Annual report of TAURON Polska Energia S.A. for the year 2012

15 March 2013

Letter of the President of the Management Board of TAURON Polska Energia S.A.

Ladies and Gentlemen,

once again we are pleased to present to you the Annual Report of TAURON Polska Energia S.A. The document summarises the interesting and full of challenges year 2012. It was undoubtedly a demanding time for the Polish economy – the results of the recession which affected almost the entire European Union reached also Poland and we could observe a slower growth of the National Gross Product than in previous years.

TAURON Polska Energia recorded very good financial results in 2012. The sales revenues amounted to PLN 9.9 billion which constitutes growth by nearly 12% in comparison to 2011, and the net profit increased by over 32% and amounted to more than PLN 1.4 billion. The increase in the sales revenues results primarily from larger volume of the electric energy sold. The increase in the net profit was driven by the dividend received from subsidiaries, which were higher by more than a half in comparison to 2011.

Our shareholders also had their reasons to be satisfied as they decided to designate PLN 543 million for payment of dividend in 2012.

The good financial standing of TAURON Polska Energia is a consequence of many operations related to implementation of the corporate strategy, including integration of assets acquired from Vattenfall AB in December 2011. The Group's structure was significantly simplified in 2012, which facilitated managing to a large extent and positively influenced operational efficiency.

Investment operations implemented within TAURON Group include not only construction of new generation capacities and modernisation of existing distribution and generation assets, but also projects related to diversification of fuels used in the energy production process. Last year we signed an agreement with four partners, PGNiG, KGHM Polska Miedź, PGE and ENEA on exploration and extraction of shale gas. Our participation in that enterprise results from our strategy – as TAURON will be a significant consumer of gas in a few years using nearly 2 billion cubic metres of this fuel yearly, we consider our involvement in its exploration and extraction reasonable and important. Our experience shows that having access to own resources is a considerable edge which translates into growth of the Company's value.

Another important project is the Letter of Intent signed at the beginning of September with PGE, KGHM Polska Miedź and ENEA concerning the construction and operation of Poland's first nuclear power plant. This is yet another element of the implementation of our corporate strategy as well as of diversification of fuels used in energy production process referred to above.

An inherent part of the investment policy is securing sufficient funds for its implementation. In 2012 we signed an agreement with banks, under which the value of the Company's bond program has been increased by PLN 2.75 billion. This is especially important taking into consideration the growing CAPEX program of TAURON Group. At the same time, I would like to emphasise that we maintain a conservative approach to the increase of debt level and we care for a safe relation between the liabilities incurred and profits earned.

We also have in mind strict control of expenses and constant improvement of the efficiency of processes functioning within TAURON Group. Last year we successfully completed the first operational costs reduction program. The program allowed us to save a billion PLN in the years 2010–2012, just as we had assumed. The continuation of works on the operational efficiency improvement in 2013 is visible in the implementation of another project which in 2013–2015 should bring nearly PLN 900 million of accrued savings.

In the end I would like to refer to the prospects for the year 2013 which brings another challenges for the Polish energy market: low electric energy prices, unfinished works on regulations concerning planned support for RES, concerns about further direction of the EU climate policy or the risk of further economic slowdown. However, I would like to assure you that in spite of difficult market conditions in which TAURON Group operates we undertake complex actions allowing us to minimize the negative influence of the said factors.

On behalf of the Management Board I would like to thank our Shareholders, Clients and Employees for their involvement in the development and creation of the market position of TAURON Polska Energia. I believe that the challenges we need to face will be an incentive to further work on constant value increase for both the Company and the entire TAURON Group.

Yours sincerely,

Dariusz Lubera

President of the Management Board
TAURON Polska Energia S.A.

Selected standalone figures of TAURON Polska Energia S.A.

Selected figures	in thousands PLN		in thousands EUR	
	2012 period from 01.01.2012 to 31.12.2012	2011 period from 01.01.2011 to 31.12.2011 *(adjusted figures)*	2012 period from 01.01.2012 to 31.12.2012	2011 period from 01.01.2011 to 31.12.2011 *(adjusted figures)*
Sales revenue	9 889 872	8 845 148	2 369 626	2 136 458
Operating profit	47 110	81 830	11 288	19 765
Profit before tax	1 479 956	1 107 911	354 599	267 605
Net profit	1 435 188	1 086 093	343 873	262 335
Other comprehensive income	(189 969)	155	(45 517)	37
Total comprehensive income	1 245 219	1 086 248	298 356	262 372
Earnings per share (in PLN/EUR) (basic and diluted)	0,82	0,62	0,20	0,15
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	(415 360)	(281 286)	(99 521)	(67 942)
Cash flows from investing activities	(88 054)	(2 897 287)	(21 098)	(699 811)
Cash flows from financing activities	224 942	2 977 951	53 896	719 294
Net increase (decrease) in cash and cash equivalents	(278 472)	(200 622)	(66 723)	(48 459)
	As of 31.12.2012	As of 31.12.2011 *(adjusted figures)*	As of 31.12.2012	As of 31.12.2011 *(adjusted figures)*
Non-current assets	22 997 644	21 386 633	5 625 371	4 842 110
Current assets	2 760 425	1 436 421	675 218	325 218
Total assets	25 758 069	22 823 054	6 300 589	5 167 328
Issued capital	8 762 747	8 762 747	2 143 424	1 983 958
Total equity	18 042 008	17 341 198	4 413 191	3 926 191
Long-term liabilities	5 280 856	4 140 327	1 291 731	937 404
Short-term liabilities	2 435 205	1 341 529	595 667	303 733
Total liabilities	7 716 061	5 481 856	1 887 398	1 241 137

The aforementioned financial information for the years 2012 and 2011 has 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 31 December 2012 – 4.0882 PLN/EUR (as of 31 December 2011 – 4.4168 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 2012 to 31 December 2012 – 4.1736 PLN/EUR (for the financial year started 1 January 2011 and ended 31 December 2011 – 4.1401 PLN/EUR).

INDEPENDENT AUDITOR'S OPINION ON THE FINANCIAL STATEMENTS OF TAURON POLSKA ENERGIA S.A. FOR THE YEAR 2012

INDEPENDENT AUDITORS' OPINION

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

1. We have audited the attached financial statements for the year ended 31 December 2012 of TAURON Polska Energia S.A. ('the Company') located in Katowice at ks. Piotra Ściegiennego Street 3, containing statement of financial position as at 31 December 2012, the statement of comprehensive income, the statement of changes in equity, the statement of cash flow for the period from 1 January 2012 to 31 December 2012 and other explanatory notes ('the attached financial statements').
2. The truth and fairness[1] of the attached financial statements, the preparation of the attached financial statements in accordance with the required applicable accounting policies and the proper maintenance of the accounting records are the responsibility of the Company's Management Board. In addition, the Company's Management Board and Members of the Supervisory Board are required to ensure that the attached financial statements and the Directors' Report meet the requirements of the Accounting Act dated 29 September 1994 (2009 Journal of Laws No. 152 item 1223 with subsequent amendments – 'the Accounting Act'). Our responsibility was to audit the attached financial statements and to express an opinion on whether, based on our audit, these financial statements comply, in all material respects, with the required applicable accounting policies, whether they truly and fairly[2] reflect, in all material respects, the financial position and results of the operations of the Company and whether the accounting records that form the basis for their preparation are, in all material respects, properly maintained.
3. We conducted our audit of the attached financial statements in accordance with:
   - chapter 7 of the Accounting Act,
   - national auditing standards issued by the National Council of Statutory Auditors,

   in order to obtain reasonable assurance whether these financial statements are free of material misstatement. In particular, the audit included examining, to a large extent on a test basis, documentation supporting the amounts and disclosures in the attached financial statements. The audit also included assessing the accounting principles adopted and used and significant estimates made by the Management Board, as well as evaluating the overall presentation of the attached financial statements. We believe our audit has provided a reasonable basis to express our opinion on the attached financial statements treated as a whole.

[1] Translation of the following expression in Polish: '*rzetelność i jasność*'
[2] Translation of the following expression in Polish: '*rzetelnie i jasno*'

4. In our opinion, the attached financial statements, in all material respects:
   - present truly and fairly all information material for the assessment of the results of the Company's operations for the period from 1 January 2012 to 31 December 2012, as well as its financial position[3] as at 31 December 2012;
   - have been prepared in accordance with International Financial Reporting Standards as adopted by the EU and based on properly maintained accounting records;
   - are in respect of the form and content, in accordance with legal regulations governing the preparation of financial statements and the Company's Articles of Association.
5. We have read the 'Directors' Report for the period from 1 January 2012 to 31 December 2012 and the rules of preparation of annual statements' ('the Directors' Report') and concluded that the information derived from the attached financial statements reconciles with these financial statements. The information included in the Directors' Report corresponds with the relevant regulations of the Decree of the Minister of Finance dated 19 February 2009 on current and periodic information published by issuers of securities and conditions for recognition as equivalent the information required by laws of non-EU member states (Journal of Laws No. 33, item 259 – with subsequent amendments).

on behalf of:
Ernst & Young Audit sp. z o.o.
Rondo ONZ 1
00-124 Warsaw
Reg. No 130

Key certified auditor

Artur Żwak
Certified auditor No. 9894

Warsaw, 12 March 2013

[3] Translation of the following expression in Polish: '*sytuacja majątkowa i finansowa*'

TAURON POLSKA ENERGIA S.A.

LONG-FORM AUDITORS' REPORT
ON THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

TAURON POLSKA ENERGIA S.A.

LONG-FORM AUDITORS' REPORT
ON THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

I. GENERAL NOTES

1. Background

TAURON Polska Energia S.A. (hereinafter 'the Company') was incorporated on the basis of a Notarial Deed dated 6 December 2006 under the name Energetyka Południe S.A. Change of the name into TAURON Polska Energia S.A. was registered by the District Court on 16 November 2007. The Company's registered office is located in Katowice at ks. Piotra Ściegiennego Street 3.

On 8 January 2007 the Company was entered in the Register of Entrepreneurs of the National Court Register No. KRS 0000271562.

The Company was issued with tax identification number (NIP) 9542583988 on 13 March 2007 and statistical number (REGON) 240524697 on 11 December 2006.

The Company is the holding company of the TAURON Polska Energia S.A. capital group. Details of transactions with affiliated entities and the list of companies in which the Company holds at least 20% of shares in the share capital or in the total number of votes in the company's governing body are included in Notes 7 and 34 of the explanatory notes ("the additional notes") to the audited financial statements for the year ended 31 December 2012.

The principal activities of the Company are as follows:

- activities of head offices and holdings, excluding financial holdings,
- electricity trade,
- trade services of coal and biomass,
- trade services of gas through mains.

As at 31 December 2012, the Company's issued share capital amounted to 8,762,747 thousand zlotys. Equity as at that date amounted to 18,042,008 thousand zlotys.

(in thousand zlotys)

In accordance with the information included in Note 22.2 of the additional notes to the accompanying audited financial statements as at 31 December 2012, the ownership structure of the Company's issued share capital was as follows:

	Number of shares	Par value of shares	% of issued share capital
State Treasury	526,883,897	2,634,419	30.06%
KGHM Polska Miedź S.A.	182,110,566	910,553	10.39%
ING Otwarty Fundusz Emerytalny	88,742,929	443,715	5.06%
Other shareholders	954,812,002	4,774,060	54.49%
Total	1,752,549,394	8,762,747	100.00%

There were no changes in the ownership structure of the Company during the reporting period as well as during the period from the balance sheet date to the date of the opinion.

There were no movements in the share capital in the reporting period.

As at 12 March 2013, the Company's Management Board was composed of:

- Dariusz Lubera - President
- Joanna Schmid - Vice President
- Dariusz Stolarczyk - Vice President
- Krzysztof Zawadzki - Vice President

On 29 November 2012 Mr. Krzysztof Zamasz resigned from his position as Vice President of the Management Board with effect from 31 December 2012.

There were no changes in the Company's Management Board composition from the balance sheet date to the date of the opinion.

2. Financial Statements

On 7 June 2010 the Extraordinary General Shareholders' Meeting decided on preparation of the financial statements in accordance with International Financial Reporting Standards as adopted by the EU.

2.1 Auditors' opinion and audit of financial statements

Ernst & Young Audit sp. z o.o. with its registered office in Warsaw, at Rondo ONZ 1, is registered on the list of entities authorised to audit financial statements under no. 130.

Ernst & Young Audit sp. z o.o. was appointed by the Supervisory Board on 29 October 2010 to audit the Company's financial statements.

Ernst & Young Audit sp. z o.o. and the key certified auditor meet the conditions required to express an impartial and independent opinion on the financial statements, as defined in Art. 56.3 and 56.4 of the Act on statutory auditors and their self-governance, audit firms authorized to audit financial statements and public oversight, dated 7 May 2009 (Journal of Laws 2009, No. 77, item 649 with subsequent amendments).

Under the contract executed on 19 November 2010 with the Company's Management Board, we have audited the financial statements for the year ended 31 December 2012.

Our responsibility was to express an opinion on the financial statements based on our audit. The auditing procedures applied to the financial statements were designed to enable us to express an opinion on the financial statements taken as a whole. Our procedures did not extend to supplementary information that does not have an impact on the financial statements taken as a whole.

Based on our audit, we issued an unqualified auditors' opinion dated 12 March 2013, stating the following:

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

1. We have audited the attached financial statements for the year ended 31 December 2012 of TAURON Polska Energia S.A. ('the Company') located in Katowice at ks. Piotra Ściegiennego Street 3, containing statement of financial position as at 31 December 2012, the statement of comprehensive income, the statement of changes in equity, the statement of cash flow for the period from 1 January 2012 to 31 December 2012 and other explanatory notes ('the attached financial statements').

2. The truth and fairness[1] of the attached financial statements, the preparation of the attached financial statements in accordance with the required applicable accounting policies and the proper maintenance of the accounting records are the responsibility of the Company's Management Board. In addition, the Company's Management Board and Members of the Supervisory Board are required to ensure that the attached financial statements and the Directors' Report meet the requirements of the Accounting Act dated 29 September 1994 (2009 Journal of Laws No. 152 item 1223 with subsequent amendments – 'the Accounting Act'). Our responsibility was to audit the attached financial statements and to express an opinion on whether, based on our audit, these financial statements comply, in all material respects, with the required applicable accounting policies, whether they truly and fairly[2] reflect, in all material respects, the financial position and results of the operations of the Company and whether the accounting records that form the basis for their preparation are, in all material respects, properly maintained.

3. We conducted our audit of the attached financial statements in accordance with:
    - chapter 7 of the Accounting Act,
    - national auditing standards issued by the National Council of Statutory Auditors,

   in order to obtain reasonable assurance whether these financial statements are free of material misstatement. In particular, the audit included examining, to a large extent on a test basis, documentation supporting the amounts and disclosures in the attached financial statements. The audit also included assessing the accounting principles adopted and used and significant estimates made by the Management Board, as well as evaluating the overall presentation of the attached financial statements. We believe our audit has provided a reasonable basis to express our opinion on the attached financial statements treated as a whole.

4. In our opinion, the attached financial statements, in all material respects:
    - present truly and fairly all information material for the assessment of the results of the Company's operations for the period from 1 January 2012 to 31 December 2012, as well as its financial position[3] as at 31 December 2012;
    - have been prepared in accordance with International Financial Reporting Standards as adopted by the EU and based on properly maintained accounting records;
    - are in respect of the form and content, in accordance with legal regulations governing the preparation of financial statements and the Company's Articles of Association.

[1] Translation of the following expression in Polish: '*rzetelność i jasność*'
[2] Translation of the following expression in Polish: '*rzetelnie i jasno*'
[3] Translation of the following expression in Polish: '*sytuacja majątkowa i finansowa*'

5. We have read the 'Directors' Report for the period from 1 January 2012 to 31 December 2012 and the rules of preparation of annual statements' ('the Directors' Report') and concluded that the information derived from the attached financial statements reconciles with these financial statements. The information included in the Directors' Report corresponds with the relevant regulations of the Decree of the Minister of Finance dated 19 February 2009 on current and periodic information published by issuers of securities and conditions for recognition as equivalent the information required by laws of non-EU member states (Journal of Laws No. 33, item 259 – with subsequent amendments)."

We conducted the audit of the Company's financial statements during the period from 19 November 2012 to 12 March 2013. We were present at the Company's head office from 19 November 2012 to 23 November 2012 and from 4 February 2013 to 8 February 2013.

2.2 Representations provided and data availability

The Management Board confirmed its responsibility for the truth and fairness[4] of the financial statements and the preparation of the financial statements in accordance with the required applicable accounting policies, and stated that it had provided us with all financial information, accounting records and other required documents as well as all necessary explanations. The Management Board also provided a letter of representations dated 12 March 2013, confirming that:

- the information included in the books of account was complete,
- all contingent liabilities had been disclosed in the financial statements, and
- all material events from the balance sheet date to the date of the representation letter had been disclosed in the financial statements,

and confirmed that the information provided to us was true and fair to the best of the Management Board's knowledge and belief, and included all events that could have had an effect on the financial statements.

At the same time declare that during the audit of the financial statements, there were no limitations of scope.

[4] Translation of the following expression in Polish: "*rzetelność i jasność*"

(in thousand zlotys)

2.3 Financial statements for prior financial year

The Company's financial statements for the year ended 31 December 2011 were audited by Artur Żwak, key certified auditor no. 9894, acting on behalf of Ernst & Young Audit sp. z o.o. with its seats in Warsaw, Rondo ONZ 1, registered on the list of entities authorized to audit financial statements under no. 130. The key certified auditor issued an unqualified opinion on the financial statements for the year ended 31 December 2011. The Company's financial statements for the year ended 31 December 2011 were approved by the General Shareholders' Meeting on 24 April 2012, and the shareholders resolved to appropriate the 2011 net profit in the amount of 1,083,429 thousand zlotys as follows:

Dividends for the shareholders	543,290 thousand zlotys
Reserve capital	540,139 thousand zlotys

The financial statements for the financial year ended 31 December 2011, together with the auditors' opinion, a copy of the resolution approving the financial statements, a copy of the resolution on the appropriation of profit and the Directors' Report, were filed on 27 April 2012 with the National Court Register.

The statement of financial position as at 31 December 2011, the statement of comprehensive income, the statement of changes in equity, the statement of cash flow for the year ended 31 December 2011, together with the auditors' opinion, a copy of the resolution approving the financial statements and a copy of the resolution on the appropriation of profit were published in Monitor Polski B No. 1508 on 18 July 2012.

The closing balances as at 31 December 2011 were correctly brought forward in the accounts as the opening balances at 1 January 2012.

.

(in thousand zlotys)

3. Analytical Review

3.1 Basic data and financial ratios

Presented below are selected financial ratios indicating the economic or financial performance of the Company for the years 2011 - 2012. The ratios were calculated on the basis of financial information included in the financial statements for the year ended 31 December 2012.

	2012	**2011** *(restated figures)*
Total assets	25,758,069	22,823,054
Shareholders' equity	18,042,008	17,341,198
Net profit/loss	1,435,188	1,086,093
Return on assets (%)	5.57%	4.76%
Net profit x 100 / Total assets		
Return on equity (%)	7.95%	6.26%
Net profit x 100 / Total equity		
Profit margin (%)	14.51%	12.28%
Net profit x 100 / Sales revenues		
Liquidity I	1.13	1.07
Current assets / Short-term liabilities		
Liquidity III	0.37	0.21
Cash and cash equivalents / Short-term creditors		
Debtors days	41 days	31 days
Trade debtors x 365 / Sales revenues		

(in thousand zlotys)

	2012	2011 *(restated figures)*
Creditors days	26 days	13 days
$\frac{\text{Trade creditors x 365}}{\text{Costs of sales}}$		
Stability of financing (%)	90.55%	94.12%
$\frac{\text{(Equity + non-current liabilities) x 100}}{\text{Total equity and liabilities}}$		
Debt ratio (%)	29.96%	24.02%
$\frac{\text{Total liabilities x 100}}{\text{Total assets}}$		
Rate of inflation:		
yearly average	3.7%	4.3%
December to December	2.4%	4.6%

3.2 Comments

The following trends may be observed based on the above financial ratios:

- The return on assets ratio in 2012 was 5.57% and was higher in comparison to 4.76% in 2011.
- The return on equity ratio in 2012 was 7.95% and was higher in comparison to 6.26% in 2011.
- The profit margin ratio in 2012 was 14.51% and was higher in comparison to 12.28% in 2011.
- The liquidity I ratio as at 31 December 2012 was 1.13 and was higher in comparison to 1.07 as at 31 December 2011.
- The liquidity III ratio as at 31 December 2012 was 0.37 and was higher in comparison to 0.21 as at 31 December 2011.
- The debtor days ratio in 2012 was 41 days and was higher in comparison to 31 days in 2011.
- The creditor days ratio in 2012 was 26 days and was higher in comparison to 13 days in 2011.
- The stability of financing ratio was 90.55% as at 31 December 2012 and was lower in comparison to 94.12% as at 31 December 2011.
- The debt ratio was 29.96% as at 31 December 2012 and was higher in comparison to 24.02% as at 31 December 2011.

3.3 Going concern

Nothing came to our attention during the audit that caused us to believe that the Company is unable to continue as a going concern for at least twelve months subsequent to 31 December 2012 as a result of an intended or compulsory withdrawal from or a substantial limitation in its current operations.

In Note 2 of the additional notes to the audited financial statements for the year ended 31 December 2012, the Management Board has stated that the financial statements were prepared on the assumption that the Company will continue as a going concern for a period of at least twelve months subsequent to 31 December 2012 and that there are no circumstances that would indicate a threat to its continued activity.

II. DETAILED REPORT

1. Accounting System

The Company's accounts are kept using the SAP computer system at the Company's head office. The Company has up-to-date documentation, as required under Article 10 of the Accounting Act dated 29 September 1994 (2009 Journal of Laws No. 152 item 1223 with subsequent amendments – 'the Accounting Act'), including a chart of accounts approved by the Company's Management Board.

During our audit no material irregularities were noted in the books of account which could have a material effect on the audited financial statements and which were not subsequently adjusted. These would include matters related to:

- the reasonableness and consistency of the applied accounting policies;
- the reliability of the accounting records, the absence of errors in the accounting records and the trail of entries in the accounting records;
- whether business transactions are supported by documents;
- the correctness of opening balances based on approved prior year figures;
- consistency between the accounting entries, the underlying documentation and the financial statements;
- fulfillment of the requirements for safeguarding accounting documents and storing accounting records and financial statements.

2. Assets, Liabilities and Equity, Profit and Loss

Details of the Company's assets, liabilities and equity and profit and loss account are presented in the audited financial statements for the year ended 31 December 2012.

Verification of assets and liabilities was performed in accordance with the Accounting Act. Any differences were adjusted in the books of account for the year 2012.

3. Additional notes

The additional notes to the financial statements for the year ended 31 December 2012 were prepared, in all material respects, in accordance with International Financial Reporting Standards as adopted by the EU.

4. Directors' Report

We have read the Directors' report on the Company's activities in the period from 1 January 2012 to 31 December 2012 and the basis for preparation of annual financial statements ('Directors' Report') and concluded that the information derived from the attached financial statements reconciles with these financial statements. The information included in the Directors' Report corresponds with the relevant provisions of the Decree of the Minister of Finance dated 19 February 2009 on current and periodic information published by issuers of securities and conditions for recognition as equivalent the information required by laws of non-EU member states (Journal of Laws No. 33, item 259 – with subsequent amendments).

5. Conformity with Law and Regulations

We have obtained a letter of representations from the Management Board confirming that no laws, regulations or provisions of the Company's Articles of Association were breached during the financial year.

on behalf of:
Ernst & Young Audit sp. z o.o.
Rondo ONZ 1
00-124 Warsaw
Reg. No 130

Key certified auditor

Artur Żwak
Certified auditor No. 9894

Warsaw, 12 March 2013

TAURON POLSKA ENERGIA S.A.

FINANCIAL STATEMENTS
PREPARED ACCORDING TO THE INTERNATIONAL FINANCIAL REPORTING STANDARDS
FOR THE YEAR ENDED 31 DECEMBER 2012

TABLE OF CONTENTS:

(in PLN thousand)

STATEMENT OF COMPREHENSIVE INCOME

	Note	Year ended 31 December 2012	Year ended 31 December 2011 (*restated figures*)
Continuing operations			
Sale of goods for resale, finished goods and materials without elimination of excise		9 823 438	8 823 744
Excise		(3 219)	(15 122)
Sale of goods for resale, finished goods and materials		9 820 219	8 808 622
Rendering of services		69 643	36 522
Other income		10	4
Sales revenue	**11.1**	**9 889 872**	**8 845 148**
Cost of sales	**11.4**	(9 710 955)	(8 663 010)
Gross profit		**178 917**	**182 138**
Other operating income		1 979	3 354
Selling and distribution expenses	**11.4**	(27 142)	(22 850)
Administrative expenses	**11.4**	(104 439)	(79 544)
Other operating expenses		(2 205)	(1 268)
Operating profit		**47 110**	**81 830**
Dividend income	**11.2**	1 550 613	1 009 580
Other finance income	**11.2**	214 365	112 597
Finance costs	**11.3**	(332 132)	(96 096)
Profit before tax		**1 479 956**	**1 107 911**
Income tax expense	**12**	(44 768)	(21 818)
Net profit from continuing operations		**1 435 188**	**1 086 093**
Net profit for the year		**1 435 188**	**1 086 093**
Other comprehensive income			
Change in the value of hedging instruments		(189 756)	–
Actuarial gains/(losses) related to provisions for post-employment benefits		(177)	191
Income tax expense relating to other comprehensive income items	**12.1**	(36)	(36)
Other comprehensive income for the year, net of tax		**(189 969)**	**155**
Total comprehensive income for the year		**1 245 219**	**1 086 248**
Earnings per share (in PLN)	**23**		
– basic and diluted, for profit for the period		0.82	0.62
– basic and diluted, for profit from continuing operations for the period		0.82	0.62

Explanatory notes are an integral part of these financial statements.

(in PLN thousand)

STATEMENT OF FINANCIAL POSITION

	Note	As at 31 December 2012	As at 31 December 2011 (*restated figures*)	As at 31 January 2011 (*restated figures*)
ASSETS				
Non-current assets				
Property, plant and equipment	**15**	20 786	11 611	5 425
Intangible assets	**14.1**	53 053	15 487	7 322
Shares in unlisted and listed companies	**16**	20 184 404	20 184 103	16 353 470
Bonds and other debt securities	**35.1**	2 615 000	1 137 040	848 200
Loans granted	**19**	117 802	–	–
Other non-financial assets		6 599	830	1 686
Deferred tax asset	**12.3**	–	37 562	8 586
		22 997 644	**21 386 633**	**17 224 689**
Current assets				
Intangible assets	**14.2**	113 302	33 120	9 773
Inventories	**17**	176 172	41 028	9 238
Corporate income tax receivable		–	852	2 822
Trade and other receivables	**18**	1 460 484	1 062 438	634 531
Bonds and other debt securities	**35.1**	40 261	13 003	383
Derivative instruments	**35.1**	466	–	257
Cash and cash equivalents	**20**	910 421	281 852	527 011
Other non-financial assets	**21**	59 319	4 128	36 553
		2 760 425	**1 436 421**	**1 220 568**
Non-current assets classified as held for sale		–	–	–
TOTAL ASSETS		**25 758 069**	**22 823 054**	**18 445 257**

Explanatory notes are an integral part of these financial statements.

(in PLN thousand)

STATEMENT OF FINANCIAL POSITION – continued

	Note	As at 31 December 2012	As at 31 December 2011 (*restated figures*)	As at 31 January 2011 (*restated figures*)
EQUITY AND LIABILITIES				
Equity				
Issued capital	**22.1**	8 762 747	8 762 747	15 772 945
Reserve capital	**22.3**	7 953 021	7 412 882	475 088
Revaluation reserve from valuation of hedging instruments	**22.4**	(189 756)	–	–
Retained earnings/Accumulated losses	**22.5**	1 515 996	1 165 569	275 340
Total equity		**18 042 008**	**17 341 198**	**16 523 373**
Non-current liabilities				
Interest-bearing loans and borrowings	**27**	5 125 082	4 136 112	845 650
Derivative instruments	**35.1**	150 594	–	–
Provisions for employee benefits	**24**	4 605	3 225	2 986
Liabilities under finance leases	**26.2**	480	990	136
Accruals, deferred income and government grants	**32**	95	–	–
		5 280 856	**4 140 327**	**848 772**
Current liabilities				
Trade and other payables		723 253	326 126	540 702
Current portion of interest-bearing loans and borrowings	**27**	1 392 660	719 380	461 627
Derivative instruments	**35.1**	40 624	80	–
Income tax payable		54 057	33 687	–
Current portion of liabilities under finance leases	**26.2**	510	627	906
Other non-financial liabilities	**31**	93 365	85 702	26 094
Accruals, deferred income and government grants	**32**	10 532	8 223	6 719
Provisions for employee benefits	**24**	1 166	292	269
Other provisions	**25**	119 038	167 412	36 795
		2 435 205	**1 341 529**	**1 073 112**
Total liabilities		**7 716 061**	**5 481 856**	**1 921 884**
TOTAL EQUITY AND LIABILITIES		**25 758 069**	**22 823 054**	**18 445 257**

Explanatory notes are an integral part of these financial statements.

(in PLN thousand)

STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2012

	Note	Issued capital	Reserve capital	Revaluation capital of hedging instruments	Retained earnings/ Accumulated losses	Total equity
As at 1 January 2012 (*restated figures*)		**8 762 747**	**7 412 882**	–	**1 165 569**	**17 341 198**
Profit for the period		–	–	–	1 435 188	**1 435 188**
Other comprehensive income		–	–	(189 756)	(213)	**(189 969)**
Total comprehensive income for the year		–	–	**(189 756)**	**1 434 975**	**1 245 219**
Appropriation of prior year profits	**22.3**	–	540 139	–	(540 139)	–
Dividends	**13**	–	–	–	(543 290)	**(543 290)**
Accounting for merger with GZE		–	–	–	(1 119)	**(1 119)**
As at 31 December 2012		**8 762 747**	**7 953 021**	**(189 756)**	**1 515 996**	**18 042 008**

Year ended 31 December 2011

	Note	Issued capital	Reserve capital	Retained earnings/ Accumulated losses	Total equity
As at 1 January 2011		**15 772 945**	**475 088**	**275 648**	**16 523 681**
Change in accounting policy		–	–	(308)	**(308)**
As at 1 January 2011 (*restated figures*)		**15 772 945**	**475 088**	**275 340**	**16 523 373**
Profit for the period		–	–	1 086 093	**1 086 093**
Other comprehensive income		–	–	155	**155**
Total comprehensive income for the year		–	–	**1 086 248**	**1 086 248**
Appropriation of prior year profits		–	–	–	–
Dividends	**13**	–	(72 404)	(190 478)	**(262 882)**
Reduction of share capital by reducing the par value of shares		(7 010 198)	7 010 198	–	–
Accounting for merger with GZE		–	–	(5 541)	**(5 541)**
As at 31 December 2011 (*restated figures*)		**8 762 747**	**7 412 882**	**1 165 569**	**17 341 198**

Explanatory notes are an integral part of these financial statements.

(in PLN thousand)

STATEMENT OF CASH FLOWS

	Note	Year ended 31 December 2012	Year ended 31 December 2011 (*restated figures*)
Cash flows from operating activities			
Profit/(loss) before taxation		1 479 956	1 107 911
Adjustments for:			
Depreciation and amortization		14 083	5 105
(Gain)/loss on foreign exchange differences		1 435	61
Interest and dividends, net		(1 420 840)	(1 009 815)
(Gain)/loss on investing activities		2 330	(477)
(Increase)/decrease in receivables		(521 824)	(142 171)
(Increase)/decrease in inventories		(135 144)	(31 790)
Increase/(decrease) in payables excluding loans and borrowings		382 772	(334 700)
Change in other non-current and current assets		(133 195)	11 534
Change in deferred income, government grants and accruals		2 262	1 383
Change in provisions		(46 294)	127 477
Income tax paid		(40 841)	(15 804)
Other		(60)	–
Net cash from (used in) operating activities		**(415 360)**	**(281 286)**
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment and intangible assets		191	192
Purchase of property, plant and equipment and intangible assets		(46 503)	(14 069)
Proceeds from sale of bonds, T-bills, other debt securities and investment fund units		1 455 041	134 460
Purchase of bonds, other debt securities and investment fund units		(2 922 999)	(433 302)
Purchase of shares in unlisted and listed companies		(262 131)	(3 426 768)
Dividends received		1 550 613	967 409
Interest received		118 261	54 800
Repayment of loans granted	**18**	416 512	168 000
Loans granted		(396 093)	(348 009)
Other		(946)	–
Net cash from (used in) investing activities		**(88 054)**	**(2 897 287)**
Cash flows from financing activities			
Payment of finance lease liabilities		(597)	(926)
Issue of debt securities	**27.1**	150 000	3 300 000
Proceeds from loans and borrowings	**27.3**	960 000	–
Repayment of loans and borrowings	**27.3**	(51 000)	–
Dividends paid	**13**	(543 290)	(262 882)
Interest paid		(279 378)	(45 506)
Other		(10 793)	(12 735)
Net cash from (used in) financing activities		**224 942**	**2 977 951**
Net increase/(decrease) in cash and cash equivalents		**(278 472)**	**(200 622)**
Net foreign exchange difference		(1 435)	(61)
Cash and cash equivalents at the beginning of the period	**20**	**(115 048)**	**85 574**
Cash and cash equivalents at the end of the period, of which:	**20**	**(393 520)**	**(115 048)**
restricted cash	**20**	269 888	162 214

Explanatory notes are an integral part of these financial statements.

EXPLANATORY NOTES

1. General information

The financial statements have been prepared by TAURON Polska Energia Spółka Akcyjna ("the Company") with its registered office in Katowice at ul. ks. Piotra Ściegiennego 3, whose shares are in public trading. The financial statements of the Company cover the year ended 31 December 2012 and include comparative data for the year ended 31 December 2011.

The Company was set up based on a Notarial Deed dated 6 December 2006 under the name Energetyka Południe S.A. and was registered on 8 January 2007 by the Katowice–Wschód District Court Economic Department of the National Court Register under Entry No. KRS 0000271562. The change of the Company's name into TAURON Polska Energia S.A. was registered by the District Court on 16 November 2007.

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

TAURON Polska Energia S.A. has an unlimited period of operation.

The principal business activities of TAURON Polska Energia S.A. include:

- Activities of head offices and holdings, excluding financial holdings — PKD 70.10 Z,
- Trading in electricity — PKD 35.14 Z,
- Trading in coal and biomass — PKD 46.71.Z,
- Trading in 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 ("the Group, the TAURON Group").

2. Basis of preparation of financial statements

These financial statements were prepared in accordance with International Financial Reporting Standards ("IFRS") and the IFRSs endorsed by the European Union ("EU"). At the date of authorization of these financial statements, considering the pending process of IFRS endorsement in the EU and the nature of the Company's activities, within the scope of the accounting principles applied by the Company there is no difference between the IFRSs that came into effect and the IFRSs endorsed by the EU for the year ended 31 December 2012.

IFRSs comprise standards and interpretations accepted by the International Accounting Standards Board ("IASB") and the IFRS Interpretations Committee ("IFRIC").

These financial statements are presented in Polish zloty ("PLN") and all amounts are stated in PLN thousands unless otherwise indicated.

These 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 authorization of these financial statements, management is not aware of any facts or circumstances that would indicate a threat to the continued activity of the Company.

These financial statements for the year ended 31 December 2012 were authorized for issue on 12 March 2013.

The Company prepared consolidated financial statements for the year ended 31 December 2012, which were authorized for issue on 12 March 2013.

3. New standards and interpretations issued but not yet effective

The following standards and interpretations were issued by the International Accounting Standards Board or the IFRS Interpretations Committee but are not yet effective:

- The first phase of IFRS 9 *Financial Instruments: Classification and Measurement* – applicable to annual periods beginning on or after 1 January 2015 – not endorsed by the EU as at the date of authorization of these financial statements. In subsequent phases, the IASB will address hedge accounting and impairment. The application of the first phase of IFRS 9 will have an impact on the classification and measurement of the Company's financial assets. The Company will quantify the effect in conjunction with the other phases when issued, to present a comprehensive picture,
- Amendments to IAS 1 *Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income* – applicable to annual periods beginning on or after 1 July 2012,
- Amendments to IAS 12 *Income Taxes: Deferred Tax: Recovery of Underlying Assets* – applicable to annual periods beginning on or after 1 January 2012 – in the EU, applicable to annual periods beginning on or after 1 January 2013 at the latest,
- Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards: Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters* – applicable to annual periods beginning on or after 1 July 2011 – in the EU, applicable to annual periods beginning on or after 1 January 2013 at the latest,

- IFRS 10 *Consolidated Financial Statements* – applicable to annual periods beginning on or after 1 January 2013 – in the EU, applicable to annual periods beginning on or after 1 January 2014 at the latest. The Company plans to implement IFRS 10 starting from the annual period beginning on 1 January 2014,
- IFRS 11 *Joint Arrangements* – applicable to annual periods beginning on or after 1 January 2013 – in the EU, applicable to annual periods beginning on or after 1 January 2014 at the latest. The Company plans to implement IFRS 11 starting from the annual period beginning on 1 January 2014,
- IFRS 12 *Disclosure of Interests in Other Entities* – applicable to annual periods beginning on or after 1 January 2013 – in the EU, applicable to annual periods beginning on or after 1 January 2014 at the latest. The Company plans to implement IFRS 12 starting from the annual period beginning on 1 January 2014,
- Amendments to IFRS 10, IFRS 11 and IFRS 12 *Transition Guidance* – applicable to annual periods beginning on or after 1 January 2013 – not endorsed by the EU as at the date of authorization of these financial statements,
- IFRS 13 *Fair Value Measurement* – applicable to annual periods beginning on or after 1 January 2013,
- IAS 27 *Separate Financial Statements* – applicable to annual periods beginning on or after 1 January 2013 – in the EU, applicable to annual periods beginning on or after 1 January 2014 at the latest,
- IAS 28 *Investments in Associates and Joint Ventures* – applicable to annual periods beginning on or after 1 January 2013 – in the EU, applicable to annual periods beginning on or after 1 January 2014 at the latest,
- IFRIC 20 *Stripping* C*osts in the Production Phase of a Surface Mine* – applicable to annual periods beginning on or after 1 January 2013,
- Amendments to IFRS 7 *Financial Instruments – Disclosures: Offsetting Financial Assets and Financial Liabilities* – applicable to annual periods beginning on or after 1 January 2013,
- Amendments to IAS 32 *Financial Instruments – Presentation: Offsetting Financial Assets and Financial Liabilities* – applicable to annual periods beginning on or after 1 January 2014,
- Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards: Government Loans* – applicable to annual periods beginning on or after 1 January 2013 – not endorsed by the EU as at the date of authorization of these financial statements,
- *Improvements to IFRSs* (issued in May 2012) – applicable to annual periods beginning on or after 1 January 2013 – not endorsed by the EU as at the date of authorization of these financial statements,
- Amendments to IFRS 10, IFRS 12 and IAS 27 *Investment Entities* (issued on 31 October 2012) – applicable to annual periods beginning on or after 1 January 2014 – not endorsed by the EU as at the date of authorization of these financial statements.

Apart from early application of the revised IAS 19 *Employee Benefits*, the Company has not decided to early apply any standard or interpretation that has already been issued but is not yet effective.

Due to the planned date of implementation of IFRS 10, IFRS 11 and IFRS 12 starting from the annual period beginning on 1 January 2014, as at the date of authorization of these financial statements for issue the Company is in the course of analyzing the impact of those IFRSs on the accounting policies applied by the Company. The Management Board believes that the implementation of the other standards and interpretations mentioned above will have no significant impact on the accounting policies applied by the Company.

4. Changes to accounting policies and the effect of merger with GZE S.A.

The accounting policies applied while preparing these financial statements are consistent with those applied in preparation of the annual financial statements of TAURON Polska Energia S.A. for the year ended 31 December 2011, except for the following changes:

- **Change to accounting policy resulting from early application of the revised IAS 19 *Employee Benefits***

  The revised IAS 19 *Employee Benefits* is applicable to annual periods beginning on or after 1 January 2013; however, early application is allowed. The Company decided to early apply the revised IAS 19 beginning from 1 January 2012, with an appropriate restatement of the comparable period ended 31 December 2011.

  The most important amendment from the Company's perspective is the liquidation of the "corridor approach" and the requirement to recognize actuarial gains and losses retrospectively in other comprehensive income.

  Accordingly, as at 1 January 2011 the Company recognized all actuarial gains and losses and increased the amount of the provision for post-employment employee benefits by PLN 380 thousand. The Company's retained earnings decreased by PLN 308 thousand. As at 31 December 2011, provision for employee benefits increased by PLN 173 thousand and retained earnings decreased by PLN 140 thousand.

- Amendment to IFRS 7 *Financial Instruments: Disclosures: Transfer of Financial Assets* – applicable to annual periods beginning on or after 1 July 2011. The Company has reflected changes to disclosures arising from the adopted amendment to IFRS 7 in the financial statements for the year ended 31 December 2012.

(in PLN thousand)

Restatement of comparable data due to the Company's merger with its subsidiary Górnośląski Zakład Elektroenergetyczny S.A.

TAURON Polska Energia S.A.'s merger with Górnośląski Zakład Elektroenergetyczny S.A., dated 12 June 2012, has been accounted for using the pooling of interests method, which means that the financial statements of the acquiree were aggregated as of 13 December 2011 i.e. the date on which TAURON Polska Energia S.A. acquired control over Górnośląski Zakład Elektroenergetyczny S.A.

The accounting policy adopted by the Company in accounting for combinations of business entities under joint control is presented in Note 5.23.

The effect of the aforementioned changes on the statement of financial position as at 31 December 2011 and as at 1 January 2011 is presented in the tables below:

	As at 31 December 2011 (*authorized figures*)	Change resulting from merger	Change in accounting policy resulting from application of revised IAS 19	**As at 31 December 2011 (*restated figures*)**
Non-current assets	**22 230 228**	**(843 628)**	**33**	**21 386 633**
Property, plant and equipment	11 591	20	–	11 611
Shares in unlisted and listed companies	21 028 076	(843 973)	–	20 184 103
Deferred tax asset	37 204	325	33	37 562
Current assets	**1 340 747**	**95 674**	**–**	**1 436 421**
Corporate income tax receivable	–	852	–	852
Trade and other receivables	991 977	70 461	–	1 062 438
Cash and cash equivalents	258 038	23 814	–	281 852
Other non-financial assets	3 581	547	–	4 128
TOTAL ASSETS	**23 570 975**	**(747 954)**	**33**	**22 823 054**
Equity	**17 344 228**	**(2 890)**	**(140)**	**17 341 198**
Retained earnings/Accumulated losses	1 168 599	(2 890)	(140)	1 165 569
Non-current liabilities	**4 140 154**	**–**	**173**	**4 140 327**
Provisions for employee benefits	3 052	–	173	3 225
Current liabilities	**2 086 593**	**(745 064)**	**–**	**1 341 529**
Trade and other payables	325 848	278	–	326 126
Current portion of interest-bearing loans and borrowings	1 468 066	(748 686)	–	719 380
Other non-financial liabilities	84 778	924	–	85 702
Accruals, deferred income and government grants	8 175	48	–	8 223
Other provisions	165 040	2 372	–	167 412
TOTAL EQUITY AND LIABILITIES	**23 570 975**	**(747 954)**	**33**	**22 823 054**

(in PLN thousand)

	As at 1 January 2011 (*restated figures presented in the financial statements for the year ended 31 December 2011*)	Change in accounting policy resulting from application of revised IAS 19	**As at 1 January 2011 (*restated figures*)**
Non-current assets	**17 224 617**	**72**	**17 224 689**
Deferred tax asset	8 514	72	8 586
TOTAL ASSETS	**18 445 185**	**72**	**18 445 257**
Total equity	**16 523 681**	**(308)**	**16 523 373**
Retained earnings/Accumulated losses	275 648	(308)	275 340
Non-current liabilities	**848 392**	**380**	**848 772**
Provisions for employee benefits	2 606	380	2 986
TOTAL EQUITY AND LIABILITIES	**18 445 185**	**72**	**18 445 257**

5. Summary of significant accounting policies

5.1. Foreign currency translation

On initial recognition, transactions denominated in currencies other than Polish zloty are translated into Polish zloty at the foreign exchange rate prevailing on the transaction date. At the balance sheet date:

- monetary items are translated using the closing rate of exchange (i.e. the average NBP rate determined for the given currency at the given date),
- non-monetary items recognized at historical cost are translated using the historical exchange rate prevailing on the date of the original transaction (the exchange rate of the bank used by the enterprise), and
- non-monetary items recognized at fair value are translated into Polish zloty using the rate of exchange prevailing on the date of re-measurement to fair value.

Exchange differences resulting from translation are recorded under finance income or finance costs, or, in cases specified in accounting policies, are capitalized in the cost of the assets. Non-monetary assets and liabilities recognized at historical cost are translated using the historical exchange rate prevailing on the transaction date.

The following exchange rates were used for valuation purposes:

Currency	**31 December 2012**	**31 December 2011**
EUR	4.0882	4.4168
CZK	0.1630	0.1711

5.2. Property, plant and equipment

Property, plant and equipment are fixed assets which:

- are held by the enterprise for use in production, supply of goods or services or for administrative purposes, and
- are expected to be used over a period exceeding one year,
- for which it is probable that future economic benefits associated with the asset will flow to the enterprise,
- the cost of the asset to the enterprise can be measured reliably.

Property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. The initial cost of an item of property, plant and equipment comprises its purchase price or manufacturing cost plus any directly attributable costs of buying and bringing the asset to working condition for its intended use. Depreciation is charged on the cost of the fixed asset decreased by its residual value. Depreciation begins when the asset is made available for use. Depreciation is charged in accordance with a depreciation plan which determines the estimated useful life of the asset. The depreciation method used reflects the pattern in which the asset's economic benefits are consumed by the enterprise.

The average useful lives of specific groups of fixed assets are as follows:

Tangible fixed assets by type	Average remaining depreciation period in years
Plant and machinery	4 years
Motor vehicles	2 years
Other tangible fixed assets	2 years

Depreciation methods, depreciation rates and residual values of property, plant and equipment are reviewed at least at the end of each financial year. Any resulting amendments are recognized as a change of estimates. Depreciation expense is recognized in profit or loss in the expense category consistent with the function of the given asset.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its further use. Any gain or loss arising on derecognition of an asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognized in the profit or loss for the period in which derecognition took place.

Assets under construction include assets in the course of construction or assembly and are recognized at purchase price or cost of construction less any impairment losses. Assets under construction are not depreciated until completed and made available for use.

5.3. Intangible assets

Intangible assets of the Company include identifiable non-monetary assets without physical substance, such as:

- certificates of energy generated using renewable sources, in cogeneration or natural gas, acquired for cancellation to fulfill the obligation for the next years,
- property rights acquired by the enterprise and included under non-current assets which can be of economic use and have an expected useful life of more than one year, designated to be used for internal purposes, including in particular:
  - copyright and related rights, concessions, licenses (including computer software licenses),
  - rights to inventions, patents, trademarks, utility and ornamental patterns, computer software,
  - know-how, i.e. value being the equivalent of the acquired industrial, commercial, scientific or organizational knowledge,
- development expenses,
- other intangible assets recognized at acquisition as part of a business combination.

Intangible assets are initially measured at cost (purchase price or manufacturing cost in the case of development activity). Following initial recognition, intangible assets are carried at cost less accumulated amortization and impairment losses.

The useful lives of intangible assets are assessed by the Company to be either finite or indefinite. If they are finite, the Company estimates the length of the useful life or the amount of production or other measure providing the basis for determining the useful life.

Intangible assets with finite lives are amortized over the estimated useful life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and method for intangible assets with finite useful lives are reviewed at least at the end of each financial year. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for on a prospective basis by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in profit or loss in the expense category consistent with the function of the intangible asset.

Intangible assets with indefinite useful lives and those that are not in use are tested for impairment on an annual basis.

The following average useful lives were adopted for specific groups of intangible assets:

Intangible assets by type	Average remaining amortization period in years
Software	7 years
Other intangible assets	4 years

5.4. Impairment of non-financial long-term assets

An assessment is made at each reporting date to determine whether there is any indication that any of non-financial long-term assets may be impaired. If such indication exists, or in case an annual impairment testing is required, the Company makes an estimate of the recoverable amount of that asset or the asset's cash-generating unit.

The recoverable amount of an asset or a cash-generating unit is the higher of the asset's or cash-generating unit's fair value less costs to sell and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses of continuing operations are recognized in the expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Company makes an estimate of recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation or amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized immediately as income in profit or loss. After a reversal of an impairment loss is recognized, the depreciation (amortization) charge for the asset is adjusted in future periods to allocate the asset's carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

5.5. Financial assets

Financial assets are classified into one of the following categories:

- financial assets held to maturity,
- financial assets at fair value through profit or loss,
- loans and receivables,
- financial assets available for sale.

Financial assets held to maturity

The Company has no assets held to maturity.

Financial assets at fair value through profit or loss

A financial asset at fair value through profit or loss is a financial asset that meets either of the following conditions:

- It is classified as held for trading. A financial asset is classified as held for trading if it is:
  - acquired principally for the purpose of selling it in the near term,
  - part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking, or
  - a derivative – except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument.
- Upon initial recognition it was designated as at fair value through profit or loss, in accordance with IAS 39. Financial assets may be designated upon initial recognition as at fair value through profit or loss if the criteria from IAS 39 are met.

Financial assets at fair value through profit or loss are measured at fair value taking into account their market value at the balance sheet date excluding costs to sell. Changes in the values of these financial instruments are recognized in the statement of comprehensive income as finance income or finance costs.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are classified as current assets provided their maturity does not exceed 12 months after the balance sheet date. Loans and receivables with maturities exceeding 12 months from the balance sheet date are classified under non-current assets. Loans and receivables are recognized at amortized cost.

Available-for-sale financial assets

All remaining financial assets are classified as available-for-sale financial assets. Available-for-sale financial assets are measured at fair value at each balance sheet date. The fair value of the assets for which a quoted market price is not available is determined with reference to the current market value of another instrument that is substantially the same or based on the estimated future cash flows of the asset (discounted cash flow method). Where no quoted market price is available in an active market and the fair value cannot be reliably measured using alternative methods, available-for-sale financial assets are measured at cost, adjusted for any impairment losses.

Positive and negative differences between the fair value of financial assets available for sale and the cost of such assets, net of deferred tax, are taken to the revaluation reserve, except for the following:

- impairment losses,
- foreign exchange gains and losses arising on monetary assets,
- interest calculated using the effective interest rate.

Dividends from equity instruments classified as available-for-sale are recognized in profit or loss when the entity's right to receive payment is established.

5.6. Impairment of financial assets

The Company assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Assets carried at amortized cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through the use of an allowance amount. The amount of the loss is recognized in profit or loss for the period.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in profit or loss, to the extent that the carrying amount of the asset does not exceed its amortized cost at the reversal date.

Financial assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and has to be settled by delivery of such an unquoted equity instrument, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset.

Available-for-sale financial assets

If there is objective evidence that an impairment loss has been incurred on an available-for-sale financial asset, then the amount of the difference between its acquisition cost (net of any principal repayment and interest) and current fair value, less any impairment loss on that financial asset previously recognized in profit or loss, is removed from equity and recognized in profit or loss. Reversals of impairment losses on equity instruments classified as available for sale cannot be recognized in profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed, with the amount of the reversal recognized in profit or loss.

5.7. Shares in subsidiaries

Shares in subsidiaries are stated at cost less impairment losses, if any. The need to recognize an impairment loss is assessed in accordance with IAS 36 *Impairment of Assets*, by comparing the carrying amount with the higher of the fair value less costs to sell and the value in use.

5.8. Derivative financial instruments

The Company enters into forward currency contracts to hedge against the risks associated with fluctuations in foreign exchange rates.

The Company also enters into forward contracts and futures for the purchase and sale of emission allowances and energy certificates. Transactions concluded and held in order to satisfy internal requirements are excluded from the scope of IAS 39. Transactions concluded and held for speculative purposes meet the definition of a financial instrument and, in accordance with IAS 39, are subject to measurement at the reporting date.

Such derivative financial instruments are measured at fair value. Derivatives are recognized as assets when their fair value is positive and as liabilities when their fair value is negative.

5.9. Hedge accounting

The Company uses derivative financial instruments such as Interest Rate Swaps to hedge against the risks associated with interest rate fluctuations. These transactions are subject to hedge accounting, which includes the use of instruments hedging cash flows associated with issued debentures.

Cash flow hedge accounting involves hedging an exposure to variability in cash flows that is attributable to a particular risk associated with a recognized asset or liability or a forecasted transaction and that could affect profit or loss.

A cash flow hedge is accounted for as follows:

- the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognized directly in other comprehensive income and
- the ineffective portion of the gain or loss on the hedging instrument is recognized in profit or loss for the period.

More specifically, the accounting treatment applied to a cash flow hedge is as follows:

- the separate component of equity associated with the hedged item is adjusted to the lesser of the following (in absolute amounts):
  - the cumulative gain or loss on the hedging instrument from inception of the hedge and
  - the cumulative change in the fair value (present value) of the expected future cash flows on the hedged item from inception of the hedge;
- any remaining gain or loss on the hedging instrument or a designated portion thereof (which is not an effective hedge) is included in profit or loss for the period and
- if the documented risk management strategy for a particular hedging relationship excludes a specific component of the gain or loss or related cash flows on the hedging instrument from the assessment of hedge effectiveness, that excluded component of gain or loss is recognized in profit or loss for the period in which it arises unless it is classified as an available-for-sale financial asset.

Gains/losses on the remeasurement of a hedging instrument that were recognized in other comprehensive income are recognized directly in profit or loss for the period at the time the hedged item affects the profit or loss for the period, or are included in the initial measurement of the acquisition cost or other carrying amount of the asset or liability if the hedged item results in the recognition of a non-financial asset or liability.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship, the risk management objective and strategy for undertaking the hedge.

Hedge effectiveness is assessed on an ongoing basis to check if the hedge is highly effective throughout all financial reporting periods for which it was designated.

5.10. Other non-financial assets

The Company recognizes prepayments under other non-financial assets if the following conditions are satisfied:

- they originate from past events – costs incurred by the enterprise for operating purposes,
- they are reliably measurable,
- they will cause an inflow of future economic benefits to the enterprise,
- they relate to future reporting periods.

Prepayments are recognized at the amount of incurred reliably measurable expenses that relate to future reporting periods and will cause an inflow of future economic benefits to the enterprise.

Prepaid expenses are amortized in accordance with the passage of time or level of performance. The time and method of settlement depends on the nature of the expense and takes into account the prudence concept.

At the end of the reporting period, the Company performs a review of prepaid expenses to check whether the probability that economic benefits will flow to the enterprise after the end of the current period is sufficient to recognize the given item as an asset.

The following items are, among others, recognized under prepayments: property insurance expenses, transfers to the Social Fund, subscriptions, other expenses relating to future reporting periods.

Other non-financial assets include in particular receivables from the state budget (except for CIT receivables which are presented as a separate item in the statement of financial position), the excess of Social Fund assets over Social Fund liabilities and advance payments for future purchases of property, plant and equipment, intangible assets and inventories. Advance payments are presented consistent with the nature of the related assets i.e. under non-current or current assets, as appropriate. Advance payments are not subject to discounting as they represent non-monetary assets.

5.11. Short-term intangible assets

Short-term intangible assets include renewable energy and cogeneration certificates which are intended to be used for internal purposes and have been acquired for cancellation due to sale of electricity to final users, in order to fulfill the cancellation requirement for the current year. On initial recognition, energy certificates are measured at acquisition cost.

5.12. Inventories

Inventories include purchased emission allowances and purchased certificates of electricity generated using renewable sources, gas-fired plants or cogeneration, which are intended for sale.

Inventories are initially recognized at cost.

At the balance sheet date inventories are measured at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

If the cost of inventories is higher than the net realizable value, the Company recognizes an appropriate write-down.

The closing balance of materials and goods for resale is determined on the weighted average basis. The cost of advertising and promotional materials as well as stationary materials can be directly charged to costs of materials consumption at the moment of purchase.

5.13. Trade and other receivables

Trade receivables are recognized and carried at the original invoice amount unless the effect of the time value of money is material, less an allowance for any uncollectible amounts.

Doubtful debt allowances are recorded under operating expenses or finance costs, depending on the nature of the receivable.

If the effect of the time value of money is material, the value of receivables is determined by discounting the estimated future cash flows to present value using a discount rate that reflects current market assessments of the time value of money. Where discounting is used, any increase in the balance due to the passage of time is recognized as finance income.

5.14. Cash and cash equivalents

Cash and short-term deposits in the statement of financial position comprise cash at bank and on hand as well as short-term deposits with an original maturity of three months or less.

The balance of cash and cash equivalents in the statement of cash flows consists of cash and cash equivalents as defined above. If bank overdrafts are used as part of cash management, subject to the provisions of IAS 7, the balance of cash and cash equivalents in the statement of cash flows is presented net of the outstanding bank overdrafts. In addition, the balance of cash and cash equivalents is adjusted for the balances of loans granted and taken out under cash pool transactions, due to the fact that they mainly serve the purpose of management of current financial liquidity.

5.15. Issued capital

The issued share capital in the financial statements is recorded at the amount stated in the Company's Articles of Association and registered in the court register. Contributions declared but unpaid are recognized as unpaid share capital with a negative value.

5.16. Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event and if it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of the provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in profit or loss net of any reimbursement.

Provisions are recorded under operating expenses, other operating expenses or finance costs, depending on the underlying circumstances.

If the effect of the time value of money is material, the amount of the provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is determined as a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the liability. The discount rate does not reflect the risk that has been reflected in the estimated future cash flows. Where discounting is used, the increase in the provision due to the passage of time is recognized as finance cost.

In particular, the Company has recognized the following provisions:

- *provisions for post-employment benefits and jubilee bonuses*

  In accordance with internal remuneration regulations, employees of the Company are entitled to the following benefits:

  – retirement and disability benefits – payable on a one-off basis upon retirement,

  – jubilee bonuses – payable after completion of a specified number of years in service,

  – cash equivalents resulting from special electricity rates and charges granted to employees in the energy sector,

- death benefits,
- post-employment benefits from the Social Fund.

The carrying amount of the Company's liabilities resulting from those benefits is calculated at each balance sheet date by an independent actuary. The balance of these liabilities equals discounted payments which will be made in the future, accounts for staff turnover and relates to the period up to the balance sheet date. Demographic information and information on staff turnover are based on historical data. In accordance with the revised IAS 19, actuarial gains and losses for post-employment benefits are recognized in full under other comprehensive income.

- *provision for obligation to submit energy certificates*

  A provision for the obligation to surrender renewable energy certificates for cancellation is recognized as follows:

  - in the portion covered by the certificates held at the balance sheet date – at the cost of certificates held,
  - in the portion not covered by the certificates held at the balance sheet date – in the first turn, at the amounts arising from forward contracts concluded for the purchase of energy certificates to be used to fulfill the obligation for the current year, and then at the market value of the certificates required to fulfill the obligation at the balance sheet date or at the amount of the compensation fee – in accordance with the Company's intention regarding the method of fulfilling the obligation.

  The provision is charged to operating expenses.

- *other provisions* are presented by the Company at the reliably estimated present value of future obligations.

5.17. Loans and debt securities

All loans and borrowings (including debt securities) are initially recognized at the fair value net of transaction costs associated with the borrowing.

After initial recognition, interest-bearing loans and borrowings are measured at amortized cost using the effective interest rate method.

Amortized cost is calculated by taking into account any transaction costs, and any discount or premium on settlement.

Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the settlement using the effective interest rate.

5.18. Trade and other payables

Current trade payables are carried at the amount due and payable. Other payables include wages and salaries and payables for the purchase of fixed assets, which are measured at the amount due and payable.

Financial liabilities at fair value through profit or loss include financial liabilities held for trading. Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Financial liabilities at fair value through profit or loss are measured at fair value, reflecting their market value at the balance sheet date, less directly attributable sale transaction costs. Gains or losses on these liabilities are recognized in profit or loss as finance income or cost.

Financial liabilities other than financial instruments at fair value through profit or loss are measured at amortized cost using the effective interest rate method.

A financial liability is derecognized when the liability has been extinguished, i.e. when the obligation under the liability is discharged or cancelled or expires.

5.19. Other non-financial liabilities

Other non-financial liabilities include in particular VAT payables, other payables to the state budget (except for CIT payables which are recognized as a separate item in the statement of financial position), the excess of Social Fund liabilities over Social Fund assets and liabilities resulting from advance payments received that are to be settled by delivery of goods, services or fixed assets. Other non-financial liabilities are recognized at the amount payable.

