



**TAURON**



# EXTENDED CONSOLIDATED INTERIM REPORT

of TAURON Polska Energia S.A.  
Capital Group for Q1 2020

May 2020

TAURON.PL



# CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

prepared in accordance with  
the International Financial Reporting Standards,  
as endorsed by the European Union  
for the 3-month period ended 31 March 2020

**TAURON Polska Energia S.A. Capital Group**

**Condensed interim consolidated financial statements**

**in accordance with the International Financial Reporting Standards,**

**as endorsed by the European Union**

**for the 3-month period ended 31 March 2020**

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**CONDENSED INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

|   | Note | 3-month period ended<br>31 March 2020<br><i>(unaudited)</i> | 3-month period ended<br>31 March 2019<br><i>(unaudited restated<br/>figures)</i> |
|---|------|---|--|
| Sales revenue   | 11   | 5 467 766   | 5 312 809  |
| Cost of sales   | 12   | (4 746 631)   | (4 361 015)  |
| <b>Profit on sale</b>   |      | <b>721 135</b>  | <b>951 794</b>   |
| Selling and distribution expenses   | 12   | (128 732)   | (106 695)  |
| Administrative expenses   | 12   | (157 476)   | (154 874)  |
| Other operating income and expenses   |      | 5 165   | 11 624   |
| Share in profit/(loss) of joint ventures  | 20   | 33 959  | 42 823   |
| <b>Operating profit</b>   |      | <b>474 051</b>  | <b>744 672</b>   |
| Interest expense on debt  | 13   | (72 329)  | (57 920)   |
| Finance income and other finance costs  | 13   | (170 314)   | (18 873)   |
| <b>Profit before tax</b>  |      | <b>231 408</b>  | <b>667 879</b>   |
| Income tax expense  | 14   | (69 933)  | (132 117)  |
| <b>Net profit</b>   |      | <b>161 475</b>  | <b>535 762</b>   |
| Measurement of hedging instruments  | 30.4 | (90 190)  | (2 771)  |
| Foreign exchange differences from translation of foreign entity                     |      | (2 024)   | (1 151)  |
| Income tax  | 14   | 17 136  | 527  |
| <b>Other comprehensive income subject to reclassification to profit or loss</b>     |      | <b>(75 078)</b>   | <b>(3 395)</b>   |
| Actuarial gains   | 32.1 | 4 915   | 2 788  |
| Income tax  | 14   | (931)   | (531)  |
| Share in other comprehensive income of joint ventures                               | 20   | 162   | 122  |
| <b>Other comprehensive income not subject to reclassification to profit or loss</b> |      | <b>4 146</b>  | <b>2 379</b>   |
| <b>Other comprehensive income, net of tax</b>                                       |      | <b>(70 932)</b>   | <b>(1 016)</b>   |
| <b>Total comprehensive income</b>   |      | <b>90 543</b>   | <b>534 746</b>   |
| <b>Net profit:</b>  |      |   |  |
| Attributable to equity holders of the Parent  |      | 162 066   | 535 264  |
| Attributable to non-controlling interests   |      | (591)   | 498  |
| <b>Total comprehensive income:</b>  |      |   |  |
| Attributable to equity holders of the Parent  |      | 91 120  | 534 240  |
| Attributable to non-controlling interests   |      | (577)   | 506  |
| <b>Basic and diluted earnings per share (in PLN):</b>                               |      | <b>0.09</b>   | <b>0.31</b>  |

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

**CONDENSED INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

|   | Note        | As at<br>31 March 2020<br><i>(unaudited)</i> | As at<br>31 December 2019 |
|---|-------------|--|---------------------------|
| <b>ASSETS</b>   |             |  |                           |
| <b>Non-current assets</b>   |             |  |                           |
| Property, plant and equipment   | <b>15</b>   | 31 587 231                                   | 31 099 071                |
| Right-of-use assets   | <b>16</b>   | 1 777 355                                    | 1 773 498                 |
| Goodwill  | <b>17</b>   | 26 183                                       | 26 183                    |
| Energy certificates and CO <sub>2</sub> emission allowances for surrender | <b>18.1</b> | 69 274                                       | 468 197                   |
| Other intangible assets   | <b>19</b>   | 485 311                                      | 478 261                   |
| Investments in joint ventures   | <b>20</b>   | 591 392                                      | 559 144                   |
| Loans granted to joint ventures   | <b>21</b>   | 227 946                                      | 238 035                   |
| Other financial assets  | <b>22</b>   | 250 349                                      | 235 522                   |
| Other non-financial assets  | <b>23.1</b> | 138 610                                      | 152 288                   |
| Deferred tax assets   | <b>24</b>   | 37 998                                       | 22 088                    |
|   |             | <b>35 191 649</b>                            | <b>35 052 287</b>         |
| <b>Current assets</b>   |             |  |                           |
| Energy certificates and CO <sub>2</sub> emission allowances for surrender | <b>18.2</b> | 1 229 296                                    | 1 285 193                 |
| Inventories   | <b>25</b>   | 682 378                                      | 684 152                   |
| Receivables from buyers   | <b>26</b>   | 2 538 351                                    | 2 290 746                 |
| Income tax receivables  | <b>27</b>   | 119 331                                      | 255 702                   |
| Receivables arising from other taxes and charges                          | <b>28</b>   | 164 533                                      | 384 714                   |
| Loans granted to joint ventures   | <b>21</b>   | 14 312                                       | 4 999                     |
| Other financial assets  | <b>22</b>   | 986 248                                      | 599 035                   |
| Other non-financial assets  | <b>23.2</b> | 245 042                                      | 100 275                   |
| Cash and cash equivalents   | <b>29</b>   | 1 743 097                                    | 1 237 952                 |
| Non-current assets classified as held for sale                            |             | 26 843                                       | 22 710                    |
|   |             | <b>7 749 431</b>                             | <b>6 865 478</b>          |
| <b>TOTAL ASSETS</b>   |             | <b>42 941 080</b>                            | <b>41 917 765</b>         |

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

**CONDENSED INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION - continued**

|   | Note        | As at<br>31 March 2020<br><i>(unaudited)</i> | As at<br>31 December 2019 |
|---|-------------|--|---------------------------|
| <b>EQUITY AND LIABILITIES</b>   |             |  |                           |
| <b>Equity attributable to equity holders of the Parent</b>                                    |             |  |                           |
| Issued capital  | 30.1        | 8 762 747                                    | 8 762 747                 |
| Reserve capital   | 30.3        | 6 801 584                                    | 6 801 584                 |
| Revaluation reserve from valuation of hedging instruments                                     | 30.4        | (57 388)                                     | 15 666                    |
| Foreign exchange differences from translation of foreign entities                             |             | 12 497                                       | 14 521                    |
| Retained earnings/(Accumulated losses)  | 30.5        | 2 763 035                                    | 2 597 708                 |
|   |             | <b>18 282 475</b>                            | <b>18 192 226</b>         |
| <b>Non-controlling interests</b>  | <b>30.6</b> | <b>900 627</b>                               | <b>900 434</b>            |
| <b>Total equity</b>   |             | <b>19 183 102</b>                            | <b>19 092 660</b>         |
| <b>Non-current liabilities</b>  |             |  |                           |
| Debt  | 31          | 13 260 074                                   | 11 830 183                |
| Provisions for employee benefits  | 32          | 1 325 111                                    | 1 313 480                 |
| Provisions for disassembly of fixed assets, land restoration and other provisions             | 33          | 656 421                                      | 663 130                   |
| Accruals, deferred income and government grants   | 36          | 464 160                                      | 460 003                   |
| Deferred tax liabilities  | 24          | 479 284                                      | 605 285                   |
| Other financial liabilities   | 40          | 117 697                                      | 79 417                    |
| Other non-financial liabilities   |             | 11 776                                       | 11 776                    |
|   |             | <b>16 314 523</b>                            | <b>14 963 274</b>         |
| <b>Current liabilities</b>  |             |  |                           |
| Debt  | 31          | 2 330 314                                    | 2 484 093                 |
| Liabilities to suppliers  | 37          | 761 937                                      | 847 226                   |
| Capital commitments   | 38          | 468 304                                      | 757 943                   |
| Provisions for employee benefits  | 32          | 111 827                                      | 118 418                   |
| Provisions for liabilities due to energy certificates and CO <sub>2</sub> emission allowances | 34          | 1 153 572                                    | 1 378 233                 |
| Other provisions  | 35          | 499 340                                      | 563 753                   |
| Accruals, deferred income and government grants   | 36          | 238 439                                      | 185 544                   |
| Income tax liabilities  |             | 4 160  | 3 853                     |
| Liabilities arising from other taxes and charges  | 39          | 388 656                                      | 589 001                   |
| Other financial liabilities   | 40          | 1 000 794                                    | 560 455                   |
| Other non-financial liabilities   | 41          | 477 493                                      | 364 376                   |
| Liabilities directly related to non-current assets classified as held for sale                |             | 8 619  | 8 936                     |
|   |             | <b>7 443 455</b>                             | <b>7 861 831</b>          |
| <b>Total liabilities</b>  |             | <b>23 757 978</b>                            | <b>22 825 105</b>         |
| <b>TOTAL EQUITY AND LIABILITIES</b>   |             | <b>42 941 080</b>                            | <b>41 917 765</b>         |

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



**TAURON Polska Energia S.A. Capital Group**  
*Condensed interim consolidated financial statements for the three months ended 31 March 2020*  
*prepared in accordance with IFRS, as endorsed by the EU*  
*(in '000 PLN)*

**CONDENSED INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

**FOR THE 3-MONTH PERIOD ENDED 31 MARCH 2020 (unaudited)**

|  | Equity attributable to the equity holders of the Parent |                  |   |   |   | Total             | Non-controlling interests | Total equity      |
|--|---|------------------|---|---|---|-------------------|---------------------------|-------------------|
|  | Issued capital  | Reserve capital  | Revaluation reserve on valuation of hedging instruments | Foreign exchange differences from translation of foreign entities | Retained earnings/ (Accumulated losses) |                   |                           |                   |
| <b>As at 1 January 2020</b>                    | <b>8 762 747</b>  | <b>6 801 584</b> | <b>15 666</b>   | <b>14 521</b>   | <b>2 597 708</b>                        | <b>18 192 226</b> | <b>900 434</b>            | <b>19 092 660</b> |
| Transactions with non-controlling shareholders | -   | -                | -   | -   | (871)                                   | (871)             | 770                       | (101)             |
| <b>Transactions with shareholders</b>          | <b>-</b>  | <b>-</b>         | <b>-</b>  | <b>-</b>  | <b>(871)</b>                            | <b>(871)</b>      | <b>770</b>                | <b>(101)</b>      |
| Net profit                                     | -   | -                | -   | -   | 162 066                                 | <b>162 066</b>    | (591)                     | <b>161 475</b>    |
| Other comprehensive income                     | -   | -                | (73 054)  | (2 024)   | 4 132                                   | <b>(70 946)</b>   | 14                        | <b>(70 932)</b>   |
| <b>Total comprehensive income</b>              | <b>-</b>  | <b>-</b>         | <b>(73 054)</b>   | <b>(2 024)</b>  | <b>166 198</b>                          | <b>91 120</b>     | <b>(577)</b>              | <b>90 543</b>     |
| <b>As at 31 March 2020 (unaudited)</b>         | <b>8 762 747</b>  | <b>6 801 584</b> | <b>(57 388)</b>   | <b>12 497</b>   | <b>2 763 035</b>                        | <b>18 282 475</b> | <b>900 627</b>            | <b>19 183 102</b> |

**FOR THE 3-MONTH PERIOD ENDED 31 MARCH 2019 (unaudited restated figures)**

|   | Equity attributable to the equity holders of the Parent |                  |   |   |   | Total             | Non-controlling interests | Total equity      |
|---|---|------------------|---|---|---|-------------------|---------------------------|-------------------|
|   | Issued capital  | Reserve capital  | Revaluation reserve on valuation of hedging instruments | Foreign exchange differences from translation of foreign entities | Retained earnings/ (Accumulated losses) |                   |                           |                   |
| <b>As at 1 January 2019</b>                             | <b>8 762 747</b>  | <b>8 511 437</b> | <b>3 371</b>  | <b>14 016</b>   | <b>1 004 253</b>                        | <b>18 295 824</b> | <b>132 657</b>            | <b>18 428 481</b> |
| Shares subscribed for by non-controlling shareholders   | -   | -                | -   | -   | 4 141                                   | <b>4 141</b>      | 252 784                   | <b>256 925</b>    |
| <b>Transactions with shareholders</b>                   | <b>-</b>  | <b>-</b>         | <b>-</b>  | <b>-</b>  | <b>4 141</b>                            | <b>4 141</b>      | <b>252 784</b>            | <b>256 925</b>    |
| Net profit  | -   | -                | -   | -   | 535 264                                 | <b>535 264</b>    | 498                       | <b>535 762</b>    |
| Other comprehensive income                              | -   | -                | (2 244)   | (1 151)   | 2 371                                   | <b>(1 024)</b>    | 8                         | <b>(1 016)</b>    |
| <b>Total comprehensive income</b>                       | <b>-</b>  | <b>-</b>         | <b>(2 244)</b>  | <b>(1 151)</b>  | <b>537 635</b>                          | <b>534 240</b>    | <b>506</b>                | <b>534 746</b>    |
| <b>As at 31 March 2019 (unaudited restated figures)</b> | <b>8 762 747</b>  | <b>8 511 437</b> | <b>1 127</b>  | <b>12 865</b>   | <b>1 546 029</b>                        | <b>18 834 205</b> | <b>385 947</b>            | <b>19 220 152</b> |

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

**CONDENSED INTERIM CONSOLIDATED STATEMENT OF CASHFLOWS**

| Note  | 3-month period ended<br>31 March 2020<br><i>(unaudited)</i> | 3-month period ended<br>31 March 2019<br><i>(unaudited restated<br/>figures)</i> |
|---|---|--|
| <b>Cash flows from operating activities</b>                               |   |  |
| <b>Profit before taxation</b>   | <b>231 408</b>  | <b>667 879</b>   |
| Share in (profit)/loss of joint ventures                                  | (33 959)  | (42 823)   |
| Depreciation and amortization   | 485 085   | 487 394  |
| Impairment losses on non-financial non-current assets                     | (2 801)   | (249)  |
| Exchange differences  | 239 422   | 1 373  |
| Interest and commissions  | 72 345  | 56 508   |
| Other adjustments of profit before tax                                    | 37 644  | 15 381   |
| Change in working capital   | 42.1 (228 060)  | (1 147 995)  |
| Income tax paid   | 42.1 (61 326)   | (185 801)  |
| <b>Net cash from operating activities</b>                                 | <b>739 758</b>  | <b>(148 333)</b>   |
| <b>Cash flows from investing activities</b>                               |   |  |
| Purchase of property, plant and equipment and intangible assets           | 42.2 (1 131 882)  | (1 036 440)  |
| Loans granted   | 42.2 (19 300)   | (6 375)  |
| Purchase of financial assets  | (9 586)   | (10 109)   |
| <b>Total payments</b>   | <b>(1 160 768)</b>  | <b>(1 052 924)</b>   |
| Proceeds from sale of property, plant and equipment and intangible assets | 3 998   | 5 503  |
| Redemption of share units   | 26 747  | -  |
| Repayment of loans granted  | 4 866   | 2 230  |
| Other proceeds  | 731   | 368  |
| <b>Total proceeds</b>   | <b>36 342</b>   | <b>8 101</b>   |
| <b>Net cash used in investing activities</b>                              | <b>(1 124 426)</b>  | <b>(1 044 823)</b>   |
| <b>Cash flows from financing activities</b>                               |   |  |
| Redemption of debt securities   | (3 100)   | (400 000)  |
| Repayment of loans and borrowings   | 42.3 (1 086 265)  | (37 054)   |
| Interest paid   | 42.3 (16 551)   | (12 732)   |
| Repayment of lease liabilities  | (49 683)  | (43 048)   |
| Other payments  | (9 176)   | (1 518)  |
| <b>Total payments</b>   | <b>(1 164 775)</b>  | <b>(494 352)</b>   |
| Issue of debt securities  | -   | 500 000  |
| Proceeds from non-controlling interests                                   | -   | 256 925  |
| Proceeds from contracted loans  | 42.3 2 000 000  | 730 000  |
| Subsidies and amends received   | 10 701  | 7 666  |
| <b>Total proceeds</b>   | <b>2 010 701</b>  | <b>1 494 591</b>   |
| <b>Net cash from financing activities</b>                                 | <b>845 926</b>  | <b>1 000 239</b>   |
| <b>Net increase/(decrease) in cash and cash equivalents</b>               | <b>461 258</b>  | <b>(192 917)</b>   |
| Net foreign exchange difference   | 312   | (702)  |
| <b>Cash and cash equivalents at the beginning of the period</b>           | <b>29 1 203 601</b>   | <b>807 972</b>   |
| <b>Cash and cash equivalents at the end of the period, of which :</b>     | <b>29 1 664 859</b>   | <b>615 055</b>   |
| restricted cash   | <b>29 1 066 586</b>   | <b>229 418</b>   |

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

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

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

The Parent has been entered in the Register of Entrepreneurs of the National Court Register kept by the District Court for Katowice-Wschód, Business Division of the National Court Register, under number KRS 0000271562.

The duration of the Parent and the companies in the Capital Group is unlimited. The entities operate based on appropriate licenses granted to individual companies of the Group.

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

The Group's condensed interim consolidated financial statements cover the 3-month period ended on 31 March 2020 and contain comparative data for the 3-month period ended 31 March 2019 as well as figures as at 31 December 2019. The data for the 3-month period ended 31 March 2020 and the comparative data for the 3-month period ended 31 March 2019, as contained herein, have not been audited or reviewed by the certified auditor. The comparative data as at 31 December 2019 were audited by the certified auditor.

These condensed interim consolidated financial statements for the 3-month period ended 31 March 2020 were approved for publication on 12 May 2020 .

#### ***Composition of the Management Board***

Composition of the Management Board was as at 31 March 2020:

- Filip Grzegorzczak - 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 there were no changes in the composition of the Company's Management Board.

### **2. Composition of the TAURON Capital Group and joint ventures**

As at 31 March 2020, TAURON Polska Energia S.A. held direct and indirect interest in the following key subsidiaries:

**TAURON Polska Energia S.A. Capital Group**  
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*prepared in accordance with IFRS, as endorsed by the EU*  
*(in '000 PLN)*

| 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 Wydobywanie 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               | 84.76%  | 84.76%  |
| 4    | TAURON Ciepło Sp. z o.o.                                       | Katowice                | Generation               | 100.00%   | 100.00%   |
| 5    | TAURON Serwis Sp. z o.o.                                       | Katowice                | Generation               | 95.61%  | 95.61%  |
| 6    | TAURON Ekoenergia Sp. z o.o.                                   | Jelenia Góra            | Renewable Energy Sources | 100.00%   | 100.00%   |
| 7    | Marselwind Sp. z o.o.  | Katowice                | Renewable Energy Sources | 100.00%   | 100.00%   |
| 8    | TEC1 Sp. z o.o.  | Katowice                | Renewable Energy Sources | 100.00%   | 100.00%   |
| 9    | TEC2 Sp. z o.o.  | Katowice                | Renewable Energy Sources | 100.00%   | 100.00%   |
| 10   | TEC3 Sp. z o.o.  | Katowice                | Renewable Energy Sources | 100.00%   | 100.00%   |
| 11   | TEC1 spółka z ograniczoną odpowiedzialnością Mogilno I sp.k.   | Katowice                | Renewable Energy Sources | n/a   | 100.00%   |
| 12   | TEC1 spółka z ograniczoną odpowiedzialnością Mogilno II sp.k.  | Katowice                | Renewable Energy Sources | n/a   | 100.00%   |
| 13   | TEC1 spółka z ograniczoną odpowiedzialnością Mogilno III sp.k. | Katowice                | Renewable Energy Sources | n/a   | 100.00%   |
| 14   | TEC1 spółka z ograniczoną odpowiedzialnością Mogilno IV sp.k.  | Katowice                | Renewable Energy Sources | n/a   | 100.00%   |
| 15   | TEC1 spółka z ograniczoną odpowiedzialnością Mogilno V sp.k.   | Katowice                | Renewable Energy Sources | n/a   | 100.00%   |
| 16   | TEC1 spółka z ograniczoną odpowiedzialnością Mogilno VI sp.k.  | Katowice                | Renewable Energy Sources | n/a   | 100.00%   |
| 17   | TEC1 spółka z ograniczoną odpowiedzialnością EW Śniatowo sp.k. | Katowice                | Renewable Energy Sources | n/a   | 100.00%   |
| 18   | TEC1 spółka z ograniczoną odpowiedzialnością EW Dobrzyń sp.k.  | Katowice                | Renewable Energy Sources | n/a   | 100.00%   |
| 19   | TEC1 spółka z ograniczoną odpowiedzialnością EW Gołdap sp.k.   | Katowice                | Renewable Energy Sources | n/a   | 100.00%   |
| 20   | TEC1 spółka z ograniczoną odpowiedzialnością Ino 1 sp.k.       | Katowice                | Renewable Energy Sources | n/a   | 100.00%   |
| 21   | TAURON Dystrybucja S.A.  | Kraków                  | Distribution             | 99.75%  | 99.75%  |
| 22   | TAURON Dystrybucja Pomiary Sp. z o.o. <sup>1</sup>             | Tarnów                  | Distribution             | 99.75%  | 99.75%  |
| 23   | TAURON Sprzedaż Sp. z o.o.                                     | Kraków                  | Sales                    | 100.00%   | 100.00%   |
| 24   | TAURON Sprzedaż GZE Sp. z o.o.                                 | Gliwice                 | Sales                    | 100.00%   | 100.00%   |
| 25   | TAURON Czech Energy s.r.o.                                     | Ostrawa, Czech Republic | Sales                    | 100.00%   | 100.00%   |
| 26   | TAURON Dystrybucja Serwis S.A.                                 | Wrocław                 | Sales                    | 100.00%   | 100.00%   |
| 27   | TAURON Obsługa Klienta Sp. z o.o.                              | Wrocław                 | Other                    | 100.00%   | 100.00%   |
| 28   | Kopalnia Wapienia Czatkowice Sp. z o.o.                        | Krzyszowice             | Other                    | 100.00%   | 100.00%   |
| 29   | Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o.           | Warszawa                | Other                    | 100.00%   | 100.00%   |
| 30   | Finanse Grupa TAURON Sp. z o.o.                                | Katowice                | Other                    | 100.00%   | 100.00%   |
| 31   | Bioeko Grupa TAURON Sp. z o.o.                                 | Stalowa Wola            | Other                    | 100.00%   | 100.00%   |
| 32   | Wsparcie Grupa TAURON Sp. z o.o. <sup>1</sup>                  | Tarnów                  | Other                    | 99.75%  | 99.75%  |

<sup>1</sup>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.

As at 31 March 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. <sup>1</sup> | Stalowa Wola            | Generation        | 50.00%   |
| 2    | TAMEH HOLDING Sp. z o.o. <sup>2</sup>            | Dąbrowa Górnicza        | Generation        | 50.00%   |
| 3    | TAMEH POLSKA Sp. z o.o. <sup>2</sup>             | Dąbrowa Górnicza        | Generation        | 50.00%   |
| 4    | TAMEH Czech s.r.o. <sup>2</sup>                  | Ostrawa, Czech Republic | Generation        | 50.00%   |

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

<sup>2</sup>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. with Magenta Grupa TAURON Sp. z o.o.***

On 29 October 2019, the Extraordinary General Meeting of Shareholders of TAURON Dystrybucja Serwis 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. (the acquirer) 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.

### ***Contributions to the capital 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 the contribution to the company's share capital in the amount of PLN 8 016 thousand. The cash was contributed by the Company on 10 January 2020. Until the date these condensed interim consolidated financial statements were authorized for issue, no additional contributions to equity were registered.

### ***Increase of issued capital in Nowe Jaworzno Grupa TAURON Sp. z o.o.***

On 02 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 05 March 2020, the Company provided funds for capital increase. As a result of the transaction, the Company's share in the issued capital and in votes at the General Meeting will be increased from 84.76% to 85.88%. Until the date these condensed interim consolidated financial statements were authorized for issue, no increase were registered.

## **3. Statement of compliance**

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

The condensed interim consolidated financial statements do not 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**

These condensed interim consolidated financial statements have been prepared on the assumption that the Group will continue as a going concern in the foreseeable future. As at the date these condensed interim consolidated financial statements were authorized for issue, there were no circumstances that would indicate a risk to the Group's companies ability to continue as a going concern.

During the 3-month period ended 31 March 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 going concern in the foreseeable future, including the description of the impact of the COVID-19 epidemic on the Group's operations, as described in detailed in Note 49 hereto.

## **5. Functional and presentation Currency**

The Polish zloty is the functional currency of the Parent and the subsidiaries covered by these condensed interim consolidated financial statements, except TAURON Czech Energy s.r.o., and the presentation currency of these condensed interim consolidated financial statements. The functional currency of TAURON Czech Energy s.r.o. is the Czech koruna ("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 condensed interim consolidated financial statements have been presented in the Polish zloty ("PLN") and all figures are in PLN thousand, unless stated otherwise.

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

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

##### **Estimates and assumptions**

With regard to receivables from buyers, the Group 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 customers, the Group 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 customers 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 Group companies' 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 customers, the Group has made a number of adjustments:

- adjustments to the credit ratings assigned to entities operating in the industries which are expected to be most affected by COVID-19,
- probability of default adjustments based on Credit Default Swap (CDS) quotations, diversified according to the counterparty's internal rating.

In order to take into account the impact of future factors (including COVID-19) on the portfolio of other counterparties, the Group assumed an increase in selected percentages reflecting the expected repayment of receivables, in proportion to the increase observed as at 31 March 2020.

##### **COVID-19 impact on the level of estimates made**

The estimated effect of the impact of COVID-19 on the repayment of receivables from buyers and the related expected credit loss in future periods was PLN 9 149 thousand, which affected the burden on the Group's operating result for the 3-month period ended 31 March 2020. The total expected credit loss as at 31 March 2020 calculated for receivables from buyers (excluding receivables claimed in court) was estimated at PLN 49 298 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 condensed interim 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**

The Group makes appropriate classification and valuation of granted loans.

For loans classified as assets measured at amortized cost, the Group 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 Group made adjustments to the probability of default 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 methodology of the estimates made resulted in the following changes affecting the Group's financial result for the 3-month period ended 31 March 2020 in total amount PLN 52 055 thousand:

- increase in expected credit losses calculated for loans granted to joint ventures by PLN 1 972 thousand and for other financial assets by PLN 346 thousand,
- decrease in the fair value of loans granted to joint ventures by PLN 14 262 thousand,
- increase in expected credit losses calculated for contingent liabilities under the guarantee issued by the Company by PLN 35 475 thousand, which according to IFRS 9 *Financial Instruments* was recognized 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 the scope of analysis for expected credit losses to be extended for the purposes of the next condensed interim consolidated financial statements.

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## **6.2. Other material values based on professional judgement and estimates**

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

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| Item                          | Note                                     | Estimates and assumptions   |
|-------------------------------|--|---|
| Property, plant and equipment | Note 15                                  | <p>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.</p> <p>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 impairment losses are effective as of the beginning of the reporting period in which the review was completed.</p> |
| Right-of-use assets           | Note 16                                  | <p>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.</p> <p>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.</p>           |
| Deferred tax assets           | Note 24                                  | At the end of each reporting period, the Group verifies whether or not the deferred tax assets may be realized.   |
| Provisions                    | Note 32<br>Note 33<br>Note 34<br>Note 35 | The value of provisions is determined based on assumptions made by the Group as well as a methodology and calculation method that is appropriate for a specific provision. To this end, the Group verifies the probability of an outflow of resources embodying economic benefits and estimates reliably the amount necessary to fulfil the obligation. Provisions are recognized if the probability of an outflow of resources embodying economic benefits is higher than 50%.   |
| Derivative instruments        | Note 43.2                                | As at the end of each reporting period, derivatives are measured at fair value. Derivative instruments acquired and held for internal purposes are not measured at the end of the reporting period.   |

Additionally, the Group makes significant estimates as regards the contingent liabilities it discloses, and in particular as regards court cases the Group's companies are party to. Contingent liabilities have been presented in detail in Note 46 hereto.

## 7. Published 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 issued by the International Accounting Standards Board and amendments to standards which have not been endorsed by the European Union and are not yet effective**

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

| Standard   | Effective date specified in the Standard, not endorsed by the EU (annual periods beginning on or after the date provided) |
|--|---|
| IFRS 14 <i>Regulatory Deferral Accounts</i>  | 1 January 2016*   |
| IFRS 17 <i>Insurance contracts</i>   | 1 January 2021  |
| Revised IFRS 10 <i>Consolidated Financial Statements</i> and IAS 28 <i>Investments in Associates and Joint Ventures: Sale or Contribution of Assets between Investor and its Associate or Joint Venture</i> with subsequent amendments | the effective date has been postponed   |
| Amendments to IAS 1 <i>Presentation of Financial Statements: Classification of Liabilities as Current or Non-current</i>   | 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 principles (policy)

### **Application of amendments to standards**

The accounting principles (policy) adopted for the preparation of these condensed interim consolidated financial statements are consistent with those adopted for the preparation of the annual consolidated financial statements of the Group for the year ended 31 December 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 had not material impact on the accounting principles (policy) applied thus far.

| Standard  | Effective date in the EU ( <i>annual periods beginning on or after the date provided</i> ) |
|---|--|
| Revised IAS 1 <i>Presentation of Financial Statements</i> and IAS 8 <i>Accounting Policies, Changes in Accounting Estimates and Errors: Definition of Material</i>  | 1 January 2020   |
| Amendments to References to the Conceptual Framework in IFRS  | 1 January 2020   |
| Amendments to IFRS 9 <i>Financial Instruments</i> , IAS 39 <i>Financial Instruments: Recognition and Measurement</i> and IFRS 7 <i>Financial Instruments: Disclosures: Interest Rate Benchmark Reform</i> | 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.

### **Other changes in accounting and presentation principles applied by the Group**

In the condensed interim consolidated financial statements for the 3-month period ended 31 March 2019, in connection with the entry into force of IFRS 16 *Leases*, as at 1 January 2019 the Group estimated and recognized right-of-use assets and lease liabilities to the best knowledge at the time of approving the above financial statement 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 3-month period ended 31 March 2019 is due to a change in the estimation of the amount of right-of-use assets and lease liabilities recognized as at 1 January 2019. As a result of the summary of decisions taken during public meetings issued by the IFRS Interpretation Committee in June 2019 regarding, inter alia, the interpretation of titles to underground parts of land in relation to IFRS 16 *Leasing*, the TAURON Group performed additional analyses of selected contract groups to determine whether they fall within the scope of IFRS 16 *Leases*, in the context of the conclusions adopted by the IFRS Interpretation Committee. The contract groups covered by these additional analyses included in particular lease, rent, usufruct, easement and other innominate contracts regarding parts of land occupied by linear infrastructure, and decisions regarding the location of power devices in the public right-to-way. As a result of the works carried out, the Group concluded that the above agreements are leases in line 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 condensed interim consolidated financial statements for the 3-month period ended 31 March 2020, the Group restated the comparable data. The impact of the change described above on the condensed interim consolidated financial statement of comprehensive income as at 31 March 2019 is presented in the table below:

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|  | 3-month period<br>ended<br>31 March 2020<br><i>(unaudited)</i> | Recognition of right-of-<br>use assets and lease<br>liabilities | 3-month period ended<br>31 March 2019<br><i>(restated figures)</i> |
|--|--|---|--|
| Sales revenue                            | 5 312 809  |   | 5 312 809  |
| Cost of sales                            | (4 377 720)  | 16 705  | (4 361 015)  |
| <b>Profit on sale</b>                    | <b>935 089</b>   | <b>16 705</b>   | <b>951 794</b>   |
| Selling and distribution expenses        | (106 695)  |   | (106 695)  |
| Administrative expenses                  | (154 874)  |   | (154 874)  |
| Other operating income and expenses      | 11 624   |   | 11 624   |
| Share in profit/(loss) of joint ventures | 42 823   |   | 42 823   |
| <b>Operating profit</b>                  | <b>727 967</b>   | <b>16 705</b>   | <b>744 672</b>   |
| Interest expense on debt                 | (54 882)   | (3 038)   | (57 920)   |
| Finance income and other finance costs   | (18 873)   |   | (18 873)   |
| <b>Profit before tax</b>                 | <b>654 212</b>   | <b>13 667</b>   | <b>667 879</b>   |
| Income tax expense                       | (129 520)  | (2 597)   | (132 117)  |
| <b>Net profit</b>                        | <b>524 692</b>   | <b>11 070</b>   | <b>535 762</b>   |

## 9. Seasonality of activities

The Group's operations are seasonal.

Sale of heat depends on weather conditions, in particular air temperature, and is higher in autumn and winter. Sales of electricity to individual customers depend on the length of the day, i.e. it is usually lower in spring and summer and higher in autumn and winter. Sales of coal to individual customers is higher in autumn and winter. The seasonality of other areas of the Group's operations is insignificant.

## OPERATING SEGMENTS

### 10. Information on operating segments

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

The Group is organized and managed by segments, 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 principles (policy) 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 Group as a whole and are not directly attributable 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 derivatives 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 the loss on measurement of commodity derivatives, 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 write-downs on non-financial assets. EBIT is the profit/(loss) on continuing operations before tax, finance income and finance costs, i.e. operating profit/(loss).

***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 31 March 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 3-month period ended 31 March 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.

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| Operating segments  | Core business  | Subsidiaries/<br>Entities recognized with the equity method  |
|---|--|--|
| <b>Mining</b>   |  |  |
|    | <i>Hard coal mining</i>  | TAURON Wydobywcie S.A.   |
| <b>Generation</b>   |  |  |
|    | <i>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.</i> | TAURON Wytwarzanie S.A.<br>Nowe Jaworzno Grupa TAURON Sp. z o.o.<br>TAURON Ciepło Sp. z o.o.<br>TAURON Serwis Sp. z o.o.<br>TAMEH HOLDING Sp. z o.o.*<br>TAMEH POLSKA Sp. z o.o.*<br>TAMEH Czech s.r.o.*<br>Elektrociepłownia Stalowa Wola S.A.*   |
|    | <i>Generation, distribution and sales of heat</i>  |  |
| <b>Renewable Energy Sources</b>   |  |  |
|   | <i>Generation of electricity using renewable sources</i>   | TAURON Ekoenergia Sp. z o.o.<br>Marselwind Sp. z o.o.<br>TEC1 Sp. z o.o.<br>TEC2 Sp. z o.o.<br>TEC3 Sp. z o.o.<br>TEC1 spółka z ograniczoną odpowiedzialnością Mogilno I sp.k.<br>TEC1 spółka z ograniczoną odpowiedzialnością Mogilno II sp.k.<br>TEC1 spółka z ograniczoną odpowiedzialnością Mogilno III sp.k.<br>TEC1 spółka z ograniczoną odpowiedzialnością Mogilno IV sp.k.<br>TEC1 spółka z ograniczoną odpowiedzialnością Mogilno V sp.k.<br>TEC1 spółka z ograniczoną odpowiedzialnością Mogilno VI sp.k.<br>TEC1 spółka z ograniczoną odpowiedzialnością EW Śniatowo sp.k.<br>TEC1 spółka z ograniczoną odpowiedzialnością EW Dobrzyń sp.k.<br>TEC1 spółka z ograniczoną odpowiedzialnością EW Goldap sp.k.<br>TEC1 spółka z ograniczoną odpowiedzialnością Ino 1 sp.k. |
| <b>Distribution</b>   |  |  |
|  | <i>Distribution of electricity</i>   | TAURON Dystrybucja S.A.<br>TAURON Dystrybucja Pomiary Sp. z o.o.   |
| <b>Sales</b>  |  |  |
|  | <i>Wholesale trading in electricity, trading in CO<sub>2</sub> emission allowances and energy certificates and sale of electricity to domestic end users or entities which further resell electricity</i>  | TAURON Polska Energia S.A.<br>TAURON Sprzedaż Sp. z o.o.<br>TAURON Sprzedaż GZE Sp. z o.o.<br>TAURON Czech Energy s.r.o.<br>TAURON Dystrybucja Serwis S.A.   |

\* Entities recognized with the equity method

In addition to the key operating segments listed above, the TAURON Group also conducts operations in quarrying stone (including limestone) for the power industry, metallurgy, construction and highway engineering industry as well as in the area of production of sorbents for use in wet desulphurization installations and fluidized bed combustors (Kopalnia Wapienia Czatkowice Sp. z o.o.). The operations of TAURON Obsługa Klienta Sp. z o.o., 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.

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## 10.1. Operating segments

For the 3-month period ended on 31 March 2020 or as at 31 March 2020 (unaudited)

|  | Mining           | Generation        | Renewable Energy Sources | Distribution      | Sales            | Other          | Unallocated items / Eliminations | Total             |
|--|------------------|-------------------|--------------------------|-------------------|------------------|----------------|----------------------------------|-------------------|
| <b>Revenue</b>                           |                  |                   |                          |                   |                  |                |                                  |                   |
| Sales to external customers              | 66 931           | 958 928           | 57 641                   | 858 881           | 3 496 098        | 29 287         | -                                | 5 467 766         |
| Inter-segment sales                      | 169 493          | 196 030           | 141 526                  | 930 144           | 734 744          | 233 182        | (2 405 119)                      | -                 |
| <b>Total Segment revenue</b>             | <b>236 424</b>   | <b>1 154 958</b>  | <b>199 167</b>           | <b>1 789 025</b>  | <b>4 230 842</b> | <b>262 469</b> | <b>(2 405 119)</b>               | <b>5 467 766</b>  |
| <b>Profit/(loss) of the segment</b>      |                  |                   |                          |                   |                  |                |                                  |                   |
| Share in profit/(loss) of joint ventures | -                | 33 959            | -                        | -                 | -                | -              | -                                | 33 959            |
| Unallocated expenses                     | -                | -                 | -                        | -                 | -                | -              | (26 190)                         | (26 190)          |
| <b>EBIT</b>                              | <b>(83 891)</b>  | <b>(12 723)</b>   | <b>83 282</b>            | <b>400 435</b>    | <b>170 771</b>   | <b>17 730</b>  | <b>(101 553)</b>                 | <b>474 051</b>    |
| Net finance income (costs)               | -                | -                 | -                        | -                 | -                | -              | (242 643)                        | (242 643)         |
| <b>Profit/(loss) before income tax</b>   | <b>(83 891)</b>  | <b>(12 723)</b>   | <b>83 282</b>            | <b>400 435</b>    | <b>170 771</b>   | <b>17 730</b>  | <b>(344 196)</b>                 | <b>231 408</b>    |
| Income tax expense                       | -                | -                 | -                        | -                 | -                | -              | (69 933)                         | (69 933)          |
| <b>Net profit/(loss) for the period</b>  | <b>(83 891)</b>  | <b>(12 723)</b>   | <b>83 282</b>            | <b>400 435</b>    | <b>170 771</b>   | <b>17 730</b>  | <b>(414 129)</b>                 | <b>161 475</b>    |
| <b>Assets and liabilities</b>            |                  |                   |                          |                   |                  |                |                                  |                   |
| Segment assets                           | 1 407 752        | 12 028 973        | 2 460 727                | 19 457 317        | 5 683 262        | 645 685        | -                                | 41 683 716        |
| Investments in joint ventures            | -                | 591 392           | -                        | -                 | -                | -              | -                                | 591 392           |
| Unallocated assets                       | -                | -                 | -                        | -                 | -                | -              | 665 972                          | 665 972           |
| <b>Total assets</b>                      | <b>1 407 752</b> | <b>12 620 365</b> | <b>2 460 727</b>         | <b>19 457 317</b> | <b>5 683 262</b> | <b>645 685</b> | <b>665 972</b>                   | <b>42 941 080</b> |
| Segment liabilities                      | 870 646          | 1 963 250         | 198 409                  | 2 043 905         | 1 902 780        | 439 359        | -                                | 7 418 349         |
| Unallocated liabilities                  | -                | -                 | -                        | -                 | -                | -              | 16 339 629                       | 16 339 629        |
| <b>Total liabilities</b>                 | <b>870 646</b>   | <b>1 963 250</b>  | <b>198 409</b>           | <b>2 043 905</b>  | <b>1 902 780</b> | <b>439 359</b> | <b>16 339 629</b>                | <b>23 757 978</b> |
| <b>EBIT</b>                              | <b>(83 891)</b>  | <b>(12 723)</b>   | <b>83 282</b>            | <b>400 435</b>    | <b>170 771</b>   | <b>17 730</b>  | <b>(101 553)</b>                 | <b>474 051</b>    |
| Depreciation/amortization                | (46 006)         | (82 647)          | (37 788)                 | (285 573)         | (11 660)         | (21 411)       | -                                | (485 085)         |
| Impairment                               | (1 530)          | 440               | -                        | 2 465             | (1)              | 361            | -                                | 1 735             |
| <b>EBITDA</b>                            | <b>(36 355)</b>  | <b>69 484</b>     | <b>121 070</b>           | <b>683 543</b>    | <b>182 432</b>   | <b>38 780</b>  | <b>(101 553)</b>                 | <b>957 401</b>    |
| <b>Other segment information</b>         |                  |                   |                          |                   |                  |                |                                  |                   |
| Capital expenditure *                    | 55 281           | 361 425           | 1 171                    | 485 336           | 11 456           | 25 173         | -                                | 939 842           |

\* Capital expenditure includes expenditures for property, plant and equipment and intangible assets, excluding acquisition of CO<sub>2</sub> emission allowances and energy certificates.

For the 3-month period ended on 31 March 2019 (unaudited restated figures) or as at 31 December 2019 (restated)

|  | Mining           | Generation        | Renewable Energy Sources | Distribution      | Sales            | Other          | Unallocated items / Eliminations | Total             |
|--|------------------|-------------------|--------------------------|-------------------|------------------|----------------|----------------------------------|-------------------|
| <b>Revenue</b>                           |                  |                   |                          |                   |                  |                |                                  |                   |
| Sales to external customers              | 107 745          | 1 000 353         | 26 796                   | 783 772           | 3 368 780        | 25 363         | -                                | 5 312 809         |
| Inter-segment sales                      | 184 121          | 276 819           | 84 980                   | 897 449           | 542 642          | 223 153        | (2 209 164)                      | -                 |
| <b>Total Segment revenue</b>             | <b>291 866</b>   | <b>1 277 172</b>  | <b>111 776</b>           | <b>1 681 221</b>  | <b>3 911 422</b> | <b>248 516</b> | <b>(2 209 164)</b>               | <b>5 312 809</b>  |
| <b>Profit/(loss) of the segment</b>      |                  |                   |                          |                   |                  |                |                                  |                   |
| Share in profit/(loss) of joint ventures | -                | 42 823            | -                        | -                 | -                | -              | -                                | 42 823            |
| Unallocated expenses                     | -                | -                 | -                        | -                 | -                | -              | (31 082)                         | (31 082)          |
| <b>EBIT</b>                              | <b>(95 917)</b>  | <b>231 479</b>    | <b>49 094</b>            | <b>403 520</b>    | <b>155 224</b>   | <b>22 026</b>  | <b>(20 754)</b>                  | <b>744 672</b>    |
| Net finance income (costs)               | -                | -                 | -                        | -                 | -                | -              | (76 793)                         | (76 793)          |
| <b>Profit/(loss) before income tax</b>   | <b>(95 917)</b>  | <b>231 479</b>    | <b>49 094</b>            | <b>403 520</b>    | <b>155 224</b>   | <b>22 026</b>  | <b>(97 547)</b>                  | <b>667 879</b>    |
| Income tax expense                       | -                | -                 | -                        | -                 | -                | -              | (132 117)                        | (132 117)         |
| <b>Net profit/(loss) for the period</b>  | <b>(95 917)</b>  | <b>231 479</b>    | <b>49 094</b>            | <b>403 520</b>    | <b>155 224</b>   | <b>22 026</b>  | <b>(229 664)</b>                 | <b>535 762</b>    |
| <b>Assets and liabilities</b>            |                  |                   |                          |                   |                  |                |                                  |                   |
| Segment assets                           | 1 294 329        | 12 902 388        | 1 750 751                | 19 176 164        | 4 730 135        | 648 705        | -                                | 40 502 472        |
| Investments in joint ventures            | -                | 559 144           | -                        | -                 | -                | -              | -                                | 559 144           |
| Unallocated assets                       | -                | -                 | -                        | -                 | -                | -              | 856 149                          | 856 149           |
| <b>Total assets</b>                      | <b>1 294 329</b> | <b>13 461 532</b> | <b>1 750 751</b>         | <b>19 176 164</b> | <b>4 730 135</b> | <b>648 705</b> | <b>856 149</b>                   | <b>41 917 765</b> |
| Segment liabilities                      | 928 077          | 2 163 199         | 112 227                  | 2 011 950         | 1 855 630        | 511 992        | -                                | 7 583 075         |
| Unallocated liabilities                  | -                | -                 | -                        | -                 | -                | -              | 15 242 030                       | 15 242 030        |
| <b>Total liabilities</b>                 | <b>928 077</b>   | <b>2 163 199</b>  | <b>112 227</b>           | <b>2 011 950</b>  | <b>1 855 630</b> | <b>511 992</b> | <b>15 242 030</b>                | <b>22 825 105</b> |
| <b>EBIT</b>                              | <b>(95 917)</b>  | <b>231 479</b>    | <b>49 094</b>            | <b>403 520</b>    | <b>155 224</b>   | <b>22 026</b>  | <b>(20 754)</b>                  | <b>744 672</b>    |
| Depreciation/amortization                | (51 636)         | (83 430)          | (22 787)                 | (297 539)         | (9 707)          | (22 295)       | -                                | (487 394)         |
| Impairment                               | -                | (224)             | -                        | 89                | -                | (123)          | -                                | (258)             |
| <b>EBITDA</b>                            | <b>(44 281)</b>  | <b>315 133</b>    | <b>71 881</b>            | <b>700 970</b>    | <b>164 931</b>   | <b>44 444</b>  | <b>(20 754)</b>                  | <b>1 232 324</b>  |
| <b>Other segment information</b>         |                  |                   |                          |                   |                  |                |                                  |                   |
| Capital expenditure *                    | 118 858          | 234 707           | 1 231                    | 350 763           | 4 395            | 16 590         | -                                | 726 544           |

\* Capital expenditure includes expenditures for property, plant and equipment and intangible assets, excluding acquisition of CO<sub>2</sub> emission allowances and energy certificates.

**EXPLANATORY NOTES TO THE CONDENSED INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

**11. Sales revenue**

|   | 3-month period ended<br>31 March 2020 | 3-month period ended<br>31 March 2019 |
|---|---------------------------------------|---------------------------------------|
|   | <i>(unaudited)</i>                    | <i>(unaudited)</i>                    |
| <b>Sale of goods for resale, finished goods and materials without elimination of excise</b> | <b>3 697 905</b>                      | <b>3 667 234</b>                      |
| Excise  | (29 172)                              | (30 981)                              |
| <b>Sale of goods for resale, finished goods and materials</b>                               | <b>3 668 733</b>                      | <b>3 636 253</b>                      |
| Electricity   | 3 133 549                             | 3 114 413                             |
| Heat energy   | 237 017                               | 236 411                               |
| Gas   | 116 149                               | 100 790                               |
| Coal  | 55 725                                | 96 052                                |
| Energy certificates and similar   | 73 228                                | 35 066                                |
| Other goods for resale, finished goods and materials  | 53 065                                | 53 521                                |
| <b>Rendering of services</b>  | <b>1 781 703</b>                      | <b>1 660 441</b>                      |
| Distribution and trade services   | 1 710 099                             | 1 592 640                             |
| Maintenance of road lighting  | 29 688                                | 29 438                                |
| Connection fees   | 19 808                                | 18 858                                |
| Other services  | 22 108                                | 19 505                                |
| <b>Other revenue</b>  | <b>17 330</b>                         | <b>16 115</b>                         |
| <b>Total</b>  | <b>5 467 766</b>                      | <b>5 312 809</b>                      |

In the 3-month period ended 31 March 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:

- coal - the decrease in revenue from coal sales results from a lower volume of coal sold;
- energy certificates - the increase in revenues from energy certificates is mainly related to the increase in the production volume of energy certificates from renewable sources in the Group's wind farms, including five wind farms acquired on 3 September 2019, previously belonging to the in.ventus group;
- distribution and trade services - higher revenues from sales of distribution and trade services are related to the increase in the distribution service rate, with a simultaneous decrease in the volume of sales.

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

**For the 3 month-period ended 31 March 2020 (unaudited)**

|   | Mining        | Generation     | Renewable<br>Energy Sources | Distribution   | Sales            | Other         | Total            |
|---|---------------|----------------|-----------------------------|----------------|------------------|---------------|------------------|
| <b>Sale of goods for resale, finished goods and materials</b> | <b>63 302</b> | <b>880 196</b> | <b>57 165</b>               | <b>626</b>     | <b>2 643 074</b> | <b>24 370</b> | <b>3 668 733</b> |
| Electricity   | -             | 625 750        | 1 650                       | -              | 2 502 558        | 3 591         | 3 133 549        |
| Heat energy   | 4             | 237 013        | -                           | -              | -                | -             | 237 017          |
| Gas   | -             | -              | -                           | -              | 116 149          | -             | 116 149          |
| Coal  | 55 725        | -              | -                           | -              | -                | -             | 55 725           |
| Energy certificates and similar                               | 572           | 16 898         | 55 515                      | -              | 243              | -             | 73 228           |
| Other goods for resale, finished goods and materials          | 7 001         | 535            | -                           | 626            | 24 124           | 20 779        | 53 065           |
| <b>Rendering of services</b>                                  | <b>3 192</b>  | <b>74 620</b>  | <b>368</b>                  | <b>849 583</b> | <b>852 120</b>   | <b>1 820</b>  | <b>1 781 703</b> |
| Distribution and trade services                               | -             | 70 674         | -                           | 819 281        | 820 144          | -             | 1 710 099        |
| Maintenance of road lighting                                  | -             | -              | -                           | -              | 29 688           | -             | 29 688           |
| Connection fees   | -             | -              | -                           | 19 795         | -                | 13            | 19 808           |
| Other services  | 3 192         | 3 946          | 368                         | 10 507         | 2 288            | 1 807         | 22 108           |
| <b>Other revenue</b>  | <b>437</b>    | <b>4 112</b>   | <b>108</b>                  | <b>8 672</b>   | <b>904</b>       | <b>3 097</b>  | <b>17 330</b>    |
| <b>Total</b>  | <b>66 931</b> | <b>958 928</b> | <b>57 641</b>               | <b>858 881</b> | <b>3 496 098</b> | <b>29 287</b> | <b>5 467 766</b> |

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**For the 3-month period ended 31 March 2019 (unaudited restated figures)**

|   | Mining         | Generation       | Renewable<br>Energy Sources | Distribution   | Sales            | Other         | Total            |
|---|----------------|------------------|-----------------------------|----------------|------------------|---------------|------------------|
| <b>Sale of goods for resale, finished goods and materials</b> | <b>101 694</b> | <b>924 531</b>   | <b>26 418</b>               | <b>614</b>     | <b>2 562 436</b> | <b>20 560</b> | <b>3 636 253</b> |
| Electricity   | -              | 676 883          | 1 446                       | -              | 2 436 084        | -             | 3 114 413        |
| Heat energy   | -              | 236 411          | -                           | -              | -                | -             | 236 411          |
| Gas   | -              | -                | -                           | -              | 100 790          | -             | 100 790          |
| Coal  | 96 052         | -                | -                           | -              | -                | -             | 96 052           |
| Energy certificates and similar                               | -              | 10 181           | 24 885                      | -              | -                | -             | 35 066           |
| Other goods for resale, finished goods and materials          | 5 642          | 1 056            | 87                          | 614            | 25 562           | 20 560        | 53 521           |
| <b>Rendering of services</b>                                  | <b>5 707</b>   | <b>72 067</b>    | <b>266</b>                  | <b>774 943</b> | <b>805 559</b>   | <b>1 899</b>  | <b>1 660 441</b> |
| Distribution and trade services                               | -              | 70 733           | -                           | 747 930        | 773 977          | -             | 1 592 640        |
| Maintenance of road lighting                                  | -              | -                | -                           | -              | 29 438           | -             | 29 438           |
| Connection fees   | -              | 63               | -                           | 18 795         | -                | -             | 18 858           |
| Other services  | 5 707          | 1 271            | 266                         | 8 218          | 2 144            | 1 899         | 19 505           |
| <b>Other revenue</b>  | <b>344</b>     | <b>3 755</b>     | <b>112</b>                  | <b>8 215</b>   | <b>785</b>       | <b>2 904</b>  | <b>16 115</b>    |
| <b>Total</b>  | <b>107 745</b> | <b>1 000 353</b> | <b>26 796</b>               | <b>783 772</b> | <b>3 368 780</b> | <b>25 363</b> | <b>5 312 809</b> |

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

|  | 3-month period ended<br>31 March 2020<br><i>(unaudited)</i> | 3-month period ended<br>31 March 2019<br><i>(unaudited)</i> |
|--|---|---|
| <b>Revenue from sales of electricity</b> | <b>3 133 549</b>  | <b>3 114 413</b>  |
| <b>Retail sale</b>                       | <b>2 304 423</b>  | <b>2 132 083</b>  |
| Strategic clients                        | 272 096   | 324 498   |
| Business clients                         | 1 111 613   | 989 933   |
| Mass clients, including:                 | 929 956   | 830 272   |
| G group                                  | 699 803   | 620 978   |
| Other                                    | 19 930  | 18 361  |
| Excise duty                              | (29 172)  | (30 981)  |
| <b>Wholesale</b>                         | <b>693 768</b>  | <b>810 441</b>  |
| <b>Operational capacity reserve</b>      | <b>42 635</b>   | <b>48 814</b>   |
| <b>Other</b>                             | <b>92 723</b>   | <b>123 075</b>  |

**12. Expenses by type**

|  | 3-month period ended<br>31 March 2020<br><i>(unaudited)</i> | 3-month period ended<br>31 March 2019<br><i>(unaudited restated<br/>figures)</i> |
|--|---|--|
| Depreciation of property, plant and equipment, right-of-use assets and amortization of intangible assets | (485 085)   | (487 394)  |
| Impairment of property, plant and equipment, right-of-use assets and intangible assets                   | 2 801   | 249  |
| Materials and energy   | (412 186)   | (441 406)  |
| Maintenance and repair services  | (49 030)  | (42 184)   |
| Distribution services  | (415 773)   | (370 503)  |
| Other external services  | (188 198)   | (171 148)  |
| Cost of obligation to remit the CO <sub>2</sub> emission allowances                                      | (185 629)   | (120 435)  |
| Other taxes and charges  | (174 771)   | (156 832)  |
| Employee benefits expense  | (761 970)   | (706 742)  |
| Allowance for trade receivables expected credit losses   | (16 497)  | (5 266)  |
| Other  | (20 198)  | (16 239)   |
| <b>Total costs by type</b>   | <b>(2 706 536)</b>  | <b>(2 517 900)</b>   |
| Change in inventories, prepayments, accruals and deferred income   | 73 726  | 42 250   |
| Cost of goods produced for internal purposes   | 208 547   | 162 222  |
| Selling and distribution expenses  | 128 732   | 106 695  |
| Administrative expenses  | 157 476   | 154 874  |
| Cost of goods for resale and materials sold  | (2 608 576)   | (2 309 156)  |
| <b>Cost of sales</b>   | <b>(4 746 631)</b>  | <b>(4 361 015)</b>   |

During the 3-month period ended 31 March 2020, the cost of goods, products, materials and services sold increased in versus the comparable period, mainly due 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 Q1 2020 in relation to the comparable period;
- increase in the cost of distribution services, resulting from the increase in the tariff for distribution services for Polskie Słeci Elektroenergetyczne, which came into force on 6 April 2019 and 1 January 2020;
- increase in the costs of obligatory surrendering of CO<sub>2</sub> emission allowances resulting mostly from the inclusion in the cost of fulfilling the obligation to surrender CO<sub>2</sub> 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 quarter of 2020 was higher than the EUA price included in the redemption cost for the comparable period. The emissions in the current period, on the other hand, have decreased compared to the comparable period;
- increase in the cost of employee benefits, which is a result of the entry into force of the provisions of the salary agreement concluded with community representation in September 2019. In addition, the increase in labour costs was affected by an increase in the minimum wage and higher costs of the write-off to the Company Social Benefits Fund due to an increase the basis for its calculation by 22%;
- Increase value of goods and materials sold, which is the result of recognition in the current period:
  - higher cost of electricity sold as a result of an increase in the purchase price versus comparable period, and a higher volume of electricity purchased from the market;
  - the effects of changing 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 126 966 thousand. As part of the management of the subsidiaries' portfolio of CO<sub>2</sub> emission allowances, the Company acquires allowances for surrender purposes in 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<sub>2</sub> emission allowances, which the Group's manufacturing companies are obliged to surrender. In the first quarter of 2020, the Group decided to change its strategy for securing the surrendering 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 difficult to predict at the time of concluding the transaction. These circumstances include, in particular, increasing costs of maintaining the position on the stock exchange, which is related, among others, to the need to make current contributions to the stock exchange deposits, change of legal and market circumstances in the area of trading in CO<sub>2</sub> emission allowances 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 and at the same time purchased the same volume in contracts with the delivery date in March 2021 from OTC counterparties. All new transactions concluded on the OTC market will be used for the purpose of fulfilling the obligation of surrendering by manufacturing companies of TAURON Group. 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 costs of creating a provision for CO<sub>2</sub> emission liabilities for subsequent reporting periods. As a result of the above, the Group estimates that the combined 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 surrendering needs of the Group's manufacturing companies in a way that minimizes the risks to which the Group is exposed.



**13. Finance income and costs**

|  | 3-month period ended<br>31 March 2020 | 3-month period ended<br>31 March 2019   |
|--|---------------------------------------|---|
|  | <i>(unaudited)</i>                    | <i>(unaudited restated<br/>figures)</i> |
| <b>Income and costs from financial instruments</b>                           | <b>(233 016)</b>                      | <b>(57 754)</b>                         |
| Interest income  | 9 326                                 | 5 952                                   |
| Interest costs   | (72 329)                              | (57 920)                                |
| Commission relating to borrowings and debt securities                        | (1 988)                               | (2 138)                                 |
| Gain/loss on derivative instruments  | 107 232                               | (7 129)                                 |
| Exchange differences   | (228 724)                             | (797)                                   |
| Remeasurement of loans granted   | (10 711)                              | 4 099                                   |
| Other  | (35 822)                              | 179                                     |
| <b>Other finance income and costs</b>  | <b>(9 627)</b>                        | <b>(19 039)</b>                         |
| Interest on employee benefits  | (6 797)                               | (8 170)                                 |
| Interest on discount of other provisions                                     | (2 656)                               | (3 030)                                 |
| Other  | (174)                                 | (7 839)                                 |
| <b>Total, including recognized in the statement of comprehensive income:</b> | <b>(242 643)</b>                      | <b>(76 793)</b>                         |
| Interest expense on debt   | (72 329)                              | (57 920)                                |
| Finance income and other finance costs                                       | (170 314)                             | (18 873)                                |

During the 3-month period ended 31 March 2020 versus comparable period, the main changes in financial income and expenses were as follows:

- an increase in interest costs by PLN 14 409 thousand, mainly due to higher interest costs resulting from new debt obligations with simultaneous higher capitalization of costs for investment tasks. At the same time, in the 3-month period ended 31 March 2020 interest expenses were capitalized in the amount of PLN 47 386 thousand, versus PLN 41 603 thousand in comparative period;
- recognition of a positive result on derivatives on account of measurement and realisation of currency forwards and CCIRS;
- the occurrence of an excess of negative exchange differences over positive ones in the amount of PLN 228 724 thousand, versus PLN 797 thousand in the comparable period. Exchange losses and gains are mainly exchange differences related to the Company's debt in the Euro. In the 3-month period ended 31 March 2020, the surplus of exchange losses exceeded exchange gains amounted to PLN 253 814 thousand, versus PLN 1 376 thousand in the comparative period. At the same time, in the 3-month period ended 31 March 2020 and in the comparable period, the Group activated exchange rate differences for investment tasks in the amount of PLN 15 633 thousand and PLN 430 thousand respectively.
- an increase in the liability arising from the valuation of the guarantee issued by PLN 33 898 thousand, which as at the balance sheet date was valued at the amount of expected credit losses, which was mainly due to the increase due to taking into account the impact of COVID-19 in the amount of PLN 35 475 thousand, as described in detail in Note 6.1 hereto (in the table above presented under other income and expenses from financial instruments).

