

**EXTENDED CONSOLIDATED  
INTERIM REPORT  
OF TAURON POLSKA ENERGIA S.A.  
CAPITAL GROUP  
FOR THE FIRST HALF OF 2014**

**KATOWICE, 21 AUGUST 2014**

SELECTED FIGURES	in thousands PLN		in thousands EUR	
	2014 period from 01.01.2014 to 30.06.2014	2013 period from 01.01.2013 to 30.06.2013 (adjusted figures)	2014 period from 01.01.2014 to 30.06.2014	2013 period from 01.01.2013 to 30.06.2013 (adjusted figures)
<b>Selected consolidated figures of TAURON Polska Energia S.A. Capital Group</b>				
Sales revenue	9 226 315	9 706 524	2 208 098	2 303 399
Operating profit	1 082 454	1 189 774	259 059	282 338
Profit before tax	925 543	1 086 154	221 507	257 749
Net profit	733 922	891 882	175 646	211 647
Net profit attributable to shareholders of the parent company	730 290	849 232	174 777	201 526
Net profit attributable to non-controlling interests	3 632	42 650	869	10 121
Other comprehensive income	(12 770)	34 571	(3 056)	8 204
Total comprehensive income	721 152	926 453	172 590	219 851
Total comprehensive income attributable to shareholders of the parent company	717 505	882 324	171 717	209 379
Total comprehensive income attributable to non-controlling interests	3 647	44 129	873	10 472
Earnings per share (in PLN/EUR) (basic and diluted)	0,42	0,48	0,10	0,11
Weighted average number of shares (pcs.) (basic and diluted)	1 752 549 394	1 752 549 394	1 752 549 394	1 752 549 394
Cash flows from operating activities	997 673	1 840 467	238 769	436 751
Cash flows from investing activities	(1 712 282)	(1 894 285)	(409 794)	(449 522)
Cash flows from financing activities	404 871	9 972	96 896	2 366
Net increase (decrease) in cash and cash equivalents	(309 738)	(43 846)	(74 129)	(10 405)
	As of 30.06.2014	As of 31.12.2013	As of 30.06.2014	As of 31.12.2013
Non-current assets	27 954 014	27 567 008	6 718 261	6 647 137
Current assets	3 609 555	4 755 521	867 494	1 146 683
Non-current assets classified as held for sale	13 668	33 041	3 285	7 967
Total assets	31 577 237	32 355 570	7 589 040	7 801 787
Issued capital	8 762 747	8 762 747	2 105 974	2 112 931
Equity attributable to shareholders of the parent company	17 793 054	17 327 165	4 276 251	4 178 039
Equity attributable to non-controlling interests	29 574	466 334	7 108	112 446
Total equity	17 822 628	17 793 499	4 283 359	4 290 485
Long-term liabilities	9 975 657	9 304 341	2 397 476	2 243 524
Short-term liabilities	3 778 952	5 257 730	908 205	1 267 778
Total liabilities	13 754 609	14 562 071	3 305 681	3 511 302

	in thousands PLN		in thousands EUR	
	2014 period from 01.01.2014 to 30.06.2014	2013 period from 01.01.2013 to 30.06.2013	2014 period from 01.01.2014 to 30.06.2014	2013 period from 01.01.2013 to 30.06.2013
<b>Selected standalone figures of TAURON Polska Energia S.A.</b>				
Sales revenue	4 275 556	5 557 995	1 023 252	1 318 936
Operating profit	25 613	195 359	6 130	46 360
Profit before tax	1 106 355	1 663 184	264 780	394 681
Net profit	1 089 212	1 646 837	260 677	390 801
Other comprehensive income	(18 270)	36 852	(4 373)	8 745
Total comprehensive income	1 070 942	1 683 689	256 304	399 546
Earnings per share (in PLN/EUR) (basic and diluted)	0,62	0,94	0,15	0,22
Weighted average number of shares (pcs.) (basic and diluted)	1 752 549 394	1 752 549 394	1 752 549 394	1 752 549 394
Cash flows from operating activities	21 699	584 452	5 193	138 693
Cash flows from investing activities	(342 667)	(328 451)	(82 009)	(77 943)
Cash flows from financing activities	499 605	(18 976)	119 568	(4 503)
Net increase (decrease) in cash and cash equivalents	178 637	237 025	42 752	56 247
	As of 30.06.2014	As of 31.12.2013	As of 30.06.2014	As of 31.12.2013
Non-current assets	27 262 417	25 968 345	6 552 048	6 261 657
Current assets	1 411 532	1 993 786	339 237	480 755
Total assets	28 673 949	27 962 131	6 891 285	6 742 412
Issued capital	8 762 747	8 762 747	2 105 974	2 112 931
Total equity	20 181 120	19 443 162	4 850 181	4 688 262
Long-term liabilities	6 100 310	5 576 565	1 466 104	1 344 658
Short-term liabilities	2 392 519	2 942 404	575 000	709 492
Total liabilities	8 492 829	8 518 969	2 041 104	2 054 150

The aforementioned financial information for the first half of 2014 and 2013 have been converted into EUR in accordance with the following rules:

- particular items in the statement of financial standing – in accordance with the average NBP exchange rate announced as of 30 June 2014 – 4.1609 PLN/EUR (as of 31 December 2013 – 4.1472 PLN/EUR)
- particular items in the statement of comprehensive income and statement of cash flows – in accordance with the exchange rate which constitutes an arithmetic average of average NBP exchange rates announced on the last day of each month of the financial period from 1 January 2014 to 30 June 2014 – 4.1784 PLN/EUR (for the period from 1 January 2013 to 30 June 2013 – 4.2140 PLN/EUR).

**INDEPENDENT AUDITOR'S REVIEW REPORT  
ON THE INTERIM CONDENSED CONSOLIDATED  
FINANCIAL STATEMENTS  
OF TAURON POLSKA ENERGIA S.A.  
CAPITAL GROUP  
FOR THE FIRST HALF OF 2014**

**AUGUST 2014**

**AUDITOR'S REPORT ON THE REVIEW OF THE CONDENSED  
INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE PERIOD FROM 1 JANUARY 2014 TO 30 JUNE 2014**

**To the Shareholders and Supervisory Board of TAURON Polska Energia S.A.**

We have reviewed the attached condensed interim consolidated financial statements of the TAURON Polska Energia S.A. Capital Group with TAURON Polska Energia S.A. having its registered office in Katowice at ks. Piotra Ściegiennego 3 Street, as the Parent Company, including an interim condensed consolidated statement of financial position prepared as of 30 June 2014, interim condensed consolidated statement of comprehensive income, interim condensed consolidated statement of changes in equity, interim condensed consolidated statement of cash flows for the period from 1 January 2014 to 30 June 2014 and other explanatory information.

Compliance of these condensed interim consolidated financial statements with the requirements laid down in IAS 34 "Interim Financial Reporting" as endorsed by the European Union ("MSR 34") and with other regulations in force is the responsibility of the Management Board and Supervisory Board of the Parent Company. Our responsibility was to review the financial statements.

Our review has been conducted in accordance with the national auditing standards issued by the National Council of Statutory Auditors. These Standards require that we plan and conduct the review in such a way as to obtain reasonable assurance that the consolidated financial statements are free from material misstatement.

Our review has been conducted mainly based on an analysis of data included in the financial statements, examination of the accounting records as well as information provided by the management and the financial and accounting personnel of the Group.

The scope and methodology of a review of condensed interim financial statements differ significantly from an audit, which serves as the basis for expressing an opinion on compliance of annual financial statements with the applicable accounting principles (policy) and an opinion on their fairness and clarity. Therefore, no such opinion on the attached financial statements may be issued.

Based on our review, we have not identified any issues which would prevent us from concluding that the condensed interim consolidated financial statements have been prepared, in all material respects, in compliance with the requirements laid down in IAS 34 “Interim Financial Reporting” as endorsed by the European Union.

.....  
Artur Maziarka  
Key certified auditor  
conducting the review  
No. 90108

On behalf of Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. – entity authorized to audit financial statements entered under number 73 on the list kept by the National Council of Statutory Auditors:

.....  
Artur Maziarka – Vice-President of the Management Board of Deloitte Polska Sp. z o.o. - which is the General Partner of Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k.

Warsaw, 19 August 2014

***The above auditor’s report on the review is a translation from the original Polish version. In case of any discrepancies between the Polish and English version, the Polish version shall prevail.***

**STATEMENTS OF THE MANAGEMENT BOARD OF  
TAURON POLSKA ENERGIA S.A.**

**AUGUST 2014**

## STATEMENT

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

I, the undersigned, represent that, to my best knowledge, the interim condensed consolidated financial statements of TAURON Polska Energia S.A. Capital Group and comparable figures were prepared in accordance with accounting rules and give the true and fair picture of the assets, financial standing and performance of TAURON Polska Energia S.A. and TAURON Polska Energia S.A. Capital Group.

I also certify that the interim report on the activities of TAURON Polska Energia S.A. Capital Group gives the true picture of the development, achievements and situation of TAURON Polska Energia S.A. Capital Group, including the description of key risks and threats.

Management Board Members:

Dariusz Lubera	– President of the Management Board	.....
Aleksander Grad	– Vice-President of the Management Board	.....
Katarzyna Rozenfeld	– Vice-President of the Management Board	.....
Stanisław Tokarski	– Vice-President of the Management Board	.....
Krzysztof Zawadzki	– Vice-President of the Management Board	.....

19 August 2014

*date*



## STATEMENT

**of the Management Board of TAURON Polska Energia S.A.  
on the appointment of an entity authorised to audit financial statements  
(interim financial statements)**

I, the undersigned, represent that the entity authorised to audit financial statements and review the interim condensed consolidated financial statements of TAURON Polska Energia S.A. Capital Group was appointed in accordance with legal regulations, and this entity and auditors examining the statements have met conditions for developing an impartial and independent report on the review of the audited interim consolidated financial statements in accordance with applicable regulations and professional standards.

Management Board Members:

Dariusz Lubera	– President of the Management Board	.....
Aleksander Grad	– Vice-President of the Management Board	.....
Katarzyna Rozenfeld	– Vice-President of the Management Board	.....
Stanisław Tokarski	– Vice-President of the Management Board	.....
Krzysztof Zawadzki	– Vice-President of the Management Board	.....

19 August 2014

*date*

**TAURON POLSKA ENERGIA S.A. CAPITAL GROUP**

**CONDENSED INTERIM CONSOLIDATED  
FINANCIAL STATEMENTS**

**PREPARED IN ACCORDANCE WITH THE INTERNATIONAL  
FINANCIAL REPORTING STANDARDS  
FOR THE 6-MONTH PERIOD ENDED 30 JUNE 2014**

**AUGUST 2014**

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## CONDENSED INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	6-month period ended 30 June 2014 (unaudited)	6-month period ended 30 June 2013 (unaudited restated figures)
<b>Continuing operations</b>			
Sales revenue	10	9 226 315	9 706 524
Cost of sales	11	(7 565 188)	(7 928 047)
<b>Gross profit</b>		<b>1 661 127</b>	<b>1 778 477</b>
Other operating income		79 801	63 082
Selling and distribution expenses		(257 189)	(270 173)
Administrative expenses		(332 199)	(342 054)
Other operating expenses		(69 086)	(39 558)
<b>Operating profit</b>		<b>1 082 454</b>	<b>1 189 774</b>
Finance income	36	28 961	58 663
Finance costs	36	(185 096)	(160 869)
Share in profit/(loss) of joint venture	17	(776)	(1 414)
<b>Profit before tax</b>		<b>925 543</b>	<b>1 086 154</b>
Income tax expense	12.1	(191 621)	(194 272)
<b>Net profit from continuing operations</b>		<b>733 922</b>	<b>891 882</b>
<b>Net profit for the period</b>		<b>733 922</b>	<b>891 882</b>
<b>Other comprehensive income subject to reclassification to profit or loss:</b>		<b>(18 153)</b>	<b>30 203</b>
Change in the value of hedging instruments		(22 462)	36 844
Foreign exchange differences from translation of foreign entities		41	359
Income tax		4 268	(7 000)
<b>Other comprehensive income not subject to reclassification to profit or loss:</b>		<b>5 383</b>	<b>4 368</b>
Actuarial gains/(losses) related to provisions for post-employment benefits		6 643	5 391
Income tax		(1 260)	(1 023)
<b>Other comprehensive income for the period, net of tax</b>		<b>(12 770)</b>	<b>34 571</b>
<b>Total comprehensive income for the period</b>		<b>721 152</b>	<b>926 453</b>
<b>Net profit:</b>			
Attributable to equity holders of the parent		730 290	849 232
Attributable to non-controlling interests		3 632	42 650
<b>Total comprehensive income:</b>			
Attributable to equity holders of the parent		717 505	882 324
Attributable to non-controlling interests		3 647	44 129
<b>Earnings per share (in PLN):</b>			
– basic and diluted, for profit for the period attributable to equity holders of the parent		0.42	0.48
– basic and diluted, for profit for the period from continuing operations attributable to equity holders of the parent		0.42	0.48

Explanatory notes to the condensed interim consolidated financial statements constitute an integral part hereof.

## CONDENSED INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	As at 30 June 2014 (unaudited)	As at 31 December 2013
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	14	25 446 259	25 127 639
Goodwill	15	247 057	247 057
Intangible assets	16	1 262 910	1 160 005
Investments in joint ventures	17	41 286	44 398
Other financial assets	36	358 775	587 166
Other non-financial assets	36	568 819	354 704
Deferred tax asset	12.2	28 908	46 039
		<b>27 954 014</b>	<b>27 567 008</b>
<b>Current assets</b>			
Intangible assets	18	504 066	1 156 550
Inventories	19	474 560	509 224
Corporate income tax receivable	12.3	92 261	31 890
Trade and other receivables	20	1 933 061	2 134 641
Other financial assets		16 510	15 878
Other non-financial assets		342 953	270 429
Cash and cash equivalents	21	246 144	636 909
		<b>3 609 555</b>	<b>4 755 521</b>
<b>Non-current assets classified as held for sale</b>	<b>36</b>	<b>13 668</b>	<b>33 041</b>
<b>TOTAL ASSETS</b>		<b>31 577 237</b>	<b>32 355 570</b>

*Explanatory notes to the condensed interim consolidated financial statements constitute an integral part hereof.*

## CONDENSED INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION – continued

	Note	As at 30 June 2014 (unaudited)	As at 31 December 2013
<b>EQUITY AND LIABILITIES</b>			
<b>Equity attributable to equity holders of the parent</b>			
Issued capital	22.1	8 762 747	8 762 747
Reserve capital	22.2	10 393 686	9 037 699
Revaluation reserve from valuation of hedging instruments	22.3	(144 845)	(126 651)
Foreign exchange differences from translation of foreign entities		(1 590)	(1 631)
Retained earnings/Accumulated losses	22.2	(1 216 944)	(344 999)
		<b>17 793 054</b>	<b>17 327 165</b>
<b>Non-controlling interests</b>			
		<b>29 574</b>	<b>466 334</b>
<b>Total equity</b>			
		<b>17 822 628</b>	<b>17 793 499</b>
<b>Non-current liabilities</b>			
Interest-bearing loans and borrowings	23	6 005 603	5 500 532
Liabilities under finance leases		52 858	61 643
Trade and other payables		46 841	7 827
Derivative instruments		103 198	87 573
Provisions for employee benefits	24	1 494 542	1 497 814
Other provisions	25	140 542	141 408
Accruals, deferred income and government grants	26	680 537	668 487
Deferred tax liability	12.2	1 451 536	1 339 057
		<b>9 975 657</b>	<b>9 304 341</b>
<b>Current liabilities</b>			
Current portion of interest-bearing loans and borrowings	23	338 249	284 633
Current portion of liabilities under finance leases		17 171	17 327
Trade and other payables		1 625 291	2 023 537
Derivative instruments		80 218	73 358
Provisions for employee benefits	24	142 315	162 368
Other provisions	25	671 999	1 563 019
Accruals, deferred income and government grants	26	313 347	239 639
Income tax payable	12.3	1 786	79 035
Other non-financial liabilities		588 576	814 814
		<b>3 778 952</b>	<b>5 257 730</b>
<b>Total liabilities</b>			
		<b>13 754 609</b>	<b>14 562 071</b>
<b>TOTAL EQUITY AND LIABILITIES</b>			
		<b>31 577 237</b>	<b>32 355 570</b>

Explanatory notes to the condensed interim consolidated financial statements constitute an integral part hereof.

## CONDENSED INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE 6-MONTH PERIOD ENDED 30 JUNE 2014 (*unaudited*)

	Note	Equity attributable to the equity holders of the parent					Non-controlling interests	Total equity	
		Issued capital	Reserve capital	Revaluation reserve from valuation of hedging instruments	Foreign exchange differences from translation of foreign entities	Retained earnings/ Accumulated losses			Total
As at 1 January 2014		8 762 747	9 037 699	(126 651)	(1 631)	(344 999)	17 327 165	466 334	17 793 499
Profit for the period		–	–	–	–	730 290	730 290	3 632	733 922
Other comprehensive income		–	–	(18 194)	41	5 368	(12 785)	15	(12 770)
Total comprehensive income for the period		–	–	(18 194)	41	735 658	717 505	3 647	721 152
Distribution of prior year profits	22.2	–	1 355 987	–	–	(1 355 987)	–	–	–
Dividends	13	–	–	–	–	(332 984)	(332 984)	(1 163)	(334 147)
Acquisition of non-controlling interests	27	–	–	–	–	76 938	76 938	(407 596)	(330 658)
Mandatory squeeze-out	27	–	–	–	–	5 241	5 241	(32 459)	(27 218)
Change in non-controlling interests due to division of a subsidiary	27	–	–	–	–	(811)	(811)	811	–
As at 30 June 2014 (unaudited)		8 762 747	10 393 686	(144 845)	(1 590)	(1 216 944)	17 793 054	29 574	17 822 628

FOR THE 6-MONTH PERIOD ENDED 30 JUNE 2013 (*unaudited restated figures*)

	Equity attributable to the equity holders of the parent						Non-controlling interests	Total equity
	Issued capital	Reserve capital	Revaluation reserve from valuation of hedging instruments	Foreign exchange differences from translation of foreign entities	Retained earnings/ Accumulated losses	Total		
As at 1 January 2013	8 762 747	7 953 021	(153 703)	(370)	(326 585)	16 235 110	493 123	16 728 233
Change in the accounting policy resulting from the method of recognising revenue from power and heat collisions	–	–	–	–	71 571	71 571	216	71 787
As at 1 January 2013 (restated figures)	8 762 747	7 953 021	(153 703)	(370)	(255 014)	16 306 681	493 339	16 800 020
Profit for the period	–	–	–	–	849 232	849 232	42 650	891 882
Other comprehensive income	–	–	29 844	359	2 889	33 092	1 479	34 571
Total comprehensive income for the period	–	–	29 844	359	852 121	882 324	44 129	926 453
Distribution of prior year profits	–	1 084 678	–	–	(1 084 678)	–	–	–
Dividends	–	–	–	–	(350 510)	(350 510)	(8 328)	(358 838)
Mandatory squeeze-out	–	–	–	–	180	180	(1 554)	(1 374)
Change in non-controlling interests due to division of a subsidiary	–	–	–	–	926	926	(926)	–
As at 30 June 2013 (unaudited restated figures)	8 762 747	9 037 699	(123 859)	(11)	(836 975)	16 839 601	526 660	17 366 261

Explanatory notes to the condensed interim consolidated financial statements constitute an integral part hereof.



## CONDENSED INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	6-month period ended 30 June 2014 (unaudited)	6-month period ended 30 June 2013 (unaudited restated figures)
<b>Cash flows from operating activities</b>			
Profit/(loss) before taxation		925 543	1 086 154
<b>Adjustments for:</b>			
Share in profit/(loss) of joint venture	17	776	1 414
Depreciation and amortization		912 105	863 645
(Gain)/loss on foreign exchange differences		25	1 904
Interest and dividends, net		137 034	104 517
(Gain)/loss on investing activities		29 869	235 762
(Increase)/decrease in receivables		211 343	461 636
(Increase)/decrease in inventories		31 400	239 093
Increase/(decrease) in payables excluding loans and borrowings		(644 965)	(769 801)
Change in other non-current and current assets		474 289	157 149
Change in deferred income, government grants and accruals		32 735	91 452
Change in provisions		(915 736)	(371 031)
Income tax paid		(196 157)	(260 466)
Other		(588)	(961)
<b>Net cash generated from operating activities</b>		<b>997 673</b>	<b>1 840 467</b>
<b>Cash flows from investing activities</b>			
Proceeds from sale of property, plant and equipment and intangible assets		30 295	9 959
Purchase of property, plant and equipment and intangible assets	35.1	(1 742 014)	(1 846 214)
Proceeds from sale of financial assets		1 272	760
Purchase of financial assets		(4 400)	(4 246)
Dividends received		2 096	7 396
Interest received		469	56
Repayment of loans granted		5 850	17 550
Loans granted		(5 850)	(79 550)
Other		–	4
<b>Net cash used in investing activities</b>		<b>(1 712 282)</b>	<b>(1 894 285)</b>
<b>Cash flows from financing activities</b>			
Payment of finance lease liabilities		(9 899)	(7 495)
Proceeds from loans and borrowings		–	451 180
Repayment of loans and borrowings	35.2	(60 708)	(19 648)
Issue of debt securities	35.2	1 000 000	–
Redemption of debt securities	35.2	(300 000)	–
Dividends paid to equity holders of the parent		–	(340 680)
Dividends paid to non-controlling interests		(990)	(7 236)
Interest paid	35.2	(136 960)	(85 762)
Acquisition of non-controlling interests	35.2	(125 227)	(1 352)
Subsidies received		43 322	23 655
Other		(4 667)	(2 690)
<b>Net cash generated from financing activities</b>		<b>404 871</b>	<b>9 972</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>(309 738)</b>	<b>(43 846)</b>
Net foreign exchange difference		60	(845)
<b>Cash and cash equivalents at the beginning of the period</b>		<b>541 148</b>	<b>891 654</b>
<b>Cash and cash equivalents at the end of the period, of which:</b>		<b>231 410</b>	<b>847 808</b>
restricted cash	21	154 406	273 729

Explanatory notes to the condensed interim consolidated financial statements constitute an integral part hereof.

## **EXPLANATORY NOTES**

### **1. General information**

The TAURON Polska Energia S.A. Capital Group ("the Group", "the TAURON Group") is composed of TAURON Polska Energia S.A. ("Parent", "Company") and its subsidiaries. The Group's condensed interim consolidated financial statements cover the 6-month period ended 30 June 2014 and present comparative data for the 6-month period ended 30 June 2013 as well as figures as at 31 December 2013. The data for the 6-month period ended 30 June 2014 and the comparative data for the 6-month period ended 30 June 2013, as contained herein, have been reviewed by a certified auditor. The comparative data as at 31 December 2013 were audited by a certified auditor.

The Parent has been entered in the Register of Entrepreneurs of the National Court Register kept by the District Court for Katowice-Wschód, Business Division of the National Court Register, Entry No. KRS 0000271562.

The Parent was assigned statistical number REGON: 240524697.

Duration of the Parent and companies in the Capital Group is unlimited.

The core business of the Group includes:

1. Hard coal mining;
2. Generation of electricity from conventional sources;
3. Generation of electricity from renewable sources;
4. Distribution of electricity;
5. Sale of energy and other energy market products;
6. Generation and distribution of heat;
7. Customer service;
8. Rendering other services related to the items mentioned above.

The operations are based on relevant concessions granted to individual companies of the Group.

## 2. Composition of the Capital Group

As at 30 June 2014, TAURON Polska Energia S.A. held direct shares in the following major subsidiaries:

Item	Company name	Registered office	Segment	Direct share of TAURON in the entity's capital	Direct share of TAURON in the entity's governing body
1	TAURON Wytwarzanie S.A.	Katowice	Generation	100.00%	100.00%
2	TAURON Ekoenergia Sp. z o.o. <sup>1</sup>	Jelenia Góra	Renewable sources of energy	100.00%	100.00%
3	TAURON Dystrybucja S.A.	Kraków	Distribution	99.71%	99.71%
4	TAURON Sprzedaż Sp. z o.o.	Kraków	Sales	100.00%	100.00%
5	TAURON Czech Energy s.r.o.	Ostrawa, Czech Republic	Sales	100.00%	100.00%
6	TAURON Sprzedaż GZE Sp. z o.o.	Gliwice	Sales	100.00%	100.00%
7	TAURON Ciepło Sp. z o.o. <sup>2</sup>	Katowice	Heat	100.00%	100.00%
8	TAURON Obsługa Klienta Sp. z o.o.	Wrocław	Customer service	100.00%	100.00%
9	Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. in liquidation <sup>3</sup>	Tarnów	Other	100.00%	100.00%
10	TAURON Wydobycie S.A. <sup>4</sup>	Jaworzno	Mining	47.52%	31.99%

<sup>1</sup> On 2 January 2014, a business combination under common control of TAURON Ekoenergia Sp. z o.o., MEGAWAT MARSZEWO Sp. z o.o. and BELS INVESTMENT Sp. z o.o. was registered.

<sup>2</sup> On 30 April 2014, a business combination under common control of Enpower Service Sp. z o.o. and TAURON Ciepło S.A. was registered, as discussed in detail in Note 27 hereto. At the same time, the name of the acquirer has been changed to TAURON Ciepło Sp. z o.o.

<sup>3</sup> On 2 July 2014 the company was put under liquidation, as discussed in detail in note 37 to these condensed interim consolidated financial statements.

<sup>4</sup> TAURON Polska Energia S.A. also holds indirect interest in TAURON Wydobycie S.A. through a subsidiary TAURON Wytwarzanie S.A. Under the agreements for the use of shares, TAURON Polska Energia S.A. also holds 52.48% interests in the issued capital, giving it 68.01% of votes at the General Shareholders' Meeting of TAURON Wydobycie S.A. Consequently, the Company holds 100% of shares in TAURON Wydobycie S.A. which gives 100% of votes at the General Shareholders' Meeting.

As at 30 June 2014 TAURON Polska Energia S.A. held the following indirect interest in major subsidiaries:

Item	Company name	Registered office	Segment	Indirect share of TAURON in the entity's capital	Indirect share of TAURON in the entity's governing body
1	Kopalnia Wapienia Czatkowice Sp. z o.o. <sup>1</sup>	Krzeszowice	Other	100.00%	100.00%
2	TAURON Dystrybucja Serwis S.A. <sup>2</sup>	Wrocław	Distribution	99.71%	99.71%
3	TAURON Dystrybucja Pomiarów Sp. z o.o. <sup>2</sup>	Tarnów	Distribution	99.71%	99.71%

<sup>1</sup> TAURON Polska Energia S.A. uses the shares held by TAURON Wytwarzanie S.A.

<sup>2</sup> TAURON Polska Energia S.A. uses the shares held by TAURON Dystrybucja S.A.

Additionally, as at 30 June 2014, TAURON Polska Energia S.A. held indirect shares in the following major jointly controlled entities:

Item	Company name	Registered office	Segment	Indirect share of TAURON in the entity's capital	Indirect share of TAURON in the entity's governing body
1	Elektrociepłownia Stalowa Wola S.A.	Stalowa Wola	Heat	50.00%	50.00%
2	Elektrownia Blachownia Nowa Sp. z o.o.	Kędzierzyn Koźle	Generation	50.00%	50.00%

### 3. Basis for preparation of the condensed interim consolidated financial statements

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

IFRS consist of standards and interpretations approved by the International Accounting Standards Board and the International Financial Reporting Interpretations Committee.

These condensed interim consolidated financial statements have been presented in the Polish zlotys ("PLN") and all figures are in PLN thousand, unless stated otherwise.

These condensed interim consolidated financial statements have been prepared on the assumption that the Group companies will continue as a going concern in the foreseeable future. As at the date of approving these condensed interim consolidated financial statements no circumstances have been detected that could put the going concern operation of the Group's companies at risk.

The condensed interim consolidated financial statements do not contain all information and disclosures required for annual consolidated financial statements and they should be read jointly with the Group's consolidated financial statements prepared in accordance with IFRS for the year ended 31 December 2013.

These condensed interim consolidated financial statements for the 6-month period ended 30 June 2014 were approved for publication on 19 August 2014.

### 4. Significant accounting policies

The accounting principles (policy) adopted for the preparation of the condensed interim consolidated financial statements are consistent with those adopted for the preparation of the annual consolidated financial statements of the Group for the year ended 31 December 2013, except for the following amendments to standards and new interpretations applicable to annual periods beginning on 1 January 2014:

- IFRS 10 *Consolidated Financial Statements* – applicable in the EU to annual periods beginning on or after 1 January 2014;
- IFRS 11 *Joint Arrangements* – applicable in the EU to annual periods beginning on or after 1 January 2014;
- IFRS 12 *Disclosure of Interests in Other Entities* – applicable in the EU to annual periods beginning on or after 1 January 2014;
- Revised IFRS 10, IFRS 11 and IFRS 12 *Transition Disclosures* – applicable in the EU to annual periods beginning on or after 1 January 2014;
- IAS 27 *Separate Financial Statements* – applicable in the EU to annual periods beginning on or after 1 January 2014;
- IAS 28 *Investments in Associates and Joint Arrangements* – applicable in the EU to annual periods beginning on or after 1 January 2014;
- Revised IAS 32 *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities* – applicable to annual periods beginning on or after 1 January 2014;
- Revised IFRS 10, IFRS 12 and IAS 27 *Investment Vehicles* – applicable to annual periods beginning on or after 1 January 2014;

- Revised IAS 36 *Impairment of Assets: Disclosure of Recoverable Amount of Non-financial Assets* – applicable to annual periods beginning on or after 1 January 2014;
- Revised IAS 39 *Financial Instruments: Recognition and Measurement – Novation of derivatives and continuation of hedge accounting* – applicable to annual periods beginning on or after 1 January 2014.

The Company analyzed the impact of the aforementioned standards and interpretations on the accounting policies applied by the Group.

The Company finds new IFRS 10 *Consolidated Financial Statements* and IFRS 11 *Joint Arrangements* particularly important for the Group. Consequently, the Company has carried out analysis of these standards' impact on measurement and presentation principles applied to shares in jointly controlled entities disclosed in the consolidated financial statements. The following conclusions have been drawn from the analysis:

- no factors indicating that TAURON independently controls Elektrociepłownia Stalowa Wola S.A. and Elektrownia Blachownia Nowa Sp. z o.o. have been identified. As independent power of the investee is a sine qua non condition for control, as defined in the IFRS 10, the Company has decided that TAURON does not control these entities and these companies should not be consolidated using the full method;
- According to the Company, its investments in Elektrociepłownia Stalowa Wola S.A. and Elektrownia Blachownia Nowa Sp. z o.o. constitute joint arrangements in line with IFRS 11, which should be classified as joint ventures and disclosed in the consolidated financial statements using the equity method. Therefore, the measurement and presentation of these investees is not changed.

According to the Management Board the application of the remaining standards and interpretations in question has not materially impacted the existing accounting policy.

## **5. New standards or interpretations which have been published, but have not entered into force yet**

The following standards and interpretations have been issued by the International Accounting Standards Board ("IASB") or the International Financial Reporting Interpretations Committee, have been endorsed by the European Union, but are not yet effective:

- IFRIC 21 *Levies* (published on 20 May 2013, approved in the EU on 13 June 2014). IFRIC 21 is an interpretation of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* – applicable in the EU to annual periods beginning on or after 17 June 2014.

The following standards and interpretations have been issued by the International Accounting Standards Board or the International Financial Reporting Interpretations Committee, have not been endorsed by the European Union and are not yet effective:

- IFRS 9 *Financial Instruments* was published by the IASB on 24 July 2014 and applies to annual periods beginning on or after 1 January 2018. The standard introduces a business model-based approach to classification and measurement of financial assets and the characteristics of cash flows. IFRS 9 provides a new loss impairment model which requires a more timely disclosure of expected credit losses. The new model also assumes a standardized impairment approach applied to all financial instruments. Moreover, IFRS 9 includes an enhanced general hedge accounting model. The amendments are aimed at adjusting the principles of recognizing risk management issues in financial statements and enable more adequate presentation of actions taken in the financial statements.
- IFRS 14 *Regulatory Deferral Accounts* was published by the IASB on 30 January 2014 and applies to annual periods beginning on or after 1 January 2016. IFRS 14 has been introduced as a transitional standard for first-time adopters;
- IFRS 15 *Revenue from Contracts with Customers* was published by the IASB on 28 May 2014 and applies to annual periods beginning on or after 1 January 2017. IFRS specifies how and when an IFRS reporter will recognize revenue and requires such entities to provide users of financial statements with more informative, relevant disclosures. The Standard replaces IAS 18 *Revenue*, IAS 11 *Construction Contracts* and a number of interpretations concerning revenue recognition;
- Revised IFRS 11 *Joint Arrangements: Accounting for Acquisitions of Interests in Joint Operations* published by the IASB on 6 May 2014 and applies to annual periods beginning on or after 1 January 2016. The amendments provide new guidelines on accounting for acquisitions of interests in joint operations constituting businesses;

- Revised IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets: Clarification of Acceptable Methods of Depreciation and Amortization* published by the IASB on 12 May 2014 and applicable to annual periods beginning on or after 1 January 2016.
- Revised IAS 16 *Property, Plant and Equipment* and IAS 41 *Agriculture: Bearer Plants* published by the IASB on 30 June 2014 and applicable to annual periods beginning on or after 1 January 2016;
- Revised IAS 19 *Employee Benefits – Defined Benefit Plans: Employee Contributions* published by the IASB on 21 November 2013 and applicable to annual periods beginning on or after 1 July 2014;
- *Annual Improvements to IFRS (Cycle 2010–2012)* – published by the IASB on 12 December 2013, applicable to annual periods beginning on or after 1 July 2014;
- *Annual Improvements to IFRS (Cycle 2011–2013)* – published by the IASB on 12 December 2013, applicable to annual periods beginning on or after 1 July 2014.

The Company analyzed the impact of the abovementioned standards and interpretations on the accounting policies applied by the Group except for the impact of IFRS 9 *Financial Instruments* published in July 2014 and IFRS 15 *Revenue from Contracts with Customers* published in May 2014. The Company is analyzing the impact of IFRS 9 and IFRS 15 on the accounting policies applied by the Group. According to the Management Board, the introduction of other aforementioned standards and interpretations will not materially affect the accounting principles (policy) adopted by the Group.

The Group has not decided to early adopt any standards or interpretations which have been published but not entered into force yet.

## **6. Change in comparable data**

The comparable data for the 6-month period ended 30 June 2013 and as at 30 June 2013, as contained herein, have been restated (comparing to the approved data) due to changes introduced to the consolidated financial statements of the TAURON Group for the year ended 31 December 2013. The change in the accounting policy concerned recognition of revenue due to power and heat collisions.

The aforementioned change in the accounting policies and its impact on the consolidated statement of financial position and the consolidated statement of comprehensive income have been discussed in detail in the consolidated financial statements of the TAURON Group for the year ended 31 December 2013.

The impact of the aforementioned change on the comparable data for the 6-month period ended 30 June 2013 and the data as at 30 June 2013 included in these condensed interim consolidated financial statements has been presented below.

	6-month period ended 30 June 2013 ( <i>unaudited authorized figures</i> )	Change in the accounting policy regarding recognition of revenue from heat and power collisions	6-month period ended 30 June 2013 ( <i>unaudited restated figures</i> )
<b>Continuing operations</b>			
Sales revenue	9 704 908	1 616	9 706 524
Cost of sales	(7 928 047)	–	(7 928 047)
<b>Gross profit</b>	<b>1 776 861</b>	<b>1 616</b>	<b>1 778 477</b>
<b>Operating profit</b>	<b>1 188 158</b>	<b>1 616</b>	<b>1 189 774</b>
<b>Profit before tax</b>	<b>1 084 538</b>	<b>1 616</b>	<b>1 086 154</b>
Income tax expense	(193 965)	(307)	(194 272)
<b>Net profit from continuing operations</b>	<b>890 573</b>	<b>1 309</b>	<b>891 882</b>
<b>Net profit for the period</b>	<b>890 573</b>	<b>1 309</b>	<b>891 882</b>
<b>Other comprehensive income for the year, net of tax</b>	<b>34 571</b>	<b>–</b>	<b>34 571</b>
<b>Total comprehensive income for the period</b>	<b>925 144</b>	<b>1 309</b>	<b>926 453</b>
<b>Net profit:</b>			
Attributable to equity holders of the parent	847 927	1 305	849 232
Attributable to non-controlling interests	42 646	4	42 650
<b>Total comprehensive income:</b>			
Attributable to equity holders of the parent	881 019	1 305	882 324
Attributable to non-controlling interests	44 125	4	44 129
<b>Earnings per share (in PLN):</b>			
– basic and diluted, for profit for the period attributable to equity holders of the parent	0.48	0.00	0.48
– basic and diluted, for profit for the period from continuing operations attributable to equity holders of the parent	0.48	0.00	0.48

	As at 30 June 2013 ( <i>unaudited authorized figures</i> )	Change in the accounting policy with respect to recognition of revenue from power and heat collisions	As at 30 June 2013 ( <i>unaudited restated figures</i> )
<b>Equity attributable to equity holders of the parent</b>	<b>16 766 721</b>	<b>72 880</b>	<b>16 839 601</b>
Retained earnings/Accumulated losses	(909 855)	72 880	(836 975)
<b>Non-controlling interests</b>	<b>526 444</b>	<b>216</b>	<b>526 660</b>
<b>Total equity</b>	<b>17 293 165</b>	<b>73 096</b>	<b>17 366 261</b>
<b>Non-current liabilities</b>	<b>9 472 271</b>	<b>(68 236)</b>	<b>9 404 035</b>
Accruals, deferred income and government grants	729 055	(85 382)	643 673
Deferred tax liability	1 380 064	17 146	1 397 210
<b>Current liabilities</b>	<b>3 924 245</b>	<b>(4 860)</b>	<b>3 919 385</b>
Accruals, deferred income and government grants	399 562	(4 860)	394 702
<b>Total liabilities</b>	<b>13 396 516</b>	<b>(73 096)</b>	<b>13 323 420</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>30 689 681</b>	<b>–</b>	<b>30 689 681</b>

## 7. Change in estimates

In the 6-month period ended 30 June 2014 there were no significant changes in estimates and estimation methods applied, which would affect the current or future periods, other than those presented below or discussed further in these condensed interim consolidated financial statements.

### Provision for gas emission liabilities

According to the accounting policy adopted the provision for liabilities arising from emission of gas included in the allowance distribution plan is charged to operating expenses if the actual emission level exceeds the volume of emission allowances received free of charge and held by the TAURON Group, including allocation of emission allowances to installations belonging to individual operating segments. The provision for costs of covering the deficit is established in the amount of allowances acquired or contracted to cover the allowance deficit and in relation to



unsecured allowance deficit (if any); the provision is determined based on market prices as at the end of the reporting period.

In accordance with Article 10a and Article 10c of the Directive 2009/29/EC of the European Parliament and of the Council of 23 April 2009 amending Directive 2003/87/EC so as to improve and extend the greenhouse gas emission allowance trading scheme of the Community ("derogation allowances") the TAURON Group was entitled to receive free emission allowances as at 31 December 2013. The TAURON Group applied for free allowances pursuant to Article art.10a and for derogation allowances, still such allowances were not included in the calculation of the provision for carbon dioxide emission as they had not been awarded by 31 December 2013. As at 31 December 2013 the provision was estimated at PLN 461 123 thousand and equals the amount of allowances intended for surrendering due to emission in 2013 disclosed in current intangible assets.

In 2014, the Group adjusted the estimated provision for gas emission liabilities for 2013, hence PLN 2 239 thousand was charged to profit. In April 2014 the provision recognized was utilized due to surrendering allowances, with no effect on the profit.

In April 2014 the Group was awarded 1 275 401 requested allowances due to generation of heat and 11 925 960 allowances due to electricity generation. In the calculation of provisions for gas emission liabilities for the year 2014 the Group has accounted for the entire amount of received allowances first. Then, 964 995 heat allowances for 2014 received free of charge and recorded on the accounts of the National Emission Allowance Register have been accounted for in the entire amount. Pursuant to the Ordinance of the Council of Ministers of 10 April 2014 on the list of electricity generating facilities covered by the system of trading in greenhouse gas emission allowances in the settlement period beginning on 1 January 2013, indicating the number of allowances awarded, electricity allowances granted for 2014 with relation to the facilities of the TAURON Group are allocated to appropriate quarters of 2014, in line with the straight-line method. As the allowances awarded and allocated to the Generation segment exceed the actual emission in the first six months of 2014, the Group has not recognized a provision for gas emission liabilities for the Generation segment for the first half of 2014. In the Heat segment the actual emission in the first half of 2014 was higher than the allowances received free of charge, hence a provision of PLN 22 486 thousand was recognized for the shortage, which will be covered with purchased allowances.

### **Impairment tests**

Taking into account the indications that the market value of the Company's net assets has recently been below their carrying amount as well as the general situation in the power sector, the Group tested its intangible assets, including goodwill and fixed assets for impairment as at 30 June 2014.

Environment analysis was carried out as at 30 June 2014 and indicated insignificant environmental changeability versus 31 December 2013. Price paths and WACC rates were also reviewed. In the first half of 2014 plan performance of subsidiaries in individual operating segments seemed to have exceeded the projections. Based on the analysis, the current assumptions do not result in reduction of the value in use of cash-generating units and operating segments based on future cash flows, hence for test purposes the recoverable amount of cash-generating units was assumed at the level determined in the previous test as at 31 December 2013.

The computations were carried out for cash flows in the period from 2014 to 2023 and the estimated residual value. The basis for cash flow calculations is the planned EBIT for 2014–2023 and amortization for this period. The discount rate used for the calculation reflects the weighted average cost of capital (WACC), taking into account the risk-free rate determined by reference to the current yield on 10-year treasury bonds (4.2%) and the risk premium for operations appropriate for the power industry (5.0%). The growth rate used for extrapolation of projected cash flows beyond the detailed planning period is at the level of 2.5% and it corresponds to the estimated long-term inflation rate.

The tests required estimating the value in use of cash-generating units and operating segments based on their future generated cash flows discounted to the current value with the discount rate. Following the tests, as at 31 December 2013 the Group recognized an impairment loss of PLN 262 187 thousand for property, plant and equipment of the Generation segment and an impairment loss of PLN 13 436 thousand for intangible assets in this segment. The assumptions and significant information concerning impairment tests have been presented in Notes 14, 15 and 16 to the consolidated financial statements for the year ended 31 December 2013.

### **Deferred tax**

Based on the forecasts prepared for the Tax Capital Group ("TCG"), according to which taxable income will be earned in 2014 and in subsequent years, it has been concluded that there is no risk that the deferred tax asset recognized in these condensed interim consolidated financial statements will not be realized.



## Measurement of provisions for employee benefits

Provisions for employee benefits have been estimated using actuarial methods. Moreover, the Group recognized provisions for benefits resulting from Voluntary Redundancy Programs. A detailed description of the provisions has been provided in Note 24.

The provisions for employee benefits have been measured as at 30 June 2014 based on actuarial projections. Actuarial assumptions made in preparing the projections for 2014 were the same as those used for measuring provisions as at 31 December 2013.

Key actuarial assumptions made as at 31 December 2013 for the purpose of calculation of the liability:

	31 December 2013
Discount rate (%)	4.00%
Estimated inflation rate (%)	2.50%
Employee rotation rate (%)	1.03% – 11.94%
Estimated salary increase rate (%)	2.00% – 2.90%
Estimated electricity price increase rate (%)	3.50%
Estimated increase rate for contribution to the Social Fund (%)	4.50%
Remaining average employment period	7.44 – 15.30

## Measurement of derivatives

Fair value of currency forwards is based on discounted future cash flows from the concluded transactions based on the difference between the forward price and transaction price. The forward price is calculated based on the fixing of the National Bank of Poland and the curve implied by FX Swap transactions.

Fair value of interest rate swaps is based on discounted future cash flows from the concluded transactions based on the difference between the forward price and transaction price. The forward price is calculated based on a zero coupon yield curve.

The fair value of forwards for acquisition and sale of emission allowances and energy is based on prices quoted in an active market.

The fair value of hedging derivatives subject to hedge accounting and derivatives measured at fair value through profit or loss as described above has been presented in Note 32.

## 8. Seasonality of operations

The Group's operations are seasonal in nature, particularly in the area of generation, distribution and sale of heat, distribution and sale of electricity to individual customers and sale of coal to individual customers for heating purposes.

Sales of heat depend on atmospheric conditions, in particular air temperature, and are higher in autumn and wintertime.

The level of sales of electricity to individual customers depends on the length of day, as a result of which sales of electricity in this group of customers are usually lower in spring and summertime and higher in autumn and wintertime. Sales of coal to individual customers are higher in autumn and winter. The seasonality of other areas of Group operations is insignificant.

## 9. Information on operating segments

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

The Group is organized and managed by segment, in accordance with the type of products and services offered. Each segment constitutes a strategic business entity offering different products and operating on different markets.

The Group settles transactions between segments as if they were made between unrelated parties, i.e. using current market prices.

Revenue from transactions between segments is eliminated in the consolidation process.

After elimination of costs arising from intercompany transactions, general and administrative expenses of the Parent are presented under unallocated expenses. General and administrative expenses of the Parent are incurred for the benefit of the entire Group and cannot be directly attributed to a specific operating segment.

Segment assets do not include deferred tax, income tax receivables or financial assets, except for trade and other financial receivables and cash and cash equivalents, which do represent segment assets.

Segment liabilities do not include deferred tax, income tax liability or financial liabilities, except for trade payables, liabilities due to acquisition of fixed assets and intangible assets and payroll liabilities, which do represent segment liabilities.

The Group's reporting format for the period from 1 January 2014 to 30 June 2014 and for the comparative period was based on the following operating segments:

Operating segments	Core business	Subsidiaries	Entities recognized with the equity method
Mining	Hard coal mining	TAURON Wydobycie S.A.	
Generation	Generation of electricity using conventional sources, including combined heat and power generation, as well as generation of electricity using joint combustion of biomass and other energy acquired thermally. Key fuels used by the Generation Segment include hard coal, biomass, coal gas and coke-oven gas.	TAURON Wytwarzanie S.A.	Elektrownia Blachownia Nowa Sp. z o.o.
Renewable sources of energy	Generation of electricity using renewable sources, excluding generation of electricity using joint combustion of biomass, which, due to the specific nature of such generation, has been included in the Generation Segment.	TAURON Ekoenergia Sp. z o.o.	
Distribution	Distribution of electricity	TAURON Dystrybucja S.A. TAURON Dystrybucja Serwis S.A. TAURON Dystrybucja Pomiar Sp. z o.o.	
Sales	Wholesale trading in electricity, trading in emission allowances and energy certificates and sale of electricity to domestic end users or entities which further resell electricity.	TAURON Polska Energia S.A. TAURON Sprzedaż Sp. z o.o. TAURON Sprzedaż GZE Sp. z o.o. TAURON Czech Energy s.r.o.	
Heat	Generation, distribution and sales of heat.	TAURON Ciepło Sp. z o.o.	Elektrociepłownia Stalowa Wola S.A.
Customer service	Services to internal customers (i.e. entities from the TAURON Capital Group) in respect of sales process support, financial, accounting and IT services to selected Group companies.	TAURON Obsługa Klienta Sp. z o.o.	

In addition to the key operating segments listed above, the TAURON Group also conducts operations in quarrying stone (including limestone) for the power industry, metallurgy, construction and highway engineering industry as well as in the area of production of sorbents for use in wet desulfurization installations and fluidized bed combustors (Kopalnia Wapienia Czatkowice Sp. z o.o.). The operations of Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. in liquidation are also treated as other activities of the Group.

On 2 January 2014, the division of TAURON Wytwarzanie S.A. (Generation segment) through separation of Zespół Elektrociepłowni Bielsko-Biała and its transfer to TAURON Ciepło S.A. (currently: TAURON Ciepło Sp. z o.o.), classified to the Heat segment, was registered. Comparable data were appropriately restated.

A business combination under common control of TAURON Ekoenergia Sp. z o.o., MEGAWAT MARSZEWO Sp. z o.o. and BELS INVESTMENT Sp. z o.o., companies from the Renewable sources of energy segment, was registered on the same day. Consequently, only one company – TAURON Ekoenergia Sp. z o.o. – operates in the segment now.

**TAURON Polska Energia S.A. Capital Group**  
Condensed interim consolidated financial statements for the 6-month period ended 30 June 2014  
(in PLN '000)

6-month period ended 30 June 2014 or as at 30 June 2014 ( <i>unaudited</i> )	Mining	Generation	Renewable sources of energy	Distribution	Sales	Heat	Customer service	Other	Unallocated items	Total	Eliminations	Total operations
<b>Revenue</b>												
Sales to external customers	211 321	762 664	44 039	1 316 265	6 226 843	623 746	8 225	33 212	–	<b>9 226 315</b>	–	<b>9 226 315</b>
Inter-segment sales	318 091	710 000	100 861	1 732 686	1 348 266	94 131	292 539	91 868	–	<b>4 688 442</b>	(4 688 442)	–
<b>Segment revenue</b>	<b>529 412</b>	<b>1 472 664</b>	<b>144 900</b>	<b>3 048 951</b>	<b>7 575 109</b>	<b>717 877</b>	<b>300 764</b>	<b>125 080</b>	–	<b>13 914 757</b>	<b>(4 688 442)</b>	<b>9 226 315</b>
<b>Profit/(loss) of the segment</b>	<b>(23 785)</b>	<b>(110 708)</b>	<b>56 649</b>	<b>700 012</b>	<b>373 508</b>	<b>92 480</b>	<b>36 866</b>	<b>8 501</b>	<b>(3 647)</b>	<b>1 129 876</b>	–	<b>1 129 876</b>
Unallocated expenses	–	–	–	–	–	–	–	–	(47 422)	<b>(47 422)</b>	–	<b>(47 422)</b>
<b>Profit/(loss) from continuing operations before tax and net finance income (costs)</b>	<b>(23 785)</b>	<b>(110 708)</b>	<b>56 649</b>	<b>700 012</b>	<b>373 508</b>	<b>92 480</b>	<b>36 866</b>	<b>8 501</b>	<b>(51 069)</b>	<b>1 082 454</b>	–	<b>1 082 454</b>
Share in profit/(loss) of joint venture	–	165	–	–	–	(941)	–	–	–	<b>(776)</b>	–	<b>(776)</b>
Net finance income (costs)	–	–	–	–	–	–	–	–	(156 135)	<b>(156 135)</b>	–	<b>(156 135)</b>
<b>Profit/(loss) before income tax</b>	<b>(23 785)</b>	<b>(110 543)</b>	<b>56 649</b>	<b>700 012</b>	<b>373 508</b>	<b>91 539</b>	<b>36 866</b>	<b>8 501</b>	<b>(207 204)</b>	<b>925 543</b>	–	<b>925 543</b>
Income tax expense	–	–	–	–	–	–	–	–	(191 621)	<b>(191 621)</b>	–	<b>(191 621)</b>
<b>Net profit/(loss) for the period</b>	<b>(23 785)</b>	<b>(110 543)</b>	<b>56 649</b>	<b>700 012</b>	<b>373 508</b>	<b>91 539</b>	<b>36 866</b>	<b>8 501</b>	<b>(398 825)</b>	<b>733 922</b>	–	<b>733 922</b>
<b>EBITDA</b>	<b>28 174</b>	<b>126 991</b>	<b>96 716</b>	<b>1 169 688</b>	<b>391 634</b>	<b>165 226</b>	<b>55 352</b>	<b>11 886</b>	<b>(51 069)</b>	<b>1 994 598</b>	–	<b>1 994 598</b>
<b>Assets and liabilities</b>												
Segment assets	1 640 587	7 709 206	1 929 486	14 377 042	2 040 729	2 953 448	222 294	182 892	–	<b>31 055 684</b>	–	<b>31 055 684</b>
Investments in joint ventures	–	32 229	–	–	–	9 057	–	–	–	<b>41 286</b>	–	<b>41 286</b>
Unallocated assets	–	–	–	–	–	–	–	–	480 267	<b>480 267</b>	–	<b>480 267</b>
<b>Total assets</b>	<b>1 640 587</b>	<b>7 741 435</b>	<b>1 929 486</b>	<b>14 377 042</b>	<b>2 040 729</b>	<b>2 962 505</b>	<b>222 294</b>	<b>182 892</b>	<b>480 267</b>	<b>31 577 237</b>	–	<b>31 577 237</b>
Segment liabilities	575 350	860 215	86 907	2 088 900	997 856	323 001	191 436	44 632	–	<b>5 168 297</b>	–	<b>5 168 297</b>
Unallocated liabilities	–	–	–	–	–	–	–	–	8 586 312	<b>8 586 312</b>	–	<b>8 586 312</b>
<b>Total liabilities</b>	<b>575 350</b>	<b>860 215</b>	<b>86 907</b>	<b>2 088 900</b>	<b>997 856</b>	<b>323 001</b>	<b>191 436</b>	<b>44 632</b>	<b>8 586 312</b>	<b>13 754 609</b>	–	<b>13 754 609</b>
<b>Other segment information</b>												
Capital expenditure*	82 268	126 211	57 697	841 488	801	98 395	40 240	2 977	–	<b>1 250 077</b>	–	<b>1 250 077</b>
Depreciation/amortization	(51 959)	(237 699)	(40 067)	(469 676)	(18 126)	(72 746)	(18 486)	(3 385)	–	<b>(912 144)</b>	–	<b>(912 144)</b>

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

**TAURON Polska Energia S.A. Capital Group**  
Condensed interim consolidated financial statements for the 6-month period ended 30 June 2014  
(in PLN '000)

6-month period ended 30 June 2013 (unaudited restated figures) or as at 31 December 2013	Mining	Generation	Renewable sources of energy	Distribution	Sales	Heat	Customer service	Other	Unallocated items	Total	Eliminations	Total operations
<b>Revenue</b>												
Sales to external customers	327 270	406 788	8 339	1 119 685	7 183 956	589 040	5 174	66 272	–	9 706 524	–	9 706 524
Inter-segment sales	421 052	1 863 348	84 116	1 891 119	1 809 598	127 358	230 033	99 710	–	6 526 334	(6 526 334)	–
<b>Segment revenue</b>	<b>748 322</b>	<b>2 270 136</b>	<b>92 455</b>	<b>3 010 804</b>	<b>8 993 554</b>	<b>716 398</b>	<b>235 207</b>	<b>165 982</b>	<b>–</b>	<b>16 232 858</b>	<b>(6 526 334)</b>	<b>9 706 524</b>
<b>Profit/(loss) of the segment</b>	<b>84 452</b>	<b>(230 592)</b>	<b>43 969</b>	<b>656 155</b>	<b>578 520</b>	<b>74 944</b>	<b>26 904</b>	<b>1 763</b>	<b>1 078</b>	<b>1 237 193</b>	<b>–</b>	<b>1 237 193</b>
Unallocated expenses	–	–	–	–	–	–	–	–	(47 419)	(47 419)	–	(47 419)
<b>Profit/(loss) from continuing operations before tax and net finance income (costs)</b>	<b>84 452</b>	<b>(230 592)</b>	<b>43 969</b>	<b>656 155</b>	<b>578 520</b>	<b>74 944</b>	<b>26 904</b>	<b>1 763</b>	<b>(46 341)</b>	<b>1 189 774</b>	<b>–</b>	<b>1 189 774</b>
Share in profit/(loss) of joint venture	–	(149)	–	–	–	(1 265)	–	–	–	(1 414)	–	(1 414)
Net finance income (costs)	–	–	–	–	–	–	–	–	(102 206)	(102 206)	–	(102 206)
<b>Profit/(loss) before income tax</b>	<b>84 452</b>	<b>(230 741)</b>	<b>43 969</b>	<b>656 155</b>	<b>578 520</b>	<b>73 679</b>	<b>26 904</b>	<b>1 763</b>	<b>(148 547)</b>	<b>1 086 154</b>	<b>–</b>	<b>1 086 154</b>
Income tax expense	–	–	–	–	–	–	–	–	(194 272)	(194 272)	–	(194 272)
<b>Net profit/(loss) for the period</b>	<b>84 452</b>	<b>(230 741)</b>	<b>43 969</b>	<b>656 155</b>	<b>578 520</b>	<b>73 679</b>	<b>26 904</b>	<b>1 763</b>	<b>(342 819)</b>	<b>891 882</b>	<b>–</b>	<b>891 882</b>
<b>EBITDA</b>	<b>137 404</b>	<b>28 139</b>	<b>62 060</b>	<b>1 104 102</b>	<b>595 731</b>	<b>132 718</b>	<b>33 659</b>	<b>6 191</b>	<b>(46 341)</b>	<b>2 053 663</b>	<b>–</b>	<b>2 053 663</b>
<b>Assets and liabilities</b>												
Segment assets	1 465 831	8 614 769	1 944 940	14 002 290	3 111 539	2 157 282	183 519	170 774	–	31 650 944	–	31 650 944
Investments in joint ventures	–	32 064	–	–	–	12 334	–	–	–	44 398	–	44 398
Unallocated assets	–	–	–	–	–	–	–	–	660 228	660 228	–	660 228
<b>Total assets</b>	<b>1 465 831</b>	<b>8 646 833</b>	<b>1 944 940</b>	<b>14 002 290</b>	<b>3 111 539</b>	<b>2 169 616</b>	<b>183 519</b>	<b>170 774</b>	<b>660 228</b>	<b>32 355 570</b>	<b>–</b>	<b>32 355 570</b>
Segment liabilities	612 791	1 481 329	112 000	2 380 849	1 786 932	345 216	214 010	42 372	–	6 975 499	–	6 975 499
Unallocated liabilities	–	–	–	–	–	–	–	–	7 586 572	7 586 572	–	7 586 572
<b>Total liabilities</b>	<b>612 791</b>	<b>1 481 329</b>	<b>112 000</b>	<b>2 380 849</b>	<b>1 786 932</b>	<b>345 216</b>	<b>214 010</b>	<b>42 372</b>	<b>7 586 572</b>	<b>14 562 071</b>	<b>–</b>	<b>14 562 071</b>
<b>Other segment information</b>												
Capital expenditure*	115 854	274 748	247 822	633 812	11 187	50 183	12 650	3 686	–	1 349 942	–	1 349 942
Depreciation/amortization	(52 952)	(258 731)	(18 091)	(447 947)	(17 211)	(57 774)	(6 755)	(4 428)	–	(863 889)	–	(863 889)

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

None of the Group's operating segments has been combined with another segment to create the above-mentioned reporting operating segments.

The Management Board separately monitors operating results of the segments to take decisions on how to allocate the resources, to evaluate the effects of the allocation and to evaluate performance. Evaluation of performance is based on EBITDA and operating profit or loss. EBITDA is the profit/loss on continuing operations before tax, financial income and expense, increased by amortization/depreciation. The Group's financing (including financial expense and revenue) and income tax are monitored at the Group level and they are not allocated to segments.

## 10. Sales revenue

	6-month period ended 30 June 2014 (unaudited)	6-month period ended 30 June 2013 (unaudited restated figures)
<b>Sale of goods for resale, finished goods and materials without elimination of excise</b>	<b>6 316 264</b>	<b>6 900 960</b>
Excise	(225 523)	(228 372)
<b>Sale of goods for resale, finished goods and materials, of which:</b>	<b>6 090 741</b>	<b>6 672 588</b>
Electricity	5 236 113	5 657 489
Heat energy	343 514	432 073
Energy certificates	109 806	58 047
Greenhouse gas emission allowances	3 643	58 505
Coal	196 442	310 154
Furnace blast	83 140	74 858
Compressed air	35 527	34 305
Milling products	14 633	11 690
Other goods for resale, finished goods and materials	67 923	35 467
<b>Rendering of services, of which:</b>	<b>3 109 899</b>	<b>3 008 731</b>
Distribution and trade services	2 927 210	2 818 711
Connection fees	67 437	64 850
Maintenance of road lighting	54 973	54 125
Charges for illegal electricity consumption	3 250	3 884
Revenue due to power and heat collisions	9 098	1 616
Other services	47 931	65 545
<b>Other revenue</b>	<b>25 675</b>	<b>25 205</b>
<b>Total sales revenue</b>	<b>9 226 315</b>	<b>9 706 524</b>

## 11. Expenses by type

	6-month period ended 30 June 2014 (unaudited)	6-month period ended 30 June 2013 (unaudited)
<b>Costs by type</b>		
Depreciation of property, plant and equipment and amortization of intangible assets	(912 144)	(863 889)
Impairment of property, plant and equipment and intangible assets	(4 711)	(236 331)
Materials and energy	(1 011 562)	(1 232 530)
Maintenance and repair services	(164 121)	(146 543)
Distribution services	(766 416)	(641 312)
Other external services	(357 766)	(404 675)
Taxes and charges	(287 107)	(401 296)
Employee benefits expense	(1 276 139)	(1 332 640)
Inventory write-downs	(5 306)	5 930
Allowance for doubtful debts	(15 714)	(26 863)
Other	(50 656)	(51 796)
<b>Total costs by type</b>	<b>(4 851 642)</b>	<b>(5 331 945)</b>
Change in inventories, prepayments, accruals and deferred income	85 972	(24 502)
Cost of goods produced for internal purposes	221 930	201 827
Selling and distribution expenses	257 189	270 173
Administrative expenses	332 199	342 054
Cost of goods for resale and materials sold	(3 610 836)	(3 385 654)
<b>Cost of sales</b>	<b>(7 565 188)</b>	<b>(7 928 047)</b>

## 12. Income tax

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

Key items of the tax expense disclosed in the statement of comprehensive income:

	6-month period ended 30 June 2014 (unaudited)	6-month period ended 30 June 2013 (unaudited restated figures)
<b>Current income tax</b>	<b>(57 987)</b>	<b>(188 903)</b>
Current income tax expense	(67 773)	(189 271)
Adjustments to current income tax from previous years	9 786	368
<b>Deferred tax</b>	<b>(133 634)</b>	<b>(5 369)</b>
<b>Income tax in profit or loss</b>	<b>(191 621)</b>	<b>(194 272)</b>
<b>Income tax relating to other comprehensive income</b>	<b>3 008</b>	<b>(8 023)</b>

### 12.2. Deferred income tax

Deferred income tax results from:

	As at 30 June 2014 (unaudited)	As at 31 December 2013
– difference between tax base and carrying amount of fixed and intangible assets	1 976 752	2 030 622
– difference between tax base and carrying amount of financial assets	22 378	21 551
– different timing of recognition of sales revenue for tax purposes	37 379	36 847
– recognition of estimated revenue from sale of power distribution services	34 031	40 294
– difference between tax base and carrying amount of property rights arising from energy certificates	40 159	29 688
– other	19 080	16 469
<b>Deferred tax liability</b>	<b>2 129 779</b>	<b>2 175 471</b>
– difference between tax base and carrying amount of fixed and intangible assets	5 936	7 317
– difference between tax base and carrying amount of inventories	3 245	2 748
– power infrastructure received free of charge and received connection fees	64 800	67 401
– provisions	501 956	672 754
– difference between tax base and carrying amount of financial assets	30 274	29 594
– difference between tax base and carrying amount of financial liabilities	13 220	6 239
– valuation of hedging instruments	34 585	30 354
– different timing of recognition of cost of sales for tax purposes	34 533	35 149
– other accrued expenses	255	17 647
– tax losses	2 382	–
– other	15 965	13 250
<b>Deferred tax assets</b>	<b>707 151</b>	<b>882 453</b>
<b>After setting off balances at the level of individual Group companies, deferred tax for the Group is presented as:</b>		
<b>Deferred tax asset</b>	<b>28 908</b>	<b>46 039</b>
<b>Deferred tax liability</b>	<b>(1 451 536)</b>	<b>(1 339 057)</b>

As at 30 June 2014 and 31 December 2013 deferred tax assets were set off against deferred tax liabilities of companies from the Tax Capital Group due to the fact that as of 1 January 2012 the companies have filed combined tax returns.

### **12.3. Income tax assets and liabilities**

As at 30 June 2014 the Group had the following income tax assets and liabilities:

- income tax receivables of PLN 92 261 thousand, where PLN 75 306 thousand is income tax receivables of the Tax Capital Group;
- income tax liabilities of PLN 1 786 thousand, where the entire amount does not relate to the Tax Capital Group companies.

