



***Additional information to  
the extended consolidated  
report of TAURON Group  
for the third quarter of 2012***

13 November 2012

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## 1. Organisation of TAURON Capital Group

### 1.1. Basic Information on the Group

As of 30 September 2012, TAURON Capital Group Polska Energia S.A. consisted of the parent company, TAURON Polska Energia S.A. (hereinafter referred to as the Company, the Issuer or TAURON), 41 subsidiaries (direct and indirect), 13 affiliates with the share in the issued capital between 50% - 20% and 29 other companies. Following the reporting period, due to the merger of TAURON Dystrybucja S.A. with TAURON Dystrybucja GZE S.A. and TAURON Ekoenergia sp. z o.o. with TAURON Ekoenergia GZE sp. z o.o. which took place on 1 October 2012, the number of subsidiaries (direct and indirect) has decreased to 39. Due to the disposal of the last share in the company PUH Seven sp. z o.o. by the company PŚZiPZ Elvita Jaworzno III sp. z o.o. on 8 October 2012, the number of other companies decreased to 28.

The main companies subject to consolidation included: Południowy Koncern Węglowy S.A., dealing with hard coal mining, TAURON Wytwarzanie S.A. dealing with generation of power from conventional sources and biomass co-burning, TAURON Ekoenergia sp. z o.o. and TAURON Ekoenergia GZE sp. z o.o. (on 1 October 2012 the company was taken over by TAURON Ekoenergia sp. z o.o.), dealing with generation of power from renewable sources, TAURON Dystrybucja S.A. and TAURON Dystrybucja GZE S.A. (on 1 October 2012 the company was taken over by TAURON Dystrybucja S.A.), providing electric energy distribution services, TAURON Sprzedaż sp. z o.o. and TAURON Sprzedaż GZE sp. z o.o., dealing with supply of electric energy to retail customers, TAURON Obsługa Klienta sp. z o.o. and TAURON Obsługa Klienta GZE sp. z o.o., dealing with customer service and TAURON Ciepło S.A. providing heat distribution services.

Moreover, as of 30 September 2012, TAURON Group consisted of 6 other companies subject to consolidation (according to the status on 1 October 2012, as a result of the aforementioned merger of companies – 4 companies), dealing, among others, with generation of electric energy, electricity and heat trading, crushing and grinding of limestone as well as extraction of limestone and stone for construction purposes.

On 12 October 2010, in order to ensure performance of TAURON Group, perceived as a single business entity consisting of autonomous commercial law companies, the Management Board of TAURON Polska Energia S.A. established the TAURON Group, comprising the hereunder companies and TAURON Polska Energia S.A., as the parent company, and adopted the TAURON Group Code as the underlying normative act of TAURON Group operations. As of the date of adoption of the Resolutions on their accession to TAURON Group by the General Meetings/ General Meetings of Shareholders, the companies listed below gained the status of TAURON Group members.

As of 30 September 2012, the following subsidiaries are included in TAURON Group:

**Table no. 1 List of subsidiaries included in TAURON Group (as of 30 September 2012)**

No.	Company enterprise	Date of accession to TAURON Group
1.	TAURON Sprzedaż sp. z o.o.	26.10.2010
2.	TAURON Obsługa Klienta sp. z o.o.	26.10.2010
3.	TAURON EKOENERGIA sp. z o.o.	26.10.2010
4.	TAURON Wytwarzanie S.A.	28.10.2010
5.	TAURON Czech Energy s.r.o.	10.11.2010

**TAURON Polska Energia S.A.***Additional information to the extended consolidated report for the 3rd quarter of 2012*

No.	Company enterprise	Date of accession to TAURON Group
6.	Polska Energia – PKH sp. z o.o.	29.11.2010
7.	TAURON Dystrybucja S.A.	6.12.2010
8.	TAURON Ciepło S.A.	9.12.2010
9.	Kopalnia Wapienia Czatkowice sp. z o.o.	5.01.2011
10.	Południowy Koncern Węglowy S.A.	13.01.2011 13.01.2011
11.	TAURON Dystrybucja GZE S.A. *	24.01.2012
12.	TAURON Sprzedaż GZE sp. z o.o.	24.01.2012
13.	TAURON Obsługa Klienta GZE sp. z o.o.	24.01.2012
14.	TAURON Ekoenergia GZE sp. z o.o. **	24.01.2012
15.	TAURON Serwis GZE sp. z o.o.	24.01.2012
16.	TAURON Wytwarzanie GZE sp. z o.o.	24.01.2012

\* On 1 October 2012, pursuant to art. 492 § 1 item 1 of the Code of Commercial Companies, the merger of the company TAURON Dystrybucja S.A. (the acquiring company) with the company TAURON Dystrybucja GZE S.A. (the acquired company) was registered.

\*\* On 1 October 2012, pursuant to art. 492 § 1 item 1 of the Code of Commercial Companies, the merger of the company TAURON Ekoenergia sp. z o.o. (the acquiring company) with the company TAURON Ekoenergia GZE sp. z o.o. (the acquired company) was registered.

The Code of TAURON Group regulates the functionality of the Group, providing for implementation of the goals through the tailored solutions in the scope of management of TAURON Group entities, including, in particular, defining the operating objectives of the companies, allowing for achievement of the effects assumed.

On 12 October 2010, in order to provide for effective management of TAURON Group, the Management Board of TAURON Polska Energia S.A. adopted resolutions on creating the Business Areas, on membership of companies included in the TAURON Group in the respective Business Areas as well as on establishment of Management Areas within which relevant principles of cooperation are introduced.

Another essential element enabling operational decision-making within TAURON Group, was the establishment of new advisory and quasi-supervisory bodies of the Group - the four Committees of TAURON Group:

1. Project Assessment Committee
2. TAURON Group Management Committee,
3. TAURON Group Compliance Committee,
4. Committee on TAURON Group Corporate Strategy Implementation.

The aim of establishment of the Committees was the achievement of performance of TAURON Group in accordance with the principles of operating coherence of the Group, in compliance with the law, the business of TAURON Group and its stakeholders.

The Committees perform the following functions:

1. opinion-making function for TAURON Management Board,
2. decision-making function,
3. supervisory function for the management boards of TAURON subsidiaries.

The underlying task of the committees is to monitor the implementation of the adopted coherent actions by all the participants of the Group, compliant with the TAURON Group Code and for the benefit of TAURON Group business. The specific functions of the Committees have been specifically defined in the by-laws of their operations adopted by the TAURON Polska Energia S.A. Management Board.

## 1.2. Entities subject to consolidation

As of 30 September 2012, the following subsidiaries of TAURON Polska Energia S.A. are covered by consolidation:

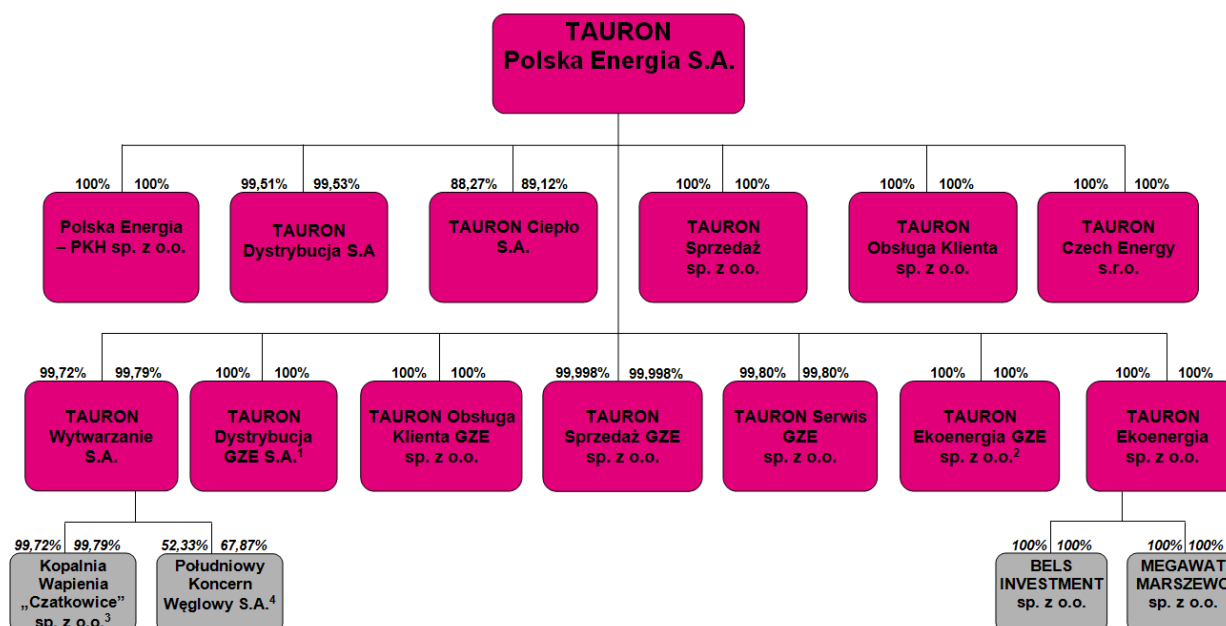
1. TAURON Wytwarzanie S.A. (hereinafter referred to as: TAURON Wytwarzanie),
2. TAURON Dystrybucja S.A. (hereinafter referred to as: TAURON Dystrybucja),
3. TAURON Sprzedaż sp. z o.o. (hereinafter referred to as: TAURON Sprzedaż),
4. TAURON Obsługa Klienta sp. z o.o. (hereinafter referred to as: TAURON Obsługa Klienta),
5. TAURON Ekoenergia sp. z o.o. (hereinafter referred to as: TAURON Ekoenergia),
6. Kopalnia Wapienia Czatkowice sp. z o.o. (hereinafter referred to as: KW Czatkowice),
7. Południowy Koncern Węglowy S.A. (hereinafter referred to as: PKW),
8. Polska Energia Pierwsza Kompania Handlowa sp. z o.o. (hereinafter referred to as: PE-PKH),
9. TAURON Ciepło S.A. (hereinafter referred to as: TAURON Ciepło),
10. TAURON Czech Energy s.r.o. (hereinafter referred to as: TAURON Czech Energy),
11. BELS INVESTMENT sp. z o.o. (hereinafter referred to as: BELS INVESTMENT),
12. MEGAWAT MARSZEWO sp. z o.o. (hereinafter referred to as: MEGAWAT MARSZEWO),
13. TAURON Dystrybucja GZE S.A.\* (hereinafter referred to as: TAURON Dystrybucja GZE S.A.),
14. TAURON Sprzedaż GZE sp. z o.o. (hereinafter referred to as: TAURON Sprzedaż GZE),
15. TAURON Serwis GZE sp. z o.o. (hereinafter referred to as: TAURON Serwis GZE),
16. TAURON Ekoenergia GZE sp. z o.o.\* (hereinafter referred to as: TAURON Ekoenergia GZE),
17. TAURON Obsługa Klienta GZE sp. z o.o. (hereinafter referred to as: TAURON Obsługa Klienta GZE).

\*On 1 October 2012 the merger of the companies TAURON Dystrybucja S.A. with TAURON Dystrybucja GZE S.A. and the companies TAURON Ekoenergia sp. z o.o. with TAURON Ekoenergia GZE sp. z o.o. was registered.

The TAURON Polska Energia S.A. Capital Group has also invested in joint ventures – Elektrociepłownia Stalowa Wola S.A. and Elektrownia Blachownia sp. z o.o. under organisation, which are accounted for by equity method in the consolidated financial statements.

### 1.3. Structure of the Capital Group

The chart below presents all the companies whose results are consolidated within TAURON Capital Group, as of 30 September 2012.



**Comments:**

- Companies with direct share of TAURON Polska Energia S.A.
- Companies with indirect share of TAURON Polska Energia S.A.

**Comments:**

**Direct share of TAURON Polska Energia S.A. in the share capital/ votes at General Meeting (WZ)/ Meeting of the Shareholders (ZW).**

**Indirect share of TAURON Polska Energia S.A. in the share capital/ votes at General Meeting (WZ)/ Meeting of the Shareholders (ZW).**

<sup>1</sup> On 1 October 2012, pursuant to art. 492 § 1 item 1 of the Code of Commercial Companies, the merger of the company TAURON Dystrybucja S.A. (the acquiring company) with the company TAURON Dystrybucja GZE S.A. (the acquired company) was registered.

<sup>2</sup> On 1 October 2012, pursuant to art. 492 § 1 item 1 of the Code of Commercial Companies, the merger of the company TAURON Ekoenergia sp. z o.o. (the acquiring company) with the company TAURON Ekoenergia GZE sp. z o.o. (the acquired company) was registered.

<sup>3</sup> TAURON Polska Energia S.A. utilises shares owned by TAURON Wytwarzanie S.A., constituting 100% of shares in the issued capital of Kopalnia Wapienia "Czatkowice" sp. z o.o., accounting for 100% of votes at the Meeting of Shareholders.

<sup>4</sup> TAURON Polska Energia S.A. utilises shares owned by TAURON Wytwarzanie S.A., constituting 52.48% of shares in the issued capital of PKW S.A., accounting for 68.01% of votes at the General Meeting.

In the third quarter of 2012 the following significant changes in the structure of TAURON Group subsidiaries took place:

1. Purchase of TAURON Ciepło S.A. shares from the State Treasury.

On 24 August 2012 TAURON Polska Energia S.A. purchased 50,803,138 registered ordinary shares of C series of the company TAURON Ciepło S.A. from the State Treasury. As a result of this transaction, the direct share of TAURON Polska Energia S.A. in TAURON Ciepło S.A. capital increased from 88.21% to 88,27%.

