



***Additional information to
the extended consolidated
report of TAURON Polska Energia S.A. Capital Group
for the first quarter of 2014***

14 May 2014

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1. Organisation of TAURON Capital Group

1.1 Basic Information on TAURON Capital Group

As of 31 March 2014, TAURON Polska Energia S.A. Capital Group (TAURON Capital Group) consisted of the parent company, TAURON Polska Energia S.A. (hereinafter referred to as TAURON, the Company or the Issuer) and 13 subsidiaries subject to consolidation. Moreover, the Capital Group consisted of 17 other subsidiaries as well as 7 companies with the capital share between 50% - 20% and 23 companies with the capital share below 20%.

The main companies subject to consolidation included: TAURON Wydobycie 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 sale. The remaining subsidiaries subject to consolidation deal, among others, with trade of electric energy and extraction of limestone and stone for construction purposes. In total, the consolidation covers 13 subsidiaries specified in item 1.2

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 obtained the status of TAURON Group members. The Code of TAURON Group regulates the performance of the Group, ensuring the 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 2014, the following subsidiaries are included in TAURON Group:

Table no. 1 List of subsidiaries included in TAURON Group

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
5	TAURON Czech Energy s.r.o.	10.11.2010
6	Polska Energia - Pierwsza Kompania Handlowa 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.	05.01.2011
10	TAURON Wydobycie 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

No.	Company enterprise	Date of accession to TAURON Group
13	TAURON Ubezpieczenia sp. z o.o.	17.09.2013
14	Enpower service sp. z o.o.	16.10.2013
15	TAURON Dystrybucja Pomiary sp. z o.o.	19.11.2013
16	"BUDO – TRANS" - sp. z o.o.	19.11.2013
17	TAURON Ekoserwis sp. z o.o.	19.11.2013
18	Spółka Usług Górniczych sp. z o.o. (formerly: Centrum Szkoleniowo-Konferencyjne "NOT" sp. z o.o.)	4.12.2013
19	TAURON Dystrybucja Serwis S.A.	17.12.2013
20	TAURON Wytwarzanie Serwis sp. z o.o.	26.02.2014

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

1. Project Assessment Committee,
2. TAURON Group Management Committee,
3. TAURON Group Compliance Committee.

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 the subsidiaries.

The principal 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 in the interest of TAURON Group. 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 2014, the following subsidiaries of TAURON Polska Energia S.A. are covered by consolidation:

1. TAURON Wytwarzanie S.A.
2. TAURON Dystrybucja S.A.
3. TAURON Sprzedaż sp. z o.o.
4. TAURON Obsługa Klienta sp. z o.o.
5. TAURON Ekoenergia sp. z o.o.¹
6. Kopalnia Wapienia Czatkowice sp. z o.o.
7. TAURON Wydobywanie S.A.
8. Polska Energia Pierwsza Kompania Handlowa sp. z o.o.
9. TAURON Ciepło S.A.²
10. TAURON Czech Energy s.r.o.
11. TAURON Sprzedaż GZE sp. z o.o.

12. TAURON Dystrybucja Serwis S.A.

13. TAURON Dystrybucja Pomiary sp. z o.o.

¹ On 2 January 2014 the merger of TAURON Ekoenergia sp. z o.o., and MEGAWAT MARSZEWO sp. z o.o. and BELS INVESTMENT sp. z o.o. was registered.

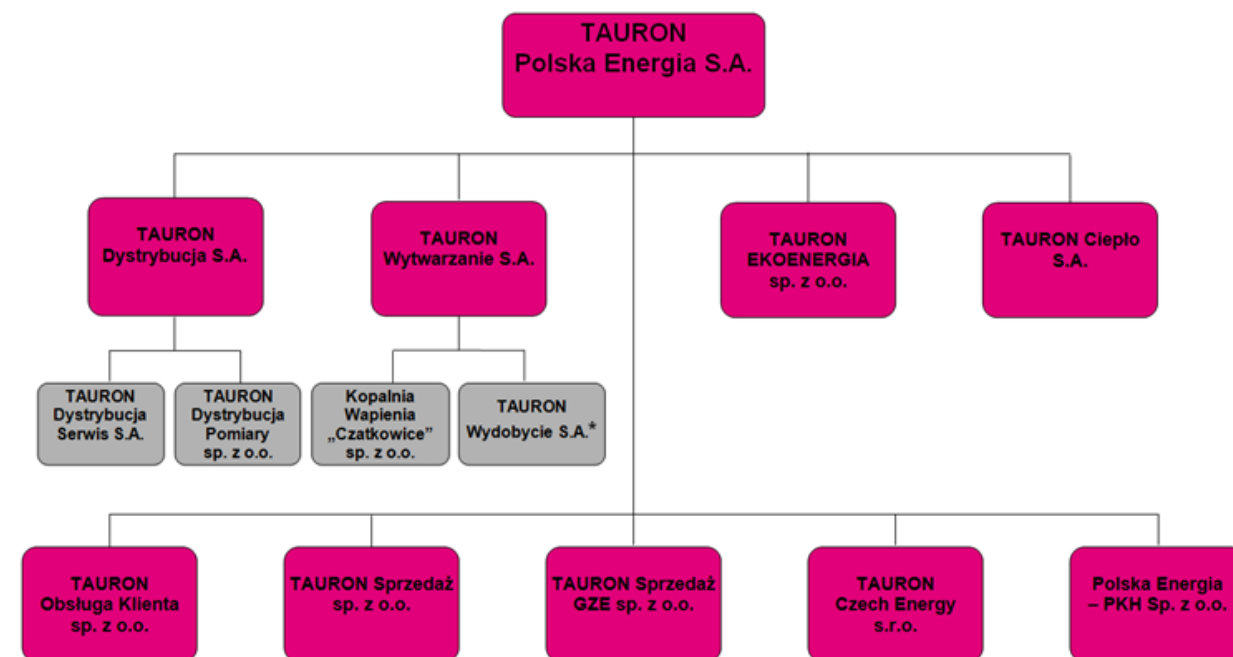
² On 30 April 2014 the merger of Enpower Service sp. z o.o. (the acquiring company) and TAURON Ciepło S.A. (the acquired company) was registered. At the same time, change of the acquiring company name to TAURON Ciepło sp. z o.o. took place.

TAURON Polska Energia S.A. Capital Group also 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 TAURON Capital Group

The chart below presents all the companies whose results are consolidated within TAURON Capital Group, as of 31 March 2014.

Figure no. 1 Consolidated companies of TAURON Polska Energia Capital Group



- Direct subsidiaries of TAURON Polska Energia S.A.
- Indirect subsidiaries of TAURON Polska Energia S.A.

1.4 Effects of changes in the structure of TAURON Capital Group in the 1st quarter of 2014.

MINING AREA

Purchase of TAURON Wydobyćie shares

On 10 December 2013 the agreement was signed on the purchase of 16,730,525 registered shares of TAURON Wydobyćie by TAURON from Kompania Węglowa S.A. (Kompania Węglowa), constituting 47.52% of the share capital of this company, and authorising to exercising of 31.99 % votes at its General Meeting.

The total purchase price of the shares amounted to PLN 310 million. The amount of PLN 232.5 million was paid on the day of signing the agreement whereas the parties agreed that the remaining amount of PLN 77.5 million would be paid following the transfer of ownership of the shares to the benefit of the Company, i.e. after Kompania Węglowa has obtained the approval of its General Meeting for the sale of shares and after the seller has obtained the approval of TAURON for the disposal of the said shares. On 19 December 2013 the Management Board of TAURON Wydobyćie approved the disposal of the shares. On 15 January 2014 the General Meeting of Kompania Węglowa accepted the sale of TAURON Wydobyćie shares, consequently, the conditions precedent for the transfer of ownership of these shares to TAURON Wydobyćie was fulfilled. Following the payment of the remaining amount, i.e. PLN 77.5 million to the benefit of Kompania Węglowa, on 22 January 2014 the ownership of TAURON Wydobyćie shares was transferred to the Company.

As a result of execution of the Agreement, TAURON holds 100% of TAURON Wydobyćie shares, authorising it to exercise 100% votes at the General Meeting of this company, whereas 47.52% of shares shall authorise it to exercise 31.99% of votes held by the TAURON directly, and the remaining 52.48% of shares authorising to exercise 68.01% votes at TAURON Wydobyćie General Meeting results from the agreement authorising TAURON to use shares of TAURON Wydobyćie held by TAURON Wytwarzanie.

RENEWABLE ENERGY SOURCES AREA

Merger of company TAURON Ekoenergia with MEGAWAT MARSZEWO sp. z o.o. and BELS INVESTMENT sp. z o.o.

On 2 January 2014, merger of company TAURON Ekoenergia (the acquiring company) with MEGAWAT MARSZEWO sp. z o.o. and BELS INVESTMENT sp. z o.o. (the acquired companies) was registered. The merger was executed pursuant to art. 492 § 1 item 1 of the Code of Commercial Companies (KSH), through the assignment of the whole assets of the acquired companies to the acquiring company. The merger of the companies was performed within the project on reorganisation of companies in the Area of Renewable Energy Sources (RES).

HEAT AREA

Merger of companies: Spółka Ciepłowniczo-Energetyczna Jaworzno III sp. z o.o. and EKOPEC sp. z o.o.

On 2 January 2014 the merger of the company Spółka Ciepłowniczo-Energetyczna Jaworzno III Sp. z o.o. (the acquiring company) with the company EKOPEC sp. z o.o. (the acquired company) was registered. The merger was executed pursuant to art. 492 § 1 item 1 of the KSH, i.e. through the assignment of the whole total assets of the acquired company to the acquiring company. The merger was implemented under the implementation of the project on reorganisation of Heat Area companies.

Removal of the company Przedsiębiorstwo "Ekspar" sp. z o.o., under liquidation, from the National Court Register

As of 4 March 2014 the decision of the District Court became legally binding concerning the removal of the company Przedsiębiorstwo "Ekspar" sp. z o.o., under liquidation, from the register of entrepreneurs of the National Court Register (a subsidiary of TAURON Ciepło). The aforementioned activity is compliant with the schedule of reorganisation measures undertaken in relation to entities in TAURON Capital Group.

Implementation of the merger process between the company Enpower Service sp. z o.o. with the company TAURON Ciepło S.A.

On 15 April 2014 the Extraordinary Meeting of Shareholders of the Enpower Service sp. z o.o. company adopted the resolution concerning the merger of the company TAURON Ciepło S.A. with the Enpower Service sp. z o.o. company through the transfer of the whole assets of TAURON Ciepło S.A. to Enpower Service sp. z o.o. pursuant to art. 492 § 1 item 1 of the KSH.

On 30 April 2014, the merger between the company Enpower Service sp. z o.o. and the company TAURON Ciepło S.A. took place. The merged entity operates under the name TAURON Ciepło sp. z o.o.

The activity is compliant with the schedule of reorganisation measures undertaken in relation to entities in TAURON Capital Group. The proposal of merger between TAURON Ciepło S.A. and Enpower service sp. z o.o. is aimed at incorporating the assets of TAURON Ciepło S.A. into the TAURON Capital Tax Group, as a result of which measurable benefits will be achieved, arising from the adopted streamlining of the organisational solutions of companies included in the TAURON Capital Tax Group (lack of obligation to prepare tax documentation, reducing the costs of counselling services and applications for individual interpretation of tax law).

GENERATION AREA**Division of TAURON Wytwarzanie**

On 2 January 2014 the division of the company TAURON Wytwarzanie pursuant to art. 529 § 1 item 4 of the KSH was registered, consisting in the assignment of the apportioned components of assets, i.e. the organised part of an enterprise represented by Zespół Elektrociepłowni Bielsko-Biała, to the company TAURON Ciepło.

As a result of the aforementioned apportionment, the share capital was decreased from PLN 1,553,036 thousand to the amount of PLN 1,494,863 thousand, whereas in the TAURON Ciepło company the share capital was increased from the amount of PLN 1,238,077 thousand to the amount of PLN 1,409,747 thousand.

As a result of the apportionment, the share of TAURON Polska Energia in the company TAURON Wytwarzanie decreased to 99.76% (in the share capital) and to 99.79% (in the votes at the General Meeting), whereas the share of TAURON Polska Energia in the company TAURON Ciepło increased to 96.57% (in the share capital) and to 97.14% (in the votes at the General Meeting).

Decrease of TAURON Wytwarzanie share capital

On 14 January 2014 the Management Board of TAURON Wytwarzanie adopted the resolution concerning the redemption of shares purchased by the company pursuant to art. 418 1 of the KSH. Due to the redemption of the shares, on 4 March 2014, the District Court Katowice - Wschód in Katowice, 8th Commercial Department of the National Court Register issued the order on registering the reduction of the share capital of the company by the amount of PLN 383,420 from PLN 1,494,862,990 to the amount of PLN 1,494,479,570. As a consequence, the share of TAURON Polska Energia in the share capital of TAURON Wytwarzanie increased from 99.76% to 99.79%.

Establishment of the right of usufruct in relation to shareholdings of the TAURON Wytwarzanie Serwis sp. z o.o. company

On 14 January 2014, TAURON Polska Energia concluded the agreement with TAURON Wytwarzanie Serwis concerning the establishment of the usufruct right in relation to the total assets of TAURON Wytwarzanie Serwis sp. z o.o. company (TAURON Wytwarzanie Serwis), held by TAURON Wytwarzanie, currently representing 71.69% of the share in the share capital of this company. The agreement was concluded with the aim of TAURON Polska Energia taking over a direct control of the indirect subsidiary and in order to establish and secure the real influence of TAURON Polska Energia on the operations of the company.

Implementation of the mandatory purchase process of minority shareholders' shares in the company TAURON Wytwarzanie

On 24 April 2014 the Ordinary General Meeting of the TAURON Wytwarzanie company adopted the resolution concerning the mandatory purchase of shares of the company held by shareholders representing not more than 5% of the share capital by the minority shareholder – TAURON Polska Energia. The purchase of shares is performed with the purpose of TAURON Polska Energia gaining 100% of the shares in the TAURON Wytwarzanie company share capital. The aforementioned operation will facilitate convening and conducting the general meetings and enable to improve the decision-making processes.

Implementation of the mandatory purchase process of minority shareholders' shares in the company TAURON Ciepło

On 14 March 2014 the Ordinary General Meeting of the TAURON Ciepło company adopted the resolution concerning the mandatory purchase of shares of the company held by shareholders representing not more than 5% of the share capital by the minority shareholder – TAURON Polska Energia. Within the implementation of the process, on 3 April 2014 TAURON Polska Energia paid the amount equivalent to the price of all shares purchased, to the company bank account. As a result of the aforementioned process, TAURON Polska Energia became the 100% shareholder of TAURON Ciepło, with the purpose of streamlining the ownership structure of the company and its simultaneous preparation to incorporation by Enpower Service.

DISTRIBUTION AREA**Implementation of the merger process of TAURON Dystrybucja Serwis with companies: "EL-AUTO" sp. z o.o. and "AUTOZET" sp. z o.o.**

On 27 March 2014 the Extraordinary General Meeting of the company TAURON Dystrybucja Serwis adopted the resolution concerning the merger, pursuant to art. 492 § 1 item 1 of the KSH, between the company TAURON Dystrybucja Serwis (the acquiring company) with Zakład Obsługi Zaplecza Transportu Energetyki "EL-AUTO" sp. z o.o. and "AUTOZET" sp. z o.o. (the acquired companies). The purpose of the merger is to reorganise and consolidate the service activity for TAURON Dystrybucja business area within a single organisation, in accordance with the "Corporate Strategy of TAURON Group for 2011 -2015 with estimates until the year 2020".

2. Basic information concerning TAURON Polska Energia**2.1 Composition of the Management Board and Supervisory Board of TAURON Polska Energia****Composition of the Management Board as of 31 March 2014 and as of the day of this report:**

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

In the period covered by this report, the following changes in the composition of the Management Board of the Company took place:

- On 10 February 2014, the Supervisory Board of TAURON adopted the resolution to delegate the member of the Supervisory Board, Mr. Aleksander Grad for temporary performance of the duties of Vice President of the Management Board of TAURON Polska Energia from 11 February 2014 until 11 May 2014.
- On 17 March 2014 the Company Supervisory Board took the decision on the dismissal of the entire Management Board of the Company, composed of: Dariusz Lubera (President of the Management Board), Joanna Schmid (Vice President of the Management Board), Dariusz Stolarczyk (Vice President of the Management Board), Krzysztof Zawadzki (Vice President of the Management Board),
- On 17 March 2014 the Company Supervisory Board took the decision on the appointment of the Management Board of the Company for the 4th common term, with the following composition: Dariusz Lubera (President of the Management Board), Aleksander Grad (Vice President of the Management Board), Katarzyna Rozenfeld (Vice President of the Management Board), Stanisław Tokarski (Vice President of the Management Board), Krzysztof Zawadzki (Vice President of the Management Board).

Composition of the Supervisory Board as of 31 March 2014 and as of the date of this report

- | | | |
|----|-----------------------|--|
| 1. | Antoni Tajduś | - Chairman of the Supervisory Board |
| 2. | Agnieszka Woś | - Deputy Chairman of the Supervisory Board |
| 3. | Leszek Koziarowski | - Secretary of the Supervisory Board |
| 4. | Jacek Kuciński | - Member of the Supervisory Board |
| 5. | Marcin Majeranowski | - Member of the Supervisory Board |
| 6. | Jacek Szyke | - Member of the Supervisory Board |
| 7. | Marek Ściążko | - Member of the Supervisory Board |
| 8. | Agnieszka Trzaskalska | - Member of the Supervisory Board |

In the period covered by this report, the following changes in the composition of the Supervisory Board of the Company took place:

- On 7 January 2014 the Extraordinary General Meeting of the Company appointed Mr. Aleksander Grad as a member of the Supervisory Board of the Company,
- On 22 January 2014 the State Treasury dismissed Mr. Rafał Wardziński from the Supervisory Board of the Company,
- On 22 January 2014 the State Treasury appointed Ms Agnieszka Woś as a member of the Supervisory Board of the Company,
- On 17 March 2014 the Company was informed of submission of resignation by Mr Aleksandra Grad, with the effect on 17 March 2014 from the function of the Member of the Supervisory Board delegated to the temporary fulfilment of duties of the Vice President of the Management Board.

2.2 Structure of share capital

As of 31 March 2014 and as of the day of this report, the share capital of the Company, in accordance with the entry to the National Court Register, amounted to PLN 8,762,746,970.00 and it was divided into 1,752,549,394 shares at par value of PLN 5.00 each, including 1,589,438,762 ordinary bearer shares of AA series and 163,110,632 ordinary registered shares of BB series.

2.3 Shareholders holding at least 5 per cent in the total number of votes

In accordance with notifications received by the Company, according to the best knowledge of the Company, the structure of shareholders holding at least per cent 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. 14 May 2014, was as follows:

Table no. 2 Structure of the shareholding of TAURON Polska Energia

Shareholders	Number of shares held	Percentage interest in 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 the day of submission of the previous periodical report, i.e. 18 March 2014, until the date of publication of this quarterly report, no changes in proprietary structure of significant blocks of shares of the Issuer have occurred.

