

EXTENDED CONSOLIDATED INTERIM REPORT

of TAURON Polska Energia S.A. Capital Group
for the first half of 2021

September 2021

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

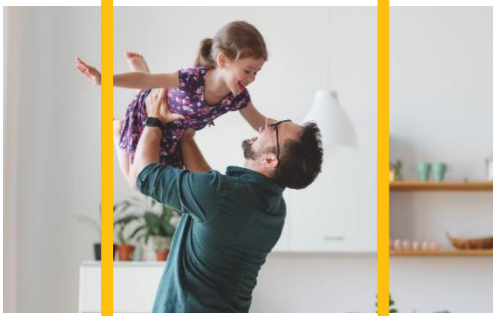
	in PLN '000		in EUR '000	
	2021 from 01.01.2021 to 30.06.2021	2020 from 01.01.2020 to 30.06.2020 (adjusted data)	2021 from 01.01.2021 to 30.06.2021	2020 from 01.01.2020 to 30.06.2020 (adjusted data)
Sales revenue	11 866 381	10 186 778	2 609 602	2 293 648
Operating profit	730 580	597 685	160 666	134 574
Pre-tax profit	596 688	352 475	131 221	79 363
Net profit	381 965	27 046	84 000	6 090
Net profit attributable to shareholders of the parent company	355 959	28 082	78 281	6 323
Net profit (loss) attributable to non-controlling shares	26 006	(1 036)	5 719	(233)
Other total net income	146 764	(190 755)	32 276	(42 950)
Total comprehensive income	528 729	(163 709)	116 276	(36 860)
Total comprehensive income attributable to shareholders of the parent company	502 635	(162 528)	110 538	(36 594)
Total comprehensive income attributable to non-controlling shares	26 094	(1 181)	5 738	(266)
Profit per share (in PLN/EUR) (basic and diluted)	0,20	0,02	0,04	0,00
Weighted average number of shares (in pcs) (basic and diluted)	1 752 549 394	1 752 549 394	1 752 549 394	1 752 549 394
Net cash flows from operating activities	2 569 859	2 523 280	565 152	568 140
Net cash flows from investing activities	(1 596 135)	(2 158 988)	(351 015)	(486 116)
Net cash flows from financing activities	(1 333 162)	(963 214)	(293 183)	(216 877)
Increase/(decrease) in net cash and equivalents	(359 438)	(598 922)	(79 046)	(134 853)
	As of 30.06.2021	As of 31.12.2020 (adjusted data)	As of 30.06.2021	As of 31.12.2020 (adjusted data)
Fixed assets	32 504 864	33 584 959	7 190 069	7 277 663
Current assets	6 013 593	6 111 252	1 330 206	1 324 272
Total assets	38 518 457	39 696 211	8 520 275	8 601 935
Share capital	8 762 747	8 762 747	1 938 318	1 898 836
Equity attributable to shareholders of the parent company	16 336 078	15 833 523	3 613 537	3 431 031
Equity attributable to non-controlling shares	915 901	893 623	202 597	193 643
Total equity	17 251 979	16 727 146	3 816 134	3 624 674
Long term liabilities	14 542 576	15 865 877	3 216 815	3 438 042
Short term liabilities	6 723 902	7 103 188	1 487 326	1 539 219
Total liabilities	21 266 478	22 969 065	4 704 141	4 977 261

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

	in PLN '000		in EUR '000	
	2021 from 01.01.2021 to 30.06.2021	2020 from 01.01.2020 to 30.06.2020 (adjusted data)	2021 from 01.01.2021 to 30.06.2021	2020 from 01.01.2020 to 30.06.2020 (adjusted data)
Sales revenue	7 475 727	5 206 920	1 644 029	1 172 386
Operating profit (loss)	(51 449)	65 550	(11 314)	14 759
Pre-tax profit (loss)	601 854	(1 658 904)	132 357	(373 518)
Net profit (loss)	568 790	(1 617 532)	125 086	(364 202)
Other total net income	118 371	(107 340)	26 032	(24 169)
Total comprehensive income	687 161	(1 724 872)	151 118	(388 371)
Profit (loss) per share (in PLN/EUR) (basic and diluted)	0.32	(0.92)	0.07	(0.21)
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	654 539	742 272	143 943	167 129
Net cash flows from investing activities	838 600	(1 115 763)	184 421	(251 224)
Net cash flows from financing activities	(1 306 832)	(998 056)	(287 393)	(224 722)
Increase/(decrease) in net cash and equivalents	186 307	(1 371 547)	40 971	(308 817)
	As of 30.06.2021	As of 31.12.2020 (adjusted data)	As of 30.06.2021	As of 31.12.2020 (adjusted data)
Fixed assets	26 030 123	25 202 812	5 757 858	5 461 301
Current assets	3 775 112	3 843 923	835 054	832 956
Total assets	29 805 235	29 046 735	6 592 912	6 294 257
Share capital	8 762 747	8 762 747	1 938 318	1 898 836
Equity	12 148 909	11 461 748	2 687 336	2 483 694
Long term liabilities	11 749 058	13 074 803	2 598 889	2 833 233
Short term liabilities	5 907 268	4 510 184	1 306 687	977 330
Total liabilities	17 656 326	17 584 987	3 905 576	3 810 563

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

- individual items of the statement of financial position - at the average NBP exchange rate announced on June 30, 2021 - PLN/EUR 4.5208 (as of December 31, 2020 - PLN/EUR 4.6148),
- 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, 2021, to June 30, 2021 - PLN/EUR 4.5472 (for the period from January 1, 2020, to June 30, 2020: PLN/EUR 4.4413).



STATEMENT OF THE MANAGEMENT BOARD

of TAURON Polska Energia S.A.

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S T A T E M E N T

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

The Management Board of TAURON Polska Energia S.A., represents that, to its best knowledge, the interim condensed consolidated financial statement of TAURON Capital Group and comparable figures were prepared in accordance with applicable accounting rules and give the true and fair picture of the assets, financial standing and performance of TAURON Polska Energia S.A. and TAURON Capital Group.

The Management Board of TAURON Polska Energia S.A., also certifies that the interim Management Board's report on the operations of TAURON Capital Group gives the true picture of the development, achievements and situation of TAURON Capital Group, including the description of key risks and threats.

Management Board Members:

1. Artur Michałowski -Vice President of the Management Board and acting President of the Management Board

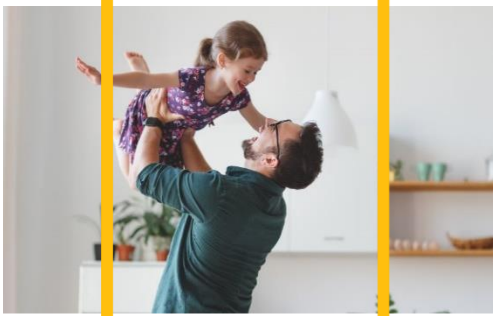
2. Patryk Demski -Vice President of the Management Board

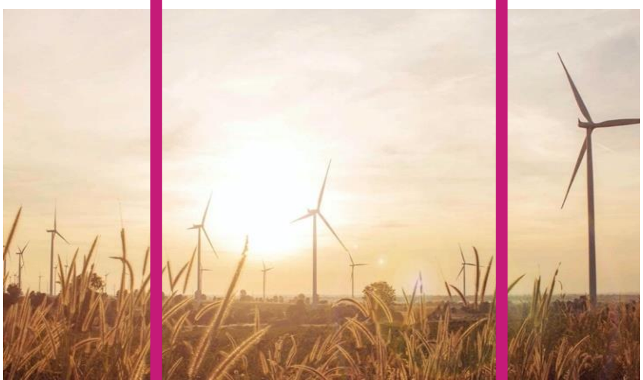
3. Krzysztof Surma -Vice President of the Management Board

4. Jerzy Topolski -Vice President of the Management Board

14 September 2021
Date

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





INDEPENDENT AUDITOR'S REPORT ON REVIEW

of interim condensed consolidated financial statements of TAURON Polska Energia S.A. Capital Group for the first half of 2021

Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k.
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INDEPENDENT AUDITOR'S REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

To the General Meeting and Supervisory Board of TAURON Polska Energia S.A.

Introduction

We have reviewed the interim condensed consolidated financial statements of TAURON Polska Energia S.A. Group (the 'Group'), for which the holding company is TAURON Polska Energia S.A. (the 'Company') located in Katowice at Ks. Piotra Ściegiennego 3, containing: the consolidated statement of comprehensive income for the period from 1 January 2021 to 30 June 2021, the consolidated statement of financial position as at 30 June 2021, the consolidated statement of changes in equity, the consolidated statement of cash flows for the period from 1 January 2021 to 30 June 2021 and other explanatory notes (the 'interim condensed consolidated financial statements').

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

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

Scope of review

We conducted our review in accordance with National Review Standard 2410 in the wording of the International Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* ('standard'), adopted by the National Council of Statutory Auditors. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, applying analytical and other review procedures.

A review is substantially less in scope than an audit conducted in accordance with National Auditing Standards in the wording of the International Auditing Standards adopted by the National Council of Statutory Auditors and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

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

Emphasis of Matter

Without qualification, we draw attention to the:
- note 15 of the attached interim condensed consolidated financial statements, where the Management Board of holding company described significant assumptions taken for the purpose of assets impairment testing, including assumptions related to subsidies to hard coal mining and electric energy prices taking into account envisaged support mechanisms, as well as presented tests' sensitivity to taken assumptions, and to the
- note 51 of the attached interim condensed consolidated financial statements, where the Management Board of the holding company described significant events after the balance sheet date.

Our conclusion does not contain any modifications in connection with this matter.

Warsaw, 15 September 2021

Key certified auditor

(signed with a qualified electronic signature)

Leszek Lerch
certified auditor
no in the register: 9886

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

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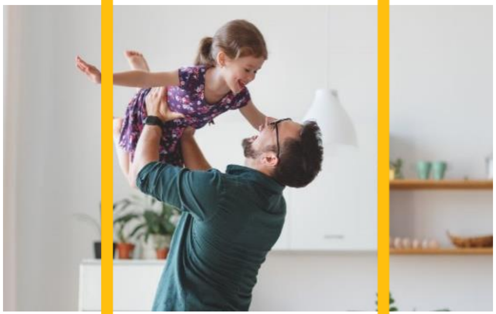

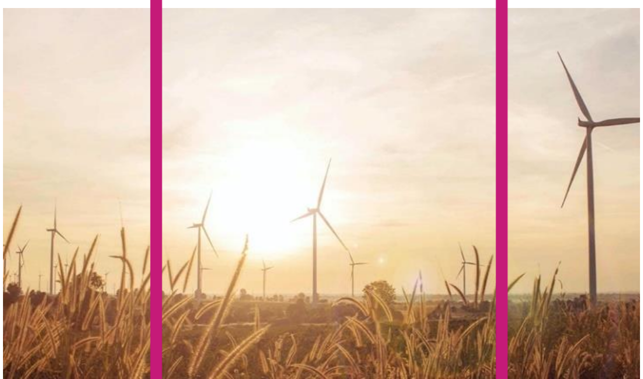

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

prepared in accordance with the International Financial Reporting Standards, as endorsed by the European Union for the 6-month period ended 30 June 2021

TAURON Polska Energia S.A. Capital Group

Interim condensed consolidated financial statements
in accordance with the International Financial Reporting Standards
as endorsed by the European Union
for the 6-month period ended 30 June 2021

(in PLN thousand)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	3-month period ended 30 June 2021 *(unaudited)*	6-month period ended 30 June 2021 *(unaudited)*	3-month period ended 30 June 2020 *(unaudited restated figures)*	6-month period ended 30 June 2020 *(unaudited restated figures)*
Sales revenue	**11**	5 421 868	11 866 381	4 719 012	10 186 778
Cost of sales	**12**	(5 647 880)	(10 649 751)	(4 677 308)	(9 423 939)
Profit on sale (loss)		**(226 012)**	**1 216 630**	**41 704**	**762 839**
Selling and distribution expenses	**12**	(132 211)	(249 343)	(82 994)	(211 726)
Administrative expenses	**12**	(157 208)	(306 448)	(134 862)	(292 338)
Other operating income and expenses		30 675	47 441	292 831	297 996
Share in profit/(loss) of joint ventures	**20**	2 845	22 300	6 955	40 914
Operating profit (loss)		**(481 911)**	**730 580**	**123 634**	**597 685**
Interest expense on debt	**13**	(94 470)	(185 596)	(73 280)	(145 609)
Finance income and other finance costs	**13**	75 689	51 704	70 713	(99 601)
Profit before tax (loss)		**(500 692)**	**596 688**	**121 067**	**352 475**
Income tax expense	**14**	31 856	(214 723)	(255 496)	(325 429)
Net profit (loss)		**(468 836)**	**381 965**	**(134 429)**	**27 046**
Measurement of hedging instruments	**30.4**	13 139	132 158	(41 555)	(131 745)
Foreign exchange differences from translation of foreign entity		(1 655)	3 258	210	(1 814)
Income tax	**14**	(2 496)	(25 110)	7 896	25 032
Other comprehensive income to be reclassified in the financial result		**8 988**	**110 306**	**(33 449)**	**(108 527)**
Actuarial gains (losses)	**32.1**	39 552	44 658	(106 875)	(101 960)
Income tax	**14**	(7 514)	(8 484)	20 303	19 372
Share in other comprehensive income of joint ventures	**20**	205	284	198	360
Other comprehensive income not to be reclassified in the financial result		**32 243**	**36 458**	**(86 374)**	**(82 228)**
Other comprehensive income, net of tax		**41 231**	**146 764**	**(119 823)**	**(190 755)**
Total comprehensive income		**(427 605)**	**528 729**	**(254 252)**	**(163 709)**
Net profit (loss):					
Attributable to equity holders of the Parent		(483 057)	355 959	(133 984)	28 082
Attributable to non-controlling interests		14 221	26 006	(445)	(1 036)
Total comprehensive income:					
Attributable to equity holders of the Parent		(441 900)	502 635	(253 648)	(162 528)
Attributable to non-controlling interests		14 295	26 094	(604)	(1 181)
Basic and diluted earnings per share (in PLN):		(0.28)	0.20	(0.08)	0.02

(in PLN thousand)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	As at 30 June 2021 *(unaudited)*	As at 31 December 2020 *(restated figures)*
ASSETS			
Non-current assets			
Property, plant and equipment	**15**	28 669 884	29 504 667
Right-of-use assets	**16**	1 895 132	1 875 970
Goodwill	**17**	26 183	26 183
Energy certificates and CO_2 emission allowances for surrender	**18.1**	85 508	500 936
Other intangible assets	**19**	531 485	551 692
Investments in joint ventures	**20**	612 202	586 559
Loans granted to joint ventures	**21**	98 713	96 293
Other financial assets	**22**	354 161	246 246
Other non-financial assets	**23.1**	102 914	64 093
Deferred tax assets	**24**	128 682	132 320
		32 504 864	**33 584 959**
Current assets			
Energy certificates and CO_2 emission allowances for surrender	**18.2**	634 070	1 039 629
Inventories	**25**	1 140 896	874 426
Receivables from buyers	**26**	2 532 402	2 473 416
Income tax receivables	**39**	181 136	83 655
Receivables arising from other taxes and charges	**27**	172 880	295 166
Loans granted to joint ventures	**21**	-	2 420
Other financial assets	**22**	616 115	266 521
Other non-financial assets	**23.2**	169 280	80 232
Cash and cash equivalents	**28**	558 150	921 345
Assets classified as held for sale	**29**	8 664	74 442
		6 013 593	**6 111 252**
TOTAL ASSETS		**38 518 457**	**39 696 211**

(in PLN thousand)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION - continued

	Note	As at 30 June 2021 *(unaudited)*	As at 31 December 2020 *(restated figures)*
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the Parent			
Issued capital	**30.1**	8 762 747	8 762 747
Reserve capital	**30.3**	2 749 099	6 338 754
Revaluation reserve from valuation of hedging instruments	**30.4**	39 145	(67 903)
Foreign exchange differences from translation of foreign entities		30 268	27 010
Retained earnings/(Accumulated losses)	**30.5**	4 754 819	772 915
		16 336 078	**15 833 523**
Non-controlling interests	**30.6**	**915 901**	**893 623**
Total equity		**17 251 979**	**16 727 146**
Non-current liabilities			
Debt	**31**	11 979 466	13 171 200
Provisions for employee benefits	**32**	910 687	951 612
Provisions for disassembly of fixed assets, land restoration and other provisions	**33**	609 443	669 295
Accruals, deferred income and government grants	**36**	534 282	494 923
Deferred tax liabilities	**24**	376 882	433 738
Other financial liabilities	**41**	128 372	137 563
Other non-financial liabilities		3 444	7 546
		14 542 576	**15 865 877**
Current liabilities			
Debt	**31**	1 469 480	1 480 672
Liabilities to suppliers	**37**	984 381	1 020 668
Capital commitments	**38**	436 990	857 389
Provisions for employee benefits	**32**	89 278	103 975
Provisions for liabilities due to energy certificates and CO_2 emission allowances	**34**	1 113 495	1 750 923
Other provisions	**35**	264 525	303 739
Accruals, deferred income and government grants	**36**	320 670	181 528
Income tax liabilities	**39**	3 315	3 142
Liabilities arising from other taxes and charges	**40**	340 974	409 787
Other financial liabilities	**41**	1 198 549	559 503
Other non-financial liabilities	**42**	501 659	423 298
Liabilities directly related to assets classified as held for sale	**0**	586	8 564
		6 723 902	**7 103 188**
Total liabilities		**21 266 478**	**22 969 065**
TOTAL EQUITY AND LIABILITIES		**38 518 457**	**39 696 211**

(in PLN thousand)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

6-MONTH PERIOD ENDED 30 JUNE 2021 *(unaudited)*

	Note	Equity attributable to the equity holders of the Parent						Non-controlling interests	Total equity
		Issued capital	Reserve capital	Revaluation reserve on valuation of hedging instruments	Foreign exchange differences from translation of foreign entities	Retained earnings/ (Accumulated losses)	Total		
As at 1 January 2021		**8 762 747**	**6 338 754**	**(67 903)**	**27 010**	**772 915**	**15 833 523**	**893 623**	**16 727 146**
Coverage of prior years loss	**30.5**	-	(3 589 655)	-	-	3 589 655	**-**	-	**-**
Divident		-	-	-	-	-	**-**	(3 421)	**(3 421)**
Transactions with non-controlling shareholders		-	-	-	-	(80)	**(80)**	(395)	**(475)**
Transactions with shareholders		**-**	**(3 589 655)**	**-**	**-**	**3 589 575**	**(80)**	**(3 816)**	**(3 896)**
Net profit		-	-	-	-	355 959	**355 959**	26 006	**381 965**
Other comprehensive income		-	-	107 048	3 258	36 370	**146 676**	88	**146 764**
Total comprehensive income		**-**	**-**	**107 048**	**3 258**	**392 329**	**502 635**	**26 094**	**528 729**
As at 30 June 2021 ***(unaudited)***		**8 762 747**	**2 749 099**	**39 145**	**30 268**	**4 754 819**	**16 336 078**	**915 901**	**17 251 979**

6-MONTH PERIOD ENDED 30 JUNE 2020 *(restated unaudited data)*

	Equity attributable to the equity holders of the Parent						Non-controlling interests	Total equity
	Issued capital	Reserve capital	Revaluation reserve on valuation of hedging instruments	Foreign exchange differences from translation of foreign entities	Retained earnings/ (Accumulated losses)	Total		
As at 1 January 2020	**8 762 747**	**6 801 584**	**15 666**	**14 521**	**2 597 708**	**18 192 226**	**900 434**	**19 092 660**
Transactions with non-controlling shareholders	-	-	-	-	(827)	**(827)**	587	**(240)**
Transactions with shareholders	**-**	**-**	**-**	**-**	**(827)**	**(827)**	**587**	**(240)**
Net profit (loss)	-	-	-	-	28 082	**28 082**	(1 036)	**27 046**
Other comprehensive income	-	-	(106 713)	(1 814)	(82 083)	**(190 610)**	(145)	**(190 755)**
Total comprehensive income	**-**	**-**	**(106 713)**	**(1 814)**	**(54 001)**	**(162 528)**	**(1 181)**	**(163 709)**
As at 30 June 2020 ***(unaudited restated figures)***	**8 762 747**	**6 801 584**	**(91 047)**	**12 707**	**2 542 880**	**18 028 871**	**899 840**	**18 928 711**

(in PLN thousand)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	6-month period ended 30 June 2021 *(unaudited)*	6-month period ended 30 June 2020 *(unaudited restated figures)*
Cash flows from operating activities			
Profit before taxation		**596 688**	**352 475**
Share in (profit)/loss of joint ventures		(22 300)	(40 914)
Depreciation and amortization		1 055 781	999 286
Impairment losses on non-financial non-current assets		1 114 713	810 836
Exchange differences		(79 400)	150 738
Interest and commissions		179 789	149 544
Other adjustments of profit before tax		146 411	80 917
Change in working capital	**43.1**	(22 892)	(87 497)
Income tax paid	**43.1**	(398 931)	107 895
Net cash from operating activities		**2 569 859**	**2 523 280**
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets	**43.2**	(1 674 295)	(2 100 411)
Loans granted		(654)	(78 475)
Purchase of financial assets		(9 567)	(21 481)
Total payments		**(1 684 516)**	**(2 200 367)**
Proceeds from sale of property, plant and equipment and intangible assets		22 761	7 230
Sale of shares	**43.2**	52 605	-
Repayment of loans granted		2 450	5 401
Redemption of share units		-	26 747
Other proceeds		10 565	2 001
Total proceeds		**88 381**	**41 379**
Net cash used in investing activities		**(1 596 135)**	**(2 158 988)**
Cash flows from financing activities			
Redemption of debt securities		-	(3 100)
Repayment of loans and borrowings	**43.3**	(1 807 687)	(3 046 380)
Interest paid	**43.3**	(90 511)	(46 818)
Repayment of lease liabilities		(83 060)	(70 965)
Other payments		(10 724)	(11 837)
Total payments		**(1 991 982)**	**(3 179 100)**
Proceeds from contracted loans and borrowings	**43.3**	602 772	2 200 000
Subsidies received	**43.3**	56 048	15 886
Total proceeds		**658 820**	**2 215 886**
Net cash from financing activities		**(1 333 162)**	**(963 214)**
Net increase/(decrease) in cash and cash equivalents		**(359 438)**	**(598 922)**
Net foreign exchange difference		(1 955)	(110)
Cash and cash equivalents at the beginning of the period	**28**	**895 377**	**1 203 601**
Cash and cash equivalents at the end of the period, *of which*:	**28**	**535 939**	**604 679**
restricted cash	**28**	230 934	269 321

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

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

TAURON Polska Energia S.A. Capital Group (the "Group", the "Capital Group", "TAURON Group") consists of TAURON Polska Energia S.A. (the "parent entity", the "Company", the "Parent Company") and its subsidiaries. TAURON Polska Energia S.A. with its registered office in Katowice at: ul. ks. Piotra Ściegiennego 3, in Poland, operates as a joint-stock company, incorporated by notarial deed on 6 December 2006. Until 16 November 2007, the Company operated under the name Energetyka Południe S.A.

The Parent Company is entered in the register of entrepreneurs of the National Court Register maintained by the District Court for Katowice-Wschód, Commercial Department of the National Court Register under KRS number: 0000271562.

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

The TAURON Group's core business is reflected in the breakdown into segments: Mining, Generation (the segment comprising generation of electricity from conventional sources and heat generation), Renewable Energy Sources (the segment comprising generation of electricity from renewable sources), Distribution, Sales and other operations, including customer service, which is discussed in more detail in Note 10 to these interim condensed consolidated financial statements.

The interim condensed consolidated financial statements of the Group cover the 6-month period ended 30 June 2021 and contain comparative figures for the 6-month period ended 30 June 2020 and as at 31 December 2020. The data included in these interim condensed consolidated financial statements for the 6-month period ended 30 June 2021 and the comparative figures for the 6-month period ended 30 June 2020 have been reviewed by the statutory auditor. The comparative figures as at 31 December 2020 were subject to auditing by the statutory auditor. The interim condensed consolidated statement of comprehensive income comprising the data for the 3-month period ended 30 June 2021 and the comparative figures for the 3-month period ended 30 June 2020 have not been audited or reviewed by the statutory auditor.

These interim condensed consolidated financial statements for the 6-month period ended 30 June 2021 were approved for publication on 14 September 2021.

Composition of the Management Board

As at 1 January 2021, the composition of the Management Board was as follows:

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

On 19 February 2021, Mr Wojciech Ignacok resigned from his function of the President of the Management Board, with effect as of 28 February 2021. On 24 February 2021, the Supervisory Board of the Company adopted a resolution concerning the assignment of the duties of the President of the Management Board of the Company to Mr Marek Wadowski from 1 March 2021 until the date of the appointment of the President of the Management Board of the Company.

On 1 April 2021, the Supervisory Board of the Company appointed Mr Paweł Strączyński to the Company Management Board and nominated him to the position of the President of the Management Board.

On 13 May 2021, the Company received the resignation of Mr Marek Wadowski from his membership in the Management Board of the Company and therefore from the position of Vice-President of the Management Board for Financial Affairs, effective as of the end of the day on 17 May 2021.

As at 30 June 2021, the composition of the Management Board was as follows:

- Paweł Strączyński – President of the Management Board,
- Jerzy Topolski – Vice-President of the Management Board.

After the balance sheet date, on 2 July 2021, the Company received the resignation of Mr Paweł Strączyński from his position of the President of the Management Board of the Company, effective as of the end of the day on 21 July 2021.

On 19 and 27 July 2021, the Company accepted the declaration of Mr Paweł Strączyński on the amendment of his declaration of resignation from the position of the President of the Management Board as a result his resignation from the position of the President of the Management Board will be effective as of the lapse of 4 August 2021.

After the balance sheet date, on 4 August 2021 the Supervisory Board of the Company appointed as of 5 August 2021 to the Management Board:

- Mr Artur Michałowski for the position of Vice-President of the Management Board for Trade,
- Mr Patryk Demski for the position of Vice-President of the Management Board for Strategy and Development,
- Mr Krzysztof Surma for the position of Vice-President of the Management Board for Finance.

At the same time, the Supervisory Board of the Company adopted a resolution entrusting Mr Artur Michałowski with the duties of the President of the Management Board of the Company from 5 August 2021 until the date of appointment of the President of the Management Board.

As at the date of approval of these interim condensed consolidated financial statements for publication, the composition of the Management Board was as follows:

- Artur Michałowski – acting President of the Management Board, Vice-President of the Management Board,
- Patryk Demski – Vice-President of the Management Board,
- Krzysztof Surma – Vice-President of the Management Board,
- Jerzy Topolski - Vice-President of the Management Board.

2. Composition of TAURON Group and joint ventures

As at 30 June 2021, TAURON Polska Energia S.A. held, directly and indirectly, interest in the following key subsidiaries:

(in PLN thousand)

Item	Company name	Registered office	Operating segment	Interest in the share capital by TAURON Polska Energia S.A.	Interest in the decision-making body held by TAURON Polska Energia S.A.
1	TAURON Wydobycie S.A.	Jaworzno	Mining	100.00%	100.00%
2	TAURON Wytwarzanie S.A.	Jaworzno	Generation	100.00%	100.00%
3	Nowe Jaworzno Grupa TAURON Sp. z o.o.	Jaworzno		86.29%	86.29%
4	TAURON Ciepło Sp. z o.o.	Katowice		100.00%	100.00%
5	TAURON Serwis Sp. z o.o.	Katowice		95.61%	95.61%
6	Łagisza Grupa TAURON Sp. z o.o.[1]	Katowice		100.00%	100.00%
7	TAURON Ekoenergia Sp. z o.o.	Jelenia Góra	Renewable Energy Sources	100.00%	100.00%
8	Marselwind Sp. z o.o.	Katowice		100.00%	100.00%
9	TEC1 Sp. z o.o.	Katowice		100.00%	100.00%
10	TEC2 Sp. z o.o.[2]	Katowice		100.00%	100.00%
11	TEC3 Sp. z o.o.	Katowice		100.00%	100.00%
12	TEC1 spółka z ograniczoną odpowiedzialnością Mogilno I sp.k.	Katowice		n/a	100.00%
13	TEC1 spółka z ograniczoną odpowiedzialnością Mogilno II sp.k.	Katowice		n/a	100.00%
14	TEC1 spółka z ograniczoną odpowiedzialnością Mogilno III sp.k.	Katowice		n/a	100.00%
15	TEC1 spółka z ograniczoną odpowiedzialnością Mogilno IV sp.k.	Katowice		n/a	100.00%
16	TEC1 spółka z ograniczoną odpowiedzialnością Mogilno V sp.k.	Katowice		n/a	100.00%
17	TEC1 spółka z ograniczoną odpowiedzialnością Mogilno VI sp.k.	Katowice		n/a	100.00%
18	TEC1 spółka z ograniczoną odpowiedzialnością EW Śniatowo sp.k.	Katowice		n/a	100.00%
19	TEC1 spółka z ograniczoną odpowiedzialnością EW Dobrzyń sp.k.	Katowice		n/a	100.00%
20	TEC1 spółka z ograniczoną odpowiedzialnością EW Gołdap sp.k.	Katowice		n/a	100.00%
21	TEC1 spółka z ograniczoną odpowiedzialnością Ino 1 sp.k.	Katowice		n/a	100.00%
22	WIND T1 Sp. z o.o.[3]	Jelenia Góra		100.00%	100.00%
23	AVAL-1 Sp. z o.o.[3]	Jelenia Góra		100.00%	100.00%
24	Polpower Sp. z o.o.[3]	Połczyn-Zdrój		100.00%	100.00%
25	TAURON Dystrybucja S.A.	Kraków	Distribution	99.76%	99.76%
26	TAURON Dystrybucja Pomiary Sp. z o.o.[4]	Tarnów		99.76%	99.76%
27	TAURON Sprzedaż Sp. z o.o.	Kraków	Sales	100.00%	100.00%
28	TAURON Sprzedaż GZE Sp. z o.o.	Gliwice		100.00%	100.00%
29	TAURON Czech Energy s.r.o.	Ostrawa, Czech Republic		100.00%	100.00%
30	TAURON Nowe Technologie S.A.	Wrocław		100.00%	100.00%
31	TAURON Obsługa Klienta Sp. z o.o.	Wrocław	Other	100.00%	100.00%
32	Kopalnia Wapienia Czatkowice Sp. z o.o.	Krzeszowice		100.00%	100.00%
33	Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o.	Warszawa		100.00%	100.00%
34	Finanse Grupa TAURON Sp. z o.o.	Katowice		100.00%	100.00%
35	Bioeko Grupa TAURON Sp. z o.o.	Stalowa Wola		100.00%	100.00%
36	Wsparcie Grupa TAURON Sp. z o.o.[4]	Tarnów		99.76%	99.76%

[1] The share in Łagisza Grupa TAURON Sp. z o.o. is held by TAURON Polska Energia S.A. indirectly through its subsidiary, TAURON Wytwarzanie S.A.
[2] On 1 July 2021 the merger of companies: TEC3 sp. z o.o. (the acquiring company) with the company TEC2 sp. z o.o. (the acquired company) took place by way of acquisition, pursuant to Article 492(1)(1) of the Code of Commercial.
[3] The share in WIND T1 Sp. z o.o., AVAL-1 Sp. z o.o. and Polpower Sp. z.o.o. is held by TAURON Polska Energia S.A. indirectly through its subsidiary, TAURON Ekoenergia Sp. z o.o.
[4] The share in TAURON Dystrybucja Pomiary Sp. z o.o. and Wsparcie Grupa TAURON Sp. z o.o. is held by TAURON Polska Energia S.A. indirectly through its subsidiary, TAURON Dystrybucja S.A. TAURON Polska Energia S.A. is the user of shares in TAURON Dystrybucja Pomiary Sp. z o.o..

As at 30 June 2021, TAURON Polska Energia S.A. held direct and indirect interest in the following key jointly-controlled entities:

(in PLN thousand)

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

[1] *TAURON Polska Energia S.A. holds an indirect share in Elektrociepłownia Stalowa Wola S.A. through its subsidiary, TAURON Wytwarzanie S.A.*
[2] *TAURON Polska Energia S.A. holds a direct share in the issued capital and in the governing body of TAMEH HOLDING Sp. z o.o., which holds 100% interest in the issued capital and in the governing body of TAMEH POLSKA Sp. z o.o. and TAMEH Czech s.r.o.*

Changes in the composition of TAURON Group

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

On 3 December 2020, the Extraordinary Meeting of Shareholders of Nowe Jaworzno Grupa TAURON sp. z o.o. company adopted the resolution on increasing the share capital of the company by the amount of PLN 1 900 thousand. All shares were acquired by the Company for the total amount of PLN 190 000 thousand. On 7 December 2020, the Company transferred the funds for the capital increase. As a result of this transaction, the Company shareholding in the capital and the governing body increased from 85.88% to 86.29%. On 13 January 2021, the capital increase was registered.

- Surcharges to the capitals of the company Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o.

On 17 March 2021, the Extraordinary Meeting of Shareholders of Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o adopted the resolution on contribution of surcharges to the capitals of the company in the amount PLN 10 800 thousand. Funds on account of surcharges were contributed by the Company on 24 March 2021.

- Decrease in the share capital of TAURON Dystrybucja S.A.

On 21 May 2021, a decrease in the share capital of the subsidiary, TAURON Dystrybucja S.A. was registered, in connection with the statutory redemption of shares acquired by the company from shareholders representing no more than 5% of the share capital. As at 30 June 2021, the share of the Company in the capital and in the governing body reached 99.76% (as at 31 December 2020 - 99.75%).

As a result of the change in the Company share in TAURON Dystrybucja S.A., the share in subsidiaries held indirectly through TAURON Dystrybucja S.A., i.e. in TAURON Dystrybucja Pomiary Sp. z o.o. and Wsparcie Grupa TAURON Sp. z o.o., also changed.

- Acquisition of shares in Polpower Sp. z o.o.

On 10 June 2021, TAURON Ekoenergia Sp. z o.o. acquired 100% of the shares of Polpower Sp. z o.o. Consequently, TAURON Polska Energia S.A. holds an indirect share of 100% in the company Polpower Sp. z o.o. In the opinion of the Company, the transaction does not constitute a business acquisition within the meaning of IFRS 3 *Business Combinations*, therefore the transaction was settled as the acquisition of assets other than assets constituting a business.

As at 30 June 2021, the share of TAURON Polska Energia S.A. in the capital and in the governing body of the remaining key subsidiaries and jointly-controlled entities has not changed since 31 December 2020.

3. Statement of compliance

These interim condensed consolidated financial statements were complied in accordance with the International Accounting Standard no. 34 *Interim Financial Reporting* (“IAS 34”) according to the template approved by the European Union (the “EU”).

The interim condensed consolidated financial statements do not comprise all the information and disclosures required in the annual consolidated financial statements and should be read in conjunction with the consolidated financial statements of the Company prepared in accordance with the IFRS for the year ended 31 December 2020.

4. Going concern

These interim condensed consolidated financial statements have been prepared with the assumption of continuation of activities by the Group companies as a going concern in the foreseeable future, i.e. in the period not shorter than one year following the balance sheet day. As at the date of approval of these interim condensed consolidated financial statements for publication, no circumstances had been identified which would indicate a risk to the ability of the Group's companies to continue as a going concern.

The Group identifies and actively manages liquidity risk, understood as the possibility of losing or limiting the capacity to settle current expenses. The Group has the full capacity to settle its liabilities as they become due and payable. As at the balance sheet date, the Group has financing available under financing arrangements.

The Management Board analysed the financial situation of the Group and the Company, at present, it does not identify any risks for the continuity of the Group as a going concern in the foreseeable future, i.e. in the period shorter than 1 year from the balance sheet date in the areas of liquidity, financing and securing the continuity of operating activities, taking into account the description of the impact of the COVID-19 pandemic on the Group's activities, as further discussed in Note 50 to these interim condensed consolidated financial statements.

5. Functional and presentation currency

The functional currency of the parent entity and its subsidiaries, except for TAURON Czech Energy s.r.o., covered by these interim condensed consolidated financial statements and the presentation currency of these interim condensed consolidated financial statements is the Polish zloty. The functional currency of TAURON Czech Energy s.r.o. is the Czech koruna ("CZK"). Items in the financial statements of TAURON Czech Energy s.r.o. are translated into the TAURON Group's presentation currency using the relevant exchange rates.

These interim condensed consolidated financial statements are presented in the Polish zloty ("PLN") and all figures are provided in PLN thousand, unless indicated otherwise.

6. Material values based on professional judgement and estimates

In the process of applying the accounting policy in relation to the issues provided below, besides accounting estimates, the professional judgement of the management has been of key importance, affecting the figures disclosed in these interim condensed consolidated financial statements, including in the additional explanatory notes. The assumptions underlying these estimates are based on the best knowledge of the Management Board related to the current and future actions and events in individual areas. In the period covered by these interim condensed consolidated financial statements, no significant changes occurred in the estimates or estimation methods applied, which could affect the current or future periods, other than those described below and hereinafter in these interim condensed consolidated financial statements.

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

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

Estimates and assumptions

With respect to receivables from customers, the Group estimates the amount of the allowance for expected credit losses based on the probability-weighted credit loss may be incurred if any of the following events occur:

- a considerable (significant) delay in payment,
- a debtor goes into liquidation, bankruptcy or restructuring,
- the receivables are submitted to administrative enforcement, legal proceedings or enforcement at court.

The Group has allocated a portfolio of strategic counterparties and a portfolio of other counterparties for receivables from customers. The default risk of strategic counterparties is assessed based on the ratings granted to counterparties using an internal scoring model, adequately restated to the probability of default, taking into account estimates of potential recoveries from the collaterals submitted.

In the case of receivables from other counterparties the 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 were estimated using the receivables ageing matrix and the percentage ratios assigned to the various ranges and groups (including receivables claimed at court, receivables from counterparties in bankruptcy) allowing to estimate the value of receivables from customers expected to be outstanding.

Impact of COVID-19 on the methodology of estimates and assumptions

The economic impact of COVID-19 may affect both the quality of the Group's financial asset portfolio and the level of repayment of receivables from customers. The forecast impact varies depending on the economic sector in which a particular counterparty operates. Due to the uncertainty surrounding further development of the COVID-19 pandemic and the expected impact of aid programmes, the ability to accurately estimate the future repayment of receivables from customers is limited.

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

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

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

Impact of COVID-19 on the level of estimates prepared

The estimates including the uncertainties related mainly to the effect of COVID-19 on the expected credit losses on receivables from customers were calculated based on the difference in the estimated amount of expected credit losses resulting from the model updated in the above scope and the model based on pre-pandemic parameters and amounted to PLN 5 209 thousand. The total expected credit loss as at 30 June 2021 calculated for receivables from customers (excluding receivables claimed at court) was estimated at a level of PLN 46 103 thousand.

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

Estimates and assumptions

For loans classified as assets measured at amortised cost, the Group estimates the amount of their impairment losses. The risk of insolvency of borrowers is estimated based on the ratings assigned to counterparties using an internal scoring model, adequately restated into a probability of default, taking into account the time value of money.

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

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

Impact of COVID-19 on the methodology of estimates and assumptions

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

Impact of COVID-19 on the level of estimates prepared

In order to take into account the impact of including COVID-19, for credit losses of loans granted and guarantees issued, the Group calculates the difference between amount of credit losses based on Credit Default Swap (CDS) quotations and amount of credit losses based on quotations of CDS instruments, before pandemic COVID-19. The effect of recognising the impact of COVID-19 on the estimation methodology for financial instruments, for which the Group was able to perform the relevant calculations, resulted in an increase in expected credit losses on the off-balance sheet liability under the guarantee issued by the bank at the Company request in favour of the jointly controlled entity, affecting in total the Group's financial result in the 6-month period ended 30 June 2021 in the amount of PLN 3 047 thousand.

Bearing in mind, that the valuation of the loans granted to joint ventures, was based on analysis of future cash flows and the Company do not possess data which allow to estimate COVID-19 effect of each factor of future cash flow calculation of joint ventures The Company assess that it was unable to reliably determine the impact of COVID-19 on the reduction of the carrying amount of the loans granted to joint ventures.

6.2. Other material values based on professional judgement and estimates

Other items of the interim condensed consolidated financial statements with a material risk of significant adjustment to the carrying amounts of assets and liabilities are presented below.

(in PLN thousand)

Item	Note	Estimates and assumptions
Property, plant and equipment	Note 15	The Group assesses as at each balance sheet date whether there is any objective indication that an item of property, plant and equipment may be impaired. If any such indication exists, the Group is required to test the property, plant and equipment for impairment. As part of the impairment test, the Group estimates the recoverable amount of the asset or cash-generating unit ("CGU") to which the asset belongs. The recoverable amount of an asset or CGU corresponds to the higher of fair value less costs to sell or 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. As a result of the impairment tests of non-financial assets carried out as at 30 June 2021, the Group recognised impairment losses in the amount of PLN 1 122 507 thousand, which is discussed in more detail in Note 15 of these interim condensed consolidated financial statements. The Group verifies, at least at the end of each financial year, the economic useful lives of property, plant and equipment and any adjustments to depreciation are made with effect from the beginning of the reporting period in which the verification is completed.
Right-of-use assets	Note 16	At the commencement date of the lease, the Group measures the right-of-use assets, inter alia, using the present value of lease payments that are not paid at that date. The lease payments are discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the Group uses the incremental borrowing rate, in line with the adopted method, depending on the ratings of individual companies in the TAURON Group. The Group applies a portfolio approach to leases with similar characteristics (same assets used in a similar way). When accounting for leases under the portfolio approach, the Group uses estimates and assumptions that reflect the size and composition of the portfolio, including estimates of the weighted average lease term. To determine the leasing period for lease agreements without termination date, the Group makes estimates.
Loans granted to joint ventures	Note 21	The Group performs appropriate classification and measurement of its loans granted and estimates the allowance for expected credit losses in case of loans classified as assets measured at amortised cost. As at the balance sheet date, the loan granted under the debt consolidation agreement, due to the fact that the cash flows do not correspond solely to the payment of principal and interest, was classified as a financial asset measures at a fair value through profit or loss. The Group has estimated the fair value accordingly taking into account the credit risk. Other loans are measured at amortised cost and at each balance sheet date the Group estimates expected credit losses. Analyses of the credit risk of loans granted to the joint venture carried out as at the balance sheet date include, among other things, an estimate of the company future cash flows.
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.
Debt	Note 31	When measuring liabilities at amortized cost using the effective interest rate method, the Group estimates expected cash flows considering all contractual terms of a given financial instrument, including the early repayment option. In the case of a loan agreement defining the maximum term of individual credit tranches up to 1 year or with a repayment date at the end of the interest period, where the financing available under the agreement is revolving and the term of availability exceeds 1 year, the Group classifies the tranches according to the intention and possibility of maintaining financing under the agreement, i.e. as long-term or short-term liabilities. The marginal interest rate of lease is estimated as a weighted average cost of TAURON Group's debt adjusted for the individual rating of the companies taking into account the division into lease periods.
Provisions	Note 32 Note 33 Note 34 Note 35	The Group estimates the amount of provisions created on the basis of the adopted assumptions, methodology and method of calculation appropriate for a given title of provisions, assessing the probability of disbursement of funds containing economic benefits and determining a reliable level of the amount necessary to meet the obligation. The Group creates provisions when the probability of disbursement of funds containing economic benefits is higher than 50%. As at the balance sheet date, the Group changed the estimate of the level of the discount rate adopted for the valuation of long-term provisions, which is further described in individual notes to these interim condensed consolidated financial statements.
Derivative instruments	Note 11 Note 44.2	The Group measures financial derivatives at fair value at each balance sheet date. Derivatives purchased and held to secure their own needs are not subject to valuation as at the balance sheet date. Due to the delay in commissioning the power unit in Jaworzno, as at the 31 December 2020, the Group has a significant surplus of CO_2 emission allowances contracted to be acquired to be redeemed by the subsidiary in connection with the 2020 issue. In the first quarter of 2021, as a result of the analysis of new premises and circumstances that emerged after 31 December 2020, the Group changed its intention regarding the aforementioned CO_2 emission allowances and decided to roll them over with the conclusion of new contracts with delivery dates in March 2022, 2023, 2024.

(in PLN thousand)

Besides the foregoing, the Group makes significant estimates as regards the contingent liabilities recognised, in particular as regards legal proceedings where the Group companies are parties. Contingent liabilities are presented in detail in Note 47 to these interim condensed consolidated financial statements.

As at 31 March 2021 and as at 30 June 2021, the Group assessed that in relation to the assets and liabilities of TAURON Ciepło Sp. z o.o. recognised as at 31 December 2020 as a disposable group held for sale, the conditions arising from IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* in the scope of classification of the above assets as a disposal group held for sale have not been met. In order to ensure comparability of the data in the interim condensed consolidated financial statements for the 6-month period ended 30 June 2021, the Group restated the comparative data accordingly in terms of presentation and measurement of assets and liabilities of TAURON Ciepło Sp. z o.o. for the 6-month period ended 30 June 2020 and as at 31 December 2020, as described in more detail in Note 8.2 of these interim condensed consolidated financial statements.

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

The Group did not choose earlier application of any standards or amendments to standards which were published but have not entered into force by 30 June 2021.

- **Amendments to standards issued by the International Accounting Standards Board which were approved by the European Union but have not yet entered into force**

According to the Management Board, the following amendments to standards will not materially affect the accounting policy applied so far:

Standard	Effective in the EU as of *(annual periods beginning on or after the date provided)*
Amendments to IFRS 3 *Business Combinations: Changes to references to the Conceptual Framework*	1 January 2022
Amendments to IAS 16 *Property, Plant and Equipment: Revenues earned before putting into use*	1 January 2022
Amendments to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*	1 January 2022
Annual Improvements to IFRS (Cycle 2018-2020):	
IFRS 1 *First-time Adoption of International Financial Reporting Standards*	1 January 2022
IFRS 9 *Financial Instruments*	1 January 2022
IAS 41 *Agriculture*	1 January 2022

- **Standards and amendments to standards issued by the International Accounting Standards Board which have not been endorsed by the European Union and have not entered into force yet**

Amendments to IAS 1 *Presentation of Financial Statements: Classification of financial liabilities as current or non-current* to enter into force on 1 January 2023

In accordance with the amendments to IAS 1 *Presentation of Financial Statements*, liabilities are classified as non-current if the entity has a significant right to defer the settlement of the liability for at least 12 months after the end of the reporting period. The expectations of the entity do not affect the classification.

As at the balance sheet day, the Company has revolving credit agreements under which the drawing period of the credit tranches is equal to or less than 1 year, while the period of availability of funding exceeds 12 months from the balance sheet date and the Company has the right to defer the liability by at least 12 months from the end of the reporting period. In the case of these credit agreements, the Company classifies the tranches as either a non-current liability or a current liability in accordance with the expectation regarding the repayment of the liability. As at 30 June 2021, taking into account the intentions of the Company, tranches with an aggregate nominal value of PLN 900 000 thousand are classified as current liabilities. Under the agreement, the Company has the right to defer the settlement of a liability for a period exceeding 12 months, thus in accordance with the amendments to IAS 1 *Presentation of Financial Statements* the said liability would be classified as a non-current liability.

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

(in PLN thousand)

Standard	Effective date specified in the Standard, not endorsed by the EU *(annual periods beginning on or after the date provided)*
IFRS 14 *Regulatory Deferral Accounts*	1 January 2016*
Amendments IFRS 10 *Consolidated Financial Statements and* IAS 28 *Investments in Associates and Joint Ventures: Sale or Contribution of Assets between Investor and its Associate or Joint Venture* with subsequent amendments	the effective date has been postponed
Amendments to IAS 12 *Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction*	1 January 2023
Amendments to IAS 1 *Presentation of Financial Statements* and IFRS Practice Statement 2: *Disclosure of Accounting Estimates*	1 January 2023
Amendments to IAS 8 *Accounting policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates*	1 January 2023
IFRS 17 *Insurance contracts*	1 January 2023

** The European Commission decided to suspend 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 applied and restating the comparable data

The accounting principles (policy) applied for the preparation of these interim condensed consolidated financial statements are consistent with those applied for the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2020 except for the application of the amendments to standards listed below and the changes in accounting policies and presentation applied by the Group, as described below.

8.1. Application of amendments to standards

According to the Management Board, the following standards and changes to standards have not materially affected the accounting policy applied so far:

Standard	Effective date in the EU *(annual periods beginning on or after the date provided)*
Amendments to IFRS 4 *Insurance Contracts*	1 January 2021
Amendments to IFRS 9 *Financial Instruments*, IAS 39 *Financial Instruments: Recognition and Measurement*, IFRS 7 *Financial Instruments: Disclosures*, IFRS 4 I*nsurance Contracts* and IFRS 16 *Leases*: *Interest Rate Benchmark Reform*	1 January 2021
Amendments to IFRS 16 *Leases: Covid-19-Related Rent Concessions beyond 30 June 2021* (apply for financial years which starts at the latest on 1 January 2021 and later)	1 April 2021

8.2. Restating the comparable data

Change in the plan concerning the sale of shares in TAURON Ciepło Sp. z o.o.

As at 30 June 2021, the Group estimated that in relation to the assets and liabilities of TAURON Ciepło Sp. z o.o. the conditions resulting from IFRS 5 *Non-current assets held for sale and discontinued operations* are no longer fulfilled in the scope of classification of the aforementioned assets as held for sale. In particular the active programme aimed at finding a buyer is not continued and the sale of shares in TAURON Ciepło Sp. z o.o. has not been completed within one year from the date of recognition of assets and liabilities of TAURON Ciepło Sp. z o.o. as assets classified as held for sale and liabilities related to assets classified as held for sale, respectively, i.e. from 30 June 2020. In the framework of the project aimed at market verification of the possibility to sell shares of the subsidiary, TAURON Ciepło Sp. z o.o. and the potential continuation of the sales process, the Company conducted negotiations on exclusivity basis with Polskie Górnictwo Naftowe i Gazownictwo S.A. On 29 January 2021, Polskie Górnictwo Naftowe i Gazownictwo S.A. expressed its intention to abandon the continuation of the negotiations aimed at acquiring shares in TAURON Ciepło Sp. z o.o.

As at 30 June 2020 the Group estimated that in relation to the assets and liabilities of TAURON Ciepło Sp. z o.o. the conditions resulting from IFRS 5 *Non-current assets held for sale and discontinued operations* have been fulfilled in the scope of classification of the aforementioned assets as held for sale, accordingly, as at 30 June 2020, the Group reclassified the assets and liabilities of TAURON Ciepło Sp. z o.o. as a disposable group of assets classified as held for sale and liabilities related to assets classified as held for sale, respectively. The measurement of assets and liabilities (net assets) of TAURON Ciepło Sp. z o.o. as at 31 December 2020 to the fair value conducted by the Group based on the information gathered in the course of the conducted market sale process of shares in TAURON Ciepło Sp. z o.o. amounted to PLN 1 342 000 thousand. The Group recognised the assets and liabilities of TAURON Ciepło Sp. z o.o. in the above fair value in the consolidated financial statements for the year ended 31 December 2020, which resulted in recognition of the revaluation write-down to the fair value in the amount of PLN 825 708 thousand charged to the Group's operating expenses.

(in PLN thousand)

Based on paragraph 28 of IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*, in view of the fact that the disposable group for which the sale plan was changed was the subsidiary, the Group assesses that it is necessary to restate the comparative data in these interim condensed consolidated financial statements accordingly. The comparative data were restated as if the assets and liabilities of TAURON Ciepło Sp. z o.o. in the previous reporting periods had not been classified as a disposable group held for sale and had not been measured to the fair value.

In order to ensure comparability of the data in the interim condensed consolidated financial statements for the 6-month period ended 30 June 2021, the Group restated the comparative data accordingly in terms of presentation and measurement of assets and liabilities of TAURON Ciepło Sp. z o.o. for the 6-month period ended 30 June 2020 and as at 31 December 2020. Assets and liabilities of TAURON Ciepło Sp. z o.o. after restatement are presented in relevant items of the interim condensed consolidated statement of financial position. The value of assets and liabilities is based on the recoverable value of individual cash-generating units of TAURON Ciepło Sp. z o.o. ("CGU"), which is the value in use of the aforementioned CGU as at 31 December 2020, as estimated within the recent impairment tests performed by the Group as at 31 December 2020. The key assumptions of the tests performed, in particular with regard to the adopted price paths for coal, electricity and CO_2 emission allowances, are described in Note 11 of the consolidated financial statements of TAURON Polska Energia S.A. Capital Group for the year ended 31 December 2020. Moreover, the feed-in tariff revenue of heat companies has been assumed, ensuring the coverage of justified costs and gaining a reasonable level of return on the capital employed. For the individual CGUs related to heat and electricity generation, the lifetime of the generating units was assumed until 2049. For the CGU related to heat transmission, a detailed forecast over a 10-year period was adopted including the residual value.

The table below shows the recoverable amount of individual cash-generating units, the carrying amount of these units after recognition of impairment loss in line with IAS 36 *Impairment Assets* and amount of impairment recognised within the restated figures as at 31 December 2020:

CGU	Company	Discount rate (before tax) assumed in tests as at:	Recoverable amount	Carrying amount taking into account in restated figures	Impairment loss
		31 December 2020	As at 31 December 2020	As at 31 December 2020	Year ended 31 December 2020
CGU ZW Katowice	TAURON Ciepło Sp. z o.o.	10.29%	405 290	351 632	-
CGU ZW BB		9.44%	133 923	133 923	(249 854)
CGU ZW Tychy		10.03%	328 108	328 108	(310 187)
CGU ZW OCL		11.34%	28 706	28 706	(10 689)
CGU Transmission		7.73%	737 603	684 819	-
Total			**1 633 630**	**1 527 188**	**(570 730)**

The restatement of comparative data in the scope of presentation and measurement of assets and liabilities of TAURON Ciepło Sp. z o.o. resulted in an increase of the Group's the net financial result for 2020 and consequently the Group's retained earnings as at 31 December 2020 by the amount of PLN 314 881 thousand. The aforementioned increase arises from:

- lack of the necessity to recognise under the restated financial result an impairment loss of net assets of TAURON Ciepło Sp. z o.o. to the fair value in the amount of PLN 825 708 thousand,
- charge to the net financial result for 2020 with the amount of PLN 462 291 thousand as a result of the necessity to recognise an impairment loss on TAURON Ciepło Sp. z o.o. assets in the total amount of PLN 570 730 thousand, based on the recoverable amount estimated in the framework of the impairment tests performed as at 31 December 2020,
- charge to the net financial result with the amount of PLN 48 536 thousand as a result of the recognition of amortization and depreciation and other changes in non-financial non-current assets for the second half of 2020.

The tables below present the impact of the change described above on the consolidated statement of financial position as at 31 December 2020:

(in PLN thousand)

	As at 31 December 2020 *(approved figures)*	Change of presentation and measurement of shares in TAURON Ciepło Sp. z o.o.	As at 31 December 2020 *(restated figures)*
ASSETS			
Non-current assets			
Property, plant and equipment	27 926 615	1 578 052	29 504 667
Right-of-use assets	1 738 926	137 044	1 875 970
Goodwill	26 183	-	26 183
Energy certificates and CO_2 emission allowances for surrender	500 936	-	500 936
Other intangible assets	549 074	2 618	551 692
Investments in joint ventures	586 559	-	586 559
Loans granted to joint ventures	96 293	-	96 293
Other financial assets	208 063	38 183	246 246
Other non-financial assets	64 064	29	64 093
Deferred tax assets	39 678	92 642	132 320
	31 736 391	**1 848 568**	**33 584 959**
Current assets			
Energy certificates and CO_2 emission allowances for surrender	1 008 208	31 421	1 039 629
Inventories	777 215	97 211	874 426
Receivables from buyers	2 363 085	110 331	2 473 416
Income tax receivables	83 655	-	83 655
Receivables arising from other taxes and charges	282 673	12 493	295 166
Loans granted to joint ventures	2 420	-	2 420
Other financial assets	266 431	90	266 521
Other non-financial assets	78 457	1 775	80 232
Cash and cash equivalents	909 453	11 892	921 345
Assets classified as held for sale	1 903 076	(1 828 634)	74 442
	7 674 673	**(1 563 421)**	**6 111 252**
TOTAL ASSETS	**39 411 064**	**285 147**	**39 696 211**

	As at 31 December 2020 *(approved figures)*	Change of presentation and measurement of shares in TAURON Ciepło Sp. z o.o.	As at 31 December 2020 *(restated figures)*
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the Parent			
Issued capital	8 762 747	-	8 762 747
Reserve capital	6 338 754	-	6 338 754
Revaluation reserve from valuation of hedging instruments	(67 903)	-	(67 903)
Foreign exchange differences from translation of foreign entities	27 010	-	27 010
Retained earnings/(Accumulated losses)	458 034	314 881	772 915
	15 518 642	**314 881**	**15 833 523**
Non-controlling interests	**893 623**	**-**	**893 623**
Total equity	**16 412 265**	**314 881**	**16 727 146**
Non-current liabilities			
Debt	13 108 449	62 751	13 171 200
Provisions for employee benefits	931 954	19 658	951 612
Provisions for disassembly of fixed assets, land restoration and other provisions	669 206	89	669 295
Accruals, deferred income and government grants	399 628	95 295	494 923
Deferred tax liabilities	433 738	-	433 738
Other financial liabilities	136 855	708	137 563
Other non-financial liabilities	7 546	-	7 546
	15 687 376	**178 501**	**15 865 877**
Current liabilities			
Debt	1 478 550	2 122	1 480 672
Liabilities to suppliers	965 106	55 562	1 020 668
Capital commitments	838 486	18 903	857 389
Provisions for employee benefits	101 325	2 650	103 975
Provisions for liabilities due to energy certificates and CO_2 emission allowances	1 623 453	127 470	1 750 923
Other provisions	273 608	30 131	303 739
Accruals, deferred income and government grants	166 149	15 379	181 528
Income tax liabilities	3 142	-	3 142
Liabilities arising from other taxes and charges	392 856	16 931	409 787
Other financial liabilities	549 671	9 832	559 503
Other non-financial liabilities	423 091	207	423 298
Liabilities directly related to assets classified as held for sale	495 986	(487 422)	8 564
	7 311 423	**(208 235)**	**7 103 188**
Total liabilities	**22 998 799**	**(29 734)**	**22 969 065**
TOTAL EQUITY AND LIABILITIES	**39 411 064**	**285 147**	**39 696 211**

(in PLN thousand)

The impact of the change described above on the interim condensed consolidated statement of comprehensive income for the 6-month period ended 30 June 2020 is shown in the table below. As at 30 June 2020, the Group assessed that in relation to operation of TAURON Ciepło Sp. z o.o. the prerequisites resulting from IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* were met, in the scope of classification of the aforementioned operation as discontinued operations, therefore, in 6-month period ended 30 June 2020. The comparable data were restated as if operation of TAURON Ciepło Sp. z o.o. in 6-month period ended 30 June 2020 previous reporting periods had not been classified as discontinued operations.

	6-month period ended 30 June 2020 *(unaudited approved figures)*	Change of presentation and measurement of shares in TAURON Ciepło Sp. z o.o.	6-month period ended 30 June 2020 *(unaudited restated figures)*
Sales revenue	9 888 017	298 761	10 186 778
Cost of sales	(8 581 846)	(842 093)	(9 423 939)
Profit on sale (loss)	**1 306 171**	**(543 332)**	**762 839**
Selling and distribution expenses	(208 577)	(3 149)	(211 726)
Administrative expenses	(280 906)	(11 432)	(292 338)
Other operating income and expenses	281 900	16 096	297 996
Share in profit/(loss) of joint ventures	40 914	-	40 914
Operating profit (loss)	**1 139 502**	**(541 817)**	**597 685**
Interest expense on debt	(144 372)	(1 237)	(145 609)
Finance income and other finance costs	(99 640)	39	(99 601)
Profit before tax (loss)	**895 490**	**(543 015)**	**352 475**
Income tax expense	(431 117)	105 688	(325 429)
Net profit on continuing operations (loss)	**464 373**	**(437 327)**	**27 046**
Net profit on discontinued operations (loss)	**(781 455)**	**781 455**	**-**
Net profit (loss)	**(317 082)**	**344 128**	**27 046**
Measurement of hedging instruments	(131 745)	-	(131 745)
Foreign exchange differences from translation of foreign entity	(1 814)	-	(1 814)
Income tax	25 032	-	25 032
Other comprehensive income on continuing operations to be reclassified in the financial result	**(108 527)**	**-**	**(108 527)**
Actuarial losses	(99 647)	(2 313)	(101 960)
Income tax	18 932	440	19 372
Share in other comprehensive income of joint ventures	360	-	360
Other comprehensive income on continuing operations not to be reclassified in the financial result	**(80 355)**	**(1 873)**	**(82 228)**
Other comprehensive income on discontinued operations	**(1 873)**	**1 873**	**-**
Other comprehensive income, net of tax	**(190 755)**	**-**	**(190 755)**
Total comprehensive income	**(507 837)**	**344 128**	**(163 709)**
Net profit (loss):			
Attributable to equity holders of the Parent	(316 046)	344 128	28 082
Attributable to non-controlling interests	(1 036)	-	(1 036)
Total comprehensive income:			
Attributable to equity holders of the Parent	(506 656)	344 128	(162 528)
Attributable to non-controlling interests	(1 181)	-	(1 181)
Profit (loss) per share (in PLN):			
basic and diluted net profit (loss) for the period attributable to shareholders of the parent company	(0.18)	0.20	0.02
basic and diluted net profit (loss) from continuing operations for the period attributable to shareholders of the parent company	0.27	(0.25)	0.02

9. Seasonality of activities

The Group's business is characterised by seasonality.

Sales of heat depends on the atmospheric conditions, in particular, on air temperature, and it is higher in the autumn and winter season for individual customers. The level of electricity sales to individual consumers depends on the length of a day, which usually makes electricity sales in this group of consumers lower in the spring and summer season and higher in the autumn and winter season. Sales of coal to individual consumers is higher in the autumn and winter season. The seasonality of the remaining areas of the Group operations is limited.

BUSINESS SEGMENTS

10. Information on operating segments

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

The Group is organised and managed by segment, taking into account 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 referred to 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 Company are presented under unallocated expenses. General and administrative expenses of the Parent Company are incurred for the benefit of the entire Group and cannot be directly attributed to the 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 financial derivative instruments as well as cash and cash equivalents, which represent segment assets.

Segment liabilities do not include deferred tax, income tax liability or financial liabilities, except for liabilities to suppliers, capital commitments and payroll liabilities as well as liabilities relating to loss on measurement of commodity derivative instruments, which represent segment liabilities.

The Group's financing (including financial revenue 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 in order to take decisions concerning allocation of the resources, to assess the effects of the allocation and to evaluate performance. The evaluation of performance is based on EBITDA and operating profit or loss. The Group defines EBITDA as EBIT increased by depreciation, amortisation and write-offs for non-financial assets. TAURON Group recognises write-downs on non-financial assets of entities consolidated using the full method and share in write-downs on non-financial assets of entities measured using the equity method as write-downs on non-financial assets. EBIT is defined by the Group as the profit/(loss) on continuing operations before tax, financial income and costs, i.e. operating profit/(loss).

Operating segments	Core business	Subsidiaries/ Entities recognized with the equity method
Mining 	*Hard coal mining*	TAURON Wydobycie S.A.
Generation  	*Generation of electricity using conventional sources, including combined heat and power generation, as well as generation of electricity using joint combustion of biomass and other energy acquired thermally. Key fuels include hard coal, biomass, coal gas and coke-oven gas.* *Generation and sales of heat*	TAURON Wytwarzanie S.A. Nowe Jaworzno Grupa TAURON Sp. z o.o. TAURON Ciepło Sp. z o.o. TAURON Serwis Sp. z o.o. Łagisza Grupa TAURON Sp. z o.o. *TAMEH HOLDING Sp. z o.o.* [1] *TAMEH POLSKA Sp. z o.o.* [1] *TAMEH Czech s.r.o.* [1] *Elektrociepłownia Stalowa Wola S.A.* [1]
Renewable Energy Sources 	*Generation of electricity using renewable sources*	TAURON Ekoenergia Sp. z o.o. Marselwind Sp. z o.o. TEC1 Sp. z o.o. TEC2 Sp. z o.o. TEC3 Sp. z o.o. TEC1 spółka z ograniczoną odpowiedzialnością Mogilno I sp.k. TEC1 spółka z ograniczoną odpowiedzialnością Mogilno II sp.k. TEC1 spółka z ograniczoną odpowiedzialnością Mogilno III sp.k. TEC1 spółka z ograniczoną odpowiedzialnością Mogilno IV sp.k. TEC1 spółka z ograniczoną odpowiedzialnością Mogilno V sp.k. TEC1 spółka z ograniczoną odpowiedzialnością Mogilno VI sp.k. TEC1 spółka z ograniczoną odpowiedzialnością EW Śniatowo sp.k. TEC1 spółka z ograniczoną odpowiedzialnością EW Dobrzyń sp.k. TEC1 spółka z ograniczoną odpowiedzialnością EW Gołdap sp.k. TEC1 spółka z ograniczoną odpowiedzialnością Ino 1 sp.k. WIND T1 Sp. z o.o. AVAL-1 Sp. z o.o. Polpower Sp. z o.o. TAURON Wytwarzanie S.A [2]
Distribution 	*Distribution of electricity*	TAURON Dystrybucja S.A. TAURON Dystrybucja Pomiary Sp. z o.o.
Sales 	*Wholesale trading in electricity, trading in CO_2 emission allowances and energy certificates and sale of electricity to domestic end users or entities which further resell electricity*	TAURON Polska Energia S.A. TAURON Sprzedaż Sp. z o.o. TAURON Sprzedaż GZE Sp. z o.o. TAURON Czech Energy s.r.o. TAURON Nowe Technologie S.A.

[1] *Entities recognized with the equity method.*
[2] *TAURON Wytwarzanie S.A. classifies activity related to photovoltaic power generation in the Renewable Energy segment.*

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 desulphurisation installations and fluidised bed boilers (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.

(in PLN thousand)

In connection with the discontinuation of the classification of assets and liabilities of the subsidiary company, TAURON Ciepło Sp. z o.o. as a disposable group, as described in more detail in Note 8.2 of these interim condensed consolidated financial statements, the figures as at 31 December 2020, for the 6-month period and 3-month period ended 30 June 2020 were restated accordingly.

10.1. Operating segments

6-month period ended 30 June 2021 or as at 30 June 2021 *(unaudited)*

	Operating segments					Other	Unallocated items / Eliminations	Total continuing operations
	Mining	Generation	Renewable Energy Sources	Distribution	Sales			
Revenue								
Sales to external customers	225 243	1 684 434	59 586	1 710 345	8 111 749	75 024	-	**11 866 381**
Inter-segment sales	354 760	2 374 535	248 789	1 808 900	2 613 197	484 477	(7 884 658)	**-**
Total segment revenue	**580 003**	**4 058 969**	**308 375**	**3 519 245**	**10 724 946**	**559 501**	**(7 884 658)**	**11 866 381**
Profit/(loss) of the segment	**(320 836)**	**(181 299)**	**88 957**	**923 993**	**216 680**	**52 608**	**(27 426)**	**752 677**
Share in profit/(loss) of joint ventures	-	22 300	-	-	-	-	-	**22 300**
Unallocated expenses	-	-	-	-	-	-	(44 397)	**(44 397)**
EBIT	**(320 836)**	**(158 999)**	**88 957**	**923 993**	**216 680**	**52 608**	**(71 823)**	**730 580**
Net finance income (costs)	-	-	-	-	-	-	(133 892)	**(133 892)**
Profit/(loss) before income tax	**(320 836)**	**(158 999)**	**88 957**	**923 993**	**216 680**	**52 608**	**(205 715)**	**596 688**
Income tax expense	-	-	-	-	-	**-**	(214 723)	**(214 723)**
Net profit/(loss) for the period	**(320 836)**	**(158 999)**	**88 957**	**923 993**	**216 680**	**52 608**	**(420 438)**	**381 965**
Assets and liabilities								
Segment assets	992 426	8 082 894	2 380 016	20 564 755	4 415 857	799 896	-	**37 235 844**
Investments in joint ventures	-	612 202	-	-	-	-	-	**612 202**
Unallocated assets	-	-	-	-	-	-	670 411	**670 411**
Total assets	**992 426**	**8 695 096**	**2 380 016**	**20 564 755**	**4 415 857**	**799 896**	**670 411**	**38 518 457**
Segment liabilities	887 353	1 531 013	238 791	1 946 010	1 812 142	487 585	-	**6 902 894**
Unallocated liabilities	-	-	-	-	-	-	14 363 584	**14 363 584**
Total liabilities	**887 353**	**1 531 013**	**238 791**	**1 946 010**	**1 812 142**	**487 585**	**14 363 584**	**21 266 478**
EBIT	**(320 836)**	**(158 999)**	**88 957**	**923 993**	**216 680**	**52 608**	**(71 823)**	**730 580**
Depreciation/amortization	**(74 416)**	**(237 335)**	**(77 120)**	**(595 044)**	**(19 849)**	**(53 111)**	**521**	**(1 056 354)**
Impairment	**(200 993)**	**(929 888)**	**(940)**	**246**	**-**	**41**	**(182)**	**(1 131 716)**
EBITDA	**(45 427)**	**1 008 224**	**167 017**	**1 518 791**	**236 529**	**105 678**	**(72 162)**	**2 918 650**
Other segment information								
Capital expenditure *	121 718	113 810	20 103	921 631	27 455	82 415	-	**1 287 132**

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

6-month period ended 30 June 2020 *(restated unaudited figures)* or as at 31 December 2020 *(restated figures)*

	Operating segments					Other	Unallocated items / Eliminations	Total continuing operations
	Mining	Generation	Renewable Energy Sources	Distribution	Sales			
Revenue								
Sales to external customers	173 068	1 635 280	86 394	1 613 197	6 614 821	64 018	-	**10 186 778**
Inter-segment sales	329 903	443 878	262 628	1 745 357	1 399 680	471 933	(4 653 379)	**-**
Total segment revenue	**502 971**	**2 079 158**	**349 022**	**3 358 554**	**8 014 501**	**535 951**	**(4 653 379)**	**10 186 778**
Profit/(loss) of the segment	**(271 305)**	**(738 209)**	**88 083**	**1 115 446**	**379 186**	**118 190**	**(84 242)**	**607 149**
Share in profit/(loss) of joint ventures	-	40 914	-	-	-	-	-	**40 914**
Unallocated expenses	-	-	-	-	-	-	(50 378)	**(50 378)**
EBIT	**(271 305)**	**(697 295)**	**88 083**	**1 115 446**	**379 186**	**118 190**	**(134 620)**	**597 685**
Net finance income (costs)	-	-	-	-	-	-	(245 210)	**(245 210)**
Profit/(loss) before income tax	**(271 305)**	**(697 295)**	**88 083**	**1 115 446**	**379 186**	**118 190**	**(379 830)**	**352 475**
Income tax expense	-	-	-	-	-	-	(325 429)	**(325 429)**
Net profit/(loss) for the period	**(271 305)**	**(697 295)**	**88 083**	**1 115 446**	**379 186**	**118 190**	**(705 259)**	**27 046**
Assets and liabilities								
Segment assets	1 115 883	9 468 023	2 438 924	20 079 215	4 614 093	775 856	-	**38 491 994**
Investments in joint ventures	-	586 559	-	-	-	-	-	**586 559**
Unallocated assets	-	-	-	-	-	-	617 658	**617 658**
Total assets	**1 115 883**	**10 054 582**	**2 438 924**	**20 079 215**	**4 614 093**	**775 856**	**617 658**	**39 696 211**
Segment liabilities	1 048 140	2 101 919	238 633	1 813 796	1 781 168	559 237	-	**7 542 893**
Unallocated liabilities	-	-	-	-	-	-	15 426 172	**15 426 172**
Total liabilities	**1 048 140**	**2 101 919**	**238 633**	**1 813 796**	**1 781 168**	**559 237**	**15 426 172**	**22 969 065**
EBIT	**(271 305)**	**(697 295)**	**88 083**	**1 115 446**	**379 186**	**118 190**	**(134 620)**	**597 685**
Depreciation/amortization	**(98 364)**	**(181 072)**	**(75 482)**	**(576 093)**	**(23 718)**	**(44 557)**	**-**	**(999 286)**
Impairment	**(179 720)**	**(634 245)**	**-**	**2 838**	**-**	**371**	**-**	**(810 756)**
EBITDA	**6 779**	**118 022**	**163 565**	**1 688 701**	**402 904**	**162 376**	**(134 620)**	**2 407 727**
Other segment information								
Capital expenditure *	118 084	693 212	5 541	908 275	21 383	65 786	-	**1 812 281**

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

(in PLN thousand)

3-month period ended 30 June 2021 *(unaudited)*

	Mining	Generation	Renewable Energy Sources	Distribution	Sales	Other	Unallocated items / Eliminations	Total
Revenue								
Sales to external customers	125 524	591 186	27 997	818 049	3 820 293	38 819	-	**5 421 868**
Inter-segment sales	151 885	1 159 773	124 250	895 440	824 462	233 774	(3 389 584)	**-**
Total Segment revenue	**277 409**	**1 750 959**	**152 247**	**1 713 489**	**4 644 755**	**272 593**	**(3 389 584)**	**5 421 868**
Profit/(loss) of the segment	**(270 980)**	**(732 148)**	**44 444**	**478 417**	**(7 803)**	**28 579**	**(3 260)**	**(462 751)**
Share in profit/(loss) of joint ventures	-	2 845	-	-	-	-	-	**2 845**
Unallocated expenses	-	-	-	-	-	-	(22 005)	**(22 005)**
EBIT	**(270 980)**	**(729 303)**	**44 444**	**478 417**	**(7 803)**	**28 579**	**(25 265)**	**(481 911)**
Net finance income (costs)	-	-	-	-	-	-	(18 781)	**(18 781)**
Profit/(loss) before income tax	**(270 980)**	**(729 303)**	**44 444**	**478 417**	**(7 803)**	**28 579**	**(44 046)**	**(500 692)**
Income tax expense	-	-	-	-	-	**-**	31 856	**31 856**
Net profit/(loss) for the period	**(270 980)**	**(729 303)**	**44 444**	**478 417**	**(7 803)**	**28 579**	**(12 190)**	**(468 836)**
EBIT	**(270 980)**	**(729 303)**	**44 444**	**478 417**	**(7 803)**	**28 579**	**(25 265)**	**(481 911)**
Depreciation/amortization	**(37 898)**	**(122 561)**	**(38 853)**	**(298 505)**	**(10 212)**	**(27 210)**	**260**	**(534 979)**
Impairment	**(201 277)**	**(928 622)**	**-**	**(11)**	**1**	**(124)**	**(147)**	**(1 130 180)**
EBITDA	**(31 805)**	**321 880**	**83 297**	**776 933**	**2 408**	**55 913**	**(25 378)**	**1 183 248**
Other segment information								
Capital expenditure *	54 408	55 402	15 417	464 685	12 216	46 056	-	**648 184**

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

3-month period ended 30 June 2020 *(restated unaudited figures)*

	Mining	Generation	Renewable Energy Sources	Distribution	Sales	Other	Unallocated items / Eliminations	Total
Revenue								
Sales to external customers	106 137	676 352	28 753	754 316	3 118 723	34 731	-	**4 719 012**
Inter-segment sales	160 410	247 848	121 102	815 213	664 936	238 751	(2 248 260)	**-**
Total Segment revenue	**266 547**	**924 200**	**149 855**	**1 569 529**	**3 783 659**	**273 482**	**(2 248 260)**	**4 719 012**
Profit/(loss) of the segment	**(187 414)**	**(691 527)**	**4 801**	**715 011**	**208 415**	**100 460**	**(8 879)**	**140 867**
Share in profit/(loss) of joint ventures	-	6 955	-	-	-	-	-	**6 955**
Unallocated expenses	-	-	-	-	-	-	(24 188)	**(24 188)**
EBIT	**(187 414)**	**(684 572)**	**4 801**	**715 011**	**208 415**	**100 460**	**(33 067)**	**123 634**
Net finance income (costs)	-	-	-	-	-	-	(2 567)	**(2 567)**
Profit/(loss) before income tax	**(187 414)**	**(684 572)**	**4 801**	**715 011**	**208 415**	**100 460**	**(35 634)**	**121 067**
Income tax expense	-	-	-	-	-	-	(255 496)	**(255 496)**
Net profit/(loss) for the period	**(187 414)**	**(684 572)**	**4 801**	**715 011**	**208 415**	**100 460**	**(291 130)**	**(134 429)**
EBIT	**(187 414)**	**(684 572)**	**4 801**	**715 011**	**208 415**	**100 460**	**(33 067)**	**123 634**
Depreciation/amortization	**(52 358)**	**(98 425)**	**(37 694)**	**(290 520)**	**(12 058)**	**(23 146)**	**-**	**(514 201)**
Impairment	**(178 190)**	**(634 685)**	**-**	**373**	**1**	**10**	**-**	**(812 491)**
EBITDA	**43 134**	**48 538**	**42 495**	**1 005 158**	**220 472**	**123 596**	**(33 067)**	**1 450 326**
Other segment information								
Capital expenditure *	62 803	331 787	4 370	422 939	9 927	40 613	-	**872 439**

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

Increase of EBITDA of Generation segment, in relation to comparative period is mainly caused by effects of the CO_2 emission allowances portfolio restructuration and starting from 1 January 2021, the Capacity Market obligation, which was described in more detail in Note 11 to these interim condensed consolidated financial statements, as well achieve higher margins on energy sales.

The most significant reason of increase of the inter-segment sales, reached by Generation segment in relation to comparative period is execution of energy sales by Nowe Jaworzno Grupa TAURON Sp. z o.o. to the Parent company on a basis multi-annual agreement for the purchase of electricity concluded by those companies.

In 2020, works commenced on transforming the coal mining industry in Poland. The works are led by the Secretary of State, Government Plenipotentiary for the Transformation of Energy Companies and Coal Mining. As agreed between representatives of the Government and representatives of TAURON Wydobycie S.A., this company participated in negotiations on the preparation of the social agreement concerning the transformation of the hard coal mining sector and selected transformation processes in the Silesian Voivodeship ("Social Agreement"). The Social Agreement covers, among others, a schedule for the liquidation of the mines belonging to Polish mining companies, a financing mechanism for companies in the coal mining sector as well as employment guarantees and a social protection package for mine workers. On 28 April 2021, the content of the agreement was finally agreed and initialled by the governmental party and trade union representatives. The initialling of the negotiated text of the agreement enabled the launch of the ongoing process of its pre-notification and subsequently the notification to the European Commission. On 28 May 2021, the Social agreement for mining was signed. On 28 June 2021, the social party submitted to the Prime Minister a draft Act of law on the Silesia Transformation Fund, the establishment of which had been enshrined in the social agreement. The Silesia Transformation Fund will aim to undertake investment, organisational and financial activities related to the transformation of the Upper Silesia and the Dąbrowa Basin regions and to rebuild the region's economic potential. It is planned that by the end of September 2021, the governmental party will present the final version of the Act. Assumptions of impairment tests performed as at 30 June 2021, taking into account the Social Agreement concluded, which was described in more detail in Note 15 to these interim condensed consolidated financial statements.

(in PLN thousand)

The above events may materially affect the shape and financial data of the Mining segment in future reporting periods.

EXPLANATORY NOTES TO THE INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

11. Sales revenue

	6-month period ended 30 June 2021 *(unaudited)*	6-month period ended 30 June 2020 *(unaudited restated figures)*
Sale of goods for resale, finished goods and materials without elimination of excise	**7 707 839**	**6 845 421**
Excise	(53 999)	(51 732)
Sale of goods for resale, finished goods and materials	**7 653 840**	**6 793 689**
Electricity	6 445 674	5 875 624
Heat energy	423 511	360 046
Gas	219 934	178 767
Coal	201 868	152 118
CO_2 emission allowances	154 057	4 205
Energy certificates and similar	92 789	122 715
Other goods for resale, finished goods and materials	116 007	100 214
Rendering of services	**3 873 075**	**3 358 202**
Distribution and trade services	3 362 378	3 219 018
Capacity Market	339 149	-
Maintenance of road lighting	60 485	59 044
Connection fees	38 887	34 699
Other services	72 176	45 441
Other revenue	**35 521**	**34 887**
Total revenue from contracts with customers	**11 562 436**	**10 186 778**
Restructuration in the portfolio of CO_2 emission allowances	303 945	-
Total sales revenue	**11 866 381**	**10 186 778**

Revenues in line with IFRS 15 *Revenue from Contracts with Customers*

In the 6-month period ended 30 June 2021, sales revenues increased in relation to the comparative period and the main changes were related to sales revenues from contracts with customers of the following goods and services:

- electricity - the increase is mainly due to higher retail electricity sales volumes (both in the business and mass segment) and higher electricity sales prices in the balancing market,
- heat - the increase is due to sales of the higher volume (affected by lower temperatures in the current period compared to the corresponding period) and achieving higher heat sales prices,
- gas - the increase is mainly due to sales of the higher volume (impact of the long and cold winter and acquisition of customers in the mass segment),
- coal - the increase in revenue from coal sales results from the sale of the higher volume simultaneously achieving lower sales prices;

(in PLN thousand)

- CO_2 emission allowances - the increase is mainly due to performing transactions resulting from transactions resulting from a restructuration in the portfolio of CO_2 emission allowances of the subsidiary company, Nowe Jaworzno Grupa TAURON Sp. z o.o., which mention below. In connection with a surplus in the portfolio of CO_2 emission allowances of the subsidiary Nowe Jaworzno Grupa TAURON Sp. z o.o. exceed redemption need of company for 2020 and shorter than assumed exploitation of Unit in 2020, the Group sold CO_2 emission allowances in the amount of 691 000 EUAs and its currying amount of PLN 76 489 thousand. The revenues gained from this activity amounted to PLN 134 738 thousand.
- Capacity Market - from 1 January 2021, pursuant to the *Act of 8 December 2017 on the Capacity Market*, which introduced a new service - the capacity obligation, consisting in keeping the preparedness of the capacity market unit to supply electrical capacity to the system and an obligation to supply a certain capacity to the system during a period of emergency, the Capacity Market started operating. Consequently, the Group recognise revenue from remuneration for organising the operation of TAURON Group companies, which are suppliers of capacity obligation for PSE S.A. on account of the fulfilment of the capacity obligation by means of Capacity Market units owned by the TAURON Group companies. In the 6-month period ended 30 June 2021, revenue from the above titles amounted to PLN 339 149 thousand.

Restructuration in the portfolio of CO_2 emission allowances

As a result of the delayed commissioning of the 910 MW unit and the consequent lower production, in the portfolio of CO_2 emission allowances of the subsidiary Nowe Jaworzno Grupa TAURON Sp. z o.o., a significant surplus of allowances contracted for the purpose of meeting the redemption obligation for 2020 over the actual demand was generated. In consequence, in March 2021, the Group restructured the aforementioned portfolio of CO_2 emission allowances, with respect to the volume of 3 258 000 CO_2 emission allowances with the acceptance date in March 2021. As a result of the analysis of new premises and circumstances, the Company changed its intention regarding the above CO_2 emission allowances and decided to perform their rollover including the conclusion of new contracts with delivery dates in March 2022, 2023 and 2024. In connection with the foregoing, the original contracts were not settled by physical delivery, accordingly, the Company recognised these contracts in accordance with IFRS 9 *Financial Instruments* at a fair value under the date of the change in judgement, i.e. in March 2021, which subsequently resulted in an increase in the sales revenue and operating profit in the amount of PLN 303 945 thousand (EUR 65 893 thousand). New contracted transactions with delivery dates in 2022-2024, were contained and are held in accordance with Group's redemption needs and will be settled by physical delivery, therefore they are excluded from the scope of IFRS 9 *Financial Instruments* and are not measured at a fair value. At the same time, these transactions were performed at prices higher than the purchase originally contracted, implying higher costs of purchasing CO_2 emission allowances for the purpose of resale to the subsidiary. Accordingly, the Group recognised a provision for onerous contracts of CO_2 emission allowances for 2021 and subsequent years. As a result the Group assess that impact of restructuration on operating profit (loss) in 2021 – 2023 will not be relevant.

Sales revenue by operating segment is shown in the tables below.

6-month period ended 30 June 2021 ***(unaudited)***

	Mining	Generation	Renewable Energy Sources	Distribution	Sales	Other	Total
Sale of goods for resale, finished goods and materials	**215 057**	**1 305 343**	**56 704**	**1 095**	**6 316 133**	**63 453**	**7 957 785**
Electricity	-	544 056	626	-	5 892 201	8 791	**6 445 674**
Heat energy	25	423 486	-	-	-	-	**423 511**
Gas	-	-	-	-	219 934	-	**219 934**
Coal	201 868	-	-	-	-	-	**201 868**
CO_2 emission allowances	-	303 945	-	-	154 057	-	**458 002**
Energy certificates and similar	-	31 697	55 922	-	959	4 211	**92 789**
Other goods for resale, finished goods and materials	13 164	2 159	156	1 095	48 982	50 451	**116 007**
Rendering of services	**9 520**	**371 629**	**2 591**	**1 689 982**	**1 793 639**	**5 714**	**3 873 075**
Distribution and trade services	-	130 431	-	1 605 756	1 626 191	-	**3 362 378**
Capacity Market	-	237 622	2 282	-	99 245	-	**339 149**
Maintenance of road lighting	-	-	-	6	60 479	-	**60 485**
Connection fees	-	7	-	38 878	-	2	**38 887**
Other services	9 520	3 569	309	45 342	7 724	5 712	**72 176**
Other revenue	**666**	**7 462**	**291**	**19 268**	**1 977**	**5 857**	**35 521**
Total	**225 243**	**1 684 434**	**59 586**	**1 710 345**	**8 111 749**	**75 024**	**11 866 381**

(in PLN thousand)

6-month period ended 30 June 2020 *(restated unaudited figures)*

	Mining	Generation	Renewable Energy Sources	Distribution	Sales	Other	Total
Sale of goods for resale, finished goods and materials	**164 951**	**1 508 894**	**85 371**	**1 363**	**4 978 974**	**54 136**	**6 793 689**
Electricity	-	1 111 652	3 204	-	4 754 580	6 188	**5 875 624**
Heat energy	21	360 025	-	-	-	-	**360 046**
Gas	-	-	-	-	178 767	-	**178 767**
Coal	152 118	-	-	-	-	-	**152 118**
CO_2 emission allowances	-	-	-	-	4 205	-	**4 205**
Energy certificates and similar	56	35 635	82 167	-	571	4 286	**122 715**
Other goods for resale, finished goods and materials	12 756	1 582	-	1 363	40 851	43 662	**100 214**
Rendering of services	**7 313**	**118 150**	**765**	**1 594 109**	**1 634 038**	**3 827**	**3 358 202**
Distribution and trade services	-	112 879	-	1 538 898	1 567 241	-	**3 219 018**
Maintenance of road lighting	-	-	-	7	59 037	-	**59 044**
Connection fees	-	50	-	34 620	-	29	**34 699**
Other services	7 313	5 221	765	20 584	7 760	3 798	**45 441**
Other revenue	**804**	**8 236**	**258**	**17 725**	**1 809**	**6 055**	**34 887**
Total	**173 068**	**1 635 280**	**86 394**	**1 613 197**	**6 614 821**	**64 018**	**10 186 778**

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

	6-month period ended 30 June 2021 *(unaudited)*	6-month period ended 30 June 2020 *(unaudited restated figures)*
Revenue from sales of electricity	**6 445 674**	**5 875 624**
Retail sale	**4 443 608**	**4 138 943**
Strategic clients	450 052	490 038
Business clients	2 034 052	1 914 490
Mass clients, *including:*	1 974 005	1 752 445
G group	449 514	384 369
Other	39 499	33 702
Excise duty	(53 999)	(51 732)
Wholesale	**1 719 497**	**1 405 087**
Operational capacity reserve	**-**	**84 175**
Other	**282 569**	**247 419**

12. Costs by type

	6-month period ended 30 June 2021 *(unaudited)*	6-month period ended 30 June 2020 *(unaudited restated figures)*
Depreciation and amortization	(1 056 354)	(999 286)
Impairment of non-financial assets	(1 114 713)	(810 836)
Materials and energy	(704 175)	(655 829)
Maitenance and repair services	(100 678)	(87 818)
Distribution services	(754 093)	(797 311)
Other external services	(426 426)	(390 031)
Cost of obligation to remit the CO_2 emission allowances	(697 762)	(398 865)
Other taxes and charges	(380 550)	(380 016)
Employee benefits expense	(1 484 813)	(1 222 009)
Allowance for trade receivables expected credit losses	(647)	(26 363)
Other	(78 535)	(36 783)
Total costs by type	**(6 798 746)**	**(5 805 147)**
Change in inventories, prepayments, accruals and deferred income	39 131	124 930
Cost of goods produced for internal purposes	358 768	412 162
Selling and distribution expenses	249 343	211 726
Administrative expenses	306 448	292 338
Cost of goods for resale and materials sold	(4 804 695)	(4 659 948)
Cost of sales	**(10 649 751)**	**(9 423 939)**

(in PLN thousand)

In the 6-month period ended 30 June 2021 in relation to the comparative period, the main changes in the cost of goods, products, materials and services sold referred to:

- higher cost of impairment losses on non-financial non-current assets, which in the current period results mainly from the recognition of impairment losses as a consequence of effects of impairment tests performed as at 30 June 2021 in the amount of PLN 1 122 507 thousand;
- an increase in the cost of the obligation to redeem CO_2 emission allowances, which mainly results from the increase in the price of CO_2 emission allowances included in the calculation of the provision and the increase in emission due to higher electricity production from conventional sources, including the redemption obligation generated in the current period by the power unit commissioned in November 2020;
- an increase in the cost of employee benefits, which is mainly related to the recognition in the comparative period of the effects of the release by the Group companies of actuarial provisions for the employee tariff in the part for current employees as future pensioners in the amount of PLN 299 408 thousand.

In the current period, the Group recognised a higher cost of electricity sold, mainly as a result of an increase in the purchase price of electricity in relation to the comparable period. Additionally, in the comparative period, the value of goods and materials sold in the Group was charged with the amount of PLN 124 559 thousand as a result of a change in the strategy for securing the depreciation needs for CO_2 emission allowances of the Generation area.

13. Financial revenues and costs

	6-month period ended 30 June 2021 *(unaudited)*	6-month period ended 30 June 2020 *(unaudited restated figures)*
Income and costs from financial instruments	**(125 892)**	**(226 644)**
Interest costs	(185 596)	(145 609)
Exchange differences	87 327	(145 113)
Remeasurement of loans granted	1 536	8 253
Gain/loss on derivative instruments	(50 528)	44 387
Interest income	10 256	17 469
Dividend income	9 139	458
Commission relating to borrowings and debt securities	(11 527)	(7 244)
Other	13 501	755
Other finance income and costs	**(8 000)**	**(18 566)**
Interest on employee benefits	(5 651)	(12 590)
Interest on discount of other provisions	(3 684)	(5 591)
Other finance income	4 540	4 908
Other finance costs	(3 205)	(5 293)
Total, ***including recognized in the statement of comprehensive income:***	**(133 892)**	**(245 210)**
Interest expense on debt	(185 596)	(145 609)
Finance income and other finance costs	51 704	(99 601)

In the 6-month period ended 30 June 2021 in relation to the comparative period, the main changes in the financial revenues and costs referred to:

- an increase in interest expenses by PLN 39 987 thousand, which mainly results from the decrease in the amount of interest capitalised in the value of investment tasks. Interest expenses of PLN 6 739 thousand were capitalised in the 6-month period ended 30 June 2021 and PLN 92 383 thousand in the comparative period. The decrease mainly results from the commissioning of the 910 MW unit in Jaworzno in November 2020. At the same time, interest expense decreased due to changes in the use of financing instruments and changes in interest rates,
- surplus of positive exchange rate differences over negative ones in the amount of PLN 87 327 thousand (in the comparative period, the surplus of negative exchange rate differences over positive ones in the amount of PLN 145 113 thousand). The exchange differences mainly relate to exchange differences associated with the liabilities of the Company on account of debt in EUR,
- lower result on derivatives, which mainly related to currency forward contracts. Due to the decrease in the EUR/PLN exchange rate in the current period, the Company recognised a negative result on derivatives on this account (in the comparative period, an increase in the EUR/PLN exchange rate occurred).

(in PLN thousand)

14. Tax expense in the statement of comprehensive income

	6-month period ended 30 June 2021 *(unaudited)*	6-month period ended 30 June 2020 *(unaudited restated figures)*
Current income tax	**(301 540)**	**(179 095)**
Current income tax expense	(295 999)	(171 143)
Adjustments to current income tax from previous years	(5 541)	(7 952)
Deferred tax	**86 817**	**(146 334)**
Income tax expense in profit/(loss)	**(214 723)**	**(325 429)**
Income tax expense relating to other comprehensive income, *including:*	**(33 594)**	**44 404**
reclassified to profit or loss	(25 110)	25 032
not reclassified to profit or loss	(8 484)	19 372

A higher current income tax burden on the financial result of the Group in the 6-month period ended 30 June 2021 is largely related to the changed composition of the Tax Capital Group for 2021-2023 compared to the previous TCG (in particular, the lack of inclusion in the composition of the current TCG of a company from the Mining segment incurring losses) and taxation of higher sale results generated by Group companies mainly from the Generation, Distribution and Sales segments.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

15. Property, plant and equipment

6-month period ended 30 June 2021 *(unaudited)*

	Land	Buildings, premises and civil engineering structures	Plant and machinery	Mine workings	Other	Assets under construction	Property, plant and equipment, total
COST							
Opening balance	**143 427**	**29 748 419**	**25 206 317**	**258 092**	**975 255**	**1 887 395**	**58 218 905**
Direct purchase	-	-	-	637	-	1 090 535	**1 091 172**
Borrowing costs	-	-	-	-	-	6 724	**6 724**
Transfer of assets under construction	244	711 003	460 958	-	11 591	(1 183 796)	**-**
Sale	(622)	(1 920)	(46 776)	-	(3 553)	(2 620)	**(55 491)**
Liquidation	(5)	(22 185)	(64 700)	(75 568)	(9 472)	(24)	**(171 954)**
Received free of charge	-	22 377	55	-	-	-	**22 432**
Overhaul expenses	-	-	-	-	-	51 650	**51 650**
Items generated internally	-	-	-	69 527	-	24 384	**93 911**
Cost of disassembly of wind farms and decommissioning of mines	(3)	(44 215)	(1 929)	-	-	-	**(46 147)**
Other movements	5	15	5 811	-	(11 145)	(31)	**(5 345)**
Foreign exchange differences from translation of foreign entity	-	-	5	-	5	-	**10**
Closing balance	**143 046**	**30 413 494**	**25 559 741**	**252 688**	**962 681**	**1 874 217**	**59 205 867**
ACCUMULATED DEPRECIATION							
Opening balance	**(188)**	**(13 008 668)**	**(14 571 267)**	**(137 889)**	**(704 299)**	**(291 927)**	**(28 714 238)**
Depreciation for the period	-	(442 117)	(429 576)	(42 634)	(31 724)	-	**(946 051)**
Increase of impairment	(2)	(397 424)	(652 419)	(32 594)	(1 919)	(39 727)	**(1 124 085)**
Decrease of impairment	-	263	363	-	-	13 593	**14 219**
Sale	-	905	45 685	-	3 312	2 615	**52 517**
Liquidation	-	20 004	63 101	75 569	9 384	-	**168 058**
Other movements	-	(67)	2 537	-	11 160	(27)	**13 603**
Foreign exchange differences from translation of foreign entity	-	-	(3)	-	(3)	-	**(6)**
Closing balance	**(190)**	**(13 827 104)**	**(15 541 579)**	**(137 548)**	**(714 089)**	**(315 473)**	**(30 535 983)**
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	**143 239**	**16 739 751**	**10 635 050**	**120 203**	**270 956**	**1 595 468**	**29 504 667**
NET CARRYING AMOUNT AT THE END OF THE PERIOD	**142 856**	**16 586 390**	**10 018 162**	**115 140**	**248 592**	**1 558 744**	**28 669 884**
of which operating segments:							
Mining	**3 144**	**212 211**	**162 510**	**110 235**	**3 240**	**154 397**	**645 737**
Generation	**42 526**	**2 559 027**	**3 660 814**	**-**	**14 181**	**140 293**	**6 416 841**
Renewable Energy Sources	**793**	**860 330**	**1 221 161**	**-**	**1 015**	**31 060**	**2 114 359**
Distribution	**79 533**	**12 428 281**	**4 826 585**	**-**	**201 797**	**1 064 870**	**18 601 066**
Other segments and other operations	**16 860**	**526 541**	**147 092**	**4 905**	**28 359**	**168 124**	**891 881**

(in PLN thousand)

6-month period ended 30 June 2020 *(restated unaudited figures)*

	Land	Buildings, premises and civil engineering structures	Plant and machinery	Mine workings	Other	Assets under construction	Property, plant and equipment, total
COST							
Opening balance	**140 554**	**25 480 506**	**20 297 298**	**265 001**	**957 959**	**7 777 093**	**54 918 411**
Direct purchase	-	-	-	260	-	1 441 983	**1 442 243**
Borrowing costs	-	-	-	-	-	121 362	**121 362**
Transfer of assets under construction	729	1 374 564	875 865	-	21 443	(2 272 601)	**-**
Sale	(260)	(3 832)	(59 747)	-	(2 704)	-	**(66 543)**
Liquidation	(8)	(30 813)	(87 733)	(92 310)	(7 140)	-	**(218 004)**
Received free of charge	700	4 821	-	-	-	-	**5 521**
Transfers to/from assets held for sale	-	(6 029)	(123)	-	(236)	-	**(6 388)**
Overhaul expenses	-	-	-	-	-	95 528	**95 528**
Items generated internally	-	-	-	52 693	-	75 769	**128 462**
Cost of disassembly of wind farms and decommissioning of mines	-	83 400	5 276	-	-	-	**88 676**
Other movements	240	(2 352)	6 845	-	(2 324)	4 452	**6 862**
Foreign exchange differences from translation of foreign entity	-	-	(3)	-	(2)	-	**(5)**
Closing balance	**141 955**	**26 900 265**	**21 037 678**	**225 644**	**966 996**	**7 243 586**	**56 516 124**
ACCUMULATED DEPRECIATION							
Opening balance	**(341)**	**(10 756 599)**	**(12 008 192)**	**(116 238)**	**(655 060)**	**(282 910)**	**(23 819 340)**
Depreciation for the period	-	(423 423)	(389 781)	(58 921)	(33 508)	(65)	**(905 698)**
Increase of impairment	(15)	(302 598)	(445 300)	(20 942)	(1 852)	(64 231)	**(834 938)**
Decrease of impairment	-	2 565	201	-	67	26 631	**29 464**
Sale	168	3 380	58 892	-	2 629	-	**65 069**
Liquidation	-	27 599	82 749	92 310	7 133	-	**209 791**
Transfers to/from assets held for sale	-	3 487	82	-	151	-	**3 720**
Other movements	-	(60)	(1 766)	-	1 580	(8 778)	**(9 024)**
Foreign exchange differences from translation of foreign entity	-	-	2	-	2	-	**4**
Closing balance	**(188)**	**(11 445 649)**	**(12 703 113)**	**(103 791)**	**(678 858)**	**(329 353)**	**(25 260 952)**
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	**140 213**	**14 723 907**	**8 289 106**	**148 763**	**302 899**	**7 494 183**	**31 099 071**
NET CARRYING AMOUNT AT THE END OF THE PERIOD	**141 767**	**15 454 616**	**8 334 565**	**121 853**	**288 138**	**6 914 233**	**31 255 172**
of which operating segments:							
Mining	**3 146**	**388 528**	**235 846**	**117 738**	**5 460**	**281 843**	**1 032 561**
Generation	**42 536**	**1 863 762**	**2 030 846**	**-**	**23 177**	**5 517 820**	**9 478 141**
Renewable Energy Sources	**765**	**901 902**	**1 287 448**	**-**	**1 303**	**2 117**	**2 193 535**
Distribution	**78 462**	**11 798 316**	**4 662 540**	**-**	**236 816**	**1 047 667**	**17 823 801**
Other segments and other operations	**16 858**	**502 108**	**117 885**	**4 115**	**21 382**	**64 786**	**727 134**

In the 6-month period ended 30 June 2021, the Group acquired property, plant and equipment (including capitalised external financing costs) in the amount of PLN 1 097 896 thousand. The major purchases were made in connection with investments in the following operating segments:

Operating segment	6-month period ended 30 June 2021 *(unaudited)*	6-month period ended 30 June 2020 *(unaudited)*
Distribution	903 057	883 377
Generation	47 124	553 090
Mining	44 925	58 413

Impairment tests

As at 30 June 2021, the Group recognised impairment losses related to non-financial fixed assets as a result of impairment tests of assets performed as at 30 June 2021.

The recoverable value of this group of assets corresponds to their useful value. The impairment losses charged mainly own cost of sales.

The impairment loss recognised in the result of the tests performed as at 30 June 2021 refers to the following cash generating units:

(in PLN thousand)

CGU	Company	Discount rate (before tax) assumed in tests as at:		Recoverable amount	Impairment loss recognized
		30 June 2021 *(unaudited)*	31 December 2020	As at 30 June 2021 *(unaudited)*	6-month period ended 30 June 2021 *(unaudited)*
Mining	TAURON Wydobycie S.A.	13.98%	14.85%	1 679	(184 976)
Generation - Coal	TAURON Wytwarzanie S.A. / Nowe Jaworzno Grupa TAURON Sp. z o.o.	9.96%	9.75%	5 148 712	(923 756)
Generation - Biomass		8.23%	8.55%	55 386	-
Generation - Photovoltaics		7.03%	6.98%	20 587	-
CGU ZW Katowice	TAURON Ciepło Sp. z o.o.	10.04%	10.29%	489 161	-
CGU ZW BB		9.72%	9.44%	135 093	-
CGU ZW Tychy		10.81%	10.03%	458 518	-
CGU ZW OCL		13.43%	11.34%	13 830	(13 775)
CGU Transmission		7.39%	7.73%	829 523	-
Distribution	TAURON Dystrybucja S.A.	6.02%	6.10%	23 186 671	-
Total					**(1 122 507)**

The amount of the recognised allowance was mainly charged to property, plant and equipment in the amount of PLN 1 108 884 thousand. The remaining part decreased the value of rights-of-use assets in the amount of PLN 11 334 thousand and intangible assets in the amount of PLN 2 289 thousand.

As at 30 June 2021, impairment tests were performed on property, plant and equipment, taking into account the following indications:

- the Company's capitalization remaining below the net asset carrying amount for a long period;
- changes in global energy commodity and electricity prices;
- the dynamic growth in prices of CO_2 emission allowances significantly exceeding long-term market forecasts reduces the margins of conventional power generation;
- high volatility of energy prices on the forward market (including the persistent low liquidity) and persistently high prices on the spot market;
- recovery of domestic electricity consumption to levels recorded before the COVID-19 pandemic;
- work on the "Ready for 55" package to guide the European Union towards ambitious net emission reductions by 2030 and becoming the first climate-neutral continent by 2050;
- results of the RES auctions to date and a very dynamic development of the prosumer sub-sector in connection with the aid programmes launched;
- results of introducing winter package provisions, including the emission standard, adversely affecting the capability of coal-fired units to participate in the Capacity Market after 1 July 2025;
- tightening of emission standards persisting unfavourable market conditions for the conventional power industry;
- increased risks in commercial coal production;
- a decline in the risk-free rate;
- adoption by the Council of Ministers of the Polish Energy Policy up to 2040, determining the directions for the transformation of the energy sector.

