TAURON POLSKA ENERGIA

Annual report of TAURON Polska Energia S.A. 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 Polska Energia S.A., in which we included a review of the most important events and financial results of the company 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 Polska Energia in this unfavourable market situation in 2013 should definitely be regarded as satisfactory. Sales revenue reached almost PLN 11 billion, which means 10% growth in relation to 2012, and net profit amounted to PLN 1.7 billion, i.e. 18% more than in 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 company's value for the shareholders 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 generation 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.

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. Funds needed to implement the investment within the Group are obtained by TAURON Polska Energia S.A. and then transferred to companies as part of the intergroup bond program. As regards the period in question, we satisfied the financial needs of the Group 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.

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 the company and the Group to effectively prepare for full liberalisation of the energy market.

Achieving very 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.

Prices of shares of TAURON Polska Energia S.A. at the Warsaw Stock Exchange should also be mentioned. The company still enjoyed large interest of brokerage houses' and investment banks' analysts – in 2013, a total of 38 recommendations were issued for shares of TAURON Polska Energia. 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 TAURON Wytwarzanie, will be lower prices of electric energy. 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 operating and financial 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	2013 period from 01.01.2013 to 31.12.2013	2012 period from 01.01.2012 to 31.12.2012
Selected standalone figures of TAURON Polska Energia S.A.				
Sales revenue	10 909 760	9 889 872	2 590 777	2 369 626
Operating profit	266 802	47 110	63 358	11 288
Profit before tax	1 696 522	1 479 956	402 879	354 599
Net profit	1 688 972	1 435 188	401 086	343 873
Other comprehensive income	63 336	(189 969)	15 040	(45 517)
Total comprehensive income	1 752 308	1 245 219	416 126	298 356
Earnings per share (in PLN/EUR) (basic and diluted)	0.96	0.82	0.23	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	534 186	(415 360)	126 855	(99 521)
Cash flows from investing activities	(1 059 910)	(88 054)	(251 700)	(21 098)
Cash flows from financing activities	(279 177)	224 942	(66 297)	53 896
Net increase (decrease) in cash and cash equivalents	(804 901)	(278 472)	(191 142)	(66 723)
	As of 31.12.2013	**As of 31.12.2012**	**As of 31.12.2013**	**As of 31.12.2012**
Non-current assets	25 968 345	22 997 644	6 261 657	5 625 371
Current assets	1 993 786	2 760 425	480 755	675 218
Total assets	27 962 131	25 758 069	6 742 412	6 300 589
Issued capital	8 762 747	8 762 747	2 112 931	2 143 424
Total equity	19 443 162	18 042 008	4 688 262	4 413 191
Long-term liabilities	5 576 565	5 280 856	1 344 658	1 291 731
Short-term liabilities	2 942 404	2 435 205	709 492	595 667
Total liabilities	8 518 969	7 716 061	2 054 150	1 887 398

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).

TAURON POLSKA ENERGIA S.A.

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

TAURON POLSKA ENERGIA S.A.

KATOWICE, KS. PIOTRA ŚCIEGIENNEGO 3 STREET

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 TAURON Polska Energia S.A., with its registered office in Katowice, Ks. Piotra Ściegiennego 3 Street, comprising the statement of financial position prepared as at 31 December 2013, statement of comprehensive income, statement of changes in equity and 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.

Preparation of financial statements and a report on the activities in line with the law is the responsibility of the Management Board of the Company.

The Management Board of the Company and members of its Supervisory Board are obliged to ensure that the financial statements and the report on the activities 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 financial statements with the accounting principles (policy) adopted by the Company, express an opinion whether the financial statements present fairly and clearly, in all material respects, the financial and economic position as well as the financial result of the Company and an opinion on the correctness of the underlying accounting records.

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 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) and material estimates applied by the Company, verification - largely on a test basis - of the accounting evidence and records supporting the amounts and disclosures in the financial statements, as well as overall evaluation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

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

– present fairly and clearly the information material to evaluate the economic and financial position of the Company as at 31 December 2013, as well as its profit/loss for 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, secondary legislation to the Act and based on properly kept accounting records;
– comply with the provisions of law and the by-laws of the Company which affect the contents of the financial statements.

The report on the activities of the Company 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 (*Journal of Laws* of 2014 item 133) and consistent with underlying information disclosed in the audited 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 FINANCIAL STATEMENTS OF TAURON POLSKA ENERGIA S.A. FOR FY 2013

I. GENERAL INFORMATION

1. Details of the audited Company

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

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

In accordance with the Company's by-laws, the scope of its activities includes:

- trade in electricity;
- trading 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 Company conducted business activities mainly related to operation of head offices, trade in electricity, coal, biomass and gaseous fuels through mains.

As at 31 December 2013, the Company's share capital was 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 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 Company's share capital.

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

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

As at 31 December 2013 the Company's equity totalled PLN 19,443,162 thousand.

The Company's financial year is the calendar year.

The Company has the following related parties:
- TAURON Wytwarzanie S.A.– 99.77% subsidiary,
- TAURON Dystrybucja S.A. – 99.71% subsidiary,
- TAURON Sprzedaż Sp. z o.o. – 100% subsidiary,
- TAURON Obsługa Klienta Sp. z o.o. – 100% subsidiary,
- TAURON Ekoenergia Sp. z o.o. – 100% subsidiary;
- Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. – 100% subsidiary,
- TAURON Ciepło S.A. – 96.10% subsidiary,
- TAURON Czech Energy s.r.o. – 100% subsidiary,
- TAURON Sprzedaż GZE Sp. z o.o. – 100% subsidiary.

In addition to the aforesaid entities, TAURON Polska Energia S.A. holds shares through its Subsidiaries in the following entities:
- Kopalnia Wapienia Czatkowice Sp. z o.o. – 99.77% subsidiary,
- TAURON Wydobycie S.A. (formerly: Południowy Koncern Węglowy S.A.) – 52.36% subsidiary,
- BELS INVESTMENT Sp. z o.o. – 100% subsidiary,
- MEGAWAT MARSZEWO Sp. z o.o. – 100% subsidiary,
- TAURON Dystrybucja Serwis S.A. – 99.71% subsidiary,
- Elektrociepłownia Stalowa Wola S.A. – 49.89% co-subsidiary,
- Elektrownia Blachownia Nowa Sp. z o.o. – 49.89% co-subsidiary.

Furthermore, the subsidiaries owned by the State Treasury are regarded as related parties of TAURON Polska Energia S.A.

- 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.

2. Information about the financial statements for the previous financial year

The activities of the Company in 2012 resulted in a net profit of PLN 1,435,188 thousand. The financial statements of the Company 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 on those financial statements.

The General Shareholders' Meeting, which approved the financial statements for the 2012 financial year, was held on 16 May 2013. The General Shareholders' Meeting decided about the following distribution of the net profit for 2012:

- Dividend for shareholders – PLN 350,510 thousand;
- Transfer to the supplementary capital – PLN 1,084,678 thousand.

In accordance with applicable laws, the 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 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 Company from 4 to 8 November 2013, from 3 to 7 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 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 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 10 March 2014.

II. ECONOMIC AND FINANCIAL POSITION OF THE COMPANY

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

Main items from the statement of comprehensive income (PLN '000)	2013	2012*
Sales revenue	10 909 760	9 889 872
Operating expenses	(10 644 832)	(9 842 536)
Other operating revenue	3 675	1 979
Other operating expenses	(1 801)	(2 205)
Financial revenue	1 776 526	1 764 978
Financial expenses	(346 806)	(332 132)
Income tax	(7 550)	(44 768)
Net profit (loss)	1 688 972	1 435 188
Total comprehensive income	1 752 308	1 245 219

Profitability ratios	2013	2012
– gross profit margin	2%	0%
– net profit margin	15%	15%
– net return on equity	10%	9%
Effectiveness ratios		
– assets turnover ratio	0.39	0.38
– receivables turnover in days	36	34
– liabilities turnover in days	25	19
Liquidity/Net working capital		
– debt ratio	30%	30%
– equity to fixed assets ratio	70%	70%
– net working capital (PLN '000)	(948 618)	325 220
– current ratio	0.68	1.13
– quick ratio	0.63	1.06

(*) data from the approved 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 and net return on equity ratios;
- an increase in the assets turnover ratio;
- an increase in the receivables and liabilities turnover ratios;
- the debt and equity to fixed assets ratios did not change;
- a decrease in the net working capital which was negative at 31 December 2013;
- a decrease in the quick and current ratios.

III. DETAILED INFORMATION

1. Evaluation of the accounting system

The Company has valid documentation required by Article 10 of the Accounting Act of 29 September 1994 (*Journal of Laws* of 2013 item 330 as amended), hereinafter referred to as the "Accounting Act", referring in particular to: definition of the financial year and reporting periods thereof, methods of measuring assets and liabilities and determining the financial result, method of keeping the accounting records and the system of data and file protection. The documentation of the accounting policy was developed in line with the Accounting Act and in terms of measurement of assets and liabilities and presentation of the financial statements in line with IFRS, and approved for use from 1 January 2013 by Resolution No. 358/III/2013 of the Management Board of 25 November 2013. The principal methods for measurement of assets, liabilities and profit/loss have been presented in the notes.

The accounting principles which the Company may choose pursuant to IFRS have been selected in such a way so as to properly reflect the nature of the Company's business, its financial position and financial performance. The principles have been applied consistently and have not been changed as compared to the principles used to keep the accounting records and prepare the financial statements in the previous year.

The Company uses SAP 6.0, computerized accounting system to record all business transactions. SAP 6.0 system is password-protected against unauthorized access and has functional access controls. The description of the IT system complies with the requirements of Article 10.1.3c of the Accounting Act.

The opening balance resulting from the approved financial statements for the prior financial year has been properly introduced into the accounting records of the audited period.

As regards the opening balance, we have performed the required procedures to ensure that the balances are free from material errors.

In the part we have audited, documentation of business transactions, accounting records and the relationships between accounting entries, documents and financial statements complied with the requirements of section 2 of the Accounting Act.

The accounting records and evidence, the documentation of the accounting system and the approved financial statements of the Company are stored in compliance with section 8 of the Accounting Act.

The Company performed a physical count of assets and liabilities within the scope, timing and frequency required by the Accounting Act. Identified differences have been recorded and settled in the accounting records for the audited period.

2. Information about the audited financial statements

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

– the statement of financial position prepared as at 31 December 2013, showing total assets, equity and liabilities of PLN 27,962,131 thousand;
– the statement of comprehensive income for the period from 1 January 2013 to 31 December 2013, with a net profit of PLN 1,688,972 thousand and total comprehensive income of PLN 1,752,308 thousand;
– the statement of changes in equity for the period from 1 January 2013 to 31 December 2013, disclosing an increase in equity of PLN 1,401,154 thousand;
– the statement of cash flows for the period from 1 January 2013 to 31 December 2013, showing a cash outflow of PLN 804,901 thousand;
– notes, comprising a summary of significant accounting policies and other explanatory information.

The structure of assets and liabilities plus equity as well as items affecting the financial result has been presented in the financial statements.

3. Information about selected material items of the financial statements

Long-term investments

The Company's long-term investments include:

– shares in controlled entities of PLN 20,221,322 thousand;
– debt securities issued by controlled entities of PLN 5,165,000 thousand;
– loans granted of PLN 189,310 thousand;
– investment property with a value of PLN 36,169 thousand;
– other financial assets with a value of PLN 237,739 thousand.

The notes correctly describe changes in investments during the financial year.

Inventories

The structure of inventories has been correctly presented in the relevant explanatory note to the statement of financial position.

Receivables

The ageing analysis of trade receivables has been correctly presented in the respective explanatory note to the statement of financial position. The audited sample did not include past-due or redeemed receivables.

Liabilities

Ageing and structure of liabilities have been correctly presented in the relevant explanatory note to the statement of financial position.
Key items of the Company's liabilities include:

– long-term credit facilities and loans of PLN 5,445,279 thousand;
– short-term credit facilities and loans of PLN 1,858,032 thousand.

The nature of the contracted loans and collateral has been presented in the notes. The audited sample did not include past-due or redeemed liabilities.

Prepayments, accruals and provisions for liabilities

The explanatory notes to prepayments, accruals and provisions for liabilities correctly present the structure of these items. Deferred expenses and income have been correctly classified with respect to the audited financial period. Provisions for liabilities have been determined at reliably estimated amounts. The items have been recognized completely and correctly in all material respects in relation to the financial statements as a whole.

4. Completeness and correctness of the notes and explanations and the report on the activities of the Company

The Company confirmed the validity of the going concern basis in preparation of the financial statements. The notes give a correct and complete description of measurement principles regarding assets, liabilities, profit/loss and principles of preparation of the financial statements.

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

The notes give a complete description of the reporting items and clearly present other information required pursuant to IFRS.

The financial statements have been supplemented with the Management Board's report on the activities of the Company in the 2013 financial year. The Report on the activities of the Company 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 (*Journal of Laws* of 2014 item 133). We have audited the report with respect to the disclosed information derived directly from the audited 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 Company's Management Board, in which the Board stated that the Company 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.

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

SPIS TREŚCI

(in PLN '000)

STATEMENT OF COMPREHENSIVE INCOME

	Note	Year ended 31 December 2013	Year ended 31 December 2012
Continuing operations			
Sale of goods for resales and materials without elimination of excise		10 790 992	9 823 438
Excise		(858)	(3 219)
Sale of goods for resale and materials		10 790 134	9 820 219
Rendering of services		119 626	69 653
Sales revenue	**10**	**10 909 760**	**9 889 872**
Cost of sales	**11**	(10 523 336)	(9 710 955)
Gross profit		**386 424**	**178 917**
Other operating income		3 675	1 979
Selling and distribution expenses	**11**	(39 498)	(27 142)
Administrative expenses	**11**	(81 998)	(104 439)
Other operating expenses		(1 801)	(2 205)
Operating profit		**266 802**	**47 110**
Dividend income	**13**	1 500 627	1 550 613
Other finance income	**13**	275 899	214 365
Finance costs	**14**	(346 806)	(332 132)
Profit before tax		**1 696 522**	**1 479 956**
Income tax expense	**15**	(7 550)	(44 768)
Net profit from continuing operations		**1 688 972**	**1 435 188**
Net profit for the year		**1 688 972**	**1 435 188**
Other comprehensive income subject to reclassification to profit or loss:		**63 105**	**(189 756)**
Change in the value of hedging instruments		33 397	(189 756)
Income tax expense	**15**	29 708	–
Other comprehensive income not subject to reclassification to profit or loss:		**231**	**(213)**
Actuarial gains/(losses) related to provisions for post-employment benefits		199	(177)
Income tax expense	**15**	32	(36)
Other comprehensive income for the year, net of tax		**63 336**	**(189 969)**
Total comprehensive income for the year		**1 752 308**	**1 245 219**
Earnings per share (in PLN)	**30**		
– basic and diluted, for profit for the year		0.96	0.82
– basic and diluted, for profit from continuing operations for the year		0.96	0.82

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

(in PLN '000)

STATEMENT OF FINANCIAL POSITION

	Note	As at 31 December 2013	As at 31 December 2012
ASSETS			
Non-current assets			
Property, plant and equipment	**17**	9 189	20 786
Investment property	**18**	36 169	–
Intangible assets	**19**	56 973	53 053
Shares	**20**	20 221 322	20 184 404
Bonds	**21**	5 165 000	2 615 000
Loans granted	**22**	189 310	117 802
Other financial assets	**23**	237 739	–
Other non-financial assets		7 059	6 599
Deferred tax asset	**15.3**	45 584	–
		25 968 345	**22 997 644**
Current assets			
Intangible assets	**24**	98 149	113 302
Inventories	**25**	149 317	176 172
Income tax receivables		28 527	–
Trade and other receivables	**26**	1 134 856	1 460 484
Bonds	**21**	52 830	40 261
Derivative instruments		34	466
Other non-financial assets	**27**	22 946	59 319
Cash and cash equivalents	**28**	507 127	910 421
		1 993 786	**2 760 425**
TOTAL ASSETS		**27 962 131**	**25 758 069**

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

(in PLN '000)

STATEMENT OF FINANCIAL POSITION – continued

	Note	As at 31 December 2013	As at 31 December 2012
EQUITY AND LIABILITIES			
Equity			
Issued capital	**29.1**	8 762 747	8 762 747
Reserve capital	**29.3**	9 037 699	7 953 021
Revaluation reserve from valuation of hedging instruments	**29.4**	(126 651)	(189 756)
Retained earnings/Accumulated losses	**29.3**	1 769 367	1 515 996
Total equity		**19 443 162**	**18 042 008**
Non-current liabilities			
Interest-bearing loans and borrowings	**31**	5 445 279	5 125 082
Liabilities under finance leases	**32**	33 159	480
Other financial liabilities		5 239	–
Derivative instruments		87 573	150 594
Provisions for employee benefits	**33**	5 267	4 605
Accruals, deferred income and government grants	**35**	48	95
		5 576 565	**5 280 856**
Current liabilities			
Current portion of interest-bearing loans and borrowings	**31**	1 858 032	1 392 660
Current portion of liabilities under finance leases	**32**	3 266	510
Trade and other payables		819 147	723 253
Derivative instruments		73 358	40 624
Provisions for employee benefits	**33**	516	1 166
Other provisions	**34**	110 580	119 038
Accruals, deferred income and government grants	**35**	11 475	10 532
Income tax payable		–	54 057
Other non-financial liabilities	**36**	66 030	93 365
		2 942 404	**2 435 205**
Total liabilities		**8 518 969**	**7 716 061**
TOTAL EQUITY AND LIABILITIES		**27 962 131**	**25 758 069**

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

(in PLN '000)

STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2013

	Note	Issued capital	Reserve capital	Revaluation rezerve from valuation of hedging instruments	Retained earnings/ Accumulated losses	Total equity
As at 1 January 2013		**8 762 747**	**7 953 021**	**(189 756)**	**1 515 996**	**18 042 008**
Profit for the period		–	–	–	1 688 972	**1 688 972**
Other comprehensive income		–	–	63 105	231	**63 336**
Total comprehensive income for the year		**–**	**–**	**63 105**	**1 689 203**	**1 752 308**
Appropriation of prior year profits	**29.3**	–	1 084 678	–	(1 084 678)	**–**
Dividends	**16**	–	–	–	(350 510)	**(350 510)**
Settlement of PKE Broker Sp. z o.o. merger	**37**	–	–	–	(644)	**(644)**
As at 31 December 2013		**8 762 747**	**9 037 699**	**(126 651)**	**1 769 367**	**19 443 162**

Year ended 31 December 2012

	Note	Issued capital	Reserve capital	Revaluation rezerve from valuation of hedging instruments	Retained earnings/ Accumulated losses	Total equity
As at 1 January 2012 (*restated figures*)		**8 762 747**	**7 412 882**	**–**	**1 165 569**	**17 341 198**
Profit for the period		–	–	–	1 435 188	**1 435 188**
Other comprehensive income		–	–	(189 756)	(213)	**(189 969)**
Total comprehensive income for the year		**–**	**–**	**(189 756)**	**1 434 975**	**1 245 219**
Appropriation of prior year profits		–	540 139	–	(540 139)	**–**
Dividends	**16**	–	–	–	(543 290)	**(543 290)**
Settlement of GZE S.A. merger		–	–	–	(1 119)	**(1 119)**
As at 31 December 2012		**8 762 747**	**7 953 021**	**(189 756)**	**1 515 996**	**18 042 008**

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

(in PLN '000)

STATEMENT OF CASH FLOWS

	Note	Year ended 31 December 2013	Year ended 31 December 2012
Cash flows from operating activities			
Profit/(loss) before taxation		1 696 522	1 479 956
Adjustments for:			
Depreciation and amortization		23 232	14 083
(Gain)/loss on foreign exchange differences		1 869	1 435
Interest and dividends, net		(1 433 138)	(1 420 840)
(Gain)/loss on investing activities		5 854	2 330
(Increase)/decrease in receivables		173 276	(521 824)
(Increase)/decrease in inventories		26 855	(135 144)
Increase/(decrease) in payables excluding loans and borrowings		71 007	382 772
Change in other non-current and current assets		31 707	(133 195)
Change in deferred income, government grants and accruals		905	2 262
Change in provisions		(8 247)	(46 294)
Income tax paid		(54 135)	(40 841)
Other		(1 521)	(60)
Net cash from (used in) operating activities		**534 186**	**(415 360)**
Cash flows from investing activities			
Sale of property, plant and equipment and intangible assets		22 396	191
Purchase of property, plant and equipment and intangible assets		(35 558)	(46 503)
Purchase of shares in unlisted and listed companies		(270 791)	(262 131)
Purchase of bonds	**45.1**	(6 130 000)	(2 922 999)
Redemption of bonds	**45.1**	3 580 000	1 455 041
Repayment of loans granted	**45.1**	161 390	416 512
Loans granted	**45.1**	(108 800)	(396 093)
Dividends received		1 500 627	1 550 613
Interest received		220 678	118 261
Other		148	(946)
Net cash from (used in) investing activities		**(1 059 910)**	**(88 054)**
Cash flows from financing activities			
Payment of finance lease liabilities		(734)	(597)
Issue of debt securities		–	150 000
Proceeds from loans and borrowings	**45.2**	450 000	960 000
Repayment of loans and borrowings		(71 455)	(51 000)
Dividends paid	**16**	(350 510)	(543 290)
Interest paid		(296 384)	(279 378)
Other		(10 094)	(10 793)
Net cash from (used in) financing activities		**(279 177)**	**224 942**
Net increase/(decrease) in cash and cash equivalents		**(804 901)**	**(278 472)**
Net foreign exchange difference		(1 869)	(1 435)
Cash and cash equivalents at the beginning of the period	**28**	**(393 520)**	**(115 048)**
Cash and cash equivalents at the end of the period, of which:	**28**	**(1 198 421)**	**(393 520)**
restricted cash	**28**	70 330	269 888

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

EXPLANATORY NOTES

1. General information

These financial statements have been prepared by TAURON Polska Energia Spółka Akcyjna ("Company") with its registered office at ul. ks. Piotra Ściegiennego 3 in Katowice, Poland, whose shares are publicly traded. The financial statements of the Company covers the financial year ended 31 December 2013 and include comparable data for the year ended 31 December 2012.

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

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

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

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

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

TAURON Polska Energia S.A. is the parent of the TAURON Polska Energia S.A. Capital Group ("Group", "TAURON Group").

2. Basis for the preparation of the annual financial statements

These 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.

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

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

These financial statements for the year ended 31 December 2013 were approved for publication on 11 March 2014.

The Company also prepared the consolidated financial statements for the year ended 31 December 2013, which were approved for publication on 10 March 2014.

3. 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 Company 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 Company 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 Company 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 Contribution – applicable to annual periods beginning on or after 1 July 2014 – not endorsed by the EU by the date of approving these financial statements;
- Annual Improvements to IFRS (Cycle 2010–2012) – applicable to annual periods beginning on or after 1 July 2014 – not endorsed by the EU by the date of approving these financial statements;
- Annual Improvements to IFRS (Cycle 2011–2013) – applicable to annual periods beginning on or after 1 July 2014 – not endorsed by the EU by the date of approving these financial statements.

The Company analysed the impact of the standards and interpretations on the accounting policies applied by the Company except for the impact of IFRS 9 *Financial Instruments*, which will be analysed after publishing all phases. According to the Management Board the standards and interpretations in question do not materially impact the existing accounting policy.

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

(in PLN '000)

4. Changes to accounting policies

The accounting principles (policy) adopted for the preparation of the financial statements are consistent with those adopted for the preparation of the annual financial statements of TAURON Polska Energia S.A. for the year ended 31 December 2012, except for the following amendments:

- 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 Company.

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 Company decided to apply the revised IAS 19 earlier, starting from the year ended 31 December 2012.

5. Summary of significant accounting policies

5.1. 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 balance sheet date:

- 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.

Forex 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
EUR	4.1472	4.0882
CZK	0.1513	0.1630

5.2. Property, plant and equipment

Property, plant and equipment are fixed assets:

- held by the entity to be used in delivery of goods and provision of services or for administrative purposes, and
- expected to be used for more than one year;
- probable to generate future economic benefits for the entity;
- whose cost can be reliably measured.

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. 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 the entity's consuming economic benefits generated by the asset.

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

Tangible fixed assets by type	Average remaining depreciation period in years
Plant and machinery	2 years
Motor vehicles	1 year
Other tangible fixed assets	2 years

Depreciation method and rate, as well as the residual value of fixed assets are verified at least at the end of each financial year. Any changes resulting from the review are recognized as estimate changes. 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 (calculated as the difference between the potential net selling price and the carrying amount of an item) 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.

5.3. Investment property

The Company presents real property as investments if it is treated as a source of revenue from rent or held due to increase in its value, or both, where the real property is not:

- used for delivery of goods or provision of services, administration activities or
- held for sale under standard business operations of the Company.

At initial recognition investment property is measured at cost including transactional expenses. After initial recognition all investment properties held are measured in line with IAS 16 *Property, Plant and Equipment*, i.e. at cost less any accumulated depreciation charges and any impairment losses. This implies that the Company gradually depreciates the real property during its entire useful life.

5.4. Intangible assets

Intangible assets include identifiable non-cash assets without a tangible form, such as:

- certificates of energy generated using renewable sources, in cogeneration or from natural gas sources acquired for surrendering;
- acquired property rights classified as non-current assets, suitable for business use, with projected useful life exceeding one year, intended for use for internal purposes, in particular:
  - copyright and related titles, licenses, concessions (including those related to computer software);
  - titles to inventions, patents, trademarks, utility and decorative models, computer software;
  - know-how, i.e. amount equivalent to the value of industrial, trade, scientific or organizational information;
- development expenses;
- acquired right to perpetual usufruct of land;
- other intangible assets recognized at acquisition as a result of a business combination.

Energy certificates are presented as intangible assets classified to non-current and current assets.

Certificates of energy generated using renewable sources and in cogeneration for internal purposes acquired for redemption due to the sale of electricity to end buyers in order to meet the redemption obligation for a given year are classified to current intangible assets. At initial recognition energy certificates are measured at cost. Energy certificates acquired in order to comply with the redemption obligation in the following years are classified to non-current intangible assets.

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.

The Company assesses whether the useful life of an intangible asset is determined or undetermined and, if determined, estimates its duration or another measure providing the basis to define the useful life.

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.

The Company does not have any intangible assets with undetermined useful life.

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

Intangible assets by type	Average remaining amortization period in years
Software and licenses	3 years
Other intangible assets	2 years

5.5. Impairment of non-financial non-current assets

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

The recoverable amount of the asset or cash-generating unit corresponds to the fair value less costs to sell the asset, or cash-generating unit, respectively, or its value in use, whichever is higher. 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 group. 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.

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. Impairment losses on assets used in continuing operations are charged to the classes of expenses corresponding to the function of the given impaired asset.

5.6. Shares in subsidiaries

Shares in subsidiaries are also measured at cost less impairment losses. Impairment loss is recognized in line with IAS 36 *Impairment of Assets*, where the carrying amount is compared to the higher of: fair value less costs to sell and the value in use.

5.7. Financial assets

Classes of financial assets:

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

Financial assets measured at fair value through profit or loss (FVTPL)

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 payments, 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 (AFS)

All other financial assets are classified as AFS. 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;
- forex 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 entity's title to the payment has been determined.

5.8. Impairment of financial assets

As at the balance sheet date, the Company 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.

5.9. Derivative financial instruments

The Company hedges currency risk using currency forward contracts.

The Company also concludes forward and future contracts for purchase and sale of emission rights 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 Company uses interest rate swaps, which has been discussed in detail in Note 5.10.

5.10. Hedge accounting

In order to hedge interest rate risk the Company 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.

