process,
2. liabilities due to debt – an increase by 11% as a result of taking out loans worth PLN 1 250 million in the first quarter of 2020 and an increase of the value of the bonds issued in a foreign currency as a result of a rise of the FX rate as of June 30, 2020, as compared to the FX rate as of December 31, 2019,
3. liabilities due to the deferred income tax – a rise by 38%,
4. provisions for the employee benefits – a drop by 30% in connection with the dissolution of the provisions for the employee tariff which is an effect of the agreement concluded in May 2020 and the signing of the additional protocols between the management boards of the subsidiaries and the workforce that amended the provisions of the corporate collective bargaining agreements of the subsidiaries with respect to the payout of a cash equivalent due to the discount for the consumption of electricity by the retirees, pensioners and other eligible persons who were no longer employees of the above mentioned subsidiaries.

5. other non-financial assets – a drop by 23%,
6. other financial assets – an increase by 85%.

The amount of TAURON Capital Group's short term liabilities went down by PLN 2 581 million (by 33%), which was primarily a consequence of the following factors:

1. reclassifying of some liabilities as liabilities related to the assets classified as net assets of TAURON Ciepło held for sale, which is related to the project conducted by TAURON Capital Group aimed at the market verification of the possibility of the sale of the shares in the TAURON Ciepło subsidiary and the potential continuation of the sale process,
2. liabilities due to debt – a drop by 81%,
3. accounts payable towards the suppliers – a decline by 13% and investment commitments – a drop by 49%,
4. provisions for the employee benefits – a drop by 14% in connection with the dissolution of the provisions for the employee tariff, which is described in more detail in the above section 4,
5. provisions – a drop by 50%, mainly as a result of using up (consuming) the provision, set up in 2019, related to the obligations due to the emissions of gases and the certificates of origin of electricity for 2019 in connection with the fulfillment, by the subsidiaries, of the statutory obligations related thereto and the setting up of the provision related to the obligations due to the emissions of the CO_2 gases and the certificates of origin of electricity for the first quarter of 2020,
6. other provisions – a decrease by 19%,
7. prepayments and accruals, and government subsidies – a rise by 63%,
8. accounts payable due to taxes and fees – a drop by 16%, which is the result of the lower accounts payable due to the VAT tax and the personal income tax and an increase of the accounts payable due to the social security. The decrease of the accounts payable due to the VAT tax is primarily due to the settlement, within the period of the six months ended on June 30, 2020, of the liability due to the VAT tax as of December 31, 2019, stemming from the transaction involving the sale by the Company of the CO_2 emission allowances to the Generation Segment subsidiaries,
9. other financial liabilities – an increase by 45% as a consequence of the rise of the variation margins' value due to the settlements of the exchange transactions and the decline of the accounts payable due to wages,
10. other non-financial liabilities – an increase by 14% primarily as a consequence of the rise of the received overpayments from the customers and an excess of liabilities over assets of the Company's Social Benefits Fund.

4.4.4. Cash flows

Consolidated cash flow statement

The below table presents the selected information from the interim abbreviated cash flow statement for the first half of 2020 and for the first half of 2019.

Table no. 30. Interim abbreviated cash flow statement for the first half of 2020 and for the first half of 2019

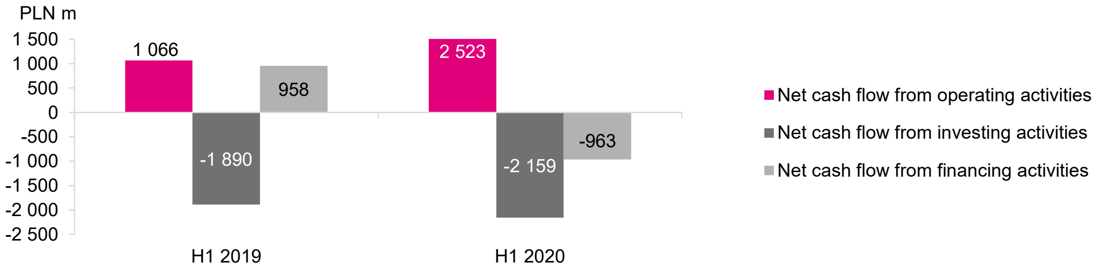
Cash flow statement (PLN '000)	H1 2020 (unaudited)	H1 2019 (adjusted data)	Change in % 2020/2019
Cash flows from operating activities			
Pre-tax profit	116 783	881 950	13%
Adjustments	2 406 494	183 748	1310%
Net cash flows from operating activities	**2 523 280**	**1 065 698**	237%
Cash flows from investing activities			
Sale of tangible fixed assets and intangible assets	7 230	13 255	55%
Purchase of tangible fixed assets and intangible assets	(2 100 411)	(1 919 658)	109%
Repayment of the loans granted	5 401	3 770	143%
Granting of loans	(78 475)	(10 375)	756%
Net cash flows from investing activities	**(2 158 988)**	**(1 889 762)**	114%
Cash flows from financing activities			
Issuance of debt securities	0	500 000	
Redemption of debt securities	(3 100)	(670 000)	0%
Proceeds from credits/loans taken out	2 200 000	1 000 000	220%

Cash flow statement (PLN '000)	H1 2020 (unaudited)	H1 2019 (adjusted data)	Change in % 2020/2019
Repayment of loans/credits	(3 046 380)	(58 580)	5200%
Interest paid	(46 818)	(21 787)	215%
Net cash flows from financing activities	**(963 214)**	**957 628**	-
Increase / (decrease) in net cash and equivalents	**(598 922)**	**133 564**	-
Cash opening balance	**1 203 601**	**807 972**	149%
Cash closing balance	**604 679**	**941 536**	271%

The total amount of all net flows of cash from operating, investing and financing activities in the first half of 2020 was negative and came in at PLN (604) million.

The below figure presents cash flows in the first half of 2019 and in the first half of 2020.

Figure no. 45. Cash flows in the first half of 2019 and in the first half of 2020



The amount of cash flows from operating activities in the first half of 2020 came in at PLN 2 523 million, which was the result of the following factors:

1. EBITDA generated in the amount of PLN 2 408 million,
2. negative change of the working capital in the amount of PLN 87 million, which is the result of:
    a) positive change of the balance of the accounts receivable, mainly from the consumers, in the amount of PLN 362 million,
    b) negative change of the inventory level, in the amount of PLN 92 million,
    c) negative change of the balance of the accounts payable in the amount of PLN 386 million, mainly as a result of a decrease of the accounts payable to the suppliers, the accounts payable due to wages as well as the tax liabilities,
    d) negative change in the other long and short term assets as well as the provisions in the total amount of PLN 82 million, mainly as a result of a change in the accounts receivable due to the tax liabilities and the settlement of the initial and variation margins due to the settlements of the exchange transactions,
    e) positive change in prepayments and accruals as well as government subsidies in the amount of PLN 110 million,
3. inflow in the amount of PLN 249 million stemming from the tax settlements for 2019,
4. outflows due to the income tax in the amount of PLN 132 million, as a result of the remittance of the advance payments on account of the income tax for the 5 months of 2020 in the amount of PLN 130 million and the settlements of the income tax for the previous years, resulting in the outflow in the amount of PLN 2 million.
5. other factors PLN +86 million.

