



Consolidated annual report of
TAURON Polska Energia S.A.
Capital Group
for the year 2012

15 March 2013

Letter of the President of the Management Board of TAURON Polska Energia S.A.

Ladies and Gentlemen,

I am pleased to present to you the Annual Report of TAURON Group. The document summarises the interesting and full of challenges year 2012. It was undoubtedly a demanding time for the Polish economy – the results of the recession which affected almost the entire European Union reached also Poland and we could observe a slower growth of the National Gross Product than in previous years. The financial results of TAURON Group for the year 2012 are thus the more notable. In spite of worse macroeconomic situation the Group resisted the unfavourable trends and reached a record-breaking level of results.

In 2012 TAURON Group recorded the total sales revenue at the level of more than PLN 24.7 billion, meaning a growth by approx. 19% in comparison to the previous year. The operating result amounted to approx. PLN 2.2 billion and was improved by nearly 31% in comparison to the year 2011. The net profit increased in the previous year by nearly 22% to more than PLN 1.5 billion.

The better results are a consequence of the increases which we recorded in most business areas. In 2012 the mines of TAURON Group produced almost 5.6 million tons of commercial coal which constitutes a growth by 22% in comparison to the previous year. In the said period the power and CHP plants of the Group generated 19.11 TWh net of electric energy. We recorded a significant growth of over 25% in the Distribution area: we delivered the total of 47.85 TWh of energy to over 5.3 million clients. Also the sales of electric energy grew quickly in the said period and amounted to 44.74 TWh.

Our shareholders had their reasons to be satisfied too, as they decided to designate PLN 543 million for payment of dividend in 2012.

The good financial and operational situation of TAURON Group is a consequence of operations related to implementation of the corporate strategy. Last year was marked primarily by integration of assets acquired from Vattenfall AB in December 2011. The aim of that undertaking was to simplify the Group's structure, among others through merging companies conducting the same or similar activity within the business chain. In effect, at the beginning of October 2012 TAURON Dystrybucja GZE serving 1.1 million clients in the area of Upper Silesia was incorporated into TAURON Dystrybucja. Merging distribution companies will contribute to the growth of efficiency and improvement of the quality of rendered services. Another example of simplifying the Group's structure was incorporating TAURON Ekoenergia GZE into TAURON Ekoenergia, a company dealing with generation of electric energy from RES. The consequence of the merger within the structure of TAURON Ekoenergia was including the 30 MW wind farm Zagórze into our assets, next to the 30.75 MW wind farm in Lipniki we acquired in 2011. The process of Heat area creation entailed the merger of TAURON Ciepło with the following companies: Elektrociepłownia Tychy, Elektrociepłownia EC Nowa and Energetyka Ciepła in Kamienna Góra.

Last year was a year of consistent implementation of the CAPEX program. The investment outlays in that period amounted to approx. PLN 3.5 billion and were higher by 40% than in the year 2011. The main goal of the investments is putting new cost-efficient generation capacities into operation as well as modernising the existing distribution and generation assets. The most important projects include the construction of Poland's biggest gas-fired CHP plant in Stalowa Wola, built together with PGNiG. The 450 MW unit constructed there will be the first considerable gas unit of the Group. In September 2012 TAURON and KGHM created an SPV under the name Elektrownia Blachownia Nowa responsible for comprehensive implementation of an approx. 850 MW combined cycle gas and steam unit at the premises of Elektrownia Blachownia power plant. The second gas-fired unit in the Group is to be put into operation in 2017. Moreover, last year we commenced the construction of two wind farms: Marszewo (82 MW) and Wicko (40 MW). Apart from the above-mentioned projects under construction, in 2012 we put into operation three biomass-fired units: a 50 MW unit in Elektrownia Jaworzno III, a 40 MW unit in Tychy and a 20 MW unit in Stalowa Wola.

We are also implementing projects related to diversification of fuels used in the electric energy production process. Last year we signed an agreement on exploration and extraction of shale gas with four partners: PGNiG, KGHM Polska Miedź, PGE and ENEA. Our participation in that enterprise is a result of our strategy – as TAURON will be a significant consumer of gas in a few years, using nearly 2 billions of cubic metres of this fuel yearly, we consider the involvement in its exploration

and extraction reasonable and important. Our experience shows that having access to own resources is a considerable edge which translates into the growth of the Company's value.

Another important project is the Letter of Intent signed at the beginning of September with PGE, KGHM Polska Miedź and ENEA concerning the construction and operation of Poland's first nuclear power plant. This is yet another element of the implementation of TAURON Group's corporate strategy as well as of the diversification of fuels used in the energy production process.

An inherent part of the investment policy is securing sufficient funds for its implementation. In 2012 we signed an agreement with a consortium of banks, under which the value of the Company's bond program has been increased by PLN 2.75 billion. At the same time, I would like to emphasise that we maintain a conservative approach to the increase of debt level and we care for a safe relation between the liabilities incurred and profits earned.

While implementing the investments aimed at efficiency improvement, we do not forget about a strict costs control. Last year we successfully completed the first operational costs reduction program. The program allowed us to save a billion PLN in the years 2010–2012, just as we had assumed. The continuation of works on the operational efficiency improvement in 2013 is visible in the implementation of another project which in 2013–2015 should bring nearly PLN 900 million of accrued savings.

In the end I would like to refer to the prospects for the year 2013 which brings numerous challenges for the Polish energy market: lower electric energy prices, unfinished works on regulations concerning the planned support for RES, concerns about further direction of the EU climate policy or the risk of further economic slowdown. However, I would like to assure you that in spite of difficult market conditions in which TAURON Group operates we undertake complex actions allowing us to minimize the negative influence of the said factors.

On behalf of the Management Board I would like to thank our Shareholders, Clients and Employees for their involvement in the development and creation of the market position of TAURON Polska Energia. I believe that through consistent strategy we will systematically increase the value of TAURON Group.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'D. Lubera', with a stylized flourish extending to the right.

Dariusz Lubera

President of the Management Board
TAURON Polska Energia S.A.

Selected consolidated financial information of TAURON Polska Energia S.A. Capital Group

Selected figures	in thousands PLN		in thousands EUR	
	2012 period from 01.01.2012 to 31.12.2012	2011 period from 01.01.2011 to 31.12.2011 (adjusted figures)	2012 period from 01.01.2012 to 31.12.2012	2011 period from 01.01.2011 to 31.12.2011 (adjusted figures)
Sales revenue	24 741 257	20 755 222	5 928 037	5 013 218
Operating profit	2 153 401	1 645 504	515 958	397 455
Profit before tax	1 935 849	1 599 951	463 832	386 452
Net profit	1 541 299	1 266 934	369 298	306 015
Net profit attributable to shareholders of the parent company	1 466 802	1 245 116	351 448	300 745
Net profit attributable to non-controlling interests	74 497	21 818	17 850	5 270
Other comprehensive income	(333 594)	30 449	(79 930)	7 355
Total comprehensive income	1 207 705	1 297 383	289 368	313 370
Total comprehensive income attributable to shareholders of the parent company	1 148 027	1 273 637	275 069	307 634
Total comprehensive income attributable to non-controlling interests	59 678	23 746	14 299	5 736
Earnings per share (in PLN/EUR) (basic and diluted)	0,84	0,71	0,20	0,17
Weighted average number of shares (pcs.) (basic and diluted)	1 752 549 394	1 752 549 394	1 752 549 394	1 752 549 394
Cash flows from operating activities	3 520 329	2 208 926	843 475	533 544
Cash flows from investing activities	(3 282 929)	(5 689 534)	(786 594)	(1 374 250)
Cash flows from financing activities	148 438	2 514 764	35 566	607 416
Net increase (decrease) in cash and cash equivalents	385 838	(965 844)	92 447	(233 290)
	As of 31.12.2012	As of 31.12.2011 (adjusted figures)	As of 31.12.2012	As of 31.12.2011 (adjusted figures)
Non-current assets	25 471 230	23 416 777	6 230 427	5 301 752
Current assets	5 766 232	5 101 268	1 410 457	1 154 969
Non-current assets classified as held for sale	36 215	8 951	8 858	2 027
Total assets	31 273 677	28 526 996	7 649 742	6 458 748
Issued capital	8 762 747	8 762 747	2 143 424	1 983 958
Equity attributable to shareholders of the parent company	16 235 110	15 632 321	3 971 212	3 539 287
Equity attributable to non-controlling interests	493 123	454 897	120 621	102 992
Total equity	16 728 233	16 087 218	4 091 833	3 642 279
Long-term liabilities	9 148 067	7 597 081	2 237 676	1 720 042
Short-term liabilities	5 397 377	4 842 697	1 320 233	1 096 427
Total liabilities	14 545 444	12 439 778	3 557 909	2 816 469

The aforementioned financial information for the years 2012 and 2011 has been converted into EUR in accordance with the following rules:

- particular items in the statement of financial standing – in accordance with the average NBP exchange rate announced as of 31 December 2012 – 4.0882 PLN/EUR (as of 31 December 2011 – 4.4168 PLN/EUR)
- particular items in the statement of comprehensive income and statement of cash flows – in accordance with the exchange rate which constitutes an arithmetic average of average NBP exchange rates announced on the last day of each month of the financial period from 1 January 2012 to 31 December 2012 – 4.1736 PLN/EUR (for the financial year started 1 January 2011 and ended 31 December 2011 – 4.1401 PLN/EUR).