5.11. Other non-financial assets

The Company recognizes other non-financial assets as prepayments if the following conditions are met:

- they result from past events: expenses incurred by the entity for operating purposes;
- their amount can be reliably determined;
- they will result in inflow of future economic benefits;
- they pertain to future reporting periods.

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 Company 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.

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.

5.12. Inventories

The Company's inventories include acquired emission rights and renewable, gas and CHP energy certificates intended for trading purposes.

At initial recognition inventories are measured at cost.

At the end of the reporting period inventories are measured at cost or net realizable value, whichever is lower. Net realizable value is the difference between the estimated sale price in the ordinary course of business and the estimated costs of completion with the estimated costs necessary to make the sale.

If the cost is higher than the net realizable value, the Company recognizes an appropriate impairment loss.

Release of goods and materials is measured using the weighted average method; costs of entertainment and advertising and office supplies may be charged directly to consumption costs upon purchase.

5.13. 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 other 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.

5.14. 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 equivalent disclosed in the 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, the balance of cash reduced by outstanding overdraft liabilities is recognized in the statement of cash flows. The balances of loans granted and taken out in cash pool transactions are disclosed as an adjustment to the balance of cash, as they are mainly used to manage current liquidity.

5.15. Issued capital

Issued capital is recognized in the amount determined in the by-laws and recorded in the court register of the Company.

5.16. Interest-bearing loans and borrowings

Upon initial recognition, credit facilities and debt securities are disclosed at fair value reduced by costs related to obtaining of a credit facility/loan.

Following initial recognition interest-bearing credit facilities and debt securities are measured at amortized cost using the effective interest rate method.

Amortized cost includes costs incurred to arrange a credit facility or loan 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.

5.17. Trade and other financial liabilities

Short-term trade liabilities 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. Derivatives are also classified as held for trading, unless they are classified as effective hedging instruments.

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 Company 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.

5.18. Provisions for employee benefits

In accordance with the Compensation Policy the employees of the Company 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;
- 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 provisions for post-employment benefits are fully charged to other comprehensive income, while actuarial gains or losses on jubilee benefits are changed to profit or loss.

5.19. Other provisions

Provisions are recognized if the Company has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and the amount of the obligation can be reliably estimated.

Recognized provisions are classified as operating expenses, other operating expenses, financial expenses, respectively, depending on circumstances the future liabilities relate to.

If the effect of changes in the time value of money is significant, the provision amount is equal to the current value of outlays expected to be necessary to satisfy the obligation.

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 applied, the increase in the provision due to the passage of time is recognized as a financial expense.

The Company recognised the following provisions:

- 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 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 pay a substitution fee.

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

– in the portion covered by 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 Company's 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.

- The Company discloses other provisions in reliably estimated present value of future liabilities.

5.20. 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.

5.21. 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"). Therefore, the Company has established the fund and it makes periodical appropriations. The objective of the Fund is to co-finance social activities in the Company.

The Company sets off the Fund's assets against its liabilities to the Fund, because such assets do not constitute separate assets of the Company.

5.22. Leases

Finance leases transferring substantially all the risks and rewards of ownership of a lease object to the Company are recognized in the statement of financial position as at the inception of the lease at the fair value of the fixed asset which is the object of the lease or the present value of the minimum lease payments, whichever is lower. Lease payments are split between financial expenses and 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 should be 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.

5.23. 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.

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 charge for the given reporting period determined by the Company 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 provision and a deferred tax asset 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 end of the reporting period. 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 is also recognized in other comprehensive income, for items recognized in other comprehensive income or directly in equity, for items recognized directly in equity.

The Company 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.

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 in Other non-financial assets or Other non-financial liabilities.

5.24. 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 transaction, 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.

The following items are excluded when a business combination is accounted for using the pooling of interest method:

- share capital of the acquiree;
- mutual receivables and liabilities or other similar settlements of the combined entities;
- revenue and costs of business transactions executed in the period covered by the financial statements, which were effected before the business combination.
- gains or losses on business transactions concluded between the combined entities prior to the business combination in amounts equal to the value of combined assets and liabilities.

When accounting for business combinations, the Company uses the consolidated financial statements as the source of the value of assets and liabilities in a subsidiary acquired. The value of shares of the acquiree in controlled entities has been specified by reference to the value of the net assets of these entities disclosed in the consolidated financial statements and the goodwill of a given controlled entity.

The difference between the net book value of assets recognized as a result of a business combination in the statement of financial position of the acquirer and the value of investments recognized thus far in the accounting records of the acquirer is recognized in the equity of the acquirer.

5.25. Statement of comprehensive income

Financial revenue and expenses for a given period are presented in the Statement of comprehensive income. In accordance with applicable standards, the Company discloses revenue and expenses for the period recognized through profit or loss in the statement of comprehensive income, while gains and losses not recognized through profit or loss are disclosed in other comprehensive income.

Change in hedging instruments 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.

5.26. Sales revenue

Revenue is recognized in the amount it is probable that future economic benefits relating to a transaction will flow to the Company and the amount of the revenue can be measured reliably. 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 the sale of goods and materials is recognized if significant ownership-related risks and benefits from goods and materials have been transferred to the buyer and if the revenue amount can be reliably measured and incurred costs can be reliably estimated.

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

5.27. Cost of sales

Cost of sales includes:

- cost of services provided, incurred in a given reporting period, adjusted by a change in prepayments and accruals;
- 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).

Costs of services rendered that can be assigned directly to revenue generated by the Company impact profit or loss for the period which the revenue pertains to.

Costs of services provided that can be only indirectly assigned to revenue or other benefits obtained by the Company impact their profit or loss in the portion pertaining to the given reporting period, and match the revenue or other economic benefits.

5.28. Other operating income and expenses

Other operating revenue and expense include in particular items related to:

- disposal of property, plant and equipment and intangible assets;
- recognition and derecognition of provisions, except for those related to financial transactions or charged to core operating expenses;
- assets (including cash) granted or received free of charge or donated;
- damages, fines and penalties and other costs not related to routine business operations.

5.29. Finance income and costs

Finance income and costs include in particular those regarding:

- revenue from profit sharing in other entities, including dividends;
- interest;
- sale of financial assets;
- revaluation of financial instruments, except for AFS financial assets, whose revaluation effects are charged to other comprehensive income;
- interest related to measurement of employee benefits, in line with IAS 19 *Employee Benefits*;
- changes in the balance of provision resulting from the nearing deadline to incur the expense (discount reversing effect);
- forex differences resulting from transactions performed during the reporting period and balance sheet measurement of assets and liabilities at the end of the reporting period, except for forex differences recognized in the gross value of a fixed asset;
- other items related to financial activity.

The Company sets off foreign exchange revenue against expense if they result from similar transactions. If the exchange differences are significant and they do not relate to similar transactions, the Company carries out appropriate analysis to determine whether they should be presented separately.

Interest revenue and expense is recognized on the cumulative basis as accrued, including the effective interest rate method applied to the carrying amount of the given financial instrument including the materiality principle.

Dividends are recognized at the moment of determining shareholders' cum dividend title.

5.30. Earnings per share

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

5.31. Statement of cash flows

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

6. Material values based on professional judgment and estimates

When applying accounting policies to the following issues, along with accounting estimates, professional judgment of the management has been of key importance; it has impacted figures disclosed in the financial statements and in the 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 notes to these 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.

Asset impairment

Taking into account the indications that the Company's capitalisation has recently been below the carrying amount as well as the situation in the energy market, as at 31 December 2013 the Company tested its shares disclosed under non-current assets for impairment. The aforementioned shares represent ca. 72% of the balance sheet total.

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

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

- the adopted price path of power coal, other coal sizes and gaseous fuels;
- the adopted electricity wholesale price path, 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 CO_2 emission allowances;
- Emission limits for generating electricity in line with publications of the Ministry of Economy, adjusted by capital expenditure incurred and for generation of heat compliant with publications of the European Commission;
- green, red and yellow energy production volumes depending on the production capacity, along with the price path for individual energy certificates;
- 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;
- 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 or increase in the production capacity of the existing non-current assets as a result of replacement and development investments.

Fixed assets were also tested for impairment. Assumptions made for testing shares for impairment were also applied to fixed assets.

The results of the tests did not indicate the necessity to recognize any impairment losses on the Company's assets.

Sensitivity analyses conducted by the Company reveal that the projected prices of electricity and the adopted discount rates are the key factors exerting an effect on the projected cash flows of the major companies. According to the Company, no reasonably possible and highly probable change to any of the key assumptions made for the purpose of analyses will result in an increase in the carrying amount of the shares and the value of fixed assets over their recoverable amount.

(in PLN '000)

Measurement of provisions for employee benefits

Provisions for post-employment employee benefits (retirement and disability benefits, energy tariff for employees, appropriations to the Social Benefit Fund for future pensioners and individuals entitled to disability allowances) have been estimated based on actuarial methods. Provision for jubilee bonuses was also estimated using these methods.

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

	Year ended 31 December 2013	Year ended 31 December 2012
Discount rate (%)	4.00%	4.00%
Estimated inflation rate (%)	2.50%	2.50%
Employee rotation rate (%)	5.67%	4.19%
Estimated salary increase rate (%)	2.50%	2.50%
Estimated electricity price increase rate (%)	3.50%	3.50%
Estimated increase rate for contribution to the Social Fund (%)	4.50%	4.00%
Remaining average employment period	10.70	13.28

Sensitivity analysis of measurement results as at 31 December 2013 as a result of changes in key actuarial assumption by 0.5 percentage point has been presented below:

Provision	Measurement as at 31 December 2013	Financial discount rate		Planned increases in base amount	
		-0.5 p.p.	+0.5 p.p.	-0.5 p.p.	+0.5 p.p.
Provision for retirement, disability and similar benefits	1 058	1 130	994	990	1 133
Employee electricity rates	627	717	553	551	718
Social Fund	157	178	140	139	179
Jubilee bonuses	3 941	4 096	3 803	3 791	4 108
Provision, total	**5 783**	**6 121**	**5 490**	**5 471**	**6 138**

Discount rate reduction by 0.5 percentage point would result in an increase in provision for employee benefits from PLN 5 783 thousand (as discussed in Note 33) to PLN 6 121 thousand. Discount rate increase by 0.5 percentage point, i.e. application of a 4.5% discount rate would result in a decrease in provision to PLN 5 490 thousand.

The benefits were calculated based on the assumptions set out in the Compensation Policy. Reducing the planned increase of compensation basis by 0.5 percentage point would result in a decrease in provision for employee benefits from PLN 5 471 thousand, while their increase would cause an increase in the provision up to PLN 6 138 thousand.

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.

As in the financial year ended 31 December 2013 the Company recognized taxable income and expected to generate taxable income in the following years, it recognized a deferred tax asset in the full amount. In the previous year the Company recognized an asset only up to the amount of the deferred tax liability only.

Consequently, in 2013 the net profit increased by PLN 26 607 thousand and so did the deferred tax disclosed in other comprehensive income in the amount of PLN 36 123 thousand (following recognition of the asset, which had not been disclosed as at 31 December 2012).

Provision for the obligation to surrender energy certificates

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

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. The portion corresponding to energy certificates was provisioned for in the amount of certificates held. The provision for the obligation to surrender energy efficiency certificates was estimated at substitution price.

As at 31 December 2013, the Company recognized a short-term provision for the obligation to surrender energy certificates for cancellation of PLN 109 792 thousand, while on 31 December 2012 it was estimated at PLN 118 250 thousand.

Intra-group bonds

Intra-group bonds issued by subsidiaries and acquired by TAURON Polska Energia S.A., with the total par value of PLN 5 165 000 thousand as at the end of the reporting period, including those maturing within one year with the par value of PLN 1 610 000 thousand, have been classified as long-term instruments. Such classification reflects the nature of funding under the intra-group bond issue scheme, which enables cash management in the medium and long term. The agreements assume the possibility to roll over the bonds in question.

Write-downs of inventories

During the financial year the Company recognized impairment losses on energy certificates totalling to PLN 4 612 thousand, it utilized impairment losses for certificates of PLN 39 386 thousand related to the sale of certificates and reversed impairment losses on emission rights of PLN 200 thousand. The total adverse impact on the profit was PLN 4 412 thousand.

As at the end of the reporting period the Company found no need to recognize impairment losses on inventories, as their carrying amount did not exceed the net realizable value, based on market prices.

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 Company verifies the adopted useful lives based on the current estimates.

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 rights and energy is based on prices quoted in an active market.

In the period covered by the financial statements no other material changes of estimated values and estimating methodologies occurred that would have an effect on the current or future periods.

(in PLN '000)

7. Shares in related parties

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

No.	Entity's name	Registered office	Core business	Direct share of TAURON in the entity's capital	Direct share of TAURON in the entity's governing body
1	TAURON Wytwarzanie S.A.	Katowice	Generation, transmission and distribution of electricity and heat	99.77%	99.80%
2	TAURON Dystrybucja S.A.	Kraków	Distribution of electricity	99.71%	99.71%
3	TAURON Sprzedaż Sp. z o.o.	Kraków	Sale of electricity	100.00%	100.00%
4	TAURON Obsługa Klienta Sp. z o.o.[1]	Wrocław	Services	100.00%	100.00%
5	TAURON Ekoenergia Sp. z o.o.	Jelenia Góra	Generation and sale of electricity	100.00%	100.00%
6	Polska Energia Pierwsza Kompania Handlowa Sp. z o.o.	Mysłowice	Sale of electricity	100.00%	100.00%
7	TAURON Ciepło S.A.	Katowice	Production and distribution of heat	96.10%	96.74%
8	TAURON Czech Energy s.r.o.	Ostrawa, the Czech Republic	Sale of electricity	100.00%	100.00%
9	TAURON Sprzedaż GZE Sp. z o.o.	Gliwice	Sale of electricity	100.00%	100.00%

[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 20.

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

No.	Entity's name	Registered office	Core business	Indirect share of TAURON in the entity's capital	Indirect share of TAURON in the entity's governing body	Shareholder as at 31 December 2013
1	Kopalnia Wapienia Czatkowice Sp. z o.o.[1]	Krzeszowice	Limestone quarrying, crushing and grinding; stone quarrying	99.77%	99.80%	TAURON Wytwarzanie S.A.
2	TAURON Wydobycie S.A.[1, 2]	Jaworzno	Hard coal mining	52.36%	67.87%	TAURON Wytwarzanie S.A.
3	BELS INVESTMENT Sp. z o.o.	Jelenia Góra	Generation of electricity	100.00%	100.00%	TAURON Ekoenergia Sp. z o.o.
4	MEGAWAT MARSZEWO Sp. z o.o.	Jelenia Góra	Generation of electricity	100.00%	100.00%	TAURON Ekoenergia Sp. z o.o.
5	TAURON Dystrybucja Serwis S.A.[3]	Wrocław	Repair and maintenance of electrical equipment	99.71%	99.71%	TAURON Dystrybucja S.A.

[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.

(in PLN '000)

Additionally, as at 31 December 2013, the Company held indirect shares in the following jointly controlled entities:

No.	Entity's name	Registered office	Core business	Indirect share of TAURON in the entity's capital	Indirect share of TAURON in the entity's governing body	Shareholder as at 31 December 2013
1	Elektrociepłownia Stalowa Wola S.A.	Stalowa Wola	Production, transmission, distribution and sales of electricity	49.89%	49.90%	TAURON Wytwarzanie S.A.
2	Elektrownia Blachownia Nowa Sp. z o.o.	Kędzierzyn Koźle	Generation of electricity	49.89%	49.90%	TAURON Wytwarzanie S.A.

Changes in shares in the financial year ended 31 December 2013 have been discussed in detail in Note 20.

8. Composition of 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.

9. Information on operating segments

9.1. Operating segments

The Company carries out its business in two operating segments, that is "Sales" and "Holding activity".

"Holding activity" segment assets include:

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

"Holding activity" segment liabilities include:

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

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

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

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

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

(in PLN '000)

Year ended 31 December 2013	Sales	Holding activity	Unallocated items	Total
Revenue				
Sales outside the Group	2 980 734	–	–	**2 980 734**
Sales within the Group	7 929 026	–	–	**7 929 026**
Segment revenue	**10 909 760**	**–**	**–**	**10 909 760**
Profit/(loss) of the segment	**373 119**	**(24 319)**	**–**	**348 800**
Unallocated expenses	–	–	(81 998)	**(81 998)**
Profit/(loss) from continuing operations before tax and net finance income (costs)	**373 119**	**(24 319)**	**(81 998)**	**266 802**
Net finance income/(costs)	–	1 488 837	(59 117)	**1 429 720**
Profit/(loss) before income tax	**373 119**	**1 464 518**	**(141 115)**	**1 696 522**
Income tax expense	–	–	(7 550)	**(7 550)**
Net profit/(loss) for the year	**373 119**	**1 464 518**	**(148 665)**	**1 688 972**
EBITDA	**373 218**	**(24 319)**	**(58 865)**	**290 034**
Assets and liabilities				
Segment assets	1 360 588	26 527 404	–	**27 887 992**
Unallocated assets	–	–	74 139	**74 139**
Total assets	**1 360 588**	**26 527 404**	**74 139**	**27 962 131**
Segment liabilities	973 179	7 398 165	–	**8 371 344**
Unallocated liabilities	–	–	147 625	**147 625**
Total liabilities	**973 179**	**7 398 165**	**147 625**	**8 518 969**
Other segment information				
Capital expenditure*	19 442	–	–	**19 442**
Depreciation/amortization	(99)	–	(23 133)	**(23 232)**

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

In the financial year ended 31 December 2013 the revenue from sales to two major clients constituted 44% and 13% of the Company's revenue in the "Sales" sector and amounted to PLN 4 791 023 thousand and PLN 1 364 852 thousand, respectively.

(in PLN '000)

Year ended 31 December 2012	Sales	Holding activity	Unallocated items	Total
Revenue				
Sales outside the Group	2 455 294	–	–	**2 455 294**
Sales within the Group	7 434 578	–	–	**7 434 578**
Segment revenue	**9 889 872**	**–**	**–**	**9 889 872**
Profit/(loss) of the segment	**151 549**	**–**	**–**	**151 549**
Unallocated expenses	–	–	(104 439)	**(104 439)**
Profit/(loss) from continuing operations before tax and net finance income (costs)	**151 549**	**–**	**(104 439)**	**47 110**
Net finance income (costs)	–	1 449 781	(16 935)	**1 432 846**
Profit/(loss) before income tax	**151 549**	**1 449 781**	**(121 374)**	**1 479 956**
Income tax expense	–	–	(44 768)	**(44 768)**
Net profit/(loss) for the year	**151 549**	**1 449 781**	**(166 142)**	**1 435 188**
EBITDA	**151 678**	**–**	**(90 485)**	**61 193**
Assets and liabilities				
Segment assets	1 853 929	23 903 676	–	**25 757 605**
Unallocated assets	–	–	464	**464**
Total assets	**1 853 929**	**23 903 676**	**464**	**25 758 069**
Segment liabilities	934 851	6 720 558	–	**7 655 409**
Unallocated liabilities	–	–	60 652	**60 652**
Total liabilities	**934 851**	**6 720 558**	**60 652**	**7 716 061**
Other segment information				
Capital expenditure*	61 132	–	–	**61 132**
Depreciation/amortization	(129)	–	(13 954)	**(14 083)**

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

In the financial year ended 31 December 2012 the revenue from sales to the key client constituted 60% of the total revenue in the "Sales" sector and reached PLN 5 915 112 thousand.

9.2. Geographic areas of operations

The majority of the Company's business operations is carried out in Poland. In the years ended 31 December 2013 and 31 December 2012 export sales amounted to PLN 478 682 thousand and PLN 540 290 thousand, respectively.

10. Sales revenue

	Year ended 31 December 2013	Year ended 31 December 2012
Electricity	9 877 998	9 298 615
Gas	72 424	6 934
Property rights arising from energy certificates	471 420	127 579
Emission allowances	367 103	376 240
Other	1 189	10 851
Total sale of goods for resale and materials	**10 790 134**	**9 820 219**
Trading income	61 861	51 993
Other	57 765	17 660
Total rendering of services	**119 626**	**69 653**
Total sales revenue	**10 909 760**	**9 889 872**

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

(in PLN '000)

In the year ended 31 December 2013 raw materials acquired and resold as a result of the transactions in question amounted to PLN 2 255 741 thousand. The Company recognized revenue due to agency services of PLN 44 400 thousand.

11. Expenses 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	(23 232)	(14 083)
Impairment of property, plant and equipment and intangible assets	–	10 399
Materials and energy	(3 456)	(2 888)
Distribution services	(2 227)	(2 366)
Consultancy services	(9 034)	(11 330)
Other external services	(44 557)	(15 793)
Taxes and charges	(22 857)	(16 177)
Employee benefits expense	(67 317)	(66 313)
Impairment loss on inventories	(4 412)	–
Advertising expenses	(27 509)	(24 301)
Other	(2 477)	(3 318)
Total costs by type	**(207 078)**	**(146 170)**
Change in prepayments, accruals and deferred income	11 213	(2 361)
Selling and distribution expenses	39 498	27 142
Administrative expenses	81 998	104 439
Cost of goods for resale and materials sold	(10 448 967)	(9 694 005)
Cost of sales	**(10 523 336)**	**(9 710 955)**

The following cost items grew in the year ended 31 December 2013 versus comparable period:

- An increase in costs of amortization due to higher amortization of computer software and licences related to considerable purchases of intangible assets in the previous year;
- A rise in the costs of taxes and charges mainly due to an increase in the costs of transmission and exchange fees for sales of electricity and emission rights;
- An increase in the costs of other external services, which is primarily related to the costs of financial and accounting services as well as IT services, resulting from restructuring changes in the Group which consist in integration of the accounting and IT functions of the Group companies within TAURON Obsługa Klienta Sp. z o.o., a subsidiary.

12. Employee benefits expenses

	Year ended 31 December 2013	Year ended 31 December 2012
Wages and salaries	(52 800)	(50 357)
Social security costs	(6 608)	(6 545)
Jubilee bonuses	(573)	(1 935)
Appropriations to the Social Fund	(335)	(332)
Post-employment benefits expenses, including:	(3 513)	(3 483)
Retirement, disability and similar benefits	(150)	(191)
Special electricity rates and charges	(33)	(70)
Social Fund	(15)	(26)
Costs of employee retirement plans	(3 314)	(3 196)
Other employee benefits expenses	(3 488)	(3 661)
Employee benefits expenses, including:	**(67 317)**	**(66 313)**
Items included in cost of sales	(12 128)	(11 339)
Items included in selling and distribution expenses	(9 095)	(7 545)
Movement in prepayments, accruals and deferred income	(337)	(304)
Items included in administrative expenses	(45 757)	(47 125)

(in PLN '000)

13. Finance income

	Year ended 31 December 2013	Year ended 31 December 2012
Income from financial instruments, of which:	**1 773 648**	**1 761 125**
Interest income	272 081	206 278
Dividends	1 500 627	1 550 613
Net income from realized derivative instruments	940	4 234
Other finance income	**2 878**	**3 853**
Total finance income	**1 776 526**	**1 764 978**

14. Finance costs

	Year ended 31 December 2013	Year ended 31 December 2012
Financial instrument costs, of which:	**(346 131)**	**(330 103)**
Interest costs	(329 506)	(320 744)
Foreign exchange losses	(2 912)	(1 370)
Remeasurement of derivatives	(1 049)	(916)
Commissions	(12 664)	(7 073)
Other financial expenses	**(675)**	**(2 029)**
Total financial expenses	**(346 806)**	**(332 132)**

15. Income tax

15.1. Tax expense in the statement of comprehensive income

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

	Year ended 31 December 2013	Year ended 31 December 2012
Current income tax	**(23 394)**	**(7 242)**
Current income tax expense	(27 098)	(6 978)
Adjustments to current income tax from previous years	3 704	(264)
Deferred tax	**15 844**	**(37 526)**
Income tax expense in profit or loss	**(7 550)**	**(44 768)**
Income tax expense in other comprehensive income	**29 740**	**(36)**

(in PLN '000)

15.2. Reconciliation of the effective tax rate

	As at 31 December 2013	As at 31 December 2012
Profit/(loss) before tax from continuing operations	**1 696 522**	**1 479 956**
Profit/(loss) before tax	**1 696 522**	**1 479 956**
Tax at Poland's statutory tax rate of 19%	**(322 339)**	**(281 192)**
Adjustments to income tax from previous years	3 704	(264)
Tax resulting from tax non-deductible costs, including:	(4 171)	(3 554)
Non tax-deductible expenses under Article 15.2 of the Corporate Income Tax Act	(2 435)	(1 842)
Other	(1 736)	(1 712)
Tax resulting from income not included in taxable base, including:	285 119	294 616
Dividends	285 119	294 616
Unrecognized deferred tax asset	26 607	(26 604)
Tax losses utilized by other companies in the TCG	3 599	(23 811)
Other	(69)	(1 182)
Income tax expense acquired under merger with GZE S.A.	–	(2 777)
Tax at the effective tax rate of 0.4% (2012: 3.0%)	**(7 550)**	**(44 768)**
Income tax expense in profit/(loss)	(7 550)	(44 768)

15.3. Deferred income tax

Deferred income tax results from:

	As at 31 December 2013	As at 31 December 2012
Deferred tax liability		
– difference between tax base and carrying amount of fixed and intangible assets	2 314	2 468
– interest receivable on bonds	10 038	7 650
– difference between tax base and carrying amount of other financial assets	3 170	1 061
– other	143	530
Deferred tax liability	**15 665**	**11 709**

(in PLN '000)

	As at 31 December 2013	As at 31 December 2012
Deferred tax assets		
– provisions for the obligation to surrender energy certificates	20 861	22 468
– provision for employee benefits	1 099	1 097
– other provisions and accruals	2 178	2 009
– difference between tax base and carrying amount of fixed and intangible assets	1 017	708
– difference between tax base and carrying value of inventories	–	6 645
– difference between tax base and carrying amount of financial liabilities	4 513	4 008
– valuation of hedging instruments	30 354	36 227
– other	1 227	1 276
Deferred tax assets	**61 249**	**74 438**
Deferred tax assets recognized in profit or loss	31 509	38 315
Deferred tax assets recognized in other comprehensive income	29 740	36 123
Deferred tax asset, net	**45 584**	**62 729**
Deferred tax in the statement of financial position	**45 584**	**–**

Tax projections prepared by the Company as at 31 December 2012 did not forecast a taxable income in the following years, therefore the Company did not recognize a deferred tax asset of PLN 62 729 thousand, which has been discussed in detail in Note 6 hereto.

15.4. Tax Capital Group

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.

As at 31 December 2013, the Tax Capital Group had income tax receivables of PLN 28 619 thousand.

At the same time, due to the Company's settlements, as the Representative Company, with the Tax Capital Group companies, it disclosed liabilities to these subsidiaries arising from tax overpayment of PLN 23 974 thousand, which have been presented in the statement of financial position under "Trade and other payables", as well as receivables from the Tax Capital Group companies arising from tax underpayment of PLN 27 528 thousand, which have been presented in the statement of financial position under "Trade and other receivables".

16. Dividends paid and proposed

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

	Year ended 31 December 2013	Year ended 31 December 2012
Dividend paid in the period	350 510	543 290
Dividend per share (in PLN)	0.20	0.31

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 of 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. As at the end of the reporting period, the dividend liability had been paid in whole.