In the 6-month period ended 30 June 2014 income tax expense of the Tax Capital Group amounted to PLN 57 120 thousand. At the same time, the Tax Capital Group paid advances for tax for 2014 in the amount of PLN 99 065 thousand. Moreover, as at 30 June 2014, the Tax Capital Group had income tax overpayment for 2013 of PLN 33 361 thousand. The amounts in question have been recognized in aggregate in the financial statements under income tax receivables.

### **13. Dividends paid and proposed**

On 15 May 2014, the Ordinary General Shareholders' Meeting of the Company adopted a resolution to allocate PLN 332 984 thousand to dividend payment to the Company's shareholders (PLN 0.19 per share). The dividend will be paid out from the net profit generated by the Company in 2013, which amounted to PLN 1 688 972 thousand. The record date was set at 14 August 2014 and the payment date at 4 September 2014.

On 16 May 2013, the Ordinary General Shareholders' Meeting adopted a resolution to allocate PLN 350 510 thousand to dividend payment to the Company's shareholders (PLN 0.20 per share). The dividend was paid out from the net profit generated by the Company in 2012, which amounted to PLN 1 435 188 thousand. The record date was set at 3 June 2013 and the payment date at 18 June 2013.

### **14. Property, plant and equipment**

**For the 6-month period ended 30 June 2014 (unaudited)**

	Land	Buildings, premises and civil engineering	Plant and machinery	Motor vehicles	Other	Tangible fixed assets, total	Assets under construction	Property, plant and equipment, total
<b>COST</b>								
<b>Opening balance</b>	<b>114 112</b>	<b>17 385 870</b>	<b>14 909 785</b>	<b>452 908</b>	<b>285 542</b>	<b>33 148 217</b>	<b>1 213 948</b>	<b>34 362 165</b>
Direct purchase	–	–	211	32	174	417	1 145 196	1 145 613
Transfer of assets under construction	1 388	547 232	367 748	16 657	9 994	943 019	(943 019)	–
Sale, disposal	(29)	(3 042)	(2 070)	(5 781)	(942)	(11 864)	(13)	(11 877)
Liquidation	–	(17 475)	(84 448)	(1 356)	(2 801)	(106 080)	–	(106 080)
Received free of charge	10	8 195	260	69	–	8 534	–	8 534
Reclassification	–	17 647	(17 850)	361	(158)	–	–	–
Spare parts allocated to fixed assets	–	–	1 260	–	–	1 260	–	1 260
Overhaul expenses	–	205	738	–	–	943	33 906	34 849
Items generated internally	–	–	–	–	–	–	21 060	21 060
Transfers to/from assets held for sale	(74)	(530)	(6)	69	(2)	(543)	–	(543)
Other movements	(791)	3	3 009	(43)	(6)	2 172	(4 547)	(2 375)
<b>Closing balance</b>	<b>114 616</b>	<b>17 938 105</b>	<b>15 178 637</b>	<b>462 916</b>	<b>291 801</b>	<b>33 986 075</b>	<b>1 466 531</b>	<b>35 452 606</b>
<b>ACCUMULATED DEPRECIATION</b>								
<b>Opening balance</b>	<b>(645)</b>	<b>(4 360 059)</b>	<b>(4 490 207)</b>	<b>(205 845)</b>	<b>(172 010)</b>	<b>(9 228 766)</b>	<b>(5 760)</b>	<b>(9 234 526)</b>
Depreciation for the period	–	(398 670)	(434 404)	(23 889)	(17 882)	(874 845)	–	(874 845)
Increase of impairment	–	–	(57)	–	(1)	(58)	(4 539)	(4 597)
Decrease of impairment	–	–	–	2	12	14	67	81
Sale, disposal	–	1 454	1 871	4 800	920	9 045	–	9 045
Liquidation	–	12 253	82 330	1 205	2 491	98 279	–	98 279
Transfers to/from assets held for sale	–	61	4	(69)	2	(2)	–	(2)
Other movements	–	(1 630)	1 868	(72)	52	218	–	218
<b>Closing balance</b>	<b>(645)</b>	<b>(4 746 591)</b>	<b>(4 838 595)</b>	<b>(223 868)</b>	<b>(186 416)</b>	<b>(9 996 115)</b>	<b>(10 232)</b>	<b>(10 006 347)</b>
<b>NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD</b>	<b>113 467</b>	<b>13 025 811</b>	<b>10 419 578</b>	<b>247 063</b>	<b>113 532</b>	<b>23 919 451</b>	<b>1 208 188</b>	<b>25 127 639</b>
<b>NET CARRYING AMOUNT AT THE END OF THE PERIOD</b>	<b>113 971</b>	<b>13 191 514</b>	<b>10 340 042</b>	<b>239 048</b>	<b>105 385</b>	<b>23 989 960</b>	<b>1 456 299</b>	<b>25 446 259</b>



**For the 6-month period ended 30 June 2013 (unaudited restated figures)**

	Land	Perpetual usufruct	Buildings, premises and civil engineering	Plant and machinery	Motor vehicles	Other	Tangible fixed assets, total	Assets under construction	Property, plant and equipment, total
<b>COST</b>									
<b>Opening balance</b>	<b>72 024</b>	<b>812 667</b>	<b>15 389 230</b>	<b>12 633 180</b>	<b>382 210</b>	<b>259 030</b>	<b>29 548 341</b>	<b>2 034 339</b>	<b>31 582 680</b>
Adjustments	–	(812 667)	–	–	–	–	(812 667)	–	(812 667)
<b>Opening balance after adjustments</b>	<b>72 024</b>	<b>–</b>	<b>15 389 230</b>	<b>12 633 180</b>	<b>382 210</b>	<b>259 030</b>	<b>28 735 674</b>	<b>2 034 339</b>	<b>30 770 013</b>
Direct purchase	–	–	–	–	–	–	–	1 249 975	1 249 975
Transfer of assets under construction	21 619	–	490 294	439 091	14 957	9 135	975 096	(975 096)	–
Sale, disposal	(12)	–	(221)	(8 318)	(3 704)	(494)	(12 749)	(5)	(12 754)
Reclassification	–	–	204	239	(222)	(221)	–	–	–
Liquidation	(1)	–	(16 036)	(11 491)	(1 285)	(2 858)	(31 671)	–	(31 671)
Received free of charge	–	–	14 972	20	–	–	14 992	–	14 992
Overhaul expenses	–	–	200	810	–	–	1 010	52 815	53 825
Transfers to/from intangible assets	3 782	–	–	–	–	–	3 782	1 472	5 254
Items generated internally	–	–	–	–	–	–	–	18 089	18 089
Transfers to/from assets held for sale	–	–	1 308	–	–	14	1 322	197	1 519
Other movements	–	–	(1 696)	10 291	(43)	58	8 610	417	9 027
Foreign exchange differences from translation of foreign entities	–	–	–	5	–	–	5	–	5
<b>Closing balance</b>	<b>97 412</b>	<b>–</b>	<b>15 878 255</b>	<b>13 063 827</b>	<b>391 913</b>	<b>264 664</b>	<b>29 696 071</b>	<b>2 382 203</b>	<b>32 078 274</b>
<b>ACCUMULATED DEPRECIATION</b>									
<b>Opening balance</b>	<b>(645)</b>	<b>(573)</b>	<b>(3 596 281)</b>	<b>(3 558 914)</b>	<b>(165 856)</b>	<b>(141 119)</b>	<b>(7 463 388)</b>	<b>(6 555)</b>	<b>(7 469 943)</b>
Adjustments	–	573	–	–	–	–	573	–	573
<b>Opening balance after adjustments</b>	<b>(645)</b>	<b>–</b>	<b>(3 596 281)</b>	<b>(3 558 914)</b>	<b>(165 856)</b>	<b>(141 119)</b>	<b>(7 462 815)</b>	<b>(6 555)</b>	<b>(7 469 370)</b>
Depreciation for the period	–	–	(379 991)	(409 673)	(23 227)	(16 422)	(829 313)	–	(829 313)
Increase of impairment	–	–	(26 990)	(208 871)	(936)	(33)	(236 830)	–	(236 830)
Decrease of impairment	–	–	–	15	1	21	37	727	764
Sale, disposal	–	–	105	7 827	2 762	473	11 167	–	11 167
Reclassification	–	–	16	(32)	161	(145)	–	–	–
Liquidation	–	–	10 478	9 138	1 007	2 371	22 994	–	22 994
Transfers to/from assets held for sale	–	–	(84)	–	–	(14)	(98)	–	(98)
Other movements	–	–	789	(2 857)	7	(64)	(2 125)	–	(2 125)
Foreign exchange differences from translation of foreign entities	–	–	–	(2)	–	–	(2)	–	(2)
<b>Closing balance</b>	<b>(645)</b>	<b>–</b>	<b>(3 991 958)</b>	<b>(4 163 369)</b>	<b>(186 081)</b>	<b>(154 932)</b>	<b>(8 496 985)</b>	<b>(5 828)</b>	<b>(8 502 813)</b>
<b>NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD</b>	<b>71 379</b>	<b>–</b>	<b>11 792 949</b>	<b>9 074 266</b>	<b>216 354</b>	<b>117 911</b>	<b>21 272 859</b>	<b>2 027 784</b>	<b>23 300 643</b>
<b>NET CARRYING AMOUNT AT THE END OF THE PERIOD</b>	<b>96 767</b>	<b>–</b>	<b>11 886 297</b>	<b>8 900 458</b>	<b>205 832</b>	<b>109 732</b>	<b>21 199 086</b>	<b>2 376 375</b>	<b>23 575 461</b>

In the 6-month period ended 30 June 2014, the Group acquired property, plant and equipment for PLN 1 145 613 thousand. Major purchases were related to investments in the following operating segments:

Purchase of property, plant and equipment by segment	6-month period ended 30 June 2014 (unaudited)	6-month period ended 30 June 2013 (unaudited)
Distribution	825 205	620 387
Renewable sources of energy	57 697	247 822
Generation	88 912	215 172
Mining	82 128	115 633
Heat	79 144	35 705

## 15. Goodwill

As at the acquisition date the goodwill acquired is allocated to each cash-generating unit that derives benefits from synergy effects. Operating segment, as defined in IFRS 8 *Operating Segments*, is the lowest level in the Group with attributable goodwill and with goodwill monitored for internal management purposes of the Group.

Goodwill in segment	As at 30 June 2014 (unaudited)	As at 31 December 2013
Mining	13 973	13 973
Renewable sources of energy	51 902	51 902
Distribution	25 602	25 602
Heat	155 580	155 580
<b>Total</b>	<b>247 057</b>	<b>247 057</b>

## 16. Non-current intangible assets

**For the 6-month period ended 30 June 2014 (unaudited)**

	Development expenses	Perpetual usufruct	Software, concessions, patents, licenses and similar items	Energy certificates	Greenhouse gas emission allowances	Other intangible assets	Intangible assets not made available for use	Intangible assets, total
<b>COST</b>								
<b>Opening balance</b>	<b>4 030</b>	<b>810 712</b>	<b>379 236</b>	<b>20 250</b>	<b>34 528</b>	<b>109 979</b>	<b>84 633</b>	<b>1 443 368</b>
Direct purchase	–	–	123	4 695	97 510	–	48 432	150 760
Transfer of intangible assets not made available for use	–	3 774	31 167	–	–	30 976	(65 917)	–
Sale, disposal	–	(297)	–	–	–	–	–	(297)
Liquidation	–	(16)	(2 054)	–	–	(7)	–	(2 077)
Received free of charge	–	33	–	–	–	238	–	271
Transfers from assets under construction	–	–	8	–	–	–	4 939	4 947
Reclassification	–	–	–	(16 183)	–	–	–	(16 183)
Other movements	640	–	1 256	–	–	–	(5)	1 891
Foreign exchange differences from translation of foreign entities	–	–	1	–	–	–	–	1
<b>Closing balance</b>	<b>4 670</b>	<b>814 206</b>	<b>409 737</b>	<b>8 762</b>	<b>132 038</b>	<b>141 186</b>	<b>72 082</b>	<b>1 582 681</b>
<b>ACCUMULATED AMORTIZATION</b>								
<b>Opening balance</b>	<b>(3 442)</b>	<b>(14 449)</b>	<b>(242 012)</b>	<b>–</b>	<b>–</b>	<b>(23 460)</b>	<b>–</b>	<b>(283 363)</b>
Amortization for the period	(43)	–	(30 389)	–	–	(6 867)	–	(37 299)
Liquidation	–	–	2 031	–	–	6	–	2 037
Other movements	–	–	(1 147)	–	–	–	–	(1 147)
Foreign exchange differences from translation of foreign entities	–	–	1	–	–	–	–	1
<b>Closing balance</b>	<b>(3 485)</b>	<b>(14 449)</b>	<b>(271 516)</b>	<b>–</b>	<b>–</b>	<b>(30 321)</b>	<b>–</b>	<b>(319 771)</b>
<b>NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD</b>	<b>588</b>	<b>796 263</b>	<b>137 224</b>	<b>20 250</b>	<b>34 528</b>	<b>86 519</b>	<b>84 633</b>	<b>1 160 005</b>
<b>NET CARRYING AMOUNT AT THE END OF THE PERIOD</b>	<b>1 185</b>	<b>799 757</b>	<b>138 221</b>	<b>8 762</b>	<b>132 038</b>	<b>110 865</b>	<b>72 082</b>	<b>1 262 910</b>

**For the 6-month period ended 30 June 2013 (unaudited restated figures)**

	Development expenses	Perpetual usufruct	Software, concessions, patents, licences and similar items	Energy certificates	Greenhouse gas emission allowances	Other intangible assets	Intangible assets not made available for use	Intangible assets, total
<b>COST</b>								
<b>Opening balance</b>	<b>3 898</b>	<b>–</b>	<b>345 194</b>	<b>–</b>	<b>95 874</b>	<b>91 351</b>	<b>39 048</b>	<b>575 365</b>
Adjustments	–	812 667	–	–	–	–	–	812 667
<b>Opening balance after adjustments</b>	<b>3 898</b>	<b>812 667</b>	<b>345 194</b>	<b>–</b>	<b>95 874</b>	<b>91 351</b>	<b>39 048</b>	<b>1 388 032</b>
Direct purchase	–	–	–	2 932	91 853	–	28 053	122 838
Transfer of intangible assets not made available for use	–	–	11 816	–	–	5 401	(17 217)	–
Sale, disposal	–	(1 354)	–	–	–	–	–	(1 354)
Liquidation	–	(18)	(1 231)	–	–	–	–	(1 249)
Received free of charge	–	60	–	–	–	367	–	427
Transfers from/to property, plant and equipment	–	(1 686)	814	–	–	2	(4 384)	(5 254)
Other movements	132	(293)	(55)	–	(22 311)	(6)	(823)	(23 356)
Foreign exchange differences from translation of foreign entities	–	–	18	–	–	–	–	18
<b>Closing balance</b>	<b>4 030</b>	<b>809 376</b>	<b>356 556</b>	<b>2 932</b>	<b>165 416</b>	<b>97 115</b>	<b>44 677</b>	<b>1 480 102</b>
<b>ACCUMULATED AMORTIZATION</b>								
<b>Opening balance</b>	<b>(3 263)</b>	<b>–</b>	<b>(189 764)</b>	<b>–</b>	<b>–</b>	<b>(12 176)</b>	<b>–</b>	<b>(205 203)</b>
Adjustments	–	(573)	–	–	–	–	–	(573)
<b>Opening balance after adjustments</b>	<b>(3 263)</b>	<b>(573)</b>	<b>(189 764)</b>	<b>–</b>	<b>–</b>	<b>(12 176)</b>	<b>–</b>	<b>(205 776)</b>
Amortization for the period	(85)	–	(29 119)	–	–	(5 372)	–	(34 576)
Increase of impairment	(25)	(25)	(186)	–	–	–	–	(236)
Liquidation	–	–	1 213	–	–	–	–	1 213
Other movements	–	1	(104)	–	–	6	–	(97)
<b>Closing balance</b>	<b>(3 373)</b>	<b>(597)</b>	<b>(217 960)</b>	<b>–</b>	<b>–</b>	<b>(17 542)</b>	<b>–</b>	<b>(239 472)</b>
<b>NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD</b>	<b>635</b>	<b>812 094</b>	<b>155 430</b>	<b>–</b>	<b>95 874</b>	<b>79 175</b>	<b>39 048</b>	<b>1 182 256</b>
<b>NET CARRYING AMOUNT AT THE END OF THE PERIOD</b>	<b>657</b>	<b>808 779</b>	<b>138 596</b>	<b>2 932</b>	<b>165 416</b>	<b>79 573</b>	<b>44 677</b>	<b>1 240 630</b>

## **17. Shares in joint ventures**

### ***Elektrociepłownia Stalowa Wola S.A.***

Elektrociepłownia Stalowa Wola S.A. is a special purpose vehicle set up in 2010 on the initiative of TAURON Polska Energia S.A. and PGNiG S.A.

As a joint venture it is accounted for using the equity method in the condensed interim consolidated financial statements. TAURON Polska Energia S.A. holds an indirect interest amounting to 50% in the share capital of this company and 50% in its governing body through TAURON Wytwarzanie S.A.

Under the agreements of 20 June 2012 among PGNiG S.A., TAURON Polska Energia S.A. and Elektrociepłownia Stalowa Wola S.A., TAURON Polska Energia S.A. granted a subordinated loan and a VAT loan to Elektrociepłownia Stalowa Wola S.A. with a view to satisfying the necessary conditions for provision of funding to Elektrociepłownia Stalowa Wola S.A. by the European Bank for Reconstruction and Development and the European Investment Bank.

In the 6-month period ended 30 June 2014, the amount disbursed under the subordinated loan agreement had not changed since the end of the reporting period and stood at PLN 177 000 thousand, i.e. the maximum contractual amount. Interest accrued on the loan amounts to PLN 16 883 thousand. The loan with interest due is to be finally repaid no later than by the end of 2032.

In the period of 6 months ended 30 June 2014 the Company transferred funds due to a VAT loan of PLN 5 850 thousand to Elektrociepłownia Stalowa Wola S.A. The outstanding loan had been repaid to the Company by the balance sheet date. Financial income due to interest on the loan amounted to PLN 32 thousand.

The Group presented interest income due to originated loans of Elektrociepłownia Stalowa Wola S.A. in the portion corresponding to unrelated investors' interests in the joint venture in the condensed interim consolidated financial statements.

### ***Elektrownia Blachownia Nowa Sp. z o.o.***

Elektrownia Blachownia Nowa Sp. z o.o. is a special purpose vehicle set up in 2012 by TAURON Wytwarzanie S.A. and KGHM Polska Miedź S.A. The Company was set up to perform a comprehensive investment project including preparation, construction and operation of a combined cycle gas and steam unit with the capacity of ca. 850 MWe on the land of TAURON Wytwarzanie S.A. – Oddział Elektrownia Blachownia.

As a joint venture Elektrownia Blachownia Nowa Sp. z o.o. is accounted for in the condensed interim consolidated financial statements using the equity method. TAURON Polska Energia S.A. holds an indirect interest amounting to 50% in the share capital of this company and 50% in its governing body through TAURON Wytwarzanie S.A.

Pursuant to the agreement concluded by TAURON Polska Energia S.A., KGHM Polska Miedź S.A. and TAURON Wytwarzanie S.A. on 30 December 2013 the project of construction of gas and steam power unit in Elektrownia Blachownia Nowa Sp. z o.o. has been suspended due to the general situation in the electricity and gas markets entailing an increased investment risk and a necessity to review and optimize the project. In the 6-month period ended 30 June 2014 no further developments in the project implementation occurred.

The parties undertook to ensure further business operations of Elektrownia Blachownia Nowa Sp. z o.o., securing deliverables provided thus far, in particular updating project documentation and ensuring on-going monitoring of the energy market and regulatory environment in view of the possibility to restart project performance as soon as possible. The parties agreed that the decision to recommence the project will be adopted in the form of a separate agreement which is expected to be concluded by 31 December 2016.

Investments in joint-ventures measured using the equity method as at 30 June 2014 and for the 6-month period ended 30 June 2014 have been presented below:

	As at 30 June 2014 or for the 6-month period ended 30 June 2014 (unaudited)	Elektrociepłownia Stalowa Wola S.A.	Elektrownia Blachownia Nowa Sp. z o.o.
Non-current assets	828 757	801 047	27 710
Current assets	51 788	14 982	36 806
Non-current liabilities (-)	(778 654)	(778 654)	-
Current liabilities (-)	(1 714)	(1 656)	(58)
Total net assets	100 177	35 719	64 458
Share in net assets	50 089	17 860	32 229
Elimination of transactions with Group companies	(8 803)	(8 803)	-
<b>Investment in joint venture</b>	<b>41 286</b>	<b>9 057</b>	<b>32 229</b>
Share in sales revenue of joint venture	306	44	262
<b>Share in profit/(loss) of joint venture</b>	<b>(776)</b>	<b>(941)</b>	<b>165</b>

Investments in joint-ventures measured using the equity method as at 31 December 2013 and for the 6-month period ended 30 June 2013 have been presented below:

	As at 31 December 2013 or for the 6-month period ended 30 June 2013 (unaudited)	Elektrociepłownia Stalowa Wola S.A.	Elektrownia Blachownia Nowa Sp. z o.o.
Non-current assets	756 165	728 455	27 710
Current assets	46 212	9 588	36 624
Non-current liabilities (-)	(697 185)	(697 185)	-
Current liabilities (-)	(3 267)	(3 203)	(64)
Total net assets	101 925	37 655	64 270
Share in net assets	50 850	18 786	32 064
Elimination of transactions with Group companies	(6 452)	(6 452)	-
<b>Investment in joint venture</b>	<b>44 398</b>	<b>12 334</b>	<b>32 064</b>
Share in sales revenue of joint venture	317	35	282
<b>Share in profit/(loss) of joint venture</b>	<b>(1 414)</b>	<b>(1 265)</b>	<b>(149)</b>

## 18. Current intangible assets

For the 6-month period ended 30 June 2014 (unaudited)

	Energy certificates	Greenhouse gas emission allowances	Current intangible assets, total
<b>COST</b>			
<b>Opening balance</b>	<b>695 427</b>	<b>461 123</b>	<b>1 156 550</b>
Direct purchase	417 028	5 875	422 903
Generated internally	177 723	-	177 723
Cancellation	(831 676)	(463 362)	(1 295 038)
Sales	(1 465)	-	(1 465)
Reclassification	43 393	-	43 393
<b>Closing balance</b>	<b>500 430</b>	<b>3 636</b>	<b>504 066</b>
<b>IMPAIRMENT</b>			
<b>Opening balance</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Closing balance</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD</b>	<b>695 427</b>	<b>461 123</b>	<b>1 156 550</b>
<b>NET CARRYING AMOUNT AT THE END OF THE PERIOD</b>	<b>500 430</b>	<b>3 636</b>	<b>504 066</b>

**For the 6-month period ended 30 June 2013 (unaudited)**

	Energy certificates	Greenhouse gas emission allowances	Current intangible assets, total
<b>COST</b>			
<b>Opening balance</b>	<b>649 473</b>	<b>61 626</b>	<b>711 099</b>
Direct purchase	410 651	36 225	446 876
Generated internally	69 968	–	69 968
Cancellation	(889 089)	(70 269)	(959 358)
Sales	(8 455)	(16 557)	(25 012)
Reclassification	164 229	22 026	186 255
<b>Closing balance</b>	<b>396 777</b>	<b>33 051</b>	<b>429 828</b>
<b>IMPAIRMENT</b>			
<b>Opening balance</b>	–	–	–
<b>Closing balance</b>	–	–	–
<b>NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD</b>	<b>649 473</b>	<b>61 626</b>	<b>711 099</b>
<b>NET CARRYING AMOUNT AT THE END OF THE PERIOD</b>	<b>396 777</b>	<b>33 051</b>	<b>429 828</b>

**19. Inventories**

	As at 30 June 2014 (unaudited)	As at 31 December 2013
<b>Historical cost</b>		
Raw materials	258 657	337 940
Semi-finished goods and work-in-progress	122 909	117 257
Finished goods	93 018	18 509
Goods for resale	767	1 479
Energy certificates	8 173	84 800
Greenhouse gas emission allowances	1 622	–
<b>Total</b>	<b>485 146</b>	<b>559 985</b>
<b>Write-downs to net realizable value</b>		
Raw materials	(10 309)	(4 829)
Finished goods	(267)	(169)
Goods for resale	(10)	–
Energy certificates	–	(45 763)
<b>Total</b>	<b>(10 586)</b>	<b>(50 761)</b>
<b>Net realizable value</b>		
Raw materials	248 348	333 111
Semi-finished goods and work-in-progress	122 909	117 257
Finished goods	92 751	18 340
Goods for resale	757	1 479
Energy certificates	8 173	39 037
Greenhouse gas emission allowances	1 622	–
<b>Total</b>	<b>474 560</b>	<b>509 224</b>

In the 6-month period ended 30 June 2014, the Group used write-downs on inventories of PLN 45 763 thousand recognized in 2013 for certificates of energy generated in cogeneration fuelled with gaseous fuels and from other cogeneration, received before the amended Energy Law of 14 March 2014 came into force.

The write-downs were utilized because, in accordance with Article 5.2 of the Act in question, companies in the Group cannot surrender the certificates, what is more, the certificates are no longer admitted for trading on the Polish Power Exchange, hence they will not bring any economic benefits to the Group.

**20. Trade and other receivables**

Short-term trade and other receivables as at 30 June 2014 and 31 December 2013 have been presented in the table below.

	As at 30 June 2014 (unaudited)	As at 31 December 2013
Trade receivables	1 676 442	1 862 717
Other financial receivables, of which:	256 619	271 924
Receivables from sales of fixed and intangible assets	769	8 355
Receivables claimed at court	20 474	20 342
Other receivables	235 376	243 227
<b>Total</b>	<b>1 933 061</b>	<b>2 134 641</b>

Non-current trade and other receivables are disclosed as other financial assets under non-current assets in the statement of financial position. As at 30 June 2014 the Group did not disclose any non-current trade receivables, while other non-current receivables amounted to PLN 17 656 thousand.

As at 31 December 2013 non-current trade receivables amounted to PLN 434 thousand, while other receivables to PLN 20 313 thousand.

Current trade and other receivables with related allowance as at 30 June 2014 and 31 December 2013 have been presented in the tables below.

**Trade and other receivables as at 30 June 2014 (unaudited)**

	Trade receivables	Other financial receivables	Total
Accounts receivable (without allowance for doubtful debt)	1 753 041	463 016	2 216 057
Allowance for doubtful debt	(76 599)	(206 397)	(282 996)
<b>Net value</b>	<b>1 676 442</b>	<b>256 619</b>	<b>1 933 061</b>

**Trade and other receivables as at 31 December 2013**

	Trade receivables	Other financial receivables	Total
Accounts receivable (without allowance for doubtful debt)	1 966 860	441 280	2 408 140
Allowance for doubtful debt	(104 143)	(169 356)	(273 499)
<b>Net value</b>	<b>1 862 717</b>	<b>271 924</b>	<b>2 134 641</b>

Trade receivables bear no interest and in case of cooperation with institutional contractors they usually have a 30-day maturity period. Payments to individual clients are made on a monthly or bi-monthly basis.

Except for sales to individual clients, sales are made only to customers who have undergone an appropriate credit verification procedure. As a result, the Management believe that there is no additional credit risk that would exceed the allowance for bad debts recognized for trade receivables of the Group.

## **21. Cash and cash equivalents**

Cash in bank bears a floating interest rate determined based on interest on overnight deposits. Short-term deposits are made for various periods, from one day to one month, depending on the Group's current demand for cash and bear interest that is calculated according to applicable interest rates.

The balance of cash and cash equivalents disclosed in the statement of cash flows includes:



	As at 30 June 2014 (unaudited)	As at 31 December 2013
Cash at bank and in hand	201 656	153 103
Short-term deposits (up to 3 months)	43 549	482 206
Other	939	1 600
<b>Total cash and cash equivalents presented in the statement of financial position, of which:</b>	<b>246 144</b>	<b>636 909</b>
– restricted cash	154 406	121 129
Bank overdraft	(13 158)	(93 645)
Foreign exchange and other differences	(1 576)	(2 116)
<b>Total cash and cash equivalents presented in the statement of cash flows</b>	<b>231 410</b>	<b>541 148</b>

The difference between the balance of cash recognized in the statement of financial position and that disclosed in the statement of cash flows results mainly from overdrafts and exchange gains and losses on measurement of cash on currency accounts.

Balance of restricted cash includes mainly cash on the accounts used for settling electricity trading and emission allowances on the Polish Power Exchange, i.e. Towarowa Giełda Energii S.A., of PLN 87 728 thousand held by the Parent and TAURON Wytwarzanie S.A. and cash on a bank account for bid bonds of PLN 58 891 thousand.

## 22. Equity

### 22.1. Issued capital

#### Issued capital as at 30 June 2014 (unaudited)

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

As at 30 June 2014, the value of issued capital, the number of shares and the par value of shares did not change compared to 31 December 2013.

#### Shareholding structure as at 30 June 2014 (to the best of the Company's knowledge, unaudited)

Shareholder	Number of shares	Value of shares	Percentage of share capital	Percentage of total vote
State Treasury	526 848 384	2 634 242	30.06%	30.06%
KGHM Polska Miedź S.A.	182 110 566	910 553	10.39%	10.39%
ING Otwarty Fundusz Emerytalny	88 742 929	443 715	5.06%	5.06%
Other shareholders	954 847 515	4 774 237	54.49%	54.49%
<b>Total</b>	<b>1 752 549 394</b>	<b>8 762 747</b>	<b>100.00%</b>	<b>100.00%</b>

To the best of the Company's knowledge, the shareholding structure as at 30 June 2014 has not changed since 31 December 2013.

### 22.2. Reserve capital, retained earnings and restrictions on dividend payment

In the 6-month period ended 30 June 2014, the reserve capital was increased by PLN 1 355 987 thousand. Pursuant to a resolution of the Ordinary General Shareholders' Meeting of 15 May 2014 on distribution of profit for 2013, the amount in question was allocated to reserve capital.

In the current period, changes in retained earnings included:

- net profit for the period attributable to the shareholders of the Parent of PLN 730 290 thousand;

- actuarial gains/losses on provisions for post-employment benefits charged to other comprehensive income of PLN 5 368 thousand;
- allocation of the Company's profit for 2013 to increase the reserve capital by PLN 1 355 987 thousand and dividend payment of PLN 332 984 thousand;
- acquisition of non-controlling interest of PLN 76 938 thousand;
- mandatory squeeze-out of PLN 5 241 thousand;
- movement in non-controlling interest as a result of a separation of a subsidiary of PLN (811) thousand.

The amount of PLN 2 695 thousand, disclosed as retained earnings, may still be distributed.

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

	6-month period ended 30 June 2014 (unaudited)	6-month period ended 30 June 2013 (unaudited)
<b>Opening balance</b>	<b>(126 651)</b>	<b>(153 703)</b>
Remeasurement of hedging instruments	(22 263)	34 507
Remeasurement of hedging instruments charged to profit or loss for the period	(199)	2 337
Deferred income tax	4 268	(7 000)
<b>Closing balance</b>	<b>(144 845)</b>	<b>(123 859)</b>

The revaluation reserve from measurement of hedging instruments results from valuation of Interest Rate Swaps (IRS) hedging the interest rate risk arising from bonds issued. As at 30 June 2014, the Group was a party to hedging transactions covered by the policy for specific risk management in the area of finance. Pursuant to a decision of the Financial Risk Management Committee of 30 January 2012, in March 2012 the Parent hedged the interest rate risk arising from bonds issued under the Bond Issue Scheme, by entering into an interest rate swap (IRS) transaction for a term of 5 years. The aforementioned transaction was concluded due to fluctuations in the projected future cash flows from interest payments resulting from the issue of bonds in PLN with a floating interest rate based on WIBOR 6M. The Company hedged 80% of such cash flows.

As at 30 June 2014 the Company recognized PLN (144 845) thousand of revaluation reserve from measurement of hedging instruments. It represents a liability arising from measurement of interest rate swaps as at the end of the reporting period, totaling PLN 182 025 thousand, adjusted by a portion of measurement relating to interest accrued on bonds as at the end of the reporting period, including deferred tax.

The profit/loss for the period was charged with PLN 37 119 thousand, where PLN 37 318 thousand was the amount paid in respect of hedges used in relation to closed interest periods and PLN (199) thousand resulted from remeasurement of instruments related to interest on bonds accrued as at the end of the reporting period. The aforementioned costs of IRS hedging transactions increased financial expenses arising from interest on bonds issued in the statement of comprehensive income.

### 23. Interest-bearing loans and borrowings

	As at 30 June 2014 (unaudited)	As at 31 December 2013
Loans and borrowings	1 342 800	1 484 643
Bonds issued	5 001 052	4 300 522
<b>Total</b>	<b>6 343 852</b>	<b>5 785 165</b>
<b>Current</b>	<b>338 249</b>	<b>284 633</b>
<b>Non-current</b>	<b>6 005 603</b>	<b>5 500 532</b>

### 23.1. Loans and borrowings

The balance of loans and borrowings received as at 30 June 2014 and 31 December 2013 has been presented in tables below.

#### Loans and borrowings taken out as at 30 June 2014 (unaudited)

Currency	Interest rate	Value of loans as at the balance sheet date (unaudited)		of which principal amount maturing within (after the balance sheet date):					
		currency	PLN	less than 3 months	3–12 months	1–2 years	2–3 years	3–5 years	over 5 years
PLN	floating	75 843	75 843	13 858	10 893	7 936	7 265	13 662	22 229
	fixed	1 245 823	1 245 823	20 443	112 416	132 730	132 730	265 460	582 044
<b>Total PLN</b>		<b>1 321 666</b>	<b>1 321 666</b>	<b>34 301</b>	<b>123 309</b>	<b>140 666</b>	<b>139 995</b>	<b>279 122</b>	<b>604 273</b>
EUR	floating	3 470	14 438	13 798	640	–	–	–	–
	fixed	–	–	–	–	–	–	–	–
<b>Total EUR</b>		<b>3 470</b>	<b>14 438</b>	<b>13 798</b>	<b>640</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>
<b>Total</b>			<b>1 336 104</b>	<b>48 099</b>	<b>123 949</b>	<b>140 666</b>	<b>139 995</b>	<b>279 122</b>	<b>604 273</b>
Interest increasing carrying amount			6 696						
<b>Total loans and borrowings</b>			<b>1 342 800</b>						

#### Loans and borrowings taken out as at 31 December 2013

Currency	Interest rate	Value of loans as at the balance sheet date		of which maturing within (after the balance sheet date):					
		currency	PLN	less than 3 months	3–12 months	1–2 years	2–3 years	3–5 years	over 5 years
PLN	floating	183 124	183 124	103 249	24 622	7 763	7 532	14 642	25 316
	fixed	1 286 650	1 286 650	–	132 831	132 724	132 724	265 448	622 923
<b>Total PLN</b>		<b>1 469 774</b>	<b>1 469 774</b>	<b>103 249</b>	<b>157 453</b>	<b>140 487</b>	<b>140 256</b>	<b>280 090</b>	<b>648 239</b>
EUR	floating	636	2 639	725	1 914	–	–	–	–
	fixed	1 216	5 043	5 043	–	–	–	–	–
<b>Total EUR</b>		<b>1 852</b>	<b>7 682</b>	<b>5 768</b>	<b>1 914</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>
<b>Total</b>			<b>1 477 456</b>	<b>109 017</b>	<b>159 367</b>	<b>140 487</b>	<b>140 256</b>	<b>280 090</b>	<b>648 239</b>
Interest increasing carrying amount			7 187						
<b>Total loans and borrowings</b>			<b>1 484 643</b>						

Change in the balance of loans and borrowings excluding interest accrued in the 6-month period ended 30 June 2014 and in the comparable period has been presented below.

	6-month period ended 30 June 2014 (unaudited)	6-month period ended 30 June 2013 (unaudited)
<b>Opening balance</b>	<b>1 477 456</b>	<b>1 205 637</b>
<b>Movement in bank overdrafts</b>	<b>(80 487)</b>	<b>(68 593)</b>
<b>Movement in loans and borrowings (excluding bank overdrafts):</b>	<b>(60 865)</b>	<b>428 827</b>
Taken out	–	451 180
Repaid	(60 708)	(19 648)
Change in valuation	(157)	(2 705)
<b>Closing balance</b>	<b>1 336 104</b>	<b>1 565 871</b>

As at 30 June 2014 the Group's liabilities arising from received loans and borrowings amounted to PLN 1 342 800 thousand and resulted mainly from:

- loans of PLN 1 252 477 thousand obtained from the European Investment Bank, including interest accrued of PLN 6 653 thousand (PLN 1 293 749 thousand as at 31 December 2013);
- overdraft of PLN 13 158 thousand (PLN 93 645 thousand as at 31 December 2013);
- loans and borrowings taken by the Group companies for investment or refunding purposes, including:

- loan taken out by TAURON Dystrybucja S.A. to refinance capital expenditure incurred from 2008 to 2009, the outstanding amount of which was PLN 11 152 thousand as at the end of the reporting period (PLN 24 524 thousand as at 31 December 2013);
- loan from the Regional Fund for Environmental Protection and Water Management taken out by TAURON Wytwarzanie S.A. to fund investment projects related to energy generation from renewable sources in the Jaworzno III power plant. As at the balance sheet date the outstanding amount was PLN 34 000 thousand (PLN 36 000 thousand as at 31 December 2013);
- loan from the Regional Fund for Environmental Protection and Water Management granted to TAURON Ciepło Sp. z o.o. to fund green investment projects. As at the balance sheet date the outstanding amount was PLN 23 039 thousand (PLN 24 290 thousand as at 31 December 2013);

### 23.2. Bonds issued

The tables below present the balances of the Group's liabilities arising from bonds issued, together with accrued interest, as at 30 June 2014 and 31 December 2013.

#### Bonds issued as at 30 June 2014 (unaudited)

Tranche	Redemption date	Interest rate	Currency	As at balance sheet date (unaudited)		of which maturing within (after the balance sheet date)					
				Interest accrued	Principal at amortised cost	less than 3 months	3–12 months	1–2 years	2–3 years	3–5 years	Over 5 years
A	29 December 2015	floating	PLN	167	847 337	–	–	847 337	–	–	–
B	12 December 2015	floating	PLN	564	299 569	–	–	299 569	–	–	–
B	30 January 2015	floating	PLN	2 261	150 000	–	150 000	–	–	–	–
C	12 December 2016	floating	PLN	5 638	2 996 225	–	–	–	2 996 225	–	–
BGK*	20 December 2019	floating	PLN	125	99 778	–	–	–	–	–	99 778
BGK*	20 December 2020	floating	PLN	125	99 775	–	–	–	–	–	99 775
BGK*	20 December 2021	floating	PLN	125	99 774	–	–	–	–	–	99 774
BGK*	20 December 2022	floating	PLN	125	99 773	–	–	–	–	–	99 773
BGK*	20 December 2023	floating	PLN	125	99 771	–	–	–	–	–	99 771
BGK*	20 December 2024	floating	PLN	125	99 773	–	–	–	–	–	99 773
BGK*	20 December 2025	floating	PLN	125	99 772	–	–	–	–	–	99 772
Total bonds				9 505	4 991 547	–	150 000	1 146 906	2 996 225	–	698 416

\* Bank Gospodarstwa Krajowego

#### Bonds issued as at 31 December 2013

Tranche	Redemption date	Interest rate	Currency	As at balance sheet date		of which maturing within (after the balance sheet date)					
				Interest accrued	Principal at amortised cost	less than 3 months	3–12 months	1–2 years	2–3 years	3–5 years	Over 5 years
A	29 December 2015	floating	PLN	252	847 060	–	–	847 060	–	–	–
B	12 December 2015	floating	PLN	592	299 426	–	–	299 426	–	–	–
B	30 January 2015	floating	PLN	2 300	150 000	–	–	150 000	–	–	–
C	12 December 2016	floating	PLN	5 918	2 994 974	–	–	–	2 994 974	–	–
Total bonds				9 062	4 291 460	–	–	1 296 486	2 994 974	–	–

The bonds presented above were issued by the Parent. Bonds were issued in a dematerialized form. These are unsecured coupon bonds with a floating interest rate plus a fixed margin. Interest is WIBOR 6M-based and is payable on a semi-annual basis.

Change in the balance of bonds excluding interest accrued in the 6-month period ended 30 June 2014 and in the comparable period has been presented below.

	6-month period ended 30 June 2014 (unaudited)	6-month period ended 30 June 2013 (unaudited)
<b>Opening balance</b>	<b>4 291 460</b>	<b>4 288 247</b>
Issue	1 000 000	–
Redemption	(300 000)	–
Change in valuation	87	1 554
<b>Closing balance</b>	<b>4 991 547</b>	<b>4 289 801</b>

Pursuant to the agreement concluded in 2013 with Bank Gospodarstwa Krajowego, in the 6-month period ended 30 June 2014 the Company issued bonds with the total par value of PLN 700 000 thousand, with redemption dates falling annually, from 20 December 2019 to 20 December 2025 in equal portions of PLN 100 000 thousand.

Additionally, on 24 January 2014, Tranche E short-term bonds with the par value of PLN 200 000 thousand and maturing on 24 February 2014 were issued by the Company. Another issue of E Tranche bonds with the redemption date of 28 April 2014 and the value of PLN 100 000 thousand took place on 28 March 2014.

The Company hedges a portion of interest cash flows related to issued bonds – Tranche C and a portion of Tranche A, by entering into interest rate swap (IRS) contracts, as presented in detail in Note 22.3 to these condensed interim consolidated financial statements.

The agreements signed by the Company with banks include legal and financial covenants which are commonly used in such transactions. As at 30 June 2014, none of these covenants were breached and the contractual provisions were complied with.

## 24. Provisions for employee benefits

	As at 30 June 2014 (unaudited)	As at 31 December 2013
Provision for post-employment benefits and jubilee bonuses	1 599 885	1 605 629
Provision for employment termination benefits	36 972	54 553
<b>Total</b>	<b>1 636 857</b>	<b>1 660 182</b>
<b>Current</b>	<b>142 315</b>	<b>162 368</b>
<b>Non-current</b>	<b>1 494 542</b>	<b>1 497 814</b>

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

The Group determines provisions for future post-employment benefits and jubilee bonuses at an amount estimated using actuarial methods, taking into account the discount rate defined based on market rates of return from treasury bonds.

#### For the 6-month period ended 30 June 2014 (unaudited)

	Provision for retirement, disability and similar benefits	Employee electricity rates	Social Fund	Provision for coal allowances	Jubilee bonuses	Provisions, total
<b>Opening balance</b>	<b>282 621</b>	<b>569 140</b>	<b>121 571</b>	<b>49 457</b>	<b>582 840</b>	<b>1 605 629</b>
Current service costs	6 684	3 863	1 485	471	19 540	<b>32 043</b>
Actuarial gains and losses	(4 569)	(1 652)	(462)	40	(12 444)	<b>(19 087)</b>
Benefits paid	(10 229)	(10 953)	(1 686)	(1 044)	(17 648)	<b>(41 560)</b>
Past service costs	(1 319)	(3 166)	(378)	–	(3 836)	<b>(8 699)</b>
Interest expense	5 481	11 231	2 439	979	11 429	<b>31 559</b>
<b>Closing balance</b>	<b>278 669</b>	<b>568 463</b>	<b>122 969</b>	<b>49 903</b>	<b>579 881</b>	<b>1 599 885</b>
<b>Current</b>	<b>25 377</b>	<b>25 100</b>	<b>4 329</b>	<b>2 097</b>	<b>59 732</b>	<b>116 635</b>
<b>Non-current</b>	<b>253 292</b>	<b>543 363</b>	<b>118 640</b>	<b>47 806</b>	<b>520 149</b>	<b>1 483 250</b>

Past service costs of PLN 8 699 thousand result from a decrease in post-employment benefits due to employees transferred from TAURON Wytwarzanie S.A. to TAURON Ciepło S.A. (currently: TAURON Ciepło Sp. z o.o.) as a result of the separation of Zespół Elektrociepłowni Bielsko-Biała, as presented in detail in note 27 to these condensed interim consolidated financial statements. The conditions of schemes applicable to the employees in question have changed. Until 30 June 2016 the Company Collective Labor Agreement of TAURON Wytwarzanie S.A. will apply to the employees transferred. From 1 July 2016 the employees will be covered by the Company Collective Labor Agreement in force in TAURON Ciepło Sp. z o.o.

Benefits paid out in the 6-month period ended 30 June 2014 included PLN 4 378 thousand of benefits paid to employees covered by voluntary redundancy schemes (in the 6-month period ended 30 June 2013 it was PLN 3 612 thousand).

**For the 6-month period ended 30 June 2013 (unaudited restated figures)**

	Provision for retirement, disability and similar benefits	Employee electricity rates	Social Fund	Provision for coal allowances	Jubilee bonuses	Provisions, total
<b>Opening balance</b>	<b>260 356</b>	<b>595 579</b>	<b>135 766</b>	<b>56 735</b>	<b>579 547</b>	<b>1 627 983</b>
Adjustments	10 366	2 147	458	–	14 813	27 784
<b>Opening balance after adjustments</b>	<b>270 722</b>	<b>597 726</b>	<b>136 224</b>	<b>56 735</b>	<b>594 360</b>	<b>1 655 767</b>
Current service costs	2 180	2 334	840	584	16 582	22 520
Actuarial gains and losses	(3 782)	(776)	(632)	(199)	(10 523)	(15 912)
Benefits paid	(9 430)	(11 559)	(1 633)	(617)	(17 042)	(40 281)
Past service costs	(870)	(2 977)	(663)	–	(2 711)	(7 221)
Interest expense	4 991	11 875	2 703	1 130	11 091	31 790
Other movements	1 102	(246)	(53)	–	(821)	(18)
<b>Closing balance</b>	<b>264 913</b>	<b>596 377</b>	<b>136 786</b>	<b>57 633</b>	<b>590 936</b>	<b>1 646 645</b>
<b>Current</b>	<b>22 822</b>	<b>25 270</b>	<b>4 776</b>	<b>1 920</b>	<b>55 646</b>	<b>110 434</b>
<b>Non-current</b>	<b>242 091</b>	<b>571 107</b>	<b>132 010</b>	<b>55 713</b>	<b>535 290</b>	<b>1 536 211</b>

The opening balance adjustment results from the change in the presentation of a portion of actuarial provision related to employees covered with voluntary redundancy schemes, which used to be presented in provisions for employment termination benefits, while at present it is presented in provisions for post-employment benefits and jubilee bonuses.

**24.2. Provisions for employment termination benefits**

**For the 6-month period ended 30 June 2014 (unaudited)**

	Voluntary redundancy schemes in operating segments				Total
	Generation	Distribution	Heat	Customer service	
<b>Opening balance</b>	<b>28 109</b>	<b>17 584</b>	<b>678</b>	<b>8 182</b>	<b>54 553</b>
Recognition	523	–	2 107	–	2 630
Utilisation	(13 190)	(3 063)	(1 874)	(2 084)	(20 211)
<b>Closing balance</b>	<b>15 442</b>	<b>14 521</b>	<b>911</b>	<b>6 098</b>	<b>36 972</b>
<b>Current</b>	<b>4 150</b>	<b>14 521</b>	<b>911</b>	<b>6 098</b>	<b>25 680</b>
<b>Non-current</b>	<b>11 292</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>11 292</b>

**For the 6-month period ended 30 June 2013 (unaudited restated figures)**

	Voluntary redundancy schemes in operating segments			Total
	Generation	Distribution	Customer service	
<b>Opening balance</b>	<b>75 180</b>	<b>23 211</b>	<b>9 549</b>	<b>107 940</b>
Adjustments	(27 784)	–	–	(27 784)
<b>Opening balance after adjustments</b>	<b>47 396</b>	<b>23 211</b>	<b>9 549</b>	<b>80 156</b>
Recognition	1 423	–	–	1 423
Utilisation	(11 682)	(6 115)	(980)	(18 777)
<b>Closing balance</b>	<b>37 137</b>	<b>17 096</b>	<b>8 569</b>	<b>62 802</b>
<b>Current</b>	<b>32 693</b>	<b>17 096</b>	<b>5 372</b>	<b>55 161</b>
<b>Non-current</b>	<b>4 444</b>	<b>–</b>	<b>3 197</b>	<b>7 641</b>

In the 6-month period ended 30 June 2014 the Group followed the voluntary redundancy schemes (“VRS”) launched in the preceding periods and discussed in detail in the consolidated financial statements of the Group for the year ended 31 December 2013.

In the 6-month period ended 30 June 2014 the companies utilized the provisions and paid out benefits from provisions recognized as at 31 December 2013. Additionally, VRS benefits of PLN 6 147 thousand were paid out in the Generation segment and charged directly to the profit of the Group.

As a new group of employees has been covered by the scheme introduced in 2013, the cost of recognizing provisions for VRS benefits grew by PLN 2 107 thousand in the Heat segment.

## 25. Other provisions

### 25.1. Changes in provisions

For the 6-month period ended 30 June 2014 (*unaudited*)

	Provision for use of real estate without contract	Provision for mine decommissioning costs	Provision for restoration of land and dismantling and removal of fixed assets	Provision for gas emission obligations	Provision for obligation to submit energy certificates	Provision for counterparty claims, court dispute and other provisions	Provisions, total
<b>Opening balance</b>	<b>104 827</b>	<b>44 620</b>	<b>96 280</b>	<b>461 123</b>	<b>905 561</b>	<b>92 016</b>	<b>1 704 427</b>
Discount rate adjustment	–	772	–	–	–	–	772
Recognition	18 943	329	1 848	24 725	447 674	17 891	511 410
Reversal	(7 024)	–	(12 791)	–	(2 766)	(9 410)	(31 991)
Utilisation	(5 065)	–	–	(463 362)	(899 042)	(4 617)	(1 372 086)
Foreign exchange differences from translation of foreign entities	–	–	–	–	–	9	9
<b>Closing balance</b>	<b>111 681</b>	<b>45 721</b>	<b>85 337</b>	<b>22 486</b>	<b>451 427</b>	<b>95 889</b>	<b>812 541</b>
<b>Current</b>	<b>111 681</b>	<b>–</b>	<b>–</b>	<b>22 486</b>	<b>451 427</b>	<b>86 405</b>	<b>671 999</b>
<b>Non-current</b>	<b>–</b>	<b>45 721</b>	<b>85 337</b>	<b>–</b>	<b>–</b>	<b>9 484</b>	<b>140 542</b>

For the 6-month period ended 30 June 2013 (*unaudited*)

	Provision for use of real estate without contract	Provision for mine decommissioning costs	Provision for restoration of land and dismantling and removal of fixed assets	Provision for gas emission obligations	Provision for obligation to submit energy certificates	Provision for counterparty claims, court dispute and other provisions	Provisions, total
<b>Opening balance</b>	<b>74 899</b>	<b>26 070</b>	<b>68 070</b>	<b>62 921</b>	<b>873 976</b>	<b>79 623</b>	<b>1 185 559</b>
Discount rate adjustment	–	564	–	–	–	–	564
Recognition	9 186	308	1 430	117 558	449 682	3 193	581 357
Reversal	(2 496)	–	–	–	(10 205)	(1 696)	(14 397)
Utilisation	(889)	–	–	(73 291)	(838 946)	(2 123)	(915 249)
Other movements	60	–	–	–	–	(6)	54
<b>Closing balance</b>	<b>80 760</b>	<b>26 942</b>	<b>69 500</b>	<b>107 188</b>	<b>474 507</b>	<b>78 991</b>	<b>837 888</b>
<b>Current</b>	<b>80 377</b>	<b>–</b>	<b>12 691</b>	<b>107 188</b>	<b>474 507</b>	<b>78 567</b>	<b>753 330</b>
<b>Non-current</b>	<b>383</b>	<b>26 942</b>	<b>56 809</b>	<b>–</b>	<b>–</b>	<b>424</b>	<b>84 558</b>

### 25.2. Description of significant provision items

In the 6-month period ended 30 June 2014 there were no significant changes in provision items, except for those presented below and in Note 7 concerning the estimation of provisions for gas emission liabilities.

#### 25.2.1. Provision for use of real estate without contract

The Group companies recognize provisions for all claims filed by the owners of the real property on which distribution systems and heat installations are located. The Group does not establish provision for possible unlodged claims of owners of land with unregulated status. As at 30 June 2014, the relevant provision amounted to PLN 111 681 thousand (as at 31 December 2013 it was PLN 104 827 thousand).

In 2012 a third party lodged a claim against TAURON Ciepło S.A. (currently: TAURON Ciepło Sp. z o.o.) related to the regulation of legal status of the network located in its property. The company has questioned both the claim amount and the claimant's title to offset it with its current liabilities regarding heat supply. Such a position of the company has been confirmed with a non-official decision of Court for Competition and Consumer Protection against the party regarding the heat supply cutoff upon payment default. Consequently, the company commenced collection litigation against the debtor. The final amount of the defendant's claim regarding the use of its property shall be determined in the course of the litigation. With regard to the dispute, in light of the adopted accounting policy, a provision has been recognized for the estimated cost of the above claim. Bearing in mind the pending litigation, and in accordance with IAS 37.92, the Group does not disclose all information regarding the above issue as required by IAS 37.



## 25.2.2. Provision for restoration of land and dismantling and removal of fixed assets

In the 6-month period ended 30 June 2014 the provision for reclamation of piles of Elektrownia Halemba of PLN 12 791 thousand was derecognized due to the sale of the entity.

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

Due to the sales of electricity to end users, the Group is required to cancel a specified amount of certificates of electricity generated using renewable sources, cogeneration and energy efficiency certificates.

In the 6-month period ended 30 June 2014, the Group fulfilled its obligation to surrender energy certificates for 2013, and PLN 895 605 thousand of the provision recognized was utilized. The Group also complied with the obligation for 2014, which resulted in the utilization of the provision in the amount of PLN 3 437 thousand. As at 30 June 2014, the provision recognized for the obligation to surrender energy certificates amounted to PLN 451 427 thousand and was related to the obligation for 2014.

## 25.2.4. Provision for counterparty claims, court dispute and other provisions

### Provision for claims of ArcelorMittal Poland S.A.

In the 6-month period ended 30 June 2014 the provision for claims of ArcelorMittal Poland S.A. in the amount of PLN 7 200 thousand was reversed as the claims were barred by statute of limitations.

### Provision for litigation with IPW Polin Sp. z o.o.

In the 6-month period ended 30 June 2014 the Company recognized a provision of PLN 8 892 thousand for litigation with IPW Polin Sp. z o.o. The dispute concerns financial settlement of economic benefits due to application of technology covered by invention proposal.

## 26. Accruals

### 26.1. Deferred income and government grants

	As at 30 June 2014 (unaudited)	As at 31 December 2013
<b>Deferred income, of which:</b>	<b>375 854</b>	<b>392 861</b>
Donations, fixed assets received free-of-charge	98 915	104 771
Non-government subsidies	28	250
Subsidies received for the purchase of fixed assets	1 705	1 840
Connection fees	274 100	285 327
Other	1 106	673
<b>Government grants, of which:</b>	<b>361 125</b>	<b>330 824</b>
Subsidies obtained from EU funds	254 447	219 452
Forgiven loans from environmental funds	9 076	9 400
Other	97 602	101 972
<b>Total, of which:</b>	<b>736 979</b>	<b>723 685</b>
<b>Non-current</b>	<b>680 537</b>	<b>668 487</b>
<b>Current</b>	<b>56 442</b>	<b>55 198</b>

Other settlements of government grants include mostly subsidies to green field investments in hard coal mines of PLN 25 313 thousand received by TAURON Wytwarzanie S.A. and measurement to the market value of preferential loans of PLN 38 424 thousand, received by TAURON Wytwarzanie S.A. and of PLN 3 642 thousand received by TAURON Ciepło Sp. z o.o.



## 26.2. Accrued expenses – current

	As at 30 June 2014 (unaudited)	As at 31 December 2013
Unused holidays	67 277	41 451
Bonuses	169 259	133 125
Environmental protection charges	16 739	2 245
Other	3 630	7 620
<b>Total</b>	<b>256 905</b>	<b>184 441</b>

## 27. Acquisition of non-controlling interest and organizational changes

### Purchase of shares in TAURON Wydobycie S.A.

On 10 December 2013, an agreement concerning acquisition of 16 730 525 registered shares in TAURON Wydobycie S.A. by TAURON Polska Energia S.A. from Kompania Węglowa S.A. was signed. The shares in question represent 47.52% of the entity's issued capital and give 31.99% of the total voting rights at the General Shareholders' Meeting.

The total acquisition price was PLN 310 000 thousand. The amount of PLN 232 500 thousand was paid at the agreement date and the parties agreed that the remaining PLN 77 500 thousand would be paid following the transfer of the title to the shares onto the Company, i.e. after Kompania Węglowa S.A. has been authorized by its General Shareholders' Meeting to sell the shares and the seller has been authorized by TAURON Wydobycie S.A. to dispose of the shares. The Management Board of TAURON Wydobycie S.A. approved the sale of the shares on 19 December 2013. On 15 January 2014, the General Shareholders' Meeting of Kompania Węglowa S.A. authorized the disposal of shares in TAURON Wydobycie S.A. Hence, the conditions precedent for the transfer of the title to TAURON Wydobycie S.A.'s shares were satisfied. Following the payment of the remaining amount, i.e. PLN 77 500 thousand, to Kompania Węglowa S.A. the title to shares in TAURON Wydobycie S.A. held by Kompania Węglowa S.A. was transferred onto the Company on 22 January 2014.

Under the agreement TAURON Polska Energia S.A. holds 100% of shares in TAURON Wydobycie S.A., which give 100% of votes at the entity's General Shareholders' Meeting, where 47.52% of shares representing 31.99% of votes are held by TAURON Polska Energia S.A. directly and the remaining 52.48% of shares representing 68.01% of votes at the General Shareholders' Meeting of TAURON Wydobycie S.A. are at the Company's disposal under the agreement on the use of shares in TAURON Wydobycie S.A., held by TAURON Wytwarzanie S.A.

As a result of the transaction, non-controlling interest decreased by PLN 382 545 thousand, while retained earnings grew by PLN 72 545 thousand.

### Separation of TAURON Wytwarzanie S.A.

On 2 January 2014, the division of TAURON Wytwarzanie S.A. through separation pursuant to Article 529.1.4 of the Code of Commercial Companies, involving a transfer of the separated assets, i.e. an organized part of the enterprise in the form of Zespół Elektrociepłowni Bielsko-Biała, to TAURON Ciepło S.A. was recorded.

As a result, the issued capital of TAURON Wytwarzanie S.A. was decreased from PLN 1 553 036 thousand to PLN 1 494 863 thousand, while the issued capital of TAURON Ciepło S.A. was increased from PLN 1 238 077 thousand to PLN 1 409 747 thousand.

As a result of the separation the interests in TAURON Wytwarzanie S.A. held by TAURON Polska Energia S.A. decreased to 99.76% (in the issued capital) and 99.79% (in the total number of votes at the General Shareholders' Meeting), while the interests in TAURON Ciepło S.A. held by TAURON Polska Energia S.A. increased to 96.57% (in the issued capital) and 97.14% (in the total number of votes at the General Shareholders' Meeting).

Consequently, the non-controlling interest increased by PLN 811 thousand and retained earnings dropped by the same amount.

### Business combination under common control of TAURON Ekoenergia Sp. z o.o., MEGAWAT MARSZEWO Sp. z o.o. and BELS INVESTMENT Sp. z o.o.

On 2 January 2014, a business combination under common control of TAURON Ekoenergia Sp. z o.o. (the acquirer), MEGAWAT MARSZEWO Sp. z o.o. and BELS INVESTMENT Sp. z o.o. (the acquirees) was registered.

The business combination was carried out under Article 492.1.1 of the Code of Commercial Companies through the transfer of the acquirees' all assets onto the acquirer.

The business combination has not affected the condensed interim consolidated financial statements.

#### **Business combination under common control of Enpower Service Sp. z o.o. and TAURON Ciepło S.A.**

On 30 April 2014, a business combination under common control of Enpower Service Sp. z o.o. (the acquirer) and TAURON Ciepło S.A. (the acquiree) was registered. The business combination was carried out under Article 492.1.1 of the Code of Commercial Companies through the transfer of all assets of TAURON Ciepło S.A. to Enpower Service Sp. o.o. At the same time, the name of the acquirer has been changed to TAURON Ciepło Sp. z o.o.

The business combination has not affected the condensed interim consolidated financial statements.

#### **Acquisition of non-controlling interest in TAURON Ciepło S.A. and in TAURON Wytwarzanie S.A.**

Following mandatory squeeze out (mandatory acquisition) of minority shareholders of TAURON Ciepło S.A. (before a business combination with Enpower Service Sp. z o.o.) and TAURON Wytwarzanie S.A. – TAURON Polska Energia S.A. became the sole shareholders of the entities in question.

The squeeze out of minority shareholders caused a decrease in the value of non-controlling interest by PLN 25 051 thousand and an increase in retained earnings by PLN 4 393 thousand.

#### **Mandatory squeeze-out**

As a result of the squeeze-outs of treasury shares for redemption purposes continued in the TAURON Group, the value of non-controlling interest in TAURON Wytwarzanie S.A. and TAURON Dystrybucja S.A. and TAURON Ciepło S.A. decreased by PLN 32 459 thousand, while retained earnings increased by PLN 5 241 thousand.

## **28. Contingent liabilities**

#### **Administrative proceedings instigated by the President of the Energy Regulatory Office (ERO)**

The President of the Energy Regulatory Office instigated administrative proceedings with respect to imposing a financial penalty on Vattenfall Sales Poland Sp. z o.o. (currently: TAURON Sprzedaż GZE Sp. z o.o.) under Article 56.1.5 of the Energy Law, based on the allegation that, in 2008–2011, the company used prices and tariffs which had not been submitted for the required approval. The company is of the opinion that it did not breach any law in this respect. In order to avoid being charged with a direct allegation of failing to fulfil the request of the President of Energy Regulatory Office and thus falling under the provisions of the Energy Law, the company, at the request of the President of ERO, submitted electricity tariffs for the years 2008–2011 for approval, although it was in fact exempt from the requirement to submit electricity tariffs (exemption based on the decision of the President of ERO dated 28 June 2001). However, the applications for the years 2008, 2009 and 2011 were not approved, and the proceedings for the approval of the electricity tariff for 2010 were cancelled based on the Decision of the President of ERO.

On 19 March 2010 the President of ERO issued a decision cancelling the waiver of the obligation to file electricity tariffs for approval, which had been granted to Vattenfall Sales Poland Sp. z o.o. (currently: TAURON Sprzedaż GZE Sp. z o.o.) by the President of ERO on 28 June 2001. The company appealed against the decision to the Regional Court of Competition and Consumer Protection in Warsaw. On 9 December 2011 the Court of Competition and Consumer Protection cancelled the decision of the President of ERO. On 20 September 2012, the Court of Appeals in Warsaw passed a judgment concerning the appeal of the Energy Regulatory Office with respect to the judgment of the Court of Competition and Consumer Protection cancelling the waiver from the obligation to submit electricity tariffs for the G tariff group granted to TAURON Sprzedaż GZE Sp. z o.o. The Court dismissed the appeal of ERO. On 1 March 2013 the President of ERO filed a cassation appeal to the Supreme Court. On 5 December 2013 the Supreme Court issued a decision refusing the cassation appeal of the President of ERO, which means the final closing of the proceedings. Nonetheless, the President of ERO is entitled to appeal against the decision of the Supreme Court.

#### **Administrative proceedings instigated by the President of the Office for Competition and Consumer Protection**

On 12 December 2012 the President of the Office for Competition and Consumer Protection (UOKiK), Branch in Wrocław, instigated proceedings against TAURON Sprzedaż Sp. z o.o. with regard to the company's alleged use of practices violating collective consumers' interests. The practices consisted in charging interest for overdue payments for projected use of electricity groundlessly. Such interest was determined by the automatic payment management system as a result of linking payments made by electricity users with amounts payable in future and leaving the oldest liabilities unpaid.