TAURON POLSKA ENERGIA S.A. CAPITAL GROUP

**CONSOLIDATED FINANCIAL STATEMENTS
PREPARED ACCORDING TO THE INTERNATIONAL FINANCIAL
REPORTING STANDARDS
FOR THE YEAR ENDED 31 DECEMBER 2012**

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CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Year ended 31 December 2012	Year ended 31 December 2011 <i>(restated figures)</i>
Continuing operations			
Sale of goods for resale, finished goods and materials without elimination of excise		19 025 982	16 282 481
Excise		(518 561)	(393 757)
Sale of goods for resale, finished goods and materials		18 507 421	15 888 724
Rendering of services		6 186 627	4 825 806
Other income		47 209	40 692
Sales revenue	12.1	24 741 257	20 755 222
Cost of sales	12.6	(21 282 054)	(18 174 354)
Gross profit		3 459 203	2 580 868
Other operating income	12.2	118 901	99 446
Selling and distribution expenses	12.6	(552 291)	(283 382)
Administrative expenses	12.6	(734 754)	(663 970)
Other operating expenses	12.3	(137 658)	(87 458)
Operating profit		2 153 401	1 645 504
Finance income	12.4	131 306	115 767
Finance costs	12.5	(347 124)	(160 274)
Share in profit/(loss) of joint venture recognised using the equity method	16	(1 734)	(1 046)
Profit before tax		1 935 849	1 599 951
Income tax expense	13.1	(394 550)	(333 017)
Net profit from continuing operations		1 541 299	1 266 934
Net profit for the year		1 541 299	1 266 934
Other comprehensive income:			
Change in the value of hedging instruments		(189 756)	–
Actuarial gains/(losses) related to provisions for post-employment benefits		(221 074)	37 149
Foreign exchange differences from translation of foreign entities		(457)	358
Income tax relating to other comprehensive income items	13.1	77 693	(7 058)
Other comprehensive income for the year, net of tax		(333 594)	30 449
Total comprehensive income for the year		1 207 705	1 297 383
Net profit for the year:			
Attributable to equity holders of the parent		1 466 802	1 245 116
Attributable to non-controlling interests		74 497	21 818
Total comprehensive income:			
Attributable to equity holders of the parent		1 148 027	1 273 637
Attributable to non-controlling interests		59 678	23 746
Earnings per share (in PLN):			
	27		
– basic and diluted, for profit for the period attributable to equity holders of the parent		0.84	0.71
– basic and diluted, for profit for the period from continuing operations attributable to equity holders of the parent		0.84	0.71

Summary of significant accounting policies and other explanatory notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	As at 31 December 2012	As at 31 December 2011 (restated figures)	As at 1 January 2011 (restated figures)
ASSETS				
Non-current assets				
Property, plant and equipment	14	24 112 737	22 475 647	17 524 936
Intangible assets and goodwill	15	617 219	560 344	346 340
Investments in joint ventures recognised using the equity method	16	51 986	22 717	764
Other financial assets	21, 40.1	305 444	193 067	177 452
Other non-financial assets	17	359 709	144 923	181 832
Deferred tax asset	13.3	24 135	20 079	163 063
		25 471 230	23 416 777	18 394 387
Current assets				
Current intangible assets	18	711 099	870 954	624 190
Inventories	19	708 282	574 790	408 560
Corporate income tax receivable		1 434	64 266	74 749
Trade and other receivables	20, 40.1, 41.4	3 036 695	2 743 344	2 273 145
Other financial assets	21, 40.1	5 422	108 024	28 193
Other non-financial assets	22	272 371	234 220	145 361
Cash and cash equivalents	23	1 030 929	505 670	1 473 981
		5 766 232	5 101 268	5 028 179
Non-current assets classified as held for sale	24	36 215	8 951	4 397
TOTAL ASSETS		31 273 677	28 526 996	23 426 963

Summary of significant accounting policies and other explanatory notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

	Note	As at 31 December 2012	As at 31 December 2011 (adjusted figures)	As at 1 January 2011 (adjusted figures)
EQUITY AND LIABILITIES				
Equity attributable to equity holders of the parent				
Issued capital	26.1	8 762 747	8 762 747	15 772 945
Reserve capital	26.3	7 953 021	7 412 882	475 088
Revaluation reserve on valuation of hedging instruments	26.5	(153 703)	-	-
Foreign exchange differences from translation of foreign entities		(370)	87	(271)
Retained earnings/Accumulated losses	26.4	(326 585)	(543 395)	(1 641 605)
		16 235 110	15 632 321	14 606 157
Non-controlling interests	26.6	493 123	454 897	496 279
Total equity		16 728 233	16 087 218	15 102 436
Non-current liabilities				
Interest-bearing loans and borrowings	40.1, 40.4	5 222 882	4 251 944	1 076 178
Finance lease and hire purchase commitments	30.2, 40.1	41 796	56 232	67 810
Trade and other payables	40.1	7 890	7 968	6 910
Derivative instruments	40.1, 41.6	150 594	-	-
Provisions for employee benefits	31	1 568 219	1 203 375	1 158 941
Other provisions	32	82 523	61 200	30 861
Accruals, deferred income and government grants	33	723 315	642 549	644 522
Deferred tax liability	13.3	1 350 848	1 373 813	1 191 155
		9 148 067	7 597 081	4 176 377
Current liabilities				
Current portion of interest-bearing loans and borrowings	40.1, 40.4	286 990	214 169	325 027
Current portion of lease and hire purchase commitments	30.2, 40.1	14 482	14 761	23 452
Trade and other payables	40.1	2 628 449	2 349 121	1 622 806
Derivative instruments	40.1, 41.6	40 624	80	6 917
Provisions for employee benefits	31	167 704	153 676	169 492
Other provisions	32	1 103 036	1 023 328	989 253
Accruals, deferred income and government grants	33	273 824	279 058	189 712
Corporate income tax payable		113 034	163 437	68 672
Other non-financial liabilities	34	769 234	645 067	752 819
		5 397 377	4 842 697	4 148 150
Total liabilities		14 545 444	12 439 778	8 324 527
TOTAL EQUITY AND LIABILITIES		31 273 677	28 526 996	23 426 963

Summary of significant accounting policies and other explanatory notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2012

	Note	Equity attributable to the equity holders of the parent							Non-controlling interests	Total equity
		Issued capital	Reserve capital	Revaluation reserve on valuation of hedging instruments	Foreign exchange differences from translation of foreign entities	Retained earnings/Accumulated losses	Total			
As at 1 January 2012 <i>(restated figures)</i>		8 762 747	7 412 882	-	87	(543 395)	15 632 321	454 897	16 087 218	
Profit for the period		-	-	-	-	1 466 802	1 466 802	74 497	1 541 299	
Other comprehensive income		-	-	(153 703)	(457)	(164 615)	(318 775)	(14 819)	(333 594)	
Total comprehensive income for the year		-	-	(153 703)	(457)	1 302 187	1 148 027	59 678	1 207 705	
Appropriation of prior year profits	26.3	-	540 139	-	-	(540 139)	-	-	-	
Dividends	26.6, 28	-	-	-	-	(543 290)	(543 290)	(16 870)	(560 160)	
Mandatory squeeze-out	26.6, 29	-	-	-	-	1 215	1 215	(6 510)	(5 295)	
Acquisition of non-controlling interests	26.6, 29	-	-	-	-	185	185	(1 420)	(1 235)	
Change in non-controlling interests due to mergers	26.6, 29	-	-	-	-	(3 348)	(3 348)	3 348	-	
As at 31 December 2012		8 762 747	7 953 021	(153 703)	(370)	(326 585)	16 235 110	493 123	16 728 233	

Summary of significant accounting policies and other explanatory notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

Year ended 31 December 2011

	Equity attributable to the equity holders of the parent							Non-controlling interests	Total equity
	Note	Issued capital	Reserve capital	Revaluation reserve on valuation of hedging instruments	Foreign exchange differences from translation of foreign entities	Retained earnings/Accumulated losses	Total		
As at 1 January 2011		15 772 945	475 088	-	(271)	(1 542 937)	14 704 825	507 246	15 212 071
Change in accounting policy		-	-	-	-	(98 668)	(98 668)	(10 967)	(109 635)
As at 1 January 2011 (restated figures)		15 772 945	475 088	-	(271)	(1 641 605)	14 606 157	496 279	15 102 436
Profit for the period		-	-	-	-	1 245 116	1 245 116	21 818	1 266 934
Other comprehensive income		-	-	-	358	28 163	28 521	1 928	30 449
Total comprehensive income for the year		-	-	-	358	1 273 279	1 273 637	23 746	1 297 383
Reduction of issued capital through reduced nominal value of shares		(7 010 198)	7 010 198	-	-	-	-	-	-
Dividends	26.6, 28	-	(72 404)	-	-	(190 478)	(262 882)	(14 278)	(277 160)
Mandatory squeeze-out	26.6	-	-	-	-	15 192	15 192	(50 582)	(35 390)
Acquisition of non-controlling interests	26.6	-	-	-	-	192	192	(1 104)	(912)
Change in non-controlling interests due to mergers	26.6	-	-	-	-	25	25	(62)	(37)
Acquisition of subsidiaries from the GZE S.A. Group	26.6	-	-	-	-	-	-	898	898
As at 31 December 2011 (restated figures)		8 762 747	7 412 882	-	87	(543 395)	15 632 321	454 897	16 087 218

Summary of significant accounting policies and other explanatory notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Year ended 31 December 2012	Year ended 31 December 2011 <i>(restated figures)</i>
Cash flows from operating activities			
Profit/(loss) before taxation		1 935 849	1 599 951
Adjustments for:			
Share in profit/(loss) of joint venture recognised using the equity method	16	1 734	1 046
Depreciation and amortization		1 686 204	1 411 097
(Gain)/loss on foreign exchange differences		(391)	2 819
Interest and dividends, net		225 526	58 294
(Gain)/loss on investing activities		35 315	(16 568)
(Increase)/decrease in receivables		(291 704)	(147 945)
(Increase)/decrease in inventories		(136 092)	(184 588)
Increase/(decrease) in payables excluding loans and borrowings		70 212	(76 220)
Change in other non-current and current assets		(37 043)	(76 604)
Change in deferred income, government grants and accruals		(13 266)	(39 152)
Change in provisions		372 501	(210 035)
Income tax paid		(328 845)	(111 929)
Other		329	(1 240)
Net cash from operating activities		3 520 329	2 208 926
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment and intangible assets		50 192	39 957
Purchase of property, plant and equipment and intangible assets		(3 302 471)	(2 302 270)
Proceeds from sale of bonds and other debt securities	21	102 506	1 493
Proceeds from sale of financial assets	21	22 011	112 811
Purchase of financial assets		(10 463)	(147 989)
Acquisition of shares in joint ventures accounted for using the equity method	16	(32 576)	(23 000)
Acquisition of a subsidiary, after deducting cash acquired		(5 613)	(3 379 615)
Dividends received		8 349	8 173
Interest received		136	666
Repayment of loans granted	16	24 500	240
Loans granted	16	(139 500)	-
Net cash used in investing activities		(3 282 929)	(5 689 534)

Summary of significant accounting policies and other explanatory notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

	Note	Year ended 31 December 2012	Year ended 31 December 2011 <i>(restated figures)</i>
Cash flows from financing activities			
Payment of finance lease liabilities		(14 834)	(25 603)
Proceeds from loans	40.4.5	1 005 000	87 254
Repayment of loans	40.4.5	(257 210)	(467 183)
Issue of debt securities		150 000	3 300 000
Dividends paid to equity holders of the parent	28	(543 290)	(262 882)
Dividends paid to non-controlling interests		(16 434)	(13 676)
Interest paid	12.5	(222 089)	(52 292)
Acquisition of non-controlling interests		(6 535)	(37 800)
Subsidies received		64 805	4 725
Other		(10 975)	(17 779)
Net cash from (used in) financing activities		148 438	2 514 764
Net increase/(decrease) in cash and cash equivalents		385 838	(965 844)
Net foreign exchange difference		(1 375)	(3)
Cash and cash equivalents at the beginning of the period		505 816	1 471 660
Cash and cash equivalents at the end of the period, of which:	23	891 654	505 816
restricted cash	23	290 063	176 241

Summary of significant accounting policies and other explanatory notes are an integral part of these consolidated financial statements.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND OTHER EXPLANATORY NOTES

1. General Information

The TAURON Polska Energia S.A. Capital Group (“the Group”, “the Capital Group”, “the TAURON Group”) is composed of TAURON Polska Energia S.A. (“parent”, “Company”, “Parent Company”) and its subsidiaries. TAURON Polska Energia S.A. operates as a joint-stock company incorporated on the basis of the notarial deed dated 6 December 2006. Until 16 November 2007 the Company operated under the name Energetyka Południe S.A. The consolidated financial statements of the Group cover the year ended 31 December 2012 and contain comparative data for the year ended 31 December 2011.

