

**REPORT OF THE MANAGEMENT BOARD
ON OPERATIONS OF
TAURON POLSKA ENERGIA S.A.
CAPITAL GROUP
FOR THE FINANCIAL YEAR 2012**

MARCH 2013

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1. ORGANISATION OF TAURON CAPITAL GROUP

1.1. Basic Information on TAURON Capital Group

As of 31 December 2012, the key companies of TAURON Capital Group, besides the parent company, TAURON Polska Energia S.A. (hereinafter referred to as the Company or TAURON) include 15 subsidiaries subject to consolidation, indicated in item 1.2.2. Moreover, TAURON Capital Group consists of 24 other subsidiaries as well as 13 affiliates with the capital share between 20%–50% and 28 companies with the capital share below 20%.

The parent company was established on 6 December 2006 under implementation of the *Programme for Power Engineering*. The founders of the Company included: The State Treasury represented by the Minister of Treasury, EnergiaPro S.A. with its seat in Wrocław (currently: TAURON Dystrybucja), ENION S.A. with its seat in Kraków (currently: TAURON Dystrybucja) and Elektrownia Stalowa Wola S.A. with its seat in Stalowa Wola (currently: TAURON Wytwarzanie). The Company was registered in the National Court Register on 8 January 2007 under the name of enterprise: Energetyka Południe S.A. The change of the Company enterprise to its current name, i.e. TAURON Polska Energia S.A., was registered on 16 November 2007. It should be mentioned that the company does not have any branches (plants).

TAURON Capital Group is a vertically integrated energy enterprise controlling the whole value chain, from coal mining to supply of electric energy to end clients. It performs its operations in all key segments of the energy market (excluding electric energy transmission which is the exclusive responsibility of the Transmission System Operator), i.e. in the area of coal mining, generation, distribution as well as trade of electric energy and heat. The vertical integration of TAURON Capital Group, including access to own hard coal resources and control of own generation assets, increases the stability of its revenues and margins.

Among the companies of TAURON Capital Group subject to consolidation, the most important subsidiaries include:

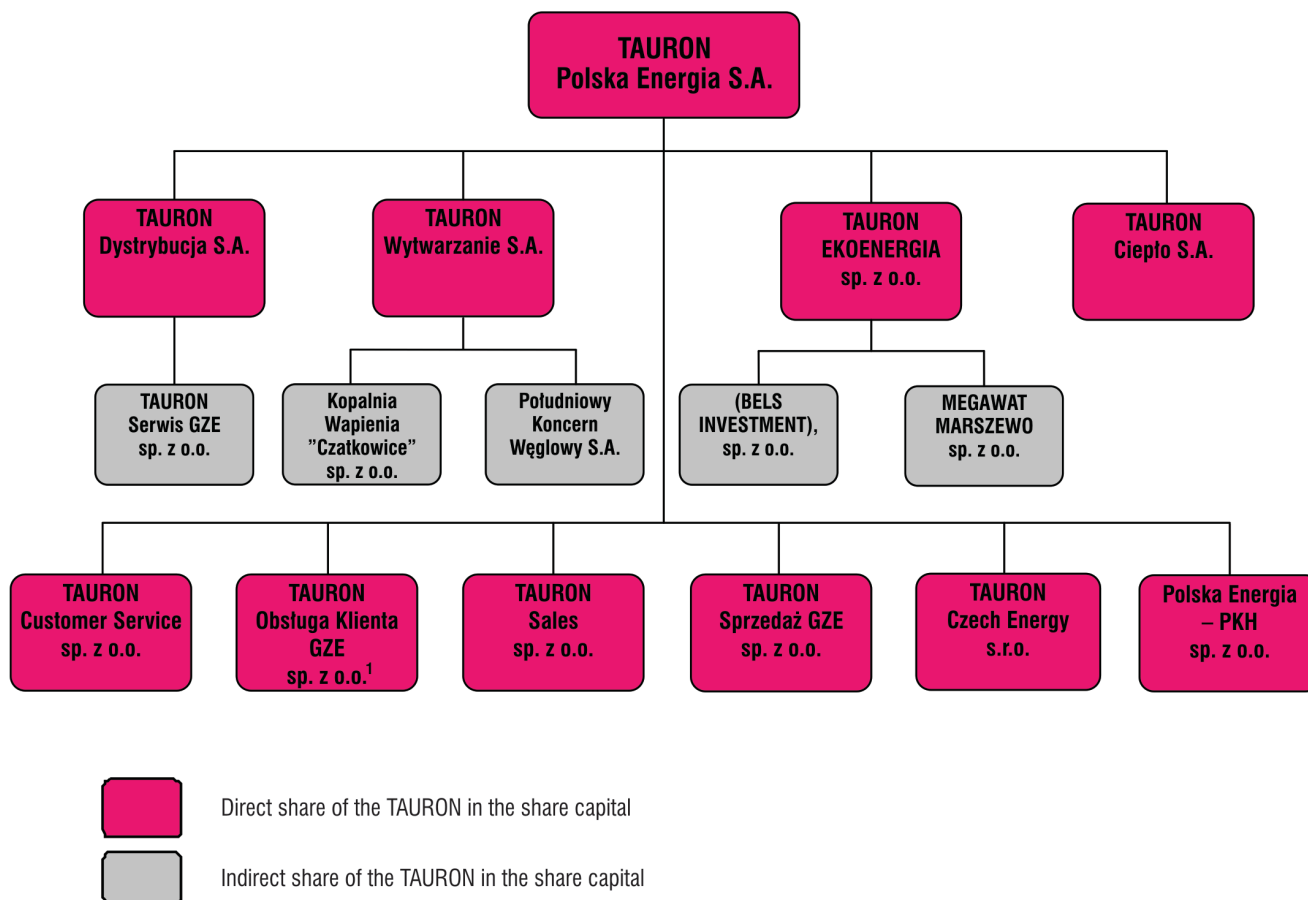
- 1) TAURON Dystrybucja S.A. (TAURON Dystrybucja) – providing electric energy distribution services,
- 2) TAURON Wytwarzanie S.A. (TAURON Wytwarzanie) – dealing with generation of power from conventional sources and biomass co-burning,
- 3) TAURON EKOENERGIA sp. z o.o. (TAURON EKOENERGIA) – dealing with generation of power from renewable sources,
- 4) TAURON Sprzedaż sp. z o.o. (TAURON Sprzedaż) and TAURON Sprzedaż GZE sp. z o.o. (TAURON Sprzedaż GZE) – dealing with sale of electric energy to retail clients,
- 5) TAURON Obsługa Klienta sp. z o.o. (TAURON Obsługa Klienta) and TAURON Obsługa Klienta GZE sp. z o.o. (TAURON Obsługa Klienta GZE) – dealing with customer service,
- 6) TAURON Ciepło S.A. (TAURON Ciepło) – dealing with heat generation, distribution and sales,
- 7) Południowy Koncern Węglowy S.A. (PKW) – dealing with hard coal mining.

Moreover, other subsidiaries subject to consolidation are involved, among others, in trade of electric energy and heat, extraction of limestone and stone for construction purposes as well as in implementation of investments in Renewable Energy Sources Area (RES).

1.2. Structure of TAURON Capital Group

The chart below presents the structure of TAURON Capital Group, including the companies subject to consolidation, according to the status as of 31 December 2012.

Figure no. 1 Structure of TAURON Capital Group, including the companies subject to consolidation, status as of 31 December 2012



¹ On 31 January, the merger of the companies TAURON Obsługa Klienta and TAURON Obsługa Klienta GZE was registered, as a result of which the company TAURON Obsługa Klienta GZE was taken over by the company TAURON Obsługa Klienta.

The information concerning the level of share in the share capital and in the regulatory authority of individual companies is covered in item 1.4 of this report.

1.2.1. Changes in organisation of TAURON Capital Group

In 2012 the following changes in organisation of TAURON Capital Group took place:

Purchase of shares or stocks of other companies

- On 16 April 2012 the Company became the sole shareholder of the company Górnośląski Zakład Elektroenergetyczny S.A. (GZE), in connection with finalisation of the process of forced redemption of GZE company shares, held by minority shareholders, executed in accordance with art. 418 of the Act of 15 September 2002, *Code of Commercial Companies*. Within the framework of the aforementioned process TAURON redeemed 307 shares of the GZE S.A. company, consequently becoming the holder of the total, i.e. 1,250,000 shares of this company. Accordingly, the share of TAURON in the share capital and in the votes at the General Meeting of GZE S.A. was increased from 99.98% to 100%.

The above process as well as the resulting incorporation of GZE by TAURON, was described in detail in item 2.6. of this report.

- On 4 April 2012 the Company signed the agreement concerning the transfer of the non-cash contribution (contribution in-kind) to the company TAURON EKOENERGIA, constituting 100% of the shares of the company ZEW Rożnów sp. z o.o., currently TAURON Ekoserwis sp. z o.o., to cover new shares in the share capital. On 18 April 2012 the District Court for Wrocław-Fabryczna in Wrocław registered the increase of the share capital of TAURON EKOENERGIA company from the amount of PLN 536,070 thousand to the amount of PLN 537,733, i.e. by the amount of PLN 1,663 thousand. The aforementioned activity resulted from the adopted *Strategy*

for the Development of Renewable Energy Sources Area in TAURON Group for 2011–2015, with estimates up to the year 2020, and its aim was to streamline the exploitation operations in the RES Business Area.

3. On 24 August 2012, the Company purchased 50,803,138 shares of its subsidiary, TAURON Ciepło from the State Treasury, constituting 0.06% of TAURON Ciepło share capital, for the amount of PLN 220 thousand. The aforementioned action resulted from the reorganisation assumptions in TAURON Capital Group, adopted by the Company, aimed at broader implementation of the "TAURON Group" management system, in relation to TAURON Ciepło company.
4. On 5 September 2012, TAURON Wytwarzanie S.A. and KGHM Polska Miedź S.A. ("KGHM"), established a special purpose vehicle under the name Elektrownia Blachownia Nowa sp. z o.o. (Elektrownia Blachownia Nowa) with its seat in Kędzierzyn Koźle. The Company was established to provide for comprehensive execution of the investment which will include preparatory works, construction and operation of a CCGT unit at a capacity of approximately 850 MWe on the premises of TAURON Wytwarzanie – Elektrownia Blachownia Branch. The aforementioned issues are described in detail in item 2.6. of this report.
5. On 14 December 2012 the District Court for Kraków Śródmieście in Kraków, 11th Commercial Department of the National Court Register issued the decision on registration of the increase in the share capital of the company TAURON Dystrybucja from the amount of PLN 251,175,903.45 to the amount of PLN 256,067,008.83, i.e. by the amount of PLN 4,891,105.38, in exchange for the in-kind contribution under the form of all shares of TAURON held in the company TAURON Serwis GZE sp. z o.o. (99.80%). In return for the in-kind contribution, TAURON took over the new shares in the increased share capital of TAURON Dystrybucja. Consequently, the company TAURON Serwis GZE sp. z o.o. ceased operating as the direct subsidiary of TAURON. Simultaneously, TAURON's share in the share capital of TAURON Dystrybucja company increased to 99.68%. Before the contribution to TAURON Dystrybucja, the share capital of the company TAURON Serwis GZE sp. z o.o. was divided into 500 shares, with 499 shares held by TAURON, while 1 share was held by the company TAURON Sprzedaż GZE sp. z o.o. On 7 December 2012 the aforementioned 1 share was disposed in favour of TAURON Dystrybucja.

Merger and division of companies

1. On 14 June 2012 the Company received the decision of the District Court Katowice–Wschód in Katowice, 8th Commercial Department of the National Court Register concerning issuance of the order of 12 June 2012 on entering the merger of the following companies to the register: TAURON (the Acquiring Company) and GZE (the Acquired Company). The merger was executed pursuant to art. 492 § 1 item 1 of the Act of 15 September 2002, *Code of Commercial Companies*, i.e. through assignment of the total assets of the Acquired Company to the Acquiring Company, without increasing the share capital and without any amendments to TAURON Articles of Association. The aforementioned operation was implemented under the project *Incorporation of GZE S.A. Company to TAURON Polska Energia S.A.* and was aimed at implementing the first stage of streamlining the structure of TAURON Capital Group following the acquisition of GZE S.A. Capital Group. As a result of the merger, the Company has taken over the stocks and shares in significant companies, formerly held by GZE.

The above mentioned process is described in detail in item 2.6. of this report.

2. On 30 April 2012 the District Court Katowice–Wschód in Katowice, 8th Commercial Department of the National Court Register issued the order on entering the merger of the following companies to the register: Elektrociepłownia Tychy S.A. (EC Tychy), Elektrociepłownia EC Nowa sp. z o.o. (EC Nowa) and Energetyka Ciepła w Kamiennej Górze sp. z o.o. (EC Kamienna Góra) (the Acquired Companies) and the company TAURON Ciepło (the Acquiring Company). The aforementioned activity was compliant with the *Corporate Strategy for TAURON Group for 2011–2015, with estimates up to the year 2020* (Corporate Strategy), adopted by the Management Board of TAURON and they constituted the next step in the development of the Heat Area in TAURON Capital Group.

The above mentioned process is described in detail in item 2.6. of this report.

3. On 1 June 2012 the District Court Wrocław–Fabryczna in Wrocław, 9th Commercial Department of the National Court Register issued the order on entering the merger of the following companies to the register: Lipniki sp. z o.o. (Lipniki) (the Acquired Company) and TAURON EKOENERGIA (the Acquiring Company). The merger was executed pursuant to art. 492 § 1 item 1 in conjunction with art. 516 § 6 of the Act of 15 September 2002, *Code of Commercial Companies*, i.e. through assignment of the total assets of the Acquired Company to the Acquiring Company, without increasing the share capital and without any amendments to the Company Articles of Association.
4. On 1 October 2012 the District Court Wrocław–Fabryczna in Wrocław, 9th Commercial Department of the National Court Register issued the order on entering the merger of the following companies to the register: TAURON EKOENERGIA (the Acquiring Company) and TAURON Ekoenergia GZE (the Acquired Company). The merger was executed pursuant to art. 492 § 1 item 1 of the Act of 15 September 2002, *Code of Commercial Companies*, i.e. through assignment of the total assets of the Acquired Company to the Acquiring Company. TAURON acquired 35,690 newly issued shares in the share capital of TAURON EKOENERGIA, increased to PLN 573,423,000.00. This merger was aimed at streamlining the structure of TAURON Capital Group following the acquisition of GZE S.A. Capital Group.
5. On 1 October 2012 the District Court for Kraków Śródmieście in Kraków, 11th Commercial Department of the National Court Register issued the order on entering the merger of the following companies to the register: TAURON Dystrybucja (the Acquiring

Company) and TAURON Dystrybucja GZE (the Acquired Company). The merger was executed pursuant to art. 492 § 1 item 1 of the Act of 15 September 2002, *Code of Commercial Companies*, i.e. through assignment of the total assets of the Acquired Company to the Acquiring Company. TAURON acquired 8,364,012,270 newly issued shares in the share capital of TAURON Dystrybucja, increased to PLN 251,175,903.45. This merger was aimed at streamlining the structure of TAURON Capital Group following the acquisition of GZE S.A. Capital Group.

- On 5 December 2012 the General Meeting of the companies: TAURON Ciepło and TAURON Wytwarzanie adopted the resolution concerning division of the company TAURON Wytwarzanie through demerger, under the provisions of art. 529 § 1 item 4 of the Act of 15 September 2002, *Code of Commercial Companies*, consisting in assignment of the separated asset components to the company TAURON Ciepło in exchange for the shares of TAURON Ciepło, taken over by one of the shareholders of TAURON Wytwarzanie, i.e. TAURON, including the proportional decrease of TAURON share in the share capital of TAURON Wytwarzanie. The process of dividing the company TAURON Wytwarzanie through separating the Branch of Elektrociepłownia Katowice in Katowice from its structures and assignment of assets of this Branch, including other shares of heat generating companies, to TAURON Ciepło, constitutes Stage III of the Project on Development of Heat Area. This process was carried out under the main objective of the Heat Area – increasing the value of TAURON Capital Group through integration of assets, optimisation of operating costs in the scope of heat distribution, providing heat supply for the generation entities of TAURON Capital Group and development of operations related to heat generation using small-scale cogeneration.

Other events

On 27 January 2012 the company CC Poland Plus sp. z o.o. was registered by the Registry Court of the National Court Register (CC Poland Plus), where TAURON is one of the shareholders (it holds 5.88% shares in the share capital). The company provided background for operations of the Polish node of Knowledge and Innovation Community – KIC InnoEnergy. The shareholders of CC Poland Plus, besides TAURON, include: KIC InnoEnergy SE, Akademia Górniczo-Hutnicza im. Stanisława Staszica (the Stanisław Staszic University of Science and Technology) in Kraków, Politechnika Śląska (Technical University of Silesia), Główny Instytut Górnictwa (Central Mining Institute), Instytut Chemicznej Przeróbki Węgla (Institute of Chemical Coal Processing), Uniwersytet Jagielloński (Jagiellonian University) and Politechnika Wrocławska (Technical University of Wrocław). The business partners of the project, without holding any shares, include: LOTOS S.A., Polskie Górnictwo Naftowe i Gazownictwo S.A. (PGNiG) and ZAK Kędzierzyn Koźle S.A.

Events after 31 December 2012

- On 2 January 2013 the District Court Katowice–Wschód in Katowice, 8th Commercial Department of the National Court Register issued the decision on entering the division of TAURON Wytwarzanie through demerger, to the register, under the provisions of art. 529 § 1 item 4 of the Act of 15 September 2002, *Code of Commercial Companies*, consisting in assignment of the separated asset components to the company TAURON Ciepło in exchange for the shares of TAURON Ciepło, taken over by one of the shareholders of TAURON Wytwarzanie, as described in detail above. As a result of the said division, the share capital of TAURON Ciepło was increased to the amount of PLN 1,238,076,553.56, whereas the share capital of TAURON Wytwarzanie was decreased to the amount of PLN 1,554,189,560.00. The share of TAURON in the share capital of TAURON Ciepło increased from 88.27% to 91.79%, whereas the share in TAURON Wytwarzanie decreased from 99.72% to 99.70%.
- On 7 January 2013 the General Meeting of the Shareholders of the companies: TAURON Obsługa Klienta and TAURON Obsługa Klienta GZE adopted resolutions concerning the merger by acquisition of the company TAURON Obsługa Klienta GZE (the Acquired Company) by TAURON Obsługa Klienta (the Acquiring Company). The merger was executed in accordance with art. 492 § 1 item 1 of the Act of 15 September 2002, *Code of Commercial Companies*, i.e. through assignment of the total assets of the Acquired Company to the Acquiring Company. On 31 January 2013 the District Court Wrocław–Fabryczna in Wrocław, 6th Commercial Department of the National Court Register issued the order on entering the merger of the following companies to the register: TAURON Obsługa Klienta and TAURON Obsługa Klienta GZE. TAURON acquired 22,021 newly issued shares in the share capital of TAURON Obsługa Klienta, increased to PLN 4,920,500.00. This merger is aimed at streamlining the structure of TAURON Capital Group.
- On 21 January 2013, TAURON Wytwarzanie redeemed shares acquired pursuant to art. 418¹ of the Act of 15 September 2002, *Code of Commercial Companies*. As a result of the aforementioned redemption, as of the day of its registration by the Registry Court of the National Court Register, i.e. 5 February 2013, the share capital of TAURON Wytwarzanie was decreased by the amount of PLN 1,153,400.00, from the amount of PLN 1,554,189,560.00 to the amount of PLN 1,553,036,160.00. In connection with the ongoing process of purchasing own shares by TAURON Wytwarzanie, on the day of this report, the share of TAURON in the company TAURON Wytwarzanie has amounted to 99.77% in the share capital and 99.78% in terms of votes at the General Meeting.
- On 25 February 2013 the Extraordinary General Meeting of Shareholders of Ośrodek Szkoleniowo-Wypoczynkowy Rożnów sp. z o.o. under liquidation (OSW Rożnów), which adopted the resolution on closing the operations of OSW Rożnów. The Company informed of the court registration of opening of the liquidation procedure in the current report No. 2/2012 of 10 January 2012.

1.2.2. Entities subject to consolidation

As of 31 December 2012, the following subsidiaries were covered by consolidation:

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

Moreover, TAURON Capital Group holds investments in joint projects: Elektrociepłownia Stalowa Wola S.A. (EC Stalowa Wola) and Elektrownia Blachownia Nowa which are evaluated by equity method in the financial statements.

Detailed information on companies covered by consolidation and on the Company share in their share capital and in their governing body, is presented in item 1.4 of this report.

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

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

Management Rules of the Company

In accordance with the provisions of the *By-laws of the Management Board of TAURON Polska Energia Spółka Akcyjna with its seat in Katowice*, the Management Board conducts all issues of the Company and represents it in all judicial and non-judicial proceedings. All issues connected with managing the Company not restricted by the regulations of law and provisions of the Company's Articles of Association for the General Meeting or the Supervisory Board lie within the competences of the Company's Management Board. Cooperation of two Members of the Management Board or one Member of the Management Board together with a proxy is required to submit statements on behalf of the Company.

Issues covered by competences of the Management Board as a collective body are described in detail in item 5.8.1. hereof.

The rules of managing the Company are also specified in the *Organisational Regulations of TAURON Polska Energia S.A.* (Organisational Regulations), pursuant to which the Company is managed by directly by the Management Board and through proxies, Directors of Departments and plenipotentiaries.

The President of the Board – Chief Executive Officer, manages current business activities of the Company and takes decisions on all issues concerning the Company, which are not restricted to decisions of the Management Board or other governing bodies of the Company, and supervises the performance of the division reporting to him directly. In particular, the President of the Management Board:

- 1) manages the internal business of the Company and represents it within the external contacts,
- 2) coordinates all the issues connected with the performance of the Management Board,
- 3) acts as the employer within the meaning of labour law regulations,
- 4) supervises the performance of the division which reports to him directly,
- 5) issues the internal regulatory acts and intra-corporate regulatory acts in accordance with the binding regulations,
- 6) takes decisions related to managing of the Company business as usual,
- 7) performs all the real functions and legal acts, taking into consideration implementation of the Company's goals and targets,
- 8) undertakes any other activities providing for effective and efficient performance of the Company.

Vice-Presidents of the Management Board:

- 1) manage the internal business of the Company and represent it within the external contacts,
- 2) manage the current business operations of the Company within the scope delegated as well as supervise the performance of the divisions which report to them directly,
- 3) take decisions on issues which are not subject to decisions of the Management Board, within the functions delegated to the subordinated business units as well as other decisions within the powers of attorney and authorisations granted to them by the Management Board or the President of the Board,
- 4) perform all the real functions and legal acts, taking into consideration implementation of the Company's goals and targets,
- 5) undertake any other activities providing for effective and efficient performance of the Company.

Directors of Departments:

- 1) manage the departments which report to them, being responsible for their performance results,
- 2) determine the goals, targets and tasks of individual business units included in the department they manage, within their subjective competence,
- 3) coordinate the structures subordinated to them, in accordance with the Company's interest and in compliance with the legal regulations,
- 4) implement the guidelines and recommendations of the Management Board Members and keep them informed of the performance of the subordinated department,
- 5) undertake any other necessary activities providing for effective and efficient performance of the subordinated department.

Business relations are based on the principle of a single person management which means that each employee has one direct supervisor from whom he/she receives instructions and tasks and towards whom he/she is responsible for execution of these instructions and tasks.

An exception to this rule is the so-called project reporting which is of temporary nature and based on a matrix. Such reporting system exists in relations among employees of the Company or the employees of the Company and companies of TAURON Capital Group, and it refers to persons who are members of project teams.

Management rules of "TAURON Group"

In 2012, the development of the management process of "TAURON Group" was continued, established by the Management Board from companies of TAURON Capital Group, understood as a consolidated economic body consisting of autonomous commercial law companies, led by the Company, as the parent entity.

The main internal regulatory act of "TAURON Group" is the *Code of TAURON Group* (Code) which regulates its operations, providing for implementation of the goals through the particular tailored solutions in the area of management of "TAURON Group" entities, including, in particular, determining the operating objectives of the companies, allowing for achievement of the adopted effects.

Considering the changes in organisation of the TAURON Capital Group, in 2012, the Management Board of the Company updated the allocation of membership of the companies to "TAURON Group". This update resulted from: concluding the agreement with Vattenfall AB in 2011, concerning the disposal of GZE company shares and acquiring the indirect control by TAURON over the subsidiaries of GZE, as well as the change of enterprise names these companies were acting under and registering the merger processes by the relevant registry courts, conducted in the Areas: Heat, Distribution and RES.

The most important of the above mentioned updates was performed on 18 January 2012, based on the resolution of the Management Board, concerning including the GZE subsidiaries to "TAURON Group". These entities received the status of "TAURON Group" member as of 24 January 2012, i.e. at the moment the General Meetings (WZ)/Meetings of Shareholders (ZW) of each of these companies adopted relevant resolution on entering "TAURON Group" by the aforementioned companies. Within the aforementioned meetings, amendments to the Articles of Association and Agreements of the above companies were also introduced, in connection with their entering the "TAURON Group".

The table below presents the list of companies of TAURON Capital Group included in "TAURON Group" as of 31 December 2012.

Table no. 1 List of companies of TAURON Capital Group included in "TAURON Group" as of 31 December 2012

No.	Company enterprise
1.	TAURON Polska Energia S.A. (parent company)
2.	Kopalnia Wapienia Czatkowice sp. z o.o. (KW Czatkowice)
3.	Polska Energia – Pierwsza Kompania Handlowa sp. z o.o. (PEPKH)
4.	Południowy Koncern Węglowy S.A. (PKW)
5.	TAURON Ciepło S.A. (TAURON Ciepło)

No.	Company enterprise
6.	TAURON Czech Energy s.r.o. (TAURON Czech Energy)
7.	TAURON Dystrybucja S.A. (TAURON Dystrybucja)
8.	TAURON EKOENERGIA sp. z o.o. (TAURON EKOENERGIA)
9.	TAURON Obsługa Klienta GZE sp. z o.o. (TAURON Obsługa Klienta GZE)
10.	TAURON Obsługa Klienta sp. z o.o. (TAURON Obsługa Klienta)
11.	TAURON Serwis GZE sp. z o.o. (TAURON Serwis GZE)
12.	TAURON Sprzedaż GZE sp. z o.o. (TAURON Sprzedaż GZE)
13.	TAURON Sprzedaż sp. z o.o. (TAURON Sprzedaż)
14.	TAURON Wytwarzanie GZE sp. z o.o. (TAURON Wytwarzanie GZE)
15.	TAURON Wytwarzanie S.A. TAURON Wytwarzanie)

Within “TAURON Group”, Business Areas operate, established by the Company Management Board, comprising the companies of “TAURON Group” as well as the established Management Areas within which the relevant cooperation rules apply. In addition, within “TAURON Group” four permanent committees of TAURON Group were operating:

- 1) Project Assessment Committee,
- 2) TAURON Group Management Committee,
- 3) TAURON Group Compliance Committee,
- 4) Committee on TAURON Group Corporate Strategy Implementation.

The Committees were established in order to achieve the performance of “TAURON Group” in accordance with the principles of operating coherence of the Group, in compliance with the law, the business of “TAURON Group” and its stakeholders.

The Committees perform the following functions:

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

The underlying task of the Committees is to provide surveillance towards implementation of the coherent actions by all the participants of the “TAURON Group”, compliant with the TAURON Group Code and for the benefit of “TAURON Group” business. The specific functions of the Committees are specified in the by-laws of their operations adopted by the Company Management Board. The Board Members of the Company act as Chairpersons of the aforementioned Committees.

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

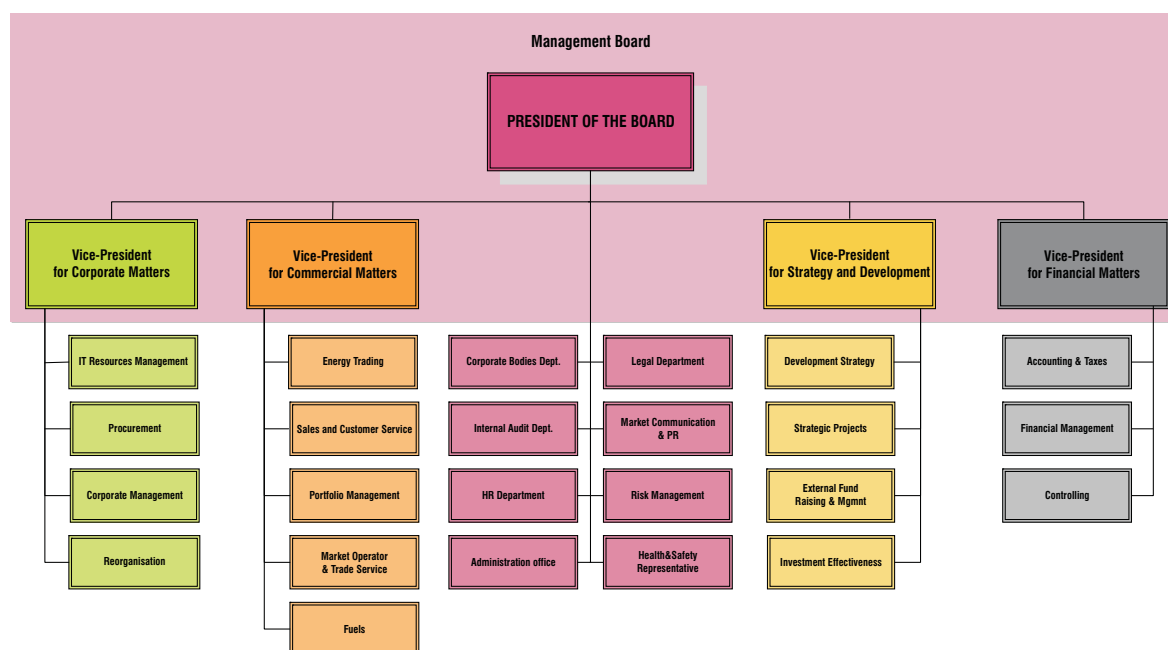
Changes in the management rules of the Company

In 2012 no changes were introduced in the scope of the Company management rules against those applicable in 2011, however, changes in organisational structure and responsibilities of the Company business units, included in the Organisational Regulations, were implemented, including:

1. changes adopted by the resolution of the Supervisory Board of 30 June 2012, covering:
 - 1) reorganization of processes in the Division of the President of the Board, aimed at the management process optimisation and aggregation of functions and tasks supplementary to the managerial and administrative processes within one organizational unit,
 - 2) reorganisation of processes in the Division of the Vice-President of the Management Board for Strategy and Business Development, aimed at providing the relevant management of external funds acquired for the Company and for the companies of TAURON Capital Group, through enhancing the capacity in terms of acquisition and managing the external funds and creating the strictly specialised competence in this scope;
2. changes adopted by the resolution of the Supervisory Board of 21 December 2012 (which entered into force on 1 January 2013), covering: modification of the responsibilities of the Chief Financial Officer, as well as functions of the reporting business units, in particular, those connected with the current financial and accounting services, due to their delegating for implementation by the Centre of Common Services – Accounting, simultaneously retaining tasks and functions of creative, supervisory and coordinating nature in the economic-financial area in TAURON Capital Group.

The organisational chart below presents the structure of divisions reporting to individual Board Members of the Company, to the level of business units reporting directly to the Members of the Management Board, effective as of 31 December 2012.

**Figure no. 2 Organisational Chart of TAURON Polska Energia S.A.
as of 31 December 2012**



Changes in the management rules of “TAURON Group”

In 2012 no changes in the management system of “TAURON Group” were introduced, however, changes were implemented in the scope of assigning the companies to Business Areas and updating the Rules of Cooperation in the Management Areas.

Changes in Business Areas and allocation of the companies to the specific Business Area

Considering the changes in organisation of TAURON Capital Group, in 2012, the Management Board of the Company updated the allocation of membership of the companies of “TAURON Group” to the specific Business Area or Business Areas. This update resulted from: including GZE subsidiaries to “TAURON Group” as well as the change of enterprise names these companies were acting under, and registering the merger processes by the relevant registry courts, conducted in the Areas: Heat, Distribution and RES. The table below presents the list of companies of TAURON Capital Group included in “TAURON Group” for the specific Business Area as of 31 December 2012.

Table no. 2 The table below presents the list of companies of TAURON Capital Group included in “TAURON Group” for the specific Business Area as of 31 December 2012

No.	Area (Segment)	Company enterprise
1.	Business Area: Mining	PKW
2.	Business Area: Generation	TAURON Wytwarzanie TAURON Wytwarzanie GZE**
3.	Business Area: Renewable Energy Sources (RES)	TAURON EKOENERGIA
4.	Business Area: Distribution	TAURON Dystrybucja TAURON Serwis GZE
5.	Business Area: Sales	TAURON Sprzedaż TAURON Sprzedaż GZE TAURON Czech Energy
6.	Business Area: Customer Service*	TAURON Obsługa Klienta TAURON Obsługa Klienta GZE
7.	Business Area: Heat	TAURON Ciepło
8.	Business Area: Other	KW Czatkowice PEPKH
9.	Support Area	–

* After the balance sheet day, prior to completing this report, merger of companies within Customer Service Area occurred – as indicated in item 1.2.1.

** TAURON Wytwarzanie GZE does not carry out any operating activity.

Changes in the scope of Rules of Cooperation in the Management Areas

In 2012 in the companies of “TAURON Group” the process of updating of Rules of Cooperation in the Management Areas, developed and implemented in the previous years, was carried out. According to the status as of 31 December 2012, in “TAURON Group”, the Rules of Cooperation operated in the following Management Areas:

1. designing the strategy and development methods of TAURON Group;
2. trade of fuel, energy and related products;
3. corporate governance;
4. strategic investment projects;
5. management of stock exchange information and investor relations;
6. international cooperation;
7. research and development projects, including projects in the area of new technologies and environmental protection;
8. external and internal communication;
9. risk management;
10. audit and control;
11. management of information and communication technology systems;
12. financial management;
13. controlling and management reporting;
14. accounting and taxes;
15. image marketing;
16. management of project implementation;
17. purchase of supplies and services;
18. proceedings, legal counselling and internal regulations.

1.4. Organisational or capital relationships

As of 31 December 2012, the Company held shares and stocks directly in the following significant subsidiaries:

Table no. 3 List of significant subsidiaries in which the Company holds direct share as of 31 December 2012

No.	Company name	Address	Core business area	Direct share in the company equity	Direct share in the company governing body
1.	TAURON Wytwarzanie	40-389 Katowice ul. Lwowska 23	Generation, transmission and distribution of electric energy and heat	99.72%	99.79%
2.	TAURON Dystrybucja ¹	30-390 Kraków ul. Zawila 65 L	Distribution of electric energy	99.68%	99.69%
3.	TAURON Sales	30-417 Kraków ul. Łagiewnicka 60	Electric energy trading	100.00%	100.00%
4.	TAURON Customer Service	53-128 Wrocław ul. Sudecka 95-97	Services	100.00%	100.00%
5.	TAURON EKOENERGIA ¹	58-500 Jelenia Góra ul. Obrońców Pokoju 2B	Electricity generation and electric energy trade	100.00%	100.00%
6.	PEPKH	41-400 Mysłowice ul. Obrzeźna Północna 12	Electric energy trading	100.00%	100.00%
7.	TAURON Heat ¹	40-126 Katowice ul. Grażyńskiego 49	Production and distribution of heat	88.27%	89.12%
8.	TAURON Czech Energy	720 00 Ostrawa Na Rovince 879/C Czech Republic	Electric energy trading	100.00%	100.00%
9.	TAURON Sprzedaż GZE	44-100 Gliwice ul. Barlickiego 2a	Electric energy trading	99.99%	99.99%
10.	TAURON Obsługa Klienta GZE	44-100 Gliwice ul. Wybrzeże Armii Krajowej 19b	Services	100%	100%

¹ In the year ended on 31 December 2012 changes in organisational and capital relationships occurred, which were mainly of re-organisational nature and which resulted from mergers of companies belonging to TAURON, as described more comprehensively in this report.

As of 31 December 2012, the Company indirectly held shares and stocks in the following significant subsidiaries covered by consolidation:

Table no. 4 List of significant subsidiaries in which the Company holds direct share as of 31 December 2012

No.	Company name	Address	Core business area	Indirect share in the company equity	Entity holding stocks/shares as of 31 December 2012	Indirect share in the company governing body	Entity holding stocks/shares as of 31 December 2012
1.	KW Czatkowice ¹	32-063 Krzeszowice 3 os. Czatkowice 248	Mining, crushing and granulation of limestone rocks and stone mining for construction needs	99.72%	TAURON Wytwarzanie – 100.00%	99.79%	TAURON Wytwarzanie – 100.00%
2.	PKW ¹	43-600 Jaworzno ul. Grunwaldzka 37	Hard coal mining	52.33%	TAURON Wytwarzanie – 52.48%	67.87%	TAURON Wytwarzanie – 68.01%
3.	(BELS INVESTMENT)	58-500 Jelenia Góra ul. Obrońców Pokoju 2B	Generation of electric energy	100.00%	TAURON EKOENERGIA – 100.00%	100.00%	TAURON EKOENERGIA – 100.00%
4.	MEGAWAT MARSZEWO	58-500 Jelenia Góra ul. Obrońców Pokoju 2B	Generation of electric energy	100.00%	TAURON EKOENERGIA – 100.00%	100.00%	TAURON EKOENERGIA – 100.00%
5.	TAURON Serwis GZE	44-100 Gliwice ul. Myśliwska 6	Repairs and maintenance of machines and electric equipment, electric installations, construction of electric power lines	99.68%	TAURON Dystrybucja – 100.00%	99.69%	TAURON Dystrybucja – 100.00%

¹ TAURON is the user of shares/stocks held by TAURON Wytwarzanie. As a result of signing of agreements on shares usufruct, TAURON holds 100% share in the share capital and the governing body of KW Czatkowice as well as 52.48% share in the share capital and the governing body of PKW company, providing 68.01% of votes at WZ of PKW.

Additionally, as of 31 December 2012, the Company also held indirect share and stocks in the following significant co-subsiaries:

Table no. 5 List of significant co-subsiaries in which the Company holds indirect share as of 31 December 2012

No.	Company name	Address	Core business area	Indirect share in the company equity	Entity holding stocks/shares as of 31 December 2012	Indirect share in the company governing body	Entity holding stocks/shares as of 31 December 2012
1.	EC Stalowa Wola	37-450 Stalowa Wola ul. Energetyków 13	Generation, transmission, distribution and trade of electric energy	49.86%	TAURON Wytwarzanie – 50.00%	49.90%	TAURON Wytwarzanie – 50.00%
2.	Elektrownia Błachownia Nowa	47-225 Kędzierzyn Koźle ul. Energetyków 11	Generation of electric energy	49.86%	TAURON Wytwarzanie – 50.00%	49.90%	TAURON Wytwarzanie – 50.00%

1.5. Major domestic and foreign investments

1.5.1. Purchase of shareholding securities

Among the events described in item 1.2.1 in the scope of purchase of shares and stocks in companies, the main investments of the Company included:

Purchase of GZE stocks

On 16 April 2012 the Company became the sole shareholder of GZE company, in connection with the completed process of forced redemption of GZE company shares, held by minority shareholders, executed in accordance with art. 418 of the Act of 15 September 2002, *Code of Commercial Companies*. Within the framework of the aforementioned process TAURON redeemed 307 shares of the company GZE S.A., becoming the owner of the total of 1,250,000 shares of this company. Accordingly, the share of TAURON in the share capital and in the votes at the General Meeting of GZE S.A. was increased from 99.98% to 100%.

The above process as well as the resulting incorporation of GZE by TAURON, was described in detail in item 2.6. of this report.

Taking over shares in TAURON EKOENERGIA company

On 4 April 2012 the Company signed the agreement concerning the transfer of the non-cash contribution (contribution in-kind) to the company TAURON EKOENERGIA, constituting 100% of the shares of the company ZEW Rożnów sp. z o.o., currently TAURON Ekoserwis sp. z o.o., to cover new shares in the share capital. On 18 April 2012 the District Court for Wrocław-Fabryczna in Wrocław registered the increase in the share capital of the company TAURON EKOENERGIA. The above mentioned process is described in detail in item 1.2.1 of this report.

Acquisition of shares of the company of TAURON Ciepło from the State Treasury

On 24 August 2012, the Company purchased 50,803,138 shares of the subsidiary, TAURON Ciepło from the State Treasury, constituting 0.06% of TAURON Ciepło share capital, for the amount of PLN 220 thousand. The above mentioned process is described in detail in item 1.2.1 of this report.

Acquisition of shares of new issue in the company TAURON Distribution

On 7 December 2012 the Company signed the agreement on assignment of non-cash contribution and the agreement on acquisition of registered shares of "I" series in the increased share capital of the company TAURON Dystrybucja, which was increased from the amount of PLN 251,175,903.45 to the amount of PLN 256,067,008.83, i.e. by the amount of PLN 4,891,105.38. On 14 December 2012 the District Court for Kraków Śródmieście in Kraków, 11th Commercial Department of the National Court Register issued the order on entering the increased share capital of TAURON Dystrybucja. The increase of the share capital occurred through the new issue of 489,111 thousand of registered shares of "I" series of the par value – PLN 0.01 and the issue price – PLN 0.40 which were totally acquired by the Company, in return for the in-kind contribution in the form of 499 shares of the company TAURON Serwis GZE, the fair value of which amounted to PLN 195,644 thousand. The above mentioned process is described in detail in item 1.2.1 of this report.

1.5.2. Purchase of debt securities and other securities

Acting on the basis of the implemented model of central financing as well as in accordance with the conditions of the operating programme of issue of internal bonds, in 2012 the Company was purchasing bonds issued by companies of TAURON Capital Group, with the annual maturity term. The major objective of bond issue was the acquisition of funds by companies of TAURON Capital Group for implementation of the investment programme and refinancing of the former debt.

The table below shows the value of issues taken over, divided into individual companies of TAURON Capital Group (issuers) as of 31 December 2012:

Table no. 6 Value of issues taken over, divided into individual companies of TAURON Capital Group (issuers)

No.	Company name (issuer)	Value of issues taken over, in thousand PLN
1.	TAURON Dystrybucja	630,000
2.	TAURON EKOENERGIA	140,000
3.	TAURON Wytwarzanie	1,480,000
4.	MEGAWAT MARSZEWO	240,000
5.	(BELS INVESTMENT)	125,000
Total		2,615,000

In addition, in 2012, the Company was investing available funds acquired within the cash pooling system operating in TAURON Capital Group, exclusively in bank deposits.

1.5.3. Implementation of strategic investments

In 2012, the following main strategic investment projects were continued in TAURON Capital Group:

- 1) construction of the steam and gas fired unit (BGP), including the heat generation component in Stalowa Wola – the investment is implemented with participation of the strategic partner – PGNiG. The investment is aimed at construction and commissioning of the new steam and gas fired unit of 400 MW_e power capacity and heating capacity of 240 MW_t. On 26 April 2012, the agreement between the company EC Stalowa Wola and the Spanish company Abener Energia S.A., the general contractor of the steam and gas fired unit in Stalowa Wola was signed, concerning the implementation of the investment. Delivery of the project is scheduled in 2015;
- 2) construction of the power unit of the capacity of 50 MW_e as well as 182 MW_t, adjusted to electric energy and heat generation within the area of Zespół Elektrociepłowni Bielsko-Biała (ZEC in Bielsko-Biała), a branch of TAURON Wytwarzanie. The investment is aimed at replacement of exploited and low-performing generation units, by the unit of high performance, complying with all environmental protection requirements concerning emissions of NO_x, SO₂ and particulate matter. Delivery of the investment project is scheduled in mid-2013;
- 3) construction of the wind farm of 40 MW capacity in the location of Wicko. On 24 August 2012 the site was handed over to the General Contractor – the Aldesa Nowa Energia consortium from Kraków and Aldesa Construcciones from Madrid. Delivery of the investment is scheduled in 2013;
- 4) construction of the wind farm of 82 MW capacity in the location of Marszewo. On 19 January 2012, the agreement with the General Contractor was signed – the consortium of companies: Iberdrola Engineering and Construction Poland and Iberdrola Ingenieria Y Construction on construction of a wind farm of 82 MW capacity. Construction and assembly works are in progress. Commissioning is planned in 2014;
- 5) construction of a steam and gas fired unit in Elektrociepłownia Katowice, including the heat generation component of power capacity 135 MW_e and heating capacity 90 MW_t. The process of contractor selection is in progress. Delivery of the project is scheduled in 2016;
- 6) construction of the co-generating biomass-fuelled unit of the capacity of 50 MW_e and 45 MW_t at the area of Elektrownia Jaworzno III, belonging to TAURON Wytwarzanie. The construction works were completed and the generation RES unit was commissioned on 31 December 2012;
- 7) modernisation of one of the boilers of Elektrownia Stalowa Wola belonging to TAURON Wytwarzanie, in order to adjust it to biomass burning. The investment has entered its final phase of implementation;
- 8) construction of new generating capacity in co-generation at the level of 50 MW_e and 86 MW_t in EC Tychy (currently TAURON Ciepło) and modernisation of the existing unit in order to adjust it to biomass burning. The investment was completed in 2012 in its part involving modernisation of the existing boiler and its adjustment to biomass burning. In December 2012 the occupancy permit was obtained. The process of selecting the contractor of a new unit is in progress and completion of this investment is scheduled in 2016;
- 9) construction of the new power unit of the capacity of 910 MW for supercritical parameters at the area of Elektrownia Jaworzno III belonging to TAURON Wytwarzanie. It is expected that the new unit will demonstrate high performance and availability as well as low levels of emissions of NO_x, SO₂, CO₂, and particulate matter. On 24 January 2013, as a result of resolving the procurement procedure, the RAFAKO S.A. consortium was selected as the General Contractor. (leader of the consortium), MOSTOSTAL WARSZAWA S.A. On 4 February 2013, two bidders (consortium leaders) China National Electric Engineering Co. Ltd. and SNC-LAVALIN j Sp. z o.o.

challenged the decision by submitting their appeal to the National Chamber of Appeals. Concluding the agreement with the General Contractor is scheduled in the second quarter of 2013. Completion of this investment project is planned in 2018;

- 10) construction of the installation for flue gas de-nitrification in 6 blocks of Elektrownia Jaworzno III and 4 blocks of Elektrownia Łaziska belonging to TAURON Wytwarzanie. This investment will enable to reduce the NOx emission in these units to the levels which shall be binding in Poland from 2018. Modernisation of blocks no 2 and 4 of Elektrownia Jaworzno III was completed, whereas for block no the works connected with guarantee tests are still continued. Moreover, works at block no 12 of Elektrownia Łagisza have been completed. The construction works are to be conducted until 2016;
- 11) construction of the new steam and gas fired unit of 850 MW capacity, natural gas burning, at the area of Elektrownia Blachownia. On 5 September 2012, the subsidiary, TAURON Wytwarzanie and KGHM established the special purpose vehicle under the name Elektrownia Blachownia Nowa for comprehensive implementation of the investment. Commissioning of the project is planned in 2017.

In 2012, the investment expenditure of TAURON Capital Group amounted to about PLN 3.472 million and it was higher by approximately 38.7% as compared to expenditure incurred in 2011, which amounted to about PLN 2,504 million. It results mainly from intensification of the strategic investment in the Business Areas: Generation, Heat, RES and Distribution. In terms of value, the main investment expenditure in 2012 was incurred for:

- construction of new and modernisation of existing generating capacity (PLN 473 million),
- construction of installations for reduction of NOx emission (PLN 216 million),
- construction of wind farms (PLN 310 million),
- construction of new electrical junctions in Distribution Business Area (PLN 502 million),
- modernisation of existing distribution grids (PLN 1,074 million).

Moreover, expenditure at the level of PLN 167 million was incurred in Mining Business Area, mainly for construction of underground excavations and purchase of new equipment.

2. OPERATIONS OF TAURON CAPITAL GROUP

2.1. Timeline of key events

The following timeline presents the key events related to operations of TAURON Capital Group which occurred in 2012.