In response, the Company applied for issuing a decision requesting the company to fulfil an obligation to discontinue activities violating the Act of 16 February 2007 on competition and consumer protection (Journal of Laws of 2007, No. 50, item 331, as amended) and to take steps preventing continued existence of the alleged violations. The Office for Competition and Consumer Protection accepted the application, hence TAURON Sprzedaż Sp. z o.o. presented suggested solution with deadlines and an action plan aimed at preventing continued existence of the alleged violations. On 16 April 2013 the President of the Office for Competition and Consumer Protection, Branch in Wrocław, issued a decision requesting the company to discontinue the activities. The company has followed the provisions of the Decision. As at the date of preparing these financial statements, the risk of imposing a fine was very limited, therefore the company did not recognize any provision.

On 17 September 2013 the President of the Office for Competition and Consumer Protection (UOKiK), Branch in Warsaw, instigated proceedings against TAURON Sprzedaż Sp. z o.o. with regard to the company's alleged use of practices violating collective consumers' interests. The practices consisted in quoting electricity prices in pricing lists and information materials without VAT, which constituted a breach of the Act of counteracting unfair market practices of 23 August 2007 (Journal of Laws No. 171 item 1206) and therefore constitutes a breach of the Act on competition and consumer protection. The company submitted requested documents, accepted the whole argumentation of the President of UOKiK and committed to discontinue practices violating the Act on competition and consumer protection. Further, it motioned for proceedings aimed at the issue of a binding decision. At present, no provision has been recognized for the event.

UOKiK has commenced the following explanatory procedures regarding the Sales segment companies:

- In its letter dated 23 April 2013 UOKiK instigated proceedings against TAURON Sprzedaż Sp. z o.o. and TAURON Sprzedaż GZE Sp. z o.o., the objective of which was to determine whether the Act on competition and consumer protection was breached in reservation agreements for the sale of electricity, including restricted financial covenants. The companies provided requested documents and responded to statements included in the letter of UOKiK. In January and February 2014 they received subsequent letters requesting further explanations with this regard. The companies provided more requested documents and further explanations.
- In its letter dated 7 May 2013 UOKiK notified TAURON Sprzedaż Sp. z o.o. of the instigation of the explanatory proceedings with respect to determination if the ability to terminate an agreement for sale of electricity in the "Good Decision 2014" product offer was limited for contractors of TAURON Sprzedaż Sp. z o.o., which, in turn, would be in breach of the Act of 16 February 2007 on competition and consumer protection (Journal of Laws of 2007, No. 50, item 331, as amended). Explanatory proceedings were aimed at preliminary determination if the Act in question has been breached, which would justify initiating antimonopoly proceedings. In particular, the proceedings were to decide whether the case is of antimonopoly nature and if the breach has occurred which would justify instigation of proceedings to prohibit applying practices violating collective consumers' interests. The company provided all documents requested and commented on statements included in the letter from UOKiK.
- In its letter dated 10 July 2013 UOKiK notified TAURON Sprzedaż Sp. z o.o. of the instigation of the explanatory proceedings with respect to determination whether the actions of the company related to concluding agreements for sale of electricity under the "Fixed Price Guaranteed" product offer through the call center were in breach of the Act of 16 February 2007 on competition and consumer protection (Journal of Laws of 2007, No. 50, item 331, as amended). The company provided all documents requested and commented on statements included in the letter from UOKiK. On 16 December 2013 the company received a request regarding further information with this respect. In response to the letter, on 30 December 2013 it provided further information as requested. In April 2014 the company received another letter from UOKiK requesting further information.
- In its letter dated 28 October 2013 UOKiK notified TAURON Sprzedaż Sp. z o.o. of the instigation of the explanatory proceedings with respect to determination whether the actions of the company related to obtaining consumers' consents to process their personal data regarding products called "Bezpieczny", "Eko" and "EkoOszczędny" with an option of electricity price reduction were in breach of collective interests of the consumers and therefore of the Act of 16 February 2007 on competition and consumer protection (Journal of Laws of 2007, No. 50, item 331 as amended). The company provided all documents requested and commented on statements included in the letter.
- In its letter dated 26 September 2013, UOKiK notified TAURON Sprzedaż GZE Sp. z o.o. of the instigation of explanatory proceedings aimed at preliminary determination whether the actions of the company related to imposition of fines for early termination of agreements for sale of electricity were in breach of the Act on competition and consumer protection. In response, the company provided information requested by the President of UOKiK in the proceedings.

The companies' Management believe that, considering the explanatory nature of the proceedings instigated, the probability of an unfavorable outcome of the above-mentioned cases is low; hence no provision has been recognized for these events.

#### **Non-contractual use of real property**

Distribution entities of the Group do not hold legal titles to all plots of land where distribution networks and the related devices are located. The Group may have to incur costs related to non-contractual use of property in the future; the risk of losing assets is close to nil, though. The Group has established a provision for all court disputes regarding the issue. No provision has been recognized for potential not submitted claims of owners of land with unregulated legal status, since their detailed records do not exist. As a consequence, potential claim amounts cannot be reliably estimated. In light of the history of claims submitted and the related costs incurred in the previous years, though, the risk of incurring material costs with this regard is low.

#### **Claims filed by Huta Łaziska**

Following the Company's business combination with Górnośląski Zakład Elektroenergetyczny S.A. (GZE), TAURON Polska Energia S.A. has become a party to a court dispute with Huta Łaziska S.A. ("Huta").

The key reason was the latter's failure to fulfil its obligation to pay the amounts due for electricity supplies, which led to discontinuation of electricity supplies to Huta Łaziska by GZE in 2001.

Based on a decision of 12 October 2001, the President of Energy Regulatory Office (ERO) ordered GZE to resume electricity supplies to Huta on such terms as set out in the agreement of 30 July 2001, at the price of PLN 67/MWh until final resolution of the dispute, and on 14 November 2001 the dispute was finally resolved pursuant to a decision stating that discontinuation of electricity supplies was not unjustified. Huta appealed against that decision. On 25 July 2006, the Court of Appeals in Warsaw passed a final judgment ending the dispute over the decision of the President of ERO dated 14 November 2001. Huta filed a cassation appeal against the judgment of the Court of Appeals, which was dismissed by the judgment of the Supreme Court dated 10 May 2007.

Due to discontinuation of electricity supplies, Huta has raised a claim against GZE for damages amounting to PLN 182 060 thousand. Currently, an action is pending under Huta's suit of 12 March 2007 against GZE and the State Treasury represented by the President of ERO for the payment of PLN 182 060 thousand together with interest from the date of filing the suit to the date of payment, in respect of damages for alleged losses resulting from GZE's failure to comply with the decision of the President of the Energy Regulatory Office dated 12 October 2001. In this case, the courts of the first and second instance passed judgments favorable for GZE; however, in its judgment of 29 December 2011 the Supreme Court overruled the judgment of the Court of Appeals and remanded the case for reexamination by that Court. On 5 June 2012, the Court of Appeals overruled the judgment of the Regional Court and remanded the case for reexamination by the latter. The first hearing before the first instance court was held on 27 November 2012. The most recent hearing was held on 12 May 2014 and the date of the next hearing has not been determined yet.

Based on the Company's legal analysis of the claims raised by Huta and by its main shareholder, GEMI Sp. z o.o., the Company believes that the claims are groundless and the risk of their satisfaction is remote. As a result, no provision has been recognized by the company for any costs associated with those claims.

The status of the remaining contingent liabilities has not changed considerably comparing to that presented in the consolidated financial statements for the year ended 31 December 2013.

## **29. Collateral against liabilities**

The Group uses various forms of collateral against liabilities. Those most frequently used include mortgages, registered pledges, liens and lease agreements relating to real property and other items of property, plant and equipment and frozen cash in bank accounts.

The carrying amounts of assets pledged as security for liabilities at particular balance sheet dates are presented in the table below.

## Carrying amount of assets pledged as collateral against liabilities

	As at 30 June 2014 (unaudited)	As at 31 December 2013
Real estate	100 934	232 851
Plant and equipment	44 485	46 291
Motor vehicles	177	450
Cash	5 914	5 121
<b>Total assets pledged as security for liabilities</b>	<b>151 510</b>	<b>284 713</b>

The entire loan collateralized with a mortgage on real property was repaid on 31 December 2013, therefore the collateral in the form of a mortgage on real property of PLN 130 000 thousand was released in the 6-month period ended 30 June 2014.

### **Other forms of collateral**

The Group also uses other forms of collateral to secure payment of liabilities, of which the most significant ones as at 30 June 2014 regard the following contracts concluded by the parent:

#### **Bond issue schemes**

Under the bond issue scheme dated 16 December 2010 with subsequent annexes, the Company filed declarations of submission to enforcement:

- up to PLN 1 560 000 thousand, valid until 31 December 2016 – as regards Tranches A and B;
- up to PLN 6 900 000 thousand, valid until 31 December 2018 – as regards Tranches C, D and E.

With a view to collateralizing the agreement made on 31 July 2013 with Bank Gospodarstwa Krajowego, concerning a long-term bond issue scheme of PLN 1 000 000 thousand, the Company has filed a declaration of submission to enforcement up to PLN 1 500 000 thousand, valid until 20 December 2029.

#### **Master bank guarantee agreement with PKO Bank Polski S.A.**

With a view to collateralizing a framework bank guarantee agreement with PKO Bank Polski S.A., TAURON Polska Energia S.A. submitted a declaration of submission to enforcement up to PLN 125 000 thousand, with the maximum validity term until 31 December 2017. Additionally, the agreement has been collateralized by an authorization to debit the bank account maintained by PKO Bank Polski S.A. As at 30 June 2014 the guarantee limit amounted to PLN 100 000 thousand. The agreement is valid until 31 December 2016.

Under the agreement, at the request of the Company, as at 30 June 2014 PKO Bank Polski S.A. extended bank guarantees in order to collateralize liabilities of the subsidiaries of TAURON Polska Energia S.A. totaling PLN 3 608 thousand and to collateralize transactions entered into by the Company: a guarantee for CAO Central Allocation Office GmbH up to EUR 1 000 thousand (PLN 4 161 thousand) valid until 3 February 2015.

#### **Agreement with Bank Zachodni WBK S.A. on bank guarantees for Izba Rozliczeniowa Giełd Towarowych S.A.**

In May 2013, the Company signed an agreement on a bank guarantee limit up to PLN 150 000 thousand with Bank Zachodni WBK S.A., with Izba Rozliczeniowa Giełd Towarowych S.A. as the beneficiary. The agreement has been collateralized with a declaration of submission to enforcement up to the amount of PLN 187 500 thousand valid until 6 May 2017.

Under the agreement the bank issued bank guarantees upon a request of the Company. As at 30 June 2014 the total value of guarantees issued by Bank Zachodni WBK S.A. was PLN 75 000 thousand with the validity date of 30 June 2014. After expiration of these guarantees and until the date of approving these condensed interim consolidated financial statements for publication, the bank did not issue any new guarantees.

#### **Overdraft facility agreements**

As at 30 June 2014, overdraft facility agreements were collateralized by TAURON Polska Energia S.A. with authorizations to debit bank accounts:

- up to PLN 300 000 thousand – facility provided by Polska Kasa Opieki S.A. (cash pool financing);
- up to EUR 25 000 thousand (PLN 104 023 thousand) – facility provided by NORDEA Bank Polska S.A.



Also, the Company has provided declarations of submission to enforcement as collateral for the following overdraft facilities:

- overdraft facility granted by Polska Kasa Opieki S.A. up to PLN 360 000 thousand maturing on 31 December 2017;
- overdraft facility granted by NORDEA Bank Polska S.A. up to EUR 31 250 thousand (PLN 130 028 thousand) maturing on 31 December 2018.

#### **Other forms of collateral regarding Group's liabilities**

As at 30 June 2014, other material forms of collateral regarding liabilities of the TAURON Capital Group included:

- Blank promissory notes issued by TAURON Polska Energia S.A. to the benefit of TAURON Wytwarzanie S.A. and TAURON Ciepło S.A. with a view to collateralizing loans granted to them by the Regional Fund for Environmental Protection and Water Management in Katowice (totaling to PLN 71 180 thousand as at 30 December 2014). The companies have provided declarations of submission to enforcement as collateral for the loans in question;
- Loans taken out by TAURON Dystrybucja S.A. were secured by granting authorizations to dispose of the funds in borrowers' bank accounts up to the balance of the outstanding loan plus interest and other amounts due to the bank – a total of PLN 11 152 thousand as at 30 June 2014;
- In order to secure proper performance of the contract and of the agreements signed by the company, including those relating to the funding of investment projects, TAURON Dystrybucja S.A. issued blank promissory notes (for the total amount of PLN 131 390 thousand as at 30 June 2014);
- Blank promissory notes issued by TAURON Ciepło Sp. z o.o. in the total amount of PLN 61 896 thousand collateralizing due performance of liabilities arising from funding agreements concluded with the Regional Fund for Environmental Protection and Water Management in Warsaw;
- TAURON Ciepło Sp. z o.o. issued a blank promissory note for an amount of PLN 92 215 thousand to secure the sale and leaseback agreement concluded in 2007. This agreement is additionally secured by the assignment of receivables, assignment of rights under insurance policies, mortgage on real property, plant and machinery and authorization to debit bank accounts.
- TAURON Polska Energia S.A. is a party to a finance lease agreement concerning real property in Katowice with the carrying amount of PLN 34 361 thousand as at 30 June 2014. The agreement is collateralized by two blank promissory notes, assignment of receivables and authorization to debit a bank account. As at 30 June 2014, the lease liabilities amounted to PLN 34 577 thousand.
- In order to collateralize the Company's transactions on the Polish Power Exchange, a subsidiary, TAURON Wytwarzanie S.A., has given a surety to Izba Rozliczeniowa Giełd Towarowych S.A. (IRGIT) for the liabilities of TAURON Polska Energia S.A. on the Polish Power Exchange up to PLN 45 000 thousand and collateral in the form of a freeze on EUA emission allowances in the KRUE Register, held by TAURON Wytwarzanie S.A. (8 739 thousand tons) has been provided. The surety expired on 31 March 2014.

Mining entities from the Capital Group have established a Mine Decommissioning Fund to ensure funds for covering future liquidation costs.

### **30. Capital commitments**

As at 30 June 2014 and 31 December 2013 the Group committed to incur expenditure on property, plant and equipment of PLN 6 689 910 thousand and PLN 2 326 470 thousand, respectively, with the key items presented below:

Operating segment	Agreement/investment project	As at 30 June 2014 (unaudited)	As at 31 December 2013
<b>Generation</b>	Construction of a power-generating unit with the capacity of 910 MW for supercritical parameters in Jaworzno III Power Plant	4 399 038	–
	Adjusting a boiler in Jaworzno III Power Plant to reduce the greenhouse gas emissions	84 499	100 759
<b>Heat</b>	Constructing new cogeneration capacity in Tychy Heat and Power Plant	476 429	503 625
	Construction of 50 MWE turbo generator	86 602	98 150
<b>Mining</b>	Construction of a shaft inlet and developing infrastructure in Janina shaft	76 736	89 491

## 31. Related party disclosures

### 31.1. Transactions with jointly-controlled entities

The Group has two jointly controlled entities: Elektrociepłownia Stalowa Wola S.A. and Elektrownia Blachownia Nowa Sp. z o. o., which have been presented in detail in Note 17 hereto.

### 31.2. Transactions with State Treasury companies

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

The total value of transactions with the aforementioned entities and the balances of receivables and payables have been presented in the tables below.

#### Revenue and expense

	6-month period ended 30 June 2014 (unaudited)	6-month period ended 30 June 2013 (unaudited)
Revenue	1 278 547	1 028 879
Costs*	(1 333 816)	(1 597 615)

\* Includes costs recognized in the statement of comprehensive income

#### Receivables and liabilities

	As at 30 June 2014 (unaudited)	As at 31 December 2013
Receivables	277 167	227 363
Payables	213 136	365 673

Among the State Treasury companies, in the 6-month period ended 30 June 2014, KGHM Polska Miedź S.A., PSE S.A., PKP Energetyka S.A. and Kompania Węglowa S.A. were the major clients of the TAURON Polska Energia S.A. Capital Group. Total sales to these counterparties accounted for 80% of revenue from transactions with State Treasury companies. The largest purchase transactions were concluded by the Group with PSE S.A. and Kompania Węglowa S.A. Purchases from these counterparties accounted for 88% of the value of purchases from State Treasury companies during the 6-month period ended 30 June 2014.

Among the State Treasury companies, in the 6-month period ended 30 June 2013, KGHM Polska Miedź S.A., PSE S.A., PKP Energetyka S.A., Kompania Węglowa S.A. and Katowicki Holding Węglowy S.A. were the major clients of the TAURON Polska Energia S.A. Capital Group. Total sales to these counterparties accounted for 75% of revenue from transactions with State Treasury companies. The largest purchase transactions were concluded by the Group with PSE S.A., Kompania Węglowa S.A. and Polska Grupa Energetyczna S.A. Purchases from these counterparties accounted for 82% of the value of purchases from State Treasury companies during the 6-month period ended 30 June 2013.

The Capital Group enters into material transactions in energy markets through Izba Rozliczeniowa Giełd Towarowych S.A. As such entities are only responsible for organization of commodities exchange trading, the Group has decided not to classify purchase and sales transactions made through this entity as related-party transactions.

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

### 31.3. Executive compensation

The amount of compensation and other benefits granted to the Management Board, Supervisory Boards and other key executives of the Parent and subsidiaries in the 6-month period ended 30 June 2014 and in the comparative period has been presented in the table below.

	6-month period ended 30 June 2014 (unaudited)		6-month period ended 30 June 2013 (unaudited)	
	Parent	Subsidiaries	Parent	Subsidiaries
<b>Board of Directors</b>	<b>4 495</b>	<b>11 796</b>	<b>3 860</b>	<b>14 481</b>
Short-term employee benefits (salaries and surcharges)	3 122	11 386	3 421	13 705
Post-service benefits for a Member of the Management Board	905	–	–	–
Post-employment benefits	–	–	–	398
Employment termination benefits	–	89	–	129
Other	468	321	439	249
<b>Supervisory Board</b>	<b>440</b>	<b>525</b>	<b>468</b>	<b>657</b>
Short-term employee benefits (salaries and surcharges)	440	484	468	587
Other	–	41	–	70
<b>Other key management personnel</b>	<b>7 010</b>	<b>21 758</b>	<b>6 359</b>	<b>21 219</b>
Short-term employee benefits (salaries and surcharges)	6 317	21 322	5 777	20 716
Jubilee bonuses	–	298	–	263
Post-employment benefits	140	20	63	114
Other	553	118	519	126
<b>Total</b>	<b>11 945</b>	<b>34 079</b>	<b>10 687</b>	<b>36 357</b>



## 32. Financial instruments

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

Categories and classes of financial assets	As at 30 June 2014 (unaudited)		As at 31 December 2013	
	Carrying amount	Fair value	Carrying amount	Fair value
<b>1 Assets at fair value through profit or loss</b>	<b>750</b>	<b>750</b>	<b>34</b>	<b>34</b>
Derivative instruments	750	750	34	34
<b>2 Financial assets available for sale</b>	<b>127 748</b>	<b>4 308</b>	<b>129 622</b>	<b>4 319</b>
Shares (non-current)	107 680	–	109 459	–
Shares (current)	15 760	–	15 844	–
Investment fund units	2 418	2 418	2 429	2 429
Bonds, T-bills and other debt securities	1 890	1 890	1 890	1 890
<b>3 Loans and receivables</b>	<b>2 179 848</b>	<b>–</b>	<b>2 375 529</b>	<b>–</b>
Trade receivables	1 676 442	–	1 863 151	–
Deposits	35 248	–	30 831	–
Loans granted	193 883	–	189 310	–
Other	274 275	–	292 237	–
<b>4 Financial assets excluded from the scope of IAS 39</b>	<b>41 286</b>	<b>–</b>	<b>276 898</b>	<b>–</b>
Investments in joint ventures	41 286	–	44 398	–
Advance payment for acquisition of shares	–	–	232 500	–
<b>5 Cash and cash equivalents</b>	<b>246 144</b>	<b>–</b>	<b>636 909</b>	<b>–</b>
<b>Total financial assets, including in the statement of financial position:</b>	<b>2 595 776</b>		<b>3 418 992</b>	
<b>Non-current assets</b>	<b>400 061</b>		<b>631 564</b>	
Investments in joint ventures	41 286		44 398	
Other financial assets	358 775		587 166	
<b>Current assets</b>	<b>2 195 715</b>		<b>2 787 428</b>	
Trade and other receivables	1 933 061		2 134 641	
Other financial assets	16 510		15 878	
Cash and cash equivalents	246 144		636 909	

Categories and classes of financial liabilities	As at 30 June 2014 (unaudited)		As at 31 December 2013	
	Carrying amount	Fair value	Carrying amount	Fair value
<b>1 Financial liabilities at fair value through profit or loss</b>	<b>1 391</b>	<b>1 391</b>	<b>1 169</b>	<b>1 169</b>
Derivative instruments	1 391	1 391	1 169	1 169
<b>2 Financial liabilities measured at amortized cost</b>	<b>8 015 984</b>	<b>–</b>	<b>7 816 529</b>	<b>–</b>
Preferential loans	59 485	–	63 986	–
Arm's length loans	1 270 157	–	1 327 012	–
Bank overdrafts	13 158	–	93 645	–
Bonds issued	5 001 052	–	4 300 522	–
Trade payables	721 934	–	1 037 304	–
Other financial liabilities	535 681	–	143 413	–
Liabilities due to purchases of fixed and intangible assets	305 525	–	665 768	–
Salaries and wages	103 157	–	170 706	–
Insurance contracts	5 835	–	14 173	–
<b>3 Liabilities excluded from the scope of IAS 39</b>	<b>70 029</b>	<b>–</b>	<b>78 970</b>	<b>–</b>
Liabilities under finance leases	70 029	–	78 970	–
<b>4 Derivative hedging instruments (liabilities)</b>	<b>182 025</b>	<b>182 025</b>	<b>159 762</b>	<b>159 762</b>
<b>Total financial liabilities, including in the statement of financial position:</b>	<b>8 269 429</b>		<b>8 056 430</b>	
<b>Long-term liabilities</b>	<b>6 208 500</b>		<b>5 657 575</b>	
Interests bearing loans and borrowings	6 005 603		5 500 532	
Liabilities under finance leases	52 858		61 643	
Trade and other payables	46 841		7 827	
Derivative instruments	103 198		87 573	
<b>Short-term liabilities</b>	<b>2 060 929</b>		<b>2 398 855</b>	
Current portion of interest-bearing loans and borrowings	338 249		284 633	
Current portion of liabilities under finance leases	17 171		17 327	
Trade and other payables	1 625 291		2 023 537	
Derivative instruments	80 218		73 358	

For financial instruments that are not measured at fair value as at the end of the reporting period, the Group did not disclose the fair value due to the fact that the fair value of these financial instruments as at 30 June 2014 and as at 31 December 2013 did not differ considerably from the values presented in the financial statements for individual periods, for the following reasons:

- the potential discounting effect relating to short-term instruments is not significant;
- the instruments are related to arm's length transactions.

The Group does not disclose the fair value of shares in companies not listed on active markets, classified as financial assets available for sale and those excluded from the scope of IAS 39. The Group is unable to reliably determine the fair value of shares held in companies not quoted on active markets. As at the end of the reporting period, shares classified as financial assets available for sale were measured at cost reduced by impairment, and shares in joint ventures are accounted for using the equity method less impairment in accordance with the accounting policy.

### 32.2. Fair value hierarchy

Fair value hierarchy of financial instruments measured at fair value as at 30 June 2014 and 31 December 2013:

Classes of financial instruments	As at 30 June 2014 (unaudited)		As at 31 December 2013	
	Level 1	Level 2	Level 1	Level 2
<b>Assets</b>				
Commodity-related derivatives	750	–	34	–
Investment fund units	2 418	–	2 429	–
Bonds, T-bills and other debt securities	1 890	–	1 890	–
<b>Liabilities</b>				
Commodity-related derivatives	44	–	40	–
Currency derivatives	–	1 347	–	1 129
IRS derivatives	–	182 025	–	159 762

The method of fair value measurement of financial instruments has been described in Note 7 to these condensed interim consolidated financial statements and has not changed since 31 December 2013.

### 32.3. Description of significant items included in individual categories of financial instruments

#### Available-for-sale financial assets

As at 30 June 2014, financial assets available for sale included mainly shares in the following companies:

- shares in Spółka Ciepłowniczo-Energetyczna Jaworzno III Sp. z o. o. with the value of PLN 35 694 thousand;
- shares in Przedsiębiorstwo Energetyki Ciepłej Sp. z o. o. in Tychy with the value of PLN 32 843 thousand;
- shares in Energetyka Cieszyńska Sp. z o. o. with the value of PLN 15 028 thousand.

#### Loans and receivables

Trade and other receivables have been presented in detail in Note 20 hereto.

Loans granted include a subordinated loan extended to Elektrociepłownia Stalowa Wola S.A. of PLN 177 000 thousand plus interest accrued of PLN 16 883 thousand, as described in detail in Note 17 to these condensed interim consolidated financial statements.

#### Financial assets excluded from the scope of IAS 39

As at 30 June 2014 the Group had the following joint ventures settled with the equity method:

- Elektrownia Blachownia Nowa Sp. z o. o. special purpose vehicle – PLN 32 229 thousand. TAURON Wytwarzanie S.A. and KGHM Polska Miedź S.A. have 50% of shares each in its equity and in the governing body;
- Elektrociepłownia Stalowa Wola S.A. special purpose vehicle – PLN 9 057 thousand. TAURON Wytwarzanie S.A. and PGNiG Energia S.A. have 50% of shares each in its equity and in the governing body.

The above investments have been described in detail in Note 17 hereto.

### **Financial liabilities measured at amortized cost**

Liabilities due to loans and borrowings, and arising from issued bonds have been presented in detail in Note 23 hereto.

PLN 332 984 thousand recognized in other financial liabilities is the amount of dividends payable of the Company, as discussed in detail in Note 13 to these condensed interim consolidated financial statements.

### **Hedging derivative instruments (relating to liabilities)**

Derivative instruments hedging interest cash flows from bonds issued have been presented in detail in Note 22.3 hereto.

## **33. Objectives and principles of financial risk management**

The objectives and principles of financial risk management have not changed since 31 December 2013.

As at 30 June 2014, the Parent was a party to hedging transactions covered by the policy for specific risk management in the area of finance, entered into with a view to hedging interest cash flows from issued bonds. The Parent applies hedge accounting to the aforementioned transactions. The accounting treatment of the aforementioned hedging transactions has been presented in detail in Note 22.3 hereto.

## **34. Financial management**

During the period covered by these condensed interim consolidated financial statements there have been no significant changes in finance management objectives, principles and procedures.

## **35. Significant items of the consolidated statement of cash flows**

### **35.1. Cash flows from investing activities**

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

Expenditure on acquisition of property, plant and equipment and intangible assets of PLN 1 742 014 thousand were mainly related to the acquisition of property, plant and equipment of PLN 1 145 613 thousand in the 6-month period ended 30 June 2014, which has been presented in detail in Note 14 hereto. The amount was adjusted by change in capital commitments, excluding VAT of PLN 299 449 thousand.

### **35.2. Cash flows from financing activities**

#### **Loans and borrowings**

Expenditure on repayment of loans and borrowings of PLN 60 708 thousand disclosed in these condensed interim consolidated statement of cash flows result mainly from repayment of PLN 40 909 thousand of the loan granted by the European Investment Bank by the Parent.

#### **Issuance of debt securities**

Proceeds from issue of debt securities result from the issuance of short-term Tranche E bonds in the amount of PLN 300 000 thousand and long-term bonds issued under the Parent's agreement with Bank Gospodarstwa Krajowego in the amount of PLN 700 000 thousand in the 6-month period ended 30 June 2014, as discussed in detail in note 23.2 to these condensed interim consolidated financial statements.

#### **Redemption of debt securities**

Expenditure for redemption of debt securities result from redemption of short-term Tranche E bonds in the amount of PLN 300 000 thousand by the Parent in the 6-month period ended 30 June 2014, as presented in detail in Note 23.2 to these condensed interim consolidated financial statements.

#### **Interest paid**

During 6-month period ended 30 June 2014 the total value of interest paid by the Group in relation to loans, borrowings, debt securities and finance leases amounted to PLN 155 884 thousand. The Group's consolidated statement of cash

flows disclose borrowing costs capitalized in the current period for asset financing as expenditure for acquisition of property, plant and equipment and intangible assets in cash flows from investing activities.

#### **Acquisition of non-controlling interest**

Expenditure for acquisition of non-controlling interest of PLN 125 227 thousand resulted primarily from the Parent's payment of a portion of the price, i.e. PLN 77 500 thousand, for the acquisition of shares in a subsidiary TAURON Wydobycie S.A. from Kompania Węglowa S.A., as discussed in detail in Note 27 to these condensed interim consolidated financial statements and from the transfer of funds for redemption of treasury shares by TAURON Ciepło Sp. z o.o. in the amount of PLN 26 897 thousand.

### **36. Details of other significant changes in the reporting period**

#### **Finance income**

A decrease in financial revenue results mainly from a decrease in interest revenue by PLN 13 157 thousand, mainly from cash on bank accounts and deposits and a decrease in dividend revenue by PLN 6 688 thousand.

#### **Finance costs**

In the 6-month period ended 30 June 2014, cost of external financing capitalized on investment projects amounted to PLN 18 924 thousand versus PLN 42 238 thousand in the comparable period. It implies that, while the cost of external financing incurred by the Group remained stable, the profit charges increased. Lower capitalization results from commissioning major investment projects in the second half of 2013: regaining full production capacity in Bielsko-Biała Heat and Power Plant and construction of Wicko and Marszewo wind farms. As a result, the capitalization of external financing costs on these investments has been discontinued.

#### **Other non-current financial assets**

A decrease in other financial assets results mainly from the settlement of the amount paid to Kompania Węglowa S.A. for the shares acquired in TAURON Wydobycie S.A. in December 2013 (i.e. PLN 232 500 thousand) due to the acquisition of non-controlling interest, in relation to meeting the conditions precedent for the transfer of the title to acquired shares in TAURON Wydobycie S.A.

#### **Other non-current nonfinancial assets**

The increase in other financial assets of PLN 214 115 thousand in the 6-month period ended 30 June 2014 results mainly from the fact that TAURON Wytwarzanie S.A. transferred the first portion of the advance payment of PLN 204 927 thousand for construction of a power unit with the capacity of 910 MW in Jaworzno Power Plant.

#### **Non-current assets held for sale**

In the 6-month period ended 30 June 2014 the sale of assets of the closed Elektrownia Halemba, which had been classified as non-current assets held for sale as at 31 December 2013, was finally completed. The total proceeds from sale amounted to PLN 12 800 thousand. The carrying amount of the assets sold was PLN 17 866 thousand. Consequently, the Group recognized a loss from sale of assets of PLN 5 066 thousand. At the same time, the provision for Elektrownia Halemba ash pile reclamation of PLN 12 791 thousand was reversed following the sale.

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

#### **Dissolving and liquidating a subsidiary Polska Energia Pierwsza Kompania Handlowa Sp. z o.o.**

On 2 July 2014 the Extraordinary Shareholders' Meeting of Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. (PE-PKH) adopted a resolution to dissolve and liquidate PE-PKH, in which TAURON holds 100% of interests in the issued capital and 100% votes at the General Shareholders' Meeting. The decision to liquidate PE-PKH was taken for business reasons and is a part of the reorganization process aimed at simplifying and organizing the structure of the TAURON Polska Energia S.A. Capital Group. In 2013 the revenue generated by the liquidated company represented ca. 1% of the revenue of the Capital Group. The request to commence liquidation was filed with the District Court for Cracow-Śródmieście in Cracow, XII Business Division of the National Court Register.

#### **Concluding a credit facility agreement with the European Investment Bank**

On 22 July 2014 TAURON Polska Energia S.A. concluded a credit facility agreement with the European Investment Bank for the amount of PLN 295 000 thousand for financing an investment project related to energy production from renewable sources and energy distribution. The project is planned to be completed by the end of 2016.

#### **Concluding a Shareholders' Agreement with ArcelorMittal**

On 11 August 2014 TAURON Polska Energia S.A., TAURON Wytwarzanie S.A., TAURON Ciepło sp. z o.o., ArcelorMittal Poland S.A. and ArcelorMittal Ostrava a.s. entered into a Shareholders' Agreement establishing an entity carrying out investment and operational projects related to industrial power industry.

The shared entity will be established due to the separation of Zakład Wytwarzania in Dąbrowa Górnicza (ZW Nowa) from TAURON Ciepło sp. z o.o., Elektrownia Blachownia Branch from TAURON Wytwarzanie S.A., Elektrociepłownia Kraków (EC Kraków) from ArcelorMittal Poland S.A. and contribution of ArcelorMittal Energy Ostrava s.r.o. (Elektrociepłownia Ostrava) by ArcelorMittal Ostrava a.s. All energy facilities contributed cooperate closely with Polish and Czech ArcelorMittal plants. The project assumes common control exercised through the balance of shares, votes and number of persons in the entity's governing bodies (50%/50%). The Shareholders' objective is to generate an expected return on assets, to perform an investment program adjusting assets to environmental requirements and to optimize the use of metallurgical gases in production of energy utilities.

The Agreement was concluded for the period of 15 years and includes the following conditions precedent:

- obtaining an unconditional consent for concentration of the President of the Polish Office for Competition and Consumer Protection (UOKiK) and an unconditional consent the Czech Office for Competition Protection or ineffective expiration of the deadline by which such a decision should be issued;
- obtaining at least one bank offer for project financing which would enable starting project financing by the end of 2014;
- satisfactory results of financial due diligence.

After the conditions precedent have been met the jointly-controlled entity is to start operations in late 2014 or early 2015.

These condensed interim consolidated financial statements of the TAURON Polska Energia S.A. Capital Group, prepared for the 6-month period ended 30 June 2014 in accordance with International Accounting Standard 34 have been presented on 53 consecutive pages.

Katowice, 19 August 2014

Dariusz Lubera – President of the Management Board .....

Aleksander Grad – Vice-President of the Management Board .....

Katarzyna Rozenfeld – Vice-President of the Management Board .....

Stanisław Tokarski – Vice-President of the Management Board .....

Krzysztof Zawadzki – Vice-President of the Management Board .....

**INDEPENDENT AUDITOR'S REVIEW REPORT  
ON THE INTERIM CONDENSED  
FINANCIAL STATEMENTS  
OF TAURON POLSKA ENERGIA S.A.  
FOR THE FIRST HALF OF 2014**

**AUGUST 2014**

**AUDITOR'S REPORT ON THE REVIEW OF THE  
INTERIM CONDENSED FINANCIAL STATEMENTS  
FOR THE PERIOD FROM 1 JANUARY 2014 TO 30 JUNE 2014**

**To the Shareholders and Supervisory Board of TAURON Polska Energia S.A.**

We have reviewed the attached interim condensed financial statements of TAURON Polska Energia S.A. with its registered office in Katowice at ks. Piotra Ściegiennego 3 Street, including an interim condensed statement of financial position prepared as of 30 June 2014, interim condensed statement of comprehensive income, interim condensed statement of changes in equity, interim condensed statement of cash flows for the period from 1 January 2014 to 30 June 2014 and additional explanatory information.

Compliance of these interim condensed financial statements with the requirements laid down in IAS 34 "Interim Financial Reporting" as endorsed by the European Union ("IAS 34") and with other regulations in force is the responsibility of the Management Board and Supervisory Board of the Company. Our responsibility was to review the financial statements.

Our review has been conducted in accordance with the national auditing standards issued by the National Council of Statutory Auditors. These Standards require that we plan and conduct the review in such a way as to obtain reasonable assurance that the interim condensed financial statements are free from material misstatement.

Our review has been conducted mainly based on an analysis of data included in the interim condensed financial statements, examination of the accounting records as well as information provided by the management and the financial and accounting personnel of the Company.

The scope and methodology of a review of interim condensed financial statements differs significantly from an audit, which serves as the basis for expressing an opinion on compliance of annual financial statements with the applicable accounting principles (policy) and an opinion on their fairness and clarity. Therefore, no such opinion on the attached financial statements may be issued.



Based on our review, we have not identified any issues which would prevent us from concluding that the interim condensed financial statements have been prepared, in all material respects, in compliance with the requirements laid down in IAS 34 as endorsed by the European Union.

.....  
Artur Maziarka  
Key certified auditor  
conducting the review  
No. 90108

On behalf of Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. – entity authorized to audit financial statements entered under number 73 on the list kept by the National Council of Statutory Auditors:

.....  
Artur Maziarka – Vice-President of the Management Board of Deloitte Polska Sp. z o.o. - which is the General Partner of Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k.

Warsaw, 19 August 2014

***The above auditor's report on the review is a translation from the original Polish version. In case of any discrepancies between the Polish and English version, the Polish version shall prevail.***

**TAURON POLSKA ENERGIA S.A.**

**CONDENSED INTERIM FINANCIAL STATEMENTS  
PREPARED IN ACCORDANCE WITH THE INTERNATIONAL  
FINANCIAL REPORTING STANDARDS  
FOR THE 6-MONTH PERIOD ENDED 30 JUNE 2014**

**AUGUST 2014**

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## CONDENSED INTERIM STATEMENT OF COMPREHENSIVE INCOME

	Note	6-month period ended 30 June 2014 (unaudited)	6-month period ended 30 June 2013 (unaudited)
<b>Continuing operations</b>			
Sales revenue	9	4 275 556	5 557 995
Cost of sales	10	(4 186 416)	(5 283 539)
<b>Gross profit</b>		<b>89 140</b>	<b>274 456</b>
Other operating income		2 407	1 547
Selling and distribution expenses		(11 641)	(25 255)
Administrative expenses		(53 111)	(52 836)
Other operating expenses		(1 182)	(2 553)
<b>Operating profit</b>		<b>25 613</b>	<b>195 359</b>
Dividend income		1 076 836	1 500 627
Other finance income	33	181 791	139 079
Finance costs		(177 885)	(171 881)
<b>Profit before tax</b>		<b>1 106 355</b>	<b>1 663 184</b>
Income tax	11	(17 143)	(16 347)
<b>Net profit from continuing operations</b>		<b>1 089 212</b>	<b>1 646 837</b>
<b>Net profit for the period</b>		<b>1 089 212</b>	<b>1 646 837</b>
<b>Other comprehensive income subject to reclassification to profit or loss:</b>		<b>(18 194)</b>	<b>36 844</b>
Change in the value of hedging instruments		(22 462)	36 844
Income tax expense		4 268	–
<b>Other comprehensive income not subject to reclassification to profit or loss:</b>		<b>(76)</b>	<b>8</b>
Actuarial gains/(losses) related to provisions for post-employment benefits		(94)	8
Income tax expense		18	–
<b>Other comprehensive income for the period, net of tax</b>		<b>(18 270)</b>	<b>36 852</b>
<b>Total comprehensive income for the period</b>		<b>1 070 942</b>	<b>1 683 689</b>
<b>Earnings per share (in PLN):</b>			
– basic and diluted, for profit for the period		0.62	0.94
– basic and diluted, for profit from continuing operations for the period		0.62	0.94

*Explanatory notes to the condensed interim financial statements constitute an integral part hereof.*

## CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION

	Note	As at 30 June 2014 (unaudited)	As at 31 December 2013
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	13	5 677	9 189
Investment property	14	34 361	36 169
Intangible assets	15	13 259	56 973
Shares	16	20 551 999	20 221 322
Bonds	17	6 420 520	5 165 000
Loans granted	18	193 883	189 310
Other financial assets	33	5 239	237 739
Other non-financial assets		4 673	7 059
Deferred tax asset	11.2	32 806	45 584
		<b>27 262 417</b>	<b>25 968 345</b>
<b>Current assets</b>			
Intangible assets	19	15 213	98 149
Inventories	20	140 498	149 317
Income tax receivables		75 746	28 527
Trade and other receivables	21	734 233	1 134 856
Bonds	17	281 890	52 830
Derivative instruments		750	34
Other non-financial assets		60 870	22 946
Cash and cash equivalents	22	102 332	507 127
		<b>1 411 532</b>	<b>1 993 786</b>
<b>TOTAL ASSETS</b>		<b>28 673 949</b>	<b>27 962 131</b>

*Explanatory notes to the condensed interim financial statements constitute an integral part hereof.*

## CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION – continued

	Note	As at 30 June 2014 (unaudited)	As at 31 December 2013
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Issued capital	23.1	8 762 747	8 762 747
Reserve capital	23.3	10 393 686	9 037 699
Revaluation reserve from valuation of hedging instruments	23.4	(144 845)	(126 651)
Retained earnings/Accumulated losses	23.3	1 169 532	1 769 367
<b>Total equity</b>		<b>20 181 120</b>	<b>19 443 162</b>
<b>Non-current liabilities</b>			
Interest-bearing loans and borrowings	24	5 954 512	5 445 279
Liabilities under finance leases		31 690	33 159
Other financial liabilities		5 239	5 239
Derivative instruments		103 198	87 573
Provisions for employee benefits		5 647	5 267
Accruals, deferred income and government grants		24	48
		<b>6 100 310</b>	<b>5 576 565</b>
<b>Current liabilities</b>			
Current portion of interest-bearing loans and borrowings	24	1 442 874	1 858 032
Current portion of liabilities under finance leases		3 082	3 266
Trade and other payables		836 288	819 147
Derivative instruments		80 218	73 358
Provisions for employee benefits		603	516
Other provisions	25	15 263	110 580
Accruals, deferred income and government grants		9 973	11 475
Other non-financial liabilities		4 218	66 030
		<b>2 392 519</b>	<b>2 942 404</b>
<b>Total liabilities</b>		<b>8 492 829</b>	<b>8 518 969</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>28 673 949</b>	<b>27 962 131</b>

*Explanatory notes to the condensed interim financial statements constitute an integral part hereof.*

## CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY

### FOR THE 6-MONTH PERIOD ENDED 30 JUNE 2014 *(unaudited)*

	Note	Issued capital	Reserve capital	Revaluation reserve from valuation of hedging instruments	Retained earnings/ Accumulated losses	Total equity
<b>As at 1 January 2014</b>		<b>8 762 747</b>	<b>9 037 699</b>	<b>(126 651)</b>	<b>1 769 367</b>	<b>19 443 162</b>
Profit for the period		–	–	–	1 089 212	1 089 212
Other comprehensive income	23.4	–	–	(18 194)	(76)	(18 270)
<b>Total comprehensive income for the period</b>		<b>–</b>	<b>–</b>	<b>(18 194)</b>	<b>1 089 136</b>	<b>1 070 942</b>
Distribution of prior years profits	23.3	–	1 355 987	–	(1 355 987)	–
Dividends	12, 23.3	–	–	–	(332 984)	(332 984)
<b>As at 30 June 2014 <i>(unaudited)</i></b>		<b>8 762 747</b>	<b>10 393 686</b>	<b>(144 845)</b>	<b>1 169 532</b>	<b>20 181 120</b>

### FOR THE 6-MONTH PERIOD ENDED 30 JUNE 2013 *(unaudited)*

	Issued capital	Reserve capital	Revaluation reserve from valuation of hedging instruments	Retained earnings/ Accumulated losses	Total equity
<b>As at 1 January 2013</b>	<b>8 762 747</b>	<b>7 953 021</b>	<b>(189 756)</b>	<b>1 515 996</b>	<b>18 042 008</b>
Profit for the period	–	–	–	1 646 837	1 646 837
Other comprehensive income	–	–	36 844	8	36 852
<b>Total comprehensive income for the period</b>	<b>–</b>	<b>–</b>	<b>36 844</b>	<b>1 646 845</b>	<b>1 683 689</b>
Distribution of prior years profits	–	1 084 678	–	(1 084 678)	–
Dividends	–	–	–	(350 510)	(350 510)
<b>As at 30 June 2013 <i>(unaudited)</i></b>	<b>8 762 747</b>	<b>9 037 699</b>	<b>(152 912)</b>	<b>1 727 653</b>	<b>19 375 187</b>



## CONDENSED INTERIM STATEMENT OF CASH FLOWS

	Note	6-month period ended 30 June 2014 (unaudited)	6-month period ended 30 June 2013 (unaudited)
<b>Cash flows from operating activities</b>			
Profit/(loss) before taxation		1 106 355	1 663 184
<b>Adjustments for:</b>			
Depreciation and amortization		13 190	11 556
(Gain)/loss on foreign exchange differences		(58)	845
Interest and dividends, net		(1 092 459)	(1 456 903)
(Gain)/loss on investing activities		873	(2 494)
(Increase)/decrease in receivables		428 563	295 159
(Increase)/decrease in inventories		8 819	82 318
Increase/(decrease) in payables excluding loans and borrowings		(407 881)	(35 998)
Change in other non-current and current assets		59 759	104 441
Change in deferred income, government grants and accruals		(1 526)	(1 775)
Change in provisions		(94 944)	(47 112)
Income tax paid		1 008	(28 769)
<b>Net cash generated from (used in) operating activities</b>		<b>21 699</b>	<b>584 452</b>
<b>Cash flows from investing activities</b>			
Proceeds from sale of property, plant and equipment and intangible assets		2 612	10 810
Purchase of property, plant and equipment and intangible assets		(4 043)	(25 888)
Purchase of shares	32.1	(98 197)	(1 394)
Purchase of bonds	32.1	(3 055 520)	(3 440 000)
Redemption of bonds	32.1	1 570 000	1 465 000
Loans granted		(5 850)	(79 550)
Repayment of loans granted		5 850	132 140
Dividends received		1 071 645	1 500 627
Interest received	32.1	170 836	109 804
<b>Net cash generated from (used in) investing activities</b>		<b>(342 667)</b>	<b>(328 451)</b>
<b>Cash flows from financing activities</b>			
Proceeds from loans and borrowings		–	450 000
Dividends paid		–	(340 680)
Repayment of loans and borrowings		(40 909)	–
Issue of debt securities	32.2	1 000 000	–
Redemption of debt securities	32.2	(300 000)	–
Payment of finance lease liabilities		(1 616)	(252)
Interest paid	32.2	(153 202)	(124 563)
Commission paid		(4 668)	(3 481)
<b>Net cash generated from (used in) financing activities</b>		<b>499 605</b>	<b>(18 976)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>178 637</b>	<b>237 025</b>
Net foreign exchange difference		58	(845)
<b>Cash and cash equivalents at the beginning of the period</b>		<b>(1 198 421)</b>	<b>(393 520)</b>
<b>Cash and cash equivalents at the end of the period, of which:</b>	22	<b>(1 019 784)</b>	<b>(156 495)</b>
restricted cash		81 665	247 075

*Explanatory notes to the condensed interim financial statements constitute an integral part hereof.*

## EXPLANATORY NOTES

### 1. General information

These condensed interim financial statements have been prepared by TAURON Polska Energia Spółka Akcyjna (the "Company") with its registered office at ul. ks. Piotra Ściegiennego 3 in Katowice, Poland, whose shares are publicly traded.

The Company's condensed interim financial statements cover the 6-month period ended 30 June 2014 and present comparative data for the 6-month period ended 30 June 2013 as well as figures as at 31 December 2013.

The data for the 6-month period ended 30 June 2014 and the comparative data for the 6-month period ended 30 June 2013, as contained herein, have been reviewed by a certified auditor. The comparative data as at 31 December 2013 were audited by a certified auditor.

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

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

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

The scope of the core business of TAURON Polska Energia S.A. includes:

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

TAURON Polska Energia S.A. is the parent of the TAURON Polska Energia S.A. Capital Group.

### 2. Basis for preparation of the condensed interim financial statements

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

IFRS consist of standards and interpretations approved by the International Accounting Standards Board and the International Financial Reporting Interpretations Committee.

These condensed interim financial statements have been presented in the Polish zlotys ("PLN") and all figures are in PLN thousand, unless stated otherwise.

These condensed interim financial statements have been prepared on the assumption that the Company will continue as a going concern in the foreseeable future. As at the date of approval of these financial statements for publication, there were no circumstances that would indicate a threat to the Company's ability to continue as a going concern.

The condensed interim financial statements do not contain all information and disclosures required for annual financial statements and they should be read jointly with the Company's financial statements prepared in accordance with IFRS for the year ended 31 December 2013.

These condensed interim financial statements for the 6-month period ended 30 June 2014 were approved for publication on 19 August 2014.

The Company also prepared the condensed interim consolidated financial statements for the 6-month period ended 30 June 2014, which were approved for publication by the Management Board on 19 August 2014.

These condensed interim financial statements are part of the consolidated report, which also includes the condensed interim consolidated financial statements for the 6-month period ended 30 June 2014.

### **3. Significant accounting policies**

The accounting principles (policy) adopted for the preparation of the condensed interim financial statements are consistent with those adopted for the preparation of the annual financial statements of TAURON Polska Energia S.A. for the year ended 31 December 2013, except for the following amendments to standards and new interpretations applicable to annual periods beginning on 1 January 2014:

- IFRS 10 *Consolidated Financial Statements* – applicable in the EU to annual periods beginning on or after 1 January 2014;
- IFRS 11 *Joint Arrangements* – applicable in the EU to annual periods beginning on or after 1 January 2014;
- IFRS 12 *Disclosure of Interests in Other Entities* – applicable in the EU to annual periods beginning on or after 1 January 2014;
- Revised IFRS 10, IFRS 11 and IFRS 12 *Transition Disclosures* – applicable in the EU to annual periods beginning on or after 1 January 2014;
- IAS 27 *Separate Financial Statements* – applicable in the EU to annual periods beginning on or after 1 January 2014;
- IAS 28 *Investments in Associates and Joint Arrangements* – applicable in the EU to annual periods beginning on or after 1 January 2014;
- Revised IAS 32 *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities* – applicable to annual periods beginning on or after 1 January 2014;
- Revised IFRS 10, IFRS 12 and IAS 27 *Investment Vehicles* – applicable to annual periods beginning on or after 1 January 2014;
- Revised IAS 36 *Impairment of Assets: Disclosure of Recoverable Amount of Non-financial Assets* – applicable to annual periods beginning on or after 1 January 2014;
- Revised IAS 39 *Financial Instruments: Recognition and Measurement – Novation of derivatives and continuation of hedge accounting* – applicable to annual periods beginning on or after 1 January 2014.

The introduction of the abovementioned standards and interpretations has not exerted a significant effect on the accounting principles (policy) adopted by the Company.

### **4. New standards or interpretations published, but not yet in force**

The following standards and interpretations have been issued by the International Accounting Standards Board ("IASB") or the International Financial Reporting Interpretations Committee, have been endorsed by the European Union but are not yet effective:

- IFRIC 21 *Levies* (published on 20 May 2013, approved in the EU on 13 June 2014). IFRIC 21 is an interpretation of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* – applicable in the EU to annual periods beginning on or after 17 June 2014.

The following standards and interpretations have been issued by the International Accounting Standards Board or the International Financial Reporting Interpretations Committee, have not been endorsed by the European Union and are not yet effective:

- IFRS 9 *Financial Instruments* was published by the IASB on 24 July 2014 and applies to annual periods beginning on or after 1 January 2018. The standard introduces a business model-based approach to classification and measurement of financial assets and the characteristics of cash flows. IFRS 9 provides a new loss impairment model which requires a more timely disclosure of expected credit losses. The new model also assumes a standardized impairment approach applied to all financial instruments. Moreover, IFRS 9 includes an enhanced general hedge accounting model. The amendments are aimed at adjusting the principles of recognizing risk management issues in financial statements and enable more adequate presentation of actions taken in the financial statements.
- IFRS 14 *Regulatory Deferral Accounts* was published by the IASB on 30 January 2014 and applies to annual periods beginning on or after 1 January 2016. IFRS 14 has been introduced as a transitional standard for first-time adopters;
- IFRS 15 *Revenue from Contracts with Customers* was published by the IASB on 28 May 2014 and applies to annual periods beginning on or after 1 January 2017. IFRS specifies how and when an IFRS reporter will recognize revenue and requires such entities to provide users of financial statements with more informative, relevant

disclosures. The Standard replaces IAS 18 *Revenue*, IAS 11 *Construction Contracts* and a number of interpretations concerning revenue recognition;

- Revised IFRS 11 *Joint Arrangements: Accounting for Acquisitions of Interests in Joint Operations* published by the IASB on 6 May 2014 and applies to annual periods beginning on or after 1 January 2016. The amendments provide new guidelines on accounting for acquisitions of interests in joint operations constituting businesses;
- Revised IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets: Clarification of Acceptable Methods of Depreciation and Amortization* published by the IASB on 12 May 2014 and applicable to annual periods beginning on or after 1 January 2016.
- Revised IAS 16 *Property, Plant and Equipment* and IAS 41 *Agriculture: Bearer Plants* published by the IASB on 30 June 2014 and applicable to annual periods beginning on or after 1 January 2016.
- Revised IAS 19 *Employee Benefits – Defined Benefit Plans: Employee Contributions* published by the IASB on 21 November 2013 and applicable to annual periods beginning on or after 1 July 2014;
- *Annual Improvements to IFRS (Cycle 2010–2012)* – published by the IASB on 12 December 2013, applicable to annual periods beginning on or after 1 July 2014;
- *Annual Improvements to IFRS (Cycle 2011–2013)* – published by the IASB on 12 December 2013, applicable to annual periods beginning on or after 1 July 2014.

The Company analyzed the impact of the abovementioned standards and interpretations on the accounting policies applied by the Company except for the impact of IFRS 9 *Financial Instruments* published in July 2014 and IFRS 15 *Revenue from Contracts with Customers* published in May 2014. The Company is analyzing the impact of IFRS 9 and IFRS 15 on the accounting policies applied. According to the Management Board other standards and interpretations in question do not materially impact the existing accounting policy.

The Company did not choose an early application of any standard, interpretation or change, which was published, but is not yet mandatorily effective.

## **5. Change in estimates**

In the period covered by these condensed interim financial statements there were no significant changes in estimates and estimation methods applied, which would affect the current or future periods, other than those presented below or mentioned further in these condensed interim financial statements.

### **Deferred tax**

Due to the forecasted taxable income in 2014 of the Tax Capital Group ("TCG"), of which the Company is a member, and projected taxable income of the Company in subsequent years, the deferred tax asset has been recognized in these financial statements in the full amount.

### **Impairment tests of shares**

Taking into account the indications that the Company's capitalization has recently been below the carrying amount as well as the situation in the energy market, as at 30 June 2014 the Company tested its shares disclosed under non-current assets for impairment. Shares constitute about 75% of the balance sheet total.

Environment analysis was carried out as at 30 June 2014 and indicated insignificant environmental changeability versus 31 December 2013. Price paths and WACC rates were also reviewed. In the first half of 2014 plan performance of subsidiaries seemed to have exceeded the projections. Based on the analysis the current assumptions do not reduce the value in use of investments in subsidiaries, hence for test purposes the recoverable amount of shares was assumed at the level determined in the previous test as at 31 December 2013.

The test was conducted based on the present value of projected cash flows from operations of major companies, by reference to detailed projections for 2014–2023 and the estimated residual value. The level of the weighted average cost of capital (WACC) during the projection period, as used in the calculations, ranges from 7.54% to 8.53% in nominal terms before tax. WACC is calculated taking into account the risk-free rate determined by reference to the yield on 10-year treasury bonds (4.2%) and the risk premium for operations appropriate for the power industry (5%). The growth rate used for extrapolation of projected cash flows beyond the detailed planning period is at the level of 2.5% and it corresponds to the estimated long-term inflation rate.

Key business assumptions affecting the estimated value in use of tested companies have been discussed in detail in the Company's financial statements for the year ended 31 December 2013.

The results of the tests did not indicate the necessity to recognize any impairment losses on shares held.

## 6. Shares in related parties

As at 30 June 2014, TAURON Polska Energia S.A. held direct shares in the following major subsidiaries:

Item	Entity's name	Registered office	Core business	Direct share of TAURON in the entity's capital	Direct share of TAURON in the entity's governing body
1	TAURON Wytwarzanie S.A.	Katowice	Generation, transmission and distribution of electricity and heat	100.00%	100.00%
2	TAURON Dystrybucja S.A.	Kraków	Distribution of electricity	99.71%	99.71%
3	TAURON Sprzedaż Sp. z o.o.	Kraków	Sale of electricity	100.00%	100.00%
4	TAURON Obsługa Klienta Sp. z o.o.	Wrocław	Services	100.00%	100.00%
5	TAURON Ekoenergia Sp. z o.o. <sup>1</sup>	Jelenia Góra	Generation and sale of electricity	100.00%	100.00%
6	Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. in liquidation <sup>2</sup>	Tarnów	Sale of electricity	100.00%	100.00%
7	TAURON Ciepło Sp. z o.o. <sup>3</sup>	Katowice	Production and distribution of heat	100.00%	100.00%
8	TAURON Czech Energy s.r.o.	Ostrawa, Czech Republic	Sale of electricity	100.00%	100.00%
9	TAURON Sprzedaż GZE Sp. z o.o.	Gliwice	Sale of electricity	100.00%	100.00%
10	TAURON Wydobycie S.A. <sup>4</sup>	Jaworzno	Hard coal mining	47.52%	31.99%

<sup>1</sup> On 2 January 2014, a business combination under common control of TAURON Ekoenergia Sp. z o.o., MEGAWAT MARSZEWO Sp. z o.o. and BELS INVESTMENT Sp. z o.o. was registered.

<sup>2</sup> On 2 July 2014 the company was put under liquidation, as discussed in detail in Note 34 to these condensed interim financial statements.

<sup>3</sup> On 30 April 2014, a business combination under common control of Enpower Service Sp. z o.o. and TAURON Ciepło S.A. was registered. At the same time, the name of the acquirer has been changed to TAURON Ciepło Sp. z o.o.

<sup>4</sup> Apart from direct interests TAURON Polska Energia S.A. also holds indirect interests in TAURON Wydobycie S.A. through a subsidiary TAURON Wytwarzanie S.A. Under the agreements for the use of shares, TAURON Polska Energia S.A. also holds 52.48% interest in the issued capital, giving it 68.01% of votes at the General Shareholders' Meeting of TAURON Wydobycie S.A. Consequently, the Company holds 100% of shares in TAURON Wydobycie S.A. which gives 100% of votes at the General Shareholders' Meeting.

As at 30 June 2014 TAURON Polska Energia S.A. held the following indirect interest in major subsidiaries:

Item	Entity's name	Registered office	Core business	Indirect share of TAURON in the entity's capital	Indirect share of TAURON in the entity's governing body	Shareholder as at 30 June 2014
1	Kopalnia Wapienia Czatkowice Sp. z o.o. <sup>1</sup>	Krzeszowice	Limestone quarrying, crushing and grinding; stone quarrying	100.00%	100.00%	TAURON Wytwarzanie S.A.
2	TAURON Dystrybucja Serwis S.A. <sup>1</sup>	Wrocław	Repair and maintenance of electrical equipment	99.71%	99.71%	TAURON Dystrybucja S.A.
3	TAURON Dystrybucja Pomiary Sp. z o.o. <sup>1</sup>	Tarnów	Repair and maintenance of electronic equipment	99.71%	99.71%	TAURON Dystrybucja S.A.

<sup>1</sup> TAURON Polska Energia S.A. uses the shares held by its subsidiaries.

Additionally, as at 30 June 2014, TAURON Polska Energia S.A. held indirect shares in the following major jointly controlled entities:

Item	Entity's name	Registered office	Core business	Indirect share of TAURON in the entity's capital	Indirect share of TAURON in the entity's governing body	Shareholder as at 30 June 2014
1	Elektrociepłownia Stalowa Wola S.A.	Stalowa Wola	Production, transmission, distribution and sales of electricity	50.00%	50.00%	TAURON Wytwarzanie S.A.
2	Elektrownia Blachownia Nowa Sp. z o.o.	Kędzierzyn Koźle	Generation of electricity	50.00%	50.00%	TAURON Wytwarzanie S.A.

## 7. Seasonality of operations

The Company's operations related to electricity sales are not seasonal in nature, hence the Company's performance in this area shows no significant fluctuations during the year.

As the Company carries out holding operations, it discloses significant dividend income recognized under financial revenue as at the dates of the resolutions on dividend payment, unless such resolutions set other record dates.

In the 6-month period ended 30 June 2014, the Company recognized dividend income of PLN 1 076 836 thousand.

In the 6-month period ended 30 June 2013, the Company recognized dividend income of PLN 1 500 627 thousand.

## 8. Information on operating segments

The Company carries out its business in two operating segments, i.e. "Sales" and "Holding Activity".

"Holding Activity" segment assets include:

- shares in subsidiaries;
- bonds acquired from subsidiaries;
- cash pool loan receivables, including a cash pool deposit;
- receivables arising from other loans granted to related parties;
- receivables arising from dividend from related parties.

"Holding Activity" segment liabilities include:

- bonds issued by the Company, including liabilities arising from valuation of hedging instruments related to such bonds;
- loans obtained from the European Investment Bank to carry out investment projects in subsidiaries;
- cash pool loan liabilities.

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

Financial revenue and expenses include dividend income as well as net interest income and expense earned/incurred by the Company in relation to the central financing model adopted by the Group.

Unallocated expenses include the Company's general and administrative expense, as they are incurred for the Group as a whole and are not directly attributable to a specific operating segment.

EBITDA is the profit/loss on continuing operations before tax, financial income and expenses, increased by amortization/depreciation.



6-month period ended 30 June 2014 or as at 30 June 2014 (unaudited)	Sales	Holding activity	Unallocated items	Total
<b>Revenue</b>				
Sales outside the Group	1 362 308	–	–	<b>1 362 308</b>
Sales within the Group	2 913 248	–	–	<b>2 913 248</b>
<b>Segment revenue</b>	<b>4 275 556</b>	<b>–</b>	<b>–</b>	<b>4 275 556</b>
<b>Profit/(loss) of the segment</b>	<b>78 724</b>	<b>–</b>	<b>–</b>	<b>78 724</b>
Unallocated expenses	–	–	(53 111)	<b>(53 111)</b>
<b>Profit/(loss) from continuing operations before tax and net finance income (costs)</b>	<b>78 724</b>	<b>–</b>	<b>(53 111)</b>	<b>25 613</b>
Net finance income/(costs)	–	1 085 593	(4 851)	<b>1 080 742</b>
<b>Profit/(loss) before income tax</b>	<b>78 724</b>	<b>1 085 593</b>	<b>(57 962)</b>	<b>1 106 355</b>
Income tax expense	–	–	(17 143)	<b>(17 143)</b>
<b>Net profit/(loss) for the period</b>	<b>78 724</b>	<b>1 085 593</b>	<b>(75 105)</b>	<b>1 089 212</b>
<b>EBITDA</b>	<b>91 914</b>	<b>–</b>	<b>(53 111)</b>	<b>38 803</b>
<b>Assets and liabilities</b>				
Segment assets	1 079 525	27 484 626	–	<b>28 564 151</b>
Unallocated assets	–	–	109 798	<b>109 798</b>
<b>Total assets</b>	<b>1 079 525</b>	<b>27 484 626</b>	<b>109 798</b>	<b>28 673 949</b>
Segment liabilities	460 173	7 623 989	–	<b>8 084 162</b>
Unallocated liabilities	–	–	408 667	<b>408 667</b>
<b>Total liabilities</b>	<b>460 173</b>	<b>7 623 989</b>	<b>408 667</b>	<b>8 492 829</b>
<b>Other segment information</b>				
Capital expenditure*	638	–	–	<b>638</b>
Depreciation/amortization	(13 190)	–	–	<b>(13 190)</b>

\* Investment expenditure includes outlays on property, plant and equipment as well as non-current intangible assets, except for energy certificates acquired by the Company.

In the 6-month period ended 30 June 2014, revenue from sales to two major clients, being members of the Capital Group, represented 45% and 12% of the Company's total revenue in the "Sales" segment, amounting to PLN 1 909 581 thousand and PLN 507 177 thousand, respectively.