The tests conducted as at 30 June 2021 required estimating the value in use of cash generating units, based on their future cash flows discounted subsequently to the present value using a discount rate.

The impairment tests for property, plant and equipment and intangible assets (non-current assets) were carried out at a level of individual companies, except for:

- TAURON Wytwarzanie S.A. and Nowe Jaworzno Grupa TAURON Sp. z o.o., where cash-generating units ("CGUs") were identified at a different level, identifying a cash-generating unit in the area of electricity generation from conventional sources (hard coal) of Nowe Jaworzno Grupa TAURON sp. z o.o. and partially in the area of operations of TAURON Wytwarzanie S.A. in CGU Generation – Coal. Within other areas of activity of TAURON Wytwarzanie S.A., the following cash generating units were identified: CGU Generation-Biomass and CGU Generation-Photovoltaics. The key premises justifying the inclusion of coal-fired generating units within CGU Generation-Coal included: the publication of provisions regarding the new Capacity Market mechanism in 2018, launching a new product - the capacity obligation; the strategy of joining the Capacity Market consisting in the portfolio approach, where maximising the total revenue from the Capacity Market is significant, as well as capacity allocation to suppliers, determining the level of capacity constituting reserve sources for the remaining capacity contracted at the capacity market and high dependence of cash proceeds among generators;

(in PLN thousand)

- TAURON Ekoenergia Sp. z o.o., TEC 1 Sp. z o.o. Mogilno I Sp. Komandytowa, TEC 1 Sp. z o.o. Mogilno II Sp. Komandytowa, TEC 1 Sp. z o.o. Mogilno III Sp. Komandytowa, TEC1 Sp. z o.o. Mogilno IV Sp. Komandytowa, TEC 1 Sp. z o.o. Mogilno V Sp. Komandytowa, TEC 1 Sp. z o.o. Mogilno VI Sp. Komandytowa, TEC 1 Sp. z o.o. EW Śniatowo Sp. Komandytowa, TEC 1 Sp. z o.o. EW Dobrzyń Sp. Komandytowa, TEC 1 Sp. z o.o. EW Gołdap Sp. Komandytowa, TEC 1 Sp. z o.o. Ino 1 Sp. Komandytowa, where the test was carried out separately for activities related to electricity generation in hydroelectric power plants within TAURON Ekoenergia Sp. z o.o. - CGU Hydroelectric Power Plants and for the combined activity associated with electricity generation from wind farms within TAURON Ekoenergia Sp. z o.o. and other companies - CGU Wind Farms. Consolidation of wind farms in one CGU resulted mainly from the specific features and nature of the underlying service agreements and technical management of individual wind farms allowing for optimisation of the production process aimed at improving economic indicators of the operated wind farms. Moreover, from the point of view of management analysis, the notion of a group of assets producing power in wind technology is important, rather than a single operation of wind farms. It is also important for the purpose of integrated management of the portfolio of produced volume originating from wind farms and sales of electricity and property rights within the TAURON Group;
- TAURON Nowe Technologie S.A., where activities related to lighting and provision of solutions associated with modern technologies were separated.

Relevant tests were conducted based on the current value of projected cash flows from CGU operations by reference to detailed projections until 2030 and the estimated residual value, excluding power generating and mining units for which detailed projections cover the entire period of their operation.

The assumptions concerning the life of the generation and mining units are consistent with those adopted for the impairment tests carried out as at 31 December 2020, including in particular:

- the operation of TAURON Wytwarzanie S.A. generation units was assumed until 2035, including: the unit in Jaworzno III Branch until 2025; two units in Jaworzno III Branch until 2028; two units in Jaworzno II Branch until 2030; the unit in Łagisza Branch until 2035. The operation of the Nowe Jaworzno Grupa TAURON Sp. z o.o. generation unit was assumed until 2060.
- the forecast for hydroelectric power plants covers the period up to 2066 while for wind farms - up to 2040;
- the operation of the mining units was assumed until 2049, including ZG Sobieski and ZG Janina until 2049 and ZG Brzeszcze until 2040.

The reliance on projections covering a period longer than 5 years results mainly from the fact that investment processes in the power industry are time-consuming. The macroeconomic and sector-oriented assumptions underlying the projections are updated as frequently as any indications for their modification are observed on the market. The projections also take into account changes in the regulatory environment known as at the date of the test.

Key assumptions in the scope of tests performed as at 30 June 2021

Category	Description
Coal	Coal prices for the assumptions adopted as at 30 June 2021 have not changed in relation to the previous assumptions as at 31 December 2020 over the entire forecast horizon. Coal prices show a slight upward trend in the nearest three years due to the observed sustained upward trend in the scope of domestic cost of mining. However, in the long term (2025-2040), coal prices will continue to fall due to the accelerated implementation of the decarbonisation policy promoted by the European Union, aimed at reaching the climate neutrality in Europe by 2050. Its manifestation is the gradual reduction of the share of coal in the energy mix of individual countries (including Germany, the Czech Republic and Poland), which is associated with an increase in the share of energy from RES in the energy balance of the European Union Member States. After 2025, the price of coal in Poland will begin to fall, as a result of decreased electricity generation with the use of this raw material as well as an expected increase in import volumes in view of high levels of mining cost in the country. A real growth in power coal prices by 5.4% was assumed in the years 2021-2040, compare to 2021, however in years 2025 – 2040 there was assumed a real decline in power coal price by 5.8%, compare to 2024. In May this year, the Social Agreement concern a transformation of Mining sector and selected transformation processes of Silesia region was signed. The contract was signed between State, Unions, the miming regions and Management Boards of mining companies, including management Board of TAURON Wydobycie S.A. The agreement determines among others support system for production units (coal mines) as a gradual shutdown of production capacity. In financial projection, prepared for impairment tests, made assumption was in line with the Social Agreement, including working period of coal mines of the Company and surcharged to reduction of production capacity. The surcharges to reduction of production capacity were consult in impairment tests starting form 2022 up to 2049 and were calculated on a basis of difference between qualified costs of coal production and those calculated in line with rules of support system revenue from coal sales. Impact of support system on a tests was shown in

(in PLN thousand)

Category	Description
	sensitivity analyst.
Electricity	The adopted forecast of wholesale electricity prices for the period 2021-2040 has been updated and adjusted in the first three years (2021-2023) to current levels recorded in the market. In 2024-2040, the wholesale electricity price (in constant prices) will increase by approx. 4.5%. The forecast of wholesale electricity prices is affected by the current and expected balancing situation in the national power system, forecasts of fuel prices and the costs of purchasing CO_2 emission allowances. In 2022, a significant increase in energy prices of around 23% compared to 2021 has been assumed, which results, among others, from a sharp rise in the prices of CO_2 emission allowances. The observed change in the structure of electricity generation and the increase in the share of renewable energy sources in the energy mix reduces the level of margins gained on the sale of electricity from coal-fired sources. The effect of the decline in production volumes and margins for conventional sources is partially offset by assuming a significant impact of the *Scarcity Pricing* mechanism on electricity prices. In accordance with the obligations arising from the Decision of the European Commission notifying the Capacity Market in Poland, the implementation of this mechanism was scheduled by 1 January 2021. As a result of delays in the implementation of the mechanism, it was assumed that it would start operating at the beginning of 2023. Due to the structure of the capacity balance, the operation of the mechanism will be reflected in wholesale electricity prices from 2025. Full implementation of the *Scarcity Pricing* mechanism in the model generates appropriate price signals depending on the capacity balance in the KSE, resulting in higher wholesale electricity prices. The increase in prices by 2035 results from the growth in prices of CO_2 emission allowances and planned shutdowns of coal-fired and nuclear units in Germany directly affecting the level of the interconnection exchange balance. The electricity retail price path has been adopted based on the wholesale price of black energy, taking into account the costs of excise duty, the obligation to redeem energy certificates of origin as well as the expected level of margin.
CO_2	CO_2 emission limits for heat generation have been adopted in line with the regulation of the Council of Ministers and adjusted by the level of operations, i.e. generation of heat. The CO_2 emission allowance price growth path has been adopted throughout the forecasting horizon. In 2022, a 65.5% higher price of CO_2 emission allowances was assumed compared to the average price in 2021. In the period 2023-2030, a price increase to the level of approx. 60 EUR/Mg in constant prices (approx. 70 EUR/Mg in current prices) has been assumed due to the assumption of an increase in the Linear Reduction Factor (LRF) to the level of 4.2% proposed by the European Commission (from the current 2.2%). The projected CO_2 price in 2030 compared to the average price in 2020 will be c.a. 140.8% higher. A further increase in the price of CO_2 emission allowances is assumed in the years 2031-2040, compared to 2030, which stems from the assumed increase in the decarbonisation rate of the economy and the target of achieving climate neutrality of Europe in 2050. The price of CO_2 projected for 2040 amounts to approx. 68 EUR/Mg (approx. 100 EUR/Mg in current prices).
Certificates of energy origin (MWh)	The price path for certificates of energy origin and the obligatory redemption in the subsequent years have been adopted based on the provisions of the RES Act and the system balance forecast.
Capacity market	Revenues for the performance of capacity contracts concluded by the Group in the auctions held between 2018 and 2020 are included. With regard to coal-fired units which, in accordance with the provisions of EU regulations, are subject to limitations in the use of support from capacity mechanisms as of 1 July 2025 (the so-called EPS 550), revenues obtained in full amount resulting from the contracts concluded were assumed until 2035 with regard to the unit belonging to Nowe Jaworzno Grupa TAURON Sp. z o.o. and until 2028 with regard to the remaining companies. The reason is that coal units belonging to the Group benefit from the so-called protection of acquired rights, therefore they are not subject to emission restrictions until the completion of the contracts concluded.
RES	For green energy, limited support periods were included, in line with the provisions of the RES Act defining new mechanisms for granting the support for electricity generated from this type of sources. The support period was limited to 15 years counted from the moment of first injection to the grid of electricity eligible to receive the energy origin certificate to the grid.
Natural gas	Natural gas prices for the assumptions adopted as at 30 June 2021 were raised in relation to the previous assumptions as at 31 December 2020 over the entire forecast horizon. The exception is 2021 due to the execution of an annual contract with the delivery in 2021. The main reason for the projected increases in gas prices were the significantly higher estimates concerning the forecast of the demand for natural gas presented by GAZ-SYSTEM S.A. in the horizon up to 2040. The period of 2021-2025 will see a large increase in the demand for natural gas in Poland, determined by an increase in the number of natural gas-fired sources. An additional factor of the projected price increase is the decline in gas production in Europe, with a simultaneous increase in gas consumption. In Poland, we assume the commissioning of the *Baltic Pipe*, the expansion of the LNG terminal in Świnoujście, the Poland-Lithuania Interconnector (GIPL) as well as the commissioning of the floating LNG terminal in the Gulf of Gdańsk and the gas units in the Dolna Odra Power Plant by 2028 at the latest. After 2024, a decline in raw material extraction from the Norwegian Continental Shelf is assumed. In the years 2026-2030, further growth in the number of natural gas-fired sources in Poland is assumed, which is determined by the continued growth in demand. Beyond 2030, the demand for gas in Europe and Asia will grow more slowly than in the previous 10-year period. The share of gas in global energy production has been growing more slowly, which is also evident in the forecasts of external agencies that do not assume a significant increase in real gas prices over this period.

(in PLN thousand)

Category	Description
WACC	The weighted average cost of capital (WACC) during the projection period for individual CGUs has been adopted in the range of 5.7%-13.98% in nominal terms before tax, taking into account the risk-free rate corresponding to the yield on 10-year Treasury bonds (at a level of 1.39%) and the risk premium for operations relevant for the power industry (6.75%). The growth rate used for extrapolation of projected cash flows going beyond the detailed planning period has been adopted at a level of 2.5% and corresponds to the estimated long-term inflation rate. The level of WACC as at 30 June 2021 compared to the level as at 31 December 2020 increased in the Mining segment mainly due to the inclusion of the additional specific risk. In the other segments, it has decreased primarily due to the decline in the risk-free rate.
Regulated revenue	Regulated revenue of distribution companies has been assumed, ensuring the coverage of justified costs and a reasonable level of return on capital . The return on capital depends on the Regulatory Asset Value. In the years 2021-2030, an increase in electricity supply by 1.15% year-on-year has been assumed.
Sales volume and production capacity	The volume of sales to customers of the Company was assumed taking into account the GDP growth, the competitive situation in the market, growth of financial costs (trade credit costs) incurred by sales companies and the development of the prosumer market in the area of TAURON Dystrybucja. As a result of taking these factors into account, volumes are lower in the first years, with a gradual recovery of lost volume planned from 2024 onwards. The economical useful life of non-current assets and maintenance of production capacity as a result of reconstruction investments were taking into account.

On 14 March 2019, Tempus Energy Germany GmbH and T Energy Sweden AB companies filed a complaint with the Court of Justice of the European Union ("CJEU") against the aid decision of the European Commission concerning the Polish Capacity Market. The complaint seeks to revoke the decision on the waiver of objections concerning the Polish Capacity Market. The complainants' allegations refer to the European Commission's failure to initiate a formal investigation procedure and the allegedly discriminatory treatment of demand management units within the Polish Capacity Market. The Group estimates that in the case the CJEU revokes its decision regarding the Polish Capacity Market, which may involve a potential suspension of the Group's receipt of payments for the execution of its capacity obligations, a new aid decision will be issued by the European Commission. The legal analyses conducted by the Group demonstrated that the Group's recognition of the revenue from the execution of the capacity obligations in the potential suspension period (i.e. between the judgement revoking the aid decision and the issuance of a new aid decision) meets the requirements of IFRS 15 Revenue from Contracts with Customers, since gaining such revenue is, in the Group's opinion, highly probable. In Group's opinion full payment arising from capacity obligation will be paid to the Group after issue of final decision by The European Commission.

The assumptions were also used for calculation recoverable vale other intangible assets and right-of-use assets.

The need to write down the assets of CGU Generation-Coal and CGU ZW OCL resulted in particular from:

- an increase in the prices of CO_2 emission allowances resulting from more stringent climate policy of the European Union strongly targeted at accelerating the pace of decarbonisation in pursuit of the climate neutrality of Europe,
- a change in the energy mix in Poland towards low- and zero-emission sources, resulting in lower electricity production volumes from conventional sources, in particular coal-fired power plants,
- a projected decline in market margins in the medium- and long-term perspective as a result of an increase in the variable costs of production from conventional sources, mainly due to the increase in the price of CO_2 emission allowances and the growth in the share of renewable energy sources and new natural gas-fired sources.

The need to write down the assets of the CGU Mining resulted in particular from the reduced projected demand for steam coal as a result of the proceeding decarbonisation in Europe.

Sensitivity analysis for mining and generation assets

The estimated changes in impairment losses on mining and generation assets as at 30 June 2021 and the impact on the Group's assets as a result of changes in the key assumptions, are presented below.

Parameter	Change	Impact on impairment loss (in PLN million) Mining assets		Generation assets		Assets of the Group Impact on impairment loss (in PLN million)	
		Increase of impairment loss (net)	Decrease of impairment loss (net)	Increase of impairment loss (net)	Decrease of impairment loss (net)	Increase of impairment loss (net)	Decrease of impairment loss (net)
Change of electricity prices in the forecast period	+1%	2	-	-	262	-	260
	-1%	-	9	262	-	253	-
Change of heat prices in the forecast period	+1%	-	-	-	5	-	5
	-1%	-	-	5	-	5	-
Change of CO_2 emission allowances prices in the forecast period	+1%	-	-	153	-	153	-
	-1%	-	-	-	153	-	153
Change of WACC (net)	+0.1 p.p.	-	-	30	-	30	-
	-0.1 p.p.	-	-	-	30	-	30
Change of coal prices in the forecast period	+1%	-	54	75	-	21	-
	-1%	2	-	-	75	-	73
No subsidy for coal mine[1]	-100%	664	-	-	-	664	-
No revenue from the Capacity Market	-100%	-	-	3 284	-	3 284	-
No scarcity pricing mechanism [2]	-	-	-	2 290	-	2 290	-

[1] *Impairment loss of non-current assets to the level of land and perpetual usufruct right booking value which is equal to fair value.*
[2]*In accordance with the obligations related to the Capacity Market notification process and in accordance with Article 16(e) of the Commission Decision "State aid No. SA.46100 (2017/N) – Poland – Planned Polish capacity mechanism", by 1 January 2021, Poland should introduce an administrative scarcity pricing mechanism as referred to in Article 44(3) of the Electricity Balancing Guideline. In the first quarter of 2021, PSE S.A. presented a rescheduling plan to be included in the new Implementation Plan, in which the deadline for implementing the mechanism was postponed to 2023. No scarcity pricing mechanism included in the above analysis, assumes lower revenues from sales of energy from own production throughout the period analysed by PLN 7.4 billion in nominal terms. Details of the scarcity pricing mechanism are described in the key assumptions adopted in the tests as at 30 June 2021.*

Sensitivity analysis for the Distribution segment

The sensitivity analysis was performed for a change in the discount rate and a change in the WACC level adopted for the calculation of regulated income in the years 2022-2025 and in the residual period. The estimated impacts on the recoverable value of assets of the Distribution segment as at 30 June 2021 are presented below.

Parameter	Change	Recoverable amount *(in PLN milion)*	Impact on increase of impairment loss *(in PLN million)* Increase	Decrease
Change of WACC (net)	+0.1 p.p.	23 187	-	1 054
	-0.1 p.p.		1 141	-
Change in the WACC adopted for the calculation of regulated income in 2022-2030 and in the residual period	+0,1 p.p.		721	-
	-0,1 p.p.		-	721

16. Right-of-use assets

6-month period ended 30 June 2021 *(unaudited)*

	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
COST								
Opening balance	**547 971**	**1 162 432**	**196 523**	**88 579**	**7 668**	**133 269**	**5 764**	**2 142 206**
Increase due to a new lease contract	28 733	34	9 154	7 757	32	79	-	**45 789**
Increase(decrease) due to lease changes	4 333	502	3 289	1 884	182	36	-	**10 226**
Transfer from assets held for sale	-	17 484	-	-	-	-	-	**17 484**
Other movements	3 577	(589)	(354)	(2 912)	(135)	7 395	791	**7 773**
Closing balance	**584 614**	**1 179 863**	**208 612**	**95 308**	**7 747**	**140 779**	**6 555**	**2 223 478**
ACCUMULATED DEPRECIATION								
Opening balance	**(44 735)**	**(92 485)**	**(31 781)**	**(62 305)**	**(5 507)**	**(29 423)**	**-**	**(266 236)**
Depreciation for the period	(13 710)	(17 575)	(9 353)	(9 216)	(1 347)	(3 137)	-	**(54 338)**
Increase of impairment	-	(6 519)	(6)	(4 286)	(11)	(531)	-	**(11 353)**
Decrease of impairment	-	8 805	-	-	-	-	-	**8 805**
Transfer from assets held for sale	-	(8 771)	-	-	-	-	-	**(8 771)**
Other movements	195	28	27	2 912	385	-	-	**3 547**
Closing balance	**(58 250)**	**(116 517)**	**(41 113)**	**(72 895)**	**(6 480)**	**(33 091)**	**-**	**(328 346)**
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	**503 236**	**1 069 947**	**164 742**	**26 274**	**2 161**	**103 846**	**5 764**	**1 875 970**
NET CARRYING AMOUNT AT THE END OF THE PERIOD	**526 364**	**1 063 346**	**167 499**	**22 413**	**1 267**	**107 688**	**6 555**	**1 895 132**

(in PLN thousand)

6-month period ended 30 June 2020 *(restated unaudited 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
COST								
Opening balance	**475 863**	**1 076 085**	**176 424**	**64 789**	**6 571**	**121 144**	**6 256**	**1 927 132**
Increase due to a new lease contract	27 362	13	1 460	11 335	39	171	-	**40 380**
Increase/(decrease) due to lease changes	(2 640)	7 921	6 455	(2 854)	(8)	24	-	**8 898**
Transfer of assets held for sale	-	(2 211)	-	-	-	-	-	**(2 211)**
Other movements	(388)	(752)	641	(3 076)	1 034	5 010	(843)	**1 626**
Closing balance	**500 197**	**1 081 056**	**184 980**	**70 194**	**7 636**	**126 349**	**5 413**	**1 975 825**
ACCUMULATED DEPRECIATION								
Opening balance	**(20 176)**	**(60 097)**	**(15 341)**	**(34 713)**	**(2 210)**	**(21 097)**	**-**	**(153 634)**
Depreciation for the period	(12 188)	(16 240)	(8 171)	(9 097)	(1 463)	(2 913)	-	**(50 072)**
Increase of impairment	(8)	(396)	(7)	(4 240)	(20)	(3)	-	**(4 674)**
Decrease of impairment	-	1 206	-	-	-	-	-	**1 206**
Transfer of assets held for sale	-	46	-	-	-	-	-	**46**
Other movements	61	39	137	3 022	(341)	9	-	**2 927**
Closing balance	**(32 311)**	**(75 442)**	**(23 382)**	**(45 028)**	**(4 034)**	**(24 004)**	**-**	**(204 201)**
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	**455 687**	**1 015 988**	**161 083**	**30 076**	**4 361**	**100 047**	**6 256**	**1 773 498**
NET CARRYING AMOUNT AT THE END OF THE PERIOD	**467 886**	**1 005 614**	**161 598**	**25 166**	**3 602**	**102 345**	**5 413**	**1 771 624**

17. Goodwill

Operating segment	As at 30 June 2021 *(unaudited)*	As at 31 December 2020
Distribution	25 602	25 602
Other	581	581
Total	**26 183**	**26 183**

Impairment tests

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

The test was performed based on the current value of projected cash flows from operations. Calculations were performed on the basis of detailed projections up to 2030 and the estimated residual value, with the projections for the mining units covering their entire period of life. The reliance on projections covering a period longer than 5 years results mainly from the long-lasting investment processes in the power industry. The macroeconomic and sector-oriented assumptions underlying the projections are updated as frequently as any indications for their modification are observed on the market. The projections also take into account changes in the regulatory environment known as at the date of the test.

The weighted average cost of capital (WACC) during the projection period, as used in the calculations, 6.02% in nominal terms before tax, taking into account the risk free rate determined by reference to the yield on 10-year Treasury bonds (at a level of 1.39%) and the risk premium for operations appropriate for the power industry (6.75%). The growth rate used for extrapolation of projected cash flows going beyond the detailed planning period has been adopted at a level of 2.5% and corresponds to the estimated long-term inflation rate. The level of WACC as at 30 June 2021 compared to the level as at 30 June 2020 has decreased primarily due to the decline in the risk-free rate.

Operating segment	Key assumptions	Discount rate (before tax) assumed in tests as at:	
		30 June 2021 *(unaudited)*	31 December 2020
Distribution	Regulated revenue generated by distribution companies, ensuring coverage of reasonable costs and a reasonable level of return on capital. The return level depends on the Regulatory Value of Assets. Maintaining generation capacity of the existing non-current assets as a result of replacement investments.	6.02%	6.10%

Interim condensed consolidated financial statements for the 6-month period ended 30 June 2021 prepared in accordance with the IFRS as endorsed by the EU (in PLN thousand)

18. Energy certificates and CO_2 emission allowances

18.1. Long-term energy certificates and CO_2 emission allowances

	6-month period ended 30 June 2021 *(unaudited)*			6-month period ended 30 June 2020 *(unaudited restated figures)*		
	Energy certificates	CO_2 emission allowances	Total	Energy certificates	CO_2 emission allowances	Total
Opening balance	**233 526**	**267 410**	**500 936**	**306 221**	**161 976**	**468 197**
Direct purchase	40 418	-	**40 418**	39 577	-	**39 577**
Reclassification	(233 526)	(222 320)	**(455 846)**	(289 137)	(112 335)	**(401 472)**
Closing balance	**40 418**	**45 090**	**85 508**	**56 661**	**49 641**	**106 302**

18.2. Short-term energy certificates and CO_2 emission allowances

	6-month period ended 30 June 2021 *(unaudited)*			6-month period ended 30 June 2020 *(unaudited restated figures)*		
	Energy certificates	CO_2 emission allowances	Total	Energy certificates	CO_2 emission allowances	Total
Opening balance	**705 641**	**333 988**	**1 039 629**	**594 968**	**690 225**	**1 285 193**
Direct purchase	197 363	672 375	**869 738**	119 454	168 532	**287 986**
Generated internally	87 488	-	**87 488**	120 901	-	**120 901**
Surrendered	(755 914)	(986 228)	**(1 742 142)**	(595 495)	(776 602)	**(1 372 097)**
Reclassification	233 526	145 831	**379 357**	289 137	112 335	**401 472**
Closing balance	**468 104**	**165 966**	**634 070**	**528 965**	**194 490**	**723 455**

In the 6-month period ended 30 June 2021, CO_2 emission allowances in the amount of PLN 222 320 thousand, originally intended for redemption in 2021, were reclassified to short-term CO_2 emission allowances. Then, in connection with the change of intention regarding use of CO_2 emission allowances in the value of PLN 76 489 thousand held by the subsidiary Nowe Jaworzno Grupa TAURON Sp. z o.o. and constituting a surplus over the redemption needs for 2020, the Group classified as inventories and resold the aforementioned CO_2 emission as described more detail in Note 11 to these interim condensed consolidated financial statements. Revenue on this account amounted to PLN 134 738 thousand.

19. Other intangible assets

6-month period ended 30 June 2021 *(unaudited)*

	Development expenses	Software, concessions, patents, licenses and similar items	Other intangible assets	Intangible assets not made available for use	Intangible assets total
COST					
Opening balance	**12 248**	**943 967**	**219 384**	**119 997**	**1 295 596**
Direct purchase	-	-	-	37 900	**37 900**
Transfer of intangible assets not made available for use	4 368	97 607	1 955	(103 930)	**-**
Sale/Liquidation	-	(42 389)	(90)	-	**(42 479)**
Other movements	-	-	(1 002)	1 172	**170**
Foreign exchange differences from translation of foreign entity	-	15	-	-	**15**
Closing balance	**16 616**	**999 200**	**220 247**	**55 139**	**1 291 202**
ACCUMULATED AMORTIZATION					
Opening balance	**(6 705)**	**(623 760)**	**(113 394)**	**(45)**	**(743 904)**
Amortization for the period	(934)	(49 772)	(5 259)	-	**(55 965)**
Impairment	(73)	(455)	(1 761)	-	**(2 289)**
Sale/Liquidation	-	42 381	75	-	**42 456**
Other movements	-	-	(38)	38	**-**
Foreign exchange differences from translation of foreign entity	-	(15)	-	-	**(15)**
Closing balance	**(7 712)**	**(631 621)**	**(120 377)**	**(7)**	**(759 717)**
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	**5 543**	**320 207**	**105 990**	**119 952**	**551 692**
NET CARRYING AMOUNT AT THE END OF THE PERIOD	**8 904**	**367 579**	**99 870**	**55 132**	**531 485**

(in PLN thousand)

6-month period ended 30 June 2020 *(restated unaudited figures)*

	Development expenses	Software, concessions, patents, licenses and similar items	Other intangible assets	Intangible assets not made available for use	Intangible assets total
COST					
Opening balance	**8 946**	**822 069**	**199 572**	**114 253**	**1 144 840**
Direct purchase	-	-	-	45 110	**45 110**
Transfer of intangible assets not made available for use	2 695	65 262	898	(68 855)	**-**
Sale/Liquidation	(1 309)	(18 726)	(66)	(36)	**(20 137)**
Other movements	3	(27)	111	384	**471**
Foreign exchange differences from translation of foreign entities	-	(7)	-	-	**(7)**
Closing balance	**10 335**	**868 571**	**200 515**	**90 856**	**1 170 277**
ACCUMULATED AMORTIZATION					
Opening balance	**(6 250)**	**(562 534)**	**(97 765)**	**(30)**	**(666 579)**
Amortization for the period	(456)	(37 603)	(5 457)	-	**(43 516)**
Impairment	(386)	(1 386)	(9)	(5)	**(1 786)**
Sale/Liquidation	1 306	18 726	66	-	**20 098**
Foreign exchange differences from translation of foreign entities	-	7	-	-	**7**
Closing balance	**(5 786)**	**(582 790)**	**(103 165)**	**(35)**	**(691 776)**
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	**2 696**	**259 535**	**101 807**	**114 223**	**478 261**
NET CARRYING AMOUNT AT THE END OF THE PERIOD	**4 549**	**285 781**	**97 350**	**90 821**	**478 501**

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

20. Investments in joint ventures

	Elektrociepłownia Stalowa Wola S.A.	TAMEH HOLDING Sp. z o.o. *	As at 30 June 2021 or for the 6-month period ended 30 June 2021 *(unaudited)*	Elektrociepłownia Stalowa Wola S.A.	TAMEH HOLDING Sp. z o.o. *	As at 31 December 2020 or for the 6-month period ended 30 June 2020 *(unaudited)*
Non-current assets	909 052	2 079 672	**2 988 724**	1 822 021	2 117 521	**3 939 542**
Current assets, *including:*	312 879	895 534	**1 208 413**	166 157	651 735	**817 892**
cash and cash equivalents	*9 043*	*262 851*	***271 894***	*2 242*	*158 680*	***160 922***
Non-current liabilities (-), *including:*	(1 919 821)	(781 239)	**(2 701 060)**	(2 028 065)	(839 590)	**(2 867 655)**
debt	*(1 875 792)*	*(657 207)*	***(2 532 999)***	*(1 964 830)*	*(743 421)*	***(2 708 251)***
Current liabilities (-), *including:*	(899 546)	(887 751)	**(1 787 297)**	(754 866)	(675 067)	**(1 429 933)**
debt	*(691)*	*(181 311)*	***(182 002)***	*(5 662)*	*(184 206)*	***(189 868)***
Total net assets	(1 597 436)	1 306 216	**(291 220)**	(794 753)	1 254 599	**459 846**
Share in net assets	(798 718)	653 108	**(145 610)**	(397 377)	627 300	**229 923**
Investment in joint ventures	**-**	**612 202**	**612 202**	**-**	**586 559**	**586 559**
Share in revenue of joint ventures	213 252	604 460	**817 712**	1 105	466 486	**467 591**
Share in profit/(loss) of joint ventures	**-**	**22 300**	**22 300**	**-**	**40 914**	**40 914**
Share in other comprehensive income of joint ventures	**-**	**284**	**284**	**-**	**360**	**360**

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

Elektrociepłownia Stalowa Wola S.A.

Elektrociepłownia Stalowa Wola S.A. is a special purpose vehicle established in 2010 on the initiative of TAURON Polska Energia S.A. and PGNiG S.A., through which the partners implemented an investment consisting in the 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 capacity of 240 MWt.

TAURON Polska Energia S.A. has an indirect shareholding of 50% in the company's capital and in the governing body, performed by TAURON Wytwarzanie S.A. Due to the fact that in 2015 the accumulated share of losses of the joint venture and the adjustment to transactions between the Group companies and the joint venture exceeded the value of the interest in the joint venture, the Company discontinued to recognise its share of any further losses of the joint venture.

In addition, the Company holds receivables from loans granted to Elektrociepłownia Stalowa Wola S.A. with the carrying amount of PLN 98 713 thousand, as further discussed in Note 21 to these interim condensed consolidated financial statements.

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

On 25 April 2019, a judgement of the Court of Arbitration at the Polish Chamber of Commerce in Warsaw ("Judgment") was issued in the case brought by Abener Energia S.A. ("Abener") against Elektrociepłownia Stalowa Wola S.A. ("ECSW").

The proceedings before the Court of Arbitration concerned a claim for payment, for establishing the legal relationship and for the obligation to submit a declaration of intent in connection with the terminated contract concluded between Abener (general contractor) and ECSW (contracting authority) for the construction of a CCGT unit in Stalowa Wola. Under the Judgement, ECSW was obligated to pay to Abener the amount of PLN 333 793 thousand together with statutory interest for delay and costs of the arbitration proceedings. On 22 September 2020, the Court of Appeals in Rzeszów, by its judgement, dismissed the complaint of ECSW to repeal the Judgement, and on 20 November 2020, issued a decision to suspend the execution of the Judgement until the conclusion of the cassation proceedings or the expiry of the time limit for filing a cassation appeal. As a result of the dispute, on 21 December 2020, ECSW filed a complaint in cassation. In the 6-month period ended 30 June 2021 there were no significant legal events in the above-mentioned proceedings. To the best knowledge of the Company, Elektrociepłownia Stalowa Wola S.A. has recognised in the recent approved financial statement the provision for the effects of the above Judgement.

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

On 19 October 2020, ECSW filed a lawsuit to the Court of Arbitration at the Polish Chamber of Commerce in Warsaw against Abener for the payment by Abener to ECSW of PLN 198 664 thousand and EUR 461 thousand, together with interest, as compensation for the damage corresponding to the costs of removal of defects, faults and failures of works, supplies and services performed by Abener during the performance of the aforementioned contract. The proceedings are pending.

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

TAMEH HOLDING Sp. z o.o. and subsidiaries

In 2014, a shareholders' agreement was concluded by and between the TAURON Group and the ArcelorMittal Group regarding TAMEH HOLDING Sp. z o.o., which is responsible for investment and operational projects related to the industrial power sector. The duration of the agreement is 15 years and may be extended. Each capital group holds 50% of shares in TAMEH HOLDING Sp. z o.o.

TAMEH HOLDING Sp. z o.o. holds 100% of shares in TAMEH POLSKA Sp. z o.o., incorporated by the following entities contributed by the TAURON Group: Zakład Wytwarzania Nowa and Elektrownia Blachownia along with Kraków Heat and Power Plant contributed by the ArcelorMittal Group. Moreover, TAMEH HOLDING Sp. z o.o. holds 100% of shares in TAMEH Czech s.r.o., based on the Ostrava Heat and Power Plant.

(in PLN thousand)

21. Loans granted to joint ventures

	Loan amount	As at 30 June 2021 *(unaudited)*			As at 31 December 2020			Maturity date	Interest rate
		Gross value	Impairment loss	Carrying amount	Gross value	Impairment loss	Carrying amount		
Loans measured at fair value									
Debt consolidation agreement	609 951	74 345	n.a.	**74 345**	72 523	n.a.	**72 523**	30.06.2033	fixed
Loans measured at amortized cost									
VAT loan	15 000	-	-	**-**	2 453	(33)	**2 420**	-	WIBOR 1M +mark-up
Other loans	7 290	2 102	(428)	**1 674**	1 986	(353)	**1 633**	30.06.2033	fixed
	9 500	2 429	(388)	**2 041**	2 295	(304)	**1 991**		
	5 175	1 453	(215)	**1 238**	1 372	(165)	**1 207**		
	59 175	15 303	(1 150)	**14 153**	14 404	(598)	**13 806**		
	35 000	5 445	(183)	**5 262**	5 160	(27)	**5 133**		
Total		**101 077**	**(2 364)**	**98 713**	**100 193**	**(1 480)**	**98 713**		
Non-current		101 077	(2 364)	**98 713**	97 740	(1 447)	**96 293**		
Current		-	-	**-**	2 453	(33)	**2 420**		

Pursuant to the agreement consolidating the borrower's debt of 28 February 2018 for the total amount of PLN 609 951 thousand, all existing liabilities of Elektrociepłownia Stalowa Wola S.A. towards the Company resulting from the loans granted and not repaid until 28 February 2018 were renewed. As at the balance sheet date, the nominal amount of the loan is PLN 310 851 thousand (the capital of PLN 299 100 thousand was repaid on 30 April 2018). The debt in question is subordinated debt, valued as at the balance sheet date at fair value of PLN 74 345 thousand.

On 31 March 2021, Elektrociepłownia Stalowa Wola S.A. repaid in full the principal and interest under the VAT loan agreement.

22. Other financial assets

	As at 30 June 2021 *(unaudited)*	As at 31 December 2020 *(restated figures)*
Derivative instruments	587 765	158 846
Shares	131 290	123 549
Deposits and term deposits for Mining Decommissioning Fund	56 546	53 448
Loans granted	661	-
Other financial receivables, *including:*	194 014	176 924
Initial deposits arising from stock exchange transactions	65 026	48 663
Receivables due to financial compensation for traiding companies	61 357	61 357
Bid bonds, deposits and collateral transferred	44 957	55 969
Other	22 674	10 935
Total	**970 276**	**512 767**
Non-current	354 161	246 246
Current	616 115	266 521

As at 30 June 2021, assets from the positive measurement of derivative instruments refer to commodity derivatives as well as IRS and CCIRS instruments. The increase in assets due to valuation of the above derivatives compared to the comparative period mainly relates to forward instruments due to transactions for which CO_2 emission allowances represent the underlying commodity and results mainly from the significant increase in the price of allowances, while taking into account the number of exchange contracts open as at the balance sheet date. Derivatives have been presented in detail in Note 44.2 hereto.

As at 30 June 2021, the shares held by the Group are mainly shares in the following entities:

- SCE Jaworzno III Sp. z o.o. with the value of PLN 29 476 thousand;
- PEC Tychy Sp. z o.o. with the value of PLN 23 802 thousand;
- EEC Magenta Sp. z o.o. 2 ASI SKA with the value of PLN 23 916 thousand;
- Energetyka Cieszyńska Sp. z o.o. with the value of PLN 12 703 thousand;
- ElectroMobility Poland S.A. with the value of PLN 11 026 thousand.

The value of initial and variation deposits is related mostly to futures transactions in CO_2 emission allowances concluded on foreign regulated markets.

(in PLN thousand)

Compensation receivables for trading companies in the amount of PLN PLN 61 357 result from the request filed in September 2020 by TAURON Sprzedaż Sp. z o.o. to correct the amount of the price difference and financial compensation for the entire year 2019, resulting from the Act amending the Excise Duty Act and certain other acts and its implementing legislation, being the basis for the compensation due to trading companies, in connection with the need to apply in 2019 gross prices and fee rates not higher than those contained in the tariff or the price list of electricity effective as at 30 June 2018. After the balance sheet date, on 12 August 2021, TAURON Sprzedaż Sp. z o.o. got a receivables due to financial compensation for trading companies in full amount.

The value of deposits, bonds, collaterals relates mainly to the collaterals provided by the subsidiary from the Generation segment in favour of PSE S.A. on account of securing due performance of the agreement for the provision of electricity transmission services and the collaterals provided by the Company under the clearing guarantee system with Izba Rozliczeniowa Giełd Towarowych S.A. As at 30 June 2021 and 31 December 2020, the collaterals under the above titles amounted to the total of PLN 25 879 thousand and PLN 36 209 thousand, respectively.

23. Other non-financial assets

23.1. Other non-current non-financial assets

	As at 30 June 2021 *(unaudited)*	**As at 31 December 2020 *(restated figures)***
Prepayments for assets under construction and intangible assets, *including:*	47 279	15 374
related to the construction of wind farms	*33 620*	-
Property and tort insurance	10 871	3 263
Contract acquisition costs and costs of discounts	10 075	7 084
Prepayments for debt charges	5 167	7 770
Other prepayments	29 522	30 602
Total	**102 914**	**64 093**

23.2. Other current non-financial assets

	As at 30 June 2021 *(unaudited)*	**As at 31 December 2020 *(restated figures)***
Costs settled over time	**116 159**	**71 247**
Property and tort insurance	65 432	25 258
IT and telecom services	15 805	23 844
Contract acquisition costs and costs of discounts	15 094	12 911
Prepayments for debt charges	7 494	5 937
Other prepayments	12 334	3 297
Other current non-financial assets	**53 121**	**8 985**
Transfers made to the Social Benefit Fund	35 971	-
Advance payments for deliveries	7 574	2 552
Other current assets	9 576	6 433
Total	**169 280**	**80 232**

(in PLN thousand)

24. Deferred income tax

	As at 30 June 2021 *(unaudited)*	As at 31 December 2020 *(restated figures)*
difference between tax base and carrying amount of property, plant and equipment, intangible assets and right-of-use assets	1 446 503	1 578 486
difference between tax base and carrying amount of financial assets	183 469	41 976
different timing of recognition of sales revenue for tax purposes	316 210	326 801
difference between tax base and carrying amount of energy certificates	13 758	21 962
other	60 843	75 423
Deferred tax liabilities	**2 020 783**	**2 044 648**
provisions and accruals	615 326	731 185
difference between tax base and carrying amount of property, plant and equipment, intangible assets and right-of-use assets	660 097	602 640
power infrastructure received free of charge and received connection fees	6 690	7 073
difference between tax base and carrying amount of financial assets and financial liabilities	528 292	389 143
different timing of recognition of sales revenue and cost of sales for tax purposes	271 275	270 157
tax losses	12 254	8 747
other	36 900	27 150
Deferred tax assets	**2 130 834**	**2 036 095**
Impairment of deferred tax assets	(358 251)	(292 865)
Deferred tax assets after impairment	**1 772 583**	**1 743 230**
After setting off balances at the level of individual Group companies, deferred tax for the Group is presented as:		
Deferred tax asset	**128 682**	**132 320**
Deferred tax liability	**(376 882)**	**(433 738)**

As at 30 June 2021 and 31 December 2020, the deferred tax assets was set off against deferred tax liability of companies from the Tax Group of Companies ("TGC") due to the fact that the said companies had filed a combined tax return under the agreements Tax Group of Companies.

As at 30 June 2021, the impairment loss on deferred tax assets related to assets and liabilities of the Mining segment company and amounted to PLN 358 251 thousand. The recognition of the above write-down results from the analysis of recoverability of the deferred tax asset of company from Mining segment , which do not entered to the Tax Capital Group for the years 2021-2023.

25. Inventories

	As at 30 June 2021 *(unaudited)*	As at 31 December 2020 *(restated figures)*
Gross value		
Coal, *of which:*	753 313	658 323
Raw materials	*333 731*	*277 509*
Semi-finished goods and work-in-progress	*410 059*	*377 689*
CO_2 emission allowances	183 688	18 436
Other inventories	210 932	208 975
Total	**1 147 933**	**885 734**
Measurement to fair value		
CO_2 emission allowances	21 274	-
Measurement to net realisable value		
Coal	(16 303)	(285)
Other inventories	(12 008)	(11 023)
Total	**(7 037)**	**(11 308)**
Fair value		
CO_2 emission allowances	204 962	-
Net realisable value		
Coal, *of which:*	737 010	658 038
Raw materials	*333 731*	*277 509*
Semi-finished goods and work-in-progress	*393 756*	*377 689*
CO_2 emission allowances	-	18 436
Other inventories	198 924	197 952
Total	**1 140 896**	**874 426**

(in PLN thousand)

The Group has estimated the net achievable value of stocks of coal intended for production in the context of estimated selling prices for electricity and heat produced with the use of these stocks. The analysis performed indicated that it was reasonable to recognise an impairment loss at a level of PLN 16 303 thousand. The analysis used price paths for electricity and CO_2 emission allowances consistent with the assumptions presented in Note 15 to these interim condensed consolidated financial statements and assumed that the coal in the stocks from own resources would be used for production during 2021 and 2022. The analysis included revenues from sales of electricity and heat generated from the stocks concerned as well as revenues from the Capacity Market, which in the Group's opinion are inherently linked to electricity and heat generation from the stocks held by the Group and under the capacity contracts concluded by the Group. In the Group's opinion, if the revenues from the Capacity Market were not taken into account in the estimation of the net achievable value, the impairment loss on coal inventories would have to be recognised in the amount of PLN 217 458 thousand.

26. Receivables from buyers

	As at 30 June 2021 *(unaudited)*	As at 31 December 2020 *(restated figures)*
Value of items before allowance/write-down		
Receivables from buyers, *of which:*	2 554 312	2 511 793
Additional assessment of revenue from sales of electricity and distribution services	*799 958*	*814 235*
Receivables claimed at court	222 830	222 128
Total	**2 777 142**	**2 733 921**
Allowance/write-down		
Receivables from buyers	(46 103)	(62 570)
Receivables claimed at court	(198 637)	(197 935)
Total	**(244 740)**	**(260 505)**
Value of item net of allowance (carrying amount)		
Receivables from buyers	2 508 209	2 449 223
Receivables claimed at court	24 193	24 193
Total, *of which:*	**2 532 402**	**2 473 416**
Current	2 532 402	2 473 416

27. Receivables arising from other taxes and charges

	As at 30 June 2021 *(unaudited)*	As at 31 December 2020 *(restated figures)*
VAT receivables	156 976	271 086
Excise duty receivables	5 168	12 467
Other	10 736	11 613
Total	**172 880**	**295 166**

(in PLN thousand)

28. Cash and cash equivalents

	As at 30 June 2021 *(unaudited)*	As at 31 December 2020 *(restated figures)*
Cash at bank and in hand	555 362	668 285
Short-term deposits (up to 3 months)	-	250 006
Other	2 788	3 054
Total cash and cash equivalents presented in the statement of financial position, *of which*:	**558 150**	**921 345**
restricted cash, *including:*	230 934	213 405
collateral of settlements with Izba Rozliczeniowa Giełd Towarowych S.A.	*151 545*	*120 981*
cash on VAT bank accounts (split payment)	*51 674*	*51 855*
bank accounts related to subsidies received	*27 498*	*31 899*
Bank overdraft	-	(2 261)
Cash pool	(21 323)	(20 864)
Foreign exchange	(888)	(2 843)
Total cash and cash equivalents presented in the statement of cash flows	**535 939**	**895 377**

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.

29. Fixed assets classified as held for sale

The decrease in assets classified as held for sale is mainly related to signing of an agreement for the sale of shares in PGE EJ 1 Sp. z o.o. by the Company with the State Treasury on 26 March 2021 (the “Agreement”). The Agreement was signed by all entities holding shares in PGE EJ 1 Sp. z o.o. In addition to the Company, these are: PGE Polska Grupa Energetyczna S.A., Enea S.A. and KGHM Polska Miedź S.A., (jointly the "Shareholders"). The company PGE EJ 1 Sp. z o.o. is responsible for the preparation and implementation of the investment consisting in the construction and operation of the first Polish nuclear power plant.

Pursuant to the Agreement, the Company sold to the State Treasury 532 523 shares of PGE EJ 1 Sp. z o.o. representing 10% of the share capital and representing 10% of votes at the shareholders' meeting of PGE EJ 1 Sp. z o.o. After closing the transaction, the Company does not hold any shares in PGE EJ 1 Sp. z o.o. The selling price for 100% of the shares amounted to PLN 526 050 thousand, of which PLN 52 605 thousand is attributable to the Company.

Moreover, on 26 March 2021, the Shareholders concluded the annex to the agreement of 15 April 2015 concerning the case of WorleyParsons with PGE EJ 1 Sp. z o.o., regulating the principles of Shareholders' liability for potentially arising liabilities or benefits due as a result of the settlement of dispute between PGE EJ 1 Sp. z o.o. and WorleyParsons, which is described in more detail in Note 47 to these interim condensed consolidated financial statements.

On 15 June 2021 an amendment to the articles of association of PGE EJ 1 Sp. z o.o. was registered which, inter alia, changed the name of the company (following the conclusion of the share sale agreement described above) to Polskie Elektrownie Jądrowe Sp. z o.o.

30. Equity

30.1. Issued capital

Issued capital as at 30 June 2021 *(unaudited)*

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

(in PLN thousand)

Shareholding structure as at 30 June 2021 and as at 31 December 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 Otwarty Fundusz Emerytalny	88 742 929	443 715	5.06%	5.06%
Other shareholders	954 847 515	4 774 237	54.49%	54.49%
Total	**1 752 549 394**	**8 762 747**	**100%**	**100%**

As at 30 June 2021, to the best of the Company knowledge, the value of issued capital, the number of shares, the nominal value of shares and the shareholding structure, have not changed as compared to the status as at 31 December 2020.

30.2. Shareholder rights

The voting rights of the shareholders holding more than 10% of the total votes in the Company have been limited in such a manner that none of them is entitled to exercise the right to more than 10% of votes at the General Shareholders' Meeting of the Company. The 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 25% of the total votes in the Company.

30.3. Reserve capital

	As at 30 June 2021 *(unaudited)*	As at 31 December 2020
Amounts from distribution of prior years profits	2 749 099	4 886 520
Decrease in the value of issued capital	-	1 217 354
Settlement of mergers with subsidiaries	-	234 880
Total reserve capital	**2 749 099**	**6 338 754**

The decrease in the reserve capital in the 6-month period ended 30 June 2021 results from the coverage of the Company net loss for the financial year 2020 in the amount of PLN 3 589 655 thousand.

The Company's reserve capital does not exceed value of one third of the Company's share capital, which is PLN 2 920 916 thousand, therefore can only be used to cover losses.

30.4. Revaluation reserve from valuation of hedging instruments

	6-month period ended 30 June 2021 *(unaudited)*	6-month period ended 30 June 2020 *(unaudited)*
Opening balance	**(67 903)**	**15 666**
Remeasurement of hedging instruments	128 694	(131 478)
Remeasurement of hedging instruments charged to profit or loss	3 464	(267)
Deferred income tax	(25 110)	25 032
Closing balance	**39 145**	**(91 047)**

The revaluation reserve from valuation of hedging instruments results from the measurement of Interest Rate Swap (IRS) instruments hedging the interest rate risk due to debt, which is discussed in more detail in Note 44.2 to these interim condensed consolidated financial statements. For concluded hedging transactions covered by the financial risk management policy, the Company applies hedge accounting.

As at 30 June 2021, the Company recognised the amount of PLN 39 145 thousand of revaluation reserve from valuation of hedging instruments. This amount represents an asset arising from the valuation of IRS instruments as at the balance sheet date in the amount of PLN 72 109 thousand and the liability arising from the measurement of IRS instruments as at the balance sheet date in the amount of PLN 26 548 thousand, adjusted by the portion of the valuation relating to debt interest accrued at the balance sheet date, including the deferred tax.

(in PLN thousand)

30.5. Retained earnings and accumulated losses and restrictions on dividends

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.

Due to the fact that the reserve capital of the Company does not exceed one-third of the issued capital, the Company is obliged to transfer at least 8% of the net profit for a given financial year to the supplementary capital until this capital reaches at least one-third of the issued capital.

As at 30 June 2021 and as at the date of approving these interim condensed consolidated financial statements for publication no other dividend restriction occurred.

On 29 March 2021 the Management Board of TAURON Polska Energia S.A. adopted the resolution concerning the submission of the motion to the Ordinary General Meeting of TAURON Polska Energia S.A. requesting covering the net loss of the Company for financial year 2020 in the amount of PLN 3 589 655 from the supplementary capital of the Company. On 24 May 2021 the Ordinary General Meeting of the Company adopted the resolution in compliance with the recommendation of the Management Board.

30.6. Non-controlling interest

Non-controlling interests relates mainly to the shares in the share capital of the subsidiary Nowe Jaworzno Grupa TAURON Sp. z o.o. acquired by the Infrastructure Fund - Closed-end Private Assets Capital Investment Fund and PFR Inwestycje Fundusz Inwestycji Zamkniętych totaling PLN 880 000 thousand.

30.7. Dividends paid and proposed

In the 6-month period ended 30 June 2021 and in the comparative period, the Company did not propose to pay or pay any dividends to its shareholders.

31. Debt

	As at 30 June 2021 *(unaudited)*	As at 31 December 2020 *(restated figures)*
Unsubordinated bonds	5 501 905	5 523 842
Subordinated bonds	2 016 819	1 998 367
Loans and borrowings	4 788 853	5 992 133
Lease liabilities	1 141 369	1 137 530
Total	**13 448 946**	**14 651 872**
Non-current	11 979 466	13 171 200
Current	1 469 480	1 480 672

31.1. Bonds issued

Bonds issued as at 30 June 2021 *(unaudited)*

Issuer	Investor	Interest	Currency	Bonds at nominal value in currency	Maturity date	As at balance sheet date			of which maturing within *(after the balance sheet date):*			
						Total carrying amount	Interest accrued	Principal at amortised cost	up to 1 year	1-2 years	2-5 years	Over 5 years
TAURON Polska Energia S.A.	Bank Gospodarstwa Krajowego	floating, based on WIBOR 6M	PLN	800 000	2021-2028	799 485	408	799 077	99 978	99 938	299 657	299 504
				630 000	2021-2029	630 107	315	629 792	69 995	69 987	209 934	279 876
	A series bonds (TPE1025)	floating, based on WIBOR 6M	PLN	1 000 000	30.10.2025	1 000 304	2 700	997 604	-	-	997 604	-
	Eurobonds	fixed	EUR	500 000	5.07.2027	2 301 882	53 096	2 248 786	-	-	-	2 248 786
Finanse Grupa TAURON Sp. z o.o.	International investors	fixed	EUR	168 000	3.12.2029	770 127	15 512	754 615	-	-	-	754 615
Unsubordinated bonds						**5 501 905**	**72 031**	**5 429 874**	**169 973**	**169 925**	**1 507 195**	**3 582 781**
TAURON Polska Energia S.A.	Bank Gospodarstwa Krajowego	floating, based on WIBOR 6M	PLN	400 000	29.03.2031[2]	400 022	512	399 510	-	-	399 510	-
	European Investment Bank	fixed[1]	EUR	190 000	16.12.2034[2]	859 846	21 307	838 539	-	-	838 539	-
			PLN	400 000	17.12.2030[2]	403 945	16 238	387 707	-	-	387 707	-
			PLN	350 000	19.12.2030[2]	353 006	13 764	339 242	-	-	339 242	-
Subordinated bonds						**2 016 819**	**51 821**	**1 964 998**	**-**	**-**	**1 964 998**	**-**
Total bonds issued						**7 518 724**	**123 852**	**7 394 872**	**169 973**	**169 925**	**3 472 193**	**3 582 781**

[1] *In the case of bonds covered for by the European Investment Bank (hybrid subordinated financing), 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.*

(in PLN thousand)

[2] In the case of subordinated bonds, the maturity date shall take into account two financing periods referred to below. The maturity dates presented in the table above are the final contractual redemption dates after two financing period. 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 he repayment estimate after the first financing period.

Bonds issued as at 31 December 2020

Issuer	Investor	Interest	Currency	Bonds at nominal value in currency	Maturity date	As at balance sheet date			of which maturing within *(after the balance sheet date)*:			
						Total carrying amount	Interest accrued	Principal at amortised cost	up to 1 year	1-2 years	2-5 years	Over 5 years
TAURON Polska Energia S.A.	Bank Gospodarstwa Krajowego	floating, based on WIBOR 6M	PLN	800 000	2021-2028	799 393	448	798 945	99 953	99 917	299 607	299 468
				630 000	2021-2029	630 105	342	629 763	69 990	69 983	209 924	279 866
	A series bonds (TPE1025)	floating, based on WIBOR 6M	PLN	1 000 000	30.10.2025	1 000 115	2 760	997 355	-	-	997 355	-
	Eurobonds	fixed	EUR	500 000	5.07.2027	2 321 672	27 025	2 294 647	-	-	-	2 294 647
Finanse Grupa TAURON Sp. z o.o.	International investors	fixed	EUR	168 000	3.12.2029	772 557	699	771 858	-	-	-	771 858
Unsubordinated bonds						**5 523 842**	**31 274**	**5 492 568**	**169 943**	**169 900**	**1 506 886**	**3 645 839**
TAURON Polska Energia S.A.	Bank Gospodarstwa Krajowego	floating, based on WIBOR 6M	PLN	400 000	29.03.2031[2]	400 026	559	399 467	-	-	-	399 467
	European Investment Bank	fixed[1]	EUR	190 000	16.12.2034[2]	864 530	1 767	862 763	-	-	862 763	-
			PLN	400 000	17.12.2030[2]	391 458	1 243	390 215	-	-	390 215	-
			PLN	350 000	19.12.2030[2]	342 353	922	341 431	-	-	341 431	-
Subordinated bonds						**1 998 367**	**4 491**	**1 993 876**	**-**	**-**	**1 594 409**	**399 467**
Total bonds issued				**-**		**7 522 209**	**35 765**	**7 486 444**	**169 943**	**169 900**	**3 101 295**	**4 045 306**

[1] In the case of bonds covered for by the European Investment Bank (hybrid subordinated financing), 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.
[2] In the case of subordinated bonds, the maturity date shall take into account two financing periods referred to below. The maturity dates presented in the table above are the final contractual redemption dates after two financing period. 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 he 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, while the TPE1025 bonds are listed in the Catalyst alternative trading system operated by the Warsaw Stock Exchange (Giełda Papierów Wartościowych w Warszawie S.A.).

Series A bonds (TPE1025) with a nominal value of PLN 1 000 000 thousand were issued under the Scheme Agreement of 6 February 2020 concluded between TAURON Polska Energia S.A. and Santander Bank Polska S.A., under which the Bond Issue Scheme up to PLN 2 000 000 thousand was established. Funds from the bond issue support the implementation of the Group's energy transformation. The bond issue terms and conditions include sustainable development indicators in the form of the CO_2 emission reduction index and the RES power increase index, the level of implementation of which has an impact on the bond margin level.

Subordinated hybrid bonds

Bonds subscribed 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 positively affects Company's financial stability, since the bonds are excluded from the net debt / EBITDA ratio calculation, a covenant in some financing agreements concluded by the Company. Additionally, 50% of the subordinated bond amount has been classified by the rating agency as equity in the rating model, which has had a beneficial effect on the rating of the TAURON Group.

There are two financing periods for bonds subscribed for by the EIB. 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). In this period, the interest rate is fixed, while after the non-call period, it is floating and is linked to the underlying rate (WIBOR for bonds issued in PLN and EURIBOR for bonds issued in EUR) increased by an agreed 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, with the first financing period defined as 7 years and the next one as 5 years in accordance with the characteristics of hybrid financing. In the case of bonds issued in EUR, the maturity date is set at 18 years from the issue date, i.e. 16 December 2034, with the first financing period defined as 8 years and the next one as 10 years in accordance with the characteristics of hybrid financing.

The bonds issued under the agreement of 6 September 2017 concluded with Bank Gospodarstwa Krajowego with a par value of PLN 400 000 thousand are also of a subordinated nature. For these bonds, two periods are also distinguished. The Company cannot early buy-back the bonds in the first 7-year-period (non-call period), nor can BGK early sell them to third parties (in both cases except for cases indicated in the documentation). The interest rate is variable based on WIBOR 6M increased by a fixed margin, with the margin being further increased after a 7-year financing period.

(in PLN thousand)

New subordinated bond issue scheme

On 11 March 2021, TAURON Polska Energia S.A. concluded the agreement with Bank Gospodarstwa Krajowego on the subordinated bond issue scheme up to PLN 450 000 thousand.

The subordinated bond issue scheme provides for a possibility to carry out the issue within a period of two years from signing of the documentation. The financing period is 12 years from the date of issue. In the period of the first seven years following the issue, earlier redemption of the bonds by the Company is not possible and the earlier sale of bonds by BGK to third parties is not possible. The interest rate is variable based on WIBOR 6M increased by a fixed margin, and after the 7-year financing period, the margin is additionally increased. If issued, the bonds will be subscribed by Bank Gospodarstwa Krajowego on the primary market. Funds from the issue may be used to finance the Group's current and investment needs, including projects related to Green Turn of TAURON.

Until the date of approval of these interim condensed consolidated financial statements for publication, no bonds have been issued.

Change in the balance of bonds excluding interest which increases their carrying amount

	6-month period ended 30 June 2021 *(unaudited)*	6-month period ended 30 June 2020 *(unaudited)*
Opening balance	**7 486 444**	**6 223 892**
Redemption	-	(3 100)
Change in valuation	(91 572)	166 604
Closing balance	**7 394 872**	**6 387 396**

The change in the measurement of the bonds results mainly from the currency valuation of the liabilities contracted in EUR.

31.2. Loans and borrowings

Loans and borrowings taken out as at 30 June 2021 *(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	3 794 280	3 794 280	922 255	4 450	957 457	2 856	1 108 922	798 340
	fixed	983 481	983 481	34 746	124 451	108 971	108 971	577 204	29 138
Total PLN		**4 777 761**	**4 777 761**	**957 001**	**128 901**	**1 066 428**	**111 827**	**1 686 126**	**827 478**
Total			**4 777 761**	**957 001**	**128 901**	**1 066 428**	**111 827**	**1 686 126**	**827 478**
Interest increasing carrying amount			11 092						
Total			**4 788 853**						

Loans and borrowings taken out as at 31 December 2020

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	4 942 213	4 942 213	1 021 891	3 222	2 007 473	2 191	1 109 192	798 244
	fixed	1 035 830	1 035 830	34 694	123 390	108 673	108 673	616 735	43 665
Total PLN		**5 978 043**	**5 978 043**	**1 056 585**	**126 612**	**2 116 146**	**110 864**	**1 725 927**	**841 909**
EUR	floating	487	2 249	2 249	-	-	-	-	-
Total EUR		**487**	**2 249**	**2 249**	**-**	**-**	**-**	**-**	**-**
Total			**5 980 292**	**1 058 834**	**126 612**	**2 116 146**	**110 864**	**1 725 927**	**841 909**
Interest increasing carrying amount			11 841						
Total			**5 992 133**						

Interim condensed consolidated financial statements for the 6-month period ended 30 June 2021 prepared in accordance with the IFRS as endorsed by the EU (in PLN thousand)

Main liabilities due to loans and borrowings are shown in the table below.

Loans/ borrowings	Borrowing institution	Purpose	Interest rate	Maturity date	As at 30 June 2021 *(unaudited)*	As at 31 December 2020
Loans	Consortium of banks I [1]	Redemption of bonds, investment expenditures and general expenses of the Group	Floating	14.04.2021 [3]	-	601 673
				30.04.2021 [3]	-	200 429
				29.06.2021 [3]	-	1 099 541
				10.09.2021 [3]	100 409	100 366
				25.01.2021	-	300 100
				28.01.2021	-	600 089
				29.01.2021	-	100 007
				14.07.2021	300 849	-
				20.07.2021	300 777	-
				30.07.2021	300 657	-
				29.09.2021 [3]	849 822	-
Loans	Bank Gospodarstwa Krajowego	Group's capital expenditures and refinancing of a portion of debt	Floating	20.12.2033	998 317	998 232
Loans	European Investment Bank	Construction of a boiler fired with biomass at Jaworzno III Power Plant and renovation of a steam turbine	Fixed	15.12.2021	20 695	20 354
		Construction and start-up of a co-generation unit at EC Bielsko Biała	Fixed	15.12.2021	29 578	29 105
		Modernization and extension of power grid	Fixed	15.06.2024	118 584	137 682
			Fixed	15.09.2024	63 258	72 151
			Fixed	15.09.2024	79 264	90 440
		Modernization and extension of power grid and improvement of hydropower plants	Fixed	15.03.2027	176 035	190 532
Loans	Intesa Sanpaolo S.p.A.	Group's investment expenditure, except for financing or refinancing projects related to coal assets	Floating	19.12.2024	250 871	250 832
					250 799	250 758
					250 591	250 526
Loans	SMBC BANK EU AG	Group's general corporate expenses, excluding financing and refinancing of coal-fired power plants	Fixed	23.03.2025	498 986	498 860
Loans	Consortium of banks II [2]	Group's general corporate expenses, excluding financing of any new coal assets-related projects	floating	10.09.2021 [3]	160 575	160 610
Borrowings	Regional Fund for Environmental Protection and Water Management	Construction of renewable power unit at Jaworzno III Power Plant	Floating	15.12.2022	6 000	8 000
Borrowings	Regional Fund for Environmental Protection and Water Management	Construction of the photovoltaic farm	Floating	30.11.2025	11 318	8 547
Other loans and borrowings					21 468	23 299
Total					**4 788 853**	**5 992 133**

[1] The consortium of banks I consists of: 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.
[2] The consortium of banks II consists of: 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,
[3] Tranche classified as non-current liability.

Pursuant to the provisions of the loan agreement of 19 June 2019 concluded with the consortium of banks (Consortium of Banks I), the maximum period for drawing individual loan tranches is 12 months. However, the financing available under the agreement is revolving, and its availability period is the end 2022. Due to the intention and ability to maintain financing under the said agreement for a period exceeding 12 months from the balance sheet date with respect to credit tranches with a 12-month repayment date, tranches with a total nominal value of 950 000 thousand are presented as a non-current liability. As at 30 June 2021, tranches with a total nominal value of PLN 900 000 thousand are presented as current liabilities.

Similarly, the syndicated loan taken out under the agreement of 25 March 2020, referred to below, is renewable. The Company may contract financing within the available financing with a selected interest period. According to the agreement, the repayment takes place at the end of the interest period, with the Company having the possibility of taking out financing again. Due to the intention and ability to maintain financing under the said agreement for a period exceeding 12 months from the balance sheet date, the drawdown used in the amount of PLN 160 000 thousand is presented as a long-term liability as at the balance sheet date.

(in PLN thousand)

Change in the balance of loans and borrowings excluding interest increasing their carrying amount

	6-month period ended 30 June 2021 *(unaudited)*	6-month period ended 30 June 2020 *(unaudited)*
Opening balance	**5 980 292**	**7 027 775**
Movement in bank overdrafts and cash pool loans received	**(1 798)**	**(4 369)**
Movement in other loans and borrowings:	**(1 200 733)**	**(845 294)**
Repaid	(5 357 687)	(7 096 380)
Taken*	4 152 273	6 243 926
Change in valuation	4 681	7 160
Closing balance	**4 777 761**	**6 178 112**

** The cost of borrowing has been taken into account.*

In the 6-month period ended 30 June 2021, the Group performed the following transactions relating to loans and borrowings (at a nominal value), excluding overdraft facilities:

Lender	Description	6-month period ended 30 June 2021 *(unaudited)* Drawdown	Repayment
Consortium of banks I	Drawdown of new tranches and repayment of tranches according to credit agreement deadline	4 150 000	(5 300 000)
European Investment Bank	Repayment of capital instalments according to schedule	-	(55 659)
Other borrowings		2 772	(2 028)
Total, *including:*		**4 152 772**	**(5 357 687)**
Cash flows		602 772	(1 807 687)
Net settlement (without cash flow)		3 550 000	(3 550 000)

After the balance sheet date, under the agreement of 19 June 2019 (Consortium of Banks I), the Company has drawn tranches with an aggregate total nominal value of PLN 900 000 thousand and repaid tranches in accordance with the repayment schedule in the aggregate amount of PLN 1 300 000 thousand.

Overdrafts

The Company has available financing under current account overdraft facilities and the intraday limit. As at 30 June 2021, the Company had no liabilities on account of overdraft facilities payable (PLN 2 261 thousand as at 31 December 2020).

After the balance sheet date, the Company concluded an agreement for overdraft in PLN, which stands up to PLN 250 000 thousand.

31.3. Debt agreement covenants

The agreements signed with banks impose the legal and financial covenants on the Company, standard for this type of transactions. The key covenant is the net debt/EBITDA ratio (for long-term loans agreements and domestic bond issue schemes) which determines the debt less cash in relation to generated EBITDA. The net debt/EBITDA covenant for banks is examined on the basis of consolidated data as at 30 June and 31 December while its permissible limit value is 3.5.

As at 30 June 2021, the net debt/EBITDA ratio amounted to 2.06, therefore the covenant was not exceeded.

31.4. Lease liabilities

As at 30 June 2021, the Company had a lease liability in the amount of PLN 1 141 369 thousand. The liability primarily relates to the perpetual usufruct of land, contracts for occupation of the road lane, land lease and rental agreements, transmission easements and the lease of office and warehouse premises.

(in PLN thousand)

Ageing of the lease liability

	As at 30 June 2021 *(unaudited)*	As at 31 December 2020 *(restated figures)*
Within 1 year	126 061	125 462
Within 1 to 5 years	335 645	329 963
Within 5 to 10 years	346 870	337 397
Within 10 to 20 years	604 915	577 762
More than 20 years	843 587	861 935
Gross lease liabilities	**2 257 078**	**2 232 519**
Discount	(1 115 709)	(1 094 989)
Present value of lease payments	**1 141 369**	**1 137 530**
Lease agreements that do not meet the conditions for recognition as a finance lease as defined in the financing agreements	1 141 369	1 137 530

32. Provisions for employee benefits

	As at 30 June 2021 *(unaudited)*	As at 31 December 2020 *(restated figures)*
Provision for post-employment benefits and jubilee bonuses	979 326	1 033 193
Provision for employment termination benefits and other provisions for employee benefits	20 639	22 394
Total	**999 965**	**1 055 587**
Non-current	910 687	951 612
Current	89 278	103 975

32.1. Provisions for post-employment benefits and jubilee bonuses

6-month period ended 30 June 2021 *(unaudited)*

	Provision for retirement, disability and similar benefits	Social Fund	Jubilee bonuses	Provisions total
Opening balance	**402 095**	**171 915**	**459 183**	**1 033 193**
Current service costs	14 618	3 484	17 384	**35 486**
Actuarial gains and losses	(29 997)	(14 661)	(24 826)	**(69 484)**
Benefits paid	(8 766)	(2 146)	(14 608)	**(25 520)**
Interest expense	2 169	1 003	2 479	**5 651**
Closing balance	**380 119**	**159 595**	**439 612**	**979 326**
Non-current	352 997	154 551	395 288	**902 836**
Current	27 122	5 044	44 324	**76 490**

6-month period 30 June 2020 *(restated unaudited figures)*

	Provision for retirement, disability and similar benefits	Employee electricity rates	Social Fund	Jubilee bonuses	Provisions total
Opening balance	**378 423**	**450 154**	**119 410**	**449 502**	**1 397 489**
Current service costs	13 917	6 063	2 294	19 513	**41 787**
Actuarial gains and losses	9 061	79 488	13 411	11 324	**113 284**
Benefits paid	(7 508)	(5 970)	(2 065)	(14 384)	**(29 927)**
Past-service costs	-	(533 319)	-	-	**(533 319)**
Interest expense	3 554	3 584	1 216	4 236	**12 590**
Closing balance	**397 447**	**-**	**134 266**	**470 191**	**1 001 904**
Non-current	367 942	-	130 264	423 783	**921 989**
Current	29 505	-	4 002	46 408	**79 915**

(in PLN thousand)

Revaluation of provision for employees' benefits

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

The valuation of provisions for employee benefits as at 30 June 2021 was prepared based on actuarial projections with the use of the sensitivity analysis in relation to the level of the discount rate. The assumptions used by the actuary to prepare the forecast for 2021 were the same as those adopted for the valuation of provisions as at 31 December 2020. However, taking into account the increase in the level of long-term market interest rates, the Group decided to apply a discount rate of 1.7% as at the balance sheet date (as at 31 December 2020 the level of the discount rate was 1.2%). Other key assumptions adopted by the actuary as at 31 December 2020 for calculation of the liability amount presented above have not changed:

	31 December 2020
Estimated inflation rate (%)	2.50%
Employee rotation rate (%)	0.95% - 8.79%
Estimated salary increase rate (%)	2.50%
Estimated increase rate for contribution to the Social Fund (%)	3.50%
Remaining average employment period	12.06 – 21.62

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

	6-month period ended 30 June 2021 *(unaudited)*			6-month period ended 30 June 2020 *(unaudited restated figures)*		
	Voluntary redundancy schemes	Other provisions	Total	Voluntary redundancy schemes	Other provisions	Total
Opening balance	**14 404**	**7 990**	**22 394**	**21 032**	**13 377**	**34 409**
Recognition	343	1 053	**1 396**	354	7 940	**8 294**
Reversal	-	(933)	**(933)**	-	-	**-**
Utilization	(1 159)	(1 059)	**(2 218)**	(1 599)	(1 318)	**(2 917)**
Closing balance	**13 588**	**7 051**	**20 639**	**19 787**	**19 999**	**39 786**
Non-current	7 851	-	**7 851**	8 398	5 921	**14 319**
Current	5 737	7 051	**12 788**	11 389	14 078	**25 467**

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

	6-month period ended 30 June 2021 *(unaudited)*			6-month period ended 30 June 2020 *(unaudited)*		
	Provision for mine decommissioning costs	Provision for land restoration and dismantling and removal of fixed assets	Provisions total	Provision for mine decommissioning costs	Provision for land restoration and dismantling and removal of fixed assets	Provisions total
Opening balance	**374 814**	**208 244**	**583 058**	**305 885**	**194 082**	**499 967**
Unwinding of the discount	2 248	1 246	**3 494**	3 211	2 041	**5 252**
Discount rate adjustment	(40 499)	(12 233)	**(52 732)**	76 244	15 252	**91 496**
Recognition/(reversal), net	125	3 809	**3 934**	135	(1 095)	**(960)**
Utilisation	-	(1 663)	**(1 663)**	-	(1 069)	**(1 069)**
Closing balance	**336 688**	**199 403**	**536 091**	**385 475**	**209 211**	**594 686**
Non-current	336 688	192 824	**529 512**	385 078	191 814	**576 892**
Current	-	6 579	**6 579**	397	17 397	**17 794**
Other provisions, long-term portion			**79 931**			**113 476**
Total			**609 443**			**690 368**

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 Fund is recognized under the provision for future costs of mine decommissioning.

(in PLN thousand)

As at 30 June 2021, the balance of the provision amounted to PLN 336 688 thousand, and the change in the balance is mainly related to the revaluation of the provision due to a change in the discount rate adopted to calculate the provision - an increase in the discount rate from 1.2% to 1.7% (in the comparative period - a decrease in the discount rate from 2.1% to 1.5%).

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 comprises the following provisions recognized by the Generation and RES segment companies:

- provision for ash pile reclamation costs, which totalled PLN 19 644 thousand as at 30 June 2021 (versus PLN 20 089 thousand as at 31 December 2020);
- provision for windfarm dismantling costs, which totalled PLN 152 252 thousand as at 30 June 2021 (versus PLN 158 448 thousand as at 31 December 2020);
- provision for costs of liquidation of fixed assets related mainly to the decommissioning of the chimney in Elektrownia Jaworzno, the unit in Elektrownia Łagisza, the cooling tower in Elektrownia Siersza and decommissioning of 120 MW class units, the balance of which amounted to PLN 27 507 thousand as at 30 June 2021 (PLN 29 707 thousand as at 31 December 2020).

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

	6-month period ended 30 June 2021 *(unaudited)*			6-month period ended 30 June 2020 *(unaudited restated figures)*		
	Provisions for liabilities due to CO_2 emission allowances	Provision for obligation to submit energy certificates	Provisions total	Provisions for liabilities due to CO_2 emission allowances	Provision for obligation to submit energy certificates	Provisions total
Opening balance	**981 549**	**769 374**	**1 750 923**	**772 299**	**605 934**	**1 378 233**
Recognition	698 829	417 926	**1 116 755**	398 865	352 870	**751 735**
Reversal	(1 067)	(9 913)	**(10 980)**	-	(3 336)	**(3 336)**
Utilisation	(986 228)	(756 975)	**(1 743 203)**	(776 602)	(595 661)	**(1 372 263)**
Closing balance	**693 083**	**420 412**	**1 113 495**	**394 562**	**359 807**	**754 369**

The increase in the cost of creating the provision for CO_2 emission liabilities in the 6-month period ended 30 June 2021 in relation to the comparative period is described in Note 12 to these interim condensed consolidated financial statements.

35. Other provisions

	6-month period ended 30 June 2021 *(unaudited)*				6-month period ended 30 June 2020 *(unaudited restated figures)*			
	Provision for use of real estate without contract	Provision for onerous contracts	Provision for counterparty claims, court dispute and other provisions	Provisions total	Provision for use of real estate without contract	Provision for onerous contracts	Provision for counterparty claims, court dispute and other provisions	Provisions total
Opening balance	**76 679**	**84 691**	**228 606**	**389 976**	**88 070**	**241 796**	**397 050**	**726 916**
Unwinding of discount	-	44	42	**86**	-	33	41	**74**
Recognition/(reversal), net	(533)	(24)	(11 548)	**(12 105)**	(2 504)	4 939	(21 385)	**(18 950)**
Utilisation	(2 169)	(28 430)	(9 481)	**(40 080)**	(158)	(96 579)	(2 428)	**(99 165)**
Other movements	-	-	-	**-**	-	-	(12 488)	**(12 488)**
Closing balance	**73 977**	**56 281**	**207 619**	**337 877**	**85 408**	**150 189**	**360 790**	**596 387**
Non-current	-	14 742	65 189	**79 931**	-	35 091	78 385	**113 476**
Current	73 977	41 539	142 430	**257 946**	85 408	115 098	282 405	**482 911**
Current portion of provisions for the costs of disassembly of fixed assets and land restoration and other provisions				**6 579**				**17 794**
Total				**264 525**				**500 705**

35.1. Provision for use of real estate without contract

The Group companies recognize provisions for all claims filed by owners of the real estate on which distribution systems and generation assets are located. As at 30 June 2021, this provision amounted to PLN 73 977 thousand and was related to the segments:

(in PLN thousand)

- Generation - PLN 34 774 thousand;
- Distribution - PLN 33 508 thousand;
- Renewable Energy Sources - PLN 5 695 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 the companies of the Sales segment

As at 31 December 2020, companies of the Sales segment estimated the provisions for onerous contracts in the amount of PLN 76 394 thousand. These provisions related primarily to individual customers who have used the Company's product price lists ("GD price lists"). The need to create the above provisions resulted from the increase in wholesale electricity purchase prices in 2018 and the maintenance of fixed sales prices in part of the contracts with GD price lists. Provisions were created for contracts covered by GD price lists for a 3-year period, still in force in 2021. In the 6-month period ended 30 June 2021, as a result of the application of the aforementioned price lists, the companies generated a loss on the sale of electricity to customers, therefore, they partially used the provisions for onerous contracts described above in the amount of PLN 26 266 thousand.

At the same time, the Group assesses that it is not necessary to create provisions for onerous contracts in the scope of households, including customers using tariff prices approved by the President of the Energy Regulatory Office ("G tariff). Based on the TAURON Sprzedaż Sp. z o.o. household tariff for 2021 approved by the President of the ERO in December 2020, the revenues generated from the sale of electricity fully cover the full variable costs of the business in this area.

Other provisions for onerous contracts

The Group creates a provision for onerous contracts in connection with the partial acceptance by the Court of Appeals 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 final 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., which as at 30 June 2021 amounted to PLN 6 153 thousand, as further described in Note 47 hereto.

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

Material provisions recognised within other provisions are described below:

Operating segment	Description	Status as at 30 June 2021 *(unaudited)*	Status as at 31 December 2020
Provision for the increase in remuneration for transmission easements			
Distribution	The provision relates to the risk of increased periodic charges for transmission easements for energy infrastructure located in the territory of forest districts subordinated to the Regional Directorate of State Forests in Wrocław in connection with a change in the nature of land from forest land to land associated with business activities. In the 6-month period ended 30 June 2021, the company of the Distribution segment used the provision in the amount of PLN 6 053 thousand.	53 000	59 053
Provision for real estate tax			
Distribution	Provision for the economic risk in the scope of real estate tax relating to power grid assets.	39 356	39 356

(in PLN thousand)

Operating segment	Description	Status as at 30 June 2021 *(unaudited)*	Status as at 31 December 2020
Renewable Energy Sources	The provision relates to the risk of the effects of the Constitutional Court judgement of 22 July 2020 on imposing the real estate tax on wind power plants in 2018.	16 776	16 776
Generation	Provision for ongoing tax proceedings in the scope of real estate tax. In the 6-month period ended 30 June 2021, the company from the Generation segment created a provision on this account in the total amount of PLN 4 218 thousand, including mainly for proceedings related to Jaworzno II and III railway infrastructure in the amount of PLN 3 647 thousand.	4 365	147

36. Accruals, deferred income and government grants

36.1. Deferred income and government grants

	As at 30 June 2021 *(unaudited)*	As at 31 December 2020 *(restated figures)*
Deferred income	**46 641**	**44 923**
Donations, subsidies received for the purchase or fixed assets received free-of-charge	37 644	39 905
Other	8 997	5 018
Government grants	**521 040**	**478 736**
Subsidies obtained from EU funds	439 898	393 686
Forgiven loans from environmental funds	27 056	28 747
Measurement of preferential loans	30 050	31 102
Other	24 036	25 201
Total	**567 681**	**523 659**
Non-current	532 316	493 916
Current	35 365	29 743

36.2. Accrued expenses

	As at 30 June 2021 *(unaudited)*	As at 31 December 2020 *(restated figures)*
Bonuses	159 496	62 456
Unused holidays	80 916	50 227
Environmental protection charges	18 554	21 953
Other accrued expenses	28 305	18 156
Total	**287 271**	**152 792**
Non-current	1 966	1 007
Current	285 305	151 785

37. Liabilities to suppliers

Short-term liabilities to suppliers as at 30 June 2021 and as at 31 December 2020 are presented in the table below:

Operating segment	As at 30 June 2021 *(unaudited)*	As at 31 December 2020 *(restated figures)*
Mining	124 623	138 064
Generation	109 826	162 219
Renevable Energy Sources	8 507	13 288
Distribution, *including:*	419 925	242 050
liability to Polskie Sieci Elektroenergetyczne S.A.	*365 810*	*182 555*
Sales	261 956	372 207
Other	59 544	92 840
Total	**984 381**	**1 020 668**

(in PLN thousand)

38. Capital commitments

Short-term capital commitments as at 30 June 2021 and as at 31 December 2020 are presented in the table below:

Operating segment	As at 30 June 2021 *(unaudited)*	As at 31 December 2020 *(restated figures)*
Mining	23 567	101 901
Generation	165 485	372 363
Renewable Energy Sources	14 439	4 283
Distribution	185 415	253 711
Sales and Other	48 084	125 131
Total	**436 990**	**857 389**

Long-term capital commitments were presented in the interim condensed consolidated statement of financial position under other financial liabilities. As at 30 June 2021, the liability amounted to PLN 22 392 thousand – (as at 31 December 2020 - PLN 22 983 thousand).

Commitments to incur capital expenditure

As at 30 June 2021 and 31 December 2020, the Group committed to incur expenditure on property, plant and equipment and intangible assets of PLN 3 049 502 thousand and PLN 3 308 941 thousand, respectively, with the key items presented in the table below.

Operating segment	Agreement/investment project	As at 30 June 2021 *(unaudited)*	As at 31 December 2020 *(restated figures)*
Distribution	Construction of new electrical connections	1 341 146	1 425 541
	Modernization and reconstruction of existing networks	659 684	708 659
Generation	Construction of 910 MW Power Unit in Jaworzno	203 080	232 160
Renewable Energy Sources	Construction of wind farms	198 099	201 665
Mining	Construction of the "Grzegorz" shaft with the accompanying infrastructure and excavations	126 174	126 202
Other	Construction of a broadband Internet network under the Operational Programme Digital Poland	107 352	153 896

39. Income tax settlements

Income tax receivables and income tax liabilities mainly relate to the Tax Capital Group. At 30 June 2021, the Tax Capital Group has a receivable due to income tax, consisting of:

- the receivable for the year ended 31 December 2020 in the amount of PLN 103 530 thousand represents a surplus of advance payments paid in the amount of PLN 313 464 thousand over the tax burden of the TCG in the amount of PLN 209 934 thousand;
- the receivable for the 6-month period ended 30 June 2021 in the amount of PLN 56 220 thousand represents a surplus of advance payments in amount of PLN 336 283 thousand and paid over the tax burden of the TCG in amount of PLN 280 063 thousand.

After the balance sheet date, on 5 July 2021, the Company received the income tax refund for 2020 in the amount of PLN 103 512 thousand.

The Agreement of Tax Group of Companies for 2018-2020 was registered on 14 December 2020. The main companies forming the Tax Group of Companiec have been operating since 1 January 2021 include: TAURON Polska Energia S.A., TAURON Wytwarzanie S.A., Nowe Jaworzno Grupa TAURON Sp. z o.o., TAURON Dystrybucja S.A., 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., TEC1 Sp. z o.o., TEC3 Sp. z o.o. and Kopalnia Wapienia Czatkowice Sp. z o.o.

(in PLN thousand)

40. Liabilities arising from other taxes and charges

	As at 30 June 2021 *(unaudited)*	As at 31 December 2020 *(restated figures)*
VAT	171 383	97 060
Social security	127 643	230 034
Personal Income Tax	29 715	61 320
Excise	4 559	12 798
Other	7 674	8 575
Total	**340 974**	**409 787**

Tax reports and other matters may be audited by authorities competent to impose penalties and fines, whereas any additional tax liabilities resulting from final decisions of tax control authorities have to be paid together with interest. Consequently, the figures presented and disclosed in these interim condensed consolidated financial statements may change in the future.

41. Other financial liabilities

	As at 30 June 2021 *(unaudited)*	As at 31 December 2020 *(restated figures)*
Derivative instruments	626 968	175 584
Margin deposits arising from stock exchange transactions	366 076	73 221
Wages, salaries	127 711	232 274
Bid bonds, deposits and collateral received	52 695	86 289
Other	153 471	129 698
Total	**1 326 921**	**697 066**
Non-current	128 372	137 563
Current	1 198 549	559 503

As at 30 June 2021 the liability on account of negative valuation of derivatives refers to commodity derivatives (including a significant part of forwards on account of transactions for which the underlying commodity are CO_2 emission allowances), forward FX derivatives as well as IRS and CCIRS instruments. Derivatives have been presented in detail in Note 44.2 to these interim condensed consolidated financial statements.

The value of variation margins is related mostly to futures transactions in CO_2 emissions allowances concluded on foreign regulated markets. The change in the value of margins compared to the comparable period results mainly from the significant increase in the price of allowances, while taking into account the number of exchange contracts open as at the balance sheet date. The margin deposits represented funds received by the Company on account of current exchange clearing, in connection with the change in the valuation of the concluded futures contracts open as at the balance sheet date.

42. Other current non-financial liabilities

	As at 30 June 2021 *(unaudited)*	As at 31 December 2020 *(restated figures)*
Payments from customers relating to future periods	**486 335**	**418 565**
Amounts overpaid by customers	346 952	336 608
Prepayments for connection fees	79 404	43 964
Other	59 979	37 993
Other current non-financial liabilities	**15 324**	**4 733**
Net liabilities of the Company's Social Benefits Fund	9 315	-
Other	6 009	4 733
Total	**501 659**	**423 298**

(in PLN thousand)

EXPLANATORY NOTES TO THE INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

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

43.1. Cash flows from operating activities

Changes in working capital

	6-month period ended 30 June 2021 *(unaudited)*	6-month period ended 30 June 2020 *(unaudited restated figures)*
Change in receivables	**(83 784)**	**362 097**
Change in receivables from buyers in statement of financial position	(58 986)	119 378
Change in other financial receivables	(17 090)	233 819
Adjustment due to change in receivables due to disposal of property, plant and equipment and financial assets	(7 976)	(1 297)
Other adjustments	268	10 197
Change in inventories	**(277 770)**	**(96 928)**
Change in inventories in statement of financial position	(266 470)	(89 430)
Adjustment related to transfer of invetories to/from property, plant and equipment	(11 300)	(7 498)
Change in payables excluding loans and borrowings	**83 402**	**(386 572)**
Change in liabilities to suppliers in statement of financial position	(36 287)	(84 458)
Change in payroll, social security and other financial liabilities	179 063	(184 091)
Change in non-financial liabilities in statement of financial position	74 259	47 270
Change in liabilities arising from taxes excluding income tax	(68 813)	(87 468)
Adjustment of VAT change related to capital commitments	(72 353)	(74 454)
Adjustment of other financial liabilities for guarantee valuation	11 450	1 795
Other adjustments	(3 917)	(5 166)
Change in other non-current and current assets	**847 873**	**1 138 449**
Change in other current and non-current non-financial assets in statement of financial position	(127 869)	(26 601)
Change in receivables arising from taxes excluding income tax	122 286	245 347
Change in non-current and current CO_2 emission allowances	390 342	608 070
Change in non-current and current energy certificates	430 645	315 563
Change in advance payments for property, plant and equipment and intangible assets	31 934	(6 081)
Other adjustments	535	2 151
Change in deferred income, government grants and accruals	**98 894**	**110 456**
Change in deferred income, government grants and accruals in statement of financia	178 501	132 891
Adjustmet related to property, plant and equipment and intangible assets received free of charge	(22 439)	(5 542)
Adjustment related to subsidies received and refunded	(57 169)	(14 942)
Other adjustments	1	(1 951)
Change in provisions	**(691 507)**	**(1 214 999)**
Change of short term and long term provisions in statement of financial position	(792 116)	(1 049 882)
Adjustment related to actuarial gains/losses from provisions for post-employment benefits charged to other comprehensive income	44 658	(101 960)
Adjustement related to provisions recognized in correspondence with property, plant and equipment	55 882	(62 655)
Other adjustments	69	(502)
Total	**(22 892)**	**(87 497)**

Income tax paid

In the 6-month period ended 30 June 2021, income tax paid amounted to PLN 398 931 thousand, of which the Tax Capital Group paid income tax in the amount of PLN 362 446 thousand on account of advance income tax for the month of December 2020 and the first quarter of 2021. The remaining amount of income tax paid relates primarily to TAURON Ciepło Sp. z o.o., which is not included in the composition of the Tax Capital Group for 2021-2023.

(in PLN thousand)

After the balance sheet date, on 5 July 2021, the Company received the income tax refund for 2020 in the amount of PLN 103 512 thousand.

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

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

In 2021, the Tax Capital Group makes quarterly advance payments for income tax, whereas in 2020 the Tax Capital Group made fixed monthly advance payments determined in a simplified manner based on the tax settlement for 2018.

43.2. Cash flows from investment activities

Purchase of tangible fixed assets and intangible assets

	6-month period ended 30 June 2021 *(unaudited)*	6-month period ended 30 June 2020 *(unaudited)*
Purchase of property, plant and equipment	(1 104 160)	(1 533 985)
Purchase of intangible assets	(37 900)	(45 110)
Change in the balance of VAT-adjusted capital commitments	(349 831)	(301 745)
Change in the balance of VAT-adjusted advance payments	(33 403)	6 081
Costs of overhaul and internal manufacturing	(145 635)	(223 990)
Other	(3 366)	(1 662)
Total	**(1 674 295)**	**(2 100 411)**

Expenditure incurred on the purchase of fixed assets and intangible assets by operating segments:

	6-month period ended 30 June 2021 *(unaudited)*	6-month period ended 30 June 2020 *(unaudited)*
Distribution Segment	(975 884)	(936 528)
Generation Segment	(298 306)	(904 363)
Mining Segment	(185 400)	(147 652)
Renewable Energy Sources Segment	(46 928)	(6 398)
Sales Segment	(35 720)	(20 269)
Other activity	(132 057)	(85 201)
Total	**(1 674 295)**	**(2 100 411)**

Sale of shares

Inflows from the sale of shares in the amount of PLN 52 605 thousand refer to the sale of shares in PGE EJ1 Sp. z o.o. (currently: Polskie Elektrownie Jądrowe Sp. z o.o.), which is described in more detail in Note 29 to these interim condensed consolidated financial statements.

43.3. Cash flows from financial activities

Repayment of loans/borrowings

Expenditure on repayment of borrowings and loans disclosed in the consolidated statement of cash flows in the amount of PLN 1 807 687 thousand is mainly attributable to the repayment by the parent company in the 6-month period ended 30 June 2021 of:

- tranches of loans to the Consortium of Banks I in the amount of PLN 1 750 000 thousand;
- loan instalments to the European Investment Bank in the amount of PLN 55 659 thousand.

(in PLN thousand)

Interest paid

	6-month period ended 30 June 2021 *(unaudited)*	6-month period ended 30 June 2020 *(unaudited)*
Interest paid in relation to debt securities	(35 343)	(35 108)
Interest paid in relation to loans	(49 860)	(5 964)
Interest paid in relation to the lease and other	(5 308)	(5 746)
Total	**(90 511)**	**(46 818)**

In the consolidated statements of cash flows, the Group presents costs of external financing incurred activated in the current period on assets as expenditures for acquisition of property, plant and equipment and intangible assets in cash flows from investment activities. In the 6-month period ended 30 June 2021, paid interest representing external financing costs subject to capitalisation in the value of property, plant and equipment and intangible assets amounted to PLN 3 446 thousand, while in the comparable period - PLN 92 383 thousand. The decrease in capitalized borrowing costs is mainly due to the commissioning of the 910 MW Unit in Jaworzno in November 2020.

Loans drawn

Inflows from borrowings and loans drawn in the 6-month period ended 30 June 2021 in the amount of PLN 602 772 thousand, mainly related to the drawdown of tranches of the loan under the agreement concluded with the Consortium of banks I in the amount of PLN 600 000 thousand, as described in detail in Note 31.2 of these interim condensed consolidated financial statements.

Subsidies received

Subsidies received in the 6-month period ended 30 June 2021 in the amount of PLN 56 048 thousand result mainly from the receipt by TAURON Obsługa Klienta Sp. z o.o. of instalments of the grant awarded by the European Regional Development Fund in the framework of the “Digital Poland” competition in the amount of PLN 38 811 thousand.

(in PLN thousand)

FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

44. Financial instruments

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

Categories and classes of financial assets	As at 30 June 2021 *(unaudited)*		As at 31 December 2020 *(restated figures)*	
	Carrying amount	Fair value	Carrying amount	Fair value
1 Financial assets measured at amortized cost	**2 737 830**		**2 662 298**	
Receivables from buyers	2 532 402	2 532 402	2 473 416	2 473 416
Deposits	56 546	56 546	53 448	53 448
Loans granted	25 029	25 029	26 190	26 190
Other financial receivables	123 853	123 853	109 244	109 244
2 Financial assets measured at fair value through profit or loss (FVTPL)	**1 349 602**		**1 397 079**	
Derivative instruments	515 656	515 656	158 846	158 846
Shares	131 290	131 290	123 549	123 549
Shares classified as fixed sasets held for sale	-	-	53 136	53 136
Loans granted	74 345	74 345	72 523	72 523
Other financial receivables	70 161	70 161	67 680	67 680
Cash and cash equivalents	558 150	558 150	921 345	921 345
3 Derivative hedging instruments	**72 109**	**72 109**	**-**	**-**
4 Financial assets excluded from the scope of IFRS 9 *Finanical Instruments*	**612 202**		**586 559**	
Investments in joint ventures	612 202		586 559	
Total financial assets, *of which in the statement of financial position:*	**4 771 743**		**4 645 936**	
Non-current assets	**1 065 076**		**929 098**	
Investments in joint ventures	612 202		586 559	
Loans granted to joint ventures	98 713		96 293	
Other financial assets	354 161		246 246	
Current assets	**3 706 667**		**3 716 838**	
Receivables from buyers	2 532 402		2 473 416	
Loans granted to joint ventures	-		2 420	
Other financial assets	616 115		266 521	
Cash and cash equivalents	558 150		921 345	
Assets classified as held for sale	-		53 136	

(in PLN thousand)

Categories and classes of financial liabilities	As at 30 June 2021 *(unaudited)*		As at 31 December 2020 *(restated figures)*	
	Carrying amount	Fair value	Carrying amount	Fair value
1 Financial liabilities measured at amortized cost	**14 428 901**		**15 913 881**	
Preferential loans and borrowings	17 460	17 460	16 717	16 717
Arm's length loans and borrowings	4 771 393	4 783 330	5 973 155	6 004 972
Bank overdrafts	-	-	2 261	2 261
Bonds issued	7 518 724	7 803 878	7 522 209	7 939 153
Liabilities to suppliers	985 077	985 077	1 021 364	1 021 364
Other financial liabilities	494 850	494 850	245 621	245 621
Capital commitments	459 382	459 382	880 373	880 373
Salaries and wages	127 711	127 711	232 274	232 274
Insurance contracts	54 304	54 304	19 907	19 907
2 Financial liabilities measured at fair value through profit or loss (FVTPL)	**600 420**		**85 523**	
Derivative instruments	600 420	600 420	85 523	85 523
3 Derivative hedging instruments	**26 548**	**26 548**	**90 061**	**90 061**
4 Financial liabilities excluded from the scope of IFRS 9 *Finanical Instruments*	**1 141 955**		**1 146 094**	
Liabilities under leases	1 141 955		1 146 094	
Total financial liabilities, *of which in the statement of financial position:*	**16 197 824**		**17 235 559**	
Non-current liabilities	**12 107 838**		**13 308 763**	
Debt	11 979 466		13 171 200	
Other financial liabilities	128 372		137 563	
Current liabilities	**4 089 986**		**3 926 796**	
Debt	1 469 480		1 480 672	
Liabilities to suppliers	984 381		1 020 668	
Capital commitments	436 990		857 389	
Other financial liabilities	1 198 549		559 503	
Liabilities associated with assets classified as held for sale	586		8 564	

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/liability classes	Fair value measurement level	Fair value measurement methodology
Financial assets/liability measured at fair value		
Derivatives*, including:*		Derivatives have been measured in line with the methodology presented in Note 44.2 hereto.
IRS and CCIRS	2	
Currency forwards	2	
Commodity forwards and futures	1	
Shares	3	The Group estimated the fair value of shares held in not listed companies using the adjusted net assets method, considering its share in the net assets and adjusting the value by relevant factors affecting the measurement, such as the non-controlling interest discount and the discount for the limited liquidity of the above instruments or using a mixed approach. As the key factors affecting the value of the assumed shares had not changed at a given end of the reporting period compared to the initial recognition, in the case of other instruments the Group assumes that the historical cost is an acceptable approximation of the fair value.
Loans granted	3	Fair value measurement of the loan had the form of the current value of future cash flows, including borrower's credit risk.
Financial liabilities whose fair value is disclosed		
Loans, borrowings and bonds issued	2	Liabilities arising from fixed interest debt are measured at fair value. The fair value measurement was carried out based on the present value of future cash flows discounted using an interest rate applicable to given bonds or borrowings, i.e. applying market interest rates.

(in PLN thousand)

The fair value of other financial instruments as at 30 June 2021 and 31 December 2020 (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 material;
- these 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.

44.2. Derivatives and hedge accounting

	As at 30 June 2021 *(unaudited)*				As at 31 December 2020			
	Charged to profit or loss	Charged to other comprehensive income	Total		Charged to profit or loss	Charged to other comprehensive income	Total	
			Assets	Liabilities			Assets	Liabilities
Derivatives subject to hedge accounting								
IRS	(2 766)	48 327	**72 109**	**(26 548)**	(6 230)	(83 831)	**-**	**(90 061)**
Derivatives measured at fair value through profit or loss								
CCIRS	(1 907)	-	**1 166**	**(3 073)**	3 268	-	**5 023**	**(1 755)**
Commodity forwards/futures	(72 885)	-	**514 490**	**(587 375)**	2 321	-	**86 089**	**(83 768)**
Currency forwards	(9 972)	-	**-**	**(9 972)**	67 734	-	**67 734**	**-**
Total			**587 765**	**(626 968)**			**158 846**	**(175 584)**
Non-current			130 643	(65 856)			36 041	(73 739)
Current			457 122	(561 112)			122 805	(101 845)

As at 30 June 2021, the Group holds the following derivative instruments:

Instrument	Description
Derivatives subject to hedge accounting	
IRS	IRS (Interest Rate Swap) instruments are used to hedge a portion of interest rate risk in relation to cash flows associated with exposure to WIBOR 6M determined under a dynamic risk management strategy, i.e: • interest on a loan with a nominal value of PLN 750 000 thousand, for periods commencing respectively from July 2020, expiring in December 2024; • interest on bonds with a total nominal value of PLN 3 090 000 thousand, for periods commencing in December 2019, expiring successively from 2023 to 2029. Under the terms of the transaction, the Company pays interest based on a fixed interest rate in PLN, while receiving payments at a variable interest rate in PLN.
Derivatives at fair value through profit or loss not subject to hedge accounting	
CCIRS	The CCIRS (Coupon Only Cross Currency Swap fixed-fixed) derivative consists of an exchange of interest payments on a total notional amount of EUR 500 000 thousand. The transaction matures in July 2027. Under the terms of the transaction, the Company pays interest based on a fixed interest rate in PLN while receiving payments at a fixed interest rate in euro. CCIRS derivatives to hedge currency flows generated by interest payments on issued Eurobonds.
Forward/futures commodities	Commodity derivatives (futures, forwards) include forward transactions for the purchase and sale of CO_2 emission allowances and other commodities.
Currency forwards	Currency forward derivatives to hedge currency flows generated from operations.

The fair value in relation to individual derivative financial instruments is determined in the following way:

Derivative instrument	Methodology of determining fair value
IRS	The difference between discounted floating-rate interest cash flows and those based on fixed interest rates. Refinitiv interest rate curve is the input data.
CCIRS	The difference between discounted interest cash flows relating to payments and receipts, in two various currencies, expressed in the valuation currency. Interest rate curves, basis spreads and NBP fixing for the relevant currencies from Refinitiv 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 Refinitiv are the input data.
Commodity (forwards, futures)	The fair value of forwards for the purchase and sale of CO_2 emission allowances, electricity and other commodities is based on prices quoted on an active market or based on cash flows being the difference between the price reference index (forward curve) and the contract price.

(in PLN thousand)

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

	As at 30 June 2021 *(unaudited)*		As at 31 December 2020	
	Level 1	Level 2	Level 1	Level 2
Assets				
Derivative instruments - commodity	514 490	-	86 089	-
Derivative instruments - currency	-	-	-	67 734
Derivative instruments-IRS	-	72 109	-	-
Derivative instruments-CCIRS	-	1 166	-	5 023
Total	**514 490**	**73 275**	**86 089**	**72 757**
Liabilities				
Derivative instruments - commodity	587 375	-	83 768	-
Derivative instruments - currency	-	9 972	-	-
Derivative instruments-IRS	-	26 548	-	90 061
Derivative instruments-CCIRS	-	3 073	-	1 755
Total	**587 375**	**39 593**	**83 768**	**91 816**

45. Objectives and principles of financial risk management

The objectives and principles of financial risk management have not changed compared to 31 December 2020.

In an environment of uncertainty and dynamic changes caused by the COVID-19 pandemic, credit risk activities in the TAURON Group are focused on early identification of potential counterparties exposed to increased credit risk. These measures include, among others, tightening the rules for assessing the financial standing of counterparties, constant monitoring of receivables, monitoring of industry information and the macroeconomic environment.

As at 30 June 2021, the Parent 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 44.2 to these interim condensed consolidated financial statements.

46. Finance and capital management

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

OTHER INFORMATION

47. 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 capital groups: Polenergia and Wind Invest filed a case against Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o. to declare notices of termination of agreements 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 claims for damages and contractual penalty claims related to contract termination.

As at the date of approval of these interim condensed consolidated financial statements for publication, the amount of damages claimed in the lawsuits amounts to: 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 filed by Amon Sp. z o.o. and Talia Sp. z o.o., partial and preliminary judgements were issued (judgement of 25 July 2019 in the Amon Sp. z o.o. lawsuit and judgement of 6 March 2020, supplemented by the court on 8 September 2020 in the Talia Sp. o.o. lawsuit), in which the courts determined that the statements of Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o. on termination of long-term agreements concluded between Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o. and Amon Sp. z o.o. and those 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 resulting from certificates of origin are ineffective and do not produce legal effect in the form of termination of both agreements, as a result of which the agreements after the notice period, i.e. after 30 April 2015, remain in force in respect of all provisions and are binding on the parties. Moreover, the courts also recognised the claims of Amon Sp. z o.o. and Talia Sp. z o.o. for payment of damages justified as to the merits, without, however, prejudging the amount of potential damages. The judgements are not final. Polska Energia Pierwsza Kompania Handlowa sp. z o.o. filed a complaint against the judgments.

These partial and preliminary judgements, do not change the Group's assessment that the chances of losing the case are not higher than the chances of winning it.

In the case filed by Pękanino Wind Invest Sp. z o.o. for the provision of security for claims for determining that the terminations of long-term contracts submitted by Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o. are ineffective, the Court of Appeasl in Warsaw on 6 November 2019 partially granted the application for security by ordering Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o. to perform the provisions of the contracts in their entirety on the existing terms and conditions, in accordance with their content, until the proceedings from the suit of Pękanino Wind Invest Sp. z o.o. are legally concluded against Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o., pending before the Regional Court in Warsaw. The decision regarding the security is binding. This decision does not prejudge the merits of the action, which can only take place in a binding judgement, but only temporarily regulates the parties' relations for the duration of the proceedings. In view of the need to realise the security provision referred to above, Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o. created a provision for onerous contracts, the value of which as at the balance sheet date amounts to PLN 6 153 thousand.