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)

17. Property, plant and equipment

Year ended 31 December 2013

	Plant and machinery	Motor vehicles	Other	Tangible fixed assets, total	Assets under construction	Property, plant and equipment, total
Cost						
Opening balance	**19 871**	**4 132**	**10 991**	**34 994**	**–**	**34 994**
Direct purchase	–	–	–	**–**	2 143	**2 143**
Reclassification from uncommissioned intangible assets	–	–	–	**–**	4 384	**4 384**
Allocation of assets under construction	5 196	582	747	**6 525**	(6 525)	**–**
Sale, disposal	(17 850)	–	(145)	**(17 995)**	–	**(17 995)**
Donation	(92)	–	–	**(92)**	–	**(92)**
Liquidation	–	–	(74)	**(74)**	–	**(74)**
Closing balance	**7 125**	**4 714**	**11 519**	**23 358**	**2**	**23 360**
ACUMULATED DEPRECIATION						
Opening balance	**(6 924)**	**(2 390)**	**(4 894)**	**(14 208)**	**–**	**(14 208)**
Depreciation for the period	(3 658)	(1 026)	(2 159)	**(6 843)**	–	**(6 843)**
Sale, disposal	6 650	–	73	**6 723**	–	**6 723**
Donation	92	–	–	**92**	–	**92**
Liquidation	–	–	65	**65**	–	**65**
Closing balance	**(3 840)**	**(3 416)**	**(6 915)**	**(14 171)**	**–**	**(14 171)**
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	**12 947**	**1 742**	**6 097**	**20 786**	**–**	**20 786**
NET CARRYING AMOUNT AT THE END OF THE PERIOD	**3 285**	**1 298**	**4 604**	**9 187**	**2**	**9 189**

In the year ended 31 December 2013 the Company's property, plant and equipment decreased, as the entity sold property, plant and equipment with the gross value of PLN 17 995 thousand and depreciated of PLN 6 723 thousand to its subsidiary, TAURON Obsługa Klienta Sp. z o.o.

The abovementioned transaction consisted in sales of IT and data communications assets and was carried out due to establishment of a Shared IT Service Centre within TAURON Obsługa Klienta Sp. z o.o. and its planned assumption of the role of provider of IT and data communications services to the TAURON Group companies.

Year ended 31 December 2012

	Plant and machinery	Motor vehicles	Other	Tangible fixed assets, total	Assets under construction	Property, plant and equipment, total
Cost						
Opening balance	**11 305**	**4 915**	**2 088**	**18 308**	**899**	**19 207**
Direct purchase	–	–	–	**–**	16 630	**16 630**
Allocation of assets under construction	8 626	–	8 903	**17 529**	(17 529)	**–**
Sale, disposal	(15)	(783)	–	**(798)**	–	**(818)**
Liquidation	(45)	–	–	**(45)**	–	**(45)**
Closing balance	**19 871**	**4 132**	**10 991**	**34 994**	**–**	**34 994**
ACUMULATED DEPRECIATION						
Opening balance	**(4 154)**	**(1 745)**	**(1 717)**	**(7 616)**	**–**	**(7 616)**
Depreciation for the period	(2 830)	(1 140)	(3 177)	**(7 147)**	–	**(7 147)**
Sale, disposal	15	495	–	**510**	–	**510**
Liquidation	45	–	–	**45**	–	**45**
Closing balance	**(6 924)**	**(2 390)**	**(4 894)**	**(14 208)**	**–**	**(14 208)**
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	**7 151**	**3 170**	**371**	**10 692**	**899**	**11 591**
NET CARRYING AMOUNT AT THE END OF THE PERIOD	**12 947**	**1 742**	**6 097**	**20 786**	**–**	**20 786**

(in PLN '000)

18. Investment property

As a result of a business combination of the Company and PKE Broker Sp. z o.o., which has been discussed in detail in Note 37 to these financial statements, the Company acquired the right to use an investment property leased under a finance lease agreement with the carrying amount of PLN 36 169 thousand. The investment property is composed of buildings located in Katowice Szopienice at ul. Lwowska 23. The monthly lease payment is ca. PLN 320 thousand.

Following the business combination with PKE Broker Sp. z o.o., in December 2013 the Company became a party to a lease agreement with TAURON Wytwarzanie S.A. (leaseholder) valid until 30 April 2018, pursuant to which buildings and structures have been subleased under the lease agreement with PKO Bankowy Leasing Sp. z o.o. Revenue due to payments for investment property included one-month's rent of PLN 470 thousand.

The Company estimated the fair value of real property based on available information on sales prices in transactions concerning premises of similar use located in Katowice executed in 2013. The fair value estimated is close to the carrying amount and was categorized to Level 3 of the fair value hierarchy in line with IFRS *Fair Value Measurement*.

19. Non-current intangible assets

Year ended 31 December 2013

	Software and licenses	Energy certificates	Other intangible assets	Intangible assets not commissioned for use	Intangible assets, total
COST					
Opening balance	**59 036**	**–**	**1 104**	**3 881**	**64 021**
Direct purchase	–	20 250	–	17 299	**37 549**
Reclassification of intangible assets not commissioned for use	9 563	–	333	(9 896)	**–**
Sale	(14 423)	–	(100)	(2 610)	**(17 133)**
Reclassification to fixed assets	–	–	–	(4 384)	**(4 384)**
Other changes	(161)	–	–	(274)	**(435)**
Closing balance	**54 015**	**20 250**	**1 337**	**4 016**	**79 618**
ACCUMULATED AMORTIZATION					
Opening balance	**(10 410)**	**–**	**(558)**	**–**	**(10 968)**
Amortization for the period	(16 202)	–	(187)	–	(16 389)
Sale	4 663	–	49	–	4 712
Closing balance	**(21 949)**	**–**	**(696)**	**–**	**(22 645)**
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	**48 626**	**–**	**546**	**3 881**	**53 053**
NET CARRYING AMOUNT AT THE END OF THE PERIOD	**32 066**	**20 250**	**641**	**4 016**	**56 973**

In the year ended 31 December 2013 the Company sold intangible assets with a gross value of PLN 17 133 thousand and depreciation of PLN 4 712 thousand to its subsidiary, TAURON Obsługa Klienta Sp. z o.o. The abovementioned transaction consisted in sales of licences mainly and was carried out due to establishment of a Shared IT Service Centre within TAURON Obsługa Klienta Sp. z o.o. and its planned assumption of the role of provider of IT and data communications services to the TAURON Group companies.

The key items purchased included SAP software licences, Microsoft licences, Oracle licences and software, and are intended for internal purposes of the Company and for the needs of the Tauron Group, to be availed based on licence agreement consolidation. Future benefits will be derived through sublicensing and granting the right to use the software.

In the year ended 31 December 2013 the Company acquired energy certificates for PLN 20 250 thousand with the intention to fulfil the redemption obligation for the years 2014–2016.

(in PLN '000)

Year ended 31 December 2012

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

20. Shares

Change in shares from 1 January 2013 to 31 December 2013

No.	Company	Opening balance	Increases/ Decreases	Closing balance
1	TAURON Wytwarzanie S.A.	8 118 182	(527 404)	**7 590 778**
2	TAURON Dystrybucja S.A.	9 511 628	–	**9 511 628**
3	TAURON Ciepło S.A.	773 334	562 404	**1 335 738**
4	TAURON Ekoenergia Sp. z o.o.	939 765	–	**939 765**
5	TAURON Sprzedaż Sp. z o.o.	613 505	–	**613 505**
6	TAURON Obsługa Klienta Sp. z o.o.	26 308	13 523	**39 831**
7	Polska Energia Pierwsza Kompania Handlowa Sp. z o.o.	49 056	–	**49 056**
8	TAURON Czech Energy s.r.o.	4 223	–	**4 223**
9	TAURON Sprzedaż GZE Sp. z o.o.	129 821	2	**129 823**
10	TAURON Obsługa Klienta GZE Sp. z o.o.	13 523	(13 523)	**–**
11	TAURON Wytwarzanie GZE Sp. z o.o.	4 935	–	**4 935**
12	CONCORDE INVESTISSEMENT S.A.	12	–	**12**
13	CC Poland Plus Sp. z o.o.	12	–	**12**
14	Energopower Sp. z o.o.	25	20	**45**
15	Enpower Service Sp. z o.o.	25	24	**49**
16	Enpower Sp. z o.o.	25	–	**25**
17	TAURON Ubezpieczenia Sp. z o.o. (formerly Poen Sp. z o.o.)	25	–	**25**
18	Przedsiębiorstwo Energetyki Cieplnej Sp. z o.o. w Tychach	–	1 872	**1 872**
	Total	**20 184 404**	**36 918**	**20 221 322**

Changes in shares classified as non-current assets in the financial year ended 31 December 2013 resulted from reorganisation and the following events:

Spin-off of EC Katowice from TAURON Wytwarzanie S.A. to TAURON Ciepło 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 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.

The share in TAURON Wytwarzanie S.A. held by TAURON Polska Energia S.A. decreased as a result of the spin-off 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).

(in PLN '000)

TAURON Polska Energia S.A. reclassified the book value of its investments in TAURON Wytwarzanie S.A. to investments in TAURON Ciepło S.A of PLN 527 404 thousand.

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

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 the date of approval of these financial statements for publication, the Company only held shares in TAURON Obsługa Klienta Sp. z o.o., the acquirer.

TAURON Polska Energia S.A. reclassified the book value of its investments in TAURON Obsługa Klienta GZE Sp. z o.o. to investments in TAURON Obsługa Klienta Sp. z o.o. of PLN 13 523 thousand.

Acquisition of shares in *TAURON Ciepło S.A.*

On 20 December 2013, pursuant to an agreement with the Dąbrowa Górnicza municipality, TAURON Polska Energia S.A. 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.

Acquisition of shares in *Przedsiębiorstwo Energetyki Cieplnej Sp. z o.o. w Tychach*

On 11 December 2013 TAURON Polska Energia S.A. acquired 36 179 shares in Przedsiębiorstwo Energetyki Cieplnej Sp. z o.o. in Tychy, constituting ca. 1.2% of the share capital of the entity for PLN 1 853 thousand from TAURON Ciepło S.A., a subsidiary.

Change in shares from 1 January 2012 to 31 December 2012

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

Changes in shares classified as non-current assets in the financial year ended 31 December 2012 resulted from reorganisation and business combinations of entities controlled by TAURON Polska Energia S.A.

(in PLN '000)

21. Bonds

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

The table below presents the balances of acquired bonds and interest accrued as at the end of the reporting period, i.e. 31 December 2013 and 31 December 2012, broken down by individual TAURON Group companies by which the bonds have been issued.

Company	As at 31 December 2013		As at 31 December 2012	
	par value of purchased bonds	accrued interest	par value of purchased bonds	accrued interest
TAURON Wytwarzanie S.A.	2 170 000	12 916	1 480 000	12 384
TAURON Dystrybucja S.A.	1 510 000	34 514	630 000	23 530
TAURON Ekoenergia Sp. z o.o.	200 000	641	140 000	117
BELS INVESTMENT Sp. z o.o.	275 000	634	125 000	1 329
MEGAWAT MARSZEWO Sp. z o.o.	680 000	1 622	240 000	2 901
TAURON Ciepło S.A.	230 000	2 187	–	–
TAURON Wydobycie S.A.	100 000	316	–	–
Total debentures:	**5 165 000**	**52 830**	**2 615 000**	**40 261**
non-current	5 165 000	–	2 615 000	–
current	–	52 830	–	40 261

Details have been presented in Note 6 to the financial statements.

22. Long-term loans

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

Under the 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 conditions for provision of funding to Elektrociepłownia Stalowa Wola S.A. by the European Bank for Reconstruction and Development and the European Investment Bank, TAURON Polska Energia S.A. granted a subordinated loan to Elektrociepłownia Stalowa Wola S.A.

The subordinated loan agreement was signed in order to provide funding for implementation of an investment project involving construction and operation of a gas and steam power unit with the capacity of ca. 400 MWe and 240 MWt in Stalowa Wola, together with auxiliary installations. The subordinated loan agreement means that the repayment of the loan and interest will be deferred and subordinated to the repayment of the amounts due to the European Investment Bank, the European Bank for Reconstruction and Development and other financial institutions. Based on contractual provisions, the maximum amount of the loan granted by TAURON Polska Energia S.A. is PLN 177 000 thousand.

As at the end of the reporting period, the amount of funds disbursed under the loan agreement was PLN 177 000 thousand. Interest accrued on the loan amounts to PLN 12 310 thousand. The loan is to be finally repaid no later than by the end of 2032.

23. Other financial assets

As at 31 December 2013 other financial assets amounted to PLN 237 739 thousand and included:

- advance payment for the acquisition of shares in Południowy Koncern Węglowy S.A. (currently: TAURON Wydobycie S.A.) for PLN 232 500 thousand. The transaction was completed in January 2014, as described in Note 48 to the financial statements;
- guarantee deposit of PLN 5 239 thousand under the transferred operating lease agreement between PKO Bankowy Leasing Sp. z o.o. and PKE Broker Sp. z o.o. securing repayment of liabilities of the lessee; deposit is returnable upon settlement of the lease agreement.

24. Short-term intangible assets

Under current intangible assets, the Company discloses energy certificates.

(in PLN '000)

	Year ended 31 December 2013	Year ended 31 December 2012
COST		
Opening balance	**113 302**	**43 519**
Direct purchase	103 940	117 697
Cancellation of energy certificates	(119 093)	(47 914)
Closing balance	**98 149**	**113 302**
IMPAIRMENT ALLOWANCES		
Opening balance	**–**	**(10 399)**
Increase of impairment allowances	–	–
Decrease of impairment allowances	–	10 399
Closing balance	**–**	**–**
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	**113 302**	**33 120**
NET CARRYING AMOUNT AT THE END OF THE PERIOD	**98 149**	**113 302**

25. Inventories

	As at 31 December 2013	As at 31 December 2012
Historical cost		
Energy certificates	10 543	208 279
Greenhouse gas emission allowances	138 715	2 434
Merchandise	13	13
Materials	46	420
Total	**149 317**	**211 146**
Write-downs to net realizable value		
Energy certificates	–	(34 774)
Greenhouse gas emission allowances	–	(200)
Total	**–**	**(34 974)**
Net realizable value		
Energy certificates	10 543	173 505
Greenhouse gas emission allowances	138 715	2 234
Merchandise	13	13
Materials	46	420
Total	**149 317**	**176 172**

The decrease in the value of energy certificates is mainly due to the sale of 704 000 green certificates in 2013.

The rise in the value of emission allowances results from the Company's purchase of allowances, which were subsequently resold to Group entities to meet the surrender obligation.

26. Trade and other receivables

	As at 31 December 2013	As at 31 December 2012
Trade receivables	1 083 164	1 108 553
Receivables from sales of intangible assets	1 015	–
Amounts paid as security	22 189	31 356
TCG receivable	27 528	65 870
Receivable from loan overpayment	–	134 680
Other loans granted	–	114 935
Other financial receivables	960	5 090
Total	**1 134 856**	**1 460 484**

(in PLN '000)

27. Other current non-financial assets

	As at 31 December 2013	As at 31 December 2012
Other deferred costs	13 720	2 367
Receivables from excise duty	9 140	6 658
Receivables from input VAT	22	50 253
Other current assets	64	41
Total	**22 946**	**59 319**

VAT liabilities decreased due to VAT overpaid as at 31 December 2012 linked to the tax liability related to acquisition of intangible assets, i.e. licences and software and energy certificates in the fourth quarter of 2012. The overpayment was set off against current VAT liabilities in 2013.

28. Cash and cash equivalents

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	77 978	276 060
Short-term deposits (up to 3 months)	429 149	634 361
Total cash and cash equivalents presented in the statement of financial position, including:	**507 127**	**910 421**
– restricted cash	70 330	269 888
Cash pool	(1 615 281)	(1 175 886)
Overdraft	(93 645)	(129 566)
Foreign exchange and other differences	3 378	1 511
Total cash and cash equivalents presented in the statement of cash flows	**(1 198 421)**	**(393 520)**

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

Balance of restricted cash includes mainly cash on the account for settling electricity trading on the Polish Power Exchange, i.e. Towarowa Giełda Energii S.A., of PLN 68 084 thousand and cash on a bank account for bid bonds of PLN 2 013 thousand.

Detailed information on cash pool balances has been presented in Note 31.3 to these financial statements.

29. Issued capital and other capitals

29.1. Issued capital

Issued capital as at 31 December 2013

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

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

(in PLN '000)

29.2. Major shareholders

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

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

29.3. Reserve capital, retained earnings and restrictions on dividend payment

In the financial year ended 31 December 2013 the supplementary capital was increased by PLN 1 084 678 thousand as a result of distribution of profit for 2012.

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

- net profit of PLN 1 688 972 thousand;
- actuarial gains, including deferred tax, of PLN 231 thousand;
- allocation of profit earned in 2012 to the reserve capital (PLN 1 084 678 thousand) and to dividend payment (PLN 350 510 thousand).
- settlement of a business combination with PKE Broker Sp. z o.o. of PLN 644 thousand.

The amount of PLN 1 691 667 thousand, disclosed as retained earnings, may still be distributed.

	As at 31 December 2013	As at 31 December 2012
Non-distributable amounts included in retained earnings/accumulated losses:	**77 700**	**78 113**
Actuarial gains/losses related to provisions for post-employment benefits	(135)	(366)
Retained earnings from merger	77 835	78 479
Retained earnings of the Company eligible for distribution, of which:	**1 691 667**	**1 437 883**
Profit for the period	1 688 972	1 435 188
Retained earnings from merger	2 651	2 651
Other	44	44
Total retained earnings/accumulated losses in the statement of financial position	**1 769 367**	**1 515 996**

29.4. Revaluation reserve from valuation of hedging instruments

	Year ended 31 December 2013	Year ended 31 December 2012
Opening balance	**(189 756)**	**–**
Remeasurement of hedging instruments	30 904	(190 666)
Remeasurement of hedging instruments charged to profit or loss	2 493	910
Deferred income tax	29 708	–
Closing balance	**(126 651)**	**(189 756)**

The revaluation reserve from measurement of hedging instruments results from valuation of Interest Rate Swaps (IRS) hedging the interest rate risk arising from bonds issued, as presented in detail in Note 43.

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

As at 31 December 2013, the revaluation reserve from measurement of hedging instruments included the amount of PLN (126 651) thousand. It represents a liability arising from measurement of IRS 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.

(in PLN '000)

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 resulting 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 transactions hedging IRS increased financial expenses arising from interest on issued bonds.

30. Earnings per share

Earnings per share (in PLN)	Year ended 31 December 2013	Year ended 31 December 2012
Basic and diluted, for profit for the year	0.96	0.82
Basic and diluted, for profit from continuing operations for the year	0.96	0.82

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
Net profit attributable to ordinary shareholders	1 688 972	1 435 188
Net profit from continuing operations attributable to ordinary shareholders	1 688 972	1 435 188
Number of ordinary shares	1 752 549 394	1 752 549 394

31. Interest-bearing loans and borrowings

	As at 31 December 2013	As at 31 December 2012
Non-current portion of loans and borrowings, including issued bonds:		
Issued bonds	4 291 460	4 288 247
Loans received from the European Investment Bank	1 153 819	836 835
Total	**5 445 279**	**5 125 082**
Current portion of loans and borrowings, including issued bonds:		
Issued bonds	9 062	13 587
Cash pool loans received, including accrued interest	1 615 395	1 175 948
Loans from the European Investment Bank	139 930	73 559
Overdraft	93 645	129 566
Total	**1 858 032**	**1 392 660**

31.1. Bonds issued

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

(in PLN '000)

Bonds as at 31 December 2013

Tranche	Maturity date	Interest rate	Currency	As at balance sheet date		of which maturing within (after the balance sheet date)				
				Accrued interest	Principal at amortized 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 bonds				**9 062**	**4 291 460**	**–**	**1 296 486**	**2 994 974**	**–**	**–**

Bonds as at 31 December 2012

Tranche	Maturity date	Interest rate	Currency	As at balance sheet date		of which maturing within (after the balance sheet date)				
				Accrued interest	Principal at amortized 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 bonds				**13 587**	**4 288 247**	**–**	**–**	**1 295 674**	**2 992 573**	**–**

Bonds are 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, presented in detail in Notes 29.4 and 43.

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 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 markup. Bonds will be underwritten 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.

31.2. Loans from the European Investment Bank

As at 31 December 2013, the balance of loans obtained from the European Investment Bank was PLN 1 293 749 thousand, including interest accrued of PLN 7 098 thousand. As at 31 December 2012, the related liabilities amounted to PLN 910 394 thousand.

(in PLN '000)

Change in the balance of loans from the European Investment Bank, excluding interest accrued is presented below.

	Year ended 31 December 2013	Year ended 31 December 2012
Opening balance	**908 254**	**–**
Granted	450 000	960 000
Repaid	(71 455)	(51 000)
Measurement change	(148)	(746)
Closing balance	**1 286 651**	**908 254**

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;
- 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 in the Group.

31.3. Cash pool

In order to optimize cash management, financial liquidity and financial revenue and expense the TAURON Capital Group introduced a cash pooling structure with TAURON Polska Energia S.A. as a pool leader. The interest rates were determined on market terms.

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

	As at 31 December 2013	As at 31 December 2012
Interest receivable on loans granted under cash pool agreement	114	62
Total Receivable	**114**	**62**
Loans received under cash pool agreement	1 612 350	1 171 892
Interest payable on loans received under cash pool agreement	3 045	4 056
Total Liabilities	**1 615 395**	**1 175 948**
Balance of cash pool – liability	**1 615 281**	**1 175 886**

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

Under the cash pool agreement, the Company may use external funding amounting to PLN 300 000 thousand. As at 31 December 2013, the related liability amounted to PLN 88 515 thousand (including interest accrued of PLN 8 thousand).

31.4. Overdraft facilities

As at 31 December 2013 the balance of overdrafts amounted to PLN 93 645 thousand and included:

- Multi-option Loan Agreement with NORDEA Bank Finland plc concluded by the Company for the purpose of funding transactions in emission allowances, entered into in a foreign exchange – PLN 5 130 thousand (EUR 1 237 thousand);
- Financing under the cash pool agreement – PLN 88 515 thousand.

32. Lease

32.1. Operating lease liabilities

As at 31 December 2013 the Company used a real property located in Katowice at ul. ks. Piotra Ściegiennego 3, based on a lease agreement.

(in PLN '000)

The Company's registered office is located in the leased premises with the usable are of 6 100 square meters and the average cost of lease with maintenance fees totals PLN 450 thousand.

32.2. Finance lease liabilities

Future minimum finance lease payments and the present value of minimum net lease payments are the following:

	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	4 314	3 266	552	510
Within 1 to 5 years	35 832	33 159	494	480
More than 5 years	–	–	–	–
Minimum lease payments, total	**40 146**	**36 425**	**1 046**	**990**
Less amounts representing finance charges	(3 721)	–	(56)	–
Present value of minimum lease payments, of which:	**36 425**	**36 425**	**990**	**990**
current	3 266	3 266	510	510
non-current	33 159	33 159	480	480

Increase in finance lease liabilities is 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. and PKE Broker Sp. z o.o., which has been discussed in detail in Note 37.

33. Employee benefits

Based on the measurement carried out using actuarial methods the Company recognizes provisions for future employee benefits, including for:

- retirement, disability and death benefits;
- special reduced electricity tariff for employees;
- appropriations to the Company's Social Benefits Fund;
- jubilee benefits.

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

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	Jubilee bonuses	Provisions, total
Opening balance	**923**	**681**	**168**	**3 999**	**5 771**
Current service costs	195	68	24	1 035	**1 322**
Actuarial gains and losses: of which:	(56)	(113)	(30)	(232)	**(431)**
– arising from changes in demographic assumptions	(184)	(137)	(33)	(440)	**(794)**
– arising from other changes	128	24	3	208	**363**
Benefits paid	–	(3)	(3)	(796)	**(802)**
Past service costs	(45)	(35)	(9)	(230)	**(319)**
Interest expense	41	29	7	165	**242**
Closing balance	**1 058**	**627**	**157**	**3 941**	**5 783**
current	90	5	1	420	516
non-current	968	622	156	3 521	5 267

(in PLN '000)

Change in provisions for employee benefits for the year ended 31 December 2012

	Provision for retirement, disability and similar benefits	Employee electricity rates	Social Fund	Jubilee bonuses	Provisions, total
Opening balance	**708**	**494**	**129**	**2 186**	**3 517**
Current service costs	191	70	26	843	**1 130**
Actuarial gains and losses, of which:	80	89	8	1 092	**1 269**
– arising from changes in financial assumptions	211	260	46	478	**995**
– arising from changes in demographic assumptions	(138)	(151)	(44)	(41)	**(374)**
– arising from other changes	7	(20)	6	655	**648**
Benefits paid	(99)	(2)	(3)	(264)	**(368)**
Interest expense	43	30	8	142	**223**
Closing balance	**923**	**681**	**168**	**3 999**	**5 771**
current	62	38	9	1 057	1 166
non-current	861	643	159	2 942	4 605

34. Other provisions

Change in other current provisions for the year ended 31 December 2013

	Provision for energy certificates	Other provisions	Total provisions
Opening balance	**118 250**	**788**	**119 038**
Recognision	109 792	–	**109 792**
Utilisation	(118 250)	–	**(118 250)**
Closing balance	**109 792**	**788**	**110 580**

In the first quarter of 2013, in order to fulfil the obligation for 2012, the Company cancelled energy certificates of PLN 119 093 thousand. As a result, the provision recognized at the end of 2012 in the amount of PLN 118 250 thousand was used in full in the first quarter of 2013, while the amount of PLN 843 thousand representing the excess of the obligation over the provision recognized was expensed in 2013.

Change in other short-term provisions for the year ended 31 December 2012

	Provision for energy certificates	Other provisions	Total provisions
Opening balance	**164 856**	**2 556**	**167 412**
Recognision	118 250	8	**118 258**
Reversal	–	(1 591)	**(1 591)**
Utilisation	(164 856)	(185)	**(165 041)**
Closing balance	**118 250**	**788**	**119 038**

35. Deferred income and government grants

	As at 31 December 2013	As at 31 December 2012
Unused holidays	1 999	1 749
Bonuses	9 314	8 600
Audit fees	108	75
Government grants	95	143
Other deferred income	7	60
Total, of which:	**11 523**	**10 627**
non-current	48	95
current	11 475	10 532

(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:	**65 454**	**92 600**
Excise tax	846	803
VAT	61 684	88 764
Social security	1 752	1 871
Personal Income Tax	1 150	1 140
Other	22	22
Other non-financial liabilities:	**576**	**765**
Excess of Social Fund liabilities over Social Fund assets	576	301
Other special funds	–	464
Total	**66 030**	**93 365**

37. Business combinations under common control

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, understood as a combination of entities under common control, not as a standard business combination defined in IFRS 3, 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.

As a result of the business combination, the Company derecognized shares in PKE Broker Sp. z o.o. with the value of PLN 1 394 thousand acquired in 2013 and recognized net assets of the acquiree of PLN 750 thousand. Consequently, retained earnings of the acquirer decreased by PLN 644 thousand.

Net assets of PKE Broker Sp. z o.o.	As at 2 December 2013
Non-current assets	
Investment property	36 169
Other financial assets	5 239
	41 408
Current assets	
Corporate income tax receivable	332
Trade and other receivables	1 541
Other non-financial assets	12
Cash and cash equivalents	150
	2 035
TOTAL ASSETS	**43 443**
Non-current liabilities	
Liabilities under finance leases	33 159
Other financial liabilities	5 239
	38 398
Current liabilities	
Current portion of liabilities under finance leases	3 010
Trade and other payables	54
Other restatements (equity and liabilities)	1 231
	4 295
TOTAL LIABILITIES	**42 693**
NET ASSETS	**750**

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 operating lease and lease agreements between PKO Bankowy Leasing Sp. z o.o. (Financing Party and Lessor) and PKE Broker Sp. z o.o. (User and Lessee). 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.

(in PLN '000)

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 agreement as finance lease agreement and it has recognized assets and liabilities in the amount equal to present value of payments determined as at the business combination date in its statement of financial position.