6-month period ended 30 June 2013 ( <i>unaudited</i> ) or as at 31 December 2013	Sales	Holding activity	Unallocated items	Total
<b>Revenue</b>				
Sales outside the Group	1 531 009	–	–	<b>1 531 009</b>
Sales within the Group	4 026 986	–	–	<b>4 026 986</b>
<b>Segment revenue</b>	<b>5 557 995</b>	<b>–</b>	<b>–</b>	<b>5 557 995</b>
<b>Profit/(loss) of the segment</b>	<b>248 195</b>	<b>–</b>	<b>–</b>	<b>248 195</b>
Unallocated expenses	–	–	(52 836)	<b>(52 836)</b>
<b>Profit/(loss) from continuing operations before tax and net finance income (costs)</b>	<b>248 195</b>	<b>–</b>	<b>(52 836)</b>	<b>195 359</b>
Net finance income (costs)	–	1 451 876	15 949	<b>1 467 825</b>
<b>Profit/(loss) before income tax</b>	<b>248 195</b>	<b>1 451 876</b>	<b>(36 887)</b>	<b>1 663 184</b>
Income tax expense	–	–	(16 347)	<b>(16 347)</b>
<b>Net profit/(loss) for the period</b>	<b>248 195</b>	<b>1 451 876</b>	<b>(53 234)</b>	<b>1 646 837</b>
<b>EBITDA</b>	<b>259 751</b>	<b>–</b>	<b>(52 836)</b>	<b>206 915</b>
<b>Assets and liabilities</b>				
Segment assets	1 360 588	26 527 404	–	<b>27 887 992</b>
Unallocated assets	–	–	74 139	<b>74 139</b>
<b>Total assets</b>	<b>1 360 588</b>	<b>26 527 404</b>	<b>74 139</b>	<b>27 962 131</b>
Segment liabilities	973 179	7 398 165	–	<b>8 371 344</b>
Unallocated liabilities	–	–	147 625	<b>147 625</b>
<b>Total liabilities</b>	<b>973 179</b>	<b>7 398 165</b>	<b>147 625</b>	<b>8 518 969</b>
<b>Other segment information</b>				
Capital expenditure*	9 679	–	–	<b>9 679</b>
Depreciation/amortization	(11 556)	–	–	<b>(11 556)</b>

\* Investment expenditure includes outlays on property, plant and equipment as well as non-current intangible assets, except for energy certificates acquired by the Company.

In the 6-month period ended 30 June 2013, revenue from sales to two major clients, being members of the Capital Group, represented 47% and 12% of the Company's total revenue in the "Sales" segment, amounting to PLN 2 606 779 thousand and PLN 682 697 thousand, respectively.

## 9. Sales revenue

	6-month period ended 30 June 2014 ( <i>unaudited</i> )	6-month period ended 30 June 2013 ( <i>unaudited</i> )
<b>Revenue from sales of goods for resale and materials (excise duty not excluded)</b>	<b>4 234 282</b>	<b>5 519 808</b>
Excise duty	(7 379)	(5 712)
<b>Revenue from sales of goods for resale and materials, of which:</b>	<b>4 226 903</b>	<b>5 514 096</b>
Electricity	3 916 369	4 984 518
Gas	31 217	36 990
Energy certificates	202 404	365 180
Emission allowances	73 661	127 328
Other	3 252	80
<b>Rendering of services, of which:</b>	<b>48 653</b>	<b>43 899</b>
Trading services	25 655	29 193
Other	22 998	14 706
<b>Total sales revenue</b>	<b>4 275 556</b>	<b>5 557 995</b>

Effective from 2012, the Company has been acting as an agent in transactions involving biomass and coal purchase for the Group companies in the Generation and Heat segment. The Company purchases raw materials from third parties and from the TAURON Group companies, which are subsequently sold to the Group companies only. The Company recognizes revenue only from agency services (supply management).



In the 6-month period ended 30 June 2014, raw materials purchased and subsequently resold in the abovementioned transactions amounted to PLN 819 086 thousand, while revenue from agency services amounted to PLN 16 344 thousand, which represents a major part of revenue from trading services.

## 10. Expenses by type

	6-month period ended 30 June 2014 (unaudited)	6-month period ended 30 June 2013 (unaudited)
<b>Costs by type</b>		
Depreciation of property, plant and equipment and amortization of intangible assets	(13 190)	(11 556)
Materials and energy	(1 326)	(788)
Consultancy services	(1 860)	(3 419)
Distribution services	(159)	(1 171)
IT services	(18 450)	(6 184)
Other external services	(7 034)	(8 610)
Taxes and charges	(5 373)	(13 748)
Employee benefits expense	(36 357)	(33 130)
Inventory write-downs	(26)	(6 624)
Allowance for doubtful debts	(11)	(29)
Advertising costs	(14 645)	(14 134)
Other	(934)	(1 109)
<b>Total costs by type</b>	<b>(99 365)</b>	<b>(100 502)</b>
Change in prepayments, accruals and deferred income	–	611
Selling and distribution expenses	11 641	25 255
Administrative expenses	53 111	52 836
Cost of goods for resale and materials sold	(4 151 803)	(5 261 739)
<b>Cost of sales</b>	<b>(4 186 416)</b>	<b>(5 283 539)</b>

A decrease in the costs of taxes and charges in the 6-month period ended 30 June 2014 year-on-year is mainly due to a decrease in the costs of transmission and exchange fees for sales of electricity.

## 11. Income tax

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

Key items of the tax expense disclosed in the statement of comprehensive income:

	6-month period ended 30 June 2014 (unaudited)	6-month period ended 30 June 2013 (unaudited)
Current income tax	(80)	(16 347)
Deferred tax	(17 063)	–
<b>Income tax expense in profit/(loss)</b>	<b>(17 143)</b>	<b>(16 347)</b>
<b>Income tax expense relating to other comprehensive income</b>	<b>4 286</b>	<b>–</b>

In the 6-month period ended 30 June 2013 the deferred tax was not charged to profit in the statement of comprehensive income, because, based on projections assuming no tax profit, the Company recognized deferred tax asset up to the amount of the deferred tax liability in the comparable period.

### 11.2. Deferred income tax

Deferred income tax results from:

	As at 30 June 2014 (unaudited)	As at 31 December 2013
– difference between tax base and carrying amount of fixed and intangible assets	1 228	2 314
– due interest on bonds	9 859	10 038
– difference between tax base and carrying amount of other financial assets	3 701	2 670
– other	113	143
<b>Deferred tax liability</b>	<b>14 901</b>	<b>15 165</b>

	As at 30 June 2014 (unaudited)	As at 31 December 2013
– provisions for the obligation to surrender energy certificates	2 900	20 861
– provisions for employee benefits	1 188	1 099
– other provisions and accruals	1 860	2 178
– difference between tax base and carrying amount of fixed and intangible assets	1 516	1 017
– difference between tax base and carrying amount of financial liabilities	4 662	4 013
– valuation of hedging instruments	34 585	30 354
– other	996	1 227
<b>Deferred tax assets, of which:</b>	<b>47 707</b>	<b>60 749</b>
Deferred tax assets recognized in profit or loss	13 681	31 509
Deferred tax assets recognized in other comprehensive income	34 026	29 740
<b>Deferred tax asset, net</b>	<b>32 806</b>	<b>45 584</b>
<b>Deferred tax in the statement of financial position</b>	<b>32 806</b>	<b>45 584</b>

### 11.3. Tax Capital Group

Major companies constituting the Tax Capital Group are TAURON Polska Energia S.A., TAURON Wytwarzanie S.A., TAURON Dystrybucja S.A., TAURON Ciepło Sp. z o.o., TAURON Sprzedaż Sp. z o.o., TAURON Obsługa Klienta Sp. z o.o., TAURON Ekoenergia Sp. z o.o. and Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. in liquidation.

In the 6-month period ended 30 June 2014 income tax of the Tax Capital Group amounted to PLN 57 120 thousand. At the same time, the Tax Capital Group paid advances for tax for 2014 in the amount of PLN 99 065 thousand. Moreover, as at 30 June 2014, the Tax Capital Group had income tax overpayment for 2013 of PLN 33 361 thousand. The amounts in question have been recognized in aggregate in the financial statements under "Income tax receivables".

At the same time, due to the Company's settlements, as the Representative Company, with the Tax Capital Group companies, it disclosed liabilities to these subsidiaries arising from tax overpayment of PLN 57 737 thousand, which have been presented in the statement of financial position under "Trade and other payables", as well as receivables from the Tax Capital Group companies arising from tax underpayment of PLN 13 031 thousand, which have been presented in the statement of financial position under "Trade and other receivables".

## 12. Dividends paid and proposed

On 15 May 2014, the Ordinary General Shareholders' Meeting adopted a resolution to allocate PLN 332 984 thousand to dividend payment to the Company's shareholders (PLN 0.19 per share). The dividend will be paid out from the net profit generated by the Company in 2013, which amounted to PLN 1 688 972 thousand. The record date was set at 14 August 2014 and the payment date at 4 September 2014.

On 16 May 2013, the Ordinary General Shareholders' Meeting adopted a resolution to allocate PLN 350 510 thousand to dividend payment to the Company's shareholders (PLN 0.20 per share). The dividend was paid out from the net profit generated by the Company in 2012, which amounted to PLN 1 435 188 thousand. The record date was set at 3 June 2013 and the payment date at 18 June 2013.

### 13. Property, plant and equipment

For the 6-month period ended 30 June 2014 (*unaudited*)

	Plant and machinery	Motor vehicles	Other	Tangible fixed assets, total	Assets under construction	Property, plant and equipment, total
<b>Cost</b>						
<b>Opening balance</b>	<b>7 125</b>	<b>4 714</b>	<b>11 519</b>	<b>23 358</b>	<b>2</b>	<b>23 360</b>
Donations	(97)	–	–	(97)	–	(97)
Liquidation	(114)	–	(490)	(604)	–	(604)
Other changes	–	(34)	–	(34)	–	(34)
<b>Closing balance</b>	<b>6 914</b>	<b>4 680</b>	<b>11 029</b>	<b>22 623</b>	<b>2</b>	<b>22 625</b>
<b>ACCUMULATED DEPRECIATION</b>						
<b>Opening balance</b>	<b>(3 840)</b>	<b>(3 416)</b>	<b>(6 915)</b>	<b>(14 171)</b>	<b>–</b>	<b>(14 171)</b>
Depreciation for the period	(2 093)	(459)	(926)	(3 478)	–	(3 478)
Donations	97	–	–	97	–	97
Liquidation	114	–	490	604	–	604
<b>Closing balance</b>	<b>(5 722)</b>	<b>(3 875)</b>	<b>(7 351)</b>	<b>(16 948)</b>	<b>–</b>	<b>(16 948)</b>
<b>NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD</b>	<b>3 285</b>	<b>1 298</b>	<b>4 604</b>	<b>9 187</b>	<b>2</b>	<b>9 189</b>
<b>NET CARRYING AMOUNT AT THE END OF THE PERIOD</b>	<b>1 192</b>	<b>805</b>	<b>3 678</b>	<b>5 675</b>	<b>2</b>	<b>5 677</b>

For the 6-month period ended 30 June 2013 (*unaudited*)

	Plant and machinery	Motor vehicles	Other	Tangible fixed assets, total	Assets under construction	Property, plant and equipment, total
<b>Cost</b>						
<b>Opening balance</b>	<b>19 871</b>	<b>4 132</b>	<b>10 991</b>	<b>34 994</b>	<b>–</b>	<b>34 994</b>
Direct purchase	–	–	–	–	2 097	2 097
Transfers from intangible assets not made available for use	–	–	–	–	4 384	4 384
Allocation of assets under construction	5 196	582	703	6 481	(6 481)	–
Sales	(17 654)	–	(145)	(17 799)	–	(17 799)
Donations	(92)	–	–	(92)	–	(92)
Liquidation	–	–	(74)	(74)	–	(74)
<b>Closing balance</b>	<b>7 321</b>	<b>4 714</b>	<b>11 475</b>	<b>23 510</b>	<b>–</b>	<b>23 510</b>
<b>ACCUMULATED DEPRECIATION</b>						
<b>Opening balance</b>	<b>(6 924)</b>	<b>(2 390)</b>	<b>(4 894)</b>	<b>(14 208)</b>	<b>–</b>	<b>(14 208)</b>
Depreciation for the period	(1 524)	(499)	(1 204)	(3 227)	–	(3 227)
Sales	6 454	–	73	6 527	–	6 527
Donations	92	–	–	92	–	92
Liquidation	–	–	65	65	–	65
<b>Closing balance</b>	<b>(1 902)</b>	<b>(2 889)</b>	<b>(5 960)</b>	<b>(10 751)</b>	<b>–</b>	<b>(10 751)</b>
<b>NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD</b>	<b>12 947</b>	<b>1 742</b>	<b>6 097</b>	<b>20 786</b>	<b>–</b>	<b>20 786</b>
<b>NET CARRYING AMOUNT AT THE END OF THE PERIOD</b>	<b>5 419</b>	<b>1 825</b>	<b>5 515</b>	<b>12 759</b>	<b>–</b>	<b>12 759</b>

### 14. Investment property

The investment property is composed of buildings located in Katowice Szopienice, at ul. Lwowska 23 used based on a finance lease agreement with PKO Bankowy Leasing Sp. z o.o. The gross value of the property is PLN 36 169 thousand and the accumulated depreciation has equaled PLN 1 808 thousand. The monthly lease payment is ca. PLN 320 thousand, while monthly depreciation charge is ca. PLN 301 thousand.

The Company is a party to a lease agreement with TAURON Wytwarzanie S.A. (the lessee) valid until 30 April 2018, specifying terms and conditions of subleasing buildings and structures discussed in the lease agreement mentioned above. In the 6-month period ended 30 June 2014, the revenue from investment property lease reached PLN 2 820 thousand.

## 15. Non-current intangible assets

For the 6-month period ended 30 June 2014 (*unaudited*)

	Software and licenses	Energy certificates	Other intangible assets	Intangible assets not made available for use	Intangible assets, total
<b>COST</b>					
<b>Opening balance</b>	<b>54 015</b>	<b>20 250</b>	<b>1 337</b>	<b>4 016</b>	<b>79 618</b>
Direct purchase	4	1 333	–	634	1 971
Allocation of intangible assets not made available for use	2 102	–	64	(2 166)	–
Sales	(33 220)	–	–	(2 481)	(35 701)
Liquidation	(1 166)	–	–	–	(1 166)
Reclassification	–	(16 182)	–	–	(16 182)
<b>Closing balance</b>	<b>21 735</b>	<b>5 401</b>	<b>1 401</b>	<b>3</b>	<b>28 540</b>
<b>ACCUMULATED AMORTIZATION</b>					
<b>Opening balance</b>	<b>(21 949)</b>	<b>–</b>	<b>(696)</b>	<b>–</b>	<b>(22 645)</b>
Amortization for the period	(7 785)	–	(119)	–	(7 904)
Sales	14 110	–	–	–	14 110
Liquidation	1 158	–	–	–	1 158
<b>Closing balance</b>	<b>(14 466)</b>	<b>–</b>	<b>(815)</b>	<b>–</b>	<b>(15 281)</b>
<b>NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD</b>	<b>32 066</b>	<b>20 250</b>	<b>641</b>	<b>4 016</b>	<b>56 973</b>
<b>NET CARRYING AMOUNT AT THE END OF THE PERIOD</b>	<b>7 269</b>	<b>5 401</b>	<b>586</b>	<b>3</b>	<b>13 259</b>

In the 6-month period ended 30 June 2014, the Company sold intangible assets with the gross value of PLN 35 701 thousand and accumulated amortization of PLN 14 110 thousand to its subsidiary, TAURON Obsługa Klienta Sp. z o.o.

In the 6-month period ended 30 June 2014, the Company reclassified energy certificates held for surrendering for 2014 with the value of PLN 12 380 thousand to current intangible assets. Additionally, under the amended Energy Law, industrial buyers are entitled to surrender energy certificates for redemption or pay a substitution fee independently, therefore energy certificates in the amount of PLN 3 802 thousand were reclassified to inventories due to the intended sale to industrial buyers.

For the 6-month period ended 30 June 2013 (*unaudited*)

	Software and licenses	Energy certificates	Other intangible assets	Intangible assets not made available for use	Intangible assets, total
<b>COST</b>					
<b>Opening balance</b>	<b>59 036</b>	<b>–</b>	<b>1 104</b>	<b>3 881</b>	<b>64 021</b>
Direct purchase	–	2 932	–	7 582	10 514
Allocation of intangible assets not made available for use	5 186	–	–	(5 186)	–
Sales	(1 366)	–	–	–	(1 366)
Transfers to fixed assets	–	–	–	(4 384)	(4 384)
Other changes	(160)	–	–	(274)	(434)
<b>Closing balance</b>	<b>62 696</b>	<b>2 932</b>	<b>1 104</b>	<b>1 619</b>	<b>68 351</b>
<b>ACCUMULATED AMORTIZATION</b>					
<b>Opening balance</b>	<b>(10 410)</b>	<b>–</b>	<b>(558)</b>	<b>–</b>	<b>(10 968)</b>
Amortization for the period	(8 230)	–	(99)	–	(8 329)
Sales	114	–	–	–	114
<b>Closing balance</b>	<b>(18 526)</b>	<b>–</b>	<b>(657)</b>	<b>–</b>	<b>(19 183)</b>
<b>NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD</b>	<b>48 626</b>	<b>–</b>	<b>546</b>	<b>3 881</b>	<b>53 053</b>
<b>NET CARRYING AMOUNT AT THE END OF THE PERIOD</b>	<b>44 170</b>	<b>2 932</b>	<b>447</b>	<b>1 619</b>	<b>49 168</b>

## 16. Shares

### Changes in the balance of long-term investments from 1 January 2014 to 30 June 2014 (unaudited)

No.	Company	Opening balance	Increases	Decreases	Closing balance
1	TAURON Wytwarzanie S.A.	7 590 778	8 911	(345 979)	7 253 710
2	TAURON Dystrybucja S.A.	9 511 628	–	–	9 511 628
3	TAURON Ciepło S.A.	1 335 738	357 725	(1 693 463)	–
4	TAURON Ekoenergia Sp. z o.o.	939 765	–	–	939 765
5	TAURON Sprzedaż Sp. z o.o.	613 505	–	–	613 505
6	TAURON Obsługa Klienta Sp. z o.o.	39 831	–	–	39 831
7	Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. in liquidation	49 056	–	–	49 056
8	TAURON Czech Energy s.r.o.	4 223	–	–	4 223
9	TAURON Sprzedaż GZE Sp. z o.o.	129 823	–	–	129 823
10	TAURON Wydobywanie S.A.	–	310 000	–	310 000
11	TAURON Wytwarzanie GZE Sp. z o.o.	4 935	–	–	4 935
12	CONCORDE INVESTISSEMENT S.A.	12	–	–	12
13	CC Poland Plus Sp. z o.o.	12	–	–	12
14	Energopower Sp. z o.o.	45	–	–	45
15	TAURON Ciepło Sp. z o.o. (formerly: Enpower Service Sp. z o.o.)	49	1 693 463	–	1 693 512
16	Enpower Sp. z o.o.	25	20	–	45
17	TAURON Ubezpieczenia Sp. z o.o.	25	–	–	25
18	Przedsiębiorstwo Energetyki Ciepłej Sp. z o.o. w Tychach	1 872	–	–	1 872
<b>Total</b>		<b>20 221 322</b>	<b>2 370 119</b>	<b>(2 039 442)</b>	<b>20 551 999</b>

Changes in the balance of long-term investments in the 6-month period ended 30 June 2014 resulted from the following events:

#### **Separation of ZEC Bielsko Biała from TAURON Wytwarzanie S.A. to TAURON Ciepło S.A.**

On 2 January 2014, the division of TAURON Wytwarzanie S.A. through spin-off, pursuant to Article 529.1.4 of the Code of Commercial Companies, involving a transfer of separated assets, i.e. an organized part of the enterprise, i.e. Zespół Elektrociepłowni Bielsko-Biała, to TAURON Ciepło S.A., was entered into the National Court Register.

As a result, the issued capital of TAURON Wytwarzanie S.A. was decreased from PLN 1 553 036 thousand to PLN 1 494 863 thousand, while the issued capital of TAURON Ciepło S.A. was increased from PLN 1 238 077 thousand to PLN 1 409 747 thousand.

As a result of the separation the interests in TAURON Wytwarzanie S.A. held by TAURON Polska Energia S.A. decreased to 99.76% (in the issued capital) and 99.79% (in the total number of votes at the General Shareholders' Meeting), while the interests in TAURON Ciepło S.A. held by TAURON Polska Energia S.A. increased to 96.57% (in the issued capital) and 97.14% (in the total number of votes at the General Shareholders' Meeting).

TAURON Polska Energia S.A. reclassified the book value of its investments in TAURON Wytwarzanie S.A. to investments in TAURON Ciepło S.A. of PLN 345 979 thousand.

#### **Squeeze out of minority shareholders of TAURON Ciepło S.A.**

Due to the squeeze out (mandatory acquisition) of minority shareholders of TAURON Ciepło S.A. the value of shares in TAURON Ciepło S.A. has increased by PLN 11 746 thousand.

#### **Business combination under common control of Enpower Service Sp. z o.o. and TAURON Ciepło S.A. and the change of the company's name**

On 30 April 2014, a business combination under common control of Enpower Service Sp. z o.o. (the acquirer) and TAURON Ciepło S.A. (the acquiree) was registered. The business combination was carried out under Article 492.1.1 of the Code of Commercial Companies through the transfer of all assets of TAURON Ciepło S.A. to Enpower Service Sp. z o.o. At the same time, the name of the acquirer has been changed to TAURON Ciepło Sp. z o.o.

TAURON Polska Energia S.A. reclassified the book value of its investments in TAURON Ciepło S.A. to investments in TAURON Ciepło Sp. z o.o. (formerly: Enpower Service Sp. o.o.) of PLN 1 693 463 thousand.

**Purchase of shares in TAURON Wydobycie S.A.**

On 10 December 2013, an agreement concerning acquisition of 16 730 525 registered shares in TAURON Wydobycie S.A. by TAURON Polska Energia S.A. from Kompania Węglowa S.A. was signed. The shares in question represent 47.52% of the entity's issued capital and give 31.99% of the total voting rights at the General Shareholders' Meeting.

The total acquisition price was PLN 310 000 thousand. The amount of PLN 232 500 thousand was paid at the agreement date and the parties agreed that the remaining PLN 77 500 thousand would be paid following the transfer of the title to the shares onto the Company, i.e. after Kompania Węglowa S.A. has been authorized by its General Shareholders' Meeting to sell the shares and the seller has been authorized by TAURON Wydobycie S.A. to dispose of the shares. The Management Board of TAURON Wydobycie S.A. approved the sale of the entity's shares on 19 December 2013. On 15 January 2014, the General Shareholders' Meeting of Kompania Węglowa S.A. authorized the disposal of shares in TAURON Wydobycie S.A. Hence, the conditions precedent for the transfer of the title to TAURON Wydobycie S.A.'s shares were satisfied. Following the payment of the remaining amount, i.e. PLN 77 500 thousand, to Kompania Węglowa S.A. the title to shares in TAURON Wydobycie S.A. held by Kompania Węglowa S.A. was transferred onto the Company on 22 January 2014.

Under the agreement TAURON Polska Energia S.A. holds 100% of shares in TAURON Wydobycie S.A., which give 100% of votes at the entity's General Shareholders' Meeting, where 47.52% of shares representing 31.99% of votes are held by TAURON Polska Energia S.A. directly and the remaining 52.48% of shares representing 68.01% of votes at the General Shareholders' Meeting of TAURON Wydobycie S.A. are at the Company's disposal under the agreement on the use of shares in TAURON Wydobycie S.A., held by TAURON Wytwarzanie S.A.

**Squeeze out of minority shareholders of TAURON Wytwarzanie S.A.**

Due to the squeeze out (mandatory acquisition) of minority shareholders of TAURON Wytwarzanie S.A. the value of shares in TAURON Wytwarzanie S.A. has increased by PLN 8 911 thousand.

**Changes in the balance of long-term investments from 1 January 2013 to 30 June 2013 (unaudited)**

No.	Company	Opening balance	Increases/Decreases	Closing balance
1	TAURON Wytwarzanie S.A.	8 118 182	(541 307)	7 576 875
2	TAURON Dystrybucja S.A.	9 511 628	–	9 511 628
3	TAURON Ciepło S.A.	773 334	541 307	1 314 641
4	TAURON Ekoenergia Sp. z o.o.	939 765	–	939 765
5	TAURON Sprzedaż Sp. z o.o.	613 505	–	613 505
6	TAURON Obsługa Klienta Sp. z o.o.	26 308	13 523	39 831
7	Polska Energia Pierwsza Kompania Handlowa Sp. z o.o.	49 056	–	49 056
8	TAURON Czech Energy s.r.o.	4 223	–	4 223
9	PKE Broker Sp. z o.o.	–	1 394	1 394
10	TAURON Sprzedaż GZE Sp. z o.o.	129 821	2	129 823
11	TAURON Obsługa Klienta GZE Sp. z o.o.	13 523	(13 523)	–
12	TAURON Wytwarzanie GZE Sp. z o.o.	4 935	–	4 935
13	CONCORDE INVESTISSEMENT S.A.	12	–	12
14	CC Poland Plus Sp. z o.o.	12	–	12
15	Energopower Sp. z o.o.	25	–	25
16	Enpower Service Sp. z o.o. (currently TAURON Ciepło Sp. z o.o.)	25	–	25
17	Enpower Sp. z o.o.	25	–	25
18	TAURON Ubezpieczenia Sp. z o.o.	25	–	25
<b>Total</b>		<b>20 184 404</b>	<b>1 396</b>	<b>20 185 800</b>

Changes in long-term investments in the 6-month period ended 30 June 2013 were related to reorganization and resulted from the following events:

- Separation of EC Katowice from TAURON Wytwarzanie S.A. to TAURON Ciepło S.A.;
- Business combination under common control of TAURON Obsługa Klienta Sp. z o.o. and TAURON Obsługa Klienta GZE Sp. z o.o. (subsidiaries)
- Acquisition of shares in PKE Broker Sp. z o.o.



## 17. Bonds

Under the central financing model, TAURON Polska Energia S.A. acquires bonds issued by the TAURON Group companies.

The table below presents the balances of acquired bonds and interest accrued as at the end of the reporting period as at 30 June 2014 and 31 December 2013, broken down by individual TAURON Group companies issuing the bonds.

Company	As at 30 June 2014 (unaudited)		As at 31 December 2013	
	nominal value of purchased bonds	accrued interest	nominal value of purchased bonds	accrued interest
TAURON Wytwarzanie S.A.	2 170 000	12 709	2 170 000	12 916
TAURON Dystrybucja S.A.	2 000 000	24 573	1 510 000	34 514
TAURON Ekoenergia Sp. z o.o. <sup>1</sup>	1 155 000	2 829	200 000	641
BELS INVESTMENT Sp. z o.o. <sup>1</sup>	–	–	275 000	634
MEGAWAT MARSZEWO Sp. z o.o. <sup>1</sup>	–	–	680 000	1 622
TAURON Ciepło Sp. z o.o.	895 520	7 234	230 000	2 187
TAURON Wydobycie S.A.	380 000	3 789	100 000	316
TAURON Obsługa Klienta Sp. z o.o.	50 000	756	–	–
<b>Total bonds:</b>	<b>6 650 520</b>	<b>51 890</b>	<b>5 165 000</b>	<b>52 830</b>
<b>non-current</b>	<b>6 420 520</b>	<b>–</b>	<b>5 165 000</b>	<b>–</b>
<b>current</b>	<b>230 000</b>	<b>51 890</b>	<b>–</b>	<b>52 830</b>

<sup>1</sup> On 2 January 2014, a business combination under common control of TAURON Ekoenergia Sp. z o.o., MEGAWAT MARSZEWO Sp. z o.o. and BELS INVESTMENT Sp. z o.o. was registered.

Intra-group bonds issued by subsidiaries and acquired by TAURON Polska Energia S.A., with the total par value of PLN 6 420 520 thousand as at the end of the reporting period, including those maturing within one year and amounting to PLN 2 305 520 thousand, have been classified as long-term instruments. Such classification reflects the nature of funding under the intra-group bond issue scheme, which enables cash management in the medium and long term.

Current assets include one of bond series of TAURON Wytwarzanie S.A. in the amount of PLN 230 000 thousand with the redemption date falling in 2018. Still, the debt will be settled in 2014 due to the planned reorganization in the Group.

## 18. Long-term loans

Long-term loans of PLN 193 883 thousand include a loan granted to Elektrociepłownia Stalowa Wola S.A., along with interest due.

Under the agreements of 20 June 2012 among PGNiG S.A., TAURON Polska Energia S.A. and Elektrociepłownia Stalowa Wola S.A., TAURON Polska Energia S.A. granted a subordinated loan to Elektrociepłownia Stalowa Wola S.A. with a view to satisfying the necessary conditions for provision of funding to Elektrociepłownia Stalowa Wola S.A. by the European Bank for Reconstruction and Development and the European Investment Bank.

As at the end of the reporting period, the amount disbursed under the subordinated loan agreement was PLN 177 000 thousand, i.e. the maximum contractual amount. Interest accrued on the loan amounts to PLN 16 883 thousand. The loan with interest due is to be finally repaid no later than by the end of 2032.

## 19. Current intangible assets

Under current intangible assets, the Company discloses energy certificates.

	6-month period ended 30 June 2014 (unaudited)	6-month period ended 30 June 2013 (unaudited)
<b>COST</b>		
<b>Opening balance</b>	<b>98 149</b>	<b>113 302</b>
Direct purchase	2 866	65 483
Cancellation	(98 182)	(119 093)
Reclassification	12 380	–
<b>Closing balance</b>	<b>15 213</b>	<b>59 692</b>
<b>IMPAIRMENT ALLOWANCES</b>		
<b>Opening balance</b>	<b>–</b>	<b>–</b>
<b>Closing balance</b>	<b>–</b>	<b>–</b>
<b>NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD</b>	<b>98 149</b>	<b>113 302</b>
<b>NET CARRYING AMOUNT AT THE END OF THE PERIOD</b>	<b>15 213</b>	<b>59 692</b>

In the 6-month period ended 30 June 2014, the Company surrendered energy certificates of PLN 98 182 thousand to fulfil the obligation for 2013.

## 20. Inventories

	As at 30 June 2014 (unaudited)	As at 31 December 2013
<b>Historical cost</b>		
Energy certificates	6 738	10 543
Emission allowances	133 660	138 715
Merchandise	13	13
Materials	113	46
<b>Total</b>	<b>140 524</b>	<b>149 317</b>
<b>Write-downs to net realizable value</b>		
Energy certificates	(26)	–
<b>Total</b>	<b>(26)</b>	<b>–</b>
<b>Net realizable value</b>		
Energy certificates	6 712	10 543
Emission allowances	133 660	138 715
Merchandise	13	13
Materials	113	46
<b>Total</b>	<b>140 498</b>	<b>149 317</b>

## 21. Trade and other receivables

	As at 30 June 2014 (unaudited)	As at 31 December 2013
Trade receivables	663 297	1 083 164
Receivables from sales of intangible assets	24 373	1 015
Loans granted under cash pool agreement with interest accrued	18 417	114
Collateral paid	9 430	22 189
TCG receivables	13 031	27 528
Other financial receivables	5 685	846
<b>Total</b>	<b>734 233</b>	<b>1 134 856</b>

Trade receivables bear no interest and usually have a 30-day maturity period. Sales transactions are only entered into with clients subject to a verification procedure. This – in the opinion of the management – eliminates any additional credit risk over the level defined by the allowance for bad debts applied to the Company's trade receivables.



Related-party transactions as well as the related party receivables and liabilities have been presented in Note 29 hereto.

The ageing analysis and allowances/write-downs for trade and other receivables have been presented below.

**Ageing analysis of trade and other receivables as at 30 June 2014 (unaudited)**

	Not past due	Past due				Total
		<30 days	30–180 days	180–360 days	>360 days	
<b>Value of item before allowance/write-down</b>						
Trade receivables	652 082	10 354	861	35	–	<b>663 332</b>
Receivables from sales of intangible assets	24 373	–	–	–	–	<b>24 373</b>
Loans granted under cash pool agreement with interest accrued	18 417	–	–	–	–	<b>18 417</b>
Other financial receivables	28 146	–	–	–	687	<b>28 833</b>
<b>Total</b>	<b>723 018</b>	<b>10 354</b>	<b>861</b>	<b>35</b>	<b>687</b>	<b>734 955</b>
<b>Allowance/write-down</b>						
Trade receivables	–	–	–	(35)	–	<b>(35)</b>
Other financial receivables	–	–	–	–	(687)	<b>(687)</b>
<b>Total</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>(35)</b>	<b>(687)</b>	<b>(722)</b>
<b>Value of item net of allowance (carrying amount)</b>						
Trade receivables	652 082	10 354	861	–	–	<b>663 297</b>
Receivables from sales of intangible assets	24 373	–	–	–	–	<b>24 373</b>
Loans granted under cash pool agreement with interest accrued	18 417	–	–	–	–	<b>18 417</b>
Other financial receivables	28 146	–	–	–	–	<b>28 146</b>
<b>Total</b>	<b>723 018</b>	<b>10 354</b>	<b>861</b>	<b>–</b>	<b>–</b>	<b>734 233</b>

**Ageing analysis of trade and other receivables as at 31 December 2013**

	Not past due	Past due				Total
		<30 days	30–180 days	180–360 days	>360 days	
Value of item before allowance/write-down						
Trade receivables	1 076 638	6 463	72	–	–	1 083 173
Other financial receivables	51 692	–	–	–	664	52 356
Total	1 128 330	6 463	72	–	664	1 135 529
Allowance/write-down						
Trade receivables	(9)	–	–	–	–	(9)
Other financial receivables	–	–	–	–	(664)	(664)
Total	(9)	–	–	–	(664)	(673)
Value of item net of allowance (carrying amount)						
Trade receivables	1 076 629	6 463	72	–	–	1 083 164
Other financial receivables	51 692	–	–	–	–	51 692
Total	1 128 321	6 463	72	–	–	1 134 856

**22. Cash and cash equivalents**

The balance of cash and cash equivalents disclosed in the statement of cash flows includes:

	As at 30 June 2014 (unaudited)	As at 31 December 2013
Cash at bank and in hand	100 176	77 978
Short-term deposits (up to 3 months)	2 156	429 149
<b>Total cash and cash equivalents presented in the statement of financial position, of which:</b>	<b>102 332</b>	<b>507 127</b>
restricted cash	81 665	70 330
Cash pool	(1 112 282)	(1 615 281)
Overdraft	(13 158)	(93 645)
Foreign exchange and other differences	3 324	3 378
<b>Total cash and cash equivalents presented in the statement of cash flows</b>	<b>(1 019 784)</b>	<b>(1 198 421)</b>

The balances of loans granted and taken out in cash pool transactions do not represent cash flows from investing or financing activities as they are mainly used to manage the Group's liquidity on a day-to-day basis. They are disclosed as an adjustment to the balance of cash instead.

Restricted cash consists mainly of:

- cash held in the settlement account for trading in electricity on the Polish Power Exchange (Towarowa Giełda Energii S.A), amounting to PLN 75 751 thousand, and
- cash held in special purpose accounts for transactions carried out on the European Energy Exchange and ICE Futures Europe of PLN 5 114 thousand.

Detailed information on cash pool balances has been presented in Note 24.3 to these condensed interim financial statements.

## 23. Equity

### 23.1. Issued capital

#### Issued capital as at 30 June 2014 (unaudited)

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

As at 30 June 2014, the value of issued capital, the number of shares and the par value of shares did not change compared to 31 December 2013.

### 23.2. Major shareholders

#### Shareholding structure as at 30 June 2014 (unaudited, to the best of the Company's knowledge)

Shareholder	Number of shares	Value of shares	% of issued capital	% of total vote
State Treasury	526 848 384	2 634 242	30.06%	30.06%
KGHM Polska Miedź S.A.	182 110 566	910 553	10.39%	10.39%
ING Otwarty Fundusz Emerytalny	88 742 929	443 715	5.06%	5.06%
Other shareholders	954 847 515	4 774 237	54.49%	54.49%
<b>Total</b>	<b>1 752 549 394</b>	<b>8 762 747</b>	<b>100.00%</b>	<b>100.00%</b>

### 23.3. Reserve capital, retained earnings and restrictions on dividend payment

In the 6-month period ended 30 June 2014, the reserve capital was increased by PLN 1 355 987 thousand. Pursuant to a resolution of the Ordinary General Shareholders' Meeting of 15 May 2014 on distribution of profit for 2013, the amount in question was allocated to reserve capital.

In the current period, changes in retained earnings result from:

- profit for the period of PLN 1 089 212 thousand;
- actuarial losses (including deferred tax) of PLN 76 thousand;
- allocation of the profit for 2013 to increase the reserve capital by PLN 1 355 987 thousand and dividend payment of PLN 332 984 thousand.

The amount of PLN 2 695 thousand, disclosed as retained earnings, may still be distributed.

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

	6-month period ended 30 June 2014 (unaudited)	6-month period ended 30 June 2013 (unaudited)
<b>Opening balance</b>	<b>(126 651)</b>	<b>(189 756)</b>
Revaluation of hedging instruments	(22 263)	34 507
Revaluation of hedging instruments charged to profit or loss for the period	(199)	2 337
Deferred income tax	4 268	–
<b>Closing balance</b>	<b>(144 845)</b>	<b>(152 912)</b>

The revaluation reserve from valuation of hedging instruments results from valuation of Interest Rate Swaps (IRS) hedging the interest rate risk arising from issued bonds, as presented in detail in Note 31.1 to these condensed interim financial statements.

The Company applies hedge accounting to hedging transactions covered by the policy for specific risk management in the area of finance.

As at 30 June 2014 the Company recognized PLN (144 845) thousand of revaluation reserve from measurement of hedging instruments. It represents a liability arising from measurement of interest rate swaps as at the end of the reporting period, totaling PLN 182 025 thousand, adjusted by a portion of measurement relating to interest accrued on bonds as at the end of the reporting period, including deferred tax.

The profit/loss for the period was charged with PLN 37 119 thousand, where PLN 37 318 thousand was the amount paid in respect of hedges used in relation to closed interest periods and PLN (199) thousand resulted from remeasurement of instruments related to interest on bonds accrued as at the end of the reporting period. The aforementioned costs of IRS hedging transactions increased financial expenses arising from interest on bonds issued in the statement of comprehensive income.

#### 24. Interest-bearing loans and borrowings

	As at 30 June 2014 (unaudited)	As at 31 December 2013
<b>Non-current portion of loans and borrowings, including issued bonds:</b>		
Issued bonds	4 841 547	4 291 460
Loans from the European Investment Bank	1 112 965	1 153 819
<b>Total</b>	<b>5 954 512</b>	<b>5 445 279</b>
<b>Current portion of loans and borrowings, including issued bonds:</b>		
Issued bonds	159 505	9 062
Cash pool loans received, including accrued interest	1 130 699	1 615 395
Loans from the European Investment Bank	139 512	139 930
Overdraft	13 158	93 645
<b>Total</b>	<b>1 442 874</b>	<b>1 858 032</b>

##### 24.1. Bonds issued

The tables below present the balances of the Company's liabilities arising from bonds issued, together with accrued interest, as at 30 June 2014 and 31 December 2013.

**Bonds as at 30 June 2014 (unaudited)**

Tranche	Maturity date	Interest rate	Currency	As at balance sheet date (unaudited)		of which principal amount maturing within (after the balance sheet date)					
				Accrued interest	Principal at amortized cost	less than 3 months	3–12 months	1–2 years	2–3 years	3–5 years	over 5 years
A	29 December 2015	floating	PLN	167	847 337	–	–	847 337	–	–	–
B	12 December 2015	floating	PLN	564	299 569	–	–	299 569	–	–	–
B	30 January 2015	floating	PLN	2 261	150 000	–	150 000	–	–	–	–
C	12 December 2016	floating	PLN	5 638	2 996 225	–	–	–	2 996 225	–	–
BGK*	20 December 2019	floating	PLN	125	99 778	–	–	–	–	–	99 778
BGK*	20 December 2020	floating	PLN	125	99 775	–	–	–	–	–	99 775
BGK*	20 December 2021	floating	PLN	125	99 774	–	–	–	–	–	99 774
BGK*	20 December 2022	floating	PLN	125	99 773	–	–	–	–	–	99 773
BGK*	20 December 2023	floating	PLN	125	99 771	–	–	–	–	–	99 771
BGK*	20 December 2024	floating	PLN	125	99 773	–	–	–	–	–	99 773
BGK*	20 December 2025	floating	PLN	125	99 772	–	–	–	–	–	99 772
<b>Total bonds</b>				<b>9 505</b>	<b>4 991 547</b>	<b>–</b>	<b>150 000</b>	<b>1 146 906</b>	<b>2 996 225</b>	<b>–</b>	<b>698 416</b>

\* Bank Gospodarstwa Krajowego

**Bonds as at 31 December 2013**

Tranche	Maturity date	Interest rate	Currency	As at balance sheet date		of which principal amount maturing within (after the balance sheet date)					
				Accrued interest	Principal at amortized cost	less than 3 months	3–12 months	1–2 years	2–3 years	3–5 years	over 5 years
A	29 December 2015	floating	PLN	252	847 060	–	–	847 060	–	–	–
B	12 December 2015	floating	PLN	592	299 426	–	–	299 426	–	–	–
B	30 January 2015	floating	PLN	2 300	150 000	–	–	150 000	–	–	–
C	12 December 2016	floating	PLN	5 918	2 994 974	–	–	–	2 994 974	–	–
<b>Total bonds</b>				<b>9 062</b>	<b>4 291 460</b>	<b>–</b>	<b>–</b>	<b>1 296 486</b>	<b>2 994 974</b>	<b>–</b>	<b>–</b>

Bonds were issued in a dematerialized form. These are unsecured coupon bonds with a floating interest rate plus a fixed margin. Interest is WIBOR 6M-based and is payable on a semi-annual basis.

Change in the balance of bonds excluding interest accrued in the 6-month period ended 30 June 2014 and in the comparable period has been presented below.

	6-month period ended 30 June 2014 (unaudited)	6-month period ended 30 June 2013 (unaudited)
<b>Opening balance</b>	<b>4 291 460</b>	<b>4 288 247</b>
Issue	1 000 000	–
Redemption	(300 000)	–
Change in valuation	87	758
<b>Closing balance</b>	<b>4 991 547</b>	<b>4 289 005</b>

Pursuant to the agreement concluded in 2013 with Bank Gospodarstwa Krajowego, in the 6-month period ended 30 June 2014 the Company issued bonds with the total par value of PLN 700 000 thousand, with redemption dates falling annually, from 20 December 2019 to 20 December 2025 in equal portions of PLN 100 000 thousand.

Additionally, on 24 January 2014, Tranche E short-term bonds with the par value of PLN 200 000 thousand and maturing on 24 February 2014 were issued by the Company. Another issue of E Tranche bonds with the redemption date of 28 April 2014 and the value of PLN 100 000 thousand took place on 28 March 2014.

The Company hedges a portion of interest cash flows related to issued bonds Tranche C and a portion of Tranche A, by entering into interest rate swap (IRS) contracts, as presented in detail in Note 31.1 to these condensed interim financial statements.

The agreements signed by the Company with banks include legal and financial covenants which are commonly used in such transactions. As at 30 June 2014, none of these covenants were breached and the contractual provisions were complied with.

#### **24.2. Loans from the European Investment Bank**

As at 30 June 2014, the balance of loans obtained from the European Investment Bank was PLN 1 252 477 thousand, including interest accrued of PLN 6 653 thousand. As at 31 December 2013, the outstanding amount was PLN 1 293 749 thousand.

In the 6-month period ended 30 June 2014, the Company repaid PLN 40 909 thousand of the principal amount and PLN 30 569 thousand of interest.

#### **24.3. Cash pool**

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

	As at 30 June 2014 (unaudited)	As at 31 December 2013
Receivables due to loans granted under cash pool agreement	18 321	–
Interest receivable on loans granted under cash pool agreement	96	114
<b>Total Receivables</b>	<b>18 417</b>	<b>114</b>
Loans received under cash pool agreement	1 128 521	1 612 350
Interest payable on loans received under cash pool agreement	2 178	3 045
<b>Total Liabilities</b>	<b>1 130 699</b>	<b>1 615 395</b>
<b>Balance of cash pool – liabilities</b>	<b>1 112 282</b>	<b>1 615 281</b>

Surplus cash obtained by the Company under the cash pool agreement is deposited in bank accounts.

Under the cash pool agreement, the Company may use external funding amounting to PLN 300 000 thousand. As at 30 June 2014 the Company did not have any related debts.

#### **24.4. Overdraft facilities**

As at 30 June 2014 the balance of overdraft facilities amounted to PLN 13 158 thousand (EUR 3 162 thousand) and concerned a foreign currency overdraft agreement with NORDEA Bank Polska S.A. concluded by the Company for the purpose of financing margin deposits and transactions in emission allowances.

### **25. Other provisions**

**For the 6-month period ended 30 June 2014 (unaudited)**

	Provision for the obligation to surrender energy certificates	Other provisions	Total provisions
<b>Opening balance</b>	<b>109 792</b>	<b>788</b>	<b>110 580</b>
Recognition	15 263	–	15 263
Reversal	(205)	(788)	(993)
Utilization	(109 587)	–	(109 587)
<b>Closing balance</b>	<b>15 263</b>	<b>–</b>	<b>15 263</b>

In 2014, in order to fulfill the obligation for 2013, the Company surrendered energy certificates of PLN 98 182 thousand and paid a substitution fee of PLN 11 405 thousand, hence utilizing the provision in the amount of PLN 109 587 thousand. The surplus of the provision recognized at the end of 2013 over the amount applied of PLN 205 thousand was reversed, reducing costs in 2014.

**For the 6-month period ended 30 June 2013 (unaudited)**

	Provision for the obligation to surrender energy certificates	Other provisions	Total provisions
<b>Opening balance</b>	<b>118 250</b>	<b>788</b>	<b>119 038</b>
Recognition	71 087	–	<b>71 087</b>
Utilization	(118 250)	–	<b>(118 250)</b>
<b>Closing balance</b>	<b>71 087</b>	<b>788</b>	<b>71 875</b>

## 26. Contingent liabilities

The Company's contingent liabilities arise mainly from collateral and guarantees given to subsidiaries. As at 30 June 2014, the structure of the Company's contingent liabilities was as follows:

Type of contingent liability	As at 30 June 2014 (unaudited)	Company of the TAURON Capital Group in respect of which contingent liability has been granted	Beneficiary
blank promissory note	40 000	TAURON Wytwarzanie S.A.	Regional Fund for Environmental Protection and Water Management in Katowice
	30 000	TAURON Ciepło Sp. z o.o.	
	1 180	TAURON Ciepło Sp. z o.o.	
collateral of a bank guarantee	1 899	TAURON Sprzedaż Sp. z o.o.	Powszechna Kasa Oszczędności Bank Polski S.A.
	1 000	Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. in liquidation	
	492	Kopalnia Wapienia Czatkowice Sp. z o.o.	
	217	TAURON Dystrybucja Serwis S.A.	
collateral of a loan	1 145	Kopalnia Wapienia Czatkowice Sp. z o.o.	Regional Fund for Environmental Protection and Water Management in Kraków

Changes in the 6-month period ended 30 June 2014:

- Collateral of the guarantee issued by NORDEA Bank Polska S.A. for TAURON Dystrybucja Serwis S.A. in the amount of PLN 202 thousand expired on 31 March 2014;
- Under the master agreement for bank guarantees concluded with PKO Bank Polski S.A., the bank has issued guarantees for subsidiaries for the total amount of PLN 3 608 thousand as at the end of the reporting period upon request of the Company. As at 31 December 2013 the balance of bank guarantees granted reached PLN 4 996 thousand.

### Claims filed by Huta Łaziska S.A.

Following the Company's business combination with Górnośląski Zakład Elektroenergetyczny S.A. (GZE), TAURON Polska Energia S.A. has become a party to a court dispute with Huta Łaziska S.A. ("Huta").

The key reason was the latter's failure to fulfil its obligation to pay the amounts due for electricity supplies, which led to discontinuation of electricity supplies to Huta Łaziska by GZE in 2001.

Based on a decision of 12 October 2001, the President of Energy Regulatory Office (ERO) ordered GZE to resume electricity supplies to Huta on such terms as set out in the agreement of 30 July 2001, at the price of PLN 67/MWh until final resolution of the dispute, and on 14 November 2001 the dispute was finally resolved pursuant to a decision stating that discontinuation of electricity supplies was not unjustified. Huta appealed against that decision. On 25 July 2006, the Court of Appeals in Warsaw passed a final judgment ending the dispute over the decision of the President of ERO dated 14 November 2001. Huta filed a cassation appeal against the judgment of the Court of Appeals, which was dismissed by the judgment of the Supreme Court dated 10 May 2007.

Due to discontinuation of electricity supplies, Huta has raised a claim against GZE for damages amounting to PLN 182 060 thousand. Currently, an action is pending under Huta's suit of 12 March 2007 against GZE and the State Treasury represented by the President of ERO for the payment of PLN 182 060 thousand together with interest from the date of filing the suit to the date of payment, in respect of damages for alleged losses resulting from GZE's failure to comply with the decision of the President of the Energy Regulatory Office dated 12 October 2001.

In this case, the courts of the first and second instance passed judgments favorable for GZE; however, in its judgment of 29 December 2011 the Supreme Court overruled the judgment of the Court of Appeals and remanded the case for reexamination by that Court. On 5 June 2012, the Court of Appeals overruled the judgment of the Regional Court and remanded the case for reexamination by the latter. The first hearing before the first instance court was held on 27 November 2012. The most recent court hearing was held on 12 May 2014 and the date of the next hearing has not been determined yet.

Based on the Company's legal analysis of the claims raised by Huta and by its main shareholder, GEMI Sp. z o.o., the Company believes that the claims are groundless and the risk of their satisfaction is remote. As a result, no provision has been recognized by the Company for any costs associated with those claims.

## **27. Collateral against liabilities**

The most common forms of collateral against liabilities and transactions entered into by TAURON Polska Energia S.A. include declarations of submission to enforcement, authorizations to debit bank accounts as well as bank guarantees given by banks at the Company's request.

The key items collateralize the following agreements:

### ***Bond issue schemes***

Under the bond issue scheme dated 16 December 2010 with subsequent annexes, the Company filed declarations of submission to enforcement:

- up to PLN 1 560 000 thousand, valid until 31 December 2016 – as regards Tranches A and B;
- up to PLN 6 900 000 thousand, valid until 31 December 2018 – as regards Tranches C, D and E.

With a view to collateralizing the agreement made on 31 July 2013 with Bank Gospodarstwa Krajowego, concerning a long-term bond issue scheme of PLN 1 000 000 thousand, the Company has filed a declaration of submission to enforcement up to PLN 1 500 000 thousand, valid until 20 December 2029.

### ***Master bank guarantee agreement with PKO Bank Polski S.A.***

With a view to collateralizing a framework bank guarantee agreement with PKO Bank Polski S.A., TAURON Polska Energia S.A. submitted a declaration of submission to enforcement up to PLN 125 000 thousand, with the maximum validity term until 31 December 2017. Additionally, the agreement has been collateralized by an authorization to debit the bank account maintained by PKO Bank Polski S.A. As at 30 June 2014 the guarantee limit amounted to PLN 100 000 thousand. The agreement is valid until 31 December 2016.

Under the agreement, at the request of the Company, as at 30 June 2014 PKO Bank Polski S.A. extended bank guarantees in order to collateralize liabilities of the subsidiaries of TAURON Polska Energia S.A. totaling PLN 3 608 thousand (Note 26 hereto) and to collateralize transactions entered into by the Company: a guarantee for CAO Central Allocation Office GmbH up to EUR 1 000 thousand (PLN 4 161 thousand) valid until 3 February 2015.

### ***Agreement with Bank Zachodni WBK S.A. on bank guarantees for Izba Rozliczeniowa Giełd Towarowych S.A.***

In May 2013, the Company signed an agreement on a bank guarantee limit up to PLN 150 000 thousand with Bank Zachodni WBK S.A., with Izba Rozliczeniowa Giełd Towarowych S.A. as the beneficiary. The agreement has been collateralized with a declaration of submission to enforcement up to the amount of PLN 187 500 thousand valid until 6 May 2017.

Under the agreement the bank issued bank guarantees upon a request of the Company. As at 30 June 2014 the total value of guarantees issued by Bank Zachodni WBK S.A. was PLN 75 000 thousand with the validity date of 30 June 2014. After expiration of these guarantees and until the date of approving these condensed interim financial statements for publication, the bank did not issue any new guarantees.

### ***Overdraft facility agreements***

As at 30 June 2014, overdraft facility agreements were collateralized by TAURON Polska Energia S.A. with authorizations to debit bank accounts:

- up to PLN 300 000 thousand – facility provided by Polska Kasa Opieki S.A. (cash pool financing);
- up to EUR 25 000 thousand (PLN 104 023 thousand) – facility provided by NORDEA Bank Polska S.A.



Also, the Company has provided declarations of submission to enforcement as collateral for the following overdraft facilities:

- overdraft facility granted by Polska Kasa Opieki S.A. up to PLN 360 000 thousand maturing on 31 December 2017;
- overdraft facility granted by NORDEA Bank Polska S.A. up to EUR 31 250 thousand (PLN 130 028 thousand) maturing on 31 December 2018.

#### **Other**

With a view to collateralizing transactions entered into on the ICE Futures Europe and the European Energy Exchange, mainly future contracts concerning emission allowances, the Company transfers margin deposits for such transactions to separate bank accounts – as at 30 June 2014, such deposits amounted to PLN 5 914 thousand.

In order to collateralize the Company's transactions on the Polish Power Exchange, a subsidiary, TAURON Wytwarzanie S.A., has given a surety to Izba Rozliczeniowa Giełd Towarowych S.A. (IRGIT) for the liabilities of TAURON Polska Energia S.A. on the Polish Power Exchange up to PLN 45 000 thousand and collateral in the form of a freeze on EUA emission allowances in the KRUE Register, held by TAURON Wytwarzanie S.A. (8 739 thousand tons) has been provided. The surety expired on 31 March 2014.

TAURON Polska Energia S.A. is a party to a finance lease agreement concerning real property in Katowice with the carrying amount of PLN 34 361 thousand as at 30 June 2014. The agreement is collateralized by two blank promissory notes, assignment of receivables and authorization to debit a bank account.

## **28. Capital commitments**

As at 30 June 2014 the Company had no capital commitments.

## **29. Related party disclosures**

### **29.1. Transactions with related parties and State Treasury companies**

The Company enters into transactions with related parties as presented in Note 6 to these condensed interim financial statements. In addition, due to the fact that the State Treasury of the Republic of Poland is the Company's major shareholder, State Treasury companies are treated as related parties. Transactions with State Treasury companies are mainly related to the operating activities of the Company and are made on an arm's length basis.

The total value of transactions with the aforementioned entities and the balances of receivables and payables have been presented in the tables below.

#### **Revenue and expense**

	6-month period ended 30 June 2014 (unaudited)	6-month period ended 30 June 2013 (unaudited)
<b>Revenue from subsidiaries, of which:</b>	<b>5 005 642</b>	<b>6 738 100</b>
Revenue from operating activities	3 736 329	5 115 979
Revenue from sale of fixed assets and intangible assets	21 603	10 813
Dividend income	1 075 565	1 500 213
Finance income	172 145	111 095
<b>Revenue from jointly controlled entities</b>	<b>12 278</b>	<b>4 955</b>
<b>Revenue from State Treasury companies</b>	<b>360 694</b>	<b>564 653</b>
 <b>Costs from subsidiaries, of which:</b>	 <b>(1 313 580)</b>	 <b>(2 599 437)</b>
Costs of operating activities	(1 296 881)	(2 585 103)
Finance costs	(16 699)	(14 334)
<b>Costs from State Treasury companies</b>	<b>(342 659)</b>	<b>(674 211)</b>



## Receivables and liabilities

	As at 30 June 2014 (unaudited)	As at 31 December 2013
<b>Loans granted to subsidiaries and receivables from subsidiaries, of which:</b>	<b>7 227 754</b>	<b>6 089 671</b>
Trade receivables	464 572	842 514
Receivables from sale of intangible assets	24 373	–
Loans granted under cash pool agreement with interest accrued	18 417	114
Dividends receivable	4 697	–
Other financial receivables	281	1 685
Receivables from the TCG	13 004	27 528
Bonds	6 702 410	5 217 830
<b>Loans granted to jointly controlled entities</b>	<b>193 883</b>	<b>189 310</b>
<b>Receivables from State Treasury companies</b>	<b>82 870</b>	<b>114 143</b>
<b>Advance payments for deliveries to State Treasury Companies</b>	<b>30 000</b>	<b>–</b>
 <b>Liabilities to subsidiaries, of which:</b>	 <b>1 418 099</b>	 <b>2 054 937</b>
Trade payables	224 424	409 960
Loans received under cash pool agreement plus interest accrued	1 130 699	1 615 395
Liabilities arising from the TCG	57 737	23 974
Other financial liabilities	5 239	5 608
<b>Liabilities to State Treasury companies</b>	<b>44 841</b>	<b>166 197</b>

Revenue from related parties includes revenue from sales of coal and biomass to TAURON Wytwarzanie S.A. and TAURON Ciepło Sp. z o.o., which are presented in the statement of comprehensive income less cost in the amount of the surplus constituting the revenue due to agency services, presented in detail in Note 9.

A decrease in operating expenses in the 6-month period ended 30 June 2014 year-on-year was mainly due to a decrease in purchases of electricity from TAURON Wytwarzanie S.A. The value of purchased electricity was PLN 650 596 thousand and PLN 1 786 629 thousand, respectively.

In the 6-month period ended 30 June 2014, PKP Energetyka S.A., Katowicki Holding Węglowy S.A. and PSE S.A. were the major business partners of TAURON Polska Energia S.A. among State Treasury companies in terms of sales revenue. The revenue from the aforementioned entities represented 77% of the total revenue generated in transactions with State Treasury companies.

The highest costs resulted from transactions with Kompania Węglowa S.A. and PSE S.A. and they accounted for 78% of total expenses incurred as a result of purchases from State Treasury companies.

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

### 29.2. Executive compensation

The amount of compensation and other benefits granted to the Management Board, Supervisory Board and other key executives of the Company in the 6-month period ended 30 June 2014 and in the comparative period has been presented in the table below.

	6-month period ended 30 June 2014 (unaudited)	6-month period ended 30 June 2013 (unaudited)
<b>Board of Directors</b>	<b>4 495</b>	<b>3 860</b>
Short-term employee benefits (salaries and surcharges)	3 122	3 421
Post-service benefits for a Member of the Management Board	905	–
Other	468	439
<b>Supervisory Board</b>	<b>440</b>	<b>468</b>
Short-term employee benefits (salaries and surcharges)	440	468
<b>Other members of key management personnel</b>	<b>7 010</b>	<b>6 359</b>
Short-term employee benefits (salaries and surcharges)	6 317	5 777
Post-employment benefits	140	63
Other	553	519
<b>Total</b>	<b>11 945</b>	<b>10 687</b>

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

### 30. Financial instruments

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

Categories and classes of financial assets	As at 30 June 2014 (unaudited)		As at 31 December 2013	
	Carrying amount	Fair value	Carrying amount	Fair value
<b>1 Financial assets at fair value through profit or loss</b>	<b>750</b>	<b>750</b>	<b>34</b>	<b>34</b>
Derivative instruments	750	750	34	34
<b>2 Financial assets available for sale</b>	<b>6 946</b>	<b>–</b>	<b>6 973</b>	<b>–</b>
Long-term shares	6 946	–	6 973	–
<b>3 Loans and receivables</b>	<b>7 635 765</b>	<b>–</b>	<b>6 547 235</b>	<b>–</b>
Trade receivables	663 297	–	1 083 164	–
Receivables from sales of intangible assets	24 373	–	1 015	–
Dividends receivable	5 191	–	–	–
Bonds	6 702 410	–	5 217 830	–
Loans granted (Cash pool)	18 417	–	114	–
Other loans granted	193 883	–	189 310	–
Other financial receivables	28 194	–	55 802	–
<b>4 Financial assets excluded from the scope of IAS 39</b>	<b>20 545 053</b>	<b>–</b>	<b>20 446 849</b>	<b>–</b>
Shares in subsidiaries	20 545 053	–	20 214 349	–
Advance payment for acquisition of shares	–	–	232 500	–
<b>5 Cash and cash equivalents</b>	<b>102 332</b>	<b>–</b>	<b>507 127</b>	<b>–</b>
<b>Total financial assets, including in the statement of financial position:</b>	<b>28 290 846</b>		<b>27 508 218</b>	
<b>Non-current assets</b>	<b>27 171 641</b>		<b>25 813 371</b>	
Shares	20 551 999		20 221 322	
Bonds	6 420 520		5 165 000	
Loans granted	193 883		189 310	
Other financial assets	5 239		237 739	
<b>Current assets</b>	<b>1 119 205</b>		<b>1 694 847</b>	
Trade and other receivables	734 233		1 134 856	
Bonds	281 890		52 830	
Derivative instruments	750		34	
Cash and cash equivalents	102 332		507 127	

Categories and classes of financial liabilities	As at 30 June 2014 (unaudited)		As at 31 December 2013	
	Carrying amount	Fair value	Carrying amount	Fair value
<b>1 Financial liabilities at fair value through profit or loss</b>	<b>1 391</b>	<b>1 391</b>	<b>1 169</b>	<b>1 169</b>
Derivative instruments	1 391	1 391	1 169	1 169
<b>2 Financial liabilities measured at amortized cost</b>	<b>8 238 913</b>	<b>–</b>	<b>8 127 697</b>	<b>–</b>
Arm's length loans, of which:	2 383 176	–	2 909 144	–
Liability under the cash pool loan	1 130 699	–	1 615 395	–
Loans from the European Investment Bank	1 252 477	–	1 293 749	–
Overdraft	13 158	–	93 645	–
Bonds issued	5 001 052	–	4 300 522	–
Trade payables	421 748	–	772 481	–
Dividends payable	332 984	–	–	–
Other financial liabilities	86 795	–	47 717	–
Liabilities due to purchases of fixed and intangible assets	–	–	4 188	–
<b>3 Financial liabilities excluded from the scope of IAS 39</b>	<b>34 772</b>	<b>–</b>	<b>36 425</b>	<b>–</b>
Liabilities under finance leases	34 772	–	36 425	–
<b>4 Hedging instruments (relating to liabilities)</b>	<b>182 025</b>	<b>182 025</b>	<b>159 762</b>	<b>159 762</b>
<b>Total financial liabilities, including in the statement of financial position:</b>	<b>8 457 101</b>		<b>8 325 053</b>	
<b>Long-term liabilities</b>	<b>6 094 639</b>		<b>5 571 250</b>	
Interest-bearing loans and borrowings	5 954 512		5 445 279	
Liabilities under finance leases	31 690		33 159	
Other financial liabilities	5 239		5 239	
Derivative instruments	103 198		87 573	
<b>Short-term liabilities</b>	<b>2 362 462</b>		<b>2 753 803</b>	
Current portion of interest-bearing loans and borrowings	1 442 874		1 858 032	
Current portion of liabilities under finance leases	3 082		3 266	
Trade and other payables	836 288		819 147	
Derivative instruments	80 218		73 358	

The Company did not disclose the fair value of financial instruments not measured at fair value as at the end of the reporting period due to the fact that the fair value of these financial instruments as at 30 June 2014 and as at 31 December 2013 did not differ considerably from the values presented in the financial statements for individual periods, for the following reasons:

- the potential discounting effect relating to short-term instruments is not significant;
- the instruments are related to arm's length transactions.

The Company did not disclose the fair value of shares in companies not quoted on active markets, categorized to financial assets available for sale. The Company is unable to reliably estimate the fair value of shares held in companies which are not listed on active markets. They are measured at cost less impairment losses as at the end of the reporting period.

In accordance with the Company's accounting policy, shares in subsidiaries are also measured at cost less impairment losses.

### 30.2. Fair value hierarchy

Fair value hierarchy of financial instruments measured at fair value as at 30 June 2014 and 31 December 2013:

Classes of financial instruments	As at 30 June 2014 (unaudited)		As at 31 December 2013	
	Level 1	Level 2	Level 1	Level 2
<b>Assets</b>				
Commodity-related derivatives	750	–	34	–
<b>Liabilities</b>				
Commodity-related derivatives	44	–	40	–
Currency derivatives	–	1 347	–	1 129
IRS derivatives	–	182 025	–	159 762

The methods of estimating the fair value of derivatives has not changed compared to 31 December 2013.

