REPORT OF THE MANAGEMENT BOARD
ON OPERATIONS OF
TAURON POLSKA ENERGIA S.A. CAPITAL GROUP
IN THE FIRST HALF OF 2017

AUGUST 2017

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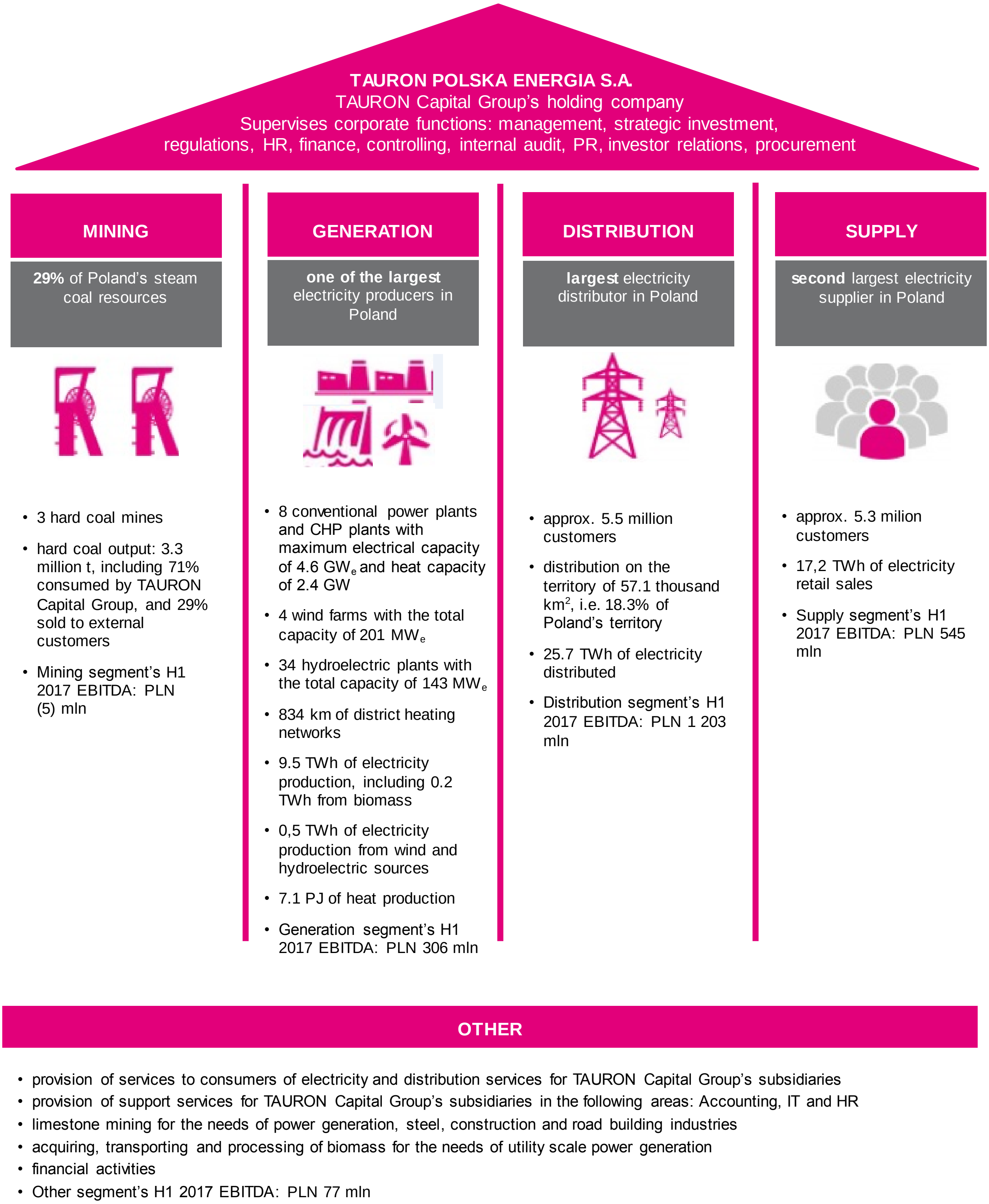
1. TAURON CAPITAL GROUP

1.1. Basic Information on TAURON Capital Group

TAURON Polska Energia S.A. Capital Group (TAURON Capital Group) is a vertically integrated energy group located in the south of Poland. TAURON Capital Group conducts its operations in all key segments of the energy market (excluding electricity transmission which is the sole responsibility of the Transmission System Operator (TSO)), i.e. hard coal mining as well as electricity and heat generation, distribution and trading.

Figure no. 1. TAURON Capital Group



1.2. Business segments (lines of business)

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

Mining segment, comprising mainly hard coal mining, enriching and selling in Poland with such operations conducted by TAURON Wydobycie S.A. (TAURON Wydobycie). As of December 1, 2016 Nowe Brzeszcze Grupa TAURON sp. z o.o. (Nowe Brzeszcze GT) subsidiary was merged with TAURON Wydobycie.

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

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

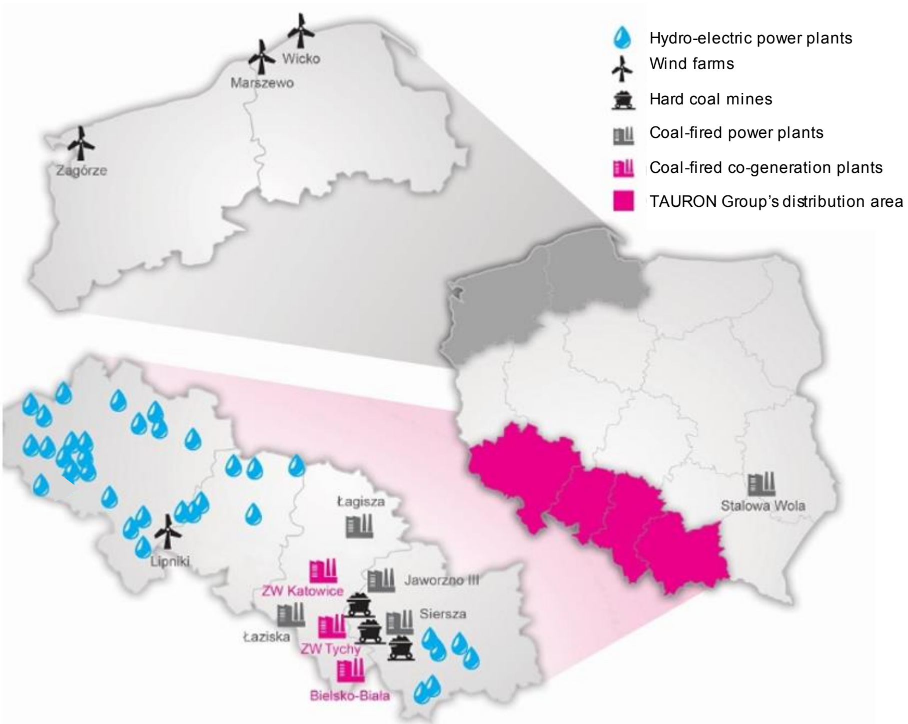
Supply segment, comprising electricity supply to the final consumers and electricity wholesale trading, as well as trading and management of CO_2 emission allowances and property rights arising from certificates of origin as well as fuels. The operations in this segment are conducted by the following subsidiaries: TAURON Polska Energia S.A. (TAURON or the Company), TAURON Sprzedaż sp. z o.o. (TAURON Sprzedaż), TAURON Sprzedaż GZE sp. z o.o. (TAURON Sprzedaż GZE) and TAURON Czech Energy s.r.o. (TAURON Czech Energy).

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

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

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

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



In H1 and Q2 2016 TAURON Capital Group posted the following key operating data as compared to the same periods of 2016:

Table no 1. TAURON Capital Group's key operating data

Key operating data	Unit	H1 2017	H1 2016	% change 2017/2016	Q2 2017	Q2 2016	% change 2017/2016
Commercial coal production	Mg m	**3.32**	2.48	34%	**1.81**	1.27	42%
Electricity generation	TWh	**9.46**	8.45	12%	**4.56**	4.14	17%
Electricity generation from renewable sources	TWh	**0.66**	0.77	(14)%	**0.33**	0.36	(9)%
Generation from biomass	*TWh*	***0.18***	*0.37*	*(51)%*	***0.08***	*0.17*	*(54)%*
Generation from hydroelectric power plants and wind farms	*TWh*	***0.48***	*0.40*	*20%*	***0.25***	*0.19*	*34%*
Heat generation	PJ	**7.09**	6.43	10%	**1.80**	1.59	13%
Electricity distribution	TWh	**25.70**	24.77	4%	**12.40**	12.04	3%
Electricity supply (by the Supply and Generation segments)	TWh	**23.15**	24.28	(5)%	**11.01**	11.63	(5)%
- retail sales	*TWh*	***17.21***	*15.58*	*10%*	***8.08***	*7.22*	*12%*
- wholesale	*TWh*	***5.94***	*8.69*	*(32)%*	***2.92***	*4.41*	*(34)%*
Number of customers - Distribution	'000	**5 501**	5 446	1%	**5 501**	5 446	1%

1.3. TAURON Capital Group's organization and structure

TAURON Polska Energia S.A. parent (holding) company was established on December 6, 2006 as part of the *Program for the Power Generation Sector*. The founders of the Company included: State Treasury represented by the Minister of Treasury, EnergiaPro S.A. with its seat in Wrocław (currently: TAURON Dystrybucja), ENION S.A. with its seat in Cracow (currently: TAURON Dystrybucja) and Elektrownia Stalowa Wola S.A. with its seat in Stalowa Wola (currently: TAURON Wytwarzanie). The Company was registered in the National Court Register on January 8, 2007 under the name: Energetyka Południe S.A. The change of the Company's name to its current one, i.e. TAURON Polska Energia S.A., was registered on November 16, 2007. The company does not have any branches (plants).

As of June 30, 2016 TAURON Capital Group's key subsidiaries, besides the TAURON parent company, included 19 units subject to consolidation listed in section 1.3.1. of this report. Furthermore, the Company held, directly or indirectly, shares in the other 35 subsidiaries.

"TAURON Group's" management rules

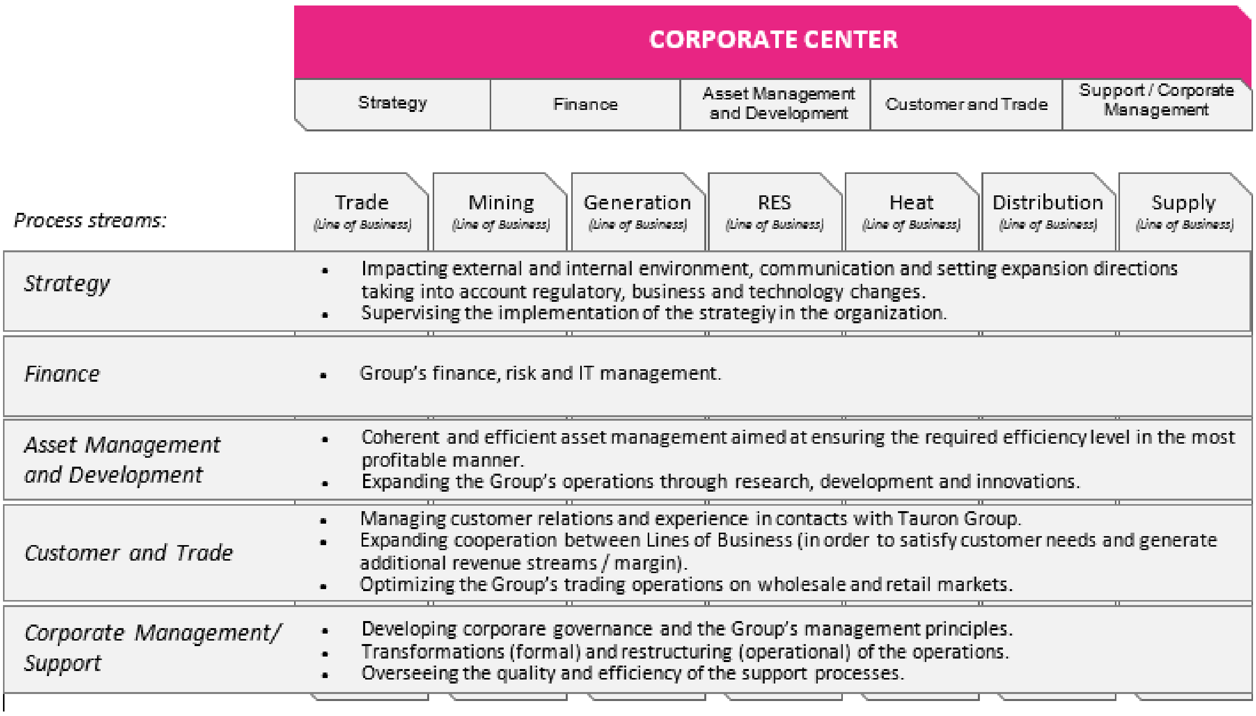
"TAURON Group" is made up of TAURON Capital Group's subsidiaries selected by the Management Board that are managed jointly as a uniform business entity composed of autonomous commercial law companies, headed by TAURON Polska Energia S.A. as a parent (holding) company.

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

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

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

Figure no. 3. TAURON Group's Business Model



"TAURON Group's" primary normative act is *TAURON Group's Code* adopted by the Company's Management Board that governs its performance, ensuring the accomplishment of its goals based on specially designed solutions with respect to managing "TAURON Group's" entities, including, in particular, defining the subsidiaries' operations' objectives that would enable achieving the results assumed in *TAURON Group's 2016-2025 Strategy* (Strategy).

Additionally, the following "TAURON Group's" standing Committees are operating within "TAURON Group":

1) Investment Committee,
2) Risk Committee.

The above Committees were established in order to enable conducting of the operations in accordance with "TAURON Group's" operational integrity assumptions, in compliance with the law and interests of "TAURON Group" and those of its stakeholders.

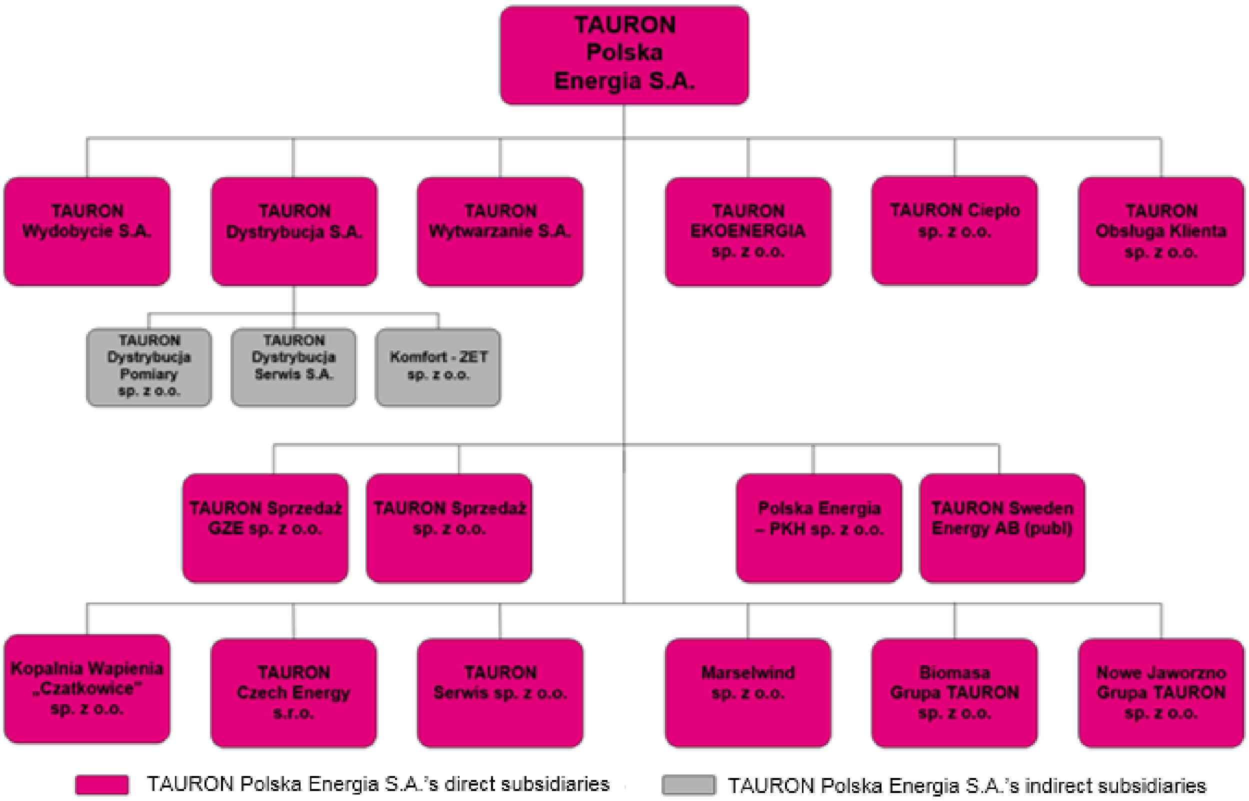
The Committees' primary task is to oversee the implementation by all the participants of "TAURON Group" of consistent actions in compliance with *TAURON Group's Code* and in the interest of "TAURON Group".

The Committees' detailed tasks are defined in the by-laws of their operations adopted by the Company's Management Board.

1.3.1. Units subject to consolidation

The below figure presents TAURON Capital Group's structure, including the subsidiaries subject to consolidation, as of June 30, 2017.

Figure no. 4. TAURON Capital Group's structure, including the subsidiaries subject to consolidation, as of June 20, 2017



Furthermore, TAURON Capital Group holds stakes in joint ventures: Elektrociepłownia Stalowa Wola S.A. (ECSW), Elektrownia Blachownia Nowa sp. z o.o. in liquidation (Elektrownia Blachownia Nowa in liquidation) and TAMEH HOLDING sp. z o.o. Capital Group (TAMEH HOLDING) (composed of TAMEH HOLDING, holding a 100% stake in the capital and the governing body of the subsidiaries: TAMEH POLSKA sp. z o.o. (TAMEH POLSKA) and TAMEH Czech s.r.o. (TAMEH Czech)). The above companies are valued using the equity method in the consolidated financial statements.

1.3.2. Changes to TAURON Capital Group's organization

In the 1st half of 2017 and by the day of drawing up this report the following changes to the organisation of TAURON Capital Group had taken place:

Split of TAURON Wytwarzanie by transferring assets to the newly established Nowe Jaworzno Grupa TAURON sp. z o.o. company (vehicle)

On April 3, 2017 the District Court for Katowice – Wschód, 8th Commercial Department, registered in the National Court Register the split of TAURON Wytwarzanie passed by the Extraordinary GM of TAURON Wytwarzanie on January 31, 2017. The split of TAURON Wytwarzanie took place by spinning off under art. 529 § 1 clause 4) of the Commercial Companies Code, i.e. by transferring some assets of TAURON Wytwarzanie in the form of an organized part of the enterprise including the investment process related to the construction of the new 910 MW power generation unit at Jaworzno III Power Plant, carried out by TAURON Wytwarzanie - Oddział Jaworzno 910 MW at Jaworzno, to the newly established "Nowe Jaworzno Grupa TAURON sp. z o.o." company (vehicle) in exchange for 37 000 shares in the Nowe Jaworzno GT company (vehicle) with the nominal value of PLN 50 per share and the total nominal value of PLN 1 850 000.

The above shares were taken up by the sole shareholder of the split subsidiary, i.e. TAURON. ”Nowe Jaworzno Grupa TAURON sp. z o.o. in organization” company (vehicle) was established upon passing of the above-mentioned resolution. At the same time, on January 31, 2017 the shareholders of the Nowe Jaworzno Grupa TAURON sp. z o.o. in organization company (vehicle) passed a resolution with respect to the above-mentioned split.

The split process is the result of the implementation of the Strategy according to which the 910 MW unit construction project at Jaworzno III Power Plant will be carried out under a new financing formula, assuming spinning off out of TAURON Wytwarzanie of an organized part of the enterprise and selling a stake therein to external partners.

Increase of the subsidiaries' share capital

1. On April 7, 2017 the District Court for Katowice – Wschód, 8th Commercial Department, registered in the National Court Register an increase in the share capital of Tauron Wydobycie, passed by the Extraordinary GM of TAURON Wydobycie on March 21, 2017. The subsidiary's share capital was increased from PLN 355 510 780 to PLN 357 110 780, i.e. by PLN 1 600 000, by way of issuance of 160 000 new "K" series registered shares with the nominal value of PLN 10 per share and the total nominal value of PLN 1 600 000. All of the "K" series shares were taken up, by way of a private placement subscription, by the subsidiary's sole shareholder – TAURON.
2. On June 26, 2017 the District Court for Katowice – Wschód, 8th Commercial Department, registered in the National Court Register an increase in the share capital of Nowe Jaworzno GT, made in accordance with the rules defined in the resolution of the Extraordinary GM of Nowe Jaworzno GT on April 19, 2017, amended on May 16, 2017. Ultimately the subsidiary's share capital was increased from PLN 1 850 000 to PLN 31 850 000, i.e. by PLN 30 000 000, by way of issuance of 600 000 new shares with the nominal value of PLN 50 per share and the total nominal value of PLN 30 000 000. All of the new shares were taken up by the subsidiary's existing sole shareholder – TAURON.

   On July 13, 2017 the District Court for Katowice – Wschód, 8th Commercial Department, registered in the National Court Register an increase in the share capital of Nowe Jaworzno GT, passed by the Extraordinary GM of Nowe Jaworzno GT on June 29, 2017. The subsidiary's share capital was increased from PLN 31 850 000 to PLN 35 850 000, i.e. by PLN 4 000 000, by way of issuance of 80 000 new shares with the nominal value of PLN 50 per share and the total nominal value of PLN 4 000 000. All of the new shares were taken up by the subsidiary's existing sole shareholder – TAURON.
3. On June 20, 2017 the District Court for Katowice – Wschód, 8th Commercial Department, registered in the National Court Register an increase in the share capital of TAURON Ciepło, passed by the Extraordinary GM of TAURON Ciepło on May 11, 2017. The subsidiary's share capital was increased from PLN 1 098 348 500 to PLN 1 104 348 500, i.e. by PLN 6 000 000, by way of issuance of 120 000 new shares with the nominal value of PLN 50 per share and the total nominal value of PLN 6 000 000. All of the new shares were taken up by the subsidiary's existing sole shareholder – TAURON.
4. On June 28, 2017 the Extraordinary GM of Marselwind sp. z o.o. passed a resolution on increasing the subsidiary's share capital from PLN 105 000 to PLN 110 000, i.e. by PLN 5 000. All of the new shares were taken up by the subsidiary's existing sole shareholder – TAURON. As of the day of preparing this information the share capital increase had not been registered in the National Court Register yet.

Revoking of the liquidation of the PEPKH subsidiary

On March 8, 2017 the Extraordinary GM of the PEPKH subsidiary in liquidation, pursuant to art. 273 of the Commercial Companies Code, passed the resolution on the further existence of the company and revoking its liquidation. The revoking of the company's liquidation was due to the change of the conditions related to the liquidation proceedings underway, indicating the purposefulness of the further existence of the company, in connection with the pending court litigations in which PEPKH is a party.

Establishing new companies

1. On May 25, 2017 company KOMFORT Zarządzanie Aktywami sp. z o.o. in organization with its seat in Katowice was established. The company's share capital is PLN 5 000 and is split into 100 shares with the nominal value of PLN 50 per share that were taken up in the following way:
   1) Komfort – ZET sp. z o.o. with its seat in Tarnów took up 99 shares,
   2) TAURON Dystrybucja Pomiary with its seat in Tarnów took up 1 share.

   The company was established in order to concentrate therein minority shares held by TAURON Capital Group's subsidiaries in commercial law companies that are not subsidiaries, joint subsidiaries and associated companies, including companies undergoing liquidation and bankruptcy proceedings, and then sell the company outside of TAURON Capital Group. The above company was registered in the National Court Register on August 1, 2017.
2. On August 1, 2017 the following companies with their seats in Katowice were established:

1) En-Energia I sp. z o.o. in organization,
2) En-Energia II sp. z o.o. in organization,
3) En-Energia III sp. z o.o. in organization,
4) En-Energia IV sp. z o.o. in organization.

In each of the above-mentioned companies all of the 100 shares with the nominal value of PLN 50 per share and the total nominal value of PLN 5 000 were taken up by TAURON. As of the day of preparing this information the above-mentioned companies have not been registered in the National Court Register yet.

The above-mentioned companies were established in conjunction with the reorganization projects underway and envisaged by TAURON Capital Group.

Due to the changes to the organization of TAURON Capital Group, as of the day of completing this report, the Company holds, directly or indirectly, shares in 58 companies.

1.4. Major domestic and foreign investment projects

1.4.1. Purchase of equity securities

Purchase of equity securities

Purchase of shares in Nowe Jaworzno GT

In 2017 TAURON took up new shares Nowe Jaworzno GT's share capital three times:

1) on January 31, 2017 TAURON took up 37 thousand shares at the price of PLN 50 per share, for the total amount of PLN 1 850 thousand,
2) on May 16, 2017 TAURON took up 600 thousand shares at the price of PLN 5 thousand per share, for the total amount of PLN 3 000 000 thousand,
3) on June 29, 2017 TAURON took up 80 thousand shares at the price of PLN 5 thousand per share, for the total amount of PLN 400 000 thousand.

Purchase of shares in TAURON Wydobycie

On March 21, 2017 TAURON took up 160 thousand shares in TAURON Wydobycie at the price of PLN 1 thousand per share, for the total amount of PLN 160 000 thousand.

Purchase of shares in TAURON Ciepło

On May 11, 2017 TAURON took up 120 thousand shares in TAURON Ciepło at the price of PLN 5 thousand per share, for the total amount of PLN 600 000 thousand.

Major investments in financial assets

TAURON Capital Group's major investments in financial assets in H1 2017 include TAURON, being the parent company, granting loans to the ECSW joint subsidiary for the total amount of PLN 295 992 thousand. As of the balance sheet day the amount of loans granted to ECSW reached PLN 550 993 thousand.

1.4.2. Implementation of strategic investment projects

Key strategic investment projects underway

The below table below presents the activities carried out by TAURON Capital Group in the 1st half of 2017, in connection with the implementation of the key strategic investment projects.

Table no. 2. Key strategic investment projects' work progress

#	Investment project	Work progress
1.	Construction of a 449 MW_e CCGT unit, including a 240 MW_t heat generation component at Stalowa Wola (Project implemented jointly with the strategic partner - Polskie Górnictwo Naftowe i Gazownictwo S.A. (PGNiG)).	On March 31, 2017 all liabilities under ECSW's loan agreements towards the financing banks (European Investment Bank, European Bank for Reconstruction and Development, Bank Polska Kasa Opieki S.A.) were totally repaid. Upon the crediting of the financing institutions' bank accounts the suspending conditions

#	Investment project	Work progress
	Contractor: the contract with Abener Energia S.A. was terminated. The Project's completion is envisaged under the EPCM formula (contract manager). **Planned project completion date**: 2019 **Work progress**: 86% **Expenditures incurred**: PLN 969.1 mln	were met and at the same time the documents came into force, i.e. the agreement on establishing the basic boundary conditions of the Project's restructuring among TAURON, PGNiG and ECSW, the amendment to the electricity sale agreement among TAURON, PGNiG and ECSW and the amendment to the gas supply agreement between PGNiG and ECSW. Talks aimed at acquiring the financing required to complete the investment project are continued. Concept of the project's completion under the contract manager - EPCM formula and the contractors' contracting was prepared. All the parties to the project underway agreed with respect to the will to continue the project. The proceeding aimed at selecting the EPCM is underway. 8 applications for admission to take part in the proceeding aimed at selecting the EPCM were evaluated, 3 bidders were selected for further proceedings. As part of the tender proceedings site inspections and competitive dialogue meetings were held. The installed machines and devices' maintenance works were conducted on an ongoing basis in H1 2017, works related to the startup of the auxiliary devices are underway, power supply was provided to the unit's switchgear and talks with the suppliers and sub-suppliers of the main devices are underway. The proceeding aimed at selecting the Contractor to construct the cooling water's duct was completed. IDS-BUD S.A. was selected, preparations to commence the construction works are underway.
2.	Construction of a new 910 MW_e power generation unit for supercritical parameters at Jaworzno III Power Plant (TAURON Wytwarzanie). **Contractor**: RAFAKO S.A. and MOSTOSTAL WARSZAWA S.A. Consortium **Planned project completion date**: 2019 **Work progress**: 39% **Expenditures incurred**: PLN 2 757 mln	In H1 2017 the project's focus was on the construction works and on installing the steel structures and the process part. With respect to the machine room building the basic steel structure of the building including the overhead crane was completed. Installation of the generator's stator was completed. The cooling tower's ultimate height was achieved and the absorber's pump station's erection process was completed and its roof's steel structure was finished. EUROSILO reinforced concrete structure and the limestone dust and IOS wastewater treatment building's steel structure were completed. The installation of the boiler's process part and the boiler room's steel structure was continued and the construction works in the unit's control room and in the electric bay were continued. The carburization system's construction works were continued. The design works conducted by the Contractors selected in H1 2017 to construct: ignition oil (auxiliary fuel) installation, compressed air system, office building, power discharge system, water supply system as well as water treatment station and wastewater treatment plant were underway. The Contractor for the construction of the flyovers of pipelines was selected. Tender proceedings to select the Contractor for the construction of the track layout system, telecommunications network and the water and sewage network were continued. On March 1, 2017 an amendment with the RAFAKO S.A. - MOSTOSTAL WARSZAWA S.A. consortium was signed under which the agreement's net price was increased by PLN 71.05 mln (i.e. to PLN 4 470 mln), and the deadline for completing the subject of the agreement was extended by 8 months which means that the new date of handing the Unit over for operation is November 2019). The amendment did not impact the investment project's total budget. Amendments to the Agreement were due to the need to change the unit's facilities' foundations to the deep foundations, and also due to the parties to the Agreement agreeing on additional works beneficial to the Ordering Party for technical and economic reasons (erecting the foundation for the fifth electrofilter (EF) zone and extending the EF switchgear building). The project's implementation was transferred to the Nowe Jaworzno GT company (vehicle) that was established in April 2017 as a result of the spin-off out of TAURON Wytwarzanie. On June 1, 2017 TAURON signed with the Polish Fund for Development (Polski Fundusz Rozwoju S.A. - PFR) an agreement defining the preliminary terms of engagement in the construction of the new 910 MW power generation unit in Jaworzno. PFR expressed preliminary interest in investing PLN 880 mln.
3.	Construction of the "Grzegorz" shaft including the infrastructure and the accompanying headings (TAURON Wydobycie).	On May 15, 2017 an agreement was signed with the general contractor of the works: *"Construction works performed by the General Contractor of Stage I of Grzegorz shaft construction, including the construction of the above the ground infrastructure for*

#	Investment project	Work progress
	Contractor: Consortium KOPEX Przedsiębiorstwo Budowy Szybów S.A. FAMUR Pemug Sp. z o.o. (main task – Stage I), LINTER S.A. **Planned project completion date:** 2023 **Work progress**: 20% **Expenditures incurred**: PLN 90.2 mln	*TAURON Wydobycie S.A.*" – KOPEX Przedsiębiorstwo Budowy Szybów S.A. and FAMUR Pemug Sp. z o.o. consortium. As part of the project horizontal headings were excavated to the "Grzegorz" shaft on level 540 m; by mid-2017 the excavated heading's length reached 605 m.
4.	Construction of the 800 m level at ZG Janina (TAURON Wydobycie). **Contractor:** Tender proceeding aimed at selecting the contractor for the ultimate above the ground and underground infrastructure including the mine shaft elevator is underway (GWSZ), KOPEX **Planned project completion date:** 2020 **Work progress**: 52% **Expenditures incurred**: PLN 272.3 mln	Works associated with shaft drilling and furnishing as well as the installation of the shaft pipe to the ultimate depth were completed in H1 2017. The bottom stopper was installed, whereby the works connected with deepening of the shaft were completed – the project's milestone was achieved. The infrastructure used to deepen the shaft was dismantled and the area where the works had been conducted was cleaned up and secured. The works associated with the horizontal heading drilling on the 800 m level are continued. An open public tender was announced to select the contractor to complete the task: "Construction of the ultimate above the ground and underground infrastructure including the Janina VI shaft Mine Shaft Elevator".
5.	Brzeszcze Investment Program **Contractors:** TRANS-JAN, FAMUR and KOPEX Machinery Consortium, FAMUR and KPRGiBSz Consortium, MAS and Carbospec Consortium, Elektrometal Cieszyn **Planned Program completion date**: 2025 **Work progress**: 23% **Expenditures incurred**: PLN 110.4 mln	In H1 2017 the planned shipments of powered roof supports with the operational range adjusted to the 510 deposit were completed and a longwall shearer (mining system) was installed in the 05 wall – the program's milestone was achieved. As part of revitalizing and shortening of the main ventilation routes the works related to the alteration and reconstruction of the ventilation excavations on the 900 m level were continued. As part of adjusting the technical infrastructure to the specific operational needs the construction of the fine coal (nut coal and pea coal) sales facility and the construction of the water and ash blending station were underway.