Table no. 7 Timeline of key events

Month	Events in 2012
January February	<ul style="list-style-type: none"> Signing multi-annual and current contracts by the Company, concerning the purchase and resale of biomass as a fuel used for production of electric and heat energy. Signing the letter of intent with PGNiG concerning joint exploration and extraction of shale gas. Signing the agreement on construction of Marszewo wind farm of 82 MW capacity with the consortium of companies: Iberdrola Engineering and Construction Poland and Iberdrola Ingeniería Y Construction. Signing the agreement on co-financing of the construction of the biomass fuelled boiler in Elektrownia Jaworzno III – Elektrownia II with the Ministry of Economy (as the intermediary for the Operational Programme Infrastructure and Environment 2007–2013).
March April	<ul style="list-style-type: none"> Signing the annex to the agreement concluded on 11 March 2011 between TAURON and PGNiG and Elektrownia Stalowa Wola S.A. (ESW) concerning the implementation of the project: “Construction of the CCGT unit in Stalowa Wola”. Commencing the Company’s activity on the exchange ICE Futures Europe – ECX in London in the scope of CO₂ emission allowances trading on the forward market. Commencing the Company’s activity on the EEX exchange in the scope of CO₂ emission allowances trading. Signing the framework agreement between the Company and GDF Suez Trading concerning the settlement of any transactions to be concluded between the parties in connection with the purchase, sales, supply and consumption of electric energy. Registering the merger of the companies TAURON Ciepło, EC Tychy, EC Nowa and EC Kamienna Góra. Issuing the verdict by the Court of Appeal in Warsaw dismissing the appeal made by the President of Energy Regulatory Office against the decision of the District Court in Warsaw – Court for Competition and Consumer Protection of 26 May 2010, concerning determination of the amount of annual adjustment of stranded costs due to TAURON Wytwarzanie S.A. for the year 2008, in connection with the early termination of long-term contracts for electricity and power supply (the so-called LTC compensation). Signing the agreement between the Company and the National Fund of Environment Protection and Water Management (NFOŚiGW) on co-financing the modernisation of the heat unit in EC Tychy (currently included in TAURON Ciepło) in the scope of adjusting the unit to biomass burning only. Concluding the agreement with the company Abener Energia as the general contractor of the steam and power unit in Stalowa Wola. Obtaining the concession by the Company for gas fuel trading for a period of 10 years, issued by the President of Energy Regulatory Office (ERO).
May June	<ul style="list-style-type: none"> Registering of the extension of the Company activities by the District Court Katowice–Wschód in Katowice, 8th Commercial Department of the National Court Register by including crude petroleum and natural gas extraction, support activities for exploitation of deposits of these fuels, support activities for other mining and quarrying, manufacture and processing of refined petroleum products, manufacture of gas fuel and making test geological and engineering drilling and excavations. Registering the merger of the companies TAURON and GZE. Signing the agreement between the Company and Bank Handlowy w Warszawie S.A., ING Bank Śląski S.A., Bank Polska Kasa Opieki S.A., BRE Bank S.A., Powszechna Kasa Oszczędności Bank Polski S.A., Nordea Bank Polska S.A., Nordea Bank AB and BNP Paribas Bank Polska S.A. and Bank Zachodni WBK S.A. concerning the increase of the value of bond issue programme. Concluding the agreement between the Company as the Seller and TAURON Wytwarzanie as the Buyer, concerning regulating the terms and conditions of sale of hard coal acquired from various sources for power engineering purposes, to be used at power plants and combined heat and power plants belonging to TAURON Wytwarzanie, by the Company in favour of the Buyer. Signing the agreement between TAURON EKOENERGIA and the consortium Aldesa Nowa Energia sp. z o. o. and Aldesa Construcciones S.A. concerning the construction of Wicko wind farm. Registering the merger of companies TAURON EKOENERGIA and Lipniki.
July August	<ul style="list-style-type: none"> Signing the framework agreement between the Company and PGNiG, ENEA S.A. (ENEA), KGHM and PGE Polska Grupa Energetyczna S.A. (PGE) on the exploration and extraction of shale gas. Signing the credit agreement between the Company and the European Investment Bank on co-financing the implementation of the five-year investment plan aimed at modernisation and development of electricity grids of the company TAURON Dystrybucja. Approval of the European Commission on establishment of the special purpose vehicle for construction of the CCGT unit in Elektrownia Blachownia

Month	Events in 2012
September October	<ul style="list-style-type: none"> Establishment of the special purpose vehicle by TAURON Wytwarzanie and KGHM under the name Elektrownia Blachownia Nowa, responsible for the process of preparation, construction and exploitation of the CCGT unit at capacity of about 850 MW in Elektrownia Blachownia. Signing the letter of intent between the Company and PGE, KGHM and ENEA, concerning the purchase of shares in the special purpose vehicle PGE EJ 1 sp. z o.o., established for construction and exploitation of a nuclear power plant. Registering the merger of the companies TAURON Dystrybucja and TAURON Dystrybucja GZE. Registering the merger of the companies TAURON EKOENERGIA and TAURON Ekoenergia GZE. Approval of the tariff of the Company for gas fuel trading by the ERO President.
November December	<ul style="list-style-type: none"> Signing of the annex to the framework agreement between TAURON, PGNiG, ENEA, KGHM and PGE concerning the exploration and extraction of shale gas. Approval of the tariff for TAURON Dystrybucja by the ERO President. Extension of the period of effectiveness of the tariff for consumers in G tariff groups (connected to the TAURON Dystrybucja grid) until 30 June 2013 by the ERO President, approved for the company TAURON Sprzedaż sp. z o.o. pursuant to the decision of 16 December 2011. Signing of the letter of intent by the Company and PGNiG concerning the construction and exploitation of the gas-fired energy unit in Elektrownia Łagisza. Commencement of gas fuel sales by the Company.

2.2. Core Business Areas

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 Core Business Areas (hereinafter also referred to as Segments):

Mining, comprising mainly mining, preparation and sales of hard coal in Poland, the activity provided by PKW.

Generation, comprising mainly generating electric energy and heat from conventional sources, as well as generating electric energy and heat using biomass co-burning and other thermally acquired energy. The basic fuels used by Generation Business Area comprise hard coal, biomass and coke-oven gas. Within TAURON Group, TAURON Wytwarzanie acts in the Generation Area.

Renewables (RES), comprising generating electric energy from renewable sources (excluding generation of electric energy using biomass co-burning attributed to the Generation Segment), as well as managing of the TAURON Capital Group projects in the area of energy generating from other renewable energy sources. This activity is conducted by TAURON EKOENERGIA (jointly with the acquired company, TAURON Ekoenergia GZE) and the subsidiaries of TAURON EKOENERGIA: BELS INVESTMENT and MEGAWAT MARSZEWO.

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

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

Customer Service, covering mainly services provided to internal client (companies of TAURON Capital Group), in the scope of services related to the sales process and the financial-accounting process of selected companies of TAURON Capital Group. In 2012, the following companies acted in this area: TAURON Obsługa Klienta and TAURON Obsługa Klienta GZE.

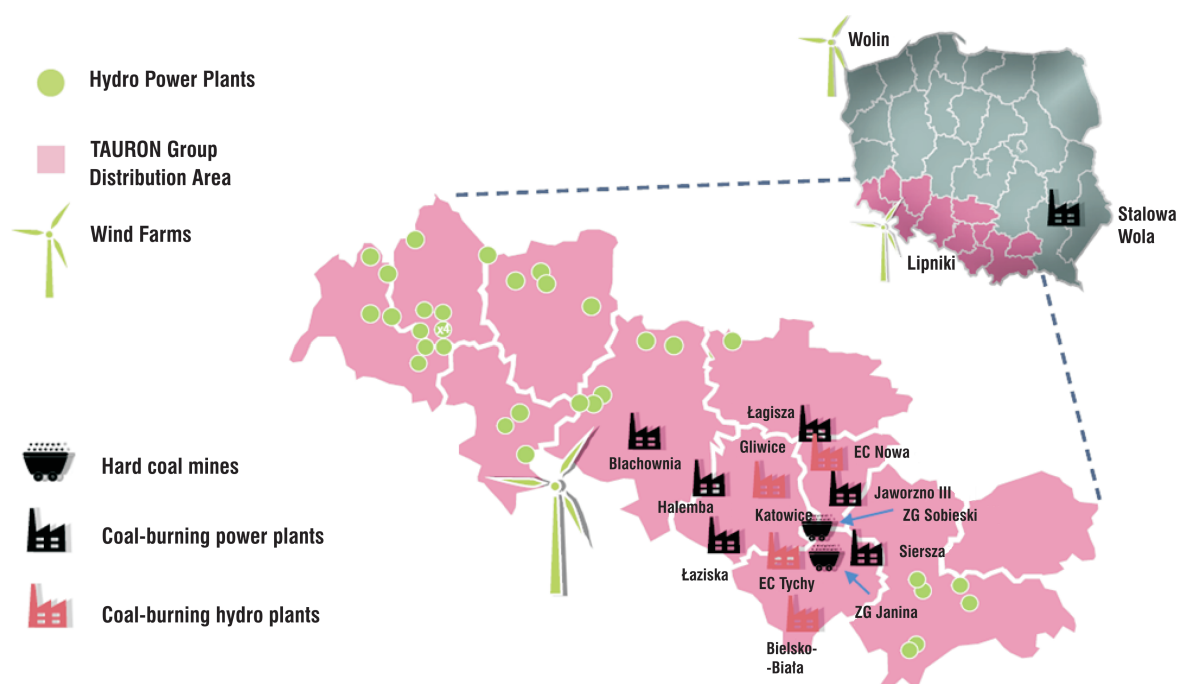
Heat, covering generation, distribution and sales of heat and other utilities, within which TAURON Ciepło operates (following the merger with the companies: Elektrociepłownia Tychy, Elektrociepłownia EC Nowa and EC w Kamiennej Górze). Until the end of 2011, the companies EC Tychy and EC Nowa were assigned to the Generation Business Area, while operations of TAURON Ciepło constituted a part of other activities of TAURON Capital Group until the end of 2011.

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

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

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

Figure no. 3 Location of key assets of TAURON Capital Group



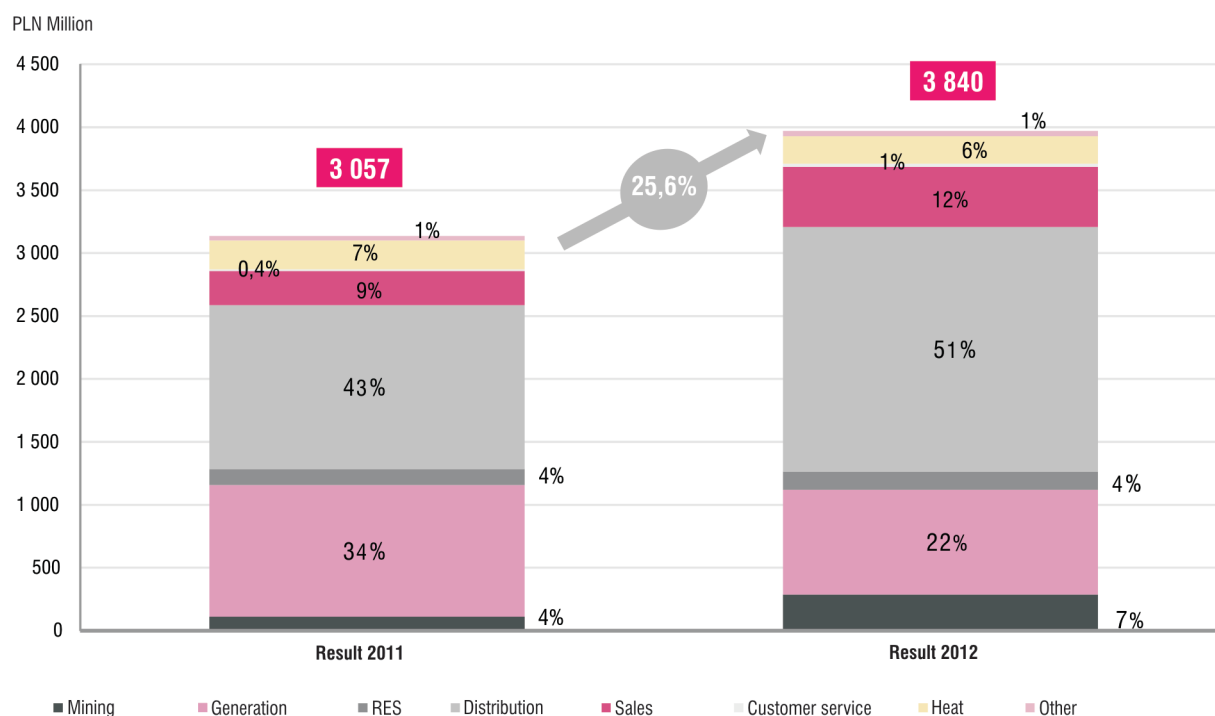
2.3. Financial results according to core business areas

The table below shows EBITDA results of TAURON Capital Group, divided into individual Core Business Areas (Segments) of operations for 2012 and 2011. The data for individual Business Areas do not include consolidation exclusions.

Table no. 8 EBITDA results of TAURON Capital Group, divided into Business Areas

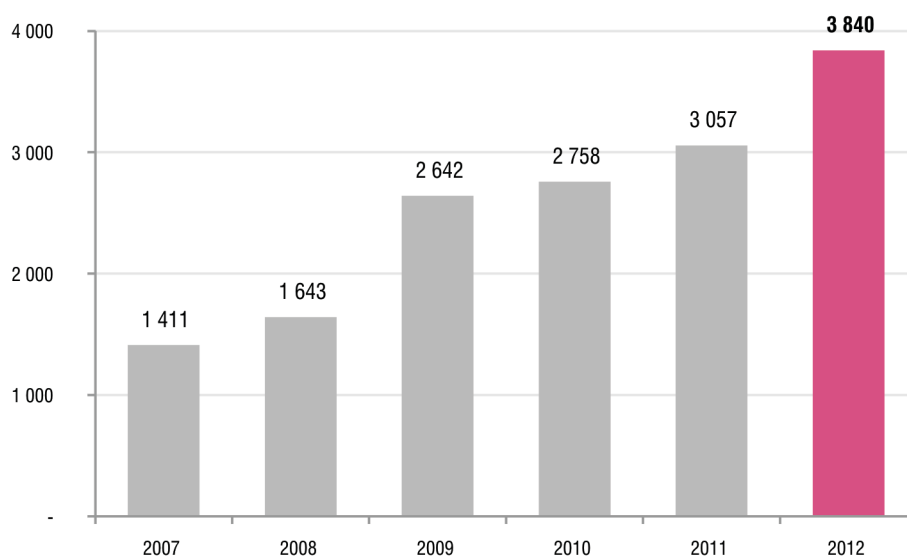
EBITDA (thousand PLN)	Year 2012	Year 2011	Dynamics (2012/2011)	Change (2012 vs. 2011)
Coal mining	287,431	111,040	258.9%	176,391
Generating electric energy and heat from conventional sources	832,744	1,047,145	79.5%	-214,401
Generation of electric energy and heat from renewable sources	143,450	126,036	113.8%	17,414
Distribution of electric energy	1,944,168	1,302,691	149.2%	641,477
Sales of energy and other products of the energy market	478,342	270,927	176.6%	207,415
Heat	217,630	229,030	95.0%	-11,400
Customer Service	25,131	12,704	197.8%	12,427
Other	42,347	37,165	113.9%	5,182
Non-attributable items and exemptions	(131,346)	(79,687)		
Total EBITDA	3,839,897	3,057,051	125.6%	782,846

Figure no. 4 Structure of EBITDA of TAURON Capital Group



The highest share in EBITDA of TAURON Capital Group is attributed to Distribution Business Area, additionally strengthened by acquisition of TAURON Dystrybucja GZE, as well as to Generation Business Area. As compared to 2011 the increased share in EBITDA structure was noted in Distribution Area, Mining Area, due to improved results achieved in 2012 as well as in Sales Business Area, also owing to the acquisition of the company TAURON Sprzedaż GZE.

Figure no. 5 EBITDA of TAURON Capital Group in the years 2007–2012



Coal mining

Table no. 9 Results of Mining Area

Specification (thousand PLN)	Year 2012	Year 2011	Dynamics (2012/2011)	Change (2012–2011)
Coal mining				
Revenue on sales	1,477,835	1,171,213	126.2%	306,622
<i>coal – coarse and medium assortments</i>	493,103	462,265	106.7%	30,838
<i>power coal</i>	948,567	676,948	140.1%	271,619
<i>other products and materials</i>	6,572	4,475	146.9%	2,097
<i>other services</i>	29,593	27,525	107.5%	2,068
Operating profit	174,945	11,200	1,561.9%	163,746
Amortisation	112,486	99,840	112.7%	12,646
EBITDA	287,431	111,040	258.9%	176,391

In 2012 revenue on sales in the Mining Segment increased by about 26.2% as compared to 2011 which results from the increase in average price of the coal sold by 7.6% as well as the increase in the sales volume by 18.5%. The increased revenue on sales was achieved mainly in the area of coal dust sold internally and outside TAURON Capital Group.

The increase in EBIT result from PLN 11.2 million in 2011 to almost PLN 175 million reached in 2012, resulted from higher sales dynamics in relation to the dynamics of generating cost of the coal sold (18.5% vs. 12.5%), due to the permanent nature of the majority of costs incurred by the company of Mining Area (PKW).

The main driving force of the quantitative growth of sales level was the increased production of commercial coal, reaching the level of 5.6 thousand Mg in 2012, which means the increase by 21.7% year-on-year, mainly due to the increased level of mining, uninterrupted by geological and mining problems which used to occur in 2011 and 2010 r., at simultaneous improvement of the qualitative parameters of the output transmitted to the PKW processing plants.

Generation of electric energy and heat from conventional sources

Table no. 10 Results of Generation Area

Specification (thousand PLN)	Year 2012	Year 2011	Dynamics (2012/2011)	Change (2012–2011)
Generation				
Revenue on sales	5,805,057	5,950,464	97.6%	-145,407
<i>electric energy</i>	4,315,449	4,776,271	90.4%	-460,822
<i>heat</i>	302,996	284,158	106.6%	18,838
<i>proprietary rights from certificates of electric energy origin</i>	417,808	250,313	166.9%	167,495
<i>greenhouse gases emission allowances</i>	163,591	180,547	90.6%	-16,956
<i>compensation due to LTC termination</i>	567,012	414,795	136.7%	152,217
<i>other services</i>	38,201	44,380	86.1%	-6,179
Operating profit	293,460	512,959	57.2%	-219,499
Amortisation	539,284	534,186	101.0%	5,098
EBITDA	832,744	1,047,145	79.5%	-214,401

In 2012 revenue on sales from the Generation Segment were lower by about 2.4% as compared to 2011 which results from the decrease in sales volume of electric energy, both in the scope of transactions concluded at the Polish Power Exchange (TGE) and sales inside the Company. The lower sales volume of electric energy from own production is mainly the consequence of unfavourable trends on the electric energy market, in particular:

- the decreased demand caused by the economic situation of the country (systematic decline of the Gross Domestic Product (GDP) to 0.7% in the fourth quarter of 2012). The national consumption of electric energy according to the data of PSE Operator decreased by about 0.6% YoY;
- lower electric energy prices in the neighbouring markets, affecting the trends in price level in Poland. The average energy price on the spot market in Poland in 2012 was lower by only 2.6% in Germany and as much as 33% higher than on the Scandinavian market;
- increased sales of electric energy generated in wind farms and other renewable sources. According to the information provided by ERO, the installed capacity of the licensed installations within the renewable energy sources increased from 3,082 MW at the end of 2011 to 4,416 MW at the end of 2012 (43% YoY);

- commissioning of a new unit at a capacity of 858 MW in Elektrownia Bełchatów at the end of 2011 (lignite of much lower production costs). According to PSE Operator the increase of production in lignite sources in 2012 reached about 3.7% YoY.
- high level of reduction of electricity production in coal-fired generation units, executed by PSE. Decrease of production in 2012 by almost 7% YoY.

Moreover, as compared to the previous year, the price trends at TGE were less favourable. The average price on the day ahead market (RDN) in 2012 decreased to PLN 173.59/ MWh, i.e. by almost 13% YoY. The average price of red certificates (PMEC) decreased by 60.8%, and in case of green certificates (PMOZE) – by 10.7%, which resulted in much lower revenue from sales of property rights. Revenue from sales of Regulatory System Services (RUS) was also lower, as well as from power reserves, due to the reduced demand of the National Power System (KSE) and the lower scope of nominations by the TSO to provide the Operating Reserve, in connection with takeover of part of this revenue by units of lower variable costs in relation to the Generation Area (e.g. the 858 MW unit in Bełchatów).

The higher level of revenue from sales of heat results from the higher average sales price and the higher volume of sales, in connection with the more favourable atmospheric conditions and increased demand of consumers for heat.

The impact of the majority of the aforementioned adverse factors was mitigated by higher revenue from compensation to cover stranded costs due to termination of the long-term contracts (KDT). The mechanism for calculating and disbursement of funds to cover the stranded costs occurring in connection with termination of LTC assumes that in case of deterioration of market conditions, the amount of compensation will grow (with the limitation of the maximum ceiling), and in case if the result is better than forecasted, the level of compensation will decrease. Therefore, this mechanism has a certain neutralising impact on potential negative market events. Year 2012 was the last year of participation of the company TAURON Wytwarzanie in the programme of compensation of stranded costs.

The EBIT and EBITDA operating results of Generation Segment in 2012 reached lower level than in 2011. The results recorded were negatively affected by the lower sales volume of electric energy from own production, increase of unit variable generation costs (mainly costs of consumption and purchase of production fuel, including biomass) and lower margin on certificates (due to the rapid decline of prices). Comparing to the previous year, the higher electric energy sales price, higher margin on heat sales and distribution, and higher margin gained on electric energy trading, had positive influence on the result.

Another factor which positively affected the results achieved was the implementation of transactions involving exchange of EUA (European Union Allowances) to the certified emission reduction units (CER). Within such transactions, the company of the Generation Segment sold the emission allowances EUA, granted within KPRUII (National Plan of Allowances Distribution), to the Company, simultaneously repurchasing the units of certified emission – CER/ emission reduction units – ERU. In the second settlement period (2008–2012), the Polish legislation permitted individual installations included in the Community system of CO₂ emission trading to cover 10% of the emission with the CER/ERU units. The value of these units on the European markets is lower than the value of EUA emission allowances, and the considerable difference in price enabled TAURON Capital Group to gain higher profit.

Generation of electric energy and heat from renewable sources

Table no. 11 Results of RES Area

Specification (thousand PLN)	Year 2012	Year 2011	Dynamics (2012/2011)	Change (2012–2011)
RES				
Revenue on sales	206,581	180,674	114.3%	25,907
<i>electric energy</i>	88,730	73,731	120.3%	14,999
<i>proprietary rights from certificates of electric energy origin</i>	117,172	106,093	110.4%	11,079
<i>other services</i>	679	851	79.8%	-172
Operating profit	103,879	100,622	103.2%	3,257
Amortisation	39,571	25,414	155.7%	14,157
EBITDA	143,450	126,036	113.8%	17,414

In 2012 revenue on sales in the RES Segment increased by about 14.3% as compared to 2011 which results mainly from the increased electric energy sales volume and increased sales of property rights arising from the certificates of origin of energy generated in RES. This increase was also the effect of including the assets of the renewable energy sources area of GZE, taken over by TAURON Capital Group in the structures of RES Segment.

The EBIT operating result and EBITDA result of RES Business Area reached higher level in 2012 than in 2011. The result of this Segment is mainly affected by the production volume of electric energy. Due to the unfavourable weather conditions which occurred mainly in the 3rd and 4th quarter of 2012 (long-term periods without rainfall) the hydroelectric plants generated about 34 GWh of electric energy less than in 2011. On the other hand, production from wind farms, higher by about 109 GWh in relation to 2011, had positive impact on the result (resulting from the whole year production in Lipniki and Zagórze (Wolin) wind farms acquired in 2011).

Distribution of electric energy
Table no. 12 Results of Distribution Area

Specification (thousand PLN)	Year 2012	Year 2011	Dynamics (2012/2011)	Change (2012–2011)
Distribution				
Revenue on sales	6,065,770	4,668,237	129.9%	1,397,533
<i>distribution services</i>	5,583,720	4,317,592	129.3%	1,266,128
<i>connection fees</i>	182,632	147,200	124.1%	35,432
<i>maintenance of street lightning</i>	100,090	76,169	131.4%	23,921
<i>other services</i>	199,328	127,277	156.6%	72,051
Operating profit	1,065,660	637,080	167.3%	428,580
Amortisation	878,508	665,611	132.0%	212,897
EBITDA	1,944,168	1,302,691	149.2%	641,477

In 2012, as compared to 2011, the Distribution Segment reached the increase in revenue by about 29.9%, increase of results at the operating level by about 67.3%, and EBITDA result by about 49.2%. The improved level of operating result may be mainly attributed to the acquisition of assets of GZE distribution area, higher compensation of return on the capital contributed and the measures undertaken in the area of cost effectiveness improvement. Moreover, the increase may be attributed to the following reasons of changes in the revenue and cost levels.

The total revenue reached in 2012 was higher as compared to the revenue reached in 2011, brought to comparability, due to the increase in revenue on sales of distribution services to end consumers (growth of sales volume and increase of the average unit rate for distribution services). Applying the tariff adopted for 2012, while maintaining the comparable sales structure, provided for the increase in the average rate for distribution services by 5% year-on-year. The increase in revenue was also noted in case of export sales, sales to other DSO and other revenues related to the distribution activity, including mainly the revenue from power thresholds exceeded. In terms of value, sales to end consumers in 2012 increased in relation to 2011 in each tariff group, while it decreased quantitatively in group A. In the scope of sales to other OSD, the value balance of energy transits in 2012 is positive, which means profit on purchase and sales operations of distribution services from/to other DSOs; this result is comparable to that reached in 2011.

Apart from higher revenues, the increased result of the Distribution Business Area was positively affected by lower operating costs in relation to the comparable data for 2011. The variable costs of the Area decreased in 2012, mainly due to the decline of the unit price of purchasing the transmission services from TSO. On the other hand, costs of purchase of energy for balancing differences needs increased, due to the increase in average purchase price of energy, which was accompanied by the comparable level of balancing difference, correlated with the supply volume, and the lower ratio of grid losses. In the scope of fixed costs, their total level increased in relation to 2011, and the main increases referred to amortisation and costs of external services. The increase in own costs of distribution is partly mitigated by the reduction of remuneration and benefits costs, in particular in connection with implementation of restructuring measures, including the *Voluntary Redundancy Programmes*. The level of EBIT was also negatively affected by results on other operating activity and other basic activity, i.e. in connection with lower frequency of collision of installations, lower result on street lightning services as a result of charging the assets separated from distribution activity (sales of street lightning services recognised without the adjustment has increased year-on-year).

Sales of energy and other products of the energy market
Table no. 13 Results of Sales Area

Specification (thousand PLN)	Year 2012	Year 2011	Dynamics (2012/2011)	Change (2012–2011)
Sales				
Revenue on sales	18,529,846	13,557,907	136.7%	4,971,939
<i>electric energy</i>	13,236,998	9,983,993	132.6%	3,253,005
<i>proprietary rights from certificates of electric energy origin</i>	1,785	284	627.6%	1,501
<i>greenhouse gases emission allowances</i>	376,240	436,503	86.2%	-60,263
<i>fuels</i>	1,727,565	0	–	1,727,565
<i>distribution service (transferred)</i>	3,090,684	3,080,015	100.3%	10,669
<i>other services, including commercial services</i>	96,574	57,112	169.1%	39,463
Operating profit	452,113	263,543	171.6%	188,570
Amortisation	26,229	7,384	355.2%	18,845
EBITDA	478,342	270,927	176.6%	207,415

Revenues on sales of the Sales Segment in 2012 reached higher level in relation to 2011. The result was positively affected mainly by acquisition of GZE sales area assets, while the results increased year-on-year also against the result brought to comparability. The increase may be attributed to the following reasons of changes in the revenue and cost levels.

The revenue on retail sales of electric energy in 2012 was higher than in 2011, both due to the increase of prices and of the volume. The quantitative increase in sales resulted from acquisition of business clients in 2012 and the higher energy consumption by industrial customers. On the other hand, the higher level of sales price of electric energy (by 1.5%) in 2012, as compared to 2011, was attributable to the growing energy purchase prices at the beginning of the year.

The higher year-on-year variable costs were determined by the growing energy purchase price, by 1.7% on average. The level of variable costs was positively affected mainly by lower purchase costs of the red and yellow certificates of origin whose market price significantly decreased in relation to the previous year – this effect is gradually mitigated by relatively higher, as compared to 2011, cost of fulfilment of the obligation to redeem green, yellow and violet certificates of origin. The fixed costs increased in 2012, against the level of costs reached in 2011, due to the higher costs of external services and costs of the acquired company of the GZE sales area.

Heat

Table no. 14 Results of Heat Area

Specification (thousand PLN)	Year 2012	Year 2011	Dynamics (2012/2011)	Change (2012–2011)
Heat				
Revenue on sales	980,047	950,169	103.1%	29,878
<i>electric energy</i>	97,185	99,506	97.7%	-2,321
<i>heat</i>	440,120	404,725	108.7%	35,395
<i>proprietary rights from certificates of electric energy origin</i>	13,295	27,836	47.8%	-14,541
<i>greenhouse gases emission allowances</i>	5,516	7,009	78.7%	-1,493
<i>wind of blast furnace</i>	146,327	149,711	97.7%	-3,384
<i>compressed air</i>	75,155	70,406	106.7%	4,749
<i>distribution and commercial services</i>	189,571	181,218	104.6%	8,353
<i>other services</i>	12,878	9,759	79.8%	3,119
Operating profit	148,634	160,631	92.5%	-11,997
Amortisation	68,996	68,399	100.9%	597
EBITDA	217,630	229,030	95.0%	-11,400

Revenue on sales of the Heat Segment in 2012 reached higher level than in the previous year. The increase was recorded in revenue on sales of heat and transmission services, and compressed air, whereas lower revenues were observed in electric energy sales (due to the lower volume caused by restructuring of a unit in the Tychy Generation Plant) and sales of property rights (due to the decline in market prices in 2012).

The EBIT operating result and EBITDA in 2012 were lower than in the previous year, however, it should be noted that the result in 2011 was significantly influenced by reversal of the impairment losses of fixed assets of previous years, at the level of PLN 31.3 million (it was a one-off event – the result for 2011, after bringing it to comparability, was lower than the result reached in 2012). The result achieved was positively influenced by the higher volumes of heat sales and distribution, higher sales prices of electric energy and heat as well as by lower fixed costs, whereas higher costs of fuels and lower volume of electric energy production due to restructuring of the unit in Tychy, had adverse effects.

Customer Service

Table no. 15 Results of Customer Service Area

Specification (thousand PLN)	Year 2012	Year 2011	Dynamics (2012/2011)	Change (2012–2011)
Customer Service				
Revenue on sales	338,644	225,261	150.3%	113,383
<i>customer service</i>	222,036	184,170	120.6%	37,866
<i>other products and services</i>	116,608	41,091	283.8%	75,517
Operating profit	12,008	10,030	119.7%	1,978
Amortisation	13,123	2,674	490.8%	10,449
EBITDA	25,131	12,704	197.8%	12,427

Revenue on sales in the Customer Service Area increased by about 50%, as compared to 2011, with the main reason attributable to the full recognition of the assets of the acquired GZE customer service in the reporting year (which was also significant in terms of the increased EBIT/EBITDA results as compared to the previous year). Moreover, the level of costs was affected by creation of provisions for the *Voluntary Redundancy Programme*. The increased costs were balanced by the extended scope of services provided as a standard under the SLA (*Service Level Agreement*; the agreement covers, among others, provision of services in the scope of standard customer service points, HR and payroll services, including debt collection) and by execution of additional orders. Limiting the IT services rendered for companies beyond TAURON Capital Group was of significant importance for the result of the Customer Service Area in 2012.

Other

Table no. 16 Results of "Other" Area

Specification (thousand PLN)	Year 2012	Year 2011	Dynamics (2012/2011)	Change (2012-2011)
Other				
Revenue on sales	486,288	482,403	100.8%	3,885
<i>electric energy</i>	311,774	363,362	85.8%	-51,588
<i>proprietary rights from certificates of electric energy origin</i>	72,594	22,645	320.6%	49,949
<i>grinding plant products</i>	64,254	54,493	117.9%	9,761
<i>grit and stone</i>	34,893	39,638	88.0%	-4,745
<i>other products and services</i>	2,773	2,265	122.4%	508
Operating profit	34,048	29,126	116.9%	4,922
Amortisation	8,299	8,039	103.2%	260
EBITDA	42,347	37,165	113.9%	5,182

Revenue on sales of the 'Other' Segment reached higher level than in the previous year. In PEPKH company, the lower volume of electric energy trading (drop by 7.4%), at the average sales price lower by 7.3%, was almost totally compensated by the revenue on trade of the property rights arising from certificates of origin of electric energy, mainly due to the significantly higher unit price obtained on the basis of the contracts concluded, at the scale of turnover lower by 6.5% than in 2011. The revenue of the area was positively influenced by the revenue on sales obtained by the company KW Czatkowice, where the higher sales prices of stone, limestone powder and sand were decisive, which generated higher revenue on sales of the products, by almost PLN 4.8 million, irrespective of the decreased volumes of sales.

The improved result of the Area in PEPKH company at the EBIT/EBITDA level was mainly attributable to the unit margin on turnover of the property rights (in PEPKH), which determined the result on turnover at the level higher by PLN 5.4 million than last year, reaching the value over three times higher than in 2011. The decreased sales price of electric energy was slightly compensated by the higher decrease of purchase price, whereas the result reached by KW Czatkowice company stayed at a level similar to that reached in 2011.

2.4. Basic products, goods and services

The table below presents volumes of production and sales in TAURON Capital Group for 2012, 2011 and 2010.

Table no. 17 Volumes of production and sales for 2012, 2011 and 2010

Volumes of production and sales	unit	Year 2012	Year 2011	Year 2010	Change (2012/2011)
Commercial coal production	<i>M Mg</i>	5.57	4.58	4.50	121.6%
Generation of electric energy (net production of the Group), including:	<i>TWh</i>	19.11	21.38	21.33	89.4%
<i>Net production of Generation Area</i>	<i>TWh</i>	18.35	20.60	20.85	89.1%
<i>Net production of RES Area</i>	<i>TWh</i>	0.45	0.38	0.48	118.4%
<i>Net production of Heat Area</i>	<i>TWh</i>	0.31	0.40	–	77.5%
Generation of electric energy from renewable sources of the Group, including:	<i>TWh</i>	1.22	0.99	1.10	123.2%
<i>Production of biomass from Generation Area</i>	<i>TWh</i>	0.76	0.61	0.62	124.6%
<i>Production of hydro plants and wind farms of the RES Area</i>	<i>TWh</i>	0.45	0.38	0.48	118.4%
Heat generation by the Group, including:	<i>PJ</i>	16.36	15.96	18.29	102.5%
<i>Production of heat from Generation Area</i>	<i>PJ</i>	11.05	10.93	17.25	101.1%
<i>Heat production by Heat Area</i>	<i>PJ</i>	5.31	5.03	1.04	105.6%

Volumes of production and sales	unit	Year 2012	Year 2011	Year 2010	Change (2012/2011)
Distribution of electric energy	TWh	47.85	38.24	37.52	125.1%
Retail sales of electric energy (in total, by Areas: Sales, Generation and Heat)	TWh	44.74	35.52	34.34	126.0%
Number of clients – Distribution	thous.	5,302	4,143	4,115	128.0%

2.5. Potential customers market and sources of supply

As mentioned in item 1.1, TAURON Capital Group is a vertically integrated energy enterprise controlling the whole value chain, from coal mining to supply of electric energy to end clients. The activities of the Company are governed by the provisions of the Act of 10 April 1997 *Energy Law*, including the regulations of the President of ERO. Consequently, TAURON Capital Group performs its operations in all key segments of the energy market (excluding electric energy transmission which is the exclusive responsibility of the TSO), i.e. in the area of coal mining, generation, distribution as well as sales and trade of electric energy and heat. Vertical integration of TAURON Capital Group allows for decreasing the dependence of TAURON Capital Group on external suppliers of hard coal, thus increasing the stability of the revenue and margins achieved by TAURON Capital Group.

Business Area: Mining

The PKW company acting within the Mining Business Area is a producer of coal offered for sale on the market in coarse, medium coal assortments and as power coal dust. Depending on the coal assortment, the coal has the following trade parameters:

- energy value from 19 MJ/kg to 23 MJ/kg,
- ash content from 9% to 16%,
- sulphur content from 1.0% to 1.4%.

PKW conducts the sales of coal in two directions:

- sales of fine coal and coal sludge to power plants and co-generation plants,
- sales of coarse, medium assortments and a limited amount of coal dust through the sales network organized all over the country.

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

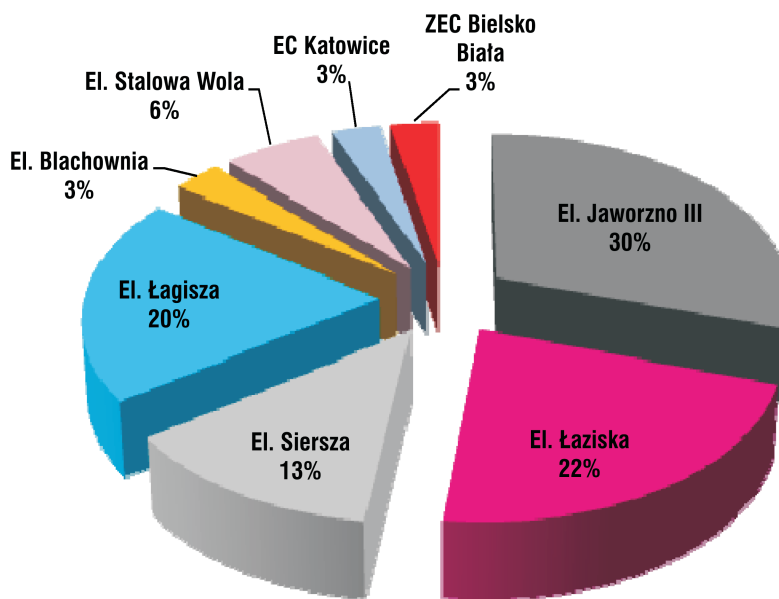
In 2012, sales of hard coal by PKW amounted to 5.4 million Mg, including 3.7 million Mg (about 69%) to the companies of Generation and Heat Segments of TAURON Capital Group.

Business Area: Generation

The basic activity of the Generation Area within TAURON Capital group covers generation of electric energy and heat, in 2012 provided by 7 conventional power plants: Jaworzno III, Łaziska, Siersza, Łagisza, Halemba (producing electric energy until the end of the first quarter of 2012), Blachownia and Stalowa Wola and by two co-generation plants: EC Katowice and ZEC Bielsko-Biała. Due to suspending the production in Elektrownia Halemba in March 2012, the Management Board of TAURON Wytwarzanie decided to sell the whole assets in this location; activities were undertaken aimed at preparing the power plant for sale.

The total installed electric capacity of the generation units of the Generation Area reached 5,182.7 MWe at the end of 2012. The main fuels used in the production process include hard coal, biomass and coke-oven gas.

Figure no. 6 Structure of the installed electric power of the Generation Segment as of 31 December 2012



Generation of electric energy and heat by TAURON Capital Group generation units depends on the supplies of hard coal. The main suppliers of coal for generators of TAURON Capital Group include Kompania Węglowa S.A. (Kompania Węglowa) (about 36% of the demand) and PKW (about 37% of the demand).

In 2012, the substantial majority of electric energy production of the Generation Area was sold based on transactions concluded at TGE, in accordance with the provisions of art. 49a, of the Act of 10 April 1997: *Energy Law*, effective as of 9 August 2010. This regulation obliged the energy enterprises dealing with generation of electric energy and entitled to receive funds to cover stranded costs, to sell electric energy generated (after taking into consideration contracts concluded before the introduction of amendments to the aforementioned Act as well as energy excluded from this obligation pursuant to legal regulations), in the manner providing for equal, public access to this energy, i.e. through open tender, on Internet trading platform on the regulated market or at TGE.

Due to the amendment of the aforementioned Act of 10 April 1997: *Energy Law*, sales of electric energy produced by Generation Area in 2012 to the Company was reduced and amounted to about 1.05 TWh. A limited volume of the electric energy generated is also sold to independent consumers connected in the past to the power plant and co-generation plant installations of the TAURON Capital Group.

The profitability of the Generation Area is influenced, among others, by the mechanisms of the Balancing Market which, under their current shape, practically do not transfer the costs of maintaining the so-called "cold reserve". In case of using the power reserves of the Generation Area for performance following the instruction of PSE (the so-called "enforced performance"), the mechanisms of the Balancing Market cover mainly the variable production costs. Such solutions reduce the profitability of the Generation Area.

Changes which were finally introduced by TSO in the Instructions of Transmission Grid Operation and Maintenance (IRiESP) in 2012, approved by the President of ERO, did not influence the revenue of the Generation Area for 2012.

Heat produced by Generation Business Area is sold to TAURON Capital Group companies which deal with distribution and sales of heat, as well as to external consumers.

Moreover, due to electric energy generation in RES as well as in co-generation, the Generation Area acquires certificates of origin, which are purchased and submitted to the President of ERO, to be redeemed by the companies of the Sales Business Area.

Business Area: RES

Electric energy generated in 2012 by the RES Area constituted 6.4% of the total energy generated within TAURON Capital Group. This energy was sold within TAURON Capital Group to TAURON Sprzedaż (about 79%) and to TAURON (about 3%), as well as beyond TAURON Capital Group, based on the agreement taken over due to acquisition of GZE assets – to ENEA Company (about 18%). The proprietary rights obtained due to production of electric energy in RES Area were sold to TAURON Sprzedaż, for the purpose of redemption, and to ENEA.

Business Area: Distribution

The company TAURON Dystrybucja acts as the DSO, pursuant to the decision of the President of ERO. The Distribution Area provides services to about 5.3 million end consumers, to whom it supplied approximately 45.2 TWh of electric energy in 2012, of the total volume of 47.9 TWh of the energy supplied by the company in 2012.

The activities of the Distribution Segment cover the area of about 57.2 thousand km², located mainly in the provinces of Śląskie, Małopolskie, Dolnośląskie and Opolskie and, in addition, in the provinces of Podkarpackie, Łódzkie and Świętokrzyskie. The operating functions are carried out by eleven branches of the company, located in: Bielsko-Biała, Będzin, Częstochowa, Jelenia Góra, Kraków, Legnica, Opole, Tarnów, Wałbrzych and Wrocław.

Electric energy is supplied to consumers classified according to the following tariff groups:

- A Group – consumers connected to high-voltage power grid,
- B Group – consumers connected to medium-voltage power grid,
- C, D and R Groups – consumers connected to low-voltage power grid,
- G Group – consumers using energy for household needs, irrespective of the voltage of the power grid.

Sales of distribution services is carried out on the basis of comprehensive agreements as well as agreements on provision of distribution services concluded with consumers. The first of the aforementioned types of agreements covers both sales of electric energy by the companies of the Sales Area and supply of energy by the DSO company. The second type of the agreements is the so-called split agreements, which refer only to the sales of distribution service. Under this type of agreements, consumers purchase electric energy in a selected individual sales company, on the basis of a separate agreement.

Sales value share as a part of the comprehensive agreements, within the total value of distribution services sales to end consumers fluctuates around 70%. On the other hand, the volume of supply as a part of comprehensive agreements within the total volume of supply to end consumers is about 50%.

Business Area: Sales

In 2012, within the Sales Area, TAURON Capital Group operated in the market environment which demonstrated variable level of competitiveness in individual market segments. Although energy enterprises dealing with energy trading in the segment of institutions and business entities (the so-called business clients) have been exempted from the obligation to submit prices for end consumers for approval by the President of ERO for several years, the segment of households is still covered with the obligation to have energy sales prices approved by the President of ERO. Such a situation has for several years been resulting in differentiation of market strategies of energy enterprises depending on the market segment, which is consequently demonstrated by the current variable level of competitiveness of individual markets (segments).

One of the measures of the competitiveness level of market segments is the number of clients (households, economic entities and institutions) changing the vendor of electric energy (the so-called TPA principle). In the segment of business clients, in 2012, the increase of this indicator by 200.8% was noted, in relation to 2011 (according to the status at the end of December 2012, the figure reached 65,327, whereas the number of TPA consumers at the end of December 2011 reached 21,716). This increase reflects the progressing energy market liberalisation in Poland which is influenced by, i.e. appearance of new entities, more and more aggressive fight for clients (mainly in terms of prices), increased transparency of energy market mechanisms and, consequently, the growing energy awareness of clients, causing price pressure on vendors.

The situation is different in case of the household segment, which, in spite of numerous communications concerning liberalisation, in 2012 was still bound by the obligation to approve sales prices by the President of ERO, and such model will continue to be binding also in 2013. The result of this situation is a very low competitiveness in this market area although in 2012 certain animation of competitive activities occurred. In this period, over 60 thousand households which changed energy vendor were recorded (growth in relation to the period 2006–2011, when less than 15 thousand households changed their vendor), however, considering the potential of this market, i.e. the general number of households in Poland, the above number only makes a limited percentage, and it shows the beginning of the liberalisation process of this part of the market.

Sales of electric energy to clients is mainly executed by three entities within TAURON Capital Group:

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

In 2012, the total sales of electric energy carried out by these entities to over 5 million end consumers amounted to 44.4 TWh.

In the past, companies conducting operations in the scope of electric energy sales to end business consumers implemented sales under tariffs approved by the President of ERO, established for individual tariff groups, i.e. groups of consumers connected to the distribution grid at the specific level of voltage. Accordingly, sales was conducted based on prices and fees approved for the so-called A tariff group for consumers connected to the high-voltage power grid (HV), B tariff group for consumers connected to the medium-voltage power grid (MV) and C tariff group for consumers other than households, connected to the low-voltage power grid (LV). As a result of liberalisation

of the energy market (release from the obligation to submit tariffs for approval by the President of ERO), in groups of clients other than households, TAURON Capital Group offers commercial terms for electric energy sales agreements, considering the competitive situation and tailored to individual clients' needs. The segmentation of clients used by TAURON Capital Group (strategic, business and mass clients), depending on the quantity of electric energy consumed, is aimed adjusting the product offer, sales channels and marketing communication to the expectations in the specific segment of clients.

In this way, companies conducting activities in the scope of electric energy sales gradually withdraw from offering electricity prices to clients, based on tariff groups resulting from technical conditions related to connection to the distribution grid, in favour of product offers considering individual needs and preferences of clients. Due to the rising awareness in the scope of mechanisms of energy market performance on the side of clients, the loyalty process for clients in individual segments simultaneously proceeds, which is most advanced in case of business clients segment, where over 90% of the energy volume supplied to the clients from this segment is sold by TAURON Capital Group, based on individually negotiated commercial terms and conditions. In the segment of mass clients, mainly due to limited unit consumption of electric energy in case of small entities (mainly tariff group C1x) and the regulatory obligation to approve electric energy sales prices to households – the process of migrating of clients from tariff area to product area is currently in its initial phase, however, due to the growing need in terms of client loyalty programmes in order to protect against competitive activities, it shows very high dynamics. At the end of 2012 about 17% of energy volume of the clients of mass segment was sold by TAURON Capital Group based on agreements with a guarantee of commercial conditions in the specific period (loyalty agreements), with 83% share of the tariff.

The effect of the strategy adopted and implemented by TAURON Capital Group in the sales area is demonstrated by both sales activities conducted outside own distribution area and by protection of own client base against the activities of competition. In 2012, TAURON Capital Group continued its intensive sales activities at the external area, in particular, in connection with acquisition of small and medium-sized undertakings (tariff groups Cx), simultaneously implementing the strategy of maintaining profitable clients from own area in all client segments. The loyalty and maintenance activities at own area, apart from implementation of the main goal consisting in protection of the current client base against surrender, were conducted with the intention to maintain the expected level of sales margins and to build the capacity for sales of other services and additional products, thus increasing the margin potential in the future.

The table below presents categories of TAURON Capital Group end clients, resulting from the segmentation used and the specific nature of their business:

Table no. 18 Categories of end consumers of TAURON Capital Group

Group of clients	Description of clients
Strategic clients	Clients of the annual potential energy consumption at a level not lower than 40 GWh or strategic business partners of TAURON Group, i.e. mainly entities representing sectors of heavy industry, among others: metallurgical industry, chemical industry, mining industry, automotive industry
Business clients	Clients of the annual potential energy consumption at a level above 250 MWh (not consumers), or purchasing energy based on the provisions of the Act on Public procurement law, i.e. entities representing other sectors of industry, producers of equipment, consumers from food industry, public sector, construction sector and public utilities sector
Mass clients – small and medium-sized enterprises	Clients dealing with sales, services, banking, catering and small entrepreneurs
Mass clients – households	Households

The table below presents information on the volume of electric energy sold by companies of TAURON Capital Group, operating in the area of electric energy sales to clients as well as on numbers of clients, divided into individual client segments in 2012.

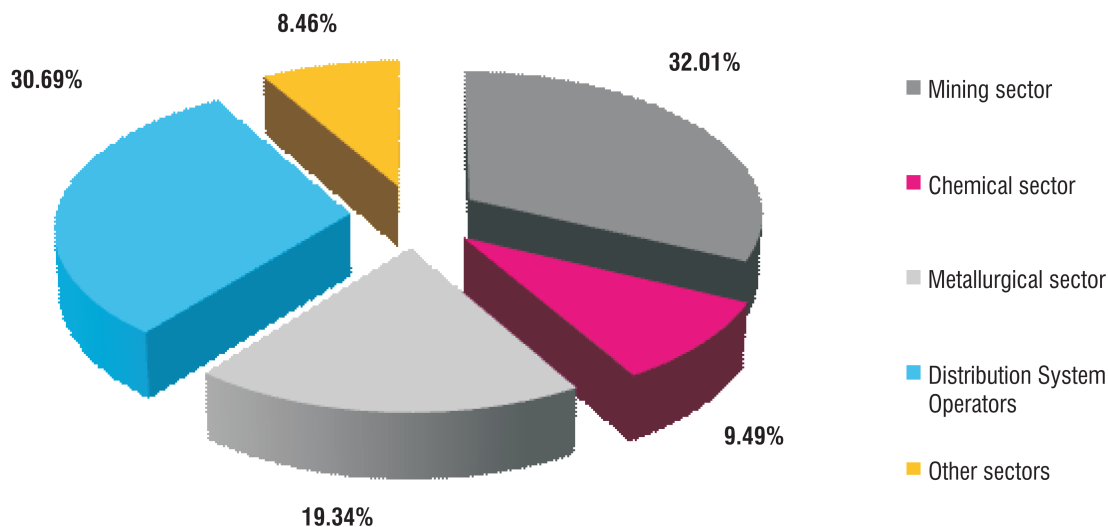
Table no. 19 Volume of electric energy sold and number of clients in 2012

Kind of clients	Volume of sold electric energy in TWh	Number of clients in thousand
Strategic clients	11.89	0.03
Business clients	16.17	80
Mass clients (including households)	12.88 (9.77)	5 1556 (4,766.2)
Sales to TD to cover balancing differences	3.41	1
Total Sales Area	44.35	5,236

The retail sales of electric energy of Sales Area went up by about 8.9 TWh, i.e. by 25.1%, from 35.5 TWh in 2011 to about 44.4 TWh in 2012.

In 2012, the value and volume of electric energy sales for the biggest client of TAURON Capital Group did not exceed, respectively, 10% of total electric energy sales value and 10% of total volume of the electric energy sold. The structure of sales to strategic clients according to individual sectors is as follows:

Figure no. 7 Structure of sales of the Company to strategic clients in 2012 divided into individual sectors



Business Area: Heat

The core activity of the company TAURON Ciepło, carried out on the basis of concessions granted by the President of URE covers:

- heat generation,
- heat trading,
- heat transmission and distribution.

