



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

13 November 2014

## Table of Contents

<b>1. Organisation of TAURON Capital Group .....</b>	<b>3</b>
1.1 Basic Information on TAURON Capital Group .....	3
1.2 Entities subject to consolidation .....	4
1.3 Structure of TAURON Capital Group and significant changes in its structure .....	5
<b>2. Basic information concerning TAURON Polska Energia.....</b>	<b>7</b>
2.1 Composition of the Management Board and Supervisory Board of TAURON Polska Energia ....	7
2.2 Structure of share capital.....	8
2.3 Shareholders holding at least 5 per cent in the total number of votes .....	8
2.4 Specification of the status of shares held by members of the management and supervisory bodies .....	9
2.5 Scope of business operations of TAURON Polska Energia .....	10
<b>3. Operations of TAURON Capital Group .....</b>	<b>11</b>
3.1 The core business areas of TAURON Capital Group.....	11
3.2 Implementation of TAURON Capital Group investment programme .....	13
<b>4. Analysis of the economic and financial situation of TAURON Capital Group .....</b>	<b>16</b>
4.1 Selected financial data of TAURON Polska Energia and TAURON Capital Group .....	16
4.2 Key operating data of TAURON Capital Group .....	18
4.3 Sales structure according to core business areas.....	18
4.4 Financial situation of TAURON Capital Group following the third quarter of 2014. ....	21
4.4.1 Consolidated statement of comprehensive income.....	21
4.4.2 Financial results according to core business areas.....	24
4.4.3 Status of assets .....	39
4.4.4 Cash Flows .....	43
4.5 Factors and events, particularly of unusual nature, significantly affecting the financial results achieved .....	45
4.6 Factors which, according to the opinion of the Issuer, may have impact on the financial results achieved by it in the perspective of at least the next quarter .....	45
4.7 Position of the Management Board concerning a possibility to implement forecasts of results for a given year, published earlier .....	46
<b>5. Other information and events which occurred in the third quarter of 2014 .....</b>	<b>46</b>
5.1 Significant events which occurred in the third quarter of 2014.....	46
5.2 Other events which occurred in the third quarter of 2014 .....	48
5.3 Market situation .....	50
<b>6. Information and events which occurred after the balance sheet day .....</b>	<b>51</b>
6.1 Significant information and events which occurred after the balance sheet day.....	51
6.2 Other events after the balance sheet day.....	51
<b>7. Proceedings pending before the court, competent arbitration authority or public administration authority .....</b>	<b>52</b>
<b>8. Information on transactions with affiliated entities .....</b>	<b>52</b>
<b>9. Information on granted guarantees, loan or credit sureties .....</b>	<b>53</b>
<b>10. Other information which, according to the Issuer's opinion, is significant for the evaluation of human resources, assets, financial situation, financial result and their changes, essential to assess the possibility of fulfilment of the obligations by the Capital Group of the Issuer.....</b>	<b>53</b>

# 1. Organisation of TAURON Capital Group

## 1.1 Basic Information on TAURON Capital Group

As at 30 September 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 22 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 as well as rendering intra-group services in the area of accounting and IT, and TAURON Ciepło S.A. dealing with generation, distribution and sales of heat. Moreover, TAURON Capital Group consisted of five other subsidiaries, subject to consolidation, dealing, among others, with trade of electric energy as well as extraction of limestone and stone for construction industry needs. In total, 13 subsidiaries listed in item 1.2 are covered by consolidation.

On 12 October 2010, in order to ensure operation of TAURON Group perceived as a homogeneous economic body consisting of independent 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. The Code of TAURON Group regulates the performance of the Group, providing for implementation of the goals through the dedicated solutions in the scope of TAURON Group entities management.

As at 30 September 2014, the following subsidiaries were 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 – PKH sp. z o.o. in liquidation	29.11.2010
7.	TAURON Dystrybucja S.A.	06.12.2010
8.	Kopalnia Wapienia "Czatkowice" sp. z o.o.	05.01.2011
9.	TAURON Wydobycie S.A.	13.01.2011
10.	TAURON Sprzedaż GZE sp. z o.o.	24.01.2012
11.	TAURON Wytwarzanie GZE sp. z o.o.	24.01.2012
12.	TAURON Ubezpieczenia sp. z o.o.	17.09.2013
13.	TAURON Ciepło sp. z o.o.	16.10.2013
14.	TAURON Dystrybucja Pomiary sp. z o.o.	19.11.2013

No.	Company enterprise	Date of accession to TAURON Group
15.	"BUDO – TRANS" - sp. z o.o.	19.11.2013
16.	TAURON Ekoserwis sp. z o.o.	19.11.2013
17.	Spółka Usług Górniczych sp. z o.o.	04.12.2013
18.	TAURON Dystrybucja Serwis S.A.	17.12.2013
19.	TAURON Wytwarzanie Serwis sp. z o.o.	26.02.2014

A key element enabling the operational decision-making within TAURON Group, is the existence of advisory and quasi-supervisory bodies of the Group - the four Committees of TAURON Group:

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

The Committees fulfil the following functions:

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

The principal task of the Committees is to supervise the implementation of consistent actions by all participants of the Group, in compliance with the TAURON Group Code and in the interest of TAURON Group. The specific functions of the Committees have been specifically defined in their by-laws adopted by the Management Board of TAURON Polska Energia S.A.

## 1.2 Entities subject to consolidation

As at 30 September 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.<sup>1</sup>
6. Kopalnia Wapienia Czatkowice Sp. z o.o.
7. TAURON Wydobycie S.A.
8. Polska Energia - Pierwsza Kompania Handlowa sp. z o.o. in liquidation<sup>2</sup>
9. TAURON Ciepło sp. z o.o.<sup>3</sup>
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.

<sup>1</sup> On 2 January 2014 the merger of companies: TAURON Ekoenergia sp. z o.o., and MEGAWAT MARSZEWO sp. z o.o. and BELS INVESTMENT sp. z o.o. was registered.

<sup>2</sup> On 2 July 2014 the company was put into liquidation. On 27 October 2014 a request for liquidation bankruptcy of the company was filed.

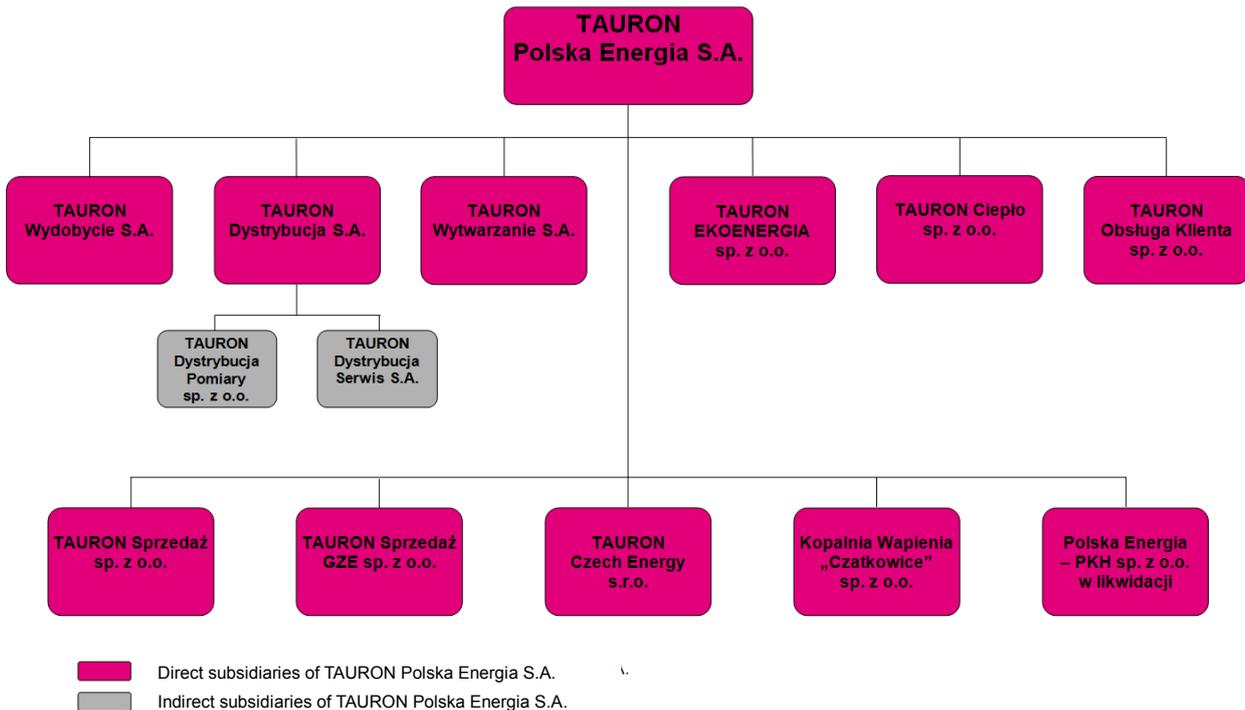
<sup>3</sup> On 30 April 2014 the merger of Enpower Service sp. z o.o. (the acquiring company) and TAURON Ciepło S.A. (the acquired company) was registered. At the same time, change of the acquiring company name to TAURON Ciepło sp. z o.o. took place.

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

### 1.3 Structure of TAURON Capital Group and significant changes in its structure

The chart below presents companies whose results are consolidated within TAURON Capital Group, as at 30 September 2014.

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



Significant changes in the structure of TAURON Group subsidiaries are described hereunder, including the effects of changes which have taken place since 1 July 2014:

#### Acquisition of 100% share in TAURON Wytwarzanie S.A. share capital

As a result of the compulsory redemption of minority shareholders' stocks of TAURON Wytwarzanie S.A. by the majority shareholder (squeeze out) and in connection with the registration of reduction in TAURON Wytwarzanie S.A. share capital by the District Court for Katowice - East in Katowice on 1 August 2014, arising from the repurchase of stocks held by shareholders representing no more than 5% of the share capital by the majority shareholder, TAURON Polska Energia S.A. became the sole shareholder of TAURON Wytwarzanie S.A., holding 100% share in the share capital of the company. The aforementioned activity has streamlined the ownership structure of the TAURON Wytwarzanie S.A. company. Moreover, the 100% share in the company facilitates the convening and holding of General Meetings, which enables to accelerate decision making as well as improves and facilitates decision making processes in case the company undertakes measures subject to the General Assembly approval.

#### Disposal of shares held by Przedsiębiorstwo Świadczeń Zdrowotnych i Promocji Zdrowia Elvita - Jaworzno III sp. z o.o.

Within the framework of implementation of the disposal process related to shares of Przedsiębiorstwo Świadczeń Zdrowotnych i Promocji Zdrowia Elvita Jaworzno III sp. z o.o. with its registered office in Jaworzno (Elvita), held by companies of TAURON Capital Group, on 12 August 2014 the following subsidiaries of TAURON Polska Energia S.A.: TAURON Wytwarzanie S.A., TAURON Wydobycie S.A. and TAURON Dystrybucja S.A., concluded a contingent agreement on sales of the total of 14,984 Elvita company shares, constituting 98.82% in the share capital (including the disposal of: 4,825 shares by TAURON Wytwarzanie S.A., 4,520 shares by TAURON Wydobycie S.A. and 5,639 shares by TAURON Dystrybucja S.A.). The aforementioned agreement was concluded with the Investor - PZU Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych BIS 2 with its registered office in Warsaw.

Moreover, under the implementation of the aforementioned process, on 9 September 2014, agreements on establishing the usufruct of Elvita shares, concluded between TAURON Polska Energia S.A. and TAURON Wytwarzanie S.A., TAURON Wydobycie S.A. and TAURON Dystrybucja S.A., were terminated.

The aforementioned measures are compliant with the objectives of the Corporate Strategy and the strategies in individual business areas, focusing on the elimination of non-core activities, as well as with the approved reorganisation schedule of entities in TAURON Capital Group.

### **Transferring the ownership of TAURON Wydobycie S.A. stocks and Kopalnia Wapienia "Czatkowice" sp. z o.o. shares to TAURON Polska Energia S.A.**

On 28 August 2014, in connection with the agreement concluded between TAURON Polska Energia S.A. and TAURON Wytwarzanie S.A., comprising the transfer of TAURON Wydobycie S.A. stocks and Kopalnia Wapienia "Czatkowice" sp. z o.o. shares, owned by TAURON Wytwarzanie S.A., to TAURON Polska Energia S.A., in exchange for the waiver of TAURON Wytwarzanie S.A. liabilities towards TAURON Polska Energia S.A. due to the partial redemption of bonds, TAURON Polska Energia S.A. became the owner of 18,473,553 stocks of TAURON Wydobycie S.A. company, held in usufruct so far, with the nominal value of PLN 10 each, i.e. with the total nominal value of PLN 184,735,530, and shares of Kopalnia Wapienia "Czatkowice" sp. z o.o., with the nominal value of PLN 1,300 each, i.e. with the total nominal value of PLN 40,055,600. As a result of the transaction, as at 30 September 2014, TAURON Polska Energia S.A. directly holds 100% TAURON Wydobycie S.A. stocks and 100% shares in Kopalni Wapienia Czatkowice sp. z o.o.

Transferring the ownership of TAURON Wydobycie S.A. stocks and Kopalnia Wapienia "Czatkowice" sp. z o.o. shares to TAURON Polska Energia S.A. was justified by the optimisation of TAURON Group structure to enable the extension of TAURON Tax Capital Group by including both companies.

### **Establishment of TAMEH HOLDING sp. z o.o. and TAMEH POLSKA sp. z o.o. companies**

On 9 July 2014, TAURON Polska Energia S.A. established companies: TAMEH HOLDING sp. z o.o. and TAMEH POLSKA sp. z o.o., both with their registered offices in Dąbrowa Górnicza. The companies have been created for the purpose of implementation of a joint project by TAURON Group and ArcelorMittal Poland S.A.

On 11 August 2014 an agreement was concluded between TAURON Group and ArcelorMittal. It is a shareholders' agreement due to which, following the fulfilment of conditions precedent, the entities shall become partners in the TAMEH HOLDING sp. z o.o. company, to be responsible for investment and operational tasks in the area of industrial power engineering. The Agreement was concluded for a period of 15 years, with a possibility of its extension. It contains the following conditions precedent:

- obtaining the unconditional consent of the President of the Office for Competition and Consumer Protection and the unconditional approval of the Czech Office for Competition Protection for concentration, or the ineffective expiry of the term by which such decision should be issued,
- acquiring an offer of at least one bank concerning project financing, allowing for commencement of the financing by the end of 2014,
- satisfying result of the financial due diligence audit.

Both capital groups will hold 50% TAMEH HOLDING sp. z o.o. shares each. TAMEH HOLDING sp. z o.o. will be the owner of 100% shares in the Polish operational company - TAMEH POLSKA sp. z o.o., which will consist of: Zakład Wytwarzania in Dąbrowa Górnicza (ZW Nowa), Elektrownia Blachownia, Elektrociepłownia in Kraków (EC Kraków).

By the day of approval of the interim condensed consolidated financial statement for a period of nine months, ended on 30 September 2014, not all conditions precedent allowing for the launch of the operating activities have been fulfilled.

### **Establishment of the Marselwind sp. z o.o. company**

On 3 September 2014 TAURON Polska Energia S.A. created the Marselwind sp. z o.o. company and, as the sole shareholder of the company, it acquired all 100 shares with the nominal value of PLN 50 each, i.e. with the total nominal value of PLN 5,000. On 22 September 2014 the District Court for Katowice – East in Katowice, 8th Commercial Department of the National Court Register, issued the decision on entering the company to the Register of Entrepreneurs. 8 October 2014, the Extraordinary Meeting of Shareholders of the Marselwind sp. z o.o. company adopted the resolution on increasing the share capital of the company by the amount of PLN 100,000, from the amount of PLN 5,000 to the amount of PLN 105,000, and TAURON Polska Energia S.A., as the sole shareholder of the company, acquired all new shares, i.e. 2,000 shares with the nominal value of PLN 50 each, i.e. with the total nominal value of PLN 100,000.

The aforementioned measures have been undertaken in order to enable the implementation of the activities related to the division of the TAURON EKOENERGIA sp. z o.o. company, through spinning-off an organized part of an enterprise, in the form of wind farms, and its contribution to the Marselwind sp. z o.o. company. In accordance with the plan, the spin-off process should be completed in the first quarter of 2015. The project is described in more detail in item 5.2 of this report.

### **Filed request for bankruptcy of the company - Polska Energia – Pierwsza Kompania Handlowa sp. z o.o. in liquidation**

On 27 October 2014 a request for liquidation bankruptcy of a subsidiary – Polska Energia – Pierwsza Kompania Handlowa with its registered office in Tarnów sp. z o.o. in liquidation, where TAURON holds 100% share in the share capital and 100% share in the total number of shares at the Shareholders' Meeting, was filed with the District Court in Tarnów, 5th Commercial Division. The reason for filing the request is the reporting of potential future claims with the value exceeding the value of the company assets by counterparties of the company. Earlier, on 2 July 2014 the Extraordinary Shareholders' Meeting of the company Polska Energia – Pierwsza Kompania Handlowa sp. z o. o. adopted the resolution concerning winding up and liquidation of the company.

The decision on liquidation of the company - Polska Energia - Pierwsza Kompania Handlowa sp. z o.o. was taken due to economic reasons and it is also an element of reorganizational measures. Revenues generated by the company - Polska Energia - Pierwsza Kompania Handlowa sp. z o.o. in 2013 constituted approximately 1% of the Capital Group revenues.

## **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 at 30 September 2014 and as at 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<br>Officer | - Vice President of the Board, Chief Strategy and Business Development |
| 5) Krzysztof Zawadzki            | - Vice President of the Board, Chief Financial Officer                 |

**Composition of the Supervisory Board as at 30 September 2014 and as at the date of this report:**

- |    |                    |  |
|----|--------------------|--|
| 1. | Antoni Tajduś      | - Chairman of the Supervisory Board      |
| 2. | Agnieszka Woś      | - Vice Chairman of the Supervisory Board |
| 3. | Jacek Szyke        | - Secretary of the Supervisory Board     |
| 4. | Andrzej Gorgol     | - Member of the Supervisory Board        |
| 5. | Maciej Koński      | - Member of the Supervisory Board        |
| 6. | Leszek Koziorowski | - Member of the Supervisory Board        |
| 7. | Michał Michalewski | - Member of the Supervisory Board        |
| 8. | Marek Ściążko      | - Member of the Supervisory Board        |
| 9. | Maciej Tybura      | - Member of the Supervisory Board        |

In the third quarter of 2014 and by the day of drafting this information, the following change in the composition of the Supervisory Board of the Company took place:

On 1 September 2014 the Extraordinary General Meeting of the Company, acting pursuant to § 22 item 1 of the Company Articles of Association, adopted a resolution on appointment of the following persons to the Company Supervisory Board of the fourth common term of office as of 1 September 2014: Maciej Koński, Leszek Koziorowski, Maciej Tybura.

The Company informed of this event in the current report No. 36/2014 of 1 September 2014.

**2.2 Structure of share capital**

As at 30 September 2014 and as at the day of this report, the share capital of TAURON Polska Energia, 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 with the nominal 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 five per cent in the total number of votes**

In accordance with the notifications received by the Company, according to the best knowledge of the Company, as at the date of publication of this periodical report, i.e. 13 November 2014, the structure of shareholders holding at least five per cent of the total number of votes at the General Meeting of the Company, either directly or indirectly, through subsidiaries, 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***	112,000,000	6.39%	112,000,000	6.39%
Other shareholders	931,590,444	53.16%	931,590,444	53.16%

\*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 number of shares registered at the EGM of TAURON Polska Energia of 1 September 2014

Since the day of submission of the previous interim report, i.e. 21 August 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 the first half of 2014, i.e. from 21 August 2014, until 13 November 2014 (the date of publication 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 at 21 August 2014 (publication of the report for the 1st half of 2014)	Change in number of shares held	Number of shares as at 13 November 2014
Dariusz Lubera	6,576	NC	6,576
Aleksander Grad	0	NC	0
Katarzyna Rozenfeld	0	NC	0
Stanisław Tokarski	30,000	NC	30,000
Krzysztof Zawadzki	27,337	NC	27,337

NC – no change

### **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 the first half of 2014, i.e. from 21 August 2014, until 13 November 2014, in accordance with the best knowledge of the Company, was as follows:

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

No.	Name and surname	Number of shares as at 21 August 2014 (publication of report for the 1st half of 2014)	Change in number of shares held	Number of shares as at 13 November 2014
1.	Antoni Tajduś	0	NC	0
2.	Agnieszka Woś	0	NC	0
3.	Jacek Szyke	0	NC	0
4.	Andrzej Gorgol	0	NC	0
5.	Maciej Koński*	-	-	0
6.	Leszek Koziorowski*	-	-	0
7.	Michał Michalewski	0	NC	0
8.	Marek Ściążko	0	NC	0

No.	Name and surname	Number of shares as at 21 August 2014 (publication of report for the 1st half of 2014)	Change in number of shares held	Number of shares as at 13 November 2014
9.	Maciej Tybura*	-	-	0

NC - no change

\* Maciej Koński, Leszek Koziorowski and Maciej Tybura were appointed to the Supervisory Board of the Company of the fourth common term as of 1 September 2014.

