TAURON
POLSKA ENERGIA

Consolidated annual report of TAURON Polska Energia S.A. Capital Group for the year 2013

18 March 2014

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

Ladies and Gentlemen,

I am pleased to present you with the Annual Report of TAURON Group, in which we included a review of the most important events and financial results of the Group for 2013. Last year was a lot more difficult for the energy sector than 2012 due to slower economic growth and an unfavourable market situation. Worse economic climate translated mainly to a small, only 0.6%, increase in demand for electric energy and a further decrease of its prices.

The financial results achieved by TAURON Group in this unfavourable market situation should definitely be regarded as satisfactory and surpassing the expectations. Sales revenue exceeded PLN 19.1 billion. They were lower by 20% than those reported for 2012 but the drop results mainly from the change of the trade model for the electric energy generated by the Group. In 2012, the greater part of energy was sold through the power exchange, while 2013 saw limitation of energy sales outside the Group in favour of sale directly between Group's companies, which is excluded from consolidation.

The reported EBITDA for 2013 amounted to PLN 3.66 billion. After excluding one-off events such as write-downs on generation assets and coloured certificates and the reserve for missing CO_2 emission allowances, EBITDA would be over PLN 4.2 billion, which means an increase by approx. 30% year on year.

Reported net profit reached PLN 1.35 billion (a decrease by 13.2% year on year), while adjusted net profit amounted to PLN 1.94 billion, i.e. higher by 25% compared to the previous year.

Despite the worse condition of the Polish economy, our shareholders, as every year, could expect to be paid dividends. The company allocated PLN 350 million for this purpose in 2013, which means a dividend of PLN 0.20 per share.

Actions taken by us in 2013 were aimed mainly at future growth of the Group's value and satisfaction of our clients. Among the most important actions aimed at increasing the value of the company one should mention investments in new generating capacity, including renewable energy sources, as well as further modernisation of existing distribution and generating assets. New projects were also a response to regulations related to the strict climate policies of the European Union and the necessity to achieve ambitious target levels of CO_2 emission and increase the share of renewable energy sources in energy production. Last year, we commissioned the Marszewo and Wicko wind farms (82 MW and 40 MW respectively), which means that there are four wind farms with total output of 183 MW operating within TAURON Group. Furthermore, we finished the construction of two biomass units in Tychy (40 MW) and Stalowa Wola (20 MW), which, together with the 50 MW unit in Jaworzno commissioned in 2012, make for 110 MW of output generated from biomass. In mid-2013, we commissioned a state-of-the-art 50 MW_t/86 MW_t heat generating unit in Bielsko-Biała CHP Plant, whose efficiency is 91 percent and CO_2 emission is 25% lower compared to the parameters of the replaced unit. In 2013, we also continued works at the construction site of the 450MW_e/240 MW_t combined cycle gas turbine unit in Stalowa Wola, and corporate decisions were taken on the implementation of a similar gas-fired unit in Łagisza Power Plant.

The investment program, which amounted to PLN 3.8 billion in 2013, is a large scale undertaking, therefore, its crucial element is ensuring an appropriate and safe level of financing for development investments. We satisfied our financial needs by concluding agreements with banks for issue of corporate bonds to the value of PLN 6 billion, and the conservative approach to debt financing means that the Group's debt indicators remain and will remain in the future at a safe level.

Achieving good financial results in a difficult macroeconomic and market environment was possible thanks to efficient management and a flexible approach to changing conditions as well as effective implementation of the strategy. One of the elements of the strategy was, and still is, a strict cost reduction policy. The successful operational costs reduction scheme for 2010–2012 (savings of PLN 1 billion) was followed by another one, for the years 2013–2015, which should result in almost PLN 900 million of cumulated savings. We were able to save PLN 320 million by improving operational efficiency in 2013 alone.

2013 is a period for further reviewing of the Capital Group structure in order to ensure full organisational and operating coherence. Mergers of TAURON Polska Energia with PKE Broker, TAURON Obsługa Klienta with TAURON Obsługa Klienta GZE, and TAURON Serwis GZE with Przedsiębiorstwo Usług Elektroenergetycznych took place. As part of creating the Heat area, an organised part of the enterprise in the form of Zakład Wytwarzania Katowice was moved to TAURON Ciepło. Late in 2013, TAURON Polska Energia purchased a 47% block of shares of Południowy Koncern Węglowy (now TAURON Wydobycie), which now gives us 100% control over that company.

Actions aimed at establishing and maintaining good relations with clients focused on the development of the product portfolio, improvement of customer service channels and numerous promotional and educational actions. This enabled us to maintain the position of the leader of the more and more competitive electric energy supply market. The development of competencies in sales will help TAURON Group effectively prepare for full liberalisation of the energy market.

Prices of shares of TAURON Polska Energia S.A. at the Warsaw Stock Exchange should also be mentioned. Good information is the fact of including TAURON's shares in the RESPECT index, which lists companies managed in a responsible and balanced manner and measures their investment attractiveness by reporting quality, investor relations level and high standards in corporate governance and social responsibility of the business.

We believe that 2014 will be better than 2013 as regards the economic climate and that market environment will be more stable. Nevertheless, we must bear in mind further challenges for the power industry – we are still waiting for legislation on the support for renewable energy sources. A great challenge, especially for the results of TAURON Wytwarzanie, will be electric energy prices lower by approx. 20% year on year. I would like to assure our shareholders, however, that the Management Board of TAURON Polska Energia S.A. will spare no effort to achieve the best possible results even in difficult market conditions.

On behalf of the Management Board, I would like to give thanks to our shareholders, the Supervisory Board and our employees for their involvement in the realisation of strategic objectives and for strengthening the market position of TAURON Group.

Yours faithfully,

Dariusz Lubera

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

Selected figures	in thousands PLN		in thousands EUR	
	2013 period from 01.01.2013 to 31.12.2013	2012 period from 01.01.2012 to 31.12.2012 *(adjusted figures)*	2013 period from 01.01.2013 to 31.12.2013	2012 period from 01.01.2012 to 31.12.2012 *(adjusted figures)*
Selected consolidated figures of TAURON Polska Energia S.A. Capital Group				
Sales revenue	19 131 122	24 752 985	4 543 130	5 930 847
Operating profit	1 934 066	2 165 129	459 289	518 768
Profit before tax	1 683 621	1 947 577	399 815	466 642
Net profit	1 346 485	1 550 799	319 755	371 574
Net profit attributable to shareholders of the parent company	1 308 318	1 476 392	310 691	353 746
Net profit attributable to non-controlling interests	38 167	74 407	9 064	17 828
Other comprehensive income	43 488	(333 594)	10 327	(79 930)
Total comprehensive income	1 389 973	1 217 205	330 082	291 644
Total comprehensive income attributable to shareholders of the parent company	1 349 123	1 157 617	320 381	277 367
Total comprehensive income attributable to non-controlling interests	40 850	59 588	9 701	14 277
Earnings per share (in PLN/EUR) (basic and diluted)	0.75	0.84	0.18	0.20
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	4 079 082	3 479 051	968 673	833 585
Cash flows from investing activities	(4 180 488)	(3 282 929)	(992 754)	(786 594)
Cash flows from financing activities	(249 100)	189 716	(59 155)	45 456
Net increase (decrease) in cash and cash equivalents	(350 506)	385 838	(83 236)	92 447
	As of 31.12.2013	**As of 31.12.2012** *(adjusted figures)*	**As of 31.12.2013**	**As of 31.12.2012** *(adjusted figures)*
Non-current assets	27 567 008	25 471 230	6 647 137	6 230 427
Current assets	4 755 521	5 766 232	1 146 683	1 410 457
Non-current assets classified as held for sale	33 041	36 215	7 967	8 858
Total assets	32 355 570	31 273 677	7 801 787	7 649 742
Issued capital	8 762 747	8 762 747	2 112 931	2 143 424
Equity attributable to shareholders of the parent company	17 327 165	16 306 681	4 178 039	3 988 719
Equity attributable to non-controlling interests	466 334	493 339	112 446	120 674
Total equity	17 793 499	16 800 020	4 290 485	4 109 393
Long-term liabilities	9 304 341	9 081 234	2 243 524	2 221 328
Short-term liabilities	5 257 730	5 392 423	1 267 778	1 319 021
Total liabilities	14 562 071	14 473 657	3 511 302	3 540 349

The aforementioned financial information for the years 2013 and 2012 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 2013 – 4.1472 PLN/EUR (as of 31 December 2012 – 4.0882 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 2013 to 31 December 2013 – 4.2110 PLN/EUR (for the financial year started 1 January 2012 and ended 31 December 2012 – 4.1736 PLN/EUR).

CAPITAL GROUP TAURON POLSKA ENERGIA S.A.

INDEPENDENT AUDITOR'S OPINION
AND REPORT ON THE AUDIT OF
THE CONSOLIDATED FINANCIAL STATEMENTS OF
THE TAURON POLSKA ENERGIA S.A. CAPITAL GROUP
FOR THE YEAR 2013

THE TAURON POLSKA ENERGIA S.A. CAPITAL GROUP

KATOWICE, KS. PIOTRA ŚCIEGIENNEGO 3 STREET

CONSOLIDATED FINANCIAL STATEMENTS FOR FY 2013

WITH AUDITOR'S OPINION AND AUDIT REPORT

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AUDITOR'S OPINION

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

We have audited the attached financial statements of the TAURON Polska Energia S.A. Capital Group TAURON Polska Energia S.A., with its registered office in Katowice, Ks. Piotra Ściegiennego 3 Street, acting as the Parent Company, which comprise the consolidated statement of financial position prepared as at 31 December 2013, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the financial year from 1 January 2013 to 31 December 2013, and notes, including a summary of significant accounting policies and other explanatory information.

The Management Board of the Parent company is responsible for preparation of the consolidated financial statements in accordance with the applicable law.

The Management Board of the Parent and members of its Supervisory Body are obliged to ensure that the consolidated financial statements and the report on the activities of the Capital Group meet the requirements of the Accounting Act of 29 September 1994 (*Journal of Laws* of 2013, item 330, as amended), hereinafter referred to as the "Accounting Act".

Our responsibility was to audit and express an opinion on compliance of the consolidated financial statements with the accounting principles (policy) adopted by the Capital Group, and express an opinion whether the consolidated financial statements present fairly and clearly, in all material respects, the financial and economic position as well as the financial profit or loss of the Capital Group.

Our audit of the financial statements has been planned and performed in accordance with:

– section 7 of the Accounting Act;

– national auditing standards, issued by the National Council of Statutory Auditors in Poland.

We have planned and performed our audit of the consolidated financial statements in such a way as to obtain reasonable assurance to express an opinion on the financial statements. Our audit included, in particular, verification of the correctness of the accounting principles (policy) applied by the Parent and the subsidiaries, verification – largely on a test basis – of the basis for the amounts and disclosures in the consolidated financial statements, as well as overall evaluation of the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the audited consolidated financial statements in all material respects:

- present fairly and clearly the information material to evaluate the economic and financial position of the Capital Group as at 31 December 2013, as well as its financial profit or loss in the financial year from 1 January 2013 to 31 December 2013;
- have been prepared in accordance with the International Accounting Standards, International Financial Reporting Standards and related interpretations published as European Commission regulations, and in all matters not regulated in the standards – in accordance with the provisions of the Accounting Act and secondary legislation to the Act;
- comply with the provisions of law applicable to the Capital Group which affect the contents of the consolidated financial statements.

The Report on the activities of the Capital Group for the 2013 financial year is complete within the meaning of Article 49.2 of the Accounting Act and the Ordinance of the Minister of Finance of 19 February 2009 on current and periodic information published by issuers of securities and the rules of equal treatment of the information required by the laws of non-member states and consistent with underlying information disclosed in the audited consolidated financial statements.

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

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

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

Warsaw, 10 March 2014

The above audit opinion together with audit report is a translation from the original Polish version. In case of any discrepancies between the Polish and English version, the Polish version shall prevail.

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS OF THE TAURON POLSKA ENERGIA S.A. CAPITAL GROUP FOR FY 2013

I. GENERAL INFORMATION

1. Details of the audited Parent Company

The Parent Company of the Capital Group operates under the business name TAURON Polska Energia S.A. The Company's registered office is located in Katowice, Ks. Piotra Ściegiennego 3 Street.

The Parent Company operates as a joint-stock company established by the notarized deed of 6 December 2006 before Paweł Błaszczak, Notary Public in Warsaw (Repertory A No. 20813/2006). The Parent Company was recorded in the Register of Entrepreneurs kept by the District Court, Business Registry Division in Katowice, under KRS number 0000271562 on 8 January 2007.

The Parent Company's tax identification number (NIP) 9542583988 was assigned on 13 March 2007.

The REGON number assigned by the Statistical Office on 11 December 2006 is 240524697.

The Parent Company operates in accordance with the provisions of the Code of Commercial Companies.

In accordance with the Parent Company's by-laws, the scope of its activities includes:
- trade in electricity;
- trade in gaseous fuels through mains;
- agents specialized in the sale of other particular products;
- agents involved in the sale of a variety of goods;
- wholesale of fuel and derivative products;
- activities of financial holdings;
- other auxiliary activity related to financial services, excluding insurance and pension funds;
- accounting activity, tax advisory services;
- head offices and holdings, excluding financial holdings;
- other business and management consulting services.

In the audited period, the Parent Company conducted business activities mainly related to operation of head offices, trade in electricity, coal, biomass and gaseous fuels through mains.

In the audited period, the Parent Company's subsidiaries conducted business activities mainly related to production of electric and heat energy from conventional sources, production of renewable electric energy, distribution of electric energy, sale of energy and other energy products, coal mining and other services related to the aforementioned activities.

As at 31 December 2013, the Parent Company's share capital amounted to PLN 8,762,747 thousand and was divided into 1,752,549,394 shares with a face value of PLN 5 each.

As at 31 December 2013, the Parent Company's shareholders were:
- The State Treasury – 30.06% of shares;
- KGHM Polska Miedź S.A. – 10.39% of shares;
- ING Otwarty Fundusz Emerytalny – 5.06% of shares;
- other shareholders – 54.49% of shares.

During the financial year there were no changes in the Parent Company's share capital.

During the audited period, the shareholding structure of the Parent Company's share capital did not undergo any changes.

After the balance sheet date there were no changes in the Parent Company's share capital.

As at 31 December 2013, the Capital Group's equity amounted to PLN 17,793,499 thousand.

The Capital Group's financial year is the calendar year.

Composition of the Management Board at the date of the opinion:
- Dariusz Lubera – President of the Management Board;
- Aleksander Grad – Vice-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.

On 1 February 2014, the Supervisory Board of the Company adopted a resolution to delegate a Member of the Supervisory Board, Aleksander Grad, to temporarily act as the Vice-President of the Management Board of TAURON Polska Energia S.A. in the period from 11 February 2014 to 11 May 2014.

The above changes have been reported and registered in a competent registry court.

Composition of the TAURON Polska Energia S.A. Capital Group as at 31 December 2013:

- Parent Company – TAURON Polska Energia S.A. and
- subsidiaries:
  - TAURON Wytwarzanie S.A.;
  - TAURON Ekoenergia Sp. z o.o.;
  - TAURON Dystrybucja S.A.;
  - TAURON Sprzedaż Sp. z o.o.;
  - TAURON Czech Energy s.r.o.;
  - TAURON Sprzedaż GZE Sp. z o.o.;
  - TAURON Ciepło S.A.;
  - TAURON Obsługa Klienta Sp. z o.o.;
  - Polska Energia Pierwsza Kompania Handlowa Sp. z o.o.;
  - TAURON Wydobycie S.A. (formerly: Południowy Koncern Węglowy S.A.);
  - BELS INVESTMENT Sp. z o.o.;
  - MEGAWAT MARSZEWO Sp. z o.o.;
  - TAURON Dystrybucja Serwis S.A.;
  - Kopalnia Wapienia Czatkowice Sp. z o.o..

The shares in Elektrociepłownia Stalowa Wola S.A. and Elektrownia Blachownia Nowa Sp. z o.o. were measured using the equity method and disclosed in the consolidated financial statements of the Capital Group for the financial year ended 31 December 2013.

The consolidated financial statements as at 31 December 2013 included the following entities:

a) Parent Company – TAURON Polska Energia S.A.

We have audited the financial statements of the Parent Company TAURON Polska Energia S.A. for the period from 1 January to 31 December 2013. As a result of the audit we issued an unqualified opinion on 10 March 2014.

b) Companies subject to full consolidation:

Name of the Company	Interest in the capital (%)	Name of entity that audited the financial statements and type of opinion issued	Balance sheet date of the consolidated entity	Opinion date
TAURON Wytwarzanie S.A.	99.77%	Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. - unqualified opinion	31 December 2013	19 February 2014
TAURON Ekoenergia Sp. z o.o.	100%	Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. - unqualified opinion	31 December 2013	21 February 2014
TAURON Dystrybucja S.A.	99.71%	Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. - unqualified opinion	31 December 2013	14 February 2014
TAURON Sprzedaż Sp. z o.o.	100%	Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. - unqualified opinion	31 December 2013	20 February 2014
TAURON Czech Energy s.r.o.	100%	COTAX AUDIT s.r.o- unqualified opinion	31 December 2013	6 March 2014
TAURON Sprzedaż GZE Sp. z o.o.	100%	Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. - unqualified opinion	31 December 2013	20 February 2014
TAURON Ciepło S.A.	96.10%	Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. - unqualified opinion	31 December 2013	19 February 2014
TAURON Obsługa Klienta Sp. z o.o.	100%	Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. - unqualified opinion	31 December 2013	20 February 2014
Polska Energia Pierwsza Kompania Handlowa Sp. z o.o.	100%	Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. - unqualified opinion	31 December 2013	20 February 2014
TAURON Wydobycie S.A. (formerly: Południowy Koncern Węglowy S.A.)	52.36%	Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. - unqualified opinion	31 December 2013	13 February 2014

BELS INVESTMENT Sp. z o.o.	100%	Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. - unqualified opinion with an emphasis of matter	31 December 2013	14 February 2014
MEGAWAT MARSZEWO Sp. z o.o.	100%	Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. - unqualified opinion with an emphasis of matter	31 December 2013	14 February 2014
TAURON Dystrybucja Serwis S.A.	99.71%	Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. - unqualified opinion	31 December 2013	14 February 2014
Kopalnia Wapienia Czatkowice Sp. z o.o.	99.77%	Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. - unqualified opinion	31 December 2013	18 February 2014

c) Companies subject to equity method of consolidation:

Name of the Company	**Interest in the capital (%)**	**Name of entity that audited the financial statements and type of opinion issued**	**Balance sheet date of the consolidated entity**	**Opinion date**
Elektrociepłownia Stalowa Wola S.A.	49.89%	Other auditor	31 December 2013	Not issued
Elektrownia Blachownia Nowa Sp. z o.o.	49.89%	Other auditor	31 December 2013	Not issued

The Parent preparing the consolidated financial statements has not applied any material simplifications or exceptions to the consolidation principles with respect to the controlled entities.

During the financial year, the composition of the audited Capital Group and the consolidated entities whose audited financial statements have been prepared by the Parent Company did not change.

2. Information about the consolidated financial statements for the prior financial year

According to the approved consolidated financial statements, in 2012, the Capital Group earned a net profit of PLN 1,541,299 thousand. The consolidated financial statements of the Capital Group for 2012 were audited by a certified auditor. The audit was performed by authorized entity Ernst&Young Audit Sp. z o.o. On 12 March 2013, the certified auditor issued an unqualified opinion with the following emphasis of matter:
"Without raising any qualifications as to the correctness and fairness of the consolidated financial statements, as described in detail in Note 37 thereto, we would like to emphasise that the Parent Company's subsidiary TAURON Wytwarzanie S.A. has the right to compensation for the costs incurred by producers due to early termination of long-term contracts for the sale of power and electricity under the Act on long-term contracts (*Journal of Laws* of 2007 No. 130 item 905, "the LTC Act").In accordance with the accounting policy on compensation which is based on the provisions of the LTC Act and the Capital Group's own estimates and assumptions, the Capital Group has been recognising revenues in this respect since the financial year ended 31 December 2008. As described above, on 31 July 209, the President of the Energy Regulatory Office issued a decision ordering repayment of a part of an advance payment for 2008 of PLN 160 million

(the "Decision”). The Management Board rejected the Decision and appealed against it before the Court for Competition and Consumers Protection in Warsaw which issued a ruling on 26 May 2010 which is positive for TAURON Wytwarzanie S.A. The President of the Energy Regulatory Office appealed against the ruling which was rejected by the Court of Appeals in Warsaw on 25 April 2012. On 25 October 2012, a cassation appeal was served to a law firm representing TAURON Wytwarzanie S.A. By the date of this opinion, the Supreme Court had not issued any ruling on the aforesaid cassation appeal. In the opinion of the Management Board of the Parent Company, the resolution of the court case will be positive for the Capital Group.”

The General Shareholders’ Meeting, which approved the consolidated financial statements for the 2012 financial year, was held on 16 May 2013.

In accordance with applicable laws, the consolidated financial statements for the 2012 financial year were submitted to the National Court Register (KRS) on 23 May 2013.

3. Details of the authorized entity and the key certified auditor acting on its behalf

The audit of the consolidated financial statements was conducted in accordance with the agreement of 7 May 2013 concluded between TAURON Polska Energia S.A. and Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k., with its registered office in Warsaw, al. Jana Pawła II 19, recorded under number 73 on the list of entities authorized to provide audit services kept by the National Council of Statutory Auditors. On behalf of the authorized entity, the audit of the financial statements was conducted under the supervision of Artur Maziarka, key certified auditor, (No. 90108), in the registered office of the Parent Company from 14 to 21 February 2014 and outside the registered office until the opinion date.

The entity authorized to audit the financial statements was appointed by a resolution of the Supervisory Board passed on 13 March 2013 on the basis of authorisation included in Article 20 of the Parent Company’s by-laws.

Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. and Artur Maziarka, key certified auditor, confirm that they are authorized to carry out audits and meet the requirements of Article 56 of the of the Act of statutory auditors and their self-regulation, entities authorized to audit financial statements and public supervision (*Journal of Laws* of 2009 No. 77 item 649 as amended), to express an unbiased and independent opinion on the financial statements of the Capital Group TAURON Polska Energia S.A.

4. Availability of data and management’s representations

The scope of our audit was not limited.

During the audit, all necessary documents and data as well as detailed information and explanations were provided to the authorized entity and the key certified auditor, as confirmed e.g. in the written representation of the Management Board of the Parent Company of 10 March 2014.

II. ECONOMIC AND FINANCIAL POSITION OF THE CAPITAL GROUP

Presented below are the main items from the consolidated statement of comprehensive income as well as financial ratios describing the financial performance of the Capital Group and its economic and financial position compared to the prior year.

Main items from the consolidated statement of comprehensive income (PLN '000)	2013	2012*
Sales revenue	19 131 122	24 752 985
Operating expenses	(17 189 369)	(22 569 099)
Other operating revenue	127 436	118 901
Other operating expenses	(135 123)	(137 658)
Financial revenue	99 257	131 306
Financial expenses	(346 993)	(347 124)
Share in profit (loss) of a joint venture	(2 709)	(1 734)
Income tax	(337 136)	(396 778)
Net profit (loss)	1 346 485	1 550 799
Total comprehensive income	1 389 973	1 217 205

Profitability ratios	2013	2012
– gross profit margin	10%	9%
– net profit margin	7%	6%
– net return on equity	8%	10%
Effectiveness ratios		
– assets turnover ratio	0.59	0.79
– receivables turnover in days	38	30
– liabilities turnover in days	25	23
– inventories turnover in days	13	10
Liquidity/Net working capital		
– debt ratio	45%	46%
– equity to fixed assets ratio	55%	54%
– net working capital (PLN '000)	(502 209)	373 809
– current ratio	0.90	1.07
– quick ratio	0.81	0.94

(*) data from the restated consolidated financial statements not audited by Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k.

An analysis of the above figures and ratios indicated the following trends in 2013:
- an increase in the profitability ratio and a decrease in the net return on equity ratio;
- a decrease in the assets turnover ratio;
- an increase in the receivables, liabilities and inventory turnover ratios;
- a decrease in the debt ratio and an increase in the equity to fixed assets ratio;
- a decrease in the working capital which was negative at 31 December 2013;
- a decrease in the liquidity ratios.

III. DETAILED INFORMATION

1. Information about the audited consolidated financial statements

The audited consolidated financial statements were prepared as at 31 December 2013 and they comprise:

- the consolidated statement of financial position as at 31 December 2013, showing total assets, equity and liabilities of PLN 32,355,570 thousand;
- the consolidated statement of comprehensive income for the period from 1 January 2013 to 31 December 2013, disclosing a net profit of PLN 1,346,485 thousand and a total comprehensive income of PLN 1,389,973 thousand;
- the consolidated statement of changes in equity for the period from 1 January 2013 to 31 December 2013, disclosing an increase in equity of PLN 993,479 thousand;
- the consolidated statement of cash flows for the period from 1 January 2013 to 31 December 2013, showing a cash outflow of PLN 350,506 thousand;
- notes, comprising a summary of significant accounting policies and other explanatory information.

The structure of assets, equity and liabilities as well as items affecting the financial profit or loss has been presented in the consolidated financial statements.

The audit covered the period from 1 January 2013 to 31 December 2013 and focused mainly on:

- verification of the correctness and fairness of the consolidated financial statements prepared by the Management Board of the Parent Company;
- verification of the consolidation documentation;
- evaluation of the correctness of the consolidation methods and procedures applied during consolidation.

2. Consolidation documentation

The Parent Company presented the consolidation documentation including:

1) financial statements of controlled entities, adjusted to the accounting principles (policy) applied during consolidation;
2) financial statements of controlled entities translated into the Polish currency;
3) all consolidation adjustments and eliminations necessary for preparation of the consolidated financial statements;
4) calculation of non-controlling interest;
5) calculation of exchange differences arising from translation of the financial statements of controlled entities denominated in foreign currencies.

<u>Basis for the preparation of the consolidated financial statements</u>

The consolidated financial statements of the Capital Group for the 2013 financial year have been prepared in accordance with IFRS.

<u>Entities in the Capital Group</u>

The scope and methods of consolidation as well as the relationship between the entities have been determined based on the criteria specified in IFRS.

Financial period

The consolidated financial statements have been prepared as at the same reporting date and for the same financial year as the financial statements of the Parent Company – TAURON Polska Energia S.A. Subsidiaries and associates included in consolidation prepared their financial statements as at the same reporting date as the Parent Company. The financial year of all subsidiaries included in consolidation ended on 31 December 2013.

Consolidation method

The financial statements of the subsidiaries were consolidated using the full method, i.e. full amounts of all relevant items of the financial statements of the Parent Company and the subsidiaries included in consolidation were added up.

After adding the values up, consolidation adjustments and eliminations were applied to:

- the cost of shares held by the Parent Company in subsidiaries and the part of net assets of subsidiaries corresponding to the interest of the Parent Company in these companies;
- mutual receivables and liabilities of entities included in the consolidation;
- material revenue and expenses related to transactions between entities included in the consolidation.

The equity method was applied with respect to associated entities. The value of the Parent Company's interest in the associated company was adjusted by increases or decreases in the equity of the associated company attributable to the Parent Company, which occurred in the period covered by consolidation, and decreased by dividends due from such companies.

3. Completeness and correctness of drawing up the notes and explanations and the report on the activities of the Capital Group

The Parent Company confirmed the validity of the going concern basis in preparation of the consolidated financial statements. The notes to the consolidated financial statements give a correct and complete description of measurement principles regarding assets, liabilities, financial result and principles of preparation of the consolidated financial statements.

The Parent prepared the notes in the form of tables to individual items of the statement of financial position and statement of comprehensive income as well as narrative descriptions, in line with the principles specified in IFRS.

Notes describing property, plant and equipment, intangible assets, investments, liabilities and provisions correctly present increases and decreases as well as their basis during the financial year.

Limitations imposed on individual assets disclosed in the consolidated statement of financial position arising from security granted to creditors have been described.

Individual assets and liabilities as well as revenue and expenses have been correctly presented by the Parent Company in the consolidated financial statements. The consolidated statement of financial position, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows as well as notes which constitute an integral part of the financial statements include all items required for disclosure in the consolidated financial statements under IFRS.

The Management Board prepared and supplemented the consolidated financial statements with a report on the activities of the Capital Group in the 2013 financial year. The report contains all information required under Article 49.2 of the Accounting Act and the Ordinance of the Minister of Finance of 19 February 2009 on current and periodic information published by issuers of securities and the rules of equal treatment of the information required by the laws of non-member states. We have audited the report with respect to the disclosed information derived directly from the audited consolidated financial statements.

IV. FINAL NOTES

Management Board's Representations

Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. and the key certified auditor received a representation letter from the Parent's Management Board, in which the Board stated that the Capital Group complied with the laws in force.

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

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

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

Warsaw, 10 March 2014

TAURON POLSKA ENERGIA S.A. CAPITAL GROUP

FINANCIAL STATEMENTS
PREPARED ACCORDING TO THE INTERNATIONAL FINANCIAL REPORTING STANDARDS
FOR THE YEAR ENDED 31 DECEMBER 2013

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(in PLN '000)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Year ended 31 December 2013	Year ended 31 December 2012 (*restated figures*)
Continuing operations			
Sales revenue	**12.1**	19 131 122	24 752 985
Cost of sales	**12.2**	(15 990 461)	(21 282 054)
Gross profit		**3 140 661**	**3 470 931**
Other operating income	**12.5**	127 436	118 901
Selling and distribution expenses	**12.2**	(553 502)	(552 291)
Administrative expenses	**12.2**	(645 406)	(734 754)
Other operating expenses	**12.6**	(135 123)	(137 658)
Operating profit		**1 934 066**	**2 165 129**
Finance income	**12.7**	99 257	131 306
Finance costs	**12.8**	(346 993)	(347 124)
Share in profit/(loss) of joint venture	**17**	(2 709)	(1 734)
Profit before tax		**1 683 621**	**1 947 577**
Income tax expense	**13.1**	(337 136)	(396 778)
Net profit from continuing operations		**1 346 485**	**1 550 799**
Net profit for the year		**1 346 485**	**1 550 799**
Other comprehensive income subject to reclassification to profit or loss:		**25 791**	**(154 160)**
Change in the value of hedging instruments		33 397	(189 756)
Foreign exchange differences from translation of foreign entities		(1 261)	(457)
Income tax	**13.1**	(6 345)	36 053
Other comprehensive income not subject to reclassification to profit or loss:		**17 697**	**(179 434)**
Actuarial gains/(losses) related to provisions for post-employment benefits		21 847	(221 074)
Income tax	**13.1**	(4 150)	41 640
Other comprehensive income for the year, net of tax		**43 488**	**(333 594)**
Total comprehensive income for the year		**1 389 973**	**1 217 205**
Net profit for the year:			
Attributable to equity holders of the parent		1 308 318	1 476 392
Attributable to non-controlling interests		38 167	74 407
Total comprehensive income:			
Attributable to equity holders of the parent		1 349 123	1 157 617
Attributable to non-controlling interests		40 850	59 588
Earnings per share (in PLN):	**28**		
– basic and diluted, for profit for the year attributable to equity holders of the parent		0.75	0.84
– basic and diluted, for profit for the year from continuing operations attributable to equity holders of the parent		0.75	0.84

Accounting principles (policy) and notes to the consolidated financial statements constitute an integral part hereof.

(in PLN '000)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	As at 31 December 2013	As at 31 December 2012 (*restated figures*)	As at 1 January 2012 (*restated figures*)
ASSETS				
Non-current assets				
Property, plant and equipment	**14**	25 127 639	23 300 643	21 636 317
Goodwill	**15**	247 057	247 057	247 057
Intangible assets	**16**	1 160 005	1 182 256	1 152 617
Investments in joint ventures	**17**	44 398	51 986	22 717
Other financial assets	**18**	587 166	305 444	193 067
Other non-financial assets	**19**	354 704	359 709	144 923
Deferred tax asset	**13.3**	46 039	24 135	20 079
		27 567 008	**25 471 230**	**23 416 777**
Current assets				
Intangible assets	**20**	1 156 550	711 099	870 954
Inventories	**21**	509 224	708 282	574 790
Corporate income tax receivable		31 890	1 434	64 266
Trade and other receivables	**22**	2 134 641	3 036 695	2 743 344
Other financial assets	**18**	15 878	5 422	108 024
Other non-financial assets	**23**	270 429	272 371	234 220
Cash and cash equivalents	**24**	636 909	1 030 929	505 670
		4 755 521	**5 766 232**	**5 101 268**
Non-current assets classified as held for sale	**25**	**33 041**	**36 215**	**8 951**
TOTAL ASSETS		**32 355 570**	**31 273 677**	**28 526 996**

Accounting principles (policy) and notes to the consolidated financial statements constitute an integral part hereof.

(in PLN '000)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION – continued

	Note	As at 31 December 2013	As at 31 December 2012 (*restated figures*)	As at 1 January 2012 (*restated figures*)
EQUITY AND LIABILITIES				
Equity attributable to equity holders of the parent				
Issued capital	**27.1**	8 762 747	8 762 747	8 762 747
Reserve capital	**27.3**	9 037 699	7 953 021	7 412 882
Revaluation reserve from valuation of hedging instruments	**27.5**	(126 651)	(153 703)	–
Foreign exchange differences from translation of foreign entities		(1 631)	(370)	87
Retained earnings/Accumulated losses	**27.4**	(344 999)	(255 014)	(481 414)
		17 327 165	**16 306 681**	**15 694 302**
Non-controlling interests	**27.6**	**466 334**	**493 339**	**455 203**
Total equity		**17 793 499**	**16 800 020**	**16 149 505**
Non-current liabilities				
Interest-bearing loans and borrowings	**31**	5 500 532	5 222 882	4 251 944
Liability under finance lease	**32.2**	61 643	41 796	56 232
Trade and other payables		7 827	7 890	7 968
Derivative instruments		87 573	150 594	–
Provisions for employee benefits	**33**	1 497 814	1 568 219	1 203 375
Other provisions	**34**	141 408	82 523	61 200
Accruals, deferred income and government grants	**35**	668 487	639 643	569 562
Deferred tax liability	**13.3**	1 339 057	1 367 687	1 388 424
		9 304 341	**9 081 234**	**7 538 705**
Current liabilities				
Current portion of interest-bearing loans and borrowings	**31**	284 633	286 990	214 169
Current portion of liabilities under finance lease	**32.2**	17 327	14 482	14 761
Trade and other payables		2 023 537	2 628 449	2 349 121
Derivative instruments		73 358	40 624	80
Provisions for employee benefits	**33**	162 368	167 704	153 676
Other provisions	**34**	1 563 019	1 103 036	1 023 328
Accruals, deferred income and government grants	**35**	239 639	268 870	275 147
Corporate income tax payable		79 035	113 034	163 437
Other non-financial liabilities	**36**	814 814	769 234	645 067
		5 257 730	**5 392 423**	**4 838 786**
Total liabilities		**14 562 071**	**14 473 657**	**12 377 491**
TOTAL EQUITY AND LIABILITIES		**32 355 570**	**31 273 677**	**28 526 996**

Accounting principles (policy) and notes to the consolidated financial statements constitute an integral part hereof.

(in PLN '000)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2013

	Note	Equity attributable to the equity holders of the parent						Non-controlling interests	Total equity
		Issued capital	Reserve capital	Revaluation reserve from valuation of hedging instruments	Foreign exchange differences from translation of foreign entities	Retained earnings/ Accumulated losses	Total		
As at 1 January 2013 (*restated figures*)		**8 762 747**	**7 953 021**	**(153 703)**	**(370)**	**(255 014)**	**16 306 681**	**493 339**	**16 800 020**
Profit for the period		–	–	–	–	1 308 318	**1 308 318**	38 167	**1 346 485**
Other comprehensive income		–	–	27 052	(1 261)	15 014	**40 805**	2 683	**43 488**
Total comprehensive income for the year		**–**	**–**	**27 052**	**(1 261)**	**1 323 332**	**1 349 123**	**40 850**	**1 389 973**
Appropriation of prior year profits	**27.3**	–	1 084 678	–	–	(1 084 678)	**–**	–	**–**
Dividends	**27.6, 29**	–	–	–	–	(350 510)	**(350 510)**	(8 328)	**(358 838)**
Mandatory squeeze-out	**27.6, 30**	–	–	–	–	71	**71**	(2 083)	**(2 012)**
Acquisition of non-controlling interests	**27.6, 30**	–	–	–	–	20 772	**20 772**	(55 772)	**(35 000)**
Change in non-controlling interests due to mergers	**27.6, 30**	–	–	–	–	1 672	**1 672**	(1 672)	**–**
Settlement of PKE Broker Sp. z o.o. merger		–	–	–	–	(644)	**(644)**	–	**(644)**
As at 31 December 2013		**8 762 747**	**9 037 699**	**(126 651)**	**(1 631)**	**(344 999)**	**17 327 165**	**466 334**	**17 793 499**

Year ended 31 December 2012

	Note	Equity attributable to the equity holders of the parent						Non-controlling interests	Total equity
		Issued capital	Reserve capital	Revaluation reserve from valuation of hedging instruments	Foreign exchange differences from translation of foreign entities	Retained earnings/ Accumulated losses	Total		
As at 1 January 2012 (*restated figures*)		**8 762 747**	**7 412 882**	**–**	**87**	**(543 395)**	**15 632 321**	**454 897**	**16 087 218**
Change in the accounting policy resulting from the method of recognising power and heat collisions	**8**	–	–	–	–	61 981	**61 981**	306	**62 287**
As at 1 January 2012 (*restated figures*)		**8 762 747**	**7 412 882**	**–**	**87**	**(481 414)**	**15 694 302**	**455 203**	**16 149 505**
Profit for the period		–	–	–	–	1 476 392	**1 476 392**	74 407	**1 550 799**
Other comprehensive income		–	–	(153 703)	(457)	(164 615)	**(318 775)**	(14 819)	**(333 594)**
Total comprehensive income for the year		**–**	**–**	**(153 703)**	**(457)**	**1 311 777**	**1 157 617**	**59 588**	**1 217 205**
Appropriation of prior year profits		–	540 139	–	–	(540 139)	**–**	–	**–**
Dividends	**27.6, 29**	–	–	–	–	(543 290)	**(543 290)**	(16 870)	**(560 160)**
Mandatory squeeze-out	**27.6**	–	–	–	–	1 215	**1 215**	(6 510)	**(5 295)**
Acquisition of non-controlling interests	**27.6**	–	–	–	–	185	**185**	(1 420)	**(1 235)**
Change in non-controlling interests due to mergers	**27.6**	–	–	–	–	(3 348)	**(3 348)**	3 348	**–**
As at 31 December 2012 (*restated figures*)		**8 762 747**	**7 953 021**	**(153 703)**	**(370)**	**(255 014)**	**16 306 681**	**493 339**	**16 800 020**

Accounting principles (policy) and notes to the consolidated financial statements constitute an integral part hereof.

(in PLN '000)

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Year ended 31 December 2013	Year ended 31 December 2012 (*restated figures*)
Cash flows from operating activities			
Profit/(loss) before taxation		**1 683 621**	**1 947 577**
Adjustments for:			
Share in profit/(loss) of joint venture		2 709	1 734
Depreciation and amortization		1 727 069	1 686 204
(Gain)/loss on foreign exchange differences		847	(391)
Interest and dividens, net		220 283	225 526
(Gain)/loss on investing activities		317 714	35 315
(Increase)/decrease in receivables		924 417	(291 704)
(Increase)/decrease in inventories		186 768	(136 092)
Increase/(decrease) in payables excluding loans and borrowings		(328 877)	70 212
Change in other non-current and current assets		(492 481)	74 912
Change in deferred income, government grants and accruals		(115 596)	(65 253)
Change in provisions		423 730	260 546
Income tax paid		(466 637)	(328 845)
Other		(4 485)	(690)
Net cash from operating activities		**4 079 082**	**3 479 051**
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment and intangible assets		29 785	50 192
Purchase of property, plant and equipment and intangible assets	**46.1**	(3 933 673)	(3 302 471)
Proceeds from sale of bonds and other debt securities		–	102 506
Proceeds from sale of other financial assets		4 237	22 011
Advance payments for acquisition of shares in a subsidiary	**46.1**	(232 500)	–
Acquisition of shares in joint ventures		–	(32 576)
Purchase of other financial assets		(4 920)	(10 463)
Acquisition of a subsidiary, after deducting cash acquired		–	(5 613)
Dividends received		18 323	8 349
Interest received		40	136
Repayment of loans granted		46 800	24 500
Loans granted	**46.1**	(108 800)	(139 500)
Other		220	–
Net cash used in investing activities		**(4 180 488)**	**(3 282 929)**
Cash flows from financing activities			
Payment of finance lease liabilities		(14 911)	(14 834)
Proceeds from loans and borrowings	**46.2**	452 325	1 005 000
Repayment of loans and borrowings		(141 226)	(257 210)
Issue of debt securities		–	150 000
Dividends paid to equity holders of the parent	**29**	(350 510)	(543 290)
Dividends paid to non-controlling interests	**29**	(8 047)	(16 434)
Interest paid	**46.2**	(229 431)	(222 089)
Acquisition of non-controlling interests		(37 021)	(6 535)
Subsidies received		89 024	106 083
Other		(9 303)	(10 975)
Net cash from (used in) financing activities		**(249 100)**	**189 716**
Net increase/(decrease) in cash and cash equivalents		**(350 506)**	**385 838**
Net foreign exchange difference		(1 858)	(1 375)
Cash and cash equivalents at the beginning of the period	**24**	**891 654**	**505 816**
Cash and cash equivalents at the end of the period, of which:	**24**	**541 148**	**891 654**
restricted cash	**24**	121 129	290 063

Accounting principles (policy) and notes to the consolidated financial statements constitute an integral part hereof.

(in PLN '000)

ACCOUNTING PRINCIPLES (POLICY) AND EXPLANATORY NOTES

1. General information

The TAURON Polska Energia S.A. Capital Group ("the Group", "the Capital Group", "the TAURON Group") is composed of TAURON Polska Energia S.A. ("Parent", "Company") and its subsidiaries. The Company operates as a joint-stock company incorporated by a notarized deed on 6 December 2006. Until 16 November 2007 the Company had operated under the name Energetyka Południe S.A. The consolidated financial statements of the Group cover the financial year ended 31 December 2013 and include comparable data for the year ended 31 December 2012.

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

The parent was assigned statistical number REGON: 240524697.

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

The core business of the Group includes:

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

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

2. Composition of the Capital Group

As at 31 December 2013, TAURON Polska Energia S.A. directly held the following shares in key subsidiaries:

Item	Company name	Registered office	Segment	Direct interest in the share capital held by TAURON	Direct interest in the decision-making body held by TAURON
1	TAURON Wytwarzanie S.A.	Katowice	Generation	99.77%	99.80%
2	TAURON Ekoenergia Sp. z o.o.	Jelenia Góra	Renewable sources of energy	100.00%	100.00%
3	TAURON Dystrybucja S.A.	Kraków	Distribution	99.71%	99.71%
4	TAURON Sprzedaż Sp. z o.o.	Kraków	Sales	100.00%	100.00%
5	TAURON Czech Energy s.r.o.	Ostrawa, Republika Czeska	Sales	100.00%	100.00%
6	TAURON Sprzedaż GZE Sp. z o.o.	Gliwice	Sales	100.00%	100.00%
7	TAURON Ciepło S.A.	Katowice	Heat	96.10%	96.74%
8	TAURON Obsługa Klienta Sp. z o.o.[1]	Wrocław	Customer service	100.00%	100.00%
9	Polska Energia Pierwsza Kompania Handlowa Sp. z o.o.	Mysłowice	Other	100.00%	100.00%

[1] On 31 January 2013, a business combination of TAURON Obsługa Klienta Sp. z o.o. and TAURON Obsługa Klienta GZE Sp. z o.o. was registered, as discussed in detail in Note 30.

(in PLN '000)

As at 31 December 2013 TAURON Polska Energia S.A. held the following indirect interest in key subsidiaries:

Item	Company name	Registered office	Segment	Indirect interest in the share capital held by TAURON	Indirect interest in the decision-making body held by TAURON
1	TAURON Wydobycie S.A.[1, 2]	Jaworzno	Mining	52.36%	67.87%
2	BELS INVESTMENT Sp. z o.o.	Jelenia Góra	Renewable sources of energy	100.00%	100.00%
3	MEGAWAT MARSZEWO Sp. z o.o.	Jelenia Góra	Renewable sources of energy	100.00%	100.00%
4	TAURON Dystrybucja Serwis S.A.[3]	Wrocław	Distribution	99.71%	99.71%
5	Kopalnia Wapienia Czatkowice Sp. z o.o.[1]	Krzeszowice	Other	99.77%	99.80%

[1] TAURON Polska Energia S.A. uses the shares held by TAURON Wytwarzanie S.A. Under the agreements on the use of shares, TAURON Polska Energia S.A. has 100% interest in the share capital and in the governing body of Kopalnia Wapienia Czatkowice Sp. z o.o. and 52.48% interest in the share capital of TAURON Wydobycie S.A., giving it 68.01% of votes at the entity's General Shareholders' Meeting.

[2] On 24 February 2014, the change in the name of Południowy Koncern Węglowy S.A. to TAURON Wydobycie S.A. was registered, as discussed in detail in Note 48.

[3] On 2 April 2013, a business combination of TAURON Serwis GZE Sp. z o.o. (the acquiree) and Przedsiębiorstwo Usług Elektroenergetycznych S.A. (the acquirer) was registered and, at the same time, the name of the acquirer was changed to TAURON Dystrybucja Serwis S.A.

Additionally, as at 31 December 2013, TAURON Polska Energia S.A. held indirect shares in the following jointly controlled entities:

Item	Company name	Registered office	Segment	Indirect interest in the share capital held by TAURON	Indirect interest in the decision-making body held by TAURON
1	Elektrociepłownia Stalowa Wola S.A.	Stalowa Wola	Heat	49.89%	49.90%
2	Elektrownia Blachownia Nowa Sp. z o.o.	Kędzierzyn Koźle	Generation	49.89%	49.90%

3. Composition of the Parent's Management Board

As at 31 December 2013 the composition of the Company's Management Board was as follows:

- 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.

On 10 February 2014 the Supervisory Board of the Company adopted a resolution to delegate a Member of the Supervisory Board, Aleksander Grad, to temporarily act as the Vice-President of the Management Board of TAURON Polska Energia S.A. in the period from 11 February 2014 to 11 May 2014. During this period, the membership in the Supervisory Board, and therefore the right and obligations resulting therefrom, will be suspended and so will be the compensation due for such services.

4. Approval of the financial statements

These consolidated financial statements were approved for publication on 10 March 2014.

5. Going concern

The consolidated financial statements have been prepared in accordance with the going concern principle regarding the Group companies. As at the date of approving these financial statements no circumstances have been detected that could put the going concern operation of the Group's companies at risk.

6. Basis for the preparation of the consolidated financial statements

6.1. Statement of compliance

These consolidated financial statements have been prepared in compliance with the requirements of the International Financial Reporting Standards ("IFRS") as endorsed by the European Union ("EU").

The IFRS consist of standards and interpretations approved by the International Accounting Standards Board ("IASB") and the International Financial Reporting Interpretations Committee.

The Group companies and the Parent keep the accounting records and prepare the financial statements in accordance with the International Financial Reporting Standards, except for:

- BELS INVESTMENT Sp. z o.o. and MEGAWAT MARSZEWO Sp. z o.o., which keep their accounting records and prepare the financial statements in line with accounting principles (policy) determined in the Accounting Act of 29 September 1994 as amended ("Accounting Act") and the related secondary legislation ("Polish Accounting Standards") ;
- TAURON Czech Energy s.r.o, which keeps the accounting records and prepares the financial statements in line with accounting principles applicable in the Czech Republic.

The consolidated financial statements include amendments not recognized in the accounting records of the Group companies, introduced in order to achieve compliance of the consolidated financial statements with IFRS.

6.2. Functional and presentation currency

The Polish zloty has been used as the presentation currency of these consolidated financial statements and the functional currency of the Parent and subsidiaries covered by the consolidated financial statements, except for TAURON Czech Energy s.r.o. The functional currency of TAURON Czech Energy s.r.o. is the Czech koruna ("CZK"). Individual items of the financial statements of TAURON Czech Energy s.r.o. are translated to the presentation currency of the TAURON Group using applicable exchange rates.

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

7. New accounting standards and interpretations

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

- 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 Group is planning to adopt IFRS 10 for 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 Group is planning to adopt IFRS 11 for 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 Group is planning to adopt IFRS 12 for the annual period beginning on 1 January 2014;
- Revised IFRS 10, IFRS 11 and IFRS 12 *Transition Disclosures* – 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 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 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;
- Revised IAS 32 *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities* – applicable to annual periods beginning on or after 1 January 2014.

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

- IFRS 9 *Financial Instruments* – the effective date has not been determined yet. The standard was published by IASB in 2009. On 28 October 2010 IASB issued revised IFRS 9, introducing new requirements concerning accounting for financial liabilities and transferring the requirements concerning derecognition of financial assets and liabilities from IAS 39. On 19 November 2013 IASB issued a number of amendments to financial instruments accounting. The standard develops a uniform approach to determine whether financial assets are measured at amortized cost or fair value and replaces numerous rules specified in IAS 39. Amendments of November 2013 introduce significant changes to hedge accounting and allow for recognizing own credit risk without changing other principles of accounting for financial instruments. They also annulled the effective date of IFRS 9 (set at 1 January 2015);
- Revised IFRS 10, IFRS 12 and IAS 27 *Investment Vehicles* (published on 31 October 2012) – applicable to annual periods beginning on or after 1 January 2014;
- Revised IAS 36 Impairment of Assets: Disclosure of Recoverable Amount of Non-financial Assets (published on 29 May 2013) – applicable to annual periods beginning on or after 1 January 2014;
- Revised IAS 39 *Financial Instruments: Recognition and Measurement – Novation of derivatives and continuation of hedge accounting* (published on 29 May 2013) – applicable to annual periods beginning on or after 1 January 2014;
- IFRIC 21 *Levies* (published on 20 May 2013). IFRIC 21 is an interpretation of IAS 37 Provisions, Contingent Liabilities and Contingent Assets – applicable to annual periods beginning on or after 1 January 2014;
- Revised IAS 19 *Employee Benefits – Defined Benefit Plans: Employee Contributions* – applicable to annual periods beginning on or after 1 July 2014;
- Annual Improvements to IFRS (Cycle 2010–2012) – applicable to annual periods beginning on or after 1 July 2014;
- Annual Improvements to IFRS (Cycle 2011–2013) – applicable to annual periods beginning on or after 1 July 2014.

The Company analysed the impact of the abovementioned standards and interpretations on the accounting policies applied by the Group except for the impact of IFRS 9 *Financial Instruments*, which will be analysed after publishing all phases.

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

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

According to the Management Board the standards and interpretations in question do not materially impact the existing accounting policy.

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

8. Changes to accounting policies

The accounting principles (policy) adopted for the preparation of the consolidated financial statements are consistent with those adopted for the preparation of the annual consolidated financial statements of the Group for the year ended 31 December 2012, except for the following amendments:

- **Change of the accounting policy concerning recognition of the right of perpetual usufruct of land**

  In 2013 the Group decided to change the accounting policy with respect to recognition of the right of perpetual usufruct of land.

  To a large extent, such right was acquired when the Group settled the contribution of shares in: Południowy Koncern Energetyczny S.A., Enion S.A., EnergiaPro S.A. and Elektrownia Stalowa Wola S.A. in 2007. The value of shares issued in return for the contribution corresponded to the estimated fair value of contributed shares and the settlement consisted in fair value remeasuring the non-current assets of these companies (including the right of perpetual usufruct of land) in line with the measurement carried out at as the date of contribution. Values resulting from measurement of the right of perpetual usufruct of land as at the contribution date were recognized as initial values as at the transition date.

  Before, the Group had classified the right of perpetual usufruct of land to property, plant and equipment, similarly to the method of classifying land. At present, perpetual usufruct of land acquired under a business combination is classified to long-term intangible assets.

  Comparable data as at 31 December 2012 and as at 1 January 2012 have been appropriately restated. Property, plant and equipment decreased and simultaneously non-current intangible assets increased comparing to the approved data:

  - as at 1 January 2012 – by PLN 839 330 thousand;
  - as at 31 December 2012 – by PLN 812 094 thousand.

- **Change of the accounting policy concerning recognition of revenue due to power and heat collisions**

  In 2013 the Group decided to change the accounting policy concerning recognition of fixed assets received free of charge due to rendering services of tolerance for removing power or heat infrastructure collision. In line with the accounting policies applied previously, fixed assets received free of charge were initially recognized as deferred income and subsequently, appropriate allowances were recognized in operating revenue and so were depreciation charges of fixed assets.

  At present, at initial recognition of fixed assets received free of charge due to rendering services of tolerance for removing power or heat infrastructure collision, the TAURON Group recognises the entire related revenue in profit or loss as at that date, and discloses it in revenue from rendering of services. The Group decided to change the accounting policy in this respect, as according to the Management Board this change will result in the financial statements providing more relevant information about the impact of such events on the financial position and profit or loss of the Group in the financial statements.

  Comparable data for the year ended 31 December 2012, as at 31 December 2012 and as at 1 January 2012 have been appropriately restated. As at 1 January 2012 the Group recognized the entire revenue not disclosed before, reducing accumulated losses of the Group by PLN 61 981 thousand and increasing non-controlling interest by PLN 306 thousand. The profit for 2012 grew by PLN 9 500 thousand and consequently accumulated losses of the Group as at 31 December 2012 decreased by PLN 71 571 thousand and non-controlling interest increased by PLN 216 thousand comparing to the approved data. At the same time, deferred income decreased by PLN 88 626 thousand and the deferred tax liability grew by PLN 16 839 thousand.

The impact of the abovementioned changes of the accounting policy on the consolidated statement of financial position as at 31 December 2012 and 1 January 2012 has been presented in the tables below.

(in PLN '000)

	As at 31 December 2012 (*authorized figures*)	Change in the accounting policy with respect to recognition of		**As at 31 December 2012 (*restated figures*)**
		the perpetual usefruct of land	revenue from power and heat collisions	
Non-current assets	**25 471 230**	**–**	**–**	**25 471 230**
Property, plant and equipment	24 112 737	(812 094)	–	**23 300 643**
Intangible assets	370 162	812 094	–	**1 182 256**
TOTAL ASSETS	**31 273 677**	**–**	**–**	**31 273 677**
Equity attributable to equity holders of the parent	**16 235 110**	**–**	**71 571**	**16 306 681**
Retained earnings/Accumulated losses	(326 585)	–	71 571	**(255 014)**
Non-controlling interests	**493 123**	**–**	**216**	**493 339**
Total equity	**16 728 233**	**–**	**71 787**	**16 800 020**
Non-current liabilities	**9 148 067**	**–**	**(66 833)**	**9 081 234**
Accruals, deferred income and government grants	723 315	–	(83 672)	**639 643**
Deferred tax liability	1 350 848	–	16 839	**1 367 687**
Current liabilities	**5 397 377**	**–**	**(4 954)**	**5 392 423**
Accruals, deferred income and government grants	273 824	–	(4 954)	**268 870**
Total liabilities	**14 545 444**	**–**	**(71 787)**	**14 473 657**
TOTAL EQUITY AND LIABILITIES	**31 273 677**	**–**	**–**	**31 273 677**

	Ast at 1 January 2012 (*restated figures enclosed in the financial statetemets for the year ended 31 December 2012*)	Change in the accounting policy with respect to recognition of		**As at 1 January 2012 (*restated figures*)**
		the perpetual usefruct of land	revenue from power and heat collisions	
Non-current assets	**23 416 777**	**–**	**–**	**23 416 777**
Property, plant and equipment	22 475 647	(839 330)	–	**21 636 317**
Intangible assets	313 287	839 330	–	**1 152 617**
TOTAL ASSETS	**28 526 996**	**–**	**–**	**28 526 996**
Equity attributable to equity holders of the parent	**15 632 321**	**–**	**61 981**	**15 694 302**
Retained earnings/Accumulated losses	(543 395)	–	61 981	**(481 414)**
Non-controlling interests	**454 897**	**–**	**306**	**455 203**
Total equity	**16 087 218**	**–**	**62 287**	**16 149 505**
Non-current liabilities	**7 597 081**	**–**	**(58 376)**	**7 538 705**
Accruals, deferred income and government grants	642 549	–	(72 987)	**569 562**
Deferred tax liability	1 373 813	–	14 611	**1 388 424**
Current liabilities	**4 842 697**	**–**	**(3 911)**	**4 838 786**
Accruals, deferred income and government grants	279 058	–	(3 911)	**275 147**
Total liabilities	**12 439 778**	**–**	**(62 287)**	**12 377 491**
TOTAL EQUITY AND LIABILITIES	**28 526 996**	**–**	**–**	**28 526 996**

The impact of the change of the accounting policy on the consolidated statement of comprehensive income for the year ended 31 December 2012 has been presented in the table below.

(in PLN '000)

	Year ended 31 December 2012 (*authorized figures*)	Change in accounting policy regarding recognition of revenue from heat and power collisions	**Year ended 31 December 2012 (*restated figures*)**
Continuing operations			
Sales revenue	24 741 257	11 728	24 752 985
Cost of sales	(21 282 054)	–	(21 282 054)
Gross profit	**3 459 203**	**11 728**	**3 470 931**
Operating profit	**2 153 401**	**11 728**	**2 165 129**
Profit before tax	**1 935 849**	**11 728**	**1 947 577**
Income tax expense	(394 550)	(2 228)	(396 778)
Net profit from continuing operations	**1 541 299**	**9 500**	**1 550 799**
Net profit for the year	**1 541 299**	**9 500**	**1 550 799**
Other comprehensive income for the year, net of tax	**(333 594)**	**–**	**(333 594)**
Total comprehensive income for the year	**1 207 705**	**9 500**	**1 217 205**
Net profit for the year:			
Attributable to equity holders of the parent	1 466 802	9 590	1 476 392
Attributable to non-controlling interests	74 497	(90)	74 407
Total comprehensive income:			
Attributable to equity holders of the parent	1 148 027	9 590	1 157 617
Attributable to non-controlling interests	59 678	(90)	59 588
Earnings per share (in PLN):			
– basic and diluted, for profit for the year attributable to equity holders of the parent	0.84	0.00	0.84
– basic and diluted, for profit for the year from continuing operations attributable to equity holders of the parent	0.84	0.00	0.84

Revised standards and new interpretations

The Group applied revised standards and new interpretations applicable to annual periods beginning on or after 1 January 2013:

- Revised IAS 1 *Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income* – applicable to annual periods beginning on or after 1 July 2012;
- Revised IAS 12 *Income Taxes: 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;
- IFRS 13 *Fair Value Measurement* – applicable to annual periods beginning on or after 1 January 2013;
- Revised IFRS 7 *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities* – applicable to annual periods beginning on or after 1 January 2013;
- IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine* – applicable to annual periods beginning on or after 1 January 2013;
- Amendments resulting from the IFRS improvements process (published in May 2012) – applicable to annual periods beginning on or after 1 January 2013.

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

The IASB introduced revised IAS 19 *Employee Benefits* applicable to annual periods beginning on or after 1 January 2013 with the possibility of early application. The Group decided to apply the revised IAS 19 earlier, starting from the year ended 31 December 2012.

9. Summary of significant accounting policies

These consolidated financial statements have been prepared on the historical cost basis, except for derivative instruments and financial assets available for sale which are measured at fair value.

(in PLN '000)

9.1. Consolidation principles

The consolidated financial statements cover the financial data of TAURON Polska Energia S.A. and its subsidiaries prepared for individual entities for the years ended 31 December 2013 and 31 December 2012. The financial statements of the subsidiaries (including adjustments required to ensure compliance with IFRS) are prepared for the same reporting period as those of the Parent, using consistent accounting principles and based on a uniform accounting policy for similar business transactions and economic events.

All material balances and transactions between the Group companies, including unrealized gains on transactions within the Group, have been eliminated in full.

Subsidiaries have been included in consolidation since the date of assuming control by the Group and are eliminated from consolidation as of the date of control loss. The Parent exercises control over an entity when it holds, directly or indirectly through its subsidiaries, more than a half of the votes in the entity, unless it can be proven that such voting rights are not equivalent to exercising control. The investor controls the investee if the investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to use its power over the investee to affect the amount of the investor's returns. The investor may also control the investee if the parent holds less than a majority of the voting rights of the subsidiary.

9.2. Translation of items denominated in foreign currencies

Foreign currency transactions are translated into PLN at initial recognition at the exchange rate applicable as at the transaction date. As at the end of the reporting period:

- Monetary items denominated in foreign currencies are translated at the closing rate as at the date (the average exchange rate published by the National Bank of Poland as at the date);
- Non-monetary items measured at cost and denominated in foreign currencies are translated at the exchange rate of the initial transaction date (the rate of the bank used by the enterprise); and
- Non-monetary items measured at fair value and denominated in foreign currencies are translated at the exchange rate of the fair value determining date.

Exchange differences from translation are recognized in the financial revenue (or expenses), or, in cases specified in the accounting principles (policy), in the assets. Non-monetary assets and liabilities recognized at historical cost denominated in a foreign currency are disclosed at the historical exchange rate applicable as of the transaction date.

The following exchange rates have been applied for the purpose of balance sheet measurement:

Currency	31 December 2013	31 December 2012
USD	3.0120	3.0996
EUR	4.1472	4.0882
CZK	0.1513	0.1630

9.3. Property, plant and equipment

Property, plant and equipment are measured at cost less depreciation charges and impairment losses. The initial value of fixed assets includes their cost increased by all expenses directly related to the purchase and bringing the asset to a usable condition. The cost also includes projected cost of disassembly of property, plant and equipment, their removal, and restoration of their current location to its initial condition, the obligation for which an entity incurs at the moment of installing the asset or its using for purposes other than production of inventories. Costs incurred after the date of commissioning, such as costs of maintenance and repair, are charged to profit or loss, when incurred.

All material elements included in an asset but with various useful lives (components) are identified and separated as at the date of acquisition of a property, plant and equipment item. Components also include costs of overhauls, periodic inspections, if their amount is material; and costs of replacing their key parts.

The Group recognizes specialized spare parts and service equipment as separate items of property, plant and equipment if their useful life exceeds one year. Other spare parts and service equipment are recognized as inventories and recognized through profit or loss upon use, except for costs of parts replacement qualified as an overhaul of an asset item.

Depreciation charges are calculated at cost of the given asset less its residual value. Depreciation begins when a given asset is available for use. Depreciation of fixed assets is based on a depreciation plan determining the projected useful life of each asset. The depreciation method applied reflects the manner of consuming economic benefits generated by the asset.

Specialized spare parts and service equipment recognized as property, plant and equipment are depreciated over the remaining useful life of the asset they refer to.

The following average useful life periods are assumed for fixed assets:

Group	Average remaining depreciation period (number of years)
Buildings, premises, civil and water engineering structures	17 years
Plant and machinery	13 years
Motor vehicles	5 years
Other tangible fixed assets	3 years

Depreciation method and rate, as well as the residual value are verified at least at the end of each financial year. Any changes resulting from the review are recognized as estimate changes. Property, plant and equipment are tested for impairment if there is any indication of impairment. Depreciation charges are recognized in profit or loss in an appropriate category corresponding to the function of a given asset item.

An item of property, plant and equipment may be derecognized from the statement of financial position after its disposal or when the entity does not expect any economic benefits from the further use of the asset. All gains or losses arising from derecognition of an asset from the statement of financial position are recognized in profit or loss in the period of such derecognition.

Fixed assets under construction are measured at cost less impairment losses. Fixed assets under construction are not depreciated until completion of the construction and commissioning. The value of fixed assets under construction includes financial expenses subject to capitalisation. The issue is described in detail in Note 9.7.

9.4. Goodwill

Goodwill from business combination is initially recognized at cost constituting the surplus

- of the sum of:
  - consideration made and
  - all non-controlling interest in the acquiree
- over the net value of identifiable assets acquired and liabilities assumed as at the acquisition date.

As at the acquisition date the goodwill acquired is allocated to each cash-generating unit that derives benefits from synergy effects. Each cash-generating unit with allocated goodwill:

- corresponds to the lowest level in the TAURON Group with goodwill monitored for internal management purposes, and
- is not larger than one operating segment of the TAURON Group defined in line with IFRS 8 *Operating Segments* before aggregation for financial reporting purposes.

Following the initial recognition the goodwill is recognized at cost less any accumulated impairment losses. Goodwill is not subject to amortization. Impairment tests are carried out on an annual basis or more frequently, if any indications of impairment occur. The test consists in comparing a recoverable amount of a cash-generating unit with allocated goodwill against its carrying amount.

9.5. Intangible assets

Intangible assets include identifiable non-cash assets without a tangible form, such as acquired property rights classified as non-current assets, suitable for business use, with projected useful life exceeding one year, intended for internal use.

Intangible assets are measured at cost at initial recognition. Following the initial recognition, intangible assets are measured at cost less accumulated amortization charges and impairment losses.

Intangible assets with determined useful life are amortized over the period of their estimated use and tested for impairment each time when impairment indications occur. The period and method of amortization of intangible assets with determined useful life are verified at least at the end of each financial year. Changes in the expected useful life or the manner of consuming the economic benefits derived from a given intangible asset are regarded as changes in the estimated values. Amortization charges of intangible assets with determined useful life are recognized in profit or loss in an appropriate category corresponding to the function of a given intangible asset item.

Intangible assets with undetermined useful life and those unused are tested for impairment annually.

All intangible assets produced by the Group, except for development expenses, are not capitalized and therefore they are recognized in profit or loss for the period in which the related costs were incurred.

The following average useful life periods are assumed for intangible assets:

Group	Average remaining amortisation period (number of years)
Development expenses	4 years
Software, concessions, patents, licenses and similar items	2 years
Other	8 years

Special intangible asset items of the Group include energy certificates, emission allowances and acquired right of perpetual usufruct of land, which is not amortized because its residual value is close to the carrying amount.

9.5.1. Energy certificates

Certificates of energy generated using renewable sources and in cogeneration acquired or received due to production, designated for internal purposes and acquired for surrendering purposes due to the sale of electricity to end buyers are classified to intangible assets.

Certificates of energy generated using renewable sources, in cogeneration or from natural gas sources designated for internal purposes acquired or received due to production are classified to intangible assets and measured at cost or fair value at the date of receipt.

The Group classifies energy certificates as non-current or current intangible assets. If the Group intends to surrender energy certificates acquired or received from production in order to meet the obligation to surrender certificates for a given year, it classifies such items to current intangible assets, while if it plans to meet the obligation in the following years, it recognizes them under non-current intangible assets. Certificates are classified based on the intended use at the acquisition date, still in justified cases they may be reclassified to or from the current or the non-current category.

9.5.2. Greenhouse gas emission allowances

Intangible assets of the Group include greenhouse gas emission allowances acquired with the intention to meet the obligation resulting from emission of greenhouse gases.

Greenhouse gas emission allowances are recognized at acquisition price. Emission allowances granted free of charge under 2nd National Allowance Distribution Plan were recognized at a nominal value, i.e. zero value. As derogation allowances, to which the Group is entitled, were not awarded by 31 December 2013, they have not been recognized as intangible assets in these financial statements.

The Group classifies greenhouse gas emission allowances as non-current or current intangible assets. If the Group intends to surrender greenhouse gas emission allowances acquired or received in order to meet its obligation for the current year, it classifies them as current intangible assets, while if it plans to meet the obligation in the following years, it recognizes them under non-current intangible assets. Allowances are classified based on the intended use at the acquisition date, still in justified cases they may be reclassified to or from the current or the non-current category.

9.6. Impairment of non-financial non-current assets

At each balance sheet date, the Group evaluates whether any circumstances indicating impairment of non-financial non-current assets have occurred. Should such evidence be detected, or should an annual impairment test be required, the Group estimates the recoverable amount of the given asset or cash-generating unit to which the asset belongs.

The recoverable amount of an asset or cash-generating unit item corresponds to the higher of:

- fair value less costs to sell or
- value in use.

The recoverable amount is determined for each asset except for assets not generating cash flows independent of those generated by other assets within the given asset group.

If the carrying amount of an asset exceeds its recoverable amount, impairment occurs and the amount of the asset is reduced to the recoverable amount determined.

When estimating the value in use, projected cash flows are discounted to the current value with the discount rate not including tax effects, which reflects current market estimates of time value of money and risk typical for the given type of assets. Impairment losses on assets used in continuing operations are charged to the classes of expenses corresponding to the function of the given impaired asset.

At each balance sheet date, the Group evaluates whether any circumstances indicating that the impairment loss recognized in previous periods for the given asset is redundant or requires reduction. If such evidence occurs, the Group estimates the recoverable amount of the asset. The previously recognized impairment loss is reversed only when, after recognition of the latest impairment loss, the estimates used to calculate the recoverable value of the asset have changed. In such a case, the carrying amount of the asset is increased to its recoverable amount. The increased amount cannot exceed the carrying amount of the asset to be calculated (after reduction by accumulated depreciation) if in previous years no impairment loss was recognized for this asset. Reversal of the impairment loss is immediately recognized as revenue in profit or loss. Following the reversal of an impairment loss, in subsequent periods, the depreciation charge on the given asset is adjusted in a manner allowing regular write-down of its reviewed carrying amount reduced by the residual value over the remaining useful life of the asset.

9.7. Borrowing costs

Borrowing costs are capitalized as part of the cost of fixed and intangible assets, for qualifying assets. Borrowing costs include interest calculated using effective interest rate method and financial charges due to finance lease agreement. The TAURON Group capitalizes an effective hedge for contracts classified to hedge accounting concluded with relation to construction of fixed assets and intangible assets.

A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. Such a period has been assumed to last 12 months.

Borrowing costs that may be directly attributable to the acquisition, construction or production of a qualifying asset are costs which could have been avoided had the outlays for the acquisition, construction or production of a qualifying assets not been incurred.

Such costs may include:

– costs related to borrowings taken out with the intention to acquire or construct a given investment task (investment loans, special purpose loans) – specific borrowings;

– costs related to financing without a determined purpose, intended for financing a qualifying asset (financing other than investment loans) – general borrowings.

Borrowings other than specific borrowings are accounted for as general borrowings for the purpose of calculating borrowing costs eligible for capitalization, to the extent to which borrowing costs could have been avoided if liabilities resulting from borrowings were repaid in cash.

After the completion of a qualifying asset that has been financed using specific borrowings, specific borrowings and related costs of financing are not taken into account when determining borrowing costs eligible for capitalization.

General borrowing costs eligible for capitalization are determined applying capitalization rate to expenditure incurred for qualifying assets. Capitalization rate equals the weighted average rate of all borrowing costs related to borrowings of a given period other than specific borrowings.

Capitalization is considered completed if substantially all actions necessary to prepare a given asset item for intended use have been completed.

9.8. Shares in joint venture

Shares in joint ventures where the Group exercises a joint control are accounted for using the equity method. Prior to calculating the share in net assets of a joint venture, relevant amendments are introduced to make the financial data of these entities compliant with IFRS applied by the Group.

Assessment of investment in joint ventures for impairment takes place when impairment evidence occurs or when an impairment loss recognized in previous years is no longer required.

9.9. Financial assets

Classes of financial assets:

- financial assets measured at fair value through profit or loss (FVTPL);
- loans and receivables;
- assets available for sale (AFS);
- assets held to maturity.

Financial assets measured at fair value through profit or loss

Assets qualified as FVTPL meet one of the following conditions:

- they are qualified as held for trading. Financial assets are qualified as held for trading if:
  - they have been acquired principally for the purpose of being sold in the short term;
  - they are a part of a portfolio of defined financial instruments managed as a group and probable to generate profit in a short term; or
  - they are derivatives except for those classified as hedges and financial guarantees;
- In accordance with IAS 39, they have been qualified as such upon initial recognition. At initial recognition financial assets may be classified as measured at fair value through profit or loss if they meet criteria defined in IAS 39.

Financial assets measured at fair value through profit or loss are measured at fair value taking into account their market price at the balance sheet date and excluding transactional expenses. Changes in the value of financial instruments are recognized in the statement of comprehensive income as financial revenue or expenses, as appropriate.

Loans and receivables

Loans and receivables are financial assets with determined or determinable due amounts, which are not quoted on the active market. They are classified as current assets if their maturity as at the balance sheet date does not exceed 12 months. Loans and receivables whose maturity as at the balance sheet date exceeds 12 months are classified as non-current assets. They are recognized at amortized cost.

Assets available for sale

All other financial assets are classified as assets available for sale. AFS assets are recognized at fair value as at each balance sheet date. Fair value of investments not quoted on an active market is determined by reference to the current market value of another instrument with basically the same characteristics or based on projected cash flows generated by the investment asset (measured in accordance with DCF method). Financial assets available for sale are measured at acquisition price less impairment losses if they are not traded on an active market and if their fair value cannot be reliability estimated using alternative methods.

A positive or negative difference between the fair value of AFS assets and their acquisition price reduced by deferred tax, is recognized in revaluation reserve, except for:

- impairment loss;
- exchange gains/losses regarding monetary assets;
- interest calculated based on an effective interest rate.

Dividends on equity instruments in the AFS portfolio are recognized in profit or loss once the Group's title to the payment has been determined.

9.10. Impairment of financial assets

As at the balance sheet date, the Group checks if any objective evidence of impairment of financial assets or groups of financial assets exists.

Financial assets measured at amortized cost

If there is objective evidence that an impairment loss on originated loans and receivables measured 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 losses due to irrecoverable receivables that have not been incurred yet) discounted at the original effective interest rate (i.e. the interest rate computed at initial recognition). The carrying amount of the asset is reduced through an impairment loss. 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 derecognized. The reversal is recognized in profit or loss to the extent the carrying amount of the asset does not exceed its amortized cost as of the reversal date.

Financial assets carried at cost

If there is objective evidence of impairment of an unquoted equity instrument which is not measured at fair value (as the fair value cannot be determined reliably) or a derivative that is linked to and must be settled by delivery of such unquoted equity instrument, the amount of the impairment loss is measured as the difference between the financial asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for similar financial assets.

Available-for-sale financial assets

If there is objective evidence for impairment of a financial asset available for sale, the amount being the difference between the asset's cost (less any principal and interest repaid) and its present fair value, less any impairment losses on the asset recognized previously in profit or loss, is derecognized from equity and reclassified to profit or loss. A reversal of impairment loss on equity instruments classified as available for sale may not be recognized in profit or loss. If, in a subsequent period, the fair value of a debt instrument available for sale increases and the increase may be related objectively to an event occurring after the impairment was recognized in profit or loss, the amount of the reversed loss is reclassified to profit or loss.

9.11. Derivative financial instruments

The Group hedges foreign currency risk using currency forward contracts.

The Group also concludes forward and future contracts for purchase and sale of emission allowances and energy. Transactions concluded and held for own use are not included in the scope of IAS 39. Transactions concluded for speculation purposes comply with the definition of a financial instrument and in line with IAS 39 are measured at the end of a reporting period.

This type of derivatives is measured at fair value. Derivatives are recognized as assets if their amount is positive, and as liabilities, if their amount is negative.

In order to hedge interest rate risk the Group uses interest rate swaps, which has been discussed in detail in Note 9.12.

9.12. Hedge accounting

In order to hedge interest rate risk the Group uses interest rate swaps. Such transactions are subject to hedge accounting, where cash flow hedges related to bonds issued are applied.

Cash flow hedge is a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction which could affect profit or loss.

A cash flow hedge is accounted for in the following manner:

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

More specifically, a cash flow hedge is accounted for 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 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 designated component of it (that is not an effective hedge) is recognised in profit or loss; and
- if the documentation of hedge accounting for a particular hedging relationship excludes from the assessment of hedge effectiveness a specific component of the gain or loss or related cash flows on the hedging instrument, that excluded component of gain or loss is recognised in profit or loss, if it has not been classified to AFS financial assets.

Recognized in other comprehensive income gain or loss from revaluation of the hedging instrument is recognized directly in profit or loss for the period in the same period during which the hedged item affects profit or loss or it is included in initial cost or other carrying amount of an asset or liability item, if a hedged item results in the occurrence of a non-financial asset or liability.

At the inception of the hedge the hedging relationship and the risk management objective and strategy for undertaking the hedge are documented formally.

The hedge's effectiveness is assessed on an on-going basis to determine if the hedge has been highly effective in all reporting periods for which it had been established.

9.13. Other non-financial assets

The Group recognizes prepayments in other non-financial assets.

Prepayments are determined in the amount of incurred, reliably measured expenses pertaining to future periods, which will result in future inflow of economic benefits to the entity.

Prepayments are recognized based on the elapsed time or performances. The time and method of settlement are justified by the nature of the settled expenses, in line with the prudence principle.

At the end of the reporting period, the Group reviews prepayments to check whether the level of certainty regarding economic benefits to be achieved after the end of the current reporting period is sufficient to classify the given item as an asset.

Prepayments include in particular costs of production preparation in coal mines, including costs of reinforcing working faces and costs of drilling drifts not classified as property, plant and equipment.

Other non-financial assets include in particular receivables due under public law (except for income tax settlements, which are presented separately in the statement of financial position), a surplus of assets over liabilities due to the Company's Social Benefit Fund and advance payments for future purchases of property, plant and equipment, intangible assets and inventories. Advance payments are presented in line with the assets they refer to, as current or non-current assets, respectively. Prepayments, as non-monetary items, are not discounted.

9.14. Inventories

Inventories are measured at the lower of: cost or the net realizable value.

Costs incurred in order to bring each inventory item to its current location and condition are recognized in the value of inventories. The value of inventories is determined as follows:

- Goods for resale and materials – at cost determined using the weighted average method;
- Finished goods and work in progress – at costs of direct materials and labour and a mark-up of indirect production costs determined based on a standard use of production capacities, excluding borrowing costs.

Release of inventories is measured using the weighted average method.

The Group's inventories also include greenhouse gas emission allowances and certificates of energy generated using renewable sources, gas sources and in cogeneration intended for sale. Energy certificates received free of charge due to energy generation from renewable sources, gas and cogeneration are recognized at fair value at the date when their receipt became certain.

Acquisition cost applied as at the balance sheet date cannot exceed the net realizable value of the items.

9.15. Trade and other receivables

Trade receivables are recognized at the amounts initially disclosed in the invoices, except for events of material impact of time value of money, less any impairment losses.

Impairment losses on receivables are charged to operating expenses or financial expenses, according to the type of receivables.

If the impact of the time value of money is material, the amount receivable is determined through discounting of projected future cash flows to their present value with the discount rate reflecting the current time value of money in the market. If the discounting is reversed, increases in receivables over time are recognized as financial revenue.

9.16. Cash and cash equivalents

Cash and short-term deposits disclosed in the statement of financial position include in particular cash at bank and in hand, as well as short-term deposits with primary maturity up to three months.

Balance of cash and cash equivalents disclosed in the consolidated statement of cash flows includes the cash and cash equivalents as defined above. For overdrafts covered by the cash management process, in line with IAS 7 *Statement of Cash Flows* the balance of cash reduced by outstanding overdraft liabilities is recognized in the statement of cash flows.

9.17. Issued capital

Issued capital is recognized in the consolidated financial statements in the amount determined in the by-laws and recorded in the court register of the Parent.

9.18. Interest-bearing loans and borrowings

Upon initial recognition, interest-bearing loans and borrowings are disclosed at fair value reduced by costs related to obtaining of a loan or borrowing.

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

Amortized cost includes costs incurred to arrange a loan or borrowing and discounts or premiums received when settling the liability.

Gains and losses are recognized in profit or loss when the liability is derecognized from the statement of financial position and as a result of the application of the effective interest rate method.

9.19. Trade and other financial liabilities

Short-term trade payables are recognized at the amount payable. Other financial liabilities include liabilities due to payroll and purchase of fixed assets, which are measured at amount due.

Financial liabilities measured at fair value through profit or loss include held-for-trading financial liabilities. The Group classifies derivative instruments to liabilities measured at fair value through profit or loss, unless they are considered effective hedges.

Financial liabilities measured at fair value through profit or loss are measured at fair value including their market value as at the end of the reporting period without transaction costs. Changes in the fair value of these instruments are charged to profit or loss as financial expense or revenue.

Other financial liabilities not classified as financial instruments measured at fair value through profit or loss are measured at amortized costs using the effective interest method.

The Group excludes a financial liability from its statement of financial position upon its expiration, i.e. when the obligation defined in the agreement has been fulfilled, cancelled or has expired.

9.20. Provisions for employee benefits

In accordance with compensation policies, employees of the Group companies are entitled to the following post-employment benefits:

- retirement and disability benefits – paid on a one-off basis, when an employee retires or is vested with the right to receive disability benefits;
- death benefits;
- cash equivalent resulting from special tariff for energy sector employees;
- in-kind benefits granted in coal or as a cash equivalent;
- benefits from the company's Social Benefits Fund.

Jubilee benefits are paid to employees after a specified number of years of service.

The present value of such liabilities is calculated by an independent actuary at each balance sheet date. The accrued liabilities equal to discounted future payments, including employee rotation and pertain to the time remaining until the end of the reporting period. Demographic and employee turnover data are based on historical information.

Actuarial gains and losses on post-employment benefits are fully charged to other comprehensive income, while actuarial gains or losses on jubilee benefits are changed to costs of the period.

Other increases and decreases of provisions are recognized in operating costs in case of employees, other operating expenses/income in case of pensioners and those entitled to disability benefits, and to finance costs in the portion concerning interest relating to discounting of provisions.

In accordance with IAS 19 *Employee Benefits* the Group recognizes provisions for termination benefits under voluntary redundancy schemes. The benefits are measured based on the expected number of employees willing to resign and the estimated benefit amount.

9.21. Other provisions

Provisions are recognized if the Group has a present obligation (legal or constructive) as a result of past events, 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. Costs related to provision recognized are recognized in profit or loss for the period, in costs, depending on the circumstances to which the future liabilities relate.

The discount rate is determined before tax, i.e. it reflects the current market assessment regarding the time value of money and the risk related to the specific liability. The discount rate is not charged with risk by which estimates of future cash flows have been adjusted. Where discounting is used, the increase in the provision due to the passage of time is recognized as a financial expense.

9.21.1. Provision for the obligation to surrender energy certificates

Pursuant to the Energy Law and regulations of the Minister of Economy energy companies trading in and selling electricity to end users are obliged to acquire property rights under energy certificates and to present them for redemption or to pay a substitution fee. If in a given year the volume share of electricity specified in the energy certificates in the total sales of electricity to end buyers complies with limits provided for in regulations of the Minister of Economy – such an obligation is considered met.

At the end of each reporting period the company recognises a provision for costs of acquiring energy certificates so as to fulfil the obligation to present the certificates for redemption or to make a substitution fee.

Provision for the obligation to surrender renewable energy certificates is recognized:

- in the portion corresponding to energy certificates held at the end of the reporting period – in the value of certificates held;
- in the portion not covered by energy certificates held at the end of the reporting period – first, in the amount resulting from futures and forwards for the purchase of certificates with the intention to fulfil the obligation for the current year; then in the market value of certificates necessary to fulfil the obligation at the end of the reporting period or in the amount of the substitution fee – in accordance with the intention concerning the method of fulfilling the obligation.

The provision is charged to operating expenses.

The provision is settled and the certificates are redeemed when the President of the Energy Regulatory Office redeems the certificates or when the substitution fee has been paid.

9.21.2. Provision for gas emission liabilities

Provision for liabilities arising from emission of gas included in the EU Emissions Trading System (EU ETS) is recognized only when the actual emission level in a given year exceeds the volume of emission allowances awarded to the Group free of charge. Group companies included in the EU ETS are obliged to surrender emission allowances for each emitted ton of carbon dioxide to 30 April in the following year.

The provision is charged to operating expenses (taxes and charges) in the following amount:

- in the portion covered by allowances as at the end of the reporting period – for allowances received free of charge – in zero amount, and in case of allowances acquired – at cost;
- in the portion not covered by allowances held at the end of the reporting period – first, in the amount resulting from futures and forwards for the purchase of emission allowances with the intention to fulfil the obligation for the current year; then in the market value of allowances necessary to fulfil the obligation at the end of the reporting period or in the amount of a possible fine – in accordance with the intention concerning the method of fulfilling the obligation.

Emission allowances valid in the previous settlement period of the European Union Emission Trading Scheme covering the years from 2008 to 2012 on the accounts of individual facilities of the companies have been held for surrender in the following settlement period.

Emission allowances are awarded free of charge for the years 2013–2020 based on costs of investments, which is the condition for obtaining allowances.

In the current settlement period the Group companies surrender emission allowances received free of charge first, allowances from the previous settlement period and allowances acquired for surrendering in a given year are cancelled. The release of emission allowances classified to intangible assets is measured using the weighted-average method.

At the emission settlement date, emission allowances classified to intangible assets with a corresponding entry in provision for gas emission obligations are derecognized.

9.21.3. Provision for claims regarding non-contractual use of land where energy facilities are located

The Group recognizes provisions for all claims filed by owners of real property on which distribution systems and heat installations are located in amounts of probable cost of claims due to land owners until the end of the reporting period. The Group does not establish a provision for possible unlodged claims of owners of land with unregulated status.

9.21.4. Provision for mine decommissioning costs

Provision for mine decommissioning costs is determined based on future decommissioning costs estimated by independent experts taking into account discounting effect and the amount determined in line with separate regulations of the Mine Decommissioning Fund. For coal mines a corresponding entry is made in line with IAS 16 as a fixed asset item of a mine and changes in estimates are disclosed in line with IFRIC 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities*, i.e. as provision adjustments and capitalized future mine decommissioning costs.

9.21.5. Provision for liquidating mine damages

Provision for cost of liquidating mine damages is determined based on lodged and documented claims. The Group is not aware of any method which would enable reliable estimation of mine damages which may occur in future as a result of current mining activities.

9.21.6. Provision for costs of land restoration, dismantling and removal of fixed assets

The Group establishes a provision for estimated costs of dismantling, mainly in relation to wind farms, based on estimates of future costs of liquidation prepared by independent experts, taking into account discounting effect, but also for liquidating fixed assets and reclaiming land where the fixed assets were located, in case a liability arises from the acquisition or use of property, plant and equipment items.

9.22. Other non-financial liabilities

Other non-financial liabilities include in particular VAT liabilities to the tax office, other liabilities due under public law (except for corporate income tax settlements, which are presented separately in the statement of financial position), a surplus of liabilities over assets of the company's Social Benefit Fund and liabilities arising from advance payments received to be settled through delivery of goods, services or fixed assets. Other non-financial liabilities are recognized at the amount payable.