2. Establishment of the company Elektrownia Blachownia Nowa sp. z o.o.

On 5 September 2012 the subsidiary of TAURON Polska Energia S.A. – TAURON Wytwarzanie S.A. and KGHM Polska Miedź S.A. established the special purpose vehicle under the name Elektrownia Blachownia Nowa sp. z o.o., with its seat in Kędzierzyn Koźle. The Company was established to provide for comprehensive execution of an investment which will include preparatory works, construction and operation of a gas and steam unit at capacity of approximately 850 MW<sub>e</sub> on the premises of TAURON Wytwarzanie – Elektrownia Blachownia Branch. Each of the Shareholders took over 50% shares in the Company share capital.

After 30 September 2012, the following significant changes in the structure of TAURON Group subsidiaries took place:

1. Merger of companies in the Distribution Area.

On 1 October 2012 the merger of companies TAURON Ekoenergia sp. z o.o. (the acquiring company) with TAURON Ekoenergia GZE sp. z o.o. (the acquired company) was registered.

2. Merger of companies in the Area of Renewable Energy Sources.

On 1 October 2012 the merger of companies TAURON Dystrybucja S.A. (the acquiring company) with TAURON Dystrybucja GZE S.A. (the acquired company) was registered.

The merger of distribution companies and companies of the renewable energy sources area is compliant with the strategy of TAURON Group which assumes simplifying the Group structure, among others, through merging companies involved in the same type of operations, within the value chain covering the following Business Areas: Mining, Generation, Renewable Energy Sources, Distribution, Sales, Customer Service, Heat.

## 1.4. Effects of changes in the structure of the Company and the Capital Group

### **Merger of TAURON Polska Energia S.A. with the subsidiary - Górnośląski Zakład Elektroenergetyczny S.A.**

On 12 June 2012 the District Court Katowice-Wschód in Katowice, 8th Commercial Department of the National Court Register entered the merger of TAURON Polska Energia S.A. with Górnośląski Zakład Elektroenergetyczny S.A. in the register of entrepreneurs of the National Court Register. The merger was carried out in accordance with article 492 § 1 item 1 of the Code of Commercial Companies, i.e. through transfer of all assets of Górnośląski Zakład Elektroenergetyczny S.A. as the acquired company to TAURON Polska Energia S.A. - the acquiring company. The objective of the merger is to streamline the organizational structure of TAURON Capital Group, in accordance with the assumptions of the "Corporate Strategy for TAURON Polska Energia Group for 2011-2015, with estimates up to the year 2020" which assumes consolidation of companies of TAURON Group. As a result of the process of redemption of Górnośląski Zakład Elektroenergetyczny S.A. shares, as of 16 April 2012, TAURON Polska Energia S.A. held 100% shares in the issued capital of Górnośląski Zakład Elektroenergetyczny S.A.

Due to the merger, the Company took over shares and stocks in companies previously held by Górnośląski Zakład Elektroenergetyczny S.A.:

- TAURON Dystrybucja GZE S.A.,
- TAURON Serwis GZE sp. z o.o.,
- TAURON Sprzedaż GZE sp. z o.o.,
- TAURON Ekoenergia GZE sp. z o.o.,
- TAURON Obsługa Klienta GZE sp. z o.o.,
- TAURON Wytwarzanie GZE sp. z o.o.

- Concorde Investissement S.A.

### **Merger of companies in the Heat Area**

On 30 April 2012, the merger of the following companies was registered in the register of entrepreneurs of the National Court Register: TAURON Ciepło S.A., Elektrociepłownia Tychy S.A., Elektrociepłownia EC Nowa sp. z o.o. and Energetyka Ciepła w Kamiennej Górze sp. z o.o. The merger was executed pursuant to art. 492 § 1 item 1 of the Code of Commercial Companies through takeover of the acquired companies by TAURON Ciepło S.A., i.e. by transfer of the total assets of the acquired companies to the acquiring company in exchange for shares which are issued by TAURON Ciepło S.A. to the shareholders of Elektrociepłownia Tychy S.A., the shareholders of Elektrociepłownia EC Nowa sp. z o.o. and the shareholders of Energetyka Ciepła w Kamiennej Górze sp. z o.o. The exchange ratio was established in such a way that:

- one share of Elektrociepłownia Tychy S.A. corresponds to 1,364 shares of TAURON Ciepło S.A.,
- one share of Elektrociepłownia EC Nowa sp. z o.o. corresponds to 60,170 shares of TAURON Ciepło S.A.,
- one share of Energetyka Ciepła w Kamiennej Górze sp. z o.o. corresponds to 88,837 shares of TAURON Ciepło S.A.

Accordingly, the share capital of TAURON Ciepło S.A. was increased from the amount PLN 444,664 thousand to PLN 865,937 thousand, i.e. by PLN 421,273 thousand.

Consequently, as of 30 September 2012, TAURON Polska Energia S.A. held only shares in the acquiring company - TAURON Ciepło S.A.

### **Merger of the company TAURON Ekoenergia sp. z o.o. with the company Lipniki sp. z o.o.**

On 1 June 2012, the merger of the following companies was registered in the register of entrepreneurs of the National Court Register: TAURON Ekoenergia sp. z o.o. and Lipniki sp. z o.o. The merger was carried out pursuant to article 492 § 1 item 1 of the Code of Commercial Companies, by takeover of the total assets of the acquired company - Lipniki sp. z o.o. by the acquiring company - TAURON Ekoenergia sp. z o.o. The merger was performed without increase of the share capital and without amendment to the company Articles of Association. The only shareholder of the acquired company was the acquiring company. Consequently, as of 30 September 2012, TAURON Polska Energia S.A. held only shares in the acquiring company - TAURON Ekoenergia sp. z o.o.

### **Purchase of TAURON Ciepło S.A. shares from the State Treasury**

On 24 August 2012 TAURON Polska Energia S.A. purchased 50,803,138 shares of its subsidiary, TAURON Ciepło S.A. from the State Treasury, constituting 0.06% of TAURON Ciepło S.A. share capital, for the amount of PLN 220 thousand.

In addition, after the balance sheet day, on 1 October 2012 the mergers of companies TAURON Dystrybucja S.A. (the acquiring company) with TAURON Dystrybucja GZE S.A. (the acquired company), and TAURON Ekoenergia GZE sp. z o.o. (the acquiring company) with TAURON Ekoenergia GZE sp. z o.o. (the acquired company), were registered. The mergers were carried out pursuant to art. 492 § 1 item 1 of the Code of Commercial Companies, i.e. through transfer of the total assets of the acquired company to the acquiring company.



## 2. Operations of TAURON Capital Group

### 2.1. Core Business Areas

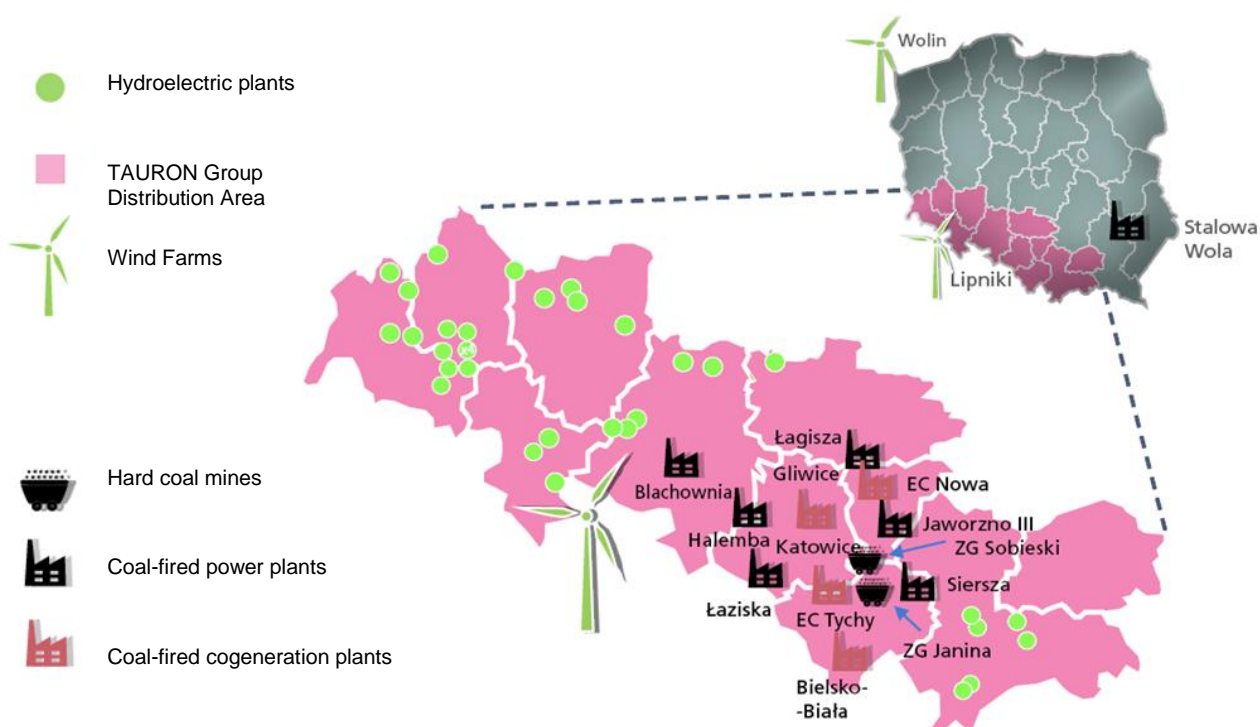
TAURON Capital Group is a vertically integrated energy utility enterprise holding the leading position in the scope of generation, distribution and sales of electric energy in Poland. It belongs to the largest distributors and suppliers of electric energy, both in Poland and in Central and Eastern Europe. TAURON Capital Group is also the second largest utility company in Poland in terms of installed power capacity and net electric energy production volume.

TAURON Group conducts its operations in the following Business Areas (Segments):

- Mining, comprising mainly mining, preparation and sales of hard coal in Poland, the activity which is provided by PKW.
- Generation, comprising generation of electric energy in conventional sources, including co-generation, as well as generation of electric power using biomass co-burning, and other thermally acquired energy. The main fuels used by Generation Business Area comprise hard coal, biomass and coke-oven gas. Within TAURON Group, TAURON Wytwarzanie operates in the Generation Segment.
- Renewables (RES), comprising generation of electric energy in renewable sources, excluding generating the electric energy using biomass co-burning which, due to specific nature of the generation process, is included in the Generation Business Area. Within TAURON Group, the following entities operate in the Renewables Segment: TAURON Ekoenergia, BELS INVESTMENT, MEGAWAT MARSZEWO and TAURON Ekoenergia GZE,
- Distribution, covering distribution of electric energy using distribution grids located in southern Poland, the activity which is provided by TAURON Dystrybucja, TAURON Dystrybucja GZE and TAURON Serwis GZE.
- Sales, comprising supply of electric energy to end-customers and wholesale trade of electric energy, as well as trade and management of CO<sub>2</sub> emission allowances and the proprietary rights arising from the certificates of origin. Within TAURON Group, the following entities operate in this Business Area: TAURON Polska Energia, TAURON Sprzedaż, TAURON Sprzedaż GZE and TAURON Czech Energy.
- Customer Service, covering mainly services provided to the internal client (companies of TAURON Capital Group), involving service related to the sales process and financial-accounting process of selected companies of the Group. Within this area, TAURON Obsługa Klienta oraz TAURON Obsługa Klienta GZE operate.
- Heat, covering generation, distribution and sales of heat and other utilities, within which TAURON Ciepło operates (following the merger with the companies: Elektrociepłownia Tychy, Elektrociepłownia EC Nowa and EC w Kamiennej Górze). Until the end of 2011, the companies Elektrociepłownia Tychy and Elektrociepłownia EC Nowa belonged to the Generation Segment, while operations of TAURON Ciepło, until the end of 2011, constituted a part of other Group activities,
- Other, comprising mainly activities in the area of extraction of stone, including limestone, for the needs of power engineering industry, metallurgy, construction and road building as well as production of sorbents for installations of flue gas desulphurization using the wet method and for the use in fluidized bed boilers (activity carried out by the company KW Czatkowice). The company dealing with trading of electric energy and derivative products (PE - PEPKH) is also assigned to this Business Area.

TAURON Capital Group conducts its operations and acquires its revenues mainly from sales and distribution of electric energy and heat, generation of electric energy and heat, as well as from sales of hard coal.