## 2.5 Scope of business operations of TAURON Polska Energia

The core business of TAURON Polska Energia comprises:

- 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, gas and biomass trading) (PKD 46.71 Z),
- 4) gas fuel trade (PKD 35.23 Z).

As a parent entity TAURON fulfils the consolidating and governing function in TAURON Capital Group. Besides the management function, the core business of the Company includes 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 comprises, among others ArcelorMittal Poland, CMC Poland, Zakłady Górniczo-Hutnicze "Bolesław", Kompania Węglowa and other entities representing 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 nature, research on product needs related to the energy sales 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 governance activities in the area of sales, marketing and customer service implemented by 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 under financial contracts and contracts with physical delivery. In Poland, the Company is an active participant of the Power Exchange (TGE) 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 takes place predominantly through the EPEX Spot and EEX exchange in the scope of trading 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 TAURON Capital Group, confirming the generation of electric energy in renewable sources, in high-performance co-generation, in gas fuel fired co-generation, in mining methane fired or biomass burning co-generation, from sources using agricultural biogas. This activity is based on active controlling of demand for certificates of origin in TAURON Capital Group and on purchase and sales of such units, for the needs of companies from 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 a competence centre in the area of management of CO<sub>2</sub> emission allowances for the companies of the TAURON Capital Group and sales to external customers. Since January 2011, the so-called Installation Group has been operating in the area of CO<sub>2</sub> emission allowances, administered by TAURON. The Installation Group has been established for the 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 operating 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 CO<sub>2</sub> emission allowances of individual companies, cost-effective management of the allowances granted, securing the subsidiaries' emission needs, supporting the negotiations of future emission allowances limits as well as introducing the companies to the conditions of the third phase of the EU ETS system (European Union Emission Trading System) in the years 2013-2020. While implementing the above goals in the area of CO<sub>2</sub> emission allowances trading, the Company actively participates in trading on the European Climate Exchange (the ICE) in London, the EEX exchange in Leipzig and the over the counter (OTC) market.

TAURON acts as a 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. The Company acts as a 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 maintenance as well as the relevant distribution of loads in order to execute the contracts concluded, taking into consideration technical conditions of the generation units, network congestion and other factors, in various horizons. Within the services provided to the Generation Area, the Company participates in preparation of renovation plans, dispatching capacity plans as well as production plans for generation units, in various time horizons, as well as in their arrangements 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 power engineering 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 Business Areas (hereinafter also referred to as Segments):



**Mining**, comprising mainly mining, preparation and sales of hard coal in Poland - the activity provided by TAURON Wydobycie.



**Generation**, comprising mainly generation of electric energy in conventional sources, including co-generation, as well as generation of electric energy using burning and co-burning of biomass and other thermally acquired energy. The basic fuels used by Generation Area include hard coal, biomass as well as coke-oven gas and methane-rich 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, and subsequently incorporated into TAURON Ciepło within the process of division of the TAURON Wytwarzanie company.



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



**Heat**, including the generation, distribution and sales of heat and, to a lesser extent, other energy products (electric energy, wind of blast furnace, compressed air). The activities are conducted by TAURON Ciepło. As of January 2014 heat assets of ZEC Bielsko-Biała were incorporated into the Heat Area, acquired from TAURON Wytwarzanie in connection with the implementation of the Corporate Strategy in the scope of integrating the entities conducting heating operations and consolidation of assets in this area.



**Distribution**, covering the distribution of electric energy using distribution grids located in southern Poland. The activities are conducted by the company TAURON Dystrybucja. This area also comprises companies: TAURON Dystrybucja Serwis and TAURON Dystrybucja Pomiary.



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



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

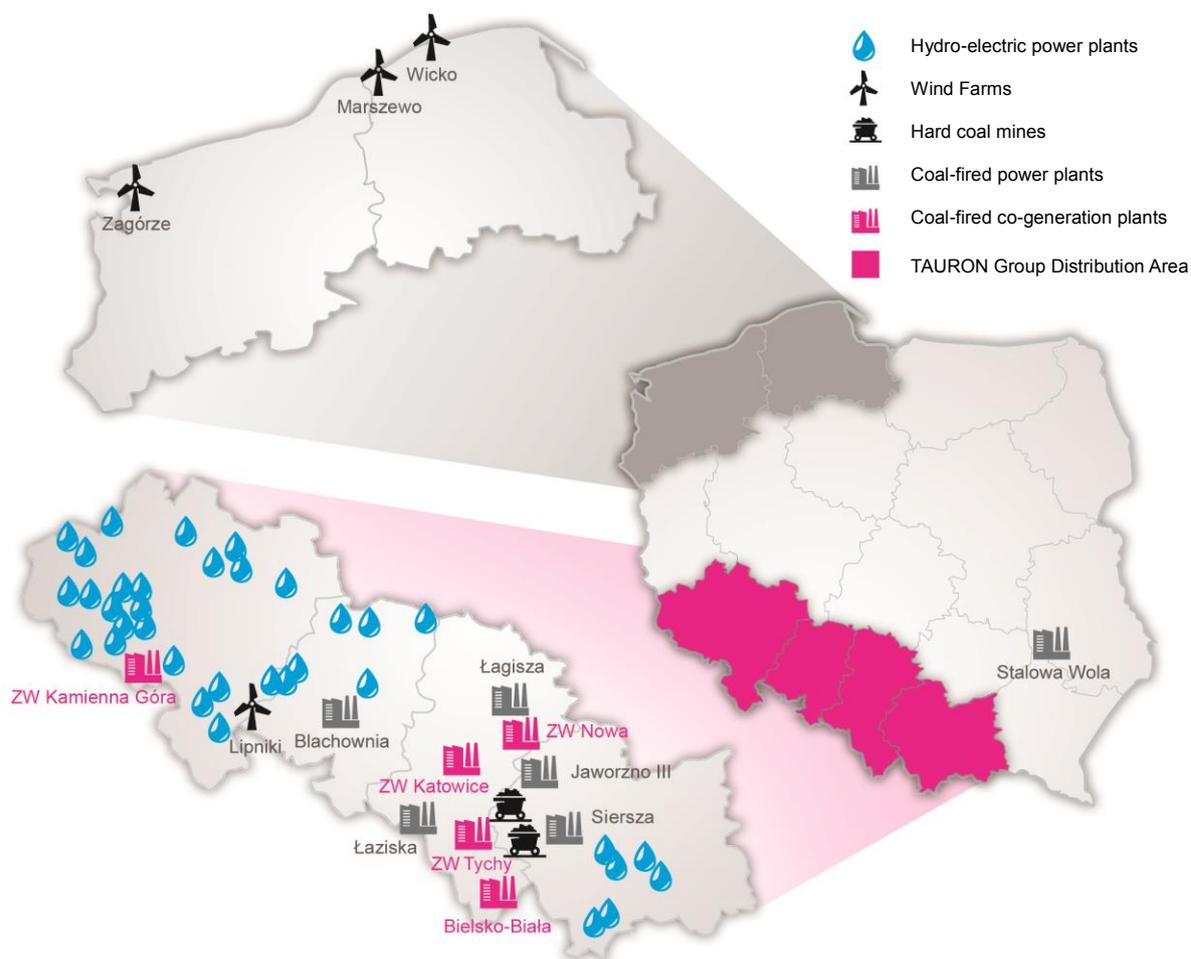


**Other**, comprising mainly activities in the area of stone extraction, including limestone, for the needs of power engineering industry, metallurgy, construction and road building as well as production of sorbing agents for installations of flue gas desulphurisation based on wet method and for the use in fluidised bed boilers (the activity provided by the company KW Czatkowice) as well as operations in the scope of trading of electric energy and derivative products (conducted by the Polska Energia – Pierwsza Kompania Handlowa company, in liquidation).

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 DSO.

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



### 3.2 Implementation of TAURON Capital Group investment programme

In the third quarter of 2014, the following activities associated with the main strategic investment projects were carried out in TAURON Capital Group:

- 1) construction of a power unit with 910 MW<sub>e</sub> capacity at supercritical parameters on the premises of Elektrownia Jaworzno III (TAURON Wytwarzanie). The new unit shall be equipped with a pulverised fuel boiler at supercritical parameters. The new unit will demonstrate high efficiency and availability as well as low levels of NO<sub>x</sub>, SO<sub>2</sub>, CO<sub>2</sub> and particulate matter emissions. In April 2014 an agreement was signed with the Rafako-Mostostal Warszawa consortium, the general contractor of the unit. Currently, works related to the basic design of the unit are continued and measures connected with the handover of the site to the general contractor are under implementation. Moreover, works in the scope of installations and auxiliary management of the unit are executed - the selection process of contractors for ash removal and carburisation systems is in progress. The completion of the investment is scheduled in 2019,

- 2) construction of a CCGT unit with 450 MW<sub>e</sub> capacity, including the heat generation component with 240 MW<sub>t</sub> heating capacity at Stalowa Wola. The investment is implemented by a special purpose vehicle, with participation of the strategic partner - Polskie Górnictwo Naftowe i Gazownictwo S.A. The general contractor is Abener Energia S.A. Under the project, picking of supplies of the basic machines and equipment included in the unit has been completed. The implementation of the assembly of the gas, steam turbine sets as well as the construction and pressure elements of the boiler, has entered into its key phase. The modernisation of the weir is almost completed. The delivery of the investment is scheduled in 2015
- 3) construction of a CCGT unit with 413 MW<sub>e</sub> capacity in Elektrownia Łagisza, including a heat generation component with 266 MW<sub>t</sub> capacity. The conditions of connecting to the gas transmission system were granted. In April 2014, an Agreement with Gaz-System concerning the connection to the gas transmission network was signed. Preparations of the documentation required to obtain the building permit have commenced as well as the design works in the scope of the generation unit, including the development of, among others: Environmental Impact Assessment Report, study on the gas pipeline route. The procedures concerning the demolition, disassembly and the spacer for the needs of the CCGT unit construction have been launched. The procedure of Contract Engineer's selection is in progress. In March 2014, the Company and Polskie Inwestycje Rozwojowe (Polish Development Investment) signed the memorandum of understanding concerning the financing of construction of a power unit at 413 MW<sub>e</sub> class in Elektrownia Łagisza. A draft call for tender concerning the utilities contract for the CCGT unit construction has been prepared, currently under consultation with Polskie Inwestycje Rozwojowe. The value of the project amounts to approximately PLN 1.5 billion. The investment is due to be completed at the end of 2018,
- 4) construction of the installation for flue gas de-nitrification in six blocks of Elektrownia Jaworzno III and four blocks of Elektrownia Łaziska belonging to TAURON Wytwarzanie. The implementation of the investment is aimed at reducing the emission of nitrogen oxides by 200 MW class units, to the level of 200 mg/Nm<sup>3</sup>, to be applicable as of 2018. The modernisation process will be completed by commissioning of the remaining three of ten units, i.e. unit no. 9 of Elektrownia Łaziska and units 1 and 5 of Elektrownia Jaworzno III. Completion of the modernisation works is planned in 2016;
- 5) construction of new generation capacity in co-generation at a level of 50 MW<sub>e</sub> and 86 MW<sub>t</sub> in Elektrociepłownia Tychy (TAURON Ciepło) and modernisation of the existing unit in order to adjust it to biomass burning. In its part related to the modernisation of the existing boiler and its adjustment to biomass burning, the investment has been completed. In the part related to the construction of the co-generation unit, the construction and implementation works in the new unit are in progress. The assembly of the steel construction of the boiler has been finalised. The assembly of the boiler drum has been completed. The foundation of the inclined bridge support has been constructed, works connected with the construction of cooling water channels and cooling water pump station have been completed. Delivery of this investment is scheduled in 2016;
- 6) construction of a 18 MW farm in Marszewo (stage II of the Marszewo farm construction, with the total capacity 100 MW). In July this year, an agreement with the TRACTEBEL ENGINEERING S.A. company for the fulfilment of the Contract Engineer's function was signed. In October this year, the most favourable tender was selected under the procedure concerning the General Contractor of the investment - the consortium of companies: Iberdrola Engineering and Construction Poland sp. z o.o. (Leader) and Iberdrola Ingeniería y Construcción S.A.U. (Partner). On 5 November an agreement with the consortium was signed, with the value of PLN 101.3 million net. Completion of the investment is scheduled in 2015,

- 7) construction of "Grzegorz" shaft (TAURON Wydobycie), including the infrastructure (surface and underground) and the accompanying excavation voids. This investment project will have strategic importance for the operations of TAURON Wydobycie. It is intended to ensure the resource base for the following years and to eliminate the sub-level excavation. Works associated with the process of developing the comprehensive technical design are on-going - the basic design has been accepted and elaboration of construction plans is in progress. The drilling of an inspection bore of over 800 m depth has been completed. An access road and utility connections to the site have been constructed. The construction of the GSZ20/6kV electrical switching station has been launched. Delivery of the project is scheduled in 2022,
- 8) construction of a 800 m level, including the commissioning of the fourth wall in Zakład Górniczy Janina (TAURON Wydobycie). The investment in question will enable to acquire additional coal production in relation to the current level. The scope of the project comprises the construction of the required excavation voids, 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 shaft deepening and drilling of access excavation voids are in progress. The Coal Mechanical Processing Plant is under modernisation - the construction of the haulage and stone container is under implementation. Completion of the project is scheduled in 2019.

In the period of three quarters of 2014, companies: ENEA S.A. (ENEA), PGE Polska Grupa Energetyczna S.A. (PGE), TAURON and KGHM Polska Miedź S.A. (KGHM), which initialed the draft Shareholders' Agreement of PGE EJ1 sp. z o.o. on 23 September 2013 (PGE EJ1), continued their works under the project on preparation for the construction of a nuclear power plant in Poland. On 3 September 2014, the Shareholders' Agreement was concluded, pursuant to which ENEA, TAURON and KGHM, as Business Partners, will purchase from PGE, under a separate agreement, 30% shares in total (each of the Business Partners will purchase 10% shares) in a special purpose vehicle – PGE EJ 1 responsible for preparation and execution of the investment comprising construction and operation of the first Polish nuclear power plant with approximately 3,000 MWe capacity (the Project). In accordance with the assumptions, PGE will act as the leader of the Project and the PGE EJ 1 sp. z o.o. company will act in the capacity of the plant operator in the future. On 7 October 2014, the President of the Office for Competition and Consumer Protection issued the unconditional consent to perform the concentration comprising the establishment of a common enterprise under the company name: PGE EJ 1 Sp. z o.o. by the parties to the Shareholders' Agreement. The acquisition of the concentration approval is the prerequisite enabling the Parties to conclude the agreement for the purchase of PGE EJ 1 shares, defined in the Shareholders' Agreement.

In three quarters of 2014, the capital expenditures of TAURON Capital Group amounted to PLN 2,010 million (including 760 million in the third quarter) and they were lower by c.a. 15.1% as compared to the expenditures incurred in the corresponding period of the previous year (in three quarters of 2013, they amounted to PLN 2,368 million). It is mainly the result of the decreased expenditures in the Generation Area (postponing the date of signing the contract for the construction of a 910 MW unit in Jaworzno), Renewable Energy Sources (RES) and Mining; at the same time, expenditures in the Distribution, Heat and Customer Service Areas increased. In addition, in the first quarter of 2014 TAURON Capital Group purchased stocks of TAURON Wydobycie worth PLN 310 million and repurchased the non-controlling shares in the second quarter of the current year.

The aforementioned capital expenditures were mainly incurred for the implementation of the following tasks:

- construction of an installation for reduction of NO<sub>x</sub> emission in the Generation Area (capital expenditures: PLN 130 million),
- construction of stage II of Marszewo wind farm (capital expenditures: PLN 20 million) and modernisation of hydroelectric power plants (capital expenditures: PLN 54 million) in the RES Area,
- construction of new connections (capital expenditures: PLN 338 million), as well as the modernisation and replacement of grid assets (capital expenditures: PLN 803 million) in the Distribution Area,

- replacement of the capacity in Zakład Wytwarzania Tychy – including the construction of the BC-50 unit (capital expenditures: PLN 91 million), investments associated with the maintenance and development of heat networks (PLN 56 million) and construction of a 50 MW turbine unit in ZW Nowa (PLN 28 million) in the Heat Area,
- construction of a 800 m level and the commissioning of the fourth wall in Zakład Górniczy Janina (capital expenditures: PLN 55 million),
- purchase of TAURON Wydobycie shares (capital expenditures: PLN 310 million).

## 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 table below shows the selected financial data of TAURON Polska Energia and TAURON Polska Energia Capital Group.

Table no. 5 Selected financial data

SELECTED FINANCIAL DATA	in thousand PLN		in thousand EUR	
	Period from 01.01.2014 to 30.09.2014	period from 01.01.2013 to 30.09.2013 (converted data)	Period from 01.01.2014 to 30.09.2014	period from 01.01.2013 to 30.09.2013 (converted data)
<i>Selected consolidated financial data of TAURON Polska Energia S.A. Capital Group</i>				
Revenue on sales	13,603,101	14,213,704	3,254,097	3,365,704
Operating profit	1,546,941	1,713,376	370,055	405,715
Profit before tax	1,312,496	1,545,387	313,972	365,937
Net profit	1,053,058	1,264,187	251,910	299,350
Net profit attributable to shareholders of the parent company	1,048,701	1,216,294	250,868	288,009
Net profit attributable to non-controlling interests	4,357	47,893	1,042	11,341
Other total income	(17,390)	46,994	(4,160)	11,128
Aggregated total income	1,035,668	1,311,181	247,750	310,478
Aggregate total income attributable to shareholders of the parent company	1,031,283	1,260,990	246,701	298,593
Aggregate total income attributable to non-controlling interests	4,385	50,191	1,049	11,885
Profit per share (in PLN/EUR) (basic and diluted)	0.60	0.69	0.14	0.16
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	1,940,801	3,362,223	464,273	796,151
Net cash from investment activities	(2,440,852)	(2,897,620)	(583,894)	(686,136)
Net cash flows due to financial activities	247,784	(37,496)	59,274	(8,879)
Change in cash and equivalents, net	(252,267)	427,107	(60,347)	101,136
	Status as at 30.09.2014	Status as at 31.12.2013	Status as at 30.09.2014	Status as at 31.12.2013

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

*Additional information to the extended consolidated report for the third quarter of 2014*

Fixed Assets	28,281,793	27,567,008	6,773,271	6,647,137
Current assets	3,841,613	4,755,521	920,037	1,146,683
Fixed assets classified as held for trade	13,683	33,041	3,277	7,967
Total Assets	32,137,089	32,355,570	7,696,585	7,801,787
Share capital	8,762,747	8,762,747	2,098,610	2,112,931
Equity attributable to shareholders of the parent company	18,106,785	17,327,165	4,336,436	4,178,039
Equity attributable to non-controlling interests	30,306	466,334	7,258	112,446
Total equity	18,137,091	17,793,499	4,343,694	4,290,485
Long-term liabilities	10,140,596	9,304,341	2,428,594	2,243,524
Short-term liabilities	3,859,402	5,257,730	924,297	1,267,778
Total liabilities	13,999,998	14,562,071	3,352,891	3,511,302

**Selected stand-alone financial data of TAURON Polska Energia S.A.**

	in thousand PLN		in thousand EUR	
	Period from 01.01.2014 to 30.09.2014	Period from 01.01.2013 to 30.09.2013	Period from 01.01.2014 to 30.09.2014	Period from 01.01.2013 to 30.09.2013
Revenue on sales	6,272,805	8,058,391	1,500,563	1,908,170
Operating profit	15,360	210,996	3,674	49,962
Profit before tax	1,113,986	1,657,179	266,485	392,408
Net profit	1,102,690	1,628,215	263,782	385,550
Other total income	(31,224)	43,881	(7,469)	10,391
Aggregated total income	1,071,466	1,672,096	256,313	395,941
Profit per share (in PLN/EUR) (basic and diluted)	0.63	0.93	0.15	0.22
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	52,806	598,674	12,632	141,762
Net cash from investment activities	(395,702)	(531,867)	(94,659)	(125,942)
Net cash flows due to financial activities	338,491	(71,002)	80,973	(16,813)
Change in cash and equivalents, net	(4,405)	(4,195)	(1,054)	(993)
	<b>Status as at 30.09.2014</b>	<b>Status as at 31.12.2013</b>	<b>Status as at 30.09.2014</b>	<b>Status as at 31.12.2013</b>
Fixed Assets	27,628,982	25,968,345	6,616,928	6,261,657
Current assets	1,286,755	1,993,786	308,168	480,755
Total Assets	28,915,737	27,962,131	6,925,096	6,742,412
Share capital	8,762,747	8,762,747	2,098,610	2,112,931
Total equity	20,181,644	19,443,162	4,833,348	4,688,262
Long-term liabilities	6,309,340	5,576,565	1,511,038	1,344,658
Short-term liabilities	2,424,753	2,942,404	580,710	709,492
Total liabilities	8,734,093	8,518,969	2,091,748	2,054,150

The above financial data were converted into EUR, cumulatively for the third quarter of 2014 and 2013, according to the following principles:

- individual items of the statement of financial standing - according to the average NBP exchange rate announced on 30 September 2014 - PLN/EUR 4.1755 (as at 31 December 2013 - PLN/EUR 4.1472),
- individual items of the statement of 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 30 September 2014 - PLN/EUR 4.1803 (for the period from 1 January 2013 to 30 September 2013 - PLN/EUR 4.2231 ).