9.23. Company Social Benefits Fund

The Act on social benefits fund of 4 March 1994 with subsequent amendments states that employers with headcount over 20 people are obliged to establish such a fund ("Fund"). The Capital Group entities have established their Social Benefits Fund and made relevant profit appropriations. The Fund is created to co-finance social activities of the Group, loans to employees and other social expenses.

The Group entities have offset the Fund assets with its liabilities to the Fund since the assets are not classified as the Group's individual asset items.

9.24. Lease

Finance leases transferring substantially all the risks and rewards of ownership of a lease object to the Capital Group are recognized in the statement of financial position as at the inception of the lease at the lower of: fair value of a leased asset or current value of minimum lease payments. Lease payments are split between financial expenses and a decrease in the balance of lease liabilities in order to obtain a fixed interest rate on the outstanding liability. Financial expenses are recognized directly in profit or loss.

Depreciation/amortization principles applied to assets leased are consistent with those applied to depreciation/amortization of assets held by the entity. If there is no reasonable certainty that the lessee will obtain ownership by the end of the lease term, the asset is fully depreciated over the shorter of the lease term and its useful life.

Leases whereby the lessor retains substantially all the risk and rewards of ownership of an asset are classified as operating leases. Operating lease payments and subsequent lease rents are charged to operating expenses using the straight line method over the lease term.

9.25. Taxes

Tax Capital Group

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

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

TAURON Polska Energia S.A., as the Company Representing the Tax Capital Group, is responsible to make monthly payments due to withholding CIT of the Tax Capital Group in compliance with the CIT Act. The share of an individual entity from the Tax Capital Group in the monthly withholding CIT is determined based on a percentage share in the tax base specified by a given entity in the tax base of the Tax Capital Group, excluding entities disclosing a tax loss. If the final amount of an individual entity's share is lower than the preliminary amount transferred to the Representing Company, the Representing Company returns the difference.

Current tax

Income tax recognized in profit or loss includes actual tax charges for the given reporting period of individual Tax Capital Group companies and other Group companies not included in the Tax Capital Group, determined in line with provisions of the CIT Act, any tax adjustments from previous years and a change in the deferred tax asset and deferred tax liability accounted for in profit or loss.

Deferred tax

The entity recognizes a deferred tax asset and a deferred tax liability arising from temporary differences between the book value of assets and liabilities and their tax base, and in relation to a tax loss deductible in future.

The carrying amount of deferred tax assets is verified as at each balance sheet date. The company reduces the carrying amount of the deferred tax asset to the extent the generation of taxable income sufficient to use the deferred tax asset in part or in whole is not probable. Not recognized deferred tax assets are verified as at each balance sheet date and recognized to the extent their use is probable following generation of taxable income in future.

Deferred tax assets are recognized in the projected amount deductible in relation to temporary differences that in future shall reduce the income tax base and the deductible tax loss calculated in line with the prudence principle. Deferred tax assets are recognized only if there is probability of their being realized in future.

The deferred income tax liability is created in the amount of income tax payable in the future, arising from taxable temporary differences, i.e. differences that will increase the income tax base in the future.

Deferred tax assets and liabilities are measured with the application of tax rates expected to be applicable in the period of realization of the asset or release of the provision, with the consideration of tax rates (and tax regulations) that have been enacted or substantively enacted at the balance sheet date.

Income tax related to items recognized outside profit or loss, i.e. items recognized in other comprehensive income or directly in equity, is recognized in other comprehensive income or in equity respectively.

The Group offsets its deferred tax assets and deferred tax liabilities only if it has an enforceable legal title to offset its current tax receivables with liabilities and the deferred income tax asset and liability are governed by the same tax authority.

Deferred tax asset and deferred tax liability of companies from the Tax Capital Group are netted off due to the fact that as of 1 January 2012 the companies have filed combined tax returns.

VAT

Revenue, expenses, assets and liabilities are recognized less VAT, except for:

- the situations when VAT paid at the purchase of assets or services is not recoverable – it is recognized as a portion of costs of the asset or as a cost item; and
- receivables and liabilities which are recognized together with VAT.

The net VAT, recoverable or due to the tax authorities is recognized in the statement of financial position as a portion of receivables or liabilities.

9.26. Business combination

Business combinations of entities under common control are accounted for using pooling of interests method. The method is based on the assumption that the entities combined have been controlled by the same shareholder before the transaction and will be controlled by the entity after the transactions, therefore the continuity of common control is presented in the financial statements, while the changes in the net value of assets to reflect their fair value (or recognition of new assets) or goodwill measurement are not presented therein, as none of the entities combined is actually acquired. The financial statements have been prepared in such a manner so as to account for the combined entities as of the date they have become subjected to common control.

Entities acquired in May 2007 were controlled by the State Treasury, which implied that the Company and these entities were under common control of the State Treasury in time of a business combination. Therefore, in the opinion of the Company, the transaction meets the definition of a transaction under common control, hence it has been excluded from the scope of IFRS 3.

When accounting for business combinations other than combination of entities or businesses under common control the Group uses the acquisition method referred to in IFRS 3 *Business Combinations*. In such transactions one entity is identified as the acquirer. At the acquisition date the acquirer recognizes (separately from goodwill) identifiable assets acquired and liabilities assumed and any non-controlling interest in the acquiree. The acquirer measures identifiable assets acquired and liabilities assumed at fair value as at the acquisition date.

The major business combination accounted for by the Group using the acquisition method was the acquisition of shares in Górnośląski Zakład Elektroenergetyczny S.A. from Vattenfall AB on 13 December 2011.

9.27. Statement of comprehensive income

Revenue and expenses for a given period are presented in the Statement of comprehensive income. In accordance with applicable standards, in the statement of comprehensive income the Group discloses revenue and expenses for the period recognized directly in profit or loss and income and expenses recognized outside profit or loss, i.e. in other comprehensive income.

Change in hedging instruments, foreign exchange differences from translation of foreign entities and actuarial gains and losses on provisions for post-employment benefits, including the effects of income tax, are fully charged to other comprehensive income.

Profit or loss for a given year results from deducting expense from revenue, excluding items recognized in other comprehensive income.

9.28. Sales revenue

Revenue is recognized in the amount equal to the value of probable economic benefits to be gained by the Group in relation to the transaction and when the amount of the revenue can be reliably measured. Revenue is recognized at the fair value of the payment, received or due, following reduction by VAT, excise duty, other sales taxes, charges and discounts. Revenue recognition criteria:

Revenue from sales of goods for resale, finished goods and materials

Revenue is recognized, if the material risks and rewards from the ownership of goods and products have been transferred to the buyer and when the revenue amount can be reliably measured and the cost amount can be reliably estimated.

Revenue includes amounts due for the sale of goods for resale, finished goods, materials and other services related to the core business and determined based on the net price, adjusted by granted rebates and discounts, and excise duty.

The Group generates the majority of the revenue from sale of electricity and heat, sale of coal and trading in energy certificates and greenhouse gas emission allowances.

Following the prudence principle at each balance sheet date the Group estimates the revenue from sale of electricity and distribution services for the reporting period, which will be billed in the following period due to fact that the settlement cycle specified in agreements with buyers is one month longer.

Revenue from rendering of services

The Group's revenue includes in particular the revenue related to distribution operations and settlements of the connection fee. The Group recognizes revenue due to fixed assets received free of charge related to rendering of services of tolerance for removing power or heat infrastructure collision in sales revenue. Moreover, since 1 July 2009 the group has also recognized transactions included in the scope of IFRIC 18 *Transfer of Assets from Customers* in this item.

Revenue from illegal energy intake from the power grid (electricity and heat network) is recognized in core operating activities of the Group.

9.29. Cost of sales

Cost of sales includes:

- cost of products manufactured and services rendered incurred during a given reporting period, adjusted by a change in the balance of goods (finished goods, semi-finished goods and work in progress) and by cost of producing goods for internal purposes;
- value of goods and materials sold (at cost);
- recognition of impairment of property, plant and equipment, intangible assets and write-downs of inventories and receivables;
- total selling expenses and general and administrative costs incurred in the reporting period (disclosed separately in the statement of comprehensive income).

Manufacturing costs that can be assigned directly to revenue generated by the Group impact its financial performance for the period to which the revenue pertains.

Manufacturing costs that can be only indirectly assigned to revenue or other benefits obtained by the Group impact its profit or loss in the portion pertaining to the given reporting period, and match the revenue or other economic benefits.

9.30. Earnings per share

Earnings per share for each period are calculated by dividing the net profit for the period attributable to ordinary shareholders of the Parent, by the weighted average number of ordinary shares in the period.

9.31. Statement of cash flows

The statement of cash flows is prepared in line with the indirect method.

10. Material values based on professional judgment and estimates

When applying accounting policy to the issues mentioned below, professional judgment of the management, along with accounting estimates, have been of key importance; they have impacted figures disclosed in the financial statements and in the explanatory notes. Assumptions underlying the estimates have been based on the Management Board's best knowledge of current and future actions and events in individual areas. Detailed information regarding assumptions adopted is presented in the notes to these consolidated financial statements.

Presented below are the main assumptions concerning the future and other key uncertainties as at the end of the reporting period posing the risk of material adjustment of the carrying amount of assets and liabilities in the next financial year.

Provision for gas emission liabilities

According to the accounting policy adopted the provision for liabilities arising from emission of gas included in the allowance distribution plan is charged to operating expenses if the actual emission level exceeds the volume of emission allowances received free of charge and held by the TAURON Group as at the end of the reporting period. The provision for costs of covering the deficit is established in the amount of allowances acquired or contracted to cover the allowance deficit and in relation to unsecured allowance deficit (if any) the provision is determined based on market prices as at the end of the reporting period.

In accordance with Article 10a and Article 10c of the Directive 2009/29/EC of the European Parliament and of the Council of 23 April 2009 amending Directive 2003/87/EC so as to improve and extend the greenhouse gas emission allowance trading scheme of the Community ("derogation allowances") the TAURON group is entitled to receive free emission allowances. The TAURON Group applied for free allowances pursuant to Article 10a and for derogation allowances, still such allowances were not included in the calculation of the provision for carbon dioxide emission as they had not been awarded by 31 December 2013. In accordance with the requests the Group has filed for 1 275 401 allowances due to generation of heat and for 11 925 960 allowances due to electricity generation.

In view of the risk management policy followed and due to hedging market position with respect to emission allowances, the TAURON Group companies hold allowances in their registers of carbon dioxide emission allowances sufficient to cover emission for 2013. Originally, the allowances were acquired for future years and related expenses were not included in costs of 2013.

As at 31 December 2013 the provision was estimated at PLN 461 123 thousand and it corresponds to the carrying amount of allowances intended for surrender due to emission in 2013 disclosed in current intangible assets in the amount of PLN 461 123 thousand.

As at 31 December 2012, the provision amounted to PLN 62 921 thousand.

Additional information concerning emission allowances has been provided in Note 26 to the consolidated financial statements and details of changes in provisions – in Note 34.1.

Asset impairment

In accordance with IAS 36 the Group carried out impairment tests for operating segments, including goodwill and impairment tests for non-current assets and intangible assets as at 31 December 2013 and 30 June 2013. The tests required estimating the value in use of the segments, based on future cash flows generated thereby, adjusted to the present value using a discount rate. Following the tests, the Group recognized an impairment loss of PLN 262 187 thousand for property, plant and equipment of the Generation segment and an impairment loss of PLN 13 436 thousand for intangible assets in this segment. The assumptions and significant information concerning impairment tests have been presented in Notes 14, 15 and 16 hereto.

Estimation of the revenue from the sale of electricity, distribution services and costs of electricity acquired in the Sales segment

Following the prudence principle at each reporting date the Group estimates the revenue from sale of electricity and distribution services for the reporting period, which will be billed in the following period due to fact that the settlement cycle specified in agreements with individual buyers is one month longer. The estimation includes a change in costs of acquiring electricity, resulting from additional assessment of sales and determining the energy balance. Additional sales and change in costs of acquiring electricity are assessed using a weighted average sales price and weighted average purchase price of electricity.

Electricity meters showing the electricity volume sold to individual buyers are read and invoices are issued in periods not corresponding to reporting periods. Therefore, the Group companies from the Sales segment make appropriate estimates of sales as each reporting date.

(in PLN '000)

As at 31 December 2013 additionally assessed revenue from sale of electricity and distribution services in the Sales segment reached PLN 117 832 thousand, while additionally assessed costs of purchasing electricity amounted to PLN 104 518 thousand.

Depreciation and amortization rates

The rates and charges are based on projected economic useful life of property, plant and equipment and intangible assets and estimates regarding residual value of fixed assets.

Every year the Group companies review the adopted useful lives based on the current estimates. Following the review of useful lives of fixed assets and intangible assets carried out in 2013 amortization and depreciation costs were reduced in 2013 (PLN 33 560 thousand), with the following impact on individual segment costs:

- a decrease in amortization and depreciation costs in the Mining segment of PLN 7 543 thousand;
- a decrease in amortization and depreciation costs in the Generation segment of PLN 7 496 thousand;
- a decrease in amortization and depreciation costs in the Renewable Sources of Energy segment of PLN 513 thousand;
- a decrease in amortization and depreciation costs in the Distribution segment of PLN 18 008 thousand.

The review of the economic useful lives in other segments did not considerably affect depreciation and amortization costs in 2013.

Measurement of provisions for employee benefits

Provisions for employee benefits have been estimated using actuarial methods. Moreover, the Group recognized provisions for benefits resulting from Voluntary Redundancy Programs. A detailed description of the provisions has been provided in Note 33.

Key actuarial assumptions made as at the reporting date for the purpose of the provision calculation:

	31 December 2013	31 December 2012
Discount rate (%)	4.00%	4.00%
Estimated inflation rate (%)	2.50%	2.52%
Employee rotation rate (%)	1.03% – 11.94%	1.09% – 5.86%
Estimated salary increase rate (%)	2.00% – 2.90%	2.52% – 2.92%
Estimated electricity price increase rate (%)	3.50%	3.52%
Estimated increase rate for contribution to the Social Fund (%)	4.50%	4.00%
Remaining average employment period	7.44 – 15.30	10.52 – 13.95

As at 31 December 2013 the Group carried out sensitivity analysis of measurement results to changes in the financial discounting rates and changes in the planned increases in the base amounts in the range of -0,5 p.p./+0,5 p.p.

Carrying amounts of individual provisions and provisions calculated based on different assumptions have been presented below:

Provision title	Carrying amount	Financial discount rate		Planned base increases	
		-0.5 p.p.	+0.5 p.p.	-0.5 p.p.	+0.5 p.p.
Provision for retirement, disability and similar benefits	282 621	299 594	267 053	266 734	300 433
Employee electricity rates	569 140	613 851	529 602	526 664	616 771
Costs of appropriation to Social Benefits Fund	121 571	133 707	114 111	113 522	134 298
Coal allowances	49 457	53 402	45 975	47 455	51 542
Jubilee bonuses	582 840	607 159	559 915	559 501	608 880
Total	**1 605 629**	**1 707 713**	**1 516 656**	**1 513 876**	**1 711 924**

(in PLN '000)

The table below presents carrying amounts of individual provisions and how these carrying amounts would change with different assumptions applied.

Provision title	Carrying amount	Deviations			
		Financial discount rate		Planned base increases	
		-0.5 p.p.	+0.5 p.p.	-0.5 p.p.	+0.5 p.p.
Provision for retirement, disability and similar benefits	282 621	16 973	(15 568)	(15 887)	17 812
Employee electricity rates	569 140	44 711	(39 538)	(42 476)	47 631
Costs of appropriation to Social Benefits Fund	121 571	12 136	(7 460)	(8 049)	12 727
Coal allowances	49 457	3 945	(3 482)	(2 002)	2 085
Jubilee bonuses	582 840	24 319	(22 925)	(23 339)	26 040
Total	**1 605 629**	**102 084**	**(88 973)**	**(91 753)**	**106 295**

Provision for the obligation to surrender energy certificates

Due to the sales of electricity to end users, as at 31 December 2013 the Group had an obligation to surrender a number of certificates of electricity generated using renewable sources and in methane cogeneration as well as energy efficiency certificates.

As at 31 December 2013, the Group recognized a short-term provision for the obligation to surrender energy certificates for cancellation of PLN 905 561 thousand, as compared to PLN 873 976 thousand as at 31 December 2012.

In the portion covered by renewable energy certificates and methane cogeneration energy certificates with the value of PLN 695 427 thousand disclosed as current intangible assets the Group recognized a provision in the carrying amount of these certificates. The provision for the obligation to surrender energy efficiency certificates was estimated at PLN 79 812 thousand based on the substitution fee. Only an insignificant portion of the estimated obligation to surrender renewable energy certificates and methane cogeneration energy certificates were not covered with certificates acquired and held as at the end of the reporting period.

Write-downs of inventories

The system supporting high-efficiency cogeneration of electricity, based on the certification system has no longer been applied since 31 March 2013. On the same date, regulations concerning the obligation to obtain and surrender energy certificates for cogeneration fuelled with gaseous fuels ("yellow certificates") and for other forms of cogeneration ("red certificates") expired. Due to the facts presented above and considering the uncertainty as to the implementation of planned legal solutions with respect to supporting cogenerated electricity, the Group decided to recognize write-down for yellow and red certificates up to the entire amount. Consequently, the operating profit of the Group dropped by PLN 42 307 thousand, out of which PLN 32 922 thousand reduced the profit/loss of the Heat segment.

Deferred tax assets

Deferred tax asset is measured using tax rates to be applied as at the moment of its probable realization, assuming tax regulations effective as at the balance sheet date. The Group recognizes the deferred tax asset based on the assumption that it will generate tax profit sufficient to apply the asset. Deterioration of future tax performance could make the assumption groundless.

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

Measurement of provision for mine decommissioning costs

The provision is recognized for mines included in the Group based on estimated costs of liquidating buildings and reclaiming land after completion of the exploitation process. The provisions are estimated based on analysis prepared using deposit exploitation projections (for mines) and technical and business analysis.

Provision for mine decommissioning costs has been presented in detail in Note 37 to the consolidated financial statements and changes in provision – in Note 34.1.

Measurement of derivatives

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

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

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

The fair value of hedging derivatives subject to hedge accounting and derivatives measured at fair value through profit or loss as described above has been presented in Note 43.

Allowances of receivables

As at the balance sheet date, the Group checks its receivables or groups of receivables for objective evidence of impairment. If the recoverable amount of an asset is lower than its carrying amount, an entity recognizes an allowance up to the level of the current value of planned cash flows.

Detailed information on allowances for trade and other receivables has been presented in Note 44.1.1 hereto.

11. Information on operating segments

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

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

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

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

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

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

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

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

The Group's reporting format for the period from 1 January 2013 to 31 December 2013 and for the comparative period was based on the following operating segments:

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

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

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

Additionally, the Group presents geographic areas of operations not included in segment reporting.

11.1. Operating segments

Revenue, profit, assets and liabilities of individual operating segments of the Group for the years ended 31 December 2013 and 31 December 2012 have been presented below.

(in PLN ‘000)

Year ended 31 December 2013	Mining	Generation	Renewable sources of energy	Distribution	Sales	Heat	Customer service	Other	Unallocated items	Total	Eliminations	Total operations
Revenue												
Sales to external customers	663 986	971 215	62 604	2 287 238	14 025 034	1 000 460	10 906	109 679	–	**19 131 122**	–	**19 131 122**
Inter-segment sales	733 520	3 752 240	141 891	3 710 232	3 992 559	188 072	481 677	200 533	–	**13 200 724**	(13 200 724)	**–**
Segment revenue	**1 397 506**	**4 723 455**	**204 495**	**5 997 470**	**18 017 593**	**1 188 532**	**492 583**	**310 212**	**–**	**32 331 846**	**(13 200 724)**	**19 131 122**
Profit/(loss) of the segment	**65 786**	**(475 466)**	**92 978**	**1 295 639**	**864 579**	**127 421**	**26 837**	**10 816**	**(1 308)**	**2 007 282**	**–**	**2 007 282**
Unallocated expenses	–	–	–	–	–	–	–	–	(73 216)	**(73 216)**	–	**(73 216)**
Profit/(loss) from continuing operations before tax and net finance income (costs)	**65 786**	**(475 466)**	**92 978**	**1 295 639**	**864 579**	**127 421**	**26 837**	**10 816**	**(74 524)**	**1 934 066**	**–**	**1 934 066**
Share in profit/(loss) of joint venture	–	(326)	–	–	–	(2 383)	–	–	–	**(2 709)**	–	**(2 709)**
Net finance income (costs)	–	–	–	–	–	–	–	–	(247 736)	**(247 736)**	–	**(247 736)**
Profit/(loss) before income tax	**65 786**	**(475 792)**	**92 978**	**1 295 639**	**864 579**	**125 038**	**26 837**	**10 816**	**(322 260)**	**1 683 621**	**–**	**1 683 621**
Income tax expense	–	–	–	–	–	–	–	–	(337 136)	**(337 136)**	–	**(337 136)**
Net profit/(loss) for the year	**65 786**	**(475 792)**	**92 978**	**1 295 639**	**864 579**	**125 038**	**26 837**	**10 816**	**(659 396)**	**1 346 485**	**–**	**1 346 485**
EBITDA	**165 783**	**32 458**	**135 563**	**2 208 381**	**899 208**	**231 847**	**45 283**	**17 485**	**(74 524)**	**3 661 484**	**–**	**3 661 484**
Assets and liabilities												
Segment assets	1 465 831	8 614 769	1 944 940	14 002 290	3 111 539	2 157 282	183 519	170 774	–	**31 650 944**	–	**31 650 944**
Investments in joint ventures	–	32 064	–	–	–	12 334	–	–	–	**44 398**	–	**44 398**
Unallocated assets	–	–	–	–	–	–	–	–	660 228	**660 228**	–	**660 228**
Total assets	**1 465 831**	**8 646 833**	**1 944 940**	**14 002 290**	**3 111 539**	**2 169 616**	**183 519**	**170 774**	**660 228**	**32 355 570**	**–**	**32 355 570**
Segment liabilities	612 791	1 481 329	112 000	2 380 849	1 786 932	345 216	214 010	42 372	–	**6 975 499**	–	**6 975 499**
Unallocated liabilities	–	–	–	–	–	–	–	–	7 586 572	**7 586 572**	–	**7 586 572**
Total liabilities	**612 791**	**1 481 329**	**112 000**	**2 380 849**	**1 786 932**	**345 216**	**214 010**	**42 372**	**7 586 572**	**14 562 071**	**–**	**14 562 071**
Other segment information												
Capital expenditure*	256 524	520 926	606 915	2 080 675	21 424	202 252	82 746	8 093	–	**3 779 555**	–	**3 779 555**
Depreciation/amortization	(99 997)	(507 924)	(42 585)	(912 742)	(34 629)	(104 426)	(18 446)	(6 669)	–	**(1 727 418)**	–	**(1 727 418)**

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

(in PLN '000)

Year ended 31 December 2012 (*restated figures*)	Mining	Generation	Renewable sources of energy	Distribution	Sales	Heat	Customer service	Other	Unallocated items	Total	Eliminations	Total operations
Revenue												
Sales to external customers	639 412	5 023 695	20 062	2 171 874	15 604 929	1 035 694	20 985	236 334	–	**24 752 985**	–	**24 752 985**
Inter-segment sales	838 423	541 773	186 519	3 905 624	2 924 917	100 714	317 659	249 954	–	**9 065 583**	(9 065 583)	**–**
Segment revenue	**1 477 835**	**5 565 468**	**206 581**	**6 077 498**	**18 529 846**	**1 136 408**	**338 644**	**486 288**	**–**	**33 818 568**	**(9 065 583)**	**24 752 985**
Profit/(loss) of the segment	**174 945**	**272 294**	**103 879**	**1 077 388**	**452 113**	**169 800**	**12 008**	**34 048**	**(31 138)**	**2 265 337**	**–**	**2 265 337**
Unallocated expenses	–	–	–	–	–	–	–	–	(100 208)	**(100 208)**	–	**(100 208)**
Profit/(loss) from continuing operations before tax and net finance income (costs)	**174 945**	**272 294**	**103 879**	**1 077 388**	**452 113**	**169 800**	**12 008**	**34 048**	**(131 346)**	**2 165 129**	**–**	**2 165 129**
Share in profit/(loss) of joint venture	–	(186)	–	–	–	(1 548)	–	–	–	**(1 734)**	–	**(1 734)**
Net finance income (costs)	–	–	–	–	–	–	–	–	(215 818)	**(215 818)**	–	**(215 818)**
Profit/(loss) before income tax	**174 945**	**272 108**	**103 879**	**1 077 388**	**452 113**	**168 252**	**12 008**	**34 048**	**(347 164)**	**1 947 577**	**–**	**1 947 577**
Income tax expense	–	–	–	–	–	–	–	–	(396 778)	**(396 778)**	–	**(396 778)**
Net profit/(loss) for the year	**174 945**	**272 108**	**103 879**	**1 077 388**	**452 113**	**168 252**	**12 008**	**34 048**	**(743 942)**	**1 550 799**	**–**	**1 550 799**
EBITDA	**287 431**	**787 322**	**143 450**	**1 955 896**	**478 342**	**263 052**	**25 131**	**42 347**	**(131 346)**	**3 851 625**	**–**	**3 851 625**
Assets and liabilities												
Segment assets	1 214 157	9 723 736	1 573 092	12 871 268	3 774 164	1 504 107	56 607	177 510	–	**30 894 641**	–	**30 894 641**
Investments in joint ventures	–	32 390	–	–	–	19 596	–	–	–	**51 986**	–	**51 986**
Unallocated assets	–	–	–	–	–	–	–	–	327 050	**327 050**	–	**327 050**
Total assets	**1 214 157**	**9 756 126**	**1 573 092**	**12 871 268**	**3 774 164**	**1 523 703**	**56 607**	**177 510**	**327 050**	**31 273 677**	**–**	**31 273 677**
Segment liabilities	604 152	1 252 124	361 929	2 385 558	2 123 835	276 006	107 120	42 383	–	**7 153 107**	–	**7 153 107**
Unallocated liabilities	–	–	–	–	–	–	–	–	7 320 550	**7 320 550**	–	**7 320 550**
Total liabilities	**604 152**	**1 252 124**	**361 929**	**2 385 558**	**2 123 835**	**276 006**	**107 120**	**42 383**	**7 320 550**	**14 473 657**	**–**	**14 473 657**
Other segment information												
Capital expenditure*	167 268	857 153	340 396	1 785 779	62 003	221 763	21 554	15 588	–	**3 471 504**	–	**3 471 504**
Depreciation/amortization	(112 486)	(515 028)	(39 571)	(878 508)	(26 229)	(93 252)	(13 123)	(8 299)	–	**(1 686 496)**	–	**(1 686 496)**

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

(in PLN '000)

11.2. Geographic areas of operations

The majority of the Group's business operations is carried out in Poland. In the years ended 31 December 2013 and 31 December 2012 export sales amounted to PLN 542 150 thousand and PLN 757 716 thousand, respectively.

12. Revenue and expenses

12.1. Sales revenue

	Year ended 31 December 2013	Year ended 31 December 2012 (*restated figures*)
Sale of goods for resale, finished goods and materials without elimination of excise	**13 413 345**	**19 025 982**
Excise	(448 585)	(518 561)
Sale of goods for resale, finished goods and materials, of which:	**12 964 760**	**18 507 421**
Electricity	11 148 161	15 881 619
Heat energy	657 396	632 152
Property rights arising from energy certificates	156 791	223 797
Greenhouse gas emission allowances	63 608	249 303
Compensation for termination of PPAs	(18 886)	567 012
Coal	628 091	603 249
Furnace blast	147 565	146 327
Compressed air	70 322	75 155
Milling products	27 654	36 390
Other goods for resale, finished goods and materials	84 058	92 417
Rendering of services, of which:	**6 114 597**	**6 198 355**
Distribution and trade services	5 701 653	5 762 585
Connection fees	158 695	178 033
Maintenance of road lighting	98 002	100 599
Charges for illegal electricity consumption	8 095	14 808
Revenue due to power and heat collisions	31 928	11 728
Other services	116 224	130 602
Other revenue	**51 765**	**47 209**
Total sales revenue	**19 131 122**	**24 752 985**

The decrease in the revenue from sale of electricity in the year ended 31 December 2013 versus the comparable period results mainly from the fact that TAURON Wytwarzanie S.A sold electricity to companies in the TAURON Group – which is subject to elimination at the Group level, while in 2012 the entire sales were carried out through the Polish Power Exchange (Towarowa Giełda Energii).

Pursuant to the amendment to the Energy Law of 10 April 1997, which entered into force in August 2010, energy companies generating electricity are obliged to sell at least 15% of electricity generated in a given year on commodity exchanges. Additionally, companies generating electricity entitled to obtain funds to cover stranded costs pursuant to the Act of 29 June 2007 on the Principles for covering costs incurred by electricity generators due to early termination of long-term Power Purchase Agreements (PPAs) were obliged to sell 100% of generated electricity (except for energy provided to end-users, energy generated from renewable sources or from cogeneration and energy produced for internal purposes) in a manner ensuring public and equal access to such energy in the form of an open tender in a market organized by an entity supervising the regulated market in the territory of the Republic of Poland or on commodity exchanges.

As a beneficiary of compensations for PPAs, TAURON Wytwarzanie S.A. was obliged to sell 100% of electricity through the Polish Power Exchange (Towarowa Giełda Energii) in 2012. As TAURON Wytwarzanie S.A. no longer participates in the stranded cost financing program, since 2013 the Company has been obliged to sell at least 15% of electricity generated in a given year on commodity exchange and the remaining portion may be sold to companies from the TAURON Capital Group.

A decrease in the revenue from PPAs compensation in the year ended 31 December 2013 versus the preceding year results from the fact that 2012 was the last year of the company's participation in the stranded cost financing program. On 30 August 2013, President of Energy Regulatory Office issued an administrative decision determining the amount of final adjustment regarding the stranded costs, which made the Group recognize the negative adjustment (a decrease) to revenue of PLN 18 886 thousand.

(in PLN '000)

12.2. Costs by type

	Year ended 31 December 2013	Year ended 31 December 2012
Costs by type		
Depreciation of property, plant and equipment and amortization of intangible assets	(1 727 418)	(1 686 496)
Impairment of property, plant and equipment and intangible assets	(280 954)	91 491
Materials and energy	(2 443 547)	(2 854 913)
Maitenance and repair services	(423 395)	(287 395)
Distribution services	(1 287 692)	(1 572 192)
Other external services	(803 000)	(829 779)
Taxes and charges	(1 075 581)	(631 611)
Employee benefits expense	(2 668 301)	(2 930 200)
Inventory write-downs	50 075	(147 716)
Allowance for doubtful debts	(49 662)	(48 021)
Other	(117 509)	(124 253)
Total costs by type	**(10 826 984)**	**(11 021 085)**
Change in inventories, prepayments, accruals and deferred income	82 674	(12 516)
Cost of goods produced for internal purposes	508 524	487 724
Selling and distribution expenses	553 502	552 291
Administrative expenses	645 406	734 754
Cost of goods for resale and materials sold	(6 953 583)	(12 023 222)
Cost of sales	**(15 990 461)**	**(21 282 054)**

In the financial year ended 31 December 2013 TAURON Wytwarzanie S.A., a subsidiary, recognized an impairment loss for unprofitable generation units, as described in detail in Notes 14 and 16 to these consolidated financial statements.

12.3. Employee benefit expenses

	Year ended 31 December 2013	Year ended 31 December 2012
Wages and salaries	(2 013 486)	(1 979 946)
Social security costs	(400 116)	(399 196)
Jubilee bonuses	(26 714)	(141 163)
Social Fund	(60 125)	(66 020)
Post-employment benefit expenses, of which:	(62 065)	(78 200)
Provision for retirement, disability and similar benefits	(8 810)	(3 498)
Coal allowances and special electricity rates and charges	(1 829)	(6 764)
Social Benefits Fund	3 835	(516)
Contributions to employee retirement plans	(55 261)	(67 422)
Voluntary termination scheme	(36 101)	(164 234)
Other employee benefit expenses	(69 694)	(101 441)
Employee benefits expenses, of which:	**(2 668 301)**	**(2 930 200)**
Items included in cost of sales	(1 673 918)	(1 901 423)
Items included in selling and distribution expenses	(242 707)	(247 095)
Movement in stock of finished goods	(184 226)	(155 751)
Items included in administrative expenses	(360 811)	(435 206)
Items included in cost of goods produced for internal purposes	(206 639)	(190 725)

(in PLN '000)

12.4. Depreciation and amortization charges and impairment losses

	Year ended 31 December 2013	Year ended 31 December 2012
Items included in cost of sales:	**(1 912 652)**	**(1 507 348)**
Depreciation of property, plant and equipment	(1 602 453)	(1 559 568)
Impairment of property, plant and equipment	(266 822)	(14 790)
Amortization of intangible assets	(29 245)	(28 871)
Impairment of intangible assets	(14 132)	95 881
Items included in selling and distribution expenses:	**(27 801)**	**(16 967)**
Depreciation of property, plant and equipment	(15 315)	(20 089)
Amortization of intangible assets	(12 486)	(7 278)
Impairment of intangible assets	–	10 400
Items included in administrative expenses:	**(52 222)**	**(56 326)**
Depreciation of property, plant and equipment	(25 067)	(30 405)
Amortization of intangible assets	(27 155)	(25 921)
Items included in cost of goods produced for internal purposes:	**(15 697)**	**(14 364)**
Depreciation of property, plant and equipment	(15 388)	(13 884)
Amortization of intangible assets	(309)	(480)
Total depreciation/amortization expense and impairment	**(2 008 372)**	**(1 595 005)**

12.5. Other operating income

	Year ended 31 December 2013	Year ended 31 December 2012
Penalties, fines, compensations received or receivable	51 517	35 640
Derecognized provisions for non-contractual use of real estate	8 297	12 777
Reversal of other provisions	6 077	16 900
Subsidies/grants and revenue representing the equivalent of amortization/depreciation charges on subsidies/grants to fixed assets or fixed assets received free of charge	20 998	17 762
Reduction in estimated provisions for existing pensioners and disability pensioners related to a change in benefit payment principles	17 326	–
Reversal of impairment losses recognised for other assets	2 107	10 912
Court proceedings costs, litigation and enforcement costs received or receivable	3 674	4 371
Statute-barred/forgiven liabilities	2 886	648
Other	14 554	19 891
Total other operating income	**127 436**	**118 901**

12.6. Other operating expenses

	Year ended 31 December 2013	Year ended 31 December 2012
Recognition of provisions for non-contractual use of real estate	(39 263)	(43 068)
Recognition of provisions	(27 129)	(8 867)
Loss on the disposal of property, plant and equipment/intangible assets	(5 274)	(14 763)
Costs of electrical and other damages to non-current assets	(10 779)	(10 124)
Social activity costs	(2 048)	(4 647)
Court fees, litigation and enforcement costs	(6 602)	(7 015)
Penalties, fines, compensations	(3 998)	(4 038)
Recognition of impairment losses against other assets	(6 483)	(10 745)
Delegated employees	(4 142)	(3 508)
Donations	(2 131)	(4 181)
Membership fees	(2 252)	(2 350)
Write-off for abandoned investments and production as well as liquidated materials	(7 297)	(12 487)
Rescue action costs	(3 414)	–
Adjustment of property tax for previous years	(1 134)	(1 116)
Other	(13 177)	(10 749)
Total other operating expenses	**(135 123)**	**(137 658)**

(in PLN '000)

12.7. Finance income

	Year ended 31 December 2013	Year ended 31 December 2012
Income from financial instruments, of which:	**96 696**	**127 507**
Interest income	69 914	84 022
Dividends	18 323	8 367
Reversal of write-downs	3 014	16 192
Gain on the disposal of investments	4 506	14 692
Net revenue from realized derivative instruments	939	4 234
Other finance income, of which:	**2 561**	**3 799**
Reversal of interest write-downs	1 393	1 779
Interest on amounts due from the state budget	485	250
Other	683	1 770
Total finance income	**99 257**	**131 306**

12.8. Finance costs

	Year ended 31 December 2013	Year ended 31 December 2012
Financial instrument costs, of which:	**(271 402)**	**(261 364)**
Interest costs	(237 021)	(234 532)
Recognition of impairment losses	(18 304)	(19 271)
Revaluation of financial instruments	(1 049)	(76)
Foreign exchange losses	(2 364)	(413)
Commission relating to borrowings and debt securities	(12 664)	(7 072)
Other finance costs, of which:	**(75 591)**	**(85 760)**
Interest on employee benefits	(65 125)	(74 291)
Interest on amounts due to the state budget	(2 441)	(1 642)
Other finance costs	(8 025)	(9 827)
Total finance costs	**(346 993)**	**(347 124)**

13. Income tax

13.1. Tax expense

Key components of the tax liability for the financial years ended 31 December 2013 and 31 December 2012 are as follows:

	Year ended 31 December 2013	Year ended 31 December 2012 (*restated figures*)
Current income tax	**(397 641)**	**(343 950)**
Current income tax expense	(401 918)	(340 974)
Adjustments to current income tax from previous years	4 277	(2 976)
Deferred tax	**60 505**	**(52 828)**
Income tax expense in profit/(loss)	**(337 136)**	**(396 778)**
Income tax expense relating to other comprehensive income	**(10 495)**	**77 693**

13.2. Reconciliation of the effective tax rate

Reconciliation of income tax to gross profit/loss before tax at the statutory tax rate, with income tax calculated at the effective tax rate of the Capital Group for the years ended 31 December 2013 and 31 December 2012:

(in PLN '000)

	Year ended 31 December 2013	Year ended 31 December 2012 *(restated figures)*
Profit/(loss) before tax from continued operations	**1 683 621**	**1 947 577**
Profit/(loss) before taxation	**1 683 621**	**1 947 577**
Tax at Poland's statutory tax rate of 19%	**(319 888)**	**(370 039)**
Adjustments to income tax from previous years	4 277	(2 976)
Tax non-deductible costs, of which:	(35 284)	(30 293)
Recognition of non-deductible provisions and write-downs/allowances	(9 829)	(3 915)
National Disabled Persons Rehabilitation Fund (PFRON)	(4 556)	(4 663)
Permanent differences on costs related to tangible assets	(2 599)	(9 064)
Representation expenses	(1 455)	(1 501)
Other	(16 845)	(11 150)
Income not included in taxable profit, of which:	16 668	14 257
Dividends	3 480	1 487
Reversal of non-deductible provisions and write-downs/allowances	4 762	1 317
Other	8 426	11 453
Changes in deferred tax estimates	1 757	890
Dividend tax	(69)	(4 207)
Other	(4 597)	(4 410)
Tax at the effective rate of 20.0% (2012 – 20.4%)	**(337 136)**	**(396 778)**
Income tax (expense) in profit/(loss)	(337 136)	(396 778)

13.3. Deferred income tax

Deferred income tax results from:

	As at 31 December 2013	As at 31 December 2012 *(restated figures)*
Deferred tax liability		
– difference between tax base and carrying amount of fixed and intangible assets	2 092 388	1 969 174
– difference between tax base and carrying amount of financial assets	22 051	14 063
– different timing of recognition of sales revenue for tax purposes	36 847	57 327
– recognition of estimated revenue from sale of power distribution services	40 294	7 347
– difference between tax base and carrying amount of property rights arising from energy certificates	29 688	48 181
– compensation for termination of long-term contracts	–	101 499
– other	16 469	24 874
Deferred tax liability	**2 237 737**	**2 222 465**
Deferred tax assets		
– difference between tax base and carrying amount of fixed and intangible assets	69 083	47 969
– difference between tax base and carrying amount of inventories	2 748	24 101
– power infrastructure received free of charge and received connection fees	67 401	72 319
– provisions	672 754	596 808
– difference between tax base and carrying amount of financial assets	29 594	23 700
– difference between tax base and carrying amount of financial liabilities	6 739	3 864
– valuation of hedging instruments	30 354	36 227
– different timing of recognition of cost of sales for tax purposes	35 149	20 972
– other accrued expenses	17 647	17 763
– tax losses	–	352
– different timing of recognition of revenue from sales of greenhouse gas emission allowances for tax purposes	–	21 772
– other	13 250	13 066
Deferred tax assets	**944 719**	**878 913**
After setting off balances at the level of individual Group companies, deferred tax for the Group is presented as:		
Deferred tax asset	**46 039**	**24 135**
Deferred tax liability	**(1 339 057)**	**(1 367 687)**

(in PLN '000)

As at 31 December 2013 and 31 December 2012 deferred tax asset and deferred tax liability of companies from the Tax Capital Group, described in detail in Note 9.25 hereto, were netted off due to the fact that as of 1 January 2012 these companies have filed combined tax returns.

Change in deferred tax liability

	Year ended 31 December 2013	Year ended 31 December 2012
Opening balance	**2 222 465**	**2 159 916**
Change in the balance:		
corresponding to financial profit/loss	15 079	62 535
other changes	193	14
Closing balance	**2 237 737**	**2 222 465**

Change in deferred tax asset

	Year ended 31 December 2013	Year ended 31 December 2012 (*restated figures*)
Opening balance	**878 913**	**806 182**
opening balance adjustments	–	(14 611)
Opening balance after adjustments	**878 913**	**791 571**
Change in the balance:		
corresponding to financial profit/loss	75 584	9 707
corresponding to other comprehensive income	(10 495)	77 693
other changes	717	(58)
Closing balance	**944 719**	**878 913**

13.4. Income tax assets and liabilities

As at 31 December 2013 the Group had the following income tax assets and liabilities:

- income tax receivables of PLN 31 890 thousand, where PLN 28 619 thousand is income tax receivables of the Tax Capital Group;
- income tax liabilities of PLN 79 035 thousand, where the entire amount does not relate to the Tax Capital Group companies.

14. Property, plant and equipment

(in PLN '000)

Year ended 31 December 2013

	Land	Buildings, premises and civil engineering structures	Plant and machinery	Motor vehicles	Other	Tangible fixed assets, total	Assets under construction	Property, plant and equipment, total
COST								
Opening balance	**72 024**	**15 389 230**	**12 633 180**	**382 210**	**259 030**	**28 735 674**	**2 034 339**	**30 770 013**
Direct purchase	–	–	28	344	–	**372**	3 499 017	**3 499 389**
Transfer of assets under construction	38 834	1 961 089	2 374 464	79 392	33 492	**4 487 271**	(4 487 271)	**–**
Sale, disposal	(62)	(3 598)	(17 135)	(9 016)	(1 198)	**(31 009)**	(47)	**(31 056)**
Liquidation	(12)	(60 393)	(94 406)	(1 860)	(5 645)	**(162 316)**	–	**(162 316)**
Received free of charge	–	28 793	126	–	–	**28 919**	–	**28 919**
Transfers to assets held for sale	–	(4 104)	(146)	19	14	**(4 217)**	197	**(4 020)**
Received for use under rental, lease or similar agreements	–	36 169	139	–	–	**36 308**	–	**36 308**
Overhaul expenses	–	200	2 221	–	–	**2 421**	130 063	**132 484**
Write-off of discontinued investments	–	–	–	–	–	**–**	(7 014)	**(7 014)**
Items generated internally	–	–	–	–	–	**–**	39 408	**39 408**
Cost of disassembly of wind farms and decommissioning of mines	–	39 471	4 600	–	–	**44 071**	–	**44 071**
Other movements	3 328	(987)	6 730	1 845	(150)	**10 766**	5 256	**16 022**
Foreign exchange differences from translation of foreign entities	–	–	(16)	(26)	(1)	**(43)**	–	**(43)**
Closing balance	**114 112**	**17 385 870**	**14 909 785**	**452 908**	**285 542**	**33 148 217**	**1 213 948**	**34 362 165**
ACCUMULATED DEPRECIATION								
Opening balance	**(645)**	**(3 596 281)**	**(3 558 914)**	**(165 856)**	**(141 119)**	**(7 462 815)**	**(6 555)**	**(7 469 370)**
Depreciation for the period	–	(770 276)	(804 655)	(47 278)	(36 014)	**(1 658 223)**	–	**(1 658 223)**
Increase of impairment	–	(39 191)	(227 181)	(1 000)	(473)	**(267 845)**	–	**(267 845)**
Decrease of impairrment	–	94	225	8	21	**348**	795	**1 143**
Sale, disposal	–	785	14 809	6 689	1 148	**23 431**	–	**23 431**
Liquidation	–	41 704	87 327	1 616	4 641	**135 288**	–	**135 288**
Transfers to assets held for sale	–	2 683	132	(1)	(14)	**2 800**	–	**2 800**
Other movements	–	423	(1 959)	(24)	(200)	**(1 760)**	–	**(1 760)**
Foreign exchange differences from translation of foreign entities	–	–	9	1	–	**10**	–	**10**
Closing balance	**(645)**	**(4 360 059)**	**(4 490 207)**	**(205 845)**	**(172 010)**	**(9 228 766)**	**(5 760)**	**(9 234 526)**
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	**71 379**	**11 792 949**	**9 074 266**	**216 354**	**117 911**	**21 272 859**	**2 027 784**	**23 300 643**
NET CARRYING AMOUNT AT THE END OF THE PERIOD	**113 467**	**13 025 811**	**10 419 578**	**247 063**	**113 532**	**23 919 451**	**1 208 188**	**25 127 639**

(in PLN '000)

Year ended 31 December 2012 *(restated figures)*

	Land	Perpetual usufruct	Buildings, premises and civil engineering structures	Plant and machinery	Motor vehicles	Other	Tangible fixed assets, total	Assets under construction	Property, plant and equipment, total
COST									
Opening balance	**64 182**	**840 101**	**14 235 511**	**11 276 537**	**335 761**	**237 105**	**26 989 197**	**1 628 070**	**28 617 267**
Adjustments	–	(840 101)	–	–	–	–	**(840 101)**	–	**(840 101)**
Opening balance after adjustments	**64 182**	**–**	**14 235 511**	**11 276 537**	**335 761**	**237 105**	**26 149 096**	**1 628 070**	**27 777 166**
Direct purchase	–	–	140	92	443	42	**717**	3 207 652	**3 208 369**
Transfer of assets under construction	9 921	–	1 206 635	1 589 503	56 161	46 045	**2 908 265**	(2 908 265)	**–**
Sale, disposal	(52)	–	(2 411)	(10 196)	(9 497)	(57)	**(22 213)**	(28 683)	**(50 896)**
Reclassifications	(1)	–	28 978	(11 322)	5	(17 660)	**–**	–	**–**
Liquidation	(9)	–	(49 494)	(187 601)	(793)	(4 919)	**(242 816)**	(333)	**(243 149)**
Received free of charge	–	–	15 660	1 000	–	8	**16 668**	–	**16 668**
Transfers to assets held for sale	(2 012)	–	(38 840)	(22 559)	(708)	(999)	**(65 118)**	(201)	**(65 319)**
Overhaul expenses	–	–	200	719	–	–	**919**	101 748	**102 667**
Write-off of discontinued investments	–	–	–	–	–	–	**–**	(10 634)	**(10 634)**
Items generated internally	–	–	–	–	–	–	**–**	48 917	**48 917**
Other movements	(5)	–	(7 149)	(2 983)	840	(535)	**(9 832)**	(3 932)	**(13 764)**
Foreign exchange differences from translation of foreign entities	–	–	–	(10)	(2)	–	**(12)**	–	**(12)**
Closing balance	**72 024**	**–**	**15 389 230**	**12 633 180**	**382 210**	**259 030**	**28 735 674**	**2 034 339**	**30 770 013**
ACCUMULATED DEPRECIATION									
Opening balance	**(645)**	**(771)**	**(2 905 171)**	**(2 987 379)**	**(126 895)**	**(115 663)**	**(6 136 524)**	**(5 096)**	**(6 141 620)**
Adjustments	–	771	–	–	–	–	**771**	–	**771**
Opening balance after adjustments	**(645)**	**–**	**(2 905 171)**	**(2 987 379)**	**(126 895)**	**(115 663)**	**(6 135 753)**	**(5 096)**	**(6 140 849)**
Depreciation for the period	–	–	(748 705)	(787 641)	(46 662)	(40 938)	**(1 623 946)**	–	**(1 623 946)**
Increase of impairment	(812)	–	(944)	(861)	–	(60)	**(2 677)**	(387)	**(3 064)**
Decrease of impairrment	–	–	404	144	24	47	**619**	6	**625**
Sale, disposal	–	–	876	6 554	6 188	118	**13 736**	–	**13 736**
Reclassifications	–	–	(12 871)	1 800	(5)	11 076	**–**	–	**–**
Liquidation	–	–	33 750	181 786	776	4 193	**220 505**	333	**220 838**
Transfers to assets held for sale	812	–	31 297	22 391	704	930	**56 134**	–	**56 134**
Other movements	–	–	5 083	4 288	14	(822)	**8 563**	(1 411)	**7 152**
Foreign exchange differences from translation of foreign entities	–	–	–	4	–	–	**4**	–	**4**
Closing balance	**(645)**	**–**	**(3 596 281)**	**(3 558 914)**	**(165 856)**	**(141 119)**	**(7 462 815)**	**(6 555)**	**(7 469 370)**
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	**63 537**	**–**	**11 330 340**	**8 289 158**	**208 866**	**121 442**	**20 013 343**	**1 622 974**	**21 636 317**
NET CARRYING AMOUNT AT THE END OF THE PERIOD	**71 379**	**–**	**11 792 949**	**9 074 266**	**216 354**	**117 911**	**21 272 859**	**2 027 784**	**23 300 643**

Recognition and derecognition of impairment losses on fixed assets relate to individually determined fixed assets items.

(in PLN '000)

In the year ended 31 December 2013 the Group invested PLN 3 499 389 thousand in property, plant and equipment. Major purchases were related to investments in the following operating segments:

Purchase of property, plant and equipment by segment	Year ended 31 December 2013	Year ended 31 December 2012
Distribution	2 031 472	1 748 571
Renewable sources of energy	606 915	340 179
Generation	392 425	733 610
Mining	251 268	163 806
Heat	154 594	184 647

Key investment projects carried out by the Group in the financial year 2013 have been presented in Section 1.5.3. of the Management Board's Report on the activities of the Capital Group for 2013.

The carrying amount of plant and machinery used as at 31 December 2013 based on finance lease and hire purchase contracts was PLN 51 677 thousand (as at 31 December 2012 it was PLN 56 550 thousand). Assets used based on lease and hire purchase contracts are pledged to secure related liabilities due to finance lease and hire purchase contracts.

The carrying amount of buildings and structures used as at 31 December 2013 based on finance lease and hire purchase contracts was PLN 55 786 thousand (as at 31 December 2012 it was PLN 20 951 thousand). The increase results from transfer of the finance lease agreement to the Parent related to business combination with PKE Broker Sp. z o.o., as described in Note 32.2 to these consolidated financial statements. Assets used based on lease and hire purchase contracts are pledged to secure related liabilities due to finance lease and hire purchase contracts or are held by the lessor.

In 2013 the Group capitalized interest to fixed assets under construction and intangible assets not commissioned for use of PLN 73 138 thousand (as compared to PLN 77 559 thousand in 2012).

Impairment tests

Taking into account the indications that the market value of the Company's net assets has recently been below their carrying amount as well as the general situation in the power sector, the Group tested its property, plant and equipment for impairment as at 31 December 2013.

The tests required estimating the value in use of cash generating units, based on their future cash flows discounted to the current value with the discount rate.

The impairment test for property, plant and equipment was carried out the level of individual companies, except for:

- TAURON Wytwarzanie S.A.– where cash generating units were identified based on the cost nature and analysis of the applied methods of contracting and allocating generation from particular generation units. Consequently, the test was performed for cash-generating units understood as generation unit or groups of generation units;
- TAURON Ekoenergia Sp. z o.o. – where water power plant and wind power plants were tested for impairment separately, and
- TAURON Ciepło S.A. where the activities related to generation of heat and electricity in professional and systemic thermal-electric power plants were separated as well as generation, transmission and distribution of heat (former thermal energetics companies).

Key assumptions made to estimate the value in use of property, plant and equipment:

- The adopted price path of power coal, other coal sizes and gaseous fuels;
- The adopted electricity wholesale price path for the years 2014–2023, taking into account such factors as the effect of the balance of the market supply and demand for electricity, costs of fuel as well as costs of acquiring carbon dioxide emission allowances;
- Emission limits for generating electricity in line with publications of the Ministry of Economy, adjusted by capital expenditure incurred and limits compliant with publications of the European Commission for generation of heat;
- Green, red and yellow energy production volumes depending on the production capacity, along with the price path for individual energy certificates;

(in PLN '000)

- Regulated revenue generated by distribution companies, ensuring coverage of reasonable costs and a reasonable level of return on capital. The return on capital is conditional upon the Regulatory Asset Value;
- The adopted electricity retail price path based on the wholesale price of black energy, taking into account the costs of excise duty, the obligation to cancel energy certificates as well as an appropriate level of margin;
- Sales volumes taking into account GDP growth and increased market competition;
- Tariff revenue generated by heat companies, ensuring coverage of reasonable costs and a reasonable level of return on capital;
- Maintenance of the production capacity of the existing non-current assets as a result of replacement investments;
- The level of the weighted average cost of capital (WACC) during the projection period, as used in the calculations, ranges from 6.97% to 10.33% in nominal terms before tax.

The test results indicated impairment of a part of generation units in the Generation segment. The majority of these generation units are 120 class power units, with the total installed capacity of ca. 1 200 MWe. The impairment tests carried out in line with IAS 36 indicated impairment of property, plant and equipment in the Generation segment of PLN 262 187 thousand. Impairment loss has been charged to cost of sales.

15. Goodwill

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

Goodwill in segment	As at 31 December 2013	As at 31 December 2012
Mining	13 973	13 973
Renewable sources of energy	51 902	51 902
Distribution	25 602	25 602
Heat	155 580	155 580
Total	**247 057**	**247 057**

As at 31 December 2013, an impairment test was performed for the net assets increased by goodwill for individual operating segments: Mining, Renewable Sources of Energy, Distribution and Heat.

The key business assumptions affecting the estimated value in use of the tested segments are:

Mining

- The adopted price path of power coal and other coal sizes;
- The adopted electricity retail price path based on the wholesale price of black energy, taking into account the costs of excise duty, the obligation to surrender energy certificates as well as an appropriate level of margin;
- Maintenance of the production capacity of the existing non-current assets as a result of replacement investments.

Renewable sources of energy

- Green energy generation volume in line with generation capacity and a price path for electricity selected based on the distribution price for black energy from the preceding year and prices of certificates in accordance with regulations in force;
- Maintenance of the production capacity of the existing non-current assets as a result of replacement investments.

Distribution

- Regulated revenue generated by distribution companies, ensuring coverage of reasonable costs and a reasonable level of return on capital. The return on capital is conditional on the Regulatory Asset Value;
- Maintenance of the electricity distribution capacity of the existing non-current assets as a result of replacement investments.

Heat

- Tariff revenue generated by heat companies, ensuring coverage of reasonable costs and a reasonable level of return on capital;
- Green, red and yellow energy production volumes depending on the production capacity, along with the price path for individual energy certificates;
- Emission limits for generating electricity in line with publications of the Ministry of Economy, adjusted by capital expenditure incurred and limits compliant with publications of the European Commission for generation of heat;
- Maintenance of the heat generation, distribution and sales capacity of the existing non-current assets as a result of replacement investments.

The assumptions were also used to estimate the value in use of other intangible assets.

The test was performed based on the present value of estimated operating cash flows. The calculations were based on detailed projections for the period from 2014 to 2023 and the estimated residual value. The basis for cash flow calculations is the planned EBIT for 2014–2023 and depreciation/amortization for this period. The EBIT value results from the long-term plan of the Group companies covering the period until 2023. Using projections in excess of five years results in particular from the long-term nature of investment processes in the power industry. The macroeconomic and sector assumptions serving as the basis for projections are updated as frequently as any indications for their modification are observed in the market. Projections also take into account changes in the legal environment known as at the date of the test.

The discount rate used for calculation reflects the weighted average cost of capital (WACC), taking into account the risk-free rate determined by reference to the yield on 10-year treasury bonds (4.2%) and the risk premium for operations appropriate for the power industry (5.0%). The growth rate used for extrapolation of projected cash flows beyond the detailed planning period is at the level of 2.5% and it corresponds to the estimated long-term inflation rate.

Sensitivity analyses conducted by the Company reveal that the projected wholesale prices of electricity and the adopted discount rates are the key factors exerting an effect on the estimated value in use of cash generating units.

The results of the test did not indicate the necessity to recognize any impairment losses of goodwill on any of the cash-generating units.

16. Non-current intangible assets

(in PLN '000)

Year ended 31 December 2013

	Development expenses	Perpetual usufruct	Software, concessions, patents, licenses and similar items	Energy certificates	Greenhouse gas emission allowances	Other intangible assets	Intangible assets not made available for use	Intangible assets, total
COST								
Opening balance	**3 898**	**812 667**	**345 194**	**–**	**95 874**	**91 351**	**39 048**	**1 388 032**
Direct purchase	–	–	–	20 250	235 139	–	108 135	**363 524**
Transfer of intangible assets not made available for use	–	5 043	38 196	–	–	18 103	(61 342)	**–**
Sale, disposal	–	(2 286)	–	–	–	–	–	**(2 286)**
Liquidation	–	(382)	(5 878)	–	–	(12)	–	**(6 272)**
Reclassifications	–	–	–	–	(296 200)	–	–	**(296 200)**
Transfers to assets held for sale	–	(889)	–	–	–	–	–	**(889)**
Other movements	132	(3 441)	1 779	–	(285)	537	(1 200)	**(2 478)**
Foreign exchange differences from translation of foreign entities	–	–	(55)	–	–	–	(8)	**(63)**
Closing balance	**4 030**	**810 712**	**379 236**	**20 250**	**34 528**	**109 979**	**84 633**	**1 443 368**
ACCUMULATED AMORTIZATION								
Opening balance	**(3 263)**	**(573)**	**(189 764)**	**–**	**–**	**(12 176)**	**–**	**(205 776)**
Amortization for the period	(155)	–	(57 711)	–	–	(11 329)	–	**(69 195)**
Increase of impairment	(24)	(13 877)	(231)	–	–	–	–	**(14 132)**
Decrease of impairment	–	–	–	–	–	–	–	**–**
Sale, disposal	–	–	–	–	–	–	–	**–**
Liquidation	–	–	5 539	–	–	5	–	**5 544**
Other movements	–	1	132	–	–	40	–	**173**
Foreign exchange differences from translation of foreign entities	–	–	23	–	–	–	–	**23**
Closing balance	**(3 442)**	**(14 449)**	**(242 012)**	**–**	**–**	**(23 460)**	**–**	**(283 363)**
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	**635**	**812 094**	**155 430**	**–**	**95 874**	**79 175**	**39 048**	**1 182 256**
NET CARRYING AMOUNT AT THE END OF THE PERIOD	**588**	**796 263**	**137 224**	**20 250**	**34 528**	**86 519**	**84 633**	**1 160 005**

(in PLN '000)

Year ended 31 December 2012 *(restated figures)*

	Development expenses	Perpetual usufruct	Software, concessions, patents, licenses and similar items	Greenhouse gas emission allowances	Other intangible assets	Intangible assets not made available for use	Intangible assets, total
COST							
Opening balance	**4 389**	**–**	**275 852**	**97 495**	**85 475**	**13 831**	**477 042**
Adjustments	–	840 101	–	–	–	–	**840 101**
Opening balance after adjustments	**4 389**	**840 101**	**275 852**	**97 495**	**85 475**	**13 831**	**1 317 143**
Direct purchase	–	–	658	–	27	109 909	**110 594**
Transfer of intangible assets not made available for use	–	4 711	73 217	–	8 468	(86 396)	**–**
Sale, disposal	–	(1 325)	(833)	–	–	–	**(2 158)**
Liquidation	(565)	(40)	(8 117)	–	(13)	–	**(8 735)**
Transfers to assets held for sale	–	(30 896)	–	–	–	–	**(30 896)**
Other movements	74	116	4 432	(1 621)	(2 606)	1 723	**2 118**
Foreign exchange differences from translation of foreign entities	–	–	(15)	–	–	(19)	**(34)**
Closing balance	**3 898**	**812 667**	**345 194**	**95 874**	**91 351**	**39 048**	**1 388 032**
ACCUMULATED AMORTIZATION							
Opening balance	**(3 482)**	**–**	**(142 744)**	**(15 166)**	**(2 363)**	**–**	**(163 755)**
Adjustments	–	(771)	–	–	–	–	**(771)**
Opening balance after adjustments	**(3 482)**	**(771)**	**(142 744)**	**(15 166)**	**(2 363)**	**–**	**(164 526)**
Amortization for the period	(289)	–	(51 413)	–	(10 848)	–	**(62 550)**
Increase of impairment	–	(13 010)	–	–	–	–	**(13 010)**
Decrease of impairment	–	199	–	15 166	–	–	**15 365**
Sale, disposal	–	1	833	–	–	–	**834**
Liquidation	565	–	4 310	–	8	–	**4 883**
Transfers to assets held for sale	–	13 010	–	–	–	–	**13 010**
Other movements	(57)	(2)	(752)	–	1 027	–	**216**
Foreign exchange differences from translation of foreign entities	–	–	2	–	–	–	**2**
Closing balance	**(3 263)**	**(573)**	**(189 764)**	**–**	**(12 176)**	**–**	**(205 776)**
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	**907**	**839 330**	**133 108**	**82 329**	**83 112**	**13 831**	**1 152 617**
NET CARRYING AMOUNT AT THE END OF THE PERIOD	**635**	**812 094**	**155 430**	**95 874**	**79 175**	**39 048**	**1 182 256**

Impairment tests

Taking into account the indications that the market value of the Company's net assets has recently been below their carrying amount as well as the anticipated economic slowdown, the Group tested its intangible assets for impairment as at 31 December 2013.

The value in use of intangible assets was estimated using assumptions adopted to goodwill testing, as described in Note 15.

The results of the test indicated the necessity to recognize any impairment losses in the Generation segment of PLN 13 436 thousand, mainly for the right of perpetual usufruct of land.

17. Interest in joint-ventures

Elektrociepłownia Stalowa Wola S.A.

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

As a joint venture it is accounted for using the equity method in the consolidated financial statements. TAURON Polska Energia S.A. holds an indirect interest amounting to 49.89% in the share capital of this company and 49.90% in its governing body through TAURON Wytwarzanie S.A.

In the year ended 31 December 2013 the following changes were made in the scope of to two loan agreements of 20 June 2012 among PGNiG S.A., TAURON Polska Energia S.A. and Elektrociepłownia Stalowa Wola S.A., with a view to satisfying the necessary covenants for provision of funding to Elektrociepłownia Stalowa Wola S.A. by the European Bank for Reconstruction and Development and the European Investment Bank:

- The Company transferred funds from the subordinated loan of PLN 62 000 thousand, therefore as at the end of the reporting period the total funds from the loan transferred reached the cap stipulated in the agreement, i.e. PLN 177 000 thousand. Interest accrued on the loan amounts to PLN 12 310 thousand. The loan with interest due is to be finally repaid no later than by the end of 2032;
- The Company transferred funds due to a VAT loan of the total amount of PLN 46 800 thousand. By the balance sheet date Elektrociepłownia Stalowa Wola S.A. repaid the total loan amount.

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

Elektrownia Blachownia Nowa Sp. z o.o.

On 5 September 2012 TAURON Wytwarzanie S.A., subsidiary, and KGHM Polska Miedź S.A. established a special purpose vehicle named Elektrownia Blachownia Nowa Sp. z o.o. with the registered address in Kędzierzyn Koźle. The Company was set up to perform a comprehensive investment project including preparation, construction and operation of a combined cycle gas and steam unit with the capacity of ca. 850 MWe on the land of TAURON Wytwarzanie S.A. – Oddział Elektrownia Blachownia.

TAURON Wytwarzanie S.A. and KGHM Polska Miedź S.A. took up 50% of shares in the share capital of Elektrownia Blachownia Nowa Sp. z o.o., each. As at the date of establishing the company the share capital amounted to PLN 65 152 thousand. Shares in the entity are equal and indivisible.

As a joint venture Elektrownia Blachownia Nowa Sp. z o.o. is accounted for in the consolidated financial statements using the equity method. TAURON Polska Energia S.A. holds an indirect interest amounting to 49.89% in the share capital of this company and 49.90% in its governing body through TAURON Wytwarzanie S.A.

On 30 December 2013 TAURON Polska Energia S.A., KGHM Polska Miedź S.A. and TAURON Wytwarzanie S.A. concluded an agreement, based on which the construction of gas and steam power unit in Elektrownia Blachownia Nowa Sp. z o.o. has been suspended. The decision resulted from the current situation in the electricity and gas market entailing higher investment risk, which made the entities review and optimise the project. The parties undertook to ensure further business operations of Elektrownia Blachownia Nowa Sp. z o.o., securing deliverables provided thus far, in particular updating project documentation and ensuring on-going monitoring of the energy market and regulatory environment in view of the possibility to restart project performance as soon as possible. The parties agreed that the decision to recommence the project will be adopted in the form of a separate agreement which is expected to be concluded by 31 December 2016.

(in PLN '000)

Investments in joint-ventures measured using the equity method as at 31 December 2013 and for the year ended 31 December 2013 have been presented below:

	As at 31 December 2013	Elektrociepłownia Stalowa Wola S.A.	Elektrownia Blachownia Nowa Sp. z o.o.
Non-current assets	**756 165**	728 455	27 710
Current assets	**46 212**	9 588	36 624
Non-current liabilities (-)	**(697 185)**	(697 185)	–
Current liabilities (-)	**(3 267)**	(3 203)	(64)
Total net assets	**101 925**	37 655	64 270
Share in net assets	**50 850**	18 786	32 064
Elimination of transactions with Group companies	**(6 452)**	(6 452)	–
Invetment in joint venture	**44 398**	**12 334**	**32 064**
Share in sales revenue of joint venture	**650**	110	540
Share in profit/(loss) of joint venture	**(2 709)**	**(2 383)**	**(326)**

Investments in joint-ventures measured using the equity method as at 31 December 2012 and for the year ended 31 December 2012 have been presented below:

	As at 31 December 2012	Elektrociepłownia Stalowa Wola S.A.	Elektrownia Blachownia Nowa Sp. z o.o.
Non-current assets	**354 710**	326 993	27 717
Current assets	**55 255**	16 473	38 782
Non-current liabilities (-)	**(236 147)**	(236 147)	–
Current liabilities (-)	**(66 400)**	(64 862)	(1 538)
Total net assets	**107 418**	42 457	64 961
Share in net assets	**53 559**	21 169	32 390
Elimination of transactions with Group companies	**(1 573)**	(1 573)	–
Invetment in joint venture	**51 986**	**19 596**	**32 390**
Share in sales revenue of joint venture	**447**	171	276
Share in profit/(loss) of joint venture	**(1 734)**	**(1 548)**	**(186)**

18. Other financial assets

	As at 31 December 2013	As at 31 December 2012
Shares in unlisted and listed companies	125 303	153 167
Advance payment for acquisition of shares	232 500	–
Bonds, T-bills and other debt securities	1 890	1 425
Deposits	30 831	26 219
Loans granted	189 310	117 813
Other long-term receivables	20 747	9 388
Other	2 463	2 854
Total	**603 044**	**310 866**
non-current	587 166	305 444
current	15 878	5 422

Advance payment for the acquisition of shares include an advance payment made to Kompania Węglowa S.A. for the acquisition of shares in Południowy Koncern Węglowego S.A. (currently: TAURON Wydobycie S.A.) pursuant to the agreement on the sale of shares of 10 December 2013. The transaction was completed in January 2014, as described in Note 48 to these consolidated financial statements.

The increase in the loans granted item results from the increase in the balance of loans originated by the Parent to Elektrociepłownia Stalowa Wola S.A. As at the end of the reporting period the balance of loans amounted to PLN 189 310 thousand, as presented in detail in Note 17 to these consolidated financial statements.

(in PLN '000)

19. Other non-current non-financial assets

	As at 31 December 2013	As at 31 December 2012
Prepayments for assets under construction and intangible assets	109 818	205 864
Other prepayments	46 322	30 089
Costs of preparing production in hard coal mines	198 564	123 756
Total	**354 704**	**359 709**

The decrease in advance payments for fixed assets under construction and intangible assets results mainly from settlement of advance payments of PLN 199 532 thousand by BELS INVESTMENT Sp. z o.o. and MEGAWAT MARSZEWO Sp. z o.o. which is related to commissioning Wicko and Marszewo wind farms.

20. Current intangible assets

Year ended 31 December 2013

	Energy certificates	Greenhouse gas emission allowances	Current intangible assets, total
COST			
Opening balance	**649 473**	**61 626**	**711 099**
Direct purchase	613 145	173 566	**786 711**
Generated internally	168 419	–	**168 419**
Cancellation	(888 413)	(70 269)	**(958 682)**
Sales	(8 354)	–	**(8 354)**
Reclassification	161 157	296 200	**457 357**
Closing balance	**695 427**	**461 123**	**1 156 550**
ACCUMULATED AMORTIZATION			
Opening balance	**–**	**–**	**–**
Closing balance	**–**	**–**	**–**
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	**649 473**	**61 626**	**711 099**
NET CARRYING AMOUNT AT THE END OF THE PERIOD	**695 427**	**461 123**	**1 156 550**

Year ended 31 December 2012

	Energy certificates	Greenhouse gas emission allowances	Current intangible assets, total
COST			
Opening balance	**774 942**	**187 126**	**962 068**
Direct purchase	817 189	94 102	**911 291**
Generated internally	116 632	–	**116 632**
Cancellation	(1 058 226)	(221 208)	**(1 279 434)**
Other movements	(1 064)	1 606	**542**
Closing balance	**649 473**	**61 626**	**711 099**
ACCUMULATED AMORTIZATION			
Opening balance	**(91 114)**	**–**	**(91 114)**
Increase of impairment	–	–	**–**
Decrease of impairment	91 114	–	**91 114**
Closing balance	**–**	**–**	**–**
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	**683 828**	**187 126**	**870 954**
NET CARRYING AMOUNT AT THE END OF THE PERIOD	**649 473**	**61 626**	**711 099**

(in PLN '000)

21. Inventories

	As at 31 December 2013	As at 31 December 2012
Historical cost		
Raw materials	337 940	394 098
Semi-finished goods and work-in-progress	117 257	143 456
Finished goods	18 509	35 773
Goods for resale	1 479	3 300
Property rights arising from energy certificates	84 800	222 534
Emission allowances	–	2 434
Total	**559 985**	**801 595**
Write-downs to net realisable value		
Raw materials	(4 829)	(2 970)
Finished goods	(169)	–
Property rights arising from energy certificates	(45 763)	(90 143)
Emission allowances	–	(200)
Total	**(50 761)**	**(93 313)**
Net realisable value		
Raw materials	333 111	391 128
Semi-finished goods and work-in-progress	117 257	143 456
Finished goods	18 340	35 773
Goods for resale	1 479	3 300
Property rights arising from energy certificates	39 037	132 391
Emission allowances	–	2 234
Total	**509 224**	**708 282**

Movement in write-downs to net realisable value		
Opening balance	**(93 313)**	**(5 629)**
Recognition	(47 868)	(153 604)
Reversal	90 409	65 810
Utilization	11	110
Closing balance	**(50 761)**	**(93 313)**

22. Trade and other receivables

Current trade and other receivables as at 31 December 2013 and 31 December 2012 have been presented in the table below.

	As at 31 December 2013	As at 31 December 2012
Trade receivables	1 862 717	2 199 094
Receivables from sales of fixed and intangible assets	8 355	733
Receivables claimed at court	20 342	3 490
Other receivables	243 227	833 378
Total	**2 134 641**	**3 036 695**

As at 31 December 2013 long-term trade and other receivables disclosed as other financial assets under non-current assets in the statement of financial position amounted to PLN 20 747 thousand and included long-term trade receivables of PLN 434 thousand and other long-term receivables of PLN 20 313 thousand.

As at 31 December 2012 long-term trade and other receivables amounted to PLN 9 388 thousand and included long-term trade receivables of PLN 483 thousand and other long-term receivables of PLN 8 905 thousand (as described in Note 18 to the consolidated financial statements).

Other current receivables decreased from PLN 833 378 thousand as at 31 December 2012 to PLN 243 227 thousand as at 31 December 2013 because in 2013 the Group received compensation for early termination of long-term Power Purchase Agreements (PPAs), which amounted to PLN 534 207 thousand as at 31 December 2012. The Group participation in the PPAs scheme ended after 2012 and all receivables due under PPAs were finally settled in 2013.

(in PLN '000)

23. Other current non-financial assets

	As at 31 December 2013	As at 31 December 2012
Costs settled over time, including:	**108 103**	**71 728**
Property and tort insurance	15 962	26 781
IT, telecom and postal services	18 605	8 331
Costs of preparing production in hard coal mines	38 847	21 555
Other costs settled over time	34 689	15 061
Other current non-financial assets including:	**162 326**	**200 643**
Prepayment for intangible assets	40 475	–
Receivables from input VAT	55 883	160 494
Receivables from excise duty	55 534	22 637
Other tax receivables	104	8 022
Surplus of Social Fund assets over Social Fund liabilities	2 822	3 714
Other current assets	7 508	5 776
Total	**270 429**	**272 371**

VAT receivables decreased due to VAT overpayment as at 31 December 2012, which resulted largely from the right to deduct input tax on investment purchases made in 2012 by BELS INVESTMENT Sp. z o.o. and MEGAWAT MARSZEWO Sp. z o.o. and purchases of intangible assets, i.e. licenses, software and energy certificates by the Parent.

Advance payments for intangible assets increased, because TAURON Ciepło S.A., a subsidiary, made an advance payment for the acquisition of 2 225 thousand carbon dioxide emission allowances from Arcelor Mittal Poland S.A.

24. Cash and cash equivalents

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

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

	As at 31 December 2013	As at 31 December 2012
Cash at bank and in hand	153 103	326 801
Short-term deposits (up to 3 months)	482 206	703 605
Other	1 600	523
Total cash and cash equivalents presented in the statement of financial position, of which:	**636 909**	**1 030 929**
– restricted cash	121 129	290 063
Bank overdraft	(93 645)	(129 566)
Foreign exchange and other differences	(2 116)	(9 709)
Total cash and cash equivalents presented in the statement of cash flows	**541 148**	**891 654**

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

The overdraft balance decreased due to the fact that the Company reduced borrowings under the cash pool agreement by PLN 41 051 thousand.

Balance of restricted cash includes mainly cash on the account used for settling electricity trading on the Polish Power Exchange, i.e. Towarowa Giełda Energii S.A., of PLN 68 084 thousand held by the Parent and cash on a bank account for bid bonds and deposits of PLN 38 000 thousand.

(in PLN '000)

25. Non-current assets held for sale

	As at 31 December 2013	As at 31 December 2012
Halemba Power Plant in Ruda Śląska	17 973	17 628
Resorts and training centers	6 929	6 929
Zawodzie Heating Plant in Częstochowa	2 709	2 709
Land, perpetual usufruct of land, buildings and constructions	4 860	8 949
Other	570	–
Total non-current assets classified as held for sale, of which:	**33 041**	**36 215**
Intangible assets	19 440	18 808
Property, plant and equipment	13 601	17 407

The decision to sell all assets of Elektrownia Halemba in Ruda Śląska was taken in 2012 due to the discontinuation of the generation process in the power plant. A tender was announced for the sale of assets of Elektrownia Halemba. The acquirer was selected based on selection of offers received. Works related to obtaining financial guarantees and a decision to transfer environmental obligations to the acquirer of assets of Elektrownia Halemba are in progress. The Group expects the works to finish in the first six months of 2014.

The land with an administrative and office building in Dąbrowa Górnicza with the carrying amount of PLN 5 172 thousand as at 31 December 2012 was sold in 2013.

26. Carbon dioxide emission allowances

The third phase of the EU Emissions Trading System (EU ETS) has started on 1 January 2013.

In the first and the second phase the allowances were allocated based on local allowance distribution plans. In Poland it was the national allowance distribution plan covering carbon dioxide emission, prepared in line with general guidelines defined by the European Commission.

The third phase assumes a single EU-wide cap on emissions, to be reduced by 1.74% p.a. until 2020. In accordance with the Directive 2009/29/EC of the European Parliament and of the Council of 23 April 2009 amending Directive 2003/87/EC so as to improve and extend the greenhouse gas emission allowance trading scheme of the Community, auctioning has become the key method of obtaining EU emission allowances, replacing the previous principles of the EU ETS. Individual EU Member States will auction over 40% of allowances awarded in 2013–2020. The remaining allowances will be allocated free of charge to: energy-intensive sectors (exposed to the risk of carbon leakage), other sectors (in line with the strategy to gradually eliminate free allocation) – pursuant to Article 10a of the Directive, and power sectors in selected Member States, including Poland, qualifying for derogation under Article 10c ("derogation allowances"). Derogation allowances are awarded in the years 2013–2020, based on costs of investments, which are a condition for obtaining allowances.

The TAURON Group applied for free allowances pursuant to Article 10a and for derogation allowances, still such allowances were not awarded before 31 December 2013. Consequently, they were not taken into account in the calculation of the provision for surrendering carbon dioxide emission allowances. The Group has filed for 1 275 401 allowances due to generation of heat and for 11 925 960 allowances due to electricity generation.

Emission allowances from the previous settlement period of the European Union Emission Trading Scheme covering the years from 2008 to 2012 on the accounts of individual companies' installations have been held for surrendering in the following settlement period.

(in PLN '000)

Balance of carbon dioxide emission allowances in the years ended 31 December 2013 and 31 December 2012

CO_2 emissions allowances	Year ended 31 December 2013	Year ended 31 December 2012
Allowances recorded at the beginning of the financial year	**25 646 311**	**26 250 837**
Allowances surrendered (previous year's emissions)		
in Generation Segment	(17 850 011)	(21 334 068)
in Heat Segment	(3 977 648)	(3 278 177)
Allocation of free-of-charge allowances	–	23 958 403
Allowances purchased on the secondary market	45 991 345	10 103 316
Allowances sold on the secondary market	(26 243 198)	(10 054 000)
Allowances recorded at the end of the financial year	**23 566 799**	**25 646 311**
Allowances intended for surrender for a given year:	(21 667 930)	
in Generation Segment	(17 843 151)	
in Heat Segment	(3 824 779)	

As at 31 December 2013 the Group held 23 566 799 units on accounts of the National Emission Allowance Register, where 21 667 930 have been allocated for surrendering due to emissions in 2013. The related provision was estimated at PLN 461 123 thousand.

Pursuant to a decision of the Śląsk Province Governor No. IF/VI/66192/1/10 dated 21 December 2010 Installation Group was established in order to integrate the management of trading in carbon dioxide emission allowances, to optimize business performance of the TAURON Group and ensure further growth of the Group in the carbon dioxide market.

Since January 2011, TAURON Polska Energia S.A. has been managing the portfolio of emission allowances of Group companies (the Installation Group) comprising TAURON Wytwarzanie S.A. and TAURON Ciepło S.A.

The Company's competencies include trading in and surrendering allowances for the Group while the responsibilities of the Installation Group companies include determining emissions of individual installations and reporting to competent bodies as well as having annual emission report reviewed by an independent reviewer.

In the new settlement period covering the years from 2013 to 2020, when the formal Installation Group established in line with the law ceased to exist, carbon dioxide emission allowances have been managed under new agreements granting the Company the same competence scope.

27. Issued capital and other capitals

27.1. Issued capital

Issued capital as at 31 December 2013

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
	Total	**1 752 549 394**		**8 762 747**	

As at 31 December 2013, the value of issued capital, the number of shares and the par value of shares did not change compared to 31 December 2012.

Shareholding structure as at 31 December 2013 (to the best of the Company's knowledge)

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

(in PLN '000)

27.2. Shareholders' rights

State Treasury rights

On 18 August 2005 the Act on specific rights of the State Treasury and exercising thereof in companies of significant importance for public order or public safety (Journal of Laws No. 132, item 1108) came into force. TAURON Polska Energia S.A. is obliged to follow the provisions of the Act based on secondary legislation. According to the Management Board, the Company operates in line with the applicable law. As at the date of preparing these financial statements no observer has been assigned.

27.3. Reserve capital

In the year ended 31 December 2013 reserve capital was increased by PLN 1 084 678 thousand, which results from the resolution on profit distribution for 2012 adopted by the Ordinary Shareholders' Meeting of the parent on 16 May 2013.

27.4. Retained earnings and accumulated losses and restrictions on dividend payment

PLN 1 691 667 thousand of profit for 2013 and preceding years undistributed by the date of approving these financial statements is subject to distribution, which has been presented in detail in Note 29.3 of the separate financial statements of the Company for 2013.

Previous year profit/loss arising from settlement of business combinations with subsidiaries and actuarial gains and losses related to provisions for post-employment benefits recognized through other comprehensive income are not distributable.

As at 31 December 2013 and as at the date of approving these financial statements for publication no other dividend restriction occurred.

27.5. Revaluation reserve from valuation of hedging instruments

	Year ended 31 December 2013	Year ended 31 December 2012
Opening balance	**(153 703)**	**–**
Remeasurement of hedging instruments	30 904	(190 666)
Remeasurement of hedging instruments charged to profit or loss	2 493	910
Deferred income tax	(6 345)	36 053
Closing balance	**(126 651)**	**(153 703)**

The revaluation reserve from valuation of hedging instruments results from valuation of Interest Rate Swaps (IRS) hedging the interest rate risk arising from bonds issued. As at 31 December 2013 the Group concluded hedging transactions subject to specific risk management policy. Pursuant to a decision of the Financial Risk Management Committee of 30 January 2012, in March 2012 the Parent hedged the interest rate risk arising from bonds issued under the Bond Issue Scheme, by entering into an interest rate swap (IRS) transaction for a term of 5 years. The aforementioned transaction was concluded due to fluctuations in the projected future cash flows from interest payments resulting from the issue of bonds in PLN with a floating interest rate based on WIBOR 6M. The Company hedged 80% of such cash flows.

As at 31 December 2013 the Company recognized PLN (126 651) thousand of revaluation reserve from valuation of hedging instruments. It represents a liability arising from measurement of interest rate swaps as at the end of the reporting period, totalling PLN 159 762 thousand, adjusted by a portion of measurement relating to interest accrued on bonds as at the end of the reporting period, including deferred tax.

The profit/loss for the period was charged with PLN 50 845 thousand, where PLN 48 352 thousand was the amount paid in respect of hedges used in relation to closed interest periods and PLN 2 493 thousand resulted from remeasurement of instruments related to interest on bonds accrued as at the end of the reporting period. In the statement of comprehensive income, the aforementioned costs of hedging transactions IRS increased financial expenses arising from interest on issued bonds.

(in PLN '000)

27.6. Non-controlling interest

	Year ended 31 December 2013	Year ended 31 December 2012 (*restated figures*)
At the beginning of period	**493 339**	**454 897**
Change in accounting policy	–	306
At the beginning of period (*restated figures*)	**493 339**	**455 203**
Dividends paid by subsidiaries	(8 328)	(16 870)
Share in actuarial gains/(losses) related to provisions for post-employment benefits	2 683	(14 819)
Acquisition of non-controlling interests by the Group	(55 772)	(1 420)
Mandatory squeeze-out	(2 083)	(6 510)
Share in subsidiaries' net profit or loss	38 167	74 407
Change in non-controlling interests due to mergers	(1 672)	3 348
At the end of period	**466 334**	**493 339**

28. Earnings per share

Earnings per share (in PLN)	Year ended 31 December 2013	Year ended 31 December 2012 (*restated figures*)
Basic and diluted, for profit for the year attributable to equity holders of the parent	0.75	0.84
Basic and diluted, for profit for the year from continuing operations attributable to equity holders of the parent	0.75	0.84

Presented below is information about the earnings and number of shares which served as the basis for calculation of the basic and diluted earnings per share presented in the statement of comprehensive income.

	Year ended 31 December 2013	Year ended 31 December 2012 (*restated figures*)
Net profit for the year attributable to equity holders of the parent	1 308 318	1 476 392
Net profit from continuing operations for the year attributable to equity holders of the parent	1 308 318	1 476 392
Number of ordinary shares	1 752 549 394	1 752 549 394

29. Dividends paid and proposed

	Year ended 31 December 2013	Year ended 31 December 2012
Dividends paid in the period		
Dividends paid throughout the year by subsidiaries	(8 047)	(16 434)
Final dividends paid by the parent	(350 510)	(543 290)
Total dividends	**(358 557)**	**(559 724)**

By the date of approval of these consolidated financial statements for publication, no decision had been taken concerning dividend payment from profit for 2013 for the Parent.

Dividend payment restrictions are described in Note 27.4 to these consolidated financial statements.

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

On 24 April 2012, the General Shareholders' Meeting adopted a resolution on allocation of PLN 543 290 thousand to dividend payment to the Company's shareholders (PLN 0.31 per share). The dividend was paid out from the net profit generated by the Company in 2011, which amounted to PLN 1 083 429 thousand. The record date was set at 2 July 2012 and the payment date at 20 July 2012.

(in PLN '000)

Dividend per share paid out by the Parent for individual years was the following:

	Year ended 31 December 2013	Year ended 31 December 2012
Dividend paid per share (PLN)	0.20	0.31

30. Business combinations and acquisition of non-controlling interest

Spin-off of TAURON Wytwarzanie S.A.

On 2 January 2013, the division of TAURON Wytwarzanie S.A. through spin-off pursuant to Article 529.1.4 of the Code of Commercial Companies, involving a transfer of the separated assets, i.e. an organized part of the enterprise in the form of a branch – EC Katowice, to TAURON Ciepło S.A., was entered into the National Court Register.

As a result, the share capital of TAURON Wytwarzanie S.A. was decreased from PLN 1 658 793 thousand to PLN 1 554 189 thousand, while the share capital of TAURON Ciepło S.A. was increased from PLN 865 937 thousand to PLN 1 238 077 thousand.

As a result of the spin-off the share in TAURON Wytwarzanie S.A. held by TAURON Polska Energia S.A. decreased to 99.70% (in the share capital) and 99.77% (in the total number of votes at the General Shareholders' Meeting), while the share in TAURON Ciepło S.A. held by TAURON Polska Energia S.A. increased to 91.79% (in the share capital) and 92.41% (in the total number of votes at the General Shareholders' Meeting).

Consequently, the non-controlling interest decreased by PLN 1 672 thousand and retained earnings grew by the same amount.

Business combination of TAURON Polska Energia S.A. and PKE Broker Sp. z o.o.

