



***Additional information  
to the extended  
consolidated financial report  
of the TAURON Group  
for the third quarter of 2011***

9 November 2011

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## 1. Organisation of the TAURON Capital Group

### 1.1. Basic Information on the Group

As of 30 September 2011, the Capital Group TAURON Polska Energia S.A. consisted of the parent entity - TAURON Polska Energia S.A. (hereinafter referred to as the Company, the Issuer or TAURON) 40 subsidiaries (direct and indirect), 16 affiliates with the share between 50% - 20% shares and 27 other companies.

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. dealing with generation of power from renewable sources, TAURON Dystrybucja S.A. providing electric energy distribution services, TAURON Sprzedaż sp. z o.o. dealing with supply of electric energy to retail customers, TAURON Obsługa Klienta sp. z o.o., dealing with customer service and TAURON Ciepło S.A. providing heat distribution services.

Furthermore, the TAURON Capital Group consisted of eight other subsidiaries, subject to consolidation, involved, among others, in generation of electric energy and heat, trade of electricity and heat, extraction, crushing and grinding of limestone as well as extraction of stone for construction purposes.

On 12 October 2010, in order to improve performance of the TAURON Group, perceived as a single economic entity consisting of autonomous commercial law companies, the Management Board of TAURON Polska Energia S.A. established the TAURON Group, comprising the aforementioned companies and TAURON Polska Energia S.A, and adopted the TAURON Group Code as the underlying normative act of the TAURON Group operations. As of the date of adoption of the Resolutions on accession to the TAURON Group by the General Meeting/ General Meetings of Shareholders, companies listed in Table 1 gained the status of TAURON Group members.

**Table no. 1. List of subsidiaries included in the TAURON Group (as of 30 September 2011)**

Item	Name of the Company	Date of accession to the 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. (former: Południowy Koncern Energetyczny S.A.)	28.10.2010
5.	Elektrociepłownia EC Nowa sp. z o.o.	04.11.2010
6.	TAURON Czech Energy s.r.o.	10.11.2010
7.	Elektrociepłownia Tychy S.A.	22.11.2010
8.	Polska Energia - PKH sp. z o.o.	29.11.2010
10.	TAURON Dystrybucja S.A. (former: EnergiaPro S.A.)	06.12.2010
11.	TAURON Ciepło S.A. (former: PEC Katowice S.A.)	09.12.2010
14.	Kopalnia Wapienia "Czatkowice" sp. z o.o.	05.01.2011
15.	Południowy Koncern Węglowy S.A.	13.01.2011

The TAURON Group Code adopted in the TAURON Group regulates the functionality of the Group, ensuring fulfilment of the targets through tailor-made solutions related to management of the TAURON Group entities, including in particular definition of objectives of the companies' operations, allowing for accomplishment of the assumed outcomes.

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

Another important element enabling providing for operational decisions within the TAURON Group, through the adoption of the TAURON Group's Code, was the creation of new opinion-making and quasi-supervisory bodies of the Group – the four Committees of the TAURON Group:

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

The objective governing the establishment of the above Committees was to facilitate operations according to assumptions of operational consistency of the Group, in compliance with the laws and to the best interest of the TAURON Group and its stakeholders.

The Committees perform the following functions:

1. Opinion-making for the TAURON Management Board,
2. Decision-making function,
3. Supervisory function for the management boards of the TAURON subsidiaries.

The main task of the Committees is to monitor implementation of actions consistent with the TAURON Group's Code by all the participants of the Group, as well as for the advantage of the common interest of all TAURON Group members. The specific functions of the Committees are indicated in the by-laws on their operations adopted by the Management Board of TAURON Polska Energia S.A.

## **1.2. Entities subject to consolidation**

As of 30 September 2011, within the TAURON Capital Group, financial statements of fifteen subsidiaries listed below shall be covered by consolidation with the financial statement of the Company, by applying full consolidation method. The list of companies covered by full consolidation method is presented below:

- 1) TAURON Wytwarzanie S.A. with the seat in Katowice (hereinafter referred to as: TAURON Wytwarzanie),
- 2) TAURON Dystrybucja S.A. with the seat in Kraków (hereinafter referred to as: TAURON Dystrybucja),
- 3) TAURON Ciepło S.A. with the seat in Katowice (hereinafter referred to as: TAURON Ciepło),
- 4) Południowy Koncern Węglowy S.A. with the seat in Jaworzno (hereinafter referred to as: PKW),
- 5) TAURON Sprzedaż sp. z o.o. with the seat in Kraków (hereinafter referred to as: TAURON Sprzedaż),
- 6) TAURON Obsługa Klienta sp. z o.o. with the seat in Wrocław (hereinafter referred to as: TAURON Obsługa Klienta),
- 7) TAURON Czech Energy s.r.o. with the seat in Ostrava, Czech Republic (hereinafter referred to as: TAURON Czech Energy),
- 8) Elektrociepłownia Tychy S.A. with the seat in Tychy (hereinafter referred to as: Elektrociepłownia Tychy),
- 9) Elektrociepłownia EC Nowa sp. z o.o. with the seat in Dąbrowa Górnicza (hereinafter referred to as: Elektrociepłownia EC Nowa),
- 10) Kopalnia Wapienia "Czatkowice" sp. z o.o. with the seat in Krzeszowice (hereinafter referred to as: Kopalnia Wapienia Czatkowice),
- 11) Polska Energia – Polska Kompania Handlowa sp. z o.o. with the seat in Katowice (hereinafter referred to as: PEPKH),

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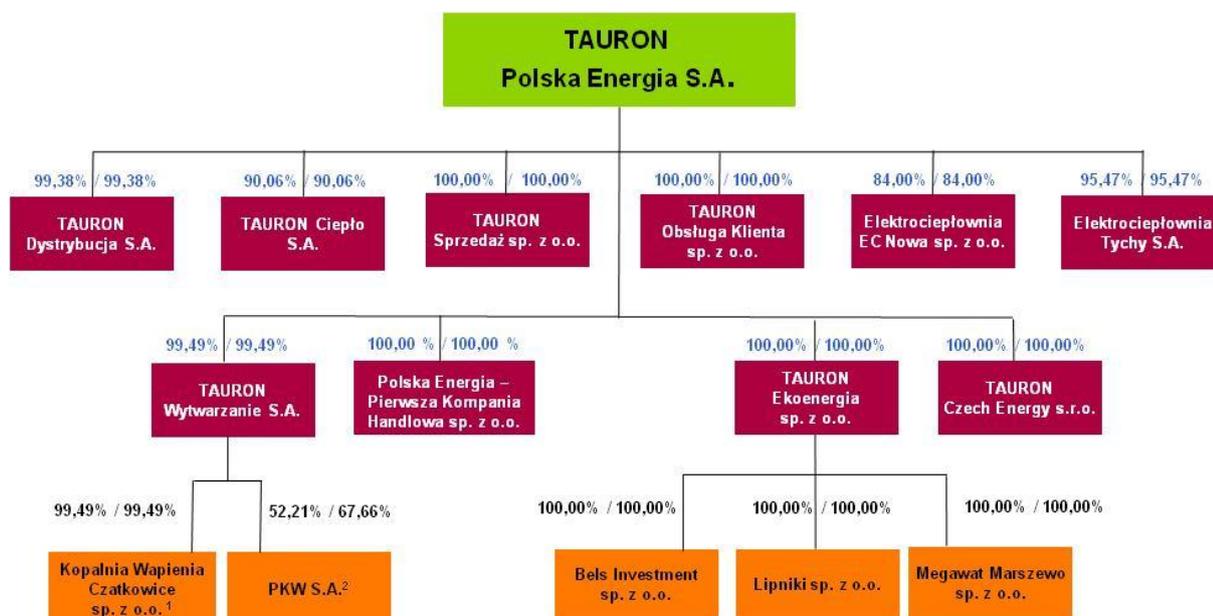
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- 12) TAURON Ekoenergia sp. z o.o. with the seat in Jelenia Góra (hereinafter referred to as: TAURON Ekoenergia),
- 13) BELS INVESTMENT sp. z o.o. with the seat in Jelenia Góra (hereinafter referred to as: BELS INVESTMENT),
- 14) MEGAWAT MARSZEWO sp. z o.o. with the seat in Jelenia Góra (hereinafter referred to as: MEGAWAT MARSZEWO),
- 15) Lipniki sp. z o.o. with the seat in Wrocław (hereinafter referred to as: Lipniki).

Moreover, the TAURON Capital Group performs consolidation of financial results (by application of the equity method) of investment in the joint venture - Elektrociepłownia Stalowa Wola S.A. with the seat in Stalowa Wola (hereinafter referred to as: EC Stalowa Wola).

### 1.3. Structure of the Capital Group – consolidated companies

The diagram below presents all the companies whose results are subject to consolidation within the TAURON Capital Group as of 30 September 2011.



#### Notes:

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> Tauron Polska Energia S.A. utilises shares owned by TAURON Wytwarzanie S.A., constituting 100% of shares in KW Czatkowice share capital, accounting for 100% of votes at WZ.

<sup>2</sup> Tauron Polska Energia S.A. utilises shares owned by TAURON Wytwarzanie S.A., constituting 52.48% of shares in the PKW S.A. share capital, accounting for 68.01% of votes at WZ.

In the third quarter of 2011, the following changes in the structure of the TAURON Capital Group subsidiaries took place:

1. On 26 July 2011 the contract between the Company and PKE S.A. (currently: TAURON Wytwarzanie) was concluded concerning disposal of shares of the company Polska Energia – PKH sp. z o.o. (PEPKH), based on which the Company acquired 700 shares of PEPKH at par value of PLN 6,000 each, owned by PKE S.A. Consequently, the Company increased its direct share in the capital and in the governing body of PEPKH to 100%.

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2. On 31 August 2011, the Company established the following single-person limited liability companies:
  - a) Enpower sp. z o.o. with the seat in Katowice (date of entry to the National Court Register (KRS) – 20 September 2011);
  - b) Enpower Service sp. z o.o. with the seat in Katowice (date of entry to the National Court Register (KRS) – 20 September 2011);
  - c) Energopower sp. z o.o. with the seat in Stalowa Wola (date of entry to the National Court Register (KRS) – 8 September 2011);
  - d) Poen sp. z o.o. with the seat in Katowice (date of entry to the National Court Register (KRS) – 20 September 2011);

In each of the aforementioned companies, the Company took over 100 shares at par value PLN 50 each, which amounts to the aggregate nominal value of PLN 5,000 in each of the companies.