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

Managing persons:

The status of holding TAURON Polska Energia shares, or authorisation to hold the shares by persons managing the Company in the period from date of submission of the report for 2013, i.e. 18 March 2014, until 14 May 2014 (the date of presentation of this quarterly report) was as follows:

Table no. 3 Proprietary status of TAURON Polska Energia shares - managing persons

Name and surname:	Number of shares as of 18 March 2014 (publication of the report for 2013)	Change in number of shares held	Number of shares as of 14 May 2014
Dariusz Lubera	6,576	no change	6,576
Aleksander Grad	0	no change	0
Katarzyna Rozenfeld	0	no change	0
Stanisław Tokarski	30,000	no change	30,000
Krzysztof Zawadzki	27,337	no change	27,337

no change - lack of any changes

Supervising persons:

The status of holding TAURON Polska Energia shares, or authorisation to hold the shares by persons supervising the Company in the period from date of submission of the report for 2013, i.e. 18 March 2014, until 14 May 2014 (the date of presentation of this quarterly report) was as follows:

Table no. 4 Proprietary status of TAURON Polska Energia shares - supervising persons

Name and surname:	Number of shares as of 18 March 2014 (publication of the report for 2013)	Change in the number of shares held	Number of shares as of 14 May 2014
Antoni Tajduś	0	no change	0
Agnieszka Woś	0	no change	0
Leszek Koziorowski	0	no change	0
Jacek Kuciński	935	no change	935
Marcin Majeranowski	0	no change	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

2.5 Scope of business operations of TAURON Polska Energia

The core business of TAURON Polska Energia covers:

- 1) activity of central companies (head offices) and holdings, excluding financial holdings (PKD 70.10 Z),
- 2) electric energy trade (PKD 35.14 Z),
- 3) wholesale of fuel and derivative products (coal and biomass trading) (PKD 46.71 Z),
- 4) gas fuel trade (PKD 35.23 Z).

As the parent entity TAURON fulfils the consolidating and governing function in TAURON Capital Group. Besides the governing function, the core business of the Company involves wholesale electric energy trading on the territory of the Republic of Poland, based on the concession on electric energy trading (OEE/508/18516/W/2/2008/MZn), issued by the President of the Energy Regulatory Office (ERO) for the period from 1 June 2008 until 31 May 2018.

The Company also conducts operations in the area of electric energy sales to the selected group of strategic clients. This group of clients includes, among others ArcelorMittal Poland, CMC Poland, Zakłady Górniczo-Hutnicze "Bolesław", Kompania Węglowa and other entities of various industrial sectors demonstrating substantial demand for electric energy. Functions performed in this area also include implementation of the adopted marketing strategy of the Company as well as marketing plans in the area of sales to customers of strategic character, research on product needs related to the energy sale market in order to improve the product offer of the Company as well as acquisition of information concerning activities of competition and events occurring in the Company environment. Moreover, the Company coordinates the governance activities in the area of sales, marketing and customer service implemented by the companies: TAURON Sprzedaż and TAURON Obsługa Klienta.

The Company is involved in energy trading, i.e. purchase and sales of energy on the wholesale market in the country and abroad. The activities are conducted on the spot market and forward market, both in the scope of financial contracts and in contracts with physical delivery. In Poland, the Company is an active participant of the TGE (Power Exchange) and OTC (over the counter) platforms maintained by the London energy brokers (TFS and GFI). TAURON actively participates in auctions of the interconnector exchange of energy transmission capacity on the Polish-Czech, Polish-German and Polish-Slovakian border,

managed by the CAO auction office. The trade on the German market mainly takes place through the EPEX Spot and EEX exchange in the scope of trading of financial instruments of futures type, besides, transactions on the OTC market are also concluded. On the Czech, through its subsidiary - TAURON Czech Energy, the Company acts on the Prague Power Exchange - PXE a.s., comprising markets of the Czech Republic, Slovakia and Hungary, as well as on the OTE a.s. Trading in the Slovakian market is carried out through OKTE a.s. exchange.

It should be indicated that the competence of the Company involves management of certificates of origin for the needs of the TAURON Capital Group, constituting the confirmation of generation of electric energy in renewable sources, in high-performance co-generation, in gas fuel fired co-generation, in mining methane fired or biomass burning co-generation, from sources using agricultural biogas. This activity is based on active controlling of demand for certificates of origin in TAURON Capital Group and on purchase and sales of these units, for the needs of companies of Generation Business Area, as well as companies selling electric energy to end consumers, consequently, being subject to the obligation of certificates of origin redemption.

The Company also acts as the competence centre in the area of CO₂ emission allowances for the companies of the TAURON Capital Group and for the needs of external customers. Since January 2011, the so-called Installation Group has been operating in the area of CO₂ emission allowances, administered by TAURON. The aim of establishment of the Installation Group was to provide for common settlement of emission allowances within facilities belonging to TAURON Capital Group. Due to the centralisation of emission trading, the synergy effect was obtained, based on increasing the effectiveness and efficiency as well as optimising the exploitation costs of the existing resources of the entities included in TAURON Capital Group.

Parallel to the centralisation of this function in TAURON, the Company is in charge of settlement of CO₂ emission allowances of individual companies, cost-effective management of the allowances granted, provision of the subsidiaries' emission needs, support in negotiating the future emission allowances limits as well as introducing the companies into the new EU ETS (European Union Emission Trading System) in the years 2013-2020. While implementing the above goals in the area of CO₂ emission allowances trading, the Company actively participates in trading on the European Climate Exchange (the ICE), the EEX exchange in Leipzig and the European over the counter (OTC) market.

TAURON acts as the Market Operator for companies of TAURON Capital Group and for external customers. Trade balancing is carried out on the basis of the transmission Agreement of 21 August 2008 concluded with the Transmission System Operator (TSO) – the PSE S.A. company. TAURON acts as the Scheduling Agent for companies of TAURON Capital Group representing the Generation Area. In accordance with the Instruction on Transmission Grid Operation and Maintenance, the Company currently holds exclusive generation capacity in the scope of technical scheduling coordination in the area of Balancing Market, it is responsible for optimisation of generation, i.e. selection of generation units for performance as well as efficient distribution of loads in order to execute the contracts concluded, taking into consideration technical conditions of the generation units, network curtailment and other factors, within various horizons. Within the services provided to the Generation Area, the Company participates in preparation of renovation plans, plans of dispatching power as well as production plans for generation units, in various time horizons, as well as in their arrangement with the TSO and the Distribution System Operator (DSO).

TAURON fulfils the governance function in the scope of production fuel procurement management, i.e. coal, biomass and gas, for the needs of generation entities included in TAURON Capital Group. In this scope, it is responsible for negotiating the contracts with fuel suppliers and for optimisation of the delivery process to individual power plants.

3. Operations of TAURON Capital Group

3.1 The core business areas of TAURON Capital Group

TAURON Capital Group is a vertically integrated energy utility 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 Area, comprising mainly mining, preparation and sale of hard coal in Poland, the activity provided by TAURON Wydobycie (until 24 February 2014, the company operated under the name: Południowy Koncern Węglowy).



Generation Area, comprising mainly generation of electric energy in conventional sources, including co-generation, as well as generation of electric energy within burning and co-burning of biomass, and other thermally acquired energy. The basic fuels used by Generation Business Area include hard coal, biomass and coke-oven gas and high-methane gas. These activities are carried out by TAURON Wytwarzanie. In January 2014 heat assets comprising Oddział ZEC Bielsko-Biała were separated from the structures of TAURON Wytwarzanie, later included in TAURON Ciepło (Heat Area).



Renewable Energy Sources (RES) Area, comprising generation of electric energy from renewable sources (excluding generation of electric energy using biomass co-burning which is allocated to the Generation Area). The activities are conducted by TAURON Ekoenergia (as of 2 January 2014 the incorporation of the subsidiaries BELS INVESTMENT and MEGAWAT MARSZEWO occurred).



Heat Area, comprising the generation, distribution and sale of heat and, to a lesser extent, other energy products (electric energy, wind of blast furnace, compressed air). The activities are conducted by the company TAURON Ciepło.



Distribution Area, covering the distribution of electric energy using distribution grids located in southern Poland. The activities are conducted by the company TAURON Dystrybucja. This area also comprises the company TAURON Dystrybucja Serwis (established by means of the merger of TAURON Serwis GZE and PUE Wrocław) and TAURON Dystrybucja Pomiary, which became the material company subject to consolidation, due to taking over of the technical service of measurement systems and mass meter reading from TAURON in January 2014.



Sales Area, comprising sales of electric energy to end customers and wholesale trading of electric energy, as well as trading and management of CO₂ emission allowances and the property rights arising from the energy certificates of origin. Operations in this area are provided by the companies: TAURON, TAURON Sprzedaż, TAURON Sprzedaż GZE and TAURON Czech Energy.



Customer Service Area, covering mainly services provided to clients of TAURON Capital Group (both in the scope of sale and supply of energy). Since 2013 the activities have been expanded by provision of support services to the companies of TAURON Capital Group in the area of accounting, telecommunication, IT and human resources management, as a result of centralisation of processes taken over from the companies of TAURON Capital Group. Operations in this area are carried out by the company TAURON Obsługa Klienta.

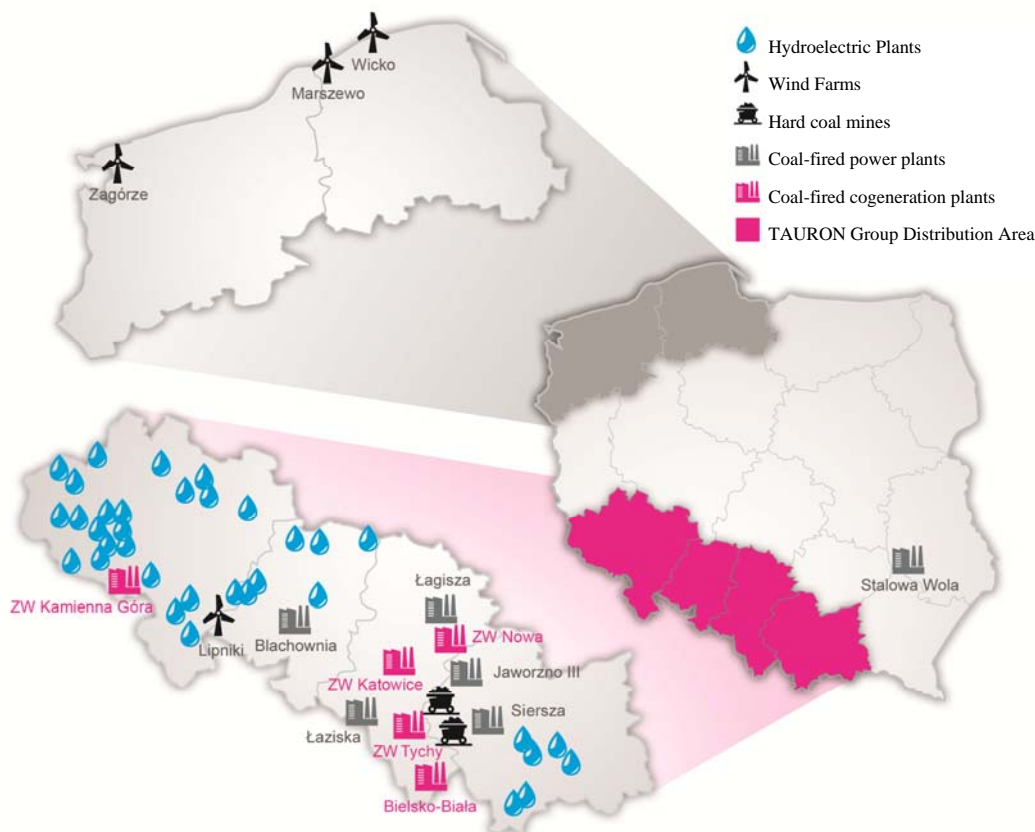


Other, comprising mainly activities in the area of extraction of stone, including limestone, for the needs of power engineering industry, metallurgy, construction and road building as well as production of sorbing agents for installations of flue gas desulphurization using the wet method and for the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

TAURON Capital Group conducts its operations and acquires its revenues mainly from sales and distribution of electric energy and heat, generation of electric energy and heat, as well as from sales of hard coal.

The figure below shows the location of key assets of TAURON Capital Group as well as the distribution area where TAURON Dystrybucja operates, as the Distribution System Operator (DSO).

Figure no. 2 Location of key assets of TAURON Capital Group



3.2 Implementation of TAURON Capital Group investment programme

In the 1st quarter of 2014, the capital expenditure of TAURON Capital Group amounted to about PLN 875 million and it was higher by approximately 62% as compared to expenditure incurred in the corresponding period of the previous year (in the 1st quarter of 2013, it amounted to PLN 541 million). It results mainly

from the purchase of Południowy Koncern Węglowy shares (currently TAURON Wydobycie) and the increased expenditure in the Distribution Area.

The main investment projects implemented in the 1st quarter of 2014 include:

- construction of an installation for reduction of NO_x emission in the Generation Area (capital expenditure: PLN 34 million),
- construction of stage II of Marszewo wind farm (capital expenditure: PLN 20 million) and modernisation of hydroplants (capital expenditure: PLN 22 million) in the RES Area,
- construction of new electrical connections (capital expenditure: PLN 84 million), including the modernisation and replacement of grid assets (capital expenditures: PLN 261 million) in the Distribution Area,
- recovery of capacity in Zakład Wytwarzania Tychy – including the construction of the BC-50 unit (capital expenditure: PLN 16 million) and investment associated with the maintenance and development of the heating networks (PLN 15 million) in the Heat Area,
- purchase of shares of Południowy Koncern Węglowy (capital expenditure: PLN 310 million).

In the 1st quarter of 2014, the following strategic investment projects were carried out in TAURON Capital Group:

- 1) construction of a power unit of 910 MW_e capacity at supercritical parameters on the premises of Elektrownia Jaworzno III (TAURON Wytwarzanie). The new unit will demonstrate high efficiency and availability as well as low levels of emissions of NO_x, SO₂, CO₂ and particulate matter. On 17 April 2014 TAURON Wytwarzanie concluded the agreement on construction of a unit with the consortium of RAFAKO (consortium leader) and MOSTOSTAL WARSZAWA (information concerning this issue is presented in item 6 hereof). Currently, works in individual technological nodes, not covered in the contract concluded with the consortium. Delivery of the investment is scheduled in 2019;
- 2) construction of the CCGT unit of 449 MW_e capacity, including the heat generation component of 240 MW_t heating capacity in Stalowa Wola - the investment is implemented by a special purpose vehicle, with participation of the strategic partner, PGNiG S.A. (PGNiG). Abener Energia S.A. is the general contractor. The construction and assembly works as well as supplies of machines and equipment to individual technological nodes and unit installations are in progress. The project is implemented in accordance with the schedule. Delivery of the investment is scheduled in 2015;
- 3) construction of the CCGT unit of 413 MW_e class in Elektrownia Łagisza. Activities aimed at commencement of the implementation of the project were undertaken. The conditions of connecting to the gas transmission system were obtained. Activities associated with obtaining the required approvals and permits are ongoing. Preparations to the public procurement procedures connected with the selection of the contract engineer and contractor of the unit have been commenced. On 20 March 2014, TAURON Polska Energia and Polskie Inwestycje Rozwojowe (PIR) signed the memorandum of understanding concerning the financing of construction of the energy unit of 413 MW_e class in Elektrownia Łagisza. The value of the project amounts to approximately PLN 1.5 billion and the contribution of PIR will reach the maximum permitted level of PLN 750 million. Delivery of the investment is scheduled in 2018;
- 4) construction of new generation capacity in co-generation at the level of 50 MW_e and 86 MW_t in Tychy (TAURON Ciepło). The investment was completed in its part involving the modernisation of the existing fluidised bed boiler and its adjustment to biomass burning, and in February 2013 the concession for production of energy qualified as RES was obtained. The construction of the coal-fired water boiler (40 MW_t) was also completed, for which the occupancy permit was obtained in May 2013. In June 2013 the contract was concluded with Elektrobudowa S.A., as the general contractor for construction of the new unit (50 MW_e). The value of the project amounts to approximately PLN 620 million. The project is implemented in accordance with the schedule. Delivery of the investment is scheduled in 2016;
- 5) construction of the installation for flue gas de-nitrification in six blocks of Elektrownia Jaworzno III and four blocks of Elektrownia Łagisza belonging to TAURON Wytwarzanie. This investment will enable to

reduce the NO_x emission in these units to the level of 200 mg/Nm³ which shall be binding from 2018. Works at six of the ten units were completed, the implementation of the modernisation works will be completed in 2016;

- 6) construction of "Grzegorz" shaft (TAURON Wydobywanie), including the infrastructure (surface and underground) and the accompanying headings. This investment project will be of strategic importance for the operations of TAURON Wydobywanie. It is intended to ensure the resource base for the following years and to eliminate the sublevel excavation. For the needs of the said investment, the real estate within the area of Jaworzno was purchased. The design works and organisation of the site is in progress, drilling of the control exploratory hole has been commenced. Delivery of the investment is scheduled in 2022;
- 7) construction of 800 m level, including the commissioning of the fourth wall in Zakład Górniczy Janina (TAURON Wydobywanie). This investment will enable to obtain the additional coal production in relation to the current level. The scope of the project comprises the performance of the required excavations, purchase of machines, equipment and installations, shaft deepening, execution of construction works and implementation of projects of organisational nature. The agreement on deepening of the "Janina VI" shaft was signed, including the construction of the two-way shaft inlet and the development of the infrastructure. Works related to the deepening of the "Janina VI" shaft and modernisation of the mechanical coal processing plant are in progress. Delivery of the investment is scheduled in 2019;

The Company reminds that the portfolio of investment projects of the Group also includes the project on construction of the new CCGT unit of 850 MW capacity in Elektrownia Blachownia. On the basis of the agreement concluded on 30 December 2013 by KGHM Polska Miedź S.A. (KGHM) and TAURON Polska Energia and TAURON Wytwarzanie, under which it was decided to temporarily suspend the implementation of the project to build CCGT unit in the company Elektrownia Blachownia Nowa sp. z o.o. (KGHM share: 50%, TAURON Wytwarzanie share: 50%), the parties carried out works involving the on-going monitoring of the energy market and the regulatory environment in terms of the potentially fast resumption of the project implementation.

In addition, TAURON Polska Energia, jointly with PGE Polska Grupa Energetyczna, KGHM and ENEA (collectively: the parties) is involved in the project on preparation and construction of a nuclear power plant in Poland. In the 1st quarter of 2014, the parties to the draft PGE EJ1 sp. z o.o. Partnership Agreement initialed on 23 September 2013 (PGE EJ1) continued the works within the project on preparation and construction of a nuclear power plant in Poland and in the scope of the development of updated provisions of the draft Partnership Agreement, including the attachments. On 28 January 2014 the Council of Ministers adopted the resolution on the Polish Nuclear Energy Programme, indicated in the initialed draft Partnership Agreement as one of the conditions precedent for concluding of the agreement on purchase of PGE EJ1 shares. The only condition precedent shall be the obtaining of the decision on unconditional approval of concentration by the President of the Office for Competition and Consumer Protection.

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. The Capital Group will finance the current and future investment projects from funds generated from operating activity and by acquisition of debt financing.

4. Analysis of the economic and financial situation of TAURON Capital Group

4.1 Selected financial data of TAURON Polska Energia and TAURON Capital Group

The selected financial data of TAURON Polska Energia and TAURON Polska Energia Capital Group are included in the table below.