Liability due to lease agreements transferred amounted to PLN 36 169 thousand. Key asset and liability items result from the lease agreement in question classified as finance lease agreement, as presented in detail in notes to the financial statements.

38. Contingent liabilities

The Company's contingent liabilities arise mainly from collateral and guarantees given to subsidiaries. Contingent liabilities recognized as of 31 December 2013:

Contingent liability type	Balance as at 31 December 2013	Contingent liability granted to	Beneficiary
blank promissory note	40 000	TAURON Wytwarzanie S.A.	Regional Fund for Environmental Protection and Water Management in Katowice
	30 000	TAURON Ciepło S.A.	
	1 180	TAURON Ciepło S.A.	
collateral of a bank guarantee	202	TAURON Dystrybucja Serwis S.A.	Nordea Bank Polska S.A.
collateral of a bank guarantee	593	TAURON Sprzedaż GZE Sp. z o.o.	Powszechna Kasa Oszczędności Bank Polski S.A.
	1 618	TAURON Sprzedaż Sp. z o.o.	
	1 000	Polska Energia Pierwsza Kompania Handlowa Sp. z o.o.	
	1 762	Kopalnia Wapienia Czatkowice Sp. z o.o.	
	23	TAURON Dystrybucja Serwis S.A.	
colleteral of a loan	1 145	Kopalnia Wapienia Czatkowice Sp. z o.o.	Regional Fund for Environmental Protection and Water Management in Kraków

Changes in the year ended 31 December 2013:

- validity of the Company's commitment to provide funding of PLN 200 000 thousand, made to support the request submitted by its subsidiary, TAURON Wytwarzanie S.A., to the Ministry of Economy for a subsidy for the "Construction of a biomass boiler at PKE S.A. Elektrownia Jaworzno III – Elektrownia II" project under the Infrastructure and Environment Operational Program, ended on 31 December 2012.
- a guarantee of EUR 500 thousand given by the Company to TAURON Czech Energy s.r.o., with CEZ a.s. as the beneficiary, expired in June 2013;
- in January 2013, the Company issued two blank promissory notes to the benefit of TAURON Ciepło S.A. with a view to collateralizing a loan granted to the subsidiary by the Regional Fund for Environmental Protection and Water Management in Katowice (PLN 1 180 thousand);
- in 2013, the Company collateralized loans granted to its subsidiary, Kopalnia Wapienia Czatkowice Sp. z o.o., with the Regional Fund for Environmental Protection and Water Management in Kraków as the beneficiary (PLN 1 145 thousand).
- Under the master agreement for bank guarantees concluded with PKO Bank Polski S.A., the bank has issued guarantees for subsidiaries for the total amount of PLN 4 996 thousand as at the end of the reporting period upon request of the Company. As at 31 December 2012 the balance of bank guarantees granted reached PLN 3 597 thousand.

Claims filed by Huta Łaziska S.A.

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

39. Collateral against liabilities

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

The key items collateralize the following agreements:

Bond issue schemes

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

- up to PLN 1 560 000 thousand, valid until 31 December 2016 – as regards 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 31.1, 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 (Note 38 to the financial statements) 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

With a view to collateralizing transactions entered into at the ICE Futures Europe and the European Energy Exchange, mainly forwards concerning emission allowances, the Company transfers margin deposits for such transactions to separate bank accounts – as at 31 December 2013, such deposits amounted to PLN 5 084 thousand.

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

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 37 to the financial statements. The agreement is collateralized by assignment of receivables; two blank promissory notes; authorisation to debit a bank account.

40. Capital commitments

As at 31 December 2013 capital commitments of the Company reached PLN 638 thousand.

41. Related party disclosures

41.1. Transactions with related parties and State Treasury companies

The Company enters into transactions with related parties as presented in Note 7 to these financial statements. In addition, due to the fact that the State Treasury of the Republic of Poland is the Company's major shareholder, State Treasury companies are treated as related parties. Transactions with State Treasury companies are mainly related to the operating activities of the Company. All related-party transactions were concluded on the arm's length basis.

The total value of revenue and expense resulting from transactions with the aforementioned entities and the balances of receivables and liabilities have been presented in the tables below.

(in PLN '000)

Revenue and expense

	Year ended 31 December 2013	Year ended 31 December 2012
Revenue from subsidiaries, of which:	**11 931 518**	**10 873 326**
Revenue from operating activities	10 193 874	9 155 016
Dividend received	1 500 213	1 550 613
Finance income	237 431	167 697
Revenue from co-subsidiaries	**9 688**	**3 100**
Revenue from State Treasury companies	**1 357 630**	**1 285 321**
Costs from subsidiaries, of which:	**(5 019 362)**	**(1 516 535)**
Costs of operating activities	(4 990 064)	(1 479 764)
Finance costs	(29 298)	(36 771)
Costs from State Treasury companies	**(1 500 794)**	**(1 467 499)**

Receivables and liabilities

	As at 31 December 2013	As at 31 December 2012
Loans granted to subsidiaries and receivables from subsidiaries, of which:	**6 089 671**	**3 849 184**
Trade receivables	842 514	878 387
Other financial receivables	1 799	134 742
Receivables from the TCG	27 528	65 870
Bonds	5 217 830	2 655 261
Other loans	–	114 924
Loans granted to co-subsidiaries	**189 310**	**117 813**
Receivables from State Treasury companies	**114 143**	**128 725**
Liabilities to subsidiaries, of which:	**2 054 937**	**1 331 544**
Trade payables	409 960	144 548
Loans received under cash pool agreement plus interest accrued	1 615 395	1 175 948
Liabilities arising from the TCG	23 974	11 048
Other financial liabilities	5 608	–
Liabilities to State Treasury companies	**166 197**	**245 124**

Revenue from related parties includes revenue from sales of coal and biomass to TAURON Wytwarzanie S.A. and TAURON Ciepło S.A., as presented in detail in Note 10.

A rise in operating expenses in the year ended 31 December 2013 year-on-year was mainly due to an increase in purchases of electricity from TAURON Wytwarzanie S.A. The value of purchased electricity was PLN 3 582 676 thousand and PLN 211 208 thousand, respectively.

In 2012, TAURON Wytwarzanie S.A., as the beneficiary of compensation payments related to long-term contracts, was obliged to sell 100% of the generated electricity volume through the Polish Power Exchange. 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, including TAURON Polska Energia S.A.

Among the State Treasury companies, in the year ended 31 December 2013, KGHM Polska Miedź S.A., PKP Energetyka S.A., ENERGA Obrót S.A, ENEA Operator Sp. z o.o. and Katowicki Holding Węglowy S.A. were the major business partners of TAURON Polska Energia S.A. in terms of sales revenue. The revenue from the aforementioned entities represented 66% of the total revenue generated in transactions with State Treasury companies.

The highest costs resulted from transactions with Kompania Węglowa S.A. and PGE Polska Grupa Energetyczna S.A. and they accounted for 74% of total expenses incurred as a result of purchases from State Treasury companies.

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

(in PLN '000)

41.2. Executive compensation

The amount of compensation and other benefits granted to the Management Board, Supervisory Board and other key executives of the Company in the year ended 31 December 2013 and in the comparative period has been presented in the table below.

	Year ended 31 December 2013	Year ended 31 December 2012
Management Board	**7 420**	**8 071**
Short-term employee benefits (salaries and surcharges)	6 710	7 267
Other	710	804
Supervisory Board	**936**	**937**
Short-term employee benefits (salaries and surcharges)	936	937
Other members of key management personnel	**11 961**	**9 477**
Short-term employee benefits (salaries and surcharges)	10 833	8 507
Post-employment benefits	126	126
Other	1 002	844
Total	**20 317**	**18 485**

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

42. Financial instruments

42.1. 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**	**466**	**466**
Derivatives	34	34	466	466
2 Financial assets available for sale	**6 973**	**–**	**5 057**	**–**
Long-term shares	6 973	–	5 057	–
3 Loans and receivables	**6 547 235**	**–**	**4 233 547**	**–**
Trade receivables	1 083 164	–	1 108 553	–
Proceeeds from sale of intangible assets	1 015	–	–	–
Bonds	5 217 830	–	2 655 261	–
Cash Pool loans granted	114	–	62	–
Other loans granted	189 310	–	232 737	–
Other financial receivables	55 802	–	236 934	–
4 Financial assets excluded from the scope of IAS 39	**20 446 849**	**–**	**20 179 347**	**–**
Shares in subsidiaries	20 214 349	–	20 179 347	–
Advance payment for acquisition of shares	232 500	–	–	–
5 Cash and cash equivalents	**507 127**	**–**	**910 421**	**–**
Total financial assets, of which in the statement of financial position:	**27 508 218**		**25 328 838**	
Non-current assets	**25 813 371**		**22 917 206**	
Shares	20 221 322		20 184 404	
Bonds	5 165 000		2 615 000	
Loans granted	189 310		117 802	
Other financial assets	237 739		–	
Current assets	**1 694 847**		**2 411 632**	
Trade and other receivables	1 134 856		1 460 484	
Bonds	52 830		40 261	
Derivative instruments	34		466	
Cash and cash equivalents	507 127		910 421	

(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**
Derivatives	1 169	1 169	552	552
2 Financial liabilities measured at amortized cost	**8 127 697**	**–**	**7 240 995**	**–**
Arm's length loans, of which:	2 909 144	–	2 086 342	–
Liability under the cash pool loan	1 615 395	–	1 175 948	–
Loans from the European Investment Bank	1 293 749	–	910 394	–
Overdraft	93 645	–	129 566	–
Bonds issued	4 300 522	–	4 301 834	–
Trade liabilities	772 481	–	679 612	–
Other financial liabilities	47 717	–	19 630	–
Liabilities due to purchases of fixed and intangible assets	4 188	–	24 011	–
3 Liabilities under guarantees, factoring and excluded from the scope of IAS 39	**36 425**	**–**	**990**	**–**
Liabilities under finance leases	36 425	–	990	–
4 Hedging derivative instruments (liabilities)	**159 762**	**159 762**	**190 666**	**190 666**
Total financial liabilities, of which in the statement of financial position:	**8 325 053**		**7 433 203**	
Non-current liabilities	**5 571 250**		**5 276 156**	
Interest-bearing loans and borrowings	5 445 279		5 125 082	
Liabilities under finance leases	33 159		480	
Other financial liabilities	5 239		–	
Derivative instruments	87 573		150 594	
Current liabilities	**2 753 803**		**2 157 047**	
Current portion of interest-bearing loans and borrowings	1 858 032		1 392 660	
Current portion of liabilities under finance leases	3 266		510	
Trade and other payables	819 147		723 253	
Derivative instruments	73 358		40 624	

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

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

42.2. 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	
	1 level	2 level	1 level	2 level
Assets				
Derivate instruments – commodity	34	–	466	–
Liabilities				
Derivate instruments – commodity	40	–	–	–
Derivate instruments – currency	–	1 129	–	552
Derivate instruments – IRS	–	159 762	–	190 666

The method of fair value measurement of financial instruments has been described in Note 6 to these financial statements.

42.3. Details of significant items in individual categories of financial instruments

Available-for-sale financial assets

Available-for-sale financial assets, amounting to PLN 6 973 thousand, include mainly:

- shares in TAURON Wytwarzanie GZE Sp. z o.o. amounting to PLN 4 935 thousand, which were acquired as a result of the business combination with Górnośląski Zakład Elektroenergetyczny S.A. in June 2012;
- shares in Przedsiębiorstwo Energetyki Cieplnej Sp. z o.o. in Tychy in the amount of PLN 1 872 thousand.

Loans and receivables

Key items of loans and receivables include:

- Bonds

  As at 31 December 2013 bonds issued by subsidiaries and acquired by the Company amounted to PLN 5 217 830 thousand (as at 31 December 2012 it was PLN 2 655 261 thousand). Bonds broken down by individual companies – issuers have been presented in Note 21, and changes in their balance in the year ended 31 December 2013 have been presented in Note 45 to these financial statements.
- Other loans granted

  Originated loans include a long-term loan granted to Elektrociepłownia Stalowa Wola S.A. in the amount of PLN 177 000 thousand together with interest accrued in the amount of PLN 12 310 thousand, as described in detail in Note 22.
- Trade and other financial receivables

  Trade and other financial receivables have been presented in detail in Note 26.

Financial assets excluded from the scope of IAS 39

Financial assets excluded from the scope of IAS 39, amounting to PLN 20 214 349 thousand, include shares held by the Company in its subsidiaries, as presented in detail in Note 20.

Additionally, the Company disclosed an advance payment for the acquisition of shares in Południowy Koncern Węglowy S.A. (currently: TAURON Wydobycie S.A.), which has been presented in detail in Note 23.

Financial liabilities measured at amortized cost

- Issued bonds have been presented in detail in Note 31.1;
- Loans granted by the European Investment Bank have been presented in detail in Note 31.2;
- Overdraft facility has been presented in detail in Note 31.4;
- Liabilities under the Cash Pool loan have been presented in detail in Note 31.3.
- Other financial liabilities

  Other financial liabilities include mainly liabilities to the Company's subsidiaries operating within the Tax Capital Group, due to tax overpayment of PLN 23 974 thousand, as presented in detail in Note 15.4.

(in PLN '000)

Liabilities under 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 with PKE Broker Sp. z o.o., as described in Note 37 to the financial statements.

Hedging derivative instruments (relating to liabilities)

Derivative instruments hedging interest cash flows related to issued bonds have been presented in detail in Note 29.4.

42.4. 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 assets excluded from the scope of IAS 39	Financial liabilities at fair value through profit or loss	Financial liabilities measured at amortized cost	Liabilities under guarantees, factoring and excluded from the scope of IAS 39	Hedging instruments	Total
Dividends	–	414	–	1 500 213	–	–	–	–	**1 500 627**
Interest income/(expense)	26 201	–	245 881	–	–	(278 531)	(131)	(50 845)	**(57 425)**
Commissions	–	–	–	–	–	(12 664)	–	–	**(12 664)**
Exchange differences	(4 496)	–	1 584	–	–	–	–	–	**(2 912)**
Impairment losses/revaluation	–	–	–	–	(1 049)	–	–	–	**(1 049)**
Other	2 644	–	–	–	(1 704)	–	–	–	**940**
Net profit/(loss)	**24 349**	**414**	**247 465**	**1 500 213**	**(2 753)**	**(291 195)**	**(131)**	**(50 845)**	**1 427 517**

Year ended 31 December 2012

	Assets at fair value through profit or loss	Financial assets available for sale	Loans and receivables	Financial assets excluded from the scope of IAS 39	Financial liabilities at fair value through profit or loss	Financial liabilities measured at amortized cost	Liabilities under guarantees, factoring and excluded from the scope of IAS 39	Hedging instruments	Total
Dividends	–	–	–	1 550 613	–	–	–	–	**1 550 613**
Interest income/(expense)	37 413	–	168 865	–	–	(327 131)	(79)	6 466	**(114 466)**
Commissions	–	–	–	–	–	(7 073)	–	–	**(7 073)**
Exchange differences	(1 737)	–	367	–	–	–	–	–	**(1 370)**
Impairment losses/revaluation	466	–	–	–	(472)	–	–	(910)	**(916)**
Other	4 704	–	–	–	(470)	–	–	–	**4 234**
Net profit/(loss)	**40 846**	**–**	**169 232**	**1 550 613**	**(942)**	**(334 204)**	**(79)**	**5 556**	**1 431 022**

43. Financial risk management

The TAURON Capital Group has implemented the policy for management of specific risk in the area of finance which defines the strategy of management of the currency and interest rate risk. The policy has also introduced hedge accounting in the Group, which lays down the principles and defines the types of hedge accounting, along with the accounting treatment of hedging instruments and hedged items, to be applied as part of hedge accounting under IFRS. The policy for specific risk management in the area of finance and hedge accounting principles are applicable to the cash flow risk and not to the fair value risk due to its limited significance for the Group. The Policy has been presented in detail in Note 44 to the consolidated financial statements for the year ended 31 December 2013.

Hedge accounting

As at 31 December 2013 the Company 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 Company hedged the interest rate risk arising from bonds issued under the Bond Issue Scheme, by entering into an interest rate swap (IRS) transaction for a term of 5 years. The aforementioned transaction was concluded due to fluctuations in the projected future cash flows from interest payments resulting from the issue of bonds in PLN with a floating interest rate based on WIBOR 6M. The Company hedged 80% of such cash flows. The parent applies hedge accounting to the aforementioned transactions. The accounting treatment of the aforementioned hedging transactions has been presented in detail in Note 29.4.

(in PLN '000)

Key risks related to financial instruments, the Company is exposed to in its business operations:

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

43.1. 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 Company monitors credit risk related to its operations on on-going basis. In 2013, the Company was exposed to contractor's credit risk resulting from trade contracts concluded. To mitigate the risk, as a part of the regular analysis of reliability and financial standing of its contractors, in justified cases the Company required security in the form of bank, insurance or corporate guarantees. It has also introduced clauses which enable suspending energy supplies in case of default under timely payment of liabilities.

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

As at 31 December 2013 the largest item in trade receivables were receivables from TAURON Sprzedaż Sp. z o.o. amounting to PLN 339 296 thousand.

As at 31 December 2012 the largest item in trade receivables were also receivables from TAURON Sprzedaż Sp. z o.o. of PLN 443 082 thousand.

The ageing analysis and allowances for trade and other receivables have been presented below.

Trade and other receivables as at 31 December 2013

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

(in PLN ‘000)

Trade and other receivables as at 31 December 2012

	Not past due	Past due			Total
		<30 days	30–360 days	>360 days	
Value of item before allowance/write-down					
Trade receivables	1 104 332	4 212	9	–	**1 108 553**
Other financial receivables	351 931		269	339	**352 539**
Total	**1 456 263**	**4 212**	**278**	**339**	**1 461 092**
Allowance/write-down					
Other financial receivables	–	–	(269)	(339)	**(608)**
Total	**–**	**–**	**(269)**	**(339)**	**(608)**
Value of item net of allowance (carrying amount)					
Trade receivables	1 104 332	4 212	9	–	**1 108 553**
Other financial receivables	351 931	–	–	–	**351 931**
Total	**1 456 263**	**4 212**	**9**	**–**	**1 460 484**

The credit risk related to other financial assets of the Company 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 the instruments.

43.2. Liquidity risk

The Company maintains balance between continuity, flexibility and cost of financing by using sources of financing, which enable management of liquidity risk and effective mitigation of risk consequences. Ageing structure of financial liabilities has been presented below.

Financial liabilities as at 31 December 2013

	less than 3 months	3–12 months	1–2 years	2–3 years	3–5 years	over 5 years	Total
Interest-bearing loans and borrowings (including bonds issued)	1 795 080	262 072	1 640 437	3 288 849	341 317	705 199	**8 032 954**
Trade liabilities	772 481	–	–	–	–	–	**772 481**
Liabilities due to purchases of fixed and intangible assets	4 188	–	–	–	–	–	**4 188**
Other financial liabilities	42 478	–	–	–	5 239	–	**47 717**
Derivatives (liabilities)	–	73 358	55 036	32 537	–	–	**160 931**
Liabilities under finance lease	809	2 457	2 990	3 208	26 961	–	**36 425**
Guarantees granted and similar items	77 523	–	–	–	–	–	**77 523**
Total	**2 692 559**	**337 887**	**1 698 463**	**3 324 594**	**373 517**	**705 199**	**9 132 219**

Financial liabilities as at 31 December 2012

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

43.3. Market risk

Market risk results from possible adverse impact of fluctuations of the fair value of financial instruments or related future cash flows due to market price changes on the Company’s performance.

(in PLN '000)

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

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

43.3.1. Interest rate risk

The Company 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 Company is 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 Company exposed to the interest rate risk, by age:

Interest rate risk as at 31 December 2013 – floating rate

Financial instruments	<1 year	1–2 years	2–3 years	3–5 years	>5 years	Total
Financial assets						
Bonds	34 622	–	–	200 000	1 410 000	**1 644 622**
Loans granted	114	–	–	–	189 310	**189 424**
Cash and cash equivalents	507 127	–	–	–	–	**507 127**
Total	**541 863**	**–**	**–**	**200 000**	**1 599 310**	**2 341 173**
Financial liabilities						
Arm's length loans	1 615 395	–	–	–	–	**1 615 395**
Overdraft	88 602	–	–	–	–	**88 602**
Bonds issued	3 013	856 974	–	–	–	**859 987**
Total	**1 707 010**	**856 974**	**–**	**–**	**–**	**2 563 984**

Interest rate risk as at 31 December 2013 – fixed rate

Financial instruments	<1 year	1–2 years	2–3 years	3–5 years	>5 years	Total
Financial assets						
Bonds	18 208	–	–	2 600 000	955 000	**3 573 208**
Total	**18 208**	**–**	**–**	**2 600 000**	**955 000**	**3 573 208**
Financial liabilities						
Arm's length loans	139 930	132 724	132 724	265 448	622 923	**1 293 749**
Overdraft	5 043	–	–	–	–	**5 043**
Bonds issued	6 049	439 512	2 994 974	–	–	**3 440 535**
Hedging derivative instruments (IRS)	72 229	54 996	32 537	–	–	**159 762**
Total	**223 251**	**627 232**	**3 160 235**	**265 448**	**622 923**	**4 899 089**

Interest rate risk as at 31 December 2012 – floating rate

Financial instruments	<1 year	1–2 years	2–3 years	3–5 years	>5 years	Total
Financial assets						
Bonds	40 261	–	2 615 000	–	–	**2 655 261**
Loans granted	73	–	–	–	117 802	**117 875**
Cash and cash equivalents	910 421	–	–	–	–	**910 421**
Total	**950 755**	**–**	**2 615 000**	**–**	**117 802**	**1 547 532**
Financial liabilities						
Arm's length loans	1 175 947	–	–	–	–	**1 175 947**
Overdraft	129 566	–	–	–	–	**129 566**
Bonds issued	4 875	–	856 440	–	–	**861 315**
Total	**1 310 388**	**–**	**856 440**	**–**	**–**	**2 166 828**

(in PLN '000)

Interest rate risk as at 31 December 2012 – fixed rate

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

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

43.3.2. Currency risk

The Company's exposure to currency risk by financial instrument classes as at 31 December 2013 and 31 December 2012 has been presented below.

Currency position as at 31 December 2013

	Total carrying amount in PLN	EUR	
		in currency	in PLN
Financial assets			
Trade receivables and other financial receivables	1 138 966	864	3 583
Cash and cash equivalents	507 127	1 824	7 564
Derivatives (assets)	34	8	34
Total	**1 646 127**	**2 696**	**11 181**
Financial liabilities			
Overdraft	93 645	1 237	5 130
Trade and other financial liabilities	820 198	3 775	15 656
Liabilities due to purchases of fixed and intangible assets	4 188	99	411
Derivatives (liabilities)	160 931	10	41
Total	**1 078 962**	**5 121**	**21 238**
Net currency position		**(2 425)**	**(10 057)**

Currency position as at 31 December 2012

	Total carrying amount in PLN	EUR	
		in currency	in PLN
Financial assets			
Trade receivables and other financial receivables	1 345 487	2 716	11 105
Cash and cash equivalents	910 421	5 506	22 508
Derivatives (assets)	466	92	376
Total	**2 256 374**	**8 314**	**33 989**
Financial liabilities			
Trade and other financial liabilities	699 242	188	768
Liabilities due to purchases of fixed and intangible assets	24 011	95	389
Derivatives (liabilities)	191 218	135	552
Total	**914 471**	**418**	**1 709**
Net currency position		**7 896**	**32 280**

In 2013 TAURON Polska Energia S.A. used forward transactions under its currency risk management policy. The objective of these transactions is to hedge currency risk related to trade transactions. The Company has not used hedge accounting to hedge currency risk.

43.3.3. Commodity price risk

The Company is exposed to adverse effects of risks related to changes in cash flows and financial performance in the domestic currency due to changes in prices of goods in the open market position. The Company's exposure to the risk of prices of goods reflects the volume of electricity and gas acquired. The volume and cost of electricity and gas acquired have been presented below.

Fuel type	Unit	2013		2012	
		Volume	Purchase cost	Volume	Purchase cost
Electricity	MWh	50 923 419	9 597 191	45 027 918	9 049 944
Gas	k m^3	418 298	81 174	29 750	6 758
Total			**9 678 365**		**9 056 702**

As for trading in coal and biomass the Company is not exposed to the price risk, as it acts as an agent generating revenue from agency trading only.

43.3.4. Market risk – sensitivity analysis

At present, TAURON Polska Energia S.A. is mainly exposed to the risk of changes in EUR/PLN exchange rates. The Company 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 Company 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 Company'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.

The interest rate risk sensitivity analysis is conducted by the Company 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 Company 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 interest 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 Company 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.

43.3.4.1. Interest rate risk sensitivity analysis

The Company identifies its exposure to the interest rate risk for WIBOR and EURIBOR. 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.

(in PLN '000)

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)*
Bonds	5 217 830	1 644 622	15 624	–	(15 624)	–	–	–
Loans granted	189 424	189 424	1 800	–	(1 800)	–	–	–
Cash and cash equivalents	507 127	507 127	4 746	–	(4 746)	–	17	(17)
Arm's lenght loans	2 909 144	1 615 395	(15 346)	–	15 346	–	–	–
Overdraft	93 645	88 602	(841)	–	841	–	(1)	1
Bonds issued	4 300 522	4 300 522	(40 855)	–	40 855	–	–	–
Derivates (liabilities)	160 931	159 762	–	75 397	–	(75 397)	–	–
Total			**(34 872)**	**75 397**	**34 872**	**(75 397)**	**16**	**(16)**

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)*
Bonds	2 655 261	2 655 261	30 004	–	(30 004)	–	–	–
Loans granted	232 799	117 875	1 332	–	(1 332)	–	–	–
Cash and cash equivalents	910 421	910 421	10 033	–	(10 033)	–	205	(205)
Arm's lenght loans	2 086 342	1 175 947	(13 288)	–	13 288	–	–	–
Overdraft	129 566	129 566	(1 464)	–	1 464	–	–	–
Bonds issued	4 301 834	4 301 834	(48 611)	–	48 611	–	–	–
Derivates (liabilities)	191 218	190 666	–	125 667	–	(125 667)	–	–
Total			**(21 994)**	**125 667**	**21 994**	**(125 667)**	**205**	**(205)**

43.3.4.2. Currency risk sensitivity analysis

The Company identifies its exposure to the currency risk for EUR/PLN. The tables below present sensitivity of the gross financial profit/loss to reasonably possible changes in the EUR/PLN exchange rate 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	
	Carrying amount	Value at risk	exchange rate EUR/PLN +7.75%	exchange rate EUR/PLN -7.75%
			Profit/(Loss)	*Profit/(Loss)*
Trade and other financial receivables	1 138 966	3 583	278	(278)
Cash and cash equivalents	507 127	7 564	586	(586)
Derivatives (assets)	34	34	3	(3)
Overdraft	93 645	5 130	(398)	398
Trade and other financial liabilities	820 198	15 656	(1 213)	1 213
Liabilities due to purchases of fixed and intangible assets	4 188	411	(32)	32
Derivatives (liabilities)	160 931	41	(3)	3
Total			**(779)**	**779**

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

(in PLN '000)

Year ended 31 December 2012

Classes of finacial instruments	31 December 2012		Sensitivity analysis for currency risk as at 31 December 2012	
			EUR/PLN	
	Carrying amount	Value at risk	exchange rate EUR/PLN +8.65%	exchange rate EUR/PLN -8.65%
			Profit/(Loss)	*Profit/(Loss)*
Trade and other financial receivables	1 345 487	11 105	961	(961)
Cash and cash equivalents	910 421	22 508	1 947	(1 947)
Derivatives (assets)	466	376	32	(32)
Trade and other financial liabilities	699 242	768	(66)	66
Liabilities due to purchases of fixed and intangible assets	24 011	389	(34)	34
Derivatives (liabilities)	191 218	552	(48)	48
Total			**2 792**	**(2 792)**

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

44. Financial management

Finance is managed at the level of the TAURON Polska Energia S.A. Capital Group, which has been presented in detail in Note 45 to the Consolidated Financial Statements for the year ended 31 December 2013.