Other cases are held at first instance courts (including one remanded for re-examination to the first- instance court by a second-instance court).

In the light of the current status of the proceedings and the related circumstances, the Group believes that the probability of losing other cases related to the claims both as regards declaration of ineffectiveness of the termination notices and securing non-monetary claims and the claims for compensation is less than 50%. Therefore, no provision for the related costs has been recognised (except provision for onerous contracts connected with cases filed by Pękanino Wind Invest Sp. z o.o., which have been discussed above).

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

In 2017 and 2018 companies of the following capital groups: 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 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 interim condensed consolidated financial statements for publication, the amount of damages claimed in the lawsuits amounts to: Polenergia Group companies - PLN 131 333 thousand, Wind Invest group companies - PLN 272 450 thousand.

Moreover, in their claims, the plaintiffs indicate the following values of estimated damages that may arise in the future: Polenergia Group companies - PLN 265 227 thousand, Wind Invest Group companies - PLN 1 119 363 thousand.

The District Court in Katowice has jurisdiction to hear the lawsuits. All cases are held before the first instance courts. Those filed by Wind Invest group companies are held in camera. As at the date of approval of these interim condensed consolidated financial statements for publication, the Company chances of obtaining a favourable resolution of the disputes should be assessed positively, i.e. the chances of losing are not higher than the chances of winning.

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. received notices in cases from motions filed by two Polenergia group companies against TAURON Sprzedaż Sp. z o.o. for a settlement attempt as to a total amount of PLN 78 855 thousand as compensation for alleged damage caused to Polenergia group companies as a result of the unjustified termination of the long-term contract concluded between these companies and Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o. The companies indicated in their motions that the Company, Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o. and the liquidators of Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o. had caused and continue to cause damage to Polenergia Group companies, and TAURON Sprzedaż Sp. z o.o. has deliberately taken advantage of this damage and - according to Polenergia Group companies - is liable for it. TAURON Sprzedaż Sp. z o.o. considered the demands of the Polenergia group companies as unjustified, and therefore no settlement was concluded. 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 to create a provision for the above case. The case is not subject to legal proceedings.

Claim against PGE EJ 1 Sp. z o.o. (currently Polskie Elektrownie Jądrowe Sp. z o.o.)

On 13 March 2015, a consortium of WorleyParsons Nuclear Services JSC, WorleyParsons International Inc, WorleyParsons Group Inc (hereinafter referred to as the "WorleyParsons consortium"), which is a research contractor within the investment process related to the construction of a nuclear power plant by PGE EJ 1 Sp. z o.o. (hereafter: "the Agreement"), reported in connection with the Agreement - in a call for payment to the PGE EJ 1 Sp. z o.o. - claims for the 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 contemporary shareholders (i.e. PGE Polska Grupa Energetyczna S.A., KGHM Polska Miedź S.A. and ENEA S.A.) that regulated mutual relations of the parties to the agreement as regards the claims, including principles of providing additional funds (if any) to PGE EJ 1 Sp. z o.o. by its shareholders.

In November 2015, the District Court in Warsaw served PGE EJ 1 Sp. z o.o. with the claim made by the WorleyParsons consortium for the amount approximating PLN 59 million, in 2017 and 2019 to approx. PLN 128 million.

On 26 March 2021, the Company and other entities holding shares in PGE EJ 1 Sp. z o.o. signed an agreement with the State Treasury for the sale of shares in PGE EJ 1 Sp. z o.o., which is described in more detail in Note 29 of these interim condensed consolidated financial statements. Moreover, the Company and PGE Polska Grupa Energetyczna S.A., KGHM Polska Miedź S.A. and ENEA S.A. concluded with PGE EJ 1 Sp. z o.o. an annex to the agreement of 15 April 2015 regulating WorleyParsons, which regulates potential liabilities and provisions of the parties resulting from the settlement of the dispute with the WorleyParsons consortium after sale of shares in PGE EJ 1 Sp. z o.o. Pursuant to signed annex, the shareholders in proportion to their previously held number of shares in PGE EJ 1 Sp. z o.o. are liable for liabilities or proportionally entitled to benefits potentially arising as a result of the settlement of the dispute with the WorleyParsons consortium up to the maximum level of claims with interest set as at 26 March 2021, amounting respectively to PLN 140 million for claims raised by the WorleyParsons consortium against PGE EJ 1 Sp. z o.o. and PLN 71 million for claims raised by PGE EJ 1 Sp. z o.o. against the WorleyParsons consortium.

PGE EJ 1 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 provision was recognised in relation to the above events.

On 15 June 2021 an amendment to the articles of association of PGE EJ 1 Sp. z o.o. was registered which, inter alia, changed the name of the company (following the conclusion of the share sale agreement described above) to Polskie Elektrownie Jądrowe Sp. z o.o.

Claims filed by Huta Łaziska S.A.

In connection with the merger of the Company with Górnośląski Zakład Elektroenergetyczny S.A. (GZE), TAURON Polska Energia S.A. became the party to the court dispute with Huta Łaziska S.A. ("Huta") against GZE and the State Treasury represented by the President of the ERO. Currently, the proceedings are pending before the Court of Appeals in Warsaw.

By the statement of claim of 12 March 2007 Huta demands from GZE and the State Treasury - the President of the Energy Regulatory Office (in solidum) to adjudicate the amount of PLN 182 060 thousand with interest from the date of filing the statement of claim to the date of payment as compensation for the alleged damage caused by the failure of GZE to implement the decision of the President of the Energy Regulatory Office of 12 October 2001 concerning resumption of deliveries of electricity to Huta.

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. 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 defendant for the costs of the proceedings. The judgement is not legally 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 ordering the defendants to pay the costs of the proceedings in favour of Huta, or, in the alternative, 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 a legal analysis of claims, as well as taking into account the said judgement, the Company believes that they are unjustified and the risk that they must be satisfied is remote. Consequently, no provision has been recognised by the Company for any costs associated with those claims.

Case filed by ENEA S.A.

Case filed by ENEA S.A. ("ENEA") against TAURON Polska Energia S.A., which has been heard by the Regional Court in Katowice since 2016, and currently before the Court of Appeal in Katowice, refers to the payment of PLN 17 086 thousand with statutory interest from 30 June 2015 until the payment date. The actual basis of ENEA's claim are allegations concerning unjust enrichment of the Company in connection with possible errors in the determination of the aggregated measurement and settlement data by ENEA Operator Sp. z o.o. constituting the basis for settlements between ENEA and the Company and Polskie Sieci Elektroenergetyczne S.A. on account of imbalance on the Balancing Market in the period from January to December 2012. In the course of the proceedings at the request of ENEA additional sellers were summoned, for whom TAURON Polska Energia S.A. acted as an entity responsible for trade balancing, including the Company's subsidiaries, i.e. TAURON Sprzedaż Sp. z o.o. and TAURON Sprzedaż GZE Sp. z o.o. The claim for payment by the above subsidiaries amounting in total to PLN 8 414 thousand, together with statutory interest, was submitted by the claimant in the event the action against TAURON Polska Energia S.A. is dismissed.

On 22 March 2021, the Regional Court in Katowice dismissed the claim of ENEA in its entriety and ruled on ENEA's obligation to reimburse the costs of the proceedings to the Company. The judgement is not legally binding. ENEA has filed an appeal against the above ruling.

The Company did not recognize any provision as, in the opinion of the Company, the risk of losing the case is below 50%. Provisions were recognised by the subsidiaries of TAURON Polska Energia S.A. in the total amount of PLN 6 016 thousand in the case of TAURON Sprzedaż Sp. z o.o. and in the total amount of PLN 4 276 thousand in the case of TAURON Sprzedaż GZE Sp. z o.o.

Administrative proceedings initiated by the President of the Energy Regulatory Office (“ERO”)

Administrative proceedings initiated by the President of the ERO are pending against companies in the Sales segment. The Companies provide clarifications in the respective cases on an ongoing basis. The companies do not create provisions for potential penalties related to initiated proceedings, since in the opinion of the Management Boards of the companies the risk of unfavourable resolution of cases and imposition of a penalty is low.

With regard to proceedings concerning the imposition of fines initiated against a company in the Distribution segment and a company in the Sales segment for which the ERO President issued decisions imposing fines, the companies established provisions for pending proceedings in the amounts of PLN 351 thousand and 2 934 thousand, respectively. The companies appealed to the SOKiK against the ERO President's decision to impose a penalty in the cases. With regard to the proceedings initiated against the company in the Distribution segment, in October 2020 the Court conducting the first instance proceedings announced its judgement and revoked the decision of the ERO President on the imposition of the fine. The judgement is not final. The judgement was appealed by the President of the ERO and the case was referred to the court of second instance.

Administrative proceedings initiated by the President of the Office for Competition and Consumer Protection (“UOKiK”)

Administrative and explanatory proceedings initiated by the UOKiK President are pending against companies in the Sales segment. The Companies provide clarifications in the respective cases on an ongoing basis and undertakes remedying actions. The companies do not create provisions for potential penalties related to initiated proceedings, since in the opinion of the Management Boards of the companies the risk of unfavourable resolution of cases and imposition of a penalty is low.

Use of real estate without a contract

The companies belonging to Group do not hold legal titles to all plots of land on which the distribution grids and the related equipment and installations are situated. In the future, the Group may be required to incur costs for the use of real estate without the underlying contracts; however, it must be emphasised that the risk of loss of assets is minor. The Group creates the provision for all court disputes filed in this respect. The provision is not established for unreported potential claims by owners of land of unregulated status due to the lack of detailed record of unregulated land and the resulting inability to reliably estimate the amount of potential claims. However, considering the record of the reported claims and the costs incurred in this respect in previous years, the risk of incurring significant costs due to such claims can be considered as remote.

As at the balance sheet date, provisions in the amount of PLN 73 977 thousand were created for reported court disputes, which are recognised in the statement of financial position under other provisions (Note 35.1).

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

In December 2017, the subsidiary, TAURON Wydobycie S.A. received a claim from Galeria Galena Sp. z o.o., with its registered office in Gliwice, for payment of the amount of PLN 22,785 thousand as reimbursement of expenses for protecting the facility located in Jaworzno against the effects of mining exploitation. In addition, on 5 April 2018, the company received a claim for payment filed by Galeria Galena Sp. z o.o. against the legal successors of Kompania Węglowa S.A. together with an application for merging this case for joint consideration 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, opinions were prepared by court experts, against which objections were raised. A supplementary opinion was requested in February 2020. As a result of further factual doubts and requests by the parties, the Court, by its letter of 1 July 2021, commissioned the experts to prepare another supplementary opinion with a deadline of 6 months. The case is currently pending.

Due to the extension of the claim to additional defendants represented by legal successors of the former Kompania Węglowa S.A. and doubts of factual and legal nature preventing an unambiguous determination of the direction of the Court's adjudication of the case as well as the amount of the adjudicated claim, the Company does not create a provision for the above event.

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

The investment agreement signed by the Company with Fundusze Inwestycji Zamkniętych (the "Funds") managed by Polski Fundusz Rozwoju provides for a number of situations the occurrence of which constitutes a material breach of the agreement on the part of 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 operation of the unit. A potential 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 an agreed return and a premium for material breach and reduced by the distribution of funds by Nowe Jaworzno Grupa TAURON Sp. z o.o. to the Funds.

As at the balance sheet date, the Company does not identify on its side any risk of material breach of agreement beyond the Company's direct control and takes the view that there is no realistic possibility, including in the future, of such breaches occurring. Accordingly, the Group, having regard to the provisions of IAS 32 *Financial Instruments: Presentation*, does not recognise the Funds' involvement as a liability but as a non-controlling interest.

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

After the balance sheet date, on 25 August 2021, the Company Management Board decided to initiate activities, including negotiations, aimed at the repurchase from the Funds of the total of 176 000 shares held by them, representing 14.12% of the total number of votes at the shareholders' meeting of Nowe Jaworzno Grupa TAURON Sp. z o.o., as described in more detail in Note 51 of these interim condensed consolidated financial statements.

Claim for amendment to the agreement for the construction of the Grzegorz Shaft in TAURON Wydobycie S.A.

The general contractor for TAURON Wydobycie S.A. investment project entitled "Construction works performed by the General Contractor for Stage I of the construction of the Grzegorz Shaft along with the construction of surface infrastructure for TAURON Wydobycie S.A." suspended the works, indicating as the reason the risk to safety caused by the disclosure of changes in hydrogeological conditions in the area of the works and applied to the company for an amendment to the underlying agreement, including changes in the scope of the amount of the remuneration. TAURON Wydobycie S.A., having analysed materials related to claims for amendments to the agreement by the contractor and having obtained an expert opinion on the correctness of execution of hydrogeological and geological and engineering documentation for the needs of the sinking of the Grzegorz Shaft, which did not confirm the thesis of the General Contractor, as well as on the basis of an expert opinion which indicated significant errors in the design of the shaft enclosure making it impossible to continue execution of the agreement with the General Contractor, requested the designer of the design documentation to remove significant defects in the technical design of the shaft enclosure of the Grzegorz Shaft. In the opinion of the company, in order to execute the investment in a manner consistent with the agreement concluded with the General Contractor, it is necessary to improve the design of the shaft enclosure and remove design errors.

In response to the contractor's request for a guarantee of payment for the construction works, TAURON Wydobycie S.A. granted the contractor a guarantee of payment in the form of a bank letter of credit valid until 18 January 2021. The bank letter of credit has not been extended.

The Group assesses that there is no basis to create provisions for the effects of the above events as at the balance sheet date. The case is not subject to legal proceedings.

In February 2021, the company filed a request for mediation with the Court of Arbitration at the Polish Attorney General's Office. On 17 March 2021, the first mediation meeting was held as a starting point of the mediation process continuing to date.

48. Security for liabilities

Among the collateral established and in force as at 30 June 2021 for the repayment of the Group's liabilities, the most significant items, set out in the table below, are the collaterals for contracts entered into by the parent company.

(in PLN thousand)

Collateral	Collateral amount			Due date	Agreement/transaction
	Currency		PLN		
Declarations of submission to enforcement			7 284 000	31.12.2025	Loan arrangement with a Consortium of banks I of 19 June 2019
			2 550 000	20.12.2032	Long-term Bond Issue Scheme in Bank Gospodarstwa Krajowego of 31 July 2013
			1 500 000	31.12.2036	Overdraft agreement with Bank Gospodarstwa Krajowego of 19 December 2018
			900 000	31.12.2027	Credit agreements with Intesa Sanpaolo S.p.A. of 19 December 2019
			675 000	31.12.2038	Subordinated Bond Issue Scheme in Bank Gospodarstwa Krajowego of 11 March 2021
			621 000	31.10.2021	Bank guarantee agreement with MUFG Bank, Ltd. of 28 January 2020 [1]
			621 000	31.10.2022	Bank guarantee agreement with MUFG Bank, Ltd. of 2 February 2021 [1]
			600 000	30.06.2034	Subordinated Bond Issue Scheme in Bank Gospodarstwa Krajowego of 6 September 2017
			600 000	31.12.2028	Credit agreement with SMBC Bank EU AG of 16 March 2020
			600 000	31.12.2030	Credit agreement with a Consortium of banks II of 25 March 2020
			300 000	14.03.2024	Framework bank guarantee agreement with Bank Gospodarstwa Krajowego of 13 March 2021
			300 000	24.04.2024	Agreement concluded with Santander Bank Polska S.A. for bank guarantees for the benefit of Izba Rozliczeniowa Giełd Towarowych S.A. of 24 April 2020
			384 000	31.12.2027	Agreement concluded with Santander Bank Polska S.A. on intra-day credit in the Intra Day auxiliary account of 8 December 2020
			240 000	31.12.2023	Bond Issue Scheme of 24 November 2015 [2]
			180 000	25.05.2024	Agreement concluded with Intesa Sanpaolo S.p.A. Spółka Akcyjna Branch in Poland for bank guarantees for the benefit of Izba Rozliczeniowa Giełd Towarowych S.A. of 25 May 2020
	EUR	24 000	108 499	31.12.2021	Overdraft agreement with Bank Gospodarstwa Krajowego of 30 December 2015 [2]
	EUR	50 000	226 040		
	EUR	67 500	305 154	31.12.2022	
			96 000	27.05.2024	Framework bank guarantee agreements with CaixaBank S.A. of 27 May 2019
			24 000	27.05.2029	
Bank account madates			250 000	13.03.2023	Framework bank guarantee agreement with Bank Gospodarstwa Krajowego of 13 March 2021
	EUR	45 000	203 436	30.12.2021	Overdraft agreement with Bank Gospodarstwa Krajowego of 30 December 2015
			80 000	26.05.2023	Framework bank guarantee agreements with CaixaBank S.A. of 27 May 2019
			20 000	26.05.2028	
Bank guarantees			40 000	28.07.2021	Bank guarantees issued by Intesa Sanpaolo S.p.A. Spółka Akcyjna Branch in Poland, BGK and Santander Bank Polska S.A. to Izba Rozliczeniowa Giełd Towarowych S.A. as a collateral of transactions concluded on Towarowa Giełda Energii S.A.
			10 000	30.06.2021	
			10 000	16.08.2021	
			5 000	30.06.2021	Bank guarantee issued by CaixaBank S.A. to PSE S.A. as performance security for the power transmission service agreement and to GAZ-SYSTEM S.A. as transmission contract performance security
			6 500	31.12.2021	

[1] The collateral in the form of a declaration of submission to enforcement submitted to the Agreement of 28 January 2020 for a guarantee limit concluded with MUFG Bank, Ltd. relates to the bank guarantee for the benefit of BGK, the expiry date of which was 11 April 2021, while the collateral in the form of a declaration of submission to enforcement submitted to the Agreement of 2 February 2021 for a guarantee limit concluded with MUFG Bank, Ltd. relates to the annex to the aforementioned bank guarantee which extends its expiry date to 11 April 2022.
[2] The collateral relates to an agreement for which, as at the balance sheet date, the liabilities have expired, have been repaid or have been replaced by others (in the case of the overdraft agreement with BGK of 30 December 2015, it relates to declarations of submission to enforcement in the amount of EUR 24 000 thousand and EUR 50 000 thousand).

After the balance sheet date, the following events took place:

- as at 1 July 2021, by virtue of the annex signed, the amount of the bank guarantee issued by Santander Bank Polska S.A. in favour of IRGiT was increased to the amount of PLN 20 000 thousand and its effective term was extended to 31 July 2021. The warranty expired on 31 July 2021;
- under the agreement concluded with Intesa Sanpaolo S.p.A. Spółka Akcyjna Branch in Poland, on 19 July and 20 August 2021, two bank guarantees were issued in favour of the IRGiT as a collateral for the Company liabilities, in the amount of PLN 40 000 thousand each, with expiration dates from 29 July 2021 to 27 August 2021 and from 28 August 2021 to 26 September 2021, respectively;
- on 31 August 2021, the Company signed a declaration of submission to enforcement under the overdraft agreement concluded after the balance sheet date, up to the amount of PLN 300 000 thousand with the effectiveness until 30 August 2024.

Carrying amount of assets pledged as a collateral for the repayment of the Group's liabilities

The carrying amounts of assets pledged as a collateral for the repayment of liabilities at each balance sheet date have been presented in the table below.

Interim condensed consolidated financial statements for the 6-month period ended 30 June 2021 prepared in accordance with the IFRS as endorsed by the EU (in PLN thousand)

	As at 30 June 2021 *(unaudited)*	As at 31 December 2020
Other financial receivables	65 026	48 663
Real estate	4 704	7 935
Cash	10	8 363
Total	**69 740**	**64 961**

The main item consists of collaterals of forward transactions - derivative financial instruments concluded by the Company on foreign stock exchange markets. As at 30 June 2021 and as at 31 December 2020, the related collaterals amounted to PLN 65 026 thousand and PLN 48 663 thousand, respectively.

Securing transactions concluded on Towarowa Giełda Energii S.A.

- Assignment of CO_2 emission allowances in favour of Izba Rozliczeniowa Giełd Towarowych S.A. ("IRGiT")

In order to secure the liabilities arising from the transactions concluded by the Company at Towarowa Giełda Energii S.A. in 2019 and 2020, agreements for the assignment of CO_2 emission allowances for the benefit of IRGiT were concluded.

As at 31 December 2020, CO_2 emission allowances in the total amount of 3 021 799 tonnes, including allowances owned by the Company in the total amount of 2 205 000 tonnes and those owned by the subsidiary, TAURON Wytwarzanie S.A. in the total amount of 816 799 tonnes, were assigned to the IRGiT.

In connection with the Group's redemption needs, on 16 February 2021 all allowances owned by the subsidiary were returned to the account of TAURON Wytwarzanie S.A., while on 17 March 2021 a part of the allowances in the amount of 1 660 000 tonnes was returned to the Company.

As at 30 June 2021, the subject of security were CO_2 emission allowances owned by the Company in the amount of 545 000 tonnes. After the balance sheet date, on 9 July 2021, all allowances were returned to the Company's account.

- Agreement on the compensation of collateral in the TAURON Group

Pursuant to the Agreement defining the principles for the establishment of financial collateral for the Energy Group concluded with the IRGiT, TAURON Group applies a collateral deposit compensation mechanism. In terms of the transactions performed, the margins required by the IRGiT are calculated against the positions offset within the Group, which translates into the reduction in the funds involved on a Group-wide basis in maintaining the collateral required by the IRGiT.

Other collaterals for the repayment of liabilities of the Group and joint ventures

Other material collaterals for the repayment of the Group's liabilities and joint ventures as at 30 June 2021 are described below.

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

Under the agreement of 15 May 2015, the parent company established a financial pledge on its shares in the share capital of TAMEH HOLDING Sp. z o.o, with a total nominal value of PLN 329 340 thousand, representing approximately 50% of the shares in the share capital, a financial pledge, a registered pledge with highest priority of satisfaction on the shares up to the highest amount of security in the amount of CZK 3 950 000 thousand and a registered pledge with highest priority of satisfaction on the shares up to the highest level of security in the amount of 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 the new shares. 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 Group companies and RAIFFEISEN BANK INTERNATIONAL AG as the agent and the collateral agent. The registered pledges are valid in the collateral period, i.e. until the total repayment or until release of the pledge by the pledgee. The financial pledge is valid in the entire collateral period or until release by the pledgee, not later than on 31 December 2028.

As at 30 June 2021, the carrying amount of the investment in joint venture accounted for using the equity method in the TAMEH HOLDING Sp. z o.o. group was PLN 612 202 thousand.

(in PLN thousand)

- Blank promissory notes

Agreement/transaction secured by blank promissory notes	Issuer of a blank promissory note	As at 30 June 2021 *(niebadane)*	As at 31 December 2020
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.	173 691	200 167
Performance bond and reimbursement security under the co-funding agreements concluded with the National Fund for Environmental Protection and Water Management in Warsaw and the Regional Fund for Environmental Protection and Water Management in Katowice	TAURON Ciepło Sp. z o.o.	109 851	109 851
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.	51 457	63 708

* *As at 30 June 2021, the outstanding amount of loans secured with the promissory notes is PLN 6 000 thousand.*

- Bank and corporate guarantees and sureties
  - Corporate guarantee granted by the Company

The corporate guarantee was granted in 2014 to secure the bonds (so-called NSV) of Finanse Grupa TAURON Sp. z o.o. The guarantee is valid until 3 December 2029, i.e. the redemption date of the bonds and amounts to EUR 168 000 thousand (PLN 759 494 thousand), while the beneficiaries of the guarantee are the private placement investors who purchased the bonds issued.

  - Corporate guarantee granted in the Renewable Energy Sources segment

On 15 December 2020, TAURON Ekoenergia Sp. z o.o. granted a corporate guarantee for the liabilities of WIND T1 Sp. z o.o. whereas on 10 June 2021, the guarantee was granted to a third person for liabilities of Polpower Sp. z o.o. The value of the liabilities secured as at 30 June 2021 amounts to EUR 24 206 thousand (PLN 109 432 thousand) and EUR 4 868 thousand (PLN 22 009 thousand), respectively. The guarantees shall remain in force until the date of performance of all the obligations under the contracts concluded.

On 16 February 2021, TAURON Ekoenergia Sp. z o.o. granted a surety for the liabilities of WIND T1 Sp. z o.o to third parties. As at the balance sheet date, the value of the surety amounts to PLN 70 331 thousand.

  - Liability towards MUFG Bank, Ltd.

At the Company request, MUFG Bank, Ltd. issued a bank guarantee as security for the receivables of Bank Gospodarstwa Krajowego, resulting from 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.

As at the balance sheet date, the amount of security granted is PLN 517 500 thousand, with a term to 11 April 2022. The guarantee was issued on the basis of a guarantee limit agreement concluded on 2 February 2021 with MUFG Bank, Ltd. and the collateral for MUFG Bank, Ltd.'s claims against the Company is a declaration on submission to execution up to the amount of PLN 621 000 thousand with the term of validity until 31 October 2022.

In connection with the guarantee issued, the Company recognised a liability in the amount of expected credit losses, which as at 30 June 2021 amounted to PLN 16 734 thousand (PLN 28 184 thousand as at 31 December 2020).

In order to secure funds to cover future decommissioning costs, the Group's subsidiaries TAURON Wydobycie S.A. and Kopalnia Wapienia Czatkowice Sp. z o.o. create the Mine Decommissioning Fund.

(in PLN thousand)

49. Related party disclosures

49.1. 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 are further described in Note 20 to these interim condensed consolidated financial statements.

The total value of transactions with jointly-controlled entities is presented in the table below.

	6-month period ended 30 June 2021 *(unaudited)*	6-month period ended 30 June 2020 *(unaudited)*
Revenue	162 457	76 477
Costs	(224 879)	(43 395)

The main item of settlements with jointly-controlled entities are the loans granted to Elektrociepłownia Stalowa Wola S.A., as discussed in more detail in Note 21 to these interim condensed consolidated financial statements.

The Company also provided collaterals 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 the loan liability of Elektrociepłownia Stalowa Wola S.A., as described in detail in Note 48 to these interim condensed consolidated financial statements.

49.2. Transactions with State Treasury companies

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

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

Revenues and costs

	6-month period ended 30 June 2021 *(unaudited)*	6-month period ended 30 June 2020 *(unaudited)*
Revenue	1 417 095	1 081 049
Costs	(2 404 561)	(1 207 199)

Receivables and liabilities

	As at 30 June 2021 *(unaudited)*	As at 31 December 2020
Receivables*	360 210	319 612
Payables	560 638	387 636

** As at 30 June 2021 and as at 31 December 2020, the receivables item in the table above comprises advance payments for the purchase of fixed assets in the amount of PLN 2 439 thousand and PLN 2 996 thousand, respectively.*

Among the State Treasury companies, the largest customers of TAURON Polska Energia S.A. Group in the 6-month period ended 30 June 2021 included KGHM Polska Miedź S.A., Polskie Sieci Elektroenergetyczne S.A. and Polska Grupa Górnicza S.A. In total, sales to the above-mentioned counterparties amounted to 84% of the volume of revenues generated in transactions with State Treasury companies. The largest purchase transactions were performed by the Group with Polskie Sieci Elektroenergetyczne S.A., Polska Grupa Górnicza S.A. Purchases from the above counterparties accounted for 90% of the value of purchases from the State Treasury companies in the 6-month period ended 30 June 2021.

Among the State Treasury companies, the largest customers of TAURON Polska Energia S.A. Group in the 6-month period ended 30 June 2020 included KGHM Polska Miedź S.A., Polskie Sieci Elektroenergetyczne S.A., Polska Grupa Górnicza S.A. and Spółka Restrukturyzacji Kopalń S.A. In total, sales to the above-mentioned counterparties amounted to 88% of the volume of revenues generated in transactions with State Treasury companies. The largest purchase transactions were performed by the Group with Polskie Sieci Elektroenergetyczne S.A., Polska Grupa Górnicza S.A. and Węglokoks S.A. Purchases from the above counterparties accounted for 87% of the value of purchases from the State Treasury companies in the 6-month period ended 30 June 2020.

(in PLN thousand)

The Capital Group conducts material transactions on the energy market through Izba Rozliczeniowa Giełd Towarowych S.A. As this entity only organises stock exchange trading, the Capital Group does not treat the purchase and sale transactions made through it as related party transactions.

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

Transactions with the State Treasury

On 22 March 2021, an agreement with the State Treasury represented by the Ministry of State Assets and the Company was signed, under which the Company was authorized to reimbursement of cost incurred in connection with implementation activities delegated by the President of the Council of Ministry dated 29 November 2020 in scope of counteracting of COVID-19, which consist of organize, build and maintenance a temporary hospital in Krynica- Zdrój. As at 30 June 2021, the Company had receivables from the State Treasury due to build, equipment and maintenance of this hospital in amount of PLN 641 thousand. Taking into account, that part of revenues result from above agreement in amount of PLN 5 002 thousand was recognized as a estimated revenue in year 2020, in the 6-month period ended 30 June 2021 the Company recognised revenue due to above agreement in amount of PLN 2 649 thousand.

On 26 March 2021, the Company signed an agreement with the State Treasury for the sale of shares in PGE EJ 1 Sp. z o.o. (currently: Polskie Elektrownie Jądrowe Sp. z o.o.), as further described in Note 29 to these interim condensed consolidated financial statements.

49.3. Remuneration of the executives

The level of remuneration and other benefits paid and/or due members of the Management Board, Supervisory Boards and other key management personnel of the parent company and the subsidiaries paid and due in the 6-month period ended 30 June 2021 and in the comparative period is presented in the table below.

	6-month period ended 30 June 2021 *(unaudited)*		6-month period ended 30 June 2020 *(unaudited)*	
	Parent	Subsidiaries	Parent	Subsidiaries
Management Board	**2 418**	**8 765**	**1 328**	**11 779**
Short-term benefits (with surcharges)	2 173	8 371	1 165	11 675
Employment termination benefits	169	394	111	97
Other	76	-	52	7
Supervisory Board	**289**	**754**	**408**	**642**
Short-term employee benefits (salaries and surcharges)	289	695	408	594
Other	-	59	-	48
Other key management personnel	**8 420**	**24 221**	**9 938**	**25 347**
Short-term employee benefits (salaries and surcharges)	7 839	23 460	8 639	24 484
Jubilee bonuses	-	-	-	77
Employment termination benefits	75	116	765	110
Other	506	645	534	676
Total	**11 127**	**33 740**	**11 674**	**37 768**

In accordance with the accounting policy adopted, the Group recognises provisions for benefits to members of the Management Board on account of termination of management contracts and other key management personnel on account of termination of work contract that may be paid or due in subsequent reporting periods. The table above takes into account the amounts paid and due to be paid until 30 June 2021.

50. Other material information

Impact of the COVID-19 pandemic on the operations of the Group

The 6-month period ended 30 June 2021 continues to be a persistent state of the COVID-19 pandemic with an increase in incidence observed during this period resulting in record levels of recorded cases of infection of SARS-CoV-2 (wave III) and a gradual decline during the second quarter. Consequently, numerous restrictions were in place in the country to mitigate the spread of the pandemic. This situation continued to cause disruption to the economic and administrative system in Poland and worldwide. As a result, the pandemic significantly restricted economic activity, affecting in particular the work of companies in sectors such as tourism, trade and transport. Consequently, in the medium and long term, it is expected that the COVID-19 pandemic will continue to affect national, European as well as global economic conditions, posing an adverse impact on the economic growth in Poland in the 2021 and the subsequent years. Material issues relating to the impact of the pandemic on the TAURON Group are set out below.

- Despite the restrictions implemented, no sale volume declines were observed in the Distribution and Sales Segments in the 6-month period ended 30 June 2021. Compared to the corresponding period of 2020, a 8.7 % increase in electricity demand was recorded, with the continued restrictions changing the structure of consumption by tariff group resulting in an increase in consumption for households (Tariff Group G) by 8.2 %. In this group, remote work and education played a decisive role in the level of consumption. Also, in the case of small companies and institutions (Tariff Group C1), for which a decrease in consumption of 3.1% was recorded after the first quarter of 2021 in relation to the first quarter of 2020, an increase of 6.4% is recorded in the 6-month period ended 30 June 2021 compared to the corresponding period of the previous year. For this group, the decline in the demand in the first quarter of 2021 was a direct result of governmental actions consisting in applying restrictions affecting commercial premises or leisure facilities. As the above restrictions were relaxed, the demand increased.
- Disturbances in economic activity in Poland triggered financial difficulties for customers and contractors of TAURON Group. The situation was mitigated by regulatory measures in the introduction of successive anti-crisis shields, which were aimed at maintaining liquidity and protecting jobs at Polish entrepreneurs. In the 6-month period ended 30 June 2021, changes in the level of overdue receivables were basically stable. In order to limit potential credit losses, extended credit risk management criteria are consistently applied, accompanied by the monitoring of receivables and debt collection activities. The COVID-19 pandemic has affected the need for additional allowances for expected credit losses of financial instruments. This increased the Group's operating expenses by PLN 5 209 thousand and financial expenses by PLN 3 047 thousand, which was described in more detail in Note 6 to these interim condensed consolidated financial statements.
- In the scope of market environment, no increased volatility in the prices of commodity instruments was observed as a result of the epidemic situation in the period of the first half of 2021.
- With regard to financial instruments, the persistence of the depreciation of the zloty and the low level of interest rates were observed. Changes in exchange rates affect the costs incurred to purchase CO_2 emission allowances, as well as the measurement of the Company’s debt denominated in foreign currencies. On the other hand, changes in the level of interest rates may affect the costs resulting from the concluded financing agreements based on a variable interest rate, as well as regulated revenue in the Distribution Area.
- The persistent state of the COVID-19 pandemic resulted in some difficulties in the implementation of TAURON Group's strategic investment projects. In the case of the construction of the 910 MW unit in Jaworzno, the consortium acting as General Contractor of the unit identified the impact of the pandemic on the execution of the contract, of which the employer, i.e. Nowe Jaworzno Grupa TAURON Sp. z o.o., was informed in the relevant note submitted by the General Contractor. The content of the above note indicated that the COVID-19 pandemic resulted in both the unavailability of key personnel of E003B7 Sp. z o.o. essential for the works performed as well as key subcontractors for the work being carried out, indicating some of the tuning and optimisation work which, in the opinion of the General Contractor, could not have been performed due to the constraints caused by the pandemic. As at the date of these interim condensed consolidated financial statements, the Employer at the request of the General Contractor, has entered into mediation of the disputed circumstances between the Parties, including circumstances affecting the implementation of the project and resulting from the continuing state of the COVID-19 pandemic. In the case of other ongoing projects, difficulties were noted related to their implementation, to which the absenteeism of a significant number of employed persons contributed because of quarantine or home isolation as a result of COVID-19 infection. As a consequence, delays in the schedule appeared and, in some cases, annexes are currently processed to postpone the achievement of milestones. In addition, problems related to the access to public administration occurred affecting the prolonged duration of administrative proceedings. In order to mitigate the consequences of project disruptions, all contractors implementing the projects cooperate closely and on an ongoing basis with TAURON Group companies responsible for the investments, which monitor the situation in the projects and respond appropriately to the situation using available tools.
- The situation related to the COVID-19 pandemic continued to affect the operations of individual Business Areas of TAURON Group through increased employee absenteeism and the growth of operating costs resulting from the need to meet epidemiological conditions. In this regard, TAURON Group has been continuously taking a number of preventive measures in organisational and material terms aimed at protecting employees of individual companies of TAURON Group and maintaining the continuity of critical infrastructure operations. Dedicated Crisis Teams have been established at the level of the Company as well as individual companies of TAURON Group in order to coordinate the works associated with ensuring the security related to the threat of COVID-19.

TAURON Group, being aware of the risks related to the epidemiological situation, continued to undertake active measures to mitigate the impact of the current and expected economic situation as well as to protect against extreme events. It should be stressed that the COVID-19 pandemic situation is volatile and the future impact and scale of the pandemic are currently difficult to estimate precisely. The duration of the pandemic, its severity and range, the availability and speed of vaccination as well as its impact on Polish economic growth in the short, medium and long term will be significant. The Company Management Board, being aware of the threats resulting from the pandemic, monitors the impact on an ongoing basis and will take all possible steps to mitigate any negative effects of the COVID-19 pandemic on TAURON Group.

51. Events after the balance sheet date

Signing the agreement concerning the cooperation in the field of unbundling of coal assets

After the balance sheet date, on 23 July 2021, the Company, PGE Polska Grupa Energetyczna S.A., ENEA S.A., Energa S.A. (collectively, the "Energy Companies") and the State Treasury concluded the agreement on cooperation in the scope of unbundling of coal assets and their integration into the National Energy Security Agency (the "Agreement"). The conclusion of the Agreement is related to the document published by the Ministry of State Assets “Transformation of the Electricity Sector in Poland. Separation of coal assets from the companies with State Treasury shareholding”. The above document presents the concept of unbundling of assets related to generation of electricity in conventional coal units from capital groups of individual Energy Companies, which stipulates, among others, integration of the aforementioned assets within a single entity, i.e. PGE Górnictwo i Energetyka Konwencjonalna S.A. - a subsidiary of PGE Polska Grupa Energetyczna S.A., which will ultimately operate under the name of National Energy Security Agency. Taking into account the foregoing and recognising the need to coordinate the cooperation in the planned process of unbundling coal assets, the parties declared the mutual exchange of necessary information under the Agreement, which will allow for the efficient and effective implementation of the process aimed at creating the National Energy Security Agency.

Signing the Letter of Intent concerning Elektrociepłownia Stalowa Wola S.A.

After the balance sheet date, on 2 August 2021, the Company, subsidiary TAURON Wytwarzanie S.A., Polskie Górnictwo Naftowe i Gazownictwo S.A. (“PGNiG”) and PGNiG TERMIKA S.A. signed a letter of intent concerning the potential transaction of sale by TAURON Wytwarzanie S.A. to the PGNiG Group of its equity interest in Elektrociepłownia Stalowa Wola S.A. and receivables on account of loans granted to Elektrociepłownia Stalowa Wola S.A. by TAURON Polska Energia S.A. Signing of the letter of intent does not imply a commitment by the parties to conclude the above-mentioned potential transaction. The decision to proceed with the transaction will depend on the outcome of negotiations in this regard and the fulfilment of other conditions stipulated by law or in corporate documents. The potential sale of shares in Elektrociepłownia Stalowa Wola S.A. is in line with the strategic directions announced by TAURON Polska Energia S.A. on 27 May 2019.

Standstill of the 910 MW Unit in Jaworzno

After the balance sheet date, on 2 August 2021, TAURON Polska Energia S.A. received a schedule of works to be carried out at the 910 MW unit in Jaworzno (the “Unit”) from subsidiary Nowe Jaworzno Grupa TAURON sp. z o.o. The schedule results from the need to carry out work on some of the elements of the Unit that were identified by the internal inspection of the equipment during the standstill of the Unit. On the basis of received schedule, company Nowe Jaworzno Grupa TAURON sp. z o.o. has provisionally estimated by the company E003B7 Sp. z o.o., the re-synchronisation of the unit with the grid on 25 February 2022 is possible to reach.

On 8 September, the company RAFAKO S.A. one of the business entities forming the consortium RAFAKO S.A. – MOSTOSTAL WARSZAWA S.A. which carries out the works related to the unit has submitted a statement to the Company saying that smooth continuation of works at the unit depends on the Company’s capital engagement in RAFAKO S.A. On the same day, the company Nowe Jaworzno Grupa TAURON Sp. z o.o. received form RAFAKO S.A. a call for an immediate explanation of the causes of the fire incidents that took place on the unit on 7 January 2021, and 11 June 2021, respectively. RAFAKO S.A. has declared that it is intending to halt all ongoing and planned works on the unit until it has received information from Nowe Jaworzno Grupa TAURON Sp. z o.o. that there is no hazard for life and health of the personnel, as well calls for an explanation of the causes of the fire incidents by 15 September 2021, otherwise it may terminate the agreement for the construction of the unit, concluded on 17 April 2014.

In the Group’s opinion all activities undertaken by Nowe Jaworzno Grupa TAURON Sp. z o.o. as part of the implementation of the investment project and the operation of the unit, including aforementioned incidents, were and are in compliance with the highest standards and legal regulations, including the regulations in the field of fire protection, as well as with the operational documentation prepared by the RAFAKO S.A. under the Agreement. Additional, the company Nowe Jaworzno Grupa TAURON Sp. z o.o. jointly with RAFAKO S.A., appointed an emergency committee to investigate and explain the causes of the fire incident that took place on 11 June 2021, which, as of today has not completed its works and has not formulated the final conclusions in this matter. The Group indicates that it has not taken any decisions or actions aiming at purchase of a block of shares in RAFAKO S.A., and has not been in the negotiation process on the subject matter. The Group would like to underline that it takes actions to bring the unit back to operation as soon as possible.

Taking into account aforementioned events, the Group is not able to determine way of realization of the Agreement for the construction of the unit with the consortium RAFAKO S.A. – MOSTOSTAL WARSZAWA S.A. Consequently, described above schedule of works to be carried out at the unit, which assume the re-synchronisation of the unit with the grid on 25 February 2022 might be out-of-date.

Commencement of activities aimed at the repurchase of shares in the subsidiary, Nowe Jaworzno Grupa TAURON Sp. z o.o. from funds managed by the Polish Development Fund

After the balance sheet date, on 25 August 2021, the Company Management Board decided to launch actions, including initiating negotiations, aimed at repurchasing from the Infrastructure Fund - Closed-end Private Assets Capital Investment Fund and PFR Inwestycje Fundusz Inwestycyjny Zamknięty, with a part of their investment portfolio managed by Polski Fundusz Rozwoju S.A., the total of 176 000 shares representing 14.12% of the total number of votes at the shareholders' meeting of the subsidiary Nowe Jaworzno Grupa TAURON Sp. z o.o. The intention of the Company to repurchase the shares in Nowe Jaworzno Grupa TAURON Sp. z o.o. is linked in particular with the preparation of TAURON Group for the implementation of the planned structural changes in the electricity sector in Poland which were presented by the Ministry of State Assets. This concept assumes unbundling of assets associated with the generation of electricity in conventional coal units from capital groups of individual energy companies and integration of the aforementioned assets within a single entity, i.e. the National Energy Security Agency. The conclusion of the potential repurchase transaction is subject to a positive outcome of the negotiations.

These interim condensed consolidated financial statements of TAURON Polska Energia S.A. Capital Group prepared for the 6-month period ended 30 June 2021 in compliance with the International Accounting Standard No 34 comprise 76 pages.

Katowice, 14 September 2021

Artur Michałowski – acting President of the Management Board, Vice-President of the Management Board

Patryk Demski – Vice-President of the Management Board

Krzysztof Surma – Vice-President of the Management Board

Jerzy Topolski - Vice-President of the Management Board

Oliwia Tokarczyk - Executive Director for Accounting and Taxes

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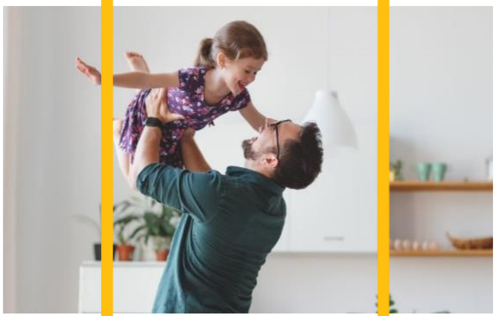
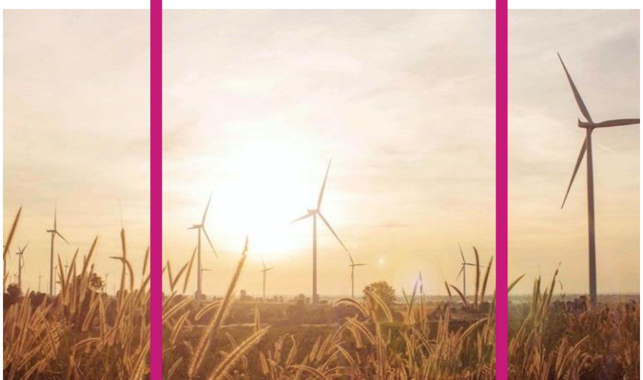
TAURON





INDEPENDENT AUDITOR'S REPORT ON REVIEW

of interim condensed financial statements of TAURON Polska Energia S.A. for the first half of 2021

Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k.
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INDEPENDENT AUDITOR'S REPORT ON REVIEW OF INTERIM CONDENSED FINANCIAL STATEMENTS

To the General Meeting and Supervisory Board of TAURON Polska Energia S.A.

Introduction

We have reviewed the interim condensed financial statements of TAURON Polska Energia S.A. (the 'Company') located in in Katowice at Ks. Piotra Ściegiennego 3, containing: the statement of comprehensive income for the period from 1 January 2021 to 30 June 2021, the statement of financial position as at 30 June 2021, the statement of changes in equity, the statement of cash flows for the period from 1 January 2021 to 30 June 2021 and other explanatory notes (the 'interim condensed financial statements').

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

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

Scope of review

We conducted our review in accordance with National Review Standard 2410 in the wording of the International Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* ('standard'), adopted by the National Council of Statutory. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, applying analytical and other review procedures.

A review is substantially less in scope than an audit conducted in accordance with National Auditing Standards in the wording of the International Auditing Standards adopted by the National Council of Statutory Auditors and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

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

Emphasis of Matter

Without qualification, we draw attention to the:
- note 17.2 of the attached interim condensed financial statements, where the Management Board of the Company described significant assumptions taken for the purpose of assets impairment testing, including assumptions related to subsidies to hard coal mining and electric energy prices taking into account envisaged support mechanisms, as well as presented tests' sensitivity to taken assumptions,
- note 32 of the attached interim condensed financial statements, where the Management Board of the Company described significant assumptions taken to make an assessment of the value of the provision for onerous contract for the multi-annual purchase of electric energy from the subsidiary Nowe Jaworzno Grupa TAURON sp. z o.o., and to the
- note 51 of the attached interim condensed financial statements, where the Management Board of the Company described significant events after the balance sheet date.

Our conclusion does not contain any modifications in connection with this matter.

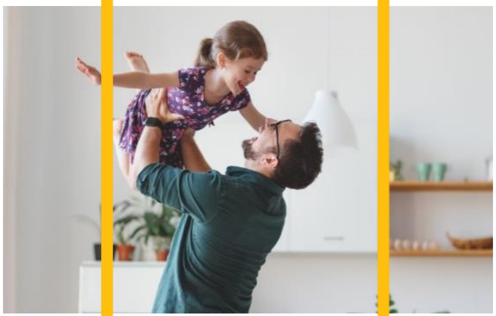
Warsaw, 15 September 2021

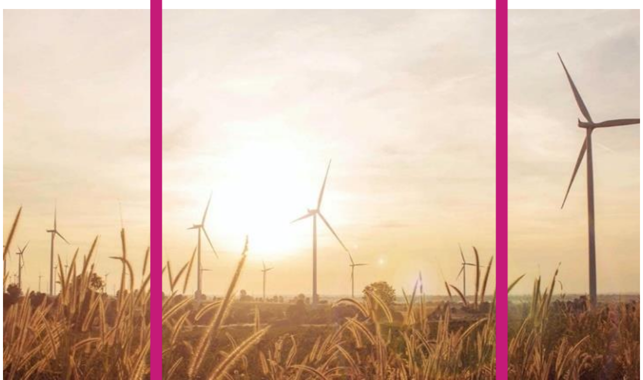
Key certified auditor

(signed with a qualified electronic signature)

Leszek Lerch
certified auditor
no in the register: 9886

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





CONDENSED INTERIM FINANCIAL STATEMENTS

prepared in accordance with the International Financial Reporting Standards, as endorsed by the European Union for the 6-month period ended 30 June 2021

TAURON Polska Energia S.A.

Interim condensed financial statements
in accordance with the International Financial Reporting Standards
as endorsed by the European Union
for the 6-month period ended 30 June 2021

(in PLN thousand)

INTERIM CONDENSED STATEMENT OF COMPREHENSIVE INCOME

	Note	3-month period ended 30 June 2021 *(unaudited)*	6-month period ended 30 June 2021 *(unaudited)*	3-month period ended 30 June 2020 *(restated unaudited figures)*	6-month period ended 30 June 2020 *(restated unaudited figures)*
Sales revenue	**11**	3 027 395	7 475 727	2 585 677	5 206 920
Cost of sales	**12**	(3 105 920)	(7 468 552)	(2 415 895)	(5 064 643)
Profit on sale (loss)		**(78 525)**	**7 175**	**169 782**	**142 277**
Selling and distribution expenses	**12**	(7 204)	(11 761)	(7 270)	(12 278)
Administrative expenses	**12**	(24 520)	(46 185)	(28 911)	(60 329)
Other operating income and expenses		(427)	(678)	(1 033)	(4 120)
Operating profit (loss)		**(110 676)**	**(51 449)**	**132 568**	**65 550**
Dividend income	**13**	1 713 256	1 713 256	-	-
Interest income on loans	**13**	59 197	115 414	60 728	126 782
Interest expense on debt	**13**	(83 834)	(165 270)	(106 894)	(217 633)
Revaluation of shares	**13**	(748 217)	(759 017)	(1 075 906)	(1 075 906)
Revaluation of loans	**13**	(46 901)	(287 224)	65 080	(429 592)
Other finance income and costs	**13**	68 132	36 144	39 211	(128 105)
Profit before tax (loss)		**850 957**	**601 854**	**(885 213)**	**(1 658 904)**
Income tax expense	**14**	3 391	(33 064)	(11 296)	41 372
Net profit (loss)		**854 348**	**568 790**	**(896 509)**	**(1 617 532)**
Measurement of hedging instruments	**26.4**	13 139	132 158	(41 555)	(131 745)
Income tax expense	**14**	(2 496)	(14 142)	7 896	25 032
Other comprehensive income subject to reclassification to profit or loss		**10 643**	**118 016**	**(33 659)**	**(106 713)**
Actuarial gains (losses)		407	438	(844)	(774)
Income tax expense	**14**	(77)	(83)	160	147
Other comprehensive income not subject to reclassification to profit or loss		**330**	**355**	**(684)**	**(627)**
Other comprehensive income, net of tax		**10 973**	**118 371**	**(34 343)**	**(107 340)**
Total comprehensive income		**865 321**	**687 161**	**(930 852)**	**(1 724 872)**
Profit per share (loss) (in PLN):					
- basic and diluted, for net profit (loss)		0.48	0.32	(0.51)	(0.92)

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

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

(in PLN thousand)

INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION

	Note	As at 30 June 2021 *(unaudited)*	As at 31 December 2020 *(restated figures)*
ASSETS			
Non-current assets			
Investment property	**15**	26 141	28 388
Right-of-use assets	**16**	23 990	28 012
Shares	**17**	20 114 864	20 856 962
Loans granted	**18**	5 721 038	4 233 601
Derivative instruments	**19**	130 643	36 041
Other financial assets	**20**	455	2 541
Other non-financial assets	**21**	12 992	17 267
		26 030 123	**25 202 812**
Current assets			
Inventories	**22**	396 329	394 031
Receivables from buyers	**23**	948 614	1 301 409
Income tax receivables	**30**	159 848	82 464
Loans granted	**18**	1 115 183	1 147 350
Derivative instruments	**19**	457 122	122 805
Other financial assets	**20**	363 869	87 303
Other non-financial assets	**21**	26 295	12 291
Cash and cash equivalents	**24**	307 852	643 134
Non-current assets classified as held for sale	**25**	-	53 136
		3 775 112	**3 843 923**
TOTAL ASSETS		**29 805 235**	**29 046 735**

(in PLN thousand)

INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION - CONTINUED

	Note	As at 30 June 2021 *(unaudited)*	As at 31 December 2020 *(restated figures)*
EQUITY AND LIABILITIES			
Equity			
Issued capital	**26.1**	8 762 747	8 762 747
Reserve capital	**26.3**	2 749 099	6 338 754
Revaluation reserve from valuation of hedging instruments	**26.4**	39 145	(78 871)
Retained earnings / (Accumulated losses)	**26.5**	597 918	(3 560 882)
		12 148 909	**11 461 748**
Non-current liabilities			
Debt	**27**	10 921 040	12 117 294
Other financial liabilities	**28**	10 242	14 090
Derivative instruments	**19**	65 856	73 739
Other non-financial liabilities	**31**	74 620	23 830
Provisions for employee benefits		4 404	4 208
Provision for an onerous contract	**32**	671 807	840 458
Accruals, deferred income and government grants		1 089	1 184
		11 749 058	**13 074 803**
Current liabilities			
Debt	**27**	3 212 667	2 772 339
Liabilities to suppliers	**29**	543 964	764 096
Other financial liabilities	**28**	661 115	233 099
Derivative instruments	**19**	561 112	101 845
Other non-financial liabilities	**31**	359 524	346 471
Provisions for employee benefits		291	426
Provision for an onerous contract	**32**	546 284	269 439
Other provisions	**33**	4 111	4 909
Accruals, deferred income and government grants		18 200	17 560
		5 907 268	**4 510 184**
Total liabilities		**17 656 326**	**17 584 987**
TOTAL EQUITY AND LIABILITIES		**29 805 235**	**29 046 735**

(in PLN thousand)

INTERIM CONDENSED STATEMENT OF CHANGES IN EQUITY

FOR THE 6-MONTH PERIOD ENDED 30 JUNE 2021 *(unaudited)*

	Issued capital	Reserve capital	Revaluation reserve from valuation of hedging instruments	Retained earnings/ (Accumulated losses)	Total equity
As at 1 January 2021	**8 762 747**	**6 338 754**	**(78 871)**	**(3 560 882)**	**11 461 748**
Coverage of prior years loss	-	(3 589 655)	-	3 589 655	**-**
Transactions with shareholders	**-**	**(3 589 655)**	**-**	**3 589 655**	**-**
Net profit	-	-	-	568 790	**568 790**
Other comprehensive income	-	-	118 016	355	**118 371**
Total comprehensive income	**-**	**-**	**118 016**	**569 145**	**687 161**
As at 30 June 2021 ***(unaudited)***	**8 762 747**	**2 749 099**	**39 145**	**597 918**	**12 148 909**

FOR THE 6-MONTH PERIOD ENDED 30 JUNE 2020 *(restated unaudited figures)*

	Issued capital	Reserve capital	Revaluation reserve from valuation of hedging instruments	Retained earnings/ (Accumulated losses)	Total equity
As at 1 January 2020	**8 762 747**	**6 801 584**	**15 666**	**(771 820)**	**14 808 177**
Net loss	-	-	-	(1 617 532)	**(1 617 532)**
Other comprehensive income	-	-	(106 713)	(627)	**(107 340)**
Total comprehensive income	**-**	**-**	**(106 713)**	**(1 618 159)**	**(1 724 872)**
As at 30 June 2020 ***(restated unaudited figures)***	**8 762 747**	**6 801 584**	**(91 047)**	**(2 389 979)**	**13 083 305**

(in PLN thousand)

INTERIM CONDENSED STATEMENT OF CASH FLOWS

	Note	6-month period ended 30 June 2021 *(unaudited)*	6-month period ended 30 June 2020 *(restated unaudited figures)*
Cash flows from operating activities			
Profit before tax (loss)		601 854	(1 658 904)
Depreciation and amortization		7 814	6 950
Interest and dividends net		(1 648 322)	113 790
Impairment losses on shares		759 017	1 075 906
Impairment losses on loans		287 224	429 592
Exchange differences		(79 282)	178 958
Other adjustments of profit before tax		152 871	92 085
Change in working capital	**34.1**	623 223	479 553
Income tax paid		(49 860)	24 342
Net cash from operating activities		**654 539**	**742 272**
Cash flows from investing activities			
Loans granted	**34.2**	(811 199)	(719 636)
Purchase of shares	**34.2**	(15 774)	(476 764)
Other		(413)	(1 706)
Total payments		**(827 386)**	**(1 198 106)**
Dividends received		1 466 494	-
Investment fund units alienation		-	26 747
Sale of shares	**34.2**	52 605	-
Repayment of loans granted		13 796	3 700
Interest received	**34.2**	133 084	51 864
Other		7	32
Total proceeds		**1 665 986**	**82 343**
Net cash from investing activities		**838 600**	**(1 115 763)**
Cash flows from financing activities			
Repayment of loans	**34.3**	(1 805 659)	(3 045 259)
Redemption of debt securities		-	(3 100)
Payment of lease liabilities		(4 826)	(4 660)
Interest paid	**34.3**	(88 207)	(133 330)
Commission paid		(8 140)	(11 707)
Total payments		**(1 906 832)**	**(3 198 056)**
Contracted loans	**34.3**	600 000	2 200 000
Total proceeds		**600 000**	**2 200 000**
Net cash from financing activities		**(1 306 832)**	**(998 056)**
Net increase / (decrease) in cash and cash equivalents		**186 307**	**(1 371 547)**
Net foreign exchange difference		(1 951)	(106)
Cash and cash equivalents at the beginning of the period	**24**	**(742 944)**	**(49 080)**
Cash and cash equivalents at the end of the period, *of which:*	**24**	**(556 637)**	**(1 420 627)**
restricted cash	**24**	143 108	170 676

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

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

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

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

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

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

The core business of TAURON Polska Energia S.A. is:

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

TAURON Polska Energia S.A. is the parent of the TAURON Polska Energia S.A. Group of Companies (the “Group”, the “TAURON Group”).

The Company has prepared interim condensed financial statements covering the 6-month period ended 30 June 2021 and containing comparative figures for the 6-month period ended 30 June 2020 and as at 31 December 2020. The data included in these interim condensed financial statements for the 6-month period ended 30 June 2021 and the comparative data for the 6-month period ended 30 June 2020 have been reviewed by the certified auditor. The comparative data as at 31 December 2020 were audited by the certified auditor. Interim condensed statement of comprehensive income for the 3-month period ended 30 June 2021 and comparative data for the 3-month period ended 30 June 2020 have not been audited or reviewed by the certified auditor.

These interim condensed financial statements for the 6-month period ended 30 June 2021 were approved for publication on 14 September 2021.

The Company has also prepared the interim condensed consolidated financial statements for the 6-month period ended 30 June 2021, which were approved for publication by the Management Board on 14 September 2021.

These interim condensed financial statements form a part of the consolidated report which also includes the interim condensed consolidated financial statements for the 6-month period ended 30 June 2021.

Composition of the Management Board

As at 1 January 2021, the composition of the Management Board was as follows:

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

On 19 February 2021, Mr Wojciech Ignacok resigned from his function of the President of the Management Board, with effect as of 28 February 2021. On 24 February 2021, the Supervisory Board of the Company adopted a resolution concerning the assignment of the duties of the President of the Management Board of the Company to Mr Marek Wadowski from 1 March 2021 until the date of the appointment of the President of the Management Board of the Company.

On 1 April 2021, the Supervisory Board of the Company appointed Mr Paweł Strączyński to the Company Management Board and nominated him to the position of the President of the Management Board.

On 13 May 2021, the Company received the resignation of Mr Marek Wadowski from membership of the Company's Management Board, and thus from the position of the Company's Vice President for Finance, effective as of the end of day on 17 May 2021.

As at 30 June 2021, the composition of the Management Board was as follows:

- Paweł Strączyński – President of the Management Board,
- Jerzy Topolski – Vice-President of the Management Board.

After the balance sheet date, on 2 July 2021, the Company received the resignation of Mr Paweł Strączyński from his position of the President of the Management Board of the Company, effective as of the end of the day on 21 July 2021. On 19 and 27 July 2021, the Company accepted the declarations of Mr Paweł Strączyński on the amendment of his declaration of resignation from the position of the President of the Management Board, as a result of which his resignation from the position of the President of the Management Board took place as of the end of 4 August 2021.

After the balance sheet date, on 4 August 2021, the Supervisory Board of the Company appointed as of 5 August 2021 to the Company Management Board:

- Mr Artur Michałowski for the position of Vice-President of the Management Board for Trade,
- Mr Patryk Demski for the position of Vice-President of the Management Board for Strategy and Development,
- Mr Krzysztof Surma for the position of Vice-President of the Management Board for Finance.

At the same time, the Supervisory Board of the Company adopted a resolution entrusting Mr Artur Michałowski with the duties of the President of the Management Board of the Company from 5 August 2021 until the date of appointment of the President of the Management Board.

As at the date of approval of these interim condensed financial statements for publication, the composition of the Management Board was as follows:

- Artur Michałowski – acting President of the Management Board, Vice-President of the Management Board,
- Patryk Demski – Vice-President of the Management Board,
- Krzysztof Surma – Vice-President of the Management Board,
- Jerzy Topolski - Vice-President of the Management Board.

2. Shares in related parties

As at 30 June 2021, TAURON Polska Energia S.A. held direct and indirect interest in the following key subsidiaries:

(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	86.29%	86.29%
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	Łagisza Grupa TAURON Sp. z o.o.[1]	Katowice	Generation of electricity	100.00%	100.00%
7	TAURON Ekoenergia Sp. z o.o.	Jelenia Góra	Generation of electricity	100.00%	100.00%
8	Marselwind Sp. z o.o.	Katowice	Generation of electricity	100.00%	100.00%
9	TEC1 Sp. z o.o.	Katowice	Head office and holding operations	100.00%	100.00%
10	TEC2 Sp. z o.o. [2]	Katowice	Head office and holding operations	100.00%	100.00%
11	TEC3 Sp. z o.o.	Katowice	Head office and holding operations	100.00%	100.00%
12	TEC1 spółka z ograniczoną odpowiedzialnością Mogilno I sp.k.	Katowice	Generation of electricity	n/a	100.00%
13	TEC1 spółka z ograniczoną odpowiedzialnością Mogilno II sp.k.	Katowice	Generation of electricity	n/a	100.00%
14	TEC1 spółka z ograniczoną odpowiedzialnością Mogilno III sp.k.	Katowice	Generation of electricity	n/a	100.00%
15	TEC1 spółka z ograniczoną odpowiedzialnością Mogilno IV sp.k.	Katowice	Generation of electricity	n/a	100.00%
16	TEC1 spółka z ograniczoną odpowiedzialnością Mogilno V sp.k.	Katowice	Generation of electricity	n/a	100.00%
17	TEC1 spółka z ograniczoną odpowiedzialnością Mogilno VI sp.k.	Katowice	Generation of electricity	n/a	100.00%
18	TEC1 spółka z ograniczoną odpowiedzialnością EW Śniatowo sp.k.	Katowice	Generation of electricity	n/a	100.00%
19	TEC1 spółka z ograniczoną odpowiedzialnością EW Dobrzyń sp.k.	Katowice	Generation of electricity	n/a	100.00%
20	TEC1 spółka z ograniczoną odpowiedzialnością EW Gołdap sp.k.	Katowice	Generation of electricity	n/a	100.00%
21	TEC1 spółka z ograniczoną odpowiedzialnością Ino 1 sp.k.	Katowice	Generation of electricity	n/a	100.00%
22	WIND T1 Sp. z o.o.[3]	Jelenia Góra	Generation of electricity	100.00%	100.00%
23	AVAL-1 Sp. z o.o.[3]	Jelenia Góra	Generation of electricity	100.00%	100.00%
24	Polpower Sp. z o.o.[3]	Połczyn-Zdrój	Generation of electricity	100.00%	100.00%
25	TAURON Dystrybucja S.A.	Kraków	Distribution of electricity	99.76%	99.76%
26	TAURON Dystrybucja Pomiary Sp. z o.o.[4]	Tarnów	Services	99.76%	99.76%
27	TAURON Sprzedaż Sp. z o.o.	Kraków	Sale of electricity	100.00%	100.00%
28	TAURON Sprzedaż GZE Sp. z o.o.	Gliwice	Sale of electricity	100.00%	100.00%
29	TAURON Czech Energy s.r.o.	Ostrawa, Czech Republic	Sale of electricity	100.00%	100.00%
30	TAURON Nowe Technologie S.A.	Wrocław	Services	100.00%	100.00%
31	TAURON Obsługa Klienta Sp. z o.o.	Wrocław	Services	100.00%	100.00%
32	Kopalnia Wapienia Czatkowice Sp. z o.o.	Krzeszowice	Limestone quarrying and stone quarrying	100.00%	100.00%
33	Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o.	Warszawa	Sale of electricity	100.00%	100.00%
34	Finanse Grupa TAURON Sp. z o.o.	Katowice	Services	100.00%	100.00%
35	Bioeko Grupa TAURON Sp. z o.o.	Stalowa Wola	Wholesale of fuel and derivative products	100.00%	100.00%
36	Wsparcie Grupa TAURON Sp. z o.o.[4]	Tarnów	Services	99.76%	99.76%

[1] *TAURON Polska Energia S.A. holds indirect interest in Łagisza Grupa TAURON Sp. z o.o. through its subsidiary, TAURON Wytwarzanie S.A.*
[2] *On 1 July 2021 the merger of company TEC3 sp. z o.o. (the acquiring company) with the company TEC2 sp. z o.o. (the acquired company) by way of acquisition, pursuant to article 492 par. 1 point 1 of the Code of Commercial Companies.*
[3] *TAURON Polska Energia S.A. holds indirect interest in WIND T1 Sp. z o.o., AVAL-1 Sp. z o.o. and Polpower Sp. z o.o. through its subsidiary, TAURON Ekoenergia Sp.z o.o.*
[4] *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.*

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

On 13 January 2021, an increase in the share capital of Nowe Jaworzno Grupa TAURON Sp. z o.o. by PLN 1 900 thousand was registered based on the resolution of 3 December 2020. All shares were acquired by the Company for the total amount of PLN 190 000 thousand. As a result of this transaction, the Company shareholding in the capital and in the governing body of Nowe Jaworzno Grupa TAURON Sp. z o.o. increased from 85.88% to 86.29%.

(in PLN thousand)

Decrease in issued capital of TAURON Dystrybucja S.A.

On 21 May 2021, a decrease in the share capital of the subsidiary TAURON Dystrybucja S.A. was registered in connection with the statutory redemption of shares acquired by the company from shareholders representing no more than 5% of the share capital was registered. As at 30 June 2021, the share of the Company in the capital and in the governing body was 99.76% (as at 31 December 2020 - 99.75%).

As a result of the change in the Company's share in TAURON Dystrybucja S.A., the share in subsidiaries held indirectly through TAURON Dystrybucja S.A., i.e., TAURON Dystrybucja Pomiary Sp. z o.o. and Wsparcie Grupa TAURON Sp. z o.o., also changed.

Acquisition of shares in Polpower Sp. z o.o.

On 10 June 2021, TAURON Ekoenergia Sp. z o.o. acquired 100% of the shares of Polpower Sp. z o.o. Consequently, TAURON Polska Energia S.A. holds an indirect share of 100% in the company Polpower Sp. z o.o.

As at 30 June 2021, the share of TAURON Polska Energia S.A. in the issued capital and in the governing body of the remaining key subsidiaries and jointly-controlled entities has not changed since 31 December 2020.

As at 30 June 2021, TAURON Polska Energia S.A. held direct and indirect interest in the following key jointly-controlled entities:

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

[1] *TAURON holds an indirect share in Elektrociepłownia Stalowa Wola S.A. through its subsidiary, TAURON Wytwarzanie S.A.*
[2] *TAURON Polska Energia S.A. holds a direct share in the issued capital and in the governing body of TAMEH HOLDING Sp. z o.o., which holds 100% interest in the capital and in the governing body of TAMEH POLSKA Sp. z o.o. and TAMEH Czech s.r.o.*

3. Statement of compliance

These interim condensed financial statements were compiled in accordance with the International Accounting Standard 34 *Interim Financial Reporting* ("IAS 34") as approved by the European Union (the "EU").

The interim condensed financial statements do not comprise all the information and disclosures required in the annual financial statements and should be read in conjunction with the financial statements of the Company's financial statements prepared in accordance with IFRS for the year ended 31 December 2020.

4. Going concern

These interim condensed financial statements have been prepared with the assumption the Company will continue as a going concern in the foreseeable future, i.e. in the period not shorter than 1 year following the balance sheet day. 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.

The Company identifies and actively manages liquidity risk, understood as the possibility of losing or limiting the capacity to settle current expenses. The Company has the full capacity to settle its liabilities as they become due and payable. As at the balance sheet date, the Company has financing available under financing arrangements.

The Management Board has analysed the financial situation of the Company in the context of COVID-19, 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, i.e. in the period not shorter than 1 year from the balance sheet date, including the description of the impact of the COVID-19 pandemic on the Group's operations, as further detailed in Note 41 of these interim condensed financial statements.

5. Functional and presentation currency

Polish zloty is the functional currency of the parent entity 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 provided in PLN thousand, unless indicated otherwise.

6. Material values based on professional judgement and estimates

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

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

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

Estimates and assumptions

With regard to receivables from customers, the Company estimates the amount of allowances for expected credit losses based on a weighted probability of credit loss may 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 the 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 may affect both the quality of the Company's portfolios of financial assets and the level of repayment of receivables from customers. The projected impact varies depending on the economic sector in which the counterparty operates. Due to the uncertainty related to further development of COVID-19 and the expected impact of aid programs, the possibility of precise estimation of future repayment of receivables from buyers is limited.

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

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

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

COVID-19 impact on the level of estimates made

The estimates taking into account mainly the uncertainties related to the effect of COVID-19 the expected credit losses with regard to receivables from buyers were calculated based on the difference in the estimated amount of expected credit losses resulting from the model updated in the above scope and the model based on pre-pandemic parameters and were calculated based on the difference in the estimated amount of expected credit losses resulting from the model updated in the aforementioned respect and the model based on pre-pandemic parameters and amounted to PLN 2 177 thousand, which had an impact on the operating profit of the Company in the 6-month period ended 30 June 2021. The total expected credit loss as at 30 June 2021 calculated for receivables from customers (except for receivables claimed in court) was estimated at PLN 3 089 thousand.

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

Estimates and assumptions

For loans classified as assets measured at amortised cost, the Company estimates the amount of their impairment losses. 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 valuation of a loan classified as an asset measured at a fair value is estimated as the present value of future cash flows, taking into account the borrower's credit risk.

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

COVID-19 impact on the methodology of estimates and assumptions

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

COVID-19 impact on the level of estimates made

In order to take into account the impact of including COVID-19, for credit losses of loans granted and guarantees issued, the Company calculates the difference between amount of credit losses based on Credit Default Swap (CDS) quotations and amount of credit losses based on quotations of CDS instruments, before pandemic COVID-19. The effect of considering the impact of COVID-19 on the estimation methodology resulted in the following changes affecting jointly the financial expenses of the Company in the 6-month period ended 30 June 2021 in the amount of PLN 7 060 thousand:

• an increase in expected credit losses of loans granted to subsidiaries by the amount of PLN 4 013 thousand,

• an increase in expected credit losses calculated for contingent liabilities under the guarantee issued by bank on disposal of the Company for the benefit of jointly-controlled entity by the amount of PLN 3 047 thousand.

Bearing in mind, that the valuation of the loans granted to Elektrociepłownia Stalowa Wola S.A., was based on analysis of future cash flows and the Company do not possess data which allow to estimate COVID-19 effect of each factor of future cash flow calculation of Elektrocipłownia Stalowa Wola S.A. The Company assess that it was unable to reliably determine the impact of COVID-19 on the reduction of the carrying amount of the loans granted to Elektrociepłowni Stalowa Wola S.A.

6.2. Other material values based on professional judgement and estimates

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

(in PLN thousand)

Item	Note	Estimates and assumptions
Deferred tax assets	Note 14	As at each balance sheet date, the Company assesses the feasibility of the deferred tax assets and verifies unrecognised deferred tax assets. In connection with the analyses performed indicating uncertainty as to the possibility of tax gains in the Company in 2021 and in subsequent years, a deferred tax asset has been recognised in the financial statements only up to the amount of the deferred tax liability.
Shares	Note 17	Due to the existence of objective premises indicating the impairment of the item of shares as at the balance sheet date, including long-term persistence of the Company capitalization at the level below the carrying amount of net assets, the Company performed impairment tests of shares and stocks as at 30 June 2021. The result of the impairment tests formed as at 30 June 2021 indicated the necessity to recognise impairment losses on Nowe Jaworzno Grupa TAURON Sp. z o.o. shares.
Loans granted	Note 18	The Company makes appropriate classification and valuation of granted loans. Granted loans with a maturity of less than one year, for which an extension of the repayment period is planned, are classified as long-term instruments. In accordance with the requirements of IFRS 9 *Financial Instruments* for loans measured at amortised cost, the Company estimates the amount of write-offs due to expected credit losses. As at the balance sheet date, the Company also has loans granted, initially recognised as impaired financial assets due to credit risk. The amount of credit loss as at the date of recognition was estimated on the basis of scenarios assumed by the Company for repayment of the loan granted, taking into account the results of the asset impairment test.
Derivative instruments	Note 11 Note 19	As at each balance sheet date, the Company measures derivative financial instruments up to the fair value. The methods of determining the fair value is presented in Note 19 to these interim condensed financial statements. Derivatives purchased and held to secure their own needs are not subject to valuation as at the balance sheet date. Due to the delayed commissioning of the Jaworzno power unit, as at 31 December 2020, the Company had a significant surplus of CO_2 emission allowances contracted to be purchased for redemption by a subsidiary in connection with the 2020 issue. In the first quarter of 2021, as a result of the analysis of new premises and circumstances that arose after 31 December 2020, the Company changed its intention regarding the aforementioned CO_2 emission allowances and decided to roll them over with the conclusion of new contracts with delivery dates in March 2022, 2023, 2024.
Debt	Note 27	When measuring liabilities at amortized cost using the effective interest rate method, the Company estimates future cash flows considering all contractual terms of a given financial instrument, including the early repayment option. In the case of a loan agreement defining the maximum term of individual credit tranches up to 1 year or with a repayment date at the end of the interest period, where the financing available under the agreement is revolving and the term of availability exceeds 1 year, the Company classifies the tranches according to the intention and possibility of maintaining financing under the agreement, i.e. as long-term or short-term liabilities.
Provisions	Note 32 Note 33	The Company estimates the amount of provisions based on the adopted assumptions, methodology and method of calculation relevant to the particular provision title, assessing the probability of expenditure of funds containing economic benefits and determining the reliable level of the amount necessary to fulfil the obligation. The Company creates the provisions when the probability of spending the funds containing economic benefits is higher than 50%. In particular, with respect to the provision for the onerous contract - a multiannual agreement for the purchase of electricity from a subsidiary - covering the years 2021-2026, the Company adopts a number of assumptions concerning the development of achievable electricity sales prices to subsidiaries, and the cost of electricity generation by the 910 MW unit in the aforementioned years.

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

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

The Company has not decided to apply any standard or amendment to a standard that has been published but has not yet entered into force by 30 June 2021.

- **Amendments to standards issued by the International Accounting Standards Board which were endorsed by the European Union but are not yet effective**

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

(in PLN thousand)

Standard/ amendment	Effective in the EU as of *(annual periods beginning on or after the date provided)*
Amendments to IFRS 3 *Business Combinations:* Changes to references to the Conceptual Framework	1 January 2022
Amendments to IAS 16 *Property, Plant and Equipment: Revenues earned before putting into use*	1 January 2022
Amendments to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*	1 January 2022
Annual Improvements to IFRS (Cycle 2018-2020):	
IFRS 1 *First-time Adoption of International Financial Reporting Standards*	1 January 2022
IFRS 9 *Financial Instruments*	1 January 2022
IAS 41 *Agriculture*	1 January 2022

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

Amendments to IAS 1 *Presentation of Financial Statements: Classification of financial liabilities as Current or Non-current,* which are to enter into force on 1 January 2023

In accordance with the amendments to IAS 1 *Presentation of Financial Statements*, liabilities are classified as non-current if the entity has a significant right to defer the settlement of the liability for at least 12 months after the end of the reporting period. The expectations of the entity do not affect the classification.

As at the balance sheet day, the Company has revolving credit agreements under which the drawing period of the credit tranches is equal to or less than 1 year, while the period of availability of funding exceeds 12 months from the balance sheet date and the Company has the right to defer the liability by at least 12 months from the end of the reporting period. In the case of these credit agreements, the Company classifies the tranches as either a non-current liability or a current liability in accordance with the expectation regarding the repayment of the liability. As at 30 June 2021, taking into account the intentions of the Company, tranches with an aggregate nominal value of PLN 600 000 thousand are classified as current liabilities. Under the agreement, the Company has the right to defer the settlement of a liability for a period exceeding 12 months, thus in line with the amendments to IAS 1 *Presentation of Financial Statements* the said liability would be classified as a non-current liability.

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

Standard	Effective date specified in the Standard, not endorsed by the EU *(annual periods beginning on or after the date provided)*
IFRS 14 *Regulatory Deferral Accounts*	1 January 2016*
Amendments IFRS 10 *Consolidated Financial Statements and* IAS 28 *Investments in Associates and Joint Ventures: Sale or Contribution of Assets between Investor and its Associate or Joint Venture* with subsequent amendments	the effective date has been postponed
Amendments to IAS 12 *Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction*	1 January 2023
Amendments to IAS 1 *Presentation of Financial Statements* and IFRS Practice Statement 2: *Disclosure of Accounting Estimates*	1 January 2023
Amendments to IAS 8 *Accounting policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates*	1 January 2023
IFRS 17 *Insurance contracts*	1 January 2023

** The European Commission decided to suspend 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 and restating the comparable data

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 2020, except for the application of the amendments to the standards listed below and changes in accounting policies and presentation applied by the Company, as described below.

(in PLN thousand)

8.1. Application of amendments to standards

According to the Management Board, the introduction of the following amendments to standards has not materially impacted the accounting policy applied so far:

Standard	Effective date in the EU *(annual periods beginning on or after the date provided)*
Amendments to IFRS 4 *Insurance Contracts*	1 January 2021
Amendments to IFRS 9 *Financial Instruments*, IAS 39 *Financial Instruments: Recognition and Measurement*, IFRS 7 *Financial Instruments: Disclosures*, IFRS 4 I*nsurance Contracts* and IFRS 16 *Leases*: *Interest Rate Benchmark Reform*	1 January 2021
Amendments to IFRS 16 *Leases: Covid-19-Related Rent Concessions beyond 30 June 2021* (apply for financial years which starts at the latest on 1 January 2021 and later)	1 April 2021

8.2. Restating the comparable data

Change in the plan concerning the sale of shares in the TAURON Ciepło Sp. z o.o. company

As at 30 June 2021, the Company estimated that in relation to the shares in TAURON Ciepło Sp. z o.o. the conditions resulting from IFRS 5 *Non-current assets held for sale and discontinued operations* are no longer fulfilled in the scope of classification of the aforementioned assets as held for sale. In particular, the active programme aimed at finding a buyer is not continued and the sale of shares in TAURON Ciepło Sp. z o.o. has not been completed within one year from the date of recognition of the shares in TAURON Ciepło Sp. z o.o. as non-current assets classified as held for sale, i.e. from 30 June 2020. In the framework of the project aimed at market verification of the possibility to sell shares of the subsidiary, TAURON Ciepło Sp. z o.o. and the potential continuation of the sales process, the Company conducted negotiations on exclusivity basis with Polskie Górnictwo Naftowe i Gazownictwo S.A. On 29 January 2021, Polskie Górnictwo Naftowe i Gazownictwo S.A. expressed its intention to abandon the continuation of the negotiations aimed at acquiring shares in TAURON Ciepło Sp. z o.o.

As at 30 June 2020, the Company assessed that in relation to the shares in TAURON Ciepło Sp. z o.o. the prerequisites resulting from IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* were met, in the scope of classification of the aforementioned assets as held for sale, therefore, as at 30 June 2020 the Company reclassified the shares in TAURON Ciepło Sp. z o.o. to non-current assets classified as assets held for sale. The valuation of the fair value of this company, carried out by the Company as at 31 December 2020, on the basis of information gathered in the course of the conducted market sale process of shares in TAURON Ciepło Sp. z o.o., amounted to PLN 1 342 000 thousand as at 31 December 2020. Taking into account that the carrying amount of the loans granted to TAURON Ciepło Sp. z o.o. as at 31 December 2020 amounted to PLN 976 264 thousand, the Company measured non-current assets classified as held for sale in the form of shares in TAURON Ciepło Sp. z o.o. in the fair value of PLN 365 736 thousand and recognised financial costs due to revaluation of shares to the fair value in the amount of PLN 1 394 167 thousand.

Based on paragraph 28 of IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*, in view of the fact that assets held for sale for which the sale plan was changed was the subsidiary, the Company assesses that it is necessary to restate the comparable data in these interim condensed financial statements accordingly. The comparable data were restated as if the shares in TAURON Ciepło Sp. z o.o. in the previous reporting periods had not been classified as held for sale and had not been measured to the fair value.

In order to ensure comparability of the data in the interim condensed financial statements for the 6-month period ended 30 June 2021, the Company restated the comparative data accordingly in terms of presentation and measurement of the shares in TAURON Ciepło Sp. z o.o. for the 6-month period ended 30 June 2021 and as at 31 December 2020. After the restatement, these shares are presented in the item Shares in the interim condensed statement of financial position and were measured at their recoverable value based on the estimated value in use of the Company exposure to shares and carrying amount of loans granted to TAURON Ciepło Sp. z o.o. as at 31 December 2020 total amounting to PLN 1 680 593 thousand. The key assumptions of the tests carried out, in particular in scope of coal, electric and CO2 emission allowances price path have been described in more detail in Note 10 of financial statements of TAURON Polska Energia S.A. for year ended 31 December 2020. Moreover, the feed-in tariff revenue of heat companies has been assumed, ensuring the coverage of justified costs and gaining a reasonable level of return on the capital employed. For the activities related to heat and electricity generation of TAURON Ciepło Sp. z o.o., the lifetime of the generating units up to 2049 has been adopted. For the activity related to heat transmission, a detailed forecast over a 10-year period was adopted including the residual value.

The recoverable amount shares in TAURON Ciepło Sp. z o.o. and total carrying amount of involving in shares (after effect of impairment loss in line with IAS 36 *Impairment of Assets*) and loans granted of TAURON Ciepło Sp. z o.o. included in the restated figures as at 31 December 2020 are presented in the table below:

(in PLN thousand)

Company	Discount rate (before tax) assumed in tests as at:	Recoverable amount of shares	Carrying amount of shares and loans
	31 December 2020	As at 31 December 2020	As at 31 December 2020
TAURON Ciepło Sp. z o.o.	10.02% (generating operation) 7.73% (transmission operation)	704 329	1 680 593

Considering the fact that the carrying amount of the loans granted amounted to PLN 976 264 thousand as at 31 December 2020, the Company measured the shares held in the amount of PLN 704 329 thousand. The restatement of comparable data in the scope of presentation and measurement of the shares in TAURON Ciepło Sp. z o.o. resulted in an increase of the Company retained earnings by PLN 338 593 thousand.

The table below presents the impact of the change described above on the statement of financial position as at 31 December 2020:

	As at 31 December 2020 *(authorised figures)*	Change of presentation and measurement of shares in TAURON Ciepło Sp. z o.o.	As at 31 December 2020 *(restated figures)*
ASSETS			
Non-current assets			
Shares	20 152 633	704 329	20 856 962
	24 498 483	**704 329**	**25 202 812**
Current assets			
Non-current assets classified as held for sale	418 872	(365 736)	53 136
	4 209 659	**(365 736)**	**3 843 923**
TOTAL ASSETS	**28 708 142**	**338 593**	**29 046 735**
EQUITY AND LIABILITIES			
Equity			
Retained earnings / (Accumulated losses)	(3 899 475)	338 593	(3 560 882)
	11 123 155	**338 593**	**11 461 748**
Total liabilities	**17 584 987**	**-**	**17 584 987**
TOTAL EQUITY AND LIABILITIES	**28 708 142**	**338 593**	**29 046 735**

The impact of the amendment described above on the interim condensed statement of comprehensive income for the 6-month period ended 30 June 2020 is shown in the table below:

	6-month period ended 30 June 2020 *(authorised unaudited figures)*	Change of presentation and measurement of shares in TAURON Ciepło Sp. z o.o.	6-month period ended 30 June 2020 *(restated unaudited figures)*
Operating profit	**65 550**	**-**	**65 550**
Revaluation write-off to fair value of non-current assets classified as held for sale	(1 395 883)	1 395 883	-
Revaluation of shares	(17 616)	(1 058 290)	(1 075 906)
Profit before tax (loss)	**(1 996 497)**	**337 593**	**(1 658 904)**
Income tax expense	41 372	-	41 372
Net profit (loss)	**(1 955 125)**	**337 593**	**(1 617 532)**
Other comprehensive income, net of tax	**(107 340)**	**-**	**(107 340)**
Total comprehensive income	**(2 062 465)**	**337 593**	**(1 724 872)**
Profit per share (loss) (in PLN):			
- basic and diluted, for net profit (loss)	(1.12)	0.20	(0.92)

As at 30 June 2021, the Company assumed the fair value of TURON Ciepło Sp. z o.o. amounted to PLN 1 343 000 thousand, in relation to that, a financial costs due to revaluation of shares to fair value in amount of PLN 1 395 883 thousand was recognized. The restated figures for 6-month period ended 30 June 2020 the Company included assumption of recoverable amount of shares in TAURON CIepło Sp. z o.o. on the value in use, which result necessity of recognition of shares in TAURON Ciepło Sp. z o.o. impairment loss in amount of PLN 1 058 290 thousand.

9. Seasonality of activities

The Company's activity related to electricity trading is not seasonal in nature, therefore in this respect the presented results of the Company do not record significant fluctuations during the year. Due to the holding activity, the Company may show significant financial revenues from dividends recognised in the dates of resolutions on the payment of dividends, unless these resolutions indicate other dates for determining the right to dividend. In the 6-month period ended 30 June 2021, the Company recognised dividend income of PLN 1 713 256 thousand. The Company did not recognise dividend income in the comparative period.

BUSINESS SEGMENTS

10. Information on operating segments

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

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

The assets of the "Holding activity" segment are mainly:

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

The liabilities of the "Holding activity" segment are:

- bonds issued by the Company, credits received (except for credits in the account) and liabilities resulting from the valuation of hedging instruments related to the incurred financing;
- liabilities due to loans from related parties, including under the cash pool agreement.

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

Finance income and finance costs include dividend income as well as net interest income and expense earned/incurred by the Company in relation to the central financing model adopted by the Group and revaluation write-offs on shares and stocks and loans (in the comparable period also write-offs on bonds), constituting assets of the "Holding activity" segment.

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

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

EBITDA is the profit/loss on continuing operations before tax, finance income and finance costs, increased by amortisation/depreciation and revaluation write-offs on non-financial assets.

(in PLN thousand)

6-month period ended 30 June 2021 or as at 30 June 2021 *(unaudited)*

	Sales	Holding activity	Unallocated items	Total
Revenue				
Sales outside the Group	1 790 100	-	-	**1 790 100**
Sales within the Group	5 685 622	5	-	**5 685 627**
Segment revenue	**7 475 722**	**5**	**-**	**7 475 727**
Profit/(loss) of the segment	**(5 269)**	**5**	**-**	**(5 264)**
Unallocated expenses	-	-	(46 185)	**(46 185)**
EBIT	**(5 269)**	**5**	**(46 185)**	**(51 449)**
Dividend income	-	1 713 256	-	**1 713 256**
Revaluation of shares	-	(759 017)	-	**(759 017)**
Revaluation of loans	-	(287 224)	-	**(287 224)**
Other net finance income/(costs)	-	10 895	(24 607)	**(13 712)**
Profit/(loss) before income tax	**(5 269)**	**677 915**	**(70 792)**	**601 854**
Income tax expense	-	-	(33 064)	**(33 064)**
Net profit/(loss) for the period	**(5 269)**	**677 915**	**(103 856)**	**568 790**
Assets and liabilities				
Segment assets	2 327 097	27 317 124	-	**29 644 221**
Unallocated assets	-	-	161 014	**161 014**
Total assets	**2 327 097**	**27 317 124**	**161 014**	**29 805 235**
Segment liabilities	2 815 288	14 300 950	**-**	**17 116 238**
Unallocated liabilities	-	-	540 088	**540 088**
Total liabilities	**2 815 288**	**14 300 950**	**540 088**	**17 656 326**
EBIT	**(5 269)**	**5**	**(46 185)**	**(51 449)**
Depreciation/amortization	**(3 930)**	**-**	**(3 884)**	**(7 814)**
Impairment	**1 019**	**-**	**-**	**1 019**
EBITDA	**(2 358)**	**5**	**(42 301)**	**(44 654)**
Other segment information				
Capital expenditure *	236	-	-	**236**

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

6-month period ended 30 June 2020 *(restated unaudited figures)* or as at 31 December 2020 *(restated figures)*

	Sales	Holding activity	Unallocated items	Total
Revenue				
Sales outside the Group	486 496	-	-	**486 496**
Sales within the Group	4 720 419	5	-	**4 720 424**
Segment revenue	**5 206 915**	**5**	**-**	**5 206 920**
Profit/(loss) of the segment	**125 874**	**5**	**-**	**125 879**
Unallocated expenses	-	-	(60 329)	**(60 329)**
EBIT	**125 874**	**5**	**(60 329)**	**65 550**
Revaluation of shares	-	(1 075 906)	-	**(1 075 906)**
Revaluation of loans	-	(429 592)	-	**(429 592)**
Other net finance income (costs)	-	(277 641)	58 685	**(218 956)**
Profit/(loss) before income tax	**125 874**	**(1 783 134)**	**(1 644)**	**(1 658 904)**
Income tax expense	-	-	41 372	**41 372**
Net profit/(loss) for the period	**125 874**	**(1 783 134)**	**39 728**	**(1 617 532)**
Assets and liabilities				
Segment assets	2 578 505	26 313 008	-	**28 891 513**
Unallocated assets	-	-	155 222	**155 222**
Total assets	**2 578 505**	**26 313 008**	**155 222**	**29 046 735**
Segment liabilities	2 359 838	14 955 850	-	**17 315 688**
Unallocated liabilities	-	-	269 299	**269 299**
Total liabilities	**2 359 838**	**14 955 850**	**269 299**	**17 584 987**
EBIT	**125 874**	**5**	**(60 329)**	**65 550**
Depreciation/amortization	**(6 950)**	**-**	**-**	**(6 950)**
Impairment	**(29)**	**-**	**-**	**(29)**
EBITDA	**132 853**	**5**	**(60 329)**	**72 529**
Other segment information				
Capital expenditure *	2 098	-	-	**2 098**

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

(in PLN thousand)

The increase in the value of revenues from sales outside the Group results mainly from the increase in revenues from energy sales and the completion of transactions resulting from a surplus in the portfolio of CO_2 emission allowances of the subsidiary, Nowe Jaworzno Grupa TAURON Sp. z o.o. The increase in the value of sales revenue in the Group results mainly due to the sale in the 6-month period ended 30 June 2021 of the majority of CO_2 emission allowances to the Group's generating companies for the purpose of redemption in connection with the issue for 2020, whereas in the comparable period, CO_2 emission allowances for redemption purposes in connection with the issue for 2019 were mostly sold as early as in December 2019. The aforementioned issues are described in detail in Note 11 to these interim condensed financial statements.

In the 6-month period ended 30 June 2021, revenue from sales to two major clients from the TAURON Group accounted for 49% and 12% of the Company's total revenue in the "Sales" segment and amounted to PLN 3 688 595 thousand and PLN 917 248 thousand, respectively. In the 6-month period ended 30 June 2020, revenue from sales to two major clients from the TAURON Group accounted for 74% and 10% of the Company's total revenue in the "Sales" segment and amounted to PLN 3 845 720 thousand and PLN 527 033 thousand, respectively.

3-month period ended 30 June 2021 *(unaudited)*

	Sales	Holding activity	Unallocated items	Total
Revenue				
Sales outside the Group	660 195	-	-	**660 195**
Sales within the Group	2 367 200	-	-	**2 367 200**
Segment revenue	**3 027 395**	**-**	**-**	**3 027 395**
Profit/(loss) of the segment	**(86 156)**	**-**	**-**	**(86 156)**
Unallocated expenses	-	-	(24 520)	**(24 520)**
EBIT	(86 156)	**-**	**(24 520)**	**(110 676)**
Dividend income	-	1 713 256	-	**1 713 256**
Revaluation of shares	-	(748 217)	-	**(748 217)**
Revaluation of loans	-	(46 901)	-	**(46 901)**
Other net finance income (costs)	-	77 033	(33 538)	**43 495**
Profit/(loss) before income tax	(86 156)	**995 171**	**(58 058)**	**850 957**
Income tax expense	-	-	3 391	**3 391**
Net profit/(loss) for the period	**(86 156)**	**995 171**	**(54 667)**	**854 348**
EBIT	**(86 156)**	**-**	**(24 520)**	**(110 676)**
Depreciation/amortization	**(1 971)**	**-**	**(1 938)**	**(3 909)**
Impairment	**1 084**	**-**	**-**	**1 084**
EBITDA	**(85 269)**	**-**	**(22 582)**	**(107 851)**
Other segment information				
Capital expenditure *	152	-	-	**152**

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

3-month period ended 30 June 2020 *(restated unaudited figures)*

	Sales	Holding activity	Unallocated items	Total
Revenue				
Sales outside the Group	296 636	-	-	**296 636**
Sales within the Group	2 289 041	-	-	**2 289 041**
Segment revenue	**2 585 677**	**-**	**-**	**2 585 677**
Profit/(loss) of the segment	**161 479**	**-**	**-**	**161 479**
Unallocated expenses	-	-	(28 911)	**(28 911)**
EBIT	**161 479**	**-**	**(28 911)**	**132 568**
Revaluation of shares	-	(1 075 906)	-	**(1 075 906)**
Revaluation of loans and bonds	-	65 080	-	**65 080**
Other net finance income (costs)	-	12 490	(19 445)	**(6 955)**
Profit/(loss) before income tax	**161 479**	**(998 336)**	**(48 356)**	**(885 213)**
Income tax expense	-	-	(11 296)	**(11 296)**
Net profit/(loss) for the period	**161 479**	**(998 336)**	**(59 652)**	**(896 509)**
EBIT	**161 479**	**-**	**(28 911)**	**132 568**
Depreciation/amortization	**(3 481)**	**-**	**-**	**(3 481)**
Impairment	**(17)**	**-**	**-**	**(17)**
EBITDA	**164 977**	**-**	**(28 911)**	**136 066**
Other segment information				
Capital expenditure *	1 050	-	-	**1 050**

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

(in PLN thousand)

EXPLANATORY NOTES TO THE INTERIM CONDENSED STATEMENT OF COMPREHENSIVE INCOME

11. Sales revenue

	6-month period ended 30 June 2021 *(unaudited)*	6-month period ended 30 June 2020 *(unaudited)*
Revenue from sales of goods for resale and materials	**6 990 089**	**5 137 268**
Electricity	5 758 965	4 784 691
CO_2 emission allowances	1 012 163	169 481
Gas	212 368	178 118
Other	6 593	4 978
Rendering of services	**181 693**	**69 652**
Trading income	64 514	52 124
Capacity market	99 640	-
Other	17 539	17 528
Total revenue from contracts with customers	**7 171 782**	**5 206 920**
Restructuration in the portfolio of CO_2 emission allowances	303 945	-
Total sales revenue	**7 475 727**	**5 206 920**

Revenues in line with IFRS 15 Revenue from Contracts with Customers

In the 6-month period ended 30 June 2021, sales revenues increased in relation to the comparable period and the main changes were related to sales revenues from contracts with customers of the following products, goods and services:

- Electricity - the increase in revenue by PLN 974 274 thousand is mainly attributable to sales contracted in the forward market of electricity and sales in the SPOT market in a 18% higher volume at a price simultaneously lower, on average by 2%. The increase in the volume is a result of higher electricity volumes sold to generation companies in order to secure the performance of the contracts concluded by generation companies of the Group and a decline in the volume to companies of the Sales segment as a result of lower demand.
- CO_2 emission allowances - the increase in the revenue from sale of CO_2 emission allowances in the current period in relation to the comparable period by the amount of PLN 842 682 thousand results mainly from the following transactions:
  - sales to subsidiaries of the Generation segment of emission allowances in the total amount of PLN 858 106 thousand. The majority of CO_2 emission allowances for redemption purposes in connection with the 2020 emission were sold to subsidiaries in March 2021 (in December 2020 - PLN 168 790 thousand). Meanwhile, in the comparable period, CO_2 emission allowances for redemption purposes in connection with the 2019 emission were mostly sold as early as December 2019 (in April 2020 amounted to PLN 165 276 thousand),
  - transactions resulting from a restructuration in the portfolio of CO_2 emission allowances of the subsidiary company, Nowe Jaworzno Grupa TAURON Sp. z o.o., which mention below. The Company bought back from the subsidiary Nowe Jaworzno Grupa TAURON Sp. z o.o. and then sold CO_2 on the market emission allowances in the amount of 691 000 EUAs, which also represented a surplus over the redemption needs of the company for 2020 due to the shorter than expected operation of the unit in 2020. The revenues gained from this activity amounted to PLN 134 738 thousand.
- Capacity Market - from 1 January 2021, pursuant to the *Act of 8 December 2017 on the Capacity Market*, which introduced a new service, the capacity obligation, consisting in keeping the preparedness of the capacity market unit to supply electrical capacity to the system and an obligation to supply a certain capacity to the system during a period of emergency, the Capacity Market started operating. The Company, as the capacity supplier, is obliged to fulfil the capacity obligation in favour of PSE S.A., therefore it recognises revenues received from PSE S.A. on account of the fulfilment of the capacity obligation by means of Capacity Market units owned by the TAURON Group companies. In the 6-month period ended 30 June 2021, revenue from the above titles amounted to PLN 99 640 thousand. The Company as the capacity supplier exercises control over the service provided and therefore recognises revenues from the Capacity Market as a principal within the meaning of IFRS 15 *Revenue from Contracts with Customers.*

TAURON Polska Energia S.A. acts as an agent responsible for coordinating and supervising activities in the scope of purchase, supply and transport of fuels. The Company buys coal from entities outside TAURON Group and from the Group, whereas the sale is targeted at related companies. The Company recognises revenue from agency services, i.e. the arrangement of supplies in the revenue on sales of trade services.

(in PLN thousand)

In the 6-month period ended 30 June 2021, the value of fuel purchased and subsequently resold as a result of the aforementioned transactions amounted to PLN 750 487 thousand. The Company recognised revenue of PLN 16 067 thousand on account of the agency service.

Restructuration in the portfolio of CO_2 emission allowances

As part of its management of the portfolio of CO_2 emission allowances of its subsidiaries, the Company purchases allowances for redemption purposes of the Group's generation companies. As a result of the delayed commissioning of the 910 MW unit and the consequent lower production, a significant surplus of allowances contracted for the purpose of meeting the redemption obligation for 2020 over the actual demand was generated in the portfolio of the subsidiary, Nowe Jaworzno Grupa TAURON Sp. z o.o. In consequence, in March 2021, the Company restructured the aforementioned portfolio of CO_2 emission allowances, with respect to the volume of 3 258 000 CO_2 emission allowances with the acceptance date in March 2021. As a result of the analysis of new premises and circumstances, the Company changed its intention regarding the above CO_2 emission allowances and decided to perform their rollover including the conclusion of new contracts with delivery dates in March 2022, 2023 and 2024.

In connection with the foregoing, the original contracts were not settled by physical delivery, accordingly, the Company recognised these contracts in accordance with IFRS 9 *Financial Instruments* at a fair value under the date of the change in judgement, i.e. in March 2021, which subsequently resulted in an increase in the sales revenue and operating profit in the amount of PLN 303 945 thousand (EUR 65 893 thousand). New contracted transactions with delivery dates in 2022-2024, were contained and are held in accordance with Group's redemption needs and will be settled by physical delivery, therefore they are excluded from the scope of IFRS 9 *Financial Instruments* and are not measured at a fair value At the same time, these transactions were performed at prices higher than the purchase originally contracted, implying higher costs of purchasing CO_2 emission allowances for the purpose of resale to the subsidiary. Accordingly, in the 6-month period ended 30 June 2021, the Company recognised a provision for onerous contracts, which as at the balance sheet date amounted of PLN 208 479 thousand, as further described in Note 32 to these interim condensed financial statements.

12. Costs by type

	6-month period ended 30 June 2021 *(unaudited)*	6-month period ended 30 June 2020 *(unaudited)*
Depreciation of property, plant and equipment, right-of-use assets and amortization of intangible assets	(7 814)	(6 950)
Materials and energy	(478)	(1 278)
Capacity market	(99 344)	-
Other external services	(20 273)	(23 851)
Taxes and charges	(3 294)	(4 338)
Employee benefits expense	(45 733)	(46 994)
Advertising expenses	(6 868)	(6 766)
Write-down for expected credit losses related to receivables from customers	5 385	(2 536)
Other	546	(629)
Total costs by type	**(177 873)**	**(93 342)**
Costs of performances intended for internal purposes	199	99
Selling and distribution expenses	11 761	12 278
Administrative expenses	46 185	60 329
Cost of goods for resale and materials sold	(7 348 824)	(5 044 007)
Cost of sales	**(7 468 552)**	**(5 064 643)**

In the 6-month period ended 30 June 2021 in relation to the comparative period, the main changes in the cost of goods, materials and services sold referred to:

- The capacity market - recognition of costs on account of the performance of the capacity obligation by generating units belonging to subsidiaries for the purposes of the Capacity Market in the amount of PLN 99 344 thousand, in connection with the commencement of the operation of the Capacity Market from 1 January 2021;
- an increase in the value of goods and materials sold in the amount of PLN 2 304 817 thousand, which is mainly related to:
  - an increase in the cost of electricity purchase by PLN 1 446 988 thousand, which results from the purchase of a higher volume of electricity by 18% at 12% higher average electricity purchase prices. The increase in the volume of electricity purchased results from the purchase of a higher volume for the needs of companies in the

(in PLN thousand)

Generation segment in order to secure the performance of the electricity sales contracts concluded by them. At the same time, the impact of a higher cost of electricity purchase from Nowe Jaworzno Grupa TAURON Sp. z o.o. on the value of goods and materials sold was reduced by partial use of the provision for an onerous contract in the amount of PLN 165 390 thousand, which is described in more detail in Note 32 of these interim condensed financial statements,

- recognition of the value of resold CO_2 emission allowances in the amount of PLN 1 011 019 thousand, mainly in connection with the transactions of sale of allowances to subsidiaries from the Generation segment and sale of allowances repurchased from Nowe Jaworzno Grupa TAURON Sp. z o.o. to the market, which is described in Note 11 to these interim condensed financial statements,
- recognition of the cost of creation of the provisioning for onerous contracts in the amount of PLN 207 778 thousand, in connection with the restructuring of CO_2 emission allowances in the portfolio of the subsidiary, Nowe Jaworzno Grupa TAURON Sp. z o.o., as further described in Note 32 to these interim condensed financial statements,
- in the comparative period, the Company's cost of goods for resale and materials sold was debited with the amount of PLN 124 559 thousand as a result of a change in the strategy for securing the redemption needs for CO_2 emission allowances of the Generation area.

13. Financial revenues and costs

	6-month period ended 30 June 2021 *(unaudited)*	6-month period ended 30 June 2020 *(restated unaudited figures)*
Dividend income	1 713 256	-
Interest income on loans	115 414	126 782
Interest expense	(165 270)	(217 633)
Realuation of shares	(759 017)	(1 075 906)
Revaluation of loans	(287 224)	(429 592)
Other finance income and costs, *of which:*	**36 144**	**(128 105)**
Other interest income	19	4 596
Gain/(loss) on derivative instruments	(50 461)	44 387
Commissions due to external financing	(11 550)	(7 267)
Exchange differences	86 241	(173 662)
Other	11 895	3 841
Total, *of which:*	**653 303**	**(1 724 454)**
Income and costs from financial instruments	652 283	(1 725 131)
Other finance income and costs	1 020	677

Significant changes in items of financial revenues and expenses in the 6-month period ended 30 June 2021, in relation to the comparative period, resulted mainly from the recognition of:

- dividend income from subsidiaries (in the comparative period the Company recognised dividend income in the second half of 2020);
- lower interest expenses by PLN 52 363 thousand, which mainly results from the change in the use of financing instruments and changes in interest rates;
- lower cost of revaluation of shares, which in the current period results mainly from revaluation of shares of Nowe Jaworzno Grupa TAURON Sp. z o.o. in the amount of PLN 748 217 thousand due to impairment tests performed, as described in more detail in Note 17.2 to these interim condensed financial statements;
- lower net cost on account of revaluation of loans, which in current period result mainly from a write-down in the amount of PLN 250 000 thousand of a loan granted to the subsidiary in the Mining segment, which was initially recognised as an impaired financial asset due to financial risk;
- surplus of exchange rate gains over losses in the amount of PLN 86 241 thousand (in the comparable period, the surplus of exchange rate losses over gains in the amount of PLN 173 662 thousand). The exchange differences mainly relate to exchange differences related to the liabilities of the Company on account of debt in EUR (PLN 81 234 thousand).