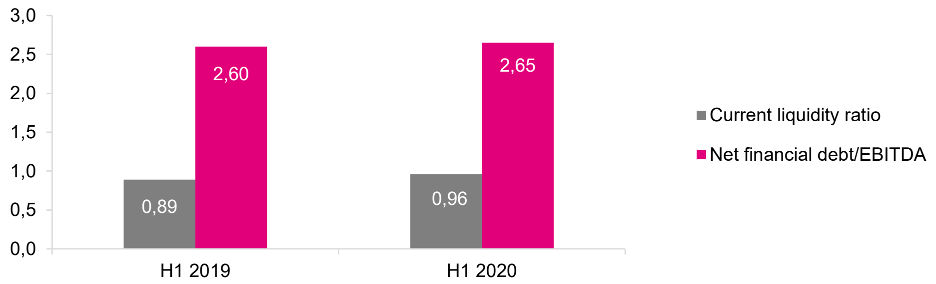
Expenditures for the purchase of the tangible fixed assets have the biggest impact on the cash flows from investing activities and they were higher by 9% in the reporting period than the outlays incurred in the same period of 2019. In the first half of 2020 the largest expenditures were incurred by the Distribution Segment and the Generation Segment.

The negative value of cash flows from financing activities is primarily due to the higher amount of the expenditures realized due to the repayments of the financial liabilities than the inflows received due to obtaining the financing. The amount of the repaid loans and credits came in at PLN 3 046 million, while the loans and credits taken out clocked in at PLN 2 200 million. In addition, TAURON Capital Group redeemed debt securities worth PLN 3 million in the first half of 2020. The total amount of the interest paid by TAURON Capital Group, mainly on the financial liabilities, came in at PLN 46.8 million.

TAURON Capital Group is maintaining its market position. The current liquidity ratio and the net debt to EBITDA ratio continue to stand at a safe level.

The below figure presents the current liquidity ratio and the net financial debt to EBITDA ratio in the first half of 2019 and in the first half of 2020.

Figure no. 46. Current liquidity ratio and the net financial debt to EBITDA ratio in the first half of 2019 and in the first half of 2020



TAURON Capital Group is effectively managing its financial liquidity using the central financing model put in place and the central financial risk management policy. TAURON Capital Group is using the *cash pooling* mechanism in order to minimize the 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 the environmental funds, bond issues.

4.5. Position of the Management Board of TAURON Polska Energia S.A. on the ability to perform in line with the earlier published forecasts of the results for the given year

TAURON Capital Group did not publish any forecasts of the financial results for 2020. TAURON Capital Group's financial position is stable and no negative events which could pose any threat to the continuity of its business operations or cause a material deterioration of its financial position have occurred.

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

4.6. Principles of drawing up the interim abbreviated consolidated financial statements of TAURON Capital Group

The interim abbreviated consolidated financial statements of TAURON Capital Group were drawn up in accordance with the *International Accounting Standard 34 Interim Financial Reporting*, according to the template approved by the European Union (EU).

The interim abbreviated consolidated financial statements of TAURON Polska Energia S.A. Capital Group in accordance with the International Financial Reporting Standards approved by the European Union (EU) for the period of 6 months ended on June 30, 2020 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 above mentioned financial statements for publication no circumstances are recognized that would indicate any risk to business continuity (going concern) of TAURON Capital Group's subsidiaries.

In the period of six months ended on June 30, 2020, the COVID-19 pandemic surfaced in the area of TAURON Capital Group's operations, causing disruptions in the economic and administrative system in Poland and bringing about material changes in the market environment, which may have an impact on the financial position of TAURON Capital Group and the Company. The Management Board analyzed the situation in the context of COVID-19 and, based on the scenarios under consideration, currently, with respect to liquidity, financing and securing the continuation of the business operations (going concern), it does not identify any risk for business continuity (going concern) in the foreseeable future.

The accounting principles (policy) applied to draw up the interim abbreviated consolidated financial statements are presented in note 8 to the *Interim abbreviated consolidated financial statements of TAURON Polska Energia S.A. Capital Group in accordance with the International Financial Reporting Standards approved by the European Union (EU) for the period of 6 months ended on June 30, 2020*, and are in line with the ones applied to draw up the annual *Consolidated financial statements of TAURON Polska Energia S.A. Capital Group in accordance with the International Financial Reporting Standards approved by the European Union (EU) for the year ended on December 31, 2019*, except for the application of the new standards as well as changes to the accounting principles and the presentation principles applied by TAURON Capital Group, presented in note 8 to the *Interim abbreviated consolidated financial statements of TAURON Polska Energia S.A. Capital Group in accordance with the International Financial Reporting Standards approved by the European Union (EU) for the period of 6 months ended on June 30, 2020*.

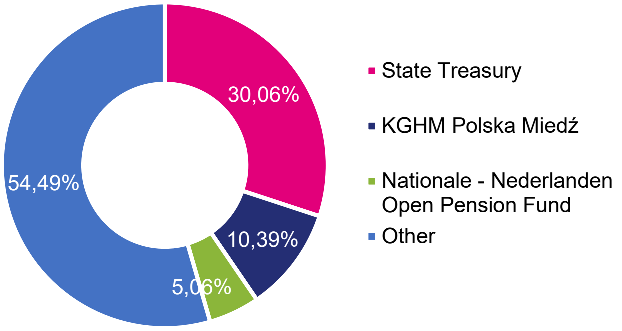
5. SHARES AND SHAREHOLDERS OF TAURON POLSKA ENERGIA S.A.

5.1. Structure of TAURON Polska Energia S.A. shareholding

As of June 30, 2020 and as of the date of drawing up this report the Company's share capital, in accordance with an entry in the National Court Register, stood at 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 ordinary BB series registered shares.

The below figure presents the shareholding structure as of June 30. 2020, and as of the date of drawing up this report.

Figure no. 47. Shareholding structure as of December 30, 2020 and as of the date of drawing up this report.



5.2. Information on the shareholders holding, directly or indirectly through subsidiaries, at least 5% of the total number of votes at the General Meeting of TAURON Polska Energia S.A.

The below table presents the shareholders that hold, directly or indirectly through their subsidiaries, at least 5% of the total number of votes at the General Meeting (GM) of the Company, as of June 30, 2020 and as of the date of drawing up this report.

Table no. 31. Shareholders that hold, directly or indirectly through their subsidiaries, at least 5% of the total number of votes at the GM of the Company, as of June 30, 2020 and as of the date of drawing up this report

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

**Pursuant to the provisions of the Company's Articles of Association, the voting right of the shareholders holding more than 10% of the total number of votes in the Company shall be limited in such a way that none of them may exercise more than 10% of the total number of votes in the Company at the GM. The cumulative votes owned by the shareholders between whom there is a parent - daughter or daughter - parent company relationship within the meaning of the provisions of the Company's Articles of Association shall be subject to an applicable reduction. The above mentioned restriction on the voting rights shall not be applicable to the State Treasury and the State Treasury subsidiaries in the period during which the State Treasury, together with the State Treasury subsidiaries, holds a number of shares in the Company entitling it to exercise at least 25% of the total votes in the Company.*

From the date of disclosing the previous interim report, i.e. since May 13, 2020, until the date of disclosing this report the Company had not received any notifications from its shareholders on any changes in the ownership structure of substantial blocks of TAURON shares.

5.3. Summary of the holdings of TAURON Polska Energia S.A. shares or rights thereto by members of the Management Board and the Supervisory Board of TAURON Polska Energia S.A.

As of June 30, 2020 and as of the date of drawing up this report the members of Company's Management Board and the members of the Company's Supervisory Board did not hold any TAURON shares or rights thereto.

From the date of disclosing the previous interim report, i.e. since May 13, 2020, until the date of disclosing this report there had been no changes to the number of TAURON shares or rights thereto held by the members of the Company's Management Board and the members of the Company's Supervisory Board.

6. OTHER MATERIAL INFORMATION AND EVENTS

6.1. Material proceedings pending before the court, competent arbitration authority or public administration authority

The below table presents a summary of material proceedings pending before the court, competent arbitration authority or public administration authority in the first half of 2020.