The activity is performed on the territory of Śląskie and Małopolskie provinces. TAURON Ciepło holds its own heat sources of the total installed heat capacity of 975.6 MW. The share of heat produced in own sources in the total volume of heat sales amounted to about 38% in 2012. Other heat sold by this company is purchased from the following entities: TAURON Wytwarzanie, Spółka Ciepłowniczo-Energetyczna Jaworzno III sp. z o.o. as well as from generators outside TAURON Capital Group, including mainly the following entities:

- Elektrociepłownia Chorzów "ELCHO" sp. z o.o.,
- Zakłady Energetyki Ciepłej sp. z o.o.,
- Elektrociepłownia "Szopienice" sp. z o.o.,
- Ciepłownia Siemianowice sp. z o.o.
- Elektrociepłownia "Będzin" S.A.

In 2012, the company TAURON Ciepło sold, including the heat generated, 13.0 PJ of heat and 2,024 MW of heat energy. In connection with acquisition of the generation plants Tychy, EC Nowa and EC in Kamienna Góra, the Heat Area also generates and sells electric energy and other utilities. In 2012, sales of electric energy amounted to about 0.3 TWh.

Supply sources

In 2012, about 37% of the current demand of TAURON Capital Group for fuel required for generation of electric energy and heat was satisfied by hard coal coming from own mining plants of TAURON Capital Group. The remaining part of the demand was covered from external sources.

Simultaneously, with the purpose of optimising the processes in the scope of fuel trading (biomass, coal and gas) in 2012 the Company became the supplier of fuels for TAURON Wytwarzanie and TAURON Ciepło.

Biomass

In order to provide the supply of fuels for the needs of electric energy and heat generation by units using biomass as a fuel in the technological process, in January and February 2012 the Company concluded multi-annual and annual agreements with external contractors on purchase of biomass.

In order to resell biomass purchased on the basis of the above agreements, the Company concluded the multi-annual agreement with TAURON Wytwarzanie on biomass sales. The next stage within biomass trading was the extension of supplies to newly commissioned RES units. In September 2012 appropriate agreements were concluded, pursuant to which the Company started biomass sales to the aforementioned entities of TAURON Wytwarzanie and TAURON Ciepło.

Coal

Since 1 June 2012, the Company has initiated coal sales to TAURON and since 1 August 2012 it has extended sales also to TAURON Ciepło.

In the area of coal acquisition for the needs of TAURON Capital Group, in May 2012 the Company concluded 15 trilateral agreements, pursuant to which it has entered into the rights and obligations of TAURON Wytwarzanie, arising from the agreements on coal sales, formerly concluded by TAURON Wytwarzanie with coal suppliers (coal trading companies, coal mines and other suppliers).

In addition, in July 2012, 6 trilateral and four-party agreements were concluded, pursuant to which TAURON has entered into the rights and obligations of TAURON Ciepło, arising from the agreements on coal sales, formerly concluded by TAURON Ciepło with coal suppliers (coal trading companies, coal mines and other suppliers).

Gas

Since 3 November 2012, based on the concession held and the tariff granted, the Company has started to supply high-methane gas to TAURON Wytwarzanie. Since 1 December 2012 gas trading has been extended by implementation of coke oven gas supplies by the Company to TAURON Wytwarzanie.

The high-methane gas supplied by the Company for the needs of entities of TAURON Capital Group was purchased under the Comprehensive agreement concluded with PGNiG on 28 September 2012, concerning the supply of gas fuel and the Agreement of 28 September 2012.

The coke oven gas supplied by the Company for the needs of TAURON Wytwarzanie – Oddział Elektrownia Blachownia, is purchased on the basis of:

- 1) the Agreement of 27 November 2012 on assignment of TAURON Wytwarzanie total rights and obligations to the Company, arising from the multi-annual agreement on supply of coke oven gas in the years 2010–2015, concluded with ArcelorMittal Poland S.A. on 22 December 2009 in the scope of gas fuel,
- 2) the Agreement of 11 October 2012 on assignment of TAURON Wytwarzanie total rights and obligations to the Company, arising from the agreement on provision of transmission services (transport) of coke oven gas from ArcelorMittal Poland S.A. Oddział w Zdieszownicach to TAURON Wytwarzanie – Oddział Elektrownia Blachownia w Kędzierzynie-Koźlu, concluded with Górnośląska Spółka Gazownictwa sp. z o.o. Oddział Zakład Gazowniczy w Opolu of 20 May 2004 in the scope of coke oven gas transmission.

In 2012 the Company did not conduct sales of fuels (biomass, coal and gas) to entities outside TAURON Capital Group.

The table below presents the specification of fuels purchased and resold by the Company to entities of TAURON Capital Group in 2012.

Table no. 20 Fuel supplies implemented by TAURON in 2012 to entities of TAURON Capital Group

Fuel type	Unit	TAURON Wytwarzanie	TAURON Ciepło
Biomass	[Mg]	572,652	11,057
Coal	[Mg]	6,001,662	208,044
Gas	[1000 m3]	29,750	–

The activities of TAURON Capital Group are mostly conducted on the Polish market where the value of sales in the years 2012 and 2011, after excluding the intra group sales, amounted to PLN 23,983.5 million and PLN 20,089.4 million, respectively.

The value of sales to foreign clients in the years 2012 and 2011, after excluding the intra group sales, amounted to PLN 757.7 million and PLN 665.3 million, respectively.

2.6. Significant events and achievements of TAURON Capital Group influencing its operations

The most important events of significant impact on operations of TAURON Capital Group, which occurred during the financial year 2012, and until the day of this report are as follows:

Important events in 2012

Exceeding the 10% equity threshold of the Company within the commercial turnover between TAURON Capital Group companies and PSE

- 1) On 5 January 2012 the Company received data from PSE Operator concerning transmission services provided in favour of the companies of TAURON Capital Group, enabling clearing with PSE Operator for December 2011. The net value of turnover generated during the last twelve months between the companies of TAURON Group and PSE Operator reached about PLN 1,758 million (including: PLN 1,508 million of cost items for the companies of TAURON Capital Group, and about PLN 250 million of income items), accordingly, the value of turnover has reached the material amount. The turnover of the highest value, i.e. about PLN 636.6 million net, was generated under the agreement of 15 January 2008, concluded between TAURON Dystrybucja S.A. and PSE.

The Company informed of this event in the current report No. 1/2012 of 5 January 2012.

- 2) On 7 November 2012 the Company informed that the net value of commercial turnover generated in the period from 5 January 2012 to 7 November 2012 between the companies of TAURON Capital Group and PSE reached about PLN 1,832 billion (including: PLN 1,535 million of cost items for the companies of TAURON Capital Group, and about PLN 297 million of income items), accordingly, the value of turnover has reached the material amount. The turnover of the highest value, i.e. about PLN 1,302 million net, was generated under the agreement of 15 January 2008, indicated in item 1), concluded between TAURON Dystrybucja S.A. and PSE. 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 Company informed of this event in the current report No. 37/2012 of 7 November 2012.

Exceeding the 10% equity threshold of the Company within the commercial turnover between TAURON Capital Group companies and Kompania Węglowa

On 22 November 2012 the Company informed that the value of net turnover generated under the Agreement concluded between Południowy Koncern Energetyczny S.A. (currently TAURON Wytwarzanie) in the period from 1 December 2010, i.e. from the date of its concluding until the date of submitting the current report amounted to PLN 1,814,825,000, simultaneously exceeding 10% of the Company equity. The subject of the Agreement is the sales of coal from mines and mining facilities of Kompania Węglowa S.A. for electricity generation purposes, to be used in power plants and combined heat and power plants belonging to the TAURON Capital Group. The above agreement was taken over by TAURON under implementation of the centralised model of fuel trading in TAURON Capital Group, communicated by the Company in the current report no. 28/2012 of 5 June 2012.

The Company informed of the aforementioned event in the current report No. 40/2012 of 22 November 2012.

It should be mentioned that the agreement was concluded by Południowy Koncern Energetyczny S.A. (currently TAURON Wytwarzanie), and then it was taken over by the Company under implementation of the centralised model of fuel trading in TAURON Capital Group, communicated by the Company in the current report no. 28/2012 of 5 June 2012.

Activity on the European exchange

In March 2012 TAURON commenced its activity on the ICE Futures Europe exchange – ECX in London in the scope of CO₂ emission allowance trading on the forward market and extended the scope of its activities in EEX exchange in Leipzig by including the market of CO₂ emission allowance trading. In the first half of 2012 TAURON started its active participation in the EEX exchange in the scope of electric energy trading on the financial market. Participation in these segments enables to generate additional margin mass in the scope of the so-called proprietary trading as well as to extend the possibilities in the scope of securing the position of TAURON Capital Group. On 20 June 2012 TAURON acquired access to the European Community Transaction Log which replaced the previous national registers of the Member States covered by the European System of CO₂ Emissions Trading System (EU ETS).

Payment of dividend by the Company

On 24 April 2012 the Ordinary General Meeting of the Company adopted the resolution on profit distribution for the financial year 2011 and defined the amount allocated for payment of the dividend to shareholders, the dividend record day and the dividend payment day.

In accordance with the aforementioned resolution, the Ordinary General Meeting allocated the amount PLN 543,290,312.14 for payment of the dividend to shareholders from the net profit for the financial year 2011, which means that the amount of the dividend per share reached PLN 0.31, and the total number of shares covered by the dividend amounted to 1,752,549,394 shares. Simultaneously, the General Meeting defined the dividend record day for 2 July 2012 (day of dividend) and the date of the dividend payment for 20 July 2012 (day of dividend payment).

The Company informed of the aforementioned events in the current reports no. 18/2012 of 24 April 2012, and in the current reports no. 7/2012 of 6 March 2012 (recommendation of the Management Board) and no. 9/2012 of 15 March 2012 (evaluation by the Supervisory Board).

Dismissal of the ERO President's appeal concerning determination of annual adjustment of stranded costs for 2008

On 25 April 2012 the Court of Appeal in Warsaw issued a decision dismissing the appeal made by the President of ERO against the decision of the District Court in Warsaw – Court for Competition and Consumer Protection of 26 May 2010, concerning determination of the amount of annual adjustment of stranded costs due to TAURON Wytwarzanie S.A. for the year 2008, in connection with the early termination of long-term contracts for electricity and power supply (the so-called LTC compensation). As a consequence, TAURON Wytwarzanie obtained the return at the amount of PLN 159 million from Zarządca Rozliczeń S.A. (Settlement Manager). Due to the fact that the Company has consistently applied the policy of valuation and recognition of stranded costs adopted in 2008, according to which the stranded costs are recognized as revenue in the financial year for which they are due, and at the amount covering the anticipated annual adjustment, and the anticipated impact of the final adjustment, regardless of the actual date of receipt of the compensation amounts, the Decision did not have any direct impact on the financial results of TAURON Wytwarzanie and TAURON Capital Group.

The Company informed of this event in the current report No. 19/2012 of 25 April 2012.

Signing the agreement between the company EC Stalowa Wola and Abener Energia S.A., the general contractor of the steam and gas-fired unit in Stalowa Wola

On 26 April 2012, the agreement between the company EC Stalowa Wola and the Spanish company Abener Energia S.A., the general contractor of the steam and gas-fired unit in Stalowa Wola was signed, concerning the implementation of the investment project involving construction of the steam and gas-fired unit in Stalowa Wola. The scope of the agreement covers the design, supply, installation, commissioning and start-up of the CCGT unit, natural gas-fired, of 449 MW capacity, including installations and auxiliary facilities and the long-term service of the gas turbine. The value of the contract amounts to PLN 1.57 billion net.

The project on construction and exploitation of the gas-fired power and heating plant is implemented by PGNiG Group and TAURON Capital Group, through the EC Stalowa Wola special purpose vehicle, in which each of the partners holds 50% shares.

Obtaining the concession for gas fuel trading and approval of the gas tariff by ERO

On 27 April 2012 the Company obtained concession for gas fuel trading issued by the President of ERO. The benefits for TAURON Capital Group resulting from activities in this area will consist in centralising the gas trading within one entity, and in purchasing the gas fuel under optimal parameters of its supply. In 2012 TAURON delivered gas fuel for the needs of the existing generation units of TAURON Wytwarzanie (Elektrownia Stalowa Wola, Elektrownia Blachownia, ZEC in Bielsko-Biała), and in the future it will also deliver fuel to the new generation capacity based on gas burning, and to end clients.

Following the application of the Company, the President of ERO approve the Tariff for gas fuels on 19 October 2012, for a period of 12 months following the day of its entry into force. The decision concerning the approval of the tariff was published in the trade bulletin of the ERO President no 74 (539) on the website of the Energy Regulatory Office www.ure.gov.pl.

Incorporation of companies EC Tychy, EC Nowa and EC Kamienna Góra by TAURON Ciepło

On 30 April 2012 the District Court for Katowice–Wschód in Katowice, 8th Commercial Department of the National Court Register issued its decision on having incorporated the merger of the following companies to the register of entrepreneurs of the National Court Register: TAURON Ciepło (the acquiring company) and EC Tychy, EC Nowa and Energetyka Ciepłna w Kamiennej Górze sp. z o.o. (EC Kamienna Góra) (the acquired companies). The merger was executed pursuant to art. 492 § 1 item 1 of the Act of 15 September 2002, the *Code of Commercial Companies*, i.e. through assignment of the total assets of the acquired companies to the acquiring company in exchange for the shares which were issued by TAURON Ciepło to the shareholders/shareholders of EC Tychy, EC Nowa and EC Kamienna Góra. The exchange ratio was established in the following way:

- one share of EC Tychy corresponds to 1,364 shares of TAURON Ciepło,
- one share of EC Nowa corresponds to 60,170 shares of TAURON Ciepło,
- one share of EC Kamienna Góra corresponds to 88,837 shares of TAURON Ciepło.

Accordingly, the share capital of TAURON Ciepło was increased from the amount of PLN 444,664 thousand to PLN 865,937 thousand, i.e. by PLN 421,273 thousand. Consequently, TAURON holds solely the shares in the acquiring company – TAURON Ciepło.

Amendment to the Company Articles of Association

On 7 May 2012 the District Court for Katowice–Wschód in Katowice, 8th Commercial Department of the National Court Register entered the amendment to the Articles of Association in the register of entrepreneurs of the National Court Register, as adopted by the Ordinary General Meeting of the Company under the Resolution no. 23 of 24 April 2012, concerning the amendment to the Articles of Association within the material change of the scope of the Company. The amendments involved extension of the scope of activities by including crude petroleum and natural gas extraction, support activities for exploitation of deposits of these fuels, support activities for other mining and quarrying, manufacture and processing of refined petroleum products, manufacture of gas fuel and making test geological

and engineering drilling and excavations. On 30 June 2012 the Supervisory Board of the Company adopted the consolidated text of the *Articles of Association of TAURON Polska Energia S.A.*, considering the aforementioned amendment to the Articles.

The Company informed of the aforementioned events in the current reports no. 10/2012 of 20 March 2012, no. 17/2012 of 24 April 2012, no. 22/2012 of 8 May 2012 and 33/2012 of 30 June 2012.

Incorporation of Lipniki company by TAURON EKOENERGIA

On 1 June 2012, the District Court for Wrocław–Fabryczna in Wrocław, 9th Commercial Department of the National Court Register issued its decision on having incorporated the merger of the following companies to the register of entrepreneurs of the National Court Register: TAURON EKOENERGIA (the Acquiring Company) and Lipniki (the Acquired Company). Consequently, TAURON holds solely the shares in the acquiring company – TAURON EKOENERGIA.

Detailed information on the aforementioned issue is included in item 1.2.1 hereof.

Incorporation of GZE company by TAURON

On 14 June 2012 the Company received the decision of the District Court Katowice–Wschód in Katowice, 8th Commercial Department of the National Court Register concerning issuance of the order of 12 June 2012 on entering the merger of the following companies to the National Court Register: TAURON (the Acquiring Company) and GZE (the Acquired Company). The merger was executed pursuant to art. 492 § 1 item 1 of the Act of 15 September 2002, the *Code of Commercial Companies*, i.e. through assignment of the total assets of the Acquired Company to the Acquiring Company.

On 16 April 2012 the Company became the sole shareholder of GZE company, in connection with the completed process of forced redemption of GZE company shares, held by minority shareholders, executed in accordance with art. 418 of the Act of 15 September 2002, the *Code of Commercial Companies*. Within the framework of the aforementioned process TAURON redeemed 307 shares of the company GZE S.A., becoming the owner of the total of 1,250,000 shares of this company. Accordingly, the share of TAURON in the share capital and in the votes at the General Meeting of GZE S.A. was increased from 99.98% to 100%.

On 17 April 2012 the Management Board of the Company took the decision on the intention to merge the Company (Merger), as the Acquiring Company with the subsidiary, GZE, as the Acquired Company, as a result of which the plan of the aforementioned Merger was adopted.

Considering the fact that the acquiring company held 100% of interest in the share capital of the acquired company, the merge was performed under art. 515 §1 of the *Code of Commercial Companies*, i.e. without increase of the share capital of the acquiring company and under art. 516 § 6 of the *Code of Commercial Companies*, i.e. according to the so-called simplified procedure, namely, without the Merger Plan having been submitted to examination by the chartered accountant. The conditions of the merger were specified in the Merger Plan adopted by the Extraordinary General Meeting of TAURON on 6 June 2012, and the resolution on the merger was disclosed to the public in the current report no. 29/2012 of 6 June 2012.

As a result of the merger, TAURON has directly taken over the stocks and shares in the following significant companies, formerly held by GZE:

- TAURON Dystrybucja GZE,
- TAURON Serwis GZE,
- TAURON Sprzedaż GZE,
- TAURON Ekoenergia GZE,
- TAURON Obsługa Klienta GZE,
- TAURON Wytwarzanie GZE.

The aim of the merger was the streamlining of the structure of TAURON Capital Group, in accordance with the assumption of the *Corporate Strategy of TAURON Group for 2011–2015 with estimates until the year 2020* (Corporate Strategy), which has envisaged the consolidation of the companies of TAURON Capital Group and facilitating further effective integration and obtaining the synergy effects of individual business areas of GZE with Business Areas of TAURON. Owing to the merger, the organisational structures were simplified, including the supervision and management structures, which enhanced the efficiency and increased the transparency of TAURON Capital group structure, eliminated the significant part of redundant processes, thus reducing the operating costs. The agreement on purchase of GZE from Vattenfall AB was concluded on 13 December 2011. As a result of this transaction, TAURON became the owner of 99.98% shares in the GZE share capital.

The Company informed of the Merger process of TAURON with the subsidiary GZE in the following current reports: no. 15/2012 of 17 April 2012, no 20/2012 of 27 April 2012, no. 25/2012 of 8 May 2012, no. 26/2012 of 15 May 2012, no. 27/2012 of 29 May 2012, no. 31/2012 of 14 June 2012.

Granting the loans for implementation of the investment project

On 20 June 2012, TAURON concluded agreements on granting two loans to EC Stalowa Wola at total amount of PLN 172 million. The funds are to be allocated for implementation of the investment project co-financed in cooperation with PGNiG, involving the construction of the CCGT unit at the capacity of about 449 MW_e and 240 MW_t under the *project finance* formula.

Loan facility agreement with the European Investment Bank (EIB)

On 3 July 2012, TAURON signed the loan facility agreement with EIB at the total amount of financing at the level of PLN 900,000 thousand. EIB will co-finance the implementation of the five-year investment programme, aimed at strengthening, modernisation and extension of electric energy grids of TAURON Dystrybucja company, located in the southern Poland.

On 16 July 2012, TAURON acquired funds from the said loan facility, at the level of PLN 450,000 thousand. The remaining amount will be used in accordance with the investment needs. The maximum period of financing repayment is 12 years following the date of disbursement of the first tranche of the loan.

Concluding the letter of intent on the exploration for and extraction of Shale Gas

The involvement of TAURON in exploration for and extraction of shale gas from unconventional sources (shale gas) was initiated by the Letter of Intent signed on 24 January 2012 between TAURON and PGNiG concerning the joint exploration for and extraction of shale gas. Analogical Letters of Intent were also signed by KGHM and PGE, whereas each of the companies declared cooperation at different pad within the area of Wejherowo concession (TAURON – Pad Kochanowo, KGHM – Pad Częstkowo, PGE – Pad Tępcz). Within the scope of the works and arrangements undertaken, the parties decided to conclude the multilateral agreement in order to continue the activities concerning the exploration for and extraction of shale gas. On 26 April 2012 a new Letter of Intent was signed, informing of commencement of joint activities in order to establish the conditions of cooperation in the project covering three pads indicated in the former Letters of Intent (the so-called KTC Project), simultaneously foreseeing a possibility to extend the cooperation to other pads of Wejherowo concession.

On 4 July 2012 the framework Agreement was concluded on the exploration for and extraction of shale gas. Detailed information on the aforementioned agreements is included in item 2.7.1 hereof.

Decision of the ERO President concerning determination of annual adjustment of stranded costs for 2011

On 7 August 2012 the decision of the President of URE was received by the TAURON Wytwarzanie company, issued on 31 July 2012, concerning the positive value of the annual adjustment of stranded costs for 2011, at the level of PLN 211,676,638. The total value of stranded costs received within the programme of covering the stranded costs for 2011 amounted to PLN 377.6 million, whereas the amount of PLN 166 million was already disbursed as quarterly advance payments. The settlements covered by the decision of the President of ERO are compliant with the Company estimates.

Concluding the agreements in the scope of coal sales for TAURON Wytwarzanie and TAURON Ciepło

In May 2012 the Company concluded 15 trilateral agreements, pursuant to which it has entered into the rights and obligations of TAURON Wytwarzanie, arising from the agreements on coal sales, formerly concluded by TAURON Wytwarzanie with coal suppliers (coal trading companies, coal mines and other suppliers). Since 1 June 2012, the Company has started sales of coal to TAURON Wytwarzanie. The Company informed of the aforementioned event in the current report no. 28/2012 of 5 June 2012. Detailed information on the aforementioned agreements is included in item 2.7.1 hereof.

In July 2012, 6 trilateral and four-party agreements were concluded, pursuant to which TAURON has entered into the rights and obligations of TAURON Ciepło, arising from the agreements on coal sales, formerly concluded by TAURON Ciepło with coal suppliers (coal trading companies, coal mines and other suppliers).

In August 2012 TAURON concluded the agreement on coal sales with TAURON Ciepło, for unlimited period of time.

Obtaining the approval for concentration of TAURON Wytwarzanie and KGHM

On 23 July 2012 the decision of the European Union was obtained, granting the approval for concentration of the capital of TAURON Wytwarzanie and KGHM, namely, the establishment of the joint venture in order to construct the CCGT unit in Elektrownia Blachownia. On the basis of the agreement, each of the partners shall take over 50% shares in the SPV (*Special Purpose Vehicle*) assigned to implementation of the project on construction of the new unit.

The cooperation between KGHM and TAURON in this area started in April 2009 by signing the letter of intent on construction of the electricity generation source on the premises of Elektrownia Blachownia, belonging to TAURON Wytwarzanie. At that time, construction of a unit based on coal fuel was assumed. Considering the requirement of diversification of the generation portfolio arising from the market conditions and the Corporate Strategy, as well as on the basis of the performed analysis of benefits resulting from the change of the project variant from “coal” to “gas”, in April 2011, the decision was taken on eligibility for further design works,

assuming the “gas option”. The aim of the investment project is the replacement of the generation capacity in TAURON Wytwarzanie, simultaneously maintaining the hitherto position of the company on the electric energy market.

The positive decision of the Commission opened the way forward to further actions, i.e. establishment of the special purpose vehicle to manage the construction process of the new project. In accordance with the assumptions, the project involving the construction of the new block will be funded from own funds of the partners and from external sources – the facility drawn by the new SPV (*Special Purpose Vehicle*).

Increase of PKW resource base

On 3 August 2012 PKW in Jaworzno obtained concession no. 4/2012 to excavate coal from “Wisła I” and “Wisła II-1” deposits. The concession authorises to exploit coal deposits in “Wisła I” and “Wisła II-1”, covered by the mining area “Babice I” during a period of 19 years following the date of granting the concession. In the “Wisła I” and “Wisła II-1” deposits, 24 layers of coal are documented to the depth of 1000, among which two layers are planned for exploitation during the period of validity of the concession. For the “Janina” coal mine which will exploit the aforementioned deposits, the concession on coal mining from “Wisła I” and “Wisła II-1” deposits means the increase of the mining area by 18.76 km², mining terrain by 27.45 km² and the balancing resources by 550.557 thousand Mg.

Establishment of the special purpose vehicle Elektrownia Blachownia Nowa

On 5 September 2012, the subsidiary, TAURON Wytwarzanie and KGHM established the special purpose vehicle under the name Elektrownia Blachownia Nowa with its seat in Kędzierzyn Koźle. It was established to provide for comprehensive execution of the investment which will include preparatory works, construction and operation of a CCGT unit at a capacity of approximately 850 MW_e on the premises of TAURON Wytwarzanie – Oddział Elektrownia Blachownia. The Investment constitutes an element of the Corporate Strategy presented by TAURON in current report No. 25/2011 of 28 April 2011. Parallel to establishing the SPV, the Shareholders Agreement was signed which defines detailed terms and conditions of cooperation between the parties during execution of the Investment. In accordance with the Shareholders Agreement, it is estimated that the total Investment expenditure would amount to approx. PLN 3.5 billion. Each of the partners took over 50% of shares in the Company share capital which, as of the day of signing the agreement, amounted to PLN 65,152 thousand. The shares in the Company are equal and indivisible. The project will be executed under *project finance* scheme, and at least 50% of the Investment budget will be financed by debt from external sources. Design and construction of the CCGT unit will be executed on a turnkey basis, including infrastructure, installations and facilities. The unit will be connected to the new 400kV distribution station which transmits electricity to the National Power System and it will comply with all the requirements specified in the IRIESP. According to the schedule adopted, the unit will be commissioned in the second quarter of 2017 and it will be one of the key elements of TAURON Group investment plan aimed at replacement of the generation capacity and diversification of the energy mix of TAURON Capital Group. On 30 October 2012 Elektrownia Blachownia Nowa was entered to the register of entrepreneurs of the National Court Register maintained by the District Court in Opole, the 8th Commercial Department of the National Court Register.

TAURON informed of establishing the special purpose vehicle in the current report No. 35/2012 of 5 September 2012.

Signing a letter of intent concerning purchase of shares in a Special Purpose Vehicle established for construction and operation of a nuclear power plant

On 5 September 2012 TAURON signed a Letter of Intent concerning purchase of shares in a special purpose vehicle established for construction and exploitation of a nuclear power plant. The Parties to the Letter of Intent include: the Company, PGE, KGHM and ENEA. According to the Letter of Intent the Parties will undertake activities on developing a draft agreement for purchase of shares (the “share sales agreement”) in the special purpose vehicle PGE EJ 1 sp. z o.o. established by PGE, which is directly responsible for the development of the investment process for construction and exploitation of the first Polish nuclear power plant (the “Project”). The share sales agreement shall regulate the rights and obligations of each of the Parties, assuming that PGE shall have the leading role in the Project execution, either directly or through a subsidiary. The conditions of purchasing shares in the SPV shall take into account the expenditures incurred so far by PGE and its subsidiaries in connection with the Project. The Letter of Intent does not constitute an obligation of the Parties to sign the share sales agreement and to participate in the Project. Initially, the Letter of Intent was binding until 31 December 2012 and it was extended until 31 March 2013.

The Company informed of the aforementioned events in the current reports no. 36/2012 of 5 September 2012 and no. 46/2012 of 28 December 2012.

Signing the agreements concerning the selection of investment banks for implementation of the comprehensive financing services

On 25 October 2012 the agreements between TAURON and the banks constituting the consortium of investment banks were signed: ING Bank Śląski S.A., ING Bank N.V., ING Securities S.A., BRE Bank S.A., Dom Inwestycyjny BRE Banku S.A., UniCredit CAIB Poland S.A. U.I.E., Bank Pekao S.A., UniCredit Bank AG, Bank Zachodni WBK S.A., Dom Maklerski BZ WBK S.A., Banco Santander S.A., Goldman Sachs International, concerning the cooperation in the scope of development of the financing concept for TAURON Capital group, as well as in the process of financing the investment programme of TAURON Capital Group.

Based on recommendations arising from this strategy, TAURON, in cooperation with the banks, shall acquire financial resources for the investment programme of TAURON Capital Group from national and international markets.

Approval of the tariff on distribution of electric energy by the ERO President

On 17 December 2012 the Company was informed that the tariff for electricity for TAURON Distribution had been approved by the President of ERO. According to applicable laws, the new tariffs may come into force not earlier than 14 days after they have been published in the bulletin of the ERO President. Decisions concerning the approval of the new tariffs are announced in the bulletin of the ERO President, posted on the Energy Regulatory Office website at www.ure.gov.pl.

The Company informed of this event in the current report No. 44/2012 of 17 December 2012.

Extension of the tariff for electric energy by the ERO President

On 21 December 2012 the Company was informed that the tariff for electricity supply to consumers in G tariff groups (connected to TAURON Dystrybucja grid) which was approved by for TAURON Sprzedaż on 16 December 2011, had been extended until 30 June 2013. The decision on this issue is announced in the bulletin of the ERO President, posted on the Energy Regulatory Office website at www.ure.gov.pl.

The Company informed of this event in the current report No. 45/2012 of 21 December 2012.

Tax Capital Group (PGK)

Year 2012 was the first fiscal year of PGK activities, to be continued on the period of the next two years. On 28 November 2011, the Head of the First Tax Office in Sosnowiec registered the Capital Tax Group (PGK) for a period of three fiscal years, i.e. from 1 January 2012 to 31 December 2014. PGK includes the Company as the representing company and the selected companies of TAURON Capital Group, i.e.: TAURON Wytwarzanie, TAURON Dystrybucja, TAURON Sprzedaż, TAURON Obsługa Klienta, TAURON EKOENERGIA, PEPKH, POEN sp. z o.o., ENPOWER sp. z o.o., ENPOWER Service sp. z o.o. and ENERGOPOWER sp. z o.o.

PGK was established in order to optimise execution of the obligations connected with clearing of the corporate income tax by the key companies of TAURON Capital Group, and it enables, among others:

- acceleration of settlement of tax losses, i.e. compensation of tax losses of one of the companies is executed through tax profit of other company over the same fiscal year,
- common application at the level of PGK for individual interpretation of tax law within the scope of corporate income tax which, in case of favourable interpretation, will result in relevant protection for all entities included in PGK.

Centre of Common Services – Accounting (CUW-R)

In connection with the implementation of the Corporate Strategy, in 2012 activities were carried out related with the launch of CUW-R within the company TAURON Obsługa Klienta, as a specialised unit for service of the TAURON Capital Group companies in the scope of selected financial and accounting processes. On 1 January 2013, in accordance with the timetable adopted, CUW-R started the provision of the above mentioned services in favour of TAURON and TAURON Sprzedaż and several other companies of TAURON Capital Group.

Centre of Common Services – IT (CUW-IT)

In connection with the need to coordinate the initiatives associated with IT area in TAURON Capital Group, in 2012 the programme was implemented, aimed at separation of IT services and outsourcing them to the Centre of Common Services – IT (CUW-IT), including preparation of the infrastructure, processes and resources connected with the aforementioned actions. In the period covered by this report, in accordance with assumptions of the corporate governance adopted by the Management Board of the Company, in the scope of IT in TAURON Capital Group, within the company TAURON Obsługa Klienta the target organisational structure CUW-IT was established.

The concept on financing the investment programme in TAURON Capital Group in the years 2012–2015

In connection with the need to acquire financing to implement the investment programme in the years 2012–2015, in the period covered by this report, with participation of selected banks and financial institutions, the *Concept on financing of TAURON Group Investment Programme in the years 2012–2015* was developed (the Concept).

The above Concept contains, in particular:

- 1) the analysis of available sources of financing TAURON Capital Group operations, according to the type of product and the investors' base;
- 2) financing plan consistent with the TAURON Group Investment Programme;
- 3) specifying the financing criteria (i.a. available volumes, emission levels, desired maturity terms).

Other important events

In addition, events resulting from the contracts and agreements concluded, significant for the operations, described in item 2.7.1 of this report should also be considered as important events of substantial impact on operations of TAURON Capital Group in the financial year 2012.

Events after 31 December 2012

Adoption of OPEX efficiency improvement program in the TAURON Group for 2013–2015

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

Consolidation and restructuring programmes have been developed, whose execution should result in cost reduction by approx. PLN 860 over the years 2013–2015 (total amount over the entire period). The efficiency improvement programs for individual segments were adopted by Management Boards of the subsidiaries and formed the basis for the development of the programme on the level of TAURON Capital Group. According to the Company's estimates, the scale of OPEX reduction under the Programme should increase every year, reaching approx. PLN 300 million annually. TAURON Capital Group expects OPEX reduction in most segments – the largest share falling to Generation and Distribution Areas. One of the elements of the Programme is to use the synergies occurring after incorporation of the GZE companies taken over into the structures of TAURON Capital Group.

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

Selection of the winning bid for construction of the unit in Elektrownia Jaworzno III

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

At the same time, on 4 February 2013 the Company was informed that an appeal had been lodged to Polish Appeals Chamber by the consortium of: SNC-Lavalin Polska Sp. z o.o., SNC-Lavalin Inc. and Hitachi Power Europe GmbH against the decision of TAURON Wytwarzanie concerning the selection of the offer submitted by the consortium of RAFAKO S.A. – MOSTOSTAL WARSZAWA S.A. under the tender for general contractor of the 800–910MW power unit at Elektrownia Jaworzno III.

The Company informed of the aforementioned events in the current reports no. 3/2013 of 24 January 2013 and no. 4/2013 of 4 February 2013.

Other events after the balance sheet day

Information on significant events occurring after the balance sheet day until the day of this report has also been provided in note 44 of the Consolidated financial statement of TAURON Polska Energia S.A. Capital Group for the year ended on 31 December 2012.

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

2.7.1. Agreements significant for operations of TAURON Capital Group

In the financial year 2012 the companies of TAURON Capital Group concluded the following agreements significant for operations of TAURON Capital Group:

Signing the Annex to the Agreement on electric energy sales of 11 March 2011

On 14 March 2012 the annex was signed to agreement on electric energy supply, concluded on 11 March 2011 between TAURON, PGNiG Energia S.A. EC Stalowa Wola. The Agreement refers to the project called *Construction of a CCGT unit at Stalowa Wola*, carried out in cooperation between TAURON and PGNiG, and its subject is the long-term supply of electricity generated in the CCGT unit at EC Stalowa Wola to TAURON and PGNiG Energia S.A. Under the annex concluded, PGNiG joined the Agreement as a party thereto. As a consequence, PGNiG and PGNiG Energia jointly exercise the rights they are entitled to under the Agreement, as joint creditors, bearing joint liability towards EC Stalowa Wola for obligations resulting from the Agreement. Before the day of signing the Annex, one of the two conditions precedent had been fulfilled, i.e. the condition regarding submission by EC Stalowa Wola of the agreement for

connection of Stalowa Wola steam and gas-fired unit to TSO grid (TAURON informed of this event in the current report No. 41/2011 of 8 July 2011).

The Company informed of this event in the current report No. 8/2012 of 14 March 2012.

Concluding of Agreement with GDF Suez Trading

On 3 April 2012 the framework agreement was concluded for indefinite period, between TAURON and GDF Suez Trading (the parent company of GDF Suez Group), the subject of which is the settlement of any transactions to be concluded between the parties in connection with the purchase, sales, supply and consumption of electric energy. The subject and terms of the agreement with GDF Suez Trading are identical to the subject and terms of the Agreement concluded on 30 November 2011 between TAURON and Electrabel NV/SA belonging to GDF Suez Group (current report no. 58/2011 of 30 November 2011). Execution the Agreement is the result of organizational changes in the GDF Suez Group, the target of which is to concentrate operations in the scope of electric energy trading in GDF Suez Trading.

The Company informed of this event in the current report No. 14/2012 of 03 April 2012.

Agreement between the Company and TAURON Wytwarzanie S.A. under the fuel trading centralization plan in TAURON Capital Group

Within the process of implementation of the centralised fuel trading model in TAURON Capital Group, assuming, on the one hand, acquiring by TAURON from the subsidiaries, the competence to purchase coal and coal slime from suppliers – coal trading companies, coal mines and other entities dealing with coal trading, and then reselling those fuels by TAURON to TAURON Group companies, in particular to TAURON Wytwarzanie S.A., on 5 June 2012, the agreement was concluded between the Company as the Seller and TAURON Wytwarzanie as the Buyer, the subject of which is the settlement of terms and conditions of sales to the Buyer of coal acquired from various sources of hard coal for power generation purposes, to be used at power plants and combined heat and power plants belonging to TAURON Wytwarzanie (the “Agreement”). The Agreement was concluded for indefinite period of time – the estimated net value of the Agreement over the first year of its effective period (i.e. 12 subsequent months starting from 1 June 2012) amounts to approximately PLN 2.4 billion.

The Company expects that actions related to fuel trading centralization will strengthen the negotiating position of the Company in the long-term perspective and yield measurable profits in the area of optimization of fuel purchase cost due to concentration of their total volume in the Company.

No termination or suspension clauses are provided in the Agreement. The Agreement envisages that penalties may be calculated in the case of failure to supply or accept coal, at the amount from 5% to 20% of the net value of the coal that was not supplied or accepted, however, +/-5% to +/-20% deviation from the planned coal volume is acceptable. Contractual penalties may be calculated after the allowable bottom deviation of the coal purchase volume is exceeded. In addition to the above mentioned penalties, each party to the Agreement may claim additional damages on general terms if the penalties fail to cover the loss incurred.

The Company informed of this event in the current report No. 28/2012 of 05 June 2012.

Concluding the agreement increasing the value of the bond issue programme

On 29 June 2012 an agreement was signed by the Company and Bank Handlowy w Warszawie S.A., ING Bank Śląski S.A., Bank Polska Kasa Opieki S.A., BRE Bank S.A., Powszechna Kasa Oszczędności Bank Polski S.A., Nordea Bank Polska S.A., Nordea Bank AB and BNP Paribas Bank Polska S.A. and Bank Zachodni WBK S.A. (which have not participated in the programme so far), on the basis of which the value of bond issue programme was increased by tranche D and tranche E at the value of PLN 2,475 million and PLN 275 million, respectively, i.e. to the total amount of PLN 7,050 million. The funds to be obtained from the issue of tranche D and tranche E bonds will be allocated for financing of investment projects and general corporate expenses in TAURON Capital Group.

The Company informed of this event in the current report No. 32/2012 of 29 June 2012.

Concluding the framework Agreement on the exploration for and extraction of shale gas

On 4 July 2012 the Company concluded the framework agreement on the exploration for and extraction of shale gas (the “Agreement”), the other parties of which include: PGNiG, ENEA, KGHM and PGE. The subject of cooperation of the Parties under the Agreement will be the exploration, evaluation and extraction of shale gas in geological formations covered by the concession granted for the exploration and evaluation of deposits of crude oil and natural gas in relation to the Wejherowo concession held by PGNiG. Within the framework of the Wejherowo Concession, the close cooperation will involve an area of approximately 160 km² (“Cooperation Area”). Moreover, the Agreement also provides for preferential treatment of the Parties, with regard to the possibility of cooperation in relation to the remaining area of the Wejherowo Concession (with the exception of a situation where PGNiG itself performs the exploration, evaluation or extraction of shale gas and excluding the area in the vicinity of Opalino and Lubocino). The estimated expenditure on exploration, evaluation and extraction in the first three zones (the Kochanowo, Częstkowo and Tępcz pads) within the Area of Cooperation are foreseen at the amount of PLN 1,720,000 thousand.

On 12 November 2012 an Annex was signed to the Framework Agreement on the Exploration for and Extraction of Shale Gas of 4 July 2012. The Parties decided to extend the deadline for establishing the detailed terms and conditions of cooperation until 4 February 2013. On 21 February 2013 the next Annex was signed to the Framework which extends the deadline for establishing the detailed terms and condition of cooperation until 4 May 2013.

The Company informed of the aforementioned events in the current reports no. 34/2012 of 4 July 2012, no. 38/2012 of 12 November 2012 and no. 6/2013 of 21 February 2013.

Concluding annexes to agreements under the project on Construction of the CCGT unit in Stalowa Wola

On 28 December 2012 annexes were signed to the agreement on electric energy sales and the agreement on gas supply (the Company informed of the aforementioned agreements, as the significant agreements concluded under the project on *Construction of the CCGT unit in Stalowa Wola*, in the current report no. 9/2011 of 11 March 2011). Pursuant to the annexes concluded, the deadline for meeting the following conditions precedent specified in the above mentioned agreements is extended, including:

- 1) signing agreement/agreements for financing the construction, start-up and commissioning of the CCGT unit – in the case of Electricity Supply Agreement, and
- 2) submission by EC Stalowa Wola to PGNiG of the declaration confirming that the financing for the construction of the CCGT unit at Stalowa Wola has been obtained – in the case of Gas Supply Agreement.

The new deadline for meeting the above conditions has been set for 30 April 2013. All other conditions precedent specified in the above mentioned agreements concluded under the Project have been met.

The Company informed of the aforementioned events in the current reports no. 14/2011 of 25 March 2011, no. 41/2011 of 08 July 2011 and 47/2012 of 28 December 2012.

Significant agreements concluded after 31 December 2012

Conclusion of material agreement with Kompania Węglowa

On 1 March 2013 TAURON Polska Energia S.A. and Kompania Węglowa S.A. concluded the agreement, whose subject is purchase of coal by the Company ('Agreement'). The Agreement was signed for three years from 1 January 2013 until 31 December 2015. The estimated net value of the Agreement over its entire term is PLN 2.4 bn. Since 1 January 2013 the aforementioned Agreement supersedes the agreement concluded on 1 December 2010 between Południowy Koncern Energetyczny S.A. (currently TAURON Wytwarzanie) and Kompania Węglowa S.A. and taken over by the Company on 5 June 2012, of which the Company informed in current reports No. 58/2010 and No. 28/2012 of 5 June 2012. The total net turnover under the previously reported agreement amounted to PLN 1.941 bn until 31 December 2012.

The Company informed of the aforementioned event in the current report No. 7/2013 of 01 March 2013.

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

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

All the transactions with the affiliates are concluded on an arm's length basis.

Information on significant transactions with affiliated entities has been provided in note 39 of the Consolidated financial statement of TAURON Polska Energia S.A. Capital Group for the year ended on 31 December 2012.

2.7.3. Information on agreements on credits and loans raised and terminated

Working capital credits

On 1 January 2012 the effective period of agreement on overdraft started, concluded between TAURON and Pekao S.A. Bank in December 2011. The amount of the credit is PLN 300,000 thousand, and the final date of credit availability falls on 31 December 2014. The credit agreement concluded is associated with the cash pooling system operating the TAURON Capital Group (the full description of the cash pooling system and loans drawn under this system is included in this item and in item 2.7.4. of this report).

Moreover, on 17 October 2012, for the needs of clearing the transactions of purchase/exchange of CO₂ emission allowances, TAURON concluded the agreement on overdraft with Nordea Bank Finland Plc. to the amount of EUR 30,000 thousand. The agreement was valid until 31 December 2012.

The table below presents the detailed specification of working capital credit agreements applicable in TAURON Group since 2012:

Table no. 21 Specification of working capital credit agreements concluded by the Company, commencing in 2012

Kind of agreement	Kind and level of interest rate	Amount of credit/loan	Effective term
Overdraft	EONIA + fixed margin	30,000 thousand EUR	17 January 2012 – 31 December 2012
Overdraft	WIBOR O/N + fixed margin	300,000 thousand PLN	01 January 2012 – 31 December 2014

The cash pooling structure operating in TAURON Capital Group is based on loans between the participants of the structure. Accordingly, the daily turnover of cash under the cash pooling forms transactions of granting/repayment of loans. The total amounts of loans granted to the Company by the subsidiaries in 2012, i.e. the sums of all multiple loans granted and repaid during the year under the cash pooling, are presented in the table below (it should be indicated that those loans drawn by the Company make simultaneously the loans granted by other companies of TAURON Capital Group).

Table no. 22 Total amounts of loans granted to the Company by the subsidiaries in 2012, i.e. the sums of all multiple loans granted and repaid during the year under the cash pooling

Company name	Amount of credit/loan in Thousand PLN
TAURON Sprzedaż	5,317,864
TAURON Dystrybucja	3,471,472
TAURON Wytwarzanie	1,653,403
TAURON Sprzedaż GZE	1,494,170
GZE*	1,068,495
PKW	646,458
TAURON Ciepło	591,778
TAURON Obsługa Klienta	233,827
TAURON EKOENERGIA	244,944
TAURON Serwis GZE	188,722
PEPKH	182,262
TAURON Obsługa Klienta GZE	106,938
MEGAWAT MARSZEWO	65,525
KW Czatkowice	56,917
(BELS INVESTMENT)	25,288
PKE Broker	6,470
TAURON Wytwarzanie GZE	4,950
Total	15,359,483

* A company incorporated to TAURON in June 2012.

In 2012, 17 companies of TAURON Capital Group participated in the cash pooling structure and the balance of loans granted by the subsidiaries to the Company under the cash pooling, as of 31 December 2012, amounted to PLN 1,171,892 thousand, in accordance with the subjective structure presented in the table below.

Table no. 23 Balance of loans granted to the Company by the subsidiaries under the cash pooling as of 31 December 2012

Company name	Amount of credit/loan in Thousand PLN
TAURON Sprzedaż	386,780
TAURON Dystrybucja	218,855
TAURON Wytwarzanie	147,434
PKW	101,992
TAURON Sprzedaż GZE	95,617
TAURON Serwis GZE	54,706
TAURON Obsługa Klienta	40,474
TAURON EKOENERGIA	36,340

Company name	Amount of credit/loan in Thousand PLN
KW Czatkowice	25,010
(BELS INVESTMENT)	19,892
TAURON Ciepło	12,673
TAURON Obsługa Klienta GZE	11,855
PKE Broker	6,470
PEPKH	6,017
TAURON Wytwarzanie GZE	4,724
MEGAWAT MARSZEWO	3,053
Total	1,171,892

The loans granted under the cash pooling are associated with the adopted model of cash flow management, within which the cash of participants of the cash pooling structure (companies of TAURON Capital Group) are consolidated on the bank account of the Company as a pool leader. The loans granted by companies of TAURON Capital Group to the Company, within the cash pooling are expressed in Polish zloty and in 2012 their interest rate was based on WIBOR O/N – fixed margin.

Investment facilities

On 3 July 2012 the Company concluded the third agreement with the EIB for the amount of PLN 900,000 thousand. The funds acquired shall be allocated for implementation of the five-year investment programme aimed at modernisation and extension of the electricity grids of the company TAURON Dystrybucja. The total cost of the project amounts to about PLN 2,000,000 thousand. The first tranche of the facility for grid investments at the amount of PLN 450,000 thousand was disbursed on 16 July 2012. The maximum repayment period is 12 years following the date of disbursement of the credit tranche.

The tranche at the amount of PLN 450,000 thousand will be repaid in instalments, at semi-annual periods, and the total repayment of the principal falls on 15 June 2024. The interest rate of the credit tranche disbursed was determined according to fixed rate, effective until 15 December 2017, when the new conditions of financing will be specified, in the scope of the level of interest and/or change of the basis for its calculation.

Moreover, in 2012 the Company has drawn debt under the agreements signed a year ago:

- PLN 300,000 thousand under the agreement concerning financing the reconstruction and commissioning of the high performing coal unit in co-generation with the accompanying infrastructure in Zespół Elektrociepłowni in Bielsko-Biała. Owing to the funds acquired, TAURON Capital Group will replace the current unit to the unit of higher efficiency amounting to 50 MW_e and 182 MW_t. Construction of the unit started in August 2010. Implementation of the project will continue until mid-1013.
- PLN 210,000 thousand under the agreement concerning the financing and start-up of the new biomass boiler of 50 MW_e and 45 MW_t at Elektrownia Jaworzno III, commissioned on 31 December 2012, and the renovation of the steam turbine.

The facilities at the amount of PLN 300,000 thousand and PLN 210,000 thousand were disbursed in the first quarter of 2012 and they are repaid in instalments, at annual periods, and the total repayment of the principal falls on 15 December 2021. The interest rate of the facilities is determined according to fixed rate, effective until 15 June 2016, when the new conditions of financing will be specified, in the scope of the level of interest and/or change of the basis for its calculation.

Moreover, in 2012 the companies of TAURON Capital Group have drawn preferential credits from environmental funds under the agreements signed before:

- TAURON Wytwarzanie has drawn the last tranche of the loan from the Regional Fund of Environmental Protection and Water Management in Katowice, at the amount of PLN 15,000 thousand, increasing the principal liability from PLN 25,000 thousand as of 31 December 2011 to PLN 40,000 thousand as of 31 December 2012. This loan refers to the financing of “*the construction of the RES generation unit in PKE S.A. Elektrownia Jaworzno III – Elektrownia II*”, the loan will be repaid in 40 quarterly instalments in the period from April 2013 to December 2022,
- TAURON Ciepło has drawn the total loan under the agreement signed a year before with the Regional Fund of Environmental Protection and Water Management in Katowice (WFOŚiGW), increasing the principal liability to PLN 30,000 thousand as of 31 December 2012. This loan refers to the financing of the “*construction of the biomass fed installation and modernisation of the fluidised bed boiler OF-135 at Elektrociepłownia Tychy S.A.*”, the loan will be repaid in 115 monthly instalments in the period from April 2013 to December 2022.

In the financial year 2012 the companies of TAURON Capital Group did not terminate any credit and loan agreements.

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

Loans granted

In 2012 the Company continued the intra group management of financial resources in TAURON Capital Group, through the cash pooling system implemented in 2010, whose structure is based on loans granted between its members.

The total amounts of loans granted by the Company in 2012, under the cash pooling structure, i.e. the sums of all multiple loans granted during the year, subject to multiple repayment (which results from the character of the cash pooling system applied), are presented in the table below (it should be indicated that those loans granted by the Company make simultaneously the loans drawn by other companies of TAURON Capital Group).

Table no. 24 Total amounts of loans granted by the Company in 2012 within the cash pooling structure in favour of individual companies of TAURON Capital Group

Company name	Amount of credit/loan in Thousand PLN
TAURON Sprzedaż	2,141,729
TAURON Wytwarzanie	1,985,204
TAURON Dystrybucja	1,032,271
TAURON Sprzedaż GZE	602,606
PKW	201,259
MEGAWAT MARSZEWO	176,592
TAURON Ciepło	153,249
TAURON EKOENERGIA	71,742
(BELS INVESTMENT)	12,216
PEPKH	2
Total	6,376,870

As of 31 December 2012, the Company did not grant any loans to the participants of the cash pooling system.