45. Significant items of the statement of cash flows

45.1. Cash flows from investing activities

Acquisition of bonds

Payments related to acquisition of bonds, in the amount of PLN 6 130 000 thousand, are related to acquisition of intra-group bonds issued by the following subsidiaries:

- TAURON Wytwarzanie S.A., amounting to PLN 2 170 000 thousand;
- TAURON Dystrybucja S.A., amounting to PLN 1 510 000 thousand;
- MEGAWAT MARSZEWO Sp. z o.o., amounting to PLN 1 360 000 thousand;
- BELS INVESTMENT Sp. z o.o., amounting to PLN 560 000 thousand;
- TAURON Ciepło S.A., amounting to PLN 230 000 thousand;
- TAURON Ekoenergia Sp. z o.o., amounting to PLN 200 000 thousand;
- TAURON Wydobycie S.A., amounting to PLN 100 000 thousand.

Redemption of bonds

Proceeds from redemption of bonds, in the amount of PLN 3 580 000 thousand, are related to redemption of intra-group bonds by the following subsidiaries:

- TAURON Wytwarzanie S.A., amounting to PLN 1 480 000 thousand;
- MEGAWAT MARSZEWO Sp. z o.o., amounting to PLN 920 000 thousand;
- TAURON Dystrybucja S.A., amounting to PLN 630 000 thousand;
- BELS INVESTMENT Sp. z o.o., amounting to PLN 410 000 thousand;
- TAURON Ekoenergia Sp. z o.o., amounting to PLN 140 000 thousand.

Repayment of loans granted

In the year ended 31 December 2013, repayment of the following loans (totalling PLN 161 390 thousand) resulted in proceeds from investing activities:

- a loan of PLN 114 590 thousand originated to TAURON Wytwarzanie S.A. under an agreement signed in December 2012, which resulted from the purchase of CO_2 emission allowances from TAURON Wytwarzanie S.A. with a commitment to sell them back;
- loans of PLN 46 800 thousand originated to Elektrociepłownia Stalowa Wola S.A.

(in PLN '000)

Loans granted

In the year ended 31 December 2013, origination of loans to Elektrociepłownia Stalowa Wola S.A. (totalling PLN 108 800 thousand) resulted in payments for investing activities.

45.2. Cash flows from financing activities

Proceeds from loans and borrowings

Proceeds from loans and borrowings obtained by the Company include the receipt of further disbursements of loans from the European Investment Bank under a loan agreement of 3 July 2012, totalling PLN 450 000 thousand.

46. Employment structure

The following note presents average headcount in the annual periods ended 31 December 2013 and 31 December 2012.

	Year ended 31 December 2013	Year ended 31 December 2012
Management	4	5
Administration	196	198
Sales department	106	100
Total	**306**	**303**

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. for the year ended 31 December 2013 (Section 3.10).

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.

Bond issue

On 24 January 2014, Tranche E bonds were issued by the Company 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 financial statements of TAURON Polska Energia S.A., prepared for the year ended 31 December 2013 in accordance with the International Financial Reporting Standards have been presented on 66 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.
FOR THE FINANCIAL YEAR 2013

MARCH 2014

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1. ORGANISATION OF TAURON POLSKA ENERGIA S.A.

1.1. Basic Information on the Company and TAURON Capital Group

TAURON Polska Energia Spółka Akcyjna (hereinafter referred to as the Company or TAURON) was established on 6 December 2006 under implementation of the *Programme for Power Engineering*. The founders of the Company included: The State Treasury represented by the Minister of Treasury, EnergiaPro S.A. with its seat in Wrocław (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.

General Information

Name (enterprise): TAURON Polska Energia Spółka Akcyjna.

Legal form: joint stock company.

Seat: Katowice.

Website: www.tauron-pe.pl.

National Court Register: District Court Katowice-Wschód in Katowice.

KRS: 0000271562.

NIP: 9542583988.

REGON: 240524697.

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

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

Share capital as of 31 December 2013 (paid-up): PLN 8,762,746,970.00.

number of shares: 1,752,549,394 shares, including: AA series (bearer shares) 1,589,438,762 shares, BB shares (ordinary registered shares) 163,110,632 shares;

Par value of one share: PLN 5.00

The Company does not hold any branches (plants).

Structure of TAURON Capital Group

As of 31 December 2013, the key companies of TAURON Capital Group, besides the parent company, TAURON Polska Energia S.A., include 14 subsidiaries subject to consolidation. Moreover, TAURON Capital Group comprised 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 covered by consolidation, the most important subsidiaries include:

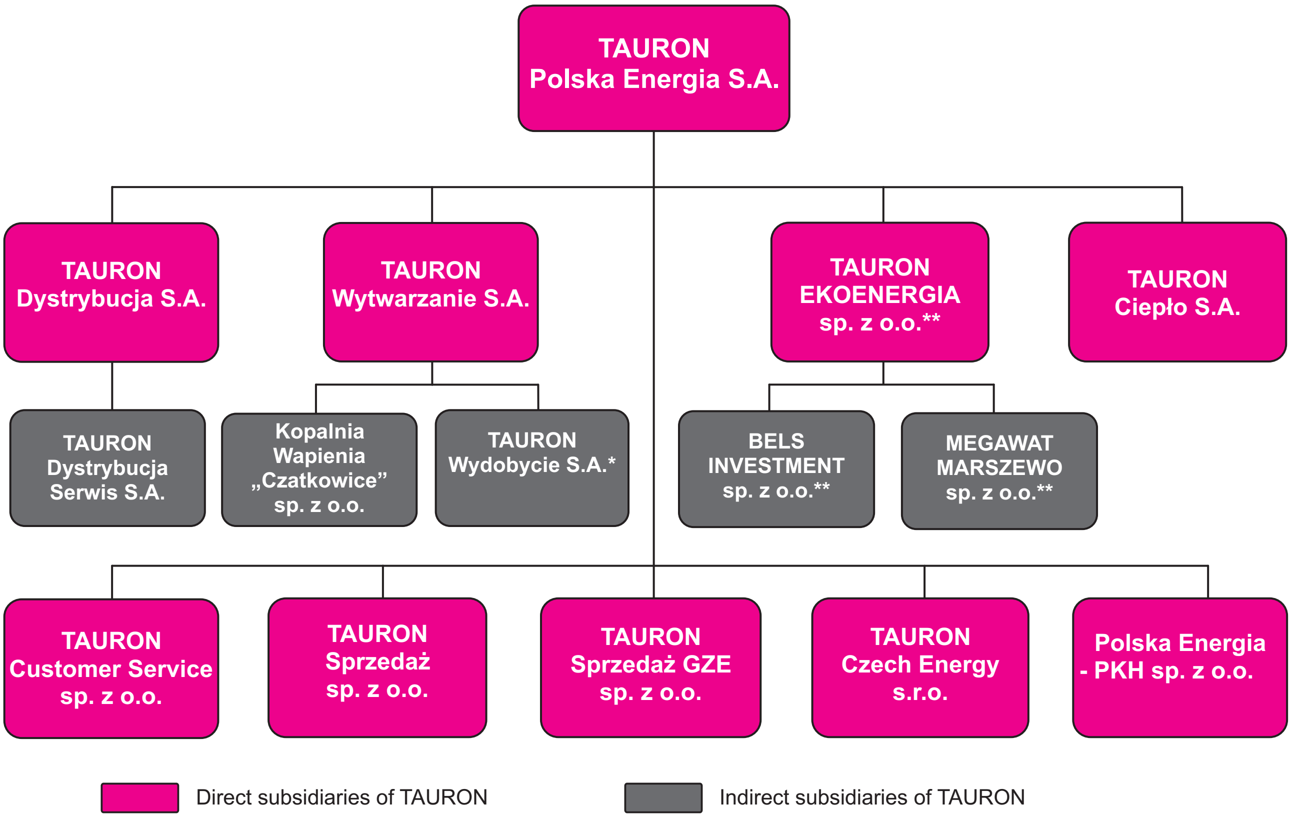
1) TAURON Dystrybucja S.A. (TAURON Dystrybucja) – providing electric energy distribution services,
2) TAURON Wytwarzanie S.A. (TAURON Wytwarzanie) – dealing with generation of power from conventional sources and biomass co-burning,
3) TAURON EKOENERGIA sp. z o.o. (TAURON EKOENERGIA) – dealing with generation 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 sale of electric energy to retail clients,
5) TAURON Obsługa Klienta sp. z o.o. (TAURON Obsługa Klienta) – dealing with customer service,
6) TAURON Ciepło 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).

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.

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).*

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 1.3 of this report.

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

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

Management Rules of the Company

In accordance with the provisions of the *By-laws of the Management Board of TAURON Polska Energia Spółka Akcyjna with its seat in Katowice*, the Management Board conducts all issues of the Company and represents it in all judicial

[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.*

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 Company 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 in the Company 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, as a parent entity, 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 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.

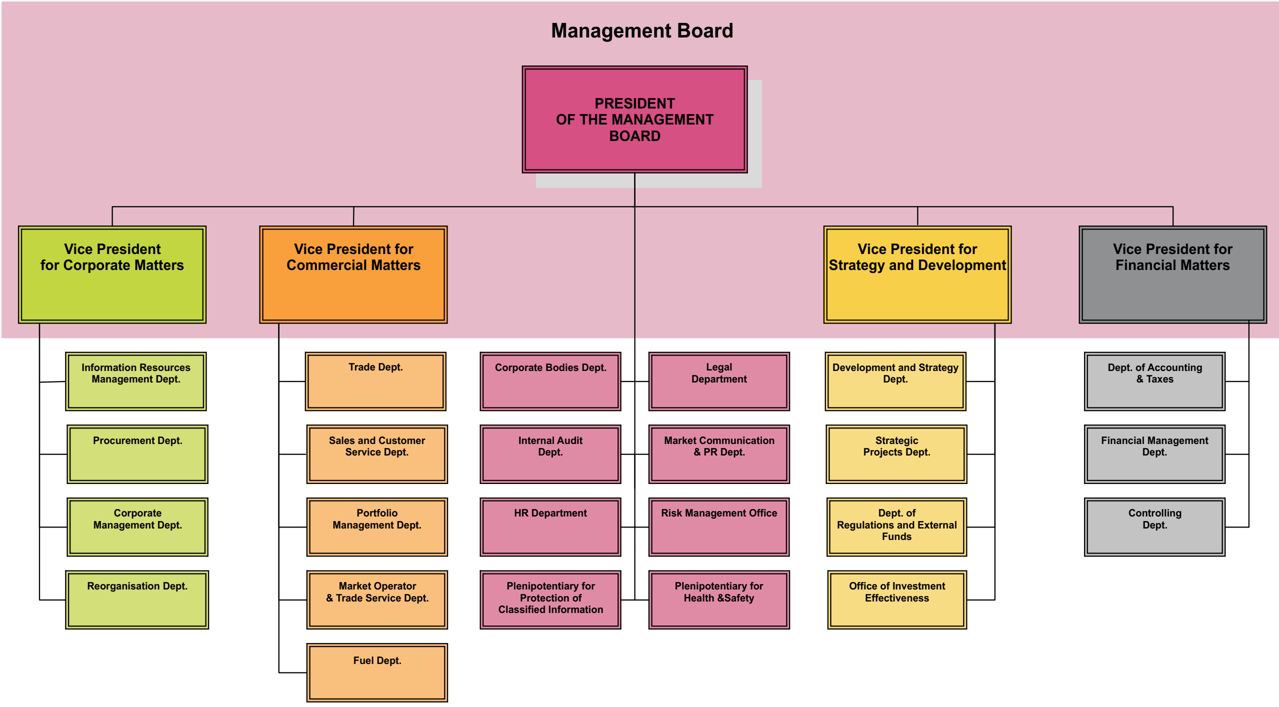
1.2.2. Changes in the management rules of the Company and TAURON Capital Group

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

No.	Area (Segment)	Company
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.

1.3. 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%

No.	Company name	Seat	Core business area	Direct share in company equity	Direct share in company governing body
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 participation 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

1.4. Major domestic and foreign investments

1.4.1. Purchase of shareholding securities

The investments in shareholding securities performed by the Company in 2013 were associated with the reorganisation-related changes in TAURON Capital Group. The main investments of the Company included:

Purchase of shares of PKE Broker sp. z o. o. (PKE Broker)

On 6 May 2013, the Company purchased, from the direct subsidiary, TAURON Wytwarzanie, 750 shares of the company PKE Broker sp. z o.o. (PKE Broker), constituting 100% shares in the 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.

Purchase of shares of the company Przedsiębiorstwo Energetyki Cieplnej sp. z o.o. w Tychach (PEC Tychy)

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 the subsidiary, TAURON Ciepło, constituting 1.2% interest in the share capital. 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.

Purchase of shares of the TAURON Ciepło company

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. 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 Tax Capital Group (PGK).

Purchase of shares of TAURON Wydobycie

On 10 December 2013 the agreement was signed on the purchase by TAURON of 16,730,525 registered shares of TAURON Wydobycie (formerly: Południowy Koncern Węglowy S.A.) 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.

1.4.2. Purchase of debt securities

Acting on the basis of the implemented model of central financing as well as in accordance with the conditions of the effective programme of issue of internal bonds, in 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 thousand 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.

2. OPERATIONS OF TAURON POLSKA ENERGIA S.A.

2.1. Timeline of key events

The following table presents the timeline of selected events associated with the operations of the Company 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. 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. 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. 4. 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), Powszechną Kasą 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.
July August	1. 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. 2. 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. 3. 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. 4. 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. 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.
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 PKW 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. 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. Basic products, goods, services

The table below shows the statement of comprehensive income for the financial year 2013, divided into basic types of activities, as compared to 2012.

Table no. 8 Statement of comprehensive income for the financial year 2013, divided into types of activities (data in thousand PLN)

Specification	Financial year ended 31 December 2013				Financial year ended 31 December 2012 (*data converted*)			
	Total activities	Sales	Holding activities	Unallocated items	Total activities	Sales	Holding activities	Unallocated items
Revenues								
Sales to external clients	**2,980,734**	2,980,734	–	–	**2,455,294**	2,455,294	–	–
Sales in TAURON Capital Group	**7,929,026**	7,929,026	–	–	**7,434,578**	7,434,578	–	–
Total revenue of the segment	**10,909,760**	**10,909,760**	**–**	**–**	**9,889,872**	**9,889,872**	**–**	**–**
Profit/(loss) of the segment	**348,800**	**373,119**	**(24,319)**	**–**	**151,549**	**151,549**	**–**	
Unallocated costs	**(81,998)**	–	–	(81,998)	**(104,439)**	–	–	(104,439)
Profit/(loss) on continued operations before taxes and financial revenues (costs)	**266,802**	**373,119**	**(24,319)**	**(81,998)**	**47,110**	**151,549**	**–**	**(104,439)**
Net financial revenues (costs)	**1,429,720**	–	1,488,837	(59,117)	**1,432,846**	–	1,449,781	(16,935)
Profit/(loss) before tax	**1,696,522**	**373,119**	**1,464,518**	**(141,115)**	**1,479,956**	**151,549**	**1,449,781**	**(121,374)**
Income Tax	**(7,550)**	–	–	(7,550)	**(44,768)**	–	–	(44,768)
Net profit (loss)	**1,688,972**	**373,119**	**1,464,518**	**(148,665)**	**1,435,188**	**151,549**	**1,449,781**	**(166,142)**
EBITDA	**290,034**	**373,218**	**(24,319)**	**(58,865)**	**61,193**	**151,678**	**–**	**(90,485)**

The activities of the Company are recognised in two segments: in the segment "Sales of energy and other products of energy market" and in the segment "Holding activities". The financial revenues and costs cover revenues due to dividend as well as net interest rate revenues and costs gained and incurred by Company due to operation of the central financing model in TAURON Capital Group. The unallocated items cover the overhead costs of the Company, as they are incurred for the benefit of the whole TAURON Capital Group, thus, they cannot be directly allocated to the operating segment.

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

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

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

As a result of implementation of the business model and centralisation of functions, TAURON concentrated many competences related to functioning of the Group companies and currently it carries out operations, among others, in the following areas:

1) wholesale trading of electric energy and related products, in particular, in the scope of commercial service provided to the companies, securing the needs in the area of fuels, CO_2 emission allowances and certificates of energy origin,
2) procurement management,
3) financial management,
4) management of IT model functioning,
5) advisory services in the scope of accounting and taxes,
6) legal service,
7) audit.

The above functions are gradually limited in the companies of TAURON Capital Group. Such centralisation is aimed at improvement of effectiveness in TAURON Capital Group.

The basic operations of the Company, besides managing TAURON Capital Group, include wholesale electric energy trading on the territory of the Republic of Poland, based on the concession on electric energy trading (OEE/508/18516/W/2/2008/MZn), issued by the President of ERO for the period from 1 June 2008 until 31 May 2018.

The Company has focused on the purchase and sales of electric energy for the needs of securing the purchase and sales positions of entities included in TAURON Capital Group and on wholesale electricity trading. Sales of electric energy performed by the Company in the financial year 2013 was mainly addressed to the following companies: TAURON Sprzedaż and TAURON Sprzedaż GZE. Additionally, under the agreement on portfolio management, the Company conducts electricity sales for the needs of covering grid losses of the company TAURON Dystrybucja.

In the scope of its operations on the wholesale market, the Company conducts energy trading, i.e. purchase and sales of energy in the country and abroad. TAURON actively participates in auctions of the cross-border interconnector exchange of energy transmission capacity on the Polish-Czech and Polish-German border. On the Czech market, through its subsidiary – TAURON Czech Energy, the Company operates on the Prague Power Exchange Central Europe a.s., comprising the markets of the Czech Republic, Slovakia and Hungary, as well as on the OTE a.s. exchange. In June 2013 TAURON commenced its operations in the scope of electric energy trading on the Slovakian market. In cooperation with the subsidiary, TAURON Czech Energy, the Company conducts commercial activities by participating in auctions of the cross-border interconnector exchange of energy transmission capacity on the Polish-Slovakian border, with the service provided by the CAO auction office.

The competence of the Company also involves management of certificates of origin for the needs of the TAURON Capital Group, representing the confirmation of generation of electric energy in renewable sources, in high-performance co-generation, in gas fuel fired co-generation, in mining methane-fired or biomass burning co-generation, from sources using agricultural biogas. This activity is based on active controlling of the demand for certificates in TAURON Capital Group, including the Company, and on the purchase and sales of these units on the market and in transactions with the Group companies. The activities on the market of property rights are also conducted in order to fulfil the obligation to present certificates of origin due to energy sales to end consumers for redemption.

It should be indicated that at the beginning of 2013 the obligation of redemption expired for property rights confirming production of electric energy in high-performance cogeneration, including the related legislative solutions in the scope of support to electric energy production in cogeneration, both coal and gas based.

The Company also acts as the competence centre in the area of management and trade of CO_2 emission allowances for the companies of the TAURON Capital Group and the external customers. Due to centralisation of emission trading, the synergy effect was obtained, consisting in optimisation of available resources of the entities included in TAURON Capital Group.

Along the centralisation of this function in TAURON, the Company is responsible for settlements of CO_2 emission allowances, securing of emission demand of the subsidiaries, taking into consideration the allowances allocated and the support in the process of acquisition of allowances limits for the following periods. While implementing the aforementioned goals, the Company is the active participant of trade of CO_2 emission allowances.

An important element of activities involves sales to external end consumers, conducted both in TAURON Sprzedaż, in TAURON Sprzedaż GZE and in the Company. The Company manages sales to clients of strategic importance (demonstrating significant electricity consumption – above 40 GWh). Functions performed in sales area also include implementation of the marketing policy of the Company, research on product needs related to the energy trading market in order to improve the product offer of the Company as well as acquisition of information concerning operations of competition, events occurring in the Company environment, in order to predict potential future behaviours of competitors. The Company coordinates activities implemented by the Group companies in the scope of sales, marketing and customer service.

In addition, TAURON also acts as the Market Operator and the Entity responsible for trade balancing for companies of TAURON Capital Group and for external customers. The function of Market Operator and the Entity responsible for trade balancing is fulfilled on the basis of the transmission Agreement of 21 June 2012 concluded with the Transmission System Operator (TSO) – PSE.

The Company currently holds exclusive trade and technical capacity in scheduling coordination, it is responsible for optimisation of generation, i.e. selection of generation units for maintenance as well as relevant distribution of loads in order to execute the contracts concluded, taking into consideration technical conditions of the generation units, network constraints and other factors, in various horizons. Within the services provided to the Generation Business Area, the Company participates in preparation of repair plans, plans of available capacity as well as production plans for generation units, in various time horizons, as well as in their settlement with the TSO and the Distribution System Operator (DSO).

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

As of 1 June 2012, the operating activities connected with fuel trading were expanded by centralising coal purchases and assuming the responsibility for the continuation of its deliveries.

Within the development of the activities, competence in the area of gas fuel trading has been also systematically built. On 27 April 2012 TAURON obtained the relevant concession for gas fuel trading on the territory of the country and on 19 October 2012, the President of ERO approved the Tariff for gas fuel. Since Q4 2012, based on the concession held and the tariff allocated, the Company has been supplying high-methane gas and coke over gas to TAURON Wytwarzanie. Since December 2013 gas trading has been expanded by implementation of trading transactions performed by the Company on the gas market maintained by Towarowa Giełda Energii S.A. (Energy Exchange). (TGE). The revenues obtained under the aforementioned activities did not have material impact on the financial result and market position of the Company.

2.3. Potential customers market and sources of supply

Wholesale trade

Wholesale trade of electric energy in TAURON is mainly conducted for the needs of securing the purchase and sales positions of entities of TAURON Capital Group. In addition, the Company deals with the proprietary trading, i.e. energy trading with the purpose of generating profits on the volatility of prices in the wholesale market. The activities of the Company comprise wholesale markets both in the country and abroad, and they are conducted on the spot market and forward market in contracts with physical delivery and in financial contracts. In Poland, the Company is the active participant of the TGE (Power Exchange) and OTC (over the counter) platforms maintained by the London energy brokers (TFS and GFI). TAURON actively participates in auctions of the cross-border exchange of energy transmission capacity on the Polish-Czech, Polish-German and Polish-Slovakian border, managed by the CAO auction office. The trade on the German market mainly takes place through the EPEX Spot and EEX exchange in the scope of trading of financial instruments of futures type, besides, transactions on the OTC market are also concluded On the Czech and Slovakian market, through its subsidiary – TAURON Czech Energy, the Company operates on the Prague Power Exchange PXE a.s., covering markets of the Czech Republic, Slovakia and Hungary, as well as on the OTE a.s. (Czech Republic) and OKTE a.s. (Slovakia) exchanges.

As mentioned above, the competence of the Company involves management of certificates of origin for the needs of TAURON Capital Group, constituting the confirmation of generation of electric energy in renewable sources, in high-performance co-generation, in gas fuel fired co-generation, in mining methane fired or biomass burning co-generation, from sources using agricultural biogas.

It should be stated that in 2013 the obligation of redemption of 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, expired.

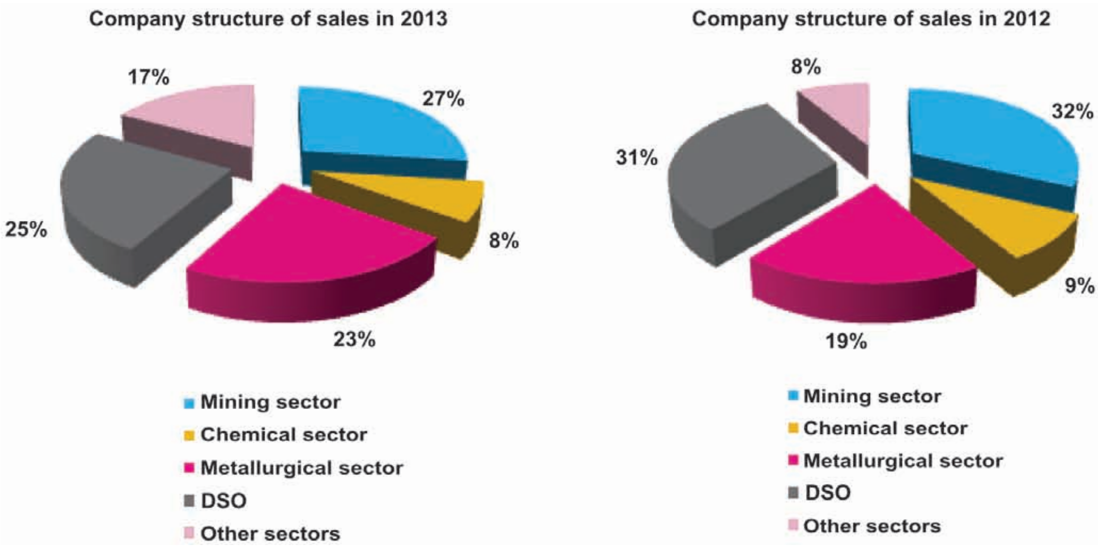
The Company also acts as the competence centre in the area of CO_2 emission allowances for the companies of the TAURON Capital Group and the external customers. Since January 2011, the so-called Installation Group has been operating in the area of CO_2 emission allowances, administered by TAURON. The Installation Group was established to provide for common settlement of emission allowances within facilities belonging to TAURON Capital Group and, accordingly, to obtain the synergy effect, based on increasing of the effectiveness and optimising the costs of resources in the Group. Along the centralisation of this function TAURON is responsible for settlements of CO_2 emission allowances, securing of emission demand of the subsidiaries, taking into consideration the allowances allocated and the support in the process of acquisition of allowances limits for the following periods. While implementing the above goals in the area of CO_2 emission allowances trading, the Company actively participates in trading on the European Climate Exchange (the ICE), the EEX exchange in Leipzig and the European over the counter (OTC) market.

Electric energy – strategic clients

Within the framework of its sales activity, in 2013 the Company continued the process of direct sales of electric energy to strategic clients. This segment demonstrates high demand for electric energy for the needs of own production or to cover balancing differences (in case of Distribution System Operators). Among the strategic clients, the metallurgical and mining sectors are the most extensively represented sectors of the Company.

The figure below shows the structure of electric energy sales in 2013 to strategic clients, divided into individual sectors.

Figure no. 3 The structure of electric energy sales of the Company in 2013 and 2012 to strategic clients, divided into individual sectors



The biggest strategic clients in 2013 included the following companies:

1) ArcelorMittal Poland S.A. (ArcelorMittal Poland),
2) KGHM Polska Miedź S.A. (KGHM),
3) Katowicki Holding Węglowy S.A. (KHW),
4) Kompania Węglowa S.A. (Kompania Węglowa),
5) Azoty Group (ZAT, AZK ZCH Police, ZAP),
6) Enea Operator Sp. z o.o.,
7) ENERGA Obrót S.A.,
8) PKP Energetyka S.A.,
9) ZGH “Bolesław” S.A.

In 2013 the quantity of electric energy sold to strategic clients amounted to 10.3 TWh, including 8.2 TWh sold by TAURON company, and 2.1 TWh by companies TAURON Sprzedaż and TAURON Sprzedaż GZE.

The table below shows the volume of sales of electric energy by TAURON.