## 4.2 Key operating data of TAURON Capital Group

In the period of three quarters of 2014, TAURON Group achieved the following key operating parameters:

**Table no. 6 Key operating parameters for the period of Quarters 1-3, 2014 and the third quarter of 2014**

Key operating parameters	unit	Quarters 1-3 2014	Quarters 1-3 2013	Dynamics 2014/2013	3rd quarter 2014	3rd quarter 2013	Dynamics 2014/2013
Commercial coal production	M Mg	<b>3.99</b>	4.26	93.7%	<b>1.44</b>	1.26	114.3%
Generation of electric energy (net production of the Group), including:	TWh	<b>11.27</b>	14.28	78.9%	<b>3.98</b>	4.53	87.9%
<i>Net production of Generation Area</i>	<i>TWh</i>	<b>9.48</b>	12.77	74.2%	<b>3.47</b>	4.11	84.4%
<i>Net production of Heat Area</i>	<i>TWh</i>	<b>1.22</b>	1.10	110.9%	<b>0.32</b>	0.29	110.3%
<i>Net production of RES Area</i>	<i>TWh</i>	<b>0.57</b>	0.41	139.0%	<b>0.19</b>	0.13	146.2%
Generation of electric energy from renewable sources of the Group, including:	TWh	<b>1.33</b>	0.91	146.2%	<b>0.42</b>	0.31	135.5%
<i>Biomass production of Generation and Heat Area</i>	<i>TWh</i>	<b>0.76</b>	0.50	152.0%	<b>0.22</b>	0.18	122.2%
<i>Production of hydroelectric plants and wind farms of RES Area</i>	<i>TWh</i>	<b>0.57</b>	0.41	139.0%	<b>0.20</b>	0.13	153.8%
Heat generation by the Group, including:	PJ	<b>8.78</b>	10.59	82.9%	<b>0.95</b>	1.16	81.9%
<i>Heat production by Generation Area</i>	<i>PJ</i>	<b>2.76</b>	3.64	75.8%	<b>0.36</b>	0.44	81.8%
<i>Heat production by Heat Area</i>	<i>PJ</i>	<b>6.02</b>	6.95	86.6%	<b>0.60</b>	0.72	83.3%
Distribution of electric energy	TWh	<b>35.74</b>	35.72	100.1%	<b>11.86</b>	11.74	101.0%
Retail sales of electric energy (total, by Areas: Sales, Generation and Heat)	TWh	<b>28.39</b>	30.71	92.4%	<b>9.13</b>	9.85	92.7%
Number of clients - Distribution	thous.	<b>5,369</b>	5,324	100.8%	<b>5,369</b>	5,324	100.8%

## 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) of operations for the period of Quarters 1 - 3, 2014 and 2013, and for the third quarter of 2014, compared to the third quarter of 2013.

**Table no. 7 Volumes of sales for the period of Quarters 1-3 2014 and the third quarter of 2014**

Specification	unit	Quarters 1-3 2014	Quarters 1-3 2013	Dynamics 2014/2013	3rd quarter 2014	3rd quarter 2013	Dynamics 2014/2013
Sales of coal by Mining Area	M Mg	<b>3.53</b>	4.28	82.5%	<b>1.34</b>	1.33	100.8%
Sales of electric energy and heat by Generation Area	TWh	<b>10.15</b>	15.37	66.0%	<b>3.69</b>	5.01	73.7%
	PJ	<b>2.33</b>	3.13	74.4%	<b>0.27</b>	0.37	73.0%
Sales of electric energy by Heat Area	TWh	<b>1.24</b>	1.16	106.9%	<b>0.32</b>	0.32	100.0%
Sales of heat purchased and generated by Heat Area	PJ	<b>8.25</b>	9.81	84.1%	<b>0.66</b>	0.82	80.5%

Specification	unit	Quarters 1-3 2014	Quarters 1-3 2013	Dynamics 2014/2013	3rd quarter 2014	3rd quarter 2013	Dynamics 2014/2013
Sales of electric energy generated in hydroelectric power plants and wind farms by RES Area	TWh	<b>0.65</b>	0.42	154.8%	<b>0.21</b>	0.13	161.5%
Sales of electric energy distribution services by Distribution Area	TWh	<b>35.74</b>	35.72	100.1%	<b>11.86</b>	11.74	101.0%
Retail sales of electric energy by Sales Area	TWh	<b>28.12</b>	30.48	92.3%	<b>9.05</b>	9.80	92.3%

## Mining

The basic activity conducted by TAURON Capital Group within the Mining Business Area includes mining, preparation and sales of hard coal. Through TAURON Wydobycie, TAURON Capital Group indirectly owns and operates Zakład Górniczy Sobieski and Zakład Górniczy Janina.

The volume of coal sales in the period of three quarters of 2014 reached 3.53 million t, and it was lower by approximately 17.5%, as compared to the corresponding period of 2013. The lower volume of sales results mainly from increased import of coal, predominantly from the eastern markets, lower production of electric energy from hard coal (in favour of lignite) and increased electric energy production from RES, accompanied by the simultaneous decline in energy demand by consumers.

In the third quarter of the current year itself, the downward tendency was reversed and the Group recorded slight volume in coal sales, mainly to the customers outside the Group. One of the factors influencing the growth of sales is the marketing action conducted by the company of the Mining Segment as well as the sales price of coal, lower than in the corresponding period of the previous year (by 1.8% on average).

The consequence of the situation in the coal market is the lower production of commercial coal by the company of the Mining Area, against the analogical period of last year, whereas this decline is no as deep as in case of the sales level. In the period of quarters 1-3 of 2014, the quantity of coal produced was by 271 thousand lower than in the period of three quarters of 2013 (decline by approximately 6.3%) – as a result of a lower number of walls exploited as compared to 2013 and the growing level of stocks, limiting the possibility of coal dumping.

## Generation

The core activity of the Generation Area within TAURON Capital Group comprises generation of electric energy and heat in six power plants, based on coal fuel, biomass and gas. The total maximum capacity of generation units of the Generation Area at the end of September 2014 amounted to 4,669 MW of electric energy and 1,368 MW of heat energy.

In the period of the three quarters of 2014, the Generation Area generated approximately 9.5 TWh of net electric energy (including about 0.53 TWh from biomass), i.e. about 27% less than in the corresponding period of 2013 when the production of net electric energy reached approximately 12.8 TWh (including 0.35 TWh from biomass). The lower production of electric energy results mainly from the trends in electric energy market. In relation to the corresponding period of the previous year, the following trends occurred during the current year: decline in the total electric energy production by almost 4% (including, by over 6%, for hard coal), increase in the generation and the level of installed capacity consumption in wind farms by almost 45%, which contributed to the decline in production of professional power plants by 5.5%.

Moreover, in the period of quarters 1-3 of 2014, the change in the direction of electric energy flow in the interconnector exchange occurred - in the period of quarters 1-3, 2013, the surplus of export over import occurred, whereas in the period of quarters 1-3, 2014 import exceeded export.

Sales of electric energy from own production, including energy purchased for trading purposes in the period of three quarters of 2014, reached almost 10.2 TWh, which means the decrease by about 34%, in relation to the corresponding period of the previous year. On the other hand, in the third quarter itself, sales of electric energy by this area reached approximately 3.7 TWh and it was lower by 26% in relation to the corresponding period of the previous year.

Production of heat by the Generation Area in the analysed period of 2014 reached about 2.8 PJ, making about 76% of the production level of the corresponding period of 2013, which resulted mainly from the

lower demand of consumers for heat, in connection with higher YoY average ambient temperatures in the period from January to April 2014 as well as in September this year. In the third quarter of the current year heat production was lower by approximately 18% than the level of last year.

## RES

The basic activity conducted by TAURON Capital Group in the RES Area comprises generation of electric energy from renewable sources in hydroelectric plants and wind farms as well as management of TAURON Group projects in the scope of energy generation from renewable energy sources. In the RES Area, 35 hydroelectric plants with the maximum capacity of 136.9 MW<sub>e</sub> and four wind farms with the maximum capacity of 182.75 MW<sub>e</sub> operate (in relation to the corresponding period of 2013, growth of capacity occurred, in connection with the commissioning of wind farms: Wicko with 40 MW<sub>e</sub> capacity and Marszewo with 82 MW<sub>e</sub> capacity in 2013).

In the period of the three quarters of 2014, the RES Area generated approximately 0.57 TWh of net electric energy (energy sales reached the level of 0.65 MWh) in relation to 0.41 TWh in the corresponding period of the previous year, which means the increase in production by about 37%, mainly due to the performance of Wicko and Marszewo wind farms, and the above-average wind conditions in the second quarter of 2014. The level of production achieved by hydroelectric plants was similar to that recorded last year.

## Heat

The Heat Area comprises operations in the scope of generation, distribution and sales of heat and other utilities. In the period of quarters 1-3 of 2014, sales of heat generated and purchased reached approximately 8.3 PJ, as compared to 9.8 PJ in the period of quarters 1-3, 2013. The decrease in the volume of sales is a consequence of the lower heat demand in connection with high temperatures, particularly, in the first quarter of 2014.

In the analysed period of 2014, CHP facilities of the Segment generated approximately 1.2 TWh of net electric energy, which means that the level of production of the corresponding period of last year (1.1 TWh) was exceeded by over 11%. A similar trend was related to the volume of electric energy sales - in the period of quarters 1-3 of 2014 the said sales reached 1.24 TWh, and it was higher by about 7%, as compared to the corresponding period of the previous year, due to the increased demand of one of the main customers, namely, ArcelorMittal Poland S.A.

## Distribution of electric energy

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

In the period of the three quarters of 2014, in total, the Distribution Area supplied 35.74 TWh of electric energy, including 34.08 TWh to end consumers. During this period, the Distribution Area provided distribution services to of 5.37 million consumers. In the corresponding period of the previous year, the Distribution Area supplied, in total, approximately 35.72 TWh of electric energy to almost 5.32 million consumers, including about 33.78 TWh to end consumers. The minor decrease in the volume of supplies to end consumers results mainly from the favourable business cycle in the domestic economy and the increased consumption, depending on the growth of the output sold. This growth compensated the decline in supplies to consumers connected to low voltage grid who limited their demand, in particular, in the first quarter of 2014, in connection with the continued high average temperatures.

In the third quarter of the current year itself, the slowdown of the downward trend in lower voltage and acceleration of the upward trend in high voltage continued, which allowed for reaching the sales volume of distribution services exceeding the level recorded last year by 1%.

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

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

In the period of three quarters of 2014, companies of the Sales Area sold approximately 28.1 TWh of electric energy in total, to about 5.25 million clients, both households and enterprises, which means a decline by c.a. 7.7%, as compared to the corresponding period of 2013 when sales reached about 30.5 TWh. The decrease in the volume of sales results mainly from the decline in average consumption in the segment of business and strategic clients.

Similarly, in the third quarter of 2014 itself, the volume of electric energy sales reached the level of 92.3% of the sales recorded in the previous year, which results, on the one hand, from the intensified activities of competitive companies and, on the other hand - from the positive effect of intensive marketing actions undertaken by sales companies of TAURON Group in order to maintain clients and acquire new ones.

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

### 4.4.1 Consolidated statement of comprehensive income

The table below presents the selected items of the consolidated statement of comprehensive income of TAURON Capital Group for the period of nine and three months, ended on 30 September 2014, as well as comparable data for the period of nine and three months, ended on 30 September 2013. These items are provided in accordance with the Interim condensed consolidated financial statement compliant with the IFRS for the period of nine months ended on 30 September 2014, where the presentation of financial statements for the periods of nine and three months ended on 30 September 2014 is presented, as compared to the corresponding periods ended on 30 September 2013.

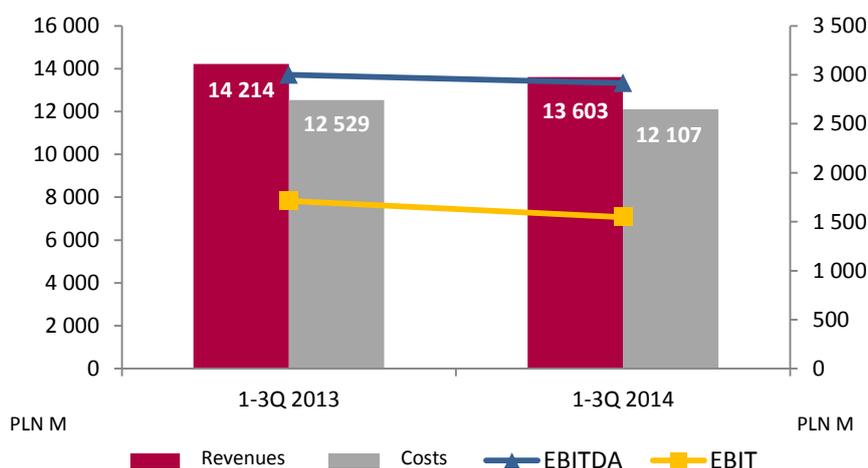
**Table no. 8 Consolidated statement of comprehensive income**

Specification [PLN thous.]	Quarters 1-3, 2014	Quarters 1-3, 2013	Dynamics [%] (2014/2013)	3rd Quarter 2014	3rd Quarter 2013	Dynamics [%] (2014/2013)
Continuing operations						
<b>Revenue on sales</b>	<b>13,603,101</b>	<b>14,213,704</b>	95.7%	4,376,786	<b>4,540,102</b>	96.4%
Own cost of sales	(11,213,964)	(11,623,825)	96.5%	(3,648,776)	(3,728,700)	97.9%
<b>Gross profit (loss) on sales</b>	<b>2,389,137</b>	<b>2,589,879</b>	92.2%	<b>728,010</b>	<b>811,402</b>	89.7%
Other operating revenue	139,002	84,129	165.2%	59,201	21,047	281.3%
Costs of sale	(401,487)	(397,516)	101.0%	(144,298)	(127,343)	113.3%
Overheads	(491,627)	(507,285)	96.9%	(159,428)	(165,231)	96.5%
Other operating expenses	(88,084)	(55,831)	157.8%	(18,998)	(16,273)	116.7%
<b>Operating profit (loss)</b>	<b>1,546,941</b>	<b>1,713,376</b>	90.3%	<b>464,487</b>	<b>523,602</b>	88.7%
<i>Operating profit margin (%)</i>	<b>11.4%</b>	12.1%	93.1%	<b>10.2%</b>	11.5%	88.1%
Financial revenues	41,558	76,085	54.6%	12,597	17,422	72.3%
Financial expenses	(274,827)	(242,154)	113.5%	(89,731)	(81,285)	110.4%
Share in the profit (loss) of joint venture	(1,176)	(1,920)	61.2%	(400)	(506)	78.9%
<b>Gross profit/(loss)</b>	<b>1,312,496</b>	<b>1,545,387</b>	84.9%	<b>386,953</b>	<b>459,233</b>	84.3%
<i>Gross profit margin (%)</i>	<b>9.6%</b>	10.9%	88.7%	<b>8.8%</b>	10.1%	87.4%
Income Tax	(259,438)	(281,200)	92.3%	(67,817)	(86,928)	78.0%
<b>Net profit (loss) from continuing operations</b>	<b>1,053,058</b>	<b>1,264,187</b>	83.3%	<b>319,136</b>	<b>372,305</b>	85.7%

Specification [PLN thous.]	Quarters 1-3, 2014	Quarters 1-3, 2013	Dynamics [%] (2014/2013)	3rd Quarter 2014	3rd Quarter 2013	Dynamics [%] (2014/2013)
Net profit margin (%)	7.7%	8.9%	87.0%	7.3%	8.2%	88.9%
<b>Net profit (loss) for the period</b>	<b>1,053,058</b>	<b>1,264,187</b>	<b>83.3%</b>	<b>319,136</b>	<b>372,305</b>	<b>85.7%</b>
Other comprehensive income for the financial year including tax	(17,390)	46,994	-	(4,620)	12,423	-
Total income for the financial year	<b>1,035,668</b>	<b>1,311,181</b>	<b>79.0%</b>	<b>314,516</b>	<b>384,728</b>	<b>81.8%</b>
<b>Profit attributable to:</b>						
Shareholders of the parent company	1,048,701	1,216,294	86.2%	318,411	367,062	86.7%
Non-controlling interests	4,357	47,893	9.1%	725	5,243	13.8%
<b>Total income attributable to:</b>						
Shareholders of the parent company	1,031,283	1,260,990	81.8%	313,778	378,666	82.9%
Non-controlling interests	4,385	50,191	8.7%	738	6,062	12.2%
<b>EBIT and EBITDA</b>						
EBIT	<b>1,546,941</b>	<b>1,713,376</b>	<b>90.3%</b>	<b>464,487</b>	<b>523,602</b>	<b>88.7%</b>
EBITDA	<b>2,915,309</b>	<b>3,000,717</b>	<b>97.2%</b>	<b>920,711</b>	<b>947,054</b>	<b>97.2%</b>

The figure below shows the financial results of TAURON Capital Group for the period of quarters 1-3 of 2014, as compared to the corresponding period of 2013.

Figure no. 3 Financial results of TAURON Capital Group for the period of quarters 1-3 of 2014 and 2013



In the period of nine months ended on 30 September 2014, TAURON Capital Group gained revenues on sales lower by 4.3%, i.e. by PLN 610.6 million, as compared to the values reached in the corresponding period of 2013. Similar values of decrease in the level of revenues by approximately 3.6%, i.e. by PLN 163.3 million, were recorded by TAURON Group in the third quarter of 2014 in relation to the third quarter of 2013.

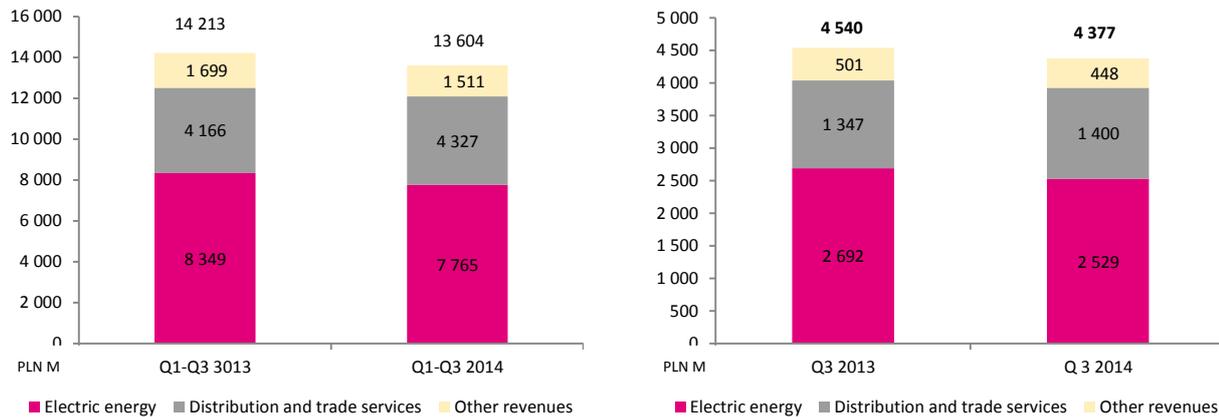
The lower level of revenues, both in the current reporting period and in the third quarter of 2014, in relation to the corresponding periods of the previous year, was affected by the lower value of sales of electric energy, coal and heat, resulting mainly from the situation in the domestic market. In case of other products and services offered by the Group companies slight increases were recorded.