(in PLN thousand)

- lower result on derivatives, which mainly related to currency forward contracts. Due to the decrease in the EUR/PLN exchange rate in the current period, the Company recognised a negative result on derivatives on this account (in the comparative period, an increase in the EUR/PLN exchange rate occurred).

14. Tax expense in the statement of comprehensive income

	6-month period ended 30 June 2021 *(unaudited)*	6-month period ended 30 June 2020 *(unaudited)*
Current income tax	**(47 289)**	**(27 821)**
Current income tax expense	(47 243)	(27 562)
Adjustments of current income tax from prior years	(46)	(259)
Deferred tax	**14 225**	**69 193**
Income tax expense in profit or loss	**(33 064)**	**41 372**
Income tax expense in other comprehensive income	**(14 225)**	**25 179**

In connection with the analyses performed indicating the uncertainty concerning the potential occurrence of tax profits in the Company in 2021 and in the consecutive years, in the financial statements, the deferred tax asset on all negative temporary differences other than those described above was recognised only up to the amount of the deferred tax liability.

	As at 30 June 2021 *(unaudited)*	As at 31 December 2020 *(restated figures)*
difference between tax base and carrying amount of financial assets	99 965	39 326
difference between tax base and carrying amount of property, plant and equipment and intangible assets and right-of-use assets	5 095	5 810
valuation of hedging instruments	13 701	-
difference between tax base and carrying amount of ficiancial liabilities	1 034	326
other	6 863	1 159
Deferred tax liabilities	**126 658**	**46 621**
difference between tax base and carrying amount of financial assets	2 100	2 874
difference between tax base and carrying amount of financial liabilities	179 656	85 159
valuation of hedging instruments	5 044	17 112
difference between tax base and carrying amount of non-current assets classified as held for sale	-	3 308
different timing of recognition of revenue and cost of sales for tax purposes	25 880	30 961
provisions and accruals	3 140	3 306
difference between tax base and carrying amount of fixed and intangible assets	2 636	2 319
other	1 174	995
Deferred tax assets	**219 630**	**146 034**
Write-off of deferred tax assets in correspondence with the financial result	(92 972)	(88 445)
Write-off of deferred tax assets in correspondence with other comprehensive income	-	(10 968)
Deferred tax assets/(liabilities), net	**-**	**-**

The Company recognises deferred tax assets for deductible temporary differences associated with investments in subsidiaries only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the deductible temporary differences can be utilised. The Company estimates that the negative temporary differences associated with the recognition of impairment losses on shares in subsidiaries in the amount of PLN 11 632 782 thousand will not be reversed in the foreseeable future due to the lack of intention to sell the above investments and therefore it does not recognise a deferred tax asset.

(in PLN thousand)

The Company also did not recognise a deferred tax asset on provisions for onerous contracts since it assessed that as at the date of recognition of the provision and as at the balance sheet date there is no possibility to realise this asset.

EXPLANATORY NOTES TO THE INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION

15. Investment real estate

	6-month period ended 30 June 2021 *(unaudited)*	6-month period ended 30 June 2020 *(unaudited)*
COST		
Opening balance	**54 365**	**41 513**
Increase/(decrease) due to lease changes	258	-
Closing balance	**54 623**	**41 513**
ACCUMULATED DEPRECIATION		
Opening balance	**(25 977)**	**(21 776)**
Depreciation for the period	(2 505)	(1 846)
Closing balance	**(28 482)**	**(23 622)**
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	**28 388**	**19 737**
NET CARRYING AMOUNT AT THE END OF THE PERIOD, *of which:*	**26 141**	**17 891**
Buildings, structures and other tangible fixed assets	19 299	12 659
Perpetual usufruct of land	6 842	5 232

The investment property is composed of a perpetual usufruct right to land and buildings located in Katowice Szopienice, at ul. Lwowska 23. The Company entered into an agreement to rent the property with a subsidiary. The rental revenue in the 6-month period ended 30 June 2021 amounted to PLN 3 693 thousand.

In investment real estate, the Company presents the assets on account of the right-of-use assets meeting the definition of investment property, which relate to the rights to perpetual usufruct of land.

16. Right-of-use assets

6-month period ended 30 June 2021 *(unaudited)*

	Perpetual usufruct right	Buildings and premises	Motor vehicles	Total right-of-use assets
COST				
Opening balance	**45**	**42 833**	**1 783**	**44 661**
Increase/(decrease) due to lease changes	-	426	72	**498**
Liquidation	-	-	(102)	**(102)**
Closing balance	**45**	**43 259**	**1 753**	**45 057**
ACCUMULATED DEPRECIATION				
Opening balance	**-**	**(15 280)**	**(1 369)**	**(16 649)**
Depreciation for the period	-	(4 199)	(313)	**(4 512)**
Liquidation	-	-	94	**94**
Closing balance	**-**	**(19 479)**	**(1 588)**	**(21 067)**
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	**45**	**27 553**	**414**	**28 012**
NET CARRYING AMOUNT AT THE END OF THE PERIOD	**45**	**23 780**	**165**	**23 990**

6-month period ended 30 June 2020 *(unaudited)*

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

(in PLN thousand)

17. Shares

17.1. Change in share balance

Change in the shares balance in the period from 1 January 2021 to 30 June 2021 *(unaudited)*

No.	Company	Gross value			Impairment losses			Net value	
		Opening balance *(restated figures)*	(Decreases) Increases	Closing balance	Opening balance *(restated figures)*	Decreases (Increases)	Closing balance	Opening balance *(restated figures)*	Closing balance
1	TAURON Wydobycie S.A.	1 341 755	-	1 341 755	(1 341 755)	-	(1 341 755)	-	-
2	TAURON Wytwarzanie S.A.	7 865 701	-	7 865 701	(7 829 593)	-	(7 829 593)	36 108	36 108
3	TAURON Ciepło Sp. z o.o.	1 928 043	-	1 928 043	(1 223 714)	-	(1 223 714)	704 329	704 329
4	TAURON Ekoenergia Sp. z o.o.	1 939 765	-	1 939 765	(376 106)	-	(376 106)	1 563 659	1 563 659
5	Marselwind Sp. z o.o.	417	-	417	-	-	-	417	417
6	TAURON Serwis Sp. z o.o.	1 268	-	1 268	-	-	-	1 268	1 268
7	Nowe Jaworzno Grupa TAURON Sp. z o.o.	5 506 126	-	5 506 126	-	(748 217)	(748 217)	5 506 126	4 757 909
8	TAURON Dystrybucja S.A.	10 511 628	-	10 511 628	-	-	-	10 511 628	10 511 628
9	TAURON Nowe Technologie S.A.	649 862	-	649 862	-	-	-	649 862	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.	78 672	10 800	89 472	(78 672)	(10 800)	(89 472)	-	-
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	ElectroMobility Poland S.A. [1]	11 026	-	11 026	-	-	-	11 026	11 026
20	EEC Magenta Sp. z o.o. ASI spółka komandytowo–akcyjna [1]	1 831	1 319	3 150	-	-	-	1 831	3 150
21	EEC Magenta Sp. z o.o. 2 ASI spółka komandytowo–akcyjna [1]	19 116	4 800	23 916	-	-	-	19 116	23 916
22	TEC1 Sp. z o.o.	725	-	725	-	-	-	725	725
23	TEC2 Sp. z o.o.	225	-	225	-	-	-	225	225
24	TEC3 Sp. z o.o.	600 025	-	600 025	-	-	-	600 025	600 025
25	Pozostałe [1]	379	-	379	-	-	-	379	379
	Total	**31 730 727**	**16 919**	**31 747 646**	**(10 873 765)**	**(759 017)**	**(11 632 782)**	**20 856 962**	**20 114 864**

[1] *Companies measured at a fair value.*

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

Due to the failure to fulfil the premises of the classification of shares held in the subsidiary, TAURON Ciepło Sp. z o.o. as held for sale as at as at 30 June 2021, in accordance with paragraph 28 of IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*, the Company restated the comparative data for the 6-month period ended 30 June 2020 and as at 31 December 2020, recognising the shares in TAURON Ciepło Sp. z o.o. in the net value of PLN 704 329 thousand, which is described in more detail in Note 8.2 of these interim condensed financial statements.

Surcharges to the capitals of the company Polska Energia -Pierwsza Kompania Handlowa Sp. z o.o.

On 17 March 2021, the Extraordinary Meeting of Shareholders of Polska Energia – Pierwsza Kompania Handlowa Sp. z o.o adopted the resolution on contribution of surcharges to the capitals of the company in the amount PLN 10 800 thousand. Funds on account of surcharges were contributed by the Company on 24 March 2021. As at the balance sheet date, the Company recognized a write offs in total amount of surcharges to the capitals.

Other changes in the balance of long-term investments which took place in the 6-month period ended 30 June 2021 were resulted from capital increases in the following companies:

- EEC Magenta Sp. z o.o. 2 ASI spółka komandytowo-akcyjna in the amount of PLN 4 800 thousand;
- EEC Magenta Sp. z o.o. ASI spółka komandytowo-akcyjna in the amount of PLN 1 319 thousand.

(in PLN thousand)

Change in share balance in the period from 1 January 2020 to 30 June 2020 *(restated unaudited figures)*

No.	Company	Gross value			Impairment losses			Net value	
		Opening balance	(Decreases) Increases	Closing balance	Opening balance	Decreases (Increases)	Closing balance	Opening balance	Closing balance
1	TAURON Wydobycie S.A.	1 341 755	-	1 341 755	(1 341 755)	-	(1 341 755)	-	-
2	TAURON Wytwarzanie S.A.	7 865 701	-	7 865 701	(7 635 126)	-	(7 635 126)	230 575	230 575
3	TAURON Ciepło Sp. z o.o.	1 928 043	-	1 928 043	(168 140)	(1 058 290)	(1 226 430)	1 759 903	701 613
4	TAURON Ekoenergia Sp. z o.o.	1 939 765	-	1 939 765	-	-	-	1 939 765	1 939 765
5	Marselwind Sp. z o.o.	307	-	307	-	-	-	307	307
6	TAURON Serwis Sp. z o.o.	1 268	-	1 268	-	-	-	1 268	1 268
7	Nowe Jaworzno Grupa TAURON Sp. z o.o.	4 861 026	455 100	5 316 126	-	-	-	4 861 026	5 316 126
8	TAURON Dystrybucja S.A.	10 511 628	-	10 511 628	-	-	-	10 511 628	10 511 628
9	TAURON Nowe Technologie S.A.[1]	640 362	9 500	649 862	-	-	-	640 362	649 862
10	TAURON Sprzedaż Sp. z o.o.	613 505	-	613 505	-	-	-	613 505	613 505
11	TAURON Sprzedaż GZE Sp. z o.o.	129 823	-	129 823	-	-	-	129 823	129 823
12	TAURON Czech Energy s.r.o.	4 223	-	4 223	-	-	-	4 223	4 223
13	Kopalnia Wapienia Czatkowice Sp. z o.o.	41 178	-	41 178	-	-	-	41 178	41 178
14	Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o.	61 056	17 616	78 672	(61 056)	(17 616)	(78 672)	-	-
15	Bioeko Grupa TAURON Sp. z o.o.	1 269	-	1 269	-	-	-	1 269	1 269
16	TAURON Obsługa Klienta Sp. z o.o.	39 831	-	39 831	-	-	-	39 831	39 831
17	Finanse Grupa TAURON Sp. z o.o.	28 482	-	28 482	(23 925)	-	(23 925)	4 557	4 557
18	TAMEH HOLDING Sp. z o.o.	415 852	-	415 852	-	-	-	415 852	415 852
19	PGE EJ 1 Sp. z o.o.	14 402	-	14 402	-	-	-	14 402	14 402
20	Magenta Grupa TAURON Sp. z o.o.	9 500	(9 500)	-	-	-	-	9 500	-
21	ElectroMobility Poland S.A.[2]	11 847	-	11 847	-	-	-	11 847	11 847
22	EEC Magenta Sp. z o.o. ASI spółka komandytowo–akcyjna[2]	1 058	143	1 201	-	-	-	1 058	1 201
23	EEC Magenta Sp. z o.o. 2 ASI spółka komandytowo–akcyjna[2]	10 950	3 905	14 855	-	-	-	10 950	14 855
24	TEC1 Sp. z o.o.	725	-	725	-	-	-	725	725
25	TEC2 Sp. z o.o.	225	-	225	-	-	-	225	225
26	TEC3 Sp. z o.o.	600 025	-	600 025	-	-	-	600 025	600 025
27	Other[2]	379	-	379	-	-	-	379	379
	Total	**31 074 185**	**476 764**	**31 550 949**	**(9 230 002)**	**(1 075 906)**	**(10 305 908)**	**21 844 183**	**21 245 041**

[1] *On 1 June 2020, the name of the company was changed from former TAURON Dystrybucja Serwis S.A. to TAURON Nowe Technologie S.A.*
[2] *Companies measured at a fair value.*

17.2. Impairment tests

As at 30 June 2021 impairment tests focusing on shares in subsidiaries and the analyses in the scope of valuation of intragroup loans were conducted taking into account the following premises:

- the Company's capitalization remaining below the net asset carrying amount for a long period;
- changes in global energy commodity and electricity prices;
- the dynamic growth in prices of CO_2 emission allowances significantly exceeding long-term market forecasts reduces the margins of conventional power generation;
- high volatility of energy prices on the forward market (including the persistent low liquidity) and persistently high prices on the spot market;
- recovery of domestic electricity consumption to levels recorded before the COVID-19 pandemic;
- work on the "Ready for 55" package to guide the European Union towards ambitious net emission reductions by 2030 and becoming the first climate-neutral continent by 2050;
- results of the RES auctions to date and a very dynamic development of the prosumer sub-sector in connection with the aid programmes launched;
- results of introducing winter package provisions, including the emission standard, adversely affecting the capability of coal-fired units to participate in the Capacity Market after 1 July 2025;
- tightening of emission standards persisting unfavourable market conditions for the conventional power industry;
- increased risks in commercial coal production;
- a decline in the risk-free rate;
- adoption by the Council of Ministers of the Polish Energy Policy until 2040, determining the directions for the transformation of the energy sector.

Shares and intra-group loans account for about 90% of the balance sheet total as at the balance sheet day.

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

(in PLN thousand)

Relevant tests were conducted based on the present value of projected cash flows from operations of the key entities, by reference to detailed projections by 2030 and the estimated residual value, excluding power generating and mining units for which detailed projections cover the entire period of their operation.

The assumptions concerning the life of the generation and mining units are consistent with those adopted for the impairment tests carried out as at 31 December 2020, including in particular:

- the operation of TAURON Wytwarzanie S.A. generation units was assumed until 2035, including: the unit in Jaworzno III Branch until 2025; two units in Jaworzno III Branch until 2028; two units in Jaworzno II Branch until 2030; the unit in Łagisza Branch until 2035. The operation of the Nowe Jaworzno Grupa TAURON Sp. z o.o. generation unit was assumed until 2060,
- the forecast for hydroelectric power plants covers the period up to 2066 while for wind farms - up to 2040;
- the operation of the mining units was assumed until 2049, including ZG Sobieski and ZG Janina until 2049 and ZG Brzeszcze until 2040.

The reliance on projections covering a period longer than 5 years results mainly from the long-lasting investment processes in the power industry. The macroeconomic and sector-oriented assumptions underlying the projections are updated as frequently as any indications for their modification are observed on the market. The projections also take into account changes in the regulatory environment known as at the date of the test.

Key assumptions in the scope of tests performed as at 30 June 2021

Category	Description
Coal	Coal prices for the assumptions adopted as at 30 June 2021 have not changed in relation to the previous assumptions as at 31 December 2020 over the entire forecast horizon. Coal prices show a slight upward trend in the nearest three years due to the observed sustained upward trend in the scope of domestic cost of mining. However, in the long term (2025-2040), coal prices will continue to fall due to the accelerated implementation of the decarbonisation policy promoted by the European Union, aimed at reaching the climate neutrality in Europe by 2050. Its manifestation is the gradual reduction of the share of coal in the energy mix of individual countries (including Germany, the Czech Republic and Poland), which is associated with an increase in the share of energy from RES in the energy balance of the European Union Member States. After 2025, the price of coal in Poland will begin to fall, as a result of decreased electricity generation with the use of this raw material as well as an expected increase in import volumes in view of high levels of mining cost in the country. A real growth in power coal prices by 5.4% was assumed in the years 2021-2040, compare to 2021, however in years 2025 – 2040 there was assumed a real decline in power coal price by 5.8%, compare to 2024. In May this year, the Social Agreement concern a transformation of Mining sector and selected transformation processes of Silesia region was signed. The contract was signed between State, Unions, the miming regions and Management Boards of mining companies, including management Board of TAURON Wydobycie S.A. The contract determines among others support system for production units (coal mines) as a gradual shutdown of production capacity. In financial projection, prepared for impairment tests, made assumption was in line with the Social Agreement, including working period of coal mines of the Company and surcharged to reduction of production capacity. The surcharges to reduction of production capacity were consult in impairment tests starting form 2022 up to 2049 and were calculated on a basis of difference between qualified costs of coal production and those calculated in line with rules of support system revenue from coal sales.
Electricity	The adopted forecast of wholesale electricity prices for the period 2021-2040 has been updated and adjusted in the first three years (2021-2023) to current levels recorded in the market. In 2024-2040, the wholesale electricity price (in constant prices) will increase by approx. 4.5%. The forecast of wholesale electricity prices is affected by the current and expected balancing situation in the national power system, forecasts of fuel prices and the costs of purchasing CO_2 emission allowances. In 2022, a significant increase in energy prices of around 23% compared to 2021 has been assumed, which results, among others, from a sharp rise in the prices of CO_2 emission allowances. The observed change in the structure of electricity generation and the increase in the share of renewable energy sources in the energy mix reduces the level of margins gained on the sale of electricity from coal-fired sources. The effect of the decline in production volumes and margins for conventional sources is partially offset by assuming a significant impact of the *Scarcity Pricing* mechanism on electricity prices. In accordance with the obligations arising from the Decision of the European Commission notifying the Capacity Market in Poland, the implementation of this mechanism was scheduled by 1 January 2021. As a result of delays in the implementation of the mechanism, it was assumed that it would start operating at the beginning of 2023. Due to the structure of the capacity balance, the operation of the mechanism will be reflected in wholesale electricity prices from 2025. Full implementation of the *Scarcity Pricing* mechanism in the model generates appropriate price signals depending on the capacity balance in the KSE, resulting in higher wholesale electricity prices. The increase in prices by 2035 results from the growth in prices of CO_2 emission allowances and planned shutdowns of coal-fired and nuclear units in Germany directly affecting the level of the interconnection exchange balance. The electricity retail price path has been adopted based on the wholesale price of black energy, taking into account the costs of excise duty, the obligation to redeem energy certificates of origin as well as the expected level of margin.

(in PLN thousand)

Category	Description
CO_2	CO_2 emission limits for heat generation have been adopted in line with the regulation of the Council of Ministers and adjusted by the level of operations, i.e. generation of heat. The CO_2 emission allowance price growth path has been adopted throughout the forecasting horizon. In 2022, a 65.5% higher price of CO_2 emission allowances was assumed compared to the average price in 2021. In the period 2023-2030, a price increase to the level of approx. 60 EUR/Mg in constant prices (approx. 70 EUR/Mg in current prices) has been assumed due to the assumption of an increase in the Linear Reduction Factor (LRF) to the level of 4.2% proposed by the European Commission (from the current 2.2%). The projected CO_2 price in 2030 compared to the average price in 2020 will be c.a. 140.8% higher. A further increase in the price of CO_2 emission allowances is assumed in the years 2031-2040, compared to 2030, which stems from the assumed increase in the decarbonisation rate of the economy and the target of achieving climate neutrality of Europe in 2050. The price of CO_2 projected for 2040 amounts to approx. 68 EUR/Mg (approx. 100 EUR/Mg in current prices).
Certificates of energy origin	The price path for certificates of energy origin and the obligatory redemption in the subsequent years have been adopted based on the provisions of the RES Act and the system balance forecast.
Capacity market	Revenues for the performance of capacity contracts concluded by the Group in the auctions held between 2018 and 2020 are included. With regard to coal-fired units which, in accordance with the provisions of EU regulations, are subject to limitations in the use of support from capacity mechanisms as of 1 July 2025 (the so-called EPS 550), revenues obtained in full amount resulting from the contracts concluded were assumed until 2035 with regard to the unit belonging to Nowe Jaworzno Grupa TAURON Sp. z o.o. and until 2028 with regard to the remaining companies. The reason is that coal units belonging to the Group benefit from the so-called protection of acquired rights, therefore they are not subject to emission restrictions until the completion of the contracts concluded.
RES	For green energy, limited support periods were included, in line with the provisions of the RES Act defining new mechanisms for granting the support for electricity generated from this type of sources. The support period was limited to 15 years counted from the moment of first injection to the grid of electricity eligible to receive the energy origin certificate to the grid.
Natural gas	Natural gas prices for the assumptions adopted as at 30 June 2021 were raised in relation to the previous assumptions as at 31 December 2020 over the entire forecast horizon. The exception is 2021 due to the execution of an annual contract with the delivery in 2021. The main reason for the projected increases in gas prices were the significantly higher estimates concerning the forecast of the demand for natural gas presented by GAZ-SYSTEM S.A. in the horizon up to 2040. The period of 2021-2025 will see a large increase in the demand for natural gas in Poland, determined by an increase in the number of natural gas-fired sources. An additional factor of the projected price increase is the decline in gas production in Europe, with a simultaneous increase in gas consumption. In Poland, we assume the commissioning of the *Baltic Pipe*, the expansion of the LNG terminal in Świnoujście, the Poland-Lithuania Interconnector (GIPL) as well as the commissioning of the floating LNG terminal in the Gulf of Gdańsk and the gas units in the Dolna Odra Power Plant by 2028 at the latest. After 2024, a decline in raw material extraction from the Norwegian Continental Shelf is assumed. In the years 2026-2030, further growth in the number of natural gas-fired sources in Poland is assumed, which is determined by the continued growth in demand. Beyond 2030, the demand for gas in Europe and Asia will grow more slowly than in the previous 10-year period. The share of gas in global energy production has been growing more slowly, which is also evident in the forecasts of external agencies that do not assume a significant increase in real gas prices over this period.
WACC	The weighted average cost of capital (WACC) during the projection period for individual CGUs has been adopted in the range of 5.7%-13.98% in nominal terms before tax, taking into account the risk-free rate corresponding to the yield on 10-year Treasury bonds (at a level of 1.39%) and the risk premium for operations relevant for the power industry (6.75%). The growth rate used for extrapolation of projected cash flows going beyond the detailed planning period has been adopted at a level of 2.5% and corresponds to the estimated long-term inflation rate. The level of WACC as at 30 June 2021 compared to the level as at 31 December 2020 increased in the Mining segment mainly due to the inclusion of the additional specific risk. In the other segments, it has decreased primarily due to the decline in the risk-free rate.
Regulated revenue	Regulated revenue of distribution companies has been assumed, ensuring the coverage of justified costs and a reasonable level of return on capital . The return on capital depends on the Regulatory Asset Value. In the years 2021-2030, an increase in electricity supply by 1.15% year-on-year has been assumed.
Sales volume and production capacity	The volume of sales to customers of the Company was assumed taking into account the GDP growth, the competitive situation in the market, growth of financial costs (trade credit costs) incurred by sales companies and the development of the prosumer market in the area of TAURON Dystrybucja. As a result of taking these factors into account, volumes are lower in the first years, with a gradual recovery of lost volume planned from 2024 onwards. The economical useful life of non-current assets and maintenance of production capacity as a result of reconstruction investments were taking into account.

On 14 March 2019, Tempus Energy Germany GmbH and T Energy Sweden AB companies filed a complaint with the Court of Justice of the European Union (“CJEU”) against the aid decision of the European Commission concerning the Polish Capacity Market. The complaint seeks to revoke the decision on the waiver of objections concerning the Polish Capacity Market. The complainants' allegations refer to the European Commission's failure to initiate a formal investigation procedure and the allegedly discriminatory treatment of demand management units within the Polish Capacity Market. The Company estimates that in the case the CJEU revokes its decision regarding the Polish Capacity Market, which may involve a potential suspension of the Group's receipt of payments for the execution of its capacity

(in PLN thousand)

obligations, a new aid decision will be issued by the European Commission. The legal analyses conducted by the Group demonstrated that the Group's recognition of the revenue from the execution of the capacity obligations in the potential suspension period (i.e. between the judgement revoking the aid decision and the issuance of a new aid decision) meets the requirements of IFRS 15 *Revenue from Contracts with Customers*, since gaining such revenue is, in the Group's opinion, highly probable. In Company's opinion full payment arising from capacity obligation will be paid to the Company after issue of final decision by The European Commission.

The assumptions consistent with the impairment tests of shares and stocks were also used in the analyses performed in the scope of measurement of loans granted to Elektrociepłownia Stalowa Wola S.A., the results of which indicated that there was no need to reduce the carrying value of the loans granted.

Test results

The impairment tests conducted in compliance with IAS 36 *Impairment of Assets* as at 30 June 2021 indicated impairment of the carrying amount of shares of Nowe Jaworzno Grupa and TAURON Sp. z o.o.

Company	WACC* assumed in tests as at		Recoverable amount of shares as at 30 June 2021 *(unaudited)*	Impairment loss recognized in the 6-month period ended 30 June 2021 *(unaudited)*
	30 June 2021 *(unaudited)*	31 December 2020		
Nowe Jaworzno Grupa TAURON Sp. z o.o.	9.87%	10.07%	4 757 909	(748 217)
Total				**(748 217)**

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

The necessity to apply allowances on the shares in Nowe Jaworzno Grupa TAURON Sp. z o.o. resulted in particular from the following factors:

- an increase in the prices of CO_2 emission allowances resulting from more stringent climate policy of the European Union strongly targeted at accelerating the pace of decarbonisation in pursuit of the climate neutrality of Europe,
- a change in the energy mix in Poland towards low- and zero-emission sources, resulting in lower electricity production volumes from conventional sources, in particular coal-fired power plants,
- a projected decline in market margins in the medium- and long-term perspective as a result of an increase in the variable costs of production from conventional sources, mainly due to the increase in the price of CO_2 emission allowances and the growth in the share of renewable energy sources and new natural gas-fired sources,
- the assumed repurchase of shares in the company Nowe Jaworzno Grupa TAURON Sp. z o.o. from funds managed by the Polish Development Fund and the early termination of the purchase of the volume of electricity generated by the 910 MW unit in Jaworzno at prices specified in the agreement for the purchase of electricity generated in this unit by the Company. Consequently, in relation to the tests as at 31 December 2020, from the time of the share repurchase, the purchase of electricity will be performed at prices determined by price paths based on expected market conditions. The resumption of the previous assumptions in this scope would result in the absence of allowance for the shares in Nowe Jaworzno Grupa TAURON Sp. z o.o.

Sensitivity analysis in Nowe Jaworzno Grupa TAURON Sp. z o.o.

The estimated changes in the impairment loss on shares of company Nowe Jaworzno Grupa TAURON Sp. z o.o. recognising also the impact of its reversal as at 30 June 2021 as a result of changes in the most significant assumptions, are presented below.

Parameter	Change	Impact on impairment loss *(in PLN million)* Increase of impairment loss (net)	Decrease of impairment loss (net)
Change of electricity prices in the forecast period	+1%	-	139
	-1%	140	-
Change of CO_2 emission allowances prices in the forecast period	+1%	71	-
	-1%	-	70
Change of WACC (net)	+0.1 p.p.	30	-
	-0.1 p.p.	-	29
Change of coal prices in the forecast period	+1%	33	-
	-1%	-	33
No revenue from the Capacity Market	-100%	1 132	-
No scarcity pricing mechanism*	-	1 678	-

**In accordance with the obligations related to the Capacity Market notification process and in accordance with Article 16(e) of the Commission Decision "State aid No. SA.46100 (2017/N) – Poland – Planned Polish capacity mechanism", by 1 January 2021, Poland should introduce an administrative scarcity pricing mechanism as referred to in Article 44(3) of the Electricity Balancing Guideline. In the first quarter of 2021, PSE S.A. presented a rescheduling plan to be included in the new Implementation Plan, in which the deadline for implementing the mechanism was postponed to 2023. No scarcity pricing mechanism included in the above analysis, assumes lower revenues from sales of energy from own production throughout the period analysed by PLN 7.4 billion in nominal terms. Details of the scarcity pricing mechanism are described in the key assumptions adopted in the tests as at 30 June 2021.*

18. Loans granted

Balances of loans granted by the Company as at 30 June 2021 and 31 December 2020 are presented in the table below.

	As at 30 June 2021 *(unaudited)* Gross value	Impairment loss	Carrying amount	As at 31 December 2020 Gross value	Impairment loss	Carrying amount
Loans measured at amortized cost						
Loans granted to subsidiaries	5 649 498	(105 677)	**5 543 821**	5 074 636	(71 113)	**5 003 523**
Loans granted to EC Stalowa Wola S.A.	26 732	(2 364)	**24 368**	27 670	(1 480)	**26 190**
Granted cash pool loans	1 240 278	(46 591)	**1 193 687**	312 756	(34 041)	**278 715**
Loans measured at fair value						
Loans granted to EC Stalowa Wola S.A.	74 345	n.a.	**74 345**	72 523	n.a	**72 523**
Total	**6 990 853**	**(154 632)**	**6 836 221**	**5 487 585**	**(106 634)**	**5 380 951**
Non-current	5 872 231	(151 193)	**5 721 038**	4 336 528	(102 927)	**4 233 601**
Current	1 118 622	(3 439)	**1 115 183**	1 151 057	(3 707)	**1 147 350**

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 balance of loans granted to subsidiaries as at 30 June 2021 and 31 December 2020, broken down by individual companies.

Company	As at 30 June 2021 *(unaudited)* Contractual loan value	Gross value	Impairment loss	Carrying amount	As at 31 December 2020 Contractual loan value	Gross value	Impairment loss	Carrying amount
TAURON Dystrybucja S.A.	3 250 000	3 251 910	(8 828)	**3 243 082**	3 250 000	3 284 433	(10 781)	**3 273 652**
TAURON Wytwarzanie S.A.	1 100 000	1 105 190	(87 870)	**1 017 320**	500 000	504 226	(53 784)	**450 442**
TAURON Ciepło Sp. z o.o.	975 000	980 011	(6 323)	**973 688**	975 000	977 318	(1 054)	**976 264**
TAURON Wydobycie S.A.	3 110 000	-	-	**-**	2 868 354	-	-	**-**
TAURON Ekoenergia Sp. z o.o.	160 000	154 732	(644)	**154 088**	160 000	154 121	(1 340)	**152 781**
TAURON Sprzedaż Sp. z o.o.	100 000	100 330	(295)	**100 035**	100 000	100 330	(1 856)	**98 474**
Other	57 000	57 325	(1 717)	**55 608**	53 992	54 208	(2 298)	**51 910**
Total	**8 752 000**	**5 649 498**	**(105 677)**	**5 543 821**	**7 907 346**	**5 074 636**	**(71 113)**	**5 003 523**
Non-current		5 506 401	(104 851)	**5 401 550**		3 929 234	(67 516)	**3 861 718**
Current		143 097	(826)	**142 271**		1 145 402	(3 597)	**1 141 805**

As at 30 June 2021, the nominal value of loans with a repayment term of less than one year which had been classified as long-term loans due to the expectation of the Company as at the balance sheet date regarding the repayment term of loans over 12 months from the balance sheet date, amounted to PLN 2 350 000 thousand and applied to TAURON Wydobycie S.A. and TAURON Wytwarzanie S.A.

In the 6-month period ended 30 June 2021, the most significant intra-group financing transactions related to:

- granting a loan to the subsidiary, TAURON Wytwarzanie S.A. in the nominal amount of PLN 600 000 thousand,

(in PLN thousand)

- consolidating the loans granted to TAURON Ciepło Sp. z o.o. falling due in February 2021 with the total nominal value of PLN 905 000 thousand and replacing them with a loan with the final repayment date of 26 February 2030,
- granting a loan with a nominal value of PLN 250 000 thousand to the subsidiary TAURON Wydobycie S.A., which was initially recognised as element of financial asset impaired due to the credit risk. The amount of credit loss as at the date of recognition was estimated based on the loan repayment scenarios assumed by the Company taking into account the results of the most recent asset impairment test. The analyses of credit risk of the loans granted to TAURON Wydobycie S.A., taking into account, among others, the estimation of the future cash flows of the company showed that it was reasonable to measure the carrying amount of the loans at a zero value. Accordingly, the loss due to the initial valuation of the loan in the amount of PLN 250 000 thousand reduced the gross value of the loan and charged the financial result of the Company.

After the balance sheet date, the Company granted a loan to the subsidiaries in the amount of PLN 826 500 thousand.

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

Loans granted to the joint venture of Elektrociepłownia Stalowa Wola S.A. as at 30 June 2021 and as at 31 December 2020 are presented in the table below.

	Loan amount	As at 30 June 2021 *(unaudited)*			As at 31 December 2020			Maturity date	Interest rate
		Gross value	Impairment loss	Carrying amount	Gross value	Impairment loss	Carrying amount		
Loans measured at fair value									
Debt consolidation agreement	609 951	74 345	n.a.	**74 345**	72 523	n.a.	**72 523**	30.06.2033	fixed
Loans measured at amortized cost									
VAT loan	15 000	-	-	**-**	2 453	(33)	**2 420**	-	WIBOR 1M+mark-up
Other loans	7 290	2 102	(428)	**1 674**	1 986	(353)	**1 633**	30.06.2033	fixed
	9 500	2 429	(388)	**2 041**	2 295	(304)	**1 991**		
	5 175	1 453	(215)	**1 238**	1 372	(165)	**1 207**		
	59 175	15 303	(1 150)	**14 153**	14 404	(598)	**13 806**		
	35 000	5 445	(183)	**5 262**	5 160	(27)	**5 133**		
Total		**101 077**	**(2 364)**	**98 713**	**100 193**	**(1 480)**	**98 713**		
Non-current		101 077	(2 364)	**98 713**	97 740	(1 447)	**96 293**		
Current		-	-	**-**	2 453	(33)	**2 420**		

Pursuant to the borrower's debt consolidation agreement of 28 February 2018 for the total amount of PLN 609 951 thousand, all existing liabilities of Elektrociepłownia Stalowa Wola S.A. towards the Company arising from loans granted and unpaid until 28 February 2018 were renewed. As at the balance sheet date, the nominal amount of the loan is PLN 310 851 thousand (the principal in the amount of PLN 299 100 thousand was repaid on 30 April 2018). The debt in question constitutes subordinated debt, measured at a fair value of PLN 74 345 thousand as at the balance sheet date.

On 31 March 2021, Elektrociepłownia Stalowa Wola S.A. repaid in full the principal and interest under the VAT loan agreement.

18.3. Loans granted under the cash pool service

In order to optimise cash and liquidity management, TAURON Group applies the cash pool service mechanism. Cash pooling is carried out under the agreement concluded with Santander Bank Polska S.A. on 8 December 2020 for the operation of a cash management system for a group of accounts, with the effective term until 31 December 2023. As a result of the cash pool mechanism, cash is transferred between the accounts of the service participants and the pool leader's account whose function is performed by TAURON Polska Energia S.A.

The balance of receivables arising as a result of cash pooling as at 30 June 2021 and 31 December 2020 is presented in the table below.

	As at 30 June 2021 *(unaudited)*			As at 31 December 2020		
	Gross value	Impairment loss	Carrying amount	Gross value	Impairment loss	Carrying amount
Receivables from cash pool loans granted	1 239 413	(46 591)	1 192 822	312 216	(34 041)	278 175
Interest on loans granted under cash pool	865	-	865	540	-	540
Total	**1 240 278**	**(46 591)**	**1 193 687**	**312 756**	**(34 041)**	**278 715**
Non-current	264 753	(43 978)	220 775	309 554	(33 964)	275 590
Current	975 525	(2 613)	972 912	3 202	(77)	3 125

Information concerning liabilities due to the cash pool service is presented in Note 27.5 of these interim condensed financial statements.

(in PLN thousand)

19. Derivatives and hedge accounting

	As at 30 June 2021 *(unaudited)*				As at 31 December 2020			
	Charged to profit or loss	Charged to other comprehensive income	Total		Charged to profit or loss	Charged to other comprehensive income	Total	
			Assets	Liabilities			Assets	Liabilities
Derivative instruments subject to hedge accounting								
IRS	(2 766)	48 327	**72 109**	**(26 548)**	(6 230)	(83 831)	**-**	**(90 061)**
Derivative instruments measured at fair value through profit or loss								
CCIRS	(1 907)	-	**1 166**	**(3 073)**	3 268	-	**5 023**	**(1 755)**
Commodity future/forward	(72 885)	-	**514 490**	**(587 375)**	2 321	-	**86 089**	**(83 768)**
Currency forward	(9 972)	-	**-**	**(9 972)**	67 734	-	**67 734**	**-**
Total			**587 765**	**(626 968)**			**158 846**	**(175 584)**
Non-current			130 643	(65 856)			36 041	(73 739)
Current			457 122	(561 112)			122 805	(101 845)

As at 30 June 2021, the Company holds the following derivative instruments:

Instrument	Description
Derivative instruments subject to hedge accounting	
IRS	IRS (Interest Rate Swap) instruments are used to hedge a portion of the interest rate risk on the cash flows associated with the exposure to WIBOR 6M designated under the dynamic risk management strategy, i.e: • interest on a loan with a nominal value of PLN 750 000 thousand, for periods commencing respectively from July 2020 and expiring in December 2024; • interest on bonds with a total nominal value of PLN 3 090 000 thousand, for periods beginning in December 2019 and expiring successively from 2023 to 2029. Under the terms of the transaction, the Company pays interest based on a fixed interest rate in PLN, while receiving payments at a floating interest rate in PLN.
Derivative instruments measured at a fair value through the profit and loss other than subject to hedge accounting	
CCIRS	CCIRS (Coupon Only Cross Currency Swap fixed-fixed) derivatives involve an exchange of interest payments on a total notional amount of EUR 500 000 thousand. The transaction matures in July 2027. Under the terms of the transaction, the Company pays interest based on a fixed interest rate in PLN, while receiving payments at a fixed interest rate in EUR. CCIRS derivatives aimed at securing the currency flows generated by interest payments on Eurobonds issued.
Commodity forward/future	Derivative instruments (future, forward) comprise forward transactions for the purchase and sale of CO_2 emission allowances and other commodities.
FX forward	FX forward derivative instruments aimed at hedging currency flows generated due to the activities conducted.

The fair value in relation to individual derivative financial instruments is determined in the following way:

Derivative instrument	Methodology of determining fair value
IRS	The difference between discounted floating-rate interest cash flows and those based on fixed interest rates. Refinitiv 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 Refinitiv 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 Refinitiv are the input data.
Commodity forwards, futures	The fair value of forwards for the purchase and sale of CO_2 emission allowances, electricity and other commodities is based on prices quoted on an active market or based on cash flows being the difference between the price reference index (forward curve) and the contract price.

(in PLN thousand)

The fair value hierarchy in relation to derivative financial instruments is as follows:

	As at 30 June 2021 *(unaudited)*		As at 31 December 2020	
	1 level	2 level	1 level	2 level
Assets				
Derivative instruments - commodity	514 490	-	86 089	-
Derivative instruments - currency	-	-	-	67 734
Derivative instruments - IRS	-	72 109	-	-
Derivative instruments - CCIRS	-	1 166	-	5 023
Total	**514 490**	**73 275**	**86 089**	**72 757**
Liabilities				
Derivative instruments - commodity	587 375	-	83 768	-
Derivative instruments - currency	-	9 972	-	-
Derivative instruments - IRS	-	26 548	-	90 061
Derivative instruments - CCIRS	-	3 073	-	1 755
Total	**587 375**	**39 593**	**83 768**	**91 816**

20. Other financial assets

	As at 30 June 2021 *(unaudited)*	As at 31 December 2020
Dividend receivables	246 761	-
Initial deposits arising from stock exchange transactions	65 026	48 663
Receivables arising from income tax settlements of the TCG companies	47 096	21 869
Bid bonds, deposits, collateral transferred	4 639	19 161
Variation margin deposits arising from stock exchange transactions	667	-
Other	135	151
Total	**364 324**	**89 844**
Non-current	455	2 541
Current	363 869	87 303

The value of initial and variation margins is related mostly to futures transactions in CO_2 emission allowances concluded on foreign regulated markets.

The decrease in the value of deposits, performance bonds and collaterals transferred in relation to the comparable period in the amount of PLN 14 522 thousand relates mainly to the collaterals provided in the framework of the clearing guarantee system with Izba Rozliczeniowa Giełd Towarowych S.A.

(in PLN thousand)

21. Other non-financial assets

	As at 30 June 2021 *(unaudited)*	As at 31 December 2020
Prepaid expenses, *including:*	13 841	14 076
Prepaid fee on debt	*12 661*	*13 707*
VAT receivables	15 662	4 316
Advance payments for deliveries	3 069	3 888
Other	6 715	7 278
Total	**39 287**	**29 558**
Non-current	12 992	17 267
Current	26 295	12 291

22. Inventories

	As at 30 June 2021 *(unaudited)*	As at 31 December 2020
Gross Value		
CO_2 emission allowances	374 569	394 810
Energy certificates	415	250
Materials	81	-
Total	**375 065**	**395 060**
Measurement to net realisable value		
CO_2 emission allowances	(7)	(987)
Energy certificates	(3)	(42)
Measurement to fair value		
CO_2 emission allowances	21 274	-
Total	**21 264**	**(1 029)**
Net value		
CO_2 emission allowances	190 874	393 823
Energy certificates	412	208
Materials	81	-
Fair value		
CO_2 emission allowances	204 962	-
Total	**396 329**	**394 031**

Inventories are measured at the net achievable value, with the exception of the inventory of CO_2 emission allowances purchased for sale and the short term realisation of profits arising from market price volatility, which is measured at the fair value as at the balance sheet date.

23. Receivables from customers

	As at 30 June 2021 *(unaudited)*	As at 31 December 2020
Gross Value		
Receivables from buyers	951 703	1 309 852
Receivables claimed at court	1 051	1 039
Total	**952 754**	**1 310 891**
Allowance/write-down		
Receivables from buyers	(3 089)	(8 443)
Receivables claimed at court	(1 051)	(1 039)
Total	**(4 140)**	**(9 482)**
Net Value		
Receivables from buyers	948 614	1 301 409
Receivables claimed at court	-	-
Total	**948 614**	**1 301 409**

(in PLN thousand)

As at 30 June 2021 and 31 December 2020, receivables from the subsidiary, TAURON Sprzedaż Sp. z o.o. represented the highest balance of receivables from customers amounting to PLN 521 386 thousand and PLN 748 448 thousand, respectively. Transactions with related parties and balances of settlements with these entities are presented in Note 40.1 of these interim condensed financial statements.

The impact of COVID-19 on the level of allowance for expected credit losses for receivables from customers is further described in Note 6.1 of these interim condensed financial statements.

24. Cash and equivalents

	As at 30 June 2021 *(unaudited)*	As at 31 December 2020
Cash at bank and in hand	307 852	393 129
Short-term deposits (up to 3 months)	-	250 005
Total cash and cash equivalents presented in the statement of financial position, *including*:	**307 852**	**643 134**
restricted cash, *including:*	143 108	119 240
collateral of settlements with Izba Rozliczeniowa Giełd Towarowych S.A.	*139 481*	*108 917*
Cash pool	(863 603)	(1 383 241)
Foreign exchange	(886)	(2 837)
Total cash and cash equivalents presented in the statement of cash flows	**(556 637)**	**(742 944)**

The balances of short-term loans granted and borrowings incurred under cash pool transactions do not represent cash flows from investment or financing activities in Group, but constitute cash adjustments, since they mainly serve to manage the Group's current liquidity.

Information on balances arising from the cash pool agreement is presented in Notes 18.3 and 27.5 of these interim condensed financial statements.

25. Non-current assets classified as held for sale

The decline in assets classified as held for sale in the amount of PLN 53 136 thousand is mainly related to signing of an agreement for the sale of shares in PGE EJ 1 Sp. z o.o. by the Company with the State Treasury on 26 March 2021 (the “Agreement”). The Agreement was signed by all entities holding shares in PGE EJ 1 Sp. z o.o. In addition to the Company, they include: PGE Polska Grupa Energetyczna S.A., Enea S.A. and KGHM Polska Miedź S.A., (jointly the “Partners”). The PGE EJ 1 Sp. z o.o. is responsible for the preparation and execution of the investment project consisting in the construction and operation of the first Polish nuclear power plant.

Pursuant to the Agreement, the Company sold to the State Treasury 532 523 shares of PGE EJ 1 Sp. z o.o. constituting 10% of the share capital and representing 10% of votes at the Meeting of Shareholders of PGE EJ 1 Sp. z o.o. Following the closure of the transaction, the Company does not hold any shares in PGE EJ 1 Sp. z o.o. The selling price for 100% of the shares amounted to PLN 526 050 thousand, of which PLN 52 605 thousand is assigned to the Company.

Moreover, on 26 March 2021, the Shareholders concluded the annex to the agreement of 15 April 2015 concerning the case of WorleyParsons with PGE EJ 1 Sp. z o.o., regulating the principles of Shareholders' liability for potentially arising liabilities or benefits due as a result of the settlement of dispute between PGE EJ 1 Sp. z o.o. and WorleyParsons, which is described in more detail in Note 37 to these interim condensed financial statements.

On 15 June 2021 an amendment to the articles of association of PGE EJ 1 Sp. z o.o. was registered which, inter alia, changed the name of the company (following the conclusion of the share sale agreement described above) to Polskie Elektrownie Jądrowe Sp. z o.o.

(in PLN thousand)

26. Equity

26.1. Issued capital

Issued capital as at 30 June 2021 *(unaudited)*

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

As at 30 June 2021, the value of issued capital, the number of shares and the nominal value of the shares has not changed since 31 December 2020.

26.2. Major Shareholders

Shareholding structure as at 30 June 2021 and as at 31 December 2020 *(to the best of the Company knowledge)*

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

* *The voting rights of the shareholders holding more than 10% of the total votes in the Company are 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 authorising to at least 25% of the total votes in the Company.*

26.3. Reserve capital

	As at 30 June 2021 *(unaudited)*	As at 31 December 2020
Amounts from distribution of prior years profits	2 749 099	4 886 520
Decrease in the value of issued capital	-	1 217 354
Settlement of mergers with subsidiaries	-	234 880
Total reserve capital	**2 749 099**	**6 338 754**

The decrease in the supplementary capital in the 6-month period ended 30 June 2021 results from the coverage of the Company net loss for the financial year 2020 in the amount of PLN 3 589 655 thousand.
The Company's reserve capital does not exceed value of one third of the Company's share capital, which is PLN 2 920 916 thousand, therefore can only be used to cover losses.

26.4. Revaluation reserve from valuation of hedging instruments

	6-month period ended 30 June 2021 *(unaudited)*	6-month period ended 30 June 2020 *(unaudited)*
Opening balance	**(78 871)**	**15 666**
Remeasurement of hedging instruments	128 694	(131 478)
Remeasurement of hedging instruments charged to profit or loss	3 464	(267)
Deferred income tax	(25 110)	25 032
Write-off of deferred tax assets	10 968	-
Closing balance	**39 145**	**(91 047)**

(in PLN thousand)

The revaluation reserve from measurement of hedging instruments results from the measurement of Interest Rate Swap (IRS) instruments hedging the interest rate risk due to debt, which is described 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 30 June 2021, the Company recognised the amount of PLN 39 145 thousand of revaluation reserve from measurement of hedging instruments. This amount represents an asset arising from the measurement of IRS instruments as at the balance sheet date in the amount of PLN 72 109 thousand and the liability arising from the measurement of IRS instruments as at the balance sheet date in the amount of PLN 26 548 thousand, adjusted by the portion of the measurement relating to debt interest accrued at the balance sheet date, including the deferred tax. The Company assessed that as at the balance sheet date there is no reason to recognise a valuation allowance for deferred tax asset in correspondence with the revaluation capital reserve for hedging instruments and consequently reversed the allowance for the above assets in the amount of PLN 10 968 thousand recognised with capital.

26.5. Retained earnings and restrictions on dividends

Due to the fact that the supplementary capital of the Company does not exceed one-third of the share capital, the Company is obliged to transfer at least 8% of the net profit for a given financial year to the supplementary capital until this capital reaches at least one-third of the share capital.

On 29 March 2021 the Management Board of TAURON Polska Energia S.A. adopted the resolution concerning the submission of the motion to the Ordinary General Meeting of TAURON Polska Energia S.A. requesting covering the net loss of the Company for financial year 2020 in the amount of PLN 3 589 655 from the supplementary capital of the Company. On 24 May 2021 the Ordinary General Meeting of the Company adopted the resolution in compliance with the recommendation of the Management Board.

26.6. Dividends paid and proposed for disbursement

In the 6-month period ended 30 June 2021 and in the comparable period, the Company did not propose payment or paid any dividends to the shareholders of the Company.

27. Debt

	As at 30 June 2021 *(unaudited)*	As at 31 December 2020
Long-term portion of debt		
Unsubordinated bonds	4 505 286	4 550 767
Subordinated bonds	1 964 998	1 993 876
Bank loans	3 679 865	4 782 363
Loans from the subsidiary	752 561	768 185
Lease	18 330	22 103
Total	**10 921 040**	**12 117 294**
Short-term portion of debt		
Unsubordinated bonds	226 492	200 518
Subordinated bonds	51 821	4 491
Bank loans	1 070 202	1 169 924
Loans from the subsidiary	16 377	2 309
Cash pool loans received	1 839 129	1 386 443
Lease	8 646	8 654
Total	**3 212 667**	**2 772 339**

(in PLN thousand)

27.1. Bonds issued

Bonds as at 30 June 2021 *(unaudited)*

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	799 485	408	799 077	99 978	99 938	299 657	299 504
			630 000	2021-2029	630 107	315	629 792	69 995	69 987	209 934	279 876
A series bonds (TPE 1025)	floating, based on WIBOR 6M	PLN	1 000 000	30.10.2025	1 000 304	2 700	997 604	-	-	997 604	-
Eurobonds	fixed	EUR	500 000	5.07.2027	2 301 882	53 096	2 248 786	-	-	-	2 248 786
Unsubordinated bonds					**4 731 778**	**56 519**	**4 675 259**	**169 973**	**169 925**	**1 507 195**	**2 828 166**
Bank Gospodarstwa Krajowego	floating, based on WIBOR 6M	PLN	400 000	29.03.2031[2]	400 022	512	399 510	-	-	399 510	-
European Investment Bank	fixed[1]	EUR	190 000	16.12.2034[2]	859 846	21 307	838 539	-	-	838 539	-
		PLN	400 000	17.12.2030[2]	403 945	16 238	387 707	-	-	387 707	-
		PLN	350 000	19.12.2030[2]	353 006	13 764	339 242	-	-	339 242	-
Subordinated bonds					**2 016 819**	**51 821**	**1 964 998**	**-**	**-**	**1 964 998**	**-**
Total bonds					**6 748 597**	**108 340**	**6 640 257**	**169 973**	**169 925**	**3 472 193**	**2 828 166**

[1]In the case of hybrid (subordinated) financing - bonds subscribed for 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.
[2] 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 terms of redemption according to agreement, after two period of financing. Measurement of bonds as at the reporting period, includes earlier redemption, intention of bonds redemption is after end of first period of financing. Ageing takes into account estimation of redemption after first period of financing.

Bonds as at 31 December 2020

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	799 393	448	798 945	99 953	99 917	299 607	299 468
			630 000	2021-2029	630 105	342	629 763	69 990	69 983	209 924	279 866
A series bonds (TPE 1025)	floating, based on WIBOR 6M	PLN	1 000 000	30.10.2025	1 000 115	2 760	997 355	-	-	997 355	-
Eurobonds	fixed	EUR	500 000	5.07.2027	2 321 672	27 025	2 294 647	-	-	-	2 294 647
Unsubordinated bonds					**4 751 285**	**30 575**	**4 720 710**	**169 943**	**169 900**	**1 506 886**	**2 873 981**
Bank Gospodarstwa Krajowego	floating, based on WIBOR 6M	PLN	400 000	29.03.2031[2]	400 026	559	399 467	-	-	-	399 467
European Investment Bank	fixed[1]	EUR	190 000	16.12.2034[2]	864 530	1 767	862 763	-	-	862 763	-
		PLN	400 000	17.12.2030[2]	391 458	1 243	390 215	-	-	390 215	-
		PLN	350 000	19.12.2030[2]	342 353	922	341 431	-	-	341 431	-
Subordinated bonds					**1 998 367**	**4 491**	**1 993 876**	**-**	**-**	**1 594 409**	**399 467**
Total bonds					**6 749 652**	**35 066**	**6 714 586**	**169 943**	**169 900**	**3 101 295**	**3 273 448**

[1] In the case of hybrid (subordinated) financing - bonds subscribed for 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.
[2] 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 terms of redemption according to agreement, after two period of financing. Measurement of bonds as at the balance sheet day, includes earlier redemption, intention of bonds redemption is after end of first period of financing. Ageing takes into account estimation of redemption after first period of financing.

The bonds issued by the Company are unsecured coupon bonds. The bonds were issued at the par value, except for Eurobonds with the issue price accounting for 99.44% of the par value. The Eurobonds have been admitted to trading on the regulated market of the London Stock Exchange, while the TPE1025 bonds are listed in the Catalyst alternative trading system operated by the Warsaw Stock Exchange (Giełda Papierów Wartościowych w Warszawie S.A.).

Series A bonds (TPE1025) with a nominal value of PLN 1 000 000 thousand were issued under the Scheme Agreement of 6 February 2020 concluded between TAURON Polska Energia S.A. and Santander Bank Polska S.A., under which the Bond Issue Scheme up to PLN 2 000 000 thousand was established. Funds from the bond issue support the implementation of the Group's energy transformation. The terms and conditions of the bond issue include sustainability indicators in the form of the CO_2 emission reduction rate and a RES capacity expansion rate, the achievement of which determined the level of the bond margin.

(in PLN thousand)

Subordinated hybrid bonds

Bonds subscribed 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 positively affects Company's financial stability, since the bonds are excluded from the net debt / EBITDA ratio calculation, a covenant in national 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.

There are two financing periods for bonds subscribed for by the EIB. 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). In this period, the interest rate is fixed, while after the non-call period, it is floating and is linked to the underlying rate (WIBOR for bonds issued in PLN and EURIBOR for bonds issued in EUR) increased by an agreed 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, with the first financing period defined as 7 years and the next one as 5 years in accordance with the characteristics of hybrid financing case of bonds issued in EUR, the maturity date is set at 18 years from the issue date, i.e. 16 December 2034, with the first financing period defined as 8 years and the next one as 10 years in accordance with the characteristics of hybrid financing.

The bonds issued under the agreement of 6 September 2017 concluded with Bank Gospodarstwa Krajowego with a par value of PLN 400 000 thousand are also of a subordinated nature. For these bonds, two periods are also distinguished. The Company cannot early buy-back the bonds in the first (non-call) period, nor can BGK early sell them to third parties (in both cases except for cases indicated in the documentation). The interest rate is variable based on WIBOR 6M increased by a fixed margin, with the margin being further increased after a 7-year financing period.

New subordinated bond issue scheme

On 11 March 2021, TAURON Polska Energia S.A. concluded the agreement with Bank Gospodarstwa Krajowego on the subordinated bond issue scheme up to PLN 450 000 thousand.

The subordinated bond issue scheme provides for a possibility to conduct the issue within a period of two years from the moment of signing the documentation. The financing period is 12 years from the date of issue. During the first seven years after the issue, no early redemption of the bonds by the Company is possible and no earlier sale of the bonds by Bank Gospodarstwa Krajowego to third parties is possible. The interest rate is variable based on WIBOR 6M increased by a fixed margin, with the margin being further increased after a 7-year financing period. If issued, the bonds will be subscribed by Bank Gospodarstwa Krajowego on the primary market. Funds from the issue may be used to finance the Group's current and investment needs, including projects related to Green Turn of TAURON.

Until the date of approval of these interim condensed financial statements for publication, no bonds had been issued.

Change in the balance of bonds excluding interest which increases their carrying amount

	6-month period ended 30 June 2021 *(unaudited)*	6-month period ended 30 June 2020 *(unaudited)*
Opening balance	**6 714 586**	**5 513 468**
Redemption	-	(3 100)
Measurement change	(74 329)	130 405
Closing balance	**6 640 257**	**5 640 773**

**Costs of issue have been included.*

The change in the measurement of the bonds results mainly from the currency valuation of the liabilities contracted in EUR.

(in PLN thousand)

27.2. Bank loans

Borrowing institution	Purpose	Interest rate	Maturity date	As at 30 June 2021 *(unaudited)*	As at 31 December 2020
Consortium of banks I[1]	Redemption of bonds, investment and Group's general expenditures	floating	14.04.2021 [3]	-	601 673
			30.04.2021 [3]	-	200 429
			29.06.2021 [3]	-	1 099 541
			10.09.2021 [3]	100 409	100 366
			25.01.2021	-	300 100
			28.01.2021	-	600 089
			29.01.2021	-	100 007
			14.07.2021	300 849	-
			20.07.2021	300 777	-
			30.07.2021	300 657	-
			29.09.2021 [3]	849 822	-
Bank Gospodarstwa Krajowego	Group's capital expenditures and refinancing of a portion of debt	floating	20.12.2033	998 317	998 232
European Investment Bank	Construction of a boiler fired with biomass at Jaworzno III Power Plant and renovation of a steam turbine	fixed	15.12.2021	20 695	20 354
	Construction and start-up of a co-generation unit at EC Bielsko Biała	fixed	15.12.2021	29 578	29 105
	Modernization and extension of power grid	fixed	15.06.2024	118 584	137 682
		fixed	15.09.2024	63 258	72 151
		fixed	15.09.2024	79 264	90 440
	Modernization and extension of power grid and improvement of hydropower plants	fixed	15.03.2027	176 035	190 532
Intesa Sanpaolo S.P.A.	Group's investment expenditure, except for financing or refinancing projects related to coal assets	floating	19.12.2024	250 871	250 832
				250 799	250 758
				250 591	250 526
SMBC BANK EU AG	Group's general corporate expenses, excluding financing and refinancing of coal-fired power plants	fixed	23.03.2025	498 986	498 860
Consortium of banks II[2]	Group's general corporate expenses, excluding financing of any new coal assets-related projects	floating	10.09.2021 [3]	160 575	160 610
Total				**4 750 067**	**5 952 287**

[1] Consortium of banks I consists of: 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.
[2] Consortium of banks II consists of: 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,
[3] A tranche classified as non-current liability.

Pursuant to the provisions of the loan agreement of 19 June 2019 concluded with the consortium of banks (Consortium of Banks I), the maximum period for drawing individual loan tranches is 12 months. However, the financing available under the agreement is renewable and the deadline for its availability is end 2022. Due to the intention and ability to maintain financing under the said agreement for a period exceeding 12 months from the balance sheet date, tranches with the total nominal value of PLN 950 000 thousand are presented as a non-current liability as at the balance sheet date. Tranches with a total nominal value of PLN 900 000 thousand are classified as current liabilities as at 30 June 2021.

Likewise, the syndicated loan taken out under the agreement of 25 March 2020 (Consortium of Banks II) is of revolving nature. The Company may raise financing against available financing with a selected interest period. Under the agreement, the repayment occurs at the end of the interest period, whereas the Company has the option to re-borrow. Due to the intention and ability to maintain financing under the said agreement for a period exceeding 12 months from the balance sheet date, the drawdown used in the amount of PLN 160 000 thousand is classified as a non-current liability as of the balance sheet date.

(in PLN thousand)

Change in the balance of loans excluding interest increasing their carrying amount

	6-month period ended 30 June 2021 *(unaudited)*	6-month period ended 30 June 2020 *(unaudited)*
Opening balance	**5 940 446**	**6 996 963**
Movement in bank overdrafts	**-**	**(8 109)**
Movement in loans (excluding bank overdrafts):	**(1 201 471)**	**(844 183)**
Repaid	(5 355 659)	(7 095 259)
Taken*	4 149 501	6 243 926
Change in valuation	4 687	7 150
Closing balance	**4 738 975**	**6 144 671**
Interest increasing the carrying amount	11 092	24 699
Total bank loans	**4 750 067**	**6 169 370**

** Inclusive of the borrowing costs*

In the 6-month period ended 30 June 2021, the Company performed the following transactions relating to bank loans (at a nominal value), excluding overdraft facilities:

Lender	Description	6-month period ended 30 June 2021 *(unaudited)* Drawdown	Repayment
Consortium of banks I	Drawdown of new tranches and repayment of tranches according to maturity date	4 150 000	(5 300 000)
European Investment Bank	Repayment of capital instalments according to schedule	-	(55 659)
Total, *including:*		**4 150 000**	**(5 355 659)**
Cash flows		600 000	(1 805 659)
Net settlement (without cash flow)		3 550 000	(3 550 000)

After the balance sheet date, under the agreement of 19 June 2019 (Consortium of Banks I), the Company has drawn tranches with an aggregate total nominal value of PLN 900 000 thousand and repaid tranches in accordance with the repayment schedule in the total amount of PLN 1 300 000 thousand.

Overdrafts

The Company has available financing under the current account overdraft facility in EUR and the intraday limit. As at 30 June 2021 and as at 31 December 2020, the Company did not report any liabilities due to overdrafts.

After the balance sheet date, the Company concluded an agreement for overdraft in PLN, which stands up to PLN 250 000 thousand.

27.3. Debt agreement covenants

The agreements signed with banks impose the legal and financial covenants on the Company, standard for this type of transactions. The key covenant is the net debt to EBITDA ratio (for domestic long-term loans agreements and domestic bond issue schemes) which sets the debt less cash in relation to generated EBITDA. The net debt/EBITDA covenant for banks is examines on the basis of consolidated data as at 30 June and 31 December while its permissible limit value is 3.5.

As at 30 June 2021, the net debt/EBITDA ratio amounted to 2.06, therefore the covenant was not exceeded.

27.4. Loans from the subsidiary

As at 30 June 2021, the carrying amount of the liability towards the subsidiary, Finanse Grupa TAURON Sp. z o.o. due to the loan received amounted to PLN 768 938 thousand (EUR 170 089 thousand), including interest accrued as at the balance sheet date in the amount of PLN 16 377 thousand (EUR 3 623 thousand). As at 31 December 2020, the carrying amount of the loan was PLN 770 494 thousand (EUR 166 961 thousand), including accrued interest at the balance sheet date in the amount of PLN 2 309 thousand (EUR 500 thousand).

The liability of the Company is a long-term loan granted under an agreement concluded in December 2014 between TAURON Polska Energia S.A. and the subsidiary - Finanse Grupa TAURON Sp. z o.o. The loan bears interest at a fixed rate and interest is paid annually, in December each year - until full repayment of the loan. The repayment deadline of the loan falls on 29 November 2029.

(in PLN thousand)

27.5. Loans received under the cash pool service

As at 30 June 2021 and as at 31 December 2020, the Company had current liabilities due to cash pool transactions amounting to PLN 1 839 129 thousand and PLN 1 386 443 thousand, respectively.

The receivables arising from cash pool transactions are presented in Note 18.3 to these interim condensed financial statements.

The surplus of funds raised by the Company under the cash pool agreement is deposited in bank accounts.

27.6. Lease liability

As at 30 June 2021, the Company had a lease liability in the amount of PLN 26 976 thousand. The liability relates to the right of perpetual usufruct of land, lease of offices and warehouses, parking spaces and cars.

Ageing of the lease liability

Maturity within *(after the balance sheet date)*	As at 30 June 2021 *(unaudited)*	As at 31 December 2020
Within 1 year	9 374	9 502
Within 1 to 5 years	17 095	21 318
Within 5 to 10 years	455	411
Within 10 to 20 years	910	822
More than 20 years	4 433	4 088
Gross lease liabilities	**32 267**	**36 141**
Discount	(5 291)	(5 384)
Present value of lease payments	**26 976**	**30 757**

28. Other financial liabilities

	As at 30 June 2021 *(unaudited)*	As at 31 December 2020
Liabilities arising from stock exchange transactions	366 076	73 221
Liabilities arising from income tax settlements of the TCG companies	191 147	91 106
Bid bonds, deposits and collateral received	68 946	25 331
Measurement of financial guarantee	16 734	28 184
Commissions related to borrowings	5 167	4 999
Wages and salaries as well as other employee related liabilities	3 532	7 387
Other	19 755	16 961
Total	**671 357**	**247 189**
Non-current	10 242	14 090
Current	661 115	233 099

The value of initial and variation margins is related mostly to futures transactions in CO_2 emission allowances concluded on foreign regulated markets. The change in the value of margins compared to the comparable period results mainly from the significant increase in the price of allowances, while taking into account the number of exchange contracts open as at the balance sheet date. The supplementary deposits represented funds received by the Company on account of current exchange clearing, in connection with the change in the valuation of the concluded futures contracts open as at the balance sheet date.

29. Liabilities to suppliers

As at 30 June 2021, the highest balance of liabilities to suppliers were the liabilities to subsidiaries, Nowe Jaworzno Grupa TAURON Sp. z o.o., TAURON Wytwarzanie S.A. and the State Treasury company - Polska Grupa Górnicza S.A. and amounted to PLN 202 299 thousand, PLN 102 990 thousand and PLN 50 827 thousand, respectively.

As at 31 December 2020, the highest balance of liabilities to suppliers were the liabilities to subsidiaries, Nowe Jaworzno Grupa TAURON Sp. z o.o., TAURON Sprzedaż Sp. z o.o. and TAURON Wydobycie S.A. and amounted to PLN 162 665 thousand, PLN 143 459 thousand and PLN 94 459 thousand, respectively.

(in PLN thousand)

30. Income tax settlements and the Tax Capital Group

The Tax Capital Group Agreement for 2021-2023 was registered on 14 December 2020. Main companies forming the Tax Capital Group since 1 January 2021 include: TAURON Polska Energia S.A., TAURON Wytwarzanie S.A., Nowe Jaworzno Grupa TAURON Sp. z o.o., TAURON Dystrybucja S.A., 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., TEC1 Sp. z o.o., TEC3 Sp. z o.o. and Kopalnia Wapienia Czatkowice Sp. z o.o.

As at 30 June 2021, the Tax Capital Group has:

- the receivable for the year ended 31 December 2020 in the amount of PLN 103 530 thousand representing the surplus of advance payments paid in the amount of PLN 313 464 thousand over the tax burden of the TCG in the amount of PLN 209 934 thousand;
- the receivable for the 6-month period ended 30 June 2021 in the amount of PLN 56 220 thousand representing the surplus of advance payments paid in amount of PLN 336 283 thousand over the tax burden of the TCG in amount of PLN 280 063 thousand.

After the balance sheet date, on 5 July 2021, the Company received the income tax refund for 2020 in the amount of PLN 103 512 thousand.

At the same time, due to the settlements of the Company as a Representative Company with subsidiaries belonging to the Tax Capital Group, the Company had a liability to these subsidiaries due to overpayment of tax in the amount of PLN 191 147 thousand, recognised in other financial liabilities and receivables from the subsidiaries forming the Tax Capital Group on account of settlement of the tax in the amount of PLN 47 096 thousand, recognised in other financial assets.

Tax settlements and other areas of activity may be subject to inspection by authorities entitled to impose high penalties and any additional tax liabilities resulting from final decisions of tax inspection authorities must be paid including interest. Consequently, the amounts presented and disclosed in these interim condensed financial statements may change in the future.

31. Other non-financial liabilities

	As at 30 June 2021 *(unaudited)*	As at 31 December 2020
Advances received for deliveries	394 033	355 403
VAT	34 842	7 655
Social security	3 324	5 341
Personal Income Tax	1 491	1 856
Real estate tax	227	-
Net liabilities of the Company's Social Benefits Fund	177	-
Other	50	46
Total	**434 144**	**370 301**
Non-current	74 620	23 830
Current	359 524	346 471

Under the advances received for supplies, the Company presents advances received from a subsidiary, TAURON Wytwarzanie S.A. for the delivery of CO_2 emission allowances resulting from transaction agreements concluded.

32. Provision for onerous contracts

The change in the status of provisions for onerous contracts in the 6-month period ended 30 June 2021 is shown in the table below.

(in PLN thousand)

	Provision for an onerous contract		
	Multi-annual agreement for electricity purchase	Agreements for the sale of CO_2 emission allowances	Total
Opening balance	**1 109 897**	**-**	**1 109 897**
Unwinding of discount	522	701	**1 223**
Recognision/(Reversal) net	64 583	207 778	**272 361**
Utilisation	(165 390)	-	**(165 390)**
Closing balance	**1 009 612**	**208 479**	**1 218 091**
Non-current	527 692	144 115	**671 807**
Current	481 920	64 364	**546 284**

Provision for multi-annual agreement for the purchase of electricity from the subsidiary, Nowe Jaworzno Grupa TAURON Sp. z o.o.

The provision vale for the onerous contract as at 31 March 2021 amounted to PLN 1 009 612 thousand. Provision for effects of a multi-annual agreement for the purchase of the total volume of electricity generated in the 910 MW unit in Jaworzno by the Company from its subsidiary, Nowe Jaworzno Grupa TAURON Sp. z o.o. (hereafter referred to as: the "Agreement"). The Agreement, concluded in 2018, constituting an element of transaction documentation related to the investment of Closed-End Investment Funds managed by Polski Fundusz Rozwoju S.A. in company Nowe Jaworzno Grupa TAURON Sp. z o.o. (at the time of signing, implementing a project of construction of the 910 MW power unit in Jaworzno). The Company and Nowe Jaworzno Grupa TAURON Sp. z o.o. concluded an advance pricing agreement (the so-called APA) with the tax authority regarding the principles adopted in the Agreement for determining prices of electricity generated by the 910 MW unit and sold to the Company, which was approved in 2018 by the decision of the Head of the National Administration. On 13 November 2020, the 910 MW unit was commissioned. As at 31 December 2020, the aforementioned provision amounted to PLN 1 109 897 thousand. As at 30 June 2021, the Company estimated the provision in the period up to the end of 2026, in the context of its analysis of the contractual provisions performed as at the balance sheet date and its assessment that the Company exercises control over the ability to renegotiate the Agreement and terminate it. After the balance sheet date, the Company initiated activities aimed at repurchasing the shares in Nowe Jaworzno Grupa TAURON Sp. z o.o. from funds managed by the Polish Development Fund, as described in more detail in Note 42 to these interim condensed financial statements.

The provision created in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* was calculated assuming the purchase by the Company from the company Nowe Jaworzno Grupa TAURON sp. z o.o. of the volume of electricity generated by the 910 MW at prices specified in the Agreement till the end of 2026. The calculation of the provision was based on the difference between the purchase price of electricity purchased from Nowe Jaworzno Grupa TAURON Sp. z o.o. in the cost-plus formula enabling the company Nowe Jaworzno Grupa TAURON Sp. z o.o. to achieve the determined return on assets and the selling price of electricity to the subsidiaries TAURON Sprzedaż Sp. z o.o. and TAURON Sprzedaż GZE Sp. z o.o. The average annual volume of electricity purchased from Nowe Jaworzno Grupa TAURON Sp. z o.o. was estimated at a level of approximately 7 TWh.

The sales price was calculated on the basis of the following detailed assumptions:

- the calculation of the price for 2021-2023 was based on the prices projected for 2021 and planned for 2022-2023,
- the volume for the above three years is profiled on an hourly basis and measured based on, among others, BASE and PEAK price, SPOT market, profile risk, unbalancing risk, trading costs, implied spread and other portfolio assumptions to the best of the Company knowledge,
- the open position price for 2021 was calculated based on medium-term energy price paths,
- the price for the 2022 and 2023 open position was calculated based on sectoral energy price paths,
- the price for 2024-2026 takes into account the profiling but is treated entirely as an open position.

The purchase price was estimated on the basis of the estimated costs of electricity generation by the 910 MW unit, appropriately adjusted to achieve the profitability of the assets of the company Nowe Jaworzno Grupa TAURON sp. z o.o. determined in the Agreement. The assumptions underlying the determination of the cost of electricity generation in terms of CO_2 emission allowance prices, coal prices and capacity market are consistent with those adopted for the asset impairment tests carried out as at 30 June 2021, described in detail in Note 17.2 to this interim condensed financial statements.

Provision for agreements for sale of CO_2 emission allowances

In March 2021, the Company performed the restructuring of the portfolio of CO_2 emission allowances of the subsidiary, Nowe Jaworzno Grupa TAURON Sp. z o.o., as further described in Note 11 to these interim condensed financial statements.

As a result of the delayed commissioning of the 910 MW unit and the consequent lower production, a significant surplus of allowances contracted for the purpose of meeting the redemption obligation for 2020 over the actual demand (contracts with the delivery date in March 2021) was generated in the portfolio of the company. The Company decided to roll them over with the conclusion of new contracts with delivery dates in March 2022, 2023 and 2024. New contracted transactions with delivery dates in 2022-2024 were performed at prices higher than the purchase originally contracted, implying higher costs of purchasing CO_2 emission allowances for the purpose of resale to the subsidiary. The value of the new contracts for the purchase of CO_2 emission allowances concluded into in connection with the roll-over of contracts with an exercise date in March 2021 exceeds the expected revenue of the Company from the sale of allowances to the subsidiary. As at the balance sheet date, the Company recognised the provision for onerous contracts since, based on the transaction agreements concluded with the subsidiary, the unavoidable costs of fulfilment of the obligation to deliver CO_2 emission allowances outweigh the benefits to be received under these agreements.

As at 30 June 2021, the provision was updated and amounted to PLN 208 479 thousand.

33. Other provisions

As at 30 June 2021, the balance of other provisions in the amount of PLN 4 111 thousand relates to the provision for recourse claims of the subsidiary TAURON Ciepło Sp. z o.o. against the Company, in the scope of the proceedings of an external entity (former minority shareholder of TAURON Ciepło S.A.) against TAURON Ciepło Sp. z o.o. in the case related to setting the share repurchase price.

As at 31 December 2020, balance of other provisions in amount of PLN 4 909 thousand, concluded additionally the provision for tax risk in connection with the control proceedings initiated in 2016 by the Director of the Tax Control Office in Warsaw in the scope of value added tax. As regards the proceedings in question, on 15 January 2021 the Head of the Tax and Customs Control Office for the Mazowieckie Province in Warsaw issued a decision closing these proceedings, while on 3 February 2021 the Company paid the amount of the liability subject to the decision including the interest in the amount of PLN 798 thousand. The company has filed an appeal against this decision to the Director of the Revenue Administration Regional Office in Katowice. On 25 June 2021, the Director of the Revenue Administration Regional Office in Katowice announced that the examination of the appeal against the decision of the Head of the Tax and Customs Control Office for the Mazowieckie Province in Warsaw, in accordance with the jurisdiction, to the Director of the Tax Administration Chamber in Warsaw (from 1 January 2021 the Company is under the jurisdiction of the Head of the Tax Office for the Mazowieckie Province in Warsaw). After the balance sheet date, on 3 August 2021, the Director of the Revenue Administration Regional Office in Warsaw issued a decision determining a new deadline for closing the appeal proceedings, i.e. by 4 October 2021.

In the scope of control proceedings concerning value added tax initiated in 2014, the decision closing these proceedings was issued by the Head of the Tax and Customs Control Office for the Mazowieckie Province in Warsaw on 17 September 2020. The company settled the liability arising from the decision in the amount of PLN 54 734 thousand in October 2020, simultaneously filing an appeal against the decision. The appeal, accompanied by the case file was forwarded to the second instance authority, i.e. the Director of the Revenue Administration Regional Office in Katowice. After the balance sheet date, on 9 April 2021, the Director of the Revenue Administration Regional Office in Katowice issued a decision determining a new deadline for the closing the appeal proceedings – till the day of 15 October 2021.

(in PLN thousand)

EXPLANATORY NOTES TO THE INTERIM CONDENSED STATEMENT OF CASH FLOWS

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

34.1. Cash flows from operating activities

Changes in working capital

	6-month period ended 30 June 2021 (unaudited)	6-month period ended 30 June 2020 (unaudited)
Change in receivables	350 303	786 794
Change in inventories	(2 298)	(23 893)
Change in payables excluding loans	178 092	(287 332)
Change in other non-current and current assets	(11 314)	1 525
Change in deferred income, government grants and accruals	545	3 258
Change in provisions	107 895	(799)
Change in working capital	**623 223**	**479 553**

34.2. Cash flows from investment activities

Loans granting

Granting of loans in the amount of PLN 811 199 thousand included:

- granting a loan to the subsidiary, TAURON Wytwarzanie S.A. in the amount of PLN 600 000 thousand;
- granting a loan to the subsidiary, TAURON Wydobycie S.A. in the amount of PLN 250 000 thousand;
- granting a loan to the subsidiary, WIND T1 Sp. z o.o in the amount of PLN 6 000 thousand;
- change in the balance of loans granted to subsidiaries under the long-term exposure cash pool agreement in the amount of PLN (44 801) thousand.

Purchase of stocks and shares

Expenditure on the acquisition of shares in the amount of PLN 15 774 thousand is related to the transfer of funds by the Company to increase the capital of EEC Magenta Sp. z o.o. 2 ASI spółka komandytowo-akcyjna in the amount of PLN 4 800 thousand, EEC Magenta Sp. z o.o. ASI spółka komandytowo-akcyjna in the amount of PLN 174 thousand and the contribution to the capital of Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o. in the amount of PLN 10 800 thousand.

Sale of shares

Proceeds from sale of shares in the amount of PLN 52 605 thousand relate to sale of shares in PGE EJ1 Sp. z o.o. (currently: Polska Energia - Pierwsza Kompania Handlowa Sp. z o.o.), as further described in Note 25 of these interim condensed financial statements.

Interest received

	6-month period ended 30 June 2021 (unaudited)	6-month period ended 30 June 2020 (unaudited)
Interest received in relation to loans granted	133 084	51 864
Total	**133 084**	**51 864**

34.3. Cash flows from financial activities

Loans and borrowings repaid

Loan repayment expenses were related to the repayment of the following loans by the Company in the 6-month period ended 30 June 2021:

- tranches of loans to the Consortium of Banks I in the amount of PLN 1 750 000 thousand;

(in PLN thousand)

- loan instalments to the European Investment Bank in the amount of PLN 55 659 thousand.

Interest paid

	6-month period ended 30 June 2021 *(unaudited)*	6-month period ended 30 June 2020 *(unaudited)*
Interest paid in relation to loans	(52 702)	(98 092)
Interest paid in relation to debt securities	(35 343)	(35 108)
Other interest	(162)	(130)
Total	**(88 207)**	**(133 330)**

Loans drawn

Proceeds from loans drawn in the 6-month period ended 30 June 2021 were related to the drawdown of tranches of the loan under an agreement concluded with the Consortium of Banks I in the amount of PLN 600 000 thousand.

OTHER INFORMATION

35. Financial instruments

Categories and classes of financial assets	As at 30 June 2021 *(unaudited)*		As at 31 December 2020 *(restated figures)*	
	Carrying amount	Fair value	Carrying amount	Fair value
1 Financial assets measured at amortized cost	**8 004 753**	**8 004 753**	**6 632 136**	**6 632 136**
Receivables from buyers	948 614	948 614	1 301 409	1 301 409
Loans granted under cash pool agreement	1 193 687	1 193 687	278 715	278 715
Other loans granted	5 568 189	5 568 189	5 029 713	5 029 713
Other financial receivables	294 263	294 263	22 299	22 299
2 Financial assets measured at fair value through profit or loss (FVTPL)	**1 006 385**	**1 006 385**	**1 027 536**	**1 027 536**
Derivative instruments	515 656	515 656	158 846	158 846
Long-term shares	38 471	38 471	32 352	32 352
Shares classified as non-current assets held for sale	-	-	53 136	53 136
Loans granted	74 345	74 345	72 523	72 523
Other financial receivables	70 061	70 061	67 545	67 545
Cash and cash equivalents	307 852	307 852	643 134	643 134
3 Derivative hedging instruments	**72 109**	**72 109**	**-**	**-**
4 Financial assets excluded from the scope of IFRS 9 *Finanical Instruments*	**20 076 393**		**20 824 610**	
Shares in subsidiaries	19 660 541		20 408 758	
Shares in jointly-controlled entities	415 852		415 852	
Total financial assets, *of which in the statement of financial position:*	**29 159 640**		**28 484 282**	
Non-current assets	**25 967 000**		**25 129 145**	
Shares	20 114 864		20 856 962	
Loans granted	5 721 038		4 233 601	
Derivative instruments	130 643		36 041	
Other financial assets	455		2 541	
Current assets	**3 192 640**		**3 355 137**	
Receivables from buyers	948 614		1 301 409	
Loans granted	1 115 183		1 147 350	
Derivative instruments	457 122		122 805	
Other financial assets	363 869		87 303	
Cash and cash equivalents	307 852		643 134	
Non-current assets classified as held for sale	-		53 136	

(in PLN thousand)

Categories and classes of financial liabilities	As at 30 June 2021 *(unaudited)*		As at 31 December 2020	
	Carrying amount	Fair value	Carrying amount	Fair value
1 Financial liabilities measured at amortized cost	**15 322 052**	**15 613 295**	**15 870 161**	**16 312 262**
Arm's length loans, *of which:*	7 358 134	7 447 378	8 109 224	8 244 276
Liability under the cash pool loan	1 839 129	1 839 129	1 386 443	1 386 443
Bank loans	4 750 067	4 762 002	5 952 287	5 984 104
Loans from the subsidiary	768 938	846 247	770 494	873 729
Bonds issued	6 748 597	6 950 596	6 749 652	7 056 701
Liabilities to suppliers	543 964	543 964	764 096	764 096
Other financial liabilities	671 037	671 037	246 661	246 661
Liabilities due to purchases of fixed and intangible assets	320	320	528	528
2 Financial liabilities measured at fair value through profit or loss (FVTPL)	**600 420**	**600 420**	**85 523**	**85 523**
Derivative instruments	600 420	600 420	85 523	85 523
3 Derivative hedging instruments	**26 548**	**26 548**	**90 061**	**90 061**
4 Financial liabilities excluded from the scope of IFRS 9 *Finanical Instruments*	**26 976**		**30 757**	
Liabilities under leases	26 976		30 757	
Total financial liabilities, *of which in the statement of financial position:*	**15 975 996**		**16 076 502**	
Non-current liabilities	**10 997 138**		**12 205 123**	
Debt	10 921 040		12 117 294	
Other financial liabilities	10 242		14 090	
Derivative instruments	65 856		73 739	
Current liabilities	**4 978 858**		**3 871 379**	
Debt	3 212 667		2 772 339	
Liabilities to suppliers	543 964		764 096	
Derivative instruments	561 112		101 845	
Other financial liabilities	661 115		233 099	

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

Financial asset/liabilities classes	Fair value measurement level	Fair value measurement methodology
Financial assets/liabilities measured at fair value		
Derivatives, *including:*		Derivatives have been measured in line with the methodology presented in Note 19 hereto.
IRS and CCIRS	2	
Currency forwards	2	
Commodity forwards and futures	1	
Non-current shares	3	The Company estimated the fair value of shares held in other entities using the adjusted net assets method, considering its share in the net assets and adjusting the value by relevant factors affecting the measurement, such as the non-controlling interest discount and the discount for the limited liquidity of the above instruments. In justify cases, the Company assumes that the historical cost is an acceptable approximation of the fair value.
Loans granted	3	Fair value measurement of the loan had the form of the current value of future cash flows, including borrower's credit risk.
Financial liabilities whose fair value is disclosed		
Loans, borrowings and bonds issued	2	Liabilities arising from fixed interest debt are measured at fair value. The fair value measurement was carried out based on the present value of future cash flows discounted using an interest rate applicable to given bonds or loans, i.e. applying market interest rates.

The fair value of other financial instruments as at 30 June 2021 and 31 December 2020 (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.

(in PLN thousand)

Shares in subsidiaries and jointly-controlled entities excluded from the scope of IFRS 9 *Financial Instruments* are measured at cost less any impairment allowances.

The Company classifies a loan granted to Elektrociepłownia Stalowa Wola S.A. Under the agreement of 28 February 2018 to assets measured at fair value though profit or loss, as discussed in detail in Note 18.2 to these interim condensed financial statements.

36. Finance and financial risk management

36.1. Financial risk management

The TAURON Group has in place the *Financial Risk Management Policy in TAURON Group*, which determines the strategy of interest rate risk and currency risk management. Simultaneously, the policy implements hedge accounting principles which determine the rules and types of hedge accounting policy as well as the booking approach to recognising of hedging instruments and items hedged under the hedge accounting, in compliance with IFRS. The financial risk management policy and the hedge accounting principles relate to the cash flow risk.

Hedge accounting

As at 30 June 2021, the Company had hedging transactions subject to its financial risk management policy and subject to hedge accounting. The Company hedges part of the interest rate risk on account of its debt, as further discussed in Note 19 of these interim condensed financial statements.

36.2. Finance and capital management

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

37. Contingent liabilities

As at 30 June 2021 and as at 31 December 2020, the contingent liabilities of the Company mainly resulted from the securities and guarantees granted to related parties and included:

Type of contingent liability	Company in respect of which contingent liability has been granted	Beneficiary	As at 30 June 2021 *(unaudited)*				As at 31 December 2020	
			Validity	Currency		PLN	Currency	PLN
corporate guarantee	Finanse Grupa TAURON Sp. z o.o.	Private placement investors	3.12.2029	EUR	168 000	759 494	168 000	775 286
	Elektrociepłownia Stalowa Wola S.A.	Economic operators and customers who concluded agreements with ECSW S.A. under the license for electricity trading granted by the ERO President	15.02.2022			6 750		-
liability towards MUFG Bank, Ltd. under guarantees issued by the bank for jointly-controlled entity	Elektrociepłownia Stalowa Wola S.A.	Bank Gospodarstwa Krajowego	11.04.2022			517 500		517 500
registered pledges and financial pledge of shares in TAMEH HOLDING Sp. z o.o.	TAMEH Czech s.r.o. TAMEH POLSKA Sp. z o.o.	RAIFFEISEN BANK INTERNATIONAL AG	31.12.2028[1]			415 852		415 852
blank promissory note with a promissory note declaration	TAURON Wytwarzanie S.A.	Regional Fund for Environmental Protection and Water Management in Katowice	15.12.2022			40 000		40 000
	TAURON Ciepło Sp. z o.o.					30 000		30 000
surety contract[2]	TAURON Sprzedaż Sp. z o.o.	Polska Spółka Gazownictwa Sp. z o.o.	30.04.2022			30 000		20 000
	Elektrociepłownia Stalowa Wola S.A.	Bank Gospodarstwa Krajowego	-			-		9 959
			24.04.2022	USD	1 329	5 053	1 329	4 993
	TAURON Wytwarzanie S.A.	Polskie Sieci Elektroenergetyczne S.A.	indefinite			5 000		5 000
	Nowe Jaworzno Grupa TAURON Sp. z o.o.	Fund Advisors	28.09.2025			2 500		2 500
	Kopalnia Wapienia Czatkowice Sp. z o.o.	Regional Fund for Environmental Protection and Water Management in Kraków	31.12.2023			293		293
liability towards CaixaBank S.A. being result of guarantees issued by the bank for subsidiaries	various subsidiaries	various entities	30.06.2021-28.07.2029			50 722		32 808

[1] *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 .*
[2] *The surety granted to Elektrociepłownia Stalowa Wola S.A. in the amount of PLN 9 959 thousand expired on 30 January 2021.*

After the balance sheet date, bank guarantees issued by CaixaBank S.A. to secure liabilities and transactions of TAURON Polska Energia S.A. subsidiaries for the total amount of PLN 3 620 thousand, with validity dates from 31 October 2021 to 30 June 2022 entered into force.

The most significant items of contingent liabilities relate to:

- Corporate guarantee for the amount of EUR 168 000 thousand

  The corporate guarantee was granted in 2014 to secure the bonds (so-called NSV) of Finanse Grupa TAURON Sp. z o.o. The guarantee is valid until 3 December 2029, i.e. the redemption date of the bonds and amounts to EUR 168 000 thousand (PLN 759 494 thousand), and the beneficiaries of the guarantee are the private placement investors, who purchased the issued bonds.

- Liability towards MUFG Bank, Ltd.

  At the Company request, MUFG Bank, Ltd. issued a bank guarantee as security for the receivables of Bank Gospodarstwa Krajowego, resulting from 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.

  On 2 February 2021, a guarantee limit agreement was concluded under which an annex was issued to a bank guarantee of up to the amount of PLN 517 500 thousand with a validity period until 11 April 2022. The receivables of MUFG Bank, Ltd. against the Company are secured by a declaration on submission to enforcement up to the amount of PLN 621 000 thousand with a validity period until 31 October 2022.

  In connection with the guarantee issued, the Company recognised a liability in the amount of expected credit losses, which as at 30 June 2021 amounted to PLN 16 734 thousand (PLN 28 184 thousand as at 31 December 2020).

- Registered and financial pledges on shares

  Pursuant to 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 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 highest priority of satisfaction on the shares up to the highest amount of security in the amount of CZK 3 950 000 thousand and a registered pledge with highest priority of satisfaction on the shares up to the highest amount of security in the amount of 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 for the establishment of registered pledges and financial pledges was concluded in order to secure the transaction involving the agreement for term and working capital loans, which was concluded between TAMEH Czech s.r.o. and TAMEH POLSKA Sp. z o.o. as the original borrowers, TAMEH HOLDING Sp. z o.o. as the parent company and guarantor and RAIFFEISEN BANK INTERNATIONAL AG as the agent and 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 the shares in TAMEH HOLDING Sp. z o.o. as at 30 June 2021 was PLN 415 852 thousand.

- Blank promissory notes with a promissory notes declarations

  The Company issued two blank promissory notes with promissory note declarations with a total value of PLN 70 000 thousand to secure loan agreements received by its subsidiaries from the Regional Fund for Environmental Protection and Water Management (WFOŚiGW) in Katowice. The collateral in the form of promissory notes is valid until all liabilities to the lender are paid by the subsidiaries. Blank promissory notes are valid until 15 December 2022. As at the balance sheet date, the outstanding amount of loans secured with the promissory notes is PLN 6 000 thousand.

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: Polenergia and Wind Invest filed a case against Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o. to declare notices of termination of agreements 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 claims for damages and contractual penalty claims related to contract termination.

As at the date of approval of these interim condensed financial statements for publication, the amount of damages claimed in the lawsuits amounts to: 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 filed by Amon Sp. z o.o. and Talia Sp. z o.o., partial and preliminary judgements were issued (judgement of 25 July 2019 in the Amon Sp. z o.o. lawsuit and judgement of 6 March 2020, supplemented by the court on 8 September 2020 in the Talia Sp. o.o. lawsuit), in which the courts determined that the statements of Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o. on termination of long-term agreements concluded between Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o. and Amon Sp. z o.o. and those 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 resulting from certificates of origin are ineffective and do not produce legal effect in the form of termination of both agreements, as a result of which the agreements after the notice period, i.e. after 30 April 2015, remain in force in respect of all provisions and are binding on the parties. Moreover, the courts also recognised the claims of Amon Sp. z o.o. and Talia Sp. z o.o. for payment of damages justified as to the merits, without, however, prejudging the amount of potential damages. The judgements are not final. Polska Energia Pierwsza Kompania Handlowa sp. z o.o. filed a complaint against the judgments.

These partial and preliminary judgements, do not change the Group's assessment that the chances of losing the case are not higher than the chances of winning it.

In the case filed by Pękanino Wind Invest Sp. z o.o. for the provision of security for claims for determining that the terminations of long-term contracts submitted by Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o. are ineffective, the Court of Appeasl in Warsaw on 6 November 2019 partially granted the application for security by ordering Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o. to perform the provisions of the contracts in their entirety on the existing terms and conditions, in accordance with their content, until the proceedings from the suit of Pękanino Wind Invest Sp. z o.o. are legally concluded against Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o., pending before the Regional Court in Warsaw. The decision regarding the security is binding. This decision does not prejudge the merits of the action, which can only take place in a binding judgement, but only temporarily regulates the parties' relations for the duration of the proceedings. In view of the need to realise the security provision referred to above, Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o. created a provision for onerous contracts, the value of which as at the balance sheet date amounts to PLN 6 153 thousand.

Other cases are held at first instance courts (including one remanded for re-examination to the first- instance court by a second-instance court).

In the light of the current status of the proceedings and the related circumstances, the Group believes that the probability of losing other cases related to the claims both as regards declaration of ineffectiveness of the termination notices and securing non-monetary claims and the claims for compensation is less than 50%. Therefore, no provision for the related costs has been recognised (except provision for onerous contracts connected with claims filed by Pękanino Wind Invest Sp. z o.o., which have been discussed above).

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 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 interim condensed financial statements for publication, the amount of damages claimed in the lawsuits amounts to: Polenergia Group companies - PLN 131 333 thousand, Wind Invest group companies - PLN 272 450 thousand.

Moreover, in their claims, the plaintiffs indicate the following values of estimated damages that may arise in the future: Polenergia Group companies - PLN 265 227 thousand, Wind Invest Group companies - PLN 1 119 363 thousand.

The District Court in Katowice has jurisdiction to hear the lawsuits. 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 chances of obtaining a favourable resolution of the disputes should be assessed positively, i.e. the chances of losing are not higher than the chances of winning.

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. received notices in cases from motions filed by two Polenergia group companies against TAURON Sprzedaż Sp. z o.o. for a settlement attempt as to a total amount of PLN 78 855 thousand as compensation for alleged damage caused to Polenergia group companies as a result of the unjustified termination of the long-term contract concluded between these companies and Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o. The companies indicated in their motions that the Company, Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o. and the liquidators of Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o. had caused and continue to cause damage to Polenergia Group companies, and TAURON Sprzedaż Sp. z o.o. has deliberately taken advantage of this damage and - according to Polenergia Group companies - is liable for it. TAURON Sprzedaż Sp. z o.o. considered the demands of the Polenergia group companies as unjustified, and therefore no settlement was concluded. 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 to create a provision for the above case. The case is not subject to legal proceedings.

Claim against PGE EJ 1 Sp. z o.o. (currently Polskie Elektrownie Jądrowe Sp. z o.o.)

On 13 March 2015, a consortium of WorleyParsons Nuclear Services JSC, WorleyParsons International Inc, WorleyParsons Group Inc (hereinafter referred to as the "WorleyParsons consortium"), which is a research contractor within the investment process related to the construction of a nuclear power plant by PGE EJ 1 Sp. z o.o. (hereafter: "the Agreement"), reported in connection with the Agreement - in a call for payment to the PGE EJ 1 Sp. z o.o. - claims for the 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 contemporary shareholders (i.e. PGE Polska Grupa Energetyczna S.A., KGHM Polska Miedź S.A. and ENEA S.A.) that regulated mutual relations of the parties to the agreement as regards the claims, including principles of providing additional funds (if any) to PGE EJ 1 Sp. z o.o. by its shareholders.

In November 2015, the District Court in Warsaw served PGE EJ 1 Sp. z o.o. with the claim made by the WorleyParsons consortium for the amount approximating PLN 59 million, in 2017 and 2019 to approx. PLN 128 million.

On 26 March 2021, the Company and other entities holding shares in PGE EJ 1 Sp. z o.o. signed an agreement with the State Treasury for the sale of shares in PGE EJ 1 Sp. z o.o., which is described in more detail in Note 25 of these interim condensed financial statements. Moreover, the Company and PGE Polska Grupa Energetyczna S.A., KGHM Polska Miedź S.A. and ENEA S.A. concluded with PGE EJ1 Sp. z o.o. an annex to the agreement of 15 April 2015 regulating WorleyParsons, which regulates potential liabilities and provisions of the parties resulting from the settlement of the dispute with the WorleyParsons consortium after sale of shares in PGE EJ 1 Sp. z o.o. Pursuant to signed annex, the shareholders in proportion to their previously held number of shares in PGE EJ 1 Sp. z o.o. are liable for liabilities or proportionally entitled to benefits potentially arising as a result of the settlement of the dispute with the WorleyParsons consortium up to the maximum level of claims with interest set as at 26 March 2021, amounting respectively to PLN 140 million for claims raised by the WorleyParsons consortium against PGE EJ 1 Sp. z o.o. and PLN 71 million for claims raised by PGE EJ 1 Sp. z o.o. against the WorleyParsons consortium.

PGE EJ 1 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 provision was recognised in relation to the above events.

On 15 June 2021 an amendment to the articles of association of PGE EJ 1 Sp. z o.o. was registered which, inter alia, changed the name of the company (following the conclusion of the share sale agreement described above) to Polskie Elektrownie Jądrowe Sp. z o.o.

Claims filed by Huta Łaziska S.A.

In connection with the merger of the Company with Górnośląski Zakład Elektroenergetyczny S.A. (GZE), TAURON Polska Energia S.A. became the party to the court dispute with Huta Łaziska S.A. ("Huta") against GZE and the State Treasury represented by the President of the ERO. Currently, the proceedings are pending before the Court of Appeals in Warsaw.

By the statement of claim of 12 March 2007 Huta demands from GZE and the State Treasury - the President of the Energy Regulatory Office (in solidum) to adjudicate the amount of PLN 182 060 thousand with interest from the date of filing the statement of claim to the date of payment as compensation for the alleged damage caused by the failure of GZE to implement the decision of the President of the Energy Regulatory Office of 12 October 2001 concerning resumption of deliveries of electricity to Huta.

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. 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 defendant for the costs of the proceedings. The judgement is not legally 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 ordering the defendants to pay the costs of the proceedings in favour of Huta, or, in the alternative, 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 a legal analysis of claims, as well as taking into account the said judgement, the Company believes that they are unjustified and the risk that they must be satisfied is remote. Consequently, no provision has been recognised by the Company for any costs associated with those claims.

Case filed by ENEA S.A.

Case filed by ENEA S.A. ("ENEA") against TAURON Polska Energia S.A., which has been heard by the Regional Court in Katowice since 2016, and currently before the Court of Appeal in Katowice, refers to the payment of PLN 17 086 thousand with statutory interest from 30 June 2015 until the payment date. The actual basis of ENEA's claim are allegations concerning unjust enrichment of the Company in connection with possible errors in the determination of the aggregated measurement and settlement data by ENEA Operator Sp. z o.o. constituting the basis for settlements between ENEA and the Company and Polskie Sieci Elektroenergetyczne S.A. on account of imbalance on the Balancing Market in the period from January to December 2012. In the course of the proceedings at the request of ENEA additional sellers were summoned, for whom TAURON Polska Energia S.A. acted as an entity responsible for trade balancing, including the Company's subsidiaries, i.e. TAURON Sprzedaż Sp. z o.o. and TAURON Sprzedaż GZE Sp. z o.o. The claim for payment by the above subsidiaries amounting in total to PLN 8 414 thousand, together with statutory interest, was submitted by the claimant in the event the action against TAURON Polska Energia S.A. is dismissed.

On 22 March 2021, the Regional Court in Katowice dismissed the claim of ENEA in its entriety and ruled on ENEA's obligation to reimburse the costs of the proceedings to the Company. The judgement is not legally binding. ENEA has filed an appeal against the above ruling.

The Company did not recognize any provision as, in the opinion of the Company, the risk of losing the case is below 50%. Provisions were recognised by the subsidiaries of TAURON Polska Energia S.A. in the total amount of PLN 6 016 thousand in the case of TAURON Sprzedaż Sp. z o.o. and in the total amount of PLN 4 276 thousand in the case of TAURON Sprzedaż GZE Sp. z o.o.

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

The investment agreement signed by the Company with Fundusze Inwestycji Zamkniętych (the “Funds”) managed by Polski Fundusz Rozwoju provides for a number of situations the occurrence of which constitutes a material breach of the agreement on the part of 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 operation of the unit. A potential 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 an agreed return and a premium for material breach and reduced by the distribution of funds by Nowe Jaworzno Grupa TAURON Sp. z o.o. to the Funds.

(in PLN thousand)

As at the balance sheet date, the Company does not identify on its side any risk of material breach of agreement beyond the Company's direct control and takes the view that there is no realistic possibility, including in the future, of such breaches occurring.

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

After the balance sheet date, on 25 August 2021, the Company Management Board decided to initiate activities, including negotiations, aimed at the repurchase from the Funds of the total of 176 000 shares held by them, representing 14.12% of the total number of votes at the shareholders' meeting of Nowe Jaworzno Grupa TAURON Sp. z o.o., as described in more detail in Note 42 of these interim condensed financial statements.

38. Security for liabilities

The most significant types of collaterals securing the liabilities of the Company as at 30 June 2021 are presented in the table below.

Collateral	Collateral amount			Due date	Agreement/transaction
	Currency		PLN		
Declarations of submission to enforcement			7 284 000	31.12.2025	Loan arrangement with a Consortium of banks I of 19 June 2019
			2 550 000	20.12.2032	Long-term Bond Issue Scheme in Bank Gospodarstwa Krajowego of 31 July 2013
			1 500 000	31.12.2036	Overdraft agreement with Bank Gospodarstwa Krajowego of 19 December 2018
			900 000	31.12.2027	Credit agreements with Intesa Sanpaolo S.p.A. of 19 December 2019
			675 000	31.12.2038	Subordinated Bond Issue Scheme in Bank Gospodarstwa Krajowego of 11 March 2021
			621 000	31.10.2021	Bank guarantee agreement with MUFG Bank, Ltd. of 28 January 2020 [1]
			621 000	31.10.2022	Bank guarantee agreement with MUFG Bank, Ltd. of 2 February 2021 [1]
			600 000	30.06.2034	Subordinated Bond Issue Scheme in Bank Gospodarstwa Krajowego of 6 September 2017
			600 000	31.12.2028	Credit agreement with SMBC Bank EU AG of 16 March 2020
			600 000	31.12.2030	Credit agreement with a Consortium of banks II of 25 March 2020
			300 000	14.03.2024	Agreement concluded with Bank Gospodarstwa Krajowego for bank guarantees of 13 March 2020
			300 000	24.04.2024	Agreement concluded with Santander Bank Polska S.A. for bank guarantees for the benefit of Izba Rozliczeniowa Giełd Towarowych S.A. of 24 April 2020
			384 000	31.12.2027	Agreement concluded with Santander Bank Polska S.A. on intra-day credit in the Intra Day auxiliary account of 8 December 2020
			240 000	31.12.2023	Bond Issue Scheme of 24 November 2015 [2]
			180 000	25.05.2024	Agreement concluded with Intesa Sanpaolo S.p.A. Spółka Akcyjna Branch in Poland for bank guarantees for the benefit of Izba Rozliczeniowa Giełd Towarowych S.A. of 25 May 2020
	EUR	24 000	108 499	31.12.2021	Overdraft agreement with Bank Gospodarstwa Krajowego of 30 December 2015 [2]
		50 000	226 040		
		67 500	305 154	31.12.2022	
			96 000	27.05.2024	Framework bank guarantee agreements with CaixaBank S.A. of 27 May 2019
			24 000	27.05.2029	
Bank account madates			250 000	13.03.2023	Framework bank guarantee agreements with Bank Gospodarstwa Krajowego of 13 March 2020
	EUR	45 000	203 436	30.12.2021	Overdraft agreement with Bank Gospodarstwa Krajowego of 30 December 2015
			80 000	26.05.2023	Framework bank guarantee agreements with CaixaBank S.A. of 27 May 2019
			20 000	26.05.2028	
Bank guarantees			40 000	28.07.2021	Bank guarantees issued by Intesa Sanpaolo S.p.A. Spółka Akcyjna Branch in Poland, BGK and Santander Bank Polska S.A. to Izba Rozliczeniowa Giełd Towarowych S.A. as a collateral of transactions concluded on Towarowa Giełda Energii S.A.
			10 000	30.06.2021	
			10 000	16.08.2021	
			5 000	30.06.2021	Bank guarantee issued by CaixaBank S.A. to PSE S.A. as performance security for the power transmission service agreement and to GAZ-SYSTEM S.A. as transmission contract performance security
			6 500	31.12.2021	
Blank promissory notes to secure the payment of the Company's liabilities			4 443	-	Security for adequate performance of obligations under the concluded grants agreements

[1] The collateral in the form of a declaration of submission to enforcement submitted to the Agreement of 28 January 2020 for a guarantee limit concluded with MUFG Bank, Ltd. relates to the bank guarantee for the benefit of BGK, the expiry date of which was 11 April 2021, while the collateral in the form of a declaration of submission to enforcement submitted to the Agreement of 2 February 2021 for a guarantee limit concluded with MUFG Bank, Ltd. relates to the annex to the aforementioned bank guarantee which extends its expiry date to 11 April 2022.
[2] The collateral relates to an agreement for which, as at the balance sheet date, the liabilities have expired, have been repaid or have been replaced by others (in the case of the overdraft agreement with BGK of 30 December 2015, it relates to declarations of submission to enforcement in the amount of EUR 24 000 thousand and EUR 50 000 thousand).