5.20. Social Fund

The Social Fund Act dated 4 March 1994 (with subsequent amendments) requires enterprises that have more than 20 employees (counted on a full time basis) to establish and run a Social Fund ("the Fund"). The Company operates such a Fund and makes periodic contributions to the Fund. The Fund's purpose is to subsidize social activities of the Company, to grant loans to its employees and to incur other social expenses.

Since social assets are not controlled by the Company, they have been set off against Social Fund liabilities.

5.21. Leases

Company as lessee

Finance leases, which transfer to the Company substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss.

Capitalized leased assets should be depreciated on a consistent basis with assets owned by the entity. Where it is not sufficiently certain that the lessee will acquire ownership of the asset before the lapse of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset or the lease term.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease and subsequent lease payments are recognized as an expense on a straight-line basis over the lease term.

5.22. Taxes

Tax Capital Group

On 28 November 2011, the Head of the First Śląski Tax Office in Sosnowiec issued a decision on the registration of a Tax Capital Group for the period of three fiscal years from 1 January 2012 to 31 December 2014.

TAURON Polska Energia S.A., as the Company Representing the Tax Capital Group, is responsible for paying monthly advances in respect of the corporate income tax of the Tax Capital Group, in accordance with the provisions of the Corporate Income Tax Act. The share of each company of the Tax Capital Group in the monthly advance for the corporate income tax is determined based on the percentage share of the tax base reported by the given company in the tax base reported by the Tax Capital Group, excluding the companies reporting tax losses. Where the final amount of a given company's share is lower than the initial amount transferred by that company to the Company Representing the Tax Capital Group, the latter returns the difference to that company.

Current income tax

Income tax presented in profit or loss comprises the actual tax expense for the given reporting period as determined by the Company in accordance with the provisions of the Corporate Income Tax Act, any corrections of tax settlements for prior years as well as a movement in the balance of the deferred tax asset and deferred tax liability that is not settled against equity.

Deferred income tax

The Company recognizes deferred tax assets and deferred tax liabilities on all temporary differences between the carrying amounts of assets and liabilities and their tax bases and the tax loss available for utilization in the future.

A deferred tax liability is recognized for all taxable temporary differences unless the deferred tax liability arises from:

- the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss, and
- taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

A deferred tax asset is recognized for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized, except for:

- cases in which the deferred tax asset arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss, and
- deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, for which deferred tax assets are only recognized to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each balance sheet date and are recognized to the extent that it has become probable that future taxable profit will be available that will allow the deferred tax asset to be recovered.

Deferred tax assets are determined at the amount that is expected to be deducted from the income tax in the future as a result of deductible temporary differences leading to a future decrease in taxable profit and tax loss available for utilization, taking into account the prudence principle. Deferred tax assets are only recognized if they are probable of realization.

A deferred tax liability is recognized at the amount of the income tax that will be payable in the future as a result of taxable temporary differences i.e. differences which will cause an increase in taxable profit in the future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

The income tax relating to items that are recognized outside the profit or loss is also recognized outside the profit or loss: under other comprehensive income for items recognized under other comprehensive income or directly in equity for items recognized directly under equity.

Deferred income tax assets and deferred income tax liabilities are offset, if legally enforceable right exists to set off current income tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

Value added tax

Revenues, expenses, assets and liabilities are recognized net of the amount of value added tax except:

- where the value added tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case value added tax is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable, and
- receivables and payables, which are stated with the amount of value added tax included.

The net amount of value added tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

5.23. Business combinations

The Company uses the pooling of interests method for accounting for business combinations of entities under joint control.

The underlying assumption in this method is that the merging entities were controlled by the same shareholder both before and after the transaction and, therefore, the financial statements reflect the continuity of joint control and do not reflect any change of the value of net assets to fair value (or recognition of new assets) or valuation of goodwill, as in fact none of the merging entities is acquired. Therefore, the financial statements are prepared as if the merging entities had been merged since the date on which they became subject to joint control.

In accounting for a business combination using the pooling of interests method, the following items are eliminated:

- share capital of the acquiree,
- intercompany receivables and payables as well as other similar settlements between merging companies,
- revenues and costs of business transactions made during the period for which the financial statements are prepared, which took place between merging companies before their merger,
- gains or losses from business transactions made between merging companies before their merger, included in the values of combined assets and liabilities.

In accounting for a business combination, the Company uses consolidated financial statements as a source of the value of assets and liabilities of the acquired subsidiary. The value of shares held by the acquired company in subsidiaries has been determined by reference to the value of net assets of these entities in the consolidated financial statements as well as the goodwill relating to the given subsidiary.

The difference between the book value of the net assets recognized in the statement of financial position of the acquirer as a result of the merger and the value of the investment previously recognized in the accounting records of the acquirer is recognized in the acquirer's equity.

5.24. Revenue

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenues are recognized at the fair value of the consideration received or receivable, net of Value Added Tax, excise and other sales taxes or charges as well as rebates and discounts. The following specific recognition criteria must also be met before revenue is recognized.

Revenue from sale of goods for resale and finished goods

Revenue is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer and the amount of revenue and costs incurred can be reliably measured.

Revenue includes amounts due for finished goods, goods for resale and materials sold as well as other services relating to principal activities, determined on the basis of the net price, net of rebates and discounts granted and net of excise.

5.25. Costs

Cost of sales

Cost of sales includes:

- cost of production incurred during the given reporting period, adjusted for the movement in the balance of inventories and for the cost of goods produced for internal purposes,
- cost of goods for resale and materials sold at acquisition cost,
- impairment write-downs recognized against property, plant and equipment, intangible assets and receivables, and
- total selling expenses and administrative expenses incurred during the reporting period (recognized as profit or loss).

Costs of production which are directly attributable to income earned by an enterprise are recognized in profit or loss for the reporting period in which income is earned.

Costs of production which are only indirectly attributable to income or other benefits earned by an enterprise are recognized in the profit or loss of the enterprise to the extent they relate to the given reporting period, so as to match them to the related income or other economic benefits, taking into account the principles of valuation of property, plant and equipment and inventories.

5.26. Other operating income and expenses

Other operating income and expenses include in particular items resulting from:

- disposal of property, plant and equipment and intangible assets,
- recognition and reversal of provisions, except for provisions related to financial operations or recognized in operating expenses,
- donation or a free-of-charge receipt, including by way of donation of assets, and including cash and cash equivalents, and
- compensation, penalties and fines and other expenses unrelated to ordinary activities.

5.27. Finance income and finance costs

Finance income and finance costs include in particular items resulting from:

- participation in the profits of other enterprises, including mainly dividends,
- interest,
- disposal of financial assets,
- re-measurement of financial instruments, excluding financial assets available for sale, for which the effects of revaluation are recognized under revaluation reserve,
- interest expense relating to the measurement of employee benefits in accordance with IAS 19,
- movements in the amount of the provision due to the approach of the date on which costs will be incurred (the unwinding of the discount effect),
- exchange differences resulting from operations performed during the reporting period and balance sheet valuations of assets and liabilities at the end of the reporting period, except for exchange differences recognized in the initial cost of the item of property, plant and equipment, to the extent they are regarded as an adjustment to interest expense, and exchange differences resulting from the measurement of non-monetary items classified as available-for-sale, and
- other items related to financial activities.

The Company offsets foreign exchange gains and losses if they arise from similar transactions. If the exchange differences are significant and do not arise from similar transactions, then the Company considers whether or not to present them separately.

Interest income and interest expense is recognized as interest accrues to the net carrying amount of the financial instrument using the effective interest rate method, taking into account the materiality concept.

Dividends are recognized when the shareholders' rights to receive the payment are established.

5.28. Earnings per share

Earnings per share for each reporting period is calculated as quotient of the net profit for the given accounting period attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding in that period.

5.29. Statement of cash flows

Statement of cash flows is prepared using the indirect method.

6. Significant judgments and estimates

In the process of applying the accounting policies with respect to the matters stated below, management has made the following judgments, apart from those involving estimations, which have the most significant effect on the amounts recognized in the financial statements, including explanatory notes. The assumptions underlying these estimates are based on management's best knowledge of current and future activities and events in the particular areas. The details of the assumptions adopted are presented in the relevant notes to these financial statements.

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Impairment of assets

Taking into account the indications that the Company's capitalization has recently been below carrying amount as well as the projected economic slow-down, the Company conducted a test for the impairment of the value of shares included in non-current assets. Shares in unlisted and listed companies account for 78% of total assets.

The test has been conducted based on the present value of estimated cash flows from operations of significant companies, based on detailed projections for 2013–2022 and the estimated residual value. The use of projections exceeding 5 years is mainly due to long-term investment processes in the power industry. The macroeconomic and industry-specific assumptions used in projections are updated whenever any premises for their modification are observed on the market. Any legal developments known at the date of the test are also included in the projections.

The level of the weighted average cost of capital (WACC) during the projection period as used in the calculations is between 8.61%–11.15% at nominal value before tax. WACC is computed taking into account a risk-free interest rate calculated based on the yield on 10-year State Treasury bonds (5.2%) and a premium for the risk specific to operations conducted in the power industry (5%). The rate of increase used in extrapolation of cash flow projections beyond the specific period included in planning is 2.5% and corresponds to the expected long-term inflation rate.

The key business assumptions affecting the estimation of the value in use of the tested entities are as follows:

- The adopted track of boiler coal prices, other coal assortments and fuel gases.
- The adopted development track of wholesale prices of electricity, taking into account, among others, the impact of the balance between the supply and demand of electricity on the market, fuel costs and costs of purchase of CO_2 allowances;
- Emission caps for 2012 for the particular CGUs according to NAP II for the period 2013–2020 in accordance with the derogation notice sent by the Polish government to the European Commission;
- The volumes of green, red and yellow energy production arising from production capacities along with the track of prices for particular energy certificates;
- The receipt of compensation by eligible generators for early termination of long-term contracts according to financial models valid at the testing dates;
- Regulated income of distribution companies ensuring coverage of reasonable costs and a reasonable return on capital employed. The level of the return depends on the so-called Regulatory Value of Assets;
- The adopted development track of retail electricity prices based on wholesale black energy prices, taking into account excise cost, cost of the obligation to surrender energy certificates for cancellation and an appropriate level of margin;
- Sales volumes taking into account the rise in GDP as well as growing market competition;
- Tariff income of heat generation companies ensuring coverage of reasonable costs and a reasonable return on capital employed;
- Maintenance or extension of the existing non-current assets' production capacities as a result of replacement and development investments.

In addition, the Company conducted a test for the impairment of fixed assets. For this purpose, the Company used the relevant assumptions described in the test for the impairment of the value of shares.

Based on test results, there is no need to recognize any impairment losses against the value of the assets held.

(in PLN thousand)

Sensitivity analyses performed by the Company indicate that the forecasted prices of electricity and the adopted discount rates are the most significant factors affecting the estimated cash flows of significant companies. The Company believes that no reasonably possible and highly probable change of any key assumption used in the analyses will result in the carrying amount of its shares in unlisted and listed companies or the carrying amount of fixed assets exceeding their recoverable amounts.

Valuation of provisions for employee benefits

Provisions for employee benefits (provision for retirement and disability benefits, provision for transfers to the Social Fund for future pensioners, provision for special electricity rates and charges granted to employees) were determined using actuarial valuations.

Key assumptions used by the actuary at the balance sheet to calculate the amount of the obligation are as follows:

	Year ended 31 December 2012	Year ended 31 December 2011
Discount rate (%)	4.00%	5.75%
Estimated inflation rate (%)	2.50%	2.52%
Employee rotation rate (%)	4.19%	3.46%
Estimated salary increase rate (%)	2.50%	2.52%
Estimated electricity price increase rate (%)	3.50%	3.48%
Estimated increase rate for contribution to the Social Fund (%)	4.00%	5.00%
Remaining average employment period	13.28	14.16

A significant decrease in government bond yields and rates of return on high quality corporate bonds in Poland in the fourth quarter of 2012 resulted in a need of significant reduction of the discount rate adopted for the valuation of provisions for employee benefits.

The sensitivity of the results of the valuation as at 31 December 2012 to a change in basic actuarial assumptions by 0.5 percentage points is presented in the table below:

Provision	Financial discount rate		Planned increases in base amount	
	-0,5 p.p.	+0,5 p.p.	-0,5 p.p.	+0,5 p.p.
Provision for retirement, disability and similar benefits	1 022	873	852	1 005
Employee electricity rates	789	592	590	790
Social Fund	193	148	148	194
Jubilee bonuses	4 136	3 840	3 829	4 185
Provision, total	**6 140**	**5 453**	**5 419**	**6 174**

A decrease of the discount rate by 0.5 percentage points would have caused an increase of the provision for employee benefits as discussed in detail in Note 24 from PLN 5,771 thousand to PLN 6,140 thousand, while an increase of the discount rate by 0.5 percentage points, i.e. the use of a 4.5% rate, would have caused a decrease of the provision to PLN 5,453 thousand.

Deferred tax asset

Deferred tax assets are measured using the tax rates that are expected to apply in the period when the asset is expected to be realized, based on tax laws that have been enacted at the balance sheet date.

Due to the tax loss incurred for the year ended 31 December 2012 and tax losses anticipated for the Company in the years 2012–2014, the Company did not recognize the net deferred tax asset of PLN 62,729 thousand, which resulted in the reduction of the net profit by PLN 26,607 thousand and the reduction of the deferred tax included in other comprehensive income at the amount of PLN 36,122 thousand.

The forecasts for the Tax Capital Group (TCG) to which the Company belongs provide for taxable profits in 2012 and in subsequent years; therefore, the deferred tax asset will be realized at the level of the TCG.

Write-downs against inventories

Inventories were measured at the balance sheet date at their net realizable values. The estimates of the net realizable values of property rights related to energy certificates and emission allowances recognized under inventories take into account the decline in their market prices. As a result, the Company recognized write-downs of PLN 34,774 thousand for property rights related to energy certificates and write-downs of PLN 200 thousand for emission allowances.

Intercompany debentures

Intercompany debentures issued by the subsidiaries and acquired by TAURON Polska Energia S.A., with a total nominal value at the balance sheet date of PLN 2,615,000 thousand and maturities up to 1 year, have been classified as long-term instruments. Such classification reflects the nature of the funding being part of the intercompany debentures issue program under which funds are managed in a mid-term and long-term horizon.

Depreciation and amortization rates

Depreciation and amortization rates and charges are determined based on the anticipated economic useful lives of property, plant and equipment or intangible assets and the estimated residual values of property, plant and equipment. The economic useful lives are reviewed annually by the Company based on current estimates.

Valuation of IRS and forward currency contracts

The fair value of forward currency contracts is determined based on the discounted future cash flows generated by these transactions, calculated based on the difference between the forward price and the transaction price. The forward price is calculated based on the NBP fixing rate and the interest rate curve implied from FX swap transactions.

The fair value of interest rate swaps is determined based on the discounted future cash flows generated by these transactions, calculated based on the difference between the forward price and the transaction price. The forward price is calculated based on the zero-coupon interest rate curve.

Fair value of other financial instruments

The fair value of financial instruments for which no active market exists is assessed by means of appropriate valuation techniques. The Company applies professional judgment in selecting appropriate methods and assumptions. The methods used for measuring the fair value of the individual financial instruments are presented in Note 35.1.

Allowances for doubtful debts

At the balance sheet date the Company makes an assessment of whether there is any objective evidence of impairment of an individual receivable or a group of receivables. Where the recoverable amount of the asset is less than its carrying amount, the Company recognizes an allowance to bring down the carrying amount to the present value of the expected cash flows. In the year ended 31 December 2012, the Company recognized an allowance for trade receivables in the amount of PLN 236 thousand.

During the reporting period, there were no other significant changes in estimates or methodologies for making estimates that would have an impact on the current period or on future periods.

(in PLN thousand)

7. Shares in related entities

As at 31 December 2012, TAURON Polska Energia S.A. held direct interests in the following significant subsidiaries:

No.	Name of the entity	Address	Principal business activities	Direct interest of TAURON in the entity's share capital	Direct interest of TAURON in the entity's governing body
1.	TAURON Wytwarzanie S.A.	40-389 Katowice; ul. Lwowska 23	Generation, transmission and distribution of electricity and heat	99.72%	99.79%
2.	TAURON Dystrybucja S.A.[1]	30-390 Kraków; ul. Zawiła 65 L	Distribution of electricity	99.68%	99.69%
3.	TAURON Sprzedaż Sp. z o.o.	30-417 Kraków; ul. Łagiewnicka 60	Trading in electricity	100.00%	100.00%
4.	TAURON Obsługa Klienta Sp. z o.o.	53-128 Wrocław; ul. Sudecka 95-97	Customer services	100.00%	100.00%
5.	TAURON Ekoenergia Sp. z o.o.[1]	58-500 Jelenia Góra; ul. Obrońców Pokoju 2B	Generation of electricity, trading in electricity	100.00%	100.00%
6.	Polska Energia Pierwsza Kompania Handlowa Sp. z o.o.	41-400 Mysłowice; Obrzeżna Północna 12	Trading in electricity	100.00%	100.00%
7.	TAURON Ciepło S.A.[1]	40-126 Katowice; ul. Grażyńskiego 49	Heat production and distribution	88.27%	89.12%
8.	TAURON Czech Energy s.r.o.	720 00 Ostrava; Na Rovince 879/C Czech Republic	Trading in electricity	100.00%	100.00%
9.	TAURON Sprzedaż GZE Sp. z o.o.[2]	44-100 Gliwice; ul. Barlickiego 2a	Trading in electricity	99.998%	99.998%
10.	TAURON Obsługa Klienta GZE Sp. z o.o.	44-100 Gliwice; ul. Wybrzeże Armii Krajowej 19b	Customer services	100.00%	100.00%

[1] In the year ended 31 December 2012, changes were made to organizational and equity relationships, which mainly included reorganization and resulted from mergers of the companies owned by TAURON Polska Energia S.A., as discussed in detail in Note 16.

[2] TAURON Polska Energia S.A. holds indirectly through its subsidiary TAURON Serwis GZE Sp. z o.o. a 0.002% interest in the share capital and in the governing body of TAURON Sprzedaż GZE Sp. z o.o. As a result the Company holds 100% interests in the share capital and in the governing body of TAURON Sprzedaż GZE Sp. z o.o.

(in PLN thousand)

As at 31 December 2012, TAURON Polska Energia S.A. held indirect interests in the following significant subsidiaries:

No.	Name of the entity	Address	Principal business activities	Indirect interest of TAURON in the entity's share capital	Holder of shares as at 31 December 2012	Indirect interest of TAURON in the entity's governing body	Holder of shares as at 31 December 2012
1.	Kopalnia Wapienia Czatkowice Sp. z o.o.[1]	32-063 Krzeszowice 3; os. Czatkowice 248	Quarrying, crushing and breaking of limestone, quarrying of stone for construction industry	99.72%	TAURON Wytwarzanie S.A. – 100.00%	99.79%	TAURON Wytwarzanie S.A. – 100.00%
2.	Południowy Koncern Węglowy S.A.[1]	43-600 Jaworzno; ul. Grunwaldzka 37	Hard coal mining	52.33%	TAURON Wytwarzanie S.A. – 52.48%	67.87%	TAURON Wytwarzanie S.A. – 68.01%
3.	BELS INVESTMENT Sp. z o.o.	58-500 Jelenia Góra; ul. Obrońców Pokoju 2B	Generation of electricity	100.00%	TAURON Ekoenergia Sp. z o.o. – 100.00%	100.00%	TAURON Ekoenergia Sp. z o.o. – 100.00%
4.	MEGAWAT MARSZEWO Sp. z o.o.	58-500 Jelenia Góra; ul. Obrońców Pokoju 2B	Generation of electricity	100.00%	TAURON Ekoenergia Sp. z o.o. – 100.00%	100.00%	TAURON Ekoenergia Sp. z o.o. – 100.00%
5.	TAURON Serwis GZE Sp. z o.o.	44-100 Gliwice; ul. Myśliwska 6	Repair and maintenance of electrical machinery and equipment, electrical installations, construction of power lines	99.68%	TAURON Dystrybucja S.A. – 100.00%	99.69%	TAURON Dystrybucja S.A. – 100.00%

[1] TAURON Polska Energia S.A. is the usufructuary of shares owned by TAURON Wytwarzanie S.A. Under the agreements for usufruct of shares, TAURON Polska Energia S.A. holds a 100% interest in the share capital and in the governing body of the company Kopalnia Wapienia Czatkowice Sp. z o.o. and a 52.48% interest in the share capital of Południowy Koncern Węglowy S.A., giving it 68.01% of votes at the company's General Shareholders' Meeting.

In addition, as at 31 December 2012, TAURON Polska Energia S.A. held indirect interests in the following significant jointly controlled entities:

No.	Name of the entity	Address	Principal business activities	Indirect interest of TAURON in the entity's share capital	Holder of shares as at 31 December 2012	Indirect interest of TAURON in the entity's governing body	Holder of shares as at 31 December 2012
1.	Elektrociepłownia Stalowa Wola S.A.	37-450 Stalowa Wola; ul. Energetyków 13	Generation, transmission, distribution and trading of electricity	49.86%	TAURON Wytwarzanie S.A. – 50.00%	49.90%	TAURON Wytwarzanie S.A. – 50.00%
2.	Elektrownia Blachownia Nowa Sp. z o.o.	47-225 Kędzierzyn Koźle ul. Energetyków 11	Generation of electricity	49.86%	TAURON Wytwarzanie S.A. – 50.00%	49.90%	TAURON Wytwarzanie S.A. – 50.00%

Movements in the balances of shares in the period ended 31 December 2012 have been described in detail in Note 16.

8. Composition of the Board of Directors

As at 31 December 2012, the Board of Directors consisted of:

Dariusz Lubera – President,

Joanna Schmid – Vice President,

Dariusz Stolarczyk – Vice President,

Krzysztof Zamasz – Vice President,

Krzysztof Zawadzki – Vice President.

On 29 November 2012, the Company's Vice President Krzysztof Zamasz resigned from his position as Vice President of the Board of Directors with effect from 31 December 2012.

In the period from the balance sheet date to the date of these financial statements, there were no changes in the Board of Directors.

9. Seasonality of operations

The Company's operations in the area of trading in electricity are not seasonal in nature, hence the Company's results in this area show no significant fluctuations during the year.

As a result of the Company's holding activities, its finance income may show significant fluctuations due to dividend revenue, which is recognized at the date of the resolution on the payment of dividend, unless the resolution indicates a different date for establishing the right to the dividend.

In 2012, resolutions on the appropriation of the subsidiaries' profits for 2011 and allocation of prior year profits to dividend payments were taken in the 2nd quarter of 2012. In the period ended 31 December 2012, the Company received dividends from subsidiaries in the amount of PLN 1,550,613 thousand, including PLN 270,042 thousand of dividends from subsidiaries received by Górnośląski Zakład Elektroenergetyczny S.A. prior to merger with the Company.

In 2011, resolutions on the appropriation of the subsidiaries' profits for 2010 and allocation of prior year profits to dividend payments were also taken in the 2nd quarter of 2011. Revenue from dividends in 2011 amounted to PLN 1,009,580 thousand.

10. Segment information

10.1. Operating segments

The Company's operations are presented in the following two segments: the "Sales" segment and the "Holding activity" segment.

Segment assets in the "Holding activity" segment comprise:

- shares in subsidiaries;
- debentures acquired from subsidiaries;
- cash pool loan receivables including the cash pool deposit;
- receivables from other loans granted to affiliates.

Segment liabilities in the "Holding activity" segment comprise:

- debentures issued by the Company together with the liability resulting from the valuation of hedging instruments related to the debentures issued;
- loans obtained from the European Investment Bank for the implementation of investments in subsidiaries;
- liabilities arising from loans received under the cash pool service.

The "Holding activity" segment includes intercompany debtors and creditors related to income tax settlements of the companies comprising the Tax Capital Group.

Finance income and costs comprise dividend income and net interest income and costs generated and incurred by the Company due to the Group's central financing model.

Unallocated expenses include the Company's administrative expenses, as they are incurred for the whole Group and are not directly attributable to operating segments.

EBITDA is understood by the Company to mean the profit/loss from continued operations before taxation, finance income and finance expenses, increased by depreciation/amortization charges.

(in PLN thousand)

Year ended 31 December 2012	Sales	Holding activity	Unallocated items	Total
Revenue				
Sales outside the Group	2 455 294	–	–	**2 455 294**
Sales within the Group	7 434 578	–	–	**7 434 578**
Segment revenue	**9 889 872**	**–**	**–**	**9 889 872**
Profit/(loss) of the segment	**151 549**	**–**	**–**	**151 549**
Unallocated expenses	–	–	(104 439)	**(104 439)**
Profit/(loss) from continuing operations before tax and net finance income (costs)	**151 549**	**–**	**(104 439)**	**47 110**
Net finance income/(costs)	–	1 449 781	(16 935)	**1 432 846**
Profit/(loss) before income tax	**151 549**	**1 449 781**	**(121 374)**	**1 479 956**
Income tax expense	–	–	(44 768)	**(44 768)**
Net profit/(loss) for the year	**151 549**	**1 449 781**	**(166 142)**	**1 435 188**
EBITDA	**165 632**	**–**	**(104 439)**	**61 193**
Assets and liabilities				
Segment assets	1 853 929	23 903 676	–	**25 757 605**
Unallocated assets	–	–	464	**464**
Total assets	**1 853 929**	**23 903 676**	**464**	**25 758 069**
Segment liabilities	934 851	6 720 558	–	**7 655 409**
Unallocated liabilities	–	–	60 652	**60 652**
Total liabilities	**934 851**	**6 720 558**	**60 652**	**7 716 061**
Other segment information				
Capital expenditure*	61 132	–	–	**61 132**
Depreciation/amortization	(14 083)	–	–	**(14 083)**

** Capital expenditure includes expenditures for property, plant and equipment and intangible assets.*

(in PLN thousand)

Year ended 31 December 2011 (*restated figures*)	Sales	Holding activity	Unallocated items	Total
Revenue				
Sales outside the Group	1 914 505	–	–	**1 914 505**
Sales within the Group	6 930 643	–	–	**6 930 643**
Segment revenue	**8 845 148**	–	–	**8 845 148**
Profit/(loss) of the segment	**161 374**	–	–	**161 374**
Unallocated expenses	–	–	(79 544)	**(79 544)**
Profit/(loss) from continuing operations before tax and net finance income (costs)	**161 374**	–	**(79 544)**	**81 830**
Net finance income (costs)	–	1 023 446	2 635	**1 026 081**
Profit/(loss) before income tax	**161 374**	**1 023 446**	**(76 909)**	**1 107 911**
Income tax expense	–	–	(21 818)	**(21 818)**
Net profit/(loss) for the year	**161 374**	**1 023 446**	**(98 727)**	**1 086 093**
EBITDA	**166 479**	–	**(79 544)**	**86 935**
Assets and liabilities				
Segment assets	1 144 398	21 640 239	–	**22 784 637**
Unallocated assets	–	–	38 417	**38 417**
Total assets	**1 144 398**	**21 640 239**	**38 417**	**22 823 054**
Segment liabilities	582 754	4 860 992	–	**5 443 746**
Unallocated liabilities	–	–	38 110	**38 110**
Total liabilities	**582 754**	**4 860 992**	**38 110**	**5 481 856**
Other segment information				
Capital expenditure*	19 655	–	–	**19 655**
Depreciation/amortization	(5 105)	–	–	**(5 105)**

** Capital expenditure includes expenditures for property, plant and equipment and intangible assets.*

In the year ended 31 December 2012, the Company's revenue from its main client, amounting to the total of PLN 5,915,112 thousand, accounted for 60% of the Company's total revenue in the "Sales" segment.

In the year ended 31 December 2011, the Company's revenue from its main client, amounting to the total of PLN 5,532,478 thousand, accounted for 63% of the Company's total revenue in the "Sales" segment.

10.2. Operations by geographical areas

The Company's operations are mainly conducted on the territory of Poland. Sales to overseas customers in the years ended 31 December 2012 and 31 December 2011 amounted to PLN 540,290 thousand and PLN 472,710 thousand, respectively.

(in PLN thousand)

11. Revenues and expenses

11.1. Sales revenue

	Year ended 31 December 2012	Year ended 31 December 2011 (*restated figures*)
Sale of goods for resale, finished goods and materials, of which:	**9 820 219**	**8 808 622**
Electricity	9 298 615	8 354 930
Gas	6 934	–
Property rights arising from energy certificates	127 579	284
Emission allowances	376 240	436 503
Other	10 851	16 905
Rendering of services, of which:	**69 643**	**36 522**
Trading income	51 993	28 385
Other	17 650	8 137
Other income	**10**	**4**
Total sales revenue	**9 889 872**	**8 845 148**

Starting from 2012, the Company acts as an agent in transactions of purchase of biomass and coal for the Group companies in the Generation and Heat Segment. The Company purchases raw materials from external companies as well as from the TAURON Group companies, whereas all of the sales are made to the Group companies. The Company recognizes revenue only from agency services – organization of supplies.

In the year ended 31 December 2012, the value of raw materials purchased and simultaneously sold as a result of the above-mentioned transactions was PLN 1,719,833 thousand, while revenue recognized by the Company on agency services amounted to PLN 26,635 thousand.

11.2. Finance income

	Year ended 31 December 2012	Year ended 31 December 2011 (*restated figures*)
Income from financial instruments, of which:	**1 761 125**	**1 120 165**
Interest income	206 278	109 644
Dividends	1 550 613	1 009 580
Foreign exchange differences	–	884
Net income from realized derivative instruments	4 234	–
Other finance income	–	57
Other finance income	**3 853**	**2 012**
Total finance income	**1 764 978**	**1 122 177**

The increase in finance income in 2012 compared with 2011 is mainly due to higher income from dividends due from the subsidiaries. In 2012, dividend income amounted to PLN 1,550,613 thousand, while in 2011 it was PLN 1,009,580 thousand.

In addition, the increase in finance income in 2012 results from the increase of interest income from debentures acquired from subsidiaries. In 2012, interest income amounted to PLN 145,081 thousand, while in 2011 it was PLN 55,379 thousand.

(in PLN thousand)

11.3. Finance costs

	Year ended 31 December 2012	Year ended 31 December 2011 (*restated figures*)
Financial instrument costs, of which:	**(330 103)**	**(95 502)**
Interest costs	(320 744)	(90 794)
Foreign exchange losses	(1 370)	–
Remeasurement of derivatives	(916)	(337)
Net costs from realized derivatives	–	(926)
Commissions	(7 073)	(3 445)
Other finance costs	**(2 029)**	**(594)**
Total finance costs	**(332 132)**	**(96 096)**

The PLN 236,036 thousand increase in finance costs in the year ended 31 December 2012 compared with the comparative period mainly results from interest expense on the debentures issued in December 2011 and in January 2012, as discussed in Note 27.1. Interest expense on debentures issued in 2012 amounted to PLN 249,112 thousand, while in 2011 it was PLN 55,838 thousand.

11.4. Costs by type

	Year ended 31 December 2012	Year ended 31 December 2011 (*restated figures*)
Costs by type		
Depreciation of property, plant and equipment and amortization of intangible assets	(14 083)	(5 105)
Impairment of property, plant and equipment and intangible assets	10 399	(10 399)
Materials and energy	(2 888)	(2 391)
Distribution services	(2 366)	(1 913)
Consultancy services	(11 330)	(10 680)
Other external services	(15 793)	(12 203)
Taxes and charges	(16 177)	(13 681)
Employee benefits expense	(66 313)	(58 271)
Inventory write-downs	–	205
Allowance for doubtful debts	(236)	–
Advertising expenses	(24 301)	(15 720)
Other	(3 082)	(2 288)
Total costs by type	**(146 170)**	**(132 446)**
Change in inventories, prepayments, accruals and deferred income	(2 361)	2 255
Cost of goods produced for internal purposes	–	143
Selling and distribution expenses	27 142	22 850
Administrative expenses	104 439	79 544
Cost of goods for resale and materials sold	(9 694 005)	(8 635 356)
Cost of sales	**(9 710 955)**	**(8 663 010)**

The increase in depreciation expense in the year ended 31 December 2012 in relation to the comparative period results mainly from the full write-off of low-cost items of property, plant and equipment acquired in the 1st quarter of 2012 and the increase in the value of intangible assets made available in the 4th quarter of 2012.

The reversal of the write-down recognized against property rights included in intangible assets had no effect on the result for 2012, as simultaneously the Company reversed the provision for cancellation of energy certificates. In accordance with the accounting policy, the portion of the provision covered by the energy certificates held is recognized at the value of the certificates held, which means that recognition of a write-down resulted in the reduction of the cost of recognition of the provision in 2011 and the method of accounting for it in 2012. In the 1st quarter of 2012, energy certificates covered by the impairment write-down were surrendered for cancellation, as a result of which the impairment write-down recognized in 2011 in the amount of PLN 10,399 thousand was utilized.

The increase in administrative expenses in the year ended 31 December 2012 in relation to the comparative period mainly results from the increase in depreciation expense (as discussed above) and advertising expenses.

(in PLN thousand)

11.5. Employee benefits expenses

	Year ended 31 December 2012	Year ended 31 December 2011 (*restated figures*)
Wages and salaries	(50 357)	(45 367)
Social security costs	(6 545)	(5 325)
Jubilee bonuses	(1 935)	(413)
Transfers to the Social Fund	(332)	(631)
Post-employment benefits expenses, of which:	(3 483)	(3 183)
Retirement, disability and similar benefits	(191)	(187)
Special electricity rates and charges	(70)	(66)
Social Fund	(26)	(24)
Costs of employee retirement plans	(3 196)	(2 906)
Other employee benefits expenses	(3 661)	(3 352)
Employee benefits expenses, of which:	**(66 313)**	**(58 271)**
Items included in cost of sales	(11 339)	(8 314)
Items included in selling and distribution expenses	(7 545)	(7 353)
Movement in stocks of finished goods	(304)	(2 844)
Items included in administrative expenses	(47 125)	(39 760)

12. Income tax

12.1. Tax expense in the statement of comprehensive income

Major components of income tax expense in the statement of comprehensive income are as follows:

	Year ended 31 December 2012	Year ended 31 December 2011 (*restated figures*)
Current income tax	**(7 242)**	**(50 970)**
Current income tax expense	(6 978)	(51 323)
Adjustments to current income tax from previous years	(264)	353
Deferred tax	**(37 526)**	**29 152**
Income tax expense	**(44 768)**	**(21 818)**
Income tax expense in the statement of comprehensive income	**(36)**	**(36)**

Current income tax expense for the year ended 31 December 2012, amounting to PLN 7,242 thousand, results from the dividend tax of PLN 4,201 thousand, the income tax of the acquiree, GZE S.A., for the period up to the date of merger with the Company, amounting to PLN 2,777 thousand, and corrections of the Company's income tax for 2011, amounting to PLN 264 thousand.

(in PLN thousand)

12.2. Reconciliation of the effective income tax rate

	As at 31 December 2012	As at 31 December 2011 (*restated figures*)
Profit/(loss) before tax from continuing operations	**1 479 956**	**1 107 911**
Profit/(loss) before tax	**1 479 956**	**1 107 911**
Tax at Poland's statutory tax rate of 19%	**(281 192)**	**(210 503)**
Adjustments to income tax from previous years	(264)	353
Tax resulting from tax non-deductible costs, of which:	(3 554)	(3 956)
National Disabled Persons Rehabilitation Fund (PFRON)	(84)	(42)
Donations	(48)	(51)
Expenses not allowable for tax purposes under Article 15 Clause 2 of the Corporate Income Tax Act	(1 842)	(2 710)
Other	(1 580)	(1 153)
Tax resulting from income not included in taxable profit, of which:	294 616	192 288
Dividends	294 616	191 820
Reversal of non-tax provisions and write-downs	–	468
Unrecognized deferred tax asset	(26 604)	–
Tax losses utilized by other companies in the TCG	(23 811)	–
Other	(1 182)	
Income tax expense acquired under merger with GZE S.A.	(2 777)	–
Tax at the effective tax rate of 3.0% (2011 2.0%)	**(44 768)**	**(21 818)**
Income tax expense in profit/(loss)	(44 768)	(21 818)

12.3. Deferred income tax

Deferred income tax results from the following items:

	As at 31 December 2012	As at 31 December 2011 (*restated figures*)
Deferred tax liability		
– difference between tax base and carrying amount of fixed and intangible assets	2 468	1 211
– interest receivable on bonds	7 650	571
– difference between tax base and carrying amount of financial assets	1 061	57
– other	530	37
Deferred tax liability	**11 709**	**1 876**

(in PLN thousand)

	As at 31 December 2012	As at 31 December 2011 (*restated figures*)
Deferred tax assets		
– provisions for the obligation to surrender energy certificates	22 468	31 323
– other provisions	3 240	2 567
– difference between tax base and carrying amount of fixed and intangible assets	708	2 150
– difference between tax base and carrying value of inventories	6 645	–
– difference between tax base and carrying amount of financial liabilities	3 874	2 734
– valuation of hedging instruments	36 227	–
– other accrued expenses	886	597
– other	390	67
Deferred tax assets	**74 438**	**39 438**
Deferred tax assets recognized in profit or loss	38 315	39 405
Deferred tax assets recognized in statement of comprehensive income	36 123	33
Deferred tax asset, net	–	**37 562**
Unrecognized deferred tax assets	62 729	–
Recognized deferred tax assets	11 709	37 562
Deferred tax in the statement of financial position	–	**37 562**

The reasons for not recognizing the deferred tax asset in the statement of financial position are presented in Note 6.

12.4. Tax Capital Group

As at 31 December 2012, the Tax Capital Group had a corporate income tax liability amounting to PLN 53,631 thousand. At the same time, due to the Company's settlements as Representing Company with the subsidiaries being part of the Tax Capital Group, the Company had a liability to these subsidiaries arising from income tax overpayment of PLN 11,048 thousand, which is presented in the statement of financial position under "Trade and other payables", as well as a receivable from the subsidiaries being part of the Tax Capital Group arising from tax underpayment of PLN 65,870 thousand, which is presented in the statement of financial position under "Trade and other receivables".

13. Dividends paid and proposed

As at the date of authorization of these financial statements for issue, no decision has yet been taken on the proposed payment of dividend from the profit for the year 2012.

On 24 April 2012, the Ordinary General Shareholders' Meeting resolved to distribute an amount of PLN 543,290 thousand for dividends to the Company's shareholders, which gives PLN 0.31 per share. The dividend was paid from the Company's net profit for 2011 amounting to PLN 1,083,429 thousand. The dividend day was set at 2 July 2012 and the dividend payment date at 20 July 2012. As at the balance sheet date, the above-mentioned dividend liability was fully paid off.

On 6 May 2011, the Ordinary General Shareholders' Meeting resolved to distribute an amount of PLN 262,882 thousand for dividends to the Company's shareholders, which gave PLN 0.15 per share. This amount was composed of the Company's net profit for 2010 in the amount of PLN 190,478 thousand and utilization of the Company's reserve capital of PLN 72,404 thousand, which represented part of the Company's net profit for 2009 allocated to the reserve capital.

(in PLN thousand)

14. Intangible assets

14.1. Non-current intangible assets

Non-current intangible assets for the year ended 31 December 2012

	Software and licenses	Other intangible assets	Intangible assets not made available for use	Intangible assets, total
COST				
Opening balance	**18 175**	**724**	**620**	**19 519**
Direct purchase	–	–	44 502	**44 502**
Allocation of intangible assets not made available for use	40 861	380	(41 241)	–
Closing balance	**59 036**	**1 104**	**3 881**	**64 021**
ACCUMULATED AMORTIZATION				
Opening balance	**(3 620)**	**(412)**	–	**(4 032)**
Amortization for the period	(6 790)	(146)	–	**(6 936)**
Closing balance	**(10 410)**	**(558)**	–	**(10 968)**
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	**14 555**	**312**	**620**	**15 487**
NET CARRYING AMOUNT AT THE END OF THE PERIOD	**48 626**	**546**	**3 881**	**53 053**

In the year ended 31 December 2012, the Company made available for use software and licenses with a total value of PLN 40,861 thousand. The most significant purchases included SAP licenses, Microsoft licenses, Oracle licenses and software, and a support system for purchases' organization. They are to be used by the Company for its internal purposes as well as to make them available for use by the TAURON Group companies as part of consolidation of license agreements. Future benefits will be generated by way of earning revenue from granting sublicenses or from the right to use the software.

Non-current intangible assets for the year ended 31 December 2011

	Software and licenses	Other intangible assets	Intangible assets not made available for use	Intangible assets, total
COST				
Opening balance	**8 044**	**617**	**505**	**9 166**
Direct purchase	–	–	10 434	**10 434**
Allocation of intangible assets not made available for use	10 173	146	(10 319)	–
Liquidation	(42)	–	–	**(42)**
Other	–	(39)	–	**(39)**
Closing balance	**18 175**	**724**	**620**	**19 519**
ACCUMULATED AMORTIZATION				
Opening balance	**(1 583)**	**(261)**	–	**(1 844)**
Amortization for the period	(2 069)	(151)	–	**(2 220)**
Liquidation	32	–	–	**32**
Closing balance	**(3 620)**	**(412)**	–	**(4 032)**
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	**6 461**	**356**	**505**	**7 322**
NET CARRYING AMOUNT AT THE END OF THE PERIOD	**14 555**	**312**	**620**	**15 487**

(in PLN thousand)

14.2. Current intangible assets

Current property rights arising from energy certificates

	Year ended 31 December 2012	Year ended 31 December 2011
COST		
Opening balance	**43 519**	**9 773**
Direct purchase	117 697	41 384
Cancellation of energy certificates	(47 914)	(7 638)
Closing balance	**113 302**	**43 519**
IMPAIRMENT ALLOWANCES		
Opening balance	**(10 399)**	**–**
Increase of impairment allowances	–	(10 399)
Decrease of impairment allowances	10 399	–
Closing balance	**–**	**(10 399)**
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	**33 120**	**9 773**
NET CARRYING AMOUNT AT THE END OF THE PERIOD	**113 302**	**33 120**

The decrease of the impairment write-down for property rights arising from energy certificates has been described in detail in Note 11.4.

(in PLN thousand)

15. Property, plant and equipment

Year ended 31 December 2012

	Right of perpetual usufruct of land	Plant and machinery	Motor vehicles	Other	Tangible fixed assets, total	Assets under construction	Property, plant and equipment, total
Cost							
Opening balance	**20**	**11 305**	**4 915**	**2 088**	**18 328**	**899**	**19 227**
Direct purchase	–	–	–	–	–	16 630	**16 630**
Allocation of assets under construction	–	8 626	–	8 903	**17 529**	(17 529)	–
Sale, disposal	(20)	(15)	(783)	–	**(818)**	–	**(818)**
Liquidation	–	(45)	–	–	**(45)**	–	**(45)**
Closing balance	–	**19 871**	**4 132**	**10 991**	**34 994**	–	**34 994**
ACUMULATED DEPRECIATION							
Opening balance	–	**(4 154)**	**(1 745)**	**(1 717)**	**(7 616)**	–	**(7 616)**
Depreciation for the period	–	(2 830)	(1 140)	(3 177)	**(7 147)**	–	**(7 147)**
Sale, disposal	–	15	495	–	**510**	–	**510**
Liquidation	–	45	–	–	**45**	–	**45**
Closing balance	–	**(6 924)**	**(2 390)**	**(4 894)**	**(14 208)**	–	**(14 208)**
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	**20**	**7 151**	**3 170**	**371**	**10 712**	**899**	**11 611**
NET CARRYING AMOUNT AT THE END OF THE PERIOD	–	**12 947**	**1 742**	**6 097**	**20 786**	–	**20 786**

Year ended 31 December 2011 *(restated figures)*

	Right of perpetual usufruct of land	Plant and machinery	Motor vehicles	Other	Tangible fixed assets, total	Assets under construction	Property, plant and equipment, total
Cost							
Opening balance	–	**5 275**	**3 254**	**1 962**	**10 491**	**297**	**10 788**
Direct purchase	–	–	–	–	–	7 722	**7 722**
Allocation of assets under construction	–	6 371	609	140	**7 120**	(7 120)	–
Sale, disposal	–	(324)	(448)	–	**(772)**	–	**(772)**
Legal merger with a subsidiary	20	–	–	–	**20**	–	**20**
Donations and free-of-charge transfers	–	(12)	–	–	**(12)**	–	**(12)**
Liquidation	–	(5)	–	(14)	**(19)**	–	**(19)**
Received for use under lease agreements	–	–	1 500	–	**1 500**	–	**1 500**
Closing balance	**20**	**11 305**	**4 915**	**2 088**	**18 328**	**899**	**19 227**
ACUMULATED DEPRECIATION							
Opening balance	–	**(2 624)**	**(1 362)**	**(1 377)**	**(5 363)**	–	**(5 363)**
Depreciation for the period	–	(1 865)	(667)	(354)	**(2 886)**	–	**(2 886)**
Sale, disposal	–	318	284	–	**602**	–	**602**
Donations and free-of-charge transfers	–	12	–	–	**12**	–	**12**
Liquidation	–	5	–	14	**19**	–	**19**
Closing balance	–	**(4 154)**	**(1 745)**	**(1 717)**	**(7 616)**	–	**(7 616)**
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	–	**2 651**	**1 892**	**585**	**5 128**	**297**	**5 425**
NET CARRYING AMOUNT AT THE END OF THE PERIOD	**20**	**7 151**	**3 170**	**371**	**10 712**	**899**	**11 611**

(in PLN thousand)

16. Shares in unlisted and listed companies

Movements in the balance of long-term investments in the period from 1 January to 31 December 2012

No.	Company	Opening balance (*restated figures*)	Increases/ Decreases	Closing balance
1.	TAURON Wytwarzanie S.A.	8 118 182	–	**8 118 182**
2.	TAURON Dystrybucja S.A.	5 914 201	3 597 427	**9 511 628**
3.	TAURON Ciepło S.A.	507 880	265 454	**773 334**
4.	Elektrociepłownia EC Nowa Sp z o.o. (currently TAURON Ciepło S.A.)	217 413	(217 413)	–
5.	Elektrociepłownia Tychy S.A. (currently TAURON Ciepło S.A.)	40 862	(40 862)	–
6.	Energetyka Cieplna w Kamiennej Górze Sp. z o.o. (currently TAURON Ciepło S.A.)	6 959	(6 959)	–
7.	TAURON Ekoenergia Sp. z o.o.	897 069	42 696	**939 765**
8.	TAURON Sprzedaż Sp. z o.o.	613 505	–	**613 505**
9.	TAURON Obsługa Klienta Sp. z o.o.	26 308	–	**26 308**
10.	Polska Energia Pierwsza Kompania Handlowa Sp. z o.o.	49 056	–	**49 056**
11.	TAURON Ekoserwis Sp. z o.o. (formerly Zespół Elektrowni Wodnych Rożnów Sp. z o.o.)	931	(931)	–
12.	TAURON Czech Energy s.r.o.	4 223	–	**4 223**
13.	TAURON Dystrybucja GZE S.A.	3 572 747	(3 572 747)	–
14.	TAURON Serwis GZE Sp. z o.o.	24 679	(24 679)	–
15.	TAURON Sprzedaż GZE Sp. z o.o.	129 821	–	**129 821**
16.	TAURON Ekonenergia GZE Sp. z o.o.	41 765	(41 765)	–
17.	TAURON Obsługa Klienta GZE Sp. z o.o.	13 523	–	**13 523**
18.	TAURON Wytwarzanie GZE Sp. z o.o.	4 935	–	**4 935**
19.	CONCORDE INVESTISSEMENT S.A.	12	–	**12**
20.	CC Poland Plus Sp. z o.o.	12	–	**12**
21.	Energopower Sp. z o.o.	5	20	**25**
22.	Enpower Service Sp. z o.o.	5	20	**25**
23.	Enpower Sp. z o.o.	5	20	**25**
24.	Poen Sp. z o.o.	5	20	**25**
	Total	**20 184 103**	**301**	**20 184 404**

Movements in the balance of long-term investments which took place in the year ended 31 December 2012 were mainly due to the reorganization of the Group and resulted from mergers of the companies owned by TAURON Polska Energia S.A.

The most significant movements in the balance of long-term investments for the period ended 31 December 2012 were due to the following events:

Merger of TAURON Polska Energia S.A. with its subsidiary Górnośląski Zakład Elektroenergetyczny S.A.

On 12 June 2012, the District Court in Katowice registered the merger of TAURON Polska Energia S.A. with its subsidiary, Górnośląski Zakład Elektroenergetyczny S.A. The merger was effected under Article 492 Clause 1 Item 1 of the Code of Commercial Companies by way of a transfer of all of the assets of Górnośląski Zakład Elektroenergetyczny S.A. to its sole owner i.e. TAURON Polska Energia S.A.

As a result of the merger, the Company acquired shares in the following significant companies that were previously owned by Górnośląski Zakład Elektroenergetyczny S.A.:

- TAURON Dystrybucja GZE S.A. (currently TAURON Dystrybucja S.A.),
- TAURON Serwis GZE Sp. z o.o.,
- TAURON Sprzedaż GZE Sp. z o.o.,
- TAURON Ekoenergia GZE Sp. z o.o. (currently TAURON Ekoenergia Sp. z o.o.),
- TAURON Obsługa Klienta GZE Sp. z o.o.,
- TAURON Wytwarzanie GZE Sp. z o.o.

The merger and the method of accounting for it are described in detail in Note 33.

Merger of subsidiaries from the Heat Segment

On 30 April 2012, merger of TAURON Ciepło S.A. – acquirer with the following acquirees: Elektrociepłownia Tychy S.A., Elektrociepłownia EC Nowa Sp. z o.o. and Energetyka Cieplna w Kamiennej Górze Sp. z o.o. was entered in the Register of Entrepreneurs of the National Court Register. This merger was effected under Article 492 Clause 1 Item 1 of the Code of Commercial Companies by way of a transfer of all of the assets of the acquired companies to TAURON Ciepło S.A., in exchange for shares issued by TAURON Ciepło S.A. to the shareholders of Elektrociepłownia Tychy S.A., Elektrociepłownia EC Nowa Sp. z o.o. and Energetyka Cieplna w Kamiennej Górze Sp. z o.o. The exchange ratio was determined as follows:

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

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

TAURON Polska Energia S.A. reclassified the book value of investments in the following companies: Elektrociepłownia Tychy S.A. (PLN 40,862 thousand), Elektrociepłownia EC Nowa Sp. z o.o. (PLN 217,413 thousand) and EC w Kamiennej Górze Sp. z o.o. (PLN 6,959 thousand) to the value of the investment in TAURON Ciepło S.A. (PLN 265,234 thousand in total).

Merger of TAURON Dystrybucja S.A. with TAURON Dystrybucja GZE S.A. and TAURON Ekoenergia Sp. z o.o. with TAURON Ekoenergia GZE Sp. z o.o.

On 1 October 2012, merger of the following companies: TAURON Dystrybucja S.A. (acquirer) and TAURON Dystrybucja GZE S.A. (acquiree) and TAURON Ekoenergia Sp. z o.o. (acquirer) and TAURON Ekoenergia GZE Sp. z o.o. (acquiree) was entered in the Register of Entrepreneurs of the National Court Register. This merger was effected under Article 492 Clause 1 Item 1 of the Code of Commercial Companies by way of a take-over of all of the assets of the acquiree by the acquirer.

Accordingly, TAURON Polska Energia S.A. reclassified the book value of the investment in TAURON Dystrybucja GZE S.A. to the value of the investment in TAURON Dystrybucja S.A., amounting to PLN 3,572,747 thousand, and the value of the investment in TAURON Ekoenergia GZE Sp. z o.o. to the value of the investment in TAURON Ekoenergia Sp. z o.o., amounting to PLN 41,765 thousand.

Contribution of shares in TAURON Ekoserwis Sp. z o.o. to TAURON Ekoenergia Sp. z o.o.

On 18 April 2012, the District Court for Wrocław–Fabryczna in Wrocław entered the increase of the share capital of TAURON Ekoenergia Sp. z o.o. from PLN 536,070 thousand to PLN 537,733 thousand, i.e. by PLN 1,663 thousand. The share capital was increased as a result of making an in-kind contribution by TAURON Polska Energia S.A. in the form of 100% of shares in ZEW Rożnów Sp. z o.o. (now: TAURON Ekoserwis Sp. z o.o.) in order to cover new shares in the share capital. The agreement for the transfer of the contribution in kind was signed on 4 April 2012.

TAURON Polska Energia S.A. reclassified the book value of its shares in ZEW Rożnów Sp. z o.o. (now: TAURON Ekoserwis Sp. z o.o.) of PLN 931 thousand to the value of shares in TAURON Ekoenergia Sp. z o.o.

Contribution of shares in TAURON Serwis GZE Sp. z o.o. to TAURON Dystrybucja S.A.

On 7 December 2012, agreements were signed for the transfer of a contribution in kind and for the acquisition of registered “I” class shares in the increased share capital of TAURON Dystrybucja S.A. by TAURON Polska Energia S.A. The share capital of TAURON Dystrybucja S.A. was increased from PLN 251,176 thousand to PLN 256,067 thousand, i.e. by PLN 4,891 thousand. The share capital increase was effected by way of a new issue of 489,111 thousand registered “I” class shares with a nominal value of PLN 0.01 and an issue price of PLN 0.40, all of which were acquired by TAURON Polska Energia S.A. in exchange for an in-kind contribution of 499 shares in TAURON Serwis GZE Sp. z o.o., with a fair value of PLN 195,644 thousand.

TAURON Polska Energia S.A. reclassified the book value of the shares in TAURON Serwis GZE Sp. z o.o. amounting to PLN 24,679 thousand to the value of shares in TAURON Dystrybucja S.A.

Purchase of the shares of TAURON Ciepło S.A.

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

(in PLN thousand)

Changes in the balance of long-term investments in the period from 1 January to 31 December 2011

No.	Company	Opening balance	Increases/ Decreases	Closing balance (*authorized figures*)	Change resulting from merger with GZE S.A.	Closing balance (*restated figures*)
1.	TAURON Wytwarzanie S.A.	7 562 250	555 932	**8 118 182**	–	**8 118 182**
2.	ENION S.A. (currently TAURON Dystrybucja S.A.)	3 356 415	(3 356 415)	–	–	–
3.	TAURON Dystrybucja S.A.	2 557 110	3 357 091	**5 914 201**	–	**5 914 201**
4.	Elektrownia Stalowa Wola S.A. (currently TAURON Wytwarzanie S.A.)	555 697	(555 697)	–	–	–
5.	Elektrociepłownia Tychy S.A. (currently TAURON Ciepło S.A.)	40 862	–	**40 862**	–	**40 862**
6.	TAURON Ciepło S.A.	345 285	162 595	**507 880**	–	**507 880**
7.	TAURON Obsługa Klienta Sp. z o.o.	345 015	(318 707)	**26 308**	–	**26 308**
8.	TAURON Ekoenergia Sp. z o.o.	897 069	–	**897 069**	–	**897 069**
9.	Energetyka Cieplna w Kamiennej Górze Sp. z o.o. (currently TAURON Ciepło S.A.)	6 959	–	**6 959**	–	**6 959**
10.	Elektrociepłownia EC Nowa Sp. z o.o. (currently TAURON Ciepło S.A.)	217 413	–	**217 413**	–	**217 413**
11.	TAURON Sprzedaż Sp. z o.o.	294 798	318 707	**613 505**	–	**613 505**
12.	Polska Energia Pierwsza Kompania Handlowa Sp. z o.o.	6 886	42 170	**49 056**	–	**49 056**
13.	Zespół Elektrowni Wodnych Rożnów Sp. z o.o. (currently TAURON Ekoserwis Sp. z o.o.)	931	–	**931**	–	**931**
14.	Przedsiębiorstwo Energetyki Cieplnej w Dąbrowie Górniczej S.A. (currently TAURON Ciepło S.A.)	162 557	(162 557)	–	–	–
15.	TAURON Czech Energy s.r.o.	4 223	–	**4 223**	–	**4 223**
16.	Górnośląski Zakład Elektroenergetyczny S.A.	–	4 631 455	**4 631 455**	(4 631 455)	–
17.	TAURON Dystrybucja GZE S.A.	–	–	–	3 572 747	**3 572 747**
18.	TAURON Serwis GZE Sp. z o.o.	–	–	–	24 679	**24 679**
19.	TAURON Sprzedaż GZE Sp. z o.o.	–	–	–	129 821	**129 821**
20.	TAURON Ekonenergia GZE Sp. z o.o.	–	–	–	41 765	**41 765**
21.	TAURON Obsługa Klienta GZE Sp. z o.o.	–	–	–	13 523	**13 523**
22.	TAURON Wytwarzanie GZE Sp. z o.o.	–	–	–	4 935	**4 935**
23.	CONCORDE INVESTISSEMENT S.A.	–	–	–	12	**12**
24.	CC Poland Plus Sp. z o.o.	–	12	**12**	–	**12**
25.	Energopower Sp. z o.o.	–	5	**5**	–	**5**
26.	Enpower Service Sp. z o.o.	–	5	**5**	–	**5**
27.	Enpower Sp. z o.o.	–	5	**5**	–	**5**
28.	Poen Sp. z o.o.	–	5	**5**	–	**5**
	Total	**16 353 470**	**4 674 606**	**21 028 076**	**(843 973)**	**20 184 103**

As a result of the Company's merger with Górnośląski Zakład Elektroenergetyczny S.A. and the accounting for the merger using the pooling of interests method at the date of acquisition of control, i.e. 13 December 2011, the cost of the shares in GZE S.A. was derecognized. Shares in the companies held by GZE S.A. were recognized in the Company's financial statements at the amount of its share in the net assets of these companies measured at fair value.

(in PLN thousand)

17. Inventories

	As at 31 December 2012	As at 31 December 2011
Historical cost		
Property rights arising from energy certificates	208 279	39 396
Greenhouse gas emission allowances	2 434	–
Merchandise	13	1 451
Materials	420	181
Total	**211 146**	**41 028**
Write-downs to net realizable value		
Property rights arising from energy certificates	(34 774)	–
Emission allowances	(200)	–
Total	**(34 974)**	–
Net realizable value		
Property rights arising from energy certificates	173 505	39 396
Greenhouse gas emission allowances	2 234	–
Merchandise	13	1 451
Materials	420	181
Total	**176 172**	**41 028**

The increase of the value of inventories is mainly due to the purchase of 925,000 property rights related to renewable energy certificates with a value of PLN 193,574 thousand from TAURON Wytwarzanie S.A. in December 2012.

18. Trade and other receivables

As at 31 December 2012, the balance of trade and other receivables amounted to PLN 1,460,484 thousand and included:

- trade receivables amounting to PLN 1,108,553 thousand;
- loans granted with accrued interest of PLN 114,935 thousand, of which PLN 114,924 thousand is a loan arising from the purchase of CO_2 emission allowances from TAURON Wytwarzanie S.A. with a commitment to sell them back, as discussed in detail below;
- accrued interest on cash pool loans amounting to PLN 62 thousand;
- other financial receivables of PLN 236,934 thousand, the largest items of which were as follows: a receivable of PLN 134,680 thousand resulting from an overpayment of the loan arising from the purchase of CO_2 emission allowances from TAURON Wytwarzanie S.A. with a commitment to sell them back (returned by TAURON Wytwarzanie S.A. to the Company's bank account on 23 January 2013), a receivable from the subsidiaries making up the Tax Capital Group, arising from an underpayment of tax of PLN 65,870 thousand, as discussed in detail in Note 12.4, and cash paid in as collateral of PLN 31,356 thousand.

Trade receivables are non-interest bearing and are usually receivable within 30 days. Sales are only made to customers who have undergone an appropriate credit verification procedure. As a result, Management believe that there is no additional credit risk that would exceed the doubtful debts allowance recognized for the Company's trade receivables.

As at 31 December 2012, the largest balance of trade receivables consists of the receivables from TAURON Sprzedaż Sp. z o.o. amounting to PLN 443,082 thousand.

As at 31 December 2011, the largest balance of trade receivables consisted of the receivables from TAURON Sprzedaż Sp. z o.o. amounting to PLN 405,960 thousand.

The loan of PLN 114,924 thousand results from the agreement dated 13 December 2012 under which TAURON Polska Energia S.A. purchased 7,000,000 units of CO_2 emission allowances from TAURON Wytwarzanie S.A. at an agreed price of 16.37 PLN/EUA, for the total amount of PLN 114,590 thousand. At the same time, the Company committed to sell back the same amount of allowances on 13 March 2013 at an agreed price of 16.70 PLN/EUA. Due to the nature of this transaction, it was recognized as a loan (purchase with a commitment to sell back), as, in the Company's opinion, the related risks and rewards, including the risk of changes in fair value, had not been transferred to the Company. At the balance sheet date, interest accrued on this loan amounted to PLN 334 thousand. The expenditures incurred for the purchase of CO_2 emission allowances under the above-mentioned transaction are presented as part of loans granted under investing activities in the cash flow statement.

