



***Additional information to the  
extended consolidated  
report of TAURON Group  
for the First Quarter  
of 2013***

9 May 2013

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## 1. Organisation of TAURON Capital Group

### 1.1. Basic Information on the Group

As of 31 March 2013, TAURON Capital Group Polska Energia S.A. consisted of the parent company, TAURON Polska Energia S.A. (hereinafter referred to as the Company, the Issuer or TAURON), 14 subsidiaries with direct share of TAURON Polska Energia S.A. in the share capital and 22 subsidiaries with indirect share of TAURON Polska Energia S.A. in the share capital. Following the reporting period, as of 2 April 2012, due to the merger of TAURON Serwis GZE sp. z o.o. with Przedsiębiorstwo Usług Elektroenergetycznych Wrocław S.A. (currently: TAURON Dystrybucja Serwis S.A.), the number of subsidiaries (direct and indirect) decreased to 35.

The main companies subject to consolidation included: Południowy Koncern Węglowy S.A. dealing with hard coal mining, TAURON Wytwarzanie S.A. dealing with generation of energy from conventional sources and biomass co-burning, TAURON Ekoenergia sp. z o.o. dealing with generation of electric energy from renewable sources, TAURON Dystrybucja S.A. providing electric energy distribution services, TAURON Sprzedaż sp. z o.o. and TAURON Sprzedaż GZE sp. z o.o. dealing with supply of electric energy to retail customers, TAURON Obsługa Klienta sp. z o.o., dealing with customer service and TAURON Ciepło S.A. dealing with heat generation, distribution and sales.

Moreover, TAURON Capital Group included 4 other subsidiaries, subject to consolidation, involved, among others, in trade of electric energy and heat, extraction of limestone and stone for construction purposes, and 2 subsidiary special purpose vehicles established for implementation of investment in the area of renewable energy sources. In total, 14 subsidiaries specified in item 1.2 hereof are covered by consolidation.

On 12 October 2010, in order to ensure performance of TAURON Group, perceived as a homogeneous business entity consisting of autonomous commercial law companies, the Management Board of TAURON Polska Energia S.A. established TAURON Group, comprising the companies listed hereunder and TAURON Polska Energia S.A., as the parent company, and adopted the TAURON Group Code as the underlying normative act of TAURON Group operations. As of the date of adoption of the relevant Resolutions on their accession to TAURON Group by the General Meetings/ General Meetings of Shareholders, the companies listed below gained the status of TAURON Group members. The Code of TAURON Group regulates the performance of the Group, providing for implementation of the goals through the tailored solutions in the scope of management of TAURON Group entities, including, in particular, defining the operating objectives of the companies, allowing for achievement of the effects adopted.

As of 31 March 2013, the following subsidiaries are included in TAURON Group:

**Table no. 1 List of subsidiaries included in TAURON Group (as of 31 March 2013)**

No.	Company enterprise	Date of accession to TAURON Group
1.	TAURON Sprzedaż sp. z o.o.	26.10.2010
2.	TAURON Obsługa Klienta sp. z o.o.	26.10.2010
3.	TAURON EKOENERGIA sp. z o.o.	26.10.2010
4.	TAURON Wytwarzanie S.A.	28.10.2010

No.	Company enterprise	Date of accession to TAURON Group
5.	TAURON Czech Energy s.r.o.	10.11.2010
6.	Polska Energia – PKH sp. z o.o.	29.11.2010
7.	TAURON Dystrybucja S.A.	6.12.2010
8.	TAURON Ciepło S.A.	9.12.2010
9.	Kopalnia Wapienia Czatkowice sp. z o.o.	5.01.2011
10.	Południowy Koncern Węglowy S.A.	13.01.2011
11.	TAURON Sprzedaż GZE sp. z o.o.	24.01.2012
12.	TAURON Wytwarzanie GZE sp. z o.o.	24.01.2012

Considering the changes in organisation of TAURON Capital Group, in the 1st quarter of 2013, the Management Board of the Company updated the allocation of membership of the companies to TAURON Group. The amendment resulted from registration of the on-going merger process in Customer Service Area by the competent Registry Court (acquisition of TAURON Obsługa Klienta GZE S.A. by TAURON Obsługa Klienta Sp. z o.o.). Moreover, following the reporting period, the decision was taken to remove the company TAURON Serwis GZE Sp. z o.o. (currently: TAURON Dystrybucja Serwis S.A.) from the list of TAURON Group companies, in connection with the merger of this entity with Przedsiębiorstwo Usług Elektroenergetycznych Wrocław S.A. (the acquiring company).

Another essential element facilitating the operational decision - making processes within TAURON Group, is the existence of advisory and quasi-supervisory bodies of the Group - the four Committees of TAURON Group:

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

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 monitor the implementation of coherent actions by all the participants of the Group, compliant with the TAURON Group Code and for the benefit of TAURON Group business. The specific functions of the Committees have been specifically defined in the by-laws of their operations adopted by the Management Board of TAURON Polska Energia S.A.

## 1.2. Entities subject to consolidation

As of 31 March 2013, the consolidation covers the following subsidiaries of TAURON Polska Energia S.A.:

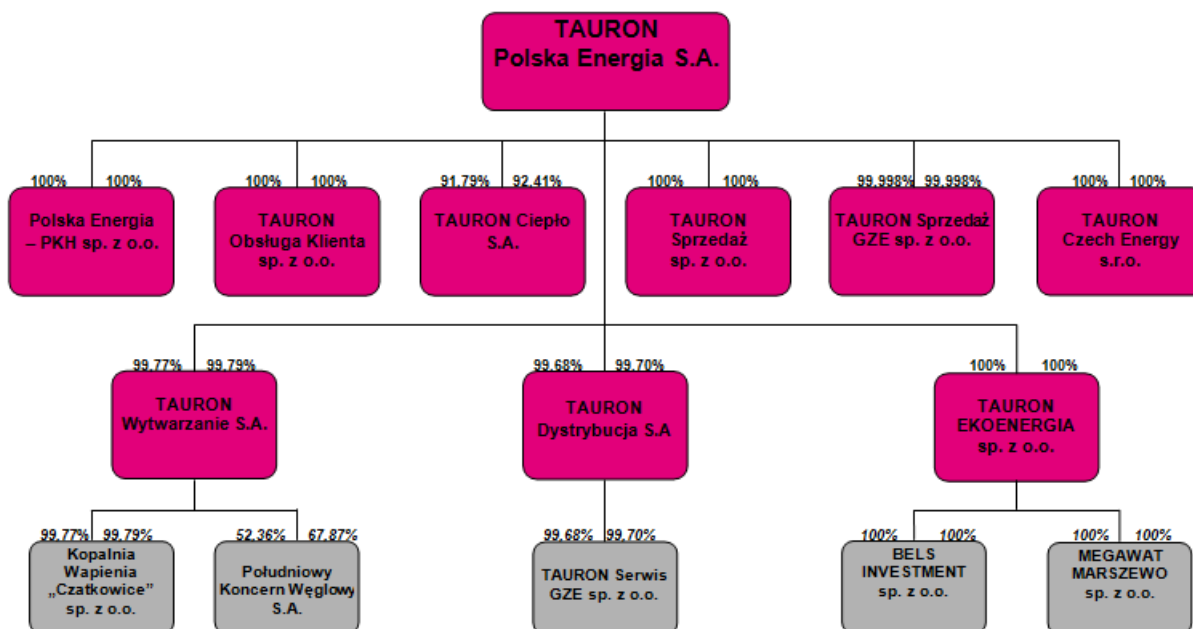
1. TAURON Wytwarzanie S.A. (TAURON Wytwarzanie)
2. TAURON Dystrybucja S.A. (TAURON Dystrybucja)
3. TAURON Sprzedaż sp. z o.o. (TAURON Sprzedaż)
4. TAURON Obsługa Klienta sp. z o.o. (TAURON Obsługa Klienta)
5. TAURON Ekoenergia sp. z o.o. (TAURON Ekoenergia)
6. Kopalnia Wapienia Czatkowice sp. z o.o. (KW Czatkowice)
7. Południowy Koncern Węglowy S.A. (PKW)
8. Polska Energia Pierwsza Kompania Handlowa sp. z o.o. (PEPKH)
9. TAURON Ciepło S.A. (TAURON Ciepło)
10. TAURON Czech Energy s.r.o. (TAURON Czech Energy)
11. BELS INVESTMENT sp. z o.o. (BELS INVESTMENT)
12. MEGAWAT MARSZEWO sp. z o.o. (MEGAWAT MARSZEWO)
13. TAURON Sprzedaż GZE sp. z o.o. (TAURON Sprzedaż GZE)
14. TAURON Serwis GZE sp. z o.o.\* (TAURON Serwis GZE).

\*On 2 April 2013 the merger of companies TAURON Serwis GZE Sp. z o.o. (the acquired company) and Przedsiębiorstwo Usług Elektroenergetycznych Wrocław S.A. (the acquiring company) was registered, simultaneously, the name of the acquiring company was changed to TAURON Dystrybucja Serwis S.A.

In addition, TAURON Polska Energia S.A. Capital Group holds investments in joint projects: Elektrociepłownia Stalowa Wola S.A. and Elektrownia Blachownia sp. z o.o., which are evaluated by equity method in the consolidated financial statements.

### 1.3. Structure of the Capital Group

The chart below presents all the companies whose results are consolidated within TAURON Capital Group, as of 31 March 2013.



**Comments:**

*Direct share of TAURON Polska Energia S.A. in the share capital/ votes at General Meeting (WZ)/ Meeting of the Shareholders (ZW).*

*Indirect share of TAURON Polska Energia S.A. in the share capital/ votes at General Meeting (WZ)/ Meeting of the Shareholders (ZW).*

- Direct subsidiaries of TAURON
- Indirect subsidiaries of TAURON

In the first quarter of 2013 the following significant changes in the structure of TAURON Group subsidiaries took place:

1. Merger of companies operating the area of measurements

On 2 January 2013, the merger of direct subsidiaries of TAURON Dystrybucja S.A. pursuant to art. 492 § 1 item 1 of the Code of Commercial Companies was registered, i.e. by means of assignment of the whole assets of the company "EnergiaPro- Pomiar" sp. z o.o. (the acquired company), to CECHTAR sp. z o.o. company (the acquiring company). The merger of the companies is compliant with the strategy of TAURON Group which assumes streamlining of the Group structure, among others, through merger of companies conducting the same activities.

## 2. Apportionment of assets of TAURON Wytwarzanie S.A.

On 2 January 2013, the assignment of part of TAURON Wytwarzanie S.A. (divided company) assets to TAURON Ciepło S.A. (the acquiring company) was registered, pursuant to art. 592 § 1 item 4 of the Code of Commercial Companies, i.e. by dividing TAURON Wytwarzanie S.A. through apportionment, in exchange for shares of TAURON Ciepło S.A., which were acquired by TAURON Wytwarzanie S.A. The process of dividing TAURON Wytwarzanie S.A. through separating the Branch of Elektrociepłownia Katowice in Katowice from its structures and assignment of assets of the Branch of Elektrociepłownia Katowice, including other shares of heat generating companies, to TAURON Ciepło S.A., constitutes Stage III of the Project on Development of Heat Area. This process was carried out under the main objective of the Heat Area – increasing the value of TAURON Capital Group through integration of assets, optimisation of operating costs in the scope of heat distribution, providing heat supply for the generation entities of TAURON Capital Group and development of operations related to heat generation using small-scale cogeneration. As a result of the aforementioned apportionment, the share capital of TAURON Ciepło S.A. was increased to the amount of PLN 1,238,076,553.56, whereas the share capital of TAURON Wytwarzanie S.A. was decreased to the amount of PLN 1,554,189,560.00. The share of TAURON Polska Energia S.A. in the share capital of TAURON Ciepło S.A. increased from 88.27% to 91.79%, whereas the share in TAURON Wytwarzanie S.A. decreased from 99.72% to 99.70%.

## 3. Redemption of shares of TAURON Wytwarzanie S.A.

On 21 January 2013 the Management Board of TAURON Wytwarzanie S.A. redeemed treasury shares acquired pursuant to art. 4181 of the Code of Commercial Companies. In connection with redemption of the shares on 5 February 2013 the reduction of the share capital of TAURON Wytwarzanie by the amount of PLN 1,153,400.00 from the amount of PLN 1,554,189,560.00 to the amount of PLN 1,553,036,160.00 was registered. As a consequence, the share of TAURON Polska Energia S.A. in the share capital of TAURON Wytwarzanie increased to 99.77%.

## 4. Merger of companies in the Customer Service Area.

On 31 January 2013, the merger of direct subsidiaries of TAURON Polska Energia S.A., pursuant to art. 492 § 1 item 1 of the Code of Commercial Companies, was registered, i.e. by means of assignment of the whole assets of the company TAURON Obsługa Klienta sp. z o.o (the acquiring company), with the company TAURON Dystrybucja GZE S.A. (the acquired company). Accordingly, TAURON Polska Energia S.A. acquired 22,021 newly issued shares in the share capital of TAURON Obsługa Klienta sp. z o.o., increased to PLN 4,920,500.00. This merger was aimed at streamlining the structure of TAURON Capital Group following the acquisition of GZE S.A. Capital Group.

## 5. Merger of companies in the Generation Area.

On 13 March 2013, merger of the company TAURON Wytwarzanie S.A. was registered, pursuant to art 516 § 6 of the Code of Commercial Companies, in conjunction with art. 492 § 1 item 1) of the Code of Commercial Companies (the acquiring company) with the company "ECOCARBON" sp. z o.o. (the acquired company), the direct subsidiary of TAURON Wytwarzanie S.A. "ECOCARBON" sp. z o.o. was a company conducting activities which were not directly associated with the core area of activity of TAURON Wytwarzanie S.A., and, as a result of undertaking actions aimed at disposal of "ECOCARBON" sp. z o.o., no offer for acquisition of its shares has been submitted.

Moreover, after 31 March 2013, the following events affecting the organisation of TAURON Capital Group occurred:

1. On 2 April 2013, the merger of Przedsiębiorstwo Usług Elektroenergetycznych Wrocław S.A. (the acquiring company) with the company TAURON Serwis GZE sp. z o.o (the acquiring company) was registered, simultaneously, the change of name of the acquiring company to TAURON Dystrybucja Serwis S.A. was registered. The merger of the companies is compliant with the strategy of TAURON Group which assumes streamlining of the Group structure, among others, through merger of companies conducting the same activities.
2. On 2 April 2013 the management board of the company Ośrodek Szkoleniowo-Wypoczynkowy "JAGA" sp. z o.o., i.e. the direct subsidiary of TAURON Dystrybucja S.A. filed the motion to the District Court, 5th Commercial



Department in Nowy Sącz, concerning declaration of bankruptcy of the company Ośrodek Szkoleniowo-Wypoczynkowy "JAGA" sp. z o.o. (the Company informed of filing of the motion for declaration of bankruptcy in the current report No. 11/2013 of 2 April 2013).