Nuclear power plant construction project

On September 3, 2014 PGE Polska Grupa Energetyczna S.A. (PGE), TAURON, ENEA S.A. and KGHM Polska Miedź S.A. concluded the Partners' Agreement governing the rules of cooperation among Business Partners in the implementation of Poland's first nuclear power plant construction project.

On April 15, 2015 TAURON, KGHM Polska Miedź S.A. (KGHM) and ENEA S.A., as Business Partners and PGE Polska Grupa Energetyczna S.A. (PGE) concluded the agreement on the purchase of shares in PGE EJ 1 - the special purpose vehicle responsible for preparing and implementing of an investment project involving the construction and operation of Poland's first nuclear power plant with the capacity of approximately 3 thousand MW_e (Project). Each Business Partner acquired a 10% stake (30% of shares in total) in the PGE EJ 1 special purpose vehicle.

In accordance with the Partners' Agreement the Parties made a joint commitment, in proportion to the stakes held, to finance the operations of the PGE EJ 1 special purpose vehicle at the Project Development Stage.

On February 15, 2017 PGE EJ 1's share capital increase was registered in the National Court Register, in line with the resolution passed by the Extraordinary GM of the PGE EJ 1 special purpose vehicle on December 21, 2016. The share capital was increased from PLN 275 859 450 to PLN 310 858 470, i.e. by PLN 34 999 020, by way of issuance of 248 220 new shares with the nominal value of PLN 141 per share and the total nominal value of PLN 34 999 020. TAURON took up 24 822 new shares with the nominal value of PLN 141 per share and the total nominal value of PLN 3 499 902, paid for by cash in the amount of PLN 3 499 902.

In H1 2017 PGE EJ 1 was conducting design works in accordance with the scope agreed upon between the Partners encompassing mainly the performance of environmental and siting research.

Coal gasification project

On April 20, 2017 TAURON signed a letter of intent with Grupa Azoty S.A. defining general rules of commencing cooperation aimed at implementing the coal gasification project (Project).

The product of the technological process system that the letter of intent is applicable to is primarily the synthesis gas (syngas) with the composition that would allow using it directly to produce hydrogen, ammonia, methanol or other chemicals. The parties came to the conclusion that the current natural gas consumption in the nitrogen fertilizers manufacturing industry could partly be replaced with the synthesis gas (syngas) obtained as a result of coal gasification. This opens new prospects for the mining industry, increasing Poland's security of electricity supply by developing low emission technology.

The project is at the preFeed (Preliminary Front End Engineering Design) and accompanying analyses stage, including market research. As part of the project Grupa Azoty commissioned documentation related works, in particular a preliminary selection of the licensors and an update of the analyses. The Project's estimated value will reach between EUR 400 mln and EUR 600 mln, depending on the selected technology version.

TAURON declared its participation in the Project in accordance with the rules that will be defined by the Parties in separate agreements, including assuming selecting and completing an installation that would ensure maximizing the use of hard coal coming from TAURON Capital Group's coal mines. If TAURON is not able to provide appropriate quantity or parameters of coal required by the installation, it shall be permitted to supplement the supply with coal coming from other suppliers.

The letter of intent expresses the readiness of the parties to commerce talks and defines the general cooperation framework and does not cause, at the current stage, any financial or management implications for either Party. The Parties declared an intention to cooperate and expressed the will to sign further agreements, including agreements related to establishing a joint special purpose vehicle (SPV) to carry out the project. The letter of intent shall be valid until December 31, 2017. Either Party shall have the right to terminate the letter of intent at one month's notice.

Capital expenditures

In H1 2017 TAURON Capital Group's capital expenditures reached PLN 1 495 mln and were 3% higher than the expenditures incurred in the same period of last year (in H1 2016 capex reached PLN 1 452 mln). This was primarily due to the increased capex in the Generation segment. At the same time the expenditures in the Distribution and Mining segments decreased.

The below table presents selected capital expenditures incurred in H1 2017, highest by value, by TAURON Capital Group's Lines of Business:

Table no 3. Selected capital expenditures incurred in H1 2017 by Lines of Business

Item	Capital expenditures (PLN m)
Distribution	
Grid assets' upgrades (refurbishments) and replacements	296
Construction of new connections	244
Generation	
Construction of new capacity at Jaworzno III Power Plant (910 MW)	702
Investment projects related to the maintenance and development of district heating networks	8
Connecting new facilities	6
Mining	
Construction of the 800 m level at Janina Coal Mine	20
Brzeszcze Coal Mine's Investment Program	10
Construction of the "Grzegorz" shaft, including the infrastructure and the accompanying headings	6

2. TAURON CAPITAL GROUP'S OPERATIONS

2.1. Factors that will impact earnings over at least the next half a year

External factors

As in the past the following external factors will primarily impact the results from TAURON Capital Group's operations:

1) macroeconomic situation, especially in Poland, as well as the economic situation of the area where TAURON Capital Group conducts its operations and at the European Union and global economy level, including changes of interest rates, FX rates, etc., impacting the valuation of assets and liabilities recognized by the Company in the financial statements,
2) political environment, especially in Poland as well as at the European Union level, including positions and decisions taken by public administration institutions and authorities, for example: Office for Competition and Consumer Protection (UOKiK), Energy Regulatory Office (ERO) and the European Commission,
3) changes to the regulations related to the energy sector as well as changes to the legal environment, including: tax law, commercial law, environmental protection law,
4) planned introduction of the generation capacity remuneration mechanism (the so-called capacity market) and the decisions on the future shape of the operational capacity reserve (OCR) and the cold intervention reserve mechanisms,
5) support system for electricity generation by high efficiency co-generation plants, leading, on one hand, to the costs of redeeming the "red" and "yellow" certificates for electricity suppliers to the final consumers, and, on the other hand, to the revenue from the sales of the "red" and "yellow" certificates for electricity generators using co-generation plants,
6) New RES support system, the so-called RES auctions,
7) situation in the electricity sector, including the operations and measures undertaken by competition on the power market,
8) number of CO_2 emission allowances allocated free of charge, as well as prices of the emission allowances purchased – in case of the deficit of free emission allowances,
9) electricity prices on the wholesale market,
10) electricity and hard coal sales prices as well as distribution tariffs due to the DSO regulatory model adopted, as factors impacting the level of revenues,
11) prices of certificates of origin of energy from renewable sources and co-generation,
12) energy related commodity prices,
13) environment protection requirements,
14) science (research) and technical progress,
15) demand for electricity and other energy market products, including changes due to seasonal factors and weather conditions.

Internal factors

The following internal factors impacting the results from TAURON Capital Group's operations are most significant:

1) actions with respect to optimizing processes taken by all of TAURON Capital Group's subsidiaries,
2) implementation of the *Efficiency Improvement Program* aimed at reducing TAURON Capital Group's operating expenses in 2016-2018, including the consolidation and restructuring projects, the Voluntary Redundancy Programs for the workforce,
3) steadfast implementation of the Strategy and achieving the assumed financial and non-financial effects,
4) decisions with respect to the implementation of the key investment projects, in particular with respect to the construction of new generation capacity and refurbishing the existing generation capacity, the construction of new connections and upgrading (refurbishing) the existing distribution grids, district heating networks, the construction of the underground headings,
5) marketing activities with respect to acquiring new customers and loyalty building measures aimed at retaining the existing customers,

6) centralizing TAURON Capital Group's financial management, with the support by the use of such tools as: central model of financing, cash flow (financial liquidity) management policy using the cash pooling mechanism, risk management policy in the financial area, insurance policy,
7) ability to obtain debt financing on international markets,
8) Tax Capital Group's operations, primarily aimed at optimizing the performance of the obligations associated with the payment of the corporate income tax by TAURON Capital Group's key subsidiaries,
9) TAURON's procurement management, in particular, management of fuel purchases for the needs of TAURON Capital Group's generation entities,
10) geological and mining conditions of hard coal extraction,
11) potential failures of TAURON Capital Group's equipment, installations and grids.

TAURON Capital Group's operations are characterized by seasonality which is applicable, in particular, to heat production, distribution and supply, electricity distribution and supply to individual consumers and hard coal sales to individual consumers for heating purposes. Heat sales depend on weather conditions, in particular, on air temperature, and are higher in the autumn and winter season. Volume of electricity supply to individual consumers depends on the length of day which usually makes electricity supply to this group of consumers lower in the spring and summer season and higher in the autumn and winter season.

Hard coal sales to individual consumers are higher in the autumn and winter season. The seasonality of TAURON Capital Group's other lines of business is low.

The impact of the above mentioned factors on the financial result achieved in H1 2017 is described in section 4 of this report. The effects of this impact are visible both in the short term as well as in the long term outlook.

Macroeconomic environment

TAURON Capital Group's core business operations are conducted on the Polish market and the Company takes advantage of the positive trends occurring thereupon as well as it is affected by the changes thereof. The macroeconomic situation, both in the individual sectors of the economy as well as on the financial markets, is a significant factor impacting the earnings generated by TAURON Capital Group.

According to the Q1 2017 data published by the Central Statistics Office (GUS) Poland's Gross Domestic Product (GDP) grew at a 4.0% rate (year on year). Over the last five years only Q4 2015 brought a better result (4.6% year on year). The main factor behind GDP's Q1 2017 growth rate was households' consumption that rose 4.7% year on year (the strongest performance over the last five years). Q1 2017 investments declined slightly versus Q1 2016 (-0.4% year on year). The unemployment rate at the end of Q1 2017 reached 8.1%, i.e. its lowest level since 2012. Q1 2017 brought an increase of the average prices (inflation) by 2.0% year on year.

The performance of the Polish economy was reflected in the ratings – in April 2017 Standard & Poor's agency affirmed Poland's rating of BBB+/A-2 (stable outlook), in May 2017 Moody's affirmed Poland's rating of A2/P-1 and raised its outlook from negative to stable, while in July 2017 Fitch agency reaffirmed Poland's rating of A- with a stable outlook.

2017 macroeconomic forecasts for Poland indicate GDP growth rate topping 3.0% (the latest forecast presented by Poland's central bank (NBP) indicates even 4.0%). Poland's 2017 GDP growth rate most up to date forecasts are presented below:

a) 3.2% – EBRD's forecast of May 2017,
b) 3.3% – World Bank's forecast of April 2017,
c) 3.5% – European Commission's forecast of May 2017,
d) 3.6% – OECD's forecast of June 2017,
e) 4.0% – NBP's forecast of July 2017.

The key factor impacting the Company's and TAURON Capital Group's earnings, to a large degree dependent on the GDP growth rate, is the demand for electricity and heat.

According to the data published by Polskie Sieci Elektroenergetyczne S.A. (PSE, TSO) gross domestic electricity consumption (KZEE) rose significantly (2.32% year on year) in the January-June 2017 time frame, while the domestic power plants' production increased (4.15% year on year). The intersystem exchange balance during the above mentioned period was positive (imports topped exports) reaching 0,5 TWh (during the same period of 2016 the balance was also positive, reaching 1.9 TWh).

Market environment

National Power System's balance

In accordance with the data provided by the TSO during the first 6 months of 2017 versus the same period of 2016 the following was observed:

1) Rise in domestic electricity consumption by 2.32% (approx. 1.89 TWh) covered by the domestic production at the level of 99.38% and electricity imports at the level of 0.62%.
2) Growth of domestic production year on year by 4.15% (approx. 3.31 TWh) and a decline of imports by 73.38% (approx. 0.51 TWh).
3) Domestic production came from:
   a) hard coal-fired power plants – decrease by 1.93% (approx. 0.79 TWh),
   b) lignite-fired power plants – increase by 10.13% (approx. 2.44 TWh),
   c) gas-fired power plants – increase by 9.03% (approx. 0.26 TWh),
   d) wind power plants - increase by 21.61% (approx. 1.20 TWh),
   e) industrial power plants - increase by 2.05% (approx. 0.10 TWh).

The freezing temperatures in January 2017 led to the rise of demand for electricity. The record evening peak demand for electric capacity took place on January 9, 2017 with the peak demand reaching 26 230 MW on that day and it was 3.33% higher than in the same period in January 2016 (+ 845 MW).

The National Power System's 2017 summer morning peak demand for electric capacity was also record breaking: on June 28, 2017 it reached 22 833 MW and it was 0.36% (+133 MW) higher than in the same period in 2016.

Electricity

As of the beginning of 2017 there were no significant changes to Poland's electricity market principles of operation. Both the SPOT market as well as the futures market were governed by the same rules as in 2016. A similar situation occurred with respect to the OCR services where the only change was the setting of the new CRRM price at PLN 41.79/MWh (up by PLN 0.59/MWh) and the hourly budget at approx. PLN 144 thousand (up by approx. PLN 15 thousand).

France's problems with balancing the power system observed in January 2017 led to the need to increase electricity imports to France (mainly from Germany) and strong growth of electricity prices in Germany to EUR 52.37/MWh. The impact of this development on the Polish power system led to the need to increase electricity exports to Germany which entailed SPOT prices rising to PLN 162.42/MWh (EUR 37.15/MWh). Continued heavy winter in February in combination with a relatively low generation from RES led to the rising daily prices which on a monthly basis caused the average monthly price by nearly PLN 16/MWh to PLN 155.73/MWh (EUR 36.13/MWh). A "non-typical" winter, with low temperatures and a small number of weather fronts reminded that RES – especially wind based, do not guarantee stable generation and without reserves in the form of conventional sources it is impossible to secure the system needs. Spring's late arrival meant that both in March as well as in April the weather was more severe than forecast. A high temperature volatility led to the rise in the generation from RES which reduced the prices on the spot market in March to PLN 146.53/MWh (EUR 34.08/MWh) and in April to PLN 141.09/MWh (EUR 33.29/MWh). In May and in June the weather conditions did not improve significantly in the understanding of the long term forecasts proving to be correct. The average temperature in May reached 13.8°C and on an annualized basis it was lower by 1.3°C. Cold May led to the increase of demand for electricity on an annualized basis by 4.48% to 13.4 TWh. A quite high temperature volatility meant that wind power plants generated 871 GWh which mitigated the SPOT market price increases to PLN 151.39/MWh. The first half of the year ended on a stable note, the low SPOT market prices in June at the level of PLN 153.07/MWh were, among others, due to the lack of prolonged heat waves, stable generation from the system power plants, a relatively high, for this time of the year, generation from RES.

To sum up the first half of 2017: the average price reached PLN 151.54/MWh, which led, on an annualized basis, to the decrease by PLN 11.56/MWh. In the neighboring countries the situation was the opposite and H1 2017 was more expensive than H1 2016. The prices in Germany went up by EUR 10.52/MWh to EUR 35.51/MWh similar to the Czech Republic where the increase by EUR 10.74/MWh set the H1 2017 price at EUR 37.45/MWh. Larger increases occurred in Slovakia, namely by EUR 12.44/MWh which led to the average of as much as EUR 39.96/MWh. These increases were mainly caused by large hard coal price hikes which, on an annualized basis, rose by approx. USD 20/Mg, primarily due to the disruptions on the supply side caused by the weather factors (floods and cyclones in Australia and Indonesia) and an administrative limit on the hard coal production in China. In Scandinavia the price hikes were not as significant, however also on NordPool the price, in H1 2017, rose by EUR 5.31/MWh to EUR 29.28/MWh. Only Lithuania, similar to Poland, observed price drops on the SPOT market by approx. EUR 1.74/MWh to EUR 34.52/MWh which should be attributed to the full merger of the Lithuanian market with the Scandinavian market and the commissioning of the cross-border connector to Poland.

H1 2017 featured low volatility of forward contracts listed on the Commodities Futures Market of the Polish Power Exchange. The base load contract with the delivery in 2018 BASE_Y-18 was priced within a range between the low of PLN 158.37/MWh observed on February 17, 2017, and the high of PLN 165.25/MWh observed on June 6, 2017. By splitting H1 2017 into two quarters it can be said that BASE_Y-17 contract prices were in the downward trend in Q1 2017 due to the fact that the National Power System satisfied the winter demand despite the fact that electricity exports rose significantly. Therefore the argument of risk seen as high SPOT prices lost its strength on the market and because of that the futures market was not receiving upward movement signals. The situation only changed in Q2 2017. The BASE_Y-18 contract price began to strengthen and it continued until the end of H1 2017. It was the consequence of combining the growth of prices of thermal coal produced by the domestic producers (PSCMI 1 index rising to PLN 9.21/GJ) and concerns related to problems with providing sufficient capacity required to satisfy the peak summer demand. However the price of the PEAK_Y-18 contract was behaving differently, here throughout H1 2017 price declines were observed from PLN 214/MWh to PLN 208/MWh.

Property rights

During H1 2017 works were underway on the amendment to the *Law of February 20, 2015 on renewable energy sources*. The essential change proposed in the draft drawn up by the MPs was the resignation from the fixed substitution fee of PLN 300.03/MWh in favor of the fee that will be tied to the market prices for the ”green” and ”blue” certificates. This fee would represent 125% of the average price for the individual certificates and it cannot be higher than the substitution fee in force. Also an increase of the RES obligations is being estimated which is to solve the PMOZE_A oversupply problems. At the end of 2017 the PMOZE_A register’s balance reached more than 25.42 TWh. Taking into account the certificates that are blocked to be redeemed, this number drops to 24.86 TWh and is 3.53 TWh higher than at the end of June 2016. In spite of causing controversies and regulatory uncertainties the ”green” property rights index remained in the downward trend, reaching new all time lows. The maximum price that property rights reached was PLN 40.15/MWh, meanwhile the all time low was PLN 22.46/MWh. The weighted average price for the last six months in comparison to H1 2016 fell almost 70% and at the end of June reached PLN 30.92/MWh. The obligation to present PMOZE_A for redemption in 2017 rose to 15.40%, in contrast to the ”blue” certificates. The obligation to redeem property rights confirming electricity generation from agricultural biogas dropped to 0.6%. The ”blue” rights balance as of the end of H1 2017 reached 125 GWh, when taking into account certificates blocked to be redeemed this level is 86 GWh. During the January to June time frame 2017 PMOZE-BIO were priced in the range between PLN 439.39/MWh (46% higher than the substitution fee) and PLN 300.37/MWh. The weighted average TGEozebio index topped the substitution fee by PLN 61.78/MWh reaching PLN 361.81/MWh.

The cogeneration property rights were stable staying close to the substitution fees and, in accordance with the amendment to the *Law of April 10, 1997 Energy Law*, until June 30, 2017 it was possible to redeem property rights for the cogeneration units that had generated electricity in 2016. Due to the above the main subject of trading in H1 2017 2017 were the property rights confirming electricity production in gas cogeneration PMGM-2016, coal cogeneration PMMEC-2016 and electricity production by burning methane PMMET-2016. The weighted average H1 2017 prices were respectively: PLN 123.31/MWh, PLN 10.59/MWh and PLN 62.19/MWh. There are also contracts on the exchange that confirm electricity generation in 2017 and their weighted average prices at the end of June 2017 are, respectively: PLN 115.94/MWh for PMGM-2017, PLN 9.70/MWh for PMEC-2017 and for PMMET-2017 the prices reached PLN 54.39/MWh.

The value of the index of the ”white” property rights due to the certificates of energy efficiency during the described period dropped from PLN 1 260,97/toe to the low of PLN 870.86/toe. The weighted average EFX index price reached PLN 1 000.88/toe, with the substitution fee set for 2017 at PLN 1 500.00/toe.

Natural gas

The average price on the Day Ahead Market for gas on the Polish Power Exchange (Towarowa Giełda Energii S.A.) reached PLN 84.49/MWh in H1 2017. As compared to the same period of the previous year an increase by PLN 19.14 (+29.3%) occurred. Such a significant increase of the value of contracts with the delivery on the day ahead was primarily due to the relatively high prices in the first two months of 2017. A number of times they topped PLN 100/MWh, i.e. the level to which the prices did not even get close throughout 2016. The price hikes were due to the concerns about satisfying the future demand and the sufficient volume of gas in storage in case of a further increased consumption due to the weather conditions. Some foreign media were blaming Poland for the high prices throughout Europe at that time. All because of the appeal against the decision of the European Commission permitting the Russian gas powerhouse Gazprom to access the higher throughput of the OPAL gas pipeline (Nord Stream’s branch) that Poland filed to the European Tribunal of Justice. The decision of the European Commission was suspended until the ruling’s issuance which led to the reduction of the gas volume transferred via this channel starting from February 1, 2017 by nearly half. However, it is more probable that the high prices were the consequence of a coincidence of weather factors, i.e. continued winter and weak winds which led to the growth of demand for gas in Europe. As the weather warmed up and the gas summer season was getting closer the gas spot prices dropped to around PLN 75/MWh, and later, at the beginning of the calendar summer, they dropped further to around PLN 68/MWh. The trading volume on the Day Ahead Market for gas on the Polish Power Exchange

(RDNg) reached 9.9 TWh in the first six months of 2017 which is 1.7 TWh (+21% year on year) more than last year. The SPOT market's trading volume record of 3.1 TWh was set in January 2017. At foreign gas hubs that continue to be the benchmark for the Polish market the average prices in H1 2017 reached: EUR 17.06/MWh (+28% year on year) on German Gaspool and EUR 17.04/MWh (+30% year on year) on Dutch TTF.

On the gas futures market the year began with relatively high prices – the price of the reference one year contract GAS_BASE_Y-18 reached PLN 92.27/MWh. Nevertheless, the first six months of 2017 were marked with declines, with a short term upward correction at the end of Q1 and the beginning of Q2 2017. As of June 30, 2017 the above contract was worth PLN 77.30/MWh which meant a more than 16% decline versus the beginning of 2017.

As of 30 June 2017 the Storage System Operator indicated the storage fill level of 53%. In the same period of 2016 the storage tanks were 59% filled. According to the data of the European Gas Infrastructure Europe (GIE) association, the average level of the reserves in the European Union reached 59% versus 52% in 2016.

CO_2 emission allowances

In H1 2017 the CO_2 emission allowances were trading in the sideways trend and their price extreme values reached, respectively, EUR 6.50/Mg and EUR 4.29/Mg, which meant a price change of nearly 34%. In January 2017 the EUA prices dropped from the above mentioned level of EUR 6.50 EUR/Mg to around EUR 5.00/ton as a consequence of large supply due to the auction calendar (schedule) which indicates that 2017 will be a record year in terms of volume offered at the CO_2 emission allowances auctions. On February 15, 2017 the European Parliament held a debate and subsequently adopted selected legislative proposals submitted by the ENVI commission and ITRE related to the form of the EU ETS system in 2021-2030. The key stipulations adopted by the European Parliament include among others:

1) Increasing to 24% the number of CO_2 emission allowances out of the entire pool of allowances available on the market, to be transferred to the Market Stabilization Reserve in the first four years of the mechanism's functioning, and subsequently reducing the percentage value by half,
2) Withdrawing the CO_2 emission allowances in the quantity of 800 mln tons,
3) Maintaining the linear reduction coefficient at the level of 2.2%,
4) Creating the support system in the form of the Modernization Fund and Innovation Fund.

At the moment the vote was taking place the prices of the CO_2 emission allowances suffered a drop from EUR 5.26/Mg to EUR 4.99/Mg within an hour. On February 28, 2017 the Ministers of Environment of the European Union member states held a meeting in the capital city of Belgium during which the stipulations passed by the European Parliament were adopted despite the objections of nine countries, including Poland. The above proves that the substantial majority of the Community states are in favor of tightening restrictions on greenhouse gases emissions. The main factors that shaped prices in subsequent months were primarily political developments, the information on verified emissions and the high frequency of the CO_2 emission allowances auctions taking place. On March 29 Poland's first this year allowances auction was held, organized on the EEX platform. The above mentioned developments include, among others, France's presidential elections, US withdrawing from the so-called Paris agreement and the announcement of the information on the verified emissions, as well as providing of the size of the oversupply of allowances on the market which is in the region of 1.59 bln CO_2 emission allowances.

Finally, the average EUA price in H1 2017 reached EUR 4.99/Mg.

Crude oil and coal

Coal prices were strengthening between January and June 2017. The upward trend has already lasted for more than a dozen months – the coal prices have doubled since the beginning of 2016. However, to a large degree the rising prices in H1 2017 was due to extraordinary factors.
Cyclone Debbie hit Australia in April. The cyclone was followed by flooding rains that also hit Indonesia. As a result of these development mainly the railway infrastructure was damaged. The mining industry itself suffered less damage. Additionally, in China, due to overhauls, a very important railway line that connects regions where coal is extracted with the Quindango port was closed.

In June coal prices were supported by the hydrological situation in Europe and in China – it was hot and dry, and thus the hydroelectric plants were generating little electricity and as a result the demand for coal rose above the normal values at this time of year. In China the hydroelectric plants' production fell by as much as 70%, and this the second largest source of energy in this country, following coal. At the world's largest hydroelectric plant on the Three Gorges Dam with the achievable capacity of 22.5 GW only 6 GW were used. In Europe the difficult hydrological situation affected the south of the continent (Italy, Spain), where the level of rivers was the lowest for many years. European coal prices were also positively impacted by the favorable euro against the dollar exchange rate.

An important development for the coal market is also the reversal of the US environmental policy, as demonstrated by repealing some pro-ecological laws adopted earlier and also by withdrawing from the Paris agreement assuming joining the climate treaty. This created a climate friendly for fossil fuels, coal mines are reopened in the US.

2018 ARA ports coal delivery contract rose to USD 70.21/Mg at the end of June 2017. The increases continued in July, with the prices reaching USD 74/Mg. The SPOT market prices topped USD 80/MG in June and July.

The most important development in Poland's mining industry was the establishing of Polska Grupa Górnicza sp. z o.o. that, at the end of May 2017, presented a strategy assuming investments in new coal extraction faces and at the same time an ultimate reduction of the cash cost of coal extraction. In 2017 Poland observed a negative supply balance on the coal market which in combination with high coal prices on the world markets led to an increase of domestic coal prices – the Polish Steam Coal Market Index (PSCMI1) rose to PLN 9.21/GJ in May 2017.

Crude oil prices were steadily declining in H1 2017. In spite of the efforts by the cartel of OPEC and Russia the agreement on the reduction of oil production output has so far brought no desired outcome, i.e. a price increase. The supply glut continues to overhang the market. The US oil production rose due to shale oil producers increasing their output. Investors continue to have doubts if the market will reach equilibrium without the need to take larger scale actions.

The prices of Brent oil on the London ICE exchange dropped approx. 17% in H1 2017 and reached slightly more than USD 47/bbl at the end of June.

Regulatory environment

Capacity market draft law

On July 6, 2017 the government submitted to the Parliament the draft capacity market law that will have a significant impact on the future of the Polish energy sector. The law defines, among others:

1) The rules of providing the service of maintaining readiness to deliver electric capacity and defines the principles of remuneration for fulfilling the capacity obligation,
2) Organization of the capacity market,
3) Rights and obligations of the capacity market participants.

The introduction of the capacity market law implies the need to make amendments to several other legal acts that include such acts as: the energy law, the environment protection law, the act on the principles of covering the costs incurred by electricity generators due to the early termination of long term power purchase agreements and the act on renewable energy sources.

With respect to the draft capacity market law of November 30, 2016 the update introduces several important changes, however special attention should be paid to section 2 in Part II of the Act. The above mentioned section defines a share of foreign capacities in the capacity market, which is important due to the fact that the 2016 draft law did not permit, in the near future, foreign generation units to take part in the planned capacity auctions. Following the changes the system operator will be able to conduct, for foreign generation units, the so-called ”ticket auctions” in the organizing of which the cross-border transmission capabilities will be taken into account. The ”ticket auctions” winners will be, following a prior certification, entitled to offer a capacity obligation at a capacity market auction. What is important, offering of a capacity obligation that is possible as a result of winning a ”ticket auction” will take place only after six years from the conducting thereof. Additionally, the ability to organize auctions with separate resolution rules in a situation justified by the ”state's energy policy” was created. It was also clarified that capacity agreements will be subject to a VAT.

Currently the energy sector is awaiting the publishing of the draft capacity market regulations which is to be published in the coming months. The regulations will describe in detail the course of an auction, including the detailed description of the electricity demand curve. The first capacity auctions are to be held in 2018 and they will be applicable to the 2021-2023 time frame.

Amendment to the Act on Renewable Energy Sources (RES)

On July 27, 2017 the Senate passed an act on the amendment to the *Act of February 20, 2015 on renewable energy sources.*

The goal of the amendment is primarily to ensure full compliance of the provisions of the above Act with the public aid regulations with respect to which Poland made a commitment to the European Commission in the notification procedure related to the Polish RES support system and derogations for energy intensive users.

The amendments presented make the provisions of the Act on RES fully compliant with the requirements defined in the *Guidelines on public aid related to environment protection and energy goals in 2014-2020*, that permit, as compliant with the common market principles, such market instruments as auctions or tender procedures in line with the competition principles that are open for all producers generating electricity from RES competing against one another on equal terms that should substantially ensure that subsidies are reduced to the minimum.

The amended provisions related to the principles of taking into account public aid when submitting a bid at RES auctions will make the bidding process easier and will mitigate a substantial part of identified risks stemming from the existing provisions. Furthermore, there is a need to align the provisions of the act on RES to the changing market and economic conditions, eliminate legal and editorial interpretation doubts in various areas of this act. The draft amendment to the Act on renewable energy sources, among others: clarifies some of the existing definitions of the Act on RES; introduces changes that streamline the auction system with respect to, among others, split into the so-called baskets (new auction baskets are based on the split according to the production technology, without limits on the use of capacity and CO_2 emissions); proposes system-wide changes to the RES support that involve introducing, next to the auction system, also the Feed-in-tariff (FIT), Feed-in-premium (FIP) system for electricity generators from renewable sources dedicated for micro and small RES installations that use stable and predictable energy sources (hydroelectricity, biogas, agricultural biogas) with an installed capacity lower than 500 kW – FIT and a capacity not lower than 500 kW and lower than 1 MW – FIP; enabling fulfilling of the PMOZE-BIO obligation by paying the substitution fee in case the market prices top the unit substitution fee.