(in PLN thousand)

In the year ended 31 December 2012, the following loans were repaid (in total PLN 416,512 thousand):

- two loans granted to TAURON Wytwarzanie S.A. under loan agreements signed in December 2011, which resulted from the purchase of CO_2 allowances from TAURON Wytwarzanie S.A. with a commitment to sell them back and amounted to PLN 180,009 thousand and PLN 142,003 thousand. Cash in the amount of PLN 142,003 thousand was transferred to the company in 2012, while the amount of PLN 180,009 thousand was transferred to it in 2011;
- the loan granted to TAURON Sprzedaż GZE Sp. z o.o. and the loan granted to TAURON Ekoenergia GZE Sp. z o.o. in the total amount of PLN 70,000 thousand;
- the loan granted to Elektrociepłownia Stalowa Wola S.A. in the amount of PLN 24,500 thousand.

Related party transactions and balances are presented in Note 34.

The aging structure and allowances/write-downs recognized for trade and other receivables are presented in the tables below.

Trade and other receivables as at 31 December 2012

	Not past due	Past due					Total
		<30 days	30–90 days	90–180 days	180–360 days	>360 days	
Value of item before allowance/write-down							
Trade and other financial receivables	1 341 266	4 212	7	–	271	339	**1 346 095**
Cash Pool	62	–	–	–	–	–	**62**
Other loans	114 935	–	–	–	–	–	**114 935**
Total	**1 456 263**	**4 212**	**7**	**–**	**271**	**339**	**1 461 092**
Allowance/write-down							
Trade and other financial receivables	–	–	–	–	(269)	(339)	**(608)**
Total	**–**	**–**	**–**	**–**	**(269)**	**(339)**	**(608)**
Value of item net of allowance (carrying amount)							
Trade and other financial receivables	1 341 266	4 212	7	–	2	–	**1 345 487**
Cash Pool	62	–	–	–	–	–	**62**
Other loans	114 935	–	–	–	–	–	**114 935**
Total	**1 456 263**	**4 212**	**7**	**–**	**2**	**–**	**1 460 484**

Trade and other receivables as at 31 December 2011

	Not past due	Past due					Total
		<30 days	30–90 days	90–180 days	180–360 days	>360 days	
Value of item before allowance/write-down							
Trade and other financial receivables	756 338	–	–	–	6	306	**756 650**
Cash Pool	55 656	–	–	–	–	–	**55 656**
Other loans	250 438	–	–	–	–	–	**250 438**
Total	**1 062 432**	**–**	**–**	**–**	**6**	**306**	**1 062 744**
Allowance/write-down							
Trade and other financial receivables	–	–	–	–	–	(306)	**(306)**
Total	**–**	**–**	**–**	**–**	**–**	**(306)**	**(306)**
Value of item net of allowance (carrying amount)							
Trade and other financial receivables	756 338	–	–	–	6	–	**756 344**
Cash Pool	55 656	–	–	–	–	–	**55 656**
Other loans	250 438	–	–	–	–	–	**250 438**
Total	**1 062 432**	**–**	**–**	**–**	**6**	**–**	**1 062 438**

19. Long-term receivables

Long-term receivables of PLN 117,802 thousand include a loan granted to Elektrociepłownia Stalowa Wola S.A. together with accrued interest.

Under the following two agreements concluded on 20 June 2012 between PGNiG S.A., TAURON Polska Energia S.A. and Elektrociepłownia Stalowa Wola S.A. in order to meet the conditions for granting funds to Elektrociepłownia Stalowa Wola S.A. by the European Bank for Reconstruction and Development and the European Investment Bank, TAURON Polska Energia S.A. granted Elektrociepłownia Stalowa Wola S.A. two loans in the total amount of PLN 139,500 thousand:

- A syndicated loan agreement signed in order to provide funding for the implementation of an investment project involving construction and operation of a gas and steam power unit with a capacity of approx. 400 MWe and 240 MWt in Stalowa Wola together with auxiliary installations. The syndicated loan agreement means that the repayment of loan and interest will be deferred and subordinated to the repayment of the amounts due to the European Investment Bank, the European Bank for Reconstruction and Development and other financial institutions. Based on contractual provisions, the maximum amount of the loan granted by TAURON Polska Energia S.A. is PLN 152,000 thousand. At the balance sheet date, the amount of funds transferred under the loan was PLN 115,000 thousand. The Company accrued interest due on the loan in the amount of PLN 2,802 thousand. The loan is to be fully repaid no later than by the end of 2032;
- The VAT loan agreement, which will provide funds for the funding of output VAT related to the costs of implementation of the investment project involving construction of a gas and steam power unit with a capacity of approx. 400 MWe and 240 MWt in Stalowa Wola, incurred at the stage of designing, constructing and making the investment available for use. Based on contractual provisions, the maximum amount of the loan granted by TAURON Polska Energia S.A. is PLN 20,000 thousand. The loan is renewable. The timetable of its utilization is consistent with the planned dates for payments related to the implementation of the investment project. The balance of utilization of the loan is decreased by the funds obtained from the VAT refund. Final repayment is due 6 months after the date of completion of the investment project. In the 2nd quarter of 2012, the Company transferred funds PLN 13,000 thousand to Elektrociepłownia Stalowa Wola. In the 3rd quarter of 2012, Elektrociepłownia Stalowa Wola S.A. repaid that amount together with accrued interest. In the 4th quarter of 2012, the Company transferred funds of PLN 11,500 thousand to Elektrociepłownia Stalowa Wola S.A. At the balance date, this amount has been repaid by Elektrociepłownia Stalowa Wola S.A. At the balance sheet date, the Company has a receivable arising from interest accrued on the aforementioned loan in the amount of PLN 11 thousand.

(in PLN thousand)

20. Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprised the following:

	As at 31 December 2012	As at 31 December 2011 (*restated figures*)
Cash at bank and in hand	276 060	216 838
Short-term deposits (up to 3 months)	634 361	24 013
Cash in transit	–	41 001
Total cash and cash equivalents presented in the statement of financial position, of which:	**910 421**	**281 852**
– restricted cash	269 888	162 214
Cash pool	(1 175 886)	(396 976)
Overdraft	(129 566)	–
Foreign exchange and other differences	1 511	76
Total cash and cash equivalents presented in the statement of cash flows	**(393 520)**	**(115 048)**

The balances of loans granted and taken out under cash pool transactions, due to the fact that they are mainly used to manage the current financial liquidity of the Group, do not represent cash flows from investing or financing activity; instead they represent an adjustment to the balance of cash and cash equivalents.

Restricted cash consists of cash held in the settlement account for trading in electricity at Towarowa Giełda Energii S.A., amounting to PLN 248,211 thousand, cash held in special purpose accounts for trading on the Internet Based Electricity Trading Platform (POEE) of PLN 3,516 thousand as well as on the European Energy Exchange (EEX) and European Climate Exchange (ICE) of PLN 18,161 thousand.

The details of cash pool balances are presented in Note 27.2.

21. Other current non-financial assets

	As at 31 December 2012	As at 31 December 2011 (*restated figures*)
Other deferred costs	2 367	2 070
Prepayments for deliveries	6 658	–
Receivables from input VAT	50 253	1 902
Other current assets	41	156
Total	**59 319**	**4 128**

The increase in the VAT receivable is due to the VAT overpayment resulting mainly from the tax obligation which arose on the purchases of intangible assets in the form of licenses and software made in the 4th quarter of 2012 and the purchase of property rights related to energy certificates.

(in PLN thousand)

22. Issued capital and other items of equity

22.1. Issued capital

Issued capital as at 31 December 2012

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
		1 752 549 394		**8 762 747**	

As at 31 December 2012, the value of issued capital, the number of shares and nominal value per share have not changed since 31 December 2011.

22.2. Shareholders with significant interests

Shareholding structure as at 31 December 2012 *(to the Company's best knowledge)*

Shareholder	Number of shares	Value of shares	% of issued capital	% of total vote
State Treasury (notification of 29 March 2011)	526 883 897	2 634 419	30.06%	30.06%
KGHM Polska Miedź S.A. (notification of 23 March 2011)	182 110 566	910 553	10.39%	10.39%
ING Otwarty Fundusz Emerytalny (notification of 28 December 2011)	88 742 929	443 715	5.06%	5.06%
Other shareholders	954 812 002	4 774 060	54.49%	54.49%
Total	**1 752 549 394**	**8 762 747**	**100.00%**	**100.00%**

The shareholding structure as at 31 December 2012, according to the Company's best knowledge, did not change in comparison to 31 December 2011.

22.3. Reserve capital

During the year ended 31 December 2012, reserve capital increased by PLN 540,139 thousand as a result of the resolution of the Ordinary General Shareholders' Meeting of TAURON Polska Energia S.A. dated 24 April 2012 on the allocation of the amount of PLN 540,139 thousand from the net profit for 2011 to the reserve capital.

22.4. Revaluation reserve from valuation of hedging instruments

The revaluation reserve from valuation of hedging instruments results from valuation of Interest Rate Swaps (IRS) hedging the interest rate risk arising from issued debentures, as discussed in detail in Note 36.

As at 31 December 2012, the revaluation reserve from valuation of hedging instruments includes an amount of PLN 189,756 thousand which represents a liability arising from the valuation of IRSs at the balance sheet date, amounting to PLN 190,666 thousand, adjusted for the portion of valuation relating to accrued interest on debentures as at the balance sheet date, amounting to PLN 910 thousand, which was taken to profit.

22.5. Retained earnings and restrictions on dividend payments

Movements in retained earnings during the period under review resulted from:

- allocation of the amount of PLN 540,139 thousand from the Company's net profit for 2011 to the reserve capital,
- allocation of the amount of PLN 543,290 thousand from the Company's net profit for 2011 for the payment of dividend,
- the net profit for the period of PLN 1,435,188 thousand,
- recognition of actuarial gains/losses relating to provisions for post-employment benefits in accordance with the revised IAS 19 – a decrease of retained earnings by PLN 213 thousand.
- accounting for the Company's merger with its subsidiary Górnośląski Zakład Elektroenergetyczny S.A. – a decrease in retained earnings by the amount of PLN 1,119 thousand.

(in PLN thousand)

	As at 31 December 2012	As at 31 December 2011 (*restated figures*)
Non-distributable amounts included in retained earnings/accumulated losses:	**78 113**	**79 444**
Actuarial gains/losses related to provisions for post-employment benefits	(366)	(153)
Retained earnings from merger	78 479	79 597
Retained earnings of the Company eligible for distribution, of which:	**1 437 883**	**1 086 125**
Profit for the period	1 435 188	1 086 093
Retained earnings from merger eligible for distribution	2 651	–
Other	44	32
Total retained earnings/accumulated losses in the statement of financial position	**1 515 996**	**1 165 569**

23. Earnings per share

Presented below are figures relating to profit and shares, which were used in the calculation of basic and diluted earnings per share as presented in the statement of comprehensive income.

	Year ended 31 December 2012	Year ended 31 December 2011 (*restated figures*)
Net profit from continuing operations	1 435 188	1 086 093
Net profit from discontinued operations	–	–
Net profit	**1 435 188**	**1 086 093**
Net profit attributable to ordinary shareholders, used in calculation of diluted earnings per share	1 435 188	1 086 093
Number of ordinary shares, used in calculation of basic and diluted earnings per share	1 752 549 394	1 752 549 394

24. Employee benefits

Based on a valuation performed using actuarial methods, the Company recognizes provisions for future employee benefits, including:

- retirement, disability and death benefits,
- reduced electricity rates and charges granted to employees,
- transfers to the Social Fund for future and present pensioners,
- jubilee bonuses.

The IASB made amendments to IAS 19 *Employee Benefits*, which are applicable for annual periods beginning on or after 1 January 2013, with the possibility of early application. The Company decided to early apply the revised IAS 19, beginning from the year ended 31 December 2012. Comparative data has been restated as appropriate.

The key amendments from the Company's perspective include the liquidation of the "corridor approach" as an allowed method of accounting for actuarial gains and losses and the introduction of the requirement to present the effects of remeasurement in other comprehensive income. In accordance with the adopted accounting policy, the Company applied the corridor approach in determining the defined benefit obligation and recognizing actuarial gains and losses in profit or loss. Elimination of this method resulted in the requirement to immediately recognize all actuarial gains and losses in other comprehensive income and caused an increase in the provision for employee benefits recognized in the statement of financial position up to the present value of the obligation according to actuarial valuation. The effect of the amendments on comparative data has been presented in Note 4.

The amounts of these provisions and reconciliation presenting the movements in provisions during the financial year are presented in the tables below.

(in PLN thousand)

Movement in provisions for employee benefits, year ended 31 December 2012

	Provision for retirement, disability and similar benefits	Employee electricity rates	Social Fund	Jubilee bonuses	Provisions, total
Opening balance	**708**	**494**	**129**	**2 186**	**3 517**
Current service costs	191	70	26	843	**1 130**
Actuarial gains and losses	80	89	8	1 092	**1 269**
Benefits paid	(99)	(2)	(3)	(264)	**(368)**
Interest expense	43	30	8	142	**223**
Closing balance	**923**	**681**	**168**	**3 999**	**5 771**
CURRENT	**62**	**38**	**9**	**1 057**	**1 166**
NON-CURRENT	**861**	**643**	**159**	**2 942**	**4 605**

Movement in provisions for employee benefits, year ended 31 December 2011 ***(restated figures)***

	Provision for retirement, disability and similar benefits	Employee electricity rates	Social Fund	Jubilee bonuses	Provisions, total
Opening balance	**387**	**315**	**98**	**2 075**	**2 875**
Adjustments to OB	207	153	20	–	**380**
Opening balance, after adjustments	**594**	**468**	**118**	**2 075**	**3 255**
Current service costs	187	66	24	924	**1 201**
Actuarial gains and losses	(103)	(68)	(20)	(511)	**(702)**
Benefits paid	(8)	–	–	(430)	**(438)**
Interest expense	38	28	7	128	**201**
Closing balance	**708**	**494**	**129**	**2 186**	**3 517**
CURRENT	**78**	**4**	**2**	**208**	**292**
NON-CURRENT	**630**	**490**	**127**	**1 978**	**3 225**

25. Other provisions

As at 31 December 2012, other short-term provisions recognized by the Company amounted to PLN 119,038 thousand (as at 31 December 2011 – PLN 167,412 thousand).

The main positions of the other provisions are as follows:

Provision for the obligation to surrender energy certificates

Due to the sale of electricity to final users, the Company is required to surrender for cancellation a certain amount of certificates of electricity generated using renewable sources, gas-fired plants and cogeneration.

As at 31 December 2012, short-term provision for the obligation to surrender energy certificates for cancellation amounted to PLN 118,250 thousand.

As at 31 December 2011, the Company recognized a short-term provision for the obligation to surrender energy certificates for cancellation of PLN 164,856 thousand.

The provision recognized at the 2011 year-end was utilized in the 1st quarter of 2012 up to the amount of PLN 164,556 thousand and exceeded the costs of fulfilling the obligation by PLN 300 thousand. In 2012, the Company surrendered energy certificates with a value of PLN 37,515 thousand for cancellation and paid a compensation fee of PLN 126,978 thousand as well as cancellation fees of PLN 63 thousand.

Provision for real estate tax

The provision for real estate tax, acquired as a result of merger with Górnośląski Zakład Elektroenergetyczny S.A., which amounted to PLN 1,411 thousand as at 31 December 2011, was reversed in 2012 due to the lapse of the limitation period for any claims arising from real estate tax.

(in PLN thousand)

Provision for compensation payments to GZE employees

The provision for compensation payments to employees was recognized due to the privatization of Górnośląski Zakład Elektroenergetyczny S.A. Compensation payments for shares are due under the Employee, Social and Trade Union Guarantee Package of 17 November 2000 as well as under Agreement No. 1 of 13 December 2000 on the principles of making compensation payments. Compensation payments were made based on the Compensation Payments Allocation Regulations dated 26 April 2001 with subsequent amendments and the decision on payments dated 30 September 2003. The condition underlying a compensation payment was the sale of all of the shares held by the eligible individual to the majority shareholder. Such payments (in the form of donations) were made successively in 2003–2009.

As at 31 December 2012, the provision for outstanding compensation payments amounted to PLN 765 thousand and its balance did not change compared to 31 December 2011.

26. Leases

26.1. Operating lease commitments

As at 31 December 2012, the Company rents, under lease agreements, real estate located in Katowice at ul. Ks. Piotra Ściegiennego 3 and at ul. Lwowska 23. The lessor of the property at ul. Lwowska 23 is TAURON Wytwarzanie S.A. Monthly rentals amounted to PLN 344 thousand net. During the year 2012, they were reduced to PLN 20 thousand net due to the movement of the Company's head office to the property located at ul. Ks. Piotra Ściegiennego 3 in March 2012. Average monthly rentals for the Company's head office in 2012 amounted to PLN 239 thousand (for the first 7 months the Company used a discount granted by the lessor i.e. GHELAMCO GP2 Sp. z o.o.).

In addition, during 2012 the Company rented office space in Warsaw. The lessor of the property is REGUS BUSINESS CENTRE Sp. z o.o. Monthly rentals for this property amount to PLN 35 thousand.

Furthermore, the Company rents, under a long-term lease agreement, three cars from TAURON Obsługa Klienta Sp. z o.o. and one car from PUH ETRANS Sp. z o.o. Monthly rentals for each of those cars amount to PLN 2,5 thousand net. Since 16 April 2012 the Company has also been renting a car from TAURON Sprzedaż GZE Sp. z o.o., with monthly rentals amounting to PLN 2 thousand net.

26.2. Finance lease

Future minimum rentals payable under finance leases and the present value of the net minimum lease payments are as follows:

	As at 31 December 2012		As at 31 December 2011	
	Minimum lease payments	**Present value of lease payments**	**Minimum lease payments**	**Present value of lease payments**
Within 1 year	552	510	705	627
Within 1 to 5 years	494	480	1 047	990
More than 5 years	–	–	–	–
Minimum lease payments, total	**1 046**	**990**	**1 752**	**1 617**
Less amounts representing finance charges	(56)	–	(135)	–
Present value of minimum lease payments, of which:	**990**	**990**	**1 617**	**1 617**
current	510	510	627	627
non-current	480	480	990	990

27. Interest-bearing loans and borrowings (including issued debentures)

As at 31 December 2012, the Company's liabilities under loans taken out and issued debentures related to:

- debentures issued under the debentures issue program with a total value of PLN 4,301,834 thousand;
- loans taken out from affiliates under the "Agreement for the Provision of Cash Pool Services" in the total amount of PLN 1,175,948 thousand;
- loans from the European Investment Bank of PLN 910,394 thousand,
- an overdraft of PLN 129,566 thousand (external funding under the cash pool agreement).

Interest-bearing loans and borrowings, including issued debentures, as at 31 December 2012 and 31 December 2011 are presented in the table below.

(in PLN thousand)

Interest-bearing loans and borrowings, including issued debentures

	As at 31 December 2012	As at 31 December 2011 (*restated figures*)
Non-current portion of loans and borrowings, including issued debentures:		
Issued debentures	4 288 247	4 136 112
Loans received from the European Investment Bank	836 835	–
Total	**5 125 082**	**4 136 112**
Current portion of loans and borrowings, including issued debentures:		
Issued debentures	13 587	11 062
Cash pool loans received, including accrued interest	1 175 948	452 632
Liabilities arising from acquisition of long-term investments	–	255 686
Loans from the European Investment Bank	73 559	–
Overdraft	129 566	–
Total	**1 392 660**	**719 380**

27.1. Debentures issued

As at 31 December 2012, the Company's liability under issued debentures amounted to PLN 4,301,834 thousand. This liability arose as a result of issue of debentures in the following tranches:

- on 29 December 2010, Tranche A debentures were issued with a nominal value of PLN 848,200 thousand and maturity date of 29 December 2015,
- on 12 December 2011, Tranche B debentures were issued with a total nominal value of PLN 300,000 thousand and maturity date of 12 December 2015;
- on 12 December 2011, Tranche C debentures were issued with a total nominal value of PLN 3,000,000 thousand and maturity date of 12 December 2016;
- on 30 January 2012, Tranche B debentures were issued with a value of PLN 150,000 thousand and maturity date of 30 January 2015.

Debentures are issued in a dematerialized form. These are unsecured coupon debentures with a floating interest rate of WIBOR 6M plus a fixed margin. Interest on these debentures is payable on a semi-annual basis.

The Company hedged a portion of interest-related cash flows resulting from issued debentures by entering into interest rate swaps (IRS), as discussed in detail in Note 36.

The agreements signed by the Company with banks include covenants which are commonly used in such transactions. As at 31 December 2012, none of these covenants has been breached.

The tables below present the balances of the Company's liability under issued debentures, together with accrued interest, as at 31 December 2012 and 31 December 2011.

Debentures as at 31 December 2012

	Interest rate	Currency	As at balance sheet date		of which 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
Tranche A	floating	PLN	349	846 524	–	–	–	846 524	–	–
Tranche B	floating	PLN	4 707	449 150	–	–	–	449 150	–	–
Tranche C	floating	PLN	8 531	2 992 573	–	–	–	–	2 992 573	–
Total debentures			**13 587**	**4 288 247**	**–**	**–**	**–**	**1 295 674**	**2 992 573**	**–**

(in PLN thousand)

Debentures as at 31 December 2011

	Interest rate	Currency	As at balance sheet date		of which 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
Tranche A	floating	PLN	412	846 106	–	–	–	–	846 106	–
Tranche B	floating	PLN	968	298 920	–	–	–	–	298 920	–
Tranche C	floating	PLN	9 682	2 991 086	–	–	–	–	2 991 086	–
Total debentures			**11 062**	**4 136 112**	–	–	–	–	**4 136 112**	–

On 29 June 2012, an agreement was signed between the Company and Bank Handlowy w Warszawie S.A., ING Bank Śląski S.A., Bank Polska Kasa Opieki S.A., BRE Bank S.A., Powszechna Kasa Oszczędności Bank Polski S.A., Nordea Bank Polska S.A., Nordea Bank AB, BNP Paribas Bank Polska S.A. and Bank Zachodni WBK S.A., under which the value of the program of issue of TAURON Polska Energia S.A.'s debentures was increased by tranches D and E with a value of, respectively, PLN 2,475,000 thousand and PLN 275,000 thousand, i.e. up to the total amount of PLN 7,050,000 thousand. The funds that will be acquired from the issue of debentures under tranches D and E will be used to finance investment projects in the TAURON Group as well as general corporate needs in the TAURON Group.

27.2. Cash pool

The purpose of the "Agreement for the Provision of Cash Pool Services" is to ensure the most effective management of cash held by the Group companies, efficient funding of their day-to-day working capital requirements, improvement of financial liquidity and optimization of finance income and finance costs of the individual Group companies participating in the agreement as well as of the entire TAURON Polska Energia S.A. Group. TAURON Polska Energia S.A. plays the role of the pool leader. Interest terms have been determined at an arm's length.

The balances of receivables and payables arising from cash pool transactions are presented in the tables below.

	As at 31 December 2012	As at 31 December 2011
Loans granted under cash pool agreement	–	55 549
Interest receivable on loans granted under cash pool agreement	62	107
Total	**62**	**55 656**

	As at 31 December 2012	As at 31 December 2011
Loans received under cash pool agreement	1 171 892	451 086
Interest payable on loans received under cash pool agreement	4 056	1 546
Total	**1 175 948**	**452 632**
Balance of cash pool	**1 175 886**	**396 976**

The surplus of cash acquired by the Company under the cash pool agreement is mainly invested in bank accounts.

As of 1 January 2012, under the cash pool agreement the Company may use external funding amounting to PLN 300,000 thousand. As at 31 December 2012, the Company's liability in this respect amounted to PLN 129,549 thousand, and accrued interest amounted to PLN 17 thousand.

27.3. Loans from the European Investment Bank

TAURON Polska Energia S.A. acquired two loans from the European Investment Bank, for a total amount of PLN 510,000 thousand. The respective loan agreements were signed on 24 October 2011 and the funds were transferred in the 1st quarter of 2012.

The funds acquired under these loans are used for the implementation of two investment projects in the area of production:

- PLN 300,000 thousand is used for the conversion and transfer for use of a high efficiency coal-fired cogeneration unit with the accompanying infrastructure in the Bielsko-Biała CHP Plant. Those funds will be used by the TAURON Group to replace the current unit with a unit of a higher efficiency amounting to 50 MWe and 182 MWt. Construction of this unit started in December 2008 and will last until mid 2013;

(in PLN thousand)

- PLN 210,000 thousand is used for the construction and start-up of a new 50 MWe and 45 MWt biomass boiler in the Jaworzno III Power Plant, which was made available for use at the end of 2012, and the repair of a steam turbine.

The above-mentioned loans are being repaid in installments on an annual basis, with the total amount of the installment amounting to PLN 51,000 thousand. The repayment date for principal installments is 15th December of each year and the date for the repayment of the whole principal is 15 December 2021. Interest on the borrowed funds is payable on a semi-annual basis, on 15 June and 15 December each year.

Interest on loans is calculated based on a fixed rate binding until 15 June 2016. On this date, new terms will be specified with respect to the amount of interest and/or change in the basis for its calculation.

On 3 July 2012, the Company entered into another loan agreement with the European Investment Bank for total funding of PLN 900,000 thousand. The funds obtained from this loan are to be used for grid investments – for the implementation of a 5-year investment program aimed at modernization and development of the power grids of TAURON Dystrybucja S.A. located in Southern Poland. The total cost of the project is appx. PLN 2,000,000 thousand. The first tranche of the loan amounting to PLN 450,000 thousand was made available in July 2012.

The tranche will be paid in installments, on a half-year basis, in the amount of PLN 20,455 thousand. The dates for payment of principal installments are 15 June and 15 December each year. The first payment is due on 15 December 2013 and the total repayment of the principal amount is due on 15 June 2024. Interest on the loan is payable on a half-year basis, on 15 June and 15 December each year.

Interest on the tranche of the loan that has been made available is calculated using a fixed rate binding until 15 December 2017. On this date, new financing terms will be determined with respect to the amount of interest and/or change in the basis of its calculation.

The next tranches of the loan were made available after the balance sheet date, as discussed in detail in Note 40.

At the balance sheet date, the balance of liabilities under loans obtained from the European Investment Bank amounted to PLN 910,394 thousand, of which PLN 2,140 thousand represented accrued interest.

28. Capital commitments

As at 31 December 2012, the Company had capital commitments of PLN 372 thousand net, which related to adaptation works at the Company's head office building.

29. Contingent liabilities

The Company's contingent liabilities arising from collaterals and guarantees granted to subsidiaries are presented in the table below.

Type of contingent liability	Currency	As at 31 December 2012		Company in respect of which contingent liability has been granted	Beneficiary
		Value in foreign currency	Value in domestic currency		
blank promissory note	PLN		40 000	TAURON Wytwarzanie S.A.	Voivodship Fund for Environmental Protection and Water Management in Katowice
blank promissory note	PLN		30 000	TAURON Ciepło S.A.	Voivodship Fund for Environmental Protection and Water Management in Katowice
declaration to provide financial support	PLN		200 000	TAURON Wytwarzanie S.A.	TAURON Wytwarzanie S.A.
guarantee	EUR	500	2 044	TAURON Czech Energy s.r.o.	CEZ a.s.
collateral for bank guarantee	PLN		202	TAURON Serwis GZE Sp. z o.o.	Nordea Bank Polska S.A.
collateral for bank guarantee	PLN		300	TAURON Sprzedaż GZE Sp. z o.o.	Powszechna Kasa Oszczędności Bank Polski S.A.
collateral for bank guarantee	PLN		253	TAURON Sprzedaż Sp. z o.o.	Powszechna Kasa Oszczędności Bank Polski S.A.
collateral for bank guarantee	PLN		1 000	Polska Energia Pierwsza Kompania Handlowa Sp. z o.o.	Powszechna Kasa Oszczędności Bank Polski S.A.
collateral for bank guarantee	EUR	500	2 044	Polska Energia Pierwsza Kompania Handlowa Sp. z o.o.	Powszechna Kasa Oszczędności Bank Polski S.A.

The following changes took place in the year ended 31 December 2012:

- The agreement signed by TAURON Polska Energia S.A. on 25 February 2011, concerning declaration to provide financial support in the amount of PLN 87,040 thousand to the subsidiary Elektrociepłownia Tychy S.A. in order to cover the costs of the project relating to "Construction of a biomass power plant and modernization of the fluidized OF-135 boiler in Elektrociepłownia Tychy S.A.", expired in February 2012.
- The agreement signed by TAURON Polska Energia S.A. in January 2011, concerning a guarantee for a blank promissory note issued by the subsidiary Elektrownia Stalowa Wola S.A. (currently TAURON Wytwarzanie S.A.) for the benefit of Polskie Sieci Elektroenergetyczne Operator S.A. (as of 10 January 2013, following the change of the business name – Spółki Polskie Sieci Elektroenergetyczne S.A.), for an amount of PLN 4,000 thousand, was terminated in the 1st quarter of 2012.
- The guarantee granted in favor of TAURON Czech Energy s.r.o. for an amount of CZK 20,000 thousand, for the benefit of UniCredit Bank Czech Republik a.s., expired in June 2012;
- Under the framework agreement for bank guarantees with PKO Bank Polski S.A., at the Company's request the bank issued bank guarantees for the following subsidiaries: TAURON Sprzedaż GZE Sp. z o.o., TAURON Sprzedaż Sp. z o.o. and Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. (the total balance at the reporting date is PLN 3,597 thousand).

Claims of Huta Łaziska S.A.

Due to the Company's merger 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.

In recent years, GZE was party to court disputes with Huta Łaziska S.A. The main reason for this was Huta's failure to fulfill its obligation to pay the amounts due for electricity supplies, which resulted in the withholding of electricity supplies to Huta Łaziska by GZE in 2001.

Based on the decision of 12 October 2001, the President of URE ordered GZE to resume electricity supplies to Huta on the terms of the agreement dated 30 July 2001 at the price of PLN 67/MWh until the date of final resolution of the dispute, and on 14 November 2001 the President of URE finally resolved the dispute by issuing a decision stating that the withholding of electricity supplies was not unjustified. Huta appealed against this decision. On 25 July 2006, the Court of Appeal in Warsaw passed a final judgment ending the dispute over the decision of the President of URE dated 14 November 2001. Huta lodged a cassation appeal against the judgment of the Court of Appeal, which was dismissed by the judgment of the Supreme Court dated 10 May 2007.

Due to the withholding of electricity supplies, Huta 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 URE 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 URE dated 12 October 2001. In this case, the courts of the first and second instance passed judgments favorable for GZE; however, in the judgment of 29 December 2011 the Supreme Court overruled the judgment of the Court of Appeal and remanded the case for reexamination by this Court. On 5 June 2012, the Court of Appeal overruled the judgment of the Regional Court and remanded the case for reexamination by the Regional Court. The hearing before the Court of first instance was held on 27 November 2012 and the next one on 25 February 2013. The date of the next hearing was set at 24 April 2013.

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 they 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 these claims.

30. Assets pledged as security

Under the debentures issue program the Company provided a declaration of submission to enforcement:

- up to the amount of PLN 1,560,000 thousand – valid until 31 December 2016,
- up to the amount of PLN 6,900,000 thousand – valid until 31 December 2018 (as at 31 December 2011, up to PLN 3,600,000 thousand – the increase of this amount by another PLN 3,300,000 thousand is due to the signing of another agreement under which the value of the program of issue of TAURON Polska Energia S.A.'s debentures was increased by PLN 2,750,000 thousand, up to the total amount of PLN 7,050,000 thousand, as discussed in detail in Note 27.1).

In order to secure the framework agreement concerning bank guarantees from PKO Bank Polski S.A., TAURON Polska Energia S.A. provided a declaration of submission to enforcement under Article 97 of the Banking Law up to the amount of PLN 125,000 thousand, valid until 31 December 2017. An additional collateral for this agreement is authorization to the bank account held with PKO Bank Polski S.A. As at 31 December 2012, the maximum amount of the limit set for the guarantees is PLN 100,000 thousand. The agreement will be valid until 31 December 2016.

Under the aforementioned agreement, PKO Bank Polski S.A., at the Company's request, issued bank guarantees in order to secure the liabilities of the subsidiaries of TAURON Polska Energia S.A. (Note 29) and to secure the Company's transactions:

(in PLN thousand)

- up to PLN 80,000 thousand – guarantee for Izba Rozliczeniowa Giełd Towarowych S.A. valid until 31 March 2013,;
- up to EUR 800 thousand (PLN 3,271 thousand) – guarantee for CAO Central Allocation Office Gmbh valid until 3 February 2014.

The bank guarantee agreement with PKO Bank Polski S.A., for which the Company provided a declaration of submission to enforcement under Article 97 of the Banking Law up to the amount of PLN 48,000 thousand, valid until 31 December 2012, expired in the 1st quarter of 2012.

In order to secure the transactions made by the Company on electricity markets through Towarowa Giełda Energii S.A. (Polish Power Exchange) and its participation in the system securing the liquidity of settlements, TAURON Wytwarzanie S.A. issued a suretyship to Izba Rozliczeniowa Giełd Towarowych S.A. (IRGIT S.A.) in respect of settlement of the Company's future transactions up to the amount of PLN 145,000 thousand. It was agreed that the Company would pay a consideration to TAURON Wytwarzanie S.A. for setting up collateral in the form of a suretyship. In order to secure IRGIT's claims under the suretyship agreement signed between TAURON Wytwarzanie S.A. and IRGIT S.A. in respect of TAURON Polska Energia S.A.'s liabilities, restrictions were placed on the EUAs of TAURON Wytwarzanie S.A. entered in the National Register of Emission Allowances (KRUE) amounting to 10,000 thousand tonnes. In accordance with Annex of 31 December 2012 to the Agreement between TAURON Polska Energia S.A. and TAURON Wytwarzanie S.A., the validity period of the security has been extended until 31 March 2013.

In order to secure futures transactions for emission allowances and for energy made on the ICE Futures Europe Exchange and on the European Energy Exchange, the Company transfers initial deposits for such transactions into separate bank accounts – the total amount of such deposits as at 31 December 2012 was PLN 17,553 thousand.

Liabilities secured on the assets of TAURON Polska Energia S.A. include lease agreements, which are secured by pledges on the vehicles leased by the Company. The carrying amount of vehicles leased by the Company amounted to PLN 950 thousand as at 31 December 2012 (PLN 2,039 thousand as at 31 December 2011).

31. Other current non-financial liabilities

	As at 31 December 2012	As at 31 December 2011 (*restated figures*)
Taxes, customs, social security and other payables, of which:	**92 600**	**84 938**
Excise tax	803	1 406
VAT	88 764	80 455
Social security	1 871	1 845
Personal Income Tax	1 140	1 056
Other	22	176
Other non-financial liabilities:	**765**	**764**
Excess of Social Fund liabilities over Social Fund assets	301	183
Other special funds	464	581
Total	**93 365**	**85 702**

32. Accruals, deferred income and government grants

	As at 31 December 2012	As at 31 December 2011 (*restated figures*)
Unused holidays	1 749	1 377
Bonuses	8 600	6 638
Audit fees	75	118
Other accrued expenses	8	8
Government grants	143	–
Other deferred income	52	82
Total, of which:	**10 627**	**8 223**
non-current	95	–
current	10 532	8 223

(in PLN thousand)

33. Business combinations

On 12 June 2012, the District Court Katowice–Wschód in Katowice, 8th Economic Department of the National Court Register entered the merger of TAURON Polska Energia S.A. and Górnośląski Zakład Elektroenergetyczny S.A. (GZE) in the Register of Entrepreneurs of the National Court Register. The merger was effected under Article 492 Clause 1 Item 1 of the Code of Commercial Companies, i.e. by way of a transfer of all of the assets of Górnośląski Zakład Elektroenergetyczny S.A. as the acquiree to TAURON Polska Energia S.A. as the acquirer. The purpose of the merger is to arrange the structure of the TAURON Group in accordance with the assumptions of the "Corporate Strategy of the TAURON Group for 2011–2015 with an Outlook up to 2020", which provides for consolidation of the TAURON Group companies. As a result of the buy-out of the shares of Górnośląski Zakład Elektroenergetyczny S.A. conducted before the merger, since 16 April 2012 TAURON Polska Energia S.A. has been a holder of 100% of shares in the share capital of Górnośląski Zakład Elektroenergetyczny S.A.

The Company selected the pooling of interests method to account for the merger of the parent with its subsidiary, as discussed in detail in Note 5.23. The application of the pooling of interests method means that the financial statements of Górnośląski Zakład Elektroenergetyczny S.A. were aggregated with the financial statements of TAURON Polska Energia S.A. as of the date on which the Company acquired control over GZE, i.e. as of 13 December 2011.

Net assets of Górnośląski Zakład Elektroenergetyczny S.A. as at 13 December 2011 are presented in the table below.

Net assets of GZE S.A.	As at 13 December 2011
Non-current assets	
Property, plant and equipment	20
Shares in unlisted and listed companies	3 787 483
Deferred tax asset	(140)
	3 787 363
Current assets	
Corporate income tax receivable	(532)
Trade and other receivables	450
Deposits	746 279
Other current non-financial assets	1 094
Other current financial assets	70 000
Cash and cash equivalents	196 263
Other balances arising from restatements (assets)	1 414
	1 014 968
TOTAL ASSETS	**4 802 331**
Current liabilities	
Trade and other payables	172 402
Other current non-financial liabilities	341
Accruals and government grants	121
Short-term provisions and employee benefits	3 553
TOTAL LIABILITIES	**176 417**
NET ASSETS	**4 625 914**

As a result of the Company's merger with its subsidiary, net assets of the acquired company with a total value of PLN 4,625,914 thousand were recognized as at the date of acquisition of control, i.e. 13 December 2011. In accordance with the adopted accounting policy, the Company accounts for the merger using the consolidated financial statements as a source of the value of assets and liabilities in the acquired subsidiary, and the value of the acquiree's shares in subsidiaries is determined based on the value of net assets of these entities in the consolidated financial statements and the value of goodwill relating to the given subsidiary. Consequently, the total value of shares of Górnośląski Zakład Elektroenergetyczny S.A. in subsidiaries that has been recognized in the Company's financial statements is PLN 3,787,483 thousand. At the same time, the previous investment in Górnośląski Zakład Elektroenergetyczny S.A. with a value of PLN 4,631,455 thousand as at 13 December 2011 was derecognized.

The difference between the book value of net assets recognized as a result of the merger and the value of the investment in GZE that had been previously recognized in the accounting records of TAURON Polska Energia S.A., amounting to PLN 5,541 thousand, was posted to retained earnings, causing a reduction of the retained earnings. As at 31 December 2011, movement in retained earnings resulting from merger with GZE, after taking into account GZE's profit for the period from the date of acquisition of control to 31 December 2011 of PLN 2,651 thousand, amounted to PLN 2,890 thousand, as presented in Note 4.

(in PLN thousand)

34. Related party disclosures

34.1. Transactions with related companies and State Treasury companies

The Company enters into transactions with related companies as presented in Note 7. In addition, due to the fact that the Company's main shareholder is the State Treasury of the Republic of Poland, State Treasury companies are treated as related parties. Transactions with State Treasury companies mainly relate to the operating activity of the Company. All transactions with related companies are made on an arm's length basis.

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

Revenues and expenses

	Year ended 31 December 2012	Year ended 31 December 2011
Revenue from related companies, of which:	**10 876 426**	**8 002 258**
Revenue from operating activities	9 155 009	6 930 643
Dividends	1 550 613	1 008 705
Finance income	170 797	62 897
Other income	7	13
Revenue from State Treasury companies	**1 285 321**	**992 155**
Costs from related companies, of which:	**(1 516 535)**	**(866 449)**
Costs of operating activities	(1 479 764)	(829 837)
Finance costs	(36 771)	(36 612)
Costs from State Treasury companies	**(1 467 499)**	**(194 164)**

Receivables and payables

	As at 31 December 2012	As at 31 December 2011
Loans granted to related companies and receivables from related companies, of which:	**3 966 997**	**1 929 450**
Trade receivables	878 387	543 313
Other financial receivables	134 680	–
Receivables from the TCG	65 870	–
Debentures	2 655 261	1 150 043
Loans granted under cash pool agreement	62	55 656
Other loans	232 737	180 438
Receivables from State Treasury companies	**128 725**	**141 658**
Payables to related companies, of which:	**1 331 544**	**589 395**
Trade payables	144 548	136 763
Loans received under cash pool agreement	1 175 948	452 632
Liabilities arising from acquisition of investments	11 048	–
Payables to State Treasury companies	**245 124**	**10 867**

Among the State Treasury companies, the largest contractors of TAURON Polska Energia S.A. in the year ended 31 December 2012 as regards sales revenue included KGHM Polska Miedź S.A., PKP Energetyka S.A. and Kompania Węglowa S.A. Revenue from those companies accounted for 65% of total revenue from transactions with State Treasury companies. The largest costs were incurred as a result of transactions with Kompania Węglowa S.A., PGE Polska Grupa Energetyczna S.A. and Katowicki Holding Węglowy S.A., which accounted for 75% of total costs incurred as a result of purchases from State Treasury companies.

The Company enters into significant transactions in the energy market through Izba Rozliczeniowa Giełd Towarowych S.A. As this entity only deals with organization of commodities exchange trading, the Company does not consider purchase and sale transactions made through this entity as related party transactions.

(in PLN thousand)

34.2. Compensation of key management personnel

The amount of compensation and other benefits of the Board of Directors, Supervisory Board and other key management personnel of the Company for the years ended 31 December 2012 and 31 December 2011 is presented in the table below.

	Year ended 31 December 2012	Year ended 31 December 2011
Board of Directors	**8 071**	**8 862**
Short-term employee benefits (salaries and surcharges)	7 267	7 933
Other	804	929
Supervisory Board	**937**	**812**
Short-term employee benefits (salaries and surcharges)	937	812
Other members of key management personnel	**9 477**	**7 163**
Short-term employee benefits (salaries and surcharges)	8 507	6 245
Post-employment benefits	126	–
Other	844	918
Total	**18 485**	**16 837**

No loans were granted from the Social Fund to members of the Company's Board of Directors, Supervisory Board members or other members of key management personnel.

(in PLN thousand)

35. Financial instruments

35.1. Carrying amounts and fair values of the categories and classes of financial instruments

The fair values of the financial instruments held by the Company as at 31 December 2012 and 31 December 2011 did not significantly differ from their values presented in the financial statements for the particular periods, due to the following reasons:

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

The carrying amounts and fair values of the particular classes and categories of financial instruments as at 31 December 2012 and 31 December 2011 are presented in the tables below.

Categories and classes of financial assets	As at 31 December 2012		As at 31 December 2011 (*restateted figures*)	
	Carrying amount	Fair value	Carrying amount	Fair value
1 Assets at fair value through profit or loss	**466**	**466**	–	–
Derivatives	466	466	–	–
2 Financial assets available for sale	**5 057**	–	**4 977**	–
Long-term shares in unlisted and listed companies*	5 057	–	4 977	–
3 Loans and receivables	**4 233 547**	**4 233 547**	**2 212 481**	**2 212 481**
Trade receivables	1 108 553	1 108 553	743 191	743 191
Bonds and other debt securities	2 655 261	2 655 261	1 150 043	1 150 043
Loans granted to Cash Pool	62	62	55 656	55 656
Other loans granted	232 737	232 737	250 438	250 438
Other	236 934	236 934	13 153	13 153
4 Financial assets excluded from the scope of IAS 39	**20 179 347**	–	**20 179 126**	–
Shares in subsidiaries*	20 179 347	–	20 179 126	–
5 Cash and cash equivalents	**910 421**	**910 421**	**281 852**	**281 852**
Total financial assets, of which in the statement of financial position:	**25 328 838**		**22 678 436**	
Non-current assets	**22 917 206**		**21 321 143**	
Shares in unlisted and listed companies	20 184 404		20 184 103	
Bonds and other debt securities	2 615 000		1 137 040	
Loans granted	117 802		–	
Current assets	**2 411 632**		**1 357 293**	
Trade and other receivables	1 460 484		1 062 438	
Bonds and other debt securities	40 261		13 003	
Derivatives	466		–	
Cash and cash equivalents	910 421		281 852	

** The Company is unable to reliably determine the fair value of the shares held in companies which are not listed on active markets. They are measured at the balance sheet date at cost less impairment losses.*
In accordance with the Company's accounting policy, shares in subsidiaries are also measured at cost less impairment losses.

(in PLN thousand)

Categories and classes of financial liabilities	As at 31 December 2012		As at 31 December 2011 (*restateted figures*)	
	Carrying amount	Fair value	Carrying amount	Fair value
1 Financial liabilities at fair value through profit or loss	**552**	**552**	**80**	**80**
Derivative instruments	552	552	80	80
2 Financial liabilities measured at amortized cost	**7 240 995**	**7 240 995**	**5 181 618**	**5 181 618**
Arm's length loans, of which:	2 086 342	2 086 342	708 318	708 318
Liability under the cash pool loan	1 175 948	1 175 948	452 632	452 632
Loan from the European Investment Bank	910 394	910 394	–	–
Liabilities arising from acquisition of long-term investments	–	–	255 686	255 686
Overdraft	129 566	129 566	–	–
Issued debentures	4 301 834	4 301 834	4 147 174	4 147 174
Trade payables	679 612	679 612	312 062	312 062
Other financial liabilities	17 206	17 206	6 237	6 237
Commitments resulting from purchases of fixed and intangible assets	24 011	24 011	5 594	5 594
Salaries and wages	2 403	2 403	2 233	2 233
Insurance contracts	21	21	–	–
3 Liabilities under guarantees, factoring and excluded from the scope of IAS 39	**990**	**990**	**1 617**	**1 617**
Liabilities under finance leases	990	990	1 617	1 617
4 Hedging derivative instruments (liabilities)	**190 666**	**190 666**	**–**	**–**
Total financial liabilities, of which in the statement of financial position:	**7 433 203**		**5 183 315**	
Non-current liabilities	**5 276 156**		**4 137 102**	
Interest-bearing loans and borrowings	5 125 082		4 136 112	
Derivative instruments	150 594		–	
Liabilities under finance leases	480		990	
Current liabilities	**2 157 047**		**1 046 213**	
Trade and other payables	723 253		326 126	
Current portion of interest-bearing loans and borrowings	1 392 660		719 380	
Derivative instruments	40 624		80	
Current portion of liabilities under finance leases	510		627	

35.2. Fair value hierarchy

Classes of financial instruments	As at 31 December 2012	
	1 level	2 level
Assets		
Derivate instruments – commodity	466	–
Liabilities		
Derivate instruments – currency	–	552
Derivate instruments – IRS	–	190 666

Classes of financial instruments	As at 31 December 2011	
	1 level	2 level
Liabilities		
Derivate instruments – currency	–	80

35.3. Details of significant items within the individual categories of financial instruments

Bonds and other debt securities

Bonds, treasury bills and other debt securities in the category of loans and receivables, amounting to PLN 2,655,261 thousand, include debentures issued by subsidiaries that were purchased by the Company.

The change of the balance in the year ended 31 December 2012 in relation to the comparative period is due to the Company's acquisition of debentures issued by the subsidiaries for a total amount of PLN 2,920,000 thousand, redemption of debentures for a total amount of PLN 1,452,040 thousand as well as the increase of accrued interest by the amount of PLN 37,258 thousand.

Cash pool loans granted and cash pool loan liabilities

The Company has a receivable resulting from loans granted and liabilities resulting from loans received under the cash pool service agreement, as discussed in detail in Note 27.2.

Other loans granted

Under loans granted, the Company presented:

- a long-term loan granted to Elektrociepłownia Stalowa Wola S.A. in the amount of PLN 117,802 thousand (including accrued interest of PLN 2,802 thousand) and a liability under interest accrued at the balance sheet date on a short-term VAT loan of PLN 11 thousand, as discussed in detail in Note 19;
- a short-term loan of PLN 114,924 thousand (including accrued interest of PLN 334 thousand) granted to TAURON Wytwarzanie S.A. and secured by CO_2 emission allowances with a commitment to sell them back, as discussed in detail in Note 18.

Trade and other receivables

Trade and other receivables have been discussed in detail in Note 18.

Financial assets excluded from the scope of IAS 39

Financial assets excluded from the scope of IAS 39, amounting to PLN 20,179,347 thousand, include shares held by the Company in subsidiaries, as discussed in detail in Note 16.

Financial assets available for sale

Financial assets available for sale, amounting to PLN 5,057 thousand, mainly include shares in TAURON Wytwarzanie GZE Sp. z o.o. amounting to PLN 4,934 thousand, which were acquired as a result of the Company's merger with Górnośląski Zakład Elektroenergetyczny S.A. in June 2012.

Loans from the European Investment Bank

The loans received from the European Investment Bank, amounting to PLN 910,394 thousand, have been described in detail in Note 27.3.

Liability arising from purchase of long-term investment

In the 1st quarter of 2012, the Company paid the liability arising from the purchase of long-term investments together with accrued interest, which consisted of Vattenfall AB's debt towards GZE S.A. and its subsidiaries that had been taken over by the Company as part of the purchase of GZE S.A.'s shares.

Overdraft

Under the cash pool agreement, the Company may use external funding up to the amount of PLN 300,000 thousand. As at 31 December 2012, the Company had an overdraft of PLN 129,566 thousand.

Issued debentures

The increase of liabilities under issued debentures is due to the new issue of debentures with a nominal value of PLN 150,000 thousand on 30 January 2012 as part of tranche B, as discussed in detail in Note 27.1.

Hedging derivative instruments (relating to liabilities)

Hedging derivative instruments amounting to PLN 190,666 thousand include valuation of derivative instruments entered into in order to hedge the interest rate risk arising from issued debentures, as discussed in detail in Note 36.

(in PLN thousand)

35.4. Items of income, expense, gains and losses recognized in the statement of comprehensive income, by category of financial instruments

Year ended 31 December 2012

	Assets at fair value through profit or loss	Financial assets available for sale	Loans and receivables	Financial assets excluded from the scope of IAS 39	Financial liabilities at fair value through profit or loss	Financial liabilities measured at amortized cost	Liabilities under guarantees, factoring and excluded from the scope of IAS 39	Hedging instruments	Total
Dividends and shares in profits	–	–	–	1 550 613	–	–	–	–	**1 550 613**
Interest income/(expense)	37 413	–	168 865	–	–	(327 131)	(79)	6 466	**(114 466)**
Commissions	–	–	–	–	–	(7 073)	–	–	**(7 073)**
Exchange differences	(1 737)	–	367	–	–	–	–	–	**(1 370)**
Reversal of impairment losses/“upwards” revaluation	466	–	–	–	–	–	–	–	**466**
Recognition of impairment losses/“downwards” revaluation	–	–	–	–	(472)	–	–	(910)	**(1 382)**
Other	4 704	–	–	–	(470)	–	–	–	**4 234**
Net profit/(loss)	**40 846**	**–**	**169 232**	**1 550 613**	**(942)**	**(334 204)**	**(79)**	**5 556**	**1 431 022**

Year ended 31 December 2011

	Assets at fair value through profit or loss	Financial assets available for sale	Loans and receivables	Financial assets excluded from the scope of IAS 39	Financial liabilities at fair value through profit or loss	Financial liabilities measured at amortized cost	Liabilities under guarantees, factoring and excluded from the scope of IAS 39	Hedging instruments	Total
Dividends and shares in profits	–	875	–	1 008 705	–	–	–	–	**1 009 580**
Interest income/(expense)	45 780	–	63 849	1 466	–	(92 172)	(73)	–	**18 850**
Commissions	–	–	–	–	–	(3 445)	–	–	**(3 445)**
Exchange differences	360	–	7 766	–	–	(7 242)	–	–	**884**
Reversal of impairment losses/“upwards” revaluation	–	–	–	–	–	–	–	–	**–**
Recognition of impairment losses/“downwards” revaluation	–	–	–	–	(337)	–	–	–	**(337)**
Other	57	–	–	–	(926)	–	–	–	**(869)**
Net profit/(loss)	**46 197**	**875**	**71 615**	**1 010 171**	**(1 263)**	**(102 859)**	**(73)**	**–**	**1 024 663**

(in PLN thousand)

36. Financial risk management

On 10 May 2011, the Company's Board of Directors passed a resolution implementing a policy for specific risk management in the area of finance in the TAURON Polska Energia S.A. Capital Group, which defines the strategy for management of specific risk in the area of finance, i.e. the currency and interest rate risk. This policy has also introduced the principles of hedge accounting in the Group which define the principles and types of hedge accounting and 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 policies relate to the cash flow risk and do not include fair value risk due to its low significance for the Group. The policy for specific risk management in the area of finance has been described in detail in Note 41 of the Additional Explanatory Notes to the Consolidated Financial Statements for the year ended 31 December 2012.

Hedge accounting

As at 31 December 2012, the Company was a party to hedging transactions covered by the policy for specific risk management in the area of finance. In accordance with the decision of the Financial Risk Management Committee of 30 January 2012, in March 2012 the Company hedged against the interest rate risk arising from debentures issued under the Debentures Issue Program by entering into an interest rate swap (IRS) for a period of 5 years. This transaction was entered into due to variability of the expected future cash flows from interest payments resulting from the issue of debentures in PLN with a floating interest rate based on WIBOR 6M. The Company hedged 80% of such cash flows.

The Company applies hedge accounting to the above-mentioned transactions. At the balance sheet date, as a result of valuation of hedging instruments (IRS) the Company recognized a liability of PLN 190,666 thousand, which was posted to the revaluation reserve. In the year ended 31 December 2012, the Company earned revenue from IRS transactions of PLN 5,556 thousand, of which PLN 6,466 thousand is the amount received from realization of the hedge and relates to interest payments realized by the Company, while the amount of PLN (910) thousand is the portion of valuation relating to accrued interest on debentures as at the balance sheet date that has been transferred from the revaluation reserve. In the statement of comprehensive income, the above-mentioned revenue from IRS transactions reduced finance costs arising from interest on issued debentures. In the statement of cash flows, the amount received by the Company from realization of the hedge reduced the expenditure related to interest paid on debentures, which has been presented under cash flows from financing activities.

	Revaluation reserve from valuation of hedging instruments
As at 1 January 2012	–
Valuation of hedging instruments as at 31 December 2012	190 666
Transfer of valuation relating to accrued interest on debentures as at 31 December 2012 to net result	(910)
As at 31 December 2012	**189 756**

36.1. Interest rate risk

The Company is exposed to the risk of changes in interest rates due to acquiring funding subject to variable interest rates as well as investing in assets subject to variable and fixed interest rates. The Company is also exposed to the realization of the risk of lost profits due to a decline in interest rates, in the case of fixed interest rate debt.

The tables below present the carrying amounts of the Company's financial instruments exposed to the interest rate risk, analyzed by maturity as at 31 December 2012 and 31 December 2011.

(in PLN thousand)

Interest rate risk as at 31 December 2012 – variable interest rates

Financial instruments	<1 year	1–2 years	2–3 years	3–5 years	>5 years	Total
Financial assets						
Bonds and other debt securities	40 261	–	2 615 000	–	–	**2 655 261**
Loans granted	73	–	–	–	117 802	**117 875**
Cash and cash equivalents	910 421	–	–	–	–	**910 421**
Total	**950 755**	–	**2 615 000**	–	**117 802**	**3 683 557**
Financial liabilities						
Arm's length loans	1 175 947	–	–	–	–	**1 175 947**
Overdraft	129 566	–	–	–	–	**129 566**
Issued debentures and other debt securities	4 875	–	856 440	–	–	**861 315**
Total	**1 310 388**	–	**856 440**	–	–	**2 166 828**

Interest rate risk as at 31 December 2012 – fixed interest rates

Financial instruments	<1 year	1–2 years	2–3 years	3–5 years	>5 years	Total
Financial assets						
Loans granted	114 924	–	–	–	–	**114 924**
Total	**114 924**	–	–	–	–	**114 924**
Financial liabilities						
Arm's length loans	73 560	91 833	91 833	183 666	469 503	**910 395**
Issued debentures and other debt securities	8 712	–	439 234	2 992 573	–	**3 440 519**
Hedging derivative instruments (IRS)	40 071	55 811	53 215	41 569	–	**190 666**
Total	**122 343**	**147 644**	**584 282**	**3 217 808**	**469 503**	**4 541 580**

Interest rate risk as at 31 December 2011 – variable interest rates *(restated figures)*

Financial instruments	<1 year	1–2 years	2–3 years	3–5 years	>5 years	Total
Financial assets						
Bonds and other debt securities	2 984	–	–	1 137 040	–	**1 140 024**
Loans granted	125 656	–	–	–	–	**125 656**
Cash and cash equivalents	281 852	–	–	–	–	**281 852**
Total	**410 492**	–	–	**1 137 040**	–	**1 547 532**
Financial liabilities						
Arm's length loans	708 318	–	–	–	–	**708 318**
Issued debentures and other debt securities	11 062	–	–	4 136 112	–	**4 147 174**
Total	**719 380**	–	–	**4 136 112**	–	**4 855 492**

Interest rate risk as at 31 December 2011 – fixed interest rates *(restated figures)*

Financial instruments	<1 year	1–2 years	2–3 years	3–5 years	>5 years	Total
Financial assets						
Bonds and other debt securities	10 019	–	–	–	–	**10 019**
Loans granted	180 438	–	–	–	–	**180 438**
Total	**190 457**	–	–	–	–	**190 457**

The remaining financial instruments of the Company, which have not been included in the tables above, are non-interest-bearing and are therefore not subject to the interest rate risk.

(in PLN thousand)

36.2. Currency risk

The tables below present the Company's exposure to currency risk, analyzed by the particular classes of financial instruments as at 31 December 2012 and 31 December 2011.

Currency position as at 31 December 2012

	Total carrying amount in PLN	EUR		CZK	
		in currency	in PLN	in currency	in PLN
Financial assets					
Trade receivables and other financial receivables	1 345 487	2 716	11 105	–	–
Cash and cash equivalents	910 421	5 506	22 508	–	–
Derivatives (assets)	466	92	376		
Total	**2 256 374**	**8 314**	**33 989**	**–**	**–**
Financial liabilities					
Trade payables	679 612	188	768	–	–
Commitments resulting from purchases of fixed and intangible assets	24 011	95	389	–	–
Derivatives (liabilities)	191 218	135	552	–	–
Total	**894 841**	**418**	**1 709**	**–**	**–**
Net currency position		**7 896**	**32 280**	**–**	**–**

Currency position as at 31 December 2011 *(restated figures)*

	Total carrying amount in PLN	EUR		CZK	
		in currency	in PLN	in currency	in PLN
Financial assets					
Trade receivables and other financial receivables	756 344	6 209	27 425	13 672	2 340
Cash and cash equivalents	281 852	4 624	20 422	–	–
Total	**1 038 196**	**10 833**	**47 847**	**13 672**	**2 340**
Financial liabilities					
Trade payables	312 062	10 818	47 781	–	–
Commitments resulting from purchases of fixed and intangible assets	5 594	256	1 129	–	–
Total	**317 656**	**11 074**	**48 910**	**–**	**–**
Net currency position		**(241)**	**(1 063)**	**13 672**	**2 340**

In 2012, TAURON Polska Energia S.A. used forward contracts in its currency risk management. These transactions are aimed to hedge the Company against currency risk arising in the course of trading activities of the TAURON Group. The Company did not apply hedge accounting to hedge against currency risk.

36.3. Commodity price risk

The Company is exposed to unfavorable impact of risks associated with changes in cash flows and financial results denominated in Polish currency due to changes in the prices of commodities in relation to the opened market position. The Company's exposure to commodity price risk is reflected in the volume of purchases of electricity and gas. The volumes and purchase costs of electricity and gas are presented in the table below.

Fuel type	Unit	2012		2011	
		Volume	Purchase cost	Volume	Purchase cost
Electricity	MWh	45 027 918	9 049 944	40 471 436	8 025 133
Gas	k m3	29 750	6 758	–	–
Total			**9 056 702**		**8 025 133**

In terms of trading in coal and biomass, the Company is not exposed to price risk because it acts as an intermediary and only generates revenue from brokerage services.

36.4. Credit risk

Credit risk arises from a potential credit event which may take the form of the following: contractor's insolvency, payment of part of a receivable, a significant delay in payment of a receivable or other unexpected departure from contractual terms.