Figure. Location of key assets of TAURON Capital Group



During the three quarters of 2012 and in the 3rd quarter of 2012, TAURON Group reached the following key operating parameters:

Key operating parameters	unit	Quarter 1-3 2012	Quarter 1-3 2011	Dynamics Quarter 1-3 2012/ Quarter 1-3 2011	3rd quarter 2012	3rd quarter 2011	Dynamics Quarter 1-3 2012/ Quarter 1-3 2011
Commercial coal production	M Mg	<b>4.09</b>	3.78	108.2%	<b>1.52</b>	1.18	128.8%
Generation of electric energy (net production of the Group), including:	TWh	<b>14.09</b>	16.30	86.4%	<b>4.85</b>	5.09	95.3%
<i>Net production of Generation Area</i>	TWh	13.51	15.69	86.1%	4.73	4.88	96.9%
<i>Net production of RES Area</i>	TWh	0.36	0.32	112.5%	0.08	0.12	66.7%
<i>Net production of Heat Area</i>	TWh	0.22	0.29	75.9%	0.05	0.09	55.6%
Generation of electric energy from renewable sources of the Group, including:	TWh	<b>0.92</b>	0.77	119.5%	<b>0.28</b>	0.31	90.3%
<i>Biomass production of Generation Area</i>	TWh	0.55	0.45	122.2%	0.20	0.18	111.1%
<i>Production of hydro plants in RES Area</i>	TWh	0.28	0.32	87.5%	0.06	0.12	50.0%
<i>Production of wind farms in RES Area</i>	TWh	0.09	0.00	-	0.02	0.00	-
Heat generation by the Group, including:	PJ	<b>10.68</b>	10.39	102.8%	<b>0.95</b>	0.99	96.0%
<i>Heat production of Generation Area</i>	PJ	7.28	7.12	102.2%	0.62	0.72	86.1%
<i>Heat production of Heat Area</i>	PJ	3.40	3.28	103.7%	0.33	0.28	117.9%
Distribution of electric energy	TWh	<b>35.72</b>	28.53	125.2%	<b>11.54</b>	9.34	123.6%

Key operating parameters	unit	Quarter 1-3 2012	Quarter 1-3 2011	Dynamics Quarter 1-3 2012/ Quarter 1-3 2011	3rd quarter 2012	3rd quarter 2011	Dynamics Quarter 1-3 2012/ Quarter 1-3 2011
Retail sales of electric energy	TWh	33.14	26.65	124.3%	10.61	8.28	128.1%
Number of clients - Distribution	thous.	5,294	4,137	128.0%	5,294	4,137	128.0%

## 2.2. Significant achievements and failures of TAURON Capital Group in the period covered by the report

### 2.2.1. Sales structure according to core business areas

The table below shows the volumes and structure of sales of TAURON Capital Group, divided into individual Core Business Areas (Segments) of operations for the period of Quarter 1 - 3 2012, compared to the period of Quarter 1 - 3 and for the 3rd quarter of 2012, compared to the 3rd quarter of 2011.

Specification	unit	Quarter 1-3 2012	Quarter 1-3 2011	Dynamics Quarter 1-3 2012/ Quarter 1-3 2011	3rd quarter 2012	3rd quarter 2011	Dynamics Quarter 1-3 2012/ Quarter 1-3 2011
Sales of coal by Mining Area	M Mg	3.96	3.77	105.0%	1.50	1.20	125.0%
Sales of electric energy and heat by Generation Area	TWh	15.16	18.09	83.8%	5.28	5.75	91.8%
	PJ	6.67	6.50	102.6%	0.55	0.64	85.9%
Sales of electric energy generated in hydroelectric power plants and wind farms by RES Area	TWh	0.36	0.32	112.5%	0.08	0.12	66.7%
Sales of electric energy distribution services by Distribution Area	TWh	35.72	28.53	125.2%	11.54	9.34	123.6%
Retail sales of electric energy and other products of the energy market by Sales Area	TWh	33.14	26.65	124.3%	10.61	8.28	128.1%
Sales of electric energy by Heat Area	TWh	0.22	0.29	75.9%	0.05	0.09	55.6%
	PJ	8.35	8.06	103.6%	0.50	0.53	94.3%

### Coal mining

The basic activity conducted by TAURON Capital Group within the Mining Business Area covers mining, preparation and sales of hard coal. Through PKW, the TAURON Capital Group directly owns and runs Zakład Górniczy Sobieski and Zakład Górniczy Janina.

During the three quarters of 2012 PKW produced the total of about 4.1 million tons of commercial coal (out of which it has sold almost 4 million tons), i.e. by ab. 8% more as compared to the corresponding period of 2011. The increased production results from undisturbed execution of the adopted mining plans, the quality of the coal extracted has also improved.

The volume of coal sales in the 3rd quarter of 2012 amounted to about 1.5 million tons, which makes an increase by about 25%, as compared to the corresponding period of 2011. The increased volume of sales results from higher production of commercial coal (over 1.5 million tons in the 3rd quarter of 2012, as compared to 1.2 million tons in the 3rd quarter of 2011), which was possible due to favourable geological and mining conditions, as well as due to the increased demand of the consumers, particularly for lump coal and medium coal assortments.

### **Generation of electric energy and heat from conventional sources**

The basic activity of the Generation Business Area within TAURON Capital Group comprises generation of electric energy and heat in 6 power plants and co-generation plants (Elektrownia Halemba has been withdrawn permanently and in 2 co-generation plants burning hard coal and using biomass co-burning). The total installed capacity of the generation units of the Generation Area at the end of September 2012 reached 5,159 MW of electric energy, which makes 13.7% of the national generation capacity and 2,444 MW of heat.

During the three quarters of 2012, the Generation Area produced about 13.5 TWh of net electric energy (including over 0.55 TWh from biomass co-burning), i.e. by about 14% less than in relation to the corresponding period of 2011 when production of net electric energy reached 15.7 TWh (including 0.45 TWh from biomass co-burning).

In the third quarter of 2012, the Generation Area produced about 4.7 TWh of net electric energy (including about 0.20 TWh from biomass), which makes about 3% less than in the corresponding period of 2011 when the production of net electric energy reached almost 4.9 TWh (including 0.18 TWh from biomass).

The lower production of net electric energy results from current availability of the blocks as well as from market conditions (generation costs covering the purchase of CO<sub>2</sub> emission allowances, in relation to prices of electric energy). The lower production volume was also affected by commissioning of the new unit of Elektrownia Bełchatów, consequently, by the increased sales of electric energy generated from lignite, as well as in wind farms and other renewable sources (excluding hydroelectric power plants) and by high level reduction of electricity production from coal-fired units, performed by PSE-Operator S.A.. Sales of electric energy from own production at a lower level allowed for optimum allocation of production among individual generation units, which was reflected in more favourable level of the achieved unit variable costs of electric energy generation. Sales of electric energy from own production, including energy purchased for trading purposes in the period of the three quarters of 2012 reached about 15.2 TWh, which means the decrease by ab. 16%, in relation to the corresponding period of 2011.

Sales of heat by the the Generation Area in the period of the three quarters of 2012 reached about 6.7 PJ, (under production at the level of ab. 7.3 PJ) and, in relation to sales in the corresponding period of 2011, amounting to ab. 6.5 PJ, it was higher by about 3%, which is the consequence of different weather conditions occurring in the 1st quarter of 2012, increasing the heat demand (much colder and longer winter).

### **Generation of electric energy and heat from renewable sources**

The basic activity conducted by TAURON Capital Group in the RES Area comprises generation of electric energy from renewable sources in hydroelectric plants and wind farms as well as managing of TAURON Group Projects in the area of energy generation from renewable energy sources. In RES Area 35 hydroelectric plants of total installed capacity of 132.9 MW<sub>e</sub> operate as well as two wind farms of the total installed capacity of 60.75 MW<sub>e</sub>, which makes 3.5% of total installed capacity of TAURON Capital Group.

In the period of three quarters of 2012, the RES Area generated and sold above 0.36 TWh of electric energy, in relation to 0.32 TWh in the corresponding period of the last year, which means the increase of production by ab. 12.5% in relation to the level reached in the previous year.

In the 3rd quarter of 2012, the RES Area generated and sold 0.08 TWh of electric energy, as compared to 0.12 TWh in the corresponding period of the previous year, which means the decrease of production by over 33% as compared to the level reached in the 3rd quarter of 2011 (production of hydroelectric plants was lower by almost 50%).

Higher production and sales of electric energy during the three quarters of was possible mainly due to Lipniki and Wolin wind farms acquired in 2011. The unfavourable hydro-meteorological conditions in the 3rd quarter of 2012, demonstrated by the low level of inflows to water reservoirs, influenced the lower production of electric energy in hydroelectric plants, as compared to the corresponding period of last year.

### **Distribution of electric energy**

TAURON Capital Group is the largest electricity distributor in Poland, both in terms of volume of the electric energy supplied and revenue gained from distribution activity. The Distribution Area exploits distribution grids of significant range, located in southern Poland.

In the three quarters of 2012, the Distribution Area supplied 35.7 TWh of electric energy in total, including almost 34 TWh of electricity supplied to end consumers. During this period, the Distribution Area provided distribution services in favour of almost 5.3 million consumers. In the corresponding period of the previous year, the Distribution Area supplied 28.5 TWh of electric energy in total, to about 4.1 million consumers, including 25 TWh of electricity supplied to end consumers. The increased volume of supplies results mainly from the takeover of GZE distribution area. Bringing the results to comparability, without considering the volume of the company TAURON Dystrybucja GZE, the electric energy supply in the three quarters of the current year, as compared to the corresponding period of last year, has shown slight upward tendency in each tariff group, except group A (the most significant increase occurred in group B).

In the 3rd quarter of 2012, the Distribution Area sold approximately 11.5 TWh of electric energy, in relation to 9.3 TWh in the corresponding period of the last year, which means the increase by almost 24%, in relation to the level reached in the 3rd quarter of 2011.

### **Sales of energy and other products of the energy market**

Sales Area comprises activities in the scope of electric energy sales and wholesale trading of electric energy and other products of the energy market. Operations in the area of sales cover sales of electric energy to end customers, including key accounts. On the other hand, operations within wholesale trading cover mainly wholesale trade of electric energy, trade and management of CO<sub>2</sub> emission allowances and the proprietary rights arising from the certificates of origin.

In the three quarters of 2012, the companies of the Sales Area sold the total of almost 33.1 TWh of electric energy to about 5.3 million end consumers, both households and enterprises, which makes the growth by 24.3% as compared to the corresponding period of 2011 when sales reached about 26.7 TWh. The increased volume of sales is mainly the result of takeover of GZE sales company. Bringing the results to comparability, the upward tendency of energy sales has been maintained. The increased volume of sales was caused by acquisition of business clients for the year 2012 as well as higher energy consumption by industrial clients in this period, in relation to the corresponding period of 2011.

Similarly, in the 3rd quarter of 2012 itself, sales of electric energy increased by ab. 28% (from ab. 8.3 TWh of electric energy in the 3rd quarter of 2011 to over 10.6 TWh in the 3rd quarter of 2012).

### **Heat**

Heat Area covers operations involving generation, distribution and sales of heat and other utilities. During the period of three quarters of 2012 sales of heat generated and purchased by TAURON Ciepło amounted to 8.4 PJ in relation to 8.1 PJ in the corresponding period of 2011. The growth in the volume of sales occurred due to acquisition of new customers as well as the increased demand for heat due to weather conditions which occurred in the 1st quarter of 2012 (lower ambient temperature than in the 1st quarter of 2011). In the 3rd quarter of 2012 sales of heat reached 0.5 PJ (decrease by about 6% in relation to the corresponding period of last year).

Sales of electric energy from own production during the three quarters of 2012 reached approximately 0.22 TWh, i.e. about 24% less than in the corresponding period of last year, which results from reconstruction of the BC-35 boiler in Tychy.

## **2.2.2. Implementation of investment programme**

After the three quarters of 2012, the investment expenditures of TAURON Capital Group amounted increasingly to about PLN 2.0 billion and they were higher by almost 43% as compared to expenditures incurred in the corresponding period of the previous year (after three quarters of 2011 the expenditures amounted to PLN 1.4 billion). This results mainly from significant increase of investment in the Business Areas of Generation, Distribution and Heat.

The main investment projects in the three quarters of 2012 include: construction of new generating capacity (capital expenditures: PLN 333 million) as well as construction of installation for reduction of NO<sub>x</sub> emission (capital expenditures: PLN 143 million) in the Generation Business Area, reconstruction of capacity in the Heat Business Area (capital expenditures: PLN 87 million), construction of Marszewo wind farm (capital

expenditures: PLN 64 million) in RES Area, construction of new interconnection capacity (capital expenditures: PLN 340 million) as well as modernisation and replacement of grid assets (capital expenditures: PLN 591 million) in the Distribution Business Area.