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

### Merger of TAURON Obsługa Klienta sp. z o.o with TAURON Obsługa Klienta GZE sp. z o.o.

On 31 January 2013 the merger of companies TAURON Obsługa Klienta sp. z o.o. z siedzibą we Wrocławiu (the acquiring company) and TAURON Obsługa Klienta GZE sp. z o.o. z siedzibą w Gliwicach (the acquired company) was registered. In connection with the merger the share capital of TAURON Obsługa Klienta sp. z o.o. was raised from the amount of PLN 2,718,000 to the amount of PLN 4,920,500, i.e. by the amount of PLN 2,202,000. Consequently, as of 31 March 2013, TAURON Polska Energia S.A. held only shares in the acquiring company - TAURON Obsługa Klienta sp. z o.o.

### Division of TAURON Wytwarzanie S.A. company

On 2 January 2013 the division of the company TAURON Wytwarzanie S.A. was registered in the National Court Register through apportionment, pursuant to art 529 § 1 item 4 of the Code of Commercial Companies, which was based on assignment of the separated component of assets to the company TAURON Ciepło S.A.

In connection with the apportionment, the share capital in the company TAURON Wytwarzanie S.A. was decreased from the amount of PLN 1,658,793,000 to the amount of PLN 1,554,189,560, whereas the share capital in the company TAURON Ciepło S.A. was raised from the amount of PLN 86,593,667,000 to the amount of PLN 123,807,655,356.

As a result of the apportionment, the share of TAURON Polska Energia S.A. in the company TAURON Wytwarzanie S.A. decreased to 99.70% (in the share capital) and to 99.77% (in the votes at the General Meeting), whereas the share of TAURON Polska Energia S.A. in the company TAURON Ciepło S.A. increased to 91.79% (in the share capital) and to 92.41% (in the votes at the General Meeting).

## 2. Operations of TAURON Capital Group

### 2.1. Core Business Areas

TAURON Capital Group is a vertically integrated energy enterprise holding the leading position in generation, distribution and supply of electric energy in Poland and in Central and Eastern Europe. TAURON Capital Group conducts its operations within the following Core Business Areas (hereinafter also referred to as Segments):

**Mining**, comprising mainly mining, preparation and sales of hard coal in Poland, the activity which is provided by Południowy Koncern Węglowy (PKW).

**Generation**, comprising mainly generation of electric energy and heat from conventional sources, as well as generation of electric energy and heat using biomass co-burning and other thermally acquired energy. The main fuels used by Generation Business Area comprise



hard coal, biomass and coke-oven gas. Within TAURON Capital Group, TAURON Wytwarzanie acts in the Generation Area. On 2 January 2013 this company was divided through allocation of Elektrociepłownia Katowice (EC Katowice) to the company TAURON Ciepło belonging to Heat Segment. The comparative data of Generation Area and Heat Area were converted accordingly.

**Renewables, (RES)**, comprising generation of electric energy from renewable sources (excluding generation of electric energy using biomass co-burning which is allocated to the Generation Business Area. This activity is provided by TAURON Ekoenergia as well as the subsidiaries of Ekoenergia: BELS INVESTMENT and MEGAWAT MARSZEWO.

**Distribution**, covering distribution of electric energy using distribution grids located in southern Poland, the activity which is provided by TAURON Dystrybucja. In this Business Area the operations of the company TAURON Serwis GZE (currently TAURON Dystrybucja Serwis) are also included.

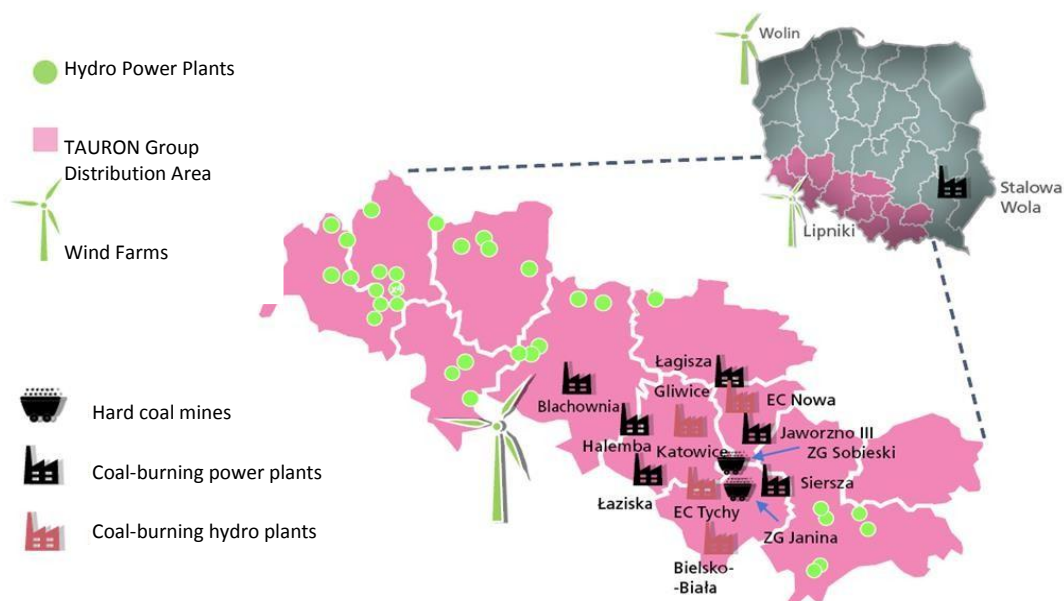
**Sales**, comprising sales of electric energy to end-customers and wholesale trading of electric energy, as well as trading and management of CO<sub>2</sub> emission allowances and the proprietary rights arising from the energy certificates of origin and trading of fuels. Operations in this area are provided by the companies: TAURON, TAURON Sprzedaż, TAURON Sprzedaż GZE and TAURON Czech Energy.

**Customer Service**, covering mainly services provided to internal client (companies of TAURON Capital Group), in the scope of service related to the sales process and the financial-accounting process of selected companies of TAURON Capital Group. Within this area TAURON Obsługa Klienta was operating which acquired the company TAURON Obsługa Klienta GZE at the end of January 2013.

**Heat**, covering generation, distribution and sales of heat and other utilities, within which TAURON Ciepło operates (following the merger with the companies: Elektrociepłownia Tychy, Elektrociepłownia EC Nowa and EC w Kamiennej Górze).

**Other**, comprising mainly activities in the area of extraction of stone, including limestone, for the needs of power engineering industry, metallurgy, construction and road building as well as production of sorbing agents for installations of flue gas desulphurization using the wet method and for the use in the fluidized bed boilers (activity provided by the company KW Czatkowice) as well as the activity in the scope of trade of electric energy and derivative products (conducted by the company PEPKH).

TAURON Capital Group conducts its operations and acquires its revenues mainly from sales and distribution of electric energy, generation of electric energy and heat and sales of hard coal. Location of key assets of TAURON Group is presented in the figure below:



In the first quarter of 2013, TAURON Group reached the following key operating parameters:

Key operating parameters	unit	Q 1 2013	Q 1 2012	Dynamics Q 1 2013/ Q 1 2012
Commercial coal production	M Mg	1.52	1,21	125.6%
Generation of electric energy (net production of the Group), including:	TWh	5.15	4.98	103.4%
<i>Net production of Generation Area</i>	<i>TWh</i>	<i>4.69</i>	<i>4.52</i>	<i>103.8%</i>
<i>Net production of RES Area</i>	<i>TWh</i>	<i>0.12</i>	<i>0.15</i>	<i>80.0%</i>
<i>Net production of Heat Area</i>	<i>TWh</i>	<i>0.34</i>	<i>0.32</i>	<i>106.3%</i>
Generation of electric energy from renewable sources in the Group, including:	TWh	0.28	0.30	93.3%
<i>Biomass production of Generation and Heat Area</i>	<i>TWh</i>	<i>0.16</i>	<i>0.16</i>	<i>100.0%</i>
<i>Production of hydro plants and wind farms RES Area</i>	<i>TWh</i>	<i>0.12</i>	<i>0.15</i>	<i>80.0%</i>
Heat generation by the Group, including:	PJ	7.70	7.80	98.7%
<i>Heat production of Generation Area</i>	<i>PJ</i>	<i>3.70</i>	<i>3.92</i>	<i>94.4%</i>
<i>Heat production of Heat Area</i>	<i>PJ</i>	<i>4.00</i>	<i>3.88</i>	<i>103.1%</i>
Distribution of electric energy	TWh	12.42	12.70	97.8%
Retail sales of electric energy (by Sales and Generation Area)	TWh	10.93	11.89	91.9%
Number of clients - Distribution	thous.	5,307	5,284	100.4%

## 2.2. Significant achievements and failures of TAURON Capital Group in the period covered by the report

### 2.2.1. Sales structure according to core business areas

The table below shows the volumes and structure of sales of TAURON Capital Group, divided into individual Core Business Areas (Segments) for the 1st quarter of 2013, compared to the 1st quarter of 2012.

Specification	unit	Q 1 2013	Q 1 2012	Dynamics Q 1 2013/ Q 1 2012
Sales of coal by Mining Area	M Mg	1.51	1.15	131.3%
Sales of electric energy and heat by Generation Area	TWh	5.75	5.07	113.4%
	PJ	3.33	3.55	93.8%
Sales of electric energy generated in hydroplants and wind farms by RES Area	TWh	0.12	0.15	80.0%
Sales of electric energy distribution services by Distribution Area	TWh	12.42	12.70	97.8%
Retail sales of electric energy and other products of the energy market by Sales Area	TWh	10.82	11.79	91.8%
Sales of electric energy by Heat Area	TWh	0.34	0.32	106.3%
Sales of heat purchased and generated by Heat Area	PJ	6.34	6.45	98.3%

#### Coal mining

The basic activity conducted by TAURON Capital Group within the Mining Business Area covers mining, preparation and sales of hard coal. Through Południowy Koncern Węglowy (PKW), TAURON Capital Group directly owns and runs Zakład Górniczy Sobieski and Zakład Górniczy Janina.

The volume of coal sales in the 1st quarter of 2013 amounted to almost 1.51 million t, which makes an increase by about 31.3%, as compared to the corresponding period of 2012. The increased volume of sales results mainly from higher production of commercial coal (1.52 M Mg in the 1st quarter of 2013, as compared to 1.21 M Mg in the 1st quarter of 2012), which was possible due to favourable geological and mining conditions, with increased quantity of the walls exploited.

#### Generation of electric energy and heat from conventional sources

The basic activity of the Generation Business Area within TAURON Capital Group comprises generation of electric energy and heat in six power plants and one co-generation plant (installations generating simultaneously electric energy and useful heat), coal-fired or using biomass co-burning. The total generating capacity of the generation units of the Generation Area at the end of March amounted to 4,783 MW of electric energy and 1,984 MW of heat. The change in the level of capacity as compared to the corresponding period of 2012 results from exclusion of Elektrownia Halemba (100 MW) and units 1 and 2 in Elektrownia Łagisza (240 MW) from the concession for electric energy generation.

In the 1st quarter of 2013, the Generation Area produced about 4.7 TWh of net electric energy (including about 0.13 TWh from biomass), i.e. about 4% less than in the corresponding period of 2012 when the production of net electric energy reached almost 4.5 TWh (including 0.12 TWh from biomass). In the 1st quarter of 2013 sales of electric energy from own production, including the energy purchased for trading purposes amounted to almost 5.8 TWh, which means the increase by 13.4% as compared to the corresponding period of the previous year.

In the 1st quarter of 2013, production of heat by the Generation Area reached approximately 3.7 PJ and it was lower by about 5.6% as compared to the same period in 2012.

**Generation of electric energy and heat from renewable sources**

The basic activity conducted by TAURON Capital Group in the RES Area comprises generation of electric energy from renewable sources in hydroelectric plants and wind farms as well as managing of TAURON Group Projects in the area of energy generation from renewable energy sources. In RES Area 35 hydroelectric plants of total installed capacity of 132.9 MWe operate as well as two wind farms of the total installed capacity of 60.75 MWe, which makes 3.7% of the total installed capacity of TAURON Capital Group.

In the 1st quarter of 2013, the RES Area generated and sold 0.12 TWh of electric energy, as compared to 0.15 TWh in the corresponding period of the previous year, which means the decline of production by approximately 20%, mainly due to unfavourable wind and hydrological conditions in the 1st quarter of 2013.

**Distribution of electric energy**

TAURON Capital Group is the largest electricity distributor in Poland, both in terms of volume of the electric energy supplied and revenue gained from distribution activity. The Distribution Area exploits distribution grids of significant range, located in southern Poland.

In the 1st quarter of 2013, the Distribution Area supplied over 12.4 TWh of electric energy, in total, including 11.7 TWh to end consumers. During this period, the Distribution Area provided distribution services in favour of almost 5.31 million consumers. In the corresponding period of the previous year, the Distribution Area supplied, in total, approximately 12.7 TWh of electric energy to about 5.28 million consumers, including 12.0 TWh to the end consumers. The decreased volume of supplies is mainly the result of economic slowdown, demonstrated, among others, by the decline in industrial production and decline in construction sector (recession in the industry and the prolonged winter period), in addition, actions aimed at independent generation of electric energy for own needs are undertaken by big consumers.

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

Sales Area comprises activities in the scope of electric energy sales and wholesale trading of electric energy and other products of the energy market. Operations in the area of sales cover sales of electric energy to end customers, including key accounts. On the other hand, operations within wholesale trading cover mainly wholesale trade of electric energy, trade and management of CO<sub>2</sub> emission allowances and the proprietary rights arising from the certificates of origin, and trading of fuels.

In the 1st quarter of 2013, the companies of the Sales Area sold the total of almost 10.8 TWh of electric energy to about 5.24 million end consumers, both households and enterprises, which means a decline by 8.2% as compared to the corresponding period of 2012 when sales reached about 11.8 TWh. The decreased volume of sales arises from the reduction of the average demand among customers supplied from low voltage grids in the mass client segment; the decline is levelled by increased sales to end consumers in the group of strategic clients of TAURON and in the group of DSO companies for coverage of balancing differences.

**Heat**

Heat Area covers operations involving generation, distribution and sales of heat and other utilities. In the 1st quarter of 2013 sales of heat generated and purchased by the companies of the Business Areas amounted to 6.34 PJ in relation to 6.45 PJ in the 1st quarter of 2012. Maintaining the volume of sales at a level slightly lower YoY was possible due to acquisition of new customers as well as the increased demand for heat because of weather conditions in the 1st quarter 2013. During the period of 2013 under analysis, the co-generation plants of the Segment generated about 0.34 TWh of electric energy net, which means that the level of the 1st quarter of the previous year (0.32 TWh) was exceeded by over 6%.