Table no. 5 Selected financial data

SELECTED FINANCIAL DATA	in thousand PLN		in thousand EUR	
	2014 period from 1.01.2014 to 31.03.2014	2013 period from 1.01.2013 to 31.03.2013 (converted data)	2014 period from 1.01.2014 to 31.03.2014	2013 period from 1.01.2013 to 31.03.2013 (converted data)
Selected consolidated financial data of TAURON Polska Energia S.A. Capital Group				
Revenue on sales	4,887,264	5,164,102	1,166,579	1,237,266
Operating profit	632,434	789,400	150,961	189,132
Profit before tax	557,590	737,127	133,095	176,608
Net profit	398,686	580,798	95,165	139,153
Net profit attributable to shareholders of the parent company	395,930	559,158	94,507	133,968
Net profit attributable to non-controlling interests	2,756	21,640	658	5,185
Other total income	13,992	8,619	3,340	2,065
Aggregated total income	412,678	589,417	98,505	141,218
Aggregated total income attributable to shareholders of the parent company	409,901	567,108	97,842	135,873
Aggregated total income attributable to non-controlling interests	2,777	22,309	663	5,345
Profit per share (in PLN/EUR) (basic and diluted)	0.23	0.32	0.05	0.08
Weighted average number of shares (in pcs) (basic and diluted)	1,752,549,394	1,752,549,394	1,752,549,394	1,752,549,394
Net cash flows from operating activities	106,243	660,531	25,360	158,256
Net cash from investment activities	(905,346)	(1,166,909)	(216,104)	(279,579)
Net cash flows due to financial activities	466,263	429,931	111,296	103,007
Change in cash and equivalents, net	(332,840)	(76,447)	(79,448)	(18,316)
	Status as of 31.03.2014	Status as of 31.12.2013	Status as of 31.03.2014	Status as of 31.12.2013
Fixed Assets	27,478,594	27,567,008	6,587,537	6,647,137
Current assets	4,165,321	4,755,521	998,567	1,146,683
Fixed assets classified as held for trade	26,162	33,041	6,272	7,967
Total Assets	31,670,077	32,355,570	7,592,376	7,801,787
Share capital	8,762,747	8,762,747	2,100,723	2,112,931
Equity attributable to shareholders of the parent company	17,814,332	17,327,165	4,270,691	4,178,039

TAURON Polska Energia S.A. Capital Group

Additional information to the extended consolidated report for the 1st quarter of 2014

Equity attributable to non-controlling interests	54,808	466,334	13,139	112,446
Total equity	17,869,140	17,793,499	4,283,830	4,290,485
Long-term liabilities	9,782,319	9,304,341	2,345,149	2,243,524
Short-term liabilities	4,018,618	5,257,730	963,397	1,267,778
Total liabilities	13,800,937	14,562,071	3,308,546	3,511,302

Selected financial data of TAURON Polska Energia S.A.

	in thousand PLN		in thousand EUR	
	2014 period from 1.01.2014 to 31.03.2014	2013 period from 1.01.2013 to 31.03.2013	2014 period from 1.01.2014 to 31.03.2014	2013 period from 1.01.2013 to 31.03.2013
Revenue on sales	2,389,317	3,088,284	570,324	739,921
Operating profit	18,109	180,052	4,323	43,139
Profit before tax	14,394	244,312	3,436	58,535
Net profit	1,755	244,710	419	58,630
Other comprehensive income	6,181	3,331	1,475	798
Aggregated total income	7,936	248,041	1,894	59,428
Profit per share (in PLN/EUR) (basic and diluted)	0.00	0.14	0.00	0.03
Weighted average number of shares (in pcs) (basic and diluted)	1,752,549,394	1,752,549,394	1,752,549,394	1,752,549,394
Net cash flows from operating activities	(20,407)	605,457	(4,871)	145,061
Net cash from investment activities	(565,298)	(795,562)	(134,935)	(190,608)
Net cash flows due to financial activities	562,058	439,887	134,162	105,392
Change in cash and equivalents, net	(23,647)	249,782	(5,644)	59,845

	Status as of 31.03.2014	Status as of 31.12.2013	Status as of 31.03.2014	Status as of 31.12.2013
Fixed Assets	26,544,859	25,968,345	6,363,690	6,261,657
Current assets	1,564,286	1,993,786	375,011	480,755
Total Assets	28,109,145	27,962,131	6,738,701	6,742,412
Share capital	8,762,747	8,762,747	2,100,723	2,112,931
Total equity	19,451,098	19,443,162	4,663,078	4,688,262
Long-term liabilities	5,913,778	5,576,565	1,417,730	1,344,658
Short-term liabilities	2,744,269	2,942,404	657,893	709,492
Total liabilities	8,658,047	8,518,969	2,075,623	2,054,150

The above financial data was converted into EUR, increasingly for the 1st quarter of 2014 and 2013, according to the following principles:

- individual items of the statement on financial standing - according to the average NBP exchange rate announced on 31 March 2014 - PLN/EUR 4.1713 (as of 31 December 2013 - PLN/EUR 4.1472),
- individual items of the statement on comprehensive income and the statement of cash flows - according to the exchange rate representing the arithmetic means of average NBP exchange rates announced on the last day of each month of the financial period from 1 January 2014 to 31 March 2014 - PLN/EUR 4.1894 (for the period from 1 January 2013 to 31 March 2013 - PLN/EUR 4.1738).

4.2 Key operating data of TAURON Capital Group

In the first quarter of 2014, TAURON Group reached the following key operating parameters.

Table no. 6 Key operating parameters - the 1st quarter of 2014 as compared to the 1st quarter of 2013.

Key operating parameters	unit	Q1 2014	Q1 2013	Dynamics Q1 2014 / Q1 2013
Commercial coal production	M Mg	1.25	1.52	82.2%
Generation of electric energy (net production of the Group), including:	TWh	3.69	5.15	71.7%
<i>Net production of Generation Area</i>	<i>TWh</i>	<i>3.01</i>	<i>4.57</i>	<i>65.9%</i>
<i>Net production of RES Area</i>	<i>TWh</i>	<i>0.20</i>	<i>0.12</i>	<i>166.7%</i>
<i>Net production of Heat Area</i>	<i>TWh</i>	<i>0.49</i>	<i>0.46</i>	<i>106.5%</i>
Generation of electric energy from renewable sources of the Group, including:	TWh	0.47	0.28	167.9%
<i>Production of biomass from Generation and Heat Area</i>	<i>TWh</i>	<i>0.27</i>	<i>0.16</i>	<i>168.8%</i>
<i>Production of hydro plants and wind farms RES Area</i>	<i>TWh</i>	<i>0.20</i>	<i>0.12</i>	<i>166.7%</i>
Heat generation by the Group, including:	PJ	5.92	7.49	79.0%
<i>Production of heat from Generation Area</i>	<i>PJ</i>	<i>1.80</i>	<i>2.47</i>	<i>72.7%</i>
<i>Heat production by Heat Area</i>	<i>PJ</i>	<i>4.13</i>	<i>5.02</i>	<i>82.2%</i>
Distribution of electric energy	TWh	12.25	12.42	98.6%
Retail sales of electric energy (in total, by Areas: Sales, Generation and Heat)	TWh	10.17	10.94	93.0%
Number of clients - Distribution	thous.	5,354	5,307	100.9%

4.3 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 2014, compared to the 1st quarter of 2013.

Table no. 7 Structure of sales, divided into Business Areas for the 1st quarter of 2014 as compared to the 1st quarter of 2013.

Specification	unit	Q1 2014	Q1 2013	Dynamics Q1 2014/ Q1 2013
Sales of coal by Mining Area	M Mg	1.01	1.51	66.9%
Sales of electric energy and heat by Generation Area	TWh	3.23	5.63	57.4%
	PJ	1.55	2.14	72.4%

Specification	unit	Q1 2014	Q1 2013	Dynamics Q1 2014/ Q1 2013
Sales of electric energy generated in hydroelectric power plants and wind farms by RES Area	TWh	0.24	0.12	200.0%
Sales of electric energy distribution services by Distribution Area	TWh	12.25	12.42	98.6%
Retail sales of electric energy and other products of the energy market by Sales Area	TWh	10.07	10.83	93.0%
Sales of electric energy and heat purchased and generated by Heat Area	TWh	0.50	0.48	104.2%
	PJ	5.87	7.33	80.1%

Mining Area

The basic activity conducted by TAURON Capital Group within the Mining Business Area covers mining, preparation and sales of hard coal. Through PKW, the TAURON Capital Group indirectly owns and runs Zakład Górniczy Sobieski and Zakład Górniczy Janina. The Mining Plants are producers of coal offered for sale on the market in coarse, medium coal assortments and as power coal dust.

TAURON Wydobycie conducts the sales of coal in two directions:

- 1) sales of fine coal and coal sludge to power plants and cogeneration plants,
- 2) sales of thick, medium and limited amount of fine coal sizes through the organized sales network all over the country.

Sales of coal from TAURON Wydobycie is mainly provided in the region of southern and central Poland, in particular, the following provinces: Śląskie, Małopolskie, Podkarpackie, Świętokrzyskie and Dolnośląskie.

The volume of coal sales in the 1st quarter 2014 reached approximately 1 million tonnes, which means the decrease by ab. 33.1% as compared to the corresponding period of 2013, determined mainly by the reduced supplies of power coal dust to the Group (lower production of electric energy from coal) and the difficult market situation arising, among others, from weather conditions, as well as the general situation in mining.

Generation Area

The basic activity of the Generation Area within TAURON Capital Group comprises generation of electric energy and heat in six power plants and co-generation plants burning hard coal and using biomass co-burning. The total generating capacity of the generation units of the Generation Area at the end of March 2014 amounted to 4,671 MW of electric energy and 1,496 MW of heat energy.

In the 1st quarter of 2014, the Generation Area produced about 3.0 TWh of net electric energy (including about 0.20 TWh from biomass), i.e. about 34% less than in the corresponding period of 2013 when the production of net electric energy reached almost 4.6 TWh (including 0.12 TWh from biomass). Sales of electric energy from own production, including energy purchased for trading purposes in the 1st quarter of 2014 reached approximately 3.2 TWh, which means decrease by ab. 43%, in relation to the corresponding period of the previous year. The lower production of electric energy results mainly from the trends of electric energy market. In relation to the corresponding period of the previous year, the following trends occurred: decline in power demand in the National Power System (KSE) by 1.4%; decline in total electric energy production by over 6% (including over 10% for hard coal), increase in generation and the level of installed capacity consumption in wind farms by almost 60%, which contributed to the decline in production of professional power plants by 8.7%. In addition, the average daily air temperatures in the first months of the current year stayed at a level definitely higher as compared to the corresponding period of the previous year, which influenced the decrease in the demand in the KSE and the decline in electric energy prices. Sales of energy purchased was lower in relation to the corresponding period of the previous year (0.2 TWh in the 1st quarter of 2014; 1.1 TWh in the 1st quarter of 2013).

Sales of heat of the Generation Area in the 1st quarter of 2014 reached approximately 1.6 PJ and it was lower by ab. 28% in relation to sales in the same period of 2013 (approximately 2.1 PJ), which resulted mainly from the high temperatures in the 1st quarter of 2014.

RES Area

The basic activity conducted by TAURON Capital Group in the RES Area comprises the 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 the RES Area 35 hydroplants of 132.9 MW_e accessible capacity and four wind farms of the total accessible capacity of 182.75 MW_e operate (in relation to the corresponding period of 2013, growth of capacity occurred, in connection with the commissioning of wind farms: Wicko of 40 MW_e capacity and Marszewo of 82 MW_e capacity in the 4th quarter of 2013).

In the 1st quarter of 2014 the RES Area generated approximately 0.20 TWh of net electric energy (energy sales reached the level of 0.24 MWh) as compared to 0.12 TWh in the corresponding period of the previous year, which means the increase in production by ab. 60%, mainly due to the performance of Wicko and Marszewo wind farms.

Heat Area

The Heat Business Area covers operations involving generation, distribution and sales of heat and other utilities.

In the 1st quarter of 2014 sales of heat generated and purchased by the companies of the Area amounted to approximately 5.9 PJ in relation to 7.3 PJ in the 1st quarter of 2013. The decrease in the volume of sales is a consequence of the lower heat demand in connection with the high temperatures in the 1st quarter of 2014. In the analysed period of 2014, the co-generation plants of the Segment generated about 0.49 TWh of electric energy net, which means that the level of the 1st quarter of the previous year (0.46 TWh) was exceeded by ab. 7%.

A similar trend referred to the volume of electric energy sales - sales in the 1st quarter of 2014 reached 0.50 TWh, and it was higher by ab. 6%, in relation to the corresponding period of the previous year.

Distribution Area

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

In the 1st quarter of 2014, the Distribution Area supplied the total of 12.2 TWh of electric energy, including almost 11.7 TWh to the end consumers. During this period, the Distribution Area provided distribution services in favour of 5.35 million of consumers. In the corresponding period of the previous year, the Distribution Area supplied, in total, approximately 12.4 TWh of electric energy to about 5.31 million consumers, including 11.7 TWh to the end consumers. The minor decrease in the volume of supplies results mainly from the decline in energy demand, as a consequence of mild winter and reduced energy consumption for heating purposes, as well as due to the situation in mining (decline in consumption by coal concerns connected to the TAURON Dystrybucja grid).

Sales Area

Sales Area comprises activities in the scope of electric energy sales and wholesale trading of electric energy and other products of the energy market. Operations in the area of sales 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 CO₂ emission allowances and the property rights arising from the certificates of origin, and trading of fuels.

In the 1st quarter of 2014, the companies of the Sales Area sold the total of approximately 10.1 TWh of electric energy to about 5.2 million clients, both households and enterprises, which means a decline by 7% as compared to the corresponding period of 2013 when sales reached about 10.8 TWh. The decline in the volume of sales results mainly from the decrease in the average consumption in the mass segment (G and C1x), additionally enhanced by a very warm winter, which occurred in the current year and the increased activities of competitive companies in the scope of acquisition of business clients.

Energy sales to end clients

The 1st quarter of 2014 for companies of Sales Area of TAURON Group demonstrated similar diversity of the level of competitiveness in individual market segments as in 2013.

In the 1st quarter of 2014, the market of households (individual clients), irrespective of the numerous announcements of its liberalisation, was still subject to the obligation of approval of sales prices by the President of ERO. The effect of this situation is a very low competitiveness in this market area. In 2013 the number of households which changed the energy supplier reached approximately 59 thousand. However, taking into account the potential of this segment, i.e. the total number of households in Poland, this figure makes only a limited percentage and shows only the beginning of the liberalisation process of this market segment.

The opposite situation is observed in the segment of institutions and economic entities (business client) where the competition is high and companies have been using the liberalisation of electric energy prices for several years. The progress in liberalisation of the energy market caused that more and more aware business clients expect competitive solutions, intensified sales activity of energy companies exerts increasing price pressure, new entities competing for a client appeared and the transparency of the mechanisms of energy market is definitely a must in any activities in this segment. However, even in this group of clients, significant slowdown in the dynamics in the change of seller can be noted. As compared to 2012 when the increase in this indicator by about 310% in relation to 2011 was noted (the number of seller changes in 2012 reached 43,611, whereas the number of TPA consumers in 2011 was 14,105), in 2013 the dynamics of growth reached only 63% (27,299 changes of supplier in 2013).

In connection with the partial liberalisation of the energy market, offers tailored to individual clients' needs appeared. TAURON Capital Group creates products, sales channels and marketing communication taking into account the activities of the competition. Moreover, the Group initiates innovative solutions adapted to the level of market development and expectations of the specific segment of Clients.

Sales of electric energy within TAURON Capital Group is carried out mainly by three entities:

- TAURON Sprzedaż and TAURON Sprzedaż GZE – dealing with sales to consumers of all tariff groups, including households,
- TAURON - conducting sales to the biggest clients of TAURON Capital Group, the so-called strategic clients.

4.4 Financial situation of TAURON Capital Group following the first quarter of 2014.

4.4.1 Consolidated statement of comprehensive income

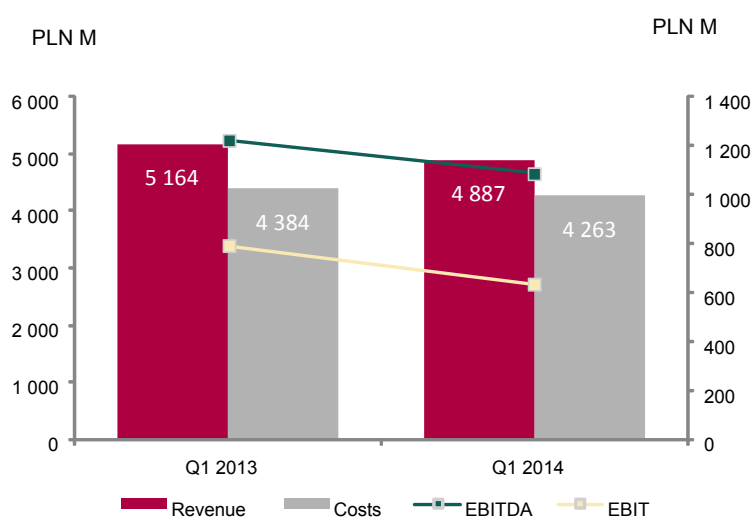
The table below presents the selected items of the consolidated statement on comprehensive income of TAURON Capital Group for the period of 3 months, ended on 31 March 2014, as well as comparative data for the period of 3 months ended on 31 March 2013. These items are quoted in accordance with the interim condensed consolidated financial report compliant with the IFRS (International Financial Reporting Standards) for the period of 3 months ended on 31 March 2014, where statements for the 1st quarter of 2014 are included, as compared to the first quarter of 2013.

Table no. 8 Consolidated statement of comprehensive income

Specification	Q1 2014		Q1 2013		Dynamics (Q1 2014 / Q1 2013)
	thous. PLN	% of total revenue on sales	thous. PLN	% of total revenue on sales	
Continuing operations					
Revenue on sales	4,887,264	100.0%	5,164,102	100.0%	94.6%
Own cost of sales	(3,972,141)	81.3%	(4,078,650)	79.0%	97.4%
Gross profit on sales	915,123	18.7%	1,085,452	21.0%	84.3%
Other operating revenue	34,668	0.7%	26,739	0.5%	129.7%
Costs of sales	(123,000)	2.5%	(135,865)	2.6%	90.5%
Overheads	(167,391)	3.4%	(169,590)	3.3%	98.7%
Other operating expenses	(26,966)	0.6%	(17,336)	0.3%	155.5%
Operating profit	632,434	12.9%	789,400	15.3%	80.1%
<i>Operating profit margin (%)</i>	12.9%		15.3%		84.7%
Financial revenue	13,071	0.3%	27,038	0.5%	48.3%
Financial expenses	(87,509)	1.8%	(78,442)	1.5%	111.6%
Share in profit of the affiliate	(406)	0.0%	(869)	0.0%	46.7%
Gross profit	557,590	11.4%	737,127	14.3%	75.6%
<i>Gross profit margin (%)</i>	11.4%		14.3%		79.9%
Income Tax	(158,904)	3.3%	(156,329)	3.0%	101.6%
Net profit (loss) for the period	398,686	8.2%	580,798	11.2%	68.6%
<i>Net profit margin (%)</i>	8.2%		11.2%		72.5%
Other comprehensive income for the financial year, including tax	13,992	0.3%	8,619	0.2%	162.3%
Total revenue for the period	412,678	8.4%	589,417	11.4%	70.0%
Profit attributable to:					
Shareholders of the parent company	395,930	8.1%	559,158	10.8%	70.8%
Non-controlling interests	2,756	0.1%	21,640	0.4%	12.7%
Total income attributable to:					
Shareholders of the parent company	409,901	8.4%	567,108	11.0%	72.3%
Non-controlling interests	2,777	0.1%	22,309	0.4%	12.4%
EBIT and EBITDA					
EBIT	632,434	12.9%	789,400	15.3%	80.1%
EBITDA	1,088,208	22.3%	1,222,156	23.7%	89.0%

The figure below shows the financial results of TAURON Capital Group for the 1st quarter of 2014 as compared to the 1st quarter of 2013.