On 2 December 2013, the District Court for Katowice-Wschód in Katowice, 8th Business Division of the National Court Register registered a business combination of TAURON Polska Energia S.A. (acquirer) with PKE Broker Sp. z o.o. (acquiree) in the register of entrepreneurs. The business combination was carried out under Article 492.1.1 of the Code of Commercial Companies through the transfer of the acquiree's all assets onto the acquirer. Considering that TAURON Polska Energia S.A. holds 100% interest in the acquiree's share capital, the business combination was effected in accordance with Article 515.1 of the Code of Commercial Companies, without increasing the share capital of the acquiree and pursuant to Article 516.6 of the Code of Commercial Companies, i.e. in a simplified mode, without any certified auditor auditing the Business Combination Plan.

Business combination of TAURON Obsługa Klienta Sp. z o.o. and TAURON Obsługa Klienta GZE Sp. z o.o.

On 31 January 2013, a business combination of TAURON Obsługa Klienta Sp. z o.o. with its registered office in Wrocław (acquirer) and TAURON Obsługa Klienta GZE Sp. z o.o. with its registered office in Gliwice (acquiree) was registered.

As a result, the share capital of TAURON Obsługa Klienta Sp. z o.o. was increased from PLN 2 718 thousand to PLN 4 920 thousand, i.e. by PLN 2 202 thousand. Consequently, as at 31 December 2013 TAURON Polska Energia S.A. held shares in TAURON Obsługa Klienta Sp. z o.o. (the acquirer) only.

Business combination of TAURON Serwis GZE Sp. z o.o. and Przedsiębiorstwo Usług Elektroenergetycznych S.A.

On 2 April 2013, a business combination of TAURON Serwis GZE Sp. z o.o. (acquiree) and Przedsiębiorstwo Usług Elektroenergetycznych S.A. (acquirer) was registered and, at the same time, the name of the acquirer was changed to TAURON Dystrybucja Serwis S.A. The business combination was carried out under Article 492.1.1 of the Code of Commercial Companies through the transfer of the acquiree's all assets to the acquirer.

Mandatory squeeze-out

As a result of the squeeze-outs of treasury shares for redemption purposes continued in the TAURON Group, the value of non-controlling interest in TAURON Wytwarzanie S.A. and TAURON Dystrybucja S.A. decreased by PLN 2 083 thousand, while retained earnings increased by PLN 71 thousand.

(in PLN '000)

Acquisition of non-controlling interest

On 20 December 2013 pursuant to an agreement with the Dąbrowa Górnicza municipality the Parent acquired 5 327 271 290 shares in TAURON Ciepło S.A. with the registered office in Katowice, a subsidiary, constituting ca. 4.3% of the share capital of the entity for PLN 35 000 thousand. Following the transaction in question non-controlling interest decreased by PLN 55 772 thousand, while retained earnings grew by PLN 20 772 thousand.

31. Interest-bearing loans and borrowings

	As at 31 December 2013	As at 31 December 2012
Loans	1 484 643	1 208 038
Bonds issued	4 300 522	4 301 834
Total	**5 785 165**	**5 509 872**
Current	284 633	286 990
Non-current	5 500 532	5 222 882

31.1. Loans and borrowings

The balance of loans and borrowings received as at 31 December 2013 and 31 December 2012 has been presented in the tables below.

Loans and borrowings taken as at 31 December 2013

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

Loans and borrowings taken as at 31 December 2012

Currency	Interest rate	Value of loans as at the balance sheet date		of which maturing within (after the balance sheet date):					
		currency	PLN	less than 3 months	3–12 months	1–2 years	2–3 years	3–5 years	over 5 years
PLN	floating	282 840	282 840	148 359	47 348	32 738	6 236	13 576	34 583
	fixed	917 765	917 765	340	72 439	93 192	93 192	186 382	472 220
Total PLN		**1 200 605**	**1 200 605**	**148 699**	**119 787**	**125 930**	**99 428**	**199 958**	**506 803**
EUR	floating	1 231	5 032	629	1 887	2 516	–	–	–
	fixed	–	–	–	–	–	–	–	–
Total EUR		**1 231**	**5 032**	**629**	**1 887**	**2 516**	**–**	**–**	**–**
Total			**1 205 637**	**149 328**	**121 674**	**128 446**	**99 428**	**199 958**	**506 803**
Interest increasing carrying amount			2 401						
Total loans			**1 208 038**						

Change in the balance of loans and borrowings excluding interest increasing the carrying amount in the year ended 31 December 2013 and 31 December 2012 has been presented below.

(in PLN '000)

	Year ended 31 December 2013	Year ended 31 December 2012
Opening balance	**1 205 637**	**318 354**
Movement in bank overdrafts	**(35 921)**	**129 566**
Movement in loans (excluding bank overdrafts):	**307 740**	**757 717**
Taken out	452 325	1 005 000
Repaid	(141 226)	(257 210)
Change in valuation	(3 359)	9 927
Closing balance	**1 477 456**	**1 205 637**

As at 31 December 2013 the Group's liabilities arising from received loans and borrowings amounted to PLN 1 484 643 thousand and mainly resulted from:

- loans of PLN 1 293 749 thousand obtained from the European Investment Bank, including interest accrued of PLN 7 098 thousand (PLN 910 394 thousand as at 31 December 2012). In 2013 the Company received the following disbursements from the European Investment Bank under a loan agreement of 3 July 2012: on 25 January 2013: PLN 200 000 thousand and on 22 February 2013: PLN 250 000 thousand. The first disbursement under the aforementioned agreement in the amount of PLN 450 000 thousand was made in July 2012. Consequently, the total amount of the funding provided under the agreement, i.e. PLN 900 000 thousand, was used. The funds obtained are used for grid investments;
- overdraft of PLN 93 645 thousand, mainly including financing under cash pool agreement of PLN 88 515 thousand;
- loans and borrowings taken by the Group companies for investment or refunding purposes, including:
  - loan taken out by TAURON Dystrybucja S.A. to refinance capital expenditure incurred from 2008 to 2009, the outstanding amount of which was PLN 24 524 thousand as at the balance sheet date (PLN 51 331 thousand as at 31 December 2012);
  - loan from the Regional Fund for Environmental Protection and Water Management taken out by TAURON Wytwarzanie S.A. to fund investment projects related to energy generation from renewable sources in the Jaworzno III power plant. As at the balance sheet date the outstanding amount was PLN 36 000 thousand (PLN 40 000 thousand as at 31 December 2012);
  - loan from the Regional Fund for Environmental Protection and Water Management granted to TAURON Ciepło S.A. to fund green investment projects. As at the balance sheet date the outstanding amount was PLN 24 290 thousand (PLN 25 715 thousand as at 31 December 2012).

31.2. Bonds issued

The tables below present the balances of the Group's liabilities arising from bonds issued, together with accrued interest, as at 31 December 2013 and 31 December 2012.

Bonds issued as at 31 December 2013

Tranche	Redemption date	Interest rate	Currrency	As at balance sheet date		of which maturing within				
				Interest accrued	Principal at amortised cost	up to 1 year	1–2 years	2–3 years	3–5 years	Over 5 years
A	29 December 2015	floating	PLN	252	847 060	–	847 060	–	–	–
B	12 December 2015	floating	PLN	592	299 426	–	299 426	–	–	–
B	30 January 2015	floating	PLN	2 300	150 000	–	150 000	–	–	–
C	12 December 2016	floating	PLN	5 918	2 994 974	–	–	2 994 974	–	–
Total debentures				**9 062**	**4 291 460**	**–**	**1 296 486**	**2 994 974**	**–**	**–**

(in PLN '000)

Bonds issued as at 31 December 2012

Tranche	Redemption date	Interest rate	Currrency	As at balance sheet date		of which maturing within				
				Interest accrued	Principal at amortised cost	up to 1 year	1–2 years	2–3 years	3–5 years	Over 5 years
A	29 December 2015	floating	PLN	349	846 524	–	–	846 524	–	–
B	12 December 2015	floating	PLN	853	299 150	–	–	299 150	–	–
B	30 January 2015	floating	PLN	3 854	150 000	–	–	150 000	–	–
C	12 December 2016	floating	PLN	8 531	2 992 573	–	–	–	2 992 573	–
Total debentures				**13 587**	**4 288 247**	**–**	**–**	**1 295 674**	**2 992 573**	**–**

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

The Company hedges a portion of interest cash flows related to issued bonds by entering into interest rate swap (IRS) contracts, as presented in detail in Note 27.5 to these consolidated financial statements.

The contracts signed by the Company with banks include legal and financial covenants which are commonly used in such transactions. As at 31 December 2013, none of these covenants were breached and the contractual provisions were complied with.

On 31 July 2013 the Company, ING Bank Śląski S.A., Bank Polska Kasa Opieki S.A. and BRE Bank S.A. entered into a bond issue scheme agreement ("Agreement") concerning bonds of TAURON Polska Energia S.A. for the maximum amount of PLN 5 000 000 thousand. The Agreement was concluded for the period of 3 years from the agreement date. Securities issued under the scheme will be dematerialized, unsecured, discount or coupon bonds. The par and the issue value of one bond will be determined in time of issue and the interest rate will be determined individually for each tranche in the offering process. The maturity period of bonds ranges from one month to 10 years.

At the same time, on 31 July 2013 the Company and Bank Gospodarstwa Krajowego entered into underwriting, agency and deposit agreements constituting the long-term bond issue scheme for TAURON Polska Energia S.A. with the value of PLN 1 000 000 thousand. The bonds issued will be dematerialized, unsecured and coupon bonds. Bonds will be available until 31 December 2015 and they will be redeemed in annual periods, from 20 December 2019 to 20 December 2028 in equal amounts of PLN 100 000 thousand. The interest rate will be floating, based on WIBOR 6M plus bank mark-up. Bonds will be underwritten by Bank Gospodarstwa Krajowego, i.e. the scheme underwriter will be obliged to buy bonds issued by the Company.

The funds from the bond issue will be used to finance capital expenditure of the TAURON Group.

On 24 February 2014, pursuant to the agreement with Bank Gospodarstwa Krajowego, the Company issued bonds with the par value of PLN 200 000 thousand, which has been discussed in detail in Note 48 to these consolidated financial statements.

32. Lease

32.1. Operating lease liabilities

The Parent uses a real property in Katowice at ul. ks. Piotra Ściegiennego 3 based on a lease agreement. The Company's registered office is located in the leased premises in question with the usable are of 6 100 square meters. In 2013 the average monthly cost of lease with maintenance fees totalled PLN 450 thousand.

Moreover, TAURON Wydobycie S.A. uses mining machines and equipment based on lease agreements. Annual cost of lease in the years 2013 and 2012 reached PLN 39 386 thousand and PLN 29 386 thousand, respectively.

32.2. Finance lease liabilities

Future minimum lease payments under finance lease and similar agreements and the present value of minimum lease payments as at 31 December 2013 and 31 December 2012:

(in PLN '000)

	As at 31 December 2013		As at 31 December 2012	
	Minimum lease payments	Present value of lease payments	Minimum lease payments	Present value of lease payments
Within 1 year	20 221	17 327	17 866	14 482
Within 1 to 5 years	65 864	61 620	46 631	41 772
More than 5 years	23	23	24	24
Minimum lease payments, total	**86 108**	**78 970**	**64 521**	**56 278**
Less amounts representing finance charges	(7 138)	–	(8 243)	–
Present value of minimum lease payments, of which:	**78 970**	**78 970**	**56 278**	**56 278**
current	17 327	17 327	14 482	14 482
non-current	61 643	61 643	41 796	41 796

Key finance lease items as at 31 December 2013:

- Liability of TAURON Ciepło S.A. arising from the lease of plant and machinery, and real property. As at 31 December 2013 the carrying amount of these finance lease liabilities was PLN 38 877 thousand (PLN 50 773 thousand as at 31 December 2012);
- Lease liability related to buildings in Katowice of PLN 35 946 thousand described in details below.

Increase in finance lease liabilities is mostly related to the business combination with PKE Broker Sp. z o.o. and the Company's assuming all rights and obligations under the lease agreement between PKO Bankowy Leasing Sp. z o.o. (the Founder and the Lessor) and PKE Broker Sp. z o.o. (the User and the Lessor). Pursuant to the agreements in question by 30 April 2018 TAURON Polska Energia will be using and deriving benefits from the objects of the lease, i.e. buildings and structures located in Katowice Szopienice at ul. Lwowska 23 and will be leasing the right of perpetual usufruct of land located in Katowice Szopienice at ul. Lwowska 23, where the buildings and structures leased are located.

As, pursuant to the operating lease agreement, all risks and benefits arising from assets held have been transferred to the user, the Company has classified lease agreements as finance lease agreement and it has recognized assets and liabilities in the amount equal to present value of lease payments determined as at the business combination date in the statement of financial position. Such determined liability due to lease agreements transferred amounted to PLN 36 169 thousand.

33. Provisions for employee benefits

	As at 31 December 2013	As at 31 December 2012
Provision for post-employment benefits and jubilee bonuses	1 605 629	1 655 767
Provision for employment termination benefits	54 553	80 156
Total	**1 660 182**	**1 735 923**
Current	162 368	167 704
Non-current	1 497 814	1 568 219

33.1. Provisions for post-employment benefits and jubilee bonuses

Based on the measurement carried out using actuarial methods the Group recognizes provisions for future employee benefits, including post-employment benefits and jubilee bonuses.

Amounts of these provisions and reconciliation with changes during the reporting period are presented in the following tables:

(in PLN '000)

Change in provisions for employee benefits for the year ended 31 December 2013

	Provision for retirement, disability and similar benefits	Employee electricity rates	Social Fund	Provision for coal allowances	Jubilee bonuses	Provisions, total
Opening balance	**270 722**	**597 726**	**136 224**	**56 735**	**594 360**	**1 655 767**
Current service costs	10 804	5 919	2 677	1 168	34 435	**55 003**
Actuarial gains and losses, of which:	11 586	(25 793)	1 600	(9 240)	1 420	**(20 427)**
arising from changes in financial assumptions	(4 474)	1 432	1 461	(7 827)	(12 082)	**(21 490)**
arising from changes in demographic assumptions	16 750	332	849	707	17 773	**36 411**
arising from other changes	(690)	(27 557)	(710)	(2 120)	(4 271)	**(35 348)**
Benefits paid	(19 411)	(23 110)	(4 589)	(1 465)	(62 104)	**(110 679)**
Past service costs	(1 740)	(9 171)	(19 754)	–	(8 495)	**(39 160)**
Interest expense	10 660	23 569	5 413	2 259	23 224	**65 125**
Closing balance	**282 621**	**569 140**	**121 571**	**49 457**	**582 840**	**1 605 629**
Current	**29 848**	**25 178**	**4 294**	**2 009**	**59 691**	**121 020**
Non-current	**252 773**	**543 962**	**117 277**	**47 448**	**523 149**	**1 484 609**

Change in provisions for employee benefits for the year ended 31 December 2012 (*restated figures)*

	Provision for retirement, disability and similar benefits	Employee electricity rates	Social Fund	Provision for coal allowances	Jubilee bonuses	Provisions, total
Opening balance	**230 814**	**447 984**	**120 000**	**38 338**	**484 643**	**1 321 779**
Current service costs	8 357	9 422	1 878	595	27 381	**47 633**
Actuarial gains and losses, of which:	47 110	139 418	17 469	17 077	121 661	**342 735**
arising from changes in financial assumptions	49 647	133 490	20 993	12 907	81 518	**298 555**
arising from changes in demographic assumptions	(7 019)	(18 149)	(4 695)	(368)	33 391	**3 160**
arising from other changes	4 482	24 077	1 171	4 538	6 752	**41 020**
Benefits paid	(23 560)	(22 298)	(6 538)	(1 455)	(58 412)	**(112 263)**
Past service costs	(4 831)	(2 349)	(3 344)	–	(7 884)	**(18 408)**
Interest expense	12 832	25 549	6 759	2 180	26 971	**74 291**
Closing balance	**270 722**	**597 726**	**136 224**	**56 735**	**594 360**	**1 655 767**
Current	**28 305**	**25 534**	**4 778**	**1 851**	**58 783**	**119 251**
Non-current	**242 417**	**572 192**	**131 446**	**54 884**	**535 577**	**1 536 516**

In 2013 past service costs reduced the provision by PLN 39 160 thousand and were related to the following changes in the plan conditions:

- Following reorganization in the Group and the related migration of employees among companies, the plan conditions for some of them changed, resulting in the provision decrease of PLN 14 130 thousand;
- Following amendments to regulations regarding Social Benefits Fund involving a reduced appropriation to the Fund, the provision was reduced by PLN 18 398 thousand;
- Following resignation from benefit payments in subsequent years (employee tariff and Social Benefits Fund), the provision was reduced by PLN 6 632 thousand.

In 2012 past service costs were PLN 18 408 thousand and were related to restructuring and migration of employees among the companies.

Benefits paid in 2013 include the amount of PLN 10 318 thousand paid to employees regarded the voluntary redundancy schemes (PLN 12 385 thousand in 2012).

The Group determines provisions for future employee benefits at an amount estimated using actuarial methods, taking into account the discount rate defined based on market rates of return from treasury bonds. Key actuarial assumptions made as at the balance sheet date for the purpose of the liability calculation are presented in Note 10.

The Group classifies provisions as current- or non-current based on estimates regarding distribution of payments over time, prepared with the use of actuarial methods.

(in PLN '000)

Maturities of employee benefit provisions

Payment period	Retirement, disability and similar benefits	Employee electricity rates	Social Fund	Coal allowances	Jubilee bonuses	Provisions, total
2014	23 631	10 245	1 594	2 009	39 263	**76 742**
2015	8 645	10 278	1 702	2 094	28 591	**51 310**
2016	8 542	10 313	1 814	2 140	26 462	**49 271**
2017	7 860	10 354	1 933	2 230	25 167	**47 544**
2018	7 471	10 404	2 060	2 323	22 404	**44 662**
2019 and subsequent years	226 472	517 546	112 468	38 661	440 953	**1 336 100**
Total	**282 621**	**569 140**	**121 571**	**49 457**	**582 840**	**1 605 629**

33.2. Provisions for employment termination benefits

Change in provisions for voluntary redundancy schemes for the year ended 31 December 2013

	Voluntary redundancy schemes in operating segments				
	Generation	Distribution	Heat	Customer service	Total
Opening balance	**47 396**	**23 211**	**–**	**9 549**	**80 156**
Recognition	8 628	14 370	678	–	**23 676**
Reversal	–	–	–	–	**–**
Utilization	(27 915)	(19 997)	–	(1 367)	**(49 279)**
Other movements	–	–	–	–	**–**
Closing balance	**28 109**	**17 584**	**678**	**8 182**	**54 553**
Current	**14 904**	**17 584**	**678**	**8 182**	**41 348**
Non-current	**13 205**	**–**	**–**	**–**	**13 205**

Change in provisions for voluntary redundancy schemes for the year ended 31 December 2012 (*restated figures*)

	Voluntary redundancy schemes in operating segments			
	Generation	Distribution	Customer service	Total
Opening balance	**5 719**	**29 553**	**–**	**35 272**
Recognition	47 684	33 426	9 549	**90 659**
Reversal	(545)	(1 422)	–	**(1 967)**
Utilization	(5 462)	(38 811)	–	**(44 273)**
Other movements	–	465	–	**465**
Closing balance	**47 396**	**23 211**	**9 549**	**80 156**
Current	**18 889**	**23 211**	**6 353**	**48 453**
Non-current	**28 507**	**–**	**3 196**	**31 703**

The Group has been running the following voluntary redundancy schemes ("VRS"):

- The Employment Cost Reduction Agreement concluded on 28 March 2012 has been continued in the Generation segment. From its effective date up to 31 December 2013, 990 individuals took advantage of this Agreement. The provision balance as at 31 December 2013 was PLN 28 109 thousand. Out of this provision, PLN 36 thousand is the provision for costs arising from the Agreement on decommissioning of the Halemba Power Plant.

  As at 31 December 2013, the provision for future voluntary redundancy scheme (VRS) benefits was established of PLN 8 628 thousand. Benefits paid amounted to PLN 27 915 thousand. Additionally, in the financial year ended 31 December 2013, the Company paid VRS benefits of PLN 12 836 thousand charged directly to its profit/loss.

- In 2013 in the Distribution segment VRS introduced in previous years were continued.

  With regard to the schemes commenced on 18 December 2012, in 2013 one-off severance payments of PLN 16 120 thousand were paid. Under these schemes, employment contracts with 205 people were terminated in 2013. The schemes expired in June 2013. Furthermore, in 2013 the company continued to make payments to individuals who left it in 2012. Payments of the second portion of benefits under the Compensation Redundancy Scheme amounted to PLN 108 thousand, while individuals who took advantage of the schemes that were terminated on 30 December 2012 and who acquired the rights to such payments after receiving an unemployment allowance for a period not exceeding 6 months (Pre-retirement Redundancy Scheme) received the total of PLN 3 048 thousand. Additionally, in 2013 payments of PLN 130 thousand for leaving employees were made under schemes introduced in TAURON Dystrybucja GZE S.A.

(in PLN '000)

On 2 September 2013, another edition of the Voluntary Redundancy Scheme commenced. Three schemes were opened: Early Retirement Scheme (ERS), Early Retirement Redundancy Scheme (ERRS) and Redundancy Compensation Scheme (RCS). Employees may apply to the schemes until 17 July 2014. For this purpose, a provision of PLN 14 370 thousand has been recognized. Under the scheme, employment contracts with eight people were terminated and one-off severance benefits paid of PLN 591 thousand.

- As at the end of the reporting period, in the Heat segment a provision of PLN 678 thousand was recognized. Additionally, in 2013 VRS benefits were paid of PLN 1 499 thousand and charged directly to expenses.
- In the Customer Service segment, in 2013 benefits were paid from a provision recognized as at 31 December 2012 in relation to the commencement of a voluntary redundancy scheme valid until 31 December 2014. The scheme includes Pre-Retirement Redundancy Scheme (PRRS), Early Retirement Redundancy Scheme (ERRS) and Redundancy Compensation Scheme (RCS). In 2013, 35 employees used the scheme and were paid PLN 1 367 thousand.

34. Other provisions

34.1. Change in other provisions

Year ended 31 December 2013

	Provision for use of real estate without contract	Provision for mine decommissio-ning costs	Provision for restoration of land and dismantling and removal of fixed assets	Provision for gas emission obligations	Provision for obligation to submit energy certificates	Provision for counterparty claims, court dispute and other provisions	Provisions, total
Opening balance	**74 899**	**26 070**	**68 070**	**62 921**	**873 976**	**79 623**	**1 185 559**
Discount rate adjustment	–	1 129	–	–	–	–	**1 129**
Recognition	40 358	17 421	28 210	471 463	882 695	33 096	**1 473 243**
Reversal	(8 530)	–	–	–	(3 738)	(6 314)	**(18 582)**
Utilisation	(1 960)	–	–	(73 261)	(847 372)	(14 322)	**(936 915)**
Other movements	60	–	–	–	–	40	**100**
Foreign exchange differences from translation of foreign entities	–	–	–	–	–	(107)	**(107)**
Closing balance	**104 827**	**44 620**	**96 280**	**461 123**	**905 561**	**92 016**	**1 704 427**
Current	**104 827**	**–**	**–**	**461 123**	**905 561**	**91 508**	**1 563 019**
Non-current	**–**	**44 620**	**96 280**	**–**	**–**	**508**	**141 408**

Year ended 31 December 2012

	Provision for use of real estate without contract	Provision for mine decommissio-ning costs	Provision for restoration of land and dismantling and removal of fixed assets	Provision for gas emission obligations	Provision for obligation to submit energy certificates	Provision for counterparty claims, court dispute and other provisions	Provisions, total
Opening balance	**42 466**	**23 042**	**40 568**	**187 132**	**703 449**	**87 871**	**1 084 528**
Discount rate adjustment	–	2 170	(2 949)	–	–	–	**(779)**
Recognition	45 119	858	29 719	96 898	1 352 022	16 565	**1 541 181**
Reversal	(13 037)	–	–	(14)	(8)	(17 290)	**(30 349)**
Utilisation	(338)	–	–	(221 095)	(1 180 840)	(7 222)	**(1 409 495)**
Other movements	689	–	732	–	(647)	(253)	**521**
Foreign exchange differences from translation of foreign entities	–	–	–	–	–	(48)	**(48)**
Closing balance	**74 899**	**26 070**	**68 070**	**62 921**	**873 976**	**79 623**	**1 185 559**
Current	**74 516**	**–**	**12 442**	**62 921**	**873 976**	**79 181**	**1 103 036**
Non-current	**383**	**26 070**	**55 628**	**–**	**–**	**442**	**82 523**

34.2. Description of significant provision items

Description of estimated provisions for gas emission obligations and obligation to submit energy certificates for cancellation is presented in Note 10 hereof.

Description of estimated provisions for decommissioning of mining plants is presented in Note 37 hereof.

34.2.1. Provision for use of real estate without contract

The Group companies recognize provisions for all claims filed by the owners of the real estate on which distribution systems and heat installations are located. The Group does not establish provision for possible non-lodged claims of owners of land the use of which is unregulated. As at 31 December 2013, the relevant provision amounted to PLN 104 827 thousand. In the year ended 31 December 2013, the Group:

- recognized a provision of PLN 40 358 thousand, out of which PLN 39 263 thousand charged to other operating expenses, and PLN 1 095 thousand to other finance costs;
- dreversed a provision of PLN 8 530 thousand, out of which PLN 8 297 thousand recognized in other operating expenses, and PLN 233 thousand in other finance income.

In 2012 a third party lodged a claim against TAURON Ciepło S.A. related to the regulation of legal status of the network located in its property. The company has questioned both the claim amount and the claimant's title to offset it with its current liabilities regarding heat supply. Such a position of the company has been confirmed with a non-official decision of Court for Competition and Consumer Protection against the party regarding the heat supply cut-off upon payment default. Consequently, the company commenced collection litigation against the debtor. The final amount of the defendant's claim regarding the use of its property shall be determined in the course of the litigation. According to the company's Management Board's estimates, the litigation should be completed in 2014. With regard to the dispute, in light of the adopted accounting policy, a provision has been recognized for the estimated cost of the above claim. Bearing in mind the pending litigation, and in accordance with IAS 37.92, the Group does not disclose all information regarding the above issue as required by IAS 37.

34.2.2. Provision for restoration of land, dismantling and removal of fixed assets

In the Generation segment, a provision was recognized for costs related to reclamation of ash piles. The balance of the provision as at:

- 31 December 2013 was PLN 46 546 thousand;
- 31 December 2012 was PLN 46 512 thousand.

The Renewable Sources of Energy segment entities recognized a provision for the costs of dismantling wind farms after their use has been discontinued as at the end of the reporting period. The balance of the provision as at:

- 31 December 2013 was PLN 39 693 thousand;
- 31 December 2012 was PLN 12 075 thousand.

Due to the legal obligation to liquidate fixed assets after the period of their usage, in the Generation segment a provision was recognized for the estimated future costs necessary to fulfil this obligation. The balance of the provision as at:

- 31 December 2013 was PLN 10 041 thousand;
- 31 December 2012 was PLN 9 483 thousand.

34.2.3. Provision for court disputes, claims and other provisions

Provision for proceedings before the Office for Competition and Consumer Protection

The Distribution segment company has been subject to anti-monopoly proceedings carried out by Office for Competition and Consumer Protection, regarding the accusation of abusing the dominant position on the electricity distribution market. The company appealed against the decision of the Court of Competition and Consumer Protection. On 12 September 2013 the Court of Appeals maintained the decision of the President of the Office of Competition and Consumer Protection. On this basis, in September 2013, a provision was used to pay the fine of PLN 4 274 thousand. As at 31 December 2013, proceedings regarding the fine of PLN 7 302 thousand imposed by the President of Office for Competition and Consumer Protection are pending and as at the end of the reporting period a provision was recognized in this amount. As at 31 December 2012, the relevant provision amounted to PLN 11 576 thousand.

Provision for claims of ArcelorMittal Poland S.A.

Provision for claims of ArcelorMittal Poland S.A. amounts to PLN 7 200 thousand and it did not change in comparison to its balance as at 31 December 2012.

(in PLN '000)

Provision for real estate tax

In 2013, a provision for real estate tax was recognized of PLN 12 000 thousand in the Distribution segment.

As at 31 December 2013, in the Mining Segment, a provision for real estate tax from constructions situated in underground excavations with interest amounted to PLN 2 862 thousand (PLN 2 410 thousand as at 31 December 2012).

35. Accruals

35.1. Deferred income and government grants

	As at 31 December 2013	As at 31 December 2012 (*restated figures*)
Deferred income, of which:	**392 861**	**428 395**
Donations, fixed assets received free-of-charge	104 771	116 797
Non-government subsidies	250	54
Subsidies received for the purchase of fixed assets	1 840	4 012
Connection fees	285 327	306 343
Other	673	1 189
Government grants, of which:	**330 824**	**262 489**
Subsidies obtained from EU funds	219 452	142 365
Forgiven loans from environmental funds	9 400	9 880
Other	101 972	110 244
Total, of which:	**723 685**	**690 884**
Non-current	668 487	639 643
Current	55 198	51 241

Other settlement of government grants include mostly subsidies to initial investments in hard coal mines of PLN 26 802 thousand received by TAURON Wydobycie S.A. and measurement to the market value of preferential loans of PLN 39 098 thousand, received by TAURON Wytwarzanie S.A. and of PLN 3 856 thousand received by TAURON Ciepło S.A.

The increase in subsidies to purchases of fixed assets recognized under government grants resulted mainly from funds obtained from EU operational programmes for investments in Generation, Distribution and Heat segments.

35.2. Current accruals

	As at 31 December 2013	As at 31 December 2012
Unused holidays	41 451	32 837
Bonuses	133 125	171 832
Audit fees	509	635
Environmental protection charges	2 245	1 905
Other	7 111	10 420
Total	**184 441**	**217 629**

(in PLN '000)

36. Other current non-financial liabilities

	As at 31 December 2013	As at 31 December 2012
Taxes, customs, social security and other payables, of which:	**569 654**	**529 647**
Excise	70 783	87 519
VAT	211 588	186 269
Social security	163 942	155 771
Personal Income Tax	48 381	56 233
Environmental charges	61 607	27 294
Real Estate Tax	8 459	6 580
Other	4 894	9 981
Other non-financial liabilities, of which:	**245 160**	**239 587**
Payments from customers relating to future periods, of which:	244 650	237 725
prepayments for connection fees	34 085	57 904
amounts overpaid by customers	192 457	169 537
other	18 108	10 284
Other	510	1 862
Total	**814 814**	**769 234**

37. Company's Social Benefits Fund and Mine Decommissioning Fund

Analysis of the funds is presented in the following tables.

- Company's Social Benefits Fund

	As at 31 December 2013	As at 31 December 2012
Loans granted to employees	42 161	45 745
Cash	13 168	14 560
Other Fund assets and liabilities	(3 356)	(483)
Social Fund liabilities	(49 151)	(56 108)
Net balance	**2 822**	**3 714**
Transfers made to the Social Fund during the period	(63 225)	(72 288)

- Mine Decommissioning Fund

According to the Geological and Mining Law and secondary legislation thereto, mining entities from the Capital Group have established a Mine Decommissioning Fund. The Fund's amount is a pre-determined ratio of tax depreciation charge on fixed assets or, in relation to the exploitation fee, the equivalent of the charge transferred to a separate bank account. Financial assets of the Fund are presented in the statement of financial position under long-term financial assets, while the balance of the Fund is recognized under provision for future costs of decommissioning mine facilities. The following tables present the amount of appropriation to the Fund, the Fund's assets and the balance of liabilities arising from future costs of mine facilities decommissioning.

Mine Decommissioning Fund financial assets

	Year ended 31 December 2013	Year ended 31 December 2012
Assets as at 1 January	**28 606**	**24 162**
Contributions made	3 448	2 679
Interest	1 206	1 765
Utilization	–	–
Assets as at 31 December	**33 260**	**28 606**
Transfers made to the MDF in the period	(3 961)	(3 444)

(in PLN '000)

Mine Decommissioning Fund financial liabilities

	Year ended 31 December 2013	Year ended 31 December 2012
Mine Decommissioning Fund	37 165	31 999
Surplus of discounted estimated decommissioning costs	7 455	4 322
Surplus of Mine Decommissioning Fund over discounted estimated decommiddioning costs	–	(10 251)
Total decommissioning liability	**44 620**	**26 070**

38. Capital commitments

As at 31 December 2013, the Group committed to incur expenditure on property, plant and equipment in the amount of PLN 2 326 470 thousand, with the following as the key items:

Operating segment	Agreement/investment project	As at 31 December 2013
Heat	Constructing newcogeneration capacity in Tychy Heat and Power Plant	503 625
	Construction of 50 MWE turbo generator	98 150
Generation	Adjusting a boiler in Jaworzno III Power Plant to reduce the greenhouse gas emissions	100 759
Mining	Construction of a shaft inlet and developing infrastructure in Janina shaft	89 491

39. Contingent liabilities

Mining damage

Under the provisioning policy adopted by the Group, the consolidated financial statements include provisions for mining damage arising from mine operations in the amount arising from documented claims submitted, recognized or analysed by courts. The Group mining companies do not know a method to estimate the amount of future mining damage that would allow reliable estimation of the expense related to liquidation of the mining damage caused in the course of operation.

Non-contractual use of real estate

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

Compensation for termination of long-term contracts

In 2008–2012 the Group participated in stranded cost financing program in line with Act on the Pursuant to the provisions of the Act on principles of financing the costs incurred by producers following early termination of long-term Power Purchase Agreements (PPAs). The revenue from the compensation was regularly recognized based on rights to compensation vested by the end of their term. In order to estimate the value of the revenue pertaining to a given period, the Group made estimates in order to determine the ratio of stranded costs to the total amount of received, returned and expected discounted annual advances (including those received to date), annual adjustments and the final adjustment projected.

In line with the adopted accounting policy and the developed financial model TAURON Wytwarzanie S.A. recognized the total revenue from compensation of PLN 2 095 801 thousand in 2008–2012. The year 2012 was the last year when the Group participated in the program of financing the stranded costs.

On 30 August 2013, the President of the Energy Regulatory Office issued an administrative decision determining the value of the final stranded costs adjustment. Considering the annual and final stranded costs adjustment amount, the Group adjusted its revenue, reducing it by PLN 18 886 thousand. The funds due to the final stranded costs adjustment were paid to the company by 31 December 2013 in accordance with the provisions of the Act on PPAs. The year 2012 was the last year of the company's participation in the stranded costs program, and the administrative decision of the President of ERO whereby the final stranded costs adjustment was determined was the final settlement of the program. The total revenue under PPAs recognized by the company while participating in the scheme was PLN 2 076 915 thousand.

(in PLN '000)

In 2013, the dispute proceedings between TAURON Wytwarzanie S.A. and President of the Energy Regulatory Office were completed. Under the decision of the President of the Energy Regulatory Office (ERO) dated 31 July 2009, the company was obliged to return an amount of PLN 159 508 thousand to Zarządca Rozliczeń S.A. by 30 September 2009.

As a result of appeal proceedings based on the judgments of: the Regional Court in Warsaw, the Court for Competition and Consumers Protection dated 26 May 2010 and of the Court of Appeal in Warsaw dated 25 April 2012, which modified the President of ERO decision, the company received an adjustment to stranded costs for 2008 from Zarządca Rozliczeń S.A. in Warsaw amounting to PLN 158 842 thousand. The President of ERO lodged a cassation appeal against the judgment with the Court of Appeals in Warsaw on 24 September 2012. On 8 November 2012 TAURON Wytwarzanie S.A. file a response to the appeal to the Supreme Court (through the Court of Appeals in Warsaw) requesting the Court to refuse to accept the appeal for re-examination and in case it is accepted, to dismiss the appeal as being unjustified.

On 21 June 2013, the Supreme Court overruled the cassation appeal against the judgment filed by the President of the Energy Regulatory Office. Supreme Court's decision cannot be appealed against. Consequently, the dispute proceedings initiated by the company by appealing against the decision of the President of ERO determining the annual stranded costs adjustment for the company for 2008 was finally closed in line with the company's intention. The decision does not directly affect the performance and financial position of the TAURON Polska Energia S.A. Capital Group, as the annual adjustment for 2008 in line with the company's request was paid out after the judgment had been issued.

No court proceedings are pending in respect of PPAs.

Revenue and proceeds from compensations for terminated PPAs

	Year ended 31 December 2013	Year ended 31 December 2012
Revenue from compensations for terminated PPAs	(18 886)	567 012
Proceeds from compensations for terminated PPAs	515 321	526 799
Receivables from compensations for terminated PPAs at the balance sheet date	–	534 207

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

The President of the Energy Regulatory Office instigated administrative proceedings with respect to imposing a financial penalty on Vattenfall Sales Poland Sp. z o.o. (currently TAURON Sprzedaż GZE Sp. z o.o.) under Article 56.1.5 of the Energy Law, based on the allegation that, in 2008–2012, the company used prices and tariffs which had not been submitted for the required approval. The company is of the opinion that it did not breach any law in this respect. In order to avoid being charged with a direct allegation of failing to fulfil the request of the President of the Energy Regulatory Office and thus falling under the provisions of the Energy Law, the company, at the request of the President of ERO, submitted electricity tariffs for the years 2008–2012 for approval, although it was in fact exempt from the requirement to submit electricity tariffs (exemption based on the decision of the President of ERO dated 28 June 2001). However, the applications for the years 2008, 2009, 2011 and 2012 were not approved, and the proceedings for the approval of the electricity tariff for 2010 were cancelled based on the Decision of the President of ERO.

On 19 March 2010 the President of ERO issued a decision cancelling the waiver of the obligation to file electricity tariffs for approval, which had been granted to Vattenfall Sales Poland Sp. z o.o. (currently TAURON Sprzedaż GZE Sp. z o.o.) by the President of ERO on 28 June 2001. The company appealed against the decision to the Regional Court of Competition and Consumer Protection in Warsaw. On 9 December 2011 the Court of Competition and Consumer Protection cancelled the decision of the President of ERO. On 20 September 2012, the Court of Appeals in Warsaw passed a judgment concerning the appeal of the Energy Regulatory Office with respect to the judgment of the Court of Competition and Consumer Protection cancelling the waiver from the obligation to submit electricity tariffs for the G tariff group granted to TAURON Sprzedaż GZE Sp. z o.o. The Court dismissed the appeal of ERO. The decision is final and valid and its justification in writing was served on 31 December 2012. On 1 March 2013 the President of ERO filed a cassation appeal to the Supreme Court. On 5 December 2013 the Supreme Court issued a decision refusing the cassation appeal of the President of ERO, which means the final closing of the proceedings.

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

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

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

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

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

- In its letter dated 23 April 2013 UOKiK instigated proceedings against TAURON Sprzedaż Sp. z o.o. and TAURON GZE Sp. z o.o., the objective of which was to determine whether the Act on competition and consumer protection was breached in reservation agreements for the sale of electricity, including restricted financial covenants. The companies provided requested documents and responded to statements included in the letter of UOKiK. On 3 January 2014 they received letters requesting further explanations with this regard.
- In its letter dated 7 May 2013 UOKiK notified TAURON Sprzedaż Sp. z o.o. of the instigation of the explanatory proceedings with respect to determination if the ability to terminate an agreement for sale of electricity in the "Good Decision 2014" product offer was limited for contractors of TAURON Sprzedaż Sp. z o.o., which, in turn, would be in breach of the Act of 16 February 2007 on competition and consumer protection (Journal of Laws of 2007, No. 50, item 331, as amended). Explanatory proceedings were aimed at preliminary determination if the Act in question has been breached, which would justify initiating antimonopoly proceedings. In particular, the proceedings were to decide whether the case is of antimonopoly nature and if the breach has occurred which would justify instigation of proceedings to prohibit applying practices violating collective consumers' interests. The company provided all documents requested and commented on statements included in the letter.
- In its letter dated 10 July 2013 UOKiK notified TAURON Sprzedaż Sp. z o.o. of the instigation of the explanatory proceedings with respect to determination whether the actions of the company related to concluding agreements for sale of electricity under the "Fixed Price Guaranteed" product offer through the call center were in breach of the Act of 16 February 2007 on competition and consumer protection (Journal of Laws of 2007, No. 50, item 331, as amended). The company provided all documents requested and commented on statements included in the letter. On 16 December 2013 the company received a request regarding further information with this respect. In response to the letter, on 30 December 2013 it provided further information as requested.
- In its letter dated 28 October 2013 UOKiK notified TAURON Sprzedaż Sp. z o.o. of the instigation of the explanatory proceedings with respect to determination whether the actions of the company related to obtaining consumers' consents to process their personal data regarding products called "Bezpieczny", "Eko" and "EkoOszczędny" with an option of electricity price reduction were in breach collective interests of the consumers and therefore of the Act of 16 February 2007 on competition and consumer protection (Journal of Laws of 2007, No. 50, item 331, as amended). The company provided all documents requested and commented on statements included in the letter.

- In its letter dated 26 September 2013, UOKiK notified TAURON Sprzedaż GZE Sp. z o.o. of the instigation of explanatory proceedings aimed at preliminary determination whether the actions of the company related to imposition of fines for early termination of agreements for sale of electricity were in breach of the Act on competition and consumer protection. In response, the company provided information requested by the President of UOKiK in the proceedings.

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

Claims filed by Huta Łaziska S.A.

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

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

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

Due to discontinuation of electricity supplies, Huta Łaziska has raised a claim against GZE for damages amounting to PLN 182 060 thousand. Currently, an action is pending under Huta Łaziska's suit of 12 March 2007 against GZE and the State Treasury represented by the President of ERO for the payment of PLN 182 060 thousand together with interest from the date of filing the suit to the date of payment, in respect of damages for alleged losses resulting from GZE's failure to comply with the decision of the President of the Energy Regulatory Office dated 12 October 2001. In this case, the courts of the first and second instance passed judgments favourable for GZE; however, in its judgment of 29 December 2011 the Supreme Court overruled the judgment of the Court of Appeals and remanded the case for re-examination by that Court. On 5 June 2012, the Court of Appeals overruled the judgment of the Regional Court and remanded the case for re-examination by the latter. The first hearing before the first instance court was held on 27 November 2012. The court hearing scheduled for 27 January 2014 was cancelled and no information concerning the new date has been provided.

Based on the Company's legal analysis of the claims raised by Huta Łaziska 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 those claims.

40. Contingent assets and liabilities related to taxes

Tax settlements may be inspected within five years, starting from the end of the year when the tax was paid. As a result of such inspections the Group's tax settlements may be increased by additional tax liabilities. As of 31 December 2013, according to the Group assessments, provisions recognized for known and measurable tax risk were sufficient.

As at the date of these consolidated financial statements, the following proceedings regarding settlements under public law were pending in the Capital Group companies:

Excise duty

In view of the differences between the Polish and EU regulations concerning excise duty on electricity, on 11 February 2009 power and heat and power plants from the TAURON Capital Group filed adjusted tax returns with requests for stating excise duty overpayment for the years 2006–2008 and for January and February 2009. The total overpayment amount stipulated in the requests was ca. PLN 901 819 thousand (interest excluded). Proceedings concerning individual companies from the TAURON Capital Group have been carried out before competent Customs Chambers and Regional Administrative Courts. During a hearing on 19 November 2012, Provincial Administrative Court in Gliwice issued a decision refusing the statement of overpayment of the excise duty for 2008. On 21 January 2013, TAURON Wytwarzanie S.A. received a copy of the decision with justification. On 18 February 2013 TAURON Wytwarzanie S.A. filed a cassation appeal against the decision.

(in PLN '000)

As the legal status has not changed compared to previous years and the final outcome of this dispute is highly unpredictable, the Group has not recognized any effects of possible reimbursement of excise duty overpayment or claims and possible claims of electricity buyers in these consolidated financial statements.

Real estate tax

There are different interpretations regarding the approach to real estate tax on electricity generation and transmission facilities. Since the tax is imposed on the local authorities level, there is no unified approach and in several cases, the tax base calculation has been questioned. Depending on court decisions and possible amendments to relevant regulations, the status of real estate tax on electricity generation and transmission facilities may change in future.

Information on provisions regarding real estate tax disputes is presented in Note 34.2.3 hereto.

41. Collateral against liabilities

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

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

Carrying amount of assets pledged as collateral against liabilities

	As at 31 December 2013	As at 31 December 2012
Real estate	232 851	728 953
Plant and equipment	46 291	50 231
Motor vehicles	450	950
Cash	5 121	20 796
Other	–	437
Total assets pledged as security for liabilities	**284 713**	**801 367**

Following complete repayment of the loan granted by National Environmental Protection and Water Management Fund to TAURON Wytwarzanie S.A. in December 2012, in 2013 the collateral on real estate of PLN 528 000 thousand was released.

Other forms of collateral

The Group also uses other forms of collateral to secure payment of liabilities, of which the most significant ones as at 31 December 2013 regard the following contracts concluded by the Parent:

Bond issue schemes

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

- up to PLN 1 560 000 thousand, valid until 31 December 2016 – as regards the issued Tranche A and B;
- up to PLN 6 900 000 thousand, valid until 31 December 2018 – as regards the issued Tranche C as well as Tranche D and E which had not been issued by the end of the reporting period.

With a view to collateralizing the agreement made on 31 July 2013 with Bank Gospodarstwa Krajowego, concerning a long-term bond issue scheme of PLN 1 000 000 thousand, as described in detail in Note 31.2 hereof, the Company has filed a declaration of submission to enforcement up to PLN 1 500 000 thousand, valid until 20 December 2029.

Framework bank guarantee agreement with PKO Bank Polski S.A.

With a view to collateralizing a framework bank guarantee agreement with PKO Bank Polski S.A., TAURON Polska Energia S.A. submitted a declaration of submission to enforcement up to PLN 125 000 thousand, with the maximum validity term until 31 December 2017. Additionally, the agreement has been collateralized by an authorization to debit the bank account maintained by PKO Bank Polski S.A. As at 31 December 2013 the guarantee limit amounted to PLN 100 000 thousand. The agreement is valid until 31 December 2016.

Under the agreement in question and upon request of the Company, as at 31 December 2013 PKO Bank Polski S.A. issued bank guarantees securing liabilities of TAURON Polska Energia S.A.'s subsidiaries totalling PLN 4 996 thousand and securing transactions executed by the Company:

- up to PLN 25 000 thousand – a guarantee for Izba Rozliczeniowa Giełd Towarowych S.A., valid until 30 January 2014; the guarantee expired as at that date;
- up to EUR 1 000 thousand (PLN 4 147 thousand) – a guarantee for CAO Central Allocation Office GmbH, valid until 3 February 2015.

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

In May 2013, the Company signed an agreement on a bank guarantee limit of PLN 150 000 thousand with Bank Zachodni WBK S.A., with Izba Rozliczeniowa Giełd Towarowych S.A. as the beneficiary. The agreement has been collateralized with a declaration of submission to enforcement up to the amount of PLN 187 500 thousand, with the maximum validity period until 6 May 2016.

Under the agreement in question, the bank has given bank guarantees for the total amount of PLN 150 000 thousand as at 31 December 2013 valid until 30 January 2014, at the request of the Company. After expiration of these guarantees the bank extended guarantees for the total amount of PLN 125 000 thousand, valid until 30 April 2014.

Overdraft facility agreements

As at 31 December 2013, overdraft facility agreements were collateralized by TAURON Polska Energia S.A. with authorizations to debit bank accounts:

- up to PLN 300 000 thousand – facility provided by Polska Kasa Opieki S.A. (cash pool financing);
- up to EUR 26 500 thousand (PLN 109 901 thousand) – facility provided by NORDEA Bank Finland plc.

With a view to collateralizing the facility provided by Polska Kasa Opieki S.A., the Company has also submitted a declaration of submission to enforcement up to PLN 360 000 thousand, valid until 31 December 2017.

Other forms of collateral regarding Group's liabilities

As at 31 December 2013, other material forms of collateral regarding liabilities of TAURON Capital Group included:

- Blank promissory notes issued by TAURON Polska Energia S.A. to collateralize loans granted to TAURON Wytwarzanie S.A. and TAURON Ciepło S.A. by the Regional Fund for Environmental Protection and Water Management in Katowice (totalling to PLN 71 180 thousand as at 31 December 2013);
- Loans taken out by TAURON Dystrybucja S.A. were secured by granting authorizations to dispose of the funds in borrowers' bank accounts up to the balance of the outstanding loan plus interest and other amounts due to the bank – a total of PLN 24 524 thousand as at 31 December 2013;
- In order to secure proper performance of the contract and of the agreements signed by the company, including those relating to the funding of investment projects, TAURON Dystrybucja S.A. issued blank promissory notes (for the total amount of PLN 120 971 thousand as at 31 December 2013);
- Blank promissory notes issued by TAURON Ciepło S.A. in the total amount of PLN 61 896 thousand collateralizing due performance of liabilities arising from funding agreements concluded with the Regional Fund for Environmental Protection and Water Management in Warsaw;
- Elektrociepłownia Tychy S.A. (currently TAURON Ciepło S.A.) issued a blank promissory note for an amount of PLN 92 383 thousand to secure the sale and leaseback agreement signed in 2007. This agreement is additionally secured by the assignment of receivables, assignment of rights under insurance policies, mortgage on real estate, plant and machinery and authorization to debit bank accounts.
- As a result of a business combination with PKE Broker Sp. z o.o. TAURON Polska Energia S.A., as a legal successor of PKE Broker Sp. z o.o. became a party to lease agreements discussed in detail in Note 32.2 to these financial statements. As at 31 December 2013, the lease liabilities amounted to PLN 35 946 thousand. The agreement is collateralized by two blank promissory notes, assignment of receivables and authorisation to debit a bank account.

(in PLN '000)

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

Mining entities from the Capital Group have established a Mine Decommissioning Fund to ensure funds for covering future liquidation costs. Detailed information is provided in Note 37.

42. Related party disclosures

42.1. Transactions with jointly-controlled entities

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

42.2. Transactions with State Treasury companies

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

The total amount of transactions with State Treasury entities is presented in the following table.

Revenue and expense

	Year ended 31 December 2013	Year ended 31 December 2012
Revenue	2 434 500	2 440 950
Costs*	(2 999 239)	(4 190 473)

** Includes costs recognized in the statement of comprehensive income.*

Receivables and payables

	As at 31 December 2013	As at 31 December 2012
Receivables	227 363	302 588
Payables	365 673	588 194

In 2013, the State Treasury companies being the major clients of the TAURON Polska Energia S.A. Capital Group included KGHM Polska Miedź S.A., PSE S.A., PKP Energetyka S.A., Kompania Węglowa S.A, and ENEA Operator Sp. z o.o. Total sales to these counterparties accounted for 62% of revenue from transactions with State Treasury companies. The largest purchase transactions were concluded by the Group with PSE S.A. and Kompania Węglowa S.A. Purchases from these counterparties accounted for 74% of the value of purchases from State Treasury companies in 2013.

In 2012, the State Treasury companies being the major clients of the TAURON Polska Energia S.A. Capital Group included KGHM Polska Miedź S.A., PKP Energetyka S.A., PSE Operator S.A. and Kompania Węglowa S.A. Total sales to these counterparties accounted for 68% of revenue from transactions with State Treasury companies. The largest purchase transactions were concluded by the Group with PSE Operator S.A. and Kompania Węglowa S.A. Purchases from these counterparties accounted for 76% of the value of purchases from State Treasury companies in 2012.

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

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

(in PLN '000)

42.3. Executive compensation

	Parent		Subsidiaries	
	Year ended 31 December 2013	Year ended 31 December 2012	Year ended 31 December 2013	Year ended 31 December 2012
Board of Directors	**7 420**	**8 071**	**25 390**	**21 375**
Short-term employee benefits (salaries and surcharges)	6 710	7 267	22 348	19 522
Jubilee bonuses	–	–	–	26
Post-employment benefits	–	–	505	468
Employment termination benefits	–	–	129	284
Other	710	804	2 408	1 075
Supervisory Board	**936**	**937**	**1 250**	**1 243**
Short-term employee benefits (salaries and surcharges)	936	937	1 110	1 125
Other	–	–	140	118
Other key management personnel	**11 961**	**9 477**	**41 453**	**42 622**
Short-term employee benefits (salaries and surcharges)	10 833	8 507	40 233	40 319
Jubilee bonuses	–	–	719	913
Post-employment benefits	126	126	114	131
Employment termination benefits	–	–	–	966
Other	1 002	844	387	293
Total	**20 317**	**18 485**	**68 093**	**65 240**

Other transactions resulting from civil law agreements concluded between the Parent and members of the entity's governing bodies concern only private use of company cars.

In the year covered by these consolidated financial statements, no loan agreements were concluded between the Social Benefits Fund and members of management and supervisory bodies of the Capital Group companies. As at 31 December 2013 no unpaid loan balances occurred.

43. Financial instruments

43.1. Carrying amount and fair value of financial instrument classes and categories

Categories and classes of financial assets	As at 31 December 2013		As at 31 December 2012	
	Carrying amount	Fair value	Carrying amount	Fair value
1 Assets at fair value through profit or loss	**34**	**34**	**472**	**472**
Shares in unlisted and listed companies (current)	–	–	6	6
Derivative instruments	34	34	466	466
2 Financial assets available for sale	**129 622**	**4 319**	**156 974**	**3 813**
Shares in unlisted and listed companies (non-current)	109 459	–	148 222	–
Shares in unlisted and listed companies (current)	15 844	–	4 939	–
Investment fund units	2 429	2 429	2 388	2 388
Bonds, T-bills and other debt securities	1 890	1 890	1 425	1 425
3 Loans and receivables	**2 375 529**	**–**	**3 190 115**	**–**
Trade receivables	1 863 151	–	2 199 577	–
Deposits	30 831	–	26 219	–
Loans granted	189 310	–	117 813	–
Other	292 237	–	846 506	–
4 Financial assets excluded from the scope of IAS 39	**276 898**	**–**	**51 986**	**–**
Investments in joint ventures	44 398	–	51 986	–
Advance payment for acquisition of shares	232 500	–	–	–
5 Cash and cash equivalents	**636 909**	**–**	**1 030 929**	**–**
Total financial assets, of which in the statement of financial position:	**3 418 992**		**4 430 476**	
Non-current assets	**631 564**		**357 430**	
Investments in joint ventures	44 398		51 986	
Other financial assets	587 166		305 444	
Current assets	**2 787 428**		**4 073 046**	
Trade and other receivables	2 134 641		3 036 695	
Other financial assets	15 878		5 422	
Cash and cash equivalents	636 909		1 030 929	

(in PLN '000)

Categories and classes of financial liabilities	As at 31 December 2013		As at 31 December 2012	
	Carrying amount	Fair value	Carrying amount	Fair value
1 Financial liabilities at fair value through profit or loss	**1 169**	**1 169**	**552**	**552**
Derivative instruments	1 169	1 169	552	552
2 Financial liabilities measured at amortized cost	**7 816 529**	**–**	**8 146 211**	**–**
Preferential loans	63 986	–	99 100	–
Arm's length loans	1 327 012	–	979 372	–
Bank overdrafts	93 645	–	129 566	–
Bonds issued	4 300 522	–	4 301 834	–
Trade payables	1 037 304	–	1 399 019	–
Other financial liabilities	143 413	–	82 459	–
Commitments resulting from purchases of fixed and intangible assets	665 768	–	966 768	–
Salaries and wages	170 706	–	161 150	–
Insurance contracts	14 173	–	26 943	–
3 Liabilities under guarantees, factoring and excluded from the scope of IAS 39	**78 970**	**–**	**56 278**	**–**
Obligations under finance leases	78 970	–	56 278	–
4 Derivative hedging instruments (liabilities)	**159 762**	**159 762**	**190 666**	**190 666**
Total financial liabilities, of which in the statement of financial position:	**8 056 430**		**8 393 707**	
Non-current liabilities	**5 657 575**		**5 423 162**	
Interest-bearing loans and borrowings	5 500 532		5 222 882	
Liability under finance lease	61 643		41 796	
Trade and other payables	7 827		7 890	
Derivative instruments	87 573		150 594	
Current liabilities	**2 398 855**		**2 970 545**	
Current portion of interest-bearing loans and borrowings	284 633		286 990	
Current portion of liabilities under finance lease	17 327		14 482	
Trade and other payables	2 023 537		2 628 449	
Derivative instruments	73 358		40 624	

For categories of financial instruments that are not measured at fair value as at the end of the reporting period, the Group did not disclose the fair value due to the fact that the fair value of these financial instruments as at 31 December 2013 and as at 31 December 2012 did not differ considerably from the values presented in the financial statements for individual periods, for the following reasons:

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

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

43.2. Fair value hierarchy

Fair value hierarchy of financial instruments measured at fair value as at 31 December 2013 and 31 December 2012:

(in PLN '000)

Classes of financial instruments	As at 31 December 2013		As at 31 December 2012	
	Level 1	Level 2	Level 1	Level 2
Assets				
Shares in unlisted and listed companies	–	–	6	–
Commodity-related derivatives	34	–	466	–
Investment fund units	2 429	–	2 388	–
Bonds, T-bills and other debt securities	1 890	–	1 425	–
Liabilities				
Commodity-related derivatives	40	–	–	–
Currency derivatives	–	1 129	–	552
IRS derivatives	–	159 762	–	190 666

The method of fair value measurement of financial instruments has been described in Note 10 to these financial statements.

43.3. Revenue, expenses, gain and loss items included in the statement of comprehensive income by category of financial instruments

Year ended 31 December 2013

	Assets at fair value through profit or loss	Financial assets available for sale	Loans and receivables	Financial liabilities at fair value through profit or loss	Financial liabilities at amortized cost	Liabilities under guarantees, factoring and excluded from the scope of IAS 39	Hedging instruments	Total
Dividends and shares in profits	–	18 323	–	–	–	–	–	**18 323**
Interest income/(expense)	28 970	–	40 944	–	(185 092)	(1 084)	(50 845)	**(167 107)**
Currency translation differences	(4 651)	–	1 535	–	1 000	(248)	–	**(2 364)**
Impairment/revaluation	122	(12 697)	(2 715)	(1 049)	–	–	–	**(16 339)**
Commission relating to borrowings and debt securities	–	–	–	–	(12 664)	–	–	**(12 664)**
Gain/(loss) on disposal of investments	–	4 506	–	–	–	–	–	**4 506**
Other	2 643	–	–	(1 704)	–	–	–	**939**
Net profit (loss)	**27 084**	**10 132**	**39 764**	**(2 753)**	**(196 756)**	**(1 332)**	**(50 845)**	**(174 706)**

Year ended 31 December 2012

	Assets at fair value through profit or loss	Financial assets available for sale	Loans and receivables	Financial liabilities at fair value through profit or loss	Financial liabilities at amortized cost	Liabilities under guarantees, factoring and excluded from the scope of IAS 39	Hedging instruments	Total
Dividends and shares in profits	18	8 349	–	–	–	–	–	**8 367**
Interest income/(expense)	39 672	–	44 350	(110)	(238 693)	(2 195)	6 466	**(150 510)**
Currency translation differences	(1 821)	–	135	–	532	741	–	**(413)**
Impairment/revaluation	426	(833)	(2 276)	(472)	–	–	–	**(3 155)**
Commission relating to borrowings and debt securities	–	–	–	–	(7 072)	–	–	**(7 072)**
Gain/(loss) on disposal of investments	(4)	14 696	–	–	–	–	–	**14 692**
Other	4 704	–	–	(470)	–	–	–	**4 234**
Net profit (loss)	**42 995**	**22 212**	**42 209**	**(1 052)**	**(245 233)**	**(1 454)**	**6 466**	**(133 857)**

43.4. Description of significant items included in individual categories of financial instruments

Available-for-sale financial assets

As at 31 December 2013, financial assets available for sale included mainly shares in the following companies:

- shares in Spółka Ciepłowniczo-Energetyczna Jaworzno III Sp. z o.o. with a value of PLN 35 694 thousand;
- shares in Przedsiębiorstwo Energetyki Cieplnej Sp. z o.o. in Tychy with a value of PLN 32 690 thousand;
- shares in Energetyka Cieszyńska Sp. z o.o. with a value of PLN 15 028 thousand.

Loans and receivables

Trade and other receivables have been presented in detail in Note 22 and Note 44.1.1 hereto.

Long-term loans of PLN 189 310 thousand include a loan granted to Elektrociepłownia Stalowa Wola S.A., along with accrued interest, as presented in Note 17 hereto.

Financial assets excluded from the scope of IAS 39

As at 31 December 2013 the Group had the following joint ventures accounted for using the equity method:

- Elektrownia Blachownia Nowa Sp. z o.o. special purpose vehicle – PLN 32 064 thousand. TAURON Wytwarzanie S.A. and KGHM Polska Miedź S.A. have 50% of shares each in its equity and in the governing body;
- Elektrociepłownia Stalowa Wola S.A. special purpose vehicle – PLN 12 334 thousand. TAURON Wytwarzanie S.A. and PGNiG Energia S.A. have 50% of shares each in its equity and in the governing body.

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

Financial assets excluded from the scope of IAS 39 include an advance payment for the purchase of Południowy Koncern Węglowy S.A., a subsidiary (at present TAURON Wydobycie S.A.) as described in details in Notes 18 and 48 hereto.

Financial liabilities measured at amortized cost

Liabilities due to loans and borrowings, and arising from issued bonds have been presented in detail in Note 31 hereto.

Liabilities due to guarantees, factoring and excluded from the scope of IAS 39

Financial liabilities excluded from the scope of IAS 39 include lease liabilities. The liability increased following a business combination of the Parent with PKE Broker Sp. z o.o., as described in Notes 30 and 32.2 hereto.

Hedging derivative instruments (relating to liabilities)

Derivative instruments hedging interest cash flows related to issued bonds have been presented in detail in Note 27.5.

44. Objectives and principles of financial risk management

The Capital Group manages its financial risk in a mindful and responsible manner, based on the *Specific risk management policy in the area of finance in the TAURON Group* presenting principles and standards compliant with the relevant best practices.

The policy for management of specific risk in the area of finance determines the strategy of managing financial risk regarding currency and interest rate risk. The purpose of currency risk management is to limit negative effects of exchange rate fluctuations on the Group's cash flows to an acceptable level. The purpose of interest rate risk management is to limit negative effects of market interest rate fluctuations on the Group's cash flows to an acceptable level and to minimize financial expenses related to the use of derivatives. In 2013 and 2012, under currency and interest rate risk management, the Group concluded derivative transactions on currency forwards (Note 44.3.2) and interest rate swaps (IRS, Note 27.5).

The policy for specific risk management in the area of finance and hedge accounting principles are applicable to the cash flow risk and not to the fair value risk due to its limited significance for the Group. Hedge accounting principles adopted by the Capital Group companies with regard to derivatives are presented in Note 9.12.

Further, TAURON Group has adopted *Liquidity management policy for the TAURON Group*. Thanks to the policy, among others based on precise weekly update of financial plans, scenario and benchmark analyses, the management of the liquidity position of the TAURON Group is optimized and thus the liquidity risk mitigated.

Detailed information regarding financial risk management are described in Section 3.8.2 of the Management Board's report on the activities of TAURON Polska Energia S.A Capital Group.

Key types of risk arising from financial instruments to which the Capital Group is exposed in the course of its operations include:

- credit risk;
- liquidity risk;
- market risk, including mainly:
  - interest rate risk;
  - currency risk;
  - commodity price risk.

44.1. Credit risk

Credit risk regards potential credit events that may have the form of a contractor's insolvency, partial repayment of receivables, a material payment delay or another unpredicted breach of contract terms.

The companies of TAURON Polska Energia S.A. Capital Group are exposed to credit risk regarding:

- their core business: the risk sources include the purchase and sale of electricity, heat and fossil fuels etc.;
- their investment activities: the risk is generated by transactions resulting from investments, whose success depends on the financial standing of Group's suppliers;
- business operations (market risk management) where the credit risk regards possible default of their counterparties in derivative transactions if the fair value of a given derivative transaction is positive from the Group's viewpoint;
- depositing of free cash: the risk arises from the Group companies investing of free cash in credit risk bearing securities, i.e. other than issued by the State Treasury.

Classes of financial instruments that give rise to credit risk exposure with different characteristics include:

- deposits
- bonds, treasury bills and other debt securities
- trade receivables
- loans granted
- other financial receivables
- other financial assets
- cash and cash equivalents
- derivatives.

No material concentration of credit risks related to the core activity occurred in the Group apart from those listed in Note 44.1.1.

(in PLN '000)

44.1.1. Credit risk related to trade and other financial receivables

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

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

The Group manages credit risk to contractors mainly through application of the following methods:

- evaluation of counterparty's financial standing and determining of credit limits;
- requiring determined collateral to be provided with clients with poor financial standing;
- standardizing of contractual provisions regarding credit risk and standardizing of credit collateral;
- ongoing monitoring of payments and an early collection system;
- regular measurement of credit risk arising from trade activities;
- ongoing monitoring of counterparty's financial standing, cooperation with business intelligence and collection companies.

As at 31 December 2013, the largest items among trade receivables included those of ArcelorMittal Poland S.A. of PLN 103 781 thousand and PSE S.A. of PLN 47 652 thousand.

As at 31 December 2012, the largest items among trade receivables included those of Kompania Węglowa S.A. of PLN 55 850 thousand and PKP Energetyka S.A. of PLN 44 120 thousand.

Allowances for current trade receivables and other receivables

	Year ended 31 December 2013	Year ended 31 December 2012
Allowance/write-down at the beginning of period	**(197 357)**	**(173 864)**
Recognised	(205 425)	(99 863)
Utilized	55 309	31 686
Reversed	73 974	44 707
Other movements	–	(23)
Allowance/write-down at the end of period	**(273 499)**	**(197 357)**
Value of item before allowance	**2 408 140**	**3 234 052**
Value of item net of allowance (carrying amount)	**2 134 641**	**3 036 695**

As at the end of the reporting period, the Group did not hold material non-collectible items not covered with an allowance.

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

	Not past due	Past due					Total
		<30 days	30–90 days	90–180 days	180–360 days	>360 days	
Before allowance/write-down	1 801 979	223 256	68 361	88 567	60 392	165 585	**2 408 140**
Allowance/write-down	(792)	(2 596)	(5 894)	(66 233)	(43 612)	(154 372)	**(273 499)**
After allowance/write-down	**1 801 187**	**220 660**	**62 467**	**22 334**	**16 780**	**11 213**	**2 134 641**

(in PLN '000)

Ageing analysis of current 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	
Before allowance/write-down	2 681 539	258 838	78 612	36 011	50 508	128 544	**3 234 052**
Allowance/write-down	(13 047)	(1 738)	(5 140)	(11 020)	(41 077)	(125 335)	**(197 357)**
After allowance/write-down	**2 668 492**	**257 100**	**73 472**	**24 991**	**9 431**	**3 209**	**3 036 695**

44.1.2. Credit risk related to other financial assets

The credit risk related to other financial assets of the Group results from the inability to make payment by the other party to the agreement and the maximum exposure is equal to the carrying amount of these instruments.

The Group manages credit risk related to cash by diversifying of banks where it deposits its cash surplus. All entities the Group concludes deposit transactions with operate in the financial sector. They include high-rating banks with sufficient equity and stable, strong market position.

As at 31 December 2013, the share of three banks holding the largest balance of Group's cash was 81%.

All entities the Group concludes derivative transactions with in order to hedge against interest rate and exchange rate risk operate in the financial sector. They are Polish banks with high financial rating, sufficient equity and strong, stable market position.

44.2. Liquidity risk

The Group maintains the balance between continuity and flexibility of funding through the use of a variety of funding sources, such as overdraft facilities, bank loans, bonds and finance leases. Such use of the funding sources allows for liquidity risk management and effective mitigation of its possible negative effects.

In order to minimize the possibility of cash flow interruption and the risk of loss of liquidity, the TAURON Group, as in previous years, used the cash pooling mechanism. Regardless of funds collected by its individual members, cash pooling is linked to a flexible credit facility in the form of overdraft of PLN 300 000 thousand.

The following tables present the Group's financial liabilities based on non-discounted contractual payments by maturity as at 31 December 2013 and 31 December 2012.

Financial liabilities as at 31 December 2013

	less than 3 months	3–12 months	1–2 years	2–3 years	3–5 years	more than 5 years	Total
Interest-bearing loans and issued bonds	196 034	290 955	1 650 656	3 298 496	359 208	735 146	**6 530 495**
Trade payables	1 036 868	436	–	–	–	–	**1 037 304**
Commitments resulting from purchases of fixed and intangible assets	665 768	–	–	–	–	–	**665 768**
Derivative instruments (liabilities)	–	73 358	55 036	32 537	–	–	**160 931**
Other financial liabilities	302 870	17 595	6 374	808	542	103	**328 292**
Obligations under finance leases	5 711	11 616	24 488	9 900	27 230	25	**78 970**
Guarantees granted and similar items	3 796	–	–	–	–	–	**3 796**
Total	**2 211 047**	**393 960**	**1 736 554**	**3 341 741**	**386 980**	**735 274**	**8 805 556**

(in PLN '000)

Financial liabilities as at 31 December 2012

	less than 3 months	3–12 months	1–2 years	2–3 years	3–5 years	more than 5 years	Total
Interest-bearing loans and issued bonds	155 974	409 539	428 552	1 674 475	3 424 366	587 190	**6 680 096**
Trade payables	1 398 390	629	–	–	–	–	**1 399 019**
Commitments resulting from purchases of fixed and intangible assets	966 768	–	–	–	–	–	**966 768**
Derivative instruments (liabilities)	552	40 072	55 811	53 215	41 568	–	**191 218**
Other financial liabilities	244 865	17 797	5 393	1 509	545	443	**270 552**
Obligations under finance leases	4 903	9 579	14 657	20 467	6 646	26	**56 278**
Guarantees granted and similar items	1 898	–	–	–	–	–	**1 898**
Total	**2 773 350**	**477 616**	**504 413**	**1 749 666**	**3 473 125**	**587 659**	**9 565 829**

44.3. Market risk

Market risk is related to possible negative effects of fluctuations in the fair value of financial instruments or the related future cash flows arising from changes in market prices on the financial profit/loss of the Group.

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

- interest rate risk;
- currency risk;
- commodity price risk.

44.3.1. Interest rate risk

The Group is exposed to the risk of interest rate changes related to floating interest rate borrowings acquired and investing in assets with floating and fixed interest rates. The Group companies are also exposed to lost benefit risk related to a decrease in interest rates of fixed interest rate debt.

Carrying amount of financial instruments of the Group exposed to the interest rate risk, by age:

31 December 2013 – fixed interest rate

Financial instruments	<1 year	1–2 years	2–3 years	3–5 years	>5 years	Total
Financial liabilities						
Bank overdrafts	5 043	–	–	–	–	**5 043**
Arm's length loans	139 928	132 724	132 724	265 448	622 923	**1 293 747**
Issued bonds	6 049	439 512	2 994 974	–	–	**3 440 535**
Derivative instruments (IRS)	72 229	54 996	32 537	–	–	**159 762**

31 December 2013 – floating interest rate

Financial instruments	<1 year	1–2 years	2–3 years	3–5 years	>5 years	Total
Financial assets						
Deposits	–	–	–	–	30 831	**30 831**
Loans granted	–	–	–	–	189 310	**189 310**
Cash and cash equivalents	636 909	–	–	–	–	**636 909**
Financial liabilities						
Bank overdrafts	88 602	–	–	–	–	**88 602**
Preferential loans	8 733	7 763	7 532	14 642	25 316	**63 986**
Arm's length loans	33 265	–	–	–	–	**33 265**
Issued debentures	3 013	856 974	–	–	–	**859 987**

(in PLN '000)

31 December 2012 – fixed interest rate

Financial instruments	<1 year	1–2 years	2–3 years	3–5 years	>5 years	Total
Financial liabilities						
Preferential loans	1 359	1 359	1 359	2 717	2 714	**9 508**
Arm's length loans	73 533	91 833	91 833	183 665	469 527	**910 391**
Issued bonds	8 712	–	439 234	2 992 573	–	**3 440 519**
Derivative instruments (IRS)	40 071	55 811	53 215	41 569	–	**190 666**

31 December 2012 – floating interest rate

Financial instruments	<1 year	1–2 years	2–3 years	3–5 years	>5 years	Total
Financial assets						
Deposits	–	–	–	–	26 219	**26 219**
Loans granted	11	–	–	–	117 802	**117 813**
Cash and cash equivalents	1 030 929	–	–	–	–	**1 030 929**
Financial liabilities						
Bank overdrafts	129 566	–	–	–	–	**129 566**
Preferential loans	27 601	7 596	6 236	13 576	34 583	**89 592**
Arm's length loans	41 321	27 660	–	–	–	**68 981**
Issued bonds	4 875	–	856 440	–	–	**861 315**

Other financial instruments of the Group which have not been included in the tables above bear no interest and therefore are not exposed to the interest rate risk.

44.3.2. Currency risk

Capital Group companies are exposed to the EUR/PLN and CZK/PLN exchange rate risk related to their operations and financial transactions. The Group's exposure to currency risk by financial instrument class in 2013 and 2012 is presented in the following tables.

Currency position as at 31 December 2013

	Total carrying amount in PLN	EUR		CZK	
		in currency	in PLN	in currency	in PLN
Financial assets					
Trade receivables and other financial receivables	2 155 388	982	4 073	49 028	7 418
Cash and cash equivalents	636 909	2 252	9 339	28 130	4 256
Derivatives (assets)	34	8	34	–	–
Total		**3 242**	**13 446**	**77 158**	**11 674**
Financial liabilities					
Bank overdrafts	93 645	1 237	5 130	–	–
Arm's length loans	1 327 012	615	2 551	–	–
Trade payables and other financial liabilities	1 180 717	4 883	20 251	5 473	828
Commitments resulting from purchases of fixed and intangible assets	665 768	99	411	–	–
Finance lease	78 970	1 159	4 807	–	–
Derivatives (liabilities)	160 931	10	41	–	–
Total		**8 003**	**33 191**	**5 473**	**828**
Net currency position		**(4 761)**	**(19 745)**	**71 685**	**10 846**

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	3 046 083	4 898	20 026	29 012	4 729
Cash and cash equivalents	1 030 929	7 925	32 397	4 908	800
Derivatives (assets)	466	92	376	–	–
Total		**12 915**	**52 799**	**33 920**	**5 529**
Financial liabilities					
Arm's length loans	979 372	1 231	5 032	–	–
Trade payables and other financial liabilities	1 481 478	4 694	19 192	7 669	1 250
Commitments resulting from purchases of fixed and intangible assets	966 768	95	389	–	–
Finance lease	56 278	1 849	7 559	–	–
Derivatives (liabilities)	191 218	135	552	–	–
Total		**8 004**	**32 724**	**7 669**	**1 250**
Net currency position		**4 911**	**20 075**	**26 251**	**4 279**

In 2013 and 2012 the Parent hedged the currency exchange rate risk related to foreign currency transactions concluding forward contracts. The purpose of the transactions was to hedge the Group against cash flow fluctuations caused by changes in foreign exchange rate. These instruments are not subject to hedge accounting. As at 31 December 2013 the value of liabilities arising from currency derivatives held by the Group amounted to PLN 1 129 thousand (PLN 522 thousand as at 31 December 2012).

44.3.3. Commodity price risk

Companies from the TAURON Polska Energia S.A. Capital Group are exposed to negative effects of the risk related to fluctuations of cash flows and profit/loss expressed in domestic currency due to changes in the prices of commodities. The Group's exposure to the commodity price risk is reflected in the volume of purchases of the key raw materials and commodities, to include hard coal, gas and electricity. The volume and cost of purchases of the key commodities from non-Group suppliers are presented in the following table.

Fuel type	Unit	2013		2012	
		Volume	Purchase cost	Volume	Purchase cost
Coal	tonne	6 265 897	1 270 338	6 847 205	1 690 366
Gas	thousand m^3	3 187 276	200 718	2 974 790	189 965
Electricity	MWh	31 397 801	5 846 263	50 974 657	10 309 558
Heat energy	GJ	5 492 700	180 365	5 693 571	119 542
Total			**7 497 684**		**12 309 431**

44.3.4. Market risk – sensitivity analysis

At present, the Capital Group is exposed mostly to the risk of EUR/PLN and CZK/PLN exchange rate changes. The Group is also exposed to changes in reference interest rates for PLN and EUR.

The analysis of sensitivity to changes in market risk factors is conducted by means of a scenario analysis. The Group relies on expert scenarios reflecting its judgment concerning the behaviour of individual market risk factors in the future.

The scenario analyses presented herein are aimed at examining the effect of changes in market risk factors on the Group's financial performance. The scope of the analysis includes only those positions which meet the IFRS definition of financial instruments.

The potential changes in foreign exchange rates have been determined within a horizon until the date of the next financial statements and calculated on the basis of annual implied volatility for FX options quoted on the interbank market for a given currency pair as at the end of the reporting period or, in the absence of quoted market prices, on the basis of historical volatility for a period of one year preceding the end of the reporting period.

(in PLN '000)

The interest rate risk sensitivity analysis is conducted by the Group using the parallel shift in the yield curve by the potential change in reference interest rates within a horizon until the date of the next financial statements. The interest rate risk sensitivity analysis has been carried out based on average reference interest rates in the year. The scale of potential changes in interest rates has been estimated on the basis of implied volatility for interest rate options quoted on the interbank market for currencies which expose the Group to the interest rate risk as at the end of the reporting period.

In the interest rate risk sensitivity analysis, the effect of changes in risk factors has been determined for interest income/expense related to financial instruments measured at amortized cost and for the fair value of floating-rate financial instruments measured at fair value as at the end of the reporting period.

Presented below is the sensitivity analysis for the interest rate and currency risks to which the Group is exposed as at the end of the reporting period, along with the effect of potential changes in individual risk factors on the gross financial profit/loss as well as other comprehensive income (gross), by classes of financial assets and liabilities.

44.3.4.1. Interest rate risk sensitivity analysis

The Group identifies exposure to WIBOR and EURIBOR interest rate risk. The tables below present sensitivity of the gross financial profit/loss as well as other comprehensive income (gross) to reasonably possible changes in interest rates within a horizon until the date of the next financial statements, assuming that all other risk factors remain unchanged.

Year ended 31 December 2013

Classes of finacial instruments	31 December 2013		Sensitivity analysis for interest rate risk as at 31 December 2013					
			WIBOR				EURIBOR	
	Carrying amount	Value at risk	WIBOR +95 bp		WIBOR -95 bp		EURIBOR +23 bp	EURIBOR -23 bp
			Profit/(Loss)	*Other comprehensive income*	*Profit/(Loss)*	*Other comprehensive income*	*Profit/(Loss)*	*Profit/(Loss)*
Deposits	30 831	30 831	293	–	(293)	–	–	–
Loans granted	189 310	189 310	1 798	–	(1 798)	–	–	–
Cash and cash equivalents	636 909	636 909	5 921	–	(5 921)	–	21	(21)
Preferential loans	63 986	63 986	(608)	–	608	–	–	–
Arm's length loans	1 327 012	33 265	(292)	–	292	–	(6)	6
Bank overdrafts	93 645	88 602	(842)	–	842	–	–	–
Issued bonds	4 300 522	4 300 522	(40 855)	–	40 855	–	–	–
Derivatives (liabilities)	160 931	159 762	–	75 397	–	(75 397)	–	–
Total			**(34 585)**	**75 397**	**34 585**	**(75 397)**	**15**	**(15)**

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
			Profit/(Loss)	*Other comprehensive income*	*Profit/(Loss)*	*Other comprehensive income*	*Profit/(Loss)*	*Profit/(Loss)*
Deposits	26 219	26 219	296	–	(296)	–	–	–
Loans granted	117 813	117 813	1 331	–	(1 331)	–	–	–
Cash and cash equivalents	1 030 929	1 030 929	11 274	–	(11 274)	–	295	(295)
Preferential loans	99 100	89 592	(1 012)	–	1 012	–	–	–
Arm's length loans	979 372	68 981	(723)	–	723	–	(46)	46
Bank overdrafts	129 566	129 566	(1 464)	–	1 464	–	–	–
Issued bonds	4 301 834	4 301 834	(48 611)	–	48 611	–	–	–
Derivatives (liabilities)	191 218	190 666	–	125 667	–	(125 667)	–	–
Total			**(38 909)**	**125 667**	**38 909**	**(125 667)**	**249**	**(249)**

(in PLN '000)

44.3.4.2. Currency risk sensitivity analysis

The Group identifies its exposure to the risk of EUR/PLN and CZK/PLN exchange rate changes. The tables below present sensitivity of the gross financial profit/loss to reasonably possible changes in the exchange rates within a horizon until the date of the next financial statements, assuming that all other risk factors remain unchanged.

Year ended 31 December 2013

Classes of finacial instruments	31 December 2013		Sensitivity analysis for currency risk as at 31 December 2013			
			EUR/PLN		CZK/PLN	
	Carrying amount	Value at risk	exchange rate EUR/PLN +7.75%	exchange rate EUR/PLN -7.75%	exchange rate CZK/PLN +9.91%	exchange rate CZK/PLN -9.91%
			Profit/(Loss)		*Profit/(Loss)*	
Trade receivables and other financial receivables	2 155 388	11 491	316	(316)	735	(735)
Cash and cash equivalents	636 909	13 595	724	(724)	422	(422)
Derivatives (assets)	34	34	3	(3)	–	–
Arm's length loans	1 327 012	2 551	(198)	198	–	–
Overdrafts	93 645	5 130	(398)	398	–	–
Trade payables and other financial liabilities	1 180 717	21 079	(1 569)	1 569	(82)	82
Finance lease	78 970	4 807	(373)	373	–	–
Commitments resulting from purchases of fixed and intangible assets	665 768	411	(32)	32	–	–
Derivatives (liabilities)	160 931	41	(3)	3	–	–
Total			**(1 530)**	**1 530**	**1 075**	**(1 075)**

The exposure to risk as at 31 December 2013 is representative for the Group's exposure to risk during the annual period preceding the aforementioned date.

Year ended 31 December 2012

Classes of finacial instruments	31 December 2012		Sensitivity analysis for currency risk as at 31 December 2012			
			EUR/PLN		CZK/PLN	
	Carrying amount	Value at risk	exchange rate EUR/PLN +8.65%	exchange rate EUR/PLN -8.65%	exchange rate CZK/PLN +7.35%	exchange rate CZK/PLN -7.35%
			Profit/(Loss)		*Profit/(Loss)*	
Trade receivables and other financial receivables	3 046 083	24 755	1 732	(1 732)	348	(348)
Cash and cash equivalents	1 030 929	33 197	2 802	(2 802)	59	(59)
Derivatives (assets)	466	376	33	(33)	–	–
Arm's length loans	979 372	5 032	(435)	435	–	–
Trade payables and other financial liabilities	1 481 478	20 442	(1 660)	1 660	(92)	92
Finance lease	56 278	7 559	(654)	654	–	–
Commitments resulting from purchases of fixed and intangible assets	966 768	389	(34)	34	–	–
Derivatives (liabilities)	191 218	552	(48)	48	–	–
Total			**1 736**	**(1 736)**	**315**	**(315)**

The exposure to risk as at 31 December 2012 is representative for the Group's exposure to risk during the annual period preceding the aforementioned date.

45. Financial management

Key tools allowing effective management of financial resources include the central financing model and Group's liquidity management policy along with cash pooling adopted by the Group. Additionally, the financial management system is supported with the Group's central specific risk management policy and central insurance policy with the Company acting as a manager directing activities, thus allowing relevant risk exposure limits to be established.

Detailed information regarding financial management are described in Section 3.11 of the Management Board's report on the activities of TAURON Polska Energia S.A Capital Group.

(in PLN '000)

In 2013, the Capital Group was fully able to pay its liabilities within contractual deadlines.

The key objective of the capital management policy developed by the Group is maintaining a good credit rating and safe capital ratios supporting its operations and increasing its shareholder value.

The Group manages its capital structure and modifies it in accordance with changes in economic conditions. In order to maintain or adjust the capital structure, the Group may establish dividend policy for its shareholders, return equity to them, and issue new shares or influence external debt level accordingly.

The Group monitors first of all the debt ratio defined as a relation of net financial debt to EBITDA.

Net financial debt is the financial debt of the TAURON Group reduced by cash and short-term investments with maturity up to one year. EBITDA is the operating profit of the Group increased by amortization/depreciation. Financial debt means the obligation to pay or refund money (both principal and interest). The value of the ratio is also monitored by TAURON's creditors, rating agencies and has a measurable impact on the Company's ability to obtain funding and its costs, as well as on evaluation of its credit standing.

As at the end of the reporting period, the debt ratio was 1.4 which is classified as safe and allowing contracting further financial liabilities according to the valid market standards.

	As at 31 December 2013	As at 31 December 2012 (*restated figures*)
Net financial debt:	**5 211 348**	**4 529 799**
Financial debt of TAURON Group	5 864 135	5 566 150
Cash and cash equivalents	(636 909)	(1 030 929)
Short-term investments	(15 878)	(5 422)
EBITDA:	**3 661 484**	**3 851 625**
Operating profit of TAURON Group	1 934 066	2 165 129
Depreciation and amortization	1 727 418	1 686 496
Debt ratio	**1.4**	**1.2**

46. Significant items of the consolidated statement of cash flows

46.1. Cash flows from investing activities

Purchase of property, plant and equipment and intangible assets

Expenditure on acquisition of property, plant and equipment and intangible assets of PLN 3 933 673 thousand were mainly related to the acquisition of property, plant and equipment of PLN 3 499 389 thousand in the year ended 31 December 2013, which has been presented in detail in Note 14 hereto. The amount was adjusted by change in capital commitments, excluding VAT in the amount of PLN 243 434 thousand.

Advance payment for the acquisition of a subsidiary

Expenditure arising from the advance payment for the acquisition of a subsidiary in the amount of PLN 232 500 thousand regard the Parent's transfer of cash related to the acquisition of shares in Południowy Koncern Węglowy S.A. (at present: TAURON Wydobycie S.A.) as described in details in Notes 18 and 48 hereto.

Loans granted

In the year ended 31 December 2013, the Group disclosed payments related to investing activities due to origination of loans to Elektrociepłownia Stalowa Wola S.A. in the total amount of PLN 108 800 thousand by the Parent. The transaction has been presented in detail in Note 17 hereto.

46.2. Cash flows from financing activities

Proceeds from loans and borrowings obtained by the Company

Proceeds from loans and borrowings of PLN 452 325 thousand disclosed in the consolidated statement of cash flows result mainly from loans totalling PLN 450 000 thousand granted by the European Investment Bank to the parent, which has been presented in detail in Note 31.1 hereto.

Interest paid

During the year ended 31 December 2013 the total value of interest paid by the Group in relation to loans, borrowings, debt securities (along with the hedges realized from IRS) and finance leases amounted to PLN 302 552 thousand. The Group's consolidated statement of cash flows disclose borrowing costs capitalized in the current period for asset financing as expenditure for acquisition of property, plant and equipment and intangible assets in cash flows from investing activities.