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

No.	Specification	Unit	2013	2012	2011	Dynamics (2013/2012)
1.	Total sales of electric energy, including:	[TWh]	**50.9**	45.1	40.5	113%
2.	Wholesale	[TWh]	**37.6**	34.8	31.4	108%
3.	Retail sales, including:	[TWh]	**11.6**	8.7	7.9	134%
4.	*sales to strategic clients outside the Group*	[TWh]	***7.9***	*5.7*	*5.1*	*139%*
5.	Sales on the balancing market	[TWh]	**1.7**	1.6	1.2	110%

Fuels

With the purpose of implementing the tasks in the scope of fuel trading (biomass, coal and gas), in 2013 the Company continued fuel supplies for TAURON Wytwarzanie and TAURON Ciepło.

Fuel purchases – coal

In 2013 the Company continued purchase of coal for the needs of TAURON Wytwarzanie and TAURON Ciepło under the master agreements:

1. Multiannual, concluded with:
    1) Kompania Węglowa,
    2) TAURON Wydobycie *(formerly PKW, which changed the enterprise name to TAURON Wydobycie on 24 February 2014)*,
    3) Jastrzębska Spółka Węglowa S.A. (JSW).
2. Annual, concluded with:
    1) KHW,
    2) KWK Kazimierz – Juliusz Sp. z o.o.,
    3) HALDEX S.A.,
    4) PPUH B.B.-Pol Sp. z o.o.,
    5) HAWEX Sp. z o.o.

The table below presents the quantity of coal purchased in 2013.

Table no. 10 Quantity of coal purchased in 2013 (data in Mg)

No.	Type of Supplier	Unit	Coal quantity	Share %
1.	Suppliers outside TAURON Group	[Mg]	6,265,897	64.8%
2.	Supplier from TAURON Group	[Mg]	3,402,929	35.2%
	Total		**9,668,826**	**100.0%**

Fuel purchases – biomass

In order to provide for 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 took into consideration the purchase of biomass for the co-burning processes and for the needs of dedicated RES units. In 2013, for the co-burning process, the total of 209 thousand tonnes were 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 purchased pursuant to the aforementioned agreements to TAURON Wytwarzanie and TAURON Ciepło under separate agreements for biomass sales.

Fuel purchases – gas

In 2013, the Company continued high-methane gas supplies to the following branches of TAURON Wytwarzanie: Elektrownia Stalowa Wola and Zespół Elektrociepłowni Bielsko-Biała (EC1). The gas supplied by TAURON was purchased under the complex Agreement on gas fuel supply and the Memorandum of Understanding concluded with Polskie Górnictwo Naftowe i Gazownictwo S.A. (PGNIG).

In 2013 the Company also supplied coke-oven gas to Elektrownia Blachownia (TAURON Wytwarzanie). The gas was purchased by TAURON from ArcelorMittal Poland, Oddział w Zdzieszowicach, under the multiannual Agreement for supply of 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 specification of the fuel quantities sold by TAURON to entities of TAURON Capital Group in 2013.

Table no. 11 Fuel supplies implemented by TAURON in 2013 to entities of TAURON Capital Group

No.	Fuel type	Unit	TAURON Generation	TAURON Heat
1.	Coal	[Mg]	8,966,349	731,913
2.	Biomass	[Mg]	454,899	290,314
3.	Gas	[1 000 m^3]	418 298	–

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

The most important events of significant impact on operations of the Company, which occurred during the financial year 2013, and until the day of this report included:

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.

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 07 January 2014 and 2/2014 of 07 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.

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.

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.

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.

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 62/2013 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.

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.

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.

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.

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 purchase of shares 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 07 January 2014.

Dismissal and appointment of Supervisory Board member of the Company

On 22 January 2014 the Company was notified that the State Treasury dismissed Mr. Rafał Wardziński who acted as the Deputy Chairman of the Supervisory Board, from the Supervisory Board of TAURON. The dismissal was performed as of 22 January 2014 pursuant to § 23 section 1 item 3 of the Company Articles of Association.

On 22 January 2014 the Company was notified that the State Treasury appointed Ms Agnieszka Woś as 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.

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 2.5.1 of this report, should be also considered as important events of material impact on operations of the Company in the financial year 2013.

2.5. Information on agreements concluded by companies of TAURON Capital Group

2.5.1. Agreements significant for operations of the Company

In the financial year 2013 the Company concluded the following Agreements significant for operations of the Company:

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.

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

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

All transactions with affiliated entities are concluded on arm's length basis.

Detailed information on significant transactions with affiliated entities has been provided in note 41 of the financial statements for the year ended on 31 December 2013.

2.5.3. Agreements on credits and loans raised and terminated

Working capital facilities, short-term loans

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. In 2013 the Company continued to use the overdraft facility in the amount of PLN 300,000 thousand on the basis of the Agreement with Bank Pekao S.A., concluded in December 2011, with the repayment term falling on 31 December 2014. The credit agreement is associated with the cash pooling system operating in TAURON Capital Group.

On 10 January 2013, for the needs of clearing the transactions of purchase/exchange of CO_2 emission allowances, the Company concluded the agreement on overdraft with Nordea Bank Finland Plc. up to the amount of EUR 26,500, with the repayment term until 31 January 2014 (the initial repayment term, i.e. 31 December 2013, was postponed to 31 January 2014, based on Annex no. 1 of 27December 2013 to the aforementioned).

The table below presents detailed specification of agreements for working capital facilities effective in the Company in 2013.

Table no. 12 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. 13 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 thousand 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 on 15 March and 15 September of each year, whereas the first payment shall occur on 15 March 2014 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.

In the financial year 2013 the Company did not terminate any credit and loan agreements.

2.5.4. Information on granted loans and sureties as well as sureties and guarantees received

Loans granted

In 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 2.5.3. 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. 14 Specification of the agreements on sureties, guarantees and commitments effective as of 31 December 2013

No.	Beneficiary	Agreement	Party to the agreement	Amount (in thousand PLN)	Date of effectiveness
1.	WFOŚiGW Katowice	Agreement on	TAURON Wytwarzanie	40,000	15 December 2022
2.	WFOŚiGW Katowice	Aval agreement	TAURON Ciepło	30,000	15 December 2022
3.	Nordea Bank Polska	Agreement on	TAURON Dystrybucja Serwis	202	31 March 2014
4.	WFOŚiGW Katowice	Aval agreement	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

The Company has also concluded the following agreements concerning the issuance of bank guarantees:

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. 15 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	01 October 2013	30 January 2014
2.	BZ WBK	TAURON	IRGiT	payments	PLN 50,000	01 October 2013	30 January 2014
3.	BZ WBK	TAURON	IRGiT	payments	PLN 25,000	01 October 2013	30 January 2014
4.	BZ WBK	TAURON	IRGiT	payments	PLN 25,000	08 November 2013	30 January 2014
5.	PKO BP	TAURON	IRGiT	payments	PLN 25,000	08 November 2013	30 January 2014
6.	PKO BP	TAURON	CAO	payments	EUR 1,000	01 January 2012	03 February 2015
7.	Nordea Bank Polski	TAURON	GASPOOL Balancing Services	payments	EUR 100	01 October 2013	30 September 2014
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	01 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	07 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	04 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:

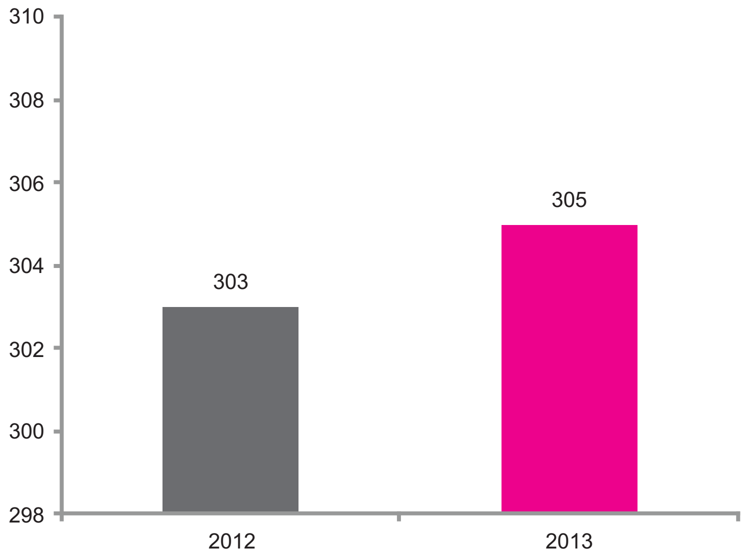
1) the agreement concluded on 23 February 2011 in the amount of PLN 145,000 thousand, effective until 31 March 2013

2) the agreement concluded on 23 August 2013 in the amount of PLN 45,000 thousand, effective until 31 March 2014

2.6. Information concerning employment

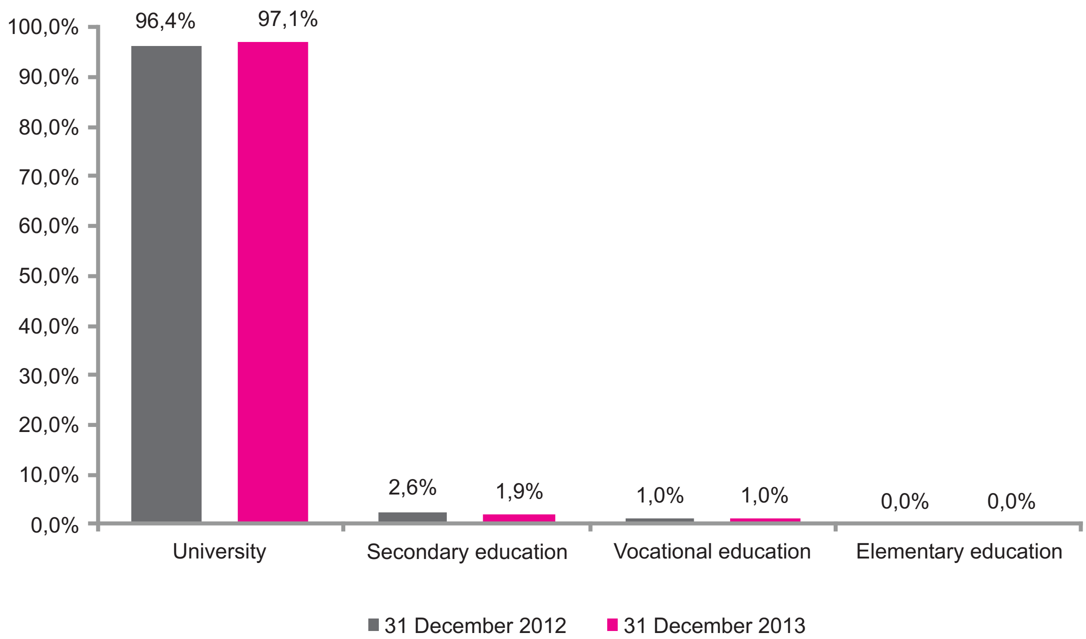
The figure below shows the level of employment in the Company in FTEs (rounded to a full FTE), in the years 2012–2013.

Figure no. 4 Employment in the Company in 2012 and 2013 – FTEs



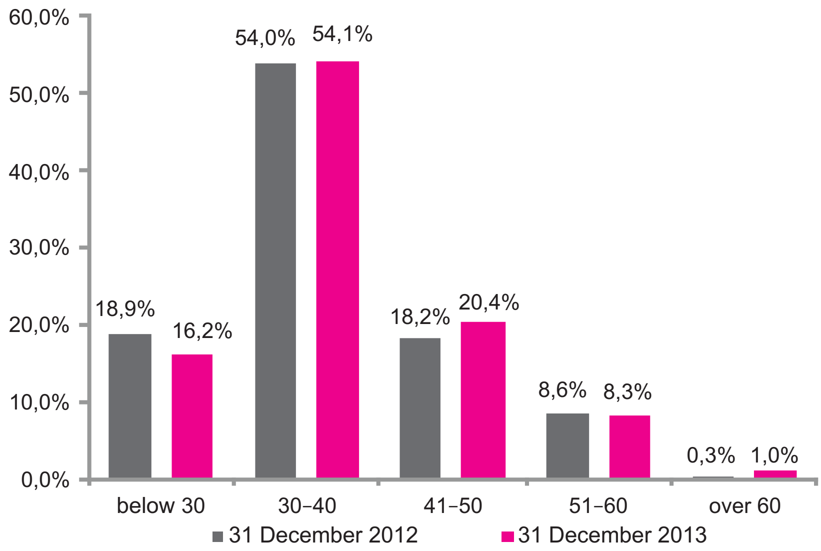
The figure below presents the structure of employment in the Company according to education and the status as of 31 December 2012 and 31 December 2013.

Figure no. 5 Employment in the Company as of 31 December 2012 and 31 December 2013 – education



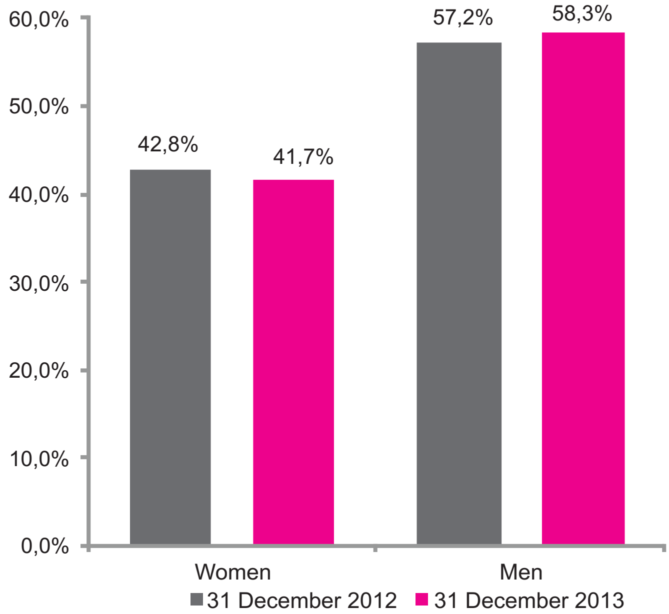
The figure below presents the structure of employment in the Company according to age and the status as of 31 December 2012 and 31 December 2013.

Figure no. 6 Employment in the Company as of 31 December 2012 and 31 December 2013 – age



The figure below presents the structure of employment in the Company according to gender and the status as of 31 December 2012 and 31 December 2013.

Figure no. 7 Employment in the Company as of 31 December 2012 and 31 December 2013 – gender

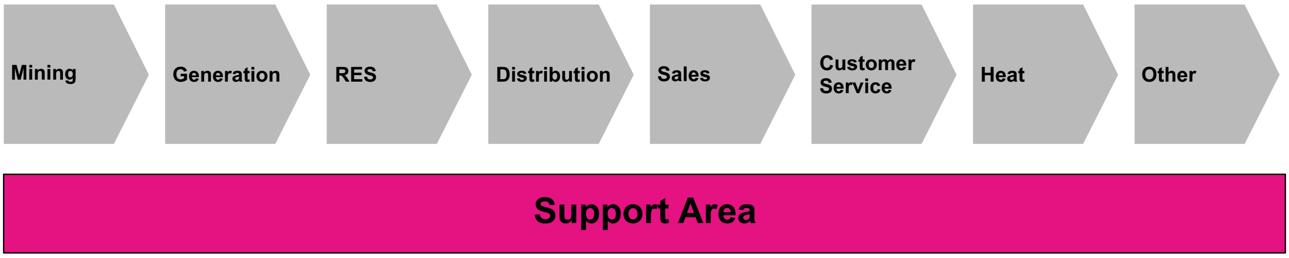


2.7. The development policy of the Company

2.7.1. Planned Structure of TAURON Capital Group

The planned model of TAURON Capital Group structure has been determined in the *Corporate Strategy for TAURON Polska Energia S.A. Group for 2011–2015 with estimates up to the year 2010*, (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. 8 Value chain in TAURON Capital Group



2.7.2. Implementation of Corporate Strategy

The Corporate Strategy adopted by the Company in 2011 and still binding, is the update of the document *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 key direction of the Corporate Strategy is to focus on growth in the areas of operations where the highest potential for achieving high rates of return on investments exists and diversification of the generation portfolio. The objective of further improvement of the effectiveness, perceived as the uninterrupted strive for operational excellence and building of effective organization, implemented through raising the effectiveness of the Group operations has been sustained.

The Company monitors the essential macroeconomic environment and analyses its impact on the activities 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.

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.

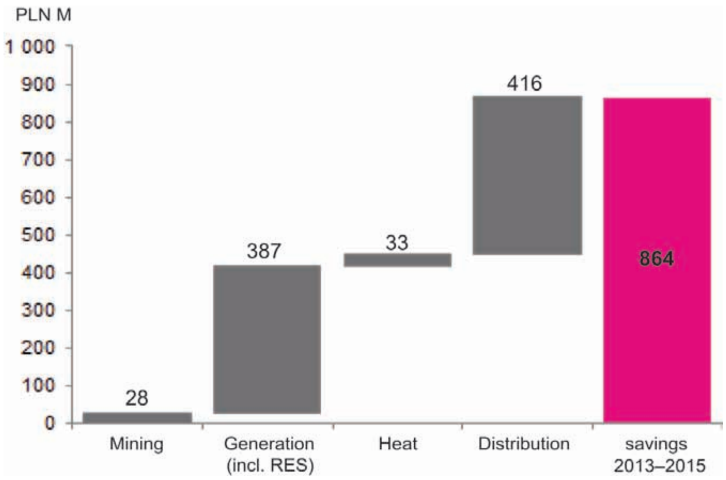
In 2013, the Company continued its priority approach to the budgetary discipline in each Business Area within investment expenses and operating costs. The executed activities related to the improvement of operational and investment effectiveness also enabled to prepare TAURON Capital Group for the functioning 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 three 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. 9 The Effectiveness Improvement Programme in 2013–2015



In 2013, savings at a level of approximately PLN 320,000 thousand were achieved.

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.

2.7.3. Factors essential for development

Results of operations of the Company will be affected mainly, as it happened in the past, by the such factors as:

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.

2.8. Assessment of implementation opportunities of investment projects

Strategic investment as well as their financing are managed centrally at the level of the Company. On the basis of the conducted analyses, the Management Board of the company 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.

2.9. Risk and threat factors

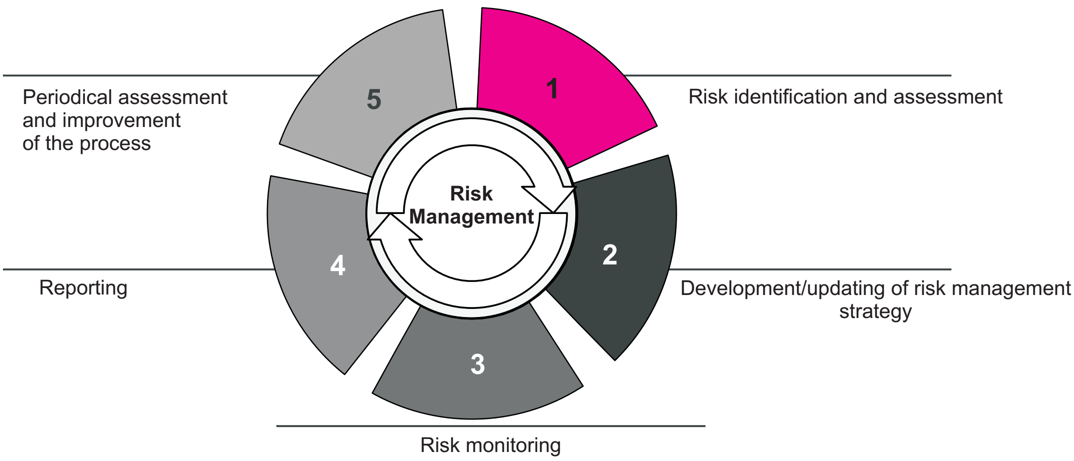
Taking care of the implementation of the Corporate Strategy, the Company manages business risks occurring in the activities of the whole TAURON Capital Group. The business risks management process is aimed at implementation of the adopted business objectives of the TAURON Capital Group as a part of the 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. 10 Processes within corporate risk management in TAURON Capital Group



Main participants of the risk management process, their roles and responsibilities

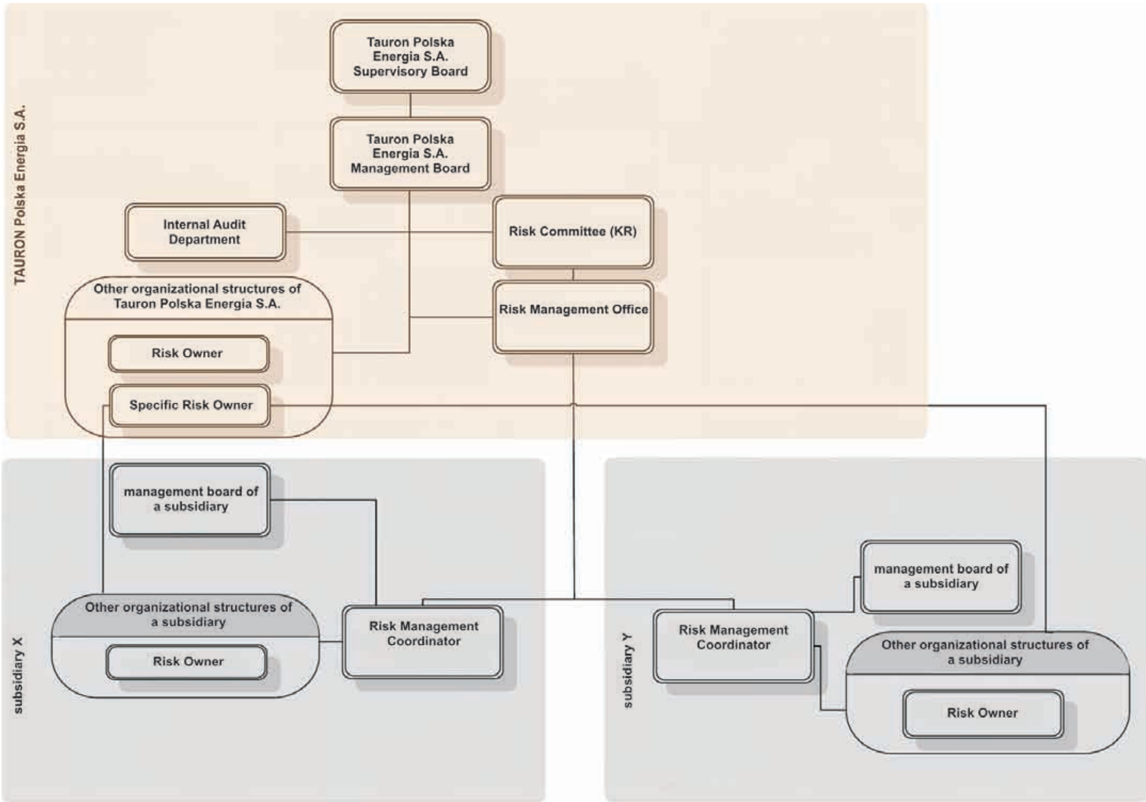
The following participants take part in the corporate risk management process:

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. 11 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. 16 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.

No.	Types of risks	Risk description
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.
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.

No.	Types of risks	Risk description
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.
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

The Company 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 3.6.2. hereof.

3. ANALYSIS OF THE FINANCIAL AND ECONOMIC SITUATION OF TAURON POLSKA ENERGIA S.A.

3.1. Principles of preparation of the annual financial statements

The financial statement has been prepared in accordance with the International Financial Reporting Standards (IFRS) adopted by the European Union (EU).

IFRS cover standards and interpretations approved by the International Accounting Standards Board (IASB) as well as the International Financial Reporting Interpretation Committee.

The financial statement was generated with the assumption that the Company would continue its business operations within the foreseeable future. As of the date of approval of the consolidated financial statement for publication, no circumstances are recognised, indicating any risk for business continuity of the Company.

The accounting principles (policy) adopted for drawing up of the consolidated financial statement are provided in note 5 of the Financial statement for the year ended on 31 December 2013.

3.2. Overview of economic and financial values disclosed in the annual financial statement

Statement on comprehensive income

The table below presents the annual stand-alone statement of comprehensive income.

Table no. 17 The annual unit (stand-alone) statement of comprehensive income in the years 2011–2013 (data in thousand PLN)

Statement of comprehensive income prepared according to IFRS	2013	2012	2011	Dynamics (2013/2012)
Continued operations				
Revenue on sales of goods, products and materials without excluding excise tax	10,790,992	9,823,438	8,823,744	110%
Excise tax	(858)	(3,219)	(15,122)	27%
Revenue on sales of goods, products and materials	10,790,134	9,820,219	8,808,622	110%
Revenue on sales of services	119,626	69,653	36,526	172%
Revenue on sales	**10,909,760**	**9,889,872**	**8,845,148**	110%
Own cost of sales	(10,523,336)	(9,710,955)	(8,663,010)	108%
Gross profit on sales	**386,424**	**178,917**	**182,138**	216%
Other operating revenue	3,675	1,979	3,354	186%
Costs of sales	(39,498)	(27,142)	(22,850)	146%
Overheads	(81,998)	(104,439)	(79,544)	79%
Other operating expenses	(1,801)	(2,205)	(1,268)	82%
Operating profit	**266,802**	**47,110**	**81,830**	566%
Operating profit margin (%)	*2.45%*	*0.48%*	*0.93%*	510%
Financial revenues	1,776,526	1,764,978	1,122,177	101%
Financial expenses	(346,806)	(332,132)	(96,096)	104%
Gross profit	**1,696,522**	**1,479,956**	**1,107,911**	115%
Gross profit margin (%)	*15.6%*	*15.0%*	*12.5%*	104%
Income Tax	(7,550)	(44,768)	(21,818)	17%
Net profit on continuing operations	**1,688,972**	**1,435,188**	**1,086,093**	118%
Net profit margin (%)	*15.5%*	*14.5%*	*12.3%*	107%
Other comprehensive income	**63,336**	**(189,969)**	**155**	–
Total revenue for the period	**1,752,308**	**1,245,219**	**1,086,248**	141%
EBITDA	**290,034**	**61,193**	**86,935**	474%
EBITDA Margin (%)	*2.66%*	*0.62%*	*0.98%*	429%

In 2013 the Company reached significant growth of operating profit (by approximately PLN 219,700 thousand) as compared to 2012. The factor of major importance was the higher margin achieved on commercial activities of the Company, in connection with the higher volume of sales of electric energy and the use of changes in prices of electric energy and property rights, favourable for the improved results.

The growth of costs of the Company operations is associated mainly with the growth of electric energy purchase volume by about 6 TWh (13%) YoY. In 2013, the process of centralisation of functions and taking over the competence of companies of TAURON Capital Group was continued, aimed at improvement of effectiveness in TAURON Capital Group. At the same time, the functions acquired and the related costs are gradually reduced in companies of TAURON Capital Group. It refers, in particular, to commercial services, securing the needs of TAURON Capital Group companies in the scope of CO_2 emission allowances and certificates of origin, procurement management, including the purchase of fuels (coal, biomass, gas and other), financial management, legal and economic counselling and audit.

In 2013 the net profit of the Company was higher by approximately 18% in relation to the profit gained in 2012. The margin of net profit of the Company (ratio of net profit to revenue on sales) reached 15.5%, against 14.5% achieved in 2012. The main factor which influenced the growth of net profit was the margin on commercial activities which increased by about PLN 200,000 thousand, in relation to the result of 2012.

Revenues

The table below presents the level of revenue on sales of the Company in the years 2013–2011.