The parent is entered in the Register of Entrepreneurs of the National Court Register kept by the Katowice–Wschód District Court, Economic Department of the National Court Register, Entry No. KRS 0000271562.

The parent was granted a statistical number REGON 240524697.

The parent and the other Group entities have an unlimited period of operation.

The Group’s principal business activities include:

1. Hard coal mining.
2. Generation of electricity using conventional sources.
3. Generation of electricity using renewable sources.
4. Distribution of electricity
4. Sale of energy and other energy market products.
5. Generation and distribution of heat energy.
6. Customer Service.
7. Rendering other services related to the items mentioned above.

Operations are conducted based on relevant concessions granted to the individual companies in the Group.

2. Composition of the Group

As at 31 December 2012, TAURON Polska Energia S.A. held direct interests in the following significant subsidiaries:

No.	Name of the entity	Address	Principal business activities	Direct interest of TAURON in the entity's share capital	Direct interest of TAURON in the entity's governing body
1.	TAURON Wytwarzanie S.A.	40-389 Katowice; ul. Lwowska 23	Generation, transmission and distribution of electricity and heat	99.72%	99.79%
2.	TAURON Dystrybucja S.A. ¹	30-390 Kraków; ul. Zawia 65 L	Distribution of electricity	99.68%	99.69%
3.	TAURON Sprzedaż Sp. z o.o.	30-417 Kraków; ul. Łagiewnicka 60	Trading in electricity	100.00%	100.00%
4.	TAURON Obsługa Klienta Sp. z o.o.	53-128 Wrocław; ul. Sudecka 95-97	Customer services	100.00%	100.00%
5.	TAURON Ekoenergia Sp. z o.o. ¹	58-500 Jelenia Góra; ul. Obrońców Pokoju 2B	Generation of electricity, trading in electricity	100.00%	100.00%
6.	Polska Energia Pierwsza Kompania Handlowa Sp. z o.o.	41-400 Mysłowice; Obrzeźna Północna 12	Trading in electricity	100.00%	100.00%
7.	TAURON Ciepło S.A. ¹	40-126 Katowice; ul. Grażyńskiego 49	Heat production and distribution	88.27%	89.12%
8.	TAURON Czech Energy s.r.o.	720 00 Ostrava; Na Rovince 879/C Czech Republic	Trading in electricity	100.00%	100.00%
9.	TAURON Sprzedaż GZE Sp. z o.o. ²	44-100 Gliwice; ul. Barlickiego 2a	Trading in electricity	99.998%	99.998%
10.	TAURON Obsługa Klienta GZE Sp. z o.o.	44-100 Gliwice; ul. Wybrzeże Armii Krajowej 19b	Customer services	100.00%	100.00%

¹ In the year ended 31 December 2012, changes were made to organizational and equity relationships, which mainly included reorganization and resulted from mergers of the companies owned by TAURON Polska Energia S.A., as discussed in detail in Note 29.

² TAURON Polska Energia S.A. holds indirectly through its subsidiary TAURON Serwis GZE Sp. z o.o. a 0.002% interest in the share capital and in the governing body of TAURON Sprzedaż GZE Sp. z o.o. As a result the Company holds 100% interests in the share capital and in the governing body of TAURON Sprzedaż GZE Sp. z o.o.

As at 31 December 2012, TAURON Polska Energia S.A. held indirect interests in the following significant subsidiaries:

No.	Name of the entity	Address	Principal business activities	Indirect interest of TAURON in the entity's share capital	Holder of shares as at 31 December 2012	Indirect interest of TAURON in the entity's governing body	Holder of shares as at 31 December 2012
1.	Kopalnia Wapienia Czatkowice Sp. z o.o. ¹	32-063 Krzeszowice 3; os. Czatkowice 248	Quarrying, crushing and breaking of limestone, quarrying of stone for construction industry	99.72%	TAURON Wytwarzanie S.A. – 100.00%	99.79%	TAURON Wytwarzanie S.A. – 100.00%
2.	Poludniowy Koncern Węglowy S.A. ¹	43-600 Jaworzno; ul. Grunwaldzka 37	Hard coal mining	52.33%	TAURON Wytwarzanie S.A. – 52.48%	67.87%	TAURON Wytwarzanie S.A. – 68.01%
3.	BELS INVESTMENT Sp. z o.o.	58-500 Jelenia Góra; ul. Obrońców Pokoju 2B	Generation of electricity	100.00%	TAURON Ekoenergia Sp. z o.o. – 100.00%	100.00%	TAURON Ekoenergia Sp. z o.o. – 100.00%
4.	MEGAWAT MARSZEWO Sp. z o.o.	58-500 Jelenia Góra; ul. Obrońców Pokoju 2B	Generation of electricity	100.00%	TAURON Ekoenergia Sp. z o.o. – 100.00%	100.00%	TAURON Ekoenergia Sp. z o.o. – 100.00%
5.	TAURON Serwis GZE Sp. z o.o.	44-100 Gliwice; ul. Mysliwska 6	Repair and maintenance of electrical machinery and equipment, electrical installations, construction of power lines	99.68%	TAURON Dystrybucja S.A. – 100.00%	99.69%	TAURON Dystrybucja S.A. – 100.00%

¹ TAURON Polska Energia S.A. is the usufructuary of shares owned by TAURON Wytwarzanie S.A. Under the agreements for usufruct of shares, TAURON Polska Energia S.A. holds a 100% interest in the share capital and in the governing body of the company Kopalnia Wapienia Czatkowice Sp. z o.o. and a 52.48% interest in the share capital of Poludniowy Koncern Węglowy S.A., giving it 68.01% of votes at the company's General Shareholders' Meeting.

In addition, as at 31 December 2012, TAURON Polska Energia S.A. held indirect in the following significant jointly controlled entities:

No.	Name of the entity	Address	Principal business activities	Indirect interest of TAURON in the entity's share capital	Holder of shares as at 31 December 2012	Indirect interest of TAURON in the entity's governing body	Holder of shares as at 31 December 2012
1.	Elektrociepłownia Stalowa Wola S.A.	37-450 Stalowa Wola; ul. Energetyków 13	Generation, transmission, distribution and trading of electricity	49.86%	TAURON Wytwarzanie S.A. – 50.00%	49.90%	TAURON Wytwarzanie S.A. – 50.00%
2.	Elektrownia Blachownia Nowa Sp. z o.o.	47-225 Kędzierzyn Koźle; ul. Energetyków 11	Generation of electricity	49.86%	TAURON Wytwarzanie S.A. – 50.00%	49.90%	TAURON Wytwarzanie S.A. – 50.00%

3. Composition of the parent's Board of Directors

As at 31 December 2012, the Board of Directors consisted of:

- Dariusz Lubera – President,
- Joanna Schmid – Vice President,
- Dariusz Stolarczyk – Vice President,
- Krzysztof Zamasz – Vice President
- Krzysztof Zawadzki – Vice President.

On 29 November 2012, the Company's Vice President Krzysztof Zamasz resigned from his position as Vice President of the Board of Directors with effect from 31 December 2012.

In the period from the balance sheet date to the date of these financial statements, there were no changes in the Board of Directors.

4. Authorization of financial statements

These consolidated financial statements were authorized for issue by the Board of Directors on 12 March 2013.

5. Going concern

These consolidated financial statements have been prepared on the assumption that the Group companies will continue as going concerns in the foreseeable future. As at the date of authorization of these financial statements, the directors are not aware of any facts or circumstances that would indicate a threat to the continued activity of the Group companies.

6. Basis of preparation of consolidated financial statements

6.1. Statement of compliance

These consolidated financial statements were prepared in accordance with International Financial Reporting Standards ("IFRS") and IFRSs endorsed by the European Union ("EU").

Considering the pending process of IFRS endorsement in the EU and the nature of the Group's activities, within the scope of the accounting principles applied by the Group there is no difference between the IFRSs that came into effect and the IFRSs endorsed by the EU for the financial year ended 31 December 2012. IFRSs comprise standards and interpretations accepted by the International Accounting Standards Board ("IASB") and the IFRS Interpretations Committee.

TAURON Wytwarzanie S.A., TAURON Sprzedaż Sp. z o.o., BELS INVESTMENT Sp. z o.o. and MEGAWAT MARSZEWO Sp. z o.o. keep their books of account and prepare financial statements in accordance with the accounting policies specified in the Accounting Act dated 29 September 1994 ("the Accounting Act") with subsequent amendments and the regulations issued based on that Act ("Polish Accounting Standards", "PAS").

TAURON Czech Energy s.r.o. keeps its books of account and prepares financial statements in accordance with the accounting standards accepted in the Czech Republic.

The other Group entities as well as the parent keep their books of account and prepare financial statements in accordance with International Financial Reporting Standards ("IFRS").

The consolidated financial statements include a number of adjustments not included in the books of account of the Group entities, which were made in order to bring these consolidated financial statements to conformity with IFRS.

6.2. Functional currency and presentation currency

Polish zloty is the functional currency of the parent and other entities included in these consolidated financial statements, except for TAURON Czech Energy s.r.o., as well as the presentation currency of these consolidated financial statements. The functional currency of TAURON Czech Energy s.r.o. is the Czech Koruna ("CZK"). The items included in the financial statements of TAURON Czech Energy s.r.o. are translated into the presentation currency of the TAURON Group using appropriate exchange rates.

These consolidated financial statements are presented in Polish zloty ("PLN") and all amounts are stated in PLN thousands unless otherwise indicated.