47. Fee of the certified auditor or the entity authorized to audit financial statements

Information concerning the fee of the certified auditor has been presented in the Management Board's report on the activities of TAURON Polska Energia S.A. Capital Group for the year ended 31 December 2013 (Section 3.12).

48. Events after the end of the reporting period

Acquisition of shares in Południowy Koncern Węglowy S.A.

On 10 December 2013, an agreement concerning acquisition of 16 730 525 registered shares in Południowy Koncern Węglowy S.A. (PKW, now: TAURON Wydobycie S.A.) by TAURON Polska Energia S.A. from Kompania Węglowa S.A. was signed. The aforesaid shares represent 47.52% of the entity's share capital and give 31.99% of the total voting rights at the General Meeting.

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

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

Business combination of TAURON Ekoenergia Sp. z o.o., MEGAWAT MARSZEWO Sp. z o.o. and BELS INVESTMENT Sp. z o.o.

On 2 January 2014, a business combination of TAURON Ekoenergia Sp. z o.o., MEGAWAT MARSZEWO Sp. z o.o. and BELS INVESTMENT Sp. z o.o. was registered.

Spin-off of TAURON Wytwarzanie S.A.

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

Bond issue

On 24 January 2014, Tranche E bonds were issued by TAURON Polska Energia S.A with the par value of PLN 200 000 thousand and maturing on 24 February 2014.

On 24 February 2014, two series of bonds were issued (of PLN 100 000 thousand, each), with the total par value of PLN 200 000 thousand under the long-term bond issue scheme with the limit of PLN 1 000 000 thousand arranged with Bank Gospodarstwa Krajowego on 31 July 2013. The instruments issued are dematerialized, unsecured and coupon bonds. The interest rate is floating, based on the WIBOR 6M reference rate increased by the bank's margin. The series will mature in December 2019 and December 2020, respectively.

Change of the business name of Południowy Koncern Węglowy S.A.

On 24 February 2014, the change in the name of Południowy Koncern Węglowy S.A. to TAURON Wydobycie S.A. was registered. The aforesaid change was introduced in accordance with the strategy of the TAURON Group, which assumes simplification and better organization of the Group's structure. Following the Company's acquisition of the shares in Południowy Koncern Węglowy S.A., as explained above, TAURON Polska Energia S.A. has at its disposal 100% of shares in TAURON Wydobycie S.A., which enables full identification of the entity with the Group.

These consolidated financial statements of TAURON Polska Energia S.A. Capital Group, prepared for the year ended 31 December 2013 in accordance with the International Financial Reporting Standards have been presented on 92 consecutive pages.

Management Board of the Company

Katowice, 10 March 2014

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

REPORT OF THE MANAGEMENT BOARD ON OPERATIONS OF TAURON POLSKA ENERGIA S.A. CAPITAL GROUP FOR THE FINANCIAL YEAR 2013

MARCH 2014

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1. ORGANISATION OF TAURON CAPITAL GROUP

1.1. Basic Information on TAURON Capital Group

TAURON Polska Energia S.A. Capital Group (TAURON Capital Group) is a vertically integrated energy group located in the south of Poland. It holds the generation capacity of about 5,448 MW_e, based mainly on hard coal burning. TAURON Capital Group performs its operations in all key segments of the energy market (excluding electric energy transmission which is the exclusive responsibility of the Transmission System Operator (TSO)), i.e. in the area of coal mining, generation, distribution as well as sales and trading of electric energy and heat. The distribution services of one of the leading companies of TAURON Capital Group are provided on the area of approximately 57 thousand km^2, which constitutes 18.3% of the total country area, by means of about 260 thousand km of power lines. On 31 December 2013 companies of TAURON Capital Group employed 25,953 people.

The parent company, TAURON Polska Energia S.A. (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 (EnergiaPro) (currently: TAURON Dystrybucja), ENION S.A. with its seat in Kraków (ENION) (currently: TAURON Dystrybucja) and Elektrownia Stalowa Wola S.A. with its seat in Stalowa Wola (ESW) (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. The company does not have any branches (plants).

As of 31 December 2013, the key companies of TAURON Capital Group, besides the parent company, TAURON, included 14 subsidiaries subject to consolidation, indicated in item 1.2.1. hereof. Moreover, TAURON Capital Group consisted of 20 other subsidiaries as well as 7 companies with the capital share between 20%–50% and 25 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) – dealing with customer service,
6) TAURON Ciepło S.A. (TAURON Ciepło) – dealing with heat generation, distribution and sales,
7) TAURON Wydobycie S.A. (TAURON Wydobycie) (formerly: Południowy Koncern Węglowy S.A.)[1] – dealing with hard coal mining.

Moreover, TAURON Capital Group comprised six other subsidiaries subject to consolidation dealing, among others, with trade of electric energy, extraction of limestone and stone for construction purposes as well as implementation of investment in Renewable Energy Sources Area (RES).

Detailed information concerning the activity of TAURON Capital Group companies in individual Business Areas is included in item 2.2 of this report.

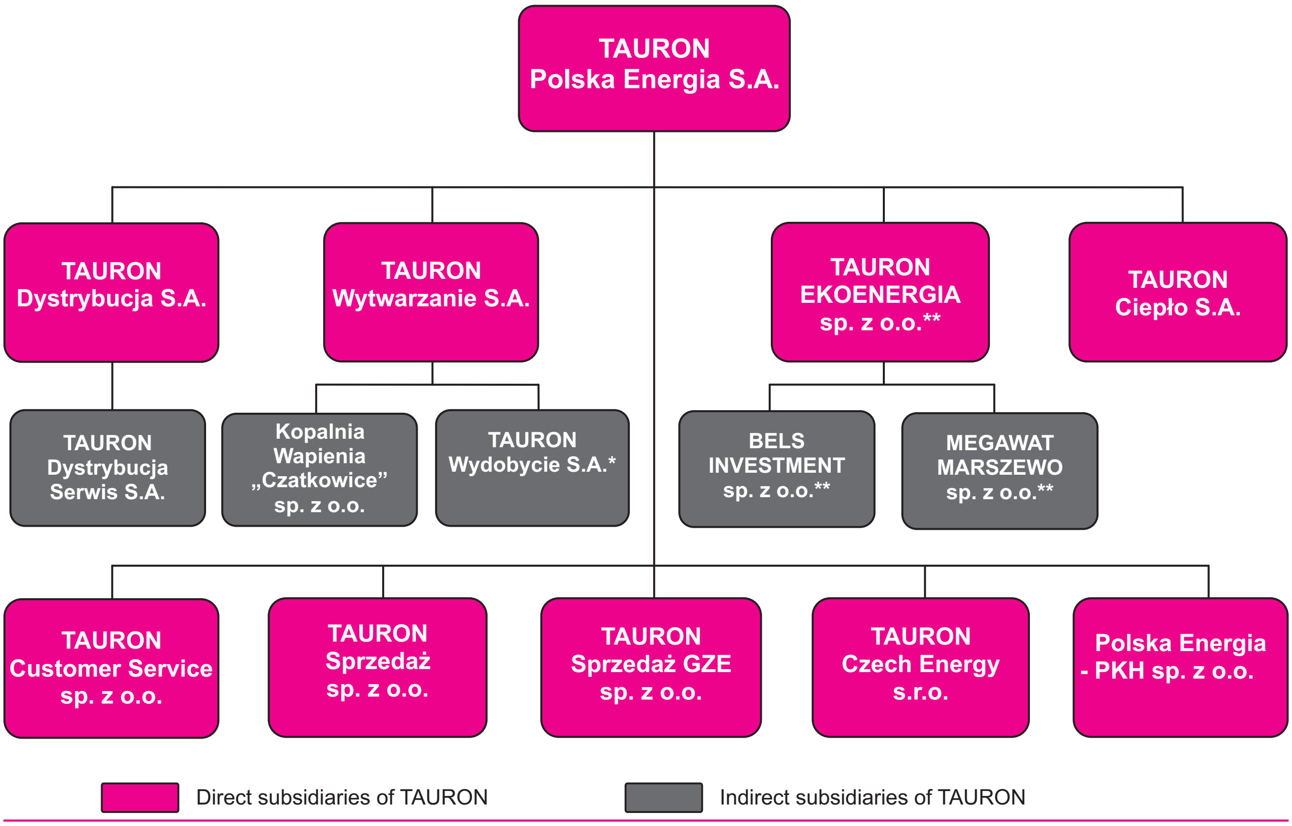
1.2. Structure of TAURON Capital Group

1.2.1. Entities subject to consolidation

The chart below presents the structure of TAURON Capital Group, including the companies subject to consolidation, according to the status as of 31 December 2013.

[1] On 24 February 2014 the District Court for Katowice-Wschód in Katowice 8th Commercial Department of the National Court Register entered the change of enterprise name of the company from Południowy Koncern Węglowy S.A. to TAURON Wydobycie S.A.

Figure no. 1 Structure of TAURON Capital Group, including the companies subject to consolidation, as of 31 December 2013



** In January 2014 the ownership of 16,730,525 shares of TAURON Wydobycie (formerly: Południowy Koncern Węglowy S.A.) constituting 47.52% shares of the share capital, was transferred to TAURON, under the agreement on purchase of the above shares concluded with Kompania Węglowa S.A.(Kompania Węglowa) on 10 December 2013.*

*** On 2 January 2014 the District Court for Wrocław-Fabryczna in Wrocław, 9th Commercial Department of the National Court Register issued the order on entering the merger of the following companies to the register: TAURON EKOENERGIA (the Acquiring Company) with MEGAWAT MARSZEWO sp. z o.o. (MEGAWAT MARSZEWO) and BELS INVESTMENT sp. z o.o. (BELS INVESTMENT) (the Acquired Companies).*

Moreover, TAURON Capital Group holds investments in joint projects: Elektrociepłownia Stalowa Wola S.A. (EC Stalowa Wola) and Elektrownia Blachownia Nowa sp. z o.o. (Elektrownia Blachownia Nowa), which are evaluated by equity method in the consolidated financial statements.

Detailed information on companies covered by consolidation and on the Company share in their share capital and in their governing body, is presented in item 1.4 of this report.

1.2.2. Changes in organisation of TAURON Capital Group

In 2013 the following changes in organisation of TAURON Capital Group took place:

Purchase of shares or stocks of other companies

1. On 6 May 2013, the Company purchased, directly from the direct subsidiary, TAURON Wytwarzanie, 750 shares of the company PKE Broker sp. z o.o. (PKE Broker), constituting 100% shares in the Company share capital. The purchase of the aforementioned shares resulted from implementation of the project called *Reorganisation of the financial and insurance company*, among others, aimed at transferring the brokerage activity of PKE Broker to the company, from the Tax Capital Group (PGK), which shall enable optimisation of insurance service within TAURON Capital Group, through establishing the brokerage company capable of providing services to all entities of TAURON Capital Group, in cooperation with the experienced market broker. Following the separation of insurance service from the scope of PKE Broker operations, the decision on merger with TAURON was taken, which is described in detail in item 2.6 hereof.
2. On 11 June 2013 the Company acquired, from its indirect subsidiary, TAURON Dystrybucja Serwis S.A. (TAURON Dystrybucja Serwis), one share of the company TAURON Sprzedaż GZE, constituting 0.002% of share in the share capital. The purchase of the aforementioned share was aimed at acquisition of 100% of the Company share

in TAURON Sprzedaż GZE share capital and the consequent streamlining of the structure of entities conducting similar business activities in TAURON Capital Group.

3. On 27 August 2013 the TAURON Ciepło company purchased 1,660 shares of the company Przedsiębiorstwo "Ekspar" sp. z o.o. in liquidation, with its seat in Siemianowice Śląskie from the company Fabryka Elementów Złącznych S.A., with its seat in Siemianowice Śląskie. As a result of the aforementioned transaction the company TAURON Ciepło acquired 74.91% of the share capital of Przedsiębiorstwo "Ekspar" sp. z o.o. in liquidation, which became the direct subsidiary of TAURON Ciepło. The said purchase of shares was implemented under the reorganisation project related to the heat companies of the Heat Area and it has ultimately enabled to take over the heat networks serving for heat distribution to inhabitants of Siemianowice Śląskie.

   On 17 February 2014 the District Court Katowice-Wschód in Katowice, 8th Commercial Department of the National Court Register issued the order on deleting the company Przedsiębiorstwo "Ekspar" sp. z o.o. in liquidation from the register.

4. On 10 December 2013 the agreement was signed on the purchase of 16,730,525 registered shares of TAURON Wydobycie by TAURON from Kompania Węglowa S.A. (Kompania Węglowa), constituting 47.52% of the share in the share capital and authorising to exercising of 31.99% votes at the General Meeting (WZ). The total purchase price of the shares amounted to PLN 310,000 thousand. The amount of PLN 232,500 thousand was paid on the day of signing the agreement whereas the parties agreed that the remaining amount of PLN 77,500 thousand would be paid following the transfer of ownership of the shares to the benefit of the Company, i.e. after Kompania Węglowa has obtained the WZ approval for the sale of shares and after the seller has obtained the approval of TAURON for the disposal of the said shares. On 19 December 2013 the Management Board of TAURON Wydobycie approved the disposal of the company shares. On 15 January 2014 the General Meeting of Kompania Węglowa agreed to the sales of TAURON Wydobycie shares, consequently, the condition precedent for the transfer of ownership of these shares was fulfilled. Following the payment of the remaining amount, i.e. PLN 77,500 thousand to the benefit of Kompania Węglowa, the ownership of TAURON Wydobycie shares held by Kompania Węglowa was transferred to the Company.

   As a result of this transaction, TAURON (in total, directly and indirectly) holds 100% of TAURON Wydobycie block of shares, authorising to exercise 100% of votes at the WZ. The aforementioned block of shares of TAURON Wydobycie comprises direct holding of 47.52% of shares by the Company, authorising to exercise 31.99% votes at the WZ and to use the remaining 52.48% shares held by the subsidiary, TAURON Wytwarzanie, authorising to 68.01% votes at the WZ. The purchase of TAURON Wydobycie shares was aimed at taking over the full control of the company significant in terms of the interests of TAURON Capital Group, representing the element of the value chain as an entity implementing the strategic objectives in the Generation Area. The above transaction will contribute to the increase in the value of TAURON Capital Group. The activity enables the comprehensive implementation of corporate standards in the TAURON Wydobycie company, applicable in TAURON Capital Group, in the scope of TAURON Capital Group management.

5. On 11 December 2013 the Company purchased 36,179 shares of the company Przedsiębiorstwo Energetyki Cieplnej sp. z o.o. with its seat in Tychy (PEC Tychy) from TAURON Ciepło, constituting 1.2% interest in the share capital, for the amount of PLN 1,853 thousand. The aim of the above transaction was to enable the ultimate concentration of PEC Tychy shares in the leading company of the Heat Area, implemented within the reorganisation project of heating companies of the Heat Area.

6. On 20 December 2013, the Company purchased 5,327,271,290 shares of the TAURON Ciepło company from Dąbrowa Górnicza Municipality, constituting ab. 4.3% interest in the share capital, for the amount of PLN 35,000 thousand. As a result of the said transaction the Company obtained over 95% interest in the share capital of this company, moreover, the TAURON Ciepło company gained the possibility to join the PGK.

Disposal of shares or stocks of other companies

1. On 2 September 2013, the following subsidiaries of TAURON: TAURON Wytwarzanie, TAURON Wydobycie and Spółka Ciepłowniczo-Energetyczna Jaworzno III sp. z o.o. (SCE Jaworzno III), disposed the total of 400 shares of Agencja Rozwoju Lokalnego S.A. with its seat in Jaworzno, in the form of donation to the benefit of Agencja Rozwoju Lokalnego sp. z o.o. with its seat in Gliwice.
2. On 17 October 2013 the company TAURON Wytwarzanie disposed of 182 of its treasury shares to the benefit of the company CIEPŁO-SERVICE sp. z o.o. with its seat in Będzin with the purpose of redemption. As a result of this transaction the company TAURON Wytwarzanie ceased to act as a shareholder in the aforementioned company.
3. On 17 October 2013 the company TAURON Wytwarzanie disposed of 528 shares of the company REM-WAR sp. z o.o. with its seat in Stalowa Wola to the benefit of the company Enrem-Połaniec sp. z o.o. with its seat

in Połaniec. As a result of this transaction the company TAURON Wytwarzanie ceased to act as a shareholder in REM-WAR sp. z o.o.

4. On 23 December 2013 the company Polska Energia – Pierwsza Kompania Handlowa sp. z o.o. (PEPKH) disposed of the total of 600,000 shares of the company PEC Tychy, including 300,000 shares to the benefit of TAURON Ciepło and 300,000 shares to the beneift of Enpower service sp. z o.o. (Enpower service).
5. On 23 December 2013 the company TAURON Ciepło disposed of 7,782 of its treasury shares to the benefit of the company Przedsiębiorstwo Energetyki Cieplnej sp. z o.o. with its seat in Ruda Śląska (PEC Ruda Śląska), with the purpose of redemption. As a result of this transaction the company TAURON Ciepło ceased to act as a shareholder in the company PEC Ruda Śląska.

The above mentioned transactions were implemented within the reorganisation programme of TAURON Capital Group companies and they were aimed at streamlining of its structure.

Merger and division of companies

1. On 2 January 2013 the District Court for Kraków Śródmieście in Kraków, 11th Commercial Department of the National Court Register issued the order on entering the merger of the following companies to the register: CECHTAR sp. z o.o. with its seat in Tarnów (the Acquiring Company) with the company “EnergiaPro - Pomiary” sp. z o.o. with its seat in Świdnica (the Acquired Company), i.e. the direct subsidiaries of TAURON Dystrybucja. The merger was executed pursuant to art. 492 § 1 item 1 of the Act of 15 September 2000, *Code of Commercial Companies (Ksh)*, i.e. through assignment of the total assets of the Acquired Company to the Acquiring Company. This merger was to streamline the organizational structure of TAURON Capital Group within the framework of implementation of the reorganisation programme of TAURON Capital Group companies.
2. On 2 January 2013 the District Court Katowice-Wschód in Katowice, VIII Commercial Department of the National Court Register issued the order on registering the apportionment of TAURON Wytwarzanie (the Divided Company) through assignment of the apportioned components of assets to the company TAURON Ciepło (the Acquiring Company), pursuant to art. 529 § 1 item 4 of the Act of Ksh, in exchange for shares of TAURON Ciepło, taken over by one of the shareholders of TAURON Wytwarzanie, i.e. TAURON, including the pro rata reduction of TAURON interest in the share capital of TAURON Wytwarzanie. The process of dividing the company TAURON Wytwarzanie through separating the Branch of Elektrociepłownia Katowice in Katowice from its structure and assignment of assets of this Branch, including other shares of heat generating companies, to TAURON Ciepło, constituted Stage III of the Project called *Building of the Heat Area*. This process was carried out under the main objective of the Heat Area – increasing the value of TAURON Capital Group through integration of assets, optimisation of operating costs in the scope of heat distribution, providing heat supply for the generation entities of TAURON Capital Group and the development of operations related to heat generation using small-scale cogeneration. As a result of the aforementioned apportionment, the share capital of TAURON Ciepło was increased to the amount of PLN 1,238,076,553.56, whereas the share capital of TAURON Wytwarzanie was decreased to the amount of PLN 1,554,189,560.00. The share of TAURON in the share capital of TAURON Ciepło increased from 88.27% to 91.79%, whereas the share in TAURON Wytwarzanie decreased from 99.72% to 99.70%.
3. On 31 January 2013 the District Court for Wrocław-Fabryczna in Wrocław, 6th Commercial Department of the National Court Register issued the order on entering the merger of the following direct subsidiaries of TAURON, i.e.: TAURON Obsługa Klienta (the Acquiring Company) with TAURON Obsługa Klienta GZE sp. z o.o. (TAURON Obsługa Klienta GZE) (the Acquired Company). Accordingly, TAURON acquired 22,021 of newly issued shares in the share capital of TAURON Obsługa Klienta, increased to PLN 4,920,500.00. The merger was executed pursuant to art. 492 § 1 item 1 of the Ksh, i.e. through the assignment of the total assets of the Acquired Company to the Acquiring Company. This merger was aimed at streamlining the structure of TAURON Capital Group of the former Górnośląski Zakład Elektroenergetyczny S.A. (GZE).
4. On 13 March 2013 the District Court Katowice-Wschód in Katowice, 8th Commercial Department of the National Court Register issued the order on entering the merger of the following companies to the register: TAURON Wytwarzanie (the Acquiring Company) with the company ECOCARBON sp. z o.o. with its seat in Łaziska Górne (the Acquired Company), the direct subsidiary of TAURON Wytwarzanie. The merger was executed pursuant to art. 492 § 1 item 1 of the Ksh, i.e. through the assignment of the total assets of the Acquired Company to the Acquiring Company. This merger was to streamline the organizational structure of TAURON Capital Group within the framework of implementation of the reorganisation programme of TAURON Capital Group companies.
5. On 2 April 2013 the District Court Wrocław-Fabryczna in Wrocław, 6th Commercial Department of the National Court Register issued the order on entering the merger of the following companies to the register: Przedsiębiorstwo Usług Elektroenergetycznych Wrocław S.A. (PUE) with its seat in Wrocław (the Acquiring Company) with the company TAURON Serwis GZE sp. z o.o (TAURON Serwis GZE) (the Acquired Company) and the change of the names of the Acquiring Company to TAURON Dystrybucja Serwis. The merger was executed pursuant to art. 492 § 1 item 1

of the Ksh, i.e. through the assignment of the total assets of the Acquired Company to the Acquiring Company. This merger was to streamline the organizational structure of TAURON Capital Group within the framework of implementation of the reorganisation programme of TAURON Capital Group companies.

6. On 2 December 2013 the District Court Katowice-Wschód in Katowice, 8th Commercial Department of the National Court Register issued the order on entering the merger of the following companies to the register: TAURON (the Acquiring Company) with the company PKE Broker (the Acquired Company). The merger was executed pursuant to art. 492 § 1 item 1 of the Ksh, i.e. through the assignment of the total assets of the Acquired Company to the Acquiring Company. As a result of the merger, the organisational structures were simplified, including the supervisory and governance structures, which has contributed to the improvement of TAURON Group management and eliminated redundant processes.
7. On 31 December 2013 the District Court Katowice-Wschód in Katowice, 8th Commercial Department of the National Court Register issued the order on entering the merger of the following companies to the register: TAURON Wytwarzanie Serwis sp. z o.o. with its seat in Jaworzno (TAURON Wytwarzanie Serwis) (the Acquiring Company) with the company Przedsiębiorstwo Usług Remontowych Energetyki Jaworzno III Sp. z o.o. with its seat in Jaworzno (the Acquired Company). The merger was executed pursuant to art. 492 § 1 item 1 of the Ksh, i.e. through the assignment of the total assets of the Acquired Company to the Acquiring Company. The merger was implemented under the implementation of the project on reorganisation of service companies of the Generation Area.

Other events

1. On 5 February 2013, the District Court Katowice-Wschód in Katowice, 8th Commercial Department of the National Court Register issued the order on registering the reduction of the share capital of TAURON Wytwarzanie from the amount of PLN 1,554,189,560.00 to the amount of PLN 1,553,036,160.00, i.e. by the amount of PLN 1,153,400.00. The aforementioned reduction of the share capital occurred due to the redemption of shares acquired pursuant to art. 418^1 of Ksh by TAURON Wytwarzanie on 21 January 2013. As a consequence of redemption of the said shares, the share of TAURON in the TAURON Wytwarzanie share capital increased to 99.77%.
2. On 18 March 2013, the District Court Katowice-Wschód in Katowice, 8th Commercial Department of the National Court Register issued the order on registering the change of enterprise name of TAURON direct subsidiary, Poen sp. z o.o. with its seat in Katowice (POEN) to TAURON Ubezpieczenia sp. z o.o. (TAURON Ubezpieczenia). The change in the company enterprise name was associated with implementation of the project on reorganisation of insurance in TAURON Capital Group.
3. On 2 April 2013 the Management Board of the company Ośrodek Szkoleniowo-Wypoczynkowy "JAGA" sp. z o.o. (OSW JAGA), the direct subsidiary of TAURON Dystrybucja, filed the motion to the District Court, 5th Commercial Department in Nowy Sącz, concerning declaration of bankruptcy. On 3 June 2013, the aforementioned District Court issued the order on declaration of bankruptcy of this company, including the winding-up of the assets.
4. On 23 April 2013 the District Court for Kraków Śródmieście in Kraków, 12th Commercial Department of the National Court Register, issued the order on deleting the company Ośrodek Szkoleniowo-Wypoczynkowy Rożnów sp. z o.o., with its seat in Rożnów, the direct subsidiary of TAURON Ekoserwis sp. z o.o. (TAURON Ekoserwis) from the court register.
5. On 30 August 2013 shares held by minority shareholders in the company AUTOZET sp. z o.o., with its seat in Tarnów, the direct subsidiary of TAURON Dystrybucja, were redeemed. As a consequence of the aforementioned redemption of shares, TAURON Dystrybucja has become the sole shareholder of AUTOZET sp. z o.o.
6. On 2 September 2013 the District Court for Kraków Śródmieście in Kraków, 12th Commercial Department of the National Court Register issued the order on registering the change of enterprise name of the company CECHTAR sp. z o.o. with its seat in Tarnów, to TAURON Dystrybucja Pomiary sp. z o.o. (TAURON Dystrybucja Pomiary).
7. On 3 September 2013, redemption of 230 shares of the company ENERGO-MARKET ZET sp. z o.o., with its seat in Tarnów took place, held by TAURON Dystrybucja, representing 39.12% of the interest in the share capital of ENERGO-MARKET ZET sp. z o.o., consequently TAURON Dystrybucja ceased to be a shareholder of that company.
8. On 4 November 2013, the company TAURON Wytwarzanie reached 50.81% share in the voting rights at the Meeting of Shareholders (ZW) of the company Carbon-Bielsko sp. z o.o., with its seat in Bielsko-Biała, due to the redemption of 90 shares held by the minority shareholders. As a result of the said redemption of shares, the company Carbon-Bielsko sp. z o.o. has become the subsidiary of TAURON Wytwarzanie.
9. On 6 November 2013, the District Court for Kraków Śródmieście in Kraków, 12th Commercial Department of the National Court Register issued the order on registering the reduction of the share capital of TAURON Dystrybucja from the amount of PLN 512,028,025.78 to the amount of PLN 511,974,935.12, i.e. by the amount of PLN 53,090.66. The aforementioned reduction of the share capital occurred due to the redemption of shares acquired pursuant to art. 418^1 of Ksh by TAURON Dystrybucja. As a consequence of redemption of the said shares, the share of TAURON in the TAURON Dystrybucja share capital increased to 99.71%.

10. On 27 November 2013 the District Court for Katowice-Wschód in Katowice, 8th Commercial Department of the National Court Register issued the order on registering the change of enterprise name of the company Centrum Szkoleniowo-Konferencyjne "NOT" sp. z o.o. with its seat in Jaworzno to Spółka Usług Górniczych sp. z o.o. (SUG). The change in the enterprise name of the company Centrum Szkoleniowo-Konferencyjne "NOT" sp. z o.o. was connected with the change of its scope of operations.

Events related to organizational changes in TAURON Capital Group after 31 December 2013.

1. On 2 January 2014 the District Court Wrocław-Fabryczna in Wrocław, 9th Commercial Department of the National Court Register issued the order on entering the merger of the following companies to the register: TAURON EKOENERGIA (the Acquiring Company) with the company MEGAWAT MARSZEWO sp. z o.o. (MEGAWAT MARSZEWO) and the company BELS INVESTMENT sp. z o.o. (BELS INVESTMENT) (the Acquired Companies). The merger was executed pursuant to art. 492 § 1 item 1 of the Ksh, i.e. through the assignment of the total assets of the Acquired Company to the Acquiring Company.
2. On 2 January 2014 the District Court Katowice-Wschód in Katowice, 8th Commercial Department of the National Court Register issued the order on entering the merger of the following companies to the register: SCE Jaworzno III (the Acquiring Company) with the company EKOPEC sp. z o.o. with its seat in Będzin (the Acquired Company). The merger was executed pursuant to art. 492 § 1 item 1 of the Ksh, i.e. through the assignment of the total assets of the Acquired Company to the Acquiring Company.
3. On 2 January 2014 the District Court Katowice-Wschód in Katowice, 8th Commercial Department of the National Court Register issued the order on registering the apportionment of TAURON Wytwarzanie (the Divided Company) through assignment of the apportioned components of assets to the company TAURON Ciepło (the Acquiring Company), pursuant to art. 529 § 1 item 4 of the Act of Ksh, in exchange for shares of TAURON Ciepło, taken over by one of the shareholders of TAURON Wytwarzanie, i.e. TAURON, including the pro rata reduction of TAURON interest in the share capital of TAURON Wytwarzanie. The process of dividing the company TAURON Wytwarzanie through separating the Branch of Zespół Elektrociepłowni Bielsko-Biała S.A. (ZEC Bielsko-Biała) from its structure and assignment of assets of this Branch to TAURON Ciepło, constituted Stage IV of the Project called *Building of the Heat Area*. As a result of the aforementioned apportionment of TAURON Wytwarzanie, the share capital of TAURON Ciepło was increased to the amount of PLN 1,409,747,374.17, whereas the share capital of TAURON Wytwarzanie was decreased to the amount of PLN 1,494,862,990.00. The share of TAURON in the share capital of TAURON Ciepło increased to 96.57%, whereas the share in TAURON Wytwarzanie decreased to 99.76%.
4. On 17 February 2014 the District Court Katowice-Wschód in Katowice, 8th Commercial Department of the National Court Register issued the order on deleting the company Przedsiębiorstwo "Ekspar" sp. z o.o. in liquidation from the register.
5. On 24 February 2014 the District Court for Katowice-Wschód in Katowice 8th Commercial Department of the National Court Register entered the change of enterprise name of the company from Południowy Koncern Węglowy S.A. to TAURON Wydobycie S.A.

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

1.3.1. 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 extra-judicial proceedings. All issues connected with managing the Company, which are not restricted by legal regulations and provisions of the Company Articles of Association to the competence of the General Meeting or the Supervisory Board lie within the competences of the Company Management Board. 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.

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 business as usual of the Company and takes decisions on all issues concerning the Company, which are not subject to decisions of the Management Board or other governing bodies of the Company, and supervises the performance of the division which reports to him directly.

The President of the 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) performs actions in the scope of labour law on behalf of the employer,
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 scope of 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 2013, the development of the management process of "TAURON Group", understood as a consolidated economic body consisting of autonomous commercial law companies, established by the Management Board of the Company among TAURON Capital Group companies, led by the Company, was continued.

The main internal regulatory act of "TAURON Group" is the *Code of TAURON Group* (Code) adopted by the Management Board of the Company, 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 of the operating objectives of the companies, enabling the achievement of the adopted effects.

Considering the changes in organisation of the TAURON Capital Group, in 2013, the Management Board of the Company updated the allocation of membership of the companies to "TAURON Group". The updates resulted, among others, from the merger process conducted in the Customer Service Area (merger of TAURON Obsługa Klienta GZE with TAURON Obsługa Klienta) and merger of TAURON Serwis GZE with Przedsiębiorstwo Usług Elektroenergetycznych Wrocław S.A. and the change in the enterprise name of the Acquiring Company to TAURON Dystrybucja Serwis, as well as accession of the company TAURON Ubezpieczenia and other companies important due to the structure and processes ongoing in TAURON Capital Group to the "TAURON Group".

In 2013, the following entities obtained the status of "TAURON Group" members:

1) "BUDO – Trans" – sp. z o.o. (BUDO-TRANS),
2) Spółka Usług Górniczych sp. z o.o. (SUG),
3) SCE – Jaworzno III sp. z o.o. (SCE Jaworzno III),
4) TAURON Dystrybucja Pomiary sp. z o.o. (TAURON Dystrybucja Pomiary),
5) TAURON Dystrybucja Serwis S.A. (TAURON Dystrybucja Serwis),
6) TAURON Ekoserwis sp. z o.o. (TAURON Ekoserwis),
7) TAURON Wytwarzanie Serwis sp. z o.o. (TAURON Wytwarzanie Serwis),
8) TAURON Ubezpieczenia sp. z o. o. (TAURON Ubezpieczenia),
9) Enpower service sp. z o.o. (Enpower service).

The table below presents the list of companies of TAURON Capital Group included in the "TAURON Group", according to the status on 31 December 2013.

Table no. 1 List of companies of TAURON Capital Group included in "TAURON Group" according to the status on 31 December 2013

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

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

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" permanent committees of "TAURON Group" operate:

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

On 7 May 2013, the Management Board of the Company, updating the tasks and competence of individual Committees of TAURON Group, took the decision on liquidation of the Committee for Implementation of TAURON Group Corporate Strategy.

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 supervise the implementation of the adopted coherent actions by all the participants of “TAURON Group”, in compliance with the Code and to the common interest of “TAURON Group” members. The specific functions of the Committees are provided in detail in the by-laws of their operations adopted by the Company Management Board.

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

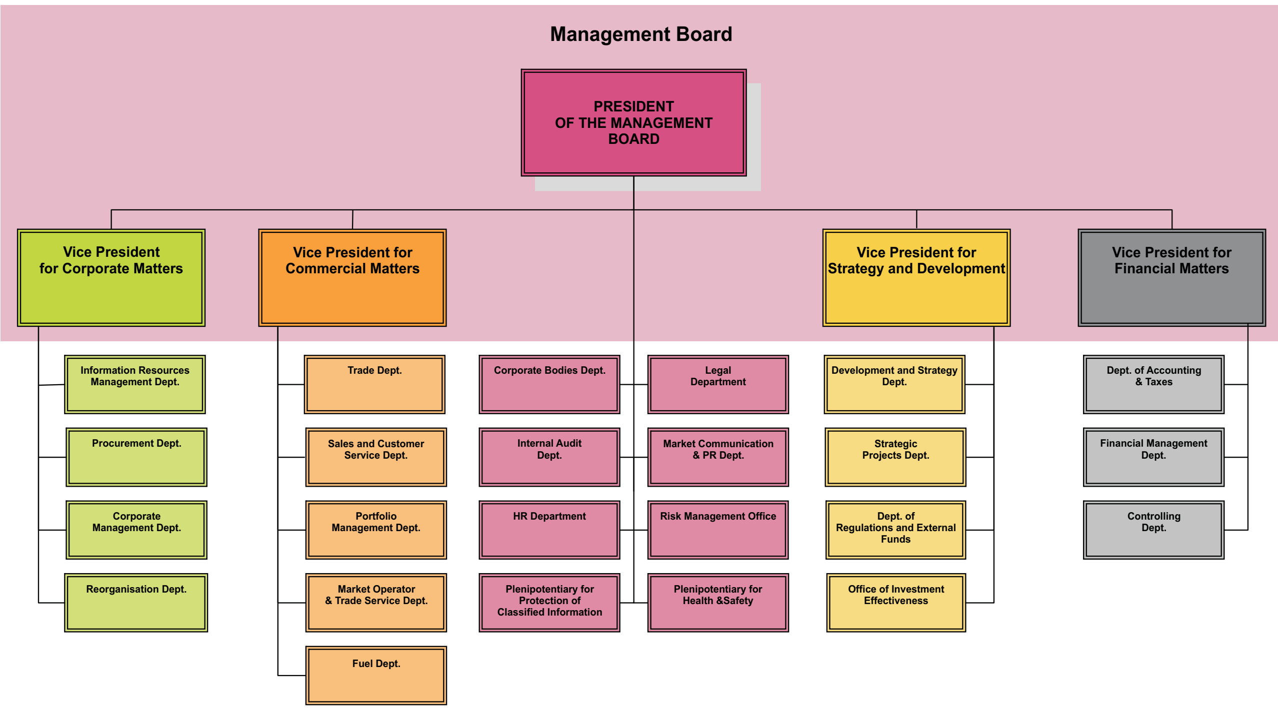
Changes in the management rules of the Company

In 2013 no changes were introduced in the scope of the Company management rules as compared to those applicable in 2012, however, changes in organisational structure and within the responsibilities of the Company business units, included in the Organisational Regulations, were implemented, including:

1) changes comprising the reorganisation of processes in the Segment of Vice-President of the Management Board for Commercial Matters, involving, among others, operations of the Company in the scope of gas trading. changes in the organisational structure, associated with the verification and change in the scope of responsibilities of the subordinated business units, approved by the Supervisory Board on 22 May 2013,
2) changes comprising the modification of tasks of the Vice-President of the Board for Corporate Matters, as well as the function of the subordinated business units, associated with the implementation of the new Corporate Governance in the scope of IT service and launching of the Common IT Service Centre within the company TAURON Obsługa Klienta, approved by the Supervisory Board on 16 August 2013,
3) changes comprising the modifications of tasks of the Vice-President of the Board for Strategy and Business Development, and the functions of the subordinated business units, arising from the transfer of the coordination issues undertaken by TAURON Capital Group in the scope of research and development, to the TAURON level, adopted by the Supervisory Board on 18 December 2013.

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, according to the status as of 31 December 2013.

Figure no. 2 Organisational chart of TAURON Polska Energia S.A., according to the status as of 31 December 2013



Changes in the management rules of the Company after 31 December 2013.

On 18 February 2014, the Supervisory Board of the Company approved the amendments to the Organisational Regulations in connection with the reorganisation of tasks in selected organisational segments. The Department of Information Resources Management, which was previously subordinated to the segment of the Vice-President of the Board for Corporate Matters was assigned to the Segment of the President of the Board. On the other hand, the Department of Fuels and the Portfolio Management Department, previously reporting to the Vice-President of the Board for Commercial Matters, were assigned to the Segment of the Vice-President for Financial and Economic matters.

Changes in the management rules of "TAURON Group"

In 2013 no changes in the management system of "TAURON Group" were introduced, however, changes were implemented in terms of assigning the companies to Business Areas and updating the Rules of Cooperation in the Governance Areas.

Changes in allocation of the companies to the specific Business Area

Considering the changes in organisation of the TAURON Capital Group, in 2013, the Management Board of the Company updated the allocation of membership of "TAURON Group" companies to a particular Business Area or Business Areas. The update referred to was the effect of the merger processes described above.

The table below presents the list of allocation of material companies of TAURON Capital Group included in the "TAURON Group" to the specific Business Area as of 31 December 2013.

Table no. 2 The list of allocation of material companies of TAURON Capital Group included in the "TAURON Group" to the specific Business Area as of 31 December 2013

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

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

In 2013 in the companies of "TAURON Group" the updating process of the Rules of Cooperation in the Governance Areas, developed and implemented in the previous years, was carried out. According to the status on 31 December 2013, in "TAURON Group", the Rules of Cooperation operated in the following Governance 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 technology 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 governance 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.

1.4. Organisational or capital relationships

The table below presents the list of material direct subsidiaries, subject to consolidation, in which the Company held shares and stocks as of 31 December 2013

Table no. 3 The list of material subsidiaries, subject to consolidation, in which the Company held direct share as of 31 December 2013

No.	Company name	Seat	Core business area	Direct share in company equity	Direct share in company governing body
1.	TAURON Wytwarzanie	Katowice	Generation, transmission and distribution of electric energy and heat	99.77%	99.80%
2.	TAURON Dystrybucja	Kraków	Distribution of electric energy	99.71%	99.71%
3.	TAURON Sprzedaż	Kraków	Electric energy trading	100.00%	100.00%
4.	TAURON Obsługa Klienta*	Wrocław	Services	100.00%	100.00%
5.	TAURON EKOENERGIA	Jelenia Góra	Generation of electric energy, electric energy trading	100.00%	100.00%
6.	PE PKH	Mysłowice	Electric energy trading	100.00%	100.00%
7.	TAURON Ciepło	Katowice	Production and distribution of heat	96.10%	96.74%
8.	TAURON Czech Energy	Ostrava, Czech Republic	Electric energy trading	100.00%	100.00%
9.	TAURON Sprzedaż GZE	Gliwice	Electric energy trading	100.00%	100.00%

** On 31 January 2013 the merger of the companies TAURON Obsługa Klienta and TAURON Obsługa Klienta GZE was registered.*

The table below presents the list of material direct subsidiaries, subject to consolidation, in which the Company held indirect shares and stocks as of 31 December 2013

Table no. 4 The list of subsidiaries, subject to consolidation, in which the Company held indirect share as of 31 December 2013

No.	Company name	Seat	Core business area	Indirect share in company equity	Indirect share in company governing body	Entity holding stocks/shares as of 31 December 2013
1.	KW Czatkowice*	Krzeszowice	Mining, crushing and granulation of limestone rocks and stone extraction	99.77%	99.80%	TAURON Generation
2.	TAURON Wydobycie*	Jaworzno	Hard coal mining	52.36%	67.87%	TAURON Generation
3.	BELS INVESTMENT	Jelenia Góra	Generation of electric energy	100.00%	100.00%	TAURON Ekoenergia
4.	MEGAWAT MARSZEWO	Jelenia Góra	Generation of electric energy	100.00%	100.00%	TAURON Ekoenergia
5.	TAURON Dystrybucja Serwis**	Wrocław	Repairs and maintenance of electric devices	99.71%	99.71%	TAURON Distribution

** TAURON (in total, directly and indirectly) holds 100% of TAURON Wydobycie block of shares, authorising to exercise 100% of votes at the WZ. The aforementioned block of shares of TAURON Wydobycie comprises direct holding of 47.52% of shares by the Company, authorising to exercise 31.99% votes at the WZ and to use the remaining 52.48% shares held by the subsidiary, TAURON Wytwarzanie, authorising to 68.01% votes at the WZ.*

*** On 2 April 2013 the merger of the companies TAURON Serwis GZE (the Acquired Company) and Przedsiębiorstwo Usług Elektroenergetycznych (the Acquiring Company) was registered, and at the same time, the name of enterprise of the Acquiring Company name to TAURON Dystrybucja Serwis was changed.*

The table below presents the list of material co-subsidiaries in which the Company held additional indirect shares and stocks as of 31 December 2013.

Table no. 5 List of significant co-subsidiaries in which the Company held indirect share as of 31 December 2013

No.	Company name	Seat	Core business area	Indirect share in company equity	Indirect share in company governing body	Entity holding stocks/shares as of 31 December 2013
1.	EC Stalowa Wola	Stalowa Wola	Generation, transmission, distribution and trade of electric energy	49.89%	49.90%	TAURON Wytwarzanie
2.	Elektrownia Blachownia Nowa	Kędzierzyn Koźle	Generation of electric energy	49.89%	49.90%	TAURON Wytwarzanie

1.5. Major domestic and foreign investment

1.5.1. Purchase of shareholding securities

Among the events described in item 1.2.1 in the scope of purchase of shares and stocks in companies, the main investment of the Company included:

Purchase of PKE Broker shares

On 6 May 2013, the Company purchased 750 shares of the company PKE Broker, representing 100% share in the share capital, from its subsidiary, TAURON Wytwarzanie.

The purchase of the above mentioned shares is described in detail in item 1.2.2 of this report.

Purchase of shares of the PEC Tychy company

On 11 December 2013, the Company purchased 36,179 shares of the company PEC Tychy, representing 1.2% share in the share capital, from its subsidiary, TAURON Ciepło.

The purchase of the above mentioned shares is described in detail in item 1.2.2 of this report.

Purchase of shares of the TAURON Ciepło company

On 20 December 2013, the Company purchased 5,327,271,290 shares of the TAURON Ciepło subsidiary from Dąbrowa Górnicza Municipality, constituting ab. 4.3% interest in the share capital of this company.

The purchase of the above mentioned shares is described in detail in item 1.2.2 of this report.

Purchase of shares of TAURON Wydobycie

On 10 December 2013 the agreement was signed on sale of 16,730,525 registered shares of TAURON Wydobycie by Kompania Węglowa (the Seller) to the benefit of TAURON (the Buyer); the shares represented 47.52% of share capital of this company and authorised it to exercise 31.99% of votes at its WZ.

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

The purchase of the above mentioned shares is described in item 1.2.2. hereof.

1.5.2. 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 2013 the Company was purchasing bonds issued by companies of TAURON Capital Group, with the maturity term of one year to seven years. The major objective of bond issue was the acquisition of funds by companies of TAURON Capital Group for the implementation of the investment programme and refinancing of the existing debt.

The table below shows the value of issues taken over and not redeemed, divided into individual companies of TAURON Capital Group (issuers) according to the status as of 31 December 2013.

Table no. 6 The value of issues taken over and not redeemed, divided into individual companies of TAURON Capital Group (issuers) according to the status as of 31 December 2013

No.	Company name	Value of issues taken over (in thous. PLN)
1.	TAURON Wytwarzanie	2,170,000
2.	TAURON Dystrybucja	1,510,000
3.	TAURON EKOENERGIA	200,000
4.	BELS INVESTMENT	275,000
5.	MEGAWAT MARSZEWO	680,000
6.	TAURON Ciepło	230,000
7.	TAURON Wydobycie	100,000
	Total	**5,165,000**

Besides acquisition of the TAURON Capital Group bonds, the Company did not purchase any other debt securities.

In addition, in 2013, the Company invested available funds acquired within the cash pooling system operating in TAURON Capital Group, exclusively in bank deposits.

1.5.3. Implementation of strategic investment

In 2013, the following activities associated with the main strategic investment projects were carried out in TAURON Capital Group:

1) construction of the CCGT unit of 449 MW_e capacity, including the heat generation component of 240 MW_t heating capacity in Stalowa Wola – the investment is implemented with participation of the strategic partner, Polskie Górnictwo Naftowe i Gazownictwo S.A. (PGNIG). Abener Energia S.A. is the general contractor. The technical activities are under implementation, including the design and construction and contractor works within the infrastructure of the new unit. The supplies of machinery and the basic equipment as well as auxiliary systems of the CCGT unit are under implementation. Delivery of the investment is scheduled in 2015;

2) construction of a heat block in cogeneration, of 50 MW_e and 106 MW_t capacity (182 MW_t including the peak unit), adjusted to electric energy and heat generation within at area of ZEC Bielsko-Biała. This investment is to replace the exploited and low-performing generation units with the unit of high performance, complying with all environmental protection requirements concerning emissions of NO_x, SO_2 and particulate matter. The Generation Unit was commissioned in June 2013, becoming the main source of heat for the city of Bielsko-Biała;

3) construction of a wind farm of 40 MW capacity in the location of Wicko. On 24 October 2013, the final acceptance and commissioning of the farm was performed;

4) construction of the wind farm of 82 MW capacity in the location of Marszewo. On 17 October 2013, the final acceptance and commissioning of the farm was performed;

5) construction of a CCGT unit, including the heat generation component of 135 MW_e power capacity and 90 MW_t heat capacity in Katowice (TAURON Ciepło). On 1 October 2013 the contract award procedure for the construction of the CCGT unit was revoked due to the fact that the prices of bids submitted significantly exceeded the budget planned for the project. In December 2013 the decision was made to abandon this project. Taking into consideration the security of the heat market of Śląsk and Dąbrowa conurbation options to secure heat supply for customers were analysed. Solutions for balancing the market without implementing the project have been designed and are currently under implementation.

6) construction of new generation capacity in co-generation at the level of 50 MW_e and 86 MW_t in Tychy (TAURON Ciepło). The investment was completed in its part involving the modernisation of the existing fluidised bed boiler and its adjustment to biomass burning, and in February 2013 the concession for production of energy qualified as RES was obtained. The construction of the coal-fired water boiler (40 MW_t) was also completed, for which the occupancy permit was obtained in May 2013.

   In June 2013 the contract was concluded with Elektrobudowa S.A. (Elektrobudowa) as the general contractor for construction of the new unit (50 MW_e). The design and construction works are in progress as well as contracting of machines and installations by the contractor. Delivery of the investment is scheduled in 2016;

7) construction of a new power unit of the capacity of 910 MW at supercritical parameters on the premises of Elektrownia Jaworzno III (TAURON Wytwarzanie). The new unit will demonstrate high efficiency and availability as well as low levels of emissions of NO_x, SO_2, CO_2 and particulate matter. In January 2013, within the tender for the General Contractor, the bid of the consortium of RAFAKO (RAFAKO) (leader of the consortium)

with Mostostal Warszawa S.A. (MOSTOSTAL) was selected as the most favourable bid. On 27 February 2014 the validity of the offer and the bank guarantee for the bid bond was extended – the current term of validity shall expire on 30 April 2014. Preparations to sign the agreement with the General Contractor are ongoing. In parallel, the technical, and formal and legal work is conducted, associated with the preparation of the site and take-off terminals from the new generation unit. Delivery of this investment is scheduled in 2019;

8) construction of the installation for flue gas de-nitrification in six blocks of Elektrownia Jaworzno III and four blocks of Elektrownia Łaziska belonging to TAURON Wytwarzanie. This investment will enable to reduce the NO_x emission in these units to the level of 200 mg/Nm^3 which shall be binding in Poland from 2018. Until the end of 2013 works at six of the ten units were completed, the implementation of the modernisation works will be completed in 2016;

9) construction of the CCGT unit, including the heat generation component of 413 $MW_{e\ in}$ Elektrownia Łagisza, including the heat generation unit of 266 MW_t capacity. Activities aimed at commencement of the implementation of the project were undertaken. The feasibility study of the construction of the new generation unit was prepared. The conditions of connecting to the gas transmission system were obtained. Activities associated with obtaining the required approvals and permits are ongoing. Delivery of the investment is scheduled in 2018;

10) construction of the new steam and gas fired unit of 850 MW capacity, natural gas burning, at the area of Elektrownia Blachownia. On 30 December 2013, TAURON, KGHM Polska Miedź S.A. (KGHM) and TAURON Wytwarzanie signed the agreement, under which it was decided to temporarily suspend the implementation of the project to build CCGT unit in the company Elektrownia Blachownia Nowa. The reason for the suspension is the current situation in the electricity and gas market resulting in an increase in investment risk and arising in connection with the need to verify and optimize the project. The Parties to the Agreement agreed that the decision to resume the implementation of the Project would be made under a separate agreement, which should be signed until 31 December 2016.

11) construction of "Grzegorz" shaft (TAURON Wydobycie), including the infrastructure (surface and underground) and the accompanying headings. This investment project will be of strategic importance for the operations of TAURON Wydobycie. It is intended to ensure the resource base for the following years and to eliminate the sublevel excavation. For the needs of the said investment, the real estate on the area of Jaworzno was purchased. Works connected with the preparation of the site have been commenced, including the process of preparation of the comprehensive technical design. Delivery of the project is scheduled in 2022;

12) construction of 800 m level, including the commissioning of the fourth wall in Zakład Górniczy Janina (TAURON Wydobycie). This investment will enable to obtain the additional coal production in relation to the current level. The scope of the project comprises the performance of the required excavations, purchase of machines, equipment and installations, shaft deepening, execution of construction works and implementation of projects of organisational nature. The agreement on deepening of the "Janina VI" shaft was signed, including the construction of the two-way shaft inlet and the development of the infrastructure. The works concerning the development of technological concept for the modernisation of the Mechanical Coal Processing Plant are ongoing. Delivery of the investment is scheduled in 2019.

In 2013, the capital expenditures of TAURON Capital Group (including TAURON capital investment) amounted to PLN 3,776,751 thousand and they were higher by approximately 8.8% as compared to the expenditure incurred in 2012, which amounted to about PLN 3,471,504 thousand. It results mainly from intensification of the strategic investment in the individual Business Areas of TAURON Capital Group.

Detailed information on the capital expenditures incurred in individual Business Areas of TAURON Capital Group is included in item 2.3 of this report.

2. BUSINESS OPERATIONS OF TAURON CAPITAL GROUP

2.1. Timeline of key events

The following table presents the timeline of selected events associated with the operations of TAURON Capital Group which occurred in 2013.

Table no. 7 Timeline of key events

Month	Events in 2013
January February	1. Adoption of OPEX effectiveness improvement programme in the TAURON Capital Group by the Company for 2013–2015. 2. Merger of the companies TAURON Obsługa Klienta with its seat in Wrocław with TAURON Obsługa Klienta GZE with its seat in Gliwice. 3. Signing the agreement by TAURON Dystrybucja with BIT Huachuang Electric Vehicle Technology established in China, concerning the cooperation in implementing the modern technology for energy storage. 4. Signing the annex by the Company to the Framework Agreement on the exploration for and extraction of shale gas.
March April	1. Signing the significant agreement by the Company with Kompania Węglowa for the purchase of hard coal. 2. Signing the letter of intent by the Company with Polska Telefonia Cyfrowa S.A. (T-Mobile) concerning the strategic cooperation related to implementation of new product and technological solutions in the telecommunications and energy markets. 3. Establishment of the company TAURON Dystrybucja Serwis as a result of the merger of Przedsiębiorstwo Usług Elektroenergetycznych and TAURON Serwis GZE. 4. Expansion of the Company membership at the European Energy Exchange AG (EEX) with the seat in Leipzig by the gas market in the EEX Spot Markets and EEX Derivatives Markets segments. 5. Signing of the last agreement by the Company, providing for funding of the construction, start-up and commencement of the exploitation of the CCGT Unit in Stalowa Wola.
May June	1. Signing of the Annex to the Guarantee Agreement of 16 December 2010 by the Company with the consortium of banks: Bank Handlowy w Warszawie S.A. (BH Warszawa), ING Bank Śląski S.A. (ING Bank), Bank Polska Kasa Opieki S.A. (Bank PKO), Powszechna Kasa Oszczędności Bank Polski S.A. (PKO BP), BRE Bank S.A. (BRE Bank), Nordea Bank Polska S.A. (Nordea Bank Polska), Nordea Bank AB, BNP Paribas Bank Polska S.A. (BNP Paribas BP) and Bank Zachodni WBK S.A. (BZ WBK), concerning the provision of financing of the CCGT unit in EC Stalowa Wola. The aforementioned Annex was related to the change of the relevant representations and the procedure of making the information memorandum available. 2. Confirmation of the long-term foreign and local currency ratings for the Company at BBB level, with stable outlooks by the Fitch Rating Agency. 3. Taking the decision by the Company on the intended merger of TAURON with the subsidiary PKE Broker. 4. Signing the memorandum of understanding by the Company with PGE Polska Grupa Energetyczna S.A. (PGE), KGHM and ENEA S.A. (ENEA), concerning the continuation of the works connected with the development of a draft agreement on the purchase of shares in the special purpose vehicle for the construction and exploitation of a nuclear power plant. 5. Signing of the letter of intent by TAURON Dystrybucja with the American company Altairnano concerning the cooperation in the area of stationary systems for energy storage and stabilisation of capacity, based on lithium-titanate batteries. 6. Completion of the modernisation of a coal-fired boiler in BC-35 unit in Zakład Wytwarzania in Tychy (ZW Tychy), to the bubbling biomass fluidized bed boiler (BFB), maintaining the previous efficiency. 7. Commissioning of the heat generation unit of 50 MW capacity in ZEC Bielsko-Biała, representing the generation unit complying with the environmental protection requirements concerning the emissions of NOx, SO_2 and particulate matter.
July August	1. Signing the agreement by TAURON Ciepło with the company Control Process for the construction of the turbo generator of 50 MW capacity in Zakład Wytwarzania Nowa with its seat in Dąbrowa Górnicza. 2. Signing the letter of intent by the Company and TAURON Ciepło with ArcelorMittal Poland S.A. and ArcelorMittal Ostrava a.s. in order to commence the activities aimed at establishing the partnership cooperation in the scope of commercial power industry. 3. Signing the agreement by the Company with ING Bank, Bank PKO and BRE Bank concerning the programme on issue of bonds up to the maximum amount of PLN 5 billion. 4. Signing the agreement by the Company with Bank Gospodarstwa Krajowego (BGK) concerning the organisation and guarantee for the issue of bonds up to the amount of PLN 1 billion. 5. Signing the agreement by the Company with Nordea Bank Polska for granting the bank re-guarantee at the level of EUR 100,000.00 to the benefit of Nordea Bank Finland Plc Niederlaussung Deutschland in order to secure the liabilities due to the bank guarantee granted by Nordea Bank Finland Plc Niederlaussung Deutschland to the benefit of GASPOOL Balancing Services GmbH, for securing of liabilities of the Company due to trade transactions on gas supply.
September October	1. Initialling of the agreement by the Company, PGE, KGHM and ENEA, concerning the purchase of shares in the special purpose vehicle for the construction and exploitation of a nuclear power plant. 2. Opening of wind farms of 82 MW capacity in Marszewo and 40 MW capacity in Wicko. 3. Signing the annex to the agreement by the Company and TAURON Wytwarzanie with PGNiG, PGNiG Termika S.A. (PGNiG Termika) and EC Stalowa Wola concerning the functioning of EC Stalowa Wola under the project called *Construction on the CCGT unit in Stalowa Wola*, pursuant to which the company PGNiG Termika entered into the agreement to replace PGNiG Energa S.A.

Month	Events in 2013
November December	1. Registration of the merger of the Company with the subsidiary PKE Broker by the District Court for Katowice-Wschód in Katowice, 8th Commercial Department of the National Court Register. 2. Signing the agreement by the Company with Kompania Węglowa for the purchase of TAURON Wydobycie shares. 3. Signing the letter of intent by the Company with Azoty S.A. Group and KGHM in the scope of cooperation related to analysing the possibility to implement the project on construction of the Polygeneration Plant. 4. Signing the memorandum of understanding by the Company and TAURON Ciepło and TAURON Wytwarzanie with ArcelorMittal Poland S.A. and ArcelorMittal Ostrava a.s. concerning the partnership cooperation in the scope of transmission energy industry. 5. Including of the Company in the group of companies listed in the socially responsible companies listed at the stock exchange – RESPECT Index. 6. Signing the agreement by TAURON Dystrybucja and Polskie Sieci Elektroenergetyczne S.A. concerning the provision of services involving the transmission of electric energy in the country and the cross-border exchange of electric energy. 7. Expiry of the framework agreement concerning the joint exploration and extraction of shale gas, dated 4 July 2012, concluded between the Company, PGNiG, KGHM, PGE and ENEA.

2.2. Areas of activities

TAURON Capital Group is a vertically integrated energy enterprise holding the leading position in generation, distribution and sale of electric energy in Poland and in Central and Eastern Europe. TAURON Capital Group conducts its operations within the following Core Business Areas (hereinafter also referred to as Segments):

Mining, comprising mainly mining, preparation and sale of hard coal in Poland, the activity provided by TAURON Wydobycie (formerly: Południowy Koncern Węglowy S.A.)

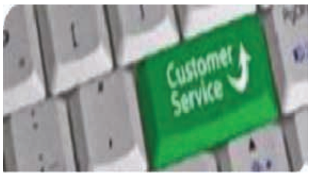
Generation, comprising mainly generation of electric energy in conventional sources, including co-generation, as well as generation of electric power using biomass burning and co-burning, and other thermally acquired energy. The basic fuels used by Generation Business Area comprise hard coal, biomass and coke-oven gas and high-methane gas. These activities are carried out by TAURON Wytwarzanie. On 2 January 2013 this company was divided through separation allocation of Elektrociepłownia Katowice (EC Katowice) to the company TAURON Ciepło belonging to the Heat Segment. On the other hand, in January 2014 the heat assets comprising Oddział ZEC Bielsko-Biała were separated from the TAURON Wytwarzanie structures and included in TAURON Ciepło by means of apportionment of the TAURON Wytwarzanie company.

Renewables (RES), comprising generation of electric energy from renewable sources (excluding generation of electric energy using biomass co-burning which is allocated to the Generation Business Area). The activities are conducted by TAURON EKOENERGIA (as of 2January 2014 the incorporation of the subsidiaries BELS INVESTMENT and MEGAWAT MARSZEWO occurred).

Heat, comprising the generation, distribution and sale of heat and, to a lesser extent, other energy products (electric energy, wind of blast furnace, compressed air). The activities are conducted by the company TAURON Ciepło.

Distribution, covering the distribution of electric energy using distribution grids located in southern Poland. The activities are conducted by the company TAURON Dystrybucja. This Area also comprises the company TAURON Dystrybucja Serwis (established by means of merger of TAURON Serwis GZE Sp. z o.o. and PUE Wrocław S.A.).

Sales, comprising sales of electric energy to end-customers and wholesale trading of electric energy, as well as trading and management of CO_2 emission allowances and the property rights arising from the energy certificates of origin. Operations in this area are provided by the companies: TAURON, TAURON Sprzedaż, TAURON Sprzedaż GZE and TAURON Czech Energy.



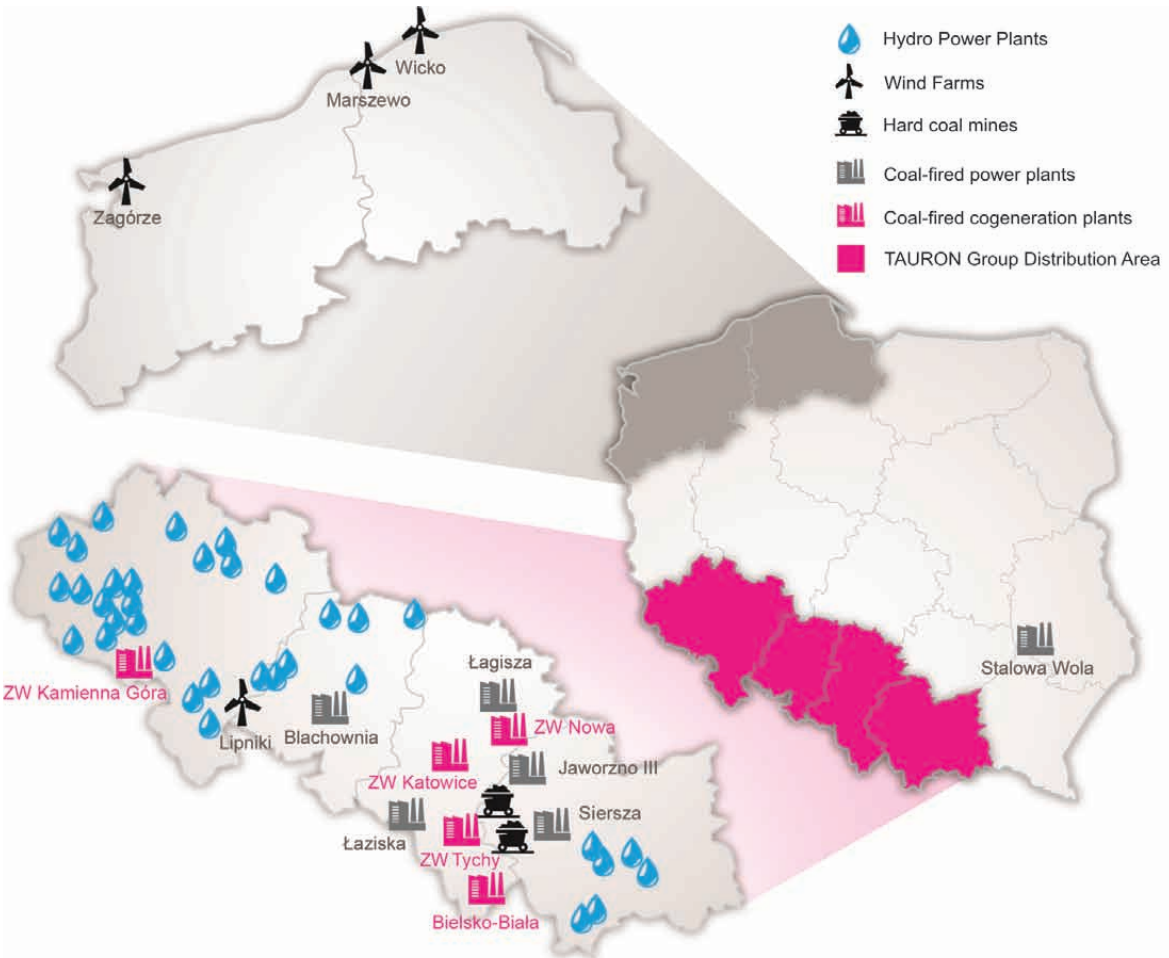
Customer Service, covering mainly services provided to clients of TAURON Capital Group (both in the scope of sales and supply of energy). Starting from 2013 the activities have been expanded by provision of support services for the companies of TAURON Capital Group in the area of accounting, communication and IT, as a result of centralisation of processes taken over from the companies of TAURON Capital Group. Operations in this area are carried out by the company TAURON Obsługa Klienta.

Other, comprising mainly activities in the area of extraction of stone, including limestone, for the needs of power engineering industry, metallurgy, construction and road building as well as production of sorbing agents for installations of flue gas desulphurization using the wet method and for the use in the fluidized bed boilers (the activity provided by the company KW Czatkowice) as well as the activity in the scope of electric energy and derivative products trading (conducted by the company PEPKH).

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

The figure below shows the location of key assets of TAURON Capital Group as well as the distribution area where TAURON Dystrybucja operates, as the Distribution System Operator (DSO).

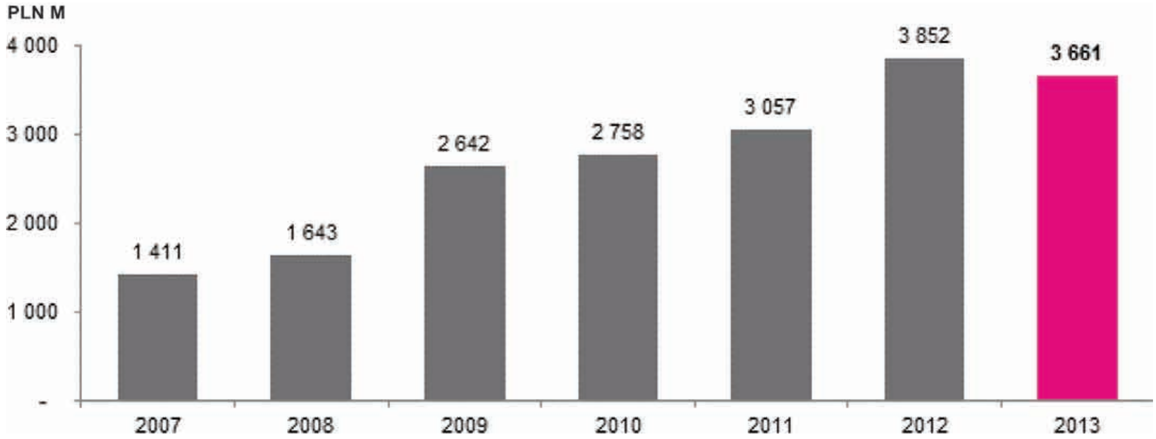
Figure no. 3 Location of key assets of TAURON Capital Group



2.3. Financial results of Areas of operations

The figure below presents the EBITDA results of TAURON Capital Group in 2007–2013.

Figure no. 4 EBITDA of TAURON Capital Group in the years 2007–2013



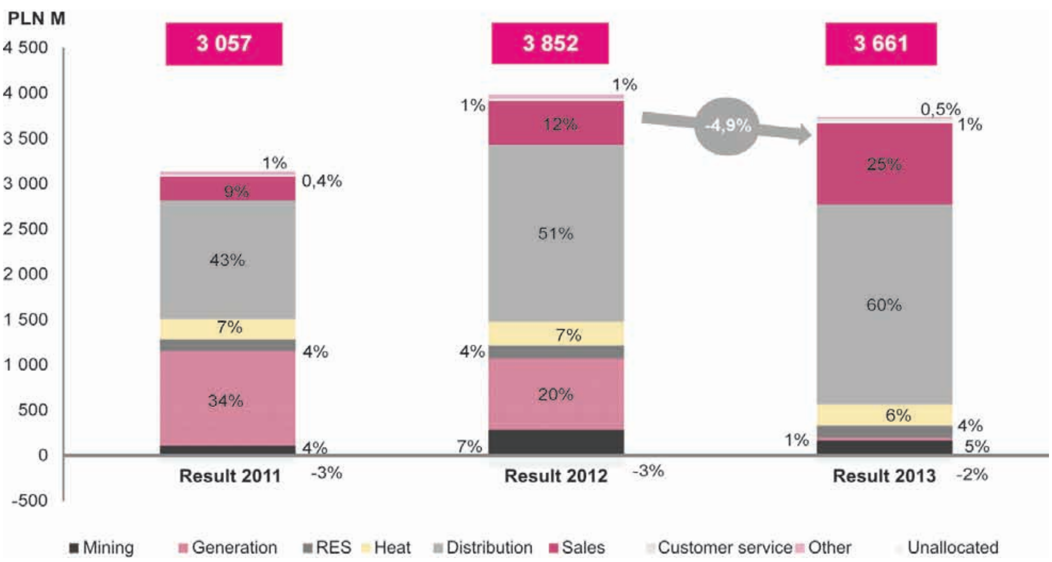
The table below shows EBITDA results of TAURON Capital Group, divided into individual Core Business Areas (Segments) of operations for 2013, 2012 and 2011. The data for individual Business Areas do not include consolidation exclusions.

Table no. 8 EBITDA results of TAURON Capital Group, divided into Business Areas

EBITDA (thous. PLN)	2013	2012	2011	Dynamics (2013/2012)	Change (2013–2012)
Mining	**165,783**	287,431	111,040	57.7%	(121,648)
Generation	**32,458**	787,322	1,047145	4.1%	(754,864)
RES	**135,563**	143,450	126,036	94.5%	(7,887)
Heat	**231,847**	263,052	229,030	88.1%	(31,205)
Distribution	**2,208381**	1,955,896	1,302,691	112.9%	252,485
Sales	**899,208**	478,342	270,927	188.0%	420,873
Customer Service	**45,283**	25,131	12,704	180.2%	20,152
Other	**17,485**	42,347	37,165	41.3%	(24,862)
Unallocated items	**(74,524)**	(131,346)	(79,687)	56.7%	56,822
Total EBITDA	**3,661,484**	**3,851,625**	**3,057,051**	**95.1%**	**(190,141)**

The figure below shows EBITDA structure of TAURON Capital Group.

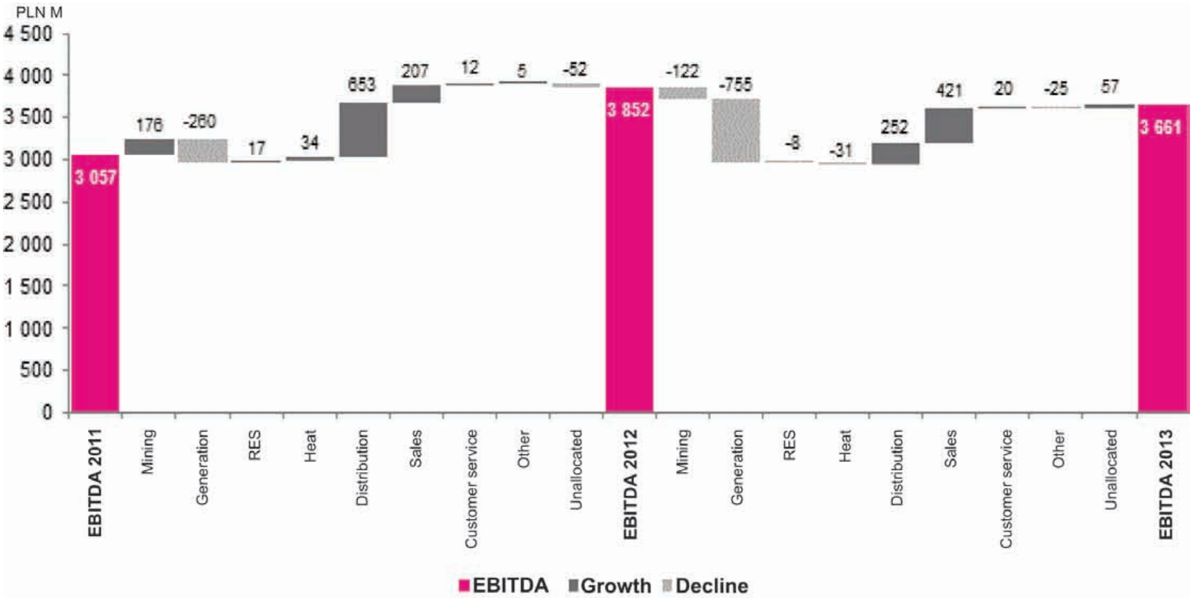
Figure no. 5 EBITDA structure of TAURON Capital Group



The Distribution Area demonstrates the highest share in EBITDA in TAURON Capital Group. In 2013, due to the write-down applied on assets, lack of revenue from LTC and the creation of provisions for the unfulfilled CO_2 allowances, the share of the Generation Area decreased. On the other hand, in relation to 2012 the share of the Sales Area significantly increased, mainly due to the favourable market conditions in terms of purchase and sale prices of electric energy and the reduced costs of the obligations to redeem the certificates (lack of legal regulations in the scope of redemption of the certificates of origin of energy from cogeneration).

The figure below presents the change in EBITDA results of TAURON Capital Group in the years 2011–2013.

Figure no. 6 Changes in EBITDA of TAURON Capital Group in the years 2011–2013



2.3.1. Business Area: Mining

The table below shows the results of Mining Area.

Table no. 9 Results of Mining Area

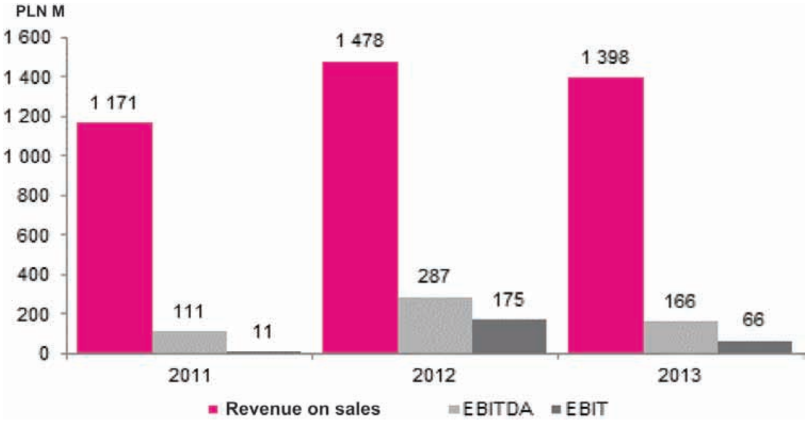
Specification (thous. PLN)	2013	2012	2011	Dynamics (2013/2012)	Change (2013–2012)
Mining					
Revenue on sales	**1,397,506**	**1,477,835**	**1,171,213**	**94.6%**	**(80,329)**
coal – coarse and medium assortments	*525,419*	*493,103*	*462,265*	*106.9%*	*32,316*
power coal	*835,355*	*948,567*	*676,948*	*88.1%*	*(113,212)*
other revenue	*36,732*	*36,165*	*32,000*	*101.6%*	*567*
Operating profit	**65,786**	**174,945**	**11,200**	**37.6%**	**(109,159)**
Amortisation and depreciation	**99,997**	**112,486**	**99,840**	**88.9%**	**(12,489)**
EBITDA	**165,783**	**287,431**	**111,040**	**57.7%**	**(121,648)**

In 2013 the revenue on sales in the Mining Segment reached the level lower than in 2012, with slight increase in the level of sales in quantitative terms (1.7%). The decrease in coal prices (on average, by 7.2%), associated with the decline in market coal prices was a determining factor. The company of the Mining Area reached increased revenues in the segment of coarse and medium assortments, mainly at the external market, owing to the high sale dynamics in this area (110% quantitatively, YoY). In the scope of energy coal (coal dust and slurry), lower revenues on sale were determined by the decrease in unit prices, as well as the reduced collection by companies of TAURON Capital Group, and the decline in coal production, arising mainly from the deteriorated geological and mining conditions of the extraction in the second half of 2013.

The aforementioned decline in revenues is the main reason of the decreased EBIT result in the analysed period, from PLN 174,945 thousand in 2012 to PLN 65,786 thousand in 2013. In the scope of costs of generation of the coal sold, dynamics similar to the volume of sales increase may be observed (ab. 102%). The costs of external services represented the highest share in the cost increase (more works commissioned to external companies, higher costs of machinery rental) and the costs of materials (larger scope of works related to reinforcements, higher number of drift metres).

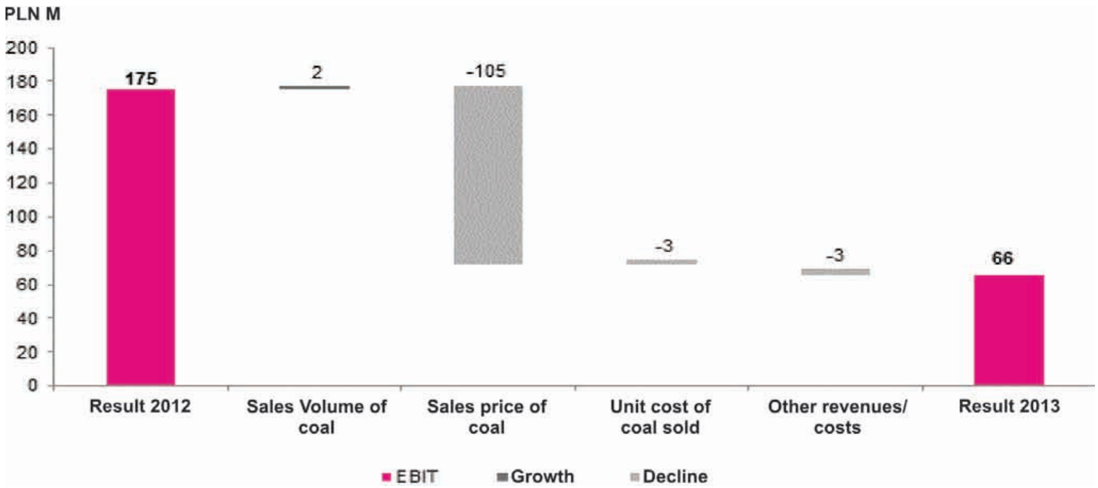
The figure below shows the financial data of the Mining Area for the years 2001–2013.

Figure no. 7 Financial data of the Mining Area for the years 2001–2013



The figure below shows the EBIT Bridge result for Mining Area.

Figure no. 8 EBIT Bridge for the Mining Area



Strategy and the strategic priorities

Grupa Kapitałowa TAURON jest jednym z największych odbiorców węgla kamiennego w Polsce. The strategic goal of the Mining Area is to secure the availability of this key fuel for TAURON Capital Group at the lowest cost possible and using the natural synergies within TAURON Capital Group as well as to maximise the margin mass generated by sale of other products. The strategic priority in the nearest years will involve strict control of coal extraction costs and continuous improvement of the quality of the products supplied.

Major investments

In 2013, in the Mining Area the total capital expenditures incurred reached PLN 25, 720 thousand, including the following strategic investment projects:

1) PLN 17,900 thousand for the construction of Grzegorz shaft, including the construction of infrastructure and the accompanying headings in ZG Sobieski (the investment will be continued in the following years),
2) PLN 42 500 thousand for increasing of the production capacity of TAURON Wydobycie based on the deposits held, through construction of 800m level and commissioning of the fourth wall in ZG Janina (the investment will be continued in the following years),
3) PLN 25,200 thousand for the purchase of powered supports for 207 deposit in ZG Janina (investment completed in 2013),
4) PLN 63,600 thousand for the purchase of additional powered support set for 207 and 209 deposits in ZG Sobieski (investment completed in 2013).

In 2013 the amount of PLN 15,600 thousand was incurred on the construction of the main ventilation and transport ramp in ZG Sobieski.

Development perspectives

According to the available forecasts and analyses, the macroeconomic conditions under which the producers of hard coal will act, will continue to be difficult and demanding. Nevertheless, coal will still serve as the basic fuel used in the Polish energy sector, including TAURON Capital Group, and due to the aforementioned investments, the percentage share of coal from own coal mines in the structure of purchases of TAURON Capital Group will continue to grow, with simultaneous increase in efficiency.

2.3.2. Business Area: Generation

The table below shows the results of Generation Area.

Table no. 10 Results of Generation Area

Specification (thous. PLN)	2013	2012	2011	Dynamics (2013/2012)	Change (2013–2012)
Generation					
Revenue on sales	**4,723,455**	**5,565,468**	**5,950,464**	**84.9%**	**(842,013)**
electric energy	*4,229,256*	*4,161,753*	*4,776,271*	*101.6%*	*67,503*
heat	*219,916*	*219,768*	*284,158*	*100.1%*	*148*
property rights arising from certificates of electric energy origin	*197,798*	*410,178*	*250,313*	*48.2%*	*(212,380)*
greenhouse gas emission allowances	*43,614*	*163,591*	*180,547*	*26.7%*	*(119,977)*
compensation due to LTC termination	*(18,886)*	*567,012*	*414,795*	*–*	*(585,898)*
other revenue	*51,757*	*43,165*	*44,380*	*119.9%*	*8,592*
Operating profit	**(475,466)**	**272,294**	**512,959**	**–**	**(747,760)**
Amortisation and depreciation	**507,924**	**515,028**	**534,186**	**98.6%**	**(7,104)**
EBITDA	**32,458**	**787,322**	**1,047,145**	**4.1%**	**(754,864)**

In 2013 the revenue on sales in the Generation Segment was lower by about 15% as compared to 2012. The decrease in revenue due to LTC compensation in 2013, as compared to the previous year, results from the fact that 2012 was the last year of participation of the Company in the programme of covering the stranded costs. On 30 August 2013, the President of ERO determined, by means of administrative decision, the level of final adjustment of stranded costs, which resulted in recognising the adjustment of revenue – the decrease by about PLN 18,900 thousand.

In relation to the previous year, revenue from sale of property rights arising from certificates of origin of electric energy was lower (in 2013, lack of revenue from “red” and “yellow” certificates, lower volume of production from RES) as well as the revenue from sale of CO_2 emission allowances (exchange transactions of EUA emission allowances to Certified Emission Reduction (CER) units). The revenue on sale of electric energy and heat was slightly higher than in 2012.

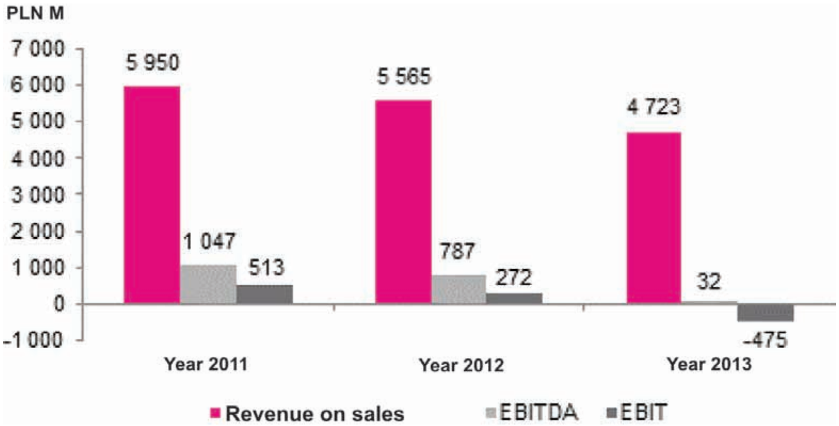
The EBIT operating result and EBITDA of the Generation Segment in 2013 reached a level lower than 2012. The results were significantly affected by the write-down on assets, which charged own cost of sales. Based on the performed tests on impairment losses, the impairment of a part of generation units was confirmed – the majority of these units includes blocks of 120 class, of the total installed capacity of about 1,200 MW_e.

Moreover, other factors which had adverse effect on the results reached included: lack of revenue due to LTC compensation, lower price of electric energy sales, costs associated with the creation of the provision for liabilities due to CO_2 emission. In accordance with the accounting policy applied in TAURON Capital Group, the provision for liabilities due to emission of gases covered by the system of emission allowances is created if the real emission in a given year is higher than the volume of complimentary emission allowances allocated to TAURON Capital Group. The capital expenditures, representing the prerequisite to gain the allowances, provide the basis for allocation of the derogation allowances in the years 2013–2020. The lack of allocation of derogation allowances for the generation sector in Poland until the end of 2013 had adverse effect on the final level of the provision.

On the other hand, such factors as: lower fuel prices, higher margin on electric energy trade and lower fixed costs, had a positive impact on the results of the Generation Segment in relation to the previous year.

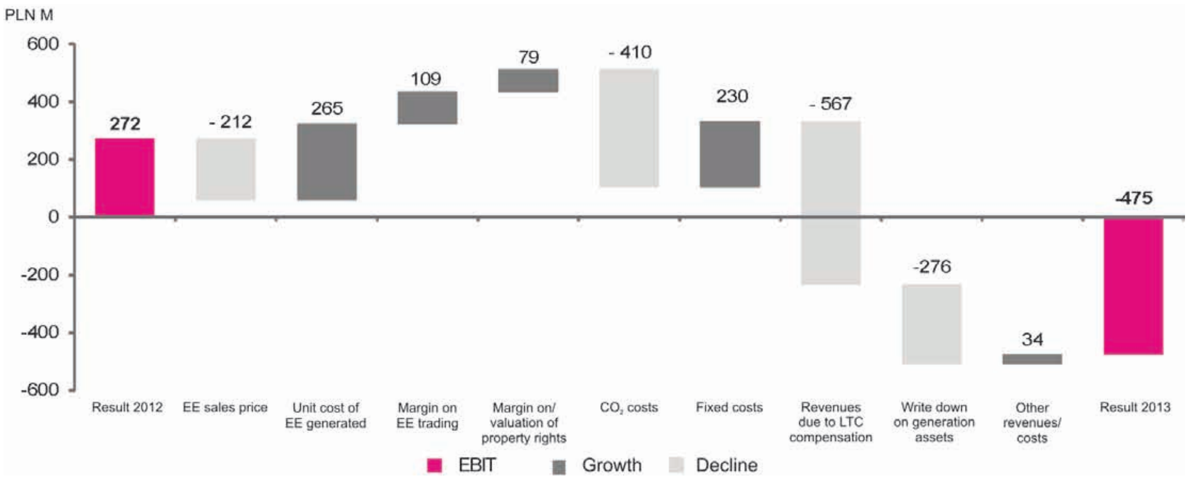
The figure below shows the financial data of the Generation Area for the years 2001–2013.

Figure no. 9 Financial data of the Generation Area for the years 2001–2013.



The figure below shows the EBIT Bridge result for Generation Area.

Figure no. 10 EBIT Bridge for the Generation Area



Strategy and the strategic priorities

TAURON Capital Group is one of the largest electric energy generators in Poland. The strategic goal of this Area is the construction of the portfolio of generation assets, optimum in terms of its profitability and risk, and its effective exploitation. The strategic priorities in the forthcoming years will focus on investment in new generation assets in diversified technology (coal, gas) and cost optimisation.