Table no. 18 Revenue on sales of the Company (data in thousand PLN)

Item	2013	2012	2011	Dynamics (2013/2012)
Revenue on sales	**10,909,760**	**9,889,872**	**8,845,148**	**110%**
Revenue on sales of goods and materials	**10,790,134**	**9,820,219**	**8,808,622**	**110%**
including: Sales of electric energy (without excluding excise tax)	9,877,998	9,298,615	8,354,930	106%
Revenue on sales of services	**119,626**	**69,653**	**36,526**	**172%**
including: Sales of commercial services	61,861	51,993	28,385	119%
Revenue on other operating activity	**3,675**	**1,979**	**3,354**	**186%**
Revenue on financial activity	**1,776,526**	**1,764,978**	**1,122,177**	**101%**

The growth of revenue on sales in 2013 as compared to 2012 is associated with the increased volume of sales of electric energy by about 6 TWh (13%). Since 2012 the Company has been acting as the intermediary in transaction of biomass and coal purchase for the companies of Generation and Heat Segments. The Company buys raw materials from TAURON Wydobycie (formerly PKW) and from entities outside TAURON Capital Group, whereas the whole sales is performed to the companies of TAURON Capital Group. The Company recognises revenues due to intermediary services – organisation of supplies, exclusively.

The insignificant growth of revenues on financial activities in 2013, as compared to 2012, occurred mainly due to the higher interest on deposits of available cash.

The table below presents the level of revenue on sales of the Company in the years 2013–2011, divided into products.

Table no. 19 Revenue on sales of the Company, divided into products (data in thousand PLN)

Specification	2013	2012	2011	Dynamics (2013/2012)
Electric energy	9,877,998	9,298,615	8,354,930	106%
Gas	72,424	6,934	–	1,044%
Property rights of energy origin	471,420	127,579	284	370%
CO_2 emission allowances	367,103	376,240	436,503	98%
Other	1,189	10,851	16,905	11%
Total revenues on sales of goods and materials	**10,790,134**	**9,820,219**	**36,522**	**110%**
Commercial services	61,861	51,993	28,385	119%
Other	57,765	17,660	8,137	327%
Total revenues on sales of services	**119,626**	**69,653**	**4**	**172%**
Total revenues on sales	**10,909,760**	**9,889,872**	**8,845,148**	**110%**

The growth of revenue on sales in 2013 as compared to 2012 is associated with the increased sales volume of electric energy by about 6 TWh (13%). The increase in revenues was weaker due to the decline in electric energy sales by approximately 6% YoY.

The significant increase in the level of revenues on sales of gas results from the fact that the activity related to gas fuel trading in the Company was commenced in November 2012, whereas the revenues presented for 2013 refer to sales of the whole year.

Higher revenues reached in trade of property rights in 2013 result from sales of the increased volume of "green" and "red" property rights (due to the expiry of the obligation to redeem these rights in 2013; sales of "red" certificates referred to the settlement of the obligation to redeem the property rights for 2012) secured for the needs of the Group companies. In 2012 companies of TAURON Group acquired higher volume of property rights for redemption, besides TAURON Company, from other companies of the Group and outside the Group.

The Company acts as an intermediary in transactions of biomass and coal purchase for the Group companies. The Company buys raw materials from entities outside TAURON Group and from the Group, whereas the whole sales is performed to the companies of the Group. The Company recognises revenues due to intermediary services – organisation of supplies, exclusively.

In the year ended on 31 December 2013 the value of raw materials purchased and simultaneously resold as a result of the above transactions reached PLN 2,255,741 thousand whereas the Company recognised revenues due to the intermediary services in the amount of approximately 44,400 thousand.

The activities of the Company are mostly conducted on the Polish market where the value of sales in the years 2013 and 2012 amounted to PLN 10,431,078 thousand and PLN 9,349,582 thousand, respectively.

The value of sales to foreign clients in the years 2013 and 2012, amounted to PLN 478,682 thousand and PLN 540,290 thousand, respectively.

Costs

The table below presents the level and structure of costs incurred by the Company in the years 2013–2011.

Table no. 20 Level and structure of costs (data in thousand PLN)

Item	2013	2012	2011	Dynamics (2013/2012)
Total costs	**10,993,439**	**10,176,873**	**8,862,768**	**108%**
Own cost of sales	10,523,336	9,710,955	8,663,010	108%
Costs of sales and overheads	121,496	131,581	102,394	92%
Other operating expenses	1,801	2,205	1,268	82%
Costs of financial activities	346,806	332,132	96,096	104%

The increased costs of operating activities in 2013 as compared to 2012 were mainly caused by the growth in the level of electric energy purchase from TAURON Wytwarzanie. The level of electric energy purchase reached PLN 3,600,000 thousand and PLN 200,000 thousand, respectively. In 2012, TAURON Wytwarzanie, using the LTC compensations, was obliged to sell 100% of the electric energy volume generated through TGE. Due to the termination of TAURON Wytwarzanie participation in the programme of compensation of stranded costs, since 2013 the company has been covered by the obligation to sell at least 15% of the electric energy generated in a given year on commodity exchange, whereas the remaining volume is sold to the Group companies, including TAURON.

In 2013 total costs of the Company operations amounted to PLN 10,993,439 thousand and they were higher by 8% than in the previous year. Own costs of sales increased by approximately 8% in 2013 as compared to 2012, which mainly results from the increased costs of energy purchase, arising from the growth in the volume of purchase. The own cost of sales also increased due to impairment losses of market prices for property rights arising from certificates of origin and allowances for emission of pollutants. During 2013 the Company created write downs for property rights of energy origin of the value of PLN 4,612 thousand, used the write downs on property rights for energy origin due to their sales, in the amount of PLN 39,386 thousand and resolved the write downs for the rights to pollution emission in the amount of PLN 200 thousand. The total impact on reduction of the result reached PLN 4,412 YoY.

On the balance sheet day no need was confirmed to create write downs on the value of inventory, since its carrying value was not higher than their achievable net sales value, considering market prices.

In relation to the previous year, sales costs and overhead costs were lower by approximately 8% (as a resultant of the increase in sales costs and decrease in overhead costs). The increase in costs YoY referred to:

1) growth of depreciation costs, which mainly results from the increased depreciation of computer software and licences related to significant transactions of purchase of such components of intangible assets in the previous year,
2) increase in costs of taxes and fees, which mainly results from the growth of costs incurred due to transmission fees and exchange fees connected with trading of electric energy and pollution emission allowances,
3) growth in costs of other external services, which is mainly associated with the costs of financial and accounting services and costs of IT services, arising from the restructuring changes in the Group, based on integration of accounting and IT services of the Group companies within the subsidiary TAURON Obsługa Klienta.

Other operating expenses include mainly the fees due to external organisations and donations.

The growth of financial costs in 2013, as compared to 2012, is mainly affected by higher interest costs due to bonds issued in December 2011 and in January 2012. In the Company, the central model of financing of TAURON Capital Group activities operates, which foresees acquisition of financing at the level of the parent company.

Financial end economic standing of the Company

The table below presents the stand-alone annual statement on financial situation of the Company.

Table no. 21 Annual unit (stand-alone) statement of financial situation (data in thousand PLN)

Statement of financial situation prepared according to IFRS	status as of 31 December 2013	status as of 31 December 2012	status as of 31 December 2011	Dynamics (2013/2012)
ASSETS				
Fixed Assets	**25,968,345**	**22,997,644**	**21,386,633**	**113%**
Tangible fixed assets	9,189	20,786	11,611	44%
Investment real estate	36,169	–	–	–
Intangible assets	56,973	53,053	15,487	107%
Stocks and shares	20,221,322	20,184,404	20,184,103	100%
Bonds	5,165,000	2,615,000	1,137,040	198%
Loans granted	189,310	117,802	–	161%
Other financial assets	237,739	–	–	–
Other non-financial assets	7,059	6,599	830	107%
Assets due to deferred tax	45,584	–	37,562	–
Current assets	**1,993,786**	**2,760,425**	**1,436,421**	**72%**
Intangible assets	98,149	113,302	33,120	87%
Inventory	149,317	176,172	41,028	85%
Receivables due to income tax	28,527	–	852	–
Trade receivables and other receivables	1,134,856	1,460,484	1,062,438	78%
Bonds	52,830	40,261	13,003	131%
Derivatives	34	466	–	7%
Cash and equivalents	507,127	910,421	281,852	56%
Other short-term non-financial assets	22,946	59,319	4,128	39%
TOTAL ASSETS	**27,962,131**	**25,758,069**	**22,823,054**	**109%**
LIABILITIES				
Equity	**19,443,162**	**18,042,008**	**17,341,198**	**108%**
Share capital	8,762,747	8,762,747	8,762,747	100%
Supplementary capital	9,037,699	7,953,021	7,412,882	114%
Hedging instruments revaluation capital	(126,651)	(189,756)	–	67%
Retained profits/Uncovered losses	1,769,367	1,515,996	1,165,569	117%
Long-term liabilities	**5,576,565**	**5,280,856**	**4,140,327**	**106%**
Loans, credits and debt securities	5,445,279	5,125,082	4,136,112	106%
Liabilities due to financial leasing	33,159	480	990	6,908%
Other financial liabilities	5,239	–	–	–
Derivatives	87,573	150,594	–	58%
Provisions for employee benefits	5,267	4,605	3,225	114%
Accruals and governmental subsidies	48	95	–	51%
Short-term liabilities	**2,942,404**	**2,435,205**	**1,341,529**	**121%**
Current portion of credits, loans and debt securities	1,858,032	1,392,660	719,380	133%
Current part of liabilities due to financial leasing	3,266	510	627	640%
Trade liabilities and other liabilities	819,147	723,253	326,126	113%
Derivatives	73,358	40,624	80	181%
Short-term provisions for employee benefits and other provisions	111,096	120,204	167,704	92%

Statement of financial situation prepared according to IFRS	status as of 31 December 2013	status as of 31 December 2012	status as of 31 December 2011	Dynamics (2013/2012)
Accruals and governmental subsidies	11,475	10,532	8,223	109%
Liabilities due to income tax	–	54,057	33,687	–
Other non-financial liabilities	66,030	93,365	85,702	71%
TOTAL LIABILITIES	**27,962,131**	**25,758,069**	**22,823,054**	**109%**

The increase in assets at the end of 2013 in relation to 2012 arises mainly from the increase of item *Bonds*, covering bonds purchased by the Company, issued by subsidiaries. The change of balance in the year ended on 31 December 2013, in relation to the comparable period, is caused by the Company takeover of bonds issued by subsidiaries of the total value of PLN 5,165,000 thousand and by redemption of the bonds in the total amount of PLN 3,580,000 thousand. The bonds purchased by the Company, issued by subsidiaries, reached PLN 5,217,800 thousand as of 31 December 2013 (on 31 December 2012 – PLN 2,655,300 thousand). Inflows due to redemption of bonds in the amount of PLN 3,580,000 thousand are associated with the redemption of intra-group bonds.

The item *Investment real estate* covers the usufruct rights of investment real estate subject to financial leasing, of the carrying value of PLN 36,169 thousand, gained by the Company due to the merger with PKE Broker.

According to the status as of 31 December 2013 and 31 December 2012, the total equity of the Company amounts to PLN 19,443,162 thousand and PLN 18,042,008 thousand, respectively, which makes 70% of the total value of liabilities.

The supplementary capital in the financial year ended on 31 December 2013 was increased by PLN 1,084,678 thousand, in connection with allocation of a part of 2012 profit for the supplementary capital. The capital from revaluation of hedging instruments arises from the revaluation of Interest Rate Swap (IRS) hedging the interest rate risk due to the bonds issued. The increase in the retained profits arises mainly from the fact of increased net profit in the current period. Detailed description of these balance sheet items is included in note 29 to TAURON financial statement for the year ended on 31 December 2013.

The liabilities of the Company due to loans and credits received and due to the bonds issued as of 31 December 2013, referred to bonds issued under the bonds issue programme at the level of PLN 4,300,522 thousand, loans from subsidiaries drawn under the *Agreement on cash pool services,* in the amount of PLN 1,615,395 thousand, credits received from EIB in the amount of PLN 1,293,749 thousand (including interest) and the overdraft facility in the amount of PLN 93,645 thousand (external financing under the cash pooling agreement).

Change in the item: *short-term provisions* is associated with the sales of electric energy to end consumers and the obligation of redemption of the specific number of certificates of electric energy origin. The provision created at the end of 2012 was used in the first quarter of 2013 to the level of PLN 118,250 thousand.

Statement of Cash Flows

The table below presents the statement of cash flows prepared according to the IFRS.

Table no. 22 Statement of Cash Flow (data in thousand PLN)

Statement of Cash Flow prepared according to IFRS	2013	2012	2011	Dynamics (2013/2012)
Cash flows from operating activities				
Gross profit/(loss)	1,696,522	1,479,956	1,107,911	115%
Adjustments	(1,162,336)	(1,895,316)	(1,389,197)	61%
Net cash from operating activities	**534,186**	**(415,360)**	**(281,286)**	**–**
Cash flows from investment activities				
Sales of tangible fixed assets and intangible assets	22,396	191	192	11,726%
Purchase of tangible fixed assets and intangible assets	(35,558)	(46,503)	(14,069)	76%
Purchase of stocks and shares	(270,791)	(262,131)	(3,426,768)	103%
Purchase of bonds	(6,130,000)	(2,922,999)	(433,302)	210%
Redemption of bonds	3,580,000	1,455,041	134,460	246%
Repayment of loans granted	161,390	416,512	168,000	39%
Loans granted	(108,800)	(396,093)	(348,009)	27%
Dividends received	1,500,627	1,550,613	967,409	97%

Statement of Cash Flow prepared according to IFRS	2013	2012	2011	Dynamics (2013/2012)
Interest received	220,678	118,261	54,800	187%
Other	148	(946)	–	–
Net cash from investment activities	**(1,059,910)**	**(88,054)**	**(2,897,287)**	**1,204%**
Cash flows from financial activities				
Repayment of liabilities due to financial leasing	(734)	(597)	(926)	123%
Issue of debt securities	–	150,000	3,300,000	–
Credits/loans drawn	450,000	960,000	–	47%
Credits/loans repayment	(71,455)	(51,000)	–	140%
Dividends aid	(350,510)	(543,290)	(262,882)	65%
Interest paid	(296,384)	(279,378)	(45,506)	106%
Other	(10,094)	(10,793)	(12,735)	94%
Net cash from financial activities	**(279,177)**	**224,942**	**2,977,951**	**–**
Increase/(decrease) in net cash and equivalents	**(804,901)**	**(278,472)**	**(200,622)**	**289%**
Net exchange differences	(1,869)	(1,435)	(61)	130%
Cash opening balance	**(393,520)**	**(115,048)**	**85,574**	**342%**
Cash closing balance	**(1,198,421)**	**(393,520)**	**(115,048)**	**305%**

The status of cash received from operating, investment and financial activities of the Company for 2013, considering the status of opening balance of cash flows, amounted to PLN 1,198,421 thousand. The negative level of cash closing balance results from the adjustment of cash and pecuniary assets, consisting of balances of loans granted and received, implemented under cash pooling transactions, due to the fact that they do not constitute cash flows from investment or financial activities, therefore, being used mainly for management of current cash flows.

3.3. Differences between the financial results recognised in the annual report and the forecasts of results for the year as published earlier

The Management Board did not publish any forecasts of financial results TAURON for 2013. This decision resulted from considerable volatility of the market and substantial number of variables affecting its predictability.

3.4. Basic financial and non-financial ratios

Financial ratios

The table below presents the basic financial ratios of the Company.

Table no. 23 Basic financial rates of the Company

Item	2013	2012	2011	Dynamics (2013/2012)
Gross Profitability (gross result / revenue on sales)	**15.6%**	15.0%	12.5%	104%
Net Profitability (gross result / revenue on sales)	**15.5%**	14.5%	12.3%	107%
Return on equity (gross result / equity)	**8.7%**	8.2%	6.4%	106%
Return on assets (net result / total assets)	**6.1%**	5.7%	4.8%	107%
EBIT (PLN thous) (result on operating activities)	**266,802**	47,110	81,830	566%
EBIT Margin (EBIT / revenue on sales)	**2.45%**	0.48%	0.93%	510%
EBITDA (PLN thous) (result on operating activities before depreciation)	**290,034**	61,193	86,935	474%
EBITDA Margin (EBITDA / revenue on sales)	**2.66%**	0.62%	0.98%	429%
Current liquidity ratio (current assets / short-term liabilities)	**0.68**	1.13	1.07	60%

In 2013 the financial ratios of the Company definitely improved – as compared to the previous year the ratios of gross and net profitability and profitability of assets increased. The level of operating result is typical for a company conducting activities involving management of a holding (costs related to management of TAURON Capital Group are included in operating activities while revenue gained from dividends is captured under financial activities). The significant increase in operating profit level YoY was influenced by the increased margin on commercial activities.

The ability of the Company to settle its liabilities was not threatened 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.

3.5. 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 1.4.2.

3.6. Financial instruments

3.6.1. Implementing financial instruments in the elimination of credit risk, significant disruptions of cash flows and losing financial liquidity

The Company carries out on-going monitoring of credit risk generated within the conducted operations. In 2013, the Company 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 the Company 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 the Company 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, the Company, within the policy of financial risk management, secured the currency exposure occurring within the commercial activities (mainly due to the CO_2 emission allowances trading), by concluding the forward contracts. The aim of these transactions was to secure the Company against the risk of cash flow volatility resulting from currency rates fluctuations.

The table below presents active derivative and forward transactions according to the status of 31 December 2013 (due to the adopted centralised model of financial risk management, the data refer only to the Company).

Table no. 24 Information on forward and derivative transactions 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

3.6.2. Goals and methods of financial risk management

The Company manages financial risk, understood as currency risk and interest rate risk in accordance with the 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 sensitivity of cash flows of the Company to financial risk factors and to reduce financial costs and collateral costs as a part of transactions with the use of derivative instruments.

Simultaneously, the policy implements hedge accounting principles which determine the rules and types of hedge accounting policy as well as the booking approach to recognising of hedging instruments and items hedged under the hedge accounting, in compliance with IFRS. In accordance with the above mentioned policy, the Company applies the derivatives the characteristics of which allows for application of hedge accounting.

Moreover, the Company implemented the *Policy of Financial Liquidity Management in TAURON Group*. Owing to the *Policy* implemented, based, among others on precise, weekly update of the financial plans, analysis of scenarios and comparative analyses, the Company optimises the management of the liquidity position of TAURON Capital Group, accordingly decreasing the risk of liquidity loss. Based on the policy adopted, the Company determines the optimum size and structure of liquidity provision of TAURON Capital Group as well as performs measurements and assessment of liquidity at the level of TAURON Capital Group.

3.7. Present and forecast financial situation

The financial situation of the Company is stable and no adverse events occurred which would cause risk for its business continuity or significant deterioration of its financial standing. Considering the current market situation, it is expected that the results of TAURON Capital Group in 2014 will be affected both by internal factors and by external factors which occurred in 2013.

3.8. Factors and events of unusual character significantly affecting the financial results achieved

3.8.1. Internal factors and their assessment

In 2013 no material internal factors occurred which would significantly affect the financial result achieved. Nevertheless, events which influenced the activities of the Company and its result in 2013, included, among others:

1) continuation of the activities associated with the streamlining of the ownership structure of TAURON, including the repurchase of shares of Południowy Koncern Węglowy from Kompania Węglowa,
2) management of fuel purchases by the Company for the needs of generation entities included in TAURON Capital Group.

3.8.2. External factors and their assessment

The results of the Company in 2013 were affected by the following external factors:

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:

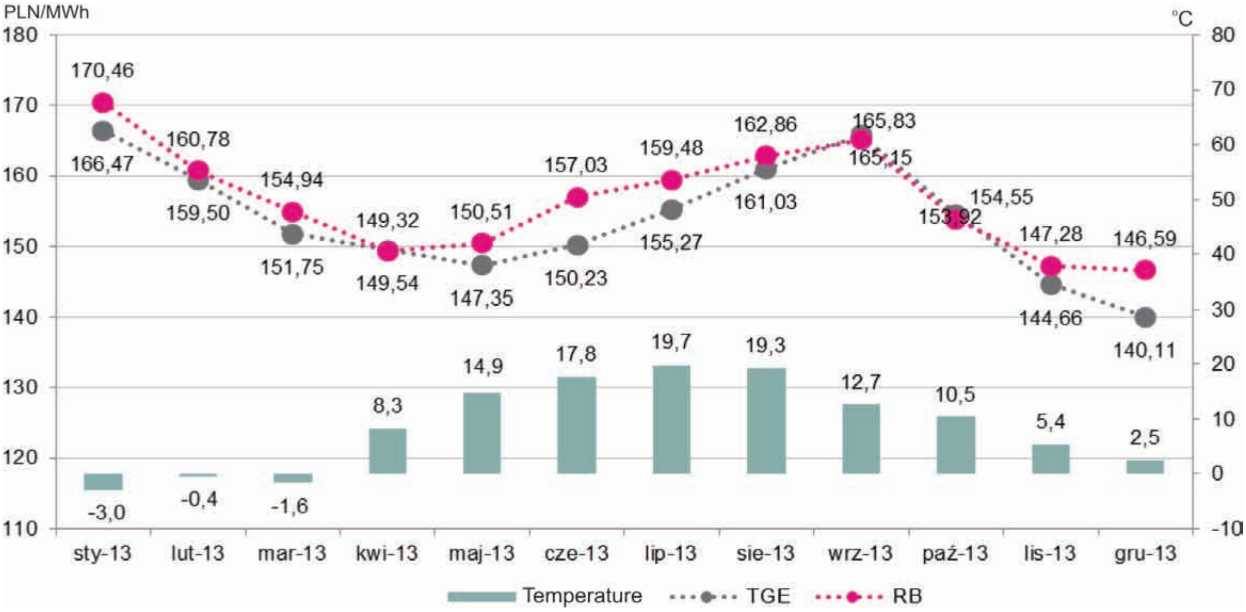
1) decline in prices of CO_2 emission allowances in the European Trading System (EU ETS),
2) decline in prices of energy coal in the Polish market,
3) increased production of energy from renewable sources which, as a result of privileged consumption of energy start replacing the production from conventional sources.

The average price of the day-ahead market for the whole 2013 settled 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 temperatures.

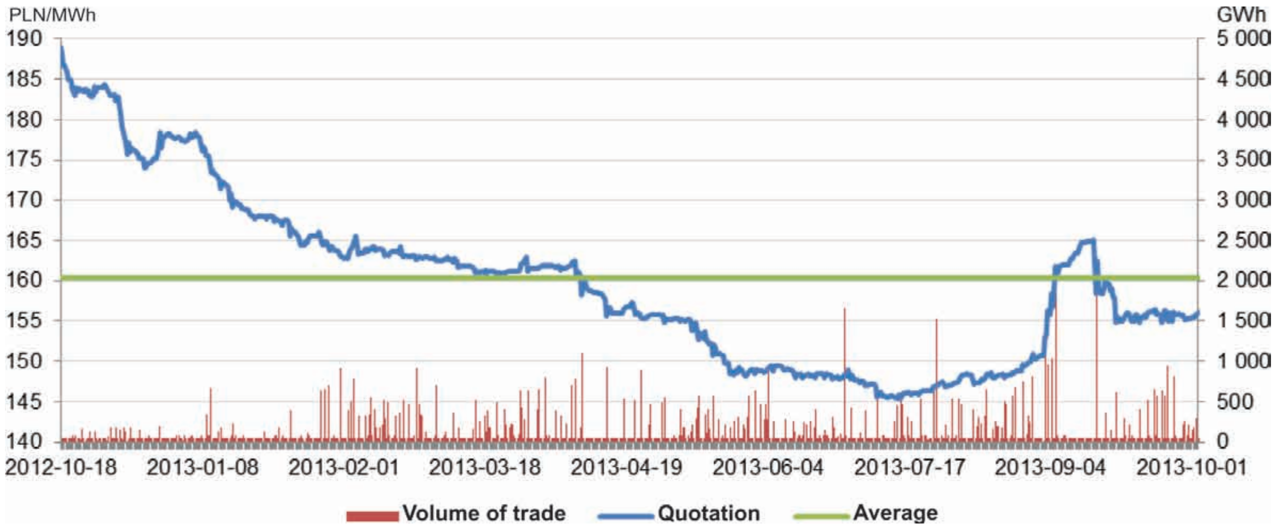
Figure no. 12 Average monthly energy prices on the SPOT and RB markets and the average temperatures



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 concerning trading of Base Y-14 contracts.

Figure no. 13 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. 14 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.

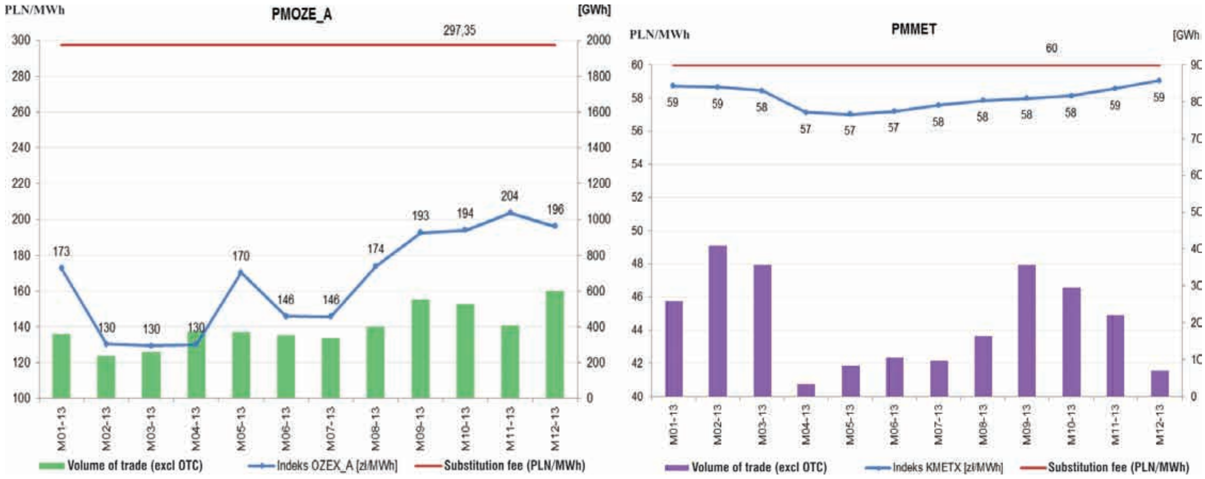
The lack of the obligation to redeem the property rights confirming generation of electric energy in high-performance cogeneration (both coal- and gas-based) resulted in significant decline in prices of the associated rights. Prices of "red" certificates dropped to approximately PLN 0.85/MWh and prices 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. 15 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 of 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.

3.9. 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 mainly 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, instead, they are incurred to cover the financial gap at the level of TAURON Capital Group. The structure of financing of investment projects in the specific period corresponds to the whole activity of TAURON Capital Group. The model adopted allows for implementation of investment plans in accordance with the approved Corporate Strategy.

The second essential element influencing the effectiveness of financial management is the policy of liquidity management. Through implementation of relevant forecasting standards it becomes possible to establish the precise liquidity position allowing for optimising of selection of the moment of fund raising as well as the maturity term and types of deposit instruments as well as the appropriate level of liquidity provision. The above factors influence both the cost reduction and safety enhancement. The current liquidity management is supported by the implemented cash pooling mechanism. Its overriding goal is to provide for current financial liquidity in TAURON Capital Group, with simultaneous limitation of costs of short-term external financing and maximising of financial revenue due to cash surpluses held. Owing to the cash pooling structure, the companies of TAURON Capital Group, facing short-term deficits of funds, may, at the first instance use the funds of companies recognising financial surpluses, without the need to acquire external financing.

Moreover, the Company implemented a consistent programme of bank guarantees under a single agreement concluded between TAURON and PKO Bank Polski, and then between the Company 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, the Company 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, the Company demonstrated full capacity to settle its liabilities on their payment date.

3.10. Information concerning the entity authorised to examine financial statements

On 7 May 2013 TAURON concluded the agreement with Deloitte Polska Sp. z o.o Spółka komandytowa (Deloitte Polska) for conducting the examination of:

1) financial statements of the Company for 2013–2015, prepared in accordance with the requirements of the IFRS,
2) financial statements of selected companies of TAURON Capital Group for 2013–2015 prepared in accordance with the IFRS,
3) consolidated financial statements of the Company for 2013–2015, prepared in accordance with the requirements of the IFRS.