3. On 31 August 2011, the District Court for Katowice – Wschód in Katowice, 8<sup>th</sup> Commercial Department of the National Court Register issued its decision on merger of the company Południowy Koncern Energetyczny S.A. (acquiring company) and the company Elektrownia Stalowa Wola S.A. (acquired company) pursuant to art. 492 § 1 item 1 of the Code of Commercial Companies. Accordingly, the share capital of the acquiring company was increased from PLN 1,559,231,860 to PLN 1,662,622,990, i.e. by PLN 103,391,130. As a result of the aforementioned process, the share of the Company in the share capital and in the governing body of the acquiring company was increased from 99.46% to 99.49%. Simultaneously, as of 1 September 2011, the change of enterprise of the acquiring company to TAURON Wytwarzanie S.A. took place.
4. On 1 September 2011 the District Court for Wrocław – Fabryczna in Wrocław, 6<sup>th</sup> Commercial Department of the National Court Register issued its decision on merger of the company EnergiaPro S.A. (acquiring company) and the company ENION S.A. (acquired company) pursuant to art. 492 § 1 item 1 of the Code of Commercial Companies. Accordingly, the share capital of the acquiring company was increased from PLN 82,081,118.70 to PLN 167,748,363.81, i.e. by PLN 85,667,245.11. As a result of the aforementioned process, the share of the Company in the share capital and in the governing body of the acquiring company was increased from 99.00% to 99.38%. Simultaneously, as of 1 September 2011, the change of enterprise of the acquiring company to TAURON Dystrybucja S.A. took place.
5. On 1 September 2011 the District Court for Katowice – Wschód in Katowice, 8<sup>th</sup> Commercial Department of the National Court Register issued its decision on merger of the company PEC Katowice S.A. (acquiring company) and the company PEC in Dąbrowa Górnicza S.A. (acquired company) pursuant to art. 492 § 1 item 1 of the Code of Commercial Companies. Accordingly, the share capital of the acquiring company was increased from PLN 211,000,000 to PLN 444,663,500, i.e. by PLN 233,663,500. As a result of the aforementioned process, the share of the Company in the share capital and in the governing body of the acquiring company was decreased from 95.66% to 90.06%. Simultaneously, as of 1 September 2011, the change of enterprise of the acquiring company to TAURON Ciepło S.A. took place.
6. On 28 September 2011 the company TAURON EKOENERGIA sp. z o.o. acquired 400,000 shares (i.e. the total number of shares) of the company Lipniki sp. z o.o. with the seat in Wrocław, holding the wind farm of Lipniki.

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

Below, effects of changes in the structure of the TAURON Capital Group are presented, including those resulting from merger of business entities, acquisition or sales of entities of the issuer's capital group, long-term investment, division, restructuring and discontinuation of operations.

#### **Increase of shares in the company Polska Energia Pierwsza Kompania Handlowa sp. z o.o.**

On 26 July 2011 the contract was concluded between Południowy Koncern Energetyczny S.A. and TAURON Polska Energia S.A., concerning disposal of shares of the company Polska Energia Pierwsza Kompania Handlowa sp. a o.o. as the benefit to fulfil part of the liability of Południowy

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Koncern Energetyczny S.A. to disburse the dividend payable to TAURON Polska Energia S.A. for the financial year ended on 31 December 2010. Południowy Koncern Energetyczny S.A. disposed of all the shares held in Polska Energia Pierwsza Kompania Handlowa sp. z o.o., i.e. 700 shares at total nominal value of PLN 4,200, for the total amount of PLN 42,170 thousand. The value of shares purchased was determined based on valuation as of 20 June 2011. On 26 July 2011 the transfer of shares to the Company was performed. As a result of this transaction, TAURON Polska Energia S.A. increased its direct share in the capital and governing body of this company to 100%, which influenced the decrease of non-controlling shares, and simultaneously, the increase of retained earnings by the amount of PLN 213 thousand.

### **Preliminary contract on purchase of Górnśląski Zakład Elektroenergetyczny S.A.**

On 23 August 2011, TAURON Polska Energia S.A. and Vattenfall AB signed preliminary contract on purchase of 1,249,693 of shares constituting 99.98% of the share capital of the company Górnśląski Zakład Elektroenergetyczny S.A. (GZE S.A.). According to the contract, the purchase price of the shares shall amount to PLN 4,625,955 thousand, with the reservation that the amount of maximum PLN 3,625,955 thousand shall be paid in cash, while the amount of at least PLN 1,000,000 thousand shall constitute the equivalent of the debt towards GZE S.A. and its subsidiaries taken over by TAURON Polska Energia S.A. from Vattenfall AB on the day of closing of the trade. In case of failure to close the trade before the end of this year, as of 1 January 2012, until the date the trade is closed, part of the purchase price (without the final value of the debt) shall be subject to adjustment, according to the interest rate of 6% p.a.

In accordance with the contract, on 26 August 2011, TAURON Polska Energia S.A. performed payment of deposit for the benefit of Vattenfall AB at the value of PLN 120,000 thousand. The above mentioned deposit, increased by the accrued interest shall be credited against purchase price on the day the trade is closed.

As a result of purchase of the shares, GZE S.A., TAURON Polska Energia S.A. shall become the holder of stocks of shares, respectively, of the following major entities dependant on GZE S.A., i.e.: Vattenfall Distribution Poland S.A., Vattenfall Sales Poland sp. z o.o., Vattenfall Network Services Poland sp. z o.o., Vattenfall Wolin-North sp. z o.o., and Vattenfall Business Services Poland sp. z o.o., which will be purchased by GZE S.A. on the date the trade is closed.

Closing of the transaction has been assumed as dependable on TAURON Polska Energia S.A. obtaining the approval of the President of UOKiK (Office of Competition and Consumer Protection) on concluding of the amalgamation. The parties set the maximum deadline to meet the above condition on 23 May 2012, assuming that in case of conditional decision of the President of UOKiK, permitting the transaction and the appeal of TAURON Polska Energia S.A. against such decision, the aforementioned deadline shall be extended and the transaction will be possible to close until 31 July 2013. On 20 September 2011, the Company notified UOKiK and announced its intention to merge with GZE S.A. Currently, proceedings at UOKiK on this matter are on-going.

If the transaction under discussion is completed successfully, the TAURON Group shall strengthen its position as a leading energy distributor in the southern Poland. Accordingly, the number of end consumers will increase as well as the volume of electric energy distributed and sold. Additionally, this transaction should generate synergies resulting from integration of the assets to be acquired.

The transaction on acquisition of GZE S.A. shares was described in detail in the current report no. 44/2011 of 23 August 2011.

### **Merger of subsidiaries**

In connection with the reorganisation of the Group structure, in the third quarter of 2011, significant mergers of subsidiaries took place.

On 31 August 2011, the merger of the company Południowy Koncern Energetyczny S.A. (acquiring company) and the company Elektrownia Stalowa Wola S.A. (acquired company) was entered in the National Court Register. On 1 September 2011, the enterprise name was changed from Południowy Koncern Energetyczny S.A. to TAURON Wytwarzanie S.A.

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On 1 September 2011, the merger of the company EnergiaPro S.A. (acquiring company) and company ENION S.A. (acquired company) was entered in the National Court Register. Simultaneously, the enterprise name was changed from EnergiaPro S.A to TAURON Dystrybucja S.A.

On 1 September 2011, the merger of the company Przedsiębiorstwo Energetyki Ciepłej Katowice S.A. (acquiring company) and Przedsiębiorstwo Energetyki Ciepłej in Dąbrowa Górnicza S.A. (acquired company). Simultaneously, the enterprise name was changed from Przedsiębiorstwo Energetyki Ciepłej Katowice S.A. to TAURON Ciepło S.A.

The acquisition of the aforementioned companies was performed by merger through acquisition, i.e. pursuant to art. 492 § 1 item 1 of the Code of Commercial Companies, by transfer of the whole assets of the acquired company to the acquiring company in exchange for the shares of the acquiring company, which were not issued to the shareholders of the acquired company. As a result of the merger, the acquired companies were dissolved without liquidation.

The mergers performed affected the decrease of non-controlling shares by the amount of PLN 8,076 thousand, and the increase of the retained earnings by the amount of PLN 8,039 thousand.

### **Share repurchase**

During the three quarters of 2011, in the capital Group TAURON Polska Energia S.A., processes of repurchase of treasury shares was continued, with the purpose of their redemption by companies: TAURON Wytwarzanie S.A. (including, before the date of the merger, by Południowy Koncern Energetyczny S.A. and Elektrownia Stalowa Wola S.A.), TAURON Dystrybucja S.A. (including, before the date of the merger, by ENION S.A. and EnergiaPro S.A.), Elektrociepłownia Tychy S.A., as well as, before the date of the merger – by Przedsiębiorstwo Energetyki Ciepłej Katowice S.A.

As a result of repurchase of treasury shares, during the three quarters of 2011, the value of non-controlling shares decreased by the amount of PLN 34,968 thousand, while the retained profit increased by PLN 13,981 thousand.

### **Purchase of non-controlling shares**

In August 2011, TAURON Polska Energia S.A. purchased shares from the following non-controlling shareholders:

- 9,477 shares of Południowy Koncern Energetyczny S.A., currently TAURON Wytwarzanie S.A., at the par value of PLN 10 each, constituting 0.0061% of the share capital of this company, at the price of PLN 235 thousand,
- 6,149,541 shares of ENION S.A., currently TAURON Dystrybucja S.A., at the par value of PLN 0.01 each, constituting 0.0245% of the share capital of this company, at the price of PLN 676 thousand.

The fee for the shares purchased was paid in August 2011.

As a result of the purchase of shares, the value of non-controlling shares decreased by the amount of PLN 1,104 thousand, while the retained profit increased by PLN 192 thousand.