After the balance sheet date, the following events took place:

- as at 1 July 2021, by virtue of the annex signed, the amount of the bank guarantee issued by Santander Bank Polska S.A. in favour of IRGiT was increased to the amount of PLN 20 000 thousand and its effective term was extended to 31 July 2021. The warranty expired on 31 July 2021;
- under the agreement concluded with Intesa Sanpaolo S.p.A. Spółka Akcyjna Oddział w Polsce on 19 July and 20 August 2021, two bank guarantees were issued in favour of IRGiT as a collateral for the Company liabilities in the amount of PLN 40 000 thousand each, with the validity period from 29 July 2021 to 27 August 2021 and from 28 August 2021 to 26 September 2021, respectively;
- on 31 August 2021, the Company signed a declaration of submission to enforcement under the overdraft agreement concluded after the balance sheet date, up to the amount of PLN 300 000 thousand with the effectiveness until 30 August 2024.

Securing transactions concluded on Towarowa Giełda Energii S.A.

- Assignment of CO_2 emission allowances in favour of Izba Rozliczeniowa Giełd Towarowych S.A. ("IRGiT")

In order to secure the liabilities arising from the transactions concluded by the Company at Towarowa Giełda Energii S.A. in 2019 and 2020, agreements for the assignment of CO_2 emission allowances for the benefit of IRGiT were concluded.

As at 31 December 2020, CO_2 emission allowances in the total amount of 3 021 799 tonnes, including allowances owned by the Company in the total amount of 2 205 000 tonnes and those owned by the subsidiary, TAURON Wytwarzanie S.A. in the total amount of 816 799 tonnes, were assigned to the IRGiT.

In connection with the Group's redemption needs, on 16 February 2021 all allowances owned by the subsidiary were returned to the account of TAURON Wytwarzanie S.A., while on 17 March 2021 a part of the allowances in the amount of 1 660 000 tonnes was returned to the Company.

As at 30 June 2021, the subject of security were CO_2 emission allowances owned by the Company in the amount of 545 000 tonnes. After the balance sheet date, on 9 July 2021, all allowances were returned to the Company's account.

- Agreement on the compensation of collateral in the TAURON Group

Pursuant to the Agreement defining the principles for the establishment of financial collateral for the Energy Group concluded with the IRGiT, TAURON Group applies a collateral deposit compensation mechanism. In terms of the transactions performed, the margins required by the IRGiT are calculated against the positions offset within the Group, which translates into the reduction in the funds involved on a Group-wide basis in maintaining the collateral required by the IRGiT.

39. Investment liabilities

As at 30 June 2021 and as at 31 December 2020 the Company did not have any material investment liabilities.

40. Related party disclosures

40.1. Transactions with related parties and State Treasury companies

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

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

(in PLN thousand)

Revenues and expenses

	6-month period ended 30 June 2021 *(unaudited)*	6-month period ended 30 June 2020 *(unaudited)*
Revenue from subsidiaries	**8 438 925**	**5 461 491**
Revenue from operating activities	6 440 807	5 289 897
Dividend income	1 705 661	-
Other finance income	292 457	171 594
Revenue from jointly-controlled entities	**122 829**	**70 047**
Revenue from State Treasury companies	**227 232**	**115 344**
Costs from subsidiaries	**(3 009 473)**	**(1 126 481)**
Costs of operating activities	(2 995 191)	(1 109 064)
Finance costs	(14 282)	(17 417)
Costs incurred with relation to transactions with jointly-controlled entities	**(202 399)**	**(2 832)**
Costs from State Treasury companies	**(421 613)**	**(244 203)**

Receivables and liabilities

	As at 30 June 2021 *(unaudited)*	As at 31 December 2020
Loans granted to subsidiaries and receivables from subsidiaries	**11 530 726**	**9 752 655**
Receivables from buyers	869 655	1 283 880
Loans granted under cash pool agreement with interest accrued	1 240 274	312 756
Other loans granted	9 124 554	8 130 671
Dividend receivables	246 761	-
Receivables arising from the TCG	46 357	21 371
Other financial receivables	72	89
Other non-financial receivables	3 053	3 888
Loans granted to jointly-controlled entities and receivables from jointly-controlled entities	**528 937**	**495 496**
Receivables from State Treasury companies	**38 907**	**18 893**
Liabilities to subsidiaries	**3 640 617**	**3 152 699**
Liabilities to suppliers	400 198	545 363
Loans received under cash pool agreement with interest accrued	1 817 802	1 365 579
Other loans received	768 938	770 494
Liabilities arising from the TCG	191 147	91 106
Other financial liabilities	68 242	24 025
Other non-financial liabilities	394 290	356 132
Liabilities to jointly-controlled entities	**49 761**	**40 991**
Liabilities to State Treasury companies	**75 711**	**85 389**

Revenues from subsidiaries presented in the table 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 are presented in the statement of comprehensive income, net of acquisition costs, at the surplus value representing intermediation fees, as described in Note 11 of these interim condensed financial statements.

In the 6-month period ended 30 June 2021, the revenues from State Treasury companies result from transactions executed by the Company with Polskie Sieci Elektroenergetyczne S.A.

In the scope of costs incurred in transactions in connection with transactions with State Treasury companies in the 6-month period ended 30 June 2021, the largest counterparties of TAURON Polska Energia S.A. included Polska Grupa Górnicza S.A., Jastrzębska Spółka Węglowa S.A. and Polskie Sieci Elektroenergetyczne S.A. Costs in transactions with these counterparties accounted for 99% of the total costs incurred in purchase transactions with State Treasury companies.

The Company conducts material transactions on the energy market through Izba Rozliczeniowa Giełd Towarowych S.A. As this entity only organises stock exchange trading, the Company does not treat the purchase and sale transactions made through it as related party transactions.

(in PLN thousand)

Transactions with the State Treasury

On 22 March 2021, an agreement with the State Treasury represented by the Ministry of State Assets and the Company was signed, under which the Company was authorized to reimbursement of cost incurred in connection with implementation activities delegated by the President of the Council of Ministry dated 29 October 2020 in scope of counteracting of COVID-19, which consist of organize, build and maintenance a temporary hospital in Krynica- Zdrój. As at 30 June 2021, the Company has receivables from State Treasury due to build, equipment and maintenance of this hospital in amount of PLN 641 thousand. Taking into account, that part of revenues result from above agreement in amount of PLN 5 002 thousand was recognized as a estimated revenue in year 2020, in the 6-month period ended 30 June 2021 the Company recognised revenue due to above agreement in amount of PLN 2 649 thousand.

On 26 March 2021, the Company signed the agreement with the State Treasury for sale of the shares in PGE EJ 1 Sp. z o.o. (currently: Polskie Elektrownie Jądrowe Sp. z o.o.), as further described in Note 25 hereto.

40.2. Remuneration of the executives

The amount of compensation and other benefits paid or payable to the Management Board, Supervisory Board and other key executives of the Company in the 6-month period ended 30 June 2021 and in the comparative period is presented in the table below.

	6-month period ended 30 June 2021 *(unaudited)*	6-month period ended 30 June 2020 *(unaudited)*
Management Board	**2 418**	**1 328**
Short-term benefits (with surcharges)	2 173	1 165
Temination benefits	169	111
Other	76	52
Supervisory Board	**289**	**408**
Short-term employee benefits (salaries and surcharges)	289	408
Other members of key management personnel	**8 420**	**9 938**
Short-term employee benefits (salaries and surcharges)	7 839	8 639
Temination benefits	75	765
Other	506	534
Total	**11 127**	**11 674**

The above table takes into account the amounts paid and due to be paid until 30 June 2021. In addition, in accordance with the accounting policy adopted, the Group recognises the provisions for benefits on account of termination of management contracts due to members of the Management Board and other key management personnel that may be paid or due in subsequent reporting periods.

There are no transactions in the Company in respect of loans from the Company's Social Fund granted to members of the Management Board, members of the Supervisory Board and other members of the main management.

41. Other material information

Judgement of the Court of Arbitration at the Polish Chamber of Commerce concerning the claims of Abener Energia S.A. against Elektrociepłownia Stalowa Wola S.A. and the proceedings between Abener Energia S.A. And Elektrociepłownia Stalowa Wola S.A.

On 25 April 2019, a judgement of the Court of Arbitration at the Polish Chamber of Commerce in Warsaw ("The Judgement") 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.

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 contract concluded Abener (general contractor) and ECSW (contracting authority) for the construction of a CCGT unit in Stalowa Wola, which was abandoned. Pursuant to the Judgement, 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 22 September 2020, the Court of Appeals in Rzeszów, by its judgement, dismissed the complaint of ECSW to repeal the Judgement, and on 20 November 2020, issued a decision, which hold an execution of the Judgment till the end of cassation proceeding term or expiration of a complaint in cassation term. As a consequence of the pending dispute, on 21 December 2020, ECSW filed a complaint in cassation.

In the 6-month period ended 30 June 2021, no material legal events occurred in the scope of the above proceedings. To the best of the Company knowledge, Elektrociepłownia Stalowa Wola S.A. recognised the provision for the effects of the above Judgement in the last approved financial statements.

On 20 December 2019, ECSW received another statement of claim lodged by Abener with the Arbitration Court. The subject matter of the lawsuit is the payment by ECSW to Abener of the total amount of PLN 156 447 thousand and EUR 537 thousand plus statutory interest for the delay as compensation for damages resulting from ECSW requesting and obtaining payment from the performance bond at Abener's expense or, alternatively, reimbursement of illegitimate enrichment obtained by ECSW at Abener's expense in connection with receiving the payment from the performance bond. The guarantee was granted to ECSW by Abener in accordance with the contract between the parties for the construction of a CCGT unit in Stalowa Wola. A response to the claim was filed by ECSW on 20 March 2020. An assessment of the claim and its justification shows that they are unfounded. The arbitration proceedings are ongoing.

On 19 October 2020, ECSW lodged a statement of claim with the Court of Arbitration at the Polish Chamber of Commerce in Warsaw against Abener for payment by Abener to ECSW of PLN 198 664 thousand and EUR 461 thousand, including interest, as compensation for damages corresponding to the costs of rectifying the defects, faults and deficiencies in the works, deliveries and services performed by Abener during the performance of the aforementioned contract. The proceedings are pending.

The contract for the construction of the CCGT unit concluded between ECSW and Abener does not contain provisions obliging the Company to pay any form of remuneration to Abener for ECSW. On 30 September 2020, Elektrociepłownia Stalowa Wola was commissioned.

Impact of the COVID-19 pandemic on the operations of the Company and TAURON Group

The 6-month period ended 30 June 2021 continues to be a persistent state of the COVID-19 pandemic with an increase in incidence observed during this period resulting in record levels of recorded cases of infection of SARS-CoV-2 (wave III) and a gradual decline during the second quarter. Consequently, numerous restrictions were in place in the country to mitigate the spread of the pandemic. This situation continued to cause disruption to the economic and administrative system in Poland and worldwide. As a result, the pandemic significantly restricted economic activity, affecting in particular the work of companies in sectors such as tourism, trade and transport. Consequently, in the medium and long term, it is expected that the COVID-19 pandemic will continue to affect national, European as well as global economic conditions, posing an adverse impact on the economic growth in Poland in the 2021 and the subsequent years. Material issues relating to the impact of the pandemic on the TAURON Group are set out below. Bearing in mind that the Company is the parent company of the Group which coordinates selected aspects of activities of the subsidiaries, the areas of the impact of the pandemic on the Group presented below are significant from the Company point of view as potentially affecting its financial position.

- Despite the restrictions implemented, no sale volume declines were observed in the Distribution and Sales Segments in the 6-month period ended 30 June 2021. Compared to the corresponding period of 2020, a 8.7 % increase in electricity demand was recorded, with the continued restrictions changing the structure of consumption by tariff group resulting in an increase in consumption for households (Tariff Group G) by 8.2 %. In this group, remote work and education played a decisive role in the level of consumption. Also, in the case of small companies and institutions (Tariff Group C1), for which a decrease in consumption of 3.1% was recorded after the first quarter of 2021 in relation to the first quarter of 2020, an increase of 6.4% is recorded in the 6-month period ended 30 June 2021 compared to the corresponding period of the previous year. For this group, the decline in the demand in the first quarter of 2021 was a direct result of governmental actions consisting in applying restrictions affecting commercial premises or leisure facilities. As the above restrictions were relaxed, the demand increased.
- Disturbances in economic activity in Poland triggered financial difficulties for customers and contractors of TAURON Group. The situation was mitigated by regulatory measures in the introduction of successive anti-crisis shields, which were aimed at maintaining liquidity and protecting jobs at Polish entrepreneurs. In the 6-month period ended 30 June 2021, changes in the level of overdue receivables were basically stable. In order to limit potential credit losses, extended credit risk management criteria are consistently applied, accompanied by the monitoring of receivables and debt collection activities. The COVID-19 pandemic has affected the need for additional allowances for expected credit losses of financial instruments and the remeasurement to fair value of loans granted. This increased the Company's operating expenses by PLN 2 177 thousand and financial expenses by PLN 7 060 thousand, which was described in more detail in Note 6 to these interim condensed financial statements.

- In the scope of market environment, no increased volatility in the prices of commodity instruments was observed as a result of the epidemic situation in the period of the first half of 2021.
- With regard to financial instruments, the persistence of the depreciation of the zloty and the low level of interest rates were observed. Changes in exchange rates affect the costs incurred to purchase CO_2 emission allowances, as well as the measurement of the Company's debt denominated in foreign currencies. On the other hand, changes in the level of interest rates may affect the costs resulting from the concluded financing agreements based on a variable interest rate, as well as regulated revenue in the Distribution Area.
- The persistent state of the COVID-19 pandemic resulted in some difficulties in the implementation of TAURON Group's strategic investment projects. In the case of the construction of the 910 MW unit in Jaworzno, the consortium acting as General Contractor of the unit identified the impact of the pandemic on the execution of the contract, of which the employer, i.e. Nowe Jaworzno Grupa TAURON Sp. z o.o., was informed in the relevant note submitted by the General Contractor. The content of the above note indicated that the COVID-19 pandemic resulted in both the unavailability of key personnel of E003B7 Sp. z o.o. essential for the works performed as well as key subcontractors for the work being carried out, indicating some of the tuning and optimisation work which, in the opinion of the General Contractor, could not have been performed due to the constraints caused by the pandemic. As at the date of these interim condensed financial statements, the Employer at the request of the General Contractor, has entered into mediation of the disputed circumstances between the Parties, including circumstances affecting the implementation of the project and resulting from the continuing state of the COVID-19 pandemic. In the case of other ongoing projects, difficulties were noted related to their implementation, to which the absenteeism of a significant number of employed persons contributed because of quarantine or home isolation as a result of COVID-19 infection. As a consequence, delays in the schedule appeared and, in some cases, annexes are currently processed to postpone the achievement of milestones. In addition, problems related to the access to public administration occurred affecting the prolonged duration of administrative proceedings. In order to mitigate the consequences of project disruptions, all contractors implementing the projects cooperate closely and on an ongoing basis with TAURON Group companies responsible for the investments, which monitor the situation in the projects and respond appropriately to the situation using available tools.
- The situation related to the COVID-19 pandemic continued to affect the operations of individual Business Areas of TAURON Group through increased employee absenteeism and the growth of operating costs resulting from the need to meet epidemiological conditions. In this regard, TAURON Group has been continuously taking a number of preventive measures in organisational and material terms aimed at protecting employees of individual companies of TAURON Group and maintaining the continuity of critical infrastructure operations. Dedicated Crisis Teams have been established at the level of the Company as well as individual companies of TAURON Group in order to coordinate the works associated with ensuring the security related to the threat of COVID-19.

TAURON Group, being aware of the risks related to the epidemiological situation, continued to undertake active measures to mitigate the impact of the current and expected economic situation as well as to protect against extreme events. It should be stressed that the COVID-19 pandemic situation is volatile and the future impact and scale of the pandemic are currently difficult to estimate precisely. The duration of the pandemic, its severity and range, the availability and speed of vaccination as well as its impact on Polish economic growth in the short, medium and long term will be significant. The Company Management Board, being aware of the threats resulting from the pandemic, monitors the impact on an ongoing basis and will take all possible steps to mitigate any negative effects of the COVID-19 pandemic on TAURON Group.

42. Events after the balance sheet date

Signing the agreement concerning the cooperation in the field of unbundling of coal assets

After the balance sheet date, on 23 July 2021, the Company, PGE Polska Grupa Energetyczna S.A., ENEA S.A., Energa S.A. (collectively, the "Energy Companies") and the State Treasury concluded the agreement on cooperation in the scope of unbundling of coal assets and their integration into the National Energy Security Agency (the "Agreement"). The conclusion of the Agreement is related to the document published by the Ministry of State Assets "Transformation of the Electricity Sector in Poland. Separation of coal assets from the companies with State Treasury shareholding". The above document presents the concept of unbundling of assets related to generation of electricity in conventional coal units from capital groups of individual Energy Companies, which stipulates, among others, integration of the aforementioned assets within a single entity, i.e. PGE Górnictwo i Energetyka Konwencjonalna S.A. - a subsidiary of PGE Polska Grupa Energetyczna S.A., which will ultimately operate under the name of National Energy Security Agency. Taking into account the foregoing and recognizing the need to coordinate the cooperation in the planned process of unbundling coal assets, the parties declared the mutual exchange of necessary information under the Agreement, which will allow for the efficient and effective implementation of the process aimed at creating the National Energy Security Agency.

Signing the Letter of Intent concerning Elektrociepłownia Stalowa Wola S.A.

After the balance sheet date, on 2 August 2021, the Company, subsidiary TAURON Wytwarzanie S.A., Polskie Górnictwo Naftowe i Gazownictwo S.A. ("PGNiG") and PGNiG TERMIKA S.A. signed a letter of intent concerning the potential transaction of sale by TAURON Wytwarzanie S.A. to the PGNiG Group of its equity interest in Elektrociepłownia Stalowa Wola S.A. and receivables on account of loans granted to Elektrociepłownia Stalowa Wola S.A. by TAURON Polska Energia S.A. Signing of the letter of intent does not imply a commitment by the parties to conclude the above-mentioned potential transaction. The decision to proceed with the transaction will depend on the outcome of negotiations in this regard and the fulfilment of other conditions stipulated by law or in corporate documents. The potential sale of shares in Elektrociepłownia Stalowa Wola S.A. is in line with the strategic directions announced by TAURON Polska Energia S.A. on 27 May 2019.

Standstill of the 910 MW Unit in Jaworzno

After the balance sheet date, on 2 August 2021, TAURON Polska Energia S.A. received a schedule of works to be carried out at the 910 MW unit in Jaworzno (the "Unit") from subsidiary Nowe Jaworzno Grupa TAURON sp. z o.o. The schedule results from the need to carry out work on some of the elements of the unit that were identified by the internal inspection of the equipment during the standstill of the unit. On the basis of received schedule, company Nowe Jaworzno Grupa TAURON sp. z o.o. has provisionally estimated by the company E003B7 Sp. z o.o., the re-synchronisation of the unit with the grid on 25 February 2022 is possible to reach.

On 8 September, the company RAFAKO S.A. one of the business entities forming the consortium RAFAKO S.A. – MOSTOSTAL WARSZAWA S.A. which carries out the works related to the unit has submitted a statement to the Company saying that smooth continuation of works at the unit depends on the Company's capital engagement in RAFAKO S.A. On the same day, the company Nowe Jaworzno Grupa TAURON Sp. z o.o. received form RAFAKO S.A. a call for an immediate explanation of the causes of the fire incidents that took place on the unit on 7 January 2021, and 11 June 2021, respectively. RAFAKO S.A. has declared that it is intending to halt all ongoing and planned works on the unit until it has received information from Nowe Jaworzno Grupa TAURON Sp. z o.o. that there is no hazard for life and health of the personnel, as well calls for an explanation of the causes of the fire incidents by 15 September 2021, otherwise it may terminate the agreement for the construction of the unit, concluded on 17 April 2014.

In the Company's opinion all activities undertaken by Nowe Jaworzno Grupa TAURON Sp. z o.o. as part of the implementation of the investment project and the operation of the unit, including aforementioned incidents, were and are in compliance with the highest standards and legal regulations, including the regulations in the field of fire protection, as well as with the operational documentation prepared by the RAFAKO S.A. under the Agreement. Additional, the company Nowe Jaworzno Grupa TAURON Sp. z o.o. jointly with RAFAKO S.A., appointed an emergency committee to investigate and explain the causes of the fire incident that took place on 11 June 2021, which, as of today has not completed its works and has not formulated the final conclusions in this matter. The Company indicates that it has not taken any decisions or actions aiming at purchase of a block of shares in RAFAKO S.A., and has not been in the negotiation process on the subject matter. The Company would like to underline that it takes actions to bring the unit back to operation as soon as possible.

Taking into account aforementioned events, the Company is not able to determine way of realization of the Agreement for the construction of the unit with the consortium RAFAKO S.A. – MOSTOSTAL WARSZAWA S.A. Consequently, described above schedule of works to be carried out at the unit, which assume the re-synchronisation of the unit with the grid on 25 February 2022 might be out-of-date.

Commencement of activities aimed at the repurchase of shares in the subsidiary, Nowe Jaworzno Grupa TAURON Sp. z o.o. from funds managed by the Polish Development Fund

After the balance sheet date, on 25 August 2021, the Company Management Board decided to launch actions, including initiating negotiations, aimed at repurchasing from Fundusz Inwestycji Infrastrukturalnych - Kapitałowy Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych and PFR Inwestycje Fundusz Inwestycyjny Zamknięty, with a part of their investment portfolio managed by Polski Fundusz Rozwoju S.A., the total of 176 000 shares representing 14.12% of the total number of votes at the shareholders' meeting of the subsidiary Nowe Jaworzno Grupa TAURON Sp. z o.o. The intention of the Company to repurchase the shares in Nowe Jaworzno Grupa TAURON Sp. z o.o. is linked in particular with the preparation of TAURON Group for the implementation of the planned structural changes in the electricity sector in Poland which were presented by the Ministry of State Assets. This concept assumes unbundling of assets associated with the generation of electricity in conventional coal units from capital groups of individual energy companies and integration of the aforementioned assets within a single entity, i.e. the National Energy Security Agency. The conclusion of the potential repurchase transaction is subject to a positive outcome of the negotiations.

These interim condensed financial statements of TAURON Polska Energia S.A. prepared for the 6-month period ended 30 June 2021 in compliance with the International Accounting Standard no. 34 comprise 63 pages.

Katowice, 14 September 2021

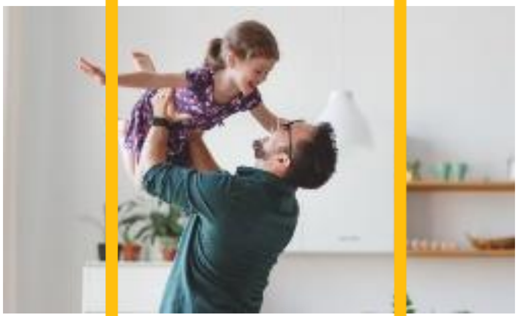
Artur Michałowski – acting President of the Management Board, Vice-President of the Management Board

Patryk Demski – Vice-President of the Management Board

Krzysztof Surma – Vice-President of the Management Board

Jerzy Topolski – Vice-President of the Management Board

Oliwia Tokarczyk - Executive Director for Accounting and Taxes



REPORT OF THE MANAGEMENT BOARD

on the operations of TAURON Polska Energia S.A. Capital Group in the first half of 2021

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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

TAURON Polska Energia S.A.
TAURON Capital Group's holding company
oversees corporate functions: management, strategic investments,
regulations, human resources, finance, controlling, internal audit, PR, investor relations, purchasing

MINING

29% of Poland's thermal coal resources

- 3 hard coal mines,
- commercial coal production: 2.70 million Mg, including 72% consumed within TAURON Capital Group, and 28% sold to external customers,
- Segment's H1 2021 EBITDA: PLN -45 million

GENERATION

One of the largest electricity producers in Poland

- 9 conventional power plants and combined heat and power plants with electric capacity of 4.5 GWe and thermal capacity of 2.2 GWt,
- 7.1 TWh of gross electricity production, including 0.22 TWh from biomass,
- 7.2 PJ of heat production,
- Segment's H1 2021 EBITDA: PLN 1 008 million.

RES

Material producer of green energy in Poland

- 9 wind farms with total capacity of 381 MWe,
- 34 hydro power plants with total capacity of 133 MWe,
- 2 photovoltaic farms with total capacity of 11 MWe
- 0.7 TWh of gross electricity production from wind and hydro sources,
- Segment's H1 2021 EBITDA: PLN 167 million.

DISTRIBUTION

Largest electricity distributor in Poland

- approx. 5.7 million customers,
- distribution in the area covering 57,9 thousand km^2, i.e. 18.5% of Poland's territory,
- 26,8 TWh of electricity distributed,
- Segment's H1 2021 EBITDA: PLN 1 519 million,

SUPPLY

Second largest electricity supplier in Poland

- approx. 5.6 million customers,
- 16.62 TWh of retail electricity supply,
- Segment's H1 2021 EBITDA: PLN 237 million.

OTHER OPERATIONS

- provision of services to consumers of electricity and distribution services for TAURON Capital Group's subsidiaries
- provision of support services for TAURON Capital Group's subsidiaries in the following areas: Accounting, IT and HR
- limestone mining for the needs of power generation, steel, construction and road building industries
- acquiring, transporting and processing of biomass for the needs of utility scale power generation
- utilization of the hard coal combustion and extraction processes by-products
- vehicles' technical support services
- real estate administration
- property security
- financial operations
- Segment's H1 2021 EBITDA: PLN 106 million.

1.2. Segments of operations (lines of business)

In accordance with the updated *TAURON Group's Business and Operational Model* (Business Model), adopted on February 23, 2021, TAURON Capital Group's business operations are conducted by the units defined as: Corporate Center, the Lines of Business (Segments) (Trading, Mining, Generation, Renewable Energy Sources (RES), Heat, Distribution and Supply) and the Shared Services Centers (Centra Usług Wspólnych - CUW).

For the needs of reporting TAURON Capital Group's results the operations of TAURON Capital Group are divided into the following 5 main Segments (Operating Segments), hereinafter also referred to as the Lines of Business:

Mining Segment comprising mainly hard coal mining, cleaning (separating) and sales in Poland. The Segment's operations are conducted by TAURON Wydobycie S.A. (TAURON Wydobycie).

Generation Segment comprising mainly electricity generation using conventional sources, including in co-generation, as well as electricity generation from biomass burning. The Segment also includes heat generation, supply and distribution. The Segment's operations are conducted by TAURON Wytwarzanie S.A. (TAURON Wytwarzanie) and Nowe Jaworzno Grupa TAURON sp. z o.o. (Nowe Jaworzno Grupa TAURON), as well as TAURON Ciepło sp. z o.o. (TAURON Ciepło). The Segment also includes TAURON Serwis sp. z o.o. subsidiary, dealing primarily with the generation equipment's overhauls

RES Segment comprising electricity generation from renewable energy sources: hydroelectric power plants as well as wind and solar farms. The 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.[1] (TEC2) and TEC3 sp. z o.o. (TEC3) as well as 10 subsidiaries acquired in September 2019, i.e.: TEC1 sp. z o.o. Mogilno I spółka komandytowa (limited partnership), TEC1 sp. z o.o. Mogilno II spółka komandytowa (limited partnership), TEC1 sp. z o.o. Mogilno III spółka komandytowa (limited partnership), TEC1 sp. z o.o. Mogilno IV spółka komandytowa (limited partnership), TEC1 sp. z o.o. Mogilno V spółka komandytowa (limited partnership), TEC1 sp. z o.o. Mogilno VI spółka komandytowa (limited partnership), TEC1 sp. z o.o. EW Śniatowo spółka komandytowa (limited partnership), TEC1 sp. z o.o. EW Dobrzyń spółka komandytowa (limited partnership), TEC1 sp. z o.o. EW Gołdap spółka komandytowa (limited partnership), TEC1 sp. z o.o. Ino 1 spółka komandytowa (limited partnership). In addition, starting from the financial statements for the year ended December 31, 2020, the companies AVAL-1 Sp. z o.o. (AVAL-1), Wind T1 Sp. z o.o. (Wind T1) have been assigned to the RES Segment.The RES segment also includes assets related to electricity generation from TAURON Wytwarzanie's photovoltaic sources. With regard to the acquisition of shares in Polpower sp. z o.o. (Polpower) by TAURON EKOENERGIA on June 10, 2021, beginning from the report for the period ended June 30, 2021, the acquired assets are also assigned to the RES Segment

Distribution Segment comprising distribution of electricity using the distribution grids located on the territory of the following voivodeships (regions): Małopolska, Lower Silesia, Opole, Silesia, partly: Świętokrzyskie, Podkarpackie, Łódź, Wielkopolska and Lubuskie. The Segment's operations are conducted by TAURON Dystrybucja S.A. (TAURON Dystrybucja). TAURON Dystrybucja uses modern technological solutions and has the potential to guarantee security of electricity supply and a high quality standard of the services provided to the customers. In order to ensure the achievement of the strategic goals, it is actively looking for innovative solutions, participating in the research and development (R&D) works, as well as implementing new technologies, with a particular emphasis placed on the smart grid technology. In addition, it is seeking to build a modern distribution segment by integrating the segment's structures and processes, maintaining the leading position on the Polish market with respect to the grid security (safety) and efficiency, as well as preparing the grid infrastructure and organization for the development of the distributed (dispersed) power generation sources. The Segment also includes TAURON Dystrybucja Pomiary sp. z o.o. (TAURON Dystrybucja Pomiary) subsidiary, dealing mainly with the technical support services related to the electricity metering systems and metering data acquisition.

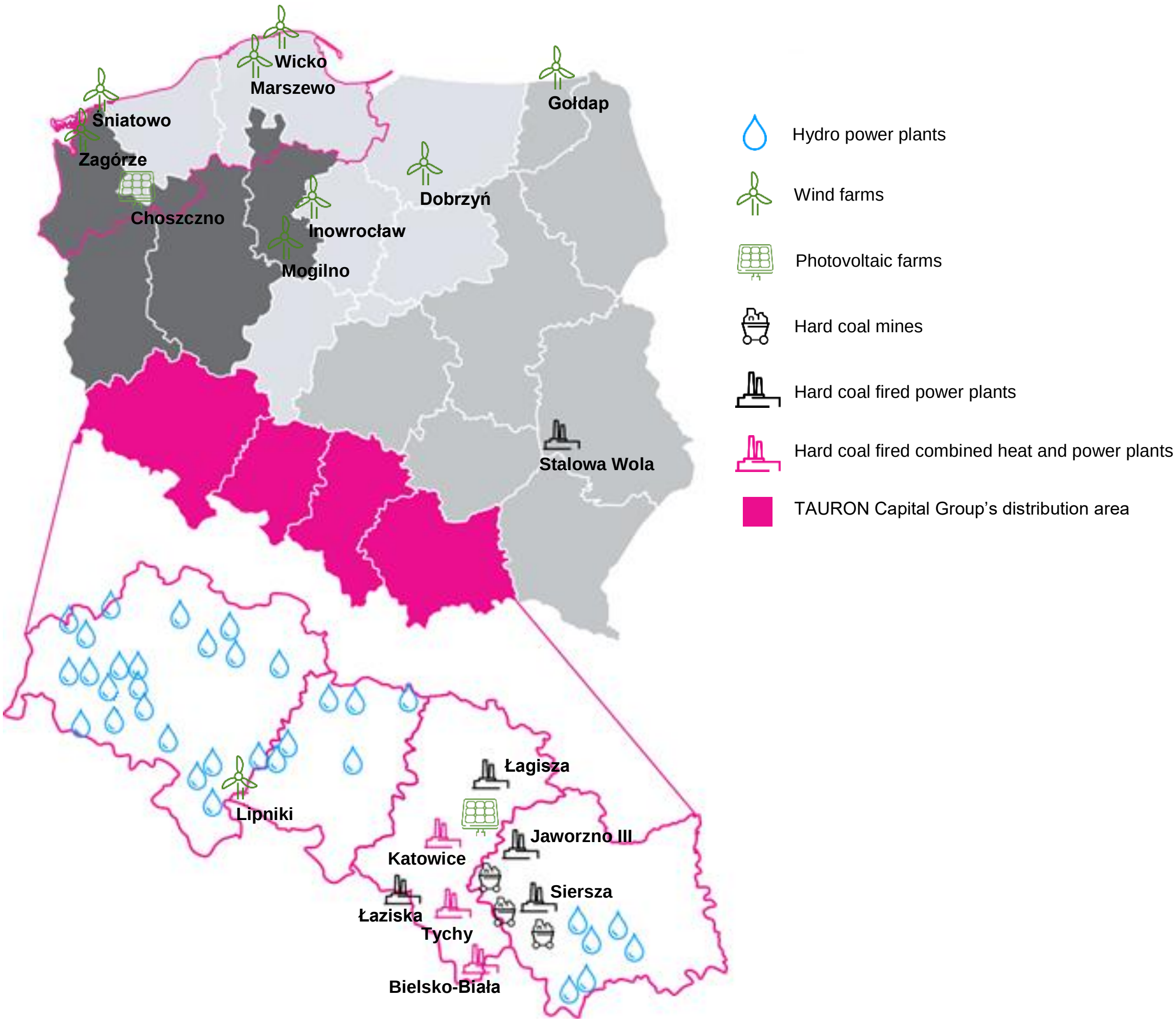
Supply Segment comprising electricity and natural gas supply to the final consumers and electricity, natural gas and derivative products wholesale trading, as well as trading and management of the CO_2 emission allowances, property rights arising from the certificates of origin that confirm electricity generation from the renewable sources, in cogeneration and the property rights arising from the energy efficiency certificates, as well as fuels, and, as of January 2019, also the lighting services sales. The Segment's operations are conducted by TAURON Polska Energia S.A., TAURON Sprzedaż sp. z o.o. (TAURON Sprzedaż), TAURON Sprzedaż GZE sp. z o.o. (TAURON Sprzedaż GZE), TAURON Czech Energy s.r.o. (TAURON Czech Energy) and TAURON Nowe Technologie S.A. providing services for the business and individual customers with respect to, among others, innovative products and services related to the modern Led lighting systems, smart city, e-mobility products, as well as energy efficiency, operating the MV/LV grids, the construction of electric vehicle charging stations.

[1]On July 1, 2021 (an event taking place after the balance sheet date), the Katowice-Wschód District Court in Katowice, the 8th Commercial Division of the National Court Register registered the merger of TEC3 (the Acquiring Company) and TEC2 (the Acquired Company).

Apart from the main Segments of operations, TAURON Capital Group is also conducting the operations presented as part of the **Other Operations** that comprise, among others, customer service for TAURON Capital Group's customers, provision of the support services for TAURON Capital Group's subsidiaries with respect to accounting, HR management and ICT, conducted by TAURON Obsługa Klienta sp. z o.o. (TAURON Obsługa Klienta) subsidiary, as well as the operations related to the extraction of stone (rocks), including limestone, for the needs of the power generation, steel making, construction and road building industries, as well as the production of sorbing agents for wet flue gas desulphurization installations and for the use in fluidized bed boilers, carried out by Kopalnia Wapienia "Czatkowice" sp. z o.o. (KW Czatkowice) subsidiary. The Other Operations also include the following subsidiaries: Finanse Grupa TAURON sp. z o.o. (Finanse Grupa TAURON) dealing with the financial operations, Bioeko Grupa TAURON sp. z o.o. (Bioeko Grupa TAURON) dealing mainly with the utilization (management) of the hard coal combustion and extraction processes' by-products, biomass acquisition, transportation and processing, Wsparcie Grupa TAURON sp. z o.o. (Wsparcie Grupa TAURON) dealing primarily with the 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. Management Board and Supervisory Board of TAURON Polska Energia S.A.

Management Board of TAURON Polska Energia S.A.

The current 6th term of office of the Company's Management Board began its run on July 15, 2020.

In accordance with the *Articles of Association of TAURON Polska Energia S.A.* (the Company's Articles of Association) it is the common term of office and it lasts 3 years.

The composition (membership) of the Company's Management Board as of June 30, 2021

1. Paweł Strączyński - President of the Management Board,
2. Jerzy Topolski - Vice President of the Management Board for Asset Management.

The composition (membership) of the Company's Management Board as of the date of drawing up this report

1. Artur Michałowski - Vice President of the Management Board for Trading and acting as the President of the Management Board,
2. Patryk Demski - Vice President of the Management Board for Strategy and Development,
3. Krzysztof Surma - Vice President of the Management Board for Finance,
4. Jerzy Topolski - Vice President of the Management Board for Asset Management.

The changes to the composition (membership) of the Company's Management Board in the first half of 2021 and by the date of drawing up this report

As of January 1, 2021, the Company's Management Board was composed of the following persons: Wojciech Ignacok (President of the Management Board), Jerzy Topolski (Vice President of the Management Board for Asset Management) and Marek Wadowski (Vice President of the Management Board for Finance).

On February 19, 2021, Wojciech Ignacok submitted a statement of resignation, effective as of February 28, 2021, from the position of the President of the Company's Management Board of the 6th common term of office for health reasons.

On February 24, 2021, the Company's Supervisory Board entrusted Marek Wadowski with the duties of the President of the Company's Management Board from March 1, 2021, until the appointment of the Company's President of the Management Board.

On April 1, 2021, the Company's Supervisory Board appointed Paweł Strączyński to be a member of the Company's Management Board of the 6th common term of office entrusting him with the function of the President of the Management Board.

On May 13, 2021, Marek Wadowski submitted a statement of resignation, effective as of the end of the day on May 17, 2021, from the membership of the Company's Management Board and thus from the position of the Vice President of the Company's Management Board for Finance.

On July 2, 2021, Paweł Strączyński submitted a statement of resignation from the position of the President of the Company's Management Board, effective as of the end of the day on July 21, 2021. On July 19 and 27, 2021, the Company accepted the statements of Paweł Strączyński on the change in the statement of resignation from the position of the President of the Management Board, as a result of which the resignation from the position of the President of the Management Board took place on August 4, 2021.

On August 4, 2021, the Supervisory Board of the Company appointed Artur Michałowski, Patryk Demski and Krzysztof Surma to the Management Board of the Company, effective as of August 5, 2021. On the same day, the Supervisory Board of the Company appointed Artur Michałowski to be acting as the President of the Management Board of the Company from August 5, 2021, until the date the President of the Management Board of the Company is appointed.

There had been no other changes to the composition (membership) of the Company's Management Board by the date of drawing up this report.

Experience and competences of the Members of the Company’s Management Board who continue to hold their positions in the Company’s Management Board as of the date of drawing up this report

Artur Michałowski - Vice President of the Management Board for Trading and acting President of the Management Board

A graduate of the University of Occupational Safety Management in Katowice (Wyższa Szkoła Zarządzania Ochroną Pracy w Katowicach - WSZOP) with the major in management and production engineering, as well as postgraduate studies at the University of Economics in Katowice (Uniwersytet Ekonomiczny w Katowicach) - Master of Corporate Governance and Executive Master of Business Administration studies at Collegium Humanum at the Warsaw Management University (Szkoła Główna Menedżerska w Warszawie).

From 2016 to August 4, 2021, he had been the Vice President of the Management Board for Technical Affairs at PGNiG Termika Energetyka Przemysłowa S.A.

He began his professional career in 1979 at EC "Zofiówka" (Zofiówka CHP - Combined Heat and Power Plant), which was a part of KWK "Zofiówka" (Zofiówka Hard Coal Mine). During his professional career, he held, among others, the following positions: Operations Engineer on Duty, Deputy Operations Manager for Optimization of Production and Key Management Staff, Operations Manager at EC "Zofiówka" (Zofiówka CHP - Combined Heat and Power Plant), Deputy Director of EC "Pniówek" (Pniówek CHP - Combined Heat and Power Plant), Director of EC "Zofiówka" (Zofiówka CHP - Combined Heat and Power Plant) and Director of the Production Office.

Patryk Demski - Vice President of the Management Board for Strategy and Development

A graduate of the Faculty of Law at the Nicolaus Copernicus University (Uniwersytet Mikołaja Kopernika) in Toruń, Executive Master of Business Administration studies at the University of Commerce and Services (Wyższa Szkoła Handlu i Usług) in Poznań and postgraduate studies in Tax Law at the Nicolaus Copernicus University (Uniwersytet Mikołaja Kopernika) in Toruń.

In the years 2020-2021 he was a Member of the Management Board of Centralny Port Komunikacyjny Sp. z o.o., and from February 2020 to April 2020 he was the Chair of the Supervisory Board of Centralny Port Komunikacyjny Sp. z o.o. In 2018-2019, he had held the position of the Vice President of the Management Board for Investments and Innovation of Grupa Lotos S.A. He was also the Mayor of the City and Municipality of Pelplin (2014-2018), Deputy Director of the Branch / acting Branch Director / Chief Specialist at the Agricultural Property Agency (Agencja Nieruchomości Rolnych) in Gdańsk (2006-2014). In 2006, he was the Deputy Director of the Cabinet of the Pomeranian Province Governor.

Krzysztof Surma - Vice President of the Management Board for Finance

A graduate of the Cracow University of Economics (Akademia Ekonomiczna w Krakowie), with the major in finance and banking, specializing in corporate finance. He also completed the Master of Business Administration studies for Financiers at Kozminski University (Akademia Leona Koźmińskiego), postgraduate studies in the Practical Application of International Financial Reporting Standards at the Warsaw School of Economics (Szkoła Główna Handlowa w Warszawie) and the Manager Development Program organized by the ICAN Institute. He is also a member of the Association of Chartered Certified Accountants (ACCA).

He has been working for the Issuer since 2009, holding the position of the Executive Director for Finance Management, and from May 2021 to August 4, 2021 - the Director of the Finance Division. While performing the above functions within the Issuer's Group, he held, among others, the following positions: Vice President of the Management Board of TEC1, TEC2, TEC3 (2019), President of the Management Board of Finanse Grupa TAURON (2019), President of the Management Board of PKE Broker Sp. z o.o. (2008-2009), General Director of TAURON Sweden Energy AB (2014-2019).

In the years 2001-2009 he worked at Południowy Koncern Energetyczny S.A., including, among others, as the Head of the Risk and Insurance Department (2005-2009).

Jerzy Topolski - Vice President of the Management Board for Asset Management

A graduate of the Faculty of Electrical Engineering, Automatics and Electronics of the AGH University of Science and Technology in Cracow. He also completed the postgraduate studies in the field of energy enterprise management and new techniques in power engineering management. He has professional experience with respect to the operations of the power sector, including management of the development of the distribution grid and the provision of electricity distribution services. He was involved in setting up the organization of the electricity market in Poland. From the beginning of his professional career, he has been engaged in the energy industry and TAURON Group or its legal predecessors, i.e. ENION S.A. and Zakład Energetyczny Kraków S.A..

Since 2016, he was the Vice President of the Management Board for Operator at TAURON Dystrybucja S.A. (TAURON's subsidiary), where he was responsible, among others, for the development of the distribution grid, provision of electricity distribution services, metering and grid operation management.

At TAURON Dystrybucja S.A., in addition to the above mentioned position, he was the Director of Cracow and Tarnów branches in 2016. In the years 2015-2016 he worked as a coordinator and was responsible, among others, for customer service quality. From 2013 to 2014 he was the chief specialist, and in 2011-2012 he was the head of the Office of Tariffs and the Energy Regulatory Office (URE) Relations.

In the years 2010-2011 he held the position of the Director of the Tariff Department at ENION S.A. and was responsible in particular for regulated revenue management. In 2007-2010 he was the Director of the Distribution Services Department and was responsible for ensuring profitability of the distribution services sales. From 2005 to 2007, he was the President of the Management Board, in 2004-2005 - a Member of the Management Board for Trading, and until 2004 - a Member of the Management Board and the Director of Energy Trading.

In the years 1989-2000 he held the following positions at Zakład Energetyczny Kraków S.A.: the director of the high voltage region; deputy head of the high voltage region for technical affairs as well as the grid foreman and engineer.

The diagram presenting the division of responsibilities among the Members of the Management Board of the Company is posted on the Company's website at: https://www.tauron.pl.

Supervisory Board of TAURON Polska Energia S.A.

The current, 6th term of office of the Company's Supervisory Board, began on July 15, 2020, i.e. on the day of holding the Ordinary General Meeting of the Company approving the financial statements for the last full financial year of the tenure of the Members of the Company's Supervisory Board of the 5th term, i.e. for the financial year 2019.

In accordance with the Company's Articles of Association it shall be a common term of office and it shall last for 3 years.

The composition (membership) of the Company's Supervisory Board as of June 30, 2021

1. Andrzej Kania - Chair of the Supervisory Board,
2. Teresa Famulska - Vice Chair of the Supervisory Board,
3. Katarzyna Taczanowska - Secretary of the Supervisory Board,
4. Stanisław Borkowski - Member of the Supervisory Board,
5. Leszek Koziorowski - Member of the Supervisory Board,
6. Ryszard Madziar - Member of the Supervisory Board,
7. Grzegorz Peczkis - Member of the Supervisory Board,
8. Marcin Wawrzyniak - Member of the Supervisory Board.

The changes to the composition (membership) of the Company's Supervisory Board in the first half of 2021 and by the date of drawing up this report

As of January 1, 2021, the Company's Supervisory Board of the 6th common term of office was composed of the following members: Andrzej Kania (Chair of the Supervisory Board), Teresa Famulska (Vice Chair of the Supervisory Board), Katarzyna Taczanowska (Secretary of the Supervisory Board), Ryszard Madziar (Member of the Supervisory Board), Grzegorz Peczkis (Member of the Supervisory Board) and Barbara Piontek (Member of the Supervisory Board).

On February 12, 2021, Barbara Piontek submitted a statement on her resignation, as of February 28, 2021, from the membership of the Company's Supervisory Board of the 6th common term of office, in connection with assuming the position of the President of the Management Board of Jastrzębska Spółka Węglowa S.A. from 1 March 2021.

On April 6, 2021, the Minister of State Assets, acting pursuant to § 23, section 1, clauses 1) and 3) of the Company's Articles of Association, appointed Marcin Wawrzyniak to be a Member of the Company's Supervisory Board as of the same day.

On May 24, 2021, the Ordinary General Meeting of the Company adopted resolutions to appoint Stanisław Borkowski and Leszek Koziorowski to be the members of the Supervisory Board of the Company.

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

Information on the independence of the Members of the Company's Supervisory Board

Based on the *Best Practice of WSE Listed Companies 2021,* the independence criteria listed in Art. 129, section 3 of the *Act of May 11, 2017, on statutory auditors, audit firms and public supervision* (consolidated text, Journal of Laws 2020, item 1415), are met, as of the date of drawing up this report, by Andrzej Kania, Teresa Famulska, Stanisław Borkowski, Leszek Koziorowski, Grzegorz Peczkis and Marcin Wawrzyniak.

Experience and competences of the Members of the Company's Supervisory Board who continue to hold their seats on the Company's Supervisory Board as of the date of drawing up this report

Andrzej Kania - Chair of the Supervisory Board

A graduate of the Rzeszów University of Technology (Politechnika Rzeszowska), where he completed his studies in 1991. Andrzej Kania is also a graduate of the National School of Public Administration in Warsaw (Krajowa Szkoła Administracji Publicznej) and the doctoral studies that he completed at the Warsaw School of Economics (Szkoła Główna Handlowa)

He has held important positions at public institutions. He was a Department Head at the Energy Regulatory Office and the Director of the Energy Department at the Ministry of Economy. He also held the position of the Office Director of the Polish Electricity Association.

Andrzej Kania has extensive experience with respect to investment project evaluation and implementation based on measurable results in the management of large scale and high risk investment projects.

He also served as a Member of the Supervisory Board at six companies operating in the energy and infrastructure sector. He was a Member of the Supervisory Board of Polimex Mostostal S.A. from November 30, 2017, until March 15, 2020.

He was holding the position of the Director of the Department of Security and Crisis Management at the Ministry of State Assets.

Since May 22, 2020, he has been a Member of the Supervisory Board of the Company in which he is holding the position of the Chair of the Company's Supervisory Board, the Head of the Nominations and Compensation Committee of the Company's Supervisory Board and is a Member of the Strategy Committee of the Company's Supervisory Board.

Teresa Famulska - Vice Chair of the Supervisory Board

A graduate of the University of Economics in Katowice (currently the University of Economics in Katowice). She holds a title of a Professor of economics appointed by the President of the Republic of Poland at the request of the Board of the Faculty of Finance and Insurance of the University of Economics in Katowice. She is a professional tax advisor.

Since graduation she has been associated with the University of Economics in Katowice. She is currently the Head of the Public Finance Department holding the full Professor's position. In 1998 - 2013 she had been working at the School of Banking and Finance, recently as a dean, holding the full Professor's position.

An author of more than 150 domestic and foreign publications in the field of finance, mainly public finance and corporate finance. Apart from academic work she is continuously involved in business practice, participating, among others, in several dozen science and research projects. She conducted numerous lectures and training courses for the finance and management personnel of enterprises and for the tax authorities staff. In 2007 - 2018 she had worked for three consecutive terms at the State Examination Commission on Tax Advisory Services, where, since 2010, for two consecutive terms based on the Minister of Finance's appointment, she was the Head of the Commission. In 2007 - 2019 a member of the Financial Education Committee of the Polish Academy of Science, where, in 2011 - 2015, she was a member of the Board of the Committee. Furthermore, she is a member of the Polish Finance and Banking Association (since 2004, a member of the Board), International Fiscal Association, Center for Information and Organization of Public Finance and Tax Law Research of Central and Eastern European Countries and Polish Economic Society.

In the period from May 29, 2017, until July 14, 2020, she had been a member of the Supervisory Board of TAURON Polska Energia S.A., holding the position of the Vice Chair of the Supervisory Board and the Head of the Audit Committee of the Supervisory Board.

She was awarded the following orders and accolades: Silver Cross of Merit, Silver Medal for Long Term Service, Medal of the Commission of National Education, awards of the Minister of National Education and of the President of the University of Economics in Katowice.

Since August 3, 2020, she has been a Member of the Supervisory Board of the Company in which she is holding the position of the Vice Chair of the Company's Supervisory Board and the Head of the Audit Committee of the Company's Supervisory Board.

Katarzyna Taczanowska - Secretary of the Supervisory Board

A graduate of the Faculty of Law of the University of Warsaw, registered on the list of attorneys-at-law of the Warsaw Bar Association (Okręgowa Izba Radców Prawnych w Warszawie).

Katarzyna Taczanowska has had many years of professional experience in providing legal services for business entities that she has been offering since 2003. She was a partner at the GWW Woźny and Partners (GWW Woźny i Wspólnicy) law firm, since 2009 until now she has been a partner at the Kudlak, Taczanowska-Wileńska sp.k. law firm. In 2009 - 2012 she had been the Director of the Legal Office at Towarzystwo Funduszy Inwestycyjnych PZU S.A. (PZU S.A. Investment Funds Company). She was a member of the Supervisory Boards of PZU Życie S.A., LOT Aircraft Maintenance Services sp. z o.o. and IDA Management sp. z o.o.

Since July 2018 Katarzyna Taczanowska has been holding the position of the General Director for Corporate and Legal Affairs at KGHM Polska Miedź S.A.

Since May 8, 2019, she has been a Member of the Supervisory Board of the Company in which she is holding the position of the Secretary of the Company's Supervisory Board and is a Member of the Audit Committee of the Company's Supervisory Board.

Stanisław Borkowski - Member of the Supervisory Board

A graduate of the Executive MBA studies at the University of Quebec in Montreal and a graduate of the Master of Business Administration studies at the Warsaw School of Economics (Szkoła Główna Handlowa w Warszawie). In addition, a graduate of the Faculty of Medicine at the University of Oslo.

He gained professional experience in the insurance sector, holding the position of the director of the health insurance department and a member of the management board at insurance companies, including, among others, at PZU S.A., Allianz Bank Polska S.A., Credit Agricole Ubezpieczenia, in the years 2001-2015. He had been a partner at Mangograss Sp. z o.o., responsible for consulting and investments, in the years 2015-2017. He had also been the President of the Management Board of Uzdrowisko Konstancin Zdrój S.A. and the Medical Institution (Zakład Leczniczy) Uzdrowisko Nałęczów S.A. in the years 2016-2017.

Currently, since 2017, he has been the President of the Management Board of Colbird Sp. z o.o. (Ltd), and he has been acting as the financial director at Voico Inc. in Laval (Canada) since 2020.

He was a member of the supervisory boards of joint stock companies, where he was the chair of the supervisory board, as well as the head of the audit committees. Currently, he is a Member of the Supervisory Board and at the same time the Head of the Audit Committee of UNUM Polska S.A., as well as the Head of the Audit Committee at the Polish-Canadian Chamber of Commerce.

Decorated with the Golden Cross of Merit.

Since May 24, 2021, he has been a Member of the Supervisory Board of the Company in which he is a Member of the Audit Committee of the Company's Supervisory Board. and a Member of the Strategy Committee of the Company's Supervisory Board.

Leszek Koziorowski - Member of the Supervisory Board

A graduate of the Faculty of Law and Administration of the University of Warsaw (Uniwersytet Warszawski), Registered on the list of attorneys-at-law of the Warsaw Bar Association (Okręgowa Izba Radców Prawnych w Warszawie).

From the beginning of his professional career, he has been associated with the capital market. In the years 1994-1999 at the Securities Commission (Komisja Papierów Wartościowych - KPW), initially at the Office of Brokerage Houses and Trust Funds (Biuro Domów Maklerskich i Funduszy Powierniczych), subsequently as an advisor to the Chair of the Securities Commission (KPW). During his work at the Securities Commission (KPW), he also held the position of the Deputy Chairman of the Examination Committee for Investment Advisors.

Currently at GESSEL, KOZIOROWSKI Kancelaria Radców Prawnych i Adwokatów sp. p., where he has created and manages the capital market law department - employed since 1999, a partner since 2002.

He was an arbitrator at the Stock Exchange Court at the Warsaw Stock Exchange (Sąd Giełdowy przy Giełdzie Papierów Wartościowych w Warszawie).

Since 2015, he has been a member of the Corporate Governance Committee at the Warsaw Stock Exchange (Komitet Ładu Korporacyjnego przy Giełdzie Papierów Wartościowych w Warszawie), where he was a co-author of the Best Practices of WSE Listed Companies 2016 and of the latest: Best Practices of WSE Listed Companies 2021.

He had been holding the position of the chair and a member of the Supervisory Boards at a number of private and public joint stock companies, for example, IGLOTEX S.A. (the chair of the Supervisory Board), ESALIENS TFI S.A. (the chair of the Supervisory Board), Zakłady Odzieżowe BYTOM S.A., TETA S.A. (the chair of the Supervisory Board), TAURON Polska Energia S.A. (in 2010-2017).

An author of numerous publications in the field of the capital market law.

Since May 24, 2021, he has been a Member of the Supervisory Board of the Company in which he is a Member of the Audit Committee of the Company's Supervisory Board. and a Member of the Nominations and Compensation Committee of the Company's Supervisory Board

Ryszard Madziar - Member of the Supervisory Board

A graduate of the faculty of political science of the University of Warsaw. He holds the following titles: Executive Master of Business Administration (EMBA) and Doctor of Business Administration (DBA). He completed a course for candidates for Members of Supervisory Boards of State Treasury Companies in 2015.

He has an extensive experience in public administration. He has held the following positions: the Mayor of Wołomin, the Head of the Political Cabinet of the Vice Chairman of the Council of Ministers, and prior to that, the Deputy Director of the Mazovian Regional Office of the Agency for Restructuring and Modernization of Agriculture (Agencja Restrukturyzacji i Modernizacji Rolnictwa).

He is a member of the Supervisory Board of, among others, Totalizator Sportowy.

Currently, he is the Head of the Political Cabinet of the Vice Chair of the Council of Ministers (Deputy Prime Minister) in the Chancellery of the Prime Minister.

Since July 15, 2020, he has been a Member of the Company's Supervisory Board in which he is a Member of the Nominations and Compensation Committee of the Company's Supervisory Board and a Member of the Strategy Committee of the Company's Supervisory Board.

Grzegorz Peczkis - Member of the Supervisory Board

A graduate of the Faculty of Environment and Energy Engineering of the Silesian University of Technology, specializing in Machine Mechanics and Design. He holds a PhD degree in technical science in the field of machine design and operation. He also completed post-graduate studies in enterprise (business) management and pedagogical professional development studies for university lecturers.

Grzegorz Peczkis gained experience both in business, as a proxy at the Diapom sp. z o.o. company, as well as at academic institutions as an Assistant Lecturer and then an Assistant Professor at the Silesian University of Technology.

He is holding the position of the Vice Chair of the Supervisory Board of Grupa Azoty Zakłady Azotowe Kędzierzyn S.A.

He is an author of several dozen scientific (research) and popular (journalistic) publications. He holds rights under ten patents granted by the Patent Office of the Republic of Poland.

Since December 6, 2019, he has been a Member of the Company's Supervisory Board in which he is holding the position of the Head of the Strategy Committee of the Company's Supervisory Board and a Member of the Audit Committee of the Company's Supervisory Board.

Marcin Wawrzyniak - Member of the Supervisory Board

A graduate of the Faculty of Law and Administration of the Cardinal Stefan Wyszyński University in Warsaw (Uniwersytet Kardynała Stefana Wyszyńskiego w Warszawie). Entered on the list of legal counsels (attorneys-at-law) at the District Chamber of the Legal Counsels (Attorneys-at-law) in Warsaw (Warsaw Bar Association). An attorney-at-law (barrister), a member of the Warsaw Bar Association. A Member of the Tribunal of State.

He has had many years of professional experience with respect to providing legal services and consultancy for business entities, including the energy sector companies. A legal advisor to the central and local government administration bodies with respect to investment processes. A partner at the law firm Wawrzyniak i Partnerzy Radcowie Prawni sp. p. (Wawrzyniak and Partners Legal Counsels Limited Liability Partnership - LLP). He was a member of the supervisory boards and the management boards of public and private sector companies. An author of several dozen publications in the field of business law, including books and comments to an act of law.

Since April 21, 2021, he has been a Member of the Supervisory Board of the Company's Supervisory Board in which he is a Member of the Nominations and Compensation Committee of the Company's Supervisory Board and a Member of the Strategy Committee of the Company's Supervisory Board.

1.4. Organization of TAURON Capital Group and the changes thereof, as well as the entities subject to consolidation

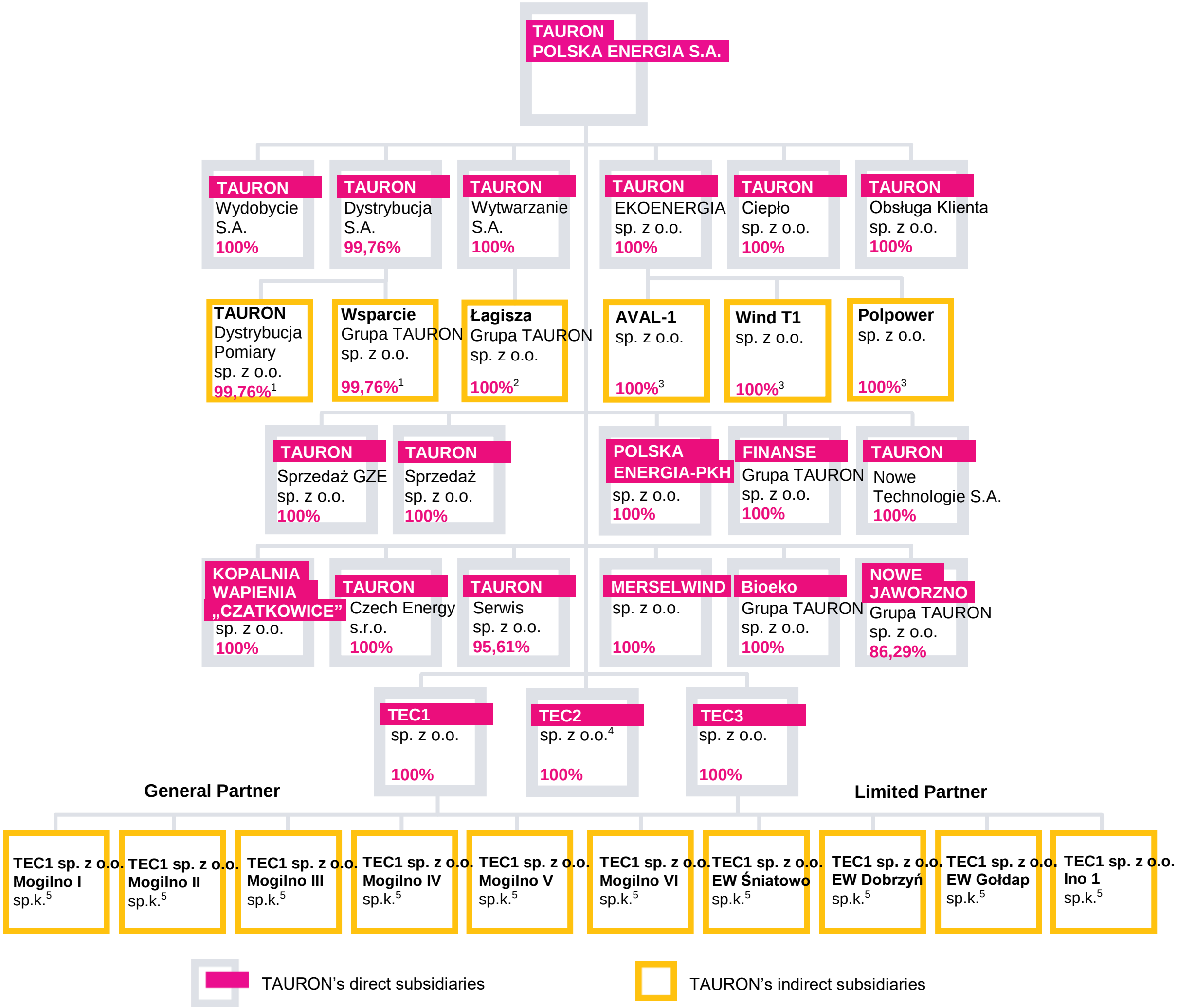
Organization of TAURON Capital Group and entities subject to consolidation

As of June 30, 2021, TAURON Capital Group's key subsidiaries, besides TAURON parent company, included 36 subsidiaries subject to consolidation, that are listed below. In addition, as of the same date the Company held, directly or indirectly, shares in the other 36 companies.

As of the date of drawing up this report, TAURON Capital Group's key subsidiaries, besides TAURON parent company, included 35 subsidiaries subject to consolidation. In addition, the Company held, directly or indirectly, shares in the other 35 companies.

The below figure presents TAURON Capital Group's structure, including the subsidiaries subject to consolidation, as of June 30, 2021.

Figure no. 3. TAURON Capital Group's structure, including the subsidiaries subject to consolidation, as of June 30, 2021



[1]The shares in TAURON Dystrybucja Pomiary and Wsparcie Grupa TAURON are held by TAURON Polska Energia S.A. indirectly via TAURON Dystrybucja subsidiary, The Company is a user of the shares of TAURON Dystrybucja Pomiary
[2]The shares in Łagisza Grupa TAURON are held by TAURON indirectly via TAURON Wytwarzanie subsidiary.
[3]The shares in Aval-1, Wind T1 and Polpower are held by TAURON indirectly via TAURON EKOENERGIA subsidiary.
[4]On July 1, 2021 (an event taking place after the balance sheet date), the Katowice-Wschód District Court in Katowice, the 8th Commercial Division of the National Court Register registered the merger of TEC3 (the Acquiring Company) and TEC2 (the Acquired Company).
[5]In the limited partnerships indicated: TEC1 is the General Partner, TEC3 is the Limited Partner

Changes to the organization of TAURON Capital Group

The following changes to the organization of TAURON Capital Group had taken place in the first half of 2021 and by the date of drawing up this report:

Sale by TAURON of its shares in PGE EJ1 sp. z o.o. (PGE EJ 1)

On March 26, 2021, TAURON signed with the State Treasury the agreement for the sale of the shares in PGE EJ 1, the company responsible for the preparation and implementation of the investment project involving the construction and operation of Poland's first nuclear power plant.

In accordance with the provisions of the above Agreement, TAURON sold to the State Treasury all 532 523 shares in PGE EJ 1, held by the Company, constituting 10% of the share capital and representing 10% of votes at the at the General Meeting of the shareholders (partners) of PGE EJ 1.

The sale price of the above shares amounted to PLN 53 136 200. The payment for the shares in PGE EJ 1 took place on March 31, 2021. After closing the transaction, TAURON does not hold any shares in PGE EJ 1.

The agreement to sell 100% of the shares in PGE EJ 1 to the State Treasury was signed by all of the entities holding shares in PGE EJ 1, i.e. TAURON, PGE Polska Grupa Energetyczna S.A. (PGE), Enea S.A. (Enea) and KGHM Polska Miedź S.A. (KGHM Polska Miedź). The sale price for 100% of the shares amounted to PLN 531 362 000

The sale of the shares in PGE EJ 1 constitutes the implementation of one of the strategic directions announced by TAURON on May 27, 2019.

Repurchase of own shares

In the first quarter of 2021, TAURON Dystrybucja purchased a total of 670 269 of own shares for the purpose of the redemption thereof, with the total nominal value of PLN 13 405.38. The shares were purchased at a gross price of PLN 0.45 per share, which resulted in the total remuneration of PLN 301 621.05.

On March 30, 2021, the Management Board of TAURON Dystrybucja carried out the statutory redemption of TAURON Dystrybucja's own 4 309 300 shares, out of which 3 639 031 shares were purchased from the minority shareholders pursuant to Art. 418^1, § 4 of the Commercial Companies Code in the years 2019-2020. In connection with the above mentioned redemption of the shares, the share capital of TAURON Dystrybucja will be lowered from the amount of PLN 560 575 920.50 by the amount of PLN 86 186.00, i.e. to the amount of PLN 560 489 734.52. The share capital of TAURON Dystrybucja, after the lowering, will be divided into 28 024 486 726 shares with a nominal value of PLN 0.02 per share.

As of the date of drawing up this information, the lowering of TAURON Dystrybucja's share capital was not registered by the registration court. It is expected that the registration court's decision on the lowering of the share capital will be issued in May 2021.

On May 21, 2020, the District Court for Kraków-Śródmieście in Cracow, 11th Commercial Department of the National Court Register registered the lowering of TAURON Dystrybucja's share capital.

Acquisition by TAURON EKOENERGIA of 100% of the shares in Polpower

On June 10, 2021, TAURON EKOENERGIA acquired 100% shares in Polpower sp. z o. o. with its registered office in Połczyn-Zdrój, i.e. 1 520 shares with a nominal value of PLN 500 each and the total nominal value of PLN 760 000.

Polpower is implementing the Majewo wind farm construction project located in the municipality of Milejewo in the Elbląg county in the Warmian-Mazurian Province.

The detailed information on the implementation of the Majewo wind farm construction project is provided in section 1.7 of this report.

Merger of TEC3 and TEC2

On July 1, 2021, the Katowice-Wschód District Court in Katowice, the 8th Commercial Division of the National Court Register registered the merger of TEC3 (the Acquiring Company) and TEC2 (the Acquired Company).

The above event was the result of adopting, on June 21, 2021, of the resolutions related to the merger of the above mentioned companies by the Extraordinary General Meeting (GM) of the above mentioned companies.

As a result of the merger the share capital of TEC3 was raised from the amount of PLN 6 025 000 to the amount of PLN 6 025 050, by way of establishing (issuing) 1 indivisible share with the nominal value of PLN 50.

The merger of TEC3 and TEC2 is an element of the implementation of the *TAURON Group Structure Optimization Program Concept* adopted by the Management Board on December 10, 2020.

1.5. Organizational or equity ties with other entities

Apart from the equity ties with the companies presented in section 1.4. of this report, the organizational or equity ties are applicable to the material joint subsidiaries (co-subsidiaries) in which the Company held, directly or indirectly, shares.

The table below presents the list of significant joint subsidiaries (co-subsidiaries) as of June 30, 2021

Table no. 1. List of material joint subsidiaries (co-subsidiaries) as of June 30, 2021

Company name	Registered office	Core subject of operations	TAURON's share in the company's capital and in the parent company
1. Elektrociepłownia Stalowa Wola S.A.[1]	Stalowa Wola	Electricity generation	50.00%
2. TAMEH HOLDING sp. z o.o.[2]	Dąbrowa Górnicza	Central (head office) companies and holding operations	50.00%
3. TAMEH POLSKA sp. z o.o.[2]	Dąbrowa Górnicza	Electricity and heat generation, transmission, distribution and trading	50.00%
4. TAMEH Czech s.r.o.[2]	Ostrawa, Republika Czeska	Production, trading and services	50.00%

[1]The stake in Elektrociepłownia (Combined Heat and Power Plant) Stalowa Wola S.A. (EC Stalowa Wola – Stalowa Wola CHP) is held by TAURON indirectly via TAURON Wytwarzanie subsidiary.
[2]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., 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.

1.6. Major domestic and foreign investments, as well as equity investments

The major domestic and foreign investments, as well as equity investments made in the first half of 2021 and by the date of drawing up this report are listed below.

Taking up or acquiring share securities in TAURON Capital Group companies

Neither taking up, nor acquiring of share securities in TAURON Capital Group companies had occurred in the first half of 2021 and by the date of drawing up this report.

Making additional contributions to the capital of PEPKH

As part of the implementation of the resolution of the Extraordinary General Meeting (GM) of PEPKH of March 17, 2021, regarding the imposition on TAURON, as the sole shareholder, of the obligation to make additional payments, on March 24, 2021, TAURON made additional contributions to the share capital of the above mentioned company in the total amount of PLN 10 800 000.

The purpose of the above mentioned contributions was to meet the requirements of the President of the Energy Regulatory Office (ERO) with respect to PEPKH having certain financial resources sufficient to properly carry out the licensed operations in the field of trading in electricity.

Taking up or acquiring share securities in the other companies in which TAURON holds an equity stake

The below table presents a summary of equity increases in the other companies in which TAURON holds an equity stake in the first half of 2021 and by the date of drawing up this report.

Table no. 2. Summary of equity increases in the other companies in which TAURON holds an equity stake in the first half of 2021 and by the date of drawing up this report

Company	Share capital increase (total price for taking up shares)	Company taking up shares	Nominal value of shares taken up	Date of passing the resolution by the General Meeting of the Partners (Shareholders)	Structure of the share capital following the increase
1. EEC Magenta spółka z ograniczoną odpowiedzialnością 2 ASI spółka komandytowo - akcyjna (EEC Magenta limited liability company 2 ASI limited joint stock partnership)	**PLN 99 970**	EEC Ventures spółka z ograniczoną odpowiedzialnością 2 spółka komandytowa (EEC Ventures limited liability company 2 limited partnership)	PLN 2 950	07.04.2021	EEC Ventures 2 2.94%
	PLN 4 900 000	PFR NCBR CVC FIZAN	PLN 49 000		PFR NCBR CVC FIZAN 49.03%
	PLN 4 800 100	TAURON	PLN 48 001		TAURON 48.03%
2. EEC Magenta spółka z ograniczoną odpowiedzialnością ASI spółka komandytowo – akcyjna (EEC Magenta limited	**PLN 138 000**	EEC Ventures spółka z ograniczoną odpowiedzialnością spółka komandytowa (EEC Ventures limited liability company 2 limited partnership)	PLN 1 380	17.06.2021	EEC Ventures spółka z ograniczoną odpowiedzialnością spółka komandytowa (EEC Ventures limited liability company limited partnership) 3%

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 General Meeting of the Partners (Shareholders)	Structure of the share capital following the increase
liability company ASI limited joint stock partnership)	**PLN 3 316 600**	PFR Starter FIZ	PLN 33 166		PFR Starter FIZ 72.1%
	PLN 1 145 400	TAURON	PLN 11 454		TAURON 24.9%

The other most significant equity investments in the financial assets as of June 30, 2021, include stakes in the following entities:

1. Spółka Ciepłowniczo Energetyczna Jaworzno III sp. z o.o. (limited liability company) with the balance sheet value of PLN 29 476 000,
2. EEC Magenta limited liability company 2 ASI limited joint stock partnership with the balance sheet value of PLN 23 916 000,
3. Przedsiębiorstwo Energetyki Cieplnej Sp. z o.o. (limited liability company) with the balance sheet value of PLN 23 802 000,
4. Energetyka Cieszyńska Sp. z o.o. (limited liability company) with the balance sheet value of PLN 12 703 000,
5. ElectroMobility Poland S.A. (joint stock company) with the balance sheet value of PLN 11 026 000.

Investments in the financial assets

TAURON and TAURON Capital Group's subsidiaries did not make any investments in the financial assets in the first half of 2021.

TAURON continued the financing of EC (CHP) Stalowa Wola in the form of loans, which, as of June 30, 2021, amounted to the nominal value of PLN 412 736 000.

Investments in the financial assets were financed using the in-house funds and the funds obtained as part of the financing model in place at TAURON Capital Group.

1.7. Implementation of the strategic investment (CAPEX) projects

Key strategic investment (CAPEX) projects underway

The below table presents the activities carried out by TAURON Capital Group in the first half of 2021 and by the date of drawing up this report in connection with the implementation of the key strategic investment (CAPEX) projects.

Table no. 3. Key strategic investment (CAPEX) projects' work progress in the first half of 2021 and by the date of drawing up this report

Investment project	Investment project's work progress
1. Construction of a new 910 MWe supercritical parameters power generation unit in Jaworzno **Contractor:** Consortium of RAFAKO S.A. and MOSTOSTAL WARSZAWA S.A. **Planned project completion / transition period date**: Q4 2021 **Work progress:** 99% **Expenditures incurred:** PLN 6 094.8 million[1]	The unit was handed over (commissioned) for operation on November 13, 2020. On November 18, 2020, the President of the Energy Regulatory Office (ERO) granted a license for generating electricity for the period from November 20, 2020, to December 31, 2030. As part of the contract, the General Contractor is currently implementing the transition period. A program of trials and tests planned to be performed in the transition period was carried out in the first half of 2021, including additional optimizations and tests on the operating facility in order for the unit to meet the changed and new guaranteed technical parameters, as well as the tests stemming from the requirements of the Transmission Grid Code. As a result of the inspections conducted during the unit's outage the need to conduct works on some of the unit's components was identified. As a consequence E003B7 sp. z o. o. handed over to Nowe Jaworzno Grupa TAURON a schedule of the works to be conducted on the 910 MW unit. The said schedule was subjected to the analysis and technical verification by Nowe Jaworzno Grupa TAURON's service crews, as a result of which, on August 2, 2021, Nowe Jaworzno Grupa TAURON provided an initial estimation that the date of the unit's resynchronizing with the National Power System (Krajowy System Elektroenergetycznym – KSE), indicated by E003B7 sp. z o.o., i.e. February 25, 2022, is possible to be achieved. On September 8, 2021 RAFAKO S.A. (RAFAKO) has submitted a statement to the Issuer saying that smooth continuation of works at the Unit depends on Issuer's capital engagement in RAFAKO S.A. The same day Nowe Jaworzno Grupa TAURON received a call from RAFAKO for an immediate explanation of the causes of the fire incidents that took place on the Unit on January 7, 2021, and June 11, 2021, respectively. The Contractor also called for an explanation of the causes of the fire incidents by September 15, 2021, otherwise it may terminate the agreement for the construction of the Unit, concluded on April 17, 2014. Nowe Jaworzno Grupa TAURON, jointly with the Contractor, appointed an emergency committee to investigate and explain the causes of the fire incident that took place on June 11, 2021, which, as of the date of the disclosure of this report, has not completed its works and has not formulated the final conclusions in this matter. As a result, the previously published schedule of works carried out at the Unit that assumed the Unit's resynchronization with the grid on February 25, 2022 may be invalid.

Investment project	Investment project’s work progress
	Information concerning the general contractor of the 910 MW power generation unit and the position of the Management Board of TAURON Polska Energia S.A. regarding the call for an explanation related to the 910 MW power generating unit are presented in point 2.4. of this report. The decision of the Regional Court in Katowice of December 17, 2020, on the approval of the settlement concluded by Nowe Jaworzno Grupa TAURON, E003B7 sp. z o.o. and the Consortium, related to the resolution by the parties of the other mutual relations and accounts (claims), had become final (legally binding) on January 5, 2021. The settlement entered into force on February 6, 2021. The settlement regulates, in particular, the following issues: 1. waiver by the parties of their mutual and equivalent claims that had arisen by the date of signing the above mentioned settlement, with the exception of, inter alia, Nowe Jaworzno Grupa TAURON’s claims under the statutory warranty or the warranty, as well as the recourse claims against the Consortium for the payment of the claims of further subcontractors and the claims of the Consortium related to the works carried out in accordance with the contract, 2. performance by the Consortium of the additional services for Nowe Jaworzno Grupa TAURON, including the works aimed at optimizing the unit's operation (performance), the results of which will include, inter alia, the reduction of the unit’s technical minimum power generation output from 40 percent to 37 percent In addition, the technical warranty for the boiler’s high pressure part will be extended by 6 months (to 36 months), with respect to which Nowe Jaworzno Grupa TAURON will receive an additional security (bond) issued by the warranty providers. On January 13, 2021, the District Court in Gliwice issued the decision approving the administration arrangement of RAFAKO S.A. as part of the simplified restructuring proceedings underway, pursuant to art. 223, clause 1 of the *Act of May 15, 2015, Restructuring Law* (consolidated text Journal of Laws of 2021, item 1588). On February 23, 2021, the notification of the decision of the District Court in Gliwice was published in Court and Business Monitor (Monitor Sądowy i Gospodarczy). As at the date of this report, the said decision is not final (legally binding). On June 29, 2021, the Regional Court in Gliwice dismissed the appeal against the decision of the District Court in Gliwice of January 13, 2021, on the approval of the arrangement adopted in the restructuring proceedings of RAFAKO S.A. and thus the said decision became legally binding. In the reporting period, during the implementation of the 910 MW power unit construction project in Jaworzno, the impact of the COVID-19 pandemic on the contract’s performance was identified, of which the Ordering Party, i.e. the company Nowe Jaworzno Grupa TAURON, was informed in a relevant note provided by the General Contractor. In the content of the note, the General Contractor indicated that the COVID-19 pandemic resulted in both the lack of availability of the key E003B7 sp. z o.o. staff members for the work being carried out, as well as the key subcontractors, indicating some of the tune-up and optimization works, which, in the General Contractor's opinion, could not have been carried out due to the constraints caused by the pandemic. As of the date of drawing up this report, the Ordering Party is conducting appropriate analyses of the correspondence provided by the General Contractor. Due to the non-completion, by the General Contractor, of the full scope of the works planned for the transition period, by the contractual deadline of April 23, 2021, Nowe Jaworzno Grupa TAURON served the General Contractor with the summons to complete the obligations that have not been met by the Contractor. On May 14, 2021, the Company received a letter from the General Counsel to the Republic of Poland (Prokuratoria Generalna Rzeczypospolitej Polskiej) on taking the position with respect to the proceeding to the mediation as a result of the request for mediation of the companies RAFAKO/MOSTOSTAL and SPV. Following the confirmation by the requesting party that the subject of the mediation will cover all of the circumstances of the dispute between the parties, on June 14, 2021, the Management Board of Nowe Jaworzno Grupa TAURON signed an agreement on the mediations that was sent to the General Counsel to the Republic of Poland (Prokuratoria Generalna Rzeczypospolitej Polskiej). The first mediation meeting was held on June 24, 2021. The mediation process is not an open (closed doors) procedure.
2. Construction of the ”Grzegorz” shaft (TAURON Wydobycie), including the infrastructure (above the ground and underground) and the accompanying longwall faces (headings). **Contractor:** Consortium of 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. – contract terminated, the works in this respect have been halted. **Planned project completion date:** 2023 **Work progress**: 51 % **Expenditures incurred**: PLN 280.7 million	At the construction site of the "Grzegorz" Shaft, the construction of the infrastructure required to sink the shaft was completed and more than 80 m of the shaft was bored in the so-called ultimate mine shaft enclosure (casing). TAURON Wydobycie and the General Contractor are continuing their cooperation. Mediation talks are held to determine the detailed conditions of the further conducting of the investment project. The freezing process is maintained at the construction site. The site continues to be ready for the continuation of the investment project works.

Investment project		Investment project's work progress
3.	Construction of the 800 m level at the Janina Coal Mine (ZG Janina) (TAURON Wydobycie). **Contractor:** Consortium of Mostostal Zabrze GPBP S.A. and SIEMAG TECBERG POLSKA S.A. (Construction of the ultimate above the ground and underground infrastructure including the Janina VI shaft mine shaft elevator), KOPEX S.A. and KOPEX Przedsiębiorstwo Budowy Szybów S.A. (task completed – shaft drilling) **Planned project completion date**: Q3 2021 **Work progress**: 88. % **Expenditures incurred:** PLN 453.1 million	There were difficulties in the performance of the works due to the COVID-19 pandemic, however, the boring of the Route Diversion II workings and the alteration of the shaft sump at the level of 800 m were carried out in the first quarter of 2021. Concrete pouring works have been completed and the installing of the shaft equipment (furnishings) has been commenced on the shaft bottom (pit) at the 800 m level. In the first half of 2021, a trial (test) operation of the mining shaft hoist was continued and the shaft was being prepared for the commencement of the test transportation of the materials. A tender was conducted for the boring of the 800 m level headings. The opening of the bids took place in February 2021. Due to the submission of two bids, one of which did not meet the criteria and the other significantly exceeded the employer's budget, no contractor was selected. In March 2021, the announcement of a new procedure was being prepared, as a result of a request for proposals extended to the potential contractors, estimated bids were received for the purpose of determining the amount of the ordering party's budget. The tender is planned to be announced in 2021. In August 2021 the consent of the Director of the Specialist Mining Office (Specjalistyczny Urząd Górniczy) for the commissioning of the Shaft Mine Elevator at Janina VI shaft was obtained and the test (trial) run was completed.
4.	Low Emission Elimination Program (PLNE – Program Likwidacji Niskiej Emisji) on the territory of the Silesia and Dąbrowa conurbation **Contractor:** Contractors are being selected to carry out specific work (project) stages **Planned project completion date:** 2023 **Work progress**: 29 % **Expenditures incurred**: PLN 27.7 million	The PLNE program is carried out on the territory of the following metropolitan areas: Będzin, Chorzów, Czeladź, Dąbrowa Górnicza, Katowice, Siemianowice Śląskie, Sosnowiec and Świętochłowice. In the first half of 2021, the works related to installing the network connections were continued under the network connection agreements concluded and the process of acquiring new customers was continued. Cumulatively, from the beginning of the Program's implementation, agreements have been concluded for the total volume of 15.6 MWt and the network connection conditions have been issued for 3.34 MWt.
5.	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) **Contractor:** Atem Polska sp. z o.o. (Katowice-Tychy), MZUM sp. z o.o. (Sosnowiec), Atem Polska sp. z o.o. (Wałbrzych A), Mediamo Sp. z o.o. (Oświęcim), MX3 sp. z o.o. (Rybnik), MZUM sp. z o.o. (Wałbrzych B), ZICOM sp. z o.o. (Kraków-Tarnów) **Planned project completion date:** 2022 **Work progress**: 57% **Expenditures incurred:** PLN 161.1 million	The Digital Poland Operational Program (POPC - Program Operacyjny Polska Cyfrowa) 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. All of the contractors had been conducting the works related to the deployment of the fiber optic network in the first half of 2021. In February 2021, a significant milestone was achieved as 50% of the works (network deployment and the OLT cabinets) had been completed. In the first half of 2021, the works related to switching over of the education facilities from the temporary subscriber lines to the optical fiber were carried out. The deployment of the fiber optic network in the areas covered by the project is currently underway. In the first half of 2021, there were difficulties related to the COVID-19 pandemic and the weather conditions, which slowed down the pace of the works. The contractors from the areas of Wałbrzych A, Wałbrzych B and Oświęcim petitioned for a 3 month extension of the contract due to the ongoing epidemic, the process involving concluding of the amendments is underway. In the next period, the works related to the further expansion of the optical fiber network will be carried out.
6.	Program aimed at adapting TAURON Wytwarzanie's generating units to comply with the operational conditions in force beyond 2021 **Contractor:** Contractors are being selected to carry out specific projects. **Planned project completion date**: Q4 2021 **Work progress**: 98% **Expenditures incurred**: PLN 294.2 million	As part of the program the refurbishment of the following power generating units, in accordance with the following scope of works, is planned: 1. Jaworzno II Power Plant, units no. 2 and 3 – the construction of the flue gas desulfurization (FGD) installation. The implementation of the project was halted in the second quarter of 2020 due to the obtained derogations from the *BAT Conclusions*, which allowed for further operation of the units. The parties had prepared the documents that enabled the termination of the contract and the mutual settlements. The preparation of the project closing report is underway. 2. Jaworzno III Power Plant, units no. 1, 3, 5 – the construction of the selective catalytic reduction (SCR). installation. In the first half of 2021, the guaranteed performance tests (measurements) of the installation for unit no. 5 were completed. The final acceptance protocols of the selective catalytic reduction (SCR). installation for units no. 1, 3 and 5 were signed. 3. Łaziska Power Plant, units no. 9, 10, 11, 12 – the refurbishment of the selective catalytic reduction (SCR) installation. In the first half of 2021, the final acceptance of the installation for unit no. 9 was completed. The date of the final acceptance of unit no. 10 was agreed upon. The guaranteed performance tests (measurements) of the installation for units no. 11 and 12 were conducted and the final acceptance was completed. 4. Łaziska Power Plant, units no. 9, 10, 11 and 12 – the refurbishment of the flue gas desulfurization (FGD) installation. In the first half of 2021, the guaranteed performance tests (measurements) of the installation for units no. 9 and 10 were conducted. The fixing of the malfunctions covered by the warranty is underway. The assembling of the documentation for the purpose of the final acceptance and the fixing of the malfunctions covered by the warranty is underway. The flue gas channel switching (rerouting) tests at the connection of units no. 9, 10, 11 and 12 have been completed. 5. Łaziska Power Plant – the refurbishment of the sewage treatment plant.

Investment project	Investment project's work progress
	In the first half of 2021, the field works in accordance with the reduced scope of the refurbishment (upgrade) works were carried out as part of the ongoing overhauls (maintenance). The works are conducted without any impact on the power plant's operation. The preparation of the project closing report is underway. 6. Siersza Power Plant - the adaptation of the existing flue gas desulfurization (FGD) installations. The implementation of the project was suspended due to the obtained derogations from the *BAT Conclusions*. The preparation of the project closing report is underway. 7. Łagisza Power Plant – the construction of the flue gas desulfurization (FGD) installation was substituted by the completion of the dry additives feeding installation. The tender procedure has been carried out. The project implementation has been halted due to the obtained derogations from the *BAT Conclusions*. The preparation of the project closing report is underway. 8. Monitoring Project – in the first half of 2021, the contractor, as part of the first stage (the works required to be performed at the power plants), completed the field works at the Łaziska Power Plant, the Jaworzno Power Plant, the Siersza Power Plant and the Łagisza Power Plant.
7. Construction of the 300 MW Piotrków wind farm. **Contractor:** Consortium of MEGA S.A. and P&Q sp. z o.o. **Planned project completion date:** Q3 2022 **Work progress:** 15% **Expenditures incurred:** PLN 32.6 million	The Piotrków wind farm project was acquired by TAURON EKOENERGIA on December 15, 2020, through the acquisition of the shares in the Wind T1 SPV. The project was acquired at the construction ready stage. In the first quarter of 2021, a contract was concluded for the service of performing the Contract Engineer function, the suspending conditions stemming from the contract with the wind turbine supplier had been met. On March 31, 2021, the construction site was handed over by the Ordering Party to the Contractor. The Contractor proceeded to carry out the works planned according to the investment project implementation schedule, among others, with respect to the design works, laying down the medium voltage cables and preparatory works for the construction of the yards and access roads to the turbines. The contracting for the supply of the key equipment has also been completed. In addition, arrangements with external stakeholders of the project were continued in the field of logistics for deliveries to the construction site. Within the station of the main collection point, at the stage of preparation of detailed designs, significant changes in relation to the current construction design were identified, therefore an application for a change to the building permit was submitted. As at the date of this report, the application in question is awaiting consideration. On June 25, 2021, the President of the Energy Regulatory Office announced the results of the auction for the sale of electricity from RES. The submitted offer for the supply of electricity from the Piotrków wind farm won the RES auction over the period of 15 years.
8. Construction of the 6 MW Majewo wind farm. **Contractor:** HIUB Wróbel **Planned project completion date:** Q2 2022 **Work progress:** 10% **Expenditures incurred:** PLN 4.2 million	The Majewo wind farm project was acquired by TAURON EKOENERGIA on June 10, 2021, through the acquisition of the shares in the Polpower SPV. The project was acquired at the construction ready stage. In the second quarter of 2021, a contract for the supply and erection of the wind turbines as well as the contract for the construction of the technical infrastructure were concluded. All of the suspending conditions stemming from the above mentioned contracts had been met. On June 28, 2021, the Ordering Party sent to the Contractor the notice to proceed to commence the works. The General Contractor took over the construction site on July 28, 2021.

[1]*The amount increased by, among others, training, fast wearing parts.*

Other investment projects

Investment projects in the RES line of business

Photovoltaic (PV) farms

As part of the investments in the renewable energy sources (RES) line of business, the program of building photovoltaic (PV) farms on TAURON Capital Group's land that was not utilized for business purposes (*TAURON PV Program*) was continued in the first half of 2021. The Program envisages the construction of the photovoltaic (PV) farms at several locations (sites), with the total capacity of up to 150 MWp.

The first project, commissioned in 2020, carried out as part of the above Program was the construction of a 5 MW photovoltaic (PV) farm in Jaworzno. The farm obtained a license to generate electricity in the first half of 2021.

The next most advanced project is the construction of a farm in Mysłowice with an estimated capacity of approx. 40 MW. In March 2021, the contractor for the design works related to the power grid connection was selected.

The works related to obtaining the decision with respect to the permit for the building of the farm were continued and the design works related to the power grid connection and cable line in order to obtain the permit for the construction of the farm power grid connection were commenced in the second quarter of 2021. On August 31,2021, the National Fund for Environment Protection and Water Management (Narodowy Fundusz Ochrony Środowiska i Gospodarki Wodnej) informed that the submitted, as part of the Infrastructure and Environment Operational Program dedicated to the Silesian Voivodeship, application for co-financing of the above-mentioned project was positively assessed. The requested amount of co-financing is PLN 82.5 million, with an option to redeem up to 20% of the eligible funds.

At the other locations (sites) the works currently underway include obtaining the required administrative (zoning) approvals (clearances) and decisions, however the final decisions on their implementation will be taken in the event that the business case (justification) turns out positive. Works are also underway on changing the scope of the *TAURON PV Program* in connection with an option to extend the program to include the new locations (sites).

Apart from the *TAURON PV Program* the PV Choszczno project is also under construction - a complex of 1 MW photovoltaic farms with the total capacity of 14 MW. The investment project is implemented as part of the acquisition of 100% of the AVAL-1 shares by TAURON EKOENERGIA on January 2, 2020. As part of the 1st stage of the project, the 6 MW Choszczno I farm was handed over for operation (commissioned) on March 23, 2021. The project's 1st stage budget is PLN 16.6 million. As part of the 2nd stage of the investment project, aimed at extending the farm by adding another 8 MW, in the first half of 2021, a contract for the construction of the farm was concluded with the General Contractor. The General Contractor began the project works. The planned date of commissioning the 2nd stage of the investment project is the 4th quarter of 2021. The project's 2nd stage budget is PLN 22.8 million. The investment project took part in the RES auction conducted in June 2021. The investment project did not obtain support.

In addition, apart from developing its in-house projects, TAURON Capital Group is actively looking for the opportunities to acquire advanced RES projects ready for construction and the existing photovoltaic farm assets on the market. As part of such efforts, the internal analyses of further acquisition projects were carried out in the first half of 2021.

Onshore wind farms

TAURON Capital Group is looking for the opportunities to acquire advanced RES projects and the existing onshore wind farm assets on the market. As part of such efforts, the internal analyses and due diligence studies of further acquisition projects were carried out in the first half of 2021. All of the investment decisions will be made after the detailed analyses of the technical, legal and business risks have been completed, after the positive financial results of the individual projects have been obtained and after the final terms of the deals have been agreed upon with the sellers.

As a result of the above mentioned works, on June 10, 2021, TAURON EKOENERGIA acquired 100% of the shares in SPV Polpower, the entity that holds the rights to build a 6 MW Majewo wind farm.

Offshore wind farms (in the Polish Exclusive Economic Zone of the Baltic Sea)

On December 29, 2020, TAURON concluded a two year cooperation agreement with OW OFFSHORE S.L. (OW OFFSHORE) on the development of offshore wind farm construction projects in the Polish Exclusive Economic Zone on the Baltic Sea. TAURON's intention was to acquire 50 percent of the shares in the companies whose sole owner was OW OFFSHORE (the agreement was related to the projects that did not have a permit for the erection and use of artificial islands, structures and devices in the Polish Exclusive Economic Zone, issued by the Minister of Maritime Economy and Inland Navigation, provided that OW OFFSHORE was the only applicant for the permits for the areas where the implementation of the projects was planned). On the other hand, the intention of OW OFFSHORE was to acquire 50 percent of the shares in the special purpose vehicles to which TAURON Capital Group, having acquired the permits, was supposed to contribute the projects that involved the construction of offshore wind farms. The parties undertook to conduct, in good faith, negotiations related to the agreements for the sale of shares in special purpose vehicles, including an investment agreement regulating the obligations of the parties as shareholders, where, in accordance with the agreements reached, the duration of the negotiations should generally not exceed six months from the date of concluding the agreement. On June 29, 2021, TAURON submitted to OW OFFSHORE a statement on the expiration of the obligations stemming from the above mentioned agreement and thus the expiration thereof. In the opinion of the Company, for objective reasons beyond the control of either party, in particular as a result of the change in the regulatory environment and the entry into force of the *Act of December 17, 2020, on the Promotion of Electricity Generation in Offshore Wind Farms*, a situation had arisen where it became completely, permanently and objectively impossible to perform the obligations assumed under the above contract.

As part of the activities related to TAURON's participation in offshore wind farm projects, in the 4th quarter of 2020, applications were prepared for a permit to lay down and maintain submarine cables and pipelines in the territorial maritime area and the special economic zone, which were submitted on February 1, 2021, respectively, to the Maritime Office in Szczecin and the Minister of Infrastructure (the relevant Minister responsible for Maritime

Economy). As of the date of drawing up this report, the process of preparing opinions on the above mentioned applications is in progress, in accordance with the provisions of the *Act of March 21, 1991, on the maritime areas of the Republic of Poland and maritime administration* (the consolidated text, Journal of Laws of 2020, item 2135, as subsequently amended).

The *Act of December 17, 2020, on the Promotion of Electricity Generation in Offshore Wind Farms*, entered into force on February 18, 2021, pursuant to which, the proceedings for the issuance of permits for the construction of artificial islands, structures and devices in the Polish maritime areas whose locations do not correspond to the areas specified in appendix no. 2 to the above mentioned act, initiated and not completed before the date of entry into force of this Act, shall be discontinued. The reservoirs described by the coordinates in appendix no. 2 to the above act do not coincide with the historical coordinates of the areas specified in the submitted and pending applications for the issuance of the permits in question, including the applications submitted by TAURON Capital Group in the 4th quarter of 2020. Thus, it will be necessary for TAURON to submit new applications for permits for the construction of artificial islands, structures and devices in the Polish maritime areas

On January 18, 2021, PGE, Enea and TAURON signed a Letter of Intent, in which they expressed their will to commence strategic cooperation related to the future offshore wind energy investment projects in the Polish Exclusive Economic Zone of the Baltic Sea. The goal of the parties to the above letter is to define, as part of the future cooperation, the options, nature and details of the potential joint involvement in the implementation of investment projects with the above mentioned scope. The parties see significant potential and an opportunity to achieve synergy when undertaking joint activities aimed at implementing investment projects in the field of offshore wind energy. Such activities would constitute the implementation of the climate goal and would be in line with the assumptions of the so-called green deal and contribute to increasing the share of renewable energy sources in Poland's energy mix. The potential cooperation would be an expression of the responsibility of the Parties as the entities operating in the energy sector actively contributing to the energy transition process.

Currently, the parties are negotiating the terms of the agreement for the purchase of shares in special purpose vehicles that would carry out joint offshore wind energy investment projects. As of the date of drawing up this report, the locations and ultimate generation capacities of the potential joint investment projects, as well as the scope of tasks and responsibilities of the individual entities to be carried out as part of these projects, are not known yet.

As part of the activities aimed at determining the possibility of the potential joint involvement of the entities in the field of offshore wind energy, on July 5, 2021 (an event taking place after the balance sheet date), TAURON, PGE and Enea submitted an application to the Office of Competition and Consumer Protection for a consent (clearance) to establish a joint offshore company that would apply for new licenses. As of the date of drawing up this report, the application is awaiting consideration.

The provisions of the Letter of Intent referred to above are not binding and do not bring about any obligation to conclude any agreement by the parties or any other obligations regarding the cooperation of the parties to the Letter.

413 MWe CCGT unit construction project including an approx. 250 MWt heat generation unit at TAURON Wytwarzanie Łagisza Power Plant Branch in Będzin (TAURON Wytwarzanie Oddział Elektrownia Łagisza w Będzinie)

In September 2016, in accordance with *TAURON Group's Strategy for the years 2016-2025*, as part of the priority of ensuring TAURON Capital Group's financial stability, the 413 MWe CCGT unit construction project including a heat production unit at TAURON Wytwarzanie Łagisza Power Plant Branch in Będzin (TAURON Wytwarzanie Oddział Elektrownia Łagisza w Będzinie) was halted due to the loss of its business justification (business case). TAURON Capital Group is currently conducting analyses that would enable a potential resumption of the project and other similar projects at TAURON Capital Group subsidiaries' locations. Smaller units or batteries of gas fired engines operating in high efficiency cogeneration are also considered. The fuel under consideration is natural gas with a much lower emission than coal, also as a transition fuel on the path to the low emission generation. Taking of the investment decision will, on one hand, be based on the assessment of the projects' profitability, and, on the other hand, on TAURON Capital Group's financial standing. The option of involving an equity partner in the implementation of the projects cannot be excluded.

Capital expenditures (CAPEX)

TAURON Capital Group's capital expenditures came in at PLN 1 287 million in the first half of 2021 and they were 28% lower than the expenditures incurred in the same period of 2020 that stood at PLN 1 812 million (excluding equity investments). This is primarily due to the decrease of the outlays in the Generation Segment.

The below table presents the selected, highest by value, capital expenditures incurred by TAURON Capital Group's Lines of Business in the first half of 2021.

Table no. 4. The highest by value, capital expenditures incurred by TAURON Capital Group's Lines of Business in the first half of 2021

Item		Capital expenditures (PLN m}
Distribution		
1.	Installation of new grid connections	462
2.	Existing grid assets' upgrades (refurbishments) and replacements	396
3.	Dispatcher Communications System	28
Generation		
4.	CAPEX on replacements and upgrades (refurbishments), as well as components at TAURON Wytwarzanie	57
5.	Construction of a 910 MWe super critical parameters generation unit in Jaworzno	13
6.	Adaptation of TAURON Wytwarzanie generation units to the *BAT Conclusions*	12
7.	Connecting of new facilities to the grid	9
8.	Investment projects related to the development (expansion) and maintenance of the district heating networks	7
RES		
9.	Construction of the 30 MW Piotrków wind farm	13
10.	Construction of the Choszczno I and II PV farm	2
Mining		
11.	Preparation of the future production	70
12.	Construction of the "Grzegorz" shaft at the Sobieski Coal Mine (ZG Sobieski)	5
13.	Construction of the 800 m level at the Janina Coal Mine (ZG Janina)	3
Supply and Other Operations		
14.	Construction of the broadband Internet as part of the POPC III project	49
15.	Maintenance and development of the street lighting	15
16.	Gas fired engines	9

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

2.1. The subject of the operations of TAURON Polska Energia S.A. and TAURON Capital Group

The subject of the operations of TAURON Polska Energia S.A.

As the parent entity of TAURON Capital Group, TAURON is performing the consolidating and management function at TAURON Capital Group. As a result of implementing the Business Model and centralizing of the functions, TAURON has concentrated a number of competences related to the functioning of TAURON Capital Group's subsidiaries and is currently carrying out operations, among others, in the following areas:

1. wholesale trading in electricity, gas and related products, in particular, with respect to providing trading (commercial) services for the subsidiaries, securing the requirements with respect to fuel, CO_2 emission allowances and certificates of origin of electricity,
2. management of the portfolio of electricity, CO_2 emission allowances and Property Rights,
3. purchasing management,
4. finance management,
5. asset management,
6. corporate risk management,
7. managing the IT functioning model,
8. coordinating the research and development (R&D) activities carried out within TAURON Capital Group,
9. advisory services with respect to accounting and taxes,
10. legal support (services),
11. audit.

The above functions are gradually curtailed 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 hedging the buy and sell positions of TAURON Capital Group's entities and on wholesale electricity trading. The Company bought and sold 22.7 TWh of electricity in the first half of 2021. The electricity sales carried out by TAURON during that period were mainly addressed to the following subsidiaries: TAURON Sprzedaż and TAURON Sprzedaż GZE, with 71.9% of the electricity purchased sold thereto. The above subsidiaries are carrying out the retail electricity supply to the final consumers, and therefore TAURON is not dependent on any single electricity consumer. The other consumers (the trading companies outside TAURON Capital Group, the exchanges) accounted for 18.8%. A decision was made in the third quarter of 2020 to discontinue the trading activities with respect to the intersystem exchange. This is due to the situation regarding the restriction of the importing options (transmission capacity available), which has been prevailing since the beginning of 2020, the Company's trading strategy, as well as the planned changes with respect to the system for allocating of the transmission capacity for the intersystem exchange at the level of the Community electricity market (the planned introduction of the Market Coupling mechanism for the Day-ahead market). In connection with the above, the documents terminating the transmission contracts were submitted to the TSO in Germany (50Hertz Transmission GmbH, TenneT TSO GmbH, Amprion GmbH) in September 2020.