The Agreement also covers conducting of the interim reviews of semi-annual financial statements of the Company and consolidated financial statements of TAURON Capital Group, prepared in accordance with the IFRS for a period ending on 30 June 2013, 30 June 2014 and 30 June 2015.

The table below presents the level of remuneration of the independent auditor (chartered accountant) due to the services provided for the Company.

Table no. 25 Level of remuneration of the independent auditor (chartered accountant) due to the services provided for the Company (data in thousand PLN)

No.		Year ended 31 December 2013	Year ended 31 December 2012
1.	Obligatory audit	105	70
2.	Other certifying services, including the review of financial statements	50	35
3.	Tax-related advisory services	0	0
4.	Other services (including training)	52	72
	Total	**207**	**177**

In 2012 the agreement for auditing the financial statements of the Company 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.

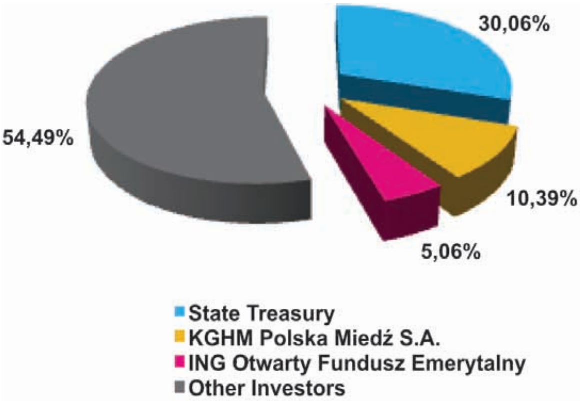
The table below presents the structure of the shareholding of the Company as of 31 December 2013 and on the day of this report.

Table no. 26 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. 16 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. 27 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	2 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. 28 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. 29 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

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. 30 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. 17 Quotations of Company shares and value of turnover in 2013

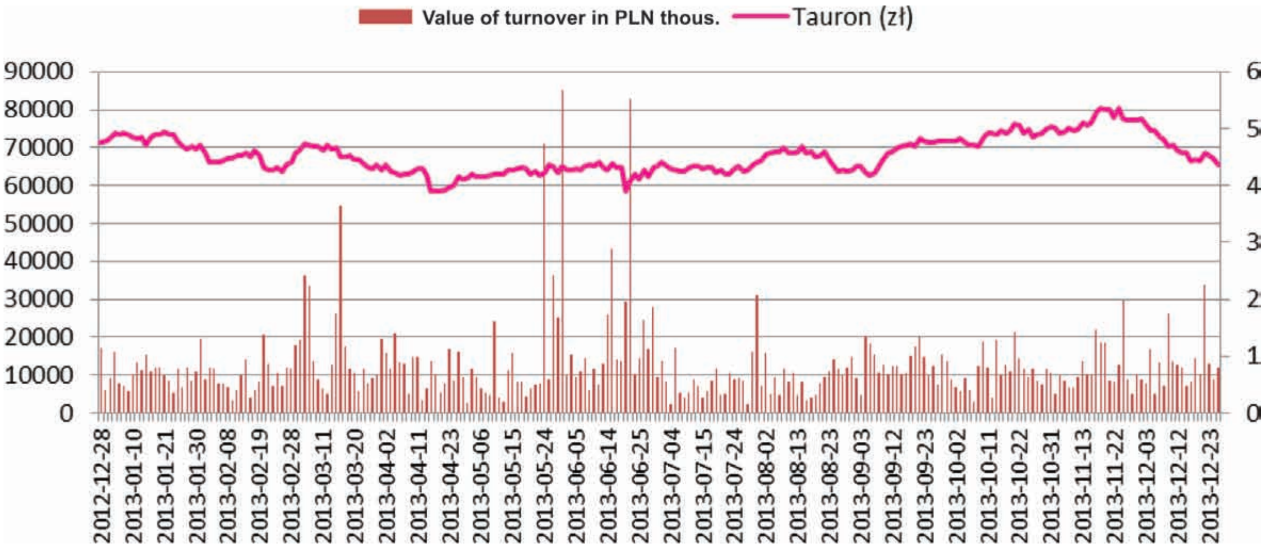


Figure no. 18 Quotations of Company shares and value of turnover in since the exchange debut (30 June 2010) and in 2013

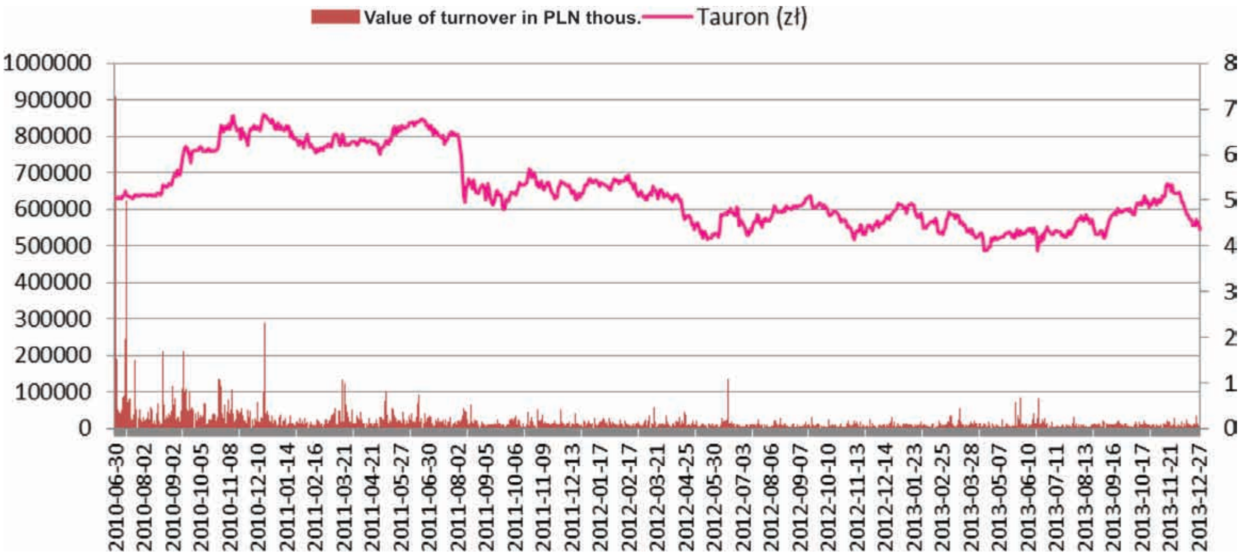


Figure no. 19 Quotations of Company shares compared to WIG20 and WIG-Energia indices in 2013

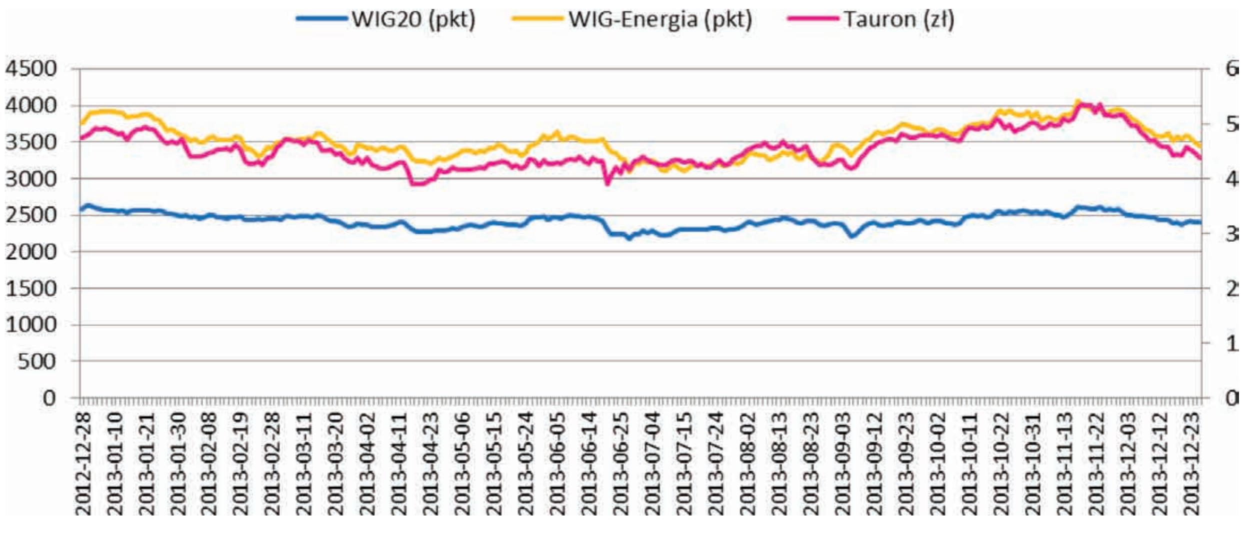
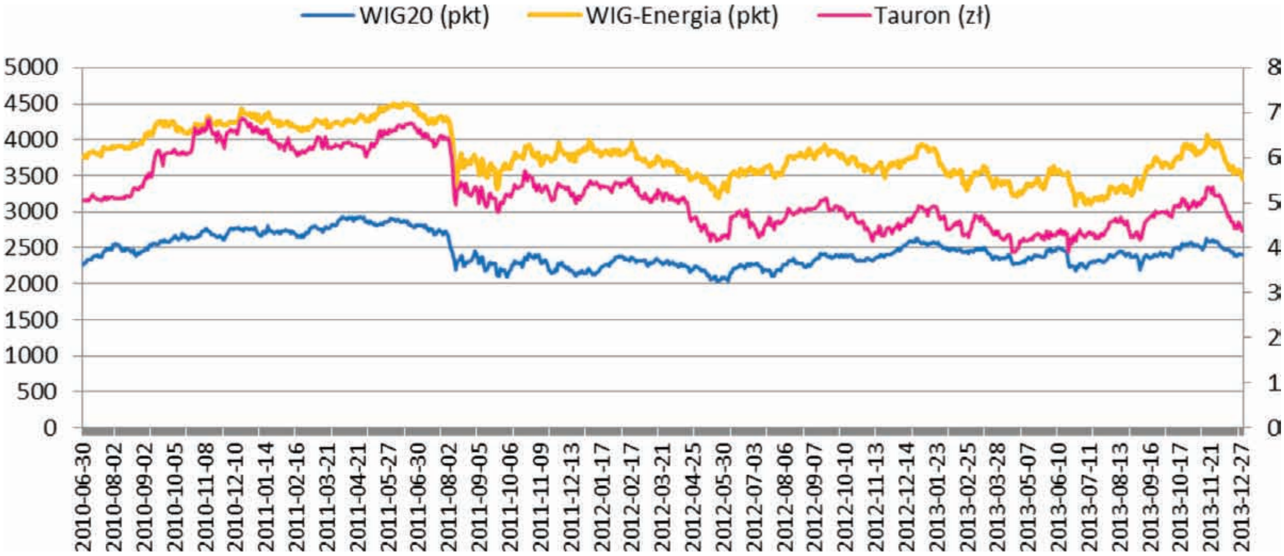


Figure no. 20 Quotations of Company shares compared to WIG20 and WIG-Energia since the exchange debut (30 June 2010) and in 2013



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. 31 Recommendations issued 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
23.	12 August 2013	Keep / PLN 5.05	Goldman Sachs

No.	Date of recommendation	Recommendation/target price	Recommending institution
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

Table no. 32 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 by the Company 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 EU, in TAURON Group *the Accounting Policy of TAURON Capital Group* (Accounting Policy) 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 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 Group.

Procedures of authorisation and reviewing of financial statements of the Company and consolidated financial statements of TAURON Group.

In the Company, procedures of authorisation of financial statements have been implemented. Quarterly, semi-annual and annual financial statements of TAURON as well as consolidated financial statements of TAURON Capital Group are approved by the Company Management Board before publication. Annual financial statements of TAURON as well as consolidated financial statements of TAURON Capital Group are also presented for review by the Company Supervisory Board before publication. The Vice President of the Board, Chief Financial Officer supervises the preparation of financial statements, whereas Management Boards of companies covered by consolidation are responsible for preparation of reporting packages to TAURON Group consolidated financial statement.

Within the structure of the Supervisory Board of the Company, the Audit Committee of the Supervisory Board of TAURON Polska Energia S.A. operates. (Audit Committee) whose composition, competence and description of activities are covered in item 5.11.3. hereof.

IT systems

The Company keeps 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. Access to IT systems if restricted by relevant authorisations for the entitled employees. In the Company IT and organizational solutions operate which control the access to financial-accounting systems and provide adequate protection and archiving of accounting books.

Internal audit

In the Company Internal Audit Department operates whose objective is to plan and implement the auditing tasks, among others, of advisory nature, as well as to perform the commissioned temporary inspections. The procedures and rules of implementation of the audit are specified in *Regulations of Internal audit in TAURON Group* as well as in rules of cooperation binding in individual companies of TAURON Capital Group. Implementing the function of internal audit, the Company is driven by the Code of Ethics and the 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 TAURON and the annual consolidated statements of TAURON Capital Group are subject to examination by independent chartered accountant. Semi-annual financial statements of TAURON and semi-annual consolidated financial 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.

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. 33 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 28.02.2013.*
** *In accordance with the shareholder's notification of 23.03.2011.*
*** *In accordance with the shareholder's notification of 28.12.2011.*

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. 34 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,

No.	Issues requiring the Resolution of the Management Board	
	as of 31 December 2013	as of the date of this report*
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 two years, except for the first term of office which lasts one year. 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. 35 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,
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,

No.	Issues requiring the Resolution of the Supervisory Board	
	as of 31 December 2013	**as of the date of this report***
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 guaranties and sureties by the Company with the value exceeding the equivalent of 5,000,000 EUR in PLN,	incur contingent liabilities, including granting guaranties 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 EUR 5,000,000 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.
	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,

No.	Issues requiring the Resolution of the Supervisory Board	
	as of 31 December 2013	as of the date of this report*
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 on the 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 the General Meeting

In accordance with the Company Articles of Association, the following issues require Resolutions of the General Meeting:

Table no. 36 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 provisions of the Ksh the decision on issue and repurchase of shares in included in 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. 37 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 General Meeting.
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.

No.	Shareholder rights	Description of Shareholder rights
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 Chairman 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 Management 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 University 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 Economics in Wrocław. Moreover, he 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 Ksh 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 1.2.2 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 Ordinary General Meeting of the Company approving the financial statement for the last full financial year of the tenure of the members of the Supervisory Board of the 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 – Vice Chairman of the Supervisory Board,
3. Leszek Koziorowski – Secretary of the Supervisory Board,
4. Jacek Kuciński – Member of the Supervisory Board,
5. Marcin Majeranowski – Member of the Supervisory Board,
6. Jacek Szyke – Member of the Supervisory Board,
7. Marek Ściążko – Member of the Supervisory Board,
8. Agnieszka Trzaskalska – Member of the Supervisory Board.

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 Ksh, the Company Articles of Association, which is available on the Company website http://www.tauron-pe.pl/ and in the *Bylaws of the Supervisory Board of TAURON Polska Energia S.A. z siedzibą w Katowicach*.

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 Ksh 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. 38 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. 39 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. 40 Competence of the Strategy Committee

No.	Issues which require the resolution of the Strategy Committee
	as of 31/12/2013 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. 41 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 of a single component, fixed part.

The table below presents the remuneration of members of the Company Supervisory Board Members for 2013.

Table no. 42 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 Company does not conduct any business activities which would result in infringement of the environmental protection requirements, causing the obligation to pay the fees for economic use of the environment. As a user of company vehicles, the Company is subject to the provisions of the Act of 27 April 2001 *Environmental Protection Law* in the scope of calculating the fee for using the environment due to emission of gases or particulate matter to ambient air. However, due to the level of the fee calculated, the Company was not bound to pay it in 2013.

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 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

The Company was a winner of e-Diamonds ranking of Forbes & Biznes.pl 2013, receiving the award for the best website in the Province of Silesia.

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. 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.

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.

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 TAURON participated. The Company 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. 43 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.	05 April 2013	Participation in KBC conference in Warsaw
5.	09 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 the 1st quarter of 2013
11.	03 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.	09 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 03 December 2013 to 05 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 ....

SCHEDULE A: GLOSSARY OF TERMS AND LIST OF ABBREVIATIONS

The table below presents explanations of abbreviations and trade terms most commonly used in the text of this report.

Table no. 44 Explanation of abbreviations and trade terms applied in the text of the report

No.	Abbreviation and trade term	Full name/explanation
1.	ArcelorMittal Poland	ArcelorMittal Poland S.A. with the seat in Dąbrowa Górnicza
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	Bank Handlowy 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 Spółka z ograniczoną odpowiedzialnością Spółka komandytowa with the 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 Stalowa Wola	Elektrociepłownia Stalowa Wola S.A. with the seat in Stalowa Wola
23.	EEX	(over the counter market) the European Energy Exchange
24.	Elektrownia Blachownia Nowa	Elektrownia Blachownia Nowa sp. z o.o. with its seat in Kędzierzyn Koźle

No.	Abbreviation and trade term	Full name/explanation
25.	ENEA	ENEA S.A. with the seat in Poznań
26.	EnergiaPro	EnergiaPro S.A. with the seat in Wrocław (currently: TAURON Dystrybucja)
27.	ENION	ENION S.A. with the seat in Kraków (currently: TAURON Dystrybucja)
28.	Enpower service	Enpower Service sp. z o.o. with the seat in Katowice
29.	EPEX SPOT	Epex Spot SE with the seat in Paris
30.	ERM	Complex System of Enterprise Risk Management
31.	ESW	Elektrownia Stalowa Wola S.A. with its seat in Stalowa Wola (currently: TAURON Wytwarzanie)
32.	EU ETS	(European Union Emission Trading System) the European system of CO_2 emission allowances
33.	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)
34.	EUR	Euro – a common European currency introduced in some EU Member States
35.	FITCH	rating agency
36.	GDF Suez	GDF SUEZ Energia Polska S.A. with its seat in Połaniec
37.	Global Reporting Initiative	Global Reporting Initiative
38.	GPW	Warsaw Stock Exchange (Giełda Papierów Wartościowych w Warszawie S.A.) with the seat in Warsaw
39.	TAURON Capital Group	TAURON Polska Energia S.A. Capital Group
40.	"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.
41.	GUS	Central Statistical Office (Główny Urząd Statystyczny)
42.	GZE	Górnośląski Zakład Elektroenergetyczny S.A. with the seat in Gliwice
43.	ICHPW	Instytut Chemicznej Przeróbki Węgla with the seat in Zabrze
44.	IRGIT	Izba Rozliczeniowa Giełd Towarowych S.A. (Warsaw Commodity Clearing House) with the seat in Warsaw
45.	IRS	(Interest Rate Swap) contract on exchange of interest rate payments, one of the basic derivatives subject to trade at the interbank market
46.	KDPW	Krajowy Depozyt Papierów Wartościowych S.A. with the seat in Warsaw
47.	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).
48.	KGHM	KGHM Polska Miedź S.A. with the seat in Lubin
49.	KHW	Katowicki Holding Węglowy S.A. with the seat in Katowice
50.	Code	The document entitled *Code of TAURON Group*, adopted by the Management Board of TAURON Polska Energia S.A.
51.	Audit Committee	Audit Committee of the Supervisory Board of TAURON Polska Energia S.A.
52.	Nominations and Remuneration Committee	Nominations and Remuneration Committee of the Supervisory Board of TAURON Polska Energia S.A.
53.	Strategy Committee	Strategy Committee of the Supervisory Board of TAURON Polska Energia S.A.
54.	Kompania Węglowa	Kompania Węglowa S.A. with the seat in Katowice
55.	KPI/KRI	List of risk indicators
56.	KR	Risk Committee
57.	KZR	Risk Management Coordinators
58.	KSE	National Power System

No.	Abbreviation and trade term	Full name/explanation
59.	Ksh	Act of 15 September 2000 *Code of Commercial Companies*
60.	KW Czatkowice	Kopalnia Wapienia Czatkowice sp. z o.o. with the seat in Krzeszowice
61.	MEGAWAT MARSZEWO	MEGAWAT MARSZEWO sp. z o.o. with the seat in Jelenia Góra
62.	Mg	Megagram – million gram (1,000,000 g) i.e. 1 ton
63.	IFRS	International Financial Reporting Standards
64.	NCBiR	National Centre for Research and Development
65.	Nordea Bank Polska	Nordea Bank Polska S.A. with its seat in Gdynia
66.	Business Area	Area of operations of subsidiaries included in TAURON Group, determined by the Company, constituting the business segment of TAURON Group
67.	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
68.	OKTE	OKTE a.s. with the seat in Bratislava
69.	DSO	Distribution System Operator
70.	TSO	Transmission System Operator
71.	OSW JAGA	Ośrodek Szkoleniowo-Wypoczynkowy “JAGA” sp. z o. o.
72.	OTC	(over the counter) – the market operating outside the regulated exchange market
73.	OTE	OTE a.s with the seat in Prague
74.	RES	Renewable Energy Sources
75.	PEAK	Type of trading contract
76.	PEC TYCHY	Przedsiębiorstwo Energetyki Cieplnej Tychy sp. z o.o. with the seat in Tychy
77.	PEPKH	Polska Energia – Pierwsza Kompania Handlowa sp. z o.o. with the seat in Katowice
78.	PGE	PGE Polska Grupa Energetyczna S.A. with the seat in Warsaw
79.	PGE EJ1	PGE EJ1 sp. z o.o. with the seat in Warsaw
80.	PGK	Tax Capital Group
81.	PGNiG	Polskie Górnictwo Naftowe i Gazownictwo S.A. with the seat in Warsaw
82.	PGNiG Termika	PGNiG Termika S.A. with the seat in Warsaw
83.	GDP	Gross Domestic Product
84.	PKD	Polish Classification of Business Operations
85.	PKE Broker	PKE Broker sp. z o.o. with the seat in Katowice,
86.	PKW	Południowy Koncern Węglowy S.A. with the seat in Jaworzno (currently TAURON Wydobycie S.A.)
87.	PKO BP	Powszechna Kasa Oszczędności Bank Polski S.A.
88.	PLN	The symbol of Polish currency – Polish Zloty
89.	PSE	Polskie Sieci Elektroenergetyczne S.A. with the seat in Konstancin-Jeziorna (until 10 January 2013: Polskie Sieci Elektroenergetyczne Operator S.A.)
90.	POEN	POEN spółka z ograniczoną odpowiedzialnością with the seat in Katowice
91.	Power Exchange Central Europe	Power Exchange Central Europe a.s with the seat in Prague
92.	Accounting Policy	Accounting Policy of TAURON Capital Group
93.	PUE	Przedsiębiorstwo Usług Elektroenergetycznych Wrocław S.A. (currently: TAURON Dystrybucja Serwis S.A.)
94.	PXE	PXE a.s with the seat in Prague
95.	RPP	Monetary Policy Council
96.	Organisational Regulations/Bylaws	Document entitled *Organisational Regulations of TAURON Polska Energia S.A.*
97.	IASB	International Accounting Standards Board

No.	Abbreviation and trade term	Full name/explanation
98.	ROIC	(Return On Invested Capital) return on invested capital
99.	SCE – Jaworzno III	Spółka Ciepłowniczo-Energetyczna Jaworzno III sp. z o.o. with the seat in Jaworzno
100.	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
101.	Company	TAURON Polska Energia S.A. with its seat in Katowice
102.	SUG	Spółka Usług Górniczych Spółka z ograniczona odpowiedzialnością with the seat in Jaworzno
103.	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 Polska Energia S.A. Capita; Group for 20082012 with estimates until the year 2020*.
104.	TAURON Wytwarzanie	TAURON Ciepło S.A. with its seat in Katowice
105.	TAURON Czech Energy	TAURON Czech Energy s.r.o. with its seat in Ostrava, Czech Republic
106.	TAURON Dystrybucja	TAURON Dystrybucja S.A. with its seat in Kraków
107.	TAURON Dystrybucja Serwis	TAURON Dystrybucja Serwis S.A. with the seat in Wrocław
108.	TAURON Dystrybucja Pomiary	TAURON Dystrybucja Pomiary sp. z o.o. with the seat in Tarnów
109.	TAURON Dystrybucja GZE	TAURON Dystrybucja GZE S.A. with its seat in Gliwice, acquired by TAURON Dystrybucja S.A.
110.	TAURON EKOENERGIA	TAURON EKOENERGIA sp. z o.o. with its seat in Jelenia Góra
111.	TAURON Ekoenergia GZE	TAURON Ekoenergia GZE sp. z o.o. with the seat in Gliwice, taken over by TAURON EKOENERGIA sp. z o.o.
112.	TAURON Ekoserwis	TAURON Ekoserwis sp. z o.o. with the seat in Rożnów
113.	TAURON Obsługa Klienta	TAURON Obsługa Klienta sp. z o.o. with the seat in Wrocław
114.	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.
115.	TAURON Serwis GZE	TAURON Serwis GZE sp. z o.o. with the seat in Gliwice
116.	TAURON Sprzedaż	TAURON Sprzedaż sp. z o.o. with the seat in Kraków
117.	TAURON Sprzedaż GZE	TAURON Sprzedaż GZE sp. z o.o. with the seat in Gliwice
118.	TAURON Wydobycie	TAURON Wydobycie S.A. with the seat in Jaworzno
119.	TAURON Wytwarzanie	TAURON Wytwarzanie S.A. with the seat in Katowice
120.	TAURON Wytwarzanie GZE	TAURON Wytwarzanie GZE sp. z o.o. with the seat in Gliwice
121.	TAURON Wytwarzanie Serwis	TAURON Wytwarzanie Serwis sp. with the seat in Jaworzno
122.	TAURON Ubezpieczenia	TAURON Ubezpieczenia sp. z o.o. with the seat in Katowice
123.	The ICE	European Climate Exchange
124.	TGE	Towarowa Giełda Energii S.A. (Polish Power Exchange) with the seat in Warsaw
125.	EU	the European Union
126.	UOKiK	Office for Competition and Consumer Protection (Urząd Ochrony Konkurencji i Konsumentów)
127.	ERO	Energy Regulatory Office (Urząd Regulacji Energetyki)
128.	WIOŚ	Regional Environmental Protection Inspection
129.	WFOŚiGW Katowice	Regional Fund of Environmental Protection and Water Management in Katowice
130.	WFOŚiGW Kraków	Regional Fund of Environmental Protection and Water Management in Kraków
131.	WZ/ZW	General Meeting/Shareholders' Meeting
132.	ZW Katowice	Zakład Wytwarzania Katowice
133.	ZEC Bielsko-Biała	Zespół Elektrociepłowni Bielsko-Biała

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 Financial statements of TAURON Polska Energia S.A.
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. for the year 2013

I, the undersigned, represent that, to my best knowledge, the Financial statements of TAURON Polska Energia S.A. prepared in accordance with International Financial Reporting Standards for the year ended 31 December 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 Polska Energia S.A.

I also certify that the Management Board's report on the operation of TAURON Polska Energia S.A. for the year 2013 gives the true picture of the development, achievements and situation of TAURON Polska Energia S.A., including the description of key risks and threats.

Management Board Members:

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

S T A T E M E N T

of the Management Board of TAURON Polska Energia S.A.
on the appointment of the entity authorized to audit financial statements
(Financial statements of TAURON Polska Energia S.A.
for the year ended 31 December 2013
prepared in accordance with International Financial Reporting Standards)

I, the undersigned, represent that the entity authorized to audit financial statements and examining the financial statements of TAURON Polska Energia S.A. prepared in accordance with International Financial Reporting Standards for the year ended 31 December 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