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**14. Tax expense in the statement of comprehensive income**

|  | 3-month period ended<br>31 March 2020 | 3-month period ended<br>31 March 2019   |
|--|---------------------------------------|---|
|  | <i>(unaudited)</i>                    | <i>(unaudited restated<br/>figures)</i> |
| <b>Current income tax</b>  | <b>(195 417)</b>                      | <b>(192 186)</b>                        |
| Current income tax expense                                       | (189 349)                             | (207 517)                               |
| Adjustments to current income tax from previous years            | (6 068)                               | 15 331                                  |
| <b>Deferred tax</b>  | <b>125 484</b>                        | <b>60 069</b>                           |
| <b>Income tax expense in profit/(loss)</b>                       | <b>(69 933)</b>                       | <b>(132 117)</b>                        |
| <b>Income tax expense relating to other comprehensive income</b> | <b>16 205</b>                         | <b>(4)</b>                              |
| reclassified to profit or loss                                   | 17 136                                | 527                                     |
| not reclassified to profit or loss                               | (931)                                 | (531)                                   |

**EXPLANATORY NOTES TO THE CONDENSED INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

**15. Property, plant and equipment**

For the 3 month-period ended 31 March 2020 *(unaudited)*

|   | Land           | Buildings,<br>premises and<br>civil<br>engineering<br>structures | Plant and<br>machinery | Mine<br>workings | Other            | Assets under<br>construction | Property, plant<br>and<br>equipment,<br>total |
|---|----------------|--|------------------------|------------------|------------------|------------------------------|---|
| <b>COST</b>   |                |  |                        |                  |                  |                              |   |
| <b>Opening balance</b>  | <b>140 554</b> | <b>25 480 506</b>  | <b>20 297 298</b>      | <b>265 001</b>   | <b>957 959</b>   | <b>7 777 093</b>             | <b>54 918 411</b>                             |
| Direct purchase   | -              | -  | -                      | 178              | -                | 760 348                      | 760 526                                       |
| Borrowing costs   | -              | -  | -                      | -                | -                | 62 660                       | 62 660  |
| Transfer of assets under construction                           | 678            | 1 126 008  | 646 086                | -                | 14 318           | (1 787 090)                  | -   |
| Sale  | (239)          | (2 645)  | (17 413)               | -                | (1 574)          | -                            | (21 871)                                      |
| Liquidation   | -              | (12 001)   | (35 996)               | (42 457)         | (3 355)          | -                            | (93 809)                                      |
| Received free of charge   | 637            | 2 304  | -                      | -                | -                | -                            | 2 941   |
| Transfers to/from assets held for sale                          | -              | (4 491)  | (44)                   | -                | (236)            | -                            | (4 771)                                       |
| Overhaul expenses   | -              | -  | -                      | -                | -                | 30 777                       | 30 777  |
| Items generated internally                                      | -              | -  | -                      | 21 446           | -                | 58 275                       | 79 721  |
| Other movements   | 73             | (2 796)  | 6 627                  | -                | (2 323)          | 3 681                        | 5 262   |
| Foreign exchange differences from translation of foreign entity | -              | -  | (3)                    | -                | (3)              | -                            | (6)   |
| <b>Closing balance</b>  | <b>141 703</b> | <b>26 586 885</b>  | <b>20 896 555</b>      | <b>244 168</b>   | <b>964 786</b>   | <b>6 905 744</b>             | <b>55 739 841</b>                             |
| <b>ACCUMULATED DEPRECIATION</b>                                 |                |  |                        |                  |                  |                              |   |
| <b>Opening balance</b>  | <b>(341)</b>   | <b>(10 756 599)</b>  | <b>(12 008 192)</b>    | <b>(116 238)</b> | <b>(655 060)</b> | <b>(282 910)</b>             | <b>(23 819 340)</b>                           |
| Depreciation for the period                                     | -              | (206 539)  | (189 543)              | (26 535)         | (16 960)         | (65)                         | (439 642)                                     |
| Increase of impairment  | (15)           | (12 290)   | (10 000)               | -                | (99)             | -                            | (22 404)                                      |
| Decrease of impairment  | -              | 2 447  | 98                     | -                | 65               | 21 749                       | 24 359  |
| Sale  | 168            | 2 430  | 17 102                 | -                | 1 520            | -                            | 21 220  |
| Liquidation   | -              | 10 177   | 33 789                 | 42 457           | 3 354            | -                            | 89 777  |
| Transfers to/from assets held for sale                          | -              | 2 038  | 44                     | -                | 151              | -                            | 2 233   |
| Other movements   | -              | -  | (1 648)                | -                | 1 579            | (8 747)                      | (8 816)                                       |
| Foreign exchange differences from translation of foreign entity | -              | -  | 1                      | -                | 2                | -                            | 3   |
| <b>Closing balance</b>  | <b>(188)</b>   | <b>(10 958 336)</b>  | <b>(12 158 349)</b>    | <b>(100 316)</b> | <b>(665 448)</b> | <b>(269 973)</b>             | <b>(24 152 610)</b>                           |
| <b>NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD</b>       | <b>140 213</b> | <b>14 723 907</b>  | <b>8 289 106</b>       | <b>148 763</b>   | <b>302 899</b>   | <b>7 494 183</b>             | <b>31 099 071</b>                             |
| <b>NET CARRYING AMOUNT AT THE END OF THE PERIOD</b>             | <b>141 515</b> | <b>15 628 549</b>  | <b>8 738 206</b>       | <b>143 852</b>   | <b>299 338</b>   | <b>6 635 771</b>             | <b>31 587 231</b>                             |
| <i>of which operating segments:</i>                             |                |  |                        |                  |                  |                              |   |
| Mining  | 3 146          | 386 249  | 286 509                | 139 672          | 6 818            | 294 922                      | 1 117 316                                     |
| Generation  | 42 536         | 2 106 219  | 2 393 173              | -                | 25 391           | 5 303 617                    | 9 870 936                                     |
| Renewable Energy Sources  | 765            | 905 027  | 1 304 672              | -                | 1 416            | 1 795                        | 2 213 675                                     |
| Distribution  | 78 210         | 11 732 376   | 4 634 335              | -                | 244 882          | 991 606                      | 17 681 409                                    |
| Other segments and other operations                             | 16 858         | 498 678  | 119 517                | 4 180            | 20 831           | 43 831                       | 703 895                                       |

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**For the 3-month period ended 31 March 2019 (unaudited restated figures)**

|   | Land           | Buildings,<br>premises and<br>civil<br>engineering<br>structures | Plant and<br>machinery | Mine<br>workings | Other            | Assets under<br>construction | Property, plant<br>and<br>equipment,<br>total |
|---|----------------|--|------------------------|------------------|------------------|------------------------------|---|
| <b>COST</b>   |                |  |                        |                  |                  |                              |   |
| <b>Opening balance</b>  | <b>125 869</b> | <b>23 775 062</b>  | <b>19 133 480</b>      | <b>221 074</b>   | <b>943 340</b>   | <b>6 376 491</b>             | <b>50 575 316</b>                             |
| Direct purchase   | -              | -  | -                      | 113              | -                | 596 328                      | 596 441                                       |
| Borrowing costs   | -              | -  | -                      | -                | -                | 42 153                       | 42 153  |
| Transfer of assets under construction                           | 103            | 265 981  | 172 273                | -                | 16 275           | (454 632)                    | -   |
| Sale  | (7)            | (288)  | (21 322)               | -                | (9 090)          | (4)                          | (30 711)                                      |
| Liquidation   | (4)            | (6 692)  | (8 545)                | (34 327)         | (1 776)          | -                            | (51 344)                                      |
| Received free of charge   | -              | 2 120  | -                      | -                | -                | -                            | 2 120   |
| Overhaul expenses   | -              | -  | -                      | -                | -                | 28 187                       | 28 187  |
| Items generated internally                                      | -              | -  | -                      | 34 001           | -                | 10 056                       | 44 057  |
| Other movements   | 30             | (2 115)  | 468                    | -                | 794              | (1 512)                      | (2 335)                                       |
| Foreign exchange differences from translation of foreign entity | -              | -  | (1)                    | -                | (2)              | -                            | (3)   |
| <b>Closing balance</b>  | <b>125 991</b> | <b>24 034 068</b>  | <b>19 276 353</b>      | <b>220 861</b>   | <b>949 541</b>   | <b>6 597 067</b>             | <b>51 203 881</b>                             |
| <b>ACCUMULATED DEPRECIATION</b>                                 |                |  |                        |                  |                  |                              |   |
| <b>Opening balance</b>  | <b>(404)</b>   | <b>(9 599 896)</b>   | <b>(10 765 131)</b>    | <b>(52 458)</b>  | <b>(611 258)</b> | <b>(139 502)</b>             | <b>(21 168 649)</b>                           |
| Depreciation for the period                                     | -              | (204 524)  | (188 497)              | (25 384)         | (19 956)         | -                            | (438 361)                                     |
| Increase of impairment  | -              | (642)  | (102)                  | -                | (34)             | -                            | (778)   |
| Decrease of impairment  | -              | 97   | 11                     | -                | 2                | 886                          | 996   |
| Sale  | -              | 55   | 21 114                 | -                | 8 473            | -                            | 29 642  |
| Liquidation   | -              | 5 053  | 8 120                  | 34 327           | 1 776            | -                            | 49 276  |
| Other movements   | -              | (466)  | 994                    | -                | (72)             | -                            | 456   |
| Foreign exchange differences from translation of foreign entity | -              | -  | 1                      | -                | 1                | -                            | 2   |
| <b>Closing balance</b>  | <b>(404)</b>   | <b>(9 800 323)</b>   | <b>(10 923 490)</b>    | <b>(43 515)</b>  | <b>(621 068)</b> | <b>(138 616)</b>             | <b>(21 527 416)</b>                           |
| <b>NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD</b>       | <b>125 465</b> | <b>14 175 166</b>  | <b>8 368 349</b>       | <b>168 616</b>   | <b>332 082</b>   | <b>6 236 989</b>             | <b>29 406 667</b>                             |
| <b>NET CARRYING AMOUNT AT THE END OF THE PERIOD</b>             | <b>125 587</b> | <b>14 233 745</b>  | <b>8 352 863</b>       | <b>177 346</b>   | <b>328 473</b>   | <b>6 458 451</b>             | <b>29 676 465</b>                             |
| <i>of which operating segments:</i>                             |                |  |                        |                  |                  |                              |   |
| Mining  | 3 118          | 499 693  | 411 466                | 174 513          | 12 667           | 397 190                      | 1 498 647                                     |
| Generation  | 42 548         | 1 567 577  | 2 485 922              | -                | 27 002           | 4 947 325                    | 9 070 374                                     |
| Renewable Energy Sources  | 173            | 655 878  | 916 217                | -                | 1 533            | 3 211                        | 1 577 012                                     |
| Distribution  | 62 889         | 11 050 857   | 4 424 646              | -                | 267 599          | 1 074 651                    | 16 880 642                                    |
| Other segments and other operations                             | 16 859         | 459 740  | 114 612                | 2 833            | 19 672           | 36 074                       | 649 790                                       |

During the 3-month period ended 31 March 2020, the Group acquired property, plant and equipment of PLN 823 186 thousand (including capitalized borrowing costs). The major purchases were made in connection with investments in the following operating segments:

| Operating segment | 3-month period ended<br>31 March 2020<br>(unaudited) | 3-month period ended<br>31 March 2019<br>(unaudited restated figures) |
|-------------------|--|---|
| Distribution      | 470 016  | 341 104   |
| Generation        | 296 006  | 197 279   |
| Mining            | 30 175   | 84 010  |

**Impairment tests**

Considering the Company's long-term net market value of assets remaining lower than the carrying amount and ongoing changes in the prices of electricity, raw materials and CO<sub>2</sub> emission allowances, and taking into account the limitations related to the COVID-19 pandemic, the effects of changes in the market standing in the first quarter of this year was performed.

During the analysed period, a decline in the prices of CO<sub>2</sub> emission allowances can be seen compared to last year. Until 31 March 2020, CO<sub>2</sub> prices did not exceed 20 EUR/MgCO<sub>2</sub>. The situation related to COVID-19 has deepened the effect of the economic slowdown, which will have an impact on inhibiting the dynamics of CO<sub>2</sub> emission allowances price increases. Decreases in the CO<sub>2</sub> emission allowances market are accompanied by declines in other markets, gas prices have dropped by more than 1/3 on an annual basis, dropping oil prices, which implement long-term minimums, have a downward effect on coal prices, which, however, does not translate directly into lower electricity prices.

Having analysed the observed market and regulatory phenomena, it was concluded that in the expected perspective they are not significant factors whose impact causes the legitimacy of changes in long-term forecasts compared to information prepared as at 31 December 2019.

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Therefore, it was assumed that the most recent results of impairment tests focusing on property, plant and equipment and goodwill, which were performed as at 31 December 2019, were up-to-date.

The tests carried out as at 31 December 2019 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 recoverable amount of the above group of assets corresponds to their value in use. Impairment losses were charged to the cost of sales.

The impairment tests carried out as at 31 December 2019, including key test assumptions, are described in Note 10 to the consolidated financial statements of TAURON Polska Energia S.A. Capital Group for the year ended 31 December 2019.

The impairment loss and its reversal recognized as a result of tests carried out in 2019 concerned the following cash generating units:

| CGU                  | Company   | Discount rate<br>(before tax) assumed<br>in tests as at: |                             |                  | Recoverable<br>amount<br>As at<br>31 December 2019 | Impairment<br>loss<br>recognized<br>Year ended<br>31 December 2019 | Impairment loss<br>derecognized |
|----------------------|---|--|-----------------------------|------------------|--|--|---------------------------------|
|                      |   | 31 December<br>2019                                      | 30 June 2019<br>(unaudited) | 31 December 2018 |  |  |                                 |
| Mining               | TAURON Wydobywanie S.A.                                 | 14.01%   | 11.40%                      | 11.58%           | 371 215  | (694 498)  | -                               |
| Generation - Coal    | TAURON Wytwarzanie S.A. /<br>Nowe Jaworzno Grupa TAURON | 8.60%  | 8.61%                       | 8.59%            | 6 784 195  | (680 363)  | -                               |
| Generation - Biomass | Sp. z o.o.  | 8.60%  | 8.61%                       | 8.59%            | -  | -  | -                               |
| ZW Bielsko EC1       |   |  |                             |                  | 372 007  | (12 314)   | -                               |
| ZW Bielsko EC2       |   |  |                             |                  | -  | (2 292)  | -                               |
| ZW Katowice          | TAURON Ciepło Sp. z o.o.                                | 8.57%  | 7.65%                       | 7.51%            | 864 007  | -  | -                               |
| ZW Tychy             |   |  |                             |                  | 656 832  | -  | 58 958                          |
| Local generators     |   |  |                             |                  | 69 196   | -  | -                               |
| Transmission         |   | 7.51%  | 7.24%                       | 6.91%            | 725 726  | -  | -                               |
| Hydropower plants    | TAURON Ekoenergia Sp. z o.o. /                          | 8.90%  | 9.16%                       | 9.31%            | 945 111  | -  | -                               |
| Wind farms           | TEC   | 8.94%  | 9.63%                       | 10.00%           | 2 168 673  | -  | 25 962                          |
| <b>Total</b>         |   |  |                             |                  |  | <b>(1 389 467)</b>   | <b>84 920</b>                   |

## 16. Right-of-use assets

For the 3 month-period ended 31 March 2020 (unaudited)

|   | Land            | Perpetual<br>usufruct right | Buildings,<br>premises and<br>civil<br>engineering<br>structures | Plant and<br>machinery | Motor<br>vehicles | Transmission<br>easements | Right-of-use<br>assets in<br>progress | Right-of-use<br>assets<br>total |
|---|-----------------|-----------------------------|--|------------------------|-------------------|---------------------------|---------------------------------------|---------------------------------|
| <b>COST</b>   |                 |                             |  |                        |                   |                           |                                       |                                 |
| <b>Opening balance</b>                                    | 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                      | 13 948          | 3                           | 957  | 6 284                  | 38                | 161                       | -                                     | 21 391                          |
| Increase(decrease) due to lease changes                   | (3 294)         | 5 283                       | 3 237  | (1 352)                | 28                | 16                        | -                                     | 3 918                           |
| Other movements   | 21              | (2 104)                     | 931  | (1 228)                | 1 057             | 2 600                     | 320                                   | 1 597                           |
| <b>Closing balance</b>                                    | <b>486 538</b>  | <b>1 079 267</b>            | <b>181 549</b>   | <b>68 493</b>          | <b>7 694</b>      | <b>123 921</b>            | <b>6 576</b>                          | <b>1 954 038</b>                |
| <b>ACCUMULATED DEPRECIATION</b>                           |                 |                             |  |                        |                   |                           |                                       |                                 |
| <b>Opening balance</b>                                    | (20 176)        | (60 097)                    | (15 341)   | (34 713)               | (2 210)           | (21 097)                  | -                                     | (153 634)                       |
| Depreciation for the period                               | (5 980)         | (8 118)                     | (3 997)  | (4 480)                | (734)             | (1 442)                   | -                                     | (24 751)                        |
| Increase of impairment                                    | -               | (152)                       | -  | -                      | -                 | -                         | -                                     | (152)                           |
| Decrease of impairment                                    | -               | 1 001                       | -  | -                      | -                 | -                         | -                                     | 1 001                           |
| Other movements   | 15              | 44                          | (71)   | 1 228                  | (369)             | 6                         | -                                     | 853                             |
| <b>Closing balance</b>                                    | <b>(26 141)</b> | <b>(67 322)</b>             | <b>(19 409)</b>  | <b>(37 965)</b>        | <b>(3 313)</b>    | <b>(22 533)</b>           | <b>-</b>                              | <b>(176 683)</b>                |
| <b>NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD</b> | <b>455 687</b>  | <b>1 015 988</b>            | <b>161 083</b>   | <b>30 076</b>          | <b>4 361</b>      | <b>100 047</b>            | <b>6 256</b>                          | <b>1 773 498</b>                |
| <b>NET CARRYING AMOUNT AT THE END OF THE PERIOD</b>       | <b>460 397</b>  | <b>1 011 945</b>            | <b>162 140</b>   | <b>30 528</b>          | <b>4 381</b>      | <b>101 388</b>            | <b>6 576</b>                          | <b>1 777 355</b>                |

**For the 3 month-period ended 31 March 2029 (unaudited restated figures)**

|   | Land           | Perpetual usufruct right | Buildings, premises and civil engineering structures | Plant and machinery | Motor vehicles | Transmission easements | Right-of-use assets in progress | Right-of-use assets, total |
|---|----------------|--------------------------|--|---------------------|----------------|------------------------|---------------------------------|----------------------------|
| <b>COST</b>   |                |                          |  |                     |                |                        |                                 |                            |
| Opening balance   | -              | -                        | -  | -                   | -              | -                      | -                               | -                          |
| Impact of IFRS 16   | 393 110        | 1 071 236                | 166 028  | 28 978              | 3 739          | 96 489                 | 12 931                          | 1 772 511                  |
| <b>Restated opening balance</b>                           | <b>393 110</b> | <b>1 071 236</b>         | <b>166 028</b>                                       | <b>28 978</b>       | <b>3 739</b>   | <b>96 489</b>          | <b>12 931</b>                   | <b>1 772 511</b>           |
| Increase due to a new lease contract                      | 738            | 3                        | 3 834  | 7 506               | -              | 30                     | -                               | 12 111                     |
| Increase(decrease) due to lease changes                   | 386            | 3 678                    | 8 299  | 260                 | 91             | 9                      | -                               | 12 723                     |
| Other movements   | -              | 546                      | (131)  | (260)               | -              | 400                    | 14                              | 569                        |
| <b>Closing balance</b>                                    | <b>394 234</b> | <b>1 075 463</b>         | <b>178 030</b>                                       | <b>36 484</b>       | <b>3 830</b>   | <b>96 928</b>          | <b>12 945</b>                   | <b>1 797 914</b>           |
| <b>ACCUMULATED DEPRECIATION</b>                           |                |                          |  |                     |                |                        |                                 |                            |
| Opening balance   | -              | -                        | -  | -                   | -              | -                      | -                               | -                          |
| Impact of IFRS 16   | -              | (25 384)                 | -  | -                   | -              | (15 987)               | -                               | (41 371)                   |
| <b>Restated opening balance</b>                           | <b>-</b>       | <b>(25 384)</b>          | <b>-</b>   | <b>-</b>            | <b>-</b>       | <b>(15 987)</b>        | <b>-</b>                        | <b>(41 371)</b>            |
| Depreciation for the period                               | (4 469)        | (8 182)                  | (3 657)  | (3 939)             | (406)          | (1 196)                | -                               | (21 849)                   |
| Decrease of impairment                                    | -              | 32                       | -  | -                   | -              | -                      | -                               | 32                         |
| Other movements   | -              | 3                        | 1  | -                   | -              | -                      | -                               | 4                          |
| <b>Closing balance</b>                                    | <b>(4 469)</b> | <b>(33 531)</b>          | <b>(3 656)</b>                                       | <b>(3 939)</b>      | <b>(406)</b>   | <b>(17 183)</b>        | <b>-</b>                        | <b>(63 184)</b>            |
| <b>NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD</b> | <b>-</b>       | <b>-</b>                 | <b>-</b>   | <b>-</b>            | <b>-</b>       | <b>-</b>               | <b>-</b>                        | <b>-</b>                   |
| <b>NET CARRYING AMOUNT AT THE END OF THE PERIOD</b>       | <b>389 765</b> | <b>1 041 932</b>         | <b>174 374</b>                                       | <b>32 545</b>       | <b>3 424</b>   | <b>79 745</b>          | <b>12 945</b>                   | <b>1 734 730</b>           |

**17. Goodwill**

| Operating segment | As at<br>31 March 2020<br>(unaudited) | As at<br>31 December 2019 |
|-------------------|---------------------------------------|---------------------------|
| Distribution      | 25 602                                | 25 602                    |
| Other segments    | 581                                   | 581                       |
| <b>Total</b>      | <b>26 183</b>                         | <b>26 183</b>             |

**Impairment tests**

Based on the analysis of the effects of changes in the market situation in the first quarter of this year performed by the Group, as described in more detail in Note 15 hereto, it was concluded that the goodwill impairment tests carried out as at 31 December 2019 are up-to-date.

The test carried out as at 31 December 2019 was performed for the net assets increased by goodwill in each operating segment. The recoverable amount in each company was determined based on the value in use.

The impairment tests carried out as at 31 December 2019, including key test assumptions, are described in Note 10 to the consolidated financial statements of TAURON Polska Energia S.A. Group for the year ended 31 December 2019. The assumptions were also used to estimate the value in use of other intangible assets.

The impairment test performed as at 31 December 2019 did not reveal impairment of the carrying amount of goodwill.

**18. Energy certificates and CO<sub>2</sub> emission allowances**

**18.1. Long-term energy certificates and CO<sub>2</sub> emission allowances**

|                        | 3-month period ended 31 March 2020<br>(unaudited) |                                     |                | 3-month period ended 31 March 2019<br>(unaudited) |                                     |                |
|------------------------|---|-------------------------------------|----------------|---|-------------------------------------|----------------|
|                        | Energy certificates                               | CO <sub>2</sub> emission allowances | Total          | Energy certificates                               | CO <sub>2</sub> emission allowances | Total          |
| <b>Opening balance</b> | <b>306 221</b>                                    | <b>161 976</b>                      | <b>468 197</b> | <b>208 585</b>                                    | <b>453 018</b>                      | <b>661 603</b> |
| Direct purchase        | 2 549   | -                                   | 2 549          | 4 303   | -                                   | 4 303          |
| Reclassification       | (289 137)   | (112 335)                           | (401 472)      | (191 943)   | (406 301)                           | (598 244)      |
| <b>Closing balance</b> | <b>19 633</b>                                     | <b>49 641</b>                       | <b>69 274</b>  | <b>20 945</b>                                     | <b>46 717</b>                       | <b>67 662</b>  |

**18.2. Short-term energy certificates and CO<sub>2</sub> emission allowances**

|                        | 3-month period ended 31 March 2020<br>(unaudited) |                                     |                  | 3-month period ended 31 March 2019<br>(unaudited) |                                     |                  |
|------------------------|---|-------------------------------------|------------------|---|-------------------------------------|------------------|
|                        | Energy certificates                               | CO <sub>2</sub> emission allowances | Total            | Energy certificates                               | CO <sub>2</sub> emission allowances | Total            |
| <b>Opening balance</b> | <b>594 968</b>                                    | <b>690 225</b>                      | <b>1 285 193</b> | <b>90 267</b>                                     | <b>111 396</b>                      | <b>201 663</b>   |
| Direct purchase        | 86 194  | -                                   | <b>86 194</b>    | 94 873  | -                                   | <b>94 873</b>    |
| Generated internally   | 73 306  | -                                   | <b>73 306</b>    | 35 534  | -                                   | <b>35 534</b>    |
| Surrendered            | (304 942)   | (311 927)                           | <b>(616 869)</b> | (61 462)  | (45 075)                            | <b>(106 537)</b> |
| Reclassification       | 289 137   | 112 335                             | <b>401 472</b>   | 191 943   | 406 301                             | <b>598 244</b>   |
| <b>Closing balance</b> | <b>738 663</b>                                    | <b>490 633</b>                      | <b>1 229 296</b> | <b>351 155</b>                                    | <b>472 622</b>                      | <b>823 777</b>   |

**19. Other Intangible Assets**

**For the 3 month-period ended 31 March 2020 (unaudited)**

|   | 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 |
|---|----------------------|--------------------------|--|-------------------------|--|-------------------------|
| <b>COST</b>   |                      |                          |  |                         |  |                         |
| <b>Opening balance</b>  | <b>8 946</b>         | <b>15 605</b>            | <b>822 069</b>   | <b>183 967</b>          | <b>114 253</b>                               | <b>1 144 840</b>        |
| Direct purchase   | -                    | -                        | -  | -                       | 26 552                                       | <b>26 552</b>           |
| Transfer of intangible assets not made available for use        | 400                  | -                        | 19 180   | 444                     | (20 024)                                     | -                       |
| Sale/Liquidation  | (1 306)              | -                        | (17 936)   | (2)                     | (36)   | <b>(19 280)</b>         |
| Other movements   | -                    | -                        | 30   | 14                      | 1 183  | <b>1 227</b>            |
| Foreign exchange differences from translation of foreign entity | -                    | -                        | (8)  | -                       | -  | <b>(8)</b>              |
| <b>Closing balance</b>  | <b>8 040</b>         | <b>15 605</b>            | <b>823 335</b>   | <b>184 423</b>          | <b>121 928</b>                               | <b>1 153 331</b>        |
| <b>ACCUMULATED AMORTIZATION</b>                                 |                      |                          |  |                         |  |                         |
| <b>Opening balance</b>  | <b>(6 250)</b>       | <b>-</b>                 | <b>(562 534)</b>   | <b>(97 765)</b>         | <b>(30)</b>                                  | <b>(666 579)</b>        |
| Amortization for the period                                     | (204)                | -                        | (17 695)   | (2 793)                 | -  | <b>(20 692)</b>         |
| Impairment  | -                    | -                        | -  | (1)                     | -  | <b>(1)</b>              |
| Sale/Liquidation  | 1 306                | -                        | 17 936   | 2                       | -  | <b>19 244</b>           |
| Foreign exchange differences from translation of foreign entity | -                    | -                        | 8  | -                       | -  | <b>8</b>                |
| <b>Closing balance</b>  | <b>(5 148)</b>       | <b>-</b>                 | <b>(562 285)</b>   | <b>(100 557)</b>        | <b>(30)</b>                                  | <b>(668 020)</b>        |
| <b>NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD</b>       | <b>2 696</b>         | <b>15 605</b>            | <b>259 535</b>   | <b>86 202</b>           | <b>114 223</b>                               | <b>478 261</b>          |
| <b>NET CARRYING AMOUNT AT THE END OF THE PERIOD</b>             | <b>2 892</b>         | <b>15 605</b>            | <b>261 050</b>   | <b>83 866</b>           | <b>121 898</b>                               | <b>485 311</b>          |

**TAURON Polska Energia S.A. Capital Group**  
*Condensed interim consolidated financial statements for the three months ended 31 March 2020*  
*prepared in accordance with IFRS, as endorsed by the EU*  
*(in '000 PLN)*

**For the 3 month-period ended 31 March 2019 (unaudited restated figures)**

|   | 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 |
|---|----------------------|--------------------------|--|-------------------------|--|-------------------------|
| <b>COST</b>   |                      |                          |  |                         |  |                         |
| <b>Opening balance</b>  | <b>6 403</b>         | <b>774 682</b>           | <b>776 434</b>   | <b>271 336</b>          | <b>85 486</b>                                | <b>1 914 341</b>        |
| Impact of IFRS 16   | -                    | (758 941)                | -  | (94 809)                | (12 931)                                     | <b>(866 681)</b>        |
| <b>Restated opening balance</b>                                   | <b>6 403</b>         | <b>15 741</b>            | <b>776 434</b>   | <b>176 527</b>          | <b>72 555</b>                                | <b>1 047 660</b>        |
| Direct purchase   | -                    | -                        | -  | -                       | 15 706                                       | <b>15 706</b>           |
| Transfer of intangible assets not made available for use          | -                    | -                        | 7 604  | 5 516                   | (13 120)                                     | -                       |
| Sale/Liquidation  | -                    | -                        | (1 965)  | (15)                    | -  | <b>(1 980)</b>          |
| Other movements   | -                    | (136)                    | (471)  | (557)                   | 1 311  | <b>147</b>              |
| Foreign exchange differences from translation of foreign entities | -                    | -                        | (5)  | -                       | -  | <b>(5)</b>              |
| <b>Closing balance</b>  | <b>6 403</b>         | <b>15 605</b>            | <b>781 597</b>   | <b>181 471</b>          | <b>76 452</b>                                | <b>1 061 528</b>        |
| <b>ACCUMULATED AMORTIZATION</b>                                   |                      |                          |  |                         |  |                         |
| <b>Opening balance</b>  | <b>(5 744)</b>       | <b>(25 387)</b>          | <b>(493 665)</b>   | <b>(101 835)</b>        | <b>(7)</b>                                   | <b>(626 638)</b>        |
| Impact of IFRS 16   | -                    | 25 387                   | -  | 15 987                  | -  | <b>41 374</b>           |
| <b>Restated opening balance</b>                                   | <b>(5 744)</b>       | <b>-</b>                 | <b>(493 665)</b>   | <b>(85 848)</b>         | <b>(7)</b>                                   | <b>(585 264)</b>        |
| Amortization for the period                                       | (50)                 | -                        | (23 645)   | (3 489)                 | -  | <b>(27 184)</b>         |
| Sale/Liquidation  | -                    | -                        | 1 965  | 5                       | -  | <b>1 970</b>            |
| Foreign exchange differences from translation of foreign entities | -                    | -                        | 5  | -                       | -  | <b>5</b>                |
| <b>Closing balance</b>  | <b>(5 794)</b>       | <b>-</b>                 | <b>(515 340)</b>   | <b>(89 332)</b>         | <b>(7)</b>                                   | <b>(610 473)</b>        |
| <b>NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD</b>         | <b>659</b>           | <b>749 295</b>           | <b>282 769</b>   | <b>169 501</b>          | <b>85 479</b>                                | <b>1 287 703</b>        |
| <b>NET CARRYING AMOUNT AT THE END OF THE PERIOD</b>               | <b>609</b>           | <b>15 605</b>            | <b>266 257</b>   | <b>92 139</b>           | <b>76 445</b>                                | <b>451 055</b>          |

Under other intangible assets the Group recognizes the rights of perpetual usufruct of land of PLN 15 605 thousand held by a limestone mine owned by a subsidiary, excluded from the scope IFRS 16 Leases.

## 20. Investments in joint ventures

Investments in joint-ventures measured using the equity method are presented in the table below:

|  | Elektrociepłownia Stalowa Wola S.A. | TAMEH HOLDING Sp. z o.o. * | As at 31 March 2020 or for the 3-month period ended 31 March 2020 (unaudited) | Elektrociepłownia Stalowa Wola S.A. | TAMEH HOLDING Sp. z o.o. * | As at 31 December 2019 or for the 3-month period ended 31 March 2019 (unaudited) |
|--|-------------------------------------|----------------------------|---|-------------------------------------|----------------------------|--|
| Non-current assets   | 1 685 327                           | 2 167 614                  | <b>3 852 941</b>  | 1 623 476                           | 2 186 422                  | <b>3 809 898</b>   |
| Current assets, including:                                   | 76 974                              | 698 071                    | <b>775 045</b>  | 136 404                             | 644 722                    | <b>781 126</b>   |
| <i>cash and cash equivalents</i>                             | 31 801                              | 82 747                     | <b>114 548</b>  | 90 830                              | 284 503                    | <b>375 333</b>   |
| Non-current liabilities (-) including:                       | (1 739 626)                         | (861 318)                  | <b>(2 600 944)</b>  | (1 719 704)                         | (922 262)                  | <b>(2 641 966)</b>   |
| <i>debt</i>  | (1 735 955)                         | (780 681)                  | <b>(2 516 636)</b>  | (1 716 142)                         | (827 878)                  | <b>(2 544 020)</b>   |
| Current liabilities (-) including:                           | (516 114)                           | (740 102)                  | <b>(1 256 216)</b>  | (519 395)                           | (709 111)                  | <b>(1 228 506)</b>   |
| <i>debt</i>  | (37 338)                            | (183 796)                  | <b>(221 134)</b>  | (34 961)                            | (184 095)                  | <b>(219 056)</b>   |
| Total net assets   | (493 439)                           | 1 264 265                  | <b>770 826</b>  | (479 219)                           | 1 199 771                  | <b>720 552</b>   |
| Share in net assets  | (246 720)                           | 632 133                    | <b>385 413</b>  | (239 610)                           | 599 886                    | <b>360 276</b>   |
| <b>Investment in joint ventures</b>                          | <b>-</b>                            | <b>591 392</b>             | <b>591 392</b>  | <b>-</b>                            | <b>559 144</b>             | <b>559 144</b>   |
| Share in revenue of joint ventures                           | 86                                  | 247 390                    | <b>247 476</b>  | 39                                  | 225 296                    | <b>225 335</b>   |
| <b>Share in profit/(loss) of joint ventures</b>              | <b>-</b>                            | <b>33 959</b>              | <b>33 959</b>   | <b>-</b>                            | <b>42 823</b>              | <b>42 823</b>  |
| <b>Share in other comprehensive income of joint ventures</b> | <b>-</b>                            | <b>162</b>                 | <b>162</b>  | <b>-</b>                            | <b>122</b>                 | <b>122</b>   |

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

In addition, the Company has receivables arising from loans granted to Elektrociepłownia Stalowa Wola S.A. in the carrying amount of PLN 242 258 thousand, which has been discussed in more detail in Note 21 hereto.

***Judgment 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 filed by Abener Energia S.A. ("Abener") against Elektrociepłownia Stalowa Wola S.A. ("ECSW"), which is 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 issued capital.

The case pending at 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 judgement of the Court of Arbitration, ECSW was obligated to pay to Abener the amount of PLN 333 793 thousand along with statutory interest for delay and costs of the arbitration proceedings. On 24 June 2019, ECSW filed a complaint with the Court of Appeal in Rzeszów against the judgement. The proceedings of complaint is pending.

On 15 July 2019, the ECSW received a request from Abener addressed to the Court of Appeal in Rzeszów to declare the judgement enforceable. By order of 5 August 2019, the Court of Appeal in Rzeszów postponed consideration of the case from the application for a declaration of enforceability until the end of the proceedings on the complaint.

On 20 December 2019, ECSW received a new case filed by Abener with the Court of Arbitration. The subject matter of the claim is the payment by the ECSW to Abener of the total amount of PLN 156 447 thousand and EUR 537 thousand together with statutory interest for delay on account of damages resulting from demanding and obtaining by the ECSW, at Abener's expense, payment from the performance bond or, alternatively, reimbursement of unjustified enrichment obtained by the ECSW at Abener's expense in connection with obtaining payment from the performance bond. The guarantee was granted to ECSW by Abener in accordance with the contract concluded between the parties for the construction of the CCGT unit in Stalowa Wola. The respond to it was filed by ECSW on 20 March 2020. Assessment of the claims and the grounds on which they are based indicates that they are unfounded. The arbitration case is pending.

On 30 December 2019, ECSW submitted a call 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 inadequate works, supplies and services improperly performed by Abener under the contract for the construction of the CCGT unit in Stalowa Wola. The case is 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.



## 21. Loans granted to joint ventures

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

|   | Agreement date | Loan amount | As at 31 March 2020<br>(unaudited) |                      |                | As at 31 December 2019 |                      |                | Maturity date | Interest rate    |
|---|----------------|-------------|------------------------------------|----------------------|----------------|------------------------|----------------------|----------------|---------------|------------------|
|   |                |             | Gross value                        | Impairment allowance | Total          | Gross value            | Impairment allowance | Total          |               |                  |
| <b>Loans measured at fair value</b>     |                |             |                                    |                      |                |                        |                      |                |               |                  |
| Debt consolidation agreement            | 28.02.2018     | 609 951     | 206 944                            | n.a.                 | <b>206 944</b> | 216 018                | n.a.                 | <b>216 018</b> | 30.06.2033    | fixed            |
| <b>Loans measured at amortized cost</b> |                |             |                                    |                      |                |                        |                      |                |               |                  |
| VAT loan                                | 11.04.2018     | 15 000      | 15 012                             | (700)                | <b>14 312</b>  | 5 109                  | (110)                | <b>4 999</b>   | 30.09.2020    | WIBOR 1M+mark-up |
|   | 30.03.2018     | 7 290       | 8 093                              | (712)                | <b>7 381</b>   | 7 955                  | (218)                | <b>7 737</b>   |               |                  |
| Other loans                             | 19.12.2018     | 9 500       | 9 357                              | (827)                | <b>8 530</b>   | 9 197                  | (252)                | <b>8 945</b>   | 30.06.2033    | fixed            |
|   | 12.03.2019     | 5 175       | 5 584                              | (493)                | <b>5 091</b>   | 5 485                  | (150)                | <b>5 335</b>   |               |                  |
| <b>Total</b>                            |                |             | <b>244 990</b>                     | <b>(2 732)</b>       | <b>242 258</b> | <b>243 764</b>         | <b>(730)</b>         | <b>243 034</b> |               |                  |
| Non-current                             |                |             | 229 978                            | (2 032)              | <b>227 946</b> | 238 655                | (620)                | <b>238 035</b> |               |                  |
| Current                                 |                |             | 15 012                             | (700)                | <b>14 312</b>  | 5 109                  | (110)                | <b>4 999</b>   |               |                  |

The most significant item is 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 of the balance sheet date, the par value of the loan, constituting subordinated debt owed to the Company, 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, measured as at the balance sheet date at fair value of PLN 206 944 thousand. The decrease in the fair value of the agreement consolidating the borrower's debt is mainly due to the impact of the epidemiological situation related to COVID-19 in the valuation, which resulted in a decrease in the fair value by PLN 14 262 thousand.

Taking into account the impact of COVID-19 resulted in an increase in impairment losses on loans measured at amortized cost by PLN 1 972 thousand.

Impact of COVID-19 on the value of loans granted to Elektrociepłownia Stalowa Wola S.A. has been described in detail in Note 6.1 hereto.

The increase in the gross value of the VAT loan in the amount of PLN 9 903 thousand is mainly due to the Company granting a loan tranches in the total amount of PLN 13 600 thousand during the 3-months period ended 31 March 2020 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. concluded a loan agreement up to PLN 59 175 thousand. Pursuant to the agreement, the loan and interest accrued based on a fixed interest rate will be repaid by 30 June 2033, and the loan repayment, accrued interest as well as costs and other amounts due to the Company due to this agreement are secured by the borrower's blank promissory note together with the promissory note declaration. As at the balance sheet date, the Company did not transfer funds under the above agreement. After the balance sheet date, the Company provided, on the borrower's request, tranches of loans in the total amount of PLN 12 750 thousand.

## 22. Other financial assets

|  | As at<br>31 March 2020<br>(unaudited) | As at<br>31 December 2019 |
|--|---------------------------------------|---------------------------|
| Derivative instruments   | 646 507                               | 105 529                   |
| Variation margin deposits arising from stock exchange transactions | 255 182                               | 25 113                    |
| Initial deposits arising from stock exchange transactions          | 54 645                                | 184 353                   |
| Shares   | 136 722                               | 140 508                   |
| Bid bonds, deposits and collateral transferred                     | 68 349                                | 131 192                   |
| Deposits and term deposits for Mining Decommissioning Fund         | 54 104                                | 50 228                    |
| Receivables due to financial compensation for trading companies    | -                                     | 151 114                   |
| Investment fund units  | -                                     | 26 622                    |
| Loans granted  | 13 570                                | 12 451                    |
| Other  | 7 518                                 | 7 447                     |
| <b>Total</b>   | <b>1 236 597</b>                      | <b>834 557</b>            |
| Non-current  | 250 349                               | 235 522                   |
| Current  | 986 248                               | 599 035                   |

The asset resulting from a positive valuation of derivatives relates mainly to commodity derivatives (including a significant part of forward instruments on account of transactions for which the underlying commodity is CO<sub>2</sub> emission allowances) as well as currency forward derivatives. Due to the market situation in the current reporting period related mainly to COVID-19, the occurrence of significant changes in commodity derivatives prices and the weakening of the Polish zloty, in the 3-month period ended 31 March 2020 there was an increase in assets from the valuation of the above derivatives compared to the end 2019 year. Derivatives are described in detail in Note 43.2 hereto.

Initial and variation margin deposits are related mostly to futures transactions on the CO<sub>2</sub> emissions allowances concluded on foreign regulated markets. Margin deposits stated as cash paid by the Company arising from current stock exchange transactions, due to change in valuation of futures contracts, open as at the end of reported period. The increase in the value of variation margins in the amount of PLN 230 069 thousand relates mainly to transactions concluded on foreign exchange markets for the delivery of CO<sub>2</sub> emission allowances and results mainly from the Company's position on the exchange as at the balance sheet date and from a significant decrease in allowance prices in relation to the comparable period.

Collaterals, deposits and transferred collaterals concern mainly the collaterals transferred within the framework of the clearing guarantee system with the Warsaw Commodity Clearing House. As at 31 March 2020, the collateral amounted to PLN 43 302 thousand and as at 31 December 2019 - PLN 82 607 thousand.

As at 31 March 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 30 386 thousand;
- Przedsiębiorstwo Energetyki Ciepłej Sp. z o.o., in the amount of PLN 23 801 thousand;
- PGE EJ 1 Sp. z o.o., in the amount of PLN 14 402 thousand;
- Energetyka Cieszyńska Sp. z o.o., in the amount of PLN 13 773 thousand;
- ElectroMobility Poland S.A., in the amount of PLN 11 847 thousand;
- ECC Magenta Sp. z o.o. 2 ASI SKA, in the amount of PLN 10 950 thousand.

Receivables on account of compensation for trading companies for the fourth quarter of 2019 in the amount of PLN 151 114 thousand, due to trading companies under *Amended Excise Duty Act and certain other acts* was received in full within the 3-month period ended 31 March 2020.

## 23. Other non-financial assets

### 23.1. Other non-current non-financial assets

|  | As at<br>31 March 2020<br><i>(unaudited)</i> | As at<br>31 December 2019 |
|--|--|---------------------------|
| Prepayments for assets under construction and intangible assets <i>including:</i>    | 77 947                                       | 79 296                    |
| <i>related to project realization: Construction of 910 MW Power Unit in Jaworzno</i> | 73 583                                       | 74 774                    |
| Prepayments for debt charges   | 9 592  | 10 767                    |
| Contract acquisition costs and costs of discounts                                    | 5 489  | 3 365                     |
| Other prepayments  | 45 582                                       | 58 860                    |
| <b>Total</b>   | <b>138 610</b>                               | <b>152 288</b>            |

**23.2. Other current non-financial assets**

|  | As at<br>31 March 2020<br>(unaudited) | As at<br>31 December 2019 |
|--|---------------------------------------|---------------------------|
| <b>Costs settled over time</b>   | <b>106 876</b>                        | <b>87 416</b>             |
| IT, telecom and postal services  | 23 504                                | 24 449                    |
| Property and tort insurance  | 55 229                                | 45 222                    |
| Contract acquisition costs and costs of discounts                                | 9 723                                 | 8 399                     |
| Prepayments for debt charges   | 4 206                                 | 3 796                     |
| Other prepayments  | 14 214                                | 5 550                     |
| <b>Other current non-financial assets</b>  | <b>138 166</b>                        | <b>12 859</b>             |
| Advance payments for deliveries  | 7 907                                 | 3 521                     |
| Surplus of Social Benefit Foud assets over liabilities                           | -                                     | 825                       |
| Transfers made to the Social Benefit Fund  | 52 935                                | -                         |
| Settlement of exchange CO <sub>2</sub> emission allowances purchase transactions | 45 603                                | -                         |
| Other current assets   | 31 721                                | 8 513                     |
| <b>Total</b>   | <b>245 042</b>                        | <b>100 275</b>            |

The settlement of exchange purchase transactions of CO<sub>2</sub> emission allowances in the amount of PLN 45 603 thousand relates to the settlement of the result on forward purchase transaction of CO<sub>2</sub> emission allowances for surrendering purposes of the Group's manufacturing companies for which delivery took place after the balance sheet date. This settlement adjusted the purchase price of CO<sub>2</sub> emission allowances at the time of their acceptance into stock.

**24. Deferred income tax**

|   | As at<br>31 March 2020<br>(unaudited) | As at<br>31 December 2019 |
|---|---------------------------------------|---------------------------|
| difference between tax base and carrying amount of property, plant and equipment, intangible assets and right-of-use assets | 1 901 111                             | 1 880 816                 |
| difference between tax base and carrying amount of financial assets   | 140 313                               | 48 137                    |
| different timing of recognition of sales revenue for tax purposes   | 309 172                               | 327 914                   |
| difference between tax base and carrying amount of energy certificates  | 19 632                                | 17 623                    |
| other   | 67 773                                | 66 780                    |
| <b>Deferred tax liabilities</b>   | <b>2 438 001</b>                      | <b>2 341 270</b>          |
| provisions and accruals   | 735 032                               | 665 886                   |
| difference between tax base and carrying amount of property, plant and equipment, intangible assets and right-of-use assets | 491 384                               | 495 875                   |
| power infrastructure received free of charge and received connection fees   | 7 659                                 | 7 859                     |
| difference between tax base and carrying amount of financial assets and financial liabilities                               | 466 471                               | 292 771                   |
| different timing of recognition of sales revenue and cost of sales for tax purposes   | 257 460                               | 277 964                   |
| tax losses  | 8 997                                 | 6 533                     |
| other   | 29 712                                | 11 185                    |
| <b>Deferred tax assets</b>  | <b>1 996 715</b>                      | <b>1 758 073</b>          |
| <b>After setting off balances at the level of individual Group companies, deferred tax for the Group is presented as:</b>   |                                       |                           |
| <b>Deferred tax asset</b>   | <b>37 998</b>                         | <b>22 088</b>             |
| <b>Deferred tax liability</b>   | <b>(479 284)</b>                      | <b>(605 285)</b>          |

As at 31 March 2020 and 31 December 2019, the deferred tax assets and deferred tax liability of companies from the Tax Group of Companies ("TGC") were netted off due to the fact that the said companies file combined tax returns under the agreements Tax Group of Companies.

## 25. Inventories

|   | As at<br>31 March 2020<br><i>(unaudited)</i> | As at<br>31 December 2019 |
|---|--|---------------------------|
| <b>Gross value</b>                              |  |                           |
| Coal, of which:                                 | 530 081                                      | 557 472                   |
| <i>Raw materials</i>                            | 220 243                                      | 253 514                   |
| <i>Semi-finished goods and work-in-progress</i> | 295 967                                      | 295 471                   |
| CO <sub>2</sub> emission allowances             | 9 412  | -                         |
| Energy certificates                             | 310  | -                         |
| Other inventories                               | 154 133                                      | 137 906                   |
| <b>Total</b>                                    | <b>693 936</b>                               | <b>695 378</b>            |
| <b>Measurement to fair value</b>                |  |                           |
| CO <sub>2</sub> emission allowances             | 734  | -                         |
| <b>Measurement to net realisable value</b>      |  |                           |
| Coal  | (1 569)                                      | -                         |
| Energy certificates                             | (34)   | -                         |
| Other inventories                               | (10 689)                                     | (11 226)                  |
| <b>Total</b>                                    | <b>(11 558)</b>                              | <b>(11 226)</b>           |
| <b>Fair value</b>                               |  |                           |
| CO <sub>2</sub> emission allowances             | 10 146                                       | -                         |
| <b>Net realisable value</b>                     |  |                           |
| Coal, of which:                                 | 528 512                                      | 557 472                   |
| <i>Raw materials</i>                            | 220 243                                      | 253 514                   |
| <i>Semi-finished goods and work-in-progress</i> | 295 967                                      | 295 471                   |
| Energy certificates                             | 276  | -                         |
| Other inventories                               | 143 444                                      | 126 680                   |
| <b>Total</b>                                    | <b>682 378</b>                               | <b>684 152</b>            |

## 26. Receivables from buyers

|  | As at<br>31 March 2020<br><i>(unaudited)</i> | As at<br>31 December 2019 |
|--|--|---------------------------|
| <b>Value of items before allowance/write-down</b>  |  |                           |
| Receivables from buyers  | 1 703 021                                    | 1 616 813                 |
| Receivables from buyers – additional assessment of revenue from sales of electricity and distribution services | 860 434                                      | 689 395                   |
| Receivables claimed at court   | 216 126                                      | 213 900                   |
| <b>Total</b>   | <b>2 779 581</b>                             | <b>2 520 108</b>          |
| <b>Allowance/write-down</b>  |  |                           |
| Receivables from buyers  | (49 298)                                     | (39 655)                  |
| Receivables claimed at court   | (191 929)                                    | (189 707)                 |
| <b>Total</b>   | <b>(241 227)</b>                             | <b>(229 362)</b>          |
| <b>Value of item net of allowance (carrying amount)</b>  |  |                           |
| Receivables from buyers  | 1 653 723                                    | 1 577 158                 |
| Receivables from buyers – additional assessment of revenue from sales of electricity and distribution services | 860 434                                      | 689 395                   |
| Receivables claimed at court   | 24 197                                       | 24 193                    |
| <b>Total, of which:</b>  | <b>2 538 354</b>                             | <b>2 290 746</b>          |
| Current  | 2 538 351                                    | 2 290 746                 |

Taking into account the impact of COVID-19 on the level of write-offs for expected credit losses of receivables from buyers resulted in an increase of the above write-downs by PLN 9 149 thousand, which is described in detail in Note 6.1 hereto.

## 27. Income tax receivables

Income tax receivables of PLN 119 331 thousand include mostly receivables of the Tax Group of Companies in the amount of PLN 119 000 thousand, including:

- surplus of advance income tax payments of PLN 442 637 thousand made by TCG over the tax charge of the TCG in the amount of PLN 193 124 thousand,
- the excess of the Group's tax charge of PLN 182 635 thousand over the advance payments made by TCG for the first two months of 2020 of PLN 52 122 thousand. The surplus of the tax charge over the advance payments is related to the fact that in the financial year 2020, TCG pays fixed monthly advance payments for corporate income tax in the amount of PLN 26 061 thousand.

The articles of association of the Tax Capital Group for the years 2018–2020 were registered on 30 October 2017. Since 1 January 2018 the Tax Capital Group has comprised the following companies: 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 Wydobywanie S.A. and Kopalnia Wapienia Czatkowice Sp. z o.o.

## 28. Receivables arising from other taxes and charges

|                         | As at<br>31 March 2020<br>(unaudited) | As at<br>31 December 2019 |
|-------------------------|---------------------------------------|---------------------------|
| VAT receivables         | 152 137                               | 362 745                   |
| Excise duty receivables | 3 914                                 | 10 974                    |
| Other                   | 8 482                                 | 10 995                    |
| <b>Total</b>            | <b>164 533</b>                        | <b>384 714</b>            |

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 period of 3-months ended 31 March 2020, resulting from transactions of acquisition of CO<sub>2</sub> emission allowances by these companies from the Parent Company.

## 29. Cash and cash equivalents

|  | As at<br>31 March 2020<br>(unaudited) | As at<br>31 December 2019 |
|--|---------------------------------------|---------------------------|
| Cash at bank and in hand   | 1 734 362                             | 1 231 112                 |
| Short-term deposits (up to 3 months)   | 8 476                                 | 4 898                     |
| Other  | 259                                   | 1 942                     |
| <b>Total cash and cash equivalents presented in the statement of financial position, of which:</b> | <b>1 743 097</b>                      | <b>1 237 952</b>          |
| restricted cash, including:  | 1 066 586                             | 729 450                   |
| <i>collateral of settlements with Izba Rozliczeniowa Giełd Towarowych S.A.</i>                     | 871 897                               | 599 059                   |
| <i>bank accounts related to subsidies received</i>   | 63 666                                | 71 606                    |
| <i>cash on VAT bank accounts (split payment)</i>   | 130 668                               | 58 428                    |
| Bank overdraft   | (61 704)                              | (23 339)                  |
| Cash pool  | (16 183)                              | (10 973)                  |
| Foreign exchange   | (351)                                 | (39)                      |
| <b>Total cash and cash equivalents presented in the statement of cash flows</b>                    | <b>1 664 859</b>                      | <b>1 203 601</b>          |

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.

### 30. Equity

#### 30.1. Issued capital

##### Issued capital as at 31 March 2020 (unaudited)

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

As at 31 March 2020, the value of issued capital, the number of shares and the nominal value of shares did not change as compared to 31 December 2019.

##### Shareholding structure as at 31 March 2020 (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 Otworthy Fundusz Emerytalny | 88 742 929           | 443 715                 | 5.06%                       | 5.06%                    |
| Other shareholders                                  | 954 847 515          | 4 774 237               | 54.49%                      | 54.49%                   |
| <b>Total</b>  | <b>1 752 549 394</b> | <b>8 762 747</b>        | <b>100%</b>                 | <b>100%</b>              |

To the best of the Company's knowledge, the shareholding structure as at 31 March 2020 did not change since 31 December 2019.

#### 30.2. Shareholders' 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 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 more than 25% of the total votes in the Company.

#### 30.3. Reserve capital

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

On 29 March 2019, 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 2018 in the amount of PLN 1 709 853 thousand from the Company's reserve capital. On 8 May 2019, the Ordinary General Meeting of Shareholders of the Company adopted a resolution in accordance with the recommendation of the Management Board.

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

|  | 3-month period ended<br>31 March 2020<br><i>(unaudited)</i> | 3-month period ended<br>31 March 2019<br><i>(unaudited)</i> |
|--|---|---|
| <b>Opening balance</b>   | <b>15 666</b>   | <b>3 371</b>  |
| Remeasurement of hedging instruments                           | (91 038)  | (3 042)   |
| Remeasurement of hedging instruments charged to profit or loss | 848   | 271   |
| Deferred income tax  | 17 136  | 527   |
| <b>Closing balance</b>   | <b>(57 388)</b>   | <b>1 127</b>  |

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 43.2 hereto. For hedging transactions concluded subject to the financial risk management policy, the Company applies hedge accounting.

As at 31 March 2020 the Company recognized PLN (57 388) thousand of revaluation reserve from valuation of hedging instruments. It represents a liability arising from valuation of interest rate swaps (IRS) as at the end of the reporting period, totalling PLN 69 880 thousand, adjusted by a portion of valuation relating to interest accrued on debt as at the end of the reporting period, including deferred tax.

In the financial result of the current period the amount of PLN 848 thousand was recognized.

### 30.5. 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 31 March 2020 and as at the date of approving these condensed interim consolidated financial statements for publication no other dividend restriction occurred.

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.

### 30.6. Non-controlling interest

The non-controlling interest of PLN 900 627 thousand relates mainly to the shares in the issued capital of the subsidiary Nowe Jaworzno Grupa TAURON Sp. z o.o. taken up by the Fundusz Inwestycji Infrastrukturalnych – Kapitałowy Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych and PFR Inwestycje Fundusz Inwestycji Zamkniętych totaling PLN 880 000 thousand.

### 30.7. Dividends paid and proposed

In the period of 3-months ended 31 March 2020 and in the comparative period, the Company did not propose to pay or pay any dividends.

## 31. Debt

|                      | As at<br>31 March 2020<br><i>(unaudited)</i> | As at<br>31 December 2019 |
|----------------------|--|---------------------------|
| Loans and borrowings | 8 032 518                                    | 7 050 651                 |
| Bonds issued         | 6 561 771                                    | 6 257 022                 |
| Lease liabilities    | 996 099                                      | 1 006 603                 |
| <b>Total</b>         | <b>15 590 388</b>                            | <b>14 314 276</b>         |
| Non-current          | 13 260 074                                   | 11 830 183                |
| Current              | 2 330 314                                    | 2 484 093                 |

### 31.1. Loans and borrowings

#### Loans and borrowings taken out as at 31 March 2020 (unaudited)

| Currency                            | Interest rate | Value of loans and borrowings as at the balance sheet date |                  | of which maturing within (after the balance sheet date): |                |                |                  |                  |                |
|-------------------------------------|---------------|--|------------------|--|----------------|----------------|------------------|------------------|----------------|
|                                     |               | currency   | PLN              | less than 3 months                                       | 3-12 months    | 1-2 years      | 2-3 years        | 3-5 years        | over 5 years   |
| PLN                                 | floating      | 6 762 046  | 6 762 046        | 1 818 446  | 3 181          | 4 089          | 3 191 448        | 847 078          | 897 804        |
|                                     | fixed         | 1 156 243  | 1 156 243        | 19 548   | 137 737        | 157 285        | 108 271          | 675 298          | 58 104         |
| <b>Total PLN</b>                    |               | <b>7 918 289</b>   | <b>7 918 289</b> | <b>1 837 994</b>   | <b>140 918</b> | <b>161 374</b> | <b>3 299 719</b> | <b>1 522 376</b> | <b>955 908</b> |
| EUR                                 | floating      | 13 555   | 61 704           | 61 704   | -              | -              | -                | -                | -              |
|                                     |               | <b>13 555</b>  | <b>61 704</b>    | <b>61 704</b>  | -              | -              | -                | -                | -              |
| <b>Total</b>                        |               |  | <b>7 979 993</b> | <b>1 899 698</b>   | <b>140 918</b> | <b>161 374</b> | <b>3 299 719</b> | <b>1 522 376</b> | <b>955 908</b> |
| Interest increasing carrying amount |               |  | 52 525           |  |                |                |                  |                  |                |
| <b>Total</b>                        |               |  | <b>8 032 518</b> |  |                |                |                  |                  |                |

#### 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         |
| <b>Total PLN</b>                    |               | <b>7 004 436</b>   | <b>7 004 436</b> | <b>1 651 675</b>   | <b>625 128</b> | <b>160 839</b> | <b>3 299 874</b> | <b>296 518</b> | <b>970 402</b> |
| EUR                                 | floating      | 5 304  | 22 585           | 22 585   | -              | -              | -                | -              | -              |
|                                     |               | <b>5 304</b>   | <b>22 585</b>    | <b>22 585</b>  | -              | -              | -                | -              | -              |
| USD                                 | floating      | 198  | 754              | 754  | -              | -              | -                | -              | -              |
|                                     |               | <b>198</b>   | <b>754</b>       | <b>754</b>   | -              | -              | -                | -              | -              |
| <b>Total</b>                        |               |  | <b>7 027 775</b> | <b>1 675 014</b>   | <b>625 128</b> | <b>160 839</b> | <b>3 299 874</b> | <b>296 518</b> | <b>970 402</b> |
| Interest increasing carrying amount |               |  | 22 876           |  |                |                |                  |                |                |
| <b>Total</b>                        |               |  | <b>7 050 651</b> |  |                |                |                  |                |                |



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*(in '000 PLN)*

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

| Loans/<br>borrowings       | Borrowing institution   | Purpose   | Interest rate | Maturity date | As at<br>31 March 2020<br>(unaudited) | As at<br>31 December 2019 |
|----------------------------|---|---|---------------|---------------|---------------------------------------|---------------------------|
|                            |   |   |               | 28.06.2020 *  | 1 853 039                             | 1 839 159                 |
|                            |   |   |               | 02.09.2020 *  | 150 304                               | 151 376                   |
|                            |   |   |               | 10.09.2020 *  | 300 406                               | 302 555                   |
|                            |   |   |               | 01.10.2020 *  | 608 586                               | 604 070                   |
|                            |   |   |               | 14.10.2020 *  | 303 970                               | 301 714                   |
|                            |   |   |               | 31.01.2020    | -                                     | 502 358                   |
| Loans                      | Consortium of banks   | Redemption of bonds, investment expenditures and general expenses of the Group                            | Floating      | 30.04.2020    | 506 086                               | 502 330                   |
|                            |   |   |               | 28.02.2020    | -                                     | 501 195                   |
|                            |   |   |               | 13.01.2020    | -                                     | 600 868                   |
|                            |   |   |               | 14.04.2020    | 603 649                               | -                         |
|                            |   |   |               | 09.04.2020    | 200 350                               | -                         |
|                            |   |   |               | 20.04.2020    | 100 077                               | -                         |
|                            |   |   |               | 20.04.2020    | 200 189                               | -                         |
|                            |   |   |               | 30.04.2020    | 200 026                               | -                         |
| Loans                      | Bank Gospodarstwa Krajowego                                     | Group's capital expenditures and refinancing of a portion of debt   | Floating      | 20.12.2033    | 1 005 574                             | 998 458                   |
|                            |   | Construction of a boiler fired with biomass at Jaworzno III Power Plant and renovation of a steam turbine | Fixed         | 15.12.2021    | 40 599                                | 40 047                    |
|                            |   | Construction and start-up of a co-generation unit at EC Bielsko Biala                                     | Fixed         | 15.12.2021    | 58 069                                | 57 294                    |
| Loans                      | European Investment Bank  | Modernization and extension of power grid   | Fixed         | 15.06.2024    | 177 517                               | 175 298                   |
|                            |   |   | Fixed         | 15.09.2024    | 80 204                                | 89 820                    |
|                            |   |   | Fixed         | 15.09.2024    | 100 604                               | 112 661                   |
|                            |   | Modernization and extension of power grid and improvement of hydropower plants                            | Fixed         | 15.03.2027    | 203 575                               | 219 415                   |
|                            |   |   |               |               | 250 372                               | -                         |
| Loans                      | Intesa Sanpaolo S.P.A.  | Group's investment expenditure, except for financing or refinancing projects related to coal assets       | floating      | 19.12.2024    | 250 246                               | -                         |
|                            |   |   |               |               | 249 778                               | -                         |
| Loans                      | SMBC BANK EU AG   | Group's general corporate expenses, excluding financing and refinancing of coal-fired power plants        | fixed         | 23.03.2025    | 498 629                               | -                         |
| Overdraft facility         | Bank Gospodarstwa Krajowego                                     | financing of CO <sub>2</sub> emission allowance, electricity and gas transactions on EU stock exchanges   | Floating      | 31.12.2020    | 61 704                                | 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    | 11 000                                | 12 000                    |
| Other loans and borrowings |   |   |               |               | 17 965                                | 19 577                    |
| <b>Total</b>               |   |   |               |               | <b>8 032 518</b>                      | <b>7 050 651</b>          |

\* 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 renewable, and the deadline for its availability is the end of 2022. Some of the tranches contracted as at 31 March 2020 and as at 31 December 2019 have a 12-month maturity, falling in 2020. 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 term, this liability is presented as a long-term liability. The remaining tranches with an original maturity of less than 1 year are classified as current liabilities, according to the contractual maturity.

Changes in the balance of bank loans and borrowings, excluding interest increasing their carrying amount, in the 3-month period ended 31 March 2020 and in the comparative period is presented in the table below.

|   | 3-month period ended<br>31 March 2020 | 3-month period ended<br>31 March 2019 |
|---|---------------------------------------|---------------------------------------|
|   | (unaudited)                           | (unaudited)                           |
| <b>Opening balance</b>  | <b>7 027 775</b>                      | <b>881 582</b>                        |
| <b>Movement in bank overdrafts and cash pool loans received</b> | <b>39 697</b>                         | <b>158 869</b>                        |
| <b>Movement in other loans:</b>                                 | <b>912 521</b>                        | <b>693 653</b>                        |
| Repaid  | (3 086 265)                           | (37 054)                              |
| Taken*  | 3 995 575                             | 728 120                               |
| Change in valuation   | 3 211                                 | 2 587                                 |
| <b>Closing balance</b>  | <b>7 979 993</b>                      | <b>1 734 104</b>                      |

\* Inclusive of the borrowing costs

During the 3-month period ended 31 March 2020, the Group carried out the following transactions relating to bank loans and borrowings (in nominal value), excluding overdrafts facilities:

| Lender                             | Description   | 3-month period ended 31 March 2020<br>(unaudited) |                    |
|------------------------------------|---|---|--------------------|
|                                    |   | Drawdown  | Repayment          |
| Consortium of banks                | Drawdown of new tranches and repayment of tranches according to credit agreement deadline | 2 750 000   | (3 050 000)        |
| Intesa Sanpaolo S.P.A.             | Drawdown of 3 tranches of PLN 250 000 thousand each                                       | 750 000   |                    |
| SMBC BANK EU AG                    | Drawdown of total of available financing  | 500 000   |                    |
| European Investment Bank           | Repayment of capital instalments according to schedule                                    |   | (35 205)           |
| Other borrowings                   |   |   | (1 060)            |
| <b>Total, including:</b>           |   | <b>4 000 000</b>                                  | <b>(3 086 265)</b> |
| Cash flows                         |   | 2 000 000   | (1 086 265)        |
| Net settlement (without cash flow) |   | 2 000 000   | (2 000 000)        |

#### **Loan agreement with Consortium of Banks**

On 19 June 2019, a loan agreement was concluded for the amount of PLN 6 070 000 thousand, to which the Company as the borrower and Bank Handlowy w Warszawie S.A., Santander Bank Polska S.A., CaixaBank S.A. (joint-stock company) Branch in Poland, Industrial and Commercial Bank of China (Europe) S.A. Branch in Poland, ING Bank Śląski S.A., mBank S.A., MUFG Bank (Europe) N.V., MUFG Bank (Europe) N.V. S.A. Branch in Poland and Powszechna Kasa Oszczędności Bank Polski S.A. as the lenders, which essentially replaced the bond issue scheme up to PLN 6 270 000 thousand concluded on 24 November 2015, as amended, with banks that were parties to the loan agreement concluded on 19 June 2019 and with BNP Paribas Bank Polska S.A., which continues financing the Company under the bond scheme.