### **Purchase of the special purpose vehicle Lipniki sp. z o.o.**

On 28 September 2011 TAURON Ekoenergia sp. z o.o acquired 100% of shares of the company Lipniki sp. z o.o., including the wind farm, from the German energy concern WSB Neue Energien GmbH. Lipniki sp. z o.o. is the special purpose vehicle which was created to construct and operate the wind park Lipniki including 15 wind turbines of the total capacity of 30.75 MW. The wind park in Lipniki was launched in July 2011 and it is located in the south-western part of the Opole Province, within the municipality of Kamiennik (Nysa district). The purchase price was established at PLN 91,560 thousand which covers the refundable contributions allocated by the seller in Lipniki sp. z o.o. at the amount of PLN 19,358 thousand. As a result of the purchase transaction of the company

Lipniki sp. z o.o., in the ledgers, the goodwill occurred at the amount of PLN 51,576 thousand. The Lipniki wind park is the first wind farm within the structure of TAURON Group.

## 2. Operations of the TAURON Capital Group

### 2.1. Main areas of operations

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

The TAURON Capital Group conducts its operations in the following areas (Segments):

- **Mining Segment**, comprising mainly mining, preparation and sales of hard coal in Poland., the activity provided by PKW. Through PKW the TAURON Capital Group directly owns and runs Zakład Górniczy Sobieski and Zakład Górniczy Janina.
- **Generation Segment**, comprising mainly generating of electric energy and heat from conventional sources, as well as generating of electric power and heat using biomass co-burning, the activity provided by TAURON Wytwarzanie (the company was established through merger of Południowy Koncern Energetyczny and Elektrownia Stalowa Wola), Elektrociepłownia Tychy and Elektrociepłownia EC Nowa. The total achievable installed power of the generating units of the Generation Segment reached 5,448 MW of electric energy at the end of September 2011 (i.e. the level remained unchanged as compared to 2010, accounting for 15.3% of the national generating potential) and 3,200 MW of heat.
- **RES Segment**, comprising generating electric energy from renewable sources (excluding generation of electric energy using biomass co-burning which is covered by the Generation Segment), as well as managing of the TAURON Group Projects in the area of energy generating from other renewable energy sources. This activity is provided by TAURON Ekoenergia and the companies BELS INVESTMENT and MEGAWAT MARSZEWO acquired in 2010, as well as by the company Lipniki, acquired in 2011. In the RES Segment, 35 hydropower plants operate of total achievable capacity of 131.7 MW, accounting for 2.4% of total achievable capacity of the TAURON Capital Group.
- **Distribution Segment**, covering distribution of electric energy using distribution networks located in southern Poland, the activity provided by TAURON Dystrybucja (a company established through merger of Enion and EnergiaPro). The TAURON Capital Group belongs to the largest electricity distributors in Poland, both in terms of volume of the supplied electric energy and revenue from distribution activity.
- **Trade Segment**, comprising sales of electric energy to end-customers and wholesale trading of electric energy, as well as trading and management of CO<sub>2</sub> emission allowances and the proprietary rights arising from the energy certificates. Activities in this area are provided by the companies: TAURON Sprzedaż, PEPKH, TAURON Czech Energy and TAURON Polska Energia. The company dealing with customer service (trading company and DSO segment) - TAURON Obsługa Klienta, is also included in this area.
- **“Other” Segment**, comprising mainly distribution and sales of heat (provided by the company TAURON Ciepło established through the merger of PEC Katowice and PEC in Dąbrowa Górnicza), as well as other activities in the area of extraction of stone, including limestone, for power industry, metallurgy, construction and road building as well as production of sorbents for flue gas desulphurization installations using the wet method and for the use in the fluidized bed boilers (provided by the company Kopalnia Wapienia Czatkowice sp. z o.o.). According to the status as of

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30 September 2011, the total achievable capacity of generating assets of TAURON Ciepło reached 188 MWt, accounting for about 5.5% of the achievable heat capacity of the TAURON Capital Group.

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

During three quarters of 2011 and in the third quarter of 2011 the TAURON Group reached the following key operating parameters:

Key operating parameters	unit	QI - QIII 2011	QI - QIII 2010	Change	QIII 2011	QIII 2010	Change
Production of commercial coal	M Mg	3.78	3.38	11.8%	1.18	1.17	0.9%
Generation of electric energy (net production of the Group), including :	TWh	16.30	15.54	4.9%	5.09	5.33	-4.5%
<i>Net production of Generation Segment</i>	TWh	15.98	15.17	5.3%	4.97	5.19	-4.2%
<i>Net production of RES Segment</i>	TWh	0.32	0.38	-15.8%	0.12	0.14	-14.3%
Generation of electric energy from renewable sources, including:	TWh	0.77	0.85	-9.8%	0.31	0.32	-4.3%
<i>Production from biomass of the Generation Segment</i>	TWh	0.45	0.47	-4.3%	0.19	0.18	5.6%
<i>Production of hydropower plants of the RES Segment</i>	TWh	0.32	0.38	-15.8%	0.12	0.14	-14.3%
Heat generation by the Group, including:	PJ	10.39	11.80	-11.9%	0.99	1.28	-22.7%
<i>Heat Production by Generation Segment</i>	PJ	9.82	11.14	-11.8%	0.96	1.22	-21.3%
<i>Heat production by "Other" Segment</i>	PJ	0.57	0.66	-13.6%	0.03	0.06	-50.0%
Distribution of electric energy	TWh	28.82	27.94	3.1%	9.41	9.18	2.5%
Retail sales of electric energy	TWh	27.11	25.39	6.8%	8.54	8.54	0.0%
Number of customers - Distribution	thou.	4 137	4 129	0.2%	4 137	4 129	0.2%

## 2.2. Significant achievements and failures of the TAURON Capital Group in the reporting period

### 2.2.1. Structure of sales by segments

The table below presents volumes and structure of sales of the TAURON Capital Group, divided into individual areas (segments) of operations for the period of Quarters I-III of 2011 as well as for the third quarter of 2011, compared to corresponding periods of 2010.

Specification	[Unit]	QI - QIII 2011	QI - QIII 2010	Change	Q III 2011	Q III 2010	Change
Mining Segment - sales of coal	M Mg	3.77	3.41	10.6%	1.20	1.18	1.7%
Electric energy and heat Generation Segment - sales of electric energy and heat from conventional sources	TWh	18.40	15.76	16.8%	5.85	5.36	9.1%
	PJ	9.15	10.42	-12.2%	0.87	1.12	-22.3%
RES Segment - sales of electric energy generated in hydroelectric power plants	TWh	0.32	0.38	-15.8%	0.12	0.14	-14.3%

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Specification	[Unit]	QI - QIII 2011	QI - QIII 2010	Change	Q III 2011	Q III 2010	Change
Distribution Segment - sales of electricity distribution services	TWh	28.82	27.94	3.1%	9.41	9.18	2.5%
Trade Segment of electric energy and other products of the energy market - retail sales of electric energy	TWh	27.11	25.39	6.8%	8.54	8.54	0.0%
"Other" Segment - sales of heat, purchased and generated	PJ	5.96	7.01	-15.0%	0.33	0.59	-44.1%

### Coal mining

In the three quarters of 2011, the Generation Segment produced the total amount of almost 3.8 million tonnes of commercial coal, i.e. by about 11.8% more as compared to the corresponding period of 2010 when the production of commercial coal reached about 3.4 million tonnes.

In the third quarter of 2011, the level of coal production reached about 1.2 million tonnes and it was higher by about 1% than in the third quarter of 2010. In the third quarter of both 2011 and 2010, temporary limitations of coal extractions level occurred due to difficult mining and geological conditions.

The volume of coal sales in the third quarter of 2011 amounted to about 1.2 million tonnes which makes an increase by almost 2%, as compared to the corresponding period of 2010.

In cumulative terms, during the three quarters of 2011 sales of commercial coal amounted to almost 3.8 million ton (over 10% increase y/y), which is connected with the growing demand of consumers, particularly in terms of thick and medium coal size. In spite of significant growth as compared to the last year, the level of sales in the third quarter of 2011 was not high, as a result of production capacity limitations occurring in this period due to temporary difficulties in underground works, caused by increased water inflow from selected areas of extraction zone. These problems imposed the extension of dewatering system as well as construction of additional strengthening of the wall.

### Generating electric energy and heat from conventional sources

In the first three quarters of 2011, the companies of the Generation Segment produced jointly about 16.0 TWh (including about 0.45 TWh from biomass) net of electric energy, which makes approx. 5.3% more than in the corresponding period of the previous year (almost 15.2 TWh, including approx. 0.47 TWh from biomass), as well as about 9.8 PJ of heat, against about 11.1 PJ in the corresponding period of 2010 r., i.e. less by about 12%.

The increased level of electric energy production in Poland is the consequence of the growing demand of consumers, particularly in the first half of this year, expressed by increased level of sales, which corresponds to the higher electricity consumption in Poland in the analysed period. Lower production of electric energy from biomass is the consequence of limitations in agro type biomass supply this year and non-compliance with the legal requirement of 40% agro biomass share in the aggregate biomass (in 2010 the mandatory share was 25%). On the other hand, the decreased level of heat production results from lower demand of heat consumers, due to shorter winter season and higher ambient temperatures, maintaining particularly in September this year, as compared to different conditions in the corresponding period of last year.

In the first three quarters of 2011, the Generation Segment of the TAURON Capital Group achieved the electric energy sales volume at the level of about 18.4 TWh, which makes the increase by about 17 % as compared to 15.8 TWh of the corresponding period of the previous year.

The quarterly volume of electric energy sold by the Generation Segment increased by about 0.5 TWh (by 9%), from ab. 5.4 TWh in the third quarter of 2010 to over 5.9 TWh in the third quarter of 2011, which is the result of higher demand for electric energy in the National Electric Power System as well as increased activity on the power market – due to the amendments (since 9 August 2010) to the Act of 10 April 1997 Energy Law, according to which energy generators are obliged to sell a part or total (in the case of TAURON Wytwarzanie, as the beneficiary of the Act on premature long-term contracts termination) volume of electricity (except electric energy generated from RES and in congregation) so as

to ensure equal public access to this energy. Accordingly, most of the electric energy produced is currently traded at the Polish Power Exchange (before amendment to the Law, almost the entire volume of production was sold within the Group).