Planned date of the amendment to the act coming into force: autumn 2017.

Draft amendments to the Water Law Act

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

In case of the energy sector the fee for water consumption by hydroelectric power plants is to be borne by the owners of hydroelectric power plants solely for the volume of electricity generated using the reclaimable water (i.e. water taken, used and then discharged in the same quantity and with quality that is not worse) and for the intake of non-reclaimable process water, i.e. the water not be used directly to produce electricity. The draft new Water Law defines the cap on unit fee rates at PLN 1.24 for 1 MWh of electricity produced and PLN 0.35 for non-reclaimable water intake of 1 m^3 of the process water. The same rates are defined in the Ministry of Energy's draft ordinance on unit rates.

On the other hand, with respect to the fee for water intake to ensure operation of cooling systems of power plants or combined heat and power plants such fee will be borne solely for the differences between the quantity of water taken for such purposes, and the quantity of water discharged to water streams or to the ground from the cooling systems. The draft Act defines the cap on unit fee rates at PLN 0.70 for 1 m^3 of the difference for the underground waters and PLN 0.35 for 1 m^3 of the difference for the surface waters.

However, the draft ordinance introduced along with the draft Act envisages a unit rate that is lower than the cap, respectively: PLN 0.115 and PLN 0.057 for 1 m^3 of the difference.

Another fee envisaged by the draft amendments to the Act is the fee for discharging the water from the cooling systems of power plants or combined heat and power plants to water streams or to the ground. This fee will depend on the temperature of the discharged water. The rates are, respectively: for 1 dam^3 (1 $dekameter^3$ = 1 000 m^3): PLN 0.68 if the temperature of such water is higher than +26°C and does not exceed +32°C; PLN 1.36 if the temperature of such water is higher than +32°C and does not exceed +35°C; PLN 4.24 if the temperature of such water is higher than +35°C. Discharging of water with its temperature not exceeding +26°C will be exempt from the fees or if the difference between the temperature of water taken and discharged to water streams or to the ground from the cooling systems will be less than 11°C.

The majority of the new Water law provisions will come into force on January 1, 2018.

BAT conclusions

Best Available Technologies (BAT) mean the most efficient and advanced stage of development and methods of conducting the given operations that indicate the possible use of individual techniques as the base when setting the admissible emissions values and other conditions aimed at preventing arising, and if it is not possible, reducing emissions and impact on the environment as a whole.

BAT conclusions is a document drawn up based on the reference document on the best available technologies (BAT) – the so-called BREF). BAT conclusions for large combustion plants (LCP) as an executive decision to directive 2010/75/EU on industrial emissions (IED Directive) will be directly applicable. They define the new requirements with respect to admissible emissions values and the monitoring obligation. A consequence of their implementation will be the need to adapt the fuel combustion installations to the requirements defined in the BAT Conclusions by constructing or refurbishing generation sources, flue gases cleaning (scrubbing) installations and in certain cases additionally installing the continuous monitoring systems for the pollutants so far not covered by such an obligation which means the need to bear exceptionally high capital expenditures.

On April 28, 2017 the representatives of the member states in the European Commission passed the new standards tightening the emission standards for the manufacturing industry, i.e. the so-called BAT conclusions for large utility scale combustion plants (LCP). BAT conclusions will be applicable to the facilities and installations burning fuels with the capacity not lower than 50 MW in fuel. They are applicable to both the new facilities that will obtain an integrated permit following the publishing of the conclusions, as well as to the facilities already in operation. New, more stringent requirements related to the permitted values of pollutant emissions will have a significant impact on the future of the European coal-fired power plants. According to the Ministry of Environment adapting large industrial installations, including the ones generating electricity and heat, to the tighter SO_2, NO_x and dust emission standards and introduced for the first time binding emission levels for mercury, hydrogen chloride, hydrogen fluoride and ammonia will cost at least PLN 10 bln. Electricity and heat generating installations will have adapt to the more stringent emission requirements within 4 years from the date of publishing the decision adopting the regulations, i.e. by mid-2021. Both the costs as well as the schedule of the investment projects aimed at adapting the installations covered by the tightening will be an enormous challenge for the energy sector, especially due to the fact that the refurbishing will have to encompass practically all the power generation units currently in operation. The IED Directive provides for an option to obtain temporary derogations from meeting the limit emission values defined based on the BAT conclusions, i.e. emission values tied to the best available technologies. A derogation may be granted only if achieving the limit emission values were to lead to the incurrence of unproportionally high costs in relation to the benefits for the environment due to the geographical location of the installations, local environmental conditions or the technical features of the installation.

2.2. TAURON Capital Group's financial results

2.2.1. Sales structure by lines of business

The below table below presents TAURON Capital Group's volumes and structure of sales per individual lines of business (business segments) in H1 2017 and Q2 2017, compared to the same periods of 2016.

Table no. 4. TAURON Capital Group's volumes and structure of sales per individual lines of business (business segments)

Item	Unit	H1 2017	H1 2016	% change 2017/2016	Q2 2017	Q2 2016	% change 2017/2016
Mining segment's hard coal sales	Mg m	**3.56**	2.46	45%	**1.77**	1.24	43%
Generation segment's electricity and heat sales	TWh	**9.59**	7.76	24%	**4.78**	3.81	26%
	PJ	**9.80**	8.87	10%	**2.31**	1.98	17%
Distribution segment's distribution services sales	TWh	**25.70**	24.77	4%	**12.40**	12.04	3%
Supply segment's electricity retail sales	TWh	**17.20**	15.57	10%	**8.08**	7.21	12%

Mining segment

The core operations conducted by TAURON Capital Group's Mining segment comprise mining, enrichment and sales of hard coal as well as sales of methane as accompanying fossil from the Brzeszcze deposit.

TAURON Capital Group operates three coal mines: ZG Sobieski, ZG Janina and ZG Brzeszcze. The above coal mines are the producers of the hard coal offered for sale on the market as large size lump coal, medium size lump coal and thermal coal dust.

The hard coal sales volume in H1 2017 reached 3.56 million Mg, which means an increase by 45% as compared to the same period of 2016 and is the consequence of the stronger demand for coal due to the lower temperatures in January and February and the higher coal production.

In H1 2017 67% of TAURON Capital Group's current demand for coal to be used to generate electricity and heat was covered with the hard coal coming from its own coal mines. The balance of the demand was covered using external sources.

Commercial coal production in H1 2017 was 34% higher than in the same period of last year as a result of increasing ZG Brzeszcze's extraction capabilities and a favorable setup of extraction coal faces at ZG Janina.

Generation segment

The core operations conducted by TAURON Capital Group's Generation segment comprise electricity and heat generation using:

1) Hard coal- and biomass-fired power plants and combined heat and power plants,

2) Hydroelectric power plants,

3) Wind farms.

The total achievable capacity of the Generation segment's generation units reached 5.0 GW of electric capacity and 2.4 GW of heat capacity at the end of June 2017. Generation segment is also conducting operations with respect to heat transmission and distribution.

In H1 2017 the Generation segment produced 9.5 TWh of electricity, i.e. 12% more than last year (8.4 TWh) which was due to the higher sales under contracts year on year.

Production from RES reached 0.66 TWh, i.e. 14% less as compared to the last year (0.77 TWh) which was due to the reduction of biomass burning.

Sales of electricity from own production including electricity purchased for trading reached 9.6 TWh in H1 2017 which means a 24% increase in relation to the same period of 2016. Purchased electricity resale volume was higher than in 2016 (1.1 TWh in H1 2017; 0.2 TWh in H1 2016).

Heat sales in H1 2017 reached 9.8 PJ, i.e. 10% more versus the same period of 2016 which was due to the lower outside temperatures year on year and higher consumer demand.

Distribution segment

TAURON Capital Group is Poland's largest electricity distributor, both in terms of electricity volume delivered as well as the revenue from the distribution operations. Distribution segment is operating large area distribution grids, located in the south of Poland.

In H1 2017 the Distribution segment delivered, in total, approximately 25.7 TWh of electricity, including 24.4 TWh to the final consumers. During this period the Distribution segment provided distribution services to 5.50 million consumers. In the same period of 2016 the Distribution segment delivered, in total, approximately 24.8 TWh of electricity to approx. 5.45 million consumers, including 23.8 TWh to the final consumers. The increase in the volume delivered to the final consumers year on year is mainly due to the GDP growth and increased electricity consumption by industrial consumers. The upward trend is also applicable to the supply to households and exports sales.

Supply segment

Sales segment comprises operations with respect to retail sales of electricity and gas fuel as well as wholesale of electricity and other energy market products (trading and managing CO_2 emission allowances, property rights arising from certificates of electricity origin and fuel).

In H1 2017 the Supply segment subsidiaries supplied, in total, 17.2 TWh of electricity to approximately 5.3 million customers (retail sales), both households as well as businesses, i.e. 1.6 TWh more than in the same period of last year. The higher sales are a consequence of a larger supply to business customers and the operations on the competitive market

In H1 2016 the household market (individual customers) continued to be subject to the obligation to have sales prices approved by the President of ERO. However, due to the partial liberalization of the energy market sales offerings tailored to the individual customer needs began appearing on the market. TAURON Capital Group is developing products, sales channels and marketing communications taking into account the steps taken by the competition. Furthermore, the Group is launching innovative solutions in line with the market development stage and the expectations of the given customer segment.

According to the data available, in the January to May 2017 time frame the number of households that switched their electricity suppliers reached slightly more than 39.0 thousand, which means an 8.4% increase since the end of 2016. However, taking into account the potential of this segment, i.e. the overall number of households in Poland, this is just the beginning of this market segment's liberalization.

In the institutions and business entities (business customer) segment where the competition is strong and companies have already been taking advantage of the liberalization of electricity prices for several years, the progress of the liberalization process made the ever more knowledgeable customers expect competitive solutions. Intensifying sales campaigns run by electric utilities lead to growing price pressures; new entities competing for customers came to the market and transparency of the energy market mechanisms is a must in any activities conducted in this segment. In the January to May 2017 time frame the number of business customers that switched their electricity suppliers reached more than 9.3 thousand, which means an 5.4% increase since the end of 2016.

2.2.2. TAURON Capital Group's financial results

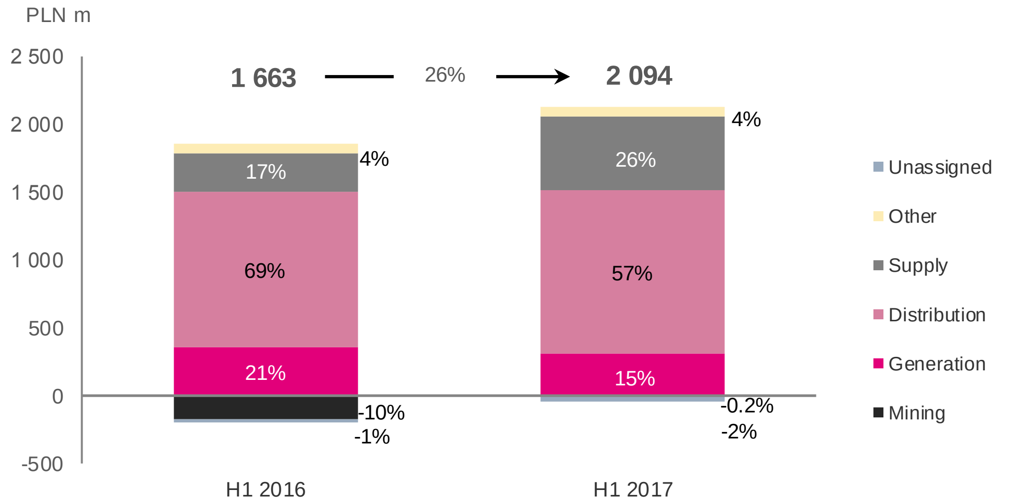
The below table below presents TAURON Capital Group's EBITDA per individual lines of business (business segments) in H1 2017 and Q2 2017, compared to the same periods of 2016. The data for the individual segments do not include consolidation exclusions.

Table no. 5. TAURON Capital Group's EBITDA per individual lines of business (business segments)

EBITDA (PLN '000)	H1 2017	H1 2016	% change 2017/2016	Q2 2017	Q2 2016	% change 2017/2016
Mining	**(4 716)**	(169 248)	-	**24 737**	(104 490)	-
Generation	**306 471**	353 961	87%	**115 805**	162 812	71%
Distribution	**1 203 310**	1 147 597	105%	**596 299**	604 338	99%
Supply	**545 396**	289 573	188%	**165 425**	121 613	136%
Other	**76 635**	66 036	116%	**40 909**	35 550	115%
Unassigned items and exclusions	**(33 116)**	(24 744)	-	**(34 436)**	(30 759)	-
Total EBITDA	**2 093 980**	**1 663 175**	126%	**908 739**	**789 064**	115%

The below figure presents TAURON Capital Group's EBITDA structure in H1 2016 and H1 2017.

Figure no. 5. TAURON Capital Group's EBITDA structure



The Distribution and Generation segments have the biggest contributions to TAURON Capital Group's EBITDA in H1 2017.

2.2.2.1. Mining segment

The below table presents the Mining segment's results.

Table no. 6. Mining segment's results

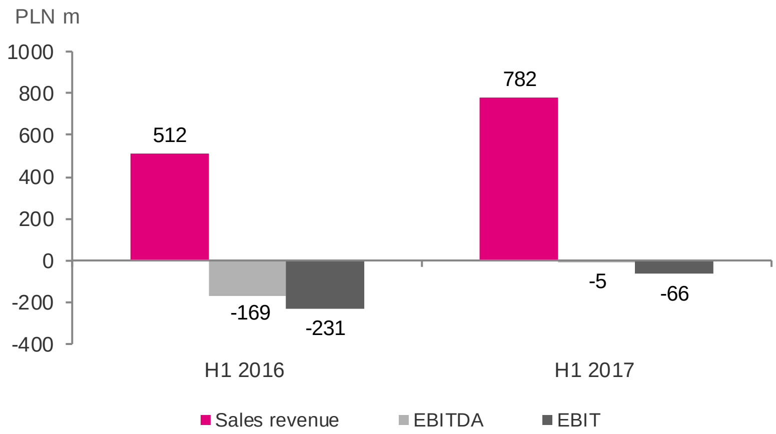
Item (PLN '000)	H1 2017	H1 2016	% change 2017/2016	Change (2017 - 2016)
Wydobycie				
Sales revenue	**781 684**	**512 132**	**153%**	**269 552**
coal – large and medium size lump coal	*244 581*	*128 928*	*190%*	*115 653*
thermal coal	*510 869*	*362 424*	*141%*	*148 445*
other products, materials and services	*26 234*	*20 780*	*126%*	*5 454*
EBIT	**(65 816)**	**(230 536)**	-	164 720
Depreciation and write-offs	61 102	61 288	100%	(186)
EBITDA	**(4 716)**	**(169 248)**	**-**	**164 532**

Mining segment's EBITDA and EBIT were better in H1 2017 than in the same period of 2016. The results posted were affected by the following factors:

1) on average 45% higher sales volume of each coal product,
2) 6% higher average price of coal products sold,
3) lower commercial coal unit production cost as a result of a 34% higher production with a higher coal extraction and production cost due to the higher costs of mining services,
4) selling in H1 2017 of a substantial part of coal inventory which led to recognizing the value of inventory as own cost in this period. In H1 2016 commercial coal sales were slightly higher than the volume of coal produced, while the surplus of sales over production in H1 2017 reached 241 thousand Mg.

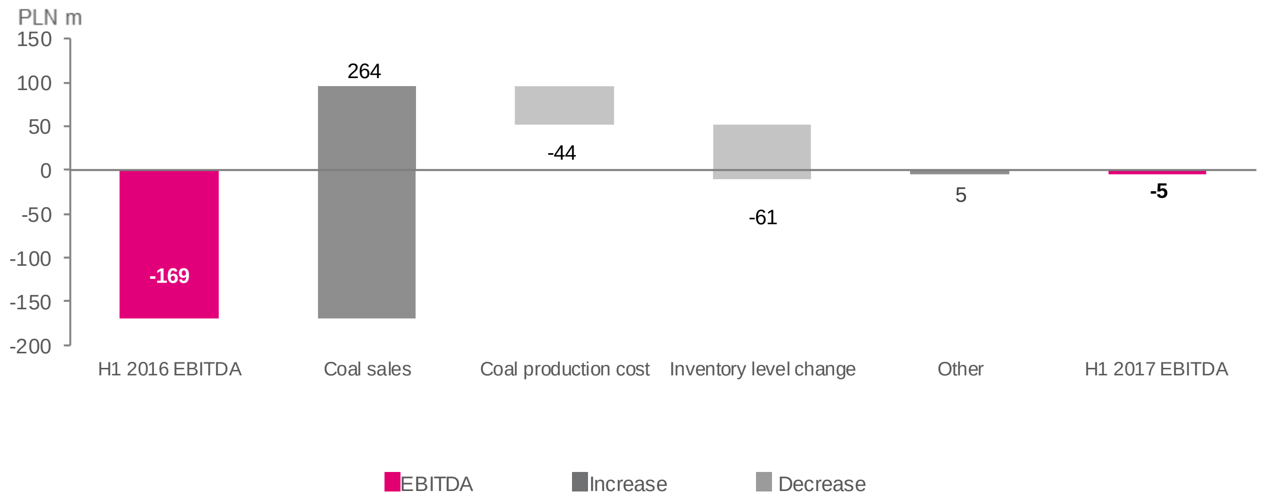
The below figure presents the Mining segment's H1 2017 financial data versus H1 2016.

Figure no. 6. Mining segment's H1 2016 and H1 2017 financial data



The below figure presents the Mining segment's EBITDA including the significant factors impacting the change in relation to H1 2016.

Figure no. 7. Mining segment's EBITDA



2.2.2.2. Generation segment

The below table presents the Generation segment's results.

Table no. 7. Generation segment's results

Item (PLN '000)	H1 2017	H1 2016	% change 2017/2016	Change (2017 - 2016)
Generation				
Sales revenue	**2 282 171**	**2 342 634**	**97%**	**(60 463)**
electricity	*1 691 943*	*1 584 086*	*107%*	*107 857*
heat (incl. heat transmission)	*488 945*	*460 892*	*106%*	*28 053*
property rights related to certificates of electricity origin	*68 689*	*269 624*	*25%*	*(200 935)*
Other	*32 594*	*28 004*	*116%*	*4 562*
EBIT	**80 442**	**(558 311)**	**-**	**638 753**
Depreciation and write-offs	226 029	912 272	25%	(686 243)
EBITDA	**306 471**	**353 961**	**87%**	**(47 490)**

In H1 2017 the Generation segment's sales revenue was 3% lower as compared to the same period of last year due to the lower revenue from the sales of property rights related to the certificates of electricity origin (lower PMOZE sales volume and lower price).

Generation segment's EBITDA was 13% lower in H1 2017 than in the same period of 2016.

The results posted were affected by the following factors:

1) lower margin on electricity – primarily due to the lower electricity sales price year on year,
2) lower price and volume of property rights from RES – due to PMOZE oversupply on the market and the decrease of the biomass-fired units' production,
3) higher margin on heat – higher heat and transmission services volume (due to the lower outside temperature during the heating season (I-IV 2016: 3.9˚C, I-IV 2017: 2.3˚C) and the higher rate for the transmission services,
4) similar costs of the CO_2 reserve year on year – which is the result of: a larger number of free allowances, higher CO_2 emission volume (due to the higher electricity and heat production) and lower CO_2 forward contract prices year on year.

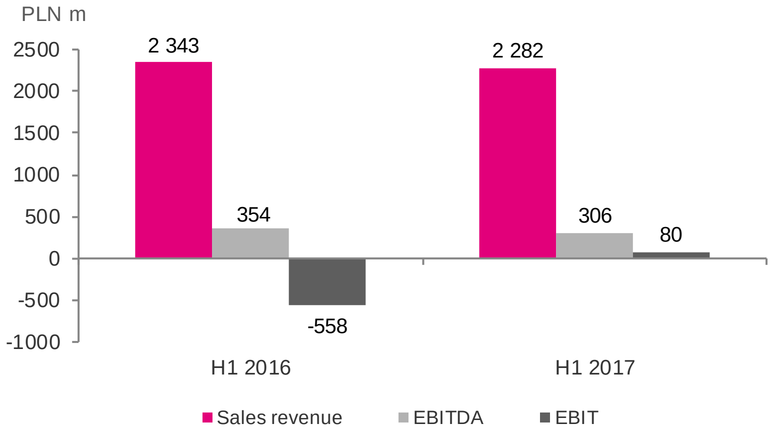
TAURON Capital Group booked in the H1 2017 earnings the following impairment charges and the reversed write-downs due to the reduction of the Generation segment's generation units' carrying amount on the balance sheet:

- net write-downs booked (i.e. excess of write-downs booked over the reversed write-downs) related to wind farms and hydroelectric power plants: PLN 68 mln,
- net reversed write-downs booked (i.e. excess of reversed write-downs over the write-downs booked) related to the generation assets in the electricity and heat generation line of business: PLN 36 mln.

The aggregate net write-downs (i.e. excess of write-downs booked over the reversed write-downs): PLN 32 mln, and the total impact on the charge to the net consolidated financial earnings: PLN 26 mln.

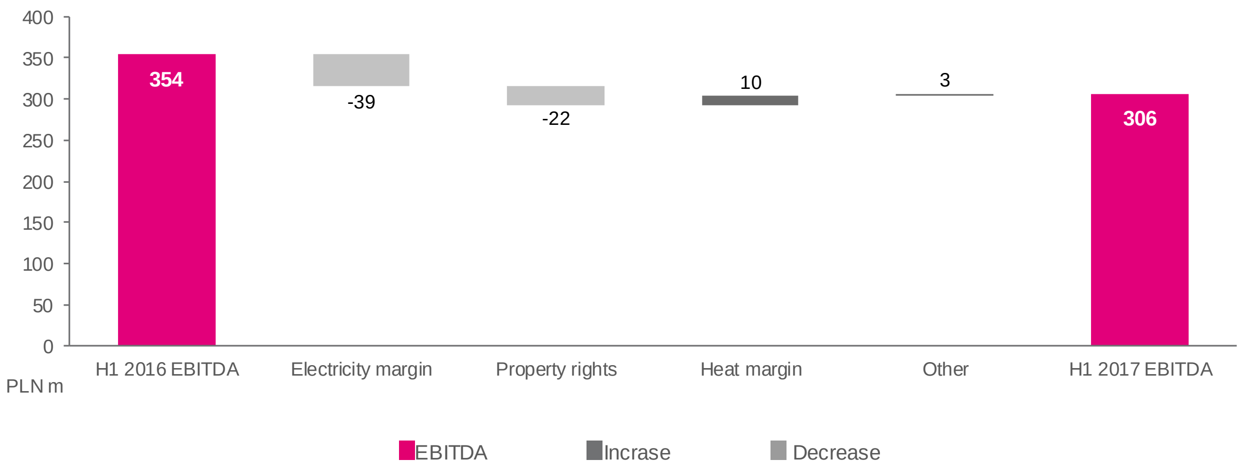
The below figure presents the Generation segment's H1 2017 financial data versus H1 2016.

Figure no. 8. Generation segment's H1 2016 and H1 2017 financial data



The below figure presents the Generation segment's EBITDA including the significant factors impacting the change in relation to H1 2016.

Figure no. 9. Generation segment's EBITDA



2.2.2.3. Distribution segment

The below table presents the Distribution segment's results.

Table no. 8. Distribution segment's results

Item (PLN '000)	H1 2017	H1 2016	% change 2017/2016	Change (2017 - 2016)
Distribution				
Sales revenue	**3 367 994**	3 144 506	**107%**	**223 488**
distribution services	*3 168 690*	*2 957 410*	*107%*	*211 280*
connection fees	*62 965*	*47 032*	*134%*	*15 933*
street lighting maintenance	*54 109*	*56 763*	*95%*	*(2 654)*
other services	*82 231*	*83 301*	*114%*	*(1 070)*
EBIT	**677 320**	643 524	**105%**	**33 796**
Depreciation and write-offs	525 990	504 073	104%	21 917
EBITDA	**1 203 310**	**1 147 597**	**105%**	**55 713**

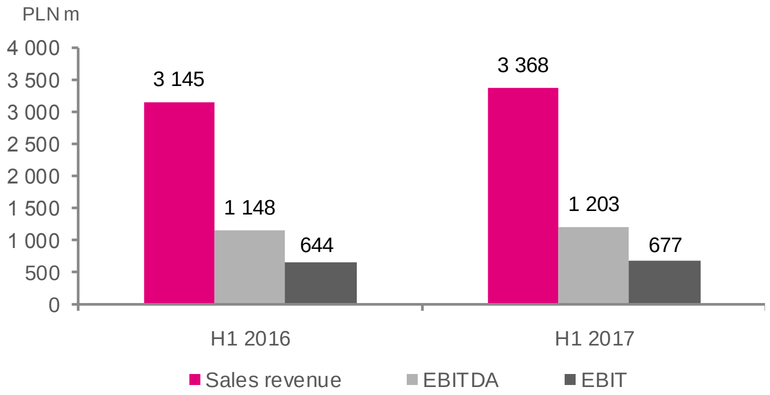
In H1 2017 the Distribution segment segment's sales revenue was approx. 7% higher as compared to H1 2016, while EBIT and EBITDA rose approx. 5%. The results posted were affected by the following factors:

1) increase of the average rate for the distribution service sales to the final consumers in each tariff group,

2) increase of supplies to industrial consumers as a result of the growth of the GDP and the manufacturing output, in particular among the B group consumers,
3) increase of electricity volume supplied to households as a result of the rising demand for electricity for heating purposes in Q1 and for air conditioning needs in Q2,
4) increase of revenue from connection fees as a result of earlier than assumed completion of some investment projects an increase of charges for exceeding the contractual consumption of passive energy,
5) in accounting terms (including additional estimation) the lower grid losses coefficient year on year, in particular as a result of a change to the structure of supplies, i.e. an increase of supplies to the consumers connected to the medium voltage grid and as a result of an increase in local generation,
6) increase of the costs of purchasing transmission services as a result of including in the 2017 tariff of a higher transition fee rate and RES fee (there was no RES fee in H1 2016),
7) increase of the labor costs as a result of setting up a provision for a one-off bonus due to the signing of the agreement with the workforce,
8) lower costs of external services from TAURON Obsługa Klienta (Customer Service),
9) increase of the costs of tax on grid assets as a consequence of the investment projects completed and an increase of the assets' value,
10) improved result from other core operations due to the lower street lighting failure rate and an increase of the range and updating of the rates for providing access to the infrastructure.

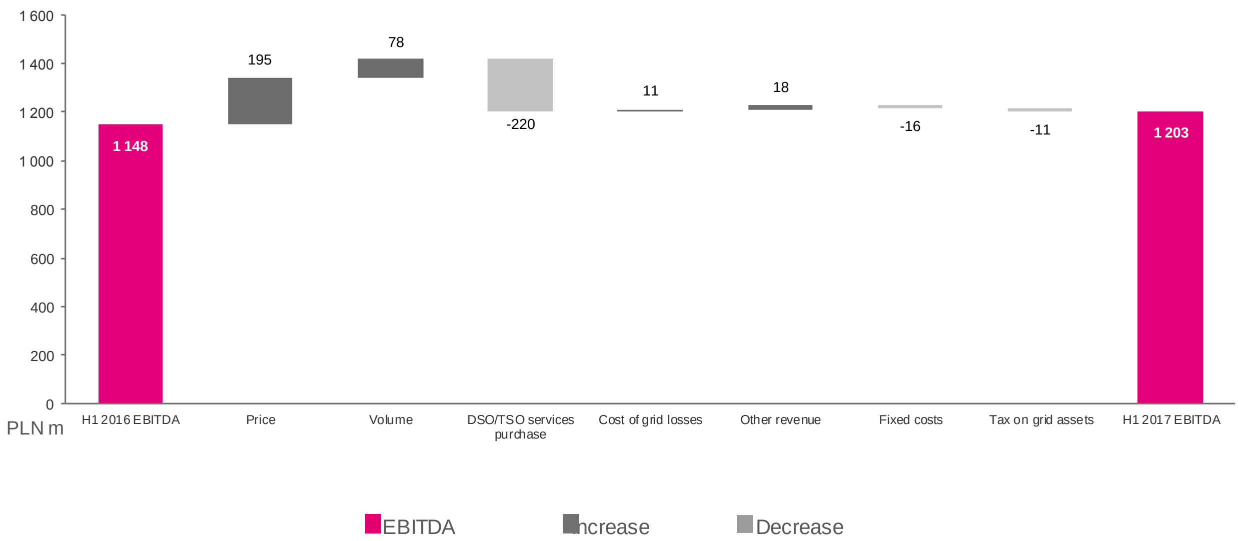
The below figure presents the Distribution segment's H1 2017 financial data versus H1 2016.

Figure no. 10. Distribution segment's H1 2016 and H1 2017 financial data



The below figure presents the Distribution segment's EBITDA including the significant factors impacting the change in relation to H1 2016.

Figure no. 11. Distribution segment's EBITDA



2.2.2.4. Supply segment

The below table presents the Supply segment's results.

Table no. 9. Supply segment's results

Item (PLN '000)	H1 2017	H1 2016	% change 2017/2016	Change (2017 - 2016)
Supply				
Sales revenue	***6 676 996***	***6 885 355***	***97%***	***(208 359)***
electricity, including:	*4 304 534*	*4 341 958*	*99%*	*(37 424)*
electricity retail sales revenue	*3 742 301*	*3 487 093*	*107%*	*255 209*
greenhouse gas emission allowances	*495*	*155 973*	*0,3%*	*(155 478)*
fuel	*621 988*	*757 693*	*82%*	*(135 704)*
distribution service (transferred)	*1 721 405*	*1 595 548*	*108%*	*125 858*
other services, incl. commercial services	*28 574*	*34 184*	*84%*	*(5 610)*
EBIT	**540 417**	**283 659**	**191%**	**256 758**
Depreciation and write-offs	4 979	5 914	84%	(935)
EBITDA	**545 396**	**289 573**	**188%**	**255 823**

In H1 2016 the Supply segment's sales revenue was 3% lower as compared to the same period of last year due to the lower electricity wholesale revenue along with an increase of electricity retail sales revenue (+7%). Also the fuel sales revenue was lower (-18%) as a result of a change to the coal supply model and the greenhouse gases sales revenue was lower as a result of reclassifying the revenue from emission allowances trading.

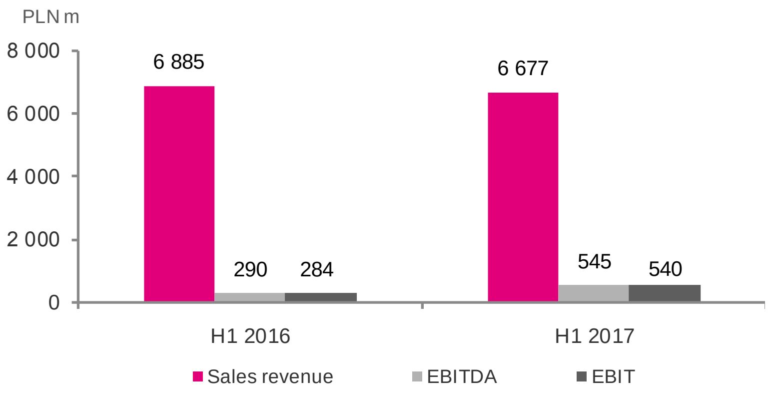
Supply segment's EBITDA and EBIT were better in H1 2017 than in the same period of 2016 which was primarily due to the dissolving of the ECSW provision in Q1 2017 and the termination of the long term PMOZE contracts.