Major investments

In 2013, in the Generation Area the total capital expenditures incurred reached PLN 520,926 thousand, including the following strategic investment projects:

1) PLN 223,800 thousand for two programmes on construction of flue gas denitrification installations and modernisation of 200 MW blocks in Elektrownia Jaworzno and in Elektrownia Łaziska (the investment projects will be continued in the following years),
2) PLN 67,200 thousand for the construction of a coal-fired unit of 50 MW capacity in EC Bielsko Biała (investment completed in 2013),
3) PLN 27,900 thousand for the construction of the installation for electric energy production in renewable energy source in Stalowa Wola, of 20 MW capacity (investment completed in 2013).

Moreover, in 2013 the decision was made to launch the strategic investment project on construction of the CCGT unit of 413 MW_e class in Elektrownia Łagisza. In Stalowa Wola, the investment with participation of the strategic partner, PGNiG, is under implementation, comprising the construction of the CCGT unit of 449 MW_e capacity, with the heat generation component of 240 MW_t capacity.

Development perspectives

According to the available forecasts and analyses, the macroeconomic and sectoral conditions under which the producers of electric energy will act shall be similar to the current conditions over the next several years. However, certain improvement of the situation may be associated with the difficulties to cover the power demand by the national generation units, expected from 2016. The main reason is the insufficient scope of construction of new generation sources required to cover the national demand for power and electric energy, under the conditions of the growing demand and the necessity to abandon the exploitation of old generation units.

2.3.3. Business Area: RES

The table below shows the results of RES Area.

Table no. 11 Results of RES Area

Specification (thous. PLN)	2013	2012	2011	Dynamics (2013/2012)	Change (2013–2012)
RES					
Revenue on sales	**204,495**	**206,581**	**180,674**	**99.0%**	**(2,086)**
electric energy	*118,330*	*88,730*	*73,731*	*133.4%*	*29,600*
property rights from certificates of electric energy origin	*85,529*	*117,172*	*106,093*	*73.0%*	*(31,643)*
other revenue	*636*	*679*	*851*	*93.7%*	*(43)*
Operating profit	**92,978**	**103,879**	**100,622**	**89.5%**	**(10,901)**
Amortisation and depreciation	**42,585**	**39,571**	**25,414**	**107.6%**	**3,014**
EBITDA	**135,563**	**143,450**	**126,036**	**94.5%**	**(7,887)**

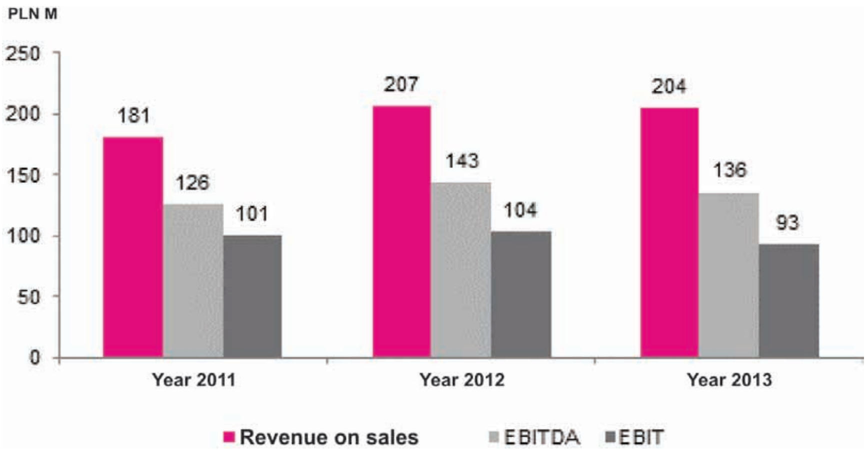
In 2013, the revenue on sales in the RES Segment reached a level similar to 2012.

The positive effect of the increased sales of electric energy and property rights arising from the certificates of origin of electric energy produced in RES, associated with the commissioning of the farms in Wicko and Marszewo starting from the 4th quarter of 2013, was balanced by the decline in prices of the property rights.

The aforementioned factors affected the EBIT operating result and EBITDA result of the RES Area, which reached slightly lower levels in 2013 than in 2012. Due to the commissioning of new wind farms in 2013, the fixed costs were also higher.

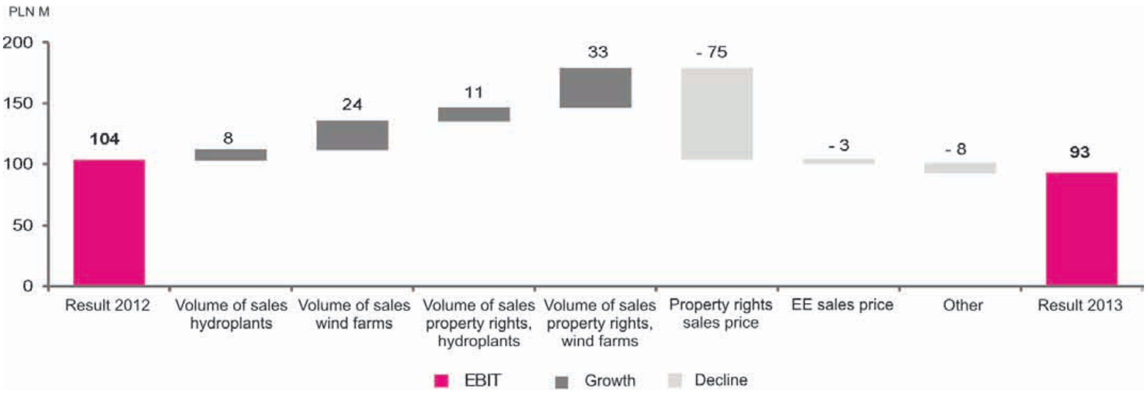
The figure below shows the financial data of the RES Area for the years 2001–2013.

Figure no. 11 Financial data of the RES Area for the years 2001–2013.



The figure below shows the EBIT Bridge result for RES Area.

Figure no. 12 EBIT Bridge for the RES Area



Strategy and the strategic priorities

The activities of the RES Area of TAURON Capital Group are coherent with the assumptions of the energy policy of Europe and the country, namely, the intensification of measures aimed at increasing of the renewable energy share in the total production of electric energy. One of the main strategic goals of the Area is to increase the RES installed capacity; as a result of the activities implemented, TAURON Capital Group is currently the owner of hydroelectric plants and wind farms of the total installed capacity over 300 MW. The consistent policy of improvement of the operating effectiveness is also implemented.

Major investments

In 2013, in the RES Area the total capital expenditures incurred reached PLN 606,915 thousand, including the following strategic investment projects:

1) PLN 216,600 thousand for the construction of Wicko wind farm of 40 MW capacity (investment completed in 2013),
2) PLN 299,900 thousand for the construction of Marszewo wind farm of 82 MW capacity (investment completed in 2013). The second stage of this project was also launched, comprising the construction of a wind farm of 18 MW in Nosalin (scheduled delivery of the project in 2015).

Moreover, costs of approximately PLN 48,000 thousand were incurred for the modernisation of hydroelectric plants.

Development perspectives

The development perspectives for renewable sources are dependent on the regulations of the energy sector, including the requirements associated with the climate policy of the European Union. TAURON monitors the market environment and analyses its impact on its own operations. The strategic decisions on further expansion in the RES Area shall depend on the results of the activities related to the amendment to the national RES Act and changes in the scope of the support system for RES installations.

2.3.4. Business Area: Heat

The table below shows the results of Heat Area.

Table no. 12 Results of Heat Area

Specification (thous. PLN)	2013	2012	2011	Dynamics (2013/2012)	Change (2013–2012)
Heat					
Revenue on sales	**1,188,532**	**1,136,408**	**950,169**	**104.6%**	**52,124**
electric energy	*273,855*	*250,881*	*99,506*	*109.2%*	*22,974*
heat (including transmission)	*667,954*	*629,691*	*585,943*	*106.1%*	*38,263*
property rights from certificates of electric energy origin	*3,194*	*20,925*	*27,836*	*15.3%*	*(17,731)*
wind of blast furnace	*147,565*	*146,327*	*149,711*	*100.8%*	*1,238*
compressed air	*70,272*	*75,155*	*70,406*	*93.5%*	*(4,883)*
other revenue	*25,692*	*13,430*	*16,768*	*191.3%*	*12,262*
Operating profit	**127,421**	**169,800**	**160,631**	**75.0%**	**(42,379)**
Amortisation and depreciation	**104,426**	**93,252**	**68,399**	**112.0%**	**11,174**
EBITDA	**231,847**	**263,052**	**229,030**	**88.1%**	**(31,205)**

Revenue on sales of the Heat Segment in 2013 reached a level higher by ab. 5% than in the previous year. The growth was related to the revenue on sales of heat and transmission services and electric energy, whereas the revenue was lower in case of sales of property rights from certificates of electric energy origin and sales of compressed air. The increase in the item *other services YoY* arises from occurrence of revenues in 2013 due to the tangible fixed assets taken over free of charge, in connection with the implementation of the investment tasks concerning the assets of TAURON Ciepło company, performed by an external investor. Such revenues did not occur in the previous years.

The operating results of EBIT and EBITDA in 2013 reached a level lower than in the previous year.

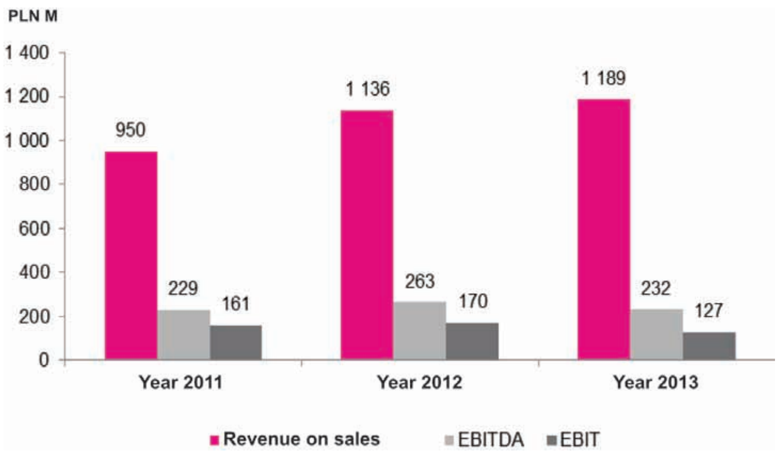
As of 1 January 2013 the support system for electric energy generation in high-performance cogeneration, based on the certification system, ceased to be binding, and the regulations concerning the obligation of obtaining and presenting for redemption of the certificates of origin from gas-fired cogeneration (the so-called "yellow" certificates) and other cogeneration (the so-called "red" certificates) expired. In connection with the foregoing, and due to the lack of certainty concerning the introduction of legal solutions in the scope of support to generation of electric energy in cogeneration, the allowance for depreciation of the stocks of "yellow" and "red" certificates held to the zero value, was established. It should be mentioned that the settlement of the obligation concerning the redemption of certificates for 2012 was performed by enterprises selling electric energy to end consumers until 31 March 2013.

The additional factors which negatively affected the results included: lower price of electric energy sales and costs of the provision for liabilities due to CO_2 emission. Moreover, in 2012 sales of the surplus of CO_2 emission allowances took place (in 2013, in connection with the deficit of the allowances, such transaction did not occur).

Factors which had positive impact on the results achieved included: growth in the sales prices of heat, transmission services, wind of blast furnace and compressed air, higher volume of electric energy sales, as well as lower prices of coal and biomass and lower fixed costs.

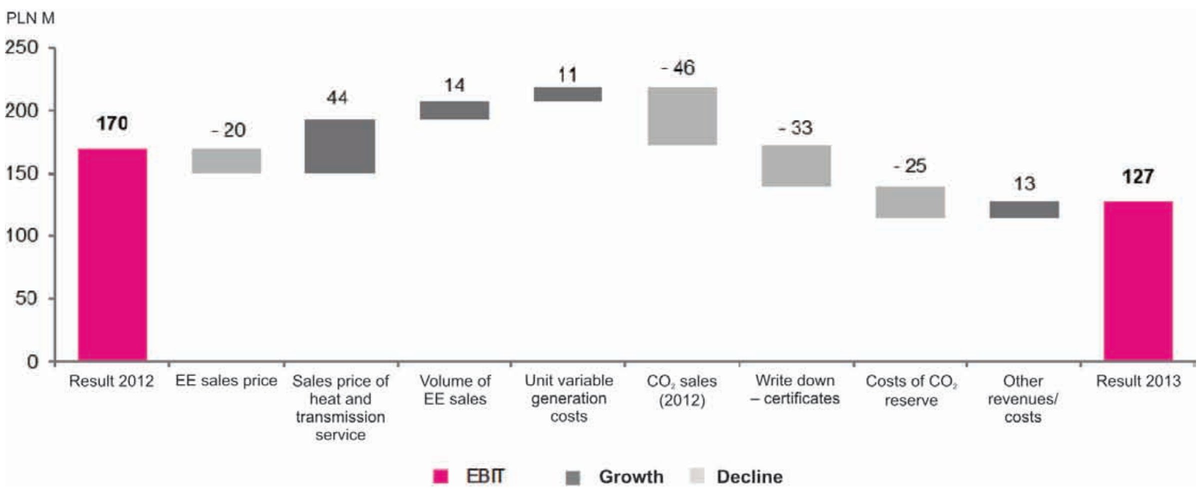
The figure below shows the financial data of the Heat Area for the years 2001–2013.

Figure no. 13 Financial data of the Heat Area for the years 2001–2013



The figure below shows the EBIT Bridge result for Heat Area.

Figure no. 14 EBIT Bridge for the Heat Area



Strategy and the strategic priorities

TAURON Capital Group is the leader on the local heat market. The strategic goal of the segment is to integrate assets and optimise costs of activities in the scope of heat generation and distribution as well as to provide heat supplies for the generation units of TAURON Capital Group. The strategic priorities in the nearest years will include the improvement of the operational effectiveness through cost optimisation and increase in the sales of system heat through the active acquisition oriented towards connecting the newly established facilities to the distribution grid, as well as the already existing buildings, so far heated by alternative heat sources. Investment in modernisation of the existing generation units and construction of new units will be also essential for the Area.

Major investments

In 2013, in the Heat Area the total capital expenditures incurred reached PLN 202,252 thousand, including the following strategic investment projects:

1) PLN 34,100 thousand for the construction of the BC-50 block in ZW Tychy (scheduled delivery of the project in 2016),
2) PLN 18,300 thousand for the construction of the turbogenerator of 50 MW capacity in ZW Nowa (scheduled delivery of the project in 2015),

Moreover, in 2013 expenditure of approximately PLN 106,000 thousand was incurred for the maintenance and development of heat networks.

Development perspectives

The distribution activity in the scope of heat is fully regulated, which affects the stability of the situation in this area. In the European Union, production of electric energy in cogeneration is perceived as one of the most effective methods of CO_2 emission reduction, which provide good perspectives for this activity for the future. In Poland legislative works are currently in progress, concerning the recovery of support for cogeneration until 2018.

2.3.5. Business Area: Distribution

The table below shows the results of Distribution Area.

Table no. 13 Results of Distribution Area

Specification (thous. PLN)	2013	2012	2011	Dynamics (2013/2012)	Change (2013–2012)
Distribution					
Revenue on sales	**5,997,470**	**6,077,498**	**4,668,237**	**98.7%**	**-80,028**
distribution services	*5,531,970*	*5,583,720*	*4,317,592*	*99.1%*	*-51,750*
connection fees	*160,269*	*182,632*	*147,200*	*87.8%*	*-22,363*
maintenance of street lightning	*106,321*	*100,090*	*76,169*	*106.2%*	*6,231*
other revenue	*198,910*	*211,056*	*127,277*	*94.2%*	*-12,146*
Operating profit	**1,295,639**	**1,077,388**	**637,080**	**120.3%**	**218,251**
Amortisation and depreciation	**912,742**	**878,508**	**665,611**	**103.9%**	**34,234**
EBITDA	**2,208,381**	**1,955,896**	**1,302,691**	**112.9%**	**252,485**

In 2013, as compared to 2012, the Distribution Segment recorded the decline in revenue by about 1.3%, increase of results at the operating level by about 20.3%, and EBITDA result by about 12.9%.

The total revenue reached in 2013 was lower as compared to 2012, due to the decrease in revenue on sales of distribution services to end consumers (decline of the average real rate for distribution services at the comparable volume of sales). Sales to end consumers decreased in terms of value and quantity only in A group. The decline referred to several of the largest consumers, however, starting from the 2nd quarter of 2013, the reversal of the downward trend was observed, caused by the economic slowdown. In case of consumers from B tariff groups, the recovery of the visible upward trend was observed during the year.

Applying the tariff adopted for 2013, while maintaining the comparable sales structure, influenced the decrease in the average rate for distribution services by 0.6% YoY. At the same time, the structure of sales favourably balanced the effect of the expected decline in the average rate, which was calculates as 2.9% based on the approved tariffs.

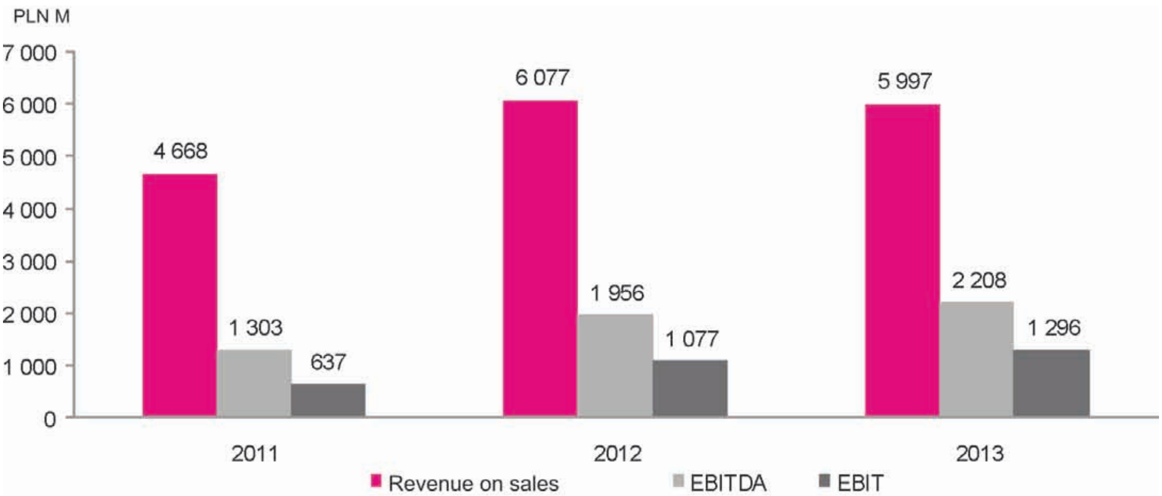
In the scope of other revenue associated with the distribution activities, the decline referred mainly to fees due to the over-standard intake of reactive power and connecting fees. In the scope of connecting new consumers, the deviations occurring in the first half of 2013 were partly balanced in the 4th quarter of 2013. Within the sales to other DSOs, the balance of value and quantitative energy transits in 2013 was maintained at a positive level, which means profit on the operations of purchase and sales of distribution services from/to other DSOs.

Irrespective of lower revenue the operating results of the Distribution Area increased due to the significantly lower operating costs in relation to 2012. The decline referred mainly to the cost of purchase of transmission services arising from the lower volume of purchase (due to the growth of the local generation on the DSO area of operations), and from the decrease of the TSO transitional fee. This decline was taken into consideration in the tariff for 2013. The favourable impact of other elements of the regulated revenue on calculation of the fees, mainly in terms of transfer of operating costs and increase in the RAB (Regulatory Asset Base) and depreciation in 2013, was reflected in the increased financial results of the Segment. In the scope of fixed costs, the remuneration costs reached a level lower in relation to 2012, the decline of which was mainly affected by the measures implemented in the area of effectiveness improvement.

In addition, the lower result of other operating activities had adverse effect on EBIT level in 2013, among others, in connection with the creation of additional provisions for claims of the third parties, associated with the energy facilities and a lower result in services provided to companies of TAURON Capital Group (among others, in connection with the relocation of a part of service personnel to TAURON Obsługa Klienta). The result for street lightning services reached higher level than in 2012, as a result of optimisation of costs of maintenance of these assets and verification of the depreciation rates.

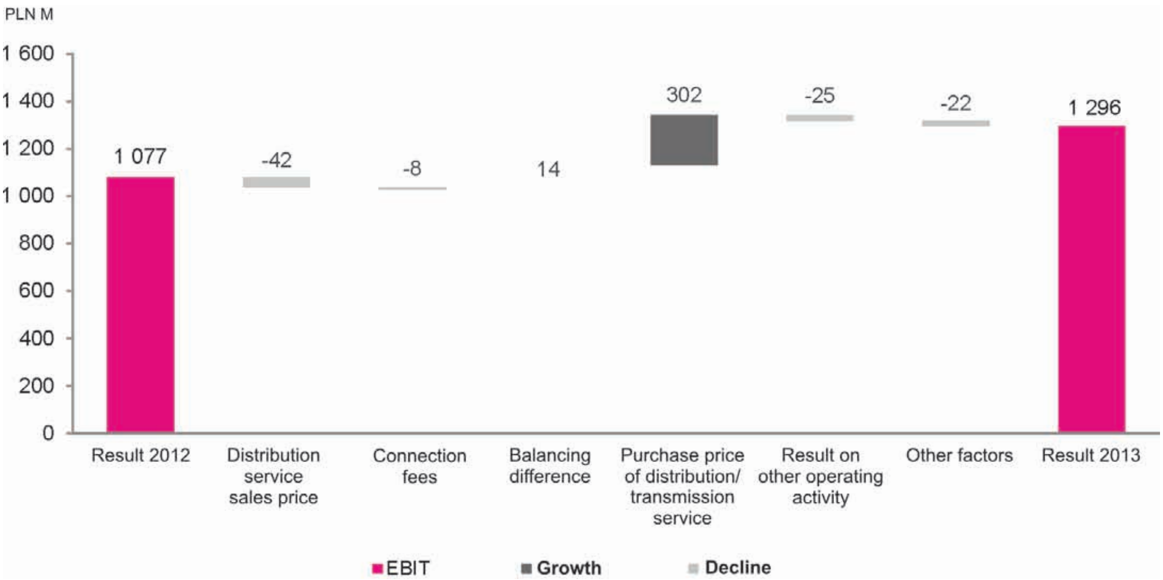
The figure below shows the financial data of the Distribution Area for the years 2001–2013.

Figure no. 15 Financial data of the Distribution Area for the years 2001–2013



The figure below shows the EBIT Bridge result for the Distribution Area.

Figure no. 16 EBIT Bridge for the Distribution Area



Strategy and the strategic priorities

The main goal of the Distribution Area is to generate stable revenue with simultaneous cost optimisation and improvement in the quality of the services provided.

As a result of cost optimisation, the Distribution Area implements the Effectiveness Improvement Programme, which mainly focuses on reducing the FTEs and elimination of duplication of the functions, optimisation of external services and consumption of materials, as well as optimisation of the balance sheet difference through mitigation of the technical and commercial losses.

The Area aims at improvement in the quality of the services provided through the increase in the security of supplies and the effectiveness of the network performance.

Major investments

In 2013, in the Distribution Area the total capital expenditures incurred reached PLN 2,081,675 thousand. The main directions of investment included:

1) PLN 516,000 thousand for investment associated with the connecting of new consumers,

2) PLN 1,319,000 thousand for investment associated with the modernisation and replacement of the network.

Moreover, in 2013 the expenditure of about PLN 12,400 thousand was incurred for the implementation of the strategic investment project on “Management System of Grid Assets”.

Development perspectives

The economic development in the region and the technological progress in the scope of telemechanics, automatic power system protection, communications and information technology, open new opportunities for the management of electric energy distribution. The latest technical achievements enable instant response to changes in the distribution system in order to ensure the highest standards for the provision of distribution services. The factors essential for the continued development of the energy system include smart grid and/or smart metering. Such solutions will introduce additional functionalities, both on the part of suppliers and clients, definitely influencing the development of the sector.

2.3.6. Business Area: Sales

The table below shows the results of Sales Area.

Table no. 14. Results of Sales Area

Specification (thous. PLN)	2013	2012	2011	Dynamics (2013/2012)	Change (2013–2012)
Sales					
Revenue on sales	**18,017,593**	**18,529,846**	**13,557,907**	**97.2%**	**(512,253)**
electric energy	*11,702,924*	*12,516,460*	*9,983,993*	*93.5%*	*(813,536)*
greenhouse gases emission allowances	*367,103*	*376,240*	*436,503*	*97.6%*	*(9,137)*
fuels	*2,337,073*	*1,727,565*	*0*	*135.3%*	*609,508*
distribution service (transferred)	*3,495,185*	*3,804,158*	*3,080015*	*91.9%*	*(308,973)*
other services, including commercial services	*115,308*	*105,423*	*57,396*	*109.4%*	*9,885*
Operating profit	**864,579**	**452,113**	**263,543**	**191.2%**	**412,466**
Amortisation and depreciation	**34,629**	**26,229**	**7,384**	**132.0%**	**8,400**
EBITDA	**899,208**	**478,342**	**270,927**	**188.0%**	**420,866**

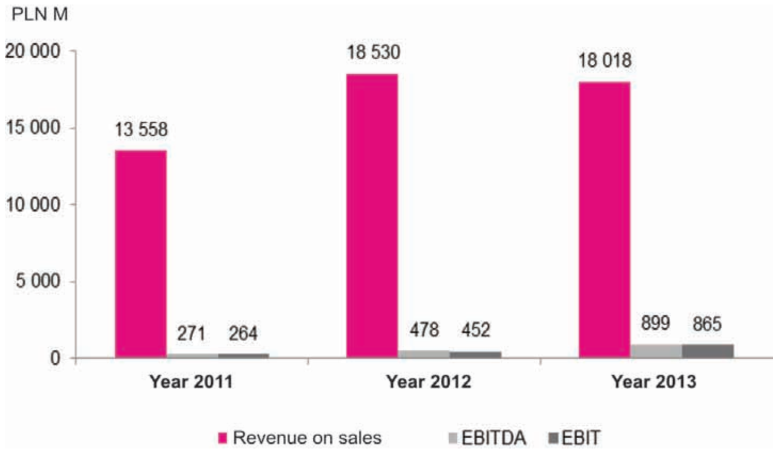
In 2013, revenues on sales reached a level lower by 2.8% in relation to 2012. The lower revenue on sales of electric energy was, to a large extent, compensated by higher revenue on sales of fuels. The revenues due to the distribution service were also significantly lower (without any result for the Sales Area, transferred to the Distribution Area).

Revenues on retail sales of electric energy in 2013 were lower than in 2012, both due to the decline in prices (by 4.6% on average), and the volume (by 3.4 TWh) and they determined the decline in the overall revenue due to electric energy trading. The quantitative decline in sales was observed, in particular, in A and B groups, as a consequence of the decreased demand among clients and the intensified activity of competitive companies, whereas it is partly balanced by the increase in sales to end consumers in the group of strategic clients. The lower level of sales price of electric energy in the period analysed resulted from the reduced cost of purchase of conventional energy and lower costs of acquisition of property rights, which was partly reflected in the renegotiated and contracted levels of sales prices for business clients.

The significant growth of EBIT and EBITDA results, as compared to 2012, was determined by the lower level of variable costs. The lower prices of acquisition of “green” certificates and the maintained lack of obligation to redeem “yellow” and “red” certificates determined the better result achieved. The reduction of costs arising from the aforementioned elements was partly balanced by the increased obligation concerning the obligation to redeem "green" certificates (growth from 10.4% to 12%). In relation to 2012, the obligation to present certificates arising from the energy effectiveness certificates for redemption caused the additional burden.

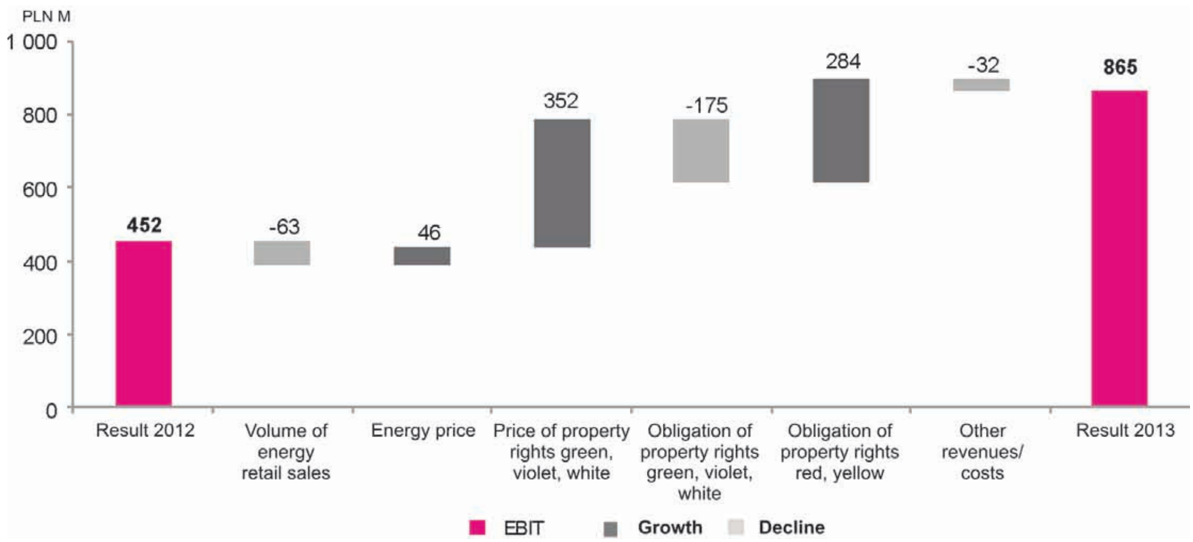
The figure below shows the financial data of the Sales Area for the years 2001–2013.

Figure no. 17 Financial data of the Sales Area for the years 2001–2013



The figure below shows the EBIT Bridge result for the Sales Area.

Figure no. 18 EBIT Bridge for the Sales Area



Strategy and the strategic priorities

The strategic priority of the Sales Area is to maximise the first stage margin from electric energy sales, at the optimum level of own costs. The key tasks of the Area include maintaining of the most profitable clients and creating the channels for acquisition of new clients, as well as building of the effective sales organisation.

The basic and direct tool of the sales company serving for margin generation is the appropriate shaping of final prices, excluding sales prices in G tariff (i.e. in the household segment), for which the obligation of approval of prices by the President of ERO still exists. The Company shapes retail prices on the basis of costs associated with energy sales and considering the risk associated with the resignation of clients and lack of possibility to acquire new ones.

Major investments

In 2013, in the Sales Area the total capital expenditures incurred reached PLN 21,424 thousand, mainly due to the purchase of licences and software.

Development perspectives

The wholesale energy market demonstrates significant volatility in prices, which creates both a threat and an opportunity for sales activities. The threat is associated with the limited possibility to implement the raise in prices for end clients in case of the growth in wholesale energy prices. In addition, the volume is limited, which may not be covered by the change in price due to the contracts concluded with clients for a definite time, at a fixed price determined in advance. On the other hand, the appropriate management of sales prices, in case of decline in wholesale prices, in particular, in the segment of mass clients, enables to obtain the additional margin.

The marked impact on the operating activities of energy enterprises is associated with the progressing liberalisation of the Polish energy market. The target is to liberalise prices in G tariff. The exemption from the obligation to submit the tariffs for approval will liberate the competitive activities in the household segment, which offers a considerable potential for implementation of the margin mass.

Besides the competition stimulated by the regulatory authorities, the competition between energy holdings is also developing in the product and marketing area. Activities aimed at launching projects consisting in combining electric energy sales offers with other suppliers of utilities (e.g. gas or water) are in progress.

2.3.7. Business Area: Customer Service

The table below shows the results of Customer Service Area.

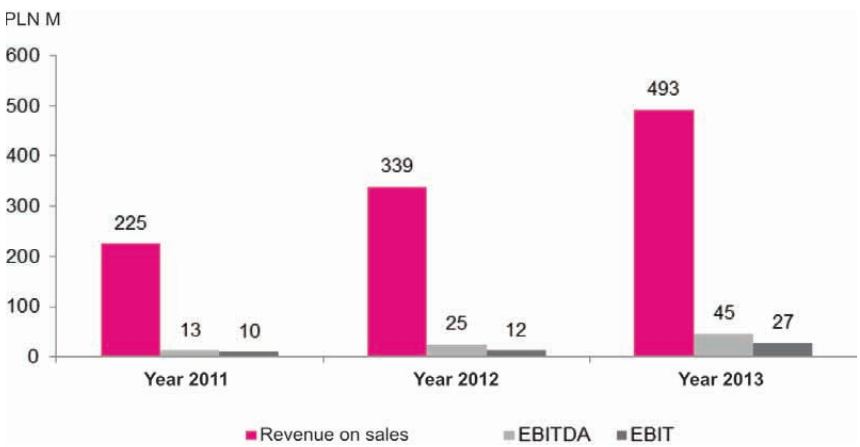
Table no. 15 Results of Customer Service Area

Specification (thous. PLN)	2013	2012	2011	Dynamics (2013/2012)	Change (2013–2012)
Customer Service					
Revenue on sales	**492,583**	338,644	225,261	**145.5%**	**153,940**
customer service, accounting and IT	*486,247*	*337,312*	*181,614*	*144.2%*	*148,935*
other revenue	*6,336*	*1,332*	*43,647*	*475.7%*	*5,004*
Operating profit	**26,837**	12,008	10,030	**223.5%**	**14,829**
Amortisation and depreciation	**18,446**	13,123	2,674	**140.6%**	**5,312**
EBITDA	**45,283**	25,131	12,704	**180.2%**	**20,141**

In 2012 the migration process of customer service, accounting and IT functions from companies of TAURON Capital Group to the Customer Service Segment started, including the assets used in companies for their implementation, which results in the increased revenues of the Area recorded since 2012. In 2013 migration of IT and accounting functions from selected companies of TAURON Capital Group took place. The migration process of the aforementioned functions will be continued in 2014. The expansion of the spectrum of the services provided is associated with the increased costs of the activities conducted, mainly in the scope of external services. The increase in the scope of the services rendered was reflected in the increased results of the Area. The value of the assets taken over and the investment carried out both in relation to fixed assets and intangible assets (mainly as a result of implementation of modern IT systems) affect the growth in depreciation value YoY and the increase in value of tangible fixed assets.

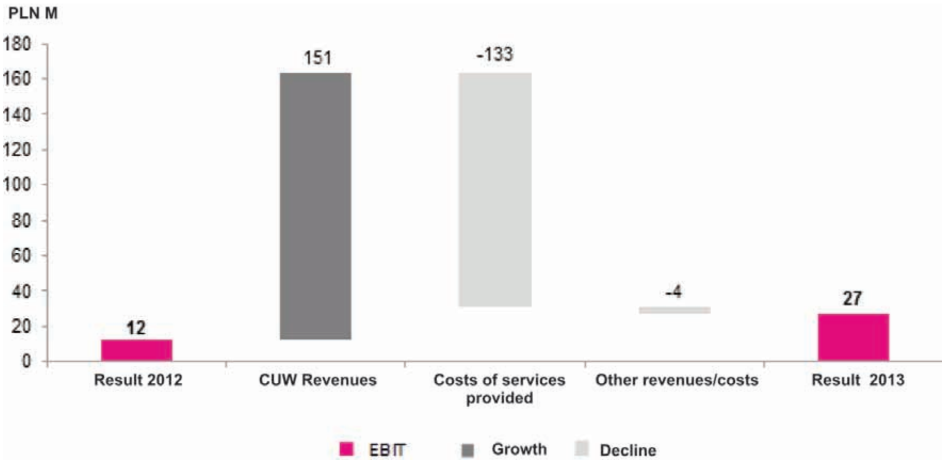
The figure below shows the financial data of the Customer Service Area for the years 2001–2013.

Figure no. 19 Financial data of the Customer Service Area for the years 2001–2013



The figure below shows the EBIT Bridge result for the Customer Service Area.

Figure no. 20 EBIT Bridge for the Customer Service Area



Strategy and the strategic priorities

The conducted integration of the Customer Service Area fulfils the strategic goals of the Area, focusing mainly on the improvement of customer service processes, which shall be reflected in the constant business growth in the Sales Area. The additional priority for the nearest years is the optimisation of costs of the services provided and further centralisation of the support functions.

Major investments

In 2013, in the Customer Service Area the total capital expenditures incurred reached PLN 82,746 thousand. They include mainly the expenditures on IT systems.

Development perspectives

The growing competition on the energy market requires undertaking of actions which shall affect further effectiveness improvement. Accordingly, the Customer Service Area will still concentrate on the provision of services and tools enabling business growth in the Sales Area and continue the centralisation of common functions within one entity, consequently improving the efficiency of performance and cost effectiveness of TAURON Capital Group.

2.3.8. Business Area: Other

The table below shows the results of Other Area.

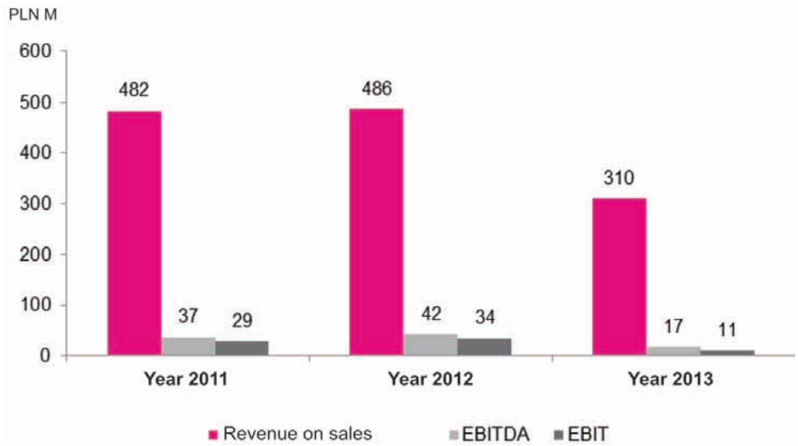
Table no. 16 Results of “Other” Area

Specification (thous. PLN)	2013	2012	2011	Dynamics (2013/2012)	Change (2013–2012)
Other					
Revenue on sales	**310,212**	**486,288**	**482,403**	**63.8%**	**(176,076)**
electric energy	*131,563*	*311,774*	*363,362*	*42.2%*	*(180,211)*
property rights arising from certificates of electric energy origin	*86,436*	*72,594*	*22,645*	*119.1%*	*13,843*
grinding plant products	*56,834*	*64,254*	*54,493*	*88.5%*	*(7,420)*
grit and stone	*33,739*	*34,893*	*39,638*	*96.7%*	*(1,153)*
other revenue	*1,640*	*2,773*	*2,265*	*59.1%*	*(1,134)*
Operating profit	**10,816**	**34,048**	**29,126**	**31.8%**	**(23,232)**
Amortisation and depreciation	**6,669**	**8,299**	**8,039**	**80.4%**	**(1,630)**
EBITDA	**17,485**	**42,347**	**37,165**	**41.3%**	**(24,862)**

The revenues of Other Area reached in 2013 amounted to 63.8% of the value of revenues achieved in the previous year, as a result of the lower volume of electric energy sales reached by PE PKH (taking over of the wholesale trade by TAURON, under the streamlining process of TAURON Capital Group structure). The decline in the revenues of the Area was slightly mitigated by the increased trade of property rights. The revenues on sales of grinding plant products by KW Czatkowice company represent the next item of revenues of the Other Area which has adverse impact on their dynamics. This decline is the consequence of the situation on the aggregate market and the decreased demand for such products.

The figure below shows the financial results of Other Area.

Figure no. 21 Financial data of the Other Area for the years 2001–2013



Major investments

In the Other Area the level of capital expenditures incurred in 2013 reached about PLN 8,093 thousand. The investments were mainly implemented by KW Czatkowice with the purpose of optimisation of costs incurred by this company.

Development perspectives

The growing competition on the aggregate market requires undertaking of actions which shall affect further effectiveness improvement. At the same time, the company of the Area (KW Czatkowice) conducts the ongoing monitoring of the situation in the markets, searches for new applications for the products currently manufactured, optimises the methods of using the acquired raw materials, conducts projects with the use of preferential measures aimed at increasing the competitiveness of the plant.

2.4. Basic products, goods and services

The table below presents volumes of production and sales in TAURON Capital Group for 2013, 2012 and 2011.

Table no. 17 Volumes of production and sales for 2013, 2012 and 2011

Volumes of production and sales	unit	Year 2013	Year 2012	Year 2011	Dynamics (2013/2012)
Commercial coal production	*M Mg*	**5.45**	5.57	4.58	98%
Generation of electric energy (net production of the Group), including:	*TWh*	**19.39**	19.11	21.38	101%
Net production of Generation Area	*TWh*	***17.59***	*17.60*	*20.60*	*100%*
Net production of RES Area	*TWh*	***0.61***	*0.45*	*0.38*	*136%*
Net production of Heat Area	*TWh*	***1.18***	*1.06*	*0.40*	*111%*
Generation of electric energy from renewable sources of the Group, including:	*TWh*	**1.38**	1.21	0.99	114%
Biomass production of Generation and Heat Area	*TWh*	***0.77***	*0.76*	*0.61*	*101%*
Production of hydroelectric plants and wind farms of RES Area	*TWh*	***0.61***	*0.45*	*0.38*	*136%*
Heat generation by the Group, including:	*PJ*	**15.62**	16.36	15.96	95%
Production of heat from Generation Area	*PJ*	***7.24***	*7.98*	*10.93*	*91%*
Heat production by Heat Area	*PJ*	***8.38***	*8.38*	*5.03*	*100%*
Distribution of electric energy	*TWh*	**47.90**	47.85	38.24	100%
Retail sales of electric energy (in total, by Areas: Sales, Generation and Heat)	*TWh*	**41.30**	44.74	35.52	92%
Number of clients – Distribution	*thous.*	**5,334**	5,302	4,143	101%

2.5. Potential customers market and sources of supply

As mentioned in item 1.1 of this report, TAURON Capital Group is a vertically integrated energy enterprise controlling the whole value chain, from coal mining to supply of electric energy to end clients. The activities of the Company are governed by the provisions of the Act of 10 April 1997 *Energy Law,* including the regulations of the President of ERO. TAURON Capital Group performs its operations in all key segments of the energy market (excluding electric energy transmission which is the exclusive responsibility of the TSO), i.e. in the area of coal mining, generation, distribution as well as sales and trade of electric energy and heat. The vertical integration of TAURON Capital Group allows for decreasing of the dependence of TAURON Capital Group on external suppliers of hard coal, increasing the stability of the revenue and margins achieved.

2.5.1. Sales markets

Business Area: Mining

The TAURON Wydobycie company acting within the Mining Area is a producer of coal offered for sale on the market in coarse, medium coal assortments and as power coal dust. Depending on the coal size, the coal has the following trade parameters:

1) energy value from 19 MJ/kg to 23 MJ/kg,
2) ash content from 9% to 16%,
3) sulphur content from 1.0% to 1.4%.

TAURON Wydobycie conducts the sales of coal in two directions:

1) sales of fine coal and coal sludge to power plants and cogeneration plants,
2) sales of thick, medium and small amount of fine coal sizes through the organized sales network all over the country.

Sales of coal from TAURON Wydobycie is mainly provided in the region of southern and central Poland, in particular, the following provinces: Śląskie, Małopolskie, Podkarpackie, Świętokrzyskie and Dolnośląskie.

In 2013, sales of hard coal by TAURON Wydobycie amounted to 5.5 million Mg, including 3.7 million Mg (about 67%) to the companies of Generation and Heat Segments of TAURON Capital Group. In relation to 2012 it means the increase by 1.7%, reached mainly in the area of coarse and medium assortments sold outside TAURON Capital Group, with the lower level of sales of fine coal and coal sludge (mainly conducted inside TAURON Capital Group).

The higher level of sales is associated with the intensified sales of coal deposited at the dumps, with the production at a level of 5,450 thousand t (lower by ab. 2% as compared to 2012), The lower level of coal production, with the decisive role of Q3 and Q4, was affected by a number of factors, among others:

1) increased start-up period of some walls,
2) lower average number of excavation walls in Q4 (2.66 in 2012, 2 in 2013),
3) delayed progress of some walls caused by the necessity to perform additional works and the deteriorated geological and mining conditions.
4) the endogenous fire in one of the headings of ZG Sobieski.

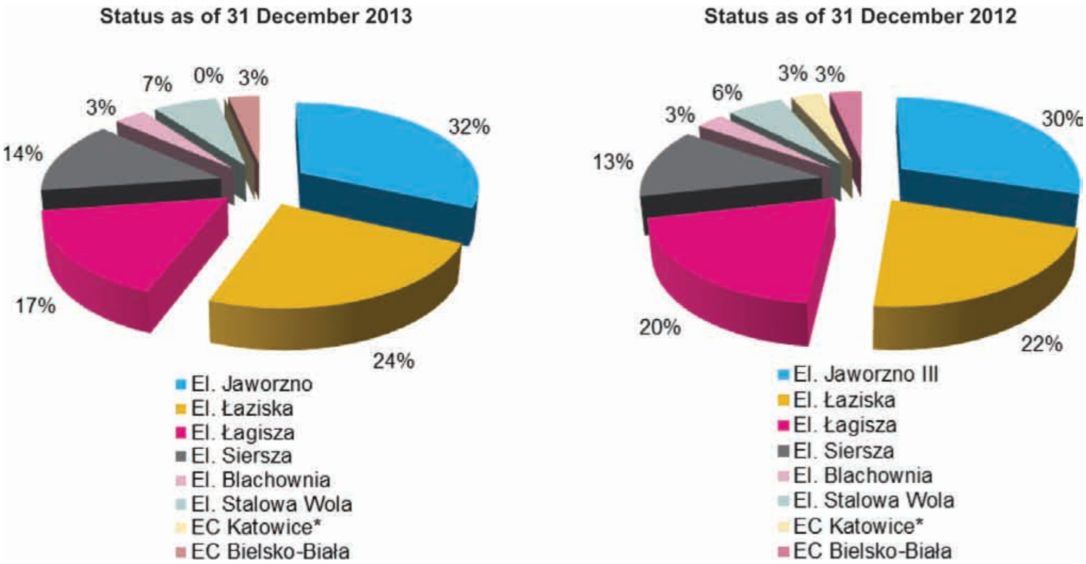
Business Area: Generation

The basic activity of the Generation Area within TAURON Capital group covers generation of electric energy and heat, in 2013 provided by 6 conventional power plants : Jaworzno III, Łaziska, Łagisza, Siersza, Blachownia and Stalowa Wola and in the cogeneration plant in Bielsko-Biała, which has been included in TAURON Ciepło since 2 January 2014.

The total installed electric capacity of the generation units of the Generation Area reached 4,832 MW_e at the end of 2013. The main fuels used in the production process include hard coal, biomass as well as coke-oven gas and high-methane gas.

The figure below presents the structure of installed electric capacity of the Generation Segment according to the status on 31 December 2013 and 31 December 2012.

Figure no. 22 Structure of the installed electric capacity of the Generation Segment according to the status as of 31 December 2013 and 31 December 2012



** On 2 January 2013 TAURON Wytwarzanie was divided through separation allocation of EC Katowice to the company TAURON Ciepło belonging to the Heat Segment.*

In 2013 the majority of electric energy production of the Generation Area was sold for the needs of TAURON Capital Group, which indicates a change in relation to 2012 when the majority of the electric energy production was contracted through transactions concluded at the TGE (Power Exchange). This change arises from the implementation of the requirements of art. 49a of the act of 10 April 1997 *Energy Law,* effective since 9 August 2010. In accordance with these regulations, the entrepreneurs generating electric energy are bound to sell not less than 15% of the electric energy generated at the commodity exchanges or on the regulated market. In addition, the generators receiving the funds to cover the so-called stranded costs in connection with the termination of long-term contracts, are bound to sell all the remaining energy in the manner providing the customers with public and equal access to this energy, i.e. by means of open tender, on the internet trade platform on the regulated market or at the commodity exchanges. Due to the fact that since 2013 TAURON Capital Group has not been receiving any funds to cover the co-called stranded costs due to termination of LTC, the obligation to fulfil the aforementioned provisions is limited to the minimum of 15% of the electric energy generated. It means that the sales of electric energy produced by the generating companies of TAURON Capital Group may, to a large extent, be conducted for the needs of TAURON Capital Group. The final volume of electric energy originating from the Generation Area production in 2013, sold outside TAURON Capital Group reached about 3.3 TWh, i.e. by 83% less than the figure recorded for the electric energy produced in 2012.

The profitability of the Generation Area is influenced, among others, by the mechanisms of the Balancing Market which, under their current shape applicable in 2013, do not transfer the costs of maintaining the so-called “cold reserve”. In case of using the power reserves of the Generation Area for performance following the instruction of PSE (the so-called “enforced performance”), the mechanisms of the Balancing Market cover mainly the variable production costs. Such solutions reduce the profitability of the Generation Area.

Changes which were finally introduced by TSO in the Instructions of Transmission Grid Operation and Maintenance (IRiESP) in 2013, approved by the President of ERO, did not influence the revenue of the Generation Area for 2013.

In the second half of 2013 the tender was launched, announced by TSO for the provision of the cold reserve intervention service, starting from 1 January 2016 for a period of two or four years, which was entered by TAURON Wytwarzanie company. In accordance with the information of 4 March 2014, three blocks belonging to TAURON Wytwarzanie were selected as the most favourable bid within the part of centrally dispatched generation units of the total achievable capacity ranging from 200–380 MW. In the nearest time, concluding of the contract for the provision of services for a period of two years is planned: from 1 January 2016 to 31 December 2017, with the option to extend for the next two years, i.e. until 31 December 2019.

Heat produced by Generation Business Area is sold to TAURON Capital Group companies which deal with distribution and sales of heat, as well as to external consumers.

Moreover, due to electric energy generation in RES as well as in co-generation, the Generation Area acquires certificates of origin, which are subsequently purchased by the companies of the Sales Area and submitted to the President of ERO, to be redeemed. In 2013, due to the lack of legal regulations in the scope of support system for the generation of energy in high-performance cogeneration installations, the companies generating electric energy in cogeneration did not receive the certificates of origin of energy (the so-called “red” and “yellow” certificates).

Business Area: RES

Electric energy generated in 2013 by the RES Area constituted 3% of the total energy generated within TAURON Capital Group. This energy was sold within TAURON Capital Group to TAURON Sprzedaż (about 66%) and to TAURON (about 3%), as well as outside TAURON Capital Group – to ENEA and ENERGA Obrót companies (about 31%). The property rights obtained due to production of electric energy in RES were sold to companies of TAURON Capital Group, for the purpose of redemption, and to ENEA.

Business Area: Heat

The core activity of the company TAURON Ciepło, carried out on the basis of concessions granted by the President of URE covers:

1) generation of heat and electric energy,
2) heat trading,
3) heat transmission and distribution.

The activity is performed within the area of Śląskie, Dolnośląskie and Małopolskie provinces. TAURON Ciepło holds its own heat sources of the total installed heat capacity of 1,475 MW. Heat production in 2013 by the Heat Area reached about 8.4 PJ, and the total sales amounted to 14.9 PJ of heat. The share of heat produced in own sources in the total volume of heat sales amounted to about 56% in 2013. The increase in installed capacity and heat production in relation to 2012 results mainly from inclusion of ZW Katowice (formerly: EC Katowice) into the structures of TAURON Ciepło.

An important consumer of heat and electric energy and other utilities (wind of blast furnace, compressed air, technological steam, etc.) is ArcelorMittal Poland S.A. (AMP). The production of Zakład Wytwarzania Nowa (industrial cogeneration plant) belonging to TAURON Ciepło S.A. is mainly addressed to provide AMP with the aforementioned energy media required for its technological process. The level of AMP demand and, consequently, the production of ZW Nowa, is determined by the situation of the metallurgical market.

Business Area: Distribution

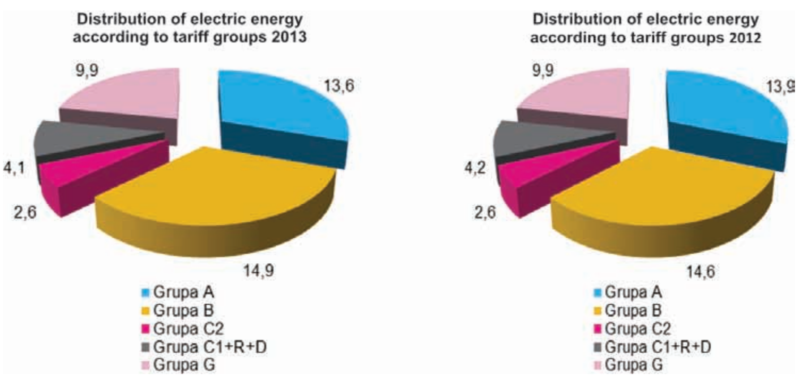
The company TAURON Dystrybucja acts as the Distribution System Operator (DSO), pursuant to the decision of the President of ERO. The Distribution Area provides services to over 5.300 thousand end consumers.

The activities of the Distribution Segment cover the area of about 57 thousand km^2, located mainly in the provinces of Śląskie, Małopolskie, Dolnośląskie and Opolskie and, in addition, in the provinces of Podkarpackie, Łódzkie and Świętokrzyskie. The operating functions are carried out by eleven branches located in: Bielsko-Biała, Będzin, Częstochowa, Jelenia Góra, Kraków, Legnica, Opole, Tarnów, Wałbrzych and Wrocław.

In 2013 TAURON Dystrybucja reached revenue on sales of distribution services of electric energy at a level of about PLN 5,740 thousand. The volume of sales reached 47.9 TWh, which makes the increase by 0.10% in relation to 2012.

In the volume of supply of the distribution services sales to tariff consumers in the scope of individual levels of voltage makes 94.35%: high voltage (A group), medium voltage (B group) and low voltage (C,G,R). The total level of electric energy supplied to tariff consumers in 2013 within the sales of distribution services, connected to the company grid, amounted to 45.2 TWh (estimated) and it was higher as compared to 2012 by about 21.2 GWh, i.e. by 0.05%.

Figure no. 23 Distribution of electric energy according to tariff groups [MWh]



Sales of distribution services is carried out on the basis of comprehensive agreements as well as agreements on provision of distribution services concluded with consumers. The first of the aforementioned types of agreements covers both sales of electric energy by the companies of the Sales Area and supply of energy by the company acting as the DSO. The second type of agreements regulates only supplies of electric energy by the company acting as the DSO. In case of that type of agreements, purchase of electric energy is regulated in separate agreements for electric energy sales, concluded by the consumer with the seller selected by it.

Share of sales value of distribution services as a part of the comprehensive agreements, within the total value of sales of distribution services to end consumers in 2023 reached about 64%. On the other hand, the volume of supply as a part of comprehensive agreements within the total volume of supply to end consumers reached about 45%.

Business Area: Sales

The Sales Business Area comprises activities focused on sales of electric energy and the wholesale trading of electric energy and other products of the energy market. Operations in the area of sales cover sales of electric energy to end customers, including key accounts. On the other hand, operations within wholesale trading cover mainly wholesale trade of electric energy, trade and management of CO_2 emission allowances, property rights arising from the certificates of origin and fuels.

In 2013, in the Sales Area TAURON Capital Group acted in a market environment where the level of competitiveness in individual segments has not changed significantly as compared to the previous years. In 2013, the market of households (individual clients), irrespective of the announcements of its liberalisation, was still subject to the obligation of approval of the sales prices by the President of ERO. The effect of this situation was the low competitiveness in this market area. In 2013 about 59,149 households which changed the energy provider were recorded. However, taking into account the potential of this segment, i.e. the total number of households in Poland, this figure makes only a limited percentage and shows only the beginning of the liberalisation process of this market segment.

The opposite situation is observed in the segment of institutions and economic entities (business client) where the competition is high and companies have used the liberalisation of electric energy prices for several years. The progress in liberalisation caused that a business client with rising awareness expects competitive solutions. The intensified sales activity of energy companies exerts increasing price pressure; new entities competing for a client appeared and the transparency of the mechanisms of energy market is a must in any activities on this market. However, even in this segment, significant inhibiting in the dynamics in the change of seller can be noted. As compared to 2012 when the increase in this indicator by about 309% in relation to 2011 was noted (the number of seller changes in 2012 reached 43,611, whereas the number of TPA consumers in 2011 was 14,105), in 2013 the dynamics of growth reached only 63%.

Sales of electric energy to clients is mainly executed by three entities within TAURON Capital Group:

1) TAURON Sprzedaż – dealing with sales to consumers of all tariff groups, including households,
2) TAURON Sprzedaż GZE – dealing with sales to consumers of all tariff groups, including households,
3) TAURON – providing sales to strategic clients of TAURON Capital Group.

In 2013 the total retail sales of electric energy conducted by these entities to over approximately 5,200 thousand clients reached about 41 TWh, i.e. 92.3% of the level reached in 2012 when the sales amounted to about 44.4 TWh. The decrease in the volume of sales mainly results from the shrinking demand among clients of A and B tariff groups, partly balanced by the increase in the level of sales to end consumers in the group of strategic clients of TAURON as well as the observed decline in the average consumption in the mass client segment (G and C1x).

The segmentation of clients used by TAURON Capital Group (strategic, business and mass clients), depending on the quantity of electric energy consumed, is aimed adjusting the product offer, sales channels and marketing communication to the expectations in the specific segment of clients.

The table below presents categories of TAURON Capital Group end clients, resulting from the segmentation used and the specific nature of their business:

Table no. 18 Categories of end consumers of TAURON Capital Group

No.	Group of clients	Description of clients
1.	Strategic clients	Clients of the annual potential energy consumption at a level not lower than 40 GWh or strategic business partners of TAURON Capital Group, i.e. mainly entities representing the sector of heavy industry, among others: metallurgical industry, chemical industry, mining industry, automotive industry
2.	Business clients	Clients of the annual potential energy consumption at a level above 250 MWh (not consumers), or purchasing energy based on the provisions of the Act of 29 January 2004 on *Public procurement law*, i.e. entities representing other sectors of industry, producers of equipment, consumers from food industry, public sector, construction sector and public utilities sector
3.	Mass clients – small and medium-sized enterprises	Clients dealing with sales, services, banking, catering and small entrepreneurs
4.	Mass clients – households	Households

The table below presents information on the volume of electric energy sold by companies of TAURON Capital Group, operating in the area of electric energy sales to clients as well as on numbers of clients, divided into individual client segments in 2013.

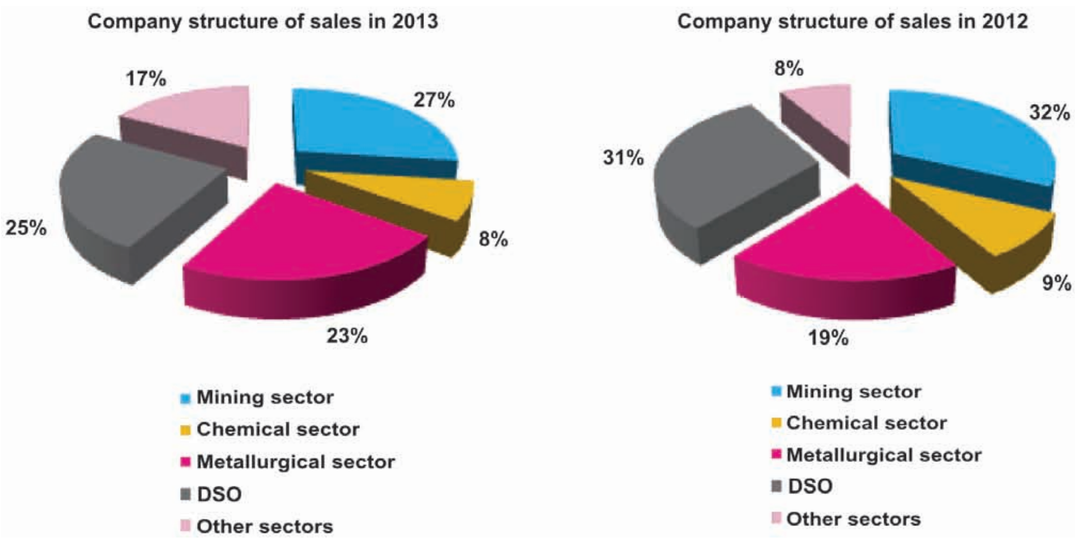
Table no. 19 Quantity of electric energy sold and number of clients in 2013

No.	Kind of clients	Volume of sold electric energy (in TWh)	Number of clients (in thousand)
1.	Strategic clients	10.4	0.03
2.	Business clients	13.8	106
3.	Mass clients (including households)	12.9 (9.7)	5,120 (4,778)
4.	Sales to TD to cover balancing differences	3.9	1
	Total Sales Area	**41.0**	**5,227**

In 2013, the value and volume of electric energy sales for the biggest client of TAURON Capital Group did not exceed, respectively, 10% of total electric energy sales value and 10% of total volume of the electric energy sold.

The figure below shows the structure of electric energy sales in 2013 and 2012 to strategic clients, divided into individual sectors.

Figure no. 24 The structure of electric energy sales of the Company in 2013 and 2012 to strategic clients, divided into individual sectors



The process of the progressing liberalisation and the associated clients' rising awareness in the scope of mechanisms of energy market functioning is reflected in the level of loyalty in individual segments of purchasers. This situation results in activities in the scope of protection of own client base against the actions of the competition, through the introduction of loyal customer agreements. The highest level of progress of this process in noted among clients of the business segment of TAURON Capital Group where over 90% of the volume of the agreements concluded results from individually negotiated commercial terms.

The process of migration of clients of the mass segment (individual clients and small and medium enterprises) from the tariff area to the product area is currently under development. At the end of 2013 about 17% of energy volume was sold by TAURON Capital Group to clients of this segment based on agreements with a guarantee of commercial terms and conditions in the specific period (loyalty agreements), with 83% share of the tariff. The framework of the selected strategy also covers sales projects implemented outside own distribution area.

One of the most important commercial activities in 2013 was the implementation of the Electronic Customer Service Office, with over 70 thousand of individual clients having currently access to information on accounts and the electronic agreement, history of meter readings, etc. In addition, works on the combined offer "energy and telecommunications" with T-Mobile have been commenced (the solution is currently tested). All sales activities in 2013 were conducted with the intention to maintain the expected level if sales margins and to build the potential for sales of other services and additional products, consequently increasing the margin potential in the future.

2.5.2. Supply sources – fuels

Coal

In 2013 the purchase of coal by TAURON was continued for the needs of TAURON Wytwarzanie and TAURON Ciepło based on the multi-annual and annual agreements. In 2013, about 37% of the current demand of TAURON Capital Group for fuel required for generation of electric energy and heat was satisfied by hard coal coming from own mining plants. The remaining part of the demand was covered from external sources, where Kompania Węglowa constituted the highest share (about 48% of the demand).

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, the Company acquired biomass under the multi-annual and annual agreements for purchase of biomass from national producers and suppliers. The said agreements covered the purchase of biomass for the co-burning processes and for the needs of dedicated units 100% supplied with biomass.

In 2013, for the co-burning process, the total of 209 thousand tonnes was purchased, including 190 thousand tonnes of agro biomass, and the remaining part represented by wood biomass. For the 100% biomass burning boilers, the Company purchased the total of 537 thousand tonnes, including 117 thousand tonnes of agro biomass, and the remaining part representing wood biomass. The Company conducted the resale of biomass to TAURON Wytwarzanie and TAURON Ciepło under separate agreements for biomass sales.

Gas

In 2013 TAURON continued the supplies of high-methane gas to Elektrownia Stalowa Wola (TAURON Wytwarzanie) and ZEC Bielsko-Biała EC 1. The gas supplied by the Company was purchased under the comprehensive agreement on gas fuel supply and the agreement with PGNiG.

In 2013 the coke-oven gas was supplied by TAURON to Elektrownia Blachownia (TAURON Wytwarzanie). The said gas was purchased by TAURON from ArcelorMittal Poland S.A. Oddział in Zdzieszowice, under the multi-annual agreement for the supplies of the coke-oven gas. The transmission of the coke-oven gas was conducted within the agreement for provision of transmission services of the coke-oven gas concluded with Polska Spółka Gazownictwa sp. z o.o. Oddział w Zabrzu, Zakład w Opolu Zabrze Branch, Plant in Opole).

The sales of the coke-oven gas and the high-methane gas was conducted on the basis of the Tariff for gas fuels and the comprehensive agreements for the supply of the coke-oven gas and the high-methane gas concluded with TAURON Wytwarzanie.

The table below presents the level of fuel supplies implemented by TAURON in 2013 to entities of TAURON Capital Group.

Table no. 20 Fuel supplies performed to entities of TAURON Capital Group

No.	Fuel type	Unit	TAURON Wytwarzanie	TAURON Ciepło
1.	Coal	[Mg]	8,966,349	731,913
2.	Biomass	[Mg]	454,899	290,314
3.	Coke-oven gas	[thous. m^3]	412,446	–
4.	Natural gas	[thous. m^3]	5,852	–

Value of sales in the domestic and foreign markets

The activities of TAURON Capital Group are mostly conducted in the Polish market where the value of sales in the years 2013 and 2012, after excluding the intra-group sales, amounted to PLN 18,588,900 thousand and PLN 23,995,300 thousand, respectively.

The value of sales to foreign clients in the years 2013 and 2012, after excluding the intra-group sales, amounted to PLN 542,200 thousand and PLN 757,700 thousand, respectively.

2.6. Significant events and achievements of TAURON Capital Group materially influencing its operations

The most important events of significant impact on operations of TAURON Capital Group, which occurred during the financial year 2013, and until the day of this report are listed below:

Important events in 2013

Adoption of the Effectiveness Improvement Programme for years 2013–2015

On 15 January 2013 the Management Board of TAURON adopted the OPEX effectiveness improvement programme in TAURON Capital Group for 2013–2015 which was drafted with the underlying goal to increase the value of TAURON Capital Group.

Consolidation and restructuring programmes have been developed, whose execution should result in cost reduction in the years 2013–2015. The effectiveness improvement programmes in individual areas of operations were adopted by management boards of the subsidiaries and constituted the basis for the development of the programme on the level of TAURON Capital Group. According to the Company estimates, the scale of OPEX reduction under the Programme on effectiveness improvement should increase every year, reaching approx. PLN 300,000 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.

Selection of the contractor of the new unit in Elektrownia Jaworzno III

On 24 January 2013 under an ongoing tender procedure the Management Board of a subsidiary – TAURON Wytwarzanie selected the winning bid for construction of 910MW unit with supercritical parameters at Elektrownia Jaworzno III. The following consortium was selected as the General Contractor: RAFAKO (consortium leader) and MOSTOSTAL. The value of the winning bid is PLN 4,399,000 thousand net (PLN 5,411,000 thousand gross). The subject-matter of the tender includes design and construction of a 910 MW hard coal-fired unit. The Project is in line with Corporate Strategy presented in the current report No. 25/2011 of 28 April 2011 which stipulates building a sustainable generation portfolio which would consist of coal, gas and RES based technologies.

On 4 February 2013 the Company was informed that an appeal had been lodged to Polish Appeals Chamber by the consortium of: SNC-Lavalin Polska sp. z o.o., SNC-Lavalin Inc. and Hitachi Power Europe GmbH, and China National Electric Engineering Co., Ltd. and China Overseas Engineering Group Co., Ltd. against the decision of TAURON Wytwarzanie concerning the selection of the bid submitted by the consortium of RAFAKO S.A. – MOSTOSTAL, under the tender procedure on selection of the general contractor of the 800–910 MW power unit at Elektrownia Jaworzno III. On 25 March 2013 the Polish Appeals Chamber dismissed the aforementioned appeals. On 2 May 2013 the Company was informed that the consortium of China National Electric Engineering Co., Ltd. and China Overseas Engineering Group Co., Ltd. had filed a complaint with District Court in Katowice against the decision of the Polish Appeals Chamber. On 25 June 2013 the Company was informed that the consortium of China National Electric Engineering Co., Ltd. and China Overseas Engineering Group Co., Ltd. had withdrawn the complaint against the decision of the Polish Appeals Chamber of 25 March 2013.

On 3 June 2013 the Company was informed that the validity of the offer submitted by consortium of RAFAKO – MOSTOSTAL under the tender procedure on selection of the general contractor of the power unit at Jaworzno III power plant was prolonged until 31 July 2013. The Consortium also submitted annex to the bid bond extending validity of the cash deposit until 31 July 2013.

On 30 July 2013 the Company was informed that the validity of the offer submitted by consortium of RAFAKO – MOSTOSTAL under the tender procedure on selection of the general contractor of the power unit at Jaworzno III power plant was prolonged until 30 September 2013. The Consortium also submitted annex to the bid bond extending validity of the cash deposit until 30 September 2013.

On 27 September 2013 the Company was informed that the validity of the offer submitted by consortium of RAFAKO – MOSTOSTAL under the tender procedure on selection of the general contractor of the power unit at Jaworzno III power plant was prolonged until 31 October 2013. The Consortium also submitted annex to the bid bond extending validity of the cash deposit until 31 October 2013.

On 30 October 2013 the Company was informed that the validity of the offer submitted by consortium of RAFAKO – MOSTOSTAL under the tender procedure on selection of the general contractor of the power unit at Jaworzno III power plant was prolonged until 31 December 2013. The Consortium also submitted annex to the bid bond extending validity of the cash deposit until 31 December 2013.

On 20 December 2013 the Company was informed that the validity of the offer submitted by consortium of RAFAKO – MOSTOSTAL under the tender procedure on selection of the general contractor of the power unit at Jaworzno III power plant was prolonged until 28 February 2014. The Consortium also submitted annex to the bid bond extending validity of the cash deposit until 28 February 2014.

On 27 February 2014 the Company was informed that the validity of the offer submitted by consortium of RAFAKO – MOSTOSTAL under the tender procedure on selection of the general contractor of the power unit at Jaworzno III power plant was prolonged until 30 April 2014. The Consortium also submitted annex to the bid bond extending validity of the cash deposit until 30 April 2014.

The Company informed of the aforementioned events in current reports no. 3/2013 of 24 January 2013, 4/2013 and 5/2013 of 4 February 2013, no. 10/2013 of 25 March 2013, no. 19/2013 of 2 May 2013, no. 23/2013 of 3 June 2013, no. 30/2013 of 25 June 2013, no. 35/2013 of 30 July 2013, no. 40/2013 of 27 September 2013, no. 46/2013 of 30 October 2013, no. 60/2013 of 20 December 2013, no. 13/2014 of 27 February 2014.

Motions of the Management Board of the Company concerning the amendments to the Company Articles of Association

In 2013, the Management Board of the Company applied to the TAURON WZ (General Meeting) with the following motions to adopt amendments to the Company Articles of Association:

1) the motion covering the amendments aimed at providing the shareholders with a possibility to participate in the Company General Meetings via electronic means of communication, referred to in the Good Practices of Companies Listed at Giełda Papierów Wartościowych S.A. w Warszawie (Warsaw Stock Exchange) (GPW). The General Meeting of the Company on 16 May 2013 did not adopt the resolution concerning the amendments to the Company Articles of Association.

   The Company informed of the aforementioned events in the current reports no. 13/2013 of 11 April 2013, no. 16/2013 of 18 April 2013 and 20/2013 of 16 May 2013.

2) the motion aimed at updating the scope of activities and distribution of competence between the statutory corporate bodies of the Company, i.e. the Supervisory Board and the Management Board as well as the streamlining of the text of the Articles of Association and its adjustment to the current needs of the Company. The General Meeting of the Company on 7 January 201r adopted the resolution concerning the amendments to the Company Articles of Association.

   The Company informed of the aforementioned events in the current reports no. 52/2013 of 11 December 2013, no. 54/2013 of 11 December 2013, no. 1/2014 of 7 January 2014 and no. 2/2014 of 7 January 2014.

On 16 January 2014 the District Court Katowice-Wschód, 8th Commercial Department of the National Court Register entered the amendments to the Company Articles of Association, adopted by resolution No. 5 of the Company Extraordinary General Meeting of 7 January 2014, to the register of entrepreneurs of the National Court Register. The Supervisory Board of the Company adopted the uniform text of the Articles of Association of TAURON Polska Energia S.A., including the aforementioned amendments.

The Company informed of the aforementioned events in the current reports no. 5/2014 of 16 January 2014 and no. 11/2014 of 10 February 2014.

Framework agreement on the Exploration for and Extraction of Shale Gas

On 4 July 2012 the Company signed a framework agreement on the common exploration for and extraction of shale gas (hereinafter referred to as: the "Agreement") between: TAURON, PGNiG, ENEA, KGHM and PGE, of which the Company informed in the current report no. 34/2012 of 4 July 2012. On 12 November 2012 Annex no. 1 to the aforementioned Agreement was signed of which the Company informed in the current report no. 38/2012 of 12 November 2012.

On 21 February 2013 Annex no. 2 to the aforementioned Agreement was signed. The parties decided to extend the deadline for drafting detailed terms and conditions of cooperation until 4 May 2013, reserving that in case the parties failed to agree on the detailed terms and conditions of cooperation, either of the parties may terminate the Agreement. Moreover, in case if, within three months following such arrangements, the Parties have not obtained all of the required corporate approvals, or in case if, by 31 December 2013, the required antimonopoly clearances to execute the concentration have not been received, the Agreement will expire.

On 31 December 2013 the Management Board of TAURON informed of the expiry as of 31 December 2013 of the framework agreement of 4 July 2012 on the common exploration for and extraction of shale gas, concluded between TAURON, PGNiG, KGHM, PGE and ENEA.

The Company informed of the aforementioned events in the current reports no. 6/2013 of 21 February 2013, no. 63/2013 of 31 December 2013.

Appointment of certified auditor

On 13 March 2013, the Supervisory Board of the Company, acting pursuant to § 20 section 1 item 6) of the Articles of Association appointed Deloitte Polska Spółka z ograniczoną odpowiedzialnością Spółka komandytowa (Deloitte) as the entity authorized to:

1) examine the standalone and consolidated financial statements of the Company for the financial years 2013, 2014 and 2015,
2) review the semi-annual standalone and consolidated financial statements of TAURON drawn up for periods ending on 30 June 2013, 30 June 2014 and 30 June 2015.

Deloitte has been entered to the register of entities authorized to examine financial statements under No. 73. Until now, services provided by Deloitte for the Company included examination of financial statements prepared in accordance with the Accounting Act for 2007 and examination of consolidated financial statements prepared in accordance with the Accounting Act for 2007. The certified auditor was selected in an open tender, in accordance with the act of 29 January 2004 – *Public Procurement Law* (Journal of Laws of 2010, No. 113, item 759, as amended).

The Company informed of the appointment of certified auditor in the current report no. 8/2013 of 13 March 2013.

Commissioning of the RES unit of 20 MW capacity in Elektrownia Stalowa Wola S.A.

In Q1 2013 the installation for electric energy production in the renewable energy source was commissioned in ESW. This project included the modernisation of the K-10 coal-fired boiler in order to adjust it to 100% biomass burning, construction of the biomass preparation installation and modernisation of TG-6 turbogenerator in order to adjust it to performance in the unit with the modernised boiler. The installation enables burning of both processes biomass (e.g. pellets) and the non-processed biomass. In March 2013, the test run was performed and the installation was commissioned for exploitation. On 16 September 2013 the concession for electric energy production by the aforementioned installation was obtained.

Fulfilling the conditions precedent regarding agreements concluded under the project "Construction of CCGT unit at Stalowa Wola"

On 25 April 2013, in connection with concluding of material agreements under the project on *"Construction of CCGT unit at Stalowa Wola"*, including electricity supply agreement and gas supply agreement, the agreement was concluded providing for financing of the construction, start-up and commissioning of the CCGT unit under the aforementioned project, accordingly, the last of the conditions precedent of the agreement for energy sales was fulfilled. EC Stalowa Wola submitted to PGNiG the declaration confirming that the financing for the construction of the CCGT unit at Stalowa Wola was obtained, accordingly, the last of the conditions precedent defined in the Gas Supply Agreement was fulfilled. In connection with the foregoing, all conditions precedent required under the Project have been fulfilled.

The Company informed of this event in the current report No. 17/2013 of 26 April 2013.

Updated estimated value of agreements with Electrabel NV/SA and GDF Suez Trading

In connection with the periodic update of estimated value of agreements the Company revised the estimated value of agreements with Electrabel NV/SA and GDF Suez Trading (a GDF Suez Group company) of 3 April 2012. The subject of the agreements is to regulate all transactions concluded between the parties in connection with purchase, sale, supply and consumption of electric energy, as well as options connected with purchase, sale, supply and consumption of electric energy. The current estimated total value of the agreements for a period of 5 years which takes into account the present market conditions amounts to approximately PLN 410,000 thousand.

The Company informed of this event in the current report No. 18/2013 of 26 April 2013.

Dividend payment from net profit for 2012

On 16 May 2013 the Ordinary General Meeting of the Company adopted the resolution on profit distribution for the financial year 2012 and defining of the amount allocated for payment of the dividend to shareholders, the dividend record day and the dividend payment day. In accordance with the resolution, the Ordinary General Meeting allocated the amount PLN 350,509,878.80 for payment of the dividend for shareholders from the net profit for the financial year 2012, which means that the amount of the dividend per share was PLN 0.20. Simultaneously, the General Meeting defined the dividend record day for 3 June 2013 (the day of dividend) and the date of the dividend payment for 18 June 2013 (the day of dividend payment).

The Company informed of this event in the current report No. 21/2013 of 16 May 2013.

Completion of modernisation of BC-35 unit boiler in Zakład Wytwarzania Tychy

In the years 2010–2013 in the cogeneration plant in Tychy the task involving the reconstruction of the existing coal-fired circulating fluidised bed boiler OFz 135/K7 (CFB) (BC 35 block of 40 MW installed capacity) to obtain the biomass-burning bubbling fluidised bed boiler (BFB), assuming the maintenance of the previous efficiency.

Within the framework of the project the occupancy permit was obtained in December 2012, the concession tests were performed and on 15 February 2013, the concession of ERO was obtained for generation of electric energy and the concession for heat generation. The guarantee measurements were performed.

Within the framework of the project the task involving the construction of the coal-fired water boiler WR 40 (40 MW_t) was also implemented – in May 2013 the occupancy permit was obtained.

Due to the commissioning of the installation in Tychy and in Stalowa Wola, the capacity of TAURON Capital Group in the scope of energy production from biomass sources has significantly increased. Considering the aforementioned installations and construction of the installation for 100% burning of biomass in Elektrownia Jaworzno III (Elektrownia II), TAURON Capital Group currently has three biomass burning renewable energy sources of the total installed capacity of 110 MW.

Selection of the general contractor for the construction of a new heat unit in Zakład Wytwarzania Tychy

On 22 April 2013 the company TAURON Ciepło, selected the bid of Elektrobudowa as the most favourable for the implementation of the project on construction of the new heat unit at ZW Tychy, and on 20 June 2013 the relevant agreement was signed.

The task shall be implemented based on the contract and it comprises the design, delivery, assembly, start-up and commissioning of a new heat unit with a fluidised bed boiler and the heat-condensation turbine. The replacement of the generation capacity of TAURON Ciepło in ZW Tychy arises from the necessity to adjust ZW Tychy to the new, more stringent emission standards. The aim of the investment is to maintain the current status of ZW Tychy as the main heat generator for consumers located on the territory of Tychy town.

Commissioning of the heat unit of 50 MW capacity in Zespół Elektrociepłowni Bielsko-Biała

Until the end of June 2013 the heat unit of 50 MW capacity was constructed and commissioned in Zespół Elektrociepłowni Bielsko-Biała, the test run was conducted and the unit was commissioned. The task of construction of the heat unit in cogeneration, of the capacity 50 MW_e and 106 MW_t (182 MW_t including the peak unit) in Zespół Elektrociepłowni Bielsko-Biała was launched at the end of 2011. The investment was aimed at replacement of the exploited and low-performing generation units, by the unit of high performance, complying with all environmental protection requirements concerning emissions of NOx, SO2 and particulate matter. On 12 August 2013 the decision on occupancy permit for the aforementioned heat unit was obtained. The implementation of the task is of key importance for Bielsko-Biała heating system. The new unit is the main source of heat for the city of Bielsko-Biała.

Approval of the tariff for electric energy by the President of the Energy Regulatory Office

On 6 June 2013 the Company was notified that the “G” tariff for electricity supply to households (connected to TAURON Dystrybucja grid, excluding the area of Gliwice) for the company TAURON Sprzedaż, for the period from 1 July to 31 December 2013 was approved by the President of the Energy Regulatory Office (ERO). The approved tariff includes the reduction of energy prices for the G tariff by 4.55% on average, resulting from lower electric energy purchase prices.

On 17 December 2013 the Company was informed that the tariff for electricity for TAURON Distribution had been approved by the President of ERO. The approved tariff rates for 2014 are higher than the rate applicable in 2013 by 2.69% on average.

On 17 December 2013 the Company was informed that the President of ERO approved the tariff for TAURON Sprzedaż for electric energy supply to households in G tariff group (connected to the distribution grid of TAURON Dystrybucja, excluding Gliwice area) for the period from 1 January 2014 to 31 December 2014. The tariff approved includes the reduction of energy supply prices by 6.19% on average, for the G tariff group, arising from the decreased purchase costs of electric energy and property rights for renewable energy certificates of origin.

The Company informed of the aforementioned events in the current reports no. 25/2013 of 6 June 2013, no. 57/2013 of 17 December 2013 and no. 58/2013 of 17 December 2013.

Confirming of the Fitch agency rating for TAURON

On 21 June 2013, the Fitch rating agency (Fitch) informed of their decision to sustain the rating for the Company in foreign and local currency at the BBB level, with stable perspective. According to Fitch the ratings reflect the leading position of the Company in the national electric energy distribution segment and the strong position in power generation segment. At the same time, the ratings are constrained by the worsening financial performance of the generation segment, concentrated generation fuel mix (mostly coal-fired fleet) and the deterioration of the company credit ratings forecast by Fitch in the years 2013–2017. The increased EBITDA coming from the regulated power distribution segment, mainly owing to the full-year contribution of GZE, acquired in December 2011, allowed the company to mitigate the negative impact of the declining profitability of the power generation segment in 2012. Fitch expects that Tauron funds from operations (FFO and interest) adjusted net leverage to increase to around 3 by 2015 from 1.3 at end of 2012, due to a combination of weaker FFO driven by the forecast weaker performance of the generation segment and high capital expenditures.

The Company informed of this event in the current report No. 27/2013 of 21 June 2013.

Rejected complaint of ERO President against the decision concerning annual adjustment of stranded costs

On 25 April 2013 the Court of Appeals in Warsaw issued the decision (hereinafter referred to as the “Decision”) dismissing the appeal of the President of ERO against the verdict of the District Court in Warsaw – Court for Competition and Consumer Protection of 26 May 2010, concerning the determination of annual adjustment of stranded costs due to TAURON Wytwarzanie for 2008, in connection with the early termination of long-term contracts on sales of power and electric energy, of which the Company informed in the current report no. 19/2012 of 25 April 2012. The ERO President filed the cassation appeal to the Supreme Court. On 21 June 2013 the Supreme Court decided to reject the complaint filed by ERO President against the Decision, which was in line with the request of TAURON Wytwarzanie. The decision of the Supreme Court is not challengeable. Thus, the proceedings initiated by the TAURON Wytwarzanie upon filing the appeal against the decision of ERO President on annual adjustment of stranded costs due to the Company for the year 2008 has finally been closed i accordance with the motion filed by TAURON Wytwarzanie. The abovementioned decision does not have a direct impact on the results and financial standing of TAURON because the annual adjustment for 2008 corrected as per the Company request was paid to the Company following the Decision.

The Company informed of this event in the current report No. 28/2013 of 21 June 2013.

Incorporation of the subsidiary – PKE Broker with TAURON

On 2 December 2013 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: TAURON (the Acquiring Company) with the company PKE Broker (the Acquired Company). The merger was executed pursuant to art. 492 § 1 item 1 of the Ksh, i.e. through the assignment of the total assets of the Acquired Company to the Acquiring Company.

On 25 June 2013 the Management Board of TAURON took the decision on the intended merger (hereinafter referred to as the Merger) of the Company as the Acquiring Company with the subsidiary, PKE Broker as the Acquired Company, as a result of which the Merger Plan was adopted.

Considering the fact that the acquiring company held 100% of interest in the share capital of the acquired company, the merger was performed under art. 515 §1 of the Code of Commercial Companies, i.e. without increase in 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 19 November 2013, and the resolution on the merger was disclosed to the public in the current report no. 48/2013 of 19 November 2013.

The objective of the merger was to streamline the structure of TAURON Capital Group in accordance with the assumptions of the Corporate Strategy contemplating the consolidation of companies of TAURON Capital Group. Owing to the merger, the organisational structures were simplified, including the supervision and management structures, which eliminated the significant part of redundant processes, thus reducing the operating costs.

The Company informed of the Merger process of TAURON with the subsidiary PKE Broker in the following current reports: no. 29/2013 of 25 June 2013, no. 32/2013 of 4 July 2013, no. 34/2013 of 24 July 2013, no. 37/2013 of 16 August 2013, no. 45/2013 of 22 October 2013, no. 48/2013 of 19 November 2013, no. 50/2013 of 2 December 2013.

Continuation of works concerning the purchase of shares in the special purpose vehicle for construction and operation of a nuclear power plant – PGE EJ1 sp. z o.o.

On 25 June 2013 PGE, KGHM, TAURON and ENEA signed a Memorandum of Understanding on concerning the continuation of the works connected with the development of a draft agreement on the purchase of shares in the special purpose vehicle for construction and exploitation of a nuclear power plant ("Memorandum"). The Memorandum was binding until 30 September 2013, with a possibility to extend its term by a quarter subject to the agreement of all the parties thereto.

On 23 September 2013, as a result of the works connected with the development of a draft agreement on the purchase of shares in the special purpose vehicle for construction and exploitation of a nuclear power plant, initialed a Partnership Agreement. The initialed document constitutes a draft of the future Partnership Agreement which should be signed after the required corporate agreements of each party have been obtained. In accordance with the provisions of the Partnership Agreement, PGE will sell to other parties of the Partnership Agreement a block of 438,000 shares which in total constitute 30% of share capital of PGE EJ1 (PGE EJ1), as a result of which PGE will hold 70% in the share capital of the special purpose vehicle.

The shares shall be acquired in the following way:

1) TAURON will purchase 146,000 shares, which constitute 10% in the share capital of PGE EJ1,
2) KGHM will purchase 146,000 shares, which constitute 10% in the share capital of PGE EJ1,
3) ENEA will purchase 146,000 shares, which constitute 10% in the share capital of PGE EJ1.

On 31 December 2013 the Company informed in in the current report that despite the failure to fulfil the conditions precedent stipulated in the draft of the Partnership Agreement initialed on 23 September 2013, the parties agreed to continue work under the project of preparation and construction of nuclear power plant in Poland and to develop updated provisions of the aforementioned draft Partnership Agreement.