### ***Generating electric energy from renewable sources***

The volume of electric energy generated in hydroelectric power plants and supplied through the companies of the RES Segment of the TAURON Group in the first three quarters of 2011 was lower than in the corresponding period of 2010 reaching 0.32 TWh (against 0.38 TWh in 2010). The achieved level of energy production from RES was mainly due to standard hydrological conditions, as compared to particularly favourable conditions for production of hydroelectric power plant last year. In the analysed period of three quarters of 2011, short-term intensive rainfall in the period of spring vegetation and longer rainless periods resulted in lack of runoff of rainfall water to rivers and reservoirs, causing significantly lower energy production than in 2010. On the other hand, statistically higher precipitation and ambient temperature in the third quarter of 2011 caused decreased evaporation and increased runoff of rainfall water, which allowed for reaching higher level of energy production than in the previous quarters, nevertheless, this level was 0.12 TWh in Q III of this year, being slightly lower than that achieved in the corresponding period of last year (0.14 TWh).

### ***Electric energy distribution***

The volume of electric energy supplied to about 4,137 thousand consumers by the companies of the Distribution Segment of the TAURON Group increased by approximately 0.9 TWh, which means by over 3%, from approximately 27.9 TWh in the period of three quarters of 2010 (against approx. 9.2 TWh in the third quarter of 2010) to approx. 28.8 TWh in the period of three quarters of 2011 (approx. 9.4 TWh in the third quarter of 2011), which was associated with the increased demand for electric energy supply of current customers and acquiring of new customers connected to the network. The increase in sales referred mainly to enterprises of WN and SN tariff groups. In the group nN customers the downward trend was observed (by 2.2%), with the dominating share of households (decrease of supply by 3.2%)

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

The volume of retail sales of electric power by companies of the Trade Segment of the TAURON Group increased by approximately 1.7 TWh, year by year, i.e. by about 7%, from about 25.4 TWh in the three quarters of 2010 to about 27.1 TWh in the same period of 2011. The reasons of the increase in sales are identical to those for the Distribution Segment and result from increased demand for electric energy as well as from acquisition of new electric energy consumers for the Group. The increase in electricity consumption was observed particularly in B and C tariff groups. The level of surrender in these groups was lower than expected, which makes the positive effect of the adopted sales strategy. In G group, compared to the corresponding period of 2010, a slight decrease in the average energy consumption was observed, which resulted in smaller sales volume in this group, despite higher number of customers. In the third quarter of 2011 companies of the Trade Segment sold jointly over 8.5 TWh of electric energy to about 4.1 million of end clients (both households and enterprises), which constituted the level comparable to the corresponding period of 2010.

### ***Other operations***

The volume of heat sold by heat companies, coming from purchasing and production in own heating plants decreased by about 1 PJ, i.e. by over 15%, from approximately 7 PJ in the first three quarters of 2010 (approx. 0.6 PJ in the third quarter of 2010) to approx. 6 PJ in the period of three quarters of 2011 (approx. 0.3 PJ in the third quarter of 2011). The decrease of operating parameters is associated with higher average ambient temperature in the analysed period of this year which affected lower demand for heat, as compared to corresponding period of 2010, particularly in the third quarter of this year

## 2.2.2. Implementation of the investment programme

In the period of quarters I-III of 2011, activities associated with implementation of the investment programme proceeded. Capital expenditure of the TAURON Capital Group in this period amounted to almost PLN 1,401 million being higher by about 62% than the expenditure incurred in the corresponding period of last year, which amounted to over PLN 865 million. This was mainly caused by intensification of strategic investment in the segments of Generation and Distribution.

The main investment during the three quarters of 2011 included expenditure for: construction of new power generation capacity (PLN 255 million), construction of new service lines in the Distribution Segment (PLN 233 million), and construction of underground technical infrastructure in the Mining Segment (approx. PLN 50 million).

## 2.2.3. Concluding of significant contract with ArcelorMittal Poland S.A.

On 25 July 2011 the significant agreement was concluded between EC Nowa (EC Nowa) and ArcelorMittal Poland S.A. (ArcelorMittal) covering the following scope:

- sales of energy carriers by EC Nowa to ArcelorMittal, such as: wind of blast furnace, electric energy, compressed air and heat,
- purchase of gas fuel by EC Nowa from ArcelorMittal, such as: blast furnace gas, coal gas and convector gas,
- establishment of the principles of settlements between EC Nowa and ArcelorMittal concerning the CO<sub>2</sub> emission,
- implementation of investment by EC Nowa involving modernisation of the OPG 430 boiler and construction of turbo generator of 50 MW capacity (Investment) as well as specifying the conditions for achievement of return on investment resulting from the contract under consideration.

The contract was concluded for the period of 65 months. The estimated value of this contract during its entire effective period was determined at the level of about PLN 2.13 billion. The amount of PLN 2.13 billion covers both the estimated revenue of EC Nowa due to sales of the aforementioned energy carriers (about PLN 1.56 billion), as well as estimated costs of EC Nowa resulting from purchase of gas fuel from ArcelorMittal (about PLN 0.57 billion).

## 2.2.4. Concluding of preliminary contract on purchase of shares of Górnosławski Zakład Elektroenergetyczny S.A.

On 23 August 2011, TAURON Polska Energia S.A. and Vattenfall AB signed preliminary contract on purchase of 1,249,693 of shares constituting 99.98% of the share capital of the company Górnosławski Zakład Elektroenergetyczny S.A. Detailed information on this contract is included in section 1.4 *The Effects of changes in the Company and the Capital Group structure*.

## 2.2.5. Purchase of the Lipniki wind farm

On 28 September 2011 the company TAURON Ekoenergia sp. z o.o. acquired 100% of shares of the company Lipniki sp. z o.o., including the wind farm, from the German energy concern WSB Neue Energien GmbH. Detailed information on purchase of the aforementioned shares by the Company is included in section 1.4 *The Effects of changes in the Company and the Capital Group structure*.

## 2.2.6. Acquiring of preferential financing from the European Investment Bank

On 24 October 2011 the Company acquired two preferential loans from the European Investment Bank (EBI) at the total value of PLN 510 million, including:

- a) PLN 300 million (ab. EUR 76 million) to finance restructuring and commissioning of high performance coal-fired unit in cogeneration, with the accompanying infrastructure in ZEC in Bielsko-Biała. Due to the funds acquired, the current unit will be replaced by the block of higher capacity amounting to 50 MWe and 182 MWt. The new unit will present efficiency at the level of 90 per cent, as

compared to 60 per cent of the current unit. Fuel savings of the new unit was estimated at over 25 per cent. Construction of the block was commenced in August 2010 and it is conducted by Polimex-Mostostal. Implementation of the project shall continue until mid - 2013.

b) PLN 210 million (ab. EUR 53 million) to support construction and commissioning of the new biomass-fuelled boiler of 50 MWe and 45 MWt in Elektrownia Jaworzno III as well as renovation of the steam turbine. Construction of the boiler is conducted by consortium Rafako and Omis. The commissioning is scheduled in 2012.

### 2.2.7. Increase of the value of corporate bonds programme

On 28 October 2011, the contract was concluded between the Company and Bank Handlowy w Warszawie S.A., ING Bank Śląski S.A., Bank Polska Kasa Opieki S.A., BRE Bank S.A., Powszechna Kasa Oszczędności Bank Polski S.A., Nordea Bank Polska S.A., Nordea Bank AB, on the basis of which the value of bond programme of TAURON Polska Energia S.A. was increased by tranche C at the value of PLN 3 billion, i.e. to the total amount of PLN 4.3 billion. The funds to be acquired by issue of bonds within tranche C will be allocated on financing of acquisition of Górnośląski Zakład Elektroenergetyczny S.A. from Vattenfall AB, or to implement other investment carried out by the TAURON Capital Group (in case of failure of the acquisition of GZE S.A.). Detailed information on terms and conditions of the programme was published in the current report no. 53/2011 of 28 October 2011.

## 3 Analysis of assets and financial situation of the Capital Group

### 3.1 Financial situation of the Capital Group after the third quarter of 2011

#### 3.1.1. Consolidated statement on comprehensive income

The table below presents selected items of the consolidated statement on comprehensive income of the TAURON Capital Group for the period of 9 months, ended on 30 September 2011 as well as comparative data for the period of 9 months ended on 30 September 2010. These items have been referred to in accordance with the interim condensed consolidated financial report compliant with the IFRS (International Financial Reporting Standards) for the period of 9 months ended on 30 September 2011, which includes presentation of the statements for the periods of 3 and 9 months ended on 30 September 2011, compared to the corresponding periods ended on 30 September 2010.

Specification	Q I-III 2011		Q I-III 2010		Q III 2011		Q III 2010	
	Thousand PLN	% of total revenue on sales	Thousand PLN	% of total revenue on sales	Thousand PLN	% of total revenue on sales	Thousand PLN	% of total revenue on sales
Continuing operations								
Sales of goods for resale, finished goods and materials without elimination of excise	11 925 866	79%	7 864 450	72%	3 806 417	79%	2 682 949	73%
Excise tax	(312 140)	2%	(313 477)	3%	(86 613)	2%	(103 783)	3%
Sales of goods for resale, finished goods and materials	11 613 726	77%	7 550 973	69%	3 719 804	77%	2 579 166	70%
Rendering of services	3 522 199	23%	3 379 668	31%	1 105 234	23%	1 104 706	30%