The results posted were affected by the following factors:

1) electricity price and volume – a positive impact on the result is due to the higher total electricity sales volume by 0.4 TWh year on year (including an increase of retail sales volume by 1.6 TWh and a decrease of wholesale volume by 1.2 TWh), along with the decline of sales prices to business customers due to the low PMOZE market prices, customers migrating from the tariff to the product offering and a 5% reduction of the G tariff year on year at TAURON Sprzedaż. The price was also affected by the high share of the exchange product sales where the sales price is dependent on the conventional electricity prices,
2) property rights' prices – a positive impact on the result due to taking advantage of the favorable market situation, mainly with respect to the "green" certificates (PMOZE purchase to meet the redemption obligation at lower prices) and at the same time a change to the regulations with respect to calculating the property rights related to energy efficiency,
3) obligation to redeem property rights – a negative impact on the result as a consequence of an increase of the obligation for the "green" certificates from 15.0% to 15.4%, for the "violet" certificates from 1.5% to 1.8%, for the "yellow" certificates from 6.0% to 7.0%, maintaining of the obligation to redeem certificates from co-generation for the "red" certificates at 23.2% and introducing of the obligation for PMOZE-BIO (the so-called "blue" property rights) at 0.6%,
4) dissolving of the provision related to the agreements that gave rise to charges stemming from the joint venture (ECSW) led to improving the Supply segment's financial result by PLN 203 mln as a consequence of the Agreement between TAURON and PGNiG with respect to the gas and electricity agreements and amendments to the multi-year gas and electricity agreements related to the CCGT unit's construction project at Stalowa Wola coming into force,
5) other revenues/costs - the balance from the other operating activity and margins achieved on the other energy market products.

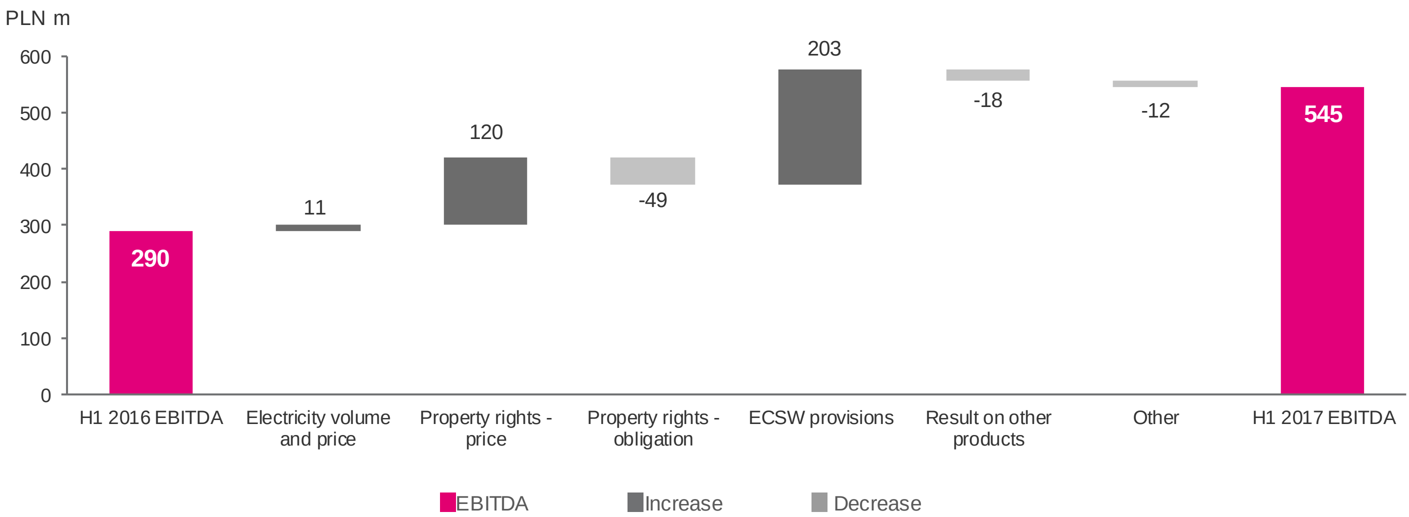
The below figure presents the Supply segment's H1 2017 financial data versus H1 2016.

Figure no. 12. Supply segment's H1 2016 and H1 2017 financial data



The below figure presents the Supply segment's EBITDA including the significant factors impacting the change in relation to H1 2016.

Figure no. 13. Supply segment's EBITDA



2.2.2.5. Other operations

The below table presents the results of the subsidiaries assigned to the Other operations.

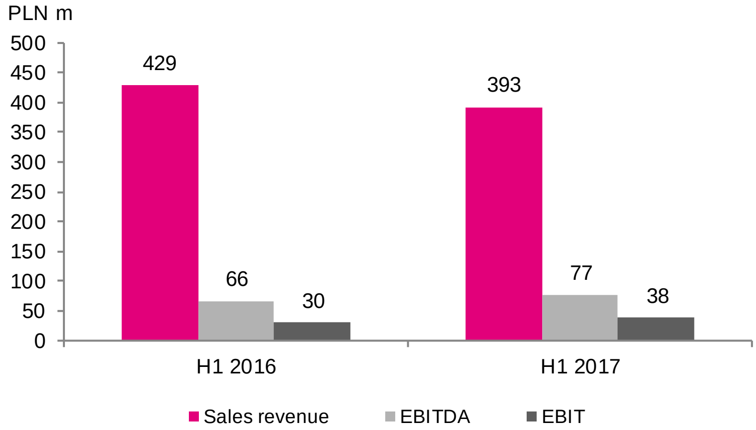
Table no. 10. Other operations' results

Item (PLN '000)	H1 2017	H1 2016	% change 2017/2016	Change (2017 - 2016)
Other operations				
Sales revenue	**392 588**	428 843	**92%**	**(36 255)**
customer service, accounting and IT services	*272 315*	*282 717*	*96%*	*(10 402)*
electricity and property rights arising from certificates of electricity origin	*6 582*	*6 298*	*105%*	*284*
biomass	*37 233*	*85 065*	*44%*	*(47 832)*
aggregates	*47 330*	*43 523*	*109%*	*3 807*
other revenue	*29 128*	*11 240*	*259%*	*17 887*
EBIT	**37 947**	29 822	**127%**	**8 125**
Depreciation and write-offs	38 688	36 214	107%	2 474
EBITDA	**76 635**	**66 036**	**116%**	**10 599**

Other operations' H1 2017 sales revenue was approx. 8% lower than in the same period of last year which was primarily due to the lower biomass volume sales at a lower price as a result of the substantial demand decline.

The below figure presents the Other operations' H1 2016 and H1 2017 financial data.

Figure no. 14. Other operations' H1 2016 and H1 2017 financial data



2.3. Key events and TAURON Capital Group's accomplishments with a significant impact on its operations

The more important events and accomplishments that had a significant impact on TAURON Capital Group's operations that occurred in H1 2017, as well as until the day of drawing up this report include:

Key business events in H1 2017

Termination of the long term agreements on the purchase of the property rights by a subsidiary

On February 28, 2017 TAURON Sprzedaż filed a statement on the termination of the long term agreements on the purchase by TAURON Sprzedaż of the property rights arising from the certificates of origin of electricity from renewable energy sources (the so-called "green" certificates). Parties to the agreements concluded in 2008 are the below listed counterparties that own facilities generating electricity from renewable sources:

1) in.ventus limited liability company EW Dobrzyń spółka komandytowa,
2) in.ventus limited liability company Ino 1 spółka komandytowa,
3) in.ventus limited liability company EW Gołdap spółka komandytowa.

The agreements shall be terminated effective immediately as a result of the parties failing to achieve an agreement while trying to renegotiate the contracts under the procedure provided for in the agreements. The financial implication of the termination of the agreements will be TAURON Sprzedaż avoiding a loss equal to the difference between the contractual prices and the market price of the "green" certificates. An estimated net value of the above mentioned loss due to the performance of the agreements until the end of the originally assumed agreements' term (i.e. until 2023), based on the current market prices of the "green" certificates is approximately PLN 343 mln. Estimated total net value of contractual obligations of TAURON Sprzedaż in 2017-2023 is approximately PLN 417 mln. The above figure was calculated based on the pricing formulas assumed in the agreements for the period running from the day of drawing up this report until the end of the originally assumed the originally assumed agreements' term (i.e. until 2023).

The above event was described in detail in the regulatory filing (current report) no. 6/2017 of February 28, 2017.

Concluding of the amendment to the agreement with the RAFAKO S.A. - MOSTOSTAL WARSZAWA S.A. consortium on the construction of a power generation unit at Jaworzno III Power Plant

On March 1, 2017 the Management Board of TAURON's subsidiary - TAURON Wytwarzanie (Ordering Party) signed with the RAFAKO S.A. - MOSTOSTAL WARSZAWA S.A. consortium (Contractor) an amendment to the agreement on the construction of a 910 MWe power generation unit for super critical parameters at Jaworzno III Power Plant - Elektrownia II, currently carried out by the Ordering Party's spun off branch – Oddział Jaworzno 910 MW in Jaworzno, with respect to: steam boiler, turbine set, main building, electric part and the unit's instrumentation and control (I&C).

Under the amendment the agreement's net price was increased by PLN 71.05 mln, i.e. to PLN 4 470 mln, and the deadline for completing the subject of the agreement was extended by 8 months, i.e. until the 67th month from the date of concluding the agreement at the latest which means that the new assumed date of handing over the unit for operation is November 2019.

The decision to sign by TAURON Wytwarzanie of the above mentioned amendment was taken on February 28, 2017. On the same day also the Management Board of TAURON issued a positive opinion on the conclusion of the amendment on the above mentioned terms.

Amendments to the agreement were due to the need to change the unit's facilities' foundations to the deep foundations, and also due to the parties to the agreement agreeing on additional works beneficial to the Ordering Party for technical and economic reasons (erecting the foundation for the fifth electrofilter (EF) zone and extending the EF switchgear building). The additional works will allow the Ordering Party to achieve savings during the planned outage of the unit in 2021 in order to partly adapt the unit to comply with the future BAT conclusions requirements. The Ordering Party partly accepted the Contractor's claims related to the above circumstances and the change necessity protocols as justified. The claims due the change of the design standards – EUROKODY, were not accepted as justified by the Ordering Party.

Due to the above the warranties granted by the Contractor were extended:

1) by 6 months with respect to the Unit's availability for the direct shipments carried out by RAFAKO S.A., boiler maximum continuous rating, unit's technical minimum and flue gas water content behind FGD, vibration level for a structure,
2) by 12 months with respect to the unit's design and construction.

The Contractor will also ensure an appropriate extension of the agreement's performance bond.

Signing of the amendment changed the terms of the agreement with the Contractor, however it had no impact on the change of the entire investment project's budget.

The Company provided information on the amendment to the above mentioned agreement in the regulatory filings (current reports): no. 5/2017 of February 28, 2017 and no. 7/2017 of March 1, 2017.

Coming into force of the agreement and amendments on the terms of further implementation of the "CCGT unit's construction at Stalowa Wola" project

On March 31, 2017, in reference to the earlier concluded agreements and amendments on the terms of further implementation of the "CCGT unit's construction at Stalowa Wola" project (Project), as described in the regulatory filing (current report) no. 36/2016 of October 27, 2016 ECSW issued an instruction to make the payment to the institutions so far providing the financing for ECSW, i.e. European Investment Bank, European Bank for Reconstruction and Development, Bank Polska Kasa Opieki S.A. (Financing Institutions) of PLN 581.4 mln as the repayment of all of ECSW's liabilities towards the Financing Institutions. Upon the crediting of the Financing Institutions' bank accounts the suspending conditions were met and at the same time the documents described in the above mentioned report (filing) came into force, i.e.:

1) agreement on establishing the basic boundary conditions of the Project's restructuring among TAURON, PGNiG and ECSW,
2) amendment to the electricity sale Agreement of March 11, 2011 (Electricity Sale Agreement) among TAURON, PGNiG and ECSW,
3) amendment to the gas supply Agreement of March 11, 2011 (Gas Agreement) between PGNiG and ECSW.

The agreement governs, first of all, the conditions of settling the liquidated damages, making the so far used pricing formulas market based and the Project's financial restructuring issues and it constitutes a reflection of the will of the Project's sponsors, i.e.: TAURON and PGNiG (Sponsors) with respect to the continuation of the CCGT unit's construction, making changes to the Gas Agreement and the Electricity Sale Agreement and changing Project's financing formula from project finance to corporate finance.

Changes to the Gas Agreement and the Electricity Sale Agreement envisage in particular making the pricing formulas used in these agreements market based. Furthermore, due to the delay in the Project's implementation, the amendment to the Gas Agreement envisages a change with respect to amounts, deadlines and methodology used to assess liquidated damages.

ECSW acquired the funds for the bank loans' repayment under loan agreements according to which each of the Sponsors granted ECSW a PLN 290.7 mln loan.

In accordance with the provisions of the standstill agreement mentioned in the regulatory filing (current report) no. 36/2016 the Financing Institutions were obligated to return the bank guarantees received from the Sponsors for the total amount of approx. PLN 629m, where the total amount of bank guarantees provided by TAURON was PLN 314.5 mln.

Irrespective of the above the Sponsors, along with ECSW, are continuing joint works aimed at acquiring new financing for the CCGT unit's construction project at Stalowa Wola the terms and the structure of which would be more favorable than the existing agreements.

The Company provided information on the above event in the regulatory filing (current report) no. 11/2017 of March 31, 2017.

The bank guarantees for PLN 314.5 mln issued at TAURON's instruction in order to guarantee the banks' liabilities under the loans granted to ECSW mentioned in the above regulatory filing (current report) expired in April 2017.

Signing of the letter of intent on the coal gasification project

On April 20, 2017 a letter of intent was signed between TAURON and Grupa Azoty S.A. defining the general rules of commencing cooperation aimed at implementing the coal gasification project.

The parties signed the Letter of intent due to the fact that among various coal conversion methods of key importance in the medium and long term are those that are offering efficient utilization of coal resources, in line also with the direction of the European Union's policy. This is due, among others, to the need to reduce the ecological burden (footprint) of the power generation and chemical processes, including to significantly reduce the CO_2 emissions.

The detailed information on the above event is provided in section 1.4.2. of this report.

The Company provided information on the signature of the letter of intent in the regulatory filing (current report) no. 12/2017 of April 20, 2017.

Signing of the agreement on the potential cooperation in the implementation of the construction of a 910 MW power generation unit project at Jaworzno III Power Plant and the termination of the investment agreement related to the CCGT unit at Łagisza Power Plant

In reference to the Strategy that assumes an implementation of the construction of a 910 MW power generation unit project at Jaworzno (Project) under the new financing formula, envisaging spinning off of an organized part of an enterprise including the above mentioned investment project into a new special purpose vehicle, and then external partners joining the company, on June 1, 2017 TAURON signed the Agreement on the preliminary terms of potential cooperation as part of the Project with Fundusz Inwestycji Infrastrukturalnych – Kapitałowy Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych and Fundusz Inwestycji Infrastrukturalnych – Dłużny Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych (Funds), managed by Towarzystwo Funduszy Inwestycyjnych BGK S.A. A part of the investment portfolio of the above mentioned Funds is managed by Polski Fundusz Rozwoju S.A.

Under the Agreement the Funds expressed a preliminary interest in investing in the Project PLN 880 mln in total, by way of the Funds taking up new shares in the Nowe Jaworzno GT special purpose vehicle, that is currently TAURON's wholly owned company currently implementing the Project. The Funds' share in the share capital of Nowe Jaworzno GT cannot be higher than 50% minus one share. The other shares in Nowe Jaworzno GT will be held by the Company or by the Company and an additional Investor (Investors), where the Company will own at least 50% plus one share in Nowe Jaworzno GT. The Agreement expresses the will of the parties to conduct, in good faith, negotiations aimed at defining the rules of potential cooperation in implementing the Project. The joining of the Project by the Funds will be dependent on the results of the detailed analysis of the Project by the Funds, the parties agreeing and fulfilling the conditions defined in the documentation of the transaction and the Funds obtaining the required investment consents to take part in the Project. The Agreement shall be valid until December 31, 2017.

At the same time on June 1, 2017 an agreement was signed between TAURON Wytwarzanie and PFR under which the investment agreement concluded between the above mentioned entities aimed at the joint implementation of the project "Construction of a 413 MWe CCGT unit at TAURON Wytwarzanie Spółka Akcyjna Oddział Elektrownia Łagisza in Będzin" was terminated. The Company provided information on the conclusion of the investment agreement in the regulatory filing (current report) no. 17/2015 of July 13, 2015. The termination of the investment agreement is in line with the assumptions of the Strategy envisaging stopping of the investment in the CCGT unit at Łagisza Power Plant which translates into the reduction of capital expenditures for this purpose by approximately PLN 1.5 bln.

The Company provided information on the above event in the regulatory filing (current report) no. 25/2017 of June 1, 2017.

Eurobond issue by TAURON

On June 14, 2017 TAURON, in agreement with a consortium of investment banks, commenced activities aimed at conducting a eurobond issue of a nominal value not higher than EUR 500 mln that included in particular conducting meetings with investors in Europe. Conducting of a eurobond issue was dependent on market conditions, and the issue size, the final issue price and the interest rate of the eurobonds were determined following the meetings with investors in Europe.

The Company's intention was to file for admission of the eurobonds to trading on the regulated market of the London Stock Exchange, as well as to use the proceeds from the eurobonds issue to cover TAURON Capital Group's expenses.

On June 28, 2017 the following parameters of the eurobonds were set:

1) Total nominal value: EUR 500 mln,
2) Maturity: 10 years,
3) Interest periods: annual,
4) Coupon: 2.375 % per annum,
5) Yield as of issue date: 2.439% per annum (i.e. mid-swap + 1.63%),
6) Issue price: 99.438% of the nominal value.

The condition for the bond issue was the signature of the documentation of the transaction and the fulfillment of the conditions indicated therein.

On July 5, 2017 the Company issued eurobonds with the above indicated parameters that were admitted to trading on the regulated market of the London Stock Exchange on July 10, 2017.

On July 5, 2017 (an event occurring past the balance sheet day) Fitch rating agency granted the ”BBB” rating for unsecured and unsubordinated debt in the form of the Company’s 10-year eurobonds with the total nominal value of EUR 500 mln. The rating reflects the Company’s leading position in the regulated and stable distribution segment that generates a substantial part of TAURON Capital Group’s EBITDA (72% in 2016). The full list of ratings includes:

- long term ratings in domestic and foreign currency affirmed as ”BBB”; stable outlook,
- short term ratings in domestic and foreign currency affirmed as ”F3”,
- ”BB+” rating for hybrid bond issue,
- domestic long term rating affirmed as ”A+(pol)”; stable outlook,
- domestic rating for unsecured and unsubordinated debt affirmed as ”A+(pol)”,
- rating for unsecured and unsubordinated debt in a foreign currency at ”BBB” for the eurobond issue.

The Company provided information on the above events in the following regulatory filings (current reports): no. 28/2017 of June 14, 2017, no. 30/2017 of June 28, 2017, no. 31/2017 of July 5, 2017 and no. 32/2017 of July 5, 2017.

Extension of the bond issue program

On June 20, 2017 amendments were signed to the agreements related to the bond issue program (Program), i.e. agency and custody agreement and underwriting agreement of the conclusion of which the Company provided information in the regulatory filing (current report) no. 49/2015 of November 20, 2015. Under the above amendments the following extension of the Program was made:

a) one year, i.e. until December 31, 2021 (”Extension Period I”). Program amount in Extension Period I will be PLN 5.32 bln maximum, and the following banks joined the extension: MUFG Bank (Europe) N.V., MUFG Bank (Europe) N.V. S.A. Branch in Poland, Bank Zachodni WBK S.A., CaixaBank S.A. (Joint Stock Company) Branch in Poland, Industrial and Commercial Bank of China (Europe) S.A. Branch in Poland, ING Bank Śląski S.A., Powszechna Kasa Oszczędności Bank Polski S.A. and mBank S.A.,
b) by two years, i.e. until December 31, 2022 (”Extension Period II”). Program amount in Extension Period II will be PLN 2.45 bln maximum, and the following banks joined the extension: MUFG Bank (Europe) N.V., MUFG Bank (Europe) N.V. S.A. Branch in Poland and Powszechna Kasa Oszczędności Bank Polski S.A.

Until December 31, 2020 the Program amount will not change and will be PLN 6.27 bln maximum. The margin of the financing under the Program did not change due to the extension made.

The Company provided information on the above event in the regulatory filing (current report) no. 29/2017 of June 20, 2017.

Important corporate events in H1 2017

Dismissal and appointment of the members of the Company’s Management Board

On March 15, 2017 the Company's Supervisory Board dismissed, effective as of the end of day on March 15, 2017, all members of the Company's Management Board of the 4th common term of office, i.e.: Filip Grzegorczyk - President of the Management Board, Jarosław Broda - Vice-President of the Management Board for Asset Management and Development, Kamil Kamiński - Vice-President of the Management Board for Corporate Governance, Marek Wadowski - Vice-President of the Management Board for Finance, Piotr Zawistowski - Vice-President of the Management Board for Customer and Trade. At the same time the Supervisory Board on March 15, 2017 appointed as of March 16, 2017 the following persons to TAURON's Management Board of the 5th common three-year term of office: Filip Grzegorczyk, as the President of the Management Board, Jarosław Broda, as Vice-President of the Management Board for Asset Management and Development, Kamil Kamiński as Vice-President of the Management Board for Corporate Governance, Marek Wadowski as Vice-President of the Management Board for Finance. On March 15, 2017 Piotr Zawistowski up to then performing the function of Vice-President of the Management Board for Customer and Trade provided the Supervisory Board with the information on the resignation from applying for being selected to be a member of TAURON's Management Board of the 5th common term of office. Due to the change made to the Company's Organizational Regulations the Supervisory Board made, as of April 14, 2017, a change of the existing position held by Kamil Kamiński to Vice-President of the Management Board for Customer and Corporate Support.

The Company provided information on the change to the composition of the Management Board in the regulatory filing (current report) no. 10/2017 of March 15, 2017.

Changes to the Supervisory Board's composition

On May 25, 2017 the Company received Jacek Rawecki a statement on the resignation, as of May 26, 2017, from the function of a member of the Company's Supervisory Board. Jacek Rawecki did not provide the reason for the submitted resignation.

On May 29, 2017 the Minister of Energy, acting pursuant to § 23, clause 1, sections 1) and 3) of the Company's Articles of Association, appointed the following persons to be members of the Company's Supervisory Board of the 5th common term of office as of May 29, 2017:

1. Beata Chłodzińska,
2. Teresa Famulska,
3. Barbara Łasak-Jarszak,
4. Jan Płudowski,
5. Agnieszka Woźniak.

On May 29, 2017 the Ordinary GM of the Company, acting pursuant to § 22, clause 1 of the Company's Articles of Association, appointed the following persons to be members of the Company's Supervisory Board of the 5th common term of office:

1. Radosław Domagalski - Łabędzki,
2. Paweł Pampuszko,
3. Jacek Szyke.

The Company provided information on the above events in the regulatory filings (current reports): no. 19/2017 of May 25, 2017 and no. 22/2017 of May 29, 2017. The information on appointed members of the Supervisory Board was provided in the regulatory filing (current report) no. 27/2017 of June 5, 2017.

Decision of TAURON's Management Board on the motion filed to the Ordinary GM of the Company to cover the Company's net loss for the financial year 2016 from the Company's spare (supplementary) capital and not recommend the use of the spare (supplementary) capital for the dividend payout

On March 13, 2017 TAURON's Management Board of the Company adopted the resolution on filing a motion to the Ordinary GM of the Company to cover the Company's net loss in the financial year 2016 in the amount of PLN 166 252 898.52 from the Company's spare (supplementary) capital.

At the same time, in reference to the information on the adoption of the 2016-2025 dividend policy, provided in the regulatory filing (current report) no. 35/2016 of September 2, 2016, the Company's Management Board decided not to recommend to the Ordinary GM of the Company taking of the decision on the use of the Company's spare (supplementary) capital for the payout of the dividend for 2016 to the Company's shareholders.

The above decision was dictated by the needs related to the implementation of the investment program worth approx. PLN 18 bln by 2020 and ensuring TAURON Capital Group's financial stability, including in particular maintaining the net debt/EBITDA ratio defined in TAURON's financial agreements at the level not higher than 3.5x.

Additionally, in accordance with the information published by the company in the regulatory filing (current report) no. 41/2016 of November 14, 2016 the planned stopping of the dividend payout until 2019 was one of the factors enabling the Fitch rating agency to maintain TAURON's long term rating at investment grade level and to change the outlook from negative to stable.

The Company provided information on the above decision in the regulatory filing (current report) no. 8/2017 of March 13, 2017.

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

On May 5, 2017 the State Treasury of the Republic of Poland, as a shareholder representing more than one twentieth of TAURON's share capital, submitted a request to include on the agenda of the Ordinary General Meeting of the Company convened on May 29, 2017 additional items related to a change of the resolution no. 5 of the Extraordinary GM of December 15, 2016 on the principles of setting the remuneration of the members of the Management Board and a change to the Company's Articles of Association the scope of which was indicated in detail in the content of the regulatory filing (current report) no. 16/2017 of May 5, 2017.

State Treasury indicated as a justification for the proposed changes the need to align the principles of setting the remuneration of the members of the Management Board and the content of the Company's Articles of Association to the requirements of the *Act of December 16, 2016 on the state assets management principles*.

Introduction of the amendment to the Company's Articles of Association was aimed at implementing a more transparent split of competences of the Company's corporate authorities, transparent asset management principles, investment decision making principles, manner of appointing members of the supervisory and management authorities and setting their remuneration, as well as standards related to actions taken by the management boards of companies, among others in such areas as: consulting, marketing, sponsoring or meals and entertainment expenses.

The draft resolutions received from the State Treasury to be the subject of discussions at the Ordinary GM of the Company and the proposed changes to the Company's Articles of Association were published on May 19, 2017. Meanwhile on May 25, 2017 the State Treasury filed a change to the draft resolution on the change of § 20 of TAURON's Articles of Association and withdrew the draft resolution on the change of § 35 of TAURON's Articles of Association.

The Company provided information on the above events in the regulatory filings (current reports) no. 16/2017 of May 5, 2017, 17/2017 and 18/2017 of May 19, 2017 and 20/2017 and 21/2017 of May 25, 2017.

Ordinary General Meeting of TAURON

On May 29, 2017 the Ordinary GM of the Company was held which adopted resolutions concerning, inter alia: the approval of the Consolidated financial statements of TAURON Capital Group and the Report of the Management Board on the operations of TAURON Capital Group for the financial year 2016, the Financial statements of TAURON and the Report of the Management Board on the operations of TAURON for the financial year 2016, covering of net loss for the financial year 2016 from the spare (supplementary) capital, acknowledgement of the fulfillment of duties by members of the Company's Management Board and Supervisory Board, determining the number of members of the Company's Supervisory Board and appointing of members of the Supervisory Board, changing resolution no. 5 of the Ordinary GM of December 15, 2016, as well as amending the Company's Articles of Association.

It was decided to cover the net loss of the Company for the financial year 2016 in the amount of PLN 166 252 898,52 from the Company's spare (supplementary) capital.

The Company provided information on convening the Ordinary GM and on the content of the draft resolutions in the regulatory filings (current reports) no. 13/2017 and no. 14/2017 of April 27, 2017. The Company provided information on the decisions of the Ordinary GM concerning: covering of the net loss, adopted resolutions, list of shareholders holding at least 5% of votes at the GM, amendments to the Company's Articles of Association and appointment of the Supervisory Board members in the regulatory filings (current reports): no. 22/2017, no. 23/2017, no. 24/2017 of May 29, 2017 and no. 26/2017 of June 2, 2017.

Amendments to TAURON's Articles of Association

On May 29, 2017 the Ordinary GM of the Company adopted the resolutions on the amendments to the Company's Articles of Association.

Aa part of the passed amendments to the Company's Articles of Association the majority of the provisions of the *Act of December 16, 2016 on the state assets management principles* were implemented directly in the Company's Articles of Association. Also the competences of the Supervisory Board were extended and it shall express its consent for the conclusion of agreements on legal, marketing services, public relations and social communications services and consulting services related to management if the envisaged total net remuneration for the services provided exceeds PLN 500 000, on annualized basis, with respect to donations granted or other agreements of similar effect with the value exceeding PLN 20 000 or 0.1 % of the total assets, determined based on the last approved financial statements and relieving of debt exceeding PLN 50 000 or 0,1 % of the total assets. Furthermore, the competences of the Supervisory Board were extended by including: tasks related to determining the manner of exercising the voting rights at TAURON Capital Group's subsidiaries' GMs on issues regarding setting up companies, amending the Articles of Association or the Agreement, transformations or liquidations, raising or reducing share capital, divesting and leasing out the company's enterprises or its organized part and establishing a limited property right thereupon, redeeming shares, setting the remuneration of members of management boards or supervisory boards, claims for redressing damage inflicted upon formation of the company or exercising management or supervision, with respect to issues mentioned in art. 17 of the *Act of December 16, 2016 on the state assets management principles*. Also the principles of divesting fixed asset components were defined and procedures for selecting members of the management board following the qualification proceeding by the Supervisory Board the goal of which will be to verify and evaluate the candidates' qualifications were introduced, as well as the requirements for candidates for members of management authorities were defined.

On July 12, 2017 the District Court for Katowice-Wschód, the 8th Commercial Department of the National Court Register, entered into the Register of Entrepreneurs of the National Court Register the amendments to the Company's Articles of Association, adopted by the Ordinary GM of the Company by way of resolutions no. 39-45 of May 29, 2017 on amendments to the Company's Articles of Association.

On July 17, 2017 the Supervisory Board of TAURON, acting pursuant to § 20, clause 1, section 13 of the Company's Articles of Association, adopted a consolidated text of the Articles of Association of TAURON that includes the amendment to the Articles of Association entered into the National Court Register by the District Court for Katowice-Wschód in Katowice, the 8th Commercial Division.

The information on the above events was provided in the regulatory filings (current reports): no. 24/2017 of May 29, 2017, 33/2017 of July 12, 2017 and 34/2017 of July 17, 2017.

Other important events in H1 2017

Appointment of certified auditor

On March 15 2017 the Company's Supervisory Board appointed Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością spółka komandytowa as the entity authorized to examine TAURON's standalone and consolidated financial statements for the financial year 2017 and review TAURON's standalone and consolidated interim financial statements for the period ending on June 30, 2017. To date the services provided by Ernst & Young for the Company included examinations of the Company's standalone and consolidated financial statements for the years: 2008 - 2012, as well as reviews of the Company's standalone and consolidated interim financial statements for the periods ending on 30 June in the individual years from 2010 to 2012. The Company also used advisory and training services provided by Ernst & Young to the extent that in no way limited the impartiality and independence of the auditor. The certified auditor was appointed in accordance with the regulations in force, following a non-public order award procedure conducted by way of offer and acceptance. The agreement with Ernst & Young will be concluded by the Management Board of the Company for a period required to perform the contracted services

The Company provided information on the above event in the regulatory filing (current report) no. 9/2017 of March 15, 2017.