Key financing parameters specified in the loan agreement, including the margin level, financing duration and financial exposure level of specific lenders do not change with respect to the bond scheme. Under the loan agreement, the Company has financing available:

- until 31 December 2021 in the amount of PLN 6 070 000 thousand;
- until 31 December 2022 in the amount of PLN 5 820 000 thousand.

As at 31 March 2020, the outstanding balance of liabilities at nominal value under the agreement amounted in total to PLN 4 989 600 thousand.

After the end of the reporting period, TAURON Polska Energia S.A. drew further tranches under the loan agreement with a Consortium of banks dated 19 June 2019 and repaid a part of the funds released. As at the date of approval for publication of these condensed interim consolidated financial statements, the total debt of the Company under the agreement amounts to PLN 4 339 600 thousand.

#### **Loan agreement with bank Intesa Sanpaolo S.P.A.**

On 19 December 2019, TAURON Polska Energia S.A. concluded with the bank Intesa Sanpaolo S.P.A., acting through Intesa Sanpaolo S.P.A. S.A. Branch in Poland, credit agreement for the amount of PLN 750 000 thousand.

In the first quarter of 2020, the Company released all available financing.

### **Loan agreement with bank 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.

### **Bank overdrafts**

As at 31 March 2020 the balance of overdraft facilities amounted to PLN 61 704 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 31 March 2020 (unaudited) |               | As at 31 December 2019 |               |
|--------------------|--------|---|----------|------------------------------|----------------|---------------------------------|---------------|------------------------|---------------|
|                    |        |   |          |                              |                | currency                        | PLN           | currency               | PLN           |
| intraday limit     | PKO BP | intraday limit  | PLN      | 300 000                      | 17.12.2020     | -                               | -             | -                      | -             |
|                    | PKO BP | financing of ongoing operations   | PLN      | 300 000                      | 29.12.2020     | -                               | -             | -                      | -             |
| overdraft facility | BGK    | financing of CO <sub>2</sub> emission allowance, electricity and gas transactions on EU stock exchanges | EUR      | 45 000                       | 31.12.2019     | 13 555                          | 61 704        | 4 804                  | 20 456        |
|                    | mBank  | financing of security deposits and commodity transactions   | USD      | 200                          | 31.03.2020     | -                               | -             | 198                    | 754           |
| <b>Total</b>       |        |   |          |                              |                |                                 | <b>61 704</b> |                        | <b>21 210</b> |

### **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 utilization 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 condensed interim consolidated financial statements, the Company has not incurred any liabilities under the above agreement.

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**31.2. Bonds issued**

**Bonds issued as at 31 March 2020 (unaudited)**

| Issuer                                | Tranche/<br>Bank                             | Interest                          | Currency | Bonds at<br>nominal<br>value in<br>currency | Maturity<br>date        | As at balance sheet date |                     |                                   | of which maturing within<br>(after the balance sheet date): |                |                  |                  |
|---------------------------------------|--|-----------------------------------|----------|---|-------------------------|--------------------------|---------------------|-----------------------------------|---|----------------|------------------|------------------|
|                                       |  |                                   |          |   |                         | Total carrying<br>amount | Interest<br>accrued | Principal at<br>amortised<br>cost | up to 1<br>year   | 1-2 years      | 2-5 years        | Over 5 years     |
| TAURON Polska<br>Energia S.A.         | Bank Gospodarstwa<br>Krajowego               | floating,<br>based on<br>WIBOR 6M | PLN      | 800 000                                     | 2021-2028               | 806 067                  | 7 312               | 798 755                           | -   | 99 916         | 299 595          | 399 244          |
|                                       |  |                                   |          | 630 000                                     | 2021-2029               | 635 395                  | 5 670               | 629 725                           | -   | 69 982         | 209 920          | 349 823          |
|                                       | BNP Paribas Bank<br>Polska S.A. <sup>1</sup> | floating,<br>based on<br>WIBOR 6M | PLN      | 6 300                                       | 9.11.2020               | 6 370                    | 73                  | 6 297                             | 6 297   | -              | -                | -                |
|                                       |  |                                   |          | 51 000                                      | 29.12.2020              | 51 362                   | 390                 | 50 972                            | 50 972  | -              | -                | -                |
|                                       | Eurobonds                                    | fixed                             | EUR      | 500 000                                     | 5.07.2027               | 2 302 264                | 40 027              | 2 262 237                         | -   | -              | -                | 2 262 237        |
| Finanse Grupa<br>TAURON<br>Sp. z o.o. | German market<br>investors                   | fixed                             | EUR      | 168 000                                     | 3.12.2029               | 769 959                  | 8 947               | 761 012                           | -   | -              | -                | 761 012          |
| <b>Unsubordinated bonds</b>           |  |                                   |          |   |                         | <b>4 571 417</b>         | <b>62 419</b>       | <b>4 508 998</b>                  | <b>57 269</b>   | <b>169 898</b> | <b>509 515</b>   | <b>3 772 316</b> |
| TAURON Polska<br>Energia S.A.         | Bank Gospodarstwa<br>Krajowego               | floating,<br>based on<br>WIBOR 6M | PLN      | 400 000                                     | 29.03.2031 <sup>3</sup> | 405 886                  | 6 536               | 399 350                           | -   | -              | -                | 399 350          |
|                                       |  |                                   |          | 190 000                                     | 16.12.2034 <sup>3</sup> | 830 650                  | 11 653              | 818 997                           | -   | -              | 818 997          | -                |
|                                       | European Investment<br>Bank                  | fixed <sup>2</sup>                | PLN      | 400 000                                     | 17.12.2030 <sup>3</sup> | 402 200                  | 8 782               | 393 418                           | -   | -              | -                | 393 418          |
| 350 000                               |  |                                   |          | 19.12.2030 <sup>3</sup>                     | 351 618                 | 7 379                    | 344 239             | -                                 | -   | -              | 344 239          |                  |
| <b>Subordinated hybrid bonds</b>      |  |                                   |          |   |                         | <b>1 990 354</b>         | <b>34 350</b>       | <b>1 956 004</b>                  | <b>-</b>  | <b>-</b>       | <b>818 997</b>   | <b>1 137 007</b> |
| <b>Total bonds issued</b>             |  |                                   |          |   |                         | <b>6 561 771</b>         | <b>96 769</b>       | <b>6 465 002</b>                  | <b>57 269</b>   | <b>169 898</b> | <b>1 328 512</b> | <b>4 909 323</b> |

<sup>1</sup> Bond Issue Scheme dated 24 November 2015

<sup>2</sup> In relation to hybrid (subordinate) financing - bonds taken over by European Investment Bank - two periods occur. 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.

<sup>3</sup> In the case of subordinated bonds, the maturity date shall take into account two financing periods, as referred to below. The maturity dates presented in the table above are the final maturity dates resulting from the contract, after two financing periods. The valuation of bonds as at the balance sheet date includes earlier redemption, due to the intention to redeem the bonds after the end of the first financing period. Aging includes an estimate of repayment after the first financing period.

**Bonds issued as at 31 December 2019**

| Issuer                                | Tranche/<br>Bank                             | Interest                          | Currency | Bonds at<br>nominal<br>value in<br>currency | Maturity<br>date        | As at balance sheet date |                     |                                   | of which maturing within<br>(after the balance sheet date): |                |                  |                  |
|---------------------------------------|--|-----------------------------------|----------|---|-------------------------|--------------------------|---------------------|-----------------------------------|---|----------------|------------------|------------------|
|                                       |  |                                   |          |   |                         | Total carrying<br>amount | Interest<br>accrued | Principal at<br>amortised<br>cost | up to 1<br>year   | 1-2 years      | 2-5 years        | Over 5 years     |
| TAURON Polska<br>Energia S.A.         | Bank Gospodarstwa<br>Krajowego               | floating,<br>based on<br>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<br>Polska S.A. <sup>1</sup> | floating,<br>based on<br>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   | -              | -                | -                |
|                                       | Eurobonds                                    | fixed                             | EUR      | 500 000                                     | 5.07.2027               | 2 140 700                | 24 870              | 2 115 830                         | -   | -              | -                | 2 115 830        |
| Finanse Grupa<br>TAURON<br>Sp. z o.o. | German market<br>investors                   | fixed                             | EUR      | 168 000                                     | 3.12.2029               | 712 551                  | 2 127               | 710 424                           | -   | -              | -                | 710 424          |
| <b>Unsubordinated bonds</b>           |  |                                   |          |   |                         | <b>4 343 595</b>         | <b>28 574</b>       | <b>4 315 021</b>                  | <b>60 361</b>   | <b>169 886</b> | <b>509 482</b>   | <b>3 575 292</b> |
| TAURON Polska<br>Energia S.A.         | Bank Gospodarstwa<br>Krajowego               | floating,<br>based on<br>WIBOR 6M | PLN      | 400 000                                     | 29.03.2031 <sup>3</sup> | 400 123                  | 761                 | 399 362                           | -   | -              | -                | 399 362          |
|                                       |  |                                   |          | 190 000                                     | 16.12.2034 <sup>3</sup> | 771 161                  | 1 630               | 769 531                           | -   | -              | 769 531          | -                |
|                                       | European Investment<br>Bank                  | fixed <sup>2</sup>                | PLN      | 400 000                                     | 17.12.2030 <sup>3</sup> | 395 901                  | 1 243               | 394 658                           | -   | -              | -                | 394 658          |
| 350 000                               |  |                                   |          | 19.12.2030 <sup>3</sup>                     | 346 242                 | 922                      | 345 320             | -                                 | -   | -              | 345 320          |                  |
| <b>Subordinated hybrid bonds</b>      |  |                                   |          |   |                         | <b>1 913 427</b>         | <b>4 556</b>        | <b>1 908 871</b>                  | <b>-</b>  | <b>-</b>       | <b>769 531</b>   | <b>1 139 340</b> |
| <b>Total bonds issued</b>             |  |                                   |          |   |                         | <b>6 257 022</b>         | <b>33 130</b>       | <b>6 223 892</b>                  | <b>60 361</b>   | <b>169 886</b> | <b>1 279 013</b> | <b>4 714 632</b> |

<sup>1</sup> Bond Issue Scheme dated 24 November 2015

<sup>2</sup> In relation to hybrid (subordinate) financing - bonds taken over by European Investment Bank - two periods occur. 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.

<sup>3</sup> In the case of subordinated bonds, the maturity date shall take into account two financing periods, as referred to below. The maturity dates presented in the table above are the final maturity dates resulting from the contract, after two financing periods. The valuation of bonds as at the balance sheet date includes earlier redemption, due to the intention to redeem the bonds after the end of the first financing period. Aging includes an estimate of repayment 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. They were rated "BBB" by the Fitch rating agency.

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.

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

|                        | 3-month period ended<br>31 March 2020<br><i>(unaudited)</i> | 3-month period ended<br>31 March 2019<br><i>(unaudited)</i> |
|------------------------|---|---|
| <b>Opening balance</b> | <b>6 223 892</b>  | <b>10 034 904</b>   |
| Issue*                 | -   | 499 312   |
| Redemption             | (3 100)   | (400 000)   |
| Change in valuation    | 244 210   | (3 458)   |
| <b>Closing balance</b> | <b>6 465 002</b>  | <b>10 130 758</b>   |

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<sub>2</sub> 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.

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

#### **31.3. 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 limit permissible value of the net debt/EBITDA ratio is 3.5. The net debt/EBITDA ratio is calculated on the basis of consolidated data.

As at 31 December 2019, (i.e. the most recent reporting period for which the Company was obliged to calculate the covenant) the net debt/EBITDA ratio, amounted to 2.81 and therefore the covenant was not exceeded.

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

#### 31.4. Lease liabilities

|  | As at<br>31 March 2020<br>(unaudited) | As at<br>31 December 2019 |
|--|---------------------------------------|---------------------------|
| Within 1 year  | 119 624                               | 110 893                   |
| Within 1 to 5 years  | 308 763                               | 309 789                   |
| Within 5 to 10 years   | 297 056                               | 298 093                   |
| Within 10 to 20 years  | 508 320                               | 500 368                   |
| More than 20 years   | 687 817                               | 708 324                   |
| <b>Gross lease liabilities</b>   | <b>1 921 580</b>                      | <b>1 927 467</b>          |
| Discount   | (925 481)                             | (920 864)                 |
| <b>Present value of lease payments</b>   | <b>996 099</b>                        | <b>1 006 603</b>          |
| Lease agreements that do not meet the conditions for recognition as a finance lease as defined in the financing agreements | 996 099                               | 1 006 603                 |
| <b>Lease contracts included in the covenant calculation (as defined in financing contracts)</b>                            | <b>-</b>                              | <b>-</b>                  |

#### 32. Provisions for employee benefits

|  | As at<br>31 March 2020<br>(unaudited) | As at<br>31 December 2019 |
|--|---------------------------------------|---------------------------|
| Provision for post-employment benefits and jubilee bonuses                               | 1 403 571                             | 1 397 489                 |
| Provision for employment termination benefits and other provisions for employee benefits | 33 367                                | 34 409                    |
| <b>Total</b>   | <b>1 436 938</b>                      | <b>1 431 898</b>          |
| Non-current  | 1 325 111                             | 1 313 480                 |
| Current  | 111 827                               | 118 418                   |

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

For the 3 month-period ended 31 March 2020 (unaudited)

|                            | Provision for<br>retirement, disability<br>and similar benefits | Employee<br>electricity rates | Social Fund    | Jubilee bonuses | Provisions,<br>total |
|----------------------------|---|-------------------------------|----------------|-----------------|----------------------|
| <b>Opening balance</b>     | <b>378 423</b>  | <b>450 154</b>                | <b>119 410</b> | <b>449 502</b>  | <b>1 397 489</b>     |
| Current service costs      | 6 906   | 3 880                         | 1 148          | 9 742           | 21 676               |
| Actuarial gains and losses | (5 076)   | -                             | 161            | (4 449)         | (9 364)              |
| Benefits paid              | (4 925)   | (6)                           | (1 032)        | (7 104)         | (13 067)             |
| Interest expense           | 1 778   | 2 293                         | 608            | 2 118           | 6 797                |
| Other movements            | 40  | -                             | -              | -               | 40                   |
| <b>Closing balance</b>     | <b>377 146</b>  | <b>456 321</b>                | <b>120 295</b> | <b>449 809</b>  | <b>1 403 571</b>     |
| Non-current                | 347 146   | 441 075                       | 116 262        | 403 312         | 1 307 795            |
| Current                    | 30 000  | 15 246                        | 4 033          | 46 497          | 95 776               |

**For the 3 month-period ended 31 March 2019 (unaudited)**

|                            | Provision for retirement, disability and similar benefits | Employee electricity rates | Social Fund   | Jubilee bonuses | Provisions, total |
|----------------------------|---|----------------------------|---------------|-----------------|-------------------|
| <b>Opening balance</b>     | <b>331 270</b>  | <b>370 267</b>             | <b>91 720</b> | <b>395 572</b>  | <b>1 188 829</b>  |
| Current service costs      | 3 683   | 2 267                      | 684           | 5 649           | 12 283            |
| Actuarial gains and losses | (2 807)   | -                          | 19            | (5 047)         | (7 835)           |
| Benefits paid              | (5 652)   | (15)                       | (803)         | (6 382)         | (12 852)          |
| Interest expense           | 2 230   | 2 678                      | 640           | 2 622           | 8 170             |
| <b>Closing balance</b>     | <b>328 724</b>  | <b>375 197</b>             | <b>92 260</b> | <b>392 414</b>  | <b>1 188 595</b>  |
| Non-current                | 296 337   | 361 873                    | 89 159        | 348 152         | 1 095 521         |
| Current                    | 32 387  | 13 324                     | 3 101         | 44 262          | 93 074            |

**Measurement of provisions for employee benefits**

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

The provisions for employee benefits were measured as at 31 March 2020 based on actuarial projections. Actuarial assumptions made in preparing the projections for 2020 were the same as those adopted for the measuring provisions as at 31 December 2019. Key actuarial assumptions made as at 31 December 2019 for the purpose of calculation of the liability are as follows:

|   | 31 December 2019 |
|---|------------------|
| Discount rate (%)   | 2.10%            |
| 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.

**32.2. Provisions for termination benefits and other provisions for employee benefits**

|                        | 3-month period ended 31 March 2020<br>(unaudited) |                  |               | 3-month period ended 31 March 2019<br>(unaudited) |                  |               |
|------------------------|---|------------------|---------------|---|------------------|---------------|
|                        | Voluntary redundancy schemes                      | Other provisions | Total         | Voluntary redundancy schemes                      | Other provisions | Total         |
| <b>Opening balance</b> | <b>21 032</b>                                     | <b>13 377</b>    | <b>34 409</b> | <b>31 991</b>                                     | <b>10 658</b>    | <b>42 649</b> |
| Recognition            | 110   | 330              | 440           | 178   | 853              | 1 031         |
| Reversal               | -   | -                | -             | (6 562)   | -                | (6 562)       |
| Utilization            | (979)   | (503)            | (1 482)       | (2 407)   | (428)            | (2 835)       |
| <b>Closing balance</b> | <b>20 163</b>                                     | <b>13 204</b>    | <b>33 367</b> | <b>23 200</b>                                     | <b>11 083</b>    | <b>34 283</b> |
| Non-current            | 11 478  | 5 838            | 17 316        | 21 565  | -                | 21 565        |
| Current                | 8 685   | 7 366            | 16 051        | 1 635   | 11 083           | 12 718        |

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

|                                     | 3-month period ended 31 March 2020<br>(unaudited) |  |                  | 3-month period ended 31 March 2019<br>(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 |
| <b>Opening balance</b>              | <b>305 885</b>                                    | <b>194 082</b>   | <b>499 967</b>   | <b>202 599</b>                                    | <b>135 878</b>   | <b>338 477</b>   |
| Unwinding of the discount           | 1 606   | 1 016  | 2 622            | 1 519   | 738  | 2 257            |
| Recognition/(reversal), net         | 66  | (116)  | (50)             | 40  | (13 039)   | (12 999)         |
| Utilisation                         | -   | (954)  | (954)            | -   | (1 103)  | (1 103)          |
| Other movements                     | -   | 240  | 240              | -   | -  | -                |
| <b>Closing balance</b>              | <b>307 557</b>                                    | <b>194 268</b>   | <b>501 825</b>   | <b>204 158</b>                                    | <b>122 474</b>   | <b>326 632</b>   |
| Non-current                         | 307 163   | 165 211  | 472 374          | 204 158   | 102 868  | 307 026          |
| Current                             | 394   | 29 057   | 29 451           | -   | 19 606   | 19 606           |
| Other provisions, long-term portion |   |  | 184 047          |   |  | 88 514           |
| <b>Total</b>                        |   |  | <b>656 421</b>   |   |  | <b>395 540</b>   |

#### 33.1. 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 MDF is recognized under the provision for future costs of mine decommissioning.

As at 31 March 2020, the balance of the provision amounted to PLN 307 557 thousand, and the change is primarily related to the reversal of the discount – PLN 1 606 thousand.

#### 33.2. 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 the Group recognised the following provisions created by the Generation and Renewable Energy Sources segment companies:

- provision for ash pile reclamation costs, which totalled PLN 30 220 thousand as at 31 March 2020 (versus PLN 30 976 thousand as at 31 December 2019);
- provision for costs related to wind farm dismantling, the balance of which as at 31 March 2020 amounted to PLN 133 703 thousand (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 30 345 thousand as at 31 March 2020 (versus PLN 30 246 thousand as at 31 December 2019).

### 34. Provisions for liabilities due to CO<sub>2</sub> emission allowances and energy certificates

The table below presents the provision for CO<sub>2</sub> emission allowances and energy certificates, described in more detail in Note 34.1 hereto and the provision for the obligation to submit energy certificates, described in more detail in Note 34.2 hereto.



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|                        | 3-month period ended 31 March 2020<br>(unaudited)                     |  |                  | 3-month period ended 31 March 2019<br>(unaudited)                     |  |                  |
|------------------------|---|--|------------------|---|--|------------------|
|                        | Provisions for liabilities due to CO <sub>2</sub> emission allowances | Provision for obligation to submit energy certificates | Provisions total | Provisions for liabilities due to CO <sub>2</sub> emission allowances | Provision for obligation to submit energy certificates | Provisions total |
| <b>Opening balance</b> | <b>772 299</b>  | <b>605 934</b>   | <b>1 378 233</b> | <b>111 406</b>  | <b>384 066</b>   | <b>495 472</b>   |
| Recognition            | 185 629   | 209 295  | <b>394 924</b>   | 120 509   | 113 657  | <b>234 166</b>   |
| Reversal               | -   | (2 716)  | <b>(2 716)</b>   | (74)  | (3 190)  | <b>(3 264)</b>   |
| Utilisation            | (311 927)   | (304 942)  | <b>(616 869)</b> | (45 075)  | (249 163)  | <b>(294 238)</b> |
| <b>Closing balance</b> | <b>646 001</b>  | <b>507 571</b>   | <b>1 153 572</b> | <b>186 766</b>  | <b>245 370</b>   | <b>432 136</b>   |

The increase in the cost of creating a provision for CO<sub>2</sub> emission liabilities in the 3-month period ended 31 March 2020 as compared to the comparable period is described in Note 12 of these condensed interim consolidated financial statements.

The increase in the cost of creating a provision for obligation to present certificates of origin of energy in the 3-month period ended 31 March 2020 in relation to the comparable period is mainly related to the increase in prices of property rights of origin of energy from renewable sources and the increase in 2020 the obligation to present certificates of origin of energy from renewable sources to 19.5%

### 34.1. Provision for CO<sub>2</sub> emission liabilities

As at 31 March 2020, the provision for CO<sub>2</sub> emission liability related to the obligation to redeem emission allowances in connection with emissions in the 3-month period ended 31 March 2020 and for 2019.

Change in the provision for the liability for CO<sub>2</sub> emissions in the 3-month period ended 31 March 2020 with a breakdown into fulfilment of the redemption obligation for particular periods is presented in the table below.

|                                    | Compliance of the surrender obligation for the 3-month period ended 31 March 2020 | Compliance of the surrender obligation for the year ended 31 December 2019 | Total            |
|------------------------------------|---|--|------------------|
| <b>Opening balance</b>             | -   | <b>772 299</b>   | <b>772 299</b>   |
| Recognition                        | 183 597   | 2 032  | <b>185 629</b>   |
| Utilisation                        | -   | (311 927)  | <b>(311 927)</b> |
| <b>Closing balance</b>             | <b>183 597</b>  | <b>462 404</b>   | <b>646 001</b>   |
| TAURON Wytwarzanie S.A.'s systems  | 146 503   | 358 335  | <b>504 838</b>   |
| TAURON Ciepło Sp. z o.o.'s systems | 37 094  | 104 069  | <b>141 163</b>   |

### 34.2. Provision for the obligation to surrender energy certificates

The table below presents the change of the provision by virtue of the obligation to present certificates of origin of energy in the 3-month period ended 31 March 2020 with a breakdown into the fulfilment of the redemption obligation for particular periods.

|                        | Compliance of the surrender obligation for the 3-month period ended 31 March 2020 | Compliance of the surrender obligation for the year ended 31 December 2019 | Total            |
|------------------------|---|--|------------------|
| <b>Opening balance</b> | -   | <b>605 934</b>   | <b>605 934</b>   |
| Recognition            | 209 295   | -  | <b>209 295</b>   |
| Reversal               | -   | (2 716)  | <b>(2 716)</b>   |
| Utilisation            | -   | (304 942)  | <b>(304 942)</b> |
| <b>Closing balance</b> | <b>209 295</b>  | <b>298 276</b>   | <b>507 571</b>   |

### 35. Other provisions

|  | 3-month period ended 31 March 2020<br>(unaudited) |                                 |   |                  | 3-month period ended 31 March 2019<br>(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 |
| <b>Opening balance</b>   | <b>88 070</b>                                     | <b>241 796</b>                  | <b>397 050</b>  | <b>726 916</b>   | <b>92 110</b>                                     | <b>213 996</b>                  | <b>311 295</b>  | <b>617 401</b>    |
| Unwinding of discount  | -   | 14                              | 20  | 34               | -   | -                               | 773   | 773               |
| Recognition/(reversal), net  | (2 096)   | (112)                           | (8 032)   | (10 240)         | 707   | -                               | 1 426   | 2 133             |
| Utilisation  | (122)   | (48 441)                        | (1 339)   | (49 902)         | (140)   | (50 500)                        | (1 190)   | (51 830)          |
| Other movements  | -   | -                               | (12 872)  | (12 872)         | -   | -                               | -   | -                 |
| <b>Closing balance</b>   | <b>85 852</b>                                     | <b>193 257</b>                  | <b>374 827</b>  | <b>653 936</b>   | <b>92 677</b>                                     | <b>163 496</b>                  | <b>312 304</b>  | <b>568 477</b>    |
| Non-current  | -   | 39 940                          | 144 107   | 184 047          | -   | 9 304                           | 79 210  | 88 514            |
| Current  | 85 852  | 153 317                         | 230 720   | 469 889          | 92 677  | 154 192                         | 233 094   | 479 963           |
| Current portion of provisions for the costs of disassembly of fixed assets and land restoration and other provisions |   |                                 |   | 29 451           |   |                                 |   | 19 606            |
| <b>Total</b>   |   |                                 |   | <b>499 340</b>   |   |                                 |   | <b>499 569</b>    |

#### 35.1. 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 31 March 2020, the relevant provision amounted to PLN 85 852 thousand and was related to the following segments:

- Generation – PLN 49 645 thousand;
- Distribution – PLN 35 120 thousand;
- Renewable Energy Sources – PLN 1 087 thousand.

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

#### 35.2. 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 was created for onerous contracts 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 provision 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. As at the date of approval of these condensed interim consolidated financial statements for publication, the proceedings pending before the President of ERO in connection with this application have not been completed.

In the 3-month period ended 31 March 2020, the above provision was partially used in the amount of PLN 47 998 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 3-month period ended 31 March 2020, the provision was partially used in the amount of PLN 443 thousand.

**35.3. 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<br>31 March 2020<br>(unaudited) | As at<br>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 3-month period ended 31 March 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 14 411 thousand. The cost of creating and releasing the provision was recognized for capital expenditures.  | 84 265                                | 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 3-month period ended 31 March 2020 the company from Distribution segment utilised a provision in the amount of PLN 304 thousand.  | 67 019                                | 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 property classified as power grid assets.  | 39 356                                | 39 356                    |
| 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 24 and 28 April 2020 and 22 May 2020. As of the date of approval of these condensed interim consolidated financial statements for publication in the filed of proceedings for which the deadline was April 2020, the Company has not received any decisions to extend the deadlines or end proceedings. In the 3-month period ended 31 March 2020 the provision was increased by accrued interest in the amount of PLN 1 046 thousand. | 78 140                                | 77 094                    |

**36. Accruals, deferred income and government grants**

**36.1. Deferred income and government grants**

|  | As at<br>31 March 2020<br><i>(unaudited)</i> | As at<br>31 December 2019 |
|--|--|---------------------------|
| <b>Deferred income</b>   | <b>46 853</b>                                | <b>48 623</b>             |
| Donations, subsidies received for the purchase or fixed assets received free-of-charge | 43 351                                       | 44 521                    |
| Other  | 3 502  | 4 102                     |
| <b>Government grants</b>   | <b>446 992</b>                               | <b>443 433</b>            |
| Subsidies obtained from EU funds   | 355 327                                      | 349 335                   |
| Forgiven loans from environmental funds  | 31 590                                       | 32 764                    |
| Measurement of preferential loans  | 32 209                                       | 32 567                    |
| Other  | 27 866                                       | 28 767                    |
| <b>Total</b>   | <b>493 845</b>                               | <b>492 056</b>            |
| Non-current  | 463 726                                      | 460 003                   |
| Current  | 30 119                                       | 32 053                    |

**36.2. Accrued expenses**

|                                  | As at<br>31 March 2020<br><i>(unaudited)</i> | As at<br>31 December 2019 |
|----------------------------------|--|---------------------------|
| Bonuses                          | 108 407                                      | 59 827                    |
| Unused holidays                  | 67 822                                       | 46 612                    |
| Environmental protection charges | 12 788                                       | 25 600                    |
| Other accrued expenses           | 19 737                                       | 21 452                    |
| <b>Total</b>                     | <b>208 754</b>                               | <b>153 491</b>            |
| Non-current                      | 434  | -                         |
| Current                          | 208 320                                      | 153 491                   |

**37. Liabilities to suppliers**

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

| Operating segment  | As at<br>31 March 2020<br><i>(unaudited)</i> | As at<br>31 December 2019<br><i>(restated figures)</i> |
|--|--|--|
| Mining   | 130 149                                      | 122 602  |
| Generation   | 110 263                                      | 124 057  |
| Renevable Energy Sources                                   | 8 958  | 13 552   |
| Distribution, <i>including:</i>                            | 226 294                                      | 223 173  |
| <i>liability to Polskie Sieci Elektroenergetyczne S.A.</i> | <i>180 362</i>                               | <i>172 790</i>   |
| Sales  | 227 648                                      | 287 827  |
| Other  | 58 625                                       | 76 015   |
| <b>Total</b>   | <b>761 937</b>                               | <b>847 226</b>   |

**38. Capital commitments**

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

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| Operating segment       | As at<br>31 March 2020<br>(unaudited) | As at<br>31 December 2019<br>(restated figures) |
|-------------------------|---------------------------------------|---|
| Mining                  | 33 323                                | 62 059  |
| Generation              | 226 867                               | 426 419   |
| Renevabe Energy Sources | 823                                   | 2 588   |
| Distribution            | 179 070                               | 182 150   |
| Sales and other         | 28 221                                | 84 727  |
| <b>Total</b>            | <b>468 304</b>                        | <b>757 943</b>                                  |

Long-term capital commitments have been presented in the condensed interim consolidated statement of financial position within other financial liabilities. As at 31 March 2020 the liability amounted to PLN 4 027 thousand (as at 31 December 2019 - PLN 7 414 thousand).

#### **Commitments to incur capital expenditure**

As at 31 March 2020 and 31 December 2019, the Group committed to incur expenditure on property, plant and equipment and intangible assets of PLN 3 862 821 thousand and PLN 3 981 923 thousand, respectively, with the key items presented below:

| Operating segment   | Agreement/investment project  | As at<br>31 March 2020<br>(unaudited) | As at<br>31 December 2019 |
|---------------------|---|---------------------------------------|---------------------------|
| <b>Generation</b>   | Construction of 910 MW Power Unit in Jaworzno   | 460 949                               | 598 758                   |
|                     | Project of adjusting generation units to the BAT (Best Available Techniques) conclusions    | 268 303                               | 313 110                   |
| <b>Distribution</b> | Construction of new electrical connections  | 1 435 526                             | 1 227 019                 |
|                     | Modernization and reconstruction of existing networks                                       | 886 928                               | 918 317                   |
| <b>Mining</b>       | Construction of the "Grzegorz" shaft with the accompanying infrastructure and excavations   | 127 542                               | 146 380                   |
|                     | Construction of the 800 m drift at "Janina" Mining Plant                                    | 18 267                                | 30 681                    |
|                     | Investment Program in "Brzeszcze" Mining Plant  | 45 181                                | 51 606                    |
| <b>Other</b>        | Construction of a broadband Internet network under the Operational Programme Digital Poland | 239 503                               | 249 798                   |

#### **39. Liabilities arising from other taxes and charges**

|                     | As at<br>31 March 2020<br>(unaudited) | As at<br>31 December 2019 |
|---------------------|---------------------------------------|---------------------------|
| VAT                 | 167 437                               | 297 343                   |
| Personal Income Tax | 35 339                                | 53 974                    |
| Excise              | 9 242                                 | 12 063                    |
| Social security     | 169 692                               | 215 340                   |
| Other               | 6 946                                 | 10 281                    |
| <b>Total</b>        | <b>388 656</b>                        | <b>589 001</b>            |

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<sub>2</sub> emission allowances to subsidiaries in the Generation segment, during the 3-month period ended 31 March 2020.

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

Tax reports and other matters (e.g. customs or foreign currency transactions) may be audited by authorities competent to impose substantial penalties and fines, whereas any additional tax liabilities assessed during such audits have to be paid together with interest.

Consequently, the figures presented and disclosed in these condensed interim consolidated financial statements may change in the future if a final decision is issued by tax inspection authorities.

#### 40. Other financial liabilities

|  | As at<br>31 March 2020<br>(unaudited) | As at<br>31 December 2019 |
|--|---------------------------------------|---------------------------|
| Derivative instruments   | 749 524                               | 124 527                   |
| Wages, salaries  | 120 711                               | 223 679                   |
| Bid bonds, deposits and collateral received  | 87 997                                | 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  | 160 259                               | 155 606                   |
| <b>Total</b>   | <b>1 118 491</b>                      | <b>639 872</b>            |
| Non-current  | 117 697                               | 79 417                    |
| Current  | 1 000 794                             | 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 relates to commodity derivatives (including a significant part of forward instruments from transactions for which the underlying commodity is CO<sub>2</sub> emission allowances) as well as IRS and CCIRS instruments. Due to the market situation in the current reporting period mainly related to COVID-19, the occurrence of significant changes in commodity derivatives prices as well as the weakening of the Polish zloty and a decrease in interest rates, there was an increase in liabilities due to the valuation of the above derivatives as compared to the end of 2019. Derivatives are described in detail in Note 43.2 to these condensed interim consolidated financial statements.

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 3-month period ended 31 March 2020.

#### 41. Other current non-financial liabilities

|   | As at<br>31 March 2020<br>(unaudited) | As at<br>31 December 2019 |
|---|---------------------------------------|---------------------------|
| <b>Payments from customers relating to future periods</b> | <b>403 749</b>                        | <b>360 602</b>            |
| Amounts overpaid by customers                             | 335 196                               | 299 558                   |
| Prepayments for connection fees                           | 25 769                                | 21 085                    |
| Other   | 42 784                                | 39 959                    |
| <b>Other current non-financial liabilities</b>            | <b>73 744</b>                         | <b>3 774</b>              |
| Net liabilities of the Company's Social Benefits Fund     | 70 101                                | -                         |
| Other   | 3 643                                 | 3 774                     |
| <b>Total</b>  | <b>477 493</b>                        | <b>364 376</b>            |

## NOTES TO THE CONDENSED INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

### 42. Significant items of the condensed interim consolidated statement of cash flows

#### 42.1. Cash flows from operating activities

##### *Changes in working capital*

|   | 3-month period ended<br>31 March 2020 | 3-month period ended<br>31 March 2019   |
|---|---------------------------------------|---|
|   | <i>(unaudited)</i>                    | <i>(unaudited restated<br/>figures)</i> |
| <b>Change in receivables</b>  | <b>(134 698)</b>                      | <b>(63 153)</b>                         |
| Change in receivables from buyers in statement of financial position  | (247 608)                             | (83 558)                                |
| Change in other financial receivables   | 113 528                               | 20 611                                  |
| Adjustment due to change in receivables due to disposal of property, plant and equipment and financial assets                   | (1 241)                               | (123)                                   |
| Other adjustments   | 623                                   | (83)                                    |
| <b>Change in inventories</b>  | <b>318</b>                            | <b>(290 760)</b>                        |
| Change in inventories in statement of financial position  | 1 774                                 | (281 407)                               |
| Adjustment related to transfer of inventories to/from property, plant and equipment   | (1 456)                               | (9 353)                                 |
| <b>Change in payables excluding loans and borrowings</b>  | <b>(404 929)</b>                      | <b>(663 498)</b>                        |
| Change in liabilities to suppliers in statement of financial position   | (86 990)                              | (314 015)                               |
| Change in payroll, social security and other financial liabilities  | (141 290)                             | (288 322)                               |
| Change in non-financial liabilities in statement of financial position  | 113 117                               | 58 368                                  |
| Change in liabilities arising from taxes excluding income tax   | (200 345)                             | (35 250)                                |
| Adjustment of VAT change related to capital commitments   | (63 054)                              | (85 907)                                |
| Adjustment of other financial liabilities for guarantee valuation   | (33 897)                              | -                                       |
| Other adjustments   | 7 530                                 | 1 628                                   |
| <b>Change in other non-current and current assets</b>   | <b>545 240</b>                        | <b>(40 423)</b>                         |
| Change in other current and non-current non-financial assets in statement of financial position                                 | (131 089)                             | (69 058)                                |
| Change in receivables arising from taxes excluding income tax   | 220 181                               | 65 108                                  |
| Change in non-current and current CO <sub>2</sub> emission allowances   | 311 927                               | 45 075                                  |
| Change in non-current and current energy certificates   | 142 893                               | (73 248)                                |
| Change in advance payments for property, plant and equipment and intangible assets  | (1 348)                               | (5 037)                                 |
| Other adjustments   | 2 676                                 | (3 263)                                 |
| <b>Change in deferred income, government grants and accruals</b>  | <b>42 723</b>                         | <b>39 968</b>                           |
| Change in deferred income, government grants and accruals in statement of financial position                                    | 57 052                                | 50 173                                  |
| Adjustment related to property, plant and equipment and intangible assets received free of charge                               | (2 962)                               | (2 542)                                 |
| Adjustment related to subsidies received and refunded   | (10 412)                              | (7 630)                                 |
| Other adjustments   | (955)                                 | (33)                                    |
| <b>Change in provisions</b>   | <b>(276 714)</b>                      | <b>(130 129)</b>                        |
| Change of short term and long term provisions in statement of financial position  | (290 743)                             | (132 705)                               |
| Adjustment related to actuarial gains/losses from provisions for post-employment benefits charged to other comprehensive income | 4 915                                 | 2 788                                   |
| Adjustment related to provisions recognized in correspondence with property, plant and equipment                                | 9 275                                 | -                                       |
| Other adjustments   | (161)                                 | (212)                                   |
| <b>Total</b>  | <b>(228 060)</b>                      | <b>(1 147 995)</b>                      |

##### *Income tax paid*

The income tax paid in the 3-month period ended 31 March 2020 was PLN 61 326 thousand. The Tax Group of Companies paid PLN 52 214 thousand of income tax, which results from the payment of income tax advances for two months of 2020 in the amount of PLN 52 123 thousand and income tax settlements for previous years resulting in an outflow of PLN 91 thousand.

In the comparable 3-month period ended 31 March 2019, income taxes paid totalled PLN 185 801 thousand and included PLN 184 072 thousand relating to the Tax Group of Companies and resulting from the paid income tax advance payments by the Tax Group of Companies for the first two months of 2019 in the amount of PLN 141 310 thousand and payment by the Tax Group of Companies the income tax advance for the fourth quarter of 2018 in the amount of PLN 42 762 thousand.

#### 42.2. Cash from/used in investing activities

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

|   | 3-month period ended<br>31 March 2020<br><i>(unaudited)</i> | 3-month period ended<br>31 March 2019<br><i>(unaudited)</i> |
|---|---|---|
| Purchase of property, plant and equipment                 | (770 918)   | (596 441)   |
| Purchase of intangible assets                             | (26 552)  | (15 706)  |
| Change in the balance of VAT-adjusted capital commitments | (229 972)   | (368 293)   |
| Change in the balance of advance payments                 | 1 348   | 5 037   |
| Costs of overhaul and internal manufacturing              | (110 498)   | (72 244)  |
| Other   | 4 710   | 11 207  |
| <b>Total</b>  | <b>(1 131 882)</b>  | <b>(1 036 440)</b>  |

##### **Loans granted**

The expenses related to the granting the loans in the amount of PLN 19 300 thousand are mainly related to the transfer by the Company instalments of a loan to the co-subsiary company Elektrociepłownia Stalowa Wola S.A. in the total amount of PLN 13 600 thousand and a loan to the company PGE EJ1 Sp. z o.o. in the total amount of PLN 4 000 thousand.

#### 42.3. Cash from/used in financing activities

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

Expenditures on repayment of loans and borrowings shown in the condensed interim consolidated statement of cash flows in the amount of PLN 1 086 265 thousand arise mainly from repayment by the parent company during the 3-month period ended 31 March 2020:

- instalments of loans to the Consortium of Banks in the amount of PLN 1 050 000 thousand;
- instalments of the loan to the European Investment Bank in the amount of PLN 35 205 thousand.

##### **Interest paid**

|  | 3-month period ended<br>31 March 2020<br><i>(unaudited)</i> | 3-month period ended<br>31 March 2019<br><i>(unaudited restated<br/>figures)</i> |
|--|---|--|
| Interest paid in relation to debt securities     | (45)  | (2 831)  |
| Interest paid in relation to loans               | (13 723)  | (7 457)  |
| Interest paid in relation to the lease and other | (2 783)   | (2 444)  |
| <b>Total</b>                                     | <b>(16 551)</b>   | <b>(12 732)</b>  |
| investment expenditure                           | -   | -  |
| financial expenditure                            | (16 551)  | (12 732)   |

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 3-month period ended 31 March 2020, interest paid constituting borrowing costs which were capitalized in the value of property, plant and equipment and intangible assets amounted to PLN 10 751 thousand.

##### **Loans taken out**

Proceeds from the loans taken out, disclosed in the condensed interim consolidated statement of cash flows in the amount of PLN 2 000 000 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 750 000 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.

## FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

### 43. Financial instruments

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

| Categories and classes of financial assets  | As at<br>31 March 2020<br>(unaudited) |            | As at 31 December 2019 |               |
|---|---------------------------------------|------------|------------------------|---------------|
|   | Carrying amount                       | Fair value | Carrying amount        | Fair value    |
| <b>1 Financial assets measured at amortized cost</b>                                  | <b>2 668 393</b>                      |            | <b>2 582 793</b>       |               |
| Receivables from buyers   | 2 538 354                             | 2 538 354  | 2 290 746              | 2 290 746     |
| Deposits  | 54 104                                | 54 104     | 50 228                 | 50 228        |
| Loans granted   | 48 884                                | 48 884     | 39 467                 | 39 467        |
| Other financial receivables   | 27 051                                | 27 051     | 202 352                | 202 352       |
| <b>2 Financial assets measured at fair value through profit or loss (FVTPL)</b>       | <b>3 091 910</b>                      |            | <b>2 004 034</b>       |               |
| Derivative instruments  | 646 507                               | 646 507    | 86 067                 | 86 067        |
| Shares  | 136 722                               | 136 722    | 140 508                | 140 508       |
| Loans granted   | 206 944                               | 206 944    | 216 018                | 216 018       |
| Other financial receivables   | 358 640                               | 358 640    | 296 867                | 296 867       |
| Investment fund units   | -                                     | -          | 26 622                 | 26 622        |
| Cash and cash equivalents   | 1 743 097                             | 1 743 097  | 1 237 952              | 1 237 952     |
| <b>3 Derivative hedging instruments</b>   | <b>-</b>                              | <b>-</b>   | <b>19 462</b>          | <b>19 462</b> |
| <b>4 Financial assets excluded from the scope of IFRS 9<br/>Financial Instruments</b> | <b>591 392</b>                        |            | <b>559 144</b>         |               |
| Investments in joint ventures   | 591 392                               |            | 559 144                |               |
| <b>Total financial assets,<br/>of which in the statement of financial position:</b>   | <b>6 351 695</b>                      |            | <b>5 165 433</b>       |               |
| <b>Non-current assets</b>   | <b>1 069 687</b>                      |            | <b>1 032 701</b>       |               |
| Investments in joint ventures   | 591 392                               |            | 559 144                |               |
| Loans granted to joint ventures   | 227 946                               |            | 238 035                |               |
| Other financial assets  | 250 349                               |            | 235 522                |               |
| <b>Current assets</b>   | <b>5 282 008</b>                      |            | <b>4 132 732</b>       |               |
| Receivables from buyers   | 2 538 351                             |            | 2 290 746              |               |
| Loans granted to joint ventures   | 14 312                                |            | 4 999                  |               |
| Other financial assets  | 986 248                               |            | 599 035                |               |
| Cash and cash equivalents   | 1 743 097                             |            | 1 237 952              |               |

Following an analysis, transferred collateral, amounting to PLN 358 640 thousand as at 31 March 2020, was classified as other financial receivables measured at fair value through profit or loss, since the classification properly 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 to assets measured at fair value through profit or loss, as discussed in detail in Note 21 to these condensed interim consolidated financial statements.

**TAURON Polska Energia S.A. Capital Group**  
*Condensed interim consolidated financial statements for the three months ended 31 March 2020*  
*prepared in accordance with IFRS, as endorsed by the EU*  
*(in '000 PLN)*

| Categories and classes of financial liabilities                                      | As at<br>31 March 2020<br>(unaudited) |               | As at<br>31 December 2019 |            |
|--|---------------------------------------|---------------|---------------------------|------------|
|  | Carrying amount                       | Fair value    | Carrying amount           | Fair value |
| <b>1 Financial liabilities measured at amortized cost</b>                            | <b>16 193 497</b>                     |               | <b>15 428 187</b>         |            |
| Preferential loans and borrowings  | 11 430                                | 11 430        | 12 488                    | 12 488     |
| Arm's length loans and borrowings  | 7 959 384                             | 7 970 028     | 7 014 824                 | 7 030 597  |
| Bank overdrafts  | 61 704                                | 61 704        | 23 339                    | 23 339     |
| Bonds issued   | 6 561 771                             | 6 932 751     | 6 257 022                 | 6 537 537  |
| Liabilities to suppliers   | 763 638                               | 763 638       | 850 628                   | 850 628    |
| Other financial liabilities  | 192 821                               | 192 821       | 223 920                   | 223 920    |
| Capital commitments  | 472 331                               | 472 331       | 765 357                   | 765 357    |
| Salaries and wages   | 120 711                               | 120 711       | 223 679                   | 223 679    |
| Insurance contracts  | 49 707                                | 49 707        | 56 930                    | 56 930     |
| <b>2 Financial liabilities measured at fair value through profit or loss (FVTPL)</b> | <b>679 644</b>                        |               | <b>124 527</b>            |            |
| Derivative instruments   | 679 644                               | 679 644       | 124 527                   | 124 527    |
| <b>3 Derivative hedging instruments</b>  | <b>69 880</b>                         | <b>69 880</b> | -                         | -          |
| <b>4 Financial liabilities excluded from the scope of IFRS 9</b>                     |                                       |               |                           |            |
| <b>Financial Instruments</b>   | <b>996 099</b>                        |               | <b>1 006 603</b>          |            |
| Liabilities under leases   | 996 099                               |               | 1 006 603                 |            |
| <b>Total financial liabilities, of which in the statement of financial position:</b> | <b>17 939 120</b>                     |               | <b>16 559 317</b>         |            |
| <b>Non-current liabilities</b>   | <b>13 377 771</b>                     |               | <b>11 909 600</b>         |            |
| Debt   | 13 260 074                            |               | 11 830 183                |            |
| Other financial liabilities  | 117 697                               |               | 79 417                    |            |
| <b>Current liabilities</b>   | <b>4 561 349</b>                      |               | <b>4 649 717</b>          |            |
| Debt   | 2 330 314                             |               | 2 484 093                 |            |
| Liabilities to suppliers   | 761 937                               |               | 847 226                   |            |
| Capital commitments  | 468 304                               |               | 757 943                   |            |
| Other financial liabilities  | 1 000 794                             |               | 560 455                   |            |

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

| Financial asset/liability classes                          | Fair value measurement level | Fair value measurement methodology  |
|--|------------------------------|---|
| <b>Financial assets/liability measured at fair value</b>   |                              |   |
| <i>Derivatives, including:</i>                             |                              |   |
| IRS and CCIRS  | 2                            | Derivatives have been measured in line with the methodology presented in Note 43.2 hereto.  |
| 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.<br>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.  |
| <b>Financial liabilities whose fair value is disclosed</b> |                              |   |
| 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 31 March 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 given periods 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.

### 43.2. Derivative instruments and hedge accounting

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

|  | As at 31 March 2020<br>(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      |
| <b>Derivatives subject to hedge accounting</b>                   |                                    |                                       |                |                  |                           |                                       |                |                  |
| IRS  | 969                                | (70 849)                              | -              | (69 880)         | 121                       | 19 341                                | 19 462         | -                |
| <b>Derivatives measured at fair value through profit or loss</b> |                                    |                                       |                |                  |                           |                                       |                |                  |
| CCIRS  | (3 107)                            | -                                     | -              | (3 107)          | (12 885)                  | -                                     | -              | (12 885)         |
| Commodity forwards/futures                                       | (92 017)                           | -                                     | 584 520        | (676 537)        | 4 248                     | -                                     | 86 067         | (81 819)         |
| Currency forwards  | 61 987                             | -                                     | 61 987         | -                | (29 823)                  | -                                     | -              | (29 823)         |
| <b>Total</b>   |                                    |                                       | <b>646 507</b> | <b>(749 524)</b> |                           |                                       | <b>105 529</b> | <b>(124 527)</b> |
| Non-current  |                                    |                                       | 41 850         | (76 665)         |                           |                                       | 20 352         | (16 848)         |
| Current  |                                    |                                       | 604 657        | (672 859)        |                           |                                       | 85 177         | (107 679)        |

#### *Derivative instruments (subject to hedge accounting)*

In the 3-month period ended 31 March 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 100 000 thousand by concluding hedging transactions for interest rate swaps (IRS) for periods starting from 05 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 value of PLN 1 490 000 thousand, through the entry into interest rate swap (IRS) transactions for terms beginning from 20 December 2019, expiring from 2023 to 2029, respectively.

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 2 100 000 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 30.4 hereto.

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

As at 31 March 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<sub>2</sub> emission allowance and other commodity purchase and sale transactions;
- FX forward transactions hedging foreign currency cash flows resulting from the Company's operations.

The CCIRSs have been used with respect to the Company's Coupon Only Cross Currency Swap fixed-fixed transactions concluded in 2017 and in 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.

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 <sub>2</sub> 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 31 March 2020<br>(unaudited) |               | As at<br>31 December 2019 |               |
|------------------------------------|------------------------------------|---------------|---------------------------|---------------|
|                                    | Level 1                            | Level 2       | Level 1                   | Level 2       |
| <b>Assets</b>                      |                                    |               |                           |               |
| Derivative instruments - commodity | 584 520                            | -             | 86 067                    | -             |
| Derivative instruments - currency  | -                                  | 61 987        | -                         | -             |
| Derivative instruments-IRS         | -                                  | -             | -                         | 19 462        |
| <b>Total</b>                       | <b>584 520</b>                     | <b>61 987</b> | <b>86 067</b>             | <b>19 462</b> |
| <b>Liabilities</b>                 |                                    |               |                           |               |
| Derivative instruments - commodity | 676 537                            | -             | 81 819                    | -             |
| Derivative instruments - currency  | -                                  | -             | -                         | 29 823        |
| Derivative instruments-IRS         | -                                  | 69 880        | -                         | -             |
| Derivative instruments-CCIRS       | -                                  | 3 107         | -                         | 12 885        |
| <b>Total</b>                       | <b>676 537</b>                     | <b>72 987</b> | <b>81 819</b>             | <b>42 708</b> |

#### 44. Objectives and principles 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 31 March 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 43.2 of these condensed interim consolidated financial statements.

#### 45. Finance and capital management

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

## OTHER INFORMATION

### 46. 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 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 condensed interim consolidated financial statements for publication, the amount of damages claimed in lawsuits is as follows: companies of the in.ventus group - EUR 20 397 thousand, 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 prejudice 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; Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o. does not agree with the judgement and, on 12 March 2020, submitted an application to the court for delivery of the verdict and its justification, for its analysis and appeal.

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 terminations of long-term agreements submitted by Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o. are 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 prejudice 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 created a provision for onerous contracts in the amount of PLN 3 784 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 provision 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 a motion to undertake proceeding in order to withdraw the plaintiff's claim along with the waiver of the claim. As at the date of approval of these condensed interim consolidated financial statements for publication, the court did not issue any decisions on undertaking the proceedings.

##### **Claim 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 the subsidiary Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o. regarding long-term contracts for the purchase of power 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 condensed interim 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 condensed interim 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 not 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.

In addition, a lawsuit was pending against TAURON Polska Energia S.A. from Dobiesław Wind Invest Sp. z o.o. It concerned a demand to make a court deposit of PLN 183 391 thousand to reverse the threat of a loss. The Company assessed the chances for a positive outcome of the dispute as positive. The case was closed (as a result of Dobiesław Wind Invest Sp. z o.o. withdrawing the claim, the proceedings were discontinued - court decision of 29 November 2019).

#### **Claims relating to termination of long-term contracts against 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.

#### **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 Górnośląski Zakład Elektroenergetyczny S.A. ("GZE") - TAURON Polska Energia S.A. became a party to a court dispute with Huta Łaziska S.A. ("Huta") against GZE and the State Treasury represented by the President of ERO. 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 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 power supply) GZE again suspended power supply. Therefore, Huta has sued GZE for damages.

Under a lawsuit 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 lawsuit 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 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 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 lawsuit 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 lawsuit 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 5 791 thousand (TAURON Sprzedaż Sp. z o.o.) and in the total amount of PLN 4 188 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 31 March 2020, the value of the claim against the Company is PLN 17 086 thousand, including statutory interest accrued between 31 March 2015 and the payment date. Should the claim filed against the Company be dismissed, the claim for payment by the Group companies totals PLN 8 414 thousand, including statutory interest accrued between the date of service of a copy of the request filed by ENEA S.A. to extend the lawsuit 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. In the course of the proceedings, the court admitted evidence from the opinion of an expert in the field of high-voltage power engineering; the company responded to the opinion. The new hearing date was set for 12 May 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 trading 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 OCCP. As at the date of approval of these condensed interim 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, against 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. As at 31 March 2020, the balance of provisions did not change. After the balance sheet date, on 7 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.

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 Board 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")

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

- Proceedings instituted on 13 October 2017 against TAURON Sprzedaż GZE 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 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 investigation procedure 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.
- The investigation proceedings initiated on 26 August 2019 against TAURON Sprzedaż Sp. z o.o. and TAURON Sprzedaż GZE Sp. z o.o. calling on the companies to provide information on the reserve sale agreements concluded in 2018 and 2019 and to provide relevant explanations in the case.

- 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. The companies have been invited to explain themselves and are in the process of analysing the charges. As at the balance sheet date, the companies did not create provisions for the proceedings in question, making the decision on their possible creation dependent on the adopted procedure.
- 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 President of OCCP called on the companies to submit the required documents and information.

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 as in the opinion of the Management Board 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.

A provision in the amount of PLN 85 852 thousand was recognized for the court disputes filed as at the balance sheet date (Note 35.1).

#### 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. As at the date of approval of these condensed interim consolidated financial statements for publication, the Company does not identify on its side the risk of a material breach of the agreement beyond the Company's direct control and is of the opinion that there is no real possibility, including in the future, of such breaches. 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.

After the balance sheet date, 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 50 of these interim condensed consolidated financial statements. In connection with the postponement of the commissioning of 910 MW Unit, the Group does not identify any risk of material breach of the investment 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.



#### 47. Security for liabilities

Key items of collateral established and binding as at 31 March 2020 in the Group are presented in the following table and regard contracts concluded by the Parent.

| Collateral                                | Collateral amount                     |                       | Due date   | Agreement/transaction   |   |
|---|---------------------------------------|-----------------------|--|---|---|
|   | Currency                              | PLN                   |  |   |   |
| Declarations of submission to enforcement |                                       | 2 550 000             | 20.12.2032   | Long-term Bond Issue Scheme in Bank Gospodarstwa Krajowego of 31 July 2013  |   |
|   |                                       | 240 000               | 31.12.2023   | Bond Issue Scheme of 24 November 2015   |   |
|   |                                       | 600 000               | 30.06.2034   | Subordinated Bond Issue Scheme in Bank Gospodarstwa Krajowego of 6 September 2017   |   |
|   |                                       | 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               | 17.12.2021   | Bank account agreement (intraday limit) with PKO Bank Polski S.A. of 9 October 2017   |   |
|   |                                       | 360 000               | 29.12.2021   | Overdraft agreement with PKO Bank Polski S.A. of 9 October 2017   |   |
|   | EUR                                   | 24 000                | 109 255  | Overdraft agreement with Bank Gospodarstwa Krajowego of 8 May 2017  |   |
|   | EUR                                   | 50 000                | 227 615  |   |   |
|   |                                       | 1 500 000             | 31.12.2036   | Overdraft agreement with Bank Gospodarstwa Krajowego of 19 December 2018  |   |
|   |                                       | 96 000                | 27.05.2024   | Framework bank guarantee agreements with CaixaBank S.A. of 27 May 2019  |   |
|   |                                       | 24 000                | 27.05.2029   |   |   |
|   |                                       | 7 284 000             | 31.12.2025   | Credit arrangement with a consortium of banks of 19 June 2019   |   |
|   |                                       | 900 000               | 31.12.2027   | Credit agreements with Intesa Sanpaolo S.P.A. of 19 December 2019   |   |
|   |                                       | 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 Warsaw Commodity Clearing House of 13 March 2020                                |   |
|   | Authorizations to debit bank accounts |                       | 80 000   | 26.05.2023  | Framework bank guarantee agreements with CaixaBank S.A. of 27 May 2019              |
|   |                                       |                       | 20 000   | 26.05.2028  |   |
|   |                                       |                       | 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                | 204 854  | Overdraft agreement with Bank Gospodarstwa Krajowego of 8 May 2017  |   |
| Bank guarantees                           |                                       | 500 000               | 13.03.2022   | Agreement concluded with BGK for bank guarantees in favour of Warsaw Commodity Clearing House of 13 March 2020                                |   |
|   |                                       | 50 000                | 30.04.2020   | Bank guarantee issued by CaixaBank S.A. to Warsaw Commodity Clearing House as a collateral of transactions concluded on Polish Power Exchange |   |
|   | 500 000                               | 30.06.2020-31.08.2020 | Bank guarantee issued by BGK to Warsaw Commodity Clearing House as a collateral of transactions concluded on Polish Power Exchange |   |   |

\* 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

On 31 March 2020 the bank guarantee issued by CaixaBank S.A. to secure transactions concluded by the Company on the Polish Power Exchange in the amount of PLN 11 000 thousand expired.

After the balance sheet date:

- on 22 April 2020, CaixaBank S.A. issued annexes to bank guarantees in the total amount of PLN 50 000 thousand, under which the validity of these guarantees was extended until 31 May 2020;
- on 29 April 2020 Santander Bank Polska S.A., by virtue of the guarantee limit agreement concluded on 24 April 2020, issued a bank guarantee for the benefit of the Warsaw Commodity Clearing House in the amount of PLN 250 000 thousand, valid from the issue date until 27 May 2020.

### **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<br>31 March 2020<br>(unaudited) | As at<br>31 December 2019 |
|-----------------------------|---------------------------------------|---------------------------|
| Other financial receivables | 54 645                                | 184 353                   |
| Real estate                 | 8 931                                 | 10 482                    |
| Cash                        | 45                                    | 45                        |
| <b>Total</b>                | <b>63 621</b>                         | <b>194 880</b>            |

Collaterals of forwards and futures (derivative financial instruments) concluded by the Company on foreign exchange markets is the key item. As at 31 March 2020 and 31 December 2019 the collateral amount was PLN 54 645 thousand and PLN 184 353 thousand, respectively.

### **Other forms of collateral against liabilities of the Group**

As at 31 March 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 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 31 March 2020, the carrying amount of the investment in a joint venture measured using the equity method in the TAMEH HOLDING Sp. z o.o. Group was PLN 591 392 thousand.

- Blank promissory Notes

| Agreement/transaction secured by blank promissory notes   | Issuer of a blank promissory note | As at<br>31 March 2020<br>(unaudited) | As at 31<br>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.           | 212 896                               | 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.

**TAURON Polska Energia S.A. Capital Group**  
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*prepared in accordance with IFRS, as endorsed by the EU*  
*(in '000 PLN)*

• Guarantees and surety agreements

| Company in respect of which contingent liability has been granted       | Beneficiary                            | Due date              | As at 31 March 2020<br>(unaudited) |         | As at 31 December 2019 |         | Transaction |  |
|---|--|-----------------------|------------------------------------|---------|------------------------|---------|-------------|--|
|   |  |                       | Currency                           | PLN     | Currency               | PLN     |             |  |
| <b>Corporate and bank guarantees</b>                                    |  |                       |                                    |         |                        |         |             |  |
| Finanse Grupa TAURON Sp. z o.o. (former TAURON Sweden Energy AB (publ)) | Bondholders                            | 3.12.2029             | EUR                                | 168 000 | 764 786                | 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                       | 31.05.2020-31.01.2021 | CZK                                | 95 000  | 15 818                 | 95 000  | 15 922      | Payment guarantees issued at TAURON 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.                           |
|   |  | 30.06.2020-31.01.2021 | EUR                                | 1 200   | 5 463                  | 1 200   | 5 110       |  |
| various subsidiaries  | various entities                       | 31.07.2020-28.07.2029 |                                    |         | 13 291                 |         | 8 821       | Bank guarantees issued at the Company's request by CaixaBank S.A. for securing liabilities of subsidiaries under concluded contracts.  |
| <b>Surety agreements</b>  |  |                       |                                    |         |                        |         |             |  |
| 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.   |
|   |  | 30.07.2020-24.04.2021 | USD                                | 4 993   | 20 702                 |         | 18 962      |  |

On 11 April 2020, a bank guarantee issued by MUFG Bank, Ltd. at the Company's request for the benefit of Bank Gospodarstwa Krajowego, up to the amount of PLN 517 500 thousand, in order to secure the receivables arising 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., expired. 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 is 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 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 31 March 2020 amounted to PLN 49 163 thousand (as at 31 December 2019 PLN 15 265 thousand).

After the balance sheet date, bank guarantees for the total amount of PLN 12 494 thousand issued by CaixaBank S.A. for securing contract liabilities of the subsidiaries came into force, with the term of validity from 1 April 2020 to 30 April 2022.

• Collateral for transactions on the Polish Power Exchange

In order to secure the Company's liabilities resulting from the transactions entered into by the Company on the Polish Power Exchange, the agreements on assignment of CO<sub>2</sub> emission allowances and property rights of the certificates of origin have been concluded in favour of the Warsaw Commodity Clearing House. ("WCCH").

In November and December 2019 as well as in February 2020 the agreements on transfer of CO<sub>2</sub> emission allowances in favour of the WCCH were concluded between the Company and the WCCH as well as between the Company, the

subsidiary of TAURON Wytwarzanie S.A. and the WCCH. On the 31 March 2020 the object of the established collateral amounts in total 6 084 453 tons of CO<sub>2</sub> emission allowances, including:

- The Company has deposited 2 205 000 tonnes of CO<sub>2</sub> emission allowances on its account in the Union Registry and
- the subsidiary of TAURON Wytwarzanie S.A. transferred to WCCH allowances owned by TAURON Wytwarzanie S.A. in the total amount of 3 879 453 tonnes.

After the balance sheet date, some of the allowances were returned to TAURON Wytwarzanie S.A. As at the date of approval of these condensed interim consolidated financial statements for publication, the balance of collateral contributed to WCCH amounts to a total of 3 021 799 tons of CO<sub>2</sub> emission allowances (including collateral contributed by TAURON Wytwarzanie S.A. - 816 799 tons).

In case when the WCCH sells the CO<sub>2</sub> emission allowances being subject of the transfer of ownership, which is possible only in the situations, strictly specified in the agreements, connected with the Company's failure to satisfy justified claims of other members of the House or WCCH, the Company shall be obliged to purchase and transfer to TAURON Wytwarzanie S.A. the CO<sub>2</sub> emission allowances within the period that makes possible fulfilling of the subsidiary's obligation to redeem the CO<sub>2</sub> emission allowances for 2019.

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 WCCH as well as between the Company, the subsidiary TAURON Sprzedaż GZE Sp. z o.o. and the WCCH. On 31 March 2020, on the grounds of the concluded agreements the subsidiaries submitted to the Certificate of Origin Register kept by the Polish Power Exchange an instruction to block the property rights in total number of 3 352 058,31 MWh.

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

#### **48. Related-party disclosures**

##### **48.1. 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 20 to these condensed interim consolidated financial statements.