The Company informed of the aforementioned events in the current reports no. 31/2013 of 26 June 2013, no. 39/2013 of 23 September 2013 and 63/2013 of 31 December 2013.

Framework agreement on the Exploration for and Extraction of Shale Gas

On 4 July 2012 the Company signed a framework agreement on the common exploration for and extraction of shale gas (hereinafter referred to as: the "Agreement") between: TAURON, PGNiG, ENEA, KGHM and PGE, of which the Company informed in the current report no. 34/2012 of 4 July 2012. On 12 November 2012 Annex no. 1 to the aforementioned Agreement was signed of which the Company informed in the current report no. 38/2012 of 12 November 2012.

On 21 February 2013 Annex no. 2 to the aforementioned Agreement was signed. The parties decided to extend the deadline for drafting detailed terms and conditions of cooperation until 4 May 2013, reserving that in case the parties failed to agree on the detailed terms and conditions of cooperation, either of the parties may terminate the Agreement. Moreover, in case if, within three months following such arrangements, the Parties have not obtained all of the required corporate approvals, or in case if, by 31 December 2013, the required antimonopoly clearances to execute the concentration have not been received, the Agreement will expire.

On 31 December 2013 the Management Board of TAURON informed of the expiry as of 31 December 2013 of the framework agreement of 4 July 2012 on the common exploration for and extraction of shale gas, concluded between TAURON, PGNiG, KGHM, PGE and ENEA.

The Company informed of the aforementioned events in the current reports no. 6/2013 of 21 February 2013, no. 63/2013 of 31 December 2013.

Planned write down of generation units in the Generation segment

The Company disclosed the information on the expected non-cash impact of a one-off event, i.e. write down of unprofitable generation units in the Generation segment.

For the purpose of the write down concerning the unprofitable generation units in the Generation Segment, the Company identified Cash Generating Units (hereinafter referred to as the CGU). This identification was performed based on cost characteristics and the analysis of the current method of contracting and allocation of output from individual generation units.

As a result of these measures, the company identified individual CGUs understood either as a generation unit or a group of generation units (before, the entire company TAURON Wytwarzanie was considered to be one CGU). The installed capacity of generation units to be written down amounts to approximately 1,200 MW_e, the majority of which are 120 MW_e class units. The outcome of impairment tests carried out in accordance with IAS 36 has shown impairment of tangible fixed assets in the Generation segment in the amount of approximately PLN 240,000 thousand.

The Company informed of this event in the current report No. 33/2013 of 5 July 2013.

As of 31 December 2013 the write down for impairment losses in the Generation Segment was estimated at a level of PLN 262,187 thousand for the value of the tangible fixed assets and PLN 13,436 for intangible assets.

Decision of the ERO President concerning the amount of the final adjustment of stranded costs for the period from 1 April 2008 to 31 December 2012

On 2 September 2013 the Company was informed of the decision of the ERO President of 30 April 2013 concerning the determination of the amount of the final adjustment of stranded costs for the period from 1 April 2008 to 31 December 2012, due to the subsidiary, TAURON Wytwarzanie. The amount of the final adjustment specified in the Decision amounts to approximately PLN 54,000 thousand. On 31 July 2013 the ERO President issued a decision regarding annual adjustment of stranded costs for TAURON Wytwarzanie, which was calculated in the amount of PLN 423,100 thousand. Due to the fact that the sum of the amounts specified in the above mentioned decisions is lower than the expected values of these adjustments recognised in the revenues of previous years, the defined final adjustment of stranded costs results in the decrease of the financial result of TAURON Capital Group for 2013.

The Company informed of this event in the current report No. 38/2013 of 2 September 2013.

Adjustment of electric energy production from co-burning

In connection with the decrease in prices of property rights arising from certificates of origin of electric energy from renewable sources, in Q1 of 2013, production of energy based on biomass co-burning was suspended and the decision was taken to resign partly from biomass supplies. The production of energy based on co-burning was resumed in May, following the partial recovery of certificate prices and the renegotiation of purchase prices of biofuel. The profitability of production based on co-burning is analysed on an on-going basis. It is determined by prices of biomass supplies and the level of property rights prices arising from production of energy in renewable energy sources.

Activities in the scope of gas trading

In connection with the liberalisation of gas trading in Poland, TAURON is the active participant of the wholesale gas market. TAURON is the registered participant of the auction platform PRISMA primary – The European Capacity Platform, offering transmission capacity of the European transmission system operators. TAURON also holds the Tariff for gas fuels. Moreover, TAURON extended its participation in EEX in the scope of gas, which provides the possibility to secure the needs of import or export to/from the national gas system from the German market under competitive conditions.

Planned participation in the call for tender concerning the intervention cold reserve

On 6 June 2013 PSE launched a tender for the purchase of the intervention cold reserve service (which is a new service introduced in 2013). The service of intervention cold reserve will be provided starting from the beginning of 2016. The providers of the new service may include the centrally dispatched generating units which were to be permanently decommissioned after 2016, due to technical, economic and environmental reasons, when the more stringent requirements in the scope of pollution emission shall come into force, in accordance with the European regulations. The extension of the lifetime of the old power blocks is expected to provide for safe level of power reserves until the new generation sources appear in the electric power system. The units using the so-called derogation of 17,500 hours, specified in the Industrial Emissions Directive (IED), may participate in the tender. This solution is beneficial for the blocks whose adjustment to the requirements of the Directive in not profitable. The service shall be provided based on the rules stipulated in the IRiESP (Instruction on Transmission Grid Operation and Maintenance) and the agreements for provision of the intervention cold reserve service.

In connection with the foregoing, pursuant to the formal requirements, on 21 June 2013 TAURON Wytwarzanie submitted a motion to PSE requesting the admission to participate in the public procurement proceedings to be conducted under the form of negotiations, with announcement of selection of the contractor for the order on “Purchase of intervention cold reserve service” in the scope of the following generation units:

1) Blocks no. 1 and 2 at Elektrownia Łaziska,
2) Block no. 5 at Elektrownia Łagisza,
3) Blocks no. 3 and 6 at Elektrownia Siersza,
4) Block no. 8 at ESW.

The TAURON Wytwarzanie company participated in the aforementioned tender for the provision of the Intervention Cold Reserve Service starting from 1 January 2016 for a period of two or four years. The result of the tender was negative for the company, however, due to the foreseen power demand in the National Power System, the call for tender was reannounced at the beginning of 2014. As a result of the aforementioned tender procedure, the bid submitted by TAURON was selected, covering the purchase of the intervention cold reserve service in the scope of the following generation units:

1) Blocks no. 3 and 6 at Elektrownia Siersza,
2) Block no. 8 at ESW.

Excise tax

On 12 February 2009, the European Court of Justice issued the verdict confirming that Poland had breached the EU law by failing to adjust, until 1 January 2006, its electricity taxation system to the requirements of Article 21 paragraph 5 of the Council Directive 2003/96/EC of 27 October 2003 on *Restructuring the Community Framework for the Taxation of Energy Products and Electricity (*amended by the Council Directive 2004/74/EC dated 29 April 2004), as, in the period until 28 February 2009, the tax obligation in respect of excise on electricity in Poland occurred at the moment the electricity was released by the generator instead of at the moment of its supply by the distributor or re distributor.

In the light of the above, basis exist for obtaining the refund of the excise paid in breach of the EU law. The Ministry of Finance, however, presents the opinion that such a refund would result in unjustified enrichment of electricity generators and therefore it is groundless. For this reason, the process of excise recovery may extend until final court decisions are issued.

Due to the non-compliance of Polish regulations regarding excise charged on electric energy with the EU regulations, the power plants and cogeneration plants being part of the TAURON Group submitted corrections of their tax statements, including the motions to recognise the surplus of excise for the years 2006–2008 and for January and February 2009. The total amount of the surplus stated in the requests (excluding interest) amounted to approximately PLN 901,428 thousand (over 90% of which is attributable to TAURON Wytwarzanie). Currently the proceedings related to the individual companies of TAURON Capital Group are pending before the appropriate Customs Chambers, Regional Administrative Courts (WSA) and the Supreme Administrative Court (NSA).

In 2013 the following events concerning this issue took place:

1) TAURON Wytwarzanie received five decisions of the Director of Customs Chamber in Katowice, rejecting the acknowledgement of the surplus in excise tax, for the total amount of approximately PLN 519,000 thousand,
2) on 18 February 2013 the cassation appeal was filed to NSA challenging the decision of WSA in Gliwice of 19 November 2012 (value of the subject of the dispute: approximately PLN 313,00 thousand),
3) on 5 June 2013 the cassation appeal was filed to WSA in Gliwice challenging three decisions of the Director of Customs Chamber in Katowice issued on of 30 April 2013 (total value of the subject of the dispute: approximately PLN 209,000 thousand).

Due to significant uncertainty concerning the final adjudication of the above issue, companies of TAURON Capital Group do not recognise any effects related to the potential return of the surplus excise tax and the claims and potential claims of electricity purchasers in their financial statements.

Signing the annex to Agreement for operation of Elektrociepłownia Stalowa Wola under the project "Construction of CCGT unit at Stalowa Wola"

On 30 October 2013 the annex was signed to the Agreement on functioning of EC Stalowa Wola (hereinafter referred to as the "Agreement on Functioning"). Pursuant to the annex, PGNiG Termika became a party to the Agreement replacing PGNiG. Consequently, as of 30 October the parties to the Agreement on Functioning include: TAURON, PGNiG, PGNiG Termika, TAURON Wytwarzanie and EC Stalowa Wola.

The Company informed of this event in the current report No. 47/2013 of 30 October 2013.

Resignation from the implementation of the project on "Construction of 135 MW gross capacity CCGT unit at TAURON Ciepło S.A. Zakład Wytwarzania Katowice"

On 1 October 2013 the management board of the subsidiary – TAURON Ciepło S.A. (Ordering Party), acting pursuant to Article 93 section 1 item 4 of the Act on *Public Procurement Law*, cancelled the tender for award of the public contract on *"Construction of 135 MW gross capacity CCGT unit at TAURON Ciepło S.A. Zakład Wytwarzania Katowice"* (hereinafter referred to as the "Project"). The Ordering Party planned to allocate the amount of PLN 659,280,000.00 gross to finance the Project. Three valid bids were submitted before the deadline, out of which the lowest had the value of PLN 790,296,748.86 gross. The tender was cancelled because the prices of the submitted offers largely exceeded the amount planned by the Ordering Party for the Project.

In connection with the aforementioned cancellation of the tender for award of the public contract on *"Construction of 135 MW gross capacity CCGT unit at TAURON Ciepło S.A. Zakład Wytwarzania Katowice"*, on 11 December 2013, the Management Board of TAURON adopted the resolution on its approval to close the aforementioned project.

The Company informed of the aforementioned events in the current reports no. 41/2013 of 1 October 2013, no. 55/2013 of 11 December 2013.

Exceeding of the 10% equity threshold of the Company within the trading turnover between TAURON Capital Group companies and PSE S.A. Group companies

On 15 October 2013, the Company received data from PSE concerning provision of transmission services to companies of the TAURON Capital Group, allowing for the settlement with PSE Group companies. The value net turnover generated between companies of TAURON Capital Group and companies of PSE Group in the period from 8 November 2012 to 15 October 2013 amounted to PLN 1,938,000 thousand (including approximately PLN 1,593,000 thousand of cost items for the companies of TAURON Capital Group and approximately PLN 345,000 thousand of income items), accordingly, the value of turnover reached the significant value. The turnover of the highest value, i.e. about PLN 468,500 thousand net, was generated under the agreement of 20 September 2007, concluded between TAURON Dystrybucja S.A. and PSE. The subject of the Agreement is the provision of transmission services by PSE, understood as the transport of electric energy via the transmission grid.

The Company informed of this event in the current report No. 42/2013 of 15 October 2013.

Tax Capital Group

2013 was the second fiscal year of PGK activities, to be continued in 2014. On 28 November 2011, the Head of the First Tax Office in Sosnowiec issued the decision on registration of 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, TAURON Ubezpieczenia (formerly 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 fulfilment of the obligations connected with clearing of the corporate income tax by the key companies of TAURON Capital Group, and it enables, among others:

1) 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,
2) 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.

Development of the Centre of Common Services

In 2013 the activities launched in 2012 were continued, related to the organisation of the Centre of Common Services in TAURON Obsługa Klienta, in the area of accounting (CUW R) and the Accounting Function Integration Programme. The financial and accounting services of the following companies were taken over: TAURON, TAURON Wytwarzanie, TAURON Sprzedaż, TAURON Ubezpieczenia, ENPOWER sp. z o.o., ENERGOPOWER sp. z o. o., ENPOWER SERVICE, TAURON Ciepło.

Within the Centre of Common Services (CUW IT) work was also continued, associated with the integration in the scope of provision of IT services for companies of TAURON Capital Group. The consolidation of said functions within CUW IT as well as the implementation of consistent standards of IT processes will enable to use the IT resources effectively and to enhance the quality of the IT services provided. The objectives of the programme under implementation include, among others: OPEX reduction, implementation of consistent processes of IT system management in companies of TAURON Capital Group and conducting their common development, increasing the effectiveness and quality of the IT services. In 2013 CUW IT took over the IT service for: TAURON, TAURON Dystrybucja, TAURON Wytwarzanie, TAURON EKOENERGIA, TAURON Sprzedaż, TAURON Ciepło, TAURON Wydobycie, PE PKH, KW Czatkowice.

Purchase of shares of TAURON Wydobycie S.A.

On 10 December 2013 the agreement was signed on sale of 16,730,525 registered shares of TAURON Wydobycie by Kompania Węglowa (the Seller) to the benefit of TAURON (the Buyer); the shares represented 47.52% of share capital of this company and authorised it to exercise 31.99% of votes at its WZ. The total purchase price of the shares amounted to PLN 310 million. As a result of execution of the Agreement, TAURON will hold 100% of TAURON Wydobycie shares, authorising it to exercise 100% votes at the company General Meeting, whereas 47.52% of shares shall authorise it to exercise 31.99% of votes will be held by the TAURON directly, and the remaining 52.48% of shares authorising to exercise 60.01% votes at TAURON Wydobycie General Meeting results from the agreement authorising TAURON to use shares of TAURON Wydobycie held by TAURON Wytwarzanie.

On 19 December 2013 the Management Board of TAURON Wydobycie approved the disposal of the shares mentioned above, consequently fulfilling one of the conditions for transfer of the said shares to the Company, i.e. obtaining the permission of TAURON Wydobycie by the Kompania Węglowa to dispose of the shares.

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

The Company informed of the aforementioned events in the current reports no. 51/2013 of 10 December 2013, no. 59/2013 of 19 December 2013 and 41/2014 of 16 January 2014.

The decision to suspend the project for the construction of CCGT unit in Elektrownia Blachownia

On 30 December 2013, TAURON, KGHM and TAURON Wytwarzanie signed the agreement, under which it was decided to temporarily suspend the implementation of the project to build CCGT unit in the company Elektrownia Blachownia Nowa. The reason for the suspension is the current situation in the electricity and gas market resulting in an increase in investment risk and arising in connection with the need to verify and optimise the project. Expressing the willingness to continue the project the Parties undertook to ensure the continuous monitoring of the energy market and the regulatory environment in terms of possible early resumption of the project.

The Company informed of this event in the current report No. 61/2013 of 30 December 2013.

Events after 31 December 2013

Registration of the amendment to the Company Articles of Association

On 16 January 2014 the District Court Katowice-Wschód, 8th Commercial Department of the National Court Register entered the amendments to the Company Articles of Association, adopted by resolution No. 5 of the Company Extraordinary General Meeting of 7 January 2014, to the register of entrepreneurs of the National Court Register. The Supervisory Board of the Company adopted the uniform text of the *Articles of Association of TAURON Polska Energia S.A.*, including the aforementioned amendments.

The Company informed of the aforementioned events in the current reports no. 1/2014 of 7 January 2014, no. 2/2014 of 7 January 2014, no. 5/2014 of 16 January 2014 and 11/2014 of 10 February 2014.

Appointment of Supervisory Board member of the Company

On 7 January 2014 the Extraordinary General Meeting of the Company adopted resolution no. 7 on appointment of Mr. Aleksander Grad as a member of the Supervisory Board of the Company of the third term as of 1 February 2014.

The Company informed of this event in the current report No. 3/2014 of 7 January 2014.

Appointment of Supervisory Board member of the Company

On 22 January 2014 the Company was notified that the State Treasury dismissed Mr. Rafał Wardziński who acted as the Deputy Chairman of the Supervisory Board, from the Supervisory Board of TAURON. The dismissal was performed as of 22 January 2014 pursuant to § 23 section 1 item 3 of the Company Articles of Association.

On 22 January 2014 the Company was notified that the State Treasury appointed Ms Agnieszka Woś as the member of the Supervisory Board of TAURON. The appointment was effective as of 22 January 2014 pursuant to § 23 section 1 item 3 of the Company Articles of Association.

The Company informed of the aforementioned events in the current reports no. 8/2014 of 22 January 2014, no. 9/2014 of 22 January 2014.

Transfer of ownership of TAURON Wydobycie S.A. shares to TAURON

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

Recognising the provision for free CO_2 emission allowances which were not received in 2013 in the annual consolidated financial statements of TAURON Capital Group

On 28 January 2014 the Company informed of planned impact of a non-cash one-off in the form of a provision to be created in annual consolidated financial statements of the TAURON Group and related to free CO_2 emission allowances for Generation and Heat which were not received in 2013. In accordance with the adopted accounting policy, the provision for emission allowances of gases that are included in emission allowance scheme is charged against (taxes and charges) in the case when the actual emission level exceeds the volume of free emission allowances held by the TAURON Group on the balance sheet date. The provision to cover the cost of deficit is charged to the value of emissions purchased or contracted for this purpose, at arm's length prices as of the balance sheet date, in relation to unhedged deficit of allowances (if such situation occurs).

Pursuant to Directive 2003/87/EC of the European Parliament and of the Council of 13 October 2003 *establishing a scheme for greenhouse gas emission allowance trading within the Community and amending Council Directive*

96/61/EC ("Directive"), TAURON Capital Group is entitled to receive free emission allowances under Article 10c of the Directive ("derogation allowances"). TAURON Capital Group applied for derogation allowances, however as they have not been allocated as of 31 December 2013 (which in accordance to the adopted accounting policy prevents the inclusion of derogation allowances when calculating the amount of the provision for carbon dioxide emissions), the provision due to emission in the consolidated financial statements of the TAURON Group for 2013 will be higher than initially estimated by approximately PLN 270,000 thousand (approximately 260,000 thousand in Generation Segment and approximately 10,000 thousand in Heat Segment) – which will, respectively, decrease EBITDA by this amount. Recognition of the provision will reduce the net financial result of the TAURON Capital Group by the amount of approximately PLN 219,000 thousand.

The Company informed of this event in the current report No. 10/2014 of 28 January 2014.

According to the status as of 31 December 2013, TAURON Capital Group held 23,566,799 units at the accounts in the National Register of Allowances, out of which 21,667,930 is allocated for redemption arising from emission in 2013. The total value of the provision created in 2013 due to this title, was estimated at a level of PLN 461,123 thousand.

The Supervisory Board member delegated to perform the duties of Management Board member of the Company

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

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

Other important events

In addition, events resulting from the contracts and agreements concluded, significant for the operations, described in item 2.7.1 of this report should be also considered as important events of material impact on operations of TAURON Capital Group in the financial year 2013.

2.7. Information on agreements concluded by companies of TAURON Capital Group

2.7.1. Agreements significant for operations of TAURON Capital Group

In the financial year 2013 the companies of TAURON Capital Group concluded the following agreements significant for operations of TAURON Capital Group:

Conclusion of material agreement with Kompania Węglowa

On 1 March 2013 TAURON and Kompania Węglowa concluded the agreement, the subject of which is the purchase of coal by the Company (hereinafter referred to as the Agreement). The Agreement was signed for a period of 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 billion. The parties to the Agreement agreed that in the case of failure to supply or collect the coal, liquidated damages should be applicable amounting to 20% of net value of the coal subject to such failure, however a +/- 5% deviation is allowed. The above provisions apply to the volume of approximately 7.2 million tons in the years 2013–2015. For the remaining volume, liquidated damages should be negotiated separately and included in the annex to the Agreement. As of 1 January 2013 the aforementioned Agreement superseded the agreement concluded on 1 December 2010 between Południowy Koncern Energetyczny S.A. (currently: TAURON Wytwarzanie) and Kompania Węglowa, taken over by TAURON on 5 June 2012, under the centralisation process of fuel trading in TAURON Capital Group.

The Company informed of the aforementioned agreement in the current report no. 7/2013 of 1 March 2013.

Signing the agreements concerning bond issue programmes

On 31 July 2013 the Company, ING Bank Śląski, Bank PKO and BRE Bank signed the agreement concerning the bond issue programme for TAURON bonds up to the maximum value of PLN 5 billion (hereinafter referred to as the Agreement). The Agreement was signed fora period of three years commencing on the date of its concluding. The bonds issued under the above mentioned programme will be uncollateralized, dematerialized, discounted or coupon bonds. Face value and issue value of a single bond will be determined in the terms and conditions of the issue, interest rate will be determined individually for each tranche during the process of bond offering. The maturity period may vary from one month to 10 years. In accordance with the terms of the Agreement the bonds may be dematerialized at the Central Securities Depository of Poland (Krajowy Depozyt Papierów Wartościowych S.A. (KDPW) and listed in the Alternative Trading System organised by the Warsaw Stock Exchange or BondSpot S.A. (Bond Spot). Under the bonds held, the bond holder will be entitled to cash benefits only. After the successful bond issue the Company will bear standard costs connected with this type of financing, including bookrunner's fee. On 31 July 2013 the Company and BGK signed the underwriting, agency and depository agreements, jointly forming the long-term bond issue programme of TAURON for the value of PLN 1 billion. The issued bonds will be uncollateralized, dematerialized and coupon bonds. In 2013 the Company was entitled to issue bonds for the maximum total face value not exceeding PLN 500 million while in 2014 and 2015 the maximum total face value of issued bonds should not exceed the total bond issue value less the face value of bonds issued in 2013. The availability period has been determined until 31 December 2015 and the bonds will be repurchased in annual periods, from 20 December 2019 until 20 December 2028 in equal amounts of PLN 100 million. The interest rate of the bonds issued will be floating, based on 6M WIBOR reference rate plus fixed bank margin. The Company will also bear standard costs connected with this type of financing, including the arrangement fee, and the engagement fee. The bonds will be underwritten, i.e. the programme underwriter (BGK) will be obliged to purchase the bonds issued by the Company. The funds acquired from the bond issue will be spent mainly to finance capital expenditures of TAURON Group.

The Company informed of this event in the current report No. 36/2013 of 31 July 2013.

Conclusion of Agreement with PSE S.A.

On 16 December 2013, the TAURON Dystrybucja company and PSE concluded the agreement the subject of which is the provision of electric energy transmission services, covering energy transmission in the country and the cross-border electric energy exchange services, provided by PSE to the benefit of TAURON Dystrybucja (hereinafter referred to as the Agreement). The subject of the Agreement also includes the service of making the National Power System available, rendered by PSE to the benefit of TAURON in accordance with the Act of 29 June 2007 concerning the *Principles for Covering Costs Incurred by Electricity Generators due to Early Termination of Long-term Electricity and System Services Agreements.* The Agreement concluded has superseded the former three agreements signed before the consolidation of the Distribution Area, i.e. the agreements concluded with PSE by EnergiaPro, ENION (respectively, on 20 September 2007 and 15 January 2008, referred to in the Prospectus of the Company, approved by the Polish Financial Supervisory Authority on 27 May 2010, p. 217) and with Vattenfall Distribution Poland S.A., and it shall harmonise the rules of TAURON Dystrybucja participation in the Balancing Market. The terms and conditions for provision of the services are specified in the Instructions of Transmission Grid Operation and Maintenance (IRiESP) – a document prepared by PSE, determining the detailed terms of use of the transmission grid as well as the conditions and methods of operation and maintenance of the transmission grid and planning of its development. The total value of the Agreement over a five year' period is estimated at approximately PLN 6 billion, which exceeds 10% of TAURON equity. The settlements of the service are carried out in accordance with the rules and fees contained in the PSE tariff, approved by the President of ERO, taking into account the provisions of IRiESP. The agreement has been concluded for indefinite period of time.

The Company informed of this event in the current report No. 56/2013 of 16 December 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.

2.7.2. Material transactions with the affiliated entities under conditions other than arm's length basis.

All transactions with affiliated entities are concluded on arm's length basis.

Detailed information on significant transactions with affiliated entities has been provided in note 42 of the consolidated financial statements for the year ended on 31 December 2013.

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

Working capital facilities

In accordance with the financial model adopted in TAURON Capital Group, only TAURON may act as the party to working capital credits and loans raised with external institutions. On 10 January 2013, for the purpose of settlement of the purchase/exchange transactions related to CO_2 emission allowances, the overdraft agreement was concluded with Nordea Bank Finland Plc. up to the amount of EUR 26,500 thousand, with the repayment term until 31 January 2014 (the original repayment term, i.e. 31 December 2013 was extended until 31 January 2014 based on Annex no. 1 of 27 December 2013 to the said Agreement).

The table below presents detailed specification of agreements for working capital facilities effective in TAURON Capital Group in 2013.

Table no. 21 Specification of agreements for working capital facilities effective in TAURON Capital Group (commencing and continuing in 2013)

No.	Type of agreement	Type and level of interest rate	Amount of credit/loan (in thousand)	Term of effectiveness	Balance as of 31 December 2013 (in thousand)
1.	Overdraft	EONIA + fixed margin	EUR 26,500	from 10 January 2013 to 31 January 2014	EUR 1,237
2.	Overdraft	WIBOR O/N + fixed margin	PLN 300,000	from 01 January 2012 to 31 December 2014	PLN 88,508

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 amount of loans granted to TAURON in 2013 by companies of TAURON Capital Group amounted to PLN 19,045,451 thousand, whereas the total amount of loans granted by TAURON to TAURON Capital Group companies amounted to PLN 1,930,090 thousand (it should be indicated that the loans drawn by a given company of TAURON Capital Group simultaneously represent the loans granted by TAURON, and consequently, the loans drawn by TAURON simultaneously represent the loans granted by other companies of TAURON Capital Group).

The table below presents the balance of the loans granted within the cash pooling system, according to the entity structures, which amounted to PLN 1,612,350 thousand as of 31 December 2013.

Table no. 22 Balance of loans granted to the Company by the subsidiaries under the cash pooling according to the status as of 31 December 2013

No.	Company name	Amount of the loan (in thous. PLN)
1.	TAURON Sprzedaż	541,928
2.	TAURON Wytwarzanie	435,512
3.	TAURON Sprzedaż GZE	256,844
4.	TAURON Dystrybucja	173,648
5.	TAURON Dystrybucja Serwis GZE	74,268
6.	KW Czatkowice	34,931
7.	TAURON Wytwarzanie	24,211
8.	MEGAWAT MARSZEWO	21,564
9.	TAURON Ekoenergia	15,008
10.	TAURON Obsługa Klienta	13,722
11.	PE PKH	8,853
12.	TAURON Wytwarzanie GZE	4,411
13.	TAURON Wydobycie	4,319
14	BELS INVESTMENT	2,059
15.	TAURON Ubezpieczenia	1,073
	Total	**1,612,350**

The loans drawn within the cash pooling, in relation to all participants (excluding TAURON) are of short-term nature, to be used for financing of current operations of the specific company of TAURON Capital Group. In accordance with the applicable liquidity policy, TAURON, as the cash pooling administrator and the holder of the consolidation account, has a possibility to use and deposit the funds over a longer period of time. The individual loans do not have any specific maturity date, however, the final deadline of their repayment falls on 31 December 2014, i.e. the last day of effectiveness of the cash pooling agreement. The loans granted within the cash pooling are expressed in Polish zloty and in 2013 their interest rate was based on WIBID O/N and WIBOR O/N adjusted by fixed margin.

Investment facilities

On 3 July 2012 the Company concluded the facility agreement with the European Investment Bank for the total 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 in the amount of PLN 450,000 thousand was disbursed on 16 July 2012. The remaining amount of the facility was disbursed on 25 January 2013 – at a level of PLN 200,000 thousand and on 22 February 2013 – at a level of PLN 250,000 thousand.

The funding of the European Investment Bank used in 2013 will be repaid in semi-annual cycles in the total amount of PLN 20,455 thousand. The deadlines for repayment of the principal fall on 15 March and 15 September of each year and the total repayment of the principal falls on 15 September 2024.

The interest rate of the disbursed tranches of the facility is assessed according to fixed rate, effective until 15 March 2018, when the new conditions of financing will be defined, in terms of the level of interest and/or change of the formula for its calculation.

Moreover, in 2013 the companies of TAURON Capital Group signed and raised preferential credits from environmental funds within the specification presented in the table below:

Table no. 23 Specification of preferential loans signed and/or drawn from environmental funds by companies of TAURON Capital Group in 2013 (data in thousand PLN)

No.	Company	Purpose	Date of signing	Date of effectiveness	Amount of the agreement	Balance as of 31 December 2013
1.	TAURON Ciepło*	Change of the adjustment method of water pumps supplying OF-135 boiler of BC-35 block located at ZW Tychy	21 December 2012	1 May 2016	1,180	918
2.	KW Czatkowice	Modernisation of the dust extraction system	21 May 2013	30 June 2018	513	482
		Thermal modernisation of a TEC/TMR workshop building	24 July 2013	30 September 2018	127	121
		Thermal modernisation of a TEC/TMR workshop building	24 July 2013	30 September 2018	154	149
		Thermal modernisation of a Mechanic workshop building	24 July 2013	30 September 2018	257	243
		Thermal modernisation of a Mechanic Maintenance building	19 November 2013	15 December 2018	94	94

** The company signed the agreement in 2012 whereas the financing was drawn in Q1 2013.*

In 2013 the TAURON EKOENERGIA company executed earlier repayment of the principal, on the deadline for the instalment for Q3 2013, falling on 30 September 2013. The total amount of the capital repaid prior to the defined schedule reached PLN 8,491 thousand.

In the financial year 2013 the companies of TAURON Capital Group did not terminate any credit and loan agreements.

The agreements signed with banks impose the legal and financial covenants on the Company, standard for this type of transactions. In accordance with the status as of 31 December 2013, no event of default in relation to the covenants, i.e. infringement of terms and conditions of the agreements occurred.

2.7.4. Information on granted loans and sureties as well as sureties and guarantees received

Loans granted

In 2013 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 detailed description of the loans granted in included in item 2.7.3. hereof.

Irrespective of the cash pooling system operating in TAURON Capital Group, on the basis of two agreements concluded on 20 June 2012, between TAURON, PGNiG and EC Stalowa Wola, TAURON granted two loans to EC Stalowa Wola:

1) the subordinated loan concluded in order to finance the implementation of the investment consisting in construction and exploitation of the CCGT unit of 449 MWt_e and 240 MW_t capacity 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 follow-up of the agreement, in 2013 the funds in the amount of PLN 25,000 thousand were transferred. As of 31 December 2013, the total value of funds transferred due to the loan amounted to PLN 177,000 thousand. The total repayment of the loan should occur until the end of 2032, at the latest.
2) VAT loans aimed at financing of the VAT due in connection with costs of implementation of the investment involving the construction of the CCGT unit in Stalowa Wola of the 449 MW_e and 240 MW_t capacity, 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 2013 arise from the adopted financing model of TAURON Capital Group companies and they were provided on account of the conducted trading operations and as the collateral for repayment of loans granted, among others by the Regional Fund of Environmental Protection and Water Management in Katowice (WFOŚiGW Katowice) and the Regional Fund of Environmental Protection and Water Management in Kraków (WFOŚiGW Kraków).

The table below presents detailed specification of guaranties, sureties and commitments effective according to the status as of 31 December 2013.

Table no. 24 Specification of the agreements on sureties, guarantees and commitments effective as of 31 December 2013

No.	Beneficiary	Agreement	Party to the agreement	Amount (in thous. PLN)	Date of effectiveness
1.	WFOŚiGW Katowice	Agreement on collateral	TAURON Wytwarzanie	40,000	15 December 2022
2.	WFOŚiGW Katowice	Agreement on aval	TAURON Ciepło	30,000	15 December 2022
3.	Nordea Bank Polska	Agreement on collateral	TAURON Dystrybucja Serwis	202	31 March 2014
4.	WFOŚiGW Katowice	Agreement on aval	TAURON Ciepło	1,180	1 May 2016
5.	WFOŚiGW Kraków	Agreement on surety	KW Czatkowice	513	31 July 2018
6.	WFOŚiGW Kraków	Agreement on surety	KW Czatkowice	256	31 October 2018
7.	WFOŚiGW Kraków	Agreement on surety	KW Czatkowice	128	31 October 2018
8.	WFOŚiGW Kraków	Agreement on surety	KW Czatkowice	154	31 October 2018
9.	WFOŚiGW Kraków	Agreement on surety	KW Czatkowice	94	15 January 2019

Within TAURON Capital Group the following agreements related to the issuance of bank guarantees are also effective:

1) Framework agreement of 22 September 2011, including its subsequent annexes, for granting the bank guarantees, concluded with PKO BP S.A., with the effective term until 31 December 2016 in the amount of PLN 100,000,000 to be used by TAURON and the subsidiaries,
2) Framework agreement of 6 May 2013 on the limit for bank guarantees, concluded with BZ WBK S.A., with the effective term of 12 months following the date of its signing, with a limit of PLN 150,000,000 to be used by TAURON to the benefit of IRGIT, with its seat in Warsaw,
3) Agreement of 6 September 2013 on granting of the re-guarantee, concluded with Nordea Bank Polska S.A. concerning with granting of the reguarantee to the benefit of Nordea Bank Finland Plc Niederlassung Deutschland.

The table below presents detailed specification of bank guaranties and re-guarantees under the agreements effective according to the status as of 31 December 2013.

Table no. 25 Specification of bank guaranties/re-guarantees under the agreements effective according to the status as of 31 December 2013

No.	Bank	Company	Beneficiary	Type of guarantee	Amount (in thousand)	Date of launch	Date of effectiveness
1.	BZ WBK	TAURON	IRGiT	payments	PLN 50,000	1 October 2013	30 January 2014
2.	BZ WBK	TAURON	IRGiT	payments	PLN 50,000	1 October 2013	30 January 2014
3.	BZ WBK	TAURON	IRGiT	payments	PLN 25,000	1 October 2013	30 January 2014
4.	BZ WBK	TAURON	IRGiT	payments	PLN 25,000	8 November 2013	30 January 2014
5.	PKO BP	TAURON	IRGiT	payments	PLN 25,000	8 November 2013	30 January 2014
6.	PKO BP	TAURON	CAO	payments	EUR 1,000	1 January 2012	3 February 2015
7.	Nordea Bank Polski	TAURON	GASPOOL Balancing Services	payments	EUR 100	1 October 2013	30 September 2014

No.	Bank	Company	Beneficiary	Type of guarantee	Amount (in thousand)	Date of launch	Date of effectiveness
8.	PKO BP	TAURON Sprzedaż	Przedsiębiorstwo Wodociągów i Kanalizacji	performance bond	PLN 253	19 October 2012	31 December 2013
9.	PKO BP	TAURON Sprzedaż	Przedsiębiorstwo Państwowe PORTY LOTNICZE	performance bond	PLN 1,618	11 July 2013	30 October 2014
10.	PKO BP	TAURON Sprzedaż GZE	Górnośląskie Przedsiębiorstwo Wodociągów S.A.	performance bond	PLN 593	1 January 2013	30 January 2014
11.	PKO BP	KW Czatkowice	PGE	bid bond	PLN 1,270	20 November 2013	20 February 2014
12.	PKO BP	KW Czatkowice	PGNiG Termika	performance bond	PLN 55	7 October 2013	31 August 2015
13.	PKO BP	KW Czatkowice	PGE Górnictwo i Energetyka Konwencjonalna S.A.	performance bond	PLN 436	18 December 2013	30 January 2016
14.	PKO BP	PEPKH	PSE	payments	PLN 1,000	19 January 2012	31 March 2014
15.	PKO BP	TAURON Dystrybucja Serwis	EUROVIA POLSKA S.A.	performance bond	PLN 23	21 December 2013	4 January 2016

At the same time, within TAURON Capital Group, in order to hedge the transactions executed by the Company at Power Exchange (Towarowa Giełda Energii S.A.) (TGE) in electric energy markets and participation in the system of securing the liquidity of transaction settlement, in 2013, the following agreements were effective, pursuant to which TAURON Wytwarzanie granted the surety to the Company in favour of the Clearing House of Giełdy Towarowe S.A. (IRGIT) due to the clearing of the future transactions:

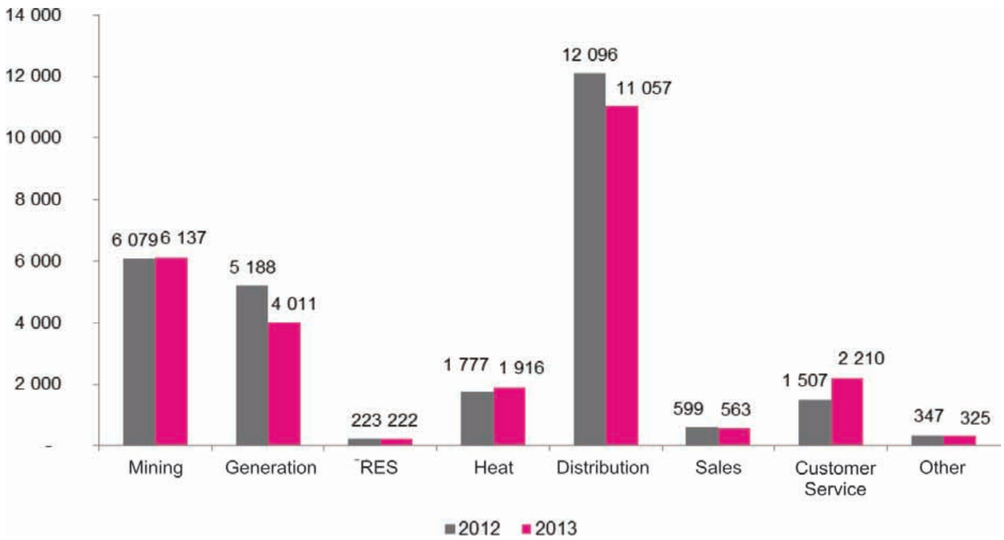
1) the agreement concluded on 23 February 2011 in the amount of PLN 145,000 thousand, effective until 31 March 2013
2) the agreement concluded on 23 August 2013 in the amount of PLN 45,000 thousand, effective until 31 March 2014.

2.8. Information concerning employment

In 2013 the average employment in TAURON Capital Group in FTEs reached 26,441 FTEs, which means the reduction against the employment in 2012, which amounted to 27,816 FTEs.

The average employment in TAURON Capital Group in FTEs (rounded to a full FTE), divided into Segments of operations in the years 2012–2013, is presented in the figure below.

Figure no. 25 Average employment in TAURON Capital Group in 2012 and 2013 – FTEs

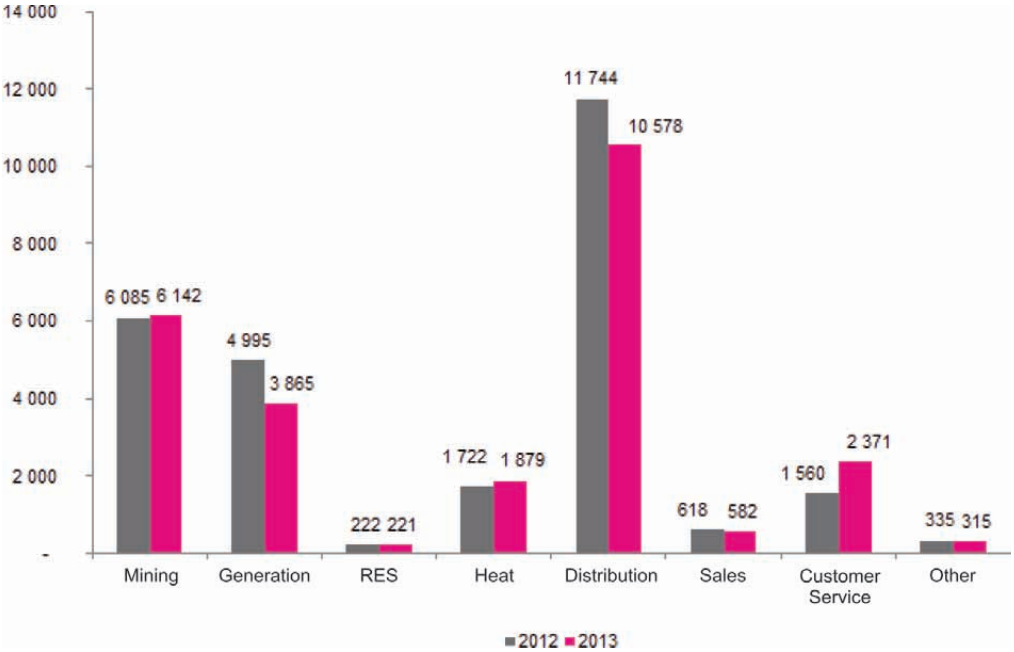


Changes in the level of the average employment in individual Business Areas in 2012, as compared to the average employment in 2012, result, among others, from the *Voluntary Redundancy Programmes* implemented, among others, in the following Areas: Distribution, Generation, Heat, Customer Service as well as from the mobility of employees among individual Business Areas (in particular, migrations of employees to the Customer Service Area and as a result of reorganisation processes, i.e. separation of EC Katowice from the Generation Area and its inclusion in Heat Area, and the merger of TAURON Serwis GZE with PUE, and the resulting establishment of TAURON Dystrybucja Serwis).

At the same time, as of 31 December 2013, 25,953 persons were employed in the companies of TAURON Capital Group. It should be underlined that the decrease in employment by 1,328 persons was recorded, as compared to the employment status as of 31 December 2012, reaching 27,281 people.

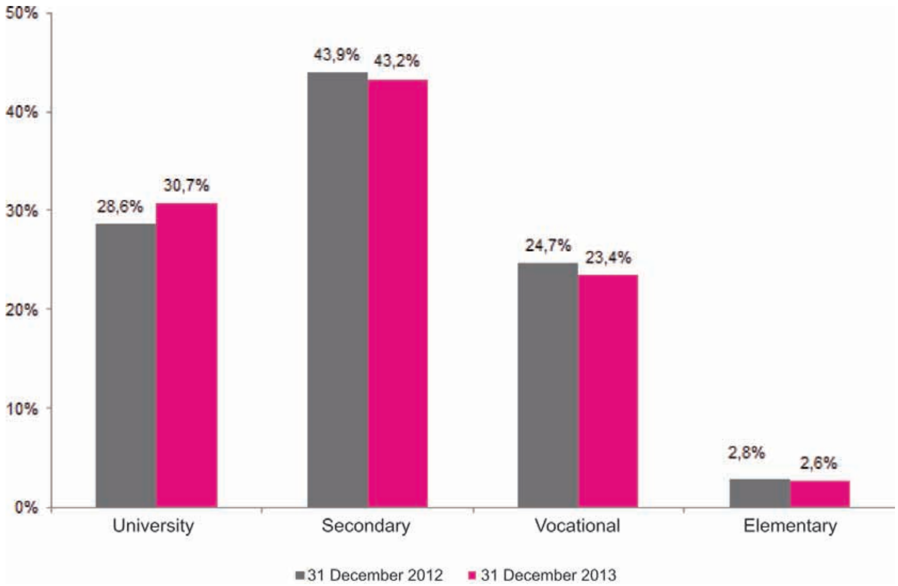
The figure below presents the employment in TAURON Capital Group in persons according to the status as of 31 December 2012 and 31 December 2013

Figure no. 26 Employment in TAURON Capital Group according to the status as of 31 December 2012 and 31 December 2013 – persons



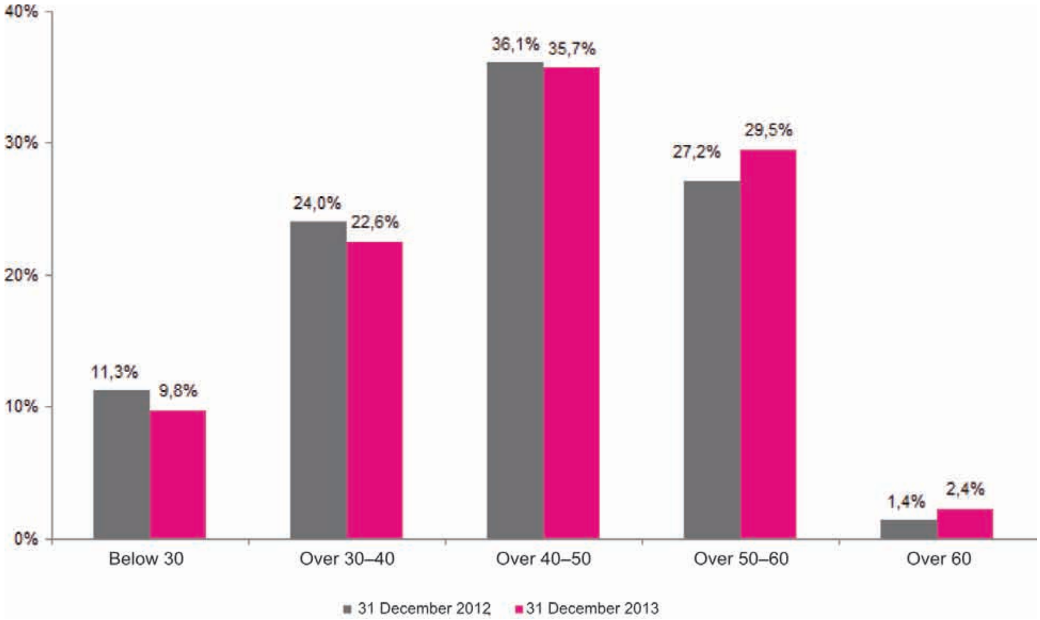
The figure below presents the structure of education in TAURON Capital Group according to the status as of 31 December 2012 and 31 December 2013.

Figure no. 27 Employment structure in TAURON Capital Group according to the status as of 31 December 2012 and 31 December 2013 – education



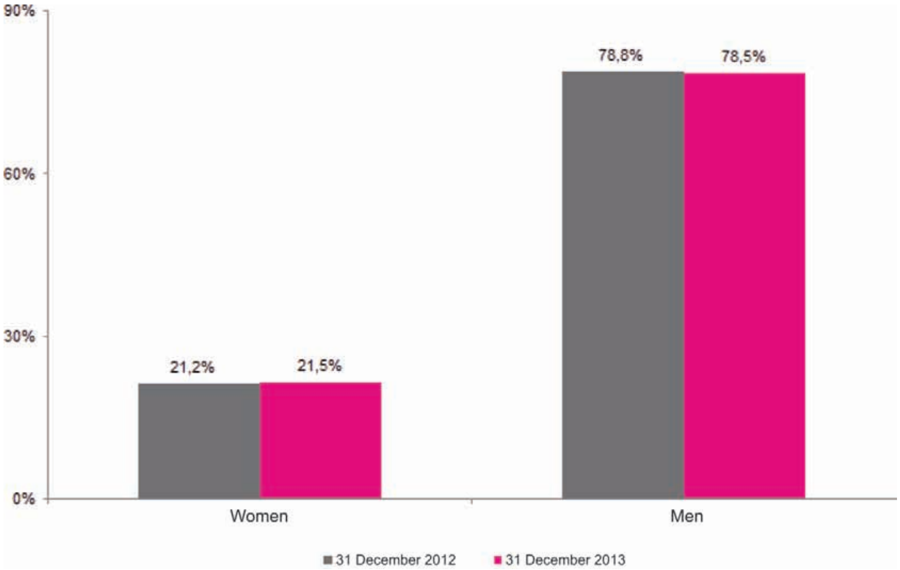
The figure below presents the age structure of employment in TAURON Capital Group according to the status as of 31 December 2012 and 31 December 2013.

Figure no. 28 Employment structure in TAURON Capital Group according to the status as of 31 December 2012 and 31 December 2013 – age



The figure below presents the structure of employment in TAURON Capital Group, in terms of gender, according to the status as of 31 December 2012 and 31 December 2013.

Figure no. 29 Employment structure in TAURON Capital Group according to the status as of 31 December 2012 and 31 December 2013 – gender



2.9. Development policy of TAURON Capital Group

2.9.1. Characteristics of the policy in the scope of development directions

The Corporate Strategy adopted in 2011 and still binding, is the update of 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.

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. The implementation of the aforementioned goal is measured on the basis of underlying indicators of value development, i.e. EBITDA growth and ROIC level.

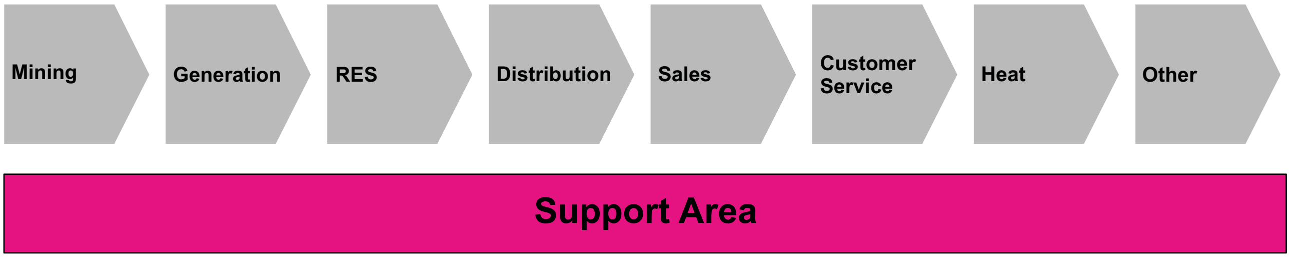
The updated Corporate Strategy was also binding in 2013 and the description of its implementation and the detailed information concerning the development directions arising from the updated Corporate Strategy is included in item 2.9.3 of this report.

The Company monitors the macroeconomic environment and analyses its impact on the activities of TAURON Capital Group on on-going basis. Due to the planned essential changes in the legal environment of the energy sector and the current situation in the energy markets, the review of the Corporate Strategy and the investment directions is in progress.

2.9.2. Planned Structure of TAURON Capital Group

The planned model of TAURON Capital Group structure has been determined in the Corporate Strategy assuming the creation of one leading company in each Business Area, which should simultaneously enable the operation of 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. 30 Value chain in TAURON Capital Group



2.9.3. Implementation of Corporate Strategy

Within the implementation of the Corporate Strategy the assumptions of which were updated in 2011, 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 and diversification of the generation portfolio exists. The objective of further improvement of the effectiveness, perceived as the uninterrupted strive for operational excellence and building of effective organization through raising the effectiveness of the Group operations has been sustained.

Implementation of the Corporate Strategy in 2013 allowed for the accomplishment of the EBITDA growth indicator to the level of PLN 3,661,484 thousand (more information in item 2.3. hereof) and ROIC indicator at the level of about 8%.

In the scope of implementation of investment tasks:

1) the construction of Wicko and Marszewo wind farms was completed,
2) the concession for production of electric energy from RES in biomass units in ESW, Jaworzno III and ZW Tychy was obtained,
3) the heat unit of 50 MW capacity in ZEC Bielsko-Biała was commissioned and the occupancy permit was obtained,
4) the construction of the discharge-condensation turbogenerator in Zakład Wytwarzania Nowa (ZW Nowa) was commenced,
5) works involving the construction of the CCGT unit of 449 MW_e capacity in EC Stalowa Wola and the construction of a new unit of 50 MW capacity in ZW Tychy are in progress.

Moreover, the activities are on-going, aimed at commencement of the implementation of the project on construction of the CCGT unit of 413 MW_e capacity in Elektrownia Łagisza. The Company is awaiting signing of the contract for construction of a new power unit of about 910 MW capacity in Elektrownia Jaworzno III. An essential element of implementation of the Corporate Strategy is the participation in the project on preparation and construction of a nuclear power plant in Poland.

The assumed targets connected with the improvement of cost effectiveness have been achieved, mainly through the restructuring programmes conducted in the Areas: Generation, Heat and Distribution. 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 Customer Service Area was integrate, whereas in the Heat Area the last stage of construction of this Area was completed, comprising the inclusion of ZEC Bielsko-Biała.

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 Corporate Strategy assumed commissioning of new generation capacity up to 2020, in various technologies, including the wind energy, at the level of 3,200 MW_e. It should be mentioned that works related to the review of the Corporate Strategy are in progress, including the investment portfolio, in order to adjust it to the current market and regulatory conditions.

II. Operational and investment effectiveness at the level of best practice

The Corporate Strategy envisages further implementation of synergy arising from the 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.

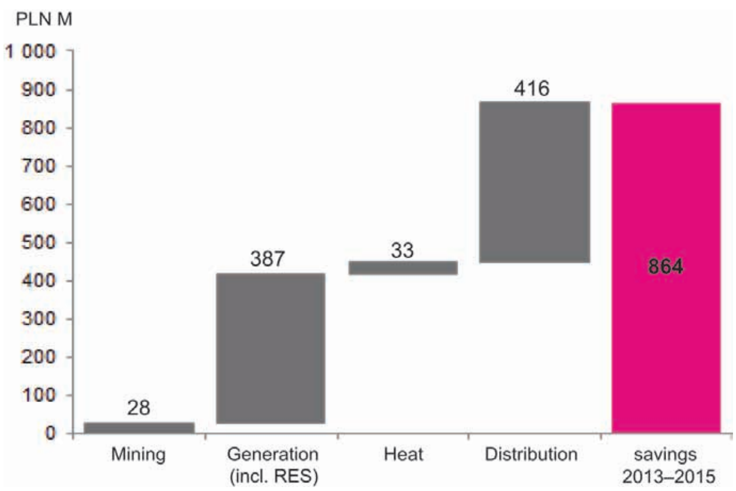
In 2013, the Company continued its priority approach to the budgetary discipline in each Business Area within investment expenses and operating costs. The executed activities related to the improvement of operational and investment effectiveness also enabled to prepare TAURON Capital Group for the functioning under the volatile market conditions, in particular, in terms of the significant volatility of prices of fuels, energy, emission allowances, etc.

On 15 January 2013 the Management Board of TAURON adopted the OPEX effectiveness improvement programme in TAURON Capital Group for 2013–2015 which was drafted with the underlying goal to increase the value of TAURON Capital Group.

The consolidation and restructuring projects have been prepared the execution of which should result in cost reduction at a level of approximately PLN 864,000 over the years 2013–2015 (total amount for the entire 3-year period). The effectiveness improvement programmes in individual areas of operations were adopted by management boards of the subsidiaries and constituted the basis for the development of the programme at the level of TAURON Capital Group. According to the Company estimates, the scale of OPEX reduction under the Programme on effectiveness improvement should increase every year, oscillating around the amount of PLN 300,000 million annually, with the highest savings planned for 2015. TAURON Capital Group expects to reduce operating costs in the majority of the areas – with the highest share allocated to Distribution Area and Generation Area. According to the assessment of the Company, the implementation of the targets will enable the strengthening of the competitive position due to the limitation of the cost base of TAURON Capital Group. The OPEX reduction programme under implementation in TAURON Capital Group is one of the pillars for maintaining the high competitive position.

The figure below presents the Effectiveness Improvement Programme in 2013–2015.

Figure no. 31 The Effectiveness Improvement Programme in 2013–2015.



In 2013, savings at a level of approximately PLN 320,000 thousand were achieved.

The table below presents the implementation of the Effectiveness Improvement Programme in Individual Segments.

Table no. 26 Implementation of the effectiveness improvement programme

No.	Segment	Savings accomplished in 2013 (in thousand PLN)	Savings planned for 2013–2015 (in thousand PLN)	% implementation	Major initiatives
1.	Distribution	130,000	416,000	31%	1. Implementation of the target business model, elimination of duplicated functions 2. Change in rules of classification of expenses as expenditures or costs 3. Optimisation of balance sheet differences 4. Optimisation of IT processes 5. Integration of business functions in the service area 6. Optimisation of external services
2.	Generation (including RES)	145,000	387,000	37%	1. Restructuring of employment and optimisation of processes 2. Limitation of repairs for the lest effective units 3. Optimisation of overhead costs 4. Outsourcing of some functions, mainly in repairs area 5. Improvement of equipment efficiency, optimisation of production volume and operating costs in hydroelectric power plants 6. Reduction of costs of service and maintenance of wind farms
3.	Heat	20,000	33,000	60%	1. Restructuring of employment 2. Limiting the losses of compressed air 3. Restructuring of assets 4. Optimisation in costs of external services 5. Optimisation of procurement policy
4.	Mining	15,000	28,000	54%	1. Construction of nitrogen generation installation 2. Expansion of the sludge dehydration station 3. Drinking water treatment 4. Electronic auctions in public procurement proceedings 5. Using the mechanic lining for excavation drilling
5.	Other Segments	10,000	–	–	1. Abandoning EPOK maintenance 2. Abandoning the maintenance of the website in TAURON Sprzedaż GZE 3. Restructuring of employment 4. Optimisation in costs of external services
	Total	**320,000**	**864,000**	**37%**	

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 2013 no significant change in generation capacity structure was noted. The share of capacity installed in TAURON Capital Group, attributable to coal-based technologies decrease from 98% to 92%, in favour of increasing the capacity of renewable sources (biomass and wind).

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 2013 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, the construction of a pilot mobile installation for CO_2 capturing and performing tests at the facilities belonging to TAURON Wytwarzanie. In the period from April to November, the scientific partner of the project Instytut Chemicznej Przeróbki Węgla with its seat in Zabrze (Institute of Chemical Coal Processing) (ICHPW) conducted a series of tests planned at the installation. The implementation of a Research Task on "The development of high-temperature reactors for industrial applications" was also launched, as well as other tasks co-financed by the NCBiR, among others, in the scope of coal gasification and aerobic combustion.

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 2013 covered the continuation of implementation of the target business model, organizational structure and completing the integration of general corporate functions. In the Sales and Customer Service Areas numerous activities were conducted aimed at improvement of the quality and growth of client satisfaction level. The harmonisation of customer service points was continued, centralisation of the billing systems was conducted, the construction and development of the e-commerce sales channel was completed. The centralisation of the service of financial and accounting processes and the IT service was continued. The measures implemented will contribute to effective implementation of the updated Corporate Strategy in the whole value chain and to the strengthening of the position of TAURON Capital Group among the leading energy companies in the region.

2.9.4. Factors essential for development

Results of operations of TAURON Capital Group will be affected mainly, as it happened in the past, by the such factors as:

1) 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;
2) political environment, especially in Poland as well as at the European Union level, including the opinions and decisions of public administration institutions and bodies, for example: the Office for Competition and Consumers Protection (UOKiK), ERO and the European Commission,
3) situation in electric energy sector, including the activity and measures undertaken by competition in the energy market,
4) resumption of the support system of electric energy generation in high-performance co-generation ("red" and "yellow" certificates),
5) geological and mining conditions,
6) number of free CO_2 emission allowances allocated after 2013, and prices of the allowances acquired;
7) changes in the regulations of the energy sector, as well as changes in the legal environment, including: the tax law, commercial law, environmental protection law,
8) demand for electric energy and other products of energy market, including changes arising from seasonality and weather conditions,
9) prices of electric energy and fuel,
10) ERO decisions, including the decisions concerning the tariffs for sales and distribution of electric energy and heat,
11) environmental protection requirements,
12) research and technical progress.

2.10. Assessment of implementation opportunities of investment projects

In 2013 the main expenditures on strategic investments were implemented in companies of TAURON Capital Group, whereas their financing was managed centrally at the level of the Company. On the basis of the conducted analyses, the Management Board of the company has assessed 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.

2.11. Risk and threat factors

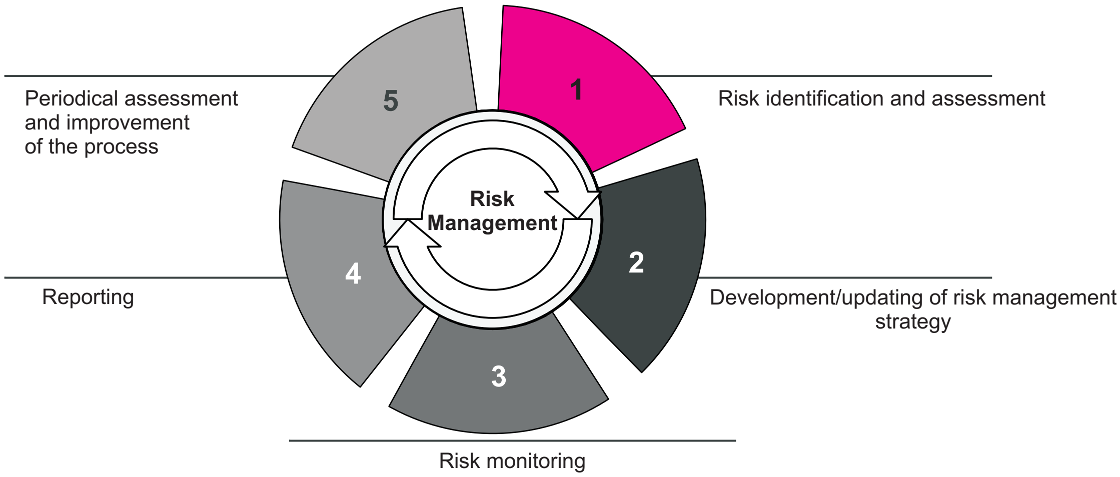
Taking care of the implementation of the Corporate Strategy, the Company manages business risks occurring in the activities of the whole TAURON Capital Group. The business risks management process is aimed at implementation of the adopted business objectives of the TAURON Capital Group as a part of the acceptable risk level adopted by the Company's Management Board

In 2013, the process of development of the risk management system was continued in key companies of TAURON Group in accordance with the *Corporate Risk Management Policy in TAURON Group*.

The Comprehensive Enterprise Risk Management System (ERM) covers significant risks which occur in operations of the Company and TAURON Capital Group. The nature of risks is defined, in particular, by specifying the level of their impact understood as the effect of risk materialisation affecting the implementation of the goals and the probability of such materialisation. To achieve this goal, the system covers and organises all the resources of TAURON Capital Group developing the infrastructure of corporate risk management (strategy, processes, authorisation, reporting, methodology and IT tools). The Risk Management System covers all elements of the value chain implemented 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. 32 Processes within corporate risk management in TAURON Capital Group



Main participants of the risk management process, their roles and responsibilities

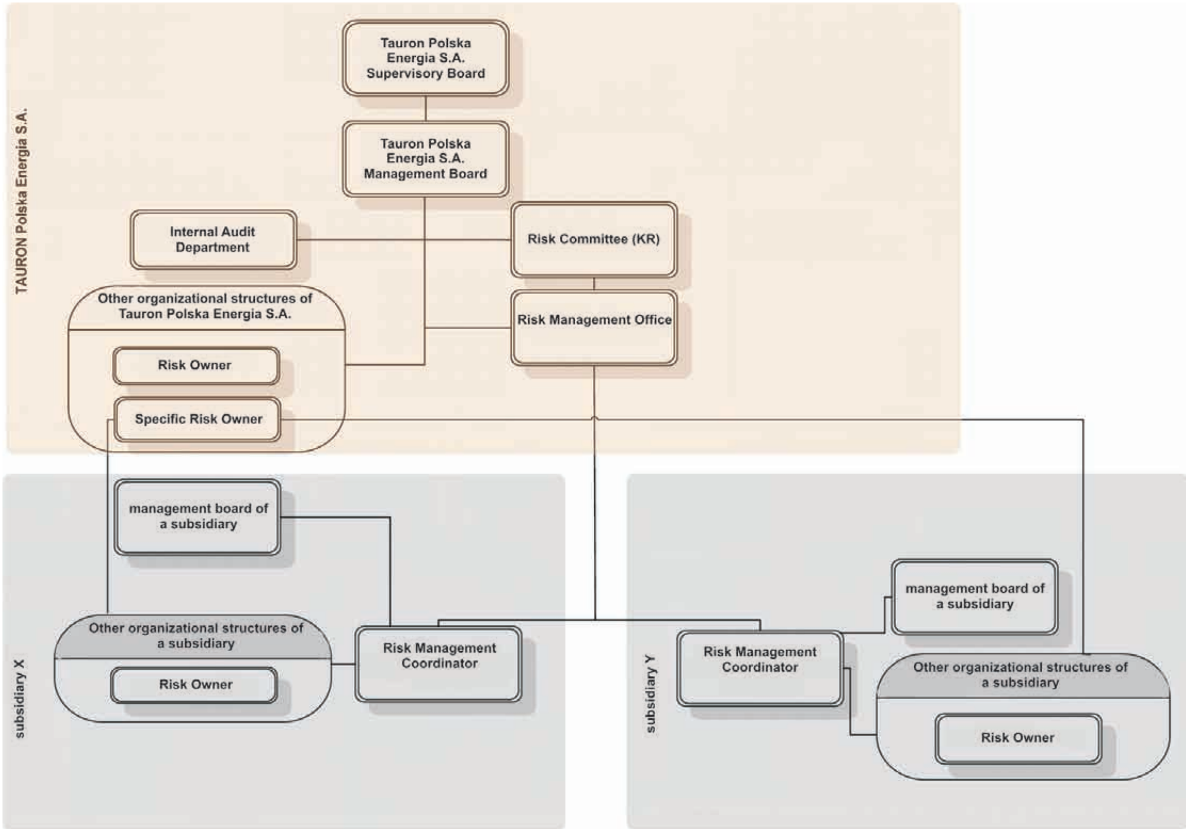
The following participants take part in the corporate risk management process:

1) Supervisory Board of the Company
2) Management Board of the Company
3) Management boards of subsidiaries,
4) Risk Management Office (PPE),
5) Risk Committee (KR),
6) Risk Management Coordinators (KZR),
7) Risk owners, specific risk owners,
8) Department of Internal Audit in TAURON Polska Energia S.A.,
9) Other employees of organisational structures of TAURON Polska Energia S.A. and the subsidiaries.

Within the risk management process the Risk Committee fulfils a special role, as the permanent team of experts, comprising persons holding relevant knowledge of the Company and its environment, which permanently initiates, analyses, monitors, controls, supports and supervises the performance of corporate risk management in TAURON Capital Group.

The figure below shows the simplified structure of participants of the corporate risk management process in TAURON Capital Group.

Figure no. 33 Simplified structure of participants of the ERM process



Roles and responsibilities of selected participants of the risk management process

TAURON Supervisory Board:

is authorised to supervision and control, including checking whether the activities in the scope of corporate risk management undertaken by the Company are compliant with the expectations of the owner and the regulatory authorities.

TAURON Management Board:

1) performs assessments of risk management infrastructure,
2) takes formal decisions concerning the key elements of the ERM infrastructure,
3) sets priorities and defines risk management rules (assumptions, strategies),
4) approves the prioritisation of risks, strategies for the key risks identified and changes in these strategies recommended and adopted by KR,
5) approves, on the basis of KR recommendations, and allocates the resources required for the implementation of the risk management process,
6) approves the concept of global limits and maximum tolerance for key risks (risk appetite),
7) takes decisions in cases of significantly exceeded limits,
8) approves the applicable hedging instruments, defines the final shape of the current Risk Register, Risk Map and List of KPI/KRI indicators,
9) resolves the disputes/conflicts concerning the ERM.

Management boards of subsidiaries:

1) take formal decisions on key elements of ERM infrastructure in a given company, including implementation of the relevant organizational structure (specifying the role of KZR in a given company and implementing other ERM elements in the subsidiary),
2) supervise the activities of the Risk Management Coordinator.

Risk Committee (KR):

1) recommends the concepts of global limits and maximum tolerance for the key risks (risk appetite), risk management strategies to the Management Board and proposes changes concerning the adopted strategies,
2) recommends applicable hedging instruments to the Management Board,
3) recommends the shape of individual ERM elements and changes in the risk management policy,
4) prepares recommendations for the Management Board in terms of priorities and allocation of the resources required for the implementation of the risk management process,
5) approves Risk Owners and Risk Cards,
6) analyses, monitors and controls the risk management process.

Within the assessment of corporate risks and risk management strategy, KR initiates the cyclical risk identification process, determines the completeness of risk identification and aggregation, recommends their prioritisation and the shape of the Risk Register, Risk Map and List of KPI/KRI indicators.

Risk Management Office (PPE):

1) implements the ERM in the Company and supervises the implementation of the ERM in the subsidiary companies,
2) supports the ERM activities in TAURON and the subsidiaries,
3) develops knowledge on risk management in TAURON Capital Group,
4) provides support in designing the infrastructure elements and changes in risk management policy.

Risk Management Coordinators (KZR):

1) supervises the ERM process implementation in the specific subsidiary company,
2) implements the ERM in the specific subsidiary company, cooperating with the PPE,
3) implements additional tasks, no arising from the ERM, for “TAURON Group” in the scope of risk management at a level of the specific subsidiary,
4) conducts communication of the ERM rules and develops knowledge concerning risk management in the subsidiary company.

Risk owners:

1) identify and assess risks,
2) create and implement risk management strategy,
3) monitor individual risks and risk factors,
4) monitor the effectiveness of the management process in relation to the specific risk,
5) report, respectively, to KZR or PPE in the risk management process,
6) manage risk so that the assumed risk management goals are achieved and the adopted limits are not exceeded.

In 2013 the list of risks was updated, based on the current decisions of the Company, and the process of cyclical business risk identification was performed in TAURON Capital Group (the description of risks, their valuation and measurement was updated, which is reflected in the contents of the Risk Register, Risk Map and the shape of the list of key risks).

Within the framework of the aforementioned update, among others:

1) the planning risk was updated, as a result of merging the strategic planning risk, the macroeconomic risk and the operational planning risk,
2) the risk associated with the process of strategic investment was updated, as a result of merging the strategic project risk with the risk associated with the strategic investment process,
3) the list of key risks was changed, where the newly identified risks were included, such as: risk associated with the obligation to redeem the certificates of origin or payment of the substitution fee, risk of metering-settlement data, with simultaneous removal of the risk associated with LTC termination or the risk of loss of co-financing from the national and EU sources.

The presented description of risks represents, according to the opinion of the Company, the specification of the most essential current threats associated with the performance of TAURON Capital Group.

Assessment of the extent TAURON Capital Group is exposed to the risk factors and threats listed below, takes into consideration the impact of risk materialisation and the probability of their occurrence as well as the adequacy of the applied risk management strategy. Order in which particular risks are presented does not reflect this assessment.

Table no. 27 Description of risk factors and threats

No.	Types of risks	Risk description
I.	**Market risks**	
1.	Price risk	Risk associated with the volatility of electric energy prices, prices of property rights and CO_2 emission allowances. The fluctuations of energy prices, including the adverse change in medium-term perspective may materially affect the financial result of TAURON Capital Group, through increase in costs, margin reduction and limitation of the revenues gained.
2.	Volumetric risk	Risk related to volatility of electric energy trade volume, change in profile of electric energy consumption in individual hours/time zones/time periods, which may have material adverse effect on operations of TAURON Capital Group, through reducing the margin or incurring the financial loss as a result of changes in the volume of sales, purchase of electric energy and the related products.
3.	Risk connected with the obligation to redeem the certificates of origin or pay the substitution fee	Risk connected with the failure to fulfil the obligation to redeem the certificates of origin or pay the substitution fee, due to the limited availability of certificates of origin on the market, change of support policy for energy generated in RES and in cogeneration, or redemption of incorrect number of certificates of origin / payment of the incorrect value of the substitution fee, resulting in potential increase in costs of fulfilment of the statutory obligation, penalties imposed by ERO President and higher production costs of electric energy sold.
4.	Risk of atmospheric factors and climate changes in the Heat Area	Risk related to fluctuations of air temperatures which have significant impact on the demand for electricity and heat at a longer term, causing the significant increase or decrease of this demand, respectively, which may result in the failure to achieve the production plan in the assumed period or limitation of the possibility to satisfy the demand due to hydraulic constraints of the connection network, fixtures and the increased failure rate of sales.
II	**Strategic risks**	
1.	Political risk	The State Treasury as the majority shareholder may perform changes in the governing bodies of the Company, in case of the change in the ruling political option, as a result of which the Company strategy may change, results may deteriorate due to the modification of plans and strategic business goals, the development may slow down and the level of the dividend paid to the shareholders may change.
2.	Risk of TAURON Capital Group organisation and corporate governance	Risk associated with ineffective cooperation among TAURON Capital Group companies in the scope of governance processes, reporting and information management. The risk factors many have adverse effect on TAURON Capital Group operations, its financial situation or results of its activities by incomplete implementation of TAURON Capital Group strategic objectives or the extended period of their accomplishment, delays in decision making or taking wrong decisions.
3.	Risk of unstable legal system and the European Union regulations connected with the functioning of the energy sector, including the environment protection	Risk related to unfavourable legal changes, modifications in the Polish and the European Union regulations as well as to the legislative environment uncertainty. The risk factors may have significant adverse impact on operations of TAURON Capital Group and its financial situation through increase of operating costs of the enterprise, necessary to change the strategy of the Company or TAURON Capital Group companies, permanent exclusion of specific technologies arising from the requirement to implement the EU regulations, limiting the generation capacity of the Company and undermining its negotiation position against the institutions.
4.	Risk of non-compliance with the requirements of ERO/UOKiK/ and the Instruction of Transmission Grid Operating and Maintenance (IRIESD)	Risk associated with the possibility of the aforementioned authorities challenging the accuracy of the activity conducted by TAURON Capital Group in the scope of independence and equal treatment of entities on the market, infringement of antimonopoly regulations or abuse of the dominating position. The risk factors many have material adverse effect on TAURON Capital Group operations, its financial situation or results of its activities through withdrawal or change in the scope of the effective concessions, the requirement to change agreements for the supply of electric energy, incurring additional costs and a possibility of financial penalties to be imposed on the Company.
5.	Risk connected with the obligation to redeem the CO_2 emission allowances	Risk connected with emitting CO_2 to the atmosphere as well as the need to redeem a relevant number of CO_2 emission allowances. The risk factors may have adverse impact on operations of TAURON Capital Group, its financial standing or results of its activities, through the fines imposed for each unit of unredeemed allowance, or decreasing the planned electricity sales profitability and the increase in costs associated with the failure to issue free allowances and their inaccurate redemption.
6.	Risk of fund raising and financing service	Risk associated with the lack of possibilities to raise funding for operating and investment needs or high costs of acquisition of such financing, arising from the tightening of the crediting policy of banks, unfavourable market conditions, unstable macroeconomic situation, which may have material unfavourable effect on operations of TAURON Capital Group, its financial situation or results of its activities due to the lack of resources for projects included in the Corporate Strategy and in investment plans, and for operations.
7.	Risk of energy fuel purchase	Risk associated with the significant and/or unexpected changes in the prices of coal and other fuels, as well as unavailability of coal, including coal of relevant parameters. The risk factors may have material adverse effect on operations of TAURON Capital Group, its financial situation or results of its activities through increased costs, including those connected with the need to fulfil the requirements of production process and the legal requirements concerning maintenance of relevant fuel reserves, or imposing a fine in case of failure to fulfil these requirements.

No.	Types of risks	Risk description
8.	Risk of management of fixed assets	Risk associated with the lack of possibility to use the fixed assets due to its ineffective management causing its poor technical condition, inadequate costs of fixed assets insurance resulting from its underestimation or overestimation, as well as the costs of holding redundant assets. The risk factors many have material adverse effect on TAURON Capital Group operations, its financial situation or results of its activities due to the lack of optimum use of the assets, its faster wear arising from inadequate exploitation, the need of incurring costs of remedying failures arising from wrong asset management.
9.	Environmental risk, including the risk associated with the atmospheric conditions	The risk consisting in a possibility to incur losses resulting from non-compliance with the legal regulations (including those arising from the way of implementation of the European law in the national law, administrative decisions), and including the possibility of occurrence of environmental damage or serious industrial accident or failure. The risk factors may have material adverse effect on operations of TAURON Capital Group, its financial situation or results of its activities through the necessity to incur significant costs of compliance, pay indemnities, or a potential of threat to implementation of production tasks.
10.	Risk of unregulated legal status of the real property utilised	Risk connected with a possibility of occurrence of massive financial claims of land owners due to unregulated legal status of the foundation of a building or structure on the foreign land, undermining the legal status and claims of third parties in relation to certain components of assets. The risk factors may have material unfavourable effect on operations of TAURON Capital Group, its financial situation or results of its activities through higher cost of operations or interruption of operating activities.
11.	Risk connected with the strategic investment process	Risk associated with the ineffective process of strategic investments comprising the planning, implementation, monitoring and closing, arising from the inappropriate selection of investment for the investment portfolio, lack of sufficient investment diversification, adopting incorrect assumptions, underestimation of expenditures, lack of possibility to provide own funding, difficult access to external financing. The indicated risk factors may cause financial losses, possible loss of liquidity, increase in costs of investments or lower benefits than assumed, extended period of return from investment, loss of investment profitability, delay in implementation schedule, exceeding of the budget, necessity to incur additional expenditures, reduction of profitability or interruption of the project.
III.	**Operational risks**	
1.	Risk of approval of tariffs by the President of ERO	Risk connected with the failure of the President of ERO to approve the requested tariffs concerning the products offered and services provided, limited possibility to introduce amendments to the tariffs approved before and the refusal to recognise investment expenditure in the development plan, or in their part which shall not cover the actual costs of their generation. The risk factors may have material unfavourable effect on operations of TAURON Capital Group, its financial situation or results of its activities through higher cost of operations, loss of income, decreased profitability of the operations and limitation of funds for development.
2.	Assets failure risk	Risk connected with of occurrence of serious and/or permanent failures and damages of equipment used by the TAURON Capital Group companies. The risk factors may have material unfavourable effect on operations of TAURON Capital Group, its financial situation or results of its activities through loss of income arising from the interruptions and shutdowns, the necessity to incur additional costs of repairs of the grid infrastructure and extra-grid infrastructure, the requirement to pay fines.
3.	Risk of variable generation cost	Risk associated with potential errors in selection of units and distribution of loads of unit scheduling. The selection of units is performed on the basis of TSO data and decision, maintenance information from power plants, plans of units, variable costs and data published by TSO. The risk factors may have material unfavourable effect on operations of TAURON Capital Group, through the necessity to select a more expensive generation unit or change in the optimum production schedule, which results in the increased variable cost of electric energy production.
4.	Risk of occurrence of natural hazards or unfavourable geological and mining conditions	Risk connected with threats to implementation of production tasks, hazards to safety of maintenance of the mining plant or safety of the staff due to natural risk factors within the development of the mining works, difficulties connected with the roof and floor conditions hampering the mining process, as well as natural hazards occurring in the mining plants (water and fire conditions, rock bumps).
5.	Planning risk	Risk connected with adopting incorrect assumptions arising from uncertain or incomplete planning data or change in the market environment, resulting, in particular, from the change in inflation level, GDP fluctuations, change in demand or the economic crisis. These risk factors may have material unfavourable effect on financial results and market position of TAURON Capital Group, in particular, through the implementation of the strategy which is not adjusted to the market situation, lack of optimum choices within the operational, investment and financial activity, inadequate allocation of resources, extension of the period of return in investment or lack of any return.
6.	Risk of loss of the status of the Tax Capital Group (PGK)	Risk associated with a possibility to lose this status by PGK due to the failure to comply with the statutory requirements. Various interests of individual participants, 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.

No.	Types of risks	Risk description
7.	Risk of the process of contract awarding/procurement process of supplies/ services	Risk associated with a possibility of significant growth in prices of supplies/services provided by contractors, or their decreased availability. The risk factors may have material adverse effect on operations of TAURON Capital Group, its financial situation or results of its activities through increased costs, extension of the process of preparation and conducting the procedure, awarding the contract unfavourable for the Company or delay in implementation of an investment project.
8.	Risk of implementation of agreements on electric energy sales, including the comprehensive agreements	Risk associated with provisions in electric energy sales agreements, unfavourable for TAURON Capital Group, including the comprehensive agreements for energy consumers, ineffective service of electric energy sales agreements, including the comprehensive agreements. The failure to comply with the qualitative standards of customer service and quantitative parameters of electric energy supply, arising from the processes of sales and customer service, or the extended time of implementation of activities in the scope indicated in the comprehensive agreement on electric energy sales and provision of distribution services, may lead to the increased quantity of granted discounts and imposed fines, increased complaint rate, increased number of proceedings conducted by ERO or UOKiK, loss of the Company good image.
9.	Risk of metering and settlement data	Risk associated with incorrect or delayed settlement of electric energy distribution services by the DSO, arising from the inaccurate reading or lack of reading of the metering and settlement systems, incorrectly fixed metering and settlement systems, inaccurate entry of data to the settlement system, untimely transmission of metering data to the billing systems, which may result in issuing incorrect invoices and incorrect values of sales, lack of possibility to issue invoices, deviations against the assumed level of revenues and costs, problems with the correct settlement of taxes, clients' complaints.

The Company actively manages all risks aiming at maximum reduction or elimination of their potential adverse effects, in particular on the financial result of TAURON Capital Group.

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 specific nature 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. 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 for the independence of the operational functions executed by the Front Office in relation to the risk control functions implemented by the Middle Office. Such an organization ensures security of commercial activities and transparency of the organization.

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 3.8.2. hereof.

3. ANALYSIS OF FINANCIAL AND ECONOMIC SITUATION OF TAURON CAPITAL GROUP

3.1. Principles of preparation of the annual consolidated financial statements

The consolidated financial statement has been prepared in accordance with the International Financial Reporting Standards (IFRS) adopted by the European Union (EU).

IFRS cover standards and interpretations approved by the International Accounting Standards Board (IASB) as well as the International Financial Reporting Interpretation Committee.

The companies of TAURON Capital Group and the parent entity keep their ledgers and prepare financial statements in accordance with IFRS, excluding:

1) BELS INVESTMENT and MEGAWAT MARSZEWO, which keep their ledgers and prepare financial statements in accordance with the accounting policy (rules) stipulated in the Accounting Act of 29 September 1994 ("Accounting Act"), as amended and the regulations issued on its basis ("Polish accounting standards", "PSR"),
2) TAURON Czech Energy keeps its ledgers and prepares financial statements in accordance with the principles of accounting binding in the Czech Republic.

The consolidated financial statement contains adjustments which are not included in the ledgers of TAURON Capital Group entities, introduced in order to bring the consolidated statement into its compliance with IFRS.

The consolidated financial statement has been prepared with the assumption of continuation of business operations by the companies of the Group in the predictable future. As of the date of approval of the consolidated financial statement for publication, no circumstances are recognised, indicating any risk for business continuity of companies of the Group.

The accounting principles (policy) adopted for drawing up of the consolidated financial statement are provided in note 9 of the Consolidated financial statement for the year ended on 31 December 2013.

3.2. Overview of economic and financial values disclosed in the consolidated annual financial statement

Consolidated statement of financial standing

The table below presents the annual consolidated statement of financial situation – assets.

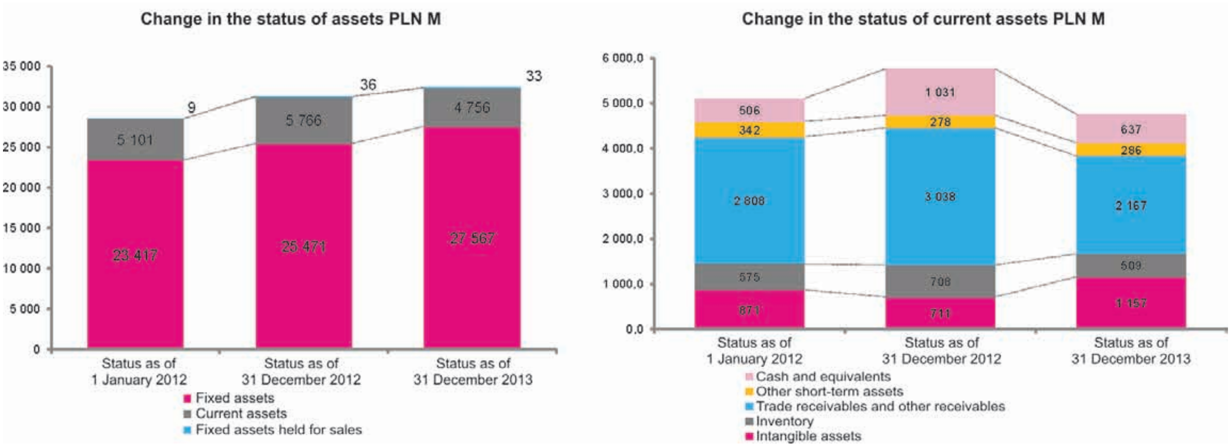
Table no. 28 Annual consolidated statement of financial situation – assets (data in thousand PLN)

Statement of financial situation	Status as of 31 December 2013	Status as of 31 December 2012 (data converted)	Status as of 01 January 2012 (*data converted*)	Dynamics (2013/2012)
ASSETS				
Fixed Assets	**27,567,008**	**25,471,230**	**23,416,777**	**108.2%**
Tangible fixed assets	25,127,639	23,300,643	21,636,317	107.8%
Intangible assets and goodwill	1,407,062	1,429,313	1,399,674	98.4%
Shares and stocks in joint ventures	44,398	51,986	22,717	85.4%
Other long-term financial assets	587,166	305,444	193,067	192.2%
Other long-term non-financial assets	354,704	359,709	144,923	98.6%
Assets due to deferred tax	46,039	24,135	20,079	190.8%
Current assets	**4,755,521**	**5,766,232**	**5,101,268**	**82.5%**
Intangible assets	1,156,550	711,099	870,954	162.6%
Inventory	509,224	708,282	574,790	71.9%
Receivables due to income tax	31,890	1,434	64,266	2,223.8%
Trade receivables and other receivables	2,134,641	3,036,695	2,743,344	70.3%
Other short-term financial assets	15,878	5,422	108,024	292.8%
Other short-term non-financial assets	270,429	272,371	234,220	99.3%
Cash and equivalents	636,909	1,030,929	505,670	61.8%
Fixed assets classified as held for trade	**33,041**	**36,215**	**8,951**	**91.2%**
TOTAL ASSETS	**32,355,570**	**31,273,677**	**28,526,996**	**103.5%**

As of 31 December 2013 the statement on financial situation of TAURON Capital Group indicates balance sheet total assets higher by o 3.5%.

The figure below shows the change in the status of assets and current assets.