Figure no. 3. Financial results of TAURON Capital Group for the 1st quarter of 2013 as compared to the 1st quarter of 2014.

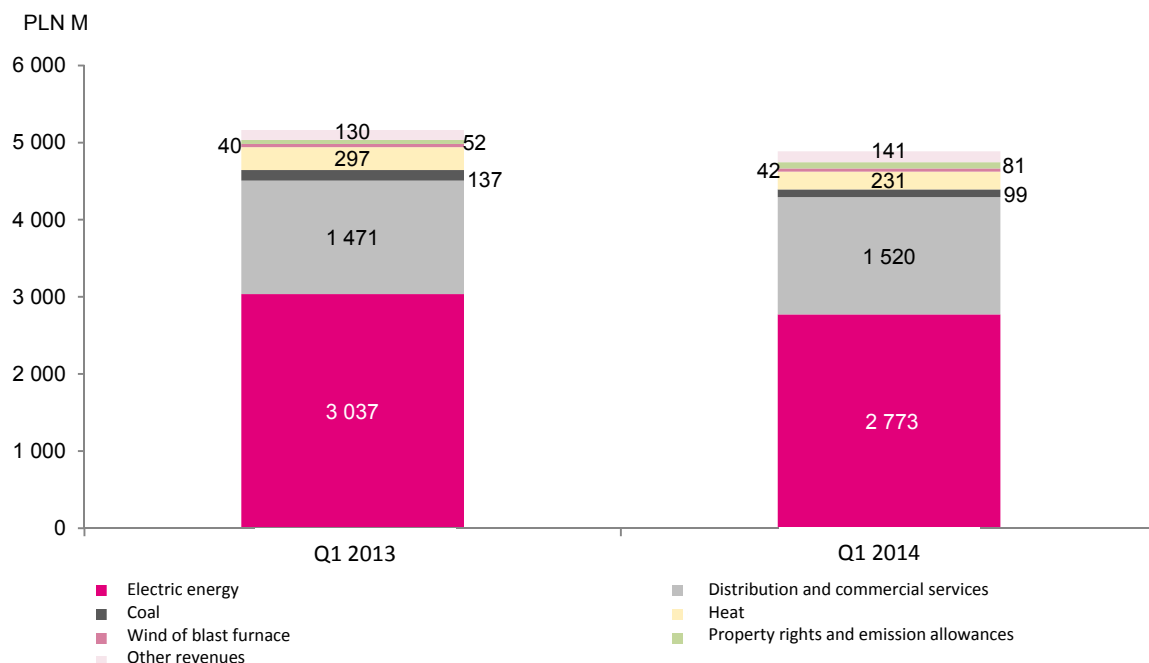


In the 1st quarter of 2014 TAURON Group recognised revenue on sales at the level of about PLN 4.9 billion, which means the decrease by about 5.4% as compared to about PLN 5.2 billion gained in the 1st quarter of 2013. The main factors which had impact on the decline in revenues include lower sales prices of electric energy and the lower volume of electric energy sold by the Sales Segment. This effect was partly compensated by the revenues achieved by the Generation Segment (increased revenue from regulatory systemic services and power reserves, sales of higher volume of electric energy on the balancing market) and the Distribution Segment, due to the provided distribution service.

As compared to the corresponding period of 2013 TAURON Capital Group reached higher revenue on sales in the following segments: Distribution, RES and Customer Service. The highest dynamics in the revenue growth was achieved in the RES Area. In relation to the revenues obtained by companies of TAURON Capital Group due to sales outside the Group, the highest growth dynamics was achieved by the RES Segment (1015%), Generation (182%) and Distribution (119%).

The figure below shows the structure of revenues of TAURON Capital Group for the 1st quarter of 2014 as compared to the 1st quarter of 2013.

Figure no. 4 Structure of revenues of TAURON Capital Group for the 1st quarter of 2013 as compared to the 1st quarter of 2014.



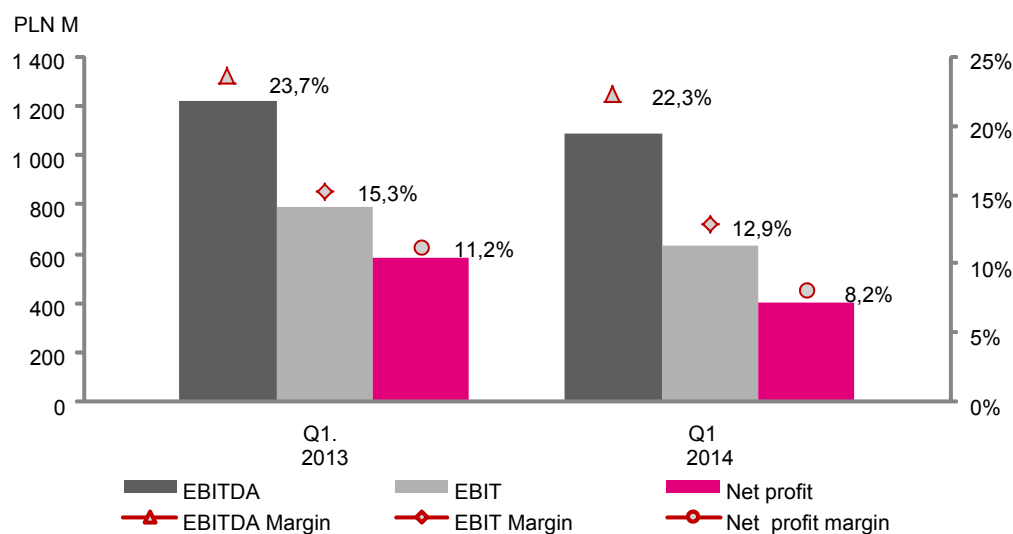
In the 1st quarter of 2014 the decrease in costs of operating activities is noticeable, in relation to the corresponding period of the previous year, which is associated with the reduction of costs of operation of the Segments: Sales (in connection with a lower volume of electric energy sold) and Generation and Heat (in connection with the lower volume of electric energy produced and the lower price of fuel).

The decreased operating expenses result mainly from the lower purchase costs of electric energy and fuels. In addition, in companies of TAURON Capital Group activities are under implementation in the scope of optimisation of fixed costs, which enabled to reduce the impact of the decline in revenues on the financial results of TAURON Capital Group to a certain extent.

In connection with the situation in the energy market and higher purchase prices of property rights in the 1st quarter of 2014, in relation to the corresponding period of the previous year, in the reporting period, TAURON Capital Group achieved the results slightly lower than presented in the 1st quarter of 2013 and, consequently, reached lower margins. EBITDA and EBIT results were lower, respectively, by about 11% and 20%, and the EBITDA and EBIT margins amounted, respectively, to 22.3% and 12.9% for the 1st quarter of 2014 and 23.7% and 15.3% for the 1st quarter of 2013.

The figure below shows the financial results of TAURON Capital Group and the level of margins implemented.

Figure no. 5 The financial results of TAURON Capital Group and the level of margins implemented



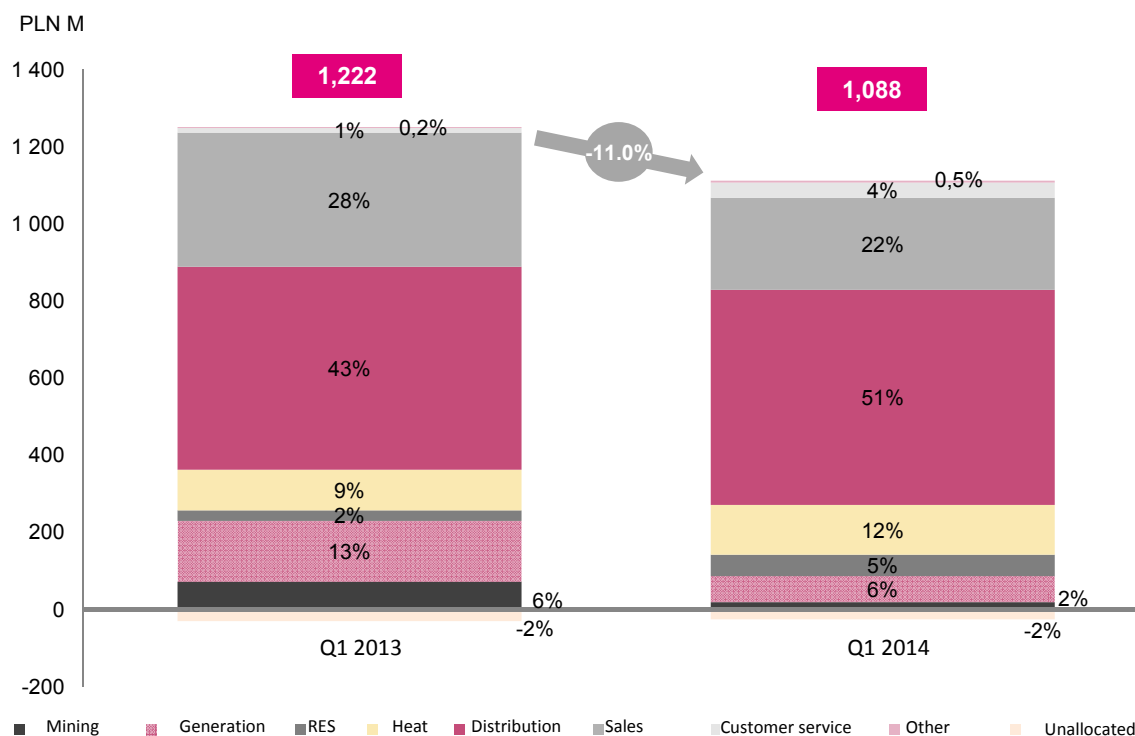
4.4.2 Financial results according to core business areas

The table below shows EBITDA results of TAURON Capital Group, divided into individual Areas (Segments) of operations for the period of the 1st quarter of 2014 and 1st quarter of 2013. The data for individual Business Areas do not include consolidation exclusions.

Table no. 9 EBITDA results of TAURON Capital Group, divided into Business Areas

EBITDA (thousand PLN)	Q1 2014	Q1 2013	Dynamics Q1 2014 / Q1 2013
Mining	19,703	72,921	27.0%
Generation	67,484	157,604	42.8%
RES	55,986	27,182	206.0%
Heat	128,969	105,440	122.3%
Distribution	557,688	526,129	106.0%
Sales	238,344	347,875	68.5%
Customer Service	39,530	12,103	326.6%
Other	5,008	2,330	214.9%
Non-attributable items and exemptions	(24,504)	(29,428)	83.3%
Total EBITDA	1,088,208	1,222,156	89.0%

Figure no. 6 EBITDA structure of TAURON Capital Group



The Distribution Area and Sales Area have the highest share in EBITDA of TAURON Capital Group. As compared to the corresponding period of 2013 the increased share in EBITDA structure occurred mainly in the Distribution, RES and Heat Areas, due to better results obtained in the 1st quarter of 2014.

Mining Area

The table below shows the results of Mining Area.

Table no. 11 Results of Mining Area

Specification (thous. PLN)	Q1 2014	Q1 2013	Dynamics Q1 2014 / Q1 2013	Change (Q1 2014- Q1 2013)
Mining				
Revenue on sales	248,165	372,729	66.6%	(124,564)
<i>coal - coarse and medium assortments</i>	79,549	115,926	68.6%	(36,377)
<i>power coal</i>	160,545	249,685	64.3%	(89,140)
<i>other products, materials and services</i>	8,071	7,118	113.4%	953
Operating profit	(6,959)	45,966	-	(52,925)
Amortisation and depreciation	26,662	26,955	98.9%	(293)
EBITDA	19,703	72,921	27.0%	(53,218)

In the 1st quarter of 2014 the revenue on sales in the Generation Segment decreased by approximately 33.4% as compared to the 1st quarter of the previous year. The main reason of the substantial decline of

the revenue achieved is the decrease in sales in terms of volume (496.1 thousand t, 32.9%) noticeable in each significant sales segment, i.e.:

- in the group of coarse assortments - decline by 69.3 t (35%),
- in the group of medium assortments - decline by 41.3 t (38.5%),
- in the group of coal dust sold inside the Group - decline by 366.3 t (35.6%).

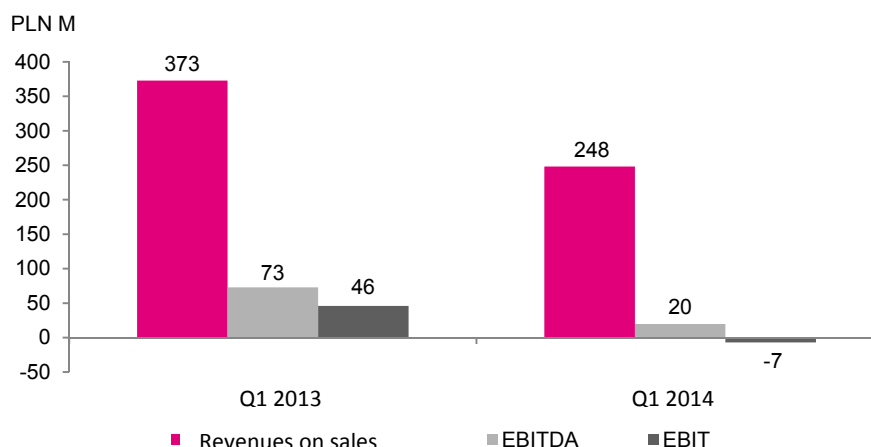
Such state of affairs should be attributed to a number of factors, such as: exceptionally warm winter in 2014, decline in electric energy production based on hard coal in the Generation segment and turbulences in the market of heating coal, caused by significant reduction in coal prices by the biggest coal producer on the market.

The deviation due to the average price in relation to the previous year reached -2.1%, which was mainly affected by the prices of coal dust, next to higher prices in the scope of coarse and medium assortments. The decrease in the average price was also influenced by different sales structure (lower share of coarse and medium assortments).

The decline in the level of sales was determined by the decrease in the EBIT result from PLN 46 million in the 1st quarter of 2013, to almost PLN -7 million in the 1st quarter of 2014. The negative impact of the decline in sales was partly compensated by the lower own cost of the coal sold, the main reason of which is the lower production, in relation to the corresponding period of the previous year.

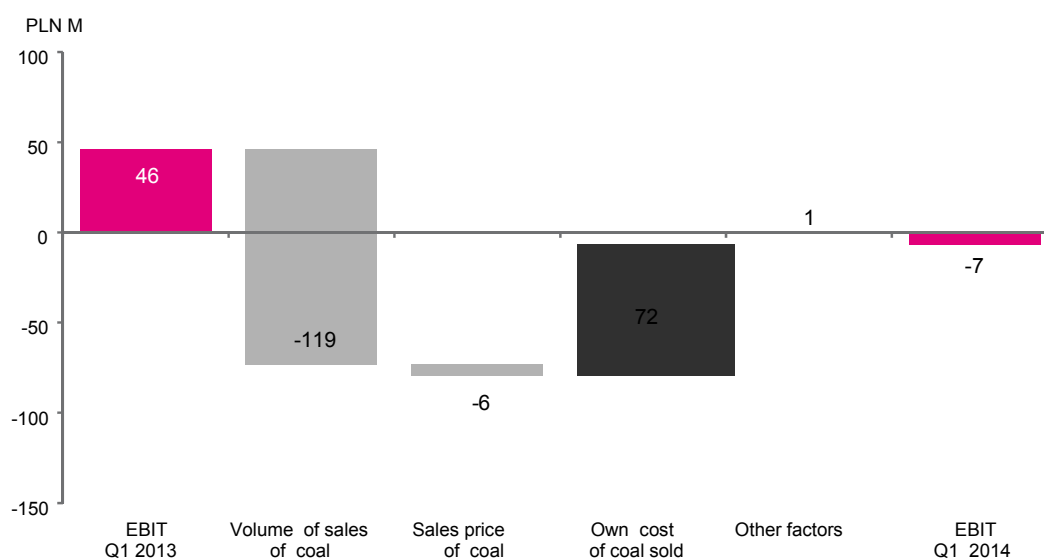
The figure below shows the financial data of the Mining Area for the 1st quarter of 2014 as compared to the 1st quarter of 2013.

Figure no. 7 Financial results of the Mining Area for the 1st quarter of 2013 and 2014.



The figure below shows the EBIT Bridge for the Mining Area.

Figure no. 8 EBIT Bridge for the Mining Area



Generation Area

The table below shows the results of the Generation Area.

Table no. 12 Results of the Generation Area

Specification (thous. PLN)	Q1 2014	Q1 2013	Dynamics Q1 2014 / Q1 2013	Change (Q1 2014- Q1 2013)
Generation				
Revenue on sales	755,739	1,207,071	62.6%	(451,332)
<i>electric energy</i>	622,655	1,109,253	56.1%	(486,598)
<i>heat</i>	46,685	57,045	81.8%	(10,360)
<i>property rights arising from certificates of electric energy origin</i>	77,575	19,718	393.4%	57,857
<i>greenhouse gas emission allowances</i>	0	14,769	0.0%	(14,769)
<i>other</i>	8,824	6,286	140.4%	2,538
Operating profit	(52,136)	28,082	-	(80,218)
Amortisation and depreciation	119,620	129,522	92.4%	(9,902)
EBITDA	67,484	157,604	42.8%	(90,120)

In the 1st quarter of 2014 the revenue on sales in the Generation Segment was lower by approximately 37% as compared to the corresponding period of the previous year, which resulted from lower revenues on

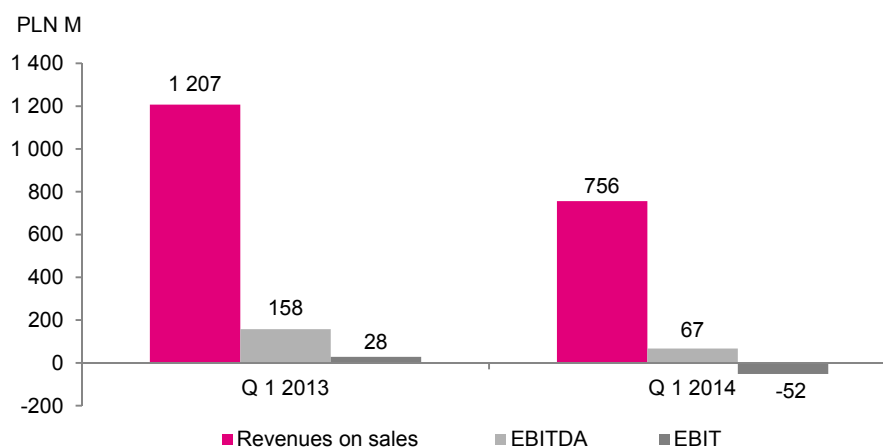
electric energy sales (lower volume and sales price), lower revenues on heat sales (lower volume of sales) and the lack of revenues on sales of CO₂ emission allowances.

In the 1st quarter of 2014, legal regulations in the scope of support system for the generation of energy in high-performance cogeneration installations were still not binding - the companies generating electric energy in cogeneration did not receive the certificates of origin of energy (the so-called "red" and "yellow" certificates). The situation will change in the next quarter of the current year. In the analysed period, the Generation Area obtained certificates of origin due to production of electric energy from RES which were purchased by companies of Sales Area (for the needs of redemption).

The operating results of EBIT and EBITDA of the Generation Segment in the 1st quarter of 2014 stayed at a level lower than in the corresponding period of the previous year. The results achieved had an adverse impact on the lower sales prices of electric energy and the lower volume of sales of electric energy from own production. Margin on electric energy trading was also lower, both due to the lower volume of energy trade and the achieved unit margin. In relation to the previous year, higher revenues on regulatory system services (RUS) and power reserves, lower costs of reserve for the deficit of CO₂ emission allowances and lower unit generation costs (lower sales prices) had a positive impact on the result.