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

|         | 3-month period ended<br>31 March 2020 | 3-month period ended<br>31 March 2019 |
|---------|---------------------------------------|---------------------------------------|
|         | <i>(unaudited)</i>                    | <i>(unaudited)</i>                    |
| Revenue | 41 891                                | 32 996                                |
| Costs   | (16 965)                              | (13 274)                              |

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 21 to these condensed interim consolidated financial statements.

The Company provided collateral to joint ventures in the form of pledges on shares in TAMEH HOLDING Sp. z o.o. and a bank guarantee commissioned by the Company to secure loan liabilities of Elektrociepłownia Stalowa Wola S.A., as described in detail in Note 47 hereto.

##### **48.2. 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

|         | 3-month period ended<br>31 March 2020<br><i>(unaudited)</i> | 3-month period ended<br>31 March 2019<br><i>(unaudited)</i> |
|---------|---|---|
| Revenue | 566 140   | 548 438   |
| Costs   | (672 773)   | (665 527)   |

### Receivables and liabilities

|             | As at<br>31 March 2020<br><i>(unaudited)</i> | As at<br>31 December 2019 |
|-------------|--|---------------------------|
| Receivables | 258 157                                      | 277 032                   |
| Payables    | 299 171                                      | 290 373                   |

As at 31 March 2020, receivables presented in the table above comprised advance payments for purchases of fixed assets of PLN 2 442 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. Capital Group during the 3-month period ended 31 March 2020 were PSE S.A., KGHM Polska Miedź S.A., Polska Grupa Górnicza S.A. and Spółka Restrukturyzacji Kopalń S.A. Bytom. The total sales to the above contractors amounted to 87% 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 86% of the value of purchases from State Treasury companies in the 3-month period ended 31 March 2020.

Among the companies of the State Treasury, the largest clients of the TAURON Polska Energia S.A. Capital Group during the 3-month period ended 31 March 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 87% of the value of purchases from State Treasury companies in the three-month period ended 31 March 2019.

The Capital Group concludes material transactions on the energy markets through Izba Rozliczeniowa Giełd Towarowych S.A. As it is only responsible for organization of commodities exchange trading, 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.

#### **48.3. 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 3-month period ended 31 March 2020 and in the comparative period has been presented in the table below.

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*prepared in accordance with IFRS, as endorsed by the EU*  
*(in '000 PLN)*

|  | 3-month period ended |               | 3-month period ended |               |
|--|----------------------|---------------|----------------------|---------------|
|  | 31 March 2020        |               | 31 March 2019        |               |
|  | <i>(unaudited)</i>   |               | <i>(unaudited)</i>   |               |
|  | Parent               | Subsidiaries  | Parent               | Subsidiaries  |
| <b>Management Board</b>                                | <b>723</b>           | <b>8 033</b>  | <b>793</b>           | <b>4 240</b>  |
| Short-term benefits (with surcharges)                  | 590                  | 8 014         | 793                  | 4 119         |
| Employment termination benefits                        | 111                  | 19            | -                    | 121           |
| Other  | 22                   | -             | -                    | -             |
| <b>Supervisory Board</b>                               | <b>243</b>           | <b>321</b>    | <b>246</b>           | <b>235</b>    |
| Short-term employee benefits (salaries and surcharges) | 243                  | 296           | 246                  | 210           |
| Other  | -                    | 25            | -                    | 25            |
| <b>Other key management personnel</b>                  | <b>3 376</b>         | <b>10 797</b> | <b>3 891</b>         | <b>9 418</b>  |
| Short-term employee benefits (salaries and surcharges) | 3 013                | 10 568        | 3 266                | 9 026         |
| Jubilee bonuses  | -                    | 22            | -                    | -             |
| Employment termination benefits                        | 141                  | 48            | 356                  | 110           |
| Other  | 222                  | 159           | 269                  | 282           |
| <b>Total</b>   | <b>4 342</b>         | <b>19 151</b> | <b>4 930</b>         | <b>13 893</b> |

The amounts paid or payable until 31 March 2020 have been presented above. Moreover, in accordance with the adopted accounting policy, the Group recognizes provisions for termination benefits for members of the Management Board and other key management personnel, which may be paid or due in future reporting periods.

#### 49. Other material information

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

In the 3-month period ended 31 March 2020 an increase in the incidence of COVID-19 was observed in Poland. As a result, a number of restrictions have been introduced in the country to stop the spread of SARS-CoV-2. This situation causes disturbances in the economic and administrative system in Poland. A similar situation is observed in other countries around the world, including the countries of Poland's main trading partners. As a result, the epidemic may significantly limit economic activity, especially in the first half of 2020, affecting the work of industrial plants and companies from the segment of small and medium-sized enterprises, and disturb the functioning of the entire economic system of the country. Consequently, in the medium and long term, the epidemic may have an impact on the national, European and global economic situation, affecting the economic growth in Poland in 2020 and subsequent years. After the balance sheet date, decisions were taken to implement the first phase of mitigation of the above restrictions, however, the scope and timing of the subsequent phases of mitigation are difficult to estimate as they depend on an assessment of the impact of the mitigation measures implemented so far on the development of the epidemic.

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 CO2 emission allowances and, consequently, electricity prices on the wholesale market have been reduced. As regards financial factors, a weakening of the Polish zloty and a drop in interest rates are observed, including a twofold interventional reduction of the NBP reference interest rate by 50 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 weeks, several percent decreases in demand for electricity have been observed, resulting in a drop in revenue in the area of electricity distribution and sales. This situation also results in a decrease in production in the area of conventional production and, consequently, a decrease in demand for hard coal. Price drops in the market for electricity and related products, taking into account the long contract position held in individual markets, result in an increase in variation margins and translate into the level of cash employed. Moreover, restrictions introduced in the country may cause possible disruptions in the implementation of projects carried out in the TAURON Group. Due to the effects of the epidemic, financial disturbances may be expected in the Group's customers, i.e. individuals, small and medium-sized enterprises as well as large entities. This can cause problems in settling current payments for electricity, heat and gas, as evidenced by the increase in deferred payment requests. Changes in interest rates will, in turn, affect costs resulting from the concluded financing agreements based on a variable interest rate, as well as, in subsequent years, the level of regulated revenue from return on capital employed in the distribution area.

Due to the fact that the epidemic situation escalated in mid-March 2020, the impact on the Group's financial result as at 31 March 2020 is mainly limited to the recognition of the estimation of additional write-offs due to the expected credit losses of financial instruments and the fair value measurement of loans granted, which increased the Group's operating

costs by PLN 9 149 thousand and financial costs by PLN 52 055 thousand. Moreover, the recognition of exchange rate differences on debt in EUR, due to the weakening of the Polish zloty, resulted in the recognition of financial costs in the amount of PLN 238 181 thousand. At the same time, as at the balance sheet date, after analysing the observed market and regulatory phenomena, the Group assessed that, in the expected perspective, they do not constitute significant factors whose impact results in the legitimacy of changes in long-term forecasts in relation to the information prepared as at 31 December 2019, and therefore the results of the last impairment tests conducted by the Group as at 31 December 2019 are valid.

Nevertheless, it should be noted that the COVID-19 epidemic may have a significant impact on the operations of the TAURON Group in subsequent periods, including the level of revenues generated and costs incurred, and consequently the Group's financial liquidity and debt level. However, the possible effects and their scale are currently difficult to estimate. 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. Regulatory actions aimed at introducing mechanisms mitigating the effects of COVID-19 will also be relevant. As a mitigation measure, by the date of approval of these condensed interim consolidated financial statements, a number of legal provisions, the so-called "anti-crisis shield", have come into force in order to support entrepreneurs in the existing epidemiological situation and maintain financial liquidity, however, as at the date of approval of these condensed interim consolidated financial statements for publication their scale and effectiveness is difficult to estimate. 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, which will allow to reduce costs and apply for funds under the solutions contained in the anti-crisis shield.

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 organizational 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 has been established at the level of 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 have been formed 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.

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

### ***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. After the balance sheet date, 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.

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



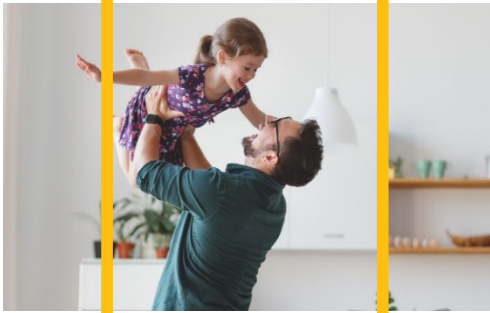
These condensed interim consolidated financial statements of the TAURON Polska Energia S.A. Capital Group, prepared for the 3-month period ended 31 March 2020 in accordance with International Accounting Standard 34 have been presented on 71 consecutive pages.

Katowice, 12 May 2020

Filip Grzegorzczuk - President of the Management Board

Marek Wadowski - Vice-President of the Management Board

Oliwia Tokarczyk – Executive Director in Charge of Taxes and Accounting



# CONDENSED INTERIM FINANCIAL STATEMENTS

prepared in accordance with  
the International Financial Reporting  
Standards, as endorsed by the  
European Union for the 3-month period  
ended 31 March 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 3-month period ended 31 March 2020**

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**TAURON Polska Energia S.A.**  
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*(in PLN thousand)*

**INTERIM CONDENSED STATEMENT OF COMPREHENSIVE INCOME**

|   | Note | 3-month period ended<br>31 March 2020<br><i>(unaudited)</i> | 3-month period ended<br>31 March 2019<br><i>(unaudited)</i> |
|---|------|---|---|
| Sales revenue   | 11   | 2 621 243   | 2 516 047   |
| Cost of sales   | 12   | (2 648 748)   | (2 495 084)   |
| <b>Profit (loss) on sale</b>  |      | <b>(27 505)</b>   | <b>20 963</b>   |
| Selling and distribution expenses   | 12   | (5 008)   | (4 298)   |
| Administrative expenses   | 12   | (31 418)  | (34 234)  |
| Other operating income and expenses   |      | (3 087)   | (1 915)   |
| <b>Operating loss</b>   |      | <b>(67 018)</b>   | <b>(19 484)</b>   |
| Interest income on bonds and loans  | 13   | 66 054  | 86 317  |
| Interest expense on debt  | 13   | (110 739)   | (94 214)  |
| Revaluation of bonds and loans  | 13   | (494 672)   | (143 417)   |
| Other finance income and costs  | 13   | (167 316)   | (9 581)   |
| <b>Loss before tax</b>  |      | <b>(773 691)</b>  | <b>(180 379)</b>  |
| Income tax expense  | 14   | 52 668  | 24 662  |
| <b>Net loss</b>   |      | <b>(721 023)</b>  | <b>(155 717)</b>  |
| Measurement of hedging instruments  | 27.4 | (90 190)  | (2 771)   |
| Income tax expense  | 14   | 17 136  | 527   |
| <b>Other comprehensive income subject to reclassification to profit or loss</b>     |      | <b>(73 054)</b>   | <b>(2 244)</b>  |
| Actuarial gains   |      | 70  | 58  |
| Income tax expense  | 14   | (13)  | (12)  |
| <b>Other comprehensive income not subject to reclassification to profit or loss</b> |      | <b>57</b>   | <b>46</b>   |
| <b>Other comprehensive income, net of tax</b>                                       |      | <b>(72 997)</b>   | <b>(2 198)</b>  |
| <b>Total comprehensive income</b>   |      | <b>(794 020)</b>  | <b>(157 915)</b>  |
| <b>Loss per share (in PLN):</b>   |      |   |   |
| - basic and diluted, for loss profit  |      | (0.41)  | (0.09)  |

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

**TAURON Polska Energia S.A.**  
*Interim condensed financial statements for the 3-month period ended 31 March 2020*  
*prepared in accordance with the IFRS as endorsed by the EU*  
*(in PLN thousand)*

**INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION**

|                            | Note | As at<br>31 March 2020<br>(unaudited) | As at<br>31 December 2019 |
|----------------------------|------|---------------------------------------|---------------------------|
| <b>ASSETS</b>              |      |                                       |                           |
| <b>Non-current assets</b>  |      |                                       |                           |
| Investment property        | 15   | 18 814                                | 19 737                    |
| Right-of-use assets        | 16   | 32 667                                | 34 177                    |
| Shares                     | 17   | 22 307 442                            | 21 844 183                |
| Loans granted              | 18   | 5 229 824                             | 5 047 552                 |
| Derivative instruments     | 19   | 41 850                                | 20 352                    |
| Deferred tax assets        | 20   | 114 898                               | 23 418                    |
| Other financial assets     | 21   | 2 506                                 | 2 348                     |
| Other non-financial assets | 22   | 18 377                                | 18 823                    |
|                            |      | <b>27 766 378</b>                     | <b>27 010 590</b>         |
| <b>Current assets</b>      |      |                                       |                           |
| Inventories                | 23   | 159 559                               | 149 364                   |
| Receivables from buyers    | 24   | 811 781                               | 1 472 462                 |
| Income tax receivables     | 25   | 119 028                               | 255 490                   |
| Loans granted              | 18   | 149 993                               | 265 202                   |
| Derivative instruments     | 19   | 604 657                               | 85 177                    |
| Other financial assets     | 21   | 355 378                               | 316 949                   |
| Other non-financial assets | 22   | 61 202                                | 6 167                     |
| Cash and cash equivalents  | 26   | 1 363 336                             | 923 728                   |
|                            |      | <b>3 624 934</b>                      | <b>3 474 539</b>          |
| <b>TOTAL ASSETS</b>        |      | <b>31 391 312</b>                     | <b>30 485 129</b>         |

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

**TAURON Polska Energia S.A.**  
*Interim condensed financial statements for the 3-month period ended 31 March 2020*  
*prepared in accordance with the IFRS as endorsed by the EU*  
*(in PLN thousand)*

**INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION — CONTINUED**

|   | Note | As at<br>31 March 2020<br>(unaudited) | As at<br>31 December 2019 |
|---|------|---------------------------------------|---------------------------|
| <b>EQUITY AND LIABILITIES</b>                             |      |                                       |                           |
| <b>Equity</b>   |      |                                       |                           |
| 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 | (57 388)                              | 15 666                    |
| Retained earnings / (Accumulated losses)                  | 27.5 | (1 492 786)                           | (771 820)                 |
|   |      | <b>14 014 157</b>                     | <b>14 808 177</b>         |
| <b>Non-current liabilities</b>                            |      |                                       |                           |
| Debt  | 28   | 12 363 159                            | 10 909 597                |
| Other financial liabilities                               | 29   | 12 890                                | 15 126                    |
| Derivative instruments                                    | 19   | 76 665                                | 16 848                    |
| Provisions for employee benefits                          |      | 6 253                                 | 5 929                     |
|   |      | <b>12 458 967</b>                     | <b>10 947 500</b>         |
| <b>Current liabilities</b>                                |      |                                       |                           |
| Debt  | 28   | 3 610 647                             | 3 607 266                 |
| Liabilities to suppliers                                  | 30   | 314 695                               | 424 486                   |
| Other financial liabilities                               | 29   | 171 993                               | 272 744                   |
| Derivative instruments                                    | 19   | 672 859                               | 107 679                   |
| Other non-financial liabilities                           | 31   | 51 824                                | 223 035                   |
| Provisions for employee benefits                          |      | 298                                   | 292                       |
| Other provisions  | 32   | 78 140                                | 77 094                    |
| Accruals, deferred income and government grants           |      | 17 732                                | 16 856                    |
|   |      | <b>4 918 188</b>                      | <b>4 729 452</b>          |
| <b>Total liabilities</b>                                  |      | <b>17 377 155</b>                     | <b>15 676 952</b>         |
| <b>TOTAL EQUITY AND LIABILITIES</b>                       |      | <b>31 391 312</b>                     | <b>30 485 129</b>         |

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



**INTERIM CONDENSED STATEMENT OF CHANGES IN EQUITY**

**FOR THE 3-MONTH PERIOD ENDED 31 MARCH 2020 (not audited)**

|  | Issued capital   | Reserve capital  | Revaluation reserve<br>from valuation of<br>hedging instruments | Retained earnings/<br>(Accumulated losses) | Total equity      |
|--|------------------|------------------|---|--|-------------------|
| <b>As at 1 January 2020</b>                | <b>8 762 747</b> | <b>6 801 584</b> | <b>15 666</b>   | <b>(771 820)</b>                           | <b>14 808 177</b> |
| Net loss                                   | -                | -                | -   | (721 023)                                  | (721 023)         |
| Other comprehensive income                 | -                | -                | (73 054)  | 57   | (72 997)          |
| Total comprehensive income                 | -                | -                | (73 054)  | (720 966)                                  | (794 020)         |
| <b>As at 31 March 2020<br/>(unaudited)</b> | <b>8 762 747</b> | <b>6 801 584</b> | <b>(57 388)</b>   | <b>(1 492 786)</b>                         | <b>14 014 157</b> |

**FOR THE 3-MONTH PERIOD ENDED 31 MARCH 2019 (not audited)**

|  | Issued capital   | Reserve capital  | Revaluation reserve<br>from valuation of<br>hedging instruments | Retained earnings/<br>(Accumulated losses) | Total equity      |
|--|------------------|------------------|---|--|-------------------|
| <b>As at 1 January 2019</b>                | <b>8 762 747</b> | <b>8 511 437</b> | <b>3 371</b>  | <b>(2 017 719)</b>                         | <b>15 259 836</b> |
| Net loss                                   | -                | -                | -   | (155 717)                                  | (155 717)         |
| Other comprehensive income                 | -                | -                | (2 244)   | 46   | (2 198)           |
| Total comprehensive income                 | -                | -                | (2 244)   | (155 671)                                  | (157 915)         |
| <b>As at 31 March 2019<br/>(unaudited)</b> | <b>8 762 747</b> | <b>8 511 437</b> | <b>1 127</b>  | <b>(2 173 390)</b>                         | <b>15 101 921</b> |

**INTERIM CONDENSED STATEMENT OF CASHFLOWS**

|  | Note | 3-month period<br>ended<br>31 March 2020<br><i>(unaudited)</i> | 3-month period<br>ended<br>31 March 2019<br><i>(unaudited)</i> |
|--|------|--|--|
| <b>Cash flows from operating activities</b>                          |      |  |  |
| Loss before tax  |      | (773 691)  | (180 379)  |
| Depreciation and amortization  |      | 3 469  | 3 243  |
| Interest net   |      | 56 610   | 23 456   |
| Impairment losses on bonds and loans                                 |      | 494 672  | 143 417  |
| Exchange differences   |      | 253 507  | 2 079  |
| Other adjustments of profit before tax                               |      | 28 271   | 22 427   |
| Change in working capital  | 33.1 | 242 913  | (532 476)  |
| Income tax paid  |      | (7 108)  | (26 066)   |
| <b>Net cash from operating activities</b>                            |      | <b>298 643</b>   | <b>(544 299)</b>   |
| <b>Cash flows from investing activities</b>                          |      |  |  |
| Loans granted  | 33.2 | (679 115)  | (206 366)  |
| Purchase of shares   | 33.2 | (463 259)  | (5 840)  |
| Other  |      | (619)  | (844)  |
| <b>Total payments</b>  |      | <b>(1 142 993)</b>   | <b>(213 050)</b>   |
| Investment fund units alienation                                     |      | 26 747   | -  |
| Repayment of loans granted   |      | 3 700  | 2 230  |
| Interest received  | 33.2 | 16 314   | 39 905   |
| Other  |      | 18   | 207  |
| <b>Total proceeds</b>  |      | <b>46 779</b>  | <b>42 342</b>  |
| <b>Net cash from investing activities</b>                            |      | <b>(1 096 214)</b>   | <b>(170 708)</b>   |
| <b>Cash flows from financing activities</b>                          |      |  |  |
| Repayment of loans   | 33.3 | (1 085 205)  | (35 205)   |
| Redemption of debt securities  |      | (3 100)  | (400 000)  |
| Payment of lease liabilities   |      | (2 330)  | (2 640)  |
| Interest paid  | 33.3 | (24 389)   | (23 063)   |
| Commission paid  |      | (9 064)  | (8 801)  |
| <b>Total payments</b>  |      | <b>(1 124 088)</b>   | <b>(469 709)</b>   |
| Issue of debt securities   |      | -  | 500 000  |
| Contracted loans   | 33.3 | 2 000 000  | 730 000  |
| <b>Total proceeds</b>  |      | <b>2 000 000</b>   | <b>1 230 000</b>   |
| <b>Net cash from financing activities</b>                            |      | <b>875 912</b>   | <b>760 291</b>   |
| <b>Net increase / (decrease) in cash and cash equivalents</b>        |      | <b>78 341</b>  | <b>45 284</b>  |
| Net foreign exchange difference                                      |      | 307  | (700)  |
| <b>Cash and cash equivalents at the beginning of the period</b>      | 26   | <b>(49 080)</b>  | <b>(1 560 034)</b>   |
| <b>Cash and cash equivalents at the end of the period, of which:</b> | 26   | <b>29 261</b>  | <b>(1 514 750)</b>   |
| restricted cash  | 26   | 865 306  | 72 089   |

## **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 08 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 3-month period ended 31 March 2020 and containing comparative data for the 3-month period ended 31 March 2019 and as at 31 December 2019. The data included in these interim condensed financial statements for the 3-month period ended 31 March 2020 and comparative data for the 3-month period ended 31 March 2019 were not subject to an audit or review by the auditor. Comparative data as of 31 December 2019 were the subject of an audit by the auditor.

These interim condensed financial statements for the 3-month period ended 31 March 2020 were approved for publication on 12 May 2020.

The Company also prepared the interim condensed consolidated financial statements for the 3-month period ended 31 March 2020, which were approved for publication by the Management Board on 12 May 2020.

These interim condensed financial statements are part of the consolidated report which also includes the interim condensed consolidated financial statements for the 3-month period ended on 31 March 2020.

#### **Composition of the Management Board**

As at 31 March 2020, the composition of the Management Board was as follows:

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

After the reporting period any changes in composition of the Management Board have not occurred.

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

As at 31 March 2020, TAURON Polska Energia S.A. held direct and indirect interest in the following key subsidiaries:

**TAURON Polska Energia S.A.**  
*Interim condensed financial statements for the 3-month period ended 31 March 2020*  
*prepared in accordance with the IFRS as endorsed by the EU*  
*(in PLN thousand)*

| 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   | 84.76%  | 84.76%  |
| 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 Gódkap 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. <sup>1</sup>             | 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 Dystrybucja Serwis 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. <sup>1</sup>                  | Tarnów                  | Services  | 99.75%  | 99.75%  |

<sup>1</sup> 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.

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

As at 31 March 2020, TAURON Polska Energia S.A. held direct and indirect interest in the following key jointly-controlled entities:

**TAURON Polska Energia S.A.**  
*Interim condensed financial statements for the 3-month period ended 31 March 2020*  
*prepared in accordance with the IFRS as endorsed by the EU*  
*(in PLN thousand)*

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

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

<sup>2</sup> 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 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 3-month period ended 31 March 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 40 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 the ones disclosed 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 buyers***

#### **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 customers, the Company has made a number of adjustments:

- adjustments to the credit ratings assigned to entities operating in the industries which are expected to be most affected by COVID-19,
- probability of default adjustments based on Credit Default Swap (CDS) quotations, diversified according to the counterparty's internal rating.

In order to take into account the impact of future factors (including COVID-19) on the portfolio of other counterparties, the Company assumed an increase in selected percentages reflecting the expected repayment of receivables, in proportion to the increase observed as at 31 March 2020.

#### **COVID-19 impact on the level of estimates made**

The estimated effect of the impact of COVID-19 on the repayment of receivables from buyers and the related expected credit loss in future periods was PLN 99 thousand, which affected the burden on the Group's operating result for the 3-month period ended 31 March 2020. The total expected credit loss as at 31 March 2020 calculated for receivables from buyers (excluding receivables claimed in court) was estimated at PLN 3 959 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 revaluing 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 default 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 methodology of the estimates made resulted in the following changes affecting the Company's financial costs result for the 3-month period ended 31 March 2020 in total amount PLN 128 891 thousand:

- increase in expected credit losses calculated for loans granted to joint ventures by PLN 79 154 thousand (including loans granted to its subsidiary by amount of PLN 44 036 thousand, receivables due to cash pool loans by amount of PLN 32 883 thousand, loans granted to joint ventures companies by amount of PLN 1 972 thousand, other loans by amount of PLN 263 thousand),
- decrease in the fair value of loans granted to joint ventures by PLN 14 262 thousand,
- increase in expected credit losses calculated for contingent liabilities under the guarantee issued by the Company by PLN 35 475 thousand, which according to IFRS 9 *Financial Instruments* was recognized 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.

| Item                   | Note    | Estimates and assumptions   |
|------------------------|---------|---|
| Shares                 | Note 17 | As at the end of each reporting period, the Company assesses, if there is any objective indication that the shares may be impaired. If any significant indications of impairment are identified, the Company is obliged to test the shares for impairment and to recognize an impairment loss or to reverse an earlier impairment loss. In line with IFRS 9 <i>Financial instruments</i> The Company properly classifies shares in entities other than subsidiaries and jointly-controlled entities and measures them at fair value. The method of calculating the fair value has been presented in Note 34 hereto. |
| Derivative instruments | Note 19 | As at the end of each reporting period, the Company values derivatives at fair value. The method of calculating the fair value has been presented in Note 19 hereto.<br><br>Financial instruments acquired and held for internal purposes are not measured as at the end of the reporting period.   |
| Deferred tax assets    | Note 20 | As at the end of each reporting period, the Company assesses the realisation of deferred tax assets and verifies deferred tax assets which were not recognized.   |
| Provisions             | Note 32 | 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 36 hereto.

## 7. Published standards and amendments to standards that have not yet entered into force

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:

| Standard   | Effective date specified in the Standard, not endorsed by the EU<br>(annual periods beginning on or after the date provided) |
|--|--|
| IFRS 14 <i>Regulatory Deferral Accounts</i>  | 1 January 2016*  |
| IFRS 17 <i>Insurance contracts</i>   | 1 January 2021   |
| Revised IFRS 10 <i>Consolidated Financial Statements</i> and IAS 28 <i>Investments in Associates and Joint Ventures: Sale or Contribution of Assets between Investor and its Associate or Joint Venture</i> with subsequent amendments | the effective date has been postponed  |
| Amendments to IAS 1 <i>Presentation of Financial Statements: Classification of Liabilities as Current or Non-current</i>   | 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 the amendments to 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<br>(annual periods beginning on or after the date provided) |
|---|--|
| Revised IAS 1 <i>Presentation of Financial Statements</i> and IAS 8 <i>Accounting Policies, Changes in Accounting Estimates and Errors: Definition of Material</i>  | 1 January 2020   |
| Amendments to IFRS 3 <i>Business Combinations: Definition of a Business</i>   | 1 January 2020   |
| Amendments to References to the Conceptual Framework in IFRS  | 1 January 2020   |
| Amendments to IFRS 9 <i>Financial Instruments</i> , IAS 39 <i>Financial Instruments: Recognition and Measurement</i> and IFRS 7 <i>Financial Instruments: Disclosures: Interest Rate Benchmark Reform</i> | 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 recognized in the dates of resolutions on the payment of dividends, unless these resolutions indicate other dates for determining the right to dividend. In the period of three months ended on 31 March 2020 and in the comparable period, the Company did not recognize income from dividends.



## **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, including a cash pool deposit;
- receivables arising from other loans granted to related entities;
- assets arising from valuation of hedging instruments relating to the incurred financing.

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 of shares and loans (in the comparable period also write-offs of 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 amortization/depreciation and impairment of non-financial assets.

**TAURON Polska Energia S.A.**  
Interim condensed financial statements for the 3-month period ended 31 March 2020  
prepared in accordance with the IFRS as endorsed by the EU  
(in PLN thousand)

**3-month period ended 31 March 2020 or as at 31 March 2020 (not audited)**

|   | Sales            | Holding activity  | Unallocated items | Total             |
|---|------------------|-------------------|-------------------|-------------------|
| <b>Revenue</b>                          |                  |                   |                   |                   |
| Sales outside the Group                 | 189 860          | -                 | -                 | 189 860           |
| Sales within the Group                  | 2 431 378        | 5                 | -                 | 2 431 383         |
| <b>Segment revenue</b>                  | <b>2 621 238</b> | <b>5</b>          | <b>-</b>          | <b>2 621 243</b>  |
| <b>Profit/(loss) of the segment</b>     | <b>(35 605)</b>  | <b>5</b>          | <b>-</b>          | <b>(35 600)</b>   |
| Unallocated expenses                    | -                | -                 | (31 418)          | (31 418)          |
| <b>EBIT</b>                             | <b>(35 605)</b>  | <b>5</b>          | <b>(31 418)</b>   | <b>(67 018)</b>   |
| Revaluation of loans                    | -                | (494 672)         | -                 | (494 672)         |
| Net finance income/(costs)              | -                | (290 131)         | 78 130            | (212 001)         |
| <b>Profit/(loss) before income tax</b>  | <b>(35 605)</b>  | <b>(784 798)</b>  | <b>46 712</b>     | <b>(773 691)</b>  |
| Income tax expense                      | -                | -                 | 52 668            | 52 668            |
| <b>Net profit/(loss) for the period</b> | <b>(35 605)</b>  | <b>(784 798)</b>  | <b>99 380</b>     | <b>(721 023)</b>  |
| <b>Assets and liabilities</b>           |                  |                   |                   |                   |
| Segment assets                          | 3 406 300        | 27 689 100        | -                 | 31 095 400        |
| Unallocated assets                      | -                | -                 | 295 912           | 295 912           |
| <b>Total assets</b>                     | <b>3 406 300</b> | <b>27 689 100</b> | <b>295 912</b>    | <b>31 391 312</b> |
| Segment liabilities                     | 1 185 108        | 15 972 485        | -                 | 17 157 593        |
| Unallocated liabilities                 | -                | -                 | 219 562           | 219 562           |
| <b>Total liabilities</b>                | <b>1 185 108</b> | <b>15 972 485</b> | <b>219 562</b>    | <b>17 377 155</b> |
| <b>EBIT</b>                             | <b>(35 605)</b>  | <b>5</b>          | <b>(31 418)</b>   | <b>(67 018)</b>   |
| <b>Depreciation/amortization</b>        | <b>(3 469)</b>   | <b>-</b>          | <b>-</b>          | <b>(3 469)</b>    |
| <b>Impairment</b>                       | <b>(12)</b>      | <b>-</b>          | <b>-</b>          | <b>(12)</b>       |
| <b>EBITDA</b>                           | <b>(32 124)</b>  | <b>5</b>          | <b>(31 418)</b>   | <b>(63 537)</b>   |
| <b>Other segment information</b>        |                  |                   |                   |                   |
| Capital expenditure *                   | 1 048            | -                 | -                 | 1 048             |

\* 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 31 March 2019 (not audited) or as at 31 December 2019**

|   | Sales            | Holding activity  | Unallocated items | Total             |
|---|------------------|-------------------|-------------------|-------------------|
| <b>Revenue</b>                          |                  |                   |                   |                   |
| Sales outside the Group                 | 234 399          | -                 | -                 | 234 399           |
| Sales within the Group                  | 2 281 643        | 5                 | -                 | 2 281 648         |
| <b>Segment revenue</b>                  | <b>2 516 042</b> | <b>5</b>          | <b>-</b>          | <b>2 516 047</b>  |
| <b>Profit/(loss) of the segment</b>     | <b>14 745</b>    | <b>5</b>          | <b>-</b>          | <b>14 750</b>     |
| Unallocated expenses                    | -                | -                 | (34 234)          | (34 234)          |
| <b>EBIT</b>                             | <b>14 745</b>    | <b>5</b>          | <b>(34 234)</b>   | <b>(19 484)</b>   |
| Revaluation of bonds and loans          | -                | (143 417)         | -                 | (143 417)         |
| Net finance income (costs)              | -                | (14 874)          | (2 604)           | (17 478)          |
| <b>Profit/(loss) before income tax</b>  | <b>14 745</b>    | <b>(158 286)</b>  | <b>(36 838)</b>   | <b>(180 379)</b>  |
| Income tax expense                      | -                | -                 | 24 662            | 24 662            |
| <b>Net profit/(loss) for the period</b> | <b>14 745</b>    | <b>(158 286)</b>  | <b>(12 176)</b>   | <b>(155 717)</b>  |
| <b>Assets and liabilities</b>           |                  |                   |                   |                   |
| Segment assets                          | 3 003 016        | 27 176 583        | -                 | 30 179 599        |
| Unallocated assets                      | -                | -                 | 305 530           | 305 530           |
| <b>Total assets</b>                     | <b>3 003 016</b> | <b>27 176 583</b> | <b>305 530</b>    | <b>30 485 129</b> |
| Segment liabilities                     | 836 660          | 14 685 415        | -                 | 15 522 075        |
| Unallocated liabilities                 | -                | -                 | 154 877           | 154 877           |
| <b>Total liabilities</b>                | <b>836 660</b>   | <b>14 685 415</b> | <b>154 877</b>    | <b>15 676 952</b> |
| <b>EBIT</b>                             | <b>14 745</b>    | <b>5</b>          | <b>(34 234)</b>   | <b>(19 484)</b>   |
| <b>Depreciation/amortization</b>        | <b>(3 243)</b>   | <b>-</b>          | <b>-</b>          | <b>(3 243)</b>    |
| <b>Impairment</b>                       | <b>(4)</b>       | <b>-</b>          | <b>-</b>          | <b>(4)</b>        |
| <b>EBITDA</b>                           | <b>17 992</b>    | <b>5</b>          | <b>(34 234)</b>   | <b>(16 237)</b>   |
| <b>Other segment information</b>        |                  |                   |                   |                   |
| Capital expenditure *                   | 839              | -                 | -                 | 839               |

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

In the 3-month period ended 31 March 2020, revenue from sales to two major clients from the TAURON Group accounted for 78% and 11% of the Company's total revenue in the "Sales" segment and amounted to PLN 2 050 846 thousand and PLN 283 452 thousand, respectively. In the 3-month period ended 31 March 2019, revenue from sales to two major clients from the Capital Group accounted for 78% and 11% of the Company's total revenue in the "Sales" segment and amounted to PLN 1 961 932 thousand and PLN 277 720 thousand, respectively.

## NOTES TO THE INTERIM CONDENSED STATEMENT OF COMPREHENSIVE INCOME

### 11. Sales revenue

|   | 3-month period ended<br>31 March 2020<br><i>(unaudited)</i> | 3-month period ended<br>31 March 2019<br><i>(unaudited)</i> |
|---|---|---|
| <b>Revenue from sales of goods for resale and materials</b> | <b>2 583 914</b>  | <b>2 483 569</b>  |
| Electricity   | 2 465 279   | 2 366 122   |
| Gas   | 114 123   | 108 218   |
| CO <sub>2</sub> emission allowances                         | 1 403   | 6 996   |
| Other   | 3 109   | 2 233   |
| <b>Rendering of services</b>                                | <b>37 329</b>   | <b>32 478</b>   |
| Trading income  | 28 540  | 26 979  |
| Other   | 8 789   | 5 499   |
| <b>Total</b>  | <b>2 621 243</b>  | <b>2 516 047</b>  |

The increase in revenues from the sale of electricity in the 3-month period ended 31 March 2020 in relation to the comparable period is mainly related to the increase in electricity prices, with a simultaneous slight decrease in the volume of trade.

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 recognizes revenue from agency services (supply management).

In the 3-month period ended 31 March 2020, the value of raw materials purchased and subsequently resold in the aforementioned transactions was PLN 342 473 thousand. The Company recognized revenue from agency services of PLN 8 323 thousand.

### 12. Expenses by type

|  | 3-month period ended<br>31 March 2020<br><i>(unaudited)</i> | 3-month period ended<br>31 March 2019<br><i>(unaudited)</i> |
|--|---|---|
| Depreciation of property, plant and equipment, right-of-use assets and amortization of intangible assets | (3 469)   | (3 243)   |
| Materials and energy   | (239)   | (426)   |
| External services  | (11 543)  | (9 860)   |
| Taxes and charges  | (825)   | 210   |
| Employee benefits expense  | (25 449)  | (25 759)  |
| Advertising expenses   | (3 949)   | (3 224)   |
| Other  | (2 207)   | (142)   |
| <b>Total costs by type</b>   | <b>(47 681)</b>   | <b>(42 444)</b>   |
| Costs of performances intended for internal purposes   | 44  | 38  |
| Selling and distribution expenses  | 5 008   | 4 298   |
| Administrative expenses  | 31 418  | 34 234  |
| Cost of goods for resale and materials sold  | (2 637 537)   | (2 491 210)   |
| <b>Cost of sales</b>   | <b>(2 648 748)</b>  | <b>(2 495 084)</b>  |

In the 3-month period ended 31 March 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 153 664 thousand, which was most significantly affected by the increase in the value of goods and materials sold resulting mainly from a change in the strategy of securing the redemption needs of the Group's 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 126 966 thousand.

As part of the management of the CO<sub>2</sub> 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<sub>2</sub> 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 Company assessed this risk as unacceptable in terms of financial liquidity. Therefore, taking into account the circumstances difficult to predict at the time of concluding the transactions, including the increasing costs of maintaining the position on the exchange, which are and have recently been significantly higher than at the time of concluding the contracts, the change of legal and market circumstances in the area of CO<sub>2</sub> emission allowances trading, related to Brexit and the COVID-19 pandemic, the Company has restructured its portfolio of contracts for CO<sub>2</sub> emission allowances. This restructuring consisted in the resale of forward positions with a delivery date in December 2020 held on the exchange with the simultaneous purchase of the same volume in contracts with a delivery date in March 2021 from counterparties on the OTC market. All new transactions concluded on the OTC market will be used for the purpose of the redemption obligation of the manufacturing companies of TAURON Group. In the Group'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

|  | 3-month period ended<br>31 March 2020<br><i>(unaudited)</i> | 3-month period ended<br>31 March 2019<br><i>(unaudited)</i> |
|--|---|---|
| <b>Income and costs from financial instruments</b>                           | <b>(707 087)</b>  | <b>(161 174)</b>  |
| Interest income on bonds and loans   | 66 054  | 86 317  |
| Other interest income  | 3 599   | 606   |
| Interest expense   | (110 739)   | (94 214)  |
| Revaluation of bonds and loans   | (494 672)   | (143 417)   |
| Gain/(loss) on derivative instruments  | 107 232   | (7 129)   |
| Commissions due to external financing  | (2 000)   | (2 150)   |
| Exchange differences   | (242 784)   | (1 239)   |
| Other  | (33 777)  | 52  |
| <b>Other finance income and costs</b>  | <b>414</b>  | <b>279</b>  |
| <b>Total, including recognized in the statement of comprehensive income:</b> | <b>(706 673)</b>  | <b>(160 895)</b>  |
| Interest income on bonds and loans   | 66 054  | 86 317  |
| Interest expense on debt   | (110 739)   | (94 214)  |
| Revaluation of bonds and loans   | (494 672)   | (143 417)   |
| Other finance income and costs   | (167 316)   | (9 581)   |

Significant changes in the items of financial income and expenses in the 3-month period ended 31 March 2020 resulted mainly from the following recognition of:

- net cost of revaluation of loans in the amount of PLN 494 672 thousand, which resulted mainly from:
  - the valuation of a loan with a nominal value of PLN 318 000 thousand granted in the current period to a subsidiary in the Extraction segment, which was initially recognized as an impaired financial asset, as a result of which the Company's profit/(loss) was charged with a negative valuation of PLN 302 154 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;
  - recognition impairment credit loss of loans granted in amount of PLN 121 312 thousand.
- a positive result on derivatives due to the measurement and realisation of FX forwards and CCIRS;
- excess of foreign exchange losses over gains of PLN 242 784 thousand, similarly in the comparative period - PLN 1 239 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. In the 3-month period ended 31 March 2020, the surplus of negative exchange differences over positive ones was PLN 253 814 thousand, and in the comparative period PLN 1 376 thousand;

- an increase in liabilities valuation of the guarantee issued by PLN 33 898 thousand, which as at the balance sheet date was valued at the amount of expected credit losses, mainly impacted by increase due to COVID-19 impact in amount of PLN 35 475 thousand, as more fully described in Note 6.1 of these interim condensed financial statements (in the table above presented under other income and expenses from financial instruments).

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

|   | 3-month period ended<br>31 March 2020<br><i>(unaudited)</i> | 3-month period ended<br>31 March 2019<br><i>(unaudited)</i> |
|---|---|---|
| <b>Current income tax</b>                               | <b>(21 689)</b>   | <b>(14 948)</b>   |
| Current income tax expense                              | (21 599)  | (24 319)  |
| Adjustments of current income tax from prior years      | (90)  | 9 371   |
| <b>Deferred tax</b>                                     | <b>74 357</b>   | <b>39 610</b>   |
| <b>Income tax expense in profit or loss</b>             | <b>52 668</b>   | <b>24 662</b>   |
| <b>Income tax expense in other comprehensive income</b> | <b>17 123</b>   | <b>515</b>  |

### NOTES TO THE INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION

#### 15. Investment property

|  | 3-month period ended<br>31 March 2020<br><i>(unaudited)</i> | 3-month period ended<br>31 March 2019<br><i>(unaudited)</i> |
|--|---|---|
| <b>COST</b>  |   |   |
| <b>Opening balance</b>   | <b>41 513</b>   | <b>40 095</b>   |
| Impact of IFRS 16 Leases                                       | -   | 1 526   |
| <b>Restated opening balance</b>                                | <b>41 513</b>   | <b>41 621</b>   |
| <b>Closing balance</b>   | <b>41 513</b>   | <b>41 621</b>   |
| <b>ACCUMULATED DEPRECIATION</b>                                |   |   |
| <b>Opening balance</b>   | <b>(21 776)</b>   | <b>(18 085)</b>   |
| Depreciation for the period                                    | (923)   | (923)   |
| <b>Closing balance</b>   | <b>(22 699)</b>   | <b>(19 008)</b>   |
| <b>NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD</b>      | <b>19 737</b>   | <b>22 010</b>   |
| <b>NET CARRYING AMOUNT AT THE END OF THE PERIOD, of which:</b> | <b>18 814</b>   | <b>22 613</b>   |
| Buildings  | 13 564  | 17 180  |
| Perpetual usufruct of land                                     | 5 250   | 5 433   |

The investment property is composed of a perpetual usufruct right to land and buildings located in Katowice Szopienice, at Lwowska 23. The Company entered into an agreement to rent the property with a subsidiary. The income from rent during the 3-month period ending on March 31, 2020 was PLN 1 373 thousand.

The Company decided that assets from the right-of-use assets meeting the definition of investment property, which refer to rights of perpetual usufruct 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.

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**16. Right-of-use assets**

**3-month period ended 31 March 2020 (not audited)**

|   | Buildings, premises and civil engineering structures | Motor vehicles | Total right-of-use assets |
|---|--|----------------|---------------------------|
| <b>COST</b>   |  |                |                           |
| Opening balance   | 40 262   | 1 817          | 42 079                    |
| Increase/(decrease) due to lease changes                  | 600  | -              | 600                       |
| Liquidation   | -  | (34)           | (34)                      |
| <b>Closing balance</b>                                    | <b>40 862</b>  | <b>1 783</b>   | <b>42 645</b>             |
| <b>ACCUMULATED DEPRECIATION</b>                           |  |                |                           |
| Opening balance   | (7 226)  | (676)          | (7 902)                   |
| Depreciation for the period                               | (1 914)  | (177)          | (2 091)                   |
| Liquidation   | -  | 15             | 15                        |
| <b>Closing balance</b>                                    | <b>(9 140)</b>                                       | <b>(838)</b>   | <b>(9 978)</b>            |
| <b>NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD</b> | <b>33 036</b>  | <b>1 141</b>   | <b>34 177</b>             |
| <b>NET CARRYING AMOUNT AT THE END OF THE PERIOD</b>       | <b>31 722</b>  | <b>945</b>     | <b>32 667</b>             |

**3-month period ended 31 March 2019 (not audited)**

|   | Buildings, premises and civil engineering structures | Motor vehicles | Total right-of-use assets |
|---|--|----------------|---------------------------|
| <b>COST</b>   |  |                |                           |
| Opening balance   | -  | -              | -                         |
| Impact of IFRS 16   | 38 468   | 1 502          | 39 970                    |
| <b>Restarted opening balance</b>                          | <b>38 468</b>  | <b>1 502</b>   | <b>39 970</b>             |
| Increase/(decrease) due to lease changes                  | 77   | 53             | 130                       |
| <b>Closing balance</b>                                    | <b>38 545</b>  | <b>1 555</b>   | <b>40 100</b>             |
| <b>ACCUMULATED DEPRECIATION</b>                           |  |                |                           |
| Opening balance   | -  | -              | -                         |
| Depreciation for the period                               | (1 791)  | (151)          | (1 942)                   |
| <b>Closing balance</b>                                    | <b>(1 791)</b>                                       | <b>(151)</b>   | <b>(1 942)</b>            |
| <b>NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD</b> | <b>-</b>   | <b>-</b>       | <b>-</b>                  |
| <b>NET CARRYING AMOUNT AT THE END OF THE PERIOD</b>       | <b>36 754</b>  | <b>1 404</b>   | <b>38 158</b>             |

**17. Shares**

**17.1. Change in shares balance**

**Change in share balance in the period from 1 January 2020 to 31 March 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 Wodocystie 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         | 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 Dystrybucja Serwis 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            | 8 016                 | 69 072            | (61 056)           | -                     | (61 056)           | -                 | 8 016             |
| 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            | -                     | 10 950            | -                  | -                     | -                  | 10 950            | 10 950            |
| 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               |
| <b>Total</b> |   | <b>31 074 185</b> | <b>463 259</b>        | <b>31 537 444</b> | <b>(9 230 002)</b> | <b>-</b>              | <b>(9 230 002)</b> | <b>21 844 183</b> | <b>22 307 442</b> |

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**Merger of TAURON Dystrybucja Serwis 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. 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. (the acquirer) 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 for the value of shares in TAURON Dystrybucja Serwis S.A.

**Additional payments to the capital 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. Until the date of approving publication of these interim condensed financial statements, the additional payments to shareholders' equity were not registered.

**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 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 deciding body shall increase from 84.76% to 85.88% Until the date of approving for publication of these interim condensed financial statements, the increase was not registered.

**Increase in the share capital of EEC Magenta sp. z o.o. ASI spółka komandytowo-akcyjna**

On 2 March 2020, the Extraordinary Meeting of Shareholders of EEC Magenta spółka z ograniczoną odpowiedzialnością ASI spółka komandytowo-akcyjna adopted a resolution to increase the company's share capital by PLN 6 thousand by creating 5 750 new shares with a nominal value of PLN 1 each. The Company acquired 1 432 shares for PLN 100 per share, i.e. for the total amount of PLN 143 thousand. On 11 March 2020, the Company provided funds for capital increase. The Company's share in the share capital and votes at the General Meeting of Shareholders after the above transaction will not change and will be 24.9%. Until the date of approving for publication of these interim condensed financial statements, the increase was not registered.

**Change in share balance in the period from 01 January 2019 to 31 March 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)        | -                     | (1 242 697)        | 99 058            | 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 Dystrybucja Serwis 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)           | -                     | (20 933)           | 7 449             | 7 449             |
| 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  | Other  | 415               | 5 840                 | 6 255             | -                  | -                     | -                  | 415               | 6 255             |
|     | <b>Total</b>   | <b>30 221 040</b> | <b>5 840</b>          | <b>30 226 880</b> | <b>(9 144 984)</b> | <b>-</b>              | <b>(9 144 984)</b> | <b>21 076 056</b> | <b>21 081 896</b> |

## 17.2. Impairment tests

Due to the Company's long-term capitalization below the carrying value and current changes in the prices of electricity, raw materials and CO<sub>2</sub> emission allowances, and taking into account the limitations related to the COVID-19 pandemic, an analysis of the effects of changes in the market situation in the first quarter of the current year was carried out.

In the analyzed period it can be seen a decrease of price of CO<sub>2</sub> emission allowances, in relation to last year's prices. Until 31 March 2020, the prices of CO<sub>2</sub> emission allowances did not exceed the value of 20 EUR/MgCO<sub>2</sub>. The situation related to COVID-19 has deepened the effect of the economic slowdown, which will have an impact on inhibiting the dynamics of growth of CO<sub>2</sub> emission allowance prices. Decreases in the CO<sub>2</sub> market are accompanied by declines in other markets; gas prices have dropped by more than 1/3 on an annual basis, dropping oil prices, which implement long-term minimums, have a downward effect on coal prices, which, however, does not translate directly into lower electricity prices.

Having analysed the observed market and regulatory phenomena, it was concluded that in the expected perspective they are not significant factors whose impact causes the legitimacy of changes in long-term forecasts compared to information available as at 31 December 2019.

For this reason, it was considered that the results of the recent impairment tests of shares and stocks as well as intragroup loans shown in fixed assets carried out as at 31 December 2019 are valid.

The recoverable amount is value in use.

Furthermore, as at 31 December 2019 the Company carried out impairment tests focusing on fixed assets and loans granted to Elektrociepłownia Stalowa Wola S.A. The results of the test showed that there is no need for an impairment loss provided that the assumption are compliant with the impairment tests on shares.

The impairment tests carried out as at 31 December 2019, including key test assumptions, are described in Note 10 to the financial statements of TAURON Polska Energia S.A. for the year ended 31 December 2019.

### Test results

The result of the impairment tests carried out as at 31 December 2019 in accordance with IAS 36 *Impairment of Assets*, impairment tests indicated an impairment of the balance sheet value of shares and loans in subsidiaries.

The revaluation write-off and its reversal recognised in the result of the tests carried out in 2019 concerns shares in the following subsidiaries:

| Company                      | WACC* assumed in tests as at |                          | Recoverable amount of shares, intra-group loans as at 31 December 2019 | Impairment (loss)/reversal of loss of shares recognized in the year ended 31 December 2019 |
|------------------------------|------------------------------|--------------------------|--|--|
|                              | 31 December 2019             | 30 June 2019 (unaudited) |  |  |
| TAURON Wydobycie S.A.        | 14.01%                       | 11.40%                   | 312 312  | (99 058)   |
| TAURON Ciepło Sp. z o.o.     | 8.14%                        | 7.61%                    | 2 718 776  | (168 140)  |
| TAURON Ekoenergia Sp. z o.o. | 8.76%                        | 9.37%                    | 2 124 584  | 185 172  |
| <b>Total</b>                 |                              |                          |  | <b>(82 026)</b>  |

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

## 18. Loans granted

The table below presents the balances of loans granted by the Company as at each balance sheet date.

|  | As at 31 March 2020 (unaudited) |                  |                  | As at 31 December 2019 |                  |                  |
|--|---------------------------------|------------------|------------------|------------------------|------------------|------------------|
|  | Gross value                     | Impairment loss  | Total            | Gross value            | Impairment loss  | Total            |
| <b>Loans measured at amortized cost</b>            |                                 |                  |                  |                        |                  |                  |
| Loans granted to subsidiaries                      | 4 712 483                       | (114 872)        | <b>4 597 611</b> | 4 623 619              | (37 284)         | <b>4 586 335</b> |
| Loans granted to EC Stalowa Wola S.A.              | 38 046                          | (2 732)          | <b>35 314</b>    | 27 746                 | (730)            | <b>27 016</b>    |
| Loans granted to PGE EJ 1 Sp. z o.o.               | 12 340                          | (316)            | <b>12 024</b>    | 8 252                  | (45)             | <b>8 207</b>     |
| Granted cash pool loans including accrued interest | 631 601                         | (103 677)        | <b>527 924</b>   | 537 404                | (62 226)         | <b>475 178</b>   |
| <b>Loans measured at fair value</b>                |                                 |                  |                  |                        |                  |                  |
| Loans granted to EC Stalowa Wola S.A.              | 206 944                         | n.a.             | <b>206 944</b>   | 216 018                | n.a.             | <b>216 018</b>   |
| <b>Total</b>                                       | <b>5 601 414</b>                | <b>(221 597)</b> | <b>5 379 817</b> | <b>5 413 039</b>       | <b>(100 285)</b> | <b>5 312 754</b> |
| Non-current  | 5 433 688                       | (203 864)        | <b>5 229 824</b> | 5 139 751              | (92 199)         | <b>5 047 552</b> |
| Current  | 167 726                         | (17 733)         | <b>149 993</b>   | 273 288                | (8 086)          | <b>265 202</b>   |



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The increase in impairment losses on loans granted in the amount of PLN 121 312 thousand is mainly related to taking into account in the calculation of expected credit losses the impact of the epidemiological situation related to COVID-19, which resulted in an increase in impairment losses by PLN 79 154 thousand, as further described below and in Note 6.1 to these interim condensed financial statements.

### 18.1 Loans granted to subsidiaries

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

The table below presents the balances of loans granted as at 31 March 2020 and as at 31 December 2019, broken down by individual companies.

| Company                      | As at 31 March 2020<br>(unaudited) |                  |                  |                  | As at 31 December 2019 |                  |                 |                  |
|------------------------------|------------------------------------|------------------|------------------|------------------|------------------------|------------------|-----------------|------------------|
|                              | Contractual loan value             | Gross value      | Impairment loss  | Total            | Contractual loan value | Gross value      | Impairment loss | Total            |
| TAURON Wytwarzanie S.A.      | 200 000                            | 198 075          | (18 121)         | 179 954          | 200 000                | 200 768          | (5 582)         | 195 186          |
| TAURON Dystrybucja S.A.      | 3 000 000                          | 2 990 123        | (13 886)         | 2 976 237        | 3 000 000              | 3 014 526        | (7 453)         | 3 007 073        |
| TAURON Ciepło Sp. z o.o.     | 975 000                            | 979 474          | (63 680)         | 915 794          | 975 000                | 978 752          | (19 879)        | 958 873          |
| TAURON Wydobywanie S.A.      | 2 288 000                          | 291 295          | (10 469)         | 280 826          | 1 970 000              | 268 576          | (3 596)         | 264 980          |
| TAURON Ekoenergia Sp. z o.o. | 160 000                            | 153 195          | (3 004)          | 150 191          | 160 000                | 160 997          | (774)           | 160 223          |
| TAURON Sprzedaż Sp. z o.o.   | 100 000                            | 100 321          | (5 712)          | 94 609           | -                      | -                | -               | -                |
| <b>Total</b>                 | <b>6 723 000</b>                   | <b>4 712 483</b> | <b>(114 872)</b> | <b>4 597 611</b> | <b>6 305 000</b>       | <b>4 623 619</b> | <b>(37 284)</b> | <b>4 586 335</b> |
| Non-current                  |                                    | 4 672 623        | (103 879)        | 4 568 744        |                        | 4 612 447        | (33 632)        | 4 578 815        |
| Current                      |                                    | 39 860           | (10 993)         | 28 867           |                        | 11 172           | (3 652)         | 7 520            |

As at 31 March 2020, the value of loans with a repayment term of less than one year, which have been classified as long-term, amounted to PLN 4 583 000 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.

In the 3-month period ended 31 March 2020, the Company granted a loan to a subsidiary in the Mining segment with a nominal value of PLN 318 000 thousand, which was initially recognised as an impaired financial asset due to credit risk (measurement level 3), with the result that the loss on the initial measurement of PLN 302 154 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 of 31 December 2019 (as at 31 March 2020, the results of the latest tests were deemed valid). Company repaid the cash pool loan for the funds obtained from the loan. Thus, as at the balance sheet date, the gross carrying amount of the loans granted to TAURON Wydobywanie S.A. (without accrued interest) with a nominal value of PLN 2 288 000 thousand was PLN 280 826 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 44 036 thousand, as further described in Note 6.1 to these interim condensed financial statements.

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

After the end of reporting period, on 4 May 2020, the Company granted a loan to TAURON Wydobywanie S.A. next loan in nominal value of PLN 103 000 thousand.

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

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

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|   | Agreement date | Loan amount | As at 31 March 2020<br>(unaudited) |                 |                | As at 31 December 2019 |                 |                | Maturity date | Interest rate    |
|---|----------------|-------------|------------------------------------|-----------------|----------------|------------------------|-----------------|----------------|---------------|------------------|
|   |                |             | Gross value                        | Impairment loss | Total          | Gross value            | Impairment loss | Total          |               |                  |
| <b>Loans measured at fair value</b>     |                |             |                                    |                 |                |                        |                 |                |               |                  |
| Debt consolidation agreement            | 28.02.2018     | 609 951     | 206 944                            | n.a.            | 206 944        | 216 018                | n.a.            | 216 018        | 30.06.2033    | fixed            |
| <b>Loans measured at amortized cost</b> |                |             |                                    |                 |                |                        |                 |                |               |                  |
| VAT loan                                | 11.04.2018     | 15 000      | 15 012                             | (700)           | 14 312         | 5 109                  | (110)           | 4 999          | 30.09.2020    | WIBOR 1M+mark-up |
|   | 30.03.2018     | 7 290       | 8 093                              | (712)           | 7 381          | 7 955                  | (218)           | 7 737          |               |                  |
| Other loans                             | 19.12.2018     | 9 500       | 9 357                              | (827)           | 8 530          | 9 197                  | (252)           | 8 945          | 30.06.2033    | fixed            |
|   | 12.03.2019     | 5 175       | 5 584                              | (493)           | 5 091          | 5 485                  | (150)           | 5 335          |               |                  |
| <b>Total</b>                            |                |             | <b>244 990</b>                     | <b>(2 732)</b>  | <b>242 258</b> | <b>243 764</b>         | <b>(730)</b>    | <b>243 034</b> |               |                  |
| Non-current                             |                |             | 229 978                            | (2 032)         | 227 946        | 238 655                | (620)           | 238 035        |               |                  |
| Current                                 |                |             | 15 012                             | (700)           | 14 312         | 5 109                  | (110)           | 4 999          |               |                  |

The most significant item is 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 of the balance sheet date, the par value of the loan, constituting subordinated debt owed to the Company, 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 206 944 thousand. The decrease of debt consolidation agreement's value is mainly related to taking into account in the measurement the impact of the epidemiological situation related to COVID-19, which resulted in an decrease of fair value by PLN 14 262 thousand.

Taking into account the impact of epidemiological situation related to COVID-19 resulted in an increase in impairment losses on loans measured at amortized cost by PLN 1 972 thousand.

Impact of COVID-19 on valuation of loans granted to Elektrociepłownia Stalowa Wola S.A. have been described in more detail in Note 6.1 to these interim condensed financial statements.

The increase in gross value of VAT loan in the amount of PLN 9 903 thousand is mainly resulted from granting loan tranches in total amount of PLN 13 600 thousand and repayment of loan tranche by Elektrociepłownia Stalowa Wola S.A. in amount of PLN 3 700 thousand, in the 3-month period ended 31 March 2020.

On 20 February 2020 the Company concluded with Elektrociepłownia Stalowa Wola S.A. a loan agreement of up to amount of PLN 59 175 thousand. Under the agreement the loan and interest accrued at a fixed interest rate should be repaid by 30 June 2033. The repayment of the principal, interest and other expenses and amounts due to the Company is secured with the borrower's blank promissory note and a promissory note agreement. As at 31 March 2020 the loan amount was not disbursed. After the end of the reporting period, the Company — on the instruction of the borrower — released a tranches amounting to PLN 12 750 thousand.

### 18.3 Loans granted under cash pool agreement

In order to optimize 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. The interest rate is set at arm's length.

|   | As at 31 March 2020<br>(unaudited) |                  |                | As at 31 December 2019 |                 |                |
|---|------------------------------------|------------------|----------------|------------------------|-----------------|----------------|
|   | Gross value                        | Impairment loss  | Total          | Gross value            | Impairment loss | Total          |
| Receivables from cash pool loans granted  | 627 639                            | (103 677)        | 523 962        | 525 938                | (62 226)        | 463 712        |
| Interest on loans granted under cash pool | 3 962                              | -                | 3 962          | 11 466                 | -               | 11 466         |
| <b>Total</b>                              | <b>631 601</b>                     | <b>(103 677)</b> | <b>527 924</b> | <b>537 404</b>         | <b>(62 226)</b> | <b>475 178</b> |
| Non-current                               | 527 066                            | (97 836)         | 429 230        | 283 551                | (57 917)        | 225 634        |
| Current                                   | 104 535                            | (5 841)          | 98 694         | 253 853                | (4 309)         | 249 544        |

Detailed information about liabilities under the 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 epidemiological situation related to COVID-19 resulted in an increase in impairment losses on loans granted under cash pool agreement by amount of PLN 32 883 thousand, as further described in Note 6.1 to these interim condensed financial statements.

## 19. Derivative instruments

|   | As at 31 March 2020<br>(unaudited) |  |                |                  | As at 31 December 2019       |  |                |                  |
|---|------------------------------------|--|----------------|------------------|------------------------------|--|----------------|------------------|
|   | Charged to<br>profit or loss       | Charged to<br>other<br>comprehensive<br>income | Total          |                  | Charged to<br>profit or loss | Charged to<br>other<br>comprehensive<br>income | Total          |                  |
|   |                                    |  | Assets         | Liabilities      |                              |  | Assets         | Liabilities      |
| <b>Derivative instruments subject to hedge accounting</b>                   |                                    |  |                |                  |                              |  |                |                  |
| IRS   | 969                                | (70 849)                                       | -              | (69 880)         | 121                          | 19 341   | 19 462         | -                |
| <b>Derivative instruments measured at fair value through profit or loss</b> |                                    |  |                |                  |                              |  |                |                  |
| CCIRS   | (3 107)                            | -  | -              | (3 107)          | (12 885)                     | -  | -              | (12 885)         |
| Commodity future/forward  | (92 017)                           | -  | 584 520        | (676 537)        | 4 248                        | -  | 86 067         | (81 819)         |
| Currency forward  | 61 987                             | -  | 61 987         | -                | (29 823)                     | -  | -              | (29 823)         |
| <b>Total</b>  |                                    |  | <b>646 507</b> | <b>(749 524)</b> |                              |  | <b>105 529</b> | <b>(124 527)</b> |
| Non-current   |                                    |  | 41 850         | (76 665)         |                              |  | 20 352         | (16 848)         |
| Current   |                                    |  | 604 657        | (672 859)        |                              |  | 85 177         | (107 679)        |

### **Hedging derivative instruments (subject to hedge accounting)**

In the 3-month period ended 31 March 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 100 000 thousand by concluding interest rate swap (IRS) hedging transactions for periods beginning on 5 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 2 100 000 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 31 March 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<sub>2</sub> 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 the 3-month period ended 31 March 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<sub>2</sub> emission allowances, there was an increase in commodity derivatives in compared to end of 2019 (positive – assets as well as negative – liabilities).