7. New standards and interpretations issued but not yet effective

The following standards and interpretations were issued by the International Accounting Standards Board or the IFRS Interpretations Committee but are not yet effective:

- The first phase of IFRS 9 *Financial Instruments: Classification and Measurement* – applicable to annual periods beginning on or after 1 January 2015 – not endorsed by the EU as at the date of authorization of these financial statements. In subsequent phases, the IASB will address hedge accounting and impairment. The application of the first phase of IFRS 9 will have an impact on the classification and measurement of the Group's financial assets. The Group will quantify the effect in conjunction with the other phases when issued, to present a comprehensive picture,
- Amendments to IAS 1 *Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income* – applicable to annual periods beginning on or after 1 July 2012,
- Amendments to IAS 12 *Income Taxes: Deferred Tax: Recovery of Underlying Assets* – applicable to annual periods beginning on or after 1 January 2012 – in the EU, applicable to annual periods beginning on or after 1 January 2013 at the latest,
- Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards: Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters* – applicable to annual periods beginning on or after 1 July 2011 – in the EU, applicable to annual periods beginning on or after 1 January 2013 at the latest,
- IFRS 10 *Consolidated Financial Statements* – applicable to annual periods beginning on or after 1 January 2013 – in the EU, applicable to annual periods beginning on or after 1 January 2014 at the latest. The Group plans to implement IFRS 10 starting from the annual period beginning on 1 January 2014,
- IFRS 11 *Joint Arrangements* – applicable to annual periods beginning on or after 1 January 2013 – in the EU, applicable to annual periods beginning on or after 1 January 2014 at the latest. The Group plans to implement IFRS 11 starting from the annual period beginning on 1 January 2014,
- IFRS 12 *Disclosure of Interests in Other Entities* – applicable to annual periods beginning on or after 1 January 2013 – in the EU, applicable to annual periods beginning on or after 1 January 2014 at the latest. The Group plans to implement IFRS 12 starting from the annual period beginning on 1 January 2014,
- Amendments to IFRS 10, IFRS 11 and IFRS 12 *Transition Guidance* – applicable to annual periods beginning on or after 1 January 2013 – not endorsed by the EU as at the date of authorization of these financial statements,
- IFRS 13 *Fair Value Measurement* – applicable to annual periods beginning on or after 1 January 2013,
- IAS 27 *Separate Financial Statements* – applicable to annual periods beginning on or after 1 January 2013 – in the EU, applicable to annual periods beginning on or after 1 January 2014 at the latest,
- IAS 28 *Investments in Associates and Joint Ventures* – applicable to annual periods beginning on or after 1 January 2013 – in the EU, applicable to annual periods beginning on or after 1 January 2014 at the latest,
- IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine* – applicable to annual periods beginning on or after 1 January 2013,
- Amendments to IFRS 7 *Financial Instruments – Disclosures: Offsetting Financial Assets and Financial Liabilities* – applicable to annual periods beginning on or after 1 January 2013,
- Amendments to IAS 32 *Financial Instruments – Presentation: Offsetting Financial Assets and Financial Liabilities* – applicable to annual periods beginning on or after 1 January 2014,
- Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards: Government Loans* – applicable to annual periods beginning on or after 1 January 2013 – not endorsed by the EU as at the date of authorization of these financial statements,
- *Improvements to IFRSs* (issued in May 2012) – applicable to annual periods beginning on or after 1 January 2013 – not endorsed by the EU as at the date of authorization of these financial statements,
- Amendments to IFRS 10, IFRS 12 and IAS 27 *Investment Entities* (issued on 31 October 2012) – applicable to annual periods beginning on or after 1 January 2014 – not endorsed by the EU as at the date of authorization of these financial statements.

Apart from early application of the revised IAS 19 *Employee Benefits*, the Group has not decided to early apply any standard or interpretation that has already been issued but is not yet effective.

Due to the planned date of implementation of IFRS 10, IFRS 11 and IFRS 12 starting from the annual period beginning on 1 January 2014, at the date of authorization of these consolidated financial statements for issue, the Company is in the course of analyzing the impact of those IFRSs on the accounting policies applied by the Group. The Management Board believes that the implementation of the other standards and interpretations mentioned above will have no significant impact on the accounting policies applied by the Group.

8. Changes to accounting policies, presentation and the effect of final settlement of the acquisition of GZE S.A.

The accounting policies applied while preparing these consolidated financial statements are consistent with those applied in preparation of the consolidated financial statements of the Group for the year ended 31 December 2011, except for the following changes:

• **Change to accounting policy resulting from early application of the revised IAS 19 Employee Benefits**

The revised IAS 19 Employee Benefits is applicable to annual periods beginning on or after 1 January 2013; however, early application is allowed. The Company decided to early apply the revised IAS 19 beginning from 1 January 2012, with an appropriate restatement of the comparable period ended 31 December 2011.

The most important amendment from the Group's perspective is the liquidation of the "corridor approach" and the requirement to recognize actuarial gains and losses retrospectively in other comprehensive income as well as the liquidation of the possibility of deferring past service costs, which are recognized in full in profit or loss at the moment when the program is changed.

Accordingly, as at 1 January 2011 the Group recognized all actuarial gains and losses as well as past service costs that had not been recognized earlier and increased the amount of the provision for post-employment benefits by PLN 135,352 thousand, while accumulated losses of the Group increased by PLN 98,668 thousand and non-controlling interests decreased by PLN 10,967 thousand. The Group adjusted the deferred income tax as appropriate by increasing the amount of the deferred tax asset by PLN 1,257 thousand and decreasing the amount of the deferred tax liability by PLN 24,460 thousand.

As at 31 December 2011, compared with the figures presented in the authorized consolidated financial statements for the year ended 31 December 2011, the provision for employee benefits increased by PLN 64,188 thousand, accumulated losses increased by PLN 45,382 thousand and non-controlling interests decreased by PLN 6,570 thousand. The adjustment to the deferred tax resulted in the increase of the deferred tax assets by PLN 663 thousand and the decrease of the deferred tax liability by PLN 11,573 thousand.

- Amendment to IFRS 7 *Financial Instruments: Disclosures: Transfer of Financial Assets* – applicable to annual periods beginning on or after 1 July 2011. The Group has reflected changes to disclosures arising from the adopted amendment to IFRS 7 in the consolidated financial statements for the year ended 31 December 2012.

Restatement of comparable data due to the final settlement of the acquisition of GZE S.A.

Comparable data has been restated due to the final settlement of the acquisition of Górnośląski Zakład Elektroenergetyczny S.A. ("GZE S.A."). As the acquisition of GZE S.A. took place at the end of the previous financial year, TAURON as the acquirer had not completed the valuation of the acquired assets and liabilities as at the date of preparation of the consolidated financial statements for the year ended 31 December 2011; for this reason, the acquired assets and liabilities were presented at that time at temporary values.

The final settlement of the acquisition of GZE S.A. and the impact of the remeasurements to fair value on the consolidated financial statements at the date of acquisition of control i.e. 13 December 2011 is presented in Note 29 *Business Combinations and Acquisition of Non-controlling Interests*.

The impact of the changes resulting from the final settlement of the acquisition of shares in GZE S.A. on the consolidated financial statements as at 31 December 2011 and as at the date of acquisition of control i.e. 13 December 2011 was identical due to the fact that the Group had not taken into account the immaterial impact of the change in depreciation on the final fair value of property, plant and equipment for the period from the date of acquisition of control to 31 December 2011.

The table below presents the change in the value of the assets acquired and liabilities assumed as at 31 December 2011.

Change in position of statement of financial position	Change as at 31.12.2011
Property, plant and equipment	564 600
Intangible assets	50 706
Other financial assets	(4 403)
Deferred tax asset	(12 549)
Change in assets	598 354
Provisions for employee benefits	3 787
Other liabilities	157
Retained earnings/Accumulated losses	(18)
Deferred tax liability	114 996
Change in equity and liabilities	118 922
Change in net assets	479 432

The table below presents the change in the value of acquired assets and assumed liabilities of GZE S.A., change in the value of goodwill and change in the value of non-controlling interests as at 31 December 2011.

	Change as at 31.12.2011
change in net assets of GZE S.A.	479 432
change in goodwill	(479 312)
change in non-controlling interests	120

Change in presentation relating to the excess of the Mine Decommissioning Fund over discounted estimated future decommissioning costs

In 2012, the Group decided to change the presentation of the excess of the Mine Decommissioning Fund (MDF) recognized by mining enterprises over the discounted estimated costs of future decommissioning of their mining facilities. Previously this surplus was presented under other long-term non-financial assets in non-current assets, while the full amount of the MDF recognized in accordance with legal regulations was presented under other long-term provisions. After the presentation change, the MDF balance is shown net of the surplus under long-term provisions, at the amount of net liability. In consequence, the value of the restoration provision is equal to the value of the discounted estimated future decommissioning costs.

The Group has decided to change presentation due to the fact that, in the opinion of the Company's Management Board, the new presentation better reflects the Group's future obligations for restoration of land and dismantling of fixed assets.

Change in presentation relating to the allocation of mining assets to the non-current and current portion

In 2012, the Group decided to change the allocation of its mining assets, i.e. costs of drilling extraction tunnels and costs of assembling longwalls in mines to the non-current and current portion. Previously, mining assets which were to be settled in the period of up to 12 months of the balance sheet date were included by the Group under current assets. After the presentation change, the Group includes under current assets those mining assets which are to be realized within the period of up to 12 months of the date on which the expenditures have been collected.

The Group decided to change presentation of mining assets due to the fact that, in the opinion of the Company's Management Board, this change will result in better allocation of the Group's assets related to costs of drilling extraction tunnels and assembling longwalls to non-current and current portion.