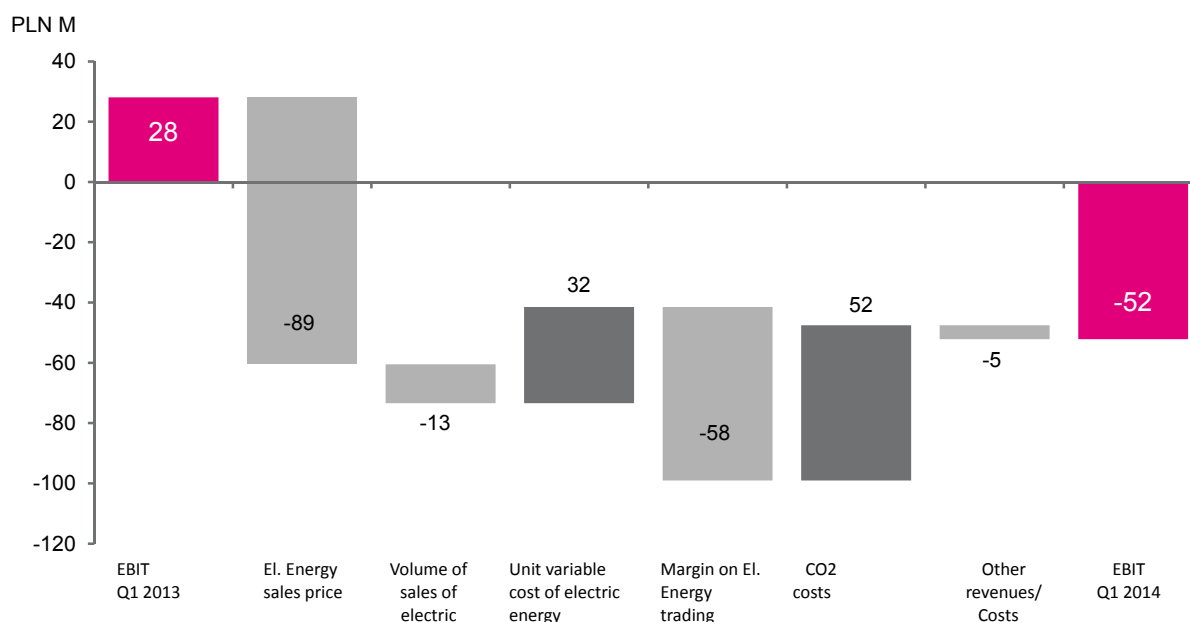
The figure below shows the financial data of the Generation Area for the 1st quarter of 2014 as compared to the 1st quarter of 2013.

Figure no. 9 Financial results of the Generation Area for the 1st quarter of 2013 and 2014.



The figure below shows the EBIT Bridge for the Generation Area.

Figure no. 10 EBIT Bridge for the Generation Area



RES Area

The table below shows the results of RES Area.

Table no. 13 Results of the RES Area

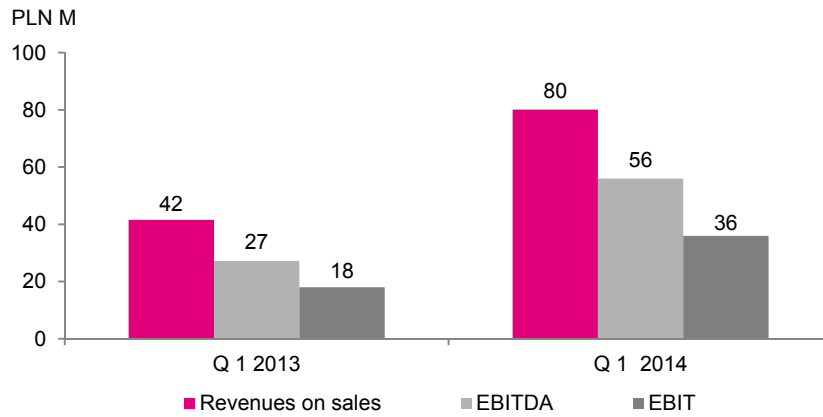
Specification (thous. PLN)	Q1 2014	Q1 2013	Dynamics Q1 2014 / Q1 2013	Change (Q1 2014 - Q1 2013)
RES				
Revenue on sales	80,116	41,536	192.9%	38,580
<i>electric energy</i>	37,769	24,704	152.9%	13,065
<i>proprietary rights arising from certificates of electric energy origin</i>	41,837	16,673	250.9%	25,164
<i>other</i>	510	159	320.8%	351
Operating profit	35,942	17,978	199.9%	17,964
Depreciation	20,044	9,204	217.8%	10,840
EBITDA	55,986	27,182	206.0%	28,804

In the 1st quarter of 2014 the revenue on sales in the RES Segment increased by approximately 93% as compared to the corresponding period of the previous year, which is the consequence of the increase in the volume of sales of electric energy and property rights, mainly due to the operation of Wiczo and Marszewo wind farms in the 1st quarter of 2014 (commissioned in the 4th quarter of 2013) and a higher price of property rights arising from certificates of energy sales generated in RES. Functioning of wind farms also results in higher costs, mainly in terms of depreciation and amortisation.

Due to the same reasons, the operating results of EBIT and EBITDA of the RES Area in the 1st quarter of 2014 stayed at a level twofold higher than in the corresponding period of the previous year.

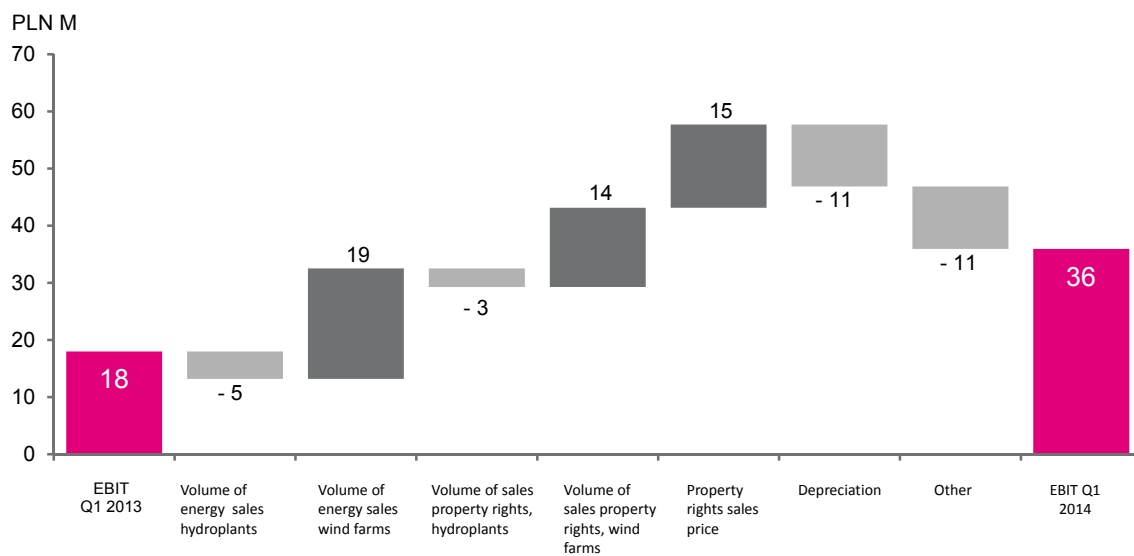
The figure below shows the financial data of the RES Area for the 1st quarter of 2014 as compared to the 1st quarter of 2013.

Figure no. 11 Financial results of the RES Area for the 1st quarter of 2013 and 2014.



The figure below shows the EBIT Bridge for the RES Area.

Figure no. 1 EBIT Bridge for the RES Area



Heat Area

The table below shows the results of the Heat Area.

Table no. 14 Results of the Heat Area

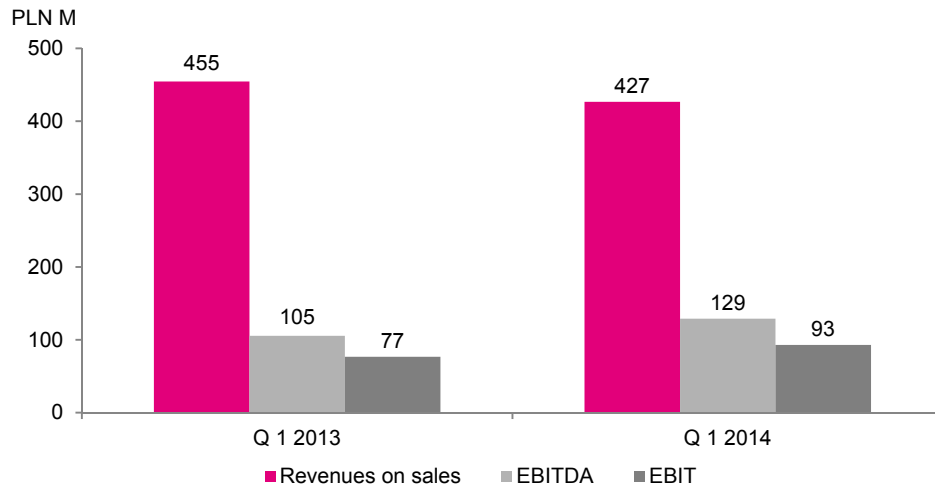
Specification (thous. PLN)	Q1 2014	Q1 2013	Dynamics Q1 2014 / Q1 2013	Change (Q1 2014- Q1 2013)
Heat				
Revenue on sales	426,800	454,703	93.9%	(27,903)
<i>electric energy</i>	88,125	102,400	86.1%	(14,275)
<i>heat (including transmission)</i>	259,015	286,432	90.4%	(27,417)
<i>proprietary rights arising from certificates of electric energy origin</i>	14,552	4,876	298.4%	9,676
<i>wind of blast furnace</i>	41,938	40,145	104.5%	1,793
<i>compressed air</i>	18,091	17,594	102.8%	497
<i>other</i>	5,079	3,256	156.0%	1,823
Operating profit	92,805	76,656	121.1%	16,149
Depreciation and amortisation	36,164	28,784	125.6%	7,380
EBITDA	128,969	105,440	122.3%	23,529

Revenue on sales of the Heat Segment in the 1st quarter of 2014 reached lower level than in the corresponding period of the previous year. The decline referred to revenue on sales and distribution of heat (due to the lower volume of sales resulting from higher temperatures in the winter season) and revenues on electric energy sales (due to the lower sales price). The increased revenue on sales of property rights is a consequence of the higher volume of electric energy production from RES and the higher price adopted for the valuation of property rights arising from certificates of origin of electric energy generated in RES. Revenues on sales of wind of blast furnace and compressed air in relation to the previous year.

The operating results of EBIT and EBITDA in the 1st quarter of 2014 stayed at a level higher than in the previous year. Factors of positive influence on the results achieved included higher sales prices of heat, lower costs of reserve for the deficit of CO₂ emission allowances and lower fuel costs, whereas the negative factors included: lower volume of sales and distribution of heat and lower sales prices of electric energy.

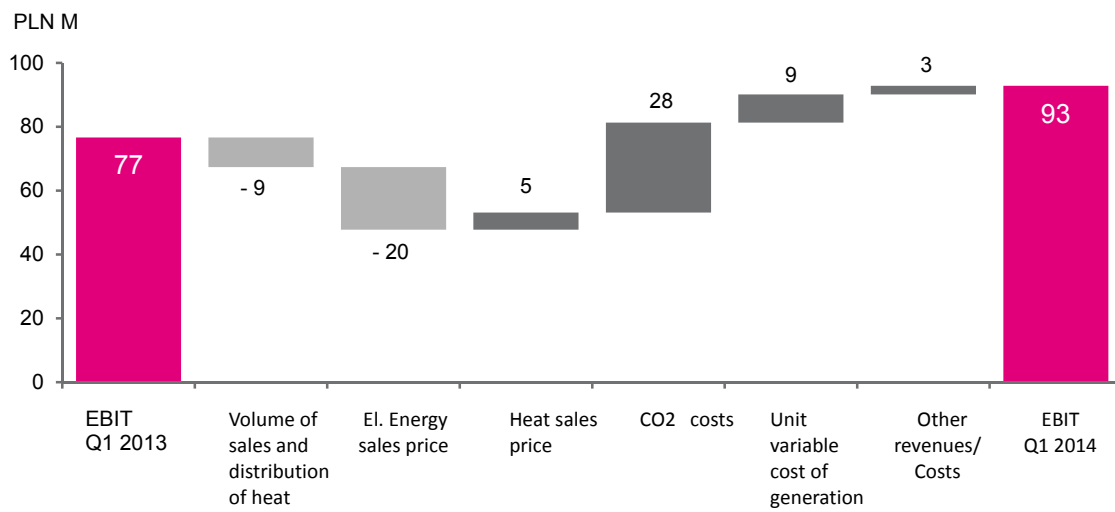
The figure below shows the financial data of the Heat Area for the 1st quarter of 2014 as compared to the 1st quarter of 2013.

Figure no. 2 Financial results of the Heat Area for the 1st quarter of 2013 and 2014.



The figure below shows the EBIT Bridge for the Heat Area.

Figure no. 3 EBIT Bridge for the Heat Area



Distribution Area

The table below shows the results of Distribution Area.

Table no. 15 Results of Distribution Area

Specification (thous. PLN)	Q1 2014	Q1 2013	Dynamics Q1 2014 / Q1 2013	Change (Q1 2014- Q1 2013)
Distribution				
Revenue on sales	1,558,337	1,541,691	101.1%	16,646
<i>distribution services</i>	1,463,827	1,444,101	101.4%	19,726
<i>connection fees</i>	29,040	30,016	96.8%	(976)
<i>maintenance of street lightning</i>	21,381	28,749	74.4%	(7,368)
<i>other services</i>	44,088	37,757	113.6%	5,263
Operating profit	324,005	301,948	107.3%	22,057
Depreciation	233,683	224,181	104.2%	9,502
EBITDA	557,688	526,129	106.0%	31,559

In the 1st quarter of 2014 revenue on sales of the Distribution Segment was higher by approximately 1.1% as compared to the revenue of the 1st quarter of 2013, mainly due to the increased volume of sales of distribution services to end consumers of groups A and B, as a result of the increase in production sold and the improvement in economic trends. This growth, however, does not refer to the mining sector in which the decline in output and decrease of railway lines is observed, where broad modernisation works of the overhead contact line is in progress. The decline in the energy demand was also observed in case of end consumers connected to the low voltage grids, where the energy demand for heating purposes was limited due to the mild winter.

Higher average rates for distribution services arising from the tariff for 2014 had also positive impact on the level of revenues. The application of the tariff adopted for 2014, maintaining the comparable sales structure, ensured the increase in the average rate for the distribution services by 1.3% YoY (the main factor determining the increase in the tariff was the transferred increase in the transitional and qualitative fee of the transmission system operator - TSO).

In the scope of the remaining revenues associated with the distribution activities, minor decrease mainly referred to the connection fees, as a result of the decrease in fees for connecting the entities classified in connecting groups IV, V and VI and fees for exceeded power and illegal energy intake. The increase was noted in the scope of revenues due to elimination of energy collisions.

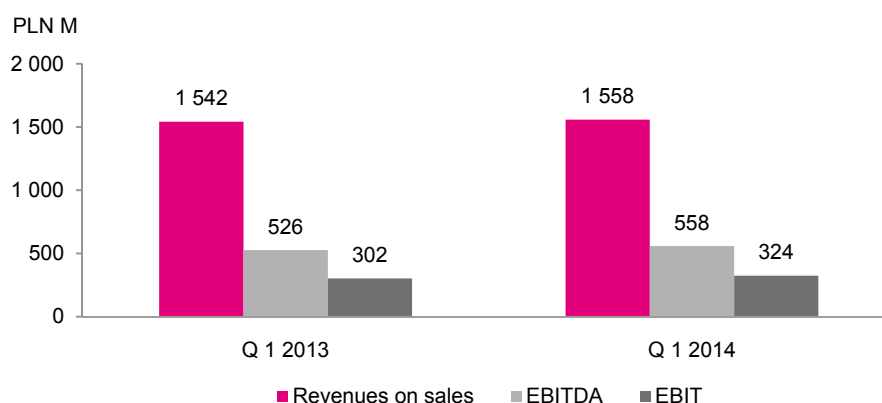
In the 1st quarter of 2014, as compared to the corresponding period of 2013, the Distribution Segment recorded increase of results at the operating level by about 7.3%, and EBITDA result by about 6%.

The operating results also increased due to the lower costs of activity in relation to the comparable period of 2013. The variable costs of the Segment decreased mainly due to the lower level of the balance sheet difference and the lower indicator of the balance sheet difference, as a result of the decline in sales to consumers from the low voltage grid (strongly exposed to grid losses) and the increase in sales to consumers from the high voltage grid (with weaker load of grid losses). The decline in the volume of losses results also from technical grid activities of continuous nature. Balancing of energy losses was performed at a much lower price representing the product of purchase and resale prices of energy in the Group.

On the other hand, growths in variable costs arise from the higher rate of the transitional and qualitative fee of the TSO (this increase was also taken into account in the tariff for 2014); the volume of purchase of transmission services was also higher due to the decline in generation in case of generators connected to the distribution grid.

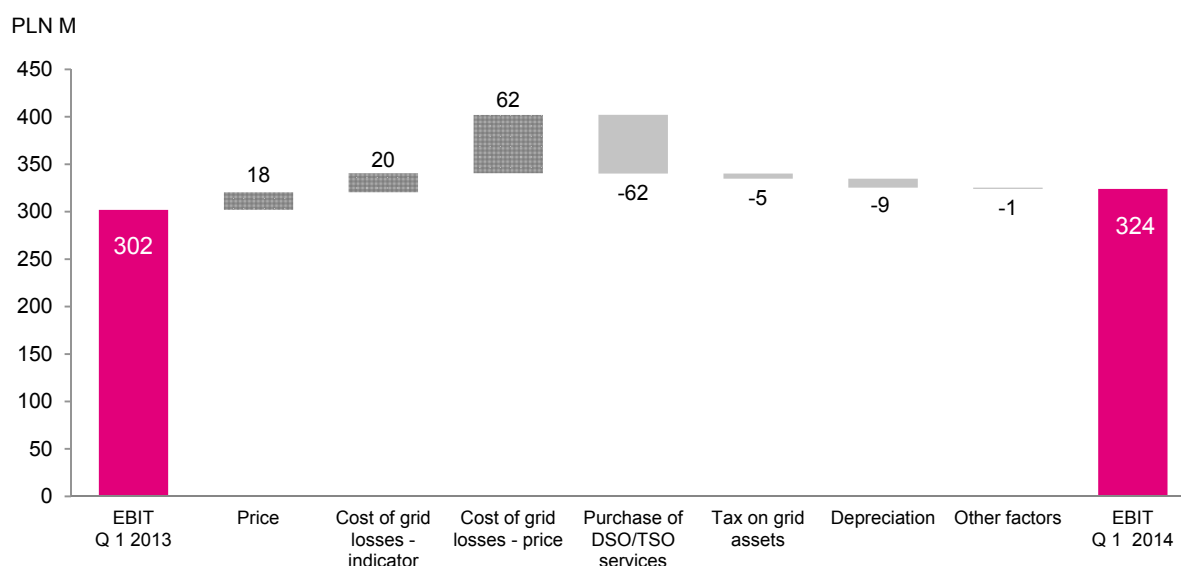
The figure below shows the financial data of the Distribution Area for the 1st quarter of 2014 as compared to the 1st quarter of 2013.