With regard to wholesale electricity trading, as of the end of 2019, the Company took over the activities with respect to the fulfillment of the exchange obligation (in accordance with art. 49a of the Energy Law) and with respect to the optimization of the operation of the generating units from the TAURON Wytwarzanie subsidiary, and as of April 2020, from TAURON Ciepło, and centralized such activities at TAURON level. The principles of cooperation with respect to the trading operations conducted by TAURON for TAURON Wytwarzanie and TAURON Ciepło were defined in the SLA service provision agreements. Pursuant to those agreements the Company is providing, among others, the electricity and Property Rights portfolio management service, as well as the *market access* service, as part of which it is operating on the Polish Power Exchange (Towarowa Giełda Energii S.A. - TGE) on behalf of TAURON Capital Group for the benefit of TAURON Wytwarzanie and TAURON Ciepło, carrying out the electricity sales for the purpose of fulfilling the exchange obligation.

The Company's additional operations include wholesale trading in natural gas on the territory of the Republic of Poland (carried out based on the license for trading in gas fuels issued by the President of the Energy Regulatory Office on April 27, 2012) and trading in natural gas with foreign counterparties (carried out based on the license issued by the President of the Energy Regulatory Office on September 29, 2020). In the first half of 2021, the Company purchased and sold 2.5 TWh of gas fuel. The Company is focusing on selling natural gas for the supply needs of TAURON Sprzedaż, with 59.0% of the purchased fuel gas sold thereto.

In the first quarter of 2021, based on the decision of the President of the Energy Regulatory Office of March 11, 2021, TAURON obtained an extension of the granted licenses for the conducting of business operations involving trading in natural gas on the territory of Poland and with foreign entities (counterparties) until June 30, 2035. The obtaining of the above mentioned license is necessary in order to maintain the existing competences with respect to the conducted trading operations related to natural gas trading on the territory of the Republic of Poland and bringing (importing) natural gas from the neighboring markets and the dispatching (exporting) thereof to the neighboring markets that Poland is connected with via the gas transportation (pipeline) system.

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, that constitute the confirmation of electricity generation from the renewable sources (including the sources that use agricultural biogas), as well as the property rights related to the electricity efficiency certificates. The principles of cooperation are defined in the agreements for the management of the property rights' balance (TAURON Sprzedaż, TAURON Sprzedaż GZE, TAURON Wytwarzanie, TAURON Ciepło) and in the agreements for the provision of the trading services with respect to the property rights and guarantees of origin portfolio management (TAURON EKOENERGIA, EW Dobrzyń, EW Śniatowo, EW Inowrocław, EW Gołdap, EW Mogilno). The Company did not carry out trading in the property rights in 2020, such trading was carried out by TAURON Capital Group's subsidiaries that were acquiring the individual rights and the subsidiaries obligated to redeem (retire) the above mentioned property rights. In connection with the amendments introduced in 2020 to the Public Procurement Act of September 11, 2019, resulting in the need to purchase property rights for the purpose of selling them to the end customers (in order to fulfill the obligation to redeem them) by way of a tender, and for the purpose of their further resale, without a tender, starting from 2021, TAURON is a party to the transaction involving a purchase of the property rights stemming from the certificates of origin of electricity, which constitute the confirmation of electricity generation from the renewable sources (PMOZE_A) for the purpose of their further resale to TAURON Sprzedaż and TAURON Sprzedaż GZE.

TAURON is a competence center with respect to the management and trading in the CO_2 emission allowances for TAURON Capital Group's subsidiaries. As a result of centralizing trading in the emissions, a synergy effect has been achieved, involving optimizing of the costs of utilizing the resources of TAURON Capital Group's entities. In pursuit of the above objectives with respect to the CO_2 emission allowances trading, the Company is actively participating in the trading on the ICE exchange, the EEX exchange and on the OTC market. In connection with the centralizing of that function, TAURON is responsible for the settlements (clearing) of the subsidiaries' CO_2 emission allowances, hedging the subsidiaries' emission needs taking into account the allowances allocated.

TAURON is also performing the function of the Market Operator and of the entity responsible for trade balancing for TAURON Capital Group's subsidiaries and for the external customers. Those functions are carried out pursuant to the transmission agreement concluded with the Transmission System Operator (TSO) – Polskie Sieci Elektroenergetyczne S.A. (PSE) and other regulations in this respect (Terms and Conditions for Balancing and the Transmission Grid Code).

The Company is currently holding exclusive control over the generation capacity with respect to the trading and technical capabilities related thereto, it is responsible for optimizing the generation, i.e. the selection of the generation units for operation, as well as the adequate distribution of the 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 is participating 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 (network) operator. TAURON is also developing its competences with respect to the Market Operator function for gas pursuant to the transmission agreement with GAZ-SYSTEM S.A. In July 2015, TAURON, as one of the first entities in Poland, launched a balancing group for the entities carrying out trading transactions on the gas market and is currently conducting the balancing of the trading for two of TAURON Capital Group's entities as well as for the external entities.

In the first quarter of 2021, TAURON conducted, on behalf of TAURON Capital Group's subsidiaries, the general certification of the physical units, existing and planned as part of the capacity market. As a result, TAURON Capital Group's physical generating units and controllable loads (demand reduction units) will be able to take part in the certification process for the main auctions for the delivery year 2026 and for the additional auctions for the delivery year 2023, and subsequently they will be able to participate in the above mentioned auctions. Also, the certification process for the additional auctions for the individual quarters of the delivery year 2022, that had been started in the fourth quarter of 2021, was completed.

PSE conducted four additional capacity market auctions on March 16, 2021, for the individual quarters of the delivery year 2022. On April 6, 2021, the President of the Energy Regulatory Office (ERO) published the information on the final results of the additional auctions in the Public Information Bulletin (Biuletyn Informacji Publicznej). In accordance with the information, the closing price of the auctions was determined at the level of: 186.70 PLN/kW/year for the auction for the 1st quarter, 320.00 PLN/kW/year for the auction for the 2nd quarter, 320.00 PLN/kW/year for the auction for the 3rd quarter, and 240.02 PLN/kW/year for the auction for the 4th quarter. TAURON Capital Group's subsidiaries concluded capacity contracts with the volume of:

- 157.1 MW in the additional auction for the 1st quarter of 2022,
- 82.1 MW in the additional auction for the 2nd quarter of 2022,
- 24.9 MW in the additional auction for the 3rd quarter of 2022,
- 155.1 MW in the additional auction for the 4th quarter of 2022.

The total revenue of TAURON Capital Group stemming from the performance of the capacity contracts concluded as a result of the additional auctions for the individual quarters of the delivery year 2022 will reach PLN 25.01 million.

The Company is performing the management function with respect to managing the purchasing of production fuels for the needs of TAURON Capital Group's generation entities and hedging the fuel position thereof. All of the hard coal for the production needs of TAURON Capital Group is contracted and hedged by TAURON. In this respect the Company provides the deliveries of appropriate quality and quantity, guaranteeing that the mandatory reserves of coal are stored at all of the generation units of TAURON Capital Group.

The subject of the operations of TAURON Capital Group

TAURON Capital Group is conducting its operations and generating its revenue, first and foremost, from electricity and heat supply and distribution, electricity and heat production, as well as hard coal sales.

The detailed information related to the Operating Segments (lines of business) is provided in section 1.2. of this report.

TAURON Capital Group's core products include electricity and heat, as well as hard coal. In addition, TAURON Capital Group is trading in commodities: electricity and energy market products as well as hard coal and gas, and it is also providing electricity distribution and supply services, including to the final consumers, heat distribution and transmission, as well as other services related to the operations conducted thereby.

2.2. Factors and events, including the non-typical ones that have a significant impact on the abbreviated consolidated financial statements of TAURON Capital Group

Internal factors

The operations and earnings of the Company and TAURON Capital Group in the first half of 2021 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 the processes taken by all of TAURON Capital Group's subsidiaries,
3. decisions with respect to the implementation of the key investment projects,
4. measures implemented at TAURON Capital Group's subsidiaries in connection with the COVID-19 pandemic, aimed at ensuring the safety of the employees and customers, as well as securing business continuity, including curbing the operating expenses,
5. implementing the *Strategic Asset Management Plan for the years 2018-2025* – one of the fundamental documents that constitute the core of the integrated asset management system at TAURON Capital Group,
6. implementation of the investment projects with respect to adapting TAURON Capital Group's power plants to the *BAT Conclusions* by reducing, starting from 2021, the emissions of sulfur and nitrogen compounds as well as chlorine and mercury or obtaining of the derogations,
7. loyalty building measures aimed at retaining the existing customers and marketing activities with respect to acquiring new customers,
8. centralized TAURON Capital Group's financial management area, supported by the use of such tools as: central model of financing, financial liquidity (cash flow) management policy using the *cash pool* mechanism, risk management policy in the financial area, insurance policy,
9. ability to obtain debt financing on the international markets,
10. Tax Capital Group's (Podatkowa Grupa Kapitałowa – PGK) operations, first and foremost aimed at optimizing the performance of the obligations associated with the payment of the corporate income tax by TAURON Capital Group's key subsidiaries,
11. TAURON's purchasing processes management, in particular, the management of fuel purchases for the needs of TAURON Capital Group's generation entities,
12. geological and mining conditions of hard coal extraction,
13. failures of TAURON Capital Group's equipment, installations and grids,
14. implementation of *TAURON Wydobycie (Mining) Turnaround Program for the years 2020-2029*,
15. completion of the negotiations in the process of the sale of the shares in TAURON Ciepło (the detailed information is provided in section 2.4. of this report),

16. signing of the agreement for the sale of the shares in PGE EJ 1 to the State Treasury,
17. decommissioning of the 120 MW units in Stalowa Wola (February 2021),
18. adoption of *TAURON Group's Business Continuity Policy*.

The detailed information related to the impact of the material factors on the financial result achieved in the first half of 2021 is provided in section 4 of this report. The effects of such impact are visible both in the short term, as well as in the long term outlook.

External factors

The results of the operations of TAURON and TAURON Capital Group in the first half of 2021 were impacted by the following external factors:

1. macroeconomic environment,
2. market environment,
3. regulatory environment,
4. competitive environment (landscape).

Macroeconomic environment

TAURON Capital Group's core business operations are conducted on the Polish market and therefore 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 COVID-19 pandemic has been the greatest challenge facing all of the world's economies since 2020. The introduced restrictions aimed at curtailing the increase in the number of infection cases had an impact upon the functioning of the world's economies and, as a consequence, the slowdown (contraction) thereof by 3.3% was observed in 2020.

Following the pandemic the recovery of the economic activity will be diversified in the individual countries. According to the forecasts published by the National Bank of Poland, the economy of the euro zone will record GDP growth by 3.9% in 2021 and this level will also be maintained in 2022. It is expected that the economic growth will be impacted by the adaptation of the companies and the households to the functioning in the pandemic conditions, the vaccination process and the large fiscal packages in the world's largest economies.

The outbreak of the COVID-19 pandemic, the restrictions imposed and the persistent high uncertainty about how the situation will evolve in the future contributed to a reduction in the economic activity in Poland. According to the analyses of the National Bank of Poland (Narodowy Bank Polski - NBP) as of July 2021, as the epidemic situation is improving and the restrictions are lifted, an increase in the consumer demand and in private consumption is expected, as well as a gradual return of the level of capital expenditures to the value before the crisis. In 2020, investment outlays on fixed assets decreased by 9.6% year on year. In 2021, they are forecast to increase by 8.2%, and in 2022 and 2023 by 10.5% and 10.2%, respectively. GDP is also expected to grow by 5.0% in 2021, and by 5.4% and 5.3% in 2022 and 2023, respectively.

The registered unemployment rate clocked in at approx. 5.9% in Poland at the end of the first half of 2021and according to estimates, it will amount to approx. 6.1% at the end of 2021.

The forecasts of the National Bank of Poland, as of July 2021, indicate that the inflation rate in Poland in 2021 will come in at 4.2%, and in 2022 and 2023 it will remain within the range between 3.3% and 3.4%. The projections also assume an increase in electricity prices for households due to an increase in the prices of the CO_2 emission allowances, wholesale electricity prices and the capacity payment.

Market environment

Electricity

The below table presents the volumes of Poland's electricity consumption, production and imports as well as the average electricity prices on the SPOT market, both in Poland as well as in the neighboring countries in the first half of 2020 and in the first half of 2021.

Table no. 5. Volumes of Poland's electricity consumption, production and imports as well as the average electricity prices on the SPOT market, both in Poland as well as in the neighboring countries in the first half of 2020 and in the first half of 2021

Volume	Unit	H1 2020	H1 2021	Increase / Decrease
Electricity consumption	GWh	80 641	86 365	5 724 (+7.1%)
Electricity production by domestic power plants	GWh	74 092	83 092	9 000 (+12,1%)

Volume	Unit	H1 2020	H1 2021	Increase / Decrease
Electricity production by power plants fired with:				
hard coal	GWh	33 836	44 696	10 860 (+32.1%)
lignite	GWh	18 668	21 210	2 542 (+13.6%)
gas	GWh	6 632	6 437	-195 (-2.9%)
Electricity production by wind farms	GWh	7 859	6 762	-1 097 (-14.0%)
Electricity imports	GWh	6 547	3 272	-3 275 (-50.0%)
Average electricity price on the SPOT market in:				
Poland	PLN/MWh	178.51	283.72	+105.21
	EUR/MWh	40.53	62.51	+21.98
Neighboring countries (on the example of Germany)	EUR/MWh	23.42	54.95	+31.53

The average price of electricity on the SPOT market in Poland in the first half of 2021 rose as compared to the corresponding period of 2020 by more than 105 PLN/MWh and it came in at 283.72 PLN/MWh. This change was caused by the colder winter, the cold month of May and the hot June, the effects of which were visible not only in Poland, but also in the neighboring countries, where the price increases on the SPOT market were also recorded.

The lower prices observed on the SPOT market in 2020 were a consequence of the exceptionally warm winter, but also of the higher wind generation and a decrease in the demand for electricity, additionally intensified in March 2020 by the restrictions introduced in connection with the COVID-19 pandemic. The impact of the pandemic on the demand for electricity was offset in 2021 by the colder winter, which led to the higher prices. In addition, in the first half of 2021, low generation from wind sources was recorded, as well as a lower balance of electricity imports from abroad.

The prices of the forward contracts showed a clear upward trend in the first half of 2021, mainly due to the strong surges of the CO_2 emission allowances market. The futures benchmark BASE_Y-22 contract (clearing price) came in, on average, at the level of 309.65 PLN/MWh, with the low of 251.32 PLN/MWh recorded on January 18, 2021, and the high of 358.65 PLN/MWh reported on June 30, 2021.

Due to the generation of the wind sources and the increasing share of the generation from the photovoltaics, the P/B ratio continues to decline from 1.16 at the beginning of 2021 to 1.09 at the end of June 2021 for the annual product. For the quarterly and monthly products, the P/B ratio moved within the 1.06-1.14 range.

The futures benchmark PEAK_Y-22 contract (clearing price) went up in the first half of 2021 from the low of 291.08 PLN/MWh reported on January 18, 2021, to the high of 392.25 PLN/MWh recorded on June 30, 2021. The average clearing price at the end of the first half of 2021 clocked in at 344.70 PLN/MWh.

Crude oil and coal

The volume weighted average price of Brent crude on the ICE exchange in the first half of 2021 came in at 65.23 USD/barrel and it was higher by 23.13 USD/barrel, i.e. by 54.9% as compared to the volume weighted average price of Brent crude reported in the same period of 2020.

The total trading volume came in at approx. 32.2 billion barrels in the first half of 2021, while a year earlier the total trading volume had stood at approx. 33 billion barrels (a decrease by 2.4%).

The main factors that had an impact on the demand and supply situation on the oil markets in the first half of 2021 were the global events affecting the fuel industry. The global oil markets remained under the strong impact of the situation related to the COVID-19 pandemic.

The speed of the recovery of the demand for the commodity, diminished as a consequence of the COVID-19 pandemic, continued to be a significant factor in the first quarter of 2021.

In February 2021, the unstable, freezing winter weather conditions led to the imbalance in the supply and demand for oil and natural gas in the US. The oil and gas production output went down due to the freezing of the infrastructure in Texas, while the demand for heat and electricity was high.

The higher crude oil prices in February and March 2021 were mainly due to the lower crude oil production by the members of the Organization of Petroleum Exporting Countries (OPEC) and the partner countries (OPEC+). In addition, Saudi Arabia announced voluntary additional production volume cuts of approx. 1 million barrels a day during that period.

In the second quarter of 2021, the progressing vaccination programs against COVID-19, especially in Europe and in the US, had a major impact on the recovery of the price of a barrel of crude oil, which in early 2021 cost approx. USD 51, while on June 30, 2021, its price fluctuated around USD 75 (an increase by approx. 47%).

Hard coal

The hard coal average CIF ARA price on the EEX exchange for an annual continued contract was 73.58 USD/t in the first half of 2021, and it was higher by 18.25 USD/t (an increase by 33%) as compared to the average price of such a contract in the first half of 2020.

The prices of the commodity at the coal terminals both in Europe, as well as in the Republic of South Africa (RSA), dropped at the beginning of 2021 as greater restrictions were imposed in order to contain the spread of the COVID-19 pandemic.

In March 2021, the price indices at the main coal terminals went up, thus increasing the price difference between the two large regional markets, i.e. the Pacific area and the Atlantic area. Increased coal consumption in Germany, rising freight rates and the frosty weather, which increased the demand for energy produced from solid fuels in Germany, along with declining electricity generation from the wind contributed to the rise in the prices in Europe.

In April 2021, Australian commodity prices fell as a result of the growing uncertainty in the key Indian market, where the increase in the number of COVID-19 cases affected economic activity. The situation in India also affected the prices of the raw material at the South African Richards Bay terminal, which additionally struggled with the transportation problems.

In May 2021, China experienced an intense summer demand for hard coal, as evidenced by electricity rationing in some parts of the country.

The high prices on the natural gas market, the tense situation brought about by empty storage facilities and the lack of the ability to increase exports to Europe made energy production from coal more profitable as compared to electricity generation from gas, at least in the short term.

The growing generation margins for the coal-based energy in Germany translated into an increase in coal consumption, which in the second half of June 2021 showed an upward trend.

The demand from the major buyers of the Australian high quality steam coal was a key factor impacting the commodity prices, especially in the last two weeks of June 2021. The continued informal import ban on the Australian coal, introduced by China in 2020, still led to a number of other countries trying to source the Australian raw material ahead of the expected increase in the Chinese demand for the overseas shipments from outside Australia, which in the short term could trigger an even greater increase in prices.

Natural gas

The volume weighted average price of gas on the Day Ahead Market (RDN) on the Polish Power Exchange (Towarowa Giełda Energii S.A.- TGE) stood at 104.09 PLN/MWh in the first half of 2021 and it was higher by 58.42 PLN/MWh (an increase by 127.9%) as compared to the volume weighted average price in the first half of 2020.

The prices of gas in the first half of 2021 were the result of the weakening of the COVID-19 pandemic, the recovery of the demand for gas and crude oil, strong surges in the prices of the CO_2 emission allowances, the demand and supply situation both in Europe, as well as worldwide, and the low levels of inventory in the storage facilities in Europe as compared to the previous years.

The prices were supported in the first half of 2021 by an increase of the EUA prices, which went up by 24 EUR/Mg, i.e. by approx. 73.3% in the period under review. In addition, the price increase in January 2021 was impacted by the freezing winter weather conditions in Asia and in Europe. Such a situation translated into the sharp rise of the LNG SPOT prices in January, the so-called *Japan-Korea-Marker* in Asia and very high natural gas prices in Europe. In addition, a similar situation took place in the US in February 2021, which also triggered an immediate strong price surge at the US Henry Hub. Later in the first half of the year, the prices went up due to the shortage of inventory in the European storage facilities and due to the upward trend in the LNG prices in Southeast Asia.

The lowest monthly average volume weighted price of the day ahead delivery contract in the first half of 2021, clocking in at 93.47 PLN/MWh, was recorded in March 2021, while the highest monthly average volume weighted price of 139.28 PLN/MWh was reported in June 2021. The volume of trading on the above contract came in at 12 962 GWh in the first half of 2021 and it was 41.5% higher as compared to the volume of trading on that contract in the same period of 2020, when it stood at 9 160 GWh.

The average volume weighted price of the annual benchmark contract on the futures market came in at 101.13 PLN/MWh in the first half of 2021 and it was higher by more than 32 PLN/MWh (an increase by 46.3%) as compared to the average volume weighted price of the annual benchmark contract in the first half of 2020. The lowest monthly average volume weighted price of that contract was recorded in January 2021, when it stood at 84.69 PLN/MWh, and the highest price was reported in June 2021 when it clocked in at 113.89 PLN/MWh. The volume of trading on that contract came in at 11 765 GWh in the first half of 2021 and it was lower by 67.0% as compared to the volume of trading on this contract in the same period of 2020 when it stood at 35 618 GWh.

According to the Gas Infrastructure Europe association's data, as of June 30, 2021, the Polish storage facilities with the total capacity of approx. 3.2 billion m^3 were 64.9% filled and a year earlier they had been 69.0% filled (a decrease by 4.1 pp). In Europe, this level, as of June 30, 2021, stood at 47.5%, and a year earlier it had been at 80.4% (-32.9 pp).

CO_2 emission allowances

The CO_2 emission allowances market continued to be characterized by a clear upward trend and very high price volatility in the first half of 2020. The average price of the benchmark EUA-DEC21 contract stood at 43.81 EUR/MgCO_2 in the first half of 2021, i.e. it was 21.73 EUR/MgCO_2 higher than in the first half of 2020 (an increase by 98.7%).

In the period under review, an increasingly faster pace of climbing to the new, higher price levels of the CO_2 emission allowances was recorded. In the first half of 2021, the settlement (clearing) price was higher by more than 1 EUR/MgCO_2, at 22 sessions, as compared to the settlement (clearing) price from the previous session. In December 2020, the level of 30.00 EUR/MgCO_2 was surpassed. On February 11, 2021, the level of 40.00 EUR/MgCO_2 was recorded for the first time in the history of the operations of the EU ETS system.

The reasons for the increases in the prices of the CO_2 emission allowances were the optimistic (positive) sentiments on the financial markets stimulated by the financial packages and the prolonged winter in Europe, which increased the demand for the EUA units coming from the European economy emerging from the crisis caused by the COVID-19 pandemic.

The significant factors behind the increase in the prices also included the delays in the allocation of the free allowances for installations and the transition between the phases of the EU ETS system from phase 3 to phase 4. The free allocations of the allowances as part of the 4th phase, in accordance with the EU ETS directive, could not have been used, just like every year, to redeem (retire) the obligation arising in phase 3. This regulation forced the purchase of the allowances on the secondary market and resulted in many market participants purchasing units at very high prices in order to avoid a penalty in the form of 100 EUR/MgCO_2 in the event of a failure to retire (redeem) the obligation arisen.

The above mentioned factors, in combination with the increased activity of the hedge funds, resulted in the further strong surges in the prices of the EUR/MgCO_2 emission allowances, which reached the level of 50 EUR/MgCO_2 and 56.90 EUR/MgCO_2 on May 4 and 14, 2021, respectively.

The level of 56.90 EUR/MgCO_2 achieved in May 2021, turned out to be the highest price in the entire first half of 2021. In spite of the lack of the new price peaks in June 2021, the average monthly price of 52.92 EUR/MgCO_2 reached in that month was the highest in the entire first half of 2021 and in the entire history of the operations of the EU ETS system.

Property rights

The prices on the green certificates market were in an upward trend in the first half of 2021. The minimum price of the TGEozea index was reported at the beginning of February 2021, clocking in at 141.87 PLN/MWh, while the maximum price of the above mentioned index was recorded in June 2021, coming in at 167.18 PLN/MWh The weighted average price of PMOZE_A stood at 150.22 PLN/MWh in the first half of 2021 and it was higher by 23.49% than the weighted average price in the same period of 2020.

The trading volume fell by 13.6% in the first half of 2021, as compared to the same period of 2020, i.e. from 4 761.7 GWh to 4 112.4 GWh. The balance of the PMOZE_A register reached a surplus of 30.85 TWh at the end of June 2021. Taking into account the certificates blocked for redemption (retirement), that balance decreased by 7.44 TWh, i.e. to the level of 23.41 TWh (a decrease by 16.31%). The amount of the substitution fee set for 2021 stands at 172.76 PLN/MWh. The obligation to submit the green certificates for redemption, in accordance with the Regulation of the Minister of Climate and the Environment of 27 August 2020. on the quantitative changes in the share of the total electricity resulting from the redeemed certificates of origin confirming production of electricity from renewable energy sources in 2021, stands at 19.5% in 2021.

The prices on the blue certificates market were very stable in the first quarter of 2021, while they were in an upward trend in the second quarter of 2021. In the period from January to March 2021 the prices of the TGEozebio index were fluctuating between 300.03 PLN/MWh and 306.50 PLN/MWh, i.e. close to the substitution fee level set at 300.03 PLN/MWh for 2021. The weighted average price of that index came in at 300.32 PLN/MWh in the first half of 2021, while the volume of trading stood at 213.36 GWh and it was lower by 18.3% as compared to the level of volume achieved in the same period of 2020. The balance of the PMOZE-BIO register reached 479.1 GWh at the end of June 2021. Taking into account the certificates that are blocked for retirement (cancellation), that balance decreased by almost 261.2 GWh, i.e. to the level of 2 179 GWh (a drop by 6.95%). The obligation confirming the production of electricity from agricultural biogas stands at 0.5% in 2021 in accordance with abovementioned regulation.

The prices of the PMEF white certificates in the first half of 2021 were fluctuating between 1 825.401 PLN/toe in June 2021 and 2 100.00 PLN/toe in May 2021. The weighted average price for the above contract came in at 1 914.28 PLN/toe in the period from January to June 2021 and it was higher by 3.7% as compared to the weighted average price in the same period of 2020. On average, the prices were almost 5% above the substitution fee set for 2021 at the level of 1 823.26 PLN/toe. The trading volume fell by 66.4% as compared to the same period of 2020 and it clocked in at 16 225 toe (48 271 toe in the first half of 2020).

The prices of the PMEF - 2020 and PMEF - 2021 (the contract quoted since March 2021) contracts were at similar levels in the first half of 2021. The price of the PMEF_F contract was a bit higher.

The weighted average prices of the PMEF_F and PMEF - 2020 contracts in the first half of 2021 were higher by 8.8% and 5.9%, respectively, as compared to the weighted average prices in the same period of 2020 and they came in at 1 985.28 PLN/toe and 1 918.81 PLN/toe, respectively. The weighted average price of the PMEF - 2021 contract clocked in at 1914.83 PLN/toe.

Regulatory environment

TAURON Capital Group is monitoring changes and taking actions in the regulatory area, both on the national as well as on the European Union (EU) level.

The material changes that occurred in the regulatory environment of TAURON Capital Group in the first half of 2021 and by the date of drawing up this report with respect to the scope of the adopted and published legislative acts as well as the legislative acts undergoing legislative work are listed below.

Fit for 55 package

On October 19, 2020, the European Commission adopted a work program for 2021, including the *Fit for 55* regulatory package, which aims to ensure that the European Union accelerates the pace of both the transition towards a climate neutral economy as well as towards the digital transformation. The main goal of the *Fit for 55* package is to reduce emissions by at least 55% by 2030. All of the relevant European Union regulations must be adapted to the above mentioned greenhouse gas emissions reduction target. By the end of 2021, the European Commission will review selected regulations relating to the energy sector, including:

1. Energy Tax Directive (ETD),
2. Directive on the promotion of the use of energy from renewable sources (Revision to the Renewable Energy Directive – RED II),
3. Energy Efficiency Directive (EED),
4. Directive establishing the EU ETS scheme (EU ETS Directive).

The draft legislative proposals of the European Commission with respect to the revisions of the above mentioned regulations and the presentation of the Carbon Border Adjustment Mechanism (CBAM) were published on July 14, 2021 (an event taking place after the balance sheet date).

European Climate Law

In December 2020, the European Council approved a binding target assuming the reduction of the net greenhouse gas emissions in the European Union by at least 55%, as compared to the 1990 levels, by 2030. On April 21, 2021, as part of the three party negotiations of the European Union institutions, an agreement on the European Climate Law was reached, and subsequently, from June 23 to June 24, 2021, the European Parliament and the Council of the European Union formally adopted the text of this agreement.

The European Climate Law introduces, in particular, a new target for the greenhouse gas emissions reduction by at least 55% by 2030, the greenhouse gas emissions reduction trajectory for 2030-2050 and the climate neutrality target by 2050 at the European Union level. In addition, the so-called carbon budget for the entire European Union for the years 2030 – 2050, defining the amount of greenhouse gases that the European Union may emit under the obligations stemming from the Paris Accord, is to be established.

Just Transition Mechanism

On May 19, 2021, the European Parliament adopted an agreement establishing the Just Transition Fund, which is to help the coal mining regions transition to the so-called *green economy*. Out of the amount of more than EUR 17.5 billion Poland may receive EUR 3.5 billion in subsidies for the years 2021-2027. The key assumption of the Just Transition Fund is to mitigate the effects of transition in the coal mining regions. The initially selected regions in Poland that will receive support from the Just Transition Fund include: Katowice, Bielsko-Biała, Tychy, Rybnik, Gliwice and Sosnowiec in the Silesia province, Konin in Wielkopolska (Greater Poland) province and Wałbrzych in the Lower Silesia province. Talks are underway with the European Commission on the inclusion of the coal mining regions in the Małopolska (Smaller Poland), Lublin and Łódź provinces. In order to benefit from the Just Transition

Fund resources, the coal mining regions should adopt the Territorial Just Transition Plans and subsequently obtain the approval of the European Commission.

Taxonomy

The *Regulation of the European Parliament and of the Council 2020/852 of June 18, 2020, on the establishment of a framework to facilitate sustainable investment aims to introduce a classification system, the so-called European Union Taxonomy*, i.e. a classification system for sustainable economic activities. On April 21, 2021, the European Commission initially adopted a delegated act to the above mentioned regulation which specifies the detailed technical criteria for assessing whether the given economic activity is carried out in an environmentally sustainable manner. The act does not include the criteria for generating electricity from natural gas. The publishing of the proposed delegated act specifying the technical criteria for the assessment of an economic activity consisting in generating electricity from natural gas was planned by the European Commission for the third quarter of 2021. The above mentioned act will have an impact on the availability and cost of the financial instruments required for investments in the units generating electricity from the natural gas.

Recovery and Resilience Facility

On February 11, 2021, the Council of the European Union adopted a regulation establishing the Recovery and Resilience Facility (RRF), which controls funds in the amount of EUR 672.5 billion, of which Poland is to receive approximately EUR 58 billion in the form of a grant (subsidy) or loan. Member States have developed National Recovery Plans that include reforms and investment projects aligned with the EU policy objectives until 2026, i.e. a minimum of 37% of the expenditures to be spent on the energy transition and a minimum of 20% to be spent on the digital transformation. Approximately EUR 5.7 billion of grants and approx. EUR 8.6 billion in loans will be available as part of the *Green Energy and energy intensity reduction* component.

On April 2, 2021, the public consultations of the National Recovery Plan, which is the basis for the use of the Recovery and Resilience Facility (RRF), were completed in Poland. On April 30, 2021, the National Recovery Plan was approved at the meeting of the Council of Ministers, and on May 3, 2021, it was submitted for approval to the European Commission.

As of the date of drawing up this report, the National Recovery Plan is awaiting the approval of the European Commission.

Proceedings in the Tempus case

In 2019, Tempus Energy Germany GmbH and T Energy Sweden AB filed an appeal against the decision of the European Commission on not raising objections to the Polish Capacity Market. The purpose of the appeal filed is to seek to nullify the said decision of the European Commission. At the same time, the Court of Justice of the European Union is conducting an appeal procedure against the first instance judgment related to the British Capacity Market. On June 3, 2021, the Advocate General of the Court of Justice of the European Union issued an opinion which indicated the possibility of revoking the judgment of the European Union's court of the first instance and dismissing the Tempus complaint. The outcome of the proceedings in the British case may be of great importance for the proceedings in the case of Tempus challenging the functioning of the Polish Capacity Market.

The judgment of the Court of Justice of the European Union on the complaint against the Polish Capacity Market is expected in the second half of 2021.

As of the date of drawing up this report, the judgment is underway.

Poland's Energy Policy until 2040

By way of the resolution of the Council of Ministers of February 2, 2021, *Poland's Energy Policy until 2040* was adopted, constituting a strategic document setting the framework and outlining the directions of Poland's energy transition. The above mentioned Policy replaced *Poland's Energy Policy until 2030* adopted in 2009.

The objectives of *Poland's Energy Policy until 2040* are based on three pillars:

1. just transition,
2. zero emission energy system,
3. good air quality.

In order to achieve the objectives set, eight specific goals have been defined in the form of:

1. optimal use of in-house energy resources,
2. expansion of electricity generation and grid infrastructure,
3. diversification of the supplies and the expansion of the network infrastructure related to natural gas, crude oil and liquid fuels,
4. development of the energy market,
5. implementation of the nuclear energy,
6. development of the renewable energy sources,
7. development of the district heating and cogeneration,

8. improving energy efficiency.

The significance of the adopted document is based on the setting of the long term goals for the public administration authorities and the tools provided for their proper achievement.

The Act of December 17, 2020, on promoting electricity generation in offshore wind farms

The *Act of December 17, 2020, on promoting electricity generation in offshore wind farms* entered into force on February 18, 2021.

The act's goal is to create a dedicated support system for the generation of electricity in the offshore wind farms and to facilitate applying for the documents required in the course of the investment related works conducted for the offshore wind farms.

Act of March 30, 2021, on amending the act on the provision of information on the environment and the protection thereof, the public participation in the environment protection and on the environmental impact assessments and certain other acts

The *Act of March 30, 2021, on amending the act on the provision of information on the environment and the protection thereof, the public participation in the environment protection and on the environmental impact assessments and certain other acts* entered into force on May 13, 2021.

The amendment extends the powers of the environmental (ecological) organizations to interfere with the investment process. The solutions introduced by the act are related to:

1. an option to file a petition (motion) to the appeal authority (body) for the suspension of the immediate enforcement of the environmental decision and an option to submit a complaint against the decision of the appeal authority (body),
2. introducing the premise on the basis of which the administrative court may halt (suspend) the execution (enforcement) of the final environmental decision,
3. introducing the mandatory suspension of the investment project permit procedure in the event the execution (enforcement) of the environmental decision is halted (suspended),
4. an option for the parties to the proceedings on the environmental decision and the environmental (ecological) organizations to file an appeal against the investment project permit with respect to the compliance thereof with the environmental decision and an option to submit a complaint to the administrative court in this regard,
5. an option to petition in a complaint for the halting (suspension) of the investment project permit,
6. introducing the obligation to publish the content of the investment project permit and the decision on the environmental conditions in the Public Information Bulletin (Biuletyn Informacji Publicznej).

Act of April 20, 2021, on amending the act on energy efficiency and certain other acts

The *Act of April 20, 2021, on amending the act on energy efficiency and certain other acts* entered into force on May 22, 2021.

The amendment adjusts the provisions related to energy efficiency to the solutions in force in the European Union (the implementation of the *Directive of the European Parliament and of the Council (EU) 2018/2002 of December 11, 2018, amending Directive 2012/27/EU on energy efficiency (Journal of Laws of the EU L 328 of December 21, 2018, p. 210)*. The amendment introduces an option to comply with the energy efficiency obligation in the form of programs for co-financing the replacement of the heating devices at the final consumers' as an additional measure - apart from the energy efficiency certificates - aimed at achieving the final energy savings target set by the European Union regulations for the end of 2030.

Act of April 15, 2021, on amending the act on the greenhouse gas emission allowance trading system and certain other acts

The *Act of April 15, 2021, on amending the act on the greenhouse gas emission allowance trading system and certain other acts* entered into force on June 25, 2021

The amendment enables domestic entities to take advantage of the Modernization Fund, i.e. a pool of money from the sales of the CO_2 emission allowances to be used for the modernization of the energy system and the energy efficiency improvement in the European Union. The amendment provides for the procedure of applying for support from the Modernization Fund, based on the competitions.

The National Fund for Environmental Protection and Water Management (Narodowy Fundusz Ochrony Środowiska i Gospodarki Wodnej) is the operator of the Modernization Fund in Poland, while the supervision over the performance of the tasks of the Fund's Operator is carried out by the Minister competent for the climate affairs.

Act of May 20, 2021, on amending the act – the Energy law and certain other acts

The *Act of May 20, 2021, on amending the act – the Energy law and certain other acts* entered into force on July 3, 2021 (an event taking place after the balance sheet date).

The amendment assumes, among others, setting up of a central energy market information system and introducing a schedule for installing the so-called smart meters. In accordance with the amendment the energy enterprises will have to equip consumers with the remote readout electricity meters, the so-called smart meters. By the end of 2028, at least 80% of customers are to be equipped with such meters. The data retrieved from the meters will allow for setting up of a central energy market information system, whose operator will be PSE.

As a result of the amendment, the provisions on the potential establishment of security (collateral, bond) on the property in order to obtain relevant licenses have also been expanded and clarified. Also the new provisions related to energy storage facilities were introduced. The energy storage has been exempted from the tariff obligations and the energy storage facilities with the capacity of up to 10 MW do not require obtaining a license. The double collection of the distribution and transmission fees - for the electricity drawn from the grid to the energy storage facility and fed back from the energy storage facility into the grid - has also been eliminated.

In addition, the amendment introduces amendments to the act on promoting electricity generation in offshore wind farms, making the obligation to provide the security (collateral, bond) more flexible by enabling the so-called rollover of the guarantee (bond) and a change of the form of the security (collateral, bond) during the period required by the act.

Act of July 23, 2021, on amending the act on the capacity market and certain other acts

The *Act of July 23, 2021, on amending the act on the capacity market and certain other acts* entered into force on September 1, 2021 (an event taking place after the balance sheet date).

The amendment adapts the provisions of the Act on the Capacity Market to *Regulation (EU) 2019/943 of the European Parliament and of the Council of June 5, 2019, on the internal electricity market* and is aimed at, among others:

1. limiting the participation in the capacity mechanisms for the units that do not comply with the emissions limit, including largely the exclusion of the participation thereof in the secondary trading (however, admitting them to the reallocation transaction and the transactions related to the capacity obligation arising no later than on December 31, 2021),
2. changing the provisions related to the penalties resulting from the termination of the capacity contract and a delay in the performance of the obligation,
3. introducing an option to transfer the capacity obligation and make a minor capacity adjustment,
4. excluding the application of the provisions of the *Act of September 11, 2019 - Public Procurement Law* in relation to the transactions on the secondary market,
5. reparameterization of the capacity payment, taking into account the consumption profile criterion, ensuring lower payments for the consumers with the lower daily fluctuations in electricity consumption.

Act of August 11, 2021, on amending the act on the fuel quality monitoring and inspection system and certain other acts

The *Act of August 11, 2021,on amending the act on the fuel quality monitoring and inspection system and certain other acts* entered into force on September 7, 2021 (an event taking place after the balance sheet date).

The amendment is due to the need to introduce changes to the provisions with respect to:

1. National Reduction Target,
2. covering the monitoring and inspections of the quality of the hydrogen fuels used to propel motor vehicles with the System,
3. definition of the light heating oil and heavy heating fuel oil

The act extends the current definition of "fuel" to include hydrogen and introduces a new definition of a "hydrogen sample", which is a consequence of the introduction of a separate control (inspection) system for hydrogen. It introduces the possibility of achieving the National Reduction Target by paying a substitute fee for the entities that have achieved the National Reduction Target at the minimum specified level. It amends the rules for submitting reports to the President of the Energy Regulatory Office on imported fuels and fuels brought in as part of an intra-Community purchase.

Regulation of the Minister of Climate and Environment of March 30, 2021, on the maximum price for electricity generated in an offshore wind farm and fed into the grid in PLN per 1 MWh, which is the basis for the settlement of the right to cover the negative balance

The *Regulation of the Minister of Climate and Environment of March 30, 2021, on the maximum price for electricity generated in an offshore wind farm and fed into the grid in PLN per 1 MWh, which is the basis for the settlement of the right to cover the negative balance* entered into force on March 31,2021.

The regulation is the implementation of the statutory delegation under art. 25, clause 2 of the *Act of December 17, 2020, on promoting electricity generation in offshore wind farms*. The maximum price for the electricity generated in an offshore wind farm and fed into the grid, which is the basis for the settlement of the right to cover the negative balance, was set at 319.6 PLN/MWh.

Regulation of the Minister of Climate and Environment of April 16, 2021, on the benchmark price of electricity from renewable energy sources in 2021 and the periods applicable to the producers who won auctions in 2021

The Regulation of the Minister of Climate and Environment of April 16, 2021, on the benchmark price of electricity from renewable energy sources in 2021 and the periods applicable to the producers who won auctions in 2021 entered into force on April 20, 2021.

The regulation is to implement the statutory delegation under art. 77, clause 3 of the act of February 20, 2015, on renewable energy sources, specifying:

1. maximum price in PLN per 1 MWh for which electricity from renewable energy sources can be sold by the electricity generators by way of an auction in 2021,
2. support period applicable to the electricity generators winning auctions for the support of the generation of electricity from RES in 2021.

The maximum benchmark price depends on the type of the generation source, as well as the installed capacity level. The individual generation sources are competing based on the technology in five auction baskets. While the support period was set as 15 years.

With respect to the benchmark prices set for the previous year, it provides for a reduction of the prices for the installations with the total installed electric capacity of more than 1 MW using only onshore wind energy to generate electricity, as well as for the installations with the total installed electric capacity of not more than 1 MW and the total installed electric capacity of more than 1 MW using only solar radiation energy to generate electricity. The benchmark prices for the refurbished installations have not been changed.

Regulation of the Minister of Climate and Environment of April 24, 2021, amending the regulation on the detailed rules of shaping and calculating the tariffs as well as billing (settlements) for the heat supply

The *Regulation of the Minister of Climate and Environment of April 24, 2021, amending the regulation on the detailed rules of shaping and calculating the tariffs as well as billing (settlements) for the heat supply* entered into force on April 29, 2021.

The regulation introduces a provision providing for the possibility of changing the tariff for heat due to a change in the costs of the CO_2 emission allowances. The proposed changes are dictated by a significant increase in the prices of the CO_2 emission allowances. The costs planned by the enterprises under the currently applicable heat tariffs did not take into account the full cost related to the purchasing of the emission allowances for objective reasons that were beyond the control of such enterprises, and thus the justified costs of the business operations of the heat producers were not covered.

Regulation of the Council of Ministers of April 14, 2021, on the adoption of the spatial development plan for internal sea waters, the territorial sea and the exclusive economic zone on a scale of 1: 200 000

The *Regulation of the Council of Ministers of April 14, 2021, on the adoption of the spatial development plan for internal sea waters, the territorial sea and the exclusive economic zone on a scale of 1: 200 000* entered into force on May 22, 2021.

The regulation is aimed at the effective use of their features, resources and properties for various social and economic purposes, including also the development of offshore wind energy. The adoption of the regulation will enable investors to apply for areas for which no permits have been issued for the construction and use of artificial islands.

Regulation of the Minister of Climate and Environment of August 4, 2021, on the change in the quantitative share of the total electricity stemming from the redeemed certificates of origin confirming the production of electricity from renewable energy sources in 2022.

The *Regulation of the Minister of Climate and Environment of August 4, 2021, on the change in the quantitative share of the total electricity stemming from the redeemed certificates of origin confirming the production of electricity from renewable energy sources in 2022* entered into force on August 27, 2021 (an event taking place after the balance sheet date).

The regulation specifies the share of electricity from renewable energy sources in electricity supply at 18.5%, while for electricity from agricultural biogas produced starting from January 1, 2016, this level is to be 0.5%.

The draft act on amending the act – Energy law and the act on renewable energy sources

The *Draft act on amending the act – Energy law and the act on renewable energy sources* was presented on January 26, 2021.

The amendment provides for the lifting of the obligation to sell electricity by the electricity generators on the power exchange (the so-called *power exchange obligation*). The existing regulations assume that all of the generated electricity, with the exemptions from this obligation in situations exhaustively specified in the act, must be traded on the exchange in order to ensure market transparency. Along with the lifting of the *power exchange obligation*, the draft also provides for the increasing of liability (based on the administrative law and criminal law) for violating the bans of the manipulation on the electricity market and the use of inside information stemming from *Regulation (EU) No 1227/2011 of the European Parliament and of the Council of October 25, 2011, on wholesale energy market integrity and transparency*.

As of the date of drawing up this report, the legislative process related to the draft act is underway.

The draft act on amending the act on renewable energy sources and certain other acts

The *Draft act on amending the act on renewable energy sources and certain other acts* was presented on February 16, 2021. The goals of the amendment include, among others:

1. reduction of the license obligations for entrepreneurs (businesses) dealing with small installations,
2. statutory confirmation of the practice related to the method of determining the total installed electric capacity of the RES installations,
3. changes to the register of small installations,
4. extension of the existing RES support systems.

As of the date of drawing up this report, the legislative process related to the draft act is underway.

The draft act on amending the act on investments in wind farms and certain other acts

The *Draft act on amending the act on investments in wind farms and certain other acts* was presented on May 4, 2021. The goal of the amendment is to liberalize the regulations regarding the minimum distance of wind farms from certain forms of development, the so-called *10H rule*. This liberalization is to be based mainly on the possibility for communes to ease the *10H rule* regarding the location of wind farms in Local Spatial Development (Land Use) Plans. The absolute minimum distance of the wind farm location from the buildings, which will have to be maintained, is to be 500 m. The amendment also provides for additional obligations of the commune related to the process of conducting public consultations with the participation of interested residents on the Local Spatial Development Plans (Land Use) which provide or will provide for wind farms.

As of the date of drawing up this report, the legislative process related to the draft act is underway.

The draft act on amending the act – Energy law and the act on renewable energy sources

The *Draft act on amending the act – Energy law and the act on renewable energy sources* was presented on June 2, 2021. The amendment, to a large extent, implements the *Directive (EU) 2019/944 of the European Parliament and of the Council of June 5, 2019, on common rules for the internal market in electricity and amending Directive 2012/27 / EU*.

The goals of the amendment include, among others:

1. introduction of the changes to the rules of concluding and terminating electricity supply contracts, including the so-called technical change of the supplier within 24 hours,
2. introduction of the regulations allowing for the emergence of new entities on the energy market: civic energy communities, active consumers and energy market aggregators,
3. enabling the conclusion of contracts with a changing price,
4. extension of the competences of the President of the Energy Regulatory Office (ERO),
5. expansion of the scope of the unbundling,
6. change of the prosumers' billing (settlement) model,
7. introduction of the provisions related to the system services and flexibility services,
8. introduction of the changes to the regulations related to the balancing,
9. introduction of the regulations related to the mechanism to be used for the non-market related curtailment of the production at the RES installations,
10. increasing the fees for the connection to the gas transmission network,
11. changes with respect to the direct lines.

As of the date of drawing up this report, the legislative process related to the draft act is underway.

The draft regulations of the Minister of Climate and Environment to the Energy Law

The following draft regulations of the Minister of Climate and Environment to the Energy Law, pursuant to the *Draft Act of May 20, 2021, on amending the act – Energy law and certain other,* were presented on June 24, 2021:

1. *Draft regulation on energy market processes* which defines the list of processes, the method of the implementation thereof, the scope of the commands to be sent to the remote readout meter, the requirements for the information and the indicator of the quality thereof, the template for impact assessment with respect to the protection of the metering data,
2. *Draft regulation on the metering system* which specifies the requirements, standards and the method of the operation of the metering systems,
3. *The draft regulation on the registers (logs) of electricity storage facilities* which includes the template of the registers (logs) of electricity storage facilities, the template (sample) of the information that the register (log) should contain, as well as the format of the data thereof.

As of the date of drawing up this report, the legislative process related to the draft act is underway.

The draft regulation of the Minister of Infrastructure on the assessment of applications in the adjudication proceedings

On August 17, 2021 (an event taking place after the balance sheet date), a new *Draft Regulation of the Minister of Infrastructure on the assessment of applications in the adjudication proceedings* was presented, which is of key importance for the implementation of the investment projects related to offshore wind energy. The provisions presented in the draft regulation contain the criteria that determine the scoring to be granted to the individual investors filing applications for a permit to build and use artificial islands in relation to the same area. These criteria are divided into various categories relating to, inter alia, the method of financing the investment projects, the experience in implementing energy related investment projects and the contribution to the implementation of Poland's energy policy.

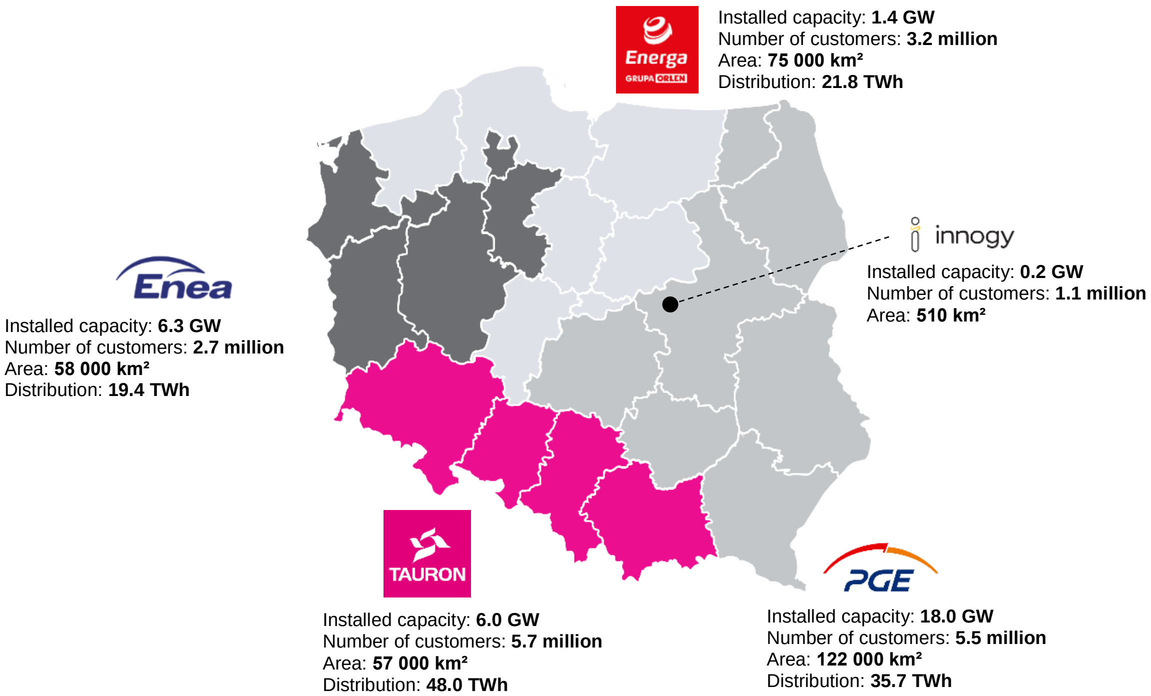
As of the date of drawing up this report, the legislative process related to the draft act is underway.

Competitive environment (landscape)

Apart from TAURON Capital Group, three large, vertically integrated energy groups are currently operating on the Polish market: PGE, Enea and ORLEN Group's Energa S.A. (Energa). In addition, the company innogy Polska is conducting its operations in Warsaw metropolitan area, managing Warsaw's power grid.

The below figure presents TAURON Capital Group's competitive environment (landscape) based on the FY 2020 data.

Figure no. 4. TAURON Capital Group's competitive environment (landscape) based on the FY 2020 data



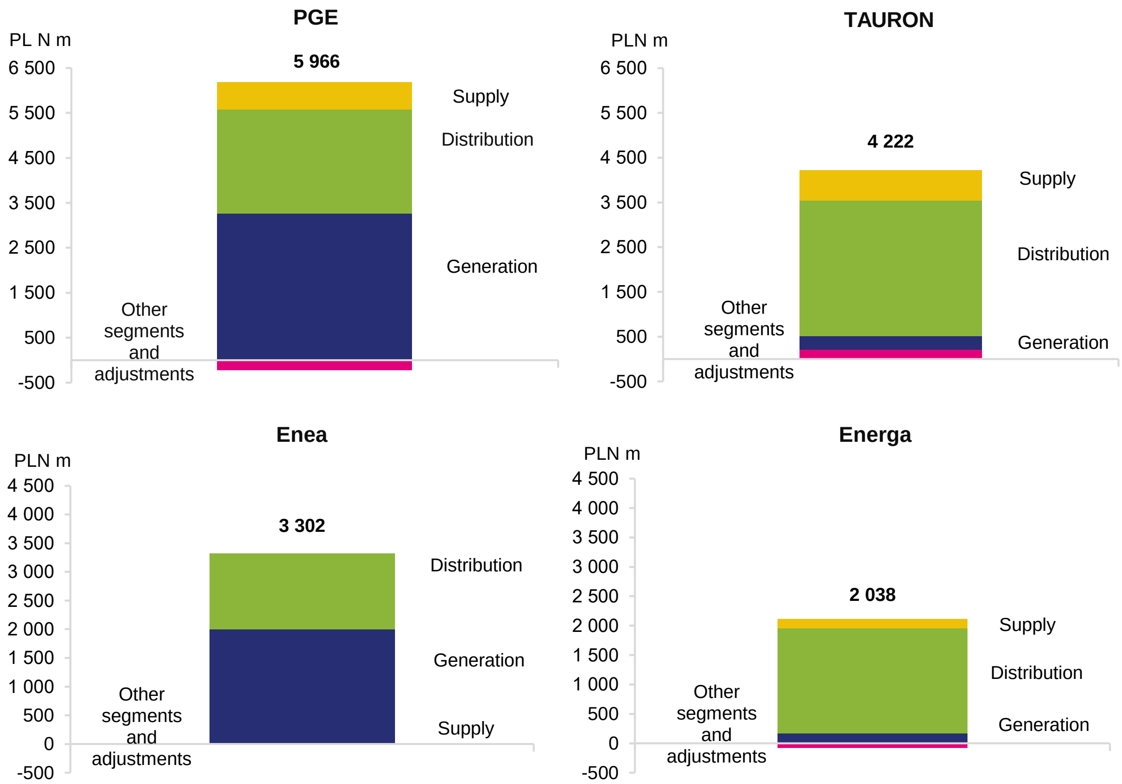
According to the FY 2020 data, the consolidated energy groups (PGE, TAURON, Enea, Energa) held a 66% market share in the electricity generation sub-sector.

TAURON Capital Group is a fully vertically integrated energy enterprise (electric utility) that takes advantage of the synergies stemming from the size and scope (scale) of the operations conducted.

TAURON Capital Group controls the value chain, from hard coal mining up to the delivery of electricity to the final consumers. TAURON Capital Group is conducting its operations in all of the key segments of the energy market (excluding electricity transmission), i.e. in hard coal mining, as well as electricity and heat generation, distribution, supply and trading.

The below figure presents information on the structure of EBITDA based on the main segments.

Figure no. 5. EBITDA - estimated structure based on the main segments in 2020[1]



[1]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, stood at approx. 10% in the first quarter of 2021. 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. The deposits of the hard coal used to fire TAURON Capital Group's power plants and combined heat and power plants are also located in that region. The location of the generating assets in the vicinity of the hard coal deposits allows for the optimization of the costs related to the transportation of that raw material

87% of TAURON Capital Group's generation assets are, as of the end of the first half of 2021, hard coal fired units, 31% of which are modern high efficiency generating units. TAURON Capital Group's total installed capacity reached approx. 5.0 GW as of June 31, 2021, with the renewable energy sources accounting for 0.6 GW of that figure. Wind farms' installed capacity represents 7.6%, while the hydroelectric power plants' installed capacity accounts for 2.8% and the biomass fired generating units' installed capacity constitutes 2.3% of TAURON Capital Group's total installed capacity.

TAURON Capital Group produced 7.7 TWh of electricity in the first half of 2021, with 0.9 TWh coming from RES.

Nationwide, in the first quarter of 2021, TAURON Capital Group's hard coal fired units' installed capacity accounted for approx. 13% of the total installed capacity of all of the hard coal and lignite fired generating units in Poland. With respect to the installed capacity of the wind farms, biomass and biogas fired power plants, as well as the hydro power plants, the share of TAURON Capital Group came in at approx. 6%, 13% and 14%, respectively.

According to the first quarter of 2021 data, PGE Group is the largest electricity generator in Poland, with its share in the domestic electricity production market standing at approx. 42%, and the installed capacity of 17.5 GW. Enea is the second largest electricity producer in Poland, with a market share of approx. 15% and the installed capacity of 6.3 GW. Energa, on the other hand, has the largest share of electricity produced from the renewable energy sources (RES) on the Polish market and Energa's total installed capacity stands at approx. 1.4 GW. Energa produced approx. 1.0 TWh of electricity in the first quarter of 2021, with approx. 0.4 TWh (i.e. 40%) coming from RES.

The below figures present information on installed capacity and electricity generated in the first quarter of 2021.

Figure no. 6. Gross electricity production - estimated market shares in the first quarter of 2021

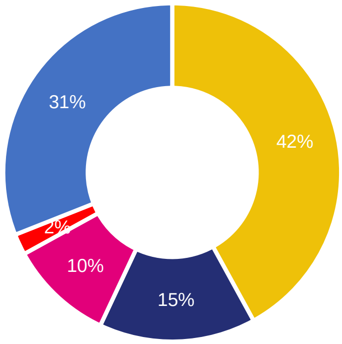
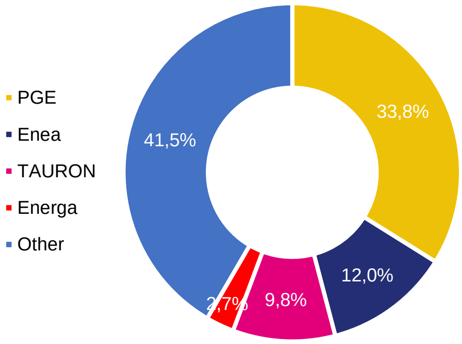


Figure no. 7. Installed capacity - estimated market shares in the first quarter of 2021



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

Distribution

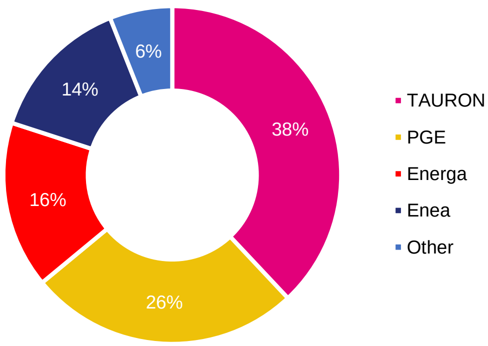
TAURON Capital Group is the Polish market leader in terms of the number of distribution customers and volume of electricity distributed.

TAURON Capital Group is Poland's largest electricity distributor. TAURON Dystrybucja's share in electricity distribution to the final consumers reached approx. 38% in the first quarter of 2021. TAURON Capital Group's distribution grids cover more than 18% of Poland's territory. The volume of electricity delivered to the final consumers came in at approx. 25.9 TWh in the first half of 2021. TAURON Capital Group is Poland's largest electricity distributor also in terms of revenue from the distribution operations.

TAURON Capital Group's distribution operations, due to the natural monopoly in the designated area, are a source of a stable and predictable revenue, accounting for a material part of the consolidated revenue of the entire TAURON Capital Group. The electricity distribution's geographical area on which the Distribution Segment's and the Supply Segment's subsidiaries are historically operating is a heavily industrialized and densely populated area and therefore the distribution grid is very well utilized. The number of the Distribution Segment's customers reached approx. 5.7 million in the first half of 2021.

The below figure presents estimated market shares of the individual energy groups in terms of electricity distribution based on the Q1 2021 data.

Figure no. 8. Electricity distribution - estimated market shares in the first quarter of 2021



Source: Agencja Rynku Energi S.A., information from the companies published on their websites

Supply

TAURON Capital Group is Poland's second largest electricity supplier

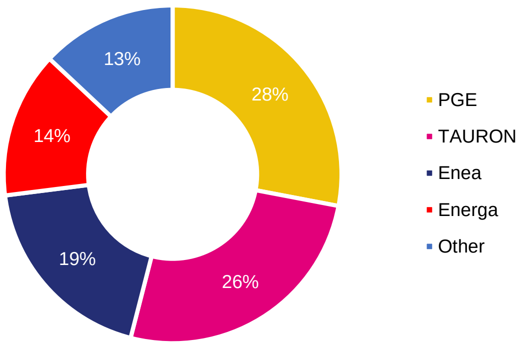
TAURON Capital Group holds a 26% share in the electricity supply market to the final consumers in Poland. The volume of the retail electricity supply of TAURON Capital Group came in at 16.6 TWh in the first half of 2021. The number of customers served by TAURON Capital Group's Supply Segment is 5.6 million.

PGE is the largest retail electricity supplier with a 28% market share. The other two groups, Enea and Energa, hold a 19% and a 14% market share, respectively.

In the segment of electricity supply to the households the individual energy groups are geographically linked, first of all, with the areas in which they are acting as an ex officio electricity supplier. The need to submit household tariffs for approval to the President of the Energy Regulatory Office (ERO) leads to limited options for positioning prices in the product offerings, and what follows, it impacts their attractiveness for the customers. Such restrictions do not apply to the business and institutional customers. A broader and more open competition exists in those sectors.

The below figure presents estimated market shares of the individual energy groups in terms of electricity supply to the final consumers based on the Q1 2021 data.

Figure no. 9. Electricity supply to the final consumers - estimated market shares in the first quarter of 2021



Source: Agencja Rynku Energi S.A., information from the companies published on their websites

The below table presents information on the installed capacity and the volume of electricity generation, distribution and supply in the first quarter of 2021, as well as the domestic market shares.

Table no. 6. Installed capacity, generation, distribution and supply of electricity by energy groups in the first quarter of 2021

Group		Installed capacity		Generation[1]		Distribution		Supply	
		Quantity (GW)	Share (%)	Volume (TWh)	Share (%)	Volume (TWh)	Share (%)	Volume (TWh)	Share (%)
1.	PGE	17.5	34%	18.8	42%	9.5	26%	9.6	28%
2.	TAURON	5.0	10%	4.2	10%	13.8	38%	8.8	26%
3.	Energa	1.4	3%	1.0	2%	5.8	16%	4.9	14%
4.	Enea	6.3	12%	6.7	15%	5.2	14%	6.3	19%
5.	Others	21.5	41%	14.0	31%	2.0	6%	4.2	13%
	Total	**51.7**	**100%**	**44.7**	**101%**	**36.3**	**100%**	**33.8**	**100%**

[1] Volume of gross electricity generated.
Source: ARE, information from the companies published on their websites, own estimates in case of the companies publishing the net production

The analysis of the largest energy groups operating on the domestic market points to various sources of competitiveness in the selected segments of the energy market, depending on the operations conducted thereby.

The below table presents the main sources of competitiveness of TAURON Capital Group in selected Lines of Business (Segments of Operations).

Table no. 7. Sources of competitiveness of TAURON Capital Group in selected Lines of Business (Segments of Operations)

Line of Business	Initiatives	Sources of competitiveness
1. Mining 2. Generation	1. Reducing the fuel price and supply risk. 2. Investments in generating units. 3. Operating expenses.	1. Concluded capacity market contracts. 2. High efficiency generating units with a competitive unit production cost. 3. Improvement of operational efficiency.
3. RES 4. Heat	1. Operating expenses. 2. Investments in district heating networks.	1. Improvement of operational efficiency. 2. Development of low and zero emission generation sources – *Green Turn of TAURON*. 3. Expanding regulated operations.
5. Distribution	1. Operating expenses 2. Investment project efficiency 3. Improvement of grid reliability indicators	1. Implementing the ultimate business model. 2. Implemented IT systems, separate processes, clear (transparent) split of responsibilities.
6. Supply	Operating expenses.	Efficiently allocated operating expenses.

2.3. Factors that will have an impact on the results achieved over at least the next quarter

The following factors will have the most material impact upon the results of TAURON Capital Group's operations over at least the next quarter

1. macroeconomic situation in Poland at the EU and global economy level, including changes of interest rates, FX rates, etc., impacting valuation of assets and liabilities listed by the Company in the statement of financial position,
2. market situation in Poland and in the EU, as well as the global economy, including changes of the electricity prices, prices of the CO_2 emission allowances, prices of the raw materials (commodities), etc., affecting the revenues and the level of the costs generated,
3. possibility of changes to the restrictions and constraints introduced in connection with the COVID-19 pandemic cases and resulting from the need to adapt to the ongoing epidemiologic situation,
4. potential increase of the overdue accounts receivable caused by the deterioration of the financial condition of the counterparties (contractors),
5. demand for electricity in the National Power System and the level of production by the generating units, taking into account the changes due to the seasonality and weather conditions.
6. level of electricity imports,
7. changes to the energy mix and, as a consequence, adaptation of the demand for hard coal
8. 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,
9. political environment in Poland and at the European Union level, including the positions and decisions of the state administration institutions and offices, e.g.: Office of Competition and Consumer Protection (UOKiK), Energy Regulatory Office (ERO) and the European Commission (EC),
10. result of the Court of Justice of the European Union (CJEU) proceedings conducted in connection with a complaint submitted by TEMPUS against the European Commission regarding the declaring the decision of the European Commission, deeming the Polish capacity market mechanism to be in line with the internal market, as null and void,
11. results of the court disputes,
12. changes to the regulations related to the power sector, and also changes in the legal environment, including: tax law, commercial law, environment protection law,
13. changes to the regulations governing the operations of the PPX (TGE), in particular the possibility of lifting the power exchange obligation,
14. tightening of the policies of the financial institutions with respect to the financing of coal fired electricity generation,
15. possibility of using the external assistance funds, including the European funds, to support the transition of the energy sector and mitigate the effects of the social changes, taking into account, in particular, the following limitations:
    1) entity related (associated with the support of large enterprises),
    2) with respect to the forms of support (much more emphasis on the returnable support than before),
    3) permissible scope of state (public) aid granted (for example tightening of the rules of support with regard to gas fired capacity, indicated in the draft guidelines on state aid to be used for climate and environment protection and the objectives related to energy (CEEAG),
    4) amount of state (public) aid granted (changes to the scope of the maximum aid intensity.
16. geological and mining factors, as well as the natural hazards that may affect the volume of fossil fuel extraction,
17. further functioning of the generation capabilities compensation mechanism (capacity market), under which the deliveries of electric capacity will be carried out by TAURON Capital Group subsidiaries' generating units and demand side reduction units. The deliveries will be carried out under capacity contracts concluded during the main and additional auctions for the years 2021-2025. The launch of the capacity market results in a simultaneous expiration of the operational capacity reserve and the cold intervention reserve,
18. support system for electricity generation from the dedicated sources (*color certificates*), resulting, on one hand, in the costs of redeeming (retiring) certificates for the suppliers of electricity to the final consumers, and on the other hand, in revenue from the sales of certificates for the generators of electricity,
19. RES support system, the so-called RES auctions,
20. competitive environment (landscape), including the activities and steps taken by the competition on the energy market,
21. further tightening of the EU climate policy, in particular, resulting in the energy transition focused on the RES, as well as in an increase of the prices of the CO_2 emission allowances,

22. ongoing works on the government's solution with respect to the shape of the mining and coal based energy sector in Poland,
23. growth of the prosumer market and its impact on the Supply, Distribution, as well as the Generation and Mining Lines of Business and potential changes to the prosumer billing system,
24. level of tariff for the electricity and heat supply to the households (tariff group G) approved by the President of the Energy Regulatory Office (ERO),
25. levels of tariff for the electricity distribution as well as the heat distribution and production approved by the President of the Energy Regulatory Office (ERO),
26. environment protection requirements as a consequence of changes to the *Act of April 27, 2001, Environment Protection Law*, the so-called anti-smog resolutions,
27. consequences of the adopted *Act of March 30, 2021, on amending the act on disclosing information on the environment and the protection thereof, the participation of the public in the protection of the environment and the environmental impact assessment, and certain other acts* (the potential impact on the current and future investment projects),
28. consequences of the adopted regulations *of April 24, 2021, amending the regulation on the detailed rules of shaping and calculating the tariffs as well as billing (settlements) for the heat supply* introduces a provision providing for the possibility of changing the tariff for heat due to a change in the costs of the CO_2 emission allowances.
29. planned changes to the regulations related to the *Act of August 25, 2006, on the system for monitoring and inspecting fuel quality*, among others, with respect to the quality requirements for the solid fuels,
30. science (research) and technical progress,
31. shaping of the personnel policy, including the results of the negotiations with the Social Council of TAURON Group,
32. changes to the schedules, budgets and scopes of the investment projects carried out by TAURON Capital Group,
33. availability of the assets of TAURON Capital Group,
34. impact of the weather conditions (factors), including those of extreme nature, resulting in the impact on the failure rate of the assets of TAURON Capital Group and the seasonality of the revenue generated and the costs incurred,
35. results of the ongoing analyses related to the Heat Line of Business, taking into account the forecast changes in the external environment, including the regulatory and the market environment, and taking into account the prospects of the Polish district heating sector, which may affect further decisions regarding the sale of the shares in TAURON Ciepło or keeping TAURON Ciepło within TAURON Capital Group and the results of the analyses with respect to the options regarding the potential takeover of the selected assets of ČEZ Group in Poland, in particular taking into account ČEZ Chorzów (the detailed information is provided in section 2.4. of this report).

The detailed information related to the impact of the material factors on the financial result achieved in the first half of 2021 is provided in section 4 of this report. The effects of such impact are visible both in the short term, as well as in the long term outlook.

TAURON Capital Group's operations are characterized by seasonality that is applicable, in particular, to heat production, distribution and supply, electricity distribution and supply to the individual consumers, as well as the hard coal sales to the individual consumers for the heating purposes. Heat supply depends on the weather conditions, in particular on the outdoor temperature, and it is higher in the autumn and winter season. The volume of electricity supply to the individual consumers depends on the length of day which usually makes electricity supply to this group of consumers lower in the spring and summer season and higher in the autumn and winter season. The hard coal sales to the individual consumers are higher in the autumn and winter season. The seasonality of TAURON Capital Group's other lines of business is low.

The conditions for conducting business operations in Poland are subject to considerable volatility. In addition, the constantly tightening climate regulations at the European and national level constitute an important premise when analyzing the current and future situation of TAURON Capital Group. In connection with the above, the Company is conducting intensive analytical works with respect to assessing the impact of the ongoing and planned changes in the economic and regulatory environment on TAURON Capital Group's finances, assets and personnel situation. The update of the current Strategy, which will take into account changes in the market and regulatory environment and will define the further shape of TAURON Capital Group's Mining and Generation Segments is justified. The Company is planning to publish the update of the Strategy in the second half of 2021.

2.4. Material accomplishments and failures as well as the most important events related to TAURON Capital Group in the first half of 2021 and after the balance sheet date

Material events that had occurred in the first half of 2021, as well as the ones that had taken place by the date of drawing up this report are listed below.

Major business events

Signing of the Letter of Intent with respect to the cooperation in the field of offshore wind energy in the area of the Polish Exclusive Economic Zone of the Baltic Sea

On January 18, 2021, PGE, TAURON and Enea signed an agreement on the cooperation in the implementation of offshore wind farm projects

The detailed information related to the signing of the above Letter of Intent is provided in section 1.7 of this report.

Completion of the negotiations in the process of selling the shares in TAURON Ciepło and the analyses related to the participation in the acquisition of the selected assets of ČEZ Group

In 2019 the Company launched a project aimed at performing the market verification of an option of selling the shares in TAURON Ciepło and the potential continuation of the sale process.

In 2020, the Company's Management Board took the decision to move to the next stage of the process of the sale of the shares in the TAURON Ciepło subsidiary and commence negotiations of the agreement on the sale of the shares in TAURON Ciepło with PGNiG on the condition of exclusivity. The negotiations were aimed at defining the terms of the potential transaction of the sale by the Company of the entire stake held in TAURON Ciepło (i.e. 100% of the shares in that company).

On January 29, 2021, PGNiG expressed, in writing, the wish not to continue the negotiations aimed at the acquisition of the shares in TAURON Ciepło. As the transaction did not materialize, the Company's Management Board made a decision to commence the analyses related to the Heat Line of Business, taking into consideration the forecast changes in the external environment, including the regulatory and the market environment, as well as taking into account the prospects for the Polish heat sector, that may have an impact upon further decisions regarding the sale of the shares in TAURON Ciepło or keeping TAURON Ciepło within TAURON Capital Group.

On March 10, 2021, the Company's Management Board took a decision to extend the analyses related to the Heat Line of Business to include the option of a potential acquisition of the selected assets of ČEZ Group in Poland, in particular taking into account ČEZ Chorzów.

On July 1, 2021 (an event taking place after the balance sheet date), TAURON disclosed the information that the analyses related the Heat Line of Business with regard to the acquisition of selected assets of CEZ Group in Poland, carried out within TAURON Capital Group, had been completed. On the same day, the Management Board of the Company decided that TAURON Capital Group would not continue its participation in the process of acquiring selected assets of CEZ Group in Poland, including ČEZ Chorzów.

The detailed information is provided in note 8.2 to the *Interim abbreviated consolidated financial statements of TAURON Polska Energia S.A. Capital Group in accordance with the International Financial Reporting Standards (IFRS) approved by the European Union (EU) for the 6 month period ended on June 30, 2021*.

TAURON disclosed the information on the above events in the regulatory filings (current reports): no. 2/2021 of January 29, 2021, no. 7/2021 of March 10, 2021, and no. 25/2021 of July 1, 2021.

Sale by TAURON of the shares held in PGE EJ 1

On March 26, 2021, the Company signed an agreement with the State Treasury for the sale of all of its shares in PGE EJ 1.

The detailed information on the signing of the agreement for the sale of the shares in PGE EJ 1 is provided in section 1.4. of this report.

TAURON disclosed the information on the above event in the regulatory filing (current report) no. 10/2021 of March 26, 2021.

Expiration of the cooperation agreement with respect to the implementation of offshore wind farm projects

On December 29, 2020, TAURON concluded a two year cooperation agreement OW OFFSHORE with respect to the development of offshore wind farm construction projects in the Polish Exclusive Economic Zone on the Baltic Sea.

On June 29, 2020, TAURON served OW OFFSHORE with a notice on the expiration of the obligations under the above mentioned agreement and hence the expiration thereof.

The detailed information on the conclusion and thus the expiration of the cooperation agreement with OW OFFSHORE is provided in section 1.7. of this report.

TAURON disclosed the information on the above events in the regulatory filing (current report) no. 24/2021 of June 29, 2021.

Major corporate events

Changes to the composition (membership) of the Company's Management Board

There had been changes to the composition (membership) of the Company's Management Board in the first half of 2021 and by the date of drawing up this report, which are presented in section 1.3. of this information.

TAURON disclosed the information on the above events in the regulatory filings (current reports): no. 4/2021 of February 19, 2021, no. 6/2021 of February 24, 2021, no. 12/2021 of April 1, 2021, no. 17/2021 of May 13, 2021, no. 26/2021 of July 2, 2021, no. 27/2021 of July 19, 2021, no. 29/2021 of July 27, 2021, and no. 32/2021 of August 4, 2021.

Changes to the composition (membership) of the Company's Supervisory Board

There had been changes to the composition (membership) of the Company's Supervisory Board in the first half of 2021 and by the date of drawing up this information, which are presented in section 1.3. of this information.

TAURON disclosed the information on the above events in the regulatory filings (current reports): no. 3/2021 of February 12, 2020, no. 13/2021 of April 6, 2021, and no. 20/2021 of May 24, 2021.

Recommendation of the Company's Management Board on covering the net loss for 2020 from the supplementary capital and not paying out a dividend from the supplementary capital

On March 29, 2021, the Company's Management Board made the decision to recommend to the Ordinary General Meeting (GM) of the Company to cover the Company's net loss of PLN 3 589 655 351.89 for the financial year 2020 from the Company's supplementary capital.

The Company's Management Board has also taken the decision that it will not recommend to the Ordinary General Meeting (GM) of the Company the payout of the dividend in 2021 from the Company's supplementary capital.

TAURON disclosed the information on the above event in the regulatory filing (current report) no. 11/2021 of March 29, 2021.

Ordinary General Meeting of the Company

On April 27, 2021, the Management Board of the Company, acting pursuant to Art. 395, art. 399, § 1 and art. 402^1 of the Code of Commercial Companies and § 30, section 1 of the Company's Articles of Association, convened the Ordinary General Meetings of the Company on May 24, 2021, and made public the content of the draft resolutions to be the subject of discussions at the Ordinary General Meeting of the Company.

On May 21, 2021, the Company received from the State Treasury, i.e. a shareholder representing at least 1/20 of TAURON's share capital, a draft resolution of the Ordinary General Meeting of the Company convened on May 24, 2021, regarding item 15 of the agenda of the Ordinary General Meeting of the Company, i.e. *Adoption of a resolution on amendments to the "Articles of Association of TAURON Polska Energia SA".*

In accordance with the received justification for the above mentioned draft resolution, the proposed amendment to the Articles of Association was aimed at clarifying the requirements for a member of the company's management board in the light of art. 22 of the *Act of December 16, 2016, on the principles of state property management* (consolidated text, Journal of Laws of 2020, item 735, as subsequently amended).

The Ordinary General Meeting of the Company was held on May 24, 2021, and it adopted the resolutions related to, inter alia: the approval of the *Financial Statements of TAURON Polska Energia S.A. for the year ended on December 31, 2020, in accordance with the International Financial Reporting Standards approved by the European Union,* the approval of the *Consolidated Financial Statements of TAURON Polska Energia S.A. Capital Group for the year ended on December 31, 2020, in accordance with the International Financial Reporting Standards approved by the European Union,* the approval of the *Report of the Management Board on the operations of TAURON Polska Energia S.A. and TAURON Capital Group for the financial year 2020,* the covering of the net loss for the financial year 2020, the acknowledgement of the fulfillment of duties by the Members of the Company's Management Board and Supervisory Board, the amending of the Company's Articles of Association, the amending of the *By-laws of the General Meeting of TAURON Polska Energia S.A.*, the providing of the opinion on the *Report on the compensation of the Members of the Management Board and the Supervisory Board of TAURON Polska Energia S.A. for the years 2019 - 2020,* the establishing of the number of the Members of the Company's Supervisory Board and the appointing of a Member of the Company's Supervisory Board of the 6th common term of office

The decision was taken to cover the Company's net loss for the financial year 2020 in the amount of PLN 3 589 655 351.89 from the Company's spare (supplementary) capital, in accordance with the recommendation of the Management Board of the Company of March 29, 2021.

TAURON disclosed the information on convening of the Ordinary General Meeting (GM) of the Company and on the content of the draft resolutions in the regulatory filings (current reports) no. 14/2021 and no. 15/2021 of April 27, 2021, and no. 18/2021 of May 21, 2020.

TAURON disclosed the information on the content of the resolutions subjected to the vote at the Ordinary General Meeting (GM) of the Company in the regulatory filing (current report): no. 19/2021 of May 24, 2021.

Registration of the amendments and the adoption of the consolidated text of the Company's Articles of Association

On June 7, 2021, the District Court Katowice-Wschód in Katowice, the 8th Commercial Department of the National Court Register, entered the amendments to the Company's Articles of Association adopted by the Ordinary General Meeting (GM) of the Company on May 24, 2021, into the Register of Entrepreneurs (Businesses) of the National Court Register.

On June 14, 2021, the Supervisory Board of the Company adopted the consolidated text of the Company's Articles of Association, taking into account the amendments adopted by the Ordinary General Meeting (GM) of the Company on May 24, 2021.

TAURON disclosed the information on the above events in the regulatory filings (current reports): no. 22/2021 of June 7, 2021, and no. 23/2021 of June 14, 2021.

Other major events

Signing of the subordinated bond issue program agreements with Bank Gospodarstwa Krajowego (BGK)

On March 11, 2021, the documentation of the program of the subordinated bond issue up to the amount of PLN 450 000 000 was signed between the Company and Bank Gospodarstwa Krajowego (BGK).

The issue of the subordinated bonds may be carried out by the Company in several series, within 24 months from the date of signing the documentation. The period of financing is 12 years from the issue date, and in accordance with the characteristics of the hybrid financing, the first period of financing was defined as 7 years (the so-called non-call period), during which TAURON will not be able to redeem the subordinated bonds early and Bank Gospodarstwa Krajowego (BGK) will not be able to sell them earlier to third parties (in both cases subject to the exceptions specified in the documentation). The agreement also provides for an option to defer the payment of interest on the bonds, until the date of the redemption thereof at the latest. Due to the subordinated nature of the hybrid bonds, in the event of bankruptcy or liquidation of TAURON, the liabilities under the bonds will have priority to be satisfied only over the liabilities of TAURON shareholders. A potential issue of the subordinated bonds will have a positive impact on TAURON's financial stability, as they are excluded from the calculation of the leverage ratio, which is a covenant used in some of TAURON's financing programs.

The Company had not issued any bonds as part of this program by the date of drawing up this report.

Major corporate events after June 30, 2021

Signing by TAURON Ciepło of the agreement with the General Contractor for the construction of a modern gas and oil fired boiler house in Czechowice-Dziedzice

On July 8, 2021, an agreement was concluded with the consortium of ERBUD INDUSTRY sp.z o.o. and ERBUD S.A. for the construction of a modern gas and oil fired boiler house in Czechowice-Dziedzice. The commencement of the construction works is scheduled to take place in the first quarter of 2022, while the heat supply to the residents from the new boiler house is scheduled to be launched in 2023. The goal of the planned investment project at the combined heat and power plant in Czechowice-Dziedzice is to rebuild heat capacity of the peaking and back up boilers in order to ensure the security of heat supply for the residents. The modern peaking and back up boiler house equipped with the high efficiency gas and oil fired water boilers will replace the existing peaking and back up boiler house at TAURON Ciepło's combined heat and power (CHP) plant in Czechowice. The commissioning of the new boiler house will significantly reduce pollution into the atmosphere. As the gas fuel will be used for the operation of the boiler house, the pollution will be reduced: sulfur dioxide up to 91%, nitrogen oxides up to 78% and carbon dioxide up to 28%. The modern boiler house composed of two water boilers with the total capacity of 76 MW will provide heat to the residents of Czechowice-Dziedzice and Bielsko-Biała.

Signing of the general agreement within TAURON Group

On July 15, 2021, the general agreement was concluded between TAURON and 26 of TAURON Group's subsidiaries aimed at ensuring the implementation of TAURON Group's strategy by all entities forming a part thereof.

The above agreement is related to the optimization of the strategic decision making and ensuring efficient and safe flow of information within TAURON Group as well as the restrictions on internal competition. In addition, the agreement defines the principles of cooperation within TAURON Group anew, which will contribute to the improvement of the management processes, as well as to facilitating and shortening the decision making process.

Signing of the agreement related to the cooperation with respect to the spinning off of the coal assets

On July 23, 2021, TAURON, PGE, Enea, Energa and the State Treasury concluded the agreement related to the cooperation with respect to the spinning off of the coal assets and the integration thereof within the National Energy Security Agency (Narodowa Agencja Bezpieczeństwa Energetycznego).

In the document under the title *Transformation of the power sector in Poland. The spinning off of the coal assets from the companies with the State Treasury shareholding*, compiled and published by the Ministry of State Assets, the concept of spinning off, from the capital groups of the above mentioned energy companies (electric utilities), of the assets related to the generation of electricity in the conventional coal units was presented. The assumptions of the above document provide for, inter alia, the integration of the coal assets within a single entity, i.e. PGE Górnictwo i Energetyka Konwencjonalna S.A. (a subsidiary of PGE), which will ultimately be operating under the name of the National Energy Security Agency (Narodowa Agencja Bezpieczeństwa Energetycznego).

As part of the above mentioned agreement, the parties declared the mutual exchange of the required information, including the organizational structures, processes implemented and assumptions for the direction of the transformation, which will allow for an efficient and effective implementation of the process aimed at establishing the National Energy Security Agency (Narodowa Agencja Bezpieczeństwa Energetycznego).

TAURON disclosed the information on the above event in the regulatory filing (current report): no. 28/2021 of July 23, 2021.

Signing of the letter of intent with respect to EC (Combined Heat and Power Plant) Stalowa Wola

On August 2, 2021, the letter of intent was signed by TAURON, TAURON Wytwarzanie, PGNiG and PGNiG TERMIKA S.A. with respect to the potential sale by TAURON Capital Group to PGNiG Group of its equity stake in EC (Combined Heat and Power Plant) Stalowa Wola and the accounts receivable due to the loans extended to EC (Combined Heat and Power Plant) Stalowa Wola by TAURON.

The above letter of intent does not entail any obligation of the parties to conclude a potential transaction. The decision on going ahead with the potential transaction will depend on the results of the negotiations in this respect and the fulfillment of other conditions specified in the legal regulations or the corporate documents.

The possible sale of EC (Combined Heat and Power Plant) Stalowa Wola shares is in line with the strategic directions announced by TAURON on May 27, 2019.

TAURON Capital Group and PGNiG Group each hold 50% of EC (Combined Heat and Power Plant) Stalowa Wola shares and the same number of votes at the general meeting of EC (Combined Heat and Power Plant) Stalowa Wola.

TAURON disclosed the information on the above event in the regulatory filing (current report): no. 30/2021 of August 2, 2021.

Information on the 910 MW power generating unit in Jaworzno and the general contractor

On August 2, 2021, TAURON received a letter from Nowe Jaworzno Grupa TAURON stating that E003B7 sp. z o.o. (a subsidiary of RAFAKO S.A.) provided Nowe Jaworzno Grupa TAURON with the schedule of works to be carried out on the 910 MW unit in Jaworzno. The above schedule stems from the need to carry out works on some elements of the unit that have been identified as part of the inspection of the internal devices during the unit's standstill. The 910 MW power generating unit was a subject of technical analysis and verification by Nowe Jaworzno Grupa TAURON, as a result of which on August 2, 2021 Nowe Jaworzno Grupa TAURON initially estimated that the date indicated by the E003B7 company for re-synchronization of the block with the grid, i.e. February 25, 2022, is possible to be realized.

On September 8, 2021 RAFAKO has submitted a statement to TAURON saying that smooth continuation of works at the Unit depends on Issuer's capital engagement in RAFAKO S.A.Taking the above into account, as of the date of publication of this report the company is unable to specify the manner of execution by the consortium RAFAKO S.A. – MOSTOSTAL WARSZAWA S.A. of the agreement signed on April 17, 2014 for the construction of the Unit. As a result, the previously published schedule of works carried out at the Unit that assumed the Unit's resynchronization with the grid on February 25, 2022 may be invalid.

TAURON indicates that it has not taken any decisions or actions aiming at purchase of a block of shares in RAFAKO S.A., and has not been in the negotiation process on the subject matter, but at the same time it takes actions to bring the Unit back to operation as soon as possible.

The detailed information on the 910 MW unit in Jaworzno is provided in section 1.7. of this report.

TAURON disclosed the information on the above event in the regulatory filing (current report): no. 31/2021 of August 2, 2021 and 37/2021 of September 8, 2021.

Position of the Management Board of TAURON Polska Energia S.A. regarding the call for an explanation related to the 910 MW power generating unit in Jaworzn

On September 8, 2021, the company Nowe Jaworzno Grupa TAURON S.A. received from RAFAKO S.A. a call for an immediate explanation of the causes of the fire incidents that took place on the Unit on January 7, 2021, and June 11, 2021, respectively.

The Contractor has declared that it is intending to halt all ongoing and planned works on the Unit until it has received information from the NJGT that there is no hazard for life and health of the personnel. The Contractor also calls for an explanation of the causes of the fire incidents by September 15, 2021, otherwise it may terminate the agreement for the construction of the Unit, concluded on April 17, 2014.

Nowe Jaworzno Grupa TAURON, jointly with the Contractor, appointed an emergency committee to investigate and explain the causes of the fire incident that took place on June 11, 2021, which, as of the date of the disclosure of this report, has not completed its works and has not formulated the final conclusions in this matter.

TAURON Polska Energia S.A. Management Board declares that, to the best of its knowledge, all activities undertaken by Nowe jaworzno Grupa TAURON as part of the implementation of the investment project and the operation of the Unit, including those related to the incidents that took place on the Unit on January 7, 2021, and June 11, 2021, were and are in compliance with the highest standards and legal regulations, including the regulations in the field of fire protection, as well as with the operational documentation prepared by the Unit's Contractor under the Agreement.

The detailed information on the 910 MW unit in Jaworzno is provided in section 1.7. of this report.

TAURON disclosed the information on the above event in the regulatory filing (current report): no. 31/2021 of August 2, 2021.

Commencement of the activities aimed at the repurchase of the shares in Nowe Jaworzno Grupa TAURON from the funds managed by Polski Fundusz Rozwoju S.A. (Polish Development Fund - PFR)

On August 25, 2021, the Management Board of the Company decided to launch the efforts, including the initiation of the negotiations aimed at repurchasing of 176 000 shares in total, from the Infrastructure Investments Fund - Non-Public Assets Equity Closed-end Investment Fund (Fundusz Inwestycji Infrastrukturalnych - Kapitałowy Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych) and the PFR Investments Closed-end Investment Fund (PFR Inwestycje Fundusz Inwestycyjny Zamknięty), whose part of the investment portfolio is managed by PFR. The remaining shares in Nowe Jaworzno Grupa TAURON are owned by TAURON (1 108 020 shares).

The intention to buy back shares in Nowe Jaworzno Grupa TAURON is related in particular to TAURON Capital Group's preparation for the implementation of the planned structural changes in the power sector in Poland, which have been presented by the Ministry of State Assets. This concept assumes the spinning off of the assets related to electricity generation in conventional coal fired units from the capital groups of the individual energy companies (electric utilities) and the integration of these assets within a single entity, i.e. the National Energy Security Agency (Narodowa Agencja Bezpieczeństwa Energetycznego).

The conclusion of the potential transaction is dependent on a positive outcome of the negotiations.

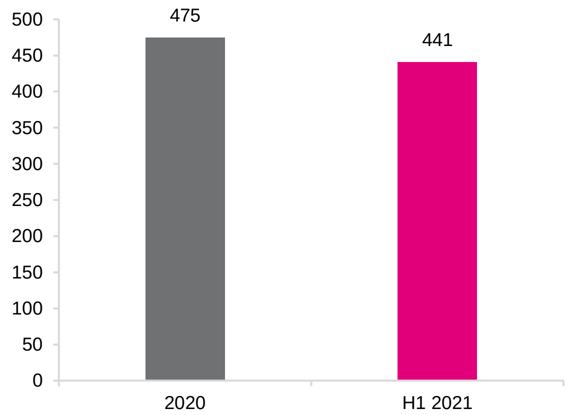
TAURON disclosed the information on the above event in the regulatory filing (current report): no. 34/2021 of August 25, 2021.

2.5. Information on the employment at TAURON Polska Energia S.A. and TAURON Capital Group

TAURON Polska Energia's average headcount stood at 441 FTEs in the first half of 2021 which meant a decrease by 34 FTEs (7.2%) versus the headcount in 2020, when the average headcount was 475 FTEs.

The below figure presents TAURON's average headcount in FTEs (rounded up to the full FTE) in 2020 and in the first half of 2021.

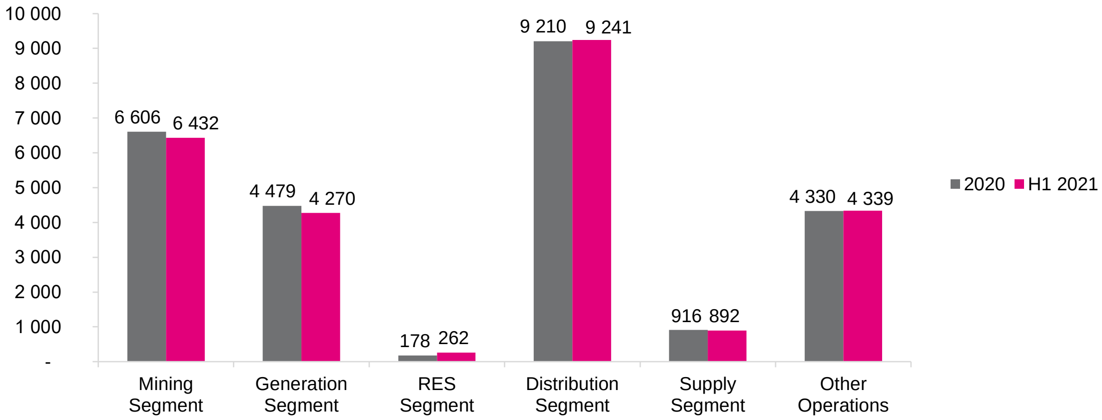
Figure no. 10. TAURON's average headcount in FTEs in 2020 and in the first half of 2021



TAURON Capital Group's average headcount came in at 25 436 FTEs in the first half of 2021, which meant a decrease by 284 FTEs (1.1%) versus the headcount in 2020, when the average employment level was 25 719 FTEs. The decrease in the average employment level is mainly related to the Generation and Mining Segments. In the Generation Segment the decrease in the average employment level is a consequence of preparations for the permanent shutdown (decommissioning) of the power generating units. In the Mining Segment it is the result of, inter alia, the implementation of the Turnaround Program for TAURON Wydobycie and the changes taking place in the mining line of business.

The below figure presents TAURON Capital Group's average headcounts in FTEs (rounded up to the full FTE) per Segment of operations in 2020 and in the first half of 2021. Starting from 2021, TAURON Wytwarzanie's workforce is divided into the Generation and RES Segments.

Figure no. 11. TAURON Capital Group's average headcounts in FTEs per Segment of operations in 2020 and in the first half of 2021 based on FTEs



Key employment data

The below table below presents key data on the employment at TAURON and TAURON Capital Group as of December 31, 2020, and June 30, 2021.

Table no. 8. Key data on the employment at TAURON and TAURON Capital Group as of December 31, 2020, and June 30, 2021

#	Key employment data	unit	TAURON		TAURON Capital Group	
			December 31, 2020	June 30, 2021	December 31, 2020	June 30, 2021
1.	Headcount by segment, including:	persons	450	440	25 572	25 434[1]
	Mining Segment	persons	-	-	6 458	6 365

#	Key employment data	unit	TAURON		TAURON Capital Group	
			December 31, 2020	June 30, 2021	December 31, 2020	June 30, 2021
	Generation Segment	persons	-	-	4 426	4 290
	RES Segment	persons	-	-	179	236
	Distribution Segment	persons	-	-	9 269	9 270
	Supply Segment	persons	450	440	896[2]	906[2]
	Other Operations	persons	-	-	4 344	4 367
2.	Headcount by education, including:					
	College graduates	%	98	98	35	35
	High school graduates	%	2	2	43	43
	Vocational school graduates	%	0	0	20	20
	Elementary school graduates	%	0	0	2	2
3.	Headcount by age, including:					
	Up to 30 years	%	10	9	9	8
	30 - 40 years	%	37	36	22	22
	40 - 50 years	%	38	40	29	29
	50 - 60 years	%	12	13	33	33
	Above 60 years	%	3	2	7	8
4.	Headcount by gender, including:					
	Women	%	44	44	22	22
	Men	%	56	56	78	78

[1]*Including 77 people employed under a fixed term labor contract to replace an absent employee*
[2]*Figure includes TAURON's headcount*

3. TAURON CAPITAL GROUP'S RISK MANAGEMENT

3.1. Risk management objective and principles

At TAURON Capital Group risk is understood as an uncertain occurrence or a group of occurrences that, in case of materializing, will have an impact on achieving by TAURON Capital Group of its defined strategic goals, both negatively (threat), as well as positively (opportunity).

In line with its Strategy the Company is implementing the process of managing the risk related to the operations of TAURON Capital Group. The primary goals of risk management include ensuring the broadly understood security of TAURON Capital Group's operations. In particular, TAURON Capital Group's risk management is to ensure increased predictability of achieving its strategic goals, sustainable (stable) generation of its financial results, the protection of TAURON Capital Group's current economic value (preventive function), as well as support for the decision-making processes.

TAURON Capital Group's risk management:

1. is based on the risk management process that provides comprehensive and consistent rules for identifying, measuring and responding to risk,
2. covers all elements of the value chain,
3. provides centralized risk measurement, monitoring and control function, and also ability to evaluate the full risk profile in the organization and consistent risk management principles,
4. ensures independence of the risk taking function from its control and monitoring,
5. ensures a clear split of competences and responsibilities, in particular by introducing the risk ownership function,
6. is a pro-active process, focused on an appropriately early identification of threats, allowing for taking preventive measures,
7. is a systematic and continuously improved process which allows for aligning it on an ongoing basis to TAURON Capital Group's specifics and organizational structure, as well as to the changing environment,
8. places a strong emphasis on developing awareness, training and encouraging personnel to use the knowledge of risks in daily activities,
9. co-creates TAURON Capital Group's internal audit (control) system, constituting, along with the compliance and security management functions, an element of the Three Line Defense Model.

3.2. Risk management strategy

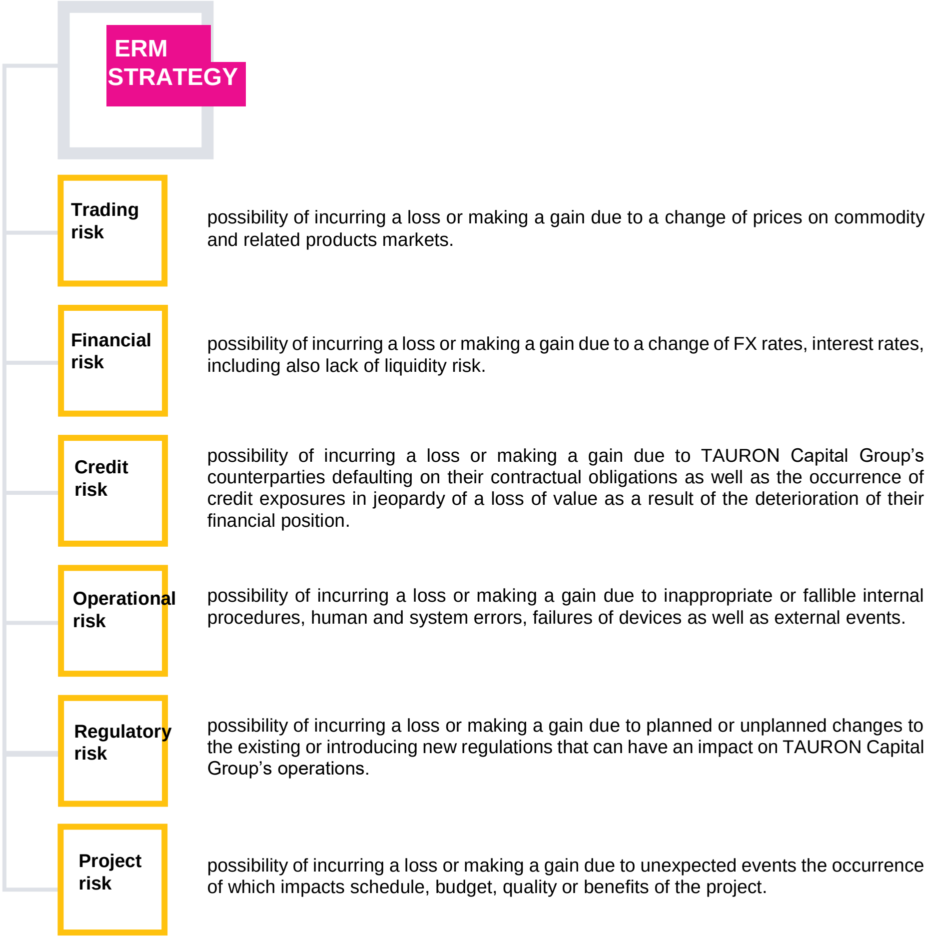
The enterprise risk management system (ERM System), implemented at TAURON Capital Group's level, constitutes a set of rules, standards and tools allowing for implementing the primary goal of risk management which is, broadly understood, ensuring safety (security) of TAURON Capital Group's operations. This system is governed by the document under the title *TAURON Group's Enterprise Risk Management Strategy* (ERM Strategy) that defines TAURON Capital Group's enterprise risk management framework and rules, and its objective is to ensure the consistency of managing the individual risk categories that are detailed in separate regulations, aligned to the specifics of the individual threat groups.

As part of the ERM System, the following specific risks are identified within TAURON Capital Group, for which separate policies tailored to the nature and specifics of the given group of threats are defined:

1. Trading (commercial) risk,
2. Credit risk,
3. Financial risk,
4. Operational risk,
5. Regulatory risk,
6. Project risk.

The below figure presents the basic classification of the enterprise risk.

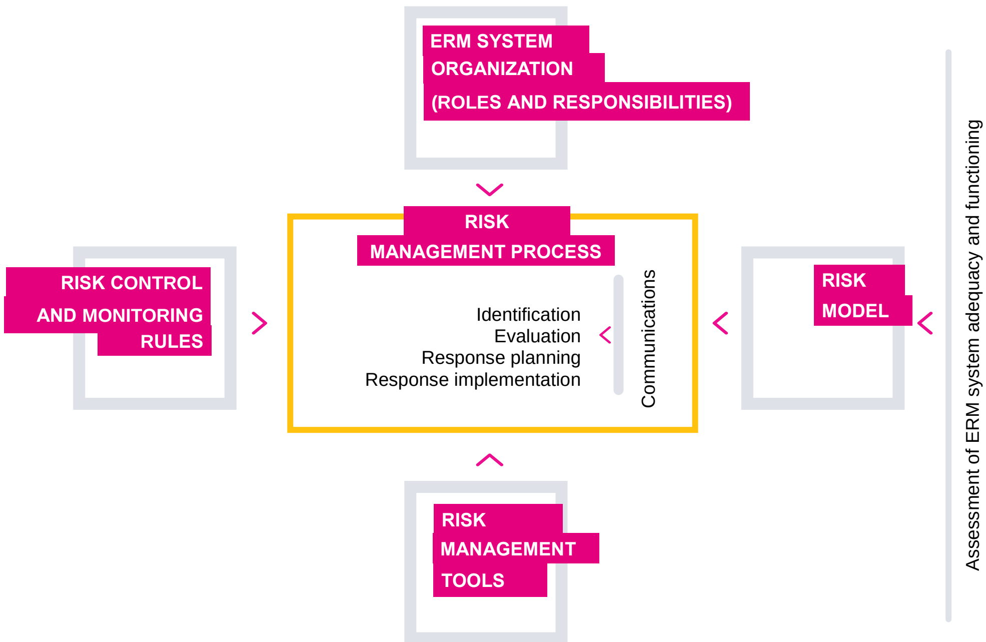
Figure no. 12. Basic classification of the enterprise risk



The core (central) element of the ERM System is a risk management process that includes continuous activities, i.e. risk identification, risk measurement as well as developing and implementing a response to risk. The architecture of the ERM system also includes elements that are to ensure the effective functioning of the process, including: organization of the ERM System, risk control and monitoring rules, risk model, risk management tools and the assessment of the adequacy and functioning of the ERM system.

The below figure presents the architecture of the ERM system in place at TAURON Capital Group.