The decrease in the value of electric energy sales resulting from the decline of both the price and the volume, is the effect of lower demand of consumers (mainly in the segment of strategic and mass clients), activities of competitive companies and acquisitions of business clients they perform. The decline in the revenues on coal sales is the consequence of the lower volume of sales and the decrease of its price, mainly due to the inflow of imported coal, lower production of electric energy from hard coal by domestic producers (decline in total production of professional power plants by 5.9%), increased generation and level of consumption of the capacity installed in wind farms (increase in production of wind farms reached 45% YoY). The decrease in the revenues on heat sales results from higher temperatures in the first quarter of 2014, in relation to the corresponding period of the previous year, which affected the decline in the volume of heat supplied of approximately 16%.

As compared to the corresponding period of 2013, TAURON Capital Group reached higher revenue from sales in the following Segments: RES, Distribution and Heat, with the highest dynamics of revenue growth recorded in the RES Segment. In relation to the revenues on sales gained due to the sales of products outside the Group, the highest growth dynamics was recorded in the RES Segment (343.6%), Generation (185.9%) and Distribution (115.7%).

The structure of revenues of TAURON Capital Group for the period of quarters 1-3 of 2014, as compared to the corresponding period of the previous year, is presented in the chart below.

**Figure no. 4. Structure of revenues of TAURON Capital Group for the period of quarters 1-3 of 2013 and 2014, and for the third quarter of 2013 and 2014**



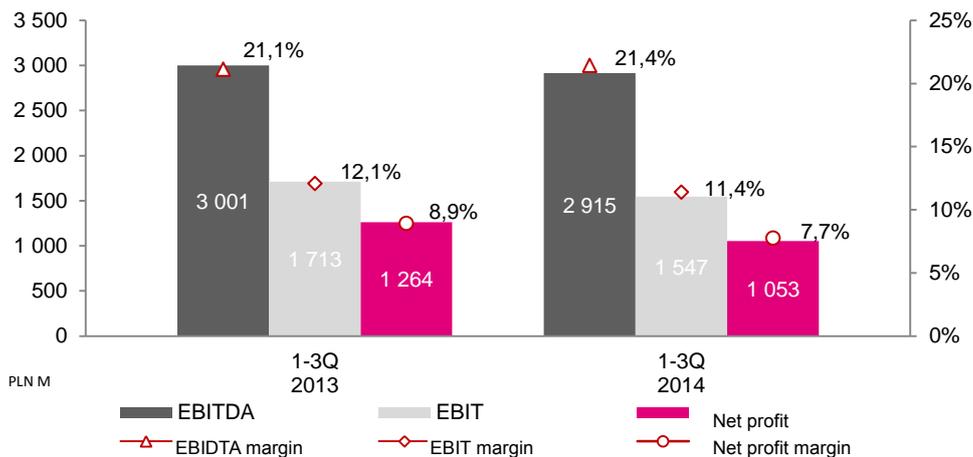
In the period of nine months ended on 30 September 2014, costs of TAURON Capital Group operations reached approximately PLN 12,107 million and they were lower by about 3.4% than costs incurred in the corresponding period of 2013. It should be noted that this decline is correlated with the decline in the revenue on sales, which results from lower operating costs of the Sales, Generation and Mining Segments. Declines recorded in the aforementioned Segments result, on the one hand, from the lower volume of sales of electric energy and heat production, and the associated hard coal production and sales and, on the other hand, from activities carried out by TAURON Capital Group companies in the scope of fixed costs optimisation, which partly enabled to neutralise the impact of decreased revenues on the financial results of the Group.

In the period of quarters 1-3 of 2014, the EBIT and EBITDA results are lower than those recorded in the corresponding period of the previous year, by 9.7% and 2.8%, respectively. The decline of gross financial result by 15.1% is the consequence of higher financial costs incurred due to the increase in TAURON Capital Group indebtedness allocated for financing of the investments under implementation.

As a consequence of factors described above, the net profit margin achieved in the period of nine months of 2014 amounted to 7.7%, and it was lower by 13.0% than the margin reached in the corresponding period of 2013.

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

Figure no. 5 Financial results of TAURON Capital Group and the level of margins achieved



In accordance with the consolidated statement of comprehensive income presented herein, the total aggregate income of TAURON Capital Group, considering the net profit increased or decreased by the change in value of hedging instruments, currency translation differences arising from conversion of the foreign unit and other revenue after tax deduction, in the period of nine months ended on 30 September 2014, reached PLN 1,036 million, as compared to PLN 1,311 million, gained in the corresponding period of the previous year, which means the decrease by about PLN 21%. The total income attributable to shareholders of the parent company reached about PLN 1,031 million, as compared to PLN 1,261 million in the same period of 2013, and the profit attributable to shareholders of the parent company reached the level of PLN 1,049 million, as compared to PLN 1,216 million gained in the same period of 2013.

#### 4.4.2 Financial results according to core business areas

The table below shows the EBITDA results of TAURON Capital Group, divided into individual Business Areas (Segments) for the period of the three quarters of 2014 and three quarters of 2013 as well as for the third quarter of 2014 and 2013. Data for individual Areas do not comprise consolidation exemptions.

Table no. 9 EBITDA result according to activity areas for the period of Quarters 1-3, 2014 and the third quarter of 2014

EBITDA (thousand PLN)	Quarters 1-3, 2014	Quarters 1-3, 2013	Dynamics 2014/2013	3rd quarter 2014	3rd quarter 2013	Dynamics 2014/2013
Mining	83,480	168,014	49.7%	55,306	30,610	180.7%
Generation	200,144	117,195	170.8%	73,153	89,056	82.1%
RES	142,418	83,842	169.9%	45,702	21,782	209.8%
Heat	181,802	164,893	110.3%	16,576	32,175	51.5%
Distribution	1,777,840	1,700,695	104.5%	608,152	596,593	101.9%
Sales	501,464	747,154	67.1%	109,830	151,423	72.5%
Customer Service	86,553	71,552	121.0%	31,201	37,893	82.3%
Other	22,996	14,099	163.1%	11,110	7,908	140.5%
Non-attributable items and exemptions	(81,388)	(66,727)	122.0%	(30,319)	(20,386)	148.7%
<b>Total EBITDA</b>	<b>2,915,309</b>	<b>3,000,717</b>	<b>97.2%</b>	<b>920,711</b>	<b>947,054</b>	<b>97.2%</b>

The figure below shows the EBITDA structure of TAURON Capital Group for the period of quarters 1-3 of 2013 and 2014.

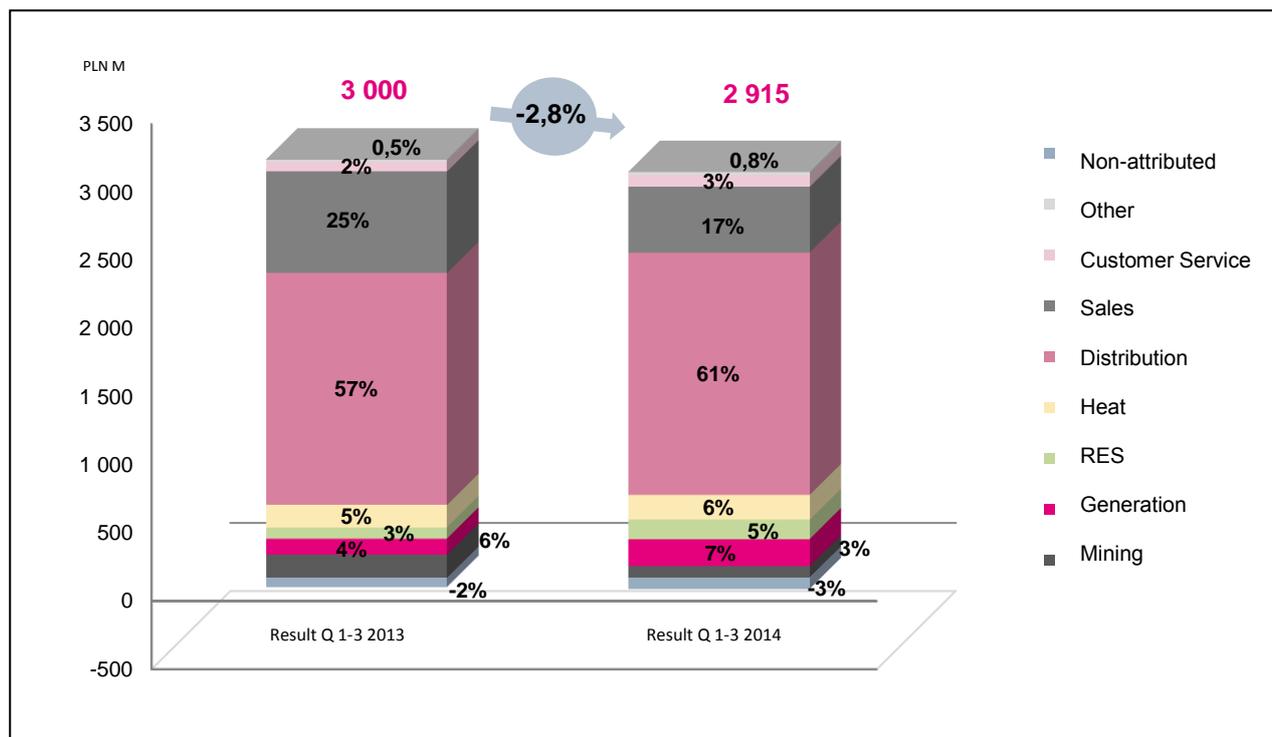


Figure no. 6 EBITDA structure of TAURON Capital Group

The Distribution Area and the 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 Generation, RES and Distribution Area, due to better results obtained in the period of quarters 1-3 of 2014.

### Mining Area

The table below shows the results of Mining Area.

Table no. 10 Results of Mining Area

Specification (thous. PLN)	Quarters 1-3, 2014	Quarters 1-3, 2013	Dynamics 2014/2013	3rd quarter 2014	3rd quarter 2013	Dynamics 2014/2013
<b>Mining</b>						
Revenue on sales	870,843	1,092,570	79.7%	341,431	344,248	99.2%
<i>coal - coarse and medium assortments</i>	269,447	400,715	67.2%	115,271	137,305	84.0%
<i>power coal</i>	577,945	664,776	86.9%	217,612	196,985	110.5%
<i>other products, materials and services</i>	23,451	27,079	86.6%	8,548	9,958	85.8%
Operating profit	5,347	88,794	6.0%	29,132	4,342	670.9%
Depreciation and amortisation	78,133	79,220	98.6%	26,174	26,268	99.7%
<b>EBITDA</b>	<b>83,480</b>	<b>168,014</b>	<b>49.7%</b>	<b>55,306</b>	<b>30,610</b>	<b>180.7%</b>

In the period of quarters 1-3 of 2014 the revenues on sales in the Generation Segment were lower by approximately 20.3% as compared to the corresponding period of the previous year. The main reason is the decline in the volume of sales (by 748 thousand Mg, i.e. by 17.5%), which was noted in each segment of sales, i.e.:

- in the group of coarse assortments - by 230 thousand Mg (by 32.7%),
- in the group of medium assortments - by 141 thousand Mg (by 41.7%),
- in the group of fine coal - by 346 thousand Mg (by 11.4%),

Lower coal sales was affected by the situation in the domestic hard coal market, resulting from the continued high level of import to Poland, decreased demand by its consumers and the decline in the electric energy production based on coal. In addition, the increased production of electric energy based on RES had an adverse impact on the level of hard coal based electric energy production and, as a consequence, on its demand.

The turbulences in the heating coal market are among the reasons of decrease in commercial coal sales by the biggest coal producer on the market, which had also influence on the level of sales prices of coal offered by TAURON Wydobycie. Although the average sales prices of coarse and medium assortments increased, this increase did not balance the lower sales prices of fine coal, consequently, the average price of the coal sold was lower by approximately 3.6% than in the corresponding period of the previous year. The additional factor extending the decline of revenues is the change in the structure of sales - lower share of coarse and medium assortments in favour of fine coal.

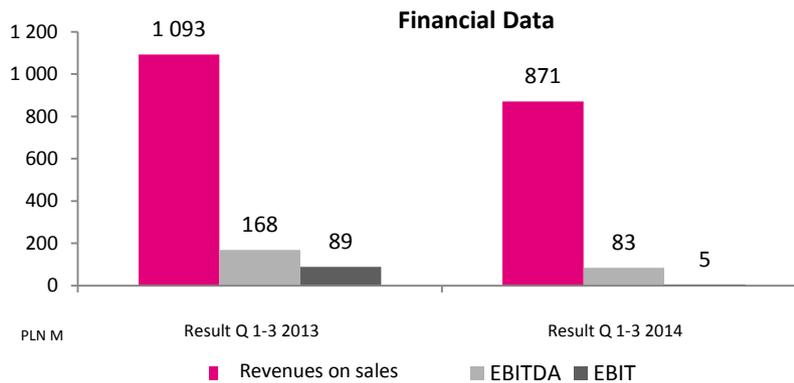
In the third quarter of 2014, the revenue on sales recorded minor decline as compared to the corresponding period of the previous year, mainly as a result of coal sales price, lower by 1.8%. It should be mentioned that in the third quarter of the current year, the company of the Mining Area recorded the increase in coal sales volume by about 1.4%, in relation to the corresponding period of the previous year, determined by the increase in the volume of sold fine coal by 8.9%.

The decrease of EBIT from PLN 88.8 million in the period of quarters 1-3 of 2013 to PLN 5.3 million in the corresponding period of the current year arises mainly from the reduced level of sales of the Segment products. The adverse impact of the decline in sales was partly compensated by the lower own cost of coal sold, whereas lower production should be recognised as one of the main reasons of this situation.

In the third quarter of 2014 itself, the Mining Area reached much better EBIT result – at a level of PLN 29.1 million, as compared to the third quarter of 2013, when EBIT amounted to the level of PLN 4.3 million. The considerable reduction in costs of the activities conducted had a positive impact.

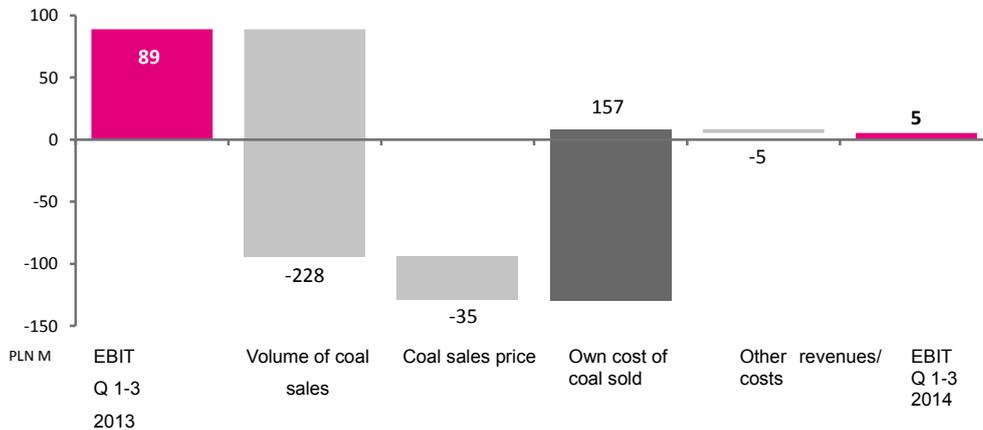
The figure below shows the financial data of the Mining Area for the period of quarters 1-3 of 2014, as compared to the corresponding period of 2013.

Figure no. 7. Financial data of the Mining Area for the period of quarters 1-3 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. 11 Results of the Generation Area

Specification (thous. PLN)	Quarters 1-3, 2014	Quarters 1-3, 2013	Dynamics 2014/2013	3rd quarter 2014	3rd quarter 2013	Dynamics 2014/2013
<b>Generation</b>						
Revenue on sales	2,304,778	3,339,570	69.0%	832,114	1,069,434	77.8%
<i>electric energy</i>	2,024,572	3,038,079	66.6%	751,572	990,327	75.9%
<i>heat</i>	86,730	100,475	86.3%	17,590	19,104	92.1%
<i>property rights arising from certificates of electric energy origin</i>	168,583	148,246	113.7%	55,625	68,314	81.4%
<i>greenhouse gas emission allowances</i>	1	43,614	0.0%	0	0	-
<i>compensation due to LTC termination</i>	0	(18,886)	-	0	(18,886)	-
<i>other</i>	24,892	28,043	88.8%	7,327	10,575	69.3%

Specification (thous. PLN)	Quarters 1-3, 2014	Quarters 1-3, 2013	Dynamics 2014/2013	3rd quarter 2014	3rd quarter 2013	Dynamics 2014/2013
Operating profit	(154,254)	(254,167)	-	(43,546)	(23,575)	-
Amortisation and depreciation	354,398	371,362	95.4%	116,699	112,631	103.6%
<b>EBITDA</b>	<b>200,144</b>	<b>117,195</b>	<b>170.8%</b>	<b>73,153</b>	<b>89,056</b>	<b>82.1%</b>

In the period of quarters 1-3 of 2014 the revenues on sales in the Generation Segment were lower by approximately 31% 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 lower revenues on sales of CO<sub>2</sub> emission allowances. The analogical tendency, in relation to the previous year, is visible in the sales result for the third quarter of 2014.

The operating results of EBIT and EBITDA of the Generation Segment in the period of quarters 1-3 of 2014 reached a significantly higher level than in the corresponding period of the previous year. Such factors as higher revenues on regulatory system services (RSS) and power reserves, lower costs of reserve for the deficit of CO<sub>2</sub> emission allowances and lower unit generation costs (mainly due to lower coal prices) had a positive impact on the results achieved.

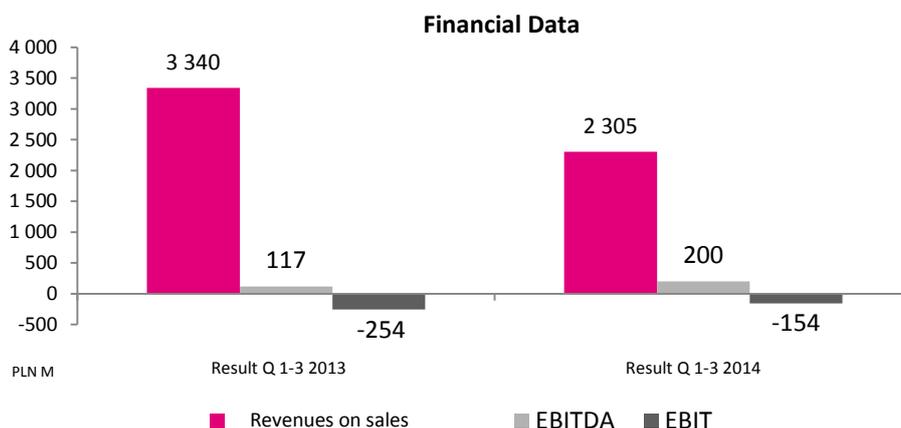
The result of the Segment in the analogical period of the previous year was charged with the write-down on impairment losses, applied to generation assets, created as at 30 June 2013. As at 30 September 2014, no premises were found to reverse this write-down.

On the other hand, lower sales prices of electric energy and the lower sales volume of electric energy from own production had adverse impact on the generated results. Margin on electric energy trading was also lower, both due to the lower volume of energy trade and the achieved unit margin.

The lower operating result in the third quarter of 2014 is the consequence of the volume of sales and lower electric energy price as well as the lower margin on electric energy trading. Revenues gained from the Operational Power Reserve and lower costs of CO<sub>2</sub> reserve had a positive impact on the result achieved in the third quarter of 2014.