Loans granted under the cash pooling are of short-term nature to be used for financing of business as usual, and at the same time, they have no defined maturity date. The loans granted are repaid automatically in case the financial resources are kept on the bank account of the company covered by the cash pooling system. The definite date for repayment of any liabilities is the maturity date of the currently binding intra group loan agreement, i.e. 31 December 2014.

Simultaneously, on the basis of two agreements concluded on 20 June 2012, between TAURON, PGNiG and EC Stalowa Wola, the Company granted two loans to EC Stalowa Wola:

- 1) the subordinated loan concluded in order to finance implementation of the investment consisting in construction and exploitation of the CCGT unit of capacity 449 MW_e and 240 MW_t at Stalowa Wola, including the auxiliary installations. The agreement on subordinated loan means that the repayment of the loan and the interest will be deferred and subordinated to the repayment of the receivables due to the EIB, European Bank of Reconstruction and Development and Bank Pekao S.A. (i.e. external institutions financing the project). Under the contractual agreements, the maximum value of the loan granted by the Company was established at PLN 152,000 thousand. As of the balance sheet day, the value of funds disbursed on account of the loan amounted to PLN 115,000 thousand. The total repayment of the loan should occur not later than until the end of 2032,
- 2) VAT loans aimed at financing the VAT due in connection with the costs of project implementation for the investment involving the construction of the CCGT unit in Stalowa Wola of the capacity 449 MW_e and 240 MW_t, incurred at the stage of design, construction and commissioning of the investment. Under the contractual agreements, the maximum value of the loan granted by the Company was established at PLN 20,000 thousand. The loan is revolving. The schedule of use of the loan is coherent with the planned dates of payments to be settled due to implementation of the investment. The balance of the loan is decreased by the funds originating from VAT returns. The final repayment date falls after six months following the date of completing the investment. As of the balance sheet day the loan was not used.

Sureties and guarantees granted and received

The guaranties, sureties and commitments granted in 2012 arise from the adopted financing model of TAURON Capital Group and they were provided on account of the conducted trading operations and as the collateral for repayment of loans granted, among others by WFOŚiGW. The table below specifies the agreements on sureties, guarantees and commitments effective as of 31 December 2012.

Table no. 25 Specification of the agreements on sureties, guarantees and commitments effective as of 31 December 2012

No.	Beneficiary	Agreement	Party to the agreement	Amount (in thous. PLN)	Currency	Effective term
1.	WFOŚiGW	Agreement on collateral	TAURON Wytwarzanie	40,000	PLN	15 December 2022
2.	Ministry of Economy	Agreement on financing surety	TAURON Wytwarzanie	200,000	PLN	31 December 2012
3.	WFOŚiGW	Aval agreement	TAURON Heat	30,000	PLN	15 December 2022
4.	CEZ a.s.	Guarantee Agreement (Annex no. 4)	TAURON Czech Energy	500	EUR	30 June 2013
5.	Nordea Bank Polska	Agreement on collateral	TAURON Serwis GZE	202	PLN	31 March 2014

TAURON Capital Group also holds the Framework Agreement on granting the bank guarantees within the limit set, not exceeding the amount of PLN 100,000 thousand, with the effective period until 31 December 2016. Under the Framework Agreement TAURON and companies of TAURON Capital Group may apply for bank guarantees to be charged against the centralised limit.

Under the Agreement the guarantees specified in the table below were granted.

Table no. 26 Specification of bank guarantees granted under the Framework Agreement

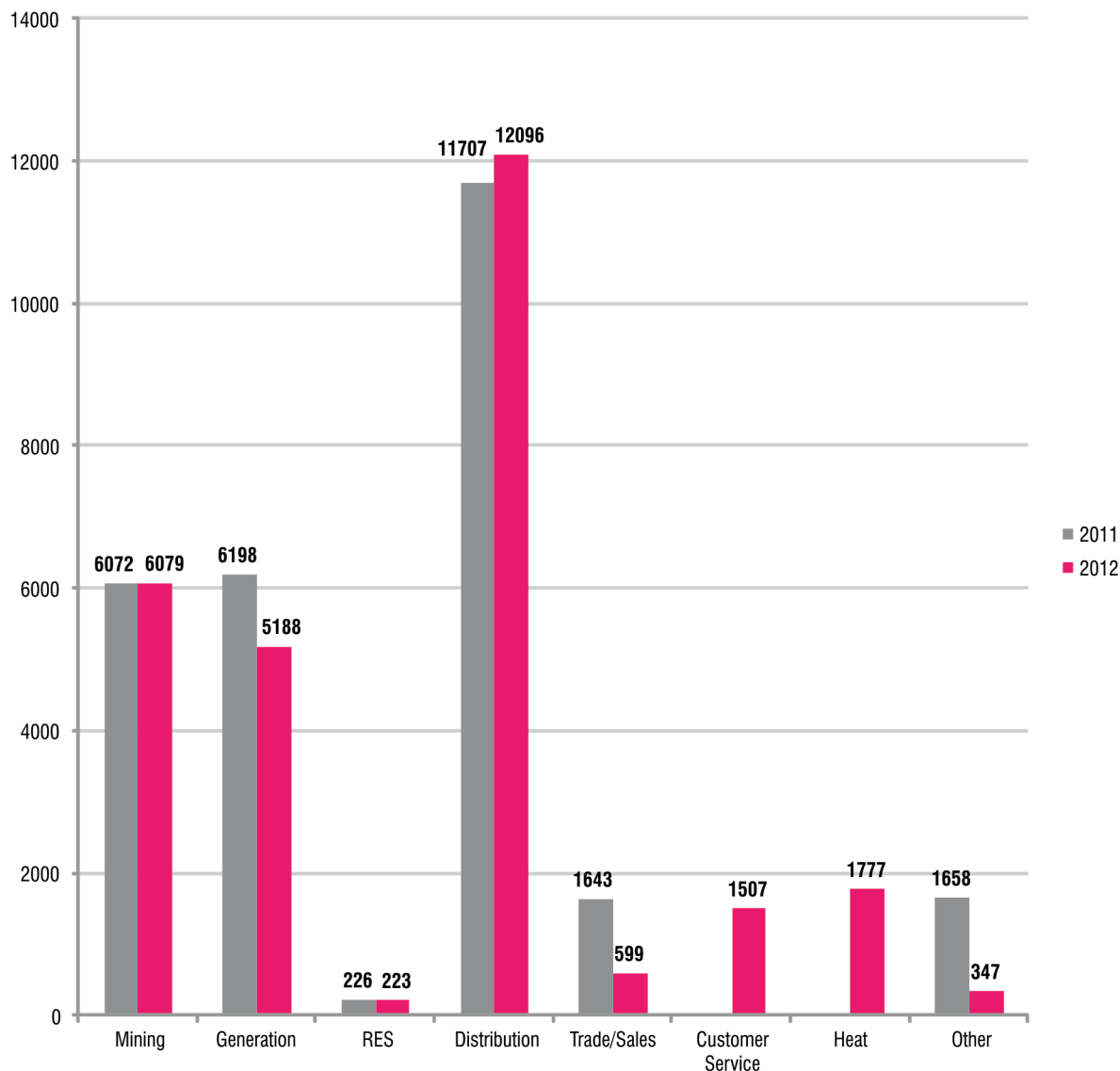
Company	Beneficiary	Agreement	Guarantee amount (in thous. PLN)	Currency	Date of granting	Effective term
TAURON	CAO	payment guarantee	800	EUR	01 January 2012	03 February 2014
TAURON	IRGIT	payment guarantee	20,000	PLN	19 January 2012	26 March 2013
TAURON	IRGIT	payment guarantee	30,000	PLN	26 March 2013	30 June 2013
TAURON	IRGIT	payment guarantee	30,000	PLN	01 July 2012	30 September 2012
TAURON	IRGIT	payment guarantee	80,000	PLN	01 October 2012	31 December 2012
TAURON	PSE	bid bond	7,000	PLN	06 November 2012	28 December 2012
PEPKH	CAO	payment guarantee	500	EUR	16 January 2012	31 January 2013
PEPKH	PSE	payment guarantee	1,000	PLN	19 January 2012	31 January 2013
TAURON Sprzedaż GZE	Spółka Restrukturyzacji Kopalń S.A.	bid bond	480	PLN	05 June 2012	04 August 2012
TAURON Sprzedaż GZE	Spółka Restrukturyzacji Kopalń S.A.	bid bond	480	PLN	04 August 2012	03 October 2012
TAURON Sprzedaż GZE	Gmina Świętochłowice	bid bond	1,000	PLN	17 September 2012	15 December 2012
TAURON Sprzedaż GZE	Przedsiębiorstwo Wodociągów i Kanalizacji sp. z o.o.	bid bond	300	PLN	08 November 2012	07 January 2013
TAURON Sprzedaż	Przedsiębiorstwo Wodociągów i Kanalizacji sp. z o.o.	performance security	253	PLN	19 October 2012	31 December 2013

At the same time, within TAURON Capital Group, in order to secure the transactions executed by the Company at TGE on electric energy markets and participation in the system of securing the liquidity of transaction settlement, in 2012 the agreement was extended based on which TAURON Wytwarzanie granted the surety to the Company in favour of the Clearing House of Giełdy Towarowe S.A. (IRGIT) on account of settlement of future transaction to the amount of PLN 145,000 thousand (the agreement was concluded on 23 February 2011 and it is effective until 31 March 2013).

2.8. Information concerning employment

The average employment in TAURON Capital Group in FTEs (rounded to the full FTE), divided into Segments of operations in the years 2011–2012, is presented in the figure below.

Figure no. 8 Average employment in FTEs in TAURON Capital Group in 2011 and 2012



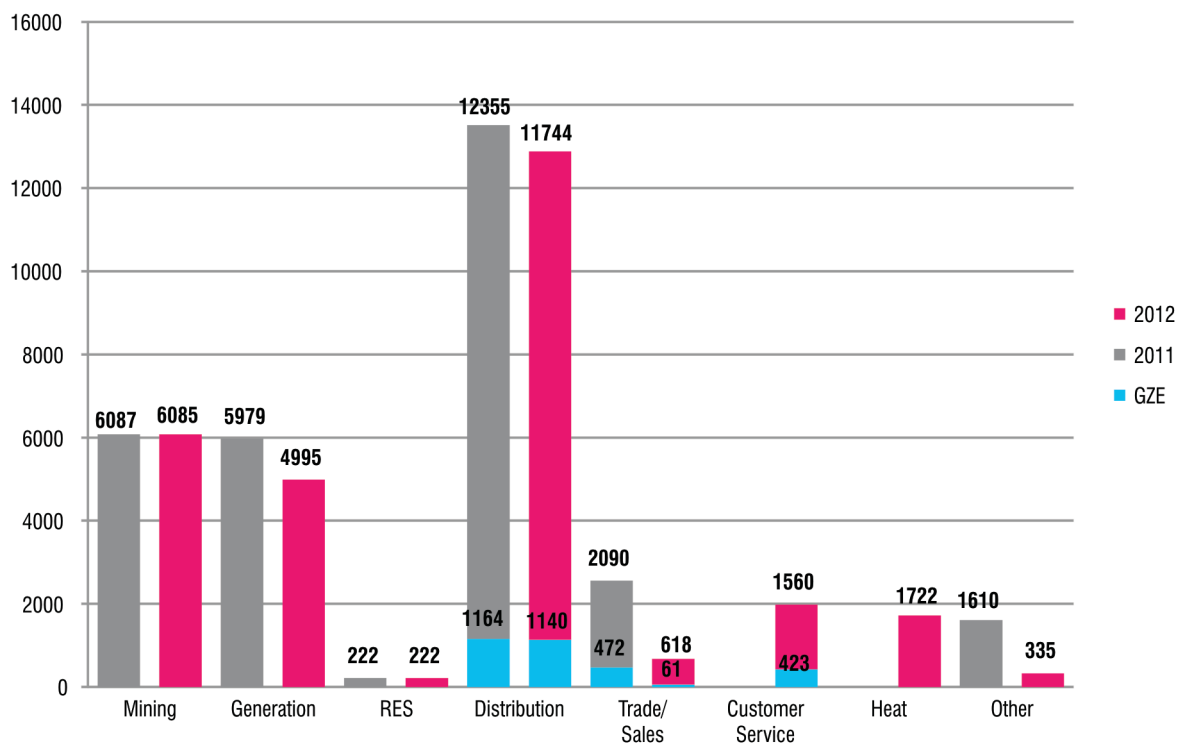
Changes in employment in individual Business Areas of TAURON Capital Group in 2012, as compared to the average employment in 2011, result, among others, from the *Programmes of Voluntary Redundancy* implemented in 2012 in the Business Areas: Distribution, Generation and Heat, from mobility of employees among individual Business Areas, and from acquiring the GZE companies. It should be stressed that the average employment in GZE companies in 2011 was calculated based on GUS (Central Statistical Office) methodology, from the date of purchase of these companies, i.e. from 13 December 2011, i.e. for 19 days of 2011 and it reached 84 FTEs, whereas, if calculated according to the same methodology for the whole 2012, it reached 1618 FTEs.

Separation of two new Segments of operations in 2012, i.e.: Customer Service and Heat Areas, affected the changes in levels of average employment in other Areas. Customer Service Area consists of the companies which were assigned to the Trading/Sales Business Area in 2011 (TAURON Obsługa Klienta and TAURON Obsługa Klienta GZE). On the other hand, Heat Area comprises companies which, as a result of the merger in 2012, were incorporated to TAURON Ciepło, whereas the companies EC Nowa, EC Tychy were included in Generation Area in 2011 and the company TAURON Ciepło belonged to the Area of Other. TAURON is assigned to the Sales Area.

The average total employment in TAURON Capital Group in 2012 was 27,816 FTEs.

As of 31 December 2012, 27,281 persons were employed in the companies of TAURON Capital Group. It should be underlined that the decrease in employment by 1,062 persons was noted, as compared to the employment status as of 31 December 2011, reaching 28,343 persons.

Figure no. 9 Employment in TAURON Capital Group in persons according to the status as of 31 December 2011* and 31 December 2012



* Employment in FTEs as of 31 December 2012 presented according to assignment of subsidiaries to Segments of TAURON Capital Group in force in 2011.

2.9. Development policy of TAURON Capital Group

2.9.1. Characteristics of the policy in the area of development directions

The *Corporate Strategy for TAURON Polska Energia S.A. Group for 2008–2012 with estimates up to the year 2020*, adopted and approved by the Company in 2008 was implemented in accordance with the adopted plan, within which the main actions were connected with integration of TAURON Capital Group, along the value chain and with achievement of sales and EBIT margin growth by the Company. After two years of implementation of the aforementioned strategy, in 2011 the actions undertaken so far were reviewed, their implementation was evaluated and the tasks adopted in 2008 were updated.

The analysis of the broadly understood external environment of TAURON Capital Group as well as standing and possibilities of TAURON Capital Group itself led to verification of strategic goals in 2011, as well as prompted the updating of their accomplishment. As a result, the Management Board adopted the updated *Corporate Strategy for TAURON Group for 2011–2015 with estimates up to the year 2020*, which received positive opinion of the Supervisory Board on 28 April 2011. The Company informed of this event in the current report No. 25/2011 of 28 April 2011. The overriding strategic goal of TAURON Capital Group is to provide for constant increase of value ensuring the secure return on the invested capital for shareholders. In accordance with the aforementioned update, the implementation of the aforementioned goal will be measured on the basis of key ratios of value building, i.e. EBITDA growth and ROIC level.

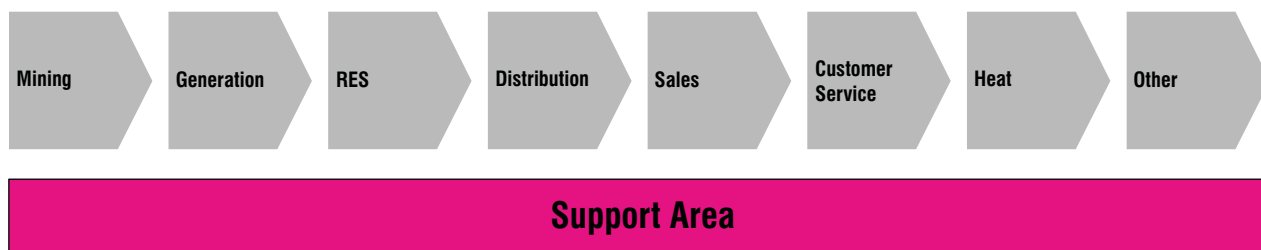
The updated Corporate Strategy was applicable in 2012 and description of its implementation and the detailed information concerning the development directions arising from the updated Corporate Strategy is included in item 2.9.3 of this report.

The Company monitors the essential macroeconomic environment and analyses its impact on the activities on on-going basis. Due to the planned essential changes of the legal environment of the energy sector and the expected economic slowdown, in 2012, the review of the Corporate Strategy and the investment directions was started.

2.9.2. Planned Structure of TAURON Capital Group

The planned model of TAURON Capital Group structure has been determined in the Corporate Strategy which assumes creating of one leading company in each Business Area, which should allow for operation companies created or acquired for the needs of strategic alliances, activities on international markets, identified business needs and implementation of investment projects. The aforementioned assumptions should allow for optimisation of operations of entities along the whole value chain, indicated in the figure below, in order to maximise the margin generated in the whole TAURON Capital Group.

Figure no. 10 Value chain in TAURON Capital Group



2.9.3. Implementation of Corporate Strategy

As a follow-up of implementation of the Corporate Strategy, updated in 2011, its implementation was based on adjustment of strategic priorities to the changing environment. The key direction of the Corporate Strategy is to focus on growth in the areas of operations where the highest potential for achieving high rates of return on investments exists and diversification of the generation portfolio. In addition, the objective of further improvement of the efficiency and building of effective organization has been sustained.

Implementation of the Corporate Strategy in 2012 allowed for accomplishment of the EBITDA and ROIC indicators adopted for this year. In the scope of implementation of investment tasks, the investment projects planned for this year were completed, including the construction of the RES 50 MW unit in Elektrownia Jaworzno III, the occupancy permit was obtained for the installation for electricity production in RES in the power plant in Stalowa Wola (20 MW) and in Elektrociepłownia Tychy (40 MW). In 2012, after signing the contract with the General Contractor, works were also commenced connected with construction of the CCGT unit at the capacity of 449 MWe in Elektrociepłownia Stalowa Wola. Moreover, the letter of intent was signed with the strategic partner for the project of construction of the new capacity in gas technology at Elektrownia Łagisza. In the scope of new capacity in wind energy, advanced works were continued aimed at construction of two wind farms – Wicko and Marszewo. The assumed targets connected with the improvement of cost effectiveness were also achieved, mainly through the restructuring programmes conducted in the Distribution, Generation and Heat Area. TAURON Capital Group undertook measures aimed at enhancement of the organizational effectiveness, by continuing the process of building the target business model and integrating its companies. The Distribution Area was integrated and the integration of Customer Service Area was prepared (completed in January 2013), while in the Heat Area the next stage of development of this Area was implemented.

The Corporate Strategy focuses on four key objectives which jointly provide for growth of value of TAURON Capital Group:

I. Growth in the most attractive Areas of Business

The growth will focus on the areas of operations where the highest potential for achieving high rates of return on investments exists. Due to the need to replace the generation capacity and the related investment expenditure, investment in generation assets (and potential acquisitions in this area) on the domestic market will be the priority for the Group.

Within the generation portfolio, the Corporate Strategy assumes commissioning of new generating capacity up to 2020, in various technologies, including the wind energy, at the level of 3 200 MW_e. The growth of net power assumed in the Corporate Strategy until 2020 will reach 1,379 MWe.

In 2012 the Company extended the scope of its activities, starting operations in the area of exploration and excavation of shale gas from unconventional deposits. The involvement of the Company in this area was initiated with the Letter of Intent signed on 24 January 2012 between TAURON Polska Energia S.A. and PGNiG S.A. concerning the joint exploration for and excavation of shale gas. On the other hand, the activities initiated with the Letter of Intent signed on 5 September 2012 in the scope of acquisition of shares in the special purpose vehicle for construction and exploitation of a nuclear plant resulted in involvement of the Company in the area of nuclear energy.

II. Operational and investment effectiveness at the level of best practice

The Corporate Strategy envisages further implementation of synergy of integration of TAURON Capital Group companies. The next stage of restructuring through improvement of business management and integration of support functions is in progress. It also involves

centralisation and, in justified cases, depending on the strategic importance of individual assets, outsourcing of areas which are not directly connected with the core operations of TAURON Capital Group.

In 2012, the Company continued approaching the budgetary discipline as its priority in each Business Area within investment expenses and operating costs. The activities related to improvement of operational and investment effectiveness will also enable to prepare TAURON Capital Group to operating under the volatile market conditions, in particular, under the significant volatility of prices of fuels, energy, emission allowances, etc.

III. Management of exposure to market and regulatory risks

In view of market and regulatory volatility, the essential element of Corporate Strategy is the active management of market risks. In order to optimise these risks and maximise rates of return TAURON Capital Group will diversify the generation portfolio by appropriate adjustment of individual types of technologies (limitation of long-term risk arising from investment decisions) as well as develop effective security policy, including security of energy supplies (limitation of medium- and short-term risk resulting from the trading activity). This approach will enable to reduce the volatility of result in TAURON Capital Group through asset portfolio management and control of risk limits.

In 2012 no significant change in generation capacity structure was noted. About 98% of the capacity installed in TAURON Capital Group was covered by coal-burning technology. In 2020, share of these technologies will be reduced to about 70%, including 15–20% from new units. Share of low emission technologies, i.e. gas, wind, water, biomass and biogas, will reach about 30%.

Effective strategy of securities will cover the whole actions in the value chain of TAURON Capital Group, starting from the security of the assumed volume of fuel supply from the sources held, ending up with coverage of the specific volume of electric energy sold to end customers from own generation units. The adopted approach will guarantee the secure operations of the assets held in the Generation Area through provision of fuel supply and maintaining of its price at the acceptable level.

In 2012 the Company continued its activity in the scope of promotion and development of strategic energy technologies and preparation of the development of nuclear energy. In this area, activities were undertaken, associated with the involvement of the Company in research and development projects, co-financed both from national source (e.g. through the National Centre of Research and Development (NCBiR)) and from international sources (e.g. the Community of Knowledge and Innovation – KIC InnoEnergy). Within the research projects co-financed by NCBiR, the Company carried out the activities aimed at, among others, construction of a pilot mobile installation for CO₂ capturing and performing studies at the facilities belonging to TAURON Wytwarzanie. A research project entitled: “The development of high-temperature reactors for industrial applications” was also launched.

IV. Building of effective organisation

Within implementation of this goal, TAURON Capital Group has focused its activities on the whole value chain as well as on improving the effectiveness of the organisation in each Business Area. Building of effective organization is connected with the growth of employees' competence, implementation of management through goals and improvement of work effectiveness and satisfaction of TAURON Capital Group Clients.

The activities performed in 2012, covering the continuation of implementation of the target business model and completing the integration of general corporate functions will contribute to effective implementation of the updated Corporate Strategy in the whole value chain, which will improve the position of TAURON Capital Group among the leading energy companies in the region.

2.9.4. Factors essential for development

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

- the macroeconomic situation, especially in Poland, as well as the economic situation of the area of operations of the TAURON and TAURON Capital Group, the European Union and the global economy, including interest rate changes and currency rate fluctuations, etc., influencing the valuation of assets and liabilities recognised by the Company in its financial statements;
- the political environment, especially in Poland as well as on the EU level, including the standpoints and decisions of public administration institutions and bodies, for example: the Office for Competition and Consumers Protection (UOKiK), ERO and the European Commission,
- situation in electric energy sector, including competition behaviour on the energy market,
- introduction of the support system of electric energy generation by high efficiency co-generation in units fired with methane,
- geological and mining conditions,
- number of CO₂ emission allowances allocated on complimentary basis after 2012 and prices of the allowances acquired;
- changes in the regulations of the energy sector, including the changes in the legal environment, including: the tax law, commercial law, environmental protection law,
- demand for electric energy and other products of energy market,

- prices of electric energy and fuel as well as distribution tariffs, as factors influencing the level of revenue and costs;
- scientific and technical progress,
- seasonality and weather conditions.

2.10. Assessment of implementation opportunities of investment projects

Strategic investment as well as their financing are managed centrally at the level of the Company. On the basis of the conducted analyses, the Management Board of the company has assessed that TAURON Capital Group is able to finance the current and future investment projects from funds generated from operating activity and by acquisition of debt financing.

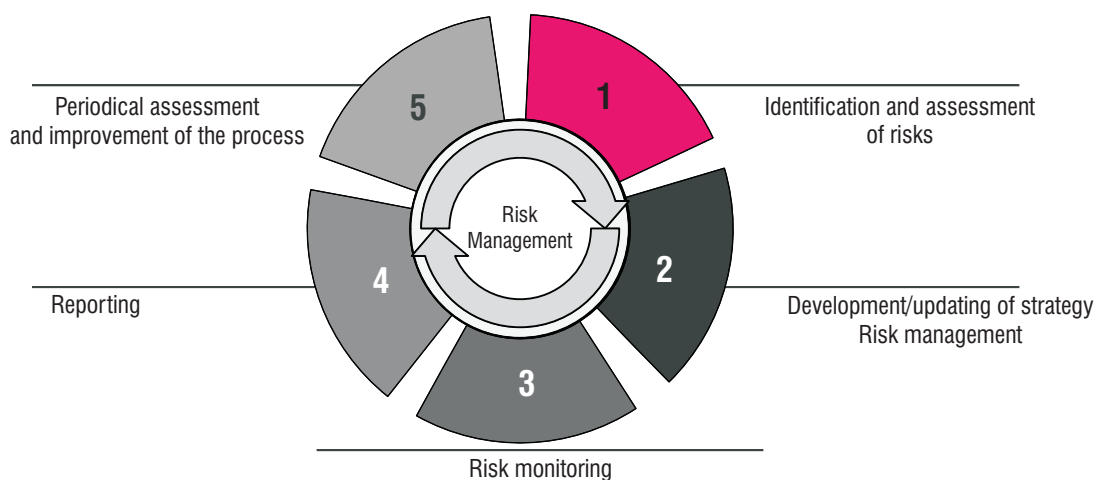
2.11. Risk and threat factors

Taking care for implementation of the Corporate Strategy, the Company manages business risks occurring in operations of the whole TAURON Capital Group. The business risks management process is aimed at implementation of the adopted business objectives of the TAURON Capital Group as a part of the acceptable risk level adopted by the Company's Management Board W 2012, the process of implementation of the *Corporate Risk Management Policy in the TAURON Group* was continued in key companies of TAURON Group (the Policy).

The Comprehensive Risk Management System covers significant risks which occur in operations of the Company and TAURON Capital Group. The nature of risks is defined, in particular, by specifying their significance level and probability of materialization. To achieve this goal, the system covers and organises all the resources of TAURON Capital Group developing the infrastructure of corporate risk management (strategy, processes, authorisation, reporting, methodology and IT tools). The Risk Management System covers all elements of the value chain implemented of TAURON Capital Group and all the employees of TAURON Capital Group take part in the risk management process.

The figure below shows the processes within corporate risk management in TAURON Capital Group.

Figure no. 11 Processes within corporate risk management in TAURON Capital Group



In the Company, permanent team of experts operates, which includes persons holding relevant knowledge of the Company and its environment, established as the "Risk Committee", which permanently initiates, analyses, monitors, controls, supports and supervises the performance of corporate risk management in TAURON Capital Group.

Assessment of the extent of TAURON Capital Group exposure to the risk factors and threats listed below, takes into consideration their probability of their occurrence and their significance as well as adequacy of the risk management strategy applied. Order in which particular risks have been presented does not reflect this assessment.

Macroeconomic risk – is associated, in particular, with the level of the Gross Domestic Product (GDP), level of the interest rates, currency exchange rates, fiscal and monetary policy of the state, unemployment rate and level of investment. Macroeconomic risk factors may significantly affect the financial results and market position of TAURON Capital Group, especially through the level of production of electric energy and heat as well as energy distribution and sales volume, availability and cost of acquisition of financial instruments.

Political risk – is connected with the manner and type of the state intervention in the whole economy and in its individual sectors. Political risk factors can have a significant influence on legal conditions of TAURON Group operations, in particular, through changes in the energy or financial policy of the state.

Risk of unstable legal system and the European Union regulations connected with the performance of the energy sector, including the environment protection – the risk applies to legal changes, modifications in the Polish and the European Union regulations as well as to the legislative environment uncertainty. The risk factors may have significant adverse effect on operations of TAURON Capital Group and its financial situation through increase of operating costs or loss of concession within the scope required for the operations.

Risk of non-compliance with the requirements of URE/UOKiK/ and the Instruction of transmission grid operation and maintenance (IRIESD) – a risk of recognising by URE that the OSD is not independent or does not treat entities on the market equally, infringement of antimonopoly regulations or overusing the dominating position. The risk factors may have material adverse effect on operations of TAURON Capital Group, its financial situation or results of its activities through imposing the financial penalties.

Risk of Capital Group organisation and corporate management – the risk connected with ineffective cooperation between the Group companies, within the reporting process, management processes and information management. The risk factors may have adverse effect on TAURON Capital Group operations, its financial situation or results of its activities by incomplete implementation of the Capital Group strategic objectives or the extended period of their accomplishment.

Competition risk – connected with the progressing liberalization of the energy market, especially with the planned release of electric energy prices for G group consumers and release of the heat prices, as well as in connection with changes on the retail market and the consumers' right to change a provider. The risk factors may have adverse effect on TAURON Capital Group operations, its financial situation or results of its activities through decrease of the margin achieved on the electric energy sales or losing its hitherto consumers.

Risk of fund raising and financing service – the risk of lack of possibilities to raise funding for operating and investment needs or obtaining financing on conditions which are different from the adopted assumptions. The risk factors may have material unfavourable effect on operations of TAURON Capital Group, its financial situation or results of its activities through the lack of resources for projects included in the Corporate Strategy and in investment plans, and for operations.

Risk connected with the termination of LTC – a risk of questioning by the President of the URE of the amounts due to cover stranded costs as well as of the obligation to return advance payments received. The risk factors may have material unfavourable effect on operations of TAURON Capital Group, its financial situation or results of its activities through the possibility of the European Commission to qualify the rules of utilising the resources of the programme as public aid which is in non-compliance with the Common Market. Such a qualification may imply the necessity to return the received aid with interest.

Environmental risk, including the risk associated with the atmospheric conditions – consists in a possibility to incur losses resulting from non-compliance with the legal regulations (including those arising from the way of implementation of the European law in the national law, administrative decisions), and including the possibility of occurrence of environmental damage or serious industrial accident or failure. The risk factors may have material adverse effect on operations of TAURON Capital Group, its financial situation or results of its activities through the necessity to incur significant costs of compliance, pay indemnities, or a potential of threat to implementation of production tasks.

Risk of approval of tariffs by the President of URE – the risk is connected with the process of approval of tariffs on electric energy, heat and distribution services by the President of URE. The main threat involves the risk of refusal to approve the tariff. Besides, the regulator may refuse to recognise investment expenditure in the development plan. The risk factors may have material unfavourable effect on operations of TAURON Capital Group, its financial situation or results of its activities through higher cost of operations and loss of revenue.

Assets failure risk – the risk of occurrence of significant and/or permanent failures and damages of equipment used by the TAURON Capital Group companies. The risk factors may have material unfavourable effect on operations of TAURON Capital Group, its financial situation or results of its activities through the need to bear additional costs of grid and non-grid infrastructure overhaul, blackouts and disruptions in operations as well as with the need to offer discounts or pay fines.

Risk of fixed assets management – the risk associated with the lack of possibility to use the fixed assets due to its ineffective management causing its poor technical condition, inadequate costs of fixed assets insurance resulting from its underestimation or overestimation, as well as the costs of holding redundant assets.

Risk of occurrence of natural hazards or unfavourable geological and mining conditions – the risk connected with hazards to accomplishment of production tasks, hazards to safety of maintenance of the mining plant or safety of the staff due to natural risk factors within the development of the mining works, difficulties connected with the roof and floor conditions hampering the mining process, as well as the water and fire conditions.

Risk of atmospheric conditions, climatic changes connected with maintenance of the wind farms – the risk associated with instability of atmospheric conditions affecting the size of electric energy production. In case of decrease or exceeding the wind speed beyond

the range established, it is necessary to turn off the turbines, both for maintenance and for safety reasons. In the winter season the phenomenon of icing of the wind blades of the wind mill may occur, forcing its standstill.

Risk of atmospheric conditions, climatic changes in the Heat Area – the risk related to fluctuations of air temperatures which are of significant influence on the demand for electricity and heat at a longer term, causing the significant increase or decrease of this demand, respectively.

Purchase of materials/fuels risk – the risk connected with significant and/or unexpected changes of the prices of coal and other fuels. The risk factors may have material adverse effect on operations of TAURON Capital Group, its financial situation or results of its activities through increased costs, including those connected with the need to fulfil the requirements of production process and the legal requirements concerning maintenance of relevant fuel reserves, or imposing a fine in case of failure to fulfil these conditions.

Risk of the process of contract awarding/procurement process of supplies/services – the risk is associated with a possibility of significant growth of prices of supplies/services provided by contractors, or their decreased availability. The risk factors may have material adverse effect on operations of TAURON Capital Group, its financial situation or results of its activities through increased costs, extension of the process of preparation and conducting the procedure, awarding the contract unfavourable for the Company or delay in implementation of an investment project.

Risk of unregulated legal status of the property utilised – the risk is connected with a possibility of occurrence of massive claims of land owners due to unregulated legal status of the foundation of a building or structure on the foreign land. The risk factors may have material adverse effect on operations of TAURON Capital Group, its financial situation or results of its activities through increased operational costs or interruption of business continuity due to undermining of the legal status and claims of the third parties.

Risk of loss of the status of the Tax Capital Group (PGK) – the risk is associated with a possibility to lose this status by PGK due to the failure to comply with the statutory requirements. Various interests of individual participants, incomplete information, lack of legal regulations, may lead to risk materialisation, which will result in the lack of possibility to take advantage of tax optimisation processes within PGK.

Volumetric risk – risk related to volatility of electric energy trade volume. The volumetric risk factors may have material adverse effect on operations of TAURON Capital Group, its financial situation or results of its activities through increased costs connected with closing of open positions on the forward market and/or balancing market, on futures market and/or current market as well as losing income and decrease of margin on sales of electric energy to consumers.

Risk of price volatility – the risk associated with the uncertainty in the scope of tendencies in electric energy prices, prices of CO₂ emission allowances and proprietary rights arising from certificates of origin. The fluctuations of prices may materially affect the financial result of TAURON Capital Group.

Risk of losing the co-financing from the national or EU sources – the risk to lose a part or the whole co-financing for the investment projects executed, granted from the EU or national sources due to delays in implementation of schedules of the projects, failure to achieve the indicators of product and results assumed for the project, or classifying a part of expenditures as ineligible by the controlling institution.

Risk of variable manufacturing cost – the risk associated with potential errors in adjustment of units and distribution of loads of unit scheduling. The adjustment of units is performed on the basis of maintenance information from power plants, plans of units, variable costs and data published by TSO. The variable generation cost factors may have adverse effect on the Company due to the necessity to adjust a more expensive generation unit or change in the optimum production schedule.

Risk connected with the obligation to redeem CO₂ allowances – the risk is connected with emitting of CO₂ to the atmosphere as well as the need to redeem a relevant number of CO₂ allowances. The risk factors may have adverse impact on operations of TAURON Capital Group, its financial standing or results of its activities, through the fines imposed for each unit of unredeemed allowance, or decreasing the planned electricity sales profitability.

The Company actively manages all risk aiming at maximum reduction or elimination of their potential adverse effect on the result.

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

- 1) The Supervisory Board of TAURON – is authorised to supervision and control, including checking whether the activities in the scope of corporate risk management undertaken by the Company are compliant with the expectations of the owner and the regulatory authorities.
- 2) TAURON Management Board – takes formal decisions concerning the key elements of the complex risk management system (ERM), i.e. sets priorities and risk management rules, approves the concept of global limits and maximum tolerance for key risks, performs assessments of risk management infrastructure, takes decisions in cases of significantly exceeded limits, approves risk limits established by the Risk Committee.
- 3) Management Boards of the subsidiaries – take formal decisions on key elements of ERM infrastructure in a given company, including implementation of the relevant organizational structure (specifying the role of Risk Management Coordinator in a given

company and implementing other ERM elements in the subsidiary), and supervise the activities of the Risk Management Coordinators.

- 4) Risk Management Office of the Company – is responsible for ERM implementation in the Company and supervising ERM implementation in the subsidiaries, supports ERM process in the Company and in the subsidiaries, cares for knowledge development in the scope of risk management in TAURON Capital Group, provides support in designing infrastructure elements and changes in risk management policy.
- 5) Risk Committee – is responsible for analysis and monitoring and control of risk management process, takes decisions on the shape and method of risk management in TAURON Capital Group, supports and supervises implementation of activities of individual organisational structures involved in the risk management process.
- 6) Risk Management Coordinators – supervise the implementation of ERM process in a given subsidiary, are responsible for ERM execution in a given subsidiary and cooperate with the Risk Management Office, implement additional tasks, not resulting from ERM for TAURON Capital Group in the scope of risk management at the level of a given subsidiary, are responsible for communication of ERM rules and development of knowledge concerning risk management in the subsidiary.
- 7) Risk owners/specific risk owners – risk owners are responsible for managing the specific risk, its particular tasks include: risk identification and assessment, creating and implementing risk-reduction strategies, monitoring of specific risks and risk factors, reporting to the Risk Management Coordinator or Risk Management Office in the risk management process, risk management to reach the targets assumed and prevent exceeding of the limits assumed.
- 8) Internal Audit Department of the Company – is responsible for planning and conducting the periodical assessments of the corporate risk management process aimed at assessment of the process compliance with the requirements of the Policy and the adopted procedures, effectiveness of the internal control system in case of violating of the limits.
- 9) Other employees of the organisational structures of TAURON and the subsidiaries – in accordance with the provisions of the Policy, all employees of TAURON and the subsidiaries should hold basic knowledge on the scope, aim of ERM in TAURON Capital Group and the knowledge of the ERM concept. If necessary, the employees have a possibility to get acquainted with the details of ERM functioning and they may participate in the risk identification processes.

Rules of specific risk management

Commercial risk

TAURON Capital Group manages the commercial risk based on the developed and adopted *Policy of portfolio and commercial risk management in TAURON Group*, which specifies the set of rules and principles of portfolio management and commercial risk management at the level of TAURON Capital Group. The above document constitutes the implementation of market practices and solutions used in the scope of commercial risk management in electric energy trading and related products trading (CO₂ emission allowances, property rights, fuels), including their adjustment to the structures of TAURON Capital Group, including the specifics of the energy sector.

The commercial risk in TAURON Capital Group is understood as the reduction of unplanned volatility of the operating result of TAURON Capital Group, with simultaneous use of the diversification effect, arising from the portfolio of assets held, and it is divided into two main categories: price risk and volumetric risk. In particular, the price risk is understood as a possibility of deviation of the real result on the commercial activity of TAURON Capital Group against the planned result, arising from the volatility of market prices of electricity and the associated products. On the other hand, the volumetric risk is understood as a possibility of deviation against the commercial plans in the scope of volume affecting the size of the open position for a given commodity. The commercial risk management system covers also the exposure of TAURON Capital Group to liquidity risk, arising from potential difficulties to protect open positions, mainly in the scope of electric energy, in particular, at short-term. It is of significant importance under the conditions of the developing market of electric energy. Low market liquidity causes the lack or limitation of quotations of some products of electricity supply, which consequently restricts the purchase or sale of the relevant quantity of energy (change in position) in the specific time.

The commercial risk in TAURON Capital Group is managed centrally from the Company level, which provides the appropriate supervision over one of the main Business Areas maintained within TAURON Capital Group. Such management model also allows for recognising the effect of risk diversification arising from the assets held and for using the scale effect. The existing correlations, both between individual risk factors and between various areas of commercial activities enable stabilisation of the financial result and reduction of potential losses of the enterprise. The basic element of commercial risk management is the division of the commercial activities of TAURON Capital Group into Front, Middle and Back Office. The distribution of tasks is aimed at providing the independence of operational functions from the risk control functions implemented by the Front and Middle Office. Such an organization ensures security of commercial activities and transparency of the organization.

The main tool for measurement, monitoring and control of the risk is the dynamic measure of the value exposed to risk (Value at Risk).

Commercial risk management is performed on the basis of the portfolio structure, reflecting the activity of individual entities of TAURON Capital Group on the markets of electricity and related products. The main tool for risk control and limiting the excessive exposure to risk

factors is the system of limits based on the measure of the value exposed to risk. The control covers both the global limit constituting the acceptable commercial risk level comprising the full structure of TAURON Capital Group (risk appetite), as well as operational limits demonstrating the decomposition of the global limit into individual portfolios associated with the areas and types of commercial activities of TAURON Capital Group. Moreover, within commercial portfolios, in order to minimise the risk, the centralised system of purchase and sales orders for electricity and products is used, which allows for coordinated management of commercial position of TAURON Capital Group and optimum use of diversification effects.

Financial risk

Information concerning the financial risk is presented in item 3.8.2 of this report.

3. ANALYSIS OF ASSETS AND FINANCIAL SITUATION OF THE TAURON CAPITAL GROUP

3.1. Principles of preparation of the annual consolidated financial statements

The consolidated financial statement has been prepared in accordance with the International Financial Reporting Standards (IFRS) adopted by the European Union. Considering the process of IFRS continuing in the EU and the activity of TAURON Capital group in the area of the accounting rules applied by TAURON Capital Group, there is no difference between the IFRS standards which entered into force and the IFRS standards approved by the EU for the financial year ended on 31 December 2012. IFRS cover the standards and interpretations accepted by the International Accounting Standards Board and the International Financial Reporting Interpretation Committee.

TAURON Wytwarzanie, TAURON Sprzedaż, BELS INVESTMENT and MEGAWAT MARSZEWO keep their ledgers and prepare financial statements in accordance with the accounting principles (policy) specified in the Accounting Act of 29 September 1994 and its secondary legislation. TAURON Czech Energy keeps its ledgers and prepares financial statements in accordance with the principles of accounting binding in the Czech Republic. The remaining companies of TAURON Capital Group and the parent entity keep their ledgers and prepare financial statements in accordance with IFRS. The consolidated financial statement contains adjustments which are not included in the ledgers of TAURON Capital Group entities, introduced in order to bring the consolidated statement into its compliance with IFRS.

The consolidated financial statement has been prepared with the assumption of continuation of business operations by the TAURON Capital Group companies in the predictable future. As of the date of the financial report, no circumstances are recognised, indicating any risk for business continuity of the companies of TAURON Capital Group.

The accounting principles (policy) adopted for drawing up of the financial statements are provided in note 9 of the Consolidated financial statement of TAURON Polska Energia S.A. Capital Group for the year ended on 31 December 2012.

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

Consolidated statement of financial situation

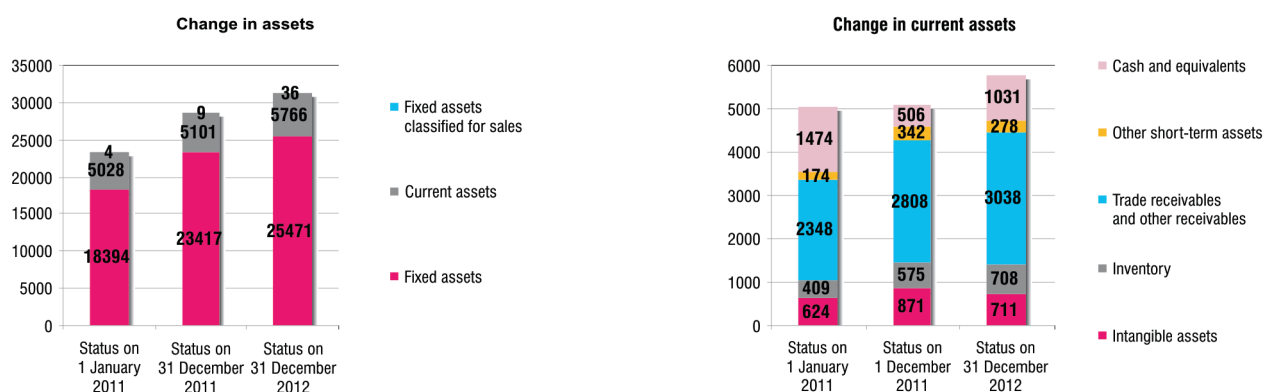
In the table below, the annual consolidated statement of financial situation – assets, is presented.

Table no. 27 Annual consolidated statement of financial situation – assets (data in thousand PLN)

Statement on financial situation	Status as of 31 December 2012	Status as of 31 December 2011 (data converted)	Status as of 1 January 2011 (data converted)	Dynamics (2012/2011)
ASSETS				
Fixed Assets	25 471 230	23,416,777	18,394,387	108.8%
Tangible fixed assets	24,112,737	22,475,647	17,524,936	107.3%
Intangible assets	617,219	560,344	346,340	110.2%
Stocks and shares in affiliated companies and joint ventures recognised applying the equity method	51,986	22,717	764	228.8%
Other long-term financial assets	305,444	193,067	177,452	158.2%
Other long-term non-financial assets	359,709	144,923	181,832	248.2%
Assets due to deferred Income tax	24,135	20,079	163,063	120.2%
Current assets	5,766,232	5,101,268	5,028,179	113.0%
Intangible assets	711,099	870,954	624,190	81.6%
Inventory	708,282	574,790	408,560	123.2%
Receivables due to income tax	1,434	64,266	74,749	2.2%
Trade receivables and other receivables	3,036,695	2,743,344	2,273,145	110.7%
Other short-term financial assets	5,422	108,024	28,193	5.0%
Other short-term non-financial assets	272,371	234,220	145,361	116.3%
Cash and equivalents	1,030,929	505,670	1,473,981	203.9%
Fixed assets permanently classified for trade	36,215	8,951	4,397	404.6%
TOTAL ASSETS	31 273 677	28 526 996	23,426,963	109.6%

As of 31 December 2012 the statement on financial situation of TAURON Capital Group indicates total assets higher by 9.6%.

Figure no. 12 Change in the status of assets and current assets



Fixed assets constitute the biggest item of assets, making 81.4% of the balance sheet total. As compared to the previous year, the value of fixed assets was higher by 8.8%. The change was mainly caused by investments in fixed assets implemented in 2012 in each of the segments of activities, in particular, in generation and distribution. The growth of value of tangible fixed assets amounted to PLN 1,637,090 thousand (7.3%). The value of tangible fixed assets constitutes 94.7% of the total fixed assets and has the biggest impact on this item of the statement.

The value of current assets of TAURON Capital Group increased by PLN 664,964 thousand (13.0%). The positive change was caused by increase of the receivables by the amount of about PLN 293,351 thousand (10.7%) and cash by the amount of over PLN 525,259 thousand (103.9%).

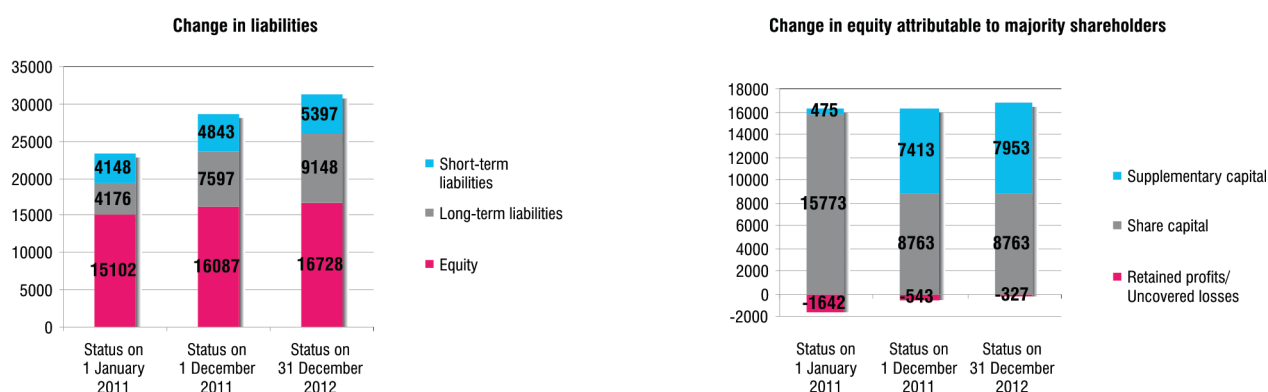
In the table below, the annual consolidated statement of financial situation – liabilities, is presented.