The impact of changes in accounting policies, the effect of the final settlement of the acquisition of GZE S.A. and the impact of presentation changes on the consolidated statement of financial position as at 31 December 2011 and 1 January 2011 are presented in the tables below:

The TAURON Polska Energia S.A. Capital Group
 IFRS consolidated financial statements for the year ended 31 December 2012
 (in PLN thousand)

	As at 31 December 2011 (authorized figures)	Change in the presentation of the surplus of MDF over discounted estimated decommissioning costs and allocation of mining assets to non-current and current portion	Change in accounting policy resulting from early application of revised IAS 19	Change resulting from final settlement of the acquisition of GZE	As at 31 December 2011 (restated figures)
Non-current assets	23 248 498	48 574	663	119 042	23 416 777
Property, plant and equipment	21 911 047	–	–	564 600	22 475 647
Intangible assets	988 950	–	–	(428 606)	560 344
Other financial assets	197 470	–	–	(4 403)	193 067
Other non-financial assets	96 349	48 574	–	–	144 923
Deferred tax asset	31 965	–	663	(12 549)	20 079
Current assets	5 156 082	(54 814)	–	–	5 101 268
Other non-financial assets	289 034	(54 814)	–	–	234 220
TOTAL ASSETS	28 413 531	(6 240)	663	119 042	28 526 996
Equity attributable to equity holders of the parent	15 677 721	–	(45 382)	(18)	15 632 321
Retained earnings/Accumulated losses	(497 995)	–	(45 382)	(18)	(543 395)
Non-controlling interests	461 347	–	(6 570)	120	454 897
Non-current liabilities	7 431 923	(6 240)	52 615	118 783	7 597 081
Provisions for employee benefits	1 135 400	–	64 188	3 787	1 203 375
Other provisions	67 440	(6 240)	–	–	61 200
Deferred tax liability	1 270 390	–	(11 573)	114 996	1 373 813
Current liabilities	4 842 540	–	–	157	4 842 697
Other non-financial liabilities	644 910	–	–	157	645 067
TOTAL EQUITY AND LIABILITIES	28 413 531	(6 240)	663	119 042	28 526 996

The TAURON Polska Energia S.A. Capital Group
IFRS consolidated financial statements for the year ended 31 December 2012
(in PLN thousand)

	As at 1 January 2011 (restated figures presented in the financial statements for the year ended 31 December 2011)	Change in the presentation of the surplus of MDF over discounted estimated decommissioning costs and allocation of mining assets to non-current and current portion	Change in accounting policy resulting from early application of revised IAS 19	As at 1 January 2011 (restated figures)
Non-current assets	18 334 911	58 219	1 257	18 394 387
Other non-financial assets	123 613	58 219	–	181 832
Deferred tax asset	161 806	–	1 257	163 063
Current assets	5 090 976	(62 797)	–	5 028 179
Other non-financial assets	208 158	(62 797)	–	145 361
TOTAL ASSETS	23 430 284	(4 578)	1 257	23 426 963
Equity attributable to equity holders of the parent	14 704 825	–	(98 668)	14 606 157
Retained earnings/Accumulated losses	(1 542 937)	–	(98 668)	(1 641 605)
Non-controlling interests	507 246	–	(10 967)	496 279
Non-current liabilities	4 070 063	(4 578)	110 892	4 176 377
Provisions for employee benefits	1 023 589	–	135 352	1 158 941
Other provisions	35 439	(4 578)	–	30 861
Deferred tax liability	1 215 615	–	(24 460)	1 191 155
TOTAL EQUITY AND LIABILITIES	23 430 284	(4 578)	1 257	23 426 963

The impact of changes in accounting policies and the effect of the final settlement of the acquisition of GZE S.A. on the consolidated statement of comprehensive income for the year ended 31 December 2011 is presented in the table below:

	Year ended 31 December 2011 (authorized figures)	Change in accounting policy resulting from early application of revised IAS 19	Change resulting from final settlement of the acquisition of GZE	Year ended 31 December 2011 (restated figures)
Sales revenue	20 755 222	–	–	20 755 222
Cost of sales	(18 184 818)	10 464	–	(18 174 354)
Gross profit	2 570 404	10 464	–	2 580 868
Other operating income	106 162	(6 716)	–	99 446
Selling and distribution expenses	(283 684)	302	–	(283 382)
Administrative expenses	(664 350)	380	–	(663 970)
Other operating expenses	(117 043)	29 585	–	(87 458)
Operating profit	1 611 489	34 015	–	1 645 504
Profit before tax	1 565 936	34 015	–	1 599 951
Income tax expense	(326 576)	(6 423)	(18)	(333 017)
Net profit from continuing operations	1 239 360	27 592	(18)	1 266 934
Net profit for the year	1 239 360	27 592	(18)	1 266 934
Other comprehensive income:				
Actuarial gains/(losses) related to provisions for post-employment benefits	–	37 149	–	37 149
Foreign exchange differences from translation of foreign entities	358	–	–	358
Income tax relating to other comprehensive income items	–	(7 058)	–	(7 058)
Other comprehensive income for the year, net of tax	358	30 091	–	30 449
Total comprehensive income for the year	1 239 718	57 683	(18)	1 297 383
Profit attributable to:				
Equity holders of the parent	1 220 011	25 123	(18)	1 245 116
Non-controlling interests	19 349	2 469	–	21 818
Total comprehensive income attributable to:				
Equity holders of the parent	1 220 369	53 286	(18)	1 273 637
Non-controlling interests	19 349	4 397	–	23 746
Earnings per share (in PLN):				
– basic and diluted, for profit for the period attributable to equity holders of the parent	0.70	0.01	–	0.71
– basic and diluted, for profit for the period from continuing operations attributable to equity holders of the parent	0.70	0.01	–	0.71

9. Summary of significant accounting policies

These consolidated financial statements have been prepared on a historical cost basis, except for derivative financial instruments and available-for-sale financial assets, which have been measured at fair value.

9.1. Basis of consolidation

These consolidated financial statements comprise financial information of TAURON Polska Energia S.A. and of its subsidiaries prepared by the individual entities for the years ended 31 December 2012 and 31 December 2011, and in the case of the subsidiaries acquired during the year 2011 (Note 29), for the period from the date of acquisition of control by the parent to 31 December 2011. The financial statements of the subsidiaries, after giving consideration to the adjustments made to achieve conformity with IFRS, are prepared for the same reporting period as those of the parent, using consistent accounting policies applied to similar business transactions and events.

All significant intercompany balances and transactions, including unrealized gains arising from intra-group transactions, have been eliminated in full.

Subsidiaries are consolidated from the date on which control is obtained by the Group and cease to be consolidated from the date on which such control is transferred out of the Group. An entity is controlled by the parent when the parent has, either directly or indirectly through its subsidiaries, more than half of the votes at the shareholders' meeting of that entity, unless it is possible to prove that such holding does not represent control. Control is also exercised if the Company has the power to govern the financial or operating policy of an enterprise without holding a majority interest in equity.

9.2. Foreign currency translation

On initial recognition, transactions denominated in currencies other than Polish zloty are translated into Polish zloty at the foreign exchange rate prevailing on the transaction date. At the balance sheet date:

- monetary items are translated using the closing rate of exchange (i.e. the average NBP rate determined for the given currency at the given date),
- non-monetary items recognized at historical cost are translated using the historical exchange rate prevailing on the date of the original transaction (the exchange rate of the bank used by the enterprise), and
- non-monetary items recognized at fair value are translated into Polish zloty using the rate of exchange prevailing on the date of re-measurement to fair value.

Exchange differences resulting from translation are recorded under finance income or finance costs, or, in cases specified in accounting policies, are capitalized in the cost of the assets. Non-monetary assets and liabilities recognized at historical cost are translated using the historical exchange rate prevailing on the transaction date.

Exchange differences on non-monetary items such as equity instruments measured at fair value through profit or loss are recognized as a change in fair value.

The following exchange rates were used for valuation purposes:

Currency	31 December 2012	31 December 2011
USD	3.0996	3.4174
EUR	4.0882	4.4168
CZK	0.1630	0.1711

9.3. Property, plant and equipment

Property, plant and equipment are fixed assets which:

- are held by the enterprise for use in production, supply of goods or services or for administrative purposes, and which are not investment properties, and
- are expected to be used over a period exceeding one year,
- for which it is probable that future economic benefits associated with the asset will flow to the enterprise,
- the cost of the asset to the enterprise can be measured reliably.

The Group recognizes land and the right of perpetual usufruct of land under property, plant and equipment.

Property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. The initial cost of an item of property, plant and equipment comprises its purchase price or manufacturing cost plus any directly attributable costs of buying and bringing the asset to working condition for its intended use. Cost also comprises the expected cost of dismantling the items of property, plant and equipment, removing them and restoring the site on which the asset is located to the original condition, the obligation

for which an entity incurs when the asset is installed or is used for purposes other than to produce inventories. Subsequent expenditures, such as repair or maintenance costs, are expensed in the reporting period in which they are incurred.

Upon purchase, property, plant and equipment are divided into components, which represent items with a significant value that can be allocated a separate useful life. General overhauls, routine repairs (if such costs are significant) and costs of replacement of major parts also represent asset components.

The Group recognizes specialist spare parts and servicing equipment as separate items of property, plant and equipment if their useful life exceeds 1 year.

Other spare parts and servicing equipment are presented under inventories and are recognized in profit or loss when used, except for the costs of replacement of spare parts as part of an overhaul of a given item of property, plant and equipment.

Depreciation is charged on the cost of the fixed asset decreased by its residual value. Depreciation begins when the asset is made available for use. Depreciation is charged in accordance with a depreciation plan which determines the estimated useful life of the asset. The depreciation method used reflects the pattern in which the asset's economic benefits are consumed by the enterprise.

Specialist spare parts and servicing equipment, which are recognized under property, plant and equipment, are depreciated over the useful life of the related asset (i.e. beginning from the date of purchase of the given part to the date of completion of the use of the asset).

The average useful lives of specific groups of fixed assets are as follows:

Type of assets	Average remaining depreciation period in years
Buildings, premises and civil engineering structures	16 years
Plant and machinery	12 years
Motor vehicles	5 years
Other fixed assets	3 years

Depreciation methods, depreciation rates and residual values of property, plant and equipment are reviewed at least at the end of each financial year. Any resulting amendments are recognized as a change of estimates. Depreciation expense is recognized in profit or loss in the expense category consistent with the function of the given asset.

The Group does not charge depreciation on land or perpetual usufruct of land.

An item of property, plant and equipment is derecognized from the statement of financial position upon disposal or when no future economic benefits are expected from its further use. Any gain or loss arising on derecognition of an asset is recognized in the profit or loss for the period in which derecognition took place.

Assets under construction include assets in the course of construction or assembly and are recognized at purchase price or cost of construction less any impairment losses. Assets under construction are not depreciated until completed and made available for use. Finance costs eligible for capitalization are also recognized as part of the cost of assets under construction. Capitalization of such expenses is discussed in detail in Note 9.7.

9.4. Intangible assets

Intangible assets of the Group include identifiable non-monetary assets without physical substance, such as:

- renewable energy certificates and certificates of electricity generated using cogeneration or sources fuelled with natural gas, acquired or received due to production and designated for internal purposes i.e. cancellation, if the entity's intention is to fulfill the obligation to surrender them for cancellation with respect to the following years (where the entity's intention is to fulfill the obligation for the current year, such energy certificates are classified as current intangibles under current assets – discussed in detail in Note 9.14),
- greenhouse gas allowances acquired for the purpose of cancellation, if, at the time of the purchase, the entity's intention is to fulfill the obligation to surrender them for cancellation with respect to the following years (where greenhouse gas emission allowances are acquired with the intention to fulfill the obligation for the current year, such allowances are classified as current intangibles under current assets – discussed in detail in Note 9.14),
- property rights acquired by the enterprise and included under non-current assets which can be of economic use and have an expected useful life of more than one year, designated to be used for internal purposes, including in particular:
 - copyright and related rights, concessions, licenses (including computer software licenses),
 - rights to inventions, patents, trademarks, utility and ornamental patterns, computer software,
 - know-how, i.e. value being the equivalent of the acquired industrial, commercial, scientific or organizational knowledge,
- development expenses,

- goodwill – excluding goodwill generated internally,
- other intangible assets recognized at acquisition as part of a business combination.