In the 3rd quarter of 2012, the following strategic investment projects were continued in TAURON Capital Group:

- 1) construction of steam and gas fired unit (BGP), including the heat generation component in Stalowa Wola - the investment is implemented with participation of the strategic partner - PGNiG S.A. The project is aimed at construction and commissioning of the new steam and power unit at the capacity of approximately 450 MW<sub>e</sub> and 240 MW<sub>t</sub>. On 26 April 2012, the agreement with the General Contractor of the unit was signed - the company Abener Energia. In July 2012 the site was handed over to the contractor, the design works are in progress. Delivery of the project is scheduled in 2015;
- 2) the construction of a power unit at the capacity of 50 MW<sub>e</sub> and 182 MW<sub>t</sub>, adjusted to electric energy and heat generation on the premises of Zespół Elektrociepłowni Bielsko-Biała (ZEC in Bielsko-Biała) belonging to TAURON Wytwarzanie. The purpose of this investment is to replace the exploited and low-performing generation units by the unit of high performance, complying with all environmental protection requirements concerning emissions of NO<sub>x</sub>, SO<sub>2</sub> and particulate matter. The construction works coordinated by the General Contractor - Polimex Mostostal S.A. are in progress. Delivery of the investment project is scheduled in mid-2013;
- 3) construction of the wind farm of 40 MW capacity in the location of Wicko. As a result of the tender procedure concluded in June 2012, the consortium of companies Aldesa Nowa Energia sp. z o.o. from Kraków and Aldesa Construcciones S.A. from Madrid was selected as the general contractor of the wind farm. Engineering works in the scope of roads and assembly yards are in progress. Delivery of the investment is scheduled in 2013;
- 4) construction of the wind farm of 82 MW capacity in the location of Marszewo. On 19 January 2012 the agreement on construction of the wind farm of 82 MW capacity was signed with the General Contractor – the consortium of companies Iberdrola Engineering and Construction Poland, and Iberdrola Y Construcción. In April 2012 the construction site was handed over to the Contractor. The construction works are in progress. Commissioning is planned in 2014;
- 5) the construction of the steam and gas fired unit (BGP) in Elektrociepłownia Katowice, including the heat generation component at power capacity of 135 MW<sub>e</sub> and heating capacity of 90 MW<sub>t</sub>. In January 2012, the utilities contract concerning implementation of the above mentioned investment was published. The process of selection of the General Contractor is underway. Delivery of the project is scheduled in 2016;
- 6) construction of the co-generating biomass-fuelled unit of the capacity of 50 MW<sub>e</sub> and 45 MW<sub>t</sub> at the area of Elektrownia Jaworzno III belonging to TAURON Wytwarzanie. Works connected with commissioning of the unit are in progress. Completion of the works is scheduled at the end of 2012;
- 7) modernisation of one of the boilers of 20 MW<sub>e</sub> capacity in Elektrownia Stalowa Wola belonging to TAURON Wytwarzanie, in order to adjust it to biomass burning. This investment project is under implementation and completion of construction works is scheduled in the 4th quarter of 2012;
- 8) construction of new generation capacity in co-generation at the level of 50 MW<sub>e</sub> and 86 MW<sub>t</sub> in TAURON Ciepło (formerly EC Tychy). Currently, the selection process of contractor of the new unit is in progress. Delivery of the investment is scheduled at the end of 2015;
- 9) modernisation of the existing unit in TAURON Ciepło (formerly EC Tychy) in order to adjust it to biomass burning (40 MW<sub>e</sub>). The construction and assembly works are on-going. The commissioning is scheduled in 2012.

10) the construction of the new power unit at the capacity of 910 MW for supercritical parameters on the premises of Elektrownia Jaworzno III belonging to TAURON Wytwarzanie. The tender for construction of the unit in Jaworzno was announced in May 2010. On 19 October 2012 final bids were submitted for construction of the power unit.

The offers were submitted by the following entities:

- Alstom Power sp. z o.o. (Leader of the Consortium), Alstom Power Systems – gross value PLN 5,965,500,000, unit rated power of 840 MW, net efficiency of the unit - 45.42%,
- Rafako S.A. (Leader of the Consortium), Mostostal Warszawa S.A. – gross value PLN 5,410,817,355, unit rated power of 843.53 MW, net efficiency of the unit - 45.91%,
- SNC-Lavalin Polska sp. z o.o. (Leader of the Consortium), SNC-Lavalin Inc., Hitachi Power Europe GmbH – gross value PLN 5,906,332,940, unit rated power of 833.91 MW, net efficiency of the unit - 45.17%,
- China Overseas Engineering Group Co. Ltd. (Leader of the Consortium), China National Electric Engineering Group Co. Ltd. – gross value PLN 4,902,669,300, unit rated power of 840 MW, net efficiency of the unit - 46.07%.

The Contractor will have 59 months following granting of the contract, for implementation of the investment project. Currently, the analysis of the offers submitted is carried out from the point of view of their validity, including the assessment of criteria, among which the price is the most essential factor (weight: 74%). The prices of the offers submitted exceed the amount planned by the Employer for financing of the task, i.e. the amount of PLN 4.3 billion. Delivery of this investment project is planned in 2018;

11) the construction of the installation for flue gas de-nitrification in 6 blocks of Elektrownia Jaworzno III and 4 blocks of Elektrownia Łaziska belonging to TAURON Wytwarzanie. This investment will enable to reduce the NO<sub>x</sub> emission in these units to the levels which will be binding in Poland starting from 2018. Modernisation of blocks no. 2 and 4 in Jaworzno was completed. Construction of flue gas de-nitrification at block no.12 in Łaziska was completed, including the common part for all the blocks. Works in the scope of modernisation of block no. 11 have been commenced. The construction works are to be conducted until 2016;

12) the construction of the new steam and gas - fired unit of 850 MW capacity, natural gas-fired, on the premises of Elektrownia Blachownia - within the actions undertaken by the Company and TAURON Wytwarzanie in the scope of the project on recovery of generation capacity in Elektrownia Blachownia, with participation of the strategic partner - KGHM. On 14 June 2012 all the required documents were sent to the European Commission, thus completing the pre-notification procedure concerning the approval of capital concentration and establishment of the special purpose vehicle (SPV). On 23 July 2012, the approval of the European Commission for capital concentration was obtained, whereas on 5 September, TAURON Wytwarzanie S.A. and KGHM Polska Miedź S.A. established the special purpose vehicle under the name Elektrownia Blachownia Nowa sp. z o.o., with its seat in Kędzierzyn Koźle. The SPV was established for comprehensive implementation of the investment which will cover preparation, construction and operation of the unit. Commissioning of the project is planned in 2017.

Strategic investment as well as their financing within TAURON Group are managed centrally at the level of the parent company, i.e. TAURON Polska Energia S.A. The Capital Group will finance the current and future investment projects from funds generated from operating activity and by acquisition of debt financing.

### 3 ANALYSIS OF ASSETS AND FINANCIAL SITUATION OF TAURON CAPITAL GROUP

#### 3.1 Financial situation of TAURON Group following the third quarter of 2012.

##### 3.1.1 Consolidated statement of comprehensive income

The table below presents the selected items of the consolidated statement on comprehensive income of TAURON Capital Group for the period of 9 and 3 months, ended on 30 September 2012, as well as comparable data for the period of 9 and 3 months, ended on 30 September 2011. These items are referred to in accordance with the interim condensed consolidated financial report compliant with the IFRS (International Financial Reporting Standards) for the period of 9 and 3 months of 2012, ended on 30 September 2012, compared to the corresponding periods ended on 30 September 2011.

Specification	Quarter 1-3, 2012		Quarter 1-3, 2011		Quarter 1-3, 2012		Quarter 1-3, 2011	
	in thousand PLN	% of total revenue on sales	in thousand PLN	% of total revenue on sales	in thousand PLN	% of total revenue on sales	in thousand PLN	% of total revenue on sales
Continued operations								
Revenue on sales of goods, finished goods and materials without excluding the excise tax	14,009,766	76.9%	11,925,866	78.6%	4,554,901	77.2%	3,806,417	78.7%
Excise tax	-405,030	2.2%	-312,140	2.1%	-132,176	2.2%	-86,613	1.8%
Revenue on sales of goods, products and materials	13,604,736	74.7%	11,613,726	76.6%	4,422,725	75.0%	3,719,804	76.9%
Revenue on sales of services	4,577,272	25.1%	3,522,199	23.2%	1,467,224	24.9%	1,105,234	22.9%
Other revenue	32,235	0.2%	30,916	0.2%	10,308	0.2%	10,659	0.2%
<b>Revenue on sales</b>	<b>18,214,243</b>	<b>100.0%</b>	<b>15,166,841</b>	<b>100.0%</b>	<b>5,900,257</b>	<b>100.0%</b>	<b>4,835,697</b>	<b>100.0%</b>
Own cost of sales	-15,512,361	85.2%	-13,158,389	86.8%	-5,027,420	85.2%	-4,229,239	89.0%
<b>Gross profit (loss) on sales</b>	<b>2,701,882</b>	<b>14.8%</b>	<b>2,008,452</b>	<b>13.2%</b>	<b>872,837</b>	<b>14.8%</b>	<b>606,458</b>	<b>11.0%</b>
Other operating revenue	77,160	0.4%	65,911	0.4%	28,360	0.5%	21,453	0.4%
Costs of sales	-341,831	1.9%	-202,965	1.3%	-110,857	1.9%	-52,175	0.5%
Overheads	-505,052	2.8%	-483,462	3.2%	-169,885	2.9%	-174,890	3.6%
Other Operating Expenses	-86,538	0.5%	-66,996	0.4%	-30,951	0.5%	-17,984	0.4%
<b>Operating profit (loss)</b>	<b>1,845,621</b>	<b>10.1%</b>	<b>1,320,940</b>	<b>8.7%</b>	<b>589,504</b>	<b>10.0%</b>	<b>382,862</b>	<b>7.9%</b>
<i>Operating profit margin (%)</i>	<i>10.1%</i>		<i>8.7%</i>		<i>10.0%</i>		<i>7.9%</i>	
Financial revenue	96,880	0.5%	83,262	0.5%	43,543	0.7%	28,441	0.6%
Financial expenses	-253,644	1.4%	-122,003	0.8%	-85,526	1.4%	-44,508	0.9%
Share in profit of the affiliate	-973	0.0%	-727	0.0%	-302	0.0%	-188	0.0%
<b>Gross profit/(loss)</b>	<b>1,687,884</b>	<b>9.3%</b>	<b>1,281,472</b>	<b>8.4%</b>	<b>547,219</b>	<b>9.3%</b>	<b>366,607</b>	<b>7.6%</b>
<i>Gross profit margin (%)</i>	<i>9.3%</i>		<i>8.4%</i>		<i>9.3%</i>		<i>7.6%</i>	
Income Tax	-348,652	1.9%	-261,116	1.7%	-96,002	1.6%	-74,198	1.5%
<b>Net profit (loss) on continuing operations</b>	<b>1,339,232</b>	<b>7.4%</b>	<b>1,020,356</b>	<b>6.7%</b>	<b>451,217</b>	<b>7.6%</b>	<b>292,409</b>	<b>6.0%</b>
<i>Net profit margin (%)</i>	<i>7.4%</i>		<i>6.7%</i>		<i>7.6%</i>		<i>6.0%</i>	
Net profit (loss) on discontinued operations	0		0		0		0	
<b>Net profit (loss) for the financial year</b>	<b>1,339,232</b>	<b>7.4%</b>	<b>1,020,356</b>	<b>6.7%</b>	<b>451,217</b>	<b>7.6%</b>	<b>292,409</b>	<b>6.0%</b>
Other comprehensive income for the financial year including tax	-72,821	0.4%	769	0.0%	-49,284	0.8%	618	0.0%
<b>Total income for the financial year</b>	<b>1,266,411</b>	<b>7.0%</b>	<b>1,021,125</b>	<b>7.0%</b>	<b>401,933</b>	<b>6.8%</b>	<b>293,027</b>	<b>6.1%</b>
Profit attributable to:								



**TAURON Polska Energia S.A.**

*Additional information to the extended consolidated report for the 3rd quarter of 2012*

Specification	Quarter 1-3, 2012		Quarter 1-3, 2011		Quarter 1-3, 2012		Quarter 1-3, 2011	
	in thousand PLN	% of total revenue on sales	in thousand PLN	% of total revenue on sales	in thousand PLN	% of total revenue on sales	in thousand PLN	% of total revenue on sales
Shareholders of the parent company	1,274,904	7.0%	994,504	6.6%	420,057	7.1%	290,471	6.0%
Non-controlling interests	64,328	0.4%	25,852	0.2%	31,160	0.5%	1,938	0.0%
<b>Total income attributable to:</b>								
Shareholders of the parent company	1,202,083	6.6%	995,273	6.6%	370,775	6.3%	291,089	6.0%
Non-controlling interests	64,328	0.4%	25,852	0.2%	31,158	0.5%	1,938	0.0%
<b>EBIT and EBITDA</b>								
EBIT	1,845,621		1,320,940		589,504		382,862	
EBITDA	3,074,996		2,370,756		1,004,966		734,631	

In the period of three quarters of 2012, TAURON Group recognised revenue on sales at the level of about PLN 18,214 million, as compared to about PLN 15,167 million reached during three corresponding quarters of 2011, which means the increase by about 20.1% . As compared to the corresponding period of 2011, TAURON Group reached higher revenue on sales in all operating segments, excluding the Generation Segment (mainly due to the lower level of electric energy production). The highest dynamics of the growth of revenues has been recorded in the Business Areas of Sales, Distribution and Customer Service, due to higher volumes of sales and distribution of electric energy and higher prices YoY.

The revenues on sales also cover the revenues due to compensation arising from terminated LTC, which amounted to PLN 431.3 million in the period of three quarters of 2012, reaching the level higher by almost 56% than the level reached in the corresponding period of 2011 (PLN 276.5 million).

The increased operating expenses, in relation to the corresponding period of the previous year (excluding the Generation Segment), are associated mainly with the higher volume of sales, mainly sales of electric energy. In TAURON Capital Group companies, activities in the area of optimisation of fixed costs are carried out. The lower dynamics of cost growth was reflected by improvement of EBIT and EBITDA ratios as well as gross and net profit.

### 3.1.2 Financial results according to core business areas

The table below shows the results of TAURON Capital Group, divided into individual Business Areas (Segments) for the period of the three quarters of 2012 and three quarters of 2011 as well as for the third quarter of 2012 and 2011.

Data for individual Business Areas do not cover consolidation exclusions.