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Specification	Q I-III 2011		Q I-III 2010		Q III 2011		Q III 2010	
	Thousand PLN	% of total revenue on sales	Thousand PLN	% of total revenue on sales	Thousand PLN	% of total revenue on sales	Thousand PLN	% of total revenue on sales
Other income	30 916	0.2%	20 234	0.2%	10 659	0.2%	6 714	0.2%
<b>Sales revenue</b>	<b>15 166 841</b>	100%	<b>10 950 875</b>	100%	<b>4 835 697</b>	100%	<b>3 690 586</b>	100%
Cost of own sales	(13 235 299)	87%	(9 137 766)	83%	(4 255 070)	88%	(3 141 138)	85%
Gross profit/(loss)	<b>1 931 542</b>	13%	<b>1 813 109</b>	17%	<b>580 627</b>	12%	<b>549 448</b>	15%
Other operating income	65 911	0.4%	72 385	1%	21 453	0.4%	19 742	0.5%
Cost of sales	(126 055)	1%	(165 523)	2%	(26 344)	0.5%	(56 309)	2%
General and administrative expenses	(483 462)	3%	(490 283)	4%	(174 890)	4%	(149 663)	4%
Other operating costs	(66 996)	0.4%	(101 760)	1%	(17 984)	0.4%	(18 041)	0.5%
<b>Operating profit /(loss)</b>	<b>1 320 940</b>	9%	<b>1 127 928</b>	10%	<b>382 862</b>	8%	<b>345 177</b>	9%
<i>Operating profit margin (%)*</i>	<b>8.7%</b>		<b>10.3%</b>		<b>7.9%</b>		<b>9.4%</b>	
Finance revenue	83 262	0,5%	65 133	0.6%	28 441	0.6%	21 350	0.6%
Finance cost	(122 003)	1%	(147 481)	1%	(44 508)	1%	(42 405)	1%
Share in profit of the affiliates	(727)	0%	0	0%	(188)	0%	0	0%
<b>Gross profit /(loss)</b>	<b>1 281 472</b>	8%	<b>1 045 580</b>	10%	<b>366 607</b>	8%	<b>324 122</b>	9%
<i>Gross profit margin (%)*</i>	<b>8.4%</b>		<b>9.5%</b>		<b>7.6%</b>		<b>8.8%</b>	
Income tax	(261 116)	2%	(220 516)	2%	(74 198)	1%	(72 019)	2%
<b>Net profit (loss) on continuing operations</b>	<b>1 020 356</b>	7%	<b>825 064</b>	8%	<b>292 409</b>	6%	<b>252 103</b>	7%
Profit (loss) on discontinuing operations								
<b>Net profit (loss) for the period</b>	<b>1 020 356</b>	7%	<b>825 064</b>	8%	<b>292 409</b>	6%	<b>252 103</b>	7%
<i>Net profit margin (%)*</i>	<b>6.7%</b>		<b>7.5%</b>		<b>6.0%</b>		<b>6.8%</b>	
Other comprehensive income for the period following deduction of tax	769		(10 080)		618		(3 692)	
<b>Total revenue for the period</b>	<b>1 021 125</b>		<b>814 984</b>		<b>293 027</b>		<b>248 411</b>	
Profit attributable to:								
Shareholders of the parent company	994 504	7%	701 598	6%	290 471	6%	219 831	6%
Non-controlling interests	25 852	0.2%	123 466	1%	1 938	0%	32 272	1%
Total income attributable to:								
Shareholders of the parent company	995 273	7%	692 998	6%	291 089	6%	216 661	6%
Non-controlling interests	25 852	0.2%	121 986	1%	1 938	0%	31 750	1%
<b>EBIT and EBITDA</b>								
<b>EBIT</b>	<b>1 320 940</b>	9%	<b>1 127 928</b>	10%	<b>382 862</b>	8%	<b>345 177</b>	9%
<b>EBITDA</b>	<b>2 370 719</b>	16%	<b>2 159 492</b>	20%	<b>735 841</b>	15%	<b>689 573</b>	19%

\* Margins of operating profits, gross profit and net profit for Q I-III of 2011 calculated against the corresponding level of sales revenue of the same period of the previous year (excluding the compulsory sales of the generated electric energy through power exchange, resulting from the amendment to the Act on Energy Law ) would be similar to those reached in previous year, amounting to: 11.1%; 10.8%; 8.6%, respectively. The comparable EBITDA margin would reach 20.0%, i.e. it would stay at the level comparable to the corresponding period of the previous year

As compared to the corresponding period of 2010, the TAURON Capital Group reached higher revenue on sales in all operating segments, excluding the "Other" segment (values at comparable level). The

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highest dynamics of revenue increase was observed in the Segments of RES (significant increase particularly in the third quarter of 2011), Generation and Trade.

The growth of revenue on sales of over 38% achieved by the Group in the current period, as compared to the period of Q I-III of 2010, is associated with the obligation to conduct sales of the electric energy by the generators through power exchange - sales value makes about PLN 3,297 million (almost 22%). Taking this fact into account and bringing the data to comparability, (in the period of Q I-III of 2010, sales of electric energy from the Generation Sector was subject to exemption within consolidation of revenue of the Group - almost all the volume of the generated electric energy was sold within the Group), the increase in revenue would reach 8.4%.

Increased costs of operations are related to the increased sales volume, particularly in case of electric energy. Within the companies of the Group, activities aimed at optimisation of permanent costs are implemented.

Lower dynamics of cost growth was reflected in improvement of EBIT and EBITDA indicators as well as net profit. The net profit margin for the period of Q I-III 2011 under comparable conditions reached the level of 8.6%, i.e. the result higher than in the corresponding period of the previous year (7.5%).

### 3.1.2. Financial results according to areas of operations

The table below shows the results of the TAURON Capital Group divided into individual areas (segments) of operations for the period of Quarters I-III of 2011 and for the third quarter of 2011, against 2010. Data for individual segments do not cover exclusions due to consolidation.

Specification (thousand PLN)	Q I-III 2011	Q I-III 2010	Q III 2011	Q III 2010
Coal mining				
Revenue on sales	961 184	808 644	308 808	288 692
Operating profit	48 316	7 805	3 549	2 920
Amortisation and non-finance assets write-downs	76 410	80 542	23 684	24 979
EBITDA	124 726	88 347	27 233	27 899
Generating electric energy and heat from conventional sources				
Revenue on sales	4 649 837	4 074 097	1 469 790	1 362 099
Operating profit	484 065	526 900	106 859	165 729
Amortisation and non-finance assets write-downs	425 450	409 882	147 467	138 450
EBITDA	909 515	936 782	254 326	304 179
Generating electric energy from renewable sources				
Revenue on sales	151 075	120 464	57 943	43 857
Operating profit	93 404	65 566	37 493	22 996
Amortisation and non-finance assets write-downs	18 203	17 302	6 167	7 149
EBITDA	111 607	82 868	43 660	30 145
Distribution of electric energy				
Revenue on sales	3 412 343	3 324 811	1 102 067	1 095 861
Operating profit	521 440	365 761	183 883	138 261
Amortisation and non-finance assets write-downs	489 517	481 151	162 870	159 473
EBITDA	1 010 957	846 912	346 753	297 734
Trade of energy and other products of the energy market				
Revenue on sales	9 982 815	8 693 224	3 198 400	2 853 171

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<b>Specification (thousand PLN)</b>	<b>Q I-III 2011</b>	<b>Q I-III 2010</b>	<b>Q III 2011</b>	<b>Q III 2010</b>
Operating profit	210 625	205 563	69 884	39 804
Amortisation and non-finance assets write-downs	7 047	5 477	1 775	1 937
EBITDA	217 672	211 040	71 659	41 741
Other				
Revenue on sales	403 920	405 417	86 353	89 096
Operating profit	20 124	14 825	-1 795	-2 748
Amortisation and non-finance assets write-downs	33 152	37 210	11 016	12 408
EBITDA	53 276	52 035	9 221	9 660
Non-attributable items and exemptions				
<b>EBITDA</b>	<b>-57 034</b>	<b>-58 492</b>	<b>-17 011</b>	<b>-21 785</b>
<b>Total EBITDA</b>	<b>2 370 719</b>	<b>2 159 492</b>	<b>735 841</b>	<b>689 573</b>

**Coal mining**

During the three quarters of 2011 the revenue on sales of the Mining Segment amounted to approx. PLN 961.2 million and it was higher by almost 19% as compared to the revenue reached in the three quarters of 2010 (about PLN 808.6 million).

In the third quarter of 2011, the total revenue on sales of the Mining Segment amounted to PLN 308.8 million which indicates increase by almost 7% as compared to the corresponding period of 2010 when the sales of the Mining Segment reached the level of about PLN 288.7 million due to unfavourable mining and geological conditions. The achieved growth of revenue results from the increase of volume and increase of average price of coal.

EBIT of the segment during the three quarters of 2011 reached the level of about PLN 48.3 million (PLN 7.8 million in a corresponding period a year ago) while the EBITDA reached approx. PLN 124.7 million (approx. PLN 88.3 million respectively). EBIT of the segment in the third quarter of 2011 amounted to approx. PLN 3.5 million and EBITDA – to over PLN 27.2 million. In the same quarter of the previous year, EBIT reached the value of approx. PLN 2.9 million and EBITDA reached almost PLN 27.9 million.

The low level of EBIT and EBITDA noted in Q III of 2011 (as compared to Q III of 2010, the result is only slightly better) is the consequence of temporary occurrence of unfavourable mining and geological conditions (increased inflow of groundwater, difficulties in maintenance of ceiling in one of extraction walls), which affected the slowdown in reaching the full production capacity. As a result of failure to achieve the target level of extraction, due to decreased efficiency of one of the mining plants, production and sales of coal is lower.

**Generating of electric energy and heat from conventional sources**

During the three quarters of 2011, the revenue on sales of the Generation Segment amounted to approx. PLN 4,649.8 million and it was higher by over 14% as compared to the revenue reached in the comparable period of 2010 (about PLN 4,074.1 million). In the third quarter of 2011, the total revenue on sales of the Generation Segment amounted to PLN 1,469.8 million which indicates increase by about 8% as compared to the 3<sup>rd</sup> quarter of 2010. Increase in revenue results mainly from the growth in electric energy volume of sales, following the increased demand of domestic consumers as well as higher average sales price. Trades concluded at the Power Exchange, particularly the SPOT transactions, had the highest impact on the increased sales revenue of the Generation Segment, owing to favourable trends in the scope of the offered prices. On the other hand, the revenue on compensation of stranded costs resulting from termination of LTC was lower than in Q I-III of 2010, which is mainly attributed to the achievement of higher result on electric energy.

During the three quarters of 2011, EBIT of the segment reached about PLN 484.1 million while EBITDA amounted to approx. PLN 909.5 million, which means that the results were lower, as compared to the corresponding period of the previous year, by 8.1% and 2.9%, respectively (EBIT in Q I-III of 2010 reached PLN 526.9 million while EBITDA was at the level of approx. PLN 936.8 million).