Table no. 32. Summary of material proceedings pending before the court, competent arbitration authority or public administration authority in the first half of 2020

#	Parties to the proceedings	Description of the proceedings including the value of the object of litigation and the Company's position
Proceedings involving TAURON		
1.	**Plaintiff:** Huta Łaziska S.A. **Defendants:** TAURON (as a legal successor to GZE) and State Treasury represented by the President of ERO	**Object of litigation**: a lawsuit for the payment of compensation for alleged damage caused by non-performance by GZE of the decision of the President of ERO of October 12, 2001 related to the resumption of electricity supply to the plaintiff. **Value of the object of litigation**: PLN 182 060 000.00 **Initiation of the proceeding**: the lawsuit of March 12, 2007 **Company's position**: the Company considers the claims covered by the lawsuit as being without merit. On May 28, 2019, the Regional Court in Warsaw issued a ruling on the dismissal of Huta Łaziska S.A.'s lawsuit in whole and ruled that Huta Łaziska S.A. shall refund each defendant the costs of the proceedings. The ruling is not legally binding. Huta Łaziska S.A. filed an appeal complaint on July 25, 2019, appealing against the above mentioned ruling in whole.
2.	**Authority conducting the investigation:** Head of the Mazovian Customs and Tax Office **Party:** TAURON	**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 for the period from October 2013 until September 2014. The main subject of the three investigations carried out by the Head of the 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. **Value of the object of litigation (deducted VAT amount):** PLN 54 371 306.92, including: Castor Energy sp. z o.o.– PLN 52 494 671.92, Virtuse Energy sp. z o.o. – PLN 1 876 635.00 **Date of initiating the proceeding**: October 2014, August 2016, December 2016 **Company's position:** in the Company's opinion during the verification of both counterparties (business partners, contractors), 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 (business partners, contractors) Castor Energy sp. z o.o. and Virtuse Energy sp. z o.o.
3.	**Plaintiff:** Enea **Defendant:** TAURON	**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 PSE between January and December 2012 **Value of the object of litigation**: PLN 17 085 846.49 **Initiation of the proceeding:** the lawsuit of December 10, 2015 **Company's position:** the Company considers the claims covered by the lawsuit as being without merit.
Lawsuits pertaining to the termination, by the PEPKH subsidiary, of the agreements related to the sales of electricity and property rights arising from the certificates of origin		
4.	**Plaintiff:** Dobiesław Wind Invest sp. z o.o. **Defendant:** TAURON	**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.	**Plaintiff:** Gorzyca Wind Invest sp. z o.o. **Defendant:** TAURON	**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 39 718 323.00 **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.
6.	**Plaintiff:** Pękanino Wind Invest sp. z o.o. **Defendant:** TAURON	**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 28 469 073.00 **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.

#	Parties to the proceedings	Description of the proceedings including the value of the object of litigation and the Company's position
7.	**Plaintiff:** Nowy Jarosław Wind Invest sp. z o.o. **Defendant:** TAURON	**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 27 008 100.00 **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.	**Plaintiff:** in.ventus sp. z o.o. Mogilno I sp. k. **Defendant:** TAURON	**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. The proceeding was suspended by the court as a result of the joint petition filed by the parties to suspend the proceeding pursuant to art.178 of the Code of Civil Procedure, indicating that on September 3, 2019, the transaction had been finalized under which TAURON's subsidiaries had acquired all rights and obligations of the partners in the plaintiff company and due to the ownership changes that had occurred the parties intended to work out a solution that would enable ending of the court dispute. At the joint request of the parties, the court resumed the proceedings. The motion for the resumption of the proceedings was filed in order for the plaintiff to withdraw the lawsuit along with the waiver of the claim. By way of the letter of June 5, 2020, the Plaintiff withdrew the lawsuit and waived the claim. On August 7, 2020 the court discontinued the proceeding.
9.	**Formal co-participation on the plaintiff's side:** Amon sp. z o.o. and Talia sp. z o.o. **Defendant:** TAURON	**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**: Amon sp. z o,o, – PLN 47 556 025.51; Talia sp. z o,o, – 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 related to the termination, by a subsidiary, of the agreements related to the sale of electricity and property rights arising from the certificates of origin		
1.	**Plaintiff:** Gorzyca Wind Invest sp. z o.o., Pękanino Wind Invest sp. z o.o., Dobiesław Wind Invest sp. z o.o. **Defendant:** PEPKH	**Object of litigation**: plea to declare the termination, by PEPKH, of the agreements related to the purchase of electricity and property rights arising from the certificates of origin null and void, and to award damages. **Value of the object of litigation**: Gorzyca Wind Invest sp. z o.o.– PLN 112 353 945.05; Pękanino Wind Invest sp. z o.o. PLN 64 116 908.85 **Initiation of the proceeding:** Gorzyca Wind Invest sp. z o.o. – May 18, 2015, Pękanino Wind Invest sp. z o.o. – May 20, 2018, Dobiesław Wind Invest sp. z o.o. – May 18, 2015 **Company's position:** the Company considers the claims covered by the lawsuit as being without merit.
2.	**Plaintiff:** Dobiesław Wind Invest sp. z o.o. **Defendant:** PEPKH	**Object of litigation**: plea to award damages and liquidated damages. **Value of the object of litigation**: PLN 76 559 461.18 **Initiation of the proceeding**: the lawsuit of June 14, 2017 **Company's position:** the Company considers the claims covered by the lawsuit as being without merit.
3.	**Plaintiff:** Nowy Jarosław Wind Invest sp. z o.o. **Defendant:** PEPKH	**Object of litigation**: plea to declare the termination, by PEPKH, 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 69 282 649.20 **Initiation of the proceeding**: the lawsuit of June 3, 2015 **Company's position:** the Company considers the claims covered by the lawsuit as being without merit.
4.	**Plaintiff:** Amon sp. z o.o. **Defendant:** PEPKH	**Object of litigation**: plea to declare the termination, by PEPKH, of the agreements related to the purchase 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 40 478 983.22 **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. On July 25, 2019 the Regional Court in Gdańsk issued a partial and preliminary ruling in the case in which the Court: 1. determined that PEPKH's statements on the termination of long term agreements, concluded between PKH and Amon sp. z o.o., for the purchase of electricity and property rights arising from certificates of origin had been ineffective and had not produced legal effects, such as the termination of both agreements, as a result of which these agreements, following the notice period, i.e. past April 30, 2015, shall continue to be in force with respect to all provisions and shall be binding for the parties, 2. determined that Amon sp. z o.o.'s demand for payment of damages for a failure to perform the agreement had been justified in principle, however the Court did not determine the amount of the potential damages. The ruling is not legally binding. PEPKH disagrees with the ruling and filed an appeal complaint on October 25, 2019. The case is pending.