Specification (thousand PLN)	Quarter 1-3 2012	Quarter 1-3 2011	Dynamics	3rd quarter 2012	3rd quarter 2011	Dynamics
<b>Coal mining</b>						
Revenue on sales	1,092,086	961,184	113.6%	427,890	308,808	138.6%
Operating profit	165,948	48,316	343.5%	87,740	3,549	2472.2%
Amortisation	85,474	76,436	111.8%	33,870	23,696	142.9%
<b>EBITDA</b>	<b>251,422</b>	<b>124,752</b>	<b>201.5%</b>	<b>121,610</b>	<b>27,245</b>	<b>446.4%</b>
<b>Generation of electric energy and heat from conventional sources</b>						
Revenue on sales	4,057,485	4,312,268	94.1%	1,347,937	1,373,479	98.1%
Operating profit	325,931	428,577	76.0%	100,190	101,438	98.8%
Amortisation	390,143	399,487	97.7%	130,128	137,495	94.6%
<b>EBITDA</b>	<b>716,074</b>	<b>828,064</b>	<b>86.5%</b>	<b>230,318</b>	<b>238,933</b>	<b>96.4%</b>

TAURON Polska Energia S.A.

Additional information to the extended consolidated report for the 3rd quarter of 2012

Specification (thousand PLN)	Quarter 1-3 2012	Quarter 1-3 2011	Dynamics	3rd quarter 2012	3rd quarter 2011	Dynamics
<b>Generation of electric energy and heat from renewable sources</b>						
Revenue on sales	167,705	151,075	111.0%	37,376	57,943	64.5%
Operating profit	94,503	93,404	101.2%	12,277	37,493	32.7%
Amortisation	31,040	18,203	170.5%	10,260	6,167	166.4%
<b>EBITDA</b>	<b>125,543</b>	<b>111,607</b>	<b>112.5%</b>	<b>22,537</b>	<b>43,660</b>	<b>51.6%</b>
<b>Distribution of electric energy</b>						
Revenue on sales	4,510,996	3,412,343	132.2%	1,463,459	1,102,067	132.8%
Operating profit	898,808	521,440	172.4%	321,942	183,883	175.1%
Amortisation	643,007	490,692	131.0%	214,767	163,326	131.5%
<b>EBITDA</b>	<b>1,541,815</b>	<b>1,012,132</b>	<b>152.3%</b>	<b>536,709</b>	<b>347,209</b>	<b>154.6%</b>
<b>Sales of energy and other products of the energy market</b>						
Revenue on sales	13,244,536	9,785,458	135.3%	4,524,824	3,131,833	144.5%
Operating profit	336,701	191,255	176.0%	92,230	60,967	151.3%
Amortisation	11,742	5,389	217.9%	3,887	1,748	222.4%
<b>EBITDA</b>	<b>348,443</b>	<b>196,644</b>	<b>177.2%</b>	<b>96,117</b>	<b>62,715</b>	<b>153.3%</b>
<b>Customer Service</b>						
Revenue on sales	252,249	173,419	145.5%	83,930	47,278	177.5%
Operating profit	27,860	11,865	234.8%	8,309	4,948	167.9%
Amortisation	10,132	1,672	606.0%	3,094	587	527.1%
<b>EBITDA</b>	<b>37,992</b>	<b>13,537</b>	<b>280.7%</b>	<b>11,403</b>	<b>5,535</b>	<b>206.0%</b>
<b>Heat</b>						
Revenue on sales	678,229	651,036	104.2%	154,267	155,322	99.3%
Operating profit	59,127	58,026	101.9%	-7,438	-2,226	334.1%
Amortisation	51,582	51,957	99.3%	17,367	16,738	103.8%
<b>EBITDA</b>	<b>110,709</b>	<b>109,983</b>	<b>100.7%</b>	<b>9,929</b>	<b>14,512</b>	<b>68.4%</b>
<b>Other</b>						
Revenue on sales	371,170	346,815	107.0%	115,767	127,379	90.9%
Operating profit	30,687	25,091	122.3%	10,071	9,830	102.5%
Amortisation	6,255	5,980	104.6%	2,089	2,012	103.8%
<b>EBITDA</b>	<b>36,942</b>	<b>31,071</b>	<b>118.9%</b>	<b>12,160</b>	<b>11,842</b>	<b>102.7%</b>
<b>Non-attributable items and exemptions</b>						
Revenue on sales	-6,160,213	-4,626,757	133.1%	-2,255,193	-1,468,412	153.6%
Operating profit	-93,944	-57,034	164.7%	-35,817	-17,020	210.4%
Amortisation	0	0	-	0	0	-
<b>EBITDA</b>	<b>-93,944</b>	<b>-57,034</b>	<b>164.7%</b>	<b>-35,817</b>	<b>-17,020</b>	<b>210.4%</b>
<b>Total EBITDA</b>	<b>3,074,996</b>	<b>2,370,756</b>	<b>129.7%</b>	<b>1,004,966</b>	<b>734,631</b>	<b>136.8%</b>

### Coal mining

During the three quarters of 2012, as compared to results in the corresponding period of 2011 revenue from sales of coal increased by about 13.6%, which results mainly from the higher volume of sales of commercial coal (increase by ab. 5.0%), as well as from the higher average price of a ton of coal sold (increase by ab. 8%)(rise in market prices and improvement of qualitative parameters). In the analysed period of this year, favourable geological and mining conditions were maintained. In the 3rd quarter of 2012, the revenue on sales reached the level higher by 38.6%, as compared to the 3rd quarter of 2011, when transitional unfavourable mining and geological conditions occurred (increased inflow of groundwater, difficulties in maintaining the ceiling at one of the mine walls), which influenced the decreased pace of reaching the full production capacity.

EBIT of the Segment in the period of three quarters of 2012 reached approximately PLN 166 million (PLN 48.3 million in the corresponding period of the previous year), and EBITDA reached about PLN 251.4 million (about PLN 124.8 million after three quarters of 2011). It was possible to achieve such a significant increase due to the aforementioned factors as well as due to the cost discipline applied - at over 8% increase of commercial coal production costs of coal manufacturing increased by only 1.5%.

In the 3rd quarter of 2012 itself, EBIT of the segment was almost 25 times higher than a year ago, and EBITDA was by about 4.5 times higher, mainly due to the increased volume of sales of commercial coal, higher by almost 25% QoQ and the higher average sales price of coal (by ab. 10%), under the increase of costs reaching only 11%. It should be noted that the growth in prices is also associated with the improved qualitative parameters of coal.

### **Generation of electric energy and heat from conventional sources**

During the period of three quarters of 2012 the revenue on sales in the Generation Segment decreased as compared to the corresponding period of 2011, which mainly results from the lower volume of electric energy sales (the reasons are described in item 2.2.1 hereof). The decreased revenue, related to the lower sales volume, is partly compensated by the higher sales price of electric energy.

Higher revenue on heat sales achieved during the three quarters of 2012 results from the increased volume of heat sales due to lower ambient temperatures, and the increase in heat prices arising from the new tariff for heat introduced at the end of 2011.

In the period of 2012 analysed, the increase of unit variable costs was noted, as compared to the corresponding period of last year, mainly due to the rise in prices of coal and heating oil. Moreover, rise in unit costs of biofuel was noted, as a result of the increased prices of individual types of biofuel as well as the growth of the mandatory share of the more expensive agro biomass.

The results achieved in the period of the three quarters of 2012 were negatively affected by the lower sales volume of electric energy from own production, higher unit generation costs, mainly due to the increased fuel costs, and increased fixed costs (the growth mainly arises from the costs of severance payment for employees leaving the company due to the on-going restructuring).

The factors which have positively influenced the results reached include higher electric energy sales price, higher margin on electric energy trading, higher result on transactions involving the replacement of CO<sub>2</sub> emission allowances - EUA (European Union Allowances) by the CER (Certified Emission Reduction) and the higher revenue on compensations to cover stranded costs due to termination of LTC (increase by PLN 154.7 million).

The increase in the aforementioned revenue mainly attributable to the change of result set in accordance with the provisions of the Act of 29 June 2007 on principles of covering the costs incurred by producers due to the premature termination of long-term contracts for sales of power and electric energy, i.e. excluding of revenue-cost streamline related to activities other than production and sales of electric energy and the Regulatory System Services (RUS). The mechanism for calculating the disbursement of funds to cover the stranded costs occurring in connection with termination of LTC assumes that in case of deterioration of market results, the amount of compensation will grow (with the limitation of the maximum ceiling), and in case the result is better than forecasted, the level of compensation will decrease. Therefore, this mechanism has a certain neutralising impact on potential negative market events. Year 2012 is the last year of participation of the company TAURON Wytwarzanie in the programme of compensation of stranded costs.

Within the transactions involving replacement of CO<sub>2</sub> emission allowances, the company of the Generation Segment sold the EUA, granted within KPRUII (National Plan of Allowances Distribution), to the Company, simultaneously repurchasing the units of certified emission CER/ERU (Emission Reduction Unit) from the Company. In the second settlement period (2008-2012), the Polish legislation permits individual installations included in the Community system of CO<sub>2</sub> emission allowances trading to cover 10% of the emission by the CER units. The value of these units at the European markets is lower than the value of EUA, and the difference in price enables the companies participating in the emission trading system to gain profit.

The EBIT and EBITDA results obtained in the 3rd quarter of 2012 did not deviate significantly from those reached in the corresponding period of last year

**Generation of electric energy and heat from renewable sources**

During the three quarters of 2012, the revenue on sales in the RES Segment increased as compared to the corresponding period of 2011, which was mainly affected by the increased sales of electric energy and the proprietary rights as well as by the higher sales price of electric energy. On the other hand, in the 3rd quarter of 2012, the revenue on sales from the Segment was significantly lower than in the corresponding period of 2011.

The EBIT operating result and EBITDA result of the RES Segment for the three quarters of 2012 reached slightly higher level than in 2011. On the other hand, the results for the 3rd quarter of 2012 were significantly lower than those achieved in the corresponding period of the last year.

Revenues and results of this Segment are significantly determined by the volume of electric energy production. The increased volume of production during the three quarters of 2012, against the comparable period of 2011, was mainly caused by production of energy in wind farms of companies TAURON Ekoenergia and TAURON Ekoenergia GZE, which compensated for the lower production of hydroelectric plants (effect of lack of rainfall and low level of waters in the 3rd quarter of 2012). The lower revenues and results in the 3rd quarter of 2012 are mainly the consequence of the lower volume of electric energy production in hydroelectric plants.

The higher sales price of electric energy and proprietary rights had positive impact on results of the RES Area, as compared to 2011, whereas higher fixed costs had negative effect on the results (the growth is mainly due to additional costs connected with operation and maintenance of wind farms).

**Distribution of electric energy**

Higher level of revenue and higher EBIT result in the three quarters of 2012, in relation to the comparable period of 2011, results mainly from the takeover of GZE distribution area. EBIT result for the three quarters of 2012 has also increased YoY against the result brought to comparability. The increase resulted from the following reasons of changes in the revenue and cost levels.

The revenues reached in the three quarters of 2012 are higher than the revenues of the corresponding period of 2011, brought to comparability, due to the increased value of sales of distribution services to the end consumers (mainly due to significant growth of the average unit fee for distribution services, but also the slight increase of sales volume) as well as higher export sales (significant growth of volume and price) and sales to other Distribution System Operators (slight increase of volume and price). Within other revenue associated with the distribution activities, the major increase was related to connecting fees, however, decrease in over-standard passive energy consumption was recorded. Sales to end consumers in the analysed period of 2012 increased in terms of value and quantity in relation to the year 2011 in each tariff group (in terms of value - mainly in group G, quantitatively - in group B).

In the three quarters of 2012, variable costs slightly increased in relation to the costs in the corresponding three quarters of 2011, brought to comparability. This increase was mainly caused by higher purchase cost of energy for the needs of balancing differences, due to higher prices of energy. The indicator of grid losses in the analysed period was slightly lower than the indicator achieved in the corresponding period of last year. At the same time, costs of purchase of transmission services decreased. The performance of the three quarters of 2012 also differs significantly from the performance of the corresponding three quarters of the previous year in terms of amortisation (effect of implementation of higher investment expenditure) as well as taxes and fees, mainly on network assets. Both amortisation costs as well as taxes and fees are transferred in the tariff as a whole. Costs of external services have also increased, including mainly the costs of customer service, while labour costs have decreased due to the implemented restructuring applying the Voluntary Resignation Programmes. The headcount decreased by 621 FTEs, as compared to the corresponding period of last year.

The level of EBIT was positively influenced by results on other statutory activity, not related to distribution activities, covering, among others, street lighting. This result has improved due to the lower costs of services provided.

The increase in the level of operating result in the 3rd quarter of 2012, as compared to the 3rd quarter of 2011, was mainly affected by application of higher tariff for end consumers, while the sole volume of supplies to those consumers stayed at comparable level.

**Sales of energy and other products of the energy market**

Revenues on sales and EBIT result of the Sales Segment in the three quarters of 2012 reached higher results in relation to the corresponding period of the year 2011. The favourable effect mainly resulted from the takeover of the company TAURON Sprzedaż GZE.

The revenue on retail sales of electric energy in the period of three quarters of 2012 was higher than in the corresponding period of 2011, both due to the increase in prices and the volume of supplies. The increase in sales was caused by acquisition of business clients for the year 2012 and higher consumption of energy by industrial clients in this period, in relation to the corresponding period of 2011. On the other hand, higher level of sales price of electric energy (by 3%) in the three quarters of 2012, compared on YoY basis, results mainly from introduction of the new tariff for individual clients and from the raise of prices for business clients (new contracts with consumers, both acquisitions and renewals, are concluded under higher sales prices than in 2011). The growth of sales prices is determined by higher costs of energy purchase.

The higher variable costs YoY are determined by the growing energy purchase price, by 2.6% on average. The level of variable costs was positively affected mainly by lower purchase costs of the co-called red certificates of origin whose market price slightly decreased in relation to the previous year – this effect is gradually levelled by relatively higher, as compared to 2011, cost of fulfilment of the obligation to redeem green, yellow and violet certificates of origin. The fixed costs in the three quarters of 2012 did not deviate from the level reached in the corresponding period of last year.