## 2.2.2. Implementation of the investment programme

In the 1st quarter of 2013, the investment expenditure of TAURON Capital Group amounted to about PLN 541 million and it was higher by approximately 6% as compared to the expenditure incurred in the corresponding period of the previous year (after the 1st quarter of 2012, it amounted to PLN 510 M). It results mainly from the increased investment in the Business Areas of Distribution and Renewable Energy Sources.

The main investment projects in the 1st quarter of 2013 include:

- construction of new generation capacity (capital expenditure: PLN 48 million) and construction of installation for reduction of NOx emission (capital expenditure: PLN 45 million) in the Generation Area.
- construction of Marszewo and Wicko wind farms (capital expenditure: PLN 108 million) in the RES Area.
- construction of new electrical junctions (capital expenditure: PLN 78 million); modernisation and replacement of grid assets (capital expenditure: PLN 147 million) in the Distribution Area.

In the 1st quarter of 2013, the following strategic investment projects were continued in TAURON Capital Group:

- 1) construction of the Combined Cycle Gas Turbine (CCGT) unit, including the heat generation component in Stalowa Wola - the investment is implemented with participation of the strategic partner - PGNiG S.A. The investment is aimed at construction and commissioning of the new steam and gas fired unit of 449 MWe power capacity and heat capacity of 240 MWt. The detailed design plans are completed for: a rapid on San river and foundations of the main buildings. Work on other detailed design plans is in progress. Delivery of the project is scheduled in 2015;
- 2) construction of the power unit of the capacity of 50 MWe and 182 MWt, adjusted to electric energy and heat generation within the area of Zespół Elektrociepłowni Bielsko-Biała (ZEC in Bielsko-Biała), a branch of TAURON Wytwarzanie. The investment is aimed at replacement of the exploited and low-performing generation units, by the unit of high performance, complying with all environmental protection requirements concerning emissions of NOx, SO2 and particulate matter. On 15 March the adjustment operation of the unit was completed and the test run has started. Delivery of the investment project is scheduled in mid 2013;
- 3) construction of the wind farm of 40 MW capacity in the location of Wicko. Engineering works for roads and assembly yards have been completed for 12 wind turbines. Production of gondola, towers and blades for 20 wind turbines was finished. Delivery of the investment is scheduled in 2013;
- 4) construction of the wind farm of 82 MW capacity in the location of Marszewo. Finishing works and tests of the constructed Main Supply Terminal are in progress. Works connected with the MV network were completed and accepted. The installation of wind turbines in in progress (33 out of 41 turbines have been assembled). Commissioning is planned in 2014;
- 5) construction of the Combined Cycle Gas Turbine (CCGT) unit, including the heat generation component in Elektrociepłownia Katowice at power capacity of 135 MWe and heat capacity of 90 MWt. The process of contractor selection is in progress. Delivery of the project is scheduled in 2016;
- 6) modernisation of the boiler of 20 MWe capacity in Elektrownia Stalowa Wola belonging to TAURON Wytwarzanie, in order to adjust it to biomass burning. On 28 March 2013 K-10 boiler was commissioned. This project included modernisation of the K-10 coal-fired boiler in order to adjust it to biomass burning, construction of the biomass preparation installation and modernisation of TG-6 turbogenerator in order to adjust it to performance in the unit with the modernised boiler. The installation enables burning of both processes biomass (e.g. pellets) and the non-processed biomass. In March 2013, the test run was performed and the installation was commissioned;
- 7) construction of new generating capacity in co-generation at the level of 50 MWe and 86 MWt in EC Tychy (currently TAURON Ciepło) and modernisation of the existing unit in order to adjust it to biomass burning. The investment was completed in 2012 in its part involving modernisation of the existing boiler and its adjustment to biomass burning. On 15 February this year the concession of ERO was obtained



for generation of electric energy and heat generation. In April 2013, the bid of Elektrobudowa S.A. company was selected as the most favourable offer under the public procurement procedure concerning the planned project on construction of the new co-generation unit at the capacity of 50MWe / 86MWt. The completion of this investment is scheduled in 2016. The replacement of generating capacity in TAURON Ciepło (Zakład Wytwarzania Tychy – ZW Tychy) arises from the need to adjust ZW Tychy to the new, more stringent emission standards. The aim of the project is to maintain the current status of ZW Tychy as the main heat generator for consumers located on the territory of Tychy town;

- 8) construction of the new power unit of the capacity of 910 MW for supercritical parameters at the area of Elektrownia Jaworzno III belonging to TAURON Wytwarzanie. It is expected that the new unit will demonstrate high performance and availability as well as low levels of emissions of NO<sub>x</sub>, SO<sub>2</sub>, CO<sub>2</sub>, and dust. On 24 January 2013, as a result of the procurement procedure resolved, the consortium of RAFAKO S.A. (as a leader of the consortium) - MOSTOSTAL WARSZAWA S.A. was selected as the General Contractor. On 4 February 2013, two bidders: China National Electric Engineering Co. Ltd. (leader of the consortium) and SNC-LAVALIN sp. z o.o. (leader of the consortium) challenged the decision of the National Appeal Chamber. On 25 March 2013, the National Appeal Chamber dismissed the aforementioned appeals. On 2 May 2013 China National Electric Engineering Co. Ltd. (leader of the consortium) filed complaint with District Court in Katowice against decision of Polish Appeals Chamber. Concluding the agreement with the General Contractor has been scheduled for the 2nd quarter of 2013. Completing of this investment project is scheduled in 2018;
- 9) construction of the installation for flue gas de-nitrification in 6 blocks of Elektrownia Jaworzno III and 4 blocks of Elektrownia Łaziska belonging to TAURON Wytwarzanie. This investment will enable to reduce the NO<sub>x</sub> emission in these units to the levels which will be binding in Poland starting from 2018. Modernisation of blocks no. 2 and 4 in Jaworzno was completed, works connected with block no. 6 are in progress. In Elektrownia Łaziska works at block no. 12 have been completed, guarantee measurements of block 11 installation are in progress. The construction works are to be conducted until 2016;
- 10) construction of the Combined Cycle Gas Turbine (CCGT) unit of 850 MW capacity, natural gas burning, at the area of Elektrownia Blachownia. On 5 September 2012, the subsidiary, TAURON Wytwarzanie and KGHM established the special purpose vehicle under the name Elektrownia Blachownia Nowa for comprehensive implementation of the investment. Preparation of the tender requirements are on-going – the Terms of Reference for the public procurement procedure to select the General Contractor of the new unit. Analyses of competitiveness of the planned generation unit of Elektrownia Blachownia are performed under various market scenarios and technological variants. Commissioning of the project is planned in 2017.

Strategic investment as well as their financing within TAURON Group are managed centrally at the level of the parent company, i.e. TAURON Polska Energia S.A. The Capital Group will finance the current and future investment projects from funds generated from operating activity and by acquisition of debt financing.

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

#### 3.1 Financial situation of TAURON Group following the first quarter of 2013

##### 3.1.1 Consolidated statement on comprehensive income

The table below presents the selected items of the consolidated statement on comprehensive income of TAURON Capital Group for the period of 3 months, ended on 31 March 2013, as well as comparative data for the period of 3 months ended on 31 March 2012. These items are referred to in accordance with the interim condensed consolidated financial report compliant with the IFRS (International Financial Reporting Standards) for the period of 3 months ended on 31 March 2013, where statements for the 1st quarter of 2013 are included, as compared to the first quarter of 2012.

Specification	Q 1 2013		Q 1 2012		Dynamics (Q 1 2013/ Q 1 2012)
	thous. PLN	% of total revenue on sales	thous. PLN	% of total revenue on sales	
Continued operations					
Revenue on sales of goods, finished goods and materials without exclusion of excise	3,713,623	71.9%	4,974,130	77.1%	74.7%
Excise tax	(114,191)	2.2%	(145,211)	2.2%	78.6%
Revenue on sales of goods, products and materials	3,599,432	69.7%	4,828,919	74.8%	74.5%
Revenue on sales of services	1,550,902	30.0%	1,614,099	25.0%	96.1%
Other revenue	12,700	0.2%	11,835	0.2%	107.3%
<b>Revenue on sales</b>	<b>5,163,034</b>	<b>100.0%</b>	<b>6,454,853</b>	<b>100.0%</b>	<b>80.0%</b>
Own cost of sales	4,078,650	79.0%	5,604,614	86.8%	72.8%
Gross profit (loss) on sales	<b>1,084,384</b>	<b>21.0%</b>	<b>850,239</b>	<b>13.2%</b>	<b>127.5%</b>
Other operating revenue	26,739	0.5%	26,438	0.4%	101.1%
Costs of sales	135,865	2.6%	(116,780)	1.8%	116.3%
Overheads	169,590	3.3%	178,971	2.8%	94.8%
Other Operating Expenses	17,336	0.3%	22,386	0.3%	77.4%
<b>Operating profit (loss)</b>	<b>788,332</b>	<b>15.3%</b>	<b>558,540</b>	<b>8.7%</b>	<b>141.1%</b>
<i>Operating profit margin (%)</i>	<i>15.3%</i>		<i>8.7%</i>		<i>176.5%</i>
Financial revenue	27,038	0.5%	31,877	0.5%	84.8%
Financial expenses	78,442	1.5%	91,205	1.4%	86.0%
Share in profit of the affiliate	869	0.0%	354	0.0%	245.5%
<b>Gross profit / (loss)</b>	<b>736,059</b>	<b>14.3%</b>	<b>498,858</b>	<b>7.7%</b>	<b>147.5%</b>
<i>Gross profit margin (%)</i>	<i>14.3%</i>		<i>7.7%</i>		<i>184.5%</i>
Income Tax	156,126	3.0%	104,161	1.6%	149.9%
Net profit (loss) on continuing operations	<b>579,933</b>	<b>11.2%</b>	<b>394,697</b>	<b>6.1%</b>	<b>146.9%</b>
<i>Net profit margin (%)</i>	<i>11.2%</i>		<i>6.1%</i>		<i>183.7%</i>
Net profit (loss) on discontinued operations					
<b>Net profit (loss) for the financial year</b>	<b>579,933</b>	<b>11.2%</b>	<b>394,697</b>	<b>6.1%</b>	<b>146.9%</b>
Other comprehensive income for the financial year including tax	8,619	0.2%	7,833	0.1%	-110.1%
Total income for the financial year	588,552	11.4%	386,864	6.0%	152.1%
Profit attributable to:					
Shareholders of the parent company	558,296	10.8%	381,164	5.9%	146.5%
Non-controlling interests	21,637	0.4%	13,533	0.2%	159.9%



Specification	Q 1 2013		Q 1 2012		Dynamics (Q 1 2013/ Q 1 2012)
	thous. PLN	% of total revenue on sales	thous. PLN	% of total revenue on sales	
Total income attributable to:					
Shareholders of the parent company	566,246	11.0%	373,567	5.8%	151.6%
Non-controlling interests	22,306	0.4%	13,297	0.2%	167.8%
<b>EBIT and EBITDA</b>					
EBIT	<b>788,332</b>		558.540		141.1%
EBITDA	<b>1,221,101</b>		974.951		125.2%

In the 1st quarter of 2013 TAURON Group recognised revenue on sales at the level of about PLN 5.2 billion, which means the decrease by about 20% as compared to PLN 6.5 billion reached in the 1st quarter of 2012. The level of the recognised revenue has been significantly affected by the fact of change in value of the obligatory sales through commodity exchange (arising from the provisions of the Act on Energy Law) for the electric energy generated - from 100% to 15%, in connection with the terminated participation of TAURON company in the programme of compensation of stranded costs. It affected the increased level of sales of electric energy generated by TAURON Wytwarzanie to TAURON Group in the 1st quarter of 2013 and the requirement to include revenue from such sales at the Group level, which did not occur in the 1st quarter of previous year. In addition, no revenue from LTC occurs this year (in the 1st quarter of 2012 it amounted to approximately PLN 121 million).

As compared to the corresponding period of 2012 TAURON Group reached higher revenue on sales in the following segments: Mining, Sales, Heat and Customer Service. The highest dynamics of revenue growth was achieved in Mining Area.

In the 1st quarter 2013 the decrease in operating costs can be observed, as compared to the corresponding period of the previous year, associated, in particular, with the reduced costs of Generation Area and Heat Area (mainly in connection with lower fuel prices and implementation of the effectiveness improvement programme) and Sales Area (mainly in connection with the lack of regulations concerning the obligation to redeem proprietary rights of energy origin in 2013, as well as the lower volume of sales of electric energy). The reduced operating costs resulted in improved results at the level of EBIT and EBITDA and generated gross and net profit. The net profit margin in the 1st quarter of 2013 reached the level of approximately 11.2%, as compared to 6.1% in the 1st quarter of 2012.

### 3.1.2 Financial results according to core business areas

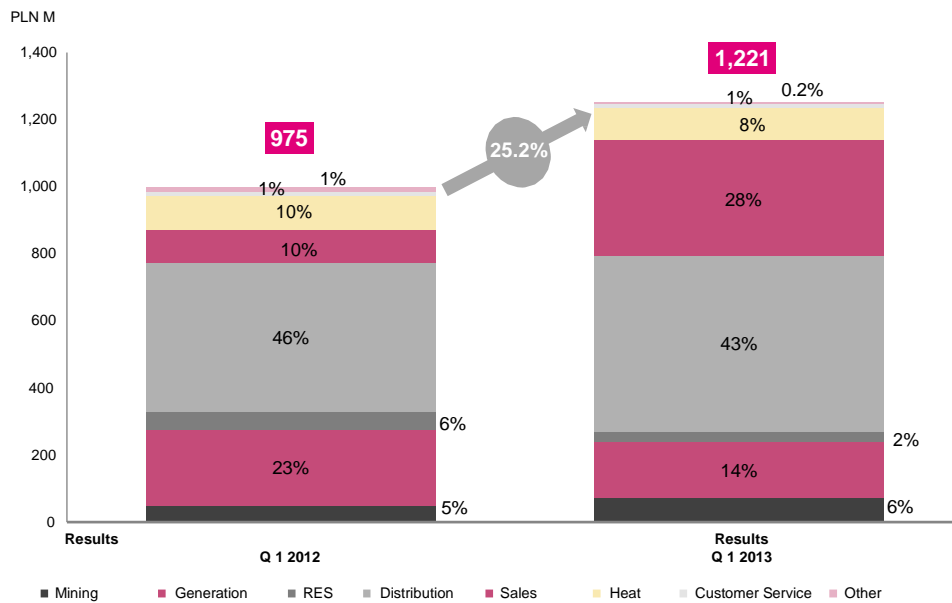
#### Financial results according to core business areas

The table below shows EBITDA results of TAURON Capital Group, divided into individual Core Business Areas (Segments) of operations for the 1st quarter of 2013 and 1st quarter of 2012. The data for individual Business Areas do not include consolidation exclusions.