#	Parties to the proceedings	Description of the proceedings including the value of the object of litigation and the Company's position
5.	**Plaintiff:** Amon sp. z o.o. **Defendant:** PEPKH	**Object of litigation:** plea to determine awarding of damages due to a failure to perform, by PEPKH, of the agreements related to the purchase of electricity and property rights arising from the certificates of origin **Value of the object of litigation**: PLN 29 009 189.38 **Initiation of the proceeding**: September 2, 2019 **Company's position:** the Company considers the claims covered by the lawsuit as being without merit. The case was suspended by a court decision until the District Court in Gdańsk has reviewed an appeal against the judgment in the lawsuit brought by Amon sp.z o.o. against PEPKH, referred to in item 4 above. The court's decision is not legally binding (final).
6.	**Plaintiff:** Talia sp. z o.o. **Defendant:** PEPKH	**Object of litigation**: plea to declare the termination, by PEPKH, of the agreements related to the purchase 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 46 078 047.43 **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. On March 6, 2020 the Regional Court in Gdańsk issued a partial and preliminary ruling in the case in which the Court: 1. determined that PKH's statements on the termination of long term agreements, concluded between PEPKH i Talia, for the purchase of electricity and property rights arising from certificates of origin had been ineffective and had not produced legal effects, such as the termination of both agreements, as a result of which these agreements, following the notice period, i.e. past April 30, 2015, shall continue to be in force with respect to all provisions and shall be binding for the parties, 2. determined that Talia's demand for payment of damages for a failure to perform the agreement had been justified in principle, however the Court did not determine the amount of the potential damages. The ruling is not legally binding (final). PEPKH disagrees with the ruling. In August 2020 PEPKH filed an appeal against the ruling to the court.
7.	**Plaintiff:** Mogilno III, Mogilno IV, Mogilno V, Mogilno VI **Defendant:** PEPKH	**Object of litigation**: plea to declare the termination, by PEPKH, of the agreements related to the purchase of electricity null and void, and to award damages. **Value of the object of litigation**: Mogilno III – equivalent of EUR 3 651 402.56; Mogilno IV – equivalent of EUR 3 765 458.12 EUR; Mogilno V – equivalent of EUR 3 505 331.82; Mogilno VI – equivalent of EUR 2 231 812.61 **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. The proceeding suspended by the court as a result of the joint petition filed by the parties to suspend the proceeding under art.178 of the Code of Civil Procedure, indicating that on September 3, 2019, the transaction had been finalized under which TAURON's subsidiaries had acquired all rights and obligations of the partners in the plaintiff company and due to the ownership changes that had occurred the parties intended to work out a solution that would enable ending of the court dispute. The parties filed a motion for the resumption of the proceedings in order for the plaintiff to withdraw the lawsuit along with the waiver of the claim. By way of the decision of July 3, 2020, the court discontinued the proceedings in the above mentioned cases.
8.	**Plaintiff:** Mogilno I, Mogilno II **Defendant:** PEPKH	**Object of litigation**: lawsuit for payment of damages for the losses arisen as a result of a failure to perform agreements for the sale of property rights by PEPKH. **Value of the object of litigation**: Mogilno I – equivalent of EUR 3 583 336.19 EUR; Mogilno II – equivalent of EUR 3 659 538.72 **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. The proceeding suspended by the court as a result of the joint petition filed by the parties to suspend the proceeding under art.178 of the Code of Civil Procedure, indicating that on September 3, 2019, the transaction had been finalized under which TAURON's subsidiaries had acquired all rights and obligations of the partners in the plaintiff company and due to the ownership changes that had occurred the parties intended to work out a solution that would enable ending of the court dispute. The parties filed a motion for the resumption of the proceedings in order for the plaintiff to withdraw the lawsuit along with the waiver of the claim. By way of the decision of July 3, 2020, the court discontinued the proceedings in the above mentioned cases.

6.2. Transactions with related entities on terms other than at arm's length

All transactions with related entities are concluded at arm's length.

The detailed information on the transactions with related entities is provided in note 51 to the *Interim abbreviated consolidated financial statements of TAURON Polska Energia S.A. Capital Group drawn up in accordance with the International Financial Reporting Standards approved by the European Union, for the period of 6 months ended on June 30, 2020.*

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

Guarantees granted

In the first half of 2020, at TAURON's instruction, MUFG Bank Ltd. extended until April 11, 2021, the effective term of the bank guarantee in the amount of PLN 517 500 thousand, granted on April 11, 2018. The guarantee is granted to provide a collateral for BGK's claims towards EC Stalowa Wola.

Additionally, in the first half of 2020, TAURON concluded agreements for the guarantee facilities for up to the total amount of PLN 900 000 thousand, with the effective terms between March 13, 2021 and December 31, 2022, enabling the granting of bank guarantees to IRGiT (Warsaw Commodity Exchange Clearing House).

Irrespective of the above, TAURON also has valid agreements in place on the limit for bank guarantees with the Polish Branch of Caixabank S.A., up to the total amount of PLN 100 000 thousand, concluded in May 2019.

The below table presents a summary of bank guarantees granted under TAURON's guarantee facilities in the first half of 2020.

Table no. 33. Summary of bank guarantees granted under TAURON's guarantee facilities in the first half of 2020

#	Company	Beneficiary	Type of guarantee	Amount ('000)	Effective term
1.	TAURON	IRGiT (Warsaw Commodity Exchange Clearing House)	payment	PLN 250 000	from 29.04.2020 to 12.06.2020
2.	TAURON Wydobycie	Przedsiębiorstwo Budowy Szybów	payment	PLN 8 354.3	from 06.04.2020 to 15.06.2020
3.	TAURON	IRGiT (Warsaw Commodity Exchange Clearing House)	payment	PLN 100 000	from 18.03.2020 to 17.06.2020
4.	TAURON	IRGIT (Warsaw Commodity Exchange Clearing House)	payment	PLN 100 000	from 18.03.2020 to 17.06.2020
5.	TAURON	IRGiT (Warsaw Commodity Exchange Clearing House)	payment	PLN 100 000	from 18.03.2020 to 17.06.2020
6.	TAURON	IRGiT (Warsaw Commodity Exchange Clearing House)	payment	PLN 100 000	from 18.03.2020 to 31.07.2020
7.	TAURON	IRGIT (Warsaw Commodity Exchange Clearing House)	payment	PLN 100 000	from 18.03.2020 to 31.07.2020
8.	TAURON	IRGIT (Warsaw Commodity Exchange Clearing House)	payment	PLN 30 000	from 01.07.2020* to 17.08.2020
9.	TAURON Sprzedaż	Gmina Wrocław (Wrocław Municpailty)	bid deposit	PLN 1 300	from 30.06.2020 to 28.09.2020
10.	TAURON Nowe Technologie	Aldesa Construcciones	performance bond	PLN 462	from 25.06.2020 to 29.09.2020
11.	TAURON Sprzedaż	Komendant Stołeczny Policji (Head of Warsaw Police)	performance bond	PLN 12	from 09.03.2020 to 30.11.2020
12.	TAURON	Gaz System	performance bond	PLN 500	from 10.06.2020 to 31.12.2020
13.	TAURON Sprzedaż	Kopalnia Soli Wieliczka (Wieliczka Salt Mine)	performance bond	PLN 406	from 27.01.2020 to 30.01.2021
14.	TAURON Sprzedaż	Gmina Olsztyn (Olsztyn Municipality)	performance bond	PLN 533	from 27.01.2020 to 30.01.2021
15.	TAURON Sprzedaż	Gmina Olsztyn (Olsztyn Municipality)	performance bond	PLN 4 484	from 27.01.2020 to 30.01.2021
16.	TAURON Sprzedaż	Gmina Miejska Żory (Żory City Municipality)	performance bond	PLN 218	from 01.04.2020 to 31.01.2021
17.	TAURON Sprzedaż	Gmina Miejska Żory (Żory City Municipality)	performance bond	PLN 5	from 01.04.2020 to 31.01.2021
18.	TAURON Sprzedaż	Głubczyckie Wodociągi i Kanalizacja (Głubczyce Aquaducts and Sewage Company)	performance bond	PLN 85	from 18.03.2020 to 30.04.2021
19.	TAURON Sprzedaż	Polska Spółka Gazownictwa	performance bond	PLN 2 860	from 14.05.2020 to 31.05.2021
20.	TAURON Nowe Technologie	STRABAG Infrastruktura Południe	performance bond	PLN 128	from 22.06.2020 to 24.08.2021
21.	TAURON Wytwarzanie	WFOŚiGW	payment	PLN 11 587	from 10.06.2020 to 09.12.2021
22.	TAURON Sprzedaż	Przedsiębiorstwo Państwowe Porty Lotnicze	performance bond	PLN 3 401	from 05.05.2020 to 30.01.2022
23.	TAURON Sprzedaż	Polski Holding Hotelowy	performance bond	PLN 474	from 29.05.2020 to 30.01.2022
24.	TAURON Sprzedaż	Wojewódzkie Przedsiębiorstwo Usług Turystycznych	performance bond	PLN 28	from 29.05.2020 to 30.01.2022