### **30.3. Details of significant items in individual categories of financial instruments**

#### **Available-for-sale financial assets**

Available-for-sale financial assets, amounting to PLN 6 946 thousand, include mainly:

- shares in TAURON Wytwarzanie GZE Sp. z o.o. in the amount of PLN 4 935 thousand;
- shares in Przedsiębiorstwo Energetyki Cieplnej Sp. z o.o. in Tychy in the amount of PLN 1 872 thousand.

#### **Loans and receivables**

Key items of loans and receivables include:

- Bonds

As at 30 June 2014 bonds issued by subsidiaries and acquired by the Company amounted to PLN 6 702 410 thousand (as at 31 December 2013 it was PLN 5 217 830 thousand). Bonds of individual companies/issuers are presented in Note 17 hereto.

- Loans granted – cash pool agreement

Loans granted under the cash pool agreement have been presented in detail in Note 24.3 hereto.

- Other loans granted

Loans granted include a subordinated loan extended to Elektrociepłownia Stalowa Wola S.A. of PLN 177 000 thousand plus interest accrued of PLN 16 883 thousand, as described in detail in Note 18 to these condensed interim financial statements.

- Trade and other financial receivables

Trade and other financial receivables have been presented in detail in Note 21 hereto.

#### **Financial assets excluded from the scope of IAS 39**

Financial assets excluded from the scope of IAS 39, amounting to PLN 20 545 053 thousand, include shares held by the Company in its subsidiaries, as presented in detail in Note 16 hereto.

#### **Financial liabilities measured at amortized cost**

- Issued bonds have been presented in detail in Note 24.1 hereto;
- Loans granted by the European Investment Bank have been presented in detail in Note 24.2 hereto;
- Overdraft facility has been presented in detail in Note 24.4 hereto;
- Liabilities under the cash pool loan have been presented in detail in Note 24.3 hereto;
- Dividends payable

Dividends payable of PLN 332 984 thousand results from distribution of profit for 2013, as presented in detail in Note 12 hereto;

- Other financial liabilities

Other financial liabilities include mainly liabilities to the Company's subsidiaries operating within the Tax Capital Group, due to tax overpayment of PLN 57 737 thousand, as presented in detail in Note 11.3 hereto.

## **Financial liabilities excluded from the scope of IAS 39**

Financial liabilities excluded from the scope of IAS 39 include mainly liabilities due to lease of investment property.

## **Hedging derivative instruments (relating to liabilities)**

Derivative instruments hedging interest cash flows related to issued bonds have been presented in detail in Note 23.4 to these condensed interim financial statements.

## **31. Finance and financial risk management**

### **31.1. Financial risk management**

The TAURON Capital Group has implemented the policy for management of specific risks in the area of finance, which defines the strategy for management of the currency and interest rate risk. The policy has also introduced hedge accounting in the Group, which lays down the principles and defines the types of hedge accounting, along with the accounting treatment of hedging instruments and hedged items, to be applied as part of hedge accounting under IFRS. The policy for specific risk management in the area of finance and hedge accounting principles are applicable to the cash flow risk and not to the fair value risk due to its limited significance for the Group.

### **Hedge accounting**

As at 30 June 2014, the Company was a party to hedging transactions covered by the policy for specific risk management in the area of finance. Pursuant to a decision of the Financial Risk Management Committee of 30 January 2012, in March 2012 the Company hedged the interest rate risk arising from bonds issued under the Bond Issue Scheme, by entering into an interest rate swap (IRS) transaction for a term of 5 years. The aforementioned transaction was concluded due to fluctuations in the projected future cash flows from interest payments resulting from the issue of bonds in PLN with a floating interest rate based on WIBOR 6M. The Company hedged 80% of such cash flows. The parent applies hedge accounting to the aforementioned transactions. The accounting treatment of the aforementioned hedging transactions has been presented in detail in Note 23.4 to these condensed interim financial statements.

### **31.2. Financial management**

Finance is managed at the level of the TAURON Polska Energia S.A. Capital Group, which has been presented in detail in Note 34 to the condensed interim consolidated financial statements for the 6-month period ended 30 June 2014.

## **32. Significant items of the statement of cash flows**

### **32.1. Cash flows from investing activities**

#### **Purchase of shares**

Expenditure for acquisition of shares of PLN 98 197 thousand resulted primarily from payment of a portion of the price, i.e. PLN 77 500 thousand, for the acquisition of shares in a subsidiary TAURON Wydobycie S.A., as discussed in detail in Note 16 to these condensed interim financial statements.

#### **Purchase of bonds**

Payments related to acquisition of bonds, in the amount of PLN 3 055 520 thousand, are related to acquisition of intra-group bonds issued by the following subsidiaries:

- TAURON Dystrybucja S.A., amounting to PLN 2 000 000 thousand;
- TAURON Ciepło Sp. z o.o., amounting to PLN 665 520 thousand;
- TAURON Wydobycie S.A., amounting to PLN 280 000 thousand;
- TAURON Ekoenergia Sp. z o.o., amounting to PLN 60 000 thousand;
- TAURON Obsługa Klienta Sp. z o.o., amounting to PLN 50 000 thousand.

## **Redemption of bonds**

Inflows related to redemption of bonds, in the amount of PLN 1 570 000 thousand, are related to redemption of intra-group bonds by the following subsidiaries:

- TAURON Dystrybucja S.A., amounting to PLN 1 510 000 thousand;
- TAURON Ekoenergia Sp. z o.o., amounting to PLN 60 000 thousand.

## **Interest received**

Most proceeds from interest received are related to interest on acquired bonds of subsidiaries of PLN 170 804 thousand.

### **32.2. Cash flows from financing activities**

#### **Issuance of debt securities**

Proceeds from issue of debt securities in the 6-month period ended 30 June 2014 result from the issuance of Tranche E short-term bonds in the amount of PLN 300 000 thousand and long-term bonds issued under the Company's agreement with Bank Gospodarstwa Krajowego in the amount of PLN 700 000 thousand, as discussed in detail in note 24.1 to these condensed interim financial statements.

#### **Redemption of debt securities**

Expenditures for redemption of debt securities result from redemption of Tranche E short-term bonds in the amount of PLN 300 000 thousand in the 6-month period ended 30 June 2014.

#### **Interest paid**

Expenditures due to interest paid were related to the fact that the Company paid interest on bonds issued of PLN 121 968 thousand and interest on loans of PLN 30 695 thousand.

## **33. Details of other significant changes in the reporting period**

### **Other finance income**

An increase in other financial income in the 6-month period ended 30 June 2014 by PLN 42 712 thousand vs. the comparative period resulted mainly from:

- increased interest on intra-group bonds, amounting to PLN 64 700 thousand. Interest income earned on bonds acquired for the 6-month period ended 30 June 2014 amounted to PLN 169 863 thousand compared to PLN 105 163 thousand in the 6-month period ended 30 June 2013;
- a decrease in other financial revenue items of PLN 21 988 thousand, including mainly a decrease in other interest of PLN 11 896 thousand.

### **Other financial assets**

A decrease in other financial assets of PLN 232 500 thousand results from the reclassification of the amount paid to Kompania Węglowa S.A. for the acquired shares in TAURON Wydobycie S.A. in December 2013 from other financial assets to shares, in relation to meeting the conditions precedent for the transfer of the title to acquired shares in TAURON Wydobycie S.A.

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

### **Resolution to dissolve and liquidate a subsidiary Polska Energia Pierwsza Kompania Handlowa Sp. z o.o.**

On 2 July 2014 the Extraordinary Shareholders' Meeting of Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. (PE-PKH) adopted a resolution to dissolve and liquidate PE-PKH, in which TAURON holds 100% of interests in the issued capital and 100% votes at the General Shareholders' Meeting. The decision to liquidate PE-PKH was taken for business reasons and is a part of the reorganization process aimed at simplifying and organizing the structure of the TAURON Polska Energia S.A. Capital Group. In 2013 the revenue generated by the liquidated company represented ca. 1% of the revenue of the Capital Group. The request to commence liquidation was filed with the District Court for Cracow-Śródmieście in Cracow, XII Business Division of the National Court Register.

**Concluding a credit facility agreement with the European Investment Bank**

On 22 July 2014 roku TAURON Polska Energia S.A. concluded a credit facility agreement with the European Investment Bank for the amount of PLN 295 000 thousand for financing an investment project related to energy production from renewable sources and energy distribution. The project is planned to be completed by the end of 2016.

These condensed interim financial statements of TAURON Polska Energia S.A., prepared for the 6-month period ended 30 June 2014 in accordance with International Accounting Standard 34 have been presented on 39 consecutive pages.

Katowice, 19 August 2014

Dariusz Lubera – President of the Management Board .....

Aleksander Grad – Vice-President of the Management Board .....

Katarzyna Rozenfeld – Vice-President of the Management Board .....

Stanisław Tokarski – Vice-President of the Management Board .....

Krzysztof Zawadzki – Vice-President of the Management Board .....



**REPORT OF THE MANAGEMENT BOARD  
ON OPERATIONS OF  
TAURON POLSKA ENERGIA S.A.  
IN THE FIRST HALF OF 2014**

**AUGUST 2014**

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## 1. ORGANISATION OF TAURON CAPITAL GROUP

### 1.1. Basic Information on TAURON Capital Group

TAURON Polska Energia S.A. Capital Group (TAURON Capital Group) is a vertically integrated energy group located in the south of Poland. As at 30 June 2014 TAURON Capital Group held generation units with the installed capacity of 5,395 MW<sub>e</sub> and 3,116 MW<sub>t</sub>, mainly coal-fired. TAURON Capital Group conducts its operations in all key segments of the energy market (excluding electric energy transmission which is the exclusive responsibility of the Transmission System Operator (TSO)), i.e. in the area of coal mining, generation, distribution as well as trading of electric energy and heat. The distribution services of one of the leading companies belonging to TAURON Capital Group are provided over the area of approximately 58 thousand km<sup>2</sup>, which constitutes about 18.3% of the total country area, via about 260 thousand km of power lines. As at 30 June 2014, 26,240 people were employed in the companies of TAURON Capital Group.

As at 30 June 2014, the key companies of TAURON Capital Group, besides the parent company, TAURON Polska Energia S.A. (the Company or TAURON) included 13 subsidiaries subject to consolidation, indicated in item 1.2.1 of this report.

Moreover, TAURON Capital Group consisted of 14 other subsidiaries as well as 7 companies with the capital share between 20%–50% and 23 companies with the capital share below 20%.

The most important companies of TAURON Capital Group subject to consolidation include:

- 1) TAURON Dystrybucja S.A. (TAURON Dystrybucja) – providing electric energy distribution services,
- 2) TAURON Wytwarzanie S.A. (TAURON Wytwarzanie) – dealing with generation of power from conventional sources and biomass co-burning,
- 3) TAURON EKOENERGIA sp. z o.o. (TAURON EKOENERGIA)<sup>1</sup> – dealing with generation of power from renewable sources,
- 4) TAURON Sprzedaż sp. z o.o. (TAURON Sprzedaż) and TAURON Sprzedaż GZE sp. z o.o. (TAURON Sprzedaż GZE) – dealing with sale of electric energy to retail clients,
- 5) TAURON Obsługa Klienta sp. z o.o. (TAURON Obsługa Klienta) – dealing with customer service,
- 6) TAURON Ciepło sp. z o.o. (TAURON Ciepło)<sup>2</sup> – dealing with generation, distribution and sales of heat,
- 7) TAURON Wydobycie S.A. (TAURON Wydobycie) (formerly: Południowy Koncern Węglowy S.A.)<sup>3</sup> – dealing with hard coal mining.

Moreover, TAURON Capital Group consisted of five other subsidiaries, subject to consolidation, involved, among others, in trade of electric energy, extraction of limestone and stone for construction purposes.

Detailed information concerning the activity of TAURON Capital Group companies in individual Business Areas is contained in item 3.1 of this report.

In the first half of 2014, the management process of “TAURON Group” established by the Management Board of the Company among TAURON Capital Group companies, understood as a consolidated economic entity consisting of autonomous commercial law companies, led by TAURON as a parent entity, was continued.

The main internal regulatory act of “TAURON Group” is the *Code of TAURON Group* (the Code) which regulates its operations, ensuring the implementation of the goals through the specifically tailored solutions in the area of management of “TAURON Group” entities, including, in particular, determining the operating objectives of the companies, enabling to achieve the assumed effects.

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<sup>1</sup> On 2 January 2014 the merger of TAURON EKOENERGIA (the acquiring Company), and MEGAWATMARSZEWO and BELS INVESTMENT (the acquired Companies) was registered.

<sup>2</sup> On 30 April 2014 the merger of companies: Enpower Service (the acquiring Company) and TAURON Ciepło S.A. (the acquired company) was registered. At the same time, change of the acquiring company name to “TAURON Ciepło sp. z o.o.” occurred.

<sup>3</sup> On 24 February 2014 the District Court for Katowice-Wschód in Katowice 8th Commercial Department of the National Court Register entered the change of enterprise name of the company from “Południowy Koncern Węglowy S.A.” to “TAURON Wydobycie S.A.”

Considering the changes in the organisation of the TAURON Capital Group, in the 1st half of 2014, the Management Board of the Company updated the allocation of membership of the companies to "TAURON Group". The update resulted from registering of the on-going merger process in the Heat Area by the competent Registry Court, i.e. the acquisition of the TAURON Ciepło S.A. company (TAURON Ciepło S.A.) by the Enpower service sp. z o.o. company (Enpower service), with the simultaneous change of the acquiring company name to TAURON Ciepło sp. z o.o.

The table below presents the list of companies of TAURON Capital Group included in the "TAURON Group", according to the status as at 30 June 2014.

**Table no. 1. List of TAURON Capital Group companies included in the "TAURON Group" according to the status as at 30 June 2014**

No.	Company enterprise
1.	TAURON Polska Energia S.A. (parent company)
2.	TAURON Dystrybucja S.A. (TAURON Dystrybucja)
3.	TAURON Wytwarzanie S.A. (TAURON Wytwarzanie)
4.	TAURON EKOENERGIA sp. z o.o. (TAURON EKOENERGIA)
5.	TAURON Ciepło sp. z o.o. (TAURON Ciepło)
6.	TAURON Obsługa Klienta sp. z o.o. (TAURON Obsługa Klienta)
7.	TAURON Sprzedaż sp. z o.o. (TAURON Sprzedaż)
8.	TAURON Sprzedaż GZE sp. z o.o. (TAURON Sprzedaż GZE)
9.	TAURON Czech Energy s.r.o. (TAURON Czech Energy)
10.	TAURON Dystrybucja Serwis S.A. (TAURON Dystrybucja Serwis)
11.	TAURON Dystrybucja Pomiary sp. z o.o. (TAURON Dystrybucja Pomiary)
12.	TAURON Wytwarzanie GZE sp. z o.o. (TAURON Wytwarzanie GZE)
13.	TAURON Wytwarzanie Serwis sp. z o.o. (TAURON Wytwarzanie Serwis)
14.	TAURON Ekoservis sp. z o.o. (TAURON Ekoservis)
15.	TAURON Ubezpieczenia sp. z o.o. (TAURON Ubezpieczenia)
16.	TAURON Wydobywanie S.A. (TAURON Wydobywanie)
17.	Kopalnia Wapienia Czatkowice sp. z o.o. (KW Czatkowice)
18.	"BUDO – Trans" – sp. z o.o. (BUDO-TRANS)
19.	Polska Energia – Pierwsza Kompania Handlowa sp. z o.o. in liquidation (PEPKH)
20.	Spółka Usług Górniczych sp. z o.o. (SUG)

Within "TAURON Group", Business Areas established by the Company Management Board operate, comprising the companies of "TAURON Group" as well as the established Governance Areas, within which the relevant Cooperation Rules apply. In addition, within the "TAURON Group" permanent Committees operate, including:

- 1) Project Assessment Committee,
- 2) TAURON Group Management Committee,
- 3) TAURON Group Compliance Committee,
- 4) Risk Committee.

The aforementioned committees were established to enable the performance of TAURON Capital Group in accordance with the principles of operating coherence, in compliance with the law and the interests of TAURON Capital Group and its stakeholders.

The Committees fulfil 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.

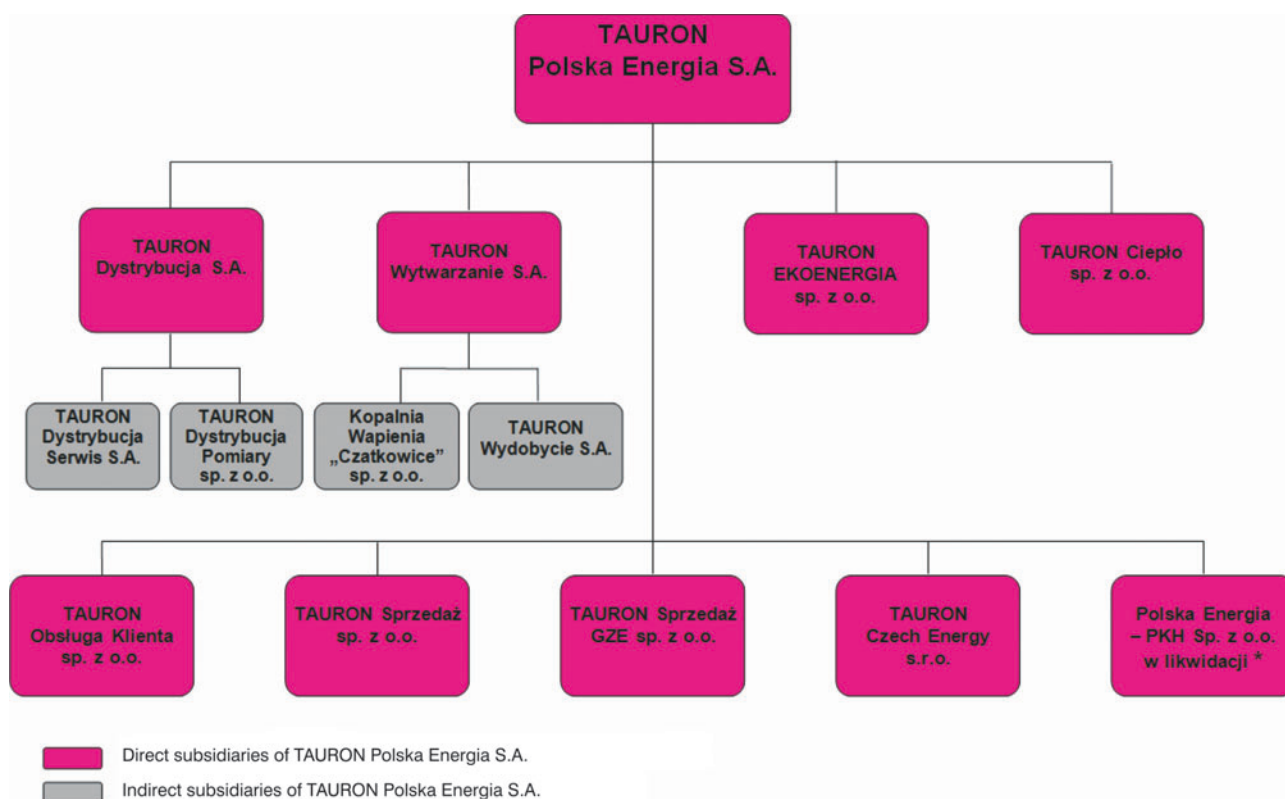
The underlying assignment of the Committees is to provide surveillance over the implementation of the coherent actions by all the participants of the "TAURON Group", in compliance with the Code and in accordance with the interests of the "TAURON Group" members. The specific tasks of the Committees are stipulated in detail in the by-laws of their operations adopted by the Company Management Board.

## 1.2. Structure of TAURON Capital Group

### 1.2.1. Entities subject to consolidation

The figure below presents the structure of TAURON Capital Group, taking into account companies subject to consolidation, according to the status as at 30 June 2014.

**Figure no. 1. Structure of TAURON Capital Group, taking into account companies subject to consolidation, according to the status as at 30 June 2014**



\* On 2 July 2014 the Extraordinary Meeting of Shareholders (SM) of the PEPKH company adopted the resolution concerning winding-up and liquidation of the company.

Moreover, TAURON Capital Group holds investments in joint projects: Elektrociepłownia Stalowa Wola S.A. and Elektrownia Blachownia Nowa sp. z o.o. (Elektrownia Blachownia Nowa), whose valuation is performed by equity method in the consolidated financial statement.

### 1.2.2. Changes in organisation of TAURON Capital Group

In the 1st half of 2014 the following changes in the organisation of TAURON Capital Group took place:

#### Purchase of shares or stocks of other companies

- On 15 January 2014 the General Meeting (GM) of Kompania Węglowa S.A. (Kompania Węglowa) approved the sale of TAURON Wydobywanie shares, consequently, the last condition precedent required for the transfer of ownership of the said shares to the Company was fulfilled. Following the payment of the remaining amount, i.e. PLN 77,500 thousand in favour of Kompania Węglowa, the ownership rights to TAURON Wydobywanie shares held by Kompania Węglowa were transferred to the TAURON.

The above mentioned event was the consequence of the agreement signed on 10 December 2013 concerning the purchase of 16,730,525 registered shares of TAURON Wydobywanie by TAURON from Kompania Węglowa, representing 47.52% of the share capital of this company, authorising to the execution of 31.99% votes at its General Meeting.

The total purchase price of the shares amounted to PLN 310,000 thousand. The amount of PLN 232,500 thousand was paid on the day of signing the agreement whereas the parties agreed that the remaining amount of

PLN 77,500 thousand would be paid following the transfer of ownership of the shares to the benefit of TAURON, i.e. after Kompania Węglowa has obtained the GM approval for the sale of shares and after the seller has obtained the approval of TAURON for the disposal of the shares. On 19 December 2013 the Management Board of TAURON Wydobycie approved the disposal of the shares.

As a result of execution of the Agreement, TAURON holds 100% of TAURON Wydobycie shares, authorising it to exercise 100% votes at the General Meeting of this company, whereas 47.52% of shares authorising to exercise 31.99% of votes is held by TAURON directly, and the availability of the remaining 52.48% of shares authorising to exercise 68.01% votes at TAURON Wydobycie GM arises from the agreement concerning the use of TAURON Wydobycie shares held by TAURON Wytwarzanie by the Company.

The purchase of TAURON Wydobycie shares was aimed at taking over the full control over the company significant in terms of the interests of TAURON Capital Group, representing the element of the value chain as an entity implementing the strategic objectives in the Generation Area. The above transaction will contribute to the growth of TAURON Capital Group value. The activity allows for comprehensive implementation of corporate standards in the TAURON Wydobycie company, applicable in TAURON Capital Group, in the scope of TAURON Capital Group management.

2. On 14 March 2014 the Extraordinary General Meeting of the TAURON Ciepło S.A. company adopted the resolution concerning the compulsory purchase of shares of this company held by shareholders representing no more than 5% of the share capital by the majority shareholder – TAURON. Within the execution of this process, on 3 April 2014 TAURON paid the receivable equal to the price of all the shares purchased to the bank account of the TAURON Ciepło S.A. company. As a result of the aforementioned process, TAURON became the 100% shareholder of TAURON Ciepło S.A., with the purpose of streamlining the ownership structure of the company and its simultaneous preparation to incorporation by Enpower Service.
3. On 24 April 2014 the Ordinary General Meeting of the TAURON Wytwarzanie company adopted the resolution concerning the compulsory purchase of shares of this company held by shareholders representing no more than 5% of the share capital by the majority shareholder – TAURON. Within the execution of this process, on 14 May 2014 TAURON paid the receivable equal to the price of all the shares purchased to the bank account of the TAURON Wytwarzanie company. On the other hand, as a result of redemption of the TAURON Wytwarzanie shares purchased within the process of compulsory share repurchase, conducted on demand of shareholders representing no more than 5% of the share capital, on 1 August 2014 the District Court for Katowice-Wschód, 8th Department of the National Court Register registered the reduction of the share capital of TAURON Wytwarzanie from the amount of PLN 1,494,479,570 to the amount of PLN 1,494,459,310, i.e. by the amount of PLN 20,260. As a result of the aforementioned processes, TAURON became the sole shareholder of TAURON Wytwarzanie, holding 100% of interest in the share capital and 100% of votes at the GM of this company. The process of compulsory redemption of TAURON Wytwarzanie shares was aimed at streamlining of the proprietary structure of the company.

### **Merger and division of companies**

1. On 2 January 2014 the District Court Wrocław-Fabryczna in Wrocław, 9th Commercial Department of the National Court Register issued the order on entering the merger of the following companies to the register: TAURON EKOENERGIA (the Acquiring Company) with the company MEGAWAT MARSZEWO sp. z o.o. (MEGAWAT MARSZEWO) and BELS INVESTMENT sp. z o.o. (BELS INVESTMENT) (the Acquired Companies). The merger was executed pursuant to art. 492 § 1 item 1 of the *Code of Commercial Companies (Ksh)*, i.e. through the assignment of the total assets of the Acquired Company to the Acquiring Company. The aim of this merger was to streamline the organisational structure of TAURON Capital Group within the framework of implementation of the project on reorganisation of TAURON Capital Group companies.
2. On 2 January 2014 the District Court for Katowice-Wschód in Katowice, 8th Commercial Department of the National Court Register issued the order on entering the merger of the following companies to the register: Spółka Ciepłowniczo-Energetyczna Jaworzno III sp. z o.o. with its registered office in Jaworzno (the Acquiring Company) with the EKOPEC sp. z o.o. company with its registered office in Będzin (the Acquired Company). The merger was executed pursuant to art. 492 § 1 item 1 of the *Ksh*, i.e. through the assignment of the total assets of the Acquired Company to the Acquiring Company. The aim of this merger was to streamline the organisational structure of TAURON Capital Group within the framework of implementation of the project on reorganisation of TAURON Capital Group companies.
3. On 2 January 2014 the District Court for Katowice-Wschód, 8th Commercial Department of the National Court Register issued the order on entering the division of the TAURON Wytwarzanie company (the Divided Company) by the apportionment pursuant to art. 529 § 1 item 4 of the *Ksh*, consisting in the assignment of the apportioned



components of assets to the TAURON Ciepło S.A. company (the Acquiring Company) in exchange for the shares of TAURON Ciepło S.A., which had been acquired by one of the shareholders of TAURON Wytwarzanie, i.e. TAURON, including the proportional reduction of TAURON interest in the share capital of TAURON Wytwarzanie. The process of dividing the company TAURON Wytwarzanie through apportionment of the Branch of Zespół Elektrociepłowni Bielsko-Biała S.A. (ZEC Bielsko-Biała) from its structure and assignment of assets of this Branch to TAURON Ciepło S.A., constituted Stage IV of the Project called *Building of the Heat Area*. As a result of the aforementioned division, the share capital of TAURON Ciepło S.A. was increased to the amount of PLN 1,409,747,374.17, whereas the share capital of TAURON Wytwarzanie S.A. was reduced to the amount of PLN 1,494,862,990.00. The share of TAURON in the share capital of TAURON Ciepło S.A. increased to 96.57%, whereas the share in TAURON Wytwarzanie decreased to 99.76%.

4. On 30 April 2014 the District Court for Wrocław-Fabryczna in Wrocław, 6th Commercial Department of the National Court Register issued the order on entering the merger of the following companies to the register: TAURON Dystrybucja Serwis (the Acquiring Company) with Zakład Obsługi Zaplecza Transportu Energetyki "EL-AUTO" sp. z o.o. (EL-AUTO) and "AUTOZET" sp. z o.o. (AUTOZET) (the Acquired Companies). The merger was executed pursuant to art. 492 § 1 item 1 of the Ksh, i.e. through the assignment of the total assets of the Acquired Companies to the Acquiring Company. The purpose of the merger was to reorganise and consolidate the service activity for the TAURON Dystrybucja company area of operations, within a single organisation, in accordance with the *Corporate Strategy of TAURON Group for 2011–2015 with estimates until the year 2020* (the Corporate Strategy). The activity was compliant with the schedule of reorganisation measures approved in TAURON in relation to entities in TAURON Capital Group.
5. On 30 April 2014 the District Court for Katowice-Wschód in Katowice, 8th Commercial Department of the National Court Register issued the order on entering the merger of the following companies to the register: Enpower service (the Acquiring Company) with the TAURON Ciepło S.A. company (the Acquired Company). The merger was executed pursuant to art. 492 § 1 item 1 of the Ksh, i.e. through the assignment of the total assets of the Acquired Company to the Acquiring Company. The merged entity operates under the enterprise name "TAURON Ciepło sp. z o.o.". The project on the merger of TAURON Ciepło S.A. and Enpower service was aimed at incorporation of TAURON Ciepło S.A. assets to the Capital Tax Group (PGK). The activity was compliant with the schedule of reorganisation measures approved in TAURON in relation to entities in TAURON Capital Group.

#### Other events

1. On 14 January 2014, TAURON concluded the agreement with TAURON Wytwarzanie concerning the establishment of the usufruct right in relation to the total assets of the TAURON Wytwarzanie Serwis company held by TAURON Wytwarzanie, currently representing 71.69% of the share in the share capital of this company. The agreement was concluded with the aim of TAURON taking over the control of the indirect subsidiary.
2. On 14 January 2014 the Management Board of TAURON Wytwarzanie adopted the resolution concerning the redemption of shares purchased by the company pursuant to art. 418<sup>1</sup> of the Ksh. Due to the redemption of the shares, on 4 March 2014, the District Court for Katowice-Wschód in Katowice, 8th Commercial Department of the National Court Register issued the order on registering the reduction of the share capital of the company by the amount of PLN 383,420 from PLN 1,494,862,990 to the amount of PLN 1,494,479,570. As a consequence, the share of TAURON in the share capital of TAURON Wytwarzanie increased from 99.76% to 99.79%.
3. On 17 February 2014 the District Court for Katowice-Wschód in Katowice, 8th Commercial Department of the National Court Register issued the order on deleting the company Przedsiębiorstwo "Ekspar" sp. z o.o. in liquidation from the register (the subsidiary of TAURON Ciepło S.A.). The order became final and binding on 4 March 2014. The aforementioned activity was compliant with the schedule of reorganisation measures approved in TAURON in relation to entities in TAURON Capital Group.
4. On 24 February 2014 the District Court for Katowice-Wschód in Katowice 8th Commercial Department of the National Court Register entered the change of enterprise name of the company from "Południowy Koncern Węglowy S.A." to "TAURON Wydobycie S.A." to the register.

#### Events related to organisational changes in TAURON Capital Group after 30 June 2014

1. On 2 July 2014 the Extraordinary General Meeting of the company acting under the enterprise name PEPKH with its registered office in Tarnów adopted the resolutions on winding-up and liquidation of the PEPKH company, in which TAURON holds 100% interest in the share capital and 100% share in the general number of votes at the GM, and on the appointment of its liquidators. The Resolutions of the Extraordinary ZW entered into force

on the day of their adoption. Decision on liquidation of the company has been taken for economic reasons and it is also an element of the reorganisation measures intended to simplify and streamline the structure of TAURON Capital Group. Revenues generated by the liquidated company in 2013 constituted approximately 1% of the TAURON Capital Group revenues.

2. On 9 July 2014 TAURON established two limited liability companies with the registered office in Dąbrowa Górnicza: TAMEH HOLDING sp. z o.o. (TAMEH HOLDING) and TAMEH POLSKA sp. z o.o. (TAMEH POLSKA). TAURON, as the sole shareholder of the above mentioned companies acquired shares of the total par value of PLN 5,000 in each of the companies. On 31 July 2014 the District Court for Katowice-Wschód in Katowice, 8th Commercial Department of the National Court Register issued the order on entering the aforementioned companies to the Register of Entrepreneurs. The above mentioned companies were established for the purpose of implementation of the joint project with ArcelorMittal Poland S.A. (ArcelorMittal) aimed at appointment of an entity to execute the investment and operational tasks in the scope of industrial power engineering. Detailed information is provided in item 3.2. of this report.
3. Within the framework of implementation of the disposal process related to shares of Przedsiębiorstwo Świadczeń Zdrowotnych i Promocji Zdrowia Elvita Jaworzno III sp. z o.o. with its registered office in Jaworzno, held by companies of TAURON Capital Group, on 12 August 2014 the following subsidiaries of TAURON: TAURON Wytwarzanie, TAURON Wydobycie and TAURON Dystrybucja, concluded the agreement on sale of the total of 14,984 shares of the company Przedsiębiorstwo Świadczeń Zdrowotnych i Promocji Zdrowia Elvita Jaworzno III sp. z o.o., representing 98.82% in the share capital, including: TAURON Wytwarzanie sold 4,825 shares, TAURON Wydobycie sold 4,520 shares and TAURON Dystrybucja sold 5,639 shares. The above agreement was concluded with the Investor – PZU Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych BIS 2 with its registered office in Warsaw.

The aforementioned measures were compliant with the objectives of the Corporate Strategy and the strategies in individual business areas focusing on elimination of non-core activities (the above mentioned company operates in the medical sector), as well as with the reorganisation schedule of entities in TAURON Capital Group, approved in TAURON.

### **1.3. Major domestic and foreign investments**

#### **1.3.1. Purchase of shareholding securities**

Among the events described in item 1.2.2. in the scope of purchase of shares and stocks in companies, the main investments of the Company include the purchase of 16,730,525 registered shares of TAURON Wydobycie from Kompania Węglowa, representing 47.52% of the share capital of this company and authorising to exercising of 31.99% votes at the GM. The purchase of the aforementioned shares occurred on the basis of the sale agreement concluded on 10 December 2013.

On 15 January 2014 the GM of Kompania Węglowa agreed to the sale of TAURON Wydobycie shares, consequently, the transfer of ownership of these shares took place.

#### **1.3.2. Implementation of strategic investments**

In the 1st half of 2014, the following activities associated with the main strategic investment projects were carried out in TAURON Capital Group:

- 1) construction of a new power unit of the capacity of 910 MW<sub>e</sub> for supercritical parameters on the premises of Elektrownia Jaworzno III (TAURON Wytwarzanie). The new unit will demonstrate high efficiency and dispatchability as well as low levels of emissions of NO<sub>x</sub>, SO<sub>2</sub>, CO<sub>2</sub> and particulate matter. In April 2014 the contract with the General Contractor of the unit was signed (detailed information related to this event is included in item 3.2. of this report). Preparations for hand-over of the site are in progress. The delivery of the investment is scheduled in 2019,
- 2) construction of the CCGT unit of 449 MW<sub>e</sub> capacity, including the heat generation component of 240 MW<sub>t</sub> heating capacity in Stalowa Wola. The investment is implemented by a special purpose vehicle, with participation of the strategic partner – the Polskie Górnictwo Naftowe i Gazownictwo S.A. company Abener Energia S.A. is the general contractor. The technical activities are under implementation, including the construction and contractor works within the infrastructure of the new unit. The supplies of machinery and the basic equipment of the CCGT have been implemented. The delivery of the investment is scheduled in 2015;
- 3) construction of the CCGT unit, of 413 MW<sub>e</sub> capacity in Elektrownia Łagisza, including the heat generation unit of 266 MW<sub>t</sub> capacity. The conditions of connecting to the gas transmission system were obtained. Activities associated with obtaining the required approvals and permits are ongoing. Among others, the agreement



on stages of delivery of the documentation was signed, including obtaining of the building permit. On 20 March 2014, the Company and Polskie Inwestycje Rozwojowe signed the memorandum of understanding concerning the financing of construction of the power unit of 413 MW<sub>e</sub> class in Elektrownia Łagisza. The value of the project amounts to approximately PLN 1.5 billion and the contribution of Polskie Inwestycje Rozwojowe will reach the maximum permitted level of PLN 750 million. Completion of the investment is scheduled at the end of 2018;

- 4) construction of the installation for flue gas de-nitrification in six blocks of Elektrownia Jaworzno III and four blocks of Elektrownia Łagisza belonging to TAURON Wytwarzanie. This investment will allow for reducing the NO<sub>x</sub> emission in these units to the level of 200 mg/Nm<sup>3</sup>, which shall be binding from 2018. Works at six of ten units have been completed, the modernisation works have been launched in two consecutive units. Completion of the modernisation works is planned in 2016;
- 5) construction of new generation capacity in co-generation at the level of 50 MW<sub>e</sub> and 86 MW<sub>t</sub> in EC Tychy (TAURON Ciepło) and modernisation of the existing unit in order to adjust it to biomass burning. In the part related to the modernisation of the existing boiler and its adjustment to biomass burning, the investment has been completed. In the part related to the construction of the co-generation unit, the contracting of service and material supplies by the General Contractor is in progress, for the implementation of the BC-50 unit, and the construction and contractor works are performed within the new block. Delivery of this investment is scheduled in 2016;
- 6) construction of the 18 MW farm in the location of Marszewo (stage II of the Marszewo farm construction, of the total capacity 100 MW). On 12 March 2014 the agreement on the purchase of assets of the Marszewo wind farm project of 18 MW capacity was signed. The procedure on the selection of the Contract Engineer and the General Contractor of the project is in progress. Completion of the investment is scheduled in 2015;
- 7) construction of "Grzegorz" shaft (TAURON Wydobywanie), including the infrastructure (surface and underground) and the accompanying headings. This investment project will be of strategic importance for the operations of TAURON Wydobywanie. It is intended to ensure the resource base for the following years and to eliminate the sub-level excavation. Works associated with the process of a comprehensive technical design development are on-going – the basic design has been delivered. The drilling of a control bore with the depth over 800 m is in progress. The access road has been constructed and the site of the project has been connected with the existing infrastructure. Delivery of the project is scheduled in 2022;
- 8) construction of 800 m level, including the commissioning of the fourth wall in Zakład Górniczy Janina (TAURON Wydobywanie). This investment will enable to obtain the additional coal production in relation to the current level. The scope of the project comprises the performance of the required excavations, purchase of machines, equipment and installations, shaft deepening, execution of construction works and implementation of projects of organisational nature. The agreement on deepening of the "Janina VI" shaft was signed, including the construction of the two-way shaft inlet and the development of the infrastructure. The assembly of the shaft tower has been completed, works related to the shaft deepening and modernisation of the Coal Mechanical Processing Plant are in progress. Completion of the project is scheduled in 2019.

In the 1st half of 2014, the capital expenditures of TAURON Capital Group amounted to about PLN 1,250 million and they were lower by approximately 7% than the expenditures incurred in the corresponding period of the previous year (in the 1st half of 2013, they amounted to PLN 1,350 million). It is mainly the result of the decreased expenditure in the Generation, Mining and Renewable Energy Sources (RES) Areas; at the same time, expenditures in the Distribution, Heat and Customer Service Areas increased. In addition, in the 1st quarter of 2014 TAURON Capital Group purchased shares of TAURON Wydobywanie worth PLN 310 million and repurchased the non-controlling shares in the 2nd quarter of the current year.

The aforementioned capital expenditure was mainly incurred for the implementation of the following tasks:

- construction of an installation for reduction of NO<sub>x</sub> emission in the Generation Area (capital expenditure: PLN 73 million),
- construction of stage II of Marszewo wind farm (capital expenditure: PLN 20 million) and modernisation of hydroelectric power plants (capital expenditure: PLN 34 million) in the RES Area,
- construction of new connections (capital expenditure: PLN 214 million), as well as the modernisation and replacement of grid assets (capital expenditures: PLN 544 million) in the Distribution Area,
- replacement of capacity in Zakład Wytwarzania Tychy – including the construction of the BC-50 unit (capital expenditure: PLN 30 million) and the investment associated with the maintenance and development of the heating networks (PLN 34 million) in the Heat Area,
- construction of 800 m level and the commissioning of the fourth wall in Zakład Górniczy Janina (TAURON Wydobywanie). PLN 36 million)
- purchase of TAURON Wydobywanie shares (capital expenditure: PLN 310 million).

In the 1st half of 2014, companies: ENEA S.A., PGE Polska Grupa Energetyczna S.A. (PGE), TAURON and KGHM Polska Miedź S.A. (KGHM), which initialled the draft Partnership Agreement of PGE EJ1 sp. z o.o. (PGE EJ1) on 23 September 2013, continued their works within the project on preparation to the construction of a nuclear power plant in Poland, through the development of updated provisions in the draft of the aforementioned Agreement; consequently, its final draft was agreed.

On 28 January 2014 the Council of Ministers adopted the resolution on the *Polish Nuclear Energy Programme*, indicated in the initialled draft Partnership Agreement as one of the conditions precedent for concluding of the Agreement on Purchase of the PGE EJ1 shares. The only currently remaining condition precedent for the concluding of the Agreement on Purchase of the PGE EJ1 shares is the obtaining of the decision on unconditional approval of the President of the Office for Competition and Consumer Protection (UOKiK) to perform the concentration. On 1 August 2014 the application for the approval of the concentration was submitted to the UOKiK. As at the day of drawing up of this report, the Parties hold corporate approvals to conclude the Partnership Agreement.

The Company reminds that the portfolio of investment projects of TAURON Capital Group also comprises the project on the construction of the new CCGT unit of 850 MW capacity in Elektrownia Blachownia. Pursuant to the Memorandum of Understanding concluded on 30 December 2013 by KGHM, TAURON and TAURON Wytwarzanie, under which it was decided to temporarily suspend the implementation of the project on construction of the CCGT unit in the company Elektrownia Blachownia Nowa sp. z o.o. (KGHM share: 50%, TAURON Wytwarzanie share: 50%), the parties carried out works consisting of the on-going monitoring of the energy market and the regulatory environment in terms of the resumption of the project implementation.

## 2. INFORMATION CONCERNING THE PARENT COMPANY

### 2.1. Composition of the Management Board and the Supervisory Board

#### 2.1.1. Management Board

The current, 4th term of office of the Management Board began to run on 17 March 2014, i.e. on the day of dismissal of all members of the Management Board of the 3rd term by the Supervisory Board, and the appointment of the Management Board of the Company for the 4th common term of office. In accordance with the Company Articles of Association this term of office lasts for three years.

#### Personal composition of the Management Board as at 30 June 2014 and on the day of this report

1. Dariusz Lubera – President of the Management Board, responsible for the Division of the President of the Management Board,
2. Aleksander Grad – Vice President of the Board responsible for the Division of the Vice-President of the Board for Corporate Matters,
3. Katarzyna Rozenfeld – Vice President of the Board responsible for the Division of the Vice-President of the Board, Chief Commercial Officer,
4. Stanisław Tokarski – Vice President of the Board responsible for the Division of the Vice-President of the Board for Strategy and Business Development,
5. Krzysztof Zawadzki – Vice President of the Board responsible for the Division of the Vice-President of the Board for Economic and Financial Matters.

#### Changes in the personal composition of the Management Board in the 1st half of 2014

As at 1 January 2014 the Management Board consisted of the following members: Dariusz Lubera (President of the Management Board), Joanna Schmid (Vice President of the Management Board), Dariusz Stolarczyk (Vice President of the Management Board) and Krzysztof Zawadzki (Vice President of the Management Board).

On 10 February 2014 the Supervisory Board of TAURON adopted the resolution on delegating the member of the Supervisory Board, Mr. Aleksander Grad for the temporary performance of the duties of Vice-President of the Management Board of the Company from 11 February 2014 until 11 May 2014.

The Company informed of this event in the current report no. 12/2014 of 10 February 2014.

On 17 March 2014 the Company Supervisory Board took the decision on the dismissal of the entire Management Board of the Company, composed of: Dariusz Lubera (President of the Management Board), Joanna Schmid (Vice President of the Management Board), Dariusz Stolarczyk (Vice President of the Management Board) and Krzysztof Zawadzki (Vice President of the Management Board).

The Company informed of this event in the current report no. 15/2014 of 17 March 2014.

On 17 March 2014 the Company Supervisory Board took the decision on the appointment of the Management Board of the Company of the following composition for the 4th common term: Dariusz Lubera (President of the Management Board), Aleksander Grad (Vice President of the Management Board), Katarzyna Rozenfeld (Vice President of the Management Board), Stanisław Tokarski (Vice President of the Management Board) and Krzysztof Zawadzki (Vice President of the Management Board).

The Company informed of this event in the current report no. 16/2014 of 17 March 2014.

#### Experience and competences of members of the Management Board



#### **Dariusz Lubera – President of the Management Board**

Background: Electrician, MSc Eng. Graduate of AGH University of Science and Technology in Kraków and University of Economics in Kraków.

Acting as the President of the Management Board of TAURON Polska Energia S.A. since 8 March 2008. Currently supervises performance of the following business units: corporate bodies, legal department, HR, management of information resources, internal audit, market communication and PR, risk management, Health&Safety Issues and Protection of Classified Information.



**Aleksander Grad – Vice President of the Management Board**

Graduate of Industrial Surveying Faculty at AGH Academy of Science and Technology in Kraków. Acted as the Undersecretary of State at the Ministry of Health and the Minister of Treasury. Member of Parliament of the 4th, 5th, 6th and 7th tenure. Among others, acted in the capacity of the Vice Chairman of the European Union Commission, Vice Chairman and Chairman of the Commission on State Treasury.

Acting as the Vice President of the Management Board of TAURON Polska Energia S.A. since 17 March 2014. Currently supervises the performance of the following business units: procurement department, corporate governance and reorganisation.



**Katarzyna Rozenfeld – Vice President of the Management Board**

Graduate of economics at the Foreign Trade Department of Łódź University and the Catholic University of Nijmegen in the Netherlands. She also completed a training course for investment advisers.

Acting as the Vice President of the Management Board of TAURON Polska Energia S.A. since 17 March 2014. Currently supervises the performance of the following business units: trade, market operator and trade service, and portfolio management.



**Stanisław Tokarski – Vice President of the Management Board**

Graduate of the Faculty of Electrical Engineering, Automatics and Electronics of the AGH University of Science and Technology in Kraków. Completed also a number of post-graduate studies, including, among others, in nuclear power engineering in modern power engineering industry at the AGH University of Science and Technology in Kraków, in the European Union legislation at Jagiellonian University and in management in Warsaw School of Economics.

Acting as the Vice President of the Management Board of TAURON Polska Energia S.A. since 17 March 2014. Currently supervises performance of the following business units: development strategies, strategic projects, regulations and external funds as well as investment effectiveness.



**Krzysztof Zawadzki – Vice President of the Management Board**

Background: economist. Graduate of University of Economics in Katowice and PhD Studies at the University of Economics in Kraków. Completed post-graduate studies, among others, in international financial reporting standards, European standards in accountancy and finance and taxes. He is a certified auditor.

Acting as the Vice President of the Management Board of TAURON Polska Energia S.A. since 21 August 2009. Currently supervises performance of the following business units: accounting and taxes, financial management, controlling and fuels.

The detailed description of experience and competences of the Board Members is published on the Company website <http://www.tauron-pe.pl/>.

### **2.1.2. Supervisory Board**

The current, 4th term of office of the Supervisory Board, started on 15 May 2014, i.e. on the day of convening of the Ordinary General Meeting of the Company approving the financial statement for the last full financial year of the tenure of the members of the Supervisory Board of the 3rd term, i.e. for the financial year 2013. In accordance with the Company Articles of Association this is a common term of office and it shall last for three years.

#### **Personal composition of the Supervisory Board as of 30 June 2014 and on the date of this report**

1. Antoni Tajduś – Chairman of the Supervisory Board
2. Agnieszka Woś – Vice Chairman of the Supervisory Board,

3. Jacek Szyke – Secretary of the Supervisory Board,
4. Andrzej Gorgol – Member of the Supervisory Board,
5. Michał Michalewski – Member of the Supervisory Board,
6. Marek Ściążko – Member of the Supervisory Board.

### **Changes in the personal composition of the Supervisory Board in the 1st half of 2014**

As at 1 January 2014 the Supervisory Board consisted of the following members: Antoni Tajduś (Chairman of the Supervisory Board), Rafał Wardziński (Vice Chairman of the Supervisory Board), Leszek Koziorowski (Secretary of the Supervisory Board), Jacek Kuciński (Member of the Supervisory Board), Marcin Majeranowski (Member of the Supervisory Board), Jacek Szyke (Member of the Supervisory Board), Marek Ściążko (Member of the Supervisory Board) and Agnieszka Trzaskalska (Member of the Supervisory Board).

On 7 January 2014 the Extraordinary General Meeting of the Company appointed Aleksander Grad as a member of the Supervisory Board of the Company of the 3rd term as of 1 February 2014.

The Company informed of this event in the current report no. 3/2014 of 7 January 2014.

On 22 January 2014 the State Treasury, acting pursuant to its personal authority specified in § 23 item 1 p. 3 of the Company Articles of Association, dismissed Mr. Rafał Wardziński who acted as the Deputy Chairman of the Supervisory Board, from the Supervisory Board of TAURON.

The Company informed of this event in the current report no. 8/2014 of 22 January 2014.

On 22 January 2014 the State Treasury, acting pursuant to its personal authority specified in § 23 item 1 p. 3 of the Company Articles of Association, appointed Ms Agnieszka Woś as a member of the Supervisory Board of TAURON.

The Company informed of this event in the current report no. 9/2014 of 22 January 2014.

On 10 February 2014 the Supervisory Board of TAURON adopted the resolution on assigning the member of the Supervisory Board, Aleksander Grad to the temporary performance of the duties of Vice President of the Management Board of TAURON from 11 February 2014 until 11 May 2014.

The Company informed of this event in the current report no. 12/2014 of 10 February 2014.

On 17 March 2014, Member of the Supervisory Board, Aleksander Grad, resigned from his function of the Member of the Supervisory Board, with the effect as of 17 March 2014.

The Company informed of this event in the current report no. 14/2014 of 17 March 2014.

On 15 May 2014 the State Treasury, acting pursuant to its personal authority specified in § 23 item 1 p. 1) and 3) of the Company Articles of Association, appointed the following persons as members of the Supervisory Board of the 4th common term: Andrzej Gorgol, Agnieszka Woś, Antoni Tajduś, Michał Michalewski and Marek Ściążko.

The Ordinary General Meeting of the Company convened on 15 May 2014 appointed Jacek Szyke as a member of the Supervisory Board of the 4th common term.

The Company informed of the aforementioned event in the current report no. 26/2014 of 15 May 2014.

### **Experience and competences of members of the Supervisory Board**

#### ***Antoni Tajduś – Chairman of the Supervisory Board***

Academic and scientific worker of the AGH Academy of Science and Technology in Kraków. During his employment at the AGH, he obtained the following scientific degrees: PhD in technical sciences (1977), DSc in technical sciences (1990) and professor of technical sciences (1998). In the years 2005–2012 acted in the capacity of the Rector of the AGH Academy of Science and Technology in Kraków.

Appointed to the Supervisory Board of TAURON Polska Energia S.A. as of 31 January 2008. Currently acting in the capacity of the Chairman of the Supervisory Board and the Chairman of the Committee on Nominations and Remunerations of the Supervisory Board.

#### ***Agnieszka Woś – Vice Chairman of the Supervisory Board***

Graduate of the College of Information Technology and Management in Rzeszów, specialisation: accounting and finance and the University of Economics in Kraków, specialisation: performance and development of enterprises. Obtained a title of doctor of economic sciences in 2010 in the scope of management sciences, at the University of Economics in Kraków.



Appointed to the Supervisory Board of TAURON Polska Energia S.A. as of 22 January 2014. Currently acting in the capacity of the Vice Chairman of the Supervisory Board and the Chairman of the Audit Committee of the Supervisory Board.

***Jacek Szyke – Secretary of the Supervisory Board***

Graduate of Faculty of Economics at Łódź University and Electric Faculty of Technical University in Poznań, where he also obtained PhD in technical sciences.

Appointed to the Supervisory Board of TAURON Polska Energia S.A. as of 14 September 2010. Currently acting in the capacity of the Secretary of the Supervisory Board and the Member of the Audit Committee of the Supervisory Board.

***Andrzej Gorgol – Member of the Supervisory Board***

Graduate of the Faculty of Law and Administration at the Maria Curie-Skłodowska University. Obtained the scientific title of Doctor of Sciences in law. He is also a certified solicitor.

Appointed to the Supervisory Board of TAURON Polska Energia S.A. as of 15 May 2014. Currently acting as a member of the Committee on Nominations and Remunerations of the Supervisory Board.

***Michał Michalewski – Member of the Supervisory Board***

Graduate of the University of Economics in Katowice where he majored in finance and banking. The MBA degree at Nottingham Trent University in Great Britain. A graduate of numerous post-graduate courses in the field of management. In the years 2008–2012 he was a member of Supervisory Board of TAURON Polska Energia S.A.

Appointed to the Supervisory Board of TAURON Polska Energia S.A. as of 15 May 2014. Currently acting as the member of the Strategy Committee of the Supervisory Board, Audit Committee of the Supervisory Board and Committee on Nominations of the Supervisory Board.

***Marek Ściążko – Member of the Supervisory Board***

Graduate of Faculty of Technology and Chemical Engineering, Technical University in Gliwice – speciality: chemical engineering, he obtained the PhD title at the same university.

Moreover, Mr Marek Ściążko holds the title of Doctor of Sciences and a University Professor.

Appointed to the Supervisory Board of TAURON Polska Energia S.A. as of 31 January 2008. Currently acting as the member of the Strategy Committee of the Supervisory Board and Committee on Nominations of the Supervisory Board.

The detailed description of experience and competences of the Supervisory Board Members is published on the Company website <http://www.tauron-pe.pl/>.

## **2.2. Shares and Shareholders**

### **2.2.1. Structure of the share capital**

As at 30 June 2014 and on the day of this report, the share capital of the Company, in accordance with the entry to the National Court Register, amounted to PLN 8,762,746,970.00 and it was divided into 1,752,549,394 shares at a par value of PLN 5 each, including 1,589,438,762 ordinary bearer shares of AA series and 163,110,632 ordinary registered shares of BB series.

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

The table below presents shareholders holding, directly or indirectly large blocks of shares of the Company, as at 30 June 2014 and on the day of the present report.

**Table no. 2. Shareholders holding large blocks of shares, directly or indirectly**

No.	Shareholders	Number of shares held	Percentage interest in share capital	Number of votes held	Percentage share in general number of votes
1.	State Treasury*	526,848,384	30.06%	526,848,384	30.06%
2.	KGHM Polska Miedź S.A.**	182,110,566	10.39%	182,110,566	10.39%
3.	ING Otworthy Fundusz Emerytalny***	88,742,929	5.06%	88,742,929	5.06%

\* In accordance with the shareholder's notification of 28 February 2013.

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

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

Since the day of submission of the previous periodical report, i.e. 14 May 2014, until the date of publication of this semi-annual report, the Company has not received any notification from shareholders concerning changes in proprietary structure of significant blocks of shares of TAURON.

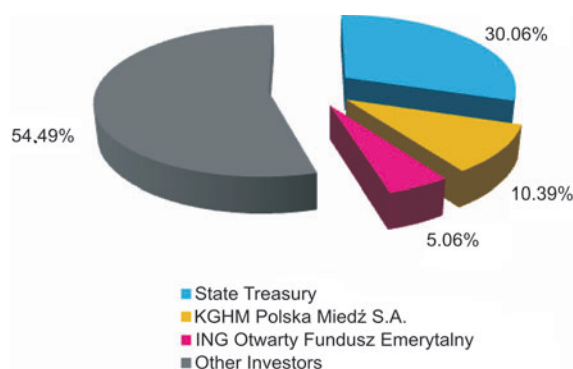
The table below presents the structure of the shareholding of the Company as at 30 June 2014 and on the day of this report.

**Table no. 3. Structure of the shareholding of the Company as at 30 June 2014 and on the day of this report**

No.	Shareholder	Number of shares/ number of votes at GM	Share in share capital/ share in general number of votes
1.	State Treasury	526,848,384	30.06%
2.	KGHM Polska Miedź S.A.	182,110,566	10.39%
3.	ING Otworthy Fundusz Emerytalny (Open Pension Fund)	88,742,929	5.06%
4.	Other individual and corporate investors	954,847,515	54.49%

The figure below presents the structure of the shareholding according to the status as at 30 June 2014 and on the day of this report.

**Figure no. 2. Structure of shareholding as at 30 June 2014 and on the date of this report**



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

Proprietary status of the Company shares or authorisation to the shares held by persons managing and supervising the Company, as at 30 June 2014 and on the day of this report was as follows:

**Table no. 4. Proprietary status of TAURON shares – managing persons**

Name and surname	Number of shares as at 14 May 2014 (publication of report for the 1st quarter of 2014)	Change in number of shares held	Number of shares on the day of the report
Dariusz Lubera	6,576	no change	6,576
Aleksander Grad	0	no change	0
Katarzyna Rozenfeld	0	no change	0
Stanisław Tokarski	30,000	no change	30,000
Krzysztof Zawadzki	27,337	no change	27,337

*no change – lack of any changes*

**Table no. 5. Proprietary status of TAURON shares – supervising persons**

Name and surname	Number of shares as at 14 May 2014 (publication of report for the 1st quarter of 2014)	Change in number of shares held	Number of shares on the day of the report
Antoni Tajduś	0	no change	0
Agnieszka Woś	0	no change	0
Jacek Szyke	0	no change	0
Andrzej Gorgol	–	–	0
Michał Michalewski	–	–	0
Marek Ściążko	0	no change	0

*no change – lack of any changes*

### 2.3. Subject and scope of business operations

The core business of TAURON covers:

- 1) activity of central companies (head offices) and holdings, excluding financial holdings (PKD 70.10 Z),
- 2) electric energy trade (PKD 35.14 Z),
- 3) wholesale of fuel and derivative products (coal, gas and biomass trading) (PKD 46.71 Z),
- 4) gas fuel trade (PKD 35.23 Z).

As the parent entity TAURON fulfils the consolidating and governing function in TAURON Capital Group. Besides the governing function, the core business of the Company involves wholesale electric energy trading on the territory of the Republic of Poland, based on the concession on electric energy trading (OEE/508/18516/W/2/2008/MZn), issued by the President of the Energy Regulatory Office (ERO) for the period from 1 June 2008 until 31 May 2018.

In the 1st half of 2014, the Company also conducted operations in the area of electric energy sales to the selected group of strategic clients. This group of clients included, among others ArcelorMittal, Zakłady Górniczo-Hutnicze “Bolesław”, KGHM, Kompania Węglowa, Katowicki Holding Węglowy S.A., and other entities from various industries demonstrating substantial demand for electric energy. Functions performed in this area also included implementation of the adopted marketing policy of the Company as well as marketing plans in the area of sales to customers of strategic nature, research on product needs related to the energy sale market in order to improve the product offer of the company as well as acquisition of information concerning activities of competition and events occurring in the Company environment. Moreover, the Company coordinated the governance activities in the area of sales, marketing and customer service performed by the companies: TAURON Sprzedaż and TAURON Obsługa Klienta.



The Company is involved in energy trading, i.e. purchase and sales of energy on the wholesale market in the country and abroad. The activities are conducted on the spot market and forward market, both in the scope of financial contracts and in contracts with physical delivery. In Poland, the Company is an active participant of Towarowa Gielda Energii S.A. (Energy Exchange) (TGE) and the OTC (over the counter) platform maintained by the London energy broker. The Company actively participates in auctions of the interconnector exchange of energy transmission capacity on the Polish-Czech, Polish-German and Polish-Slovakian border, administered by the CAO auction office. The trade on the German market mainly takes place through the Paris EPEX and Leipzig EEX exchanges in the scope of trading of financial instruments of "futures" type; besides, transactions on the OTC market are also concluded. On the Czech and Slovakian markets, the Company operates through its subsidiary, TAURON Czech Energy, which is the member of the exchanges: OTE a.s. in the Czech Republic and OKTE a.s. in Slovakia.

It should be indicated that the competence of the Company involves management of certificates of origin for the needs of the TAURON Capital Group, constituting the confirmation of generation of electric energy in renewable sources, in high-performance co-generation, in gas fuelled co-generation, in mining methane fired or biomass burning co-generation, from sources using agricultural biogas, as well as energy effectiveness certificates and guarantees of origin. This activity is based on active controlling of the demand for certificates of origin in TAURON Capital Group and on purchase and sales of those units, for the needs of companies of Generation Area, as well as companies selling electric energy to end consumers, consequently, being subject to the obligation of certificates of origin redemption.

The Company also acts as a competence centre in the area of management of CO<sub>2</sub> emission allowances for the companies of the TAURON Capital Group and sale for the needs of external customers. The centralisation of emission trading enabled to obtain the synergy effect consisting in increasing the effectiveness and efficiency of the process of securing positions in the portfolios of CO<sub>2</sub> emission allowances, with the optimum level of exploitation costs of the existing resources of the entities included in TAURON Capital Group. Parallel to the centralisation of this function in TAURON, the Company is responsible for the settlement of CO<sub>2</sub> emission allowances of individual companies, cost-effective management of the allowances granted, provision of the subsidiaries' emission needs, support in negotiating the future emission allowances limits as well as preparing the companies to the changing framework of the EU ETS (European Union Emission Trading System). While implementing the above goals in the scope of CO<sub>2</sub> emission allowances trading, the Company actively participates in trading on the European Climate Exchange, the EEX and the OTC.

TAURON acts as the Market Operator for companies of TAURON Capital Group and for external customers. Trade balancing is carried out on the basis of the transmission Agreement of 21 August 2008 concluded with the TSO, i.e. Polskie Sieci Elektroenergetyczne S.A. (PSE). TAURON acts as the Scheduling Agent for companies of TAURON Capital Group representing the Generation Area. In accordance with the Instruction on Transmission Grid Operation and Maintenance (IRiESP), the Company currently holds exclusive trade and technical capacity in scheduling coordination, it is responsible for optimisation of generation, i.e. selection of generation units for operation as well as the relevant distribution of loads in order to execute the contracts concluded, taking into consideration technical conditions of the generation units, network constraints and other factors, in various perspectives. Within the services provided to the Generation Area, the Company participates in preparation of renovation plans, plans of dispatching power as well as production plans for generation units, in various time horizons, as well as in their arrangement with the TSO and the Distribution System Operator (DSO).

In accordance with the adopted business model, TAURON fulfils the governance function in the scope of managing the procurement of production fuel, i.e. coal, biomass and gas, for the needs of generation entities included in TAURON Capital Group. In this scope, it is responsible for contracts with fuel suppliers and for optimisation of the delivery process to individual power plants.

The Company has also been building successively its competence in the area of gas fuel trading. After obtaining the required concessions and approval of the Tariff, at the end of 2012 trade of gas to companies of TAURON Capital Group was commenced. On 3 May 2014 a new TAURON Tariff for Gas Fuels entered into force.

TAURON Capital Group gained the opportunity of parallel offering of electric energy and natural gas products to its business Clients. In the framework of the operations started on the gas market, TAURON concluded three first gas contracts with clients outside TAURON Capital Group, for the total volume of approximately 171 GWh. In order to secure these contracts, daily, monthly, quarterly and annual gas products were purchased on the wholesale market.

As of January 2014, TAURON conducts active operations in the area of wholesale gas trading. The Company is an active participant of the following exchanges: TGE in the scope of Day-Ahead Market and Forward Market, EEX in the segments of EEX Spot Market and EEX Derivatives Market. The Company has been registered on the PRISMA European Capacity Platform GmbH enabling active participation in the mechanism of transmission capacity allocation. It provides the opportunity to secure the needs of import or export from/to the national gas system of the German market on competitive basis. The Company also cooperates with the GASPOOL Balancing Service GmbH gas hub, ONTRAS Gastransport GmbH and GASCADE Gastransport operators and customers in the scope of purchase /sale of gas on the Polish and German OTC market.

### 3. BUSINESS OPERATIONS OF TAURON CAPITAL GROUP

#### 3.1. The Core Business Areas of TAURON Capital Group

TAURON Capital Group is a vertically integrated power engineering enterprise holding the leading position in generation, distribution and supply of electric energy in Poland and in Central and Eastern Europe. TAURON Capital Group conducts its operations within the following Business Areas (hereinafter also referred to as Segments):



**Mining**, comprising mainly mining, preparation and sale of hard coal in Poland, provided by TAURON Wydobycie.



**Generation**, comprising mainly generation of electric energy in conventional sources, including co-generation, as well as generation of electric power using biomass burning and co-burning, and other thermally acquired energy. The basic fuels used by Generation Area include hard coal, biomass as well as coke-oven gas and high-methane gas. These activities are carried out by TAURON Wytwarzanie. In January 2014 heat assets comprising Oddział ZEC Bielsko-Biała were separated from the structures of TAURON Wytwarzanie, and subsequently incorporated into TAURON Ciepło S.A. within the process of division of TAURON Wytwarzanie.