The Company monitors credit risk arising in the course of its business activity on a regular basis. In 2012, the Company was exposed to credit risk arising from concluded trade contracts. In order to mitigate credit risk, as a result of regular analyses of the creditworthiness and financial standing of its contractors, in justified cases the Company requested the contractors to provide proper collateral in the form of bank, insurance or corporate guarantees, and introduced clauses providing for the possibility of suspending power supplies in the event of late payment of liabilities.

The Company is exposed to credit risk arising in the following areas:

- core activities – credit risk arises mainly from sales of electricity;
- investment activities – credit risk arises from transactions resulting from the implementation of investment projects, where it is a common practice to make prepayments;
- business activities (market risk management) – credit risk arises from possible default of the counterparty in a derivative transaction if the fair value of the derivative transaction is positive for the Company;
- investing available cash – credit risk arises from investing available cash (mainly in bank deposits).

Classes of financial instruments giving rise to exposure to credit risk, which have different characteristics of credit risk include:

- deposits;
- bonds, Treasury bills and other debt securities;
- trade receivables;
- loans granted;
- other financial receivables;
- other financial assets;
- cash and cash equivalents;
- derivative instruments.

There is no significant concentration of credit risk within the Company's core activities, except as listed in Note 18.

With respect to financial assets, the Company's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

(in PLN thousand)

36.5. Liquidity risk

The Company maintains a balance between continuity of funding, cost and flexibility through the use of various sources of financing, which enable management of liquidity risk and successfully minimize any negative effects following from realization of such risk. The tables below summarize the maturity profiles of the Company's financial liabilities.

Financial liabilities as at 31 December 2012

	less than 3 months	3–12 months	1–2 years	2–3 years	3–5 years	over 5 years	Total
Interest-bearing loans and borrowings (including issued debentures)	1 310 088	352 464	386 434	1 662 812	3 402 427	544 480	**7 658 705**
Trade payables	679 612	–	–	–	–	–	**679 612**
Commitments to purchase fixed and intangible assets	24 011	–	–	–	–	–	**24 011**
Other financial liabilities	19 630	–	–	–	–	–	**19 630**
Derivative instruments (liabilities)	552	40 072	55 811	53 215	41 568	–	**191 218**
Finance lease	125	385	480	–	–	–	**990**
Guarantees granted and similar items	75 843	–	–	–	–	–	**75 843**
Total	**2 109 861**	**392 921**	**442 725**	**1 716 027**	**3 443 995**	**544 480**	**8 650 009**

Financial liabilities as at 31 December 2011 *(restated figures)*

	less than 3 months	3–12 months	1–2 years	2–3 years	3–5 years	over 5 years	Total
Interest-bearing loans and borrowings (including issued debentures)	1 457 004	242 129	238 522	238 522	4 539 200	–	**6 715 377**
Trade payables	312 062	–	–	–	–	–	**312 062**
Commitments to purchase fixed and intangible assets	5 594	–	–	–	–	–	**5 594**
Other financial liabilities	8 470	–	–	–	–	–	**8 470**
Derivative instruments (liabilities)	80	–	–	–	–	–	**80**
Finance lease	185	442	510	480	–	–	**1 617**
Guarantees granted and similar items	81 839	–	–	–	–	–	**81 839**
Total	**1 865 234**	**242 571**	**239 032**	**239 002**	**4 539 200**	**–**	**7 125 039**

36.6. Market risk – sensitivity analysis

The Company identifies the following main types of market risk to which it is exposed:

- interest rate risk,
- currency risk,
- electricity price risk,
- risk of changes in the prices of CO_2 emission allowances and energy certificates.

Currently, TAURON Polska Energia S.A. is mainly exposed to the risk of changes in the EUR/PLN exchange rates. In addition, the Company is exposed to changes in reference interest rates for PLN and EUR.

The Company uses scenario analysis in analyzing sensitivity to changes in market risk factors. The Company uses expert scenarios reflecting its subjective assessments with respect to individual market risk factors in the future.

The aim of the scenario analyses presented in this section is to analyze the effect of changes in market risk factors on the Company's results. Only those items which meet the definition of financial instruments in accordance with IFRS were included in the analysis.

The potential changes in foreign exchange rates are determined within a time horizon up until the date of the next financial statements and were calculated based on annual implied volatilities for currency options quoted on the interbank market for a given currency pair at the balance sheet date or – if no market quotations were available – based on historical volatilities for a period of one year preceding the balance sheet date.

In the interest rate risk sensitivity analysis, the Company makes use of a parallel shift in the interest rate curve for a potential change in reference interest rates within a time horizon up until the date of the next financial statements. For the purpose of interest rate risk sensitivity analysis, the Company used the average levels of the reference interest rates in a given year. The magnitude of potential changes in the interest rates was estimated based on the implied volatilities of interest rate options quoted on the interbank market for the currencies for which the Company had an interest rate risk exposure at the balance sheet date.

In the case of the interest rate risk sensitivity analysis, the effect of changes in risk factors has been included in interest income/expense for financial instruments measured at amortized cost and in the fair value at the balance sheet date for financial instruments with variable interest rates carried at fair value.

Presented below is a sensitivity analysis for each type of market risk the Company was exposed to at the balance sheet date, indicating the effect that the potential changes in the individual risk factors would have on profit before taxation and other comprehensive income before taxation, by class of financial assets and liabilities.

36.6.1. Currency risk sensitivity analysis

The Company identifies its exposure to the risk of changes in the EUR/PLN exchange rates. The tables below demonstrate the sensitivity of profit before taxation to reasonably possible changes in foreign exchange rates within a time horizon up until the date of the next financial statements, with all other variables held constant.

Year ended 31 December 2012

Classes of finacial instruments	31 December 2012		Sensitivity analysis for currency risk as at 31 December 2012	
			EUR/PLN	
	Carrying amount	Value at risk	exchange rate EUR/PLN +8.65%	exchange rate EUR/PLN -8.65%
	In PLN thousand	In PLN thousand	*Profit/(Loss)*	*Profit/(Loss)*
Trade and other receivables	1 345 487	11 105	961	(961)
Cash and cash equivalents	910 421	22 508	1 947	(1 947)
Derivative instruments (assets)	466	376	32	(32)
Trade payables	679 612	768	(66)	66
Commitments resulting from purchases of fixed and intangible assets	24 011	389	(34)	34
Derivative instruments (liabilities)	191 218	552	(48)	48
Total			**2 792**	**(2 792)**

The risk exposure as at 31 December 2012 is representative of the Company's risk exposure within the 1-year period preceding that date.

Year ended 31 December 2011 (*restated figures*)

Classes of finacial instruments	31 December 2011		Sensitivity analysis for currency risk as at 31 December 2011			
			EUR/PLN		CZK/PLN	
	Carrying amount	Value at risk	exchange rate EUR/PLN +14.05%	exchange rate EUR/PLN -14.05%	exchange rate CZK/PLN +11.33%	exchange rate CZK/PLN -11.33%
	In PLN thousand	In PLN thousand	*Profit/(Loss)*		*Profit/(Loss)*	
Trade receivables and other financial receivables	756 344	29 765	3 853	(3 853)	265	(265)
Cash and cash equivalents	281 852	20 422	2 869	(2 869)	–	–
Trade payables	312 062	47 781	(6 713)	6 713	–	–
Commitments resulting from purchases of fixed and intangible assets	5 594	1 129	(159)	159	–	–
Total			**(150)**	**150**	**265**	**(265)**

The risk exposure as at 31 December 2011 is representative of the Company's risk exposure within the 1-year period preceding that date.

36.6.2. Interest rate risk sensitivity analysis

The Company identifies its exposure to the risk of changes in WIBOR and EURIBOR interest rates. The tables below demonstrate the sensitivity of profit before taxation and other comprehensive income before taxation to reasonably possible changes in interest rates within a time horizon up until the date of the next financial statements, with all other variables held constant.

Year ended 31 December 2012

Classes of finacial instruments	31 December 2012		Sensitivity analysis for interest rate risk as at 31 December 2012					
			WIBOR				EURIBOR	
	Carrying amount	Value at risk	WIBOR +113 bp		WIBOR -113 bp		EURIBOR +91 bp	EURIBOR -91 bp
	In PLN thousand	In PLN thousand	*Profit/ (Loss)*	*Other comprehensive income*	*Profit/ (Loss)*	*Other comprehensive income*	*Profit/ (Loss)*	*Profit/ (Loss)*
Bonds and other debt securities	2 655 261	2 655 261	30 004	–	(30 004)	–	–	–
Loans granted	232 799	117 875	1 332	–	(1 332)	–	–	–
Cash and cash equivalents	910 421	910 421	10 033	–	(10 033)	–	205	(205)
Arm's lenght loans	2 086 342	1 175 947	(13 288)	–	13 288	–	–	–
Overdrafts	129 566	129 566	(1 464)	–	1 464	–	–	–
Issued debentures and debt securities	4 301 834	4 301 834	(48 611)	–	48 611	–	–	–
Derivate Instruments (liabilities)	191 218	190 666	–	125 667	–	(125 667)	–	–
Total			**(21 994)**	**125 667**	**21 994**	**(125 667)**	**205**	**(205)**

Year ended 31 December 2011 (*restated figures*)

Classes of finacial instruments	31 December 2011		Sensitivity analysis for interest rate risk as at 31 December 2011			
			WIBOR		EURIBOR	
	Carrying amount	Value at Risk	WIBOR +84 bp	WIBOR -84 bp	EURIBOR +72 bp	EURIBOR -72 bp
	In PLN thousand	In PLN thousand	*Profit/(Loss)*		*Profit/(Loss)*	
Bonds and other debt securities	1 150 043	1 140 024	9 576	(9 576)	–	–
Loans granted	306 094	125 656	1 056	(1 056)	–	–
Cash and cash equivalents	281 852	281 852	2 196	(2 196)	147	(147)
Arm's length loans	708 318	708 318	(5 950)	5 950	–	–
Issued debentures and debt securities	4 147 174	4 147 174	(34 836)	34 836	–	–
Total			**(27 958)**	**27 958**	**147**	**(147)**

37. Finance management

Capital management takes place at the level of the TAURON Polska Energia S.A. Group as discussed in detail in Note 42 to the Consolidated Financial Statements for the year ended 31 December 2012.

(in PLN thousand)

38. Employment structure

The table below presents the average number of employees during the annual periods ended 31 December 2012 and 31 December 2011.

	Year ended 31 December 2012	Year ended 31 December 2011
Management	5	5
Administration	198	202
Sales department	100	63
Total	**303**	**270**

39. Auditor's fees

The details of the auditor's fees are presented in in Note 3.10 of the Directors' Report of TAURON Polska Energia S.A. for the year ended 31 December 2012.

40. Events after the balance sheet date

Loans from the European Investment Bank

After the balance sheet date, the Company received further tranches of loans from the European Investment Bank under the loan agreement signed on 3 July 2012:

- on 25 January 2013 – PLN 200,000 thousand,
- on 22 February 2013 – PLN 250,000 thousand.

As a result, the Company has utilized the full amount of the funding available under the aforementioned agreement, i.e. PLN 900,000 thousand. The funds obtained from the loan are used for grid investments.

Merger of the subsidiary TAURON Obsługa Klienta Sp. z o.o. with TAURON Obsługa Klienta GZE Sp. z o.o.

On 31 January 2013, merger of TAURON Obsługa Klienta sp. z o.o. with its registered office in Wrocław (acquiring company) with TAURON Obsługa Klienta GZE sp. z o.o. with its registered office in Gliwice (acquired company) was entered in the Register of Entrepreneurs of National Court Register. As a result, share capital of TAURON Obsługa Klienta sp. z o.o. was increased by the amount PLN 2,202 thousand from the amount PLN 2,718 thousand to PLN 4,920 thousand. As a consequence, as at the date of authorization of these financial statements to issue the Company possesses shares only in TAURON Obsługa Klienta sp. z o.o. as an acquiring company

Signing of an annex to the framework agreement for joint prospecting and extraction of shale hydrocarbons

On 21 February 2013, Annex No. 2 was signed to the Framework Agreement of 4 July 2012 for Joint Prospecting and Extraction of Shale Hydrocarbons. The parties to this agreement are as follows: Polskie Górnictwo Naftowe i Gazownictwo S.A., KGHM Polska Miedź S.A., PGE Polska Grupa Energetyczna S.A., ENEA S.A. and TAURON Polska Energia S.A. The parties agreed to extend the deadline for determining specific terms of collaboration until 4 May 2013. If the parties do not agree specific terms of their collaboration by this date, each of them may terminate the agreement. In addition, the agreement shall expire if the parties do not acquire all the required corporate consents within three months of making such arrangements, or if the consents required for concentration are not obtained by 31 December 2013. The change of the deadlines as referred to above is due to pending negotiations on the specific terms of collaboration, under which, among others, project documentation is being developed.

Board of Directors of the Company

Katowice, 12 March 2013

Dariusz Lubera	– President	....
Joanna Schmid	– Vice President	....
Dariusz Stolarczyk	– Vice President	....
Krzysztof Zawadzki	– Vice President	....

REPORT OF THE MANAGEMENT BOARD
ON OPERATIONS OF
TAURON POLSKA ENERGIA S.A.
FOR THE FINANCIAL YEAR 2012

MARCH 2013

TABLE OF CONTENTS

1. ORGANISATION OF TAURON POLSKA ENERGIA S.A.

1.1. Basic Information on the Company and TAURON Capital Group

TAURON Polska Energia Spółka Akcyjna (hereinafter referred to as the Company or TAURON) was established on 6 December 2006 under implementation of the *Programme for Power Engineering*. The founders of the Company included: The State Treasury represented by the Minister of Treasury, EnergiaPro S.A. with its seat in Wrocław (currently: TAURON Dystrybucja), ENION S.A. with its seat in Kraków (currently: TAURON Dystrybucja) and Elektrownia Stalowa Wola S.A. with its seat in Stalowa Wola (currently: TAURON Wytwarzanie). The Company was registered in the National Court Register on 8 January 2007 under the name of enterprise: Energetyka Południe S.A. The change of the Company enterprise to its current name, i.e. TAURON Polska Energia S.A., was registered on 16 November 2007.

General Information

Name (enterprise):	TAURON Polska Energia Spółka Akcyjna;
Legal form:	joint stock company;
Seat:	Katowice;
Website:	www.tauron-pe.pl;
National Court Register:	District Court Katowice–Wschód in Katowice;
KRS:	0000271562
NIP:	9542583988
REGON:	240524697

The basic types of activities carried out by the Company:

1) Electric energy trading (PKD 35.14 Z),
2) Operations of central companies (head offices) and holdings, excluding financial holdings (PKD 70.10 Z),
3) Wholesale of fuel and derivative products (coal and biomass trading) (PKD 46.71 Z),
4) Gas fuel trading (PKD 35.23 Z).

Share capital as of 31 December 2012 (paid-up): PLN 8,762,746,970.00; number of shares: 1,752,549,394 shares, including: AA series (bearer shares) 1,589,438,762 shares, BB shares (ordinary registered shares) 163,110,632 shares;

Par value of one share: PLN 5,00.

The Company does not hold any branches (plants).

Structure of TAURON Capital Group

As of 31 December 2012, the key companies of TAURON Capital Group, besides the parent company, TAURON Polska Energia S.A., include 15 subsidiaries subject to consolidation, Moreover, the Capital Group consists of 24 other subsidiaries as well as 13 affiliates with the capital share between 20%–50% and 28 companies with the capital share below 20%.

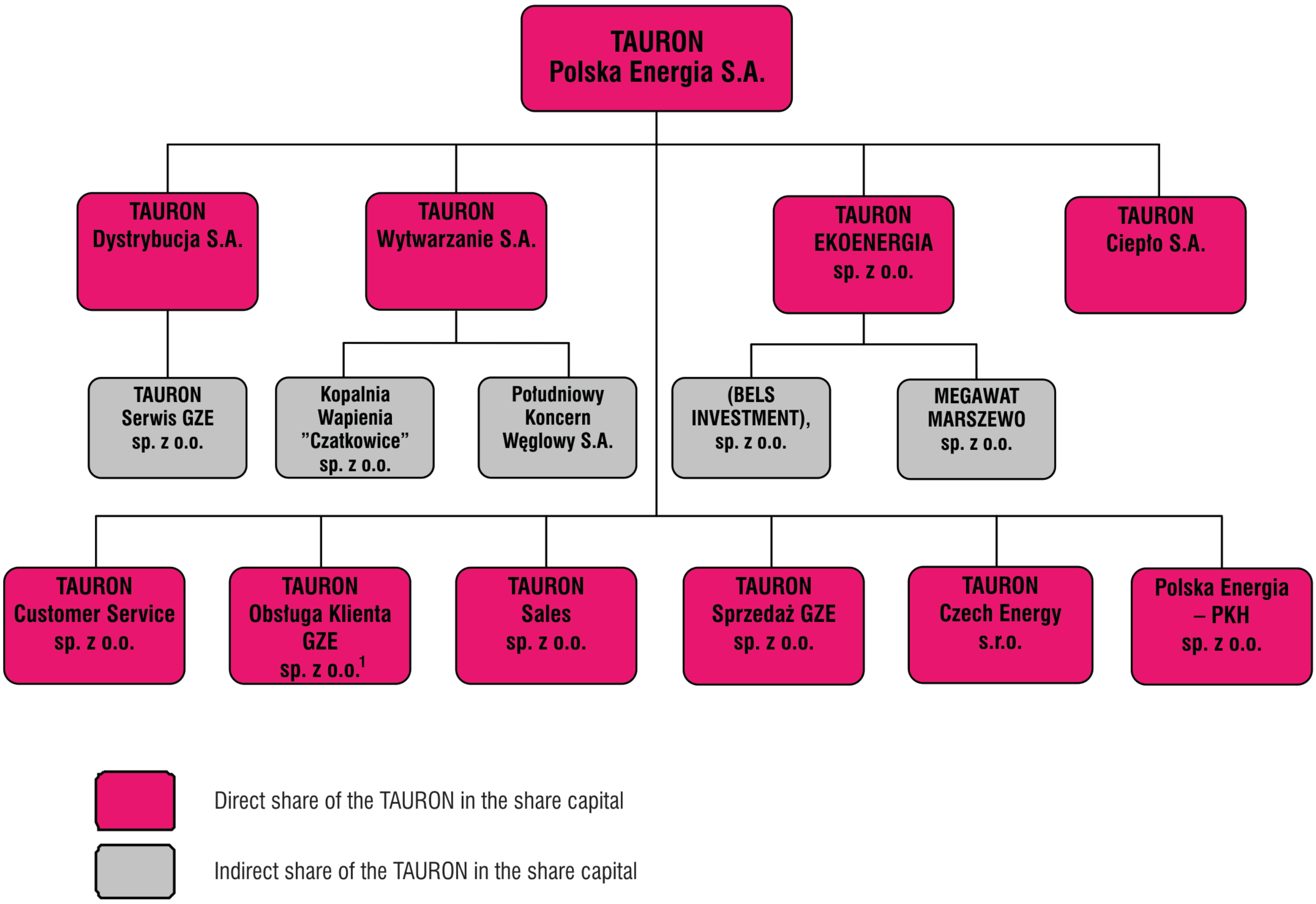
Among the companies of TAURON Capital Group subject to consolidation, the most important subsidiaries include:

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) – 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 supply of electric energy to retail customers,
5) TAURON Obsługa Klienta sp. z o.o. (TAURON Obsługa Klienta) and TAURON Obsługa Klienta GZE sp. z o.o. (TAURON Obsługa Klienta GZE) – dealing with customer service,
6) TAURON Ciepło S.A. (TAURON Ciepło) – dealing with heat generation, distribution and sales,
7) Południowy Koncern Węglowy S.A. (PKW) – dealing with hard coal mining.

Moreover, other subsidiaries subject to consolidation deal among others, with trade of electric energy and heat, extraction of limestone and stone for construction purposes as well as with implementation of investments in Renewable Energy Sources Area (RES).

The chart below presents the structure of TAURON Capital Group, including the companies subject to consolidation, according to the status as of 31 December 2012.

Figure no. 1 Structure of TAURON Capital Group, including the companies subject to consolidation, as of 31 December 2012



[1] *On 31 January, the merger of the companies TAURON Obsługa Klienta and TAURON Obsługa Klienta GZE was registered, as a result of which the company TAURON Obsługa Klienta GZE was taken over by the company TAURON Obsługa Klienta.*

The information concerning the level of share in the share capital and in the regulatory authority of individual companies is covered in item 1.3 of this report.

1.2. The management concept of the Company and TAURON Capital Group

1.2.1. The management rules of the Company and TAURON Capital Group

Management Rules of the Company

In accordance with the provisions of the *By-laws of the Management Board of TAURON Polska Energia Spółka Akcyjna with its seat in Katowice*, the Management Board conducts all issues of the Company and represents it in all judicial and non-judicial proceedings. All issues connected with managing the Company not restricted by the regulations of law and provisions of the Company's Articles of Association for the General Meeting or the Supervisory Board lie within the competences of the Company's Management Board. Cooperation of two Members of the Management Board or one Member of the Management Board together with a proxy is required to submit statements on behalf of the Company.

Issues covered by competences of the Management Board as a collective body are described in detail in item 5.8.1. hereof.

The management rules of the Company are also specified in the *Organisational Regulations of TAURON Polska Energia S.A.* (Organisational Regulations), pursuant to which the Company is managed by directly by the Management Board and through proxies, Directors of Departments and plenipotentiaries.

The President of the Board – Chief Executive Officer, manages current business activities of the Company and takes decisions on all issues concerning the Company, which are not restricted to decisions of the Management Board or other governing bodies of the Company, and supervises the performance of the division reporting to him directly. In particular, the President of the Management Board:

1) manages the internal business of the Company and represents it within the external contacts,
2) coordinates all the issues connected with the performance of the Management Board,
3) acts as the employer within the meaning of labour law regulations,
4) supervises the performance of the division which reports to him directly,
5) issues the internal regulatory acts and intra-corporate regulatory acts in accordance with the binding regulations,
6) takes decisions related to managing of the Company business as usual,
7) performs all the real functions and legal acts, taking into consideration implementation of the Company's goals and targets,
8) undertakes any other activities providing for effective and efficient performance of the Company.

Vice-Presidents of the Management Board:

1) manage the internal business of the Company and represent it within the external contacts,
2) manage the current business operations of the Company within the scope delegated as well as supervise the performance of the divisions which report to them directly,
3) take decisions on issues which are not subject to decisions of the Management Board, within the functions delegated to the subordinated business units as well as other decisions within the powers of attorney and authorisations granted to them by the Management Board or the President of the Board,
4) perform all the real functions and legal acts, taking into consideration implementation of the Company's goals and targets,
5) undertake any other activities providing for effective and efficient performance of the Company.

Directors of Departments:

1) manage the departments which report to them, being responsible for their performance results,
2) determine the goals, targets and tasks of individual business units included in the department they manage, within their subjective competence,
3) coordinate the structures subordinated to them, in accordance with the Company's interest and in compliance with the legal regulations,
4) implement the guidelines and recommendations of the Management Board Members and keep them informed of the performance of the subordinated department,
5) undertake any other necessary activities providing for effective and efficient performance of the subordinated department.

Business relations are based on the principle of a single person management which means that each employee has one direct supervisor from whom he/she receives instructions and tasks and towards whom he/she is responsible for execution of these instructions and tasks.

An exception to this rule is the so-called project reporting which is of temporary nature and based on a matrix. Such reporting system exists in relations among employees of the Company or the employees of the Company and companies of TAURON Capital Group, and it refers to persons who are members of project teams.

Management rules of "TAURON Group"

In 2012, the development of the management process of "TAURON Group" was continued, established by the Management Board based on companies of TAURON Capital Group, understood as a consolidated economic body consisting of autonomous commercial law companies, led by the Company, as the parent entity.

The main internal regulatory act of "TAURON Group" is the *Code of TAURON Group* (Code) which regulates its operations, providing for implementation of the goals through the particular tailored solutions in the area of management of "TAURON Group" entities, including, in particular, determining the operating objectives of the companies, allowing for achievement of the adopted effects.

Considering the changes in organisation of the TAURON Capital Group, in 2012, the Management Board of the Company updated the allocation of membership of the companies to "TAURON Group". This update resulted from: concluding the agreement with Vattenfall AB in 2011, concerning the disposal of GZE company shares and acquiring the indirect control by TAURON over the subsidiaries of GZE, as well as the change of enterprise names these companies were acting under and registering the merger processes by the relevant registry courts, conducted in the Areas: Heat, Distribution and RES.

The most important of the above mentioned updates was performed on 18 January 2012, based on the resolution of the Management Board, concerning including the GZE subsidiaries to "TAURON Group". These entities received the status of "TAURON Group" member as of 24 January 2012, i.e. at the moment the General Meetings (WZ)/ Meetings of Shareholders (ZW) of each of these companies adopted relevant resolution on entering “TAURON Group” by the aforementioned companies. Within the aforementioned meetings, amendments to the Articles of Association and Agreements of the above companies were also introduced, in connection with their entering the “TAURON Group”.

The table below presents the list of companies of TAURON Capital Group included in “TAURON Group” as of 31 December 2012.

Table no. 1 List of companies of TAURON Capital Group included in “TAURON Group” as of 31 December 2012

No.	Company enterprise
1.	TAURON Polska Energia S.A. (parent company)
2.	Kopalnia Wapienia Czatkowice sp. z o.o. (KW Czatkowice)
3.	Polska Energia – Pierwsza Kompania Handlowa sp. z o.o. (PEPKH)
4.	Południowy Koncern Węglowy S.A. (PKW)
5.	TAURON Ciepło S.A. (TAURON Ciepło)
6.	TAURON Czech Energy s.r.o. (TAURON Czech Energy)
7.	TAURON Dystrybucja S.A. (TAURON Dystrybucja)
8.	TAURON EKOENERGIA sp. z o.o. (TAURON EKOENERGIA)
9.	TAURON Obsługa Klienta GZE sp. z o.o. (TAURON Obsługa Klienta GZE)
10.	TAURON Obsługa Klienta sp. z o.o. (TAURON Obsługa Klienta)
11.	TAURON Serwis GZE sp. z o.o. (TAURON Serwis GZE)
12.	TAURON Sprzedaż GZE sp. z o.o. (TAURON Sprzedaż GZE)
13.	TAURON Sprzedaż sp. z o.o. (TAURON Sprzedaż)
14.	TAURON Wytwarzanie GZE sp. z o.o. (TAURON Wytwarzanie GZE)
15.	TAURON Wytwarzanie S.A. TAURON Wytwarzanie)

Within “TAURON Group”, Business Areas operate, established by the Company Management Board, comprising the companies of “TAURON Group” as well as the established Management Areas within which the relevant cooperation rules apply. In addition, within “TAURON Group” four permanent committees of TAURON Group were operating:

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

The Committees were established in order to achieve the performance of “TAURON Group” in accordance with the principles of operating coherence of the Group, in compliance with the law, the business of “TAURON Group” and its stakeholders.

The Committees perform the following functions:

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

The underlying task of the Committees is to provide surveillance towards implementation of the coherent actions by all the participants of the “TAURON Group”, compliant with the TAURON Group Code and for the benefit of “TAURON Group” business. The specific functions of the Committees are specified in the by-laws of their operations adopted by the Company Management Board. The Board Members of the Company act as Chairpersons of the aforementioned Committees.

1.2.2. Changes in the management rules of the Company and TAURON Capital Group

Changes in management rules of the Company

In 2012 no changes were introduced in the scope of the Company management rules against those applicable in 2011, however, changes in organisational structure and within the responsibilities of the Company business units, included in the Organisational Regulations, were implemented, including:

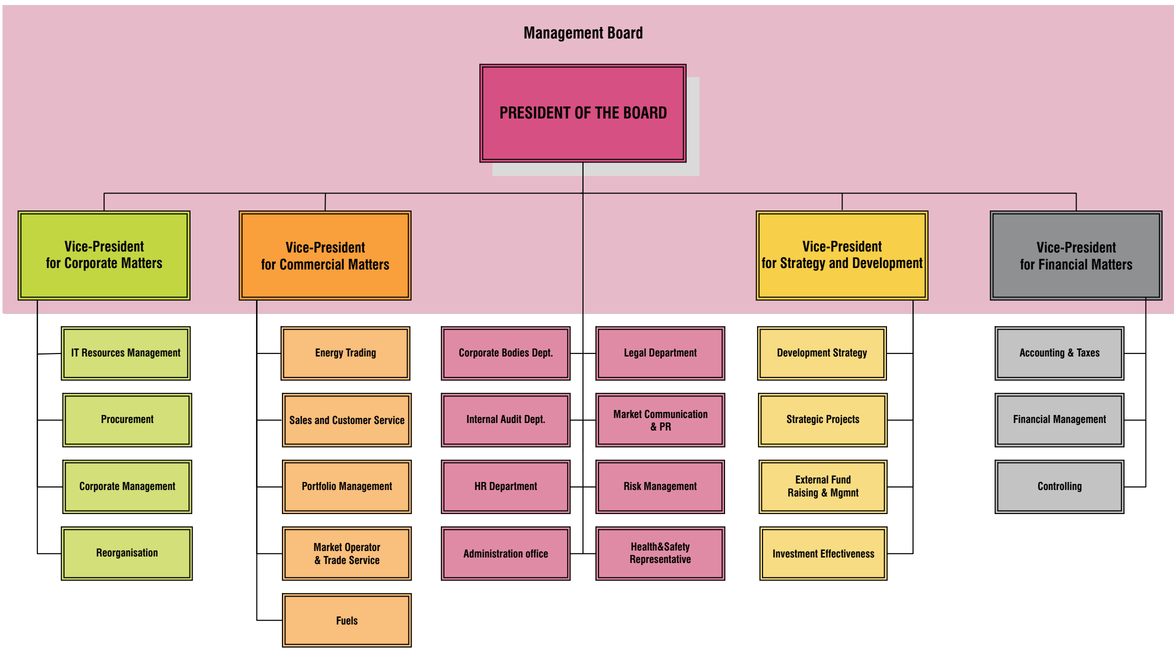
1. changes adopted by the resolution of the Supervisory Board of 30 June 2012, covering:
    1) reorganization of processes in the Division of the President of the Board, aimed at the management process optimisation and aggregation of functions and tasks supplementary to the managerial and administrative processes within one organizational unit,

2) reorganisation of processes in the Division of the Vice-President of the Management Board for Strategy and Business Development, aimed at providing the relevant management of external funds acquired for the Company and for the companies of TAURON Capital Group, through enhancing the capacity in terms of acquisition and managing the external funds and creating the strictly specialised competence in this scope;

2. changes adopted by the resolution of the Supervisory Board of 21 December 2012 (which entered into force on 1 January 2013), covering: modification of the responsibilities of the Chief Financial Officer, as well as functions of the reporting business units, in particular, those connected with the current financial and accounting services, due to their delegating for implementation by the Centre of Common Services – Accounting, simultaneously retaining tasks and functions of creative, supervisory and coordinating nature in the economic-financial area in TAURON Capital Group.

The organisational chart below presents the structure of divisions reporting to individual Board Members of the Company, to the level of business units reporting directly to the Members of the Management Board, effective as of 31 December 2012.

**Figure no. 2 Organisational Chart of TAURON Polska Energia S.A.
as of 31 December 2012**



Changes in the management rules of “TAURON Group”

In 2012 no changes in the management system of “TAURON Group” were introduced, however, changes were implemented in the scope of assigning the companies to Business Areas and updating the Rules of Cooperation in the Management Areas.

Changes in Business Areas and allocation of the companies to the specific Business Area

Considering the changes in organisation of TAURON Capital Group, in 2012, the Management Board of the Company updated the allocation of membership of the companies of “TAURON Group” to the specific Business Area or Business Areas. This update resulted from: including GZE subsidiaries to “TAURON Group” as well as the change of enterprise names these companies were acting under, and registering the merger processes by the relevant registry courts, conducted in the Areas: Heat, Distribution and RES.

The table below presents the list of companies of TAURON Capital Group included in “TAURON Group” according to specific Business Areas, as of 31 December 2012.

Table no. 2 The table below presents the list of companies of TAURON Capital Group included in "TAURON Group" for the specific Business Area as of 31 December 2012

No.	Area (Segment)	Company enterprise
1.	Business Area: Mining	PKW
2.	Business Area: Generation	TAURON Wytwarzanie TAURON Wytwarzanie GZE**
3.	Business Area: Renewable Energy Sources (RES)	TAURON EKOENERGIA
4.	Business Area: Distribution	TAURON Dystrybucja TAURON Serwis GZE
5.	Business Area: Sales	TAURON Sprzedaż TAURON Sprzedaż GZE TAURON Czech Energy
6.	Business Area: Customer Service*	TAURON Obsługa Klienta TAURON Obsługa Klienta GZE
7.	Business Area: Heat	TAURON Ciepło
8.	Business Area: Other	KW Czatkowice PEPKH
9.	Support Area	–

** After the balance sheet day, prior to completing this report, merger of companies within Customer Service Area occurred – as indicated in item 1.2.1.*

*** TAURON Wytwarzanie GZE does not carry out any operating activity.*

Changes in the scope of Rules of Cooperation in individual Management Areas

In 2012 in the companies of "TAURON Group" the process of updating of Rules of Cooperation in the Management Areas, developed and implemented in the previous years, was carried out. According to the status as of 31 December 2012, in "TAURON Group", the Rules of Cooperation operated in the following Management Areas:

1. designing the strategy and development methods of TAURON Group;
2. trading of fuel, energy and related products;
3. corporate governance;
4. strategic investment projects;
5. management of stock exchange information and investor relations;
6. international cooperation;
7. research and development projects, including projects in the area of new technologies and environmental protection;
8. external and internal communication;
9. risk management;
10. audit and control;
11. management of information and communication technology systems;
12. financial management;
13. controlling and management reporting;
14. accounting and taxes;
15. image marketing;
16. management of project implementation;
17. purchase of supplies and services;
18. proceedings, legal counselling and internal regulations.

1.3. Organisational or capital relationships

As of 31 December 2012, the Company held shares and stocks directly in the following significant subsidiaries:

Table no. 3 List of significant subsidiaries in which the Company holds direct share as of 31 December 2012

No.	Company name	Address	Core business area	Direct share in the company equity	Direct share in the company governing body
1.	TAURON Wytwarzanie	40-389 Katowice ul. Lwowska 23	Generation, transmission and distribution of electric energy and heat	99.72%	99.79%
2.	TAURON Dystrybucja[1]	30-390 Kraków ul. Zawiła 65 L	Distribution of electric energy	99.68%	99.69%
3.	TAURON Sales	30-417 Kraków ul. Łagiewnicka 60	Electric energy trading	100.00%	100.00%
4.	TAURON Customer Service	53-128 Wrocław ul. Sudecka 95-97	Services	100.00%	100.00%
5.	TAURON EKOENERGIA[1]	58-500 Jelenia Góra ul. Obrońców Pokoju 2B	Electricity generation and electric energy trade	100.00%	100.00%
6.	PEPKH	41-400 Mysłowice ul. Obrzeżna Północna 12	Electric energy trading	100.00%	100.00%
7.	TAURON Heat[1]	40-126 Katowice ul. Grażyńskiego 49	Production and distribution of heat	88.27%	89.12%
8.	TAURON Czech Energy	720 00 Ostrawa Na Rovince 879/C Czech Republic	Electric energy trading	100.00%	100.00%
9.	TAURON Sprzedaż GZE	44-100 Gliwice ul. Barlickiego 2a	Electric energy trading	99.99%	99.99%
10.	TAURON Obsługa Klienta GZE	44-100 Gliwice ul. Wybrzeże Armii Krajowej 19b	Services	100%	100%

[1] *In the year ended on 31 December 2012 changes in organisational and capital relationships occurred, which were mainly of re-organisational nature and which resulted from mergers of companies belonging to TAURON, as described more comprehensively in this report.*

As of 31 December 2012, the Company indirectly held shares and stocks in the following significant subsidiaries covered by consolidation:

Table no. 4 List of significant subsidiaries in which the Company holds indirect share, as of 31 December 2012

No.	Company name	Address	Core business area	Indirect share in the company equity	Entity holding stocks/shares as of 31 December 2012	Indirect share in the company governing body	Entity holding stocks/shares as of 31 December 2012
1.	KW Czatkowice[1]	32-063 Krzeszowice 3 os. Czatkowice 248	Mining, crushing and granulation of llimestone rocks and stone mining for construction needs	99.72%	TAURON Wytwarzanie – 100.00%	99.79%	TAURON Wytwarzanie – 100.00%
2.	PKW[1]	43-600 Jaworzno ul. Grunwaldzka 37	Hard coal mining	52.33%	TAURON Wytwarzanie – 52.48%	67.87%	TAURON Wytwarzanie – 68.01%
3.	(BELS INVESTMENT)	58-500 Jelenia Góra ul. Obrońców Pokoju 2B	Generation of electric energy	100.00%	TAURON EKOENERGIA – 100.00%	100.00%	TAURON EKOENERGIA – 100.00%
4.	MEGAWAT MARSZEWO	58-500 Jelenia Góra ul. Obrońców Pokoju 2B	Generation of electric energy	100.00%	TAURON EKOENERGIA – 100.00%	100.00%	TAURON EKOENERGIA – 100.00%
5.	TAURON Serwis GZE	44-100 Gliwice ul. Myśliwska 6	Repairs and maintenance of machines and electric equipment, electric installations, construction of electric power lines	99.68%	TAURON Dystrybucja – 100.00%	99.69%	TAURON Dystrybucja – 100.00%

[1] *TAURON is the user of shares/stocks held by TAURON Wytwarzanie. As a result of signing of agreements on shares usufruct, TAURON holds 100% share in the share capital and the governing body of KW Czatkowice as well as 52.48% share in the share capital and the governing body of PKW company, providing 68.01% of votes at WZ of PKW.*

Additionally, as of 31 December 2012, the Company also held indirect share and stocks in the following significant co-subsidiaries:

Table no. 5 List of significant co-subsidiaries in which the Company holds indirect share as of 31 December 2012

No.	Company name	Address	Core business area	Indirect share in the company equity	Entity holding stocks/shares as of 31 December 2012	Indirect share in the company governing body	Entity holding stocks/shares as of 31 December 2012
1.	EC Stalowa Wola	37-450 Stalowa Wola ul. Energetyków 13	Generation, transmission, distribution and trade of electric energy	49.86%	TAURON Wytwarzanie – 50.00%	49.90%	TAURON Wytwarzanie – 50.00%
2.	Elektrownia Blachownia Nowa	47-225 Kędzierzyn Koźle ul. Energetyków 11	Generation of electric energy	49.86%	TAURON Wytwarzanie – 50.00%	49.90%	TAURON Wytwarzanie – 50.00%

1.4. Major domestic and foreign investment

1.4.1. Purchase of shareholding securities

In the scope of purchase of shares and stocks in companies, the main investment included:

Purchase of GZE stocks

On 16 April 2012 the Company became the sole shareholder of GZE company, in connection with the completed process of forced redemption of GZE company shares, held by minority shareholders, executed in accordance with art. 418 of the Act of 15 September 2002, *Code of Commercial Companies*. Within the framework of the aforementioned process TAURON redeemed 307 shares of the company GZE S.A., becoming the owner of the total of 1,250,000 shares of this company. Accordingly, the share of TAURON in the share capital and in the votes at the General Meeting of GZE S.A. was increased from 99.98% to 100%.

The above process as well as the resulting incorporation of GZE by TAURON, was described in detail in item 2.4. of this report.

Taking over shares in TAURON EKOENERGIA company

On 4 April 2012 the Company signed the agreement concerning the transfer of the non-cash contribution (contribution in-kind) to the company TAURON EKOENERGIA, constituting 100% of the shares of the company ZEW Rożnów sp. z o.o., currently TAURON Ekoserwis sp. z o.o., to cover new shares in the share capital. On 18 April 2012 the District Court for Wrocław–Fabryczna in Wrocław registered the increase of the share capital of TAURON EKOENERGIA company from the amount of PLN 536,070 thousand to the amount of PLN 537,733, i.e. by the amount of PLN 1,663 thousand. The aforementioned activity resulted from the adopted *Strategy for the Development of Renewable Energy Sources Area in TAURON Group for 2011–2015, with estimates up to the year 2020*, and its aim was to streamline the exploitation operations in the RES Business Area.

Acquisition of shares of the company of TAURON Ciepło from the State Treasury

On 24 August 2012, the Company purchased 50,803,138 shares of its subsidiary, TAURON Ciepło from the State Treasury, constituting 0.06% of TAURON Ciepło share capital, for the amount of PLN 220 thousand. The aforementioned action resulted from the reorganisation assumptions in TAURON Capital Group, adopted by the Company, aimed at broader implementation of the "TAURON Group" management system, in relation to TAURON Ciepło company.

Acquisition of shares of new issue in the company TAURON Distribution

On 14 December 2012 the District Court for Kraków Śródmieście in Kraków, the 11th Commercial Department of the National Court Register issued the decision on registration of the increase in the share capital of the company TAURON Dystrybucja from the amount of PLN 251,175,903.45 to the amount of PLN 256,067,008.83, i.e. by the amount of PLN 4,891,105.38, in exchange for in-kind contribution under the form of all shares of TAURON held in the company TAURON Serwis GZE sp. z o.o. (99.80%). In return for the aforementioned in-kind contribution, TAURON took over the new shares in the increased share capital of TAURON Dystrybucja. Consequently, the company TAURON Serwis GZE sp. z o.o. ceased operating as the direct subsidiary of TAURON. Simultaneously, TAURON's share in the share capital of TAURON Dystrybucja company increased to 99.68%. Before the contribution to TAURON Dystrybucja, the share capital of the company TAURON Serwis GZE sp. z o.o. was divided into 500 shares, with 499 shares held by TAURON, while 1 share was held by the company TAURON Sprzedaż GZE sp. z o.o. On 7 December 2012 the aforementioned 1 share was disposed in favour of TAURON Dystrybucja.

1.4.2. Purchase of debt securities

Acting on the basis of the implemented model of central financing as well as in accordance with the conditions of the effective programme of issue of internal bonds, in 2012 the Company was purchasing bonds issued by companies of TAURON Capital Group, with the annual maturity term. The major objective of bond issue was the acquisition of funds by companies of TAURON Capital Group for implementation of the investment programme and refinancing of the former debt.

The table below shows the value of issues taken over, divided into individual companies of TAURON Capital Group (issuers) as of 31 December 2012:

Table no. 6 Value of issues taken over, divided into individual companies of TAURON Capital Group (issuers)

No.	Company name (issuer)	Value of issues taken over, in thousand PLN
1.	TAURON Dystrybucja	630,000
2.	TAURON EKOENERGIA	140,000
3.	TAURON Wytwarzanie	1,480,000
4.	MEGAWAT MARSZEWO	240,000
5.	(BELS INVESTMENT)	125,000
	Total	**2,615,000**

Furthermore, in 2012, the Company was investing available funds acquired within the cash pooling system operating in TAURON Capital Group, exclusively in bank deposits.

2. OPERATIONS OF TAURON POLSKA ENERGIA S.A.

2.1. Timeline of key events

The following timeline presents the key events associated with the operations of the Company which occurred in 2012.

Table no. 7 Timeline of key events

Month	Events in 2012
January February	• Signing multi-annual and current contracts by the Company, concerning the purchase and resale of biomass as a fuel used for production of electric and heat energy. • Signing the letter of intent with Polskie Górnictwo Naftowe i Gazownictwo S.A. (PGNiG), concerning joint exploration and extraction of shale gas. • Signing the agreement concerning the construction of Marszewo wind farm of 82 MW capacity with the consortium of companies: Iberdrola Engineering and Construction Poland and Iberdrola Ingenieria Y Construction. • Signing the agreement on co-financing of the construction of the biomass fuelled boiler in Elektrownia Jaworzno III – Elektrownia II with the Ministry of Economy (as the intermediary for the Operational Programme Infrastructure and Environment 2007–2013).
March April	• Signing the annex by the Company to the agreement concluded on 11 March 2011 between TAURON and PGNiG and Elektrownia Stalowa Wola S.A. (ESW) concerning implementation of the project: "Construction of the CCGT unit in Stalowa Wola". • Commencing the Company's activity on the exchange ICE Futures Europe – ECX in London in the scope of CO_2 emission allowances trading on the forward market. • Signing the framework agreement between the Company and GDF Suez Trading concerning the settlement of any transactions concluded between the parties in connection with the purchase and sales of electric energy. • Holding the Ordinary General Meeting of the Company (WZ) for the financial year 2011 (adopting the resolution on profit distribution for the financial year 2011, defining the amount allocated for payment of the dividend for shareholders, the dividend record day and the dividend payment day). • Signing the agreement between the Company and the National Fund of Environment Protection and Water Management (NFOŚiGW) on co-financing the modernisation of the heat unit in EC Tychy (currently included in TAURON Ciepło) in the scope of adjusting the unit to biomass burning only. • Obtaining the concession by the Company for gas fuel trading for a period of 10 years, issued by the President of Energy Regulatory Office (ERO).
May June	• Registering of the extension of the Company activities by the District Court Katowice–Wschód in Katowice, 8th Commercial Department of the National Court Register by including crude petroleum and natural gas extraction, support activities for exploitation of deposits of these fuels, support activities for other mining and quarrying, manufacture and processing of refined petroleum products, manufacture of gas fuel and making test geological and engineering drilling and excavations. • Registration of the merger of TAURON (acquiring company) and GZE company (acquired company) by the District Court for Katowice–Wschód in Katowice, 8th Commercial Department of the National Court Register. • Signing the agreement between the Company and Bank Handlowy w Warszawie S.A., ING Bank Śląski S.A., Bank Polska Kasa Opieki S.A., BRE Bank S.A., Powszechna Kasa Oszczędności Bank Polski S.A., Nordea Bank Polska S.A., Nordea Bank AB and BNP Paribas Bank Polska S.A. and Bank Zachodni WBK S.A. concerning the increase of the value of bond issue programme.
July August	• Signing the framework agreement between the Company and PGNiG, ENEA S.A. (ENEA), KGHM Polska Miedź S.A. (KGHM) and PGE Polska Grupa Energetyczna S.A. (PGE) on the exploration and extraction of shale gas. • Signing the credit agreement between the Company and the European Investment Bank on co-financing the implementation of the five-year investment plan aimed at modernisation and development of electricity grids of the company TAURON Dystrybucja.
September October	• Signing the letter of intent between the Company and PGE, KGHM and ENEA, concerning the purchase of shares in the special purpose vehicle PGE EJ 1 sp. z o.o., established for construction and exploitation of a nuclear power plant. • Approval of the tariff of the Company for gas fuel trading by the ERO President.
November December	• Signing the annex to the framework agreement between TAURON, PGNiG, ENEA, KGHM and PGE concerning the exploration and extraction of shale gas. • Signing of the letter of intent between the Company and PGNiG concerning the construction and exploitation of the gas-fired energy unit in Elektrownia Łagisza.

2.2. Basic products, goods, services

The table below shows the statement of comprehensive income for the financial year 2012, divided into basic types of activities.

Table no. 8 Statement of comprehensive income for the financial year 2012, divided into types of activities (data in thousand PLN)

Year ended 31 December 2012	Total activities	Sales of energy and other products of energy market	Holding activities	Unallocated items
Revenues				
Sales to external clients	**2,455,294**	2,455,294	–	–
Sales in TAURON Capital Group	**7,434,578**	7,434,578	–	–
Total revenue of the segment	**9,889,872**	**9,889,872**	–	–
Profit/loss of the segment	**151,549**	**151,549**	–	
Unallocated costs	**(104,439)**	–	–	(104,439)
Profit/(loss) on continued activities before taxes and financial revenues (costs)	**47,110**	**151,549**	–	**(104,439)**
Net financial revenues (costs)	**1,432,846**	–	1,449,781	(16,935)
Profit/(loss) before tax	**1,479,956**	**151,549**	**1,449,781**	**(121,374)**
Income Tax	**(44,768)**	–	–	(44,768)
Net profit (loss)for the period	**1,435,188**	**151,549**	**1,449,781**	**(166,142)**
EBITDA	**61,193**	**165,632**	–	**(104,439)**

The activities of the Company are recognised in two segments: in the segment “Sales of energy and other products of energy market” and in the segment “Holding activities”.

The financial revenues and costs cover revenues due to dividend as well as net interest rate revenues and costs gained and incurred by Company due to operation of the central financing model in TAURON Capital Group.

The unallocated items cover the overhead costs of the Company, as they are incurred for the benefit of the whole TAURON Capital Group, thus, they cannot be directly allocated to the operating segment.

The basic types of activities carried out by the Company comprise:

1) Operations of central companies (head offices) and holdings, excl. financial holdings (PKD 70.10 Z),
2) Electric energy trading (PKD 35.14 Z),
3) Wholesale of fuel and derivative products (coal and biomass trading) (PKD 46.71 Z),
4) Gas fuel trading (PKD 35.23 Z).

As the parent entity TAURON holds the consolidating and governing function in the TAURON Capital Group.

In connection with implementation of the new business model and centralisation of the functions, TAURON extended the scope of its activities, by taking over a part of competences from the companies of TAURON Capital Group. Besides the wholesale of electric energy and the associated products, it refers mainly to: commercial services, securing the needs in the scope of CO_2 emission allowances and certificates of origin of energy under the redemption obligation, procurement management, including purchases of fuels: coal, biomass, gas and other, financial management, IT support, accounting and tax counselling, legal services and audit. At the same time, the above functions are gradually limited in the companies of TAURON Capital Group. Such centralisation is aimed at improvement of effectiveness in TAURON Capital Group.

Besides the governing function, the basic operations of the Company include 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 ERO for the period from 1 June 2008 until 31 May 2018.

The Company has focused on the purchase and sales of electric energy for the needs of securing the purchase and sales positions of entities included in TAURON Capital Group and on wholesale electricity trading. Sales of electric energy performed by the Company in the financial year 2012 was mainly addressed to: TAURON Sprzedaż and TAURON Sprzedaż GZE. Additionally, under the agreement on portfolio management, the Company conducts electricity sales for the needs of covering grid losses of the company TAURON Dystrybucja. Another important element of activities involves sales to external end consumers, conducted both in TAURON Sprzedaż and in the Company. The Company manages sales to clients of strategic importance (demonstrating significant electricity consumption – above 100 GWh). Consequently, it is necessary to conduct trading of certificates of origin of electric energy from renewable energy sources and co-generation units (both gas and coal fired) in order to fulfil the redemption obligation related to the above certificates.

This group of strategic clients includes such entities as: KGHM, ArcelorMittal Poland S.A., CMC Zawiercie S.A., Zakłady Górniczo-Hutnicze "Bolesław" S.A., Kompania Węglowa S.A. (Kompania Węglowa), companies of Polskie Sieci Elektroenergetyczne S.A. Group (PSE) and other entities of various industrial sectors, of high electricity demand.

Functions performed in this area include implementation of the marketing strategy adopted by 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 trading market in order to improve the product offer of the Company as well as acquisition of information concerning operations of competition, events occurring in the Company environment, in order to predict potential future behaviours of competitors.

In addition, the Company coordinates the governance activities in the area of sales, marketing and customer service implemented 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. TAURON actively participates in auctions of the cross-border exchange of interconnecting energy transmission capacity on the Polish-Czech and Polish-German border, managed by the Central Allocation Office GmbH (CAO). The trade on the German market mainly takes place through the European Energy Exchange (EEX) exchange in the scope of trading the financial instruments of futures type, besides, transactions on the OTC market are also concluded (OTC-over the counter market). On the Czech market, through its subsidiary – TAURON Czech Energy, the Company operates on the Prague Power Exchange Central Europe a.s., comprising the markets of the Czech Republic, Slovakia and Hungary, as well as on the OTE a.s. exchange.

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 fuel fired co-generation, in mining methane fired or biomass burning co-generation, from sources using agricultural biogas. This activity is based on active controlling of demand for certificates of origin in TAURON Capital Group and on purchase and sales of such units, in relation to companies of Generation Business Area, as well as companies selling electric energy to end consumers, consequently, being subject to the redemption obligation of certificates of origin. The activities on the market of proprietary rights are also conducted by TAURON in order to fulfil the obligation to redeem certificates of origin due to energy sales to end consumers.

The Company also serves as the competence centre in the area of CO_2 emission allowances for companies of TAURON Capital Group and external customers. Since January 2011, the so-called Installation Group has been operating in the area of CO_2 emission allowances, administered by TAURON. The Installation Group was established to provide for common settlement of emission allowances within facilities belonging to TAURON Capital Group. Due to centralisation of emission trading, the synergy effect was obtained, based on increasing the effectiveness and efficiency as well as optimising the exploitation costs of available resources of the entities included in TAURON Capital Group. Parallel to centralisation of this function in TAURON, the Company is responsible for settlement of CO_2 emission allowances of companies, cost-effective management of the allowances granted, ensuring the subsidiaries' emission needs, support in negotiating the future emission allowances limits.

While implementing the above goals in the area of CO_2, emission allowances trading, the Company actively participates in trading on the Paris exchange BlueNext, the European Climate Exchange in London, EEX exchange in Leipzig and the European OTC market.

In addition, TAURON also 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 Transmission System Operator (TSO) – PSE. At the turn of 2010 and 2011, the Company extended its capacity of the Market Operator in favour of companies of TAURON Capital Group belonging to the Generation Business Area. In accordance with the Instruction on Transmission Grid Operation and Maintenance, 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 performance as well as efficient distribution of loads in order to execute the contracts concluded, taking into consideration technical conditions of the generation units, network constraints and other factors, from various perspectives. Within the services provided to the Generation Business Area, the Company participates in preparation of repair plans, plans of available capacity as well as production plans for generation units, in various time horizons, as well as in their settlement with the TSO and the Distribution System Operator (DSO).

In accordance with the adopted business model, TAURON fulfils governing functions in the scope of production fuel procurement management for the needs of the generating entities included in TAURON Capital Group. Since 1 January 2012 the Company, centralising the production fuel procurement, has started its activities in the scope of purchase and sales of biomass and provision of continuous supplies for the needs of the generating units included in TAURON Wytwarzanie.

As of 1 June 2012 the operating activity has been extended in the scope of purchase of fuels and provision of continuous supplies by adding coal. Through consolidation of fuel procurement operations, competence in the area of gas fuel trading was also systematically built. On 27 April 2012 TAURON obtained the relevant concession for gas fuel trading on the territory of the country and on 19 October 2012, the President of ERO approved the Tariff for gas fuel. Since 3 November 2012, based on the concession held and the tariff approved, the Company has been supplying high-methane gas to TAURON Wytwarzanie. Since 1 December 2012 gas trading has been extended by providing coke oven gas supplies by the Company to TAURON Wytwarzanie. The revenues obtained under the aforementioned activities did not have material impact on the financial result and market position of the Company.

2.3. Potential customers market and sources of supply

Electric energy

In 2012 the structure of wholesale energy trading was influenced by the amendments of the Act of 10 April 1997: *Energy Law*, imposing the obligation on generators to sell electric energy through open tender, on Internet trading platforms on the regulated market or at commodity exchanges.

The main beneficiary of the amendment to the Act and the place of the highest concentration of demand and supply is Towarowa Giełda Energii S.A. (TGE), where the Company performed the majority of energy purchases, concluding transactions both on the forward and SPOT markets. In connection with the aforementioned amendment to the energy law, the quantity of electric energy purchased directly for the needs of TAURON Capital Group from generation companies belonging to the Group was at a level much lower, as compared to 2010. The volume of purchase of electric energy in relation to the previous years is shown in the table below:

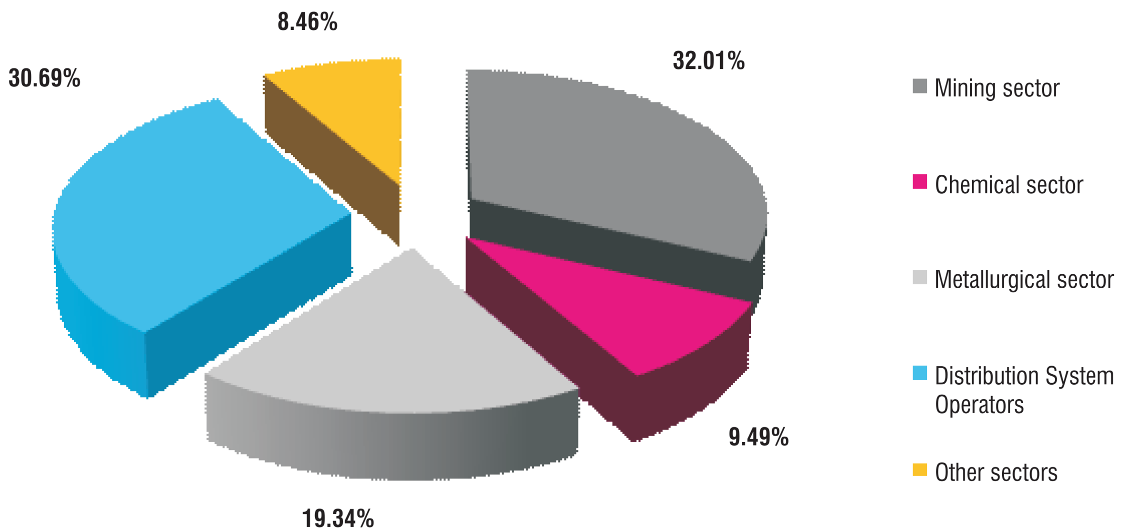
Table no. 9 Volume of electric energy purchase (data in TWh)

Item	Year 2012	Year 2011	Year 2010	Dynamics (2012/2011)
Total volume of electric energy purchased, including:	45.1	40.5	35.6	111%
Purchase from generators (from TAURON Capital Group and outside TAURON Capital Group)	2.2	2.3	20.2	96%
Purchase from trading companies (outside TAURON Capital Group) and energy exchange	41.3	37.0	14.1	112%
Purchase on the balancing market	1.5	1.0	1.2	150%
Other purchase (import)	0.1	0.2	0.1	50%

In the financial year 2012 the Company sold 45.1 TWh of electric energy, which made a growth of over 11% in relation to sales achieved in the financial year 2011. Growth of sales in 2012 resulted mainly from commencement of contracting in favour of the company TAURON Sprzedaż GZE. The volume of sales to TAURON Sprzedaż GZE in 2012 reached about 1.82 TWh, which made approximately 4% of total sales of the Company. The highest volume of sales of electric energy was allocated in TAURON Sprzedaż – the main customer of the Company. In 2012, this volume reached about 27.9 TWh, which made almost 62% of total sales of the Company. Sales was performed based on the current market situation and under the conditions of market competition.

The Company was also continuing the process of direct sales of electric energy to strategic clients, represented mainly by final consumers from various industrial sectors, using energy for own production purposes, and to DSOs – to cover the balancing differences.

Figure no. 3 Structure of Sales of the Company in 2012 to strategic clients, according to sectors



The volume of sales of electric energy is shown in the table below.

Table no. 10 Volume of electric energy sales (data in TWh)

Item	Year 2012	Year 2011	Year 2010	Dynamics (2012/2011)
Total sales of electric energy, including:	45.1	40.5	35.6	111%
Wholesale	38.5	33.7	33.4	114%
Retail sales	3.9	4.7	1.1	83%
Sales on the balancing market	1.6	1.2	1.1	133%
Other sales	1.1	0.9	0.03	122%

Fuels

With the purpose of optimising the processes in the scope of fuel trading (biomass, coal and gas), in 2012 the Company became the supplier of fuels for TAURON Wytwarzanie and TAURON Ciepło.

Biomass

In order to provide the supply of fuels for the needs of electric energy and heat generation by units using biomass as a fuel in the technological process, in January and February 2012 the Company concluded multi-annual and annual agreements with external contractors on purchase of biomass.

In order to resell biomass purchased on the basis of the above agreements, the Company concluded the multi-annual agreement with TAURON Wytwarzanie on biomass sales. The next stage within biomass trading was the extension of supplies to newly commissioned RES units. In September 2012 appropriate agreements were concluded, pursuant to which the Company started biomass sales to the aforementioned entities of TAURON Wytwarzanie and TAURON Ciepło.

Coal

Since 1 June 2012, the Company has initiated coal sales to TAURON and since 1 August 2012 it has extended sales also to TAURON Ciepło.

In the area of coal acquisition for the needs of TAURON Capital Group, in May 2012 the Company concluded 15 trilateral agreements, pursuant to which it has entered into the rights and obligations of TAURON Wytwarzanie, arising from the agreements on coal sales, formerly concluded by TAURON Wytwarzanie with coal suppliers (coal trading companies, coal mines and other suppliers).

In addition, in July 2012, 6 trilateral and four-party agreements were concluded, pursuant to which TAURON has entered into the rights and obligations of TAURON Ciepło, arising from the agreements on coal sales, formerly concluded by TAURON Ciepło with coal suppliers (coal trading companies, coal mines and other suppliers).