The increased level of the operating result in the 3rd quarter of 2012, as compared to the 3rd quarter of 2011, results mainly from the higher price of energy supplied to end consumers, particularly in group G.

**Customer Service**

The growth in revenue on sales and improvement of EBIT result in the period of the three quarters of 2012, in relation to the corresponding period of 2011, were mainly determined by acquisition of the company TAURON Obsługa Klienta GZE, which did not belong to TAURON Group in 2011. EBIT of the three quarters of 2012 has also increased YoY against the result brought to comparability. It may be attributed to the following reasons of changes in the revenue and cost levels.

Revenues on sales of services reached in the three quarters of 2012 are higher than the revenues of the corresponding period of 2011, brought to comparability, mainly due to higher charges arising from the SLAs (Service Level Agreement) for distribution companies as well as due to additional services provided to sales and distribution companies, partly levelled with lower fees due to SLAs with sales companies and lower revenues due to IT services, provided in 2011 to entities beyond TAURON Group).

Costs related to customer service maintain their correlation with the growing revenues, as the latter are determined based on calculation applying the method "cost +".

Results of the 3rd quarter of 2012 are higher than those reached in the 3rd quarter of 2011, mainly due to acquisition of the company TAURON Obsługa Klienta GZE.

**Heat**

In the period of the three quarters of 2012, the revenues on sales in the Heat Segment increased as compared to the corresponding period of 2011, which was mainly influenced by increased volume of sales and distribution of heat (resulting from the enhanced demand of consumers due to lower ambient temperature in the 1st quarter of 2012), increased sales volume of compressed air, and increase in prices of the utilities supplied – electric energy, heat, wind of blast furnace and compressed air as well as the growth of revenues on sales of the proprietary rights.

The EBIT and EBITDA results reached at the level comparable to the corresponding period of the previous year were affected by the aforementioned factors, as well as by the lower level of fixed costs, achieved, among others, due to the implemented improvement programmes of cost effectiveness, whereas the results were negatively affected by the increased unit manufacturing costs (mainly costs of fuel consumption) and the lower volume of electric energy sales due to reconstruction of the BC-35 boiler in Tychy).

**Other**

In the period of the three quarters of 2012, the revenues on sales in the Other Segment remained at the level higher by PLN 24.4 million, as compared to the corresponding period of 2011, within which almost PLN 19 million was attributable to the company PE-PKH (mainly due to the higher sales price and trade volume of proprietary rights coming from RES), and PLN 5.4 million refers to KW Czatkowice, which resulted in improvement of EBIT and EBITDA for both companies of the Business Area under the cost dynamics not exceeding the revenue dynamics.

In the 3rd quarter of 2012 itself, the decrease in revenues can be observed, as compared to the corresponding period of 2011, caused mainly by the decreased trade volume and price of electric energy. The comparable decrease of variable costs, in connection with improved results achieved by the company KW Czatkowice, made it possible to achieve EBIT and EBITDA results in the Other Segment at the level higher by, respectively, 2.5% and 2.7% QoQ.

**3.2 Status of assets****Consolidated statement on financial situation**

Consolidated statement on financial situation (in thousand PLN)	Status as of 30 September 2012 (not assessed)	Status as of 31 December 2011
<b>ASSETS</b>		
Fixed Assets		
Tangible fixed assets	22,639,534	21,911,047
Intangible assets	1,022,305	988,950
Stocks and shares in affiliated companies and joint ventures recognised applying the equity method	54,320	22,717
Other long-term financial assets	246,667	197,470
Other long-term non-financial assets	293,905	96,349
Assets due to deferred Income tax	16,219	31,965
<b>Total fixed assets</b>	<b>24,272,950</b>	<b>23,248,498</b>
Current assets		
Short-term intangible assets	627,786	870,954
Inventory	504,511	574,790
Receivables due to income tax	19,638	64,266
Trade receivables and other receivables	2,850,291	2,743,344
Other short-term financial assets	12,640	108,024
Other short-term non-financial assets	226,180	289,034
Cash and equivalents	1,149,481	505,670
<b>Total current assets</b>	<b>5,390,527</b>	<b>5,156,082</b>
Fixed assets classified as held for trade	13,181	8,951
<b>TOTAL ASSETS</b>	<b>29,676,658</b>	<b>28,413,531</b>
<b>LIABILITIES</b>		
<b>Equity attributable to shareholders of the parent company</b>	<b>16,336,651</b>	<b>15,677,721</b>
Share capital	8,762,747	8,762,747
Supplementary capital	7,953,021	7,412,882
Hedging tools revaluation reserve	-72,384	0
Currency Exchange differences due to translation of foreign units	-350	87
Retained profits / Uncovered losses	-306,383	-497,995
<b>Non-controlling shares</b>	<b>502,763</b>	<b>461,347</b>
<b>Total equity</b>	<b>16,839,414</b>	<b>16,139,068</b>
<b>Long-term liabilities</b>		
Loans, credits and debt securities	5,324,024	4,251,944

Consolidated statement on financial situation (in thousand PLN)	Status as of 30 September 2012 (not assessed)	Status as of 31 December 2011
Liabilities due to leasing and lease contracts with purchase option	46,004	56,232
Long-term provisions and employee benefits	1,199,581	1,202,840
Long-term prepayments and governmental subsidies	633,024	642,549
Trade liabilities and other long-term financial liabilities	6,390	7,968
Provision due to deferred income tax	1,395,654	1,270,390
<b>Total long-term liabilities</b>	<b>8,604,677</b>	<b>7,431,923</b>
<b>Short-term liabilities</b>		
Trade liabilities and other liabilities	1,835,196	2,349,201
Current portion of interest-bearing credits, loans and debt securities	254,165	214,169
Current portion of liabilities due to leasing and lease contracts with purchase option	14,514	14,761
Other short-term liabilities	756,052	644,910
Accruals and governmental subsidies	337,005	279,058
Liabilities due to income tax	83,127	163,437
Short-term provisions and employee benefits	952,508	1,177,004
<b>Total short-term liabilities</b>	<b>4,232,567</b>	<b>4,842,540</b>
<b>Total liabilities</b>	<b>12,837,244</b>	<b>12,274,463</b>
<b>TOTAL LIABILITIES</b>	<b>29,676,658</b>	<b>28,413,531</b>

As of 30 September 2012 the balance sheet total of TAURON Capital Group reached the level comparable to the status as of 31 December 2011 (increase by about 4.4%). The main changes refer to fixed assets.

At the end of September 2012, the fixed assets of TAURON Capital Group were higher by about 4.4%, whereas their substantial part, i.e. tangible fixed assets and intangible assets increased by 3.3%, which is the result of implementation of investment in generation and distribution assets. This is accompanied by the assets replacement ratio, reaching about 1.6, calculated as capital expenditures of the three quarters of 2012 against the depreciation and amortisation for the same period. The largest relative growth refers to other long-term non-financial assets, including mainly prepayments for tangible fixed assets. As of 30 September 2012 and as of 31 December 2011, fixed assets of TAURON Group constituted 82% of total assets.

As of 30 September 2012, current assets of TAURON Group reached the status higher by about PLN 234 million, as compared to the status at the end of 2011, which mainly results from the increase in cash and decreased level of short-term intangible assets (certificates of origin of electric energy for redemption).

As of 30 September 2012 and as of 31 December 2011, the total equity, as the dominating source of financing of TAURON Capital Group assets, reached PLN 16,839 million and PLN 16,139 million, respectively, which constitutes about 57% of total liabilities in both cases. The share capital was not changed during the three quarters of 2012, whereas the level of the supplementary capital is increasing due to profit distribution for 2011. Increase in the status of long-term liabilities during the period of three quarters of 2012 results mainly from the higher level of debt due to loans obtained from the European Investment Bank (EBI) and issue of bonds. As of 30 September 2012, the value of liabilities due to the issue of bonds (including the interest accrued) amounted to PLN 4,288 million, which makes the value higher than the status at the end of 2011, by about PLN 152 million. As of the balance sheet moment, the long-term financial liabilities cover the amount of PLN 960 million of loans from EBI, including PLN 450 million resulting from the facility agreement of July this year, for the amount of PLN 900 million.

The short-term liabilities decreased by PLN 610 million (-12.6%) against the status as of 31 December 2011, mainly in connection with the decrease of trade liabilities, liabilities due to income tax and provisions – , in total, by PLN 819 million (among others, due to the consumption of provisions related to the obligation to present certificates for redemption by companies of the Sales Segment and the provision for costs of redemption of gas emission allowances of the generation companies). The balance of short-term bank credits, loans and debt securities as of 30 September 2012 amounted to PLN 254 million, which means a slight decrease against the status as of 31 December 2011.

As of the end of September 2012, the level of net financial debt of the Capital Group reached PLN 4,498.2 million, in relation to PLN 4,031.4 million at the end of December 2011.

### 3.3 Cash Flows

#### Consolidated statement of Cash Flow

The table below presents cash flows of TAURON Capital Group for the period of three quarters ended on 30 September, respectively: 2012 and 2011

Specification (thousand PLN)	Quarter 1-3, 2012	Quarter 1-3, 2011
Cash flows from operating activities		
<b>Gross profit/(loss)</b>	1,687,884	1,281,472
<b>Adjustments by:</b>		
Share in the profit of an affiliated entity and joint venture, recognised by equity method	973	727
Amortisation	1,229,196	1,049,480
Profit (loss)/ on exchange differences	-698	2,937
Interest and dividend, net	162,962	40,657
Profit (loss) on investment activity	15,924	14,510
(Increase)/decrease in receivables	-104,416	30,559
(Increase)/decrease in inventory	67,210	-9,206
Increase/(decrease ) in liabilities, excluding credits and loans	-259,376	-442,775
Change in other short- and long-term assets	143,358	-38,125
Change in prepayments of income and governmental grants and settlements of accrued expenses	35,221	53,933
Change in provisions	-84,410	-131,736
Income Tax paid	-226,684	-72,336
Other	394	-232
<b>Net cash from operating activities</b>	<b>2,667,538</b>	<b>1,779,865</b>
Cash flows from investment activities		
Sales of tangible fixed assets and intangible assets	9,134	35,061
Purchase of tangible fixed assets and intangible assets	-2,434,486	-1,518,646
Sales of bonds, treasury bonds and other debt securities	102,506	-
Sales of other financial assets	20,793	25,737
Purchase of other financial assets	-10,085	-14,559
Acquisition of stocks and shares in affiliated companies and joint ventures recognised applying the equity method	-	-23,000
Acquisition of subsidiaries following deduction of cash taken over	-5,613	-71,439
Dividend received	8,305	8,122
Loans granted	-75,000	44
Interest received	136	-
Repayment of loans granted	13,000	110
Other	-	-120,001
<b>Net cash from investment activities</b>	<b>-2,371,310</b>	<b>-1,678,571</b>
Cash flows from financial activities		
Purchase of non-controlling treasury shares	-5,910	-34,582
Repayment of liabilities due to financial leasing	-10,549	-18,715
Cash inflows due to loans/credits	999,000	87,255
Repayment of loans/credits	-127,747	-398,809
Issue of debt securities	150,000	-
Dividends paid to shareholders of the parent company	-543,290	-262,882
Dividends paid to non-controlling shareholders	-16,435	-12,797
Interest paid	-95,826	-40,259
Other	-10,762	-7,650



Specification (thousand PLN)	Quarter 1-3, 2012	Quarter 1-3, 2011
<b>Net cash from financial activities</b>	<b>338,481</b>	<b>-688,439</b>
<b>Increase/(decrease ) in net cash and equivalents</b>	<b>634,709</b>	<b>-587,145</b>
Net exchange differences	-993	233
<b>Cash opening balance</b>	<b>505,816</b>	<b>1,471,660</b>
<b>Cash closing balance, including</b>	<b>1,140,525</b>	<b>884,515</b>
- of limited disposability	212,072	96,679

The status of cash as of 30 September 2012 amounted to PLN 1,140.5 million and it was higher than at the end of the corresponding period of the previous year by PLN 256 million.

Total net cash flows from operating, investment and financial activity of TAURON Group for the period of three quarters, ended on 30 September 2012 reached about PLN 635 million, as compared to about PLN (587) million for the period ended on 30 September 2011. The main factor influencing the change was the increase in investment expenditures by about PLN 916 million, and the increase of inflows due to loans and the issue of the subsequent tranche of bonds - by PLN 1,062 million.

The increase in the value of cash flows from operating activity in the three quarters of 2012, as compared to three corresponding quarters of 2011, by about PLN 888 million, arises from the higher result on operating activity before depreciation and other adjustments bringing the result on accrual basis to the result on cash basis, which are higher in the three quarters of 2012, as compared to the corresponding three quarters of 2011 (increase by PLN 301.5 million).

Negative cash flows from investment activity for the three quarters ended on 30 September 2012 reached about PLN (2,371) million, as compared to about PLN (1,679) million for three quarters of the previous year, which results from the increased rate of investment.

Positive net cash flows from financial activity for the period of three quarters ended on 30 September 2012 reached PLN 338 million, as compared to PLN (688) million for three quarters of 2011. The increase is mainly the result of rise in inflows due to loans and credits by about PLN 912 million and due to the issue of bonds for financing of investments by PLN 150 million.