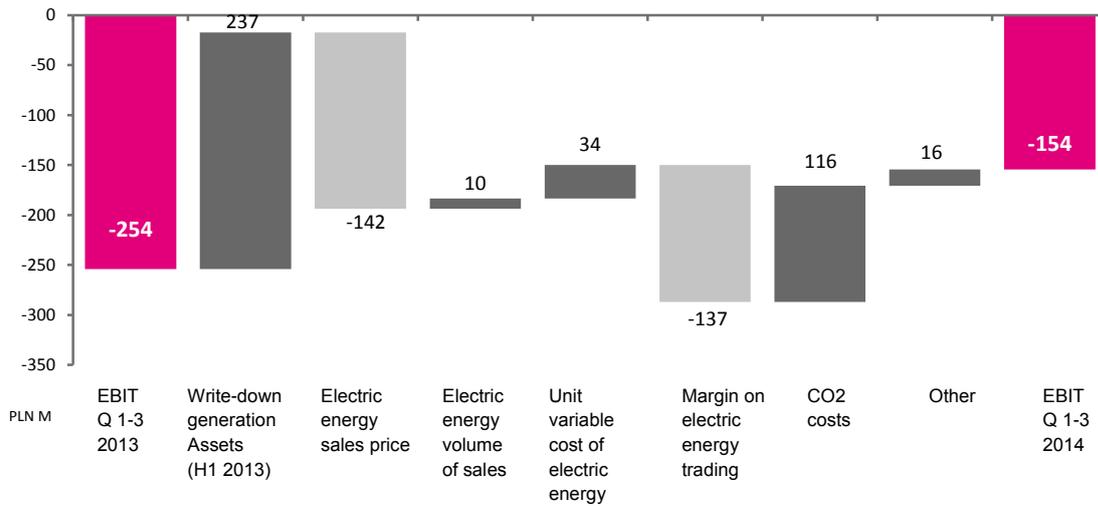
The figure below shows the financial data of the Generation Area for the period of quarters 1-3 of 2014, as compared to the corresponding period of 2013.

Figure no. 9. Financial data of the Generation Area for the period of quarters 1-3 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. 12 Results of the RES Area

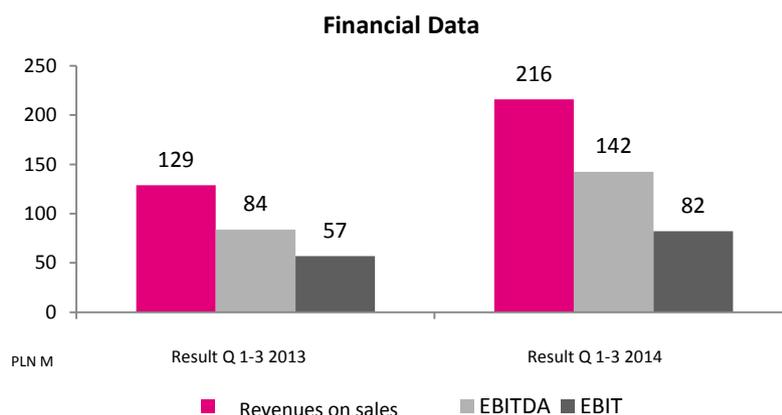
Specification (thous. PLN)	Quarters 1-3, 2014	Quarters 1-3, 2013	Dynamics 2014/2013	3rd quarter 2014	3rd quarter 2013	Dynamics 2014/2013
<b>RES</b>						
Revenue on sales	<b>215,979</b>	128,900	<b>167.6%</b>	<b>71,079</b>	36,445	<b>195.0%</b>
<i>electric energy</i>	103,929	81,081	<b>128.2%</b>	34,982	25,062	<b>139.6%</b>
<i>property rights arising from certificates of electric energy origin</i>	110,922	47,338	<b>234.3%</b>	35,938	11,213	<b>320.5%</b>
<i>other</i>	1,128	481	<b>234.5%</b>	159	170	<b>93.5%</b>
Operating profit	<b>82,343</b>	56,875	<b>144.8%</b>	<b>25,694</b>	12,906	<b>199.1%</b>
Depreciation and amortisation	60,075	26,967	<b>222.8%</b>	20,008	8,876	<b>225.4%</b>
<b>EBITDA</b>	<b>142,418</b>	83,842	<b>169.9%</b>	<b>45,702</b>	21,782	<b>209.8%</b>

In the period of quarters 1-3 of 2014 the revenues on sales in the RES Segment increased by approximately 68% as compared to the corresponding period of the previous year, which is the consequence of the growth in the sales volume of electric energy and property rights, due to the growth in generation capacity, in connection with the commissioning of Wicko and Marszewo wind farms in the fourth quarter of 2013, and the higher price of property rights arising from certificates of origin of electric energy generated in RES. In addition, favourable meteorological conditions in the third quarter of 2014 had a positive impact. Operation of wind farms also results in higher costs, particularly, in terms of depreciation.

Due to the same reasons, the EBIT operating results and the EBITDA result of the RES Area reached a level higher than in the corresponding period of the previous year, both in the period of quarters 1-3 of 2014 and in the third quarter of 2014 itself.

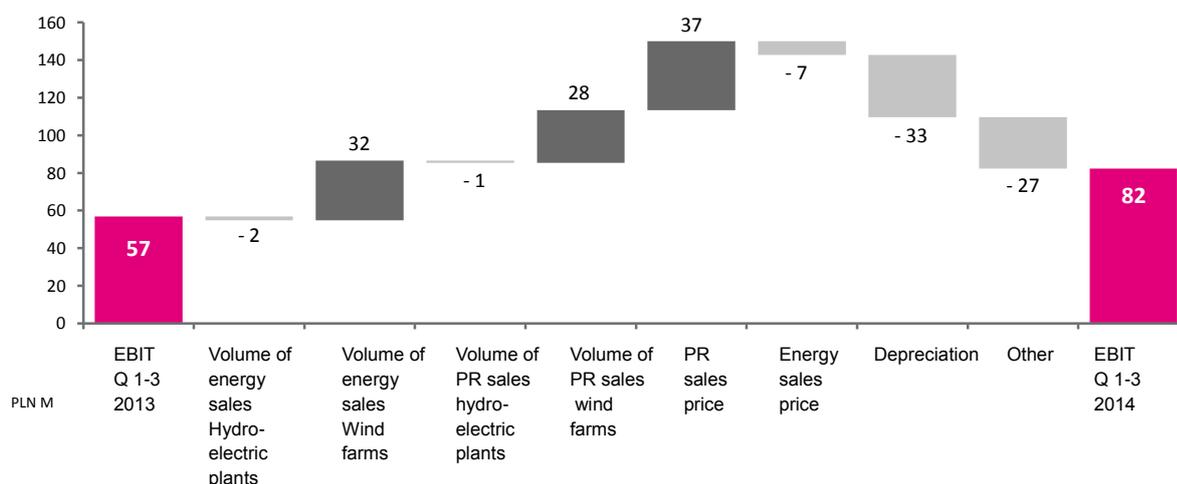
The figure below shows the financial data of the RES Area for the period of quarters 1-3 of 2014, as compared to the corresponding period of 2013.

**Figure no. 1. Financial data of the RES Area for the period of quarters 1-3 of 2013 and 2014.**



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

**Figure no. 2. EBIT Bridge for the RES Area**



## Heat Area

The table below shows the results of the Heat Area.

**Table no. 13 Results of the Heat Area**

Specification (thous. PLN)	Quarters 1-3, 2014	Quarters 1-3, 2013	Dynamics 2014/2013	3rd quarter 2014	3rd quarter 2013	Dynamics 2014/2013
<b>Heat</b>						
Revenue on sales	<b>966,998</b>	925,675	104.5%	<b>249,121</b>	242,199	102.9%
<i>electric energy</i>	231,537	239,247	96.8%	64,103	64,982	98.6%
<i>heat (including transmission)</i>	495,156	514,183	96.3%	102,254	101,738	100.5%
<i>property rights arising from certificates of electric energy origin</i>	44,256	(9,835)	-	13,349	9,704	137.6%
<i>wind of blast furnace</i>	127,506	117,433	108.6%	44,366	42,575	104.2%

Specification (thous. PLN)	Quarters 1-3, 2014	Quarters 1-3, 2013	Dynamics 2014/2013	3rd quarter 2014	3rd quarter 2013	Dynamics 2014/2013
<i>compressed air</i>	55,743	52,875	105.4%	20,236	18,590	108.9%
<i>other</i>	12,800	11,771	108.7%	4,813	4,610	104.4%
Operating profit	<b>71,156</b>	<b>76,101</b>	93.5%	<b>(21,324)</b>	<b>1,157</b>	-
Amortisation and depreciation	110,646	88,792	124.6%	37,900	31,018	122.2%
<b>EBITDA</b>	<b>181,802</b>	<b>164,893</b>	110.3%	<b>16,576</b>	<b>32,175</b>	51.5%

Revenues on sales of the Heat Segment in the period of quarters 1-3 of 2014 increased in relation to the corresponding period of the previous year by over 4%, which was mostly affected by the increased sales of wind of blast furnace and compressed air, due to the higher demand of the main consumer of these media. Revenues on heat sales and distribution were lower due to the decreased volume of sales, resulting from higher ambient temperatures and reduced number of days of the heating season. On the other hand, lower revenues of electric energy sales mainly result from the lower sales prices YoY.

The increase in the revenues on sales of property rights is the consequence of the higher volume of electric energy production from RES and the higher price adopted for the valuation of proprietary rights arising from certificates of origin of electric energy generated in RES (the negative amount of revenues in this item for 2013 is associated with recognising of impairment losses of property rights from co-generation to the zero value).

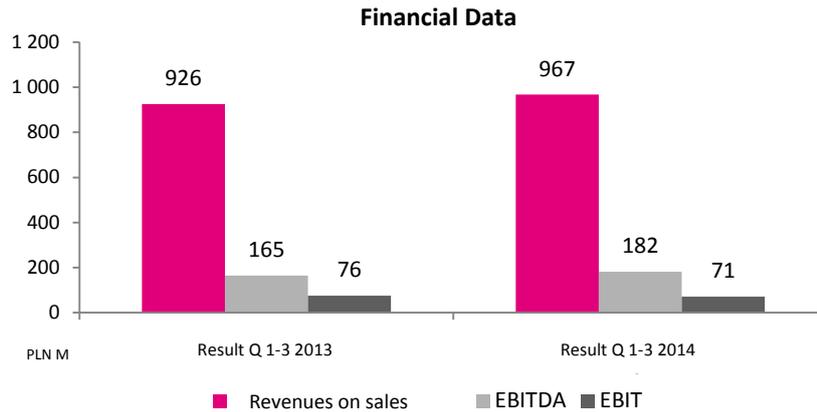
The operating result in the period of quarters 1-3 of 2014 reached a slightly lower level than in the previous year, whereas in the 1st half of 2013, recognising of the impairment losses write-down applied to the value of red and yellow certificates had adverse impact on the results achieved (a consequence of the lack of legal regulations concerning the support system for co-generation).

Factors which had a positive impact on the result achieved in the period of quarters 1-3 of 2014 included: higher sales volume of electric energy, higher heat sales prices and higher margin on certificates (mainly due to the higher production from RES and the higher price of green certificates). Factors which had an adverse impact included: lower heat sales and distribution, lower electric energy prices and higher depreciation costs (due to the commissioning of the unit in Bielsko-Biała).

A lower operating result in the third quarter of the current year is the consequence of a lower energy price, higher unit variable generation costs, higher depreciation costs, taxes and fees (in connection with the commissioning of the unit in Bielsko-Biała) as well as higher costs of CO<sub>2</sub> reserve.

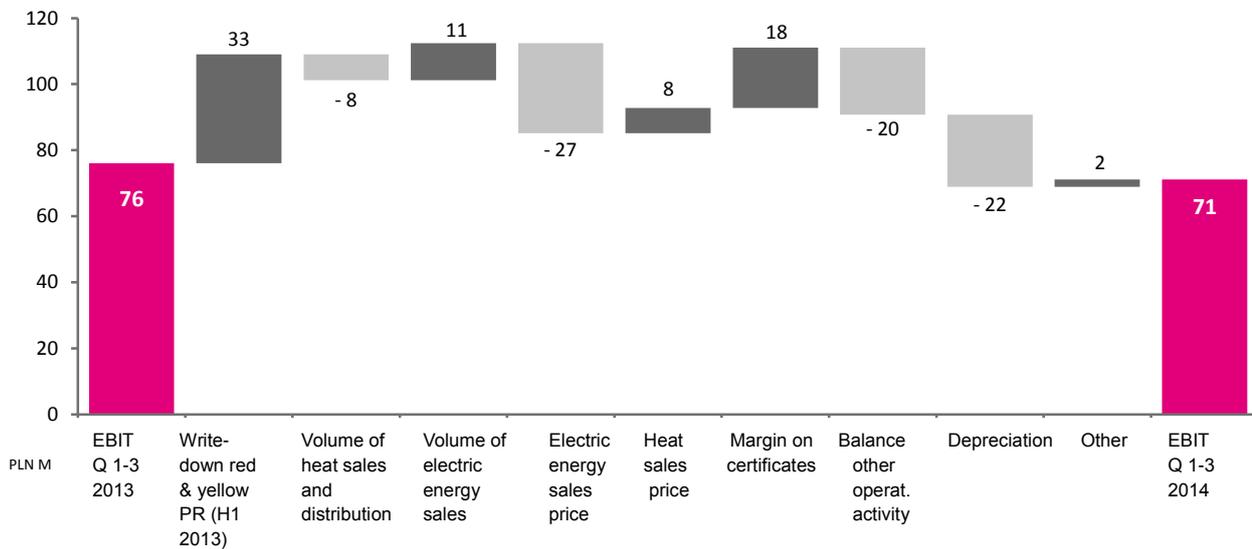
The figure below shows the financial data of the Heat Area for the period of quarters 1-3 of 2014, as compared to the corresponding period of 2013.

Figure no. 3. Financial data of the Heat Area for the period of quarters 1-3 of 2013 and 2014.



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

Figure no. 14 EBIT Bridge for the Heat Area



## Distribution Area

The table below shows the results of the Distribution Area.

Table no. 14 Results of Distribution Area

Specification (thous. PLN)	Quarters 1-3, 2014	Quarters 1-3, 2013	Dynamics 2014/2013	3rd quarter 2014	3rd quarter 2013	Dynamics 2014/2013
<b>Distribution</b>						
Revenue on sales	4,528,811	4,451,191	101.7%	1,479,860	1,440,387	102.7%
<i>distribution services</i>	4,219,230	4,130,529	102.1%	1,378,864	1,341,821	102.8%
<i>connection fees</i>	94,074	103,807	90.6%	27,360	39,425	69.4%
<i>maintenance of street lightning</i>	82,748	78,650	105.2%	39,053	26,360	148.2%
<i>other</i>	132,759	138,205	96.1%	34,583	32,781	105.5%
Operating profit	1,070,837	1,024,329	104.5%	370,825	368,174	100.7%
Depreciation and amortisation	707,003	676,366	104.5%	237,327	228,419	103.9%

Specification (thous. PLN)	Quarters 1-3, 2014	Quarters 1-3, 2013	Dynamics 2014/2013	3rd quarter 2014	3rd quarter 2013	Dynamics 2014/2013
<b>EBITDA</b>	<b>1,777,840</b>	<b>1,700,695</b>	<b>104.5%</b>	608,152	596,593	101.9%

In the period of quarters 1-3 of 2014, as compared to the corresponding period of 2013, the Distribution Segment recorded increase of revenue by about 1.7%, increase of results at the operating level and EBITDA result by about 4.5%. The growth of results arises from the following reasons.

The total revenues gained in the period of three quarters of 2014 were higher as compared to the corresponding period of 2013, mainly due to the increase in the sales volume of distribution services to end consumers from A and B groups, as a result of increase in the production sold – the upward trend becomes more intensive in each consecutive quarter of the current year. However, the said increases do not refer to the mining sector, where coal production was limited, and railway sector, where modernisation works of overhead contact lines are in progress. The decline in the demand for electric energy was also observed in case of end consumers connected to the low voltage grid (decrease in the downward trend in each consecutive quarter of the current year) where, besides the reduction of energy consumption for heating in the first quarter of the current year, the change in the settlement method with consumers from groups C1, O, R and G and the acceleration of readings of electric energy meters, had an impact on the decline of the supplies invoiced (the deviation is of temporary nature, the reversal of the trend will take place gradually, parallel to the execution of settlements with consumers in the years 2014-2016). Lower sales referred also to exports.

Higher average rates for distribution services arising from the tariff for 2014 also had a positive impact on the level of revenues gained from distribution services. The application of the tariff adopted for 2014, while maintaining the comparable sales structure, ensured the increase in the average rate for the distribution services by 1.6% (the main factor determining the increase of the tariff was the transferred increase of the transitional and qualitative fee of the TSO). Within other revenues associated with the distribution activities, the decline mainly referred to connection fees, which results from the application of new, higher rates set out for 2014 and the fees for exceeding the capacity and the illegal energy off-take; the increase was recorded in the scope of revenues due to elimination of energy conflicts. Sales to other DSOs: the value-related and the quantitative balance of energy transits in the period of three quarters of 2014 is positive, which means profit on purchase and sales operations of distribution services from / to other DSOs; this result is higher than in the corresponding period of 2013.

Slightly higher costs of operating activities also affected the change of the operating result of the Distribution Segment, in relation to the comparable period of 2013. Variable costs of the Segment increased mainly due to the significantly 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 significantly higher, due to the decline in generation in case of generators connected to the distribution grid. The decline in variable costs arises from slightly lower level of balance difference and the significantly lower indicator of the balance difference, as a consequence of lower sales to consumers in low voltage grid, strongly exposed to grid losses, and the increase in sales to consumers from high voltage grid, less burdened with grid losses (the indicator in the third quarter of 2014 reached a level slightly higher than in the third quarter of 2013, however, in cumulative terms, the deviation of the indicator reached 10%); the decline in the volume of losses arises also from the continuous technical activities in the grid.

Balancing of energy losses was performed at a much lower price representing the product of purchase and resale prices of energy in the Group. In the scope of fixed costs, depreciation costs and costs of tax on grid assets mainly increased, as a result of investments under implementation.

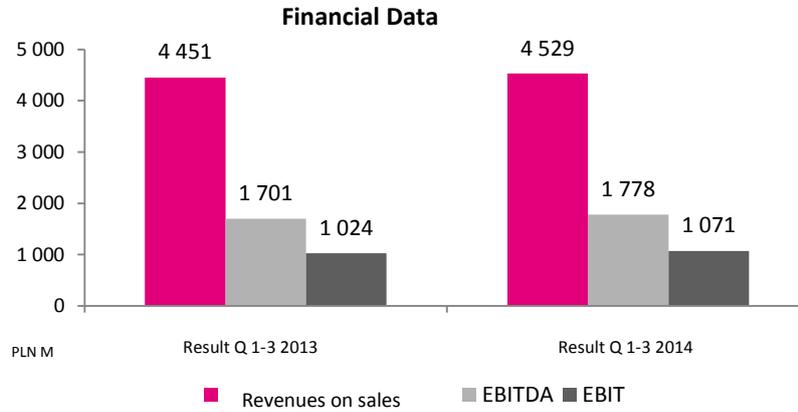
Result on other operating activities had a positive impact on the EBIT level, in particular, in connection with the positive balance of the reversal / establishing of reserves for disputes and non-contractual use of real property.

In the third quarter of 2014 itself, the operating results of the Distribution Segment also reached a higher level than in the corresponding quarter of the previous year. The factors determining the change in the result, in cumulative terms, for the period of quarters 1-3 of 2014, in relation to the previous year, refer also to the third quarter of the current year itself. Among deviations of the quarter, lower fixed costs and lower revenues from connecting fees are worth attention, which, since the second half of the current year,

have been executed at rates applicable to new agreements, defined by the ERO for 2014, to a higher extent than before.