Gas

Since 3 November 2012, based on the concession held and the tariff granted, the Company has started to supply high-methane gas to TAURON Wytwarzanie. Since 1 December 2012 gas trading has been extended by implementation of coke oven gas supplies by the Company to TAURON Wytwarzanie.

The high-methane gas supplied by the Company for the needs of entities of TAURON Capital Group was purchased under the Comprehensive agreement concluded with PGNiG on 28 September 2012, concerning the supply of gas fuel and the Agreement of 28 September 2012.

The coke oven gas supplied by the Company for the needs of TAURON Wytwarzanie – Oddział Elektrownia Blachownia, is purchased on the basis of:

1) the Agreement of 27 November 2012 on assignment of TAURON Wytwarzanie total rights and obligations to the Company, arising from the multi-annual agreement on supply of coke oven gas in the years 2010–2015, concluded with ArcelorMittal Poland S.A. on 22 December 2009 in the scope of gas fuel,
2) the Agreement of 11 October 2012 on assignment of TAURON Wytwarzanie total rights and obligations to the Company, arising from the agreement on provision of transmission services (transport) of coke oven gas from ArcelorMittal Poland S.A. Oddział w Zdzieszownicach to TAURON Wytwarzanie – Oddział Elektrownia Blachownia w Kędzierzynie-Koźlu, concluded with Górnośląska Spółka Gazownictwa sp. z o.o. Oddział Zakład Gazowniczy w Opolu of 20 May 2004 in the scope of coke oven gas transmission.

In 2012 the Company did not conduct sales of fuels (biomass, coal and gas) to entities outside TAURON Capital Group.

The table below presents the specification of fuels purchased and resold by the Company to entities of TAURON Capital Group in 2012.

Table no. 11 Fuel supplies implemented by TAURON in 2012 to entities of TAURON Capital Group

Fuel type	Unit	TAURON Wytwarzanie	TAURON Ciepło
Biomass	[Mg]	572,652	11,057
Coal	[Mg]	6,001,662	208,044
Gas	[1000 m3]	29,750	–

2.4. Material events and achievements of the Company significantly influencing its operations

The most important events of significant impact on operations of the Company, which occurred during the financial year 2012, and until the day of this report included:

Important events in 2012

Exceeding the 10% equity threshold of the Company within the commercial turnover between TAURON Capital Group companies and PSE

1) On 5 January 2012 the Company received data from PSE Operator concerning transmission services provided in favour of the companies of TAURON Capital Group, enabling clearing with PSE Operator for December 2011. The net value of turnover generated during the last twelve months between the companies of TAURON Group and PSE Operator reached about PLN 1,758 million (including: PLN 1,508 million of cost items for the companies of TAURON Capital Group, and about PLN 250 million of income items), accordingly, the value of turnover has reached the material amount. The turnover of the highest value, i.e.about PLN 636.6 million net, was generated under the agreement of 15 January 2008, concluded between TAURON Dystrybucja S.A. and PSE.

   The Company informed of this event in the current report No. 1/2012 of 05 January 2012.

2) On 7 November 2012 the Company informed that the net value of commercial turnover generated in the period from 5 January 2012 to 7 November 2012 between the companies of TAURON Capital Group and PSE reached about PLN 1,832 billion (including: PLN 1,535 million of cost items for the companies of TAURON Capital Group, and about PLN 297 million of income items), accordingly, the value of turnover has reached the material amount. The turnover of the highest value, i.e. about PLN 1,302 million net, was generated under the agreement of 15 January 2008, indicated in item 1), concluded between TAURON Dystrybucja S.A. and PSE. The subject of the Agreement is the provision of transmission services by PSE Operator, understood as transport of electric energy via the transmission grid.

   The Company informed of this event in the current report No. 37/2012 of 07 November 2012.

Exceeding the 10% equity threshold of the Company within the commercial turnover between TAURON Capital Group companies and Kompania Węglowa

On 22 November 2012 the Company informed that the value of net turnover generated under the Agreement concluded between Południowy Koncern Energetyczny S.A. (currently TAURON Wytwarzanie) in the period from 1 December 2010, i.e. from the date of its concluding until the date of submitting the current report amounted to PLN 1,814,825,000, simultaneously exceeding 10% of the Company equity. The subject of the Agreement is the sales of coal from mines and mining facilities of Kompania Węglowa S.A. for electricity generation purposes, to be used in power plants and combined heat and power plants belonging to the TAURON Capital Group. The above agreement was taken over by TAURON under implementation of the centralised model of fuel trading in TAURON Capital Group, communicated by the Company in the current report no. 28/2012 of 5 June 2012.

The Company informed of the aforementioned event in the current report No. 40/2012 of 22 November 2012.

It should be mentioned that the agreement was concluded by Południowy Koncern Energetyczny S.A. (currently TAURON Wytwarzanie), and then it was taken over by the Company under implementation of the centralised model of fuel trading in TAURON Capital Group, communicated by the Company in the current report no. 28/2012 of 5 June 2012.

Activity on the European exchange

In March 2012 TAURON commenced its activity on the ICE Futures Europe exchange – ECX in London in the scope of CO_2 emission allowance trading on the forward market and extended the scope of its activities in EEX exchange in Leipzig by including the market of CO_2 emission allowance trading. In the first half of 2012 TAURON started its active participation in the EEX exchange in the scope of electric energy trading on the financial market. Participation in these segments enables to generate additional margin mass in the scope of the so-called proprietary trading as well as to extend the possibilities in the scope of securing the position of TAURON Capital Group.

On 20 June 2012 TAURON acquired access to the European Community Transaction Log which replaced the previous national registers of the Member States covered by the European System of CO_2 Emissions Trading System (EU ETS).

Payment of dividend by the Company

On 24 April 2012 the Ordinary General Meeting of the Company adopted the resolution on profit distribution for the financial year 2011 and defined 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 General Meeting allocated the amount PLN 543,290,312.14 for payment of the dividend to shareholders from the net profit for the financial year 2011, which means that the amount of the dividend per share reached PLN 0.31, and the total number of shares covered by the dividend amounted to 1,752,549,394 shares. Simultaneously, the General Meeting defined the dividend record day for 2 July 2012 (day of dividend) and the date of the dividend payment for 20 July 2012 (day of dividend payment).

The Company informed of the aforementioned events in the current reports no. 18/2012 of 24 April 2012, and in the current reports no. 7/2012 of 6 March 2012 (recommendation of the Management Board) and no. 9/2012 of 15 March 2012 (evaluation by the Supervisory Board).

Obtaining the concession for gas fuel trading and approval of the gas tariff by ERO

On 27 April 2012 the Company obtained concession for gas fuel trading issued by the President of ERO. The benefits for TAURON Capital Group resulting from activities in this area will consist in centralising the gas trading within one entity, and in purchasing the gas fuel under optimal parameters of its supply. In 2012 TAURON delivered gas fuel for the needs of the existing generation units of TAURON Wytwarzanie (Elektrownia Stalowa Wola, Elektrownia Blachownia, ZEC in Bielsko-Biała), and in the future it will also deliver fuel to the new generation capacity based on gas burning, and to end clients.

Following the application of the Company, the President of ERO approve the Tariff for gas fuels on 19 October 2012, for a period of 12 months following the day of its entry into force. The decision concerning the approval of the tariff was published in the trade bulletin of the ERO President no 74 (539) on the website of the Energy Regulatory Office www.ure.gov.pl.

Amendment to the Company Articles of Association

On 7 May 2012 the District Court for Katowice–Wschód in Katowice, 8th Commercial Department of the National Court Register entered the amendment to the Articles of Association in the register of entrepreneurs of the National Court Register, as adopted by the Ordinary General Meeting of the Company under the Resolution no. 23 of 24 April 2012, concerning the amendment to the Articles of Association within the material change of the scope of the Company. The amendments involved extension of the scope of activities by including crude petroleum and natural gas extraction, support activities for exploitation of deposits of these fuels, support activities for other mining and quarrying, manufacture and processing of refined petroleum products, manufacture of gas fuel and making test geological and engineering drilling and excavations. On 30 June 2012 the Supervisory Board of the Company adopted the consolidated text of the *Articles of Association of TAURON Polska Energia S.A.*, considering the aforementioned amendment to the Articles.

The Company informed of the aforementioned events in the current reports no. 10/2012 of 20 March 2012, no. 17/2012 of 24 April 2012, no. 22/2012 of 8 May 2012 and 33/2012 of 30 June 2012.

Incorporation of GZE company by TAURON

On 14 June 2012 the Company received the decision of the District Court Katowice–Wschód in Katowice, 8th Commercial Department of the National Court Register concerning on entering the merger of the following companies to the National Court Register on 12 June 2012: TAURON (the Acquiring Company) and GZE (the Acquired Company). The merger was executed pursuant to art. 492 § 1 item 1 of the Act of 15 September 2002, the *Code of Commercial Companies*, i.e. through assignment of the total assets of the Acquired Company to the Acquiring Company.

On 16 April 2012 the Company became the sole shareholder of GZE company, in connection with the completed process of forced redemption of GZE company shares, held by minority shareholders, executed in accordance with art. 418 of the Act of 15 September 2002, the *Code of Commercial Companies*. Within the framework of the aforementioned process TAURON redeemed 307 shares of the company GZE S.A., becoming the owner of the total of 1,250,000 shares of this company. Accordingly, the share of TAURON in the share capital and in the votes at the General Meeting of GZE S.A. was increased from 99.98% to 100%.

On 17 April 2012 the Management Board of the Company took the decision on the intention to merge the Company (Merger), as the Acquiring Company with the subsidiary, GZE, as the Acquired Company, as a result of which the plan of the aforementioned Merger was adopted.

Considering the fact that the acquiring company held 100% of interest in the share capital of the acquired company, the merge was performed under art. 515 §1 of the *Code of Commercial Companies,* i.e. without increase of the share capital of the acquiring company and under art. 516 § 6 of the *Code of Commercial Companies,* i.e. according to the so-called simplified procedure, namely, without the Merger Plan having been submitted to examination by the chartered accountant. The conditions of the merger were specified in the Merger Plan adopted by the Extraordinary General Meeting of TAURON on 6 June 2012, and the resolution on the merger was disclosed to the public in the current report no. 29/2012 of 6 June 2012.

As a result of the merger, TAURON has directly taken over the stocks and shares in the following significant companies, formerly held by GZE:

– TAURON Dystrybucja GZE,
– TAURON Serwis GZE,
– TAURON Sprzedaż GZE,
– TAURON Ekoenergia GZE,
– TAURON Obsługa Klienta GZE,
– TAURON Wytwarzanie GZE.

The aim of the merger was the streamlining of the structure of TAURON Capital Group, in accordance with the assumption of the *Corporate Strategy of TAURON Group for 2011–2015 with estimates until the year 2020* (Corporate Strategy), which has envisaged the consolidation of the companies of TAURON Capital Group and facilitating further effective integration and obtaining the synergy effects of individual business areas of GZE with Business Areas of TAURON. Owing to the merger, the organisational structures were simplified, including the supervision and management structures, which enhanced the efficiency and increased the transparency of TAURON Capital group structure, eliminated the significant part of redundant processes, thus reducing the operating costs. The agreement on purchase of GZE from Vattenfall AB was concluded on 13 December 2011. As a result of this transaction, TAURON became the owner of 99.98% shares in the GZE share capital.

The Company informed of the Merger process of TAURON with the subsidiary GZE in the following current reports: no. 15/2012 of 17 April 2012, no 20/2012 of 27 April 2012, no. 25/2012 of 8 May 2012, no. 26/2012 of 15 May 2012, no. 27/2012 of 29 May 2012, no. 31/2012 of 14 June 2012.

Granting the loans for implementation of the investment project

On 20 June 2012, TAURON concluded agreements on granting two loans to EC Stalowa Wola at total amount of PLN 172 million. The funds are to be allocated for implementation of the investment project co-financed in cooperation with PGNiG, involving the construction of the CCGT unit at the capacity of about 449 MW_e and 240 MW_t under the *project finance* formula.

Loan facility agreement with the European Investment Bank (EIB)

On 3 July 2012, TAURON signed the loan facility agreement with EIB at the total amount of financing at the level of PLN 900,000 thousand. EIB will co-finance the implementation of the five-year investment programme, aimed at strengthening, modernisation and extension of electric energy grids of TAURON Dystrybucja company, located in the southern Poland.

On 16 July 2012, TAURON acquired funds from the said loan facility, at the level of PLN 450,000 thousand. The remaining amount will be used in accordance with the investment needs. The maximum period of financing repayment is 12 years following the date of disbursement of the first tranche of the loan.

Concluding the letter of intent on the exploration for and extraction of Shale Gas

The involvement of TAURON in exploration for and extraction of shale gas from unconventional sources (shale gas) was initiated by the Letter of Intent signed on 24 January 2012 between TAURON and PGNiG concerning the joint exploration for and extraction of shale gas. Analogical Letters of Intent were also signed by KGHM and PGE, whereas each of the companies declared cooperation at different pad within the area of Wejherowo concession (TAURON – Pad Kochanowo, KGHM – Pad Częstkowo, PGE – Pad Tępcz). Within the scope of the works and arrangements undertaken, the parties decided to conclude the multilateral agreement in order to continue the activities concerning the exploration for and extraction of shale gas. On 26 April 2012 a new Letter of Intent was signed, informing of commencement of joint activities in order to establish the conditions of cooperation in the project covering three pads indicated in the former Letters of Intent (the so-called KTC Project), simultaneously foreseeing a possibility to extend the cooperation to other pads of Wejherowo concession.

On 4 July 2012 the framework Agreement was concluded on the exploration for and extraction of shale gas. Detailed information on the aforementioned agreements is included in item 2.5.1 hereof.

Concluding the agreements in the scope of coal sales for TAURON Wytwarzanie and TAURON Ciepło

In May 2012 the Company concluded 15 trilateral agreements, pursuant to which it has entered into the rights and obligations of TAURON Wytwarzanie, arising from the agreements on coal sales, formerly concluded by TAURON Wytwarzanie with coal suppliers (coal trading companies, coal mines and other suppliers). Since 1 June 2012, the Company has started sales of coal to TAURON Wytwarzanie. The Company informed of this event in the current report No. 28/2012 of 05 June 2012.

In July 2012, 6 trilateral and four-party agreements were concluded, pursuant to which TAURON has entered into the rights and obligations of TAURON Ciepło, arising from the agreements on coal sales, formerly concluded by TAURON Ciepło with coal suppliers (coal trading companies, coal mines and other suppliers).

In August 2012 TAURON concluded the agreement on coal sales with TAURON Ciepło, for unlimited period of time.

Detailed information on the aforementioned agreements is included in item 2.5.1 hereof.

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

On 5 September 2012 TAURON signed a Letter of Intent concerning purchase of shares in a special purpose vehicle established for construction and exploitation of a nuclear power plant. The Parties to the Letter of Intent are: the Company, PGE, KGHM and ENEA. According to the Letter of Intent the Parties will undertake activities on developing a draft agreement for purchase of shares (the "share sales agreement") in the special purpose vehicle PGE EJ 1 sp. z o.o. established by PGE, which is directly responsible for the development of the investment process for construction and exploitation of the first Polish nuclear power plant (the "Project"). The share sales agreement shall regulate the rights and obligations of each of the Parties, assuming that PGE shall have the leading role in the Project execution, either directly or through a subsidiary. The conditions of purchasing shares in the SPV shall take into account the expenditures incurred so far by PGE and its subsidiaries in connection with the Project. The Letter of Intent does not constitute an obligation of the Parties to sign the share sales agreement and to participate in the Project. Initially, the Letter of Intent was binding until 31 December 2012 and it was extended until 31 March 2013.

The Company informed of the aforementioned events in the current reports no. 36/2012 of 5 September 2012 and no. 46/2012 of 28 December 2012.

Signing the agreements concerning the selection of investment banks for implementation of the comprehensive financing services

On 25 October 2012 the agreements between TAURON and the banks constituting the consortium of investment banks were signed: ING Bank Śląski S.A., ING Bank N.V., ING Securities S.A., BRE Bank S.A., Dom Inwestycyjny BRE Banku S.A., UniCredit CAIB Poland S.A. Ul.E., Bank Pekao S.A., UniCredit Bank AG, Bank Zachodni WBK S.A., Dom Maklerski BZ WBK S.A., Banco Santander S.A., Goldman Sachs International, concerning the cooperation in the scope of development of the financing concept for TAURON Capital group, as well as in the process of financing the investment programme of TAURON Capital Group.

Based on recommendations arising from this strategy, TAURON, in cooperation with the banks, shall acquire financial resources for the investment programme of TAURON Capital Group from national and international markets.

Tax Capital Group (PGK)

Year 2012 was the first fiscal year of PGK activities, to be continued on the period of the next two years. On 28 November 2011, the Head of the First Tax Office in Sosnowiec registered the Capital Tax Group (PGK) for a period of three fiscal years, i.e. from 1 January 2012 to 31 December 2014. PGK includes the Company as the representing company and the selected companies of TAURON Capital Group, i.e.: TAURON Wytwarzanie, TAURON Dystrybucja, TAURON Sprzedaż, TAURON Obsługa Klienta, TAURON EKOENERGIA, PEPKH, POEN sp. z o.o., ENPOWER sp. z o.o., ENPOWER Service sp. z o.o. and ENERGOPOWER sp. z o.o.

PGK was established in order to optimise execution of the obligations connected with clearing of the corporate income tax by the key companies of TAURON Capital Group, and it enables, among others:

– acceleration of settlement of tax losses, i.e compensation of tax losses of one of the companies is executed through tax profit of other company over the same fiscal year,
– common application at the level of PGK for individual interpretation of tax law within the scope of corporate income tax which, in case of favourable interpretation, will result in relevant protection for all entities included in PGK.

Centre of Common Services – Accounting (CUW-R)

In connection with the implementation of the Corporate Strategy, in 2012 activities were carried out related with the launch of CUW-R within the company TAURON Obsługa Klienta, as a specialised unit for service of the TAURON Capital Group companies in the scope of selected financial and accounting processes. On 1 January 2013, in accordance with the timetable adopted, CUW-R started the provision of the above mentioned services in favour of TAURON and TAURON Sprzedaż and several other companies of TAURON Capital Group.

Centre of Common Services – IT (CUW-IT)

In connection with the need to coordinate the initiatives associated with IT area in TAURON Capital Group, in 2012 the programme was implemented, aimed at separation of IT services and outsourcing them to the Centre of Common Services – IT (CUW-IT), including preparation of the infrastructure, processes and resources connected with the aforementioned actions. In the period covered by this report, in accordance with assumptions of the corporate governance adopted by the Management Board of the Company, in the scope of IT in TAURON Capital Group, within the company TAURON Obsługa Klienta the target organisational structure CUW-IT was established.

The concept on financing the investment programme in TAURON Capital Group in the years 2012–2015

In connection with the need to acquire financing to implement the investment programme in the years 2012–2015, in the period covered by this report, with participation of selected banks and financial institutions, the *Concept on financing of TAURON Group Investment Programme in the years 2012–2015* was developed (the Concept).

The above Concept contains, in particular:

1) the analysis of available sources of financing TAURON Capital Group operations, according to the type of product and the investors' base;
2) financing plan consistent with the TAURON Group Investment Programme;
3) specifying the financing criteria (i.a. available volumes, emission levels, desired maturity terms).

Other important events

In addition, events resulting from the contracts and agreements concluded, significant for the operations, described in item 2.5.1 of this report, should also be considered as important events of material impact on operations of the Company in the financial year 2012.

Events after 31 December 2012

Adoption of OPEX efficiency improvement program in the TAURON Group for 2013–2015

On 15 January 2013 the Management Board of TAURON passed the resolution on adoption of the *OPEX efficiency improvement program in TAURON Capital Group for 2013–2015.* The Programme was drafted with the underlying goal to provide for the increase of TAURON Capital Group value.

Consolidation and restructuring programmes have been prepared the execution of which should result in cost reduction by approx. PLN 860 over the years 2013–2015 (total amount over the entire period). The efficiency improvement programs for individual segments were adopted by Management Boards of the subsidiaries and formed the basis for the development of the programme on the level of TAURON Capital Group. According to the Company's estimates, the scale of OPEX reduction under the Programme should increase every year, reaching approx. PLN 300 million annually. TAURON Capital Group expects OPEX reduction in most segments – the largest share falling to Generation and Distribution Areas. One of the elements of the Programme is to use the synergies occurring after incorporation of the GZE companies taken over into the structures of TAURON Capital Group.

The Company informed of this event in the current report No. 1/2013 of 15 January 2013.

Other events after the balance sheet day

Information on other significant events occurring after the balance sheet day until the day of this report has also been provided in note 40 of the Consolidated financial statement of TAURON Polska Energia S.A. for the year ended on 31 December 2012.

2.5. Information on agreements concluded by the Company

2.5.1. Agreements significant for operations of the Company

In the financial year 2012 the Company concluded the following Agreements significant for operations of the Company:

Signing the Annex to the Agreement on electric energy sales of 11 March 2011

On 14 March 2012 the annex was signed to agreement on electric energy supply, concluded on 11 March 2011 between TAURON, PGNiG Energia S.A. EC Stalowa Wola. The Agreement refers to the project called *Construction of a CCGT unit at Stalowa Wola*, carried out in cooperation between TAURON and PGNiG, and its subject is the long-term supply of electricity generated in the CCGT unit at EC Stalowa Wola to TAURON and PGNiG Energia S.A. Under the annex concluded, PGNiG joined the Agreement as a party thereto. As a consequence, PGNiG and PGNiG Energia jointly exercise the rights they are entitled to under the Agreement, as joint creditors, bearing joint liability towards EC Stalowa Wola for obligations resulting from the Agreement. Before the day of signing the Annex, one of the two conditions precedent had been fulfilled, i.e. the condition regarding submission by EC Stalowa Wola of the agreement for connection of Stalowa Wola steam and gas-fired unit to TSO grid (TAURON informed of this event in the current report No. 41/2011 of 8 July 2011).

The Company informed of this event in the current report No. 8/2012 of 14 March 2012.

Concluding of Agreement with GDF Suez Trading

On 3 April 2012 the framework agreement was concluded for indefinite period, between TAURON and GDF Suez Trading (the parent company of GDF Suez Group), the subject of which is the settlement of any transactions to be concluded between the parties in connection with the purchase, sales, supply and consumption of electric energy. The subject and terms of the agreement with GDF Suez Trading are identical to the subject and terms of the Agreement concluded on 30 November 2011 between TAURON and Electrabel NV/SA belonging to GDF Suez Group (current report no. 58/2011 of 30 November 2011). Execution the Agreement is the result of organizational changes in the GDF Suez Group, the target of which is to concentrate operations in the scope of electric energy trading in GDF Suez Trading.

The Company informed of this event in the current report No. 14/2012 of 03 April 2012.

Agreement between the Company and TAURON Wytwarzanie S.A. under the fuel trading centralization plan in TAURON Capital Group

Within the process of implementation of the centralised fuel trading model in TAURON Capital Group, assuming, on the one hand, acquiring by TAURON from the subsidiaries, the competence to purchase coal and coal slime from suppliers – coal trading companies, coal mines and other entities dealing with coal trading, and then reselling those fuels by TAURON to TAURON Group companies, in particular to TAURON Wytwarzanie S.A., on 5 June 2012, the agreement was concluded between the Company as the Seller and TAURON Wytwarzanie as the Buyer, the subject of which is the settlement of terms and conditions of sales to the Buyer of coal acquired from various sources of hard coal for power generation purposes, to be used at power plants and combined heat and power plants belonging to TAURON Wytwarzanie (the "Agreement"). The Agreement was concluded for indefinite period of time – the estimated net value of the Agreement over the first year of its effective period (i.e. 12 subsequent months starting from 1 June 2012) amounts to approximately PLN 2.4 billion.

The Company expects that actions related to fuel trading centralization will strengthen the negotiating position of the Company in the long-term perspective and yield measurable profits in the area of optimization of fuel purchase cost due to concentration of their total volume in the Company.

No termination or suspension clauses are provided in the Agreement. The Agreement envisages that penalties may be calculated in the case of failure to supply or accept coal, at the amount from 5% to 20% of the net value of the coal that was not supplied or accepted, however, +/-5% to +/-20% deviation from the planned coal volume is acceptable. Contractual penalties may be calculated after the allowable bottom deviation of the coal purchase volume is exceeded. In addition to the above mentioned penalties, each party to the Agreement may claim additional damages on general terms if the penalties fail to cover the loss incurred.

The Company informed of this event in the current report No. 28/2012 of 05 June 2012.

Concluding the agreement increasing the value of the bond issue programme

On 29 June 2012 an agreement was signed by the Company and Bank Handlowy w Warszawie S.A., ING Bank Śląski S.A., Bank Polska Kasa Opieki S.A., BRE Bank S.A., Powszechna Kasa Oszczędności Bank Polski S.A., Nordea Bank Polska S.A., Nordea Bank AB and BNP Paribas Bank Polska S.A. and Bank Zachodni WBK S.A. (which have not participated in the programme so far), on the basis of which the value of bond issue programme was increased by tranche D and tranche E at the value of PLN 2,475 million and PLN 275 million, respectively, i.e. to the total amount of PLN 7,050 million. The funds to be obtained from the issue of tranche D and tranche E bonds will be allocated for financing of investment projects and general corporate expenses in TAURON Capital Group.

The Company informed of this event in the current report No. 32/2012 of 29 June 2012.

Concluding the framework Agreement on the exploration for and extraction of shale gas.

On 4 July 2012 the Company concluded the framework agreement on the exploration for and extraction of shale gas (the "Agreement"), the other parties of which include: PGNiG, ENEA, KGHM and PGE. The subject of cooperation of the Parties under the Agreement will be the exploration, evaluation and extraction of shale gas in geological formations covered by the concession granted for the exploration and evaluation of deposits of crude oil and natural gas in relation to the Wejherowo concession held by PGNiG. Within the framework of the Wejherowo Concession, the close cooperation will involve an area of approximately 160 km^2 ("Cooperation Area"). Moreover, the Agreement also provides for preferential treatment of the Parties, with regard to the possibility of cooperation in relation to the remaining area of the Wejherowo Concession (with the exception of a situation where PGNiG itself performs the exploration, evaluation or extraction of shale gas and excluding the area in the vicinity of Opalino and Lubocino). The estimated expenditure on exploration, evaluation and extraction in the first three zones (the Kochanowo, Częstkowo and Tępcz pads) within the Area of Cooperation are foreseen at the amount of PLN 1,720,000 thousand.

On 12 November 2012 an Annex was signed to the Framework Agreement on the Exploration for and Extraction of Shale Gas of 4 July 2012. The Parties decided to extend the deadline for establishing the detailed terms and conditions of cooperation until 4 February 2013. On 21 February 2013 the next Annex was signed to the Framework which extends the deadline for establishing the detailed terms and condition of cooperation until 4 May 2013.

The Company informed of the aforementioned events in the current reports no. 34/2012 of 4 July 2012, no. 38/2012 of 12 November 2012 and no. 6/2013 of 21 February 2013.

Concluding annexes to agreements under the project on Construction of the CCGT unit in Stalowa Wola

On 28 December 2012 annexes were signed to the agreement on electric energy sales and the agreement on gas supply (the Company informed of the aforementioned agreements, as the significant agreements concluded under the project on *Construction of the CCGT unit in Stalowa Wola*, in the current report no. 9/2011 of 11 March 2011). Pursuant to the annexes concluded, the deadline for meeting the following conditions precedent specified in the above mentioned agreements is extended, including:

1) signing agreement/agreements for financing the construction, start-up and commissioning of the CCGT unit – in the case of Electricity Supply Agreement, and
2) submission by EC Stalowa Wola to PGNiG of the declaration confirming that the financing for the construction of the CCGT unit at Stalowa Wola has been obtained – in the case of Gas Supply Agreement.

The new deadline for meeting the above conditions has been set for 30 April 2013. All other conditions precedent specified in the above mentioned agreements concluded under the Project have been met.

The Company informed of the aforementioned events in the current reports no. 14/2011 of 25 March 2011, no. 41/2011 of 08 July 2011 and no. 47/2012 of 28 December 2012.

Significant agreements concluded after 31 December 2012

Conclusion of material agreement with Kompania Węglowa

On 1 March 2013 TAURON and Kompania Węglowa S.A. concluded the agreement, whose subject is purchase of coal by the Company (‘Agreement’). The Agreement was signed for three years from 1 January 2013 until 31 December 2015. The estimated net value of the Agreement over its entire term is PLN 2.4 bn. Since 1 January 2013 the aforementioned Agreement supersedes the agreement concluded on 1 December 2010 between Południowy Koncern Energetyczny S.A. (currently TAURON Wytwarzanie) and Kompania Węglowa S.A. and taken over by the Company on 5 June 2012, of which the Company informed in current reports No. 58/2010 and No. 28/2012 of 5 June 2012. The total net turnover under the previously reported agreement amounted to PLN 1.941 bn until 31 December 2012.

The Company informed of the aforementioned event in the current report No. 7/2013 of 01 March 2013.

With reference to the provisions of § 91 item 6 point 3 of the Regulation of the Minister of Finance of 19 February 2009 on *current and periodical information submitted by issuers of securities and conditions to acknowledge as equivalent information required by legal regulations of a country not being a member state*, the Company hereby informs that it is not aware of any other agreements concluded, significant for the operations of the Company, other that the agreements mentioned above, including the agreements concluded between shareholders (partners), insurance agreements, cooperation or collaboration agreements.

2.5.2. Material transactions with the affiliated entities under conditions other than arm’s length basis

All the transactions with the affiliates of the Company are concluded on an arm’s length basis.

Detailed information on significant transactions with affiliated entities has been provided in note 34 of the Consolidated financial statement of TAURON Polska Energia S.A. for the year ended on 31 December 2012.

2.5.3. Information on agreements on credits and loans raised and terminated

Working capital credits

On 1 January 2012 the effective period of agreement on overdraft started, concluded between TAURON and Pekao S.A. Bank in December 2011. The amount of the credit is PLN 300,000 thousand, and the final date of credit availability falls on 31 December 2014. The credit agreement concluded is associated with the cash pooling system operating in TAURON Capital Group (the full description of the cash pooling system and loans drawn under this system is included in this item and in item 2.5.4. of this report).

Moreover, on 17 October 2012, for the needs of clearing the transactions of purchase/exchange of CO_2 emission allowances, TAURON concluded the agreement on overdraft with Nordea Bank Finland Plc. to the amount of EUR 30,000 thousand. The agreement was valid until 31 December 2012.

The table below presents the detailed specification of working capital credit agreements applicable in TAURON Group since 2012:

Table no. 12 Specification of working capital credit agreements concluded by the Company, commencing in 2012

Kind of agreement	Kind and level of interest rate	Amount of credit/loan	Effective term
Overdraft	EONIA + fixed margin	30,000 thousand EUR	17 January 2012 – 31 December 2012
Overdraft	WIBOR O/N + fixed margin	300,000 thousand PLN	01 January 2012 – 31 December 2014

The cash pooling structure operating in TAURON Capital Group is based on loans between the participants of the structure. Accordingly, the daily turnover of cash under the cash pooling forms transactions of granting/repayment of loans. The total amounts of loans granted to the Company by the subsidiaries in 2012, i.e. the sums of all multiple loans granted and repaid during the year under the cash pooling, are presented in the table below (it should be indicated that those loans drawn by the Company make simultaneously the loans granted by other companies of TAURON Capital Group).

Table no. 13 Total amounts of loans granted to the Company by the subsidiaries in 2012, i.e. the sums of all multiple loans granted and repaid during the year under the cash pooling

Company name	Amount of credit/loan in Thousand PLN
TAURON Sprzedaż	5,317,864
TAURON Dystrybucja	3,471,472
TAURON Wytwarzanie	1,653,403
TAURON Sprzedaż GZE	1,494,170
GZE*	1,068,495
PKW	646,458
TAURON Ciepło	591,778
TAURON Obsługa Klienta	233,827
TAURON EKOENERGIA	244,944
TAURON Serwis GZE	188,722
PEPKH	182,262
TAURON Obsługa Klienta GZE	106,938
MEGAWAT MARSZEWO	65,525
KW Czatkowice	56,917
(BELS INVESTMENT)	25,288
PKE Broker	6,470
TAURON Wytwarzanie GZE	4,950
Total	**15,359,483**

** A company incorporated to TAURON in June 2012.*

In 2012, 17 companies of TAURON Capital Group participated in the cash pooling structure and the balance of loans granted by the subsidiaries to the Company under the cash pooling, as of 31 December 2012, amounted to PLN 1,171,892 thousand, in accordance with the subjective structure presented in the table below.

Table no. 14 Balance of loans granted to the Company by the subsidiaries under the cash pooling as of 31 December 2012

Company name	Amount of credit/loan in Thousand PLN
TAURON Sprzedaż	386,780
TAURON Dystrybucja	218,855
TAURON Wytwarzanie	147,434
PKW	101,992
TAURON Sprzedaż GZE	95,617
TAURON Serwis GZE	54,706
TAURON Obsługa Klienta	40,474
TAURON EKOENERGIA	36,340
KW Czatkowice	25,010
(BELS INVESTMENT)	19,892
TAURON Ciepło	12,673
TAURON Obsługa Klienta GZE	11,855
PKE Broker	6,470
PEPKH	6,017
TAURON Wytwarzanie GZE	4,724
MEGAWAT MARSZEWO	3,053
Total	**1,171,892**

The loans granted under the cash pooling are associated with the adopted model of cash flow management, within which the cash of participants of the cash pooling structure (companies of TAURON Capital Group) are consolidated on the bank account of the Company as a pool leader. The loans granted by companies of TAURON Capital Group to the Company, within the cash pooling are expressed in Polish zloty and in 2012 their interest rate was based on WIBOR O/N – fixed margin.

Investment facilities

On 3 July 2012 the Company concluded the third agreement with the EIB for the amount of PLN 900,000 thousand. The funds acquired shall be allocated for implementation of the five-year investment programme aimed at modernisation and extension of the electricity grids of the company TAURON Dystrybucja. The total cost of the project amounts to about PLN 2,000,000 thousand. The first tranche of the facility for grid investments at the amount of PLN 450,000 thousand was disbursed on 16 July 2012. The maximum repayment period is 12 years following the date of disbursement of the credit tranche.

The tranche at the amount of PLN 450,000 thousand will be repaid in instalments, at semi-annual periods, and the total repayment of the principal falls on 15 June 2024. The interest rate of the credit tranche disbursed was determined according to fixed rate, effective until 15 December 2017, when the new conditions of financing will be specified, in the scope of the level of interest and/or change of the basis for its calculation.

Moreover, in 2012 the Company has drawn debt under the agreements signed a year ago:

- PLN 300,000 thousand under the agreement concerning financing the reconstruction and commissioning of the high performing coal unit in co-generation with the accompanying infrastructure in Zespół Elektrociepłowni in Bielsko-Biała. Owing to the funds acquired, TAURON Capital Group will replace the current unit to the unit of higher efficiency amounting to 50 MW_e and 182 MW_t. Construction of the unit started in August 2010. Implementation of the project will continue until mid-1013.
- PLN 210,000 thousand under the agreement concerning the financing and start-up of the new biomass boiler of 50 MW_e and 45 MW_t at Elektrownia Jaworzno III, commissioned on 31 December 2012, and the renovation of the steam turbine.

The facilities at the amount of PLN 300,000 thousand and PLN 210,000 thousand were disbursed in the first quarter of 2012 and they are repaid in instalments, at annual periods, and the total repayment of the principal falls on 15 December 2021. The interest rate of the facilities is determined according to fixed rate, effective until 15 June 2016, when the new conditions of financing will be specified, in the scope of the level of interest and/or change of the basis for its calculation.

In the financial year 2012 the Company did not terminate any credit and loan agreements.

2.5.4. Information on granted loans and sureties as well as sureties and guarantees received

Loans granted

In 2012 the Company continued the intra group management of financial resources in TAURON Capital Group, through the cash pooling system implemented in 2010, whose structure is based on loans granted between its members.

The total amounts of loans granted by the Company in 2012, under the cash pooling structure, i.e. the sums of all multiple loans granted during the year, subject to multiple repayment (which results from the character of the cash pooling system applied), are presented in the table below (it should be indicated that those loans granted by the Company make simultaneously the loans drawn by other companies of TAURON Capital Group).

Table no. 15 Total amounts of loans granted by the Company in 2012 within the cash pooling structure in favour of individual companies of TAURON Capital Group

Company name	Amount of credit/loan in Thousand PLN
TAURON Sprzedaż	2,141,729
TAURON Wytwarzanie	1,985,204
TAURON Dystrybucja	1,032,271
TAURON Sprzedaż GZE	602,606
PKW	201,259
MEGAWAT MARSZEWO	176,592
TAURON Ciepło	153,249
TAURON EKOENERGIA	71,742
(BELS INVESTMENT)	12,216
PEPKH	2
Total	**6,376,870**

As of 31 December 2012, the Company did not grant any loans or credits to the participants of the cash pooling system.

Loans granted under the cash pooling are of short-term nature to be used for financing of business as usual, and at the same time, they have no defined maturity date. The loans granted are repaid automatically in case the financial resources are kept on the bank account of the company covered by the cash pooling system. The definite date for repayment of any liabilities is the maturity date of the currently binding intra group loan agreement, i.e. 31 December 2014.

Simultaneously, on the basis of two agreements concluded on 20 June 2012, between TAURON, PGNiG and EC Stalowa Wola, the Company granted two loans to EC Stalowa Wola:

1) the subordinated loan concluded in order to finance implementation of the investment consisting in construction and exploitation of the CCGT unit of capacity 449 MW_e and 240 MW_t at Stalowa Wola, including the auxiliary installations. The agreement on subordinated loan means that the repayment of the loan and the interest will be deferred and subordinated to the repayment of the receivables due to the EIB, European Bank of Reconstruction and Development and Bank Pekao S.A. (i.e. external institutions financing the project). Under the contractual agreements, the maximum value of the loan granted by the Company was established at PLN 152,000 thousand. As of the balance sheet day, the value of funds disbursed on account of the loan amounted to PLN 115,000 thousand. The total repayment of the loan should occur not later than until the end of 2032,
2) VAT loans aimed at financing the VAT due in connection with the costs of project implementation for the investment involving the construction of the CCGT unit in Stalowa Wola of the capacity 449 MW_e and 240 MW_t, incurred at the stage of design, construction and commissioning of the investment. Under the contractual agreements, the maximum value of the loan granted by the Company was established at PLN 20,000 thousand. The loan is revolving. The schedule of use of the loan is coherent with the planned dates of payments to be settled due to implementation of the investment. The balance of the loan is decreased by the funds originating from VAT returns. The final repayment date falls after six months following the date of completing the investment. As of the balance sheet day the loan was not used.

Sureties and guarantees granted and received

The guaranties, sureties and commitments granted in 2012 arise from the adopted financing model of TAURON Capital Group and they were provided on account of the conducted trading operations and as the collateral for repayment of loans granted, among others by WFOŚiGW. The table below specifies the agreements on sureties, guarantees and commitments effective as of 31 December 2012.

Table no. 16 The table below specifies the agreements on sureties, guarantees and commitments effective as of 31 December 2012

No.	Beneficiary	Agreement	Party to the agreement	Amount (in thous. PLN)	Currency	Effective term
1.	WFOŚiGW	Agreement on collateral	TAURON Wytwarzanie	40,000	PLN	15 December 2022
2.	Ministry of Economy	Agreement on financing surety	TAURON Wytwarzanie	200,000	PLN	31 December 2012
3.	WFOŚiGW	Aval agreement	TAURON Heat	30,000	PLN	15 December 2022
4.	CEZ a.s.	Guarantee Agreement (Annex no. 4)	TAURON Czech Energy	500	EUR	30 June 2013
5.	Nordea Bank Polska	Agreement on collateral	TAURON Serwis GZE	202	PLN	31 March 2014

The Company also holds the Framework Agreement on granting the bank guarantees within the limit set, not exceeding the amount of PLN 100,000 thousand, with the effective period until 31 December 2016. Under the Framework Agreement TAURON and companies of TAURON Capital Group may apply for bank guarantees to be charged against the centralised limit.

Under the Agreement the guarantees specified in the table below were granted.

Table no. 17 Specification of bank guarantees granted under the Framework Agreement

Company	Beneficiary	Agreement	Guarantee amount (in thous. PLN)	Currency	Date of granting	Effective term
TAURON	CAO	payment guarantee	800	EUR	01 January 2012	03 February 2014
TAURON	IRGIT	payment guarantee	20,000	PLN	19 January 2012	26 March 2013
TAURON	IRGIT	payment guarantee	30,000	PLN	26 March 2013	30 June 2013
TAURON	IRGIT	payment guarantee	30,000	PLN	01 July 2012	30 September 2012

Company	Beneficiary	Agreement	Guarantee amount (in thous. PLN)	Currency	Date of granting	Effective term
TAURON	IRGIT	payment guarantee	80,000	PLN	01 October 2012	31 December 2012
TAURON	PSE	bid bond	7,000	PLN	06 November 2012	28 December 2012
PEPKH	CAO	payment guarantee	500	EUR	16 January 2012	31 January 2013
PEPKH	PSE	payment guarantee	1,000	PLN	19 January 2012	31 January 2013
TAURON Sprzedaż GZE	Spółka Restrukturyzacji Kopalń S.A.	bid bond	480	PLN	05 June 2012	04 August 2012
TAURON Sprzedaż GZE	Spółka Restrukturyzacji Kopalń S.A.	bid bond	480	PLN	04 August 2012	03 October 2012
TAURON Sprzedaż GZE	Gmina Świętochłowice	bid bond	1,000	PLN	17 September 2012	15 December 2012
TAURON Sprzedaż GZE	Przedsiębiorstwo Wodociągów i Kanalizacji sp. z o.o.	bid bond	300	PLN	08 November 2012	07 January 2013
TAURON Sprzedaż	Przedsiębiorstwo Wodociągów i Kanalizacji sp. z o.o.	performance security	253	PLN	19 October 2012	31 December 2013

At the same time, within TAURON Capital Group, in order to secure the transactions executed by the Company at TGE on electric energy markets and participation in the system of securing the liquidity of transaction settlement, in 2012 the agreement was extended based on which TAURON Wytwarzanie granted the surety to the Company in favour of the Clearing House of Giełdy Towarowe S.A. (IRGIT) on account of settlement of future transaction to the amount of PLN 145,000 thousand (the agreement was concluded on 23 February 2011 and it is effective until 31 March 2013).

2.6. Information concerning employment

Information concerning employment in the Company in the years 2011–2012 and its structure, is presented in the graphs below:

Figure no. 4 Employment in FTEs (rounded up to the full FTE)

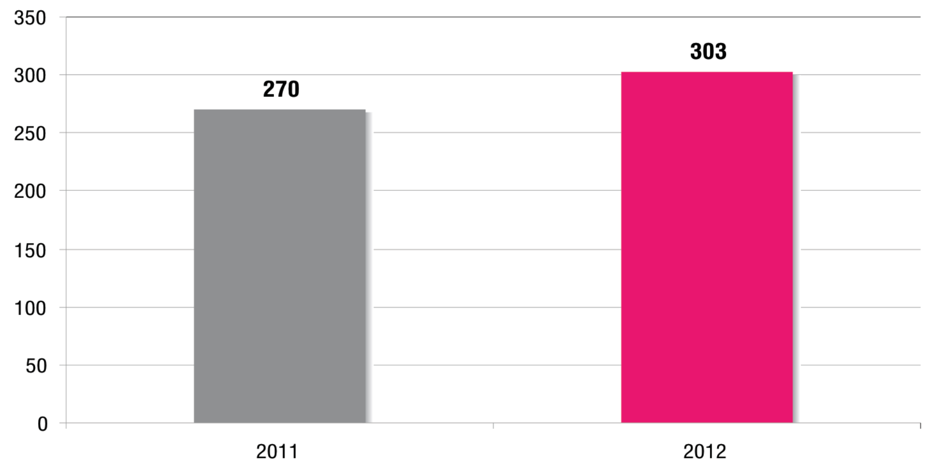


Figure no. 5 Structure of employment according to education

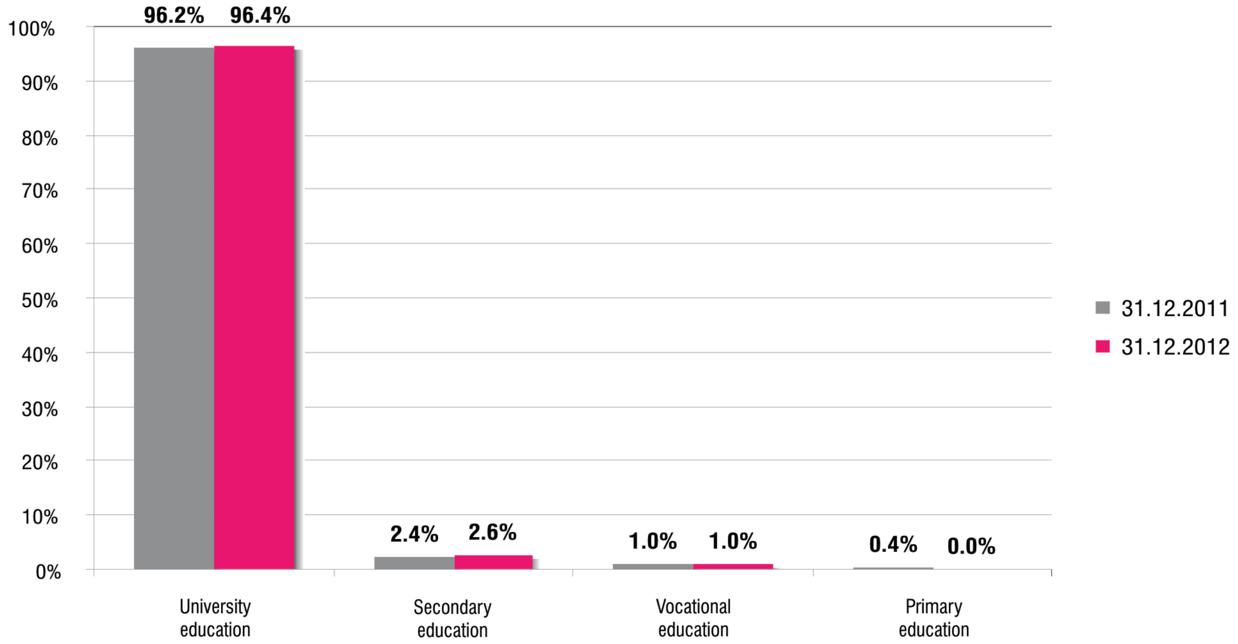


Figure no. 6 Structure of employment according to age

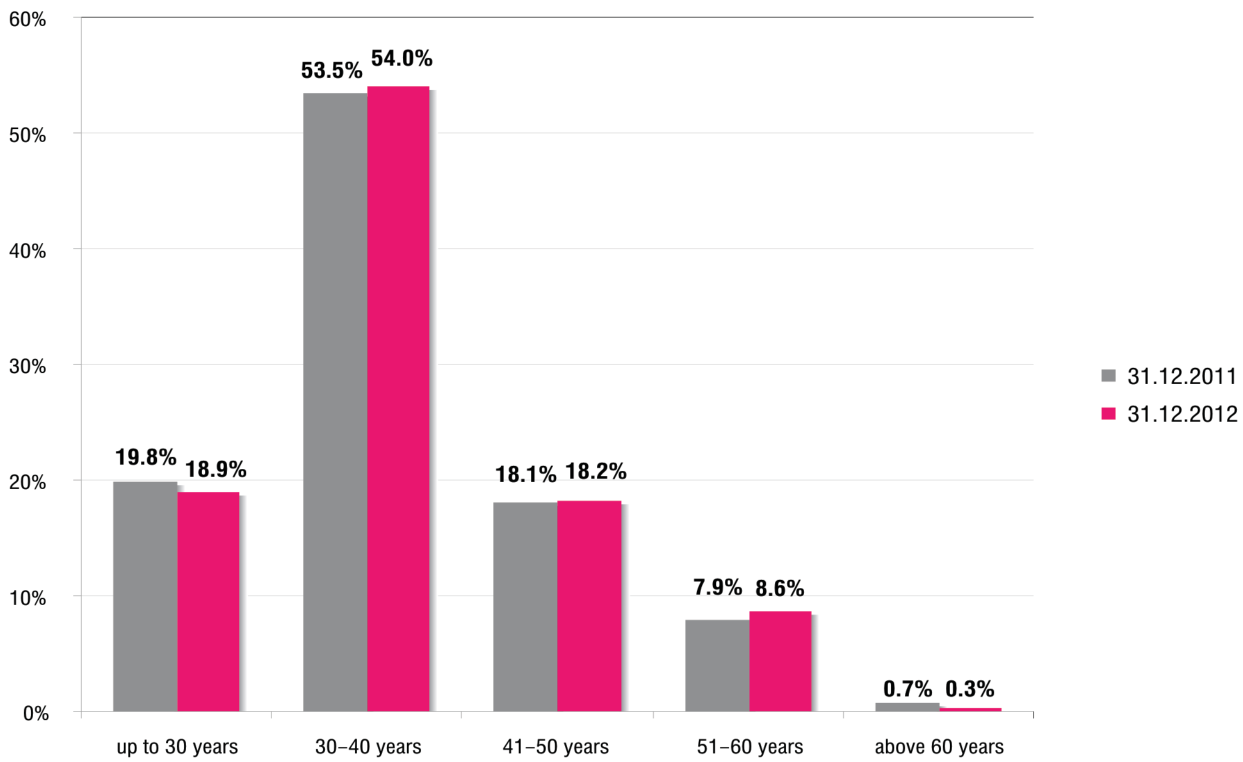
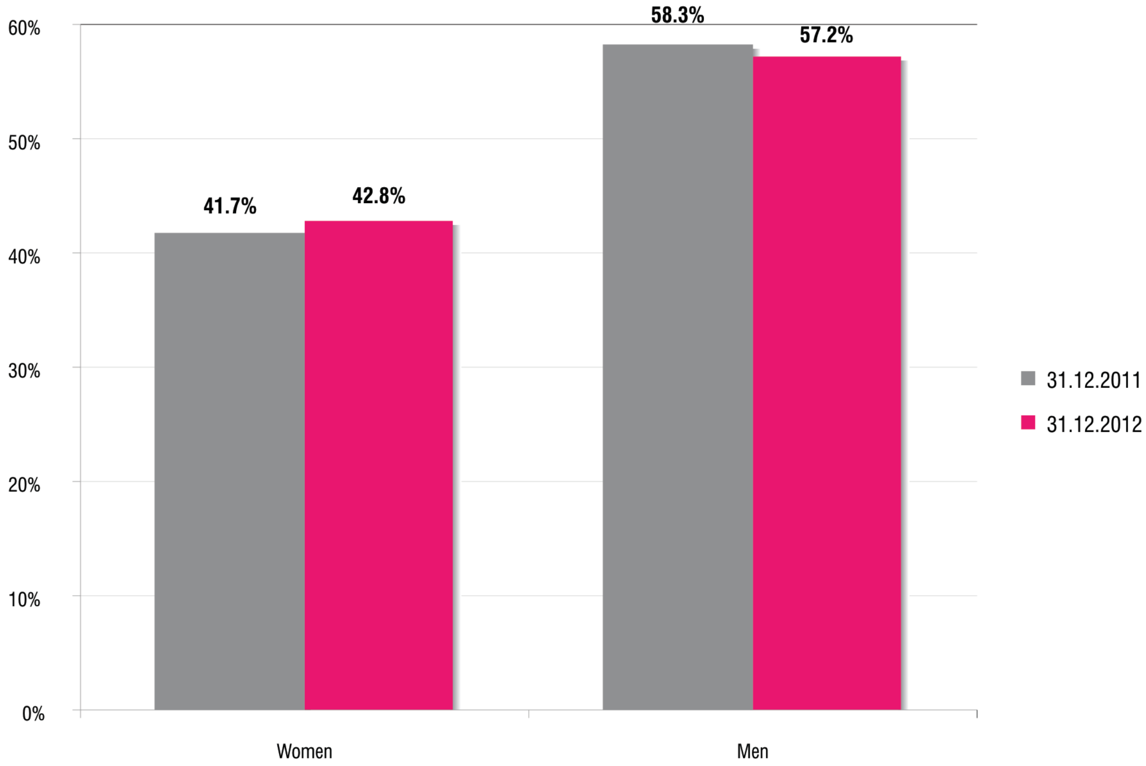


Figure no. 7 Structure of employment according to gender

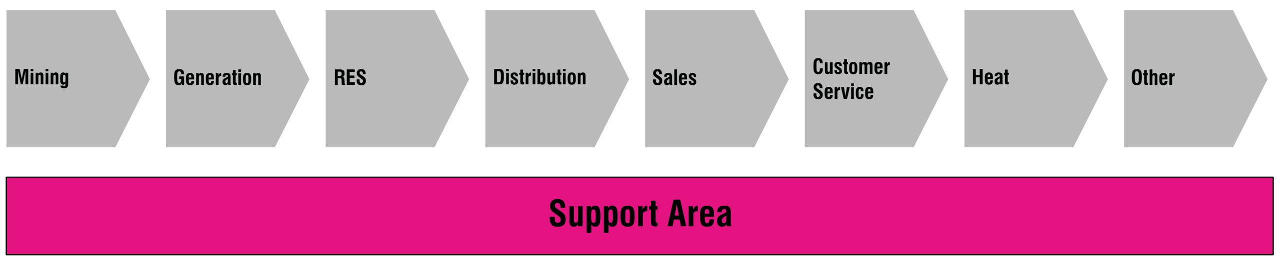


2.7. The development policy of the Company

2.7.1. Planned Structure of TAURON Capital Group

The planned model of TAURON Capital Group structure has been determined in the Corporate Strategy which assumes creating of one leading company in each Business Area, which should allow for operation companies created or acquired for the needs of strategic alliances, activities on international markets, identified business needs and implementation of investment projects. The aforementioned assumptions should allow for optimisation of operations of entities along the whole value chain, indicated in the figure below, in order to maximise the margin generated in the whole TAURON Capital Group.

Figure no. 8 Value chain in TAURON Capital Group



2.7.2. Implementation of Corporate Strategy

The *Corporate Strategy for TAURON Polska Energia S.A. Group for 2008–2012 with estimates up to the year 2020*, adopted and approved by the Company in 2008 was implemented in accordance with the adopted plan, within which the main actions were connected with integration of TAURON Capital Group, along the value chain and with achievement of sales and EBIT margin growth by the Company. After two years of implementation of the aforementioned strategy, in 2011 the actions undertaken so far were reviewed, their implementation was evaluated and the tasks adopted in 2008 were updated.

The analysis of the broadly understood external environment of TAURON Capital Group as well as standing and possibilities of TAURON Capital Group itself led to verification of strategic goals in 2011, as well as prompted the updating of their accomplishment. As a result, the Management Board adopted the updated *Corporate Strategy for TAURON Group for 2011–2015 with estimates up to the year 2020,* which received positive opinion of the Supervisory Board on 28 April 2011. The Company informed of this event in the current report No. 25/2011 of 28 April 2011. The overriding strategic goal of TAURON Capital Group is to provide for constant increase of value ensuring the secure return on the invested capital for shareholders. In accordance with the aforementioned update, the implementation of the aforementioned goal will be measured on the basis of key ratios of value building, i.e. EBITDA growth and ROIC level.

As a follow-up of implementation of the Corporate Strategy, updated in 2011, its implementation was based on adjustment of strategic priorities to the changing environment. The key direction of the Corporate Strategy is to focus on growth in the areas of operations where the highest potential for achieving high rates of return on investments exists and diversification of the generation portfolio. In addition, the objective of further improvement of the efficiency and building of effective organization has been sustained.

Implementation of the Corporate Strategy in 2012 allowed for accomplishment if the EBITDA and ROIC indicators adopted for this year. in the scope of implementation of investment tasks, the investment projects planned for this year were completed, including the construction of the RES 50 MW unit in Elektrownia Jaworzno III, the occupancy permit was obtained for the installation for electricity production in RES in the power plant in Stalowa Wola (20 MW) and in Elektrociepłownia Tychy (40 MW). In 2012, after signing the contract with the General Contractor, works were also commenced connected with construction of the CCGT unit at the capacity of 449 MWe in Elektrociepłownia Stalowa Wola. Moreover, the letter of intent was signed with the strategic partner for the project of construction the new capacity in gas technology at Elektrownia Łagisza. In the scope of new capacity in wind energy, advanced works were continued aimed at construction of two wind farms – Wicko and Marszewo. The assumed targets connected with the improvement of cost effectiveness were also achieved, mainly through the restructuring programmes conducted in the Distribution, Generation and Heat Area. TAURON Capital Group undertook measures aimed at enhancement of the organizational effectiveness, by continuing the process of building the target business model and integrating its companies. The Distribution Area was integrated and the integration of Customer Service Area was prepared (completed in January 2013), while in the Heat Area the next stage of development of this Area was implemented.

The Corporate Strategy focuses on four key objectives which jointly provide for growth of value of TAURON Capital Group:

I. Growth in the most attractive Areas of Business

The growth will focus on the areas of operations where the highest potential for achieving high rates of return on investments exists. Due to the need to replace the generation capacity and the related investment expenditure, investment in generation assets (and potential acquisitions in this area) on the domestic market will be the priority for the Group.

Within the generation portfolio, the Strategy assumes commissioning of new generating capacity up to 2020, in various technologies, including the wind energy, at the level of 3 200 MW_e. The growth of net power assumed in the Corporate Strategy until 2020 will reach 1,379 MW_e.

In 2012 the Company extended the scope of its activities, starting operations in the area of exploration and excavation of shale gas from unconventional deposits. The involvement of the Company in this area was initiated with the Letter of Intent signed on 24 January 2012 between TAURON Polska Energia S.A. and PGNiG S.A. concerning the joint exploration for and excavation of shale gas. On the other hand, the activities initiated with the Letter of Intent signed on 5 September 2012 in the scope of acquisition of shares in the special purpose vehicle for construction and exploitation of a nuclear plant resulted in involvement of the Company in the area of nuclear energy.

II. Operational and investment effectiveness at the level of best practice

The Corporate Strategy envisages further implementation of synergy of integration of TAURON Capital Group companies. The next stage of restructuring through improvement of business management and integration of support functions is in progress. It also involves centralisation and, in justified cases, depending on the strategic importance of individual assets, outsourcing of areas which are not directly connected with the core operations of TAURON Capital Group.

In 2012, the Company continued approaching the budgetary discipline as its priority in each Business Area within investment expenses and operating costs. The activities related to improvement of operational and investment effectiveness will also enable to prepare TAURON Capital Group to operating under the volatile market conditions, in particular, under the significant volatility of prices of fuels, energy, emission allowances, etc.

III. Management of exposure to market and regulatory risks

In view of market and regulatory volatility, the essential element of Corporate Strategy is the active management of market risks. In order to optimise these risks and maximise rates of return TAURON Capital Group will diversify the generation portfolio by appropriate adjustment of individual types of technologies (limitation of long-term risk arising from investment decisions) as well as develop effective security policy, including security of energy supplies (limitation of medium- and short-term risk resulting from the trading activity). This approach will enable to reduce the volatility of result in TAURON Capital Group through asset portfolio management and control of risk limits.

In 2012 no significant change in generation capacity structure was noted. About 98% of the capacity installed in TAURON Capital Group was covered by coal-burning technology. In 2020, share of these technologies will be reduced to about 70%, including 15–20% from new units. Share of low emission technologies, i.e. gas, wind, water, biomass and biogas, will reach about 30%.

Effective strategy of securities will cover the whole actions in the value chain of TAURON Capital Group, starting from the security of the assumed volume of fuel supply from the sources held, ending up with coverage of the specific volume of electric energy sold to end customers from own generation units. The adopted approach will guarantee the secure operations of the assets held in the Generation Area through provision of fuel supply and maintaining of its price at the acceptable level.

In 2012 the Company continued its activity in the scope of promotion and development of strategic energy technologies and preparation of the development of nuclear energy. In this area, activities were undertaken, associated with the involvement of the Company in research and development projects, co-financed both from national source (e.g. through the National Centre of Research and Development (NCBiR)) and from international sources (e.g. the Community of Knowledge and Innovation – KIC InnoEnergy). Within the research projects co-financed by NCBiR, the Company carried out the activities aimed at, among others, construction of a pilot mobile installation for CO_2 capturing and performing studies at the facilities belonging to TAURON Wytwarzanie. A research project entitled: "The development of high-temperature reactors for industrial applications" was also launched.

IV. Building of effective organisation

Within implementation of this goal, TAURON Capital Group has focused its activities on the whole value chain as well as on improving the effectiveness of the organisation in each Business Area. Building of effective organization is connected with the growth of employees' competence, implementation of management through goals and improvement of work effectiveness and satisfaction of TAURON Capital Group Clients.