EBITDA (thousand PLN)	Q 1 2013	Q 1 2012	Dynamics Q 1 2013/ Q 1 2012
Coal mining	<b>72,921</b>	49,014	148.8%
Generation of electric energy and heat from conventional sources	<b>167,464</b>	227,492	73.6%
Generating electric energy and heat from renewable sources	<b>27,182</b>	53,509	50.8%
Distribution of electric energy	<b>525,061</b>	447,134	117.4%
Sales of energy and other products of the energy market	<b>347,875</b>	101,220	343.7%

EBITDA (thousand PLN)	Q 1 2013	Q 1 2012	Dynamics Q 1 2013/ Q 1 2012
Heat	95,580	100,640	95.0%
Customer Service	12,103	13,334	90.8%
Other	2,330	10,931	21.3%
Non-attributable items and exemptions	29,428	28,323	103.9%
<b>Total EBITDA</b>	<b>1,221,088</b>	<b>974,951</b>	<b>125.2%</b>

EBITDA structure of TAURON Capital Group



The Distribution Area and Sales Area have the highest share in EBITDA of TAURON Capital Group. As compared to the corresponding period of 2012 the increased share in EBITDA structure occurred mainly in Sales Area, due to better results obtained in the 1st quarter of 2013.

Coal mining

Specification (thousand PLN)	Q 1 2013	Q 1 2012	Dynamics Q 1 2013/ Q 1 2012	Change (Q 1 2013 - Q 1 2012)
<b>Coal mining</b>				
Revenue on sales	372,729	306,981	121%	65,748
<i>coal - coarse and medium assortments</i>	115,926	95,509	121%	20,417
<i>power coal</i>	249,685	204,552	122%	45,133
<i>other products and services</i>	7,119	6,919	103%	200
Operating profit	45,966	23,359	197%	22,607
Depreciation	26,955	25,655	105%	1,300

Specification (thous. PLN)	Q 1 2013	Q 1 2012	Dynamics Q 1 2013/ Q 1 2012	Change (Q 1 2013 - Q 1 2012)
EBITDA	72,921	49,014	149%	23,907

In the 1st quarter of 2013, revenue on sales in the Mining Segment increased by approximately 21.4% as compared to the corresponding period of previous year, which mainly results from the increased sales of coal (by ab. 0.35 million tons, i.e. by 31.3%), at the average sales price, lower by 6.7% than in the 1st quarter of 2012, arising from the reduced contractual price of fine coal sold to power plants and co-generation plants of TAURON Group, and the reductions resulting from the market situation in the area of coal mining (over-production in 2012, discounts granted by Kompania Węglowa S.A. and KHW S.A.). The increased revenue on sales was mainly achieved in the area of fine coal sold inside TAURON Capital Group, and sales of coarse and medium assortments outside the Group. as a consequence of implementation of the sales strategy and the after-sales activities introduced.

Increased EBIT results, from PLN 23.4 million in 2012 to almost PLN 46 million in 2013, arise mainly from higher dynamics of revenue on sales of coal in relation to the dynamics of manufacturing costs of the coal sold, due to the fixed nature of the majority of costs incurred by the company of the Mining Area. The dynamics of variable costs was close to the dynamics of commercial coal production. The main driving force of the increase in fixed costs constituted costs of external services, including the costs of machinery rental and mining services, in connection with the increased amount of preparatory works provided by external companies.

#### Generation of electric energy and heat from conventional sources

Specification (thous. PLN)	Q 1 2013	Q 1 2012	Dynamics Q 1 2013/ Q 1 2012	Change (Q 1 2013 - Q 1 2012)
<b>Generation</b>				
Revenue on sales	1,261,631	1,396,481	90%	-134,850
<i>electric energy</i>	1,133,220	1,067,564	106%	65,656
<i>Heat</i>	87,024	88,377	98%	-1,353
<i>proprietary rights from certificates of electric energy origin</i>	19,718	53,844	37%	-34,126
<i>greenhouse gas emission allowances</i>	14,769	57,243	26%	-42,474
<i>compensation due to LTC termination</i>	0	121,122	0%	-121,122
<i>Other</i>	6,900	8,330	83%	-1,430
Operating profit	34,872	100,623	35%	-65,751
Depreciation	132,592	126,869	105%	5,723
EBITDA	167,464	227,492	74%	-60,028

In the 1st quarter of 2013 the revenue on sales in the Generation Segment was lower by approximately 10% as compared to the corresponding period of the previous year, which resulted from lower revenue on sales of certificates of origin of electric energy, CO<sub>2</sub> emission allowances and the lack of revenue from compensation due to LTC termination. Year 2012 was the last year of participation of the company TAURON Wytwarzanie in the programme of compensation of stranded costs.

The operating results of EBIT and EBITDA of the Generation Segment in the 1st quarter of 2013 stayed at a level lower than in the corresponding period of the previous year. The results achieved were adversely affected by the lack of revenue from compensation, recognising the provision for the costs of deficit of CO<sub>2</sub> emission allowances, lower revenue on sales of certificates of electric energy origin and lower prices of energy

sales. In relation to the previous year the result was positively affected by the higher volume of sales of electric energy, lower unit costs of generation (lower fuel prices) and lower fixed costs.

### Generation of electric energy and heat from renewable sources

Specification (thous. PLN)	Q 1 2013	Q 1 2012	Dynamics Q 1 2013/ Q 1 2012	Change (Q 1 2013 - Q 1 2012)
<b>RES</b>				
Revenue on sales	41,536	66,643	62%	-25,107
<i>electric energy</i>	24,704	29,019	85%	-4,315
<i>proprietary rights from certificates of electric energy origin</i>	16,673	37,431	45%	-20,758
<i>Other</i>	159	193	82%	-34
Operating profit	17,978	43,136	42%	-25,158
Depreciation	9,204	10,373	89%	-1,169
EBITDA	27,182	53,509	51%	-26,327

In the 1st quarter of 2013 the revenue on sales in the RES Segment decreased by approximately 38% as compared to the corresponding period of the previous year, which resulted from lower price of proprietary rights arising from certificates of origin of energy generated in RES, as well as lower volume of electric energy production (arising from unfavourable meteorological conditions).

For the same reasons the EBIT operating result and EBITDA of RES Area in the 1st quarter of 2013 was lower than in the corresponding period of the previous year.

### Distribution of electric energy

Specification (thous. PLN)	Q 1 2013	Q 1 2012	Dynamics Q 1 2013/ Q 1 2012	Change (Q 1 2013 - Q 1 2012)
<b>Distribution</b>				
Revenue on sales	1,540,623	1,562,400	99%	-21,777
<i>distribution services</i>	1,444,101	1,462,936	99%	-18,835
<i>connection fees</i>	30,016	27,209	110%	2,807
<i>maintenance of street lightning</i>	28,749	27,680	104%	1,069
<i>other services</i>	37,757	44,575	85%	-6,818
Operating profit	300,880	228,990	131%	71,890
Depreciation	224,181	218,144	103%	6,037
EBITDA	525,061	447,134	117%	77,927

In the 1st quarter of 2013, as compared to the corresponding period of 2012, the Distribution Segment recorded decline of revenue by about 1.4%, increase of results at the operating level by about 31.4%, and EBITDA result by about 17.4%. The growth of results arises from the following reasons.

The total revenue reached in the 1st quarter of 2013 was lower as compared to the revenue reached in the 1st quarter of 2012, due to the decrease in revenue on sales of distribution services to end consumers (decline of sales volume and increase of the average unit rate for distribution services). Applying the tariff adopted for 2013, while maintaining the comparable sales structure, provided for the increase in the average rate for distribution services by 2% year-on-year. Within other revenue associated with distribution activities, the decline involved mainly the fees due to over-standard offtake of reactive energy, exceeded capacity and illegal energy offtake, however, it was partly compensated by the increased revenue from new connections. Sales to end consumers - both in terms of value and in terms of quantity - decreased in the 1st quarter of 2013, as compared to the 1st quarter of 2012 in each tariff group, excluding G group, where the value of sales increased due to the growth of the average rate by over 3%. In the scope of sales to other DSOs, the value and the quantitative balance of energy transits in the 1st quarter of 2013 is positive, which means profit on purchase and sales operations of distribution services from and to other DSOs; this result is comparable to the result reached in the 1st quarter of 2012.

Irrespective of lower revenue, the operating results of the Distribution Area increased due to the significantly lower costs of activities, in relation to the comparable period of year 2012. Variable costs of the Segment decreased mainly due to the reduced TSO transitional fee (transferred in the tariff for 2013), the volume of purchase of transmission services was also lower due to the growth of generation in power plants connected to the distribution grid. Costs of energy purchase for the needs of balancing differences increased due to higher prices in contracts with energy suppliers in the Group and the unfavourable spread of prices of purchase and resale of energy surplus. The growth in prices is accompanied by the lower level of balancing difference, correlated with the volume of supplies, and the lower indicator of grid losses. In terms of fixed costs, their total level was decreased in relation to the 1st quarter of 2012. The predominant impact on savings may be attributed to reduction of labour costs achieved due to the consistently implemented restructuring activities. The change in the level of labour costs is also influenced by transferring the telecommunication and IT services from the Distribution Segment to the Customer Service Segment (costs of external services increase due to return of these costs to the Company under the sales from TAURON Obsługa Klienta). The level of EBIT was also negatively affected by results on other operating activity and other basic activity, among others, in connection with lower revenue from insurers and lower result on street lightning services, due to charging the assets apportioned from the distribution activity (result on sales of street lightning services, excluding depreciation and taxes on these assets will increase slightly year-on-year).

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

Specification (thous. PLN)	Q 1 2013	Q 1 2012	Dynamics Q 1 2013/ Q 1 2012	Change (Q 1 2013 - Q 1 2012)
<b>Sales</b>				
Revenue on sales	4,790,859	4,504,583	106%	286,276
<i>electric energy</i>	3,183,242	3,300,452	96%	-117,210
<i>proprietary rights from certificates of electric energy origin</i>	0	0	0%	0
<i>greenhouse gas emission allowances</i>	19,151	115,485	17%	-96,334
<i>Fuels</i>	596,432	49,176	1,261%	570,875
<i>distribution service (transferred)</i>	943,481	1,023,801	92%	-80,320
<i>other services, including commercial services</i>	24,935	15,669	159%	9,266
Operating profit	339,111	93,981	361%	245,130
Depreciation	8,764	7,239	121%	1,525
EBITDA	347,875	101,220	344%	246,655

Revenue on sales the Sales Area in the 1st quarter of 2013 reached the level higher by 6.4% in relation to the corresponding period of the year 2011. The Segment has also noted over triple increase of results at the level of EBIT and EBITDA. The growth arises from the following reasons.

The revenue on retail sales of electric energy in the 1st quarter of 2013 was higher than in the comparable period of 2012, both due to decrease of both the prices and the volume. The decreased quantity of sales was caused by reduction of the average demand among clients supplied from low volume grid the segment of mass clients. On the other hand, the lower level of sales price of electric energy (by 2.1%) in the 1st quarter of the current year arises from the reduced purchase cost of conventional energy and lower costs of acquisition of proprietary rights, which is reflected in the contracted levels of prices of sales to business clients; moreover, the decrease of the tariff volume was noted in relation to year 2012, which influences the level of the total average sales price.

The lower variable costs year-on-year were determined by: energy purchase price, declining (on average by 5.5%) due to the maintaining downwards trend of prices on the spot and forward market, lower market purchase price of green certificates of origin, and lack of support to generation of electric energy originating from gas co-generation or co-generation other than gas-burning. The favourable impact was partly levelled off by the obligation to present certificates arising from energy efficiency, for redemption, to the ERO President. In the 1st quarter of 2013, fixed costs reached the level comparable to the 1st quarter of the previous year.

## Heat

Specification (thous. PLN)	Q 1 2013	Q 1 2012	Dynamics Q 1 2013/ Q 1 2012	Change (Q 1 2013 - Q 1 2012)
<b>Heat</b>				
Revenue on sales	400,143	383,575	104%	16,568
<i>electric energy</i>	78,433	74,050	106%	4,383
<i>heat (including transmission)</i>	256,453	239,803	107%	16,650
<i>proprietary rights from certificates of electric energy origin</i>	4,876	7,604	64%	-2,728
<i>greenhouse gas emission allowances</i>	1	37	3%	-36
<i>wind of blast furnace</i>	40,145	41,231	97%	-1,086
<i>compressed air</i>	17,594	19,059	92%	-1,465
<i>Other</i>	2,641	1,792	147%	849
Operating profit	69,866	78,052	90%	-8,186
Depreciation	25,714	22,588	114%	3,126
EBITDA	95,580	100,640	95%	-5,060

Revenue on sales of the Heat Segment in the 1st quarter of 2013 reached higher level than in the corresponding period of the previous year. The increase mainly referred to revenue on sales and distribution of heat and on electric energy sales, whereas the revenue on sales of wind of blast furnace, compressed air and proprietary rights was lower.

The operating results of EBIT and EBITDA of the Generation Segment in the 1st quarter of 2013 stayed at a level lower than in the corresponding period of the previous year. The result achieved was positively influenced by the higher volume of heat distribution, higher heat sales price and lower fixed costs, whereas the negative factors included: recognising the provision for costs of deficit of CO<sub>2</sub> emission allowances, lower revenue on sales of proprietary rights to certificates of origin and lower sales price of electric energy, and lower sales volume of wind of blast furnace.

## Customer Service

Specification (thous. PLN)	Q 1 2013	Q 1 2012	Dynamics Q 1 2013/ Q 1 2012	Change (Q 1 2013 - Q 1 2012)
<b>Customer Service</b>				
Revenue on sales	104,094	83,846	124%	20,248
<i>customer service</i>	54,092	66,863	81%	-12,771
<i>IT services</i>	32,620	11,376	287%	21,244
<i>financial &amp; accounting and HR services</i>	17,138	5,329	322%	11,809
<i>Other</i>	244	278	88%	-34
Operating profit	8,986	9,864	91%	-878
Depreciation	3,117	3,470	90%	-353
EBITDA	12,103	13,334	91%	-1,231

The revenue on sales in the Customer Service Area increased by 24.1%, as compared to the corresponding period of the previous year, which should be mainly attributed to the reorganisation of the company providing common services within TAURON Group. In the 1st quarter of 2013, merger of the company TAURON Obsługa Klienta with its equivalent company of the former GZE Group took place, under the proceeding process of centralisation of the support functions and migration of resources from other companies of TAURON Group, which is demonstrated by the dynamic growth of revenue due to the IT and financial & accounting services provided within the Group, under lower revenue in the Customer Service Area (increased revenue from additional orders in the 1st quarter of 2012). In the Area, decline was also observed due to services provided to companies outside the Group, arising mainly from limitation of services rendered to companies of Vattenfall Group.