Renewable energy certificates and certificates of electricity generated using cogeneration or sources fuelled with natural gas, acquired or received due to production and designated for internal purposes, are recognized at acquisition cost or fair value at the date of receipt, as appropriate.

Emission allowances received free of charge under the National Allocation Plan are recognized at nominal value i.e. zero. Additional emission allowances acquired in exchange for consideration are carried at cost less any impairment losses.

Intangible assets are measured on initial recognition at acquisition cost or cost of production in the case of development expenses. Following initial recognition, intangible assets are carried at cost less accumulated amortization and impairment losses.

Intangible assets with finite lives are amortized over the useful life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and method for intangible assets with finite useful lives are reviewed at least at the end of each financial year. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for on a prospective basis by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in profit or loss in the expense category consistent with the function of the intangible asset.

Intangible assets with indefinite useful lives and those that are not in use are tested for impairment on an annual basis.

Except for development expenses, all intangible assets generated internally by the Group are not capitalized and are recognized in the profit or loss for the period in which the related expenditures were incurred. Intangible assets arising from development are recognized if and only if the enterprise can demonstrate the following:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale,
- the intention to complete the intangible asset and use it or sell it,
- the ability to use or sell the intangible asset,
- how the intangible asset will generate probable future economic benefits,
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset,
- the ability to reliably measure the expenditure attributable to the intangible asset during its development.

The following average useful lives were adopted for specific groups of intangible assets:

Type of assets	Average remaining amortization period in years
Patents and licenses	3 years
Development expenses	2 years
Other (including software)	7 years

9.5. Goodwill

Goodwill arising on acquisition is initially recognized at cost being the excess of:

- the aggregate of:
 - consideration transferred,
 - the amount of any non-controlling interest in the acquiree,
- over the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed.

At the acquisition date, the goodwill acquired is allocated to each of the cash-generating units (“CGU”) that may benefit from business combination synergies. Each CGU to which goodwill has been allocated:

- corresponds to the lowest level in the TAURON Group at which goodwill is monitored for internal management purposes and
- is not greater than one operating segment of the TAURON Group before aggregation for reporting purposes, determined based on IFRS 8 *Operating Segments*.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is not amortized. Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying amount may be impaired. The test involves comparing the recoverable amount of the cash-generating unit to which goodwill has been allocated with its carrying amount.

9.6. Impairment of non-financial long-term assets

An assessment is made at each reporting date to determine whether there is any indication that any of non-financial long-term assets may be impaired. If such indication exists, or in case an annual impairment testing is required, the Group makes an estimate of the recoverable amount of that asset or the asset's cash-generating unit.

The recoverable amount of an asset or a cash-generating unit is the higher of the asset's or cash-generating unit's fair value less costs to sell and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses of continuing operations are recognized in the expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Group makes an estimate of recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation or amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized immediately as income in profit or loss. After a reversal of an impairment loss is recognized, the depreciation (amortization) charge for the asset is adjusted in future periods to allocate the asset's carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

9.7. Borrowing costs

Borrowing costs are capitalized as part of the cost of property, plant and equipment and intangible assets (qualifying assets). Borrowing costs comprise interest calculated using the effective interest rate method, finance charges in respect of finance leases and exchange gains or losses arising from borrowings to the extent that they are regarded as an adjustment to interest costs. TAURON Group capitalizes also the effective portion of the hedge contracts that meet the condition for hedge accounting and conducted in connection with construction of property, plant and equipment and intangible assets.

A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. A period of 12 months is deemed to be a substantial period of time.

The borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are those borrowing costs that would have been avoided if the expenditure on the qualifying asset had not been made.

These may include:

- costs related to the borrowing of funds for the purpose of acquisition or construction of a specific investment project (investment loans, specific-purpose loans) – specific-purpose borrowings,
- costs related to the borrowing of funds for no specified purpose, however used for the purpose of funding a qualifying asset (borrowings other than investment loans) – general-purpose borrowings.

For the purpose of calculation of borrowing costs eligible for capitalization, other-than-specific-purpose borrowings are considered to be general-purpose borrowings to the extent to which borrowing costs could have been avoided had the enterprise used its cash to pay the liabilities arising from the borrowing of funds.

After the completion of a qualifying asset that has been financed using a specific-purpose borrowing, the specific-purpose borrowing and the related borrowing costs are no longer included in the determination of borrowing costs eligible for capitalization.

The amount of borrowing costs related to general-purpose borrowings that are eligible for capitalization is determined by applying a capitalization rate to the expenditures incurred on qualifying assets. The capitalization rate is the weighted average of all borrowing costs applicable to the borrowings of the enterprise that are outstanding during the period, other than specific-purpose borrowings.

Capitalization of borrowing costs ceases when substantially all the activities necessary to prepare a given qualifying asset for its intended use or sale are complete. Interruptions in the implementation of an investment project that are due to the nature of the activities being conducted do not result in the interruption of capitalization of borrowing costs. In the event investment activities are suspended for any other reason, borrowing costs should not be capitalized from the moment of interruption of the investment activities until such activities are undertaken again.

9.8. Interest in a joint venture

Interests in joint ventures, where the Group exercises a joint control, are recognized using the equity method. Prior to the calculation of the share in the net assets of a joint venture, proper adjustments are made to bring the financial data of such entities to conformity with the IFRSs applied by the Group.

Investments in jointly controlled entities are tested for impairment when there is evidence indicating that they are impaired or that an impairment loss recognized in prior years is no longer required.

9.9. Financial assets

Financial assets are classified into one of the following categories:

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

Financial assets held to maturity

The Group has no assets held to maturity.

Financial assets at fair value through profit or loss

A financial asset at fair value through profit or loss is a financial asset that meets either of the following conditions:

- It is classified as held for trading. A financial asset is classified as held for trading if it is:
 - acquired principally for the purpose of selling it in the near term,
 - part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking, or
 - a derivative – except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument.
- Upon initial recognition it was designated as at fair value through profit or loss, in accordance with IAS 39. Financial assets may be designated upon initial recognition as at fair value through profit or loss if the criteria from IAS 39 are met.

Financial assets at fair value through profit or loss are measured at fair value taking into account their market value at the balance sheet date excluding costs to sell. Changes in the values of these financial instruments are recognized in the statement of comprehensive income as finance income or finance costs.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are classified as current assets provided their maturity does not exceed 12 months after the balance sheet date. Loans and receivables with maturities exceeding 12 months from the balance sheet date are classified under non-current assets. Loans and receivables are recognized at amortized cost.

Available-for-sale financial assets

All remaining financial assets are classified as available-for-sale financial assets. Available-for-sale financial assets are measured at fair value at each balance sheet date. The fair value of the assets for which a quoted market price is not available is determined with reference to the current market value of another instrument that is substantially the same or based on the estimated future cash flows of the asset (discounted cash flow method). Where no quoted market price is available in an active market and the fair value cannot be reliably measured using alternative methods, available-for-sale financial assets are measured at cost, adjusted for any impairment losses.

Positive and negative differences between the fair value of financial assets available for sale and the cost of such assets, net of deferred tax, are taken to the revaluation reserve, except for the following:

- impairment losses,
- foreign exchange gains and losses arising on monetary assets,
- interest calculated using the effective interest rate.

Dividends from equity instruments classified as available-for-sale are recognized in profit or loss when the entity's right to receive payment is established.

9.10. Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Assets carried at amortized cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through the use of an allowance amount. The amount of the loss is recognized in profit or loss for the period.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in profit or loss, to the extent that the carrying amount of the asset does not exceed its amortized cost at the reversal date.

Financial assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and has to be settled by delivery of such an unquoted equity instrument, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset.

Available-for-sale financial assets

If there is objective evidence that an impairment loss has been incurred on an available-for-sale financial asset, then the amount of the difference between its acquisition cost (net of any principal repayment and interest) and current fair value, less any impairment loss on that financial asset previously recognized in profit or loss, is removed from equity and recognized in profit or loss. Reversals of impairment losses on equity instruments classified as available for sale cannot be recognized in profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed, with the amount of the reversal recognized in profit or loss.

9.11. Derivative financial instruments

The Group uses derivative financial instruments such as *forward currency contracts* and *interest rate swaps* to hedge against the risks associated with interest rate and foreign currency fluctuations.

The Group also enters into forward contracts and futures for the purchase and sale of emission allowances and energy. Transactions concluded and held in order to satisfy internal requirements are excluded from the scope of IAS 39. Transactions concluded and held for speculative purposes meet the definition of a financial instrument and, in accordance with IAS 39, are subject to measurement at the reporting date.

Such derivative financial instruments are measured at fair value. Derivatives are recognized as assets when their fair value is positive and as liabilities when their fair value is negative.

The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles or based on valuations provided by financial institutions. The fair value of interest rate swap contracts is determined based on computations derived from a mathematical model that is based on current FRA values and IRS quotations published by Reuters, or based on valuations provided by independent financial institutions.

9.12. Hedge accounting

The Group uses derivative financial instruments such as Interest Rate Swaps to hedge against the risks associated with interest rate fluctuations. These transactions are subject to hedge accounting, which includes the use of instruments hedging cash flows associated with issued debentures.

Cash flow hedge accounting involves hedging an exposure to variability in cash flows that is attributable to a particular risk associated with a recognized asset or liability or a forecasted transaction and that could affect profit or loss.

A cash flow hedge is accounted for as follows:

- the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognized directly in other comprehensive income and,
- the ineffective portion of the gain or loss on the hedging instrument is recognized in profit or loss for the period.

More specifically, the accounting treatment applied to a cash flow hedge is as follows:

- the separate component of equity associated with the hedged item is adjusted to the lesser of the following (in absolute amounts):
 - the cumulative gain or loss on the hedging instrument from inception of the hedge and
 - the cumulative change in the fair value (present value) of the expected future cash flows on the hedged item from inception of the hedge;
- any remaining gain or loss on the hedging instrument or a designated portion thereof (which is not an effective hedge) is included in profit or loss for the period and
- if the documented risk management strategy for a particular hedging relationship excludes a specific component of the gain or loss or related cash flows on the hedging instrument from the assessment of hedge effectiveness, that excluded component of gain or loss is recognized in profit or loss for the period in which it arises unless it is classified as an available-for-sale financial asset.

Gains/losses on the remeasurement of a hedging instrument that were recognized in other comprehensive income are recognized directly in profit or loss for the period at the time the hedged item affects the profit or loss for the period, or are included in the initial measurement of the acquisition cost or other carrying amount of the asset or liability if the hedged item results in the recognition of a non-financial asset or liability.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship, the risk management objective and strategy for undertaking the hedge.