The activities performed in 2012, covering the continuation of implementation of the target business model and completing the integration of general corporate functions will contribute to effective implementation of the updated Corporate Strategy in the whole value chain, which will improve the position of TAURON Capital Group among the leading energy companies in the region.

The Company monitors the essential macroeconomic environment and analyses its impact on the activities on on-going basis. Due to the planned essential changes of the legal environment of the energy sector and the expected economic slowdown, in 2012, the review of the Corporate Strategy and the investment directions was started.

2.7.3. Factors essential for development

Results of operations of the Company 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 and TAURON Capital Group, the European Union and the global economy, including interest rate changes and currency rate fluctuations, etc., influencing the valuation of assets and liabilities recognised by the Company in its financial statements;
- the political environment, especially in Poland as well as on the EU level, including the standpoints and decisions of public administration institutions and bodies, for example: the Office for Competition and Consumers Protection (UOKiK), ERO and the European Commission,
- situation in electric energy sector, including competition behaviour on the energy market,
- introduction of the support system of electric energy generation by high efficiency co-generation in units fired with methane,
- geological and mining conditions,
- number of CO_2 emission allowances allocated on complimentary basis after 2012 and prices of the allowances acquired;
- changes in the regulations of the energy sector, including the changes in the legal environment, including: the tax law, commercial law, environmental protection law,
- demand for electric energy and other products of energy market,
- prices of electric energy and fuel as well as distribution tariffs, as factors influencing the level of revenue and costs;
- scientific and technical progress,
- seasonality and weather conditions.

2.8. Assessment of implementation opportunities of investment projects

In 2012, investment expenditure of TAURON was not significant due to the fact that the strategic investment projects were implemented in companies of TAURON Capital Group. Strategic investment as well as their financing are managed centrally at the level of the Company. On the basis of the conducted analyses, the Management Board of the company assesses that TAURON Capital Group is able to finance the current and future investment projects from funds generated from operating activity and by acquisition of debt financing.

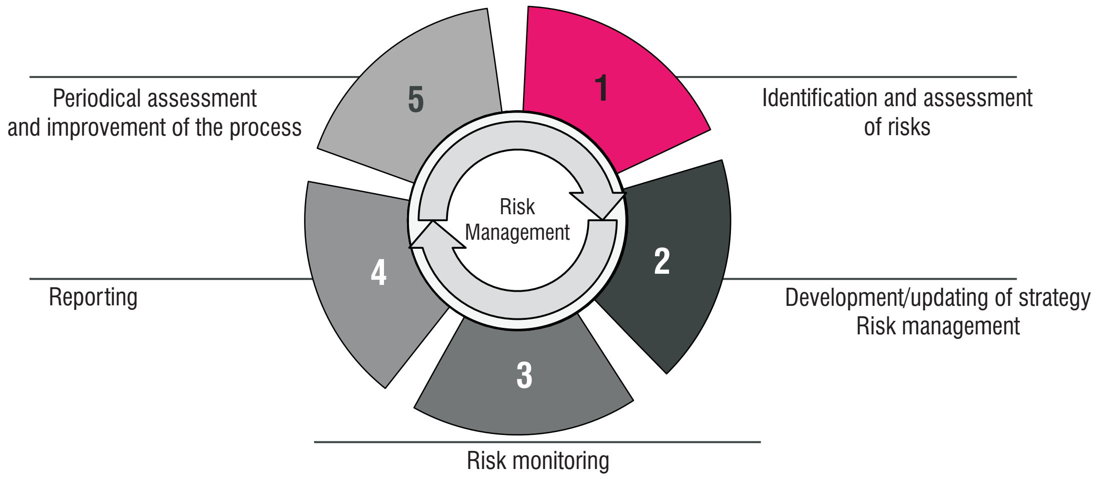
2.9. Risk and threat factors

Taking care for implementation of the Corporate Strategy, the Company manages business risks occurring in operations 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 W 2012, the process of implementation of the *Corporate Risk Management Policy in the TAURON Group* was continued in key companies of TAURON Group (the Policy).

The Comprehensive Risk Management System covers significant risks which occur in operations of the Company and TAURON Capital Group. The nature of risks is defined, in particular, by specifying their significance level and probability of materialization. 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 of 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



In the Company, permanent team of experts operates, which includes persons holding relevant knowledge of the Company and its environment, established as the "Risk Committee", which permanently initiates, analyses, monitors, controls, supports and supervises the performance of corporate risk management in TAURON Capital Group.

Assessment of the extent of TAURON Capital Group exposure to the risk factors and threats listed below, takes into consideration their probability of their occurrence and their significance as well as adequacy of the risk management strategy applied. Order in which particular risks have been presented does not reflect this assessment.

Macroeconomic risk – is associated, in particular, with the level of the Gross Domestic Product (GDP), level of the interest rates, currency exchange rates, fiscal and monetary policy of the state, unemployment rate and level of investment. Macroeconomic risk factors may significantly affect the financial results and market position of TAURON Capital Group, especially through the level of production of electric energy and heat as well as energy distribution and sales volume, availability and cost of acquisition of financial instruments.

Political risk – is connected with the manner and type of the state intervention both in the whole economy and in its individual sectors**.** Political risk factors can have a significant influence on legal conditions of TAURON Group operations, in particular, through changes in the energy or financial policy of the state.

Risk of unstable legal system and the European Union regulations connected with the performance of the energy sector, including the environment protection – the risk applies to 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 effect on operations of TAURON Capital Group and its financial situation through increase of operating costs or loss of concession within the scope required for the operations

Risk of non-compliance with the requirements of URE/UOKiK/ and the Instruction of transmission grid operation and maintenance (IRIESD) – a risk of recognising by URE that the OSD is not independent or does not treat entities on the market equally, infringement of antimonopoly regulations or overusing the dominating position. The risk factors may have material adverse effect on operations of TAURON Capital Group, its financial situation or results of its activities through imposing the financial penalties.

Risk of Capital Group organisation and corporate management – the risk connected with ineffective cooperation between the Group companies, within the reporting process, management processes and information management. The risk factors many have adverse effect on TAURON Capital Group operations, its financial situation or results of its activities by incomplete implementation of the Capital Group strategic objectives or the extended period of their accomplishment.

Competition risk – connected with the progressing liberalization of the energy market, especially with the planned release of electric energy prices for G group consumers and release of the heat prices, as well as in connection with changes on the retail market and the consumers' right to change a provider. The risk factors many have adverse effect on TAURON Capital Group operations, its financial situation or results of its activities through decrease of the margin achieved on the electric energy sales or losing its hitherto consumers.

Risk of fund raising and financing service – the risk of lack of possibilities to raise funding for operating and investment needs or obtaining financing on conditions which are different from the adopted assumptions. The risk factors may have material unfavourable effect on operations of TAURON Capital Group, its financial situation or results of its activities through the lack of resources for projects included in the Corporate Strategy and in investment plans, and for operations.

Risk connected with the termination of LTC – a risk of questioning by the President of the URE of the amounts due to cover stranded costs as well as of the obligation to return advance payments received. The risk factors may have material unfavourable effect on operations of TAURON Capital Group, its financial situation or results of its activities through the possibility of the European Commission to qualify the rules of utilising the resources of the programme as public aid which is in non-compliance with the Common Market. Such a qualification may imply the necessity to return the received aid with interest.

Environmental risk, including the risk associated with the atmospheric conditions – consists 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.

Risk of approval of tariffs by the President of URE – the risk is connected with the process of approval of tariffs on electric energy, heat and distribution services by the President of URE. The main threat involves the risk of refusal to approve the tariff. Besides, the regulator may refuse to recognise investment expenditure in the development plan. 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 and loss of revenue.

Assets failure risk – the risk of occurrence of significant 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 the need to bear additional costs of grid and non-grid infrastructure overhaul, blackouts and disruptions in operations as well as with the need to offer discounts or pay fines.

Risk of fixed assets management – the 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.

Risk of occurrence of natural hazards or unfavourable geological and mining conditions – the risk connected with hazards to accomplishment 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 the water and fire conditions.

Risk of atmospheric conditions, climatic changes connected with maintenance of the wind farms – the risk associated with instability of atmospheric conditions affecting the size of electric energy production. In case of decrease or exceeding the wind speed beyond the range established, it is necessary to turn off the turbines, both for maintenance and for safety reasons. In the winter season the phenomenon of icing of the wind blades of the wind mill may occur, forcing its standstill.

Risk of atmospheric conditions, climatic changes the Heat Area – the risk related to fluctuations of air temperatures which are of significant influence on the demand for electricity and heat at a longer term, causing the significant increase or decrease of this demand, respectively.

Purchase of materials/fuels risk – the risk connected with significant and/or unexpected changes of the prices of coal and other fuels. 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 conditions.

Risk of the process of contract awarding/procurement process of supplies/services – the risk is associated with a possibility of significant growth of 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.

Risk of unregulated legal status of the property utilised – the risk is connected with a possibility of occurrence of massive claims of land owners due to unregulated legal status of the foundation of a building or structure on the foreign land. The risk factors may have material adverse effect on operations of TAURON Capital Group, its financial situation or results of its activities through increased operational costs or interruption of business continuity due to undermining of the legal status and claims of the third parties.

Risk of loss of the status of the Tax Capital Group (PGK) – the risk is 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, 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 PGK.

Volumetric risk – risk related to volatility of electric energy trade volume. The volumetric risk factors may have material adverse effect on operations of TAURON Capital Group, its financial situation or results of its activities through increased costs connected with closing of open positions on the forward market and/or balancing market, on futures market and/or current market as well as losing income and decrease of margin on sales of electric energy to consumers.

Risk of price volatility – the risk associated with the uncertainty in the scope of tendencies in electric energy prices, prices of CO_2 emission allowances and proprietary rights arising from certificates of origin. The fluctuations of prices may materially affect the financial result of TAURON Capital Group.

Risk of losing the co-financing from the national or EU sources – the risk to lose a part or the whole co-financing for the investment projects executed, granted from the EU or national sources due to delays in implementation of schedules of the projects, failure to achieve the indicators of product and results assumed for the project, or classifying a part of expenditures as ineligible by the controlling institution.

Risk of variable manufacturing cost – the risk associated with potential errors in adjustment of units and distribution of loads of unit scheduling. The adjustment of units is performed on the basis of maintenance information from power plants, plans of units, variable costs and data published by TSO. The variable generation cost factors may have adverse effect on the Company due to the necessity to adjust a more expensive generation unit or change in the optimum production schedule.

Risk connected with the obligation to redeem CO_2 allowances – the risk is connected with emitting of CO_2 to the atmosphere as well as the need to redeem a relevant number of CO_2 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.

The Company actively manages all risk aiming at maximum reduction or elimination of their potential adverse effect on the result.

The following participants take part in the corporate risk management process:

1) The Supervisory Board of TAURON – 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.
2) TAURON Management Board – takes formal decisions concerning the key elements of the complex risk management system (ERM), i.e. sets priorities and risk management rules, approves the concept of global limits and maximum tolerance for key risks, performs assessments of risk management infrastructure, takes decisions in cases of significantly exceeded limits, approves risk limits established by the Risk Committee.
3) Management Boards of the subsidiaries – take formal decisions on key elements of ERM infrastructure in a given company, including implementation of the relevant organizational structure (specifying the role of Risk Management Coordinator in a given company and implementing other ERM elements in the subsidiary), and supervise the activities of the Risk Management Coordinators.
4) Risk Management Office of the Company – responsible for ERM implementation in the Company and supervising ERM implementation in the subsidiaries, supports ERM process in the Company and in the subsidiaries, cares for knowledge development in the scope of risk management in TAURON Capital Group, provides support in designing infrastructure elements and changes in risk management policy.
5) Risk Committee – is responsible for analysis and monitoring and control of risk management process, takes decisions on the shape and method of risk management in TAURON Capital Group, supports and supervises implementation of activities of individual organisational structures involved in the risk management process.
6) Risk Management Coordinators – supervise the implementation of ERM process in a given subsidiary, are responsible for ERM execution in a given subsidiary and cooperate with the Risk Management Office, implement additional tasks, not resulting from ERM for TAURON Capital Group in the scope of risk management at the level of a given subsidiary, are responsible for communication of ERM rules and development of knowledge concerning risk management in the subsidiary.

7) Risk owners/specific risk owners – risk owners are responsible for managing the specific risk, its particular tasks include: risk identification and assessment, creating and implementing risk-reduction strategies, monitoring of specific risks and risk factors, reporting to the Risk Management Coordinator or Risk Management Office in the risk management process, risk management to reach the targets assumed and prevent exceeding of the limits assumed.
8) Internal Audit Department of the Company – is responsible for planning and conducting the periodical assessments of the corporate risk management process aimed at assessment of the process compliance with the requirements of the Policy and the adopted procedures, effectiveness of the internal control system in case of violating of the limits.
9) Other employees of the organisational structures of TAURON and the subsidiaries – in accordance with the provisions of the Policy, all employees of TAURON and the subsidiaries should hold basic knowledge on the scope, aim of ERM in TAURON Capital Group and the knowledge of the ERM concept. If necessary, the employees have a possibility to get acquainted with the details of ERM functioning and they may participate in the risk identification processes.

Rules of specific risk management

Commercial risk

TAURON Capital Group manages the commercial risk based on the developed and adopted *Policy of portfolio and commercial risk management in TAURON Group*, which specifies the set of rules and principles of portfolio management and commercial risk management at the level of TAURON Capital Group. The above document constitutes the implementation of market practices and solutions used in the scope of commercial risk management in electric energy trading and related products trading (CO_2 emission allowances, property rights, fuels), including their adjustment to the structures of TAURON Capital Group, including the specifics of the energy sector.

The commercial risk in TAURON Capital Group is understood as the reduction of unplanned volatility of the operating result of TAURON Capital Group, with simultaneous use of the diversification effect, arising from the portfolio of assets held, and it is divided into two main categories: price risk and volumetric risk. In particular, the price risk is understood as a possibility of deviation of the real result on the commercial activity of TAURON Capital Group against the planned result, arising from the volatility of market prises of electricity and the associated products. On the other hand, the volumetric risk is understood as a possibility of deviation against the commercial plans in the scope of volume affecting the size of the open position for a given commodity.

The commercial risk management system covers also the exposure of TAURON Capital Group to liquidity risk, arising from potential difficulties to protect open positions, mainly in the scope of electric energy, in particular, at short-term. It is of significant importance under the conditions of the developing market of electric energy. Low market liquidity causes the lack or limitation of quotations of some products of electricity supply, which consequently restricts the purchase or sale of the relevant quantity of energy (change in position) in the specific time.

The commercial risk in TAURON Capital Group is managed centrally from the Company level, which provides the appropriate supervision over one of the main Business Areas maintained within TAURON Capital Group. Such management model also allows for recognising the effect of risk diversification arising from the assets held and for using the scale effect. The existing correlations, both between individual risk factors and between various areas of commercial activities enable stabilisation of the financial result and reduction of potential losses of the enterprise.

The basic element of commercial risk management is the division of the commercial activities of TAURON Capital Group into Front, Middle and Back Office. The distribution of tasks is aimed at providing the independence of operational functions from the risk control functions implemented by the Front Office and Middle Office. Such an organization ensures security of commercial activities and transparency of the organization.

The main tool for measurement, monitoring and control of the risk is the dynamic measure of the value exposed to risk (Value at Risk).

Commercial risk management is performed on the basis of the portfolio structure, reflecting the activity of individual entities of TAURON Capital Group on the markets of electricity and related products The main tool for risk control and limiting the excessive exposure to risk factors is the system of limits based on the measure of the value exposed to risk. The control covers both the global limit constituting the acceptable commercial risk level comprising the full structure of TAURON Capital Group (risk appetite), as well as operational limits demonstrating the decomposition of the global limit into individual portfolios associated with the areas and types of commercial activities of TAURON Capital Group. Moreover, within commercial portfolios, in order to minimise the risk, the centralised system of purchase and sales orders for electricity and products is used, which allows for coordinated management of commercial position of TAURON Capital Group and optimum use of diversification effects.

Financial risk

Information concerning the financial risk is presented in item 3.6.2 of this report.

3. ANALYSIS OF THE FINANCIAL AND ECONOMIC SITUATION OF TAURON POLSKA ENERGIA S.A.

3.1. Principles of preparation of the annual financial statements

The financial statement has been prepared in accordance with the International Financial Reporting Standards (IFRS) adopted by the European Union. Considering the process of IFRS continuing in the EU and the activity of the Company in the area of the accounting rules applied by the Company, there is no difference between the IFRS standards which entered into force and the IFRS standards approved by the EU for the financial year ended on 31 December 2012.

IFRS cover standards and interpretations approved by the International Accounting Standards Board as well as the International Financial Reporting Interpretation Committee.

The financial statement was generated with the assumption that the Company would continue its business operations within the foreseeable future. As of the date of the financial report, no circumstances are recognised, indicating any risk for business continuity of the Company.

The accounting principles (policy) adopted for preparing the financial statements have been provided in note 5 of the Consolidated financial statement of TAURON Polska Energia S.A. for the year ended on 31 December 2012.

3.2. Overview of economic and financial values disclosed in the annual financial statement

Statement on comprehensive income

The table below presents the annual unit (stand-alone) statement of comprehensive income.

Table no. 18 The annual unit (stand-alone) statement of comprehensive income in the years 2010–2012 (data in thousand PLN)

Statement on comprehensive income prepared according to IFRS	2012	2011	2010	Dynamics (2012/2011)
Continued operations				
Revenue on sales of goods, products and materials without excluding excise tax	9,823,438	8,823,744	7,172,814	111.3%
Excise tax	(3,219)	(15,122)	–	21.3%
Revenue on sales of goods, products and materials	9,820,219	8,808,622	7,172,814	111.5%
Revenue on sales of services	69,643	36,522	12,444	190.7%
Other revenue	10	4	13	250.0%
Revenue on sales	**9,889,872**	**8,845,148**	**7,185,271**	**111.8%**
Own cost of sales	(9,710,955)	(8,663,010)	(7,067,452)	112.1%
Gross profit on sales	**178,917**	**182,138**	**117,819**	**98.2%**
Other operating revenue	1,979	3,354	742	59.0%
Costs of sales	(27,142)	(22,850)	(12,493)	118.8%
Overheads	(104,439)	(79,544)	(95,789)	131.3%
Other Operating Expenses	(2,205)	(1,268)	(652)	173.9%
Operating profit	**47,110**	**81,830**	**9,627**	**57.6%**
Operating profit margin (%)	*0.48%*	*0.93%*	*0.13%*	51.6%
Financial revenue	1,764,978	1,122,177	195,648	157.3%
Financial expenses	(332,132)	(96,096)	(6,476)	345.6%
Gross profit	**1,479,956**	**1,107,911**	**198,799**	**133.6%**
Gross profit margin (%)	*15.0%*	*12.5%*	*2.8%*	120.0%
Income Tax	(44,768)	(21,818)	(8,321)	205.2%
Net profit on continuing operations	**1,435,188**	**1,086,093**	**190,478**	**132.1%**
Net profit margin (%)	*14.5%*	*12.3%*	*2.7%*	117.9%
Other comprehensive income	**(189,969)**	**155**	**0**	**X**
Total revenue for the period	**1,245,219**	**1,086,248**	**190,478**	**114.6%**

EBITDA	**61,193**	**86,935**	**13,056**	**70.4%**
EBITDA Margin (%)	*0.62%*	*0.98%*	*0.18%*	63.3%

In 2012 the net profit of the Company amounted to PLN 1,435,188 thousand, which means increase by 32.1% as compared to 2011. The margin of net profit of the Company (ratio of net profit to revenues on sales) reached 14.5% against 12.3% gained in 2011.

The significant growth of net profit was influenced by dividends obtained from subsidiaries, higher by about 53.6% as compared to the level of 2011.

The operating profit gained in 2012 makes 57.6% of the value of 2011, which mainly resulted from the increased costs of activities of the Company, in particular, besides the growth of own costs of sales in connection with a higher volume of electricity purchased, the following costs increased:

– depreciation (by about PLN 9 million), mainly as a result of a one-off redemption of low value tangible fixed assets purchased in the 1st quarter of 2012,
– advertising (by about PLN 8.6 million), in connection with the increased activity of the Company in sponsoring projects,
– employee benefits (by about PLN 8 million), mainly due to the change in employment level,
– taxes and fees (by about PLN 2.5 million).

The increased cost of operations of the Parent Company is associated with the process of centralisation of functions and acquisition of competences from companies of TAURON Capital Group, implemented in TAURON Capital Group, with the purpose of improvement of effectiveness in TAURON Capital Group. At the same time, the functions acquired and the related costs are gradually reduced in companies of TAURON Capital Group. It refers, in particulate, to commercial services, securing the needs of TAURON Capital Group companies in the scope of CO_2 emission allowances and certificates of origin in terms of the redemption obligation, procurement management, including the purchase of fuels (coal, biomass, gas and other), financial management, IT support, legal and economic counselling, audit.

Table no. 19 Revenue on sales of the Company (data in thousand PLN)

Item	2012	2011	2010	Dynamics (2012/2011)
Revenue on sales	**9,889,872**	**8,845,148**	**7,185,271**	**111.8%**
Revenue on sales of goods, products and materials	**9,820,219**	**8,808,622**	**7,172,814**	**111.5%**
including: Sales of electric energy (without excluding excise tax)	9,298,615	8,354,930	6,981,780	111.3%
Revenue on sales of services and other revenue	**69,653**	**36,526**	**12,457**	**190.7%**
including: Sales of commercial services	51,993	28,385	9,716	183.2%
Revenue on other operating activity	**1,979**	**3,354**	**742**	**59.0%**
Revenue on financial activity	**1,764,978**	**1,122,177**	**195,648**	**157.3%**

The growth of revenue on sales in 2012 as compared to 2011 is associated with the increased volume of sales of electric energy by about 11.4%. The growth of revenue on sales of services, as compared to 2011, occurred mainly in the scope of services referring to organisation of fuel supplies. Since 2012 the Company has been acting as the intermediary in transaction of biomass and coal purchase for the companies of Generation and Heat Segments. The Company buys raw materials from PKW and from entities outside TAURON Capital Group, whereas the whole sales is performed to the companies of TAURON Capital Group. The Company recognises revenues due to intermediary services – organisation of supplies, exclusively.

The growth of revenues on financial activities in 2012, as compared to 2011, occurred mainly due to the higher dividends received from subsidiaries and higher interest on deposits of available cash.

The activities of the Company are mostly conducted on the Polish market where the value of sales in the years 2012 and 2011 amounted to PLN 9,349.6 million and PLN 8,372.4 million, respectively.

The value of sales to foreign clients in the years 2012 and 2011, amounted to PLN 540.3 million and PLN 472.7 million, respectively.

Table no. 20 Level and structure of costs (data in thousand PLN)

Item	2012	2011	2010	Dynamics (2012/2011)
Total costs	**10,176,873**	**8,862,768**	**7,182,862**	**114.8%**
Own cost of sales	9,710,955	8,663,010	7,067,452	112.1%
Costs of sales and overheads	131,581	102,394	108,282	128.5%
Other operating expenses	2,205	1,268	652	173.9%
Costs of financial activities	332,132	96,096	6,476	345.6%

In 2012 total costs of the Company operations amounted to PLN 10,176.9 thousand and they were higher by 14.8% than in the previous year. Own costs of sales increased by 12.1% in 2012 as compared to 2011, which mainly results from the increased costs of energy purchase, arising from the increased volume of purchase and the average purchase price of electric energy. The own cost of sales also increased due to impairment losses of market prices for property rights arising from certificates of origin and allowances for emission of pollutants. Accordingly, the Company created impairment losses at the level of PLN 34.8 million for property rights arising from certificates of origin and PLN 0.2 million for allowances for emission of pollutants.

As mentioned above, the increased cost of sales and overheads in 2012, in relation to the comparable period, arises from the impairment losses applied to property rights and the increased costs of amortisation and advertising.

Other operating expenses include mainly the fees due to external organisations and donations. The growth of costs year-on-year is connected with allocation of funds for the establishment of TAURON Foundation in 2012 (PLN 1 million).

The growth of financial costs in 2012, as compared to 2011, is mainly affected by higher interest costs due to bonds issued in December 2011 and in January 2012. In the Company, the central model of financing of TAURON Capital Group activities operates, which foresees acquisition of financing at the level of the Parent Company.

Financial end economic standing of the Company

In the table below, the annual unit (stand-alone) statement of financial situation of the Company is presented.

Table no. 21 Annual unit (stand-alone) statement of financial situation (data in thousand PLN)

Statement of financial situation prepared according to IFRS	Status as of 31 December 2012	Status as of 31 December 2011 (*data converted*)	Status as of 01 January 2011 (*data converted*)	Dynamics (2012/2011)
ASSETS				
Fixed Assets	**22,997,644**	**21,386,633**	**17,224,689**	**107.5%**
Tangible fixed assets	20,786	11,611	5,425	179.0%
Intangible assets	53,053	15,487	7,322	342.6%
Stocks and shares	20,184,404	20,184,103	16,353,470	100.0%
Bonds and other debt securities	2,615,000	1,137,040	848,200	230.0%
Loans granted	117,802	–	–	–
Other non-financial assets	6,599	830	1,686	795.1%
Assets due to deferred Income tax	–	37,562	8,586	–
Current assets	**2,760,425**	**1,436,421**	**1,220,568**	**192.2%**
Intangible assets	113,302	33,120	9,773	342.1%
Inventory	176,172	41,028	9,238	428.7%
Receivables due to income tax	–	852	2,822	0.0%
Trade receivables and other receivables	1,460,484	1,062,438	634,531	137.5%
Bonds and other debt securities	40,261	13,003	383	309.6%
Derivatives	466	–	257	–
Cash and equivalents	910,421	281,852	527,011	323.0%
Other short-term non-financial assets	59,319	4,128	36,553	1437.0%
TOTAL ASSETS	**25,758,069**	**22,823,054**	**18,445,257**	**112.9%**
LIABILITIES				
Equity	**18,042,008**	**17,341,198**	**16,523,373**	**104.0%**
Share capital	8,762,747	8,762,747	15,772,945	100.0%
Supplementary capital	7,953,021	7,412,882	475,088	107.3%
Hedging instruments revaluation reserve	(189,756)	–	–	–
Retained profits/Uncovered losses	1,515,996	1,165,569	275,340	130.1%
Long-term liabilities	**5,280,856**	**4,140,327**	**848,772**	**127.5%**
Loans, credits and debt securities	5,125,082	4,136,112	845,650	123.9%
Derivatives	150,594	–	–	–
Provisions for employee benefits	4,605	3,225	2,986	142.8%
Liabilities arising from leasing contracts	480	990	136	48.5%
Accruals and governmental subsidies	95	–	–	–
Short-term liabilities	**2,435,205**	**1,341,529**	**1,073,112**	**181.5%**
Trade liabilities and other liabilities	723,253	326,126	540,702	221.8%
Current portion of interest-bearing credits, loans and debt securities	1,392,660	719,380	461,627	193.6%
Derivatives	40,624	80	–	–
Liabilities due to income tax	54,057	33,687	–	160.5%

Statement of financial situation prepared according to IFRS	Status as of 31 December 2012	Status as of 31 December 2011 (*data converted*)	Status as of 01 January 2011 (*data converted*)	Dynamics (2012/2011)
Current part of liabilities due to leasing	510	627	906	81.3%
Other non-financial liabilities	93,365	85,702	26,094	108.9%
Accruals and governmental subsidies	10,532	8,223	6,719	128.1%
Short-term provisions, employee benefits and other provisions	120,204	167,704	37,064	71.7%
TOTAL LIABILITIES	**25,758,069**	**22,823,054**	**18,445,257**	**112.9%**

The increase in assets at the end of 2012 in relation to 2011 arises mainly from the increase of item *Bonds and other debt securities*, covering bonds purchased by the Company, issued by subsidiaries. The change of balance in the year ended on 31 December 2012, in relation to the comparable period, is caused by the Company takeover of bonds issued by subsidiaries of the total value of PLN 2,920 million and by redemption of the bonds at a total amount of PLN 1,452 million.

According to the status as of 31 December 2012 and 31 December 2011, the total equity of the Company amounts to PLN 18,042.0 million and PLN 17,341.2 million, respectively, which makes 70% and 76% of the total value of liabilities.

The capital on revaluation reserve for hedging instruments results from valuation of Interest Rate Swap (IRS) instruments, hedging the risk of interest rate due to the bonds issued.

The liabilities of the Company due to loans and credits received and due to the bonds issued as of 31 December 2012, referred to bonds issued under the bonds issue programme at the level of PLN 4,301.8 million, loans from subsidiaries drawn under the *Agreement on cash pool services,* at the amount of PLN 1,175.9 million, credits received from EIB at the level of PLN 910.4 million and the overdraft facility at the amount of PLN 129.6 million (external financing under the cash pooling agreement).

Change in the items: short-term provisions and employee benefits is associated with the sales of electric energy to end consumers and the obligation of redemption of the specific number of certificates of electric energy origin from renewable, gas sources and from co-generation. The provision created at the end of 2011 was used in the first quarter of 2012 to the level of PLN 164.6 million. In 2012 the Company applied redemption of certificates of origin at the value of PLN 37.5 million and paid the substitution fee of about PLN 127 million and the redemption fee of PLN 0.06 million.

Statement of Cash Flows

Table no. 22 Statement of Cash Flow (data in thousand PLN)

Statement of Cash Flows prepared according to IFRS	2012	2011	2010	Dynamics (2012/2011)
Cash flows from operating activities				
Gross profit/(loss)	1,479,956	1,107,911	198,799	133.6%
Adjustments	(1,895,316)	(1,389,197)	(421,519)	136.4%
Net cash from operating activities	**(415,360)**	**(281,286)**	**(222,720)**	**147.7%**
Cash flows from investment activities				
Sales of tangible fixed assets and intangible assets	191	192	11	99.5%
Purchase of tangible fixed assets and intangible assets	(46,503)	(14,069)	(6,970)	330.5%
Sales of bonds and other debt securities and units in investment funds	1,455,041	134,460	–	1,082.1%
Purchase of bonds and other debt securities and units in investment funds	(2,922,999)	(433,302)	(848,200)	674.6%
Purchase of stocks and shares	(262,131)	(3,426,768)	(80,711)	7.6%
Dividends received	1,550,613	967,409	181,948	160.3%
Interest received	118,261	54,800	–	215.8%
Repayment of loans granted	416,512	168,000	–	247.9%
Loans granted	(396,093)	(348,009)	–	113.8%
Other	(946)	–	3,548	X
Net cash from investment activities	**(88,054)**	**(2,897,287)**	**(750,374)**	**3.0%**
Cash flows from financial activities				
Repayment of liabilities due to financial leasing	(597)	(926)	(811)	64.5%
Issue of debt securities	150,000	3,300,000	848,200	4.5%
Credits/loans drawn	960,000	–	–	X
Credits/loans repayment	(51,000)	–	–	X
Dividends disbursed	(543,290)	(262,882)	–	206.7%

Statement of Cash Flows prepared according to IFRS	2012	2011	2010	Dynamics (2012/2011)
Interest paid	(279,378)	(45,506)	(178)	613.9%
Other	(10,793)	(12,735)	(1,700)	84.8%
Net cash from financial activities	**224,942**	**2,977,951**	**845,266**	**7.6%**
Increase/(decrease) in net cash and cash equivalents	**(278,472)**	**(200,622)**	**(127,828)**	**138.8%**
Net exchange differences	(1,435)	(61)	(44)	2,352.5%
Cash opening balance	**(115,048)**	**85,574**	**213,402**	**X**
Cash closing balance	**(393,520)**	**(115,048)**	**85,574**	**342.0%**

The status of cash received from operating, investment and financial activities of the Company for 2012, considering the status of opening balance of cash flows, amounted to PLN (393.5) million. The negative level of cash closing balance results from the adjustment of cash and pecuniary assets, consisting of balances of loans granted and received, implemented under cash pooling transactions, due to the fact that they do not constitute cash flows from investment or financial activities, therefore, being used mainly for management of current cash flows.

3.3. Differences between the financial results recognised in the annual report and the forecasts of results for the year as published earlier

The Management Board did not publish any forecasts of financial results TAURON for 2012. This decision resulted from considerable volatility of the market and substantial number of variables affecting its predictability.

3.4. Basic financial and non-financial ratios

Financial ratios

The table below presents the basic financial ratios of TAURON Capital Group.

Table no. 23 Basic financial rates of the Company

Item	2012	2011	2010	Dynamics (2012/2011)
Gross Profitability (gross result / revenue on sales)	**15.0%**	12.5%	2.8%	120.0%
Net Profitability (gross result / revenue on sales)	**14.5%**	12.3%	2.7%	117.9%
Return on equity (gross result / equity)	**8.2%**	6.4%	1.2%	128.1%
Return on assets (net result / total assets)	**5.6%**	4.8%	1.0%	116.7%
EBIT (PLN thous) (result on operating activities)	**47,110**	81,830	9,627	57.6%
EBIT Margin (EBIT / revenue on sales)	**0.48%**	0.93%	0.13%	51.6%
EBITDA (PLN thous) (result on operating activities before depreciation)	**61,193**	86,935	13,056	70.4%
EBITDA Margin (EBITDA / revenue on sales)	**0.62%**	0.98%	0.18%	63.3%
Current liquidity ratio (current assets / short-term liabilities)	**1.13**	1.07	1.14	105.6%

The gross and net profitability of the Company increased in 2012, as compared to 2011. The level of operating result is typical for a company conducting activities involving management of a holding (costs related to management of TAURON Capital Group are included in operating activities while revenue gained from dividends is captured under financial activities). The decreased level of operating profit is connected with implementing of a new business model and centralising the functions in TAURON Capital Group – the Company extended the scope of its activities, taking over some competences from the companies of TAURON Capital Group. At the same time, the functions acquired are gradually limited in the respective companies. Such centralisation is aimed at improvement of effectiveness in TAURON Capital Group.

The ability of the Company to settle its liabilities was not threatened in 2012.

Non-financial ratios

The non-financial ratios in the Company are closely related to the specific nature of its activities, the resources held and the adopted Corporate Strategy, including:

- methods of human resources management,
- marketing actions and service of key clients,
- assessment of investment opportunities,
- centralisation of management functions in the Group, restricting the non-core activities,
- development of organisational structures and management procedures.

3.5. Income from the bonds issue programme

Under the binding Programme of Bonds Issue, concluded on 16 December 2010 with Bank Handlowy w Warszawie S.A., ING Bank Śląski S.A., Bank Polska Kasa Opieki S.A., BRE Bank S.A., Powszechna Kasa Oszczędności Bank Polski S.A., BRE Bank S.A. and Nordea Bank Polska S.A., on 30 January 2012 the Company issued bonds of B tranche of the value of PLN 150,000 thousand for financing the investment needs implemented by the companies of TAURON Capital Group through the central financing model operating in TAURON Capital Group.

Moreover, on 29 June 2012 an agreement was signed by the Company and Bank Handlowy w Warszawie S.A., ING Bank Śląski S.A., Bank Polska Kasa Opieki S.A., BRE Bank S.A., Powszechna Kasa Oszczędności Bank Polski S.A., Nordea Bank Polska S.A., Nordea Bank AB and BNP Paribas Bank Polska S.A. and Bank Zachodni WBK S.A., the agreement was signed, on the basis of which the value of TAURON bond issue programme was increased by tranche D and tranche E at the value of PLN 2,475,000 thousand and PLN 275,000,000 thousand, respectively, i.e. to the total amount of PLN 7,050,000 thousand. The funds to be obtained from the issue of tranche D and tranche E bonds will be allocated for financing the investment projects in TAURON Capital Group and for financing the general corporate expenses in the TAURON Capital Group. As of 31 December 2012, the Company has not used the funds of D and E tranches yet.

3.6. Financial instruments

3.6.1. Implementing financial instruments in the elimination of credit risk, significant disruptions of cash flows and losing financial liquidity

The Company carries out on-going monitoring of credit risk generated within the conducted operations.

In 2012, the Company was exposed to credit risk of customers, resulting from the concluded commercial contracts. In order to reduce the risk, based on regularly performed analyses of creditworthiness and financial standing of the contracting parties, in justified cases, appropriate collaterals are required from the customer, for example in the form of bank guarantee, insurance or corporate guarantees, as well as regulations enabling to withhold deliveries of goods, products or rendering services in case of default in setting the accounts.

Within the financial risk management, in 2012 the Company secured the risk of changeable cash flows resulting from the volatility of interest rates by its partial minimising through transactions of replacing the floating interest rate by the fixed interest rate (IRS). The Company is exposed to the risk of floating interest rate arising from the indebtedness, associated with the WIBOR reference rate. Moreover, in 2012, the Company, within the policy of financial risk management, secured the currency exposure occurring within the commercial activities (mainly due to the CO_2 emission allowances trading), by concluding the forward contracts. The aim of these transactions was to secure the Company against the risk of cash flow volatility resulting from currency rates fluctuations.

As of 31 December 2012 (due to the adopted centralised model of financial risk management applicable to TAURON only), 12 active forward derivative transactions occurred, as specified in the table below.

Table no. 24 Information on forward transactions and derivatives as of 31 December 2012

Type of transaction concluded	Total par value of the specific type of transaction	Currency			Maturity date of the specific type		Valuation of the specific type of transaction (end 12/2012)
		PLN	EUR	Other	up to one year	above one year	
Forward	24,471.82		X		X		-552,34
IRS	3,440,000.00	X				X	-190.666,66

In order to minimize the possibility of the occurrence of cash flows disruptions as well as the risk of losing liquidity, in 2012, like in the previous year, the Company implemented cash pooling mechanism, described in more detail in item 2.5.4. hereof, which irrespective of funds contributed by particular members, is associated with a flexible revolving credit facility, in the form of overdraft, at the amount of PLN 300,000; the description is included in item 2.5.3. of this report.

Additionally, during 2012, to ensure the adequate level of liquidity security and the possibilities to implement the investment programme, the Company raised the value of the Programme of Bonds Issue effective so far, by the amount of PLN 2,750,000 thousand, which is described in item 3.5. hereof, with a possibility to issue bonds at any moment selected by the Company, and the guarantee of covering the bonds by the Banks. Notwithstanding the foregoing, the Company also held the available amount of PLN 450,000 thousand under the contract concluded with EIB, as described in item 2.5.3. of this report.

3.6.2. Goals and methods of financial risk management

The Company manages financial risk, understood as currency risk and interest rate risk in accordance with the developed and adopted regulations *Policy of risk management specific for the financial area in TAURON Capital Group*, which is the collection of principles and standards compliant with the best practices in this area.

Due to correlation between the risk borne and the level of achievable income, these regulations are used to maintain the risks at the previously established, acceptable level. The main goal of financial risk management is to minimise sensitivity of cash flows of the Company to financial risk factors and to reduce financial costs and collateral costs as a part of transactions with the use of derivative instruments.

Simultaneously, the policy implements hedge accounting principles which determine the rules and types of hedge accounting policy as well as the booking approach to recognising of hedging instruments and items hedged under the hedge accounting, in compliance with IFRS. In accordance with the above mentioned policy, the Company applies the derivatives the characteristics of which allows for application of hedge accounting.

Moreover, the Company implemented the *Policy of Financial Liquidity Management in TAURON Group*. Owing to the *Policy* implemented, based, among others on precise, weekly update of the financial plans, analysis of scenarios and comparative analyses, the Company optimises the management of the liquidity position of TAURON Capital Group, accordingly decreasing the risk of liquidity loss. Based on the policy adopted, the Company determines the optimum size and structure of liquidity provision of TAURON Capital Group as well as performs measurements and assessment of liquidity at the level of TAURON Capital Group.

3.7. Present and forecast financial situation

The financial situation of the Company is stable and no adverse events occurred which would cause risk for its business continuity or significant deterioration of its financial standing.

Considering the current market situation, it is expected that the results of TAURON Capital Group in 2013 will be affected both by internal factors and by external factors which occurred in 2012.

3.8. Factors and events of unusual character significantly affecting the financial results achieved

3.8.1. Internal factors and their assessment

In 2012 no material internal factors occurred which would significantly affect the financial result achieved. Nevertheless, events which influenced the activities of the Company and its result in 2012, included, among others:

– consolidation of commercial procedures, intensification of commercial activities with the company TAURON Sprzedaż GZE,
– further centralisation of the function of Market Operator in the Company,
– management of fuel purchases by the Company for the needs of generation entities included in TAURON Capital Group,
– consolidation of results of GZE companies taken over at the end of 2011, for the whole financial year.

3.8.2. External factors and their assessment

The results of the Company in 2012 were affected by the following external factors:

Macroeconomic situation

In 2012, slowdown in economic growth rate could be observed worldwide, and also in Poland. The Company conducts its operations mainly on the Polish market, within which the Company takes advantage of positive market trends. Until the end of 2009, the economic boom could be observed in Poland, which was reflected in the GDP growth. In 2011, the GDP growth rate was higher by 4.3% in real terms than in 2010. Year 2011 was the consecutive period in which the growing trend in demand for electric energy in KSE was observed. The national demand for power in 2011 as compared to 2010 was by ab. 3.9% higher.

However, in 2012 the growth rate of GDP for Poland was clearly weaker – in the 3rd quarter this ratio increased by 1.4% YoY as compared to the growth of 2.3% YoY in the 2nd quarter and 3.5% YoY in the 1st quarter. In the 3rd quarter investments dropped by 1.5% YoY while the domestic demand fell by 0.7% on annual basis. The final data for the 4th quarter of 2012 is not available yet, but the estimates of the analysts of the Ministry of Economy foresee further decrease in GDP dynamics, to about 0.7% year-on-year.

One of the main factors determining the level of economic activity in global scale in the first three quarters of 2012 was the risk of deepening of the fiscal problems in Euro zone. Materialising of this risk could have brought unforeseeable, however, extremely unfavourable effects for all the global economy. This risk was reflected in the macroeconomic data in 2012 and affected the Polish economy, including the energy sector.

Situation in electric energy sector

In 2012, both consumption and production of electricity dropped in Poland. The domestic electricity demand decreased by ab. 0.6%. It was the first decline observed since 2009.

According to the PSE data, the domestic consumption of electric energy in 2012 decreased by about 0.6% – to the level of 157 TWh (by about 1 TWh), the total production of electric energy has also decreased – by about 2% year on year. The difference between the production and consumption was exported, which was supported by favourable price relations between the Polish market and the neighbouring Germany and Czech Republic. The total surplus of export over import in the whole 2012 amounted to over 2.8 TWh and it was lower by 2.4 TWh than in 2011. taking into account the energy production sources, in 2012 increased production in power plants based on lignite was observed (mainly due to commissioning of a new unit in Elektrownia Bełchatów at the end of 2011) – by about 2.0 TWh (ab 3.7%). Production of wind farms also increased – by almost 1.2 TWh (ab. 41.3%) and production of gas-fired plants – by 0,1 TWh (3.0%). Coal-fired power plants had to reduce their production in the highest extend. In 2012 they generated as much as 6.3 TWh (ab. 7%) less energy than a year before.

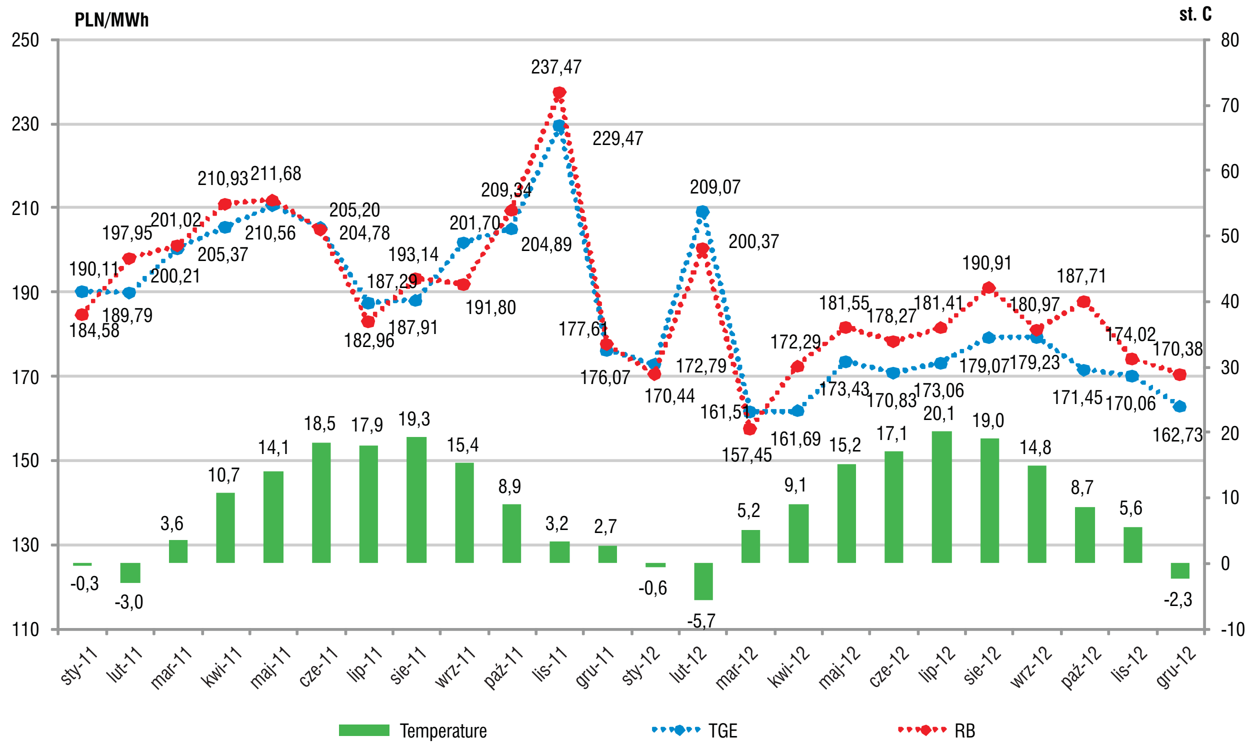
The impact of the deepening economic slowdown in 2012 was more and more clearly visible in consumption and production of electricity in Poland. The decline in electricity demand also resulted in the slump of market quotations of electric energy.

The liberalisation of the energy market and campaigns promoting using TPA rule as a principle, accompanied by growing competition in order to acquire the retail client, resulted in significant number of energy consumers changing the supplier.

Prices of energy and related products

In 2012, the downward trend in electric energy prices dominated. In the period from January to December 2012, the monthly average price of electric energy in *baseload* type contracts on the SPOT market dropped from the level of about PLN 173/MWh to PLN 163/MWh. In the same period, electric energy price dropped in contracts of *forward* and in for energy in contracts of *baseload front year* type. In January 2012 the average quotations reached PLN 214/MWh, while in December 2012 – only PLN 169/MWh.

Figure no. 10 Average monthly prices of energy on the SPOT TGE market and Balancing Market vs. the average temperatures



The tendency on the Polish market was consistent with trends observed on the European markets and in the neighbouring countries. The valuation of annual contracts, e.g. in Germany was also reduced over the last year. In January 2012 it was almost EUR 52/MWh, while in December 2012 – only EUR 46/MWh. The average price on the SPOT market in Germany in 2012 reached the level of EUR 42.60/MWh, i.e. by EUR 8.53/MWh less than in the previous year. Similar trends were observed on the Czech market, which is usually strongly correlated with the German market. The quotations on the SPOT market, like in Germany, reached the level of EUR 42.38/MWh, i.e. by EUR 8.18/MWh less than in the previous year.

Figure no. 11 Turnover of BASE Y-13* contracts

** BASE Y-13 means contracts with band-based delivery, i.e. the same quantity of energy on each hour of a given year. In 2012 it means the supply of the same quantity of energy within 8,760 hours, counting from 1 January 2012 till 31 December 2012.*

Figure no. 12 Quotations of annual contracts EEX Germany

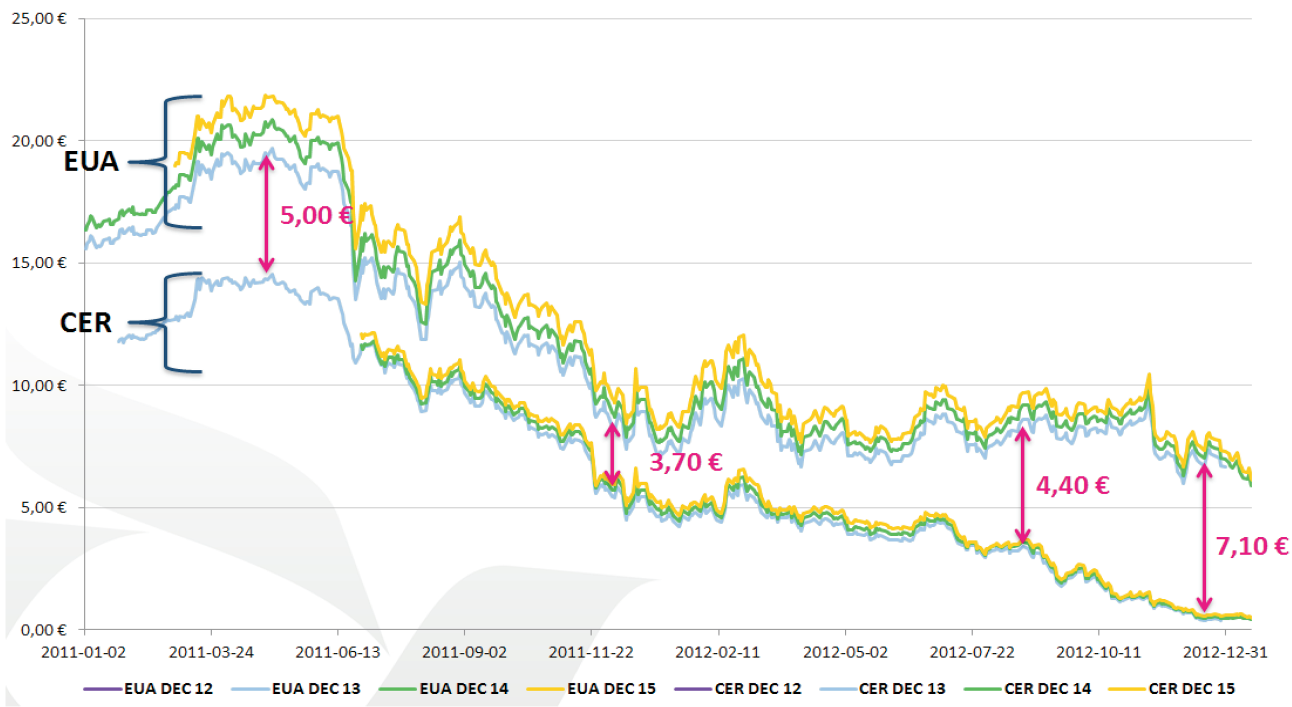
The decline of industrial production in 2012 against the preceding year and the decrease of economic forecasts for the next years was also reflected in the drop of prices of CO_2 emission allowances. The price of EUA emission allowances in 2012 dropped from the maximum level of EUR 9.43/t to the minimum level of EUR 5.70/t on the spot market. The CER units were also losing their value. At the beginning of the year, the valuation of CER units in January reached the level of EUR 3.86/t, whereas at the end of the year, the level was only EUR 0.68/t. The decline in prices of CER units results, among others, from the limitation in possibilities to use CER from certain types of projects in the next settlement period 2013–2020. These types were listed in the regulation of the Commission (EU) no 550/2011 of 7 June 2011 establishing, pursuant to the Directive 2003/87/EC of the European Parliament and of the Council, certain limitations in the scope of using the international units due to projects associated with industrial gases (Official Journal of the EU of 2011, L149, p. 1). It refers to units originating from projects related to destruction of trifluoromethane (HFC-23) and nitrogen suboxide (N_2O) from production of adipic acid. Use of the aforementioned units will be possible only until 30 April 2013, exclusively for purpose of settlement of emissions from the period 2008–2012.

A similar downward tendency was observed in *forward* type contracts. The rapid drop in CER units caused the increase of spread between EUA and CER at the end of the year, to the level reaching EUR 7/t. So high decline of prices on the CO_2 emissions trading market results from the economic downturn in the Euro zone, and the consequent surplus of allowances in the EU ETS system.

In 2012 the European Commission undertook efforts to raise the prices of allowances on the market, i.a. through introducing changes into the auction schedule, for the next, 3rd phase of performance of the system, i.e. in the years 2013–2020. Moreover, the European Commission proposed structural reforms in the European emission trading system. The range of proposals of the European Commission included the increased target of emission reduction from 20% to 30%, permanent withdrawal of allowances from the market, extending the EU ETS system by new sectors, change of value of the linear indicator of emission reduction in the years 2013–2020, or introduction of the discretional mechanism of managing the prices of allowances in the EU ETS system.

Moreover, the European Commission has informed that the general surplus in the EU ETS system, for phase II and III jointly, reached about 2 bn Mg CO_2. In connection with this situation, withdrawal of a part of allowances from the market is probable. Various proposals appeared concerning the quantity of allowances to be withdrawn; finally the Commission proposed shifting of 900 million Mg in the auction schedule in the years 2013–2015 and re-introduction of this quantity to the market in the years 2018–2020. This decision would mitigate the effects of the economic downturn on the CO_2 emission allowances market, consequently influencing the current level of their quotations.

Figure no. 13 FORWARD EUA and CER (EEX)



The next area of the market where drop of prices was observed in 2012 is the market of property rights arising from certificates of origin of electric energy. In accordance with the currently applicable regulations, the support system for production of electricity and heat in high-performing gas and coal co-generating units, operating in Poland, expires at the end of March of 2013. Lack of clear regulations concerning further support resulted in a very low level of quotations for certificates at TGE at the end of 2012. The highest drop of quotations occurred in case of the so-called red certificates. The average value of the KECX index dropped by 75% from January to December 2012 and in the last month it reached only PLN 2.25/MWh. In January 2012 this value reached PLN 8.93/MWh.

The second index in terms of decline in 2012 was the index of property rights OZEX_A concerning the so-called green certificates. The value of this index dropped to the level of PLN 185.44/MWh in December 2012, i.e. by 35% less against January 2012. The indices of KGMX property rights. the so-called yellow certificates, after the drop of quotations in the spring and summer months, i.e. after settlement of the obligation for the previous year, returned to their values noted at the beginning of the year. In January 2012 the value of this index amounted to PLN 126.06/MWh, while in December it reached PLN 125.70/MWh, i.e. only 0.3% less. The index of property rights of the so-called violet certificates, KMETX raised slightly at the end of the year, as the only index among the indices of property rights. In January 2012 the value of this index was PLN 58.40/MWh, and in December it was higher by 10 grosz, i.e. PLN 58.50/MWh (+0.2%).

The decline of certificate prices adversely affected the results of companies of the Generation and RES Areas, due to lower revenue on sales of certificates obtained from production of electricity from renewable energy sources and in co-generation. It had no impact on results of TAURON Capital Group as the generators sell certifications to sales companies of TAURON Capital Group, for redemption purposes, in connection with electricity sales to end consumers. On the other hand, purchase of these certificates at lower prices, much below the established substitution fee, had a positive effect on results of Sales Area and TAURON Capital Group in 2012. Due to the favourable price relation, the obligation of redemption was totally covered by the certificated and TAURON Capital Group did not incur any costs of substitution fee in 2012.

The decline in quotations of property rights resulted from the lack of legal standards ensuring the extension of the support system for co-generation units, but also from the high surplus in the balance of property rights in the register maintained by TGE, i.e. the difference between the quantity of property rights (certificates) issued and redeemed (or blocked for redemption).

In the scope of the so-called red certificates the balance reached 26.3 TWh at the end of the year, since the beginning of maintaining the register, the balance of the so-called green certificates was 8.5 TWh, in case of yellow certificates – 3.1 TWh and for the so-called violet certificates – 0.3 TWh.