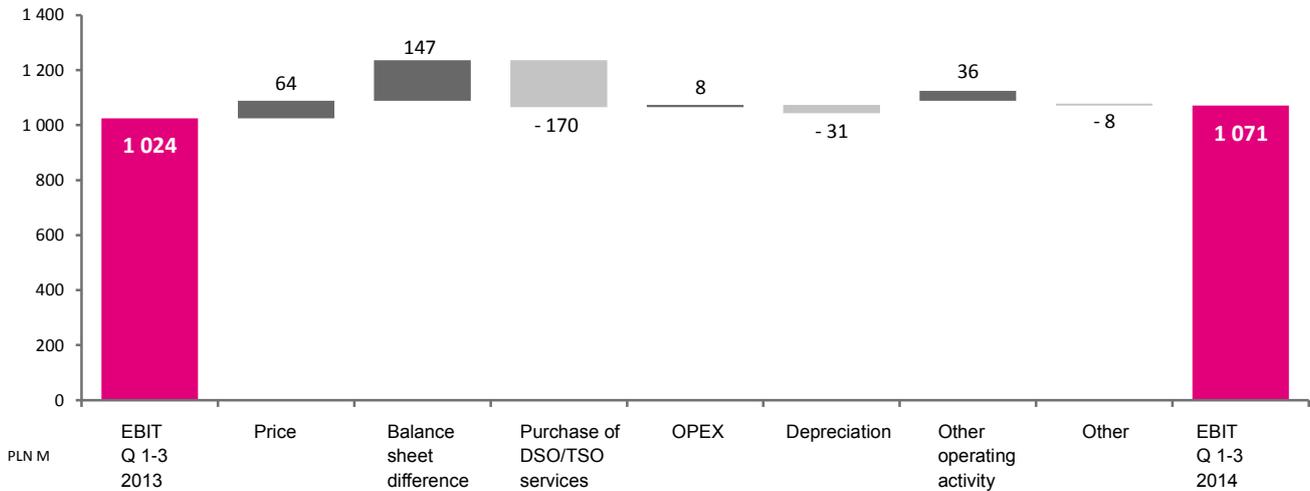
The figure below shows the financial data of the Distribution Area for the period of quarters 1-3 of 2014, as compared to the corresponding period of 2013.

Figure no. 4. Financial data of the Distribution Area for the period of quarters 1-3 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 the Sales Area.

**Table no. 1. Results of the Sales Area**

Specification (thous. PLN)	Quarters 1-3, 2014	Quarters 1-3, 2013	Dynamics 2014/2013	3rd quarter 2014	3rd quarter 2013	Dynamics 2014/2013
<b>Sales</b>						
Revenue on sales	<b>11,266,992</b>	<b>13,301,459</b>	84.7%	<b>3,691,883</b>	<b>4,307,905</b>	85.7%
<i>electric energy, including:</i>	7,205,118	8,643,474	83.4%	2,313,275	2,752,394	84.0%
<i>revenue from retail sales of electric energy</i>	6,134,575	7,612,235	80.6%	1,972,873	2,408,093	81.9%
<i>greenhouse gas emission allowances</i>	73,661	213,427	34.5%	0	86,099	0.0%
<i>fuels</i>	1,402,335	1,682,901	83.3%	552,285	557,190	99.1%
<i>distribution service (transferred)</i>	2,498,965	2,632,927	94.9%	801,232	840,414	95.3%
<i>other services, including commercial services</i>	86,913	128,730	67.5%	25,091	71,808	34.9%
Operating profit	<b>478,799</b>	<b>721,007</b>	66.4%	<b>105,291</b>	<b>142,487</b>	73.9%
Depreciation and amortisation	22,665	26,147	86.7%	4,539	8,936	50.8%
<b>EBITDA</b>	<b>501,464</b>	<b>747,154</b>	<b>67.1%</b>	<b>109,830</b>	<b>151,423</b>	<b>72.5%</b>

Revenue on sales of the Sales Segment in the period of quarters 1-3 of 2014 reached a level lower by approximately 15.3% as compared to the corresponding period of 2013. In the analysed period revenues from retail sales of electric energy were also lower, due to the decline both in terms of prices (by 12.6% in relation to the average price in the period of quarters 1-3 2013), and volume (decrease by 7.8% in relation to the level of sales in the previous year). The quantitative decline in sales was mainly caused by enhanced activity of competitive companies in the scope of business clients acquisition and the decreased consumption in the segments of strategic and mass clients. The decline in revenues was also recorded in case of coal sales to the Generation and Heat Segments, which results from the lower level of electric energy and heat production.

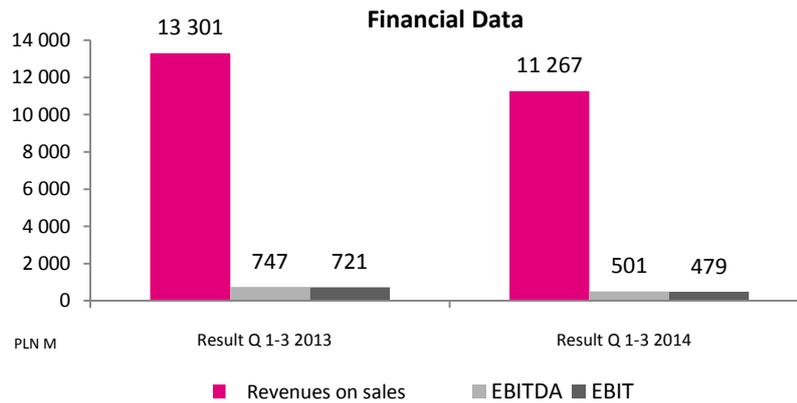
In the period of quarters 1-3 of 2014 the Segment recorded approximately 66-67% of the EBIT and EBITDA results of the corresponding period of the previous year. This situation was mainly determined by the price factors associated with the purchase prices of property rights (in particular, taking advantage of lower prices in the first quarter of 2013) and the increase in the level of the property rights redemption obligation in 2014 as compared to 2013.

The relation of sales price to the electric energy purchase price has a positive impact on the level of operating results in the current year. The sales companies of TAURON Group also engaged in the competitive "battle", through intensive marketing measures and introducing interesting product offers in order to maintain the existing clients and acquire new ones.

In the third quarter of 2014 itself, the redemption obligation related to "red" and "yellow" certificates, resumed in the second quarter of the current year, had adverse effects on results of the Area, which was not fully compensated by the increased energy sales prices, besides G tariff where energy prices remained unchanged.

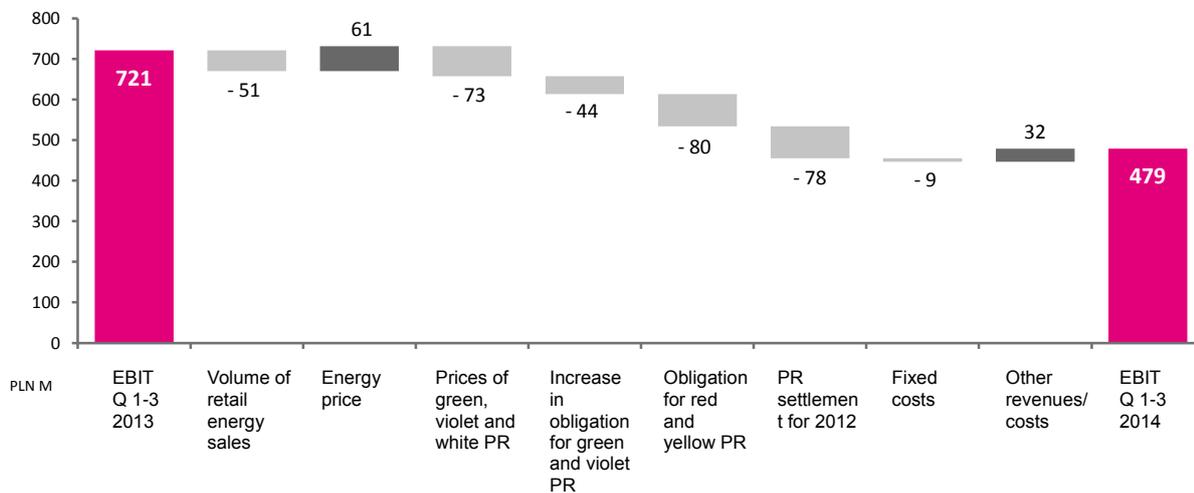
The figure below shows the financial data of the Sales Area for the period of quarters 1-3 of 2014, as compared to the corresponding period of 2013.

**Figure no. 6. Financial data of the Sales Area for the period of quarters 1-3 of 2013 and 2014.**



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

Figure no. 7. EBIT Bridge for the Sales Area



### Business Area: Customer Service

The table below shows the results of Customer Service Area.

Table no. 2. Results of Customer Service Area

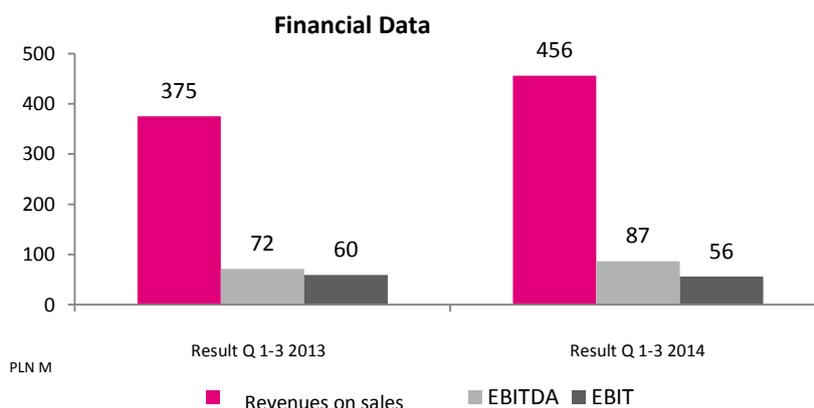
Specification (thous. PLN)	Quarters 1-3, 2014	Quarters 1-3, 2013	Dynamics 2014/2013	3rd quarter 2014	3rd quarter 2013	Dynamics 2014/2013
<b>Customer Service</b>						
Revenue on sales	456,151	374,979	121.6%	155,387	139,772	111.2%
<i>customer service</i>	190,152	179,043	106.2%	63,778	64,609	98.7%
<i>IT services</i>	161,404	128,755	125.4%	56,284	49,477	113.8%
<i>financial &amp; accounting and HR services</i>	103,737	65,199	159.1%	34,900	24,397	143.1%
<i>other</i>	858	1,982	43.3%	425	1,288	33.0%
Operating profit	56,211	59,678	94.2%	19,345	32,774	59.0%
Depreciation and amortisation	30,342	11,874	255.5%	11,856	5,119	231.6%
<b>EBITDA</b>	<b>86,553</b>	<b>71,552</b>	<b>121.0%</b>	<b>31,201</b>	<b>37,893</b>	<b>82.3%</b>

In accordance with the adopted strategy of the Customer Service Business Area, in TAURON Capital Group migration of back-office functions to the dedicated company of the Group took place. The gradual migration process of external customer service functions of Group companies in the mass and business market, financial and accounting service, IT and HR started in 2013, when the merger of the TAURON Obsługa Klienta company with the corresponding company of the former GZE Capital Group had taken place. In the subsequent period, the company of the Customer Service Area was acquiring support functions from other companies of TAURON Group, including assets and human resources. In 2014 migration of all aforementioned functions from almost all areas of the Group activities was performed, contributing, among others to the 21% increase in revenues and the related costs, which was directly reflected in the increase of EBITDA by 21%. In order to ensure the appropriate implementation of services to its clients, the Company incurred significant investment expenditure in terms of fixed assets, resulting in increased depreciation costs.

The operating result in the third quarter of 2014, lower by 17.7% in relation to the third quarter of 2013, is the consequence of the settlement method of services delivered at the end of last year, adopted by the Company. In June 2014 the Company performed the first settlement of the services provided. The final settlement will take place in the December, as in the previous year.

The figure below shows the financial data of the Customer Service Area for the period of quarters 1-3 of 2014, as compared to the corresponding period of 2013.

Figure no. 8. Financial data of the Customer Service Area for the period of quarters 1-3 of 2013 and 2014



**Business Area: Other**

The table below shows the results of Other Area.

Table no. 3. Results of Other Area

Specification (thous. PLN)	Quarters 1-3, 2014	Quarters 1-3, 2013	Dynamics 2014/2013	3rd quarter 2014	3rd quarter 2013	Dynamics 2014/2013
<b>Other</b>						
Revenue on sales	<b>203,834</b>	233,119	87.4%	<b>78,754</b>	67,137	117.3%
<i>electric energy</i>	<b>49,244</b>	103,527	47.6%	<b>14,816</b>	19,164	77.3%
<i>property rights arising from certificates</i>	<b>89,013</b>	62,415	142.6%	<b>38,551</b>	21,787	176.9%
<i>of electric energy origin</i>						
<i>grinding plant products</i>	<b>39,645</b>	40,714	97.4%	<b>14,011</b>	14,599	96.0%
<i>grit and stone</i>	<b>24,696</b>	25,231	97.9%	<b>10,914</b>	11,112	98.2%
<i>other products and services</i>	<b>1,236</b>	1,231	100.4%	<b>462</b>	475	97.3%
Operating profit	<b>17,890</b>	7,486	239.0%	<b>9,389</b>	5,723	164.1%
Depreciation and amortisation	<b>5,106</b>	6,613	77.2%	<b>1,721</b>	2,185	78.8%
<b>EBITDA</b>	<b>22,996</b>	14,099	<b>163.1%</b>	<b>11,110</b>	7,908	<b>140.5%</b>

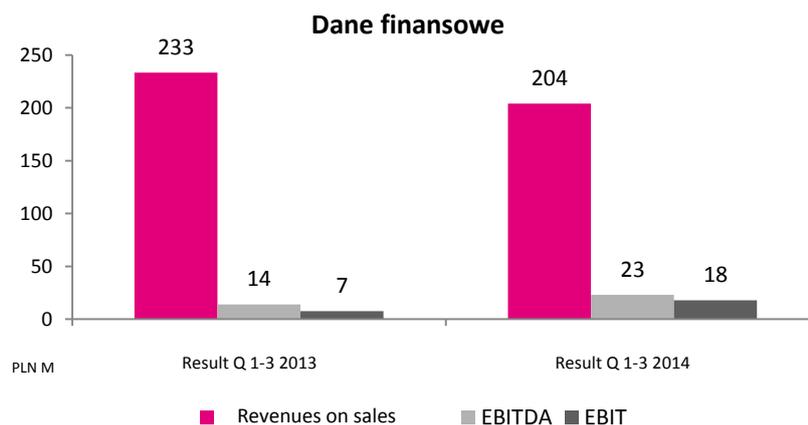
The revenue on sales in the Other Area decreased by about 13.6% as compared to the corresponding period of 2013. Termination of trading on the wholesale market (arising from the organizational changes related to the company: Polska Energia – Pierwsza Kompania Handlowa) was the factor determining the decreased revenues gained on this activity. The above mentioned decline was partly mitigated by the increased turnover of property rights arising from electric energy certificates of origin. It should be mentioned that, as a result of achieving a positive margin on sales of both electric energy and property rights, Polska Energia – Pierwsza Kompania Handlowa recorded a result better by PLN 7.6 million than in the corresponding period of the previous year.

Lower revenues on sales generated by Kopalnia Wapienia Czatkowice had also a significant impact on the level of revenues of the Area, due to the reduced demand of the energy sector for sorbents, among others, due to the warm winter. However, the measures undertaken by the company, aimed at adjusting of the sales structure to the market situation, increase of production capacity in the scope of grit and stone mixtures production, and consequently – the optimisation of production and costs of operations – contributed to the improvement of the EBIT result of the Area by 31%, as compared to the corresponding period of the previous year. The increased volume of sales of company products was not reflected in the increased revenues on sales, as a consequence of the change in the sales structure – the decline in the volume of sales of more expensive products, balanced by the increased volume of sales of less processed, i.e. cheaper products.

The figure below shows the financial data of the Other Area for the period of quarters 1-3 of 2014, as compared to the corresponding period of 2013.

Figure no. 20. Financial data of the Other Area for the period of quarters 1-3 of 2013 and 2014.

#### Financial Data



#### 4.4.3 Status of assets

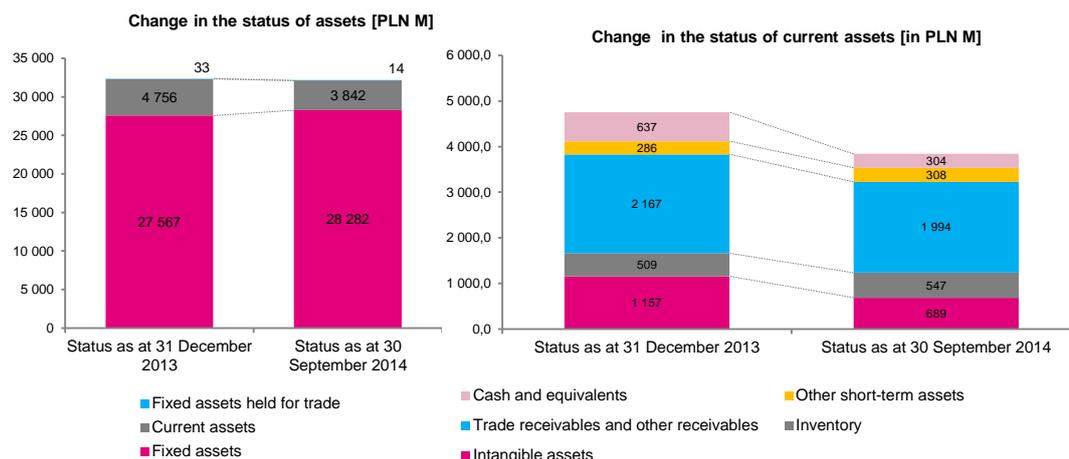
In the table below, consolidated statement of the financial situation as at 30 September 2014 is presented, in relation to 31 December 2013.

**Table no. 4. Interim condensed consolidated statement of financial situation - assets (data in thousand PLN)**

Statement of financial situation	Status as at 30 September 2014 (not audited)	Status as at 31 December 2013	Dynamics (2014/2013)
<b>ASSETS</b>			
<b>Fixed Assets</b>	<b>28,281,793</b>	<b>27,567,008</b>	<b>102.6%</b>
Tangible fixed assets	25,740,388	25,127,639	102.4%
Intangible assets	247,059	247,057	100.0%
Goodwill	1,283,571	1,160,005	110.7%
Shares and stocks in joint ventures	39,689	44,398	89.4%
Other financial assets	373,664	587,166	63.6%
Other non-financial assets	562,331	354,704	158.5%
Assets due to deferred tax	35,093	46,039	76.2%
<b>Current assets</b>	<b>3,841,613</b>	<b>4,755,521</b>	<b>80.8%</b>
Intangible assets	688,814	1,156,550	59.6%
Inventory	546,739	509,224	107.4%
Receivables due to income tax	14,476	31,890	45.4%
Trade receivables and other receivables	1,979,723	2,134,641	92.7%
Other financial assets	18,525	15,878	116.7%
Other non-financial assets	289,821	270,429	107.2%
Cash and equivalents	303,515	636,909	47.7%
<b>Fixed assets classified as held for trade</b>	<b>13,683</b>	<b>33,041</b>	<b>41.4%</b>
<b>TOTAL ASSETS</b>	<b>32,137,089</b>	<b>32,355,570</b>	<b>99.3%</b>

As at 30 September 2014 the statement of financial situation of TAURON Capital Group indicates total assets slightly lower (by 0.7%), as compared to 31 December 2013.

**Figure no. 9. Change in the status of assets and current assets**



Fixed assets constitute the highest item of assets in the consolidated statement of financial situation, with the share of 88.0%. As compared to the status at the end of the previous year, the value of fixed assets is higher by approximately PLN 715 million, which means the increase by 2.6%. The above mentioned increase results, among others, from the investments in fixed assets of activity segments in the period of quarters 1-3 of 2014, in particular, in the assets of the Distribution, Generation and Heat Area.

Tangible fixed assets constitute the highest item of assets of TAURON Capital Group, with their value making 80.1% of the balance sheet total and 91.0% of the value of all fixed assets as at 30 September 2014. The growth of their value amounted to PLN 612.8 million and results from the investments implemented by companies of TAURON Capital Group in their assets. Other non-financial assets represent the item of fixed assets showing the highest growth, where the increase by 58.5% arises from the advance payments made on account of implementation of investments in the tangible fixed assets of the Generation and Heat Areas. The most significant decline of 36.4% was recorded in other financial assets, which results from the final settlement of the transaction of acquiring TAURON Wydobycie stocks by TAURON Polska Energia, and the consequent settlement of the advance payment on account of the aforementioned purchase.