Worse results achieved in the first three quarters of 2011 as compared to the first three quarters of 2010 are a result of lower revenues from sales of heat and certificates of origin, as well as higher variable costs of generation related to increased production of electric energy at units of lower capacity due to, among others, OSP (Transmission System Operator) enforcement.

EBIT of the segment in the third quarter of 2011 amounted to approx. PLN 106.9 million while EBITDA reached approx. PLN 254.3 million. In the corresponding period of the previous year, EBIT amounted to PLN 165.7 million and EBITDA – to PLN 304.2 million. The worse results of the third quarter of 2011 (decrease of EBIT level by almost 35% and EBITDA by over 16%) are mainly caused by the increase of variable costs of electric energy generation related to increased production of electric energy at units of lower capacity due to, among others, OSP enforcement and lower supply of heat.

### **Generating electric energy from renewable sources**

During the three quarters of 2011 the revenue on sales of the RES Segment amounted to approx. PLN 151.1 million and it was higher by about 25% as compared to the revenue reached in Q I-III of 2010 (about PLN 120.5 million). In the third quarter of 2011, the total revenue on sales in the RES segment amounted to PLN 57.9 million, indicating the increase by about 32% as compared to the third quarter of 2010 when the segment gained the revenue at the level of about PLN 43.9 million. The key factor influencing the results of the segment is the volume of electric energy production, significantly dependant on weather conditions.

EBIT of the RES segment in the three quarters of 2011 reached about PLN 93.4 million while EBITDA amounted to PLN 111.6 million, being higher as compared to the corresponding period of the previous year - EBIT in Q I-III of 2010 reached about PLN 65.6 million while EBITDA amounted to about PLN 82.9 million. EBIT of the segment in the third quarter of 2011 amounted to approx. PLN 37.5 million while EBITDA – reached approx. PLN 43.7 million, which means that, comparing to the corresponding period of the previous year, EBIT was higher by approximately 63% (the level reached in the previous year was PLN 23.0 million), while EBITDA was higher by almost 45% (the level of the 3<sup>rd</sup> quarter of 2010 was approx. PLN 30.1 million). In spite of unfavourable hydrological conditions in the second quarter of 2011, the decrease in the level of sales was partly compensated by higher sales prices.

Additionally, recognising of revenue from sales of property rights of certificates of origin had positive impact on the result of the RES segment while in the same period of 2010 this revenue was not considered (this revenue was attributed to the Trade segment, through valuation of property rights acquired from production in hydroelectric plants of the company TAURON Sprzedaż, which were redeemed by this company due to sales of electric energy to end users). Following separation of the organised part of enterprise from TAURON Sprzedaż to deal with generation of electric energy from renewable sources (hydroelectric plants), and takeover of these assets by TAURON Ekoenergia, i.e. since the 4<sup>th</sup> quarter of 2010, the aforementioned revenue is attributable to the RES segment.

### **Distribution of electric energy**

During the three quarters of 2011 revenue on sales in the Distribution segment amounted to approx. PLN 3,412.3 million which indicates increase by almost 2.6% as compared to the same period of 2010. In the third quarter of 2011 the achieved revenue on sales was at the level of approx. PLN 1,102.1 million, i.e. by 0.6% more than in the 3<sup>rd</sup> quarter of the previous year when the revenue reached approx. PLN 1,095.9 million. Higher revenue on sales results mainly from increased volume of supply services.

In the period of quarters I-III of 2011, EBIT of the segment amounted to approx. PLN 521.4 million (in the third quarter of 2011 – approx. PLN 183.9 million), as compared to approx. PLN 365.8 million in the corresponding period of the previous year (in the third quarter of 2010 – approx. PLN 138.3 million). EBITDA of the Distribution Segment reached the level of PLN 1,011.0 million (in the third quarter of 2011 – almost PLN 346.8 million), which represents the value higher by PLN 164.0 million, i.e. by about 19% than the value reached in Q I-III of 2010 (as compared to the 3<sup>rd</sup> quarter of 2010 – by PLN 49.0 million, i.e. by almost 16.5%). The dominating factors contributing to the result achieved included: increased sales of other services related to distribution, including increased revenue on fees for connecting to the network, as well as lower energy consumption for the needs of balancing differences.

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

During the three quarters of 2011, the revenue on sales of the Trade Segment amounted to approx. PLN 9,982.8 million, being higher by almost 15% than the revenue reached in the corresponding period of 2010 (about PLN 8,693.2 million).

In the third quarter of 2011, the total revenue on sales in the Trade segment reached PLN 3,198.4 million which indicates the growth by about 12%, as compared to the corresponding period of 2010 when the level of revenue on sales amounted to approx. PLN 2,853.2 million. It is the result of increased sales due to growing demand for electric energy of the existing consumers, in particular in the tariff group B as well as C2x and C1x, and it can also be attributed to acquisition of new consumers of electric energy by the TAURON Capital Group within the separated contracts. Surrenders of clients were also lower, particularly in tariff groups C1x.

EBIT of the segment in Q I-III of 2011 reached approx. PLN 210.6 million (in the 3<sup>rd</sup> quarter of 2011 – approx. PLN 69.9 million), while EBITDA amounted to approx. PLN 217.7 million (in the third quarter of 2011 – PLN 71.7 million). In the corresponding period of the previous year, EBIT amounted to approx. PLN 205.6 million (in the third quarter of 2010 – PLN 39.8 million), while EBITDA reached PLN 211.0 million (in Q III of 2010 – approx. PLN 41.7 million). The comparable (managerial) value of EBIT and EBITDA for the period of Q I-III of 2010 would have been lower by PLN 53.1 million – the valuation of property rights of certificates of origin acquired from RES production of TAURON Sprzedaż company, subject to redemption, had positive impact on the result the Trade Segment in this period. After separation of the generation segment of this company and merger with the company TAURON Ekoenergia (RES Segment), the revenue on sales of certificates of origin is attributable to the RES Segment. Consequently, the level of EBIT and EBITDA for the first three quarters of 2011 is similar to the level reached in Q I-III of 2010.

The results of the segment are under significant influence of the Group sales policy, focusing on acquisition of the growing number of clients and maintaining of existing clients through preparing of the best available offers, often based on reduction of margin for individual groups of clients. During the analysed period, contracts with key accounts were renegotiated, and loyalty actions for mass clients were conducted. As a consequence of the increased volume of electric energy sales, costs of energy purchase increased, and the average purchase price was also slightly higher. The reason for increase in electric energy prices at the futures market was mainly the situation at the European market of energy and CO<sub>2</sub> emission allowances trade following the events in Japan involving the accident in the nuclear power plant as well as the decision of Germany to suspend operations of nuclear power plants partially.

Since the first quarter 2011, presentation of unallocated costs has changed, within which general administrative costs of the dominating entity are recognised. Such costs are incurred on behalf of the whole Group and they cannot be allocated to one operating segment. According to the changed principles presentation of unallocated costs, data for the comparable period were also transformed.

**Other activity**

In Q I-III of 2011, the total revenue on sales in the Segment “Other” reached approx. PLN 403.9 million, which means the growth by about 0.4%, as compared to the corresponding period of 2010. In the 3<sup>rd</sup> quarter of 2011, the revenue on sales at the level of approx. PLN 86.4 million was achieved, i.e. by about 3% less than in the third quarter of 2010 when the revenue amounted to approx. PLN 89.1 million. The sales of products of Kopalnia Wapienia Czatkowice had predominant impact on the growth of revenue. In the heat generating companies of the Segment, slight decline of revenue occurred – in spite of considerable decrease of the volume of heat sold – the average prices of heat and heating power were higher than in the previous year.

In Q I-III of 2011, EBIT of the segment reached approx. PLN 20.1 million (in the 3<sup>rd</sup> quarter it was at the level of PLN - 1.8 million), while during the corresponding period of the previous year, it amounted to approx. PLN 14.8 million (in quarter III of 2010 - PLN 2.7 million).

The level of EBITDA for the period of the Q I-III of 2011 amounted to approx. PLN 53.3 million (in the 3<sup>rd</sup> quarter of 2011 – approx. PLN 9.2 million), which makes the value higher by PLN 1.2 million, i.e. by 2.4% higher than the value reached in the corresponding period of 2010 (in relation to the Q III of 2010, deterioration by about PLN 0.4 million, i.e. by 4.6% occurred). The improved results can be attributed to the increase of highly profitable sales of the company Kopalnia Wapienia Czatkowice. In the heat

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companies, higher average prices of and lower changeable and fixed costs of heat generation and distribution had positive impact on EBIDTA. Within the basic operations of the heat companies, transmission of heat remains to be the most profitable activity, however, the higher EBITDA in the first three quarters of 2011 was mainly caused by the improved result on the heat trade, including also the 3<sup>rd</sup> quarter of 2011, as compared to the corresponding period of the previous year.