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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 <sub>2</sub> 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 31 March 2020<br>(unaudited) |               | As at 31 December 2019 |               |
|------------------------------------|------------------------------------|---------------|------------------------|---------------|
|                                    | 1 level                            | 2 level       | 1 level                | 2 level       |
| <b>Assets</b>                      |                                    |               |                        |               |
| Derivative instruments - commodity | 584 520                            | -             | 86 067                 | -             |
| Derivative instruments - currency  | -                                  | 61 987        | -                      | -             |
| Derivative instruments - IRS       | -                                  | -             | -                      | 19 462        |
| <b>Total</b>                       | <b>584 520</b>                     | <b>61 987</b> | <b>86 067</b>          | <b>19 462</b> |
| <b>Liabilities</b>                 |                                    |               |                        |               |
| Derivative instruments - commodity | 676 537                            | -             | 81 819                 | -             |
| Derivative instruments - currency  | -                                  | -             | -                      | 29 823        |
| Derivative instruments - IRS       | -                                  | 69 880        | -                      | -             |
| Derivative instruments - CCIRS     | -                                  | 3 107         | -                      | 12 885        |
| <b>Total</b>                       | <b>676 537</b>                     | <b>72 987</b> | <b>81 819</b>          | <b>42 708</b> |

## 20. Deferred income tax

|  | As at<br>31 March 2020<br>(unaudited) | As at<br>31 December 2019 |
|--|---------------------------------------|---------------------------|
| difference between tax base and carrying amount of financial assets  | 126 516                               | 23 181                    |
| difference between tax base and carrying amount of property, plant and equipment and intangible assets and right-of-use assets | 7 157                                 | 7 599                     |
| valuation of hedging instruments   | -                                     | 3 698                     |
| difference between tax base and carrying amount of financial liabilities   | 253                                   | 7 884                     |
| other  | 1 872                                 | -                         |
| <b>Deferred tax liabilities</b>  | <b>135 798</b>                        | <b>42 362</b>             |
| difference between tax base and carrying amount of financial assets  | 7 625                                 | 5 367                     |
| difference between tax base and carrying amount of financial liabilities   | 218 635                               | 38 976                    |
| different timing of recognition of revenue and cost of sales for tax purposes  | 16 782                                | 14 851                    |
| provisions and accruals  | 4 059                                 | 3 594                     |
| difference between tax base and carrying amount of fixed and intangible assets   | 2 415                                 | 2 458                     |
| other  | 1 180                                 | 534                       |
| <b>Deferred tax assets</b>   | <b>250 696</b>                        | <b>65 780</b>             |
| <b>Deferred tax assets/(liabilities), net</b>  | <b>114 898</b>                        | <b>23 418</b>             |

Deferred tax assets on deductible temporary differences arising from investments in subsidiaries is recognized insofar as their reversal is probable in the foreseeable future and where taxable income will be available to enable realization of

deductible differences. According to the Company, deductible temporary differences related to recognition of impairment allowances on shares in subsidiaries of PLN 9 230 002 thousand will not be reversed in the foreseeable future, as the investments are not intended for sale.

In addition, the Company does not recognise a deferred tax asset related to impairment losses on loans granted. As at 31 March 2020, the impairment loss for loans granted was PLN 221 597 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.

## 21. Other financial assets

|  | As at<br>31 March 2020<br><i>(unaudited)</i> | As at<br>31 December 2019 |
|--|--|---------------------------|
| Variation margin deposits arising from stock exchange transactions   | 255 182                                      | 25 113                    |
| Initial deposits arising from stock exchange transactions            | 54 645                                       | 184 353                   |
| Bid bonds, deposits, collateral transferred                          | 46 153                                       | 82 951                    |
| Receivables arising from income tax settlements of the TCG companies | 1 581  | -                         |
| Units in investment funds  | -  | 26 622                    |
| Other  | 323  | 258                       |
| <b>Total</b>   | <b>357 884</b>                               | <b>319 297</b>            |
| Non-current  | 2 506  | 2 348                     |
| Current  | 355 378                                      | 316 949                   |

Initial and variation margins are related mostly to futures transactions on the CO<sub>2</sub> emissions allowances concluded on foreign regulated markets. 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 increase in the value of variation margins in the amount of PLN 230 069 thousand relates mainly to transactions concluded on foreign exchange markets for the delivery of CO<sub>2</sub> emission allowances and results mainly from the Company's position on the exchange as at the balance sheet date and from a significant decrease in allowance prices in relation to the comparable period.

The decrease in the value of bid bonds, security deposits and collaterals transferred in relation to the comparable period in the amount of PLN 36 798 thousand relates mainly to collaterals transferred under the settlement guarantee system of Izba Rozliczeniowa Gield Towarowych S.A. As at 31 March 2020, the collaterals on this account amounted to PLN 43 371 thousand and as at 31 December 2019 - PLN 80 237 thousand.

## 22. Other non-financial assets

|  | As at<br>31 March 2020<br><i>(unaudited)</i> | As at<br>31 December 2019 |
|--|--|---------------------------|
| Settlement of exchange CO <sub>2</sub> purchase transactions | 45 603                                       | -                         |
| Prepaid expenses, <i>including:</i>                          | 15 952                                       | 15 126                    |
| <i>Prepaid fee on debt</i>                                   | 13 798                                       | 14 563                    |
| VAT receivables  | 4 689  | -                         |
| Advance payments for deliveries                              | 7 836  | 4 957                     |
| Other  | 5 499  | 4 907                     |
| <b>Total</b>   | <b>79 579</b>                                | <b>24 990</b>             |
| Non-current  | 18 377                                       | 18 823                    |
| Current  | 61 202                                       | 6 167                     |

The settlement of exchange-based CO<sub>2</sub> purchase transactions in the amount of PLN 45 603 thousand relates to the settlement of the result on forward CO<sub>2</sub> emission allowance purchase transactions for redemption purposes of the Group's manufacturing companies for which delivery took place after the end of the reporting period. This settlement adjusted the purchase price of CO<sub>2</sub> emission allowances at the time of their acceptance into stock.

## 23. Inventories

|  | As at<br>31 March 2020<br><i>(unaudited)</i> | As at<br>31 December 2019 |
|--|--|---------------------------|
| <b>Gross Value</b>                         |  |                           |
| CO <sub>2</sub> emission allowances        | 158 564                                      | 149 151                   |
| Energy certificates                        | 250  | 250                       |
| Materials                                  | 60   | -                         |
| <b>Total</b>                               | <b>158 874</b>                               | <b>149 401</b>            |
| <b>Measurement to net realisable value</b> |  |                           |
| CO <sub>2</sub> emission allowances        | 853  | -                         |
| Energy certificates                        | (49)   | (37)                      |
| <b>Measurement to fair value</b>           |  |                           |
| CO <sub>2</sub> emission allowances        | (119)  | -                         |
| <b>Total</b>                               | <b>685</b>                                   | <b>(37)</b>               |
| <b>Net value</b>                           |  |                           |
| CO <sub>2</sub> emission allowances        | 159 298                                      | 149 151                   |
| Energy certificates                        | 201  | 213                       |
| Materials                                  | 60   | -                         |
| <b>Total</b>                               | <b>159 559</b>                               | <b>149 364</b>            |

Inventories are measured at the net realisable value, except for the inventory of CO<sub>2</sub> 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<br>31 March 2020<br><i>(unaudited)</i> | As at<br>31 December 2019 |
|------------------------------|--|---------------------------|
| <b>Gross Value</b>           |  |                           |
| Receivables from buyers      | 815 736                                      | 1 474 635                 |
| Receivables claimed at court | 1 014  | 1 005                     |
| <b>Total</b>                 | <b>816 750</b>                               | <b>1 475 640</b>          |
| <b>Allowance/write-down</b>  |  |                           |
| Receivables from buyers      | (3 959)                                      | (2 173)                   |
| Receivables claimed at court | (1 010)                                      | (1 005)                   |
| <b>Total</b>                 | <b>(4 969)</b>                               | <b>(3 178)</b>            |
| <b>Net Value</b>             |  |                           |
| Receivables from buyers      | 811 777                                      | 1 472 462                 |
| Receivables claimed at court | 4  | -                         |
| <b>Total</b>                 | <b>811 781</b>                               | <b>1 472 462</b>          |

As at 31 March 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 555 893 thousand and PLN 694 511 thousand, respectively. Related-party transactions as well as related party receivables have been presented in Note 39.1 hereto.

The decrease in receivables from buyers is mainly caused by a decrease in receivables from companies in the Generation segment due to the sold of CO<sub>2</sub> emission allowances disposal 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. Income tax receivables 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 31 March 2020, the Tax Group of Companies had an income tax asset of PLN 119 028 thousand, mainly consisting of the following:

- the receivable for the year ended 31 December 2019 in the amount of PLN 249 513 thousand representing the excess of advance payments of PLN 442 637 thousand over TGC's tax burden of PLN 193 124 thousand;
- liability for the 3-month period ended 31 March 2020 in the amount of PLN 130 513 thousand representing the excess of TGC's tax burden of PLN 182 635 thousand over advances paid in the amount of PLN 52 122 thousand. The surplus of the tax burden over the advance payments is related to the fact that in the financial year 2020, TGC pays fixed monthly advance payments for corporate income tax of PLN 26 061 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 92 007 thousand, which has been presented as Other financial liabilities, as well as receivables from the Tax Group of Companies companies arising from tax underpayment of PLN 1 442 thousand, which have been presented as Other financial assets.

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

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

## 26. Cash and cash equivalents

|  | As at<br>31 March 2020<br><i>(unaudited)</i> | As at<br>31 December 2019 |
|--|--|---------------------------|
| Cash at bank and in hand   | 1 363 324                                    | 923 721                   |
| Short-term deposits (up to 3 months)   | 12   | 7                         |
| <b>Total cash and cash equivalents presented in the statement of financial position, including :</b> | <b>1 363 336</b>                             | <b>923 728</b>            |
| restricted cash, including:  | 865 306                                      | 593 682                   |
| <i>collateral of settlements with Izba Rozliczeniowa Giełd Towarowych S.A.</i>                       | 859 725                                      | 571 699                   |
| Cash pool  | (1 272 030)                                  | (951 564)                 |
| Overdraft  | (61 704)                                     | (21 210)                  |
| Foreign exchange   | (341)  | (34)                      |
| <b>Total cash and cash equivalents presented in the statement of cash flows</b>                      | <b>29 261</b>                                | <b>(49 080)</b>           |

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 28.5 to these interim condensed financial statements.

## 27. Equity

### 27.1. Issued capital

#### Issued capital as at 31 March 2020 (not audited)

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

As at 31 March 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.

### 27.2. Major shareholders

#### Ownership structure as at 31 March 2020 (not audited)

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

\* 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 than 25% of the total votes in the Company.

To the best of the Company's knowledge, the shareholding structure as at 31 March 2020 had not changed since 31 December 2019.

### 27.3. Reserve capital

#### Reserve capital

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

On 29 March 2019, 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 2018 in the amount of PLN 1 709 853 thousand from the Company's reserve capital. On 8 May 2019, the Ordinary General Meeting of Shareholders of the Company adopted a resolution in accordance with the recommendation of the Management Board.



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

|  | 3-month period ended<br>31 March 2020<br><i>(unaudited)</i> | 3-month period ended<br>31 March 2019<br><i>(unaudited)</i> |
|--|---|---|
| <b>Opening balance</b>   | <b>15 666</b>   | <b>3 371</b>  |
| Remeasurement of hedging instruments                           | (91 038)  | (3 042)   |
| Remeasurement of hedging instruments charged to profit or loss | 848   | 271   |
| Deferred income tax  | 17 136  | 527   |
| <b>Closing balance</b>   | <b>(57 388)</b>   | <b>1 127</b>  |

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.

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

As at 31 March 2020 the Company recognized PLN (57 388) thousands 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 69 880 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 dividend limitation

As at 31 March 2019 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.

#### 27.6. Dividends paid and proposed

In the 3-month period ended 31 March 2020 and in the comparative period, the Company did not propose to pay or pay any dividends to its shareholders.

### 28. Debt

|                                   | As at<br>31 March 2020<br><i>(unaudited)</i> | As at<br>31 December 2019 |
|-----------------------------------|--|---------------------------|
| <b>Long-term portion of debt</b>  |  |                           |
| Unsubordinated bonds              | 3 690 717                                    | 1 908 871                 |
| Subordinated hybrid bonds         | 1 956 004                                    | 3 544 236                 |
| Bank loans                        | 5 932 191                                    | 4 719 385                 |
| Loans from the subsidiary         | 757 746                                      | 708 831                   |
| Lease                             | 26 501                                       | 28 274                    |
| <b>Total</b>                      | <b>12 363 159</b>                            | <b>10 909 597</b>         |
| <b>Short-term portion of debt</b> |  |                           |
| Unsubordinated bonds              | 110 741                                      | 4 556                     |
| Subordinated hybrid bonds         | 34 350                                       | 86 808                    |
| Bank loans                        | 2 071 362                                    | 2 300 443                 |
| Loans from the subsidiary         | 9 398  | 2 125                     |
| Cash pool loans received          | 1 376 566                                    | 1 205 417                 |
| Lease                             | 8 230  | 7 917                     |
| <b>Total</b>                      | <b>3 610 647</b>                             | <b>3 607 266</b>          |

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**28.1. Bonds issued**

**Bonds as at 31 March 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               | 806 067                  | 7 312            | 798 755                     | -   | 99 916         | 299 595          | 399 244          |
|   |                             |          | 630 000                            | 2021-2029               | 635 395                  | 5 670            | 629 725                     | -   | 69 982         | 209 920          | 349 823          |
| BNP Paribas Bank Polska S.A. <sup>1</sup> | floating, based on WIBOR 6M | PLN      | 6 300                              | 9.11.2020               | 6 370                    | 73               | 6 297                       | 6 297   | -              | -                | -                |
|   |                             |          | 51 000                             | 29.12.2020              | 51 362                   | 390              | 50 972                      | 50 972  | -              | -                | -                |
| Eurobonds                                 | fixed                       | EUR      | 500 000                            | 5.07.2027               | 2 302 264                | 40 027           | 2 262 237                   | -   | -              | -                | 2 262 237        |
| <b>Unsubordinated bonds</b>               |                             |          |                                    |                         | <b>3 801 458</b>         | <b>53 472</b>    | <b>3 747 986</b>            | <b>57 269</b>   | <b>169 898</b> | <b>509 515</b>   | <b>3 011 304</b> |
| Bank Gospodarstwa Krajowego               | floating, based on WIBOR 6M | PLN      | 400 000                            | 29.03.2031 <sup>3</sup> | 405 886                  | 6 536            | 399 350                     | -   | -              | -                | 399 350          |
| European Investment Bank                  | fixed <sup>2</sup>          | EUR      | 190 000                            | 16.12.2034 <sup>3</sup> | 830 650                  | 11 653           | 818 997                     | -   | -              | 818 997          | -                |
|   |                             | PLN      | 400 000                            | 17.12.2030 <sup>3</sup> | 402 200                  | 8 782            | 393 418                     | -   | -              | -                | 393 418          |
|   |                             | PLN      | 350 000                            | 19.12.2030 <sup>3</sup> | 351 618                  | 7 379            | 344 239                     | -   | -              | -                | 344 239          |
| <b>Subordinated hybrid bonds</b>          |                             |          |                                    |                         | <b>1 990 354</b>         | <b>34 350</b>    | <b>1 956 004</b>            | <b>-</b>  | <b>-</b>       | <b>818 997</b>   | <b>1 137 007</b> |
| <b>Total bonds</b>                        |                             |          |                                    |                         | <b>5 791 812</b>         | <b>87 822</b>    | <b>5 703 990</b>            | <b>57 269</b>   | <b>169 898</b> | <b>1 328 512</b> | <b>4 148 311</b> |

<sup>1</sup> Bond Issue Scheme dated 24 November 2015

<sup>2</sup> 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.

<sup>3</sup> 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. <sup>1</sup> | 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        |
| <b>Unsubordinated bonds</b>               |                             |          |                                    |                         | <b>3 631 044</b>         | <b>26 447</b>    | <b>3 604 597</b>            | <b>60 361</b>   | <b>169 886</b> | <b>509 482</b>   | <b>2 864 868</b> |
| Bank Gospodarstwa Krajowego               | floating, based on WIBOR 6M | PLN      | 400 000                            | 29.03.2031 <sup>3</sup> | 400 123                  | 761              | 399 362                     | -   | -              | -                | 399 362          |
| European Investment Bank                  | fixed <sup>2</sup>          | EUR      | 190 000                            | 16.12.2034 <sup>3</sup> | 771 161                  | 1 630            | 769 531                     | -   | -              | 769 531          | -                |
|   |                             | PLN      | 400 000                            | 17.12.2030 <sup>3</sup> | 395 901                  | 1 243            | 394 658                     | -   | -              | -                | 394 658          |
|   |                             | PLN      | 350 000                            | 19.12.2030 <sup>3</sup> | 346 242                  | 922              | 345 320                     | -   | -              | -                | 345 320          |
| <b>Subordinated hybrid bonds</b>          |                             |          |                                    |                         | <b>1 913 427</b>         | <b>4 556</b>     | <b>1 908 871</b>            | <b>-</b>  | <b>-</b>       | <b>769 531</b>   | <b>1 139 340</b> |
| <b>Total bonds</b>                        |                             |          |                                    |                         | <b>5 544 471</b>         | <b>31 003</b>    | <b>5 513 468</b>            | <b>60 361</b>   | <b>169 886</b> | <b>1 279 013</b> | <b>4 004 208</b> |

<sup>1</sup> Bond Issue Scheme dated 24 November 2015

<sup>2</sup> 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.

<sup>3</sup> 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. They were rated "BBB" by the Fitch rating agency.

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.

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 31 March 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.

|                        | 3-month period ended<br>31 March 2020 | 3-month period ended<br>31 March 2019 |
|------------------------|---------------------------------------|---------------------------------------|
|                        | <i>(unaudited)</i>                    | <i>(unaudited)</i>                    |
| <b>Opening balance</b> | <b>5 513 468</b>                      | <b>9 317 854</b>                      |
| Issue*                 | -                                     | 499 312                               |
| Redemption             | (3 100)                               | (400 000)                             |
| Measurement change     | 193 622                               | (3 778)                               |
| <b>Closing balance</b> | <b>5 703 990</b>                      | <b>9 413 388</b>                      |

\*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 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<sub>2</sub> 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.

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.

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**28.2. Bank loans**

| Borrowing institution                         | Purpose   | Interest rate | Maturity date | As at<br>31 March 2020<br>(unaudited) | As at<br>31 December 2019 |
|---|---|---------------|---------------|---------------------------------------|---------------------------|
|   |   |               | 28.06.2020 *  | 1 853 039                             | 1 839 159                 |
|   |   |               | 02.09.2020 *  | 150 304                               | 151 376                   |
|   |   |               | 10.09.2020 *  | 300 406                               | 302 555                   |
|   |   |               | 01.10.2020 *  | 608 586                               | 604 070                   |
|   |   |               | 14.10.2020 *  | 303 970                               | 301 714                   |
|   |   |               | 31.01.2020    | -                                     | 502 358                   |
| Consortium of banks                           | Redemption of bonds, investment and Group's general expenditures  | floating      | 30.04.2020    | 506 086                               | 502 330                   |
|   |   |               | 28.02.2020    | -                                     | 501 195                   |
|   |   |               | 13.01.2020    | -                                     | 600 868                   |
|   |   |               | 14.04.2020    | 603 649                               | -                         |
|   |   |               | 09.04.2020    | 200 350                               | -                         |
|   |   |               | 20.04.2020    | 100 077                               | -                         |
|   |   |               | 20.04.2020    | 200 189                               | -                         |
|   |   |               | 30.04.2020    | 200 026                               | -                         |
| Bank Gospodarstwa Krajowego                   | Group's capital expenditures and refinancing of a portion of debt   | floating      | 20.12.2033    | 1 005 574                             | 998 458                   |
|   | Construction of a boiler fired with biomass at Jaworzno III Power Plant and renovation of a steam turbine | fixed         | 15.12.2021    | 40 599                                | 40 047                    |
|   | Construction and start-up of a co-generation unit at EC Bielsko Biala                                     | fixed         | 15.12.2021    | 58 069                                | 57 294                    |
| European Investment Bank                      | Modernization and extension of power grid   | fixed         | 15.06.2024    | 177 517                               | 175 298                   |
|   |   | fixed         | 15.09.2024    | 80 204                                | 89 820                    |
|   |   | fixed         | 15.09.2024    | 100 604                               | 112 661                   |
|   | Modernization and extension of power grid and improvement of hydropower plants                            | fixed         | 15.03.2027    | 203 575                               | 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    | 250 372                               | -                         |
|   |   |               |               | 250 246                               | -                         |
|   |   |               |               | 249 778                               | -                         |
| SMBC BANK EU AG                               | Group's general corporate expenses, excluding financing and refinancing of coal-fired power plants        | fixed         | 23.03.2025    | 498 629                               | -                         |
| Bank Gospodarstwa Krajowego (bank overdrafts) | Financing of CO <sub>2</sub> emission allowance, electricity and gas transactions on EU stock exchanges   | floating      | 31.12.2020    | 61 704                                | 20 456                    |
| mBank (bank overdrafts)                       | Financing of performance bonds and commodity transactions   | floating      | 31.03.2020    | -                                     | 754                       |
| <b>Total</b>                                  |   |               |               | <b>8 003 553</b>                      | <b>7 019 828</b>          |

\* Tranche classified as a long-term liability

Pursuant to the provisions of the loan agreement of 19 June 2019 concluded with the bank consortium, the maximum period for drawing down individual loan tranches is 12 months. However, the financing available under the agreement is revolving, and its availability period is the end of 2022. Some of the tranches contracted as at 31 March 2020 and 31 December 2019 were drawn down with a 12-month repayment date falling in 2020. 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 loan 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, according to the contractual repayment date.

The change in the balance of credits without interest increasing the carrying amount in the 3-month period ended 31 March 2020 and in the comparative period is presented in the table below.

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|   | 3-month period ended<br>31 March 2020<br><i>(unaudited)</i> | 3-month period ended<br>31 March 2019<br><i>(unaudited)</i> |
|---|---|---|
| <b>Opening balance</b>                                | <b>6 996 963</b>  | <b>846 751</b>  |
| <b>Movement in bank overdrafts</b>                    | <b>40 494</b>   | <b>156 166</b>  |
| <b>Movement in loans (excluding bank overdrafts):</b> | <b>913 584</b>  | <b>695 523</b>  |
| Repaid  | (3 085 205)   | (35 205)  |
| Taken*  | 3 995 575   | 728 120   |
| Change in valuation                                   | 3 214   | 2 608   |
| <b>Closing balance</b>                                | <b>7 951 041</b>  | <b>1 698 440</b>  |
| Interest increasing the carrying amount               | 52 512  | 6 505   |
| <b>Total bank loans</b>                               | <b>8 003 553</b>  | <b>1 704 945</b>  |

\* Inclusive of the borrowing costs

In the 3-month period ended on 31 March 2020, the Company carried out the following transactions relating to bank loans (in nominal value), excluding overdrafts:

| Lender                             | Description   | 3-month period ended 31 March 2020<br><i>(unaudited)</i> |                    |
|------------------------------------|---|--|--------------------|
|                                    |   | Drawdown   | Repayment          |
| Consortium of banks                | Drawdown of new tranches and repayment of tranches according to maturity date | 2 750 000  | (3 050 000)        |
| Intesa Sanpaolo S.P.A.             | Drawdown of 3 tranches of PLN 250 000 thousand each                           | 750 000  |                    |
| SMBC BANK EU AG                    | Drawdown of total of available financing                                      | 500 000  |                    |
| European Investment Bank           | Repayment of capital instalments according to schedule                        |  | (35 205)           |
| <b>Total, including:</b>           |   | <b>4 000 000</b>   | <b>(3 085 205)</b> |
| Cash flows                         |   | 2 000 000  | (1 085 205)        |
| Net settlement (without cash flow) |   | 2 000 000  | (2 000 000)        |

#### **Loan agreement with Consortium of banks**

On 19 June 2019, a loan agreement was concluded for the amount of PLN 6 070 000 thousand, to which the Company as the borrower and Bank Handlowy w Warszawie S.A., Santander Bank Polska S.A., CaixaBank S.A.. (joint-stock company) Branch in Poland, Industrial and Commercial Bank of China (Europe) S.A. Branch in Poland, ING Bank Śląski S.A., mBank S.A., MUFG Bank (Europe) N.V., MUFG Bank (Europe) N.V. S.A. Branch in Poland and Powszechna Kasa Oszczędności Bank Polski S.A. as the lenders, which essentially replaced the bond issue scheme up to PLN 6 270 000 thousand concluded on 24 November 2015, as amended, with banks that were parties to the loan agreement concluded on 19 June 2019 and with BNP Paribas Bank Polska S.A., which continues financing the Company under the bond scheme.

Key financing parameters specified in the loan agreement, including the margin level, financing duration and financial exposure level of specific lenders do not change with respect to the bond scheme. Under the loan agreement, the Company has financing available:

- until 31 December 2021 in the amount of PLN 6 070 000 thousand;
- until 31 December 2022 in the amount of PLN 5 820 000 thousand.

As at 31 March 2020, the outstanding balance of liabilities at nominal value under the agreement amounted in total to PLN 4 989 600 thousand.

After the end of the reporting period, TAURON Polska Energia S.A. drew further tranches under the loan agreement with a Consortium of banks dated 19 June 2019 and repaid a part of the funds released. As at the date of approval for publication of these interim condensed financial statements, the total debt of the Company in nominal value under the agreement amounts to PLN 4 339 600 thousand.

#### **Loan agreement with bank Intesa Sanpaolo S.P.A.**

On 19 December 2019, TAURON Polska Energia S.A. concluded with the bank Intesa Sanpaolo S.P.A., acting through Intesa Sanpaolo S.P.A. S.A. Branch in Poland, loan agreement for the amount of PLN 750 000 thousand.

In first quarter of 2020, the Company released all available financing.

### **Loan agreement with the bank 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 utilization 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.

### **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   | Purpose   | Currency | Currency financing available | Repayment date | As at 31 March 2020 (unaudited) |               | As at 31 December 2019 |               |
|--------------------|--------|---|----------|------------------------------|----------------|---------------------------------|---------------|------------------------|---------------|
|                    |        |   |          |                              |                | currency                        | PLN           | currency               | PLN           |
| intraday limit     | PKO BP | intraday limit  | PLN      | 300 000                      | 17.12.2020     | -                               | -             | -                      | -             |
|                    | PKO BP | financing of ongoing operations   | PLN      | 300 000                      | 29.12.2020     | -                               | -             | -                      | -             |
| overdraft facility | BGK    | financing of CO <sub>2</sub> emission allowance, electricity and gas transactions on EU stock exchanges | EUR      | 45 000                       | 31.12.2020     | 13 555                          | 61 704        | 4 804                  | 20 456        |
|                    | mBank  | financing of security deposits and commodity transactions   | USD      | 200                          | 31.03.2020     | -                               | -             | 198                    | 754           |
| <b>Total</b>       |        |   |          |                              |                |                                 | <b>61 704</b> |                        | <b>21 210</b> |

### **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 limit permissible value of the net debt/EBITDA ratio is 3.5. The net debt/EBITDA ratio is calculated on the basis of consolidated data.

As at 31 December 2019, (i.e. the most recent reporting period for which the Company was obliged to calculate the covenant) the net debt/EBITDA ratio, amounted to 2.81 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 31 March 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 767 144 thousand (EUR 168 518 thousand), including interest accrued as of the balance sheet date of PLN 9 398 thousand (EUR 2 064 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 granted 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. Cash pool service

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

|  | As at<br>31 March 2020<br><i>(unaudited)</i> | As at<br>31 December 2019 |
|--|--|---------------------------|
| Liabilities from cash pool loans received                    | 1 375 786                                    | 1 204 453                 |
| Interest payable on loans received under cash pool agreement | 780  | 964                       |
| <b>Total, of which:</b>                                      | <b>1 376 566</b>                             | <b>1 205 417</b>          |
| Current  | 1 376 566                                    | 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.

#### 28.6. Liability under lease

As at 31 March 2020, the Company had a lease liability of PLN 34 731 thousand. The liability relates to the right of perpetual usufruct of land, lease of office and warehouse premises, parking spaces and cars.

##### Ageing of liability under lease

| Maturity within <i>(after the balance sheet date)</i> | As at<br>31 March 2020<br><i>(unaudited)</i> | As at<br>31 December 2019 |
|---|--|---------------------------|
| Within 1 year   | 9 230  | 9 339                     |
| Within 1 to 5 years                                   | 26 732                                       | 29 116                    |
| Within 5 to 10 years                                  | 331  | 331                       |
| Within 10 to 20 years                                 | 662  | 662                       |
| More than 20 years                                    | 3 290  | 3 356                     |
| <b>Gross lease liabilities</b>                        | <b>40 245</b>                                | <b>42 804</b>             |
| Discount  | (5 514)                                      | (6 613)                   |
| <b>Present value of lease payments</b>                | <b>34 731</b>                                | <b>36 191</b>             |

## 29. Other financial liabilities

|  | As at<br>31 March 2020<br><i>(unaudited)</i> | As at<br>31 December 2019 |
|--|--|---------------------------|
| Liabilities arising from income tax settlements of the TCG companies | 92 007                                       | 212 598                   |
| Measurement of financial guarantee                                   | 49 163                                       | 15 265                    |
| Bid bonds, deposits and collateral received                          | 18 431                                       | 16 164                    |
| Wages and salaries as well as other employee related liabilities     | 3 888  | 7 571                     |
| Commissions related to borrowings                                    | -  | 7 564                     |
| Liabilities arising from stock exchange transactions                 | -  | 10 669                    |
| Other  | 21 394                                       | 18 039                    |
| <b>Total</b>   | <b>184 883</b>                               | <b>287 870</b>            |
| Non-current  | 12 890                                       | 15 126                    |
| Current  | 171 993                                      | 272 744                   |

Income tax liabilities of the Tax Group companies are described in more detail in Note 25 to these interim condensed financial statements.

## 30. Liabilities to suppliers

As at 31 March 2020, the largest balance of liabilities towards suppliers were those towards the subsidiaries TAURON Wydobycie S.A., TAURON Ekoenergia Sp. z o.o. and TAURON Wytwarzanie S.A. and amounted to PLN 97 940 thousand, PLN 30 207 thousand and PLN 28 128 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. Other non-financial liabilities

|   | As at<br>31 March 2020<br><i>(unaudited)</i> | As at<br>31 December 2019 |
|---|--|---------------------------|
| VAT   | 43 727                                       | 215 605                   |
| Social security                                       | 5 460  | 5 200                     |
| Personal Income Tax                                   | 1 519  | 2 186                     |
| Net liabilities of the Company's Social Benefits Fund | 770  | -                         |
| Other   | 348  | 44                        |
| <b>Total</b>  | <b>51 824</b>                                | <b>223 035</b>            |

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<sub>2</sub> emission allowances to subsidiaries in the Generation segment, during the 3-month period ended 31 March 2020.

## 32. Other provisions

As at 31 March 2020 other provisions included the provisions for tax risks due to the pending control proceedings. As at 31 March 2020 the Company recognized a related provision of PLN 78 140 thousand. As at 31 December 2019, the related provision was PLN 77 094 thousand. An increase in the provision by PLN 1 046 thousand is attributable to interest accrued for the 3-month period ended 31 March 2020. The Company is a party to VAT inspection proceedings instigated by the Director of the Tax Inspection Office in Warsaw ("Director of the TIO") in 2014 and 2016. 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 24 and 28 April 2020 as well as 22 May 2020. As at the date of approving these interim condensed financial statements for publication with respect to the proceedings for which the completion date was April 2020, the Company did not receive any decisions on extending the deadlines or completing the proceedings



## NOTES TO THE INTERIM CONDENSED STATEMENT OF CASH FLOWS

### 33. Significant items of the interim condensed statement of cash flows

#### 33.1. Cash flows from operating activities

##### *Changes in working capital*

|   | 3-month period ended<br>31 March 2020<br><i>(unaudited)</i> | 3-month period ended<br>31 March 2019<br><i>(unaudited)</i> |
|---|---|---|
| Change in receivables                                     | 596 913   | 89 192  |
| Change in inventories                                     | (10 195)  | (226 354)   |
| Change in payables excluding loans                        | (293 038)   | (383 627)   |
| Change in other non-current and current assets            | (53 088)  | (19 002)  |
| Change in deferred income, government grants and accruals | 876   | 6 076   |
| Change in provisions                                      | 1 445   | 1 239   |
| <b>Change in working capital</b>                          | <b>242 913</b>  | <b>(532 476)</b>  |

#### 33.2. Cash from/used in investing activities

##### *Loans granted*

The loans of PLN 679 115 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 243 515 thousand;
- granting a loan to the subsidiary TAURON Wydobywanie S.A. in the amount of PLN 318 000 thousand;
- granting a loan to the subsidiary TAURON Sprzedaż Sp. z o.o. in the amount of PLN 100 000 thousand;
- granting a loan tranches to the co-subsidiary Elektrociepłownia Stalowa Wola S.A. in the total amount of PLN 13 600 thousand;
- granting a loan to PGE EJ 1 Sp. z o.o. in the amount of PLN 4 000 thousand.

##### *Acquisition of shares*

Payments to acquire shares of PLN 463 259 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., totaling PLN 455 100 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 8 016 thousand.

##### *Interest received*

|  | 3-month period ended<br>31 March 2020<br><i>(unaudited)</i> | 3-month period ended<br>31 March 2019<br><i>(unaudited)</i> |
|--|---|---|
| Interest received in relation to debt securities | -   | 39 881  |
| Interest received in relation to loans granted   | 16 314  | 24  |
| <b>Total</b>                                     | <b>16 314</b>   | <b>39 905</b>   |

#### 33.3. Cash from/used in financing activities

##### *Loans repaid*

Expenditure on repayment of loans is related to the repayment by the Company within 3-months ended on 31 March 2020:

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- loan tranches under the agreement concluded with the Consortium of Banks in the amount of PLN 1 050 000 thousand;
- instalments of the loan to the European Investment Bank in the amount of PLN 35 205 thousand.

**Interest paid**

|  | 3-month period ended<br>31 March 2020 | 3-month period ended<br>31 March 2019 |
|--|---------------------------------------|---------------------------------------|
|  | <i>(unaudited)</i>                    | <i>(unaudited)</i>                    |
| Interest paid in relation to loans           | (24 319)                              | (20 093)                              |
| Interest paid in relation to debt securities | (45)                                  | (2 831)                               |
| Other interest                               | (25)                                  | (139)                                 |
| <b>Total</b>                                 | <b>(24 389)</b>                       | <b>(23 063)</b>                       |

**Loans taken out**

Proceeds from loans taken out in the amount of PLN 2 000 000 thousand in the 3-month period ended 31 March 2020 were related to:

- disbursement of loan tranches under an agreement concluded with Consortium of banks in the amount of PLN 750 000 thousand;
- disbursement of 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;
- disbursement of all available financing under the loan agreement concluded with SMBC BANK EU AG totalling PLN 500 000 thousand.

## OTHER INFORMATION

### 34. Financial instruments

| Categories and classes of financial assets                                      | As at 31 March 2020 |                  | As at 31 December 2019 |                  |
|---|---------------------|------------------|------------------------|------------------|
|   | <i>(unaudited)</i>  |                  |                        |                  |
|   | Carrying amount     | Fair value       | Carrying amount        | Fair value       |
| <b>1 Financial assets measured at amortized cost</b>                            | <b>5 986 837</b>    | <b>5 986 837</b> | <b>6 569 821</b>       | <b>6 569 821</b> |
| Receivables from buyers   | 811 781             | 811 781          | 1 472 462              | 1 472 462        |
| Loans granted under cash pool agreement   | 527 924             | 527 924          | 475 178                | 475 178          |
| Other loans granted   | 4 644 949           | 4 644 949        | 4 621 558              | 4 621 558        |
| Other financial receivables   | 2 183               | 2 183            | 623                    | 623              |
| <b>2 Financial assets measured at fair value through profit or loss (FVTPL)</b> | <b>2 611 267</b>    | <b>2 611 267</b> | <b>1 592 623</b>       | <b>1 592 623</b> |
| Derivative instruments  | 646 507             | 646 507          | 86 067                 | 86 067           |
| Long-term shares  | 38 779              | 38 779           | 48 136                 | 48 136           |
| Loans granted   | 206 944             | 206 944          | 216 018                | 216 018          |
| Other financial receivables   | 355 701             | 355 701          | 292 052                | 292 052          |
| Investment fund units   | -                   | -                | 26 622                 | 26 622           |
| Cash and cash equivalents   | 1 363 336           | 1 363 336        | 923 728                | 923 728          |
| <b>3 Derivative hedging instruments</b>   | <b>-</b>            | <b>-</b>         | <b>19 462</b>          | <b>19 462</b>    |
| <b>4 Financial assets excluded from the scope of IFRS 9</b>                     |                     |                  |                        |                  |
| <b><i>Financial Instruments</i></b>   | <b>22 268 663</b>   |                  | <b>21 796 047</b>      |                  |
| Shares in subsidiaries  | 21 852 811          |                  | 21 380 195             |                  |
| Shares in jointly-controlled entities   | 415 852             |                  | 415 852                |                  |
| <b>Total financial assets, of which in the statement of financial position:</b> | <b>30 866 767</b>   |                  | <b>29 977 953</b>      |                  |
| <b>Non-current assets</b>   | <b>27 581 622</b>   |                  | <b>26 914 435</b>      |                  |
| Shares  | 22 307 442          |                  | 21 844 183             |                  |
| Loans granted   | 5 229 824           |                  | 5 047 552              |                  |
| Derivative instruments  | 41 850              |                  | 20 352                 |                  |
| Other financial assets  | 2 506               |                  | 2 348                  |                  |
| <b>Current assets</b>   | <b>3 285 145</b>    |                  | <b>3 063 518</b>       |                  |
| Receivables from buyers   | 811 781             |                  | 1 472 462              |                  |
| Loans granted   | 149 993             |                  | 265 202                |                  |
| Derivative instruments  | 604 657             |                  | 85 177                 |                  |
| Other financial assets  | 355 378             |                  | 316 949                |                  |
| Cash and cash equivalents   | 1 363 336           |                  | 923 728                |                  |

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| Categories and classes of financial liabilities   | As at 31 March 2020 |                   | As at 31 December 2019 |                   |
|---|---------------------|-------------------|------------------------|-------------------|
|   | <i>(unaudited)</i>  |                   | Carrying amount        | Fair value        |
|   | Carrying amount     | Fair value        |                        |                   |
| <b>1 Financial liabilities measured at amortized cost</b>                                     | <b>16 438 653</b>   | <b>16 815 129</b> | <b>15 193 028</b>      | <b>15 483 307</b> |
| Arm's length loans, <i>of which:</i>  | 10 085 559          | 10 186 221        | 8 914 991              | 9 001 735         |
| Liability under the cash pool loan  | 1 376 566           | 1 376 566         | 1 205 417              | 1 205 417         |
| Bank loans  | 7 941 849           | 7 952 494         | 6 998 618              | 7 014 391         |
| Loans from the subsidiary   | 767 144             | 857 161           | 710 956                | 781 927           |
| Overdraft   | 61 704              | 61 704            | 21 210                 | 21 210            |
| Bonds issued  | 5 791 812           | 6 067 626         | 5 544 471              | 5 748 006         |
| Liabilities to suppliers  | 314 695             | 314 695           | 424 486                | 424 486           |
| Other financial liabilities   | 184 403             | 184 403           | 287 819                | 287 819           |
| Liabilities due to purchases of fixed and intangible assets                                   | 480                 | 480               | 51                     | 51                |
| <b>2 Financial liabilities measured at fair value through profit or loss (FVTPL)</b>          | <b>679 644</b>      | <b>679 644</b>    | <b>124 527</b>         | <b>124 527</b>    |
| Derivative instruments  | 679 644             | 679 644           | 124 527                | 124 527           |
| <b>3 Derivative hedging instruments</b>   | <b>69 880</b>       | <b>69 880</b>     | -                      | -                 |
| <b>4 Financial liabilities excluded from the scope of IFRS 9 <i>Financial Instruments</i></b> | <b>34 731</b>       |                   | <b>36 191</b>          |                   |
| Liabilities under leases  | 34 731              |                   | 36 191                 |                   |
| <b>Total financial liabilities, of which in the statement of financial position:</b>          | <b>17 222 908</b>   |                   | <b>15 353 746</b>      |                   |
| <b>Non-current liabilities</b>  | <b>12 452 714</b>   |                   | <b>10 941 571</b>      |                   |
| Debt  | 12 363 159          |                   | 10 909 597             |                   |
| Other financial liabilities   | 12 890              |                   | 15 126                 |                   |
| Derivative instruments  | 76 665              |                   | 16 848                 |                   |
| <b>Current liabilities</b>  | <b>4 770 194</b>    |                   | <b>4 412 175</b>       |                   |
| Debt  | 3 610 647           |                   | 3 607 266              |                   |
| Liabilities to suppliers  | 314 695             |                   | 424 486                |                   |
| Derivative instruments  | 672 859             |                   | 107 679                |                   |
| Other financial liabilities   | 171 993             |                   | 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   |
|--|------------------------------|--|
| <b>Financial assets/liabilities measured at fair value</b> |                              |  |
| Derivatives, <i>including:</i>                             |                              | 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.   |
| <b>Financial liabilities whose fair value is disclosed</b> |                              |  |
| 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 31 March 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:

- 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.

### 35. Finance and financial risk management

#### 35.1. 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 31 March 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.

#### 35.2. Finance and capital management

Finance and capital management is carried out at the level of TAURON Polska Energia S.A. Capital 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

### 36. Contingent liabilities

As at 31 March 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   | Validity              | As at 31 March 2020 (unaudited) |         |          | As at 31 December 2019 |         |       |
|---|---|---|-----------------------|---------------------------------|---------|----------|------------------------|---------|-------|
|   |   |   |                       | 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 | 764 786  | 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.<br>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                 |         |       |
|   | Kopalnia Wapienia Czatkowice Sp. z o.o.                                   | Regional Fund for Environmental Protection and Water Management in Kraków   | 15.06.2021            |                                 | 914     |          |                        | 914     |       |
| surety contract   | Nowe Jaworzno Grupa TAURON Sp. z o.o.                                     | Fund Advisors   | 28.09.2025            |                                 | 2 500   |          |                        | 2 500   |       |
|   |   | 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 |
|   |   |   |                       | 30.01.2021                      |         | 9 959    |                        |         | 9 959 |
| Bank Gospodarstwa Krajowego   |   |   | 30.07.2020-24.04.2021 | USD                             | 4 993   | 20 702   | 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 |                                 | 13 291  |          |                        | 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 764 786 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.

On 11 April 2020, the guarantee issued up to the amount of PLN 517 500 thousand, expired. The guarantee issued under the guarantee limit agreement on February 2019 with MUFG Bank, Ltd. (the receivables of MUFG Bank, Ltd. from the Company are secured by a statement of submission to enforcement up to the amount of PLN 621 000 thousand, which is 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 31 March 2020 amounted to PLN 49 163 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 31 March 2020 was PLN 415 852 thousand.

- Blank promissory notes with a promissory notes declarations

The Company issued two blank promissory notes with a promissory notes 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 promissory notes is valid until all liabilities to the lender are paid by the subsidiaries. The promissory notes 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 12 494 thousand, issued by CaixaBank S.A. for securing contract liabilities of the subsidiaries came into force, with the term of validity from 1 April 2020 to 30 April 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: in.ventus group companies - EUR 20 397 thousand, 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 prejudice 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 - Pierwsza Kompania Handlowa Sp. z o.o. does not agree with the judgement and, on 12 March 2020, submitted an application to the court for delivery of the verdict and its justification, for its analysis and appeal.

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 prejudice 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, the company created a provision for onerous contracts which value as at balance sheet day is amounted PLN 3 784 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. As at the date of approval of these interim condensed financial statements for publication, the court did not issue any decisions on undertaking the proceedings.

**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.

In addition, a lawsuit was pending against TAURON Polska Energia S.A. from Dobiesław Wind Invest Sp. z o.o. It concerned a demand to make a court deposit of PLN 183 391 thousand to reverse the threat of a loss. The Company assessed the chances for a positive outcome of the dispute as positive. The case was closed (as a result of Dobiesław Wind Invest Sp. z o.o. withdrawing the claim, the proceedings were discontinued - court decision of 29 November 2019).

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**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.

**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 Miedz 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 5 791 thousand (TAURON Sprzedaż Sp. z o.o.) and in the total amount of PLN 4 118 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.



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As at 31 March 2020, the value of the claim against the Company is PLN 17 086 thousand, including statutory interest accrued between 31 March 2015 and the payment date. Should the claim filed against the Company be dismissed, the claim for payment by the Group companies totals PLN 8 414 thousand, including statutory interest accrued between the date of service of a copy of the request filed by ENEA S.A. to extend the suit by a specific Group company and the payment date. As new measurement data were presented by ENEA Operator sp. z o.o. during the proceedings, the values of the claims against the Company and the Group companies may be expected to change.

**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 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 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 a potential need to include in the financial statements an obligation 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. As at the date of approval of these interim condensed financial statements for publication, the Company does not identify on its side the risk of a material breach of the agreement and is of the opinion that there is no real possibility, including in the future, of occurrence of material breaches of the agreement beyond the direct control of the Company.

After the end of reporting period, 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 40 of these interim condensed financial statements. In connection with the postponement of the commissioning of 910 MW Unit, the Company does not identify any risk of material breach of the investment agreement.

As at the balance sheet day, the Closed-End Investment Funds held a shares of Nowe Jaworzno Grupa TAURON Sp. z o.o. in amount of PLN 880 000 thousand.

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### **37. Security for liabilities**

The most significant types of collateral securing the Company's liabilities as at 31 March 2020 are presented in the table below.

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| Collateral  | Collateral amount |           | Due date   | Agreement/transaction   |   |
|---|-------------------|-----------|------------|---|---|
|   | Currency          | PLN       |            |   |   |
|   |                   | 2 550 000 | 20.12.2032 | Long-term Bond Issue Scheme in Bank Gospodarstwa Krajowego of 31 July 2013          |   |
|   |                   | 240 000   | 31.12.2023 | Bond Issue Scheme of 24 November 2015   |   |
|   |                   | 600 000   | 30.06.2034 | Subordinated Bond Issue Scheme in Bank Gospodarstwa Krajowego of 6 September 2017   |   |
|   |                   | 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   | 17.12.2021 | Bank account agreement (intraday limit) with PKO Bank Polski S.A. of 9 October 2017 |   |
|   |                   | 360 000   | 29.12.2021 | Overdraft agreement with PKO Bank Polski S.A. of 9 October 2017                     |   |
| Declarations of submission to enforcement                                 | EUR               | 24 000    | 109 255    | 31.12.2021  | Overdraft agreement with Bank Gospodarstwa Krajowego of 8 May 2017  |
|   | EUR               | 50 000    | 227 615    |   |   |
|   |                   |           | 1 500 000  | 31.12.2036  | Overdraft agreement with Bank Gospodarstwa Krajowego of 19 December 2018  |
|   |                   |           | 96 000     | 27.05.2024  | Framework bank guarantee agreements with CaixaBank S.A. of 27 May 2019  |
|   |                   |           | 24 000     | 27.05.2029  |   |
|   |                   |           | 7 284 000  | 31.12.2025  | Loan arrangement with a consortium of banks of 19 June 2019   |
|   |                   |           | 900 000    | 31.12.2027  | Credit agreements with Intesa Sanpaolo S.P.A. of 19 December 2019   |
|   |                   |           | 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                                   |
|   |                   | 80 000    | 26.05.2023 | Framework bank guarantee agreements with CaixaBank S.A. of 27 May 2019              |   |
|   |                   | 20 000    | 26.05.2028 |   |   |
| Bank account mandates   |                   |           | 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    | 204 854    | 31.12.2020  | Overdraft agreement with Bank Gospodarstwa Krajowego of 8 May 2017  |
| Bank guarantees   |                   |           | 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                                   |
|   |                   |           | 50 000     | 30.04.2020  | Bank guarantee issued by CaixaBank S.A. to Izba Rozliczeniowa Giełd Towarowych S.A. as a collateral of transactions concluded on Power Commodity Exchange |
|   |                   |           | 500 000    | 30.06.2020-31.08.2020   | Bank guarantee issued by BGK to Izba Rozliczeniowa Giełd Towarowych S.A. as a collateral of transactions concluded on Power Commodity Exchange            |
| 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 described in more detail in Note 36 to these interim condensed financial statements.

On 31 March 2020 the bank guarantee issued by CaixaBank S.A. to secure transactions concluded by the Company on the Polish Power Exchange in the amount of PLN 11 000 thousand expired.

After the end of the reporting period:

- on 22 April 2020, CaixaBank S.A. issued annexes to bank guarantees in the total amount of PLN 50 000 thousand, under which the validity of these guarantees was extended until 31 May 2020;
- on 29 April 2020 Santander Bank Polska S.A., by virtue of the guarantee limit agreement concluded on 24 April 2020, issued a bank guarantee for the benefit of the Izba Rozliczeniowa Giełd Towarowych S.A. in the amount of PLN 250 000 thousand, valid from the issue date until 27 May 2020.

#### **Collateral for transactions on the Polish Power Exchange**

In order to secure the Company's liabilities resulting from the transactions entered into by the Company on the Polish Power Exchange, the agreements on assignment of CO<sub>2</sub> emission allowances and property rights of the certificates of origin have been concluded in favour of the Izba Rozliczeniowa Giełd Towarowych S.A. ("IRGiT").

In November and December 2019 as well as in February 2020 the agreements on transfer of CO<sub>2</sub> 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. As at 31 March 2020 the object of the established collateral amounts in total to 6 084 453 tons of CO<sub>2</sub> emission allowances, including:

- The Company has deposited 2 205 000 tonnes of CO<sub>2</sub> 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 3 879 453 tones.

After the end of the reporting period, part of emission allowances has been returned to TAURON Wytwarzanie S.A. As at the date of approval of these interim condensed financial statements for publication the total units of emission allowance introduced to IRGiT was equal to 3 021 799 tons of CO<sub>2</sub> emission allowances (including collateral introduced by TAURON Wytwarzanie S.A. – 816 799 tones).

In case when the IRGiT sells the CO<sub>2</sub> emission allowances being subject of the transfer of ownership, which is possible only in the situations, strictly specified in the agreements, connected with the Company's failure to satisfy justified claims of other members of the House or IRGiT, the Company shall be obliged to purchase and transfer to TAURON Wytwarzanie S.A. the CO<sub>2</sub> emission allowances within the period that makes possible fulfilling of the subsidiary's obligation to redeem the CO<sub>2</sub> emission allowances for 2019.

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. As at 31 March 2020, on the grounds of the concluded agreements the subsidiaries submitted to the Certificate of Origin Register kept by the Polish Power Exchange an instruction to block the property rights in total number of 3 352 058.31 MWh.

### 38. Capital commitments

As at 31 March 2020 and 31 December 2019, the Company did not have any material capital commitments.

### 39. Related-party disclosures

#### 39.1. 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.

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

|  | 3-month period ended<br>31 March 2020<br><i>(unaudited)</i> | 3-month period ended<br>31 March 2019<br><i>(unaudited)</i> |
|--|---|---|
| <b>Revenue from subsidiaries</b>   | <b>2 825 446</b>  | <b>2 643 162</b>  |
| Revenue from operating activities  | 2 776 186   | 2 557 093   |
| Finance income   | 49 260  | 86 069  |
| <b>Revenue from jointly-controlled entities</b>                                      | <b>38 943</b>   | <b>30 689</b>   |
| <b>Revenue from State Treasury companies</b>   | <b>68 061</b>   | <b>57 664</b>   |
| <b>Costs from subsidiaries</b>   | <b>(543 213)</b>  | <b>(490 589)</b>  |
| Costs of operating activities  | (533 737)   | (479 350)   |
| Finance costs  | (9 476)   | (11 239)  |
| <b>Costs incurred with relation to transactions with jointly-controlled entities</b> | <b>(2 496)</b>  | <b>(2 215)</b>  |
| <b>Costs from State Treasury companies</b>   | <b>(174 379)</b>  | <b>(224 511)</b>  |

**TAURON Polska Energia S.A.**  
*Interim condensed financial statements for the 3-month period ended 31 March 2020*  
*prepared in accordance with the IFRS as endorsed by the EU*  
*(in PLN thousand)*

**Receivables and liabilities**

|  | As at<br>31 March 2020<br>(unaudited) | As at<br>31 December 2019 |
|--|---------------------------------------|---------------------------|
| <b>Loans granted to subsidiaries and receivables from subsidiaries</b>                               | <b>8 205 232</b>                      | <b>8 322 763</b>          |
| Receivables from buyers  | 779 986                               | 1 434 004                 |
| Loans granted under cash pool agreement with interest accrued  | 630 248                               | 532 174                   |
| Other loans granted  | 6 788 355                             | 6 351 775                 |
| Receivables arising from the TCG   | 1 442                                 | -                         |
| Other financial receivables  | 260                                   | 178                       |
| Other non-financial receivables  | 4 941                                 | 4 632                     |
| <b>Loans granted to jointly-controlled entities and receivables from jointly-controlled entities</b> | <b>406 064</b>                        | <b>388 189</b>            |
| <b>Receivables from State Treasury companies</b>   | <b>21 083</b>                         | <b>25 912</b>             |
| <b>Liabilities to subsidiaries</b>   | <b>2 449 747</b>                      | <b>2 392 415</b>          |
| Liabilities to suppliers   | 215 121                               | 264 063                   |
| Loans received under cash pool agreement with interest accrued                                       | 1 359 031                             | 1 189 214                 |
| Other loans received   | 767 144                               | 710 956                   |
| Liabilities arising from the TCG   | 92 007                                | 212 446                   |
| Other financial liabilities  | 15 825                                | 15 015                    |
| Other non-financial liabilities  | 619                                   | 721                       |
| <b>Liabilities to jointly-controlled entities</b>  | <b>932</b>                            | <b>633</b>                |
| <b>Liabilities to State Treasury companies</b>   | <b>54 737</b>                         | <b>73 399</b>             |

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 of these interim condensed financial statements.

As regards revenues from sales resulting from transactions with State Treasury companies in the 3-month period ended 31 March 2020, the largest counterparty of TAURON Polska Energia S.A. was PSE S.A. Sales to this counterparty accounted for 93% of total revenues from State Treasury companies.

As regards the costs incurred in connection with transactions with State Treasury companies in the 3-month period ended 31 March 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 for these counterparties accounted for 93% of the total costs incurred in the purchase transactions with State Treasury companies.

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

### 39.2. 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 3-month period ended 31 March 2020 and in the comparative period has been presented in the table below.

**TAURON Polska Energia S.A.**  
*Interim condensed financial statements for the 3-month period ended 31 March 2020*  
*prepared in accordance with the IFRS as endorsed by the EU*  
*(in PLN thousand)*

|  | 3-month period ended<br>31 March 2020<br><i>(unaudited)</i> | 3-month period ended<br>31 March 2019<br><i>(unaudited)</i> |
|--|---|---|
| <b>Management Board</b>                                | <b>723</b>  | <b>793</b>  |
| Short-term benefits (with surcharges)                  | 590   | 793   |
| Termination benefits                                   | 111   | -   |
| Other  | 22  | -   |
| <b>Supervisory Board</b>                               | <b>243</b>  | <b>246</b>  |
| Short-term employee benefits (salaries and surcharges) | 243   | 246   |
| <b>Other members of key management personnel</b>       | <b>3 376</b>  | <b>3 891</b>  |
| Short-term employee benefits (salaries and surcharges) | 3 013   | 3 266   |
| Termination benefits                                   | 141   | 356   |
| Other  | 222   | 269   |
| <b>Total</b>   | <b>4 342</b>  | <b>4 930</b>  |

The amounts paid or payable until 31 March 2020 have been presented above. Additional, in accordance with the adopted accounting policy, the Company recognizes provisions for termination benefits allocated to members of the Management Board and other key executives, which may be paid or payable in future reporting periods.

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

#### 40. 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 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.

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.

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

In the 3-month period ended 31 March 2020 an increase in the incidence of COVID-19 was observed in Poland. As a result, a number of restrictions have been introduced in the country to stop the spread of SARS-CoV-2. This situation causes disturbances in the economic and administrative system in Poland. A similar situation is observed in other countries around the world, including the countries of Poland's main trading partners. As a result, the epidemic may significantly limit economic activity, especially in the first half of 2020, affecting the work of industrial plants and companies from the segment of small and medium-sized enterprises, and disturb the functioning of the entire economic system of the country. Consequently, in the medium and long term, the epidemic may have an impact on the national, European and global economic situation, affecting the economic growth in Poland in 2020 and subsequent years. After the end of reporting period, decisions were taken to implement the first phase of mitigation of the above restrictions, however, the scope and timing of the subsequent phases of mitigation are difficult to estimate as they depend on an assessment of the impact of the mitigation measures implemented so far on the development of the epidemic.

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<sub>2</sub> emission allowances and, consequently, electricity prices on the wholesale market have been reduced. As regards financial factors, a weakening of the Polish zloty and a drop in interest rates are observed, including a twofold interventional reduction of the NBP reference interest rate by 50 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 weeks, several percent decreases in demand for electricity have been observed, resulting in a drop in revenue in the area of electricity distribution and sales. This situation also results in a decrease in production in the area of conventional production and, consequently, a decrease in demand for hard coal. Price drops in the market for electricity and related products, taking into account the long contract position held in individual markets, result in an increase in variation margins and translate into the level of cash employed. Moreover, restrictions introduced in the country may cause possible disruptions in the implementation of projects carried out in the TAURON Group. Due to the effects of the epidemic, financial disturbances may be expected in the Group's customers, i.e. individuals, small and medium-sized enterprises as well as large entities. This can cause problems in settling current payments for electricity, heat and gas, as evidenced by the increase in deferred payment requests. Changes in interest rates will, in turn, affect costs resulting from the concluded financing agreements based on a variable interest rate, as well as, in subsequent years, the level of regulated revenue from return on capital employed in the distribution area.

Due to the fact that the epidemic situation escalated in mid-March 2020, the impact on the Company's financial result as at 31 March 2020 is mainly limited to the recognition of the estimation of additional write-offs due to the expected credit losses of financial instruments and the fair value measurement of loans granted, which increased the Company's operating costs by PLN 99 thousand and financial costs by PLN 128 891 thousand. Moreover, the recognition of exchange rate differences on debt in EUR, due to the weakening of the Polish zloty, resulted in the recognition of financial costs in the amount of PLN 253 814 thousand. At the same time, as at the balance sheet date, after analysing the observed market and regulatory phenomena, the Company assessed that, in the expected perspective, they do not constitute significant factors whose impact results in the legitimacy of changes in long-term forecasts in relation to the information prepared as at 31 December 2019, and therefore the results of the last impairment tests conducted by the Company as at 31 December 2019 are valid.

Nevertheless, it should be noted that the COVID-19 epidemic may have a significant impact on the operations of the TAURON Group in subsequent periods, including the level of revenues generated and costs incurred, and consequently the Group's financial liquidity and debt level. However, the possible effects and their scale are currently difficult to estimate. 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. Regulatory actions aimed at introducing mechanisms mitigating the effects of COVID-19 will also be relevant. As a mitigation measure, by the date of approval of these condensed interim financial statements, a number of legal provisions, the so-called "anti-crisis shield", have come into force in order to support entrepreneurs in the existing epidemiological situation and maintain financial liquidity, however, as at the date of approval of these condensed interim financial statements for publication their scale and effectiveness is difficult to estimate. 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.

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 organizational 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 has been established at the level of 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 have been formed 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.

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

##### ***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. After the end of reporting period, 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.

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.

**TAURON Polska Energia S.A.**  
*Interim condensed financial statements for the 3-month period ended 31 March 2020*  
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*(in PLN thousand)*

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These interim condensed financial statements of TAURON Polska Energia S.A. prepared for the 3-month period ended 31 March 2020 in accordance with International Accounting Standard 34 include 54 pages.

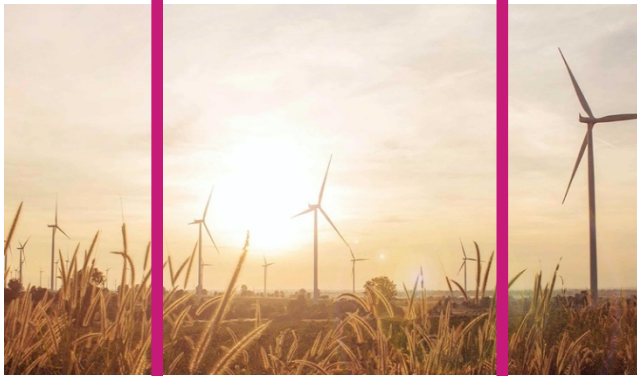
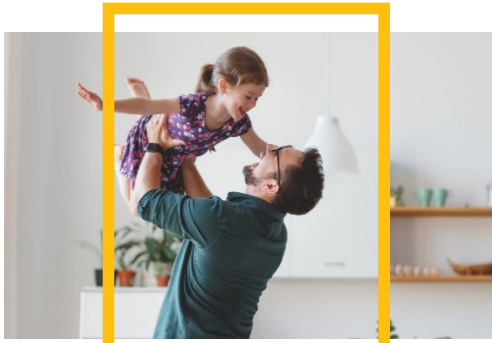
Katowice, 12 May 2020

Filip Grzegorzczak - President of the Management Board

Marek Wadowski - Vice-President of the Management Board

Oliwia Tokarczyk – Executive Director in Charge of Taxes and Accounting





## ADDITIONAL INFORMATION

to TAURON Polska Energia S.A.  
Capital Group's extended  
consolidated Q1 2020 report

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# 1. TAURON POLSKA ENERGIA S.A. AND TAURON CAPITAL GROUP

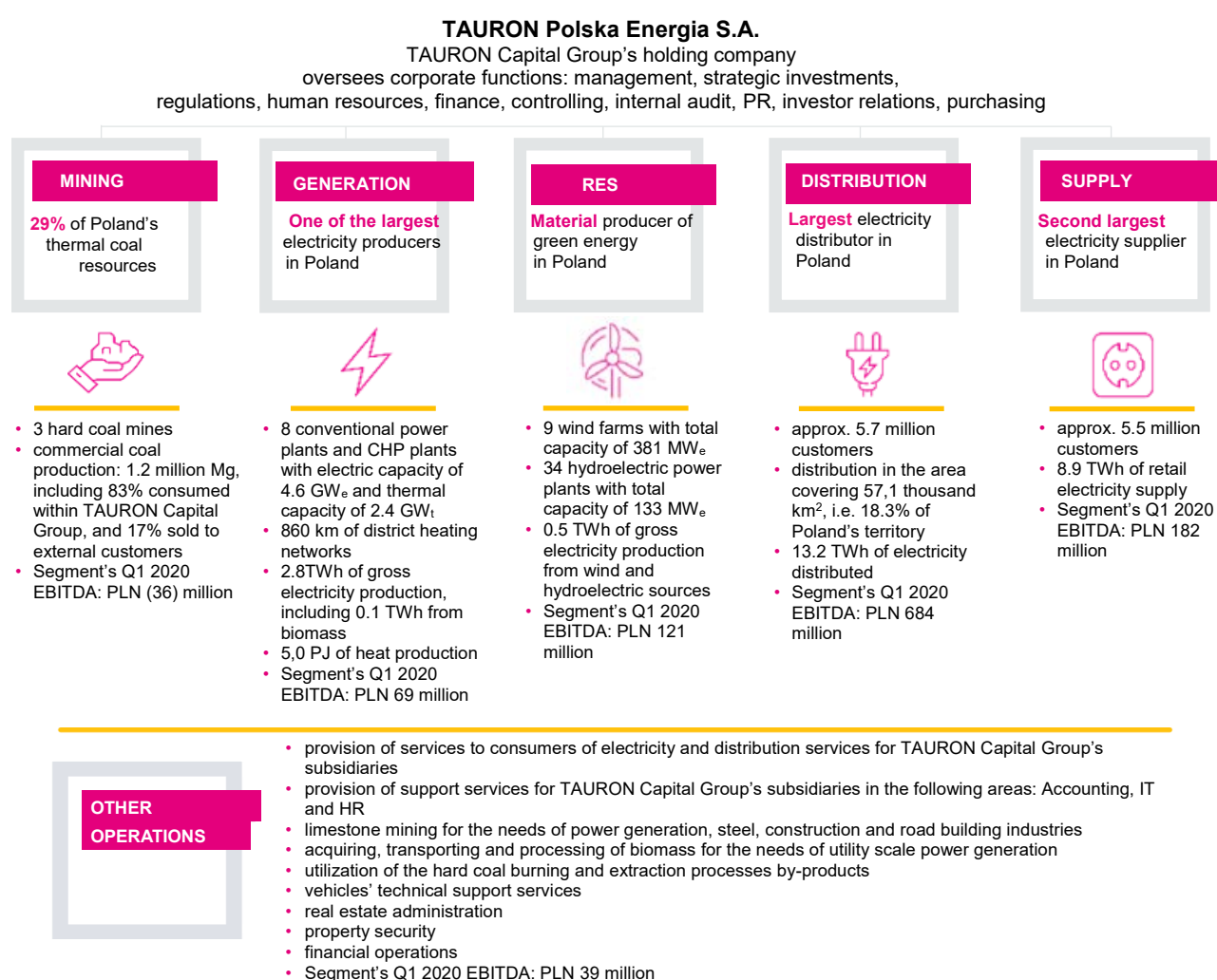
## 1.1. Basic information on TAURON Polska Energia S.A. and TAURON Capital Group

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



## 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 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 split into 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, distribution and supply. This Segment's operations are conducted by TAURON Wytwarzanie S.A. (TAURON Wytwarzanie), Nowe Jaworzno Grupa TAURON sp. z o.o. (Nowe Jaworzno Grupa TAURON) and TAURON Ciepło sp. z o.o. (TAURON Ciepło). This Segment also includes TAURON Serwis sp. z o.o. (TAURON Serwis) subsidiary, dealing primarily with the generation equipment's overhauls.