Within the Business Area, growth of costs occurred, correlated with revenues, arising from migration of resources to the company TAURON Obsługa Klienta sp. z o.o., consequently, the employment in the Area at the end of the 1st quarter of this year was higher by 443 FTEs than at the end of the 1st quarter of 2012.

## Other

Specification (thous. PLN)	Q 1 2013	Q 1 2012	Dynamics Q 1 2013/ Q 1 2012	Change (Q 1 2013 - Q 1 2012)
<b>Other</b>				
Revenue on sales	103,507	111,683	93%	-8,176
<i>electric energy</i>	65,468	79,707	82%	-14,239
<i>proprietary rights from certificates of electric energy origin</i>	20,731	9,185	226%	11,545
<i>grinding plant products</i>	13,419	16,962	79%	-3,543
<i>grit and stone</i>	3,450	5,330	65%	-1,880
<i>other products and services</i>	440	499	88%	-59
Operating profit	101	8,858	1%	-8,757
Depreciation	2,229	2,073	108%	156
EBITDA	2,330	10,931	21%	-8,601



The revenue on sales in the Other Area decreased significantly as compared to the 1st quarter of 2012. Suspension of trading on the wholesale market (arising from organizational changes related to PEPKH company), in correlation with lower prices in energy market, determined lower results of this company and the whole Business Area, only partly mitigated by the increased trading of proprietary rights arising from the certificates of origin of electric energy. Equally significant was the reduced level of sales reached by Kopalnia Wapienia Czatkowice, in particular, in the scope of limestone dust and aggregates (delays in road investment caused by prolonged winter). Such declines, partly mitigated by variable costs, maintained in relation to the lower level of sales, cause significant reduction of the company results, directly demonstrated in the results of the Business Area.

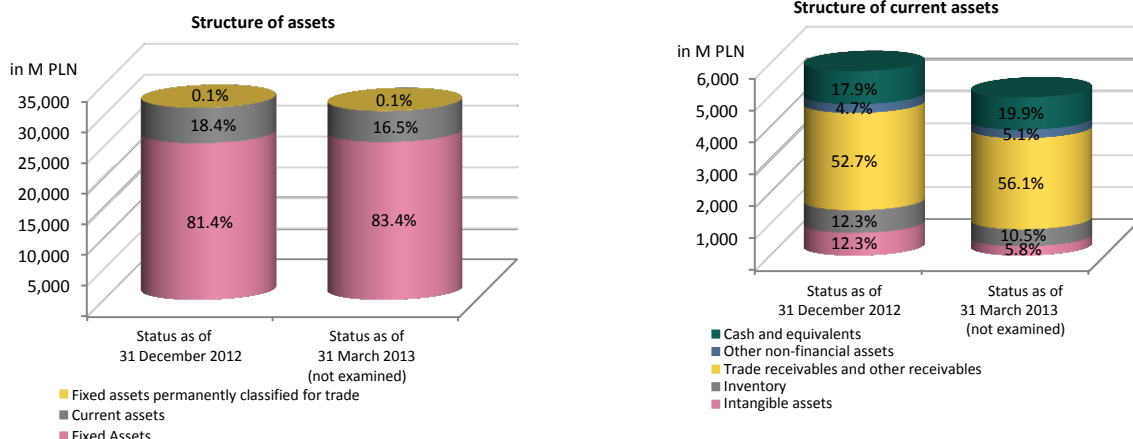
### 3.2 Status of assets

#### *Consolidated statement of financial situation*

Statement of financial situation	Status as of 31 March 2013 (not examined)	Status as of 31 December 2012	Dynamics 2013/2012
<b>ASSETS</b>			
<b>Fixed Assets</b>	<b>25,650,887</b>	<b>25,471,230</b>	<b>100.7%</b>
Tangible fixed assets	24,223,173	24,112,737	100.5%
Intangible assets	614,055	617,219	99.5%
Stocks and shares in affiliated companies and joint ventures recognised applying the equity method	49,939	51,986	96.1%
Other long-term financial assets	343,898	305,444	112.6%
Other long-term non-financial assets	387,967	359,709	107.9%
Assets due to deferred tax	31,855	24,135	132.0%
<b>Current assets</b>	<b>5,064,557</b>	<b>5,766,232</b>	<b>87.8%</b>
Intangible assets	292,319	711,099	41.1%
Inventory	533,231	708,282	75.3%
Receivables due to income tax	119,959	1,434	8,365.3%
Trade receivables and other receivables	2,842,352	3,036,695	93.6%
Other short-term financial assets	9,065	5,422	167.2%
Other short-term non-financial assets	260,385	272,371	95.6%
Cash and equivalents	1,007,246	1,030,929	97.7%
<b>Fixed assets permanently classified for trade</b>	<b>34,229</b>	<b>36,215</b>	<b>94.5%</b>
<b>TOTAL ASSETS</b>	<b>30,749,673</b>	<b>31,273,677</b>	<b>98.3%</b>

As of 31 March 2013 the statement on financial situation of TAURON Capital Group indicates total assets lower by 0.17%, as compared to 31 December 2012.

Change in the status of assets and currents assets



Fixed assets constitute the biggest item of assets at the end of the 1st quarter of 2013, with the share of 83.4% of total balance sheet value. As compared to the previous year, the value of fixed assets was higher by approximately PLN 179.7 million (0.7%). The change results from investment in fixed assets in each segment of activity, in particular, in the generation assets in the 1st quarter of 2013. Tangible fixed assets still constitute the biggest part of assets of TAURON Group, making 78.8% of the balance sheet total and 94.4% of the value of all fixed assets at the end of the reporting period. Their value increased by PLN 110.4 million (0.5%).

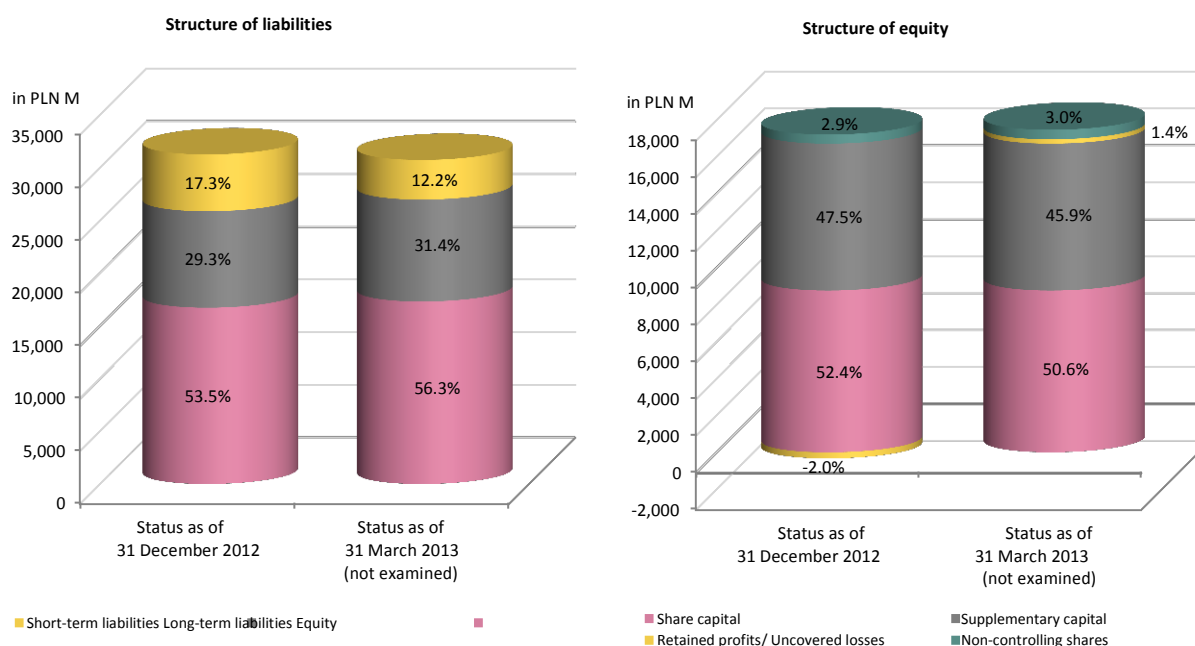
Decrease of the value of current assets of TAURON Group by about PLN 701.7 million (12.2%) results from submission of the energy proprietary rights for 2012 in the 1st quarter of 2013, on account of fulfilment of the obligation to redeem the proprietary rights held. Fulfilment of the statutory obligation in the reporting period resulted in decrease of short-term current assets by the amount of 432.1 million (58.9%). The second biggest item affecting the decrease of current assets of the Group is the inventory, with its value having decreased by PLN 175.1 million (24.7%).

In the table below, the annual consolidated statement of financial situation - liabilities, is presented.

Statement of financial situation	Status as of 31 March 2013 (not examined)	Status as of 31 December 2012	Dynamics 2013/2012
<b>LIABILITIES</b>			
<b>Equity</b>	<b>17,316,061</b>	<b>16,728,233</b>	<b>103.5%</b>
Equity attributable to shareholders of the parent company	16,800,448	16,235,110	103.5%
Share capital	8,762,747	8,762,747	100.0%
Supplementary capital	7,953,021	7,953,021	100.0%
Hedging instruments revaluation reserve	(151,005)	(153,703)	98.2%
Exchange differences due to conversion of foreign units	(442)	(370)	119.5%
Retained profits / Uncovered losses	236,127	(326,585)	-
<b>Non-controlling shares</b>	<b>515,613</b>	<b>493,123</b>	<b>104.8%</b>
<b>Long-term liabilities</b>	<b>9,668,430</b>	<b>9,148,067</b>	<b>105.7%</b>
Loans, credits and debt securities	5,643,271	5,222,882	108.0%
Liabilities due to leasing and lease contracts with purchase option	37,023	41,796	88.6%

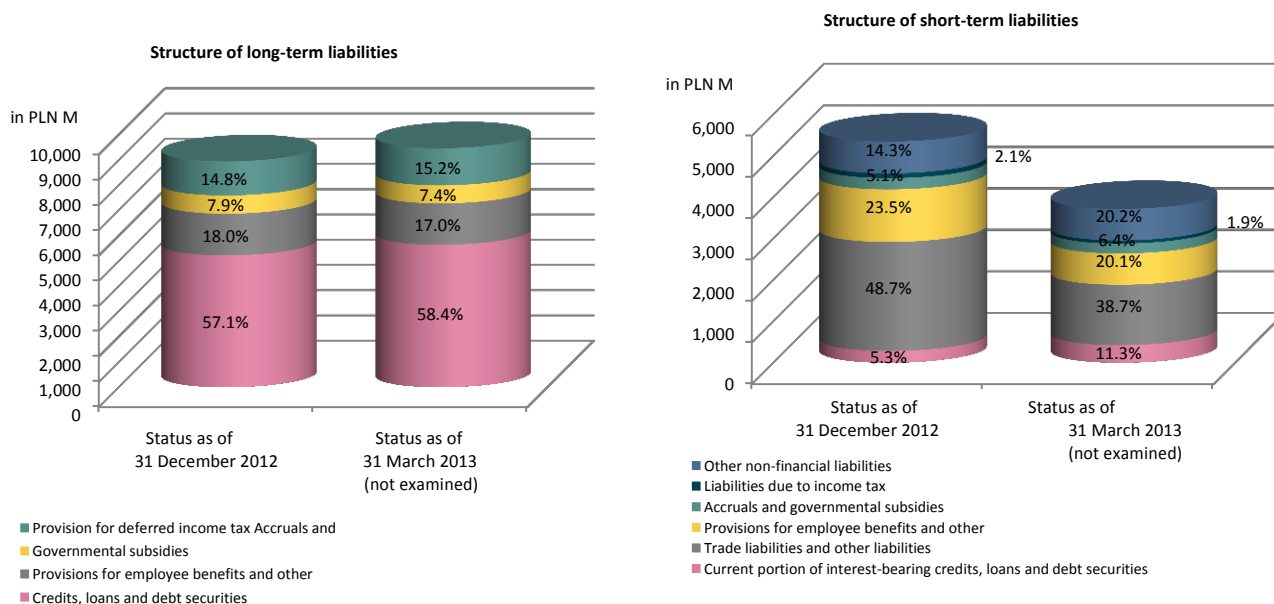
Statement of financial situation	Status as of 31 March 2013 (not examined)	Status as of 31 December 2012	Dynamics 2013/2012
Trade liabilities and other long-term financial liabilities	8,089	7,890	102.5%
Derivatives	154,956	150,594	102.9%
Provisions for employee benefits	1,555,705	1,568,219	99.2%
Other provisions	83,534	82,523	101.2%
Long-term prepayments and governmental subsidies	715,776	723,315	99.0%
Provision for deferred income tax	1,470,076	1,350,848	108.8%
<b>Short-term liabilities</b>	<b>3,765,182</b>	<b>5,397,377</b>	<b>69.8%</b>
Current portion of interest-bearing credits, loans and debt securities	426,987	286,990	148.8%
Current part of liabilities due to leasing and lease contracts with purchase option	14,491	14,482	100.1%
Trade liabilities and other liabilities	1,456,633	2,628,449	55.4%
Derivatives	37,549	40,624	92.4%
Provisions for employee benefits	173,860	167,704	103.7%
Other short-term liabilities	583,019	1,103,036	52.9%
Accruals and governmental subsidies	241,018	273,824	88.0%
Liabilities due to income tax	72,603	113,034	64.2%
Other non-financial liabilities	759,022	769,234	98.7%
<b>TOTAL LIABILITIES</b>	<b>30,749,673</b>	<b>31,273,677</b>	<b>98.3%</b>

Change in liabilities and equity



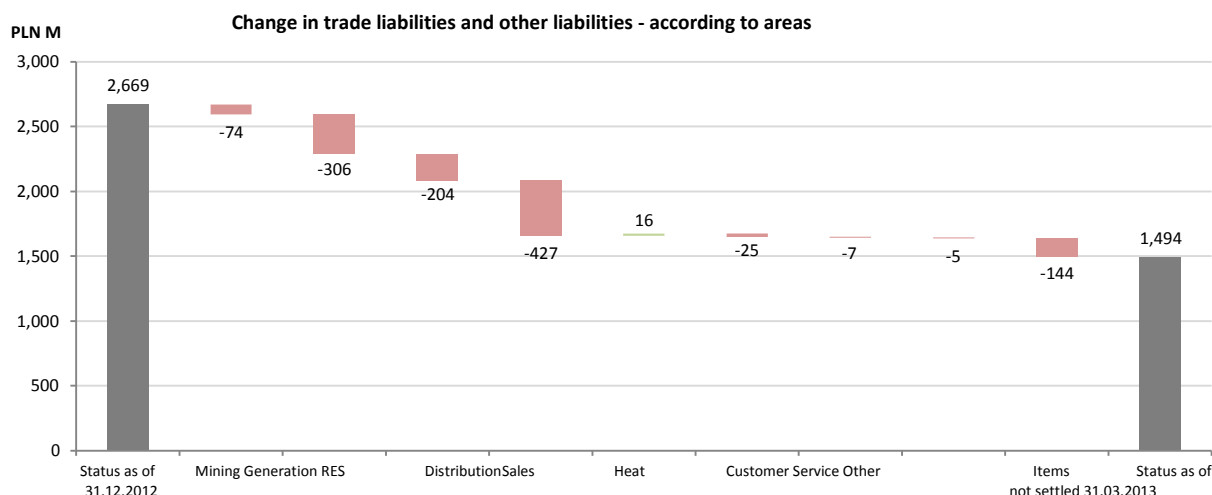
As of 31 March 2013 and as of 31 December 2012, the total equity, as the still dominating source of financing of TAURON Capital Group assets, reached PLN 17,316.1 million and PLN 16,728.2 million, respectively, which constitutes 56.3% and 53.5% of total liabilities. The increased value of equity by the amount of PLN 587.8 million is caused by the positive financial result reached in the 1st quarter of 2013. The value of the share capital and supplementary capital in the current period was not changed irrespective of the minor decrease in the structure of equity.