Figure no. 4. Financial results of the Distribution Area for the 1st quarter of 2013 and 2014.



The figure below shows the EBIT Bridge for the Distribution Area.

Figure no. 5. EBIT Bridge for the Distribution Area



Sales Area

The table below shows the results of Sales Area.

Table no. 16 Results of Sales Area

Specification (thous. PLN)	Q1 2014	Q1 2013	Dynamics Q1 2014 / Q1 2013	Change (Q1 2014- Q1 2013)
Sales				
Revenue on sales	4,096,001	4,790,859	85.5%	(694,858)
<i>electric energy, including:</i>	<i>2,651,352</i>	<i>3,169,292</i>	<i>83.7%</i>	<i>(517,941)</i>
<i>revenue from retail sales of electric energy</i>	<i>2,204,016</i>	<i>2,738,891</i>	<i>80.5%</i>	<i>(534,875)</i>

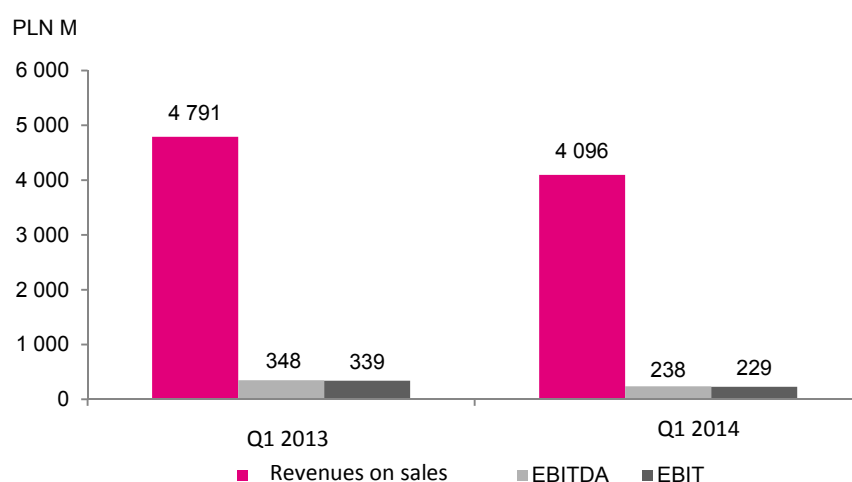
Specification (thous. PLN)	Q1 2014	Q1 2013	Dynamics Q1 2014 / Q1 2013	Change (Q1 2014- Q1 2013)
greenhouse gas emission allowances	73,565	19,151	384.1%	54,414
fuels	455,101	620,051	73.4%	(164,950)
distribution service (transferred)	880,833	943,486	93.4%	(62,652)
other services, including commercial services	35,150	38,879	90.4%	(3,729)
Operating profit	228,965	339,111	67.5%	(110,146)
Amortisation and depreciation	9,379	8,764	107.0%	615
EBITDA	238,344	347,875	68.5%	(109,531)

Revenues on sales of the Sales Segment in the 1st quarter of 2014 reached a level lower by approximately 14.5% in relation to the corresponding period of 2013. In the analysed period revenues on retail sales of electric energy were also lower, both due to the decrease in prices (by 13.5% in relation to the average price in the 1st quarter of 2013), and in the volume (decrease by 7% in relation to the level of sales in the previous year). The quantitative decline in sales was mainly caused by the enhanced activity of competitive companies in the scope of acquisition of business clients and the decline in consumption in the mass client segment, additionally intensified by the warm winter in the 1st quarter of 2014. The decline in revenues also occurred in fuel sales (in particular, in relation to coal) to TAURON Group companies, which results from the lower level of electric energy production.

In the 1st quarter of 2014 the Segment recorded a decrease at a level of EBIT and EBITDA by over 30% as compared to the corresponding period of the previous year. This situation was mainly determined by the price factors associated with the purchase prices of property rights (in particular, the use of the decline in prices in the 1st quarter of 2013) and the increase in the level of the obligation in 2014 as compared to 2013. The aforementioned negative factors were partly balanced by lower costs of electric energy purchase.

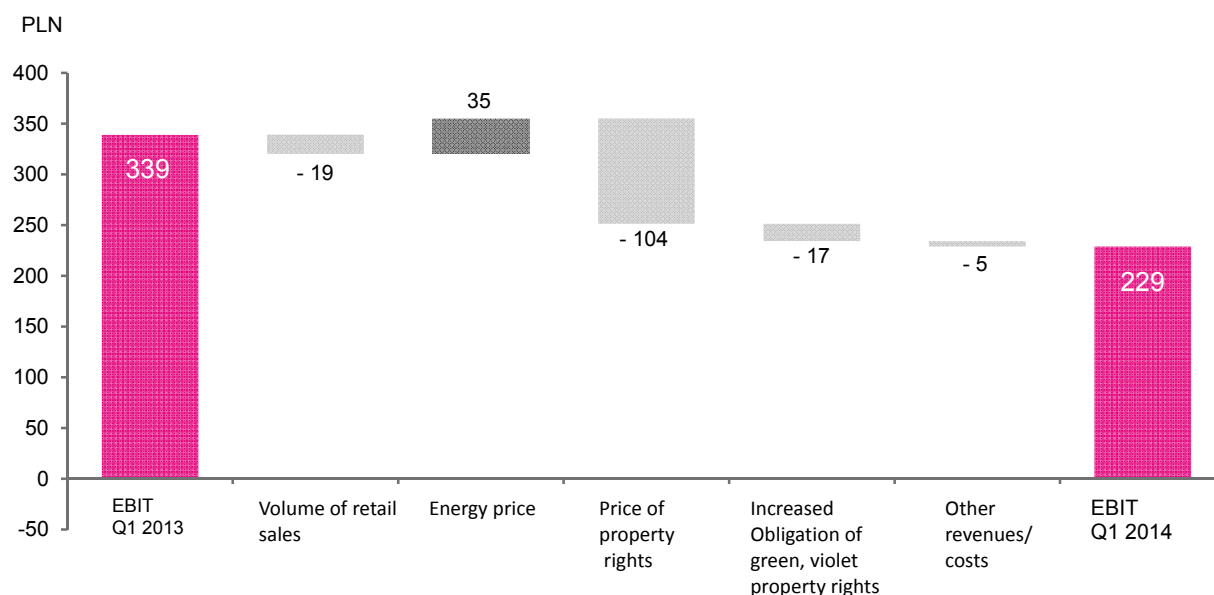
The figure below shows the financial data of the Sales Area for the 1st quarter of 2014 as compared to the 1st quarter of 2013.

Figure no. 6. Financial results of the Sales Area for the 1st quarter of 2013 and 2014.



The figure below shows the EBIT Bridge for the Distribution Area.

Figure no. 7. EBIT Bridge for the Sales Area



Customer Service

The table below shows the results of Customer Service Area.

Figure no. 1. Results of Customer Service Area

Specification (thous. PLN)	Q1 2014	Q1 2013	Dynamics Q1 2014 / Q1 2013	Change (Q1 2014- Q1 2013)
Customer Service				
Revenue on sales	162,528	104,094	156.1%	58,434
<i>customer service, accounting and IT</i>	161,468	103,378	156.2%	58,090
<i>other revenue</i>	1,060	716	148.0%	344
Operating profit	30,981	8,986	344.8%	21,995
Depreciation	8,549	3,117	274.3%	5,432
EBITDA	39,530	12,103	326.6%	27,427

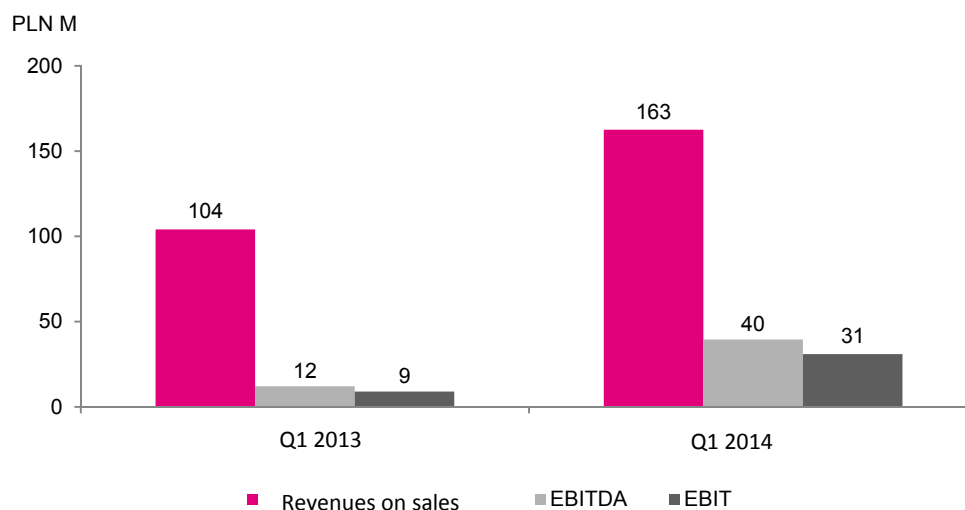
The revenue on sales in the Customer Service Area increased by 56.1%, as compared to the corresponding period of the previous year, which should be mainly attributed to the reorganisation of the company providing common services within TAURON Group. During 2013, taking over of the support functions and migration of resources from TAURON Group companies took place, resulting in the visible dynamic growth of revenues due to the provided IT and financial and accounting services within the Group.

In 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 791 FTEs than at the end of the 1st quarter of 2013.

The aforementioned factors were reflected in much higher result at the operational level and EBITDA, generated year over year.

The figure below shows the financial data of the Customer Service Area for the 1st quarter of 2014 as compared to the 1st quarter of 2013.

Figure no. 8. Financial results of the Customer Service Area for the 1st quarter of 2013 and 2014.



Other

The table below shows the results of Other Area.

Table no. 18 Results of Other Area

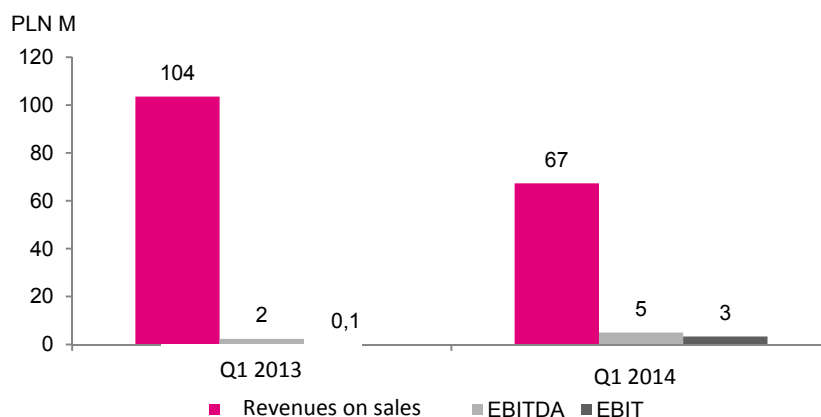
Specification (thous. PLN)	Q1 2014	Q1 2013	Dynamics Q1 2014 / Q1 2013	Change (Q1 2014- Q1 2013)
Other				
Revenue on sales	67,296	103,507	65.0%	(36,211)
<i>electric energy</i>	18,751	65,468	28.6%	(46,717)
<i>proprietary rights arising from certificates of electric energy origin</i>	29,793	20,731	143.7%	9,062
<i>grinding plant products</i>	14,588	13,419	108.7%	1,169
<i>grit and stone</i>	3,415	3,450	99.0%	(35)
<i>other products and services</i>	749	440	170.2%	309
Operating profit	3,335	101	3,302.0%	3,234
Depreciation	1,673	2,229	75.1%	(556)
EBITDA	5,008	2,330	214.9%	2,678

The revenue on sales in the Other Area decreased as compared to the 1st quarter of 2013. Suspension of trading on the wholesale market (arising from organisational changes related to PE-PKH 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.

The above mentioned decrease was compensated by higher revenues on sales of minerals by Czatkowice coal mine, as a result of the increased demand for these products, which is associated with the favourable atmospheric conditions.

The figure below shows the financial data of the Other Area for the 1st quarter of 2014 as compared to the 1st quarter of 2013.

Figure no. 20 Financial results of the Other Area for the 1st quarter of 2013 and 2014.



4.4.3 Status of assets

Consolidated statement on financial standing

The table below presents the selected items of the consolidated statement on comprehensive income of TAURON Capital Group according to the status as of 31 March 2014, as well as the comparative data as of 31 December 2013. These items are quoted 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 2014.

Table no. 20 Consolidated statement on financial standing - assets

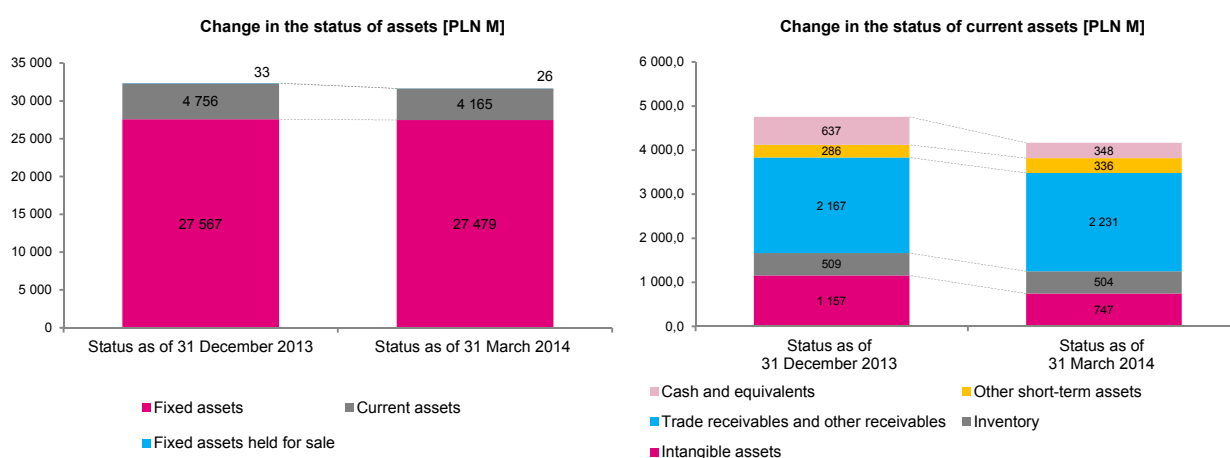
Statement on financial standing	Status as of 31 March 2014 (not audited)	Status as of 31 December 2013	Dynamics (2014/2013)
ASSETS			
Fixed Assets	27,478,594	27,567,008	99.7%
Tangible fixed assets	25,237,787	25,127,639	100.4%
Goodwill	247,057	247,057	100.0%
Intangible assets	1,202,192	1,160,005	103.6%
Stocks and shares in affiliated companies and joint ventures recognised applying the equity method	42,837	44,398	96.5%
Other long-term financial assets	359,305	587,166	61.2%
Other long-term non-financial assets	355,911	354,704	100.3%
Assets due to deferred tax	33,505	46,039	72.8%
Current assets	4,165,321	4,755,521	87.6%
Intangible assets	746,775	1,156,550	64.6%
Inventory	504,152	509,224	99.0%
Receivables due to income tax	82,673	31,890	259.2%
Trade receivables and other receivables	2,148,195	2,134,641	100.6%
Other short-term financial assets	16,103	15,878	101.4%
Other short-term non-financial assets	319,724	270,429	118.2%

Statement on financial standing	Status as of 31 March 2014 (not audited)	Status as of 31 December 2013	Dynamics (2014/2013)
Cash and equivalents	347,699	636,909	54.6%
Fixed assets classified as held for trade	26,162	33,041	79.2%
TOTAL ASSETS	31,670,077	32,355,570	97.9%

As of 31 March 2014 the statement on financial situation of TAURON Capital Group indicates balance sheet total lower by 0.2%. The decline results from the fulfilment of the statutory obligation to submit property rights arising from certificates of origin of electric energy generated in renewable energy sources, for redemption, to the President of the Energy Regulatory Office.

The figure below shows the change in the status of assets and current assets.

Figure no. 21 Change in the status of assets and current assets



Tangible fixed assets represent the biggest item of assets of TAURON Capital Group, the value of which increased slightly, mainly as a result of investment implemented in the Distribution Segment. In the balance sheet of TAURON Capital Group, the Distribution, Generation, Heat and RES Segments represent the highest share in fixed assets.

Other long-term financial assets represent the balance sheet item showing the highest decline dynamics, which results from finalising the transaction of purchase of TAURON Wydobyćie (previously: Południowy Koncern Węglowy) shares by TAURON in the 1st quarter of 2014, and the settlement of the pre-payment for the purchase of shares paid in December 2013.

At the end of the 1st quarter of 2014 the value of current assets decreased by 12.4%, which was mainly affected by the fulfilment of the statutory obligation of property rights redemption and the consequent decrease in the value of short-term intangible assets. The second factor of the highest impact on the change in the value of current assets is cash and its equivalents whose value decreased by 44.4%, which mainly results from the investment expenditure. More detailed description in the change of cash status is presented in item 4.4.4. The decrease in the items of the statement on financial standing presented above was slightly mitigated by the increase in other non-financial assets and receivables due to income tax.

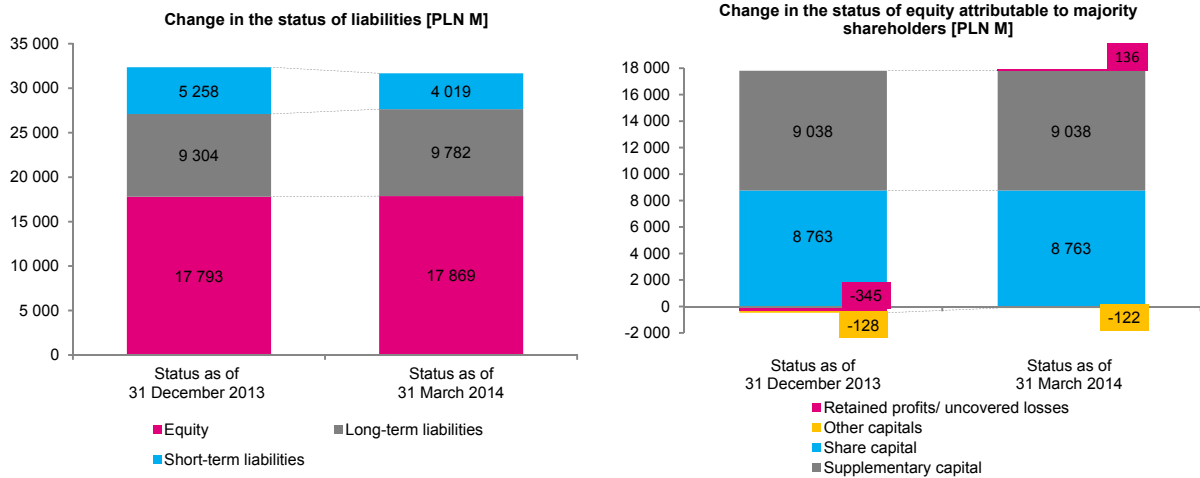
In the table below, the annual consolidated statement on financial standing - liabilities, is presented.