**Renewable Energy Sources (RES)**, comprising generation of electric energy from renewable sources (excluding generation of electric energy using biomass co-burning which is assigned to the Generation Area). The activities are conducted by TAURON EKOENERGIA which acquired the subsidiaries: BELS INVESTMENT and MEGAWAT MARSZEWO as of 2 January 2014.



**Heat**, comprising the generation, distribution and sale of heat and, to a lesser extent, other energy products (electric energy, wind of blast furnace, compressed air). The activities are conducted by TAURON Ciepło. As of January 2014 heat assets of ZEC Bielsko-Biała were incorporated into the Heat Area, acquired from TAURON Wytwarzanie in connection with the implementation of the Corporate Strategy in the scope of integration of entities conducting heating operations and consolidation of assets in this area.



**Distribution**, covering the distribution of electric energy using distribution grids located in southern Poland. The activities are conducted by the company TAURON Dystrybucja. This area also comprises companies: TAURON Dystrybucja Serwis and TAURON Dystrybucja Pomiary.



**Sales**, 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 property rights arising from the energy certificates of origin and fuels. Operations in this area are provided by the companies: TAURON, TAURON Sprzedaż, TAURON Sprzedaż GZE and TAURON Czech Energy.



**Customer Service Area**, covering mainly services provided to clients of TAURON Capital Group (both in the scope of sale and supply of energy). Starting from 2013 the activities have been expanded by provision of support services for the companies of TAURON Capital Group in the area of accounting, communication and IT, as a result of centralisation of processes taken over from the companies of TAURON Capital Group. Operations in this area are carried out by the company TAURON Obsługa Klienta.

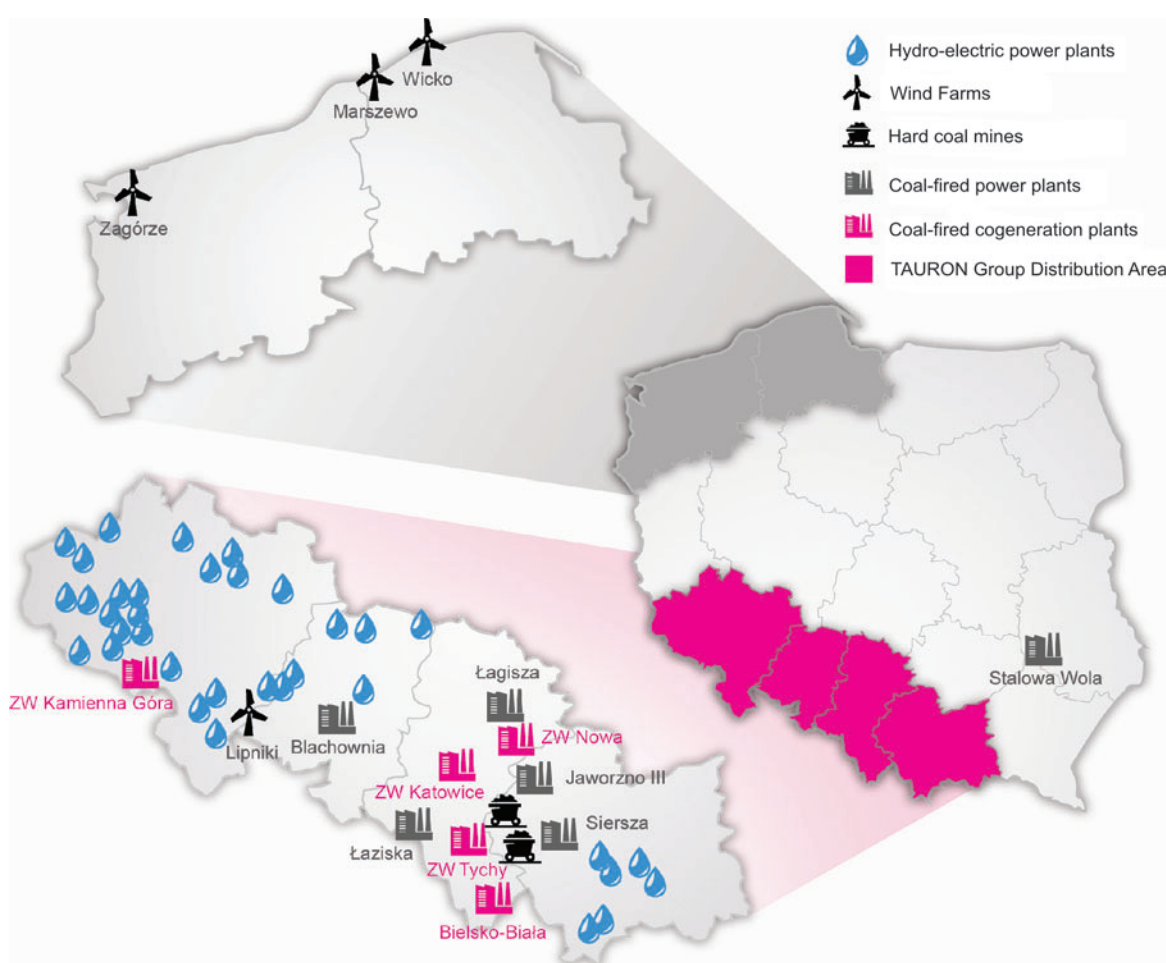


**Other**, comprising mainly activities in the area of extraction of stone, including limestone, for the needs of power engineering industry, metallurgy, construction and road building as well as production of sorbing agents for installations of flue gas desulphurization using the wet method and for the use in fluidized bed boilers (the activity provided by the company KW Czatkowice) as well as operations in the scope of trading of electric energy and derivative products (conducted by the company PEPKH in liquidation).

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 sales of hard coal.

The figure below shows the location of key assets of TAURON Capital Group as well as the distribution area where TAURON Dystrybucja operates, as the DSO.

**Figure no. 3. Location of key assets of TAURON Capital Group**



In the first half and 2nd quarter of 2014, TAURON Group achieved the following key operating parameters:

**Table no. 6. Key operating parameters of TAURON Capital Group (compared to the corresponding periods of the previous year)**

Key operating parameters	unit	1st half 2014	1st half 2013	Dynamics 2014/2013	Q 2 2014	Q 2 2013	Dynamics 2014/2013
Commercial coal production	M Mg	<b>2.55</b>	3.00	85.0%	<b>1.30</b>	1.48	87.8%
Generation of electric energy (net production of the Group), including:	TWh	<b>7.29</b>	9.75	74.8%	<b>3.59</b>	4.60	78.0%
<i>Net production of Generation Area</i>	<i>TWh</i>	<b>6.01</b>	8.66	69.4%	<b>3.01</b>	4.09	73.6%
<i>Net production of Heat Area</i>	<i>TWh</i>	<b>0.90</b>	0.80	112.5%	<b>0.41</b>	0.35	117.1%
<i>Net production of RES Area</i>	<i>TWh</i>	<b>0.37</b>	0.28	132.1%	<b>0.18</b>	0.16	112.5%
Generation of electric energy from renewable sources of the Group, including:	TWh	<b>0.91</b>	0.60	151.7%	<b>0.44</b>	0.32	137.5%
<i>Production of biomass by Generation and Heat Areas</i>	<i>TWh</i>	<b>0.54</b>	0.31	174.2%	<b>0.26</b>	0.15	173.3%
<i>Production of hydroelectric power plants and wind farms of RES Area</i>	<i>TWh</i>	<b>0.37</b>	0.28	132.1%	<b>0.18</b>	0.16	112.5%
Heat generation by the Group, including:	PJ	<b>7.82</b>	9.43	82.9%	<b>1.90</b>	1.94	97.9%
<i>Heat production by Generation Area</i>	<i>PJ</i>	<b>2.40</b>	3.20	75.0%	<b>0.61</b>	0.73	83.6%
<i>Heat production by Heat Area</i>	<i>PJ</i>	<b>5.42</b>	6.22	87.1%	<b>1.29</b>	1.21	106.6%
Distribution of electric energy	TWh	<b>23.88</b>	23.98	99.6%	<b>11.63</b>	11.56	100.6%
Retail sales of electric energy (by Sales, Generation and Heat Areas)	TWh	<b>19.25</b>	20.86	92.3%	<b>9.08</b>	9.92	91.5%
Number of clients – Distribution	thous.	<b>5,359.4</b>	5,313.3	100.9%	<b>5,359.4</b>	5,313.3	100.9%

### 3.2. Significant events and achievements of TAURON Capital Group significantly influencing its operations

The most important events with significant impact on operations of TAURON Capital Group, which occurred in the first half of 2014 include:

#### Events in the 1st half of 2014

##### Extraordinary General Meeting of the Company

On 7 January 2014 the Extraordinary General Meeting of the Company was held, which adopted the amendments to the Articles of Association of the Company, defined the number of members of the Supervisory Board (9 persons) and appointed Mr Aleksander Grad as a member of the Supervisory Board. The amendments to the Articles of Association were aimed at updating the scope of activities and distribution of competence between the statutory corporate bodies of the Company, i.e. the Supervisory Board and the Management Board as well as the streamlining of the text of the Articles of Association and its adjustment to the current needs of the Company. On 15 January 2014, the District Court for Katowice-Wschód in Katowice, 8th Commercial Department of the National Court Register entered the amendments to the Company Articles of Association, adopted by the aforementioned Extraordinary GM of the Company to the register of entrepreneurs of the National Court Register. On 10 February 2014 the Supervisory Board of the Company adopted the consolidated text of the *Articles of Association of TAURON Polska Energia S.A.*, including the aforementioned amendment.

The Company informed of the aforementioned events in the current reports no. 1/2014, no. 2/2014, no. 3/2014 of 7 January 2014, no. 5/2014 of 16 January 2014 and no. 11/2014 of 10 February 2014.

##### Fulfilment of the last condition precedent regarding the transfer of ownership of TAURON Wydobyćie shares to TAURON

On 15 January 2014 the GM of Kompania Węglowa approved the sale of shares of TAURON Wydobyćie. Consequently, the last condition required to transfer the ownership of the said shares to the Company was fulfilled. Currently, TAURON Group holds 100% of shares of TAURON Wydobyćie, authorising it to exercise 100% votes at the GM. Following the payment of the remaining amount, i.e. PLN 77.5 million to the benefit of Kompania Węglowa,



the ownership of the said shares held by Kompania Węglowa was transferred to the Company. Detailed information on the aforementioned event is included in item 1.2.2 hereof.

The Company informed of the fulfilment of the aforementioned condition in the current report no. 6/2014 of 16 January 2014.

#### ***Dismissal and appointment of Supervisory Board member of the Company***

On 22 January 2014 the Company was notified that the State Treasury dismissed Mr. Rafał Wardziński who acted as the Deputy Chairman of the Supervisory Board, from the Supervisory Board of TAURON. The dismissal was performed as of 22 January 2014 pursuant to § 23 section 1 item 3 of the Company Articles of Association.

On 22 January 2014 the Company was notified that the State Treasury appointed Ms Agnieszka Woś as a member of the Supervisory Board of TAURON. The appointment was effective as of 22 January 2014 pursuant to § 23 section 1 item 3 of the Company Articles of Association.

The Company informed of the aforementioned events in the current reports no. 8/2014 of 22 January 2014, no. 9/2014 of 22 January 2014.

#### ***Information on the provision recognised in the annual consolidated financial statements of TAURON Capital Group for 2013, concerning free CO<sub>2</sub> emission allowances which were not received in 2013***

On 28 January 2014 the Company informed of anticipated impact of a non-cash one-off event in the form of the provision recognised in annual consolidated financial statements of TAURON Capital Group and related to free greenhouse gas emission allowances in the Generation and Heat Segments, which were not received in 2013. In accordance with the adopted accounting policy, the provision for emission allowances of gases that are included in emission allowance scheme is charged against (taxes and charges) in the case when the actual emission level exceeds the volume of free emission allowances held by the TAURON Group on the balance sheet date. The provision to cover the cost of deficit is charged to the value of emissions purchased or contracted for this purpose, at arm's length prices as of the balance sheet date, in relation to unhedged deficit of allowances (if such situation occurs).

Pursuant to Directive 2003/87/EC of the European Parliament and of the Council of 13 October 2003 *establishing a scheme for greenhouse gas emission allowance trading within the Community and amending Council Directive 96/61/EC*, TAURON Capital Group is entitled to receive free emission allowances pursuant to Article 10c of the Directive ("derogation allowances"). TAURON Capital Group applied for derogation allowances, however as they had not been allocated until 31 December 2013, which, in accordance with the adopted accounting policy prevents the possibility to recognise derogation allowances when calculating the amount of the provision for carbon dioxide emissions, the provision due to emission in the consolidated financial statements of the TAURON Capital Group for 2013 was higher than initially estimated by approximately PLN 270,000 thousand (about 260,000 thousand in Generation Segment and by about PLN 10,000 thousand in Heat Segment) – which respectively decreased EBITDA result by the same amount. Recognition of the provision reduced the net financial result of TAURON Capital Group for 2013 by the amount of about PLN 219,000 thousand.

At the same time, the Company has informed that due to the applied policy of risk management and securing the market position in the scope of emission allowances, TAURON Capital Group companies hold in their registers of carbon dioxide emission allowances the amount of allowances sufficient to cover the 2013 emissions. The allowances were initially purchased to be used in the consecutive years and the related expenses have not been recognised in costs for 2013.

The Company informed of the aforementioned event in the current report no. 10/2014 of 28 January 2014.

#### ***The Supervisory Board member delegated to perform the duties of the member of the Company Management Board***

On 10 February 2014 the Supervisory Board of TAURON adopted the resolution on delegating the member of the Supervisory Board, Mr Aleksander Grad, to the temporary performance of the duties of Vice President of the Management Board of TAURON from 11 February 2014 until 11 May 2014.

The Company informed of the aforementioned event in the current report no. 12/2014 of 10 February 2014.

#### ***Extended validity of the offer of RAFAKO S.A. – MOSTOSTAL WARSZAWA S.A. consortium for construction of the power unit at Elektrownia Jaworzno III***

On 27 February 2014 the Company was informed of the extension (until 30 April 2014 inclusive) of the binding validity of the offer submitted by the consortium of RAFAKO S.A. – MOSTOSTAL WARSZAWA S.A. under the pending tender procedure concerning the selection of the general contractor for the construction of the energy unit of the 800–910 MW capacity range at Elektrownia Jaworzno III. The Consortium also submitted an annex to the bank bid bond extending the validity of this guarantee until 30 April 2014, inclusive.

The Company informed of the aforementioned event in the current report no. 13/2014 of 27 February 2014.

### **Resignation of a Member of the Supervisory Board**

On 17 March 2014, the Member of the Supervisory Board, Mr Aleksander Grad, resigned from his function of the Member of the Supervisory Board, delegated to the temporary performance of the Vice President of the Management Board, with the effect as of 17 March 2014. In connection with the expiration of the mandate of the above mentioned Member of the Supervisory Board, the time for which he was delegated to temporarily perform the duties of the Vice President of the Management Board was reduced and ended on the day the above resignation was submitted.

The Company informed of this event in the current report no. 14/2014 of 17 March 2014.

### **Dismissal and appointment of Members of the Company Management Board**

On 17 March 2014 the Company Supervisory Board took the decision on the dismissal of the entire Management Board of TAURON. Accordingly, upon the adoption of applicable resolutions, on 17 March 2014 the Supervisory Board of the Company dismissed the following Members of the Management Board: Mr Dariusz Lubera – President of the Management Board, Ms Joanna Schmid – Vice President of the Management Board, Mr Dariusz Stolarczyk – Vice President of the Management Board, Mr Krzysztof Zawadzki – Vice President of the Management Board.

At the same time, the Company Supervisory Board took the decision on the appointment of the Management Board of the Company for the 4th common term of office. Accordingly, pursuant to the relevant resolutions, as of 17 March 2014 the Supervisory Board appointed the following Members of the Management Board of the Company for the 4th common term of office. Mr. Dariusz Lubera entrusting him with the function of President of the Management Board, Mr. Aleksander Grad entrusting him with the function of Vice President of the Management Board for Corporate Affairs, Ms. Katarzyna Rozenfeld entrusting her with the function of Vice President of the Management Board for Commercial Affairs, Mr. Stanisław Tokarski entrusting him with the function of Vice President of the Management Board for Strategy and Development, Mr. Krzysztof Zawadzki entrusting him with the function of Vice President of the Management Board for Economics and Finance.

The Company informed of the aforementioned event in the current reports no. 15/2014 and no. 16/2014 of 17 March 2014.

### **Signing the agreement with PSE for the cold intervention reserve**

On 26 March 2014, TAURON Wytwarzanie signed an agreement with PSE for the provision of the cold intervention reserve service to the PSE, comprising units no. 3 and 6 in Elektrownia Siersza and unit no. 8 in Elektrownia Stalowa Wola, belonging to TAURON Wytwarzanie. The total installed capacity of the units covered by the reserve is 376 MW. The service will be provided in the years 2016–2017, with a possibility to extend it until 2019.

The provision of the cold intervention reserve is based on dispatching and using the generation units by the TSO for intervention balancing of active power balance to maintain the operational security of the National Power System (KSE) after 2015. The providers of the new service may include centrally dispatched units which were to be permanently decommissioned after 2016 due to technical, economic and environmental reasons. The extension of the lifetime of the old power blocks is expected to provide for safe level of power reserves until the new generation sources appear in the electric power system.

### **Implementation of the service of operational power reserve**

In connection with the amendment introduced to the IRIESP, since the beginning of 2014, the payment mechanism due to the operational power reserve has been functioning. The operational power reserve refers to the generation capacity of active, centrally dispatched generation units, and its settlement is performed exclusively for the peak hours of demand, i.e. between 7:00 a.m. and 10:00 p.m. on all business days. At the same time, this mechanism was undoubtedly one of the factors stimulating the growth of electric energy prices in the SPOT markets and in the Balancing Market on peak hours covered by the payment for the reserve.

### **Recommendation of the Management Board on dividend payout**

On 15 April 2014 the Management Board of the Company made the decision concerning the recommendation to the Company Ordinary GM concerning the level of dividend to be paid to the Company shareholders in the amount of PLN 262,882,409.10, from the net profit generated in 2013, which means that the amount of PLN 0.15 per single share. At the same time the Management Board indicated that this recommendation should be subject to assessment by the Company Supervisory Board. Simultaneously, the Management Board decided to submit the recommendation to the Company Ordinary GM defining:

- 1) 14 August 2014 as the dividend record day,
- 2) 4 September 2014 as the dividend payment day.

The recommendation of the Management Board regarding the amount of dividend to be paid to Company shareholders was prepared after taking into account the current TAURON Capital Group development plan comprising the implementation of the adopted investment programme requiring significant financial resources exceeding the current cash flows from TAURON Group operating activities. The funds to remain in the Company will be used in total for the execution of the investments, at the same time, reducing the demand for further financing and limiting the increase of debt ratio. On 18 April 2014 the decision of the Management Board concerning the dividend payment was positively assessed by the Supervisory Board.

On 15 May 2014 the Ordinary General Meeting of the Company adopted the resolution on profit distribution for the financial year 2013 and defining of the amount allocated for payment of the dividend to shareholders, the dividend record day and the dividend payment day.

In accordance with the aforementioned resolution, the Ordinary GM allocated the amount PLN 350,509,878.80 for payment of the dividend for shareholders from the net profit for the financial year 2013, which means that the amount of the dividend per share was PLN 0.19. Simultaneously, the General Meeting defined the dividend record day for 14 August 2014 (the day of dividend) and the date of the dividend payment for 04 September 2014 (the day of dividend payment).

The Company informed of the aforementioned events in the current reports no. 18/2014 of 15 April 2014, no. 21/2014 of 18 April 2014 and 63/2014 of 15 May 2014.

***Conclusion of the material agreement with the consortium RAFAKO S.A. – MOSTOSTAL WARSZAWA S.A., for construction of power unit at Elektrownia Jaworzno III***

On 17 April 2014 the subsidiary, TAURON Wytwarzanie, as the Ordering Party, concluded the agreement with the consortium of RAFAKO S.A. (Rafako) – MOSTOSTAL WARSZAWA S.A. (MOSTOSTAL), as the Contractor, concerning the construction of 910 MW<sub>e</sub> ultra-supercritical unit at Elektrownia Jaworzno III – Elektrownia II, in the scope of: steam boiler, turbine set, main building, electrical and process control system and automatic system of the unit. The Contract has been concluded under the following terms and conditions:

1. The subject of the Contract is the design and construction by the Contractor on a turn-key basis of 910 MW<sub>e</sub> gross capacity ultra-supercritical unit consisting of steam boiler, turbine set, main building and electrical and process control system and automatic system of the unit.
2. The remuneration of the Contractor for the delivery of the subject of the Contract amounts to PLN 4,399,038,500 net and will be increased by applicable VAT. The remuneration payable to the Contractor is a lump sum remuneration. Pursuant to the agreement, RAFAKO is responsible for execution of 99.99% of works covered by the Contract and is entitled to receive remuneration corresponding to the above mentioned share in works required by the Contract.
3. The deadline for the completion of the subject of the Contract is 59 months starting from the date of signing the Contract.
4. The Contractor is entitled to receive an advance payment for execution of the Contract in the amount of 10% of gross remuneration. To receive the advance payment, the Contractor is obliged to submit to the Ordering Party an advance payment guarantee for the amount of the advance payment.
5. The Contractor has submitted to the Ordering Party a performance guarantee in the form of bank guarantees and insurance guarantee and in money, to the amount required for the subject Contract to be effective. Pursuant to the Contract, the amount of the Performance Bond is 10% of the Contractor's gross remuneration. Once the unit is commissioned, the Performance Bond will be reduced to 3% of the Contractor's gross remuneration and should also secure the Ordering Party's claims under implied warranty for defects in the subject of the Contract over a warranty period of 24 months following the date of commissioning of the unit and final acceptance of the unit by the Ordering Party, however, some elements of the unit are covered by an extended warranty of 60 months.
6. The Ordering Party is entitled to calculate liquidated damages in the case of undue performance of the Contract by the Contractor up to the total amount of 25% of net remuneration payable to the Contractor. The Ordering Party is entitled to claim compensation exceeding liquidated damages defined in the Contract.
7. The Contractor shall be liable for due performance of the Contract by subcontractors hired to perform the Contract.

The Project is in line with the Corporate Strategy which stipulates building of the sustainable generation portfolio consisting of units based on coal, gas technologies and renewable energy sources. The investment in the construction of the generation unit at Elektrownia Jaworzno III shall contribute to securing TAURON Capital Group position as the second largest electricity generator on the domestic market. The Contract is recognised as a material agreement due to the fact that its value exceeds 10% of equity of the Company.

The Company informed of the aforementioned event in the current report no. 19/2014 of 17 April 2014.



### ***Signing the agreement concerning the contract for the construction of the generation unit at Elektrownia Jaworzno III***

With reference to the current report no.19/2014 of 17 April 2014, on 17 April 2014, TAURON Wytwarzanie, as the Ordering Party, concluded the agreement with the consortium of RAFAKO S.A. – MOSTOSTAL WARSZAWA S.A., and the companies: Siemens sp. z o.o. and Siemens Aktiengesellschaft (hereinafter referred to as: Siemens), Rafako's subsidiary – E003B7 Sp. z o.o. (SPV-Rafako) and Bank Gospodarstwa Krajowego, PKO BP S.A. and PZU S.A. (hereinafter jointly referred to as: Financial Institutions), defining the terms and conditions of cooperation between the parties regarding Contract execution (the Agreement). Pursuant to the Agreement, the Ordering Party approved the text of the subcontractor agreement between Rafako and SPV-Rafako (SPV-Rafako Subcontractor Agreement) and agreed to conclude it, and parties to the Agreement decided that SPV-Rafako should perform their obligations under the SPV-Rafako Subcontractor Agreement to the benefit of the Ordering Party. In addition, the Ordering Party approved the text of the subcontractor agreement between SPV-Rafako and Siemens referred to in the current report no. 16/2014 of 15 April 2014 (Siemens Subcontractor Agreement) and agreed to conclude it.

Pursuant to the Agreement:

- the parties agreed that for the works performed by SPV-Rafako under the SPV-Rafako Subcontractor Agreement, in order to fulfil the Ordering Party's obligation to pay remuneration to RAFAKO under the Contract and RAFAKO's obligation to pay remuneration to SPV-Rafako under SPV-Rafako Subcontractor Agreement, the Ordering Party has undertaken to pay remuneration for Contract execution directly to SPV-Rafako in the form of transfer within the meaning of Article 921(1) of the Civil Code;
- the parties agreed that for the works performed by Siemens under the Siemens Subcontractor Agreement, in order to fulfil the Ordering Party's obligation to pay remuneration to RAFAKO under the Contract, RAFAKO's obligation to pay remuneration to SPV-Rafako under SPV-Rafako Subcontractor Agreement and SPV-Rafako's obligation to pay remuneration to Siemens under Siemens Subcontractor Agreement, the Ordering Party has undertaken to pay remuneration for Contract execution directly to Siemens in the form of transfers within the meaning of Article 921(1) of the Civil Code;
- the parties agreed that performance bond, referred to in current report no. 19/2014 item 5, will be submitted so that a part of the performance bond will be submitted in the form of bank and insurance guarantees issued by Financial Institutions upon SPV-Rafako's request, and the Ordering Party will be the beneficiary of such guarantees, and a part of the performance bond will be submitted by RAFAKO in money out of which PLN 40 million has been submitted by RAFAKO prior to the conclusion of the Contract and PLN 30 million will be submitted within 6 months following signing of the Agreement, at the latest;
- the parties agreed on the method of advance payment by the Ordering Party under the Contract (referred to in current report no. 19/2014 items 4 and 5) as well as the procedure for submitting the advance payment guarantee to the Ordering Party;
- RAFAKO undertakes to provide SPV-Rafako with the necessary support in execution of the Agreement and SPV-Rafako Subcontractor's Agreement by making the relevant resources available, in particular, the technical, financial and human resources, to SPV-Rafako.

The Company informed of the aforementioned event in the current report no. 20/2014 of 17 April 2014.

### ***Approval of the tariff for gas fuels by the ERO President***

On 18 April 2014 the Company was informed that the tariff for gas fuels had been approved by the President of ERO. The tariff entered into force as of 3 May 2014 and it shall be effective over a period of 12 months following the date of entry into force. The rates included in the tariff approved, in accordance with the new legal requirements in this scope, are expressed in two units, i.e. in m<sup>3</sup> for a period from the tariff entering into force to 31 July and in MWh starting from 1 August.

### ***Ordinary General Meeting of TAURON***

On 15 May 2014 the Ordinary General Meeting of the Company was held, which, among others, adopted the resolutions on approval of the Consolidated financial statements of TAURON Capital Group and the Report of the Management Board on Activities of the TAURON Capital Group for the financial year 2013, Financial statements of TAURON and the Report of the Management Board on activities of the Company for the financial year 2013, on acknowledgement of the fulfilment of duties by members of the Management Board and the Supervisory Board of the Company, on profit distribution for the financial year 2013 and determination of the amount of the dividend for shareholders as well as defining the dividend record day and dividend payment day.

The Company informed of the aforementioned event in the current reports no. 24/2014 and no. 25/2014 of 15 May 2014.

### **Merger of TAURON Ciepło S.A. and Enpower service**

On 30 April 2014 the merger of companies: Enpower Service (the Acquiring Company) and TAURON Ciepło S.A. (the Acquired Company) was registered. At the same time, the change of the Acquiring Company name to "TAURON Ciepło sp. z o.o." occurred. The detailed description of this event is included in item 1.2.2. hereof.

### **Appointment of members of the Company Supervisory Board**

On 15 May 2014 the Minister of Treasury, acting pursuant to § 23 section 1 item 1) and 3) of the Company Articles of Association appointed the following persons as members of the Supervisory Board for the 4th common term of office as of 15 May 2014: Andrzej Gorgol, Michał Michalewski, Marek Ściążko, Antoni Tajduś, Agnieszka Woś.

Moreover, the Ordinary GM of the Company, acting pursuant to § 22 section 1 of the Company Articles of Association adopted the resolution on appointment of Jacek Szyke as the member of the Supervisory Board for the 4th common term of office as of 15 May 2014.

The Company informed of the aforementioned event in the current report no. 26/2014 of 15 May 2014.

### **Update of Corporate Strategy**

On 2 June 2014 the Company Management Board adopted and the Supervisory Board issued a positive opinion on the document entitled *Corporate Strategy of TAURON Group for 2014–2017 with an outlook until 2023* (Corporate Strategy). The adopted document is an update of the *Corporate Strategy of TAURON Group for 2011–2015 with an outlook until 2020*. Following three years of implementation of the Corporate Strategy of TAURON Capital Group, adopted for years 2011–2015, with an outlook until 2020, the activities undertaken so far have been comprehensively reviewed, their performance was evaluated, and also the assumptions adopted in the former economic, market and regulatory environment have been verified in detail. When updating the Corporate Strategy the changing regulatory regime, market environment and general trends in the energy sector were taken into account, among which the most important factors affecting the sector are the EU and national regulations related to the conditions for the functioning of the energy sector in Poland, including, in particular, the energy and climate package – achievement of the 3x20 targets, the Polish Act on Energy Efficiency, Energy Efficiency Directive, European Union (EU) assistance funds, European Commission activities aimed at emission abatement, the Polish energy regulations package, regulations related to electricity distribution and development of smart technologies, Energy Policy of Poland until 2030, the Polish Nuclear Power Program and Energy Roadmap 2050.

Neither the mission and vision, nor the overriding objective and the main targets of TAURON Capital Group have changed. The mission is still "To ensure energy supply for our customers based on best practices that guarantee an increase of shareholder value", whereas the vision assumes: "To become one of the leading energy companies in the region". The overriding strategic goal remains to provide for constant increase of value ensuring the secure return on the invested capital for shareholders. The value will continue to be measured on the basis of major indicators of value development, i.e. EBITDA and ROIC level growth. Four main objectives of the TAURON Capital Group have not changed, i.e.:

1. Growth in the most attractive lines of business.
2. OPEX and CAPEX efficiency in line with best practices.
3. Management of exposure to market and regulatory risks.
4. Building of effective organisation.

In the Generation, Heat and RES areas, TAURON is planning to restore and increase installed generation capacity up to the level of approximately 6.15 GW in 2023 from the current 5.4 GW. The growth will be associated with the commissioning of high efficiency hard coal and gas fired generation units, as well as wind farms. Within further perspective, it is planned that the energy mix will also include nuclear energy through the involvement of TAURON Capital Group in the construction of such a unit jointly with strategic partners. Distribution and Sale Areas will also be important growth drivers. The total capital expenditures of TAURON Capital Group in 2014–2023 will reach approximately PLN 37 bn (including ab. PLN 29 bn in 2014–2020). The revised strategy confirms the validity of the investment projects in progress. Within the planned investment projects the target is to commission generation units at a level of approximately 2200 MW, including, in particular:

- 1030 MW from hard coal fired units (910 MW at Elektrownia Jaworzno III, co-generation capacity: 55 MW at Zakład Wytwarzania Nowa, 65 MW at Zakład Wytwarzania Tychy),
- approximately 675 MW from gas fired units (225 MW at Elektrociepłownia Stalowa Wola and about 450 MW at Elektrownia Łagisza),
- approximately 500 MW in wind energy.

In 2023, TAURON Capital Group will have wind farms with total capacity of approximately 700 MW which will allow Tax Capital Group to accomplish its RES capacity goal at a level of 800 MW (including biomass). Investments in subsequent wind farms are conditional on the support mechanisms introduced under the ultimate law on Renewable Energy Sources and they will be financed through off-balance sheet vehicles of TAURON Capital Group. In 2014, 92% of the installed generation capacity in TAURON Capital Group comes from hard coal fired units. In 2023 this share will drop to approximately 74%, including 25% coming from state-of-the-art, high efficiency hard coal fired units. The share of low emission technologies, i.e. gas, wind, hydro, biomass, will reach approximately 26%. In view of the need to develop a diversified generation portfolio which is the consequence of, among others, growing constraints related to the CO<sub>2</sub> emission, TAURON Capital Group undertakes measures aimed at participating in the nuclear power plant construction project in Poland. The undertaking will be carried out by joining the special purpose vehicle established by PGE, i.e. purchasing a 10% stake in the special purpose vehicle share capital from PGE. The total CAPEX in the Distribution Area will reach approximately PLN 21.1 bn, mainly for the connection of new customers and power generation sources as well as the associated construction of the grid and modernisation and replacement of the existing assets.

The updated Corporate Strategy focuses on the development of a management model for the research and development area in TAURON Capital Group. The goal of effective management of research and development activities in subsidiaries of TAURON Capital Group is to intensify innovation development processes and maximize benefits arising from the access to knowledge and experience gained by implementing such undertakings. In view of opportunities and challenges faced by the energy sector it is also necessary to improve the effectiveness of applying for external funds to be used for innovations.

The Company informed of the aforementioned event in the current report no. 28/2014 of 2 June 2014.

#### ***Agreement of Understanding of Polish energy groups related to innovation***

On 26 June 2014, four biggest Polish energy enterprises: ENEA S.A., Energa S.A., PGE and TAURON signed a letter of intent concerning close cooperation in the scope of research, development and innovation and joint implementation of projects related to research and development. The main goal is the intensive search for technological solutions corresponding to the key challenges faced by the Polish energy sector.

The selected research projects will concentrate, among others, on the reduction of emission in the process of electric energy generation as well as increasing the effectiveness of energy distribution and use. The development of smart distribution and transmission grids is also essential, to assist the implementation of such projects as "smart house" or storage of electric energy. The coordinated process of research works will not only provide the added value in the form of scale effect and technological synergy, but it will also contribute to the more comprehensive exploitation of the Polish scientific and research potential, which will provide a significant development stimulus for the regional academic centres, business partners and for the whole economy.

Joining the efforts of the partners of the agreement on the platform of research and development projects will also enable more effective use of EU funds allocated for innovation, available in the years 2014–2020, as well as facilitate and allow for more flexible acquisition of additional external capital. At the next stage of cooperation the signatories of the letter of intent plan to develop optimum mechanisms for implementation of research and development projects, adequate to the regulatory, formal and legal and business requirements.

The above activity is included in the implementation of the goals defined in the updated Corporate Strategy which focuses on the model of management of the research and development area in TAURON Capital Group. The goal of effective management of research and development activities in subsidiaries of TAURON Capital Group is aimed at intensifying the innovation development processes and maximising the benefits arising from the access to knowledge and experience gained by implementing such undertakings. It is also required to improve the effectiveness of applying for external funds for innovation in view of the opportunities and challenges faced by the power engineering sector.

#### **Events after 30 June 2014**

##### ***Winding up and liquidation of the PEPKH subsidiary***

On 2 July 2014 the Extraordinary GM of the company acting under the enterprise name PEPKH, adopted the resolutions on winding-up and liquidation of the PEPKH company, in which TAURON holds 100% interest in the share capital and 100% share in the general number of votes at the GM. The above mentioned Extraordinary GM appointed liquidators of the PEPKH company: Ms Joanna Krukowska-Korombel and Ms Iwona Kliś. The aforementioned resolutions entered into force on the day of their adoption. The decision on the liquidation of the PEPKH company has been taken for economic reasons and it is also an element of the reorganisation measures intended to simplify and streamline the structure of TAURON Capital Group. Revenues generated by the liquidated company in 2013 constituted approximately 1% of the TAURON Capital Group revenues.

The Company informed of this event in the current report no. 29/2014 of 2 July 2014.

**Exceeding of the 10% equity threshold of the Company within the trading turnover between TAURON Capital Group companies and PSE Group companies**

On 7 July 2014, the Company received from PSE documents concerning the mutual provision of services to companies of TAURON Capital Group, enabling the settlement with PSE Group companies, with reference to the current reports: no. 1/2012 of 5 January 2012, no. 37/2012 of 7 November 2012 and no. 42/2013 of 15 October 2013, regarding trade turnover between companies of TAURON Capital Group and PSE. In accordance with the aforementioned documents, as of 15 October 2013, i.e. as of the day of issue of the current report no. 42/2013, the net turnover generated between companies of TAURON Capital Group and companies of PSE Group amounted to about PLN 2,035 million (including approximately PLN 1,389 million of cost items for TAURON Capital Group companies, and about PLN 646 million of revenue items), accordingly, the value of turnover exceeded 10% of the Company equity.

The turnover of the highest value, i.e. about PLN 707 million net, was generated under the agreement of 16 December 2013, concluded between TAURON Dystrybucja and PSE. The subject of the aforementioned Agreement, concluded for indefinite period of time, is the provision of transmission services by PSE, understood as the transport of electric energy via the transmission grid. Its estimated value over a period of 5 years following its conclusion, is about PLN 6,661 million. The settlements for the services are conducted in accordance with the rules and rates approved by the President of the ERO, defined in the tariff, and taking into account the provisions of the IRIESP. The above mentioned Agreement does not stipulate any liquidated damages and it does not contain any conditions precedent or terminating conditions.

The Company informed of the aforementioned event in the current report no. 30/2014 of 8 July 2014.

**Signing the agreement of the consortium establishing the Motorway of Technology and Innovation Institute**

On 15 July 2014, 23 institutions, including: 18 universities, 2 institutes and 3 enterprises (including TAURON) signed the agreement of the consortium establishing the Motorway of Technology and Innovation Institute. The leaders of the venture are two Polish technical universities: Wrocław University of Technology and AGH University of Science and Technology. The partners of the consortium will closely collaborate on implementation of large research and development projects, and they also intend to concentrate their activities within the substantive areas compliant with the research fields defined by the project on *Technological Foresight of Industry – InSight 2030* as well as with the national and regional smart specialisations.

**Confirming of the Fitch agency rating for TAURON**

On 18 July 2014, the Fitch rating agency informed of their decision to sustain the rating for the Company in foreign and local currency at the “BBB” level, with stable perspective. According to the Fitch agency, the ratings reflect the leading position of TAURON Capital Group in electric energy distribution and generation segments in Poland. Significant share of stable and predictable distribution segment in the EBITDA result (60% in 2013) has a positive impact on the rating. The ratings are limited by weaker financial results of the generation segment, low diversification of fuels (dominating position of hard coal) and the increasing leverage resulting from major capital expenditures spent on replacement and development of generation capacity.

The Company informed of the aforementioned event in the current report no. 31/2014 of 18 July 2014.

**Shareholder's request to convene Extraordinary GM of TAURON and include particular items on the agenda**

On 29 July 2014 the Company, in electronic form, a request from KGHM – the shareholder representing 10.39% of the share capital of the Company, to convene an urgent Extraordinary General Meeting of the Company, pursuant to the Company Articles of Association and the By-Laws of the Company General Meeting, and to include an item concerning supplementary election of new members of the Company Supervisory Board on the agenda of the Meeting. In the rationale KGHM stressed that extending the current composition of the Supervisory Board will enable wider representation of shareholders in the Supervisory Board and have a positive impact on implementation of statutory responsibilities of this governing body.

The Company informed of the aforementioned event in the current report no. 32/2014 of 30 July 2014.

### **Convening of the Extraordinary General Meeting of TAURON**

On 5 August 2014, in connection with the request of the shareholder, KGHM, the Management Board of TAURON, acting pursuant to Article 395 § 1, Article 399 § 1 and Article 402<sup>1</sup> of the Ksh and § 30 item 1 of the Company Articles of Association, convened the Extraordinary GM of the Company for 1 September 2014 at 11 a.m. in Hotel Angelo in Katowice at ul. Sokolska 24, including an item on the agenda concerning supplementary elections of new members of the Company Supervisory Board.

The Company informed of the aforementioned event in the current report no. 33/2014 of 5 August 2014. The texts of draft resolutions of the Extraordinary GM were provided in the current report no. 34/2014 of 5 August 2014.

### **Signing the Partnership Agreement with ArcelorMittal**

On 11 August 2014, TAURON, together with companies of TAURON Capital Group (i.e. TAURON Wytwarzanie and TAURON Ciepło) and ArcelorMittal, together with companies of ArcelorMittal Group, concluded the Partnership Agreement concerning the establishing of an entity implementing the investment and operating tasks in the area of industrial power engineering. The common entity will be established as a result of separation of Zakład Wytwarzania in Dąbrowa Górnicza from TAURON Ciepło, the Branch of Elektrownia Blachownia from TAURON Wytwarzanie, Elektrociepłownia Kraków from ArcelorMittal and contribution of the ArcelorMittal Energy Ostrava s.r.o. company by ArcelorMittal Ostrava. All the contributed energy assets closely cooperate with ArcelorMittal plants, respectively, in Poland and in the Czech Republic. In the project, the balance of the shares acquired, votes at the GM and persons to be appointed to the governing bodies of the company was agreed (50/50%). The goal of the parties to the Partnership Agreement is to achieve the return on engaged assets at the expected level and, among others, the implementation of an investment programme adjusting the assets to the environmental requirements, as well as possibly full exploitation of metallurgical gas for the production of power media. The Agreement was signed for a period of 15 years, with a possibility of its extension.

## **3.3. Information on transactions**

### **3.3.1. Material transactions with affiliated entities concluded under conditions other than on arm's length basis**

All transactions with affiliated entities are concluded on arm's length basis.

Detailed information on significant transactions with affiliated entities has been provided in note 31 of the Consolidated interim financial statement for the period of six months, ended on 30 June 2014.

### **3.3.2. Information on guarantees, loans or credit sureties granted**

In the reporting period covering the 1st half of 2014, neither the Company nor its subsidiaries granted any loan or credit sureties or guaranties – jointly to one entity or such entity's subsidiary, where the aggregate value of the existing guarantees or sureties would be equivalent to the value of at least 10% of the Company equity.

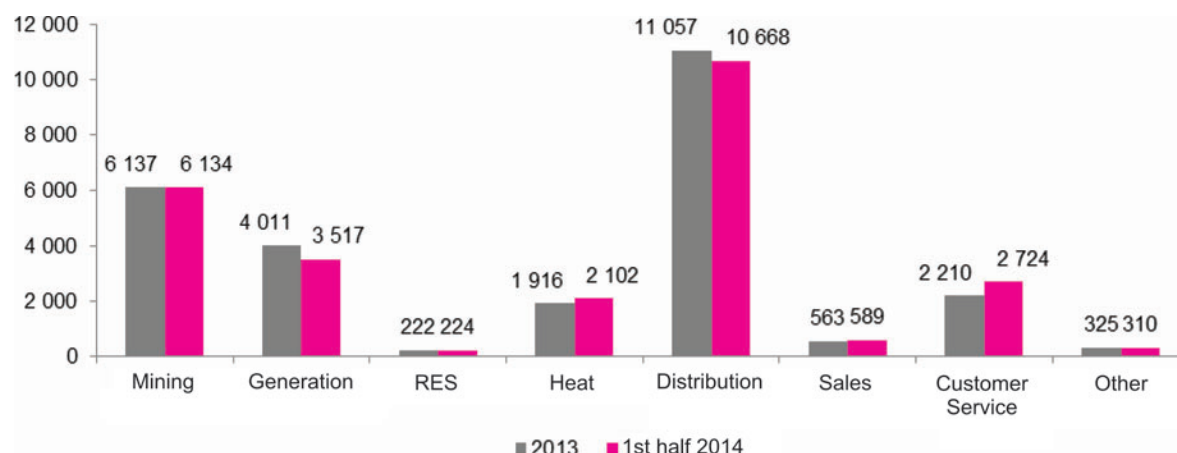
## **3.4. Employment in TAURON Group**

In the 1st half of 2014, the average employment in TAURON Capital Group in FTEs reached 26,270 FTEs, which means the decrease against the average employment in 2013, which amounted to 26,441 FTEs.

The figure below shows the levels of average employment in TAURON Capital Group in FTEs (rounded up to the full FTE), in 2013 and in the 1st half of 2014, divided into Segments of operations in the years 2013–2014.



**Figure no. 4. Average employment in TAURON Capital Group in 2013 and in the 1st half of 2014\* – FTEs**

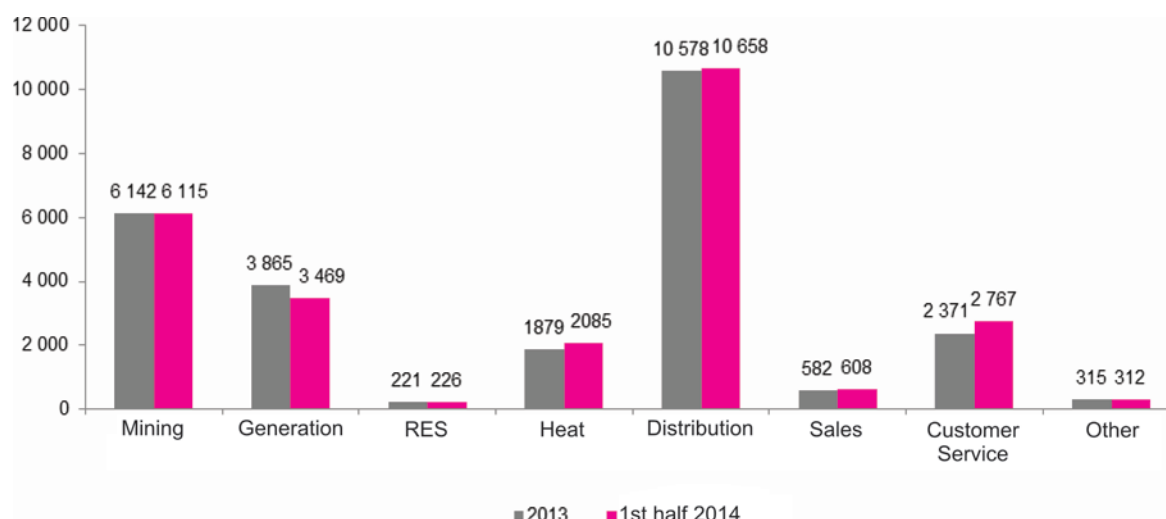


\* The average employment comprises the TAURON Dystrybucja Pomiary, company which, since 1 January 2014, has been covered by the consolidated reporting, and the AUTOZET and EL-AUTO companies, which were incorporated into TAURON Dystrybucja Serwis as of 30 April 2014.

Changes in the level of the average employment in individual Areas in the 1st half of 2014, as compared to the average employment in 2013, result, among others, from the Voluntary Redundancy Programmes implemented in the following Areas: Distribution, Generation, Heat, Customer Service, as well as from the migration of employees between individual Areas (in particular, migration of employees to the Customer Service and Heat Areas), acquisition of employees from the AUTOZET and EL-AUTO companies by TAURON Dystrybucja Serwis. Moreover, since 2014 the TAURON Dystrybucja Pomiary company has been included in the consolidated reporting.

The figure below presents the employment in TAURON Capital Group in persons according to the status as at 31 December 2013 and 30 June 2014

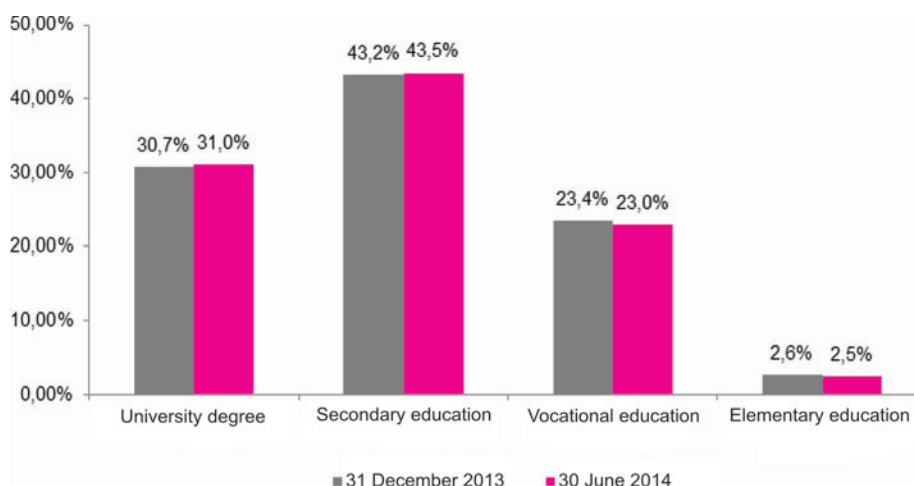
**Figure no. 5. Employment in TAURON Capital Group in persons according to the status as at 31 December 2013 and 30 June 2014 – individuals**



As at 30 June 2014, 26,240 people were employed in the companies of TAURON Capital Group. The increase in employment by 287 persons was recorded, as compared to the employment status as at 31 December 2013 which reached 25,953 persons. The growth of employment results, among others, from the acquisition of 92 employees of the AUTOZET and EL-AUTO companies by TAURON Dystrybucja Serwis, and covering of the TAURON Dystrybucja Pomiary company by the consolidated reporting (453 persons were covered as of 1 January 2014).

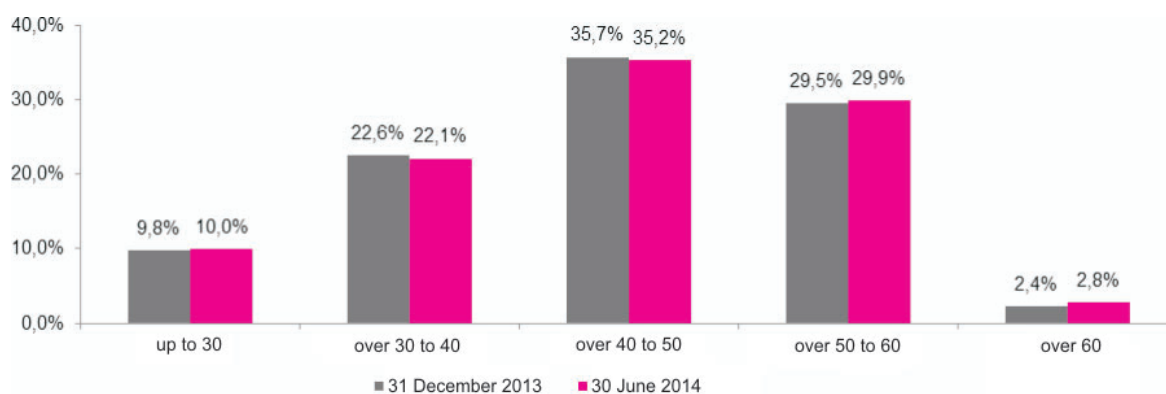
The figure below presents the structure of education in TAURON Capital Group according to the status as of 31 December 2013 and 30 June 2014.

**Figure no. 6. Employment structure in TAURON Capital Group according to the status as at 31 December 2013 and 30 June 2014 – education**



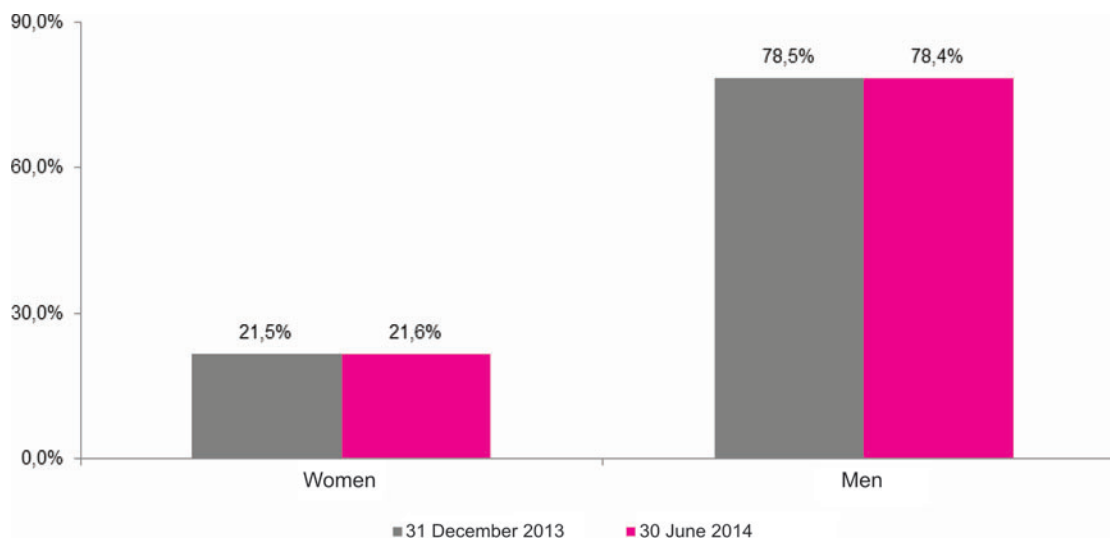
The figure below presents the age structure of employment in TAURON Capital Group according to the status as at 31 December 2013 and 30 June 2014.

**Figure no. 7. Employment structure in TAURON Capital Group according to the status as at 31 December 2013 and 30 June 2014 – age**



The figure below presents the structure of employment in TAURON Capital Group, in terms of gender, according to the status as at 31 December 2013 and 30 June 2014.

**Figure no.8. Employment in TAURON Capital Group according to the status as at 31 December 2013 and 30 June 2014 – gender**



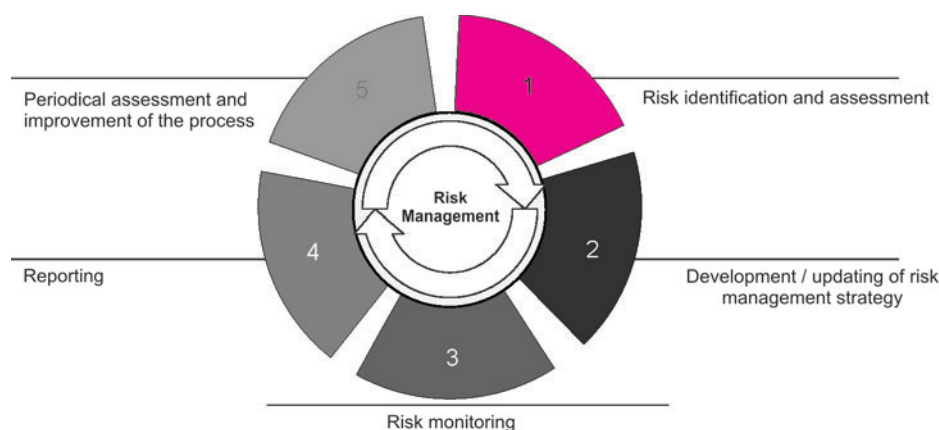
### 3.5. Description of the main threats and risk factors for TAURON Capital Group, including those associated with the remaining months of the financial year

Taking care of the implementation of the Corporate Strategy, the Company manages business risks occurring in the activities of the whole TAURON Capital Group. The business risks management process is aimed at implementation of the adopted business objectives of the TAURON Capital Group as a part of the acceptable risk level adopted by the Company's Management Board

The Comprehensive Enterprise Risk Management System (ERM) covers significant risks which occur in operations of the Company and TAURON Capital Group. The nature of risks is defined, in particular, by specifying the level of their impact understood as the effect of risk materialisation affecting the implementation of the goals and the probability of such materialisation. To achieve this goal, the system covers and organises all the resources of TAURON Capital Group developing the infrastructure of corporate risk management (strategy, processes, authorisation, reporting, methodology and IT tools). The Risk Management System covers all elements of the value chain implemented at TAURON Capital Group and all the employees of TAURON Capital Group take part in the risk management process.

The figure below shows the processes within corporate risk management in TAURON Capital Group.

**Figure no. 9. Processes within corporate risk management in TAURON Capital Group**





### **Main participants of the risk management process, their roles and responsibilities**

In the corporate risk management process, among others, the following participants take part :

- 1) Supervisory Board of the Company,
- 2) Management Board of the Company,
- 3) Management boards of subsidiaries,
- 4) Risk Committee,
- 5) Risk Management Coordinators,
- 6) Risk owners, specific risk owners,
- 7) Other employees of organisational structures of TAURON and the subsidiaries.

Within the risk management process the Risk Committee fulfils a special role, as the permanent team of experts, comprising persons holding relevant knowledge of the Company and its environment, which permanently and continuously initiates, analyses, monitors, controls, supports and supervises the performance of corporate risk management in TAURON Capital Group.

### **Roles and responsibilities of selected participants of the risk management process**

#### **TAURON Supervisory Board:**

is authorised to supervision and control, including checking whether the activities in the scope of corporate risk management undertaken by the Company are compliant with the expectations of the owner and the regulatory authorities.

#### **TAURON Management Board:**

- 1) performs assessments of risk management infrastructure,
- 2) takes formal decisions concerning the key elements of the ERM infrastructure,
- 3) sets priorities and defines risk management rules (assumptions, strategies),
- 4) approves the prioritisation of risks, strategies for the key risks identified and changes in these strategies, as recommended and adopted by the Risk Committee,
- 5) approves priorities, on the basis of the recommendations of the Risk Committee, and allocates resources required for the implementation of the risk management process,
- 6) approves the concept of global limits and maximum tolerance for key risks (risk appetite),
- 7) takes decisions in cases of significantly exceeded limits,
- 8) approves the feasible hedging instruments, defines the final shape of the current Risk Register, Risk Map and List of KPI/KRI indicators,
- 9) resolves the disputes/ conflicts concerning the ERM.

#### **Management boards of subsidiaries:**

- 1) take formal decisions on key elements of ERM infrastructure in a given company, including implementation of the relevant organizational structure (defining the role of Risk Management Coordinator in a given company and implementing other ERM elements in the subsidiary).
- 2) supervise the activities of the Risk Management Coordinator.

#### **Risk Committee:**

- 1) recommends the concepts of global limits and maximum tolerance for the key risks (risk appetite), risk management strategies to the Management Board and proposes changes concerning the adopted strategies,
- 2) recommends applicable hedging instruments to the Management Board,
- 3) recommends the shape of individual ERM elements and changes in the risk management policy,
- 4) prepares recommendations for the Management Board in terms of priorities and allocation of the resources required for the implementation of the risk management process,
- 5) approves Risk Owners and Risk Cards,
- 6) analyses, monitors and controls the risk management process.

Within the assessment of corporate risks and risk management strategy, the Risk Committee initiates the cyclical risk identification process, determines the completeness of risk identification and aggregation, recommends their prioritisation and the shape of the Risk Register, Risk Map and List of KPI/KRI indicators.

**Risk Management Coordinator:**

- 1) supervises the ERM process implementation in the specific subsidiary company,
- 2) implements the ERM in the specific subsidiary,
- 3) implements additional tasks, not arising from the ERM, for "TAURON Group" in the scope of risk management at a level of the specific subsidiary,
- 4) conducts communication of the ERM rules and develops knowledge concerning risk management in the subsidiary company.

**Risk owners:**

- 1) identify and assess risks,
- 2) create and implement risk management strategy,
- 3) monitor individual risks and risk factors,
- 4) monitor the effectiveness of the management process in relation to the specific risk,
- 5) report within the risk management process,
- 6) manage risk so that the assumed risk management goals are achieved and the adopted limits are not exceeded.

The presented description of risks represents, according to the opinion of the Company, the specification of the most significant current threats associated with the performance of TAURON Capital Group.

Assessment of the extent of exposure of TAURON Capital Group to the risk factors and threats listed below, takes into consideration the impact of risk materialisation and the probability of its occurrence as well as the adequacy of the applied risk management strategy. Order in which particular risks are presented does not reflect this assessment.

**Table no. 7. Description of risk factors and threats**

No.	Types of risks	Risk description
<b>I. Market risks</b>		
1.	Price risk	Risk associated with the volatility of electric energy prices, prices of property rights and CO <sub>2</sub> emission allowances. The fluctuations of energy prices, including the adverse change in medium-term perspective may materially affect the financial result of TAURON Capital Group, through increase in costs, margin reduction and limitation of the revenues gained.
2.	Volumetric risk	Risk related to volatility of electric energy trade volume, change in profile of electric energy consumption in individual hours/ time zones/ time periods, which may have material adverse effect on operations of TAURON Capital Group, through reducing the margin or incurring the financial loss as a result of changes in the volume of sales, purchase of electric energy and the related products.
3.	Risk connected with the obligation to redeem the certificates of origin or pay the substitution fee	Risk connected with the failure to fulfil the obligation to redeem the certificates of origin or to pay the substitution fee, due to the limited availability of certificates of origin on the market, change of the support policy for energy generated in RES and in cogeneration, or redemption of incorrect number of certificates of origin / payment of the incorrect value of the substitution fee, resulting in the potential increase in the costs of fulfilment of the statutory obligation, penalties imposed by ERO President and higher production costs of electric energy sold.
4.	Risk connected with the obligation to redeem the CO <sub>2</sub> emission allowances	Risk connected with emitting CO <sub>2</sub> into the atmosphere as well as the need to redeem a relevant number of CO <sub>2</sub> emission allowances. The risk factors may have adverse impact on operations of TAURON Capital Group, its financial standing or results of its activities, through the fines imposed for each unit of unredeemed allowance, or decreasing the planned electricity sales profitability and the increase in costs associated with the failure to issue free allowances and their incorrect redemption.
5.	Risk of atmospheric factors and climate changes in the Heat Area	Risk related to fluctuations of air temperatures which have significant impact on the demand for electricity and heat at a longer term, causing the significant increase or decrease of this demand, respectively, which may result in the failure to fulfil the production plan in the assumed period, or limitation of the possibility to satisfy the demand due to hydraulic constraints of the connection network, fixtures and the increased failure rate of sales.

No.	Types of risks	Risk description
<b>II Strategic risks</b>		
1.	Risk of TAURON Capital Group organisation and corporate governance	Risk associated with ineffective cooperation among TAURON Capital Group companies in the scope of governance processes, reporting and information management. The risk factors may have adverse effect on TAURON Capital Group operations, its financial situation or results of its activities by incomplete implementation of TAURON Capital Group strategic objectives or the extended period of their accomplishment, delays in decision making or taking wrong decisions.
2.	Risk of unstable legal system and the European Union regulations connected with the functioning of the energy sector, including the environment protection	Risk related to unfavourable legal changes, modifications in the Polish and the European Union regulations as well as to the legislative environment uncertainty. The risk factors may have significant adverse impact on operations of TAURON Capital Group and its financial situation through increase of operating costs of the enterprise, necessary to change the strategy of the Company or TAURON Capital Group companies, permanent exclusion of specific technologies arising from the requirement to implement the EU regulations, limiting the generation capacity of the Company and undermining its negotiation position against the institutions.
3.	Risk of non-compliance with the requirements of ERO / UOKiK/ and the Instruction of Distribution Grid Operation and Maintenance	Risk associated with the possibility of the aforementioned authorities to challenge the accuracy of the activity conducted by TAURON Capital Group in the scope of independence and equal treatment of entities on the market, compliance with the antimonopoly regulations or abuse of the dominating position. The risk factors may have material adverse effect on TAURON Capital Group operations, its financial situation or results of its activities through withdrawal or change in the scope of the effective concessions, the requirement to change agreements for the supply of electric energy, incurring additional costs and a possibility of financial penalties to be imposed on the Company.
4.	Risk of fund raising and financing service	Risk associated with the lack of possibilities to raise funding for operating and investment needs or high costs of acquisition of such financing, arising from the tightening of the crediting policy of banks, unfavourable market conditions, unstable macroeconomic situation, which may have material unfavourable effect on operations of TAURON Capital Group, its financial situation or results of its activities due to the lack of resources for projects included in the Corporate Strategy and in investment plans, and for operations.
5.	Risk of energy fuel purchase	Risk associated with the significant and/or unexpected changes in the prices of coal and other fuels, as well as unavailability of coal, including coal of adequate parameters. The risk factors may have material adverse effect on operations of TAURON Capital Group, its financial situation or results of its activities through increased costs, including those connected with the need to fulfil the requirements of production process and the legal requirements concerning maintenance of relevant fuel reserves, or imposing a fine in case of failure to fulfil these requirements.
6.	Environmental risk, including the risk associated with the atmospheric conditions	Risk consisting in a possibility to incur losses resulting from non-compliance with the legal regulations (including those arising from the way of implementation of the European law in the national law, administrative decisions), and including the possibility of occurrence of environmental damage or serious industrial accident or failure. The risk factors may have material adverse effect on operations of TAURON Capital Group, its financial situation or results of its activities through the necessity to incur significant costs of compliance, pay indemnities, or a potential of threat to implementation of production tasks.
7.	Risk of unregulated legal status of the real property utilised	Risk connected with a possibility of occurrence of massive financial claims of land owners due to unregulated legal status of the foundation of a building or structure on the foreign land, undermining the legal status and claims of third parties in relation to certain components of assets. The risk factors may have material unfavourable effect on operations of TAURON Capital Group, its financial situation or results of its activities through higher cost of operations or interruption of operating activities.
8.	Risk connected with the strategic investment process	Risk associated with the ineffective process of strategic investments comprising the planning, implementation, monitoring and closing, arising from the inappropriate selection of investment for the investment portfolio, lack of sufficient investment diversification, adopting incorrect assumptions, underestimation of expenditures, lack of possibility to provide own funding, difficult access to external financing. The indicated risk factors may cause financial losses, possible loss of liquidity, increase in costs of investments or lower benefits than assumed, extended period of return from investment, loss of investment profitability, delay in implementation schedule, exceeding of the budget, necessity to incur additional expenditures, reduction of profitability or interruption of the project.
9.	Concession risk	Risk consisting in potential waiver, refusal to extend of the validity period, or limiting of the scope of any concessions held, including the refusal to issue new concessions. The risk factors may have adverse impact on the operations of TAURON Capital Group, its financial standing or results, through the lack of possibility to implement plans, and, in extreme cases, the lack of the relevant concession may prevent operations.