### Change in the status of liabilities



The share of long-term liabilities in the structure of equity increased by PLN 520.4 million (5.7%) against the status as of 31 December 2012. The increased value of long-term liabilities in the 1st quarter of 2013 results from the growth of value of credits, loans and debt securities by the amount of PLN 420.4 million (18.4%) due to disbursement of the additional tranche of credit facility allocated for financing of investment implemented in the Group companies. In the 1st quarter of 2013 the significant increase in value of the provision for deferred income tax also occurred, by the amount of PLN 119.2 million (15.2%).

The share of short-term liabilities in the structure of equity decreased by PLN 1,632.2 million (30.2%) against the status as of 31 December 2012. The change in their value was affected by the decrease in trade liabilities and other liabilities by the amount of PLN 1,171.8 million (44.6%) and the decrease of provisions by the amount of PLN 520.0 million (47.1%) against the status as of 31 December 2012. The decrease of short-term trade liabilities and other liabilities in the 1st quarter of 2013 was recorded in each area, which is presented in the chart below.



The main reason for the decrease was the reduction of liabilities due to acquisition of fixed assets and intangible assets by the amount of approximately PLN 739.1 million and trade liabilities by the amount of ab. PLN 328.3 million. On the other hand, the decrease in the status of provisions is caused by reversal and use of provisions created as of 31 December 2012 due to the obligation to present certificates of origin for redemption, which is associated with the redemption of the rights in the 1st quarter of 2013. It should be also noted that in the 1st quarter of 2013 the value of the current part of credits, loans and debt securities increased, which results from the disbursement of the next tranche of facility allocated for financing of investment implemented in the Group companies and from the valuation of bonds issued and loans drawn as of 31 March 2013.

### 3.3 Cash Flows

#### **Consolidated statement of Cash Flow**

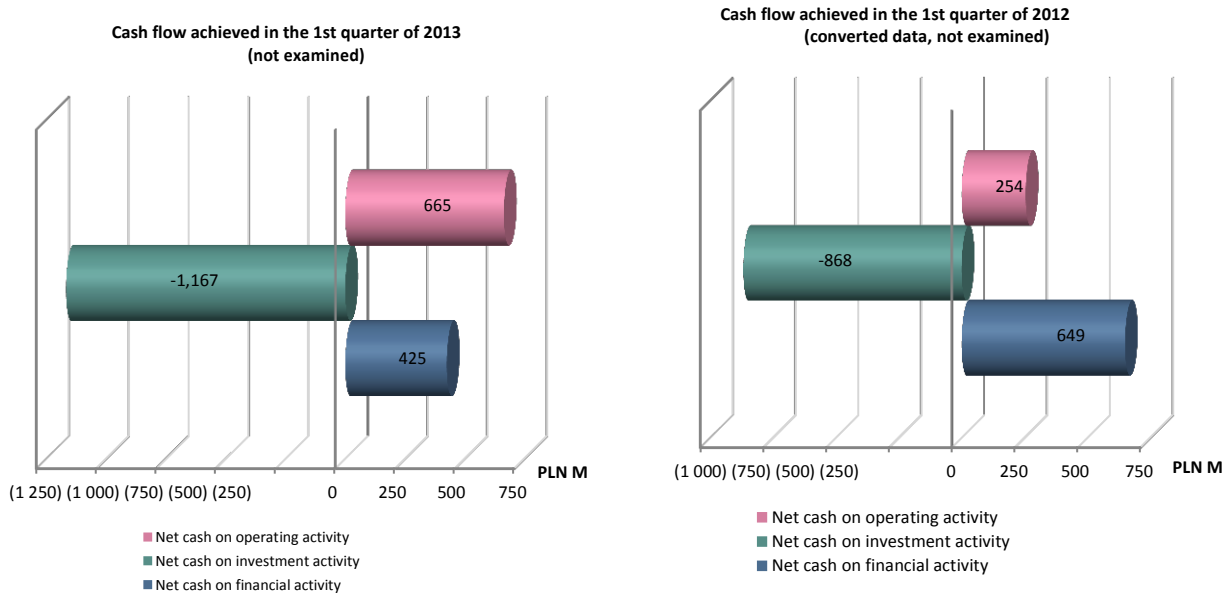
The table below presents cash flows of TAURON Capital Group for the period of three months ended, respectively: 2013 and 2012

Statement of Cash Flows	Q 1 2013 (not examined)	Q 1 2012 (data converted, not examined)	Dynamics (Q 1 2013/ Q 1 2012)
<b>Cash flows from operating activities</b>			
Gross profit / (loss)	736,059	498,858	147.5%
Adjustments	- 71,050	-244,375	29.1%
<b>Net cash from operating activities</b>	<b>665,009</b>	<b>254,483</b>	<b>261.3%</b>
<b>Cash flows from investment activities</b>			
Sales of tangible fixed assets and intangible assets	4,929	2,909	169.4%
Purchase of tangible fixed assets and intangible assets	(1,141,405)	(968,722)	117.8%

Statement of Cash Flows	Q 1 2013 (not examined)	Q 1 2012 (data converted, not examined)	Dynamics (Q 1 2013/ Q 1 2012)
Sales of bonds and other debt securities	-	99,507	-
Sales of other financial assets	-	6,919	-
Purchase of other financial assets	(3,406)	(2,722)	125.1%
Acquisition of subsidiary following deduction of cash taken over	-	5,500)	-
Dividend received	5,514	-	-
Interest received	457	-	-
Repayment of loans granted	5,850	-	-
Loans granted	(38,850)	-	-
Other	2	-	-
<b>Net cash from investment activities</b>	<b>(1,166,909)</b>	<b>(867,609)</b>	<b>134.5 %</b>
<b>Cash flows from financial activities</b>			
Repayment of liabilities due to financial leasing	(4,752)	(4,952)	96.0%
Cash inflows due to loans/credits	451,180	542,000	83.2%
Repayment of loans/credits	(7,900)	(31,103)	25.4%
Issue of debt securities	-	150,000	-
Dividends paid to non-controlling shareholders	(81)	(6)	1,350.0%
Interest paid	(8,799)	(4,839)	181.8%
Purchase of non-controlling shares	(732)	(36)	2,033.3%
Other	(3,463)	(1,706)	203.0%
<b>Net cash from financial activities</b>	<b>425,453</b>	<b>649,358</b>	<b>65.5%</b>
<b>Increase/(decrease ) in net cash and equivalents</b>	<b>(76,447)</b>	<b>36,232</b>	<b>-</b>
Net exchange differences	(720)	(303)	237.6%
<b>Cash opening balance</b>	<b>891,654</b>	<b>505,816</b>	<b>176.3%</b>
<b>Cash closing balance</b>	<b>815,207</b>	<b>542,048</b>	<b>150.4%</b>

TAURON Capital Group recorded negative result on the total value of net cash flows on operating, investment and financial activities. The total of all cash flow streams in the 1st quarter of 2013 amounted to PLN (76.5) million.

Cash flows in the 1st quarter of 2013 and 2012



In the 1st quarter of 2013, the value of cash flows on operating activity was positive, amounting to PLN 665.0 million, and it was higher by 161.3% than the value of cash flows of the comparable reporting period. The chart below shows the most significant changes in operating cash flow items which occurred between the two quarters compared.

Change in operating cash flows in the 1st quarter of 2013 as compared to the 1st quarter of 2012.

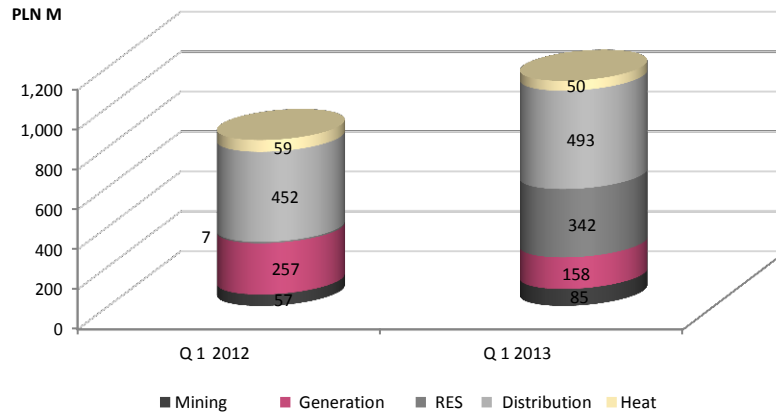


Due to the on-going investment in fixed assets in most of the Business Areas of TAURON Group, the value of cash flows on investment activity was negative and in amounted to approximately PLN 1,166.9 million in the 1st quarter of 2013 (by 34.5% more than the expenditures incurred in the comparable quarter of the previous year). The investment expenditure was mainly incurred for fixed assets and intangible assets, at the amount of PLN 141.4 million (higher by 17.8% than the expenditure incurred in the corresponding quarter of the previous year).



Below the value of expenditure incurred on purchase of fixed assets and intangible assets is presented according to the Business Areas.

**Expenditure incurred on purchase of fixed assets and intangible assets according to the Business Areas.**



The total value of cash flows on financial activity in the 1st quarter of 2013 amounted to approximately PLN 425.4 million and it was lower than the value of the cash flow stream in the comparable period of 2012 by the amount of PLN 223.9 million (34.5%). In order to ensure financing of investment expenditure, TAURON Group raised credit facilities at the amount of PLN 451.2 million (the level was higher by PLN 240.8 million, i.e. by 34.8% than in the comparable quarter).

The nature of individual cash streams recognised in each item of cash flow statement indicates strengthening of the company position on the market through its further development. The structure of cash flow explicitly shows that the investment expenditure incurred is financed from operating funds and the external funding sources raised.

TAURON Capital Group effectively manages cash flows, using the centrally implemented model of financing and the central policy of financial risk management. In order to minimise any potential disturbances in cash flows and the risk of loss of liquidity, TAURON Capital Group used the cash pooling mechanism. TAURON Capital Group uses various sources of funding, such as, for example, overdraft, bank facilities, loans from environmental funds, issue of bonds, financial leasing contracts and lease contracts with purchase option.

**3.4 Factors and events, particularly of unusual character, of material impact on the financial results achieved**

During the period under analysis, no factors and events of unusual character occurred, which would significantly affect the financial results achieved. In the 1st quarter of 2013 until date of this report, the following external factors had significant impact:

**Macroeconomic situation**

In the 1st quarter of 2013 electric energy consumption in Poland decreased by 1.82%, as compared to the corresponding period of 2012. In January, the growth of demand by 1.6% was observed whereas in February the demand dropped by as much as 9.5%. In March the demand recovered and

its increase by 2.23% was noted on a monthly basis. Fluctuations in the electric energy demand resulted mainly from weather conditions - colder January, warm February and very cold March, when record levels of snow fall were noted, resulted in the decline of electric energy demand on a national scale. Besides the weather conditions, the decline in electric energy consumption also resulted from the deteriorating economic indicators: drop of industrial production, decline of retail sales, etc. The current economic situation was considered in the forecast of the International Monetary Fund, which reduced the GDP growth in Poland projected in 2013 from 1.75% to 1.30%.

On 22 April this year the Central Statistical Office (GUS) verified the estimated for GDP growth for 2012. In accordance with the recent data the rate of economic growth in the previous year reached 1.9%. Accordingly, the forecasts of economic growth in 2013 were verified: they have been decreased from 2.2% (adopted in the budgetary act) to 1.5% of GDP growth YoY. The deteriorating condition of the economy may result in the continued decline of demand for electric energy over 2013.

### **Prices of energy and related products**

In the 1st quarter of 2013, the decreasing prices of electric energy and related products were still observed.

In connection with the crisis in the global markets, the price of CO<sub>2</sub> emission allowances also showed the downward trend. After the end of the 1st quarter of 2013 the downward trend in prices of emission allowances was continuing (the particularly rapid drop in prices occurred after the European Commission proposal on the so-called backloading had been rejected by the European Parliament).

In the market of certificates of electric energy origin (the so-called market of proprietary rights), the decline in prices started in 2012 was continued in the 1st quarter of 2013.

In 2013, the excessive supply of proprietary rights occurs, arising from production of electricity originating from renewable energy sources. The substitution fee in case of green certificates is 297.35 PLN/MWh, and the prices quoted on TGE at the end of the 1st quarter of 2013 were below 113 PLN/MWh. Significant drop in prices was also recorded in case of red certificates, reaching the level below 1 PLN/MWh at the end of the 1st quarter of 2013. A legislation gap currently occurs in the scope of redemption of yellow and red certificates and there is no binding law available in this area.

The description of the developments in electric energy prices, and prices of CO<sub>2</sub> emission allowances and proprietary rights in the period of the 1st quarter of 2013 is included in item 5.9.

The decrease in prices was also noted in the national coal market. The price was reduced from the level of approximately 12.5 PLN/GJ to approximately 10 PLN/GJ. Accordingly, the energy concerns renegotiated the price of coal supplies with the coal mines.

### **Obligation of public sales of electric energy by generators**

In 2013 companies of TAURON Group are subject to the obligation, in accordance with provisions of art. 49a of the Energy Law, 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 approximately 85% of electric energy produced by companies of TAURON Group in 2013 may be contracted to secure sales positions of TAURON Group and on the OTC (over the counter market).

### **Lack of decision concerning the so-called 'energy tri-pack'**

Until the end of the 1st quarter of 2013, the activities aimed at implementing the so-called 'energy tri-pack' have not been concluded. It is currently estimated that the provisions of the energy tri-pack will be binding only in 2014. The level of financial support to the renewable energy sources is the most controversial issue. At present, no applicable regulations are available in the scope of support to energy produced in high-performance co-generation and in gas co-generation. Consequently, significant uncertainty dominates as to whether the red and yellow certificates shall be subject to redemption, nevertheless the President of the Energy Regulatory Office is still issuing such certificates.