Figure no. 13. Architecture of the ERM system in place at TAURON Capital Group

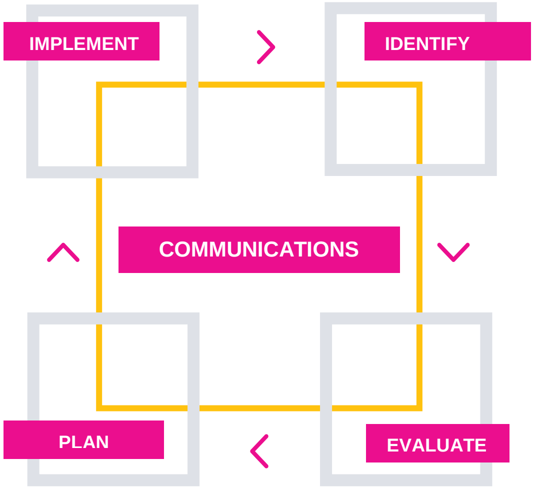


Risk management process

The process of enterprise risk management ensures the comprehensive and consistent risk management rules linked with one another in terms of methodology and information. The process of enterprise risk management means taking continuous measures comprising risk identification, risk assessment, planning of risk response, implementation of the adopted risk response and communication among the risk management process participants.

The below figure presents the risk management process.

Figure no. 14. Risk management process



Risk identification consists in determining the potential events that may affect the implementation of business goals of TAURON Capital Group. The main purpose of this step is to create or update a list of risks that may affect the achievement of the business goals. The identified risks are described in accordance with the adopted methodology and have a specific context providing information on the impact of their materialization on the business goals.

Risk assessment consists in determining the potential financial and non-financial effects of the materialization of the risk affecting the implementation of specific goals and assigning the risk class thereto, defining the materiality of the risk from the point of view of its impact on the achievement of the goals.

Planning consists in the preparation of the dedicated responses to the risk identified in order to achieve the desirable results. The planned actions constituting the prepared risk response are dependent and adapted to the current level of the Key Risk Indicators (KRI), and in particular those among them that act as Early Warning Indicators (EWI).

Implementation of risk response consists in practical implementation of the response to the identified risk, prepared in the planning process. The defined set of actions as part of the risk response, specified in the planning process, is dependent on the current level of the EWI indicators. The implementation of the subsequent activities as part of the response to risk requires ongoing monitoring of risk indicators, which is to provide information on what set of activities should be implemented and, at the same time, inform whether the activities carried out thus far are effective and if risk management is bringing the assumed effect of maintaining the value of the EWI indicators within the acceptance range.

Communication consists in a continuous flow of information among the participants of the process, which is to ensure full knowledge on the current risk status and the effectiveness of the activities conducted as part of the response to risk. The periodical risk reporting is also an element of this process.

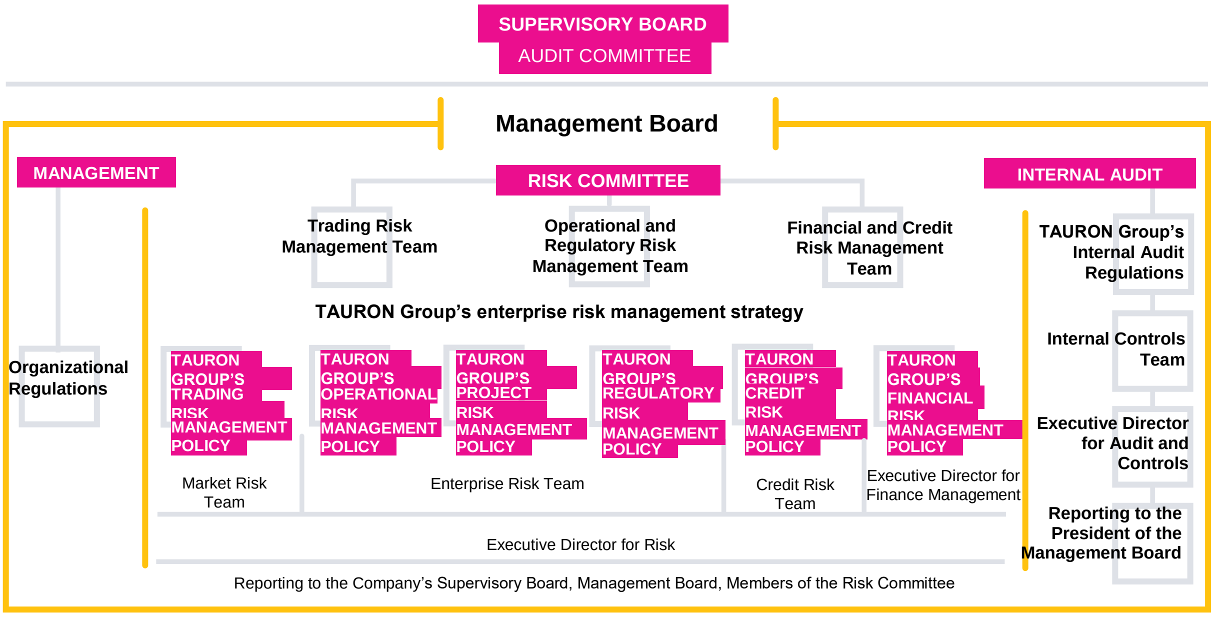
Organization of the risk management system (roles and responsibilities)

The key assumption of the risk management system is a clear and precise split of tasks and responsibilities, ensuring no conflict of interest. In particular, the system guarantees independence of the risk taking function from risk control and monitoring. This is achieved through the centralization of the control function at the parent Company level, while maintaining the organizational and functional separation of the risk taking function. The rules in place at TAURON Capital Group introduce the function of the risk owner, i.e. the person responsible for managing the given risk as well as developing and implementing an effective response to a threat. While the control function, process coordination, as well as the responsibility for the correct functioning of the risk management system was placed at the parent Company, in the Area of the Executive Director for Risk.

A special role, as part of the risk management process, is performed by the Risk Committee as an expert team that persistently and continuously initiates, analyzes, monitors, controls, supports and oversees the functioning of TAURON Capital Group's risk management system. The members of the Risk Committee include persons with appropriate knowledge of the Company and its environment as well as the required qualifications and empowerments. The task of the Risk Committee is to set norms and standards for risk management at TAURON Capital Group and oversight of the risk management process effectiveness. Within the Risk Committee two separate teams are set up, one for the trading (commercial) risk area and the other for the financial and credit risk area. Oversight of the enterprise risk management system is performed directly by the Risk Committee.

The below figure presents the links between the individual roles in the context of the ERM Strategy and the other documents regulating in detail TAURON Capital Group's ERM system.

Figure no. 15. Links between the individual roles in the context of the ERM Strategy and the documents regulating the ERM System



Within the ERM System the roles and responsibilities of all the participants of TAURON Capital Group's risk management system are defined in detail and they are provided in the below table.

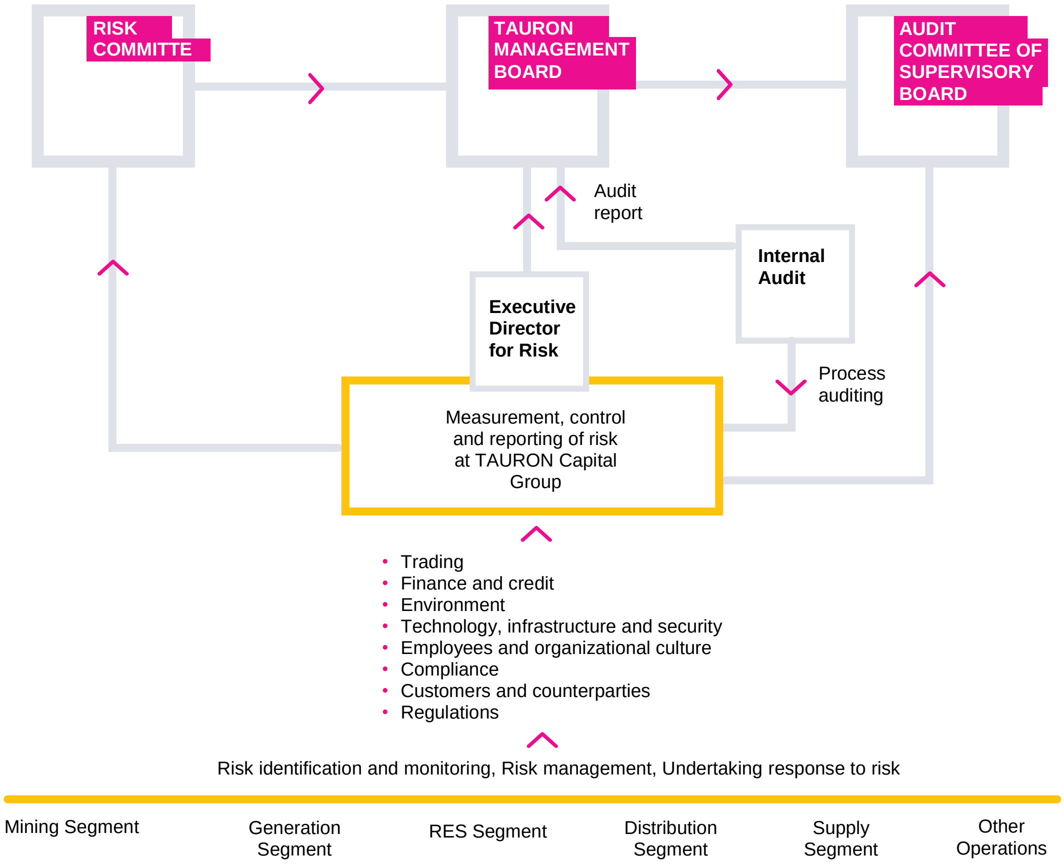
Table no. 9. Description of the ERM System participants' roles and responsibilities

Participant	Participant's roles and responsibilities
1. TAURON Supervisory Board	1. Assessment of the ERM System, especially of its adequacy and effectiveness. 2. Empowerment to audit the Company's operations with respect to enterprise risk management, in terms of compliance with the expectations of the shareholders, supervisory and regulatory authorities.
2. Audit Committee of TAURON Supervisory Board	Monitoring the ERM System's effectiveness.
3. TAURON Management Board	1. Assessment of the ERM System's adequacy, effectiveness and efficiency. 2. Taking formal decisions related to the key elements TAURON Capital Group's enterprise risk management, including approving the list of risks with respect to which the Company's Management Board will be performing the Risk Owner's function. 3. Approving TAURON Capital Group's risk appetite and risk tolerance, including the global limits for the specific risks. 4. Managing the risks of special importance for TAURON Capital Group's operations. 5. Providing adequate resources for the needs of the ERM System.
4. Risk Committee	1. Overseeing the correct flow of TAURON Capital Group's risk management process. 2. Auditing (controlling) TAURON Capital Group's risk exposure. 3. Providing opinions and recommending to the Company's Management Board the shape of the individual elements of the risk management infrastructure. 4. Defining TAURON Capital Group's risk appetite and risk tolerance, including the global limits for the specific risks, and also applying to the Company's Management Board for the approval or change thereof. 5. Approving the operational limits constituting the allocation of the adopted risk tolerance. 6. Overseeing the preparation of the information for the Company's Management Board on all material issues related to TAURON Capital Group's risk
5. Executive Director for Risk	1. Coordinating the risk management process on all levels and in all areas (lines of business) of the organization's operations. 2. Responsibility for the development of the ERM System (risk identification, evaluation, monitoring and control methods, processes and procedures). 3. Support and oversight over the system's participants in the risk management implementation and evaluation of its efficiency. 4. Risk monitoring and control (auditing) at TAURON Capital Group's level, including auditing (control) of the use (consumption) of the operational limits, global limits and risk tolerance. 5. Preparing and providing the risk reports to the authorized risk management process participants. 6. Activities aimed at developing organizational culture and raising awareness with respect to TAURON Capital Group's risk management.
6. Executive Director for Audit and Controls	Periodic review (audit) of the correctness of designing and implementing as well as the effects of actions taken within the ERM System.
7. Management Board of a subsidiary	1. Responsibility for risk management efficiency within a subsidiary. 2. Promoting risk management culture in a subsidiary. 3. Responsibility for the adequate responses to risk and the effectiveness thereof. 4. Appointing Risk Owners at the given subsidiary. 5. Approving plans of response to risks and taking ongoing decisions related to dealing with risk in case the established risk values (escalation threshold) are exceeded.
8. Risk Owner	1. Responsibility for actions related to the implementation of the risk management process as part of the entrusted area of responsibility, in the context of an impact on the ongoing operations as well as on the implementation of the strategic, operational and financial goals of the unit.

Participant	Participant's roles and responsibilities
	2. Responsibility for preparing a plan and for implementing a response to risk, and also for the communications and reporting within the risk management performed. 3. Responsibility for meeting (compliance with) the imposed operational limits.

The below figure below presents the flow of information within the key participants of the risk management process.

Figure no. 16. Flow of information within the key participants of the risk management process



Risk control and monitoring rules

The purpose of the adopted risk control and monitoring rules is to limit TAURON Capital Group's exposure to factors that may have an adverse impact on its functioning. The basic risk control tool is the Risk Appetite, approved by the Company's Management Board, that defines the basic framework used by TAURON Capital Group for risk management. In accordance with the adopted approach, TAURON Capital Group's priority is to maintain the maximum security at the level allowing for the implementation of TAURON Capital Group's strategic goals.

Based on the Risk Appetite, the Risk Tolerance is approved, that specifies TAURON Capital Group's maximum permitted risk exposure value, in particular taking into account the specifics and scope of the operations thereof. The Risk Tolerance level is expressed in the form of a set of metrics and boundary conditions limiting the risk exposure. The Risk Tolerance is a practical translation of the Risk Appetite, in particular taking into account the division into key categories of the Specific Risks and the Global Limits related thereto. Based on the adopted risk tolerance value as well as the approved global limits, the Risk Committee approves sets of operational limits dedicated to the individual risks or the groups thereof. The individual risk owners are responsible for meeting the operating limits, and the Executive Director for Risk is responsible for controlling the consumption thereof. The basic assumption is to guarantee the independence of risk taking from risk control, which guarantees the safety (security) of the functioning of the organization. Such independence is ensured in particular by the appropriate positioning of the Executive Director for Risk within the organizational structure of the Company in a way that eliminates the emergence of a conflict of interest, as well as by ensuring direct reporting lines to the Company's Management Board and the Company's Supervisory Board.

A supplementary tool used for risk monitoring and control comprises the Early Warning System based on the catalogue of Key Risk Indicators (KRI) and Early Warning Indicators (EWI).

The system functioning based on the said KRI and EWI indicators enables an adequately early identification of threats by measuring the causes of the individual threats. At the same time, that system allows for an adequately early taking of remedy actions, before the individual threats actually materialize.

Risk management tools

Risk management tools used by TAURON Capital Group allow for effective implementation of the individual stages of the process. TAURON Capital Group uses, in particular, the following tools:

1. **Risk identification / review questionnaire** - a document in the form of a table, specifying the detailed information that should be collected in the risk identification or periodic review process,
2. **Risk card (sheet)** - a document containing the detailed information on the identified risk,
3. **Risk register** - a document in the form of a table with a summary of the risks associated with the operations of TAURON Capital Group, containing, in particular, their descriptions, categories and valuations,
4. **Risk response plans** - a document containing a prepared action plan, the early enough launching of which will allow for reducing exposure to a given risk to an acceptable level before it occurs, as well as for limiting the effects of the risk at the time of its materialization,
5. **Risk assessment form** - a tabular summary of detailed information on risk measurement, including, among others, the determination of the impact and the probability associated therewith of risk materialization and the information on the current level of risk measurement parameters (KRI / EWI).

Risk Model

Risk model defines a consistent risk classification, enabling a consistent and comprehensive capturing of risk across TAURON Capital Group. Each risk identified is assigned to specific categories and sub-categories.

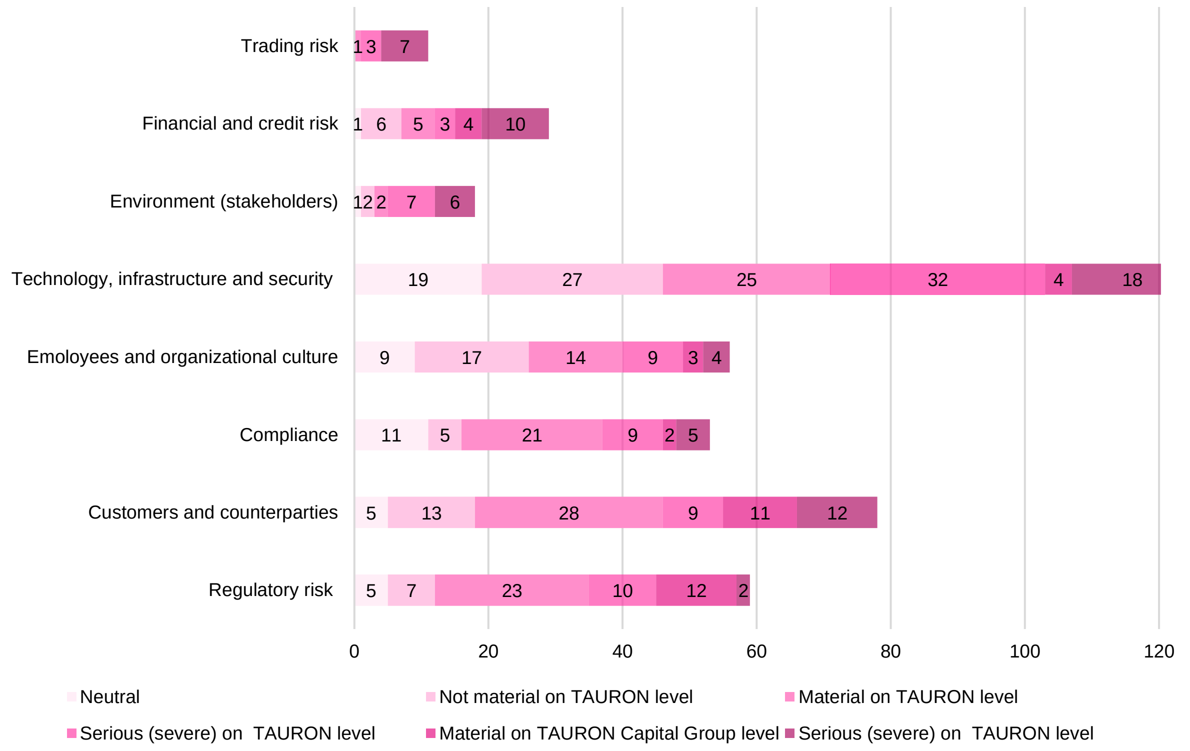
The below table presents the main risk categories and sub-categories, in accordance with the Risk Model in place.

Table no. 10. Main risk categories and sub-categories, in accordance with the Risk Model in place

Main risk categories	Main risk sub-categories	Description of the main risk sub-categories
1. Trading risk		Risks related to the volatility of electricity and related products market prices to which the enterprise is exposed.
2. Financial and credit risk		Risks related to the fluctuations in exchange rates and interest rates, as well as the risk of TAURON Group's contractors (counterparties) defaulting on contractual obligations.
3. Operational risk	Environment (stakeholders)	Risks determining the impact of the external environment (stakeholders) on the implementation of TAURON Capital Group's goals, including in particular the macroeconomic and reputational risks.
	Technology, infrastructure and security	All events having an adverse effect on the security of employees, information as well as the generation, transmission, mining or IT infrastructure.
	Employees and organizational culture	Risks related to employee issues and organizational culture, including also the pandemic risk.
	Compliance	Risks related to the cases of non-compliance with the legal regulations, internal and intra-corporate regulations, internal and external abuse as well as unethical behaviors and violations of the social norms (standards).
	Customers and contractors (counterparties)	Risks related to the volatility of the supplies / services market, a failure of the customer / contractor (counterparty) to meet contractual obligations and the adverse changes or terminations of commercial contracts by customers, affecting both volume as well as margin.
4. Regulatory risk		Risks determining the adverse impact of changes in the legislation at the national and the European level having a direct impact on the operations of TAURON Capital Group.

The below figure presents the main risk categories defined by TAURON Capital Group, including the number of key threats.

Figure no. 17. Number of risks monitored, broken down into sub-categories and their impact on TAURON Capital Group



Assessment of the adequacy and the functioning of the risk management system

TAURON Group's risk management is a systematic process subject to continuous improvement which allows for aligning it, on an ongoing basis, to TAURON Capital Group's specifics and organizational structure, as well as to the fast changing environment. That process is also subject to an internal and independent assessment of adequacy and reviews, in particular based on:

1. ongoing assessment by the Executive Director for Risk and the Risk Committee with respect to its adequacy and alignment with the changes to the structure and specifics of TAURON Capital Group's operations, as well as with the changing environment,
2. periodic evaluation conducted by the Executive Director for Risk who, not less seldom than once a year, prepares a report on the assessment of adequacy of the ERM System's architecture for the members of the Risk Committee,
3. periodic evaluation conducted by the Executive Director for Audit and Control, as part of performing the institutional (third line of defense), conducts an independent audit of TAURON Capital Group's risk management with respect to the appropriate implementation of the rules by the process participants, as well as its adequacy and effectiveness.

3.3. Key risks management

The Company is actively managing all risks, seeking to eliminate or to the maximum degree reduce their potential negative impact, in particular on TAURON Capital Group's financial results.

Trading risk management

In accordance with *TAURON Group's Trading Risk Management Policy* in place trading risk is understood as the possibility of incurring a loss or making a gain due to price fluctuations on the commodity and related products markets. The trading risk, due to the specifics of the operations conducted, constitutes one of TAURON Capital Group's key risks. TAURON Capital Group is made up of subsidiaries operating both in the Mining and the Generation Lines of Business, including also the RES Line of Business, as well as in the Supply Line of Business. Due to the opposing positions in the above Lines of Business the risk is, to a certain degree, naturally diversified, however, since the above mentioned Lines of Business do not fully offset each other, and due to the diverse nature of the exposures, TAURON Capital Group is displaying sensitivity to the volatility of the prices of electricity, gas and related products.

In order to efficiently manage that group of risks the trading risk management system was established, tied with respect to the organizational structure and information flow, to the trading position hedging strategy in place at TAURON Capital Group's level. In particular, *TAURON Group's Trading Risk Management Policy* introduces an early warning system and a system used to limit the risk exposure in the individual trading areas based on the Risk Tolerance approved by the Management Board.

The basic operating measure of TAURON Capital Group's market risk is Value at Risk (VaR), defining the maximum admissible change of the position's value over the given time horizon and at a specific probability level. Value at Risk (VaR) represents a dynamic risk measure which, in contrast to static measures, allows for determining potential negative effects before their factual occurrence. However, being aware of certain limitations of the statistical measures of this type, the Risk Area also uses a number of supplementary risk measures aimed at enabling a safe operation of the trading areas.

The strategic measurement of market risk is conducted based on the mechanism of Hedge Curves, which are to ensure the maximum level of security by optimizing open trading positions exposed to the volatility of price factors in the individual areas of TAURON Capital Group's operations.

The organizational structure of the trading risk management system envisages a strict division of competences, where the risk supervision (steering) and control are performed centrally at TAURON level. In particular, an element of the organizational structure of the trading risk management system is the split of TAURON Capital Group's trading operations into: Front Office, Middle Office and Back Office. The goal of such a split of tasks is to guarantee the independence of the operating functions carried out by the Front Office from the risk control function carried out by the Risk Area, and it ensures an appropriate level of operational flexibility. For the needs of the risk management process such a placement of responsibility is assumed in order to ensure an optimal approach to the given type of threat, in particular taking advantage of the economy of scale and the synergy effect. Such an approach ensures efficiency of the trading processes conducted and adequate supervision over one of the main business processes conducted by TAURON Capital Group.

The below figure presents a breakdown of TAURON Capital Group's trading operations.

Figure no. 18. Breakdown of TAURON Capital Group's trading operations

PARTICIPANT	ROLES AND RESPONSIBILITIES OF PARTICIPANTS
FRONT OFFICE	• Concludes transactions on commodity and related products markets • Manages the portfolio within TAURON Capital Group • Manages operationally the trading risk within the set risk limits
MIDDLE OFFICE	• Identifies, aggregates and measures trading risk exposure • Ensures independent risk evaluation and measurement of the result generated, • Conducts monitoring of trading operations in terms of their compliance with the adopted policy, operational procedures and market conditions. • Performs supervision over the structure of portfolios in terms of its alignment with the trading operations.
BACK OFFICE	• Responsible for confirming, settling and invoicing trade transaction, • Responsible for archiving data related to trade transactions, • Responsible for trading reporting

Financial risk management

As part of the financial risk management, TAURON Capital Group is managing the FX risk and the interest rate risk, based on the developed and adopted for use *TAURON Group's Financial Risk Management Policy* and the Risk Tolerance approved by the Management Board, the Global Financial Risk Limit including the decomposition thereof into individual financial risk types. The main goal of managing such risks is to minimize the sensitivity of TAURON Capital Group's cash flows to the financial risk factors and to minimize the financial costs and the hedging costs as part of transactions with the use of the derivative instruments. In cases when it is possible and economically justified, TAURON uses the derivative instruments the characteristics of which allow for applying the hedging accounting.

With respect to the financial risks TAURON Capital Group also identifies and actively manages the liquidity risk understood as a potential loss or limitation of the ability to pay the current expenses, due to an inadequate value or structure of liquid assets in relation to the short term obligations or an insufficient level of the actual net inflows from the operating activities.

As part of the identified financial risks TAURON is also managing the risk of financing understood as a lack of the possibility to acquire the new funding, an increase of the cost of funding and the risk of the termination of the existing financing agreements. As part of efforts aimed at minimizing the financing risk, TAURON conducts a policy of acquiring the funding for TAURON Capital Group with an appropriate advance notice in relation to the planned date of its use, i.e. up to 24 months in advance of the planned funding requirement. This means that TAURON Capital Group should hold signed programs of guaranteed financing or hedging for such financing by accumulating the funds on TAURON Capital Group's accounts. Such a policy is first and foremost aimed at ensuring a flexible choice of the financing sources and taking advantage of favorable market conditions as well as reducing the risk of the need to take on new liabilities under unfavorable market conditions. TAURON"s policy also covers the standardizing of the covenants and the provisions of the financing agreements in the key elements of the documentation.

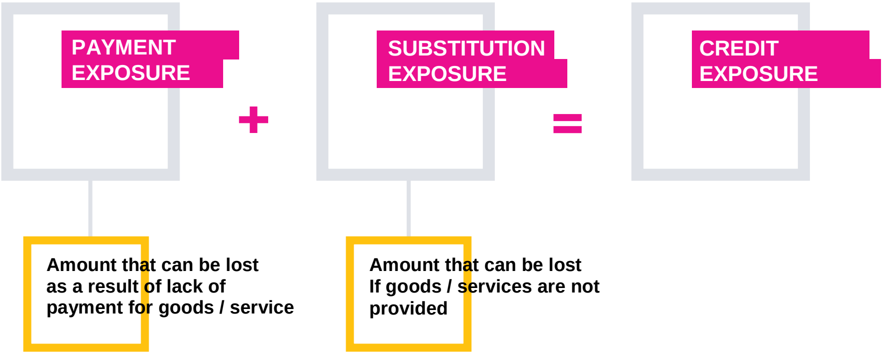
Credit risk management

In accordance with *TAURON Group's Credit Risk Management Policy* in place credit risk is understood as the possibility of incurring a loss or making a gain due to trading partners (counterparties) failing to fulfill their contractual obligations (default) as well as the occurrence of credit exposures at risk of impairment due to the deterioration of their financial position. TAURON Capital Group has a decentralized credit risk management system in place, however the control, limiting and reporting of this risk category is carried out centrally, on the parent Company level. *TAURON Group's Credit Risk Management Policy* put in place defines credit risk management principles on TAURON Capital Group's level, aimed at effectively minimizing the impact of that risk on achieving TAURON Capital Group's goals.

Credit risk management is carried out by controlling the credit exposure generated upon the conclusion of contracts by TAURON Capital Group's subsidiaries. The general rule is that prior to concluding a material contract every entity is subjected to an examination of its financial standing and receives a credit limit which caps the maximum exposure due to the given trade. Credit exposure is, in this context, understood as an amount that can be lost if a counterparty (business partner, contractor) fails to fulfill its obligations (defaults) within a certain time (taking into account the value of the collaterals submitted thereby). Credit exposure is calculated as of the current day and is split into exposure due to payment (payment exposure) and substitution exposure.

The below figure presents credit exposure components.

Figure no. 19. Credit exposure components



Based on the exposure value and the synthetic measure of evaluation of the financial standing of specific customers, the global credit value at risk that TAURON Capital Group is exposed to is calculated using the statistical methods according to which the exposure value is calculated based on the total loss probability distribution CVaR. This measure is the basic operational limit of credit risk, which represents the allocation of the Risk Tolerance approved by Management Board.

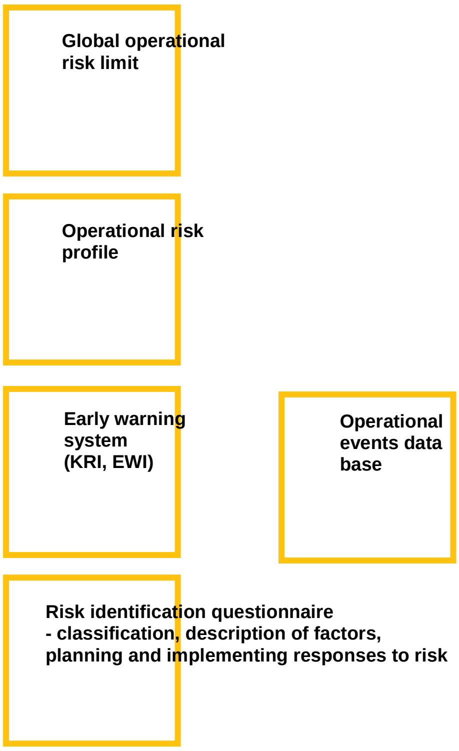
Operational risk management

Operational risk, in accordance with *TAURON Group's Operational Risk Management Policy* put in place, is understood as the possibility of incurring a loss or making a gain due to inappropriate or fallible internal procedures, human and system errors or as a consequence of external events. It also includes reputational risk and non-compliance risk. Operational risk, due to the specific nature of the threats and the ability to manage them, constitutes a separate group of risks affecting TAURON Capital Group's operations. The said risk is a complex issue, occurs in every process and type of operations, it is multi-dimensional and applies to various types of activities and operations. In particular, the exposure to the operational risk factors is related to the size and complexity of the organizational structure, the number and complexity of the IT systems and to the number of business processes conducted. Operational risk is characterized by the lack of the ability to totally eliminate its sources, and the analysis of its factors and parameters (among others, frequency and severity), and also the evaluation thereof requires the use of complex measurement and analysis methods.

In order to effectively manage the operational risk, TAURON Capital Group is using appropriate tools that, in particular, include: the global operational risk limit, the operational risk profile the early warning system functioning on a broad scale, operational events database, and the related operational limits system. In particular, based on the approved Risk Tolerance, operational limits are determined for the individual operational risks (or their groups) aimed at the pre-emptive control of TAURON Capital Group's vulnerability to the individual operational risk factors and the implementation of advance mitigation actions.

The below figure presents the risk management system tools.

Figure no. 20. Risk management system tools



Global operational risk limit is the basic tool for the operational risk control and represents the allocation of Risk Tolerance adopted by TAURON Capital Group. The global operational risk limit can be subsequently allocated to TAURON Capital Group's individual lines of business, the operational risk sub-categories as well as to the specific operational risks.

Operational risk profile is aimed at identifying areas, processes or activities with an excessive exposure to threats stemming from specific operational risk factors. It is expressed in particular in the structural dimension that includes types of operational events, TAURON Capital Group's organizational structure and processes, and in the scale dimension that includes estimated potential losses, taking into account in particular the historical values of actual losses, as well as the tools used to mitigate the threats. For the needs of measuring the operational risk and defining the Operational Risk Profile the individual types of the operational risk are broken down (due to the nature of the occurrence thereof) into continuous and one-off risks

Early Warning System is defined in order to monitor the operational risk level for each identified threat. Early Warning Indicators (EWI) are selected from the Key Risk Indicators (KRI) set, as the ones that are subject to continuous control with respect to the cautionary thresholds set for them, i.e. acceptance, mitigation and escalation thresholds.

Operational events database is created for the needs of identifying new risk factors, and in parallel in order to define the risk profile for TAURON Capital Group. It allows for keeping the records of cases that are characterized by a potential or actual loss for the organization. The goal of maintaining the operational events database is to determine the frequency and severity of the individual operational risk factors, as well as the areas and processes they occur in.

Risk identification questionnaire is a document in the form of a tabular form that constitutes a tool supporting the performance of the risk management process with respect to risk identification, specifying the detailed information that should be collected in this process.

Regulatory risk management

Regulatory risk, in accordance with *TAURON Group's Regulatory Risk Management Policy* put in place, is understood as the possibility of incurring a loss or making a gain due to the planned or unplanned changes to the existing or the introduction of the new regulations that may affect the operations of TAURON Capital Group. Regulatory risk, due to the specific nature of threats and limited options to manage them, is a separate category of the enterprise risk to which TAURON Capital Group is exposed as part of its operations. Regulatory risk management is based on the Regulatory Risk Management Process and is a refinement of the Risk Management Process specified in the ERM Strategy.

The main causes of the regulatory risk include:

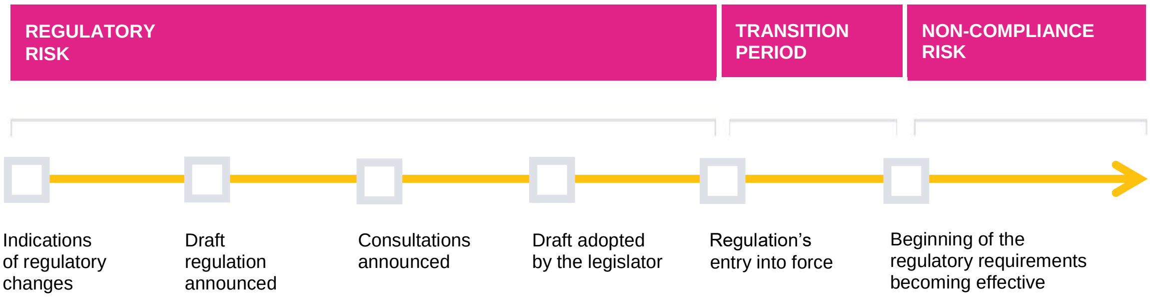
1. instability of the legal environment,
2. change in regulatory policy at national and European levels,
3. progressing integration of the European energy market,
4. uncertain political situation,
5. a significant increase in the requirements with respect to a specific regulation.

The main goal of the regulatory risk management at TAURON Capital Group is to minimize losses and maximize gains from the planned or unplanned changes to the existing regulations or the introduction of the new regulations that may affect the operations of the organization. As a result, it allows for reducing the potential threats to a level that would be possibly favorable for achieving TAURON Capital Group's strategic goals. The regulatory risk management is also aimed at building culture and awareness among the employees of TAURON Capital Group regarding the risk taken, as well as at the continuous improvement of the process of managing such risk.

Regulatory risk occurs when there are indications of regulatory changes, for example an entry into force of the EU directive, which will be implemented into the Polish legal regime or the positions of the legislators declaring the regulatory changes. The regulatory risk management does not cease when a specific regulation which is frequently expected to provide executive regulations that specify its implementation method comes into force but from the moment the regulatory requirements take effect (the period from the entry of a legal act into force until the beginning of the regulatory requirements becoming effective is a transition period). At that time the regulatory risk management turns into the risk of non-compliance monitored as part of the non-compliance risk.

The below figure presents the regulatory risk life cycle.

Figure no. 21. Regulatory risk life cycle



In accordance with the classification of the regulatory risk, as part of *TAURON Group's Regulatory Risk Management Policy,* 13 areas of regulatory risk have been identified at TAURON Capital Group. The classification is based on the identification of homogeneous groups of regulations, based on their impact on the operations of TAURON Capital Group, taking into account the possibility of undertaking an effective response to the given risk. The regulatory risk areas are divided into 2 basic categories:

1. **Sector related regulatory risks** - regulatory risks that may affect the operations of TAURON Capital Group related to the generation and supply of electricity and heat. Within this category, independently, there are also risks related to the distribution of electricity and the extraction of raw materials.
2. **Non-sector related regulatory risks** - regulatory risks that may affect the operations of TAURON Capital Group related to, among others, the public procurement law, information security or compliance area, personal data protection, labor law, accounting and tax law, work (occupational) health and safety, environment protection and climate change as well as corporate management.

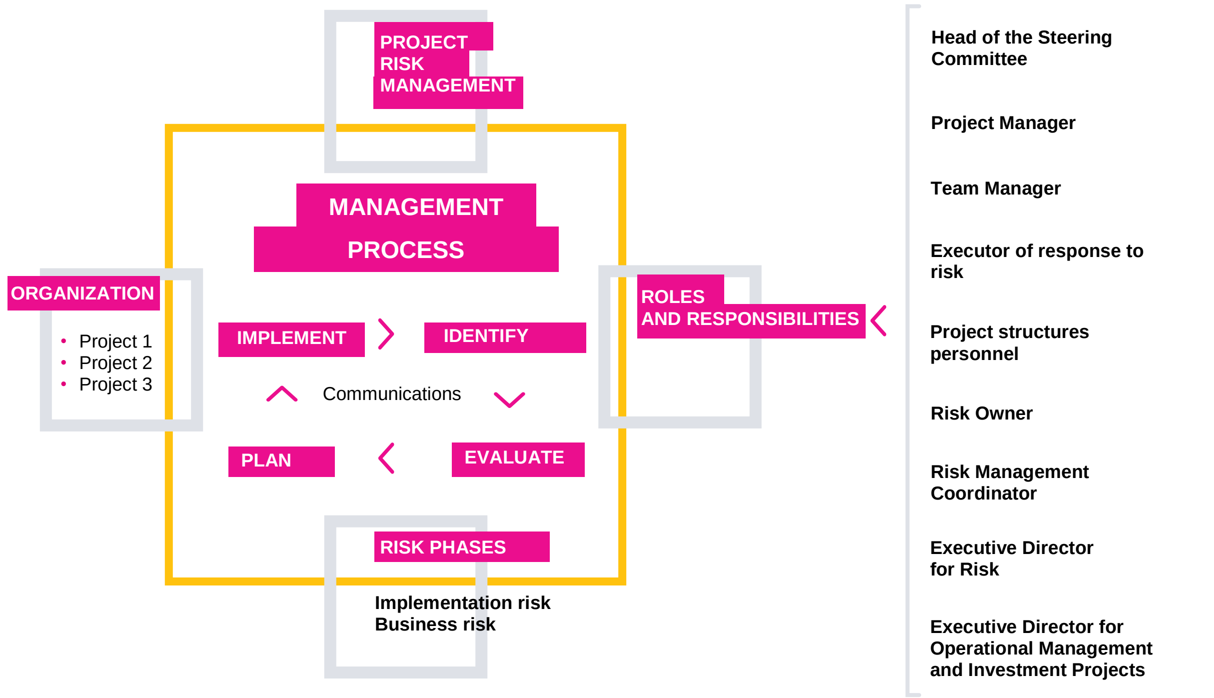
Project risk management

TAURON Capital Group is conducting a number of investment projects in many lines of its business operations. These projects, due to their scale and often very complicated nature of implementation, represent a source of threats (risk) that may have an impact on the schedule, budget or quality of the final products. Systematic application of the provisions of *TAURON Group's Project Risk Management Policy* is aimed at mitigating these risks, supporting at the same time the accomplishment of the organization's strategic goals. That regulation, in particular, defines the basic principles of project risk management, ensuring consistency, comprehensive approach and unequivocal understanding in that area. The goal of the actions taken is to achieve the required probability of the project's completion, while complying with the defined schedule, budget and quality of the products obtained. The overall objective is to obtain the expected benefits from the project's completion and to achieve TAURON Capital Group's strategic goals.

Project risk management is also applicable to managing the risk stemming from the projects and having an impact on the organization. The process of managing the risk stemming from the projects includes identification, valuation of such risks, defining and monitoring the early warning indicators as well as planning and implementing actions related to managing such risks. In case of the risks that have an impact on the organization, the risk valuation is made as the absolute value of the impact, including indicating the impact period broken down into the individual accounting periods, in reference to the assumed EBITDA or the assumptions made in the organization for the long term projections. In case of the most important risks that have an impact on the organization, Plans of Responses to the Risk and Back-up (Contingency) Plans are developed. The evaluation of the project risks and the risks stemming from the projects for the organization is taken into account when making the key decisions related to launching and implementing such projects.

The below figure presents the project risk management model.

Figure no. 22. Project risk management model



3.4. Description of the most material risk categories

The below table presents the most material risk categories identified for TAURON Capital Group.

Table no. 11. Most material risk categories identified for TAURON Capital Group

Risk name	Risk description	Risk trend and materiality	Response to risk
Trading			
1. Market risk	The risk related to unfavorable changes in prices on the wholesale electricity market and the energy related product markets, which adversely affect the financial results.	↗ ■	1. Daily measurement and reporting of portfolio positions. 2. Ongoing monitoring of the result level and the risk level (VaR, Stop Loss, open positions). 3. Use of tools that minimize the formation of open trading positions (position limits and the Hedge Curve tolerances). 4. Taking advantage of the synergy effect among TAURON Capital Group's individual lines of business (central trading risk management). 5. Adoption of an optimal trading strategy. 6. Implementing pre-emptive position hedging mechanisms. 7. Granting and control of the compliance with risk mandates with certain limits. 8. Preparation and periodic verification of the price forecasts in the short, medium and long term
Finance and credit			
2. Interest rate risk	Risk related to an unfavorable impact of interest rates on TAURON Capital Group's financial results.	↗ ■	1. Ongoing monitoring of risk exposure in order to minimize negative impact of changes to the interest rates. 2. Transfer of risk through the use of derivative instruments.
3. FX rate risk	Risk related to an unfavorable impact of FX rates on TAURON Capital Group's financial results.	↗ ■	1. Ongoing monitoring of risk exposure vulnerable to the FX rate risk. 2. Use of risk limits for TAURON Capital Group's operational FX position (Value at Risk). 3. Transfer of the FX rate risk through the use of the hedging transactions in accordance with the adopted *TAURON Group's Financial Risk Management Policy*.
4. Liquidity risk	Risk related to the lack of TAURON Capital Group's ability of to pay its liabilities on an ongoing basis and difficulties in accessing capital, changes in the conditions for obtaining and servicing the financing already contracted and planned (incl. due to the tightening of the EU climate policy).	→ ■	1. Diversification of the sources of financing including arranging guaranteed financing programs as well as securing alternative sources of financing. 2. Analyzing the market and the availability of the sources of financing. 3. Ongoing communications with the financial institutions. 4. Arranging financing agreements 12-24 months in advance of the date the funding is needed. 5. Monitoring of the financial liquidity and planning the use of the available sources of financing.

Risk name	Risk description	Risk trend and materiality	Response to risk
			6. Taking actions and recommendations regarding the operations of the Financial Management Area, indicated by the Risk Committee or the Management Board of the Company.
5. Financing risk	Risk related to the difficulties in accessing capital, changes in the conditions for obtaining and servicing the financing already contracted and planned (incl. due to the tightening of the EU climate policy).	→ ■	1. Diversification of the use of the available sources of financing by using the financing instruments that reduce the risk of breaching the covenant in the form of the net debt / EBITDA ratio (e.g. hybrid bonds, factoring). 2. The use of instruments without financial covenants and limiting the number of conditions that breach such covenants. 3. Ongoing communications with the financial institutions. 4. Pre-emptive activities with respect to obtaining approvals from the financial institutions to carry out transactions or activities specified in the financing agreements. 5. Identification of events that may potentially affect the breach of the financial contracts and taking advance actions to mitigate the negative impact of the occurrence of such an event. 6. Taking actions and recommendations regarding the operations of the Financial Management Area, indicated by the Risk Committee or the Management Board of the Company. 7. Taking actions aimed at reducing the net debt and/or increasing EBITDA based on the decisions of the Risk Committee or the Management Board of the Company.
6. Tax risk	Risk related to incorrect or untimely payment of the tax obligations.	→ ■	1. Activities in accordance with legal regulations (Corporate Income Tax Act). 2. Issuing opinions on the economic events by TAURON Capital Group's tax advisors. 3. Jointly agreed positions at TAURON level. 4. Applying uniform accounting principles for companies within the PGK (Tax Capital Group). 5. Preparation of tax documentation for transactions between PGK companies and related entities outside PGK, requiring such documentation in accordance with the CIT Act, and auditing other transactions to confirm that they are concluded at arm's length.
7. Credit risk	Risk related to a potential occurrence of overdue accounts payable or a conclusion of a contract with a counterparty (business partner, contractor) that may turn out to be insolvent.	→ ■	1. Regular monitoring of the counterparties (business partners, contractors)' financial standing. 2. Periodic customer scoring, credit rating of each customer prior to submitting an offer / concluding a contract. 3. Use of protection mechanisms (hedging) in commercial agreements
Environment (stakeholders)			
8. Reputational risk	Risk related to the current and future impact on the company's revenue and capital (equity) due to the negative public opinion backlash, including the risk related to not following the market trends related to the climate protection.	→ ■	1. Continuous monitoring of the Company's external and internal threats. 2. Media monitoring, developing contacts and relationships with the media within TAURON Capital Group. 3. Preparing procedures for the Company's communications with the external and internal environment (stakeholders). 4. Striving to change the business profile to zero and low emission (carbon). 5. Adoption and implementation of: *TAURON Group's Policy of Compliance with the Principles of Ethics and Counteracting Mobbing and Discrimination, TAURON Group's Anti-corruption Policy, TAURON Group's Corporate Social Responsibility Code of Conduct, TAURON Group's Diversity Policy, TAURON Group's Respect for Human Rights Policy*
9. License risk	Risk related to the lack of the possibility to conduct operations as a result of a prolonged process of obtaining a license or amending the licenses held, as well as the unfavorable legal changes with respect to the licensed operations.	→ ■	1. Ongoing control of the correct performance of the licensing obligations. 2. Monitoring changes to the legal acts with respect to the licensing obligations. 3. Legal support for the license extension and obtaining process.
10. Macroeconomic risk	Risk related to the changes in the economic situation of the country, instability of the financial markets resulting in a decrease of the demand for electricity.	↘ ■	1. Diversification of the revenue sources. 2. Market analysis and the application of the pre-emptive actions for the anticipated crisis or a slowdown of the GDP growth rate.
11. Climate change risk	Risk related to the tightening of the EU climate policy, as well as the environmental requirements resulting from the climate change, activities supporting energy efficiency (prosumer development, support for the thermal insulation, construction of in-house energy and heat sources, departure from coal as fuel), change in the conditions of TAURON Capital Group's operations (the	↗ ■	1. Application of *TAURON Group's Climate Policy*. 2. Defining, updating and implementing the Strategy. 3. Update of *TAURON Group's Strategic Research Agenda*. 4. Adaptation of TAURON Group's Investment Strategy to the guidelines stemming from *TAURON Group's Climate Policy* and Investment Strategy. 5. Update and implementation of *TAURON Group's sustainable development strategy*.

Risk name	Risk description	Risk trend and materiality	Response to risk
	need to adapt the company to the challenges of change resulting from the climate change). The implications of the risk include: difficulties or increase in the cost of raising capital to finance operations based on the fossil fuels, the need to incur additional capital expenditures for adapting the assets to the environmental requirements, an increase of the price of the CO_2 emission allowances, declining demand for the products offered by TAURON Capital Group's subsidiaries.		
Technology, infrastructure and security (safety)			
12. Environmental risk	Risk related to the impact of the business operations conducted on the natural environment and the use of its resources, including, in particular, the loss of control over the process that would enable the prevention of excessive pollution, damage, disruption or failures of the installations or equipment that would have a negative impact on the environment. The risk also related to the possibility of: lack of the validity of environmental decisions, depositing waste in places not intended for such purpose or not in accordance with the conditions of the use of the facilities intended for such a purpose, the occurrence of a crisis situation (e.g. fire, displacement of earth masses, extreme conditions), the use of the waste not in accordance with the authorized destination (intended use), the lack of the appropriate safeguards limiting the negative impact of TAURON Capital Group's operations on the environment, release of the hazardous substances into the environment, social protests. The implications of the risk include: degradation of the natural environment and penalties for a failure to comply with environmental requirements, the need to remove such substances, the curtailment of the production, delays in the implementation of the investment projects, pollution of water sources in a way that would prevent their use, destruction of a habitat, object or valuable natural area - environmental compensation, restrictions on a further expansion of the business operations, a loss of the image of TAURON Capital Group, limitation of the ability to use the financial assistance programs. The risk also includes an increase in the environmental requirements due to the tightening of the EU's climate policy.	→	1. Adoption and implementation of *TAURON Group's Environmental Policy.* 2. Conducting business operations that affect the environment in accordance with the principles of the sustainable development. 3. Ongoing supervision over compliance with the conditions of the environmental decisions. 4. Maintaining the required efficiency of the devices reducing the emission of pollutants. 5. Frequent evaluation of the compliance of the activities with the legal requirements with respect to environment protection. 6. Implementing investment projects in the environment protection area in order to minimize the adverse impact of the mining and processing operations conducted on the environment and climate. 7. Active search for the technical and organizational solutions that would minimize the impact of TAURON Capital Group's operations on the climate change.
13. Weather risk	Risk related to the more frequent occurrence of the weather anomalies, including relatively high temperatures in winter, higher rainfall intensity that can cause floods at any time of the year, uneven precipitation, resulting in longer periods of no rainfall, intermittent abrupt rainfall, and the intensification of the evaporation processes, increased frequency and intensity of the hurricanes, strong winds incidentally accompanied by tornadoes and lightnings, more frequent occurrence of droughts and restrictions in access to water related thereto, as well as an increased risk of fires, a very high risk of weakening of the stands, making trees more susceptible to the damage caused by the wind. The implications of the risk include, in particular: a decrease of the volume of electricity and heat supply, a decline of the production volume, the deterioration of the quality indicators and an impact on the regulated revenue.	→	1. Upgrading (refurbishing) the hydroelectric structures aimed at optimizing the utilization of the water resources. 2. Preparing of the plans of overhauls, inspections and maintenance activities with flexible provisions on deadlines for completing the works. 3. Continuous monitoring of the wind conditions and icing on the wind farms' blades. 4. Continuous technical oversight over the operation of the individual wind farms, conducted by the companies operating the farms. 5. Monitoring and analyzing new technological solutions that reduce the impact of the adverse weather conditions on the volume of the electricity generated. 6. Gradual adaptation of the production assets to the consequences of the extreme weather conditions and the variability of the weather conditions, in particular in the Lines of Business sensitive to these factors.

Risk name	Risk description	Risk trend and materiality	Response to risk
14. Company asset failure risk	Risk related to the machinery and equipment failures, distribution grid failures (electricity, heat) caused, among others, by the operation thereof, but also by random events including those related to the extreme weather conditions (storms, floods, hurricane winds, heat waves, fires) as a consequence of, among others, the climate change. The materialization of the risk affects the availability of the assets and results in downtime related to the asset failures, increased costs of the rectification thereof. In addition, it may also be a failure to meet the capacity obligation, resulting in the need to conclude transactions on the secondary market or the payment of the financial penalties to the TSO (PSE).	➔ ■	1. Optimizing capital expenditures on asset replacements, ongoing monitoring of the condition of the machines, devices and installations. 2. Raising professional qualifications and work culture of the personnel by organizing courses and training. 3. Responding to an emergency situation by the technical personnel and automatic process safety interlocks (safeguards). 4. Insuring assets against fortuitous events (excluding underground assets). 5. Introducing IT tools with respect to improving the monitoring and managing failure indicators (ratios). 6. Continuous monitoring of the availability (dispatchability) of the generation units and the demand reduction, as well as shifting the capacity obligations that require reserving to the dedicated intra-group reserve units or external entities. 7. Updating the activities related to the handling of the group reserve, with particular emphasis on the analyses of the functioning of the secondary market starting from January 2021. 8. Updating TAURON Capital Group's maintenance (overhaul) shutdowns (outages). 9. Gradual adaptation of the production assets to the consequences of the extreme weather phenomena and the variability of the weather conditions, in particular in the Distribution Line of Business.
15. IT risk	Risks related to the IT infrastructure security, failures of the IT infrastructure.	➔ ■	1. Developing and maintaining plans aimed at ensuring continuity of the IT infrastructure's operation. 2. Periodic identifying and categorizing of the IT resources based on the service restoration targets. 3. Use of the IT solutions with the appropriate technical parameters, providing an acceptable level of reliability and performance of the operation (including also UPS devices, GSM modem, mobile phones). 4. Planning and conducting training courses on the IT infrastructure's continuity of operation and security. 5. Storing and protecting the back-up data.
16. Asset (property) security and protection risk	Risk related to compromising the integrity of machines / devices and to the security of information, including its improper processing and unauthorized disclosure.	➔ ■	1. Monitoring the implementation of the developed plans to protect the facilities that are subject to mandatory protection. 2. Maintaining and updating contingency procedures / plans. 3. Oversight over compliance with the information security rules in force 4. Regular personnel training with respect to the security procedures in force.
17. Geological risk	Risk related to the impact of geological factors on the mining operations	➔ ■	1. Making test drillings for the better intelligence on the positioning of the coal deposits. 2. Continuing to take preventive measures in areas under threat in order to improve the geological and mining conditions and to provide protection against natural threats (including, among others, long-drilled blasting hole shooting in order to break the rock mass)
Workforce and organizational culture			
Social dispute risk	Risk related to collective disputes, strikes, social conflicts being the consequence of a lack of the personnel's satisfaction with the economic and social situation.	➔ ■	1. Conducting public consultations regarding the planned changes. 2. Conducting a policy of dialogue with the social partners (workforce). 3. Preparing and implementing motivational solutions for the personnel. 4. Standardizing the tasks and requirements towards the personnel. 5. Developing organizational culture based on values. 6. Conducting active internal communications on personnel matters
18. Human resources risk	Risk related to the employee issues, including also diversity, participation, employment and labor conditions, relations with the trade unions and respect for the right to freedom of association, human capital management, career path and recruitment management, training systems, health and safety at work as well as, in the long run, the need to restructure employment due to the climate change, forcing a change in the profile of the business operations. The materialization of the risk may result in interruptions or disruptions to the operations, employee complaints, collective disputes, strikes, loss of specialized staff and difficulties in replacing it.	➔ ■	1. Adoption and implementation of *TAURON Group's Subsidiaries Employee Recruitment, Selection and Adaptation Policy.* Adoption and implementation of *TAURON Group's Policy of Compliance with the Principles of Ethics and Counteracting Mobbing and Discrimination.* 2. Taking care of developing personnel competences through the participation in the training courses 3. Conducting consultations with the social organizations at TAURON Capital Group 4. Implementation of the human resources policy based on *TAURON Group's Competence Model* and the applicable remuneration and labor law regulations (Compensation Regulations, Company Collective Bargaining Agreement, Labor Regulations). 5. Adoption and implementation of *TAURON Group's Diversity Policy* and *TAURON Group's Respect for Human Rights Policy.*

Risk name	Risk description	Risk trend and materiality	Response to risk
19. Risk of the lack of the employees' due diligence	Risk related to non-compliance with the procedures and the lack of the employees' due diligence in the performance of the official duties.	→	1. Implementation of *TAURON Group's Subsidiaries Employee Recruitment, Selection and Adaptation Policy*, 2. Systematic periodic employee training, 3. Analysis of the recurring cases of errors and mistakes of the employees, taking systemic remedial actions. 4. Implementation of the Internal Control (Audit) System and the control (audit) mechanisms for the processes conducted in TAURON Capital Group.
20. Pandemic risk	Risks related to the persistence of the pandemic disrupting Poland's economic system and administration and causing significant changes in the market environment, impacting the operating conditions of TAURON Capital Group's subsidiaries. The increase in the number of infection cases leads to the curtailment of the economic activity, affecting the level of demand for the products offered by TAURON Capital Group's subsidiaries, including, in particular, the electricity distribution and supply volumes.	→	1. Monitoring the state (condition) of the epidemiological threat (risk) at TAURON Capital Group. 2. Collecting information on the threats and identification of the potential threats to the safety of the workforce of TAURON Capital Group's subsidiaries. 3. Developing and recommending solutions aimed at reducing the level of threat to the resources of TAURON Capital Group. 4. Ongoing monitoring of the risk related to the availability of the employees and services provided by TAURON Capital Group's subsidiaries. 5. Recommending solutions aimed at curbing the effects of the materialization of the threat to the resources of TAURON Capital Group. 6. Preparing and providing opinions (feedback) on the content of the messages to be disseminated at the level of TAURON Capital Group and the Company. 7. Use of the screening tests. 8. Preparing of the contingency plans in the event of the loss of key employees of TAURON Capital Group. 9. Developing backup business continuity plans. 10. Undertaking trading activities in order to balance the buy position on an ongoing basis in relation to the observed drops in the volume of electricity sales. 11. Taking advantage of market opportunities to hedge the position in the Generation Line of Business (buy-backs) 12. Taking advantage of the anti-crisis shield mechanisms. 13. Increasing the frequency of monitoring the overdue accounts receivable. 14. Introducing additional guidelines with respect to taking credit risk and extending the scope of the customer financial condition examination (vetting). 15. Introduction of a mechanism for monitoring and curbing spending.
21. Work Health and Safety (WHS) Risk	Risk related to ensuring health and safety at work. The materialization of the risk results in an employee injury, a loss of health or excessive exposure of an employee to factors harmful to health, the compensation paid out for personal injury.	→	1. Prioritizing safety of the employees, customers, contractors and stakeholders in the business activities undertaken. 2. Adoption and implementation of *TAURON Group's WHS Policy,* 3. Ensuring optimal labor conditions, 4. Conducting active monitoring of the working conditions and the correctness of its organization, 5. Raising the employees' qualifications with respect to improving work safety, 6. Conducting training courses, implementing and improving the WHS management system
22. Communications risk	Risk related to providing inaccurate, untrue information or a lack of information disclosure at specific time.	→	1. Building relationships with the social partners (workforce) of TAURON Capital Group and close cooperation with the Social Dialogue Ombudsman. 2. Use and development of the available communications tools to provide relevant information to the employees of TAURON Capital Group. 3. When providing the relevant information – organizing the direct meetings between the management and the employees. 4. Ongoing monitoring of the situation and events at TAURON Capital Group's subsidiaries that may cause social anxiety. 5. Regular periodic meetings with the representatives of the subsidiaries dealing with the internal communications in order to exchange information. 6. Developing the Communications Strategy for TAURON Capital Group
Compliance			
24. Internal fraud risk	Risk related to the appropriation or use of the Company's assets, its devastation, theft, the use of the official position for personal gain resulting in the financial losses, criminal and administrative sanctions, criminal and civil law liability.	→	1. Educational and training activities for the employees, including the mandatory e-learning training with respect to the TAURON Group's Compliance Management System. 2. Effective use of the abuse (fraud) reporting (whistleblowing) system in the organization. 3. Conducting of the investigative probes by the Compliance Officer or Compliance Coordinators. 4. Building the organizational culture based on TAURON Capital Group's values and principles.

Risk name	Risk description	Risk trend and materiality	Response to risk
			5. Adoption and implementation of *TAURON Group's Anti-Corruption Policy, TAURON Group's Corporate Social Responsibility Code of Conduct and TAURON Group's Rules for accepting and giving gifts.*
25. External fraud risk	Risk related to the occurrence of an external fraud (abuse) that affects the operations of TAURON Capital Group through: disclosure of information to unauthorized persons, loss of information, commercial espionage, terrorist attack and hacker attacks, tax fraud, theft, vandalism, counterfeiting, money laundering, terrorist attack.	→	1. Raising the employees' awareness through training and information campaigns related to the existing threats of external fraud (abuse). 2. Adoption and implementation of the *Code of Conduct for Contractors (Counterparties) of TAURON Group's Subsidiaries.* 3. Introduction of the anti-corruption clauses to the contracts with the contractors (counterparties). 4. Adoption and implementation of *TAURON Group's Anti-Corruption Policy.* 5. Effective use of the abuse (fraud) reporting (whistleblowing) system in the organization 6. Monitoring of the cooperation with the contractors (counterparties) and testing their credibility at TAURON Capital Group 7. Promoting of the best practices, improving the procedures, conducting training courses and applying *TAURON Group's Corporate Social Responsibility Code of Conduct* and the functioning of the abuse (fraud) reporting (whistleblowing) system. 8. Building the organizational culture based on TAURON Capital Group's values and principles.
26. Risk of unethical behavior and mobbing	Risk related to the occurrence of unethical behavior resulting, in particular, in the lack of cooperation, bad atmosphere in the team, mobbing, harassment, insulting, discrimination of the employees.	→	1. Adoption and implementation of *TAURON Group's Respect for Human Rights Policy, TAURON Group's Policy of Compliance with the Principles of Ethics and Counteracting Mobbing and Discrimination, TAURON Group's Anti-Corruption Policy* and *TAURON Group's Rules for accepting and giving gifts* 2. Effective use of the abuse (fraud) reporting (whistleblowing) system in the organization. 3. Conducting of the investigative probes by the Compliance Officer or Compliance Coordinators with respect to the anonymous reports of mobbing and discrimination. 4. Reviewing of the reports of mobbing or discrimination by the Ethics Committee. 5. Promoting of the best practices, improving the procedures, conducting training courses and applying *TAURON Group's Corporate Social Responsibility Code of Conduct* and the functioning of the abuse (fraud) reporting (whistleblowing) system. 6. Building the organizational culture based on TAURON Capital Group's values and principles.
27. Legal risk	Risk related to non-compliance with the legal provisions, misinterpretation of the new laws and regulations, the requirements imposed by the regulator and the supervisory authorities. The materialization of the risk may result in the financial penalties, criminal and civil law liability, a loss of the image of TAURON Capital Group.	→	1. Adoption and implementation of *TAURON Group's Compliance Policy.* 2. Continuous monitoring of the legal environment and changes to the legal regulations with respect to the non-sector based regulations related to information security or the area of compliance in order to minimize the risk of non-compliance. 3. Monitoring of the implementation process or implementing of the changes to the internal regulations required by the law. 4. Setting up or participating in the working groups tasked with adapting the organizations to the changes stemming from the legal environment. 5. Consultations with the relevant organizational units with respect to the planned key regulations for the area of compliance. 6. Training of the personnel with respect to the changes to the legal regulations and the internal regulations.
28. Risk of a breach of the contractual provisions (default)	Risk related to a breach of the contractual provisions with respect to the contract parameters or a failure to perform the contract (default).	→	1. Updating and adapting the contract templates to the legal changes. 2. Monitoring of the complaints and proceedings of the Energy Regulatory Office (URE) / Office of Competition and Consumer Protection (UOKiK). 3. Process optimization.
29. Personal data protection risk	Risk related to inadequate storing and processing of personal data resulting in an undesirable leak or violation of the rights of data subjects related to personal data protection	→	1. Identifying and implementing the appropriate technical or organizational measures to ensure the adequate level of security of personal data. 2. Monitoring the compliance with the legal regulations related to personal data protection. 3. Raising the level of awareness of the workforce with respect to personal data protection, in accordance with the applicable regulations. 4. Defining and implementing the process of handling the data subjects' requests in accordance with the regulations and process documentation in force at TAURON Capital Group.

Risk name	Risk description	Risk trend and materiality	Response to risk
			5. Providing information and advice on personal data protection to the employees of the organization.
Customers and counterparties (business partners, contractors)			
30. Customer service risk	Risk related to non-compliance with the customer service standards leading to customer dissatisfaction with the service, customer complaints, loss of customers.	→ 🟨	1. Monitoring and analyzing the external customer satisfaction indicators and the indicators related to the complaints. 2. Taking the additional measures, e.g. with respect to the internal regulations, defining standards of conduct as a result of the analysis of indicators. 3. Taking the additional measures, e.g. introducing new internal regulations, in order to improve the customer service standards. 4. Developing the key account managers' competences and skills. 5. Continuous raising of the customer service standards.
31. Risk related to performance of agreements by contractors and subcontractors	Risk related to the improper performance by the contractors and subcontractors of the works commissioned, the termination of the agreement and delays, changes to the budget and scope related thereto.	→ 🟩	1. Concluding of the agreements with the contractors and subcontractors in accordance with TAURON Capital Group's standards. 2. Analyzing the performance of the subject of the agreement, examining the quality of services provided by the contractors and subcontractors. 3. Evaluating the financial standing and credibility of the contractors and the subcontractors.
32. Volume and margin risk	Risk related to the decline in the volume of the sales of the products offered by TAURON Capital Group's subsidiaries, in particular as a result of the development of the energy efficiency solutions, building insulation, prosumer development (growth), the impact of the climate factors causing a significant temperature deviation from the planned values. The implications of the risk include, first of all, the loss of revenue in the individual operating segments of TAURON Capital Group due to the reduced demand.	→ 🟥	1. Ongoing updating of the offering, launching of the sales of the multi-package type products. 2. Conducting the marketing campaigns, acquiring new customers. 3. Taking actions focused on retaining the existing customers and recovering the lost ones.
33. Purchasing process risk	Risk related to the purchasing proceedings conducted, their erroneous implementation, an unplanned increase of the purchase costs, including the methods used to prevent violations of the human rights by the business partners, counteracting corruption and abuse (fraud) in the purchasing process and compliance with the ethical and moral standards during the implementation thereof. The materialization of the risk results in unfavorable purchase agreements, the need to cancel the tender procedures, a loss of the image of TAURON Capital Group and its credibility with the stakeholders.	→ 🟨	1. Adoption and implementation of the *Code of Conduct for Contractors (Counterparties) of TAURON Group's subsidiaries.* 2. Adoption and implementation of *TAURON Group's Anti-Corruption Policy* and *TAURON Group's Respect for Human Rights Policy.* 3. Standardization of the rules of conducting the proceedings in the purchasing process and the transparency thereof. 4. Building lasting relationships with the contractors (counterparties) based on trust and mutual respect. 5. Expecting the contractors (counterparties) to comply with the legal provisions, ethical standards and good commercial practices, including the work health and safety standards, the principles of countering discrimination and unequal treatment, respect for human rights and dignity of the employees, transparent personnel policy, environment protection, fair competition, preventing and combating fraud, and information security and protection. 6. Application of the contract forms (templates) and standard clauses in the contracts regarding compliance with the human rights by the business partners of TAURON Capital Group.
Regulations			
34. Regulatory risk	Risk related to the change of the existing regulations or the introduction of the new regulations that affect the operations of TAURON Capital Group and the need to adapt to the regulatory changes, in particular those resulting from a significant increase in the requirements of a specific regulation, including the environmental requirements stemming from the climate change, the support for the pro-climate activities (prosumer development, thermal insulation, development of in-house production sources). The implications of the risk are primarily: the loss of revenues in the individual operating segments of TAURON Capital Group, the increase in the operating expenses as a result of the need to adapt to the legislative changes.	↗ 🟥	1. Ongoing analysis of the draft regulations and acts. 2. Active participation in the works of the teams providing opinions on the drafts and proposing optimal solutions. 3. Gradual adaptation of the generation assets and the energy mix of TAURON Capital Group to the production of renewable energy as well as to the zero and low-emission electricity generation technologies.

🟩 Low materiality 🟨 Moderate materiality 🟧 Medium materiality 🟥 High materiality

3.5. Risk classification in the individual operating Segments

Mining Segment

The Mining segment, in particular with respect to the hard coal mining, is exposed to a number of risk factors, the materialization of which significantly hinders or completely reduces the mining capacity at the individual coal mines. The most material operational risks include:

1. risk of adverse geological and mining conditions characterized by e.g. unfavorable positioning of the coal deposits in the coal seam, faults, or excessive presence of the rocks (stone),
2. risk of the lack of the timely commissioning of the coal faces involving the lack of the preparation of the mining fronts (headings) adequately in advance,
3. risk of asset failures leading to the coal mining downtime, due to the occurrence of the machinery and equipment failures,
4. risk of the occurrence of natural geological and mining threats leading to the coal mining downtime, caused by the rock bursts, endogenous fires, presence of methane in the deposit, too much water inflow**.**

The material risks in the Mining Segment also include threats stemming from the regulatory environment, including the gradual introduction of the new environmental requirements tightening the emission standards for the coal fired power plants, which will result in a decline of the demand for coal with low quality parameters.

The Mining Segment will also be materially affected by the climate policy that assumes a departure from the coal based generation technology in order to reduce pollution and achieve climate neutrality in the EU in the long term, which will, in effect, lead to the need to gradually phase out coal production. The level of demand for hard coal is also impacted by the issues related to the volume of electricity imported to Poland, observed in recent years, as well as the situation associated with the COVID-19 pandemic and the decrease in demand in the Polish Power System (KSE). In addition, the withdrawal of the financial institutions from financing of the assets based on the fossil fuels has been intensifying recently, which results in the curtailment of the possibilities of financing the new investment projects in the Mining Segment.

Generation Segment

The Generation Segment is exposed, in particular, to the market risk, regulatory risk as well as the technical and organizational risks that will have a significant impact on the Segment's results in the coming years.

As part of the market risk, the material risk factors include: the gradually declining CDS margin and the plans to integrate the European electricity market (increase in the electricity imports). In addition, the development of renewable energy technologies (RES) and the ever growing share of RES in meeting the demand for electricity have a material impact on the Generation Line of Business, leading to the pushing of the conventional generating units out of the market. Also, the electricity imports and the introduction of the new coal fired capacity into the system, with the efficiency much higher than the efficiency of the 200 MW units, means that the use of such generating units in the Generation Segment will be declining.

With respect to the operational factors, the most material threat is the risk of not achieving the planned availability (dispatchability) rate of the units, which is closely related to the individual units' failure rate, high variability of the units' loads and the higher frequency of start-ups or the use of inadequate quality fuel.

A failure to meet the planned availability rate of the units may also result in the inability to meet the capacity obligation, which, if it is not possible to reserve capacity, may result in the assessing of penalties on the Generation Segment's subsidiaries.

The Generation Segment's operations are also materially impacted by the climate factors, including the EU's climate policy, that assumes the ultimate departure from the coal fired generation technology in order to reduce pollution, which, as a consequence, will cause a drop in the profitability of this operating segment. In addition, the climate factors may lead to an increase of the average temperature during the year, causing, in turn, the reduction of the revenue from the heat supply. Furthermore, the withdrawal of the financial institutions from financing of the assets based on the fossil fuels has been intensifying recently, which results in the curtailment of the possibilities of financing the new investment projects in the Generation Segment.

Currently the material risk factors include the rising price of the CO_2 emission allowances price, presently continuing to stay at the level above 50 EUR/EUA. A further increase of the CO_2 emission allowances price will lead to the decline or will cause a lack of the profitability of electricity production with the use of the fossil fuels.

In the long term, the regulatory risks, including the further tightening of the environmental requirements, will lead to the need to carry out the transition of the Generation Segment, both in terms of the technical, as well as the social aspects.

RES Segment

The RES segment is exposed, in particular, to the market risks, risks related to the weather factors affecting the volume of electricity generation, in particular hydro, wind and solar based, and the regulatory risks, the impact of which significantly affects the results of the RES Segment and its expansion opportunities.

The volume of electricity produced by the hydropower plants is dependent on the hydrological conditions, including the quantity and frequency of rainfall both in winter as well as during the rest of the year. Warm winters are reported more and more often, without sufficient snowfall which melts in the spring and feeds watercourses where hydro power plants are located. In case of wind and photovoltaic energy, we are observing greater predictability of the volume produced, and thus the stability of achieving the planned production volumes. The market risk related to the high volatility of the prices of electricity and related products has an equally significant impact on the earnings of the RES Segment, which translates into the amount of margin obtained on the operations conducted.

It should be noted as well that the results of the RES Segment are also impacted by the efficiency rates of the assets and the risk of its failure related thereto, and thus the temporary outages of some assets from use.

Taking into account the RES Segment's expansion opportunities and expectations, including those stemming from the climate policy, the regulatory restrictions related, in particular, to the construction of the new wind farms, as well as uncertainty with respect to the taxation of the RES assets, should be noted.

Distribution Segment

One of the most important threats to the Distribution Segment is the distribution services sales volume risk related to the electricity supply volume decline, and, as a consequence, the fluctuations of the revenue from the provision of the distribution services for the individual groups of consumers. The material reasons behind this risk include both the macroeconomic factors, i.e. a decline of the demand for electricity due to the economic slowdown, the epidemiological situation and the COVID-19 impact, as well as the factors stemming from the climate issues, i.e. an increase in the consumer awareness with respect to reducing energy consumption intensity and the rapid growth of the prosumer energy.

An equally material risk is associated with the occurrence of an unfavorable deviation of the operating expenses resulting in the costs of the operations, and in particular the operating expenses and the costs of purchasing electricity to cover the balancing difference, not being covered by the tariff during the tariff period.

With respect to the operational factors, a material risk for the Distribution Segment is the risk of an asset failure, i.e. the risk related to maintaining the availability of the transmission networks (systems) and the costs of fixing the failures resulting from, among others, the climate changes leading to an increase in the frequency and intensity of the hurricanes, strong winds incidentally accompanied by tornadoes and lightnings causing failures of the distribution grids.

In the medium and long term, the material risks for the Distribution Segment include the risk of an adverse change in the structure and parameters determining the tariff amount (the factors behind this risk include, among others, the WACC rate, the amount of the capital expenditures, the balancing difference indicators and the amount of the transmission fees), the issues related to the compliance with the distribution's quality indicators that have an impact on the regulated revenue and the change to the distribution tariff model.

Supply Segment

In the Supply Segment, TAURON Capital Group identifies and manages the risks related to the supply of electricity to the final consumers, including the key customers (volume risk per individual customer segment, margin risk, profile risk and the risk of non-balancing).

A material threat to the accomplishment of the Supply Segment's assumed goals is the volume risk related to the non-achievement of the assumed electricity supply volume. The reasons behind this risk stem from such factors as: the competitive environment, the macroeconomic factors, i.e. a drop of the demand for electricity caused by the economic slowdown, the restrictions due to COVID-19 and the volatility of the electricity prices. In addition, this risk is fueled by the increased customer awareness, the trend to strengthen consumer protection and the regulatory pressure to reduce the price hikes.

At the same time, the Supply Segment is facing the market risk due to the high volatility of the electricity, gas and related products prices. Such a risk, as a consequence of the price fluctuations, as well as the observed liquidity of the electricity market, affects the margin obtained due to the steps required to hedge the cost of the electricity supply.

A material threat (risk) to the Supply Line of Business is also posed by the credit risk understood as a failure of the counterparties (contractors) to meet their obligations arising from the electricity and gas sales.

The most important regulatory risks in the Supply Segment include the tariff risk, in particular the risk related to the curbing of the Company's costs by the President of the Energy Regulatory Office (ERO) to the level of the justified costs and the costs actually incurred not being covered by the tariff for the given year. The consequences of the materialization of such risk include the curtailment of the planned revenue, profitability and the funds for the development of the company's potential. A material regulatory risk is also posed by the introduced and announced changes in the functioning of the balancing market, which may affect the costs of balancing the changes in the supply volume to the customers of the Supply Line of Business.

In the long run, the climate factors, and in particular the rapid expansion of the prosumer energy, pose a threat to the stability (predictability) of achieving the Supply Segment's goals. The risk of the prosumer market growth is associated with an increase in the electricity production from the micro-installations, resulting in an increase of the costs of serving the prosumers, as well as a loss of the supply volume and the planned margin on electricity supply.

Other Operations

Other organizational units that are a part of TAURON Capital Group are primarily providing the support services for the above mentioned Segments. The main risks that are present in the Other Operations segment are related to ensuring the availability and security of the IT services, the broadly understood compliance management, personal data protection, as well as security and protection of property.

At TAURON Capital Group's level, the material threats affecting the entire value chain of TAURON Capital Group include the risk of financing arising due to the gradual withdrawal of the financial institutions from financing of the activities based on the fossil fuels, the regulatory and political issues related in particular to the environment and climate protection issues, the risks associated with the human resources management and the workforce expectations with respect to the growth of wages, as well as the pending court litigations against TAURON.

With respect to the regulatory risk, attention should be paid to the recently emerged trend towards the tightening of the EU climate policy, related to a greater reduction of the CO_2 emissions and the support for the RES related investment projects, which leads to an increase in the variability in terms of the national sector related regulations, and this, in turn, translates into an increase in the number of regulatory risks of strategic importance for TAURON Capital Group.

Risk category map

The below table presents the classification of risks based on TAURON Capital Group's operating segments. The risk categories indicated below are consistent with the Risk Model adopted by TAURON Capital Group described in section 3.2. of this report.

Table no. 12. Classification of risks based on TAURON Capital Group's operating segments

Risk	Term			Operating segment[1]					
	Short	Medium	Long	Mining Segment	Generation Segment	RES Segment	Distribution Segment	Supply Segment	Other operations
1. Market risk	x	x	x	3	5	5	3	5	0
2. Interest rate risk	x	x	x	2	2	2	4	2	3
3. FX rate risk	x	x	x	1	3	3	2	0	3
4. Liquidity risk	x	x	x	4	3	2	2	2	2
5. Financial risk	x	x	x	5	5	3	3	3	3
6. Tax risk	x			3	3	3	3	3	3
7. Credit risk	x	x		1	1	1	3	4	1
8. Reputational risk	x	x	x	1	1	1	2	2	1
9. License risk	x	x	x	3	3	3	3	3	0
10. Macroeconomic risk	x	x	x	4	4	3	4	4	2
11. Climate change risk	x	x	x	5	5	4	4	4	4
12. Environmental risk	x			2	2	2	1	0	0
13. Weather risk	x			1	3	3	3	2	0
14. Company asset failure risk	x			4	4	3	4	0	1
15. IT/OT risk	x			3	3	2	3	3	4

Risk	Term			Operating segment[1]					
	Short	Medium	Long	Mining Segment	Generation Segment	RES Segment	Distribution Segment	Supply Segment	Other operations
16. Asset (property) security and protection risk	x			2	3	2	3	1	2
17. Geological risk	x			5	0	0	0	0	0
18. Social dispute risk	x			4	4	2	4	3	3
19. Human resources risk	x	x		3	3	1	3	2	2
20. Risk of the lack of the employees' due diligence	x			2	2	2	2	2	2
21. Pandemic risk	x	x	x	4	4	3	4	2	3
22. Work Health and Safety (WHS) Risk	x			3	3	2	3	1	1
23. Communications risk	x			2	2	1	2	2	2
24. Internal fraud risk	x			2	2	2	2	2	2
25. External fraud risk	x			3	3	3	3	3	3
26. Risk of unethical behavior and mobbing	x			2	2	2	2	2	2
27. Legal risk	x			3	3	2	3	3	2
28. Risk of a breach of the contractual provisions (default)	x			2	2	2	2	2	2
29. Personal data protection risk	x			2	2	2	3	3	3
30. Customer service risk	x			1	1	0	3	3	1
31. Risk related to performance of agreements by contractors and subcontractors	x			2	2	2	2	1	2
32. Volume and margin risk	x	x		5	4	4	4	4	2
33. Purchasing process risk	x			2	2	2	3	1	2
34. Regulatory risk	x	x	x	5	5	3	4	4	2

[1]values signifying the impact of the individual risks on TAURON Capital Group's operating segments: 0 - neutral, 1 – immaterial on the Company's level, 2 - material on the Company's level, 3 - serious on the Company's level, 4 – material on TAURON Capital Group's level, 5 – serious (severe) on TAURON Capital Group's level

4. ANALYSIS OF THE FINANCIAL POSITION AND ASSETS OF TAURON POLSKA ENERGIA S.A.

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

The below table presents selected financial data of TAURON Capital Group and TAURON Polska Energia S.A.

Table no. 13. Selected financial data of TAURON Capital Group and TAURON Polska Energia S.A.

Selected consolidated financial data of TAURON Capital Group

Selected financial data	in PLN '000		in EUR '000	
	2021 period from 01.01.2021 to 30.06.2021	2020 period from 01.01.2020 to 30.06.2020 (adjusted data)	2021 period from 01.01.2021 to 30.06.2021	2020 period from 01.01.2020 to 30.06.2020 (adjusted data)
Sales revenue	11 866 381	10 186 778	2 609 602	2 293 648
Operating profit	730 580	597 685	160 666	134 574
Pre-tax profit	596 688	352 475	131 221	79 363
Net profit	381 965	27 046	84 000	6 090
Net profit attributable to shareholders of the parent company	355 959	28 082	78 281	6 323
Net profit (loss) attributable to non-controlling shares	26 006	(1 036)	5 719	(233)
Other total net income	146 764	(190 755)	32 276	(42 950)
Total comprehensive income	528 729	(163 709)	116 276	(36 860)
Total comprehensive income attributable to shareholders of the parent company	502 635	(162 528)	110 538	(36 594)
Total comprehensive income attributable to non-controlling shares	26 094	(1 181)	5 738	(266)
Profit per share (in PLN/EUR) (basic and diluted)	0,20	0,02	0,04	0,00
Weighted average number of shares (in pcs) (basic and diluted)	1 752 549 394	1 752 549 394	1 752 549 394	1 752 549 394
Net cash flows from operating activities	2 569 859	2 523 280	565 152	568 140
Net cash flows from investing activities	(1 596 135)	(2 158 988)	(351 015)	(486 116)
Net cash flows from financing activities	(1 333 162)	(963 214)	(293 183)	(216 877)
Increase/(decrease) in net cash and equivalents	(359 438)	(598 922)	(79 046)	(134 853)
	As of 30.06.2021	As of 31.12.2020 (adjusted data)	As of 30.06.2021	As of 31.12.2020 (adjusted data)
Fixed assets	32 504 864	33 584 959	7 190 069	7 277 663
Current assets	6 013 593	6 111 252	1 330 206	1 324 272
Total assets	38 518 457	39 696 211	8 520 275	8 601 935
Share capital	8 762 747	8 762 747	1 938 318	1 898 836
Equity attributable to shareholders of the parent company	16 336 078	15 833 523	3 613 537	3 431 031
Equity attributable to non-controlling shares	915 901	893 623	202 597	193 643
Total equity	17 251 979	16 727 146	3 816 134	3 624 674
Long term liabilities	14 542 576	15 865 877	3 216 815	3 438 042
Short term liabilities	6 723 902	7 103 188	1 487 326	1 539 219
Total liabilities	21 266 478	22 969 065	4 704 141	4 977 261

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

Selected financial data	in PLN '000		in EUR '000	
	2021 period from 01.01.2021 to 30.06.2021	2020 period from 01.01.2020 to 30.06.2020	2021 period from 01.01.2021 to 30.06.2021	2020 period from 01.01.2020 to 30.06.2020
Sales revenue	7 475 727	5 206 920	1 644 029	1 172 386
Operating profit (loss)	(51 449)	65 550	(11 314)	14 759
Pre-tax profit (loss)	601 854	(1 658 904)	132 357	(373 518)
Net profit (loss)	568 790	(1 617 532)	125 086	(364 202)
Other total net income	118 371	(107 340)	26 032	(24 169)
Total comprehensive income	687 161	(1 724 872)	151 118	(388 371)
Profit (loss) per share (in PLN/EUR) (basic and diluted)	0.32	(0.92)	0.07	(0.21)
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	654 539	742 272	143 943	167 129
Net cash flows from investing activities	838 600	(1 115 763)	184 421	(251 224)
Net cash flows from financing activities	(1 306 832)	(998 056)	(287 393)	(224 722)
Increase/(decrease) in net cash and equivalents	186 307	(1 371 547)	40 971	(308 817)
	As of 30.06.2021	As of 31.12.2020 (adjusted data)	As of 30.06.2021	As of 31.12.2020 (adjusted data)
Fixed assets	26 030 123	25 202 812	5 757 858	5 461 301
Current assets	3 775 112	3 843 923	835 054	832 956
Total assets	29 805 235	29 046 735	6 592 912	6 294 257
Share capital	8 762 747	8 762 747	1 938 318	1 898 836
Equity	12 148 909	11 461 748	2 687 336	2 483 694
Long term liabilities	11 749 058	13 074 803	2 598 889	2 833 233
Short term liabilities	5 907 268	4 510 184	1 306 687	977 330
Total liabilities	17 656 326	17 584 987	3 905 576	3 810 563

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

1. individual items of the statement of financial position - at the average NBP exchange rate announced on June 30, 2021 - PLN/EUR 4.5208 (as of December 31, 2020 - PLN/EUR 4.6148),
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, 2021, to June 30, 2021 - PLN/EUR 4.5472 (for the period from January 1, 2020, to June 30, 2020: PLN/EUR 4.4413).

4.2. Key operating data of TAURON Capital Group

The below table presents the key operating data posted by TAURON Capital Group in the first half of 2020 and in the first half of 2021.

Table no. 14. Key operating data posted by TAURON Capital Group in the first half of 2020 and in the first half of 2021

Item	Unit	H1 2020	H1 2021	Change in % 2021/2020
Commercial coal production	Mg m	2.49	2.70	108%
Electricity generation (gross production)	TWh	5.87	7.73	132%
including generation of electricity from renewable sources	TWh	1.00	0.89	89%
Production from biomass	*TWh*	*0.24*	*0.22*	92%
Production of hydroelectric power plants and wind farms	*TWh*	*0.75*	*0.66*	88%

Item	Unit	H1 2020	H1 2021	Change in % 2021/2020
Heat generation	PJ	6.70	7.22	108%
Electricity distribution	TWh	24.60	26.76	109%
Electricity supply	TWh	21.70	22.53	104%
retail supply	*TWh*	15.99	16.63	104%
wholesale	*TWh*	5.71	5.89	103%
Number of customers - Distribution	'000	5 693	5 741	101%

4.3. Sales structure by the Segments of operations (Lines of Business)

The below table presents TAURON Capital Group's sales volumes and structure broken down into individual Segments of operations (lines of business) in the first half of 2020 and in the first half of 2021.

Table no. 15. TAURON Capital Group's sales volumes and structure broken down into individual Segments of operations (lines of business) in the first half of 2020 and in the first half of 2021

Item	Unit	H1 2020	H1 2021	Change in % 2021/2020
Mining Segment's hard coal sales	Mg m	1.88	2.35	125%
Generation Segment's electricity and heat sales	TWh	5.22	8.62	165%
	PJ	8.41	9.13	109%
RES Segment's electricity sales	TWh	0.75	0.66	88%
Distribution Segment's distribution services sales	TWh	24.60	26.76	109%
Supply Segment's retail electricity supply	TWh	15.98	16.62	104%

Mining Segment

The core business operations conducted by TAURON Capital Group's Mining segment comprise mining, separation (cleaning) and sales of hard coal, as well as the sales of methane as accompanying fossil from the Brzeszcze deposit.

TAURON Capital Group is operating three coal mines: Sobieski Coal Mine (ZG Sobieski), Janina Coal Mine (ZG Janina) and Brzeszcze Coal Mine (ZG Brzeszcze). The above mentioned coal mines are the producers of the hard coal offered for sale on the market as large size lump coal, medium size lump coal and thermal coal dust.

The hard coal sales volume reached 2.35 million Mg in the first half of 2021, which was higher than in the same period of 2020. Coal sales within TAURON Capital Group came in at 1.69 million Mg, which meant that 72% of the coal produced was sold to TAURON Capital Group's subsidiaries, while the balance of the sales was placed on the external market.

Commercial coal production stood at 2.70 million Mg in the first half of 2021, i.e. it was 8% higher than in the same period of 2020. The higher output is the result of the higher coal production thanks to the more favorable configuration of the longwalls at the Sobieski Coal Mine (ZG Sobieski) and the Janina Coal Mine (ZG Janina), as well as the smaller number of coal extraction faces (longwalls) at the Brzeszcze Coal Mine (ZG Brzeszcze).

Generation Segment

The core operations conducted by TAURON Capital Group's Generation Segment comprise electricity and heat generation by the hard coal and biomass fired power plants.

Total achievable capacity of the Generation Segment's generating units reached 4.5 GW of electric capacity and 2.2 GW of thermal capacity as of the end of June 2021.

In the first half of 2021 the Generation Segment produced 7.1 TWh of electricity, i.e. 38% more than last year (5.1 TWh), which was mainly due to the operation of the 910 MW unit in Jaworzno, commissioned in November 2020.

The production of the biomass burning units came in at 0.22 TWh, i.e. 8% less than last year (0.24 TWh).

Supply of electricity from in-house production plus electricity purchased for trading clocked in at 8.6 TWh in the first half of 2021, which meant a 65% rise in relation to the same period of 2020 (the effect of the sales of electricity produced by the 910 MW unit in Jaworzno).

Heat sales reached 9.1 PJ in the first half of 2021, i.e. 9% more as compared to the same period of 2020, which was a consequence of the higher demand from the consumers due to the lower outdoor temperature year on year.

49% of the Generation Segment's subsidiaries' demand for hard coal to be used to generate electricity and heat was covered with the hard coal coming from TAURON Capital Group's own coal mines in the first half of 2021. 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 as well as wind and photovoltaic (solar) farms.

Total achievable capacity of the RES Segment's generating units reached 519 MW of electric capacity as of the end of June 2021 and it was 11 MW higher than in the same period of 2020. The above mentioned increase is a consequence of the commissioning of the photovoltaic (solar) farms in Jaworzno and Choszczno.

The RES Segment produced 0.66 TWh of electricity in the first half of 2021, i.e. 12% less as compared to last year (0.75 TWh), which was due to the favorable wind conditions that prevailed in the first quarter of 2020.

Distribution Segment

TAURON Capital Group is Poland's largest electricity distributor, both in terms of the volume of electricity delivered, as well as the revenue from the distribution operations. The Distribution Segment is operating large area distribution grids, located in the south of Poland.

The Distribution Segment delivered, in total, 26.76 TWh of electricity, including 25.94 TWh to the final consumers, in the first half of 2021. During this period the Distribution Segment provided the distribution services for 5.74 million consumers. In the same period of 2020 the Distribution Segment delivered, in total, 24.60 TWh of electricity to 5.69 million consumers, including 23.86 TWh to the final consumers.

Supply Segment

The Supply Segment is conducting its operations on the domestic and foreign markets, comprising wholesale trading and retail supply of electricity and natural gas, as well as the related products, property rights arising from the certificates of origin of electricity, CO_2 emission allowances and fuels. The Supply Segment is supplying electricity to the business and mass customer segments, including households. Additionally, the Supply Segment supplies electricity to the TAURON Dystrybucja subsidiary to cover grid losses related to electricity distribution.

In the first half of 2021 the Supply Segment subsidiaries supplied, in total, 16.62 TWh of retail electricity, i.e. 4% more than in the same period of 2020, to 5.6 million customers, both households, as well as businesses.

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 KW (Kopalnia Wapienia – Limestone Mine) 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 559 million in the first half of 2021, which was higher by 4% than the revenue posted in the same period of 2020, with the main reason being the higher sales of the by-products of the combustion and extraction processes as well as the support services provided by the Shared Service Centers (CUW) to TAURON Capital Group's subsidiaries.

4.4. TAURON Capital Group's financial position after H1 2021

Analysis of the financial position

The below table presents an analysis of TAURON Capital Group's financial position as of December 31, 2020, and June 30, 2021.

Table no. 16. Structure of TAURON Capital Group's interim abbreviated consolidated statement of the financial position as of December 31, 2020, and June 30, 2021

Consolidated statement of the financial position	As of December 31, 2020	As of June 30, 2020	Change in % 2021/2020
ASSETS			
Fixed assets	84,6%	84,4%	100%
Current assets	15,4%	15,6%	102%
TOTAL ASSETS	**100,0%**	**100,0%**	
EQUITY AND LIABILITIES			
Equity attributable to shareholders of the parent company	**39,9%**	**42,4%**	**106%**
Non-controlling shares	2,3%	2,4%	106%
Total equity	**42,1%**	**44,8%**	**106%**
Long term liabilities	40,0%	37,8%	94%
Short term liabilities	17,9%	17,5%	98%
Total liabilities	**57,9%**	**55,2%**	**95%**
TOTAL EQUITY AND LIABILITIES	**100,0%**	**100,0%**	
Financial liabilities	11 515 975	10 290 758	89%
Net financial liabilities	10 567 908	9 732 506	92%
Net debt/EBITDA ratio	2,5x	2,06x	82%
Current liquidity ratio	0,86	0,89	104%

Fixed assets represent 84.4% of total assets in the structure of assets, as of June 30, 2021, which means a 0.2% decline as compared to their share as of the end of 2020.

The share of current assets, as of June 30, 2021, as compared to their share as of the end of 2020, rose by 2%.

Liabilities represent 55.2% of total equity and liabilities in the structure of equity and liabilities, as of June 30, 2021, with the long term liabilities accounting for 37.8% and the short term liabilities constituting 17.5% of the balance sheet total, which means a change of the debt structure versus the end of 2020, when such shares were, respectively: 40.0% and 17.9%.

Net financial liabilities declined by 11% in the first half of 2021 as compared to the balance sheet date of December 31, 2020, while the net debt dropped by 8% over the same period. Taking into account the fact that the rolling EBITDA was higher by 25% than the EBITDA reported as of June 30, 2020, the net debt to EBITDA ratio was lower and stood at 2.06x (the ratio expressed in relation to EBITDA for the trailing 12 months). The maximum level of the covenant (net debt to EBITDA ratio) specified in some contracts concluded between the Company and the financial institutions is not less than 3.5x. Exceeding it could potentially trigger an immediate repayment of TAURON's obligations. Due to the upward trend of this ratio observed in 2020, TAURON undertook a number of initiatives in the same year, aimed at reducing the risk of exceeding the ratio limit, including, among others, caps (limits) on capital expenditures for TAURON Capital Group's individual subsidiaries were introduced and options that could have a positive impact on EBITDA were identified. One of the factors that had a positive impact on the rolling 2021 EBITDA was a transaction that was a consequence of the restructuring of the CO2 emissions allowances in Nowe Jaworzno Grupa TAURON's portfolio and the resale of the allowances purchased in December 202 for the purpose of the redemption thereof, constituting the surplus in connection with the delay in the commissioning of the 910 MW unit.

Consolidated statement of comprehensive income

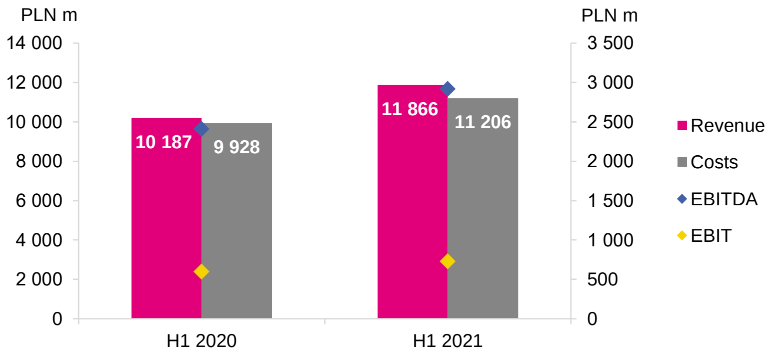
The below table presents selected items of the consolidated statement of comprehensive income of TAURON Capital Group for the period of 6 months ended on June 30, 2021, as well as the comparable data for the period of 6 months ended on June 30, 2020. These items are provided in accordance with the *Interim abbreviated* *consolidated financial statements of TAURON Polska Energia S.A. Capital Group, drawn up in compliance with the International Financial Reporting Standards, approved by the European Union, for the period of 6 months ended on June 30, 2021.*

Table no. 17. TAURON Capital Group's interim abbreviated consolidated statement of comprehensive income for the first half of 2020 and for the first half of 2021

Item (PLN '000)	H1 2020 (unaudited)	H1 2021 (adjusted data)	Change in % 2021/2020
Sales revenue	10 186 778	11 866 381	116%
Cost of goods sold	(9 928 003)	(11 205 542)	113%
Other operating revenue and costs	297 996	47 441	16%
Share in joint ventures' profits	40 914	22 300	55%
Operating profit	**597 685**	**730 580**	**122%**
Operating profit margin (%)	*5,9%*	*6,2%*	*105%*
Cost of interest on debt	(145 609)	(185 596)	127%
Other financial revenue and costs	(99 601)	51 704	-52%
Pre-tax profit	**352 475**	**596 688**	**169%**
Pre-tax profit margin (%)	*3,5%*	*5,0%*	145%
Income tax	(325 429)	(214 723)	66%
Net profit for the period	**27 046**	**381 965**	1 412%
Net profit margin (%)	*0,3%*	*3,2%*	1 212%
Total comprehensive income for the period	**(163 709)**	**528 729**	**-323%**
Profit attributable to:			
Shareholders of the parent entity	28 082	355 959	1 268%
Non-controlling shares	(1 036)	26 006	-2 510%
EBIT and EBITDA			
EBIT	**597 685**	**730 580**	**122%**
EBITDA	**2 407 727**	**2 918 650**	**121%**

The below figure presents TAURON Capital Group's financial results for the first half of 2020 and for the first half of 2021.

Figure no. 23. TAURON Capital Group's financial results for the first half of 2020 and for the first half of 2021



TAURON Capital Group generated 16% higher revenue in the first half of 2021 than the revenue reported in the same period of 2020, which was a consequence of the impact of the following factors:

1. higher electricity sales revenue, which is a consequence of the higher retail supply volume (both in the business segment as well as in the mass customer segment) and the higher electricity prices obtained mainly on the balancing market,
2. revenue obtained from the capacity market service - in connection with the performance, by TAURON Capital Group's subsidiaries, that are the providers of capacity for PSE, of the capacity obligation performed by the Capacity Market units that are a part of TAURON Capital Group,

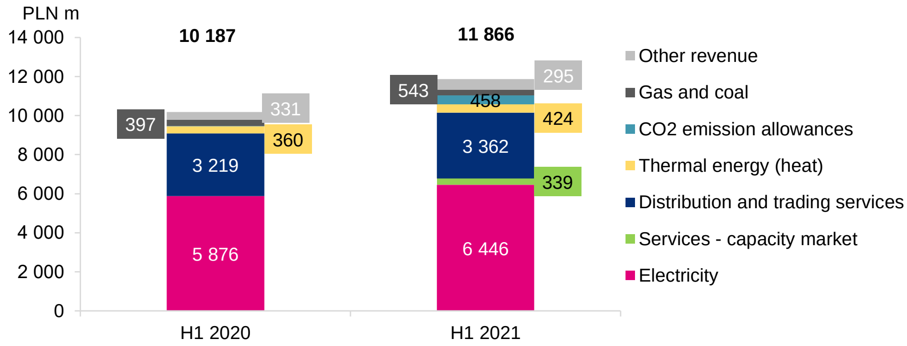
3. higher distribution and trading services sales revenue as a consequence of the higher distribution service volume and the decline of the tariff for the year 2021,
4. higher thermal energy (heat) sales revenue in connection with the sales of the higher volume, as a consequence of lower temperatures year on year and the higher thermal energy (heat) sales prices obtained,
5. higher gas sales revenue mainly due to the higher volume sales as a consequence of lower temperatures year on year and obtaining of the new customers,
6. higher hard coal sales revenue which is the result of the sales of the higher volume and obtaining of the lower sales prices.

In addition, in the first quarter of 2021, TAURON Capital Group obtained revenues from the sale of the CO_2 emission allowances which is a consequence of:

1. completed restructuring of the CO_2 emission allowances in the amount of 3 258 000 EUAs in Nowe Jaworzno Grupa TAURON's portfolio. As a result of the completed analysis of the new premises and circumstances, the Company changed its intentions regarding the above mentioned CO_2 emission allowances and decided to roll them over along with the conclusion of the new contracts with the delivery dates in March 2022, 2023 and 2024. In connection with the fact that the original contracts were not settled (cleared) based on the physical delivery and therefore the Company recognized (booked) the contracts in accordance with *IFRS 9 Financial Instruments* at fair value at the date of the change of judgment, i.e. in March 2021, and then recognized (booked) the result of the settlement (clearing) of the instruments, which led to an increase of the sales revenue and the operating result in the amount of PLN 303 945 000 (i.e. EUR 65 893 000). New contracted transactions with an execution date in the years 2022-2024 are excluded from the scope of IFRS 9 *Financial Instruments* and are not marked at fair value. At the same time, these transactions were made at prices higher than the originally contracted purchase, which will lead to an increase of the costs,
2. market sale of the CO_2 emission allowances in the quantity of 691 000 EUAs that constituted a surplus above the redemption needs of the subsidiary for 2020 due to the delay of the commissioning of the 910 MW unit.

The below figure presents TAURON Capital Group's revenue structure for the first half of 2020 and for the first half of 2021.

Figure no. 24. TAURON Capital Group's revenue structure for the first half of 2020 and for the first half of 2021



The costs of TAURON Capital Group's operations (operating expenses) came in at PLN 11.2 billion in the first half of 2021, i.e. they were 13% higher than the costs incurred in the same period of 2020, which was a consequence of the following factors:

1. higher depreciation costs, mainly as a result of an increase in the value of the assets of TAURON Capital Group as a consequence of commissioning the 910 MW unit in Jaworzno at the end of 2020 and other investment projects related to the assets of TAURON Capital Group underway, mainly in the distribution line of business,
2. higher value of the impairment charges (write-downs) related to the non-financial fixed assets, which is the result of the asset impairment tests carried out as of June 30, 2021, which demonstrated the legitimacy of recognizing (booking) the write-downs in an amount higher than in the same period of 2020,
3. higher costs of the materials and energy consumption, mainly as a result of the higher costs of the heating oil consumption and the other variable production costs due to the higher electricity and heat production and the higher price of the raw material price,
4. higher costs of the repair (overhauls) and maintenance services due to the greater scope of works to be performed with respect to the mining, heating and renewable energy assets and the higher rates for the services provided,
5. lower costs of the distribution services, which is due to a decrease of the tariff for the distribution services for PSE, which is primarily related to the drop of the quality based fee,
6. higher costs of the other external services, mainly as a result of an increase of the costs of waste management and the transportation services as well as an increase in the number of the longwall mining, headings (workings) maintenance, longwall headings (coal faces) liquidation services and more subcontracting services due to the increased demand for the services related to meter replacements, their re-legalization, the illegal electricity consumption control (inspection) services, as well as the services related to electricity supply interruption and

restart. In addition, the increase in the cost position is due to the increased scope of the external services provided in connection with the commissioning of the 910 MW unit in Jaworzno at the end of 2020,

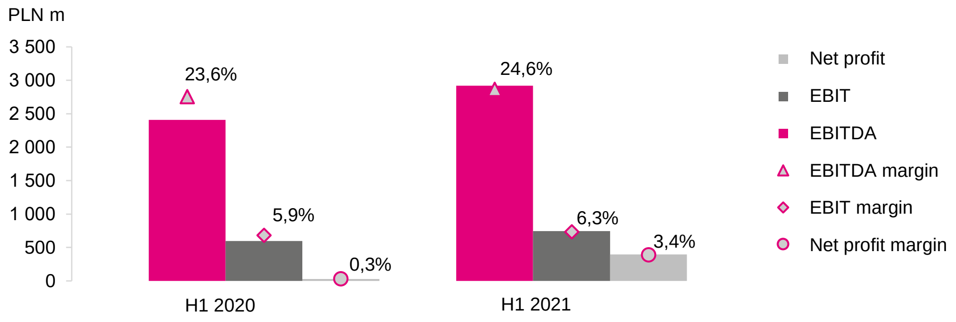
7. higher costs of the greenhouse gas emission allowances, which is the result of an increase in the price of the allowances and the higher CO_2 emissions by the generating units due to the higher production of electricity from the conventional sources,
8. higher costs of employee benefits, which is the result of:
    1) recognition in the costs of the first half of 2020 of the effects of the dissolution of the actuarial provisions by TAURON Capital Group's subsidiaries in connection with the amendment to the provisions of the corporate collective bargaining agreements of the subsidiaries with respect to the payout of a cash equivalent for the discounted use of electricity by the current employees of TAURON Capital Group who acquired the rights to the tariff upon retirement or upon receiving a disability pension and other entitled persons,
    2) reduction of the working time in accordance with the signed agreement with the workforce, as a consequence of the COVID-19 pandemic,
    3) change in the discount rate from 1.5% to 1.7% in 2021, which led to the change of the costs of the actuarial provisions with respect to the years of service anniversary related bonuses for the employees,
    4) increase of the minimum wage in 2021,
    5) 1% lower headcount at TAURON Capital Group's subsidiaries,
9. lower costs of the impairment charges (write-downs) related to the accounts receivable, which is a consequence of the recognition (booking) of the elevated impairment charges (write-down) in the first half of 2020 due to the uncertainty with respect to the financial standing of TAURON Capital Group's counterparties in connection with the restrictions introduced as a consequence of the COVID-19 pandemic,
10. higher costs by type related to the insurance of the 910 MW unit in Jaworzno whose costs were recognized (booked) as a capital expenditure related to the investment project underway in the first half of 2020,
11. a decrease of the change in the hard coal inventory levels as well as in the prepayments and accruals mainly as a result of the lower, than in the same period of 2020, allocation of the volume of hard coal inventories at TAURON Wydobycie and the Generation Subsidiaries as a result of the higher volume of electricity production, the lower hard coal production unit cost as well as the higher coal production at TAURON Wydobycie's coal mines,
12. lower value of the costs of services for the in-house needs, which is mainly due to the recognition (booking) in the first half of 2020 of a part of the operating costs (opex) of the 910 MW unit in Jaworzno as a capital expenditure (capex) in connection with its start-up,
13. higher costs of electricity sold, mainly due to the increase in the electricity purchase price year on year. In addition, in the first half of 2020, this reporting item included the effect of a one off transaction involving a swap of the power exchange contracts with the delivery date in December 2020 for the OTC contracts with the delivery date in March 2021. The decision on the change of the strategy was made taking into account the current market circumstances, difficult to predict at the time of the conclusion of the transaction. Such circumstances include, in particular, the growing costs of maintaining a position (exposure) on the power exchange, which was related to, inter alia, the need to make ongoing contributions to the power exchange deposits (margin payment calls), a change in the legal and market circumstances with respect to the trading in the CO_2 emission allowances related to Brexit and the COVID-19 pandemic. Implementing the above change in the strategy, the Company resold the futures position (exposure) with the delivery date in December 2020 held on the power exchange (it entered into an opposite transaction on the power exchange), while at the same time purchasing the same volume in the contracts with the delivery date in March 2021 from the counterparties on the OTC market.