Important events after June 30 2017

Submission of the lawsuit in connection with the termination of long-term contracts for the purchase of power and property rights

On July 20, 2017 TAURON received the lawsuit of June 29, 2017 of Gorzyca Wind Invest sp. z o.o. with its seat in Warsaw against TAURON for payment of damages in the amount of PLN 39.7 mln and determination of liability for damages that may arise in the future due to torts, including unfair competition acts, estimated by the plaintiff to be worth PLN 465.9m. The case is pending before the Regional Court in Katowice. The factual basis for the lawsuit, according to the plaintiff, is the termination by PEPKH - TAURON's subsidiary, of the long term contracts for the purchase of electricity and property rights arising from certificates of origin, and the total amount of the future damages suffered by all of Wind Invest's subsidiaries will reach, according to the plaintiff, PLN 1 212.9m. TAURON provided information on the termination of the above mentioned agreements in the regulatory filing (current report) no. 7/2015 of March 19, 2015. TAURON proceeded to analyze the submission and the documents attached as well as to draft the response to the lawsuit. The 6-week deadline set by the court to file the response to the lawsuit was, at TAURON,s request, extended until September 18, 2017.

The preliminary assessment of the justification for the claims contained in the lawsuit indicates that they are completely groundless.

The Company provided information on the above event in the regulatory filing (current report) no. 35/2017 of July 20, 2017.

Submission of further claims in connection with the termination of long-term contracts for the purchase of power and property rights

On August 2, 2017, further claims were submitted to TAURON's power of attorney appointed in the lawsuit conducted before the Regional Court in Cracow, file reference no. IX GC 983/14, filed by Dobiesław Wind Invest sp. z o.o. with its registered office in Warsaw against TAURON and its subsidiary, i.e. PEPKH (to prevent the imminent danger of damage to Dobiesław Wind Invest sp. z o.o., by obligating TAURON and PEPKH and to revoke the liquidation of PEPKH), of a pleading of Dobiesław Wind Invest sp. z o.o. containing a change to the lawsuit.

The plaintiff changed the lawsuit's claim in such a manner that it had withdrawn its original legal action against PEPKH, while it changed the legal action against TAURON from the claim to prevent the imminent danger of damage into the claim for the payment of compensation.
Dobiesław Wind Invest sp. z o.o. is demanding: 1) payment of PLN 34.7 mln including statutory interest accrued from the day the claim was filed until the payment date, 2) determination that TAURON is liable towards Dobiesław Wind Invest sp. z o.o. for damages that may arise in the future, estimated by the plaintiff at PLN 254 mln (and stemming from the TAURON's alleged torts), 3) that injunctive relief be granted against TAURON for the amount of PLN 254 mln in case the court does not find the TAURON liable for the damages that may arise in the future.

The factual basis for the lawsuit, according to the plaintiff, is the termination by TAURON's subsidiary: PEPKH with its registered office in Warsaw of the long-term contracts for the purchase of electricity and property rights arising from certificates of origin, as described by TAURON in the current report No. 7/2015 of March 19, 2015.

TAURON proceeded to analyze the submission and the documents attached as well as to draft the response to the submission filed by the plaintiff by the 6-week deadline set by the court. The preliminary assessment of the justification for the claims contained in the lawsuit indicates that they are completely groundless.

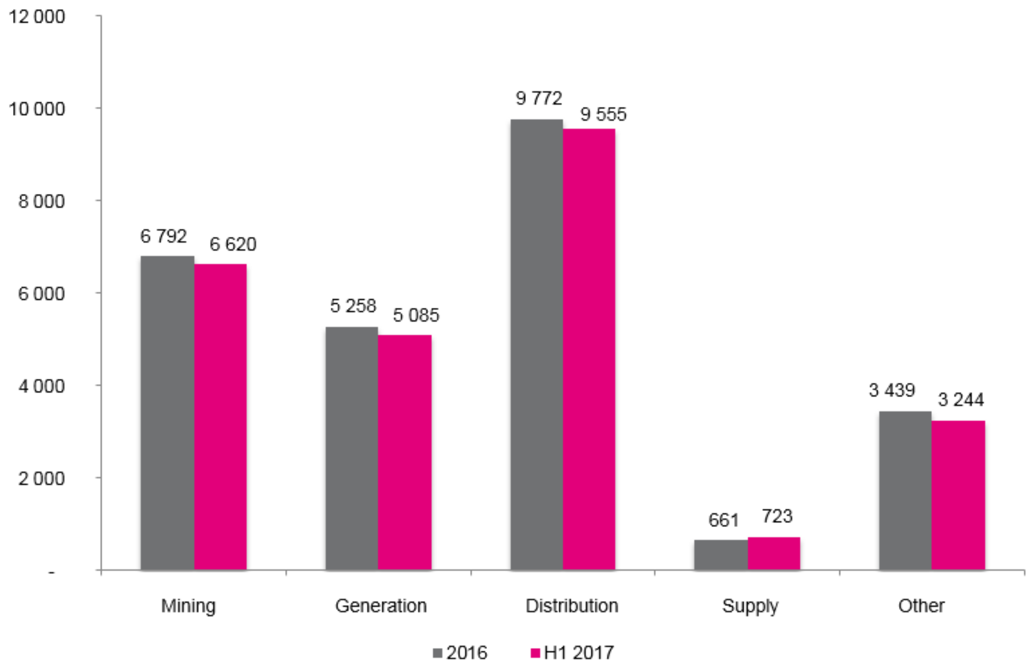
The Company provided information on the above event in the regulatory filing (current report) no. 37/2017 of August 3, 2017.

2.4. Information on employment

In H1 2017 the TAURON Capital Group's headcount reached 25 227 FTEs which means an increase versus the headcount in 2016, when the average employment was 25 992 FTEs.

The below figure presents TAURON Capital Group's average headcount in FTEs (rounded up to the full FTE) per line of business in 2016 and in H1 2017.

Figure no. 15. TAURON Capital Group's average headcount in 2016 and in H1 2017* (FTEs)



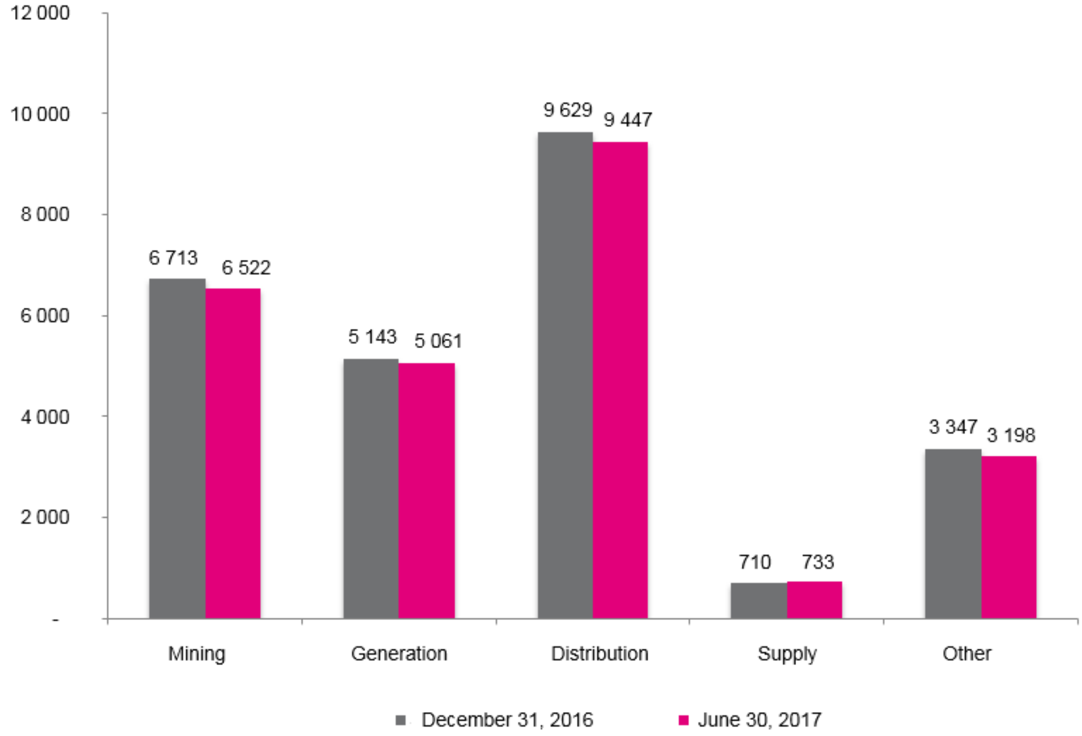
**Average headcount includes Nowe Jaworzno GT subsidiary that was covered by the consolidated reporting in H1 2017*

Changes to the average headcount in individual Lines of Business in H1 2017 in relation to the average headcount in 2016 arise, inter alia, from the *Voluntary Redundancy Programs* in the Distribution, Generation and Other lines of business underway, as well as employees leaving TAURON Capital Group.

24 961 persons were employed by TAURON Capital Group's subsidiaries as of June 30, 2017. The headcount decreased by 581 persons as compared to the headcount as of December 31, 2016 that reached 25 542 persons.

The below figure presents TAURON Capital Group's headcount in persons as of December 31, 2016 and June 30, 2017.

Figure no. 16. TAURON Capital Group's headcount as of December 31, 2016 and June 30* (persons)



**Headcount in persons includes Nowe Jaworzno GT subsidiary that was covered by the consolidated reporting in H1 2017*

3. RISK MANAGEMENT AT TAURON CAPITAL GROUP

3.1. Goal and key principles of risk management at TAURON Group

Risk at TAURON Capital Group is understood as an uncertain occurrence or a group of occurrences that, in case of materializing, will have an impact on achieving by TAURON Capital Group of its defined strategic goals, both negatively (threat), as well as positively (opportunity).

In line with its Strategy the Company is implementing the process of managing the risk related to the operations of TAURON Capital Group. The primary goals of risk management include ensuring the broadly understood security of TAURON Capital Group's operations. In particular, risk management is to ensure increased predictability of TAURON Capital Group achieving its strategic goals, including sustainable financial generation of its financial results.

TAURON Capital Group's risk management:

1) covers all elements of the value chain,
2) provides centralized risk measurement, monitoring and control function, and also ability to evaluate the full risk profile in the organization and coherent risk management principles,
3) ensures independence of the risk taking function from its control and monitoring which ensures that no conflict of interest will arise,
4) ensures a clear split of competences and responsibilities, in particular by introducing the risk ownership function,
5) is an active process, focused on an appropriately early identification of threats, allowing for taking preventive measures,
6) is a systematic and continuously improved process which allows for aligning it on an ongoing basis to the Group's specifics and organizational structure, as well as to the changing environment,
7) places a lot of emphasis on developing awareness, training and encouraging personnel to use the knowledge of risks in daily activities,
8) co-participates in TAURON Capital Group's internal audit system, constituting, along with the compliance and security management functions, an element of the three line defense.

3.2. Enterprise risk management system

TAURON Capital Group's enterprise risk management (ERM) system is a set of principles, standards and tools allowing for achieving the primary risk management goal which is the broadly understood ensuring security of TAURON Capital Group's operations. The system is based on the document entitled *TAURON Group's Enterprise Risk Management System* (ERM Strategy) that defines TAURON Capital Group's Enterprise Risk Management framework and principles. The goal of the ERM Strategy is to ensure coherent management of individual risk categories that are detailed in separate regulations, aligned to the specifics of the individual groups of threats.

The below figure presents the basic enterprise risk classification:

Figure no. 17. Basic enterprise risk classification

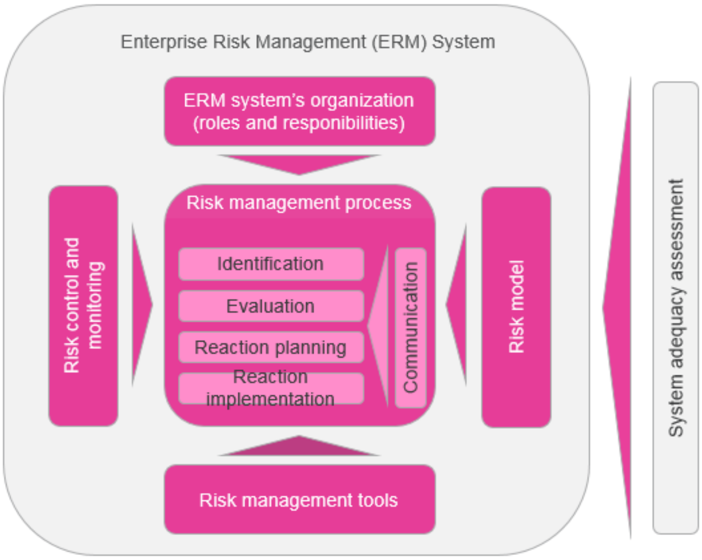
The detailed description of individual risk categories management principles and tools is provided further on in this report.

The center of the ERM System is a risk management process that includes continuous activities such as risk identification, its measurement and developing and implementing reactions to risk. The ERM System's architecture also includes elements that are to ensure effective functioning of the process, including:

1) risk management tools,
2) risk model,
3) principles of control and monitoring,
4) ERM system's organization,
5) Assessment of the ERM system's adequacy and functioning.

The below figure presents the structure of the ERM system functioning in TAURON Capital Group. The detailed description of its individual elements is provided in the following sections of this report.

Figure no. 18. ERM system's architecture

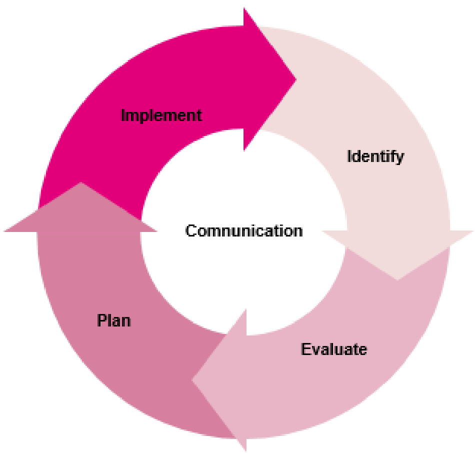


3.2.1. Risk management process

Risk management is based on a process focused on an appropriately early prevention of the consequences of identified threats and effective decision making, and also on the possibly best understanding of potential undesirable consequences of risk materializing. The enterprises risk management process entail continuous actions that include identifying risk, measuring risk, implementing the adopted reaction to risk and the communication among the risk management process participants.

The figure below presents stages of TAURON Capital Group's enterprise risk management process.

Figure no. 19. TAURON Capital Group's enterprise risk management process stages



TAURON Capital Group's enterprise risk management process stages:

Risk identification (*Identify*) based on determining potential events that may affect the accomplishment of TAURON Capital Group's business goals.

Risk assessment (*Assess*) based on determining potential financial and non-financial consequences of risk materializing in the context of achieving specific goals.

Planning reaction to risk (*Plan)* based on preparing dedicated responses to the risk identified in order to achieve the desirable outcomes.

Implementing the adopted reaction to risk (*Implement*) based on implementing in practice the prepared risk response to the risk identified.

Communication is based on the continuous information flow among the process participants which is to ensure full knowledge on the current level of risk and the effectiveness of the reaction thereto. Periodic risk reporting is an element of this process.

3.2.2. Organization, roles and responsibilities

The key assumption of the risk management system is a clear and precise split of tasks and responsibilities, ensuring no conflicts of interest. In particular the system guarantees independence of the risk taking function from its control and monitoring. It is implemented by centralizing the control function at the parent Company level in the organizational and functional separation of the risk taking function. The principles in place at TAURON Capital Group implement a risk Owner function, i.e. a person responsible for managing the given risk as well as developing and implementing an effective reaction to a threat. Meanwhile the control function, process coordination, as well as responsibility for the correct functioning of the risk management system was placed in the Executive Director responsible for Risk's Area.

As part of the risk management process the Risk Committee plays a special role as an expert team that permanently and continuously initiates, analyses, monitors, controls, supports and supervises the performance of TAURON Capital Group's risk management system. The Risk Committee is made up of persons with relevant knowledge on the Company and its environment as well as the required qualifications and powers. The task of the Risk Committee is to define TAURON Capital Group's risk management norms and standards and to oversee the effectiveness of the risk management process. Two separate teams were established within the Risk Committee: for the commercial risk area and for the financial and credit risk area. The Risk Committee directly oversees the implementation of the enterprise risk management process.

The below table presents the relationships between the individual roles in the context of the ERM Strategy and the other documents that define TAURON Capital Group's risk management system in detail.

Table no. 11. Relationships between the individual roles in the context of the ERM Strategy and the documents that define the ERM System

<table>
<tr><td colspan="7">Supervisory Board
Audit Committee</td></tr>
<tr><td colspan="7">Management Board</td></tr>
<tr><td>Management</td><td colspan="5">Risk Committee
Trade Risk Management Team
Financial and Credit Risk Management Team</td><td>Internal Audit</td></tr>
<tr><td rowspan="5">Organizational regulations</td><td colspan="5">TAURON Group's corporate risk manageent strategy</td><td rowspan="2">Internal audit regulations</td></tr>
<tr><td>TAURON Group's trade risk management policy</td><td>TAURON Group's operational risk management policy</td><td>TAURON Group's trade risk management policyPolityka zarządzania ryzykiem w</td><td>TAURON Group's credit risk management policy</td><td>TAURON Group's financial area specific risk management policy</td></tr>
<tr><td>Market Risk Team</td><td colspan="2">Corporate Risk Team</td><td>Credit Risk Team</td><td>Executive Director for Finance</td><td>Internal Audit Team</td></tr>
<tr><td colspan="5">Executive Director for Risk</td><td>Executive Director for Internal Audit</td></tr>
<tr><td colspan="5">Reporting to the Supervisory Board, Management Board of TAURON, Members of the Risk Committee</td><td>Reporting to the CEO</td></tr>
</table>

The roles and responsibilities of all the participants of TAURON Group's risk management system are defined in the ERM System. The detailed description of roles and responsibilities is provided in the below table.

Table no. 12. The description of roles and responsibilities of the ERM System's participants

PARTICIPANT	PARTICIPANT'S ROLES AND RESPONSIBILITIES
TAURON's Supervisory Board	• Assess the ERM System, especially its adequacy and effectiveness. • Right to audit the Company's enterprise risk management activities with respect to compliance with the expectations of shareholders, governing and regulatory authorities.
TAURON's Supervisory Board's Audit Committee	• Monitor the ERM System's effectiveness.

TAURON's Management Board	• Assess the ERM System's adequacy, effectiveness and efficiency. • Take formal decisions related to the key elements of TAURON Capital Group's enterprise risk management, including approving the list of risks for which the Management Board will be performing the Risk Owner's function. • Approve TAURON Capital Group's risk tolerances and global limits for key risks. • Manage risks of particular importance for TAURON Capital Group's operations.
Risk Committee	• Supervise TAURON Capital Group's risk management process. • Control TAURON Capital Group's risk exposure. • Issue opinions and recommend to the Management Board solutions with respect to the individual elements of risk management infrastructure. • Define TAURON Capital Group's risk tolerances and global limits for key risks, and also apply to the Management Board for their approval or change. • Oversee the preparation of the quarterly information for the Management Board on TAURON Capital Group's all significant risk related issues.
Executive Director responsible for Risk	• Coordinate risk management on all levels and in all areas of the organization's operations. • Responsible for developing the ERM System (methods, identification processes and procedures, assessment, monitoring and control of threats). • Support and oversee the system's participants in implementing risk management and assess its effectiveness. • Prepare and provide risk reports to authorized risk management process participants. • Actions aimed at developing supportive organizational culture and raising awareness with respect to TAURON Capital Group's risk management.
Executive Director responsible for Internal Audit	• Periodic review of the correctness of design and implementation of the ERM System as well as effects of its operation.
Subsidiary's Management Board	• Responsible for the subsidiary' risk management. • Promote the subsidiary' risk management culture. • Responsible for the right reactions to risks and the effectiveness thereof. • Appoint Risk Owners in the given subsidiary. • Approve plans of reactions to risk and make ongoing decisions on dealing with risk in case the set risk values (escalation thresholds) are breached.
Risk Owner	• Responsible for actions related to the implementation of the risk management process as part of the entrusted area of responsibility, in the context of an impact on the ongoing operations as well as on the accomplishment of the unit's strategic, operational and financial goals. • Responsible for preparing the plan and implementing the reaction to risk in case its set values are breached, and also for the communications and reporting as part of the risk management performed.

3.2.3. Risk management tools

Risk management tools used by TAURON Capital Group allow for an effective implementation of the individual stages of this process. TAURON Capital Group is applying the following tools in particular:

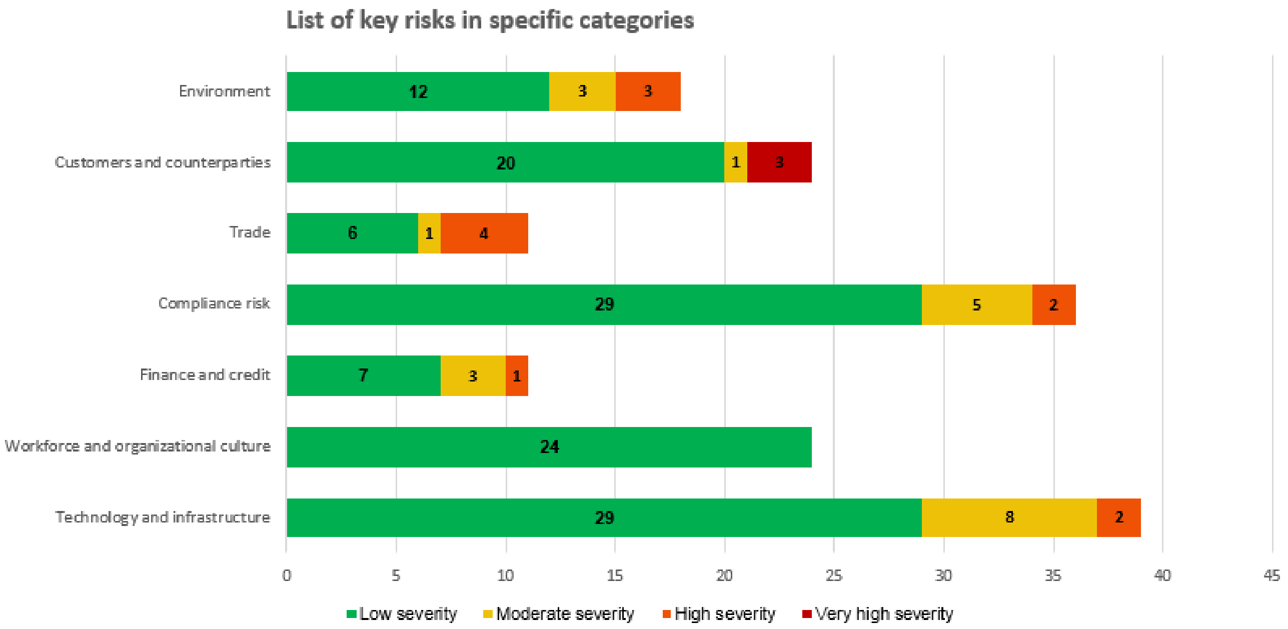
- risk identification questionnaire, i.e. a table form specifying information that should be collected when identifying risk,
- risk card containing detailed information on the risk identified,
- risk register, i.e. a table summary of risks related to TAURON Capital Group's operations, containing in particular their descriptions, categories, valuations, and in justified cases also the reaction to risk, back up (contingency) plan and the system of indicators subject to monitoring,
- risk model, i.e. their orderly list, allowing for systematizing risks occurring in TAURON Capital Group's operations,
- risk map, i.e. graphical presentation of identified risks in a manner that takes into account the probability of them materializing and their potential impact,

- risk tolerances and risk limits, i.e. the maximum, permitted by TAURON's Management Board, level of risk that may occur as part of the operations conducted,
- key risk indicators and early warning indicators informing of exposure to a specific risk within a specific time frame.

3.2.4. Risk model

Risk model defines a coherent classification of risks, enabling their uniform and comprehensive analysis at the entire TAURON Capital Group's level. Each identified risk is assigned to a specific category and sub-category. The main risk categories, defined by TAURON Capital Group along with the number of key threats, are presented in the below figure:

Figure no. 20. Number of key risks broken down into categories



The most important risks identified at TAURON Capital Group's level broken down into individual risk categories are described further on in this report.

3.2.5. Control and monitoring principles

Adopted risk control and monitoring principles are aimed at reducing TAURON Capital Group's exposure to factors that may have an adverse impact on its operations. The basic risk control tool is the Management Board approved risk tolerance that defines TAURON Capital Group's maximum admissible risk exposure.

The process of defining risk tolerance takes into account TAURON Capital Group's specifics and scope of operations. It is given a value, and the organization's individual risk measurement principles are defined so as to ensure the coherence of risk measuring with the tolerance definition applied. Risk tolerance is the basis for allocating its value to the global Limits dedicated to a single or a number of key risks. Then, as part of key risk management, operational limits are allocated. The key assumption is to guarantee the independence of risk taking from its control which guarantees security of the organization's operations.

A supplementary tool used to monitor and control risk is the Early Warning System based on the catalog of Key Risk Indicators (KRI) and Early Warning Indicators (ERI). The system based on the KRI and EWI indicators enables an appropriately early identifying of threats by measuring the causes of the individual threats. At the same time this system allows for an appropriately early implementing of remedies, prior to the factual materializing of individual threats.

3.2.6. Assessing the ERM System's adequacy and performance

Risk management is a systematic process that is subject to continuous improvement so as to keep aligning it to TAURON Capital Group's specifics and organizational structure and the changing environment on an ongoing basis. It is also subject to a periodic internal and independent adequacy assessment and reviews:

- ERM System is subject to continuous reviews with respect to its adequacy and alignment to TAURON Capital Group's structure and specifics of its operations as well as the changing environment,
- not less often than once a year, the Executive Director responsible for Risk prepares a report on the assessment of adequacy of the ERM System's architecture for the members of the Risk Committee,
- Executive Director responsible for Audit, as part of exercising institutional oversight (third line of defense), performs an independent risk management audit at TAURON Capital Group with respect to the appropriate application of the principles by the participants of the process, as well as its adequacy and effectiveness.

3.3. TAURON Capital Group's most significant risks

The Company is actively managing all of the risks, seeking to eliminate or to the maximum degree reduce their potential negative impact, in particular on TAURON Capital Group's financial results.

The below table presents the most significant risks and their potential impact on TAURON Capital Group's value levers.

Table no. 13. Description of risk factors

#	Risk name	Risk description	Risk trend	Reaction to risk (selected elements)
Finance and credit				
1.	Market factors risk	Risk related to an unfavorable impact of interest rates and FX rates on TAURON Capital Group's financial results.	↘	• Ongoing monitoring of risk exposure in order to minimize negative impact of changes to the market factors, • Transfer of risk through the use of derivatives.
2.	Liquidity / financing risk	Risk related to the manner of financing operations, due to the enterprise's capital structure.	➔	• Diversification of the sources of financing including arranging guaranteed financing programs and securing alternative sources of financing. • Implementing the central financing policy. • Analyzing the market and the availability of the sources of financing. • Monitoring the Schedule and the date of announcing the financing program.
3.	Credit risk	Risk related to a potential occurrence of overdue accounts payable or a conclusion of a contract with a counterparty that will turn out to be bankrupt.	➔	• Regular monitoring of the counterparties' financial standing. • Periodic customer scoring, credit rating of each customer prior to submitting an offer/concluding a contract. • Use of protection mechanisms in commercial agreements.
Trade				
4.	Market and commercial risk	Risk related to an unfavorable change of prices on the electricity market and on the related products markets, having a negative impact on TAURON Capital Group's financial results.	↗	• Monitoring and updating the position hedging strategy. • Ongoing monitoring of exposure to the above mentioned risk in order to minimize negative impact of changes to the market factors. • Limits (caps) on trade positions within risk mandates.
Workforce and organizational culture				
5.	Workforce risk	Risk related to a breach of legal regulations in force, principles, procedures and internal regulations in force at TAURON Capital Group. The risk also includes errors or lack of diligence by the personnel, but also potential collective disputes and workforce claims as well as a loss of specialized staff.	➔	• Measures aimed at developing a model that would enhance the workforce motivation. • Developing competences by training the personnel. • Applying the manuals and internal regulations in force.
Customers and contractors				
6.	Customer service risk	Risk related to non-compliance with the customer service standards.	↘	• Monitoring and analyzing external customer satisfaction indicators and indicators related to complaints. • Taking additional measures, e.g. with respect to internal regulations, defining standards of conduct as a result of the analysis of indicators.

#	Risk name	Risk description	Risk trend	Reaction to risk (selected elements)
				• Taking additional measures, e.g. with respect to introducing new internal regulations in order to improve customer service standards. • Developing key account managers' competences and skills. • Continued raising of customer service standards.
7.	Risk related to performance of agreements by subcontractors	Risk related to improper performance by subcontractors of the works commissioned, termination of the agreement and delays, changes to the budget, scope related thereto.	➔	• Concluding agreements with subcontractors in accordance with TAURON Capital Group's standards. • Analyzing the performance of the subject of the agreement, examining the quality of services provided by subcontractors. • Evaluating the financial standing and credibility of the subcontractors.
8.	Volume risk	Unfavorable changes or terminations of commercial agreements by customers, leading to the declining revenue from operations.	➔	• Conducting marketing campaigns, acquiring new customers. • Steps focused on retaining the existing customers and recovering the lost ones. • Ongoing updating of the offering, launching sales of multi-package products.
Compliance risk				
9.	Internal fraud risk	Appropriation or temporary use of the Company's assets, destruction of TAURON Capital Group's property, abuse of work position to derive various types of personal benefits, e.g. by forcing specific behavior of customers.	➔	• Strict adherence to internal procedures aimed at achieving protection against abuse (security procedures, reviews of authorizations). • Conducting *compliance* type activities. • Promoting best practices, improving procedures, training. • Enforcing and promoting the provisions of *TAURON Group's Business Ethics Code*.
10.	External fraud risk	Third party actions aimed at, among others, theft, robbery, physical burglary, computer hacking, information theft, forgery..	➔	• Monitoring the potential and actual security incidents. • Anti-virus protection of workstations. • Physical protection of facilities. • Conducting security tests.
11.	License risk	No ability to conduct operations as a result of a prolonged process of acquiring a license or amending the licenses held. Unfavorable legal changes with respect to licensed operations.	➔	• Ongoing control of the correct performance of licensing obligations. • Monitoring changes to the legal acts with respect to licensing obligations. • Legal support for the license extension process.
12.	Risk of non-compliance with legal regulations	Risk related to non-compliance with the legal regulations, misinterpretation of the new provisions and regulations, requirements imposed by URE/UOKiK/KNF/GIODO, etc.	➔	• Continuous monitoring of the legal environment and changes to the legal regulations. • Updating internal regulations according to the changes to the law. • Appointing working groups tasked with preparing and implementing the required changes to the internal regulations. • Continuous cooperation with the authorities overseeing the energy market and the capital market. • Training for the personnel on the changes being introduced.
Environment				
13.	Reputational risk	Current and future impact on the company's revenue and capital due to the negative public opinion backlash.	➔	• Continuous monitoring of the Company's external and internal threats. • Media monitoring, developing contacts and relationships with the media within TAURON Capital Group. • Preparing procedures for the Company's Communications with the external and internal environment (stakeholders).
14.	Competition risk	Unfavorable impact of the competition's actions on TAURON Capital Group's	↗	• Launching TAURON Capital Group's a line of products tailored to customer needs.