#	Company	Beneficiary	Type of guarantee	Amount ('000)	Effective term
25.	TAURON Sprzedaż	AMW Hotele	performance bond	PLN 184	from 29.05.2020 to 30.01.2022
26.	KW Czatkowice	PGE Górnictwo i Energetyka Konwencjonalna	performance bond	PLN 331	from 03.02.2020 to 31.03.2022
27.	TAURON Sprzedaż	GAZ-SYSTEM	performance bond	PLN 220	from 24.03.2020 to 31.03.2022
28.	TAURON Sprzedaż	Zakład Ubezpieczeń Społecznych (Social Security Office)	performance bond	PLN 517	from 01.04.2020 to 30.04.2022
29.	TAURON Nowe Technologie	S&I Poland	performance bond	PLN 292	from 30.03.2020 to 30.05.2023
30.	TAURON Nowe Technologie	Aldesa Construcciones	statutory warranty	PLN 92	from 30.09.2020* to 01.04.2026
31.	TAURON Sprzedaż	Gmina Miasto Nowy Targ (Nowy Targ City Municipality)	performance bond	PLN 70	from 01.07.2020* to 30.07.2021
32.	TAURON Sprzedaż	Główny Instytut Górnictwa (Central Mining Institute)	performance bond	PLN 83	from 01.07.2020* to 31.07.2021

**guarantees issued in the first half of 2020*

As of June 30, 2020, the amount of the bank guarantees issued at the request of the Company for the liabilities of TAURON Capital Group's subsidiaries, under the framework (master) agreements, stood at PLN 752 455 thousand.

After the first half of 2020 had ended, the following guarantees for liabilities were issued by the date of drawing up this report:

1. TAURON up to the total amount of PLN 225 000 thousand,
2. TAURON Serwis up to the total amount of PLN 400 thousand,
3. TAURON Sprzedaż up to the total amount of PLN 315 thousand.

Sureties granted

On June 30, 2020, TAURON extended the effective term of the surety of October 31, 2019, granted up to the amount of USD 3 664 thousand to provide a collateral for BGK's claims under the working capital loan agreement granted to EC Stalowa Wola. The surety is valid until October 31, 2020.

TAURON, as well as its subsidiaries, did not grant any credit or loan sureties in the first half of 2020.

6.4. Impact of the COVID-19 pandemic on the operations of TAURON Capital Group in the first half of 2020

An increase in the number of COVID-19 cases had been observed in Poland in the period of 6 months ended on June 30, 2020. Therefore, in particular at the beginning of the period during which a rising number of cases occurred, a number of restrictions aimed at preventing the spread of the SARS-CoV-2 virus, which causes COVID-19 illness, were introduced in the country. This situation led to disruptions in the economic and administrative system in Poland. A similar situation was observed in other countries in the world, including the countries that were Poland's main trading partners. As a result, the pandemic significantly limited economic activity in the first half of 2020, affecting the operations of manufacturing plants and the small and medium sized enterprise segment companies, and it also disrupted the functioning of the entire economic system of the country. As a consequence, in the medium and long term, the pandemic will continue to impact the condition of the national, European as well as the global economy, affecting economic growth in Poland in 2020 and beyond.

As a result of the pandemic, changes in the market environment can be observed, in particular involving fluctuations of the prices of financial instruments and commodities. In particular, the prices of the CO_2 emission allowances became highly volatile and, consequently, the same happened to the electricity prices on the wholesale market. With respect to the financial factors, a weakening of the Polish zloty and a decline of the interest rates can be observed, including a three time emergency reduction of the NBP's reference (prime) interest rate by the total of 140 basis points.

The COVID-19 situation, in particular, affects the level of demand for electricity in the Polish Power System (KSE) as well as TAURON Capital Group's electricity distribution and supply volumes. The several percent declines in the demand for electricity observed over the last few months led to a drop in revenues, mainly in the electricity distribution and supply lines of business. The decrease of EBITDA in the distribution line of business is mainly due to a significant reduction in the electricity volumes delivered to the non-household consumers (1.2 TWh in the second quarter of 2020 and 1.4 TWh in the first half of 2020, respectively). In case of the household consumers, the restrictions introduced in connection with the pandemic resulted in an increase of the electricity volume delivered by 0.1 TWh. The decrease of EBITDA in the supply line of business is, first and foremost, due to the loss of margin related to the decline of the electricity supply volume and the need to balance the buy position.

Furthermore, this situation has led to a fall of the production volume in the conventional generation line of business and, consequently, to a drop of the demand for hard coal. The reduction of the demand for hard coal in 2020 by the generation and heat lines of business due to the decline of electricity generation and heat production as well as the epidemic situation is estimated to reach between 1.0 and 1.5 million tons. Because of such developments the negotiations with the coal suppliers have been undertaken in order to renegotiate the price terms and the contracted coal quantities.

TAURON Capital Group has, thus far, not identified any material problems with customers not paying their bills, however, due to the effects of the pandemic, TAURON Capital Group's customers can be expected to experience financial disturbances, which may lead to problems with the payment of their current accounts payable for electricity, heat and gas. There was an increase in overdue accounts receivable in the period from March to May due to the introduction of restrictions in the operations of businesses. In order to reduce potential credit losses, the credit risk management criteria have been tightened and soft debt collection activities have been intensified.

TAURON Capital Group estimates that the negative impact of the above risk factors on the EBITDA for the first half of 2020 amounted to approx. PLN 147 million.

In particular, the COVID-19 pandemic led to the need to take additional impairment charges related to the expected credit losses of the financial instruments and to change the valuation of the loans granted to fair value. It was presented in note 52 of the *Interim abbreviated consolidated financial statements of TAURON Polska Energia S.A. Capital Group. in accordance with the International Financial Reporting Standards approved by the European Union for the 6-month period ended on June 30, 2020.* The ongoing monitoring of the situation on the financial markets that affect the valuation of the financial instruments is carried out.

For several years the Company has pursued a policy of obtaining financing 12 to 24 months ahead of the planned date of its use. The goal of this approach is, among others, to increase the security of the Company's liquidity, protecting the Company against the loss of liquidity in cases such as an outbreak of a pandemic. By implementing this policy and undertaking negotiations with the financial institutions early enough, at the beginning of the pandemic the Company managed to conclude new financing agreements, thus increasing the security of the liquidity of TAURON Capital Group. One of the effects of the pandemic was a significant reduction of the functioning of the financial markets, and even the closure of some of these markets, e.g. the bond market in Poland, and thus a restriction of the availability of the new financing instruments for entities. Additionally, higher margins were expected in case of the new instruments.

Apart from the impact of the pandemic on the financial markets, due to the high volatility of prices on the electricity and related products market, taking into account its contractual position on individual markets, the Company was obliged to deposit materially higher amounts of the required variation margins (mark to market) to both IRGiT (Warsaw Commodity Exchange Clearing House), as well as the ICE exchange, which translated into the level of funds involved. Nevertheless, in the first half of 2020, the Company concluded agreements on the guarantee limits allowing it to provide to IRGiT (Warsaw Commodity Exchange Clearing House) the required collateral in a non-cash form instead of cash and to convert the previously established collateral in cash into bank guarantees. Changes of the interest rates will, in turn, affect the costs stemming from the concluded financing agreements based on a variable interest rate, as well as, in the following years, the level of the regulated revenue due to the return on capital employed in the distribution line of business.

The Company is undertaking a number of steps and initiatives aimed at limiting the impact of the pandemic on the financial liquidity - the above mentioned forward looking financing policy, minimizing of the value of the margins provided to the commodity exchanges (conversion of cash into non-cash collaterals). The Company also took advantage of the anti-crisis shield package by filing a declaration of voluntary submission to debt recovery with IRGiT (Warsaw Commodity Exchange Clearing House), thus reducing the level of the margins to be deposited, both in the form of cash, as well as the bank guarantees set up.