Figure no. 34 Change in the status of assets and currents assets



Fixed assets constitute the biggest item of assets of TAURON Capital Group, the value of which increased by 7.8% YoY, which is associated with the numerous investment projects conducted. In the balance sheet of TAURON Capital Group, the Distribution, Generation and RES Segments represent the highest share in fixed assets. The investments implemented in these Segments had the biggest impact on the growth in value of the fixed assets. In 2013, the change in the accounting policy also occurred, as a result of which the perpetual usufruct title to land was reclassified from fixed assets to intangible assets in the amount of PLN 800 thousand. The increase in the value of other long-term financial assets was caused by the advance payment disbursed in 2013 for the purchase of shares of TAURON Wydobycie (formerly: PKW) at the level of PLN 232,500 thousand.

The main factor affecting the decrease in the value of current assets by 17.5% is the decline in trade receivables, which is associated with gaining lower revenues on sales in 2013 and the final settlement of the programme of covering stranded costs in 2013. The next essential factor affecting the structure of current assets is the lower level of cash resources, mainly as a result of the capital expenditures incurred. The increased value of intangible assets results from the introduction of legal regulations in the scope of CO_2 emission allowances and their consequent purchase for the purpose of fulfilment of the redemption obligation.

The table below presents the annual consolidated statement of financial situation – liabilities.

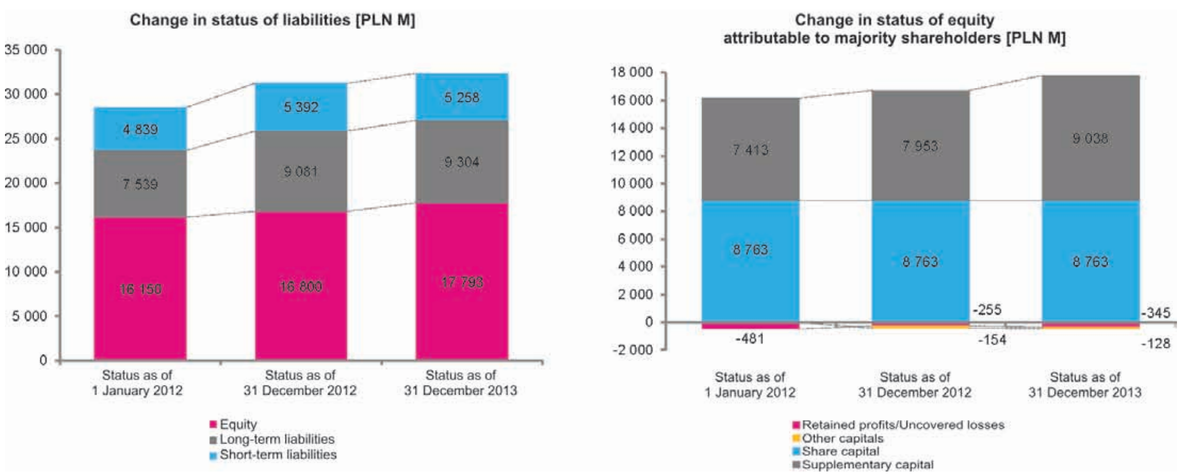
Table no. 29 Annual consolidated statement of financial situation – liabilities (data in thousand PLN)

Statement of financial situation	Status as of 31 December 2013	Status as of 31 December 2012 (data converted)	Status as of 01 January 2012 (data converted)	Dynamics (2013/2012)
LIABILITIES				
Equity	**17,793,499**	**16,800,020**	**16,149,505**	**105.9%**
Equity attributable to shareholders of the parent company	17,327,165	16,306,681	15,694,302	106.3%
Share capital	8,762,747	8,762,747	8,762,747	100.0%
Supplementary capital	9,037,699	7,953,021	7,412,882	113.6%
Hedging instruments revaluation reserve	(126,651)	(153,703)	0	82.4%
Currency Exchange differences due to translation of foreign units	(1,631)	(370)	87	440.8%
Retained profits/Uncovered losses	(344,999)	(255,014)	(481,414)	135.3%
Non-controlling shares	**466,334**	**493,339**	**455,203**	**94.5%**
Long-term liabilities	**9,304,341**	**9,081,234**	**7,538,705**	**102.5%**
Loans, credits and debt securities	5,500,532	5,222,882	4,251,944	105.3%
Liabilities due to financial leasing	61,643	41,796	56,232	147.5%

Statement of financial situation	Status as of 31 December 2013	Status as of 31 December 2012 (data converted)	Status as of 01 January 2012 (data converted)	Dynamics (2013/2012)
Provisions for employee benefits and other provisions	1,639,222	1,650,742	1,264,575	99.3%
Derivatives	87,573	150,594	0	58.2%
Long-term prepayments and governmental subsidies	668,487	639,643	569,562	104.5%
Trade liabilities and other long-term financial liabilities	7,827	7,890	7,968	99.2%
Provision for deferred income tax	1,339,057	1,367,687	1,388,424	97.9%
Short-term liabilities	**5,257,730**	**5,392,423**	**4,838,786**	**97.5%**
Trade liabilities and other liabilities	2,023,537	2,628,449	2,349,121	77.0%
Current portion of interest-bearing credits, loans and debt securities	284,633	286,990	214,169	99.2%
Current part of liabilities due to financial leasing	17,327	14,482	14,761	119.6%
Other short-term liabilities	814,814	769,234	645,067	105.9%
Derivatives	73,358	40,624	80	180.6%
Accruals and governmental subsidies	239,639	268,870	275,147	89.1%
Liabilities due to income tax	79,035	113,034	163,437	69.9%
Provisions for employee benefits and other provisions	1,725,387	1,270,740	1,177,004	135.8%
TOTAL LIABILITIES	**32,355,570**	**31,273,677**	**28,526,996**	**103.5%**

The figure below shows the change in the status of liabilities and equity.

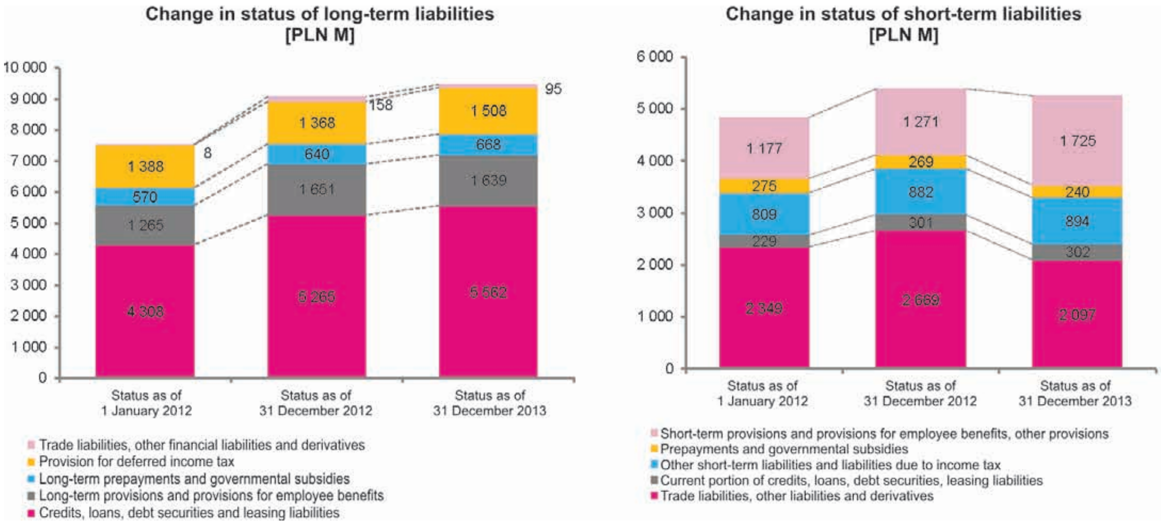
Figure no. 35 Change in liabilities and equity



Similar to previous years, in 2013 the equity was the dominating source of financing of the assets, with its share in the total liabilities increased to 55%.

The figure below shows the change in the status of liabilities.

Figure no. 36 Change in the status of liabilities



The level of long-term financial debt of TAURON Capital Group increased only by 5.3%, irrespective of significant capital expenditures. Other items did not have any significant impact on the status of the level of long-term liabilities, the total growth of which reached 2.5%.

The value of short-term liabilities decreased (by 2.5%), which was associated with the 23% decline in trade liabilities (mainly due to the lower own costs of sales) and the 35.8% increase in short-term provisions, as a result of new regulations in the scope of CO_2 emission allowances, arising from the lower allocation on free allowances and the requirement to purchase then on the secondary market.

Consolidated statement of comprehensive income

The table below presents the annual consolidated statement of comprehensive income. Due to the changes in Business Areas and in order to maintain the comparability, the results are presented for three years.

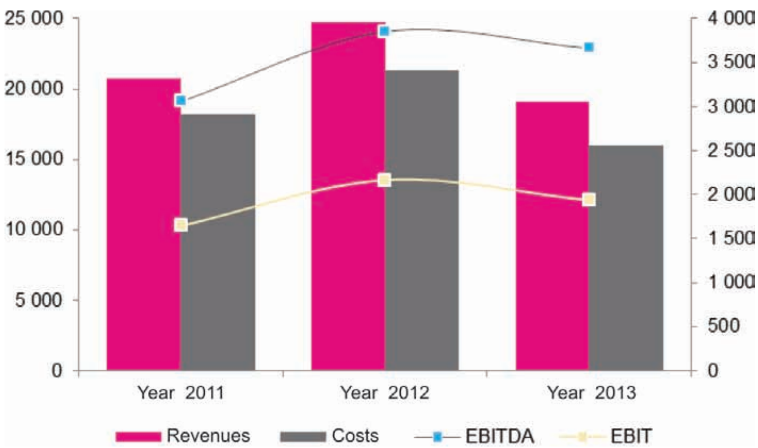
Table no. 30 Annual statement of comprehensive income for years 2011–2015

Statement on comprehensive income	2013		2012		2011 (data not converted)		Dynamics (2013/2012)
	thous. PLN	% of total revenue on sales	thous. PLN	% of total revenue on sales	thous. PLN	% of total revenue on sales	
Continuing operations							
Revenue on sales	**19,131,122**	*100%*	**24,752,985**	*100%*	**20,755,222**	*100%*	77%
Own cost of sales	(15,990,461)	*84%*	(21,282,054)	*86%*	(18,174,354)	*88%*	75%
Gross profit (loss) on sales	**3,140,661**	*16%*	**3,470,931**	*14%*	**2,580,868**	*12%*	90%
Other operating revenue	127,436	*1%*	118,901	*0%*	99,446	*0%*	107%
Costs of sales	(553,502)	*3%*	(552,291)	*2%*	(283,382)	*1%*	100%
Overheads	(645,406)	*3%*	(734,754)	*3%*	(663,970)	*3%*	88%
Other operating expenses	(135,123)	*1%*	(137,658)	*1%*	(87,458)	*0%*	98%
Operating profit (loss)	**1,934,066**	*10%*	**2,165,129**	*9%*	**1,645,504**	*8%*	89%
Operating profit margin (%)	*10.1%*		*8.7%*		*7.9%*		*116%*
Financial revenues	99,257	*1%*	131,306	*1%*	115,767	*1%*	76%
Financial expenses	(346,993)	*2%*	(347,124)	*1%*	(160,274)	*1%*	100%
Share in the profit (loss) of joint venture	(2,709)	*0.01%*	(1,734)	*0.01%*	(1,046)	*0.01%*	156%
Gross profit (loss)	**1,683,621**	*9%*	**1,947,577**	*8%*	**1,599,951**	*8%*	86%
Gross profit margin (%)	*8.8%*		*7.9%*		*7.7%*		*112%*
Income Tax	(337,136)	*2%*	(396,778)	*2%*	(333,017)	*2%*	85%

Statement on comprehensive income	2013		2012		2011 (data not converted)		Dynamics (2013/2012)
	thous. PLN	% of total revenue on sales	thous. PLN	% of total revenue on sales	thous. PLN	% of total revenue on sales	
Net profit (loss) on continuing operations	**1,346,485**	*7%*	**1,550,799**	*6%*	**1,266,934**	*6%*	87%
Net profit margin (%)	*7.0%*		*0*		*0*		*112%*
Net profit (loss) on discontinued operations							
Net profit (loss)for the financial year	**1,346,485**	*7%*	**1,550,799**	*6%*	**1,266,934**	*6%*	87%
Other comprehensive income for the financial year including tax	43,488	*0.2%*	(333,594)	*1.3%*	30,449	*0.1%*	–
Total income for the financial year	**1,389,973**	*7%*	**1,217,205**	*5%*	**1,297,383**	*6%*	114%
Profit attributable to:							
Shareholders of the parent company	1,308,318	*7%*	1,476,392	*6%*	1,247,585	*6%*	89%
Non-controlling interests	38,167	*0.2%*	74,407	*0.3%*	19,349	*0.1%*	51%
Total income attributable to:							
Shareholders of the parent company	1,349,123	*7%*	1,157,617	*5%*	1,273,637	*6%*	117%
Non-controlling interests	40,850	*0.2%*	59,588	*0.2%*	23,746	*0.1%*	69%
EBIT and EBITDA							
EBIT	**1,934,066**	*10%*	2,165,129	*9%*	1,645,504	*8%*	89%
EBITDA	**3,661,484**	*19%*	3,851,625	*16%*	3,057,051	*15%*	95%

The figure below presents the financial results of TAURON Capital Group for 2011–2013.

Figure no. 37 The financial results of TAURON Capital Group for 2011–2013

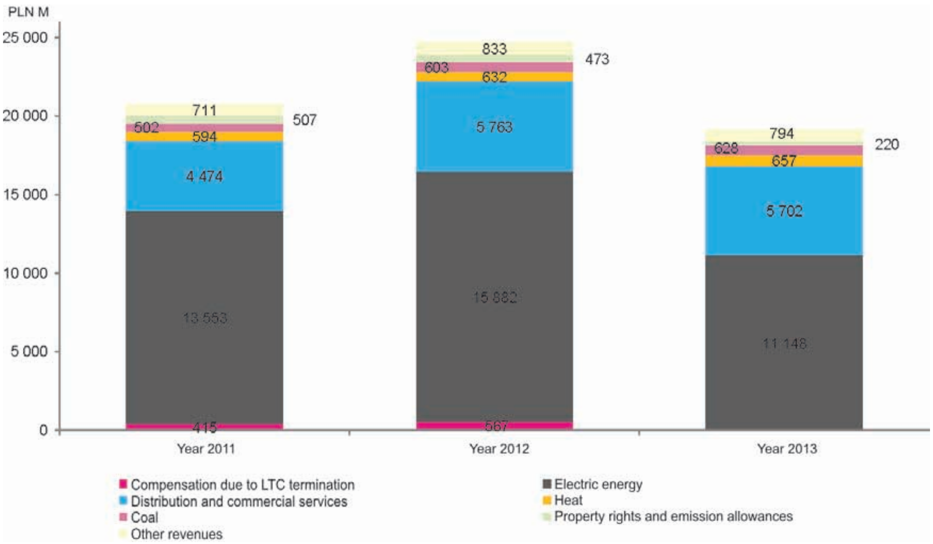


In 2013 TAURON Capital Group reached revenues on sales at the level of 77.3% of the revenue of 2012, which was significantly affected by the fact of change in value of the obligatory sales through commodity exchange (arising from the provisions of the Act on Energy Law) for the electric energy generated – from 100% to 15%, in connection with the terminated participation of TAURON Wytwarzanie company in the programme of compensation of stranded costs. This influenced the increased level of sales of electric energy generated in 2013 by TAURON Wytwarzanie to TAURON Capital Group and the requirement to exclude the revenue from such sales at the TAURON Capital Group level, which did not occur in 2012. In addition, the following factors affected the decline in revenues:

1) lack of revenue from compensation due to the termination of the long-term contracts (LTC),
2) lower revenue due to property rights as a consequence of the decline in prices of property rights arising from renewable energy sources, and the lack of regulations in the scope of property rights arising from high-performance cogeneration,
3) lower revenues due to sales of CO_2 emission allowances.

The figure below presents the structure of revenues of TAURON Capital Group in 2011–2013.

Figure no. 38 Structure of revenues of TAURON Capital Group in 2011–2013

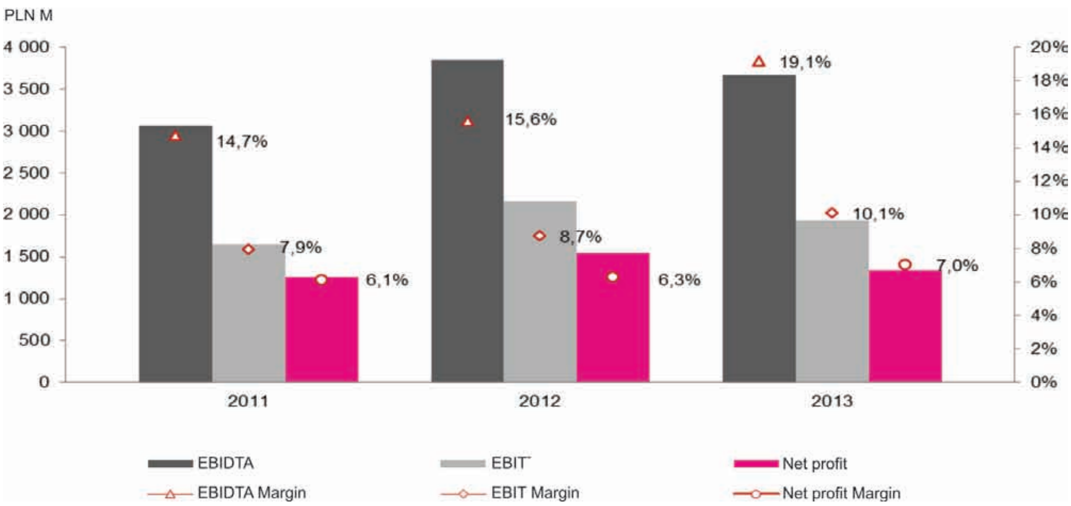


As compared to 2012, the highest dynamics of growth in revenue (without considering the revenue inside TAURON Capital Group) was recorded in RES Segment OZE (312%), Distribution (105.3%) and Mining (103.8%). The highest decline in revenues occurred in Generation Segment (19.3%, in connection with sales of the produced electric energy inside TAURON Capital Group), Sales Segment (89.9%, in connection with lower sales prices) and Heat (96.6%, in connection with the lack of legal regulations in the scope of property rights).

Lower operating expenses result mainly from lower costs of purchase of electric energy and lower costs of redemption of property rights as a consequence of the decline in prices of property rights arising from renewable energy sources, and the lack of regulations in the scope of property rights arising from high-performance cogeneration. In addition, in companies of TAURON Capital Group activities are under implementation in the scope of optimisation of fixed costs, which enabled to reduce the adverse impact of the decline in revenues on the financial results of TAURON Capital Group.

The figure below presents the financial result of TAURON Capital Group and the level of margins implemented.

Figure no. 39 The financial results of TAURON Capital Group and the level of margins implemented



The lower dynamics in decline of operating costs in 2013 enabled to achieve higher EBITDA and EBIT margin, which amounted to 19.1% and 10.1%, respectively for 2013 and 15.6% and 8.7%, respectively, for 2012. The net profit attributable to shareholders of the parent company was lower by 11.4% in 2013 as compared to 2012.

Statement of Cash Flows

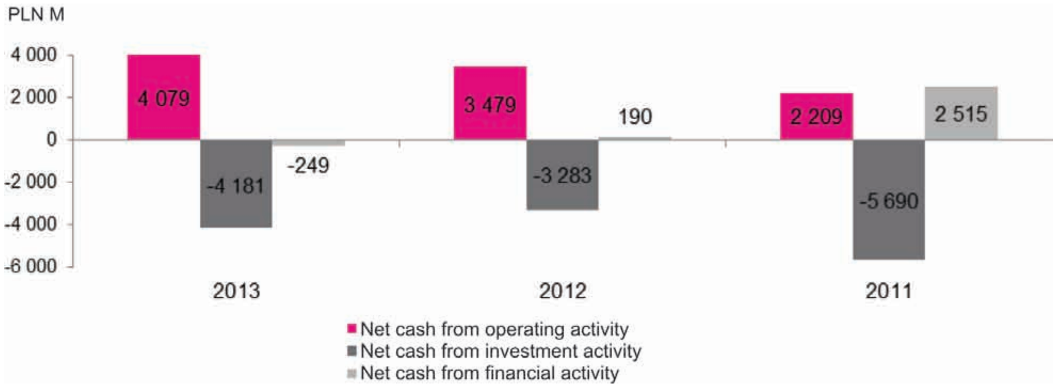
The table below presents the statement of cash flows.

Table no. 31 Statement of Cash Flow (data in thousand PLN)

Statement of Cash Flows	Year ended 31 December 2013	Year ended 31 December 2012 *(data converted)*	Year ended 31 December 2011 *(data not converted)*	Dynamics (2013/2012)
Cash flows from operating activities				
Gross profit/(loss)	**1,683,621**	**1,947,577**	**1,599,951**	**86%**
Adjustments	**2,395,461**	**1,531,474**	**608,975**	**156%**
Net cash from operating activities	**4,079,082**	**3,479,051**	**2,208,926**	**117%**
Cash flows from investment activities				**–**
Sales of tangible fixed assets and intangible assets	29,785	50,192	39,957	59%
Purchase of tangible fixed assets and intangible assets	(3,933,673)	(3,302,471)	(2,302,270)	119%
Sales of bonds and other debt securities	–	102,506	1,493	–
Sales of other financial assets	4,237	22,011	112,811	19%
Purchase of other financial assets	(4,920)	(10,463)	(147,989)	2222%
Shares and stocks in joint ventures	–	(32,576)	(23,000)	–
Advance payment for purchase of shares in the subsidiary	(232,500)	–	(3,379,615)	–
Acquisition of subsidiary following deduction of cash taken over	–	(5,613)	–	–
Dividend received	18,323	8,349	8,173	219%
Interest received	40	136	666	29%
Repayment of loans granted	46,800	24,500	240	191%
Loans granted	(108,800)	(139,500)	–	78%
Other	220	–	–	–
Net cash from investment activities	**(4,180,488)**	**(3,282,929)**	**(5,689,534)**	**127%**
Cash flows from financial activities				
Repayment of liabilities due to financial leasing	(14,911)	(14,834)	(25,603)	101%
Cash inflows due to loans/credits	452,325	1,005,000	87,254	45%
Repayment of loans/credits	(141,226)	(257,210)	(467,183)	55%
Issue of debt securities	–	150,000	3,300,000	–
Dividends paid to shareholders of the parent company	(350,510)	(543,290)	(262,882)	65%
Dividends paid to minority shareholders	(8,047)	(16,434)	(13,676)	49%
Interest paid	(229,431)	(222,089)	(52,292)	103%
Purchase of non-controlling shares	(37,021)	(6,535)	(37,800)	567%
Subsidies received	89,024	106,083	4,725	84%
Other	(9,303)	(10,975)	(17,779)	85%
Net cash from financial activities	**(249,100)**	**189,716**	**2,514,764**	**–**
Increase/(decrease) in net cash and equivalents	**(350,506)**	**385,838**	**(965,844)**	**–**
Net exchange differences	(1,858)	(1,375)	(3)	135.1%
Cash opening balance	**891,654**	**505,816**	**1,471,660**	**176%**
Cash closing balance	**541,148**	**891,654**	**505,816**	**61%**

The figure below presents the cash flows in 2013–2011.

Figure no. 40 Cash flows in 2013–2011



The achieved positive value of cash flows on operating activities in 2013 was higher by 17% than the stream of cash achieved in the previous year. The decrease in the status of receivables and inventory in TAURON Capital Group was the factor which mostly influenced the change in this item of the statement of cash flows.

Due to the investments in fixed assets implemented in most of the Business Segments of TAURON Capital Group, the value of cash flows on investment activity was negative. The highest expenses were incurred by the Distribution Segment (increase by 17% YoY), RES (increase by 136.6% YoY), Generation (decline by 36.4% YoY) and Heat Ciepło (increase by 61.9% YoY).

In 2013 TAURON Capital Group used external financing sources to a lesser extent than in 2012. The balance of cash flows due to the financial liabilities incurred and repaid in 2013 constituted 41.6% of the corresponding items in 2012. In 2013 TAURON Capital Group paid the dividend in the amount lower by 35.5% in relation to 2012, whereas the remaining profit in TAURON Capital Group was allocated for the investments under implementation. TAURON Capital Group also incurred interest expenses due to the financial liabilities incurred, the level of which was comparable to expenses incurred in 2012.

The nature of individual cash streams recognised in each item of cash flow statement indicates strengthening of the company position on the market through its further development. The structure of cash flow explicitly shows that the investment expenditure incurred is financed from operating funds and the external funding sources raised.

TAURON Capital Group effectively manages cash flows, using the centrally implemented model of financing and the central policy of financial risk management. In order to minimise the potential disturbances in cash flows and the risk of loss of liquidity, the cash pooling mechanism was used. TAURON Capital Group uses various sources of funding, such as, for example, overdraft, bank facilities, loans from environmental funds, issue of bonds, financial leasing contracts and lease contracts with purchase option.

3.3. Characteristics of assets and liabilities of the consolidated balance sheet

Structure of the annual consolidated statement of financial standing

The table below shows the structure of the annual consolidated statement of financial standing.

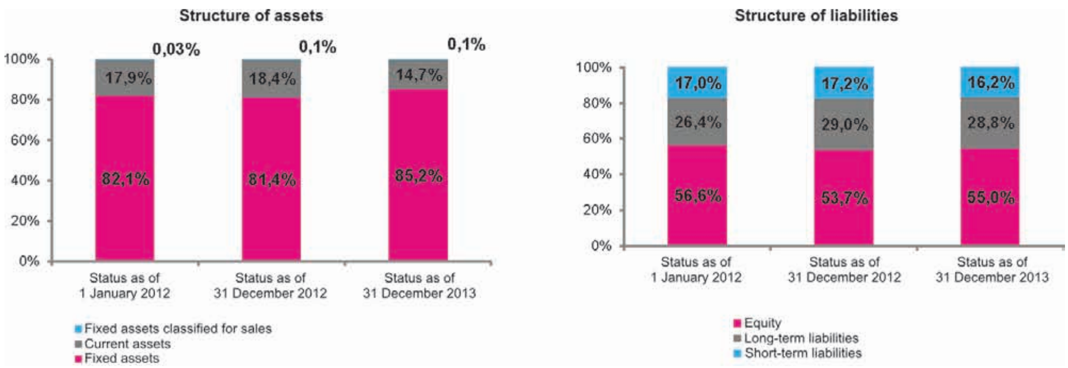
Table no. 32 Structure of the annual consolidated statement of financial standing

Consolidated statement of financial standing	Status as of 31 December 2013	Status as of 31 December 2013 *(data converted)*	Status as of 1 January 2012 *(data converted)*
ASSETS			
Fixed Assets	**85.2%**	**81.4%**	**82.1%**
Current assets	**14.7%**	**18.4%**	**17.9%**
Fixed assets classified as held for trade	0.1%	0.1%	0.03%
TOTAL ASSETS	**100.0%**	**100.0%**	**100.0%**

Consolidated statement of financial standing	Status as of 31 December 2013	Status as of 31 December 2013 *(data converted)*	Status as of 1 January 2012 *(data converted)*
LIABILITIES			
Equity attributable to shareholders of the parent company	53.6%	52.1%	55.0%
Non-controlling shares	1.4%	1.6%	1.6%
Total equity	**55.0%**	**53.7%**	**56.6%**
Long-term liabilities	28.8%	29.0%	26.4%
Short-term liabilities	16.2%	17.2%	17.0%
Total liabilities	**45.0%**	**46.3%**	**43.4%**
TOTAL LIABILITIES	**100.0%**	**100.0%**	**100.0%**
Financial liabilities	5,864,135	5,566,150	4,537,106
Net financial liabilities	5,227,226	4,535,221	4,031,436
Ratio net debt/EBITDA	1.43	1.18	1.32
Current liquidity ratio	0.90	1.07	1.05

The figure below shows the structure of assets and liabilities.

Figure no. 41 Structure of assets and liabilities



According to the status as of 31 December 2013, similar to the previous year, the value of fixed assets has the highest share in the structure of assets. In the structure of fixed assets, the highest share is attributed to tangible fixed assets of the Distribution Segment (52.5%), Generation (29.0%), RES (6.9%) and Heat (6.1%).

As of 31 December 2013, equity and financial liabilities represent the highest share in the structure of liabilities. The indicator of net debt to EBITDA at the end of 2013 reached the level of 1.43 and it was higher in relation to the status at the end of 2012, mainly due to the growth of financial liabilities and the decrease in EBITDA level. The relatively low level of debt expressed by this indicator, as compared to the European industry indicators, and the high level of cash flows on operational activity will continue to enable the financing of the investment programme.

The indicator of current liquidity stayed at the safe level.

3.4. Significant off-balance sheet items

The significant conditional liabilities of TAURON Capital Group are related to the following issues:

1) mining damages,
2) the use of the real estate without a contract,
3) compensations due to termination of Long-Term Contracts,
4) proceedings of the ERO President,
5) proceedings of the UOKiK President,
6) claims of Huta Łaziska S.A.
7) excise tax.

Mining damages

Within the adopted policy of creating provisions for future liabilities, TAURON Capital Group recognises and captures provisions for mining damages resulting from exploitation of mining plants, in the consolidated financial statement, at the value of resulting from the documented claims due to mining damages, reported, recognised or under adjudication by courts. Mining enterprises included in TAURON Capital Group do not know a method for determining the value of future mining damages which would allow for reliable estimation of costs of liquidation of mining damages occurring during exploitation of the deposits.

Use of real estate without a contract

The distribution companies belonging to TAURON Capital Group do not hold legal titles to all plots of land on which the distribution grids and the related equipment and installations are situated. In the future, TAURON Capital Group may be required to incur costs for the use of real estate without the underlying contracts; however, it must be emphasized that the risk of loss of assets is remote. Accordingly, the provision for all court disputes filed in this respect is created. The provision is not established for unreported potential claims by owners of land of unregulated status due to the lack of detailed record of unregulated land and the resulting inability to reliably estimate the amount of potential claims. However, considering the history of the reported claims and the costs incurred in this respect in previous years, the risk of incurring significant costs due to such claims can be considered as remote.

Compensations due to termination of Long-Term Contracts

In the years 2008–2012 TAURON Capital Group participated in the programme of compensations for covering the stranded costs (LTC), in accordance with the Act of 29 June 2007 concerning the *Principles for Covering Costs Incurred by Electricity Generators due to Early Termination of Long-term Electricity and System Services Agreements* (the Act). The revenue due to compensations was recognised successively, parallel to the generated rights to compensation until the end of the period of their effectiveness. In order to estimate the value of the revenue for the specific period, TAURON Capital Group performed the assessment to determine the indicator of the estimated stranded costs against the total amount of the received, returned and expected discounted annual advance payments (including the annual advance payment received so far), annual adjustments and the expected final adjustment.

In accordance with the adopted accounting policy, TAURON Wytwarzanie, based on the constructed financial model, recognised revenues due to compensation in the years 2008–2012 at a total amount of PLN 2,095,801 thousand. Year 2012 was the last year of participation in the programme of compensation of stranded costs.

In 2013, in connection with the determination of the level of final adjustment of stranded costs by the President of ERO, the company recognised the adjustment of revenue – the decrease by about PLN 18,900 thousand. The total revenue due to LTC recognised by the company in the period of its participation in the programme reached PLN 2,076,914 thousand.

The information on the termination of the dispute between TAURON Wytwarzanie and the President of ERO in 2013, concerning the adjustment of stranded costs for 2008 is presented in item 2.6 of this report.

Administrative proceedings initiated by the President of Energy Regulatory Office

The President of ERO instituted the administrative proceedings concerning imposing of the financial penalty against Vattenfall Sales Poland Sp. z o.o. (currently TAURON Sprzedaż GZE) pursuant to art. 56 item 1 p. 5 of the *Energy Law*. The President of ERO charges the aforementioned company on account of using the prices and tariffs in the years 2008–2012 with the failure to comply with the obligation to submit them for approval. The company claims that they did not infringe the regulations in this scope. Preventing the direct accusation of failure to comply with the demand of the President of ERO, thus becoming subject to the provisions of the Act on Energy Law, the company submitted tariffs for electric energy for the years 2008–2012 for approval, on request of the President of ERO, although the company was exempted from the obligation to submit tariffs for electric energy (exemption granted according to the position of the President of ERO of 28 June 2001). The applications submitted for the years 2008, 2009, 2011 and 2012 were not approved and the proceedings on approval of the tariff for electricity for 2010 was discontinued, according to the decision of the President of ERO.

On 19 March 2010 the President of ERO issued the decision, in which it had withdrawn, ex officio, the exemption from the obligation to submit tariffs for electric energy for approval, granted to Vattenfall Sales Poland sp. z o.o. On 28 June 2001 the company filed an appeal against this decision to the District Court in Warsaw – the Court for Competition and Consumers Protection (SOKiK). On 9 December 2011, SOKiK issued its verdict waiving the decision of the President of ERO. On 20 September 2012 the Court of Appeals in Warsaw announced its verdict concerning the appellation of the President of ERO against the verdict of SOKiK, concerning the withdrawal of the exemption from the obligation to submit tariffs for electricity granted to TAURON Sprzedaż GZE for G tariff group, dismissing the appeal of the President of ERO. The verdict is legally binding and its written justification was submitted on 31 December 2012. On 1 March 2013, the President of ERO filed a cassation appeal to the Supreme Court. On 5 December 2013, the Supreme Court issued the decision rejecting the acceptance of the cassation appeal of the ERO President for examination which means that the proceedings on this cases were terminated.

Administrative proceedings initiated by the President of the Office for Competition and Consumer Protection

On 12 December 2012, the President of the Office for Competition and Consumer Protection, Branch in Wrocław (President of UOKiK), initiated the *ex officio* proceedings against TAURON Sprzedaż, accusing it of using the practices violating the collective interests of consumers, by unjustified accrual of interest on overdue payments concerning the forecast of electricity consumption, which are indicated through the system of automated payment service, due to allocation of the amounts paid by consumers to the receivables to be due in the future, while leaving the most outdated liabilities of consumers as unsettled.

As a response, the company submitted the application for issuing the decision imposing the obligation to abandon the actions infringing the Act of 16 February 2007 on *competition and consumer protection (Journal of Laws 2007, no. 50, item 331 as amended).* and to undertake measures aimed at preventing further continuation of the infringement alleged. The President of UOKiK agreed to the proposal of the company, accordingly, TAURON Sprzedaż presented the proposal of liabilities, including the deadlines for their fulfilment, in order to prevent continuation of the infringements alleged. On 16 April 2013 the President of UOKiK issued the decision imposing the abandonment of the measures (Decision). TAURON Sprzedaż implements the provisions of the aforementioned Decision. As of the date of the financial report the risk of imposing the fine is remote, therefore, the company has not created a provision.

On 17 September 2013, the President of UOKiK, Branch in Warsaw. initiated the *ex officio* proceedings in connection with the suspected use by TAURON Sprzedaż of practices violating the collective interests of consumers, by providing electric energy prices in price lists and information materials without considering the value added tax, which constitutes the infringement of the act of 23 August 2007 on *prevention of unfair market practices (Journal of Laws no. 171, item 1206)*. TAURON Sprzedaż accepted the argumentation of the President of UOKiK as a whole, undertook to abandon the practices infringing the provisions of the Act on protection of competition and consumers. Currently TAURON Sprzedaż does not create a provision for the aforementioned event.

The President of UOKiK conducts the following explanatory proceedings against companies of Sales Segment:

1. With its letter of 23 April 2013 the President of UOKiK initiated the explanatory proceedings against TAURON Sprzedaż and TAURON Sprzedaż GZE in order to explain, on preliminary basis, whether the provisions of the Act on protection of competition and consumers have been violated in the scope of conditions of reserve agreements on electric energy sales, including the reserved financial collaterals. The aforementioned companies submitted the required documents and presented their position on the claims contained in the letter of the President of UOKiK. On 3 January 2014 the companies received letters requesting them to present further explanations on the case.
2. With its letter of 7 May 2013 the President of UOKiK informed the company TAURON Sprzedaż on initiating the explanatory proceedings for the preliminary clarification whether, in the scope of limitation of the possibilities to terminate the electric energy sales agreement by TAURON Sprzedaż customers under the product offer “Good Decision 2014” the company might have infringed the Act of 16 February 2007 on *protection of competition and consumers (Journal of Laws 2007, no. 50, item 331 as amended).* The aim of the explanatory proceedings is to determine, on a preliminary basis, whether the infringement of the provisions of the Act has occurred which would justify the institution of the antimonopoly proceedings, including the defining whether the case if of antimonopoly nature, and whether the infringement has occurred which would justify the institution of the proceedings concerning the prohibition to use practiced violating the collective interests of the consumers. The company submitted the required documents and presented its position on the claims contained in the letter of the President of UOKiK.
3. With its letter of 10 July 2013 the President of UOKiK informed the company TAURON Sprzedaż on initiating the explanatory proceedings for the preliminary clarification whether, in the scope of concluding the electric energy sales agreement with the clients by means of infoline under the product offer “Guarantee of Fixed Price” the company might have infringed the Act of 16 February 2007 on *protection of competition and consumers (Journal of Laws 2007, no. 50, item 331 as amended).* TAURON Sprzedaż submitted the required documents and presented its position on the claims contained in the letter of the President of UOKiK. On 16 December 2013 the companies received a letters of the authority requesting it to present further explanations on the case. As a response, on 30 December 2013, the company provided further required information, according to the summon.
4. With its notice of 28 October 2013 the President of UOKiK informed TAURON Sprzedaż on instituting the explanatory proceedings in order to determine, on a preliminary basis, whether the activities of the company constitute the infringement of the provisions of the Act of 16 February 2007 on *protection of competition and consumers (Journal* of *Laws 2007, no. 50, item 331 as amended),* which would justify the institution

of the proceedings concerning the prohibition of practices infringing the collective interests of consumers, in particular, in the scope of the rules of acquiring consumers' approval of personal data processing in connection with the products offered by the company related to the possibility to reduce prices of electric energy, called: "safe", "Eco" and "Eco Saving". TAURON Sprzedaż submitted the required documents and presented its position on the claims contained in the letter of the President of UOKiK.

5. With its letter of 26 September 2013 the President of UOKiK informed the company TAURON Sprzedaż GZE on initiating the explanatory proceedings for the preliminary clarification whether, the activity of the company in the scope of calculating fines for early termination of electric energy sales agreements has infringed the Act on protection of competition and consumers. As a response, the company provided information required by the President of UOKiK under the pending proceedings.

Taking into consideration that the proceedings initiated are of explanatory nature and the probability of their unfavourable resolution is now, TAURON Sprzedaż and TAURON Sprzedaż GZE do not create provisions for these events.

Claims of Huta Łaziska S.A.

In connection with the merger of the Company with Górnośląski Zakład Elektroenergetyczny S.A. (GZE), TAURON company became the party to the court dispute with Huta Łaziska S.A. (Huta – the Steelworks).

The main reason for the claims of GZE was the failure of Huta to fulfil the obligation to pay the receivables due to electric energy supplies, which consequently caused the suspension of electric energy supplies by GZE to Huta in 2001 due to default in payment.

According to the decision of 12 October 2001, the President of URE ordered GZE to resume the electric energy supplies to the Steelworks under the conditions of the contract of 30 July 2001 at the price of 67 PLN/MWh until the final resolution of the dispute, and on 14 November 2001, he finally adjudicated the dispute, by issuing the decision stating that suspension of electric energy supplies was not justified. The Steelworks lodged an appeal against this decision. On 25 July 2006 the Court of Appeals in Warsaw issued the legally binding verdict concluding the dispute on legitimacy of the decision of the President of URE of 14 November 2001. Huta filed the cassation appeal against the aforementioned verdict of the Court of Appeal, which was dismissed with the verdict of the Supreme Court of 10 May 2007.

Due to the suspension of the energy supplies Huta submitted claims against GZE for payment of compensation at the amount of PLN 182,060 thousand. At present, the proceedings are pending filed by Huta on 12 March 2007, against GZE and the State Treasury, represented by the President of ERO, concerning payment of PLN 182,060 thousand with interest accrued since the day of filing of the application until the day of payment, due to compensation for the alleged losses arising from GZE failure to implement the provisions of the decision issued by President of URE of 12 October 2001. In this case, decisions of the court of the first and second instance were issued, favourable for GZE, however, the Supreme Court waived the decisions of the Court of Appeals with its verdict of 29 December 2011 and submitted the case for judicial review. On 5 June 2012 the Court of Appeals waived the decision of the District Court and submitted the case for judicial review by the District Court. Since 27 November 2012, the hearings before the court of the first instance have taken place. The hearing scheduled for 27 January 2014 has been cancelled, and there is no information on the next date of the hearing.

Based on the legal analysis of the claims submitted by Huta and its main shareholder – GEMI Sp. z o.o., – the Company states that the claims are not legitimate and the risk of necessity of their satisfying is remote. Consequently, the Company did not establish the provision for the costs related with the above claims.

Excise tax

Due to the non-compliance of the Polish regulations regarding excise charged on electricity with the EU regulations, on 11 February 2009, the power plants and cogeneration plants being part of the TAURON Group submitted corrections of their tax declarations together with requests to recognize the surplus of excise for the years 2006–2008 and for January and February 2009. The total amount of the surplus stated in the requests (excluding interest) was approximately PLN 901,428 thousand. Currently proceedings relating to the individual companies in the TAURON Capital Group are pending before the appropriate Customs Chambers and Regional Administrative Courts.

In relation to the previous years the legal situation has not changed, accordingly, due to significant uncertainty concerning the final adjudication of the above issue, TAURON Capital Group did not include any effects related to the potential return of the surplus excise tax and the potential claims of electricity purchasers in the consolidated financial statement.

Detailed information on other off-balance items are included in notes 39 and 40 of the Consolidated financial statement for the year ended on 31 December 2013.

3.5. Differences between the financial results recognised in the annual report and the forecasts of results for the year as published earlier

The Management Board of the Company did not publish any forecasts of financial results TAURON Capital Group for 2012. This decision resulted from considerable volatility of the market and substantial number of variables affecting its predictability.

3.6. Basic financial and non-financial ratios

Financial ratios

The table below presents the basic financial ratios of TAURON Capital Group.

Table no. 33 The table below presents the basic financial ratios of TAURON Capital Group

Ratio	Definition	2013	2012	2011
PROFITABILITY				
EBIT Margin	Operating result / Revenue on sales	**10.11%**	8.75%	7.93%
EBITDA Margin	EBITDA / Revenue on sales	**19.14%**	15.56%	14.73%
Net Profitability	Net result / Revenue on sales	**7.04%**	6.27%	6.10%
Return on Equity (ROE)	Net result / Closing balance of equity	**7.57%**	9.23%	7.85%
LIQUIDITY				
Current liquidity ratio	Current assets / Short-term liabilities	**0.90**	1.07	1.05
DEBT				
General debt ratio	Total obligations / total liabilities	**0.45**	0.46	0.43
Net debt/EBITDA	(Financial liabilities - Cash) / EBITDA	**1.43**	1.18	1.32
OTHER RATIOS				
Earnings per share (EPS)	Net result attributable to shareholders of the parent entity / Number of ordinary shares	**0.75**	0.84	0.72

Irrespective of lower revenue on sales, the indicator of net profitability demonstrated upward tendency in relation to the data obtained in 2012, mainly due to the higher dynamics of decline in costs instead of decline in revenues.

The current liquidity ratio reached a lower value as compared to the previous year, remaining at a safe level. Its decline is mainly the result of the lower level of trade receivables, which arises from the termination and final settlement of the programme of compensations for covering stranded costs in 2013. Irrespective of the above facts, TAURON Capital Group maintained its full capacity to cover short-term liabilities with the cash held, and short-term current assets possible to liquidate in short time.

The total debt ratio as well as Net debt/EBITDA ratio reflect the share of liabilities in TAURON Capital Group financing. The current level of this ratio enables TAURON Capital Group to acquire external financing required to implement the investments planned. The change in the level of indicators in 2013 results from the slight increase in the financial liabilities with simultaneous decline in results of TAURON Capital Group.

The EPS ratio (calculated against the net profit attributable to parent company shareholders) reached in 2013, at the level of 0.75 decreased by 10.8% in relation to 2012. The level of this ratio is significantly affected by the level of net profit falling to shareholders of the parent entity, which was lower by PLN thousand in 2013.

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:

1) methods of human resources management,
2) marketing actions and service of key clients,
3) assessment of investment opportunities,
4) centralisation of governance functions in TAURON Capital Group, restricting the non-core activities,
5) development of organisational structures and management procedures.

3.7. Income from the bonds issue programme

In accordance with the adopted financing model, TAURON has the following external programmes on emission of bonds:

1) the programme on emission of bonds up to the total amount of PLN 7,050,000 thousand, concluded between the Company and BH Warszawa, ING Bank, Bank PKO, BRE Bank, PKO BP, Nordea Bank Polska, Nordea Bank AB and BNP Paribas BP and BZ WBK. As of 31 December 2013 the Company holds the unused limit in the amount of PLN 2,750,000 thousand, including the unused part allocated for tranche D and tranche E of the value, respectively: PLN 2,475,00 thousand and PLN 275,000 thousand. The funds to be obtained from the issue of bonds within these tranches will be allocated, respectively, for financing the investment projects in TAURON Group and for financing of the general corporate expenses in the TAURON Capital Group.
2) the programme on emission of bonds up to the maximum amount of PLN 5,000,000 thousand concluded on 31 July 2013 between the Company and ING Bank, Bank PKO and BRE Bank for a period of three years calculated from the day of its concluding. The bonds issued under the above mentioned programme will be uncollateralized, dematerialized, discounted or coupon bonds. The face value and issue value of a single bond will be determined in the terms and conditions of the issue, interest rate will be determined individually for each tranche during the process of bond offering. The maturity period may vary from one month to 10 years. In accordance with the provisions of the Agreement the bonds may be materialised in KDPW and listed in the Alternative Trading System organised by the Warsaw Stock Exchange or BondSpot S.A. Under the bonds held, the bond holder will be entitled to cash benefits only. After the successful bond issue the Company will bear standard costs connected with this type of financing, including bookrunner's fee. As of 31 December 2013, the funds of the aforementioned programme have not been used.
3) the programme on emission of long-term bonds of the value of PLN 1,000,000 thousand concluded on 31 July 2013 between the Company and BGK, covering the guarantee, agency and deposit contracts. The issued bonds will be uncollateralized, dematerialized and coupon bonds. The period of availability was determined for 31 December 2015 and the bonds will be redeemed in annual periods from 20 December 2019 until 20 December 2028, in equal amounts of PLN 100,000 thousand. The interest rate of the bonds issued will be floating, based on 6M WIBOR reference rate plus fixed bank margin. The Company will also bear standard costs connected with this type of financing, including the arrangement fee, and the engagement fee. The bonds will be underwritten, i.e. the programme underwriter (BGK) will be obliged to purchase the bonds issued by the Company. The funds acquired from the bond issue will be spent mainly to finance capital expenditures of TAURON Capital Group. As of 31 December 2013, the funds of the aforementioned programme have not been used.

In 2013 no external issues of securities were performed.

Within TAURON Capital Group the internal programme on issue of bonds operates, under which the companies acquire funds from TAURON for implementation for investment projects. Detailed information concerning bond issues conducted in 2013 was presented in item 1.5.2. hereof.

3.8. Financial instruments

3.8.1. Implementing financial instruments in the elimination of credit risk, significant disruptions of cash flows and losing financial liquidity

TAURON Capital Group carries out on-going monitoring of credit risk generated within the conducted operations. In 2013, TAURON Capital Group was exposed to credit risk of customers, resulting from the concluded commercial contracts. In order to reduce it, based on regularly performed analyses of creditworthiness and financial standing of the customers of TAURON Capital Group and the credit limits allocated, in justified cases, appropriate collaterals are required from the customer, in the form of bank guarantee, insurance or corporate guarantees, as well as contractual provisions enabling to withhold deliveries of goods, products or rendering services in case of default in setting the accounts.

Within the financial risk management, in 2013 TAURON Capital Group hedged the risk of volatility in cash flows resulting from the indebtedness held, based on WIBOR reference rate by its partial mitigation through concluding of transactions of replacing the floating interest rate by the fixed interest rate (IRS). Moreover, in 2013, TAURON Capital Group, 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 TAURON Capital Group against the risk of cash flow volatility resulting from currency rates fluctuations.

The table below presents active derivative forward transactions which occurred on 31 December 2013 (due to the adopted centralised model of financial risk management, the data refer only to TAURON).

Table no. 34 Information on forward transactions and derivatives according to the status as of 31 December 2013 (data in thousand)

No.	Type of transaction concluded	Total par value of the specific type of transaction	Currency			Maturity date of the specific type of transaction		Valuation of transaction of the specific type as of 31 December 2013
			PLN	EUR	other	up to one year	above one year	
1.	Forward	5,942		X		X		- 1,129
2.	IRS	3,440,000	X				X	- 159,762

3.8.2. Goals and methods of financial risk management

TAURON Capital Group manages financial risk, understood as currency risk and interest rate risk in accordance with the prepared and adopted regulations *Policy of risk management specific for the financial area in TAURON 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 TAURON Capital Group cash flows sensitivity to financial risk factors and to reduce financial costs and collateral costs through the use of derivative instruments mentioned above as well as considering the correlations between the level of tariff revenue of TAURON Dystrybucja and financing costs of TAURON Capital Group, based on the floating interest rate.

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. Based on the said policy, TAURON Capital Group uses the derivatives the characteristics of which allows for application of hedge accounting.

3.9. Present and forecast financial situation

The financial situation of TAURON Capital Group is stable and no negative events occurred which would cause any threat to its business continuity or significant deterioration of its financial standing. The detailed description of the financial standing understood as the provision of financial resources for both the operational and the investment activity is included in items 3.7 and 3.8 of this report.

Considering the current market situation, it is expected that the results of TAURON Capital Group in the forthcoming years will be affected both by internal factors and by external factors.

The results of the **Mining Area** should remain at a stable level in the perspective of the nearest years. In order to improve/optimise the results, the Mining Area will implement the investment tasks and the technical and organisational tasks aimed at raising own production capacity based on the deposits held, in the cost-effective way.

The results of the **Generation Area,** in a long-term perspective, may be affected by the expectations that staring from 2016 difficulties may exist in covering the demand for power by the national generation units, which may result in the increase in electric energy prices in wholesale market. The new generation units commissioned in the segment and the restructuring processes will also positively affect the results. The potential increase in prices of CO_2 emission allowances, caused by administrative procedures of the European Commission (aiming at stimulation of growth in these prices) may have impact on the results of the Area.

Due to the fact that production of electric energy from RES is subject to the statutory regulations, the results of **RES Area** in the following years will mainly depend on the effects of the work on the new regulation updating, among others, the mechanisms and instruments supporting energy generation in these sources. This will mostly affect the profitability of projects in the scope of electric energy production of the Area. The activities conducted in the scope of cost effectiveness improvement will have impact on the improvement of the results.

In the **Heat Area the** distribution activity is entirely regulated, which influences the stabilisation of the revenues in this area in a long-term perspective. The resumption of the support to the production of electric energy and heat in cogeneration will cause the improvement of the results. In the scope of the generation activities, the increase in electric energy wholesale prices starting from 2016 will also affect the revenues of the Heat Area. The conducted modernisation activities and the new generation units commissioned will also positively influence the results.

In the **Distribution Area**, the estimated stable level of compensation on invested capital and the measures implemented in the scope of cost effectiveness improvement will play a key role. Accordingly, it is foreseen that the financial situation in this area will improve.

In **Sales Area** lower operating profit is expected in the following years as compared to 2013, mainly due to the decreased sales margin. The factors of significant impact on reduction on sales margin include higher variable costs of energy sales to the end consumer, associated with the obligation to redeem certificates, under growing competition in the energy market, and the reduction of prices in G tariff for 2014.

The **Customer Service Area** will continue the centralisation of common services in one entity, which shall enable to achieve a synergy effect at the level of TAURON Capital Group and the improvement of cost effectiveness.

3.10. Factors and events of unusual character significantly affecting the financial results achieved

3.10.1. Internal factors and their assessment

The activities and results of TAURON Capital Group in 2013 were affected, among others, by the following internal factors:

1) implementation of OPEX effectiveness improvement programme in TAURON Capital Group, including the consolidation and restructuring programmes, voluntary redundancy programmes,
2) integration process of heat assets, including, through the acquisition of Elektrociepłownia Katowice by TAURON Ciepło from TAURON Wytwarzanie, and taking over the shares in companies: SCE Jaworzno III, Therma Bielsko-Biała Sp. z o.o., Energetyka Cieszyńska Sp. z o.o., PEC Ruda Śląska and PEC Tychy,
3) implementation of key investment projects, in particular, in the scope of construction of new and modernisation of the existing generation capacity, building new connections and modernisation of the existing distribution grids, heating networks, construction of underground excavations,
4) increasing the production from renewable energy sources (mainly due to the new wind farms commissioned in Q4 2013 – in the RES Area),
5) marketing actions in the scope of acquisition of new clients and loyalty activities in terms of maintaining existing clients,
6) management of fuel purchases by the Company for the needs of generation entities included in TAURON Capital Group.

The impact of the aforementioned factors on the financial result reached in 2013 is described in this report, and the effects of their accomplishment will be visible both in short-term and in long-term perspective.

3.10.2. External factors and their assessment

The results of TAURON Capital Group in 2013 were influenced, among others, by the following external factors:

Regulatory environment and the market

In accordance with the TSO data, the average weighted price of energy on the Balancing Market in 2013 was by over PLN 22/MWh lower than the price in 2012, which was, among others, attributable to the following reasons:

1) drop in the prices of CO_2 emission allowances, as a price creating factor for the determination of the settlement price (CRO) on the Balancing Market (by over PLN 12/Mg, on average),
2) decline in the prices of coal which have impact on the settlement prices of enforced production on the Balancing Market,
3) continued development of RES sources, particularly wind farms.

According to the TSO data for, the following changes occurred in 2013, as compared to 2012:

1) clear decrease in electric energy production in gas-fired sources (about 30%),
2) increase in electric energy production based on lignite (about 2.5%),
3) increase in electric energy production in wind farms (about 47.2%),
4) increase in electric energy exports (by about 59.2%),
5) increase in electric energy production in the country (by about 1.7%),

6) increase in domestic electric energy consumption (by about 0.6%),

7) stable production of electric energy based on hard coal (by about 0.1%).

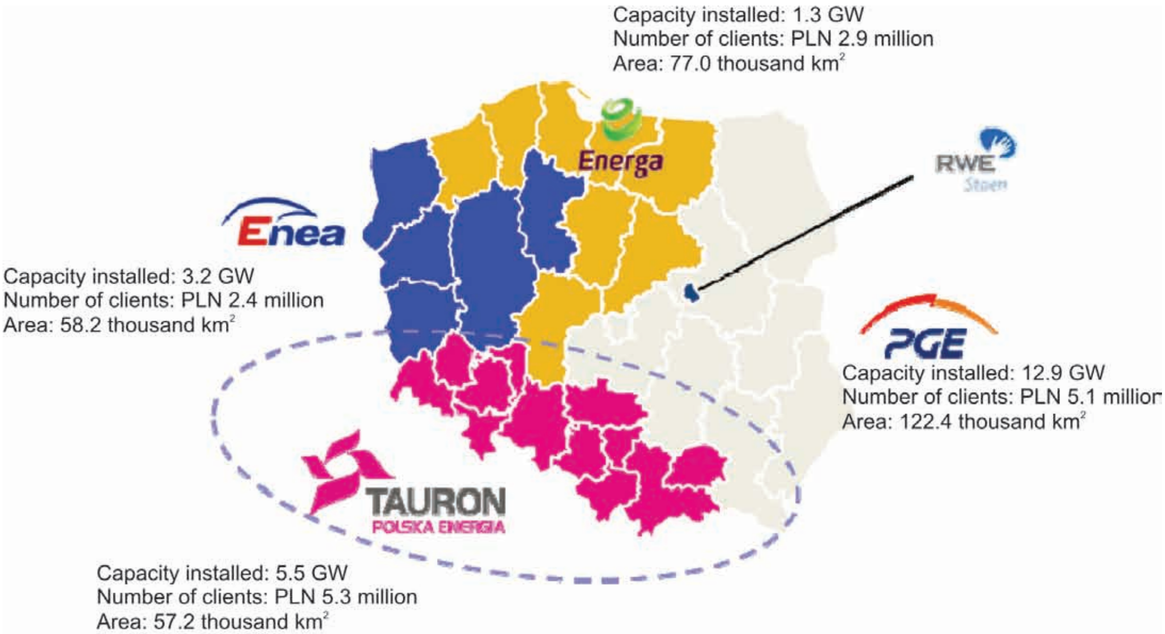
In December 2013, pursuant to the decision of the President of ERO, the TSO introduced changes in the Instruction on Transmission Grid Operation and Maintenance (IRiESP) effective as of 1 January 2014. This update refers to the changes in the payment method for the provision of the operational reserve service within the Balancing Market. In connection with the date of entry into force the increase in revenues from provision of this service in the Generation Area is expected in 2014.

Competition and the competitive environment

As a result of the reorganisation and consolidation of energy enterprises conducted in Poland over the recent years, besides TAURON Capital Group, three large, vertically integrated energy groups currently operate: PGE, ENEA and ENERGA.

The figure below shows the competitive environment of TAURON Capital Group.

Figure no. 42 The competitive environment of TAURON Capital Group*



* *Data for 2012.*

Owing to the vertically integrated structure, the above entities have a strong position on the domestic market. Moreover, as a result of privatization performed in the previous years in some energy enterprises, foreign energy groups are also present on the Polish market.

According to the data for 2012 in the generation sub-sector the aforementioned consolidated energy groups (TAURON, PGE, ENEA, ENERGA) held about 60% of market share. The smaller, although important entities on the Polish market of electricity included also: EDF Polska (10%), Grupa ZE PAK (7%) and GDF SUEZ Energia Polska S.A. (4%).

In the electric energy distribution sector the energy groups (TAURON, PGE, ENEA, ENERGA) held about 90% of the electric energy distribution market.

TAURON Capital Group is the biggest distributor and the biggest seller of electric energy in Poland Share of TAURON Capital Group in the distribution of electric energy to end consumers in 2012 reached ab. 38%, the distribution grids of the company belonging to TAURON Capital Group cover over 18% of the country area. On the other hand, the share in the market of sales to end consumers amounted to approximately 30%.

TAURON Capital Group is the second biggest electric energy producer in Poland. According to the data for 2012, both in terms of installed capacity and production of electric energy, it was preceded only by PGE. The share in the domestic electric energy production market reached approximately 38% for PGE and 13% for TAURON.

On the other hand, share of both PGE and TAURON in the Polish market of sales and distribution of electric energy reached 26% in each case.

The third biggest energy enterprise in Poland is ENEA, with the share (according to the data for 2012) in the market of energy production reaching 8%, in the distribution market – 14% and in sales market – approximately 12%.

ENERGA holds share in the Polish market of electricity production reaching 3%, and 17% for each, distribution and sales, respectively.

The table below shows information on the capacity installed as of 31 December 2012 and electric energy generated in 2012.

Table no. 35 Capacity installed and production of electric energy according to energy groups

No.	Group	Capacity installed		Generation*	
		Quantity (GW)	Share (%)	Quantity (TWh)	Share (%)
1.	PGE	13	34.9%	63.2	37.8%
2.	TAURON	5.5	14.7%	22.1	13.2%
3.	ENEA	3.1	8.3%	11.8	7.8%
4.	EDF	3.2	8.6%	14.7	9.5%
5.	PAK	2.5	6.7%	11.3	7.0%
6.	GDF Suez	1.5	4.0%	8.5	5.5%
7.	ENERGA	1.2	3.2%	4.6	2.7%
8.	CEZ	0.6	1.6%	2.6	1.7%
9.	Other	6.7	18.0%	23.0	14.8%
	Total	**37.3**	**100.0%**	**161.9**	**100.0%**

** Quantity of gross electric energy generated in 2012.*
Source: ARE, information on companies published on the websites.

The following table presents the basic information concerning the share of individual energy companies (groups) in the scope of electricity distribution according to the data for 2012.

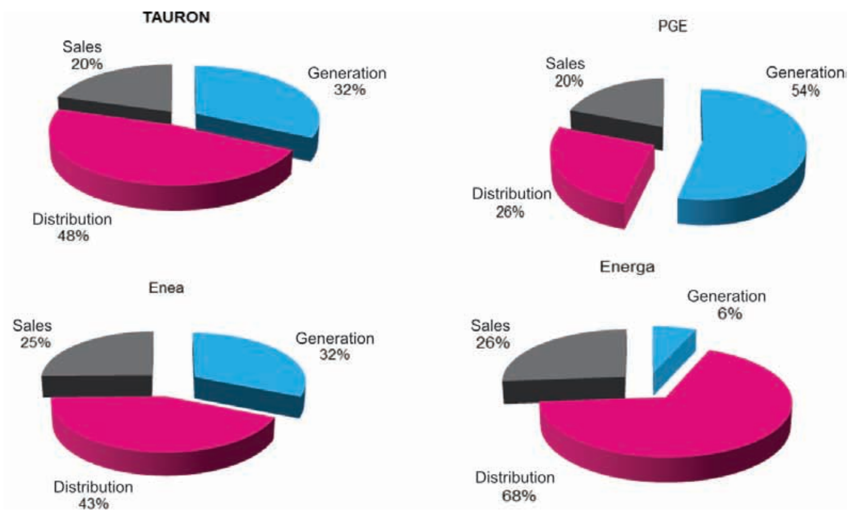
Table no. 36 Distribution of electric energy according to energy groups

No.	Group	Distribution	
		Quantity (TWh)	Share (%)
1.	TAURON	47.8	38%
2.	PGE	31.3	25%
3.	ENERGA	20.1	16%
4.	ENEA	17.2	14%
5.	Other	8.0	6%
	Total*	**124.4**	**100.00%**

** Level of supplies of electric energy, excluding grid losses and balancing differences.*
Source: ARE, information on companies published on the websites.

The figures below show information concerning EBIT in the structure of main segments of TAURON and PGE.

Figure no. 43 EBIT – estimated structure according to the main segments* in 2012



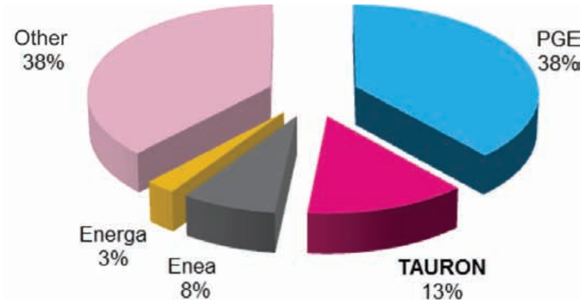
Source: Annual reports of Companies
** In order to maintain comparability of the presented segments, in the Generation Segment, Mining, RES and Heat are also presented; in the Sales Segment: wholesale and retail sale is included.*

The structure of assets held by TAURON Capital Group, with the considerable share of distribution activities, influences the stabilisation of revenues and results, which positively distinguishes TAURON Capital Group in comparison with other energy groups.

Generation

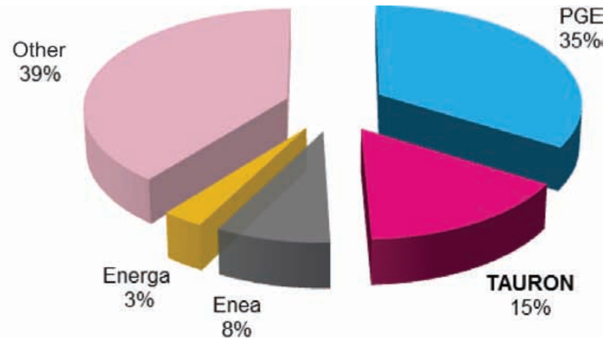
The figures below present information on electric energy generated in 2012 and the capacity installed as of 31 December 2012.

Figure no. 44 Gross electric energy production – estimated market share in 2012 (%)



Source: ARE, information on companies published on the websites.

Figure no. 45 Installed capacity – estimated market share in 2012 (%)

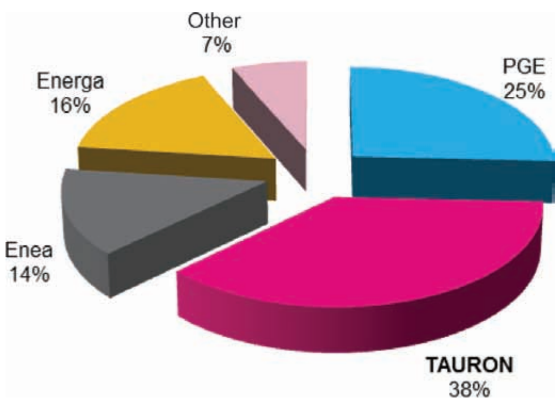


Source: ARE, information on companies published on the websites.

Distribution

The following chart presents the basic information concerning the share of individual energy companies (groups) in the scope of electric energy distribution according to the data for 2012.

Figure no. 46 Electric energy distribution – estimated market share in 2012 (%)

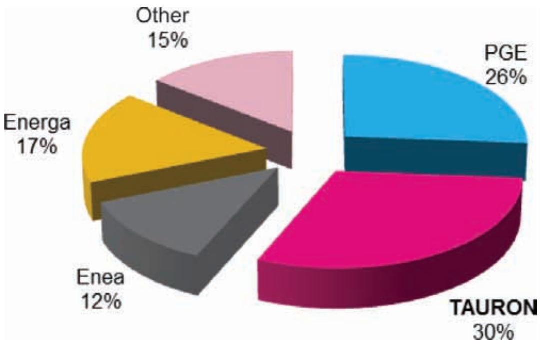


Source: ARE, information on companies published on the websites.

Sales

The following chart presents the basic information concerning the share of individual energy companies (groups) in the scope of electric energy sales according to the data for 2012

Figure no. 47 Sales of electric energy to end consumers – estimated market share in 2012 (%)



Source: ARE, information on companies published on the websites.

TAURON Capital Group is the biggest distributor and the biggest seller of electric energy in Poland

According to the data for 2012, 2011 and 2010 TAURON Capital Group, with the volume of electric energy supplied to end clients, at the level of, respectively, 45.2 TWh, 33.6 TWh and 32.9 TWh, occupied the first position in terms of the quantity of electric energy supplied. TAURON Capital Group is the largest electricity distributor in Poland, also in terms of revenues gained from distribution activity. The revenues of the Distribution Area of TAURON Capital Group amounted to PLN 6,077,498 thousand in 2012, 4,668,237 thousand in 2011, and PLN 4,509,033 thousand in 2010. The whole year activity of GZE companies acquired at the end of 2011 influenced the strengthening of this position in 2012.

It should be stressed that the distribution activities of TAURON Capital Group, due to the natural monopoly at the indicated area, are the source of stable and predictable revenues, constituting the essential part of consolidated revenue of the whole TAURON Capital Group. The geographical area of electricity distribution, where the companies of Distribution and Sales Areas have been operating historically, is the area characterised by its high level of industrialisation and dense population, which influences the relevant demand for electric energy, both among households and among enterprises.

TAURON Capital Group, with its volume of retail sales of electricity at the level of 44.7 TWh in 2012, 35.5 TWh in 2011 and 34.3 TWh in 2010, is the biggest supplier of electric energy in this segment in Poland. TAURON provides services to over 5.3 million end consumers.

TAURON Capital Group is the second biggest producer of electric energy in Poland, holding generation assets located in the attractive region of Poland, which enables it to participate actively in building of new generation capacity.

Based on ARE data for 2012, the share of TAURON Capital Group in the domestic market of electricity generation, measured by the gross production of electric energy, amounted to approximately 13%, which placed TAURON Capital Group on the second position in Poland. The generation assets of TAURON Capital Group are concentrated in southern Poland. In this region, coal deposits are located, used for combustion processes in power plants and co-generation plants of TAURON Capital Group. The location of generation assets of TAURON Capital Group in the vicinity of coal deposits allows for optimisation of costs associated with the transport of this raw material.

The generation assets of TAURON Capital Group, due to their location in southern Poland, have also access to the most developed part of the transmission system in the country, which has positive impact, among others, on enhancement of reliability of the activities carried out and on implementation of the planned investments in the scope of construction of new generation capacity. Thus, the location of assets of TAURON Capital Group in the area of well developed transmission network and rich coal resources also influences the maintaining of the competitive advantage of TAURON Capital Group against other energy enterprises on the Polish market.

TAURON Capital Group is the fully vertically integrated energy enterprise using the synergies arising from the scale and scope of the activities carried out

TAURON Capital Group is a vertically integrated energy enterprise controlling the whole value chain, from coal mining to supply of electric energy to end clients. It performs its operations in all key segments of the energy market (excluding electric energy transmission), i.e. in the area of coal mining, generation, distribution as well as trade of electric energy and heat. Access to own coal resources and control of own generation assets increases the stability of revenues and margins of TAURON Capital Group.

Macroeconomic situation and the electric energy system

According to the preliminary estimates of GUS, the GDP of Poland in the whole 2013 increased by 1.6% as compared to 2012. It was the worst result since 2009. The factors which contributed to the GDP growth included mainly the positive impact of net exports and the domestic consumption demand, with almost neutral impact of investment demand and strong decline in the value added in construction. According to GUS, inflation reached 0.9% in this period and it was the lowest rate since 2003.

In such macroeconomic environment, the situation in KSE also has not demonstrated any significant changes. According to the data of PSE S.A. for 2013, in relation to the corresponding period of 2012, a slight increase, by approximately 0.6%, in the domestic electric energy consumption was recorded. The production of energy in Poland increased by approximately 1.76%, and it was balanced by the energy export to the neighbouring countries which was by almost 60% higher in 2013 than in 2012. Low generation costs resulted in the shift of production towards lignite-based sources (increase by about 2.5%), cost of gas-fired power plants (decrease by about 30%). The situation of generators of electric energy based on hard coal remained relatively stable (increase by about 0.1%). Due to the stable hydrological situation a growth of even 22% in generation of energy from hydroelectric plants was noted. Year 2013 was the next period of increase in the capacity installed in wind farms – at the end of December it reached 3,462 MW in relation to 2,580 MW a year ago. Therefore, production of energy from wind in Poland was higher by 47.2% YoY, amounting to 5.82 TWh.

Prices of electric energy and related products

In 2013 strong decline in prices of electric energy in wholesale markets were observed. The main reasons of this situation included:

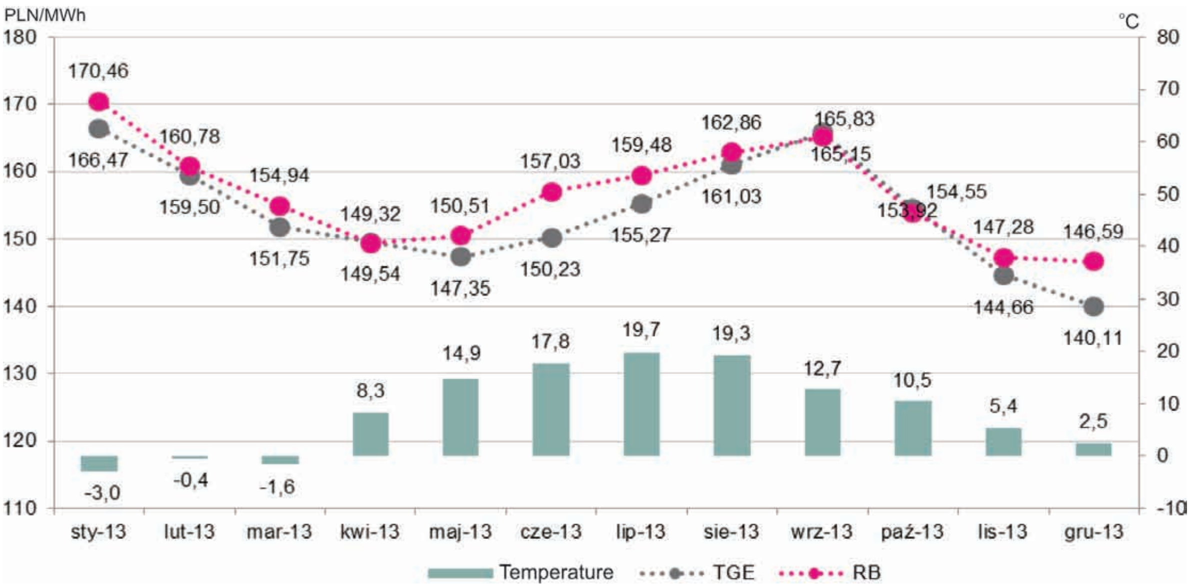
1) decline in prices of CO_2 emission allowances in the European Trading System (EU ETS),
2) decline in prices of energy coal in the Polish market,
3) increased production of energy from renewable sources which, as a result of privileged consumption of energy start replacing the production from conventional sources.

The average price of the day-ahead market for the whole 2013settled at the level of PLN 153.82/MWh, whereas its equivalent on the balancing market, the CRO prices reached the annual average of PLN 156.51/MWh. These levels were lower by PLN 19.76 and PLN 22.21/MWh, respectively, as compared to 2012.

In the markets of the neighbouring countries, slightly lower energy prices were also observed in 2013, in relation to 2012. On the German EPEX spot market, the prices dropped YoY from EUR 42.60 to EUR 37.78/MWh. Similar situation occurred on the Czech OTE market, where the average price YoY decreased by EUR 5.64 to EUR 36.74/MWh – mainly due to the maintaining low prices of CO_2 emission allowances and energy raw materials. On the other hand, on the Scandinavian NordPool spot market, prices in 2013, due to the slightly worse availability of power from nuclear blocks and the hydrological situation in the first half of the year, were, on average, higher by EUR 6.91 than in 2012, reaching EUR 38.10/MWh for the whole 2013.

The figure below presents the average monthly energy prices on the SPOT and RB markets and the average temperature.

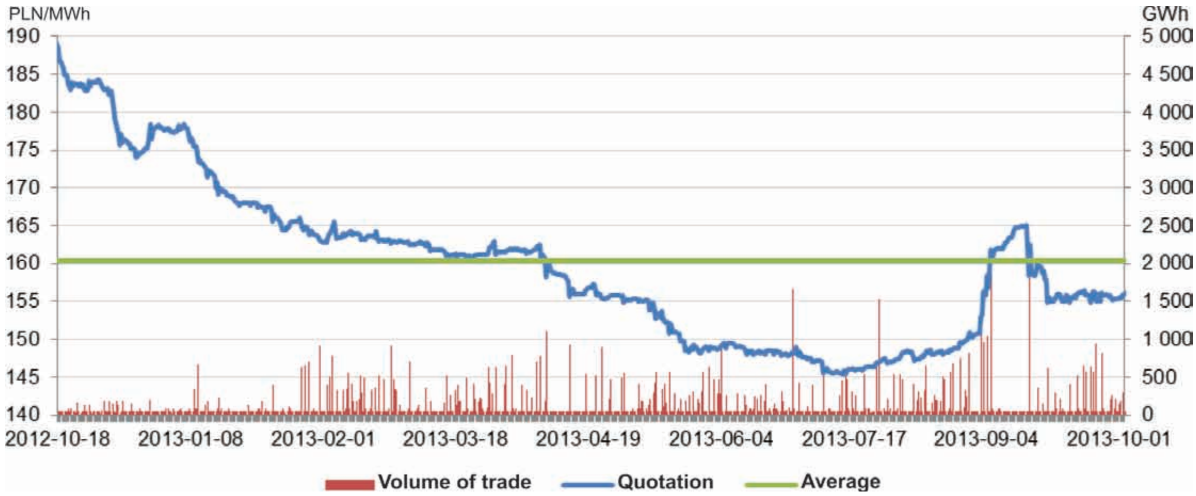
Figure no. 48 Average monthly energy prices on the SPOT and RB markets and the average temperature



On the forward market of electric energy all contracts were losing their value, starting from the beginning of the year. The traded contract of the highest liquidity in 2013, i.e. BASE Y-14, has lost its value since the beginning of the year, from PLN 178.00/MWh to the level of PLN 145.00/MWh (reached in mid-July). In the following months, irrespective of the temporary adjustment to PLN 165.00/MWh, the transactions were concluded within the price brackets from PLN 150.00 to PLN 155.00/MWh over most of the period. The average price for these contracts reached PLN 160.40/MWh. For comparison, the average price of BASE Y-13 contracts reached PLN 191.60/MWh. Comparing PEAK contracts concluded for 2014 and 2013 decline in prices was also observed, on average, from PLN 209.09 to PLN 180.54/MWh. Comparing the base quarterly and monthly contracts with the delivery in 2013, it can be stated that they were much cheaper than contracts with the delivery in 2012. Prices for the quarterly contracts in 2013 and 2012 reached PLN 165.23 and PLN 195.95/MWh, respectively. Monthly contracts with the delivery in 2012 reached the average price of PLN 188.14/MWh in 2012, and PLN 154.49/MWh in 2013.

The figure below shows the results of trading Base Y-14 contracts.

Figure no. 49 Trade of BASE Y-14 contracts



The prices of CO_2 emission allowances in 2013 were historically at the lowest level. The economic slowdown and the dynamic development of the RES sources generated the surplus in allowances of over 2,000,000 thousand Mg until the end of Phase II. This resulted in strong decline in prices of allowances already in the first quarter of the year, from the level slightly lower than EUR 7/Mg to about EUR 3.50/Mg. In April 2013 the European Parliament rejected the proposal concerning the temporary withdrawal of 900,000 thousand Mg allowances from the system (backloading), which resulted in the decline of CO_2 prices to the historic minimum of phase II and III, i.e. approximately EUR 2.70/Mg. In the following months the lack of fundamental factors caused volatility of EUA contracts, mainly under the influence of political decisions connected with the attempts to enforce the backloading. Even the final decision of 10 December 2013, approving the plan, has not resulted in significant increase in prices. The average price for EUA DEC-13 contracts concluded in 2013 reached EUR 4.51/Mg and the quotations ended more or less at this level. The average price at auctions of allowances organised at the EEX reached EUR 4.39/Mg.

The figure below presents quotations of CO_2 emission allowances (EUA DEC-13 contracts at the ICE/ECX).

Figure no. 50 Quotations of CO_2 emission allowances (EUA DEC-13 contracts at the ICE/ECX)

In 2013 the situation on the market of property rights was determined by the instability of the legal regulations or the lack of any legal regulations (for the coal and gas fired cogeneration units).

Property rights associated with the energy produced in renewable sources (RES) were strongly losing their value starting from the beginning of 2013, reaching even price levels of PLN 100/MWh, at the level of the substitution fee determined for 2013 at the level of PLN 297.35/MWh. In the consecutive months of 2013 the prices of property rights ranged from PLN 130–145/MWh, reaching the price of almost PLN 194/MWh until the end of the year, periodically even over PLN 210/MWh. These changes mainly resulted from the successive draft updates of the *Energy Law,* significantly limiting the supply of the property rights, mainly through strong restrictions for biomass co-burning. Prior to the final term of redemption for 2012, i.e. in February 2013 the over-supply of property rights reached 10.9 TWh, subsequently falling to 5.0 TWh. However, until the end of the year, it reached the level of 11.2 TWh.

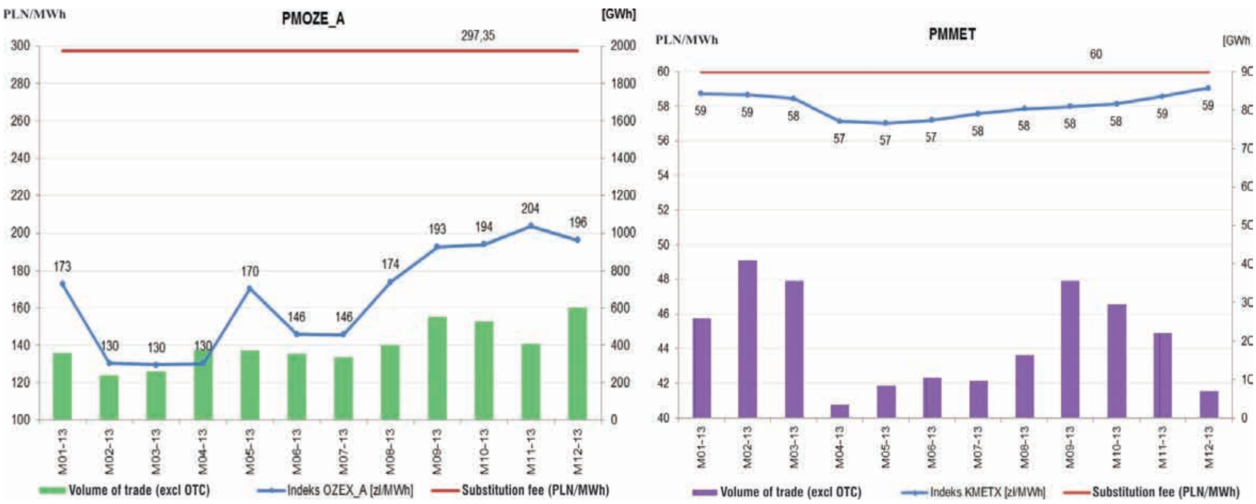
The lack of the obligation to redeem the property rights confirming generation of electric energy in high-performance cogeneration (both coal- and gas-based) resulted in significant decline in prices of the associated rights. Prices of “red” certificates dropped to approximately PLN 0.85/MWh and prices of “yellow” certificates dropped to PLN 44.44/MWh. Starting from April 2014 the trade of these certificates has practically ceased.

Prices of property rights confirming the generation of electric energy from gas acquired from methane removal from coal mines (the so-called violet certificates) remained at a relatively stable level. In the first half of 2013 these prices ranged from PLN 56–58/MWh, reaching the price of PLN 59/MWh until the end of the year, i.e. the level of the substitution fee determined at PLN 60.00/MWh for 2013.

The amendments to the act on *Energy Law* constituted the next factor influencing the market of property rights. The provisions of the Act were extended by adding the industrial consumer that used at least 100 GWh of electric energy in the calendar year preceding the year of implementation of the obligation, and for whom the cost of electric energy acquisition will amount to at least 3% of the value of its production. Accordingly, the planned obligation of redemption of property rights by TAURON decreased, and the obligation was transferred to the end client.

The figure below shows indices of property rights, the so-called “green” and “violet” certificates.

Figure no. 51 Indices of property rights, the so-called “green” and “violet” certificates



Changes in the regulations of the energy sector

In 2013 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).

Lack of final settlement in the scope of amendments to the Energy Law

Until the end of 2013 the activities related to the so-called “big energy tri-pack” have not finished (amendment to the energy law, gas law and the act on renewable energy sources). One of the significant changes in the regulatory and legislative environment is the Act passed by the Parliament on 26 July 2013 on the amendment to the act – *Energy Law and certain other acts of law,* i.e. the so-called “small energy tri-pack”. The Act has implemented the EU regulations in more comprehensive way, particularly, in terms of promotion of the use of energy from renewable sources, and regulation of common rules of the single electric energy and natural gas market. The aim of the amendment was, among others, to separate the supervision of gas transmission and trading. The new regulations have also introduced protection of the so-called susceptible electric energy consumers. The obligation of the gas traders to sell a part of raw material through the commodity exchanges, the so-called gas obligation, was also introduced. From the entry into force of the amendment until the end of 2013 sales of 30% of gas injected to the transmission grid at the exchange is planned, in 2014, the level should reach 40%, and starting from 1 January 2015 – 55%. Irrespective of the opening of the gas market, its expected liquidity still has not been achieved.

Moreover, the changes postulated for a long time, concerning the load for energy intensive consumers have been introduced. In case of industrial consumers using over 100 GWh of energy annually, depending on energy share in the global production costs, the level of obligatory purchase of energy from renewable sources was decreased.

It should be stressed that the works concerning the underlying statutory acts for the “big energy tri-pack” are still in progress, which implies problems for the market and its participants, including investors.

Arrangements in the scope of CO_2 emission allowances

At the beginning of 2013 Phase III of the European Trading System of CO_2 emission allowances (EU ETS) started which, contrary to Phase II, enabled to transfer the surplus of the allowances from the previous phase. According to the data for the end of 2012 the surplus of unused allowances in the EU ETS system reached the level of approximately 2,000,000 thousand Mg CO_2, which resulted from the economic slowdown in the European Union Member States. According to the European Commission, the difference arising between the supply and demand of the units caused the decline in prices of CO_2 emission allowances (in April 2013 the price of EUR 2.70/Mg was noted).

In 2013 the former rules on functioning of the EU ETS system also changed. The auctions of allowances have become the basic form of acquisition of the EUA allowances. One European threshold of emission level was assumed instead of 27 national plans (KPRU). This threshold will be reduced every year. At the beginning about 2,039,000 thousand allowances were to be included in the pool, including over 1,000,000 thousand to be allocated for auctions of individual Member States. Consequently, the individual EU Member States will sell over 40% of the pool of allowances allocated to them via the auction in the period from 2013 to 2020. The remaining part of the allowances will be distributed free of charge among: energy intensive sectors of industry (exposed to the so-called emission leakage), the remaining sectors of industry (according to the rule of gradual abandoning of the free allocations), and the electric energy sector in some Member States, including Poland, eligible to the be covered by the so called derogation pursuant to art. 10c of Directive 2009/29/EC. As a target solution, the auctions of emission allowances in the period from 2013 to 2020 shall take place within one European auction platform and three national platforms: Polish, German and British. In 2013 sales of allowances was implemented via the EEX exchange with its seat in Leipzig, acting as a temporary Community platform and the German platform and the ICE ECX exchange with its seat in London, operating as a trading platform in Great Britain. Until the selection of the target platform, Poland has been selling the allowances by means of the EEX exchange.

In connection with the low prices of emission allowances, after several attempts, on 10 December 201, pursuant to the decision of the European Parliament, the so-called backloading of allowances was introduced, i.e. the possibility for the European Commission to withdraw a pool of 900,000 thousand allowances in the period from 2013 to 2015 in order to recover the pool in the following years, up to 2020.

Lack of obligation to redeem the property rights for cogeneration

In 2013 the obligation of redemption of the so-called “yellow” and “red” certificates expired, i.e. the property rights confirming production of electric energy in high-performance co-generation and the related legislative solutions in the scope of support to electric energy production in co-generation, both coal and gas based. This change had adverse effect on the revenue on production of electric energy in co-generation, reached by the Generation and Heat Area. On the other hand, it had positive effect on the Sales Area, due to the reduced obligation to redeem such certificates in connection with electric energy sales to end consumers.

However, it should be indicated that the uncertainty concerning the possible extension of the legal regulations in the scope of support to cogeneration and the obligation to redeem the aforementioned certificates of origin has adverse impact on the whole market, starting from generators and investors, ending with energy sellers facing the risk associated with estimation of costs of property rights while constructing their offers for the end consumers.