Hedge effectiveness is assessed on an ongoing basis to check if the hedge is highly effective throughout all financial reporting periods for which it was designated.

9.13. Other non-financial assets

The Group recognizes prepayments under other non-financial assets if the following conditions are met:

- they originate from past events – costs incurred by the enterprise for operating purposes,
- they are reliably measurable,
- they will cause an inflow of future economic benefits to the enterprise,
- they relate to future reporting periods.

Prepayments are recognized at the amount of incurred reliably measurable expenses that relate to future reporting periods and will cause an inflow of future economic benefits to the enterprise.

Prepaid expenses are amortized in accordance with the passage of time or level of performance. The time and method of settlement depends on the nature of the expense and takes into account the prudence concept.

At the end of the reporting period, the Group performs a review of prepaid expenses to check whether the probability that economic benefits will flow to the enterprise after the end of the current period is sufficient to recognize the given item as an asset.

During the reporting period, the following items are recognized under prepayments:

- property insurance expenses,
- current payments for perpetual usufruct of land,
- real estate tax,
- costs of preparing production in hard coal mines, including in particular costs of assembling longwalls and costs of drilling extraction tunnels that are not classified as items of property, plant and equipment,
- transfers to the Social Fund,
- subscriptions,
- other expenses relating to future reporting periods.

Other non-financial assets include in particular receivables from the state budget (except for CIT receivables which are presented as a separate item in the statement of financial position), the excess of Social Fund assets over Social Fund liabilities and advance payments for future purchases of property, plant and equipment, intangible assets and inventories. Advance payments are presented consistent with the nature of the related assets i.e. under non-current or current assets, as appropriate. Advance payments are not subject to discounting as they represent non-monetary assets.

9.14. Current intangible assets

Current intangible assets include renewable energy and cogeneration certificates acquired or received due to production and designated for internal purposes which have been acquired with the intention to submit them for cancellation due to sale of electricity to final users in the current year. Where the company's intention is to submit energy certificates for cancellation in order to fulfill the obligation relating to the following years, they are classified as intangibles under non-current assets (Note 9.4).

Renewable energy certificates and certificates of electricity generated using cogeneration or sources fuelled with natural gas, acquired or received due to production and designated for internal purposes, are recognized under current intangible assets at acquisition cost or fair value at the date of receipt, as appropriate.

Current intangible assets also include greenhouse gas emission allowances if they are acquired in order to fulfill the obligation arising from greenhouse gas emission for the current year. If the company acquires greenhouse gas emission allowances in order to fulfill the cancellation requirement arising from emission in the following years, such allowances are presented as intangibles under non-current assets (Note 9.4). The acquired greenhouse gas emission allowances are recognized at cost.

9.15. Inventories

Inventories include assets:

- held for sale in the ordinary course of business,
- in the process of production for such sale, or
- in the form of materials or raw materials to be consumed in the production process or in the rendering of services.

Inventories are measured at the lower of cost and net realizable value.

Costs incurred in bringing each inventory item to its present location and condition are included in the cost of inventories. The closing balance of inventories is determined as follows:

Materials	– at cost determined on the “weighted average” basis,
Finished foods and work-in-progress	– at the cost of direct materials and labor and a proportion of manufacturing overheads based on normal operating capacity, excluding borrowing costs,
Goods for resale	– at cost determined on the “weighted average” basis.

Inventories include purchased emission allowances and purchased certificates of electricity generated using renewable sources, gas-fired plants or cogeneration, which are intended for sale.

Energy certificates acquired free of charge due to production of electricity using renewable sources, gas-fired plants or cogeneration are recognized at fair value as of the date on which the granting of such certificates is assured.

The cost of inventories used for valuation at the balance sheet date must not be higher than their net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

9.16. Trade and other receivables

Trade receivables are recognized and carried at the original invoice amount unless the effect of the time value of money is material, less an allowance for any uncollectible amounts.

Doubtful debt allowances are recorded under operating expenses or finance costs, depending on the nature of the receivable.

If the effect of the time value of money is material, the value of receivables is determined by discounting the estimated future cash flows to present value using a discount rate that reflects current market assessments of the time value of money. Where discounting is used, any increase in the balance due to the passage of time is recognized as finance income.

9.17. Cash and cash equivalents

Cash and short-term deposits in the statement of financial position comprise cash at bank and on hand as well as short-term deposits with an original maturity of three months or less.

The balance of cash and cash equivalents in the consolidated statement of cash flows consists of cash and cash equivalents as defined above. If bank overdrafts are used as part of cash management, subject to the provisions of IAS 7, the balance of cash and cash equivalents in the consolidated statement of cash flows is presented net of the outstanding bank overdrafts.

9.18. Issued capital

The issued share capital in the consolidated financial statements is recorded at the amount stated in the parent's Articles of Association and registered in the court register. Contributions declared but unpaid are recognized as unpaid share capital with a negative value.

9.19. Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event and if it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is presented in profit or loss net of any reimbursement.

Provisions are recorded under operating expenses, other operating expenses or finance costs, depending on the underlying circumstances.

If the effect of the time value of money is material, the amount of the provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is determined as a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the liability. The discount rate does not reflect the risk that has been reflected in the estimated future cash flows. Where discounting is used, the increase in the provision due to the passage of time is recognized as finance cost.

In particular, the Group has recognized the following provisions:

- *provisions for post-employment benefits, jubilee bonuses and employment termination benefits*

In accordance with internal remuneration regulations, employees of the Group companies are entitled to the following benefits:

- retirement and disability benefits – payable on a one-off basis upon retirement,
- jubilee bonuses – payable after completion of a specified number of years in service,
- coal allowances – granted in nature at a specified amount or payable in the form of a cash equivalent,
- cash equivalents resulting from special electricity rates and charges granted to employees in the energy sector,
- death benefits,
- post-employment benefits from the Social Fund.

The carrying amount of the Group's liabilities resulting from those benefits is calculated at each balance sheet date by an independent actuary. The balance of these liabilities equals discounted payments which will be made in the future, accounts for staff turnover and relates to the period up to the balance sheet date. Demographic information and information on staff turnover are based on historical data.

In accordance with the revised IAS 19, actuarial gains and losses for post-employment benefits are recognized in full under other comprehensive income. Actuarial gains and losses related to jubilee bonuses are charged to costs for the period.

In accordance with IAS 19.133, the Group recognizes provisions for benefits arising from termination of employment under the voluntary redundancy scheme. The measurement of such benefits is based on the estimated number of employees who are expected to participate in the scheme as well as the estimated amount of the related payments.

- *provision for decommissioning liabilities related to mines*

A provision for decommissioning liabilities related to mines is determined based on the estimates of future decommissioning costs prepared by independent experts, taking into account the discount rate and the balance of the MDF that is recognized under separate regulations. In relation to hard coal mines, a corresponding amount is recognized in accordance with IAS 16 as part of the cost of the relevant item of the mine's property, plant and equipment, and any changes in estimates are recognized in accordance with IFRIC 1 as adjustments to the balance of the provision and the capitalized future decommissioning costs.

- *provision for costs of repair of mining damages*

The provision is recognized on the basis of the reported and documented claims for repair of damages. The Group is not aware of any method that would enable it to reliably estimate the amount of mining damages that may arise in the future as a result of current mining activities.

- *provision for dismantling and removing property, plant and equipment*

The provision is recognized in accordance with the principles set out in IAS 16, IAS 37 and IFRIC 1.

- *provision for obligation to surrender energy certificates*

A provision for the obligation to surrender renewable energy certificates for cancellation is recognized as follows:

- in the portion covered by the certificates held at the balance sheet date – at the cost of certificates held,
- in the portion not covered by certificates held at the balance sheet date – at the market value of the certificates required to fulfill the obligation at the balance sheet date or at the amount of the compensation fee – in accordance with the Group's intention on the method of fulfilling the obligation.

The provision is charged to operating expenses.

- *provision for gas emission obligations*

A provision for obligations relating to the emission of gases covered by the emission allowances scheme is only recognized when the actual emission shows a deficit of emission allowances with regard to allowances granted for the entire trading period.

The provision is recognized under operating expenses using the net liabilities method at the following amounts:

- in the portion covered by the allowances held at the balance sheet date – at the cost of allowances held i.e. if purchased, at carrying amount and if received, at zero value,
- in the portion not covered by the allowances held at the balance sheet date – at the market value of the allowances required to fulfill the obligation at the balance sheet date or the potential penalty – in accordance with the Group's intention on the method of fulfilling the obligation.

A provision for such obligations may also be recognized where there is no deficit of emission allowances compared with actual emission – with regard to the certified emission reductions (CERs) that were acquired as a result of the exchange of EUAs for CERs, and the emission reduction units (ERUs) that were acquired as a result of the exchange of EUAs or CERs for ERUs. The CERs and ERUs arising from the exchange are the first ones to be surrendered for cancellation for the current period.

- *Provision for use of real estate under power generation facilities without contract*

The Group companies recognize provisions for all claims reported by the owners of real estate on which distribution systems and heat installations are located, at the amount of probable costs of damages due to owners until the balance sheet date. The companies do not recognize provisions for unreported potential claims from owners of land with an unregulated status.

- *other provisions are presented by the Group at the reliably estimated present value of future obligations.*

9.20. Loans and borrowings, including debt securities

All loans and borrowings, including debt securities, are initially recognized at the fair value net of transaction costs associated with the borrowing.

After initial recognition, interest-bearing loans and borrowings are measured at amortized cost using the effective interest rate method.

Amortized cost is calculated by taking into account any transaction costs, and any discount or premium on settlement.

Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the settlement using the effective interest rate.

9.21. Trade and other payables

Current trade payables are carried at the amount due and payable. Other payables include wages and salaries and payables for the purchase of fixed assets, which are measured at the amount due and payable.

Financial liabilities at fair value through profit or loss include financial liabilities held for trading. Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Financial liabilities at fair value through profit or loss are measured at fair value, reflecting their market value at the balance sheet date, less directly attributable sale transaction costs. Gains or losses on these liabilities are recognized in profit or loss as finance income or cost.

Financial liabilities other than financial instruments at fair value through profit or loss are measured at amortized cost using the effective interest rate method.

A financial liability is derecognized by the Group from the statement of financial position when the liability has been extinguished, i.e. when the obligation under the liability is discharged or cancelled or expires.

9.22. Other non-financial liabilities

Other non-financial liabilities include in particular VAT payables, other payables to the state budget (except for CIT payables which are recognized as a separate item in the statement of financial position), the excess of Social Fund liabilities over Social Fund assets and liabilities resulting from advance payments received that are to be settled by delivery of goods, services or fixed assets. Other non-financial liabilities are recognized at the amount payable.