### 3.2. Status of assets

#### **Consolidated statement on the financial status**

<b>Consolidated statement on the financial status (in thousand PLN)</b>	<b>Status as of 30.09.2011</b>	<b>Status as of 31.12.2010</b>
<b>ASSETS</b>		
Fixed Assets		
Tangible fixed assets	18 040 324	17 524 936
Intangible fixed assets	1 058 422	970 530
Shares in affiliated companies and joint ventures recognised using the equity method	23 037	764
Other long-term financial assets	306 768	177 452
Other long-term non-financial assets	118 415	123 613
Deferred income tax assets	159 807	161 806
<b>Total fixed assets</b>	<b>19 706 773</b>	<b>18 959 101</b>
Current assets		
Inventories	405 237	408 560
Receivables due to income tax	26 130	74 749
Trade receivables and other receivables	2 237 749	2 273 145
Other short-term financial assets	9 306	28 193
Other short-term non-financial assets	187 315	208 158
Cash and cash equivalents	884 604	1 473 981
<b>Total current assets</b>	<b>3 750 341</b>	<b>4 466 786</b>
Fixed assets classified for trade	4 397	4 397
<b>TOTAL ASSETS</b>	<b>23 461 511</b>	<b>23 430 284</b>
<b>LIABILITIES</b>		
<b>Equity attributable to shareholders of the parent company</b>		
Share capital	8 762 747	15 772 945
Supplementary capital	7 412 882	475 088
Foreign Exchange differences due to translation of foreign entities	498	(271)
Retained earnings/ Accumulated losses	(716 279)	(1 542 937)
Non-controlling shares	462 626	507 246
<b>Total equity</b>	<b>15 922 474</b>	<b>15 212 071</b>
<b>Long-term liabilities</b>		
Loans, credits and debt securities	1 036 475	1 076 178
Liabilities due to leasing and lease contracts with purchase option	59 665	67 810
Long-term provisions and employee benefits	1 105 630	1 059 028
Long-term prepayments and governmental subsidies	628 452	644 522
Trade liabilities and other long-term financial liabilities	7 111	6 910
Provision for deferred income tax	1 308 401	1 215 615
<b>Total long-term liabilities</b>	<b>4 145 734</b>	<b>4 070 063</b>
<b>Short-term liabilities</b>		
Trade liabilities and other liabilities	1 203 576	1 629 723

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Consolidated statement on the financial status (in thousand PLN)	Status as of 30.09.2011	Status as of 31.12.2010
Current portion of interest-bearing credits, loans and debt securities	207 480	325 027
Current portion of liabilities due to leasing and lease contracts with purchase option	17 173	23 452
Other short-term liabilities	617 978	752 819
Accruals and governmental subsidies	274 058	189 712
Liabilities due to income tax	114 786	68 672
Short-term provisions and employee benefits	958 252	1 158 745
<b>Total short-term liabilities</b>	<b>3 393 303</b>	<b>4 148 150</b>
<b>Total liabilities</b>	<b>7 539 037</b>	<b>8 218 213</b>
<b>TOTAL LIABILITIES</b>	<b>23 461 511</b>	<b>23 430 284</b>

In terms of the status of assets of the TAURON Group, as of 30 September 2011, the most important changes involve:

- a) purchase on 28 September 2011 of 100% of shares of the company Lipniki sp. z o.o., including the wind farm by the company TAURON Ekoenergia sp. z o.o. from the German energy corporation WSB Neue Energien GmbH. Lipniki sp. z o.o. is the special purpose vehicle which was created to construct and operate the wind park Lipniki including 15 wind turbines of the total capacity of 30.75 MW which was launched in July 2011. As a result of the purchase transaction of the company Lipniki sp. z o.o., the goodwill occurred at the amount of PLN 51,576 thousand.
- b) payment of deposit on 26 August 2011, by TAURON Polska Energia S.A. for the benefit of Vattenfall AB at the value of PLN 120,0 million, presented under other long-term financial liabilities. The above mentioned deposit, increased by the accrued interest shall be credited against purchase price on the day the trade is closed on account of the price, in accordance with the preliminary contract on purchase of shares constituting 99.98% of the share capital of Górnośląski Zakład Elektroenergetyczny S.A.

### 3.3. Cash Flows

#### **Consolidated statement of cash flows**

The table below illustrates the cash flows of the TAURON Capital Group for the period of three months ended on 30 September, respectively, in 2011 and 2010.

Specification (thousand PLN)	Q I-III 2011	Q I-III 2010
Cash flows from operating activities		
Gross profit /(loss)	1 281 472	1 045 580
Adjustments	498 393	879 324
<b>Net cash from operating activities</b>	<b>1 779 865</b>	<b>1 924 904</b>
Cash flows from investment activities		
Sales of tangible fixed assets and intangible assets	35 061	8 340
Purchase of tangible fixed assets and intangible assets	(1 518 646)	(1 038 194)
Sales of other financial assets	25 737	34 925
Acquisition of shares in affiliated companies and joint ventures recognised using the equity method	(94 439)	0
Purchase of other financial assets	(14 559)	(96 675)
Interest received	44	408
Granting of loans	0	(9 000)

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<b>Specification (thousand PLN)</b>	<b>Q I-III 2011</b>	<b>Q I-III 2010</b>
Others	(111 769)	10 590
<b>Net cash from investment activities</b>	<b>(1 678 571)</b>	<b>(1 089 606)</b>
Cash flows from financial activities		
Purchase of non-controlling treasury shares	(34 582)	0
Repayment of liabilities due to financial leasing	(18 715)	(26 115)
Cash inflows due to loans/credits	87 255	60 469
Repayment of loans/credits	(398 809)	(334 760)
Dividends paid to shareholders of the dominating entity	(262 882)	0
Dividends paid to non-controlling shareholders	(12 797)	(5 569)
Interest paid	(40 259)	(69 194)
Others	(7 650)	(45 702)
<b>Net cash from financial activities</b>	<b>(688 439)</b>	<b>(420 871)</b>
<b>Increase/(decrease) in net cash and cash equivalents</b>	<b>(587 145)</b>	<b>414 427</b>
Net exchange differences	233	(30)
<b>Cash opening balance</b>	<b>1 471 660</b>	<b>972 655</b>
<b>Cash closing balance, including</b>	<b>884 515</b>	<b>1 387 082</b>
- of limited disposability	96 679	52 978

The lower balance of cash as of 30 September 2011, as compared to the end of September last year, was mainly the result of:

- a) in the case of investment activity: in cumulative terms, higher value of direct purchase of fixed assets and intangible assets at the amount of PLN 544 million,
- b) in the case of financial activity: payment of dividend to the shareholders of the dominating entity at the amount of about PLN 263 million.

### **3.4. Factors and events of significant impact on financial results, particularly events of unusual character**

During the period under analysis, no factors or events of unusual nature occurred which could have significant impact on 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**

The Issuer believes that the results of the Company and the TAURON Capital Group will be affected mainly, as it happened in the past, by the following factors:

- a) the macroeconomic situation, especially in Poland, as well as the economic situation of the European Union and the global economy;
- b) amendments to the Act on *Energy Law* and other related acts;
- c) changes in the prices of electric energy, fuels and related products, in particular:
  - electricity prices on the wholesale market,
  - electric energy and coal prices as well as distribution tariffs, as factors influencing the level of income,
  - prices of certificates of origin of energy from renewable sources and from cogeneration,
  - prices of CO<sub>2</sub> credits,

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- prices of other energy raw materials,
- d) overhauls and other pauses in operation of electricity and heat generating equipment;
- e) situation in the National Power System, including activities of distribution and transmission network operators;
- f) political environment, especially in Poland as well as on the European Union level;
- g) introduction of the support system of electric energy generation by high efficiency cogeneration in methane-fired units;
- h) demand for electric energy and heat;
- i) seasonality and weather conditions;
- j) the level of compensation for covering of the stranded costs related to termination of the LTC;
- k) potential failures of equipment, systems and networks belonging to the TAURON Capital Group;
- l) implementation of the investment programme, including concluding of the transaction of GZE SA acquisition.

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

TAURON Polska Energia S.A. did not publish any forecasts of financial results.

## 4 Shares and Shareholders

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

Below, the shareholders holding at least 5% of the total number of votes at the General Meeting of the Issuer, either directly or indirectly, through subsidiaries, are presented, including changes in proprietary structure of significant blocks of shares, which occurred in the period since the last interim report.

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. 9 November 2011, was as follows:

Shareholders	Number of shares held	Percentage in the share capital	Number of votes held	Percentage in the total number of shares
State Treasury *	526 883 897	30.06%	526 883 897	30.06%
KGHM Polska Miedz S.A.**	182 110 566	10.39%	182 110 566	10.39%

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

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

Since 18 August 2011, 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 occurred.

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

The specification of the status of shares of the Issuer, or authorisation to the shares, held by persons managing and supervising the Issuer is presented below, including the indication of changes in the proprietary status since the delivery of the last interim report, individually for each of the persons.

The status of shares of the Company TAURON Polska Energia S.A., or authorisation to the shares, held by persons managing and supervising the Company for the period since the publication of the report for the first half of 2011 until the date of presentation of this quarterly report was as follows:

### Managing persons:

Name and surname	Number of shares as of 18.08.2011 (publication of report for the 1 <sup>st</sup> half of 2011)	Change in number of shares held	Number of shares on the date of delivery of this quarterly report
Dariusz Lubera	6 576	no change	6 576
Joanna Schmid	0	no change	0
Dariusz Stolarczyk	18 183	+ 24 428	42 611
Krzysztof Zamasz	935	no change	935
Krzysztof Zawadzki	21 454	no change	21 454

### Supervising persons:

The status of shares of the Company TAURON Polska Energia S.A., or authorisation to the shares, held by persons managing and supervising the Company for the period since the publication of the report for the first half of 2011 until the date of presentation of this quarterly report was as follows:

Name and surname	Number of shares as of 18.08.2011 (publication of report for the 1 <sup>st</sup> half of 2011)	Change in number of shares held	Number of shares on the date of delivery of this quarterly report
Antoni Tajduś	0	no change	0
Agnieszka Trzaskalska	0	no change	0
Leszek Koziorowski	0	no change	0
Jacek Kuciński	935	no change	935
Włodzimierz Luty	935	no change	935
Michał Michalewski	37 500	-37 500	0
Jacek Szyke	0	no change	0
Marek Ściążko	0	no change	0

## Description of changes in the proprietary status since the publication of the previous interim report

- On 30 August 2011 the Company received notification from the Member of the Management Board, under Article 160 of the Act on *trading in financial instruments*. The notification concerned purchase of 24,428 Company shares at the price of PLN 5.29 per share. The transaction was concluded on 30 August 2011 on the regulated market within the regular trading session. (current report no. 46/2011 of 30 August 2011).
- On 14 September 2011 the Company received notification from the Member of the Supervisory Board, under Article 160 of the Act on *trading in financial instruments*. The notification concerned purchase of 2,500 Company shares at the price of PLN 4.93 per share. The transaction was concluded on 12 September 2011 on the regulated market within the regular trading session. (current report no. 47/2011 of 14 September 2011).
- On 13 October 2011 the Company received notification from the Member of the Supervisory Board, under Article 160 of the Act on *trading in financial instruments*. The notification concerned sale of 40,000 Company shares at the price of PLN 5.40 per share. The transaction was concluded on 12 October 2011 on the regulated market within the regular trading session. (current report no. 48/2011 of 14 September 2011).