**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) i TEC3 sp. z o.o. (TEC3) and 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 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 in the south of Poland. This Segment's operations are conducted by TAURON Dystrybucja S.A. (TAURON Dystrybucja). This Segment also includes TAURON Dystrybucja Pomiarów sp. z o.o. (TAURON Dystrybucja Pomiarów) subsidiary, dealing mainly with technical support services related to electricity metering systems and metering data acquisition.



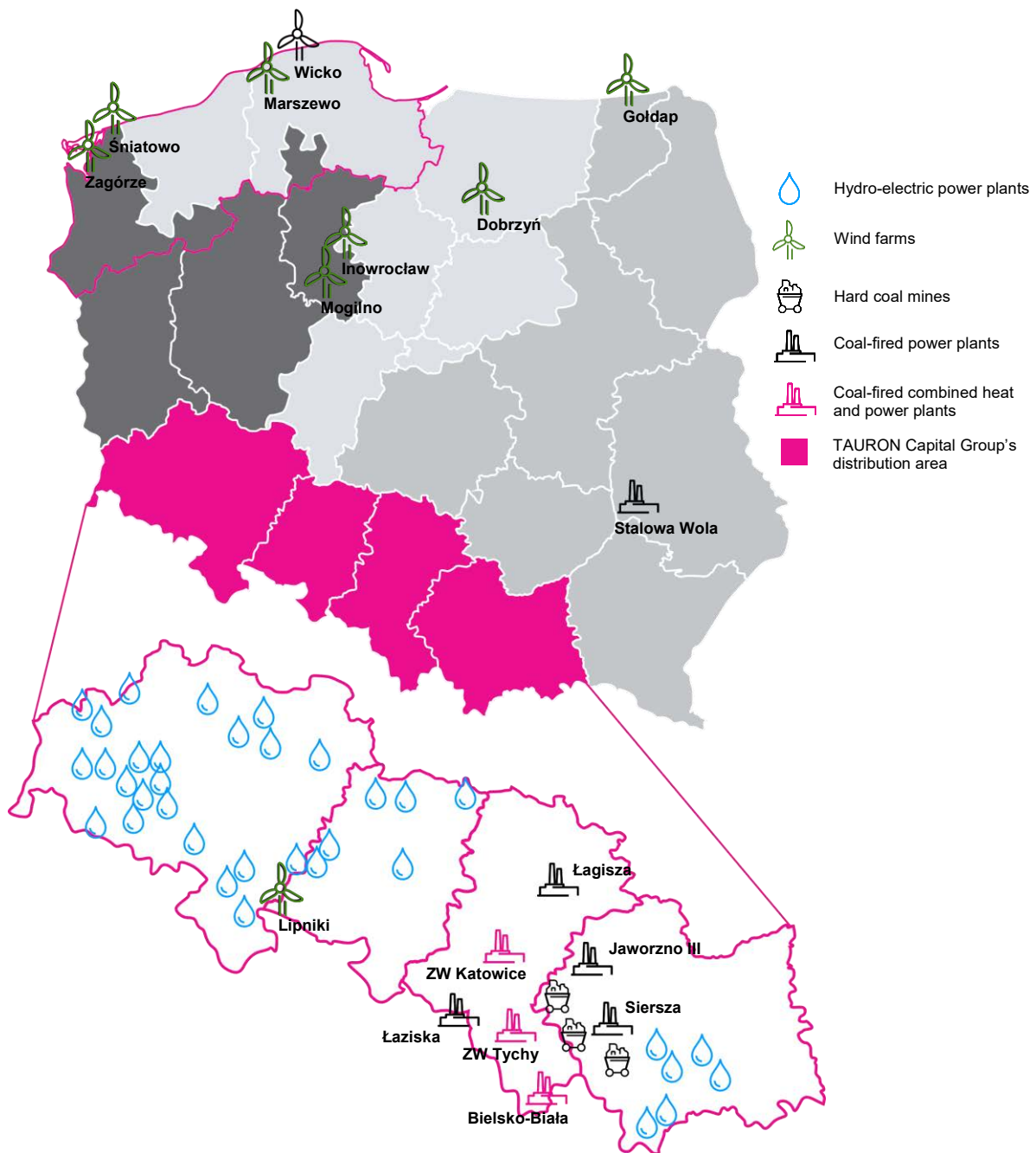
**Supply Segment** comprising electricity and natural gas supply to the final consumers and electricity, natural gas and derivative products wholesale trading, as well as trading and management of CO<sub>2</sub> emission allowances, property rights arising from certificates of origin that confirm electricity generation from renewable sources, in cogeneration and property rights arising from energy efficiency certificates, as well as fuels, and, as of January 2019, also 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 Dystrybucja Serwis S.A. (TAURON Dystrybucja Serwis) subsidiary providing services for business and individual customers with respect to, among others, street lighting, 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 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 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 March 31, 2020, and as of the date of drawing up this information TAURON Capital Group's key subsidiaries, besides TAURON parent company, included 32 subsidiaries subject to consolidation, listed in section 1.3.2. of this information.

Furthermore, as of March 31, 2020, the Company held, directly or indirectly, shares in the other 49 companies, while as of the date of drawing up this information 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

##### Composition of the Company's Management Board as of March 31, 2020, and as of the date of drawing up this information

1. Filip Grzegorzcyk - 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

##### Changes to the composition of the Company's Management Board in the first quarter of 2020 and by the date of drawing up this information

No changes to the composition of the Company's Management Board had taken place in the first quarter of 2020 and by the date of drawing up this information.

##### Composition of the Company's Supervisory Board as of March 31, 2020

1. Beata Chłodzińska - Chair of the Supervisory Board,
2. Teresa Famulska - Vice Chair of the Supervisory Board,
3. Jacek Szyke - Secretary of the Supervisory Board,
4. Barbara Łasak-Jarszak - Member of the Supervisory Board,
5. Grzegorz Peczkis - Member of the Supervisory Board,
6. Jan Płudowski - Member of the Supervisory Board,
7. Marcin Szlenk - Member of the Supervisory Board,
8. Andrzej Śliwka - Member of the Supervisory Board,
9. Katarzyna Taczanowska - Member of the Supervisory Board.

##### Composition of the Company's Supervisory Board as of the date of drawing up this information

1. Teresa Famulska - Vice Chair of the Supervisory Board,
2. Barbara Łasak-Jarszak - Member of the Supervisory Board,
3. Grzegorz Peczkis - Member of the Supervisory Board,
4. Jan Płudowski - Member of the Supervisory Board,
5. Andrzej Śliwka - Member of the Supervisory Board,
6. Katarzyna Taczanowska - Member of the Supervisory Board.

##### Changes to the composition of the Company's Supervisory Board in the first quarter of 2020 and by the date of drawing up this information

As of January 1, 2020, the Supervisory Board was composed of the following members: Beata Chłodzińska (Chair of the Supervisory Board), Teresa Famulska (Vice Chair of the Supervisory Board), Jacek Szyke (Secretary of the Supervisory Board), 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 being members of the Company's Supervisory Board.

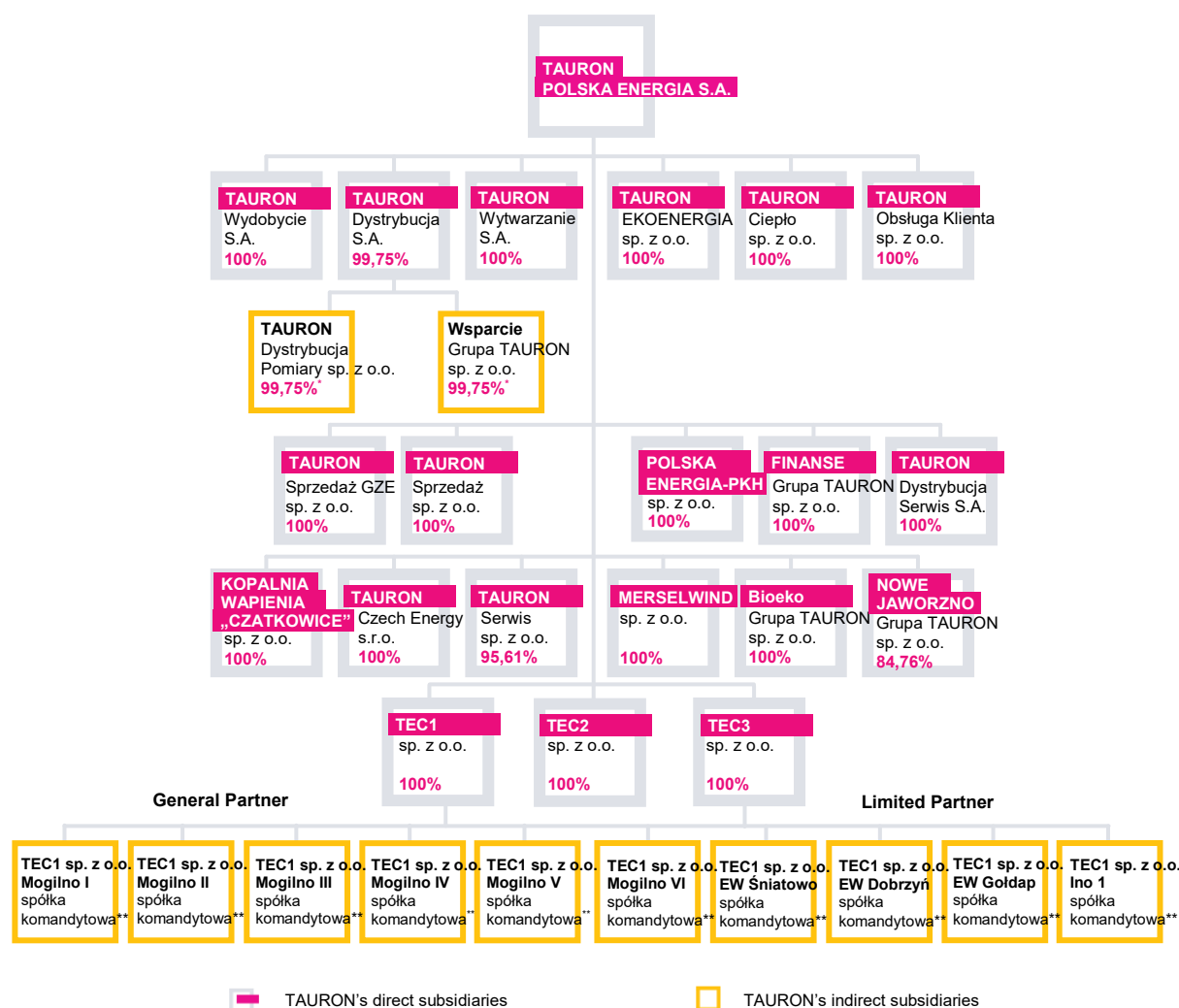
On April 27, 2020, Beata Chłodzińska submitted a statement on her resignation from being a member of the Company's Supervisory Board.

No other changes to the composition of the Company's Supervisory Board had taken place by the date of drawing up this information.

### 1.3.2. Entities subject to consolidation

The below figure presents TAURON Capital Group's structure, including the subsidiaries subject to consolidation, as of March 31, 2020.

Figure no. 3. TAURON Capital Group's structure, including the subsidiaries subject to consolidation as of March 31, 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: TEC1 sp. z o.o. is the General Partner, TEC3 sp. z o.o. 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 quarter of 2019 and by the date of drawing up this information:

#### Merger of 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 Dystrybucja Serwis S.A. (the acquiring company) with the company Magenta Grupa TAURON sp. z o.o. (the 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 TAURON Dystrybucja Serwis and the Extraordinary General Meeting (GM) of Magenta Grupa TAURON.

As a result of the merger the share capital of TAURON Dystrybucja Serwis 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 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.



The merger of TAURON Dystrybucja Serwis 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 adopted a resolution to change the company's name to: TAURON Nowe Technologie S.A.

As of the date of drawing up this information, the change of the company's name has not yet been registered in the National Court Register.

#### Acquisition by TAURON EKOENERGIA sp. z o.o. of 100% of the shares in AVAL-1 sp. z o.o.

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 updated strategic directions of TAURON Capital Group, 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 implementing 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 the Company held, directly or indirectly, shares as of March 31, 2020 include the companies listed in the below table.

Table no. 1. List of material joint subsidiaries as of March 31, 2020

| #  | Company name                         | Seat                    | Main subject of operations  | TAURON's share in 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.**                 | Ostrava, Czech Republic | 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 quarter of 2020 and by the date of drawing up this information.

**Table no. 2. Summary of equity increases in TAURON Capital Group's subsidiaries in the first quarter 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                     | <b>PLN 4 500 000</b>                                      | TAURON EKOENERGIA        | PLN 450                          | 27.02.2020                               | TAURON EKOENERGIA 100%                                |
| 2. | Nowe Jaworzno Grupa TAURON | <b>PLN 455 100 000</b>                                    | TAURON                   | PLN 91 020                       | 02.03.2020                               | TAURON 85.88%<br>FIIKFIZAN 7.06%<br>PFR IFIZ 7.06%    |

#### Making additional contributions to the capital of Polska Energia - Pierwszy 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 company in the total amount of PLN 8 016 000.

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 with respect to PEPKH having certain financial resources.

#### 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 quarter of 2020 and by the date of drawing up this information.

**Table no. 3. Summary of equity increases in the other companies in which TAURON held an equity stake in the first quarter of 2020 and by the date of drawing up this information**

| #  | 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 limited joint stock partnership)                      | <b>PLN 17 200</b>   | 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%                                       |
|    |   | <b>PLN 414 600</b>  | PFR Starter FIZ   | PLN 4 146                        |  | PFR Starter FIZ 72.1%                                 |
|    |   | <b>PLN 143 200</b>  | TAURON  | PLN 1432                         |  | TAURON 24.9%  |
| 2. | EEC Magenta spółka z ograniczoną odpowiedzialnością 2 ASI sp. komandytowo – akcyjna (EEC Magenta limited liability company 2 ASI limited joint stock partnership) (EEC Magenta 2 ASI) | <b>PLN 60 200</b>   | 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%                                  |
|    |   | <b>PLN 2 986 000</b>                                      | PFR NCBR CVC FIZAN  | PLN 29 860                       |  | PFR NCBR CVC FIZAN 49.02%                             |
|    |   | <b>PLN 2 925 800</b>                                      | TAURON  | PLN 29 258                       |  | TAURON 48.03 %  |

The other most significant equity investments in the financial assets held by TAURON as of March 31, 2020, include stakes in the following entities:

1. Spółka Ciepłowniczo Energetyczna Jaworzno III sp. z o.o. with the balance sheet value of PLN 30 386 000,
2. Przedsiębiorstwo Energetyki Ciepłej Tychy sp. z o.o. with the balance sheet value of PLN 23 801 000,

3. Energetyka Cieszyńska sp. z o.o. with the balance sheet value of PLN 13 773 000,
4. PGE EJ 1 sp. z o.o. (PGE EJ 1) with the balance sheet value of PLN 14 402 000,
5. ElectroMobility Poland S.A. with the balance sheet value of PLN 11 847 000,
6. ECC Magenta 2 ASI with the balance sheet value of PLN 10 950 000.

### Major investments in financial assets

TAURON Capital Group's investments in financial assets made in the first quarter of 2020 include loan agreements concluded with the below listed companies:

1. PGE EJ 1 in the amount of PLN 4 000 000 with the repayment date of January 30, 2023,
2. EC Stalowa Wola in the amount of PLN 59 175 000 with the repayment date of June 30, 2033, with the first drawdown under the loan agreement having taken place on April 17, 2020, in the amount of PLN 8 150 million. As of the date of disclosing the earnings the amount of PLN 12 750 000 had been drawn down

Investments in 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 26 747 000.

## 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 quarter of 2020 and by the date of drawing up this information 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 quarter of 2020 and by the date of drawing up this information**

| #  | Investment project  | Investment project's work progress  |
|----|---|---|
| 1. | <p>Construction of a new 910 MW<sub>e</sub> supercritical parameters power generation unit in Jaworzno</p> <p><b>Contractor:</b> Consortium of RAFAKO S.A. and MOSTOSTAL WARSZAWA S.A.</p> <p><b>Planned project completion date:</b> Q4 2020</p> <p><b>Work progress:</b> 98%</p> <p><b>Expenditures incurred:</b> PLN 5 560.2 million</p> | <p>After the first synchronization of the unit with the National Power System (KSE) and the implementation of the required adjustments, the test run of the unit was begun in January 2020 and the test runs of the auxiliary and accompanying systems (installations) were continued.</p> <p>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 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.</p> <p>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.</p> <p>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 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. The Consortium and SPV will forthwith proceed to implementing the works provided for in the agreed schedule and enforcing the findings of the fact finding commission. The 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.</p> <p>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).</p> <p>In March 2020, the Supreme Administrative Court (Naczelny Sąd Administracyjny) dismissed the cassation appeal against the ruling of the Regional 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 environmental protection regulations.</p> |

| #  | Investment project  | Investment project's work progress   |
|----|---|--|
| 2. | <p>Construction of a 449 MW<sub>e</sub> CCGT unit, including a 240 MW<sub>t</sub> heat generation unit at Stalowa Wola (Project implemented jointly with the strategic partner – Polskie Górnictwo Naftowe i Gazownictwo S.A. (PGNiG)).</p> <p><b>Contractor:</b> the contract with Abener Energia S.A. (Abener Energia) was terminated. The project's completion is implemented under the EPCM formula – Energoprojekt Katowice – Energopomiar Gliwice consortium</p> <p><b>Planned project completion date:</b> Q2 2020</p> <p><b>Work progress:</b> 89%</p> <p><b>Expenditures incurred:</b> PLN 1 302.2 million</p> | <p>All of the contractors are conducting works at the construction site. The assembling of the steam piping, auxiliary installations and the steel structures has been completed. The mechanical assembly has also been completed. The minor construction and finishing works are also about to be completed. The unit's chemical cleaning has been completed successfully.</p> <p>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 system was begun.</p> <p>The startup (commissioning) group is systematically testing and commissioning the individual systems of the combined cycle power plant (CCPP) that were completed by the original contractor, Abener Energia. As a result of the inventory taking carried out by EPCM the assembly (erection) errors were identified, and as a consequence of which it had been necessary to dismantle the steam piping, and then complete it again and reassemble. As a result the project's schedule was revised and the new date for the commissioning of the unit was originally set as the first quarter of 2020, and subsequently, as a result of another verification (revision), it was shifted to the second quarter of 2020.</p> <p>The total budget of the project remains unchanged and amounts to PLN 1.4 billion.</p> |
| 3. | <p>Construction of the "Grzegorz" shaft (TAURON Wydobycie) including the infrastructure (above the ground and underground) and the accompanying longwall faces (headings)</p> <p><b>Contractor:</b> KOPEX 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</p> <p><b>Planned project completion date:</b> 2023</p> <p><b>Work progress:</b> 47%</p> <p><b>Expenditures incurred:</b> PLN 262.9 million</p>  | <p>The works related to passing of the fault are underway and after it has been passed, the drilling towards the shaft will be resumed in order to merge the longwalls.</p> <p>The deepening of the shaft in the freeze section was continued in January 2020.</p> <p>By March 2020, the shaft had been deepened and the outer casing had been completed down to the depth of -74.4 / -870 m.</p> <p>327/2120 meters of headings and 107/238 meters of longwall ventilation had been drilled on the 800 m level by the end of March 2020.</p>  |
| 4. | <p>Construction of the 800 m level at the Janina Coal Mine (ZG Janina) (TAURON Wydobycie).</p> <p><b>Contractor:</b> 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)</p> <p><b>Planned project completion date:</b> 2021</p> <p><b>Work progress:</b> 79%</p> <p><b>Expenditures incurred:</b> PLN 428.2 million</p>   | <p>The delivery of the equipment was begun, including the delivery of the hoisting machine. The bridge (platform) enabling the staff to access the newly built shaft, and connecting the new and the old infrastructure was completed. By the end of March 2020, the motor of the hoisting machine had been installed. The installation works related to heating, ventilation, cabling, carpentry are underway.</p> <p>The drilling of the horizontal headings on the 800 m level by the coal mine in-house unit is continued.</p> <p>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.</p>  |
| 5. | <p>Brzeszcze CAPEX Program</p> <p><b>Contractors:</b> TRANS-JAN, Consortium of FAMUR and KOPEX Machinery, Consortium of FAMUR and KPRGiBSz, Consortium of MAS and Carbospec, Elektrometal Cieszyn</p> <p><b>Planned Program completion date:</b> 2025</p> <p><b>Work progress:</b> 61%</p> <p><b>Expenditures incurred:</b> PLN 301.9 million</p>   | <p>The extraction of the 510 deposit was conducted in the first quarter of 2020. The works aimed at altering and improving the efficiency of the ventilation system are continued.</p> <p>As part of the program the total of 5 492 meters of headings had been drilled and altered by March 2020.</p>   |
| 6. | <p>Implementing heat generation at unit no. 10 and the construction of the peaking and backup boilers in Łagisza</p> <p><b>Contractor:</b> 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).</p> <p><b>Planned project completion date:</b> Q4 2019 / Q2 2020</p> <p><b>Work progress:</b> 95%</p> <p><b>Expenditures incurred:</b> PLN 115.2 million</p>  | <p>The steam turbine set refurbishment and the implementation of the heat generation unit including the station's adaptation was completed. The systems were tested, commissioned and handed over for operation in the fourth quarter of 2019.</p> <p>The final assembly works with respect to the peaking and backup boilers are underway. The boilers' adjustment run has been commenced. The assembly has been completed with respect to the oil storage tanks. One tank has been filled with oil, the other one is being prepared for the filling. A part of the task was commissioned in the fourth quarter of 2019. The commissioning of the boiler house is planned for the second quarter of 2020.</p>   |
| 7. | <p>Low Emission Elimination Program (PLNE – Program Likwidacji Niskiej Emisji) on the territory of the Silesia and Dąbrowa conurbation</p> <p><b>Contractor:</b> Contractors are being selected to carry out specific work (project) stages (milestones).</p>   | <p>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.</p> <p>The new agreement with the Regional 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</p>   |

| #   | Investment project   | Investment project's work progress   |
|-----|--|--|
|     | <p><b>Planned project completion date:</b> 2023</p> <p><b>Work progress:</b> 14%</p> <p><b>Expenditures incurred:</b> PLN 18.3 million</p>   | <p>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.</p>  |
| 8.  | <p>TAURON Internet (POPC) - implementation of the project in the areas awarded (7 projects on the territory of the following areas: Rybnik, Katowice-Tychy, Oświęcim, Kraków, Wałbrzych A, Wałbrzych B, Sosnowiec)</p> <p><b>Contractor:</b> 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)</p> <p><b>Planned project completion date:</b> 2021</p> <p><b>Work progress:</b> 5%</p> <p><b>Expenditures incurred:</b> PLN 20.8 million</p> | <p>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.</p> <p>In January 2020, a contractor for the construction of the backbone network was selected.</p> <p>In 2020, all contractors began the deployment of the fiber optic network.</p> <p>By March 2020, the contractors had begun actively connecting schools and installing the fiber optic line terminal cabinets. The installation of the backbone infrastructure has also been commenced.</p>  |
| 9.  | <p>Program aimed at adapting TAURON Wytwarzanie's generating units to comply with the operational conditions in force beyond 2021</p> <p><b>Contractor:</b> Contractors are being selected to carry out specific projects.</p> <p><b>Planned project completion date:</b> 2021</p> <p><b>Work progress:</b> 39.4%</p> <p><b>Expenditures incurred:</b> PLN 75.4 million</p>  | <p>As part of the program the refurbishment of the following power generating units, in accordance with the following scope of works, is planned</p> <ol style="list-style-type: none"> <li>Jaworzno II Power Plant, units no. 2 and 3 – the construction of the flue gas desulfurization (FGD) installation.<br/>All foundations have been erected and secured. All major deliveries have been contracted. The derogations from the <i>BAT Conclusions</i> have been obtained. The parties are analyzing potential implementation scenarios,</li> <li>Jaworzno III Power Plant, units no. 1, 3, 5 – the construction of the selective catalytic reduction (SCR) installation.<br/>The ground works for unit no. 5 have been commenced, the assembly (erection) of the main structure for unit no. 1 is underway. The start-up tests of the flue gas fans for unit no. 3 have been completed. The start-up works related to the reagent feeding installation are underway. The contractor has contracted all of the major supplies and subcontractors,</li> <li>Łaziska Power Plant, units no. 9, 10, 11, 12 – the refurbishment of the selective catalytic reduction (SCR) installation.<br/>The assembly (erection) of the steam blowers for the catalysts of unit no. 9 has been completed, the assembly (erection) for unit no. 10 is underway. The assembly (erection) and welding of the wall of boiler no. 9 has been completed, the welding of the wall of boiler no. 10 is underway. The detailed engineering designs for units no. 11 and 12 have been completed. The contractor has contracted all of the major supplies and subcontractors.</li> <li>Łaziska Power Plant, units no. 11 and 12 – the refurbishment of the flue gas desulfurization (FGD) installation.<br/>The absorber modernization works are underway, the rotary flue gas heater has been dismantled. The production of the plastic flue gas piping has been completed, its assembly (erection) is underway. The contractor has contracted all of the major supplies and subcontractors,</li> <li>Łaziska Power Plant – the refurbishment of the sewage treatment plant.<br/>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,</li> <li>Elektrownia Siersza - the adaptation of the existing selective catalytic reduction (SCR) installations.<br/>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 <i>BAT Conclusions</i>,</li> <li>Łaziska 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 <i>BAT Conclusions</i>.</li> </ol> |
| 10. | <p>Program aimed at adapting TAURON Ciepło's generating units to comply with the operational conditions in force beyond 2021</p> <p><b>Contractor:</b> Contractors are being selected to carry out specific projects.</p> <p><b>Planned project completion date:</b> 2021</p> <p><b>Work progress:</b> 7.8%</p> <p><b>Expenditures incurred:</b> PLN 2.34 million</p>  | <p>As part of the program the refurbishment of the following generating units, in accordance with the following scope of works, is planned:</p> <ol style="list-style-type: none"> <li>ZW Katowice (Katowice Generation Plant) - the construction of the semi-dry flue gas cleaning installation,</li> <li>ZW Tychy (Tychy Generation Plant) - the construction of the semi-dry flue gas cleaning installation.</li> </ol> <p>The derogations from the <i>BAT Conclusions</i> have been obtained, as a result of which the need to implement the flue gas cleaning installation has become irrelevant. The agreements with the Contractors have been terminated and the BAT Program closing procedure is underway.</p>   |

## Other investment projects

### 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 quarter of 2020.

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).

### Coal gasification project

The Coal2Gas project involves looking into the area of constructing a hard coal gasification installation, jointly with Grupa Azoty S.A. (Grupa Azoty), for the needs of the chemical industry – ammonia or methanol.

In November 2019, by way of the decision of the President of the Office for Competition and Consumer Protection (UOKiK), the clearance for the concentration involving the creation of a joint venture by TAURON and Grupa Azoty to set up a joint venture was issued. The next step will be the decision of the Management Board of TAURON with respect to the establishment of a special purpose vehicle.

In the first quarter of 2020, changes to the agreement on the establishment of a special purpose vehicle stemming from the amendment to the provisions related to the management of state assets and the Commercial Companies Code were discussed in order to reach an agreement.

### 413 MW<sub>e</sub> CCGT unit construction project including an approx. 250 MW<sub>t</sub> 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 MW<sub>e</sub> 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. Due to the capacity auctions planned, TAURON Capital Group assumes that the final decision regarding the resumption of the project's implementation will be taken in 2020.

## Capital expenditures

TAURON Capital Group's capital expenditures came in at PLN 940 million in the first quarter of 2020 and they were 29% higher than the outlays incurred in the first quarter of 2019 that stood at approx. PLN 727 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 quarter of 2020.

Table no. 5. The highest by value capital expenditures incurred by TAURON Capital Group's Lines of Business in the first quarter of 2020

| Item   | Capital expenditures (PLN m) |
|--|------------------------------|
| <b>Distribution</b>  |                              |
| Existing grid assets' upgrades (refurbishments) and replacements                                 | 231                          |
| Installation of new connections  | 226                          |
| <b>Generation</b>  |                              |
| Construction of a 910 MWe super critical parameters generation unit in Jaworzno                  | 219                          |
| CAPEX on replacements and upgrades (refurbishments), as well as components at TAURON Wytwarzanie | 29                           |
| Implementing heat generation at the Łagisza Power Plant  | 6                            |
| Adaptation of TAURON Wytwarzanie generation units to the <i>BAT Conclusions</i>                  | 33                           |

| Item  | Capital expenditures<br>(PLN m) |
|---|---------------------------------|
| Restoration of the SUW demineralized water preparation (conditioning) station                                     | 3                               |
| Connecting of new facilities  | 7                               |
| Investment projects related to the maintenance and development of district heating networks                       | 3                               |
| Connecting of the facilities heated using the low emission sources to the district heating networks               | 3                               |
| <b>Mining</b>   |                                 |
| Preparation of the future production  | 21                              |
| Construction of the "Grzegorz" shaft, including the infrastructure and the accompanying longwall faces (headings) | 4                               |
| Construction of the 800 m level at the Janina Coal Mine (ZG Janina)   | 19                              |
| Brzeszcze Coal Mine's (ZG Brzeszcze) Investment Program   | 7                               |
| <b>Other operations</b>   |                                 |
| Broadband Internet deployment as part of POPC III   | 9                               |

## 2. OPERATIONS OF TAURON POLSKA ENERGIA S.A. AND TAURON CAPITAL GROUP

### 2.1. Factors and non-typical 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 quarter 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 processes taken by all of TAURON Capital Group's subsidiaries,
3. decisions with respect to the implementation of the key investment projects,
4. implementing the *2018-2025 Strategic Asset Management Plan* – one of the fundamental documents constituting the core of the integrated asset management system at TAURON Capital Group,
5. 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,
6. loyalty building measures aimed at retaining the existing customers and marketing activities with respect to acquiring new customers,
7. 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,
8. ability to obtain debt financing on the international markets,
9. 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,
10. TAURON's purchasing processes management, in particular, the management of fuel purchases for the needs of TAURON Capital Group's generation entities,
11. geological and mining conditions of hard coal extraction,
12. failures of TAURON Capital Group's equipment, installations and grids,
13. development and commencement of the implementation of *TAURON Wydobywanie 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 quarter of 2020 is provided in section 3 of this information. The effects of this impact are visible both in the short term as well as in the long term outlook.

During the first quarter 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.

#### 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.

The condition of the world economy in 2019 was good and it displayed positive economic indicators. At the beginning of 2020, there was a sharp change in all markets, caused by the spread of the SARS-CoV-2 virus, detected in Wuhan, China at the end of 2019, which covered the whole world within three months. In Poland, the first cases of the SARS-CoV-2 virus infection were reported at the beginning of March 2020 and since then the number of cases has been gradually rising.



The effects of the global epidemic are being felt all over the world. All the countries have taken measures aimed at stopping the spread of the virus: shopping centers and food service outlets as well as some factories and enterprises (e.g. the automotive sector) have been shut down. The borders have been closed, air and rail traffic has been stopped.

In connection with the SARS-CoV-2 virus pandemic, there is a decline in international trade activity, a decrease in production, cessation of investment and construction activities, and stagnation in tourism.

The effects of this situation are also visible in the power sector. The demand for electricity in Europe dropped significantly in the first months of 2020. The largest decline, as compared to the electricity consumption in the same period of 2019, has been observed in Spain (approx. -20%) and Italy (-27%). In Poland, electricity consumption has fallen by approx. 10%, mainly in the business segment and in the small and medium size enterprises sector. The decline of demand for electricity is leading to the lower electricity production, a decrease in demand for coal fuel, as well as a drop in the volume of distributed electricity. The wholesale market is also seeing a decline in the prices of crude oil, natural gas, CO<sub>2</sub> emission allowances and electricity prices.

The current situation in the world and in Poland will have serious implications for the Polish economy. An increase of the unemployment rate and prices of consumer services, and certainly a decline in economic activity can be expected. In such a dynamically changing environment, it is difficult to estimate the economic effects that may occur.

The condition of the economy will depend primarily on the duration of the epidemic. According to the Polish Economic Institute, the worst case scenario assumes the recession of the Polish economy in 2020 (at a level of more than 4%), and in the best case the GDP growth rate will come in at a level of approx. 1%.

In April 2020, Standard & Poor's Global Ratings Agency affirmed Poland's A- long term rating in foreign currency and a stable outlook for this rating. The above Agency estimates that Poland's GDP will decline by 2% in 2020.

### 2.1.2.2. Market environment

#### Electricity

Domestic electricity consumption came in at 43 533 GWh in the first quarter of 2020 and it was lower by 930 GWh (2.09%) as compared to the electricity consumption in the first quarter of 2019.

In the first quarter of 2020, among others, the average temperature had a negative impact on the level of electricity consumption, coming in at 3.7°C in the period under review, i.e. it was higher by 1.1°C as compared to the average temperature in the first quarter of 2019, which at that time stood at 2.6°C. The warmest and, as the same time, the most windy month was February 2020 (with an average temperature of 4°C and an average generation from wind sources clocking in at 2 022 MWh).

The production of electricity by the domestic power plants came in at 40,764 GWh in the first quarter of 2020 and it was lower by 1 948 GWh (4.6%), as compared to the production of electricity in the first quarter of 2019.

Electricity imports clocked in at 2 768 GWh in the first quarter of 2020 and they were higher by 1 017 GWh (58.1%), as compared to the electricity imports in the first quarter of 2019.

A decline in electricity production by the hard coal and lignite fired power plants was reported in the first quarter of 2020, with a simultaneous increase in electricity production by the gas fired power plants and wind farms.

Production of electricity by the hard coal and lignite power plants came in at 19 258 GWh and 9 162 GWh, respectively, in the first three months of 2020, and it was lower, year on year, by 1 310 GWh (6.4%) and by 1 850 GWh (16.8%), respectively.

Production of electricity by the gas fired power plants came in at 3 566 GWh in the first quarter of 2020 and it was higher by 750 GWh (26.6%) as compared to the previous year.

Electricity production by the wind farms clocked in at 5 160 GWh and it was higher by 509 GWh (10.9%) as compared to the same period of 2019.

The average price of electricity on the SPOT market in Poland stood at 176.85 PLN/MWh (41.01 EUR/MWh) in the first quarter of 2020, i.e. it decreased by 40.86 PLN/MWh (9.59 EUR/MWh) as compared to the average electricity price on the SPOT market a year earlier.

The decline of the electricity prices in the first quarter of 2020 was caused by the higher wind generation, lower demand for electricity due to the higher temperatures, which continued to stay above the norm, as well as the SARS-CoV-2 pandemic and the restrictions introduced as a result of the pandemic that contributed even more to the decrease of the demand for electricity in March 2020. The significant slump of the electricity prices was also recorded on the neighboring markets. The average SPOT market price in Germany clocked in at 26.58 EUR / MWh, as compared to the average SPOT market price in the first quarter of 2019 that stood at 40.89 EUR / MWh. The generation from the wind and photovoltaic sources in Germany came in at 57.2 TWh in the first quarter of 2020, as compared to 47.8 TWh in the first quarter of 2019.

The futures contracts prices showed a clear downward trend in the first quarter of 2020 due to the situation related to the spread of the SARS-CoV-2 virus.

The prices of the reference BASE\_Y-21 futures contract (settlement price) came in, on average, at 238.87 PLN/MWh with a high of 254.26 PLN/MWh reached on January 10, 2020 and a low of 211.65 PLN/MWh recorded on March 23 and 30, 2020.

The main reason for the decline of the futures contract prices in January and February 2020 was the impact of the short term SPOT market. Due to the low SPOT market prices, the monthly futures contracts recorded in the first quarter of 2020 also dropped. The downward trend observed in March 2020 was a consequence of a sharp drop of the prices of CO<sub>2</sub>, gas, oil and coal on the global markets and the lower demand in the power system as well as the expected economic slowdown in Europe.

The BASE\_M-04-20 contract prices fell from 231 PLN/MWh to 154 PLN/MWh between January and March 2020, and the BASE\_M-05-20 and BASE\_M-06-20 contracts prices dropped by 50 PLN/MWh and 34 PLN/MWh, respectively, between February 4, 2020, and the end of March 2020

Due to the above average generation of electricity from the wind sources and a decrease of the demand in the power system as well as an increase of the electricity imports balance in the first quarter of 2020, the P/B ratio dropped from 1.18 at the beginning of 2020 to 1.16 at the end of February 2020. At the end of February and in March 2020, the P/B ratio was rising and approached the level of 1.2. The reference PEAK\_Y-21 futures contract (settlement price) fell in the first quarter of 2020 from a high of 299.00 PLN / MWh reached on January 3, 2020 to a low of 251.12 PLN/MWh recorded on March 23, 2020.

### Oil and coal

The prices of oil on the global markets remained moderate in the first quarter of 2020. The volume weighted average price of Brent crude on the ICE exchange in the above period came in at 50.82 USD/barrel and it was lower by 12.68 USD/barrel (-20%) as compared to the volume weighted average price of Brent crude in the first quarter of 2019. .

The total trading volume came in at more than 18.4 billion barrels in the first quarter of 2020, as compared to the total trading volume in the first quarter of 2019 that stood at 14.9 billion barrels (increase by 24%).

The main factors that had an impact on the demand and supply situation on the oil markets in the first quarter of 2020 were the global events affecting the fuel industry, and in particular the SARS-CoV-2 virus pandemic, which led to the reduction of the demand for oil by around 25-30 million barrels a day. An important event impacting the oil prices was also a failure to extend the oil agreement during the OPEC+ talks of 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. The above events had an impact on the slump of the minimum crude oil price to the level of 21.65 USD/barrel in the first quarter of 2020. It was the lowest price of the Brent crude since 2006.

The average coal CIF ARA price came in at 56.66 USD/Mg in the first quarter of 2020, and it was lower by 22.93 USD/Mg (-28.8%) as compared to the average coal CIF ARA price in the first quarter of 2019 when it reached the level of 79.59 USD/Mg

The SARS-CoV-2 virus pandemic affecting the entire global economy has led to the reversal of the thus far market trends and has thus disrupted the up to now forecasts.

The authorities of the Middle Kingdom took preventive measures to limit the spread of the virus in China, where half of the existing customs offices on the Russian-Chinese border were closed, which led to a slowdown in the coal transportation by rail. The uncertainty with respect to the further development of the pandemic and the reduction of the production in China translated into the prospects of lower coal production in Poland and thus an increase in the demand for imported coal. On March 26, 2020, Richards Bay terminal was closed in South Africa, and more stringent vessel control was introduced in Indonesia, which resulted in a drop in the Indonesian commodity prices. The end of the first quarter of 2020 was conducive to trading activity, especially taking into account the fact that China continued to maintain lower port fees, and lower prices encouraged the Chinese traders to import larger volumes of high ash content coal. The outlook for the European part of the market continued to be not very optimistic, which was supported by such factors as: the weakened demand due to the approaching spring, increased production of electricity from the wind and the negative margins on generation for both the coal as well as the gas fired power plants.

## Natural gas

The average price of gas on the Day Ahead Market on Towarowa Gielda Energii S.A. (TGE - Polish Power Exchange) came in at 53.51 PLN/MWh in the first quarter of 2020 and it was lower by more than 36 PLN/MWh (-40,3%) as compared to the average price of gas on the Day Ahead Market (RDN) in the first quarter of 2019.

The record deliveries of liquefied natural gas volumes to northern European ports and to Poland, the storage facilities with the highest inventory levels for many years, as well as the temperatures that in the above period assumed values exceeding the seasonal norm, leading to the reduced demand for gas, had the biggest impact on the gas prices in the first quarter of 2020.

The lowest monthly average volume weighted price of the next day delivery contract was recorded in March 2020 (49.49 PLN/MWh), and the highest one in January 2020 (58.98 PLN/MWh). The volume of trading on the next day delivery contract came in at 5 591 687 MWh in the first quarter of 2020, and it was 0.4% higher than the volume of trading on this contract in the first quarter of 2019, when it stood at 5 577 723 MWh.

The average volume weighted price of the one year reference contract on the futures market came in at 73.54 PLN/MWh in the first quarter of 2020, and it was 22.66 PLN/MWh (-23.6%) lower than the average volume weighted price of the reference one year contract in the first quarter of 2019.

The lowest average volume weighted price of the reference one year contract was recorded in March 2020, when it stood at 68.95 PLN/MWh, and the highest one in January 2020 (78.21 PLN/MWh). The volume of trading on the reference one year contract came in at 16 556 400 MWh in the first quarter of 2020, and it was higher by 154.4% as compared to the volume of trading on this contract in the first quarter of 2019 (6 508 944 MWh).

According to the Gas Infrastructure Europe association's data, as of March 31, 2020, the Polish storage facilities with the total capacity of approx. 3.1 billion m<sup>3</sup> were 71.3% filled and a year earlier they had been 34.6% filled (an increase of 36.7 pp). In Europe, this level, as of March 31, 2020, stood at 53.9%, and a year earlier it had been at 40.5% (an increase of 13.4 pp).

## CO<sub>2</sub> emission allowances

The prices on the CO<sub>2</sub> emission allowances market were characterized by high volatility in the first quarter of 2020. The average price of the EUA allowances stood at EUR 21.97/MgCO<sub>2</sub> in the above period.

The lowest EUA allowance price was recorded in March 2020 (15.30 EUR/MgCO<sub>2</sub>), and the highest one in February 2020 (25.71 EUR/MgCO<sub>2</sub>), which constituted the difference of 68.04% in relation to the minimum price.

The price fluctuations in the first quarter of 2020 were caused, first and foremost, by the SARS-CoV-2 pandemic, which contributed to large price drops on the CO<sub>2</sub> emission allowances market and on the commodity markets, the lowering of the global economic growth and the slowdown of the industrial production, indirectly affecting the demand for the CO<sub>2</sub> emission allowances and their price. As a result, in mid-March 2020, the price of the allowances had fallen below 20.00 EUR/MgCO<sub>2</sub> and did not exceed this level by the end of the first quarter of 2020.

The further factors that affected the prices of the CO<sub>2</sub> emission allowances included the ratification of the Brexit agreement by the European Union (EU) 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<sub>2</sub> emission allowances will be cancelled in 2022-2030. Germany has also published an official coal exit plan.

## 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 SARS-CoV-2 pandemic.

In January and February 2020, the prices on the *green certificates* market ranged from 143.73 PLN/MWh to 151.32 PLN/MWh. In mid-March 2020, the value of the TGE<sub>oza</sub> index reached the minimum, i.e. PLN 124.79/MWh. The weighted average price of PMOZE\_A came in at 147.76 PLN/MWh in the first quarter of 2020 and it was slightly higher than the weighted average price of PMOZE\_A in the fourth quarter of 2019 (increase by more than 2%). As compared to the fourth quarter of 2019, the volume of trading dropped by approx. 11%, from 2 895 GWh to 2 588 GWh. The balance sheet of the PMOZE\_A register reached a surplus of 33.74 TWh at the end of March 2020, and taking into account certificates that are blocked for retirement, the balance decreased by more than 7.4 TWh, to 26.33 TWh (an increase of almost 0.9% year over year).

The weighted average price of *blue certificates* came in at 300.08 PLN/MWh in the first quarter of 2020. The highest price of blue certificates was recorded in January 2020 (300.69 PLN/MWh), and the lowest one in March 2020 (299.85 PLN/MWh). The volume of trading in the above period stood at 128.46 GWh and it was 0.6% lower as compared to the fourth quarter of 2019. The balance of the PMOZE-BIO register reached a surplus of 543.42 GWh

at the end of March 2020, and taking into account certificates that are blocked for retirement, this balance decreased by more than 24.38 GWh, to 519.04 GWh (an increase by 55.9% year over year).

The weighted average price of *white certificates* came in at PLN 1 801.54/toe in the first quarter of 2020. The lowest PMEF price was recorded in January 2020 (1 735.61 PLN/toe), and the highest one in mid-February 2020 (2 000.98 PLN/toe) (an increase by 15%). The volume of trading in the above period stood at 29 382 toe.

The weighted average prices of PMEF-2019, PMEF-2020 and PMEF\_F were higher in the first quarter of 2020 as compared to the weighted average prices in the fourth quarter of 2019, and they came in at PLN 1 825.61/toe (and increase by 9.8%), 1 783.27 PLN/toe and 1 776.06 PLN/toe (an increase by 5%), respectively.

### 2.1.2.3. Regulatory environment

#### National regulations

#### **A package of regulations related to counteracting the spread of the COVID-19 disease caused by the global SARS-CoV-2 pandemic and aimed at limiting the negative social and economic effects of the security measures introduced under the "anti-crisis shield"**

Due to the global SARS-CoV-2 pandemic, the Polish government administration has taken a number of legislative steps aimed at reducing the number of the COVID-19 cases, as well as limiting the negative social and economic effects of the security measures introduced as part of the 'anti-crisis shield'. These actions include new legislative solutions as well as amendments to the existing legal acts, in particular:

1. *the 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,*
2. *the 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*
3. *the act of March 31, 2020, on amending the act on the development institutions system,*
4. *the regulation of the Minister of Health of March 13, 2020, on announcing the state of the epidemic risk on the territory of the Republic of Poland, repealed by the regulation indicated below in connection with the announcement of the state of the epidemic,*
5. *the 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,*
6. *the 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.*

The most important changes regarding the conditions of conducting operations provided for in the above regulations include:

1. 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,
2. an option for the employer to instruct an employee to perform work remotely (for a definite period of time, outside the place where it is normally performed)
3. care allowance for an employee 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 in connection with the closure of the nursery, kindergarten, children's club, school or other facility that the child attends or inability to provide care, due to COVID-19, by a nanny or a day care taker,
4. a suspension of the obligation to undergo periodic medical examinations for the duration of the state of the epidemic and an extension of the validity of the decisions issued as part of the preliminary, periodic and control examinations, whose validity expired after March 7, 2020,
5. introduction of the possibility of changing the work time system or schedule, as well as ordering an employee to work overtime, during the state of the epidemic risk or the state of the epidemic for the duration thereof, by the employer conducting operations with respect to the supply of energy, energy commodities and fuels,
6. an option for an employer, who has experienced a drop in the business operations turnover as a consequence of the occurrence of COVID-19, to introduce:
  - a) a reduction of an uninterrupted 11-hour daily rest to not less than 8 hours and of an uninterrupted 35-hour weekly rest to not less than 32 hours,
  - b) a system of equivalent work time during which it would be admissible to extend the daily work time, but up to not more than 12 hours, within a settlement period not exceeding 12 months,
  - c) to conclude by such an employer an agreement with the trade unions on the application of less favorable terms of employment for employees than the ones stemming from the employment contracts concluded with such employees,
7. paying the employees affected by the economic downtime as a consequence of the occurrence of COVID-19, wages reduced by no more than 50%, however not lower than the minimum labor wages,

8. an option for an entrepreneur who has experienced a drop in the business operations turnover as a consequence of the occurrence of COVID-19, to reduce work time by 20%, but not more than down to ½ of full-time, provided that the employee's wages cannot be lower than the minimum labor wages,
9. an option for an entrepreneur who has experienced a drop in the business operations turnover as a consequence of the occurrence of COVID-19, to obtain funding from the Guaranteed Employee Benefits Fund to subsidize the wages of the employees affected by the economic downtime or reduced work time,
10. an option to come to agreement - if it is determined that the circumstances related to the occurrence of COVID-19 may affect or affect the proper performance of the public procurement contract - by the contracting authority and the contractor to amend the contract (in particular with respect to the date and manner of its implementation, as well as the provision of the contractor's services and the contractor's compensation),
11. an option to reduce income earned in 2019 by deducting the amount of the loss incurred in 2020 due to COVID-19 (by filing an adjustment of the tax return for 2019), provided that the taxpayer's revenue for 2020 is at least 50% lower than its revenue in 2019,
12. creating a legal framework for entrusting Polski Fundusz Rozwoju S.A. (PFR - Polish Development Fund) with the implementation of the government program for providing financial support to entrepreneurs, in particular by taking up or acquiring shares, subscription warrants, bonds, liabilities and joining partnerships, as well as granting loans, guarantees, sureties or in non-refundable support forms,
13. an option for Bank Gospodarstwa Krajowego (BGK) to grant sureties and guarantees for the repayment of loans taken out by entrepreneurs to provide financial liquidity, constituting a collateral for up to 80% of the outstanding loan amount,
14. an extension of the validity of the qualification certificates for persons dealing with the operation of power equipment,
15. an exclusion of the possibility of applying, during the state of the epidemic risk and the state of the epidemic, the provisions of art. 6a, clause 3 and art. 6b, clause 1, item 2 and clauses 2 and 3 of the *act of April 10, 1997 - Energy Law*, providing for, among others, the possibility of disconnecting the final consumers from electricity supply in the event they have fallen behind with payments,
16. an extension of the deadline for fulfilling the obligation to supply electricity to the grid for producers who have received support under the RES act,
17. an option to submit a statement of will by a member of the authority of a legal entity in a documentary form (without the need to annotate it with a qualified electronic signature / trusted signature or personal signature regardless of any other opposite reservations of the act or legal action in this respect) and hold meetings of the authorities of legal entities using electronic means of communication, without the need for the physical presence of the members of such authorities.

#### **Draft act on the amendment to the act – Energy law and certain other acts**

Since the end of 2018, the public consultation process related to the draft act amending the *act of April 10, 1997 - Energy Law and certain other acts* has been underway. The act underwent changes during the legislative process and the draft is currently dated January 30, 2020. Changes introduced in the draft that are most important for TAURON Group's subsidiaries include the proposals to:

1. introduce the central energy market information system to be used for the implementation of electricity market processes that will be determined pursuant to the regulation of the minister competent for energy,
2. impose, on a DSO, an obligation to install, by December 31, 2028, remote readout electricity meters connected to the remote readout system in at least 80% of the total number of electricity consumption points at the final consumers, equipped with a direct metering system, connected to the grid with a rated voltage not higher than 1 kV in accordance with the schedule defined in the act,
3. impose on a DSO, that is a part of a vertically integrated enterprise, an obligation to have separate personnel from the personnel used by the remaining part of the vertically integrated enterprise, with the only exception foreseen for the administrative staff,
4. introduce regulations regarding the relationship between the trademark of a DSO and the trademark of the electricity supplier that is a part of the same vertically integrated company,
5. grant to the President of ERO the right to obligate the parties, by way of a decision, to amend the content of an agreement on the provision of the gas fuels / electricity transmission or distribution services concluded between a supplier (seller) and the transmission system operator (TSO) / distribution system operator (DSO), in order to enable the supplier (seller) to supply (sell) gas fuels / electricity or provide a comprehensive service to the consumers connected to such operator's grid or, if required: ensure that the final consumers' interests are protected, balance the parties' interests, counter competition limiting practices,
6. define the rules for recognizing and operating closed distribution systems and electricity storage facilities, including the rules for connecting storage facilities to the grid, and obligate the DSO to include, in its development plan projects with respect to the use of electricity storage facilities, provided the given DSO deems it technically justified to ensure supply of electricity and will demonstrate that the use of electricity storage facilities will bring benefits and it will not involve disproportionately high costs,
7. strengthen the position of electricity consumers, including by: shortening the process of switching electricity suppliers to 7 days, obligating electricity or gas suppliers (sellers) to provide public access to the currently applicable regulations defining the rights of an electricity consumer, introducing a ban prohibiting the conclusion

of supply contracts or comprehensive (master) contracts for the supply of gas fuels or electricity with households consumers outside business premises, otherwise the contract shall be null and void, introducing detailed provisions specifying the rules for providing property security (collaterals) in case of claims of third parties that may arise as a result of the improper conducting of the operations covered by the license,

8. extend the catalog of cases in which the President of the ERO shall have the right to amend or revoke the relevant license, to cover the situations in which:
  - a) President of the Office for Competition and Consumer Protection (UOKiK) has issued, with respect to an entity operating based on such license, a decision on deeming the practice as infringing upon the collective interests of consumers,
  - b) an energy company (electric utility) has stopped to guarantee proper performance of its operations,
9. introduce the required definitions or clarify in detail the applicable provisions in order to fix the identified gaps or dispel the interpretation doubts.

#### **Draft act amending the act on providing information on the environment and its protection, public participation in the environment protection and on the environmental impact assessments as well as certain other acts**

The need for changes in the said regulation is the result of a justified opinion formulated by the EC with respect to an incorrect transposition of *directive 2011/92/EU of the European Parliament and of the Council of December 13, 2011, on the assessment of the impact of certain public and private projects on the environment*.

The most significant proposed amendments to the amendment, from the point of view of the energy sector, affecting the investment process include:

1. introduction of an option to halt the implementation of the decision on environmental conditions by an administrative court in the form of a decision, in the event that it becomes probable before a judicial authority that this decision is affected by a legal defect. A halting of the decision will result in a suspension of the procedure aimed at issuing an investment decision,
2. granting the ecological organizations the right to file an appeal against investment decisions when:
  - a) an ecological organization has activities in the field of environment protection or nature protection enshrined in its articles of association,
  - b) an ecological organization has been carrying out its activities for a minimum of 12 months before the date the proceedings regarding the issuing of an investment decision are initiated,
  - c) an investment has been classified as always or significantly affecting the environment,
  - d) an investment decision did not take into account to some extent the provisions of the decision on the environmental conditions.

With respect to the proceedings initiated and not completed before the entry into force of the amendment to the act, the provisions on halting the implementation of the decision on the environmental conditions will not apply, but the standards regarding public participation in the proceedings with respect to investment decisions will be applicable.

#### **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 draft is to specify the terms and conditions for the preparation and implementation of investment projects with respect to the construction of off-shore wind farms as well as mechanisms and instruments supporting the production of electricity in these installations.

The planned support system is to be divided into two stages:

1. the first stage providing for the possibility of receiving support involving covering of a negative balance by way of an individual decision issued by the President of the ERO. The individual decision procedure is to be subject to a time and capacity limit and is intended to provide support for the most mature projects. The individual decision will have to be issued by December 31, 2022, at the latest and will not be able to cover installations with a total installed capacity of more than 4 600 MW. The criterion for issuing a positive decision will be the order of submitting complete applications by the applicants by the deadline. An investor will be required to receive a prior official confirmation of the incentive effect having occurred. All of the individual decisions are to be subject to a notification process before the EC.
2. the second stage is to involve an option to participate in the auctions dedicated to the off-shore wind farms based on the *pay as bid* formula. The auction procedure is to be envisaged for entities applying for support after December 31, 2022, and is to operate based on the similar principles as the auctions provided for in the RES act. The minister competent for energy is to specify the maximum reference price for which the producer may apply. The act defines the maximum volume of auctions scheduled for 2025 and 2027, and the contingent auctions in 2023 and 2028.

Receiving an individual decision / winning an auction is to cause the obligation to deliver electricity to the power grid within 7 years. This deadline may be extended under certain conditions. The maximum support period is 25

years from the moment electricity is delivered to the grid for the first time. The cost of installing the grid connection will be borne by the investor. A number of changes to the administrative procedures are also envisaged with respect to obtaining partial decisions that are the necessary elements of the investment process documentation aimed at implementing investments in the off-shore wind farms, including: the decision on the environmental conditions, water permit, building permit, operation permit.

#### **Executive regulations required to conduct auctions of renewable energy sources in 2020.**

In order to conduct RES auctions in 2020, it is necessary to specify, in the form of a regulation, four parameters for auctioning electricity from RES:

1. maximum volume of electricity that can be sold at an auction,
2. maximum value of electricity that can be sold,
3. reference prices for the individual types of RES technologies,
4. periods of support validity.

The maximum volume and value of electricity that can be auctioned in 2020 are defined in the *regulation of the Council of Ministers of December 31, 2019, on the maximum volume and value of electricity from RES that can be sold by way of auctions in 2020*, that entered into force on January 23, 2020.

The reference prices for the individual RES technologies and the periods of support for the auctions conducted in 2020 were specified in the *regulation of the Minister of Climate of 24 April 2020 on the reference price of electricity from renewable energy sources in 2020 and the periods applicable for the producers who won the auctions in 2020*, that will come into effect on May 19, 2020.

#### **Regulation of the Council of Ministers regarding the appointment of the Government Plenipotentiary for RES**

On January 28, 2020, the regulation of the Council of Ministers establishing the Government Plenipotentiary for RES came into force, with the tasks related to the development of renewable energy in Poland assigned thereto, by, among others, developing proposals for actions leading to the achievement of the targets with respect to the share of electricity and fuel from renewable energy sources, identifying and analyzing the existing barriers limiting the use of renewable energy sources, issuing recommendations to government administration authorities with respect to renewable energy.

In addition, the Government Plenipotentiary for RES is, within the assigned competences:

1. coordinating activities aimed at developing electromobility, energy storage and improving energy efficiency,
2. initiating and supporting activities promoting distributed energy, energy clusters and energy cooperatives,
3. analyzing development directions and taking actions with respect to the use of high temperature reactors.

#### **Draft ordinance of the Minister of State Assets on the detailed rules for setting and calculating tariffs and settlements for heat supply**

Currently, works are underway to amend the regulation of September 22, 2017, defining the rules for setting and calculating tariffs and settlements for heat supply. The goal of the amendment to the regulation is, in particular, to:

1. adapt the content of the regulation to the changes stemming from the adoption and entry into force of the new support system provided for in the *act of December 14, 2018, on promoting electricity from high-efficiency cogeneration*,
2. introduce the possibility of changing the tariff for heat sources in the event of a significant and unforeseen change in the conditions of conducting business operations, excluding the cogeneration units tariffed based on the benchmarking method,
3. make the simplified tariff more flexible.

#### **Draft regulation of the Minister of State Assets amending the regulation on the maximum volume and value of electricity from high-efficiency cogeneration covered by the support and the unit amounts of the feed-in premium in 2019 and 2020**

The draft regulation provides for the changes of the main parameters of the high-efficiency cogeneration support system in 2020 with respect to:

1. maximum volume of electricity from high-efficiency cogeneration that can be covered by the cogeneration premium (from 24 000 000 MWh to 26 300 000 MWh),
2. maximum value of the cogeneration premium (from PLN 4 147 860 000 to PLN 4 862 660 000),
3. maximum volume of electricity from high-efficiency cogeneration that can be covered by the individual cogeneration premium (from 36 000 000 MWh to 72 000 000 MWh),
4. maximum value of the individual cogeneration premium (from PLN 4 355 253 000 to PLN 8 652 483 000).

## Draft act on the compensations for the increase in electricity prices in 2020

The government's draft act on the compensations is intended to provide a form of protection for households that are particularly vulnerable to the risk of rising electricity prices in 2020. The draft provides for the possibility of obtaining support by the final consumer who:

1. is a consumer in a household where the premises are not used in connection with the business operations conducted,
2. had a contract for the supply of electricity or a comprehensive contract with a trading company in 2020,
3. has a concluded contract for the supply of electricity or a comprehensive contract with a trading company as of December 31, 2020,
4. is connected to the electricity grid with a rated voltage of not more than 1 kV,
5. has earned an income that does not exceed the first income tax bracket, i.e. PLN 85 252.00,
6. consumed more electricity from the grid than 63 kWh in 2020,
7. in the case of having a long term electricity supply contract or a comprehensive contract with a trading company, the price of electricity had to increase in the contract in 2020 as compared to the price for this customer as of December 31, 2019,
8. submitted a declaration entitling it to be paid the compensation by December 31, 2020.

The amount of the compensations is to be dependent on the volume of electricity taken from the grid and consumed by an authorized final consumer. The amount of the compensations is to reach:

1. PLN 34.08 PLN for a consumer consuming more than 63 kWh and not more than 500 kWh,
2. PLN 82.80 for a consumer consuming a customer using more than 500 kWh and not more than 1200 kWh,
3. PLN 190.86 PLN for a consumer consuming more than 1200 kWh and not more than 2 800 kWh,
4. PLN 306.75 for a consumer consuming more than 2 800 kWh.

The compensations are to be granted in the form of an adjustment to the amount of payment of the first invoice for electricity issued after March 15, 2021, to an authorized entity or by paying out the compensation due to a bank account in the event that an adjustment to the amount of payment would be impossible. 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 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. For the largest trading companies, given the possible deficiencies in the application and the need to supplement them, the payment deadline may fall at the beginning of 2022.

## European Union regulations

### European Green Deal

On December 11, 2019, the European Commission (EC) presented the assumptions of the so-called *European Green Deal* (COM (2019) 640 final) – a strategy of actions aimed at achieving climate neutrality by the EU by 2050, transition to a circular economy, countering the loss of biodiversity and reducing the pollution level. The objective of Europe reaching climate neutrality is to be achieved by the regulatory measures that are to be implemented in an effective and fair manner from the beginning of 2020. The *European Green Deal* is to be the beginning of the new EU growth policy.

Both the proposals of regulatory changes were made available as well as the new regulations were adopted in the first quarter of 2020, as part of the European Green Deal, i.e.:

1. A proposal of a roadmap for the *European Climate Law*, which sets out action plans for establishing the first *European Climate Law*. The consultation on this proposal for action plans ended on February 6, 2020.
2. The draft regulation of January 14, 2020, establishing the Just Transition Fund (COM (2020) 22 final), with its goal to mitigate the effects of energy transition in the mining and industrial areas, where investments and a change of the employment structure will be necessary. The public consultation on this proposal for a regulation ended on March 12, 2020.
3. A proposal of a regulation of March 4, 2020, on establishing a framework for achieving climate neutrality (European Climate Law) (COM (2020) 80 final). The purpose of this regulation is, in particular, to ensure an ambitious and just EU climate policy, to contribute to the implementation of the Paris Agreement and to set a long term legal path to achieving the EU's climate neutrality target in 2050. The public consultation on this proposal of the regulation ended on May 1, 2020 r.
4. A proposal of action plans for the 2030 climate targets, which included initially proposed works on the target of reducing greenhouse gas emissions by between 50 and 55% as compared to 1990. The current greenhouse gas reduction target is adopted at a minimum of 40%. As part of this initiative, the economic and social impacts of the target change were assessed as well as the environmental impact. The gathering of the opinions on this proposal for action plans ended on April 15, 2020, and the public consultation was scheduled until June 23, 2020.