### **The tender for white certificates**

In the 1st quarter of 2013 the President of the Energy Regulatory Office announced the first call for tender on white certificates, under which 198 bids were submitted. Until now, the tender has not been decided.

### **Arrangements in the scope of CO2 emission allowances**

In 2013, the next, third settlement period started for CO2 emission allowances, covering the years 2013-2020. Accordingly, the application was submitted to the European Commission for granting the free allowances to be settled in this period (the application of Poland for agreement on interim allocation of free allowances for modernisation of electric energy generation, dated 29 July 2011). Currently, the relevant negotiations with the EC are in progress. In addition, starting from the beginning of 2013 the new act should apply concerning the trading system for emission of greenhouse gas, however the draft of this act has not been submitted for consultation yet.

In April this year the European Parliament rejected the proposal of the European Commission concerning the so-called backloading, i.e. the temporary withdrawal of 900 million CO2 emission allowances in 2013. This decision resulted in further rapid decline of prices of CO2 emission allowances.

### **Lack of obligation for redemption of red and yellow certificates**

At the beginning of 2013 the obligation for redemption of yellow and red certificates expired, associated with production of electric energy in high-performance co-generation, including the related legislative solutions in the scope of support to electric energy production in co-generation, which had adverse effect on the revenue on production of electric energy in co-generation, reached by the Generation 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.

## **3.5 Factors which, according to the opinion of the Issuer, shall have impact on the results to be achieved within the perspective of at least the next quarter**

In the Issuer's opinion, results of operations of the Capital Group within the perspective of at least the next quarter, will be affected mainly, as it happened in the past, by the following factors:

- the macroeconomic situation, especially in Poland, as well as the economic situation of the area of operations of TAURON Capital Group, situation of the European Union and of the global economy;
- political environment, especially in Poland as well as at the European Union level;
- changes in regulations of the energy sector, activity/decisions of the President of ERO;
- amendments to the Act on Energy Law and other acts of law related to the requirement of public sales of electric energy by the generators;
- electric energy prices on the wholesale market;
- prices of electric energy and coal as well as distribution tariffs, as factors influencing the level of revenue;
- prices of certificates of origin of energy from renewable sources and co-generation;
- prices of CO2 emission allowances;
- prices of energy resources;
- demand for electric energy and heat;
- seasonality and weather conditions;
- potential failures of equipment, installations and grid owned by TAURON Group.

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

TAURON Polska Energia S.A. did not publish any forecasts of financial results for the financial year 2013.

## 4 Shares and Shareholders

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

In accordance with notifications received by the Company, the structure of shareholders holding at least 5% of the total number of votes at the General Meeting of the Issuer, either directly or indirectly, through subsidiaries, as of the date of publication of this report, i.e. 9 May 2013, was as follows:

Shareholders	Number of shares held	Percentage interest in the share capital	Number of votes held	Percentage interest in the general number of votes
State Treasury*	526,848,384	30.06%	526,848,384	30.06%
KGHM Polska Miedź S.A.**	182,110,566	10.39%	182,110,566	10.39%
ING Otwarty Fundusz Emerytalny***	88,742,929	5.06%	88,742,929	5.06%

\*in accordance with the Shareholder's notification of 28 February 2013

\*\*in accordance with the Shareholder's notification of 23 March 2011

\*\*\*in accordance with the Shareholder's notification of 28 December 2011

Since 13 November 2012, i.e. the date of publication of the previous quarterly report, until the date of publication of this quarterly report, no changes in proprietary structure of significant blocks of shares of the Issuer have occurred.

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

The status of shares of the Company TAURON Polska Energia S.A. or authorisation to the shares, held by persons managing the Company in the period from the date of publication of the previous quarterly report, i.e. 13 November 2012 (the date of publication of the quarterly report for the third quarter of 2012) until 9 May 2013 (the date of presentation of this quarterly report) was as follows:

#### Managing persons:

Name and surname	Number of shares as of 13 November 2012	Change in the number of shares held	Number of shares as of 9 May 2013
Dariusz Lubera	6,576	no change	6,576
Joanna Schmid	0	no change	0
Dariusz Stolarczyk	42,611	no change	42,611
Krzysztof Zawadzki	27,337	no change	27,337

no change - lack of any changes

The status of shares of the Company TAURON Polska Energia S.A. or authorisation to the shares, held by persons supervising the Company in the period from the date of publication of the previous quarterly report, i.e. 13 November 2012 (the date of publication of the quarterly report for the third quarter of 2012) until 9 May 2013 (the date of presentation of this quarterly report) was as follows:

**Supervising persons:**

Name and surname	Number of shares as of 13 November 2012 (publication of the report for the 3rd quarter 2012)	Change in the number of shares held	Number of shares as of 9 May 2013
Antoni Tajduś	0	no change	0
Rafał Wardziński	0	no change	0
Leszek Koziorowski	0	no change	0
Jacek Kuciński	935	no change	935
Marcin Majeranowski	no data	no data	0
Jacek Szyke	0	no change	0
Marek Ściążko	0	no change	0
Agnieszka Trzaskalska	0	no change	0

*no change - lack of any changes*

*no data - Mr Marcin Majeranowski was appointed to the Supervisory Board as of 12 December 2012*

## 5 Other information and events

### 5.1 Adoption of the effectiveness improvement programme for years 2013-2015

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

Consolidation and restructuring programmes have been prepared the execution of which should result in cost reduction by approx. PLN 860 over the years 2013-2015 (total amount over the entire 3-year period). The efficiency improvement programmes for individual segments 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's estimates, the scale of OPEX reduction under the Programme should increase every year, reaching approx. PLN 300 million annually. TAURON Capital Group expects OPEX reduction in most segments – the largest share falling to Generation and Distribution Areas. One of the elements of the Programme is to use the synergies occurring after incorporation of the GZE companies taken over into the structures of TAURON Capital Group.

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

## 5.2 Selection of contractor of the new unit in Elektrownia Jaworzno III

On 24 January 2013 under an on-going tender procedure the Management Board of a subsidiary – TAURON Wytwarzanie selected the winning bid for construction of 910 MW unit with supercritical parameters at Elektrownia Jaworzno III. The following consortium was selected as the General Contractor: RAFAKO S.A. (consortium leader) and MOSTOSTAL WARSZAWA S.A. The value of the winning bid is PLN 4,399 million net (PLN 5,411 million gross). The subject of the tender includes design and construction of a 910MW coal-fired unit. The Project is in line with Corporate Strategy presented in the current report No. 25/2011 of 28 April 2011 which stipulates building a sustainable generation portfolio which would consist of coal, gas and RES based technologies. Delivery of the investment is scheduled in 2018.

On 4 February 2013 the Company was informed that an appeal had been lodged to Polish Appeals Chamber by the consortium of: SNC-Lavalin Polska sp. z o.o., SNC-Lavalin Inc. and Hitachi Power Europe GmbH, and China National Electric Engineering Co., Ltd. and China Overseas Engineering Group Co., Ltd. against the decision of TAURON Wytwarzanie concerning the selection of the bid submitted by the consortium RAFAKO S.A. – MOSTOSTAL WARSZAWA S.A. under the tender procedure on selection of the general contractor for the construction of the energy unit of the 800-910 MW capacity range in Elektrownia Jaworzno III. On 25 March the Polish Appeals Chamber dismissed the aforementioned appeals. On 2 May 2013 the Company was informed that the consortium of China National Electric Engineering Co., Ltd. and China Overseas Engineering Group Co., Ltd. had filed a complaint with District Court in Katowice against the decision of the Polish Appeals Chamber. Signing of the contract is scheduled in the second quarter of 2013.

The Company informed of the aforementioned event in the current reports no. 3/2013 of 24 January 2013, no. 4/2013 of 4 February 2013, no. 10/2013 of 25 March 2013 and no. 19/2013 of 2 May 2013.

## 5.3 Conclusion of material agreement with Kompania Węglowa

On 1 March 2013 TAURON Polska Energia S.A. and Kompania Węglowa S.A. signed the agreement, the subject of which is the purchase of coal by the Company (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 bn. 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 approx. 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. Since 1 January 2013 the aforementioned Agreement supersedes the agreement concluded on 1 December 2010 between Południowy Koncern Energetyczny S.A. (the Issuer's subsidiary, currently: TAURON Wytwarzanie S.A.) and Kompania Węglowa S.A. and taken over by the Issuer on 5 June 2012, under the centralisation process of fuel trading in TAURON Group.

The Company informed of the aforementioned agreement in the current report no. 7/2013 of 1 March 2013.

## 5.4 Appointment of certified auditor

On 13 March 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:

- examine standalone and consolidated financial statements of TAURON Polska Energia S.A. for the financial years 2013, 2013 and 2015,
- verify semi-annual standalone and consolidated financial statements of TAURON Polska Energia S.A. 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 the year 2007 and examination of consolidated financial statements prepared in accordance with the Accounting Act for the year 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.

## 5.5 Other events after the balance sheet day

### Management Board's recommendation on dividend payout

On 11 April 2013 the Management Board of TAURON decided to address the Ordinary General Meeting of the Company with a recommendation on the amount of dividend to be paid to the Company shareholders

from the net profit attributable to the Company shareholders gained in the financial year 2012, at the level of PLN 262,882,409.10, which makes PLN 0.15 per single share. At the same time, the Management Board decided to address the Company Ordinary General Meeting with a recommendation to define:

1) 3 June 2013 as the dividend record day, 2) 18 June 2013 as the dividend payment day. According to item 5.2 of TAURON Polska Energia S.A. Prospectus ("Prospectus") approved by the Polish Financial Supervisory Authority on 27 May 2010 it was indicated that: "The Management Board intends to recommend to the General Meeting the distribution of dividends for the years ended on 31 December 2010, 31 December 2011 and 31 December 2012, in the amount of not less than 30% of consolidated net profit attributable to shareholders of the Company as the parent entity. The final dividend amounts are expected to take into account the development of the Company and the TAURON Group, in particular, the execution of the investment programme adopted and maintaining the relevant liquidity level of the Company and the TAURON Group. The actual amount of dividends may be higher or lower than 30% of the consolidated net profit." Simultaneously, taking into account the fact that 30% of TAURON Group consolidated net profit attributable to shareholders of the Company as the parent entity for the year 2012 amounts to PLN 440,040,000 and the amount of dividends paid for the year 2011 exceeded the 30% threshold declared in the Prospectus and recommended by the Management Board, by approximately PLN 175,255,000, the Company recommends to determine the level of dividend for the year 2012 so that its total amount for the years 2010-2012 makes approximately 30% of the total consolidated net profit attributable to shareholders of the Company as the parent entity for the years 2010-2012. On 17 April 2013 the Supervisory Board approved the aforementioned recommendation of the Management Board.

The Company informed of the recommendation of the Management Board and opinion of the Supervisory Board in the current reports no. 12/2013 of 11 April 2013 and no. 14/2013 of 17 April 2013.

### Intention to amend the Articles of Association of TAURON Polska Energia S.A.

The Management Board of TAURON Polska Energia S.A. took the decision on the intended amendment to the Articles of Association of TAURON Polska Energia S.A. in the scope of the procedure of shareholders' participation in the General Meetings of the Company via electronic means of communication. As a result, the agenda of the next general meeting, i.e. the Ordinary General Meeting of the Company shall include an item concerning the amendment to the Company Articles of Association. The said amendment will refer to rewording of § 30 as specified below.

Current wording of § 30:

"§30

1. *The General Meeting is summoned in the way and on the basis of rules defined in the Code of Commercial Companies.*
2. *In the case when the General Meeting is summoned by an entity or body other than the Management Board on the basis of regulations of the Code of Commercial Companies and summoning the General*



*Meeting requires cooperation from the Management Board, the Management Board shall be obliged to perform all actions defined by law in order to summon, organize and carry out the General Meeting."*

The proposed wording of § 30:

*"In § 30 section 3, section 4, section 5 and section 6 are added with wording as follows:*

- 3. Shareholders may participate in the General Meeting using electronic means of communication.*
- 4. Shareholders' participation in the General Meeting using electronic means of communication includes in particular:*
  - 1) on-line live transmission of the General Meeting or*
  - 2) two-way live communication, where Shareholders may speak during the General Meeting while being at a different location than the venue of the General Meeting or*
  - 3) exercising in person or via a proxy the right to vote before or during the General Meeting*
- 5. Decision about the possibility, forms and terms of Shareholders' participation in General Meeting using electronic means of communication is taken by the Management Board in the form of a resolution. Information about the possibilities, forms and terms of Shareholders' participation in General Meeting using electronic means of communication is published in the announcement convening the General Meeting."*

The Company informed of the intention to amend the Articles of Association in the current report no. 13/2013 of 11 April 2013.

### **Announcement of Ordinary General Meeting of TAURON Polska Energia S.A.**

On 18 April 2013, the Management Board of TAURON Polska Energia S.A. convened the Ordinary General Meeting of the Company to be held on 16 May 2013 at 11 a.m. at Hotel Angelo in Katowice at ul. Sokolska 24. The agenda of the Ordinary General Meeting of the Company will cover, in particular: approval of the financial statements of the Company and TAURON Capital Group for the year 2012, approval of the Reports of the Management Board on operations of the Company and report on the operations of the Capital Group for the year 2012, distribution of the profit, acknowledgement of the fulfilment of duties by members of the Management Board and the Supervisory Board of the Company and amendments to the Articles of Association of the Company.

The announcements on convening of the Ordinary General Meeting and the draft resolutions were published in the current reports no. 15/2013 and no. 16/2013 of 18 April 2013.

### **Fulfilling conditions precedent regarding agreements concluded under the project "Construction of CCGT unit at Stalowa Wola"**

On 25 April, in connection with concluding of material agreements on 11 March 2011, under the project "Construction of CCGT unit at Stalowa Wola" (the "Project"), including electricity supply agreement (the "Electricity Supply Agreement") and gas supply agreement (the "Gas Supply Agreement"), two final conditions precedent referring to these agreements were fulfilled:

1. The last of the agreements providing for financing the construction, start-up and commissioning of the CCGT unit was signed, accordingly, the last of the conditions precedent defined in the Electricity Supply Agreement was fulfilled,
2. Elektrociepłownia Stalowa Wola submitted to PGNiG S.A. 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.

With reference to the above, all conditions precedent required under the Project have been fulfilled.

The Company informed of the fulfilment of the aforementioned conditions precedent in the current report no. 17/2013 of 26 April 2013.