Table no. 21 Consolidated statement on financial standing - liabilities

Statement on financial standing	Status as of 31 March 2014 <i>(not audited)</i>	Status as of 31 December 2013	Dynamics (2014/2013)
LIABILITIES			
Equity attributable to shareholders of the parent company			
Share capital	8,762,747	8,762,747	100.0%
Supplementary capital	9,037,699	9,037,699	100.0%
Hedging instruments revaluation reserve	(120,489)	(126,651)	95.1%
Currency Exchange differences due to translation of foreign units	(1,553)	(1,631)	95.2%
Retained profits / Uncovered losses	135,928	(344,999)	-
Non-controlling shares	54,808	466,334	11.8%
Total equity	17,869,140	17,793,499	100.4%
Long-term liabilities			
Loans, credits and debt securities	5,827,367	5,500,532	105.9%
Liabilities due to financial leasing	56,025	61,643	90.9%
Trade liabilities and other financial liabilities	7,299	7,827	93.3%
Derivatives	96,139	87,573	109.8%
Provisions for employee benefits	1,491,859	1,497,814	99.6%
Other provisions	142,931	141,408	101.1%
Accruals and governmental subsidies	677,044	668,487	101.3%
Provision due to deferred income tax	1,483,655	1,339,057	110.8%
Short-term liabilities	4,018,618	5,257,730	76.4%
Current portion of interest-bearing credits, loans and debt securities	613,883	284,633	215.7%
Current part of liabilities due to financial leasing	17,535	17,327	101.2%
Trade liabilities and other liabilities	1,234,267	2,023,537	61.0%
Derivatives	75,609	73,358	103.1%
Provisions for employee benefits	156,783	162,368	96.6%
Other provisions	893,922	1,563,019	57.2%
Accruals and governmental subsidies	230,966	239,639	96.4%
Liabilities due to income tax	7,010	79,035	8.9%
Other non-financial liabilities	788,643	814,814	96.8%
Total liabilities	13,800,937	14,562,071	94.8%
TOTAL LIABILITIES	31,670,077	32,355,570	97.9%

The figure below shows the change in the status of liabilities and equity.

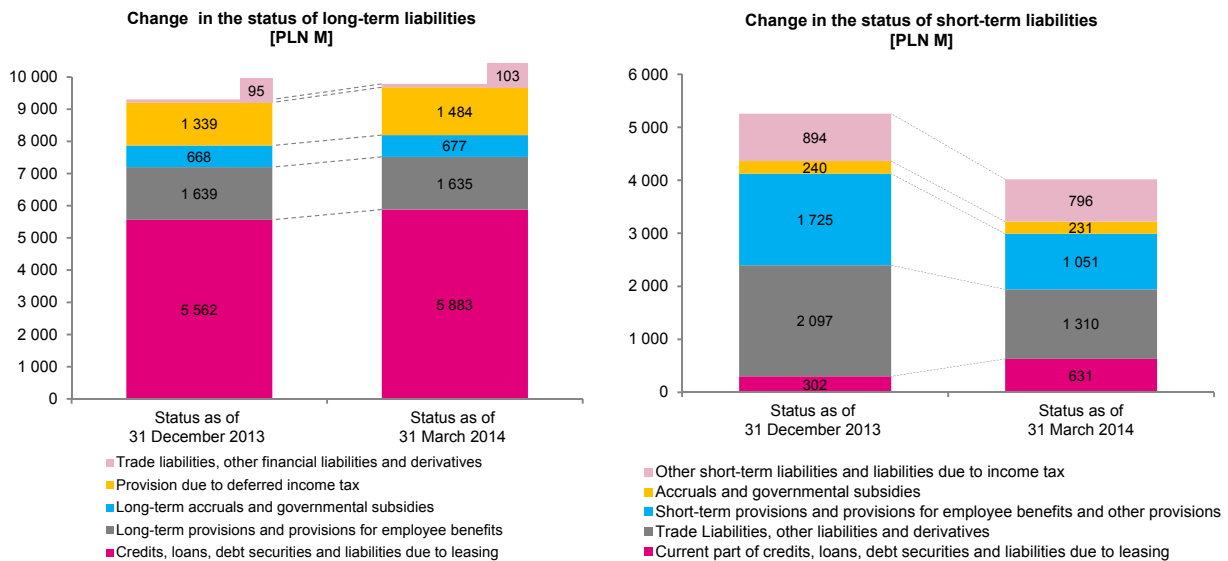
Figure no. 9. Change in liabilities and equity



Similar to the previous years, the dominating source of financing of assets in the 1st quarter of 2014 was equity and its share in the balance sheet total increased to the level of 56.4%.

The figure below shows the change in the status of liabilities.

Figure no. 10. Change in the status of liabilities



The value of the long-term financial debt of TAURON Capital Group increased by 5.9%, mainly as a result of acquisition of external financing sources in the form of issue of debt securities.

The value of short-term liabilities decreased by 23.6%, which was mainly associated with the decrease in trade liabilities by 40% (mainly as a result of lower own costs of sales, as compared to the corresponding period of the previous year) and the decrease in value of short-term reserves by 39%, which is associated with the use of reserves for the needs of redemption of property rights arising from certificates of origin of electric energy generated in renewable energy sources. The increase in the value of financial liabilities is the consequence of issue of debt securities. The value of financial liabilities in the 1st quarter of 2014

increased by 11.1% as compared to the status on 31 December 2013, and the net financial debt increased, respectively, by 18.0%.

4.4.4 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: 2014 and 2013

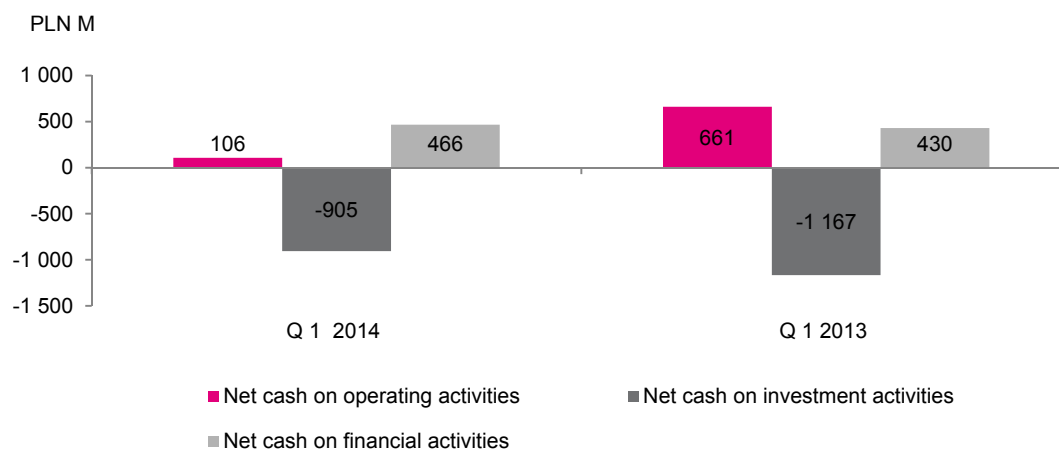
Table no. 22 Statement of Cash Flow (data in thousand PLN)

Statement of Cash Flow	Q1 2014 (<i>not audited</i>)	Q1 2013 (<i>data restated not audited</i>)	Dynamics (Q1 2014 / Q1 2013)
Cash flows from operating activities			
Gross profit / (loss)	557,590	737,127	75.6%
Adjustments	(451,347)	(76,596)	589.3%
Net cash from operating activities	106,243	660,531	16.1%
Cash flows from investment activities			
Sales of tangible fixed assets and intangible assets	23,411	4,929	475.0%
Purchase of tangible fixed assets and intangible assets	(919,039)	(1,141,405)	80.5%
Sales of financial assets	84	0	-
Purchase of financial assets	(4,109)	(3,406)	120.6%
Dividends received	146	5,514	2.6%
Interest received	11	457	2.4%
Repayment of loans granted	0	5,850	0.0%
Loans granted	(5,850)	(38,850)	15.1%
Other	0	2	0.0%
Net cash from investment activities	(905,346)	(1,166,909)	77.6%
Cash flows from financial activities			
Repayment of liabilities due to financial leasing	(5,541)	(4,752)	116.6%
Cash inflows due to loans/credits	0	451,180	0.0%
Repayment of loans/credits	(30,340)	(7,900)	384.1%
Issue of debt securities	800,000	0	-
Redemption of debt securities	(200,000)	0	-
Dividends paid to non-controlling shareholders	(32)	(81)	39.5%
Interest paid	(13,933)	(8,799)	158.3%
Purchase of non-controlling shares	(104,504)	(732)	-
Subsidies received	24,748	4,478	552.7%
Paid commission	(4,135)	(3,463)	119.4%
Net cash from financial activities	466,263	429,931	108.5%
Increase/(decrease) in net cash and equivalents	(332,840)	(76,447)	435.4%
Net exchange differences	(14)	(720)	1.9%
Cash opening balance	541,148	891,654	60.7%
Cash closing balance	208,308	815,207	25.6%

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 2014 amounted to about PLN (332.8) million.

The figure below presents cash flows in the period of the 1st quarter of 2014 and 2013.

Figure no. 11. Cash flows in the period of the 1st quarter of 2014 and 2013.

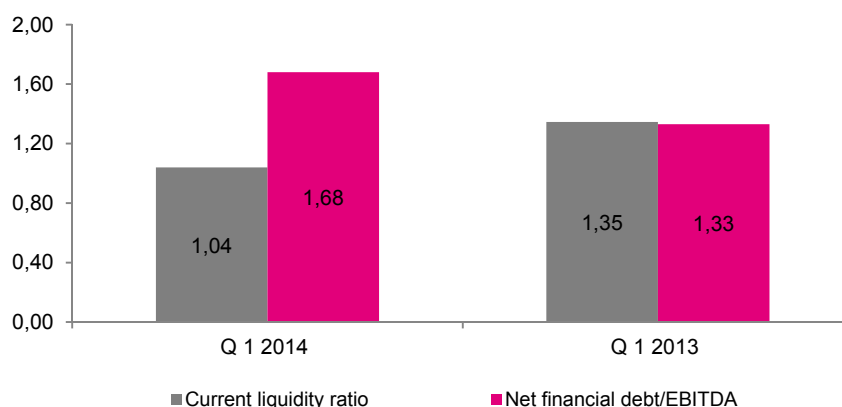


The value of cash flows on operating activities in the reporting period was lower by approximately 84% than the cash flow stream achieved in the corresponding period of the previous year. The change in this item was mainly affected by the change in the working capital, as a result of decrease in the status of trade liabilities.

The expenditures incurred due to the purchase of tangible fixed assets represent the factor of the highest impact on the developments of the cash stream of investment nature, lower by approximately 20% than the expenditures incurred in the corresponding period of 2013. The above mentioned decline is caused by increased capital expenditure in connection with the investment in Wicko and Marszewo wind farms carried out in the RES Segment in 2013. In the current period the highest expenditures were incurred by Distribution, Mining and Generation Segments, and the highest growth of expenditure was recorded in the Distribution Segment (increase by 31.4% YoY).

In the 1st quarter of 2014 TAURON Capital Group increased the amount of financial debt by PLN 600 million, through the issue of debt securities allocated mainly for investment in fixed assets and the final settlement of the transaction of purchase of TAURON Wydobycie shares (PLN 77.5 million).

Irrespective of the negative value of cash flows it can be stated that TAURON Group has been continuing the development process and strengthening its market position. It should be stressed that the value of operating flows shows a positive balance, thus enabling TAURON Capital Group to finance its current operations independently. The external funds acquired were allocated for the implementation of the investment process carried out in the Group, with simultaneous maintaining of the liquidity and debt ratios at a safe level.

Figure no. 12. Liquidity and debt ratios

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

4.5 Factors and events, particularly of unusual character, significantly affecting 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.

4.6 Factors which, according to the opinion of the Issuer, may have impact on the results to be achieved within the perspective of at least the next quarter

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

- the macroeconomic situation, especially in Poland, as well as the economic situation of the area of operations of the TAURON Capital Group, situation of the European Union and the global economy, including changes in interest rates and currency rates, etc., influencing the valuation of assets and liabilities recognised by the Company in the statement on financial standing,
- political environment, especially in Poland as well as at the European Union level, including the standpoints and decisions of public administration institutions and authorities, for example: Office for Competition and Consumers Protection (UOKiK), ERO and the European Commission,
- changes in the regulations of the energy sector, as well as changes in the legal environment, including: the tax law, commercial law, environmental protection law,
- situation in electric energy sector, including the activity and measures undertaken by competition in the energy market,
- resumption of the support system of electric energy generation in high-performance co-generation ("red" and "yellow" certificates),
- number of free CO₂ emission allowances allocated after 2013, and prices of the allowances acquired;
- geological and mining conditions,
- 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 energy resources;
- demand for electric energy and other products of energy market, including changes arising from seasonality and weather conditions,
- environmental protection requirements,
- scientific and technical progress,
- potential failures of equipment, installations and grid owned by TAURON Group.

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

TAURON Capital Group has not published forecasts of financial results for 2014. The financial situation of TAURON Capital Group is stable and no negative events occurred which would cause any threat to its business continuity or significant deterioration of its financial standing. The detailed description of the financial standing understood as the provision of financial resources for both the operational and the investment activity is included in item 4 of this document.

5. Other information and events which occurred in the first quarter of 2014

5.1 Significant events which occurred in the first quarter of 2014

Extraordinary General Meeting of the Company

On 7 January 2014 the Extraordinary General Meeting of TAURON Polska Energia took place which adopted the amendments to the Articles of Association of the Company, defined the number of members of the Supervisory Board of the Company (9 persons) and appointed Mr Aleksander Grad as the member of the Supervisory Board. The amendments to the Articles of Association are aimed at updating the scope of activities and distribution of competence between the statutory corporate bodies of the Company, i.e. the Supervisory Board and the Management Board as well as the streamlining of the text of the Articles of Association and its adjustment to the current needs of the Company. On 15 January 2014, the District Court Katowice - Wschód in Katowice, 8th Commercial Department of the National Court Register entered the aforementioned amendments to the Company Articles of Association to the register of entrepreneurs of the National Court Register.

The Company informed of the aforementioned events in the current reports no. 1/2014, 2/2014 and 3/2014 of 7 January 2014.

Fulfilling the last condition precedent regarding transfer of ownership of Południowy Koncern Węglowy shares

On 15 January 2014 the General Meeting of Kompania Węglowa accepted the sale of shares of Południowy Koncern Węglowy (PKW, currently TAURON Wydobywanie) to the benefit of TAURON Polska Energia. Thus, the last condition required to transfer the of the said shares to the Company has been fulfilled. Currently, TAURON Group holds 100% of shares of TAURON Wydobywanie, authorising it to exercise 100% votes at the General Meeting. Following the payment of the remaining amount, i.e. PLN 77,5 million to the benefit of Kompania Węglowa, the ownership of PKW shares held by Kompania Węglowa was transferred to the Company. Consequently, as of 22 January 2014 the Company is authorised to all votes at the General Meeting.

The Company informed of the fulfilment of the aforementioned condition in the current report no. 6/2014 of 16 January 2014.

Information about provision in the recognised in the financial statements of TAURON Group for 2013 concerning CO₂ emission allowances

On 28 January 2014 the Management Board of TAURON Polska Energia informed the public opinion of the planned impact of a non-cash one-off in the form of a provision to be created in annual consolidated financial statements of the TAURON Group and related to free greenhouse gas emission allowances for Generation and Heat which were not received in 2013.

In accordance with the adopted accounting policy, the provision for emission allowances of gases that are included in emission allowance scheme is charged against (taxes and charges) in the case when the actual emission level exceeds the volume of free emission allowances held by the TAURON Group on the balance sheet date. The provision to cover the cost of deficit is charged to the value of emissions purchased or contracted for this purpose, at arm's length prices as of the balance sheet date, in relation to unhedged deficit of allowances (if such situation occurs).

Pursuant to Directive 2003/87/EC of the European Parliament and of the Council of 13 October 2003 establishing a scheme for greenhouse gas emission allowance trading within the Community and amending Council Directive 96/61/EC (the "Directive"), TAURON Capital Group is entitled to receive free emission allowances under Article 10c of the Directive ("derogation allowances"). TAURON Capital Group applied for derogation allowances, however as they were not allocated until 31 December 2013 (which in accordance to the adopted accounting policy prevents the inclusion of derogation allowances when calculating the amount of the provision for carbon dioxide emissions), the provision due to emission in the consolidated financial statements of the TAURON Group for 2013 will be higher than initially estimated by approximately PLN 270 million (approximately 260 million in Generation Segment and approximately 10 million in Heat Segment) – which has, respectively, decreased the EBITDA result by this amount. Recognition of the provision has reduced the net financial result of the TAURON Group by the amount of approximately PLN 219 million.

At the same time the Company has informed that due to the applied policy of risk management and hedging of emission allowances to secure market position, the TAURON Group companies hold in their registers of carbon dioxide emission allowances a sufficient amount of allowances to cover the 2013 emissions. The allowances were initially purchased to be used in the consecutive years and the related expenses have not been included under 2013 costs.

The Company informed of the aforementioned event in the current report No. 10/2014 of 28 January 2014.

Extended validity of the offer of RAFAKO S.A. – MOSTOSTAL WARSZAWA S.A. consortium for construction of power unit at Jaworzno III power plant

On 27 February 2014 the Company was informed of extension (until 30 April 2014) of the binding validity of the offer submitted by the consortium of RAFAKO S.A. – MOSTOSTAL WARSZAWA S.A., (Consortium) 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. The Consortium also submitted an annex to the bid bond extending validity of this guarantee until 30 April 2014, inclusive.

The Company informed of the aforementioned event in the current report No. 13/2014 of 27 February 2014.

5.2 Other significant events which occurred in the first quarter of 2014

Disposal of assets Elektrownia Halemba in Ruda Śląska

On 4 March 2014 TAURON Wytwarzanie signed a notary act, pursuant to which assets of Elektrownia Halemba were sold to the company Bravet spółka z o.o. for the total price of PLN 12.8 million. Elektrownia Halemba was decommissioned in 2012. The decision on decommissioning of generation facilities which did not comply with the environmental requirements resulted from the economic and ecological premises. The sales of Elektrownia Halemba assets will enable TAURON Wytwarzanie to optimise fixed costs.

Signing the agreement with PSE for the cold intervention reserve

On 26 March 2014, TAURON Wytwarzanie signed an agreement with Polskie Sieci Elektroenergetyczne S.A. (PSE) for the provision of the cold intervention reserve service (IRZ) to the PSE. The IRZ comprises units no. 3 and 6 in Elektrownia Siersza and unit no. 8 in Elektrownia Stalowa Wola, belonging to TAURON Wytwarzanie. The total installed capacity of the units covered by the reserve is 376 MW. The service will be provided in the years 2016-2017, with a possibility to extend it until 2019.

The provision of the cold intervention reserve is based on dispatching and using the generation units by the transmission system operator (PSE) for intervention balancing of active power balance to maintain the operational security of the National Power System after 2015. The providers of the new service may include centrally dispatched units which may be permanently decommissioned after 2016 due to technical, economic and environmental reasons. The extension of the lifetime of the old power blocks is expected to provide for safe level of power reserves until the new generation sources appear in the electric power system.

Implementation of the service of operational power reserve

In connection with the amendment introduced to the Instructions of Transmission Grid Operation and Maintenance (IRiESP), since the beginning of 2014, the payment mechanism due to the operational power reserve has been functioning. The operational power reserve refers to the generation capacity of active, centrally dispatched generation units, and its settlement is performed exclusively for the peak hours of demand, i.e. between 7:00 a.m. and 10:00 p.m. on all business days. At the same time, this mechanism was undoubtedly one of the factors stimulating the growth of electric energy prices in the SPOT markets and in the Balancing Market on peak hours covered by the payment for the reserve.