5. A preliminary assessment of the impact of the implementation of the price adjustment mechanism at the EU borders, taking into account CO<sub>2</sub> emissions, which is related to the proposal for a directive establishing such a mechanism. The proposed mechanism aims to reduce the so-called risk of carbon leakage by setting a charge when importing certain goods from outside the EU. The gathering of the opinions for the initial assessment ended on April 1, 2020, and the public consultation on the draft directive are scheduled for the third quarter of 2020.
6. A preliminary assessment of the effects of the amendment to the 2003/96/EC directive related to the taxation of energy products and electricity. The main purpose of amending the above directive is to adapt the taxation of energy products and electricity to the new EU policy objectives with respect to energy and climate, in order to bring the EU closer to achieving climate neutrality. The gathering of the opinions for the initial assessment ended on April 1, 2020, and the adoption of the amendment by the EC is scheduled for the first quarter of 2021.
7. The new EU Circular Economy Action Plan adopted by the EC on March 11, 2020, which includes regulatory measures related to the product life cycle and aims to adapt the entire economy (including manufacturing industry and energy) to the goals stemming from the European Green Deal, while strengthening its competitiveness and providing consumers with the new rights.
8. The new industrial strategy presented by the EC on March 11, 2020, which aims to support the European manufacturing industry in its ecological and digital transition, as well as accelerate the decarbonization on the way to achieving climate neutrality by the EU

In addition, the EC announced a public consultation on March 4, 2020, in order to gather the stakeholders' opinions on the development of proposals for the so-called *European Climate Pact*, with its publication scheduled for the third quarter of 2020.

### **Regulation of the European Parliament and of the Council on the establishment of a framework to facilitate sustainable investment**

On December 18, 2019, the European Parliament and the Council 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. i.e. the so-called green list for sustainable economic activities (Taxonomy). The Taxonomy Regulation is to establish a general framework that would allow for determining, in a uniform and harmonized manner, what economic activities can be considered environmentally sustainable. The above regulation provides for further delegated acts. Starting from December 2021 the following entities will be obligated to use Taxonomy: EU, 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 criteria for environmental sustainability), financial and non-financial companies covered by the non-financial reporting. In particular, the companies covered by the non-financial reporting will be required to disclose: how and to what extent their activities constitute environmentally sustainable activities within the meaning of the Regulation, including what the share of revenues from such activities is, the share of CAPEX and OPEX expenses. Entities that do not meet the relevant requirements may be exposed to the higher costs of financing their operations and investment projects. Other market participants will also be able to use Taxonomy on a voluntary basis, including entities raising funds for conducting environmentally sustainable activities.

On April 8, 2020, the European Commission (EC) published two draft regulations delegated to Regulation 2016/1011 on benchmark indices:

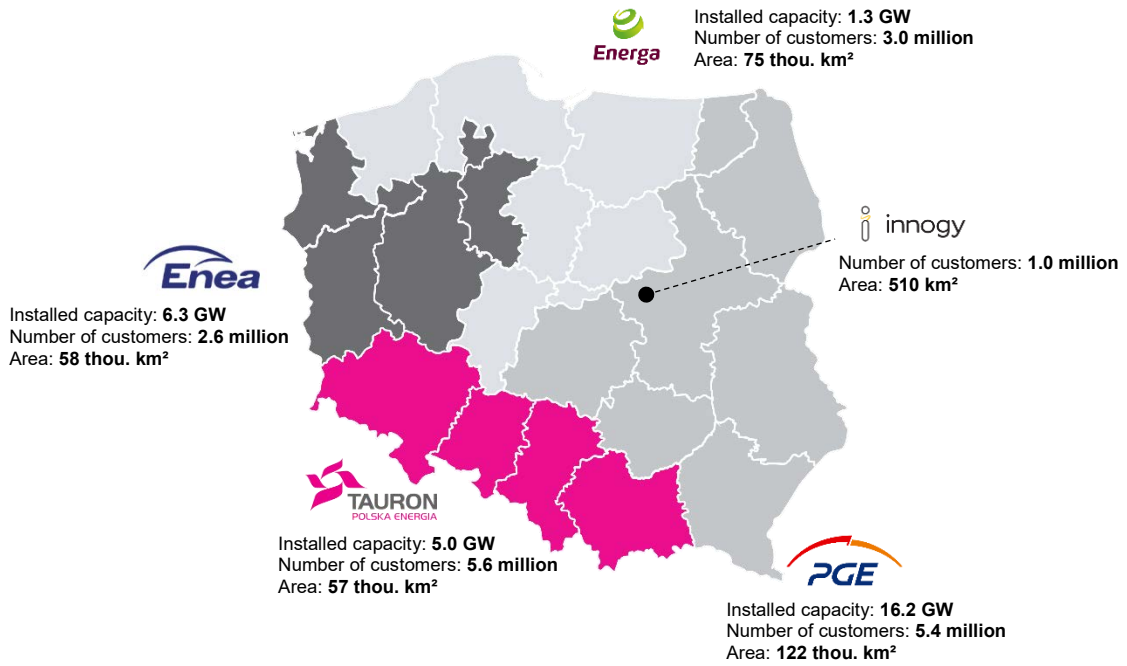
1. A draft regulation specifying the environmental, social and governance criteria (factors) (the so-called benchmark levels). In accordance with this initiative, companies that publish financial benchmarks are required to explain how the environmental, social and governance criteria (factors) are taken into account for each benchmark or benchmark family. Benchmark levels help entrepreneurs (businesses) and investors assess how sustainable development and the company's ethical principles affect its performance.
2. A draft regulation setting the minimum standards for the climate benchmarks to help benchmark administrators develop "EU climate transition benchmarks" and "EU Paris aligned benchmarks". These are labels that are intended to help investors planning to adopt strategies aimed at investing in the low emission technologies

#### **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 available data. Due to the postponement of the disclosure of the interim reports of other energy groups, the analysis of the competitive environment is based on the 2018 data.

Figure no. 4. TAURON Capital Group's competitive environment (landscape) based on the data available for 2018



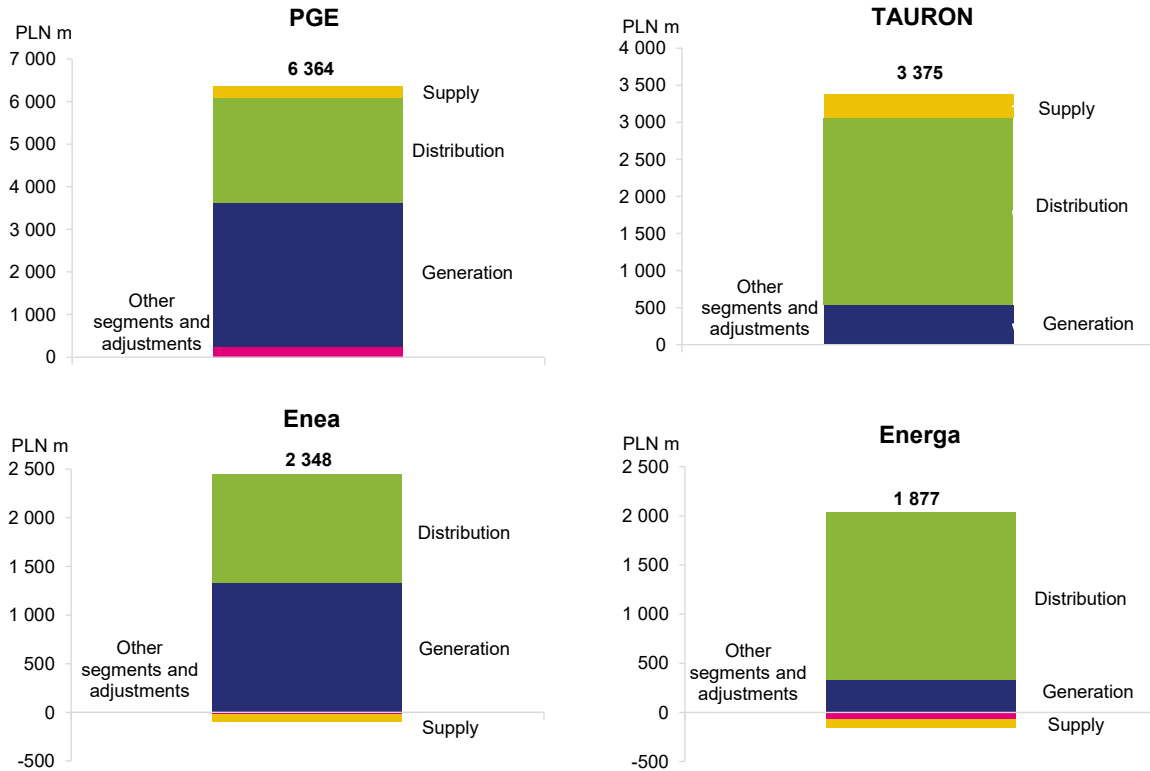
According to the 2018 data the consolidated energy groups (PGE, TAURON, Enea, Energa) held a 70% market share in the electricity generation sub-sector.

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 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 - estimated structure based on the main segments in 2018\*



\*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 Poland's key electricity producer**

TAURON Capital Group's share in the domestic electricity generation market, based on the gross electricity production output, reached approx. 9% 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 coal deposits allows for the optimization of the costs related to the transportation of this commodity.

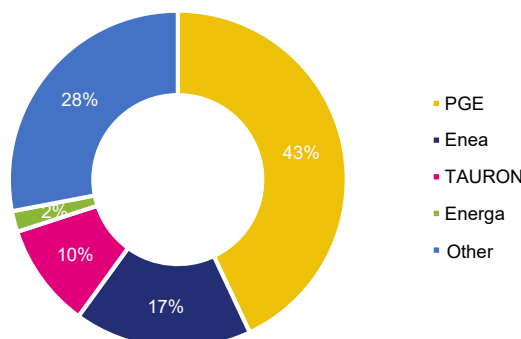
87% of TAURON Capital Group's generation assets are, as of the end of the first quarter 2019, hard coal fired units, 10% of which are modern high efficiency generating units. TAURON Capital Group's total installed capacity stood at almost 5.2 GW as of March 31, 2020. Wind farms' installed capacity represents 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.

Nationwide, as of the end of 2019, 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 was approx. 7%, 13% and 6%, respectively.

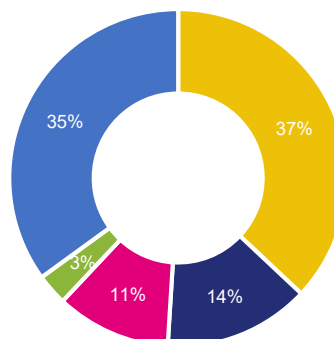
According to the data as of the end of 2018, PGE is the largest electricity generator in Poland, with its share in the domestic electricity production market in 2018 standing at approx. 43%, and the installed capacity of 16.2 GW. PGE increased its installed capacity in 2019 as a consequence of commissioning two power generating units at Opole Power Plant with the capacity of 958 MWe each. In addition, in mid-2019, PGE decommissioned unit 1 at Bełchatów Power Plant (lignite fired) with the capacity of 370 MWe. As of the end of 2019, PGE's installed capacity came in at 17.8 GW, with 14.7 GW of that being coal assets. Enea is the second largest electricity producer in Poland. As of the end of 2018 Enea's market share in Poland's electricity generation stood at 17% 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, i.e. approx. 1.2 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.

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 2018.

**Figure no. 6. Gross electricity production - estimated market shares in 2018**



**Figure no. 7. Installed capacity - estimated market shares in 2018**



Source: Agencja Rynku Energii S.A. (ARE), information from the companies published on their websites

## Distribution

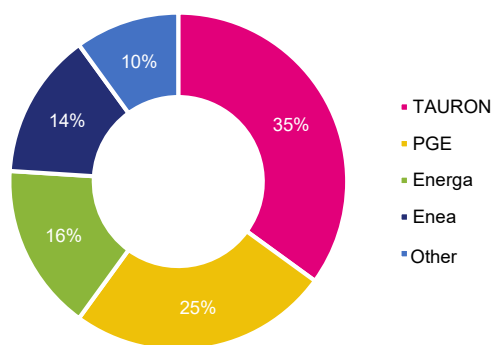
### **TAURON Capital Group is the Polish market leader in terms of the number of distribution customers and volume of electricity distributed.**

TAURON Capital Group is Poland's largest electricity distributor. TAURON Dystrybucja's share in electricity distribution to the final consumers reached approx. 35% in 2018. TAURON Capital Group's distribution grids cover more than 18% of Poland's territory. In the first quarter of 2019 the volume of electricity delivered to the final consumers reached 13.25 TWh. 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 5.68 million in the first quarter of 2020.

The below figure presents estimated market shares of the individual energy groups in terms of electricity distribution based on the 2018 data.

Figure no. 8. Electricity distribution - estimated market shares in 2018



Source: ARE, information from the companies published on their websites

## Supply

### TAURON Capital Group is Poland's second largest electricity supplier

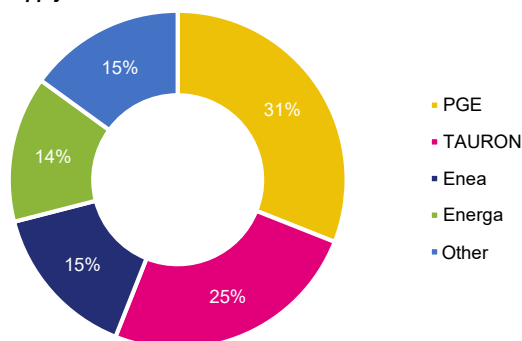
TAURON Capital Group holds a 25% share in the electricity supply market to the final consumers in Poland. The volume of the retail electricity supply of TAURON Capital Group came in at 8.9 TWh in the first quarter of 2020. The number of customers served by TAURON Capital Group's Supply Segment is more than 5.5 million.

PGE is the largest retail electricity supplier with a 31% market share as of the end of 2018. The other two groups, Enea and Energa, each holds a 15% market share.

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 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 2018 data.

Figure no. 9. Electricity supply to the final consumers - estimated market shares in 2018



Source: ARE, information from the companies published on their websites

Due to the SARS-CoV-2 virus pandemic and the postponement of the disclosure of the interim reports 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 2018.

Table no. 6. Installed capacity, generation, distribution and supply of electricity by energy groups in 2018

| #  | Group  | Installed capacity |           | Generation*  |           | Distribution |           | Supply       |           |
|----|--------|--------------------|-----------|--------------|-----------|--------------|-----------|--------------|-----------|
|    |        | Quantity (GW)      | Share (%) | Volume (TWh) | Share (%) | Volume (TWh) | Share (%) | Volume (TWh) | Share (%) |
| 1. | PGE    | 16.2               | 36.6      | 72.4         | 42.6      | 36.4         | 25.4      | 42.6         | 30.9      |
| 2. | TAURON | 5.0                | 11.3      | 16.2         | 9.5       | 49.6         | 34.8      | 34.5         | 25.1      |
| 3. | Energa | 1.3                | 3.0       | 3.9          | 2.3       | 22.5         | 15.8      | 19.8         | 14.4      |
| 4. | Enea   | 6.3                | 14.1      | 29.1         | 17.1      | 19.9         | 14.0      | 20.5         | 14.9      |
| 5. | Other  | 15.5               | 35.0      | 48.4         | 28.5      | 14.1         | 10.0      | 20.2         | 14.7      |

| # | Group        | Installed capacity |              | Generation*  |              | Distribution |              | Supply       |              |
|---|--------------|--------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
|   |              | Quantity (GW)      | Share (%)    | Volume (TWh) | Share (%)    | Volume (TWh) | Share (%)    | Volume (TWh) | Share (%)    |
|   | <b>Total</b> | <b>44.3</b>        | <b>100.0</b> | <b>170.0</b> | <b>100.0</b> | <b>142.5</b> | <b>100.0</b> | <b>137.6</b> | <b>100.0</b> |

\*Volume of gross electricity generated after the first three quarters of 2019

Source: ARE, information from the companies published on their websites, own estimates in case of the companies publishing the net production

PGE increased its installed capacity to 17.8 GW in 2019, having commissioned two new power generating units in Opole. The volume of gross electricity produced in 2019 decreased, as compared to 2018, by approx. 12% and it stood at 64 TWh. PGE delivered 25.8 TWh of electricity, and the retail electricity supply was at a comparable level as in the previous year, clocking in at 42.9 TWh. TAURON Capital Group acquired a 180 MW wind farm in 2019, thus increasing its installed capacity to 5.2 GW. TAURON's electricity production came in at 13.9 TWh in 2019 (a decrease by approx. 14%), the volume of distribution and retail supply of electricity stood at 49.4 TWh and 33.7 TWh, respectively.

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 activities conducted.

The below table presents the main sources of competitiveness.

**Table no. 7. Sources of competitiveness**

| #  | Line of Business     | Initiatives   | Sources of competitiveness  |
|----|----------------------|---|---|
| 1. | Mining<br>Generation | <ul style="list-style-type: none"> <li>Reducing the fuel price and supply risk</li> <li>Investments in generating units</li> <li>Operating expenses</li> </ul>              | <ul style="list-style-type: none"> <li>Own coal resources – security of fuel supply and control over mining costs</li> <li>High efficiency generating units with a competitive unit production cost</li> <li>Improvement of operational efficiency</li> </ul> |
|    | RES<br>Heat          | <ul style="list-style-type: none"> <li>Operating expenses</li> <li>Investments in district heating networks</li> </ul>  | <ul style="list-style-type: none"> <li>Improvement of operational efficiency</li> <li>Development of low and zero emission generation sources – <i>Green Turn of TAURON</i></li> <li>Expanding regulated operations</li> </ul>                                |
| 2. | Distribution         | <ul style="list-style-type: none"> <li>Operating expenses</li> <li>Investment efficiency</li> <li>Improvement of grid reliability indicators</li> </ul>                     | <ul style="list-style-type: none"> <li>Implementing the ultimate business model</li> <li>Implemented IT systems, separate processes, clear (transparent) split of responsibilities</li> </ul>   |
| 3. | Supply               | <ul style="list-style-type: none"> <li>Operating expenses</li> <li>Sales margin, developing products tailored to customer needs, growth in new Lines of Business</li> </ul> | <ul style="list-style-type: none"> <li>Efficiently allocated operating expenses</li> <li>Brand, current customer base, sales channels in place, experience in product and purchasing portfolio management</li> </ul>  |

## 2.2. Factors that may have an impact on the results achieved over at least the next quarter

The results of TAURON Capital Group's operations will be impacted, first and foremost, by the following external factors:

- macroeconomic situation, particularly in Poland, as well as the economic situation of the area on which TAURON Capital Group is conducting operations and 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,
- introduction of the state of epidemic in Poland, as of March 20, 2020, effective until cancelled due to the SARS-CoV-2 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,
- 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,
- possible limitation of the implementation of the investment projects due to the uncertainty of the economic environment caused by the SARS-CoV-2 pandemic,
- political environment, particularly 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),
- changes to the regulations related to the power sector, and also changes in the legal environment, including: tax law, commercial law, environment protection law,
- change in the policies of financial institutions with respect to the financing of coal-based electricity generation,
- 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,
- support system for electricity generation from 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. new 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<sub>2</sub> emission allowances,
  13. wholesale electricity prices,
  14. level of tariff for the electricity supply to households (tariff group G) for 2020 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 individual consumers, as well as hard coal sales to individual consumers for heating purposes. Heat supply depends on weather conditions, in particular on outdoor temperature, and is higher in the autumn and winter season. The volume of electricity supply to individual consumers depends on the length of day which usually makes electricity supply to this group of consumers lower in the spring and summer season and higher in the autumn and winter season. Hard coal sales to individual consumers are higher in the autumn and winter season. The seasonality of TAURON Capital Group's other lines of business is low.

The impact of the above factors on the financial result achieved in the first quarter of 2020 is presented in section 3 of this information. 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<sub>2</sub> 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. In the first quarter of 2020 the Company bought and sold 10 TWh of electricity. Electricity sales performed by TAURON during this period were mainly addressed to the following subsidiaries: TAURON Sprzedaż and TAURON Sprzedaż GZE, to which 88% 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 electricity consumer. The other consumers (trading companies outside TAURON Capital Group, exchanges) accounted for less than 12% of the revenue.

With respect to wholesale electricity trading, as of the end of 2019, the company took over electricity trading from TAURON Wytwarzanie generation subsidiary and centralized this activity at TAURON level. The principles of cooperation were defined in an SLA services provision Agreement with respect to the trading activities conducted by TAURON for TAURON Wytwarzanie, 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 is fulfilling the exchange obligation for this subsidiary.

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 quarter of 2020 the Company purchased and sold 1.3 TWh of gas fuel. The Company is focusing on selling natural gas for the supply needs of TAURON Sprzedaż with 55% of the purchased fuel gas sold thereto. The other volume was sold mainly on the exchange (40%). Other consumers accounted for less than 5%.

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 quarter of 2020, such trading was carried out by TAURON Capital Group's subsidiaries obligated to redeem (retire) the above mentioned property rights.

The Company is a competence center with respect to the management and trading in the CO<sub>2</sub> 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<sub>2</sub> emission allowance 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 of the subsidiaries' CO<sub>2</sub> emission allowances, securing the subsidiaries' emission needs taking into account the allowances allocated and the support in the process of acquiring free allowances for the subsequent periods.

TAURON is actively participating in consultations related to the legal acts on the national and European level, and it is also providing support for its Generation Line of Business subsidiaries in the process of accounting for the capital expenditures for the tasks included in the National Investment Plan for the purpose of obtaining free allowances.

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 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 trading in gas 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 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.

Total revenue of TAURON Capital Group stemming from the performance of the additional capacity contracts concluded as a result of the 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 this 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.

### **TAURON Capital Group**

TAURON Capital Group is conducting its operations and generating its revenue primarily 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 information.

TAURON Capital Group's core products include electricity and heat as well as hard coal. Additionally, TAURON Capital Group is trading in: 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.

The detailed description of the individual operating segments (lines of business), including the operating data, as well as the results posted by these segments in the first quarter of 2020, is provided, respectively, in sections 3.3. and 3.4.2. of this information.

## **2.4. TAURON Capital Group's material accomplishments and failures in the first quarter of 2020**

Material events that had occurred in the first quarter of 2020, as well as the ones that had taken place by the date of drawing up this information are listed below.

### **Major business events in the first quarter 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. Currently, the team composed of the representatives of the contractor and Nowe Jaworzno Grupa TAURON is working to determine the scope of works and the time required to replace the damaged elements.

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.

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 and no. 7/2020 of March 6, 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 value of the issue being 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 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 individual 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<sub>2</sub> 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.

#### **Conclusion of an agreement for the construction of a solar farm by TAURON Serwis**

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 TAURON PV - a 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 bank SMBC BANK EU AG**

On March 16, 2020, TAURON concluded a loan agreement with bank 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.

Pursuant to the above mentioned agreement, the Company will be able to use the funds within 2 months from the date of concluding the said agreement (after the suspending conditions that are standard for this type of financing have been met).

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 renewable energy sources (RES). The Company and PFR have agreed that the above mentioned investments 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 an appropriate 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 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 investment will target 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 regarding the specific investments.

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 events 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 information.

### **Major corporate events in the first quarter of 2020**

#### **Changes to the composition of TAURON's 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, as of March 24, 2020, dismissed Agnieszka Woźniak from the Company's Supervisory Board (she was a Member of the Supervisory Board) and appointed Mr. Andrzej Śliwka to be a member of the Company's Supervisory Board.

TAURON disclosed the information on the above event in the regulatory filing (current report) no. 12/2020 of March 24, 2020.

The information about the appointed member of the Company's Supervisory Board was disclosed in the regulatory filing (current report) no. 14/2020 of March 30, 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 of the Company to cover the loss of PLN 462 830 170.74 for the financial year 2019 from the supplementary capital. The Management Board of TAURON will also not recommend to the Ordinary General Meeting of the Company to pay out a dividend in 2020 from the supplementary capital.

At the same time, the Company confirmed that the dividend policy announced in the current report no. 35/2016 of September 2, 2016, regarding 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.

### **Other major events in the first quarter of 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 sp. z o.o., 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.

### **Major events after March 31, 2020**

#### **Changes to the composition of TAURON's Supervisory Board**

On April 20, 2020, the Company received, from Jacek Szyke (who performed the function of the Secretary of the Supervisory Board) and Marcin Szlenk (who performed the function of a Member of the Supervisory Board), the statements on their resignations from the membership of the Supervisory Board. Jacek Szyke and Marcin Szlenk did not provide the reasons for their resignations.

On April 27, 2020, the Company received, from Beata Chłodzińska (who performed the function of the Chair of the Company's Supervisory Board), the statement on her resignation from the membership of the Supervisory Board. Beata Chłodzińska did not provide the reasons for her resignation.

TAURON disclosed the information on the above events in the regulatory filings (current reports) no. 16/2020 of April 20, 2020 and no. 17/2020 of April 27, 2020.

#### **Update of the information on the construction of the power generating unit in Jaworzno**

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 the damage to one of the boiler components were determined in the agreement. According to the conclusions presented by the fact finding commission composed of the representatives of Nowe Jaworzno Grupa TAURON, the 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 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. The RAFAKO S.A. - MOSTOSTAL WARSZAWA S.A. Consortium and E003B7 sp. z o.o. will forthwith proceed to implementing the works 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 event in the regulatory filing (current report) no. 19/2020 of May 4, 2020.

### 3. ANALYSIS OF FINANCIAL POSITION AND ASSETS OF TAURON CAPITAL GROUP

#### 3.1. 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. 8. Selected financial data of TAURON Polska Energia S.A. and TAURON Capital Group.**

| Selected financial data   | in PLN '000                               |   | in EUR '000                               |   |
|---|---|---|---|---|
|   | 2020 period from 01.01.2020 to 31.03.2020 | 2019 period from 01.01.2019 to 31.03.2019 (adjusted data) | 2020 period from 01.01.2020 to 31.03.2020 | 2019 period from 01.01.2019 to 31.03.2019 (adjusted data) |
| Sales revenue   | 5 467 766                                 | 5 312 809   | 1 243 720                                 | 1 236 169   |
| Operating profit  | 474 051                                   | 744 672   | 107 830                                   | 173 268   |
| Pre-tax profit  | 231 408                                   | 667 879   | 52 637                                    | 155 400   |
| Net profit  | 161 475                                   | 535 762   | 36 730                                    | 124 660   |
| Net profit attributable to shareholders of the parent company             | 162 066                                   | 535 264   | 36 864                                    | 124 544   |
| Net profit attributable to non-controlling shares                         | (591)                                     | 498   | (134)                                     | 116   |
| Other total net income  | (70 932)                                  | (1 016)   | (16 134)                                  | (236)   |
| Total aggregate income  | 90 543                                    | 534 746   | 20 596                                    | 124 424   |
| Total aggregate income attributable to shareholders of the parent company | 91 120                                    | 534 240   | 20 727                                    | 124 306   |
| Total aggregate income attributable to non-controlling shares             | (577)                                     | 506   | (131)                                     | 118   |
| Profit per share (in PLN/EUR) (basic and diluted)                         | 0.09                                      | 0.31  | 0.02                                      | 0.07  |
| 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                                  | 739 758                                   | (148 333)   | 168 268                                   | (34 514)  |
| Net cash flows from investing activities                                  | (1 124 426)                               | (1 044 823)   | (255 766)                                 | (243 106)   |
| Net cash flows from financing activities                                  | 845 926                                   | 1 000 239   | 192 418                                   | 232 733   |
| Increase/(decrease) in net cash and equivalents                           | 461 258                                   | (192 917)   | 104 920                                   | (44 887)  |
|   | As of 31.03.2020                          | As of 31.12.2019  | As of 31.03.2020                          | As of 31.12.2019  |
| Fixed assets  | 35 191 649                                | 35 052 287  | 7 730 521                                 | 8 231 135   |
| Current assets  | 7 749 431                                 | 6 865 478   | 1 702 311                                 | 1 612 182   |
| Total assets  | 42 941 080                                | 41 917 765  | 9 432 832                                 | 9 843 317   |
| Share capital   | 8 762 747                                 | 8 762 747   | 1 924 905                                 | 2 057 707   |
| Equity attributable to shareholders of the parent company                 | 18 282 475                                | 18 192 226  | 4 016 096                                 | 4 271 980   |
| Equity attributable to non-controlling shares                             | 900 627                                   | 900 434   | 197 840                                   | 211 444   |
| Total equity  | 19 183 102                                | 19 092 660  | 4 213 936                                 | 4 483 424   |
| Long term liabilities   | 16 314 523                                | 14 963 274  | 3 583 798                                 | 3 513 743   |
| Short term liabilities  | 7 443 455                                 | 7 861 831   | 1 635 098                                 | 1 846 150   |
| Total liabilities   | 23 757 978                                | 22 825 105  | 5 218 896                                 | 5 359 893   |

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

| Selected financial data  | in PLN '000  |   | in EUR '000  |   |
|--|--|---|--|---|
|  | 2020<br>period from<br>01.01.2020<br>to 31.03.2020 | 2019<br>period from<br>01.01.2019<br>to 31.03.2019<br>(adjusted data) | 2020<br>period from<br>01.01.2020<br>to 31.03.2020 | 2019<br>period from<br>01.01.2019<br>to 31.03.2019<br>(adjusted data) |
| Sales revenue  | 2 621 243  | 2 516 047   | 596 238  | 585 427   |
| Operating loss   | (67 018)   | (19 484)  | (15 244)   | (4 533)   |
| Pre-tax loss   | (773 691)  | (180 379)   | (175 987)  | (41 970)  |
| Net loss   | (721 023)  | (155 717)   | (164 007)  | (36 232)  |
| Other total net income   | (72 997)   | (2 198)   | (16 604)   | (511)   |
| Total aggregate income   | (794 020)  | (157 915)   | (180 611)  | (36 743)  |
| Loss per share (in PLN/EUR) (basic and diluted)                | (0.41)   | (0.09)  | (0.09)   | (0.02)  |
| 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                       | 298 643  | (544 299)   | 67 931   | (126 646)   |
| Net cash flows from investing activities                       | (1 096 214)  | (170 708)   | (249 349)  | (39 720)  |
| Net cash flows from financing activities                       | 875 912  | 760 291   | 199 238  | 176 902   |
| Increase/(decrease) in net cash and equivalents                | 78 341   | 45 284  | 17 820   | 10 536  |
|  | As of<br>31.03.2020                                | As of 31.12.2019  | As of<br>31.03.2020                                | As of<br>31.12.2019   |
| Fixed assets   | 27 766 378   | 27 010 590  | 6 099 417  | 6 342 747   |
| Current assets   | 3 624 934  | 3 474 539   | 796 286  | 815 907   |
| Total assets   | 31 391 312   | 30 485 129  | 6 895 703  | 7 158 654   |
| Share capital  | 8 762 747  | 8 762 747   | 1 924 905  | 2 057 707   |
| Equity   | 14 014 157   | 14 808 177  | 3 078 478  | 3 477 322   |
| Long term liabilities  | 12 458 967   | 10 947 500  | 2 736 851  | 2 570 741   |
| Short term liabilities   | 4 918 188  | 4 729 452   | 1 080 374  | 1 110 591   |
| Total liabilities  | 17 377 155   | 15 676 952  | 3 817 225  | 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 March 31, 2020 - PLN/EUR 4.5523 (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 March 31, 2020 - PLN/EUR 4.3963 (for the period from January 1, 2019 to March 31, 2019: PLN/EUR 4.2978).

### 3.2. Key operating data of TAURON Capital Group

The below table presents the key operating data posted by TAURON Capital Group in the first quarter of 2020 and in the first quarter of 2019.

**Table no. 9. Key operating data posted by TAURON Capital Group in the first quarter of 2020 and in the first quarter of 2019**

| Item   | Unit       | Q1 2020            | Q1 2019     | Change in %<br>2020 / 2019 |
|--|------------|--------------------|-------------|----------------------------|
| Commercial coal production                                 | Mg m       | <b>1.18</b>        | 1.26        | 94%                        |
| Electricity generation (gross production)                  | TWh        | <b>3.21</b>        | 3.82        | 84%                        |
| including generation of electricity from renewable sources | TWh        | <b>0.57</b>        | 0.39        | 146%                       |
| <i>Production from biomass</i>                             | <i>TWh</i> | <i><b>0.11</b></i> | <i>0.09</i> | <i>122%</i>                |

| Item   | Unit       | Q1 2020      | Q1 2019 | Change in %<br>2020 / 2019 |
|--|------------|--------------|---------|----------------------------|
| <i>Production of hydroelectric power plants and wind farms</i> | <i>TWh</i> | <b>0.46</b>  | 0.29    | 159%                       |
| Heat generation  | PJ         | <b>4.96</b>  | 4.76    | 104%                       |
| Electricity distribution                                       | TWh        | <b>13.25</b> | 13.54   | 98%                        |
| Electricity supply   | TWh        | <b>11.65</b> | 12.02   | 97%                        |
| <i>retail supply</i>   | <i>TWh</i> | <b>8.86</b>  | 8.93    | 99%                        |
| <i>wholesale</i>   | <i>TWh</i> | <b>2.79</b>  | 3.09    | 90%                        |
| Number of customers - Distribution                             | '000       | <b>5 675</b> | 5 612   | 101%                       |

### 3.3. 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 quarter of 2020 and for the first quarter of 2019.

*Table no. 10. TAURON Capital Group's sales volumes and structure broken down into individual Segments of operations (lines of business) for the first quarter of 2020 and for the first quarter of 2019*

| Item   | Unit | Q1 2020      | Q1 2019 | Change in %<br>2020 / 2019 |
|--|------|--------------|---------|----------------------------|
| Mining Segment's hard coal sales                   | Mg m | <b>0.89</b>  | 1.20    | 74%                        |
| Generation Segment's electricity and heat sales    | TWh  | <b>2.77</b>  | 3.41    | 81%                        |
|  | PJ   | <b>6.31</b>  | 6.76    | 93%                        |
| Distribution Segment's distribution services sales | TWh  | <b>13.25</b> | 13.54   | 98%                        |
| Supply Segment's retail electricity supply         | TWh  | <b>8.85</b>  | 8.92    | 99%                        |

#### 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 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 0.89 million Mg in the first quarter of 2020, i.e. a 26% decline as compared to the same period of 2019, as a consequence of the lower demand for coal. Coal sales within TAURON Group came in at 0.74 million Mg which meant that 83% 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 1.18 million Mg in the reported period, i.e. it was 6% lower than in the same period of last year, which was a result of the occurrence of difficult geological conditions at the Janina Coal Mine and at the Brzeszcze Coal Mine, transition to the 2 coal face operating model at the Janina Coal Mine and the higher coal production output at the Brzeszcze Coal Mine.

#### 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 and combined heat and power plants,

Total achievable capacity of the Generation Segment's generating units reached 4.6 GW of electric capacity and 2.4 GW of thermal capacity as of the end of March 2020. The Generation Segment is also conducting heat transmission and distribution operations.

In the first quarter of 2020 the Generation Segment produced 2.8 TWh of electricity, i.e. 22% less than last year (3.5 TWh), which was due to the lower sales of electricity from own 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 0.11 TWh, i.e. 22% more than last year (0.09 TWh).

Sales of electricity from own production plus electricity purchased for trading clocked in at 2.8 TWh in the first quarter of 2020, which meant a 19% decline in relation to the same period of 2019.

Heat sales reached 6.3 PJ in the first quarter of 2020, i.e. 7% less as compared to the same period of 2019, which was consequence of higher outside temperatures year on year and lower consumer demand.

54% of the Generation Segment's subsidiaries' demand for hard coal to be used to generate electricity and heat was covered with hard coal coming from TAURON Capital Group's own coal mines in the first quarter 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 March 2020 and it was 180 MW higher than in the same period of 2019. The above increase is a consequence of the acquisition of wind farms by TAURON Group in September 2019.

The RES Segment produced 0.46 TWh of electricity, i.e. 59% more as compared to last year (0.29 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 electricity volume delivered, as well as revenue from distribution operations. The Distribution Segment is operating large area distribution grids, located in the south of Poland.

The Distribution Segment delivered, in total, 13.25 TWh of electricity, including 12.83 TWh to the final consumers, in the first quarter of 2020. During this period the Distribution Segment provided distribution services for 5.68 million consumers. In the same period of 2019 the Distribution Segment delivered, in total, 13.54 TWh of electricity to 5.61 million consumers, including 13.09 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 related products, property rights arising from the certificates of origin of electricity, CO<sub>2</sub> 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 quarter of 2020 the Supply Segment subsidiaries supplied, in total, 8.85 TWh of retail electricity to more than 5.5 million customers, both households, as well as businesses, i.e. 1% less than in the same period of last 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 262 000 in the first quarter of 2020, which was higher by 6% 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 Group's subsidiaries.

## 3.4. TAURON Capital Group's financial position after Q1 2020

### 3.4.1. Analysis of the financial position

The below table presents an analysis of TAURON Capital Group's financial position as of March 31, 2020, and December 31, 2019.

**Table no. 11. Structure of TAURON Capital Group's interim abbreviated consolidated statement of the financial position as of March 31, 2020, and December 31, 2019**

| Consolidated statement of the financial position          | As of March<br>31, 2020<br>(unaudited) | As of December<br>31, 2019<br>(adjusted data) | Change in %<br>2020 / 2019 |
|---|--|---|----------------------------|
| <b>ASSETS</b>   |  |   |                            |
| Fixed assets  | 82.0%                                  | 83.6%   | 98%                        |
| Current assets  | 18.0%                                  | 16.4%   | 110%                       |
| <b>TOTAL ASSETS</b>                                       | <b>100.0%</b>                          | <b>100.0%</b>                                 |                            |
| <b>EQUITY AND LIABILITIES</b>                             |  |   |                            |
| Equity attributable to shareholders of the parent company | 42.6%                                  | 43.4%   | 98%                        |
| Non-controlling shares                                    | 2.1%                                   | 2.1%  | 100%                       |
| <b>Total equity</b>                                       | <b>44.7%</b>                           | <b>45.5%</b>                                  | 98%                        |
| Long term liabilities                                     | 38.0%                                  | 35.7%   | 106%                       |
| Short term liabilities                                    | 17.3%                                  | 18.8%   | 92%                        |
| <b>Total liabilities</b>                                  | <b>55.3%</b>                           | <b>54.5%</b>                                  | 102%                       |
| <b>TOTAL EQUITY AND LIABILITIES</b>                       | <b>100.0%</b>                          | <b>100.0%</b>                                 |                            |
| Financial liabilities                                     | 12 603 935                             | 11 394 246                                    | 111%                       |
| Net financial liabilities                                 | 10 860 838                             | 10 129 572                                    | 107%                       |
| Net debt/EBITDA ratio                                     | 3.27                                   | 2.81  | 116%                       |
| Current liquidity ratio                                   | 1.04                                   | 0.87  | 119%                       |

Fixed assets represent 82.0% of total assets in the structure of assets, as of March 31, 2020, i.e. a 2% decline as compared to their share as of the end of 2019.

The share of current assets, as of March 31, 2019, as compared to their share as of the end of 2019, rose by 10%, due to an increase of the cash balance and accounts receivable from the consumers.

Liabilities represent 55.3% of total equity and liabilities in the structure of equity and liabilities, as of March 31, 2020, with the long term liabilities accounting for 38.0% and the short term liabilities constituting 17.3% 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 7% and the net debt to EBITDA ratio increased to 3.27x (the ratio expressed in relation to EBITDA for the trailing 12 months) in the first quarter 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. Its exceeding could potentially trigger an immediate repayment of TAURON's obligations. Due to the upward trend of this ratio observed in the first quarter of 2020, TAURON undertook a number of initiatives aimed at reducing the risk of exceeding it, 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.

TAURON Capital Group's financial liquidity position is stable and TAURON Capital Group has guaranteed financing up to PLN 1 580 million.

#### 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 3 months ended on March 31, 2020, as well as the comparable data for the period of 3 months ended on March 31, 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 3 months ended on March 31, 2020.

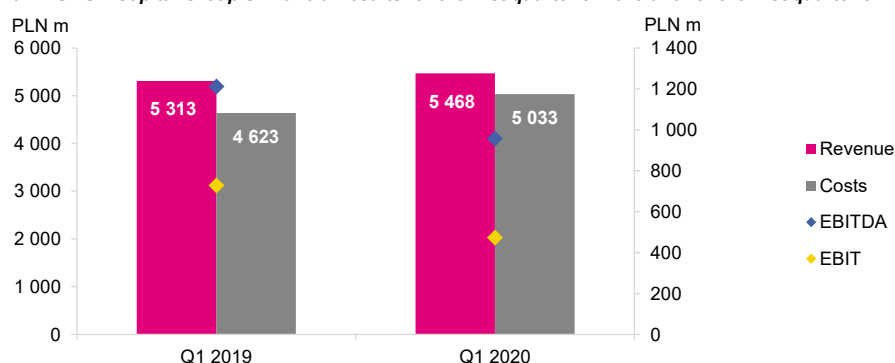
Table no. 12. TAURON Capital Group's interim abbreviated consolidated statement of comprehensive income for the first quarter of 2020 and for the first quarter of 2019

| Item (PLN '000)                                  | Q1 2020<br>(unaudited) | Q1 2019<br>(adjusted data) | Change in %<br>2020 / 2019 |
|--|------------------------|----------------------------|----------------------------|
| <b>Sales revenue</b>                             | <b>5 467 766</b>       | <b>5 312 809</b>           | 103%                       |
| Cost of goods sold                               | (5 032 839)            | (4 622 584)                | 109%                       |
| Other operating revenue and costs                | 5 165                  | 11 624                     | 44%                        |
| Share in joint ventures' profits                 | 33 959                 | 42 823                     | 79%                        |
| <b>Operating profit</b>                          | <b>474 051</b>         | <b>744 672</b>             | 64%                        |
| <i>Operating profit margin (%)</i>               | 8,7%                   | 14,0%                      | 62%                        |
| Cost of interest on debt                         | (72 329)               | (57 920)                   | 125%                       |
| Other financial revenue and costs                | (170 314)              | (18 873)                   | 902%                       |
| <b>Pre-tax profit</b>                            | <b>231 408</b>         | <b>667 879</b>             | 35%                        |
| <i>Pre-tax profit margin (%)</i>                 | 4,2%                   | 12,6%                      | 34%                        |
| Income tax                                       | (69 933)               | (132 117)                  | 53%                        |
| <b>Net profit for the period</b>                 | <b>161 475</b>         | <b>535 762</b>             | 30%                        |
| <i>Net profit margin (%)</i>                     | 3.0%                   | 10.1%                      | 29%                        |
| <b>Total comprehensive income for the period</b> | <b>90 543</b>          | <b>534 746</b>             | 17%                        |
| <b>Profit attributable to:</b>                   |                        |                            |                            |
| Shareholders of the parent entity                | 162 066                | 535 264                    | 30%                        |
| Non-controlling shares                           | (591)                  | 498                        | -                          |
| <b>EBIT and EBITDA</b>                           |                        |                            |                            |
| EBIT   | 474 051                | 744 672                    | 64%                        |
| EBITDA   | 957 401                | 1 232 324                  | 78%                        |

The financial results generated by TAURON Capital Group in the first quarter of 2020 are identical as TAURON Capital Group's estimate Q1 2020 earnings disclosed in the regulatory filing (current report) no. 18/2020 of April 30, 2020.

The below figure presents TAURON Capital Group's financial results for the first quarter of 2019 and for the first quarter of 2020.

Figure no. 10. TAURON Capital Group's financial results for the first quarter of 2019 and for the first quarter of 2020



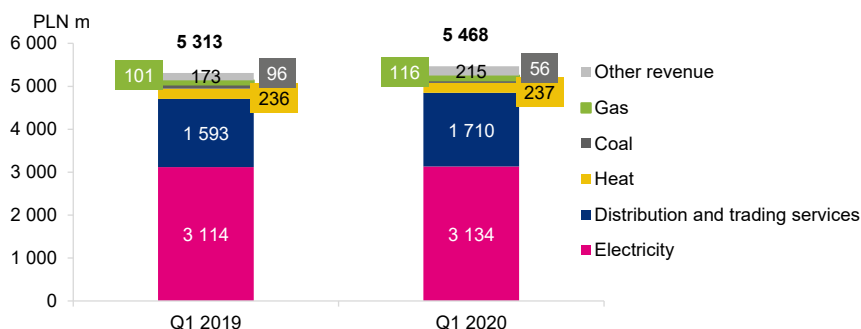
TAURON Capital Group generated 3% higher revenue in the first quarter of 2020 than the revenue reported for the first quarter of 2019, with the following factors responsible for it:

1. 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,

- higher revenue from the valuation of certificates of origin for 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,
- higher gas sales revenue as a consequence of an increase in the volume of gas sold year on year, along with a drop in price,
- slightly 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
- lower coal sales revenue as a consequence of the lower volume.

The below figure presents TAURON Capital Group's revenue structure for the first quarter of 2019 and for the first quarter of 2020.

Figure no. 11. TAURON Capital Group's revenue structure for the first quarter of 2019 and for the first quarter of 2020



The costs of TAURON Capital Group's operations (operating expenses) came in at PLN 5.0 billion in the first quarter of 2020, i.e. they were 9% higher than the costs incurred in the first quarter of 2019, which was a consequence of the following factors:

- higher costs of electricity sold, as a consequence of an increase in the purchase price year on year and the higher volume of electricity purchased on the market,
- 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: 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 CO<sub>2</sub> emission allowances related to Brexit and the SARS-CoV-2 virus pandemic. Implementing the above 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,
- higher costs of greenhouse gas emission allowances, which is the result of an increase in the price of the allowances and the lower CO<sub>2</sub> emissions by the generating units due to the lower production of electricity and heat from the conventional sources. In addition, in the first quarter of 2019 TAURON Capital Group retired (settled), instead of the CO<sub>2</sub> emission allowances, the certified emission reduction (CER) units in the amount of 883 000, whose purchase price was much lower than the price of EUA
- higher labor costs, as a result of the 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. In addition, an increase in labor costs was affected by an increase in the minimum wage and the higher costs of the write-off to the Company's Social Benefits Fund, which is related to a 22% increase of the base for its calculation,
- 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,
- higher costs of the other external services, which is associated with an increase in the rates for the postal and courier services as well as the multimedia customer service. In addition, the provision for the restoration of landfills was dissolved in the first quarter of 2019, which resulted in a reduction in the cost of the external services during this period,
- 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 quarter of 2020 than in the same period of 2019. TAURON Capital Group booked the costs of the coal used to start up the unit in Jaworzno

The EBITDA and EBIT margins generated in the first quarter of 2020 came in at, respectively, 17.5% and 8.7%, and they were lower than the margins posted in the same period of 2019 by, respectively, 5.7 pp and 5.3 pp. The

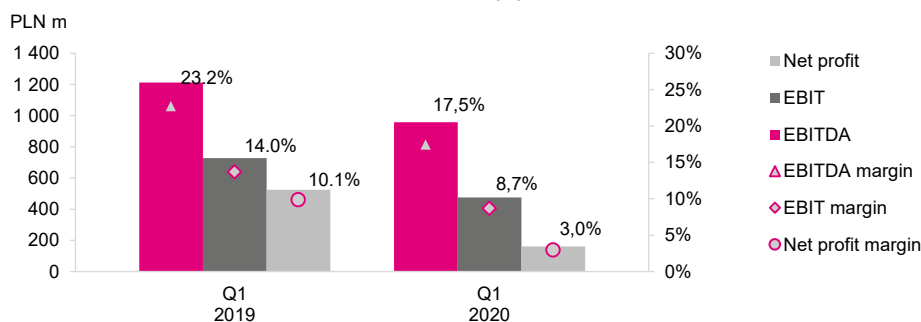
net profit margin realized clocked in at 3.0% and it was lower by 7.1 pp, which was due to the higher costs of interest on debt than in the first quarter of 2019 and the costs of the FX differences.

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 91 million in the first quarter of 2020, as compared to PLN 535 million generated in the same period of 2019.

The total income attributable to the shareholders of the parent company came in at PLN 91 million, as compared to PLN 534 million posted a year ago, while the net profit attributable to the shareholders of the parent company stood at PLN 162 million, as compared to PLN 535 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 quarter of 2019 and in the first quarter of 2020.

**Figure no. 12. TAURON Capital Group's financial results and the margins generated in the first quarter of 2019 and in the first quarter of 2020**



### 3.4.2. Financial results by the Segments of operations (lines of business)

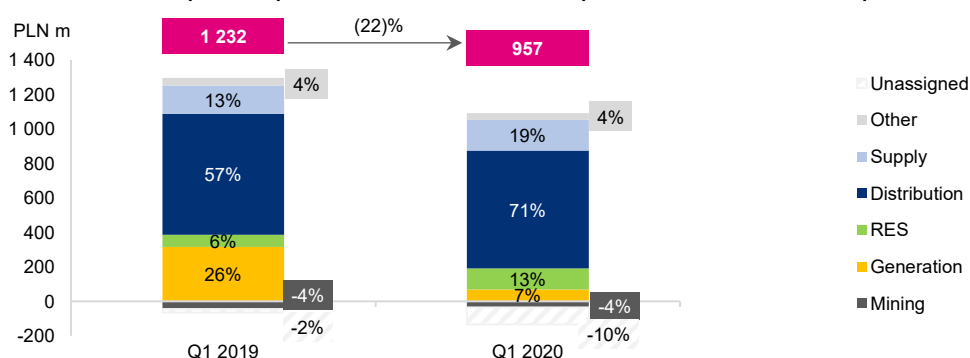
The below table presents TAURON Capital Group's EBITDA by the individual Segments of operations (lines of business) in the first quarter of 2020 and in the first quarter of 2019. The data for the individual Segments of operations do not include the consolidation related exclusions.

**Table no. 13. TAURON Capital Group's EBITDA by the individual lines of business (segments of operations) in the first quarter of 2020 and in the first quarter of 2019**

| EBITDA (PLN '000)               | Q1 2020        | Q1 2019          | Change in % 2020 / 2019 |
|---------------------------------|----------------|------------------|-------------------------|
| Mining                          | (36 355)       | (44 281)         | -                       |
| Generation                      | 69 484         | 315 133          | 22%                     |
| RES                             | 121 070        | 71 881           | 168%                    |
| Distribution                    | 683 543        | 700 970          | 98%                     |
| Supply                          | 182 432        | 164 931          | 111%                    |
| Other operations                | 38 780         | 44 444           | 87%                     |
| Unassigned items and exclusions | (101 553)      | (20 754)         | -                       |
| <b>Total EBITDA</b>             | <b>957 401</b> | <b>1 232 324</b> | <b>78%</b>              |

The below figure presents TAURON Capital Group's EBITDA structure for the first quarter of 2019 and for the first quarter of 2020.

**Figure no. 13. TAURON Capital Group's EBITDA structure for the first quarter of 2019 and for the first quarter of 2020.**



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

### 3.4.2.1. Mining Segment

The below table presents the Mining Segment's results for the first quarter of 2020 and for the first quarter of 2019.

**Table no. 14. Mining Segment's results for the first quarter of 2020 and for the first quarter of 2019**

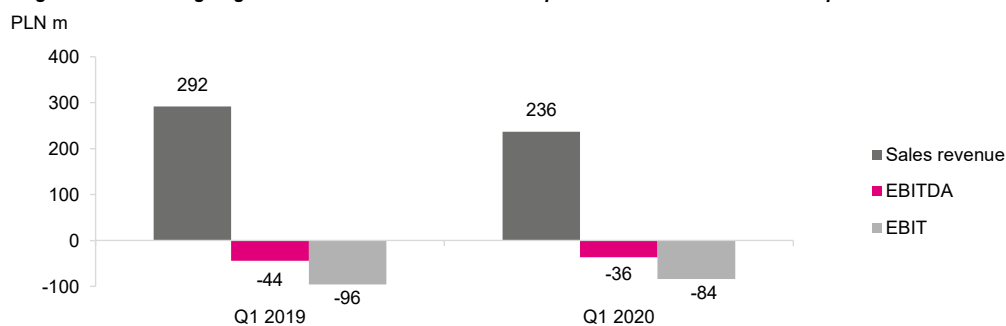
| Item (PLN '000)                                    | Q1 2020         | Q1 2019         | Change in % 2020 / 2019 |
|--|-----------------|-----------------|-------------------------|
| <b>Mining</b>                                      |                 |                 |                         |
| <b>Sales revenue</b>                               | <b>236 424</b>  | <b>291 866</b>  | 81%                     |
| <i>hard coal – large and medium size lump coal</i> | 42 221          | 60 750          | 69%                     |
| <i>thermal coal</i>                                | 180 783         | 219 087         | 83%                     |
| <i>other products, materials and services</i>      | 13 420          | 12 029          | 112%                    |
| <b>EBIT</b>  | <b>(83 891)</b> | <b>(95 917)</b> | -                       |
| Depreciation and write-offs                        | 47 536          | 51 636          | 92%                     |
| <b>EBITDA</b>                                      | <b>(36 355)</b> | <b>(44 281)</b> | -                       |

The Mining Segment's EBITDA and EBIT were lower in the first quarter 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 7%, i.e. from 233.09 PLN/Mg to 250.56 PLN/Mg, which was mainly due to an increase of the price of coal dust from 222.48 PLN/Mg to 251.95 PLN/Mg,
2. lower commercial coal sales volume by 26%, in each product group. The largest slump was recorded in large size lump coal assortment, by 44%, and in the coal dust, by 37%,
3. increase in variable unit costs of coal sold due to a decrease in the volume of coal sales,
4. other - mainly the allocation of costs to the balance sheet due to a decrease in coal sales and its placement on heaps.

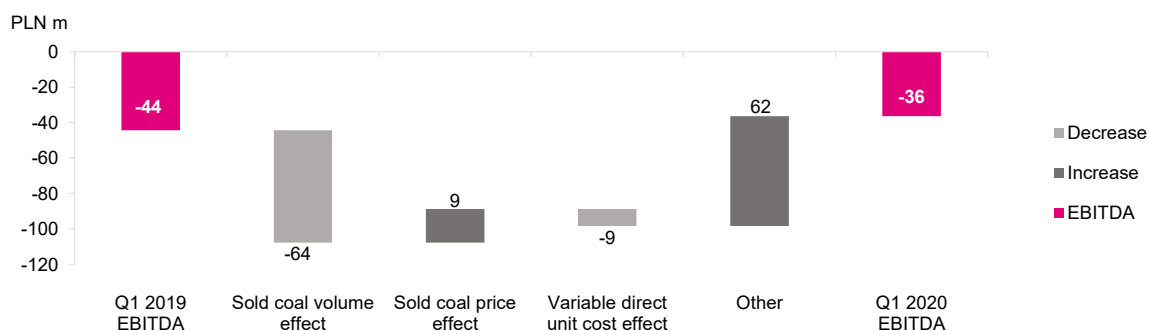
The below figure presents the Mining Segment's financial data for the first quarter of 2019 and for the first quarter of 2020.

**Figure no. 14. Mining Segment's financial data for the first quarter of 2019 and for the first quarter of 2020**



The below figure presents the Mining Segment's EBITDA, including the material factors impacting the change year on year.

**Figure no. 15. Mining Segment's EBITDA, including the material factors impacting the change year on year.**



### 3.4.2.2. Generation Segment

The below table presents the Generation Segment's results for the first quarter of 2020 and for the first quarter of 2019.

Table no. 15. Generation Segment's results for the first quarter of 2020 and for the first quarter of 2019.

| Item (PLN '000)  | Q1 2020          | Q1 2019          | Change in % 2020 / 2019 |
|--|------------------|------------------|-------------------------|
| <b>Generation</b>  |                  |                  |                         |
| <b>Sales revenue</b>   | <b>1 154 958</b> | <b>1 277 172</b> | <b>90%</b>              |
| Electricity  | 802 033          | 948 517          | 85%                     |
| heat (incl. heat transmission)                                   | 307 936          | 307 398          | 100%                    |
| property rights related to certificates of origin of electricity | 30 701           | 10 197           | 301%                    |
| Other  | 14 288           | 11 060           | 129%                    |
| <b>EBIT</b>  | <b>(12 723)</b>  | <b>231 479</b>   | <b>-</b>                |
| Depreciation and write-offs                                      | 82 207           | 83 654           | 98%                     |
| <b>EBITDA</b>  | <b>69 484</b>    | <b>315 133</b>   | <b>22%</b>              |

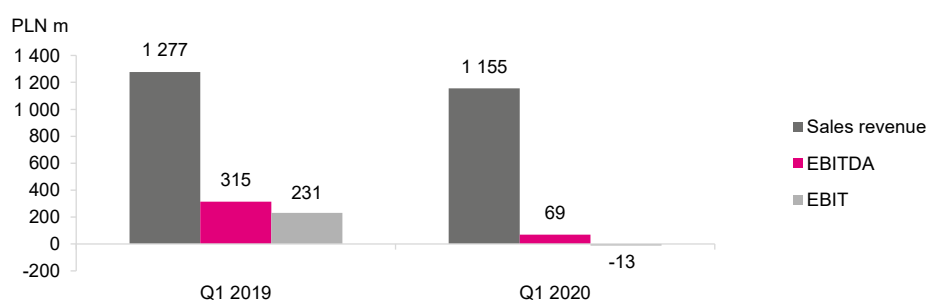
The Generation Segment's sales revenue was 10% lower in the first quarter of 2020, as compared to the same period of 2019, mainly due to the lower electricity sales revenue (lower sales volume).

The Generation segment's EBITDA and EBIT were lower in the first quarter of 2020 than in the same period of 2019. The results posted were affected by the following factors:

1. lower margin on electricity (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<sub>2</sub> emission allowances to be retired,
2. higher margin on electricity (biomass fired units) – due to the higher PM OZE prices, as well as the higher production volume,
3. lower margin on heat – a smaller number of free CO<sub>2</sub> emission allowances related to heat and the lower heat and transmission services sales volume (a consequence of the higher outdoor temperature (the first quarter of 2019: +2.4°C, the first quarter of 2020: +3.5°C)),
4. a swap of the CO<sub>2</sub> 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 127 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<sub>2</sub> 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<sub>2</sub> emission liabilities for 2020
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).

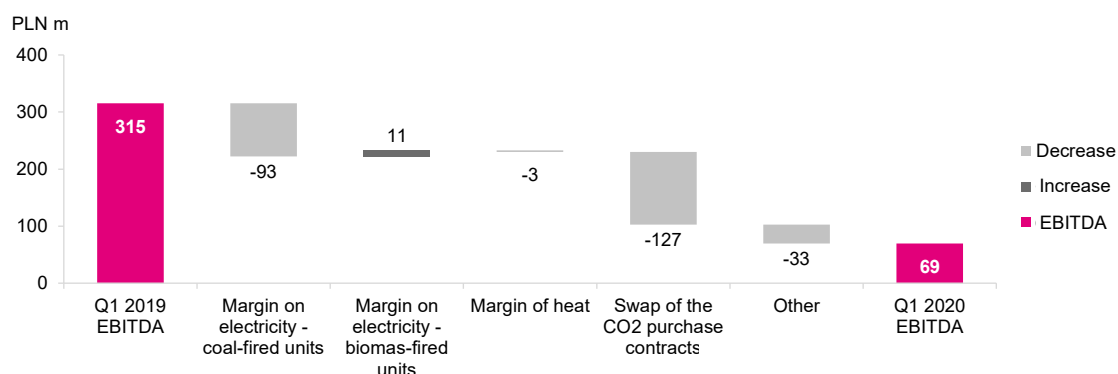
The below figure presents the Generation Segment's financial data for the first quarter of 2019 and for the first quarter of 2020.

Figure no. 16. Generation Segment's financial data for the first quarter of 2019 and for the first quarter of 2020



The below figure presents the Generation Segment's EBITDA, including the material factors impacting the change year on year.

Figure no. 17. Generation Segment's EBITDA, including the material factors impacting the change year on year



### 3.4.2.3. RES Segment

The below table presents the RES Segment's results for the first quarter of 2020 and for the first quarter of 2019.

Table no. 16. RES Segment's results for the first quarter of 2020 and for the first quarter of 2019

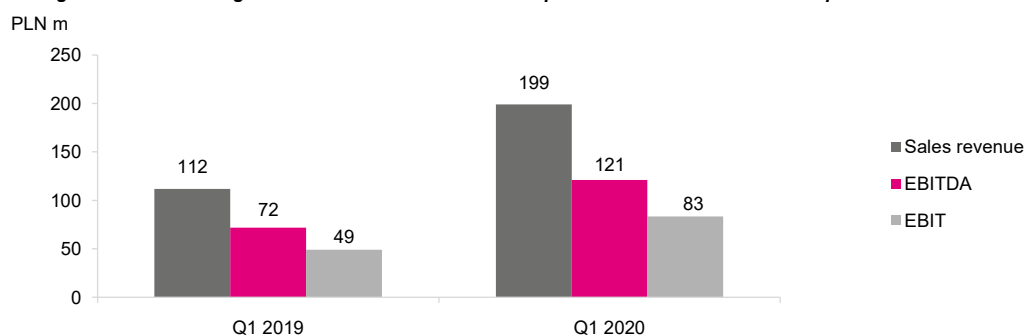
| Item (PLN '000)                       | Q1 2020        | Q1 2019        | Change in % 2020 / 2019 |
|---------------------------------------|----------------|----------------|-------------------------|
| <b>RES</b>                            |                |                |                         |
| <b>Sales revenue</b>                  | <b>199 167</b> | <b>111 776</b> | <b>178%</b>             |
| Electricity                           | 93 184         | 64 028         | 146%                    |
| Certificates of origin of electricity | 105 162        | 46 822         | 225%                    |
| Other                                 | 821            | 926            | 89%                     |
| <b>EBIT</b>                           | <b>83 282</b>  | <b>49 094</b>  | <b>170%</b>             |
| Depreciation and write-offs           | 37 788         | 22 787         | 166%                    |
| <b>EBITDA</b>                         | <b>121 070</b> | <b>71 881</b>  | <b>168%</b>             |

The RES segment's EBITDA and EBIT were higher in the first quarter 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 volume of electricity production being a consequence of the better wind conditions in the reporting period as compared to the first quarter of 2019 and the production of electricity by the wind farms acquired in September 2019. The above effect was partly neutralized by a drop of the electricity sales price,
2. higher revenues from the certificates of origin of electricity, which is a consequence of the higher property rights prices and the higher volume - a result of the better wind conditions in the reporting period as compared to the first quarter of 2019 and the production of electricity by the wind farms acquired in September 2019,
3. higher fixed costs mainly as a result of booking the costs of the acquired wind farms in the first quarter of 2020, which had not taken place in the first quarter of 2019.

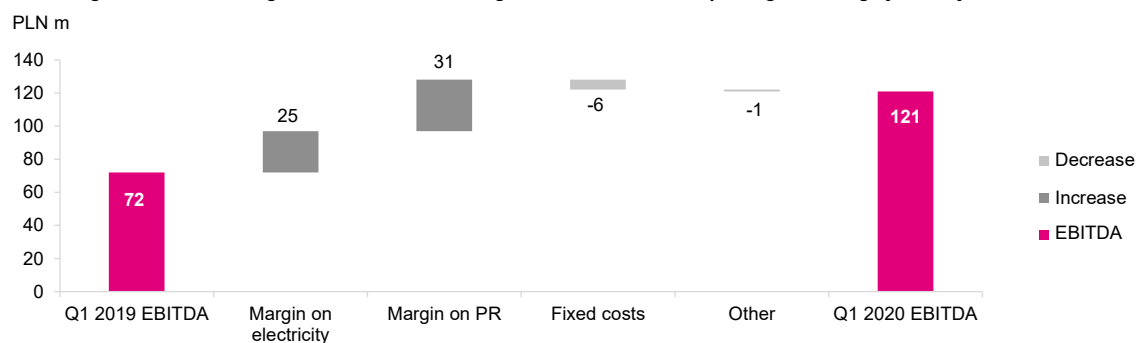
The below figure presents the RES Segment's financial data for the first quarter of 2019 and for the first quarter of 2020.

Figure no. 18. RES Segment's financial data for the first quarter of 2019 and for the first quarter of 2020



The below figure presents the RES Segment's EBITDA, including the material factors impacting the change year on year.