#	Risk name	Risk description	Risk trend	Reaction to risk (selected elements)
		customers and financial results.		• Launching sales of additional products for loyalized customers. • Introducing the possibility of combining TAURON products into multi-offerings.
15.	Regulatory risk	Unfavorable impact of the domestic and European level legislation due to the need to comply with the new legal regulations and incur the costs related thereto.	↗	• Continuous monitoring of the legal environment and changes to the regulations. • Analyzing draft legal acts and planning the required alignments steps. • Implementing the required changes into internal regulations.
Technology and infrastructure				
16.	Environmental risk	Potential negative impact of the operations on the environment and of non-alignment to and non-compliance with the environmental requirements of the domestic and community law.	➔	• Ongoing supervision over compliance with the conditions of the environmental decisions. • Maintaining the required efficiency of the devices reducing the emission of pollutants. • Frequent evaluation of the compliance of actions with the legal requirements with respect to environment protection. • Implementing investment projects in environment protection in order to minimize the adverse impact of the mining and processing operations conducted.
17.	Weather risk	Impact of weather conditions on the operations of the enterprise both with respect to technological aspects as well as the commercial ones.	➔	• Upgrading (refurbishing) hydroelectric structures aimed at optimizing the utilization of water resources. • Preparing plans of overhauls, inspections and maintenance activities with flexible provisions on deadlines for completing the works. • Continuous monitoring of wind conditions and icing on the wind farms' blades. • Continuous technical oversight over the operation of individual wind farms, conducted by the companies operating the farms. • Monitoring and analyzing new technological solutions that reduce the impact of adverse weather conditions on the quantity of electricity generated.
18.	Asset failure risk	Impact of failures of machines and devices, overhauls, upgrades (refurbishments), maintenance and management of production and non-production assets on the accomplishment of the company's goals.	➔	• Optimizing capital expenditures on asset replacements, ongoing monitoring of the condition of machines, devices and installations. • Raising professional qualifications and work culture of the personnel by organizing courses and training. • Responding to emergency situations by the technical personnel and automatic process safety interlocks. • Insuring assets against fortuitous events (excluding underground assets). • Introducing IT tools with respect to improving the monitoring and managing failure indicators (ratios).
19.	IT risk	Risks related to the IT infrastructure's security and reliability.	↗	• Developing and implementing plans aimed at ensuring continuity of IT infrastructure's operation. • Periodic identifying and categorizing IT resources based on the service restoration targets. • Use of IT solutions with appropriate technical parameters, providing acceptable level of reliability and efficiency (here also UPS devices, GSM modems, mobile phones). • Planning and conducting training on continuity of operation and security of IT infrastructure. • Storing and protecting the back-up data.
20.	Facility and information security risk	Risk related to compromising the integrity of machines/devices and to the security of information, including its improper processing and unauthorized disclosure.	➔	• Monitoring the implementation of the plans to protect the facilities that are subject to mandatory protection. • Maintaining and updating contingency procedures/plans. • Oversight over compliance with the information security principles in force. • Regular personnel training with respect to security procedures in force.

#	Risk name	Risk description	Risk trend	Reaction to risk (selected elements)
21.	Geological risk	Impact of geological factors on the mining operations.	➔	• Making test drillings for the better intelligence on the positioning of coal deposits. • Continuing to take preventive measures in areas under threat in order to improve the geological and mining conditions and to provide protection against natural threats (including, among others, long-drilled blasting hole shooting in order to break the rock mass).

3.4. Managing TAURON Capital Group's main risks – detailed principles

3.4.1. Market and commercial (trading) risk management

TAURON Capital Group's commercial (trading) risk management is understood as reducing the unplanned volatility of its operating result, due to price fluctuations on the commodity markets and volume deviations in the individual areas of TAURON Capital Group's commercial (trading) operations. The commercial (trading) risk, due to the specifics of the operations conducted, constitutes one of TAURON Capital Group's key risks. TAURON Capital Group is made up of subsidiaries operating both in the Mining and the Generation Lines of Business as well as in the Supply Line of Business. Due to the opposing positions in these Lines of Business the risk is, to a certain degree, naturally diversified. However since these Lines of Business do not fully offset each other, and due to the diverse nature of the exposures, TAURON Capital Group is displaying sensitivity to the volatility of the prices of electricity, gas and related products.

In order to efficiently manage this group of risks the commercial (trading) risk management system was established, tied on the organizational and information level to TAURON Capital Group's process used to develop a commercial (trading) position hedging strategy described in the *Portfolio management policy in TAURON Group's commercial (trading) operations*. In particular *TAURON Group's commercial (trading) risk management policy* introduces an early warning system and a system used to limit risk exposure in the individual commercial areas. The basic operating measure of TAURON Capital Group's market risk is Value at Risk, defining the maximum admissible change of the position's value over the given time horizon and at a specific probability level. Value at Risk represents a dynamic risk measure which in contrast to static measures allows for determining potential negative effects before their factual occurrence. Due to the limitations of the statistical measures the commercial (trading) risk management system also uses a number of supplementary risk measures enabling a safe operation of the commercial (trading) areas.

The organizational structure of the commercial (trading) risk management system envisages a strict and decentralized split of competences, where the supervision and risk control are performed centrally at TAURON's level. The key element of the above mentioned structure is the split of TAURON Capital Group's trading operations into: Front Office, Middle Office and Back Office. The goal of such a split of tasks is to guarantee the independence of the operating functions, carried out by the Front Office, from the risk control carried out by the Risk Area, and furthermore it ensures an appropriate level of operational flexibility. Moreover, with respect to the Front Office such a split of responsibilities is assumed in order to ensure an optimal approach to the individual types of threats, especially taking advantage of the economy of scale and the synergy effect. This ensures efficiency of commercial processes and appropriate supervision over one of the main business processes conducted by TAURON Capital Group.

The below figure presents the breakdown of TAURON Capital Group's trading operations.

Figure no. 21. 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, on operational level, the trade risk within the defined risk limits.
Middle Office	▪ Identifies, aggregates and measures trade risk exposure, ▪ Provides independent risk evaluation and measurement of the generated result, ▪ Conducts monitoring of trade operations with respect to their compliance with the adopted policy, operational procedures and market conditions, ▪ Performs supervision over the structure of portfolios with respect to aligning it to the trade operations.
Back Office	▪ Responsible for confirming, settling and invoicing trade transactions, ▪ Responsible for archiving the data on trade transactions.

3.4.2. Financial risk management

TAURON Capital Group is managing the financial risk, understood as FX risk and interest rate risk, based on *TAURON Group's Specific Risk Management Policy in the Financial Area*, which is a set of rules and standards in line with the best practices in this respect. Due to the correlation between the risk incurred, and the level of revenue potentially to be generated, these principles are applied in order to maintain the threats at the pre-agreed, considered as acceptable level. The main goal of the financial risk management is to minimize the sensitivity of TAURON Capital Group's cash flows to the financial risk factors and to minimize the financial costs and the hedging costs as part of a transaction with the use of derivatives.

With respect to the financial risks TAURON Capital Group also identifies the liquidity risk that may result in a potential loss or limitation of the ability to pay current expenses, due to an inadequate size or structure of liquid assets in relation to short term obligations or an insufficient level of the actual net inflows from the operations. TAURON Capital Group's liquidity position is monitored on an ongoing basis for any potential deviations from the plans and the availability of external sources of financing the amount of which substantially exceeds the short term demand mitigates the risk of losing the liquidity. Implemented *TAURON Group's Financial Liquidity Management Policy* defines the principle of determining the liquidity position both of the individual Subsidiaries as well of entire TAURON Capital Group, which allows for securing funds to cover a potential liquidity gap – both by allocating funds among subsidiaries (cash pool mechanism), as well as with the use of external financing, including overdrafts.

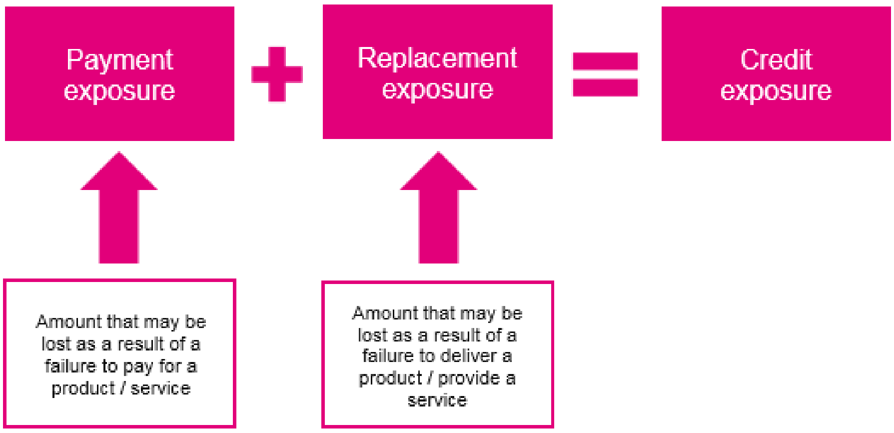
3.4.3. Credit risk management

Credit risk is understood as a possibility to incur a loss due to trade partners failing to fulfill their contractual obligations (default). TAURON Capital Group is using a decentralized credit risk management system, however the control, limiting and reporting of this risk category is carried out centrally, on the parent Company level. *TAURON Group's Credit Risk Management Policy* in place defines credit risk management principles on TAURON Capital Group's level, aimed at effectively minimizing the impact of this risk on the accomplishment of TAURON Capital Group's goals.

Credit risk management is carried out by controlling the credit exposure generated upon the conclusion of contracts by TAURON Capital Group's subsidiaries. The general rule is that prior to concluding a contract every entity is subjected to an examination of its financial standing and receives a credit limit which caps the maximum exposure due to the given trade. Credit exposure is, in this context, understood as an amount that may be lost if a counterparty fails to fulfill its obligations (defaults) within a certain time (taking into account the value of collaterals contributed thereby). Credit exposure is calculated as of the current day and is split into exposure due to payment (payment exposure) and replacement exposure.

The below figure presents credit exposure components.

Figure no. 22. Credit exposure components



Based on the exposure value and the evaluation of the financial standing of specific customers the credit risk value that TAURON Capital Group is exposed to is calculated using the Credit Value at Risk method. It is an analytical method that, based on the mathematical Monte Carlo simulation model, calculates the exposure value based on the total loss probability distribution.

3.4.4. Operational risk management

Operational risk is understood as a possibility to incur a loss due to inappropriate or unreliable internal procedures, human and system errors or as a consequence of external events; also includes legal risk, reputational risk and non-compliance risk. Operational risk, due to the specific nature of the threats and the ability to manage them, constitutes a separate group of risks affecting TAURON Capital Group's operations. This risk is a complex issue, occurs in every process and type of operations, it is multi-dimensional and applies to various types of activities and operations. In particular, the exposure to the operational risk factors is related to the size and complexity of the organizational structure, the number and complexity of IT systems and to the number of business processes conducted. The operational risk is characterized by the lack of the ability to totally eliminate its sources, and the analysis of its factors and parameters (among others, frequency and severity), and also the evaluation thereof requires the use of complex measurement and analysis methods.

In order to effectively manage the operational risk TAURON Capital Group is using appropriate tools, presented on the below diagram. In particular they include the operational risk profile, operational events database, global operational risk limit and the related system of operational limits and also the early warning system operating on a large scale.

The below figure presents operational risk management system tools.

Figure no. 23. Operational risk management system tools

Global operational risk limit is the basic tool for the control thereof and represents the allocation of risk tolerance adopted by TAURON Capital Group. The global limit can be subsequently allocated to TAURON Capital Group's individual lines of business, the operational risk sub-categories as well as to the specific operational risks.

Operational risk profile is aimed at identifying areas, processes or activities with an excessive exposure to specific operational risks. It is expressed in particular in the structural dimension that includes types of operational events, TAURON Capital Group's organizational structure and processes, and in the scale dimension that includes estimated potential losses, taking into account especially historical values of actual losses; the profile also includes the tools used to mitigate the threats. For the needs of measuring the operational risk and defining the operational risk's profile its individual types are broken down into continuous and one-off risks.

Early warning system is defined in order to monitor the operational risk level for every identified threat. Early Warning Indicators (EWI) are selected from the Key Risk Indicators (KRI) set as the ones that are subject to continuous control with respect to the caution thresholds set for them, i.e. acceptance, mitigation and escalation thresholds.

Operational events database is created for the needs of identifying risk factors, and also in order to defined the risk profile for TAURON Capital Group. It allows for keeping the records of cases that cause a potential or actual loss for the organization. Maintaining the operational events database enables determining the frequency and severity of the individual operational risk factors as well as the areas and processes they occur in.

Risk identification questionnaire is a document in a table form that constitutes a tool supporting the performance of the risk management process with respect to risk identification, specifying the detailed information that should be collected in this process.

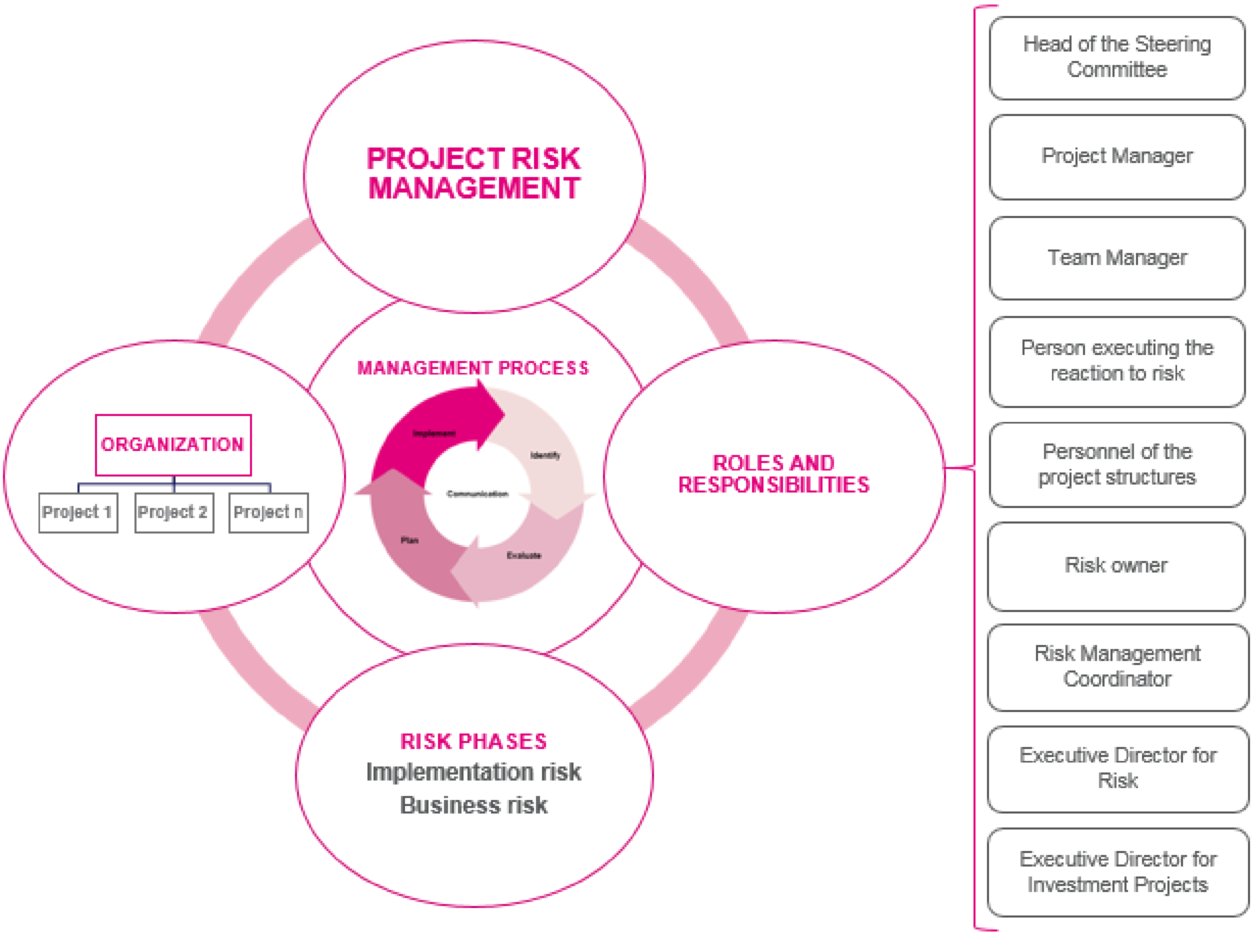
3.4.5. Project risk management

TAURON Capital Group is conducting a number of investment projects in many lines of its business operations. These projects, due to their scale and often very complicated nature of implementation, represent a source of threats that may have an impact on the schedule, budget or quality of the final products. Systematic use of the provisions of *TAURON Group's Project Risk Management Policy* is aimed at mitigating these risks, supporting at the same time the accomplishment of the organization's strategic goals. This regulation, in particular, defines the basic principles of project risk management, ensuring coherence, comprehensive approach and unequivocal understanding in this area. The goal of the actions taken is to achieve the required probability of the project's completion while complying with the defined schedule, budget and quality of the products received. The overall objective is to obtain the expected benefits from the project's completion and to accomplish TAURON Capital Group's strategic goals.

Project risk management is also applicable to managing the risk stemming from the projects and having an impact on the organization. The process of managing the risk stemming from the projects includes identification, valuation of such risks, defining and monitoring early warning indicators as well as planning and implementing actions related to managing such risks. In case of risks having an impact on the organization the risk valuation is made as the absolute value of the impact including the impact period broken down into individual accounting periods, in reference to the assumed EBITDA or the assumptions made in the organization for the long term projections. In case of the most important risks having an impact on the organization the Plans of reactions to the risk and back-up Plans are developed. The evaluation of project risks and risks stemming from the projects for the organization is taken into account when making the key decisions related to the launching and implementing such projects.

The below figure presents the project risk management model.

Figure no. 24. Project risk management model



4. ANALYSIS OF TAURON CAPITAL GROUP'S FINANCIAL STANDING AND ASSETS

4.1. Principles of drawing up the interim abbreviated consolidated financial statements

The interim abbreviated consolidated financial statements were drawn up in accordance with the International Accounting Standard 34 *Interim Financial Reporting*, according to the template approved by the European Union.

The interim abbreviated consolidated financial statements for the period of 6 months ended on June 30, 2017 were drawn up under the assumption of business continuity (going concern) of TAURON Capital Group's subsidiaries in the foreseeable future. As of the date of approving the interim abbreviated consolidated financial statements for the period of 6 months ended on June 30, 2017 for publication no circumstances are recognized that would indicate any risk to business continuity (going concern) of TAURON Capital Group's other subsidiaries.

The accounting principles (policy) adopted for drawing up the interim abbreviated consolidated financial statements are provided in notes 6-8 to the interim abbreviated consolidated financial statements for the period of 6 months ended on June 30, 2017.

4.2. TAURON Capital Group's financial standing after H1 2017

Analysis of the financial standing

The below table presents the analysis of TAURON Capital Group's financial standing in H1 2017 as compared to the end of 2016.

Table no. 14. Structure of the interim abbreviated consolidated statements of the financial position

Consolidated statements of the financial position	As of June 30, 2017	As of December 31, 2016	% change (2017 / 2016)
ASSETS			
Fixed assets	**29 616 513**	**29 148 253**	**102%**
Current assets	**3 609 381**	**4 308 641**	**84%**
TOTAL ASSETS	**33 225 894**	**33 456 894**	**99%**
LIABILITIES			
Equity attributable to shareholders of the parent entity	17 637 954	16 649 266	106%
Non-controlling shares	30 804	30 052	103%
Total equity	**17 668 758**	**16 679 318**	**106%**
Long-term liabilities	11 929 895	11 968 719	100%
Short-term liabilities	3 627 241	4 808 857	75%
Total liabilities	**15 557 136**	**16 777 576**	**93%**
TOTAL LIABILITIES	**33 225 894**	**33 456 894**	**99%**
Financial liabilities	8 438 069	8 165 142	103%
Net financial liabilities	8 167 603	7 730 238	106%
Net debt/EBITDA ratio	2.17	2.32	94%
Current liquidity ratio	0.99	0.89	111%

As of June 30, 2016 the statements of TAURON Capital Group's financial position indicate the balance sheet total lower by 1% as compared to December 31, 2016.

The structure of assets presented as of June 30, 2017 did not change significantly in relation to values presented at the end of 2016. Fixed assets still represent a significant portion - approximately 89% of the balance sheet total. The fixed assets' value increased by 2%, while the current assets' value decreased by 16%.

In the structure of liabilities as of June 30, 2017 the liabilities represent approximately 47% of the total liabilities, out of which long-term liabilities represent approximately 36%, short-term liabilities – approx. 11% of the balance sheet total. The structure of liabilities did not change significantly since, as of December 31, 2016, the share of long- and short-term liabilities was, respectively: 36% and 14%.

In relation to 2016 in H1 2017 the net financial liabilities rose approximately by 6% which, along with the increase of EBITDA, led to the drop of the net debt/EBITDA ratio - to 2.17x (the ratio expressed in relation to EBITDA for the last 12 months).

The current liquidity ratio rose to 0.99. The Company's liquidity is not at risk, the indicators continue to stay at a high, safe level.

Consolidated statement of comprehensive income

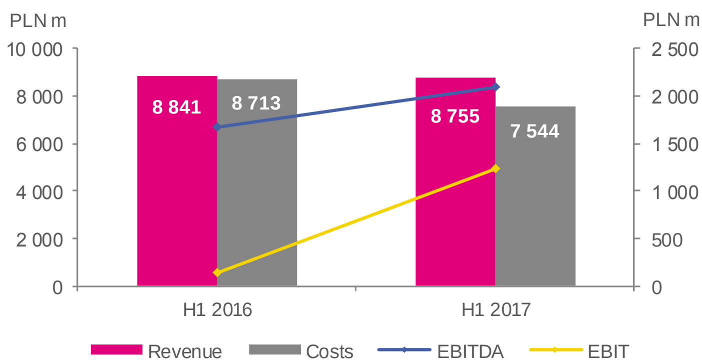
The below table presents selected items of the consolidated statement of comprehensive income of TAURON Capital Group for the period of 6 months ended on June 30, 2017, as well as the comparative data for the period of 6 months ended on June 30, 2016. These items are provided in accordance with the interim abbreviated consolidated financial statements of TAURON Capital Group, compliant with the International Financial Reporting Standards for the period of 6 months ended on June 30, 2017.

Table no. 15. Interim abbreviated consolidated statement of comprehensive income

Item (PLN '000)	H1 2017 (unaudited)	H1 2016 (unaudited)	% change (2017 /2016)
Sales revenue	8 755 366	8 841 026	99%
Own cost of sales	(7 544 206)	(8 712 905)	87%
Other operating revenues and costs	26 034	15 293	170%
Operating profit (loss)	**1 237 194**	**143 414**	863%
Operating profit margin (%)	*14.1%*	*1.6%*	871%
Financial revenue	93 549	45 700	205%
Financial expenses	(148 481)	(216 300)	69%
Share in profit of the affiliate	58 330	59 861	97%
Gross profit (loss)	**1 240 592**	**32 675**	3 797%
Gross profit margin (%)	**14.2%**	**0.4%**	3 834%
Income tax	(235 115)	(27 958)	841%
Net profit (loss) for the period	**1 005 477**	**4 717**	21 316%
Net profit margin (%)	*11.5%*	*0.1%*	21 525%
Total income for the period	**989 910**	**53 086**	1865%
Profit attributable to:			
Shareholders of the parent entity	1 004 167	3 435	29 233%
Non-controlling shares	1 310	1 282	102%
EBIT and EBITDA			
EBIT	**1 237 194**	**143 414**	863%
EBITDA	**2 093 980**	**1 663 175**	126%

The below figure presents TAURON Capital Group's financial results in H1 2017 as compared to H1 2016.

Figure no. 25. TAURON Capital Group's financial results in H1 2016 and in H1 2017

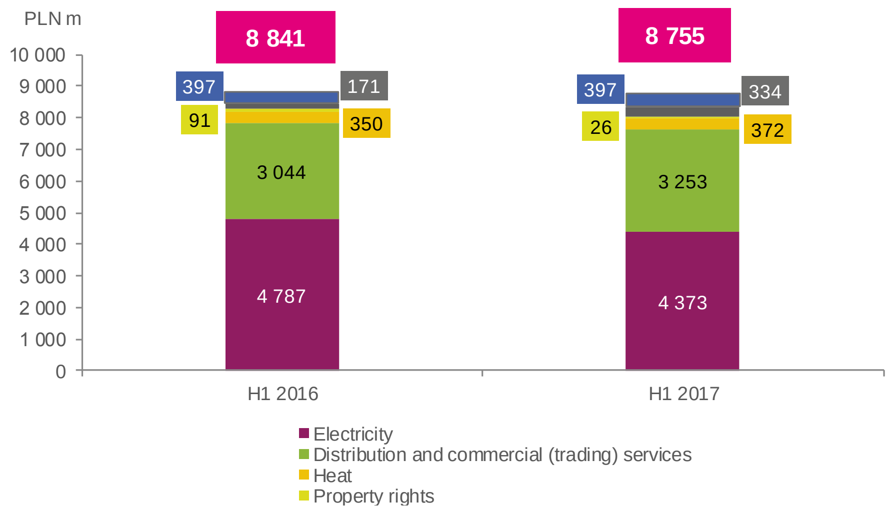


In H1 2017 TAURON Capital Group generated revenue of more than PLN 8.9 billion, i.e. 99% of the H1 2016 revenue. The slight decline of TAURON Capital Group's revenue was due to the following factors:

1) declining electricity sales revenue due to the lower electricity wholesale volume, lower electricity sales prices and lower OCM revenue – as a consequence of higher sales under contracts than last year,
2) declining revenue from the sales of property rights related to the certificates of electricity origin, mainly due to the significant drop of PMOZE market prices,
3) rising revenue from the distribution services sales due to the increase of the distribution services sales volume (by 4%) and the increase of the rate for the distribution services for the final consumers (by 7%),
4) rising coal sales revenue due to the increase of the coal sales volume (by 127%) – higher consumers' demand.

The below figure presents TAURON Capital Group's revenue structure in H1 2017 as compared to H1 2016.

Figure no. 26. TAURON Capital Group's revenue structure in H1 2016 and in H1 2017



In H1 2017 the costs of TAURON Capital Group's operations reached approximately PLN 7.5 bln, i.e. they were higher by approximately 13% than the costs incurred in H1 2016.

The main cause of the decline is the write-down booked as of June 30, 2016 due to the loss on the Generation segment's generating units' carrying amount on the balance sheet, arising mainly from including in the impairment tests performed of the changes in the market environment unfavorable for electricity generators, such as the declining prices of certificates of origin for electricity coming from renewable energy sources and the new regulations related to the RES.

The amount of the write-off related to the conventional sources is based on the continued unfavorable trend in electricity prices and the expected higher supply of electricity coming from sources competitive to the Polish coal-fired plants. At the same time, the assumptions on which the forecasts are based take into account the estimated impact of the introduction of the so-called capacity market.

The above mentioned market conditions have, on one hand, an impact on the decrease of cash flows that determine the recoverable value of the individual units, while on the other hand they lead to the reversal of the write-downs booked previously due to the loss on the carrying amount on the balance sheet of the heat and electricity generation units. The completed impairment tests proved that booking of the impairment charges due to the losses on the tangible and intangible fixed assets' carrying amount on the balance sheet and the company's goodwill, and also the reversal of the previously booked write-downs in the Generation segment had been justified. The total net amount of write-offs is approximately PLN 0.7 billion, which includes the write-down related to the wind farms of approximately PLN 0.5 billion and the write-downs related to the generation assets in the electricity and heat generation line of business in the net amount of approximately PLN 0.2 billion.

The impairment tests performed as of June 30, 2017 also indicated the need to book and reverse an impairment charge related to the carrying amount on the balance sheet of the Generations segment's generating units in the net amount of PLN 0.03 bln:

- net write-downs booked (i.e. excess of write-downs booked over the reversed write-downs) related to wind farms and hydroelectric power plants: PLN 0.07 bln,
- net reversed write-downs (i.e. excess of reversed write-downs over the write-downs booked) related to the generation assets in the electricity and heat generation line of business: PLN 0.04 bln.

Excluding the above mentioned one-off events TAURON Capital Group's costs in H1 2017 would have been 6% lower due to the following factors:

1) lower costs of electricity purchased for resale, mainly due to the lower volume of electricity sold,
2) lower cost of redeemed property rights due to the decline of the prices thereof,
3) lower cost of consumption of materials and electricity mainly due to the increase of the share of own coal in the electricity and heat production and the lower costs of the balancing difference,
4) higher costs of the distribution service, mainly as a result of the higher distribution service volume,
5) higher labor costs as a consequence of setting up a provision for a one-off bonus related to the signing of the agreement with the workforce,
6) coal inventory sales as result of the increase of the coal sales (by 127%) due to the rising demand.

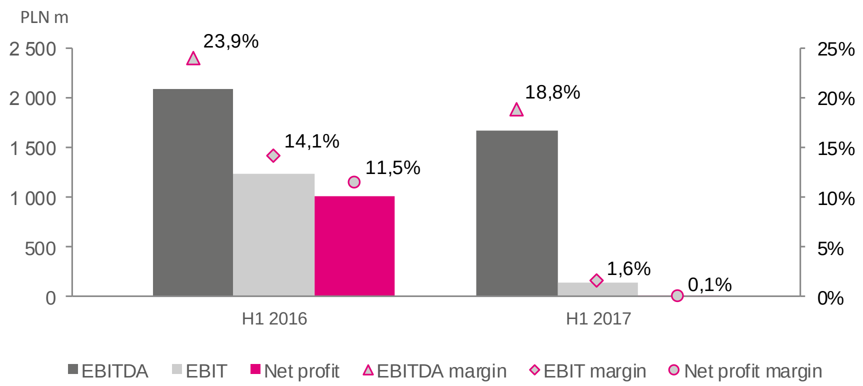
The EBITDA margin generated in H1 2017 reached 23.9% and was 5.1 pp higher than in H1 2016. As a result of the booked write-downs, the amount of which in 2016 was significantly higher than the amount of the write-downs booked in 2017, the EBIT and net profit margins were significantly higher than the results generated a year ago and in H1 2017 they reached 14.1% and 11.5%, respectively, while in H1 2016 they were 1.6% and 0.1%, respectively. Excluding the effects of the impairment charges the EBIT and net profit margins in H1 2017 would have reached 14.5% and 11.8%, respectively, while in H1 2016 they would have been 9.7% and 6.7%, respectively.

In accordance with the consolidated statement of comprehensive income presented, the total income of TAURON Capital Group, taking into account the net profit increased or decreased by the change in value of hedging instruments, FX differences arising from the conversion of a foreign unit and other revenues, after tax, reached PLN 989.9 mln in H1 2017, as compared to PLN 53.1 mln in H1 2016.

The total income attributable to the shareholders of the parent company reached approx. PLN 988.6 million, as compared to PLN 51.8 million posted in the same period of 2016, whereas the profit attributable to the shareholders of the parent company was PLN 1 004.2 million, as compared to PLN 3.4 million posted in the same period of 2016.