No.	Types of risks	Risk description
10.	Risk of recognising the base of mineral resources	The risk consisting in incomplete recognition of the perspective resource base arising from the lack of economic, technical and organisational capacity of the Company (failure to fulfil the current plans on performance of the exploratory openings), resulting in limiting of possibilities for mining exploitation in the future and the incorrect long-term planning, leading to deterioration of the financial results of TAURON Capital Group.
<b>III. Operational risks</b>		
1.	Risk of approval of tariffs by the President of ERO	Risk connected with the refusal of the President of ERO to approve the requested tariffs concerning the products offered and services provided, limited possibility to introduce amendments to the tariffs approved before and the refusal to recognise investment expenditure in the development plan, or in their part which shall not cover the actual costs of their generation. The risk factors may have material unfavourable effect on operations of TAURON Capital Group, its financial situation or results of its activities through higher cost of operations, loss of income, decreased profitability of the operations and limitation of funds for development.
2.	Risk of management of fixed assets	Risk associated with the lack of possibility to use the fixed assets due to its ineffective management causing its poor technical condition, inadequate costs of fixed assets insurance resulting from its underestimation or overestimation, as well as the costs of holding redundant assets. The risk factors may have material adverse effect on TAURON Capital Group operations, its financial situation or results of its activities due to the lack of optimum use of the assets, its faster wear arising from inadequate exploitation, the need of incurring costs of remedying failures arising from wrong asset management.
3.	Assets failure risk	Risk connected with occurrence of serious and/or permanent failures and damages of equipment used by the TAURON Capital Group companies. The risk factors may have material unfavourable effect on operations of TAURON Capital Group, its financial situation or results of its activities through loss of income arising from the interruptions and shutdowns, the necessity to incur additional costs of repairs of the grid infrastructure and extra-grid infrastructure, the requirement to pay fines.
4.	Risk of variable generation cost	Risk associated with potential errors in selection of units and distribution of loads of unit scheduling. The selection of units is performed on the basis of TSO data and decision, maintenance information from power plants, plans of units, variable costs and data published by TSO. The risk factors may have material unfavourable effect on operations of TAURON Capital Group, through the necessity to select a more expensive generation unit or change in the optimum production schedule, which results in the increased variable cost of electric energy production.
5.	Risk of occurrence of natural hazards or unfavourable geological and mining conditions	Risk connected with threats to the implementation of production tasks, hazards to safety of maintenance of the mining plant or safety of the staff due to natural risk factors within the development of the mining works, difficulties connected with the roof and floor conditions hampering the mining process, as well as natural hazards occurring in the mining plants (water and fire conditions, rock bumps).
6.	Risk of planning and budgeting	Risk connected with adopting incorrect assumptions arising from uncertain or incomplete planning data or change in the market environment, resulting, in particular, from the change in inflation level, GDP fluctuations, change in demand or the economic downturn. These risk factors may have material unfavourable effect on financial results and market position of TAURON Capital Group, in particular, through the implementation of the strategy which is not adjusted to the market situation, lack of optimum choices within the operational, investment and financial activity, inadequate allocation of resources, extension of the period of return in investment or lack of any return.
7.	Risk of loss of the Tax Capital Group (PGK) status	Risk associated with a possibility to lose this status by PGK due to the failure to comply with the statutory requirements. Various interests of individual participants, human error, incomplete information, lack of legal regulations, may lead to risk materialisation, which will result in the lack of possibility to take advantage of tax optimisation processes within the PGK.
8.	Risk of the process of contract awarding / procurement process of supplies / services	Risk associated with a possibility of significant growth in prices of supplies/services provided by contractors, or their decreased availability. The risk factors may have material adverse effect on operations of TAURON Capital Group, its financial situation or results of its activities through increased costs, extension of the process of preparation and conducting the procedure, awarding the contract unfavourable for the Company or delay in implementation of an investment project.

No.	Types of risks	Risk description
9.	Risk of implementation of agreements on electric energy sales, including the comprehensive agreements	Risk associated with provisions in electric energy sales agreements, unfavourable for TAURON Capital Group, including the comprehensive agreements for energy consumers, ineffective service of electric energy sales agreements, including the comprehensive agreements. The failure to comply with the qualitative standards of customer service and quantitative parameters of electric energy supply, arising from the processes of sales and customer service, or the extended time of implementation of activities in the scope indicated in the comprehensive agreement on electric energy sales and provision of distribution services, may lead to the increased quantity of granted discounts and imposed fines, increased complaint rate, increased number of proceedings conducted by ERO or UOKiK, loss of the Company good image.
10.	Risk of metering and settlement data	Risk associated with incorrect or delayed settlement of electric energy distribution services by the DSO, arising from the inaccurate reading or lack of reading of the metering and settlement systems, incorrectly fixed metering and settlement systems, inaccurate entry of data to the settlement system, untimely transmission of metering data to the billing systems, which may result in issuing incorrect invoices and incorrect values of sales, lack of possibility to issue invoices, deviations against the assumed level of revenues and costs, problems with the correct settlement of taxes, clients' complaints.
11.	IT security / access to IT systems	Risk consisting in unauthorised access to the IT systems, incorrect allocation of authorisations and untight access control, virus in the workstation/server, or theft of data leading to the loss of data, data leakage outside the company structures, destruction of equipment, instability of performance of IT systems, which may lead to financial losses, loss of reputation, trust and market image.
12.	Availability / continuity of performance of IT systems	Risk consisting in the lack of possibility to access the ICT services and lack of possibility to provide services to end clients, and, consequently, leading to the lack of possibility to conduct business or its part, hindrances or delays in implementation of business tasks and processes. The risk factors may result in financial losses, loss of reputation and market image.

The Company actively manages all risks aiming at maximum reduction or elimination of their potential adverse effects, in particular on the financial result of TAURON Capital Group.

## 4. ANALYSIS OF FINANCIAL AND ECONOMIC SITUATION OF TAURON CAPITAL GROUP

### 4.1. Principles of drawing-up the semi-annual condensed consolidated financial statements

The interim condensed consolidated financial statement for the period of 6 months, ended on 30 June 2014 has been drawn up in accordance with the International Financial Reporting Standards (IFRS), approved by the UE, in particular, in compliance with the International Accounting Standard no. 34.

IFRS cover standards and interpretations approved by the International Accounting Standards Board (IASB) as well as the International Financial Reporting Interpretation Committee.

The interim condensed consolidated financial statement for the period of 6 months, ended on 30 June 2014 was drawn up with the assumption of continuation of business operations by the TAURON Capital Group companies in the foreseeable future. As of the date of approval of this interim condensed consolidated financial statement for the period of 6 months, ended on 30 June 2014, no circumstances are recognised, indicating any risk for business continuity of the TAURON Capital Group companies.

The accounting principles (policy) adopted for drawing up of the semi-annual interim condensed consolidated financial statement are provided in note 4 to the financial statement for the period ended on 30 June 2014.

### 4.2. Financial situation of TAURON Capital Group following the first half of 2014

#### Sales structure according to Business areas

The table below shows the volumes and structure of sales of TAURON Capital Group, divided into individual Business Areas (Segments) for the 1st half of 2014 and 2nd quarter of 2014, compared to the corresponding periods of 2013.

**Table no. 8. Volumes and structure of sales of TAURON Capital Group, divided into individual Business Areas (compared to the corresponding periods of the previous year)**

Specification	unit	1st half 2014	1st half 2013	Dynamics 2014/2013	Q 2 2014	Q 2 2013	Dynamics 2014/2013
Sales of coal by Mining Area	M Mg	<b>2.19</b>	2.96	74.0%	<b>1.18</b>	1.45	81.4%
Sales of electric energy and heat by Generation Area	TWh PJ	<b>6.46</b> <b>2.05</b>	10.36 2.76	62.4% 74.3%	<b>3.23</b> <b>0.50</b>	4.73 0.62	68.3% 80.6%
Sales of electric energy generated in hydroelectric power plants and wind farms by RES Area	TWh	<b>0.44</b>	0.28	157.1%	<b>0.20</b>	0.16	125.0%
Sales of electric energy distribution services by Distribution Area	TWh	<b>23.88</b>	23.98	99.6%	<b>11.63</b>	11.56	100.6%
Retail sales of electric energy and other products of the energy market by Sales Area	TWh	<b>19.06</b>	20.69	92.1%	<b>8.99</b>	9.86	91.2%
Sales of electric energy by Heat Area	TWh	<b>0.92</b>	0.84	109.5%	<b>0.41</b>	0.36	113.9%
Sales of heat purchased and generated by Heat Area	PJ	<b>7.58</b>	9.00	84.2%	<b>1.71</b>	1.67	102.4%

#### Mining Area

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 indirectly owns and runs Zakład Górniczy Sobieski and Zakład Górniczy Janina.

The volume of coal sales in the 1st half of 2014 amounted to almost 2.19 million t, which represents a decrease by over 26%, as compared to the corresponding period of 2013. The main reason of the reduction in the volume of sales is the decreased demand on the domestic market, arising mainly from the limited electric energy production based on hard coal and the maintained high level of coal import to Poland. In the 2nd quarter itself the decrease in the volume of sales is relatively lower than over the whole semi-annual period, due to the additional reduction of sale which occurred in the 1st quarter of 2014, arising from the limitation of power coal dust sale.



In the scope of commercial coal production, decline against the corresponding period of last year may be also observed, however, it is not as significant as the level of sales. In the 1st half of 2014, the production of commercial coal was by 446.9 thousand lower than in the 1st half of 2013 (by ab. 14.9%). The reduction in the production level results mainly from the lower number of walls explored as compared to 2013 and the increasing level of stocks, which limits the possibilities of coal dumping.

### **Generation Area**

The core activity of the Generation Area within TAURON Capital Group comprises generation of electric energy and heat in six coal-fired and biomass co-burning power plants. The total generating capacity of the generation units of the Generation Area at the end of June amounted to 4,659 MW of electric energy and 1,365 MW of heat energy.

In the 1st half of 2014, the Generation Area produced about 6.0 TWh of net electric energy (including about 0.38 TWh from biomass), i.e. about 30% less than in the corresponding period of 2013 when the production of net electric energy reached almost 8.7 TWh (including 0.22 TWh from biomass). The lower production of electric energy results mainly from the trends in electric energy market. In relation to the corresponding period of the previous year, the following trends occurred: decline in power demand in the KSE by 0.3%; decline in the total electric energy production by almost 5% (including, by over 6% for hard coal), increase in the generation and the level of installed capacity consumption in wind farms by almost 53%, which contributed to the decline in production of professional power plants by 6.6%. In addition, the average daily air temperatures in the first months of 2014 stayed at a level definitely higher as compared to the corresponding period of the previous year, which influenced the decrease in the demand in the KSE and the reduction of electric energy prices.

Moreover, in the 1st half of 2014, the change of direction of electric energy flow in the interconnector exchange occurred – in the 1st half of 2013 surplus of export over import occurred, whereas in the 1st half of 2014 import was higher than export.

Sales of electric energy from own production, including energy purchased for trading purposes, in the 1st half of 2014 reached almost 6.5 TWh, i.e. by ab. 38% less in relation to the corresponding period of the previous year.

Heat production of the Generation Area in the 1st half of 2014 reached 2.4 PJ and it was lower by ab. 25% in relation to the corresponding period of 2013 (3.2 PJ), which mainly resulted from the reduced demand for heat due to high air temperatures in the heating season.

### **RES Area**

The basic activity conducted by TAURON Capital Group in the RES Area comprises generation of electric energy from renewable sources in hydroelectric power plants and wind farms as well as management of TAURON Capital Group projects in the area of energy generation from renewable energy sources. In the RES Area 35 hydroelectric power plants of 132.9 MW<sub>e</sub> accessible capacity and four wind farms of the total accessible capacity of 182.75 MW<sub>e</sub> operate. In relation to the corresponding period of 2013, growth of capacity occurred, in connection with the commissioning of wind farms in the 4th quarter of 2013: Wicko of 40 MW<sub>e</sub> capacity and Marszewo of 82 MW<sub>e</sub>.

In the 1st half of 2014 the RES Area generated approximately 0.37 TWh of net electric energy (energy sales reached the level of 0.44 MWh) as compared to 0.28 TWh in the corresponding period of the previous year, which means the increase in production by ab. 32%, mainly due to the operations of Wicko and Marszewo wind farms and the windiness in the 2nd quarter of 2014, which was higher than average. The lower level of production of hydroelectric power plants, in relation to the previous year, was caused by unfavourable hydrological conditions resulting from the lack of snow cover in the mountains, which directly affected the lower water level in retention reservoirs.

### **Heat Area**

The Heat Business Area covers operations involving generation, distribution and sales of heat and other utilities. In the 1st half of 2014 sales of heat generated and purchased reached approximately 7.6 PJ, as compared to 9.0 PJ in the 1st half of 2013. The decrease in the volume of sales is a consequence of the lower heat demand in connection with high air temperatures, particularly, in the 1st quarter of 2014.

In the analysed period of 2014, the co-generation plants of the Heat Segment generated about 0.9 TWh of electric energy net, which means that the level of production of the 1st half of 2013 (0.8 TWh) was exceeded by over 12%. It is mainly associated with the production of electric energy by a new unit in Zakład Wytwarzania Bielsko-Biała. A similar trend referred to the volume of electric energy sales – sales in the 1st half of 2014 reached 0.92 TWh,



and it was higher by ab. 9.5%, in relation to the corresponding period of the previous year, due to the increased demand of one of the main customers – ArcelorMittal and higher sales at Zakład Wytwarzania Bielsko-Biała.

### Distribution Area

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 considerable range, located in the southern part of Poland.

In the 1st half of 2014, the Distribution Area supplied the total of 23.9 TWh of electric energy, including 22.8 TWh to the end consumers. During this period, the Distribution Area provided distribution services to almost 5.36 million consumers. In the corresponding period of the previous year, the Distribution Area supplied, in total, approximately 24.0 TWh of electric energy to about 5.31 million consumers, including 22.7 TWh to the end consumers. The minor decrease in the volume of supplies to end consumers YoY results mainly from the good situation in the domestic economy and the increased consumption, determined by the growth of the output sold. This growth compensated the decline in supplies to consumers connected to low voltage grid who limited their demand, in particular, in the 1st quarter of 2014, in connection with the persisting high average air temperatures.

### Sales Area

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 comprise sales of electric energy to end customers, including key accounts. On the other hand, operations within wholesale trading comprise 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, and trading of fuels.

In the 1st half of 2014, the companies of the Sales Area sold the total of approximately 19.1 TWh of electric energy to about 5.2 million clients, both households and enterprises, which means a decline by 7.9% as compared to the corresponding period of 2013 when sales reached about 20.7 TWh. The decline in the volume of sales results mainly from the decrease in the average consumption in the mass segment (G and C1x), additionally enhanced by a very warm winter in the 1st quarter of 2014.

### Analysis of financial situation

In the table below, the analysis of financial situation of TAURON Capital Group for the 1st half of 2014 is presented.

**Table no. 9. Structure of the interim condensed consolidated Statement of financial situation**

Consolidated statement on financial situation	Status as at 30 June 2014	Status as at 31 December 2013
<b>ASSETS</b>		
Fixed Assets	89%	85%
Current assets	11%	15%
<b>TOTAL ASSETS</b>	<b>100%</b>	<b>100%</b>
<b>LIABILITIES</b>		
Equity attributable to shareholders of the parent company	56%	54%
Non-controlling shares	0.1%	1%
<b>Total equity</b>	<b>56%</b>	<b>55%</b>
Long-term liabilities	32%	29%
Short-term liabilities	12%	16%
<b>Total liabilities</b>	<b>44%</b>	<b>45%</b>
<b>TOTAL LIABILITIES</b>	<b>100%</b>	<b>100%</b>
Financial liabilities	6,413,881	5,864,135
Net financial liabilities	6,167,737	5,227,226
Ratio net debt/EBITDA	1.68	1.43
Current liquidity ratio	0.96	0.90

In the structure of assets as of 30 June 2014, fixed assets constitute about 89% of total assets which means change by almost 4% in relation to the status as at the end of 2013.

The share of current assets as at 30 June 2014 decreased to the level of 11% of total assets.

In the structure of liabilities as at 30 June 2014 the liabilities make about 44% of the total liabilities, out of which, long-term liabilities make approximately 32%, short-term liabilities – about 12% of total assets, which means slight change in the structure of debt as compared to the end of 2013 when the share of liabilities, was, respectively: 29% and 16%.

In relation to 2013, in the 1st half of 2014 the increase in net financial liabilities by approximately 18% was recorded, which contributed to the growth of net debt/EBITDA ratio – to the level of 1.68 (the ratio expressed in relation to EBITDA for 2013).

The ratio of current liquidity increased to the level of 0.96. The liquidity of the Company is not at risk – the indicators are maintained at a high, safe level.

### Consolidated Statement of comprehensive income

The table below presents the selected items of the consolidated Statement of comprehensive income of TAURON Capital Group for the period of 6 months, ended on 30 June 2014, as well as comparative data for the period of 6 months ended on 30 June 2013. These items are provided in accordance with the interim condensed consolidated financial statement of TAURON Capital Group, compliant with the International Financial Reporting Standards for the period of 6 months ended on 30 June 2014.

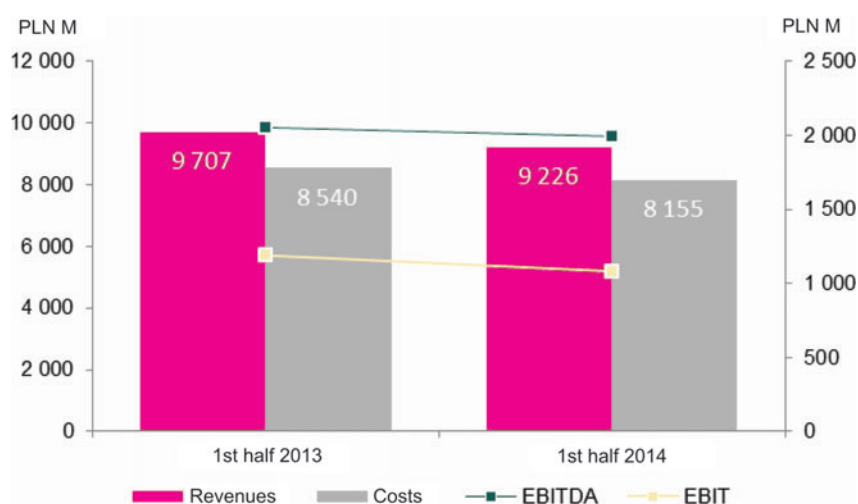
**Table no. 10. Interim condensed consolidated Statement of comprehensive income**

Statement of comprehensive income	1 <sup>st</sup> half of 2014		1 <sup>st</sup> half of 2013		Dynamics 2014/2013
	thous. PLN	% of total revenue from sales	thous. PLN	% of total revenue from sales	
<b>Continuing operations</b>					
<b>Revenue on sales</b>	<b>9,226,315</b>	<b>100.0%</b>	<b>9,706,524</b>	<b>100.0%</b>	<b>95.1%</b>
Own cost of sales	(7,565,188)	82.0%	(7,928,047)	81.7%	95.4%
<b>Gross profit (loss) from sales</b>	<b>1,661,127</b>	<b>18.0%</b>	<b>1,778,477</b>	<b>18.3%</b>	<b>93.4%</b>
Other operating revenue	79,801	0.9%	63,082	0.6%	126.5%
Costs of sales	(257,189)	2.8%	(270,173)	2.8%	95.2%
Overheads	(332,199)	3.6%	(342,054)	3.5%	97.1%
Other operating expenses	(69,086)	0.7%	(39,558)	0.4%	174.6%
<b>Operating profit (loss)</b>	<b>1,082,454</b>	<b>11.7%</b>	<b>1,189,774</b>	<b>12.3%</b>	<b>91.0%</b>
<i>Operating profit margin (%)</i>	<b>11.7%</b>		<b>12.3%</b>		<b>95.7%</b>
Financial revenue	28,961	0.3%	58,663	0.6%	49.4%
Financial expenses	(185,096)	2.0%	(160,869)	1.7%	115.1%
Share in the profit (loss) of an affiliated entity and joint venture recognised by equity method	(776)	0.0%	(1,414)	0.0%	54.9%
<b>Gross profit (loss)</b>	<b>925,543</b>	<b>10.0%</b>	<b>1,086,154</b>	<b>11.2%</b>	<b>85.2%</b>
<i>Gross profit margin (%)</i>	<b>10.0%</b>		<b>11.2%</b>		<b>89.6%</b>
Income Tax	(191,621)	2.1%	(194,272)	2.0%	98.6%
<b>Net profit (loss) from continuing operations</b>	<b>733,922</b>	<b>8.0%</b>	<b>891,882</b>	<b>9.2%</b>	<b>82.3%</b>
<i>Net profit margin (%)</i>	<b>8.0%</b>		<b>9.2%</b>		<b>86.6%</b>
<b>Net profit (loss) for the financial year</b>	<b>733,922</b>	<b>8.0%</b>	<b>891,882</b>	<b>9.2%</b>	<b>82.3%</b>
Other comprehensive income for the financial year including deduction of tax	(12,770)	0.1%	34,571	0.4%	–
<b>Total income for the financial year</b>	<b>721,152</b>	<b>7.8%</b>	<b>926,453</b>	<b>9.5%</b>	<b>77.8%</b>

Statement of comprehensive income	1 <sup>st</sup> half of 2014		1 <sup>st</sup> half of 2013		Dynamics 2014/2013
	thous. PLN	% of total revenue from sales	thous. PLN	% of total revenue from sales	
Profit attributable to:					
Shareholders of the parent company	730,290	7.9%	849,232	8.7%	86.0%
Non-controlling interests	3,632	0.0%	42,650	0.4%	8.5%
Total income attributable to:					
Shareholders of the parent company	717,505	7.8%	882,324	9.1%	81.3%
Non-controlling interests	3,647	0.0%	44,129	0.5%	8.3%
EBIT and EBITDA					
EBIT	1,082,454	11.7%	1,189,774	12.3%	91.0%
EBITDA	1,994,598	21.6%	2,053,663	21.2%	97.1%

The figure below shows the financial results of TAURON Capital Group for the 1st half of 2014 as compared to the 1st half of 2013.

**Figure no. 10. Financial results of TAURON Capital Group for the 1st half of 2013 and 2014**



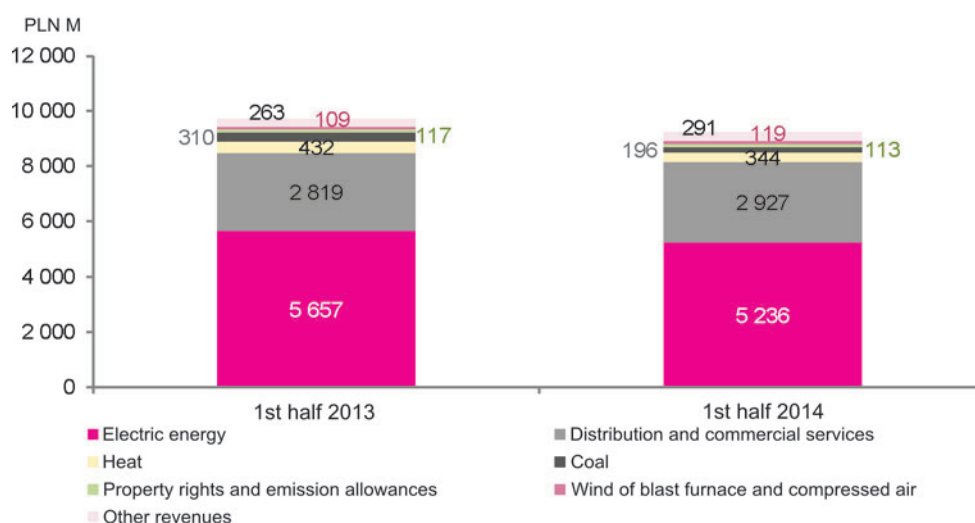
In the 1st half of 2014 TAURON Capital Group recognised revenue on sales at the level of about PLN 9.2 billion, as compared to about PLN 9.7 billion in the 1st half of 2013, which means the decrease by 4.9%. The main factors affecting the decline of the level of revenue include lower sales prices of electric energy and the lower volume of electric energy sold by the Sales Segment. The factor equally significant for the development of revenues of TAURON Capital Group is the situation in the coal market, as a result of which, in the reporting period, the Mining Segment recorded lower coal sales to entities outside TAURON Capital Group.

The aforementioned factors were partly compensated by higher revenues gained by the Generation Segment (increased revenue from regulatory systemic services and power reserves, as well as sales of higher volume of electric energy on the balancing market) and the Distribution Segment (due to the higher price of the distribution service provided).

As compared to the corresponding period of 2013 TAURON Capital Group reached higher revenue from sales in the following Segments: RES, Distribution and Customer Service. The highest dynamics in the revenue growth was achieved in the RES Area. In relation to the revenues gained by companies of TAURON Capital Group from the sales of products outside TAURON Capital Group, the highest dynamics of growth was noted in the Segments: RES (428.1%), Generation (187.5%) and Distribution (117.6%).

The figure below shows the structure of revenues of TAURON Capital Group for the 1st half of 2014 as compared to the 1st half of 2013.

**Figure no. 11. Structure of revenues of TAURON Capital Group for the 1st half of 2013 and 2014**



In the 1st half of 2014 the decline in costs of operating activities is noticeable, in relation to the corresponding period of the previous year, which is associated with the reduction of costs of operation of the Segments: Sale (in connection with the lower volume of electric energy sold) and Generation (in connection with the lower volume of electric energy produced and lower price of fuels), as well as lower costs of reserve for the deficit of CO<sub>2</sub> emission allowances.

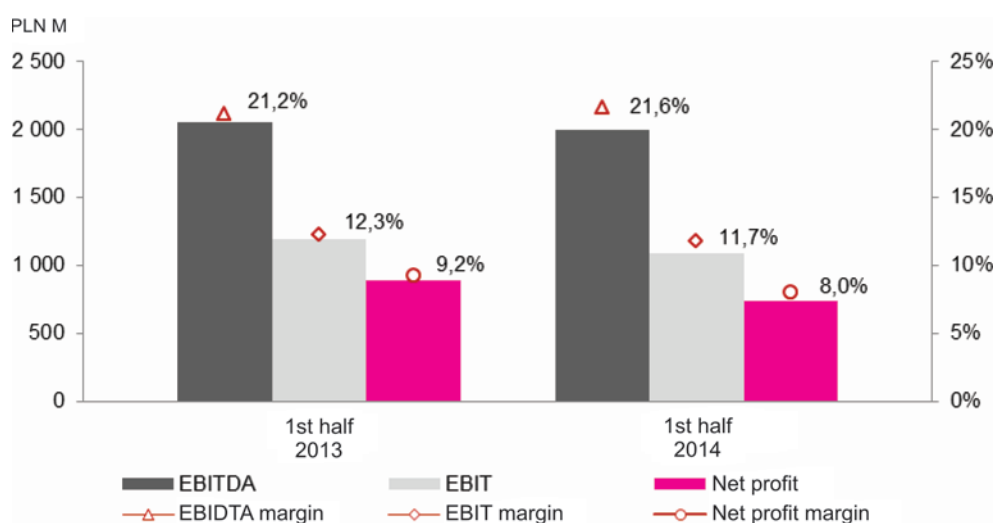
Lower operating expenses also arise from activities under implementation in companies of TAURON Capital Group in the scope of optimisation of fixed costs, which enabled to reduce the impact of the decline in revenues on the financial results of TAURON Capital Group to a certain extent.

The aforementioned factors caused slight decline in EBIT and EBITDA results as well as gross profit. Irrespective of the worse results of TAURON Capital Group, the EBITDA and EBIT margin for the 1st half of 2014 stayed at a level comparable to the corresponding period of the previous year, and only the margin of net financial result was lower, reaching, respectively, 8.0% in the 1st half of 2014 and 9.2% in the 1st half of 2013.

In accordance with the presented consolidated statement of comprehensive income, the total income of TAURON Capital Group, including the net profit increased or decreased by the change in value of the hedging instruments, exchange differences arising from conversion of a foreign unit and other income, including tax, reached PLN 721.2 million in the 1st half of 2014, as compared to PLN 926.5 million in the 1st half of 2013. The total income attributable to shareholders of the parent company reached about PLN 717.5 million, in relation to PLN 882.3 million gained in the corresponding period of 2013, whereas the profit attributable to shareholders of the parent company achieved the level of over PLN 730.3 million, as compared to PLN 849.2 million gained in the same period of 2013.

The figure below shows the financial results of TAURON Capital Group and the level of margins achieved.

**Figure no.12. The financial results of TAURON Capital Group and the level of margins implemented**



### 4.3. Status of assets

#### Consolidated statement of financial situation

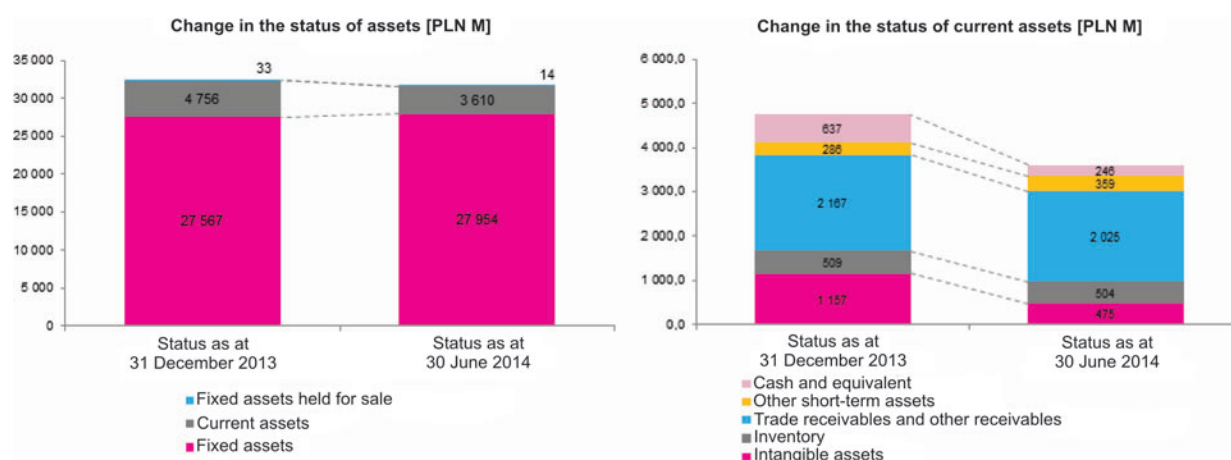
In the table below, consolidated statement of financial situation as of 30 June 2014 is presented, in relation to 31 December 2013.

**Table no. 11. Interim condensed consolidated statement on financial situation – assets (data in thousand PLN)**

Statement of financial situation	Status as at 30 June 2014 (not audited)	Status as at 31 December 2013	Dynamics (2014/2013)
<b>ASSETS</b>			
<b>Fixed Assets</b>	<b>27,954,014</b>	<b>27,567,008</b>	<b>101.4%</b>
Tangible fixed assets	25,446,259	25,127,639	101.3%
Goodwill	247,057	247,057	100.0%
Intangible assets	1,262,910	1,160,005	108.9%
Shares and stocks in joint ventures	41,286	44,398	93.0%
Other financial assets	358,775	587,166	61.1%
Other non-financial assets	568,819	354,704	160.4%
Assets due to deferred tax	28,908	46,039	62.8%
<b>Current assets</b>	<b>3,609,555</b>	<b>4,755,521</b>	<b>75.9%</b>
Intangible assets	504,066	1,156,550	43.6%
Inventory	474,560	509,224	93.2%
Receivables due to income tax	92,261	31,890	289.3%
Trade receivables and other receivables	1,933,061	2,134,641	90.6%
Other short-term financial assets	16,510	15,878	104.0%
Other short-term non-financial assets	342,953	270,429	126.8%
Cash and equivalents	246,144	636,909	38.6%
<b>Fixed assets classified as held for trade</b>	<b>13,668</b>	<b>33,041</b>	<b>41.4%</b>
<b>TOTAL ASSETS</b>	<b>31,577,237</b>	<b>32,355,570</b>	<b>97.6%</b>

As at 30 June 2014 the statement of financial situation of TAURON Capital Group recognises balance sheet total lower by 0.2.4%, as compared to 31 December 2013.

**Figure no. 13. Change in the status of assets and current assets**



Fixed assets constitute the biggest item of assets at the end of the 1st half of 2014, with the share of 88.5% of the value of balance sheet total. As compared to the previous year, the value of fixed assets is higher by approximately PLN 387 million (1.4%). The change results, among others, from investments in fixed assets in segments of activity, in particular, in the assets of the Areas: Distribution, Generation and Heat.

Tangible fixed assets constitute the biggest item of assets of TAURON Capital Group, making 80.6% of the balance sheet total and 91.0% of the value of all fixed assets at the end of the reporting period. The growth of their value amounted to PLN 318.6 million (1.3%) and results from the investments in assets implemented by companies of TAURON Capital Group. Other non-financial assets represent the item of fixed assets showing the highest growth, where the increase by 60.4% arises from the advance payments made on account of implementation of investments in the tangible fixed assets of the Areas: Generation and Heat. At the beginning of 2014 the final settlement of the purchase transaction of TAURON Wydobycie shares by TAURON took place, which is reflected by the 38.9% decline in the value of other financial assets in relation to the end of the previous year.

At the end of the 1st half of 2014 the value of current assets decreased by 24.1%, which was mainly affected by the fulfilment of the statutory obligation of redemption of property rights and CO<sub>2</sub> emission allowances, and the consequent decrease in the value of short-term intangible assets by 56.4%. The second factor of significant impact on the change in the value of current assets is cash and its equivalents whose value decreased by 61.4%. More detailed description in the change of cash status is presented in item 4.4. referring to cash flows. A significant change is also visible in the item of trade receivables and other receivables, whose value decreased by 9.4%. This state-of-affairs should be attributed to lower revenue of TAURON Capital Group and the improvement in the collection of receivables. The decrease in the items of the statement of financial situation presented above was slightly mitigated by the increase in other non-financial assets and receivables due to income tax.

In the table below, the annual consolidated statement of financial situation – liabilities, is presented.

**Table no. 12. Interim condensed consolidated statement of financial situation – liabilities (data in thousand PLN)**

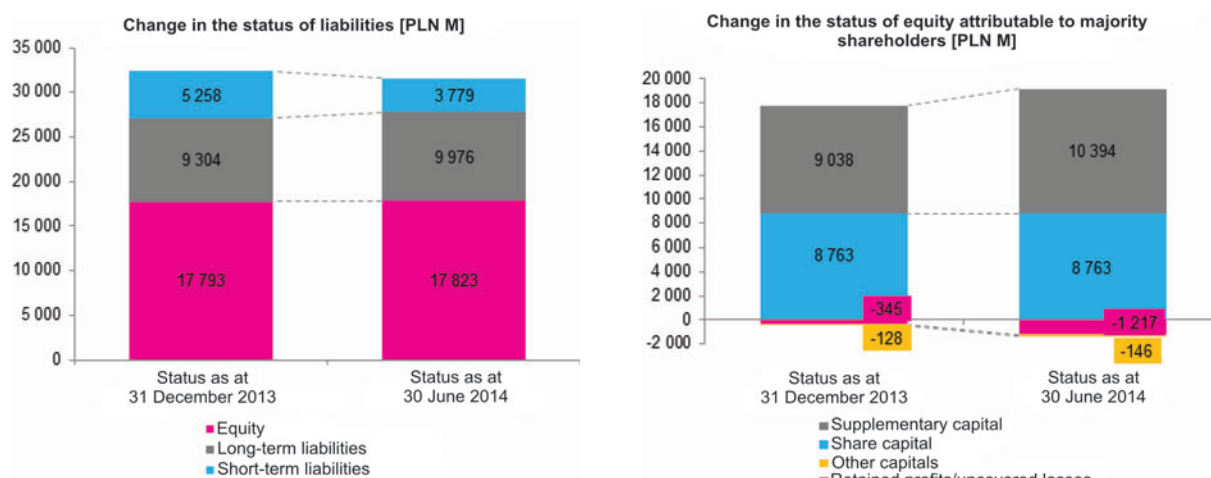
Statement of financial situation	Status as at 30 June 2014 (not audited)	Status as at 31 December 2013	Dynamics (2014/2013)
<b>LIABILITIES</b>			
<b>Equity attributable to shareholders of the parent company</b>	<b>17,793,054</b>	<b>17,327,165</b>	<b>102.7%</b>
Share capital	8,762,747	8,762,747	100.0%
Supplementary capital	10,393,686	9,037,699	115.0%
Hedging instruments revaluation reserve	(144,845)	(126,651)	114.4%
Currency Exchange differences due to translation of foreign units	(1,590)	(1,631)	97.5%
Retained profits / Uncovered losses	(1,216,944)	(344,999)	352.7%
<b>Non-controlling shares</b>	<b>29,574</b>	<b>466,334</b>	<b>6.3%</b>
<b>Total equity</b>	<b>17,822,628</b>	<b>17,793,499</b>	<b>100.2%</b>
<b>Long-term liabilities</b>	<b>9,975,657</b>	<b>9,304,341</b>	<b>107.2%</b>
Loans, credits and debt securities	6,005,603	5,500,532	109.2%
Liabilities due to financial leasing	52,858	61,643	85.7%
Trade liabilities and other financial liabilities	46,841	7,827	598.5%
Derivatives	103,198	87,573	117.8%
Provisions for employee benefits	1,494,542	1,497,814	99.8%
Other provisions	140,542	141,408	99.4%
Accruals and governmental subsidies	680,537	668,487	101.8%
Provision due to deferred income tax	1,451,536	1,339,057	108.4%
<b>Short-term liabilities</b>	<b>3,778,952</b>	<b>5,257,730</b>	<b>71.9%</b>
Current portion of interest-bearing credits, loans and debt securities	338,249	284,633	118.8%
Current part of liabilities due to financial leasing	17,171	17,327	99.1%
Trade liabilities and other liabilities	1,625,291	2,023,537	80.3%
Derivatives	80,218	73,358	109.4%
Provisions for employee benefits	142,315	162,368	87.7%



Statement of financial situation	Status as at 30 June 2014 (not audited)	Status as at 31 December 2013	Dynamics (2014/2013)
Other provisions	671,999	1,563,019	43.0%
Accruals and governmental subsidies	313,347	239,639	130.8%
Liabilities due to income tax	1,786	79,035	2.3%
Other non-financial liabilities	588,576	814,814	72.2%
<b>Total liabilities</b>	<b>13,754,609</b>	<b>14,562,071</b>	<b>94.5%</b>
<b>TOTAL LIABILITIES</b>	<b>31,577,237</b>	<b>32,355,570</b>	<b>97.6%</b>

The figure below shows the change in the status of liabilities and equity.

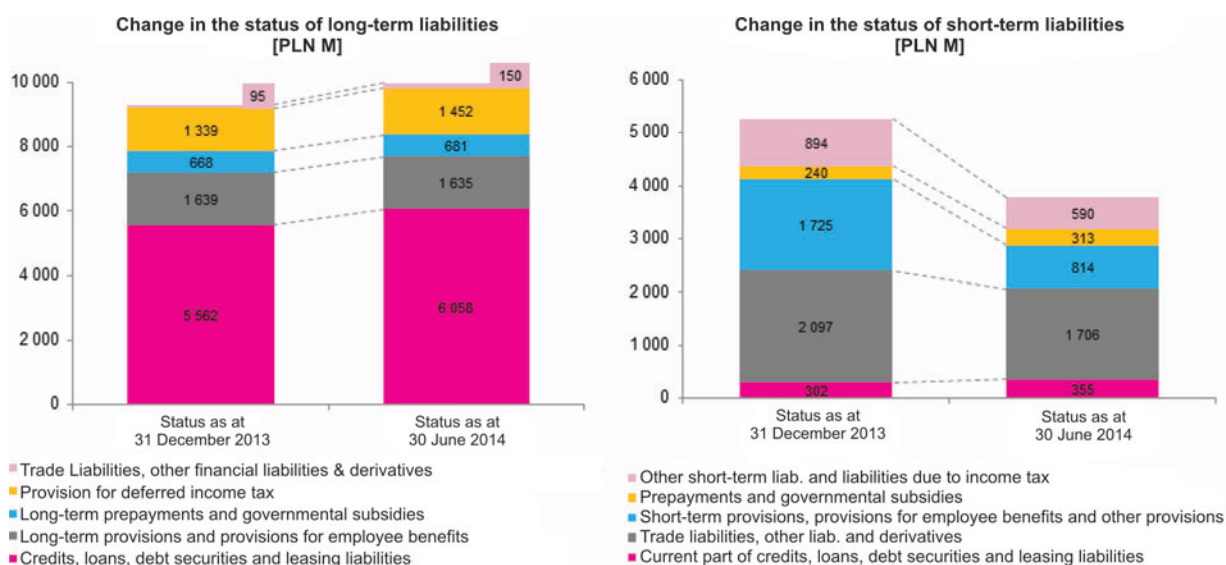
**Figure no. 14. Change in liabilities and equity**



Similar to previous years, the equity is still the dominating source of financing of the assets, and its share in the balance sheet total increased to 56.4%.

The figure below shows the change in the status of liabilities.

**Figure no. 15. Change in the status of liabilities**





In the 1st half of 2014 the level of long-term debt of TAURON Capital Group increased by PLN 505 million (9.2%), mainly due to the acquisition of external sources of funding in the form of debt securities for the needs of investments implemented in fixed assets. This item was the main factor determining the growth in the value of long-term financial liabilities.

In the reporting period the value of short-term liabilities decreased by 28.1%, which was mainly associated with the 57% drop in other provisions and 19.7% drop in the value of trade liabilities and other liabilities. The significant decrease of other provisions arises from the use of the provision created during 2013 for the redemption of property rights due to certificates of electric energy origin and CO<sub>2</sub> emission allowances. The decrease in trade liabilities and other liabilities results from lower own costs of sales in relation to the corresponding period of the previous year and the repayment of liabilities by companies of TAURON Capital Group due to the purchase of tangible fixed assets and intangible assets. In the 1st half of 2014 the value of financial liabilities increased by 18.8%, which is the consequence of the credits drawn and bonds issued. The value of net financial debt increased by 18%.

#### 4.4. Cash Flows

##### Statement of Cash Flows

In the table below, the interim condensed statement of cash flows is presented, for the 1st half of 2014, in relation to the 1st half of 2013.

**Table no. 13. Interim Statement of Cash Flows (data in thousand PLN)**

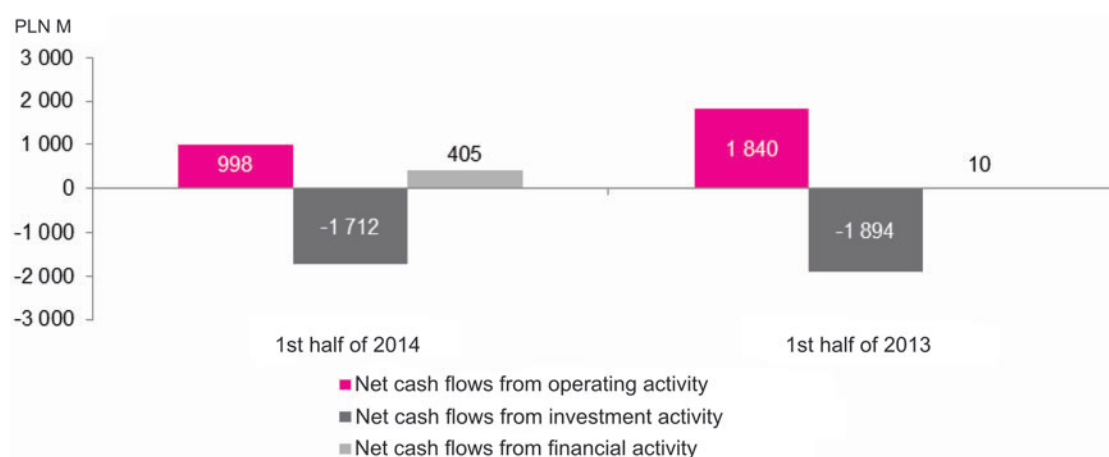
Statement of Cash Flows	1st half ended on 30 June 2014	1st half ended on 30 June 2013
<b>Cash flows from operating activities</b>		
Gross profit/(loss)	925,543	1,086,154
Adjustments	72,130	754,313
<b>Net cash from operating activities</b>	<b>997,673</b>	<b>1,840,467</b>
<b>Cash flows from investment activities</b>		
Sales of tangible fixed assets and intangible assets	30,295	9,959
Purchase of tangible fixed assets and intangible assets	(1,742,014)	(1,846,214)
Sales of financial assets	1,272	760
Purchase of financial assets	(4,400)	(4,246)
Dividends received	2,096	7,396
Interest received	469	56
Repayment of loans granted	5,850	17,550
Loans granted	(5,850)	(79,550)
Other	0	4
<b>Net cash from investment activities</b>	<b>(1,712,282)</b>	<b>(1,894,285)</b>
<b>Cash flows from financial activities</b>		
Repayment of liabilities due to financial leasing	(9,899)	(7,495)
Cash inflows due to loans/credits	0	451,180
Repayment of loans/credits	(60,708)	(19,648)
Issuance of debt securities	1,000,000	0
Redemption of debt securities	(300,000)	0
Dividends paid	(990)	(347,916)
Interest paid	(136,960)	(85,762)
Purchase of non-controlling shares	(125,227)	(1,352)
Subsidies received	43,322	23,655
Commissions paid	(4,667)	(2,690)
<b>Net cash from financial activities</b>	<b>404,871</b>	<b>9,972</b>
<b>Increase/(decrease) in net cash and equivalents</b>	<b>(309,738)</b>	<b>(43,846)</b>

Statement of Cash Flows	1st half ended on 30 June 2014	1st half ended on 30 June 2013
Net exchange differences	60	(845)
<b>Cash opening balance</b>	<b>541,148</b>	<b>891,654</b>
<b>Cash closing balance</b>	<b>231,410</b>	<b>847,808</b>

TAURON Capital Group recorded negative result on the total value of net cash flows on operating, investment and financial activities. The total of all cash flow streams in the 1st half of 2014 amounted to about PLN 309.7 million.

The figure below presents cash flows in the period of the 1st half of 2014 and 2013.

**Figure no. 16. Cash flows in the 1st half of 2014 and 2013**



The accomplished value of cash flows on operating activities in the reporting period was positive and it was lower by approximately 45.8% than the cash flow stream achieved in the corresponding period of the previous year. It should be mentioned that in the 2nd quarter of 2014 the value of cash flows from operating activities reached PLN 891 million, which means over 9-fold growth in relation to the values of cash flows reported for the 1st quarter of 2014. One of the factors of significant influence on the lower value of operating cash flows in relation to the corresponding period of the previous year were the lower results of TAURON Capital Group achieved in the 1st half of 2014. The above mentioned factor should not be disregarded in terms of its impact on the change in the status of short-term receivables and liabilities, which resulted in slightly higher outflow of cash than in the 1st half of 2013. In addition, the situation in the coal and energy market was reflected in the lower sales and lower consumption of coal for own needs, which, in turn, caused the retaining of cash in less liquid current assets – such a situation did not occur in the corresponding period of last year. Due to the lack of supply of “white” certificates on the market in 2013, in order to fulfil the obligation related to redemption of these property rights, TAURON Capital Group paid the substitution fee. At the same time, in the current period, TAURON Capital Group purchased certificates of energy origin on account of the fulfilment of the obligation for 2014.

The expenditures incurred due to the purchase of tangible fixed assets represent the factor of the highest impact on the developments of the cash stream of investment nature, which in the reporting period were lower by approximately 5.6% than the expenditures incurred in the corresponding period of 2013. The above mentioned decline is caused by increased capital expenditure in connection with the investment in Wicko and Marszewo wind farms carried out in the RES Segment in 2013.

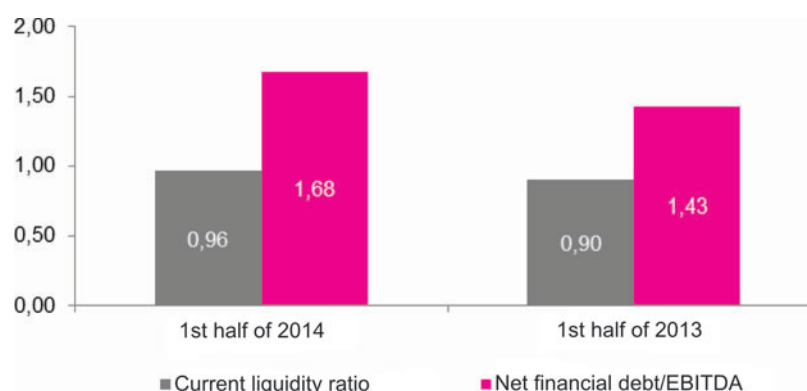
In the current period the highest expenditures were incurred in Segments: Distribution, Generation and Heat.

In the 1st quarter of 2014 TAURON Capital Group increased the amount of financial debt by PLN 700 million, through the issue of debt securities designed mainly for investment in fixed assets, the final settlement of the transaction of purchase of TAURON Wydobycie shares (PLN 77.5 million) and the repurchase of non-controlling shares by companies of TAURON Capital Group.

Irrespective of the negative value of cash flows it can be stated that TAURON Group has been continuing the development process and keeps strengthening its market position. It should be noted that the value of operating cash flows shows a positive balance, which allows for independent financing of the current operations of TAURON

Capital Group. The external funds acquired were allocated for the implementation of the investment process carried out in TAURON Capital Group, with simultaneous maintaining of the liquidity and debt ratios at a safe level.

**Figure no. 17. Liquidity and debt ratios**



TAURON Capital Group effectively manages cash flows, using the centrally implemented model of financing and the central policy of financial risk management. In order to minimise the potential disturbances in cash flows and the risk of loss of liquidity, TAURON Capital Group used the *cash pooling* mechanism. Currently TAURON Capital Group uses various sources of funding, such as, for example, overdraft, bank facilities, loans from environmental funds, issue of bonds, financial leasing contracts and lease contracts with purchase option.

#### 4.5. Financial results according to core business areas

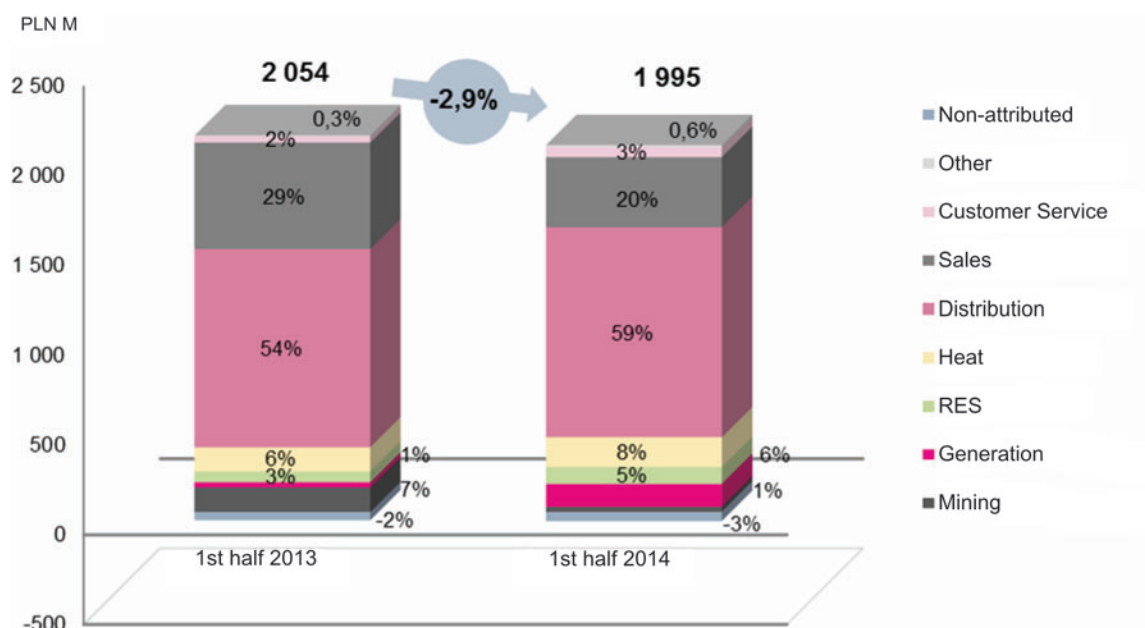
The table below shows the results of TAURON Capital Group, divided into individual Core Business Areas (Segments) of operations for the 1st half of 2014 and the 2nd quarter of 2014, as compared to the analogical periods of 2013. The data for individual Business Areas do not include consolidation exclusions.

**Table no. 14. EBITDA of TAURON Capital Group according to business Areas**

EBITDA (thousand PLN)	1 <sup>st</sup> half of 2014	1 <sup>st</sup> half of 2013	Dynamics 2014/2013	Q 2 2014	Q 2 2013	Dynamics 2014/2013
Mining	28,174	137,404	20.5%	8,471	64,483	13.1%
Generation	126,991	28,139	451.3%	59,507	(129,465)	–
RES	96,716	62,060	155.8%	40,730	34,878	116.8%
Heat	165,226	132,718	124.5%	36,257	27,278	132.9%
Distribution	1,169,688	1,104,102	105.9%	612,000	577,973	105.9%
Sales	391,634	595,731	65.7%	153,290	247,856	61.8%
Customer Service	55,352	33,659	164.4%	15,822	21,556	73.4%
Other	11,886	6,191	192.0%	6,878	3,861	178.1%
Non-attributable items and exemptions	(51,069)	(46,341)	110.2%	(26,565)	(16,913)	157.1%
<b>Total EBITDA</b>	<b>1,994,598</b>	<b>2,053,663</b>	<b>97.1%</b>	<b>906,390</b>	<b>831,507</b>	<b>109.0%</b>

The figure below shows the EBITDA structure of TAURON Capital Group for the 1st half of 2013 and 2014.

**Figure no. 18. EBITDA structure of TAURON Capital Group**



The Distribution Area and Sales Area have the highest share in EBITDA of TAURON Capital Group. As compared to the corresponding period of 2013, growth in the share of the EBITDA structure occurred mainly in Areas: Distribution and Generation, due to better results achieved in the 1st half of 2014.

### Mining Area

The table below shows the results of Mining Area.

**Table no. 15. Results of Mining Area**

Specification (thous. PLN)	1st half 2014	1st half 2013	Dynamics 2014/2013	Change (2014–2013)
<b>Mining</b>				
Revenue on sales	529,412	748,322	70.7%	(218,910)
<i>coal – coarse and medium assortments</i>	154,176	263,411	58.5%	(109,235)
<i>power coal</i>	360,333	467,790	77.0%	(107,457)
<i>other products, materials and services</i>	14,903	17,121	87.0%	(2,218)
Operating profit	(23,785)	84,452	–	(108,237)
Depreciation and amortisation	51,959	52,952	98.1%	(993)
<b>EBITDA</b>	<b>28,174</b>	<b>137,404</b>	<b>20.5%</b>	<b>(109,230)</b>

In the 1st half of 2014 revenue on sales in the Mining Segment decreased by approximately 29% as compared to the 1st half of 2013. The main reason of the significant decrease in the revenues gained is the decline in the volume of sales (766.9 thousand tonnes, 26%) noticeable in each significant segment of sales, i.e.:

- in the group of coarse assortments – decline by 217.5 thousand tonnes (45.3%),
- in the group of medium assortments – decline by 98.3 thousand tonnes (45.2%),
- in the group of coal dust sold inside TAURON Capital Group – decline by 420.3 thousand tonnes (22.1%).

Such state of affairs should be attributed to a number of factors, such as: exceptionally warm winter in the 1st quarter of 2014, decline in electric energy production based on hard coal in the Generation Segment, maintained high level of coal imports and turbulences in the market of heating coal, caused by significant reduction in coal prices by the biggest coal producer on the market.

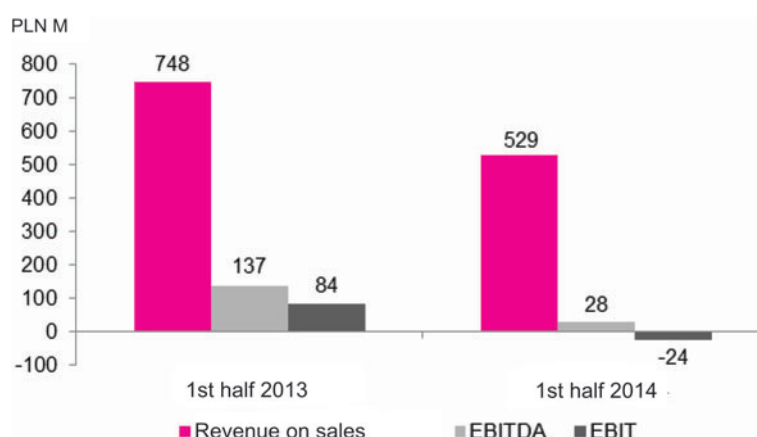
The deviation due to the average price in relation to the previous year reached -5%, which was mainly affected by the prices of coal dust, next to higher prices in the scope of coarse and medium assortments. The decrease in the average price was also influenced by different sales structure (lower share of coarse and medium assortments).

The decline in the level of sales was determined by the decrease in the EBIT result from PLN 84.5 million in the 1st half of 2013, to almost PLN -23.8 million in the 1st half of 2014. The negative impact of the decline in sales was partly compensated by the lower own cost of the coal sold, the main reason of which is the lower production, in relation to the corresponding period of the previous year.

In the 2nd quarter of 2014 itself slight reduction of the decline in the volume of sales can be observed, which is caused by the relatively higher collection of coal dust by the generation companies of TAURON Capital Group, with the deepening decline of coarse assortments.

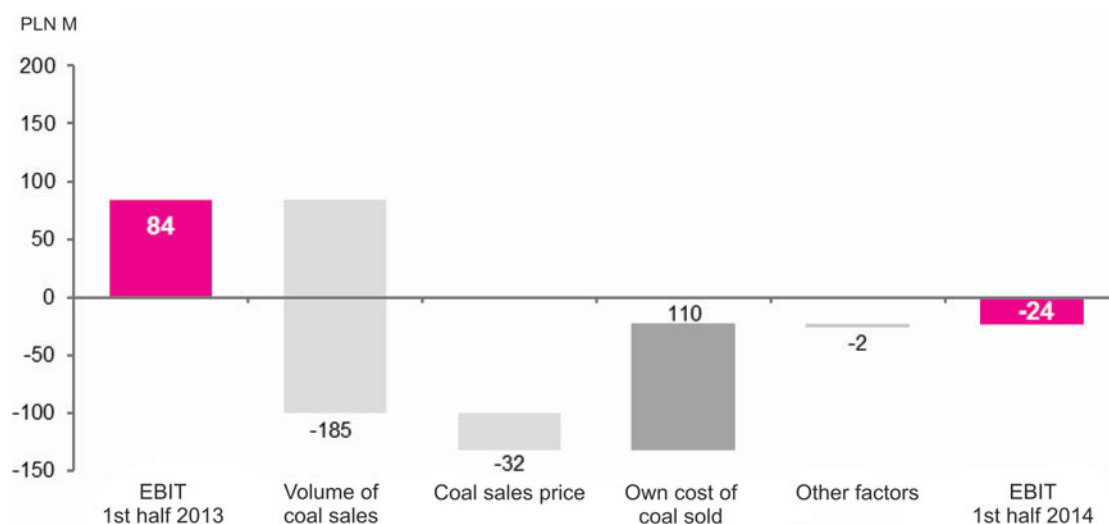
The figure below shows the financial data of the Mining Area for the 1st half of 2014 as compared to the 1st half of 2013.

**Figure no. 19. Financial results of the Mining Area for the 1st half of 2013 and 2014**



The figure below shows the EBIT Bridge for the Mining Area.

**Figure no. 20. EBIT Bridge for the Mining Area**



## Generation Area

The table below shows the results of the Generation Area.

**Table no. 16. Results of the Generation Area**

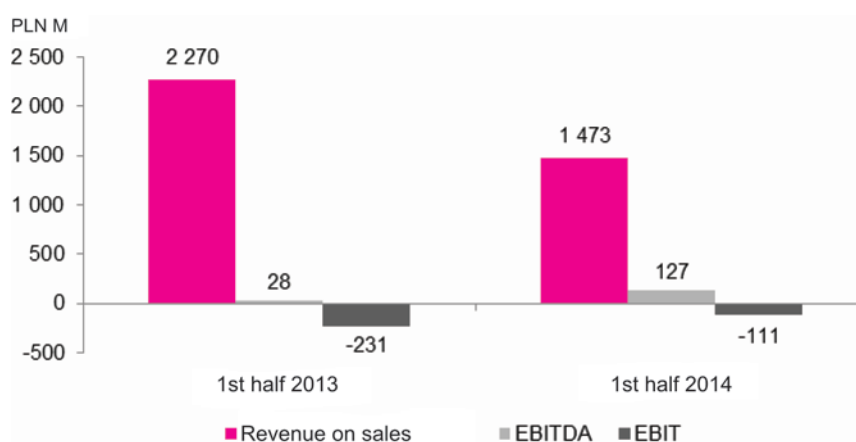
Specification (thous. PLN)	1st half of 2014	1st half of 2013	Dynamics 2014/2013	Change (2014–2013)
<b>Generation</b>				
Revenue on sales	<b>1,472,664</b>	<b>2,270,136</b>	<b>64.9%</b>	<b>(797,472)</b>
<i>electric energy</i>	<i>1,273,000</i>	<i>2,047,752</i>	<i>62.2%</i>	<i>(774,752)</i>
<i>heat</i>	<i>69,140</i>	<i>81,370</i>	<i>85.0%</i>	<i>(12,230)</i>
<i>property rights arising from certificates of electric energy origin</i>	<i>112,958</i>	<i>79,932</i>	<i>141.3%</i>	<i>33,026</i>
<i>greenhouse gas emission allowances</i>	<i>1</i>	<i>43,614</i>	<i>0.0%</i>	<i>(43,613)</i>
<i>other</i>	<i>17,565</i>	<i>17,468</i>	<i>100.6%</i>	<i>97</i>
Operating profit	<b>(110,708)</b>	<b>(230,592)</b>	<b>48.0%</b>	<b>119,884</b>
Depreciation and amortisation	237,699	258,731	91.9%	(21,032)
<b>EBITDA</b>	<b>126,991</b>	<b>28,139</b>	<b>451.3%</b>	<b>98,852</b>

In the 1st half of 2014 the revenue on sales in the Generation Segment was lower by approximately 35% as compared to the corresponding period of the previous year, which resulted from lower revenues on electric energy sales (lower volume and sales price), lower revenues on heat sales (lower volume of sales) and lower revenues on sales of CO<sub>2</sub> emission allowances.