Cash flows reached by TAURON Capital Group in the three quarters of the current year correspond to the adequate picture of the developing enterprise: operating cash flow stream is positive, investment stream is negative and financial cash stream is positive. For the period of 9 months of 2012, the operating inflows cover the investment expenses, nevertheless, acquisition of external financing sources is necessary for further development of the Group and for implementation of its investment plans.

### 3.4 Factors and events, particularly of unusual character, significantly affecting the financial results achieved

During the period under analysis, no factors and events of unusual character occurred, which would significantly affect the financial results achieved.

### 3.5 Factors which, according to the opinion of the Issuer, may have impact on the results to be achieved within the perspective of at least the next quarter

In the Issuer's opinion, results of operations of the Capital Group will be affected mainly, as it happened in the past, by the following factors:

- the macroeconomic situation, especially in Poland, as well as the economic situation of the area of operations of TAURON Capital Group, situation of the European Union and the global economy;
- political environment, especially in Poland as well as at the European Union level, including the standpoints and decisions of public administration institutions and authorities, for example: UOKIK, ERO and the European Commission,
- changes in regulations of the energy sector,

- electric energy prices on the wholesale market;
- sales prices of electric energy and fuel as well as distribution tariffs, as factors influencing the level of revenue and costs;
- prices of certificates of origin of energy from renewable sources and co-generation;
- prices of CO<sub>2</sub> emission allowances;
- prices of energy resources;
- demand for electric energy and heat;
- seasonality and weather conditions,
- level of compensation for covering the stranded costs related to termination of the LTC;
- potential failures of equipment, installations and grid owned by TAURON Group.

In addition, the following events may affect the activities of the Group and the results reached by the Group:

- announcement of the proposal by the European Commission concerning transfer of part of the allowances held for sale at auctions from the first three years to the last three years of the settlement period 2013 – 2020;
- governmental activities concerning the proposals of Energy Law, Gas Law and the Act on Renewable Energy Sources, and the resulting potential changes in conditions of operations of TAURON Group.

The aforementioned events are only a signal of changes which may be expected. At this stage it is difficult to assess the specific financial effects. Such will be possible after reaching the final agreement on the contents of the changes proposed.

### 3.6 Standpoint of the Management Board concerning a possibility to implement forecasts of results for the year published earlier

TAURON Polska Energia S.A. did not publish any forecasts of financial results for the financial year 2012.

## 4 Shares and Shareholders

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

In accordance with notifications received by the Company, the structure of shareholders holding at least 5% of the total number of votes at the General Meeting of the Issuer, either directly or indirectly, through subsidiaries, as of the date of publication of this report, i.e. 13 November 2012, was as follows:

Shareholders	Number of shares held	Percentage interest in the share capital	Number of votes held	Percentage interest in the general number of votes
State Treasury*	526,883,897	30.06%	526,883,897	30.06%
KGHM Polska Miedź S.A.**	182,110,566	10.39%	182,110,566	10.39%
ING Otwarty Fundusz Emerytalny***	88,742,929	5.06%	88,742,929	5.06%

\*in accordance with the shareholder's notification of 29 March 2011

\*\*in accordance with the shareholder's notification of 23 March 2011

\*\*\*in accordance with the shareholder's notification of 28 December 2011

Since 23 August 2012, i.e. the date of publication of the last interim report, until the date of publication of this quarterly report, no changes in proprietary structure of significant blocks of shares of the Issuer have occurred.

## 4.2. Specification of the status of shares held by members of the management and supervisory bodies

The status of shares of the Company TAURON Polska Energia S.A., or authorisation to hold the shares by persons managing and supervising the Company in the period from 23 August 2012 (date of publication of the report for the 1st half of 2012) until 13 November 2012 (the date of presentation of this quarterly report) was as follows:

### Managing persons:

Name and surname	Number of shares as of 23 August 2012	Change in number of shares held	Number of shares as of 13 November 2012
Dariusz Lubera	6,576	no change	6,576
Joanna Schmid	0	no change	0
Dariusz Stolarczyk	42,611	no change	42,611
Krzysztof Zamasz	935	no change	935
Krzysztof Zawadzki	27,337	no change	27,337

*no change - lack of any changes*

The status of holding the shares of the Company TAURON Polska Energia S.A., or authorisation to hold the shares by persons managing and supervising the Company in the period from 23 August 2012 (date of publication of the report for the 1st half of 2012) until 13 November 2012 (the date of presentation of this quarterly report) was as follows:

### Supervising persons:

Name and surname	Number of shares as of 23 August 2012	Change in number of shares held	Number of shares as of 13 November 2012
Antoni Tajduś	0	no change	0
Rafał Wardziński	0	no change	0
Leszek Koziorowski	0	no change	0
Jacek Kuciński	935	no change	935
Włodzimierz Luty	935	no change	935
Jacek Szyke	0	no change	0
Marek Ściążko	0	no change	0
Agnieszka Trzaskalska	0	no change	0

*no change - lack of any changes*

## 5 Other relevant information and events

### 5.1. Concluding the framework agreement on the Exploration for and Extraction of Shale Gas

On 4 July 2012 the Company signed a framework Agreement on exploration for and extraction of shale gas (the "Agreement"). The parties to the Agreement include: TAURON, Polskie Górnictwo Naftowe i Gazownictwo S.A. ("PGNiG"), ENEA S.A., KGHM Polska Miedź S.A. and PGE Polska Grupa Energetyczna S.A. (hereinafter referred to as the "Parties"). The subject of cooperation of the Parties under the Agreement will cover the exploration, evaluation and extraction of shale gas in geological formations covered by the concessions granted for the exploration and evaluation of deposits of crude oil and natural gas in relation to the Wejherowo concession held by PGNiG. Within the framework of the Wejherowo Concession, the close cooperation will involve an area of approximately 160 km<sup>2</sup> ("Cooperation Area"). Moreover, the Agreement also provides for preferential treatment of the Parties, with regard to the possibility of cooperation in relation to the remaining area of the Wejherowo Concession (with the exception of a situation where PGNiG itself performs the exploration, evaluation or extraction of shale gas and excluding the area in the vicinity of Opalino and Lubocino). The Agreement provides for cooperation based on the targeted structure of a limited partnership which, following the successful exploration, will extract shale gas. The Parties foresee the assignment of the concession for the extraction of shale gas to such limited partnership after it has been obtained by PGNiG. Each of the Parties will have participation ensured in control over the implementation of the project, in particular, through participation in the operating committee established for this purpose. The estimated expenditures on exploration, evaluation and extraction in the first three zones (the Kochanowo, Częstkowo and Tępcz pads) within the Area of Cooperation are foreseen at the amount of PLN 1,720,000,000. Details concerning the terms of cooperation, including: a detailed project budget and timeline, the shares of the Parties in financing the expenditures arising from the budget agreed, shares in the project profits and the principles of responsibility, including contractual penalties in the case of failure to fulfil, in particular by PGNiG, certain obligations resulting from the Agreement, will be determined by the Parties within four months following the date of concluding the Agreement.

On 12 November 2012 an Annex to the Agreement ("Annex") was signed, pursuant to which the Parties agreed to extend the deadline for establishing the detailed terms and conditions of cooperation until 4 February 2013. Should the Parties to the Agreement fail to agree on the detailed terms and conditions of cooperation by 4 February 2013, the Agreement may be terminated by each of the Parties. Moreover, in case if, within three months following such arrangements, the Parties have not obtained all of the required corporate approvals, or in case if, by 31 December 2013, the required antimonopoly clearances to execute the concentration have not been received, the Agreement will expire. The change of the aforementioned deadlines is connected with the ongoing negotiations in the scope of the detailed terms and conditions of cooperation, under which, among others, the documentation of the project is developed. The Company informed of signing the Agreement and the Annex in the current reports No. 34/2012 of 4 July 2012 and No. 38/2012 of 12 November 2012.

### 5.2. Changes introduced by the Transmission System Operator

As of 1 August 2012, PSE Operator S.A. ("Transmission System Operator", hereinafter referred to as "TSO") introduced amendments to the Instruction for Transmission System Operation and Maintenance (IRiESP), resulting in reduction of payments for the so-called "operational reserve". It is difficult to estimate precisely the level of decrease in payments for provision of these services by the centrally dispatched power generating facilities of TAURON Wytwarzanie, as during this period, decrease of demand for electric energy by 1.2% could also have been observed (the 3rd quarter of 2012 against the 3rd quarter of 2011), under the decrease in general production by 3.4% (analogically– Quarter to Quarter). This decrease affected the payments for operational reserve.

The TSO introduced amendments to the Instruction for Transmission System Operation and Maintenance (IRiESP) in order to compensate, as of 1 January 2013, the additional costs of electric energy generation incurred by the generators, arising from reallocating the agreements from generation units of lower generation costs to units of higher generation costs, performed by TSO. The level of such compensation will not significantly affect the revenues of TAURON Group.

In 2013, the TSO is planning to introduce new regulatory service of "intervention reserve" type which may be potentially provided by the units of TAURON Group covered by derogation. The condition to acquire

revenue from such service is the decision to cover specific generation units of TAURON Wytwarzanie by derogations and signing the agreement with the TSO on provision of this type of service. The date of the aforementioned changes coming into force is still unknown, therefore it is difficult to determine the potential impact on the results achieved in this area.

### **5.3. Signing a letter of intent concerning purchase of shares in a Special Purpose Vehicle established for construction and operation of a nuclear power plant**

On 5 September 2012 TAURON ("the Company") signed a Letter of Intent concerning purchase of shares in a special purpose vehicle established for construction and operations of a nuclear power plant ("Letter of Intent"). The parties to the Letter of Intent are: the Company, PGE Polska Grupa Energetyczna S.A. („PGE”), KGHM Polska Miedź S.A. and ENEA S.A., hereinafter jointly referred to as the Parties. According to the Letter of Intent the Parties will undertake the works on developing a draft agreement for purchase of shares (the “share sales agreement”) in the special purpose vehicle PGE EJ 1 sp. z o.o. established by PGE (the “SPV”), which is directly responsible for development of the investment process for construction and operation of the first Polish nuclear power plant (the “Project”). The share sales agreement shall regulate the rights and obligations of each of the Parties, assuming that PGE shall have the leading role in the Project execution, either directly or through a subsidiary. The conditions of purchasing shares in the SPV shall take into account the expenditures incurred so far by PGE and its subsidiaries in connection with the Project. The Letter of Intent does not constitute an obligation of the Parties to sign the share sales agreement and to participate in the Project. The Letter of Intent shall be binding until 31 December 2012. The term might be extended by a quarter provided all the Parties agree thereto. The Company informed of signing the Letter of Intent in the current report No. 36/2012 of 5 September 2012.

### **5.4. Establishment of the special purpose vehicle Elektrownia Blachownia Nowa sp. z o.o.**

On 5 September 2012 the subsidiary, TAURON Wytwarzanie S.A. and KGHM Polska Miedź S.A. (“KGHM”), established a special purpose vehicle under the name Elektrownia Blachownia Nowa sp. z o.o. with its seat in Kędzierzyn Koźle (the “Company”). The Company was established to provide for comprehensive execution of an investment which will include preparatory works, construction and operation of a gas and steam unit at capacity of approximately 850 MW<sub>e</sub> on the premises of TAURON Wytwarzanie – Elektrownia Blachownia Branch (the "Investment", the "Project"). The Investment is in line with the Corporate Strategy presented by TAURON in current report No. 25/2011 of 28 April 2011. At the same time, Shareholders' Agreement was signed (the “Agreement”) which defines detailed terms and conditions of cooperation between the parties during execution of the Investment. In accordance with the Agreement, the Shareholders estimate that the total Investment expenditure would amount to approx. PLN 3.5 billion. Each of the Shareholders took over 50% of shares in the Company share capital which, as of the day of signing the agreement, amounted to PLN 65,152,000 (fully paid up). Shares in the Company are equal and indivisible. The project will be executed under project finance scheme, and at least 50% of the Investment budget will be financed by external debt. Design and construction of the CCGT unit will be executed on a turnkey basis, including infrastructure, installations and facilities. The unit will be connected to the new 400kV distribution station which transmits electricity to the Polish Power System and it will comply with all the requirements specified in the Instruction for Transmission Grid's Operation and Maintenance. According to the schedule adopted, the unit will be commissioned in Q2 2017 and it will be one of the key elements of TAURON Group investment plan aimed at recovery of the generation fleet and diversification of the Group energy mix. On 30 October 2012 Elektrownia Blachownia Nowa sp. z o.o. was entered to the register of entrepreneurs of the National Court Register maintained by the District Court in Opole, the 8th Commercial Department of the National Court Register. TAURON informed of establishing the special purpose vehicle in the current report No. 35/2012 of 5 September 2012.

## 5.5. Approval of the gas tariff by ERO

On 19 October 2012 the President of the Energy Regulatory Office (the "ERO President") approved the tariff for gas fuel for TAURON for the period of 12 months following the day of its coming into force. The decision concerning the approval of the tariff was published in the trade bulletin of the ERO President no 74 (539) published on the website of the Energy Regulatory Office [www.ure.gov.pl](http://www.ure.gov.pl).

The approval of the gas tariff is the consequence of extending the scope of operations of the Issuer in 2012 by gas fuel trading, and obtaining the concession on gas fuel trading from the ERO President in April 2012. The benefits for TAURON Group resulting from activities in this area will consist in centralising the gas trading within one entity, and in purchasing the gas fuel under optimal parameters of its supply. TAURON will deliver gas fuel for the needs of the existing generation units of TAURON Wytwarzanie (Elektrownia Stalowa Wola, Elektrownia Blachownia, ZEC Bielsko-Biala), and in the future - also for the new generation capacity based on gas burning. It should be indicated that the operations in the scope of gas fuel trading associated with the approval of the tariff by ERO will not significantly affect the financial results of TAURON Group for 2012.