## Updated estimated value of agreements with Electrabel/GDF Suez Trading

In connection with the preparation of interim report for Q1 2013 and 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). The subject of the agreements is to regulate all transactions concluded between the parties in connection with purchase, sale, supply and acceptance of electric energy, as well as options connected with purchase, sale, supply and acceptance of electric energy. The current estimated total value of the agreements over a period of 5 years which takes into account the present market conditions amounts to approximately PLN 410 million.

The Company informed of the updated estimated value of the aforementioned agreements in the current report no. 18/2013 of 26 April 2013.

## 5.6 Proceedings pending before the court, competent arbitration authority or public authority body

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

## 5.7 Information on transactions with affiliated entities

All transactions with affiliated entities are concluded under market conditions. Detailed information on significant transactions with affiliated entities has been provided in note 29 of the Consolidated interim financial statement for the period of three months, ended on 31 March 2013.

## 5.8 Information on granted guarantees, loan or credit sureties

In the 1st quarter of 2013, neither TAURON Polska Energia S.A., nor its subsidiaries have granted any loan or credit sureties or guaranties – jointly to one entity or this entity's subsidiary, at the aggregate value equivalent to the value of at least 10% of TAURON Polska Energia S.A. equity.

## 5.9 Other information which, according to the Issuer's opinion, is essential for the evaluation of the human resources, assets, financial situation, financial result and their changes, and which is essential to assess the possibility of fulfilment of obligations by the Capital Group of the Issuer

### Market situation

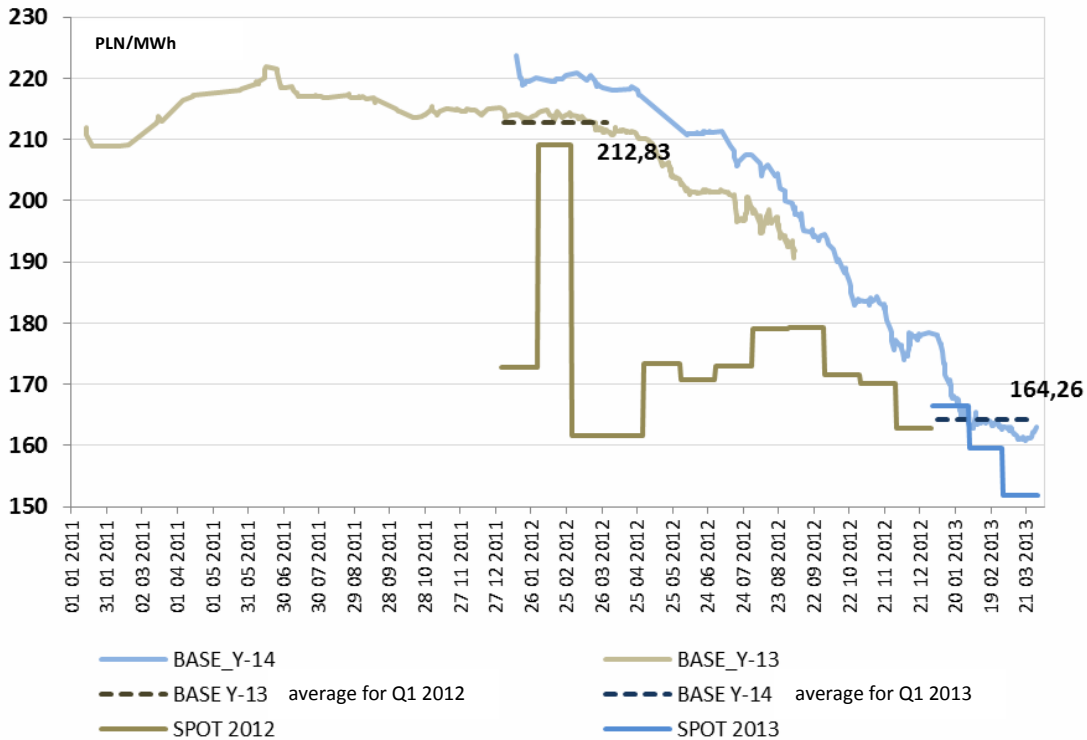
#### Prices of electric energy

The decreased demand for electric energy and the weather conditions in the 1st quarter of 2013 affected the level of SPOT prices. The average SPOT price in the 1st quarter of 2013 reached the level of 161.95 PLN/MWh and it was lower than the average price in the 1st quarter of 2012 by over 14%. Such situation was also caused by over-supply of electric energy from wind farms, which also influenced the decrease in balancing costs

by about 9.5%, to the level of about 152.6 PLN/MWh. For comparison, the average price of BASE contracts for the 1st quarter of 2013 reached 183.73 PLN/MWh, while at the end of December, the quotations of this contract dropped to the level of 168-170 PLN/MWh.

The decline of electric energy prices was also observed in other contracts listed on the forward market. BASE contracts for 2014 were quoted at 178 PLN/MWh at the beginning of January. During the 1st quarter the price of BASE contract for 2014 dropped by about 15 PLN/MWh to the level of 163 PLN/MWh. Similar situation occurred in case of PEAK contracts for 2014 which dropped from the level of 211.86 PLN/MWh in January to the level of 188.50 PLN/MWh at the end of March 2013 (-23.26 PLM/MWh).

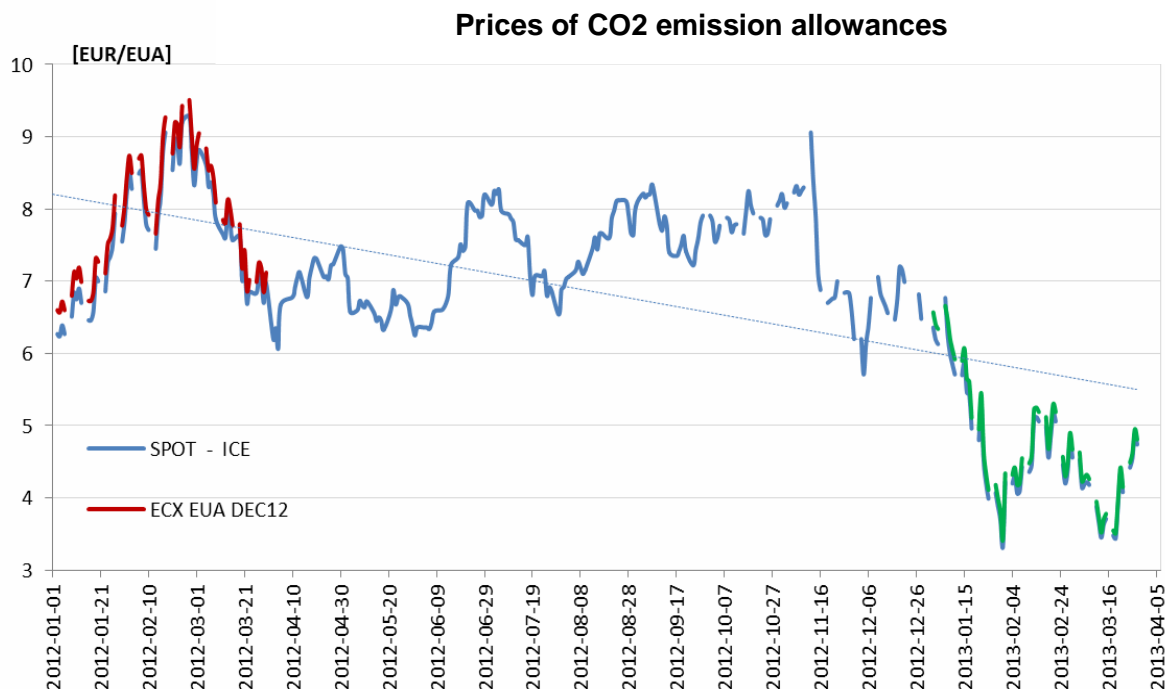
### Prices of electric energy on the forward and SPOT market



### Situation on the CO<sub>2</sub> market

In the 1st quarter of 2013, on the CO<sub>2</sub> emission allowances market, significant declines have been recorded. On the SPOT market, the price of CO<sub>2</sub> emission allowances in the first days of January fluctuated at the level of 6.50 EUR/t, while at the end of the 1st quarter the price dropped to 4.90 EUR/t. The average price of EUADEC-13 contract in the 1st quarter reached the level of approximately 4.67 EUR/t and it was lower by almost 3.30 EUR/t, as compared to the average price of EUADEC-12 contract quoted in the 1st quarter of 2012, which reached almost 7,94 EUR/t.

The decline in prices is mainly associated with the over-supply on the CO<sub>2</sub> market, associated with the economic slowdown, observed since 2008. In the period under analysis, significant volatility of prices was observed, which was caused by many attempts of the European Commission to introduce backloading, in order to transfer 900 million ton of emission allowances planned for the years 2012-2015 to the end of the 3rd phase of emission allowances trading (2018-2020). This activity is aimed at increasing the prices of allowances, consequently increasing the incentives to invest in low emission sources which become unprofitable from economic perspective, considering the current level of CO<sub>2</sub> prices.

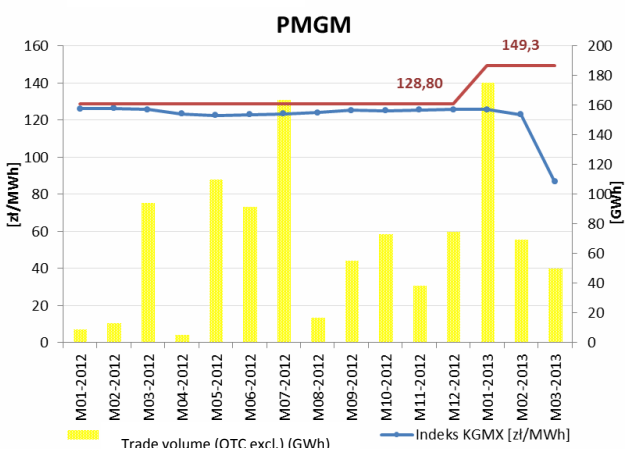
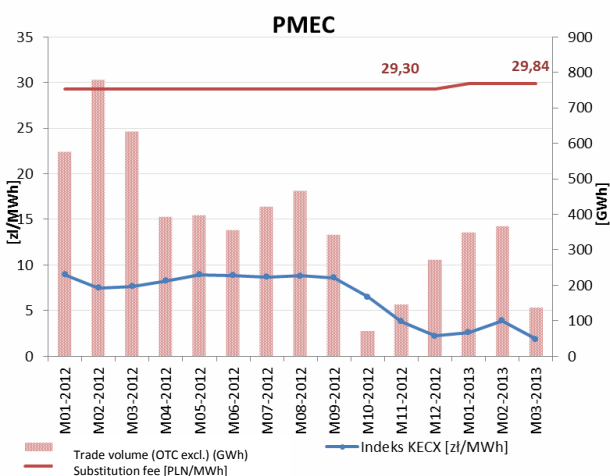
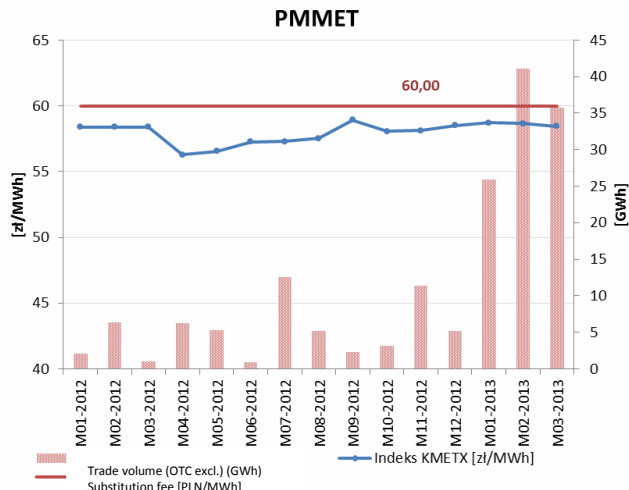
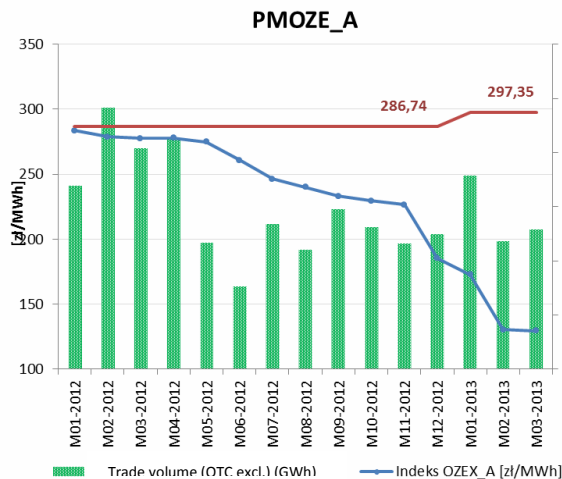


The current over-supply of CO2 results in lower prices of energy, on the other hand the EU institutions are involved in extensive actions oriented towards administrative changes in the EU ETS regulations, including the increase of the reduction targets and expansion of the area of the operations of the system.

In the 3rd phase of effectiveness of the EUA ETS system, falling in the years 2013-2020, prices of emission allowances will increasingly influence the prices of electric energy in Poland, due to quantity of free allowances decreasing every year, and the predominating role of coal-based sources in the energy balance of the country.

### **Prices on the market of proprietary rights**

In the 1st quarter of 2013, decline has been also observed on the market of proprietary rights. The average value of OZEX\_A index (green certificates) reached 147.87 PLN/MWh and it was lower than the average in the 1st quarter of 2012 by almost PLN 132/MWh. Such situation is caused by the over-supply of green certificates, the balance of PMOZE\_A register at the end of March 2013 was +5 TWh, whereas in January and February it exceeded +10 TWh. Similar situation was noted in case of red certificates (KECX index). The average price in the 1st quarter reached 3.04 PLN/MWh and it was lower by over 4.90 PLN/MWh than the average price of the 1st quarter of 2012. The rapid decline of red certificate prices started already in the 2nd half of 2011, when the balance of P MEC register exceeded the value of 31 TWh, and the trend has been maintained until the end of the 1st quarter of 2013, both due to the over-supply of the rights and the lack of regulatory support to production of electric energy and heat in co-generation. The situation was analogical in case of gas co-generation (yellow certificates – KGMX index). In February this year, the balance of PMGM register reached its historic peak at the level of +3,9 TWh, which, in connection with the uncertain future of the support, resulted in the decline of KGMX index to the level of 86.67 PLN/MWh in March 2013. The average value of KGMX index for the 1st quarter of 2013 amounted to 118.50 PLN/MWh and it was lower by ab. 7.40 PLN/MWh in the 1st quarter of 2012. On the market of violet certificates (KMETX index) the situation was stable. Both in the 1st quarter of 2013 and a year before, prices were stable, fluctuating at the level of the substitution fee: 58.60 PLN/MWh in the 1st quarter of 2013, 58.40 PLN/MWh in the 1st quarter of 2012.



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