The below figure presents TAURON Capital Group's financial results and the margins generated in H1 2017 as compared to H1 2016

Figure no. 27. TAURON Capital Group's financial results and the margins generated



4.3. Assets

The below table presents the consolidated statements of financial position as of June 30, 2017, as compared to December 31, 2016,

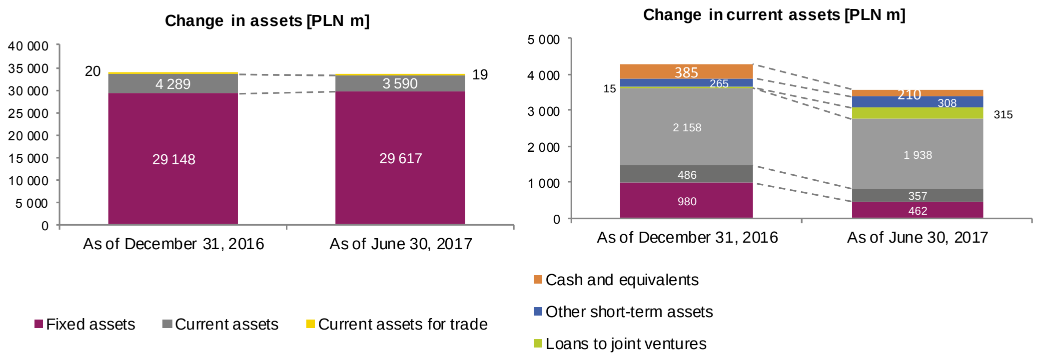
Table no. 16. Consolidated statements of financial position – assets (material items)

Statements of financial position (PLN '000)	As of June 30, 2017	As of December 31, 2016	% change (2017 / 2016)
ASSETS			
Fixed assets	**29 616 513**	**29 148 253**	**102%**
Tangible fixed assets	26 988 492	26 355 189	102%
Current assets	**3 609 381**	**4 308 641**	**84%**
Cash and equivalents	210 379	384 881	55%
Fixed assets and the group's assets for disposal, classified as held for trade	19 368	19 612	99%
TOTAL ASSETS	**33 225 894**	**33 456 894**	**99%**

As of June 30, 2017 TAURON Capital Group's statement of financial position shows the balance sheet total that is 1% lower as compared to December 31, 2016.

The below figure presents the change in the assets and current assets as of June 30, 2017, as compared to December 31 2016.

Figure no. 28. Change in assets and current assets



Fixed assets are the biggest item of the assets at the end of H1 2016, representing 89% of the balance sheet total. As compared to the end of the previous year the value of the fixed assets is higher by PLN 468 million (2%) as a consequence of the changes in the below analytical fixed assets' items due to the following factors

1) tangible fixed assets – an increase by 2% is the result of investment projects implemented by TAURON Capital Group's subsidiaries and the write-down booked due to the loss on the Generation segment's generating units' carrying amount on the balance sheet,
2) certificates of origin and gas emission allowances to be redeemed – a decline by 81% due to the reclassifying of the certificates of electricity origin and CO_2 emission allowances as current assets in order to fulfill the obligation related to the redemption of the above mentioned assets for 2016,
3) value of stocks and shares in joint ventures – an increase by 3% due to the change of the net value of the shares in investments in the joint ventures,
4) other long-term non-financial assets - a decline by 14% due to the settlement of the advance payment related to the fixed assets under construction and the intangible assets related to the implementation of the construction of a 910 MW unit at the Jaworzno III Power Plant.

The following factors had an impact on the decline in the value of current assets by PLN 699 million (5%):

1) certificates of origin and gas emission allowances to be redeemed – a decline by 53% due to the settlement of the obligation related to the redemption of the certificates of origin and CO_2 emission allowances for 2016 and an increase of their balance due to the production and purchasing of the property rights and CO_2 emission allowances in order to fulfill the obligation for this year,
2) inventory – a drop by 27% as a result of the declining level of inventory, mainly of hard coal,
3) accounts receivable due to supplies and services – a drop by 8% and accounts receivable due to taxes – a drop by 26%, mainly related to the corporate income tax,
4) loans to joint ventures – an increase by 1 981%. In H1 2017 TAURON granted a loan to ECSW to be used for the early repayment by the loan taker of the liabilities arising from the loan agreements concluded in order to finance the construction of the CCGT unit at Stalowa Wola,
5) other financial assets – an increase by 102% - primarily the value of non-refundable supplementary deposits and refundable initial deposits related to the forward contracts on the futures market and the reclassifying of the value of shares in Elektrownia Blachownia Nowa sp. z o.o in liquidation,
6) other non-financial assets - a decline by 20% due to the settlement of the advance payments related to the supplies and setting up a contribution towards Zakładowy Fundusz Świadczeń Socjalnych (Company Social Benefits Fund),
7) cash and equivalents - a decline by 45% - the reasons for the change are described in section 4.4. of this report, related to the cash flow.

The below table presents the interim consolidated statements of financial position - liabilities.

Table no. 17. Interim consolidated statements of financial position - liabilities (material items)

Statements of financial position (PLN '000)	As of June 30, 2017	As of December 31, 2016	% change (2017/2016)
LIABILITIES			
Equity attributable to shareholders of the parent entity	17 637 954	16 649 266	106%
Non-controlling shares	30 804	30 052	103%
Total equity	**17 668 758**	**16 679 318**	106%
Long-term liabilities	**11 929 895**	**11 968 719**	**100%**
Liabilities due to debt	8 809 471	8 759 789	**101%**
Short-term liabilities	**3 627 241**	**4 808 857**	75%
Liabilities due to debt	428 241	219 740	**195%**
Total liabilities	**15 557 136**	**16 777 576**	93%
TOTAL LIABILITIES	**33 225 894**	**33 456 894**	**99%**

The below figure presents a change in the liabilities and equity as of June 30, 2017 and December 31, 2016

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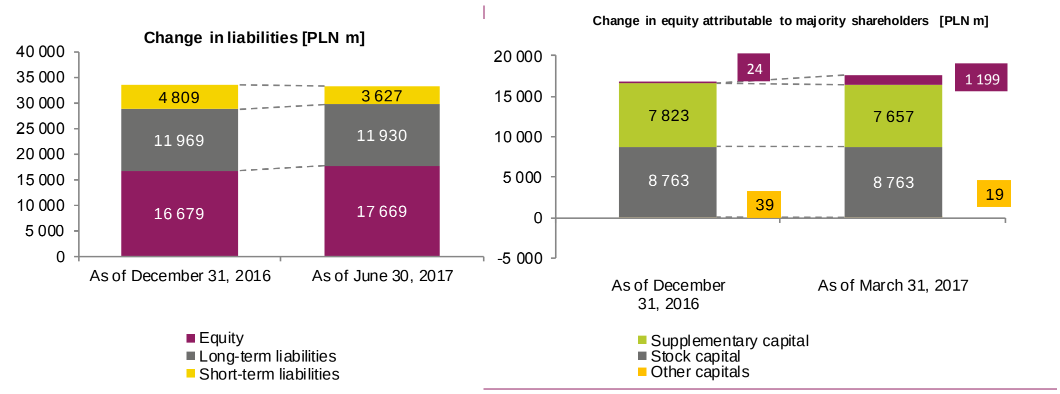
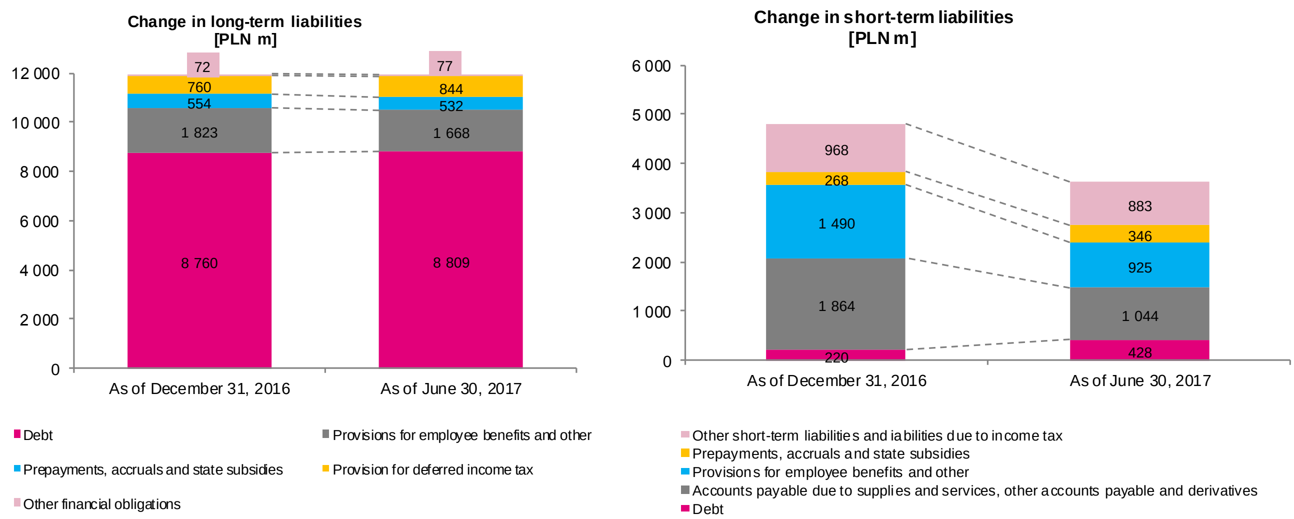
Figure no. 29. Change in liabilities and equity



Similar to previous years equity is still the dominating source of financing assets and its share in the balance sheet total increased to 53%.

The below figure presents a change in the liabilities as of June 30, 2017 and December 31, 2016.

Figure no. 30. Change in liabilities



The value of TAURON Capital Group's long-term liabilities in H1 2017 was similar to the value of its long-term liabilities reported as of December 31, 2016.

The value of TAURON Capital Group's short-term liabilities fell by 25% due to the following factors

1) liabilities due to debt – an increase by 95% primarily due to an issue of bonds with the maturity of up to one month,
2) liabilities towards suppliers – a drop by 12% and investment related obligations – a drop by 69%,
3) provisions related to the liabilities due to the certificates of electricity origin and gas emissions – a decline by 50% which is the result of having used up the provision set up in 2016 towards the fulfillment of the obligation to submit the certificates of electricity origin for redemption, pursuant to the provisions of the *Act of April 10, 1997, the Energy Law*, and the CO_2 emission allowances and setting up the provision towards the fulfillment of the obligations for H1 2017,
4) prepayments accruals and state subsidies – an increase by 29%, primarily as a result of setting up a provision for the payment of a one-off bonus in accordance with the agreement signed with TAURON Capital Group's workforce,
5) liabilities due to taxes and fees – a drop by 9%,
6) financial liabilities – a drop by 25% primarily as a result of lower obligations due to wages and withholdings on wages,
7) other non-financial liabilities - an increase by approx. 5% which is due to TAURON Capital Group's subsidiaries making monthly contributions in accordance with the provisions of the *Act of March 4, 1994 on the Company Social Benefits Fund.*

4.4. Cash flows

The below table presents the interim abbreviated statement of cash flows for H1 2017 as compared to H1 2016.

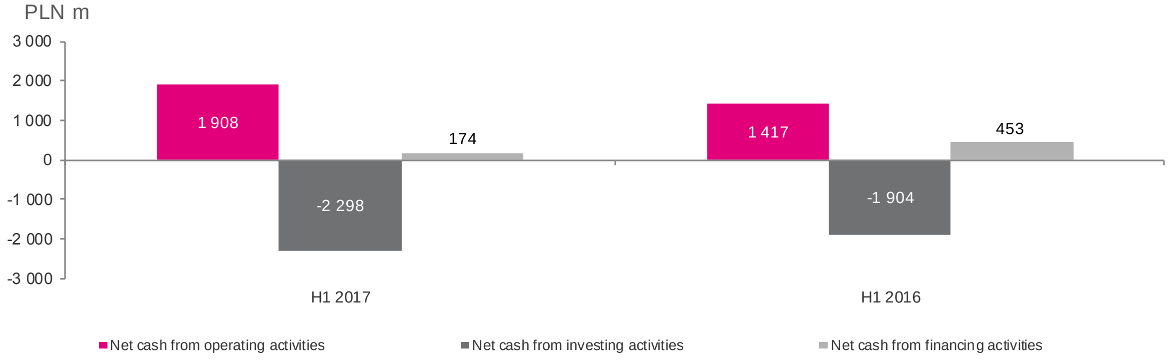
Table no. 18. Interim abbreviated statement of cash flows (PLN '000)

Statement of cash flows (PLN '000)	H1 2017	H1 2016	% change (2017/2016)
Cash flows from operating activities			
Gross profit / (loss)	**1 240 592**	**32 675**	3 797%
Adjustments	667 173	1 384 496	48%
Net cash from operating activities	**1 907 765**	**1 417 171**	**135%**
Cash flows from investing activities			
Sale of tangible fixed assets and intangible assets	15 711	15 403	102%
Purchase of tangible fixed assets and intangible assets	(2 020 232)	(1 769 630)	114%
Return of public aid	-	(131 077)	
Net cash from investing activities	**(2 297 997)**	**(1 904 372)**	**121%**
Cash flows from financing activities			
Issuance of debt securities	600 000	2 860 000	21%
Redemption of debt securities	(300 000)	(2 250 000)	13%
Repayment of loans/credits	(44 904)	(44 724)	100%
Interest paid	(65 260)	(117 339)	56%
Net cash from financing activities	**173 866**	**453 459**	**38%**
Increase/(decrease) in net cash and equivalents	**(216 366)**	**(33 742)**	**641%**
Cash opening balance	**354 733**	**327 715**	**108%**
Cash closing balance	**138 367**	**293 973**	**47%**

The total amount of all net cash flows of cash from operating, investing and financing activities in H1 2017 reached approximately PLN (216.4) million

The below figure presents cash flows in H1 2017 and in H1 2016.

Figure no. 31. Cash flows in H1 2017 and in H1 2016



The cash flows from operating activities in the reporting period were higher by approximately 35% than the cash flows generated in the same period of the previous year. The following factors had the biggest impact on the change in this item of the statement of cash flows:

1) inventory level reduction due to the higher coal sales which is related to an increase of demand for coal + PLN 100 mln,
2) payment of a PLN 118 mln lower income tax which is due to the advance payments on account of the 2017 income tax made by the Tax Capital Group in the amount of PLN 98 mln in H1 2017, while in H1 2016 the Group made advance payments on account of the income tax in the amount of PLN 127 mln and paid the income tax for 2015 in the amount of PLN 85 mln,
3) positive change to the accounts receivable and accounts payable balance in the amount of PLN 68 mln,
4) incurring a lower expenditure in the total amount of PLN 76 mln for the purchase of certificates of origin and paying a lower substitution fee in H1 2017 than in the same period of 2016.

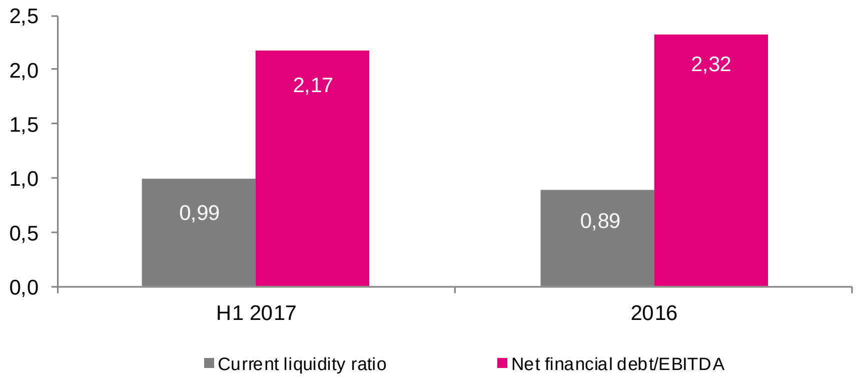
Expenditures for the purchase of tangible fixed assets have the biggest impact on the cash flows related to investments and they were higher by 14% in the reporting period than the expenditures incurred in the same period of 2016. In H1 2016 the highest expenditures were incurred by the Generation and Distribution segments.

The positive cash balance value is due to the issue of bonds carried out in H1 2017 with the nominal value of PLN 600 million and the redemption of bonds with the nominal value of PLN 300 million. Furthermore, TAURON Capital Group repaid loans and credits in a comparable amount as in the same period of 2016, i.e. PLN 45 mln and paid PLN 52 mln less in interest.

In spite of the negative value of cash flows it can be said that TAURON Capital Group continues its expansion process and keeps strengthening its market position. It should be noted that the value of operating cash flows is positive, and therefore it enables TAURON Capital Group to finance its ongoing operations on its own, while investment projects carried out by TAURON Capital Group's subsidiaries are financed using the funds acquired from external sources. The current liquidity ratio and the net debt to EBITDA ratio continue to be at a safe level.

The below figure presents the liquidity and net debt to EBITDA ratios in H1 2017 and in 2016.

Figure no. 32. Liquidity and debt ratios



TAURON Capital Group is effectively managing its financial liquidity using a central financing model put in place and the central financial risk management policy. The cash pooling mechanism is used in order to minimize potential cash flow disruptions and the risk of liquidity loss.

TAURON Capital Group is using various sources of funding, such as, for example, overdrafts, bank loans, loans from environmental funds, bond issues, financial lease agreements and lease agreements with a purchase option

4.5. Management Board's position on ability to meet forecasts of results for a given year

TAURON Capital Group did not publish any forecasts of financial results for 2017. TAURON Capital Group's financial standing is stable and no negative events which could pose any threat to the continuity of its business operations or a significant deterioration of its financial standing occurred.

The detailed description of the financial position understood as ensuring the provision of funds for both the operating as well as the investing activities is provided in this section 4.

5. SHARES AND SHAREHOLDERS

5.1. Structure of shareholding

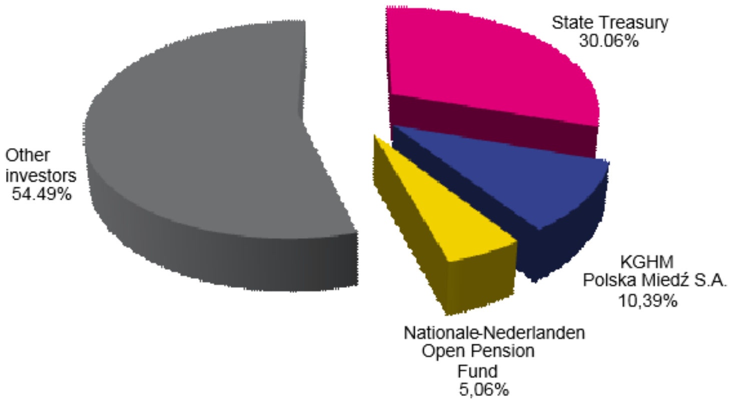
TAURON shares according to the series and type as of June 30, 2017 and as of the day of drawing up this report:

Table no. 19. TAURON shares according to the series and type

Series/issue	Type of shares	Number of shares	Share nominal value (in PLN)	Value of series/issue according to the nominal value	Capital coverage method
AA	bearer shares	1 589 438 762	5	7 947 193 810	cash / in kind contribution
BB	registered shares	163 110 632	5	815 553 160	in kind contribution
Total		**1 752 549 394**		**8 762 746 970**	

The below figure presents the structure of shareholding as of June 30, 2016 and as of the day of drawing up this report.

Figure no. 33. Structure of shareholding



5.2. Shareholders holding at least 5% of the total number of votes

The below table presents shareholders holding, as of June 30, 2017 and as of the day of drawing up this report, directly or indirectly substantial blocks of TAURON shares

Table no. 20. Shareholders holding, directly or indirectly, substantial blocks of shares

Shareholders	Number of shares held	Percentage share in share capital	Number of votes held	Percentage share in the total number of votes
State Treasury	526 848 384*	30.06%	526 848 384	30.06%
KGHM Polska Miedź S.A.	182 110 566**	10.39%	182 110 566	10.39%
Nationale-Nederlanden Otwarty Fundusz Emerytalny (Open Pension Fund)	88 742 929***	5.06%	88 742 929	5.06%

**in accordance with the shareholder's notification of February 28, 2013*
***in accordance with the shareholder's notification of March 23, 2011*
****in accordance with the shareholder's notification of December 28, 2011*

From the day of publishing the previous periodical report, i.e. since May 10, 2017, until the day of publishing this report the Company did not receive any notifications from its shareholders on any changes in the ownership structure of substantial blocks of TAURON shares.

5.3. List of shareholdings by members of the Management Board and the Supervisory Board

Members of the Management Board

As of the day of publishing this report the members of TAURON's Management Board do not have any shares or rights to the Company's shares. From the day of publishing the previous periodical report, i.e. since May 10, 2017, until the day of publishing this report there were no changes to the number of shares or rights to the Company's shares held by the members of the Management Board.

Members of the Supervisory Board

As of the day of publishing this report the members of TAURON's Supervisory Board do not have any shares or rights to the Company's shares. From the day of publishing the previous periodical report, i.e. since May 10, 2017, until the day of publishing this report there were no changes to the number of shares or rights to the Company's shares held by the members of the Supervisory Board.

6. INFORMATION ON THE PARENT COMPANY

6.1. Composition of the Management Board and the Supervisory Board

6.1.1. Management Board

The current, fifth term of office of the Management Board began to run on March 16, 2017, i.e. on the day of appointing the members of the Management Board of the Company for the fifth common term of office. In accordance with the Company's Articles of Association the common term of office shall last three years

Composition of the Management Board as of June 30, 2017 and as of the day of drawing up this report

1. Filip Grzegorczyk - President of the Management Board,
2. Jarosław Broda - Vice-President of the Management Board for Asset Management and Development,
3. Kamil Kamiński - Vice-President of the Management Board for Customer and Corporate Support,
4. Marek Wadowski - Vice-President of the Management Board for Finance.

Changes to the Management Board's composition:

As of January 1, 2017 the Management Board was composed of the following members: Filip Grzegorczyk (President of the Management Board), Jarosław Broda (Vice-President of the Management Board), Kamil Kamiński (Vice-President of the Management Board), Marek Wadowski (Vice-President of the Management Board) and Piotr Zawistowski (Vice-President of the Management Board).

On March 15, 2017 the Company's Supervisory Board dismissed, effective as of the end of day on March 15, 2017, all members of the Company's Management Board. On the same day Piotr Zawistowski up to then performing the function of Vice-President of the Management Board for Customer and Trade provided the Supervisory Board with the information on the resignation from applying for being selected to be a member of TAURON's Management Board of the 5th common term of office. The other members of the Management Board were appointed as of March 16, 2017 to the Company's Management Board of the 5th common term of office.

There were no other changes to the composition of the Management Board by the day of publishing this report.

Experience and competences of members of the Management Board

Filip Grzegorczyk – President of the Management Board

A graduate of the Faculty of Law and Administration and the Faculty of International and Political Studies of the Jagiellonian University in Cracow where the obtained a PhD degree in the EU law, and then a post-PhD degree in the business law.

He also completed the Summer Advanced Course program in the European Law at the University of London, King's College, Centre of European Law as well as the International Business and Trade Summer School program at Catholic University of America – Columbus School of Law and the Ecole de droit français Université d'Orléans. He holds the position of Professor at the University of Economics in Cracow, where he is a lecturer at the Faculties of Management and Economics and International Relations.

He has broad professional experience in the energy and fuel sector. In 2011-2013 he was associated with Kompania Węglowa as a management board proxy for energy sector development at Kompania Węglowa S.A. In 2007-2008 he was a member of the Management Board of TAURON. From November 2015 he served as the Undersecretary of State at the Ministry of State Treasury. He speaks fluent English and French.

He has been holding the position of the President of the Management Board of TAURON Polska Energia S.A. since November 15, 2016. He is currently overseeing the following areas of the Company's operations: strategy and regulation, relationships with the environment (stakeholders), legal and internal audit. Furthermore he oversees the risk management system, compliance and security as well as human resources policy development.

Jarosław Broda – Vice-President of the Management Board

A graduate of the Warsaw School of Economics, a holder of a postgraduate diploma in project management from the Kozmiński University.

He has experience in the area of consolidation and operation of the energy sector, privatization of state-owned utility groups, developing processes associated with the restructuring and strategy building as well as energy entities' expansion projects.

Since the beginning of his professional career he has been associated with the energy sector's entities, holding senior executive and managerial positions. He gained his professional experience working at the Ministry of State Treasury as well as at TAURON and GDF Suez Energia Polska. Recently associated with GDF Suez Energia Polska – Katowice and GDF Suez (Branch Energy Europe) where he was responsible for market analyses and developing the company's expansion strategy, regulatory management and M&A projects. He was also involved in developing the sales and marketing expansion strategy in Europe. Since mid-2015 he was responsible for developing the commercial strategy and the contract for difference related to the nuclear project in Great Britain.

He has been holding the position of the Vice-President of the Management Board of TAURON Polska Energia S.A. since December 8, 2015. He is currently overseeing the following areas of the Company's operations: asset management, research and innovation, investment projects and occupational health and safety.

Additionally, until the Vice-President of the Management Board for Trade is appointed, he is overseeing the following areas of the Company's operations: fuel trading, portfolio management, trading, trade settlements and reporting.

Kamil Kamiński – Vice-President of the Management Board

A graduate of the Faculty of Management and Communications of the Jagiellonian University. A holder of the MBA Executive diploma (Stockholm University School of Business/ Cracow University of Economics) and the Post-MBA Diploma in Strategic Financial Management (Rotterdam School of Management, Erasmus University/ GFKM).

He has experience in the area of building company value, mergers and acquisitions, business integration and strategy operationalization as well as management of comprehensive projects in the public and private sectors. He was involved in complex transformation and restructuring processes of enterprises in the energy and fuel as well as transportations logistics sectors.

He gained his professional experience acting in the capacity of the President or Vice-President of the Management Board and holding senior managerial positions. From the beginning of 2014 he was associated with Węglokoks Capital Group where, within the structures of Węglokoks Energia, he participated in the consolidation of electricity and heat generation assets of Kompania Węglowa and Węglokoks. At that time he was the head of the Management Committee. Previous professional experience includes, among others, work at the Research and Development Centre of the Refining Industry (OBR) in Płock or Jan Paweł II International Cracow-Balice Airport. He also managed the operations of John Menzies PLC in Poland. For many years he cooperated with Lotos Group where he supported the development of the aviation fuel segment which resulted in the *joint venture* with Air BP Ltd. and the establishment of Lotos Air BP.

He has been holding the position of the Vice-President of the Management Board of TAURON Polska Energia S.A. since 8 December 2015. He is currently overseeing the following areas of the Company's operation: corporate management, human resources, customer, procurement and administration, security and compliance.

Marek Wadowski – Vice President of the Management Board

A graduate of the Faculty of Economics of the University of Economics in Katowice. He also completed post graduate studies École Supérieure de Commerce Toulouse where he obtained Mastère Spécialisé en Banque et Ingéniere Financière diploma and the Executive MBA studies at the Kozminski University in Warsaw.

He has professional experience in the field of financial, controlling and accounting process management in industry (power sector, mining, steel industry), as well as in financing of investment projects and international commercial transactions. He was involved in the implementation of the *due diligence* projects and valuations of many enterprises (using income-based, equity and comparison valuation methods).

From the beginning of his professional career he was associated with the energy, mining and steel sector entities, acting in the capacity of the President or the Vice-President of the Management Board and holding senior managerial positions. He gained his professional experience working at BRE Corporate Finance S.A., Huta Cynku Miasteczko Śląskie S.A. and at Jastrzębska Spółka Węglowa S.A. Capital Group's subsidiaries. From 2008, acting in the capacity of the Vice-President of the Management Board in charge of the financial division at Jastrzębska Spółka Węglowa S.A. Capital Group's subsidiaries, he was responsible, inter alia, for structuring of commercial transactions, implementing the foreign exchange risk hedging policy, financial costs reduction, liquidity management, acquiring funds from the consortium of banks in the form of a bond issue program. He was also involved in the IPO of JSW S.A. (implementation of the International Accounting Standards, modification of the management information system, preparing the IPO prospectus, talks with investors).He held the position of the President of the Management Board at Towarzystwo Finansowe Silesia where he was involved in the bond issue program for Kompania Węglowa and was dealing with the acquisition of debt financing from the consortium of banks.

He has been holding the position of the Vice-President of the Management Board of TAURON Polska Energia S.A. since January 29, 2016. He is currently overseeing the following areas of the Company's operations: finance, controlling, business analyses, accounting and taxes, risk and IT.

The description of the experience and competences of the members of the Management Board is published on the Company's website http://www.tauron.pl.

6.1.2. Supervisory Board

The current, fifth term of office of the Supervisory Board, began on May 29, 2017, i.e. on the day of holding the Ordinary GM of the Company approving the financial statements for the last full financial year of the tenure of the members of the Supervisory Board of the fourth term, i.e. for the financial year 2016. In accordance with the Company's Articles of Association this shall be a common term of office and it shall last for three years.

The composition of the Supervisory Board as of June 30, 2017 and as of the date of drawing up this report

1. Beata Chłodzińska - Chair of the Supervisory Board,
2. Teresa Famulska - Deputy Chair of the Supervisory Board,
3. Jacek Szyke - Secretary of the Supervisory Board,
4. Radosław Domagalski - Łabędzki - Member of the Supervisory Board,
5. Katarzyna Łasak- Jarszak - Member of the Supervisory Board,
6. Paweł Pampuszko - Member of the Supervisory Board,
7. Jan Płudowski - Member of the Supervisory Board,
8. Agnieszka Woźniak - Member of the Supervisory Board.

Changes to the Supervisory Board's composition

As of January 1, 2017 the Supervisory Board was composed of the folowing members: Beata Chłodzińska (Chair of the Supervisory Board), Anna Mańk (Vice-Chair of the Supervisory Board), Jacek Szyke (Secretary of the Supervisory Board), Stanisław Bortkiewicz, Leszek Koziorowski, Jan Płudowski, Jacek Rawecki, Stefan Świątkowski and Agnieszka Woźniak.

On May 25, 2017 Jacek Rawecki a statement on the resignation, as of May 26, 2017, from the function of a member of the Company's Supervisory Board.

On May 29, 2017 the State Treasury, acting within its personal powers defined in § 23, clause 1, sections 1) and 3) of the Company's Articles of Association, appointed the following persons to be the members of the Company's Supervisory Board of the 5th common term of office: Beata Chłodzińska, Teresa Famulska, Barbara Katarzynę Łasak-Jarszak, Jan Płudowski i Agnieszka Woźniak.

On May 29, 2017 the Ordinary GM of the Company appointed the following persons to be the members of the Company's Supervisory Board of the 5th common term of office: Radosław Domagalski – Łabędzki, Paweł Pampuszko and Jacek Szyke.

There were no other changes to the composition of the Supervisory Board by the day of publishing this report.

Experience and competences of the members of the Supervisory Board

Beata Chłodzińska

A graduate of the Faculty of Law and Administration of the Warsaw University. She is a licensed legal counsel.

In 2001-2016 she was associated with the Ministry of State Treasury where she was providing legal services, most recently as the Deputy Director at the Legal and Litigation Department. She is currently coordinating the works of the Legal Counsels Team at the Legal Office of the Ministry of Energy.

She gained professional experience associated with supervising the operations of the State Treasury owned companies by, among others, holding seats on the supervisory boards of the following companies: Polska Agencja Prasowa S.A. with its seat in Warsaw, Centrum Techniki Okrętowej S.A. with its seat in Gdańsk, Chemia Polska sp. z o.o. with its seat in Warsaw, Międzynarodowa Korporacja Gwarancyjna sp. z o.o. with its seat in Warsaw.

She has been a member of the Supervisory Board of TAURON Polska Energia S.A. since August 12, 2015. In the Supervisory Board of the 5th common term of office she is the Chair of the Supervisory Board, the Head of the Nominations and Compensation Committee of the Supervisory Board, as well as a member of the Audit Committee of the Supervisory Board and a member of the Strategy Committee of the Supervisory Board.

Teresa Famulska

A graduate of the University of Economics in Katowice, a Professor of economics appointed by the President of the Republic of Poland at the request of the Board of the Faculty of Finance and Insurance of the University of Economics in Katowice.

She has been associated with the University of Economics in Katowice since 1981. She is currently the Head of the Public Finance Department holding the full Professor’s position. In 1998-2013 she was working at the School of Banking and Finance, recently as a dean, holding the full Professor’s position.