Table no. 28 Annual consolidated statement of financial situation – liabilities (data in thousand PLN)

Statement on financial situation	Status as of 31 December 2012	Status as of 31 December 2011 (data converted)	Status as of 1 January 2011 (data converted)	Dynamics (2012/2011)
LIABILITIES				
Equity	16,728,233	16,087,218	15,102,436	104.0%
Equity attributable to shareholders of the parent company	16,235,110	15,632,321	14,606,157	103.9%
Share capital	8,762,747	8,762,747	15,772,945	100.0%
Supplementary capital	7,953,021	7,412,882	475,088	107.3%
Hedging tools revaluation reserve	(153,703)	–	–	–
Currency Exchange differences due to translation of foreign units	(370)	87	(271)	–
Retained profits/Uncovered losses	(326,585)	(543,395)	(1,641,605)	60.1%
Non-controlling shares	493,123	454,897	496,279	108.4%
Long-term liabilities	9,148,067	7,597,081	4,176,377	120.4%
Loans, credits and debt securities	5,222,882	4,251,944	1,076,178	122.8%
Liabilities due to leasing and lease contracts with purchase option	41,796	56,232	67,810	74.3%
Long-term provisions and employee benefits	1,650,742	1,264,575	1,189,802	130.5%
Derivatives	150,594	0	0	–
Long-term prepayments and governmental subsidies	723,315	642,549	644,522	112.6%
Trade liabilities and other long-term financial liabilities	7,890	7,968	6,910	99.0%
Provision due to deferred income tax	1,350,848	1,373,813	1,191,155	98.3%
Short-term liabilities	5,397,377	4,842,697	4,148,150	111.5%
Trade liabilities and other liabilities	2,628,449	2,349,121	1,622,806	111.9%
Current portion of interest-bearing credits, loans and debt securities	286,990	214,169	325,027	134.0%
Current part of liabilities due to leasing and lease contracts with purchase option	14,482	14,761	23,452	98.1%

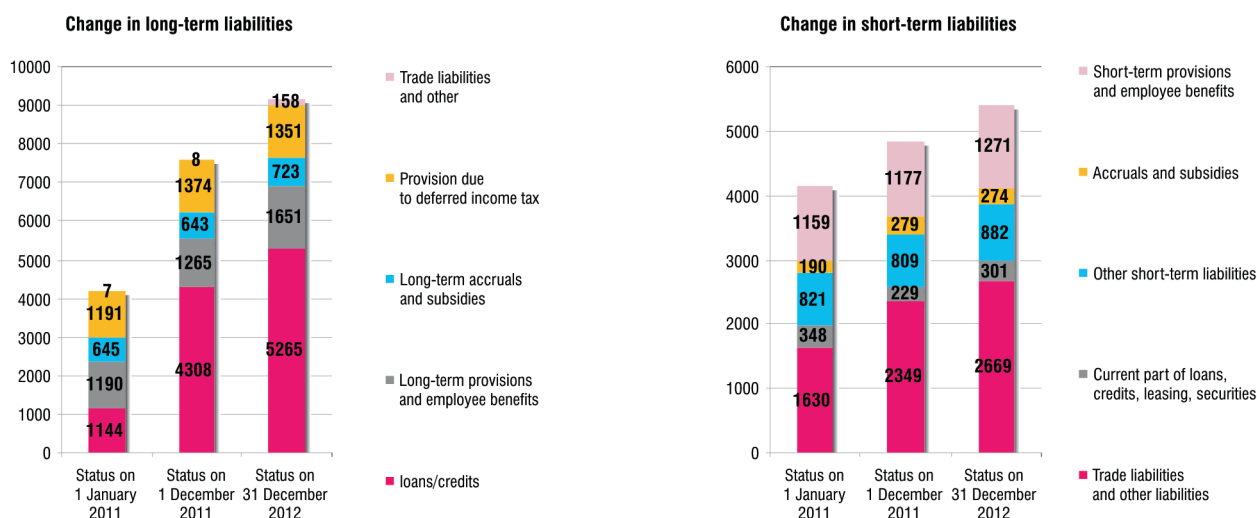
Statement on financial situation	Status as of 31 December 2012	Status as of 31 December 2011 (data converted)	Status as of 1 January 2011 (data converted)	Dynamics (2012/2011)
Other short-term liabilities	769,234	645,067	752,819	119.2%
Derivatives	40,624	80	6,917	–
Accruals and governmental subsidies	273,824	279,058	189,712	98.1%
Liabilities due to income tax	113,034	163,437	68,672	69.2%
Short-term provisions and employee benefits	1,270,740	1,177,004	1,158,745	108.0%
TOTAL LIABILITIES	31,273,677	28,526,996	23,426,963	109.6%

Figure no. 13 Change in liabilities and equity



As of 31 December 2012 and as of 31 December 2011, the total equity, as the dominating source of financing of TAURON Capital Group assets, reached PLN 16,728,233 thousand and PLN 16,087,218 thousand, respectively, which constitutes about 53% and 56% of total liabilities. The value of equity during the reporting year did not change irrespective of the decreased share in the structure of liabilities, which is caused by the increase in the balance sheet total.

Figure no. 14 Change in the status of liabilities



The change in status of long-term liabilities during the financial year ended on 31 December 2012 results mainly from the increased level of debt due to bank credits, loans and securities (issue of bonds) and the increased level of provisions for employee benefits.

Short-term liabilities increased by PLN 554,680 thousand (11.5%) against the status as of 31 December 2011, mainly in connection with the increase trade liabilities and provisions, in total by PLN 537,775 thousand (among others, due to use of provisions related to the obligation to present certificates for redemption by companies of the Sales Segment). The balance of short-term bank credits, loans and debt securities as of 31 December 2012 amounted to PLN 286,990 thousand, which means the increase by PLN 72,821 thousand (34.0%) in relation to the status as of 31 December 2011.

Consolidated statement of comprehensive income

The table below presents the annual consolidated statement of comprehensive income.

Table no. 29 Annual consolidated statement on comprehensive income

Statement on comprehensive income	Year 2012		Year 2011		Dynamics (2012/2011)
	in thousand PLN	% of total revenue on sales	in thousand PLN	% of total revenue on sales	
Continued operations					
Revenue on sales of products, goods and materials without excluding the excise	19,025,982	77%	16,282,481	78%	116.8%
Excise tax	(518,561)	2%	(393,757)	2%	131.7%
Revenue on sales of goods, products and materials	18,507,421	75%	15,888,724	77%	116.5%
Revenue on sales of services	6,186,627	25%	4,825,806	23%	128.2%
Other revenue	47,209	0.2%	40,692	0.2%	116.0%
Revenue on sales	24,741,257	100%	20,755,222	100%	119.2%
Own cost of sales	(21,282,054)	86%	(18 174 354)	88%	117.1%
Gross profit (loss) on sales	3,459,203	14%	2,580,868	12%	134.0%
Other operating revenue	118,901	0.5%	99,446	0.5%	119.6%
Costs of sales	(552,291)	2%	(283,382)	1%	194.9%
Overheads	(734,754)	3%	663,970)	3%	110.7%
Other Operating Expenses	137,658)	1%	87,458)	0.4%	157.4%
Operating profit (loss)	2,153,401	9%	1,645,504	8%	130.9%
<i>Operating profit margin (%)</i>	8.7%		7.9%		109.8%
Financial revenue	131,306	1%	115,767	1%	113.4%
Financial expenses	(347,124)	1%	(160,274)	1%	216.6%
Share in the profit (loss) of an affiliated entity and joint venture recognised by equity method	(1,734)	0.01%	(1,046)	–	165.8%
Gross profit (loss)	1,935,849	8%	1 599 951	8%	121.0%
<i>Gross profit margin (%)</i>	7.8%		7.7%		101.5%
Income Tax	(394,550)	2%	(333,017)	2%	118.5%
Net profit (loss) on continuing operations	1,541,299	6%	1,266,934	6%	121.7%
<i>Net profit margin (%)</i>	6.2%		6.1%		102.1%
Net profit (loss) on discontinued operations	0		0	–	
Net profit (loss) for the financial year	1 541 299	6%	1,266,934	6%	121.7%
Other comprehensive income for the financial year including tax	(333,594)		30,449		
Total income for the financial year	1 207 705	5%	1 297 383	6%	93.1%
Profit attributable to:					
Shareholders of the parent company	1,466,802		1 247 585		117.6%
Non-controlling interests	74,497		19,349		385.0%
Total income attributable to:					
Shareholders of the parent company	1,148,027		1 273 637		90.1%
Non-controlling interests	59,678		23,746		251.3%
EBIT and EBITDA					
EBIT	2,153,401		1,645,504		130.9%
EBITDA	3,839,897		3,057,051		125.6%

In 2012 the TAURON Capital Group recognised the total sales revenue at a level of PLN 24,741,257 thousand, which represents an increase of about 19.2%.

As compared to 2011, TAURON Capital Group reached higher revenue on sales in all operating segments, excluding the Generation Segment. The highest dynamics of revenue growth was observed in Sales and Distribution Segments, mainly as a result of the increase in the volume of sales and electric energy supplies, which was also significantly affected by activities of the acquired companies: GZE (TAURON Dystrybucja GZE, TAURON Sprzedaż GZE), as well as the growth of sales prices.

Increase in costs of operating activities is connected with the higher volume of sales, mainly of electric energy. In addition, in expenses of 2012, the whole year activity of the GZE companies acquired at the end of 2011 is included. In TAURON Capital Group companies, activities in the area of optimisation of fixed costs are ongoing.

The lower dynamics of cost growth was reflected in improvement of EBIT and EBITDA ratios as well as net profit. The margin of net profit in 2012 stayed at the level of about 6.2%. The net profit attributable to shareholders of the parent entity reached the level by 17.6% higher than a year ago.

Statement of Cash Flows

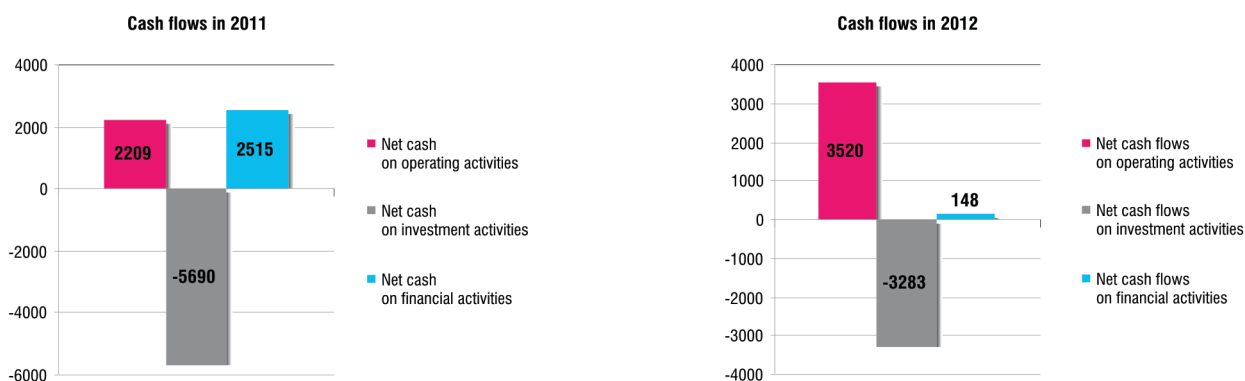
The table below presents the cash flow statement.

Table no. 30 Statement of Cash Flow (data in thousand PLN)

Statement of Cash Flows	Year ended 31 December 2012	Year ended 31 December 2011 (converted data)	Dynamics (2012/2011)
Cash flows from operating activities			
Gross profit (loss)	1,935,849	1,599,951	121.0%
Adjustments	1,584,480	608,975	260.2%
Net cash from operating activities	3,520,329	2,208,926	159.4%
Cash flows from investment activities			
Sales of tangible fixed assets and intangible assets	50,192	39,957	125.6%
Purchase of tangible fixed assets and intangible assets	(3,302,471)	(2,302,270)	143.4%
Sales of bonds and other debt securities	102,506	1,493	–
Sales of other financial assets	22,011	112,811	19.5%
Purchase of other financial assets	(10,463)	(147,989)	7.1%
Acquisition of stocks and shares in affiliated companies and joint ventures recognised applying the equity method	(32,576)	(23,000)	141.6%
Acquisition of subsidiary following deduction of cash taken over	(5,613)	(3,379,615)	–
Dividend received	8,349	8,173	102.2%
Interest received	136	666	20.4%
Repayment of loans granted	24,500	240	–
Loans granted	(139,500)	–	–
Net cash from investment activities	(3,282,929)	(5,689,534)	57.7%
Cash flows from financial activities			
Repayment of liabilities due to financial leasing	(14,834)	(25,603)	57.9%
Cash inflows due to loans/credits	1,005,000	87,254	–
Repayment of loans/credits	(257,210)	(467,183)	55.1%
Issue of debt securities	150,000	3,300,000	4.5%
Redemption of debt securities	–	–	–
Dividends paid to shareholders of the parent company	(543,290)	(262,882)	206.7%
Dividends paid to minority shareholders	(16,434)	(13,676)	120.2%
Interest paid	(222,089)	(52,292)	424.7%
Purchase of non-controlling interest	(6,535)	(37,800)	17.3%
Subsidies received	64,805	4,725	–
Other	(10,975)	(17,779)	61.7%
Net cash from financial activities	148,438	2,514,764	5.9%
Increase/(decrease) in net cash and cash equivalents	385,838	(965,844)	–
Net exchange differences	(1,375)	(3)	–
Cash opening balance	505,816	1,471,660	34.4%
Cash closing balance	891,654	505,816	176.3%

TAURON Capital Group recorded the positive result on the total value of net cash flows on operational, investment and financial activities. The total of all cash streams in 2012 amounted to PLN 385,838 thousand.

Figure no. 15 Cash flows in 2011 and 2012



The positive fact is the positive value of cash on operational activities, which amounted to PLN 3,520,329 and it was higher by PLN 1,311,403 thousand (59.4%) as compared to the previous year. The positive gross financial result and depreciation had the biggest impact on this item of cash flow statement.

Due to the investments in fixed assets in most of the Business Segments of TAURON Capital Group, the value of cash flows on investment activity was negative and it shows the balance of PLN 3,282,929 thousand. Expenditure on fixed assets and intangible assets in 2012 amounted to PLN 3,302,471 thousand. It should be mentioned that the total value of cash flows on investment activities was lower by PLN 2,406,605 thousand than the expenditure incurred in the previous year, whose value was caused by expenditure on purchase of shares of GZE companies.

In order to ensure financing of the aforementioned expenditure, TAURON Capital Group used external financial sources at the total amount of PLN 1,155,000 thousand. In the financial year 2012 the value of repaid credits and loans, including interest, amounted to PLN 479,299 thousand. In terms of the stream of expenditure of financial nature, the value of dividend was the second item, disbursed by TAURON Capital Group in 2012 at the amount of PLN 543,290 thousand. The total value of cash flows on financial activities was positive, reaching PLN 148,438 thousand and it was lower than cash flow value of last year by about 94.1%. Such a high difference between the comparable financial years resulted from the issue of bonds at the amount of PLN 3,300,000 thousand, allocated for the purchase of shares of GZE companies.

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

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

3.3. Characteristics of assets and liabilities of the consolidated balance sheet

Structure of the consolidated statement of financial standing

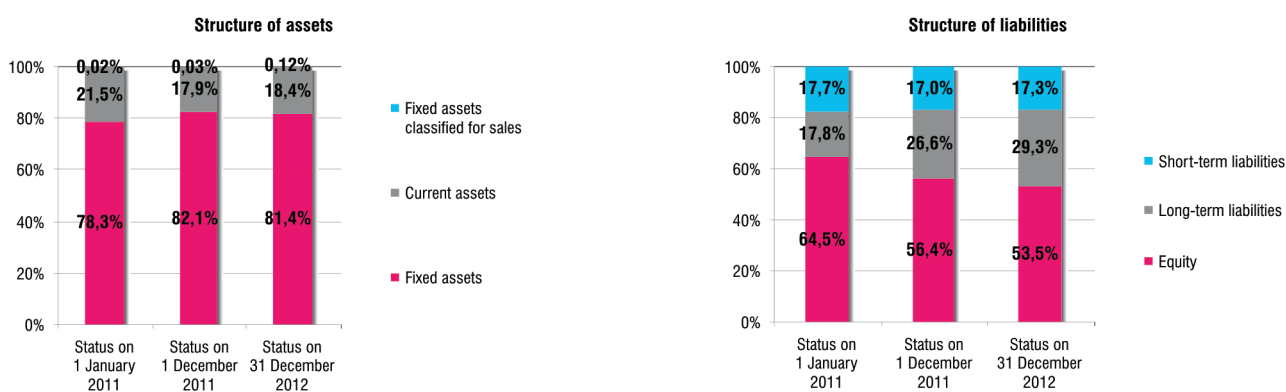
In the table below, the structure of the annual consolidated statement of financial standing is presented.

Table nr 31. Structure of the consolidated statement of financial standing

Consolidated statement of financial standing	Status as of 31 December 2012	Status as of 31 December 2011 (data converted)	Status as of 1 January 2011 (data converted)
ASSETS			
Fixed Assets	81.4%	82.1%	78.5%
Current assets	18.4%	17.9%	21.5%
Fixed assets permanently classified for trade	0.12%	0.03%	0.02%
TOTAL ASSETS	100.0%	100.0%	100.0%

Consolidated statement of financial standing	Status as of 31 December 2012	Status as of 31 December 2011 (data converted)	Status as of 1 January 2011 (data converted)
LIABILITIES			
Equity attributable to shareholders of the parent company	51.9%	54.8%	62.3%
Non-controlling shares	1.6%	1.6%	2.1%
Total equity	53.5%	56.4%	64.5%
Long-term liabilities	29.3%	26.6%	17.8%
Short-term liabilities	17.3%	17.0%	17.7%
Total liabilities	46.5%	43.6%	35.5%
TOTAL LIABILITIES	100.0%	100.0%	100.0%
Financial liabilities	5,566,150	4,537,106	1,492,467
Net financial liabilities	4,535,221	4,031,436	18,486
Ratio net debt/EBITDA	1.18	1.32	0.01
Current liquidity ratio	1.07	1.05	1.21

Figure no. 16 Structure of assets and liabilities



In the structure of assets as of 31 December 2012 the fixed assets and current assets constitute, respectively, about 81.4% and 18.4% of total assets, which means that they stayed on a similar level in relation to the status as of 31 December 2011.

In the structure of liabilities as of 31 December 2012 the liabilities make about 46.5% of total liabilities, as compared to the status at the end of 2011, making about 44%, among which, in 2012, the long-term liabilities make 29.3%, short-term liabilities make 17.3%, while in 2011 the share is comparable: 26.6% and 17.0%, respectively.

The indicator of net debt to EBITDA at the end of 2012 gained the level of 1.18, thus, it was lower than the status at the end of 2011, with a slight increase of net financial indebtedness. The relatively low level of debt expressed by this indicator, as compared to the European industry indicators, and the high level of cash flows on operational activity will continue to enable the financing of the investment programme.

The indicator of current liquidity stayed at the safe level.

3.4. Significant off-balance sheet items

The significant conditional liabilities of TAURON Capital Group are related to the following issues:

- mining damages,
- the use of the real estate without a contract,
- compensation due to stranded costs,
- proceedings commenced by the President of ERO,
- proceedings commenced by the President of UOKiK,
- claims of Huta Łaziska S.A.,
- excise tax and real estate tax.

Mining damages

Within the adopted policy of creating provisions for future liabilities, TAURON Capital Group recognises and captures provisions for mining damages resulting from exploitation of mining plants, in the consolidated financial statement. The value of reserves results from the documented claims due to mining damages, reported, recognised or under adjudication by courts. Mining enterprises included in TAURON Capital Group do not know a method for determining the value of future mining damages which would allow for reliable estimation of costs of liquidation of mining damages occurring during exploitation of the deposits.

Use of real estate without a contract

The distribution companies belonging to TAURON do not hold legal titles to all plots of land on which the distribution systems and the related equipment are situated. In the future, TAURON Capital Group may be required to incur costs for the use of real estate without the underlying contracts; however, it must be emphasized that the risk of loss of assets is remote. TAURON Capital Group recognizes provision for all court disputes filed in this respect. The provision is not established for unreported potential claims of owners of land with unregulated status due to the lack of detailed register of unregulated land and the resulting inability to reliably estimate the amount of potential claims. However, considering the history of the reported claims and the costs incurred in this respect in previous years, the risk of incurring significant costs due to such claims can be considered as remote.

Compensation for stranded costs

In accordance with enforcement of the Act of 29 June 2007 on *Principles for Covering Costs Incurred by Electricity Generators due to Early Termination of Long-term Electricity and System Services Agreements*, TAURON Wytwarzanie voluntarily joined the programme of early termination of LTC by signing an agreement to terminate such contracts. Concluding of such an agreement provides a basis for electricity generators to receive funds to cover their expenses which are not covered by the income derived from the sales of generated electricity, reserve capacity and system-related services on a competitive market after early termination of the LTC, resulting from the expenditures incurred by such companies for assets related to electricity generation up to 1 May 2004. In accordance with the aforementioned Act, the maximum amount of stranded costs and the values adopted for calculation of annual adjustments to the stranded costs were established for each electricity generator. After termination of LTC, starting from 2008, the company receives quarterly cash advances based on the submitted applications. Annual adjustments will be subsequently made to the stranded costs throughout the so-called adjustment period, lasting until the expiry of the longest long-term agreement held by the given company. The final adjustment to the stranded costs will be made in the year following the year in which the adjustment period of the given company ceases.

In accordance with the adopted accounting policy, TAURON Wytwarzanie, based on the constructed financial model, recognised revenues due to compensation in the years 2008–2012 at a total amount of PLN 2,095,801 thousand.

Information on the level of adjustments of stranded costs in the years 2008–2011:

- **for the year 2008:**

Pursuant to the decision of the President of ERO dated 31 July 2009, TAURON Wytwarzanie was required to return the amount of PLN 159,508 thousand to Zarządca Rozliczeń S.A. (Clearing Administrator) by 30 September 2009. Justifying the decision, the President of ERO underlined the fact that the sales price considered by the company while calculating the compensation due to stranded costs did not meet the criterion of electricity sales price on a competitive market as the majority of sales transactions were performed within TAURON Capital Group. The President of ERO challenged the fact of including the value of the provision for the missing CO₂ emission allowances in the calculation of stranded costs, due to the deficit of allowances in 2008.

As a result of the appeal procedure, based on the decisions of: the District Court in Warsaw – the Court for Competition and Consumers Protection, dated 26 May 2010, and the Court of Appeals in Warsaw, dated 25 April 2012 amending, the decision of the President of ERO, the company TAURON Wytwarzanie received the adjustment to stranded costs for 2008, at the amount of PLN 158,842 thousand. The President of ERO, using the right to appeal, filed the cassation appeal to the Court of Appeals which was received by the Court of Appeals in Warsaw on 24 September 2012. On 25 October 2012 the cassation appeal was delivered to the law office representing TAURON Wytwarzanie. On 8 November 2012, TAURON Wytwarzanie submitted the response to the aforementioned appeal, via the Court of Appeals in Warsaw, applying for rejection of its approval for adjudication, and in case of its approval for adjudication – for dismissing it as illegitimate and unjustified. Until the date of this consolidated financial statement the above company has not received any information on accepting the appeal for adjudication, or dismissing it.

Due to the fact that TAURON Wytwarzanie has consistently applied the policy of valuation and recognition of stranded costs adopted in 2008, according to which the stranded costs are recognized as revenue in the financial year for which they are due, and at the amount covering the anticipated annual adjustment, and the anticipated impact of the final adjustment, regardless of the actual date of receipt of the compensation amounts, the Decision did not have any direct impact on the financial results of the company TAURON Wytwarzanie and TAURON Capital Group.

- **for the year 2009:**

According to the decision of 29 July 2010, the President of ERO determined the level of the annual positive adjustment of stranded costs for TAURON Wytwarzanie for 2009 at the amount of PLN 138,202 thousand. On 30 September 2010, Zarządca Rozliczeń S.A. disbursed the above amount to the company.

- **for the year 2010:**

According to the decision of 29 July 2011, the President of ERO determined the level of the annual positive adjustment of stranded costs for TAURON Wytwarzanie for 2010 at the amount of PLN 205,703 thousand. On 30 September 2011, Zarządca Rozliczeń S.A. disbursed the above amount to the company.

- **for the year 2011:**

According to the decision of 31 July 2012, the President of ERO determined the level of the annual positive adjustment of stranded costs for TAURON Wytwarzanie for 2011 at the amount of PLN 211,677 thousand. The Decision of the President of ERO, determining the annual positive adjustment of stranded costs at the amount of PLN 211,677 thousand is consistent with the amount estimated by the company, therefore it has no impact on the financial result of TAURON Capital Group. On 28 September 2012, Zarządca Rozliczeń S.A. disbursed the above amount to the company.

Administrative proceedings initiated by the President of ERO

The President of ERO initiated the administrative proceedings concerning imposing a fine on TAURON Sprzedaż GZE (formerly: Vattenfall Sales Poland sp. z o.o.), pursuant to art. 56 item 1 point 5 of the Act of 10 April 1997 *Energy Law*. The President of ERO charges the aforementioned company on account of using the prices and tariffs in the years 2008–2012 with the failure to comply with the obligation to submit them for approval. TAURON Sprzedaż GZE claims that they have not infringed the regulations in this scope. Preventing the direct accusation of failure to comply with the demand of the President of ERO, the company submitted tariffs for electricity for the years 2008–2012 for approval, on application of the President of ERO, although the company was exempted from the obligation to submit tariffs for electricity (exemption granted according to the opinion of the President of ERO on 28 June 2001). The applications submitted for the years 2008, 2009, 2011 and 2012 were not approved and the proceedings on approval of the tariff for electricity for 2010 was discontinued, according to the decision of the President of ERO.

On 19 March 2010 the President of ERO issued the decision, in which it had withdrawn, *ex officio*, the exemption from the obligation to submit tariffs for electricity granted to TAURON Sprzedaż GZE (formerly: Vattenfall Sales Poland sp. z o.o.), according to the opinion of the President of ERO on 28 June 2001. The company filed an appeal against this decision to the District Court in Warsaw – the Court for Competition and Consumers Protection. On 9 December 2011, the above court issued its verdict waiving the decision of the President of ERO. On 20 September 2012 the Court of Appeals in Warsaw announced its verdict concerning the appeal of ERO against the verdict of the Court for Competition and Consumers Protection, concerning the withdrawal of the exemption from the obligation to submit tariffs for electricity granted to TAURON Sprzedaż GZE for G tariff group. The Court dismissed the appeal of ERO. The verdict is legally binding and its written justification was submitted on 31 December 2012. The President of ERO is entitled to submit the cassation appeal against this verdict.

The Management Board of the company has estimated that the probability of unfavourable adjudication of the above mentioned issues is low, therefore, it has not created provisions for these events.

Administrative proceedings initiated by the President of UOKiK

The President of UOKiK, Branch in Wrocław, initiated the *ex officio* proceedings against TAURON Sprzedaż, accusing it of using the practices violating the collective interests of consumers, by unjustified accrual of interest on overdue payments concerning the forecast of electricity consumption, which are indicated through the system of automated payment service, due to allocation of the amounts paid by consumers to the receivables to be due in the future, while leaving the most outdated liabilities of consumers as unsettled. As a response, TAURON Sprzedaż submitted the application for issuing the decision imposing the obligation to abandon the actions infringing the Act of 16 February 2007 on *competition and consumer protection* and to undertake measures aimed at preventing further continuation of the infringement alleged. As of the day of preparing the consolidated financial statement the company is working on specifying the obligations mentioned above, including the schedule of their implementation.

Claims of Huta Łaziska S.A.

Due to the merger of the Company with GZE – TAURON became a party to the litigation with Huta Łaziska S.A. During the recent years, the GZE subsidiary participated in the court claims with Huta Łaziska S.A. (Huta – Steelworks). The main reason for such situation was the suspension of electric energy supplies by GZE to the Steelworks in 2001 due to default in payment.

According to the decision of 12 October 2001, the President of URE ordered GZE to resume the electric energy supplies to the Steelworks under the conditions of the contract of 30 July 2001 at the price of 67 PLN/MWh until the final resolution of the dispute, and on 14 November 2001, he finally adjudicated the dispute, by issuing the decision stating that suspension of electric energy supplies was not justified. The Steelworks lodged an appeal against this decision. On 25 July 2006 the Court of Appeals in Warsaw issued the legally binding

verdict concluding the dispute on legitimacy of the decision of the President of URE of 14 November 2001. The Steelworks filed the cassation appeal against the aforementioned verdict of the Court of Appeal, which was dismissed with the verdict of the Supreme Court of 10 May 2007.

Due to suspension of energy supplies, the Steelworks submits claims against GZE for payment of compensation at the amount of PLN 182,060 thousand. Currently the case filed by the Steelworks on 12 March 2007 is pending, against GZE and the State Treasury, represented by the President of ERO, concerning payment of PLN 182,060 thousand with interest accrued since the day of filing of the application until the day of payment, due to compensation for the alleged losses arising from GZE failure to implement the provisions of the decision issued by President of URE of 12 October 2001. In this case, on 26 October 2009 the District Court in Warsaw issued the verdict in which the application of the claimant was dismissed, and the Court of Appeal dismissed the appeal of the Steelworks, however, the Supreme Court waived the decisions of the Court of Appeals with its verdict of 29 December 2011 and submitted the case for judicial review. On 5 June 2012 the Court of Appeals waived the decision of the District Court and submitted the case for judicial review by the District Court. On 27 November 2012 the first hearing before the first instance court took place, on 25 February 2013, the next hearing occurred. The term of the next hearing has been scheduled on 24 April 2013.

Based on the legal analysis of the claims submitted by Steelwork's and its main shareholder – GEMI Sp. z o.o. – the Company states that the claims are not legitimate and the risk of necessity of their satisfying is remote. Consequently, the Company did not establish the provision for the costs related with the above claims.

Excise tax

Due to the non-compliance of Polish regulations regarding excise charged on electricity with the EU regulations, on 11 February 2009, the power plants and co-generation plants being part of the TAURON Group submitted corrections of their tax declarations together with requests to recognize the surplus of excise for the years 2006–2008 and for January and February 2009. The total amount of the surplus stated in the requests (excluding interest) was approximately PLN 901,428 thousand. Currently proceedings relating to the individual companies in the TAURON Capital Group are pending before the appropriate Customs Chambers and Regional Administrative Courts.

The Ministry of Finance, however, presents the opinion that such a refund would result in unjustified enrichment of electricity-generators and therefore it is groundless. Support to such standpoint of the Ministry of Finance is expressed in the resolution of the Chamber of Commerce of the Chief Administrative Court of 22 June 2011, in which it was indicated that “the amount of excise tax paid due to sales of electricity shall not be regarded as a surplus under the circumstances when the entity paying the tax did not incur the proprietary losses due to such act.” Therefore, the possibility to recover excise tax seems uncertain.

Simultaneously, some customers of TAURON Capital Group filed claims to companies selling electricity, concerning the adjustment of prices of electricity purchased. In the claims raised it was stated that the electricity price covered the excise tax which should be returned to the electricity purchasers by the State Treasury.

Due to significant uncertainty concerning the final adjudication of the above issue, TAURON Capital Group did not include any effects related to the potential return of the surplus excise tax and the potential claims of electricity purchasers in the consolidated financial statement.

Real estate tax

Information concerning provisions related to claims in the scope of real estate tax on mining excavations and on buildings and structures situated in such excavations, is included in the note no. 32.2.5. of the consolidated financial statement of TAURON Polska Energia S.A. Capital Group for the year ended on 31 December 2012.

In relation to facilities used for generation and transmission of electric energy, interpretation differences occur in terms of the approach to taxation of such facilities with the real estate tax. Due to the fact that the real estate tax is collected by local authorities, their approach is not consistent and sometimes the calculation of taxable base is challenged. As of the date of the consolidated financial statement, the potential outcomes of the proceedings conducted in this respect are not significant for the TAURON Group. Depending on the decisions issued by courts and potential changes in law, situation with regard to taxation of energy equipment with real estate tax may change in the future.

Detailed information on other off-balance items are included in notes 37 and 38 of the Consolidated financial statement of TAURON Polska Energia S.A. Capital Group for the year ended on 31 December 2012.

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

The Management Board did not publish any forecasts of financial results TAURON Capital Group for 2012. This decision resulted from considerable volatility of the market and substantial number of variables affecting its predictability.

3.6. Basic financial and non-financial ratios

Financial ratios

The table below presents the basic financial ratios of TAURON Capital Group.

Table no. 32 The table below presents the basic financial ratios of TAURON Capital Group

Ratio	Definition	Year 2012	Year 2011	Year 2010
PROFITABILITY				
EBIT Margin	Operating result / Revenue on sales	8.7%	7.9%	9.1%
EBITDA Margin	EBITDA/ Revenue on sales	15.5%	14.7%	17.9%
Net Profitability	Net result/ Revenue on sales	6.2%	6.1%	6.4%
Return on Equity (ROE)	Net result/ Closing balance of equity	9.2%	7.9%	6.5%
LIQUIDITY				
Current liquidity ratio	Current assets/ Short-term liabilities	1.07	1.05	1.23
DEBT				
General debt ratio	Total obligations/ total liabilities	0.47	0.44	0.35
Net debt/EBITDA	(Financial liabilities – Cash) / EBITDA	1.18	1.32	0.01
OTHER RATIOS				
Earnings per share (EPS)	Net result / Number of ordinary shares	0.84	0.71	0.54

The profitability ratios in 2012 showed upward trend in relation to those obtained in 2011.

The current liquidity ratio reached the value of 1.07 as compared to 1.05 of previous year, remaining at a safe level. TAURON Capital Group maintained its full capacity to cover short-term liabilities with the cash held, and short-term current assets possible to liquidate in short time.

The total debt ratio as well as Net debt/EBITDA ratio reflect the share of liabilities in TAURON Capital Group financing. The current level of this ratio enables TAURON Capital Group to acquire external financing required to implement the investments planned.

The EPS ratio reached in 2012, at the level of 0.84 increased by about 18.3% in relation to 2011. The level of this ratio is significantly affected by the level of net profit falling to shareholders of the parent entity, which raised by PLN 219,217 thousand in relation to 2011.

Non-financial ratios

The non-financial ratios in the Company are closely related to the specific nature of its activities, the resources held and the adopted Corporate Strategy, including:

- methods of human resources management,
- marketing actions and service of key clients,
- assessment of investment opportunities,
- centralisation of management functions in the Group, restricting the non-core activities,
- development of organisational structures and management procedures.

3.7. Income from the bonds issue programme

Under the binding Programme of Bonds Issue, concluded on 16 December 2010 with Bank Handlowy w Warszawie S.A., ING Bank Śląski S.A., Bank Polska Kasa Opieki S.A., BRE Bank S.A., Powszechna Kasa Oszczędności Bank Polski S.A., BRE Bank S.A. and Nordea Bank Polska S.A., on 30 January 2012 the Company issued bonds of B tranche of the value of PLN 150,000 thousand for financing the investment needs implemented by the companies of TAURON Capital Group through the central financing model operating in TAURON Capital Group.

Moreover, on 29 June 2012 an agreement was signed by the Company and Bank Handlowy w Warszawie S.A., ING Bank Śląski S.A., Bank Polska Kasa Opieki S.A., BRE Bank S.A., Powszechna Kasa Oszczędności Bank Polski S.A., Nordea Bank Polska S.A., Nordea Bank AB and BNP Paribas Bank Polska S.A. and Bank Zachodni WBK S.A., the agreement was signed, on the basis of which the value of TAURON bond issue programme was increased by tranche D and tranche E at the value of PLN 2,475,000 thousand and PLN 275,000,000 thousand, respectively, i.e. to the total amount of PLN 7,050,000 thousand. The funds to be obtained from the issue of tranche D and tranche E bonds will be allocated for financing the investment projects in TAURON Capital Group and for financing the general corporate expenses in the TAURON Capital Group. As of 31 December 2012, the Company has not used the funds of D and E tranches yet.

3.8. Financial instruments

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

TAURON Capital Group carries out on-going monitoring of credit risk generated within the conducted operations.

In 2012, TAURON Capital Group was exposed to credit risk of customers, resulting from the concluded commercial contracts. In order to reduce it, based on regularly performed analyses of creditworthiness and financial standing of the contracting parties, in justified cases, appropriate collaterals are required from the customer, for example in the form of bank guarantee, insurance or corporate guarantees, as well as regulations enabling to withhold deliveries of goods, products or rendering services in case of default in setting the accounts.

Under the financial risk management, in 2012 TAURON Capital Group secured the risk of changeable cash flows resulting from the volatility of interest rates by its partial minimising through transactions of replacing the floating interest rate by the fixed interest rate (IRS). TAURON Capital Group is exposed to the risk of floating interest rate arising from the indebtedness, associated with the WIBOR reference rate. Moreover, in 2012, TAURON Capital Group, under the financial risk management, secured the currency exposure occurring within the commercial activities of TAURON Capital Group (mainly due to the CO₂ emission allowances trading), by concluding the forward contracts. The aim of these transactions was to secure TAURON Capital Group against the risk of cash flow volatility resulting from currency rates fluctuations.

As of 31 December 2012 (due to the adopted centralised model of financial risk management applicable to TAURON only), the following active forward derivative transactions occurred, as specified in the table below.

Table no. 33 Information on forward transactions and derivatives as of 31 December 2012

Type of transaction concluded	Total par value of the specific type of transaction	Currency			Maturity date of the specific type		Valuation of the specific transaction type as of 31/12/2012
		PLN	EUR	Other	up to one year	above one year	
Forward	24,471.82		X		X		-552,34
IRS	3,440,000.00	X				X	-190.666,66

In order to minimize the possibility of the occurrence of cash flows disruptions as well as the risk of losing liquidity, in 2012, like in the previous year, TAURON Capital Group implemented cash pooling mechanism, described in more detail in item 2.7.4. hereof, which irrespective of funds contributed by particular members, is associated with a flexible revolving credit facility, in the form of overdraft, at the amount of PLN 300,000; the description is included in item 2.7.3. of this report.

Additionally, during 2012, to provide for the adequate level of liquidity security and the possibilities to implement the investment programme of TAURON Capital Group, the Company raised the value of the Programme of Bonds Issue effective so far, by the amount of PLN 2,750,000 thousand, which is described in item 3.7. hereof, with a possibility to issue bonds at any moment selected by the Company, and the guarantee of covering the bonds by the Banks. Notwithstanding the foregoing, the Company also held the available amount of PLN 450,000 thousand under the contract concluded with EIB, as described in item 2.7.3. of this report.

3.8.2. Goals and methods of financial risk management

TAURON Capital Group manages financial risk, understood as currency risk and interest rate risk in accordance with the developed and adopted regulations *Policy of risk management specific for the financial area in TAURON Capital Group*, which is the collection of principles and standards compliant with the best practices in this area.

Due to correlation between the risk borne and the level of achievable income, these regulations are used to maintain the risks at the previously established, acceptable level. The main goal of financial risk management is to minimise TAURON Capital Group cash flows sensitivity to financial risk factors and to reduce financial costs and collateral costs as a part of transactions with the use of derivative instruments.

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

Moreover, the companies of TAURON Capital Group are bound to fulfil the obligations and rules resulting from the *Policy of Financial Liquidity Management in TAURON Group*. Due to the *Policy* implemented, based, among others on precise, weekly update of the financial plans, analysis of scenarios and comparative analyses, the Company optimises the management of the liquidity position of TAURON Capital Group, accordingly decreasing the risk of liquidity loss. Based on the policy adopted, the Company determines the optimum size

and structure of liquidity provision of TAURON Capital Group as well as performs the measurements and assessment of liquidity at the level of TAURON Capital Group.

3.9. Present and forecasted financial situation

The financial situation of TAURON Capital Group is stable and no negative events occurred which would cause risk for its business continuity or significant deterioration of its financial standing.

Considering the current market situation, it is expected that the results of TAURON Capital Group in 2013 will be affected both by internal factors and by external factors which occurred in 2012. The observed economic downturn and the lower rate of GDP growth are reflected in the decreased consumption of electric energy.

Due to the decline in coal prices, results of the Mining Area may deteriorate. Similar to 2012, the results of the Generation Area may be negatively affected by lower prices of electric energy, lack of revenues due to compensation received until 2012 in connection with the termination of LTC as well as the potential increase of prices of CO₂ emission allowances, caused by the actions of the European Commission aiming at stimulating the increase of these prices. If the downward trend in energy market prices, occurring periodically since the commissioning of the new unit of Bełchatów power plant (in the 2nd half of 2011), strengthened by the growing share of renewable energy sources in energy supply on the Polish market, may potentially create a challenge for the Generation Area, the acquisition and incorporation of GZE companies into the structures of TAURON Capital Group will create a factor improving the results achieved.

In the Distribution Area, the level of compensation on invested capital and the measures implemented in the scope of cost effectiveness improvement will play a key role. On the other hand, the Sales Area should maintain its level of results reached in 2012, assuming maintenance of the market trends in the area of electric energy and property rights prices and due to the implemented marketing actions aimed at maintaining existing clients and acquisition of new customers.

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

3.10.1. Internal factors and their assessment

The activities and results of TAURON Capital Group in 2012 were influenced by the following internal factors:

- consolidation of commercial procedures, intensification of commercial activities with the company TAURON Sprzedaż GZE,
- process of integrating the GZE assets into the Company and companies of TAURON Capital Group, including the merger of distribution and heat assets,
- restructuring processes in companies of TAURON Capital Group,
- reducing the operational costs of TAURON Capital Group companies, including the *Programmes of Voluntary Redundancy* of employees, implemented in TAURON Capital Group companies,
- intensification of production from renewable energy sources (co-burning installations in the Generation Area),
- increased production of commercial coal enabling higher sales and increase of revenue in Mining Area,
- increasing the resource base of PKW allowing for long-term exploitation of coal deposits from the existing mining levels, both under the existing and the new concessions,
- further centralisation of the function of Market Operator,
- managing fuel purchases by the Company for the needs of generation entities included in TAURON Capital Group,
- consolidation of results of GZE companies taken over at the end of 2011, for the whole financial year.

The results of the aforementioned factors will be visible both at short-term and long-term perspective, while it should be underlined that acquisition of GZE helped TAURON Capital Group to strengthen its competitive position.

In 2010 GZE assets generated about PLN 430 million of EBITDA. In connection with the established pathway to reach the full compensation from assets involved in distribution activities, the results to be generated in the following years should be higher (which is confirmed by the result of year 2012). Moreover, TAURON Capital Group uses the synergies arising from the merger of the assets. As indicated above, GZE assets not only increase the effectiveness of TAURON Capital Group but also strengthen its competitive position. TAURON Capital Group strengthened its position of a leader in the area of electricity distribution, by expanding its area of activities and increasing the number of end consumers by over 1 million. It has also gained the position of a leader in the area of electricity sales in Poland.

3.10.2. External factors and their assessment

The results of TAURON Capital Group in 2012 were influenced by the following external factors:

Regulatory environment and the market

In accordance with the TSO data, the average weighted price of energy on the Balancing Market in 2012 (about PLN 170/MWh) was by over PLN 21/MWh lower than the price in 2011 (about PLN 191.2/ MWh), which was attributable to the following reasons:

- drop of the settlement price of CO₂ emission allowances on the Balancing Market (on average by over PLN 22/Mg), which reflected the decline of prices of these allowances on the exchanges,
- commissioning the unit of 858 MW in Bełchatów power plant in the 2nd half of 2011
- development of RES sources.

According to the TSO data for, the following changes occurred in 2012, as compared to 2011:

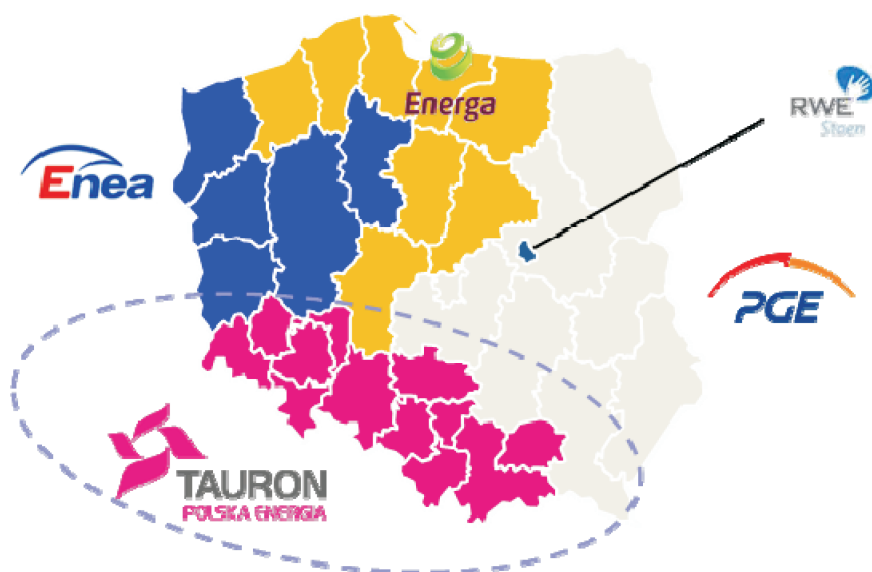
- clear decrease of production of electricity based on coal (by about 7%),
- increase in electric energy production based on lignite (about 3.7%),
- increase of electric energy production by wind farms (about 41.3%), which reflects the dynamic development of the RES,
- drop of export (by about 45.8%),
- drop of domestic production (by about 2%),
- decrease in domestic demand (by about 0.6%).

The above mentioned circumstances which are also discussed more broadly below, influenced the sales of energy from generation units of TAURON Capital Group in 2012, and may also influence the sales in 2012.

Competition and the competitive environment

The energy sector in Poland was subject to reorganisation and consolidation, in order to create the effective energy market and conditions enabling the implementation of investments in power engineering. As a result of these actions, besides TAURON Capital Group, the following three energy groups were established: PGE, ENEA and ENERGA.

Figure no. 17 Competitive environment of TAURON Capital Group



Owing to the vertically integrated structure, the above entities have strong position on the domestic market. Moreover, as a result of privatization performed in the previous years in relation to some energy enterprises, foreign energy groups are also present on the Polish market.

According to the data for 2011 in the generation sub-sector the aforementioned consolidated energy groups (TAURON Capital Group, PGE, ENEA, ENERGA) held about 60% of market share. The smaller, although important entities on the Polish market of electricity included also: EDF Polska Centrala sp. z o.o. (EDF) (10%), Zespół Elektrowni Pątnów – Adamów – Konin S.A. (7%) and GDF SUEZ Energia Polska S.A. (GDF SUEZ) (4%).

On the other hand, in the electricity distribution sector the consolidated energy groups (TAURON Capital Group, PGE, ENEA, ENERGA) held about 90% of the electric energy distribution market.

According to the data for 2011, TAURON, both in terms of installed capacity (5.6 GW) and electric energy production (24 TWh) was only preceded by PGE (respectively, 13.1 GW and 61.7 TWh). The share in domestic production market in 2011 reached 38% for PGE 38%, and 15% for TAURON.

At the same time, considering the acquisition of GZE Capital Group at the end of 2011 from Vattenfall AB, the share of TAURON Capital Group in distribution of electric energy to end clients reached 38%, and the share in sales market to end consumers reached 31% (data for 2011, including GZE). On the other hand, share of PGE in the Polish market of sales and distribution of electricity reached, 26% in each case.

The third biggest energy enterprise in Poland is ENEA, with the share (according to the data for 2011) in the market of energy production reaching 8%, in the distribution market – 14% and in sales market – 12%.

ENERGA (according to the data for 2011) holds share in the Polish market of electricity production reaching 3%, and 16% for each, distribution and sales.

The table below shows information on the capacity installed as of 31 December 2011 and electric energy generated in 2011.

Table no. 34 Capacity installed and production of electric energy according to energy groups

Group	Capacity installed		Generation ¹	
	Quantity (GW)	Share (%)	Quantity (TWh)	Share (%)
PGE	13.1	35.1%	61.7	37.9%
TAURON	5.6	15.0%	24.0	14.7%
ENEA	3.0	8.0%	12.6	7.7%
EDF	3.2	8.6%	16.1	9.9%
PAK	2.5	6.8%	11.2	6.9%
GDF Suez	1.5	4.0%	7.0	4.3%
ENERGA	1.2	3.1%	4.7	2.9%
CEZ	0.6	1.7%	2.2	1.4%
Others	6.6	17.8%	23.4	14.3%
Total	37.3	100.0%	162.9	100.0%

¹ Quantity of gross electric energy generated in 2011.

Source: ARE, information on companies published on the websites

The following table presents the basic information concerning the share of individual energy companies (groups) in the scope of electricity distribution according to the data for 2011.

Table no. 35 Distribution of electric energy according to energy groups

Group	Distribution	
	Quantity (TWh)	Share (%)
TAURON	45.0	37.6%
PGE	31.1	26.0%
ENERGA	19.6	16.4%
ENEA	17.1	14.3%
Others	6.9	5.7%
Total	119.6	100.0%

Source: ARE, information on companies published on the websites

TAURON Capital Group is the biggest distributor and the biggest seller of electric energy in Poland

According to the data for 2011 (without considering the GZE companies acquired on 13 December 2011), 2010 and 2009, AURON Capital Group, with the volume of electricity supplied to end clients, at the level of, respectively, 33.6 TWh, 32.9 TWh and 30.9 TWh, occupied the first position in terms of the quantity of electric energy supplied. Revenues of the companies of Distribution Area of TAURON Capital Group amounted to PLN 4,668 million in 2011, PLN 4,509 million in 2010 and PLN 4,085 million in 2009. The whole year activity of GZE companies acquired on 13 December 2011 influenced the strengthening of this position in 2012.

It should be stressed that the distribution activities of TAURON Capital Group, due to the natural monopoly at the indicated area, are the source of stable and predictable revenues, constituting the essential part of consolidated revenue of the whole TAURON Capital Group. The geographical area of electricity distribution, where the companies of Distribution and Sales Areas have been operating historically, is the area characterised by its high level of industrialisation and dense population, which influences the relevant demand for electricity, both among households and among enterprises. TAURON Capital Group, with its volume of retail sales of electricity at

the level of 44.5 TWh in 2012, 35.52 TWh in 2011 and 34.34 TWh in 2010, to over 5.2 million end clients (following the acquisition of GZE companies) was the biggest vendor of electric energy in this segment in Poland.

TAURON Capital Group is the second biggest producer of electricity in Poland, holding generation assets located in the attractive region of Poland, which enables it to participate actively in building of new generation capacity.

Based on ARE data for 2011, the share of TAURON Capital Group in the domestic market of electricity generation, measured by the gross production of electric energy, amounted to ab. 14.7%, which gave TAURON Capital Group the second position in Poland. The generation assets of TAURON Capital Group are concentrated in southern Poland. In this region, coal deposits are located, used for combustion processes in power plants and co-generation plants of TAURON Capital Group. The location of generation assets of TAURON Capital Group in the vicinity of coal deposits allows for optimisation of costs associated with the transport of this raw material.

The generation assets of TAURON Capital Group, due to their location in southern Poland, have also access to the most developed part of the transmission system in the country, which has positive impact, i.a. on enhancement of reliability of the activities carried out and on implementation of the planned investments in the scope of construction of new generation capacity. Thus, the location of assets of TAURON Capital Group in the area of well-developed transmission network and rich coal resources also influences the maintaining of the competitive advantage of TAURON Capital Group against other energy enterprises on the Polish market.