Figure no. 14 Indices of proprietary rights of the so-called red certificates – quotations in 2011 and 2012

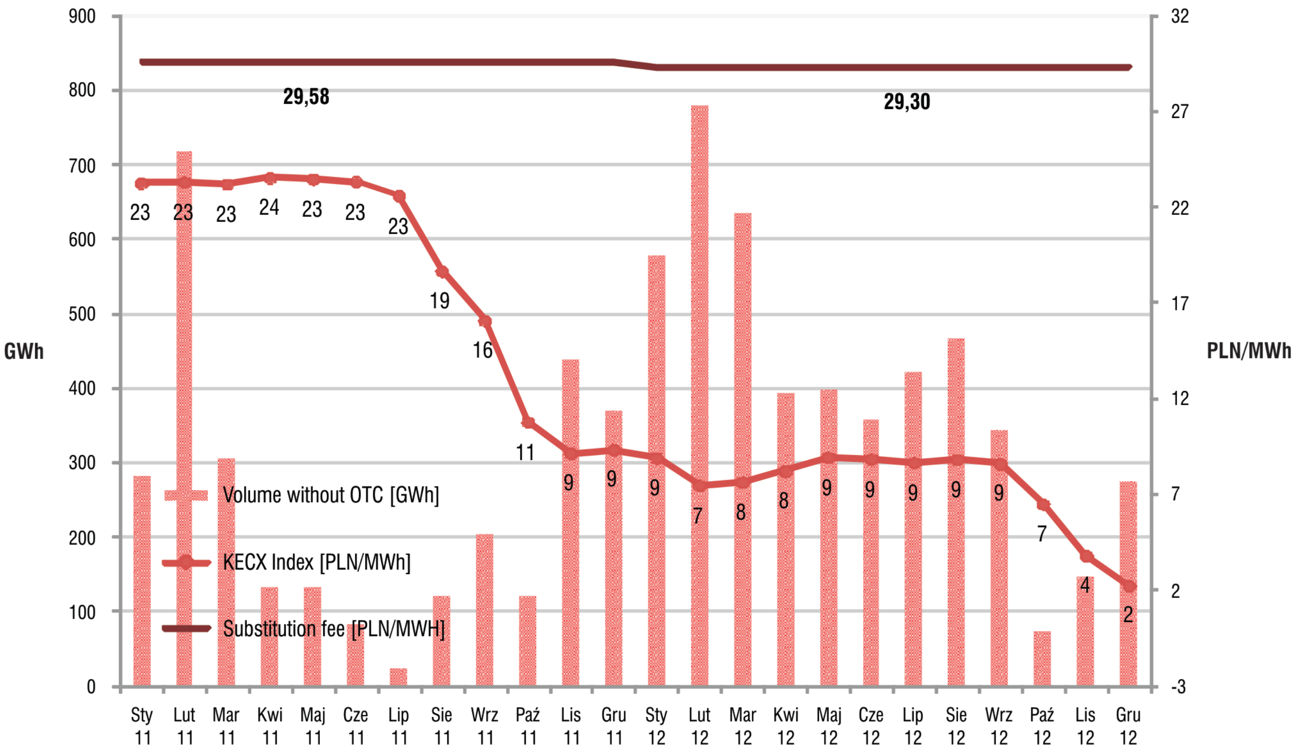


Figure no. 15 Indices of proprietary rights of the so-called green certificates – quotations in 2011 and 2012

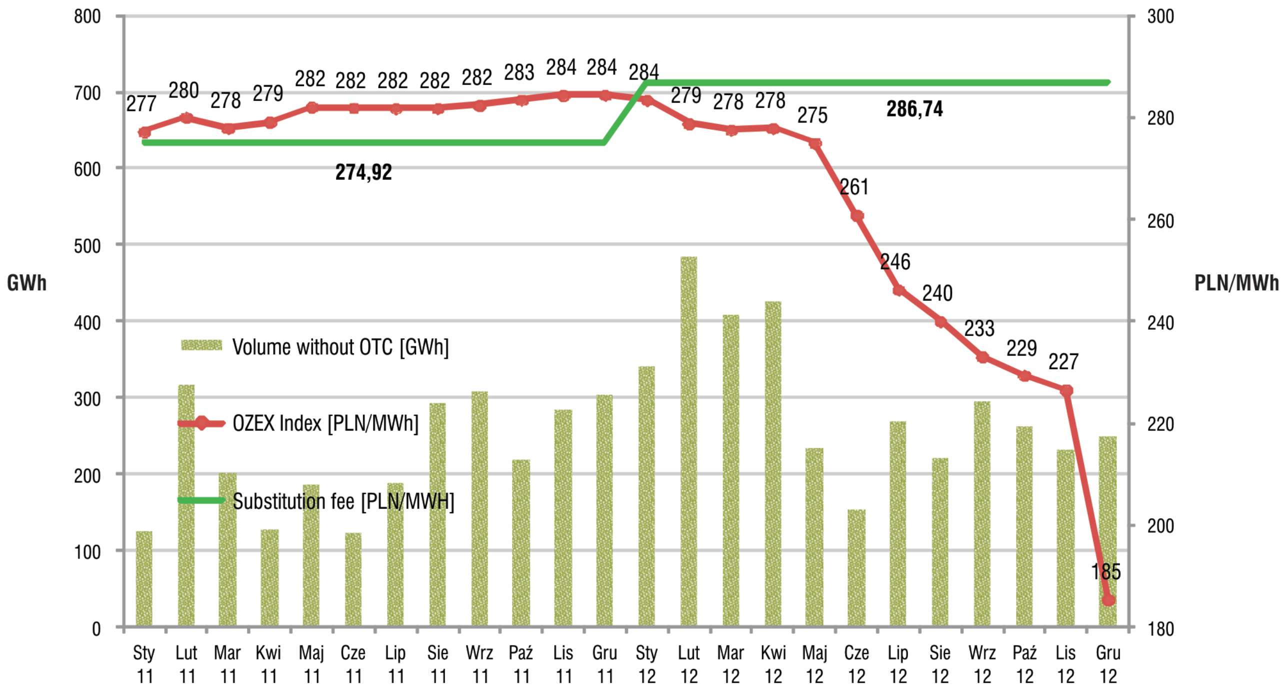


Figure no. 16 Indices of proprietary rights of the so-called yellow certificates – quotations in 2011 and 2012

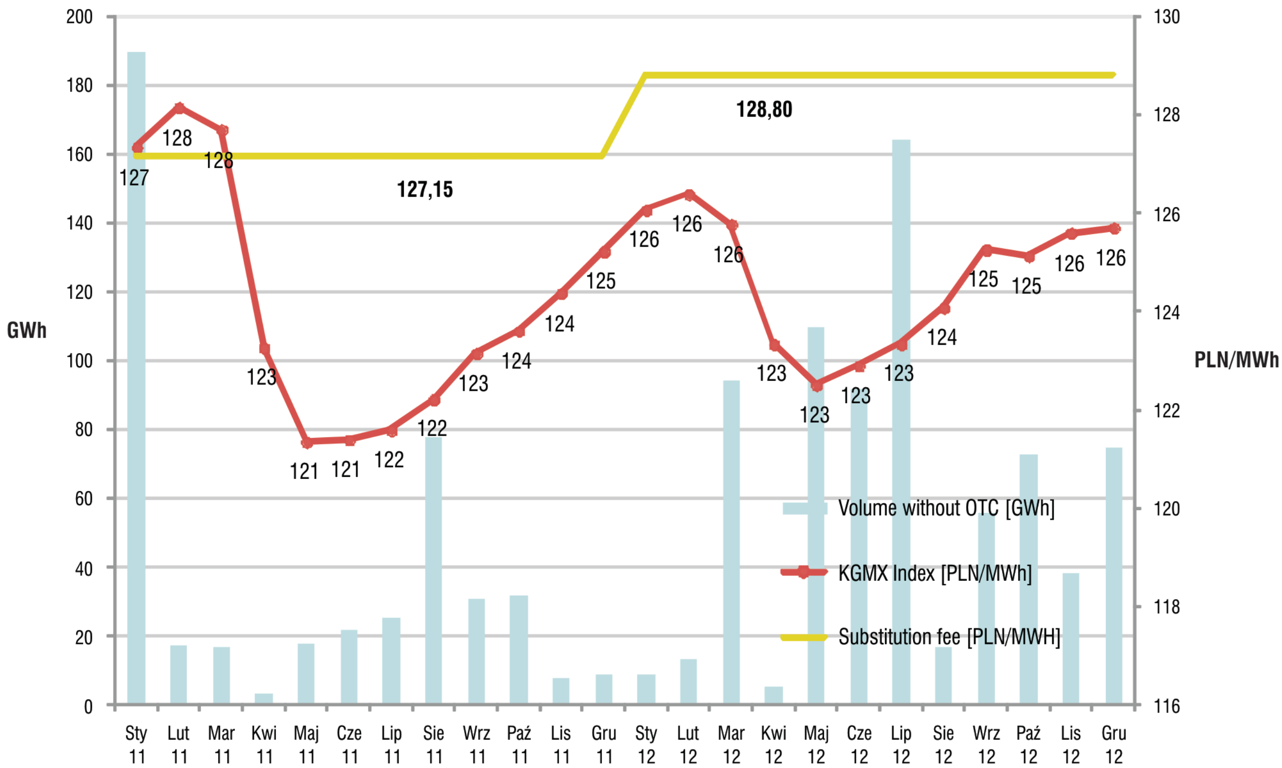
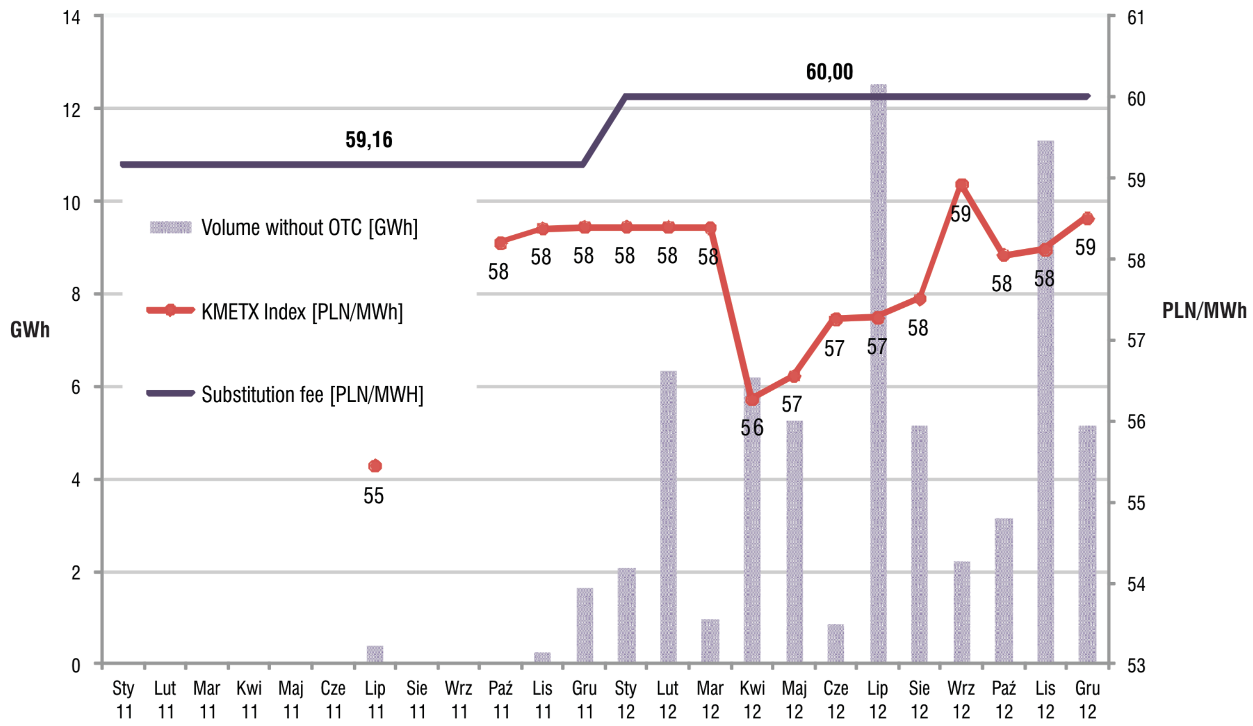


Figure no. 17 Indices of proprietary rights of the so-called violet certificates – quotations in 2011 and 2012



Changes in the regulations of the energy sector

In 2012 the President of URE maintained the obligation to submit tariffs for households. Accordingly, the trading enterprises had limited influence on the margin generated in this sales segment (tariff G).

Obligation of public sales of electric energy by generators

In 2012 the so-called "exchange obligation" was applicable, according to which the generating enterprises are obliged to sell the obligatory volume at TGE (for generators taking advantage of LTC compensations, it means 100% of the electric energy sold). In accordance with provisions of art. 49a of the Act of 10 April 1997 – Energy Law, in 2013 companies of TAURON Capital Group will be bound by the obligation to sell not less than 15% of electric energy generated in a particular year, on commodity exchange, within the meaning of the Act of 26 October 2000 on *commodity exchanges* or on the market organised by the entity maintaining the regulated market on the territory of the Republic of Poland. It means that the sales of electric energy conducted currently for 2013, produced by the generation companies of TAURON Capital Group, for the needs of securing the sales position of TAURON Capital Group, may be performed on the OTC (OTC-over the counter market).

Obligation to implement the AMI technology

The Directive of the European Parliament and of the Council 2006/32/EC on energy end-use efficiency and energy services stipulates that the bills should be based on real consumption, which shall mobilise the system to serious energy savings. In 2009 the European Commission assumed that until 2020, 80% of the power grid and other utilities will be equipped with the intelligent systems for remote measurements. Poland did not withdraw from implementation of AMI technology (*Advanced Metering Infrastructure*) (until the end of September 2012 the Member States could prepare the analysis justifying lack of economic ground for introduction of such solution), accordingly, it shall be obliged to fulfil the EU requirements in this area.

Lack of decision concerning the so-called 'energy tri-pack'

In 2012 the activities related to the so-called 'energy tri-pack' have not finished (amendment to the energy law, gas law and the act on renewable energy sources). In the scope of the aforementioned activities, an important issue is the lack of final decision concerning the level of financial support for RES, accordingly, significant fluctuations of prices of property rights at TGE are observed.

Fuel market

In 2012 the process was continued in Poland concerning the implementation of the requirements of the EU Directives connected with liberalisation of the gas market and releasing the prices of this raw material. Under the liberalisation activities, among others, social consultations on the proposal of the Project on Gas Liberalisation were carried out and the President of ERO adopted the Instruction of gas transmission grid operation and maintenance and Instruction of gas distribution grid operation and maintenance. The system regulation concerning a possibility for gas trading in virtual sales points was also updated. The above mentioned measures enabled the Company to launch gas trading on the gas exchange managed by Towarowa Giełda Energii S.A. (TGE) (on 20 December 2012 the first exchange session for gas trading took place). It should be underlined that on 3 November 2012, TAURON commenced its activities in the scope of high-methane gas to TAURON Wytwarzanie, followed by coke-oven gas supplies.

Purchase of fuel on the coal, biomass markets is performed based on multi-annual and annual contracts, acquired through assignment from the Generation and Heat Area, or concluded under the procurement procedures carried out by TAURON. Due to the purchasing potential of TAURON, the commercial terms in the contracts concluded reflect the situation on the fuel market and they are directly transferred to the entities of TAURON Capital Group. Providing for the appropriate price conditions for fuels purchased for the needs of TAURON Capital Group is one of the elements of competitiveness of the Generation Area.

3.9. Assessment of financial resources management

Due to the measures implemented in the previous years and continued in 2012, resulting in centralising the financial management area in TAURON Capital Group, the Company effectively managed its financial resources. The main tools allowing for effective management of financial resources include the implemented central financing model as well as the *Policy of Liquidity management in TAURON Group*, including the cash pooling operating in TAURON Capital Group. Moreover, the financial management system is supported by the central *Policy of managing risks specific in the financial area of TAURON Group* and the central *Insurance policy of TAURON Group,* in which the Company plays the role of manager and decision maker in the scope of directions of the actions undertaken, which allows for determining the relevant limits of risk exposure.

In accordance with the adopted central model of financing, the Company is responsible for acquisition of financial resources for the companies of TAURON Capital Group. Resources acquired both internally (from companies of TAURON Capital Group, generating financial surpluses), as well as externally (from the financial market) are subsequently transferred to companies of TAURON Capital Group, reporting the need for financing (for this purpose the programme of issue of intra group bonds was implemented in TAURON Capital Group).

Such model of acquisition of funding sources allows, among other things, for decreasing of the costs of capital, increasing of the possibility to obtain financing, it reduces the number and form of hedges established on assets of TAURON Capital Group (the Company acquired unsecured financing) and covenants required by financial institutions, as well as reduces administrative costs. The central model of financing also enables to acquire financial sources unavailable for individual companies, such as, for example, Euro bonds. Implementation of the central financing model effectively influenced the change of approach to investment funding in TAURON Capital Group. The financing is acquired based on the consolidated balance sheet of the whole TAURON Capital Group, while the funding sources are not assigned to any specific investment projects, but they are incurred to cover the financial gap at the level of TAURON Capital Group. The structure of financing of investment projects in the specific period corresponds to the whole activity of TAURON Capital Group. The model adopted allows for implementation of investment plans in accordance with the approved Corporate Strategy.

The second essential element influencing the effectiveness of financial management is the policy of liquidity management. Through implementation of relevant forecasting standards it becomes possible to establish the precise liquidity position allowing for optimising of selection of the moment of fund raising as well as the maturity term and types of deposit instruments as well as the appropriate level of liquidity provision. The above factors influence both the cost reduction and safety enhancement. The current liquidity management is supported by the implemented cash pooling mechanism. Its overriding goal is to provide for current financial liquidity in TAURON Capital Group, with simultaneous limitation of costs of short-term external financing and maximising of financial revenue due to cash surpluses held. Owing to the cash pooling structure, the companies of TAURON Capital Group, facing short-term deficits of funds, may, at the first instance use the funds of companies recognising financial surpluses, without the need to acquire external financing.

Moreover, the Company implemented the coherent programme of bank guarantees. Under one agreement concluded between TAURON and Bank PKO BP S.A., and then between TAURON and companies of TAURON Capital Group, it is possible to issue guarantees in favour of any company of in TAURON Capital Group, within the centralised limit. The above mentioned activity reduced the costs of the bank guarantees necessary to acquire, made the guarantee independent of the individual standing of a company and limited the total number of activities required to obtain the guarantee.

Independently, within the current financial activity, the Company effectively managed the cycle of money flow through adjustment of payment terms of liabilities and receivables.

In 2012, the Company demonstrated full capacity to settle its liabilities on their payment date.

3.10. Information concerning the entity authorised to examine financial statements

The entity authorised, auditing the Consolidated financial statement of TAURON Polska Energia S.A. is Ernst & Young Audit sp. z o.o. with its seat in Warsaw at Rondo ONZ 1. The agreement between TAURON and Ernst & Young Audit sp. z o.o. was concluded on 19 November 2010 and it covers the audit of the financial statements of the Company and the consolidated financial statements for the years 2010–2012.

The level of remuneration of the independent auditor (chartered accountant) due to the services provided for the Company is shown in the table below.

Table no. 25 Level of remuneration of the independent auditor (chartered accountant) due to the services provided for companies of TAURON Capital Group (data in thousand PLN)

	Year ended 31 December 2012	Year ended 31 December 2011
Obligatory audit	70	70
Other certifying services	35	30
Other services (including training)	72	103
Total	**177**	**203**

4. SHARES AND SHAREHOLDERS

4.1. Structure of the share capital

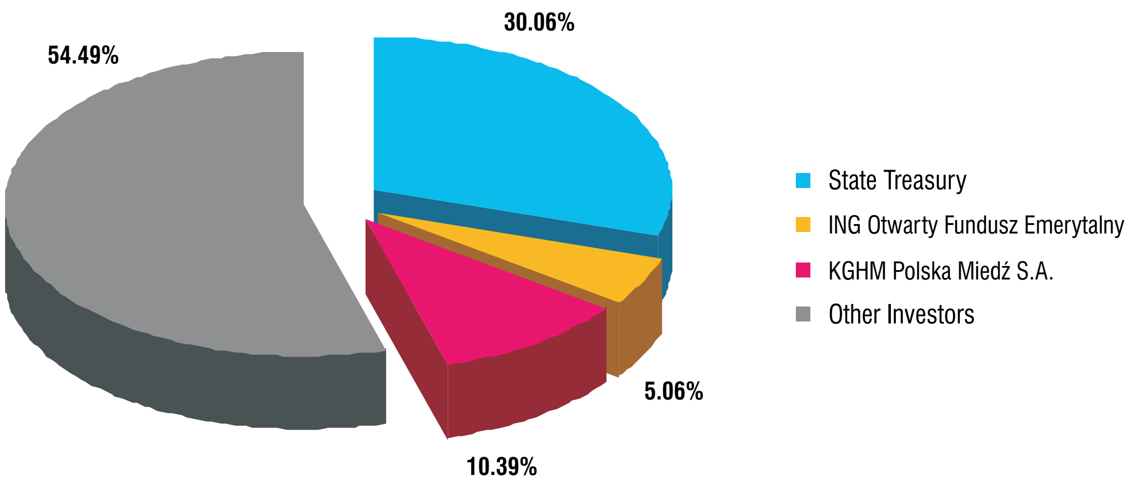
As of 31 December 2012 and on the day of this report:

- 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 1,752,549,394.00 at par value of PLN 5 each, including 1,589,438,762 ordinary registered shares of AA series and 163,110.632 ordinary bearer shares of BB series.
- The structure of the share capital of the Company was as presented in the table below.

Table no. 26 Structure of the share capital of the Company as of 31 December 2012 and on the day of this report

No.	Shareholder	Number of shares/ number of votes at WZ	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 Otwarty Fundusz Emerytalny (Open Pension Fund)	88,742,929	5.06%
4.	Other individual and corporate investors	954,847,515	54.49%

Figure no. 18 Structure of shareholding as of 31 December 2012 and as of the date of this report



4.2. Number and par value of the Company shares as well as shares and stocks in affiliated entities of the Company held by the members of the management and supervisory bodies

Proprietary status of the Company shares and share/stocks in entities affiliated with the Company, held by persons managing and supervising the Company, as of 31 December 2012 and as of the day of this report was as follows:

Table no. 27 Proprietary status of the Company shares and share/stocks in affiliated entities – managing persons

Name and surname	TAURON shares		Share/stocks in entities affiliated with TAURON	
	Number	par value (PLN)	Number	par value (PLN)
as of 31/12/2012				
Dariusz Lubera	6,576	32,880	0	0
Joanna Schmid	0	0	0	0
Dariusz Stolarczyk	42,611	213,055	0	0
Krzysztof Zamasz*	935	4,675	0	0
Krzysztof Zawadzki	27,337	136,685	0	0
as of the date of this report				
Dariusz Lubera	6,576	32,880	0	0
Joanna Schmid	0	0	0	0
Dariusz Stolarczyk	42,611	213,055	0	0
Krzysztof Zawadzki	27,337	136,685	0	0

* *On 29 November 2012 Mr Krzysztof Zamasz submitted his resignation from the function of the Company Management Board Member, effective as of 31 December 2012.*

Table no. 28 Proprietary status of the Company shares and share/stocks in entities affiliated with the Company – supervising persons

Name and surname	TAURON shares		Share/stocks in entities affiliated with TAURON	
	Number	par value (PLN)	Number	par value (PLN)
as of 31/12/2012				
Antoni Tajduś	0	0	0	0
Rafał Wardziński	0	0	0	0
Leszek Koziorowski	0	0	0	0
Jacek Kuciński	935	4,675	0	0
Marcin Majeranowski	0	0	0	0
Jacek Szyke	0	0	0	0
Marek Ściążko	0	0	0	0
Agnieszka Trzaskalska	0	0	0	0

In the period from 31 December 2012 to the date of this report, the aforementioned status of shareholding and share/stocks in affiliated entities, held by the supervising persons did not change.

4.3. Agreements concerning potential changes in shareholding structure

The Management Board does not have any information on existence of any agreements (including agreements concluded after the balance sheet day), as a result of which changes in ratio of the shares held by shareholders and bondholders may occur in the future.

4.4. Purchase of treasury shares

In 2012 the Company did not purchase treasury shares.

4.5. Programmes of employees shares

In 2012 the employees shares programmes did not operate.

4.6. Listing of shares at the Warsaw Stock Exchange (GPW)

Shares of TAURON have been listed at the Primary Market of the Warsaw Stock Exchange since 30 June 2010. In 2012 the price of Company shares ranged from PLN 4.08 to PLN 5.61. The price of shares at the last session in 2011 reached the level of PLN 5.35. A year later, the price was PLN 4.75. The return rate[1] on the Company shares in 2012 was about -5%. At the same time WIG20 index increased by about 20.4%, however, the quotations of the Company shares demonstrated the general trend concerning the companies of the energy sector. In 2012 WIG-Energia index, reflecting the quotations of shares of companies representing this sector declined by about 2.7%. This trend resulted mainly from fundamental actors, mostly independent of the national energy groups. The decisions and opinions of investors and analysts of energy markets were affected by strong decline in market prices of energy, the projected legislative changes contained in the proposal of the act on renewable energy sources, lower level of complimentary allocation of CO_2 emission allowances planned in 2013, and the perspective of expiry of compensations due to termination of LTC, where the Company was a significant beneficiary.

As of 31 December 2012, shares of TAURON Polska Energia were included in the following key exchange indices:

1. **WIG** – covering all companies listed at the Primary Market of GPW which meet the basic criteria of participation in the indices,
2. **WIG20** – calculated based on the value of share portfolio of 20 biggest and most liquid companies of the Primary Market of GPW,
3. **WIG-Energia** – the sectoral index covering companies participating in WIG index and simultaneously classified to the "energy" sector,
4. **WIG-Poland** – the national index which includes only the shares of national companies listed at the Primary Market of GPW, fulfilling the basic criteria of participation in the indices,
5. **MSCI Poland Standard Index** – index covering over 20 key companies listed at GPW.
6. **CECE Index** – index of the Vienna Exchange, covering the biggest companies of Central and Eastern Europe.

Table no. 29 Key data concerning TAURON shares

Key data concerning shares	2012	2011	2010
Maximum price [PLN]	5.61	6.81	6.92
Minimum price [PLN]	4.08	4.65	4.96
Maximum price [PLN]	4.75	5.35	6.57
Capitalisation at the end of the period [M PLN]	8,325	9,376	11,514
Capitalisation at the end of the period [%]	1.59	2.10	2.12
Book value [M PLN]	16,839.41	15,922.47	15,044.64
C/Z	5.50	8.10	14.30
C/WK	0.49	0.59	0.77
Rate of return at the end of the period [%]	-5.03	-16.73	–
Dividend rate [%]	6.5	2.8	0.0
Value of turnover [M PLN]	3,198.94	5,574.82	8,821.85
Share in turnover [%]	1.70	2.21	1.99
Turnover ratio [%]	41.80	58.80	46.00
Average volume per session	2,667,725	3,721,539	5,624,588
Average number of transactions per session	960	1,373	2,431
Average spread [pb]	26	22	20

Source: Statistical Bulletin of GPW

The figures below present the historic developments of the Company shares quotations and the value of turnover, as well as trends in the Company share prices against the WIG20 and WIG-Energia indices.

[1] *The return rate calculated, including the income of the investor due to dividends, and assuming that the additional income gained will be reinvested. Methodology compliant with the Statistical Bulletin of GPW.*

Figure no. 19 Graph of quotes of Company shares and value of turnover in 2012

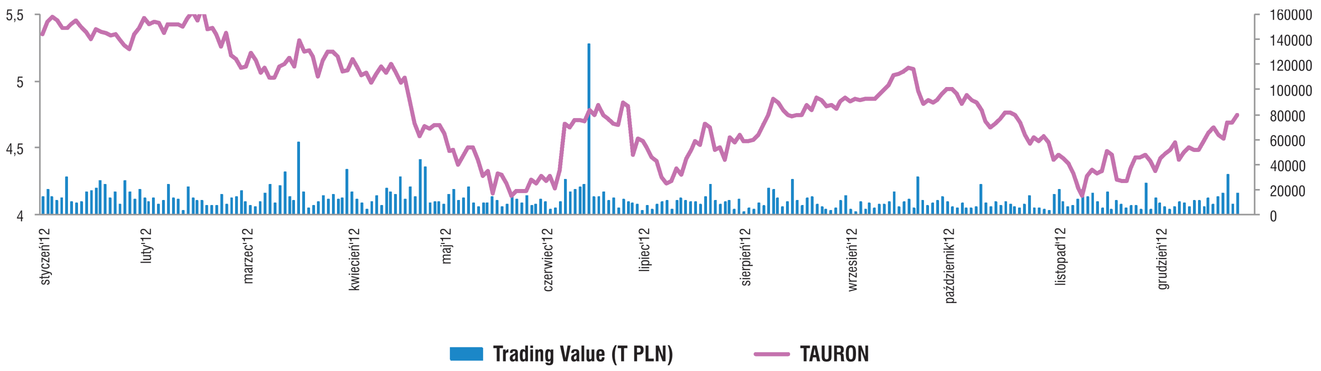


Figure no. 20 Graph of quotations of Company shares and value since the exchange debut (30 June 2010) to 31 December 2012

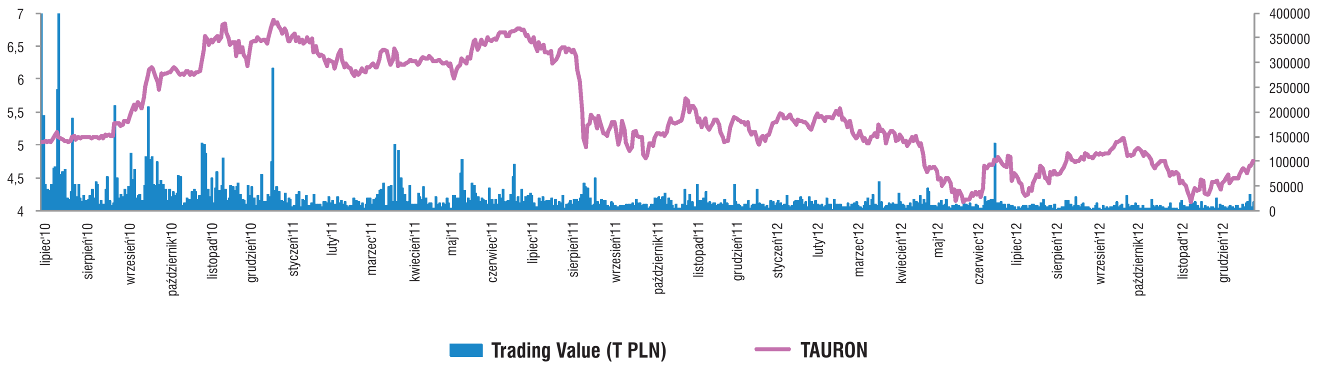
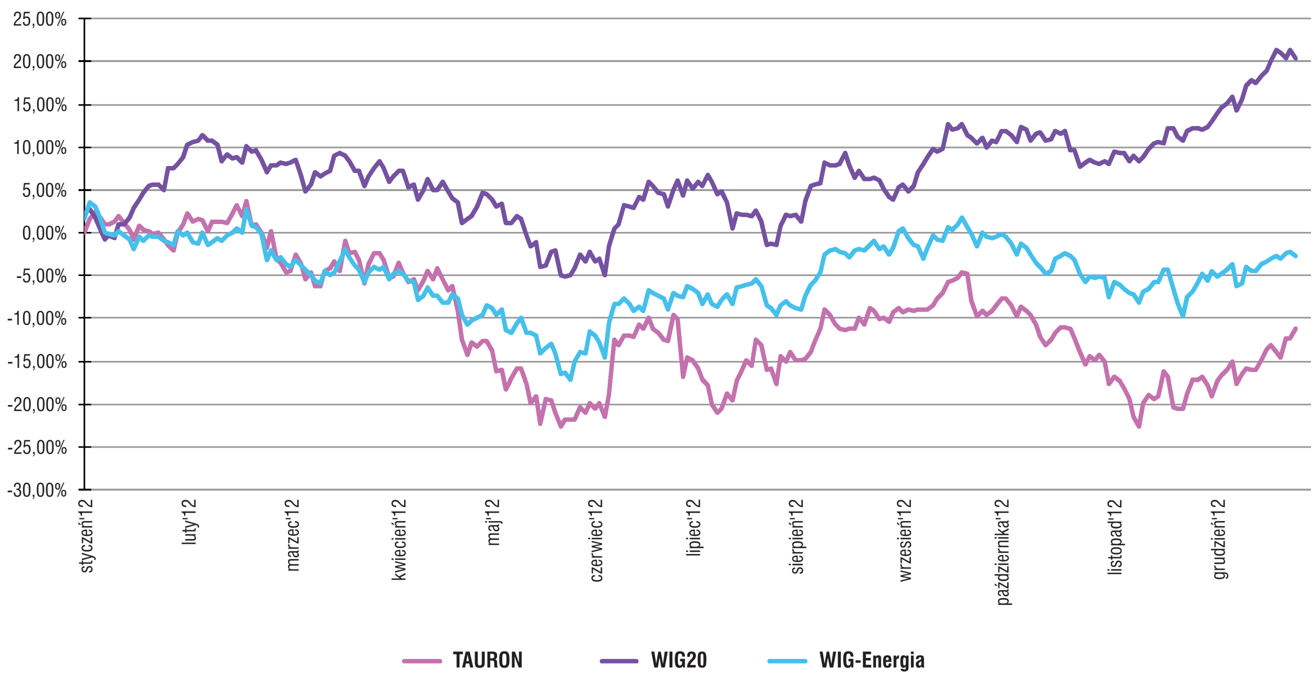


Figure no. 21 Change of quotations of Company shares compared to WIG20 and WIG-Energia indices in 2012



Recommendations for Company shares

In 2012 the analysts of brokerage houses and investment banks issued in total 19 recommendations (excluding the updates of target prices) for the TAURON Polska Energia shares, including:

– 4 "buy" recommendations,

– 7 "keep" recommendations,

– 8 "sell" recommendation.

Table no. 30 Recommendations issued in 2012

Date of recommendation	Recommendation/target price	Recommending institution
02/01/2012	Buy / PLN 7.44	DI BRE
14/08/2012	Buy / PLN 6.31	
30/11/2012	Buy / PLN 6.16	
18/01/2012	Hold / PLN 5.60	IPOPEMA Securities
24/01/2012	Buy / PLN 7.20	Credit Suisse
12/07/2012	Buy / PLN 6.00	
27/01/2012	Hold / PLN 5.50	ING Securities
24/07/2012	Hold / PLN 4.50	
23/02/2012	Hold / PLN 6.00	Raiffeisen Centrobank
02/04/2012	Hold / PLN 5.70	
15/04/2012	Buy / PLN 5.10	DM PKO BP
18/04/2012	Hold / PLN 5.60	DM BZ WBK
10/07/2012	Hold / PLN 5.30	
12/10/2012	Hold / PLN 4.90	
23/04/2012	Sell / PLN 4.40	Deutsche Bank
11/06/2012	Sell / PLN 4.00	
12/10/2012	Sell / PLN 4.20	
08/06/2012	Hold / PLN 4.60	UBS Investment Research
09/07/2012	Hold / PLN 4.65	UniCredit
24/07/2012	Buy / PLN 5.80	Espirito Santo
21/08/2012	Underweight / PLN 4.80	HSBC
07/12/2012	Underweight / PLN 4.50	
26/10/2012	Sell / PLN 3.80	IPOPEMA Securities
30/10/2012	Hold / PLN 4.20	DM PKO BP
05/11/2012	Sell / PLN 4.00	ING Securities
08/11/2012	Sell / PLN 4.00	DM BZ WBK
08/11/2012	Sell / PLN 3.90	Dom Maklerski Banku Handlowego
09/11/2012	Sell / PLN 3.60	UniCredit
27/11/2012	Reduce / PLN 3.90	Erste Securities

5. STATEMENT OF APPLICATION OF CORPORATE GOVERNANCE

Pursuant to § 91 item 5 point 4) of the Regulation of the Minister of Finance of 19 February 2009 on *current and periodical information submitted by issuers of securities and conditions to acknowledge as equivalent information required by legal regulations of a country not being a member state* (Journal of Laws no.33 item 259 as amended), The Company Management Board submits the Statement of Application of Corporate Governance in 2012.

5.1. Indicating the applied set of rules of corporate governance

In 2012 the Company was subject to the corporate governance rules, described in the document *Good Practices of Companies Listed at GPW* (Good Practices), constituting the Attachment to the Resolution of the GPW Council no 12/1170/2007 of 4 July 2007, changed with the following resolutions of GPW Council: No 17/1249/2010 of 19 May 2010, No 15/1282/2011 of 31 August 2011, No 20/1287/2011 of 19 October 2011 and No 19/1307/2012 of 21 November 2012, which entered into force on 1 January 2013. The document also contains the rules of corporate governance which the Company adopted on voluntary basis.

The *Good Practices* were adopted for application by the Company Management Board. In 2012 the Company adopted all the rules applying according to the document, specified in sections II, III and IV.

The text of the aforementioned set of Good Practices the Company is subject to, and the application of which could have been decided by the Company on voluntary basis is published at the GPW website at (http://www.corp-gov.gpw.pl).

5.2. Indicating abandoned rules of corporate governance

In 2012 the Company applied all rules of corporate governance arising from Good Practices, applicable and binding for the Company in this year. In the period since the day of commencement of public listing of the Company shares until 31 December 2012, there have been no occurrences of infringement of the corporate governance regulations adopted.

The Company shall also endeavour to implement the recommendations contained in Part I of Good Practices. The issues described below are particularly important.

Recommendation concerning the remuneration policy

With the aim of implementing recommendation I.5 of Good Practices, the Company has adopted the *Remuneration Policy for Members of supervisory and management bodies, including the description of the rules of defining the policy in TAURON Polska Energia S.A.* (Remuneration Policy), considering the Commission Recommendation of 14 December 2004 *fostering an appropriate regime for the remuneration of directors of listed companies* (2004/913/EC), and the Commission Recommendation of 30 April 2009 complementing that Recommendation (2009/385/EC). The above policy determines the objectives and rules of remuneration policy for members of Supervisory Board and the Management Board of the Company, with the application of general regulations as well as the relevant resolutions of the General Meeting and the Supervisory Board of the Company. The Remuneration Policy is, i.a., aimed at:

1) providing the motivating and consistent system of remuneration policy for members of Supervisory Board and the Management Board,
2) associating the remuneration rules with monitoring of implementation of the adopted strategic plans and implementation of the financial plans,
3) adjusting the level of remuneration of members of corporate bodies of the Company in connection with implementation of the tasks delegated.

Simultaneously, in fulfilment of the information obligations specified in the provisions of the Regulation of the Minister of Finance of 19 February 2009 on *current and periodical information submitted by issuers of securities and conditions to acknowledge as equivalent information required by legal regulations of a country not being a member state, the* Company publishes information regarding the remuneration of members of Supervisory Board and the Management Board in its annual reports.

Recommendation concerning the balanced participation of women in performing the functions of management and supervision

In accordance with recommendation I.9 of Good Practices, GPW recommends that the public companies and their shareholders should provide the balanced proportion of women and men in management and supervisory functions in companies. In the Company, members of Supervisory Board are appointed in accordance with the provisions of the Articles of Association, by the General Meeting and the State Treasury, under its personal powers, whereas the members of the Management Board are appointed by the Supervisory Board, following the assessment of candidates in terms of their qualifications, experience and competences. The rules applicable in the Company in this scope do not restrict a possibility of participation in the recruitment procedures due to sex. Simultaneously, in fulfilment of the requirements specified in Section II p. 1 2a) of Good Practices, in the 4th quarter of 2012 the Company published information on participation of men and women in the Supervisory Board and the Management Board of TAURON in the period of the last two years, on its website.

Information on waiver of application in 2012 of the rule contained in Section IV p 10 of Good Practices (according to the wording binding since 1 January 2013)

On 02 January 2013, the Company submitted the current report no 1/2012, via the EBI system (Electronic Information Base), containing the information on waiver of application of the corporate governance rule contained in Section IV p 10 (according to the wording binding since 1 January 2013), concerning providing the shareholders with a possibility to participate in the General Meeting using the electronic communication means. The current provisions of the Company Articles of Association do not contain any rules allowing for a possibility to participate in the General Meeting using the electronic communication mean, pursuant to the regulations of the Act of 15 September 2000 *Code of Commercial Companies*. In order to provide for application of the aforementioned rule, it is necessary to introduce amendments to the Company Articles of Association, including the relevant resolution of the General Meeting amending the Company Articles of Association.

5.3. Description of main characteristics of internal control and risk management systems in relation to the process of generating the financial statements and consolidated financial statements

The internal control and risk management system in relation to the process of generating financial statements and consolidated financial statements is implemented by the Company through:

Supervision over application of coherent accounting principles by the companies of TAURON Capital Group which generating the consolidated financial statement of TAURON Capital Group

In order to provide for coherent accounting principles based on IFRS, approved by the EU, in TAURON Capital Group *the Accounting Policy of TAURON Polska Energia S.A. TAURON Capital Group* was developed and implemented The document is subject to relevant amendments and updates in case of amendments to the regulations. The rules contained in the document are applicable to unit financial statements of the Company and consolidated financial statement of TAURON Capital Group. The Companies of TAURON Capital Group are obliged to apply the *Accounting Policy of TAURON Polska Energia S.A. Capital Group* while preparing the reporting packages which provide basis for generating of the consolidated financial statement of TAURON Capital Group.

The reporting packages are verified by the Office for Consolidation and Reporting in the parent company as well as by the independent auditor during examination or review of consolidated financial statements of TAURON Capital Group.

Procedures of authorisation and reviewing of financial statements of the Company and consolidated financial statements of TAURON Capital Group

In the Company, procedures of authorisation of financial statements have been implemented. Quarterly, semi-annual and annual financial statements of the Company as well as consolidated financial statements of TAURON Capital Group are approved by the Company Management Board before publication. Annual financial statements of the Company as well as consolidated financial statements of TAURON Capital Group are also presented for review by the Company Supervisory Board before publication. The Vice President of the Board, Chief Financial Officer supervises the preparation of financial statements, whereas Management Boards of companies covered by consolidation are responsible for reporting packages for TAURON Group consolidated financial statement.

Within the structure of the Supervisory Board of the Company, the Audit Committee of TAURON Polska Energia S.A. operates. (Audit Committee) whose composition, competence and description of activities are covered in item 5.11.3 of this report.

IT systems

The Company keeps accounting books which constitute the basis for generating of the financial statement in the financial-accounting computer system SAP, implemented in the Company in the middle of 2011. Preparing of the consolidated financial statement takes place with application of IT tool designed for consolidation of financial statements. Access to IT systems if restricted by relevant authorisations for the entitled employees. In the Company IT and organizational solutions operate which control the access to financial-accounting systems and provide adequate protection and archiving of accounting books.

Internal audit

In the Company Internal Audit Department operates whose objective is to plan and implement the auditing tasks, among others, of advisory nature, as well as to perform the commissioned temporary inspections. The procedures and rules of implementation of the audit are specified in *Regulations of Internal audit in TAURON Group* as well as in rules of cooperation binding in individual companies of TAURON Capital Group. While implementing the function of internal audit, the Company acts in compliance with the Code of Ethics and International Standards of Internal Audit Professional Practice.

Submission of financial statements of the Company and consolidated statements of TAURON Capital Group for examination or review by independent chartered accountant

Annual financial statements of the Company and consolidated statements of TAURON Capital Group are subject to examination by independent chartered accountant. Semi-annual financial statements of the Company and consolidated statements of TAURON Capital

Group are subject to examination by chartered accountant. In 2010 the Company selected one entity authorised to examine and review financial statements for significant companies of TAURON Capital Group and the consolidated financial statements.

Rule concerning change of the entity authorised to audit the financial statements of the Company and TAURON Group

According to the resolution of the Supervisory Board TAURON Polska Energia S.A. no 343/II/2010 the rule was adopted concerning changing the entity authorised to audit the financial statements of the Company and TAURON Capital Group at least once during 5 financial years. The entity authorised to audit the financial statements of the Company and TAURON Capital Group may perform these activities again after two financial years.

5.4. Shareholders holding large blocks of shares

The table below presents shareholders holding, as of 31 December 2012 and as of the day of the present report, directly or indirectly large blocks of shares of the Company

Table no. 31 Shareholders holding large blocks of shares directly or indirectly

Shareholders	Number of shares held	Percentage interest in the share capital	Number of votes held	Percentage interest in general number of votes
State Treasury*	526,848,384	30.06%	526,848,384	30.06%
KGHM**	182,110,566	10.39%	182,110,566	10.39%
ING Otwarty Fundusz Emerytalny (Open Pension Fund)***	88,742,929	5.06%	88,742,929	5.06%

** In accordance with the shareholder's notification of 28/02/2013.*

*** In accordance with the shareholder's notification of 23 March 2011.*

**** In accordance with the shareholder's notification of 28 December 2011.*

5.5. Owners of securities providing special control rights

In the financial year 2012, the Company did not issue securities which would provide special control rights towards to the Company.

5.6. Limitations on performing of the voting right

Limitations on performing the voting right have been included in § 10 of the Company Articles of Association which is available at the Company website http://www.tauron-pe.pl/.

The aforementioned limitations on performing of the voting right have been formulated in the following way:

1. The voting right of shareholders holding over 10% of total votes in the Company shall be limited in the way that none of them can perform at the General Meeting more than 10% of the total votes in the Company.
2. Voting right limitation included in point 1 above does not apply to the State Treasury and entities subsidiary to the State Treasury in the period of time in which the State Treasury together with subsidiary entities subsidiary of the State Treasury has a number of the Company's shares entitling to performing at least 25% of total votes in the Company.
3. Shareholders' votes, between which there is a controlling or dependence relationship within the meaning of § 10 of the Articles of Association (Association of Shareholders) are cumulated; in case when the cumulated number of votes exceeds 10% of total votes in the Company, it is subject to reduction. Rules of votes accumulation and reduction have been defined in 6 and 7 below.
4. A shareholder, within the meaning of § 10 of the Articles of Association is every person, including its parent company and subsidiary company, which is entitled directly or indirectly to a voting right at the General Assembly on the basis of any legal title; it also applies to a person who does not hold the Company's shares, and in particular to a user, pledgee, person entitled on the basis of a depositary receipt under regulations of the Act of 29 July 2005 on *financial instruments trading*, as well as a person entitled to take part in the General Meeting despite disposal of shares after the date of establishing the right to take part in the General Meeting.
5. A parent company and subsidiary company, for the purposes of § 10 of the Articles of Association, is understood as a person:
    1) holding a status of a dominating entrepreneur, dependent entrepreneur or has both the status of a dominating and dependent entrepreneur within the meaning of 16 February 2007 on *competition and consumers' protection* or,
    2) holding the status of a parent company, higher level parent company, subsidiary company, lower level subsidiary company or which has both the status of a parent company (including a parent company of higher status and subsidiary (including a subsidiary company of lower level status or co-subsidiary) within the meaning of Accounting Act of 29 September 1994, or

3) which has (parent company) or one which is under (subsidiary company) decisive influence within the meaning of the Act of 22 September 2006 on *transparency of financial relationships between public bodies and public entrepreneurs and on financial transparency of some entrepreneurs*, or

4) whose votes resulting from the Company's shares owned directly or indirectly are subject to accumulation with votes of another person or other persons on conditions defined in the Act of 29 July 2005 on *public offering and conditions of introducing financial instruments to an organized trading system and on public companies* in connection with holding, disposing of or acquiring large blocks of the Company shares.

6. Accumulation of votes is based on aggregating of the number of votes held by particular shareholders of Shareholders' Group.

7. Reduction of votes is based on decreasing the total number of votes in the Company that shareholders, who are a part of Association of Shareholders, are entitled to at the General Meeting to the level of 10% of total votes in the Company. Reduction of votes takes place in accordance with the following rules:

   1) number of votes of a shareholder who holds the biggest amount of votes in the Company among all shareholders who are members of Association of Shareholders is subject to being decreased by a number of votes equal to surplus of over 10% total votes in the Company that all shareholders in total are entitled to and who are members of the Association of Shareholders,

   2) if, despite the aforementioned reduction, the total number of votes that shareholders who are members of the Association of Shareholders are entitled to exceeds 10% of the total votes in the Company, a further reduction of votes belonging to other shareholders who are members of the Association of Shareholders takes place. Further reduction of particular shareholders' votes takes place in order established on the basis of the amount of votes that particular shareholders who are members of the Association of Shareholders hold (from the highest to the lowest one). Further reduction takes place until the moment when the total number of votes held by shareholders who are members of the Association of Shareholders does not exceed 10% of the total votes in the Company,

   3) in each case the shareholder whose voting right has been limited shall have to right to perform at least one vote,

   4) limitation on performing the voting right applies also to a shareholder absent at the General Meeting.

8. Each shareholder who is going to take part in the General Meeting, in person or through a proxy is obliged to, without a separate notice stipulated in item 9 below, notify the Management Board or the Chairperson of the General Meeting that she/he holds, directly or indirectly, more than 10% of the total votes in the Company.

9. Notwithstanding the provisions of item 8 above, in order to establish the basis for accumulation and reduction of votes, the Company's shareholder, the Management Board, the Supervisory Board or particular members of these bodies have the right to demand that the Company shareholder provides information whether she/he is a person holding the status of an entity dominating or subordinate towards other shareholder within the meaning of § 10 of the Articles of Association. The aforementioned entitlement includes also the right to demand revealing the number of votes that the Company's shareholder has independently or jointly with other shareholders of the Company.

10. A person who has failed to fulfil or fulfilled the information obligation stipulated in items 8 and 9 above improperly, until the moment of improvement of the information obligation performed improperly shall have the voting right from one share only; performing voting rights from other shares by such a person shall be null and void.

5.7. Limitations on transfer of securities proprietary rights

As of 31 December 2012 and on the day of this report, there are no limitations in the Company on the transfer of proprietary rights of Company securities.

5.8. Rules on appointing and dismissing managing and supervising persons and their rights

5.8.1 Management Board

Rules on appointing and dismissing members of the Management Board

The Management Board of the Company consists of one to six persons, including the President and Vice-Presidents. Members of the Management Board are appointed for the period of a joint term of office which lasts three years, except for the first term of office which is two years.

Members of the Management Board or the whole Management Board are appointed and dismissed by the Supervisory Board, appointing the President and Vice-Presidents. Each of the members of the Management Board can be dismissed or suspended in office by the Supervisory Board or the General Meeting.

Competence of the Management Board

The Management Board conducts the Company's issues and represents the Company in all judicial and non-judicial proceedings. All issues connected with managing of the Company not restricted by the regulations of law and provisions of the Company Articles of Associations for the General Meeting or Supervisory Board lie within the competences of the Company's Management Board.

In accordance with the Company Articles of Association, all issues which exceed the regular scope of Company activities require resolution of the Management Board, in particular the following issues:

1) Management Board bylaws,
2) organizational regulations of the Company enterprise,
3) establishment and liquidation of branches,
4) appointment of a proxy,
5) raising credits and loans,
6) accepting annual material and financial plans as well as long-term plans and Company strategy,
7) *incurring contingent liabilities within the meaning of the Act of 29 September 1994* on Accounting, including granting guaranties and sureties by the Company as well as issuing bills of exchange, of the value not exceeding the equivalent of 5,000,000 EUR in PLN,
8) making donations, cancelling interest or releasing from debt,
9) purchase of real property, perpetual usufruct of shares in property or in perpetual usufruct with the value not exceeding the equivalent of 5,000,000 EUR in PLN,
10) purchase of the components of fixed assets excluding real property, perpetual usufruct or share in property or perpetual usufruct with the value equal to or exceeding the equivalent of 10,000 EUR in PLN, but not exceeding the equivalent of 5,000,000 EUR in PLN,
11) disposal of the components of fixed assets including real property, perpetual usufruct or share in property or perpetual usufruct with the value equal to or exceeding the equivalent of 10,000 EUR in PLN, but not exceeding the equivalent of 5,000,000 EUR in PLN,
12) defining the right to perform a vote at the General Meeting or at Shareholders' Meetings of companies in which the Company holds stocks or shares, on issues being the competences of the General Meetings or Shareholders' Meetings of these companies, except for defining the way of performing the right to vote at the General Meeting or at the Shareholders' Meeting of companies in which the Company holds over 50% of stocks or shares in matters concerning:
    a) disposing and leasing of the Company's enterprise or its organized part as well as establishing a limited proprietary right on them, if their value exceeds the equivalent of the amount of 5,000,000 EUR in PLN,
    b) dissolution and liquidation of the Company,
13) rules of conducting sponsoring activity,
14) adoption of the annual plan of sponsoring activity,
15) issues, whose examination the Management Board refers to the Supervisory Board or the General Meeting.

5.8.2. Supervisory Board

Rules on appointing and dismissing members of the Supervisory Board

The Supervisory Board consists of five to nine persons, appointed for the joint term of office which is three years, except for the first term of office which is for one year. In accordance with the Company's Articles of Association, members of the Supervisory Board are appointed and dismissed by the General Meeting, subject to: In accordance with the Company Articles of Association, members of the Supervisory Board are appointed and dismissed by the General Meeting, z subject to:

1) in the period, in which the State Treasury, together with entities dependent on the State Treasury 4 within the meaning of § 10 item 5 of the Articles of Association, has a number of shares of the Company entitling to perform at least 25% of the total votes in the Company, the State Treasury is represented by the minister competent for the issues of the State Treasury, is entitled to appoint and dismiss the members of the Supervisory Board in the amount equal to half of the maximum number of the composition of the Supervisory Board defined in the Articles of Association (in case when the number is not integral it is rounded down to an integral number, for example 4.5 is rounded down to 4 increased by 1, provided that the State Treasury:
    a) is obliged to vote at the General Meeting on establishing the number of members in the Supervisory Board representing the maximum number of members of the Supervisory Board defined in the Articles of Association or in case of submitting such a motion to the Management Board by a shareholder or shareholders who have a number of votes entitling to perform at least 5% of the total votes in the Company,
    b) is excluded from the voting right at the General Meeting on appointing and dismissing of other members of the Supervisory Board, including independent members of the Supervisory Board; it does not, however, apply to the case when the Supervisory

Board cannot act due to a composition minor than required by the Articles of Association, and the shareholders present at the General Meeting other than the State Treasury do not supplement the composition of the Supervisory Board in accordance with the distribution of places in the Supervisory Board defined in present point;

2) in the period of time in which the State Treasury, together with entities dependent on the State Treasury within the meaning of § 10 item 5 of the Articles of Association, has a number of the Company's shares entitling to perform under 25% of total voting rights in the Company, the State Treasury, represented by a minister competent for the issues of the State Treasury shall be entitled to appoint and dismiss one member of the Supervisory Board.

3) appointing and dismissing of members of the Supervisory Board by the State Treasury pursuant to the aforementioned item 1) or item 2) takes place by means of a statement submitted to the Company.

At least two members of the Supervisory Board shall meet the criteria of independence in relation to the Company and subsidiaries significantly related to the Company (independent members of the Supervisory Board). The definition of an "independent member of the Supervisory Board" shall mean an independent member of the Supervisory Board within the meaning the Recommendation of the European Commission of 15 February 2005, on the role of non-executive directors or directors not being members of Supervisory Boards of listed companies and board's committee (supervisory board) (2005/162/EC) taking into consideration Good Practices of Companies Listed at GPW.

Independent members of the Supervisory Board provide the Company, before being appointed to the composition of the Supervisory Board, with a written statement of having fulfilled the prerequisites of independence. In case of a situation causing failure to fulfil the independence, a member of the Supervisory Board is required to immediately notify the Company of this fact. The Company shall inform shareholders of the present number of independent members of the Supervisory Board.

Competence of the Supervisory Board

The Supervisory Board carries out continuous supervision over the Company's activities in all areas of its operations. The competences of the Supervisory Board include:

1) assessment of the Management Board report on the Company operations as well of the financial statement for the previous financial year in the scope of their compliance with the books, documents as well as with the actual status. It also applies to the consolidated financial statement of the Capital Group, provided that it is generated,
2) assessment of the Management Board conclusions on profit distribution or loss coverage,
3) submitting of a written report to the General Meeting on the results of operations covered by items 1 and 2,
4) preparing of reports of the Supervisory Board on supervision of implementation of investments by the Management Board, including the purchase of fixed assets, and in particular, giving opinions on the correctness and effectiveness of spending of financial resources related to the above expenditures,
5) preparing, together with the report on results of the annual financial statement of the Company, an opinion of the Supervisory Board on the issue of economic legitimacy of involving the Company capital committed in a given financial year in other entities of commercial law,
6) selecting of the chartered accountant to carry out the examination of the Company financial statement and consolidated financial statement of the Capital Group,
7) determining the scope and deadlines of submitting of annual material and financial plans as well as long-term strategic plans, by the Management Board,
8) giving opinions on long-term plans and strategies of the Company and Capital Group,
9) giving opinions and approval of the rules of conducting sponsoring activity,
10) giving opinions on the annual plan of conducting of the sponsoring activity as well as quarterly reports on its implementation,
11) passing of bylaws describing in details the procedures of performance of the Supervisory Board,
12) adopting of consolidated text of the Company Articles of Association, prepared by the Company's Management Board,
13) approving of the bylaws of the Company Management Board,
14) approving of the organizational regulations of the Company enterprise.

Competence of the Supervisory Board includes also granting the Management Board permission to:

1) purchase of property, perpetual usufruct of shares in property or in perpetual usufruct with the value not exceeding the equivalent of 5,000,000 EUR in PLN,
2) purchase of the components of fixed assets excluding real property, perpetual usufruct or share in real property or perpetual usufruct, bonds issued by the companies of the Capital Group of the value equal to or exceeding the equivalent of 5,000,000 EUR in PLN,

3) dispose of the components of fixed assets including real property, perpetual usufruct or share in real property or perpetual usufruct, of the value equal to or exceeding the equivalent of 5,000,000 EUR in PLN,
4) incur contingent liabilities, including granting guaranties and sureties by the Company with the value exceeding the equivalent of 5,000,000 EUR in PLN,
5) issuing bills of exchange of the value exceeding the equivalent of 5,000,000 EUR in PLN,
6) advance payment on account of the expected dividend
7) taking over or purchase of stocks or shares in other companies, with the value exceeding the equivalent of 5,000,000 EUR in PLN, except for situations when taking over of stocks or shares of these companies takes place in exchange for the Company liabilities as a part of composition or bankruptcy proceedings,
8) disposal of stocks or shares, with the value exceeding the amount of 5,000,000 EUR in PLN, with defining of the conditions and procedure of their disposal, except for:
   a) disposal of shares which are traded on the regulated market,
   b) disposal of stocks or shares that the Company holds at the amount not exceeding 10% interest in the share capital of particular companies.

Moreover, competence of the Supervisory Board includes in particular:

1) appointing and dismissing members of the Management Board,
2) establishing the rules of remuneration and the amount of remuneration for the members of the Management Board,
3) suspending members of the Management Board in performance of their duties, due to material reasons,
4) delegating members of the Supervisory Board to temporarily perform actions of the members of the Management Board who cannot perform their duties and establishing their remuneration subject to the provision that the total remuneration of the person delegated as the Supervisory Board's member as well as on account of being delegated to temporary performing actions of a member of the Management Board shall not exceed the remuneration established for the member of the Management Board, for whom the member of the Supervisory Board was delegated,
5) conducting recruitment proceedings for the position of a member of the Management Board,
6) conducting of a competition in order to select a person with whom an agreement to perform management in the Company shall be concluded,
7) granting permission to establish Company branches abroad,
8) granting permission to the members of the Management Board to take positions in governing bodies of other companies,
9) defining the way of performing the right of vote at the General Meeting or at the Shareholders' Meeting of companies in which the Company holds over 50% of stocks or shares, in matters concerning:
   a) disposal and leasing of the Company's enterprise or its organized part as well as establishing a limited proprietary right on them, if their value exceeds the equivalent of the amount of 5,000,000 EUR in PLN,
   b) dissolving and liquidation of the Company.

5.9. Description of the procedure of amendment of the Company Articles of Association

Change of the Company's Articles of Association takes place by means of resolution of the General Meeting, at the majority of two thirds of the votes, under the presence of persons representing at least half of the capital, and then requires issuing a decision by a proper court on entering the change into the Register of Entrepreneurs. A consolidated text of the Company Articles of Association, including amendments passed by the General Meeting, shall be adopted by the Supervisory Board by means of a resolution.

5.10. Way of operating of the General Meeting, its fundamental authorities and description of shareholders' rights and mode of their performance

The way of operating of the Company General Meeting and its authorities are included in the Company Articles of Association and in the *Regulations of the General Meeting of TAURON Polska Energia S.A.* which are available at the Company website http://www.tauron-pe.pl/.

Way of operating of the General Meeting

The General Meeting is convened by announcement on the Company website and in the manner defined for providing current information by public companies. In case if the General Meeting is convened by an entity or body other than the Management Board on the basis of regulations of the Act of 15 September 2000 Code of Commercial Companies, and the convening of the General Meeting requires cooperation with the Management Board, the Management Board is obliged to perform all actions defined by law regulations in order to summon, organize and conduct the General Meeting. General Meetings take place either in the Company's seat or in Warsaw.

The General Meeting is opened by the Chairperson of the Supervisory Board, and in case of his/her absence to open the General Meeting shall be authorized the following persons in the following order: Vice-Chairperson of the Supervisory Board, President of the Management Board, a person appointed by the Management Board or a shareholder who registered at the General Meeting shares entitling him/her to perform the biggest number of votes. Then, among the persons entitled to take part in the General Meeting the Chairperson of the Meeting is selected.

The General Meeting shall pass resolutions irrespective of the number of shares represented at the Meeting, unless regulations of the Act of 15 September 2000 *Code of Commercial Companies* as well as provisions of the Company's Articles of Association shall state otherwise. The General Meeting may order a break in the meeting by the majority of two thirds of votes. In total, the breaks shall not exceed thirty days.

Competence of General Meeting

The following issues require Resolutions of the General Meeting:

1) examination and approval of financial statement for the previous financial year as well as the Management Board's report on the Company operations,
2) granting the acknowledgement of the fulfilment of duties to the members of the governing bodies of the Company,
3) profit distribution and coverage of loss,
4) appointing and dismissing of members of the Supervisory Board,
5) suspending members of the Management Board in performance of their duties,
6) establishing the amount of remuneration for the Members of the Supervisory Board, subject to the provision that members of the Supervisory Board are entitled to a monthly remuneration in the amount determined by the General Meeting, taking into consideration the binding legal regulations,
7) disposal and lease of the Company enterprise or its organized part as well as establishing a limited proprietary right on them,
8) concluding of a credit, loan, surety agreement or any other similar agreement by the Company with a member of the Management Board, Supervisory Board, proxy and liquidator or for any of these persons. Concluding of a loan, surety or any other similar agreement with a member of the Management Board, Supervisory Board, proxy, liquidator or for any by a subsidiary company,
9) increasing and lowering the share capital of the Company,
10) issuing convertible bonds or priority bonds as well as registered securities or bearer securities entitling its owner to subscribe or acquire the shares,
11) purchasing of treasury shares in cases required by the regulations of the Act of 15 September 2000, *Code of Commercial Companies*,
12) compulsory redemption of shares in accordance with the stipulations of art. 418 of the Act of 15 September 2000, *Code of Commercial Companies*,
13) creating, using and liquidation of reserve capitals,
14) using of supplementary capital,
15) provisions concerning claims to repair damage caused at establishing of the company or serving in the board or performing supervision,
16) merger, transformation and division of the Company,
17) redemption of shares,
18) amendment to the Articles of Association and change of the scope of the Company operations,
19) dissolving and liquidation of the Company.

In accordance with the Act of 15 September 2000, *Code of Commercial Companies*, issuing and redemption of shares lies within the competence of the General Meeting.

Description of shareholders' rights and mode of their execution

A shareholder or shareholders representing at least one twentieth of the share capital, may demand convening of the Extraordinary General Meeting. Such a demand shall include its concise justification. It can be submitted to the Management Board in writing or send in electronic form, to the Company e-mail address, indicated by the Company on at its website in "Investor Relations" tab. The Company reserves the right to undertake appropriate steps to identify the Shareholder of Shareholders who request a demand.

A shareholder or Shareholders representing at least a half of the share capital or at least a half of all votes in the Company may convene the Extraordinary General Meeting. The shareholder or shareholders shall appoint the Chairperson of such a General Meeting.

A shareholder or shareholders representing at least one twentieth of the share capital may demand including certain issues on the agenda of the nearest General Meeting. Such a demand, including a justification or a draft of resolution on the proposed point of agenda shall be submitted to the Management Board not later than 21 days before the given date of the General Meeting. Such a demand may be submitted in electronic form to the Company' e-mail address, or in writing to the Company address.

A shareholder or shareholders representing at least one twentieth of the share capital may, before the date of the General Meeting, submit drafts of resolutions on issues included on the agenda of the General Meeting or issues which are to be introduced into the agenda. Such a request can be made in electronic form to the e-mail address of the Company or in writing to the Company address.

The shareholder may become acquainted with the Shareholders' list in the Company's Management Board seat for three days preceding directly the General Meeting. The shareholder may demand sending him/her the list of Shareholders free of charge by electronic mail, providing address to which the list shall be sent. Such a request can be made in electronic form to the e-mail address of the Company or in writing to the Company address.