An author of approximately 150 domestic and foreign publications in the field of finance, mainly public finance (including taxes and tax systems) and corporate finance. Apart from academic work she is continuously involved in business practice, participating, among others, in several dozen science and research projects. She conducts numerous lectures and training courses for the finance and management personnel of enterprises and for the tax authorities staff as part of the post-graduate studies and in cooperation with, among others, the Polish Economic Society (Polskie Towarzystwo Ekonomiczne) and the Accountants Association in Poland (Stowarzyszenie Księgowych w Polsce). Since 2007 she has been working at the State Examination Commission on Tax Advisory Services, where she has been the Head of the Commision since 2010. Since 2007 a member of the Financial Ediucation Committee of the Polish Academy of Science, where she was a member of the Board of the Committee in 2011-2015. Furthermore, she is a member of the Main Board of the Polish Finance and Banking Association (Zarząd Główny Polskiego Stowarzyszenia Finansów i Bankowości), International Fiscal Association, Center for Information and Organization of Public Finance and Tax Law Research of Central and Eastern European Countries (Centrum Informacji i Organizacji Badań Finansów Publicznych i Prawa Podatkowego Krajów Europy Środkowej i Wschodniej) and Polish Economic Society (Polskie Towarzystwo Ekonomiczne).

She was awarded the following orders and accolades: Silver Cross of Merit (Srebrny Krzyż Zasługi), Silver Medal for Long-term Service (Srebrny Medal za Długoletnią Służbę), Medal of the Commission of National Education (Medal Komisji Edukacji Narodowej), awards of the Minister of National Education and of the President of the University of Economics in Katowice.

She has been a member of the Supervisory Board of TAURON Polska Energia S.A. since May 29, 2015. In the Supervisory Board of the 5th common term of office she is the Vice-Chair of the Supervisory Board and the Head of the Audit Committee of the Supervisory Board.

Jacek Szyke

A graduate of Faculty of Economics of Łódź University and of the Faculty of Electric Engineering of the Technical University in Poznań where he also obtained a PhD in technical science.

He has yearslong professional experience associated with the utility scale power industry where he climbed up all levels of the career ladder, starting with an intern, through foreman, Head of the Safety and Instrumentation and & Control Department (Zakład Energetyczny Kalisz and Łódź), Engineer On Duty Responsible for the Operation (Elektrociepłownia Łódź), up to the position of the Chief Engineer (Zakład Energetyczny Łódź and Płock) and General Manager (Zakład Energetyczny Płock and Elektrociepłownia Siekierki). He also worked as the Contract Manager in Libya. The owner and President of the JES ENERGY consultying company.

State orders awarded: Golden Cross of Merit (Złoty Krzyż Zasługi), Knight’s Order (Krzyż Kawalerski). Industry orders awarded: Distinguished for the following sectors: Power, Construction, Communications, Firefigthing, Culture and Heat industry.

The author of more than 100 articles, publications and books, including: ”Wspomnienia o tradycji i zwyczajach pracy w energetyce” (Memories of traditions and customs related to working in the power utilities sector), ”O energetyce z sentymentem" (About electric utilities sector with a sentiment), ”Historia Polskiej Elektroenergetyki” (History of Poland’s Power Industry), ”Złota Księga Elektroenergetyki” (Golden Book of Power Industry), ”Grupa TAURON - monografia” (TAURON Group – monograph).

He has been a member of the Supervisory Board of TAURON Polska Energia S.A. since September 14, 2010. In the Supervisory Board of the 5th common term of office he is the Secretary of the Supervisory Board and the Head of the Strategy Committee of the Supervisory Board as well as a member of the Audit Committee of the Supervisory Board.

Radosław Domagalski-Łabędzki

A graduate of Łódź University (master’s degree in law). Completed Executive MBA studies at Rutgers University in New Jersey. Visiting fellow at the German Munster and Mannheim Universities.

A manager with a broad practical experience in managing complex international business projects. He prepared and effectively implemented an expansion strategy in Asia for one of Poland’s largest capital groups.

In 2006-2013 the President of the Management Board of Magellan Trading Shanghai Co. Ltd in China. Prior to that he worked as a lawyer at GSP Group Sp. z o.o. in Łódź, and also at American Enterprise Institute in Washington – one of the largest American think-thanks.

Between December 2015 and October 2016 the Undersecretary of State at the Ministry of Development, responsible, among others, for promoting the Polish economy, a member of the Financial Supervision Commission (Komisja Nadzoru Finansowego).

Since October 2016 the President of the Management Board of KGHM Polska Miedź S.A.

Co-founder of the Polish-Chinese Chamber of Industry and Commerce in Shanghai. An author of many business publications.

He has been a member of the Supervisory Board of TAURON Polska Energia S.A. since May 29, 2017. In the Supervisory Board of the 5th common term of office he is a member of the Audit Committee of the Supervisory Board.

Barbara Katarzyna Łasak - Jarszak

A graduate of the Faculty of Law and Administration of the Warsaw University.

Between January 1997 and February 2017 she was working at the Legal Department of the Ministry of State Treasury. Between April 1998 and February 2017 she headed an organizational unit of the Legal Department providing legal services for the Ministry. Since March 1 2017 the Head of the State Property and Finance Division of the State Treasury Department of the Chancellery of the Prime Minister where she is dealing with. among others, with the issues related to the new principles of managing the state owned property.

In 1999-2001 a member of the Disciplinary Commission of the Ministry of State Treasury. In 1999-2005 deputy public finance auditor for the Minister of State Treasury.

He has yearslong professional experience of holding seats on supervisory boards of State Treasury owned companies, including: ZPP ”Lenora” sp. z o.o., Koneckie Zakłady Odlewnicze S.A., Uzdrowisko Busko-Zdrój S.A., ŚWWG Polmos S.A., Stocznia Gdynia S.A., Archimedes S.A., PSO ”Maskpol” S.A., ZG ”Dom Słowa Polskiego” S.A. in liquidation, Fundusz Rozwoju Spółek S.A., Zakłady Mięsne Nisko S.A.

She has been a member of the Supervisory Board of TAURON Polska Energia S.A. since May 29, 2017. In the Supervisory Board of the 5th common term of office she is a member of the Nominations and Compensation Committee of the Supervisory Board.

Paweł Pampuszko

A graduate of the Faculty of Law and Administration of the University of Silesia in Katowice, a lawyer entered on the list of lawyers maintained by the Solicitors Regulation Authority (Izba Adwokacka) in Katowice.

During his yearslong professional career he gained significant experience with respect to negotiating contracts as part of major industrial and business undertakings, and also preparing and conducting significant court disputes where it was necessary to become familiar with non-legal specialist issues and close cooperation with specialists in other fields. He was also actively involved in identifying and eliminating deficiencies in the operations of the corporations’ authorities.

He gained professional experience related to providing legal services for business entities by working in 2005-2009, among others, at Kancelaria Biura Prawne Babula i Wspólnicy sp. k., Kancelaria Adwokatów i Radców Prawnych Ślązak, Zapiór & Partnerzy, SILEGE S.C. and Woszym Technologies sp.j. In 2009-2011 he was running his own legal practice. Since 2011 till now he has been a founding partner at law firm Kuś-Zielińska, Pampuszko i Wspólnicy – Adwokaci i Radcy

Prawni sp.j.

He was a member of supervisory authorities in the non-government organizations and corporations: CHK S.A. and Medicina Pro Humana Foundation.

He is an author of publications on medical law.

He has been a member of the Supervisory Board of TAURON Polska Energia S.A. since May 29, 2017. In the Supervisory Board of the 5th common term of office he is a member of the Strategy Committee of the Supervisory Board.

Jan Płudowski

A graduate of the Faculty of Electric Engineering of the Silesian University of Technology in Gliwice. He also completed post-graduate studies at the Faculty of Electric Engineering of the Gdańsk University of Technology, at the University of Economics (formerly K. Adamiecki Academy of Economics) in Katowice in the field of corporate finance management and at the Faculty of Management and Services Economics of the University of Szczecin in the field of marketing and corporate management.

Professionally associated with the power sector, he gained professional experience by climbing up all levels of the career ladder. He was working, among others, as the Regional Chief Power Engineer (PKP Śląska Dyrekcja Okręgowa Kolei Państwowych (Polish State Railways' Silesian Regional Board) in Katowice), Director of Zakład Energetyki Kolejowej (Railways' Power Unit) in Katowice and the Head of the Power Management Department (PKP Dyrekcja Energetyki Kolejowej (Polish State Railways' Power Unit Board) in Warsaw), Director of the Cash Flow Office ("PKP Energetyka" sp. z o.o. in Warsaw). He is currently holding the position of the Project Coordinator Director at "PKP Energetyka" S.A. in Warsaw.

In 2007-2008 he was a member of the Supervisory Board of Spółka Energetyczna Jastrzębie S.A.

He has been a member of the Supervisory Board of TAURON Polska Energia S.A. since December 30, 2016. In the Supervisory Board of the 5th common term of office he is a member of the Audit Committee of the Supervisory Board and a member of the Strategy Committee of the Supervisory Board.

Agnieszka Woźniak

A graduate of the Faculty of Law and Administration of the UMCS University in Lublin. A lawyer by education.

In 2001-2015 she worked at the Ministry of Economy where she climbed up all levels of the career ladder, starting from a referendary, through the positions of a specialist, chief specialist, head of division, deputy director and director. Since 2005 an appointed civil servant. She has been associated with the Ministry of Energy since it was formed, i.e. since November 2015, where she is currently holding the position of the Director of the Minister's Office.

She has yearslong experience in personnel management. She was dealing with matters related to audits, organizational affairs of the office, public procurement, personnel issues. She was also holding the position of the Plenipotentiary of the General Director for the Integrated Management System.

She has experience related to supervising the operations of State Treasury owned companies. Between January 2009 and June 2014 a member of the Supervisory Board of Węglokoks S.A. with its seat in Katowice.

She has been a member of the Supervisory Board of TAURON Polska Energia S.A. since December 16, 2016. In the Supervisory Board of the 5th common term of office she is a member of the Nominations and Compensation Committee of the Supervisory Board and a member of the Strategy Committee of the Supervisory Board.

The description of the experience and competences of the members of the Supervisory Board is published on the Company's website http://www.tauron.pl/.

6.2. Subject and scope of the business operations conducted

TAURON's core business operations include:

1) operations of head offices and holding companies, excluding financial holding companies (PKD 70.10 Z),
2) electricity trading (PKD 35.14 Z),
3) fuels and derivative products wholesale (coal and biomass trading) (PKD 46.71 Z),
4) gas fuel trading (PKD 35.23 Z).

As the parent entity TAURON is performing the consolidating and management function in TAURON Capital Group.

The Company's core operations, besides managing TAURON Capital Group, include wholesale electricity, related products, gas, CO_2 emission allowances and production fuels in order maximize the financial results from the operations conducted in this area.

As a result of implementing the business model and centralizing its functions TAURON concentrated many competences related to TAURON Capital Group's subsidiaries' operations and it currently carries out operations, among others, in the following areas:

1) wholesale trading in electricity and related products, in particular, with respect to commercial services provided to the subsidiaries, securing the needs with regard to fuels, including gas fuel, CO_2 emission allowances and certificates of electricity origin,
2) procurement management,
3) financial management,
4) corporate risk management,
5) management of IT model functioning,
6) coordinating research and development works carried out by TAURON Capital Group,
7) advisory services with respect to accounting and taxes,
8) legal services,
9) audit.

The above functions are gradually downsized at TAURON Capital Group's subsidiaries. The centralization is aimed at improving TAURON Capital Group's efficiency.

The Company is focusing on purchasing and selling of electricity for the needs of hedging the buy and sell positions of TAURON Capital Group's subsidiaries and on wholesale electricity trading. Electricity sales performed by the Company in H1 2017 were mainly to the following subsidiaries: TAURON Sprzedaż and TAURON Sprzedaż GZE.

The competences of TAURON also include management, for the needs of TAURON Capital Group, of certificates of origin that constitute a confirmation of electricity generation from renewable sources, using high-performance co-generation, gas-fired co-generation, mining methane-fired or biomass gas-fired co-generation, from sources using agricultural biogas..

The Company also acts as the competence center with respect to management and trading in CO_2 emission allowances for TAURON Capital Group's subsidiaries. Due to the centralization of trading in emission allowances a synergy effect was obtained that involves optimizing the costs of using the resources of the entities that are a part of TAURON Capital Group. Along with the centralization of this function at TAURON the Company is responsible for clearing the CO_2 emission allowances, securing of the emission needs of the subsidiaries taking into account the allowances allocated and the support in the process of acquiring the allowance quotas for the subsequent periods. While accomplishing the above mentioned goals the Company is an active participant of trading in CO_2 emission allowances.

In addition, TAURON also acts as the Market Operator (maker) and the entity responsible for trade balancing for TAURON Capital Group's subsidiaries and for external customers with respect to electricity. The function of the Market Operator and the Entity responsible for trade balancing is performed on the basis of the transmission Agreement of June 21, 2012 concluded with the Transmission System Operator (TSO) – PSE. The Company currently holds exclusive generation capacity with respect to meeting the trading and technical requirements, is responsible for optimizing the generation, i.e. selecting the generation units for operation as well as for the relevant distribution of loads in order to perform the contracts concluded, taking into account the technical conditions of the generation units, the grid constraints and other factors, under various time horizons. As part of the services provided for the Generation segment the Company participates in preparing the overhaul schedules, available (dispatchable) capacity schedules as well as production plans for the generation units, under various time horizons, as well as in agreeing them with the relevant grid operator.

In accordance with the adopted Business Model TAURON is performing the management function with respect to production fuel procurement management for the needs of TAURON Capital Group's generation entities.

In H1 2017 approximately 58% of coal supplies for the electricity and heat production were satisfied by coal from TAURON Capital Group's own coal mines. The balance of the demand was covered from external sources.

The Company is expanding its operations with respect to trading in gas fuel. Since obtaining the license in 2012 TAURON has been an active participant of the gas market with respect to gas wholesale trading. It actively conducts trading operations on the domestic market, i.e. on the Polish Power Exchange (Towarowa Giełda Energii S.A.) and on the OTC market. The Company is also conducting trading operations on the European natural gas market.

Furthermore, the Company is conducting trading operations on the Gasoil Futures contracts based on the valuations of the diesel oil. The product is available on the ICE Futures Europe platform that TAURON has been a member of since 2012. The Gasoil contracts can be used by the market participants both as a hedging instrument as well as a trading tool. The Gasoil products are characterized by high liquidity and contract prices are a price reference for all the trade distillates in Europe and beyond.

Besides the Company is trading in crude oil market products: Brent Crude, WTI Crude, the pricing of which is tied to oil prices and Heating Oil – a product priced based on the heating oil quotations. With respect to the above mentioned products trading is focused not only on trading individual contracts (outright) but also on trading in spreads, created both between given products as well as calendar spreads that correspond to the dates of settling the individual contracts.

The Company is present on the most important European wholesale gas markets within the areas of the Gaspool, New Connect Germany and Tittle Transfer Facility hubs. Through the PRISMA and GSA auction platforms the Company purchases interconnector capacity enabling cross-border trading in gas and physical deliveries of gas for the needs of TAURON Capital Group's subsidiaries and consumers. TAURON Capital Group's competences with respect to gas sales are split: TAURON conducts wholesale gas trade on the domestic and European market through access to exchanges and sources of gas, while TAURON Sprzedaż conducts comprehensive gas sales to the final consumers.

As the new Strategy is implemented the mass market has become an important area of the Company's operations: coordinating the Customer Area. The Company is expanding its competences by planning the retail market sales, developing a range products and services and tools to support the sales process on this market. An important element associated with this are also activities related to research and development.

7. OTHER MATERIAL INFORMATION AND EVENTS

7.1. Proceedings pending before the court, competent arbitration authority or public administration authority

During the reporting period no proceedings were pending before any court, competent arbitration authority or public administration authority, related to the Company or TAURON Capital Group's subsidiaries, the standalone or aggregate value of which would represent at least 10% of the Company's equity.

7.2. Information on agreements concluded by TAURON Capital Group's subsidiaries

7.2.1. Transactions with related entities on terms other than at arm's length

All the transactions with related entities are concluded at arm's length.

The information on the transactions with related entities is provided in note 46 of the Interim abbreviated consolidated financial statements for the 6 months ended on June 30, 2017.

7.2.2. Guarantees, credit or loan co-signings (sureties, endorsements) granted

In H1 2017 TAURON and its subsidiaries did not grant guarantees and credit or loan co-signings (sureties, endorsements) – in total to a single entity or such entity's subsidiary where the total value of the existing co-signings (sureties, endorsements) or guarantees would represent an equivalent of at least 10% of the Company's equity.

7.3. Other information significant for the evaluation of the staffing, assets, financial standing, financial result and changes thereof, as well as information that is essential to evaluate the ability of TAURON Capital Group to fulfil its obligations

Concluding of the agreement with TAURON Wydobycie on coal sales

On February 1, 2017 a multi-year agreement on coal sales for electricity generation purposes was concluded between TAURON and TAURON Wydobycie the subject of which was the purchase of coal by the Company for the needs of the generation units of TAURON Wytwarzanie and TAURON Ciepło. The agreement was concluded for the period until 31 December 31, 2019.

New coal trading model within TAURON Capital Group

On April 1, 2017 a new coal trading model within TAURON Capital Group, i.e. between TAURON Wydobycie and TAURON Wytwarzanie / TAURON Ciepło came into force. In accordance with the new model coal sales by TAURON Wydobycie to TAURON Wytwarzanie and TAURON Ciepło take place directly, bypassing TAURON as an intermediary. TAURON provides an agency service for the above mentioned entities. In accordance with the agreements concluded between TAURON and TAURON Wytwarzanie / TAURON Ciepło on the provision of services (Agency agreements), TAURON was granted the power of attorney, among others, to:

1) agree and negotiate coal purchase terms,
2) draw up draft agreements,
3) conclude, make changes (amend) and terminate on behalf of TAURON Wytwarzanie and TAURON Ciepło agreements concluded with TAURON Wydobycie related to coal sales,
4) perform on behalf of TAURON Wytwarzanie and TAURON Ciepło actions related to the performance of the agreements,
5) draw up for TAURON Wytwarzanie and TAURON Ciepło monthly reports on the size of shipments, quality parameters, volumes of coal products transferred (for the needs of the excise tax related record keeping).

The above described model change led, among others, to the reduction of the number of invoices issued between TAURON Wydobycie and TAURON Wytwarzanie / TAURON Ciepło by half and to an improvement of the profitability ratio of the companies included within the Tax Capital Group.

TAURON units' win in a RES auction

On June 30, 2017 Ordinary Auction no. AZ/2/2017 was held for installations with total installed electric capacity not greater than 1 MW at which CO_2 emission is not greater than 100 kg/MWh with the factor of utilizing the installed electric capacity greater than 3 504 MWh/MW/year. As part of the preparation TAURON Capital Group selected for participation in the RES auction three hydroelectric power plants owned by TAURON EKOENERGIA: EW Brzeg, EW Kraszewice and EW Wrocław

II. All the bids submitted by TAURON won the auctions and thus these power plants guaranteed for themselves the sale of electricity until the end of the support period (i.e. 2020 for EW Kraszewice and EW Wrocław II, and 2026 for EW Brzeg), at the bid price much higher than the prices obtained under the existing support system.

Determining of the level of substitution fees by the ERO President

The binding *Act of April 10, 1997 the Energy Law* defines the rules of the support system for high efficiency coal co-generation and gas co-generation in the years 2014-2018. The Act defines the obligation to purchase and redeem certificates of electricity origin (the so-called “yellow” certificates - for gas co-generation, the so-called “red” certificates - for coal co-generation) or pay the substitution fee by electricity suppliers to the final consumers. For the “red” certificates the redemption obligation is 23.3% of the volume of electricity sold. In case of the “yellow” certificates this obligation shall increase from 3.9% in 2014 to 8% in 2018, in 2016 it is 6.0% which is to contribute to the expansion of the co-generation sources operating on the gas fuel,

In accordance with the said Act the ERO President set and announced in Q2 2016 the following substitution fees in force in 2017:

1) for “red” certificates: PLN 10/MWh in 2017 (PLN 11/MWh in 2016),
2) for “yellow” certificates: PLN 120/MWh in 2017 (PLN 125/MWh in 2016),
3) for “violet” certificates: PLN 56/MWh in 2017 (PLN 63/MWh in 2016).

The substitution fees for the subsequent years shall be defined by the ERO President according to the following rules:

1) in case of coal-fired co-generation the substitution fee which in the system of certificates represents the benchmark for their prices, may not have a value lower than 5% and higher than 40% of the average electricity sales price on the competitive market in the preceding year,
2) in case of gas-fired co-generation the substitution fee may not be lower than 15% and higher than 110% of the average electricity sales price on the competitive market .

It will be possible to redeem the certificates originating from production in co-generation in individual years only within the settlement for the given year, i.e. until June of the subsequent year, which is a significant difference in relation to the previously used mechanisms when the possibility of “banking” the certificates from the previous years led to the disruption of the relationship between supply and demand and instability of the prices of certificates.

For certificates of origin obtained for electricity generation from renewable energy sources the unit substitution fee was set in the *Act of February 20, 2015 on renewable energy sources* at a fixed level of PLN 300.03/MWh in force for the entire duration of the support period.

The value of the announced unit substitution fees has a direct impact on TAURON Capital Group’s results. The costs of electricity for consumers purchasing electricity for own use are additionally burdened with the costs of purchasing and submitting for redemption to the ERO President of the relevant certificates and should be classified as justified costs in the process of updating the electricity tariff.

Allocations of free CO_2 emission allowances and free allowances for heat production

In accordance with Directive 2003/87/EC of the European Parliament and of the Council of October 13, 2003 establishing a scheme for greenhouse gas emission allowances trading within the Community and amending the Council’s Directive 96/61/EC, TAURON Capital Group is entitled to obtain free emission allowances pursuant to Article 10c of the above mentioned Directive (”derogation allowances”),

In order to obtain free allowances for electricity generation for 2016 TAURON Capital Group, on September 29, 2016, submitted to the National Emissions Balancing and Management Center (Krajowy Ośrodek Bilansowania i Zarządzania Emisjami) reports on works and expenditures related to the settlement of capital expenditures incurred to carry out investment tasks included in the National Investment Plan for the reporting period: July 1, 2015 – June 30, 2016.

Based on the reports submitted on April 21, 2017 the accounts of TAURON Capital Group’s installations were credited with free CO_2 emission allowances in the number stemming from the incurred investment expenditures, i.e. 1 680 838 EUAs.

Additionally, in February 2017 the accounts of TAURON Capital Group’s installations were credited with free allowances for heat production for 2017 in the total number of 469 945 EUAs.

Management Board of the Company

Katowice, August 16, 2017

Filip Grzegorczyk	- President of the Management Board	…………………………………..
Jarosław Broda	- Vice-President of the Management Board	…………………………………..
Kamil Kamiński	- Vice-President of the Management Board	…………………………………..
Marek Wadowski	- Vice-President of the Management Board	…………………………………..

Appendix A: GLOSSARY OF TERMS AND LIST OF ABBREVIATIONS

The glossary of trade terms and the list of abbreviations and acronyms most commonly used in this report is presented below.

Table no. 21. Explanation of abbreviations and acronyms and trade terms used in the text of the report

#	Abbreviation and trade term	Full name/explanation
1.	Cash pooling	Cash pooling used by the Company – the consolidation of balances of bank accounts through physical transferring of cash from the accounts of TAURON Capital Group's subsidiaries in the bank in which cash pooling is operated to the bank account of the Pool Leader whose function is performed by the Company. At the end of each working day, cash is transferred from the bank accounts of TAURON Capital Group's subsidiaries which show positive balance to the bank account of the Pool Leader. At the beginning of each working day the bank accounts of TAURON Capital Group's subsidiaries are credited from the bank account of the Pool Leader with the amount required to maintain the financial liquidity of the TAURON Capital Group's subsidiary on the given working day.
2.	Colored certificates	Property rights resulting from the certificates of origin of electricity generated in the way subject to support, the so-called color certificates: 1) "green" - certificates of origin of electricity from RES, 2) "violet"- certificates of origin of electricity generated in co-generation fired using methane released and captured during underground mining works in active, in liquidation or liquidated hard coal mines, or using gas obtained from biomass processing, 3) "red" - certificates of origin of electricity from co-generation (CHP certificates - Combined Heat and Power), 4) "yellow" - certificates of origin of electricity generated in co-generation from gas-fired sources or with the total installed capacity below 1 MW, 5) "white" - certificates confirming achieving of energy savings within the meaning of the *Act on energy efficiency.* 6) ”blue” - certificates of origin of electricity generated in agricultural biogas plants.
3.	EBIT	Earnings Before Interest and Taxes
4.	EBITDA	Earnings Before Interest, Taxes, Depreciation and Amortization
5.	ECSW	Elektrociepłownia (Combined Heat and Power Plant – CHP) Stalowa Wola S.A. with its seat in Stalowa Wola
6.	EUA	European Union Allowance – an allowance to introduce the carbon dioxide (CO_2) equivalent to the air, within the meaning of Article 2 section 4 of the *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 (Journal of Laws No. 122, item 695)*
7.	EUR	Euro - a common European currency introduced in some EU Member States
8.	EW	Hydroelectric power plant
9.	FW	Wind farm
10.	TAURON Capital Group	TAURON Polska Energia S.A. Capital Group
11.	”TAURON Group”	TAURON Group established by the Management Board of TAURON pursuant to the *Code of TAURON Group*, composed of TAURON and TAURON Capital Group's subsidiaries selected by the Management Board of TAURON
12.	GW, GWh	Gigawatt, Gigawatt hour
13.	GZE	Górnośląski Zakład Elektroenergetyczny
14.	Audit Committee	Audit Committee of the Supervisory Board of TAURON Polska Energia S.A.
15.	Nominations and Compensation Committee	Nominations and Compensation Committee of the Supervisory Board of TAURON Polska Energia S.A.
16.	Strategy Committee	Strategy Committee of the Supervisory Board of TAURON Polska Energia S.A.
17.	Kompania Węglowa	Kompania Węglowa S.A. with its seat in Katowice
18.	KW Czatkowice	Kopalnia Wapienia ”Czatkowice” sp. z o.o. with its seat in Krzeszowice
19.	Mg	Mega gram – million grams (1 000 000 g) i.e. a ton
20.	MW, MW_e, MW_t, MWh	Megawatt, Megawatt of electric capacity, Megawatt of heat capacity, Megawatt hour
21.	Nowe Brzeszcze GT	Nowe Brzeszcze Grupa TAURON sp. z o.o. with its seat in Brzeszcze
22.	Nowe Jaworzno GT	Nowe Jaworzno Grupa TAURON sp. z o.o. with its seat in Jaworzno

#	Abbreviation and trade term	Full name/explanation
23.	Line of Business/Segment	Area of TAURON Group's subsidiaries' operations determined by the Company that constitutes TAURON Group's line of business / segment
24.	ORM	Operational Capacity Reserve (OCR)
25.	OSP	Transmission System Operator (TSO)
26.	OZE	Renewable Energy Sources (RES)
27.	PEPKH	Polska Energia - Pierwsza Kompania Handlowa sp. z o.o. with its seat in Tarnów
28.	PGE	PGE Polska Grupa Energetyczna S.A. with its seat in Warsaw
29.	PGE EJ 1	PGE EJ 1 sp. z o.o. with its seat in Warsaw
30.	PGNiG	Polskie Górnictwo Naftowe i Gazownictwo S.A. with its seat in Warsaw
31.	PKB	Gross Domestic Product (GDP)
32.	PMEC	Property rights for certificates of origin confirming generation of electricity in the other co-generation sources
33.	PMGM	Property rights for certificates of origin confirming generation of electricity in co-generation, from gas-fired sources or sources with the total installed capacity below 1 MW
34.	PMMET	Property rights for certificates of origin confirming generation of electricity 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
35.	PMOZE	Property rights for certificates of origin confirming generation of electricity in RES before March 1, 2009
36.	PMOZE_A	Property rights for certificates of origin confirming generation of electricity in RES before March 1, 2009
37.	PFR	Polski Fundusz Rozwoju S.A. with its seat in Warsaw (formerly Polskie Inwestycje Rozwojowe S.A.)
38.	PSE	Polskie Sieci Elektroenergetyczne S.A. with its seat in Konstancin-Jeziorna
39.	Segment/Line of Business	Area of TAURON Group's subsidiaries' operations determined by the Company that constitutes TAURON Group's line of business / segment
40.	SPOT (SPOT market)	With respect to electricity, it is the place where trade transactions for electricity are concluded for which the period of delivery falls, at the latest, three days after the date of the transaction's conclusion (usually it is one day before the date of delivery). Operation of the SPOT market for electricity is strongly tied to the operation of the balancing market run by the TSO
41.	Company	TAURON Polska Energia S.A. with its seat in Katowice
42.	Strategy	The document entitled: *TAURON Group's Strategy for the years 2016-2025*
43.	ERM	Comprehensive risk management system
44.	TAMEH Czech	TAMEH Czech s.r.o. with its seat in Ostrava, Czech Republic
45.	TAMEH HOLDING	TAMEH HOLDING sp. z o.o. with its seat in Dąbrowa Górnicza
46.	TAMEH POLSKA	TAMEH POLSKA sp. z o.o. with its seat in Dąbrowa Górnicza
47.	TAURON	TAURON Polska Energia S.A. with its seat in Katowice
48.	TAURON Ciepło	TAURON Ciepło sp. z o.o. with its seat in Katowice
49.	TAURON Czech Energy	TAURON Czech Energy s.r.o. with its seat in Ostrava, Czech Republic
50.	TAURON Dystrybucja	TAURON Dystrybucja S.A. with its seat in Cracow
51.	TAURON Dystrybucja Pomiary	TAURON Dystrybucja Pomiary sp. z o.o. with its seat in Tarnów
52.	TAURON Dystrybucja Serwis	TAURON Dystrybucja Serwis S.A. with its seat in Wrocław
53.	TAURON EKOENERGIA	TAURON EKOENERGIA sp. z o.o. with its seat in Jelenia Góra
54.	TAURON Obsługa Klienta	TAURON Obsługa Klienta sp. z o.o. with its seat in Wrocław
55.	TAURON Serwis	TAURON Serwis sp. z o.o. with its seat in Katowice
56.	TAURON Sprzedaż	TAURON Sprzedaż sp. z o.o. with its seat in Cracow
57.	TAURON Sprzedaż GZE	TAURON Sprzedaż GZE sp. z o.o. with its seat in Gliwice

#	Abbreviation and trade term	Full name/explanation
58.	TAURON Sweden Energy	TAURON Sweden Energy AB (publ) with its seat in Stockholm, Sweden
59.	TAURON Wydobycie	TAURON Wydobycie S.A. with its seat in Jaworzno
60.	TAURON Wytwarzanie	TAURON Wytwarzanie S.A. with its seat in Jaworzno
61.	toe	Ton of oil equivalent
62.	UOKiK	Office for Competition and Consumer Protection (Urząd Ochrony Konkurencji i Konsumentów)
63.	USD	United States Dollar
64.	URE	Energy Regulatory Office – ERO (Urząd Regulacji Energetyki)
65.	WZ/ZW	General Meeting (GM) / Shareholders' Meeting
66.	ZG Brzeszcze	Brzeszcze Coal Mine (Zakład Górniczy Brzeszcze)
67.	ZG Janina	Janina Coal Mine (Zakład Górniczy Janina)
68.	ZG Sobieski	Sobieski Coal Mine (Zakład Górniczy Sobieski)
69.	ZW Katowice	Zakład Wytwarzania (Generation Plant) Katowice in Katowice

APPENDIX B: INDEX OF TABLES AND FIGURES

The list of tables and figures presented in this report is provided below.

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