Figure no. 19. RES Segment's EBITDA, including the material factors impacting the change year on year



### 3.4.2.4. Distribution Segment

The below figure presents the Distribution Segment's results for the first quarter of 2020 and for the first quarter of 2019.

Table no. 17. Distribution Segment's results for the first quarter of 2020 and for the first quarter of 2019

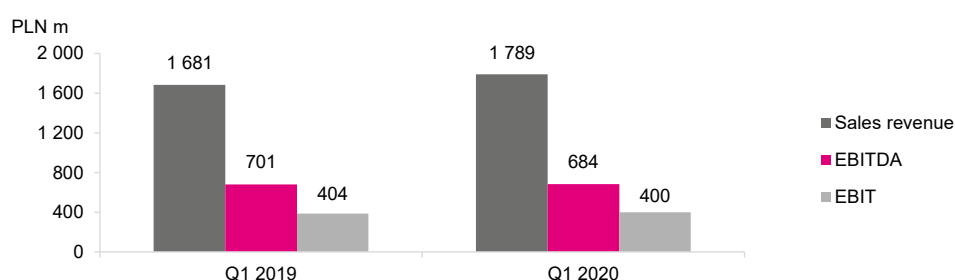
| Item (PLN '000)              | Q1 2020          | Q1 2019          | Change in % 2020 / 2019 |
|------------------------------|------------------|------------------|-------------------------|
| <b>Distribution</b>          |                  |                  |                         |
| <b>Sales revenue</b>         | <b>1 789 025</b> | <b>1 681 221</b> | 106%                    |
| <i>distribution services</i> | <i>1 744 834</i> | <i>1 636 002</i> | 107%                    |
| <i>connection fees</i>       | <i>19 848</i>    | <i>18 835</i>    | 105%                    |
| <i>other services</i>        | <i>24 343</i>    | <i>26 384</i>    | 92%                     |
| <b>EBIT</b>                  | <b>400 435</b>   | <b>403 520</b>   | 99%                     |
| Depreciation and write-offs  | 283 108          | 297 450          | 95%                     |
| <b>EBITDA</b>                | <b>683 543</b>   | <b>700 970</b>   | 98%                     |

The Distribution Segment reported a 6% sales revenue increase, while EBIT and EBITDA fell by, respectively, 1% and 2% in the first quarter 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 293 GWh, including to the final consumers by 264 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,
4. an increase of the revenue from the passive energy, connection fees, fixing power line collisions and for exceeding capacity (capacity overruns),
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 the deviation due to the upward adjustment,
6. an increase of the costs of taxes on grid assets stemming from the growth of the assets' value as a result of the investment projects underway
7. a rise of the other fixed costs, including labor costs due to the wages agreements signed, as well as the costs of the overhaul and maintenance services.

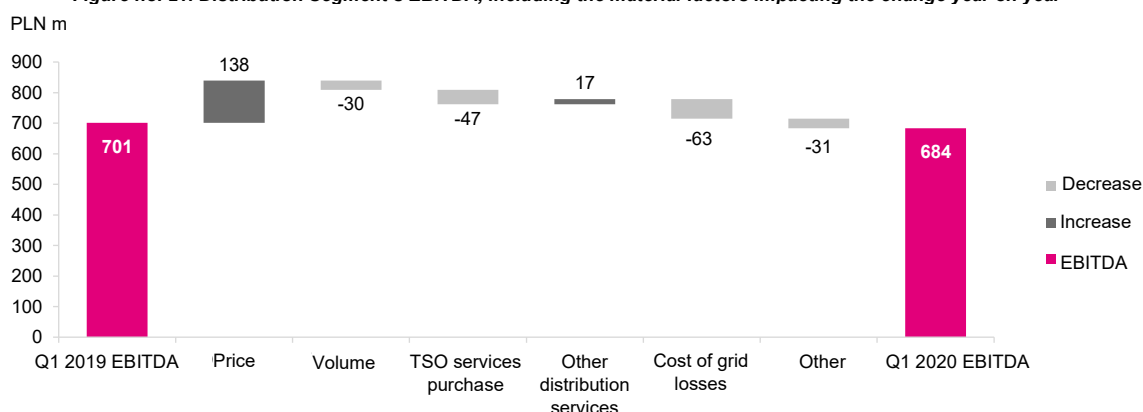
The below figure presents the Distribution Segment's financial data for the first quarter of 2019 and for the first quarter of 2020.

Figure no. 20. Distribution Segment's financial data for the first quarter of 2019 and for the first quarter of 2020



The below figure presents the Distribution Segment's EBITDA, including the material factors impacting the change year on year.

Figure no. 21. Distribution Segment's EBITDA, including the material factors impacting the change year on year



### 3.4.2.5. Supply Segment

The below figure presents the Supply Segment's results for the first quarter of 2020 and for the first quarter of 2019.

Table no. 18. Supply Segment's results for the first quarter of 2020 and for the first quarter of 2019

| Item (PLN '000)                        | Q1 2020          | Q1 2019          | Change in % 2020 / 2019 |
|--|------------------|------------------|-------------------------|
| <b>Supply</b>                          |                  |                  |                         |
| <b>Sales revenue</b>                   | <b>4 230 842</b> | <b>3 911 422</b> | <b>108%</b>             |
| electricity, including:                | 2 868 053        | 2 683 016        | 107%                    |
| retail electricity supply revenue      | 2 610 336        | 2 397 857        | 109%                    |
| greenhouse gas emission allowances     | 1 403            | 6 996            | 20%                     |
| Fuels                                  | 461 315          | 378 289          | 122%                    |
| distribution service (passed on)       | 846 138          | 805 176          | 105%                    |
| other services, incl. trading services | 53 933           | 37 946           | 143%                    |
| <b>EBIT</b>                            | <b>170 771</b>   | <b>155 224</b>   | <b>110%</b>             |
| Depreciation and write-offs            | 11 661           | 9 707            | 120%                    |
| <b>EBITDA</b>                          | <b>182 432</b>   | <b>164 931</b>   | <b>111%</b>             |

The Supply Segment's sales revenue was 8% higher in the first quarter of 2020 as compared to the same period of 2019, mainly due to the higher electricity sales revenue (higher electricity sales price) and the fuel sales revenue (higher gas fuel sales price and the higher coal sales volume by 47%).

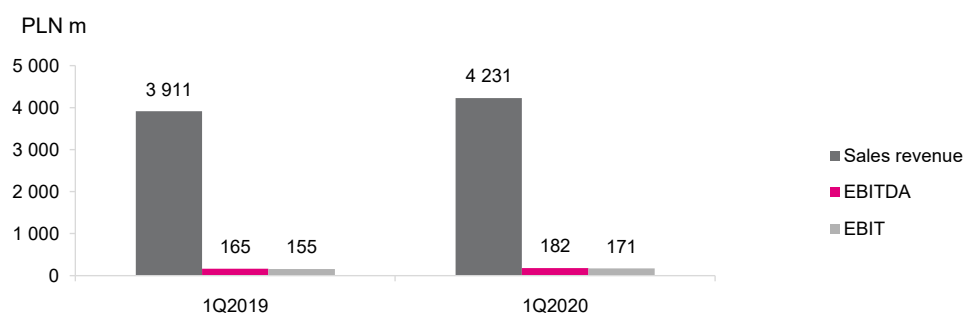
The Supply Segment's EBITDA and EBIT were lower in the first quarter of 2020 than in the same period of 2019. The results posted were affected by the following factors:



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 the 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.

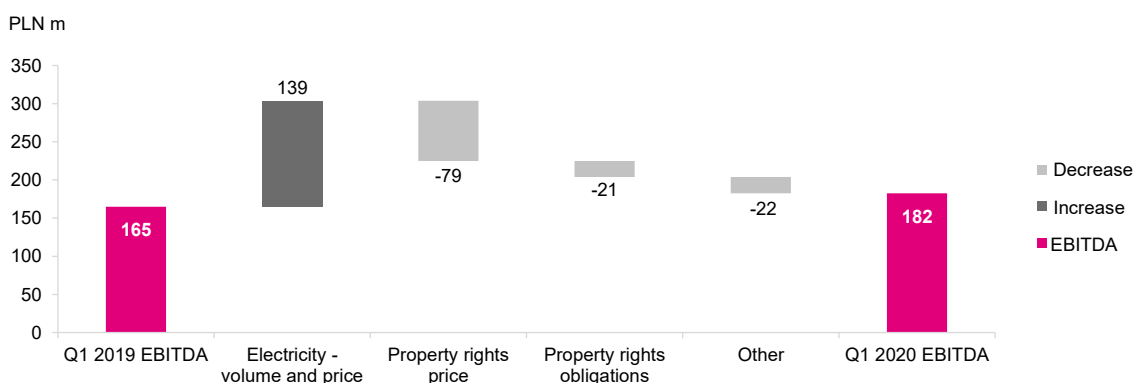
The below figure presents the Supply Segment’s financial data for the first quarter of 2019 and for the first quarter of 2020.

Figure no. 22. Supply Segment’s financial data for the first quarter of 2019 and for the first quarter of 2020.



The below figure presents the Supply Segment’s EBITDA, including the material factors impacting the change year on year.

Figure no. 23. Supply Segment’s EBITDA, including the material factors impacting the change year on year



### 3.4.2.6. Other Operations

The below figure presents the Other Operations Segment’s results for the first quarter of 2020 and for the first quarter of 2019.

Table no. 19. Other Operations Segment’s results for the first quarter of 2020 and for the first quarter of 2019.

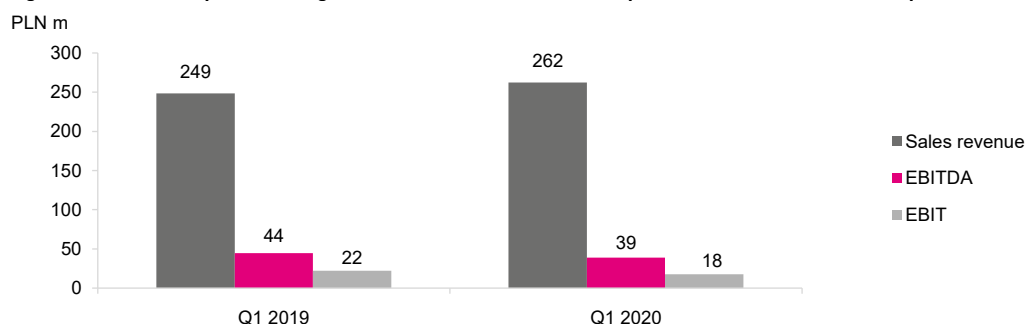
| Item (PLN '000)         | Q1 2020       | Q1 2019       | Change in % 2020 / 2019 |
|-------------------------|---------------|---------------|-------------------------|
| <b>Other Operations</b> |               |               |                         |
| <b>Sales revenue</b>    | 262 469       | 248 516       | 106%                    |
| customer service        | 60 035        | 52 298        | 115%                    |
| support services        | 120 063       | 111 236       | 108%                    |
| aggregates              | 25 110        | 25 303        | 99%                     |
| biomass                 | 34 145        | 38 466        | 89%                     |
| other revenue           | 23 116        | 21 213        | 109%                    |
| <b>EBIT</b>             | <b>17 730</b> | <b>22 026</b> | <b>80%</b>              |

| Item (PLN '000)             | Q1<br>2020    | Q1<br>2019    | Change in %<br>2020 / 2019 |
|-----------------------------|---------------|---------------|----------------------------|
| Depreciation and write-offs | 21 050        | 22 418        | 94%                        |
| <b>EBITDA</b>               | <b>38 780</b> | <b>44 444</b> | <b>87%</b>                 |

Other Operations Segment subsidiaries' sales revenue was higher (by 6%) in the first quarter 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 quarter of 2019 and for the first quarter of 2020.

Figure no. 24. Other Operations Segment's financial data for the first quarter of 2019 and for the first quarter of 2020



### 3.4.3. Assets

The below table presents the consolidated statement of financial position – assets as of March 31, 2020 and December 31, 2019.

Table no. 20. Interim abbreviated consolidated statement of financial position – assets (material items) as of March 31, 2020 and December 31, 2019

| Statement of financial position (PLN '000)                                     | As of<br>March 31, 2020<br>(unaudited) | As of<br>December 31, 2019<br>(adjusted data) | Change in %<br>(2020 / 2019) |
|--|--|---|------------------------------|
| <b>ASSETS</b>  |  |   |                              |
| <b>Fixed assets</b>  | <b>35 191 649</b>                      | <b>35 052 287</b>                             | 100%                         |
| Tangible fixed assets  | 31 587 231                             | 31 099 071                                    | 102%                         |
| <b>Current assets</b>  | <b>7 749 431</b>                       | <b>6 865 478</b>                              | 113%                         |
| Cash and equivalents   | 1 743 097                              | 1 237 952                                     | 141%                         |
| Fixed assets and the group's assets for disposal, classified as held for trade | 26 843                                 | 22 710  | 118%                         |
| <b>TOTAL ASSETS</b>  | <b>42 941 080</b>                      | <b>41 917 765</b>                             | <b>102%</b>                  |

As of March 31, 2020, TAURON Capital Group's statement of financial position shows the balance sheet total that is 2% higher, 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 March 31, 2020.

Figure no. 25. Change in assets as of December 31, 2019, and March 31, 2020

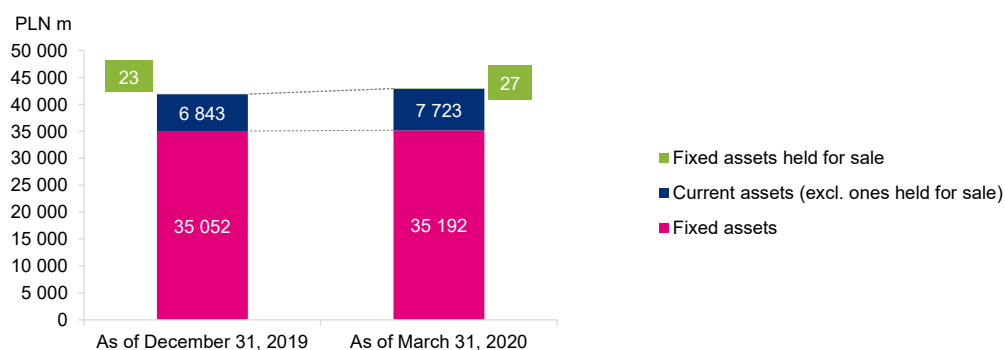
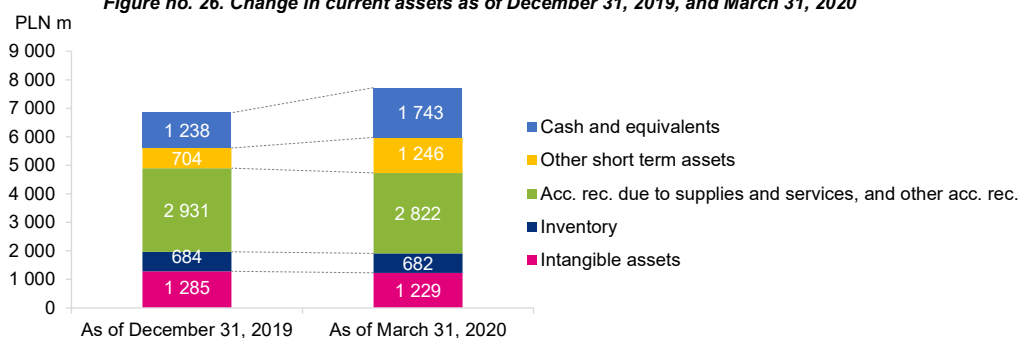


Figure no. 26. Change in current assets as of December 31, 2019, and March 31, 2020



Fixed assets represent the biggest item of the assets as of the end of March 2020, constituting 82% of the balance sheet total. As compared to the end of last year, the value of the fixed assets is higher by PLN 139 million (0.4%), as a consequence of changes in the below fixed assets' analytical items:

1. tangible fixed assets – an increase by 2% 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 85% due to the reclassifying of the certificates of origin of electricity and the CO<sub>2</sub> 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 drop by 4% due to the update of the valuation of the loan valued at fair value (marked to market),
4. value of stocks and shares in the joint ventures – an increase by 6% due to the recognizing of the share in the profit of the TAMEH HOLDING company
5. deferred tax assets – an increase by 72%.

The following factors had an impact on the rise in the value of the current assets by PLN 884 million (13%):

1. balance of cash on hand and equivalents – an increase by 41%. The information on the reasons for the change is provided in section 3.4.4 of this information.
2. certificates of origin of electricity and the CO<sub>2</sub> emission allowances to be retired – a drop by 4% which is the result of the following events:
  - a) transfer of the CO<sub>2</sub> 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<sub>2</sub> 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,
3. accounts receivable from the consumers – an increase by 11%,
4. other financial assets – an increase by 65%, which is a 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 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,
5. other non-financial assets – an increase by 144%, mainly as a result of the settlement of the exchange based CO<sub>2</sub> emission allowance purchase transactions.

The below table presents the consolidated statement of financial position – equity and liabilities as of March 31, 2020 and December 31, 2019.

Table no. 21. Interim abbreviated consolidated statement of financial position – equity and liabilities (material items) as of March 31, 2020 and December 31, 2019

| Statement of financial position (PLN '000)               | As of<br>March 31, 2020<br>(unaudited) | As of<br>December 31, 2019<br>(adjusted data) | Change in %<br>(2020 / 2019) |
|--|--|---|------------------------------|
| <b>EQUITY AND LIABILITIES</b>                            |  |   |                              |
| Equity attributable to shareholders of the parent entity | 18 282 475                             | 18 192 226                                    | 100%                         |
| Non-controlling shares                                   | 900 627                                | 900 434                                       | 100%                         |
| <b>Total equity</b>                                      | <b>19 183 102</b>                      | <b>19 092 660</b>                             | 100%                         |

| Statement of financial position (PLN '000) | As of<br>March 31, 2020<br>(unaudited) | As of<br>December 31, 2019<br>(adjusted data) | Change in %<br>(2020 / 2019) |
|--|--|---|------------------------------|
| <b>Long term liabilities</b>               | <b>16 314 523</b>                      | <b>14 963 274</b>                             | 109%                         |
| Liabilities due to debt                    | 13 260 074                             | 11 830 183                                    | 112%                         |
| <b>Short term liabilities</b>              | <b>7 443 455</b>                       | <b>7 861 831</b>                              | 95%                          |
| Liabilities due to debt                    | 2 330 314                              | 2 484 093                                     | 94%                          |
| <b>Total liabilities</b>                   | <b>23 757 978</b>                      | <b>22 825 105</b>                             | 104%                         |
| <b>TOTAL EQUITY AND LIABILITIES</b>        | <b>42 941 080</b>                      | <b>41 917 765</b>                             | <b>102%</b>                  |

The below figures present the change in the equity and liabilities and equity attributable to shareholders as of December 31, 2019, and March 31, 2020.

Figure no. 27. Change in equity and liabilities as of December 31, 2019, and March 31, 2020

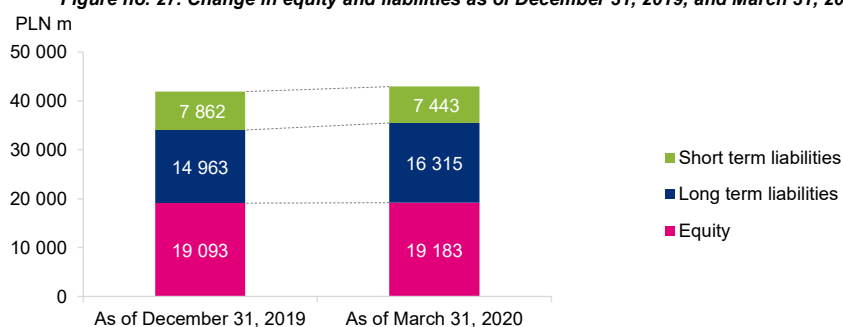
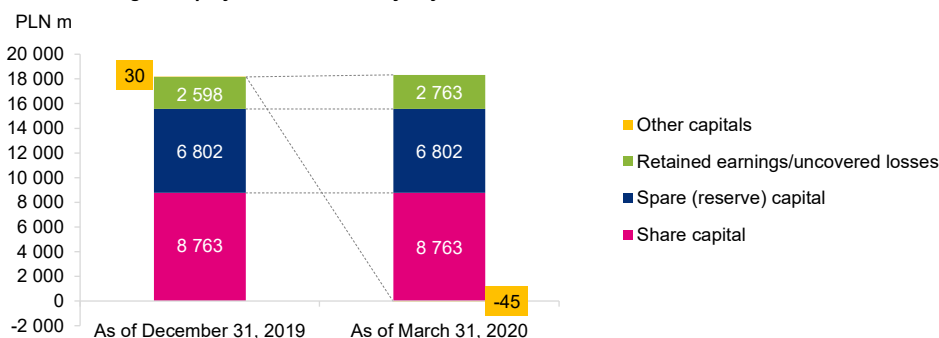


Figure no. 28. Change in equity attributable to majority shareholders as of December 31, 2019, and March 31, 2020



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 44.7%.

The below figures present the change in the long term and short term liabilities as of December 31, 2019, and March 31, 2020.

Figure no. 29. Change in long term liabilities as of December 31, 2019, and March 31, 2020

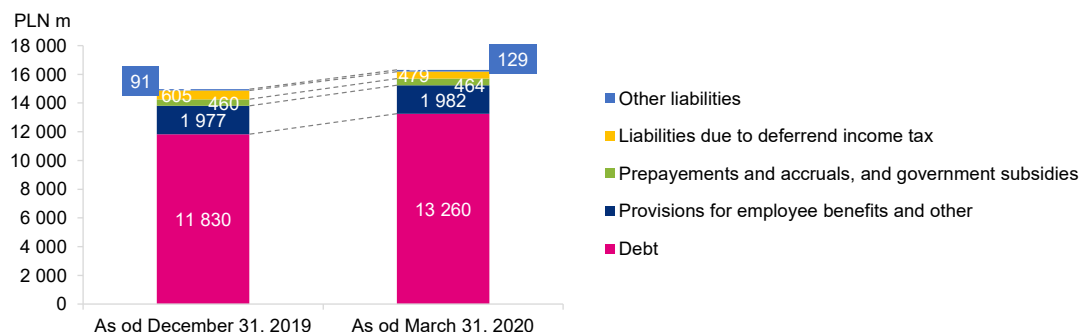
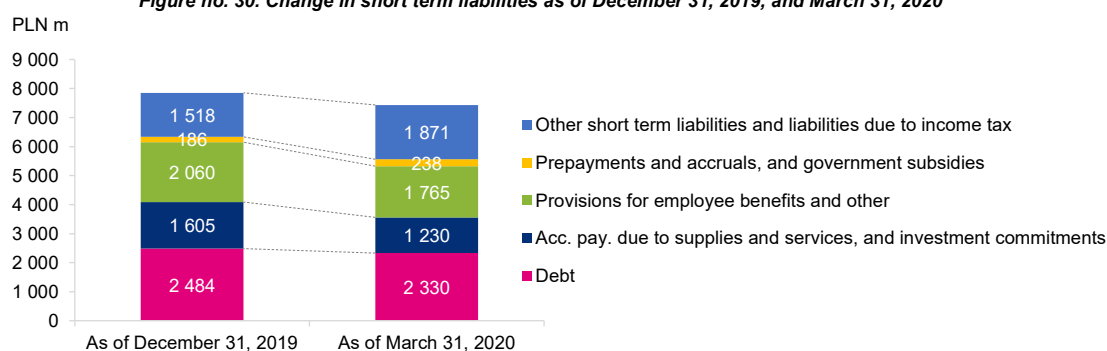


Figure no. 30. Change in short term liabilities as of December 31, 2019, and March 31, 2020



The amount of TAURON Capital Group's long term liabilities went up by PLN 1 351 million (9%) in the first quarter of 2020, which was mainly a consequence of the following factors:

1. liabilities due to debt – an increase by 12% 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 March 31, 2020 as compared to the FX rate as of December 31, 2019,
2. liabilities due to the deferred tax – a decline by 21%,
3. provisions – flat as compared to the end of 2019.

The amount of TAURON Capital Group's short term liabilities went down by PLN 418 million (5%), which was primarily a consequence of the following factors:

1. liabilities due to debt – a drop by 6%,
2. investment related commitments – a drop by 38% and accounts payable towards the suppliers – a drop by 10%,
3. provisions – a decrease by 14%, 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<sub>2</sub> gases and the certificates of origin of electricity for the first quarter of 2020,
4. accounts payable due to taxes and fees – a drop by 34%, which is the result of the lower accounts payable due to the social security premiums and the VAT tax,
5. other financial liabilities – an increase by 79% as a consequence of the rise of the variation margins' value due to the settlements of the exchange transactions and the decline of the liabilities due to wages,
6. other non-financial liabilities – an increase by 31% 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.

### 3.4.4. Cash flows

#### Consolidated cash flow statement

The below table presents the selected information from the interim abbreviated cash flow statement for the first quarter of 2020 and for the first quarter of 2019.

Table no. 22. Interim abbreviated cash flow statement (material items) for the first quarter of 2020 and for the first quarter of 2019

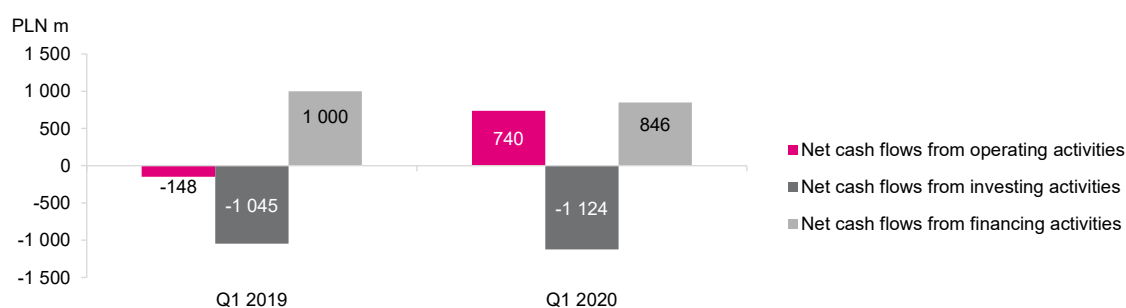
| Cash flow statement (PLN '000)                          | Q1 2020<br>(unaudited) | Q1 2019<br>(adjusted data unaudited) | Change in %<br>(2020 / 2019) |
|---|------------------------|--------------------------------------|------------------------------|
| <b>Cash flows from operating activities</b>             |                        |                                      |                              |
| Pre-tax profit  | 231 408                | 667 879                              | 35%                          |
| Adjustments   | 508 350                | (816 212)                            | -                            |
| <b>Net cash flows from operating activities</b>         | <b>739 758</b>         | <b>(148 333)</b>                     | -                            |
| <b>Cash flows from investing activities</b>             |                        |                                      |                              |
| Sale of tangible fixed assets and intangible assets     | 3 998                  | 5 503                                | 73%                          |
| Purchase of tangible fixed assets and intangible assets | (1 131 882)            | (1 036 440)                          | 109%                         |
| Granting of loans                                       | (15 600)               | (6 375)                              | 245%                         |
| <b>Net cash flows from investing activities</b>         | <b>(1 124 426)</b>     | <b>(1 044 823)</b>                   | 108%                         |
| <b>Cash flows from financing activities</b>             |                        |                                      |                              |
| Issuance of debt securities                             | 0                      | 500 000                              | -                            |

| Cash flow statement (PLN '000)                           | Q1<br>2020<br>(unaudited) | Q1<br>2019<br>(adjusted data unaudited) | Change in %<br>(2020 / 2019) |
|--|---------------------------|---|------------------------------|
| Redemption of debt securities                            | (3 100)                   | (400 000)                               | 1%                           |
| Proceeds from credits/loans taken out                    | 2 000 000                 | 730 000                                 | 274%                         |
| Repayment of loans/credits                               | (1 086 265)               | (37 054)                                | 2 932%                       |
| Interest paid  | (16 551)                  | (12 732)                                | 130%                         |
| <b>Net cash flows from financing activities</b>          | <b>845 926</b>            | <b>1 000 239</b>                        | <b>85%</b>                   |
| <b>Increase / (decrease) in net cash and equivalents</b> | <b>461 258</b>            | <b>(192 917)</b>                        | <b>-</b>                     |
| <b>Cash opening balance</b>                              | <b>1 203 601</b>          | <b>807 972</b>                          | <b>149%</b>                  |
| <b>Cash closing balance</b>                              | <b>1 664 859</b>          | <b>615 055</b>                          | <b>271%</b>                  |

The total amount of all net flows of cash from operating, investing and financing activities in the first quarter of 2020 came in at PLN 461 million.

The below figure presents cash flows in the first quarter of 2019 and in the first quarter of 2020.

Figure no. 31. Cash flows in the first quarter of 2019 and in the first quarter of 2020



The amount of cash flows from operating activities in the first quarter of 2020 came in at PLN 740 million, which was the result of the following factors:

1. generated EBITDA of PLN 957 million,
2. negative change of the working capital in the amount of PLN 228 million, which is the result of:
  - a) negative change of the balance of accounts receivable, mainly from the consumers, in the amount of PLN 135 million,
  - b) negative change of the balance of accounts payable in the amount of PLN 405 million, mainly as a result of a decrease of the accounts payable to the suppliers, the accounts payable due to wages as well as tax liabilities,
  - c) positive change in the other long and short term assets and the provisions in the total amount of PLN 546 million, mainly as a result of a change in the accounts receivable due to tax liabilities and the settlement of the initial and variation deposits due to the settlements of the exchange transactions,
  - d) positive change in prepayments and accruals as well as government subsidies in the amount of PLN 43 million,
3. income tax paid by the Tax Capital Group (PGK) in the amount of PLN 61 million, which is a result of the payment of the advance payments on account of the income tax for the two months of 2020 in the amount of PLN 52.1 million and the settlements of the income tax for the previous years, resulting in the net inflow in the amount of PLN 91 000,
4. tax paid in the amount of PLN 8 million by the companies that are not part of PGK,
5. other factors in the amount of PLN +38 million.

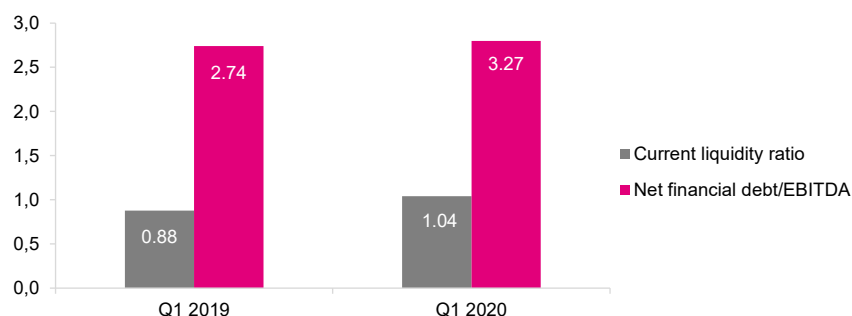
Expenditures for the purchase of tangible fixed assets have the biggest impact on the cash flows from investing activities and they were higher by 9% in the reporting period than the outlays incurred in the same period of 2019. In the first quarter of 2020 the largest expenditures were incurred by the Distribution Segment and the Generation Segment.

The positive value of cash flows from financing activities is primarily due to the taking out of loans in the amount of PLN 2 000 million. TAURON Capital Group repaid loan installments in the total amount of PLN 1 086.3 million and redeemed debt securities worth PLN 3.1 million in the first quarter of 2020. The total amount of the interest paid, mainly on the financial liabilities, clocked in at PLN 13.8 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 quarter of 2019 and in the first quarter of 2020.

Figure no. 32. Current liquidity ratio and the net financial debt to EBITDA ratio in the first quarter of 2019 and in the first quarter 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 potential cash flow disruptions and the risk of liquidity loss. TAURON Capital Group is using various sources of funding, such as, for example, overdrafts, bank loans, loans from environmental funds, bond issues.

### 3.5. 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. At the same time, as of now, it is not possible to estimate the impact of the SARS-CoV-2 virus pandemic on the financial position of TAURON Capital Group in the upcoming reporting periods.

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 3 of this information.

## 4. SHARES AND SHAREHOLDERS OF TAURON POLSKA ENERGIA S.A.

### 4.1. Structure of TAURON Polska Energia S.A. shareholding

As of March 31, 2020 and as of the date of drawing up this information 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 registered ordinary BB series shares.

### 4.2. 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 of the Company, as of March 31, 2020 and as of the date of drawing up this information.

*Table no. 23. Shareholders that hold, directly or indirectly through their subsidiaries, at least 5% of the total number of votes at the General Meeting of the Company, as of March 31, 2020 and as of the date of drawing up this information*

| #  | 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<br>Otwarty Fundusz Emerytalny<br>(Open Pension Fund) | 88 742 929            | 5.06%                                 | 88 742 929           | 5.06%   |

From the date of disclosing the previous interim report, i.e. since April 1, 2020, until the date of drawing up this information the Company had not received any notifications from its shareholders on any changes in the ownership structure of substantial blocks of TAURON shares.

### 4.3. 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 March 31, 2020 and as of the date of disclosing this information 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 April 1, 2020, until the date of drawing up this information 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.



## 5. OTHER MATERIAL INFORMATION AND EVENTS

### 5.1. 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 quarter of 2020.

**Table no. 24. Summary of material proceedings pending before the court, competent arbitration authority or public administration authority in the first quarter of 2020**

| #  | Parties to the proceedings   | Description of the proceedings including the value of the object of litigation and the Company's position  |
|--|--|--|
| <b>Proceedings involving TAURON</b>  |  |  |
| 1.   | <p><b>Plaintiff:</b> Huta Łaziska S.A.</p> <p><b>Defendants:</b> TAURON (as a legal successor to GZE) and State Treasury represented by the President of ERO</p> | <p><b>Object of litigation:</b> 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.</p> <p><b>Value of the object of litigation:</b> PLN 182 060 000.00</p> <p><b>Initiation of the proceeding:</b> the lawsuit of March 12, 2007</p> <p><b>Company's position:</b> the Company considers the claims covered by the lawsuit as being without merit.</p> <p>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.</p> <p>The ruling is not legally binding.</p> <p>Huta Łaziska S.A. filed an appeal complaint on July 25, 2019, appealing against the above mentioned ruling in whole.</p>   |
| 2.   | <p><b>Authority conducting the investigation:</b> Head of the Mazovian Customs and Tax Office</p> <p><b>Party:</b> TAURON</p>                                    | <p><b>Object of litigation:</b> 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.</p> <p><b>Value of the object of litigation (deducted VAT amount):</b> 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</p> <p><b>Date of initiating the proceeding:</b> October 2014, August 2016, December 2016</p> <p><b>Company's position:</b> 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..</p> |
| 3.   | <p><b>Plaintiff:</b> Enea</p> <p><b>Defendant:</b> TAURON</p>  | <p><b>Object of litigation:</b> 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</p> <p><b>Value of the object of litigation:</b> PLN 17 085 846.49</p> <p><b>Initiation of the proceeding:</b> the lawsuit of December 10, 2015</p> <p><b>Company's position:</b> the Company considers the claims covered by the lawsuit as being without merit.</p>  |
| 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.   | <p><b>Plaintiff:</b> Dobiesław Wind Invest sp. z o.o.</p> <p><b>Defendant:</b> TAURON</p>  | <p><b>Object of litigation:</b> lawsuit for payment of damages and determination of liability for the future.</p> <p><b>Value of the object of litigation:</b> PLN 34 746 692.31</p> <p><b>Initiation of the proceeding:</b> the lawsuit of June 30, 2017</p> <p><b>Company's position:</b> the Company considers the claims covered by the lawsuit as being without merit.</p>  |
| 5.   | <p><b>Plaintiff:</b> Gorzyca Wind Invest sp. z o.o.</p> <p><b>Defendant:</b> TAURON</p>  | <p><b>Object of litigation:</b> 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.</p> <p><b>Value of the object of litigation:</b> PLN 39 718 323.00</p> <p><b>Initiation of the proceeding:</b> the lawsuit of June 29, 2017</p> <p><b>Company's position:</b> the Company considers the claims covered by the lawsuit as being without merit.</p>  |
| 6.   | <p><b>Plaintiff:</b> Pękanino Wind Invest sp. z o.o.</p> <p><b>Defendant:</b> TAURON</p>   | <p><b>Object of litigation:</b> 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.</p> <p><b>Value of the object of litigation:</b> PLN 28 469 073.00</p> <p><b>Initiation of the proceeding:</b> the lawsuit of June 29, 2017</p> <p><b>Company's position:</b> the Company considers the claims covered by the lawsuit as being without merit.</p>  |

| #  | Parties to the proceedings   | Description of the proceedings including the value of the object of litigation and the Company's position  |
|--|--|--|
| 7.   | <b>Plaintiff:</b> Nowy Jarosław Wind Invest sp. z o.o.<br><b>Defendant:</b> TAURON   | <b>Object of litigation:</b> 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.<br><b>Value of the object of litigation:</b> PLN 27 008 100.00<br><b>Initiation of the proceeding:</b> the lawsuit of June 29, 2017<br><b>Company's position:</b> the Company considers the claims covered by the lawsuit as being without merit.   |
| 8.   | <b>Plaintiff:</b> in.ventus sp. z o.o. Mogilno I sp. k.<br><b>Defendant:</b> TAURON  | <b>Object of litigation:</b> 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.<br><b>Value of the object of litigation:</b> EUR 12 286 229.70 (i.e. PLN 53 587 619.46 at NBP's average exchange rate of June 29, 2018)<br><b>Initiation of the proceeding:</b> the lawsuit of June 29, 2018<br><b>Company's position:</b> the Company considers the claims covered by the lawsuit as being without merit.<br>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.  |
| 9.   | <b>Formal co-participation on the plaintiff's side:</b> Amon sp. z o.o. and Talia sp. z o.o.<br><b>Defendant:</b> TAURON                     | <b>Object of litigation:</b> 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.<br><b>Value of the object of litigation:</b> Amon sp. z o.o. – PLN 47 556 025.51; Talia sp. z o.o. – PLN 31 299 182.52<br><b>Initiation of the proceeding:</b> the lawsuit of April 30, 2018<br><b>Company's position:</b> the Company considers the claims covered by the lawsuit as being without merit.  |
| <b>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</b> |  |  |
| 1.   | <b>Plaintiff:</b> Gorzyca Wind Invest sp. z o.o. Pękanino Wind Invest sp. z o.o. Dobiesław Wind Invest sp. z o.o.<br><b>Defendant:</b> PEPKH | <b>Object of litigation:</b> 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.<br><b>Value of the object of litigation:</b> Gorzyca Wind Invest sp. z o.o.– PLN 112 353 945.05; Pękanino Wind Invest sp. z o.o. PLN 64 116 908.85<br><b>Date of initiating the proceeding:</b> 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<br><b>Company's position:</b> the Company considers the claims covered by the lawsuit as being without merit.   |
| 2.   | <b>Plaintiff:</b> Dobiesław Wind Invest sp. z o.o.<br><b>Defendant:</b> PEPKH  | <b>Object of litigation:</b> plea to award damages and liquidated damages.<br><b>Value of the object of litigation:</b> PLN 76 559 461.18<br><b>Initiation of the proceeding:</b> the lawsuit of June 14, 2017<br><b>Company's position:</b> the Company considers the claims covered by the lawsuit as being without merit.   |
| 3.   | <b>Plaintiff:</b> Nowy Jarosław Wind Invest sp. z o.o.<br><b>Defendant:</b> PEPKH  | <b>Object of litigation:</b> 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.<br><b>Value of the object of litigation:</b> PLN 69 282 649.20<br><b>Initiation of the proceeding:</b> the lawsuit of June 3, 2015<br><b>Company's position:</b> the Company considers the claims covered by the lawsuit as being without merit.   |
| 4.   | <b>Plaintiff:</b> Amon sp. z o.o.<br><b>Defendant:</b> PEPKH   | <b>Object of litigation:</b> 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.<br><b>Value of the object of litigation:</b> PLN 40 478 983.22<br><b>Initiation of the proceeding:</b> the lawsuit of May 22, 2015<br><b>Company's position:</b> the Company considers the claims covered by the lawsuit as being without merit.<br>On July 25, 2019 the Regional Court in Gdańsk issued a partial and preliminary ruling in the case in which the Court:<br><ul style="list-style-type: none"> <li>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</li> <li>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.</li> </ul> The ruling is not legally binding.<br>PEPKH disagrees with the ruling and filed an appeal complaint on October 25, 2019. |

| #  | Parties to the proceedings  | Description of the proceedings including the value of the object of litigation and the Company's position   |
|----|---|---|
| 5. | <b>Plaintiff:</b> Amon sp. z o.o.<br><b>Defendant:</b> PEPKH                                      | <p><b>Object of litigation:</b> 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.</p> <p><b>Value of the object of litigation:</b> PLN 29 009 189.38</p> <p><b>Initiation of the proceeding:</b> September 2, 2019</p> <p><b>Company's position:</b> the Company considers the claims covered by the lawsuit as being without merit.</p>   |
| 6. | <b>Plaintiff:</b> Talia sp. z o.o.<br><b>Defendant:</b> PEPKH                                     | <p><b>Object of litigation:</b> 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.</p> <p><b>Value of the object of litigation:</b> PLN 46 078 047.43</p> <p><b>Initiation of the proceeding:</b> the lawsuit of May 21, 2015</p> <p><b>Company's position:</b> the Company considers the claims covered by the lawsuit as being without merit.</p> <p>On March 6, 2020 the Regional Court in Gdańsk issued a partial and preliminary ruling in the case in which the Court:</p> <ul style="list-style-type: none"> <li>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</li> <li>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</li> </ul> <p>The ruling is not legally binding.</p> <p>PEPKH disagrees with the ruling and will file an appeal. 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.</p> |
| 7. | <b>Plaintiff:</b> Mogilno III<br>Mogilno IV<br>Mogilno V<br>Mogilno VI<br><b>Defendant:</b> PEPKH | <p><b>Object of litigation:</b> plea to declare the termination, by PEPKH, of the agreements related to the purchase of electricity null and void, and to award damages.</p> <p><b>Value of the object of litigation:</b> 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</p> <p><b>Initiation of the proceeding:</b> the lawsuit of May 25, 2015</p> <p><b>Company's position:</b> the Company considers the claims covered by the lawsuit as being without merit.</p> <p>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.</p>  |
| 8. | <b>Plaintiff:</b> Mogilno I<br>Mogilno II<br><b>Defendant:</b> PEPKH                              | <p><b>Object of litigation:</b> 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.</p> <p><b>Value of the object of litigation:</b> Mogilno I – equivalent of EUR 3 583 336.19 EUR; Mogilno II – equivalent of EUR 3 659 538.72</p> <p><b>Initiation of the proceeding:</b> the lawsuits of November 7, 2018</p> <p><b>Company's position:</b> the Company considers the claims covered by the lawsuit as being without merit.</p> <p>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.</p>   |

## 5.2. 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 48 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 3 months ended on March 31, 2020.*

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

### Guarantees granted

The below table presents a summary of bank guarantees granted under TAURON's framework (master) agreements in the first quarter of 2020, listed according to the effective term.

**Table no. 25. Summary of bank guarantees granted under TAURON's framework (master) agreements in the first quarter of 2020, listed according to the effective term**

| #   | Bank      | Company                         | Beneficiary   | Type of guarantee | Amount ('000) | Effective term             |
|-----|-----------|---------------------------------|---|-------------------|---------------|----------------------------|
| 1.  | BGK       | TAURON                          | Izba Rozliczeniowa<br>Gield Towarowych S.A.<br>(IRGIT - Warsaw<br>Commodity Exchange<br>Clearing House) | payment           | PLN 100 000   | 18.03.2020 -<br>30.06.2020 |
| 2.  | BGK       | TAURON                          | IRGIT   | payment           | PLN 100 000   | 18.03.2020 -<br>30.06.2020 |
| 3.  | BGK       | TAURON                          | IRGIT   | payment           | PLN 100 000   | 18.03.2020 -<br>30.06.2020 |
| 4.  | BGK       | TAURON                          | IRGIT   | payment           | PLN 100 000   | 18.03.2020 -<br>31.07.2020 |
| 5.  | BGK       | TAURON                          | IRGIT   | payment           | PLN 100 000   | 18.03.2020 -<br>31.08.2020 |
| 6.  | CaixaBank | TAURON<br>Sprzedaż              | Komendant Stołeczny<br>Policji<br>(Head of Warsaw<br>Police)  | performance bond  | PLN 12        | 09.03.2020 -<br>30.11.2020 |
| 7.  | CaixaBank | TAURON<br>Sprzedaż              | Kopalnia Soli Wieliczka<br>(Wieliczka Salt Mine)  | performance bond  | PLN 406       | 27.01.2020 -<br>30.01.2021 |
| 8.  | CaixaBank | TAURON<br>Sprzedaż              | Gmina Olsztyn<br>(Olsztyn Municipality)   | performance bond  | PLN 533       | 27.01.2020 -<br>30.01.2021 |
| 9.  | CaixaBank | TAURON<br>Sprzedaż              | Gmina Olsztyn<br>(Olsztyn Municipality)   | performance bond  | PLN 4 484     | 27.01.2020 -<br>30.01.2021 |
| 10. | CaixaBank | TAURON<br>Sprzedaż              | Głubczyckie Wodociągi<br>i Kanalizacja sp. z o. o<br>(Głubczyce Aqueducts<br>and Sewage System)         | performance bond  | PLN 85        | 18.03.2020 -<br>30.04.2021 |
| 11. | CaixaBank | KW Czatkowice                   | PGE Górnictwo i<br>Energetyka<br>Konwencjonalna S.A.  | performance bond  | PLN 331       | 03.02.2020 -<br>31.03.2022 |
| 12. | CaixaBank | TAURON<br>Sprzedaż              | GAZ-SYSTEM  | performance bond  | PLN 220       | 24.03.2020 -<br>31.03.2022 |
| 13. | CaixaBank | TAURON<br>Dystrybucja<br>Serwis | S&I Poland  | performance bond  | PLN 291       | 30.03.2020 -<br>30.05.2023 |

In addition to the guarantees mentioned above, the following guarantees had been issued in the first quarter of 2020 and by the date of drawing up this information:

- on January 28, 2020, the Company concluded a guarantee cap (limit) agreement with MUFG Bank, Ltd., under which, at the Company's instruction, an amendment to the bank guarantee providing the collateral for BGK's accounts receivable under the loan agreement concluded between EC Stalowa Wola and BGK as well as PGNiG, up to the amount of PLN 517 500 000, was issued, extending the guarantee effective term until April 11, 2021,
- at the instruction of TAURON Czech Energy, the bank PKO BP S.A. Czech Branch issued two amendments to the bank guarantee. The first one in order to provide a collateral for the agreement with the market operator up to the amount of EUR 500 000, effective from February 1, 2020, until January 31, 2021, and the other one to provide a collateral for the agreement with ČEZ, a. s. in the amount of CZK 30 000 000, effective from February 1, 2020, until January 31, 2021.
- on January 22, 2020 and on February 20, 2020, CaixaBank S.A. issued amendments to the effective bank payment bank guarantees (bonds) issued for the benefit of IRGIT S.A. (Warsaw Commodity Exchange Clearing House), pursuant to which the effective term of the guarantee was extended, accordingly, until February 29, 2020, and subsequently until March 31, 2020. The guarantees provide the collaterals for the transactions carried out by the Company on TGE (POLPX).
- on March 16, 2020, CaixaBank S.A. issued amendments to the guarantees issued for the total amount of PLN 50 000 000, pursuant to which the effective term of these guarantees was extended until April 30, 2020, and the guarantee in the amount of PLN 11 000 000 expired as of the end of March 2020.

5. on March 18, 2020, CaixaBank S.A. issued an amendment to the guarantee issued for the benefit of BUDIMEX S.A. as a performance bond related to the contract with TAURON Dystrybucja Serwis for the period of the statutory warranty and warranty, which is effective until November 30, 2021, in the amount of PLN 293 400, and subsequently in the period from December 1, 2021 until January 31, 2027, in the amount of PLN 88 000.
6. on April 22, 2020, CaixaBank S.A. issued amendments to the guarantees issued for the total amount of PLN 250 000 000 for the benefit of IRGIT, pursuant to which the effective term of these guarantees was extended until May 31, 2020,
7. on April 29, 2020, Santander Bank Polska S.A. issued a payment guarantee (bond) up to the amount of PLN 250 000 000, with the effective term from the date of issuing until May 27, 2020, for the benefit of IRGIT.
8. bank guarantees issued by CaixaBank S.A. to secure the accounts payable of the subsidiaries, for the total amount of PLN 12 494 000, effective from April 1, 2020 to April 30, 2022, entered into force.

### Loans granted

In the first quarter of 2020 TAURON provided financing in the form of intra-Group loans to the following subsidiaries:

1. TAURON Wydobywanie in the amount of PLN 318 000 000 until April 30, 2020
2. TAURON Sprzedaż in the amount of PLN 100 000 000 until August 27, 2021
3. TAURON Dystrybucja in the amount of PLN 150 000 000 until February 12, 2025

Additionally, as part of the intra-Group financing, TAURON extended the maturities of TAURON Wydobywanie's loans in the total amount of PLN 910 000 000 until April 30, 2020 and TAURON Ciepło's loans in the amount of PLN 320 000 000 until December 15, 2020.

On January 30, 2020, TAURON provided financing to PGE EJ 1 in the amount of PLN 4 000 000, with the repayment date of January 30, 2023. As of the balance sheet date the amount of the loans granted to the company stood at PLN 11 774 000.

On February 20, 2020, TAURON concluded a loan agreement with EC Stalowa Wola for the amount up to PLN 59 175 000, with the repayment date of June 30, 2033. As of the balance sheet date the amount of the loans granted to EC Stalowa Wola stood at PLN 346 561 000.

After the balance sheet date TAURON granted intra-Group loans to TAURON Dystrybucja for the total amount of PLN 1 750 000 000, with the repayment dates until April 2025, an intra-Group loan to TAURON Wydobywanie in the amount of PLN 103 000 000 for the repayment of the liabilities stemming from the cash pool mechanism and extended the financing period for the loans of TAURON Wydobywanie in force until July 31, 2020.

### Sureties granted

TAURON, as well as its subsidiaries, did not grant any credit or loan sureties in the first quarter of 2020.

## 5.4. 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 document no other events had occurred in the first quarter of 2019, 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 evaluation of the ability of TAURON Capital Group to meet its obligations.

Katowice, May 12, 2020

Filip Grzegorzcyk - President of the Management Board (CEO)

Marek Wadowski - Vice President of the Management Board (CFO)

## 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 information is presented below.

**Table no. 26. 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.  | Amon                        | Amon sp. z o.o. with its registered office in Łebcz.   |
| 3.  | ARA                         | Dollar based carbon price index in the EU. Loco Amsterdam - Rotterdam - Antwerp ports  |
| 4.  | ARE                         | Agencja Rynku Energii S.A. with its registered office in Warsaw.   |
| 5.  | 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.  |
| 6.  | BGK                         | Bank Gospodarstwa Krajowego with its registered office in Warsaw.  |
| 7.  | Bioeko Grupa TAURON         | Bioeko Grupa TAURON Sp. z o.o. with its registered office in Stalowa Wola.   |
| 8.  | B+R                         | Research and Development.  |
| 9.  | CAPEX                       | Capital Expenditures.  |
| 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 <sub>2</sub> 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:<br><b>green</b> - certificates of origin of electricity from RES,<br><b>blue</b> - certificates of origin of electricity generated from agricultural biogas.<br><b>yellow</b> - certificates of origin of electricity generated in co-generation from gas-fired sources or with the total installed capacity below 1 MW,<br><b>red</b> - certificates of origin of electricity from co-generation (CHP certificates - Combined Heat and Power),<br><b>violet</b> - 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,<br><b>white</b> - 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. | 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.  |
| 17. | EBIT                        | Earnings Before Interest and Taxes.  |
| 18. | EBITDA                      | Earnings Before Interest, Taxes, Depreciation and Amortization.  |
| 19. | EC Stalowa Wola             | Elektrociepłownia Stalowa Wola S.A. (Combined Heat and Power Plant – CHP) with its registered office in Stalowa Wola.  |
| 20. | EEC Magenta ASI             | EEC Magenta limited liability company ASI limited joint stock partnership with its registered office in Warsaw.  |
| 21. | EEC Magenta 2 ASI           | EEC Magenta limited liability company 2 ASI limited joint stock partnership with its registered office in Warsaw   |
| 22. | EEC Ventures                | EEC Ventures limited liability company limited joint stock partnership with its registered office in Warsaw  |
| 23. | EEC Ventures 2              | EEC Ventures limited liability company 2 limited joint stock partnership with its registered office in Warsaw  |

| #   | Abbreviation and trade term | Full name / explanation   |
|-----|-----------------------------|---|
| 24. | EEX (EEX exchange)          | 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 <sub>2</sub> emission allowances are conducted.   |
| 25. | Enea                        | Enea S.A. with its registered office in Poznań.   |
| 26. | Energa                      | Energa S.A. with its registered office in Gdańsk.   |
| 27. | EPCM                        | Engineering Procurement Construction Management - construction, engineering and procurement management service (Contract Manager).  |
| 28. | EUA                         | European Union Allowance - an allowance to introduce the carbon dioxide (CO <sub>2</sub> ) equivalent to the air, within the meaning of Article 2 section 4 of the <i>act of July 17, 2009 on the management system of emissions of greenhouse gases and other substances</i> , which is used for settlements of emission level within the system and which can be managed under the rules provided in the <i>Act of April 28, 2011 on the system of greenhouse gases emission allowances trading</i> |
| 29. | EUR                         | Euro - a common European currency introduced in some EU member states   |
| 30. | Finanse Grupa TAURON        | Finanse Grupa TAURON sp. z o.o. with its registered office in Katowice.   |
| 31. | FIIK                        | Fundusz Inwestycji Infrastrukturalnych – Kapitałowy (Infrastructure Investment Fund – Equity).  |
| 32. | FIZAN                       | Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych (Closed-end private equity investment fund)   |
| 33. | GAZ-SYSTEM                  | Gas Transmission Pipelines Operator (Operator Gazociągów Przesyłowych) GAZ-SYSTEM S.A. with its registered office in Warsaw.  |
| 34. | GIE                         | Gas Infrastructure Europe - an association representing solely the interest of the infrastructure industry in the natural gas sector, such as transmission system operators, storage system operators and LNG terminal operators.   |
| 35. | TAURON Capital Group        | TAURON Capital Group Polska Energia S.A.  |
| 36. | GZE                         | Górnośląski Zakład Elektroenergetyczny S.A. with its registered office in Gliwice.  |
| 37. | ICE (ICE exchange)          | InterContinental Exchange - commodity and financial exchange, where, among others, contracts for oil, coal, natural gas and CO <sub>2</sub> emission allowances are traded.   |
| 38. | IOS                         | Flue gas desulphurization installation  |
| 39. | IRGIT                       | Izba Rozliczeniowa Giełd Towarowych S.A. with its registered office in Warsaw.  |
| 40. | EC (KE)                     | European Commission (Komisja Europejska)  |
| 41. | KGHM Polska Miedź           | KGHM Polska Miedź S.A. with its registered office in Lubin.   |
| 42. | 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. 2017/1442 of July 31, 2017 (   |
| 43. | KSE                         | National Power System (Krajowy System Elektroenergetyczny)  |
| 44. | KW Czatkowice               | Kopalnia Wapienia (Limestone Mine) "Czatkowice" sp. z o.o. with its registered office in Krzeszowice.   |
| 45. | LNG                         | Liquefied Natural Gas.  |
| 46. | Magenta Grupa TAURON        | Magenta Grupa TAURON sp. z o.o. with its registered office in Katowice.   |
| 47. | Marselwind                  | Marselwind sp. z o.o. with its registered office in Katowice.   |
| 48. | Ministry of State Assets    | Ministry of State Assets with its registered office in Warsaw.  |
| 49. | Mg                          | Mega gram - million grams (1 000 000 g), i.e. a ton.  |
| 50. | Business Model              | Document entitled <i>TAURON Group's Business and Operational Model</i> (which is an update of <i>TAURON Group's Business Model</i> adopted by the Management Board on May 4, 2016).   |
| 51. | NBP                         | National Bank of Poland (Narodowy Bank Polski) with its registered office in Warsaw.  |
| 52. | NCBR                        | National Research and Development Center (Narodowe Centrum Badań i Rozwoju) with its registered office in Warsaw.   |
| 53. | Nowe Jaworzno Grupa TAURON  | Nowe Jaworzno Grupa TAURON sp. z o.o. with its registered office in Jaworzno.   |
| 54. | 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   |
| 55. | OPEC                        | Organization of the Petroleum Exporting Countries with its registered office in Vienna.   |
| 56. | OPEX                        | Operating Expenses.   |
| 57. | DSO (OSD)                   | Distribution System Operator (Operator Systemu Dystrybucyjnego - OSD)   |

| #   | Abbreviation and trade term                          | Full name / explanation   |
|-----|--|---|
| 58. | TSO (OSP)  | Transmission System Operator (Operator Systemu Przesyłowego - OSP)  |
| 59. | OTC (OTC market)                                     | Over The Counter Market – European OTC market.  |
| 60. | RES (OZE)  | Renewable Energy Sources (Odnawialne Źródła Energii - OZE)  |
| 61. | P/B ratio  | Ratio of the peak forward product prices to the base forward product prices   |
| 62. | 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 amount of electricity on all business days in March 2020 between 8 and 22.  |
| 63. | PEPKH  | Polska Energia - Pierwsza Kompania Handlowa sp. z o.o. with its registered office in Warsaw.  |
| 64. | PFR  | Polski Fundusz Rozwoju S.A. (Polish Development Fund) with its registered office in Warsaw.   |
| 65. | PFR IFIZ   | PFR Inwestycje Fundusz Inwestycyjny Zamknięty (PFR Investments Closed-end Investment Fund)  |
| 66. | PGE  | PGE Polska Grupa Energetyczna S.A. with its registered office in Warsaw.  |
| 67. | PGE EJ 1   | PGE EJ 1 sp. z o.o. with its registered office in Warsaw.   |
| 68. | PGK  | Tax Capital Group (Podatkowa Grupa Kapitałowa – PGK).   |
| 69. | PGNiG  | Polskie Górnictwo Naftowe i Gazownictwo S.A. with its registered office in Warsaw.  |
| 70. | GDP (PKB)  | Gross Domestic Product (Produkt Krajowy Brutto)   |
| 71. | PLN  | Polish zloty currency symbol - zł   |
| 72. | PMEF   | Property rights related to the energy efficiency certificates   |
| 73. | PMOZE  | Property rights related to the certificates of origin confirming generation of electricity in RES before March 1, 2009  |
| 74. | PMOZE_A  | Property rights related to the certificates of origin confirming generation of electricity in RES after March 1, 2009   |
| 75. | PMOZE-BIO  | Property rights related to the certificates of origin confirming generation of electricity from agricultural biogas from July 1, 2016   |
| 76. | POPC   | Digital Poland Operational Program.(Program Operacyjny Polska Cyfrowa – POPC).  |
| 77. | Paris Agreement                                      | The first universal and legally binding global climate agreement, adopted under the United Nations Framework Convention on Climate Change, signed on April 22, 2016, ratified by the EU on October 5, 2016.   |
| 78. | PSE  | Polskie Sieci Elektroenergetyczne S.A. with its registered office in Konstancin-Jeziorna .  |
| 79. | SARS-CoV-2   | Severe Acute Respiratory Syndrome - virus that causes the COVID-19 disease.   |
| 80. | SCR  | Selective Catalytic Reduction - flue gas denitrification system.  |
| 81. | 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.  |
| 82. | SLA  | Service Level Agreement   |
| 83. | 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. |
| 84. | Company / TAURON                                     | TAURON Polska Energia S.A. with its registered office in Katowice.  |
| 85. | Company's Articles of Association                    | Document entitled <i>Articles of Association of TAURON Polska Energia S.A.</i>  |
| 86. | Strategy   | Document entitled <i>TAURON Group's Strategy for 2016-2025</i> adopted by the Management Board on September 2, 2016   |
| 87. | TAMEH HOLDING  | TAMEH HOLDING sp. z o.o. with its registered office in Dąbrowa Górnicza.  |
| 88. | TAMEH POLSKA   | TAMEH POLSKA sp. z o.o. with its registered office in Dąbrowa Górnicza.   |
| 89. | TAMEH Czech  | TAMEH Czech s.r.o. with its registered office in Ostrava (Czech Republic).  |
| 90. | TAURON / Company                                     | TAURON Polska Energia S.A. with its registered office in Katowice.  |
| 91. | TAURON Ciepło  | TAURON Ciepło sp. z o.o. with its registered office in Katowice.  |



| #    | Abbreviation and trade term | Full name / explanation  |
|------|-----------------------------|--|
| 92.  | TAURON Czech Energy         | TAURON Czech Energy s.r.o. with its registered office in Ostrava (Czech Republic).   |
| 93.  | TAURON Dystrybucja          | TAURON Dystrybucja S.A. with its registered office in Cracow.  |
| 94.  | TAURON Dystrybucja Pomiary  | TAURON Dystrybucja Pomiary sp. z o.o. with its registered office in Tarnów.  |
| 95.  | TAURON Dystrybucja Serwis   | TAURON Dystrybucja Serwis S.A. with its registered office in e Wrocław   |
| 96.  | TAURON EKOENERGIA           | TAURON EKOENERGIA sp. z o.o. with its registered office in Jelenia Góra.   |
| 97.  | TAURON Obsługa Klienta      | TAURON Obsługa Klienta sp. z o.o. with its registered office in Wrocław.   |
| 98.  | TAURON Serwis               | TAURON Serwis sp. z o.o. with its registered office in Katowice.   |
| 99.  | TAURON Sprzedaż             | TAURON Sprzedaż sp. z o.o. with its registered office in Cracow.   |
| 100. | TAURON Sprzedaż GZE         | TAURON Sprzedaż GZE sp. z o.o. with its registered office in Gliwice.  |
| 101. | TAURON Wydobywanie          | TAURON Wydobywanie S.A. with its registered office in Jaworzno.  |
| 102. | TAURON Wytwarzanie          | TAURON Wytwarzanie S.A. with its registered office in Jaworzno.  |
| 103. | TEC1                        | TEC1 sp. z o.o. with its registered office in Katowice.  |
| 104. | TEC2                        | TEC2 sp. z o.o. with its registered office in Katowice.  |
| 105. | TEC3                        | TEC3 sp. z o.o. with its registered office in Katowice.  |
| 106. | TGE (POLPX)                 | Towarowa Giełda Energii S.A. (Polish Power Exchange – POLPX) with its registered office in Warsaw.                               |
| 107. | EU (UE)                     | European Union (Unia Europejska - UE)  |
| 108. | UOKiK                       | Office of Competition and Consumer Protection (Urząd Ochrony Konkurencji i Konsumentów – UOKiK)                                  |
| 109. | ERO (URE)                   | Energy Regulatory Office (Urząd Regulacji Energetyki - URE)  |
| 110. | USD                         | United States Dollar - US dollar's international acronym   |
| 111. | Wsparcie Grupa TAURON       | Wsparcie Grupa TAURON sp. z o.o. with its registered office in Tarnów.   |
| 112. | GM (WZ/ZW)                  | General Meeting (GM) / Shareholders' (Partners') Meeting (Walne Zgromadzenie – WZ / Zgromadzenie Wspólników - ZW)                |
| 113. | ZG                          | Coal Mine (Zakład Górniczy - ZG) (Janina Coal Mine in Libiąż, Sobieski Coal Mine in Jaworzno, Brzeszcze Coal Mine in Brzeszcze). |
| 114. | ZW                          | Generation Plants (Zakłady Wytwarzania – ZW) (Katowice, Tychy, Bielsko-Biała, Kamienna Góra, Tychy).                             |

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