As at 30 September 2014 the value of current assets decreased by 19.2%, as a result of final settlement of the obligation to submit certificates of energy origin and CO<sub>2</sub> emission allowances for redemption, respectively, in March and April 2014, which were aggregated in the items of short-term intangible assets as at 31 December 2013, in accordance with the Accounting Policy of the Group. The decrease in this item of assets of the Group amounts to 40.4%. It should be mentioned that during the reporting period, the Group allocated property rights and CO<sub>2</sub> emission allowances acquired or generated at its own account in short-term intangible assets, for the purpose of their redemption for 2014. The second factor of significant impact on the change in the value of current assets is cash and its equivalents whose value decreased by 52.3%. The detailed description of reasons underlying this change is presented in item 4.4.4. concerning the statement of cash flows.

In relation to the data of 31 December 2013, the status of receivables due to trade and other receivables also decreased by PLN 155 million, i.e. by 7.3%. The reasons of such a situation should be attributed to lower revenues on sales reached by TAURON Group as compared to the corresponding period of the previous year (decline by 4.3%), and the improvement of collection of receivables. The decline in the items of assets presented above was, to a certain extent, mitigated by the increase in the value of inventory - as a result of dumping of the extracted coal, and other non-financial assets.

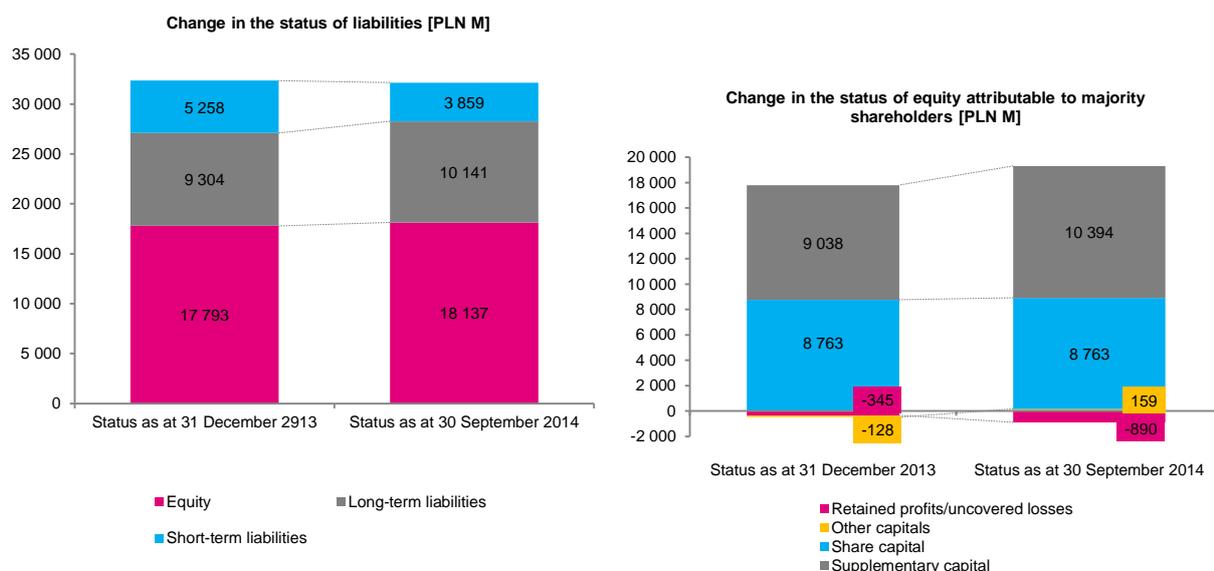
In the table below, the annual consolidated statement of financial standing for liabilities, is presented.

**Table no. 5. Interim condensed consolidated statement of financial situation - liabilities (data in thousand PLN)**

Statement of financial situation	Status as at 30 September 2014 (not audited)	Status as at 31 December 2013	Dynamics (2013/2012)
<b>LIABILITIES</b>			
<b>Equity attributable to shareholders of the parent company</b>	<b>18,106,785</b>	<b>17,327,165</b>	<b>104.5%</b>
Share capital	8,762,747	8,762,747	100.0%
Supplementary capital	10,393,686	9,037,699	115.0%
Hedging instruments revaluation reserve	(157,817)	(126,651)	124.6%
Currency Exchange differences due to translation of foreign units	(1,572)	(1,631)	96.4%
Retained profits / Uncovered losses	(890,259)	(344,999)	258.0%
<b>Non-controlling shares</b>	<b>30,306</b>	<b>466,334</b>	<b>6.5%</b>
<b>Total equity</b>	<b>18,137,091</b>	<b>17,793,499</b>	<b>101.9%</b>
<b>Long-term liabilities</b>	<b>10,140,596</b>	<b>9,304,341</b>	<b>109.0%</b>
Loans, credits and debt securities	6,183,835	5,500,532	112.4%
Liabilities due to financial leasing	50,388	61,643	81.7%
Trade liabilities and other financial liabilities	52,338	7,827	668.7%
Derivatives	132,773	87,573	151.6%
Provisions for employee benefits	1,497,375	1,497,814	100.0%
Other provisions	142,200	141,408	100.6%
Accruals and governmental subsidies	670,383	668,487	100.3%
Provision due to deferred income tax	1,411,304	1,339,057	105.4%
<b>Short-term liabilities</b>	<b>3,859,402</b>	<b>5,257,730</b>	<b>73.4%</b>
Current portion of interest-bearing credits, loans and debt securities	380,334	284,633	133.6%
Current part of liabilities due to financial leasing	15,961	17,327	92.1%
Trade liabilities and other liabilities	1,379,263	2,023,537	68.2%
Derivatives	85,680	73,358	116.8%
Provisions for employee benefits	132,840	162,368	81.8%
Other provisions	898,229	1,563,019	57.5%
Accruals and governmental subsidies	340,619	239,639	142.1%
Liabilities due to income tax	6,132	79,035	7.8%
Other non-financial liabilities	620,345	814,814	76.1%
<b>Total liabilities</b>	<b>13,999,998</b>	<b>14,562,071</b>	<b>96.1%</b>
<b>TOTAL LIABILITIES</b>	<b>32,137,089</b>	<b>32,355,570</b>	<b>99.3%</b>

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

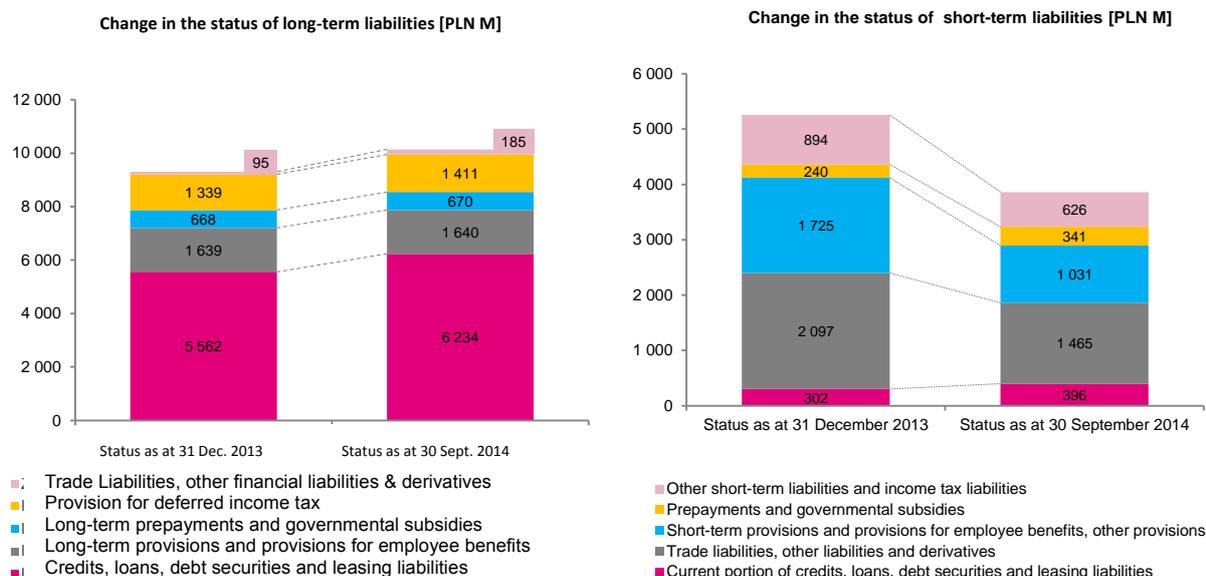
Figure no. 10. Change in liabilities and equity



As in the previous years, equity is the dominating source of financing of assets, whose share in the total assets increased by 1.9% to the level of 56.4%.

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

Figure no. 11. Change in the status of liabilities



In the period of quarters 1-3 of 2014 the level of long-term debt of TAURON Capital Group increased by PLN 672 million, i.e. 12.1%, mainly due to the acquisition of external sources of funding in the form of debt securities issued for the needs of investments implemented in fixed assets. This item was the factor determining the growth in the value of long-term liabilities by 9%.

In the reporting period the value of short-term liabilities decreased by 26.6%, as a result of 40% decline in other provisions and 30% decline in the status of trade liabilities and other liabilities. The decrease in the value of provisions by PLN 694 million results from the use of the provision established in 2013 for the redemption of property rights due to certificates of electric energy origin and CO<sub>2</sub> emission allowances. The decline in the value of trade liabilities and other liabilities is the effect of 3% lower costs of conducting TAURON Capital Group operations and the settlement in 2014 of liabilities by the Group companies due to

the purchase of fixed assets and intangible assets, incurred as at 31 December 2013. In the period of nine months of 2014, the value of financial liabilities increased by 31.2%, which is the consequence of the loans drawn and bonds issued. The value of net financial debt increased by 21.0%.

#### 4.4.4 Cash Flows

In the table below, the interim annual condensed statement of cash flows is presented for the period of nine months, ended on 30 September 2014, in relation to the 1st half of 2013.

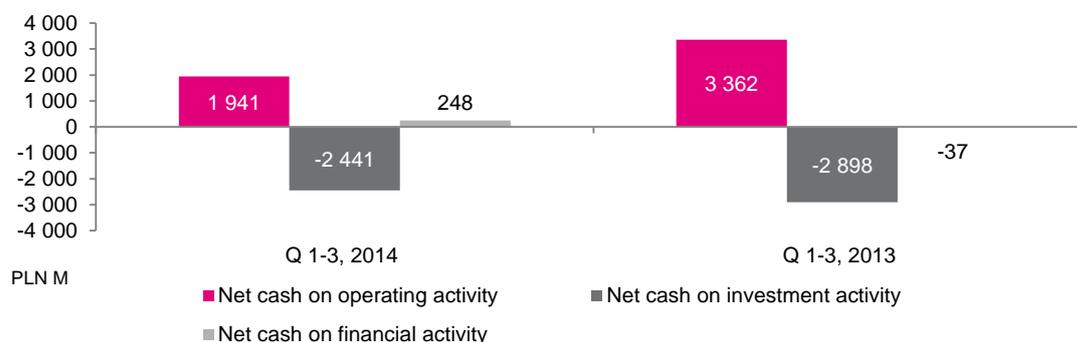
**Table no. 20 Interim Statement of Cash Flows (data in thousand PLN)**

Statement of Cash Flows	Period of 9 months ended on 30 September 2014 (not audited)	Period of 9 months ended on 30 September 2013 (converted data, not audited)	Dynamics (2013/2012)
<b>Cash flows from operating activities</b>			
Gross profit / (loss)	1,312,496	1,545,387	84.9%
Adjustments	628,305	1,816,836	34.6%
<b>Net cash from operating activities</b>	<b>1,940,801</b>	<b>3,362,223</b>	<b>57.7%</b>
<b>Cash flows from investment activities</b>			
Sales of tangible fixed assets and intangible assets	38,138	17,646	216.1%
Purchase of tangible fixed assets and intangible assets	(2,473,020)	(2,868,589)	86.2%
Sales of financial assets	1,852	1,389	133.3%
Purchase of financial assets	(6,279)	(4,399)	142.7%
Dividends received	3,766	18,291	20.6%
Interest received	541	40	1352.5%
Repayment of loans granted	5,850	46,800	12.5%
Loans granted	(11,700)	(108,800)	10.8%
Other	0	2	0.0%
<b>Net cash from investment activities</b>	<b>(2,440,852)</b>	<b>(2,897,620)</b>	<b>84.2%</b>
<b>Cash flows from financial activities</b>			
Repayment of liabilities due to financial leasing	(13,677)	(10,805)	126.6%
Cash inflows due to loans/credits	0	451,693	0.0%
Repayment of loans/credits	(91,078)	(49,787)	182.9%
Issuance of debt securities	1,200,000	0	-
Redemption of debt securities	(300,000)	0	-
Dividends paid to shareholders of the parent company	(324,182)	(350,510)	92.5%
Dividends paid to non-controlling shareholders	(1,252)	(8,071)	15.5%
Interest paid	(136,469)	(103,613)	131.7%
Purchase of non-controlling shares	(125,328)	(1,788)	7009.4%
Subsidies received	48,770	44,688	109.1%
Other	(9,000)	(9,303)	96.7%
<b>Net cash from financial activities</b>	<b>247,784</b>	<b>(37,496)</b>	<b>-</b>
<b>Increase/(decrease ) in net cash and equivalents</b>	<b>(252,267)</b>	<b>427,107</b>	<b>-</b>
Net exchange differences	186	(1,408)	-
<b>Cash opening balance</b>	<b>541,148</b>	<b>891,654</b>	<b>60.7%</b>
<b>Cash closing balance</b>	<b>288,881</b>	<b>1,318,761</b>	<b>21.9%</b>

TAURON Capital Group recorded negative result in the total value of net cash flows on operating, investment and financial activities. The total of all cash flow streams for the period of quarters 1-3 of 2014 amounted to about PLN (252.3) million.

The figure below presents cash flows for the period of quarters 1-3 of 2014 and 2013.

**Figure no. 12. Cash flows for the period of quarters 1-3 of 2014 and 2013.**



The value of cash flows gained on operating activities in the reporting period was positive but it was lower by 42.3% than the cash flows achieved in the corresponding period of the previous year. It should be mentioned that in the third quarter of 2014 the value of cash flows on operating activities amounted to PLN 943 million and it was comparable to the value of the same cash flows achieved in the first half of 2014. One of the factors significantly affecting the lower value of operating cash flows in relation to the corresponding period of the previous year were the lower financial results of TAURON Group, including the deterioration of the EBITDA result by PLN 85.4 million and the impairment losses applied by TAURON Wytwarzanie in 2013 in relation to ineffective generation assets - a 120 MW unit, in the amount of PLN 236.7 million. No important premises occurred in 2014 which would enable the reversal of the created write down.

The decline in the Group results also affected the change in the status of short-term receivables and liabilities, resulting in higher cash outflows than in the period of quarters 1-3 of 2013. Whereas the value of the change in the status of liabilities in the reporting period arises from lower costs of Group operations, the almost 6-fold decline in the status of receivables in the period of nine months of 2014, in relation to the previous year, arises, on the one hand, from the decline in revenues but, on the other hand, it is caused by the termination of the programme of covering stranded costs and its final settlement in 2013. As a result of the foregoing, TAURON Group did not recognise the receivables due to LTC (long-term contracts) in the statement of financial situation as at 31 December 2013, which occurred in 2012. The aforementioned receivables were fully settled during 2013, which, for the described above, has not happened in the current year. The situation in the coal and energy market was reflected in lower sales and reduced coal consumption for own purposes, which, in turn, generated the increase in the status of inventories by PLN 265 million, as compared to the change in status in the period of three quarters of 2013. Due to the lack of supply in the white certificates market in 2013, in order to fulfil its obligations to redeem such property rights, arising from the Energy Law, TAURON Capital Group, contributed the substitution fee. At the same time, in the current period, the purchase of energy origin certificates was performed on account of the fulfilment of the obligation for 2014.

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 which were lower by approximately 13.8% in the reporting period 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 implemented in the RES Segment in 2013. In the current period, the highest expenditures were incurred in the Distribution, Generation and Heat Segments.

In the analysed period, TAURON Capital Group reduced the value of debt by PLN 900 million, through the issuance of debt securities. The financing incurred by the Group was allocated for investments in fixed assets, the final settlement of the transaction of acquiring TAURON Wydobywanie stocks (PLN 77.5 million) and the re-purchase of non-controlling shares by the Group companies. In the third quarter of 2014, the dividend in the amount of PLN 325 million was paid by TAURON Polska Energia S.A. company, comparable to the dividend paid in the previous year.

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 noted that the value of

operating cash flows shows a positive balance, which allows for independent financing of the current operations of the Group. 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.

#### **4.5 Factors and events, particularly of unusual nature, significantly affecting the financial results achieved**

In the third quarter of 2014, no factors or events of unusual nature 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 financial results to be recorded in the perspective of at least the next quarter**

According to the opinion of the Company, mainly the following factors may affect the results of TAURON Capital Group activity in the perspective of at least the next quarter:

- the macroeconomic situation, especially in Poland, as well as the economic situation of the TAURON Capital Group area of operations, situation of the European Union (EU), and the global economy, including changes in interest rates and currency exchange rates, etc., influencing the valuation of assets and liabilities recognised in the statements of financial situation,
- political environment, especially in Poland as well as at the EU level, including the opinions and decisions of public administration institutions and authorities, for example: Office for the Protection of Competition and Consumers (OCCP), ERO and the European Commission, in particular:
  - lack of the EU approval of the obligatory targets for individual Member States in the scope of use of renewable energy sources and defining of the sole general target for the EU in this area, which shall enable to optimise the generation portfolio and its adjustment to the real needs and capacities of a given country as well as to the current market conditions,
  - on-going works on the draft act on renewable energy sources which shall change the support system by introducing the so-called auction system; implementation of these changes as of 2016 is assumed,
- changes in regulations concerning the energy sector as well as changes in the legal environment, including: tax law, commercial law, environmental protection law, in particular, the announced liberalisation of electric energy prices for households, the announcement of the ERO President related to the application of maximum prices in tariffs for G group (instead of fixed priced), in order to protect consumers against sudden changes of prices in the event of full liberalisation,
- situation in electric energy sector, including the activity and measures undertaken by competition in the energy market,
- recovery of the support system for electric energy generation in high-performance co-generation ("red" and "yellow" certificates), resulting, on the one hand, in the increased costs of redemption of such certificates for suppliers of electric energy to end customers, not transferred in electric energy price, in particular, for consumers from G group (the tariff for such consumers has remained unchanged since January 2014, whereas the obligation related to redemption of such certificated was resumed as of May this year), and on the other hand, in the increased revenue on sales of the "red" and "yellow" certificates for generators of energy in co-generation,
- the number of CO<sub>2</sub> emission allowances allocated free of charge, as well as the price of the allowances purchased - under the circumstances of the deficit in free allowances,
- geological and mining conditions,
- electric energy prices on the wholesale market;

- sales prices of electric energy and coal as well as distribution tariffs, as factors influencing the level of revenues,
- 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 grids owned by TAURON Capital Group.

The activity of TAURON Capital Group demonstrates seasonality which refers, in particular, to production, distribution and sales of heat, distribution and sales of electric energy to individual consumers and sales of coal to individual consumers for heating purposes. Sales of heat depends on the atmospheric conditions, in particular, on the air temperature, and it is higher in the autumn and winter season. The level of electric energy sales to individual consumers depends on the length of a day, which usually makes electric energy sales in this group of consumers lower in the spring and summer season and higher in the autumn and winter season. Sales of coal to individual consumers is higher in the autumn and winter season. The seasonality of the remaining areas of the Group operations is limited.

#### **4.7 Position of the Management Board concerning a possibility to implement forecasts of results for a given year, published earlier**

TAURON Capital Group did not publish any forecasts of financial results for 2014. The financial situation of TAURON Capital Group is stable and no negative events occurred which would cause any risk to its business continuity or significant deterioration of its financial standing.

The detailed description of the financial situation understood as the provision of financial resources for both the operational and investment activity is included in chapter 4.

### **5. Other information and events which occurred in the third quarter of 2014**

#### **5.1 Significant events which occurred in the third quarter of 2014**

##### **Confirming of the Fitch agency rating for TAURON Polska Energia S.A.**

On 18 July 2014, the Fitch rating agency confirmed the rating for the Company in foreign and local currency at the "BBB" level, with a stable perspective. According to the Fitch agency, the ratings reflect the leading position of the Group in electric energy distribution and generation segments in Poland. Significant share of stable and predictable distribution segment in the EBITDA result (60% in 2013) has a positive impact on the rating. The ratings are limited by weaker financial results of the generation segment, low diversification of fuels (dominating position of hard coal) and the increasing leverage resulting from major capital expenditures spent on replacement and development of generation capacity.