## 5 Other relevant information and events

### 5.1. Affirmation of the rating for the Company by the Fitch Rating Agency

On 1 July 2011, the Fitch rating agency informed of their decision to affirm long-term foreign and local currency ratings for the Company at BBB with stable outlooks (current report no. 40/2011 of 1 July 2011). According to Fitch, the ratings reflect strong position of Tauron on the Polish electric energy market as well as the Company's prudent financial policy. The ratings also take into consideration the limited diversification of sources of energy generating as well as the reduced share of the State Treasury in the Company shareholding. Fitch believes that due to its low financial leverage TAURON presents sufficient flexibility to be able to co-finance its ambitious plan of capital expenditures with the debt in medium term perspective, simultaneously maintaining its current ratings (current report 40/2011 of 1 July 2011).

On 26 August 2011, the Fitch rating agency informed of their decision to affirm long-term foreign and local currency ratings for the Company at BBB with stable outlooks, in connection with acquisition of Górnośląski Zakład Elektroenergetyczny S.A. from Vattenfall AB. Fitch agency believes that debt-financed acquisition of a 99.98% stake in GZE for PLN 4.6 billion, which is conditional on consent of the President of the Office for Competition and Consumer Protection, is credit neutral for Company in short to medium term (current report no. 45/2011 of 26 August 2011).

### 5.2. Joining the special purpose vehicles CC Poland Plus sp. z o.o. and Pierwiastki i Surowce Krytyczne sp. z o.o.

On 8 July 2011, TAURON Polska Energia S.A. signed the deed on formation of the company CC Poland Plus sp. z o.o., providing framework for operations of the Polish Knowledge, and Innovation Community Node of KIC InnoEnergy. The main objective of the Polish Node and the newly established company is to conduct research and coordinate activities in the area of the so-called clean coal technologies. The coordinator of the Node Poland Plus is the University of Science and Technology (Akademia Górniczo-Hutnicza), and other signatories (shareholders of the company) include: the Technical University of Silesia (Politechnika Śląska), the Jagiellonian University (Uniwersytet Jagielloński), the Technical University of Wrocław (Politechnika Wroclawska), the Institute of Chemical Coal Processing (Instytut

Chemicznej Przeróbki Węgla), the Central Mining Institute (Główny Instytut Górnictwa), the European company KIC InnoEnergy SE

It is expected that results of the research to be conducted will contribute to the development of the TAURON Group, in compliance with the changing technological, political and social conditions, particularly those resulting from the so-called climate package of the European Union.

On 7 October 2011 TAURON Polska Energia entered into agreement on cooperation under the form of the special purpose vehicle under the name of Pierwiastki i Surowce Krytyczne sp. z o.o. The new entity shall provide platform for cooperation in the scope of research on optimum technology for production of solar panels. Other signatories of the agreement (shareholders of the special purpose vehicle) include: KGHM Polska Miedź, ZGH Bolesław as well as the University of Science and Technology (Akademia Górniczo-Hutnicza). The goal of the company is to implement surveys, research and development in the area of production and processing of critical elements as well as production and sales of innovative solar panels.

This project will enable the TAURON Group to build additional competence in the scope of up-to-date technology for generating of green energy as well as to gain access to know-how on raw materials necessary to produce the solar panels. The favourable results of the studies shall provide background for decisions on involvement of the TAURON Group in production of the solar panels, which would allow for extension of product offer of the Group and entering new markets.

### **5.3. Fulfilment of the precedent condition to the gas contract with PGNiG S.A.**

On 8 July 2011 the Management Board of TAURON Polska Energia was notified that Elektrociepłownia Stalowa Wola S.A. had submitted to PGNiG S.A. the agreement for connection of Stalowa Wola steam and gas fired unit to OSD transmission grid. Thus, one of the two conditions precedent for the obligation to supply gas under the Gas Supply Agreement concluded on 11 March 2011 was fulfilled. Under the Gas Supply Agreement, both conditions should be fulfilled by 31 December 2012 (current reports no. 41/2011 of 8 July 2011 and no. 9/2011 of 11 March 2011).

### **5.4. Participation in privatisation process of ZEW Niedzica S.A.**

TAURON Polska Energia S.A. participates in the privatisation process of the company Zespół Elektrowni Wodnych Niedzica S.A. with the seat in Niedzica (ZEW Niedzica). Within the process, limited audit of the company documents and its enterprise was performed, as a result of which the binding offer on purchase of the majority stake of the company was submitted on 19 August 2011.

TAURON, together with four other entities, was invited by the Minister of the State Treasury to participate in the next stage of the process i.e. negotiations with potential purchasers. Within the negotiation stage on conditions of purchase of the ZEW Niedzica S.A. company shares, the updated binding offer was submitted on 16 September 2011.

Currently, one of potential investors – the Czech company Energo-Pro a.s. – holds the exclusive negotiation right granted until 23 December 2011, which shall not exclude further participation of TAURON in the process.

### **5.5. Concluding of annex to material agreement with Kompania Węglowa S.A.**

On 14 October 2011, TAURON Wytwarzanie S.A. (Issuer's subsidiary) and Kompania Węglowa S.A. signed an annex to the agreement of 1 December 2010 concluded between Południowy Koncern Energetyczny S.A. (now TAURON Wytwarzanie S.A.) and Kompania Węglowa S.A., the subject of which is sales of coal from mines and mining facilities of Kompania Węglowa S.A. for electricity generation purposes, to be used in in power plants and cogeneration heat and power plants belonging to TAURON Wytwarzanie S.A. (Agreement). Pursuant to the annex, the Parties undertook, among others, to take

actions aimed at enabling coal purchase by TAURON Wytwarzanie S.A. under excise exemption in accordance with the Act of 6 December 2008 on excise tax, and agreed that coal supplies made under the Agreement after 1 January 2012 will be exempt from excise tax, provided that such exemption will be possible according to applicable laws (current report no. 49/2011 of 14 October 2011).

## **5.6. Convening of Extraordinary General Meeting**

On 25 October 2011, the Management Board of TAURON Polska Energia S.A. convened the Extraordinary General Meeting of the Company for 22 November 2011 at 11 a.m. at Hotel Angelo in Katowice at 24 Sokolska street. The agenda of the meeting covers, in particular, the item on amendments to the Company Articles of Association concerning the material amendment to the Company's scope of activities (current reports no. 50/2011, 51/2011 and 52/2011 of 25 October 2011).

## **5.7. Proceedings pending in the court, competent arbitration authority or public authority**

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

## **5.8. Information on transactions with related entities**

All transactions with related entities are concluded on arm's length basis. Detailed information concerning transactions with related parties is presented in note No. 29 to the interim condensed consolidated financial statements, drawn up in accordance with the International Financial Reporting Standards for the period of 9 months ended on 30 September 2011.

## **5.9. Information on extended guarantees, credit or loan sureties**

In the third quarter of 2011 neither TAURON Polska Energia S.A., nor its subsidiaries have provided any sureties for a credit or loan, nor any guarantees – to a single entity or its subsidiary of the total value equivalent to at least 10% of the equity of TAURON Polska Energia S.A.

## **5.10. 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 obligations by the Capital Group of the Issuer**

### **5.10.1 Macroeconomic situation**

The TAURON Capital Group operates mainly within the territory of Poland, and therefore macroeconomic trends occurring in Poland are essential. It can be observed that there is a positive correlation exists between the increase in demand for electric energy and economic growth; therefore the macroeconomic situation of the country is directly reflected in financial results achieved by the TAURON Capital Group. During the three quarters of 2011 the upward trend in demand for electric energy in the National Power System continued, which resulted in an increase in electric energy sales by the Group.

## 5.10.2 Termination of long-term contracts

In connection with the termination of long term contracts (LTC) pursuant to the *Act on principles of covering of the costs incurred by producers due to the premature termination of long-term contracts for sales of power and electric energy (LTC Act)*, the generation companies who were previously parties to those contracts were granted the right to receive compensation for covering of the so-called stranded costs (generation company costs resulting from expenditure incurred by the generating company before 1 May 2004, on assets associated with the generation of electric energy, not covered by the revenue gained from sales of the generated electric energy, reserve capacity and system services on a competitive market after the premature termination of the long term contract). The LTC Act limits the total amount of funds that may be paid to all manufacturers for covering the stranded costs, discounted as of 1 January 2007, to the amount of PLN 11.6 billion.

## 5.10.3 Basic data on power generating companies of the TAURON Group subject to the LTC Act

Impact of compensations due to termination of LTC on the results achieved by the TAURON Capital Group was described in Note 26 to interim condensed consolidated financial statement compliant with the International Financial Reporting Standards for the 9 month period ended on 30 September 2011. For the period of three quarters, ended on 30 September 2011, the company of the Generation Segment - TAURON Wytwarzanie S.A., recognised income due to the compensation at the amount of PLN 276.5 million.

## 5.10.4 Market position

The TAURON Capital Group is one of the two largest utility companies in the country. It is the leader in terms of distribution and the second largest electric energy producer in Poland. Besides production and distribution of electric power, the core activity of the TAURON Group covers trade of electric energy, coal mining, heat generation as well as distribution and supply of heat.

## 5.10.5 Potential

The TAURON Capital Group is the key player in the energy sector and an important link in the system of Polish energy security. The Holding operates in the area equal to nearly one-fifth of the country territory. The Corporate Strategy assumes systematic development of the company in Poland and abroad. Within the entire chain of values, the TAURON Capital Group holds assets that cover the needs of its business to the major extent.

## 5.10.6 National Allocation Plan on Emission Allowances for the years 2008-2012

The National Allocation Plan for CO<sub>2</sub> emission allowances (NAP) in relation to the Community emission trading, is subject to notification by the European Commission. In view of the fact that the European Commission, on the occasion of the two previous settlement periods, has limited the amount allocated to Poland for allowances of CO<sub>2</sub> emission, in relation to the level proposed in the NAP, the granted limits constitute significant constraint for the electric power sector.

For the reference period, which covers the years 2008-2012 (NAP II), Poland applied for the allowance of 284 million tonnes of CO<sub>2</sub>. Pursuant to the decision of the European Commission, Poland was granted the annual average limit at the amount of 208.5 million tonnes. In accordance with the current NAP II, only 110.8 million tonnes of CO<sub>2</sub> are allocated for professional power plants while the CO<sub>2</sub> emitted under normal conditions is estimated at around 120 million tonnes.

**TAURON Polska Energia S.A.**

*Additional information to the extended consolidated financial report for the third quarter of 2011*

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