Obligation of public sales of electric energy by generators

In 2013 the so-called “exchange obligation” was applicable, according to which the generating enterprises were obliged to sell the obligatory volume at TGE. In 2013 companies of “TAURON Group” are covered, in accordance with provisions of art. 49a of the Act of 10 April 1997 on *Energy Law*, by the obligation to sell not less than 15% of electric energy generated in a particular year on the commodity exchange (within the meaning of the Act of 26 October 2000 on commodity exchanges), or on the market organised by the entity maintaining the regulated market on the territory of the Republic of Poland. It means that the sales of electric energy 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 (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.

Introduction of EMIR Regulation

Transactions at commodity markets (e.g. electric energy, CO_2), are subject to the provisions of the Regulation of the European Parliament and the Council no. 648/2012 of 4 July 2012 on OTC derivatives, central counterparties and trade repositories (EMIR Regulation), which entered into force on 16 August 2012. EMIR Regulation is directly applied in Poland, without the need of its implementation to the Polish acquis by means of the Act of Law. The aim of the EMIR Regulation is to increase the transparency of the derivative market, reduction of credit and systemic risk associated with the conclusion and clearing of transactions on derivative instruments of the OTC and to increase the financial market stability. The EMIR Regulation defines the rules for:

1) central clearing of OTC traded transactions on derivative contracts;
2) reporting the aforementioned derivative transactions to the transaction repository;
3) risk management related to derivative contracts.

In 2013, TAURON Capital Group conducted the preparatory activities allowing for the adjustment to the aforementioned requirements, accordingly, the obligation to report transactions entered into force on 12 February 2014.

Introduction of REMIT Regulations for application

In connection with entry into force on 28 December 2011 of the regulation of the European Parliament and of the Council (EU) No 1227/2011 of 25 October 2011, on wholesale energy market integrity and transparency (REMIT), TAURON has introduced and is developing solutions allowing for fulfilment of the obligations resulting from REMIT in the Company and within TAURON Capital Group.

Weather conditions

The activity of TAURON Capital Group demonstrates seasonality which refers, in particular, to production, distribution and sales of electric energy to individual clients and ales of coal to consumers.

In 2013, weather conditions had significant impact on operations of the RES Segment and the Heat Segment, due to dependence of the level of produced energy (from hydro plants and wind farms) as well as heat generation and sales on atmospheric conditions. In terms of ambient temperatures and hydrological conditions, year 2013 was significantly different than the previous year, in particular, in terms if meteorological conditions: at the beginning of the year, cold and quite long winter occurred which partly stopped the activity of the wind farms (icing of wind blades), whereas the warm autumn in the second part of the year influenced the shift of the heating season and the significant decline of heat demand, in relation to the comparable period of 2012.

What can be expected in 2014

Macroeconomic environment

In 2014, the acceleration of the economic growth is expected, including its main factors, both exports and internal demand, which will be reflected not only through the increased consumption but also the increased investments. The higher rate of economic growth will probably have minor impact on price trends. Inflation will grow, however, it should not exceed the target of the Monetary Policy Council. Due to the economic growth assumed at a longer term, and the potential rise in inflation arising from the GDP growth, it is expected that the Monetary Policy Council (RPP) may start a cycle of raising the interest rates.

Situation in the energy sector

Prices on the SPOT market, i.e. day-ahead prices at TGE have raised in the current year in relation to the status of the previous year. Similar growth was recorded for the prices of the balancing market.

Such situation occurred irrespective of high temperatures affecting the low demand for electric energy, and also despite the growth of capacity (production) from wind sources, consequently, the lower JWCD generation. At the beginning of 2014 prices (especially RDN) stayed at a level higher in relation to 2013.

Prices on the forward market slowly respond by growing. In the period since the beginning of 2014, prices of forward contracts for monthly and quarterly periods, with the delivery terms in the period until mid-2014, have increased by PLN 5 to 10/MWh.

Priorities of the Group in 2014

In view of the demanding macroeconomic situation and the associated challenges for the energy sector, TAURON Capital Group will focus on:

1) consistent implementation of the strategy of OPEX reduction and maintaining of the budgetary discipline in all Business Areas,
2) development of profitable projects, in particular, in the Distribution Segment, with simultaneous care for long-term effectiveness and expansion of the capacity of the Generation Segment, as well as using the opportunities in other Segments,
3) strengthening of the competitive position in core areas of operations.

3.11. Assessment of financial resources management

Due to the measures implemented in the previous years and continued in 2013, 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 Capital 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 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, TAURON Capital Group implemented the coherent programme of bank guarantees. Under one agreement concluded between TAURON and Bank PKO BP, 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. In addition, TAURON concluded the master agreement with BZ WBK for the bank guarantees issued to the benefit of IRGIT, which significantly reduces the cost of collaterals required in connection with the electric energy trading at the stock exchange.

In 2013, TAURON Capital Group demonstrated full capacity to settle its liabilities on the payment date.

3.12. Information concerning the entity authorised to examine financial statements

The authorised entity, auditing the Consolidated financial statement of TAURON Capital Group is Deloitte Polska Sp. z o.o. Spółka Komandytowa with its seat in Warsaw, Al. Jana Pawła II 19, 00-854 (Deloitte Polska). The agreement between TAURON and Deloitte Polska Sp. z o.o was concluded on 7 May 2013 and refers to the audit of the financial statements of the Company and the consolidated financial statements for the years 2013–2015.

The level of remuneration of the chartered accountant due to the services provided for the companies of TAURON Capital Group is shown in the table below.

Table no. 37 Level of remuneration of the chartered accountant due to the services provided for companies of TAURON Capital Group (data in thousand PLN)

No.		Year ended on 31 December 2013	Year ended on 31 December 2012
1.	Obligatory audit, including:	606	987
2.	*consolidated financial statements*	25	36
3.	*standalone financial statement of the parent entity*	80	34
4.	*standalone financial statement of the subsidiaries*	501	917
5.	Other certifying services provided for the Group, including financial statements	260	193
6.	Tax-related advisory services	0	0
7.	other services provided to the Group (including training)	195	410
	Total	**1061**	**1,590**

In 2012 the agreement for auditing the financial statements of the Company and consolidated financial statements, concluded on 19 November 2010 by TAURON with Ernst & Young Audit sp. z o.o. was binding. Accordingly, the amounts indicated in the table above for the financial year ended on 31 December 2012 refer to services provided by Ernst & Young Audit sp. z o.o.

4. SHARES AND SHAREHOLDERS

4.1. Structure of the share capital

As of 31 December 2013 and as of the day of this report, the share capital of the Company, in accordance with the entry to the National Court Register, amounted to PLN 8,762,746,970.00 and it was divided into 1,752,549,394 shares at par value of PLN 5 each, including 1,589,438,762 ordinary bearer shares of AA series and 163,110,632 ordinary registered shares of BB series.

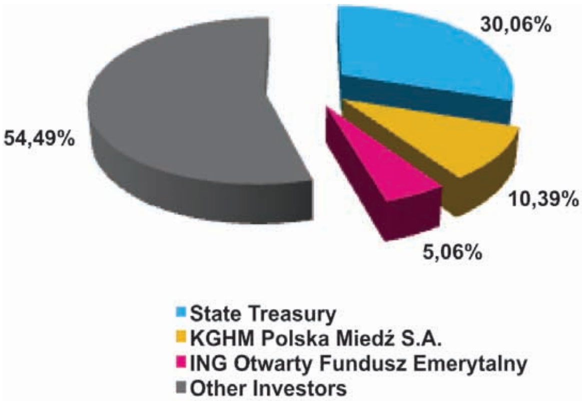
The table below presents the structure of the shareholding of the Company as of 31 December 2013 and on the day of this report.

Table no. 38 Structure of the shareholding of the Company as of 31 December 2013 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%

The table below presents the structure of the shareholding of the Company as of 31 December 2013 and on the day of this report.

Figure no. 52 Structure of shareholding as of 31 December 2013 and as of the date of this report



The table below presents the level of the dividend paid in the years 2010–2012.

Table no. 39 The level of the dividend paid in the years 2010–2012

No.	Dividend paid for 2010-2012				
	Financial year for which the dividend was paid	Amount of the dividend paid	Value of dividend per share paid	Day of dividend	Date of dividend payment
1.	2010	262,882,409.10	0.15	30 June 2011	20 July 2011
2.	2011	543,290,312.14	0.31	02 July 2012	20 July 2012
3.	2012	350,509,878.80	0.20	3 June 2013	18 June 2013

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 2013 and as of the day of this report was as follows:

Table no. 40 Proprietary status of the Company shares and share/stocks in entities affiliated with the Company – managing persons

No.	Name and surname	TAURON shares		Share/stocks in entities affiliated with TAURON	
		Number	par value (PLN)	Number	Par value (PLN)
	as of 31 December 2013				
1.	Dariusz Lubera	6,576	32,880	0	0
2.	Joanna Schmid	0	0	0	0
3.	Dariusz Stolarczyk	42,611	213,055	0	0
4.	Krzysztof Zawadzki	27,337	136,685	0	0
	as of the date of this report				
1.	Dariusz Lubera	6,576	32,880	0	0
2.	Joanna Schmid	0	0	0	0
3.	Dariusz Stolarczyk	42,611	213,055	0	0
4.	Krzysztof Zawadzki	27,337	136,685	0	0
5.	Aleksander Grad*	0	0	0	0

** On 10 February 2014 the Supervisory Board of the Company adopted the resolution to delegate the member of the Supervisory Board, Mr. Aleksander Grad for temporary performance of the duties of the Management Board Member of TAURON from 11 February 2014 until 11 May 2014.*

Table no. 41 Proprietary status of the Company shares and share/stocks in entities affiliated with the Company – supervising persons

No.	Name and surname	TAURON shares		Share/stocks in entities affiliated with TAURON	
		Number	par value (PLN)	Number	par value (PLN)
	as of 31 December 2013				
1.	Antoni Tajduś	0	0	0	0
2.	Rafał Wardziński*	0	0	0	0
3.	Leszek Koziorowski	0	0	0	0
4.	Jacek Kuciński	935	4,675	0	0
5.	Marcin Majeranowski	0	0	0	0
6.	Jacek Szyke	0	0	0	0
7.	Marek Ściążko	0	0	0	0
8.	Agnieszka Trzaskalska	0	0	0	0
	as of the date of this report				
1.	Antoni Tajduś	0	0	0	0
2.	Leszek Koziorowski	0	0	0	0
3.	Aleksander Grad**	0	0	0	0
4.	Jacek Kuciński	935	4,675	0	0
5.	Marcin Majeranowski	0	0	0	0
6.	Jacek Szyke	0	0	0	0
7.	Marek Ściążko	0	0	0	0
8.	Agnieszka Trzaskalska	0	0	0	0
9.	Agnieszka Woś***	0	0	0	0

** Rafał Wardziński was dismissed from the Supervisory Board on 22 January 2014.*
*** Aleksander Grad was appointed to the Supervisory Board on 1 February 2014.*
**** Agnieszka Woś was appointed to the Supervisory Board on 22 January 2014.*

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 2013 the Company did not purchase treasury shares.

4.5. Programmes of employees shares

In 2013 the employee 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 GPW since 30 June 2010. In 2013 the price of TAURON shares ranged from PLN 3.85 to PLN 5.39. The price of shares at the last session in 2012 reached the level of PLN 4.75. A year later, the price was PLN 4.37. The return rate* on the Company shares in 2013 was -3.64%. This result should be considered in the context of the standing of the whole market in 2013, which was not a successful year for companies of WIG20 index. In this period, WIG20 decreased by 8.58%, and the index of the biggest companies, WIG30, introduced in 2013, lost 3.31%. One of the reasons was the market slump in the Q4 2013, caused mainly by the lack of certainty concerning the future shape of the capital part of the pension system.

In addition, the situation was still unfavourable for investments in companies of the energy sector, as a result of which the WIG-Energia index dropped by over 10% during 2013. It was mainly the result of the decline in market prices of energy and the uncertainty associated with the final shape of the act on renewable energy sources and the support for cogeneration sources.

As of 31 December 2013, the Company shares were included in the following exchange indices:

1) **WIG** – covering all companies listed at the Primary Market of GPW which meet the base criteria of participation in the indices, Share of TAURON in WIG index: 1.713%.
2) **WIG-Poland** – the national index which includes only the shares of national companies listed at the Primary Market of GPW, which meet the base criteria of participation in the indices. Share of TAURON in WIG-Poland index: 1.824%.
3) **WIG20** – index calculated based on the value of share portfolio of 20 biggest and most liquid companies of the Primary Market of GPW, Share of TAURON in WIG20 index: 2.718%.
4) **WIG30** – index comprising 30 biggest and most liquid companies listed at the Primary Market of GPW, Share of TAURON in WIG30 index: 2.551%.
5) **WIG-Energia** – the sectoral index comprising companies participating in WIG index and simultaneously classified to the energy sector, Share of TAURON in WIG-Energia index: 18.132%.
6) **Respect Index** – index grouping companies acting in accordance with the highest standards of social responsibility. Share of TAURON in Respect Index: 5.364%.
7) **MSCI Poland Standard Index** – index comprising over 20 key companies listed at GPW. Share of TAURON in MSCI Poland Standard Index: 2.4%.
8) **CECE Index** – index of the Vienna Exchange, comprising the biggest companies of Central and Eastern Europe. Share of TAURON in CECE index: 2.33%.

The table below presents the key data concerning the Company shares in the years 2011–2013.

Table no. 42 Key data concerning TAURON shares

No.	Key data concerning shares	2011	2012	2013
1.	Maximum price (PLN)	6.81	5.61	5.39
2.	Maximum price (PLN)	4.65	4.08	3.85
3.	Last price (PLN)	5.35	4.75	4.37
4.	Capitalisation at the end of the period (PLN)	9,376	8,325	7,659
5.	Capitalisation at the end of the period (%)	2.10	1.59	1.29
6.	Book value (M PLN)	15,922.47	16,839.41	17,675.34
7.	C/Z	8.10	5.50	5.50
8.	C/WK	0.59	0.49	0.43
9.	Rate of return at the end of the period*(%)	-16.73	-5.03	-3.64
10.	Dividend rate (%)	2.8	6.5	4.6
11.	Turnover value (M PLN)	5,574.82	3,198.94	3,103.56
12.	Share in turnover (%)	2.21	1.7	1.41
13.	Turnover ratio (%)	58.80	41.80	43.90
14.	Average volume per session	3,721,539	2,667,725	2,793,020
15.	Average number of transactions per session	1,373	960	1,022

** The return rate calculated, including the income of the investor due to dividend, and assuming that the additional income gained will be reinvested. Methodology compliant with the Statistical Bulletin of GPW.*
Source: Statistical Bulletin of GPW

The figures below present the historical developments in quotations of the Company shares and the value of turnover, as well as trends in the Company share prices against the WIG20 and WIG-Energia indices.

Figure no. 53 Quotations of Company shares and value of turnover in 2013

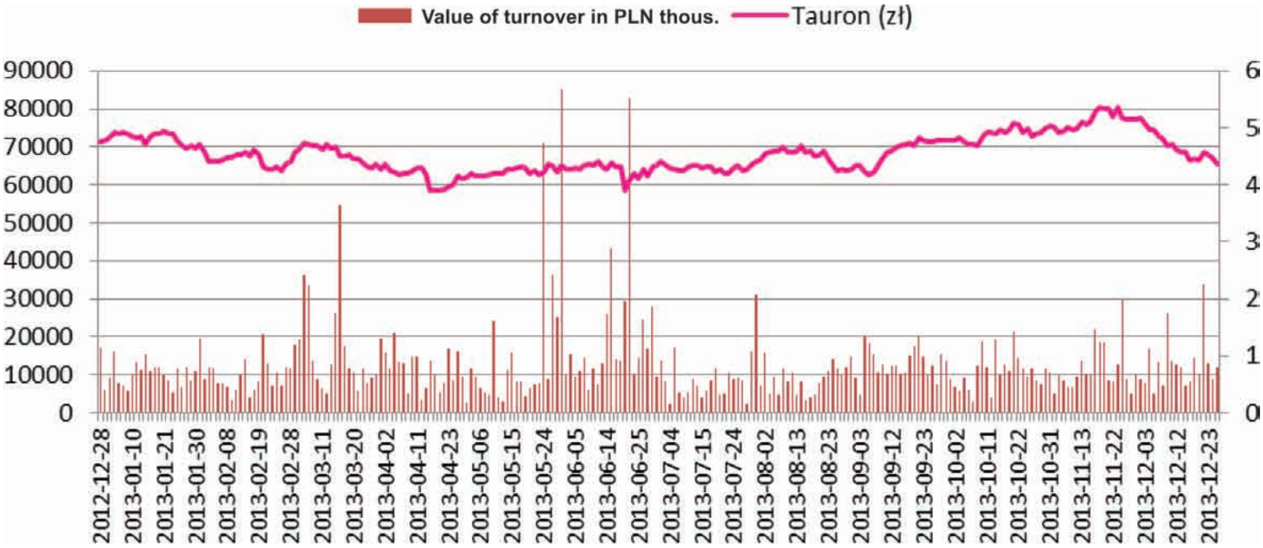


Figure no. 54 Quotations of Company shares and value of turnover in since the exchange debut (30 June 2010) and in 2013

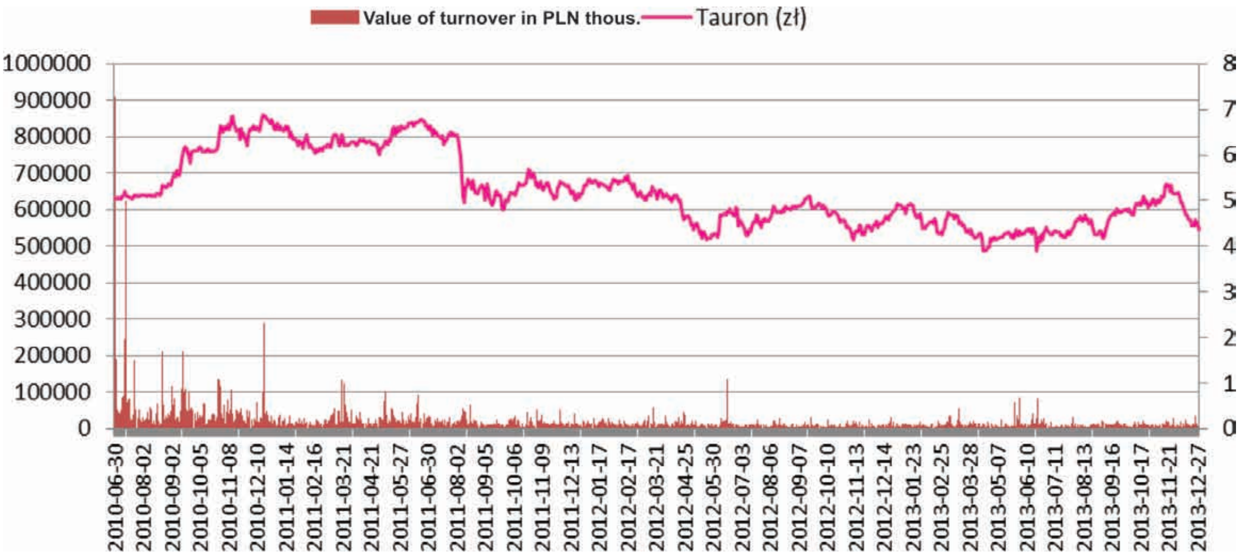


Figure no. 55 Quotations of Company shares compared to WIG20 and WIG-Energia indices in 2013

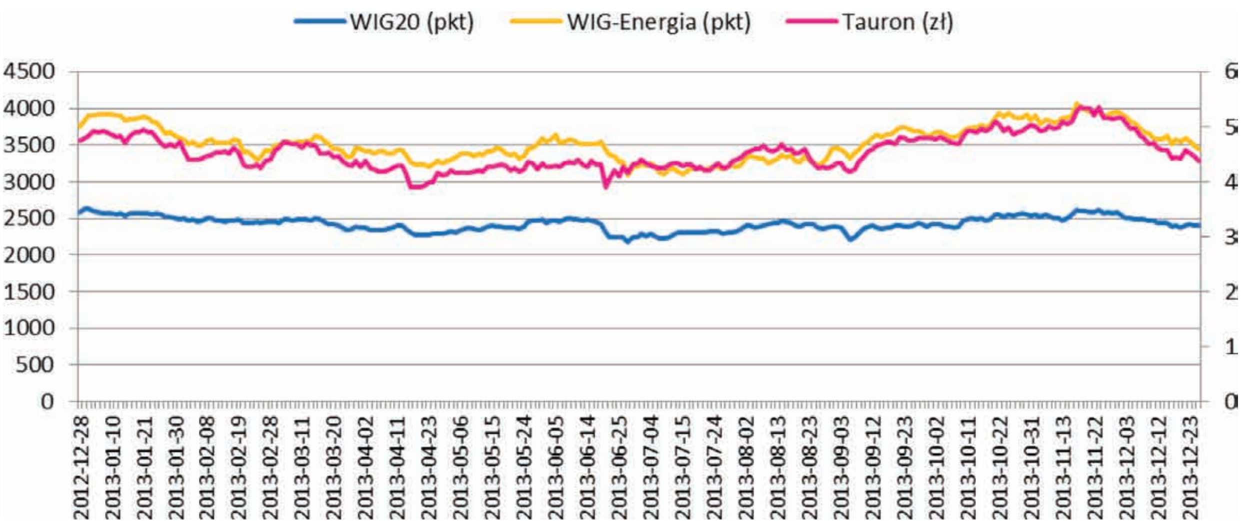
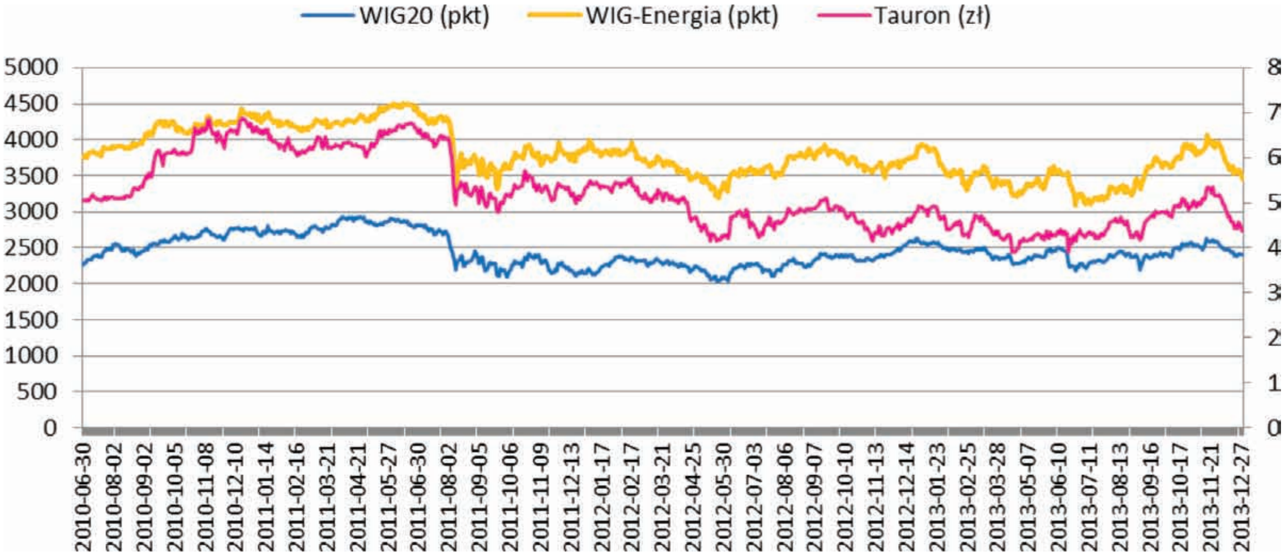


Figure no. 56 Quotations of Company shares compared to WIG20 and WIG-Energia since the exchange debut (30 June 2010) and in 2013



Recommendations for shares of TAURON Polska Energia S.A.

In 2013 the analysts of brokerage houses and investment banks issued in total 38 recommendations (excluding the updates of target prices) for TAURON shares, including:

1) nine "buy" recommendations,
2) thirteen "keep" recommendations,
3) twelve "sell" recommendations,

Recommendations issued in 2013

The table below presents the list of recommendations issued in 2013

Table no. 43 Important events in 2013

No.	Date of recommendation	Recommendation/target price	Recommending institution
1.	09 January 2013	Sell / PLN 4.10	IPOPEMA Securities
2.	15 January 2013	Buy / PLN 5.90	Credit Suisse
3.	18 January 2013	Reduce / PLN 4.50	Raiffeisen Centrobank
4.	28 January 2013	Sell / PLN 4.20	ING Securities
5.	30 January 2013	Keep / PLN 4.60	Deutsche Bank
6.	31 January 2013	Sell / PLN 4.40	Wood & Company
7.	13 February 2013	Underestimate / PLN 4.20	HSBC
8.	25 February 2013	Sell / PLN 3.80	Goldman Sachs
9.	06 March 2013	Keep / PLN 4.80	Espirito Santo
10.	21 March 2013	Sell / PLN 3.90	Goldman Sachs
11.	02 April 2013	Reduce / PLN 4.20	Raiffeisen Centrobank
12.	22 April 2013	Keep / PLN 4.30	DM BZ WBK
13.	24 April 2013	Keep / PLN 4.40	Deutsche Bank
14.	26 April 2013	Keep / PLN 4.65	Goldman Sachs
15.	14 May 2013	Buy / PLN 4.60	DM PKO BP
16.	14 May 2013	Keep / PLN 4.80	Goldman Sachs
17.	12 June 2013	Buy / PLN 5.94	DI BRE
18.	26 June 2013	Buy / PLN 5.10	Societe Generale
19.	05 July 2013	Keep / PLN 4.85	Goldman Sachs
20.	10 July 2013	Buy / PLN 5.00	DM BPS
21.	22 July 2013	Keep / PLN 3.90	ING Securities
22.	23 July 2013	Keep / PLN 4.40	DM BZ WBK

No.	Date of recommendation	Recommendation/target price	Recommending institution
23.	12 August 2013	Keep / PLN 5.05	Goldman Sachs
24.	23 August 2013	Sell / PLN 3.70	Espirito Santo
25.	23 August 2013	Keep / PLN 4.40	DM BZ WBK
26.	11 September 2013	Buy / PLN 5.00	Societe Generale
27.	17 September 2013	Buy / PLN 5.40	Deutsche Bank
28.	15 October 2013	Reduce / PLN 4.60	Raiffeisen Centrobank
29.	15 October 2013	Sell / PLN 4.40	Goldman Sachs
30.	23 October 2013	Buy / PLN 5.20	Societe Generale
31.	24 October 2013	Sell / PLN 4.70	DM BZ WBK
32.	24 October 2013	Sell / PLN 4.04	UniCredit
33.	25 October 2013	Buy / PLN 5.80	Citi
34.	25 October 2013	Sell / PLN 4.00	ING Securities
35.	26 November 2013	Sell / PLN 5.00	DM IDMSA
36.	09 December 2013	Sell / PLN 4.33	Ipopema Securities
37.	18 December 2013	Keep / PLN 5.50	Goldman Sachs
38.	19 December 2013	Keep / PLN 5.00	DM IDMSA

Recommendations issued after 31 December 2013

The table below presents the list of recommendations issued after 31 December 2013 until the day of this report.

Table no. 44 Recommendations issued after 31 December 2013

No.	Date of recommendation	Recommendation/target price	Recommending institution
1.	30 January 2014	Buy / PLN 5.65	Goldman Sachs
2.	30 January 2014	Keep / PLN 4.70	DM BZ WBK
3.	07 February 2014	Neutral / PLN 4.60	Citi
4.	07 February 2014	Buy / PLN 5.00	Societe Generale
5.	07 February 2014	Keep / PLN 4.20	ING Securities
6.	13 February 2014	Buy / PLN 5.80	J.P. Morgan

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 2013.

5.1. Indicating the applied set of rules of corporate governance

In 2013 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, amended by 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 2013 the Company did not apply only the rule contained in Chapter IV item 10 of Good Practices. Other rules specified in the aforementioned document in Chapters II, III and IV were applied by the Company.

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 the abandoned rules of corporate governance

In 2013 the Company did not apply only the rule contained in Chapter IV item 10 of Good Practices (in its wording applicable as of 1 January 2013), concerning the provision of a possibility for shareholders to participate in the General Meeting by means of electronic communication means, consisting in:

1) transmission of the General Meeting session in real time,
2) bilateral communication in real time, where Shareholders may speak during the General Meeting while being at a different location than the venue of the General Meeting.

On 2 January 2013 the Company submitted Current Report no. 1/2013, by means of EBI system (Electronic Information Base), containing information on abandoning of the application of the aforementioned corporate governance rule, due to the fact that the provisions of the Company Articles of Association did not include the provisions enabling the participation in the General Meeting by means of electronic communication means, pursuant to the provisions of the Act of 15 September 2000 *Code of Commercial Companies*.

In order to provide for application of the aforementioned rule, the Management Board of the Company applied to the Ordinary General Meeting of the Company for adopting of the resolution concerning the amendment to TAURON Articles of Association, suggesting the provision enabling the participation in the General Meeting by means of electronic communication means, including, in particular: transmission of the General Meeting session in real time, bilateral communication in real time, where Shareholders may speak during the General Meeting while being at a different location than the venue of the General Meeting, exercising the voting right personally or through a proxy, before or during the WZ.

The Ordinary General Meeting of the Company convened on 16 May 2013 did not adopt the aforementioned resolution.

Accordingly, in 2013, the Company did not apply the rule contained in Chapter IV item 10 of Good Practices and the recommendation contained in Chapter I item 12 of Good Practices.

Other rules specified in Chapters II, III and IV of Good Practices were applied by the Company. In the period since the day of commencement of public listing of the Company shares until 31 December 2013, 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 has, among others, the following objectives:

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. The rules applicable in the Company in this scope do not restrict a possibility of participation in the Company governance bodies due to gender. Simultaneously, in fulfilment of the requirements specified in Section II p. 1 subsection 2a) of Good Practices, in the 4th quarter of 2013 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.

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 through:

Supervision over application of coherent accounting principles by the companies of TAURON Capital Group while generating the consolidated financial statements of TAURON Group

In order to provide for coherent accounting principles based on International Financial Reporting Standards (IFRS), approved by the European Union, in TAURON Capital Group *the Accounting Policy of TAURON Polska Energia S.A. TAURON Capital Group* has been developed and implemented. The document is subject to relevant amendments and updates in case of amendments to the regulations. The rules contained in the Accounting Policy are applicable to stand-alone 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. The annual financial statements of the Company as well as consolidated financial statements of TAURON Capital Group are additionally 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 and financial and accounting processes

Companies of TAURON Capital Group keep ledgers providing basis for the preparation of financial statements in the computer financial and accounting systems of ERP class. The consolidated financial statements are prepared using the IT tool designed for consolidation of financial statements.

In the companies of TAURON Capital Group IT and organizational solutions operate which control the access to financial-accounting systems and provide adequate protection and archiving of the ledgers. Access to IT systems if restricted by relevant authorisations for the entitled employees.

Companies of TAURON Capital Group use their own procedures regulating the financial and accounting processes. The Company is working on consolidation of the financial and accounting processes in TAURON Capital Group. Since 2013, gradual separation of accounting functions from individual companies of TAURON Capital Group has been performed, and their incorporation into one entity dealing with the financial and accounting service of TAURON Capital Group.

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 Group to 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 2013 the Company selected one entity authorised to examine and review financial statements for significant companies of TAURON Capital Group as well as the consolidated financial statement. The agreement with the entity authorised to examine financial statements was concluded for the examination of financial statements for years 2013–2015.

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 2013 and as of the day of the present report, directly or indirectly large blocks of shares of the Company.

Table no. 45 Shareholders holding large blocks of shares

No.	Shareholders	Number of shares held	Percentage share in company share capital	Number of votes held	Percentage share in general number of votes
1.	State Treasury*	526,848,384	30.06%	526,848,384	30.06%
2.	KGHM**	182,110,566	10.39%	182,110,566	10.39%
3.	ING Otwarty Fundusz Emerytalny***	88,742,929	5.06%	88,742,929	5.06%

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

5.5. Owners of securities providing special control rights

In the financial year 2013, 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, respectively, 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 the *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 property rights

As of 31 December 2013 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. 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.

The Extraordinary General Meeting of the Company held on 7 January 2014 adopted resolution on amending the Articles of Association of the Company aimed at updating the scope of activities and distribution of competence between the statutory corporate bodies of TAURON Polska Energia S.A., i.e. the Supervisory Board and the Management Board as well as the streamlining of the text of the Articles of Association and its adjustment to the current needs of the Company.

With its decision of 15 January 2014, the District Court Katowice-Wschód in Katowice, 8th Commercial Department of the National Court Register entered the aforementioned amendments to the Company Articles of Association to the register of entrepreneurs of the National Court Register.

In accordance with the Company Articles of Association, all issues which exceed the regular scope of Company activities require the resolution of the Management Board, in particular the following issues listed in the table below:

Table no. 46 Competence of the Management Board

No.	Issues requiring the Resolution of the Management Board	
	as of 31 December 2013	**as of the date of this report***
1.	Management Board bylaws,	Management Board bylaws,
2.	organizational regulations of the Company enterprise,	organizational regulations of the Company enterprise,
3.	establishment and liquidation of branches,	establishment and liquidation of branches,
4.	appointment of a proxy,	appointment of a proxy,
5.	raising credits and loans,	raising credits and loans,
6.	adopting the annual material and financial plans as well as long-term plans and Company strategy,	adopting the annual material and financial plans of the Company and the Capital Group, and the Corporate Strategy of the Capital Group,
7.	incurring contingent liabilities within the meaning of the *Accounting Act* of 29 September 1994, including granting guaranties and sureties by the Company as well as issuing bills of exchange, subject to § 20 item 2 p. 4 and 5 of the Company Articles of Association,	incurring contingent liabilities within the meaning of the *Accounting Act* of 29 September 1994, including granting guaranties and sureties by the Company as well as issuing bills of exchange, subject to § 20 item 2 p. 4 and 5 of the Company Articles of Association,
8.	making donations, redemption of interest or releasing from debt, subject to § 43 item 3 p.1 and 2 of the Company Articles of Association,	making donations, redemption of interest or releasing from debt, subject to § 43 item 3 p.1 and 2 of the Company Articles of Association,
9.	purchase of real property, perpetual usufruct of shares in property or in perpetual usufruct, subject to § 20 item 2 p. 1 of the Company Articles of Association,	purchase of real property, perpetual usufruct of shares in property or in perpetual usufruct, subject to § 20 item 2 p. 1 of the Company Articles of Association,
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 EUR 10,000 in PLN, subject to § 20 item 2 p. 2 of the Company Articles of Association,	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 EUR 10,000 in PLN, subject to § 20 item 2 p. 2 of the Company Articles of Association,
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 EUR 10,000 in PLN, subject to § 20 item 2 p. 3 of the Company Articles of Association,	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 EUR 10,000 in PLN, subject to § 20 item 2 p. 3 of the Company Articles of Association,
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 covered by the competence of the General Meetings or Shareholders' Meetings of these companies, subject to § 20 item 3 p. 9 of the Company Articles of Association,	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 covered by the competence of the General Meetings or Shareholders' Meetings of these companies, subject to § 20 item 3 p. 9 of the Company Articles of Association,
13.	rules of conducting sponsoring activity,	rules of conducting sponsoring activity,
14.	adoption of the annual plan of sponsoring activity,	adoption of the annual plan of sponsoring activity,
15.	issues, whose examination the Management Board refers to the Supervisory Board or the General Meeting.	issues, whose examination the Management Board refers to the Supervisory Board or the General Meeting.

** With its decision of 15 January 2014 the District Court Katowice-Wschód, 8th Commercial Department of the National Court Register entered the amendments to the Company Articles of Association, adopted by resolution No. 5 of the Company Extraordinary General Meeting of 7 January 2014, to the register of entrepreneurs of the National Court Register.*

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, subject to the following provisions:

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:
   - 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,

– 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 of 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 Extraordinary General Meeting of the Company held on 7 January 2014 adopted resolution on amending the Articles of Association of the Company aimed at updating the scope of activities and distribution of competence between the statutory corporate bodies of TAURON Polska Energia S.A., i.e. the Supervisory Board and the Management Board as well as the streamlining of the text of the Articles of Association and its adjustment to the current needs of the Company.

With its decision of 15 January 2014, the District Court Katowice-Wschód in Katowice, 8th Commercial Department of the National Court Register entered the aforementioned amendments to the Company Articles of Association to the register of entrepreneurs of the National Court Register.

In accordance with the Company Articles of Association, the tasks and competences of the Supervisory Board include, in particular the following issues listed in the table below:

Table no. 47 Competence of the Supervisory Board

No.	Issues requiring the Resolution of the Supervisory Board	
	as of 31 December 2013	**as of the date of this report***
	Opinion-making competence	
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,	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,	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,	submitting of a written report to the General Meeting on the results of operations covered by items 1 and 2,
4.	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,	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,
5.	giving opinions on long-term plans and strategies of the Company and Capital Group,	giving opinions on the Corporate Strategy of the Capital Group,
6.	giving opinions and approval of the rules of conducting sponsoring activity,	giving opinions and approval of the rules of conducting sponsoring activity,

No.	Issues requiring the Resolution of the Supervisory Board	
	as of 31 December 2013	as of the date of this report*
7.	giving opinions on the annual plan of conducting of the sponsoring activity as well as quarterly reports on its implementation,	giving opinions on the annual plan of conducting of the sponsoring activity as well as annual reports on its implementation,
	Decision-making competence	
1.	selecting of the chartered accountant to carry out the examination of the Company financial statement and consolidated financial statement of the Capital Group,	selecting of the chartered accountant to carry out the examination of the Company financial statement and consolidated financial statement of the Capital Group,
2.	determining the scope and deadlines of submitting of annual material and financial plans as well as long-term strategic plans, by the Management Board,	determining the scope and deadlines of submitting of annual material and financial plans as well as long-term strategic plans of the Company and the Capital Group, by the Management Board,
3.	adopting of consolidated text of the Company Articles of Association, prepared by the Company Management Board,	adopting of consolidated text of the Company Articles of Association, prepared by the Company Management Board,
4.	approving of the bylaws of the Company Management Board,	approving of the bylaws of the Company Management Board,
5.	approving of the organisational regulations of the Company enterprise.	approving of the organisational regulations of the Company enterprise.
6.	purchase of real property, perpetual usufruct or shares in property or in perpetual usufruct with the value exceeding the equivalent of EUR 5,000,000 in PLN,	purchase of real property, perpetual usufruct or shares in property or in perpetual usufruct with the value exceeding the equivalent of EUR 5,000,000 in PLN, excluding the real property, perpetual usufruct or shares in property or in perpetual usufruct, purchased from companies of the Capital Group,
7.	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,	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 and other components of fixed assets purchased from companies of the Capital Group, of the value equal to or exceeding the equivalent of 5,000,000 EUR in PLN,
8.	disposal 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,	disposal of the components of fixed assets including real property, perpetual usufruct or shares in property or in perpetual usufruct with the value exceeding the equivalent of EUR 5,000,000 in PLN, excluding the real property, perpetual usufruct or shares in property or in perpetual usufruct, and other components of fixed assets which, as a result of the disposal will be sold or encumbered to the benefit of companies of the Capital Group,
9.	incur contingent liabilities, including granting guarantees and sureties by the Company with the value exceeding the equivalent of 5,000,000 EUR in PLN,	incur contingent liabilities, including granting guarantees and sureties by the Company with the value exceeding the equivalent of 5,000,000 EUR in PLN,
10.	issuing bills of exchange of the value exceeding the equivalent of 5,000,000 EUR in PLN,	issuing bills of exchange of the value exceeding the equivalent of 5,000,000 EUR in PLN,
11.	advance payment on account of the expected dividend	advance payment on account of the expected dividend
12.	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,	taking over or purchase of stocks or shares in companies other than companies of the Capital Group, 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,
13.	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 in the amount not exceeding 10% interest in the share capital of particular companies.	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 in the amount not exceeding 10% interest in the share capital of particular companies. c) disposal of shares or stocks to the benefit of companies of the Capital Group,
14.	granting permission to establish Company branches abroad,	granting permission to establish Company branches abroad,
15.	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.	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.

No.	Issues requiring the Resolution of the Supervisory Board	
	as of 31 December 2013	**as of the date of this report***
	Competence of the Company Supervisory Board related to the Management Board	
1.	appointing and dismissing members of the Management Board,	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, subject to § 43 item 2 p.1 of the Company Articles of Association,	establishing the rules of remuneration and the amount of remuneration for the members of the Management Board, subject to § 43 item 2 p.1 of the Company Articles of Association,
3.	suspending members of the Management Board in performance of their duties, due to material reasons,	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,	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,	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,	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 the members of the Management Board to take positions in governing bodies of other companies,	granting permission to the members of the Management Board to take positions in governing bodies of other companies,
	Other competences of the Company Supervisory Board	
1.	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,	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,
2.	passing of bylaws describing in details the procedures of performance of the Supervisory Board,	passing of bylaws describing in details the procedures of performance of the Supervisory Board,

5.9. Description of the procedure of amendment of the Company Articles of Association

Amendments to the Company Articles of Association in accordance with the provisions of Ksh, in particular: amendments to the Company Articles of Association take place by means of resolution of the General Meeting, at the majority of two thirds of the votes, and then requires issuing a decision by a proper court on entering the change into the Register of Entrepreneurs. The 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.

In accordance with the Company Articles of Association, a material amendment to the subject of activities requires two thirds of votes under the presence of persons representing at least a half of the share capital.

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 which shall take place in the Company 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 thirteen days.

Competence of General Meeting

In accordance with the Company Articles of Association, the following issues require Resolutions of the General Meeting:

Table no. 48 Competence of the General Meeting

No.	Issues which require the resolution of the General Meeting
	as of 31 December 2013 and on the day of this report
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 rules of remuneration for the members of the Supervisory Board, subject to § 29 item e of the Company Articles of Association,
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 Code of Commercial Companies,
12.	compulsory redemption of shares in accordance with the stipulations of art. 418 of the 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

The table below presents the description of rights of the Company shareholders associated with the General Meeting, in accordance with the Company Articles of Association, Ksh and the *Regulations of the General Meeting of TAURON Polska Energia S.A.*

Table no. 49 Description of rights of the Company shareholders associated with the General Meeting

No.	Shareholder rights	Description of Shareholder rights
1.	Convening of the General Meeting	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. 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 and appoint the Chairperson of this Meeting.

No.	Shareholder rights	Description of Shareholder rights
2.	Including issues on the agenda of the General Meeting	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 in electronic form to the Company e-mail address, or in writing to the Company address.
3.	Becoming acquainted with the list of shareholders	The shareholder may become acquainted with the Shareholders' list in the Company's Management Board seat during 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.
4.	Participation in the General Meeting	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.
5.	Representing the shareholder by a proxy	The shareholder may take part in the General Meeting as well as perform the voting right personally 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.
6.	Election of the Chairperson of the General Meeting	Shareholders select the Chairperson 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 candidate to the post of the Chairperson. 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.
7.	Appointment of the Returning Committee	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.
8.	Submission of draft resolution	Until closing the discussion on a certain point of the agenda of the General Meeting shareholders shall be authorised 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 draft of the resolution may be submitted to the Chairperson or orally or in writing to the minutes of the meeting.
9.	Raising objections	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 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 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 2013 to 31 December 2013

1. Dariusz Lubera – President of the Management Board, responsible for the Division of the President of the Management Board
2. Joanna Schmid – Vice-President of the Board responsible for the Division of the Vice-President of the Board for Strategy and Business Development,
3. Dariusz Stolarczyk – Vice-President of the Board responsible for the Division of the Vice-President of the Board for Corporate Matters,
4. Krzysztof Zawadzki – Vice-President of the Board responsible for the Division of the Vice-President of the Board for Economic and Financial Matters.

Changes in the Management Board composition:

In the financial year no changes in the composition of the Management Board were performed.

Personal composition of the Supervisory Board as of the day of this report:

1. Dariusz Lubera – President of the Management Board, responsible for the Division of the President of the Management Board
2. Joanna Schmid – Vice-President of the Board responsible for the Division of the Vice-President of the Board for Strategy and Business Development,
3. Dariusz Stolarczyk – Vice-President of the Board responsible for the Division of the Vice-President of the Board for Corporate Matters,
4. Krzysztof Zawadzki – Vice-President of the Board responsible for the Division of the Vice-President of the Board for Economic and Financial Matters.
5. Aleksander Grad – Member of the Supervisory Board delegated for temporary performance of activities of then Vice-President of the Board responsible for the Division of the Vice-President of the Board for Corporate Matters.

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 Kraków.

Acting as the President of the Management Board of TAURON Polska Energia S.A. since 8 March 2008. Currently supervises performance of the following business units: corporate bodies, legal department, HR, internal audit, market communication and PR, risk management, Health & Safety Issues and Protection of Classified Information.

Joanna Schmid – Vice-President of the Board

Background: law and finance Graduate of the Law Faculty of the Silesian Univeristy in Katowice. Graduated from many post-graduate colleges, among others, 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 Board

Graduate of the Electric Faculty of the Technical University of Wrocław, speciality: industrial power engineering and the MBA studies at the University of Economica 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: trade, sales and customer service, market operator and commercial service.

Krzysztof Zawadzki – Vice-President of the Board

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, portfolio management, fuels.

Aleksander Grad – Member of the Supervisory Board delegated for temporary performance of activities of the Vice-President of the Management Board

Graduate of Industrial Surveying Faculty at AGH Academy of Science and Technology in Kraków. Acted as the Undersecretary of State at the Ministry of Health and the Minister of Treasury. Member of Parliament of the 4th, 5th, 6th and 7th tenure. Among others, acted in the capacity of the Vice Chairman of the European Union Commission, Vice Chairman and Chairman of the Commission on State Treasury.

Delegated for temporary performance of the activities of the Vice President of the Management Board of the Company in the period from 11 February 2014 to 11 May 2014.

Currently supervises operations of the following business units: procurement, corporate management and reorganisation.

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 for the period from 1 January 2013 to 31 December 2013

1. Antoni Tajduś – Chairman of the Supervisory Board,
2. Rafał Wardziński – Deputy 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.

In the financial year 2013 no changes in the composition of the Supervisory Board were performed.

Changes in the personal composition of the Supervisory Board after 31 December 2013

On 7 January 2014 the Extraordinary General Meeting of the Company adopted resolution no. 7 on appointment of Mr. Aleksander Grad as a member of the Supervisory Board of the Company of the third term as of 1 February 2014.

The Company informed of this event in the current report No. 3/2014 of 07 January 2014.

On 22 January 2014 the State Treasury, acting pursuant to its personal authority specified in § 23 item 1 p. 3 of the Company Articles of Association, dismissed Mr. Rafał Wardziński who acted as the Deputy Chairman of the Supervisory Board, from the Supervisory Board of TAURON.

The Company informed of this event in the current report No. 8/2014 of 22 January 2014.

On 22 January 2014 the State Treasury, acting pursuant to its personal authority specified in § 23 item 1 p. 3 of the Company Articles of Association, appointed Ms Agnieszka Woś as a Member of the Supervisory Board, who was appointed as the Deputy Chairman of the Supervisory Board by the Supervisory Board on 10 February 2014.

The Company informed of this event in the current report No. 9/2014 of 22 January 2014.

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

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

Personal composition of the Supervisory Board as of the day of this report:

1. Antoni Tajduś – Chairman of the Supervisory Board,
2. Agnieszka Trzaskalska – Deputy Chairman of the Supervisory Board,
3. Leszek Koziorowski – Secretary of the Supervisory Board,
4. Aleksander Grad – Member of the Supervisory Board delegated for temporary performance of activities Vice-Presidents of the Management Board,
5. Jacek Kuciński – Member of the Supervisory Board,
6. Marcin Majeranowski – Member of the Supervisory Board,
7. Jacek Szyke – Member of the Supervisory Board,
8. Marek Ściążko – Member of the Supervisory Board,
9. 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). In the years 2005–2012 acted in the capacity of the rector of the AGH Academy of Science and Technology in Kraków.

Appointed to the Supervisory Board of TAURON Polska Energia S.A. as of 31 January 2008. Currently acting in the capacity of the Chairman of the Supervisory Board and the Chairman of the Committee on Nominations and Remunerations.

Agnieszka Trzaskalska – Deputy Chairman of the Supervisory Board,

Graduate of the College of Information Technology and Management in Rzeszów (specialisation: accounting and finance) and the University of Economics in Kraków (specialisation: performance and development of enterprises). Obtained a title of doctor of economic sciences in 2010 in the scope of management sciences, at the University of Economics in Kraków.

Appointed to the Supervisory Board of TAURON Polska Energia S.A. as of 22 January 2014. Currently acting in the capacity of the Deputy Chairman of the Supervisory Board.

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.

Aleksander Grad – Member of the Supervisory Board

Graduate of Industrial Surveying Faculty at AGH Academy of Science and Technology in Kraków Acted as the Undersecretary of State at the Ministry of Health and the Minister of Treasury. Member of Parliament of the 4th, 5th, 6th and 7th tenure. Among others, acted in the capacity of the Vice Chairman of the European Union Commission, Vice Chairman and Chairman of the Commission on State Treasury.

Appointed to the Supervisory Board of TAURON Polska Energia S.A. as of 01 February 2014.

Delegated for temporary performance of the activities of the Vice President of the Management Board of the Company in the period from 11 February 2014 to 11 May 2014.

During the period of the assignment, the function of the Member of the Supervisory Board was suspended, with simultaneous suspension of rights and obligations arising from the membership in the Supervisory Board.

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, PhD title obtained at the same university.

Moreover, Mr Marek Ściążko holds the title of Doctor of Sciences and a University Professor.

Appointed to the Supervisory Board of TAURON Polska Energia S.A. as of 31 January 2008. Within the Supervisory Board he also acts as a member of Strategy Committee and Committee on Nominations and Remunerations.

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 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 Act of 15 September 2000, *Code of Commercial Companies*, 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/

The main form of performing supervision by the Supervisory Board over the Company's operations are 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 Board. Passing resolutions in this mode does not apply to the appointing the Chairperson, the Deputy 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. In 2013 the Audit Committee operated with four members.

Personal composition of the Audit Committee as of 31 December 2013 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,

On 16 January 2013 Members of the Audit Committee appointed Marcin Majeranowski as the Chairman of the Audit Committee.

In 2013 no changes in the composition of the Audit Committee were performed.

The table below presents the tasks and competences of the Audit Committee as of 31 December 2013 and on the day of this report.

Table no. 50 Competence of the Audit Committee

No.	Issues which require the resolution of the Audit Committee
	as of 31 December 2013 and on the day of this report
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.

The detailed description of activities of the Audit Committee in the previous financial year is contained in the Report on Activities of the Audit Committee, attached to 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/.

5.11.4. Nominations and Remuneration Committee

The Nominations and Remuneration Committee was established on 27 August 2010 by the Supervisory Committee among its members. As of 1 January 2013 the Nominations and Remuneration Committee operated with three members.

Personal composition of the Nominations and Remuneration Committee as of 01 January 2013

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.

Changes in the personal composition of The Nominations and Remuneration Committee

During its meeting on 13 March 2013 the Supervisory Board appointed Marek Ściążko as a Member of the Nominations and Remunerations Committee.

Personal composition of the Nominations and Remuneration Committee as of 31 December 2013 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. Marek Ściążko – Member of The Nominations and Remuneration Committee
4. Agnieszka Trzaskalska – Member of The Nominations and Remuneration Committee.

The table below presents the tasks and competences of the Nominations and Remunerations Committee as of 31 December 2013 and on the day of this report.

Table no. 51 Nominations and Remuneration Committee

No.	Issues which require the resolution of the Nominations and Remunerations Committee
	as of 31 December 2013 and on the day of this report
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,

No.	Issues which require the resolution of the Nominations and Remunerations Committee
	as of 31 December 2013 and on the day of this report
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.

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 Audit Committee was appointed on 8 May 2012 by the Supervisory Board among its members. In 2013, the Strategy Committee operated with five members.

Personal composition of the Strategy Committee for the period from 1 January 2013 to 31 December 2013

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

In the financial year 2013 no changes in the composition of the Strategy Committee were performed.

Changes in the personal composition of the Strategy Committee after 31 December 2013

Due to the dismissal of Rafał Wardziński from the Supervisory Board by the State Treasury, the composition of the Strategy Committee was decreased to four persons.

Personal composition of the Strategy Committee as of 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

The table below presents the tasks and competences of the Strategy Committee as of 31 December 2013 and on the day of this report.

Table no. 52 Competence of the Strategy Committee

No.	Issues which require the resolution of the Strategy Committee
	as of 31 December 2013 and on the day of this report
1.	assessment of the Corporate Strategy 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 detailed description of activities of the Strategy Committee in the previous financial year is contained in the Report on Activities of the Strategy Committee, attached to 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/.

5.11.6. Description of activities of the Committees of the Supervisory Board

A detailed description of the activities of the Supervisory Board is included in the Regulations of individual Committees of the Supervisory Board of TAURON Polska Energia S.A.

The Committees of the Supervisory Board are advisory and opinion-making bodies acting jointly as a part of the Supervisory Board and perform support and advisory functions towards the Supervisory Board. The tasks of the Committees of the Supervisory Board are carried out by submitting motions, recommendations, opinions and statements on the scope of its tasks to the Supervisory Board, by means of resolutions. The Committees of the Supervisory Board are independent of the Management Board of the Company. The Management Board may not issue binding orders to the Committees of the Supervisory Board concerning performing their duties.

The Committees of the Supervisory Board consist of three to five members. The activities of the individual Committees are managed by their Chairpersons.

Meetings of the Committees are convened by the Chairperson of the specific Committee on his/her own initiative or upon the motion of a member of the Committee or Chairperson of the Supervisory Board and they are held as needed. In case of the Audit Committee the meetings are convened at least on a quarterly basis. The Chairpersons of the Committees may invite members of the Supervisory Board, who are not members of the specific Committee, members of the Management Board and employees of the Company as well as other persons working or cooperating with the Company to the meetings of the Committees. The Chairperson of the specific Committee or a person appointed by him/her submits motions, recommendations and reports to the Supervisory Board.

The Committees of the Supervisory Board pass resolutions if at least a half of their members were present at the meeting and all their members have been duly invited. The resolutions of the Committees of the Supervisory Board 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 Committees of the Supervisory Board may pass resolutions in writing or by using means of direct remote communication.

The members of the Committees of the Supervisory Board may participate in meetings and 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 Committees of the Supervisory Board. Every year, the Committees of the Supervisory Board provide 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 addition, 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 Company Management Board provides the possibility to use the services of external advisers by the Committees in the scope required for performing the obligations of the specific Committee.

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 2013 amounted to PLN 7,713 thousand. As the total amount of remuneration paid or due and awards for 2013, the gross value of remuneration paid or due for the period from January to December 2013 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.

The table below presents the remuneration of members of the Company Management Board for 2013, divided into components.

Table no. 53 Remuneration of members of the Company Management Board for 2013, divided into components (data in thousand PLN)

No.	Surname and name	Period of holding the position in 2013	Remuneration*	Bonus*	Other benefits*	Total
1.	Dariusz Lubera	from 01 January 2013 to 31 December 2013	1,190	525	204	**1,919**
2.	Joanna Schmid	from 01 January 2013 to 31 December 2013	900	428	135	**1,463**
3.	Dariusz Stolarczyk	from 01 January 2013 to 31 December 2013	1,076	495	194	**1,765**
5.	Krzysztof Zawadzki	from 01 January 2013 to 31 December 2013	1,080	495	150	**1,725**
	Total		**4,246**	**1,943**	**683**	**6,872**

** No overheads.*

In addition, in 2013 the due remuneration in the amount of PLN 241 thousand was paid to Krzysztof Zamasz due to the right to the annual bonus and other employee benefits. Krzysztof Zamasz acted as the Vice-President of the Management Board of the Company in 2012 and resigned on 31 December 2012.

Remuneration of key supervising personnel

The model of remuneration of the Supervisory Board members consists in single component, fixed part.

The table below presents the remuneration of members of the Company Supervisory Board Members for 2013.

Table no. 54 Remuneration of members of the Supervisory Board for 2013 (data in thousand PLN)

No.	Surname and name	Period of holding the position in 2013	Remuneration and awards	Other benefits	Total
1.	Antoni Tajduś	from 01 January 2013 to 31 December 2013	144	0	**144**
2.	Rafał Wardziński	from 01 January 2013 to 31 December 2013	132	0	**132**
3.	Leszek Koziorowski	from 01 January 2013 to 31 December 2013	120	0	**120**
4.	Jacek Kuciński	from 01 January 2013 to 31 December 2013	108	0	**108**
5.	Marcin Majeranowski	from 01 January 2013 to 31 December 2013	108	0	**108**
6.	Marek Ściążko	from 01 January 2013 to 31 December 2013	108	0	**108**
7.	Jacek Szyke	from 01 January 2013 to 31 December 2013	108	0	**108**
8.	Agnieszka Trzaskalska	from 01 January 2013 to 31 December 2013	108	0	**108**
	Total		**936**	**0**	**936**

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 2013 the Company continued the works carried out 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 sp. z o.o. (CC Poland Plus) in which the Company is one of the shareholders.

In 2013 representatives of the Company were involved in the activities of KIC InnoEnergy, associated with the evaluation of projects/initiatives proposed for implementation by other partners acting within KIC InnoEnergy structures.

In 2013 activities were also continued in the Company, associated with the research tasks implemented under the strategic programme of research and development entitled “Advanced Technologies of Acquisition of Energy”, co-financed by the NCBiR. The Company, as the member of two winning consortia, 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). Within implementation of the first task, activities are continued aimed at using the mobile pilot installation for CO_2 capturing constructed in the previous year. In 2013 the installation was transported and installed at 200 MW unit of Elektrownia Łaziska. The scientific partner of the project Instytut Chemicznej Przeróbki Węgla (Institute of Chemical Coal Processing) conducted a series of tests at the installation. Currently the installation is waiting to be transported and installed in Elektrownia Jaworzno III – Elektrownia II.

In the Company, activities initiated in 2012 were also continued, resulting from the HTRPL Consortium Agreement signed on the High Temperature Nuclear Reactor in Poland. The participation of the Company is associated with the implementation of the stage called: the Analysis of the experience of the energy operator in application of cogeneration systems from the perspective of potential implementation of the technology of high temperature reactors, under the research project on 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.

In order to improve the coordination of the research and development activities in TAURON Capital Group, in 2013 in the Company, a new business unit was established in the Department of Regulation and External Funds, namely, the Research and Development Office, which will coordinate, among others, the activity in the scope of research and development works in TAURON Capital Group, including the use of new technologies and it will conduct the cooperation with universities and research and development centres in the country and abroad.

In accordance with the assumptions, the change in the organisational structure of the Company will be reflected in better adjustment of the research and development programmes conducted to the challenges TAURON Capital Group has to face, contributing to reduction on own R&D expenditure incurred, due to the effective use of the external funds, simultaneously benefiting from the support of the best specialists employed at universities and in research institutes and the industrial partners from Poland and abroad.

6.3. Issues concerning natural environment

The most important actions in the area of environmental protection

The most important actions in the area of environmental protection conducted in TAURON Capital Group in 2013 included:

1) construction of the flue gas denitrification installation at 200 MW units in Elektrownia Łaziska and Elektrownia Jaworzno III: in 2013 installations at units no. 10 and 11 in Elektrownia Łaziska and units no. 4 and 6 in Elektrownia Jaworzno III have been completed, works are continued for other units,
2) decommissioning of old generation units in ZEC Bielsko-Biała EC I and simultaneous commissioning of a new, low emission and high-performance unit of 50 MW capacity,

3) acquiring the concession for production of electric energy in RES in Elektrownia Jaworzno III, Stalowa Wola and Zakład Wytwarzania Tychy; due to the completed investments in biomass blocks, TAURON Capital Group has three biomass renewable energy sources of the total installed capacity of 110 MW.

4) modernisation of hydroelectric plants, aimed, among others, at mitigation od the hazard of environmental contamination with oils.

Companies of TAURON Capital Group conduct the responsible environmental protection policy and apply due diligence to ensure that the implemented investments are compliant with the requirements and consider the technological developments in the area of environmental protection.

Fees for economic use of the natural environment

In 2013 Companies of TAURON Capital Group incurred costs of fees due to economic use of the environment at the total amount of approximately PLN 63,364.8 thousand.

The table below presents the level of fees for economic use of the environment due in 2013 in individual companies

Table no. 55 The level of fees for economic use of the environment due in 2013

No.	Company name	Fees due to economic use of the environment in 2013 (in thousand PLN)
1.	TAURON Wytwarzanie	41,968.6
2.	TAURON Wydobycie	15,123.6
3.	TAURON Dystrybucja	116.2
4.	TAURON Ciepło	6,084.5
5.	KW Czatkowice	70.9
6.	TAURON EKOENERGIA	1.0
	Total	**63,364.8**

Criminal sanctions for infringement of requirements in the area of environmental protection

On 23 September 2013 the Decision of WIOŚ in Katowice was obtained imposing a fine for exceeding the permissible standard of dust emission in ZW Nowa. The fine amounted to PLN 1,902,788.60. A motion to WIOŚ was submitted for postponing the term of payment, justified by the measures undertaken to remedy the reasons underlying the fine imposed. On 18 November 2013 the Decision of the Silesian Regional Environmental Protection Inspector was received adjudicating the postponing of the payment of the aforementioned fine until 30 June 2014.

6.4. Policy on Corporate Social Responsibility (CSR)

In 2011, in acknowledgement that communication of CSR actions is particularly important in case of companies listed at stock exchange, 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 Group". Accordingly, in 2012 the *Strategy of Corporate Social Responsibility, i.e. the Strategy of Sustainable Development of TAURON Group for 20122015, with estimates up to the year 2020* was developed.

The strategic objectives defined by the Corporate Strategy and the 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 2013 the first report on sustainable development was issued, in which the obligations of TAURON Capital Group arising from the sustainable development strategy were presented as well as the data summarising year 2012. The report was verified by the independent external auditor. The Company was also audited in connection with joining the RESPECT Index – the index comprising companies listed at the stock exchange, operating in accordance with the rules of sustainable development. TAURON Polska Energia was included in the group of companies listed in the RESPECT Index within the 7th issue of the project (from December 2013).

One of the directions of the strategy of sustainable development is the management of the economic and social effects. The resulting goals are implemented, among others, through the activities of TAURON Foundation which allows for even more effective implementation of CSR actions within the area of care for safety of local communities and actions for public benefit.

In 2013 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, aimed at improvement of the living conditions of children from orphanages. The action covered all the facilities within the area of operations of TAURON Capital Group. The project attracted substantial interest, with 87 establishments looking after almost 3,000 children participating. In 2013 the Foundation also continued the project "Heroes day by day", the aim of which is to build awareness of potential donors of bone marrow and increase the number of potential donors. The volunteers of TAURON Foundation organised several information actions and days of bone marrow donor in companies of TAURON Capital Group, and during the events sponsored by TAURON, as a result of which over 2,300 potential bone marrow donors were registered.

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 the 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. Among others, TAURON 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 its summer and winter edition. Activities of companies of TAURON Capital Group are also worth noticing. In 2013 the campaign "TAURON Fuses" was continued. The part of the action implemented by TAURON Sprzedaż focused on raising awareness of clients on the energy market, in particular, in order to protect against practices of unfair sellers. On the other hand, a part of the project related to education of children and teenagers was conducted by TAURON Dystrybucja, teaching the rules of safe electric energy use.

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. In 2013 the Company also joined a group of signatories of the "Business declaration for the sustainable development", consequently undertaking to be involved in the implementation of strategic goals of the "Vision of sustainable development for the Polish business 2050".

6.5. Awards and distinctions

March 2013

"TAURON Group" was awarded with Forbes Diamonds in the annual ranking distinguishing the activities of the best companies. The website of the Company was also awarded, recognised as the best website in the Province of Silesia, winning the e-Diamonds Forbes & Biznes.pl 2013. ranking. The Company TAURON Dystrybucja, during the Forbes Diamonds gala 2013 received the first award in the category of enterprises of revenue exceeding 250 million PLN in Małopolska Region.

April, 2013

The Company was ranked first among companies starting their participation in the ranking of socially responsible companies, published by Dziennik Gazeta Prawna daily. In the general classification the company was ranked 23rd and in the fuel and energy sector – it was ranked 4th.

May, 2013

The Company took the 6th place on the "Polityka" List of 500, maintaining its position reached last year, and among the most profitable enterprises it was promoted by one position – to the fifth place. "TAURON Group" was also ranked 13 in the ranking of twenty leaders organised for the 20th Anniversary of the List of 500. In the 15th edition of "Rzeczpospolita" List of 500, the Company occupied the seventh position, like a year ago. The same place was reached in the ranking of companies which were the best in improving their net result, accompanying the List of 500. "TAURON Group" was also recognised as the 5th biggest investor and 9th biggest employer in Poland.

June, 2013

TAURON Wytwarzanie was the winner of the Team Award under the Silesian Quality Award, granted by the Regional Economic Chamber in Katowice in the category of Huge production organisations. The jury of the competition appreciated the cooperation of the company with scientific and research circles all over the country and the environmentally friendly investments. TAURON Ekoenergia received a distinction Pillars of the Polish Economy by "Puls

Biznesu" daily, as one of the five most significant enterprises in Lower Silesia. The Jury has taken into account the scale of activities of the enterprises and their importance for the local community.

September, 2013

The Company was promoted by one place – to the 17th position in the List of 500 biggest companies of Central and Eastern Europe, prepared by "Rzeczpospolita" and Deloitte. The Company was also included among TOP25 biggest listed companies.

October, 2013

The Company received the main award from the jury of the competition "*The Best Annual Report*" organised by the Institute of Accounting and Taxes, the second main award in the category of enterprises for the annual report for 2012 and two distinctions: for the best utilitarian value of the annual report and for the best Report of the Management Board on the activity of TAURON Capital Group.

November, 2013

In the 3rd edition of Stanisław Staszic competition for the best innovative products, the Company received the "Laurel of Innovativeness 2013" granted by the Chief Technical Organisation. One of the flagship projects taken into account were the pilot CCS installations operating in TAURON Capital Group, for carbon dioxide capturing from flue gas.

December 2013

The report on sustainable development of TAURON Capital Group received the award of Internet Users in the 7th edition of the competition on Social Reports, organised by the Forum of Responsible Business. The report contains the review of practices and projects addressed, among others to clients and local communities, implemented both by companies of TAURON Group and the TAURON Foundation.

6.6. Investor relations

Since the beginning of its stock exchange listing, the motto of the Company is the effective and transparent information policy. Therefore, TAURON Capital Group pays special attention to communication with the investor environment. It is conducted not only at the level obligatory activities required by law (current and periodical reports) but also through many additional activities addressed directly to institutional and individual investors. The Company organises itself or participates in many investor conferences, road shows in Poland and abroad, where the participants of the capital market may get acquainted with the situation of TAURON Capital Group and the condition of the energy sector and its perspectives.

Each publication of periodical reports in 2013 was combined with organisation of conferences for analysts and managers, during which members of the Company Management Board discussed financial results published in the reports and presented key achievements in the reported periods, followed by question and answer sessions. The conferences were broadcast on Internet in Polish and in English and it was possible to listen to them by phone. Owing to these activities, investors interested in the Company had a possibility to follow these events directly and acquire information at the same time as the participants of the conferences.

In 2013 the Members of the Management Board of the Company participated in eight conferences and road shows during which about 100 meetings were held with over 120 managers and analysts. Meetings with corporate investors were held not only in Poland but also in the financial centres of Europe and North America, among others, in New York, London, Paris and Vienna.

In May 2013, the company organised the second edition of the event addressed to participants of capital market – the Day of Analyst and Institutional Investor. On that day, the invited guests had a possibility to meet the Management Board and the management staff of TAURON and participate in the presentation session covering three main issues:

1) directions of changes in the electric energy markets in Poland and in the European Union,
2) approach to forecasting in energy sector,
3) project on construction of the coal-fired unit of 910 MW capacity in Elektrownia Jaworzno III.

In 2013 the Company also continued its actions addressed to other, extremely important group of shareholders – individual investors. For many years TAURON has been 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 meetings with individual investors, during which they delivered presentations and answered investors' questions concerning the operations of TAURON Capital Group.

The company has also focused on promotion of the "Civic Shareholding" initiative during conferences and events in which the Company participated. TAURON also participated in the production of an educational film "Anything you would like to know about exchange" and conducted the image-building and advertising actions on its corporate website and within the "Polska Energia" [Polish Energy] magazine published by TAURON Polska Energia.

The Company also participated in other events addressed to small investors, among others, it was a partner of "Capital Market Games" and supported the conference for individual investors "WallStreet" in Karpacz.

TAURON cares for the content and validity of the information placed on the website related to investor relations which is the first contact with TAURON Capital Group for many investors. The Investor Relation section is updated on an on-going basis and contains a lot of useful information of important events, financial results, general meetings, recommendations for the Company shares issued by stock exchange analysts and video broadcasts summarising the financial results.

The following table presents the timeline of events and activities carried out within investor relations which took place in 2013.

Table no. 56 The timeline of events and activities carried out within investor relations in 2013

No.	Date	Event
1.	21 January 2013	Participation in the conference organised by Citi/DM Banku Handlowego
2.	15 March 2013	Publication of the stand-alone and consolidated annual report for 2012
3.	15 March 2013	Meeting of the Management Board with analysts managing funds, connected with the publication of the financial results for 2012
4.	5 April 2013	Participation in KBC conference in Warsaw
5.	9 April 2013	Participation in DM PKO BP conference in Warsaw
6.	11 April 2013	Publication of recommendations of the Management Board concerning the payment of the dividend for 2012
7.	from 11 April 2013 to 12 April 2013	Participation in the conference organised by Raiffeisen Institutional Investors' Conference, Zürs, Austria
8.	16 May 2013	Ordinary General Meeting of TAURON Polska Energia S.A.
9.	9 May 2013	Publication of the extended consolidated report for the 1st quarter 2013
10.	9 May 2013	Meeting of the Management Board with analysts managing funds, connected with the publication of the financial results for Q1 2013
11.	3 June 2013	Day of dividend for 2012
12.	18 June 2013	Day of payment of dividend for 2012
13.	18 June 2013	Participation in the conference of UniCredit/Kepler Cheuvreux Polish Day in Paris
14.	24 June 2013	Day of Analyst and Individual Investor at TAURON Polska Energia
15.	22 August 2013	Publication of the consolidated report for the 1st half of 2013
16.	22 August 2013	Meeting of the Management Board with analysts managing funds, connected with the publication of the financial results for the 1st half of 2013
17.	9 September 2013	Meetings of the Management Board with investors in DM PKO BP
18.	from 16 September 2013 to 17 September 2013	Participation in the conference: 10th Annual Emerging Europe Investment Conference UniCredit/Kepler Cheuvreux, Warsaw
19.	28 October 2013	Roadshow with DI BRE, Vienna
20.	14 November 2013	Publication of the extended consolidated report for the 3rd quarter 2013
21.	14 November 2013	Meeting of the Management Board with analysts managing funds, connected with the publication of the financial results for the 3rd quarter of 2013
22.	from 3 December 2013 to 5 December 2013	Participation in the conference organised by UBS, Global Emerging Markets, New York

Management Board of the Company

Katowice, 10 March 2014

Dariusz Lubera	– President of the Board	....
Aleksander Grad	– Vice-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	....

Appendix 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. 57 Explanation of abbreviations and trade terms applied in the text of the report

No.	Abbreviation and trade term	Full name/explanation
1.	ARE	Agency of Energy Market (Agencja Rynku Energii S.A.) with the seat in Warsaw
2.	Bank PKO	Bank Polska Kasa Opieki S.A. with the seat in Warsaw
3.	BELS INVESTMENT	BELS INVESTMENT sp. z o.o. with its seat in Jelenia Góra
4.	BGK	Bank Gospodarstwa Krajowego with the seat in Warsaw
5.	BH Warszawa	Bankiem Handlowym w Warszawie S.A. with the seat in Warsaw
6.	BNP Paribas BP	BNP Paribas Bank Polska S.A. with the seat in Warsaw
7.	BondSpot	BondSpot S.A. with the seat in Warsaw
8.	BRE Bank	BRE Bank S.A. with the seat in Warsaw
9.	BUDO - TRANS	“BUDO - Trans” – spółka z ograniczoną odpowiedzialnością with the seat in Stalowa Wola
10.	BZ WBK	Bank Zachodni WBK S.A. with the seat in Wrocław
11.	CAO	Central Allocation Office GmbH with the seat in Freising, Germany
12.	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.
13.	CC Poland Plus	CC Poland Plus sp. z o.o. with the seat in Kraków
14.	CER	(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
15.	Colour certificates	property rights resulting from certificates of origin of energy generated in the way subject to support, the so-called colour 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 cogeneration from sources of total installed capacity below 1 MW or gas-burning, **violet** – certificates of origin of electric energy generated in cogeneration, 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.
16.	CSR	(Corporate Social Responsibility) social responsibility of business
17.	Deloitte	Deloitte Polska Sp. z o. o. Spółka Komandytowa with its seat in Warsaw
18.	Good Practices	Good Practices of Companies Listed at GPW
19.	EIB	Electronic Information Base
20.	EBIT	(Earnings Before Interest and Taxes) result on operating activity before taxing
21.	EBITDA	(Earnings before Interest, Taxes, Depreciation and Amortization) result on operating activity before taxing, increased by amortization and depreciation
22.	EC Kamienna Góra	Energetyka Cieplna w Kamiennej Górze sp. z o.o. with the seat in Kamienna Góra (currently: TAURON Ciepło)
23.	EC Nowa	Elektrociepłownia EC Nowa sp. z o.o. with the seat in Dąbrowa Górnicza (currently: TAURON Ciepło)
24.	EC Stalowa Wola	Elektrociepłownia Stalowa Wola S.A. with the seat in Stalowa Wola
25.	EC Tychy	Elektrociepłownia Tychy S.A. with the seat in Tychy (currently: TAURON Ciepło)
26.	EDF	EDF Polska Centrala sp. z o.o. with the seat in Warsaw
27.	EEX	(European Energy Exchange) European Energy Exchange with the seat in Leipzig
28.	Elektrobudowa	Elektrobudową S.A. with the seat in Katowice
29.	Elektrownia Blachownia Nowa	Elektrownia Blachownia Nowa sp. z o.o. with its seat in Kędzierzyn Koźle

No.	Abbreviation and trade term	Full name/explanation
30.	ENEA	ENEA S.A. with the seat in Poznań
31.	ENERGA	ENERGA S.A. with the seat in Gdańsk
32.	EnergiaPro	EnergiaPro S.A. with the seat in Wrocław (currently: TAURON Dystrybucja)
33.	(Enpower service)	Enpower Service sp. z o.o. with the seat in Katowice
34.	ENION	ENION S.A. with the seat in Kraków (currently: TAURON Dystrybucja)
35.	EPEX	Epex Spot SE with the seat in Paris
36.	ERM	Complex System of Enterprise Risk Management
37.	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
38.	ESW	Elektrownia Stalowa Wola S.A. with its seat in Stalowa Wola (currently: TAURON Wytwarzanie)
39.	EU ETS	(European Union Emission Trading System) the European system of CO_2 emission allowances
40.	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).
41.	EUR	Euro – a common European currency introduced in some EU Member States
42.	FITCH	rating agency
43.	GDF Suez	GDF SUEZ Energia Polska S.A. with its seat in Połaniec
44.	GPW	Warsaw Stock Exchange (Giełda Papierów Wartościowych w Warszawie S.A.) with the seat in Warsaw
45.	TAURON Capital Group	TAURON Polska Energia S.A. Capital Group
46.	“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.
47.	GUS	Central Statistical Office (Główny Urząd Statystyczny)
48.	GZE	Górnośląski Zakład Elektroenergetyczny S.A. with the seat in Gliwice
49.	Huta	Huta Łaziska S.A. with the seat in Łaziska Górne
50.	ICHPW	Instytut Chemicznej Przeróbki Węgla with the seat in Zabrze
51.	ING Bank Śląski	ING Bank Śląski S.A. with the seat in Katowice
52.	IRGIT	Izba Rozliczeniowa Giełd Towarowych S.A. (Warsaw Commodity Clearing House) with the seat in Warsaw
53.	IRiESP	Instructions of transmission grid operation and maintenance
54.	KDPW	Krajowym Depozyt Papierów Wartościowych S.A. with the seat in Warsaw
55.	LTC	Long-term contracts – long-term contracts on sales of power and electric energy, listed in the Appendix no. w 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).
56.	KGHM	KGHM Polska Miedź S.A. with the seat in Lubin
57.	Code	The document entitled *Code of TAURON Group*, adopted by the Management Board of TAURON Polska Energia S.A.
58.	Audit Committee	Audit Committee of the Supervisory Board of TAURON Polska Energia S.A.
59.	Nominations and Remuneration Committee	Nominations and Remuneration Committee of the Supervisory Board of TAURON Polska Energia S.A.
60.	Strategy Committee	Strategy Committee of the Supervisory Board of TAURON Polska Energia S.A.
61.	Kompania Węglowa	Kompania Węglowa S.A. with the seat in Katowice
62.	KPI/KRI	List of risk indicators
63.	KSE	National Power System
64.	KR	Risk Committee
65.	KW Czatkowice	Kopalnia Wapienia Czatkowice sp. z o.o. with the seat in Krzeszowice
66.	KZR	Risk Management Coordinators
67.	Lipniki	Lipniki sp. z o.o. with the seat in Wrocław
68.	MEGAWAT MARSZEWO	MEGAWAT MARSZEWO sp. z o.o. with the seat in Jelenia Góra
69.	Mg	Megagram – Million gram (1,000,000 g) i.e. 1 t
70.	IFRS	International Financial Reporting Standards
71.	MOSTOSTAL	Mostostal Warszawa S.A. with the seat in Warsaw

No.	Abbreviation and trade term	Full name/explanation
72.	NSA	Chief Administrative Court
73.	NCBiR	National Centre for Research and Development
74.	NFOŚiGW	National Fund of Environmental Protection and Water Management with the seat in Warsaw
75.	Nordea Bank Polska	Nordea Bank Polska S.A. with its seat in Gdynia
76.	Business Area	Area of operations of subsidiaries included in TAURON Group, determined by the Company, constituting the business segment of TAURON Group
77.	Governance Area	Governance Area indicated in the List of Governance Areas, i.e. the document issued by the Management Board of the Company, pursuant to the Code, established based on Corporate Strategy and included in the business model of TAURON Group
78.	DSO	Distribution System Operator
79.	TSO	Transmission System Operator
80.	OSW JAGA	Ośrodek Szkoleniowo-Wypoczynkowy “JAGA” sp. z o.o. with the seat in Muszyna
81.	OTC	(over the counter market) – the market operating outside the regulated exchange market
82.	RES	Renewable Energy Sources
83.	PEC Ruda Śląska	Przedsiębiorstwo Energetyki Cieplnej sp. z o.o. with the seat in Ruda Śląska
84.	PEC TYCHY	Przedsiębiorstwo Energetyki Cieplnej sp. z o.o. with the seat in Tychy
85.	PEPKH	Polska Energia – Pierwsza Kompania Handlowa sp. z o.o. with the seat in Katowice
86.	PGE	PGE Polska Grupa Energetyczna S.A. with the seat in Warsaw
87.	PGE EJ1	PGE EJ1 sp. z o.o. with the seat in Warsaw
88.	PGK	Tax Capital Group
89.	PGNiG	Polskie Górnictwo Naftowe i Gazownictwo S.A. with the seat in Warsaw
90.	PGNiG Termika	PGNiG Termika S.A. with the seat in Warsaw
91.	GDP	Gross Domestic Product
92.	PKE Broker	PKE Broker sp. z o.o. with the seat in Katowice,
93.	PKO BP	Powszechna Kasa Oszczędności Bank Polski S.A.
94.	PKW	Południowy Koncern Węglowy S.A. with the seat in Jaworzno (currently TAURON Wydobycie S.A.)
95.	PLN	The symbol of Polish currency – Polish Zloty
96.	PMEC	Property rights for certificates of origin confirming generation of electricity in other co-generation sources
97.	PMOZE	Property rights for certificates of origin confirming generation of electricity in RES in the period until 28 February 2009
98.	POEN	POEN spółka z ograniczoną odpowiedzialnością with the seat in Katowice
99.	PSE	Polskie Sieci Elektroenergetyczne S.A. with the seat in Konstancin-Jeziorna (until 10 January 2013: Polskie Sieci Elektroenergetyczne Operator S.A.)
100.	PSR	Polish Accounting Standards
101.	PUE	Przedsiębiorstwo Usług Elektroenergetycznych Wrocław S.A.
102.	RAFAKO	RAFAKO S.A. with the seat in Racibórz
103.	Organisational Regulations/ Bylaws	Document entitled *Organisational Regulations of TAURON Polska Energia S.A.*
104.	IASB	International Accounting Standards Board
105.	ROIC	(Return On Invested Capital) return on invested capital
106.	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
107.	SCE Jaworzno III	Spółka Ciepłowniczo-Energetyczna Jaworzno III sp. z o.o. with the seat in Jaworzno
108.	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
109.	Company	TAURON Polska Energia S.A. with its seat in Katowice
110.	SOKIK	Court for Competition and Consumers Protection in Warsaw
111.	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. Capita; Group for 2008–2012 with estimates until the year 2020
112.	SUG	Spółka Usług Górniczych Spółka z ograniczona odpowiedzialnością with the seat in Jaworzno
113.	TAURON	TAURON Polska Energia S.A. with its seat in Katowice

No.	Abbreviation and trade term	Full name/explanation
114.	TAURON Ciepło	TAURON Ciepło S.A. with its seat in Katowice
115.	TAURON Czech Energy	TAURON Czech Energy s.r.o. with its seat in Ostrava, Czech Republic
116.	TAURON Dystrybucja	TAURON Dystrybucja S.A. with its seat in Kraków
117.	TAURON Dystrybucja Pomiary	TAURON Dystrybucja Pomiary sp. z o.o. with the seat in Tarnów
118.	TAURON Dystrybucja Serwis	TAURON Dystrybucja Serwis S.A. with the seat in Wrocław
119.	TAURON Dystrybucja GZE	TAURON Dystrybucja GZE S.A. with its seat in Gliwice, acquired by TAURON Dystrybucja S.A.
120.	TAURON EKOENERGIA	TAURON EKOENERGIA sp. z o.o. with its seat in Jelenia Góra
121.	TAURON Ekoenergia GZE	TAURON Ekoenergia GZE sp. z o.o. with the seat in Gliwice, taken over by TAURON EKOENERGIA sp. z o.o.
122.	TAURON Ekoserwis	TAURON Ekoserwis sp. z o.o. with the seat in Rożnów
123.	TAURON Obsługa Klienta	TAURON Obsługa Klienta sp. z o.o. with the seat in Wrocław
124.	TAURON Obsługa Klienta GZE	TAURON Obsługa Klienta GZE sp. z o.o. with the seat in Gliwice, taken over by TAURON Obsługa Klienta sp. z o.o.
125.	TAURON Serwis GZE	TAURON Serwis GZE sp. z o.o. with the seat in Gliwice
126.	TAURON Sprzedaż	TAURON Sprzedaż sp. z o.o. with the seat in Kraków
127.	TAURON Sprzedaż GZE	TAURON Sprzedaż GZE sp. z o.o. with the seat in Gliwice
128.	TAURON Ubezpieczenia	TAURON Ubezpieczenia sp. z o.o. with the seat in Katowice
129.	TAURON Wydobycie	TAURON Wydobycie S.A. with the seat in Jaworzno
130.	TAURON Wytwarzanie	TAURON Wytwarzanie S.A. with the seat in Katowice
131.	TAURON Wytwarzanie GZE	TAURON Wytwarzanie GZE sp. z o.o. with the seat in Gliwice
132.	TAURON Wytwarzanie Serwis	TAURON Wytwarzanie Serwis sp. with the seat in Jaworzno
133.	TGE	Towarowa Giełda Energii S.A. (Polish Power Exchange) with the seat in Warsaw
134.	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)
135.	EU	the European Union
136.	UOKiK	Office for Competition and Consumer Protection (Urząd Ochrony Konkurencji i Konsumentów)
	ERO	Energy Regulatory Office (Urząd Regulacji Energetyki)
	WIOS	Regional Environmental Protection Inspection
	WFOŚiGW Katowice	Regional Fund of Environmental Protection and Water Management in Katowice
	WFOŚiGW Kraków	Regional Fund of Environmental Protection and Water Management in Kraków
137.	WSA	Regional Administrative Court
138.	WZ/ZW	General Meeting/Shareholders' Meeting
139.	ZEC Bielsko-Biała	Zespół Elektrociepłowni Bielsko-Biała
140.	ZW Katowice	Zakład Wytwarzania Katowice

Appendix B: List of tables and figures

Below the list of tables and figures occurring in this report is provided.

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

S T A T E M E N T

of the Management Board of TAURON Polska Energia S.A.
on the compliance of the Consolidated financial statements
of TAURON Polska Energia S.A. Capital Group
for the year ended 31 December 2013
prepared in accordance with International Financial Reporting Standards
and the Management Board's report on the operation
of TAURON Polska Energia S.A. Capital Group for the year 2013

I, the undersigned, represent that, to my best knowledge, the Consolidated financial statements of TAURON Polska Energia S.A. Capital Group prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2013 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 Capital Group.

I also certify that the Management Board's report on the operation of TAURON Polska Energia S.A. Capital Group for the year 2013 gives the true picture of the development, achievements and situation of TAURON Capital Group, including the description of key risks and threats.

Management Board Members:

President of the Management Board	– Dariusz Lubera	....
Vice-President of the Management Board	– Aleksander Grad	....
Vice-President of the Management Board	– Joanna Schmid	....
Vice-President of the Management Board	– Dariusz Stolarczyk	....
Vice-President of the Management Board	– Krzysztof Zawadzki	....

10 March 2014
date

STATEMENT

of the Management Board of TAURON Polska Energia S.A.
on the appointment of the entity authorized to audit financial statements
(Consolidated financial statements of TAURON Polska Energia S.A. Capital Group
prepared in accordance with International Financial Reporting Standards
for the year ended 31 December 2013)

I, the undersigned, represent that the entity authorized to audit financial statements and examining the financial statements of TAURON Polska Energia S.A. Capital Group prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2013 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:

President of the Management Board	– Dariusz Lubera	....
Vice-President of the Management Board	– Aleksander Grad	....
Vice-President of the Management Board	– Joanna Schmid	....
Vice-President of the Management Board	– Dariusz Stolarczyk	....
Vice-President of the Management Board	– Krzysztof Zawadzki	....

10 March 2014
date