In order to reduce the liquidity risk, the Company adjusted the delivery dates of the concluded futures contracts for the CO_2 emission allowances. In addition, the Company is concluding the new contracts only on the OTC market. Such a solution not only lowered the level of the expenses planned for 2020, but first and foremost eliminated the risk of providing margins, both initial ones as well as those related to the fluctuations in the allowance prices (variation margins). Among the measures taken by TAURON Capital Group in order to minimize TAURON Capital Group's liquidity risk, the system for limiting TAURON Capital Group's expenditures was also introduced, among others aimed at reducing the operating costs, and the system for closely analyzing the use of the cash balance on a monthly basis, as well as applying for aid programs initiated by the public authorities.

As a result of the COVID-19 pandemic, certain difficulties have been experienced in the implementation of TAURON Capital Group's strategic investment projects. In case of the 910 MW unit construction project in Jaworzno and the construction of the power generating unit at EC Stalowa Wola, such difficulties took place in the initial period of the pandemic, as a consequence of the introduction of strict control of access to the infrastructure and the additional security procedures. With respect to the construction of the 910 MW unit, the agreement with the Consortium of Rafako S.A. and Mostostal Warszawa S.A. has been amended and one of the reasons of this amendment was the COVID-19 pandemic as well as contractor's claims related to additional works, which is also presented in note 49 to the *Interim abbreviated consolidated financial statements of TAURON Polska Energia S.A. Capital Group in accordance with the International Financial Reporting Standards approved by the European Union (EU) for the period of 6 months ended on June 30, 2020*. In order to minimize the consequences of the project disruptions that have taken place, all of the contractors carrying out the investment projects are cooperating closely and on an ongoing basis with TAURON Capital Group's subsidiaries responsible for the specific investment projects, that are monitoring the status of the projects and reacting adequately to the situation, using the tools available. As part of the response to the pandemic, TAURON Capital Group also undertook actions aimed at reviewing and limiting the capital expenditures.

Looking from the strategic point of view, the validity of the Update of the strategic directions and the assumptions for building the value of TAURON Capital Group based on the development of clean energy, adopted in May 2019, was confirmed. The strategic directions assume the decommissioning of the hard coal fired units and investments in the renewable energy sources (*Green Turn of TAURON*), and the effects of the pandemic result in a faster loss of the competitiveness of the conventional generation sources than assumed before and the need to intensify activities allowing for a faster development of renewable electricity generation technologies. In addition, the situation caused by the pandemic demonstrated that the development of modern digital technologies allowing for remote communications and remote use of TAURON Capital Group's resources, and in particular, enabling remote service of customers, was justified. These issues are indicated in the Strategy and will be taken into account in the development of the sales and customer service areas. The economic effects of the pandemic do not force changes to the strategic directions of TAURON Capital Group which remain valid.

To sum up, apart from the reactions described above, TAURON Capital Group, being aware of the threats related to the epidemiological situation, is taking active measures in order to minimize the impact of the current and expected economic situation, as well as to protect itself against the extreme events. In particular, in the Mining Segment's subsidiary an agreement between the subsidiary's Management Board and the workforce was signed, limiting the working time and reducing the compensation of the subsidiary's Management Board and personnel by 20% for the period of three months, starting from May 1, 2020. On the other hand, in the Generation Segment's subsidiary an agreement signed between the subsidiary's Management Board and the workforce reduced the working time and lowered the compensation of the subsidiary's Management Board and personnel by 10% in the same period of time. The above agreements made it possible to cut costs and obtain funds under the solutions available as part of the anti-crisis shield package due to the reduced working time of the personnel.

However, the future effects and the scale of the pandemic are difficult to precisely estimate at the moment. The duration of the pandemic, its severity and scope, as well as its impact on the economic growth in Poland in the short, medium and long term will be important. The regulatory actions, both already undertaken as well as the future ones, aimed at introducing mechanisms alleviating the effects of the COVID-19 pandemic, are also vital.

Regardless of the economic effects, the current situation affects the business operations of the individual lines of business because of increased absenteeism of the employees, an increase in the operating costs resulting from the need to meet the epidemiological conditions (costs of purchasing the materials, costs of the organizational changes), as well as the relationships with the key subcontractors and contractors of TAURON Capital Group. In this regard, TAURON Capital Group has taken a number of preventive measures with respect to the organizational and material issues aimed at protecting the employees of TAURON Capital Group's individual subsidiaries and maintaining the continuity of the critical infrastructure's operations. In particular, a dedicated crisis management team has been established at TAURON, whose task is to assess the situation in the individual lines of business and prepare detailed plans in the event the continuity of the key processes functioning at TAURON Capital Group is disrupted. Crisis teams that are responsible for the coordination and implementation of measures aimed at preventing the disruptions to the core operations as a result of the impact of the risks related to the COVID-19 pandemic are functioning at TAURON Capital Group's individual subsidiaries. The changes in the organization of the work at the subsidiaries, required to ensure work safety, have been introduced.

Despite the gradual lifting of the successive restrictions, it cannot be ruled out that the COVID-19 pandemic may have a significant impact on the business operations of TAURON Capital Group also in the subsequent periods, including the level of revenues generated and costs incurred, and, as a consequence, the financial liquidity and the level of debt of TAURON Capital Group.

It should be emphasized that the situation related to the COVID-19 pandemic is highly volatile. The Management Board of the Company is monitoring on an ongoing basis and will continue to monitor the potential impact as well as it will take all possible steps in order to mitigate any negative effects of the COVID-19 pandemic on TAURON Capital Group.

6.5. Other information that could be material for the evaluation of TAURON Capital Group's staffing, assets, financial position, financial result and changes thereof, as well as information that could be material for the evaluation of the ability of TAURON Capital Group to meet its obligations

Besides the events indicated above in this report no other events had occurred in the first half of 2020, that could be material for the evaluation of TAURON Capital Group's staffing, assets, financial position, financial result and changes thereof, as well as for the assessment of the ability of TAURON Capital Group to meet its obligations.

Katowice, August 18, 2020

Wojciech Ignacok - President of the Management Board

Jerzy Topolski - 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 no. 34. Explanation of abbreviations and acronyms as well as trade terms