TAURON Capital Group is the fully vertically integrated energy enterprise using the synergies arising from the scale and scope of the activities carried out

TAURON Capital Group is a vertically integrated energy enterprise controlling the whole value chain, from coal mining to supply of electric energy to end clients. It performs its operations in all key segments of the energy market (excluding electric energy transmission), i.e. in the area of coal mining, generation, distribution as well as trade of electric energy and heat. Access to own coal resources and control of own generation assets increases the stability of revenues and margins of TAURON Capital Group.

Macroeconomic situation

In 2012, slowdown in economic growth rate could be observed worldwide, and also in Poland. The Company conducts its operations mainly on the Polish market, within which the Company takes advantage of positive market trends. Until the end of 2009, the economic boom could be observed in Poland, which was reflected in the GDP growth. In 2011, the GDP growth rate was higher by 4.3% in real terms than in 2010. Year 2011 was the consecutive period in which the growing trend in demand for electric energy in KSE was observed. The national demand for power in 2011 as compared to 2010 was by ab. 3.9% higher.

However, in 2012 the growth rate of GDP for Poland was clearly weaker – in the 3rd quarter this ratio increased by 1.4% YoY as compared to the growth of 2.3% YoY in the 2nd quarter and 3.5% YoY in the 1st quarter. In the 3rd quarter investments dropped by 1.5% YoY while the domestic demand fell by 0.7% on annual basis. The final data for the 4th quarter of 2012 is not available yet, but the estimates of the analysts of the Ministry of Economy foresee further decrease in GDP dynamics, to about 0.7% year-on-year.

One of the main factors determining the level of economic activity in global scale in the first three quarters of 2012 was the risk of deepening of the fiscal problems in Euro zone. Materialising of this risk could have brought unforeseeable, however, extremely unfavourable effects for all the global economy. This risk was reflected in the macroeconomic data in 2012 and affected the Polish economy, including the energy sector.

Situation in electric energy sector

In 2012, both consumption and production of electricity dropped in Poland. The domestic electricity demand decreased by ab. 0.6%. It was the first decline since 2009. Forecasts concerning 2013, foresee further drop of electricity prices in relation to 2012, both on the spot and on the forward market. The energy prices are certainly reflected by the over-supply on the market of CO₂ emissions allowances and their low prices. Additionally, the uncertain situation in legislation concerning the support systems for RES and co-generation result in decline of prices on the certificates market. The lower projected GDP growth also means the decrease in energy demand. All these factors contribute to the difficult situation on the energy market, particularly in the generation segment.

The distribution of changes in energy demand was very irregular in individual months, i.e. in January, slight decline was noted, in February – significant growth (by 7.3%), while in March, May and September, the decline was recorded (by 1.9%, 2.26% and 3.26%, respectively). In the last quarter of the year the demand was lower than in the corresponding period of 2011; the highest decline was noted in November (by almost 3%).

The changes in energy consumption were affected, besides the economic situation, by meteorological factors, i.e. relatively warm January, a wave of strong frost in February, warm March, May and the whole warm period from September to December. The weather conditions are well illustrated by the high volatility of prices on the SPOT market of electric energy.

The difference between the production and consumption was exported, which was supported by favourable price relations between the Polish market and the neighbouring Germany and Czech Republic. The total surplus of export over import in the whole 2012 amounted to over 2.8 TWh and it was lower by 2.4 TWh than in 2011. taking into account the energy production sources, in 2012 increased production

in power plants based on lignite was observed (mainly due to commissioning of a new unit in Elektrownia Bełchatów at the end of 2011) – by about 2.0 TWh (ab. 3.7%). Production of wind farms also increased – by almost 1.2 TWh (ab. 41.3%) and production of gas-fired plants – by 0,1 TWh (3.0%). Coal-fired power plants had to reduce their production in the highest extend. In 2012 they generated as much as 6.3 TWh (ab. 7%) less energy than a year before.

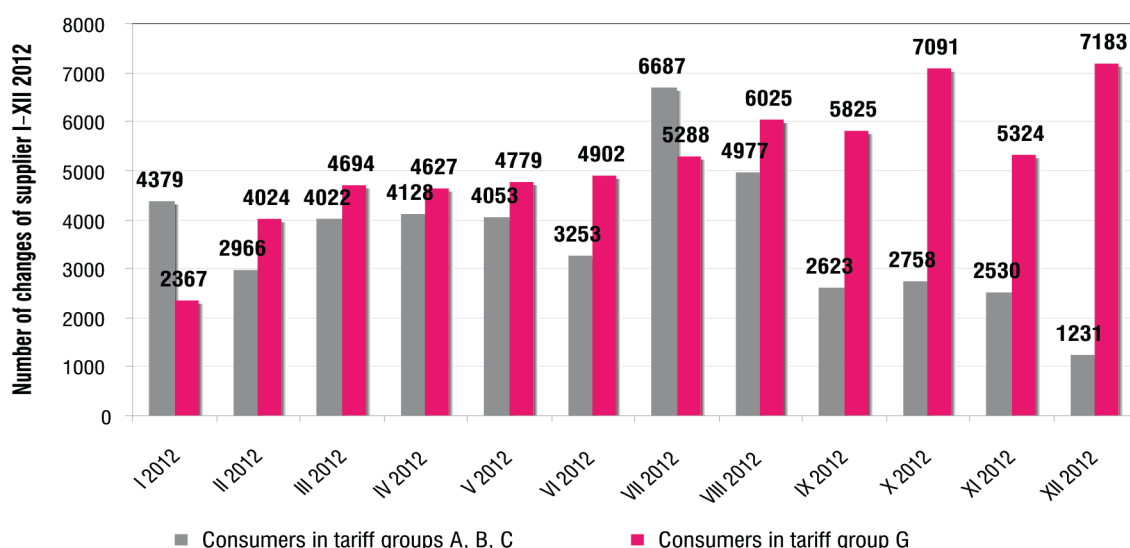
The impact of the deepening economic slowdown in 2012 was more and more clearly visible in consumption and production of electricity in Poland. The decline in electricity demand also resulted in the slump of market quotations of electric energy.

One of the key elements allowing the consumers for free access to the energy market is the so-called TPA rule. This rule meaning a possibility to use the grid of a network energy enterprise without the requirement to purchase electricity from such enterprise stimulates the development of competition on the energy market. The consumers are nowadays more aware of their rights and use the TPA rule more and more willingly, among others, due to the information campaigns.

The liberalisation of the energy market and campaigns promoting using TPA rule as a principle, accompanied by growing competition in order to acquire the retail client, resulted in significant number of energy consumers changing the supplier. Observing the energy market in 2012, one may notice the permanent, growing tendency in the change of electricity vendor among clients of all segments and all tariff groups.

The detailed analysis shows that over 4 times more persons using G tariff designed for households decided to change the electricity supplier in 2012, in relation to the previous year. Based on the data from ERO, in 2012 76,470 consumers changed their energy supplier, which makes the increase by 433% as compared to the previous year when 14,341 energy consumers of electricity for households decided to change the seller. The business consumers also started to use the possibility of changing the supplier. Among this group, growth of over 200% YoY was noted (owners of 43,611 companies used the TPA rule).

Figure no. 18 Data concerning the number of supplier changes in the period of 2012

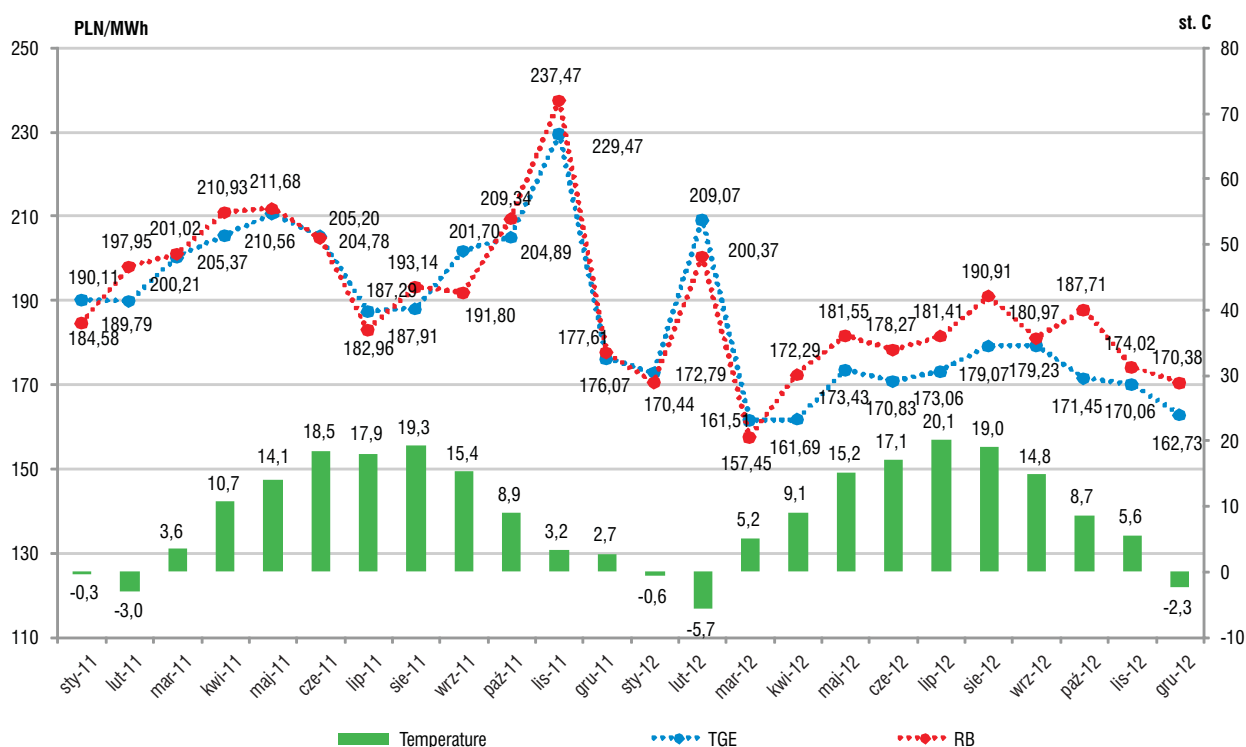


Source: www.ure.gov.pl

Prices of energy and related products

In 2012, the downward trend in electric energy prices dominated. In the period from January to December 2012, the monthly average price of electric energy in *baseload* type contracts on the SPOT market dropped from the level of about PLN 173/MWh to PLN 163/MWh. In the same period, electric energy price dropped in contracts of *forward* and in for energy in contracts of *baseload front year* type. In January 2012 the average quotations reached PLN 214/MWh, while in December 2012 – only PLN 169/MWh.

Figure no. 19 Average monthly prices of energy on the SPOT TGE market and Balancing Market vs. the average temperatures



The tendency on the Polish market was consistent with trends observed on the European markets and in the neighbouring countries. The valuation of annual contracts, e.g. in Germany was also reduced over the last year. In January 2012 it was almost EUR 52/MWh, while in December 2012 – only EUR 46/MWh. The average price on the SPOT market in Germany in 2012 reached the level of EUR 42.60/MWh, i.e. by EUR 8.53/MWh less than in the previous year. Similar trends were observed on the Czech market, which is usually strongly correlated with the German market. The quotations on the SPOT market, like in Germany, reached the level of EUR 42.38/MWh, i.e. by EUR 8.18/MWh less than in the previous year.

Figure no. 20 Turnover of BASE Y-13* contracts



* BASE Y-13 means contracts with band-based delivery, i.e. the same quantity of energy on each hour of a given year. In 2012 it means the supply of the same quantity of energy within 8,760 hours, counting from 1 January 2012 till 31 December 2012.

Figure no. 21 Quotations of annual contracts EEX Germany



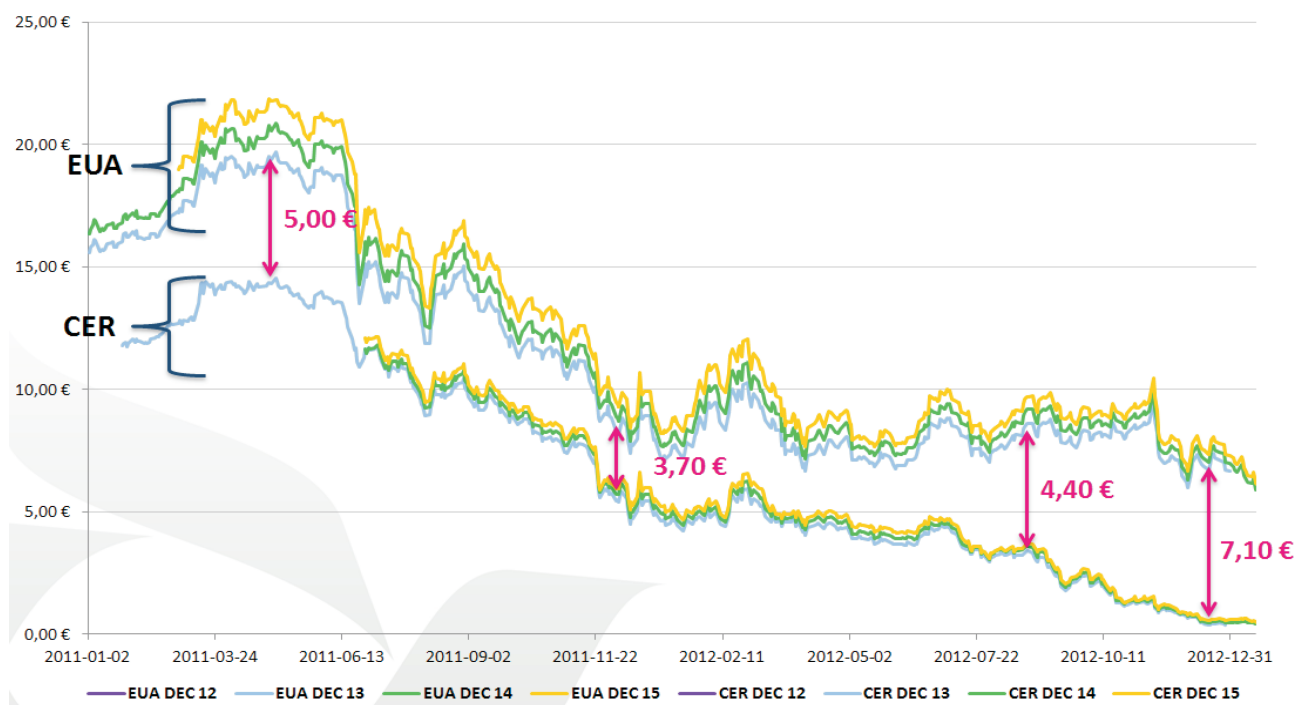
The decline of industrial production in 2012 against the preceding year and the decrease of economic forecasts for the next years was also reflected in the drop of prices of CO₂ emission allowances. The price of EUA emission allowances in 2012 dropped from the maximum level of EUR 9.43/t to the minimum level of EUR 5.70/t on the spot market. The CER units were also losing their value. At the beginning of the year, the valuation of CER units in January reached the level of EUR 3.86/t, whereas at the end of the year, the level was only EUR 0.68/t. The decline in prices of CER units results, among others, from the limitation in possibilities to use CER from certain types of projects in the next settlement period 2013–2020. These types were listed in the regulation of the Commission (EU) no 550/2011 of 7 June 2011 establishing, pursuant to the Directive 2003/87/EC of the European Parliament and of the Council, certain limitations in the scope of using the international units due to projects associated with industrial gases (Official Journal of the EU of 2011, L149, p. 1). It refers to units originating from projects related to destruction of trifluoromethane (HFC-23) and nitrogen suboxide (N₂O) from production of adipic acid. Use of the aforementioned units will be possible only until 30 April 2013, exclusively for settlement of emissions from the period 2008–2012.

A similar downward tendency was observed in *forward* type contracts. The rapid drop in CER units caused the increase of spread between EUA and CER at the end of the year, to the level reaching EUR 7/t. So high decline of prices on the CO₂ emissions trading market results from the economic downturn in the Euro zone, and the consequent surplus of allowances in the EU ETS system.

In 2012 the European Commission undertook efforts to raise the prices of allowances on the market, i.a. through introducing changes into the auction schedule, for the next, 3rd phase of performance of the system, i.e. in the years 2013–2020. Moreover, the European Commission proposed structural reforms in the European emission trading system. The range of proposals of the European Commission included the increased target of emission reduction from 20% to 30%, permanent withdrawal of allowances from the market, extending the EU ETS system by new sectors, change of value of the linear indicator of emission reduction in the years 2013–2020, or introduction of the discretionary mechanism of managing the prices of allowances in the EU ETS system.

Moreover, the European Commission has informed that the general surplus in the EU ETS system, for phase II and III jointly, reached about 2 bn Mg CO₂. In connection with this situation, withdrawal of a part of allowances from the market is probable. Various proposals appeared concerning the quantity of allowances to be withdrawn; finally the Commission proposed shifting of 900 million Mg in the auction schedule in the years 2013–2015 and re-introduction of this quantity to the market in the years 2018–2020. This decision would mitigate the effects of the economic downturn on the CO₂ emission allowances market, consequently influencing the current level of their quotations.

Figure no. 22 FORWARD EUA and CER (EEX)



The next area of the market where drop of prices was observed in 2012 is the market of property rights arising from certificates of origin of electric energy. In accordance with the currently applicable regulations, the support system for production of electricity and heat in high-performing gas and coal co-generating units, operating in Poland, expires at the end of March of 2013. Lack of clear regulations concerning further support resulted in a very low level of quotations for certificates at TGE at the end of 2012. The highest drop of quotations

occurred in case of the so-called red certificates. The average value of the KECX index dropped by 75% from January to December 2012 and in the last month it reached only PLN 2.25/MWh. In January 2012 this value reached PLN 8.93/MWh.

The second index in terms of decline in 2012 was the index of property rights OZEX_A concerning the so-called green certificates. The value of this index dropped to the level of PLN 185.44/MWh in December 2012, i.e. by 35% less against January 2012. The indices of KGMX property rights, the so-called yellow certificates, after the drop of quotations in the spring and summer months, i.e. after settlement of the obligation for the previous year, returned to their values noted at the beginning of the year. In January 2012 the value of this index amounted to PLN 126.06/MWh, while in December it reached PLN 125.70/MWh, i.e. only 0.3% less. The index of property rights of the so-called violet certificates, KMETX raised slightly at the end of the year, as the only index among the indices of property rights. In January 2012 the value of this index was PLN 58.40/MWh, and in December it was higher by 10 grosz, i.e. PLN 58.50/MWh (+0.2%).

The decline of certificate prices adversely affected the results of companies of the Generation and RES Areas, due to lower revenue on sales of certificates obtained from production of electricity from renewable energy sources and in co-generation. It had no impact on results of TAURON Capital Group as the generators sell certifications to sales companies of TAURON Capital Group, for redemption purposes, in connection with electricity sales to end consumers. On the other hand, purchase of these certificates at lower prices, much below the established substitution fee, had a positive effect on results of Sales Area and TAURON Capital Group in 2012. Due to the favourable price relation, the obligation of redemption was totally covered by the certificated and TAURON Capital Group did not incur any costs of substitution fee in 2012.

The decline in quotations of property rights resulted from the lack of legal standards ensuring the extension of the support system for co-generation units, but also from the high surplus in the balance of property rights in the register maintained by TGE, i.e. the difference between the quantity of property rights (certificates) issued and redeemed (or blocked for redemption).

In the scope of the so-called red certificates the balance reached 26.3 TWh at the end of the year, since the beginning of maintaining the register, the balance of the so-called green certificates was 8.5 TWh, in case of yellow certificates – 3.1 TWh and for the so-called violet certificates – 0.3 TWh.

Figure no. 23 Indices of proprietary rights of the so-called red certificates – quotations in 2011 and 2012

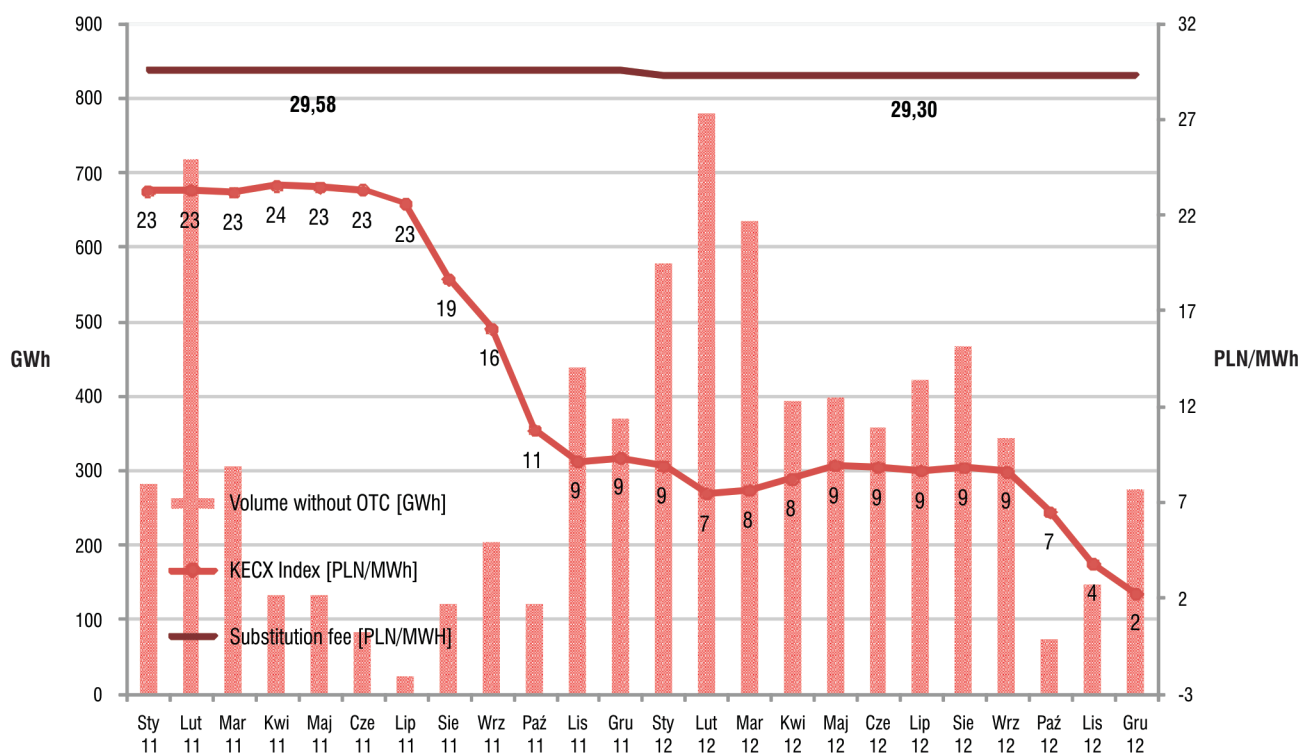


Figure no. 24 Indices of proprietary rights of the so-called green certificates – quotations in 2011 and 2012

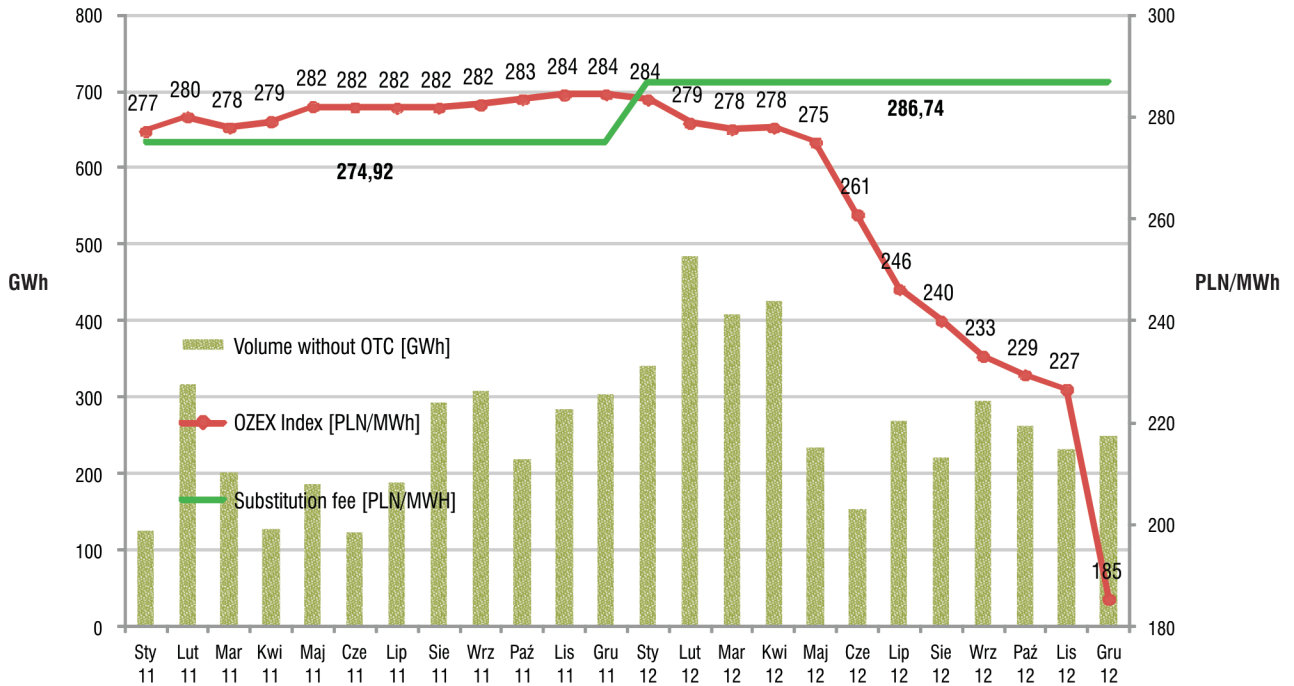


Figure no. 25 Indices of proprietary rights of the so-called yellow certificates – quotations in 2011 and 2012

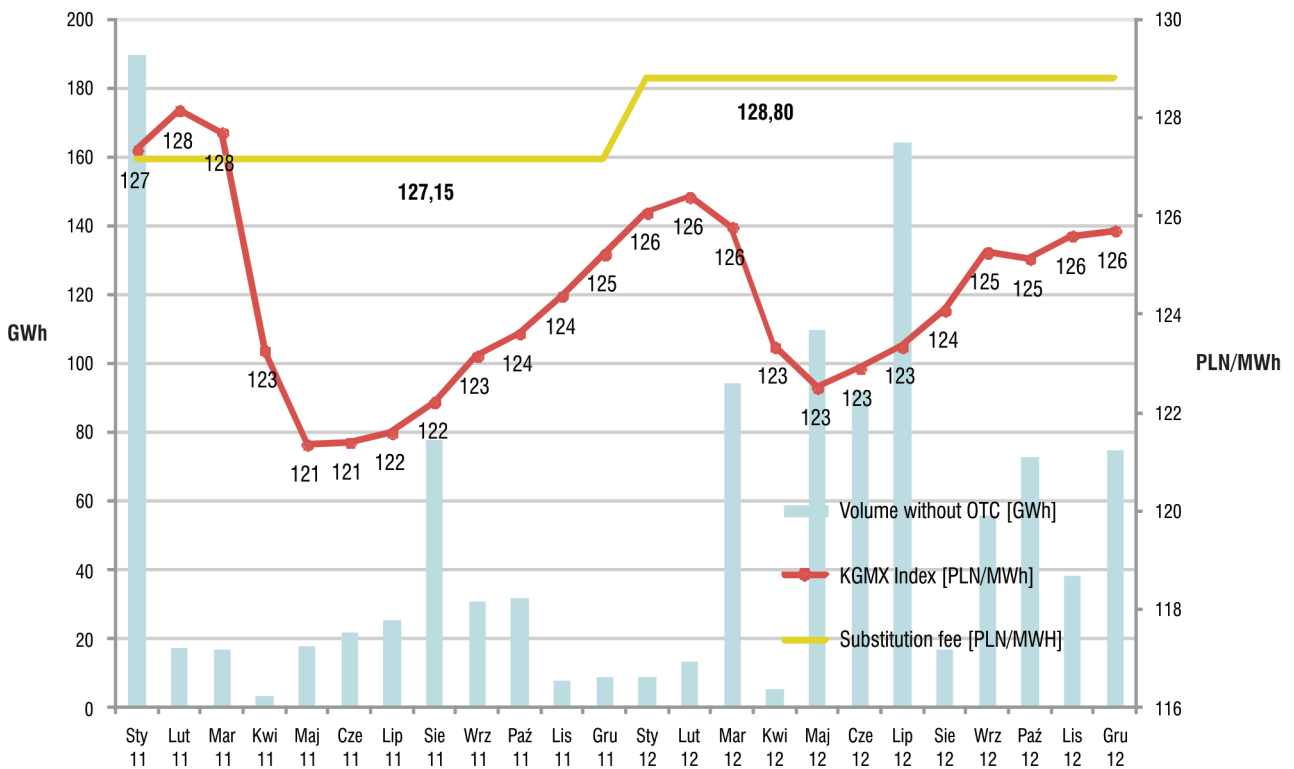
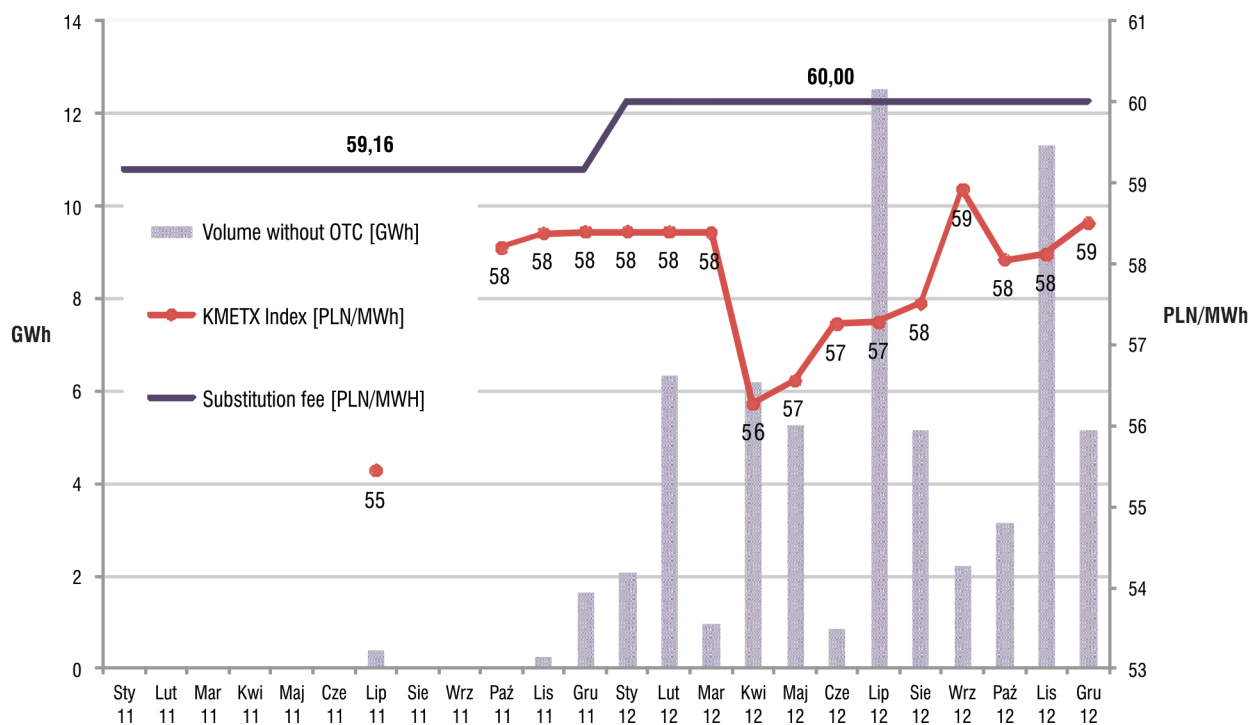


Figure no. 26 Indices of proprietary rights of the so-called violet certificates – quotations in 2011 and 2012



Changes in the regulations of the energy sector

In 2012 the President of URE maintained the obligation to submit tariffs for households. Accordingly, the trading enterprises had limited influence on the margin generated in this sales segment (tariff G).

Obligation of public sales of electric energy by generators

In 2012 the so-called “exchange obligation” was applicable, according to which the generating enterprises are obliged to sell the obligatory volume at TGE (for generators taking advantage of LTC compensations, it means 100% of the electric energy sold). In 2013 in accordance with provisions of art. 49a of the Act of 10 April 1997 *Energy law*, companies of TAURON Capital Group are subject to the obligation of selling no less than 15% of electricity generated in a given year on commodity exchanges, within the meaning of the Act of 26 October 2000 on *commodity exchange* or on the market organised by an entity conducting a regulated market on the territory of the Republic of Poland. It means that the sales of electric energy conducted currently for 2013, produced by the generation companies of TAURON Capital Group, for the needs of securing the sales position of TAURON Capital Group, may be performed on the OTC (OTC-over the counter market).

Obligation to implement the AMI technology

The Directive of the European Parliament and of the Council 2006/32/EC on energy end-use efficiency and energy services stipulates that the bills should be based on real consumption, which shall mobilise the system to serious energy savings. In 2009 the European Commission assumed that until 2020, 80% of the power grid and other utilities will be equipped with the intelligent systems for remote measurements. Poland did not withdraw from implementation of AMI technology (*Advanced Metering Infrastructure*) (until the end of September 2012 the Member States could prepare the analysis justifying lack of economic ground for introduction of such solution), accordingly, it shall be obliged to fulfil the EU requirements in this area.

Lack of decision concerning the so-called ‘energy tri-pack’

In 2012 the activities related to the so-called ‘energy tri-pack’ have not finished (amendment to the energy law, gas law and the act on renewable energy sources). In the scope of the aforementioned activities, an important issue is the lack of final decision concerning the level of financial support for RES, accordingly, significant fluctuations of prices of property rights at TGE are observed.

Introduction of EMIR Regulation

Transactions at commodity markets are subject to the regulations of the EMIR document (*European Market Infrastructure Regulation*). Regulating the trading of standard products on the OTC market is also planned. These regulations refer to the methods of settlement of transactions concluded on the OTC market (the obligation of settlement via the licensed Clearing House), procedures for determining the value of collaterals, reporting of transactions concluded to the specifically certified Repositories of Transactions. Detailed regulations in this area will be published only in the second half of 2013, however, it is currently assumed that TAURON activities will be only subject to reporting to the Repository of Transactions.

Introduction of REMIT Regulations for application

In connection with entry into force on 28 December 2011 of the regulation of the European Parliament and of the Council (EU) No 1227/2011 of 25 October 2011, on *wholesale energy market integrity and transparency (REMIT)*, TAURON has introduced and is developing solutions allowing for fulfilment of the obligations resulting from REMIT in the Company and within TAURON Capital Group.

Fuel market

In 2012 the process was continued in Poland concerning the implementation of the requirements of the EU Directives connected with liberalisation of the gas market and releasing the prices of this raw material. Under the liberalisation activities, among others, social consultations on the proposal of the Project on Gas Liberalisation were carried out and the President of ERO adopted the Instruction of gas transmission grid operation and maintenance and Instruction of gas distribution grid operation and maintenance. The system regulation concerning a possibility for gas trading in virtual sales points was also updated. The above mentioned measures enabled to launch gas trading on the gas exchange managed by TGE (on 20 December 2012 the first exchange session for gas trading took place). It should be underlined that on 3 November 2012, TAURON commenced its activities in the scope of high-methane gas to TAURON Wytwarzanie, followed by coke-oven gas supplies.

Purchase of fuel on the coal, biomass markets is performed based on multi-annual and annual contracts, acquired through assignment from the Generation and Heat Area, or concluded under the procurement procedures carried out by TAURON. Due to the purchasing potential of TAURON, the commercial terms in the contracts concluded reflect the situation on the fuel market and they are directly transferred to the entities of TAURON Capital Group. Providing for the appropriate price conditions for fuels purchased for the needs of TAURON Capital Group is one of the elements of competitiveness of the Generation Area.

Weather conditions

Weather conditions have the most significant impact on operations of the RES Segment and the Heat Segment – due to dependence of the level of produced energy (from hydro plants) as well as heat generation and sales on atmospheric conditions. Year 2012 differed considerably from the previous year in terms of ambient temperatures and hydrological conditions, in particular the hydrological conditions. It was a year dominated by drought in the 3rd and 4th quarter, which is particularly related to the Vistula basin. Water flows in river beds where the hydroplants belonging to TAURON Capital Group are constructed, were lower, on average, by about 25% than the average flows recorded for these facilities for many years.

3.11. Assessment of financial resources management

Due to the measures implemented in the previous years and continued in 2012, resulting in centralising the financial management area, TAURON Capital Group effectively managed its financial resources. The main tools allowing for effective management of financial resources include the implemented central financing model as well as the *Policy of Liquidity management in TAURON Group*, including the cash pooling operating in TAURON Capital Group. Moreover, the financial management system is supported by the central *Policy of managing risks specific in the financial area of TAURON Group* and the central *Insurance policy of TAURON Group*, in which the Company plays the role of manager and decision maker in the scope of directions of the actions undertaken, enabling to establish relevant limits of risk exposure.

In accordance with the adopted central model of financing, the Company is responsible for acquisition of financial resources for the companies of TAURON Capital Group. Resources acquired both internally (from companies of TAURON Capital Group, generating financial surpluses), as well as externally (from the financial market) are subsequently transferred to companies of TAURON Capital Group, reporting the need for financing (for this purpose the programme of issue of intra group bonds was implemented in TAURON Capital Group).

Such model of acquisition of funding sources allows, among other things, for decreasing of the costs of capital, increasing of the possibility to obtain financing, it reduces the number and form of hedges established on assets of TAURON Capital Group (the Company acquired unsecured financing) and covenants required by financial institutions, as well as reduces administrative costs. The central model of financing also enables to acquire financial sources unavailable for individual companies, such as, for example, Euro bonds. Implementation of the central financing model effectively influenced the change of approach to investment funding in TAURON Capital

Group. The financing is acquired based on the consolidated balance sheet of the whole TAURON Capital Group, while the funding sources are not assigned to any specific investment projects, but they are incurred to cover the financial gap at the level of TAURON Capital Group. The structure of financing of investment projects in the specific period corresponds to the whole activity of TAURON Capital Group. The model adopted allows for implementation of investment plans in accordance with the approved Corporate Strategy.

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

Moreover, TAURON Capital Group implemented the coherent programme of bank guarantees. Under one agreement concluded between TAURON and Bank PKO BP S.A., and then between TAURON and companies of TAURON Capital Group, it is possible to issue guarantees in favour of any company of in TAURON Capital Group, within the centralised limit. The above mentioned activity reduced the costs of the bank guarantees necessary to acquire, made the guarantee independent of the individual standing of a company and limited the total number of activities required to obtain the guarantee.

Within the current financial activity, companies of TAURON Capital Group effectively managed the cycle of money flow through adjustment of payment terms of liabilities and receivables.

In 2012, TAURON Capital Group demonstrated full capacity to settle its liabilities on the payment date.

3.12. Information concerning the entity authorised to examine financial statements

The entity authorised, auditing the Consolidated financial statement of TAURON Polska Energia S.A. Capital Group is Ernst & Young Audit sp. z o.o. with its seat in Warsaw at Rondo ONZ 1. The agreement between TAURON and Ernst & Young Audit sp. z o.o. was concluded on 19 November 2010 and covers the audit of the financial statements of the Company and the consolidated financial statements for the years 2010–2012.

The level of remuneration of the independent auditor (chartered accountant) due to the services provided for the Company and the companies of TAURON Capital Group is shown in the table below.

Table no. 36 Level of remuneration of the independent auditor (chartered accountant) due to the services provided for companies of TAURON Capital Group (data in thousand PLN)

	Year ended 31 December 2012	Year ended 31 December 2011
Obligatory audit, including:	987	1,088
– consolidated financial statements	36	36
– unit financial statement of the parent entity	34	34
– unit financial statement of the subsidiaries	917	1,018
Other certifying services provided for TAURON Capital Group	193	163
Other services provided for TAURON Capital Group (including training)	410	382
Total	1,590	1,633

4. SHARES AND SHAREHOLDERS

4.1. Structure of the share capital

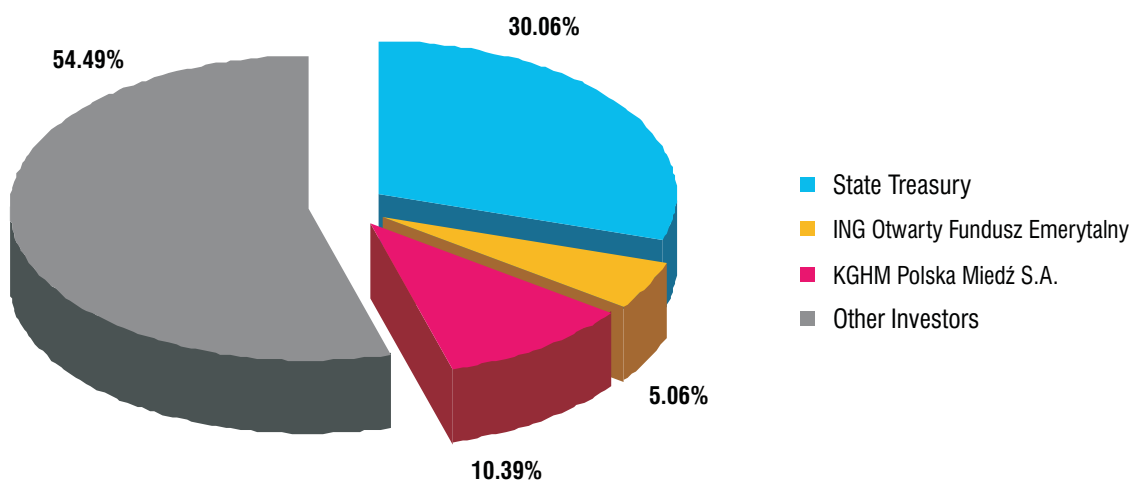
As of 31 December 2012 and on the day of this report:

- The share capital of the Company, in accordance with the entry to the National Court Register, amounted to PLN 8,762,746,970.00 and it was divided into 1,752,549,394 at par value of PLN 5.00 each, including 1,589,438,762 ordinary bearer shares of AA series and 163,110,632 ordinary registered shares of BB series.
- The structure of the share capital of the Company was as presented in the table below.

Table no. 37 Structure of the share capital of the Company as of 31 December 2012 and on the day of this report

No.	Shareholder	Number of shares/ number of votes at WZ	Share in share capital/ share in general number of votes
1.	State Treasury	526,848,384	30.06%
2.	KGHM Polska Miedź S.A.	182,110,566	10.39%
3.	ING Otwarty Fundusz Emerytalny (Open Pension Fund)	88,742,929	5.06%
4.	Other individual and corporate investors	954,847,515	54.49%

Figure no. 27 Structure of shareholding as of 31 December 2012 and as of the date of this report



4.2. Number and par value of the Company shares as well as shares and stocks in affiliated entities of the Company held by the members of the management and supervisory bodies

Proprietary status of the Company shares and share/stocks in entities affiliated with the Company, held by persons managing and supervising the Company, as of 31 December 2012 and as of the day of this report was as follows:

Table no. 38 Proprietary status of the Company shares and share/stocks in affiliated entities – managing persons

Name and surname	TAURON shares		Share/stocks in entities affiliated with TAURON	
	Number	par value (PLN)	Number	par value (PLN)
as of 31/12/2012				
Dariusz Lubera	6,576	32,880	0	0
Joanna Schmid	0	0	0	0
Dariusz Stolarczyk	42,611	213,055	0	0
Krzysztof Zamasz*	935	4,675	0	0
Krzysztof Zawadzki	27,337	136,685	0	0
as of the date of this report				
Dariusz Lubera	6,576	32,880	0	0
Joanna Schmid	0	0	0	0
Dariusz Stolarczyk	42,611	213,055	0	0
Krzysztof Zawadzki	27,337	136,685	0	0

* On 29 November 2012 Mr Krzysztof Zamasz submitted his resignation from the function of the Company Management Board Member, effective as of 31 December 2012.

Table no. 39 Proprietary status of the Company shares and share/stocks in affiliated entities – supervising persons

Name and surname	TAURON shares		Share/stocks in entities affiliated with TAURON	
	Number	par value (PLN)	Number	par value (PLN)
as of 31/12/2012				
Antoni Tajduś	0	0	0	0
Rafał Wardziński	0	0	0	0
Leszek Koziorowski	0	0	0	0
Jacek Kuciński	935	4,675	0	0
Marcin Majeranowski	0	0	0	0
Jacek Szyke	0	0	0	0
Marek Ściążko	0	0	0	0
Agnieszka Trzaskalska	0	0	0	0

In the period from 31 December 2012 to the date of this report, the aforementioned status of shareholding and share/stocks in affiliated entities, held by the supervising persons did not change.

4.3. Agreements concerning potential changes in shareholding structure

The Management Board does not have any information on existence of any agreements (including agreements concluded after the balance sheet day), as a result of which changes in ratio of the shares held by shareholders and bondholders may occur in the future.

4.4. Purchase of treasury shares

In 2012 the Company did not purchase treasury shares.

4.5. Programmes of employees shares

In 2012 the employees shares programmes did not operate.

4.6. Listing of shares at the Warsaw Stock Exchange (GPW)

Shares of TAURON have been listed at the Primary Market of the Warsaw Stock Exchange since 30 June 2010.

In 2012 the price of Company shares ranged from PLN 4.08 to PLN 5.61. The price of shares at the last session in 2011 reached the level of PLN 5.35. A year later, the prices was PLN 4.75. The return rate¹ on the Company shares in 2012 was about -5%. At the same time WIG20 index increased by about 20.4%, however, the quotations of the Company shares demonstrated the general trend concerning the companies of the energy sector. In 2012 WIG-Energia index, reflecting the quotations of shares of companies representing this sector declined by about 2.7%. This trend resulted mainly from fundamental actors, mostly independent of the national energy groups. The decisions and opinions of investors and analysts of energy markets were affected by strong decline in market prices of energy, the projected legislative changes contained in the proposal of the act on renewable energy sources, lower level of complimentary allocation of CO₂ emission allowances planned in 2013, and the perspective of expiry of compensations due to termination of LTC, where the Company was a significant beneficiary.

As of 31 December 2012, shares of TAURON Polska Energia were included in the following key exchange indices:

1. **WIG** – covering all companies listed at the Primary Market of GPW which meet the basic criteria of participation in the indices,
2. **WIG20** – calculated based on the value of share portfolio of 20 biggest and most liquid companies of the Primary Market of GPW,
3. **WIG-Energia** – the sectoral index covering companies participating in WIG index and simultaneously classified to the “energy” sector,
4. **WIG-Poland** – the national index which includes only the shares of national companies listed at the Primary Market of GPW, fulfilling the basic criteria of participation in the indices,
5. **MSCI Poland Standard Index** – index covering over 20 key companies listed at GPW.
6. **CECE Index** – index of the Vienna Exchange, covering the biggest companies of Central and Eastern Europe.

Table no. 40 Key data concerning TAURON shares

Key data concerning shares	2012	2011	2010
Maximum price [PLN]	5.61	6.81	6.92
Minimum price [PLN]	4.08	4.65	4.96
Maximum price [PLN]	4.75	5.35	6.57
Capitalisation at the end of the period [M PLN]	8,325	9,376	11,514
Capitalisation at the end of the period [%]	1.59	2.10	2.12
Book value [M PLN]	16,839.41	15,922.47	15,044.64
C/Z	5.50	8.10	14.30
C/WK	0.49	0.59	0.77
Rate of return at the end of the period [%]	-5.03	-16.73	–
Dividend rate [%]	6.5	2.8	0.0
Value of turnover [M PLN]	3,198.94	5,574.82	8,821.85
Share in turnover [%]	1.70	2.21	1.99
Turnover ratio [%]	41.80	58.80	46.00
Average volume per session	2,667,725	3,721,539	5,624,588
Average number of transactions per session	960	1,373	2,431
Average spread [pb]	26	22	20

Source: Statistical Bulletin of GPW

The figures below present the historic developments of the Company shares quotations and the value of turnover, as well as trends in the Company share prices against the WIG20 and WIG-Energia indices and compared to the biggest competitive companies listed at GPW.

¹ The return rate calculated, including the income of the investor due to dividends, and assuming that the additional income gained will be reinvested. Methodology compliant with the Statistical Bulletin of GPW.

Figure no. 28 Graph of quotations of Company shares and value of turnover in 2012

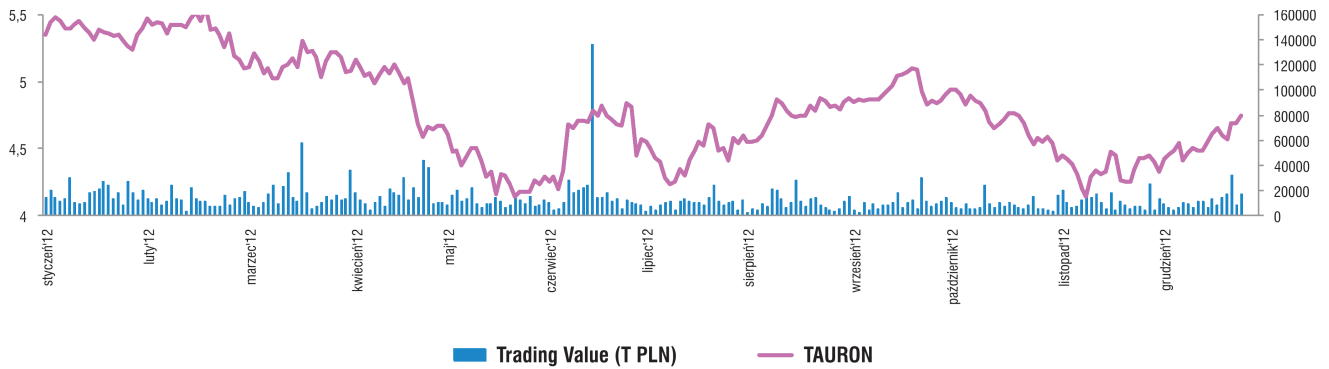


Figure no. 29 Graph of quotations of Company shares and value since the exchange debut (30 June 2010) to 31 December 2012

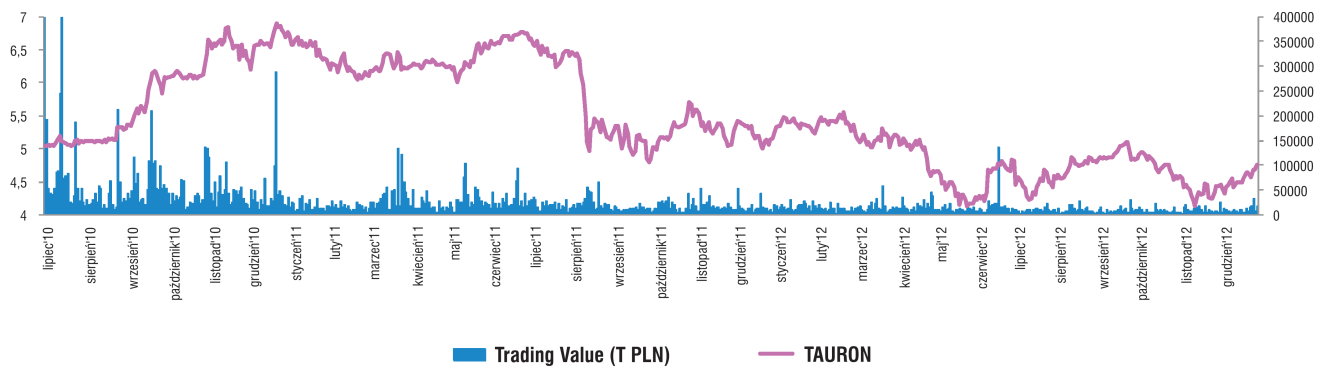


Figure no. 30 Change of quotations of Company shares compared to WIG20 and WIG-Energia indices in 2012



Recommendations for Company shares

In 2012 the analysts of brokerage houses and investment banks issued in total 19 recommendations (excluding the updates of target prices) for the TAURON Polska Energia shares, including:

- 4 “buy” recommendations,
- 7 “keep” recommendations,
- 8 “sell” recommendation.