The right to take part in the General Meeting shall be given only to persons who are Shareholders sixteen days before the date of the General Meeting (registration date of participation in the General Meeting). In order to participate in the General Meeting such Shareholders should report the investment company holding their securities account a request to issue a certificate with their name on the right to take part in the General Meeting. Such a request shall be submitted not earlier than a day after the announcement on convening of the General Meeting and not later than on the first working day after the day of registering participation in the General Meeting.

The shareholder may take part in the General Meeting as well as perform the voting right in person or through a proxy. Persons co-authorized by means of shares may take part in the General Meeting and perform the voting right only through a joint representative (proxy). The proxy may represent more than one Shareholder and vote differently based on shares of each Shareholder.

Shareholders shall appoint the Chairperson the General Meeting. The Chairperson shall be selected among persons entitled to take part in the General Meeting. Each of the members of the General Meeting shall have the right to submit one candidacy to the post of the Chairperson. Persons, whose candidacies are submitted, shall be put on the list of candidates on condition that they agree to candidate. The election of the Chairperson takes place by secret voting, with an absolute majority of votes. In case when there is just one candidate to the Chairperson, the election can take place by acclamation.

Each Shareholder shall submit no more than three candidates to the member of Returning Committee, selected by the General Meeting and vote for maximum three candidates.

During the General Meeting the Shareholder shall have the right, until closing the discussion on a certain point of the agenda, to submit a proposal of changes to the content of a draft of resolution proposed for adoption by the General Meeting within a given item of the agenda or to put forward his/her draft of such a resolution. The proposal of changes or a new draft of the resolution shall be submitted with their justification. The proposal of changes or a draft of the resolution may be submitted to the Chairperson or orally to the minutes of the meeting.

The shareholder who was voting against a resolution, and after its adoption by the General Meeting wants to raise his/her objection shall immediately after passing this resolution (after the announcement of results of voting) raise his/her objection and demand its including in the minutes before proceeding to the next item of the agenda. In case of a later raising of objection, which however shall not take place later than until closing the General Meeting, the Shareholder shall indicate to which resolution passed at this General Meeting she/he is raising his/her objection. The shareholder raising his/her objection to the General Meeting's resolution may submit to the minutes of the General Meeting a concise justification of the objection.

5.11. Composition of managing and supervising bodies and their committees, its changes, description of performance

5.11.1. Management Board

The present, Third term of office of the Management Board, started on 6 May 2011, i.e. on the day of convening of the General Meeting of the Company approving the financial statement for the last full financial year of the tenure of the members of the Management Board of the second term, i.e. for the year 2010. In accordance with the Company Articles of Association this is a joint term of office and it shall last for three years.

Personal composition of the Management Board for the period from 01 January 2012 to 31 December 2012

1. Dariusz Lubera – President of the Board,
2. Joanna Schmid – Vice President of the Board, Chief Strategy & Business Development Officer,
3. Dariusz Stolarczyk – Vice President of the Board, Chief Officer for Corporate Matters,

4. Krzysztof Zamasz – Vice President of the Board, Chief Commercial Officer,
5. Krzysztof Zawadzki – Vice President of the Board, Chief Financial Officer.

Changes in the Management Board composition

On 29 November 2012 Mr Krzysztof Zamasz submitted his resignation from the function of the Vice President of the Board, effective as of 31 December 2012. Mr Krzysztof Zamasz motivated his decision by his appointment on 29 November 2012 as the President of the Board of ENEA company with its seat in Poznań, effective as of 1 January 2013.

Personal composition of the Management Board as of 01 January 2013 and on the day of this report

1. Dariusz Lubera – President of the Board,
2. Joanna Schmid – Vice President of the Board, Chief Strategy & Business Development Officer,
3. Dariusz Stolarczyk – Vice President of the Board, Chief Officer for Corporate Matters,
4. Krzysztof Zawadzki – Vice President of the Board, Chief Financial Officer.

Experience and competences of members of the Management Board

Dariusz Lubera – President of the Board

Background: Electrician, MSc Eng Graduate of AGH Academy of Science and Technology in Kraków and University of Economics in Katowice.

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, internal audit, market communication and PR, risk management.

Joanna Schmid – Vice President of the Management Board, Chief Strategy and Business Development Officer

Background: law and finance Graduate of the Law Faculty of the Silesian University in Katowice. Graduated from many post-graduate colleges, i.e. management studies (MBA) at the Warsaw School of Economics in Warsaw.

Acting as the Vice President of the Management Board of TAURON Polska Energia S.A. since 1 October 2010. Currently supervises performance of the following business units: development strategies, strategic projects, regulations and external funds, investment effectiveness.

Dariusz Stolarczyk – Vice-President of the Management Board for Corporate Matters

Graduate of the Electric Faculty of the Technical University of Wrocław, speciality: industrial power engineering and the MBA studies at the University of Economics in Wrocław. Also graduated from postgraduate colleges, i.a. at Wirtschaftsorderungsinstitut Wirtschaftskammer in Vienna and MBA studies at the College of Management and Administration in Warsaw.

Acting as the Vice President of the Management Board of TAURON Polska Energia S.A. since 8 March 2008. Currently supervises performance of the following business units: management of IT resources, purchasing department, corporate governance and reorganisation.

Krzysztof Zawadzki – Vice-President of the Management Board, Chief Financial Officer

Background: economist. Graduate of University of Economics in Katowice, PhD Studies at the University of Economics in Kraków. Postgraduate studies, i.a. in international financial reporting standards, European standards in accountancy and finance and taxes. Holds a licence of a chartered accountant.

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.

The detailed description of experience and competences of the Board Members is published on the Company website http://www.tauron-pe.pl/.

Mode of operation

The Management Board of the Company operates on the basis of the Act of 15 September 2000, *Code of Commercial Companies* and other regulations of law, stipulations of the Company Articles of Association and provisions of the *Bylaws of the Management Board of TAURON Polska Energia Spółka Akcyjna z siedzibą w Katowicach*, which is available at the website of the Company http://www.tauron-pe.pl/. While performing their obligations the members of the Management Board are governed by regulations included in the Good Practices.

Cooperation of two members of the Management Board or one member of the Management Board together with a proxy is required for submitting statements on behalf of the Company. Should the Management Board be single person, one member of the Management Board or a proxy shall be entitled to submit statements on behalf of the Company.

Meetings of the Management Board are convened by the President of the Management Board or a Vice-President of the Management Board appointed by him/her. Meetings of the Management Board are also convened upon the motion of the majority of Vice-Presidents of the Company as well as upon the motion of the Chairperson of the Supervisory Board. The meetings take place in the Company's seat, on the date set by the person convening the meeting. In justified cases, the Management Board's meetings may take place outside the seat of the Company. President of the Management Board or a Vice-President appointed by him/her shall chair the meeting.

The Management Board votes in an open voting. The result of voting is recorded in the minutes of the meeting. The President of the Management Board orders a secret ballot upon the request of any member of the Management Board.

Resolutions of the Management Board are passed by an absolute majority of votes in the presence of 3/5 of the composition of the members of the Management Board. In case of an equal number of votes the President of the Board has a casting vote. The Management Board may pass resolutions in a written mode or by using means of direct remote communication. Voting in the aforementioned modes is ordered by the President of the Management Board or the Vice-President appointed by him/her, defining the deadline to vote by the members of the Management Board. It is acceptable to submit a different opinion. It shall be recorded in the minutes together with justification. Decisions of the Management Board, regulating business as usual, not requiring a resolution, are recorded only in the minutes.

Under the circumstances when the number of Vice-Presidents of the Management Board if lower than the Divisions, the Vice-Presidents of the Management Board may join the capacity of directors of two divisions, or distribute the competence in any other way which would be in compliance with the distribution of responsibilities performed by the Supervisory Board.

Scope of activities of the President of the Management Board covers competence in the area of operations of business units reporting to the Division of the President of the Board, in accordance with the organisational structure of the Company.

Scope of activities of the Vice-Presidents of the Management Board covers competence in the area of operations of business units reporting to the Divisions of the Vice-Presidents of the Board, in accordance with the organisational structure of the Company.

The structure of the divisions reporting to individual members of the Management Board is specified in the organisational chart of the Company, presented in item 1.3.2 of this report.

5.11.2. Supervisory Board

The current, Third term of office of the Supervisory Board, started on 6 May 2011, i.e. on the day of convening of the 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 second term, i.e for the year 2010. In accordance with the Company Articles of Association this is a joint term of office and it shall last for three years.

Personal composition of the Supervisory Board as of 01 January 2012 and on the day of this report

1. Antoni Tajduś – Chairman of the Supervisory Board
2. Agnieszka Trzaskalska – Vice Chairman of the Supervisory Board
3. Leszek Koziorowski – Secretary of the Supervisory Board
4. Jacek Kuciński – Member of the Supervisory Board
5. Włodzimierz Luty – Member of the Supervisory Board
6. Michał Michalewski – Member of the Supervisory Board
7. Jacek Szyke – Member of the Supervisory Board
8. Marek Ściążko – Member of the Supervisory Board

Changes in the Supervisory Board composition

Pursuant to personal authority of the State Treasury resulting from the Articles of Association of the Company, on 11 January 2012, the Member of the Supervisory Board, Michał Michalewski, was dismissed by the State Treasury, who had been appointed to the Supervisory Board as its Member on 6 October 2008.

As of 11 January 2012, Rafał Wardziński was appointed as the Member of the Supervisory Board for the Third Joint Term pursuant to personal authority of the State Treasury resulting from the Articles of Association of the Company.

On 2 February 2012, the Supervisory Board introduced changes within the function of Vice Chairman of the Supervisory Board, by appointing Rafał Wardziński for this function.

Pursuant to personal authority of the State Treasury resulting from the Articles of Association of the Company, on 12 December 2012, the Member of the Supervisory Board, Włodzimierz Luty, was dismissed by the State Treasury, who had been appointed to the Supervisory Board as its Member on 31 January 2008.

As of 12 December 2012, Marcin Majeranowski was appointed as the Member of the Supervisory Board for the Third Joint Term pursuant to personal authority of the State Treasury resulting from the Articles of Association of the Company.

Personal composition of the Supervisory Board as of 31 December 2012 and as of the date of this report

1. Antoni Tajduś – Chairman of the Supervisory Board
2. Rafał Wardziński – Vice Chairman of the Supervisory Board
3. Leszek Koziorowski – Secretary of the Supervisory Board
4. Jacek Kuciński – Member of the Supervisory Board
5. Marcin Majeranowski – Member of the Supervisory Board
6. Jacek Szyke – Member of the Supervisory Board
7. Marek Ściążko – Member of the Supervisory Board
8. Agnieszka Trzaskalska – Member of the Supervisory Board

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 AGH, he obtained the following scientific degrees: PhD in technical sciences (1977), DSc in technical sciences (1990) and professor of technical sciences (1998).

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.

Rafał Wardziński – Vice Chairman of the Supervisory Board

Graduate of MSc studies at Szczecin University, Jean Monet Faculty of European Integration and the complementary studies at the Law Faculty of Liege University (Belgium), a fellow of the European Commission.

Appointed to the Supervisory Board of TAURON Polska Energia S.A. as of 11 January 2012. Currently acting in the capacity of the Vice Chairman of the Supervisory Board and the Member of the Strategy Committee.

Leszek Koziorowski – Secretary of the Supervisory Board

Graduate of Faculty of Law and Administration of Warsaw University, legal counsel in the Regional Chamber of Attorneys in Warsaw.

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.

Jacek Kuciński – Member of the Supervisory Board

Graduate of Faculty of Physics, Jagiellonian University. PhD in technical sciences at Electric Faculty of Technical University in Warsaw.

Appointed to the Supervisory Board of TAURON Polska Energia S.A. as of 14 September 2010. Within the Supervisory Board he also acts as a member of Audit Committee, Strategy Committee and Committee on Nominations and Remunerations.

Marcin Majeranowski – Member of the Supervisory Board

Graduate of Faculty of Law and Administration of Warsaw University. Since 2003 entered to the register of legal counsels maintained by the Regional Chamber of Attorneys in Warsaw.

Appointed to the Supervisory Board of TAURON Polska Energia S.A. as of 12 December 2012. Within the Supervisory Board he also acts as a Chairman of the Audit Committee.

Jacek Szyke – Member of the Supervisory Board

Graduate of Faculty of Economics at Łódź University and Electric Faculty of Technical University in Poznan, where he also obtained PhD in technical sciences.

Appointed to the Supervisory Board of TAURON Polska Energia S.A. as of 14 September 2010. Within the Supervisory Board he also acts as a Chairman of the Strategy Committee and a member of the Audit Committee.

Marek Ściążko – Member of the Supervisory Board

Graduate of Faculty of Technology and Chemical Engineering, Technical University in Gliwice – speciality: chemical engineering. Moreover, Mr Marek Ściążko obtained a title of PhD at the same Faculty.

Appointed to the Supervisory Board of TAURON Polska Energia S.A. as of 31 January 2008. Within the Supervisory Board he also acts as a member of the Strategy Committee.

Agnieszka Trzaskalska – Member of the Supervisory Board

Graduate of PhD studies at Faculty of Law and Administration of Warsaw University, graduate of Faculty of Law and Administration of Silesian University where she studied law.

Appointed to the Supervisory Board of TAURON Polska Energia S.A. as of 11 December 2007. Within the Supervisory Board he also acts as a member of Strategy Committee and Committee on Nominations and Remunerations.

The detailed description of experience and competences of the Supervisory Board Members is published on the Company website http://www.tauron-pe.pl/.

Mode of operation

A detailed description of the mode of the Supervisory Board operation is included in the Company Articles of Association, *Bylaws of the Supervisory Board of TAURON Polska Energia S.A. z siedzibą w Katowicach*, which is available on the Company website http://www.tauron-pe.pl/ as well as in the Act of 15 September 2000, *Code of Commercial Companies*.

The main form of performing supervision by the Supervisory Board over the Company's operations is meetings of the Supervisory Board. The Supervisory Board performs its obligations jointly. Meetings of the Supervisory Board are convened by the Chairperson of the Supervisory Board or Vice-Chairperson of the Supervisory Board by presenting a detailed agenda:

1) in accordance with decisions adopted by the Supervisory Board,
2) on his/her own initiative,
3) upon a written proposal of each member of the Supervisory Board,
4) upon a written proposal of the Management Board.

Meetings of the Supervisory Board take place in the Company's seat. In justified cases the venue of the meeting may be changed.

In order to convene a meeting, written invitation of all members of the Supervisory Board at least 7 days before the date of the Supervisory Board's meeting is required Due to material reasons the Chairperson of the Supervisory Board may shorten this period to 2 days, defining the mode of giving the invitation. Notifications of the Supervisory Board meeting are sent by means of fax or electronic mail and are confirmed by phone. In the notification of the Supervisory Board meeting the Chairperson defines the date of the meeting, venue of the meeting as well as detailed draft of the agenda. The Supervisory Board shall meet when the need arises, however not less frequently than once every two months. The Supervisory Board may meet without convening a formal meeting if all members of the Supervisory Board are present and nobody appeals against the fact of holding the meeting or against the agenda.

A change of the proposed agenda may take place when all members of the Supervisory Board are present at the meeting and nobody appeals against the agenda. An issue not included on the agenda shall be included into the agenda of the next meeting.

Taking part in meetings of the Supervisory Board is the Supervisory Board Member's duty. A Member of the Supervisory Board shall give reasons of his/her absence in writing. Justification of the Supervisory Board Member's absence requires the Supervisory Board resolution. Members of the Management Board of the Company may take part in the Supervisory Board's meetings unless the Supervisory Board raises an objection. Participation of the Management Board members in the Supervisory Board meetings is compulsory if they were invited by the Chairperson of the Supervisory Board. Other persons may also take part in the meetings if they were invited in the above mentioned way.

The Supervisory Board may seek opinion of legal advisers who render regular legal advice for the Company, as well as, in justified cases, it may appoint and invite to meetings of the Supervisory Board appropriate experts in order to ask their advice and make an appropriate decision. In the aforementioned cases the Supervisory Board shall pass a resolution concerning commissioning the work to a chosen expert (audit or consulting company) obliging the Company's Management Board to conclude an appropriate agreement.

Meetings of the Supervisory Board shall be chaired by the Chairperson of the Supervisory Board, and in the case of his/her absence by the Vice-Chairperson. Due to material reasons, with the consent of the majority of the members of the Supervisory Board present at the meeting, the person chairing the meeting is obliged to submit to voting a motion to stop the meeting and establish a new date of resuming the Supervisory Board meeting.

The Supervisory Board makes decisions in the form of resolutions. The Supervisory Board resolutions are passed mainly at the meetings. The Supervisory Board passes resolutions if at least half of its members are present at the meeting and all its members were invited in the way defined in the Regulations. Subject to absolutely binding regulations of law, including the Act of 15 September 2000, *Code* *of Commercial Companies* as well as provisions of the Company's Articles of Association, the Supervisory Board passes resolutions by an absolute majority of votes of the persons present at the meeting, where the absolute majority of votes is understood as more votes submitted "for" than "against" and "abstain". Resolutions cannot be passed in issues not included in the agenda unless all members of the Supervisory Board are present and nobody voices an objection. It shall not apply to resolutions on justifying the Supervisory Board's member absence at the meeting. Voting of the resolutions is open. A secret ballot is ordered:

1) upon the request of at least one of the members of the Supervisory Board,
2) in personnel-related issues.

The Supervisory Board, in accordance with the Articles of Association, may pass resolutions in writing or by using means of direct remote communication. Passing a resolution in such a mode requires a justification and a prior submitting of the draft of the resolution to all members of the Supervisory Board. Passing resolutions in this mode does not apply to the appointing the Chairperson, the Vice-Chairperson and the Secretary of the Board, appointing or suspending in the activities of a member of the Supervisory Board and dismissing these persons as well as other issues the settlement of which requires a secret voting. Voting on a resolution passed in the aforementioned mode, a member of the Supervisory Board indicates the mode of his/her voting, "for", "against" or "abstain". In case of failure to express the vote by a Member of the Supervisory Board in the time period defined by the Chairperson the resolution shall not be passed. Resolution with a note that it was passed in a written mode or by mode of voting using means of direct distance communication shall be signed by the Chairperson of the Supervisory Board. Resolutions passed in this mode shall be submitted at the first coming meeting of the Supervisory Board with announcing the result of the voting.

The Supervisory Board, in accordance with the Articles of Association of the Company passes resolutions in a written mode or by using means of direct distance communication, i.e. tele- or videoconferences. Passing a resolution in such a mode requires a justification and a prior submitting of the draft of the resolution to all members of the Board.

Members of the Supervisory Board shall take part in meetings and perform their duties in person, and while performing their duties they are obliged to exercise due diligence. Members of the Supervisory Board are obliged to keep information connected with the Company activity which they have acquired in connection with holding their seat or at other occasion secret. The Supervisory Board performs its obligations jointly.

The Supervisory Board may, due to material reasons, delegate particular members to perform certain actions independently for a defined period of time. The Supervisory Board may delegate its members, for a period not longer than three months, to temporarily perform duties of the members of the Management Board who have been dismissed, submitted their resignation or if due to other reasons they cannot perform their functions. The aforementioned delegation requires obtaining permission from the member of the Supervisory Board who is to be delegated.

The detailed description of activities of the Supervisory Board in the previous financial year is contained in the Report on Activities of the Supervisory Board, submitted on annual basis to the General Meeting and then published on the Company website http://www.tauron-pe.pl/.

The Supervisory Board may appoint among its members permanent or temporary working groups or committees to perform particular actions. The permanent committees of the Supervisory Board include:

1. Audit Committee of the Supervisory Board of TAURON Polska Energia S.A. (Audit Committee),
2. Nominations and Remuneration Committee of the Supervisory Board of TAURON Polska Energia S.A. (Nominations and Remuneration Committee),
3. Strategy Committee of the Supervisory Board of TAURON Polska Energia S.A. (Strategy Committee).

Composition, tasks and rules of operation of the aforementioned committees are defined by regulations passed by the Supervisory Board.

5.11.3. Audit Committee

The Audit Committee was appointed on 13 May 2010 by the Supervisory Board among its members. At the time, the Audit Committee consisted of three Members. In 2012 the Audit Committee operated with three and four members.

Personal composition of the Audit Committee as of 01 January 2012

1. Michał Michalewski – Chairman of the Audit Committee,
2. Marek Ściążko – Member of the Audit Committee,
3. Jacek Szyke – Member of the Audit Committee.

Changes in the Audit Committee personal composition

In 2012 changes in the membership of the Audit Committee were introduced as a result of changes in the Supervisory Board of the Company as well as decision of the Supervisory Board concerning appointment of its members to perform functions in individual Committees of the Supervisory Board, including the Audit Committee.

Personal composition of the Audit Committee as of 31 December 2012 and on the day of this report

1. Marcin Majeranowski – Chairman of the Audit Committee,
2. Leszek Koziorowski – Member of the Audit Committee,
3. Jacek Kuciński – Member of the Audit Committee,
4. Jacek Szyke – Member of the Audit Committee.

Mode of operation

A detailed description of the Audit Committee operation is included in *Regulations of the Audit Committee of the Supervisory Board of TAURON Polska Energia S.A.*

The Audit Committee is an advisory and opinion-making body acting jointly as a part of the Supervisory Board and it performs a support and advisory function towards the Supervisory Board. The tasks of the Audit Committee are carried out by submitting motions, recommendations, opinions and statements on the scope of its tasks to the Supervisory Board, by means of resolutions passed by the Audit Committee. The Audit Committee is independent from the Company Management Board. The Management Board may not issue binding orders to the Audit Committee concerning performing its duties.

The Audit Committee consists of three to five members. The activities of the Audit Committee are managed by its Chairperson. Meetings of the Audit Committee are convened by the Chairperson of the Audit Committee on his/her own initiative or upon the motion of a member of the Audit Committee or Chairperson of the Supervisory Board.

Meetings of the Audit Committee take place as the need arises, but at least once every quarter. The Chairperson of the Audit Committee may invite members of the Supervisory Board, who are not members of the Audit Committee, members of the Management Board and employees of the Company as well as other persons working or cooperating with the Company, including the chartered auditor to the meetings of the Audit Committee.

The Chairperson of the Audit Committee or a person appointed by him/her submits motions, recommendations and reports to the Supervisory Board. Report on the Audit Committee operations shall be submitted to the Supervisory Board at least once every six months.

The Audit Committee passes resolutions if at least half of its members were present at the meeting and all its members have been duly invited. The resolutions of the Audit Committee are adopted by an absolute majority of votes present at the meeting, where the absolute majority of votes is understood as more votes given "for" than "against" and "abstain". The Audit Committee may pass resolutions in writing or by using means of direct remote communication.

The Audit Committee may pass resolutions in writing or by using means of direct remote communication, i.e. tele- or videoconferences.

The Company Management Board shall be informed about recommendations and assessments submitted to the Supervisory Board by the Audit Committee. Every year, the Audit Committee provides public record information, through the Company, on the composition of the Audit Committee, number of meetings held and participation in the meetings during the year as well as on main activities. In particular, the Audit Committee confirms its positive assessment of the independence of financial audit process and submits a short description of steps taken to formulate such a motion.

The tasks of the Audit Committee cover:

1) monitoring of financial reporting process;
2) monitoring of the accuracy of financial information presented by the Company;
3) monitoring of the efficiency of internal control, internal audit and risk management systems existing in the Company;
4) monitoring of performing of financial revisions;
5) monitoring of independence and objectivity of chartered auditor and entity entitled to examine financial statements, including rendering by them services other than financial audit;
6) recommending of an entity entitled to examine financial statements to perform financial audit to the Supervisory Board.

In the financial year 2012, the Audit Committee was dealing, among others, with the following issues:

1) monitoring and assessment of the efficiency of internal control, internal audit and risk management systems existing in the Company;
2) monitoring and assessment of independence of the financial revision process, including the objectivity of the chartered auditor examining unit financial statements of the Company and consolidated financial statements of TAURON Capital Group;
3) monitoring of financial reporting process;
4) analysis of reliability of financial information presented by the Company in *Financial statement of TAURON Polska Energia S.A. in compliance with the International Financial Reporting Standards for the financial year ended on 31 December 2011* and recommendation for the Supervisory Board concerning assessment of the said report in relation to its compliance with the ledgers and documents as well as with the state of affairs;

5) analysis of reliability of financial information presented by the Company in *Financial statement of TAURON Polska Energia S.A. in compliance with the International Financial Reporting Standards for the financial year ended on 31 December 2011* and recommendation for the Supervisory Board concerning assessment of the said report in relation to its compliance with the ledgers and documents as well as with the state of affairs;
6) analysis of reliability of financial information provided by the Company in the extended consolidated semi-annual report of TAURON Capital Group for the 1st half of 2012;
7) analysis of reliability of financial information provided by the Company in the extended consolidated quarterly reports of TAURON Capital Group for the 1st quarter of 2012 and the 3rd quarter of 2012;
8) development and submission of recommendations to the Supervisory Board, concerning the procedure for selecting the auditor for examination of the unit and consolidated financial statements of the Company for 2013–2015;
9) approval of terms of reference concerning the selection of the auditor for examination of the unit and consolidated financial statements of the Company and selected companies of TAURON Capital Group for 2013, 2014, 2015.

Detailed description of the activities of the Audit Committee in the previous financial year is contained in the Report on activities of the Audit Committee, constituting the attachment to the Report of the Supervisory Board, submitted on annual basis to the General Meeting and published at the Company website http://www.tauron-pe.pl/.

5.11.4. Nominations and Remuneration Committee

The Nominations and Remuneration Committee was established on 27 August 2010 by the Supervisory Committee from among its members. At that time, the Nominations and Remuneration Committee Audit Committee consisted of three Members. Since 30 May 2011, the Nominations and Remuneration Committee operated with four members and since 12 December 2012 it returned to three members composition.

Personal composition of the Nominations and Remuneration Committee as of 01 January 2012

1. Antoni Tajduś – Chairman of the Nominations and Remuneration Committee,
2. Włodzimierz Luty – Member of The Nominations and Remuneration Committee,
3. Jacek Kuciński – Member of The Nominations and Remuneration Committee,
4. Agnieszka Trzaskalska – Member of The Nominations and Remuneration Committee.

Changes in the personal composition of The Nominations and Remuneration Committee

Due to dismissal of Włodzimierz Luty from the Supervisory Board by the State Treasury acting pursuant to its personal powers arising from the Company Articles of Association, as of 12 December 2012 Mr Luty ceased acting as a member of the Nominations and Remuneration Committee.

Personal composition of the Nominations and Remuneration Committee as of 31 December 2012 and on the day of this report

1. Antoni Tajduś – Chairman of the Nominations and Remuneration Committee,
2. Jacek Kuciński – Member of The Nominations and Remuneration Committee,
3. Agnieszka Trzaskalska – Member of The Nominations and Remuneration Committee.

Mode of operation

A detailed description of the Nominations and Remuneration Committee operation is included in *Regulations of the Nominations and Remuneration Committee of the Supervisory Board of TAURON Polska Energia S.A.*

The Nominations and Remuneration Committee is an advisory and opinion-making body acting jointly as a part of the Supervisory Board structure and it performs a support and advisory function towards the Supervisory Board. The tasks of the Nominations and Remuneration Committee are carried out by submitting motions, recommendations, opinions and statements on the scope of its tasks to the Supervisory Board, by means of resolutions passed by the Nominations and Remuneration Committee. The Nominations and Remuneration Committee acts independently from the Management Board of the Company. The Management Board may not give binding orders to the Nominations and Remunerations Committee on performing its duties.

The composition of the Nominations and Remunerations Committee consists of three to five members, including at least one independent member of the Supervisory Board. Activities of the Nominations and Remunerations Committee are managed by the Chairperson.

Meetings of the Nominations and Remunerations Committee are convened by the Chairperson of the Nominations and Remunerations Committee on his/her own initiative or upon the motion of a member of the Nominations and Remunerations Committee or upon the motion of the Chairperson the Supervisory Board. Meetings of the Nominations and Remunerations Committee take place as the need arises.

The Chairperson of the Nominations and Remunerations Committee may invite members of the Supervisory Board, who are not members of the Nominations and Remunerations Committee, members of the Management Board and employees of the Company as well as other persons working or cooperating with the Company, including the chartered auditor to the meetings of the Nominations and Remunerations Committee. The Chairperson of the Nominations and Remunerations Committee or a person appointed by him/her submits motions, recommendations and reports to the Supervisory Board.

The Nominations and Remunerations Committee passes resolutions, if at least half of its members have been present at the meeting and all its members have been duly invited. The resolutions of the Nominations and Remunerations Committee are adopted by an absolute majority of votes present at the meeting, where the absolute majority of votes is understood as more votes given "for" than "against" and "abstain". The Nominations and Remunerations Committee may pass resolutions in a written mode or by using means of direct remote communication.

The Nominations and Remunerations Committee may pass resolutions in writing or by using means of direct remote communication, i.e. tele- or videoconferences.

The Company Management Board shall be informed about recommendations and assessments submitted to the Supervisory Board by the Nominations and Remunerations Committee. Every year, the Nominations and Remunerations Committee provides public record information, through the Company, on the composition of the Nominations and Remunerations Committee, number of meetings held and participation in the meetings during the year as well as on main activities. The Nominations and Remunerations Committee submits to the Supervisory Board a report on its activities in a given financial year.

The tasks of the Nominations and Remunerations Committee include:

1) recommendations to the Supervisory Board on a recruitment procedure for the positions of members of the Company Management Board,
2) assessing candidates for members of the Management Board as well submitting an opinion in this scope to the Supervisory Board,
3) recommendations to the Supervisory Board on the form and contents of agreements concluded with members of the Management Board,
4) recommendations to the Supervisory Board on remuneration and bonus system of the members of the Management Board,
5) recommendations to the Supervisory Board on the need to suspend a member of the Management Board due to material reasons
6) recommendations to the Supervisory Board on the need to delegate a member of the Supervisory Board to temporarily perform the duties of members of the Management Board who cannot perform their duties together with a proposal of remuneration.

The Company Management Board provides the possibility to use the services of external advisers by the Nominations and Remuneration Committee in the scope required for performing the obligations of the Committee.

Detailed description of the activities of the Nominations and Remuneration Committee in the previous financial year is contained in the Report on activities of the Nominations and Remunerations Committee, constituting the attachment to the Report of the Supervisory Board, submitted on annual basis to the General Meeting and published at the Company website http://www.tauron-pe.pl/.

5.11.5. Strategy Committee

The Strategy Committee was appointed on 8 May 2012 by the Supervisory Board among its members. At the time, the Strategy Committee consisted of four Members. Since 29 October 2012, the Strategy Committee has five members.

Personal composition of the Strategy Committee as of 08 May 2012

1. Jacek Szyke – Member of the Strategy Committee,
2. Marek Ściążko – Member of the Strategy Committee,
3. Agnieszka Trzaskalska – Member of the Strategy Committee,
4. Rafał Wardziński – Member of the Strategy Committee.

At the first meeting of the Strategy Committee on 11 June 2012, Mr Jacek Szyke was appointed as the Chairman of the Strategy Committee.

Changes in the Strategy Committee personal composition

On 29 October 2012 the Supervisory Board appointed Jacek Kuciński as a member of the Strategy Committee.

Personal composition of the Strategy Committee as of 31 December 2012 and on the day of this report

1. Jacek Szyke – Chairman of the Strategy Committee,
2. Jacek Kuciński – Member of the Strategy Committee,
3. Marek Ściążko – Member of the Strategy Committee,

4. Agnieszka Trzaskalska – Member of the Strategy Committee,
5. Rafał Wardziński – Member of the Strategy Committee.

Mode of operation

A detailed description of the Strategy Committee operation is included in *Regulations of the Strategy Committee of the Supervisory Board of TAURON Polska Energia S.A.*

The Strategy Committee is an advisory and opinion-making body acting jointly as a part of the Supervisory Board and it performs a support and advisory function towards the Supervisory Board. The tasks of the Strategy Committee are carried out by submitting motions, recommendations, opinions and statements on the scope of its tasks to the Supervisory Board, by means of resolutions passed by the Supervisory Committee. The Strategy Committee is independent from the Company Management Board. The Management Board may not issue binding orders to the Strategy Committee concerning performing its duties.

The Strategy Committee consists of three to five members, including at least one independent member of the Supervisory Board. The activities of the Strategy Committee are managed by its Chairperson.

Meetings of the Strategy Committee are convened by the Chairperson of the Strategy Committee on his/her own initiative or upon the motion of a member of the Strategy Committee or Chairperson of the Supervisory Board. Meetings of the Strategy Committee take place as the need arises. The Chairperson of the Strategy Committee may invite members of the Supervisory Board, who are not members of the Strategy Committee, members of the Management Board and employees of the Company as well as other persons working or cooperating with the Company, including the chartered auditor to the meetings of the Strategy Committee. The Chairperson of the Strategy Committee or a person appointed by him/her submits motions, recommendations and reports to the Supervisory Board.

The Strategy Committee passes resolutions if at least half of its members were present at the meeting and all its members have been duly invited. The resolutions of the Strategy Committee are adopted by an absolute majority of votes present at the meeting, where the absolute majority of votes is understood as more votes given “for” than “against” and “abstain”. The Strategy Committee may pass resolutions in writing or by using means of direct remote communication.

The Strategy Committee may pass resolutions in writing or by using means of direct remote communication, i.e. tele- or videoconferences.

The Company Management Board shall be informed about recommendations and assessments submitted to the Supervisory Board by the Strategy Committee. Every year, the Strategy Committee provides public record information, through the Company, on the composition of the Strategy Committee, number of meetings held and participation in the meetings during the year as well as on main activities. The Strategy Committee submits to the Supervisory Board a report on its activities in a given financial year.

The tasks of the Strategy Committee cover:

1) assessment of the strategy of the Company and the Capital Group and presenting its results to the Supervisory Board;
2) recommending the scope and terms of submitting the strategic multi-annual plans to the Supervisory Board;
3) assessment of impact of the planned and undertaken strategic investments on assets of the Company;
4) monitoring the implementation of the strategic investment tasks;
5) assessment of activities concerning availability of significant Company assets;
6) opinion on strategic documents submitted to the Supervisory Board by the Management Board.

The Company Management Board provides the possibility to use the services of external advisers by the Strategy Committee in the scope required for performing the obligations of the Committee.

Detailed description of the activities of the Strategy Committee in the previous financial year is contained in the Report on activities of the Strategy Committee, constituting the attachment to the Report of the Supervisory Board, submitted on annual basis to the General Meeting and published at the Company website http://www.tauron-pe.pl/.

5.12. Remuneration of key management and supervisory personnel

Remuneration of key management personnel

The total amount of remuneration understood as the value of salaries, awards and benefits received in cash, in kind or in any other form, disbursed by the Company to the Management Board Members for 2012 amounted to PLN 7,733 thousand. As the total amount of remuneration paid or due and awards for 2012, the gross value of remuneration paid or due for the period from January to December 2012 is provided.

The model of remuneration of Board Members consists of two components for determining the remuneration, the fixed part (monthly basic salary) and the floating part, depending on fulfilment of specific target criteria (implementation of the task commissioned).

The members of the Management Board of the Company are not covered by the incentive or bonus programme based on the capital of the Company, neither do they receive any remuneration or awards due to performance in governing bodies of subsidiaries of TAURON Capital Group.

Table no. 32 Remuneration of members of the Management Board for 2012, divided into components (data in thousand PLN)

Surname and name	Period of holding the position in 2012	Remuneration*	Bonus*	Other benefits	Total
Lubera Dariusz	01.01.2012 – 31.12.2012	1,020	510	192	1,722
Schmid Joanna	01.01.2012 – 31.12.2012	900	450	138	1,488
Stolarczyk Dariusz	01.01.2012 – 31.12.2012	899	450	187	1,536
Zamasz Krzysztof	01.01.2012 – 31.12.2012	912	450	140	1,502
Zawadzki Krzysztof	01.01.2012 – 31.12.2012	900	450	135	1,485
Total		**4,631**	**2,310**	**792**	**7,733**

** No overheads.*

Remuneration of key supervising personnel

The model of remuneration of the Supervisory Board members consists in single component, fixed part.

Remuneration of members of the Supervisory Board for 2012 is presented in the table below.

Table no. 33 Remuneration of members of the Supervisory Board for 2012 (data in thousand PLN)*

Surname and name	Period of holding the position in 2012	Remuneration and awards	Other benefits	Total
Tajduś Antoni	01.01.2012 – 31.12.2012	144	0	144
Koziorowski Leszek	01.01.2012 – 31.12.2012	120	0	120
Kuciński Jacek	01.01.2012 – 31.12.2012	108	0	108
Luty Włodzimierz	01.01.2012 – 12.12.2012	103	0	103
Michalewski Michał	01.01.2012 – 11.01.2012	3	0	3
Szyke Jacek	01.01.2012 – 31.12.2012	108	0	108
Ściążko Marek	01.01.2012 – 31.12.2012	108	0	108
Trzaskalska Agnieszka	01.01.2012 – 31.12.2012	110	0	110
Wardziński Rafał	11.01.2012 – 31.12.2012	127	0	127
Majeranowski Marcin	12.12.2012 – 31.12.2012	6	0	6
Total		**937**	**0**	**937**

In 2012 Włodzimierz Luty, Member of the Supervisory Board received additional remuneration due to acting in the Supervisory Board of a company belonging to TAURON Capital Group, i.e. PEPKH, at the amount of PLN 35 thousand.

Other Members of the Supervisory Board of the Company did not receive remuneration or awards from companies of TAURON Capital Group in 2012 because they had not held any positions in supervisory boards or management boards of these companies.

5.13. Agreements concluded with managing persons which envisage compensation in case of their resignation or dismissal from the position held, without material reason, or if their dismissal or resignation is caused by merger of the Company through takeover

Between the Company and managing persons no agreements were concluded which envisage compensation in case of their resignation or dismissal from the position held, without material reason, or if their dismissal or resignation is caused by merger of the Company through takeover.

6. OTHER SIGNIFICANT INFORMATION AND EVENTS

6.1. Proceedings pending before 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.

6.2. Important achievements in research and development

In the period covered by this report activities were carried out in connection with involvement of the Company in the projects implemented under the Knowledge, and Innovation Community KIC InnoEnergy, in particular, within the of the Polish node CC Poland Plus (one of six in the EU). The Company holds the status of Associated Partner of KIC InnoEnergy The main area of interest of the Company covers the so-called clean coal technologies. At the same time, conducting research and coordination of activities in this area are the main activities of the company CC Poland Plus, for which the Company is one of the shareholders. Representatives of the Company were involved in activities of the working group "Horizon 2020", operating under KIC InnoEnergy. Involvement in the activities of KIC InnoEnergy has also resulted in engaging TAURON Wytwarzanie, under the Project contract, in implementation of the project "CoalGas". In 2012 activities were also continued involving research tasks implemented under the programme of research and development entitled *Advanced Technologies of Acquisition of Energy*, co-financed by the National Research and Development Centre. The Company, as the member of two consortia which won the project, participates in implementation of the first research task (*Development of technologies for highly efficient, "zero-emission" coal units integrated with capturing CO_2 from exhaust*) and the third research task (*Development of technology of coal gasifying for highly efficient production of fuels and electric energy generation*). TAURON Wytwarzanie is also involved in the project (in both above-mentioned tasks and the second task: *Development of oxygen combustion technologies for dust and fluidised bed boilers integrated with CO_2 capture*) as well as PKW (within the third task). In connection with implementation of the first task, activities are continued aimed at production of mobile pilot installation for CO_2 capturing as well as conducting of surveys in facilities belonging to TAURON Wytwarzanie. In 2012 the implementation plan was developed and an installation was produced.

In the Company, activities were also carried out, resulting from the HTRPL Consortium Agreement signed by TAURON: *High Temperature Nuclear Reactor in Poland*. The Research – Industrial Consortium was established in order to participate in the competition announced on 4 November 2011 by the National Research and Development Centre (NCBiR) under the strategic research project *Technologies supporting the development of safe nuclear power industry*, within the scope of Research Task no. 1 entitled: *Development of high temperature reactors for industrial application*. The leader of the Consortium is the AGH University of Science and Technology (Akademia Górniczo-Hutnicza) in Kraków. The offer for performing the research task was submitted to NCBiR, based on which NCBiR took decision on co-financing. Implementation of the research project by the Consortium started in September 2012. Participation of the Company is associated with implementation of the stage: *Analysis of experience of the energy operator in application of cogeneration systems, from the perspective of potential implementation of high temperature reactors technology*.

6.3. Issues concerning natural environment

The Company does not conduct any business activities which would result in infringement of the environmental protection requirements, causing the obligation to pay the fees for economic use of the environment. As a user of company vehicles, the Company is subject to the provisions of the Act of 27 April 2001 *Environmental Protection Law in the* scope of calculating the fee for using the environment due to emission of gases or particulate matter to ambient air. However, due to the level of the fee calculated, the Company was not bound to pay it in 2012.

6.4. Policy on Corporate Social Responsibility (CSR)

Since 2009 in the Company, functional strategy of public relations and communication operates, the key element of which is focused on social responsibility of business (CSR).

Within the functional public relations strategy, the image of TAURON brand is built around four values: safety, care for local communities, sustainable development and ecology. In 2011, in acknowledgement that communication of CSR actions is particularly important in case of companies listed at stock exchange, for which the image of socially responsible company is essential to attract investors and, simultaneously, to increase the value of the company, within Corporate Strategy, the need to develop and implement the CSR strategy, within integration of PR function, at the level of the Company and TAURON Capital Group. Accordingly, in 2012 the *Strategy of Corporate Social Responsibility, i.e. the Strategy of Sustainable Development of TAURON Group for 2012–2015, with estimates up to the year 2020* was developed. The strategic objectives set both by the aforementioned functional public relations strategy and the corporate strategy, as well strategies of business areas, provided basis for provisions of this document. The Strategy of sustainable development indicates two leading directions: ensuring the energy safety and client orientation, as well as three supporting directions: involvement of employees in organisation development, environmental protection in the value chain and management of economic and social impacts. All key companies of TAURON Capital Group have been engaged in implementation of the strategy of sustainable development, appointing coordinators within their structures, to be responsible for supervising the implementation of the strategy and reporting of results to the corporate centre. In TAURON the coordinator for sustainable development was appointed, responsible, among others, for preparation of CSR reports.

The strategy of sustainable development is directly related to all areas of activities of TAURON Capital Group, consolidating both the approach to CSR and the methodology of assessment of actions undertaken based on the indicators of the Global Reporting Initiative. In the aforementioned strategy, rules for informing the stakeholders on the activities and their effects have been also specified. One of the directions of the strategy of sustainable development is the management of the economic and social effects. The objectives resulting from this direction are implemented, among others, through the activities of TAURON Foundation. The Foundation is to allow for even more effective implementation of CSR objectives within the area of care for safety of local communities and actions for public benefit.

In 2012 TAURON Foundation and the Company implemented, based on the employee voluntary programme, the next edition of the action "Houses of Positive Energy" addressed to 24-hours custody and caretaking facilities. As in 2011, the action covered all the facilities within the area of operations of TAURON Capital Group. The main objective of this action is the improvement of the living conditions of children from orphanages. The project attracted substantial interest, with 73 orphanages looking after 2664 children participating.

On 2012 TAURON Foundation also implemented its first project addressed directly to employees – "Heroes day by day", based on the employee voluntary programme. The aim of the project was to encourage employees to join the base of potential donors of bone marrow during the company Donor Day. As a result of the educational action, approximately 30% of Company employees joined the base, the project will be also continued in other companies of TAURON Group. The mechanism of employees' voluntary activities, involving the employees, allows for creation of the structure of representatives of TAURON Foundation working pro bono for the benefit of implementation of TAURON Foundation goals and for integration of employees around the common idea.

TAURON Capital Group, acting in the area of southern Poland, has a leading position in energy sales and generation. These conditions cause that the scope of actions conducted for the benefit of the communities in which companies of TAURON Capital Group operate, is very broad. Many projects are supported which are important for inhabitants of the regions of Upper and Lower Silesia, Opolskie, Małopolska and Podkarpacie Regions. One of the priorities is the sponsoring of sport, culture and ecology. Companies of TAURON Capital Group engage in many projects in favour of important ideas.

The Company is the signatory of the declaration signed on 17 June 2009 during the national conference of the cycle "Responsible Energy", covering the principles of sustainable development in energy sector in Poland. The objective of the document is to implement the principles of sustainable development in the sector, to guarantee the development of environmental protection and broadly understood social development.

The Company also cooperates with the Mountain Voluntary Emergency Service (GOPR), the goal of which is to increase safety in the mountains. The Company is the strategic partner of the project, actively participating both in the summer and winter edition of the project. Projects implemented in companies of TAURON Capital Group in 2012 are also worth mentioning. TAURON Ciepło conducted the social campaign "Low emission – high risk", aimed at educating the inhabitants of Silesia concerning the effects of low emission and encouraging them to change the system of household heating. The campaign was awarded with the 'Golden Fastener of Polish PR' and it was mentioned by the Forum of Socially Responsible Business in the Report "Responsible business in Poland 2012. Good Practices". In the same document another initiative of TAURON Sprzedaż was mentioned – the campaign "TAURON Fuses", which was aimed at raising awareness of clients in the area of operations of electricity markets and protection against unfair practices.

The campaign was mainly addressed to the elderly and included broad information a scientific conference.

6.5. Awards and distinctions

January, 2012

The Company won the 2nd place in the ranking of the most popular listed companies in 2011, published by the financial portal Bankier.pl. A year ago the company also won the 2nd place in this ranking.

April, 2012

The Company was ranked 7th on the List of 500 prepared by "Rzeczpospolita" daily advancing by three positions in relation to the previous year, and it was ranked 6th in the ranking of 500 by "Polityka" weekly, four places higher than in the previous edition of the ranking.

September, 2012

The Company advanced from the 23rd to the 18th position of the List of 500 biggest companies of Central and Eastern Europe prepared by "Rzeczpospolita" and the consulting company Deloitte. In the list of 500 biggest energy and raw material companies of Central and Eastern Europe, accompanying the ranking, Top 20, the Company took the 13th position. It was also selected as the 23rd biggest listed company (Top 25).

October, 2012

The Company was awarded in the competition “The Best Annual Report 2011” for the way of describing the corporate strategy of the Company in 2011 in the annual report, and presentation of strategic plans of the Company for the nearest years.

6.6. Investor relations

Since the beginning of its stock exchange listing, the Company pays particular attention to the quality of the implemented communication and information strategy. Communication with investors’ environment is implemented with the use of obligatory activities, i.e. by communication of publicly available current and periodical reports as well as through participation in numerous investors’ conferences, road shows as well as meetings with analysts and fund managers during which the data and information is discussed, concerning the situation of TAURON Capital Group and the national energy sector.

Publication of periodical reports of the Company was combined with organisation of four conferences for analysts and managers, during which members of the Management Board discussed financial results published in the reports and presented key achievements in the reported periods. The conferences were broadcast on Internet in Polish and in English and it was possible to listen to them by phone. Directly after the presentations the Management Board was traditionally available for investors and analysts, answering many questions comprehensively.

In 2012 the Members of the Management Board of the Company participated in eleven conferences and road shows during which about 100 meetings were held with over 130 managers and analysts. Meetings with corporate investors were held in main financial centres of Europe and North America, Asia and Australia among others, in New York, London, Singapore and Sydney. In 2012 the Company also continued its actions addressed to other, extremely important group of shareholders – individual investors. TAURON is the strategic partner of the programme initiated by the Ministry of Treasury, under the name “Civic Shareholding”. The objective of the Programme is to encourage the Poles to active and aware participation in economic life of the country, through active saving and investing in shares of privatised companies and stock exchange instruments. Under the programme “Civic Shareholding”, representatives of the Company participated in several dozen meetings with individual investors all over Poland, within which they delivered presentations and answered investors’ questions concerning investors’ relations, investing and operations of TAURON Capital Group. The initiative of the “Civic Shareholding” was also promoted during conferences and events in which the Company participated. Support was also implemented through distribution of leaflets on the Programme in Customer Services Points of the Company and through the image building and advertising actions on the corporate website and in the publication of TAURON Capital Group the “Polish Energy” magazine. The successful continuation of actions addressed to the environment of individual investors was the Day of Individual Investor organised by the Company in September 2012.

On that day the invited participants had the opportunity to learn more details about the activities of TAURON Capital Group, the selected generation and distribution assets; they also attended the presentation session and the meeting with representatives of the Management Board. It was the first initiative of that kind organised by a company listed in WIG20 index. The event was organised in cooperation with the Association of Individual Investors. The Company also participated in other initiatives of the Association – it attended the educational meeting for individual investors in Katowice and supported, as a partner, the conference for individual investors “WallStreet” in Zakopane.

The useful tool for communication with investors is the Company website, within which the constantly updated section “investor relations” operates, containing, among others, information of the structure of shareholders, financial results, dividend policy, general meetings, analysts providing recommendations concerning the Company shares as well as video broadcasts of conferences summarising the financial results.

Management Board of the Company

Katowice, 12 March 2013

Dariusz Lubera	– President of the Board	....
Joanna Schmid	– Vice-President of the Board	....
Dariusz Stolarczyk	– 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. 34 Explanation of abbreviations and trade terms applied in the text of the report

Abbreviation and trade term	Full name/explanation
"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
ARE	Agency of Energy Market (Agencja Rynku Energii S.A.) with the seat in
BELS INVESTMENT	BELS INVESTMENT sp. z o.o. with the seat in Jelenia Góra
CAO	Central Allocation Office GmbH with the seat in Freising, Germany
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.
CC Poland Plus	CC Poland Plus sp. z o.o. with the seat in Kraków
CER	(ang. Certified Emission Reduction) – a unit of confirmed emission reduction – reduced emission of greenhouse gases or avoided emission of greenhouse gases, expressed as equivalent, obtained as a result of the project on mechanism of clean development
Coloured certificates	Proprietary rights resulting from certificates of origin of energy generated in the way subject to support, the so-called coloured certificates: – green – certificates of origin of electric energy from renewable energy sources, – red – certificates of origin of electric energy from co-generation (CHP certificates Combined Heat and Power), yellow – certificates of origin of electric energy generated in co-generation from sources of total installed capacity below 1 MW or gas-burning, – violet – 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, – white – certificates confirming gaining of energy savings within the meaning of the Act of energy effectiveness, – brown – certificates confirming forcing agricultural biogas to the network.
CSR	Corporate Social Responsibility) social responsibility of business
Good Practices	Good Practices of Companies Listed at GPW
EBIT	(Earnings Before Interest and Taxes) result on operating activity before taxing
EBITDA	(Earnings before Interest, Taxes, Depreciation, and Amortization) result on operating activity before taxing, increased by amortization and depreciation
EC Kamienna Góra	Energetyka Cieplna w Kamiennej Górze sp. z o.o. with the seat in Kamienna Góra (currently: TAURON Ciepło)
EC Nowa	Elektrociepłownia EC Nowa sp. z o.o. with the seat in Dąbrowa Górnicza (currently: TAURON Ciepło)
EC Stalowa Wola	Elektrociepłownia Stalowa Wola S.A. with the seat in Stalowa Wola
EC Tychy	Elektrociepłownia Tychy S.A. with the seat in Tychy (currently: TAURON Ciepło)
EDF	EDF Polska Centrala sp. z o.o. with the seat in Warsaw
EEX	European Energy Exchange – EEX
Elektrownia Blachownia Nowa	Elektrownia Blachownia Nowa sp. z o.o. with its seat in Kędzierzyn Koźle.
ENEA	ENEA S.A. with the seat in Poznań
ENERGA	ENERGA S.A. with the seat in Gdańsk
EnergiaPro S.A.	EnergiaPro S.A. with the seat in Wrocław (currently: TAURON Dystrybucja)
ENION S.A.	ENION S.A. with the seat in Kraków (currently:TAURON Dystrybucja)
ERM	Complex System of Risk Management

Abbreviation and trade term	Full name/explanation
ERU	Emission Reduction Unit – unit of emission reduction – reduced emission of greenhouse gases or avoided emission of greenhouse gases, expressed as equivalent, or one mega gram (1 Mg) of absorbed carbon dioxide (CO_2), obtained as a result of the execution of the joint implementation project
ESW	Elektrownia Stalowa Wola S.A. with its seat in Stalowa Wola (currently: TAURON Wytwarzanie)
EU ETS	European Union Emission Trading System
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 system of management of emissions of greenhouse gases and other substances, carbon dioxide (CO_2), which is used for settlements of emission size within the system, which can be managed based on principles specified in the Act of 28 April 2011 on the system of greenhouse gases emission allowances trading (Journal of Laws No. 122, item 695)
GDF SUEZ	GDF SUEZ Energia Polska S.A. with its seat in Połaniec
GPW	Warsaw Stock Exchange (Giełda Papierów Wartościowych w Warszawie S.A.) with the seat in Warsaw
Grupa Kapitałowa TAURON	Grupa Kapitałowa TAURON Polska Energia S.A. – TAURON Capital Group
GUS	Central Statistical Office
GZE	Górnośląski Zakład Elektroenergetyczny S.A. with the seat in Gliwice
IRGIT	Izba Rozliczeniowa Giełd Towarowych S.A. (Warsaw Commodity Exchange Clearing House) with the seat in Warsaw
IRiESP	Instructions of transmission grid operation and maintenance
KDT	Long-term contracts – long-term contracts on sales of power and electric energy, listed in the Appendix no. 1 to the Act of 29 June 2007 on principles of covering of the costs incurred by producers due to the premature termination of long-term contracts for sales of power and electric energy (Journal of Laws No. 130, item 905, as amended)
KGHM	KGHM Polska Miedź S.A. with the seat in Lubin
Code	The document entitled Code of TAURON Group, adopted by the Management Board of TAURON Polska Energia S.A.
Audit Committee	Audit Committee of the Supervisory Board of TAURON Polska Energia S.A.
Nominations and Remuneration Committee	Nominations and Remuneration Committee of the Supervisory Board of TAURON Polska Energia S.A.
Strategy Committee	Strategy Committee of the Supervisory Board of TAURON Polska Energia S.A.
Kompania Węglowa	Kompania Węglowa S.A. with the seat in Katowice
KSE	National Power System
KW Czatkowice	Kopalnia Wapienia Czatkowice sp. z o.o. with the seat in Krzeszowice
Lipniki	Lipniki sp. z o.o. with the seat in Wrocław
MEGAWAT MARSZEWO	MEGAWAT MARSZEWO sp. z o.o. with the seat in Jelenia Góra
Mg	Megagram – million gram (1000000 g) i.e. 1 ton
IFRS	IFRS International Financial Reporting Standards
NCBiR	National Centre of Research and Development
NFOŚiGW	National Fund of Environmental Protection and Water Management with the seat in Warsaw
Business Area	Area of operations of subsidiaries included in TAURON Group, determined by the Company, constituting the business segment of TAURON Group
Management Area	Management Area indicated in the List of Management Areas, i.e. the document issued by the Management Board of the Company, pursuant to the Code, established based on Corporate Strategy and included in the business model of TAURON Group
DSO	Distribution System Operator
TSO	Transmission System Operator
OTC	over the counter market
RES	Renewable Energy Sources
PEPKH	Polska Energia – Pierwsza Kompania Handlowa sp. z o.o. with the seat in Katowice
PGE	PGE Polska Grupa Energetyczna S.A. z siedzibą w Warszawie

Abbreviation and trade term	Full name/explanation
PGK	Tax Capital Group
PGNiG	Polskie Górnictwo Naftowe i Gazownictwo S.A. with the seat in Warsaw
PKE Broker	PKE Broker sp. z o.o. with the seat in Katowice
GDP	Gross Domestic Product
PKW	Południowy Koncern Węglowy S.A. with the seat in Jaworzno
PMEC	Property rights for certificates of origin confirming generation of electricity in other co-generation sources
PMOZE	Property rights for certificates of origin confirming generation of electricity in RES in the period until 28 February 2009
PSE	Polskie Sieci Elektroenergetyczne S.A. with the seat in Konstancin-Jeziorna (until 10 January 2013 – Polskie Sieci Elektroenergetyczne Operator S.A.)
Organisational Regulations/ Bylaws	Document entitled Organisational Regulations of TAURON Polska Energia S.A.
ROIC	Return On Invested Capital
RUS	Regulatory System Services – services provided by entities in favour of transmission system operator, required for adequate functioning of the National Power System, providing for maintenance of determined values of reliability and qualitative parameters
SPOT (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
Company	TAURON Polska Energia S.A. with its seat in Katowice
Corporate Strategy	The document entitled Corporate Strategy of TAURON Group for 2011–2015 with estimates until the year 2020, being the update of the document Corporate Strategy of TAURON TAURON Polska Energia S.A. Capital Group for 2008–2012 with estimates until the year 202
TAURON Ciepło	TAURON Ciepło S.A. with its seat in Katowice
TAURON Czech Energy	TAURON Czech Energy s.r.o. with its seat in Ostrava, Czech Republic
TAURON Dystrybucja	TAURON Dystrybucja S.A. with its seat in Kraków
TAURON Dystrybucja GZE	TAURON Dystrybucja GZE S.A. with its seat in Gliwice, acquired by TAURON Dystrybucja S.A.
TAURON EKOENERGIA	TAURON EKOENERGIA sp. z o.o. with its seat in Jelenia Góra
TAURON Ekoenergia GZE	TAURON EKOENERGIA GZE sp. z o.o. with the seat in Gliwice (formerly: Vattenfall Wolin-North sp. z o.o.) acquired by TAURON EKOENERGIA sp. z o.o.
TAURON Obsługa Klienta	TAURON Obsługa Klienta sp. z o.o. with the seat in Wrocław
TAURON Obsługa Klienta GZE	TAURON Obsługa Klienta GZE sp. z o.o. with the seat in Gliwice (formerly: Vattenfall Business Services Poland sp. z o.o.) acquired by TAURON Obsługa Klienta sp. z o.o.
TAURON Serwis GZE	TAURON Serwis GZE sp. z o.o. with the seat in Gliwice (formerly: Vattenfall Network Services Poland sp. z o.o.)
TAURON Sprzedaż	TAURON Sprzedaż sp. z o.o. with the seat in Kraków
TAURON Sprzedaż GZE	TAURON Sprzedaż GZE sp. z o.o. with the seat in Gliwice (formerly: Vattenfall Sales Poland sp. z o.o.)
TAURON Wytwarzanie	TAURON Wytwarzanie S.A. with the seat in Katowice
TAURON Wytwarzanie GZE	TAURON Wytwarzanie GZE sp. z o.o. with the seat in Gliwice (formerly: Vattenfall Generation Poland sp. z o.o.)
TGE	Towarowa Giełda Energii S.A. (Polish Power Exchange) with the seat in Warsaw
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)
EU	the European Union
UOKiK	Office for Competition and Consumer Protection (Urząd Ochrony Konkurencji i Konsumentów)
ERO	Energy Regulatory Office (Urząd Regulacji Energetyki)
WZ/ZW	General Meeting/Shareholders' Meeting
ZEC w Bielsku-Białej	Zespół Elektrociepłowni Bielsko-Biała

Annex B: List of tables and figures

Below the list of tables and figures occurring in this report is provided.

List of tables

List of Figures

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

STATEMENT

of the Management Board of TAURON Polska Energia S.A.
on the compliance of the Financial statements of TAURON Polska Energia S.A.
for the year ended 31 December 2012
prepared in accordance with International Financial Reporting Standards
and the Management Board's report on the operation
of TAURON Polska Energia S.A. for the year 2012

I, the undersigned, represent that, to my best knowledge, the Financial statements of TAURON Polska Energia S.A. prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2012 and comparable figures were prepared in accordance with applicable accounting rules and give the true and fair picture of the assets, financial standing and performance of TAURON Polska Energia S.A.

I also certify that the Management Board's report on the operation of TAURON Polska Energia S.A. for the year 2012 gives the true picture of the development, achievements and situation of TAURON Polska Energia S.A., including the description of key risks and threats.

Management Board Members:

Dariusz Lubera	– President of the Management Board	....
Joanna Schmid	– Vice-President of the Management Board	....
Dariusz Stolarczyk	– Vice-President of the Management Board	....
Krzysztof Zawadzki	– Vice-President of the Management Board	....

12 March 2013

date

STATEMENT

**of the Management Board of TAURON Polska Energia S.A.
on the appointment of the entity authorized to audit financial statements
(Financial statements of TAURON Polska Energia S.A.
for the year ended 31 December 2012
prepared in accordance with International Financial Reporting Standards)**

I, the undersigned, represent that the entity authorized to audit financial statements and examining the financial statements of TAURON Polska Energia S.A. prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2012 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 financial statements in accordance with applicable regulations and professional standards.

Management Board Members:

Dariusz Lubera	– President of the Management Board	....
Joanna Schmid	– Vice-President of the Management Board	....
Dariusz Stolarczyk	– Vice-President of the Management Board	....
Krzysztof Zawadzki	– Vice-President of the Management Board	....

12 March 2013

date