#	Abbreviation and trade term	Full name / explanation
1.	Abener Energia	Abener Energia S.A. with its registered office in Campus Palmas Altas (Sevilla).
2.	Update of the Strategic Directions	Document entitled the *Update of the Strategic Directions in TAURON Group's Strategy for 2016-2025* adopted by TAURON's Management Board on May 27, 2019, constituting a supplement to the document entitled *TAURON Group's Strategy for 2016-2025* adopted by TAURON's Management Board on September 2, 2016.
3.	Amon	Amon sp. z o.o. with its registered office in Łebcz.
4.	ARA	Dollar based carbon price index in the EU. Loco Amsterdam - Rotterdam - Antwerp ports
5.	ARE	Agencja Rynku Energii S.A. with its registered office in Warsaw.
6.	AVAL-1	AVAL-1 sp. z o. o. with its registered office in Szczecin.
7.	BASE (BASE Contract)	A baseload contract for the supply of electricity at all hours of the period, e.g. the BASE contract for March 2020 is related to the supply of the same amount of electricity during all hours of the month of March 2020.
8.	BGK	Bank Gospodarstwa Krajowego with its registered office in Warsaw.
9.	Bioeko Grupa TAURON	Bioeko Grupa TAURON Sp. z o.o. with its registered office in Stalowa Wola.
10.	Cash pooling	True cash pooling structure, implemented under the cash management agreement, is based on daily limits granted to the individual participants by the agent managing the service, i.e. TAURON. As a result of the implementation of the cash pooling mechanism, cash transfers are made between the accounts of the service participants and the Agent's account.
11.	CDS	Clean Dark Spread - margin ratio used to calculate the profitability of electricity production, taking into account the revenues from the sale of electricity and the cost of fuel and CO_2 emission allowances.
12.	CER	Certified Emission Reduction
13.	Color certificates	Property rights based on the certificates of origin of electricity generated in the way that is subject to support, the so-called color certificates: **green** - certificates of origin of electricity from RES, **blue** - certificates of origin of electricity generated from agricultural biogas. **yellow** - certificates of origin of electricity generated in co-generation from gas-fired sources or with the total installed capacity below 1 MW, **red** - certificates of origin of electricity from co-generation (CHP certificates - Combined Heat and Power), **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, **white** - energy efficiency certificates (mechanism stimulating and forcing pro-savings behaviors)
14.	COVID-19	Coronavirus Disease 2019 - acute respiratory system contagious disease caused by the SARS-CoV-2 virus infection. The disease was first diagnosed and described in November 2019 in central China in the city of Wuhan, Hubei Province.
15.	CUW	Shared Services Center (Centrum Usług Wspólnych - CUW) - separate organizational units responsible for providing a specific range of support services (CUW R – accounting services, CUW HR – human resources services, CUW IT – IT services).
16.	CVaR	Credit Value at Risk – a measure of risk determining the maximum potential loss due to credit risk with the given probability and within a specified time horizon.
17.	CVC	Corporate Venture Capital - Venture Capital (VC) investments carried out by VC funds with the intention of achieving not only financial goals, but also strategic (industry) goals set by a large company (corporation) which is the capital donor for this fund. VC are capital investments made on the OTC market in business ventures that are in the early stages of development. CVC is a development of VC as a way of investing capital and is to have a positive impact on the industry objectives of TAURON Capital Group.
18.	EIB	European Investment Bank with its registered office in Luxembourg.
19.	EBIT	Earnings Before Interest and Taxes.
20.	EBITDA	Earnings Before Interest, Taxes, Depreciation and Amortization.
21.	EC Stalowa Wola	Elektrociepłownia Stalowa Wola S.A. (Combined Heat and Power Plant – CHP) with its registered office in Stalowa Wola.
22.	EEC Magenta 2 ASI	EEC Magenta limited liability company 2 ASI limited joint stock partnership with its registered office in Warsaw

#	Abbreviation and trade term	Full name / explanation
23.	EEC Ventures	EEC Ventures limited liability company limited joint stock partnership with its registered office in Warsaw
24.	EEC Ventures 2	EEC Ventures limited liability company 2 limited joint stock partnership with its registered office in Warsaw
25.	EEX (giełda EEX)	European Energy Exchange) - European energy exchange in Leipzig, where contracts and derivatives for electricity for various European countries are traded, as well as primary auctions of CO_2 emission allowances are conducted.
26.	ElectroMobility Poland	ElectroMobility Poland S.A. with its registered office in Warsaw.
27.	ENEA	Enea S.A. with its registered office in Poznań.
28.	ENERGA	Energa S.A. with its registered office in Gdańsk.
29.	EPCM	Engineering Procurement Construction Management - construction, engineering and procurement management service (Contract Manager).
30.	ERM	Enterprise Risk Management.
31.	EU ETS	European Union Emission Trading System
32.	EUA	European Union Allowance - an allowance to introduce the carbon dioxide (CO2) equivalent to the air, within the meaning of Article 2 section 4 of the *act of July 17, 2009 on the management system of emissions of greenhouse gases and other substances*, which is used for settlements of emission level within the system and which can be managed under the rules provided in the *Act of April 28, 2011 on the system of greenhouse gases emission allowances trading*
33.	EUR	Euro - a common European currency introduced in some EU member states
34.	EWI	Early Warning Indicator
35.	Finanse Grupa TAURON	Finanse Grupa TAURON sp. z o.o. with its registered office in Katowice.
36.	FIIK	Fundusz Inwestycji Infrastrukturalnych – Kapitałowy (Infrastructure Investment Fund – Equity).
37.	FIZ	Fundusz Inwestycyjny Zamknięty (Closed-end Investment Fund)
38.	FIZAN	Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych (Closed-end Private Equity Investment Fund)
39.	GAZ-SYSTEM	Gas Transmission Pipelines Operator (Operator Gazociągów Przesyłowych) GAZ-SYSTEM S.A. with its registered office in Warsaw.
40.	TAURON Capital Group	TAURON Capital Group Polska Energia S.A.
41.	GZE	Górnośląski Zakład Elektroenergetyczny S.A. with its registered office in Gliwice.
42.	ICE (ICE exchange)	InterContinental Exchange - commodity and financial exchange, where, among others, contracts for oil, coal, natural gas and CO_2 emission allowances are traded.
43.	IOS	Flue gas desulphurization installation
44.	IRGiT	Izba Rozliczeniowa Giełd Towarowych S.A. (Warsaw Commodity Exchange Clearing House) with its registered office in Warsaw.
45.	EC	European Commission (KE - Komisja Europejska)
46.	KGHM Polska Miedź	KGHM Polska Miedź S.A. with its registered office in Lubin.
47.	Audit Committee	Audit Committee of the Supervisory Board of TAURON Polska Energia S.A..
48.	Nominations and Compensation Committee	Nominations and Compensation Committee of the Supervisory Board of TAURON Polska Energia S.A.
49.	Strategy Committee	Strategy Committee of the Supervisory Board of TAURON Polska Energia S.A.
50.	BAT Conclusions	Best Available Techniques with respect to large combustion plants (LCP), introduced by way of the Executive Decision of the European Commission (EU) no. 2017/1442of July 31, 2017 (
51.	KRI	Key Risk Indicator
52.	KSE	National Power System (Krajowy System Elektroenergetyczny)
53.	KW Czatkowice	Kopalnia Wapienia (Limestone Mine) ”Czatkowice” sp. z o.o. with its registered office in Krzeszowice.
54.	Łagisza Grupa TAURON	Łagisza Grupa TAURON sp. z o.o. with its registered office in Katowice.
55.	Magenta Grupa TAURON	Magenta Grupa TAURON sp. z o.o. with its registered office in Katowice.
56.	Marselwind	Marselwind sp. z o.o. with its registered office in Katowice.
57.	Mg	Mega gram - million grams (1 000 000 g), i.e. a ton.