The operating results of EBIT and EBITDA of the Generation Segment in the 1st half of 2014 reached a level higher than in the corresponding period of the previous year. Such factors as higher revenues on regulatory system services and power reserves, lower costs of reserve for the deficit of CO<sub>2</sub> emission allowances and lower unit generation costs (lower coal prices) had a positive impact on the results achieved. The result of the Segment in the 1st half of 2013 was charged with the write-down on impairment losses, applied to generation assets, created as of 30 June 2013. As at 30 June 2014, no premises were found to reverse this write-down. On the other hand, lower sales prices of electric energy and the lower volume of sales of electric energy from own production had adverse impact on the results achieved. Margin on electric energy trading was also lower, both due to the lower volume of energy trade and the achieved unit margin.

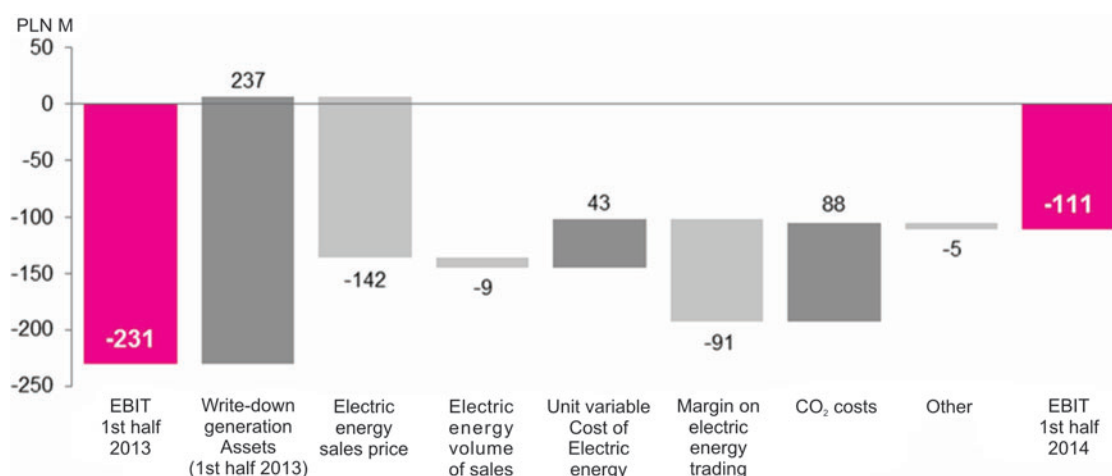
The figure below shows the financial data of the Generation Area for the 1st half of 2014 as compared to the 1st half of 2013.

**Figure no. 21. Financial results of the Generation Area for the 1st half of 2013 and 2014**



The figure below shows the EBIT Bridge for the Generation Area.

**Figure no. 22. EBIT Bridge for the Generation Area**



### RES Area

The table below shows the results of RES Area.

**Table no. 17. Results of the RES Area**

Specification (thous. PLN)	1st half of 2014	1st half of 2013	Dynamics 2014/2013	Change (2014-2013)
<b>RES</b>				
Revenue on sales	<b>144,900</b>	<b>92,455</b>	<b>156.7%</b>	<b>52,445</b>
<i>electric energy</i>	68,947	56,019	123.1%	12,928
<i>property rights arising from certificates of electric energy origin</i>	74,984	36,125	207.6%	38,859
<i>other</i>	969	311	311.6%	658
Operating profit	<b>56,649</b>	<b>43,969</b>	<b>128.8%</b>	<b>12,680</b>
Depreciation and amortisation	40,067	18,091	221.5%	21,976
<b>EBITDA</b>	<b>96,716</b>	<b>62,060</b>	<b>155.8%</b>	<b>34,656</b>

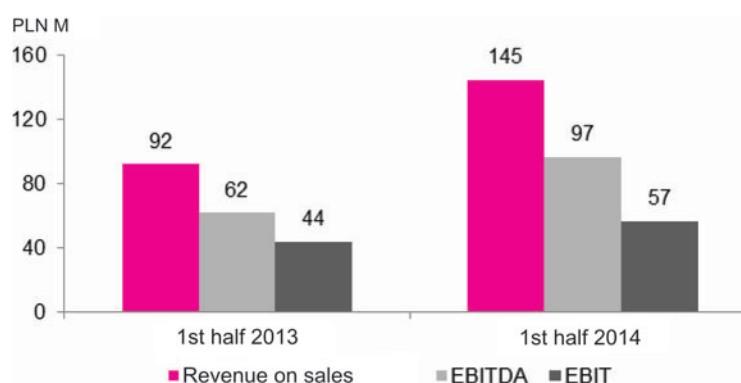
In the 1st half of 2014 revenue on sales in the RES Segment increased by approximately 57% as compared to the corresponding period of the previous year, which is the consequence of the growth in the sales volume of electric energy and property rights (due to the growth of generation capacity, in connection with the commissioning of Wicko and Marszewo wind farms in the 4th quarter of 2013) and the higher price of property rights arising from certificates of origin of electric energy generated in RES. Functioning of wind farms also results in higher costs, mainly in terms of depreciation and amortisation.

Due to the same reasons, the operating results of EBIT and EBITDA of the RES Area in the 1st half of 2014 reached a level higher than in the corresponding period of the previous year.

The figure below shows the financial data of the RES Area for the 1st half of 2014 as compared to the 1st half of 2013.

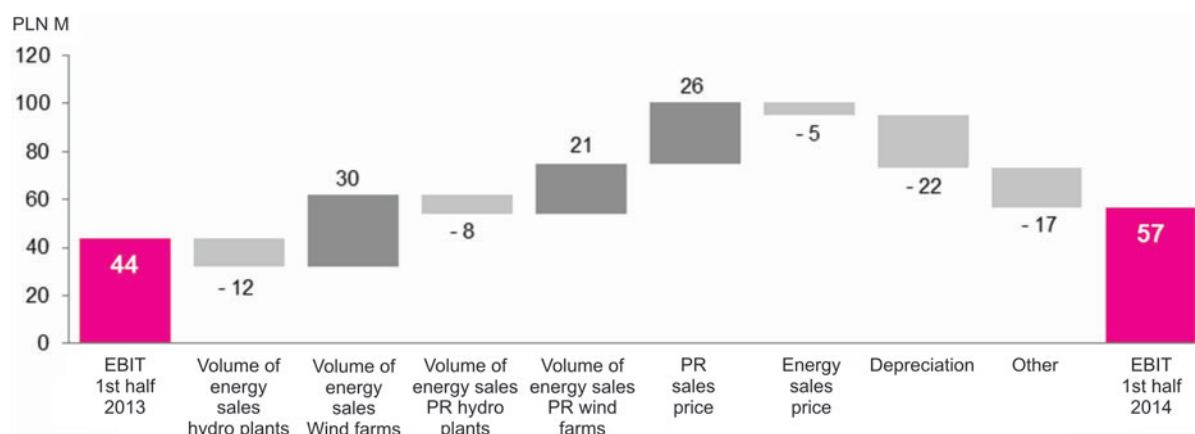


Figure no. 23. Financial results of the RES Area for the 1st half of 2013 and 2014



The figure below shows the EBIT Bridge for the RES Area.

Figure no. 24. EBIT Bridge for the RES Area



### Heat Area

The table below shows the results of the Heat Area.

Table no. 18. Results of the Heat Area

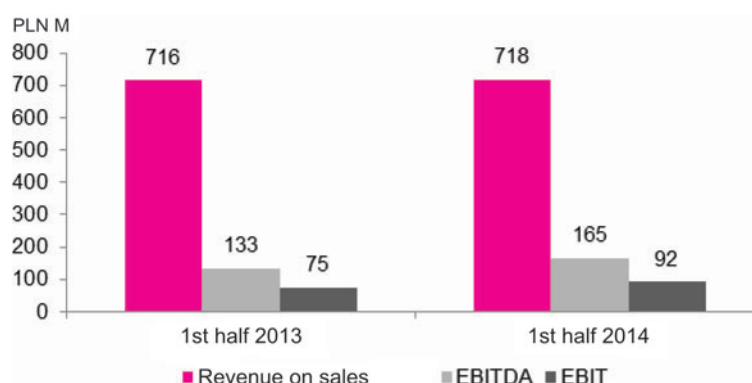
Specification (thous. PLN)	1st half of 2014	1st half of 2013	Dynamics 2014/2013	Change (2014-2013)
<b>Heat</b>				
Revenue on sales	717,877	716,398	100.2%	1,479
<i>electric energy</i>	167,434	174,265	96.1%	(6,831)
<i>heat (including transmission)</i>	392,902	412,446	95.3%	(19,544)
<i>property rights arising from certificates of electric energy origin</i>	30,907	13,383	230.9%	17,524
<i>wind of blast furnace</i>	83,140	74,858	111.1%	8,282
<i>compressed air</i>	35,507	34,285	103.6%	1,222
<i>other</i>	7,987	7,161	111.5%	826
Operating profit	92,480	74,944	123.4%	17,536
Depreciation and amortisation	72,746	57,774	125.9%	14,972
<b>EBITDA</b>	<b>165,226</b>	<b>132,718</b>	<b>124.5%</b>	<b>32,508</b>

Revenue on sales of the Heat Segment in the 1st half of 2014 reached a similar level to the corresponding period of the previous year. The decline referred to revenue on sales and distribution of heat (due to the lower volume of sales resulting from higher temperatures in the winter season) and revenues on electric energy sales (due to the lower sales price). The increased revenue on sales of property rights is a consequence of the higher volume of electric energy production from RES and the higher price adopted for the valuation of property rights arising from certificates of origin of electric energy generated in RES.

The operating results of EBIT and EBITDA in the 1st half of 2014 reached a level higher than in the previous year, whereas in the 1st half of 2013, recognising of the impairment losses write-down applied to the value of "red" and "yellow" certificates had adverse effect on the results achieved. (a consequence of the lack of legal regulations concerning the support system for co-generation). Factors which had positive influence on the results achieved included: higher sales volume of electric energy, higher sales prices of heat, higher revenue on sales of property rights and lower costs of reserve for the deficit of CO<sub>2</sub> emission allowances, whereas the adverse factors included: lower volume of sales and distribution of heat and lower sales prices of electric energy and higher depreciation and amortisation costs.

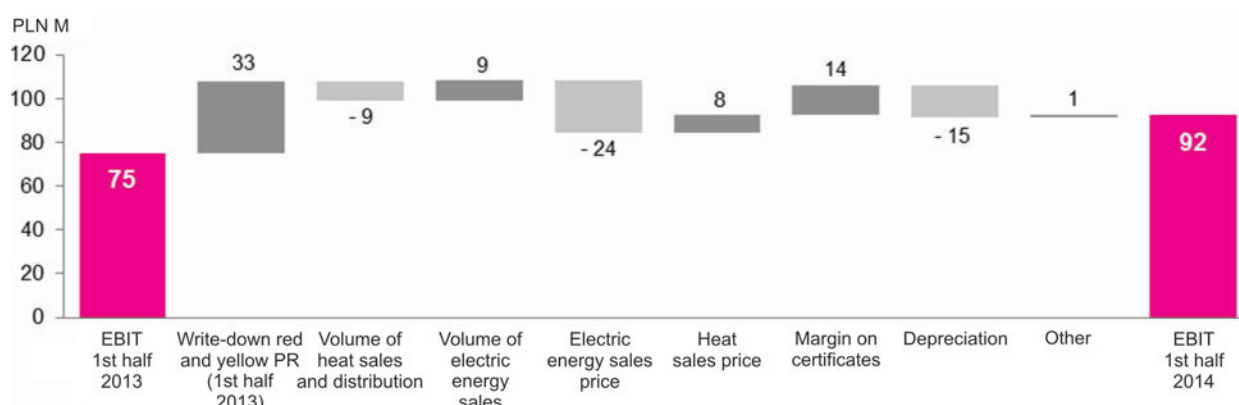
The figure below shows the financial data of the Heat Area for the 1st half of 2014 as compared to the 1st half of 2013.

**Figure no. 25. Financial results of the Heat Area for the 1st half of 2013 and 2014**



The figure below shows the EBIT Bridge for the Heat Area.

**Figure no. 26. EBIT Bridge for the Heat Area**



## Distribution Area

The table below shows the results of the Distribution Area.

**Table no. 19. Results of Distribution Area**

Specification (thous. PLN)	1st half of 2014	1st half of 2013	Dynamics 2014/2013	Change (2014-2013)
<b>Distribution</b>				
Revenue on sales	3,048,951	3,010,804	101.3%	38,147
<i>distribution services</i>	2,840,366	2,788,708	101.9%	51,658
<i>connection fees</i>	66,714	64,382	103.6%	2,332
<i>maintenance of street lightning</i>	43,695	52,290	83.6%	(8,595)
<i>other services</i>	98,176	105,424	93.1%	(7,248)
Operating profit	700,012	656,155	106.7%	43,857
Depreciation and amortisation	469,676	447,947	104.9%	21,729
<b>EBITDA</b>	<b>1,169,688</b>	<b>1,104,102</b>	<b>105.9%</b>	<b>65,586</b>

In the 1st half of 2014, as compared to the corresponding period of 2013, the Distribution Segment recorded increase of revenue by about 1.3%, increase of results at the operating level by about 6.7%, and EBITDA result by about 5.9%. The growth of results arises from the following reasons.

The total revenue achieved in the 1st half of 2014 was higher as compared to the revenue of the 1st half of 2013, mainly due to the increased volume of sales of distribution services to end consumers of groups A and B, in connection with the improvement of the economic situation and the increase in production sold. This growth, however, does not refer to the mining sector where the production of coal was reduced, railway lines where modernisation works of the overhead contact line are in progress and in case of some consumers where the local generation was commissioned or increased. Further decline in energy demand was also observed in case of end consumers connected to the low voltage grids, where, besides the reduction of energy consumption for heating purposes in the 1st quarter of 2014, the changed method of settlement with consumers of C1, O, R and G groups also affected the decrease of invoices supplies (faster readings of electric energy meters). Lower sales referred also the exports.

Higher average rates for distribution services arising from the tariff for 2014 had also positive impact on the level of revenues. The application of the tariff adopted for 2014, maintaining the comparable sales structure, ensured the increase in the average rate for the distribution services by approximately 1.6% YoY (the main factor determining the increase in the tariff was the transferred increase in the transitional and qualitative fee of the TSO).

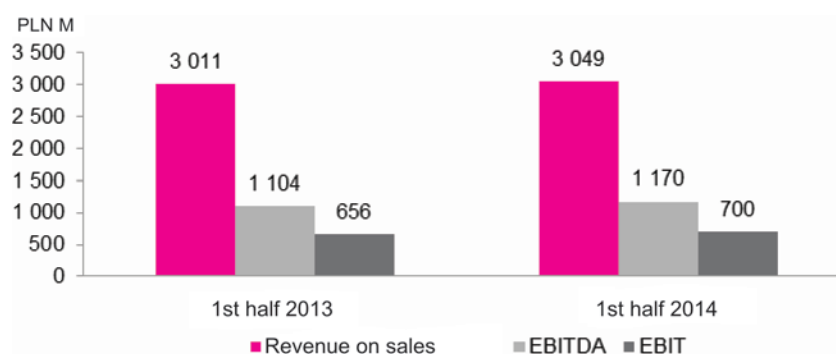
In the scope of other revenue associated with the distribution activities, the decline referred mainly to fees due to exceeding of the load and illegal intake of energy. Growth was noted in the scope of connecting fees due to the connection of wind farms.

Costs of the distribution activities in the 1st half of 2014 were comparable to the level of costs in the 1st half of 2013. In the scope of variable costs, the decrease resulted mainly from the lower level of the balance sheet difference and the lower indicator of the balance sheet difference, as a consequence of the decline in sales to consumers from the low voltage grid, strongly exposed to grid losses, and the increase in sales to consumers from the high voltage grid, demonstrating weaker load of grid losses (in the 2nd quarter of 2014 this indicator reached a level close to the 2nd quarter of 2013). The decline in the volume of losses results also from technical activities on the grid, of continuous nature. Balancing of energy losses was performed at a much lower price representing the product of purchase and resale prices of electric energy in TAURON Capital Group. On the other hand, growth in variable costs of the Segment arises from the higher rate of the transitional and qualitative fee of the TSO (this increase was also taken into account in the tariff for 2014) and the volume of purchase of transmission services due to the decline in generation in case of generators connected to the distribution grid. Fixed costs were also lower YoY, mainly due to the significant reduction of employment, in connection with the on-going restructuring processes, Voluntary Redundancy Programmes and centralisation of accounting services and IT processes.

Results of other operating activities and other core activities had a positive impact on the EBIT level, among others, in connection with the higher level for street lightning services as a consequence of new agreements concluded and lower depreciation costs (change of the economic period of use of the lighting assets).

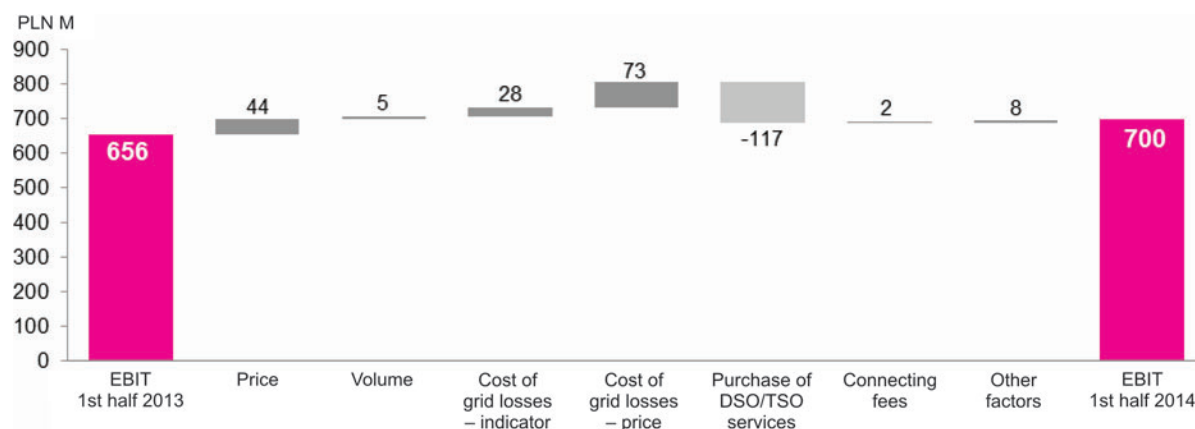
The figure below shows the financial data of the Distribution Area for the 1st half of 2014 as compared to the 1st half of 2013.

**Figure no. 27. Financial results of the Distribution Area for the 1st half of 2013 and 2014**



The figure below shows the EBIT Bridge for the Distribution Area.

Figure no. 28. EBIT Bridge for the Distribution Area



### Sales Area

The table below shows the results of Sales Area.

Table no. 20. Results of Sales Area

Specification (thous. PLN)	1st half of 2014	1st half of 2013	Dynamics 2014/2013	Change (2014–2013)
<b>Sales</b>				
Revenue on sales	7,575,109	8,993,554	84.2%	(1,418,445)
<i>electric energy, including:</i>	4,891,843	5,891,080	83.0%	(999,237)
<i>revenue on retail sales of electric energy</i>	4,161,702	5,204,142	80.0%	(1,042,439)
<i>greenhouse gas emission allowances</i>	73,661	127,328	57.9%	(53,667)
<i>fuels</i>	850,050	1,125,711	75.5%	(275,661)
<i>distribution service (transferred)</i>	1,697,733	1,792,513	94.7%	(94,780)
<i>other services, including commercial services</i>	61,822	56,922	108.6%	4,900
Operating profit	373,508	578,520	64.6%	(205,012)
Depreciation and amortisation	18,126	17,211	105.3%	915
<b>EBITDA</b>	<b>391,634</b>	<b>595,731</b>	<b>65.7%</b>	<b>(204,097)</b>

Revenue on sales of the Sales Segment in the 1st half of 2014 reached a level lower by approximately 15.8% as compared to the corresponding period of 2013. In the analysed period revenues from retail sales of electric energy were also lower, both due to the decrease in prices (by 13.2% in relation to the average price in the 1st half of 2013), and in the volume (decrease by 7.9% in relation to the level of sales in the previous year). The quantitative decline in sales was mainly caused by the enhanced activity of competitive companies in the scope of acquisition of business clients and the decline in consumption in the mass client segment, additionally intensified by the warm winter in the 1st quarter of 2014. The decline in revenues also occurred in fuel sales (in particular, in relation to coal) to TAURON Capital Group companies, which results from the lower level of electric energy production.

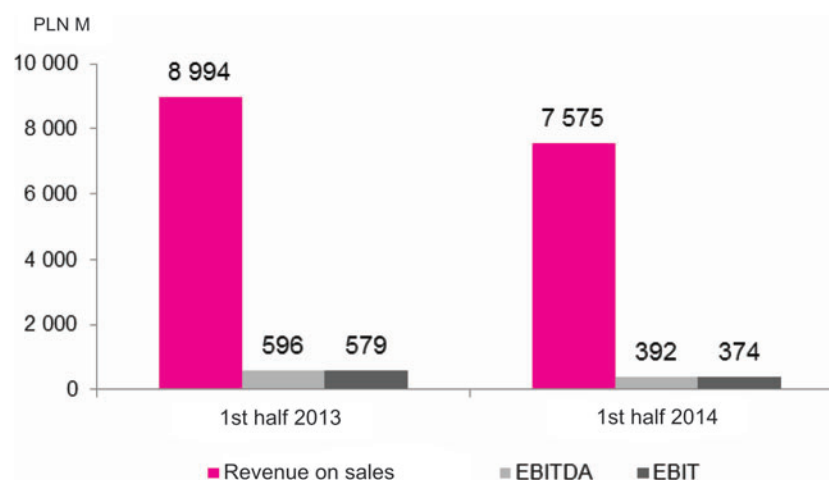
In the 1st half of 2014 the Segment recorded approximately 65–66% of the EBIT and EBITDA level of the corresponding period of the previous year. This situation was mainly determined by the price factors associated with the purchase prices of property rights (in particular, the use of the decline in prices in the 1st quarter of 2013) and the increase in the level of the obligation of redemption of property rights in 2014 as compared to 2013.

In the 2nd quarter of 2014 itself, the resumption of the obligation related to redemption of the “red” and “yellow” certificates, with the simultaneous lack of adjustment of the price in G tariff by ERO, had adverse effect on the results of the Area.

The aforementioned negative factors were partly balanced by lower costs of electric energy purchase.

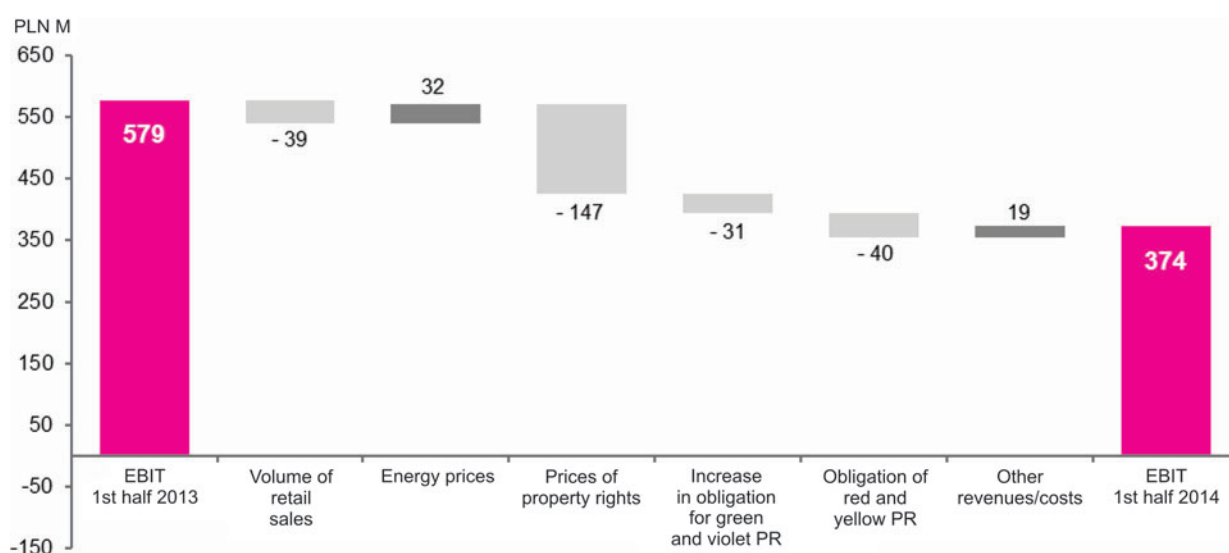
The figure below shows the financial data of the Sales Area for the 1st half of 2014 as compared to the 1st half of 2013.

**Figure no. 29. Financial results of the Sales Area for the 1st half of 2013 and 2014**



The figure below shows the EBIT Bridge for the Sales Area.

**Figure no. 30. EBIT Bridge for the Sales Area**



#### **Business Area: Customer Service**

The table below shows the results of Customer Service Area.

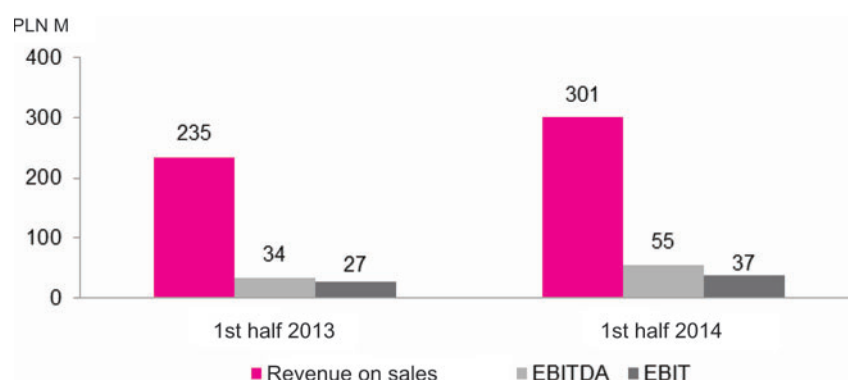
**Table no. 21. Results of Customer Service Area**

Specification (thous. PLN)	1st half of 2014	1st half of 2013	Dynamics 2014/2013	Change (2014-2013)
<b>Customer Service</b>				
Revenue on sales	300,764	235,207	127.9%	65,557
customer service	126,373	114,433	110.4%	11,940
IT services	105,120	79,278	132.6%	25,842
financial & accounting and HR services	68,837	40,802	168.7%	28,035
Other	434	694	62.56%	(260)
Operating profit	36,866	26,904	137.0%	9,962
Depreciation and amortisation	18,486	6,755	273.7%	11,731
<b>EBITDA</b>	<b>55,352</b>	<b>33,659</b>	<b>164.4%</b>	<b>21,693</b>

The revenue on sales in the Customer Service Area increased by 27.9%, as compared to the corresponding period of the previous year, which should be mainly attributed to the reorganisation of the company providing common services within TAURON Capital Group. At the beginning of 2013 merger of TAURON Obsługa Klienta with its corresponding entity of the former GZE Capital Group took place, followed by gradual migration of resources from individual companies of TAURON Capital Group. In 2014 the company of Customer Service Area provided its services to the majority of companies of TAURON Capital Group, which has contributed to the simultaneous increase in revenues from sales and costs of the operations conducted, correlated with the growth of revenues, mainly due to the migration of proprietary resources and human resources.

The figure below shows the financial data of the Customer Service Area for the 1st half of 2014 as compared to the 1st half of 2013.

**Figure no. 31. Financial results of the Customer Service Area for the 1st half of 2013 and 2014**



#### **Business Area: Other**

The table below shows the results of Other Area.

**Table no. 22. Results of Other Area**

Specification (thous. PLN)	1st half of 2014	1st half of 2013	Dynamics 2014/2013	Change (2014–2013)
<b>Other</b>				
Revenue on sales	125,080	165,982	75.4%	(40,902)
<i>electric energy</i>	34,428	84,364	40.8%	(49,936)
<i>property rights arising from certificates of electric energy origin</i>	50,462	40,628	124.2%	9,834
<i>grinding plant products</i>	25,638	26,115	98.2%	(477)
<i>grit and stone</i>	13,755	14,119	97.4%	(364)
<i>other products and services</i>	797	756	105.4%	41
Operating profit	8,501	1,763	482.2%	6,738
Depreciation and amortisation	3,385	4,428	76.4%	(1,043)
<b>EBITDA</b>	<b>11,886</b>	<b>6,191</b>	<b>192.0%</b>	<b>5,695</b>

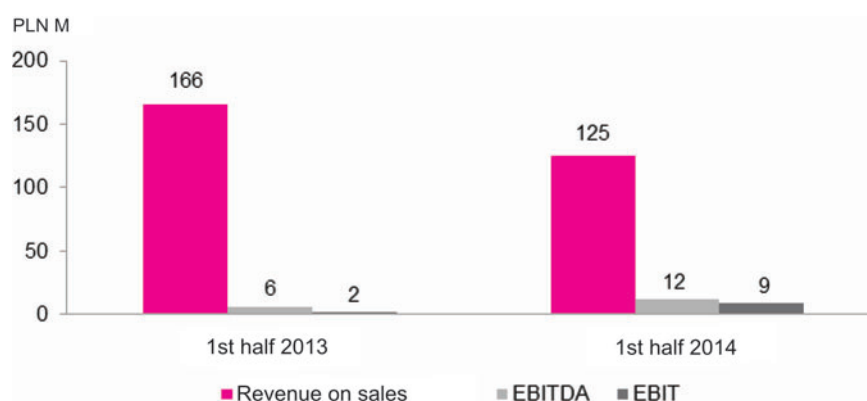
The revenue on sales in the Other Area decreased by about 24.6% as compared to the 1st half of 2013. The suspension of trading on the wholesale market (arising from organisational changes related to PEPKH company), in correlation with lower prices in energy market, determined lower results of this company and the whole Area, only partly mitigated by the increased trading of proprietary rights arising from the certificates of origin of electric energy.

Lower revenues on sales achieved by KW Czatkowice had also a significant impact of the level of revenues, due to the decreased demand of the energy sector for sorbents resulting, among others, from the warm winter. However, the measures undertaken by the company, aimed at adjustment of the structure of sales to the market situation, increase of production capacity in the scope of production of grit and stone mixtures, resulting in the optimisation of production and costs of operations conducted, contributed to the effective improvement of the Area results, as compared to the corresponding period of 2013. The increased volume of sales of the company products was

not reflected in the increased revenue on sales, as a consequence of the change in sales structure – decrease in the volume of sales of more expensive products, balanced by the increase in the volume of sales of less processed, i.e. cheaper products.

The figure below shows the financial data of Other Area for the 1st half of 2014 as compared to the 1st half of 2013.

**Figure no. 32. Financial results of Other Area for the 1st half of 2013 and 2014**



#### 4.6. Factors which will have impact on the results to be achieved within the perspective of at least the next half a year

Results of operations of TAURON Capital Group will be affected mainly, as it happened in the past, by the such factors as:

- the macroeconomic situation, especially in Poland, as well as the economic situation of the area of operations of the TAURON Capital Group, situation of the EU and the global economy, including changes in interest rates and currency exchange rates, etc., influencing the valuation of assets and liabilities recognised in the statements on financial situation,
- political environment, especially in Poland as well as on the European Union level, including the opinions and decisions of public administration institutions and bodies, for example: UOKIK, ERO and the European Commission,
- changes in the regulations of the energy sector, as well as changes in the legal environment, including: the tax law, commercial law, environmental protection law,
- situation in electric energy sector, including the activity and measures undertaken by competition in the energy market,
- resumption of the support system of electric energy generation in high-performance co-generation (“red” and “yellow” certificates),
- number of CO<sub>2</sub> emission allowances allocated on complimentary basis after 2013 and prices of the allowances acquired,
- geological and mining conditions,
- electric energy prices on the wholesale market;
- sales prices of electric energy and coal as well as distribution tariffs, as factors influencing the level of revenues,
- prices of certificates of origin of energy from renewable sources and co-generation,
- prices of energy resources,
- demand for electric energy and other products of energy market, including changes arising from seasonality and weather conditions,
- environmental protection requirements,
- scientific and technical progress,
- potential failures of equipment, installations and grids owned by TAURON Capital Group.



**4.7. Standpoint of the Management Board concerning a possibility to implement forecasts of results for the year published earlier**

TAURON Capital Group did not publish any forecasts of financial results for 2014. The financial situation of TAURON Capital Group is stable and no negative events occurred which would cause any threat to its business continuity or significant deterioration of its financial standing.

The detailed description of the financial situation understood as the provision of financial resources for both the operational and the investment activity is included in this chapter 4.

## 5. OTHER SIGNIFICANT INFORMATION AND EVENTS

### 5.1. Proceedings pending in the court, competent arbitration authority or public authority body

During the reporting period no proceedings were pending before any court, competent arbitration authority or public authority body, related to the Company or subsidiaries of TAURON Capital Group, whose single or aggregate value would exceed at least 10% of the equity of the Company.

### 5.2. Other information which 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 to fulfil the obligations by the TAURON Capital Group

#### **Macroeconomic situation / energy balance in KSE**

Consumption of electric energy in Poland in the 1st half of 2014, according to TSO data, amounted to 78,482 GWh, thus, it slightly declined in relation to the corresponding period of 2013 (by 0.33%). The main reason of the lower energy demand was the winter, much milder than in the previous year. The average temperature in the 1st half of 2014 reached 8.2°C and it was by almost 2.2°C higher than in the 1st half of 2013. The decline in electric energy consumption was particularly visible in the warm month of March (by about -3.3%), while the hot May was distinguished by the growth in demand YoY by 3.4%.

The domestic electric energy production dropped, reaching the level of 77,253 GWh in the 1st half of 2014, and it was by 3,821 GWh (4.7%) lower than in the corresponding period of 2013. The decline of almost 27%, to only 1,327 GWh, was recorded, in particular, in gas-fired power plants (lack of the support systems in the form of "yellow" certificates). Production of energy based on hard coal was lower by 6.2%, reaching the level of 39,994 GWh. Similarly, 5.6% less energy was produced from lignite (26,246 GWh). Increase in energy production was noted in wind farms, where the output reached 3,837 GWh, which makes a growth by ab. 53% in relation to the 1st half of 2013. Until the end of June the installed capacity of wind farms reached 3,571 MW.

In the 1st half of 2014 Poland became an importer of energy. In January still some amounts of energy were exported, but in the consecutive months Poland became a net importer. In total, in the 1st half of 2014, the surplus of import over export amounted to 1,229 GWh, whereas in the corresponding period of 2013 export was higher than import by 2,333 GWh. The reason of such a situation are the significantly lower wholesale energy prices in the neighbouring countries of Poland and a more difficult situation in the KSE, resulting in a more restrictive approach of the transmission system operator to the availability of transmission capacity.

#### **Electric energy prices on the balancing market**

The average weighted price of electric energy, not imposed by the grid constraints, on the Balancing Market in the 1st half of 2014 was by over PLN/MWh 40 higher than in the corresponding period of 2013. The reasons of the growth of this price may be attributed to the increased settlement price of the CO<sub>2</sub> emission allowances on the Balancing Market (by about PLN/Mg 5.4 on average), as well as to the introduction of the payment for the operating peak power reserve, with the current maximum price of PLN/MWh 37.13. 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 also increased.

Decline of hard coal based production in the KSE had adverse effect on the volume of sales of energy from the generation units of TAURON Capital Group, whereas the growth of prices on the Balancing Market and SPOT market resulted in the increase of the margin for electric energy sold by those entities in the 1st half of 2014.

#### **Electric energy prices on the wholesale market**

The average price of electric energy on the TGE day-ahead market in the 1st half of 2014 reached PLN/MWh 168.65 and it was by PLN/MWh 14.55 higher than the average price in the corresponding period of 2013. Whereas prices in the previous year were declining month by month, in the current year, the prices were gradually increasing. The peak hours, i.e. from 8.00 a.m. to 10.00 p.m., during which the additional payments for operating power reserve operated, effectively raised the level of prices for which the generators were ready to sell the energy. In addition, the lack of possibility to import energy closed the cheaper alternative from Germany or Czech Republic. The average price in peak hours on the TGE day-ahead market in the 1st half of 2014 reached PLN/MWh 209.27 and it was higher by approximately PLN/MWh 32.48 than in the 1st half of 2013.

The wholesale prices of energy in the main neighbouring European markets showed different trends. The high supply of energy from renewable sources, mainly wind and solar energy, as well as the historically lowest prices of coal and gas, combined with the very mild weather, caused that electric energy prices on the SPOT were under a strong supply pressure during the whole 1st half of 2014. On the German market the average price of Phelix index at the EPEX exchange in the 1st half of 2014 reached the level of EUR/MWh 32.36, i.e. by EUR/MWh 5.05 less than a year before. Similar situation was observed on the Czech market, where the average price of OTE spot was lower by EUR/MWh 2.82 YoY, reaching EUR/MWh 32.63. The highest drop in prices, even by EUR/MWh 12.45 YoY, was recorded for the Scandinavian NordPool spot market, where the average price of electric energy for the 1st half of 2014 reached EUR/MWh 27.92.

In Poland, following the last year's decline, forward contracts quoted in the 1st half of 2014, after a temporary consolidation, increased rapidly, similar to the SPOT prices. Prices of the reference contract with the delivery next year, Base Y-15 increased from PLN/MWh 157.41 to PLN/MWh 174.00 in the period from 1 January to 30 June 2014. Due to the SPOT prices, the prices of PEAK Y-15 peak contracts were increasing much more dramatically, raising from PLN/MWh 191.50 in January 2014 to as much as PLN/MWh 226.33 at the end of June 2014. On the other hand, BASE Y-15 contracts on the German EEX behaved differently, consolidating over the 1st half of 2014 at a level of EUR/MWh 34–35 following the decline from EUR/MWh 36.50. The German energy price in forward contracts has reached the cheapest level for over 9 years, falling to the historic minimum of EUR/MWh 33.90 in April 2014.

### **Prices of CO<sub>2</sub> emission allowances**

At the beginning of 2014, the price of CO<sub>2</sub> emission allowances covered by the community EU ETS trading system was EUR/Mg 4.95, subsequently increasing rapidly, to reach the level EUR/Mg 7.21 at the end of February. The main reasons of such a situation were the signals from the European Commission aimed at acceleration of the procedure involving the withdrawal of 900 million t of units from the system (so-called backloading) as well as the delays of the European Commission to issue free certificates, considering the approaching deadline for the obligation of redemption, falling on 30 April 2014. In March 2014, the adjustment to the level of EUR/Mg 4.40 took place, associated with the persistent low demand for certificates and the reduction of emission level by 3.1% YoY. In the consecutive months, due to the strong support of the initiatives aimed at fact reform of the system, the recovery of the value of the allowances occurred. At the end of June 2014 the price of EUA contracts (European Union Allowances) DEC-14 approached the level of EUR/Mg 6, i.e. by 33% more than the minimum levels recorded at the end of March.

### **Changes in the CO<sub>2</sub> emission allowances trading system**

In January 2014 the European Commission proposed changes in the European Union emission allowances trading system, to be effective starting from 2021, in the scope of establishing the additional reserve for the needs of ensuring the stability of the CO<sub>2</sub> emission allowances market and in relation to increasing the linear emission reduction ratio from 1.74% to 2.20%. However, on 4 June 2014 Directorate General for Energy announced that they would not object to the introduction of the stabilisation reserve still in the current settlement period 2013–2020, which was proposed by some EU Member States. On 12 June 2014 the government of Germany announced the proposal concerning direct transfer of 900 million tonnes of allowances to the planned stabilisation reserve until the end of 2017. In the first quarter of 2014 implementation of the amendment of the EU ETS directive took place, in the scope of reduction of the volume of emission certificates on the market by 900 million tonnes EUA (the so-called backloading). According to the adopted and implemented schedule, in 2014, 400 million tonnes of EUA were withdrawn from the market, to be followed by 300 and 200 million tonnes of EUA, respectively, to be withdrawn in the consecutive years.

### **Prices of Property Rights**

On the market of property rights, PMOZE\_A, resulting from the certificates of origin of energy from RES, in January and February prices of certificates were dynamically increasing, reaching the levels close to PLN/MWh 250. In March, considerable price adjustment occurred and prices of "green" certificates dropped to the level of approximately PLN/MWh 178. In the consecutive months, until the end of June, the prices remained at a level around PLN/MWh 177–180. The balance of the register (difference between the certificates issued and redeemed), PMOZE\_A, in the period from the beginning of 2014 until the end of April, dropped by 6.5 TWh as a result of redemption for 2013, subsequently, it started to grow and at the end of June its surplus reached 8.9 TWh.

The prices of PMMET certificates (so-called "violet" certificates), confirming generation of energy from combustion of gas acquired during methane removal from coal mines, remained stable during the first quarter of 2014, oscillating at the level of the substitution fee: PLN/MWh 59.50–60.00. In the second quarter they dropped to approximately PLN/MWh, under low turnover volumes. It was associated with the *Act of 14 March 2014 on the amendment to the Act – Energy Law and certain other laws*, signed on 7 April 2014 by the President of the Republic of Poland, which introduces / extends the support system for the generation of energy in installations of high-performance co-generation

until 30 June 2019 ("yellow" PMGM certificates and "red" P MEC certificates). At the same time, for PMMET, PMGM and P MEC the date of the redemption obligation was postponed to 30 June 2014, and the obligation of redemption for a given calendar year is only possible using the certificates "produced" in the year of the obligation. This means the lack of possibility of the so-called "parking", i.e. storage of these rights for the future years, which caused a rapid decline in value of the certificates originating from previous years. On the other hand, the price of the PMMET-2014 certificate is stable, reaching ab. PLN/MWh 59 at the end of June 2014.

The property rights confirming generation of electric energy in high-performance coal-fired co-generation (P MEC), and gas-fired co-generation (PMGM) were not subject to trading throughout the whole 1st half of 2014. It resulted from the lack of redemption obligation for PMGM and P MEC prior to the date of amendment to the Act, and following its entry into force – from the lack of rights arising from the current year, issued by the ERO, complying with the requirements of the amendment.

Proprietary rights arising from the energy efficiency certificates, i.e. the so-called "white" certificates, were sold in the 1st half of 2014 within the range of PLN/toe 900–975. At the beginning of the year, their price fluctuated around PLN/toe 900, reached its maximum in March and at the end of June 2014, the cost of the "white" certificates reached PLN/toe 930. The balance of the P MEC register at the end of June 2014 reached the surplus of 6.5 thousand toe.

### ***Sales of energy to end clients***

In the 1st half of 2014, companies of Sales Area of TAURON Capital Group operated in the market environment which demonstrated variable level of competitiveness in individual market segments. Whereas energy enterprises dealing with energy trading in the segment of business clients have been exempt from the obligation to submit prices for end consumers for approval by the President of ERO for several years, the segment of households is still subject to the obligation to have energy sales prices approved by the President of ERO. For several years such a situation has resulted in diversified market strategies of energy enterprises towards market segments.

One of the measures of the level of market segment competitiveness is the number of clients (households, economic entities and institutions) changing the electric energy supplier (the so-called TPA rule). In the segment of business clients (tariff groups A, B, C2x') in the first five months of 2014, growth of this factor by over 20.6% in relation to end of 2013 was recorded. This increase reflects the progress of liberalization of the energy market in Poland in the group of business clients. New entities appear on the market, aggressively fighting for clients (mainly in the area of prices). The energy awareness of clients is also increasing, affected by the transparency of energy market mechanisms.

Situation is different in case of the household segment which, in spite of numerous announcements of its liberalisation, in 2014 still remains subject to the obligation of approval of electric energy sales prices by the ERO President. The consequence is currently the lower competitiveness in the market segment of business clients in this area of the market.

Historically, companies conducting operations in the scope of electric energy sales to end business clients, used the so-called A tariff group for consumers connected to the high-voltage power grid (HV), B tariff group for consumers connected to the medium-voltage power grid (MV) and C tariff group for consumers other than households, connected to the low-voltage power grid (IV). In connection with the partial liberalisation of the energy market, offers tailored to individual clients' needs appeared. TAURON Capital Group offers products, sales channels and marketing communication considering the competition, innovative solutions adjusted to the level of market development and expectations of the specific segment of clients. The segmentation applied depending on the level of electric energy consumption, allocates clients to the following segments: strategic, business and mass clients.

The effect of the strategy adopted and implemented by TAURON Capital Group in the Sales Area is demonstrated by both sales activities conducted outside own distribution area and by protection of own client base against the activities of competition.

### ***Disposal of assets Elektrownia Halemba in Ruda Śląska***

On 4 March 2014 TAURON Wytwarzanie signed a notary act, pursuant to which assets of Elektrownia Halemba were sold to the company Bravet spółka z o.o. for the total price of PLN 12.8 million. Elektrownia Halemba was decommissioned in 2012. The decision on decommissioning of generation facilities which did not comply with the environmental requirements resulted from the economic and ecological premises. The disposal of Elektrownia Halemba assets enabled TAURON Wytwarzanie to optimise its fixed costs.

### **Development of the Centre of Common Services (CUW)**

In the 1st half of 2014, the activities launched in 2012 were continued, related to the organisation of the Centre of Common Services in accounting area (CUW R), the financial and accounting services of TAURON Dystrybucja and TAURON EKOENERGIA companies was taken over. Activities in the IT area were also continued (CUW IT); until June 2014, CUW IT covered 21 companies of TAURON Capital Group with ICT services it provides. The main purpose of the aforementioned processes is to optimise costs and to standardise processes.

### **Obtaining free sulphur dioxide emission allowances**

In accordance with Directive 2003/87/EC of the European Parliament and of the Council of 13 October 2003 *establishing a scheme for greenhouse gas emission allowance trading within the Community and amending Council Directive 96/61/EC*, TAURON Capital Group is entitled to receive free emission allowances pursuant to Article 10c of the aforementioned Directive ("derogation allowances"). In 2013, TAURON Capital Group submitted applications for granting the derogation allowances. Due to the prolonged period of formal and legal process aimed at allocation of free allowances in the 1st quarter of 2014, a justified risk existed that the free CO<sub>2</sub> allowances for 2013 would not be allocated on time, i.e. until 30 April 2014, when the deadline for the settlement of emission balance for 2013 expired. Some energy companies, including TAURON Capital Group, purchased the allowances on the market instead of free allowances. Finally, free allowances for 2013 for TAURON Capital Group were received on its account on 12 April 2014. The allowances purchased before created the surplus of allowances to be used in 2014. At present, taking into account the current level of electric energy and heat production, the generation companies of TAURON Capital Group hold the surplus of allowances, accordingly, they do not recognise costs of coverage of the deficit of CO<sub>2</sub> emission allowances.

### **Adoption of the Co-generation Act**

On 14 March 2014 the Parliament of the Republic of Poland passed the *Act on the amendment to the Act – Energy Law and certain other law*, i.e. the so-called co-generation act, effective since 30 April 2014. This Act has recovered the system of support for high-performance coal and gas co-generation, which operated until the end of 2012. The support was introduced for years 2014–2018. The entry into force of the new co-generation act means the obligation imposed on energy suppliers in terms of purchase and redemption of energy certificates of origin (the so-called "yellow" certificates for gas co-generation, the so-called "red" certificates for coal co-generation) or payment of the substitution fee. Energy suppliers have been charged with additional costs in order to fulfil the obligation concerning the redemption of the "yellow" and "red" certificates. For the "red" certificates the redemption obligation amounts to 23.2% of the volume of the energy sold, whereas in case of the "yellow" certificates, this obligation shall increase from 3.9% in 2014 to 8% in 2018, which should contribute to the development of the co-generation sources operating based on gas fuel.

In accordance with the said Act, the ERO President defined the substitution fees for 2014 and 2015 at the following level:

- for the "red" certificates: PLN/MWh 11, both in 2014 and in 2015;
- for the "yellow" certificates: PLN/MWh 110 in 2014 and PLN/MWh 121.63 in 2015.

The level of the substitution fees for the consecutive years will be defined by the ERO President according to the following rules:

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

Thus, the Act grants broad powers to the ERO President in the scope of the level of the substitution fee.

It will be possible to redeem the certificates originating from production in co-generation in individual years only within the settlement for a given year, i.e. until June of the consecutive year, which is a significant difference in relation to the previously operating mechanisms, when the possibility of "banking" the certificates of the previous years led to the disturbance of the balance between supply and demand and the instability of certificate price.

The amendment to the aforementioned Act, recovering the system of support for sources generating energy in high-performance co-generation, as well as the announcement by the ERO President of unit substitution fees for co-generation, applicable in 2014, contained in the Information no. 19/2014 of 13 May 2014, has direct impact on the development of TAURON Capital Group results in the perspective until the end of 2014. As a consequence of the legislative changes, costs of electric energy for consumers buying energy for own purposes are additionally charged with the cost of purchase of the relevant certificates and their submission for redemption to the ERO President. The increased costs of purchase of electric energy for the needs of such consumers have not been included,



as justified costs, in the applicable tariff for electric energy. Accordingly, in relation to the corresponding period of the previous year, when the co-generation Act did not apply, operating costs of Sales Area will increase, whereas in the Generation and Heat Areas revenues will arise, due to the sales of “red” and “yellow” certificates, i.e. the property rights confirming production of electric energy in high-performance co-generation.

### **Draft Act on Renewable Energy Sources**

In the 1st half of 2014 intensive works of the government related to the new act on renewable energy sources were continued. In April the draft act was approved by the Council of Ministers and submitted to the Parliament for further processing, however, already in June 2014 the subsequent amendments appeared, preceded as self-amendments to the governmental proposal. In the second half of July 2014 the Parliamentary debate on this draft was commenced, and the draft act has also been submitted to the Extraordinary Commission for energy and energy raw materials. The final adoption of the act is expected at the earliest within the time limits enabling full implementation of the new support system from 1 January 2016.

The main assumptions of the draft Act on Renewable Energy Sources foresee the following changes in relation to the current system of support to RES generators:

- a) limiting the support for multi-fuel combustion installations (reduction of support to the level of 0.5 certificate of origin for MWh of energy generated);
- b) liquidation of the support for large-scale hydroelectric power plants (of capacity exceeding 5 MW);
- c) freezing of the substitution fee amount;
- d) introduction of a new support system based on energy auctions and the feed-in tariffs defined as a result of the auctions (indexed according to inflation), including the classification of auctions depending on the size of generators;
- e) a possibility for the existing generators to transfer to the mechanism of a fixed price defined within the auction;
- f) development of the RES segment based on wind and biomass;
- g) introduction of a 15-year support period for new installations.

The Act will have impact on the conditions of TAURON Group performance, both in the area of current operating activities and in the scope of the investments planned. In order to apply precise estimations, the final shape of the Act is necessary, however, taking into account the structure of “green energy” production in TAURON Group so far, the factors to have adverse impact on results of TAURON Group may include the limited level of support for co-generation and the liquidation of the support for hydroelectric power plants of capacity over 5 MW.

The positive signal in the light of the draft Act on renewable energy sources is the predicted development of the renewable energy sources segment based on wind sources and dedicated biomass sources. This trend is consistent with the strategic assumptions of TAURON Capital Group which has been developing its portfolio of biomass-burning units as well as successively increasing the capacity of energy production in wind sources.

Further investment in RES is determined by predictability and stability of the regulations as well as by the possibility to obtain the appropriate return rate. A positive factor stimulating the development of TAURON Capital Group potential in the scope of renewable energy sources may be the proposed auction mechanism, as a result of which electric energy sales would take place based on the fixed feed-in tariff and the assumed 15-year support period for new installations.

### **No need to create a write-down for impairment losses of the generation assets**

In the 1st half of 2014, no need was recognised to apply additional impairment losses on the production assets. No premises have also occurred to reverse the write-down applied in the 1st half of 2013 due to ineffective generation assets in the amount of approximately PLN 237 million.

### **Adopting the draft Partnership Agreement concerning the European Funds**

On 9 January 2014 the Council of Ministers adopted the draft Partnership Agreement, as the most important documents defining the strategy for the use of the new pool of the European Funds, as well as draft national operational programmes, including the *Programme – Infrastructure and Environment*. In this programme, the list of key projects includes the project to be implemented, among others, by TAURON Ciepło, i.e. *The comprehensive programme on elimination of low emission on the territory of the Silesia and Dąbrowa conurbation*.

### **Adopting of the Guidelines of the European Commission on environmental and energy State aid**

On 9 April 2014 the European Commission adopted the final version of the Guidelines on environmental and energy State aid, as an element of the public aid modernisation process, considerably limiting the support from external sources for investments in the energy sector.

### **Centralisation of billing systems**

Within the implementation of the Corporate Strategy one of the objectives in the Customer Service Area is the centralisation of billing systems. It is the biggest project of this type in Poland and one of the biggest in Europe. Data of over 4 million individual clients and small and medium-sized enterprises handled by TAURON Capital Group is migrated. The main goal of the centralisation of several dozen billing systems operating in TAURON Capital Group arises from the need to harmonise the customer service processes. Owing to this process it was also possible to reduce the maintenance costs of the system, and consequently, costs of the overall customer service process.

The benefits associated with the centralisation of the billing systems include mainly: lower maintenance costs of IT systems, harmonised business processes and a simplified IT architecture. On the other hand, for clients it means a possibility to receive service in any Customer Service Point, access to the new and harmonised product offer and modern communication channels, such as e-BOK, safe and convenient form of contact 24 hours per day, 7 days a week via Internet. For the migration of such a large quantity of data, application of modern technologies, adequate for the scale of the project, is essential.



## **Management Board of the Company**

Katowice, 19 August 2014

Dariusz Lubera – President of the Board .....

Aleksander Grad – Vice President of the Board .....

Katarzyna Rozenfeld – Vice President of the Board .....

Stanisław Tokarski – Vice President of the Board .....

Krzysztof Zawadzki – Vice President of the Board .....

## Annex A: Glossary of terms and list of abbreviations

Below the glossary of trade terms and list of abbreviations most commonly used in this report, is presented.

**Table no. 23. Explanation of abbreviations and trade terms applied in the text of the report**

No.	Abbreviation and trade term	Full name/explanation
1.	ArcelorMittal	ArcelorMittal Poland S.A. with its seat in Dąbrowa Górnicza
2.	AUTOZET	"AUTOZET" sp. z o.o. with its seat in Tarnów
3.	BELS INVESTMENT	BELS INVESTMENT sp. z o.o. with its seat in Jelenia Góra
4.	BUDO-TRANS	"BUDO-TRANS" sp. z o.o. with the seat in Stalowa Wola
5.	CAO	Central Allocation Office GmbH with the seat in Freising, Germany
6.	Cash pooling	Cash pooling operating in the Company – consolidation of balances of bank accounts through physical cross-posting of cash from accounts of TAURON Capital Group in the bank in which cash pooling operates to the bank account of Pool Leader whose function is fulfilled by the Company. At the end of each working day, from cash is cross-posted from the bank accounts of companies of TAURON Capital Group which show positive balance to the bank account of Pool Leader. At the beginning of each working day, bank accounts of companies of TAURON Capital Group are credited from the bank account of the Pool Leader with the amount demanded to maintain cash flow of the company of TAURON Capital Group on a given working day.
7.	Colour certificates	property rights resulting from certificates of origin of energy generated in the way subject to support, the so-called colour certificates: <ul style="list-style-type: none"> <li>– <b>green</b> – certificates of origin of electric energy from renewable energy sources,</li> <li>– <b>red</b> – certificates of origin of electric energy from co-generation (CHP certificates – Combined Heat and Power),</li> <li>– <b>yellow</b> – certificates of origin of electric energy generated in co-generation from sources of total installed capacity below 1 MW or gas-burning,</li> <li>– <b>violet</b> – certificates of origin of electric energy generated in co-generation, burning methane released and captured during underground mining works in active, under liquidation or liquidated hard coal mines, or burning gas acquired from biomass processing,</li> <li>– <b>white</b> – certificates confirming gaining of energy savings within the meaning of the Act of energy efficiency.</li> </ul>
8.	EIB	Electronic Information Base
9.	EBIT	(Earnings Before Interest and Taxes) result on operating activity before taxing
10.	EBITDA	(Earnings before Interest, Taxes, Depreciation, and Amortization) result on operating activity before taxing, increased by amortization and depreciation
11.	EEX	(European Energy Exchange) European Energy Exchange with the seat in Leipzig
12.	EL-AUTO	Zakład Obsługi Zaplecza Transportu Energetyki "EL-AUTO" sp. z o.o. with its seat in Częstochowa
13.	Elektrownia Blachownia Nowa	Elektrownia Blachownia Nowa sp. z o.o. with its seat in Kędzierzyn Koźle.
14.	ENEA	ENEA S.A. with the seat in Poznań
15.	ENERGA	ENERGA S.A. with the seat in Gdańsk
16.	Enpower service	Enpower service sp. z o.o. with its seat in Katowice (following the acquisition of TAURON Ciepło S.A., since 30 April 2014 it has been operating under the name TAURON Ciepło sp. z o.o.)
17.	EPEX	Epex Spot SE with the seat in Paris
18.	ERM	Complex System of Enterprise Risk Management
19.	EU ETS	(European Union Emission Trading System) the European system of CO <sub>2</sub> emission allowances trading
20.	EUA	(European Union Allowances) – authorisation to introduce the equivalent to the air, within the meaning of art. 2 item 4 of the Act of 17 July 2009 on the management system of emissions of greenhouse gases and other substances, carbon dioxide (CO <sub>2</sub> ), which is used for settlements of emission size within the system, which can be managed based on principles stipulated in the Act of 28 April 2011 on the system of greenhouse gases emission allowances trading (Journal of Laws no. 122, item 695)

No.	Abbreviation and trade term	Full name/explanation
21.	EUR	Euro – a common European currency introduced in some EU Member States
22.	TAURON Capital Group	TAURON Polska Energia S.A. Capital Group
23.	“TAURON Group”	TAURON Group established by the Management of the Company pursuant to the Code, comprising the Company and selected companies of TAURON Capital Group.
24.	GZE	Górnośląski Zakład Elektroenergetyczny S.A. with the seat in Gliwice
25.	IRIESP	Instructions of transmission grid operation and maintenance
26.	KGHM	KGHM Polska Miedź S.A. with the seat in Lubin
27.	Code	The document entitled <i>Code of TAURON Group</i> , adopted by the Management Board of the Company
28.	Kompania Węglowa	Kompania Węglowa S.A. with the seat in Katowice
29.	KPI/KRI	List of risk indicators
30.	KSE	National Power System
31.	Ksh	Code of Commercial Companies
32.	KW Czatkowice	Kopalnia Wapienia Czatkowice sp. z o.o. with the seat in Krzeszowice
33.	MEGAWAT MARSZEWO	MEGAWAT MARSZEWO sp. z o.o. with the seat in Jelenia Góra
34.	Mg	Megagram – million gram (1,000,000 g) i.e. 1 t
35.	IFRS	International Financial Reporting Standards
36.	Business Area	Area of operations of subsidiaries included in TAURON Group, determined by the Company, constituting the business segment of TAURON Group
37.	Governance Area	Governance Area indicated in the List of Governance Areas, i.e. the document issued by the Management Board of the Company, pursuant to the Code, established based on Corporate Strategy 2011–2014, and included in the business model of TAURON Group
38.	DSO	Distribution System Operator
39.	TSO	Transmission System Operator
40.	OTC	(over the counter) – the market operating outside the regulated exchange market
41.	RES	Renewable Energy Sources
42.	PEPKH	Polska Energia – Pierwsza Kompania Handlowa sp. z o.o. in liquidation, with the seat in Katowice
43.	PGE	PGE Polska Grupa Energetyczna S.A. with the seat in Warsaw
44.	PGE EJ1	PGE EJ1 sp. z o.o. with the seat in Warsaw
45.	PGK	Tax Capital Group
46.	GDP	Gross Domestic Product
47.	PMEC	Property rights for certificates of origin confirming generation of electricity in other co-generation sources
48.	PMOZE	Property rights for certificates of origin confirming generation of electricity in RES in the period until 28 February 2009
49.	PSE	Polskie Sieci Elektroenergetyczne S.A. with the seat in Konstancin-Jeziorna (until 10 January 2013: Polskie Sieci Elektroenergetyczne Operator S.A.)
50.	RAFAKO	RAFAKO S.A. with the seat in Racibórz
51.	IASB	International Accounting Standards Board
52.	SPOT Market	In relation to electric energy, it is the place of concluding of trade transactions for electric energy, for which the period of delivery falls at the latest, three days after the date of transaction (usually one day before the date of delivery). Operating of SPOT market for electric energy is strongly related to operating of the Balancing Market provided by the Operator of Transmission Grid
53.	Company	TAURON Polska Energia S.A. with its seat in Katowice
54.	Corporate Strategy	The document entitled <i>Corporate Strategy of TAURON Group for 2014–2017 with estimates until the year 2023</i> , being the update of the document <i>Corporate Strategy of TAURON TAURON Polska Energia S.A. Capital Group for 2011–2015 with estimates until the year 2020</i> .
55.	SUG	Spółka Usług Górniczych sp. z o.o. with its seat in Jaworzno

No.	Abbreviation and trade term	Full name/explanation
56.	TAMEH HOLDING	TAMEH HOLDING sp. z o.o. with its seat in Dąbrowa Górnicza
57.	TAMEH POLSKA	TAMEH POLSKA sp. z o.o. with its seat in Dąbrowa Górnicza
58.	TAURON	TAURON Polska Energia S.A. with its seat in Katowice
59.	TAURON Ciepło	TAURON Ciepło sp. z o.o. with its seat in Katowice (established on 30 April 2014 through the acquisition of TAURON Ciepło S.A. by Enpower service sp. z o.o.)
60.	TAURON Ciepło S.A.	TAURON Ciepło S.A. with its seat in Katowice (acquired by Enpower service sp. z o.o. on 30 April 2014. The merged entity operates under the enterprise name TAURON Ciepło sp. z o.o.)
61.	TAURON Czech Energy	TAURON Czech Energy s.r.o. with its seat in Ostrava, Czech Republic
62.	TAURON Dystrybucja	TAURON Dystrybucja S.A. with its seat in Kraków
63.	TAURON Dystrybucja Pomiary	TAURON Dystrybucja Pomiary sp. z o.o. with the seat in Tarnów
64.	TAURON Dystrybucja Serwis	TAURON Dystrybucja Serwis S.A. with the seat in Wrocław
65.	TAURON EKOENERGIA	TAURON EKOENERGIA sp. z o.o. with its seat in Jelenia Góra
66.	TAURON Ekoserwis	TAURON Ekoserwis sp. z o.o. with the seat in Rożnów
67.	TAURON Obsługa Klienta	TAURON Obsługa Klienta sp. z o.o. with the seat in Wrocław
68.	TAURON Sprzedaż	TAURON Sprzedaż sp. z o.o. with its seat in Kraków
69.	TAURON Sprzedaż GZE	TAURON Sprzedaż GZE sp. z o.o. with the seat in Gliwice
70.	TAURON Ubezpieczenia	TAURON Ubezpieczenia sp. z o.o. with the seat in Katowice
71.	TAURON Wydobycie	TAURON Wydobycie S.A. with its seat in Jaworzno (until 24 February 2014, Południowy Koncern Węglowy S.A.)
72.	TAURON Wytwarzanie	TAURON Wytwarzanie S.A. with the seat in Katowice
73.	TAURON Wytwarzanie GZE	TAURON Wytwarzanie GZE sp. z o.o. with the seat in Gliwice
74.	TAURON Wytwarzanie Serwis	TAURON Wytwarzanie Serwis sp. with the seat in Jaworzno
75.	TGE	Towarowa Giełda Energii S.A. (Polish Power Exchange) with the seat in Warsaw
76.	toe	The tonne of oil equivalent – energy equivalent of one metric tonne of crude oil of the calorific value equal to 10,000 kcal/kg (41 868 kJ/kg, according to the Act on energy efficiency of 15 April 2011). It is the unit according to which the energy efficiency certificates are defined, subject to the obligation to be presented to the ERO President for redemption. The formula to define the level of obligation expressed in toe is stipulated in the Act on energy efficiency of 15 April 2011
77.	TPA	(Third-party Access) – the principle based on the owner or operator making available the grid infrastructure to the third parties in order to supply goods/services to clients of the third party (it may refer to transmission or sales of electric energy, telecommunication services or railway services)
78.	EU	the European Union
79.	UOKiK	Office for Competition and Consumer Protection (Urząd Ochrony Konkurencji i Konsumentów)
80.	ERO	Energy Regulatory Office (Urząd Regulacji Energetyki)
81.	GM/SM	General Meeting/ Shareholders' Meeting
82.	ZEC Bielsko-Biała	Zespół Elektrociepłowni Bielsko-Biała S.A.

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