The EBITDA margin on the continued and discontinued operations generated in the first half of 2021 came in at 24.6% and it was higher than the margin posted in the same period of 2020 by 1.0 pp. The EBIT margin clocked in at 6.3% and it was higher by 0.4 pp than the margin achieved in the same period of 2020, while the net profit margin stood at 3.4% and it was higher by 3.1 pp. The higher EBITDA, EBIT and net profit margin realized is mainly due to the completion, in the first quarter of 2021, of the sale of the CO_2 emission allowances, which constituted a surplus above TAURON Capital Group's redemption needs for 2020 due to the delay in the commissioning of the 910 MW unit in Jaworzno.

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 545 million in the first half of 2021, as compared to PLN (164) million generated in the same period of 2020. The total income attributable to the shareholders of the parent company came in at PLN 519 million, as compared to PLN (163) million posted a year ago, while the net profit attributable to the shareholders of the parent company stood at PLN 372 million, as compared to PLN 28 million posted in the same period of 2020.

The below figure presents TAURON Capital Group's financial results and the margins generated in the first half of 2020 and in the first half of 2021.

Figure no. 25. TAURON Capital Group's financial results and the margins generated in the first half of 2020 and in the first half of 2021



Financial results by the Segments of operations (lines of business)

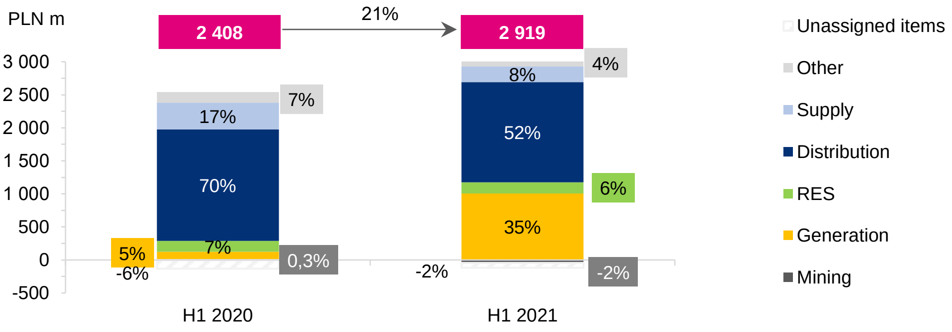
The below table presents TAURON Capital Group's EBITDA by the individual Segments of operations (lines of business) in the first half of 2020 and in the first half of 2021. The data for the individual Segments of operations do not include the consolidation related exclusions.

Table no. 18. TAURON Capital Group's EBITDA by the individual Segments of operations (lines of business) in the first half of 2020 and in the first half of 2021

EBITDA (PLN '000)	H1 2020	H1 2021	Change in % 2021/2020
Mining	6 779	(45 427)	-670%
Generation	118 022	1 008 224	854%
RES	163 565	167 017	102%
Distribution	1 688 701	1 518 791	90%
Supply	402 904	236 529	59%
Other operations	162 376	105 678	65%
Unassigned items and exclusions	(134 620)	(72 162)	54%
Total EBITDA	**2 407 727**	**2 918 650**	**121%**

The below figure presents TAURON Capital Group's EBITDA structure in the first half of 2020 and in the first half of 2021.

Figure no. 26. TAURON Capital Group's EBITDA structure in the first half of 2020 and in the first half of 2021



The Distribution Segment and the Generation Segment make the biggest contributions to TAURON Capital Group's EBITDA in the first half of 2021.

Mining Segment

The below table presents the Mining Segment's results for the first half of 2020 and for the first half of 2021.

Table no. 19. Mining Segment's results for the first half of 2020 and for the first half of 2021

Item (PLN '000)	H1 2020	H1 2021	Change in % 2021/2020
Sales revenue	**502 971**	**580 003**	**115%**
hard coal – large and medium size lump coal	*126 173*	*128 886*	*102%*
thermal coal	*347 708*	*420 448*	*121%*
other products, materials and services	*36 099*	*30 657*	*85%*
EBIT	**-271 305**	**-320 836**	**118%**
Depreciation and impairment charges	278 084	275 409	99%
EBITDA	**6 779**	**-45 427**	**-**

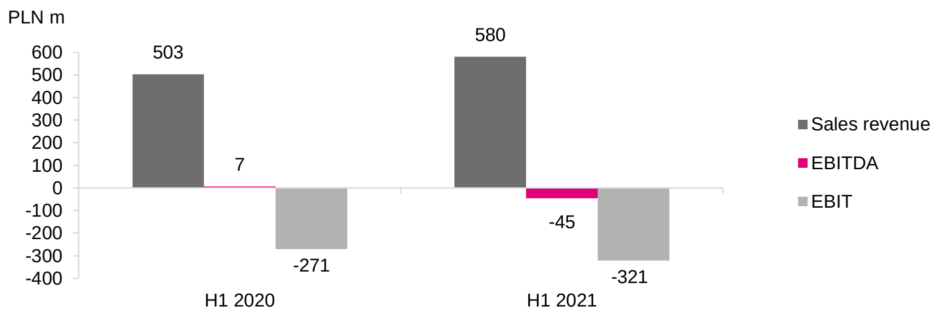
The Mining Segment's EBITDA and EBIT were lower in the first half of 2021 than in the same period of 2020. The results posted were impacted by the following factors:

1. an increase in the volume of coal sales by 25%, mainly due to the higher coal production,
2. a decrease of the average coal price by 7%, which was due to the difficult situation on the market caused by price turmoil stemming from the reduction of the prices on the domestic market,
3. receipt of the financing aid as part of the government anti-crisis shield package program – the 2020 effect,
4. other - mainly the lower, than in the previous period, allocation of the costs to the balance sheet due to the placement of the coal surplus on the heaps.

In addition, the EBIT result was affected by the lower depreciation than in the same period of 2020 and the higher impairment charge (write-down). In the first half of 2021, TAURON Capital Group recognized (booked) in its earnings the setting up of the impairment charges (write-downs) due to the impairment of the carrying amount of the cash generating units (CGUs) that are a part of the Mining Segment, whose total impact on the Segment's operating profit was PLN 185 million.

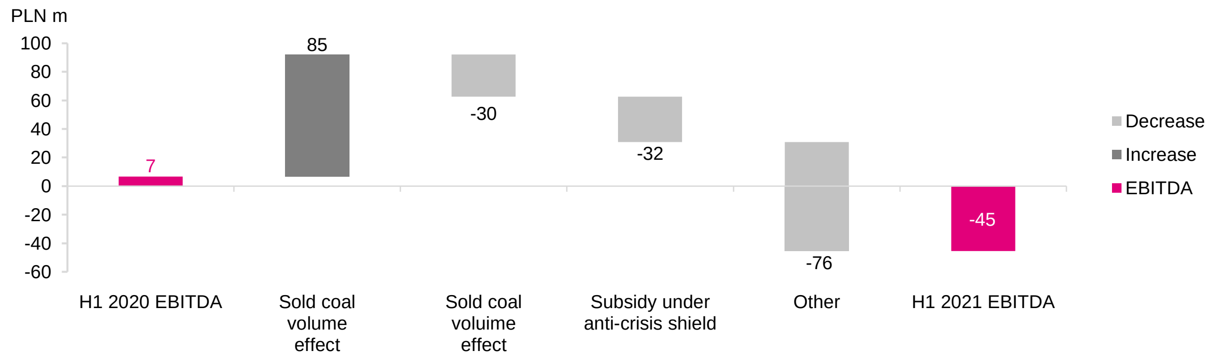
The below figure presents the Mining Segment's financial data for the first half of 2020 and for the first half of 2021.

Figure no. 27. Mining Segment's financial data for the first half of 2020 and for the first half of 2021



The below figure presents the Mining Segment's EBITDA, including the material factors impacting the change year on year.

Figure no. 28. Mining Segment's EBITDA, including the material factors impacting the change year on year.



Generation Segment

The below table presents the Generation Segment's results for the first half of 2020 and for the first half of 2021.

Table no. 20. Generation Segment's results for the first half of 2020 and for the first half of 2021

Item (PLN '000)	H1 2020	H1 2021	Change in % 2021/2020
Sales revenue	**2 079 158**	**4 058 969**	**195%**
electricity	*1 510 554*	*2 620 391*	*173%*
heat	*473 308*	*554 391*	*117%*
property rights related to certificates of origin of electricity	*71 061*	*90 225*	*127%*
services – capacity market	*-*	*334 572*	*-*
greenhouse gas emission allowances	*-*	*438 647*	*-*
other	*24 235*	*20 743*	*86%*
EBIT	**-697 295**	**-158 999**	**-**
Depreciation and impairment charges	815 317	1 167 223	143%
EBITDA	**118 022**	**1 008 224**	**854%**

The Generation Segment's sales revenue in the first half of 2021 was higher by 95% as compared to the same period of 2020, mainly due to the higher electricity sales revenue (higher sales volume), higher heat sales revenue, as well as obtaining revenue from the capacity market and from the sale of the CO_2 emission allowances.

The Generation segment's EBITDA and EBIT results were higher in the first half of 2021 than in the same period of 2020. The results posted were affected by the following factors:

1. commencement of the Capacity Market's operations starting from January 1, 2021,
2. Operational Capacity Reserve and Cold Intervention Reserve, that were the sources of revenue for TAURON Wytwarzanie in 2020, not included in the catalog of the system services starting from 2021,
3. commissioning of the 910 MW unit in Jaworzno in November 2020 (margin generated on the electricity sales in the first half of 2021),
4. completion of the transactions related to the CO_2 emission allowances:

   1) due to the delay of the commissioning of the 910 MW unit in Jaworzno and, as a consequence thereof, the lower production output, a significant surplus of the allowances contracted for the purpose of fulfilling the redemption obligation for 2020 above the actual requirement arose in Nowe Jaworzno Group TAURON's portfolio. As a consequence, TAURON Capital Group carried out the following transactions in March 2021:

      a) restructuring of the above mentioned portfolio of the CO_2 emission allowances with respect to the volume of 3 258 000 of the EUAs with the collection date in March 2021. As a result of the completed analysis of the new premises and circumstances, the Company changed its intentions regarding the above mentioned CO_2 emission allowances and took the decision to roll them over along with the conclusion of the new contracts with the delivery dates in March 2022, 2023 and 2024. At the same time, those transactions were completed at the prices that were higher than the originally contracted purchase, and as a consequence they will lead to an increase of the costs of setting up a provision by TAURON Capital Group for the liabilities related to the CO_2 emissions for 2021 and the subsequent financial years. As a result of the above TAURON Capital Group estimates that the total impact of the restructuring on the operating results thereof in the years 2021-2023 will not be significant,
      b) resale of the CO_2 emission allowances held in the quantity of 691 000 EUAs that also constituted a surplus above the redemption needs of the subsidiary for 2020 due to the delay of the commissioning of the 910 MW unit,

   2) in the first quarter of 2020 TAURON Capital Group made a decision to change the hedging strategy related to securing the Generation Segment's redemption needs, involving a one off swap of the exchange traded contracts with the delivery date in December 2020 to the 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. Such circumstances included in particular the rising costs of maintaining a position (exposure) on the power exchange, which was related to, among others, the need to make ongoing margin payments, a change of the legal and market circumstances in the area of trading in the CO_2 emission allowances related to Brexit and the COVID-19 pandemic. Implementing the above mentioned strategy change, the Company resold the futures position (exposure) with the delivery date in December 2020 held on the power exchange (it entered into an opposite transaction on the power

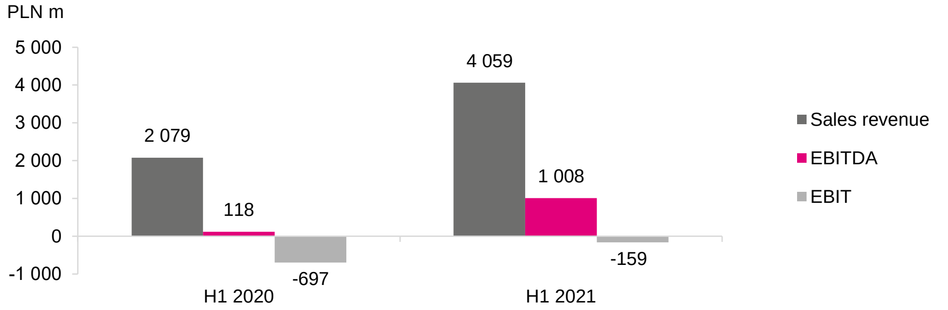
exchange), while at the same time purchasing the same volume in the contracts with the delivery date in March 2021 from the counterparties on the OTC market.

In addition, the EBIT result was affected by the booking of the impairment charges (write-downs).

In the first half of 2021, TAURON Capital Group recognized (booked) in its earnings the setting up of the impairment charges (write-downs) due to the impairment of the carrying amount of the cash generating units (CGUs) that are a part of the Generation Segment, whose total impact on the Segment's operating profit was PLN 938 million.

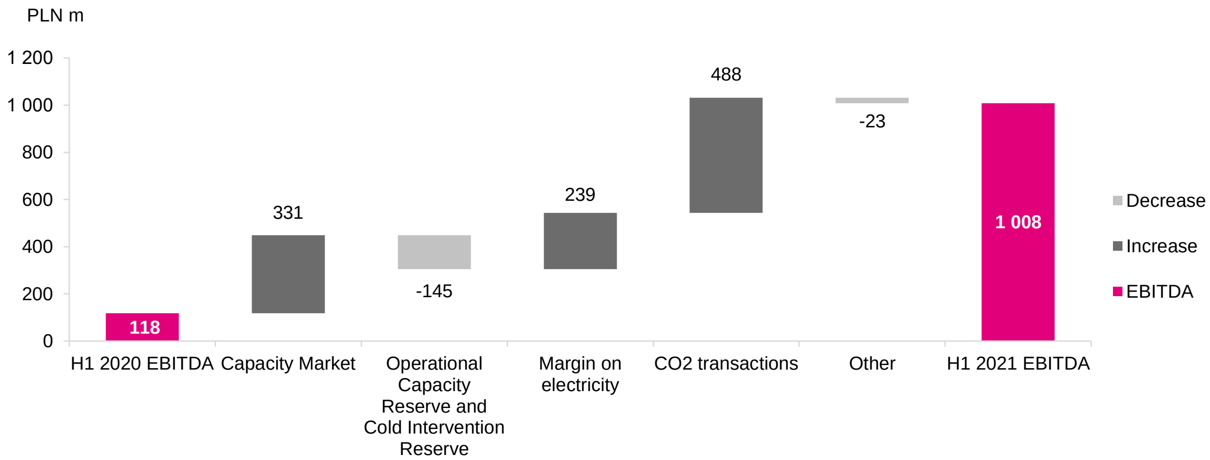
The below figure presents the Generation Segment's financial data for the first half of 2020 and for the first half of 2021.

Figure no. 29. Generation Segment's financial data for the first half of 2020 and for the first half of 2021



The below figure presents the Generation Segment's EBITDA, including the material factors impacting the change year on year.

Figure no. 30. Generation Segment's EBITDA, including the material factors impacting the change year on year



RES Segment

The below table presents the RES Segment's results for the first half of 2020 and for the first half of 2021.

Table no. 21. RES Segment's results for the first half of 2020 and for the first half of 2021

Item (PLN '000)	H1 2020	H1 2021	Change in % 2021/2020
Sales revenue	**349 022**	**308 375**	**88%**
Electricity	*155 772*	*169 972*	*109%*
Certificates of origin of electricity	*191 801*	*129 052*	*67%*
Other	*1 449*	*9 351*	*645%*
EBIT	**88 083**	**88 957**	**101%**
Depreciation and impairment charges	75 482	78 060	103%
EBITDA	**163 565**	**167 017**	**102%**

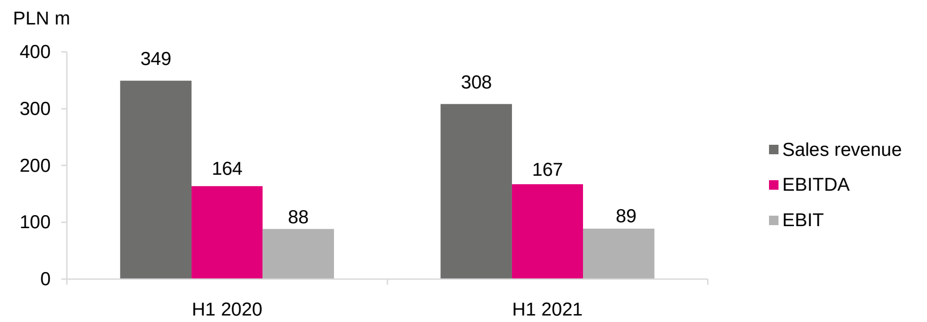
The RES segment's EBITDA and EBIT results were higher in the first half of 2021 as compared to the same period of 2020. The results posted were affected by the following factors:

1. a higher margin on electricity sales, mainly due to the higher electricity sales price, the higher production output by the hydroelectric power plants which was partly offset by the lower production output by the wind farms,

2. lower revenue from the certificates of origin of electricity, which is a consequence of the lack of the support in 2021 for the hydroelectric power plants and the Zagórze wind farm in accordance with the provisions of the energy law, the lower production volume by the other wind farms as compared to the production outputs achieved in the first half of 2020. The above mentioned factors were partially offset by obtaining of the higher revenues due to the increase in the price of the property rights, which took place in the second quarter of 2021,
3. commencement of the Capacity Market's operations starting from 2021 and obtaining of the revenue from it,
4. lower fixed costs as a result of booking (including) as a part of the fixed costs, in June 2020, of the provision for the real estate tax as a result of the judgement of the Constitutional Tribunal of July 2020 with respect to the constitutionality of the definition of a building structure.

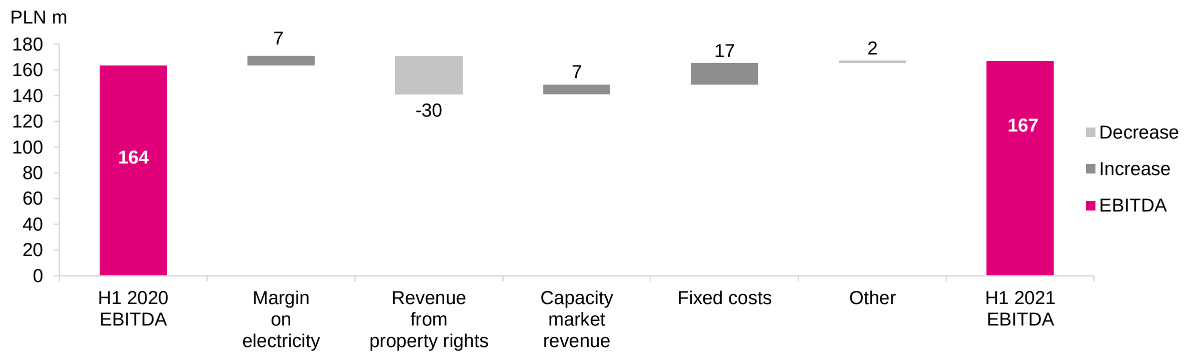
The below figure presents the RES Segment's financial data for the first half of 2020 and for the first half of 2021.

Figure no. 31. RES Segment's financial data for the first half of 2020 and for the first half of 2021



The below figure presents the RES Segment's EBITDA, including the material factors impacting the change year on year.

Figure no. 32. Segment's EBITDA, including the material factors impacting the change year on year



Distribution Segment

The below figure presents the Distribution Segment's results for the first half of 2020 and for the first half of 2021.

Table no. 22. Distribution Segment's results for the first half of 2020 and for the first half of 2021

Item (PLN '000)	H1 2020	H1 2021	Change in % 2021/2020
Sales revenue	**3 558 554**	**3 519 245**	105%
distribution services	*3 231 569*	*3 360 844*	*104%*
grid connection fees	*34 694*	*38 912*	*112%*
power line collisions	*11 528*	*35 758*	*310%*
other revenue	*80 763*	*83 731*	*104%*
EBIT	**1 115 446**	**923 993**	**83%**
Depreciation and impairment charges	573 255	594 798	104%
EBITDA	**1 688 701**	**1 518 791**	**90%**

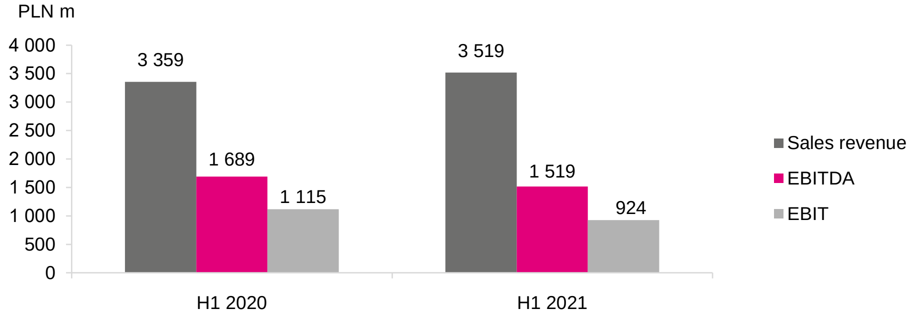
The Distribution Segment reported a 5% sales revenue increase, while EBIT and EBITDA went down by, respectively, 17% and 10% in the first half of 2021, as compared to the same period of 2020. The results posted were affected by the following factors:

1. a decrease of the average rate for the distribution service sales to the final consumers,

2. an increase of the total electricity delivery by 2.2 TWh, including to the final consumers by 2.1 TWh, first of all in the G and A as well as G tariff groups, as a result of the increase of the production of the goods in all of the sectors of the economy as compared to the year ago, the launching of the successive technological processes as well as the periodic outages of the generating units at the key consumers'.
3. lower costs of purchasing the transmission services as a consequence of the lower variable grid fee and the quality based fee rates,
4. an increase of the other distribution revenue, mainly due to the excessive passive energy consumption, the power line collisions and excessive (above the contracted value) power consumption,
5. a decrease of the costs of purchasing electricity to cover the balancing difference as a result of the lower volume, the lower purchase price and an increase of the upward adjustment value,
6. dissolution (release), in 2020, of the provision for the payment of the equivalent for electricity.

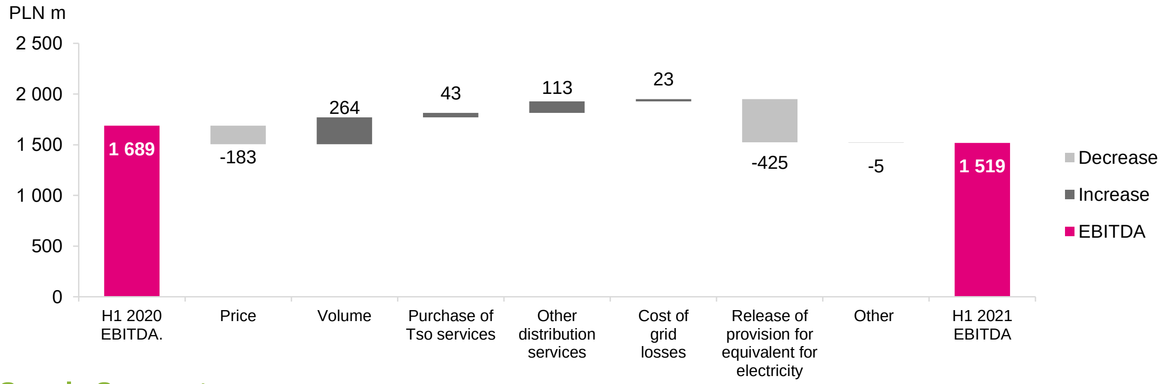
The below figure presents the Distribution Segment's financial data for the first half of 2020 and for the first half of 2021.

Figure no. 33. Distribution Segment's financial data for the first half of 2020 and for the first half of 2021.



The below figure presents the Distribution Segment's EBITDA, including the material factors impacting the change year on year.

Figure no. 34. Distribution Segment's EBITDA, including the material factors impacting the change year on year



Supply Segment

The below figure presents the Supply Segment's results for the first half of 2020 and for the first half of 2021.

Table no. 23. Supply Segment's results for the first half of 2020 and for the first half of 2021

Item (PLN '000)	H1 2020	H1 2021	Change in % 2021/2020
Supply			
Sales revenue	**8 014 501**	**10 724 946**	**134%**
electricity, including:	*5 379 466*	*6 833 296*	*127%*
retail electricity supply revenue	*4 672 797*	*4 911 237*	*105%*
greenhouse gas emission allowances	*169 481*	*708 218*	*418%*
fuels	*745 766*	*978 244*	*131%*
distribution service (passed on)	*1 612 124*	*1 681 149*	*104%*
other services, incl. trading services	*107 664*	*524 039*	*487%*
EBIT	**379 186**	**216 680**	**57%**

Item (PLN '000)	H1 2020	H1 2021	Change in % 2021/2020
Depreciation and impairment charges	23 718	19 849	84%
EBITDA	**402 904**	**236 529**	**59%**

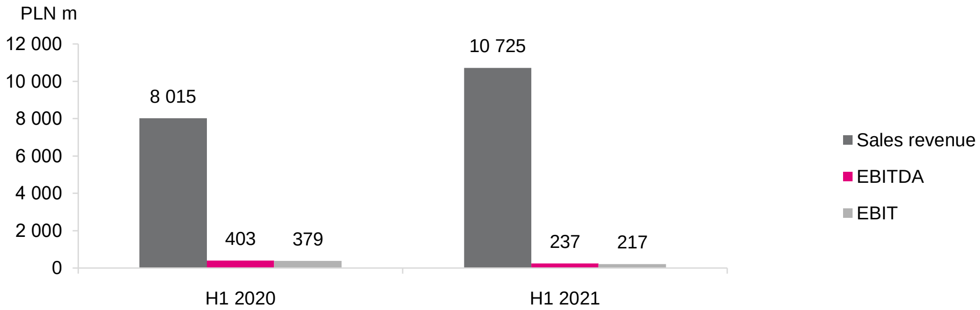
The Supply Segment's sales revenue in the first half of 2021 was higher by 34% as compared to the same period of 2020, mainly as a consequence of the higher electricity sales revenue (the higher electricity sales price and the higher electricity sales volume) as well as the sale of the CO_2 emission allowances that took place in the first half of 2021, primarily in order to meet the redemption needs of the Generation Subsidiaries.

The Supply Segment's EBITDA and EBIT results were lower in the first half of 2021 than in the same period of 2020. The results posted were affected by the following factors:

1. lower margin on electricity sales earned, which is the result of the higher costs of purchasing electricity, including as part of the performance of the contract for the purchase of electricity from the 910 MW unit in Jaworzno while obtaining the higher electricity sales price, the higher volume of electricity sold and the higher revenue from the fixed trading fees,
2. higher costs of the property rights, mainly as a result of the higher *green certificates (PMOZE)* purchase price and the higher volume due to the increase in electricity sales, including to the final consumers,
3. higher margin on the gas sales as a result of obtaining the higher unit margin on the gas sales, along with the higher volume,
4. higher margin on the sale of the CO_2 emission allowances,
5. lower value of the recognized (booked) impairment charges (write-downs) related to the accounts receivable mainly as a consequence of the recognition (booking) of the elevated impairment charges (write-downs) in the first half of 2020 as a result of the introduced restrictions and the uncertainty with respect to the financial standing of the Supply segment subsidiaries' counterparties,
6. other – the recognized (booked) result on the sales of the other market (commercial) products.

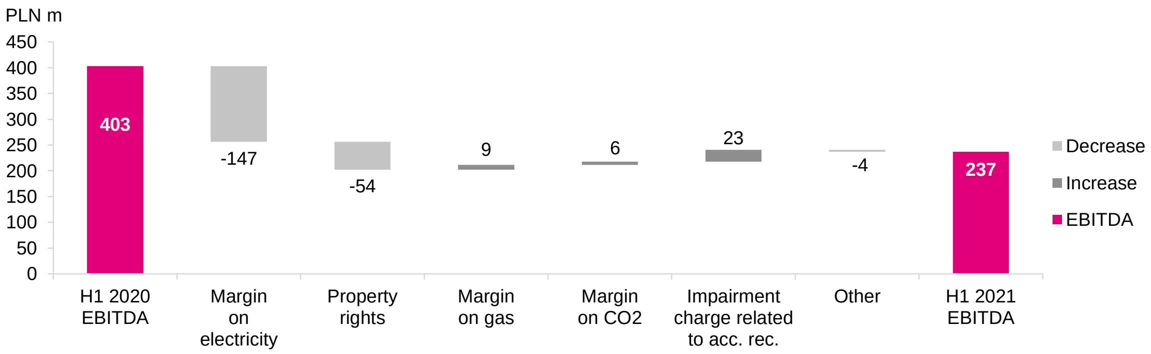
The below figure presents the Supply Segment's financial data for the first half of 2020 and for the first half of 2021.

Figure no. 35. Supply Segment's financial data for the first half of 2020 and for the first half of 2021



The below figure presents the Supply Segment's EBITDA, including the material factors impacting the change year on year.

Figure no. 36. Supply Segment's EBITDA, including the material factors impacting the change year on year



Other Operations

The below figure presents the Other Operations Segment's results for the first half of 2020 and for the first half of 2021.

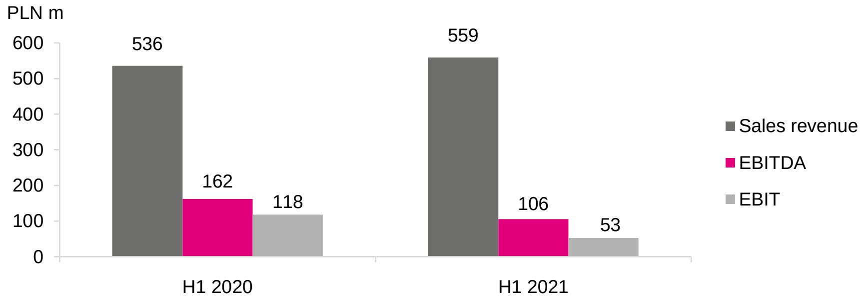
Table no. 24. Other Operations Segment's results for the first half of 2020 and for the first half of 2021.

Item (PLN '000)	H1 2020	H1 2021	Change in % 2021/2020
Sales revenue	**535 951**	**559 501**	**104%**
customer service	119 809	125 233	105%
support services	256 012	270 883	106%
aggregates	48 208	52 625	109%
biomass	70 646	51 018	72%
other revenue	41 276	59 742	145%
EBIT	**118 190**	**52 608**	**45%**
Depreciation and impairment charges	44 189	53 070	120%
EBITDA	**162 379**	**105 678**	**65%**

Other Operations Segment subsidiaries' sales revenue in the first half of 2021 was higher by 4% as compared to the revenue posted in the same period of 2020, which was primarily due to the higher sales of the combustion and mining processes' by-products, as well as the customer service and support services provided by the Shared Services Centers (CUW) for TAURON Capital Group's subsidiaries.

The below figure presents the Other Operations Segment's financial data for the first half of 2020 and for the first half of 2021.

Figure no. 37. Other Operations Segment's financial data for the first half of 2020 and for the first half of 2021



Assets

The below table presents the consolidated statement of financial position – the assets as of December 31, 2020, and June 30, 2021.

Table no. 25. Interim abbreviated consolidated statement of financial position – the assets (material items) as of December 31, 2020, and June 30, 2021

Statement of financial position (PLN '000)	As of December 31, 2020 (unaudited)	As of June 30, 2021 (adjusted data)	Change in % (2021 / 2020)
ASSETS			
Fixed assets	**33 584 959**	**32 504 864**	**97%**
Tangible fixed assets	29 504 667	28 669 884	97%
Current assets	**6 111 252**	**6 013 593**	**98%**
Cash and equivalents	921 345	558 150	61%
Fixed assets and the group's assets for disposal, classified as held for trade	74 442	8 664	12%
TOTAL ASSETS	**39 696 211**	**38 518 457**	**97%**

As of June 30, 2021, TAURON Capital Group's statement of financial position shows the balance sheet total that is lower by 3% as compared to the balance sheet total as of December 31, 2020. The decrease in the value of the fixed assets is a consequence of the recognizing (booking) of the impairment charge (write-down) related to the non-financial fixed assets as a result of the impairment tests carried out as of June 30, 2021. The amount of the impairment charge (write-down) was mainly charged to the tangible fixed assets in the amount of PLN 1 109 107 000. The remaining part decreased the value of the right to use the assets in the amount of PLN 11 110 000 and the intangible assets in the amount of PLN 2 290 000. The detailed information related to the reasons for the booking of the above mentioned impairment charges (write-downs) is provided in note 15 to the *Interim abbreviated consolidated financial statements of TAURON Polska Energia S.A. Capital Group in accordance with the International Financial Reporting Standards (IFRS) approved by the European Union (EU) for the 6 month period ended on June 30, 2021*.

The below figures present the change in assets and current assets as of December 31, 2020, and June 30, 2021.

Figure no. 38. Change in assets and current assets as of December 31, 2020, and June 30, 2021

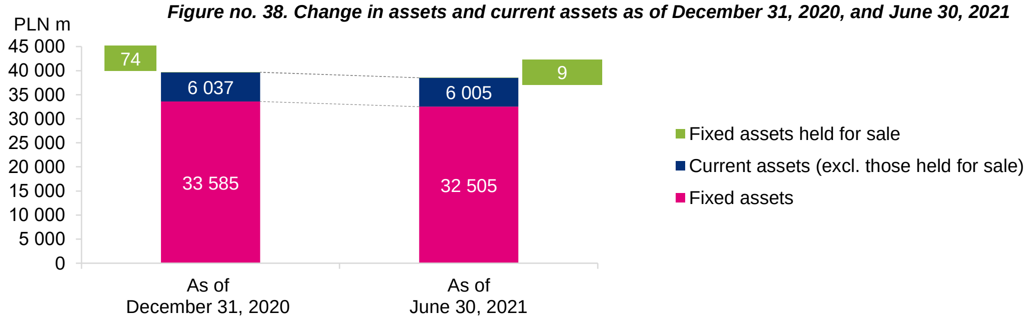
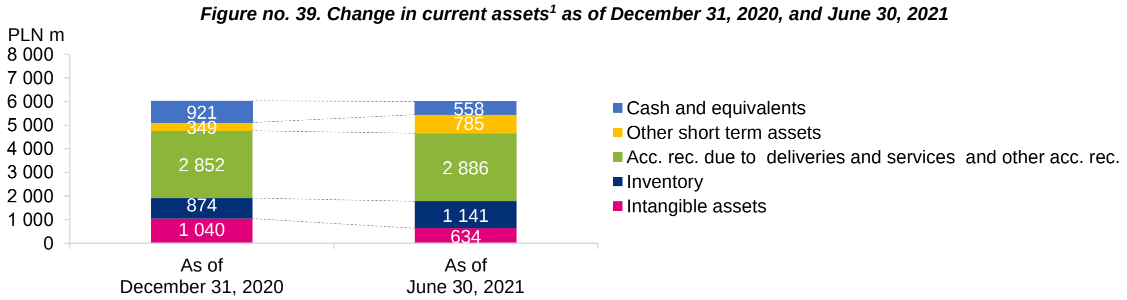


Figure no. 39. Change in current assets[1] as of December 31, 2020, and June 30, 2021



[1]Excluding the assets classified as held for sale

The fixed assets represent the biggest item of the assets as of the end of June 2021, accounting for 84.4% of the balance sheet total. As compared to the end of 2020, the value of the fixed assets is lower by PLN 1 080 million (3%), which was due to the following factors:

1. tangible fixed assets – a decrease by 3% is a result of the recognized (booked) impairment charge (write-down) related to the non-financial fixed assets as a result of the impairment tests carried out as of June 30, 2021, and the increase in the value of the tangible fixed assets as 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 redeemed – a decline by 83% due to the reclassifying of the certificates of origin of electricity and the CO_2 emission allowances as the current assets held in order to fulfill the obligation related to the redemption of the above mentioned assets,
3. other financial assets – an increase by 44%, mainly as a result of the positive valuation of the derivative instruments related to the commodity derivatives, the forward currency derivatives, as well as the IRS and CCIRS instruments. The increase in the assets due to the valuation of the above mentioned derivatives in relation to the comparable period is mainly applicable to the forward instruments related to the transactions for which the CO_2 emission allowances are the underlying product (commodity) and is a consequence, mainly, of a substantial increase in the prices of the allowances, while at the same time taking into account the number of the exchange traded contracts open as of the balance sheet date.
4. other non-financial assets – an increase by 61%, as a result of the advance payment made towards the fixed assets under construction and the intangible assets, including those related to the construction of a 30 MW wind farm.

The following factors had an impact on the decline in the value of the current assets by PLN 98 million (2%):

1. balance of cash on hand and equivalents – a decrease by 39%. The information on the reasons for the change is provided below in the further section of this report, in the paragraph titled *Cash flows*,
2. certificates of origin of electricity and the CO_2 emission allowances to be redeemed – a decline by 39%, is the result of:

   a) purchase of the CO_2 emission allowances in the first half of 2021 for the redemption obligation for 2020,

b) purchase in the first half of 2021 or the recognition (booking) of the certificates of origin of electricity produced in-house for the fulfillment of the obligation to redeem the property rights,
c) reclassifying as the short term assets of a part of the property rights and the CO_2 emission allowances held, originally classified as the long term assets, that were reclassified due to their allocation for the purpose of the ongoing fulfilling of the obligation to redeem the above mentioned assets, ,
d) redemption of the property rights and the CO_2 emission allowances in connection with the obligation stemming from the provisions of the energy law,

3. inventory levels – an increase by 30% mainly due to the reclassifying, from the fixed assets to the inventory, of a part of the CO_2 emission allowances which will be resold in as part of the CO_2 portfolio restructuring transaction. In addition, the increase in the inventory levels was affected by the higher value of the hard coal purchased or produced and not used for production in the first quarter of 2021,
4. accounts receivable from the consumers – an increase by 2%,
5. accounts receivable due to the income tax – an increase by 117%,
6. accounts receivable due to the other taxes and fees – a drop by 41%, mainly due to VAT,
7. other financial assets – an increase by 131%, mainly as a result of the positive valuation of the derivative instruments related to the commodity derivatives, the forward currency derivatives, as well as the IRS and CCIRS instruments. The increase in the assets due to the valuation of the above mentioned derivatives in relation to the comparable period is mainly applicable to the forward instruments related to the transactions for which the CO_2 emission allowances are the underlying product (commodity) and is a consequence, mainly, of a substantial increase in the prices of the allowances, while at the same time taking into account the number of the exchange traded contracts open as of the balance sheet date,
8. other non-financial assets – an increase by 111%, mainly as a result of the higher costs depreciated (accounted for) over time due to the property and tort insurance and the setting up (booking) of the write-offs for the Company Social Benefits Fund (Zakładowy Fundusz Świadczeń Socjalnych).

The below table presents the consolidated statement of financial position – equity and liabilities as of December 31, 2020, and June 30, 2021.

Table no. 26. Interim abbreviated consolidated statement of financial position – equity and liabilities (material items) as of December 31, 2020, and June 30, 2021

Statement of financial position (PLN '000)	As of December 31, 2020 (unaudited)	As of June 30, 2021 (adjusted data)	Change in % (2021 / 2020)
EQUITY AND LIABILITIES			
Equity attributable to shareholders of the parent entity	**15 833 523**	**16 336 078**	**103%**
Non-controlling shares	893 623	915 901	102%
Total equity	**16 727 146**	**17 251 979**	**103%**
Long term liabilities	**15 865 877**	**14 542 576**	**92%**
Liabilities due to debt	13 171 200	11 979 466	91%
Short term liabilities	**7 103 188**	**6 723 902**	**95%**
Liabilities due to debt	1 480 672	1 469 480	99%
Total liabilities	**22 969 065**	**21 266 478**	**93%**
TOTAL EQUITY AND LIABILITIES	**39 696 211**	**38 518 457**	**97%**

The below figures present the change in the equity and liabilities and equity attributable to shareholders as of December 31, 2020, and June 30, 2021.

Figure no. 40. Change in equity and liabilities as of December 31, 2020, and June 30, 2021

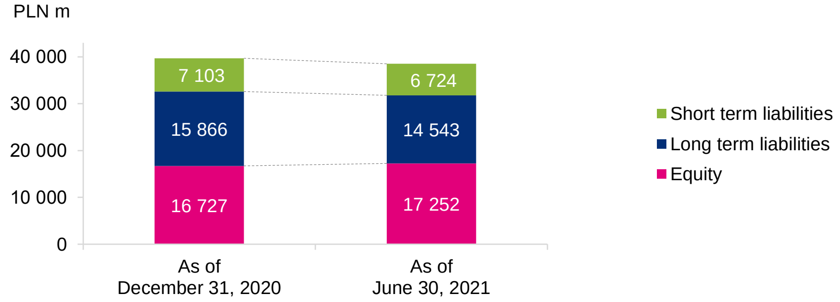
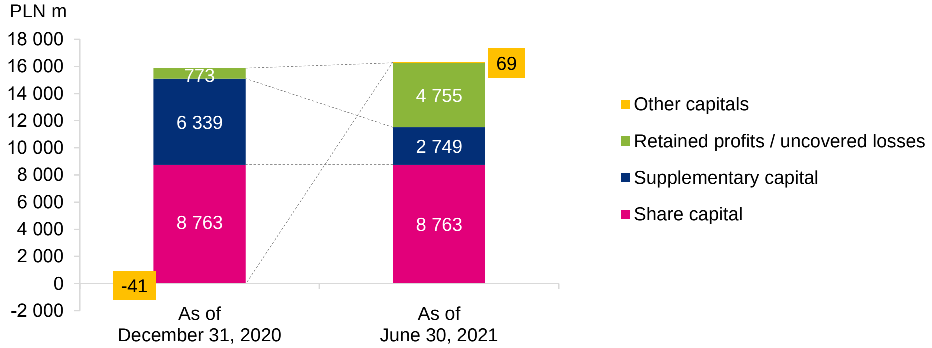


Figure no. 41. Change in the equity and liabilities and equity attributable to shareholders as of December 31, 2020, and June 30, 2021



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 44.8%.

The below figures present the change in the long term and short term liabilities as of December 31, 2020, and June 31, 2021.

Figure no. 42. Change in the long term liabilities as of December 31, 2020, and June 31, 2021

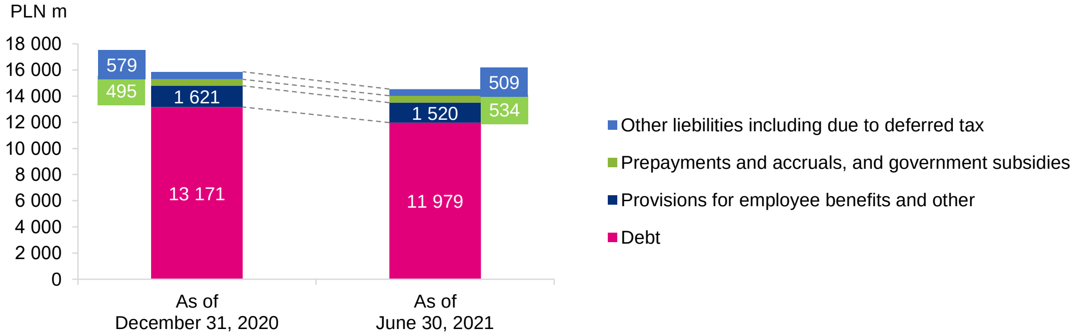
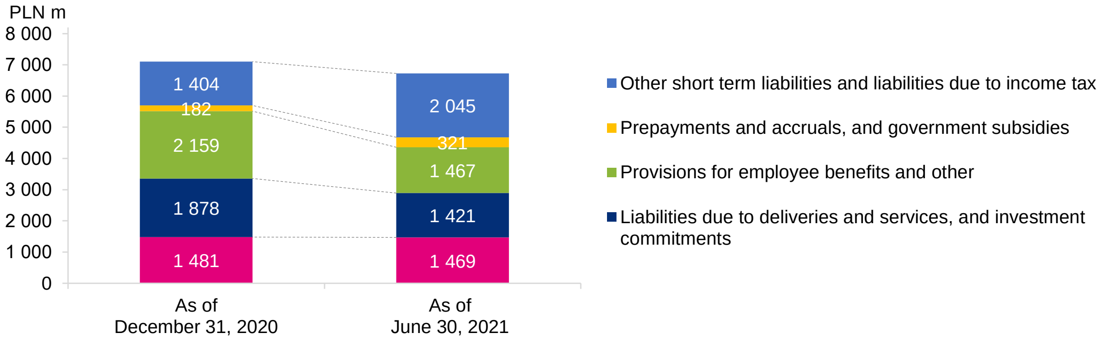


Figure no. 43. Change in the short term liabilities as of December 31, 2020, and June 31, 2021



The amount of TAURON Capital Group's long term liabilities was lower by PLN 1 323 million (8%) in the first half of 2021, which was mainly a consequence of the following factors:

1. liabilities due to debt – a decrease by 9%,
2. other financial liabilities – a decline by 7% which is mainly a consequence of the valuation of the derivative instruments, including, to the large extent, the forward instruments related to the transactions for which the CO_2 emission allowances are the underlying product (commodity),
3. liabilities due to the deferred income tax – a decline by 13%,
4. provisions for the employee benefits – a drop by 4% mainly as a consequence of an increase of the discount rate by 0.5 pp,
5. provisions related to the costs of dismantling fixed assets and land reclamation as well as other costs - a decrease by 9,
6. prepayments and accruals, as well as the government subsidies – an increase by 8%.

The amount of TAURON Capital Group's short term liabilities went down by PLN 379 million (by 5%), which was primarily a consequence of the following factors:

1. liabilities due to debt – a drop by 1%,
2. accounts payable towards the suppliers – a decrease by 4% and the investment related commitments – a drop by 49%,

3. provisions for the employee benefits – a decrease by 14%, mainly as a result of the increase of the discount rate by 0.5 pp,
4. provisions for the liabilities due to the certificates of origin of electricity related to the CO_2 gas emissions – a drop by 36%, in connection with the using up (consuming) of the provision set up due to the obligation to redeem the property rights related to the origin of energy and the CO_2 emission allowances for 2020. In addition, the value of the described provision was increased in connection with the setting up of a provision for the liabilities related to the CO_2 gas emissions and the certificates of origin of electricity for the first half of 2021,
5. other provisions – a decrease by 13%,
6. prepayments and accruals, as well as the government subsidies – an increase by 77%, primarily a consequence of the increase of the prepayments and accruals due to bonuses and not used leaves (vacations),
7. accounts payable due to the income tax – an increase by 6%,
8. liabilities due to other taxes and fees - a decrease by 17%, mainly due to VAT, social security, personal income tax and the excise tax,
9. other financial liabilities – an increase by 114% which is the result of the rise of the value of the variation margins due to the settlements (clearing) of the exchange transactions and of the derivative instruments as a consequence of the negative valuation of the derivative instruments, including, to the large extent, the forward instruments related to the transactions for which the CO_2 emission allowances are the underlying product (commodity), and the lower value of the liabilities due to wages as well as the bid (tender) deposits, bonds and securities (collaterals) received,
10. other non-financial liabilities – an increase by 19%, primarily as a consequence of the excess of the liabilities over the assets of the Company Social Benefits Fund, as well as the higher balance of the accounts payable towards the customers due to the overpayments received, and also the advance payments on account of the grid connection fee (charge).

Cash flows

Consolidated cash flow statement

The below table presents the selected information from the interim abbreviated cash flow statement for the first half of 2020 and for the first half of 2021.

Table no. 27. Interim abbreviated cash flow statement for the first half of 2020 and for the first half of 2021

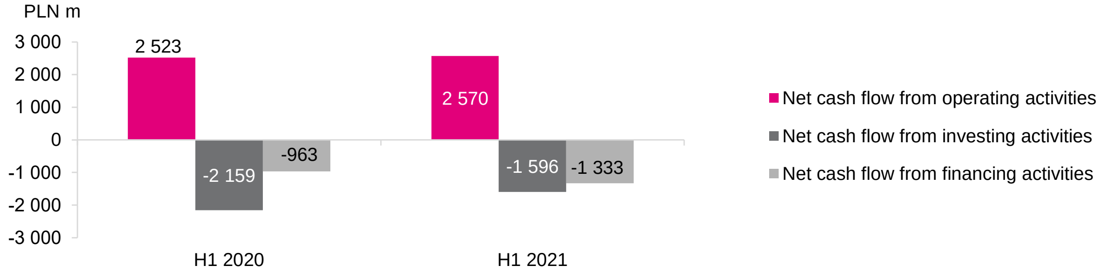
Cash flow statement (PLN '000)	H1 2020 (unaudited)	H1 2021 (adjusted data unaudited)	Change in % (2021 / 2020)
CASH FLOWS FROM OPERATING ACTIVITIES			
Pre-tax profit	352 475	596 688	169%
Adjustments	2 170 805	1 973 171	91%
Net cash from operating activities	**2 523 280**	**2 569 859**	**102%**
CASH FLOWS FROM INVESTING ACTIVITIES			
Sale of tangible fixed assets and intangible assets	7 230	22 761	315%
Purchase of tangible fixed assets and intangible assets	(2 100 411)	(1 674 295)	80%
Repayment of loans granted	5 401	2 450	45%
Granting of loans	(78 475)	(654)	1%
Sale of shares and redemption of participation units	-	52 605	-
Other	7 267	998	14%
Net cash from investing activities	**(2 158 988)**	**(1 596 135)**	**74%**
CASH FLOWS FROM FINANCING ACTIVITIES			
Issuance of debt securities	2 200 000	602 772	27%
Redemption of debt securities	(3 100)	0	0%
Repayment of loans/credits	(3 046 380)	(1 807 687)	59%
Interest paid	(46 818)	(90 511)	193%
Other	(66 916)	(37 736)	56%
Net cash from financing activities	**(963 214)**	**(1 333 162)**	**138%**

Cash flow statement (PLN '000)	H1 2020 (unaudited)	H1 2021 (adjusted data unaudited)	Change in % (2021 / 2020)
Increase / (decrease) in net cash and equivalents	**(598 922)**	**(359 438)**	**60%**
Cash opening balance	**1 203 601**	**895 377**	**74%**
Cash closing balance	**604 679**	**535 939**	**89%**

The total amount of all net flows of cash from operating, investing and financing activities in the first half of 2021 was negative and came in at PLN 359 million.

The below figure presents cash flows in the first half of 2020 and in the first half of 2021.

Figure no. 44. Cash flows in the first half of 2020 and in the first half of 2021



The amount of cash flows from operating activities in the first half of 2021 came in at PLN 2 570 million, which was the result of the following factors:

1. generated EBITDA of PLN 2 919 million,
2. a negative change of the working capital in the amount of PLN 23 million, which is the result of:
    1) a negative change of the balance of the accounts receivable, mainly from the consumers, in the amount of PLN 84 million,
    2) a negative change of the inventory level, in the amount of PLN 278 million, mainly due to the CO_2 emission allowances held for sale,
    3) a positive change of the balance of the accounts payable in the amount of PLN 83 million, mainly as a result of an increase of the accounts payable towards the suppliers, the account payable towards the Company Social Benefits Fund in connection with the annual write-off, the overpayments received and the advance payments on account of the services provided,
    4) a positive change of the other long and short term assets and the provisions in the total amount of PLN 156 million,
    5) a positive change of the prepayments and accruals as well as the government subsidies in the amount of PLN 99 million,
3. income tax paid in the amount of PLN 399 million, which is, to the large extent, due to the Tax Capital Group (PGK) settlements that include:
    1) income tax paid by the Tax Capital Group (PGK) in the amount of PLN 362 million as the advance payment on account of the income tax for December 2020 and for the first quarter of 2021,
    2) income tax paid by the companies that are not part of the Tax Capital Group (PGK) for the years 2021 - 2023, mainly TAURON Ciepło.
4. other factors: PLN +73 million.

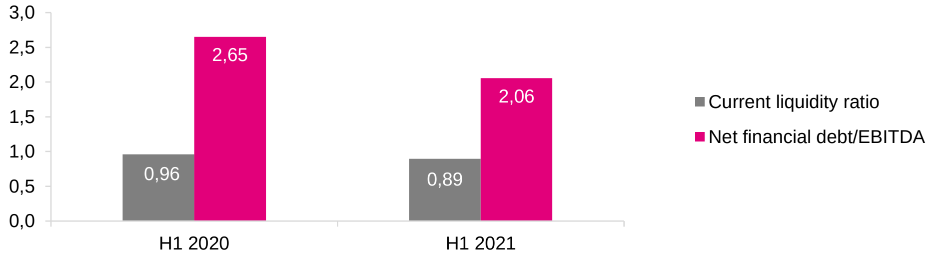
The expenditures for the purchase of the tangible fixed assets have the biggest impact on the cash flows from the investing activities and they were lower in the first half of 2021 by 20% than the outlays incurred in the same period of 2020.

The negative value of the cash flows from the financing activities is primarily due to the amount of the expenditures made in connection with the repayment of the financial obligations being higher than the inflows generated as a result of the financing obtained. The amount of the credits and loans repaid came in at PLN 1 808 million, while at the same time the debt securities in the amount of PLN 603 million were issued. In addition, TAURON Capital Group paid the amount of PLN 91 million due to interest, mainly on the financial obligations, repaid the accounts payable due to leases in the amount of PLN 83 million and received subsidies in the amount of PLN 56 million in the first half of 2021.

TAURON Capital Group is maintaining its market position. The current liquidity ratio and the net debt to EBITDA ratio continue to stand at a safe level.

The below figure presents the current liquidity ratio and the net financial debt to EBITDA ratio in the first half of 2020 and in the first half of 2021.

Figure no. 45. Current liquidity ratio and the net financial debt to EBITDA ratio in the first half of 2020 and in the first half of 2021



TAURON Capital Group is effectively managing its financial liquidity using the central financing model put in place and the central financial risk management policy. TAURON Capital Group is using the *cash pooling* mechanism in order to minimize the potential cash flow disruptions and the risk of liquidity loss. TAURON Capital Group is using various sources of funding, such as, for example, overdrafts, bank loans, loans from the environmental funds, bond issues, including the subordinated bonds.

4.5. Position of the Management Board of TAURON Polska Energia S.A. with respect to 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 2021. TAURON Capital Group's financial position is stable and no negative events which could pose any threat to the continuity of its business operations or cause a material deterioration of its financial position have occurred.

The detailed description of the financial position, understood as ensuring the provision of funds for both the operating, as well as the investing activities, is provided in section 4 of this report.

4.6. Principles of drawing up the interim abbreviated consolidated financial statements of TAURON Capital Group

The interim abbreviated consolidated financial statements of TAURON Capital Group were drawn up in accordance with the *International Accounting Standard 34 Interim Financial Reporting*, according to the template approved by the European Union (EU).

The interim abbreviated consolidated financial statements of TAURON Polska Energia S.A. Capital Group in accordance with the International Financial Reporting Standards approved by the European Union (EU) for the period of 6 months ended on June 30, 2021, were drawn up under the assumption of business continuity (going concern) of TAURON Capital Group's subsidiaries in the foreseeable future, i.e. over the time frame not shorter than 1 year from the balance sheet date. As of the date of approving the above mentioned financial statements for publication no circumstances are recognized that would indicate any risk to business continuity (going concern) of TAURON Capital Group.

The Management Board analyzed the situation in the context of COVID-19 and based on the scenarios under consideration and presently with respect to liquidity, financing and securing the continuation of the business operations (going concern), it does not identify any risk for business continuity (going concern) in the foreseeable future over the time frame not shorter than 1 year from the balance sheet date, including the description of the impact of the COVID-19 pandemic on the Group's operations provided in note 50 of the interim condensed consolidated financial statements of the TAURON Polska Energia S.A. Capital Group. in accordance with the International Financial Reporting Standards approved by the European Union for the period of 6 months ended on June 30, 2021.

The accounting principles (policy) applied to draw up the interim abbreviated consolidated financial statements are presented in note 8 to the *Interim abbreviated consolidated financial statements of TAURON Polska Energia S.A. Capital Group in accordance with the International Financial Reporting Standards approved by the European Union (EU) for the period of 6 months ended on June 30, 2021*, and are in line with the ones applied to draw up the annual *Consolidated financial statements of TAURON Polska Energia S.A. Capital Group in accordance with the International Financial Reporting Standards approved by the European Union (EU) for the year ended on December 31, 2020*, except for the application of the new standards as well as changes to the accounting principles and the presentation principles applied by TAURON Capital Group, presented in note 8 to the *Interim abbreviated consolidated financial statements of TAURON Polska Energia S.A. Capital Group in accordance with the International Financial Reporting Standards approved by the European Union (EU) for the period of 6 months ended on June 30, 2021*.

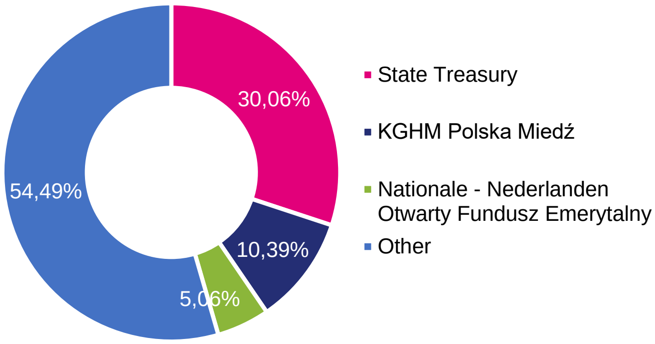
5. SHARES AND SHAREHOLDERS OF TAURON POLSKA ENERGIA S.A.

5.1. TAURON Polska Energia S.A. shareholder structure

As of June 30, 2021 and as of the date of drawing up this report the Company's share capital, in accordance with an entry in the National Court Register, stood at PLN 8 762 746 970 and was split into 1 752 549 394 shares with a nominal value of PLN 5 per share, including 1 589 438 762 ordinary AA series bearer shares and 163 110 632 ordinary BB series registered shares which, as of March 1, 2021, were dematerialized under the *Act of August 30, 2019, on amending the Act - Code of Commercial Companies and certain other acts* (Journal of Laws of 2019, item 1798, as amended from Journal of Laws of 2020, item 875).

The below figure presents the shareholding structure as of June 30. 2021, and as of the date of drawing up this report.

Figure no. 46. Shareholding structure as of June 30. 2021, and as of the date of drawing up this report.



5.2. Shareholders holding, directly or indirectly through subsidiaries, at least 5% of the total number of votes at the General Meeting of TAURON Polska Energia S.A.

The below table presents the shareholders that hold, directly or indirectly through their subsidiaries, at least 5% of the total number of votes at the General Meeting (GM) of the Company, as of June 30, 2021, and as of the date of drawing up this report.

Table no. 28. Shareholders that hold, directly or indirectly through their subsidiaries, at least 5% of the total number of votes at the General Meeting (GM) of the Company, as of June 30, 2021, and as of the date of drawing up this report

	Shareholders	Number of shares held	Percentage share in the share capital	Number of votes held[1]	Percentage share in the total number of votes[1]
1.	State Treasury	526 848 384	30.06%	526 848 384	30.06%
2.	KGHM Polska Miedź	182 110 566	10.39%	182 110 566	10.39%
3.	Nationale-Nederlanden Otwarty Fundusz Emerytalny (Open Pension Fund)	88 742 929	5.06%	88 742 929	5.06%

[1] Pursuant to the provisions of the Company's Articles of Association, the voting right of the shareholders holding more than 10% of the total number of votes in the Company shall be limited in such a way that none of them may exercise more than 10% of the total number of votes in the Company at the General Meeting. The cumulative votes owned by the shareholders between whom there is a parent - daughter or daughter - parent company relationship within the meaning of the provisions of the Company's Articles of Association shall be subject to an applicable reduction. The above mentioned restriction on the voting rights shall not be applicable to the State Treasury and the State Treasury subsidiaries in the period during which the State Treasury, together with the State Treasury subsidiaries, holds a number of shares in the Company entitling it to exercise at least 25% of the total votes in the Company.

From the date of disclosing the previous interim report, i.e. since May 19, 2021, until the date of disclosing this report the Company had not received any notifications from its shareholders on any changes in the ownership structure of substantial blocks of TAURON shares.

5.3. Summary of the holdings of TAURON Polska Energia S.A. shares or rights thereto by members of the Management Board and the Supervisory Board of TAURON Polska Energia S.A.

The below table presents the Company's shares or rights thereto held the Members of the Company's Management Board as of the date of disclosing this report.

Table no. 29. Company's shares or rights thereto held by the Members of the Company's Management Board as of the date of disclosing this report

	First name and last name	Date of appointment to the Management Board of the Company	Number of the Company's shares held	Nominal value of the Company's shares held
1.	Artur Michałowski	05.08.2021	0	0
2.	Patryk Demski	05.08.2021	0	0
3.	Krzysztof Surma	05.08.2021	10 000	PLN 50 000
4.	Jerzy Topolski	15.07.2020	0	0

As of the date of disclosing this report the members of the Company's Supervisory Board did not hold any TAURON shares or rights thereto.

From the date of disclosing the previous interim report, i.e. since May 19, 2021, until the date of disclosing this report there had been no changes to the number of TAURON shares or rights thereto held by the members of the Company's Management Board and the members of the Company's Supervisory Board.

6. OTHER MATERIAL INFORMATION AND EVENTS

6.1. Material proceedings pending before the court, competent arbitration authority or public administration authority

The below table presents a summary of material proceedings pending before the court, competent arbitration authority or public administration authority in the first half of 2021.

Table no. 30. Summary of material proceedings pending before the court, competent arbitration authority or public administration authority in the first half of 2021

Parties to the proceedings	Description of the proceedings including the value of the object of litigation and the Company's position
Proceedings involving TAURON	
1. **Plaintiff (Claimant):** Huta Łaziska **Defendants (Respondents):** TAURON (as a legal successor to GZE) and State Treasury represented by the President of the Energy Regulatory Office (ERO)	**Object of litigation**: a lawsuit for the payment of compensation for alleged damage caused by non-performance by GZE of the decision of the President of the Energy Regulatory Office (ERO) of October 12, 2001, related to the resumption of electricity supply to the plaintiff. **Value of the object of litigation**: PLN 182 060 000.00 **Initiation of the proceeding**: the lawsuit of March 12, 2007 **Company's position**: the Company considers the claims covered by the lawsuit as being without merit. On May 28, 2019, the Regional Court in Warsaw issued a ruling on the dismissal of Huta Łaziska's lawsuit in whole and ruled that Huta Łaziska shall refund each Defendant (Respondent) the costs of the proceedings. The ruling is not legally binding. Huta Łaziska filed an appeal complaint on July 25, 2019, appealing against the above mentioned ruling in whole.
2. **Authority conducting the audit:** Head of the Mazovian Customs and Tax Office, and after an appeal has been filed – the Director of the Tax Administration Chamber in Katowice and the Director of the Tax Administration Chamber in Warsaw **Party:** TAURON	**Object of litigation**: examining the accuracy of the tax base amounts declared by TAURON and the correctness of calculations and payments of the VAT tax for the period from October 2013 until September 2014. The main subject of the two investigations (audits) are TAURON's deductions of the VAT assessed due to the purchase of electricity by TAURON on the German and Austrian electricity market from Castor Energy sp. z o.o. **Value of the object of litigation (deducted VAT amount):** with respect to the transaction with Castor Energy sp. z o.o.– PLN 52 494 672. **Date of initiating the proceeding**: October 2014, August 2016 **Company's position:** in the Company's opinion during the verification of the counterparty (business partner, contractor), the due diligence was actually adhered to, and the Company acted in good faith, so there are no grounds for refusing the Company the right to deduct the tax assessed on the invoices documenting the electricity purchase from Castor Energy sp. z o.o. On October 7, 2020, the Company received the decision of the Head of the Mazovian Customs and Tax Office, ending one of the audit proceedings, specifying the amount of its VAT tax liability for the following months: October, November, December 2013 and the first quarter of 2014, which resulted in the obligation for the Company to pay additional VAT due to the transaction with Castor Energy sp. z o.o, in the total amount of PLN 51 818 857, along with the interest on the tax arrears. The Company filed an appeal against the decision on October 20, 2020. On January 15, 2021, as part of the second audit proceedings, a decision was issued the Head of the Mazovian Customs and Tax Office in which the Authority stated that the Company had not been eligible to deduct the VAT assessed from the invoice issued by Castor Energia Sp. z o.o. in April 2014, and thus the Company overstated the amount of VAT assessed recognized in the tax statement filing for the second quarter of 2014 by the amount of PLN 677 815.39. On February 12, 2021, the Company filed an appeal against the decision.
3. **Plaintiff (Claimant):** Enea **Defendant (Respondent):** TAURON	**Object of litigation**: a lawsuit for the payment due to the Company's alleged unjust enrichment (benefit) in connection with the settlements related to the imbalance of the Balancing Market with PSE between January and December 2012 **Value of the object of litigation**: PLN 17 085 846.49 **Initiation of the proceeding:** the lawsuit of December 10, 2015 **Company's position:** the Company considers the claims covered by the lawsuit as being without merit. On March 22, 2021, the Regional Court in Katowice dismissed Enea's lawsuit in full and ruled on Enea's obligation to reimburse the Company for the costs of the proceedings. The ruling is not final (legally binding). Enea filed an appeal against the said decision.
Lawsuits pertaining to the termination, by the PEPKH subsidiary, of the agreements related to the sales of electricity and property rights arising from the certificates of origin	
4. **Plaintiff (Claimant):** Dobiesław Wind Invest sp. z o.o. **Defendant (Respondent:** TAURON	**Object of litigation**: lawsuit for payment of damages and determination of liability for the future. **Value of the object of litigation**: PLN 72 217 997.00 **Initiation of the proceeding**: the lawsuit of June 30, 2017

Parties to the proceedings	Description of the proceedings including the value of the object of litigation and the Company's position
	In February 2021, the Company's power of attorney representatives received the plaintiff's pleading (submission) extending the claim, the Plaintiff (Claimant), apart from the existing claims, brought new claims: for the payment of PLN 37 471 305.05 or (a potential claim) PLN 35 969 662.07. **Company's position:** the Company considers the claims covered by the lawsuit as being without merit.
5. **Plaintiff (Claimant):** Gorzyca Wind Invest sp. z o.o. **Defendant (Respondent):** TAURON	**Object of litigation**: lawsuit for payment of damages and determination of TAURON's liability for the losses that may arise in the future due to tort, including acts of unfair competition. **Value of the object of litigation**: PLN 97 651 840.00 **Initiation of the proceeding**: the lawsuit of June 29, 2017 **Company's position:** the Company considers the claims covered by the lawsuit as being without merit. In February 2021, the Company's power of attorney representatives received the plaintiff's pleading (submission) extending the claim, the Plaintiff, apart from the existing claims, brought new claims: for the payment of PLN 57 933 516.55 or (a potential claim) PLN 62 666 188.65.
6. **Plaintiff (Claimant):** Pękanino Wind Invest sp. z o.o. **Defendant (Respondent):** TAURON	**Object of litigation**: lawsuit for payment of damages and determination of TAURON's liability for the losses that may arise in the future due to tort, including acts of unfair competition. **Value of the object of litigation**: PLN 44 817 060.00 **Initiation of the proceeding**: the lawsuit of June 29, 2017 **Company's position:** the Company considers the claims covered by the lawsuit as being without merit. In February 2021, the Company's power of attorney representatives received the plaintiff's pleading (submission) extending the claim, the Plaintiff, apart from the existing claims, brought new claims: for the payment of PLN 16 347 985.20 or (a potential claim) PLN 11 894 096.96.
7. **Plaintiff (Claimant):** Nowy Jarosław Wind Invest sp. z o.o. **Defendant:** TAURON	**Object of litigation**: lawsuit for payment of damages and determination of TAURON's liability for the losses that may arise in the future due to tort, including acts of unfair competition. **Value of the object of litigation**: PLN 57 763 340.00 **Initiation of the proceeding**: the lawsuit of June 29, 2017 **Company's position:** the Company considers the claims covered by the lawsuit as being without merit. In February 2021, the Company's power of attorney representatives received the plaintiff's pleading (submission) extending the claim, the Plaintiff, apart from the existing claims, brought new claims: for the payment of PLN 30 755 239.47 or (a potential claim) PLN 32 175 239.15.
8. **Co-participation on the plaintiff's side:** Amon sp. o.o. (Amon) and Talia **Defendant (Respondent):** TAURON	**Object of litigation**: lawsuit for payment of damages and determination of TAURON's liability for the losses that may arise in the future due to tort, including acts of unfair competition. **Value of the object of litigation**: Amon – PLN 78 205 000; Talia – PLN 53 128 000 **Initiation of the proceeding**: the lawsuit of April 30, 2018 **Company's position:** the Company considers the claims covered by the lawsuit as being without merit.
Proceedings involving TAURON Capital Group's subsidiaries related to the termination, by a subsidiary, of the agreements related to the sale of electricity and property rights arising from the certificates of origin	
9. **Plaintiff (Claimant):** Gorzyca Wind Invest sp. z o.o., Pękanino Wind Invest sp. z o.o., Dobiesław Wind Invest sp. z o.o. **Defendant (Respondent):** PEPKH	**Object of litigation**: plea to declare the termination, by PEPKH, of the agreements related to the purchase of electricity and property rights arising from the certificates of origin null and void, and to award damages. **Value of the object of litigation**: Gorzyca Wind Invest sp. z o.o.– PLN 112 353 945.05; Pękanino Wind Invest sp. z o.o. PLN 64 116 908.85 **Initiation of the proceeding:** Gorzyca Wind Invest sp. z o.o. – May 18, 2015, Pękanino Wind Invest sp. z o.o. – May 20, 2018, Dobiesław Wind Invest sp. z o.o. – May 18, 2015 **Company's position:** the Company considers the claims covered by the lawsuit as being without merit.
10. **Plaintiff (Claimant):** Dobiesław Wind Invest sp. z o.o. **Defendant (Respondent):** PEPKH	**Object of litigation**: plea to award damages and liquidated damages. **Value of the object of litigation**: PLN 76 559 461.18 **Initiation of the proceeding**: the lawsuit of June 14, 2017 **Company's position:** the Company considers the claims covered by the lawsuit as being without merit.
11. **Plaintiff (Claimant):** Nowy Jarosław Wind Invest sp. z o.o. **Defendant (Respondent):** PEPKH	**Object of litigation**: plea to declare the termination, by PEPKH, of the agreements related to the sale of electricity and property rights arising from the certificates of origin null and void, and to award damages. **Value of the object of litigation:** PLN 69 282 649.20 **Initiation of the proceeding**: the lawsuit of June 3, 2015 **Company's position:** the Company considers the claims covered by the lawsuit as being without merit.
12. **Plaintiff (Claimant):** Amon **Defendant (Respondent):** PEPKH	**Object of litigation**: plea to declare the termination, by PEPKH, of the agreements related to the purchase of electricity and property rights arising from the certificates of origin null and void, and to award damages. **Value of the object of litigation**: PLN 40 478 983.22 **Initiation of the proceeding**: the lawsuit of May 22, 2015 **Company's position:** the Company considers the claims covered by the lawsuit as being without merit. On July 25, 2019, the Regional Court in Gdańsk issued a partial and preliminary ruling in the case in which the Court:

Parties to the proceedings	Description of the proceedings including the value of the object of litigation and the Company's position
	1. determined that PEPKH's statements on the termination of long term agreements, concluded between PKH and Amon, for the purchase of electricity and property rights arising from certificates of origin had been ineffective and had not produced legal effects, such as the termination of both agreements, as a result of which these agreements, following the notice period, i.e. past April 30, 2015, shall continue to be in force with respect to all provisions and shall be binding for the parties, 2. determined that Amon's demand for payment of damages for a failure to perform the agreement had been justified in principle, however the Court did not determine the amount of the potential damages. The ruling is not legally binding. PEPKH disagrees with the ruling and filed an appeal complaint on October 25, 2019. Proceedings regarding the procedural issues are ongoing. The case is pending.
13. **Plaintiff (Claimant):** Amon **Defendant (Respondent):** PEPKH	**Object of litigation:** plea to determine awarding of damages due to a failure to perform, by PEPKH, of the agreements related to the purchase of electricity and property rights arising from the certificates of origin **Value of the object of litigation**: PLN 29 009 189.38 **Initiation of the proceeding**: September 2, 2019 **Company's position:** the Company considers the claims covered by the lawsuit as being without merit. The case was suspended by a court decision until the Regional Court in Gdańsk has reviewed an appeal against the judgment in the lawsuit brought by Amon against PEPKH, referred to in item 12 above. The court's decision is not legally binding (final).
14. **Plaintiff (Claimant):** Talia **Defendant (Respondent):** PEPKH	**Object of litigation**: plea to declare the termination, by PEPKH, of the agreements related to the purchase of electricity and property rights arising from the certificates of origin null and void, and to award damages. **Value of the object of litigation**: PLN 46 078 047.43 **Initiation of the proceeding**: the lawsuit of May 21, 2015 **Company's position:** the Company considers the claims covered by the lawsuit as being without merit. On March 6, 2020. the Regional Court in Gdańsk issued a partial and preliminary ruling, supplemented by the court on September 8, 2020, in the case in which the Court: 1. determined that PKH's statements on the termination of long term agreements, concluded between PEPKH and Talia, for the purchase of electricity and property rights arising from certificates of origin had been ineffective and had not produced legal effects, such as the termination of both agreements, as a result of which these agreements, following the notice period, i.e. past April 30, 2015, shall continue to be in force with respect to all provisions and shall be binding for the parties, 2. determined that Talia's demand for payment of damages for a failure to perform the agreement had been justified in principle, however the Court did not determine the amount of the potential damages. The ruling is not legally binding (final). PEPKH disagrees with the ruling. On August 3, 2020, and on March 8, 2021, PEPKH filed an appeal against the ruling (the preliminary one and the supplemented one) with the court.

Other proceedings

Petitions of TAURON Sprzedaż for a change of the approved tariff

As of January 1, 2020, pursuant to the decision of the President of the Energy Regulatory Office (ERO) of December 17, 2019, the electricity tariff for the G tariff groups consumers entered into force, resulting in an increase in the payments for the household consumers by 19.9% as compared to the payments incurred in 2018/2019.

Due to the fact that the said decision prevented TAURON Sprzedaż from passing on the justified costs of the activities related to electricity trading, in a letter of January 7, 2020, it submitted to the President of the Energy Regulatory Office (ERO) a petition for a change of the tariff approved for 2020, thus initiating administrative proceedings.

Due to the particularly complex nature of the case and the COVID-19 pandemic, the deadline for resolving the case was set as July 29, 2020.

By way of the decision of July 8, 2020, the President of the Energy Regulatory Office (ERO) did not approve the above mentioned tariff change.

In the opinion of TAURON Sprzedaż, the decision to approve the tariff was justified by the legitimate interest of the party and the provisions of the applicable law, stipulating that the tariff should cover the justified costs of the activities conducted by the Company, while the decision approving the tariff, in the opinion of the Company, did not ensure this.

On July 30, 2020, TAURON Sprzedaż filed an appeal to the Court of Competition and Consumer Protection in Warsaw, against the decision of the President of the Energy Regulatory Office (ERO) of July 8, 2020, motioning for the amendment of the challenged decision in its entirety by approving the electricity tariff in accordance with the application of TAURON Sprzedaż or revoking the decision in its entirety and ruling that the decision was issued in the violation of the law.

On December 31, 2020, TAURON Sprzedaż received the information of the filing, by the President of the Energy Regulatory Office (ERO), of a motion to the Court of Competition and Consumer Protection in Warsaw to dismiss the above appeal.

As of the date of drawing up this report, TAURON Sprzedaż is waiting for the date of the hearing to be set.

The lawsuit of Abener Energia S.A. (Abener Energia) against EC Stalowa Wola

On March 20, 2020, EC Stalowa Wola submitted its response to the lawsuit filed on December 20, 2019, by Abener Energia to the Arbitration Court at the Polish Chamber of Commerce in Warsaw, petitioning that the claim be dismissed.

The subject of the claim is the payment by EC Stalowa Wola to Abener Energia of the total amount of PLN 156 446 842.98 and EUR 536 839.02 (which is equivalent to PLN 2 287 148.96 according to the NBP's exchange rate as of December 20, 2019), including the statutory interest for delay, as the compensation resulting from submitting the demand and obtaining by EC Stalowa Wola, at the expense of Abener Energia, of the payment under the contract performance bond or possibly the return of unjust enrichment obtained by EC Stalowa Wola at the expense of Abener Energia in connection with obtaining the payment under the contract performance bond. The bond was issued to EC Stalowa Wola by Abener Energia in accordance with the contract concluded between Abener Energia (general contractor) and EC Stalowa Wola (the ordering party) for the construction of a CCGT unit with a gross electric capacity of approx. 450 MW in Stalowa Wola.

As of the date of drawing up this report, the proceedings are pending.

Ruling of the Court of Appeal on the claims of Abener Energia against EC Stalowa Wola

On September 22, 2020, the Court of Appeal in Rzeszów issued a ruling in which the Court of Appeal dismissed the complaint of EC Stalowa Wola S.A. to overturn the ruling of the Court of Arbitration at the Polish Chamber of Commerce of April 25, 2019, pursuant to which EC Stalowa Wola was obliged to pay Abener Energia S.A. the amount of PLN 333 793 359.31. including the statutory interest for delay and the costs of the arbitration proceedings.

The proceedings before the Arbitration Court at the Polish Chamber of Commerce were related to the claim for payment, the petition to establish legal relationship and make the commitment to submit a statement of will (intent) in conjunction with the terminated contract, concluded between Abener Energia (general contractor) and EC Stalowa Wola (the ordering party), for the construction of the CCGT unit in Stalowa Wola.

TAURON declared that before the ruling of the Court of Arbitration is declared enforceable, EC Stalowa Wola will analyze and take measures, as well as exercise its rights in order to limit the negative impact of the above event on the financial position of EC Stalowa Wola.

On September 25, 2020, EC Stalowa Wola filed with the Court of Appeal in Rzeszów a petition to suspend the enforcement of the ruling until the cassation appeal is examined.

On November 20, 2020, the Court of Appeal in Rzeszów issued a decision to suspend the enforcement of the ruling until the cassation appeal is examined or the deadline for the filing of the cessation appeal has expired.

On December 21, 2020, EC Stalowa Wola filed a cessation appeal.

The lawsuit of EC Stalowa Wola against Abener Energia

On October 19, 2020, EC Stalowa Wola filed a lawsuit with the Court of Arbitration at the Polish Chamber of Commerce in Warsaw against Abener Energia.

The proceedings before the Court of Arbitration at the Polish Chamber of Commerce will be conducted in connection with the contract concluded between Abener Energia (general contractor) and EC Stalowa Wola (the ordering party) for the construction of a CCGT unit with a heating section in Stalowa Wola which was terminated.

The subject of the claim is the payment by Abener Energia to EC Stalowa Wola of the amount of PLN 198 663 931.86 and EUR 461 207.21 (which is equivalent to PLN 2 098 400.56 according to the NBP's exchange rate as of October 19, 2020) including the interest, as the compensation for the damage corresponding to the costs of fixing defects, faults, malfunctions and shortcomings of the works, deliveries and services performed by Abener Energia during the performance of the above mentioned contract.

As of the date of drawing up this report, the proceedings are pending.

6.2. Transactions with related entities on terms other than at arm's length

All of the transactions with related entities are concluded at arm's length.

The detailed information on the transactions with the related entities is provided in note 49 to the *Interim abbreviated consolidated financial statements of TAURON Polska Energia S.A. Capital Group drawn up in accordance with the International Financial Reporting Standards approved by the European Union, for the period of 6 months ended on June 30, 2021.*

6.3. Credit or loan sureties (co-signings) granted and guarantees granted

Credit or loan sureties (co-signings) granted

TAURON, as well as its subsidiaries, did not grant any credit or loan sureties in the first half of 2021.

Guarantees granted

In the first half of 2021, a guarantee agreement was concluded by the Company, PGNiG and EC Stalowa Wola, under which the Company granted a corporate guarantee of up to PLN 6 750 000 for the liabilities of EC Stalowa Wola under the contracts for the sale of electricity, electricity transmission or distribution services. The guarantee is effective until February 15, 2022.

In addition, TAURON EKOENERGIA granted:

1. a surety (co-signing) for the trade liabilities of the Wind T1 company towards a third party in the amount of PLN 71 445 000, effective until the end of 2022.,
2. a corporate guarantee (bond) for Polpower's trade liabilities to a third party in the amount of EUR 6 086 000, effective until the end of July 2022.

As of June 30, 2021, the total amount of the sureties (co-signings) and corporate guaranties (bonds) granted by the Company stood at PLN 879 090 000.

The amount of the guaranties (bonds) and sureties granted by TAURON EKOENERGIA for the liabilities of Wind T1 and Polpower as of June 30, 2021, stood at PLN 201 773 000.

In the first half of 2021, as part of the framework (master) agreements in force, the bank guarantees were issued at the instruction of the Company for the liabilities of TAURON Capital Group's subsidiaries and the related companies. As of June 30, 2021, the amount of the bank guarantees in force, issued at the instruction of the Company, stood at PLN 639 772 000.

The detailed information on the sureties and guarantees (bonds) granted 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 6 months ended on June 30, 2021.*

6.4. The impact of the COVID-19 pandemic on the operations of TAURON Capital Group in the first half of 2021

The first half of 2021 was a period of the continued COVID-19 pandemic, during which an increase in the number of the SARS-CoV-2 infection cases was initially observed, and subsequently a gradual decline took place in the second quarter of 2021. In connection with the above the numerous restrictions were still in force in Poland to contain the spread of the pandemic, which initially, as the number of infection cases was going up, were additionally tightened and then, in the second quarter of 2021, were gradually lifted. Such a situation led to the disruptions in the economic and administrative system in Poland and worldwide. As a result, the epidemic significantly curbed the economic activity, affecting in particular the operations of the companies operating in such industries as, among others, tourism, retail stores or transportation. As a consequence, in the medium and long term it should be expected that the COVID-19 epidemic will continue to affect the condition of the national, the European, as well as the global economy, making a negative impact on the economic growth in Poland in 2021 as well as in the subsequent years.

In spite of the restrictions introduced, no declines in the volumes in the Distribution and the Supply Segments had been observed in the first half of 2021. As compared to the same period of 2020, there was an increase in the demand for electricity by 8.7%, however the continued restrictions altered the structure of consumption broken down into the individual tariff groups, resulting in an increase by 8.2% of the consumption by the households (the G tariff groups). The remote work and education had a decisive impact on the level of consumption in this group. Also in the case of the small businesses and institutions (the C1 tariff groups) an increase of the consumption by 6.4% was observed in the first half of 2021 as compared to the same period of 2020. In case of this group, the drop in demand was a direct consequence of the government's actions that involved applying restrictions affecting the commercial premises (space) or the recreational facilities and subsequently the demand was going up as the restrictions were getting lifted.

The disruptions in the economic activity in Poland brought about financial difficulties for the customers and contractors (counterparties, business partners) of TAURON Capital Group. The situation was mitigated by the regulatory actions taken with respect to the introduction of the successive anti-crisis shields, which were aimed at maintaining liquidity and protecting jobs at the Polish businesses. In the first half of 2021, the changes in the balance of the overdue accounts remained basically constant. In order to limit the potential credit losses, the extended credit risk management criteria and the intensified monitoring of the accounts receivables as well as the debt collection activities have been consistently applied.

In terms of the market environment, no elevated volatility of the commodity prices caused by the epidemic had been observed in the first half of 2021. However, with respect to the financial instruments, a further weakening of the Polish zloty and the continued low level of the interest rates had been observed. The change in the FX rates affects the incurred costs of purchasing the CO_2 emission allowances, as well as the valuation of the Company's debt denominated in the foreign currencies. On the other hand, the changes in the interest rates may affect the costs stemming from the financing agreements concluded based on the floating (variable) interest rate as well as the regulated revenue in the Distribution Line of Business (Segment).

The persistent COVID-19 pandemic brought about certain difficulties in the implementation of the strategic investment projects carried out by TAURON Capital Group. In case of the 910 MW power generating unit construction project in Jaworzno the consortium acting as the General Contractor of the unit identified the impact of the pandemic on the contract performance, and the employer, i.e. Nowe Jaworzno Grupa TAURON, was informed in the relevant note provided by the General Contractor. In the content of the above note it was indicated that the COVID-19 pandemic had resulted in both the unavailability of the key E003B7 sp. z o.o. personnel members for the work to be carried out, as well as the key subcontractors, indicating some of the tune-up and optimization works, which, in the opinion of the General Contractor, could not have been carried out due to the limitations caused by the pandemic. As of the date of drawing up this report , the Employer is conducting the applicable analyses of the correspondence provided by the General Contractor and proceeded, at the request of the General Contractor, to the mediation process with the respect to the circumstances related to the dispute between the Parties, including also the circumstances that have an impact on the implementation of the project and stem from the persistent COVID-19 pandemic condition.

In the case of other projects underway, the difficulties related to their implementation were reported, which was caused by the absence of a significant portion of the people employed, in particular due to the quarantine or home isolation, as a consequence of the COVID-19 infection. As a result, there were delays in the schedule, and in some cases, the amendments that postpone the achievement of the milestones are currently being processed. In addition, there were problems with access to the public administration authorities, which resulted in the extension of the duration of the administrative proceedings.

In order to minimize the consequences of the disruptions to the projects that have occurred, all of the contractors implementing the investment projects have been cooperating, closely and on an ongoing basis, with TAURON Capital Group's subsidiaries responsible for the investment projects that are monitoring the status of the projects and reacting adequately to the situation, using the tools available.

The situation related to the COVID-19 pandemic has continued to have an impact upon the operational activities of the individual Lines of Business of TAURON Capital Group due to the heightened employee absenteeism and an increase in the operating costs resulting from the need to meet the epidemiological conditions. In this regard, TAURON Capital Group has continuously been taking a number of preventive measures with respect to the organizational and material (tangible) solutions aimed at providing the protection for the employees of TAURON Capital Group's individual subsidiaries and maintaining the continuity of the operations of the critical infrastructure. The coordination of the efforts associated with ensuring safety related to the risk (threat) of falling ill with COVID-19 is carried out by the dedicated Crisis Teams set up at the level of both the Company as well as that of the individual subsidiaries of TAURON Capital Group.

TAURON Capital Group, being aware of the threats (risks) related to the epidemiological situation, continued to undertake active measures aimed at minimizing the impact of the current and the expected economic situation, as well as providing the protection against the extreme events. It should be emphasized that that the situation related to the COVID-19 pandemic is highly volatile and the future effects and the scale of the pandemic are currently difficult to precisely estimate. The duration of the pandemic, its severity and scope, the availability and the pace of the vaccination, as well as the impact on the economic growth in Poland in the short, medium and long term will be important.

The Management Board of the Company, being aware of the threats stemming from the pandemic, is monitoring the impact thereof on an ongoing basis and will be taking all possible steps in order to mitigate any negative effects of the pandemic's impact on TAURON Capital Group.

6.5. Other information that could be material for the evaluation of TAURON Capital Group's personnel, assets, financial position, financial result and the changes thereof, as well as the information that could be material for the evaluation of the ability of TAURON Capital Group to meet its obligations

Apart from the events indicated in this information, no other events occurred in the first half of 2021 that were material for the evaluation of the personnel, assets, financial position and the financial result of TAURON Capital Group and the changes thereof, as well as for the evaluation of the ability of TAURON Capital Group to meet its obligations.

Katowice, September 15, 2021

Artur Michałowski	- Vice President of the Management Board and acting as the President of the Management Board
Patryk Demski	- Vice President of the Management Board
Krzysztof Surma	- Vice President of the Management Board
Jerzy Topolski	- Vice President of the Management Board

Appendix A: GLOSSARY OF TERMS AND LIST OF ABBREVIATIONS

The glossary of trade terms and the list of abbreviations and acronyms most commonly used in this information is presented below.

Table no. 31. Explanation of abbreviations and acronyms as well as trade terms

Abbreviation and trade term		Full name / explanation
1.	Abener Energia	Abener Energia S.A. (Joint Stock Company) with its registered office in Campus Palmas Altas (Sevilla).
2.	Amon	Amon sp. z o.o. (Ltd.) with its registered office in Łebcz.
3.	ARA	Dollar based carbon price index in the EU. Loco Amsterdam - Rotterdam - Antwerp ports
4.	AVAL-1	AVAL-1 sp. z o. o. (Ltd.) with its registered office in Szczecin.
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.	Bioeko Grupa TAURON	Bioeko Grupa TAURON Sp. z o.o. (Ltd.) with its registered office in Stalowa Wola.
7.	Cash pool	True real time (online) *cash pool* structure, implemented under the cash management agreement, is based on the daily limits. As a result of the implementation of the *cash pool* mechanism, cash transfers are made between the accounts of the service participants and the Pool Leader's account.
8.	CDS	Clean Dark Spread - margin ratio used to calculate the profitability of electricity production, taking into account the revenues from the sale of electricity and the cost of fuel and CO_2 emission allowances.
9.	CEEAG	Climate, Energy and Environmental Aid Guidelines - guidelines on state aid for climate and environment protection as well as energy objectives
10.	Shared Services Centers	Shared Services Centers (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, CUW Insurance, CUW Protection).
11.	Color certificates	Property rights based on the certificates of origin of electricity generated in the way that is subject to support, the so-called color certificates: **green** - certificates of origin of electricity from RES, **blue** - certificates of origin of electricity generated from agricultural biogas. **white** - energy efficiency certificates (mechanism stimulating and forcing pro-savings behaviors) **yellow** - certificates of origin of electricity generated in co-generation from gas-fired sources or with the total installed capacity below 1 MW, **red** - certificates of origin of electricity from co-generation (CHP certificates - Combined Heat and Power), **violet** - certificates of origin of electricity generated in co-generation fired using methane released and captured during underground mining works in active, in liquidation or liquidated hard coal mines, or using gas obtained from biomass processing,
12.	CIF	Cost, Insurance, Freight
13.	CIRS	Currency Interest Rate Swap - transaction involving an exchange of the interest payments between the counterparties, accrued on the amounts denominated in various currencies and determined according to various interest rates.
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.	CVaR	Credit Value at Risk – a measure of risk determining the maximum potential loss due to credit risk with the given probability and within a specified time horizon.
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.	Best Practices 2016	Document entitled *Best Practices of WSE Listed Companies 2016*, adopted by the Supervisory Board of the Warsaw Stock Exchange S.A. on October 13, 2015, effective as of January 1, 2016, replaced by the *Best Practices of WSE Listed Companies 2021*, adopted by the Supervisory Board of the Warsaw Stock Exchange S.A. on March 29, 2021, effective as of July 1, 2021.
18.	Best Practices 2021	Document entitled *Best Practices of WSE Listed Companies 2021*, adopted by the Supervisory Board of the Warsaw Stock Exchange S.A. on March 29, 2021, effective as of July 1, 2021. The document replaced the *Best Practices of WSE Listed Companies 2016* in force before, adopted by the Supervisory Board of the Warsaw Stock Exchange S.A. on October 13, 2021.
19.	EBIT	Earnings Before Interest and Taxes.
20.	EBITDA	Earnings Before Interest, Taxes, Depreciation and Amortization.
21.	EC Stalowa Wola	Elektrociepłownia Stalowa Wola S.A. (Joint Stock Company) with its registered office in Stalowa Wola (Stalowa Wola Combined Heat and Power Plant (CHP)).

	Abbreviation and trade term	Full name / explanation
22.	EEX (EEX exchange)	European Energy Exchange – the European energy exchange in Leipzig, where the contracts and derivatives for electricity for various European countries are traded, as well as the primary auctions of the CO_2 emission allowances are conducted.
23.	Enea	Enea S.A. (Joint Stock Company) with its registered office in Poznań.
24.	Energa	Energa S.A. (Joint Stock Company) with its registered office in Gdańsk.
25.	ERM	Enterprise Risk Management.
26.	EU ETS	European Union Emission Trading System – the European system for trading the CO_2 emission allowances.
27.	EUA	European Union Allowance - an allowance to introduce the carbon dioxide (CO2) equivalent to the air, within the meaning of Article 2 section 4 of the *act of July 17, 2009, on the management system of emissions of greenhouse gases and other substances*, which is used for settlements of emission level within the system and which can be managed under the rules provided in the *Act of April 28, 2011, on the system of greenhouse gases emission allowances trading*
28.	EUR	Euro - a common European currency introduced in some EU member states
29.	EWI	Early Warning Indicator.
30.	Finanse Grupa TAURON	Finanse Grupa TAURON sp. z o.o. (Ltd.) with its registered office in Katowice.
31.	FIZ	Fundusz Inwestycyjny Zamknięty (Closed-end Investment Fund)
32.	FIZAN	Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych (Closed-end Private Equity Investment Fund)
33.	GPW	Warsaw Stock Exchange (WSE) (Giełda Papierów Wartościowych w Warszawie S.A. (Joint Stock Company)) with its registered office in Warsaw.
34.	TAURON Capital Group	TAURON Capital Group Polska Energia S.A. (Joint Stock Company)
35.	GZE	Górnośląski Zakład Elektroenergetyczny S.A. (Joint Stock Company) with its registered office in Gliwice.
36.	ICE (giełda ICE)	InterContinental Exchange – the commodity and financial exchange, where, among others, the contracts for oil, coal, natural gas and the CO_2 emission allowances are traded.
37.	IRS	Interest Rate Swap - interest payment swap contract, one of the main derivatives that is traded on the interbank market
38.	KGHM Polska Miedź	KGHM Polska Miedź S.A. (Polish Copper Mining Joint Stock Company) with its registered office in Lubin.
39.	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
40.	KRI	Key Risk Indicator.
41.	KW Czatkowice	Kopalnia Wapienia (Limestone Mine) "Czatkowice" sp. z o.o. (Ltd.) with its registered office in Krzeszowice.
42.	LNG	Liquefied Natural Gas.
43.	Łagisza Grupa TAURON	Łagisza Grupa TAURON sp. z o.o. (Ltd.) with its registered office in Katowice.
44.	Marselwind	Marselwind sp. z o.o. (Ltd.) with its registered office in Katowice.
45.	Mg	Megagram - million gram (1 000 000 g), i.e. ton.
46.	IFRS	International Financial Reporting Standards.
47.	NCBR	National Research and Development Center (Narodowe Centrum Badań i Rozwoju) with its registered office in Warsaw.
48.	Nowe Jaworzno Grupa TAURON	Nowe Jaworzno Grupa TAURON sp. z o.o. (Ltd.) with its registered office in Jaworzno.
49.	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
50.	OTC (OTC market)	Over The Counter Market – European OTC market.
51.	OW OFFSHORE	OW OFFSHORE S.L. with its registered office in Madrid, Spain - a joint venture in which EDP Renovaveis SA with its registered office in Lisbon, Portugal, and ENGIE SA based in Paris, France, each hold 50% of the shares.
52.	OZE	Renewable Energy Sources (Odnawialne Źródła Energii - OZE)
53.	P/B ratio	Ratio of the peak forward product prices to the base forward product prices
54.	PEAK (kontrakt PEAK)	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.

Abbreviation and trade term		Full name / explanation
55.	PEPKH	Polska Energia - Pierwsza Kompania Handlowa sp. z o.o. (Ltd.) with its registered office in Warsaw.
56.	PFR	Polski Fundusz Rozwoju S.A. (Polish Development Fund Joint Stock Company) with its registered office in Warsaw.
57.	PGE	PGE Polska Grupa Energetyczna S.A. (Joint Stock Company) with its registered office in Warsaw.
58.	PGE EJ 1	PGE EJ 1 sp. z o.o. (Ltd.) with its registered office in Warsaw.
59.	PGNiG	Polskie Górnictwo Naftowe i Gazownictwo S.A. (Polish Oil and Gas Joint Stock Company) with its registered office in Warsaw.
60.	PKB	Gross Domestic Product (Produkt Krajowy Brutto).
61.	PLN	Polish zloty currency symbol – zł
62.	PMEF	Property rights related to the energy efficiency certificates
63.	PMOZE	Property rights related to the certificates of origin confirming generation of electricity in RES before March 1, 2009.
64.	PMOZE_A	Property rights related to the certificates of origin confirming generation of electricity in RES after March 1, 2009.
65.	PMOZE-BIO	Property rights related to the certificates of origin confirming generation of electricity from agricultural biogas from July 1, 2016
66.	Polpower	Polpower sp. z o.o. (Ltd.) with its registered office in Połczyn-Zdrój.
67.	Paris Accord	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 European Union on October 5, 2016.
68.	PSE	Polskie Sieci Elektroenergetyczne S.A. (Joint Stock Company) with its registered office in Konstancin-Jeziorna.
69.	Balancing Market (Rynek Bilansujący – RB)	Balancing Market (Rynek Bilansujący) - technical market on which the demand for and supply of electricity in the National Power System (KSE) is balanced.
70.	Day Ahead Market	Day Ahead Market - a market operating on the POLPX (TGE), where trading is carried out one and two days ahead of the delivery.
71.	SARS-CoV-2	Severe Acute Respiratory Syndrome - virus that causes the COVID-19 disease.
72.	SCE Jaworzno III	Spółka Ciepłowniczo Energetyczna Jaworzno III sp. z o.o. (Ltd.) with its registered office in Jaworzno.
73.	Customer scoring	A technique that allows for evaluating the customers of financial institutions based on specific characteristics. The data obtained using this method makes it possible to predict whether the person applying for the money (e.g. through a credit or a loan) will be able to pay off the liability on time.
74.	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 5 main Segments: Mining, Generation, RES, Distribution and Supply, as well as, additionally, Other Operations.
75.	SPOT (rynek SPOT)	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.
76.	Company	TAURON Polska Energia S.A. (Joint Stock Company) with its registered office in Katowice.
77.	Company's Articles of Association	Document entitled *Articles of Association of TAURON Polska Energia S.A. (Joint Stock Company)*
78.	Stop Loss	Mechanism aimed at maintaining the S-P Result at an acceptable level by limiting excessive losses resulting from the valuation of an open position.
79.	TAMEH HOLDING	TAMEH HOLDING sp. z o.o. (Ltd.) with its registered office in Dąbrowa Górnicza.
80.	TAMEH POLSKA	TAMEH POLSKA sp. z o.o. (Ltd.) with its registered office in Dąbrowa Górnicza.
81.	TAMEH Czech	TAMEH Czech s.r.o. with its registered office in Ostrava (Czech Republic).
82.	TAURON	TAURON Polska Energia S.A. (Joint Stock Company) with its registered office in Katowice.
83.	TAURON Ciepło	TAURON Ciepło sp. z o.o. (Ltd.) with its registered office in Katowice.
84.	TAURON Czech Energy	TAURON Czech Energy s.r.o. with its registered office in Ostrava (Czech Republic).
85.	TAURON Dystrybucja	TAURON Dystrybucja S.A. with its registered office in Cracow.
86.	TAURON Dystrybucja Pomiary	TAURON Dystrybucja Pomiary sp. z o.o. (Ltd.) with its registered office in Tarnów.
87.	TAURON EKOENERGIA	TAURON EKOENERGIA sp. z o.o. (Ltd.) with its registered office in Jelenia Góra.

Abbreviation and trade term		Full name / explanation
88.	TAURON Nowe Technologie	TAURON Nowe Technologie S.A. (Joint Stock Company) (formerly: TAURON Dystrybucja Serwis S.A. (Joint Stock Company)) with its registered office in Wrocław.
89.	TAURON Obsługa Klienta	TAURON Obsługa Klienta sp. z o.o. (Ltd.) with its registered office in Wrocław.
90.	TAURON Serwis	TAURON Serwis sp. z o.o. (Ltd.) with its registered office in Katowice.
91.	TAURON Sprzedaż	TAURON Sprzedaż sp. z o.o. (Ltd.) with its registered office in Cracow.
92.	TAURON Sprzedaż GZE	TAURON Sprzedaż GZE sp. z o.o. (Ltd.) with its registered office in Gliwice.
93.	TAURON Wydobycie	TAURON Wydobycie S.A. (Joint Stock Company) with its registered office in Jaworzno.
94.	TAURON Wytwarzanie	TAURON Wytwarzanie S.A. (Joint Stock Company) with its registered office in Jaworzno.
95.	TEC1	TEC1 sp. z o.o. (Ltd.) with its registered office in Katowice.
96.	TEC2	TEC2 sp. z o.o. (Ltd.) with its registered office in Katowice.
97.	TEC3	TEC3 sp. z o.o. (Ltd.) with its registered office in Katowice.
98.	TGEozebio	Property rights that confirm the production of electricity from renewable energy sources using agricultural biogas.
99.	Unbundling	Separation of the operations with respect to transmission or distribution of electricity from the operations that involve the production and delivery (supply) of this electricity to the final consumers.
100.	USA	United States of America.
101.	USD	United States Dollar - US dollar's international acronym
102.	VaR	Value at Risk - a measure of risk that determines the maximum possible change in the value of the Portfolio with the given probability and within a specified time frame.
103.	WACC	Weighted Average Cost of Capital - the weighted average cost of capital of the company, weighted respectively by the share of debt and equity in the company's capital structure.
104.	Wind T1	Wind T1 sp. z o. o. . z o.o. with its registered office in Jelenia Góra.
105.	Wsparcie Grupa TAURON	Wsparcie Grupa TAURON sp. z o.o. (Ltd.) with its registered office in Tarnów.
106.	Wynik S-P	Sales minus Purchase -. the amount of the current and future cash flows generated in a given financial year related to the trading activities on the energy and related products markets. The amount is the sum of the first degree margin on the closed position and the first degree margin on the open position based on the fair value valuation (MtM – mark to market value adjustment) taking into account the transaction costs incurred.
107.	ZG	Coal Mine (Zakład Górniczy - ZG) (Janina Coal Maine in Libiąż, Sobieski Coal Mine in Jaworzno, Brzeszcze Coal Mine in Brzeszcze).

Appendix B: INDEX OF TABLES AND FIGURES

The list of tables and figures presented in this information is provided below.

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