The Company informed of this event in the Current Report No. 31/2014 of 18 July 2014.

## **Shareholder's request to convene Extraordinary General Meeting of TAURON and include particular items on the agenda**

On 29 July 2014 the Company received, in electronic form, a request from KGHM - the shareholder representing 10.39% of the share capital of the Company, to convene an urgent Extraordinary General Meeting of the Company, pursuant to the Company Articles of Association and the By-Laws of the Company General Meeting, and to include an item concerning supplementary election of new members of the Company Supervisory Board on the agenda of the Meeting. In the justification KGHM stressed that extending the current composition of the Supervisory Board would enable wider representation of shareholders in the Supervisory Board and have a positive impact on implementation of statutory responsibilities of this governing body.

The Company informed of this event in the Current Report No. 32/2014 of 30 July 2014.

## **Extraordinary General Meeting of TAURON**

In connection with the request of KGHM, the shareholder, to convene an urgent Extraordinary General Meeting of TAURON, and to include an item concerning supplementary election of new members of the Company Supervisory Board on the agenda of the Meeting, on 1 September 2014 the Extraordinary General Meeting of the Company had been held, which adopted the resolution concerning the defining of the number of Supervisory Board Members and the resolution on the appointment of three new members of the Board.

The Company informed of the aforementioned event in the Current Report No. 35/2014 of 1 September 2014.

## **Appointment of members of the Company Supervisory Board**

On 1 September 2014, the Extraordinary General Meeting of the Company, acting pursuant to § 22 section 1 of the Company's Articles of Association adopted a resolution on appointment of the following persons to the Company Supervisory Board of the fourth common term of office as of 1 September 2014: Maciej Koński, Leszek Koziorowski and Maciej Tybura.

The Company informed of this event in the Current Report No. 36/2014 of 1 September 2014.

## **Signing of Shareholders' Agreement under the nuclear power plant preparation and construction project and the consent of the President of the Office for Competition and Consumer Protection for concentration**

In the period of three first quarters of 2014, the parties to the draft Shareholders' Agreement, initialled on 23 September 2013 by ENEA S.A. (ENEA), PGE Polska Grupa Energetyczna S.A. (PGE), TAURON Polska Energia S.A. (TAURON) and KGHM Polska Miedź S.A. (KGHM) continued the works under the project on preparation for construction of a nuclear power plant in Poland through the development of updated provisions of the draft Shareholders' Agreement, including the attachments. The Parties agreed on the final draft of the Shareholders' Agreement.

On 3 September 2014, ENEA, PGE, TAURON and KGHM concluded the Shareholders' Agreement under which ENEA, TAURON and KGHM, as Business Partners, shall purchase from PGE, under a separate agreement, 30% shares in total (each of the Business Partners will purchase 10% shares), in a special purpose vehicle – PGE EJ 1 sp. z o.o. (PGE EJ1), which is responsible for preparation and execution of the investment comprising the construction and operation of the first Polish nuclear power plant of approximately 3,000 MW<sub>e</sub> capacity (the "Project"). In accordance with the assumptions, PGE will act as the Project leader and PGE EJ1 will act in the capacity of the plant operator in the future. The prerequisite for purchasing shares in PGE EJ 1 by the Business Partners is to obtain the consent of the President of the Office for Competition and Consumer Protection (OCCP) for concentration. The relevant application was filed by the Parties to the Shareholders' Agreement on 1 August 2014. On 7 October 2014 the OCCP President issued the unconditional permission for the concentration, consisting in the establishment of a joint undertaking under the company name PGE EJ 1 sp. z o.o. by the Parties to the Shareholders' Agreement.

Pursuant to the Shareholders' Agreement, the Parties undertake jointly, proportionally to the number of shares they hold, to finance the activities scheduled for years 2014-2016 of the preliminary stage of the

Project (Preliminary Stage). The purpose of the Preliminary Stage is to define such elements as prospective partners, including the strategic partner, technology supplier, EPC (Engineering, Procurement, Construction) contractor, nuclear fuel supplier and obtaining funds for the Project, as well as organisational and competence related preparation of PGE EJ 1 to the role of the future operator of the nuclear power plant responsible for its safe and efficient operation (Integrated Procedure). Pursuant to the Shareholders' Agreement, the financial involvement of TAURON during the Preliminary Stage should not exceed the amount of approximately PLN 107 million and it should comprise the contribution of funds up to the said amount to increased share capital of PGE EJ 1.

Parties to the Shareholders' Agreement estimate that further decisions concerning the Project, including the decision on declaring participation of individual Parties in further stages of the Project, should be taken after the completion of the Preliminary Stage, directly before settlement of the Integrated Procedure.

The Company informed of this event in the Current Report No. 38/2014 of 3 September 2014.

## 5.2 Other events which occurred in the third quarter of 2014

### **The process of winding up/ liquidation of the subsidiary - Polska Energia – Pierwsza Kompania Handlowa Sp. z o.o**

On 2 July 2014 the Extraordinary General Meeting of Shareholders of the company Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. (PE-PKH), adopted the resolution on winding-up and liquidation of the PE-PKH company, in which TAURON holds 100% interest in the share capital and 100% share in the general number of votes at the Meeting of Shareholders. The decision on the liquidation of the PE-PKH company has been taken for economic reasons and it is also an element of the reorganisation measures intended to simplify and streamline the structure of TAURON Polska Energia S.A. Capital Group. (Current Report No. 29/2014 of 2 July 2014)

On 27 October 2014 (an event after the balance sheet day), a request for liquidation bankruptcy of PE-PKH was filed with the District Court in Tarnów, 5th Commercial Division. The request was filed by the liquidators of the company. The reason for filing the request is the fact that PE-PKH counterparties reported possible future claims whose value exceeds the value of PE-PKH assets (Current Report No. 41/2014 of 27 October 2014).

### **Exceeding of the 10% equity threshold within the trading turnover between TAURON Capital Group companies and PSE S.A. Group companies**

On 8 July 2014 the Company informed that the value of net trade turnover generated between companies of TAURON Capital Group and companies of PSE Group since 15 October 2013 amounted to PLN 2,035 million (including approximately PLN 1,389 million of cost items for the companies of TAURON Group and approximately PLN 646 million of income items), accordingly, the value of the turnover exceeded 10% of the Issuer's equity. The turnover of the highest value, i.e. about PLN 707 million net, was generated under the agreement of 16 December 2013, concluded between TAURON Dystrybucja S.A. and PSE (the Agreement). The subject of the Agreement is the provision of transmission services by PSE Operator, understood as transport of electric energy via the transmission grid. The agreement was concluded for indefinite period of time. The estimated value of this Agreement during the period of 5 years following its conclusion, is about PLN 6,661 million. The services are cleared in accordance with the terms and conditions and charges approved by the President of the Energy Regulatory Office, defined in the tariff, and taking into account the provisions of the Instruction for Transmission System Operation and Maintenance (IRiESP). The Agreement does not stipulate any liquidated damages. The Agreement does not include conditions precedent or subsequent.

The Company informed of this event in the Current Report No. 30/2014 of 8 July 2014.

### **Signing the agreement of the consortium establishing the Motorway of Technology and Innovation Institute**

On 15 July 2014, 23 institutions, including: 18 universities, 2 institutes and 3 enterprises (including TAURON) signed the agreement of the consortium establishing the Motorway of Technology and Innovation Institute. The leaders of the project are two Polish technical universities: Wrocław University of Technology and AGH University of Science and Technology. The partners of the consortium will closely collaborate on implementation of large research and development projects, and they also intend to concentrate their activities within the substantive areas compliant with the research fields defined by the project on *Technological Foresight of Industry – InSight 2030* as well as with the national and regional smart specialisations.

### **Obtaining the gas tariff by TAURON Sprzedaż**

Pursuant to the decision of 17 July 2014 the President of the Energy Regulatory Office approved the "Tariff for methane-rich natural gas" for TAURON Sprzedaż sp. z o.o for a period of 12 months following its application. At the same time, in the third quarter of 2014, the TAURON Sprzedaż company reached the legal and organisational capacity for the commencement of gas fuel sales in the business market area. The commencement of gas fuel sales resulted in the introduction of the TAURON Gas product dedicated to the segment of business clients into the offer. The commencement of gas sales offering in the mass market is scheduled for 2015.

### **The project associated with the planned separation of wind assets**

Since August 2014, TAURON Polska Energia S.A. has been executing a project concerning the spin-off of wind assets from TAURON Ekoenergia Sp. z o.o and their transfer to a special purpose vehicle, followed by sales of majority shares in this company. On 26 August 2014 the special purpose vehicle - Marselwind sp. z o.o. was established, where TAURON Polska Energia acquired 100% shares. The following wind farms will be included in the special purpose vehicle: Lipniki, Marszewo, Wicko and Zagórze. The termination of the process associated with the separation of assets connected with wind energy from TAURON Ekoenergia, their transfer to the special purpose vehicle and sales of majority shares, is scheduled in the first quarter of 2015. The splitting of the divided company, i.e. TAURON Ekoenergia, shall be performed pursuant to Article 529 § 1 item 4 of the Code of Commercial Companies, through the spin-off and transfer to the acquiring company of the separated part of the divided company assets, constituting and organised part of the enterprise, in exchange for the shares of the acquiring company, to be taken over fully by TAURON Polska Energia S.A.

The financial resources acquired due to sales of the majority share in the company to which the wind farms shall be allocated, will be used for financing of the consecutive wind projects. In the framework of the said process, the replacement of the inter-group debt is also planned (which was used for the purchase of construction of wind farms subject to the spin-off), by external financing, which will result in the improvement of the consolidated net debt ratio of TAURON Group.

### **Signing the Shareholders' Agreement with ArcelorMittal - planned allocation of Elektrownia Blachownia and ZW Nowa to TAMEH Polska**

In the framework of the conducted project on the establishment of a joint entity (Joint Venture) based on assets of ArcelorMittal Poland S.A. and TAURON Polska Energia S.A., the activities aimed at dividing of the following companies have been launched: ArcelorMittal Poland S.A., TAURON Ciepło sp. z o.o. and TAURON Wytwarzanie S.A. by allocating of Elektrociepłownia Kraków, Zakład Wytwarzania Nowa and Elektrownia Blachownia, respectively, as an organised part of an enterprise, to TAMEH Polska sp. z o.o.

On 11 August 2014, TAURON, together with companies of TAURON Capital Group (i.e. TAURON Wytwarzanie and TAURON Ciepło) and ArcelorMittal, jointly with companies of ArcelorMittal Group, concluded the Shareholders' Agreement concerning the establishment of an entity implementing the investment and operating tasks in the area of industrial power engineering. The joint entity will be established as a result of spin-off of Zakład Wytwarzania in Dąbrowa Górnicza from TAURON Ciepło, the Branch of Elektrownia Blachownia from TAURON Wytwarzanie, Elektrociepłownia Kraków from ArcelorMittal and contribution of the ArcelorMittal Energy Ostrava s.r.o. company by ArcelorMittal Ostrava. The Parties have also agreed on the Plan of dividing the companies. All the contributed energy assets closely cooperate with ArcelorMittal plants, respectively, in Poland and in the Czech Republic. In the project, the balance of the shares acquired, votes at the meetings of shareholders and persons to be appointed to the governing bodies of the company were also agreed (50%/50%).

The goal of the parties to the Shareholders' Agreement is to achieve the return on engaged assets at the expected level and, among others, to implement an investment programme adjusting the assets to the environmental requirements, as well as to launch full exploitation of metallurgical gas for the production of power media, if possible. The Agreement was signed for a period of 15 years, with a possibility of its extension. On 1 October TAURON and ArcelorMittal filed a request to the President of the Office for the Competition and Consumer Protection for approval of the concentration consisting in the establishment of a joint enterprise under the name TAMEH HOLDING sp. z o.o.

### **A project on modifications of settlement rules of the Operational Power Reserve**

On 27 September 2014 the Transmission System Operator, PSE S.A. (TSO) published the draft update card of the Instructions of Transmission Grid Operation and Maintenance - System Balancing and Congestion Management. The subject of the update is the modification of the settlement mechanism of the Operational Power Reserve (OPR), comprising the adjustment of the development method of operational power reserve prices (OPRP). In accordance with the draft, reduction of the OPRP level to PLN 17.03 /MW-h is expected in 2014. Although the draft of the update card has not entered into force, this information affected the temporary turbulences in wholesale market prices (also for the forward contracts for 2015).

Due to the termination of the consultation process, on 9 October 2014 the TSO submitted the update card to the ERO President for approval. It is assumed that the modified OPR mechanism shall be applied as of the date of entry into force of the update card, by the end of 2014 and in the subsequent years. In case of entry into force of this amendment, the revenues of the TAURON Wytwarzanie company due to the OPR in the fourth quarter of 2014 shall be reduced.

## **5.3 Market situation**

### **Prices on the Balancing Market**

The average weighted price of electric energy (not enforced for network-related reasons) on the Balancing Market in the third quarter of 2014 was by about PLN 65.76/MWh higher than prices in the corresponding period of 2013. The reasons of growth in this price may be attributed to the functioning of payments for the operational power reserve in peak hours, the current maximum price of which amounts to PLN 37.13/MWh and to the growth of the settlement price of CO<sub>2</sub> emission allowances on the Balancing Market (by approximately PLN 5.8/Mg CO<sub>2</sub> on average). The aforementioned prices were certainly affected by the relatively low level of power reserves in the National Power System (NPS), resulting from overhaul downtime. Due to the fact that the Balancing Market is one of the elements of the wholesale electric energy market, it is natural that the growth of prices in this segment is correlated with the general tendency of price growth in this market, in particular, with the increase in SPOT segment prices.

### **NPS balance**

According to the data of the Transmission System Operator, in the third quarter of 2014 a decline in electric energy production in the country by approximately 2.2% occurred, in relation to the third quarter of 2013. The main reason of the decline was the energy import at a level of about 0.6 TWh, whereas in the third quarter of 2013 we faced the export balance of 0.9 TWh (change by about 1.5 TWh). In addition, production of electric energy from wind sources increased by 26.5%, which is, inter alia, the consequence of the increase in installed capacity, year on year (by 442 MW YoY) and better wind conditions. The general decline in energy production affected mainly hard coal (by 5.2%) and, to a much lesser extent, lignite (by 1.1%). In the third quarter of 2014, the domestic energy consumption, in practice, remained at the same level (increase by approximately 0.3%).

The aforementioned circumstances had an adverse impact on the energy volume of sales from generation units of TAURON Capital Group in 2014, whereas the growth of prices in the Balancing Market and SPOT market resulted in the increased margin on electric energy sales from those units.

### **Draft Act on Renewable Energy Sources**

At present, works on the governmental draft Act on Renewable Energy Sources are continued. Since September 2014, the works on the draft act have been led by the sub-commission established by the Parliamentary commission on energy and energy-producing raw materials. It is planned that the commission should complete the works on the draft act in November. The draft shall be subsequently submitted to the Parliament for further proceeding. If the act is passed this year, it shall become effective as of January 2016.

### **G tariff for households in 2015**

The information published in the media indicates that the ERO President is considering the release of electric energy prices in the segment of households in 2016 at the earliest. Accordingly, it is assumed that the regulation of electric energy prices in this market segment will be also maintained in 2015.

## **6. Information and events which occurred after the balance sheet day**

### **6.1 Significant information and events which occurred after the balance sheet day**

#### **Approval of concentration granted by the President of the Office for Competition and Consumer Protection**

On 8 October 2014 the Company was informed about the decision of the President of the Office for Competition and Consumer Protection (President of the OCCP) regarding the application to perform concentration of companies. Having completed the antitrust proceedings initiated upon the request of TAURON Polska Energia S.A., PGE Polska Grupa Energetyczna S.A., KGHM Polska Miedź S.A. and ENEA S.A. (Applying Companies, Parties), the OCCP President issued the unconditional permission to perform the concentration comprising the establishment of a common enterprise under the company name: PGE EJ 1 Sp. z o.o. (PGE EJ 1) by the Applying Companies. The acquisition of the concentration approval is the prerequisite enabling the Parties to conclude the agreement for the purchase of PGE EJ 1 shares, defined in the Shareholders' Agreement.

The Company informed of this event in the Current Report No. 39/2014 of 9 October 2014.

#### **Affirming and assigning Fitch agency rating for TAURON Polska Energia S.A.**

On 24 October 2014, the Fitch rating agency (Fitch) confirmed international long-term foreign and local currency Issuer Default Ratings at "BBB" with Stable Outlook. Fitch also assigned TAURON Polska Energia S.A. international short-term foreign and local currency Issuer Default Rating of "F3", a National long-term rating of "A(pol)" with Stable Outlook and assigned an expected National senior unsecured rating of "A(pol)(EXP)" to a planned bond issue. According to the Fitch agency, the ratings reflect the leading position of TAURON Group in electric energy generation segment in Poland. Significant share of stable and predictable distribution segment in the EBITDA result has a positive impact on the rating. At the same time, the ratings are constrained by worse financial performance of the generation segment, concentrated generation fuel mix (mostly coal-fired plants) and Fitch's forecasts of a weakening of credit metrics, mostly due to large replacement and expansionary capex in the generation segment. On 5 November the Fitch rating agency (Fitch) allocated the final rating at "A(pol)" level for 5-year debentures of TAURON Polska Energia S.A.

### **6.2 Other events after the balance sheet day**

#### **Framework of the climate and energy policy up to 2030**

On 23 and 24 October 2014, a meeting of the European Council was held, during which the agreement on the climate and energy policy framework for the European Union after 2020 was signed. The main assumptions include a 40-per cent target of CO<sub>2</sub> emission reduction up to 2030, share of energy from renewable sources in the total electric energy consumption in the EU at a level of at least 27 per cent in 2030 (at a level of the entire EU), increase in energy efficiency by at least 27 per cent (a non-binding target).

The agreement stipulates that the EU Member States with a GDP per capita below 60 per cent of the EU average (including Poland) may opt to continue to give free CO<sub>2</sub> emission allowances to the energy sector up to 2030. Two per cent of emission allowances shall create a reserve to be allocated to the least affluent EU Member States. On the other hand, countries with the GDP below 90 per cent of the EU average will also receive additional CO<sub>2</sub> emission allowances. 10 per cent of the total number of all allowances shall be designed for such countries.

From the perspective of Poland, dividing of the emission reduction target binding at the EU level into sectors covered by the emission trading system (ETS) and those remaining outside this system is important. In the first case, the reduction at the EU level shall amount to 43 per cent, and in the second case - to 30 per cent.

In the final conclusions it was stated that the EU will revert to the issue of its climate targets after the Paris climate summit scheduled in 2015.

The developed framework of the future climate policy indicates that after 2020 it will be possible for the Polish energy sector to use the pool of free carbon dioxide emission allowances. However, the detailed rules on their allocation shall be defined in the future regulations.

Adopting of the framework climate policy by the European Council shall not impose the requirement to undertake works aimed at amendment of the Corporate Strategy and the investment portfolio of TAURON Group, both of which shall remain valid. Any detailed analyses of the impact of the adopted climate and energy policy framework after 2030 will be possible only after the specific drafts of detailed provisions are defined. The Group will follow the directions of new regulations on an on-going basis and any conclusions arising from analyses shall provide background for the development of the future investment strategy of TAURON Group.

#### **Issue of bonds**

On 4 November 2014 TAURON Polska Energia S.A. conducted the issue of five-year debentures with the value of PLN 1,750,000,000 on the domestic market. The issue was performed under the Programme of Bonds Issue, with the value of up to PLN 5 billion, concluded in July 2013. The interest rate of the bonds is floating, based on six-month WIBOR increased by a margin of 0.9 per cent, with an interest period of half a year. The funds acquired from the issue of bond will be allocated for the capital expenditure of TAURON Group.

## **7. Proceedings pending before the court, competent arbitration authority or public administration authority**

In the third quarter of 2014 no proceedings were pending in TAURON Capital Group (related to the Issuer or its subsidiaries) concerning liabilities and receivables 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 nine months, ended on 30 September 2014.

## **9. Information on granted guarantees, loan or credit sureties**

In the third 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, as of 1 July 2014 to the day of submission of this report, no other events occurred which are significant for the assessment of a possibility of fulfilment of the obligations by TAURON Polska Energia Capital Group.

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