## 5.6. Selecting the investment banks to develop the financing strategy

On 19 October 2012 TAURON selected the consortium of investment banks which will support the company in developing the financing strategy of TAURON Group as well as within the process of fund raising for the investment programme of the Group.

The consortium consists of: ING Bank Śląski S.A., ING Bank NV London Branch, ING Securities S.A. (leader of the consortium), UniCredit CAIB Poland S.A., Bank Pekao S.A., UniCredit Bank AG, BRE Bank S.A., Dom Inwestycyjny BRE Banku S.A. (national members of the consortium) and UniCredit CAIB Poland S.A., Bank Pekao S.A., UniCredit Bank AG, Bank Zachodni WBK S.A., Dom Maklerski BZ WBK S.A., Banco Santander S.A. and Goldman Sachs International (international members of the consortium).

The banks selected will prepare the strategy on acquiring funds required to implement the investment programme in accordance with the development strategy of TAURON Group. Following this activity, based on recommendations arising from this strategy, TAURON, in cooperation with the banks constituting the consortium, shall acquire financial resources from national and international markets in the years 2012-2015.

## 5.7. Exceeding the 10% equity threshold within the trading turnover between TAURON Group and PSE Operator S.A.

On 7 November 2012 TAURON Polska Energia S.A. (the "Company") informed that the net value of trade turnover generated in the period from 5 January 2012 to 7 November 2012 between companies of TAURON Group and companies of PSE Operator S.A. Group ("PSE Operator") amounted to about PLN 1,832 billion (including: PLN 1,508 million of cost items for the companies of TAURON Group, and about PLN 297 million of income items), accordingly, the value of turnover has reached the material amount (exceeding the 10% equity threshold of the Issuer).

The turnover of the highest value, i.e. about PLN 1,302 million net, was generated under the agreement of 15 January 2008, concluded between TAURON Dystrybucja S.A. (former Enion S.A.) and PSE Operator, which was notified by the Issuer in item 14.2 of the Prospectus (the Agreement). The subject of the Agreement is provision of transmission services by PSE Operator, understood as transport of electric energy via the transmission grid. The agreement has been concluded for indefinite period of time. The estimated value of this Agreement during the period of 5 years following its conclusion, is about PLN 3 billion. The services are cleared in accordance with the terms and conditions and charges approved by the President of the Energy Regulatory Office, defined in the tariff, and considering the provisions of the Instruction for Transmission System Operation and Maintenance (IRiESP). The Agreement does not

include liquidated damages. The Agreement does not include conditions precedent or subsequent. The Company informed of exceeding the 10% equity threshold within trading turnover with the PSE Operator Group in the current report no 37/2012 of 7 November 2012.

### **5.8. Proceedings pending before the court, competent arbitration authority or public authority body**

During the reporting period no proceedings were pending in TAURON Capital Group (related to the Issuer or its subsidiaries) concerning liabilities and debts whose single or aggregate value would exceed 10% of the equity of TAURON Polska Energia S.A.

### **5.9. Information on transactions with affiliated entities**

All transactions with affiliated entities are concluded under market conditions. Detailed information on significant transactions with affiliated entities has been provided in note 29 of the Consolidated interim financial statement for the period of nine months, ended on 30 September 2012.

### **5.10. Information on granted guarantees, loan or credit sureties**

In the 3rd quarter of 2012, neither TAURON Polska Energia S.A., nor its subsidiaries have granted any loan or credit sureties or guaranties – jointly to one entity or this entity's subsidiary, at the aggregate value equivalent to the value of at least 10% of TAURON Polska Energia S.A. equity.

### **5.11. Other information which, according to the Issuer's opinion, is essential for the evaluation of the human resources, assets, financial situation, financial result and their changes, and which is essential to assess the possibility of fulfilment of the obligations by the Capital Group of the Issuer**

#### **Market situation**

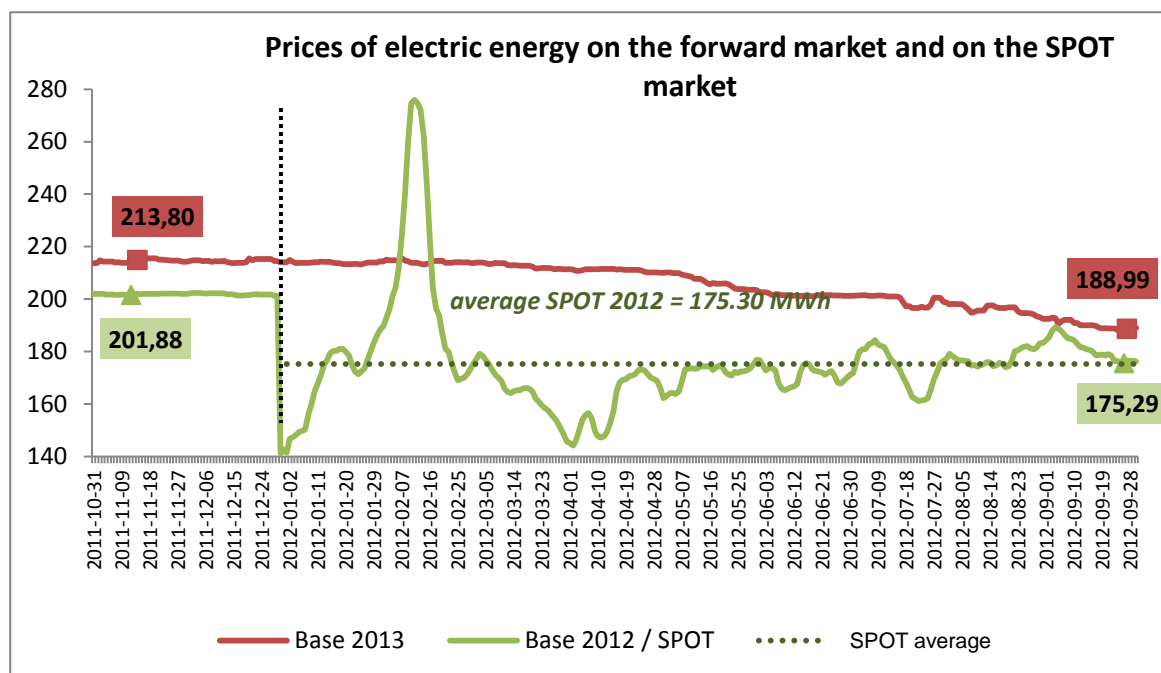
In the third quarter of 2012, the consumption of electric energy on the territory of Poland decreased slightly, as compared to the corresponding period of 2011, i.e. by 0.19% (according to the data of PSE Operator, in the period from January until September of the current year). The distribution of changes in energy demand was very quite irregular in individual months, i.e. in January, slight decline was noted, in February - significant growth was noted (by 7.3%), while in drops were recorded in March (by 1.9%), in May (by 2.26%) and in September (by 3.26%). It can be generally assumed that the changes in energy consumption were affected by meteorological factors, i.e. relatively warm January, a wave of strong frost in February, warm March, May and September. The situation related to the changes in energy demand had impact on fluctuation of prices on the SPOT market of electric energy.

Lack of comparable data currently prevents from assessing the impact of GDP changes on the variability of the electricity demand in the country in the third quarter of 2012; at the moment, only information for the 1st half of 2012 is available.

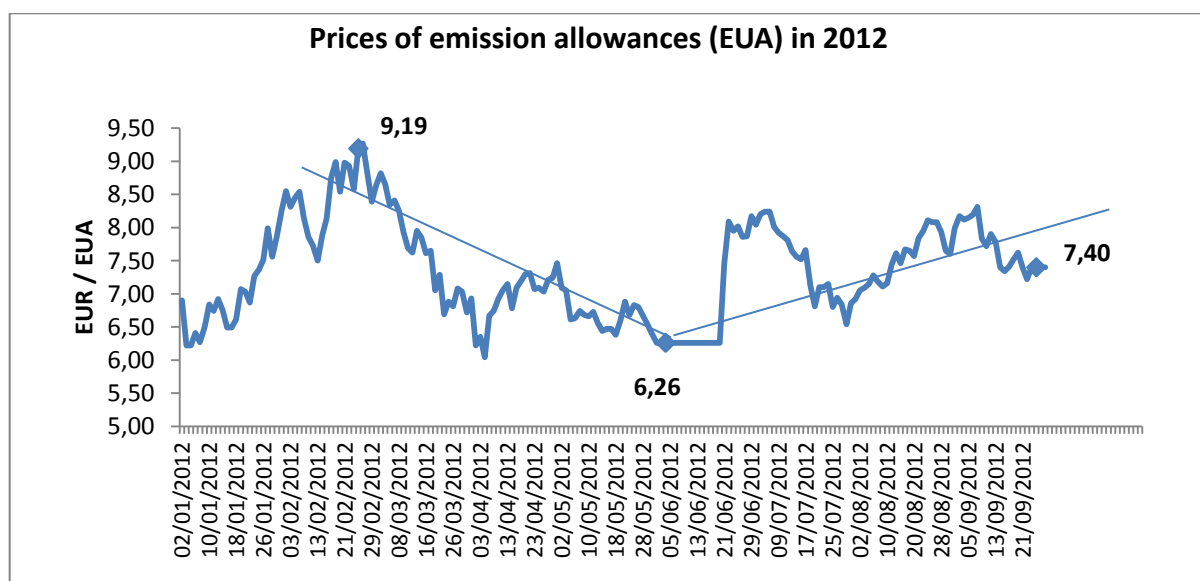
Year 2012 demonstrates drops in electric energy prices and the related products. The average SPOT price on the Polish market in the period from 1 January to 30 September this year amounted to PLN 175.3/MWh per band. For comparison, in December 2011 the quotations on the forward market of delivery of energy bands for the year 2012 fluctuated around the value of PLN 201-202/MWh. In the current year, the downward trend for the band product for 2013 (Base 2013) is maintained, at the end of September the price of Base 2013 contracts fell below PLN 190/MWh (at the end of 2011 the quotations for this product fluctuated around the level of PLN 213-214/MWh).

In connection with the crisis in EURO zone and the positive balance of the allowances held in the energy sector for KPRU II (the National Allocation Plan for CO<sub>2</sub> emission allowances), the price of CO<sub>2</sub> emission allowances after the drops of last year, has still remained at the relatively low level. The value of allowances in the period from January to September 2012 ranged from EURO 6/EUA to EURO 9.2/EUA. At

the end of the 3rd quarter of current year, the price of EUA unit reached the level of approximately EUR 7.5.



In 2012, drops on the market of electric energy certificates of origing also occurred (the so-called market of proprietary rights). In the previous year the level of prices of proprietary rights was close to the level of the substitution fee. In 2012, the excessive supply of proprietary rights occurred, arising from production of electricity in high-performance co-generation and in renewable energy sources. For comparison, the level of substitution fee in case of "red" certificates amounts to PLN 29.3 while the price observed at the end of the third quarter at the Power Exchange (TGE) reached about PLN 8. Analogically, the substitution fee in case of "green" certificates amounts to PLN 286.74 whereas the quotations at the TGE at the end of the third quarter reached about PLN 232.



The average weighted price of energy on the Balancing Market in the three quarters of 2012 was by about PLN 22/MWh lower than in the corresponding period of 2011. In connection with the fact that the prices on



the Balancing Market are correlated with the prices on the wholesale market, prices on these markets clearly decreased. Some of the reasons for decrease in this price is the drop of the settlement price of CO<sub>2</sub> emission allowances (on average, by about PLN 27/Mg) and the commissioning of the 858 MW unit in Elektrownia Bełchatów in the third quarter of 2011.

The data of PSE Operator for 6 months of 2012, as compared to the corresponding period of 2011, indicate the following events:

- clear decrease in electric energy production based on hard coal (about - 7.6%),
- maintaining the increase in electric energy production based on lignite (about 5.7%),
- increase in electric energy production by wind farms (about 51%), which reflects the dynamic development of the renewable energy sources,
- slight decrease in electric energy production in the country (about - 1.7%), under the slight decrease of the domestic demand (about -0.2%).

The above factors had negative impact on sales of energy from the generation units of TAURON Group in 2012.

### **Regulatory environment**

In the first half of October 2012 consultations concerning the provisions of the new Act on Energy Law were finished. At present, the legislative process is in progress concerning development of the acts constituting the so called "triple energy package": the Energy Law, the Gas Law and the Act on renewable energy sources, whose final text may have significant impact on revenues of TAURON Group in 2013.

### **Obligation of public sales of electric energy by generators**

In 2012 the so-called "exchange obligation" was binding, according to which the generating enterprises are obliged to sell almost the whole volume of electric energy produced at the regulated market (mainly the Energy Exchange in Warsaw - Towarowa Giełda Energii S.A. z siedzibą w Warszawie). The situation will change in 2013 when companies of TAURON Group will be covered, in accordance with provisions of art. 49a of the Energy Law, by the obligation to sell not less than 15% of electric energy generated in a particular year on the commodity exchange, within the meaning of the Act of 26 October 2000 on commodity exchanges, or on the market organised by the entity maintaining the regulated market on the territory of the Republic of Poland.

According to the standpoint of the Management Board of TAURON Polska S.A., the information presented in this report describes the human resources, material and financial situation of the Company in a comprehensive manner, and confirms that no other incidents occurred, undisclosed by the Company, which could be relevant for the assessment of the situation.