Table no. 41 Important events in 2012

Date of recommendation	Recommendation/target price	Recommending institution
02/01/2012	Buy / PLN 7.44	DI BRE
14/08/2012	Buy / PLN 6.31	
30/11/2012	Buy / PLN 6.16	
18/01/2012	Keep / PLN 5.60	IPOPEMA Securities
24/01/2012	Buy / PLN 7.20	Credit Suisse
12/07/2012	Buy / PLN 6.00	
27/01/2012	Keep / PLN 5.50	ING Securities
24/07/2012	Keep / PLN 4.50	
23/02/2012	Keep / PLN 6.00	Raiffeisen Centrobank
02/04/2012	Keep / PLN 5.70	
15/04/2012	Buy / PLN 5.10	DM PKO BP
18/04/2012	Keep / PLN 5.60	DM BZ WBK
10/07/2012	Keep / PLN 5.30	
12/10/2012	Keep / PLN 4.90	
23/04/2012	Sell / PLN 4.40	Deutsche Bank
11/06/2012	Sell / PLN 4.00	
12/10/2012	Sell / PLN 4.20	
08/06/2012	Keep / PLN 4.60	UBS Investment Research
09/07/2012	Keep / PLN 4.65	UniCredit
24/07/2012	Buy / PLN 5.80	Espirito Santo
21/08/2012	Underestimate / PLN 4.80	HSBC
07/12/2012	Underestimate / PLN 4.50	
26/10/2012	Sell / PLN 3.80	IPOPEMA Securities
30/10/2012	Keep / PLN 4.20	DM PKO BP
05/11/2012	Sell / PLN 4.00	ING Securities
08/11/2012	Sell / PLN 4.00	DM BZ WBK
08/11/2012	Sell / PLN 3.90	Dom Maklerski Banku Handlowego
09/11/2012	Sell / PLN 3.60	UniCredit
27/11/2012	Reduce / PLN 3.90	Erste Securities

5. STATEMENT OF APPLICATION OF CORPORATE GOVERNANCE

Pursuant to § 91 item 5 point 4) of the Regulation of the Minister of Finance of 19 February 2009 on *current and periodical information submitted by issuers of securities and conditions to acknowledge as equivalent information required by legal regulations of a country not being a member state* (Journal of Laws no.33 item 259 as amended), The Company Management Board submits the Statement of Application of Corporate Governance in 2012.

5.1. Indicating the applied set of rules of corporate governance

In 2012 the Company was subject to the corporate governance rules, described in the document *Good Practices of Companies Listed at GPW* (Good Practices), constituting the Attachment to the Resolution of the GPW Council no 12/1170/2007 of 4 July 2007, changed with the following resolutions of GPW Council: No 17/1249/2010 of 19 May 2010, No 15/1282/2011 of 31 August 2011, No 20/1287/2011 of 19 October 2011 and No 19/1307/2012 of 21 November 2012, which entered into force on 1 January 2013. The document also contains the rules of corporate governance which the Company adopted on voluntary basis.

The *Good Practices* were adopted for application by the Company Management Board. In 2012 the Company adopted all the rules applying according to the document, specified in sections II, III and IV.

The text of the aforementioned set of Good Practices the Company is subject to, and the application of which could have been decided by the Company on voluntary basis is published at the GPW website at (<http://www.corp-gov.gpw.pl>).

5.2. Indicating abandoned rules of corporate governance

In 2012 the Company applied all rules of corporate governance arising from Good Practices, applicable and binding for the Company in this year. In the period since the day of commencement of public listing of the Company shares until 31 December 2012, there have been no occurrences of infringement of the corporate governance regulations adopted.

The Company shall also endeavour to implement the recommendations contained in Part I of Good Practices. The issues described below are particularly important.

Recommendation concerning the remuneration policy

With the aim of implementing recommendation I.5 of Good Practices, the Company has adopted the *Remuneration Policy for Members of supervisory and management bodies, including the description of the rules of defining the policy in TAURON Polska Energia S.A.* (Remuneration Policy), considering the Commission Recommendation of 14 December 2004 *fostering an appropriate regime for the remuneration of directors of listed companies* (2004/913/EC), and the Commission Recommendation of 30 April 2009 complementing that Recommendation (2009/385/EC). The above policy determines the objectives and rules of remuneration policy for members of Supervisory Board and the Management Board of the Company, with the application of general regulations as well as the relevant resolutions of the General Meeting and the Supervisory Board of the Company. The Remuneration Policy is, i.a., aimed at:

- 1) providing the motivating and consistent system of remuneration policy for members of Supervisory Board and the Management Board,
- 2) associating the remuneration rules with monitoring of implementation of the adopted strategic plans and implementation of the financial plans,
- 3) adjusting the level of remuneration of members of corporate bodies of the Company in connection with implementation of the tasks delegated.

Simultaneously, in fulfilment of the information obligations specified in the provisions of the Regulation of the Minister of Finance of 19 February 2009 on *current and periodical information submitted by issuers of securities and conditions to acknowledge as equivalent information required by legal regulations of a country not being a member state*, the Company publishes information regarding the remuneration of members of Supervisory Board and the Management Board in its annual reports.

Recommendation concerning the balanced participation of women in performing the functions of management and supervision

In accordance with recommendation I.9 of Good Practices, GPW recommends that the public companies and their shareholders should provide the balanced proportion of women and men in management and supervisory functions in companies. In the Company, members of Supervisory Board are appointed in accordance with the provisions of the Articles of Association, by the General Meeting and the State Treasury, under its personal powers, whereas the members of the Management Board are appointed by the Supervisory Board, following the assessment of candidates in terms of their qualifications, experience and competences. The rules applicable in the Company in this scope do not restrict a possibility of participation in the recruitment procedures due to sex. Simultaneously, in fulfilment of the requirements of Section II p. 1 2a) of Good Practices, in the 4th quarter of 2012 the Company published information on participation of men and women in the Supervisory Board and the Management Board of TAURON in the period of the last two years, on its website.

Information on waiver of application in 2012 of the rule contained in Section IV p 10 of Good Practices (according to the wording binding since 1 January 2013)

On 02 January 2013, the Company submitted the current report no 1/2012, via the EBI system (Electronic Information Base), containing the information on waiver of application of the corporate governance rule contained in Section IV p 10 (according to the wording binding since 1 January 2013), concerning providing the shareholders with a possibility to participate in the General Meeting using the electronic communication means. The current provisions of the Company Articles of Association do not contain any rules allowing for a possibility to participate in the General Meeting using the electronic communication mean, pursuant to the regulations of the Act of 15 September 2000 *Code of Commercial Companies*. In order to provide for application of the aforementioned rule, it is necessary to introduce amendments to the Company Articles of Association, including the relevant resolution of the General Meeting amending the Company Articles of Association.

5.3. Description of main characteristics of internal control and risk management systems in relation to the process of generating the financial statements and consolidated financial statements

The internal control and risk management system in relation to the process of generating financial statements and consolidated financial statements is implemented by the Company through:

Supervision over application of coherent accounting principles by the companies of TAURON Capital Group which generating the consolidated financial statement of TAURON Capital Group

In order to provide for coherent accounting principles based on IFRS, approved by the EU, in TAURON Capital Group *the Accounting Policy of TAURON Polska Energia S.A. TAURON Capital Group* was developed and implemented. The document is subject to relevant amendments and updates in case of amendments to the regulations. The rules contained in the document are applicable to unit financial statements of the Company and consolidated financial statement of TAURON Capital Group. The Companies of TAURON Capital Group are obliged to apply the *Accounting Policy of TAURON Polska Energia S.A. Capital Group* while preparing the reporting packages which provide basis for generating of the consolidated financial statement of TAURON Capital Group.

The reporting packages are verified by the Office for Consolidation and Reporting in the parent company as well as by the independent auditor during examination or review of consolidated financial statements of TAURON Capital Group.

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

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

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

IT systems

The Company keeps accounting books which constitute the basis for generating of the financial statement in the financial-accounting computer system SAP, implemented in the Company in the middle of 2011. Preparing of the consolidated financial statement takes place with application of IT tool designed for consolidation of financial statements. Access to IT systems is restricted by relevant authorisations for the entitled employees. In the Company IT and organizational solutions operate which control the access to financial-accounting systems and provide adequate protection and archiving of accounting books.

Internal audit

In the Company Internal Audit Department operates whose objective is to plan and implement the auditing tasks, among others, of advisory nature, as well as to perform the commissioned temporary inspections. The procedures and rules of implementation of the audit are specified in *Regulations of Internal audit in TAURON Group* as well as in rules of cooperation binding in individual companies of TAURON Capital Group. While implementing the function of internal audit, the Company acts in compliance with the Code of Ethics and International Standards of Internal Audit Professional Practice.

Submission of financial statements of the Company and consolidated statements of TAURON Capital Group for examination or review by independent chartered accountant

Annual financial statements of the Company and consolidated statements of TAURON Capital Group are subject to examination by independent chartered accountant. Semi-annual financial statements of the Company and consolidated statements of TAURON Capital Group are subject to examination by chartered accountant. In 2010 the Company selected one entity authorised to examine and review financial statements for significant companies of TAURON Capital Group and the consolidated financial statements.

Rule concerning change of the entity authorised to audit the financial statements of the Company and TAURON Group

According to the resolution of the Supervisory Board TAURON Polska Energia S.A. no 343/II/2010 the rule was adopted concerning changing the entity authorised to audit the financial statements of the Company and TAURON Capital Group at least once during 5 financial years. The entity authorised to audit the financial statements of the Company and TAURON Capital Group may perform these activities again after two financial years.

5.4. Shareholders holding large blocks of shares

The table below presents shareholders holding, as of 31 December 2012 and as of the day of the present report, directly or indirectly large blocks of shares of the Company

Table no. 42 Shareholders holding large blocks of shares directly or indirectly

Shareholders	Number of shares held	Percentage interest in the share capital	Number of votes held	Percentage interest in general number of votes
State Treasury*	526,848,384	30.06%	526,848,384	30.06%
KGHM**	182,110,566	10.39%	182,110,566	10.39%
ING Otwarty Fundusz Emerytalny (Open Pension Fund)***	88,742,929	5.06%	88,742,929	5.06%

* In accordance with the shareholder's notification of 28/02/2013.

** In accordance with the shareholder's notification of 23 March 2011.

*** In accordance with the shareholder's notification of 28 December 2011.

5.5. Owners of securities providing special control rights

In the financial year 2012, the Company did not issue securities which would provide special control rights towards to the Company.

5.6. Limitations on performing of the voting right

Limitations on performing the voting right have been included in § 10 of the Company Articles of Association which is available at the Company website <http://www.tauron-pe.pl/>.

The aforementioned limitations on performing of the voting right have been formulated in the following way:

1. The voting right of shareholders holding over 10% of total votes in the Company shall be limited in the way that none of them can perform at the General Meeting more than 10% of the total votes in the Company.
2. Voting right limitation included in point 1 above does not apply to the State Treasury and entities subsidiary to the State Treasury in the period of time in which the State Treasury together with subsidiary entities subsidiary of the State Treasury has a number of the Company's shares entitling to performing at least 25% of total votes in the Company.
3. Shareholders' votes, between which there is a controlling or dependence relationship within the meaning of § 10 of the Articles of Association (Association of Shareholders) are cumulated; in case when the cumulated number of votes exceeds 10% of total votes in the Company, it is subject to reduction. Rules of votes accumulation and reduction have been defined in 6 and 7 below.
4. A shareholder, within the meaning of § 10 of the Articles of Association is every person, including its parent company and subsidiary company, which is entitled directly or indirectly to a voting right at the General Assembly on the basis of any legal title; it also applies to a person who does not hold the Company's shares, and in particular to a user, pledgee, person entitled on the basis of a depositary receipt under regulations of the Act of 29 July 2005 on *financial instruments trading*, as well as a person entitled to take part in the General Meeting despite disposal of shares after the date of establishing the right to take part in the General Meeting.
5. A parent company and subsidiary company, for the purposes of § 10 of the Articles of Association, is understood as a person:
 - 1) holding a status of a dominating entrepreneur, dependent entrepreneur or has both the status of a dominating and dependent entrepreneur within the meaning of 16 February 2007 on *competition and consumers' protection* or,

- 2) holding the status of a parent company, higher level parent company, subsidiary company, lower level subsidiary company or which has both the status of a parent company (including a parent company of higher status and subsidiary (including a subsidiary company of lower level status or co-subsidiary) within the meaning of Accounting Act of 29 September 1994, or
 - 3) which has (parent company) or one which is under (subsidiary company) decisive influence within the meaning of the Act of 22 September 2006 on *transparency of financial relationships between public bodies and public entrepreneurs and on financial transparency of some entrepreneurs*, or
 - 4) whose votes resulting from the Company's shares owned directly or indirectly are subject to accumulation with votes of another person or other persons on conditions defined in the Act of 29 July 2005 on *public offering and conditions of introducing financial instruments to an organized trading system and on public companies* in connection with holding, disposing of or acquiring large blocks of the Company shares.
6. Accumulation of votes is based on aggregating of the number of votes held by particular shareholders of Shareholders' Group.
7. Reduction of votes is based on decreasing the total number of votes in the Company that shareholders, who are a part of Association of Shareholders, are entitled to at the General Meeting to the level of 10% of total votes in the Company. Reduction of votes takes place in accordance with the following rules:
- 1) number of votes of a shareholder who holds the biggest amount of votes in the Company among all shareholders who are members of Association of Shareholders is subject to being decreased by a number of votes equal to surplus of over 10% total votes in the Company that all shareholders in total are entitled to and who are members of the Association of Shareholders,
 - 2) if, despite the aforementioned reduction, the total number of votes that shareholders who are members of the Association of Shareholders are entitled to exceeds 10% of the total votes in the Company, a further reduction of votes belonging to other shareholders who are members of the Association of Shareholders takes place. Further reduction of particular shareholders' votes takes place in order established on the basis of the amount of votes that particular shareholders who are members of the Association of Shareholders hold (from the highest to the lowest one). Further reduction takes place until the moment when the total number of votes held by shareholders who are members of the Association of Shareholders does not exceed 10% of the total votes in the Company,
 - 3) in each case the shareholder whose voting right has been limited shall have to right to perform at least one vote,
 - 4) limitation on performing the voting right applies also to a shareholder absent at the General Meeting.
8. Each shareholder who is going to take part in the General Meeting, in person or through a proxy is obliged to, without a separate notice stipulated in item 9 below, notify the Management Board or the Chairperson of the General Meeting that she/he holds, directly or indirectly, more than 10% of the total votes in the Company.
9. Notwithstanding the provisions of item 8 above, in order to establish the basis for accumulation and reduction of votes, the Company's shareholder, the Management Board, the Supervisory Board or particular members of these bodies have the right to demand that the Company shareholder provides information whether she/he is a person holding the status of an entity dominating or subordinate towards other shareholder within the meaning of § 10 of the Articles of Association. The aforementioned entitlement includes also the right to demand revealing the number of votes that the Company's shareholder has independently or jointly with other shareholders of the Company.
10. A person who has failed to fulfil or fulfilled the information obligation stipulated in items 8 and 9 above improperly, until the moment of improvement of the information obligation performed improperly shall have the voting right from one share only; performing voting rights from other shares by such a person shall be null and void.

5.7. Limitations on transfer of securities proprietary rights

As of 31 December 2012 and on the day of this report, there are no limitations in the Company on the transfer of proprietary rights of Company securities.

5.8. Rules on appointing and dismissing managing and supervising persons and their rights

5.8.1. Management Board

Rules on appointing and dismissing members of the Management Board

The Management Board of the Company consists of one to six persons, including the President and Vice-Presidents. Members of the Management Board are appointed for the period of a joint term of office which lasts three years, except for the first term of office which is two years.

Members of the Management Board or the whole Management Board are appointed and dismissed by the Supervisory Board, appointing the President and Vice-Presidents. Each of the members of the Management Board can be dismissed or suspended in office by the Supervisory Board or the General Meeting.

Competence of the Management Board

The Management Board conducts the Company's issues and represents the Company in all judicial and non-judicial proceedings. All issues connected with managing of the Company not restricted by the regulations of law and provisions of the Company Articles of Associations for the General Meeting or Supervisory Board lie within the competences of the Company's Management Board.

In accordance with the Company Articles of Association, all issues which exceed the regular scope of Company activities require resolution of the Management Board, in particular the following issues:

- 1) Management Board bylaws,
- 2) organizational regulations of the Company enterprise,
- 3) establishment and liquidation of branches,
- 4) appointment of a proxy,
- 5) raising credits and loans,
- 6) accepting annual material and financial plans as well as long-term plans and Company strategy,
- 7) *incurring contingent liabilities within the meaning of the Act of 29 September 1994 on Accounting*, including granting guaranties and sureties by the Company as well as issuing bills of exchange, of the value not exceeding the equivalent of 5,000,000 EUR in PLN,
- 8) making donations, cancelling interest or releasing from debt,
- 9) purchase of real property, perpetual usufruct of shares in property or in perpetual usufruct with the value not exceeding the equivalent of 5,000,000 EUR in PLN,
- 10) purchase of the components of fixed assets excluding real property, perpetual usufruct or share in property or perpetual usufruct with the value equal to or exceeding the equivalent of 10,000 EUR in PLN, but not exceeding the equivalent of 5,000,000 EUR in PLN,
- 11) disposal of the components of fixed assets including real property, perpetual usufruct or share in property or perpetual usufruct with the value equal to or exceeding the equivalent of 10,000 EUR in PLN, but not exceeding the equivalent of 5,000,000 EUR in PLN,
- 12) defining the right to perform a vote at the General Meeting or at Shareholders' Meetings of companies in which the Company holds stocks or shares, on issues being the competences of the General Meetings or Shareholders' Meetings of these companies, except for defining the way of performing the right to vote at the General Meeting or at the Shareholders' Meeting of companies in which the Company holds over 50% of stocks or shares in matters concerning:
 - a) disposing and leasing of the Company's enterprise or its organized part as well as establishing a limited proprietary right on them, if their value exceeds the equivalent of the amount of 5,000,000 EUR in PLN,
 - b) dissolution and liquidation of the Company,
- 13) rules of conducting sponsoring activity,
- 14) adoption of the annual plan of sponsoring activity,
- 15) issues, whose examination the Management Board refers to the Supervisory Board or the General Meeting.

5.8.2. Supervisory Board

Rules on appointing and dismissing members of the Supervisory Board

The Supervisory Board consists of five to nine persons, appointed for the joint term of office which is three years, except for the first term of office which is for one year. In accordance with the Company's Articles of Association, members of the Supervisory Board are appointed and dismissed by the General Meeting, subject to: In accordance with the Company Articles of Association, members of the Supervisory Board are appointed and dismissed by the General Meeting, z subject to:

- 1) in the period, in which the State Treasury, together with entities dependent on the State Treasury 4 within the meaning of § 10 item 5 of the Articles of Association, has a number of shares of the Company entitling to perform at least 25% of the total votes in the Company, the State Treasury is represented by the minister competent for the issues of the State Treasury, is entitled to appoint and dismiss the members of the Supervisory Board in the amount equal to half of the maximum number of the composition of the Supervisory Board defined in the Articles of Association (in case when the number is not integral it is rounded down to an integral number, for example 4.5 is rounded down to 4 increased by 1, provided that the State Treasury:
 - a) is obliged to vote at the General Meeting on establishing the number of members in the Supervisory Board representing the maximum number of members of the Supervisory Board defined in the Articles of Association or in case of submitting

such a motion to the Management Board by a shareholder or shareholders who have a number of votes entitling to perform at least 5% of the total votes in the Company,

- b) is excluded from the voting right at the General Meeting on appointing and dismissing of other members of the Supervisory Board, including independent members of the Supervisory Board; it does not, however, apply to the case when the Supervisory Board cannot act due to a composition minor than required by the Articles of Association, and the shareholders present at the General Meeting other than the State Treasury do not supplement the composition of the Supervisory Board in accordance with the distribution of places in the Supervisory Board defined in present point;
- 2) in the period of time in which the State Treasury, together with entities dependent on the State Treasury within the meaning of § 10 item 5 of the Articles of Association, has a number of the Company's shares entitling to perform under 25% of total voting rights in the Company, the State Treasury, represented by a minister competent for the issues of the State Treasury shall be entitled to appoint and dismiss one member of the Supervisory Board.
- 3) appointing and dismissing of members of the Supervisory Board by the State Treasury pursuant to the aforementioned item 1) or item 2) takes place by means of a statement submitted to the Company.

At least two members of the Supervisory Board shall meet the criteria of independence in relation to the Company and subsidiaries significantly related to the Company (independent members of the Supervisory Board). The definition of an "independent member of the Supervisory Board" shall mean an independent member of the Supervisory Board within the meaning the Recommendation of the European Commission of 15 February 2005, on the role of non-executive directors or directors not being members of Supervisory Boards of listed companies and board's committee (supervisory board) (2005/162/EC) taking into consideration Good Practices of Companies Listed at GPW.

Independent members of the Supervisory Board provide the Company, before being appointed to the composition of the Supervisory Board, with a written statement of having fulfilled the prerequisites of independence. In case of a situation causing failure to fulfil the of independence, a member of the Supervisory Board is required to immediately notify the Company of this fact. The Company shall inform shareholders of the present number of independent members of the Supervisory Board.

Competence of the Supervisory Board

The Supervisory Board carries out continuous supervision over the Company's activities in all areas of its operations. The competences of the Supervisory Board include:

- 1) assessment of the Management Board report on the Company operations as well of the financial statement for the previous financial year in the scope of their compliance with the books, documents as well as with the actual status. It also applies to the consolidated financial statement of the Capital Group, provided that it is generated,
- 2) assessment of the Management Board conclusions on profit distribution or loss coverage,
- 3) submitting of a written report to the General Meeting on the results of operations covered by items 1 and 2,
- 4) preparing of reports of the Supervisory Board on supervision of implementation of investments by the Management Board, including the purchase of fixed assets, and in particular, giving opinions on the correctness and effectiveness of spending of financial resources related to the above expenditures,
- 5) preparing, together with the report on results of the annual financial statement of the Company, an opinion of the Supervisory Board on the issue of economic legitimacy of involving the Company capital committed in a given financial year in other entities of commercial law,
- 6) selecting of the chartered accountant to carry out the examination of the Company financial statement and consolidated financial statement of the Capital Group,
- 7) determining the scope and deadlines of submitting of annual material and financial plans as well as long-term strategic plans, by the Management Board,
- 8) giving opinions on long-term plans and strategies of the Company and Capital Group,
- 9) giving opinions and approval of the rules of conducting sponsoring activity,
- 10) giving opinions on the annual plan of conducting of the sponsoring activity as well as quarterly reports on its implementation,
- 11) passing of bylaws describing in details the procedures of performance of the Supervisory Board,
- 12) adopting of consolidated text of the Company Articles of Association, prepared by the Company's Management Board,
- 13) approving of the bylaws of the Company Management Board,
- 14) approving of the organizational regulations of the Company enterprise.

Competence of the Supervisory Board includes also granting the Management Board permission to:

- 1) purchase of property, perpetual usufruct of shares in property or in perpetual usufruct with the value not exceeding the equivalent of 5,000,000 EUR in PLN,
- 2) purchase of the components of fixed assets excluding real property, perpetual usufruct or share in real property or perpetual usufruct, bonds issued by the companies of the Capital Group of the value equal to or exceeding the equivalent of 5,000,000 EUR in PLN,
- 3) dispose of the components of fixed assets including real property, perpetual usufruct or share in real property or perpetual usufruct, of the value equal to or exceeding the equivalent of 5,000,000 EUR in PLN,
- 4) incur contingent liabilities, including granting guaranties and sureties by the Company with the value exceeding the equivalent of 5,000,000 EUR in PLN,
- 5) issuing bills of exchange of the value exceeding the equivalent of 5,000,000 EUR in PLN,
- 6) advance payment on account of the expected dividend
- 7) taking over or purchase of stocks or shares in other companies, with the value exceeding the equivalent of 5,000,000 EUR in PLN, except for situations when taking over of stocks or shares of these companies takes place in exchange for the Company liabilities as a part of composition or bankruptcy proceedings,
- 8) disposal of stocks or shares, with the value exceeding the amount of 5,000,000 EUR in PLN, with defining of the conditions and procedure of their disposal, except for:
 - a) disposal of shares which are traded on the regulated market,
 - b) disposal of stocks or shares that the Company holds at the amount not exceeding 10% interest in the share capital of particular companies.

Moreover, competence of the Supervisory Board includes in particular:

- 1) appointing and dismissing members of the Management Board,
- 2) establishing the rules of remuneration and the amount of remuneration for the members of the Management Board,
- 3) suspending members of the Management Board in performance of their duties, due to material reasons,
- 4) delegating members of the Supervisory Board to temporarily perform actions of the members of the Management Board who cannot perform their duties and establishing their remuneration subject to the provision that the total remuneration of the person delegated as the Supervisory Board's member as well as on account of being delegated to temporary performing actions of a member of the Management Board shall not exceed the remuneration established for the member of the Management Board, for whom the member of the Supervisory Board was delegated,
- 5) conducting recruitment proceedings for the position of a member of the Management Board,
- 6) conducting of a competition in order to select a person with whom an agreement to perform management in the Company shall be concluded,
- 7) granting permission to establish Company branches abroad,
- 8) granting permission to the members of the Management Board to take positions in governing bodies of other companies,
- 9) defining the way of performing the right of vote at the General Meeting or at the Shareholders' Meeting of companies in which the Company holds over 50% of stocks or shares, in matters concerning:
 - a) disposal and leasing of the Company's enterprise or its organized part as well as establishing a limited proprietary right on them, if their value exceeds the equivalent of the amount of 5,000,000 EUR in PLN,
 - b) dissolving and liquidation of the Company.

5.9. Description of the procedure of amendment of the Company Articles of Association

Change of the Company's Articles of Association takes place by means of resolution of the General Meeting, at the majority of two thirds of the votes, under the presence of persons representing at least half of the capital, and then requires issuing a decision by a proper court on entering the change into the Register of Entrepreneurs. A consolidated text of the Company Articles of Association, including amendments passed by the General Meeting, shall be adopted by the Supervisory Board by means of a resolution.

5.10. Way of operating of the General Meeting, its fundamental authorities and description of shareholders' rights and mode of their performance

The way of operating of the Company General Meeting and its authorities are included in the Company Articles of Association and in the *Regulations of the General Meeting of TAURON Polska Energia S.A.* which are available at the Company website <http://www.tauron-pe.pl/>.

Way of operating of the General Meeting

The General Meeting is convened by announcement on the Company website and in the manner defined for providing current information by public companies. In case if the General Meeting is convened by an entity or body other than the Management Board on the basis of regulations of the Act of 15 September 2000 Code of Commercial Companies, and the convening of the General Meeting requires cooperation with the Management Board, the Management Board is obliged to perform all actions defined by law regulations in order to summon, organize and conduct the General Meeting. General Meetings take place either in the Company's seat or in Warsaw.

The General Meeting is opened by the Chairperson of the Supervisory Board, and in case of his/her absence to open the General Meeting shall be authorized the following persons in the following order: Vice-Chairperson of the Supervisory Board, President of the Management Board, a person appointed by the Management Board or a shareholder who registered at the General Meeting shares entitling him/her to perform the biggest number of votes. Then, among the persons entitled to take part in the General Meeting the Chairperson of the Meetings selected.

The General Meeting shall pass resolutions irrespective of the number of shares represented at the Meeting, unless regulations of the Act of 15 September 2000 *Code of Commercial Companies* as well as provisions of the Company's Articles of Association shall state otherwise. The General Meeting may order a break in the meeting by the majority of two thirds of votes. In total, the breaks shall not exceed thirty days.

Competence of General Meeting

The following issues require Resolutions of the General Meeting:

- 1) examination and approval of financial statement for the previous financial year as well as the Management Board's report on the Company operations,
- 2) granting the acknowledgement of the fulfilment of duties to the members of the governing bodies of the Company,
- 3) profit distribution and coverage of loss,
- 4) appointing and dismissing of members of the Supervisory Board,
- 5) suspending members of the Management Board in performance of their duties,
- 6) establishing the amount of remuneration for the Members of the Supervisory Board, subject to the provision that members of the Supervisory Board are entitled to a monthly remuneration in the amount determined by the General Meeting, taking into consideration the binding legal regulations,
- 7) disposal and lease of the Company enterprise or its organized part as well as establishing a limited proprietary right on them,
- 8) concluding of a credit, loan, surety agreement or any other similar agreement by the Company with a member of the Management Board, Supervisory Board, proxy and liquidator or for any of these persons. Concluding of a loan, surety or any other similar agreement with a member of the Management Board, Supervisory Board, proxy, liquidator or for any by a subsidiary company,
- 9) increasing and lowering the share capital of the Company,
- 10) issuing convertible bonds or priority bonds as well as registered securities or bearer securities entitling its owner to subscribe or acquire the shares,
- 11) purchasing of treasury shares in cases required by the regulations of the Act of 15 September 2000, *Code of Commercial Companies*,
- 12) compulsory redemption of shares in accordance with the stipulations of art. 418 of the Act of 15 September 2000, *Code of Commercial Companies*,
- 13) creating, using and liquidation of reserve capitals,
- 14) using of supplementary capital,
- 15) provisions concerning claims to repair damage caused at establishing of the company or serving in the board or performing supervision,
- 16) merger, transformation and division of the Company,
- 17) redemption of shares,
- 18) amendment to the Articles of Association and change of the scope of the Company operations,
- 19) dissolving and liquidation of the Company.

In accordance with the Act of 15 September 2000, *Code of Commercial Companies*, issuing and redemption of shares lies within the competence of the General Meeting.

Description of shareholders' rights and mode of their execution

A shareholder or shareholders representing at least one twentieth of the share capital, may demand convening of the Extraordinary General Meeting. Such a demand shall include its concise justification. It can be submitted to the Management Board in writing or send in electronic form, to the Company e-mail address, indicated by the Company on at its website in "Investor Relations" tab. The Company reserves the right to undertake appropriate steps to identify the Shareholder of Shareholders who request a demand.

A shareholder or Shareholders representing at least a half of the share capital or at least a half of all votes in the Company may convene the Extraordinary General Meeting. The shareholder or shareholders shall appoint the Chairperson of such a General Meeting.

A shareholder or shareholders representing at least one twentieth of the share capital may demand including certain issues on the agenda of the nearest General Meeting. Such a demand, including a justification or a draft of resolution on the proposed point of agenda shall be submitted to the Management Board not later than 21 days before the given date of the General Meeting. Such a demand may be submitted in electronic form to the Company' e-mail address, or in writing to the Company address.

A shareholder or shareholders representing at least one twentieth of the share capital may, before the date of the General Meeting, submit drafts of resolutions on issues included on the agenda of the General Meeting or issues which are to be introduced into the agenda. Such a request can be made in electronic form to the e-mail address of the Company or in writing to the Company address.

The shareholder may become acquainted with the Shareholders' list in the Company's Management Board seat for three days preceding directly the General Meeting. The shareholder may demand sending him/her the list of Shareholders free of charge by electronic mail, providing address to which the list shall be sent. Such a request can be made in electronic form to the e-mail address of the Company or in writing to the Company address.

The right to take part in the General Meeting shall be given only to persons who are Shareholders sixteen days before the date of the General Meeting (registration date of participation in the General Meeting). In order to participate in the General Meeting such Shareholders should report the investment company holding their securities account a request to issue a certificate with their name on the right to take part in the General Meeting. Such a request shall be submitted not earlier than a day after the announcement on convening of the General Meeting and not later than on the first working day after the day of registering participation in the General Meeting.

The shareholder may take part in the General Meeting as well as perform the voting right in person or through a proxy. Persons co-authorized by means of shares may take part in the General Meeting and perform the voting right only through a joint representative (proxy). The proxy may represent more than one Shareholder and vote differently based on shares of each Shareholder.

Shareholders shall appoint the Chairperson the General Meeting. The Chairperson shall be selected among persons entitled to take part in the General Meeting. Each of the members of the General Meeting shall have the right to submit one candidacy to the post of the Chairperson. Persons, whose candidacies are submitted, shall be put on the list of candidates on condition that they agree to candidate. The election of the Chairperson takes place by secret voting, with an absolute majority of votes. In case when there is just one candidate to the Chairperson, the election can take place by acclamation.

Each Shareholder shall submit no more than three candidates to the member of Returning Committee, selected by the General Meeting and vote for maximum three candidates.

During the General Meeting the Shareholder shall have the right, until closing the discussion on a certain point of the agenda, to submit a proposal of changes to the content of a draft of resolution proposed for adoption by the General Meeting within a given item of the agenda or to put forward his/her draft of such a resolution. The proposal of changes or a new draft of the resolution shall be submitted with their justification. The proposal of changes or a draft of the resolution may be submitted to the Chairperson or orally to the minutes of the meeting.

The shareholder who was voting against a resolution, and after its adoption by the General Meeting wants to raise his/her objection shall immediately after passing this resolution (after the announcement of results of voting) raise his/her objection and demand its including in the minutes before proceeding to the next item of the agenda. In case of a later raising of objection, which however shall not take place later than until closing the General Meeting, the Shareholder shall indicate to which resolution passed at this General Meeting she/he is raising his/her objection. The shareholder raising his/her objection to the General Meeting's resolution may submit to the minutes of the General Meeting a concise justification of the objection.

5.11. Composition of managing and supervising bodies and their committees, its changes, description of performance

5.11.1. Management Board

The present, Third term of office of the Management Board, started on 6 May 2011, i.e. on the day of convening of the General Meeting of the Company approving the financial statement for the last full financial year of the tenure of the members of the Management Board of the second term, i.e for the year 2010. In accordance with the Company Articles of Association this is a joint term of office and it shall last for three years.

Personal composition of the Management Board for the period from 01 January 2012 to 31 December 2012

1. Dariusz Lubera – President of the Board,
2. Joanna Schmid – Vice President of the Board, Chief Strategy and Business Development Officer,
3. Dariusz Stolarczyk – Vice President of the Board, Chief Officer for Corporate Matters,
4. Krzysztof Zamasz – Vice President of the Board, Chief Commercial Officer,
5. Krzysztof Zawadzki – Vice President of the Board, Chief Financial Officer.

Changes in the Management Board composition

On 29 November 2012 Mr Krzysztof Zamasz submitted his resignation from the function of the Vice President of the Board, effective as of 31 December 2012. Mr Krzysztof Zamasz motivated his decision by his appointment on 29 November 2012 as the President of the Board of ENEA company with its seat in Poznań, effective as of 1 January 2013.

Personal composition of the Management Board as of 01 January 2013 and on the day of this report

1. Dariusz Lubera – President of the Board,
2. Joanna Schmid – Vice President of the Board, Chief Strategy and Business Development Officer,
3. Dariusz Stolarczyk – Vice President of the Board, Chief Officer for Corporate Matters,
4. Krzysztof Zawadzki – Vice President of the Board, Chief Financial Officer.

Experience and competences of the members of the Management Board

Dariusz Lubera – President of the Board

Background: Electrician, MSc Eng Graduate of AGH Academy of Science and Technology in Kraków and University of Economics in Katowice.

Acting as the President of the Management Board of TAURON Polska Energia S.A. since 8 March 2008. Currently supervises performance of the following business units: corporate bodies, legal department, HR, internal audit, market communication and PR, risk management.

Joanna Schmid – Vice President of the Management Board, Chief Strategy and Business Development Officer

Background: law and finance Graduate of the Law Faculty of the Silesian University in Katowice. Graduated from many post-graduate colleges, i.e. management studies (MBA) at the Warsaw School of Economics in Warsaw.

Acting as the Vice President of the Management Board of TAURON Polska Energia S.A. since 1 October 2010. Currently supervises performance of the following business units: development strategies, strategic projects, regulations and external funds, investment effectiveness.

Dariusz Stolarczyk – Vice-President of the Management Board for Corporate Matters

Graduate of the Electric Faculty of the Technical University of Wrocław, speciality: industrial power engineering and the MBA studies at the University of Economics in Wrocław. Also graduated from postgraduate colleges, i.a. at Wirtschaftsordnungsinstitut Wirtschaftskammer in Vienna and MBA studies at the College of Management and Administration in Warsaw.

Acting as the Vice President of the Management Board of TAURON Polska Energia S.A. since 8 March 2008. Currently supervises performance of the following business units: management of IT resources, purchasing department, corporate governance and reorganisation.

Krzysztof Zawadzki – Vice-President of the Management Board, Chief Financial Officer

Background: economist. Graduate of University of Economics in Katowice, PhD Studies at the University of Economics in Kraków. Postgraduate studies, i.a. in international financial reporting standards, European standards in accountancy and finance and taxes. Holds a licence of a chartered accountant.

Acting as the Vice President of the Management Board of TAURON Polska Energia S.A. since 21 August 2009. Currently supervises performance of the following business units: accounting and taxes, financial management, controlling.

The detailed description of experience and competences of the Management Board Members is published on the Company website <http://www.tauron-pe.pl/>.

Mode of operation

The Management Board of the Company operates on the basis of the Act of 15 September 2000, *Code of Commercial Companies* and other regulations of law, stipulations of the Company Articles of Association and provisions of the *Bylaws of the Management Board of TAURON*

Polska Energia Spółka Akcyjna z siedzibą w Katowicach, which is available at the website of the Company <http://www.tauron-pe.pl/>. While performing their obligations the members of the Management Board are governed by regulations included in the Good Practices.

Cooperation of two members of the Management Board or one member of the Management Board together with a proxy is required for submitting statements on behalf of the Company. Should the Management Board be single person, one member of the Management Board or a proxy shall be entitled to submit statements on behalf of the Company.

Meetings of the Management Board are convened by the President of the Management Board or a Vice-President of the Management Board appointed by him/her. Meetings of the Management Board are also convened upon the motion of the majority of Vice-Presidents of the Company as well as upon the motion of the Chairperson of the Supervisory Board. The meetings take place in the Company's seat, on the date set by the person convening the meeting. In justified cases, the Management Board's meetings may take place outside the seat of the Company. President of the Management Board or a Vice-President appointed by him/her shall chair the meeting.

The Management Board votes in an open voting. The result of voting is recorded in the minutes of the meeting. The President of the Management Board orders a secret ballot upon the request of any member of the Management Board.

Resolutions of the Management Board are passed by an absolute majority of votes in the presence of 3/5 of the composition of the members of the Management Board. In case of an equal number of votes the President of the Board has a casting vote. The Management Board may pass resolutions in a written mode or by using means of direct remote communication. Voting in the aforementioned modes is ordered by the President of the Management Board or the Vice-President appointed by him/her, defining the deadline to vote by the members of the Management Board. It is acceptable to submit a different opinion. It shall be recorded in the minutes together with justification. Decisions of the Management Board, regulating business as usual, not requiring a resolution, are recorded only in the minutes.

Under the circumstances when the number of Vice-Presidents of the Management Board is lower than the Divisions, the Vice-Presidents of the Management Board may join the capacity of directors of two divisions, or distribute the competence in any other way which would be in compliance with the distribution of responsibilities performed by the Supervisory Board.

Scope of activities of the President of the Management Board covers competence in the area of operations of business units reporting to the Division of the President of the Board, in accordance with the organisational structure of the Company.

Scope of activities of the Vice-Presidents of the Management Board covers competence in the area of operations of business units reporting to the Divisions of the Vice-Presidents of the Board, in accordance with the organisational structure of the Company.

The structure of the divisions reporting to individual members of the Management Board is specified in the organisational chart of the Company, presented in item 1.3.2 of this report.

5.11.2. Supervisory Board

The current, Third term of office of the Supervisory Board, started on 6 May 2011, i.e. on the day of convening of the General Meeting of the Company approving the financial statement for the last full financial year of the tenure of the members of the Supervisory Board of the second term, i.e. for the year 2010. In accordance with the Company Articles of Association this is a joint term of office and it shall last for three years.

Personal composition of the Supervisory Board as of 01 January 2012 and on the day of this report

1. Antoni Tajduś – Chairman of the Supervisory Board
2. Agnieszka Trzaskalska – Vice Chairman of the Supervisory Board
3. Leszek Koziorowski – Secretary of the Supervisory Board
4. Jacek Kuciński – Member of the Supervisory Board
5. Włodzimierz Luty – Member of the Supervisory Board
6. Michał Michalewski – Member of the Supervisory Board
7. Jacek Szyke – Member of the Supervisory Board
8. Marek Ściążko – Member of the Supervisory Board

Changes in the Supervisory Board composition

Pursuant to personal authority of the State Treasury resulting from the Articles of Association of the Company, on 11 January 2012, the Member of the Supervisory Board, Michał Michalewski, was dismissed by the State Treasury, who had been appointed to the Supervisory Board as its Member on 6 October 2008.

As of 11 January 2012, Rafał Wardziński was appointed as the Member of the Supervisory Board for the Third Joint Term pursuant to personal authority of the State Treasury resulting from the Articles of Association of the Company.

On 2 February 2012, the Supervisory Board introduced changes within the function of Vice Chairman of the Supervisory Board, by appointing Rafał Wardziński for this function.

Pursuant to personal authority of the State Treasury resulting from the Articles of Association of the Company, on 12 December 2012, the Member of the Supervisory Board, Włodzimierz Luty, was dismissed by the State Treasury, who had been appointed to the Supervisory Board as its Member on 31 January 2008.

As of 12 December 2012, Marcin Majeranowski was appointed as the Member of the Supervisory Board for the Third Joint Term pursuant to personal authority of the State Treasury resulting from the Articles of Association of the Company.

Personal composition of the Supervisory Board as of 31 December 2012 and as of the date of this report

1. Antoni Tajduś – Chairman of the Supervisory Board
2. Rafał Wardziński – Vice Chairman of the Supervisory Board
3. Leszek Koziarowski – Secretary of the Supervisory Board
4. Jacek Kuciński – Member of the Supervisory Board
5. Marcin Majeranowski – Member of the Supervisory Board
6. Jacek Szyke – Member of the Supervisory Board
7. Marek Ściążko – Member of the Supervisory Board
8. Agnieszka Trzaskalska – Member of the Supervisory Board

Experience and competences of members of the Supervisory Board

Antoni Tajduś – Chairman of the Supervisory Board

Academic and scientific worker of the AGH Academy of Science and Technology in Kraków. During his employment at AGH, he obtained the following scientific degrees: PhD in technical sciences (1977), DSc in technical sciences (1990) and professor of technical sciences (1998).

Appointed to the Supervisory Board of TAURON Polska Energia S.A. as of 31 January 2008. Currently acting in the capacity of the Chairman of the Supervisory Board and the Chairman of the Committee on Nominations and Remunerations.

Rafał Wardziński – Vice Chairman of the Supervisory Board

Graduate of MSc studies at Szczecin University, Jean Monet Faculty of European Integration and the complementary studies at the Law Faculty of Liege University (Belgium), a fellow of the European Commission.

Appointed to the Supervisory Board of TAURON Polska Energia S.A. as of 11 January 2012. Currently acting in the capacity of the Vice Chairman of the Supervisory Board and the Member of the Strategy Committee.

Leszek Koziarowski – Secretary of the Supervisory Board

Graduate of Faculty of Law and Administration of Warsaw University, legal counsel in the Regional Chamber of Attorneys in Warsaw.

Appointed to the Supervisory Board of TAURON Polska Energia S.A. as of 14 September 2010. Currently acting in the capacity of the Secretary of the Supervisory Board and the Member of the Audit Committee.

Jacek Kuciński – Member of the Supervisory Board

Graduate of Faculty of Physics, Jagiellonian University. PhD in technical sciences at Electric Faculty of Technical University in Warsaw.

Appointed to the Supervisory Board of TAURON Polska Energia S.A. as of 14 September 2010. Within the Supervisory Board he also acts as a member of Audit Committee, Strategy Committee and Committee on Nominations and Remunerations.

Marcin Majeranowski – Member of the Supervisory Board

Graduate of Faculty of Law and Administration of Warsaw University. Since 2003 entered to the register of legal counsels maintained by the Regional Chamber of Attorneys in Warsaw.

Appointed to the Supervisory Board of TAURON Polska Energia S.A. as of 12 December 2012. Within the Supervisory Board he also acts as a Chairman of the Audit Committee.

Jacek Szyke – Member of the Supervisory Board

Graduate of Faculty of Economics at Łódź University and Electric Faculty of Technical University in Poznań, where he also obtained PhD in technical sciences.

Appointed to the Supervisory Board of TAURON Polska Energia S.A. as of 14 September 2010. Within the Supervisory Board he also acts as a Chairman of the Strategy Committee and a member of the Audit Committee.

Marek Ściążko – Member of the Supervisory Board

Graduate of Faculty of Technology and Chemical Engineering, Technical University in Gliwice – speciality: chemical engineering. Moreover, Mr Marek Ściążko obtained a title of PhD at the same Faculty.

Appointed to the Supervisory Board of TAURON Polska Energia S.A. as of 31 January 2008. Within the Supervisory Board he also acts as a member of the Strategy Committee.

Agnieszka Trzaskalska – Member of the Supervisory Board

Graduate of PhD studies at Faculty of Law and Administration of Warsaw University, graduate of Faculty of Law and Administration of Silesian University where she studied law.

Appointed to the Supervisory Board of TAURON Polska Energia S.A. as of 11 December 2007. Within the Supervisory Board he also acts as a member of Strategy Committee and Committee on Nominations and Remunerations.

The detailed description of experience and competences of the Supervisory Board Members is published on the Company website <http://www.tauron-pe.pl/>.

Mode of operation

A detailed description of the mode of the Supervisory Board operation is included in the Company Articles of Association, *Bylaws of the Supervisory Board of TAURON Polska Energia S.A. z siedzibą w Katowicach*, which is available on the Company website <http://www.tauron-pe.pl/> as well as in the Act of 15 September 2000, *Code of Commercial Companies*.

The main form of performing supervision by the Supervisory Board over the Company's operations are meetings of the Supervisory Board. The Supervisory Board performs its obligations jointly. Meetings of the Supervisory Board are convened by the Chairperson of the Supervisory Board or Vice-Chairperson of the Supervisory Board by presenting a detailed agenda:

- 1) in accordance with decisions adopted by the Supervisory Board,
- 2) on his/her own initiative,
- 3) upon a written proposal of each member of the Supervisory Board,
- 4) upon a written proposal of the Management Board.

Meetings of the Supervisory Board take place in the Company's seat. In justified cases the venue of the meeting may be changed.

In order to convene a meeting, written invitation of all members of the Supervisory Board at least 7 days before the date of the Supervisory Board's meeting is required. Due to material reasons the Chairperson of the Supervisory Board may shorten this period to 2 days, defining the mode of giving the invitation. Notifications of the Supervisory Board meeting are sent by means of fax or electronic mail and are confirmed by phone. In the notification of the Supervisory Board meeting the Chairperson defines the date of the meeting, venue of the meeting as well as detailed draft of the agenda. The Supervisory Board shall meet when the need arises, however not less frequently than once every two months. The Supervisory Board may meet without convening a formal meeting if all members of the Supervisory Board are present and nobody appeals against the fact of holding the meeting or against the agenda.

A change of the proposed agenda may take place when all members of the Supervisory Board are present at the meeting and nobody appeals against the agenda. An issue not included on the agenda shall be included into the agenda of the next meeting.

Taking part in meetings of the Supervisory Board is the Supervisory Board Member's duty. A Member of the Supervisory Board shall give reasons of his/her absence in writing. Justification of the Supervisory Board Member's absence requires the Supervisory Board resolution. Members of the Management Board of the Company may take part in the Supervisory Board's meetings unless the Supervisory Board raises an objection. Participation of the Management Board members in the Supervisory Board meetings is compulsory if they were invited by the Chairperson of the Supervisory Board. Other persons may also take part in the meetings if they were invited in the above mentioned way.

The Supervisory Board may seek opinion of legal advisers who render regular legal advice for the Company, as well as, in justified cases, it may appoint and invite to meetings of the Supervisory Board appropriate experts in order to ask their advice and make an appropriate decision. In the aforementioned cases the Supervisory Board shall pass a resolution concerning commissioning the work to a chosen expert (audit or consulting company) obliging the Company's Management Board to conclude an appropriate agreement.