Adoption of the Cogeneration Act

On 14 March 2014 the Parliament of the Republic of Poland adopted the Act on the amendment to the Act on Energy Law and some other acts, i.e. the so-called Cogeneration Act. On 15 April 2014 the Act was published in the Journal of Laws, which means that its provisions entered into force as of 30 April 2014. The Act reinstates the support system for high-performance cogeneration based on coal and cogeneration based on gas, which operated until the end of 2012. The support was introduced for years 2014-2018. The entry into force of the new Cogeneration Act means the obligation imposed on energy suppliers in terms of purchase and redemption of energy certificates of origin (the so-called yellow certificates for gas cogeneration, the so-called red certificates for coal cogeneration) or payment of the substitution fee. Energy suppliers will be charged with additional costs in order to fulfil the obligation concerning the redemption of the yellow and red certificates. For the red certificates the redemption obligation amounts to 23.2% of the volume of the energy sold, whereas in case of the yellow certificates, this obligation shall increase from 3.9% in 2014 to 8% in 2018, which should contribute to the development of the cogeneration sources operating based on gas fuel.

It is currently difficult to estimate precisely the level of costs to charge the energy sales as a consequence of the support to cogeneration in 2014. The level of costs will be defined in the decision of the ERO

President concerning the substitution fees applied for the settlement of the redemption obligation of the yellow and red certificates. In accordance with the Act the ERO President should define the substitution fees for 2014 within 14 days following the entry into force of the Act (i.e. until 14 May 2014).

It will be possible to redeem the certificates originating from production in cogeneration in individual years only within the settlement for a given year, i.e. until June of the consecutive year, which is a significant difference in relation to the previously operating mechanisms, when the possibility of "banking" the certificates of the previous years led to the disturbance of the balance between supply and demand and the instability of certificate price.

The impact of this regulation on TAURON Group will occur in various Areas and it will be subject to partial mutual compensation. In the Generation Area revenues due to sales of red and yellow certificates will emerge, whereas in the Sales Area the need to purchase these certificates will appear for the purpose of redemption.

Draft Act on Renewable Energy Sources

In the first quarter of 2014, the works on the new Act on Renewable Energy Sources (RES) entered their final stage. In April the draft was approved by the Council of Ministers and submitted for further processing in the Parliament.

The main assumptions of the draft Act on Renewable Energy Sources foresee the following changes in relation to the current system of support to RES generators:

- a) limiting the support for multi-fuel combustion installations (reduction of support to the level of 0.5 certificate of origin for MWh of energy generated);
- b) liquidation of the support for large-scale hydroelectric plants (of capacity exceeding 5 MW);
- c) freezing of the substitution fee amount;
- d) introduction of a new support system based on energy auctions and the feed-in tariffs defined as a result of the auctions (indexed according to inflation), including the classification of auctions depending on the size of generators;
- e) a possibility for the existing generators to transfer to the mechanism of a fixed price defined within the auction;
- f) development of the RES segment based on wind and biomass;
- g) introduction of a 15-year support period for new installations.

The Act will have impact on the conditions of TAURON Group performance, both in the area of current operating activities and in the scope of the investment planned. In order to perform the precise estimation, the final shape of the Act is necessary, however, taking into account the structure of "green energy" production in TAURON Group so far, the factors to have adverse impact on results of TAURON Group may include the limited level of support for cogeneration and the liquidation of the support for hydroelectric plants of capacity over 5 MW, since, as a result of these changes, the volume of energy authorised to receive the certificates will decrease in TAURON Group. The scale of decrease in the volume of electric energy certified by green property rights may amount to 20% in 2015, in relation to the volume of 2013.

The positive signal in the light of the draft RES Act is the predicted development of the renewable energy sources segment based on wind sources and dedicated biomass sources. This trend is consistent with the strategic assumptions of the Group which has been developing its portfolio of biomass-burning units as well as successively increasing the capacity of energy production in wind sources.

Further investment in RES is determined by predictability and stability of the regulations as well as by the possibility to obtain the appropriate return rate. A positive factor stimulating the development of the Group potential in the scope of renewable energy sources may be the proposed auction mechanism, as a result of which electric energy sales would take place based on the fixed feed-in tariff and the assumed 15-year support period for new installations.

5.3 Macroeconomic and market situation

Data concerning the energy market

Consumption of electric energy on the area of Poland in the 1st quarter of 2014, according to the transmission system operator (PSE) amounted to 41,224 GWh, which means a decline by almost 1.4% in relation to the corresponding period of 2013. The main reason of the lower energy demand was the weather, much milder than in the previous year. The average temperature in the period discussed was 2.8°C and it was by almost 4.5°C higher than in the 1st quarter of 2013. March was a particularly warm month, when the average temperature was higher by 8.3°C year-on-year, and the energy consumption was lower by 3.3%.

In the 1st quarter of 2014 the domestic electric energy production dropped dramatically, reaching the level of 40,899 GWh, by 6.2% lower than in the 1st quarter of 2013. The highest decline in production, i.e. by 42% was recorded in gas-fired power plants. Production of energy based on hard coal was lower by 10%, reaching the level of 21,338 GWh. On the other hand, only by 3.8% less energy was produced from lignite (13,312 GWh). Wind farms represented the only sector in which growth was recorded, where production in the 1st quarter of 2014 reached 2,356 GWh. It means 60% growth in relation to the 1st quarter of 2013, which results from the increase in the installed capacity of wind farms by 870 MW in this period, i.e. to the level of 3,520 MW.

In the 1st quarter of 2014 Poland became a net importer of energy. Whereas in January the volume of export was slightly higher in relation to import, in February and March import has already exceeded export. In total, in the 1st quarter of the current year, the surplus of import over export amounted to 324 GWh, whereas in the corresponding period of 2013 export was higher than import by 1,773 GWh. The reason of such situation are the significantly lower wholesale energy prices in the neighbouring countries of Poland and a more difficult situation in the National Power System resulting in more restrictive approach of the transmission system operator to the availability of transmission capacity.

Wholesale electric energy trade

The average price of electric energy on the day-ahead market of the Energy Exchange in the 1st quarter of 2014 reached PLN/MWh 161.26 and it was higher by PLN/MWh 2.05 than the average price in the corresponding period of 2013. On the Balancing Market, the average price in the period analysed reached PLN/MWh 162.25, which was the level close to that recorded last year. On the other hand, the monthly structure of prices was different - while the prices dropped month after month in the previous year, in 2014 these prices were growing systematically. This trend refers, in particular, to the peak hours (from 8 a.m. to 10 p.m.) for which the transmission system operator launched the payment for the operational power reserve at the beginning of the year. The average price in peak hours in the 1st quarter of 2014 reached PLN/MWh 195.15 and it was higher by approximately PLN/MWh 12 than in the 1st quarter of 2013.

The wholesale prices in the main European markets showed totally different trends. The high supply of energy from renewable sources (mainly wind and solar) as well as low prices of coal and gas, combined with the mild winter, made electric energy prices on the spot markets drop significantly. On the German market the average price for the EPEX spot exchange in the 1st quarter of 2014 settled at a level of EUR/MWh 33.50, i.e. by EUR/MWh 8.77 less than a year before. On the Czech market, the average price of OTE spot was lower by EUR/MWh 6.73, reaching EUR/MWh 33.52. The highest decline in prices (by EUR/MWh 11.85) was recorded for the Scandinavian NordPool spot market, where the average price for the 1st quarter of 2014 reached EUR/MWh 30.19.

In the 1st quarter of 2014 prices on the SPOT markets in Poland followed trends analogical to forward contracts. Whereas the European markets recorded their historic minima, we faced the increase in energy prices in the country. Prices of the reference contract with delivery next year, Base Y-15 have increased from PLN/MWh 157.41 to PLN/MWh 167.25 since the beginning of the year. Due to the growing SPOT prices, the prices of PEAK Y-15 peak contracts increased much more, raising from PLN/MWh 191.50 in January to PLN/MWh 202 at the end of March, reaching even their record level of PLN/MWh 205.75 in the meantime. On the other hand, BASE Y-15 contracts on the German EEX were declining over the whole first quarter, from over EUR/MWh 36.50 to the historic minimum of EUR/MWh 33.90. The German energy price in forward contracts has reached the cheapest level for over 9 years.

Prices of CO₂ emission allowances and property rights

Over the majority of the 1st quarter of 2014 we faced the noticeable upward trend in the market of do CO₂ emission allowances. The main reasons of such a situation were the signals from the European Commission aimed at acceleration of the procedure involving the withdrawal of a significant number of units from the system (backloading). The market optimistically responded to the information confirming the possibility to withdraw even 400 million out of 900 million of EUA units from the auction schedules, still in 2014. In January and February the price of EUA DEC-14 contracts increased from the level of EUR/t 4.50 to over EUR/t 7.20. However, in March noticeable decline in CO₂ prices was recorded, which can be explained by execution of profits, low prices of electric energy and lower demand for emission allowances than planned. The preliminary data related to emission of installations covered by EU ETS for 2013 indicate the decrease by 3.1%. At the end of March 2014 the cost of EUA DEC-14 with delivery in December reached EUR/t 4.70.

In the market of PMOZE_A property rights, confirming the generation of energy from renewable sources, prices of the certificates were growing significantly in the 1st quarter of 2014. In January and February the prices even reached the level of PLN/MWh 250. However, in March significant decline occurred, and the prices of the so-called green certificates dropped to PLN/MWh 178.43. The prices were changing irrespective of the lack of decisions concerning the Act on renewable energy sources. The balance of the PM OZE register during the analysed quarter decreased by 3.8 TWh, reaching 7.3 TWh at the end of March.

Prices of PMMET certificates - derivatives of gas acquired during methane removal from coal mines – remained at relatively stable level throughout the whole period analysed, oscillating around the value of PLN/MWh 60. During the 1st quarter of 2014, the balance of the register increased by 52 GWh to the level of 311 GWh.

The prolonged works concerning the relevant regulations and the actual lack of obligation related to redemption of property rights confirming the generation of electric energy in high-performance cogeneration (both P MEC - coal-based, and PMGM gas-based) resulted in the lack of trade in these certificates in the 1st quarter of 2014.

6. Other information and events which occurred after the balance sheet day

6.1 Other information and events which occurred after the balance sheet day

Recommendation of the Management Board on dividend payout

On 15 April 2014 the Management Board of the Company decided to address the Company Ordinary General Meeting with a recommendation on the level of dividend to be paid to the Company shareholders in the amount of PLN 262,882,409.10, from the net profit generated in 2013, which means PLN 0.15 per single share. At the same time the Management Board indicates that this recommendation should be subject to assessment by the Company Supervisory Board. Simultaneously, the Management Board decided to address the Company Ordinary General Meeting with a recommendation to define:

- 1) 14 August 2014 as the dividend record day,
- 2) 4 September 2014 as the dividend record day.

The above mentioned recommendation of the Management Board regarding the amount of dividend to be paid to Company shareholders was prepared after taking into account the current TAURON Group development plan which includes implementation of the adopted investment programme requiring significant financial resources exceeding the current cash flows from TAURON Group operating activities.

The funds to remain in the Company will be used in total for the execution of the investments, at the same time, reducing the demand for further financing and limiting the increase of debt ratio.

On 18 April 2014 the Supervisory Board of the Company approved the recommendation of the Management Board recommendation concerning the dividend payment.

The Company informed of the aforementioned events in the current reports no. 18/2014 of 15 April 2014 and no. 21/2014 of 18 April 2014.

Conclusion of material agreement with the consortium RAFAKO S.A. - MOSTOSTAL WARSZAWA S.A., for construction of power unit at Elektrownia Jaworzno III

On 17 April 2014 the Issuer's subsidiary – TAURON Wytwarzanie (the "Ordering Party") signed with the consortium RAFAKO S.A. (Rafako) – MOSTOSTAL WARSZAWA S.A. (Mostostal) (the "Consortium", the "Contractor") the contract for construction of 910 MW_e ultra-supercritical unit at Jaworzno III power plant including: steam boiler, turbine set, main building, electrical and process control system (AKPiA) of the unit (the "Contract"). The Contract has been concluded under the following terms and conditions:

1. The subject of the Contract is the design and construction by the Contractor on a turn-key basis of 910 MWe gross capacity ultra-supercritical unit including steam boiler, turbine set, main building and electrical and process control system of the unit.
2. The Contractor's remuneration for the delivery of the subject of the Contract amounts to PLN 4,399,038,500 net (four billion three hundred ninety nine million thirty eight thousand five hundred zloty) and will be increased by applicable VAT. The remuneration payable to the Contractor is a lump sum remuneration. Pursuant to the consortium agreement, Rafako is responsible for execution of 99.99% of works covered by the Contract and is entitled to receive remuneration proportionally to the above mentioned share in works covered by the Contract.
3. The deadline for the completion of the subject of the Contract is 59 months starting from the date of signing the Contract.
4. The Contractor is entitled to an advance payment for execution of the Contract in the amount of 10% of gross remuneration. To receive the advance payment, the Contractor is obliged to submit to the Ordering Party an advance payment guarantee for the amount of the advance payment.
5. The Contractor has submitted to the Ordering Party a performance guarantee in the form of bank guarantees and insurance guarantee and in money, to the amount required for the subject Contract to be effective. Pursuant to the Contract, the amount of the performance guarantee is 10% of the Contractor's gross remuneration. Once the unit is commissioned, the performance bond will be reduced to 3% of the Contractor's gross remuneration and should also constitute the guarantee to cover the Ordering Party's claims under implied warranty for defects in the subject of the Contract over a warranty period of 24 months following the date of commissioning of the unit and final acceptance of the unit by the Ordering Party, however some elements of the unit are covered by an extended warranty of 60 months.
6. The Ordering Party is entitled to calculate liquidated damages in the case of improper performance of the Contract by the Contractor for the total amount of up to 25% of net remuneration payable to the Contractor. The Ordering Party is entitled to claim compensation exceeding liquidated damages defined in the Contract.
7. The Contractor shall be held liable for proper performance of the Contract by subcontractors hired to perform the Contract.

The Project is in line with the Corporate Strategy of TAURON Group, presented in the current report No. 25/2011 of 28 April 2011 which stipulates building of the sustainable generation portfolio which would consist of units based on coal, gas technologies and renewable energy sources. The investment in the construction of the generation unit at Jaworzno III power plant should contribute to securing TAURON Group position as the second largest electricity generator on the domestic market.

The Company informed of the aforementioned event in the current report No. 19/2014 of 17 April 2014.

Signing the agreement concerning the contract for construction of generation unit at Jaworzno III power plant

The Management Board of TAURON Polska Energia, in reference to the current report No. 19/2014 dated 17 April 2014, concerning signing by the Issuer's subsidiary – TAURON Wytwarzanie (the "Ordering Party") with the consortium of Rafako and Mostostal (the "Consortium") of the contract for construction of ultra-supercritical 910 MWe unit at Jaworzno III power plant (the "Contract"), informed that on 17 April 2014 the Ordering Party signed with the Consortium and companies: Siemens Sp. z o.o. and Siemens Aktiengesellschaft (jointly: "Siemens"), Rafako's subsidiary – E003B7 Sp. z o.o. ("SPV-Rafako") and Bank Gospodarstwa Krajowego, PKO BP S.A. and PZU S.A. (jointly: "Financial Institutions"), an agreement defining the terms and conditions of cooperation between the parties regarding Contract execution (the "Agreement"). Pursuant to the Agreement, the Ordering Party approved the text of the subcontractor agreement between Rafako and SPV-Rafako ("SPV-Rafako Subcontractor Agreement") and agreed to sign it, and parties to the Agreement decided that SPV-Rafako should perform their obligations under the SPV-Rafako Subcontractor Agreement to the benefit of the Ordering Party. In addition, the Ordering Party approved the text of the subcontractor agreement between SPV-Rafako and Siemens mentioned in current report No. 16/2014 published by Rafako on 15 April 2014 (Siemens Subcontractor Agreement) and agreed to sign it.

Pursuant to the Agreement:

- the parties agreed that for the works performed by SPV-Rafako under the SPV-Rafako Subcontractor Agreement, in order to fulfil the Ordering Party's obligation to pay remuneration to Rafako under the Contract and Rafako's obligation to pay remuneration to SPV-Rafako under SPV-Rafako Subcontractor Agreement, the Ordering Party undertakes to pay remuneration for Contract execution directly to SPV-Rafako in the form of transfer as understood under Article 921(1) of the Civil Code;
- the parties agreed that for the works performed by Siemens under the Siemens Subcontractor Agreement, in order to fulfil the Ordering Party's obligation to pay remuneration to Rafako under the Contract, Rafako's obligation to pay remuneration to SPV-Rafako under SPV-Rafako Subcontractor Agreement and SPV-Rafako's obligation to pay remuneration to Siemens under Siemens Subcontractor Agreement, the Ordering Party undertakes to pay remuneration for Contract execution directly to Siemens in the form of transfers as understood under Article 921(1) of the Civil Code;
- the parties agreed that performance guarantee (referred to in current report No. 19/2014 item 5) will be submitted partly in the form of bank and insurance performance bond issued by Financial Institutions upon SPV-Rafako's request for the benefit of the Ordering Party, and partly in money out of which PLN 40 million was submitted by Rafako prior to Contract signing and PLN 30 million will be paid within 6 months following signing of the Agreement;
- the parties agreed on the manner of advance payment by the Ordering Party under the Contract (referred to in current report No. 19/2014 items 4 and 5) as well as the manner of submitting the advance payment guarantee to the Ordering Party;
- Rafako undertakes to provide SPV-Rafako with necessary support in execution of the Agreement and SPV-Rafako Subcontractor's Agreement by providing relevant resources, in particular technical, financial and human, to SPV-Rafako.

The Company informed of the aforementioned event in the current report No. 20/2014 of 17 April 2014.

6.2 Other events after the balance sheet day

Announcement of convening Ordinary General Meeting of TAURON Polska Energia

On 18 April 2014, the Management Board of TAURON Polska Energia, acting pursuant to Article 395 § 1, Article 399 § 1 and Article 402(1) of the Commercial Companies Code and § 30 item 1 of the Company Articles of Association, convened the Ordinary General Meeting of the Company for 15 May 2014 at 11 a.m. in Hotel Angelo in Katowice at ul. Sokolska 24.

The Company informed of the aforementioned events in the current report no. 22/2014 of 18 April 2014. The texts of draft resolutions of the Ordinary General Meeting were provided in the current report no. 23/2014 of 18 April 2014.

Allocation of CO₂ emission allowances – the Regulation of the Council of Ministers of 8 April 2014

Due to the prolonged process of allocation of free CO₂ emission allowances in the 1st quarter of 2014, a justified risk existed that the free CO₂ emission allowances related to 2013 would not be allocated before 30 April 2014 (the deadline for the settlement of CO₂ emission balance for 2013). Finally, the allowances attributable to installations of TAURON Group for 2013 were received on the account on 12 April 2014. Due to the fact that the free allowances allocated exceed the emission in the 1st quarter of 2014, TAURON Group did not create a reserve for liabilities due to CO₂ emission in relation to the 1st quarter of 2014.

7. 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.

8. Information on transactions with affiliated entities

All transactions with affiliated entities are concluded on arm's length basis. Detailed information on significant transactions with affiliated entities has been provided in note 31 of the Consolidated interim financial statement for the period of three months, ended on 31 March 2014.

9. Information on granted guarantees, loan or credit sureties

In the 1st quarter of 2014, neither TAURON Polska Energia, nor its subsidiaries 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 equity.

10. 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 the obligations by the Capital Group of the Issuer

Apart from the reported events indicated above in this document, from 1 January 2014 to the day of submission of this report, no other events occurred which are significant for assessment of the possibility of fulfilment of the obligations by TAURON Polska Energia Capital Group.

The Management Board of TAURON Polska expresses its position that the information presented in this report describes the human resources, economic 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.