#	Abbreviation and trade term	Full name / explanation
58.	Business Model	Document entitled *TAURON Group's Business and Operational Model* (which is an update of *TAURON Group's Business Model* adopted by the Management Board on May 4, 2016).
59.	IFRS	International Financial Reporting Standards.
60.	NBP	National Bank of Poland (Narodowy Bank Polski) with its registered office in Warsaw.
61.	NCBR	National Research and Development Center (Narodowe Centrum Badań i Rozwoju) with its registered office in Warsaw.
62.	Nowe Jaworzno Grupa TAURON	Nowe Jaworzno Grupa TAURON sp. z o.o. with its registered office in Jaworzno.
63.	Line of Business (Segment)	Seven areas (segments) of TAURON Capital Group's core operations set up by the Company: Trading, Mining, Generation, RES, Heat, Distribution and Supply
64.	OECD	Organization for Economic Co-operation and Development.
65.	OPEC	Organization of the Petroleum Exporting Countries with its registered office in Vienna.
66.	DSO (OSD)	Distribution System Operator (Operator Systemu Dystrybucyjnego - OSD)
67.	TSO (OSP)	Transmission System Operator (Operator Systemu Przesyłowego - OSP)
68.	OTC (OTC market)	Over The Counter Market – European OTC market.
69.	RES (OZE)	Renewable Energy Sources (Odnawialne Źródła Energii - OZE)
70.	P/B ratio	Ratio of the peak forward product (futures) prices to the base forward product (futures) prices
71.	PEAK (PEAK contract)	Peak contract for the supply of electricity during business hours (8-22) on business days, e.g. the PEAK contract for March 2020 is related to the supply of the same volume of electricity on all business days in March 2020 between 8 and 22.
72.	PEPKH	Polska Energia - Pierwsza Kompania Handlowa sp. z o.o. with its registered office in Warsaw.
73.	PFR	Polski Fundusz Rozwoju S.A. (Polish Development Fund) with its registered office in Warsaw.
74.	PFR IFIZ	PFR Inwestycje Fundusz Inwestycyjny Zamknięty (PFR Investments Closed-end Investment Fund)
75.	PGE	PGE Polska Grupa Energetyczna S.A. with its registered office in Warsaw.
76.	PGE EJ 1	PGE EJ 1 sp. z o.o. with its registered office in Warsaw.
77.	PGK	Tax Capital Group (Podatkowa Grupa Kapitałowa – PGK).
78.	PGNiG	Polskie Górnictwo Naftowe i Gazownictwo S.A. with its registered office in Warsaw.
79.	GDP (PKB)	Gross Domestic Product (Produkt Krajowy Brutto)
80.	PLN	Polish zloty currency symbol - zł
81.	PMEF	Property rights related to the energy efficiency certificates
82.	PMOZE	Property rights related to the certificates of origin confirming generation of electricity in RES before March 1, 2009
83.	PMOZE_A	Property rights related to the certificates of origin confirming generation of electricity in RES after March 1, 2009
84.	PMOZE-BIO	Property rights related to the certificates of origin confirming generation of electricity from agricultural biogas from July 1, 2016
85.	POPC	Digital Poland Operational Program.(Program Operacyjny Polska Cyfrowa – POPC).
86.	PSE	Polskie Sieci Elektroenergetyczne S.A. with its registered office in Konstancin-Jeziorna .
87.	SARS-CoV-2	Severe Acute Respiratory Syndrome - virus that causes the COVID-19 disease.
88.	SCR	Selective Catalytic Reduction - flue gas denitrification system.
89.	Segment, Segments of Operations (Operating Segments)	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 in this report): Mining, Generation, Distribution, Supply and Other operations.
90.	SLA	Service Level Agreement
91.	SPOT (SPOT market)	With respect to electricity, it is the place where trade transactions for electricity are concluded with delivery not later than 3 days after the date of the transaction's conclusion (most often it is one day before the date of delivery). The operation of the SPOT market for electricity is strongly tied to the operation of the Balancing Market run by the TSO.

#	Abbreviation and trade term	Full name / explanation
92.	Company	TAURON Polska Energia S.A. with its registered office in Katowice.
93.	Company's Articles of Association	Document entitled *Articles of Association of TAURON Polska Energia S.A.*
94.	Stop Loss	Mechanism aimed at maintaining the S-P Result at an acceptable level by limiting excessive losses resulting from the valuation of an open position.
95.	Strategy	Document entitled *TAURON Group's Strategy for 2016-2025* adopted by the Management Board on September 2, 2016
96.	TAMEH HOLDING	TAMEH HOLDING sp. z o.o. with its registered office in Dąbrowa Górnicza.
97.	TAMEH POLSKA	TAMEH POLSKA sp. z o.o. with its registered office in Dąbrowa Górnicza.
98.	TAMEH Czech	TAMEH Czech s.r.o. with its registered office in Ostrava (Czech Republic).
99.	TAURON	TAURON Polska Energia S.A. with its registered office in Katowice.
100.	TAURON Ciepło	TAURON Ciepło sp. z o.o. with its registered office in Katowice.
101.	TAURON Czech Energy	TAURON Czech Energy s.r.o. with its registered office in Ostrava (Czech Republic).
102.	TAURON Dystrybucja	TAURON Dystrybucja S.A. with its registered office in Cracow.
103.	TAURON Dystrybucja Pomiary	TAURON Dystrybucja Pomiary sp. z o.o. with its registered office in Tarnów.
104.	TAURON EKOENERGIA	TAURON EKOENERGIA sp. z o.o. with its registered office in Jelenia Góra.
105.	TAURON Nowe Technologie	TAURON Nowe Technologie S.A. (formerly: TAURON Dystrybucja Serwis S.A.) with its registered office in Wrocław.
106.	TAURON Obsługa Klienta	TAURON Obsługa Klienta sp. z o.o. with its registered office in Wrocław.
107.	TAURON Serwis	TAURON Serwis sp. z o.o. with its registered office in Katowice.
108.	TAURON Sprzedaż	TAURON Sprzedaż sp. z o.o. with its registered office in Cracow.
109.	TAURON Sprzedaż GZE	TAURON Sprzedaż GZE sp. z o.o. with its registered office in Gliwice.
110.	TAURON Ubezpieczenia	TAURON Ubezpieczenia sp. z o.o. with its registered office in Katowice.
111.	TAURON Wydobycie	TAURON Wydobycie S.A. with its registered office in Jaworzno.
112.	TAURON Wytwarzanie	TAURON Wytwarzanie S.A. with its registered office in Jaworzno.
113.	TEC1	TEC1 sp. z o.o. with its registered office in Katowice.
114.	TEC2	TEC2 sp. z o.o. with its registered office in Katowice.
115.	TEC3	TEC3 sp. z o.o. with its registered office in Katowice.
116.	TGE (POLPX)	Towarowa Giełda Energii S.A. (Polish Power Exchange – POLPX) with its registered office in Warsaw.
117.	TGEozebio	Property rights that confirm the production of electricity from renewable energy sources using agricultural biogas.
118.	EU (UE)	European Union (Unia Europejska - UE)
119.	UOKiK	Office of Competition and Consumer Protection (Urząd Ochrony Konkurencji i Konsumentów – UOKiK))
120.	Unbundling	Separation of the operations with respect to transmission or distribution of electricity from the operations that involve the production and delivery (supply) of this electricity to the final consumers.
121.	ERO (URE)	Energy Regulatory Office (Urząd Regulacji Energetyki - URE)
122.	USD	United States Dollar - US dollar's international acronym
123.	VaR	Value at Risk - a measure of risk determining the maximum potential change of the Portfolio value with the given probability and within a specified time horizon.
124.	WACC	Weighted Average Cost of Capital of a company, weighted, accordingly, with the share of debt and equity in the company's capital structure.
125.	WFOŚiGW	Wojewódzki Fundusz Ochrony Środowiska i Gospodarki Wodnej (Voivodeship Fund for Environmental Protection and Water Management) in Katowice or in Cracow.
126.	Wsparcie Grupa TAURON	Wsparcie Grupa TAURON sp. z o.o. with its registered office in Tarnów.
127.	GM (WZ/ZW)	General Meeting (GM) / Shareholders' (Partners') Meeting (Walne Zgromadzenie – WZ / Zgromadzenie Wspólników - ZW)

#	Abbreviation and trade term	Full name / explanation
128.	S-P Result	Sales minus Purchase -. the amount of the current and future cash flows generated in a given financial year related to the trading activities on the energy and related products markets. The amount is the sum of the first degree margin on the closed position and the first degree margin on the open position based on the fair value valuation (MtM – mark to market value adjustment) taking into account the transaction costs incurred.
129.	ZG	Coal Mine (Zakład Górniczy - ZG) (Janina Coal Maine in Libiąż, Sobieski Coal Mine in Jaworzno, Brzeszcze Coal Mine in Brzeszcze).
130.	ZW	Generation Plants (Zakłady Wytwarzania – ZW) (Katowice, Tychy, Bielsko-Biała, Kamienna Góra, Tychy).

Appendix B: INDEX OF TABLES AND FIGURES

The list of tables and figures presented in this report is provided below.

Index of tables

Index of figures