Meetings of the Supervisory Board shall be chaired by the Chairperson of the Supervisory Board, and in the case of his/her absence by the Vice-Chairperson. Due to material reasons, with the consent of the majority of the members of the Supervisory Board present at the meeting, the person chairing the meeting is obliged to submit to voting a motion to stop the meeting and establish a new date of resuming the Supervisory Board meeting. The Supervisory Board makes decisions in the form of resolutions. The Supervisory Board

resolutions are passed mainly at the meetings. The Supervisory Board passes resolutions if at least half of its members are present at the meeting and all its members were invited in the way defined in the Regulations. Subject to absolutely binding regulations of law, including the Act of 15 September 2000, *Code of Commercial Companies* as well as provisions of the Company's Articles of Association, the Supervisory Board passes resolutions by an absolute majority of votes of the persons present at the meeting, where the absolute majority of votes is understood as more votes submitted "for" than "against" and "abstain". Resolutions cannot be passed in issues not included in the agenda unless all members of the Supervisory Board are present and nobody voices an objection. It shall not apply to resolutions on justifying the Supervisory Board's member absence at the meeting. Voting of the resolutions is open. A secret ballot is ordered:

- 1) upon the request of at least one of the members of the Supervisory Board,
- 2) in personnel-related issues

The Supervisory Board, in accordance with the Articles of Association, may pass resolutions in writing or by using means of direct remote communication. Passing a resolution in such a mode requires a justification and a prior submitting of the draft of the resolution to all members of the Supervisory Board. Passing resolutions in this mode does not apply to the appointing the Chairperson, the Vice-Chairperson and the Secretary of the Board, appointing or suspending in the activities of a member of the Supervisory Board and dismissing these persons as well as other issues the settlement of which requires a secret voting. Voting on a resolution passed in the aforementioned mode, a member of the Supervisory Board indicates the mode of his/her voting, "for", "against" or "abstain". In case of failure to express the vote by a Member of the Supervisory Board in the time period defined by the Chairperson the resolution shall not be passed. Resolution with a note that it was passed in a written mode or by mode of voting using means of direct distance communication shall be signed by the Chairperson of the Supervisory Board. Resolutions passed in this mode shall be submitted at the first coming meeting of the Supervisory Board with announcing the result of the voting.

The Supervisory Board, in accordance with the Articles of Association of the Company passes resolutions in a written mode or by using means of direct distance communication, i.e. tele- or videoconferences. Passing a resolution in such a mode requires a justification and a prior submitting of the draft of the resolution to all members of the Board.

Members of the Supervisory Board shall take part in meetings and perform their duties in person, and while performing their duties they are obliged to exercise due diligence. Members of the Supervisory Board are obliged to keep information connected with the Company activity which they have acquired in connection with holding their seat or at other occasion secret. The Supervisory Board performs its obligations jointly.

The Supervisory Board may, due to material reasons, delegate particular members to perform certain actions independently for a defined period of time. The Supervisory Board may delegate its members, for a period not longer than three months, to temporarily perform duties of the members of the Management Board who have been dismissed, submitted their resignation or if due to other reasons they cannot perform their functions. The aforementioned delegation requires obtaining permission from the member of the Supervisory Board who is to be delegated.

The detailed description of activities of the Supervisory Board in the previous financial year is contained in the Report on Activities of the Supervisory Board, submitted on annual basis to the General Meeting and then published on the Company website <http://www.tauron-pe.pl/>.

The Supervisory Board may appoint among its members permanent or temporary working groups or committees to perform particular actions. The permanent committees of the Supervisory Board include:

1. Audit Committee of the Supervisory Board of TAURON Polska Energia S.A. (Audit Committee),
2. Nominations and Remuneration Committee of the Supervisory Board of TAURON Polska Energia S.A. (Nominations and Remuneration Committee),
3. Strategy Committee of the Supervisory Board of TAURON Polska Energia S.A. (Strategy Committee).

Composition, tasks and rules of operation of the aforementioned committees are defined by regulations passed by the Supervisory Board.

5.11.3. Audit Committee

The Audit Committee was appointed on 13 May 2010 by the Supervisory Board among its members. At the time, the Audit Committee consisted of three Members. In 2012 the Audit Committee operated with three and four members.

Personal composition of the Audit Committee as of 01 January 2012

1. Michał Michalewski – Chairman of the Audit Committee,
2. Marek Ściążko – Member of the Audit Committee,
3. Jacek Szyke – Member of the Audit Committee.

Changes in the Audit Committee personal composition

In 2012 changes in the membership of the Audit Committee were introduced as a result of changes in the Supervisory Board of the Company as well as decision of the Supervisory Board concerning appointment of its members to perform functions in individual Committees of the Supervisory Board, including the Audit Committee.

Personal composition of the Audit Committee as of 31 December 2012 and on the day of this report

1. Marcin Majeranowski – Chairman of the Audit Committee,
2. Leszek Koziarowski – Member of the Audit Committee,
3. Jacek Kuciński – Member of the Audit Committee,
4. Jacek Szyke – Member of the Audit Committee.

Mode of operation

A detailed description of the Audit Committee operation is included in *Regulations of the Audit Committee of the Supervisory Board of TAURON Polska Energia S.A.*

The Audit Committee is an advisory and opinion-making body acting jointly as a part of the Supervisory Board and it performs a support and advisory function towards the Supervisory Board. The tasks of the Audit Committee are carried out by submitting motions, recommendations, opinions and statements on the scope of its tasks to the Supervisory Board, by means of resolutions passed by the Audit Committee. The Audit Committee is independent from the Company Management Board. The Management Board may not issue binding orders to the Audit Committee concerning performing its duties.

The Audit Committee consists of three to five members. The activities of the Audit Committee are managed by its Chairperson. Meetings of the Audit Committee are convened by the Chairperson of the Audit Committee on his/her own initiative or upon the motion of a member of the Audit Committee or Chairperson of the Supervisory Board.

Meetings of the Audit Committee take place as the need arises, but at least once every quarter. The Chairperson of the Audit Committee may invite members of the Supervisory Board, who are not members of the Audit Committee, members of the Management Board and employees of the Company as well as other persons working or cooperating with the Company, including the chartered auditor to the meetings of the Audit Committee. The Chairperson of the Audit Committee or a person appointed by him/her submits motions, recommendations and reports to the Supervisory Board. Report on the Audit Committee operations shall be submitted to the Supervisory Board at least once every six months.

The Audit Committee passes resolutions if at least half of its members were present at the meeting and all its members have been duly invited. The resolutions of the Audit Committee are adopted by an absolute majority of votes present at the meeting, where the absolute majority of votes is understood as more votes given "for" than "against" and "abstain". The Audit Committee may pass resolutions in writing or by using means of direct remote communication.

The Audit Committee may pass resolutions in writing or by using means of direct remote communication, i.e. tele- or videoconferences.

The Company Management Board shall be informed about recommendations and assessments submitted to the Supervisory Board by the Audit Committee. Every year, the Audit Committee provides public record information, through the Company, on the composition of the Audit Committee, number of meetings held and participation in the meetings during the year as well as on main activities. In particular, the Audit Committee confirms its positive assessment of the independence of financial audit process and submits a short description of steps taken to formulate such a motion.

The tasks of the Audit Committee cover:

- 1) monitoring of financial reporting process;
- 2) monitoring of the accuracy of financial information presented by the Company;
- 3) monitoring of the efficiency of internal control, internal audit and risk management systems existing in the Company;
- 4) monitoring of performing of financial revisions;
- 5) monitoring of independence and objectivity of chartered auditor and entity entitled to examine financial statements, including rendering by them services other than financial audit;
- 6) recommending of an entity entitled to examine financial statements to perform financial audit to the Supervisory Board.

In the financial year 2012, the Audit Committee was dealing, among others, with the following issues

- 1) monitoring and assessment of the efficiency of internal control, internal audit and risk management systems existing in the Company;
- 2) monitoring and assessment of independence of the financial revision process, including the objectivity of the chartered auditor examining unit financial statements of the Company and consolidated financial statements of TAURON Capital Group;
- 3) monitoring of financial reporting process;

- 4) analysis of reliability of financial information presented by the Company in *Financial statement of TAURON Polska Energia S.A. in compliance with the International Financial Reporting Standards for the financial year ended on 31 December 2011* and recommendation for the Supervisory Board concerning assessment of the said report in relation to its compliance with the ledgers and documents as well as with the state of affairs;
- 5) analysis of reliability of financial information presented by the Company in *Financial statement of TAURON Polska Energia S.A. in compliance with the International Financial Reporting Standards for the financial year ended on 31 December 2011* and recommendation for the Supervisory Board concerning assessment of the said report in relation to its compliance with the ledgers and documents as well as with the state of affairs;
- 6) analysis of reliability of financial information provided by the Company in the extended consolidated semi-annual report of TAURON Capital Group for the 1st half of 2012;
- 7) analysis of reliability of financial information provided by the Company in the extended consolidated quarterly reports of TAURON Capital Group for the 1st quarter of 2012 and the 3rd quarter of 2012;
- 8) development and submission of recommendations to the Supervisory Board, concerning the procedure for selecting the auditor for examination of the unit and consolidated financial statements of the Company for 2013–2015;
- 9) approval of terms of reference concerning the selection of the auditor for examination of the unit and consolidated financial statements of the Company and selected companies of TAURON Capital Group for 2013, 2014, 2015.

Detailed description of the activities of the Audit Committee in the previous financial year is contained in the Report on activities of the Audit Committee, constituting the attachment to the Report of the Supervisory Board, submitted on annual basis to the General Meeting and published at the Company website <http://www.tauron-pe.pl/>.

5.11.4. Nominations and Remuneration Committee

The Nominations and Remuneration Committee was established on 27 August 2010 by the Supervisory Committee from among its members. At that time, the Nominations and Remuneration Committee consisted of three Members. Since 30 May 2011, the Nominations and Remuneration Committee operated with four members and since 12 December 2012 it returned to three members composition.

Personal composition of the Nominations and Remuneration Committee as of 01 January 2012

1. Antoni Tajduś – Chairman of the Nominations and Remuneration Committee,
2. Włodzimierz Luty – Member of The Nominations and Remuneration Committee,
3. Jacek Kuciński – Member of The Nominations and Remuneration Committee,
4. Agnieszka Trzaskalska – Member of The Nominations and Remuneration Committee.

Changes in the personal composition of The Nominations and Remuneration Committee

Due to dismissal of Włodzimierz Luty from the Supervisory Board by the State Treasury acting pursuant to its personal powers arising from the Company Articles of Association, as of 12 December 2012 Mr Luty ceased acting as a member of the Nominations and Remuneration Committee.

Personal composition of the Nominations and Remuneration Committee as of 31 December 2012 and on the day of this report

1. Antoni Tajduś – Chairman of the Nominations and Remuneration Committee,
2. Jacek Kuciński – Member of The Nominations and Remuneration Committee,
3. Agnieszka Trzaskalska – Member of The Nominations and Remuneration Committee.

Mode of operation

A detailed description of the Nominations and Remuneration Committee operation is included in *Regulations of the Nominations and Remuneration Committee of the Supervisory Board of TAURON Polska Energia S.A.*

The Nominations and Remuneration Committee is an advisory and opinion-making body acting jointly as a part of the Supervisory Board structure and it performs a support and advisory function towards the Supervisory Board. The tasks of the Nominations and Remuneration Committee are carried out by submitting motions, recommendations, opinions and statements on the scope of its tasks to the Supervisory Board, by means of resolutions passed by the Nominations and Remuneration Committee. The Nominations and Remuneration Committee acts independently from the Management Board of the Company. The Management Board may not give binding orders to the Nominations and Remunerations Committee on performing its duties.

The composition of the Nominations and Remunerations Committee consists of three to five members, including at least one independent member of the Supervisory Board. Activities of the Nominations and Remunerations Committee are managed by the Chairperson.

Meetings of the Nominations and Remunerations Committee are convened by the Chairperson of the Nominations and Remunerations Committee on his/her own initiative or upon the motion of a member of the Nominations and Remunerations Committee or upon the motion of the Chairperson the Supervisory Board. Meetings of the Nominations and Remunerations Committee take place as the need arises. The Chairperson of the Nominations and Remunerations Committee may invite members of the Supervisory Board, who are not members of the Nominations and Remunerations Committee, members of the Management Board and employees of the Company as well as other persons working or cooperating with the Company, including the chartered auditor to the meetings of the Nominations and Remunerations Committee. The Chairperson of the Nominations and Remunerations Committee or a person appointed by him/her submits motions, recommendations and reports to the Supervisory Board.

The Nominations and Remunerations Committee passes resolutions, if at least half of its members have been present at the meeting and all its members have been duly invited. The resolutions of the Nominations and Remunerations Committee are adopted by an absolute majority of votes present at the meeting, where the absolute majority of votes is understood as more votes given "for" than "against" and "abstain". The Nominations and Remunerations Committee may pass resolutions in a written mode or by using means of direct remote communication.

The Nominations and Remunerations Committee may pass resolutions in writing or by using means of direct remote communication, i.e. tele- or videoconferences.

The Company Management Board shall be informed about recommendations and assessments submitted to the Supervisory Board by the Nominations and Remunerations Committee. Every year, the Nominations and Remunerations Committee provides public record information, through the Company, on the composition of the Nominations and Remunerations Committee, number of meetings held and participation in the meetings during the year as well as on main activities. The Nominations and Remunerations Committee submits to the Supervisory Board a report on its activities in a given financial year.

The tasks of the Nominations and Remunerations Committee include:

- 1) recommendations to the Supervisory Board on a recruitment procedure for the positions of members of the Company Management Board,
- 2) assessing candidates for members of the Management Board as well submitting an opinion in this scope to the Supervisory Board,
- 3) recommendations to the Supervisory Board on the form and contents of agreements concluded with members of the Management Board,
- 4) recommendations to the Supervisory Board on remuneration and bonus system of the members of the Management Board,
- 5) recommendations to the Supervisory Board on the need to suspend a member of the Management Board due to material reasons
- 6) recommendations to the Supervisory Board on the need to delegate a member of the Supervisory Board to temporarily perform the duties of members of the Management Board who cannot perform their duties together with a proposal of remuneration.

The Company Management Board provides the possibility to use the services of external advisers by the Nominations and Remuneration Committee in the scope required for performing the obligations of the Committee.

Detailed description of the activities of the Nominations and Remuneration Committee in the previous financial year is contained in the Report on activities of the Nominations and Remunerations Committee, constituting the attachment to the Report of the Supervisory Board, submitted on annual basis to the General Meeting and published at the Company website <http://www.tauron-pe.pl/>.

5.11.5. Strategy Committee

The Strategy Committee was appointed on 8 May 2012 by the Supervisory Board among its members. At the time, the Strategy Committee consisted of four Members. Since 29 October 2012, the Strategy Committee has five members.

Personal composition of the Strategy Committee as of 08 May 2012

1. Jacek Szyke – Member of the Strategy Committee
2. Marek Ściążko – Member of the Strategy Committee
3. Agnieszka Trzaskalska – Member of the Strategy Committee
4. Rafał Wardziński – Member of the Strategy Committee

At the first meeting of the Strategy Committee on 11 June 2012, Mr Jacek Szyke was appointed as the Chairman of the Strategy Committee.

Changes in the Strategy Committee personal composition

On 29 October 2012 the Supervisory Board appointed Jacek Kuciński as a member of the Strategy Committee.

Personal composition of the Strategy Committee as of 31 December 2012 and on the day of this report

1. Jacek Szyke – Chairman of the Strategy Committee
2. Jacek Kuciński – Member of the Strategy Committee
3. Marek Ściażko – Member of the Strategy Committee
4. Agnieszka Trzaskalska – Member of the Strategy Committee
5. Rafał Wardziński – Member of the Strategy Committee

Mode of operation

A detailed description of the Strategy Committee operation is included in *Regulations of the Strategy Committee of the Supervisory Board of TAURON Polska Energia S.A.*

The Strategy Committee is an advisory and opinion-making body acting jointly as a part of the Supervisory Board and it performs a support and advisory function towards the Supervisory Board. The tasks of the Strategy Committee are carried out by submitting motions, recommendations, opinions and statements on the scope of its tasks to the Supervisory Board, by means of resolutions passed by the Supervisory Committee. The Strategy Committee is independent from the Company Management Board. The Management Board may not issue binding orders to the Strategy Committee concerning performing its duties.

The Strategy Committee consists of three to five members, including at least one independent member of the Supervisory Board. The activities of the Strategy Committee are managed by its Chairperson.

Meetings of the Strategy Committee are convened by the Chairperson of the Strategy Committee on his/her own initiative or upon the motion of a member of the Strategy Committee or Chairperson of the Supervisory Board. Meetings of the Strategy Committee take place as the need arises. The Chairperson of the Strategy Committee may invite members of the Supervisory Board, who are not members of the Strategy Committee, members of the Management Board and employees of the Company as well as other persons working or cooperating with the Company, including the chartered auditor to the meetings of the Strategy Committee. The Chairperson of the Strategy Committee or a person appointed by him/her submits motions, recommendations and reports to the Supervisory Board.

The Strategy Committee passes resolutions if at least half of its members were present at the meeting and all its members have been duly invited. The resolutions of the Strategy Committee are adopted by an absolute majority of votes present at the meeting, where the absolute majority of votes is understood as more votes given “for” than “against” and “abstain”. The Strategy Committee may pass resolutions in writing or by using means of direct remote communication.

The Strategy Committee may pass resolutions in writing or by using means of direct remote communication, i.e. tele- or videoconferences.

The Company Management Board shall be informed about recommendations and assessments submitted to the Supervisory Board by the Strategy Committee. Every year, the Strategy Committee provides public record information, through the Company, on the composition of the Strategy Committee, number of meetings held and participation in the meetings during the year as well as on main activities. The Strategy Committee submits to the Supervisory Board a report on its activities in a given financial year.

The tasks of the Strategy Committee cover:

- 1) assessment of the strategy of the Company and the Capital Group and presenting its results to the Supervisory Board;
- 2) recommending the scope and terms of submitting the strategic multi-annual plans to the Supervisory Board;
- 3) assessment of impact of the planned and undertaken strategic investments on assets of the Company;
- 4) monitoring the implementation of the strategic investment tasks;
- 5) assessment of activities concerning availability of significant Company assets;
- 6) opinion on strategic documents submitted to the Supervisory Board by the Management Board.

The Company Management Board provides the possibility to use the services of external advisers by the Strategy Committee in the scope required for performing the obligations of the Committee.

Detailed description of the activities of the Strategy Committee in the previous financial year is contained in the Report on activities of the Strategy Committee, constituting the attachment to the Report of the Supervisory Board, submitted on annual basis to the General Meeting and published at the Company website <http://www.tauron-pe.pl/>.

5.12. Remuneration of key management and supervisory personnel

Remuneration of key management personnel

The total amount of remuneration understood as the value of salaries, awards and benefits received in cash, in kind or in any other form, disbursed by the Company to the Management Board Members for 2012 amounted to PLN 7,733 thousand. As the total amount

of remuneration paid or due and awards for 2012, the gross value of remuneration paid or due for the period from January to December 2012 is provided.

The model of remuneration of Board Members consists of two components for determining the remuneration, the fixed part (monthly basic salary) and the floating part, depending on fulfilment of specific target criteria (implementation of the task commissioned).

The members of the Management Board of the Company are not covered by the incentive or bonus programme based on the capital of the Company, neither do they receive any remuneration or awards due to performance in governing bodies of subsidiaries of TAURON Capital Group.

Table no. 43 Remuneration of members of the Management Board for 2012, divided into components (data in thousand PLN)

Surname and name	Period of holding the position in 2012	Remuneration*	Bonus*	Other benefits	Total
Lubera Dariusz	01.01.2012 – 31.12.2012	1,020	510	192	1,722
Schmid Joanna	01.01.2012 – 31.12.2012	900	450	138	1,488
Stolarczyk Dariusz	01.01.2012 – 31.12.2012	899	450	187	1,536
Zamasz Krzysztof	01.01.2012 – 31.12.2012	912	450	140	1,502
Zawadzki Krzysztof	01.01.2012 – 31.12.2012	900	450	135	1,485
Total		4,631	2,310	792	7,733

* No overheads.

Remuneration of key supervising personnel

The model of remuneration of the Supervisory Board members consists in single component, fixed part.

Remuneration of members of the Supervisory Board for 2012 is presented in the table below.

Table no. 44 Remuneration of members of the Supervisory Board for 2012 (data in thousand PLN)

Surname and name	Period of holding the position in 2012	Remuneration and awards	Other benefits	Total
Tajduś Antoni	01.01.2012 – 31.12.2012	144	0	144
Koziorowski Leszek	01.01.2012 – 31.12.2012	120	0	120
Kuciński Jacek	01.01.2012 – 31.12.2012	108	0	108
Luty Włodzimierz	01.01.2012 – 12.12.2012	103	0	103
Michalewski Michał	01.01.2012 – 11.01.2012	3	0	3
Szyke Jacek	01.01.2012 – 31.12.2012	108	0	108
Ściążko Marek	01.01.2012 – 31.12.2012	108	0	108
Trzaskalska Agnieszka	01.01.2012 – 31.12.2012	110	0	110
Wardziński Rafał	11.01.2012 – 31.12.2012	127	0	127
Majeranowski Marcin	12.12.2012 – 31.12.2012	6	0	6
Total		937	0	937

In 2012 Włodzimierz Luty, Member of the Supervisory Board received additional remuneration due to acting in the Supervisory Board of a company belonging to TAURON Capital Group, i.e. PEPKH, at the amount of PLN 35 thousand.

Other Members of the Supervisory Board of the Company did not receive remuneration or awards from companies of TAURON Capital Group in 2012 because they had not held any positions in supervisory boards or management boards of these companies.

5.13. Agreements concluded with managing persons which envisage compensation in case of their resignation or dismissal from the position held, without material reason, or if their dismissal or resignation is caused by merger of the Company through takeover

Between the Company and managing persons no agreements were concluded which envisage compensation in case of their resignation or dismissal from the position held, without material reason, or if their dismissal or resignation is caused by merger of the Company through takeover.

6. OTHER SIGNIFICANT INFORMATION AND EVENTS

6.1. Proceedings pending before the court, competent arbitration authority or public authority body

During the reporting period no proceedings were pending before any court, competent arbitration authority or public authority body, related to the Company or subsidiaries of TAURON Capital Group, whose single or aggregate value would exceed at least 10% of the equity of the Company.

Notwithstanding the foregoing, on 19 November 2012 the Regional Administrative Court in Gliwice issued its verdict concerning the application of TAURON of 9 February 2009 on adjudication surplus of the excise tax for 2008, according to which it has not acknowledged the appeal of TAURON Wytwarzanie and it has not adjudicated the surplus in excise tax on energy sales. The value of the subject of dispute is PLN 313,234,157. The Company informed of this event in the current report No. 39/2012 of 20 November 2012.

6.2. Important achievements in research and development

Comparing to the European or world competition, TAURON Capital Group is undoubtedly a very young group. However, the first years of its operations occur in the period which is very specific for the European, and particularly, the Polish energy sector. The need for urgent recovery of power in the electric power system on the one hand, and challenges resulting from the Climate Package, make TAURON Capital Group face a very difficult task. In order to tackle this challenge, it has become necessary to develop effective mechanisms of cooperation between TAURON Capital Group and universities as well as research and development centres. This cooperation has resulted in involvement of TAURON Capital Group in scientific and research projects, the results of which should assist TAURON Capital Group in preparing to the forthcoming challenges. Such activities are implemented not only at national level (e.g. participation in projects co-financed by the NCBiR) but also at international level (e.g. participation in activities of the Knowledge, and Innovation Community KIC InnoEnergy). Below, the most important achievements in the scope of research and development which occurred in 2012 are presented.

In the period covered by this report activities were carried out in connection with involvement of TAURON Capital Group in the projects implemented under the Knowledge, and Innovation Community KIC InnoEnergy, in particular, within the of the Polish node CC Poland Plus (one of six in the EU). The main area of interest of TAURON Capital Group covers the so-called clean coal technologies. At the same time, conducting research and coordination of activities in this area are the main activities of the company CC Poland Plus, TAURON is one of the shareholders of, simultaneously holding the status of Associated Partner of KIC InnoEnergy. Representatives of TAURON were involved in activities of the working group "Horizon 2020", operating under KIC InnoEnergy. TAURON Wytwarzanie, under the Project Arrangement concluded, participates in implementation of the project on "CoalGas".

In 2012 activities were also continued involving research tasks implemented under the programme of research and development entitled *Advanced Technologies of Acquisition of Energy*, co-financed by the National Research and Development Centre. TAURON, as the member of two consortia who won the project, participates in implementation of the first research task (*Development of technologies for highly efficient, "zero-emission" coal units integrated with capturing CO₂ from exhaust*) and the third research task (*Development of technology of coal gasifying for highly efficient production of fuels and electric energy generation*). TAURON Wytwarzanie is also involved in the project (in both above-mentioned tasks and the second task: *Development of oxygen combustion technologies for dust and fluidised bed boilers integrated with CO₂ capture*) as well as PKW (within the third task). In relation to implementation of the first task, activities are continued aimed at production of mobile pilot installation for CO₂ capturing as well as conducting of surveys in facilities belonging to TAURON Wytwarzanie. In 2012 the implementation plan was developed and an installation was produced.

Activities were also carried out, resulting from the HTRPL Consortium Agreement signed by TAURON: *High Temperature Nuclear Reactor in Poland*. The Research – Industrial Consortium was established in order to participate in the competition announced by the National Research and Development Centre (NCBiR) under the strategic research project *Technologies supporting the development of safe nuclear power industry*, within the scope of Research Task no. 1 entitled: *Development of high temperature reactors for industrial application*. The leader of the Consortium is the AGH University of Science and Technology (Akademia Górniczo-Hutnicza) in Kraków.

The offer for performing the research task was submitted to NCBiR, based on which NCBiR took decision on co-financing. Implementation of the research project by the Consortium started in September 2012. TAURON participates in the stage: *Analysis of experience of the energy operator in application of cogeneration systems, from the perspective of potential implementation of high temperature reactors technology*.

Companies of TAURON Capital Group participated independently in many research and development projects in 2012, aimed at the development of technology, abatement of environmental impact and increase of effectiveness. Among these projects the following are worth mentioning:

- 1) TAURON Wytwarzanie – besides its involvement in the projects co-financed by NCBiR or KIC InnoEnergy, the company participated in projects concerning, among others, coal fuel cells, selection of technology for construction of a unit in Elektrownia Łaziska, management of bottom ash from Elektrownia Łaziska, *Flexiburn CFB* project concerning oxygen combustion and *Biocoalboiler* project concerning biomass co-burning;

- 2) PKW – besides its involvement in the projects co-financed by NCBiR, the company conducted several dozen research and development projects concerning, i.a. effective management of mining waste, reduction of environmental impact of mining water;
- 3) TAURON Dystrybucja – the company participated in research and development projects concerning, i.a. preparation for implementation of the technology of intelligent grids and intelligent metering, development of technology related to microgeneration and dispersed sources, as well as improvements in grid management, increase of its reliability and effectiveness.

6.3. Issues concerning natural environment

The most important actions in the area of environmental protection

The most important actions in the area of environmental protection conducted in TAURON Capital Group in 2012 included:

- 1) construction of the flue gas denitrification installation at 200 MW units in Elektrownia Łaziska and Elektrownia Jaworzno III: installations at unit no 12 in Elektrownia Łaziska and unit no 2 in Elektrownia Jaworzno III, works are continued for other units,
- 2) construction of the generation unit RES 50 MW in Elektrownia Jaworzno III – Elektrownia II: the unit was commissioned, concession procedure is in progress,
- 3) systematic equipment of consecutive HV/MV stations, belonging to TAURON Dystrybucja, with sealed oil sumps and systems for discharge and treatment of rainfall and melting water; supplementary equipment was also provided for the existing separators of petroleum derivatives, with the system of remote monitoring of oil level,
- 4) construction of installations for production of mixtures of aggregate and ash and enrichment of aggregate produced in the processing plant of PKW – Janina Mining Plant.

Companies of TAURON Capital Group conduct the responsible environmental protection policy and apply due diligence to ensure that the implemented investments are compliant with the requirements and consider the technological developments in the area of environmental protection.

Fees for economic use of the natural environment

In 2012 Companies of TAURON Capital Group incurred costs of fees due to economic use of the environment at the total amount of PLN 53,806 thousand.

The level of fees due to economic use of the environment paid in 2012 by individual companies is presented in the table below.

Table no. 45 The level of fees due to economic use of the environment paid in 2012 by individual companies is presented in the table below

No.	Company enterprise	Fees due to economic use of the environment in 2012 (in thousand PLN)
1.	TAURON Wytwarzanie	42,000
2.	PKW	6,755
3.	TAURON Dystrybucja	125
4.	TAURON Ciepło	4,858
5.	KW Czatkowice	67
6.	TAURON EKOENERGIA	1
Total		53,806

Penal sanctions for infringement of requirements in the area of environmental protection

Companies of TAURON Capital Group covered by this report did not incur any sanctions in 2012 due to infringement of the requirements in the area of environmental protection.

6.4. Policy on Corporate Social Responsibility (CSR)

Since 2009 in the Company, functional strategy of public relations and communication operates, the key element of which is focused on social responsibility of business (CSR).

Within the functional public relations strategy, the image of TAURON brand is built around four values: safety, care for local communities, sustainable development and ecology. In 2011, in acknowledgement that communication of CSR actions is particularly important in case of companies listed at stock exchange, for which the image of socially responsible company is essential to attract investors and, simultaneously, to increase the value of the company, within Corporate Strategy, the need to develop and implement the CSR strategy,

within integration of PR function, at the level of the Company and TAURON Capital Group. Accordingly, in 2012 the *Strategy of Corporate Social Responsibility, i.e. the Strategy of Sustainable Development of TAURON Group for 2012–2015, with estimates up to the year 2020* was developed. The strategic objectives set both by the aforementioned functional public relations strategy and the corporate strategy, as well as strategies of business areas, provided basis for provisions of this document. The Strategy of sustainable development indicates two leading directions: ensuring the energy safety and client orientation, as well as three supporting directions: involvement of employees in organisation development, environmental protection in the value chain and management of economic and social impacts. All key companies of TAURON Capital Group have been engaged in implementation of the strategy of sustainable development, appointing coordinators within their structures, to be responsible for supervising the implementation of the strategy and reporting of results to the corporate centre. In TAURON the coordinator for sustainable development was appointed, responsible, among others, for preparation of CSR reports.

The strategy of sustainable development is directly related to all areas of activities of TAURON Capital Group, consolidating both the approach to CSR and the methodology of assessment of actions undertaken based on the indicators of the Global Reporting Initiative. In the aforementioned strategy, rules for informing the stakeholders on the activities and their effects have been also specified. One of the directions of the strategy of sustainable development is the management of the economic and social effects. The objectives resulting from this direction are implemented, among others, through the activities of TAURON Foundation. The Foundation is to allow for even more effective implementation of CSR objectives within the area of care for safety of local communities and actions for public benefit.

In 2012 TAURON Foundation and the Company implemented, based on the employee voluntary programme, the next edition of the action “Houses of Positive Energy” addressed to 24-hours custody and caretaking facilities. As in 2011, the action covered all the facilities within the area of operations of TAURON Capital Group. The main objective of this action is the improvement of the living conditions of children from orphanages. The project attracted substantial interest, with 73 orphanages looking after 2664 children participating.

On 2012 TAURON Foundation also implemented its first project addressed directly to employees – “Heroes day by day”, based on the employee voluntary programme. The aim of the project was to encourage employees to join the base of potential donors of bone marrow during the company Donor Day. As a result of the educational action, approximately 30% of Company employees joined the base, the project will be also continued in other companies of TAURON Group.

The mechanism of employees’ voluntary activities, involving the employees, allows for creation of the structure of representatives of TAURON Foundation working pro bono for the benefit of implementation of TAURON Foundation goals and for integration of employees around the common idea.

TAURON Capital Group, acting in the area of southern Poland, has a leading position in energy sales and generation. These conditions cause that the scope of actions conducted for the benefit of the communities in which companies of TAURON Capital Group operate, is very broad. Many projects are supported which are important for inhabitants of the regions of Upper and Lower Silesia, Opolskie, Małopolska and Podkarpacie Regions. One of the priorities is the sponsoring of sport, culture and ecology. Companies of TAURON Capital Group engage in many projects in favour of important ideas.

The Company is the signatory of the declaration signed on 17 June 2009 during the national conference of the cycle “Responsible Energy”, covering the principles of sustainable development in energy sector in Poland. The objective of the document is to implement the principles of sustainable development in the sector, to guarantee the development of environmental protection and broadly understood social development.

The Company also cooperates with the Mountain Voluntary Emergency Service (GOPR), the goal of which is to increase safety in the mountains. The Company is the strategic partner of the project, actively participating both in the summer and winter edition of the project.

Projects implemented in companies of TAURON Capital Group in 2012 are also worth mentioning. TAURON Ciepło conducted the social campaign “Low emission – high risk”, aimed at educating the inhabitants of Silesia concerning the effects of low emission and encouraging them to change the system of household heating. The campaign was awarded with the ‘Golden Fastener of Polish PR’ and it was mentioned by the Forum of Socially Responsible Business in the Report “Responsible business in Poland 2012. Good Practices”. In the same document another initiative of TAURON Sprzedaż was mentioned – the campaign “TAURON Fuses”, which was aimed at raising awareness of clients in the area of operations of electricity markets and protection against unfair practices. The campaign was mainly addressed to the elderly and included broad information a scientific conference.

6.5. Awards and distinctions

January, 2012

The Company won the 2nd place in the ranking of the most popular listed companies in 2011, published by the financial portal Bankier.pl. A year ago the company also won the 2nd place in this ranking.

April, 2012

The Company was ranked 7th on the List of 500 prepared by "Rzeczpospolita" daily advancing by three positions in relation to the previous year, and it was ranked 6th in the ranking of 500 by "Polityka" weekly, four places higher than in the previous edition of the ranking.

The Innovation Centre of the Regional Club of Technology and Rationalisation in Katowice announced the winners of the competition Leader of Innovation 2012. One of the leaders was PKW company, awarded for solutions in the scope of waste free production.

May, 2012

TAURON Obsługa Klienta GZE was awarded with the title Reliable Outsourcer 2011. The award was the effect of a plebiscite conducted by the trade media. Jury of the plebiscite appreciated the results of multimedia customer service using the Contact Centre, provided in the scope of electricity trading and distribution. The business effects and high quality of service provided to end clients were also essential.

TAURON EKOENERGIA was the winner in the category "The best Lower Silesian company cooperating with the local community and the NGOs". The Lower Silesian Key to Success awarded annually since 1997 is the most important local distinction, appreciated by the economic, cultural and self-governing communities of the region.

June, 2012

The Jury of the 11th edition of the Competition "Ekolaury" of the Polish Chamber of Ecology, granted the award to TAURON Wytwarzanie in the category "Noise protection". The award was granted to Elektrownia Siersza for the project aimed at capturing emission of environmental noise from sources located in the plant.

September, 2012

The Company advanced from the 23rd to the 18th position of the List of 500 biggest companies of Central and Eastern Europe prepared by "Rzeczpospolita" and the consulting company Deloitte. In the list of 500 biggest energy and raw material companies of Central and Eastern Europe, accompanying the ranking, Top 20, the Company took the 13th position. It was also selected as the 23rd biggest listed company (Top 25).

October, 2012

The Company was awarded in the competition "The Best Annual Report 2011" for the way of describing the corporate strategy of the Company in 2011 in the annual report, and presentation of strategic plans of the Company for the nearest years.

TAURON Wytwarzanie was awarded in the 11th National Competition Leader of Innovation, organised by the Innovation Centre of the Regional Club of Technology and Rationalisation in Katowice. The award was granted for the solution "System of regulation and optimisation of real time performance of cooling systems in condensation power plants and co-generation plants".

November, 2012

The Social Campaign "Low emission – high risk", organised by TAURON Ciepło was awarded with 'Golden Fastener' – one of the most prestigious awards in the Polish public relations. The project was awarded in the category "Industry, Transport, Logistics".

6.6. Investor relations

Since the beginning of its stock exchange listing, the Company pays particular attention to the quality of the implemented communication and information strategy. Communication with investors' environment is implemented with the use of obligatory activities, i.e. by communication of publicly available current and periodical reports as well as through participation in numerous investors' conferences, road shows as well as meetings with analysts and fund managers during which the data and information is discussed, concerning the situation of TAURON Capital Group and the national energy sector.

Publication of periodical reports of the Company was combined with organisation of four conferences for analysts and managers, during which members of the Management Board discussed financial results published in the reports and presented key achievements in the reported periods. The conferences were broadcast on Internet in Polish and in English and it was possible to listen to them by phone. Directly after the presentations the Management Board was traditionally available for investors and analysts, answering many questions comprehensively.

In 2012 the Members of the Management Board of the Company participated in eleven conferences and road shows during which about 100 meetings were held with over 130 managers and analysts. Meetings with corporate investors were held in main financial centres of Europe and North America, Asia and Australia among others, in New York, London, Singapore and Sydney. In 2012 the Company also continued its actions addressed to other, extremely important group of shareholders – individual investors. TAURON is the strategic partner of the programme initiated by the Ministry of Treasury, under the name "Civic Shareholding". The objective of the Programme is to encourage the Poles to active and aware participation in economic life of the country, through active saving and investing in shares

of privatised companies and stock exchange instruments. Under the programme “Civic Shareholding”, representatives of the Company participated in several dozen meetings with individual investors all over Poland, within which they delivered presentations and answered investors’ questions concerning investors’ relations, investing and operations of TAURON Capital Group. The initiative of the “Civic Shareholding” was also promoted during conferences and events in which the Company participated. Support was also implemented through distribution of leaflets on the Programme in Customer Services Points of the Company and through the image building and advertising actions on the corporate website and in the publication of TAURON Capital Group the “Polish Energy” magazine. The successful continuation of actions addressed to the environment of individual investors was the Day of Individual Investor organised by the Company in September 2012. On that day the invited participants had the opportunity to learn more details about the activities of TAURON Capital Group, the selected generation and distribution assets; they also attended the presentation session and the meeting with representatives of the Management Board. It was the first initiative of that kind organised by a company listed in WIG20 index. The event was organised in cooperation with the Association of Individual Investors. The Company also participated in other initiatives of the Association – it attended the educational meeting for individual investors in Katowice and supported, as a partner, the conference for individual investors “WallStreet” in Zakopane.

The useful tool for communication with investors is the Company website, within which the constantly updated section “investor relations” operates, containing, among others, information of the structure of shareholders, financial results, dividend policy, general meetings, analysts providing recommendations concerning the Company shares as well as video broadcasts of conferences summarising the financial results.

Management Board of the Company

Katowice, 12 March 2013

Dariusz Lubera – President of the Board

Joanna Schmid – Vice-President of the Board

Dariusz Stolarczyk – Vice-President of the Board

Krzysztof Zawadzki – Vice-President of the Board

Annex A: Glossary of terms and list of abbreviations

Below the glossary of trade terms and list of abbreviations most commonly used in this report, is presented.

Table no. 46 Explanation of abbreviations and trade terms applied in the text of the report

Abbreviation and trade term	Full name/explanation
“TAURON Group”	TAURON Group established by the Management of the Company pursuant to the Code, comprising the Company and selected companies of TAURON Capital Group
ARE	Agency of Energy Market (Agencja Rynku Energii S.A.) with the seat in
BELS INVESTMENT	BELS INVESTMENT sp. z o.o. with the seat in Jelenia Góra
CAO	Central Allocation Office GmbH with the seat in Freising, Germany
Cash pooling	Cash pooling operating in the Company – consolidation of balances of bank accounts through physical cross-posting of cash from accounts of TAURON Capital Group in the bank in which cash pooling operates to the bank account of Pool Leader whose function is fulfilled by the Company. At the end of each working day, from cash is cross-posted from the bank accounts of companies of TAURON Capital Group which show positive balance to the bank account of Pool Leader. At the beginning of each working day, bank accounts of companies of TAURON Capital Group are credited from the bank account of the Pool Leader with the amount demanded to maintain cash flow of the company of TAURON Capital Group on a given working day.
CC Poland Plus	CC Poland Plus sp. z o.o. with the seat in Kraków
CER	(ang. Certified Emission Reduction) – a unit of confirmed emission reduction – reduced emission of greenhouse gases or avoided emission of greenhouse gases, expressed as equivalent, obtained as a result of the project on mechanism of clean development
Coloured certificates	Proprietary rights resulting from certificates of origin of energy generated in the way subject to support, the so-called coloured certificates: – green – certificates of origin of electric energy from renewable energy sources, – red – certificates of origin of electric energy from co-generation (CHP certificates Combined Heat and Power), – yellow – certificates of origin of electric energy generated in co-generation from sources of total installed capacity below 1 MW or gas-burning, – violet – certificates of origin of electric energy generated in co-generation, burning methane released and captured during underground mining works in active, under liquidation or liquidated hard coal mines, or burning gas acquired from biomass processing, – white – certificates confirming gaining of energy savings within the meaning of the Act of energy effectiveness, – brown – certificates confirming forcing agricultural biogas to the network.
CSR	Corporate Social Responsibility) social responsibility of business
Good Practices	Good Practices of Companies Listed at GPW
EBIT	(Earnings Before Interest and Taxes) result on operating activity before taxing
EBITDA	(Earnings before Interest, Taxes, Depreciation, and Amortization) result on operating activity before taxing, increased by amortization and depreciation
EC Kamienna Góra	Energetyka Ciepna w Kamiennej Górze sp. z o.o. with the seat in Kamienna Góra (currently: TAURON Ciepło)
EC Nowa	Elektrociepłownia EC Nowa sp. z o.o. with the seat in Dąbrowa Górnicza (currently: TAURON Ciepło)
EC Stalowa Wola	Elektrociepłownia Stalowa Wola S.A. with the seat in Stalowa Wola
EC Tychy	Elektrociepłownia Tychy S.A. with the seat in Tychy (currently: TAURON Ciepło)
EDF	EDF Polska Centrala sp. z o.o. with the seat in Warsaw
EEX	European Energy Exchange – EEX
Elektrownia Blachownia Nowa	Elektrownia Blachownia Nowa sp. z o.o. with its seat in Kędzierzyn Koźle
ENEA	ENEA S.A. with the seat in Poznań
ENERGA	ENERGA S.A. with the seat in Gdańsk
EnergiaPro S.A.	EnergiaPro S.A. with the seat in Wrocław (currently: TAURON Dystrybucja)
ENION S.A.	ENION S.A. with the seat in Kraków (currently: TAURON Dystrybucja)
ERM	Complex System of Risk Management

Abbreviation and trade term	Full name/explanation
ERU	Emission Reduction Unit – unit of emission reduction – reduced emission of greenhouse gases or avoided emission of greenhouse gases, expressed as equivalent, or one mega gram (1 Mg) of absorbed carbon dioxide (CO ₂), obtained as a result of the execution of the joint implementation project
ESW	Elektrownia Stalowa Wola S.A. with its seat in Stalowa Wola (currently: TAURON Wytwarzanie)
EU ETS	European Union Emission Trading System
EUA	European Union Allowances – authorisation to introduce the equivalent to the air, within the meaning of art. 2 item 4 of the Act of 17 July 2009 on the system of management of emissions of greenhouse gases and other substances, carbon dioxide (CO ₂), which is used for settlements of emission size within the system, which can be managed based on principles specified in the Act of 28 April 2011 on the system of greenhouse gases emission allowances trading (Journal of Laws No. 122, item 695)
GDF SUEZ	GDF SUEZ Energia Polska S.A. with its seat in Połaniec
GPW	Warsaw Stock Exchange (Giełda Papierów Wartościowych w Warszawie S.A.) with the seat in Warsaw
Grupa Kapitałowa TAURON	Grupa Kapitałowa TAURON Polska Energia S.A. – TAURON Capital Group
GUS	Central Statistical Office
GZE	Górnośląski Zakład Elektroenergetyczny S.A. with the seat in Gliwice
IRGIT	Izba Rozliczeniowa Giełd Towarowych S.A. (Warsaw Commodity Exchange Clearing House) with the seat in Warsaw
IRiESP	Instructions of transmission grid operation and maintenance
KDT	Long-term contracts – long-term contracts on sales of power and electric energy, listed in the Appendix no. 1 to the Act of 29 June 2007 on principles of covering of the costs incurred by producers due to the premature termination of long-term contracts for sales of power and electric energy (Journal of Laws No. 130, item 905, as amended)
KGHM	KGHM Polska Miedź S.A. with the seat in Lubin
Code	The document entitled Code of TAURON Group, adopted by the Management Board of TAURON Polska Energia S.A.
Audit Committee	Audit Committee of the Supervisory Board of TAURON Polska Energia S.A.
Nominations and Remuneration Committee	Nominations and Remuneration Committee of the Supervisory Board of TAURON Polska Energia S.A.
Strategy Committee	Strategy Committee of the Supervisory Board of TAURON Polska Energia S.A.
Kompania Węglowa	Kompania Węglowa S.A. with the seat in Katowice
KSE	National Power System
KW Czatkowice	Kopalnia Wapienia Czatkowice sp. z o.o. with the seat in Krzeszowice
Lipniki	Lipniki sp. z o.o. with the seat in Wrocław
MEGAWAT MARSZEWO	MEGAWAT MARSZEWO sp. z o.o. with the seat in Jelenia Góra
Mg	Megagram – million gram (1000000 g) i.e. 1 ton
IFRS	IFRS International Financial Reporting Standards
NCBiR	National Centre of Research and Development
NFOŚiGW	National Fund of Environmental Protection and Water Management with the seat in Warsaw
Business Area	Area of operations of subsidiaries included in TAURON Group, determined by the Company, constituting the business segment of TAURON Group
Management Area	Management Area indicated in the List of Management Areas, i.e. the document issued by the Management Board of the Company, pursuant to the Code, established based on Corporate Strategy and included in the business model of TAURON Group
DSO	Distribution System Operator
TSO	Transmission System Operator
OTC	over the counter market
RES	Renewable Energy Sources
PEPKH	Polska Energia – Pierwsza Kompania Handlowa sp. z o.o. with the seat in Katowice
PGE	PGE Polska Grupa Energetyczna S.A. z siedzibą w Warszawie

Abbreviation and trade term	Full name/explanation
PGK	Tax Capital Group
PGNiG	Polskie Górnictwo Naftowe i Gazownictwo S.A. with the seat in Warsaw
PKE Broker	PKE Broker sp. z o.o. with the seat in Katowice,
GDP	Gross Domestic Product
PKW	Południowy Koncern Węglowy S.A. with the seat in Jaworzno
PMEC	Property rights for certificates of origin confirming generation of electricity in other co-generation sources
PMOZE	Property rights for certificates of origin confirming generation of electricity in RES in the period until 28 February 2009
PSE	Polskie Sieci Elektroenergetyczne S.A. with the seat in Konstancin-Jeziorna (until 10 January 2013 – Polskie Sieci Elektroenergetyczne Operator S.A.)
Organisational Regulations/ Bylaws	Document entitled Organisational Regulations of TAURON Polska Energia S.A.
ROIC	Return On Invested Capital
RUS	Regulatory System Services – services provided by entities in favour of transmission system operator, required for adequate functioning of the National Power System, providing for maintenance of determined values of reliability and qualitative parameters
SPOT (SPOT market)	In relation to electric energy, it is the place of concluding of trade transactions for electric energy, for which the period of delivery falls at the latest, three days after the date of transaction (usually one day before the date of delivery). Operating of SPOT market for electric energy is strongly related to operating of the Balancing Market provided by the Operator of Transmission Grid
Company	TAURON Polska Energia S.A. with its seat in Katowice
Corporate Strategy	The document entitled Corporate Strategy of TAURON Group for 2011–2015 with estimates until the year 2020, being the update of the document Corporate Strategy of TAURON TAURON Polska Energia S.A. Capital Group for 2008–2012 with estimates until the year 202
TAURON Ciepło	TAURON Ciepło S.A. with its seat in Katowice
TAURON Czech Energy	TAURON Czech Energy s.r.o. with its seat in Ostrava, Czech Republic
TAURON Dystrybucja	TAURON Dystrybucja S.A. with its seat in Kraków
TAURON Dystrybucja GZE	TAURON Dystrybucja GZE S.A. with its seat in Gliwice, acquired by TAURON Dystrybucja S.A.
TAURON EKOENERGIA	TAURON EKOENERGIA sp. z o.o. with its seat in Jelenia Góra
TAURON Ekoenergia GZE	TAURON EKOENERGIA GZE sp. z o.o. with the seat in Gliwice (formerly: Vattenfall Wolin-North sp. z o.o.) acquired by TAURON EKOENERGIA sp. z o.o.
TAURON Obsługa Klienta	TAURON Obsługa Klienta sp. z o.o. with the seat in Wrocław
TAURON Obsługa Klienta GZE	TAURON Obsługa Klienta GZE sp. z o.o. with the seat in Gliwice (formerly: Vattenfall Business Services Poland sp. z o.o.) acquired by TAURON Obsługa Klienta sp. z o.o.
TAURON Serwis GZE	TAURON Serwis GZE sp. z o.o. with the seat in Gliwice (formerly: Vattenfall Network Services Poland sp. z o.o.)
TAURON Sprzedaż	TAURON Sprzedaż sp. z o.o. with the seat in Kraków
TAURON Sprzedaż GZE	TAURON Sprzedaż GZE sp. z o.o. with the seat in Gliwice (formerly: Vattenfall Sales Poland sp. z o.o.)
TAURON Wytwarzanie	TAURON Wytwarzanie S.A. with the seat in Katowice
TAURON Wytwarzanie GZE	TAURON Wytwarzanie GZE sp. z o.o. with the seat in Gliwice (formerly: Vattenfall Generation Poland sp. z o.o.)
TGE	Towarowa Giełda Energii S.A. (Polish Power Exchange) with the seat in Warsaw
TPA	Third-party Access – the principle based on the owner or operator making available the grid infrastructure to the third parties in order to supply goods/services to clients of the third party (it may refer to transmission or sales of electric energy, telecommunication services or railway services)
EU	the European Union
UOKiK	Office for Competition and Consumer Protection (Urząd Ochrony Konkurencji i Konsumentów)
ERO	Energy Regulatory Office (Urząd Regulacji Energetyki)
WZ/ZW	General Meeting/Shareholders' Meeting
ZEC w Bielsku-Białej	Zespół Elektrociepłowni Bielsko-Biała

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