9.23. Social Fund

The Social Fund Act dated 4 March 1994 (with subsequent amendments) requires enterprises that have more than 20 employees (counted on a full time basis) to establish and run a Social Fund ("the Fund"). The Group companies operate such Funds and make

periodic contributions to the Fund. The Fund's purpose is to subsidize social activities of the Group, to grant loans to its employees and to incur other social expenses.

Since social assets are not controlled by the Group companies, they have been set off against Social Fund liabilities.

9.24. Leases

Group as lessee

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss.

Capitalized leased assets are depreciated on a consistent basis with assets owned by the entity. Where it is not sufficiently certain that the lessee will acquire ownership of the asset before the lapse of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset or the lease term.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease and subsequent lease payments are recognized as an expense on a straight-line basis over the lease term.

9.25. Taxes

Tax Capital Group

On 28 November 2011, the Head of the First Śląski Tax Office in Sosnowiec issued a decision on the registration of a Tax Capital Group for the period of three fiscal years from 1 January 2012 to 31 December 2014.

TAURON Polska Energia S.A., as the Company Representing the Tax Capital Group, is responsible for paying monthly advances in respect of the corporate income tax of the Tax Capital Group, in accordance with the provisions of the Corporate Income Tax Act. The share of each company of the Tax Capital Group in the monthly advance for the corporate income tax is determined based on the percentage share of the tax base reported by the given company in the tax base reported by the Tax Capital Group, excluding the companies reporting tax losses. When the final amount of a given company's share is lower than the initial amount transferred by that company to the Company Representing the Tax Capital Group, the difference is returned to that company.

Current income tax

Income tax presented in profit or loss comprises the actual tax expense for the given reporting period as determined by the Group entities in accordance with the provisions of the Corporate Income Tax Act, any corrections of tax settlements for prior years as well as a movement in the balance of the deferred tax asset and deferred tax liability that is not settled against equity.

Deferred income tax

The Company recognizes deferred tax assets and deferred tax liabilities on all temporary differences between the carrying amounts of assets and liabilities and their tax bases and the tax loss available for utilization in the future.

A deferred tax liability is recognized for all taxable temporary differences unless the deferred tax liability arises from:

- the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss, and
- taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

A deferred tax asset is recognized for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized, except for:

- cases in which the deferred tax asset arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss, and
- deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, for which deferred tax assets are only recognized to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred

tax assets are reassessed at each balance sheet date and are recognized to the extent that it has become probable that future taxable profit will be available that will allow the deferred tax asset to be recovered.

Deferred tax assets are determined at the amount that is expected to be deducted from the income tax in the future as a result of deductible temporary differences leading to a future decrease in taxable profit and tax loss available for utilization, taking into account the prudence principle. Deferred tax assets are only recognized if they are probable of realization.

A deferred tax liability is recognized at the amount of the income tax that will be payable in the future as a result of taxable temporary differences i.e. differences which will cause an increase in taxable profit in the future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

The income tax relating to items that are recognized directly in equity is recognized in equity, not in profit or loss.

Deferred income tax assets and deferred income tax liabilities are offset, if legally enforceable right exists to set off current income tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

Deferred income tax assets and deferred income tax liabilities of the companies comprising the Tax Capital Group are offset due to the fact that, beginning from 1 January 2012, these companies submit a consolidated tax return.

Value added tax

Revenues, expenses, assets and liabilities are recognized net of the amount of value added tax except:

- where the value added tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case value added tax is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable, and
- receivables and payables, which are stated with the amount of value added tax included.

The net amount of value added tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

9.26. Business combinations

The Group uses the pooling of interests method for accounting for business combinations of entities under joint control. The underlying assumption in this method is that the merging entities were controlled by the same shareholder both before and after the transaction and, therefore, the financial statements reflect the continuity of joint control and do not reflect any change of the value of net assets to fair value (or recognition of new assets) or valuation of goodwill, as in fact none of the merging entities is acquired. Therefore, the financial statements are prepared as if the merging entities had been merged since the date on which they became subject to joint control.

The entities contributed to the Company in May 2007 were under the control of the State Treasury, which means that, at the moment of contribution, both the Company and the entities contributed were under joint control of the State Treasury. Therefore, in the opinion of the Company, the transaction of contribution of companies meets the definition of a transaction under joint control and is therefore excluded from the scope of IFRS 3.

Business combinations other than combination of entities or businesses under joint control are accounted for by the Group using the acquisition method referred to in IFRS 3 *Business Combinations*. In the case of such business combinations one of the combining entities is identified as the acquirer. On the acquisition date, the acquirer recognizes, separately from goodwill, the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree. The acquirer measures identifiable assets acquired and liabilities assumed at fair value as at the date of acquisition.

The most significant business combination accounted for by the Group using the acquisition method was the acquisition of shares in Górnośląski Zakład Elektroenergetyczny S.A. from Vattenfall AB on 13 December 2011.

9.27. Revenue

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenues are recognized at the fair value of the consideration received or receivable, net of Value Added Tax, excise and other sales taxes or charges as well as rebates and discounts. The following specific recognition criteria must also be met before revenue is recognized.

Revenue from sale of goods for resale and finished goods

Revenue is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer and the amount of revenue and costs incurred can be reliably measured.

Revenue includes amounts due for finished goods, goods for resale and materials sold as well as other services relating to principal activities, determined on the basis of the net price, net of rebates and discounts granted and net of excise.

The most significant revenue is generated by the Group from sales of electricity and heat, from coal sales and trading in property rights related to energy certificates as well as greenhouse gas emission allowances.

Revenue from sale of electricity also includes the amount of compensation for stranded costs. Revenue from compensations is recognized in line with compensation rights earned until the end of the period covered by the compensation scheme. Each time revenue is recognized the Group determines an index of the estimated stranded costs to the sum total of discounted yearly advances received, returned and expected (including the yearly advances received to date). The amount of revenue for a given financial year is the product of multiplying the index and the amounts of the yearly advances received to date, adjusted for annual adjustments and decreased by the amount of compensation revenue recognized in previous years.

Revenue from the rendering of services

Revenue from the rendering of services mainly includes revenue from distribution activities and revenue from settlement of connection fees.

Revenue from illegal energy consumption (electricity or heat) is recognized as part of the principal operating activities of the Group.

Government grants

Government grants are recognized at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with.

When the grant relates to an expense item, income is recognized over the period necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, its fair value is credited to a deferred income account and is released systematically to profit or loss over the estimated useful life of the relevant asset.

9.28. Costs

Cost of sales

Cost of sales includes:

- cost of production incurred during the given reporting period, adjusted for the movement in the stocks of products (finished goods, semi-finished goods and work-in-progress) and for the cost of goods produced for internal purposes,
- cost of goods for resale and materials sold at acquisition cost,
- impairment write-downs recognized against property, plant and equipment, intangible assets and receivables, and
- total selling expenses and administrative expenses incurred during the reporting period (recognized as profit or loss).

Costs of production which are directly attributable to income earned by an enterprise are recognized in profit or loss for the reporting period in which income is earned.

Costs of production which are only indirectly attributable to income or other benefits earned by an enterprise are recognized in the profit or loss of the enterprise to the extent they relate to the given reporting period, so as to match them to the related income or other economic benefits, taking into account the principles of valuation of property, plant and equipment and inventories.

9.29. Other operating income and expenses

Other operating income and expenses include in particular items resulting from:

- disposal of property, plant and equipment and intangible assets,
- recognition and reversal of provisions, except for provisions related to financial operations or recognized in operating expenses,
- donation or a free-of-charge receipt, including by way of donation of assets, and including cash and cash equivalents, and
- compensation, penalties and fines and other expenses unrelated to ordinary activities.

9.30. Finance income and finance costs

Finance income and finance costs include in particular items resulting from:

- disposal of financial assets,
- re-measurement of the value of financial instruments, excluding financial assets available for sale, for which the effects of revaluation are recognized under revaluation reserve,
- participation in the profits of other entities,

- interest,
- interest expense relating to the measurement of employee benefits in accordance with IAS 19,
- movements in the amount of the provision due to the approach of the date on which costs will be incurred (the effect of unwinding of the discount),
- exchange differences resulting from operations performed during the reporting period and balance sheet valuations of assets and liabilities at the end of the reporting period, except for exchange differences recognized in the initial cost of the item of property, plant and equipment, to the extent they are regarded as an adjustment to interest expense, and exchange differences resulting from the measurement of non-monetary items classified as available-for-sale, and
- other items related to financial activities.

The Group entities offset foreign exchange gains and losses if they arise from similar transactions.

Interest income and interest expense is recognized as interest accrues to the net carrying amount of the financial instrument using the effective interest rate method, taking into account the materiality concept.

Dividends are recognized when the shareholders' rights to receive the payment are established.

9.31. Earnings per share

Earnings per share for each reporting period is calculated as quotient of the net profit for the given accounting period attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding in that period.

9.32. Statement of cash flows

Statement of cash flows is prepared using the indirect method.

10. Significant judgments and estimates

In the process of applying the accounting policies with respect to the matters stated below, management has made the following judgments, apart from those involving estimations, which have the most significant effect on the amounts recognized in the consolidated financial statements, including explanatory notes. The assumptions underlying these estimates are based on management's best knowledge of current and future activities and events in the particular areas. The details of the assumptions adopted are presented in the relevant notes to these consolidated financial statements.

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Impairment of assets

In accordance with IAS 36, the Group carried out impairment tests for the operating segments that include goodwill as well as impairment tests of non-current assets and intangible assets. Those tests required estimating the value in use of the segments based on future cash flows generated by them, which were subsequently amortized to present value using a discount rate. The Group did not recognize any impairment losses as a result of those tests. The details of the adopted assumptions and significant details of the tests performed are included in Notes 14 and 15.

Depreciation and amortization rates

Depreciation and amortization rates and charges are determined based on the anticipated economic useful lives of property, plant and equipment or intangible assets and the estimated residual values of property, plant and equipment. Capitalized overhaul expenses are depreciated over the periods remaining up to the anticipated date of commencing the next overhaul of a given item. The economic useful lives are reviewed annually by the Group based on current estimates. The review of the useful lives of fixed and intangible assets performed in 2012 had the following effect on depreciation and amortization costs for 2012:

- increase of depreciation costs in the Mining Segment by the amount of approx. PLN 4,130 thousand,
- increase of depreciation costs in the Generation Segment by the amount of approx. PLN 13,206 thousand,
- decrease of depreciation costs in the Renewable Sources Energy Segment by the amount of approx. PLN 1,063 thousand.

The review of the economic useful lives in other segments had no significant impact on depreciation costs for 2012.

Estimation of revenue from sale of electricity

The readings of the meters concerning the amount of electricity sold on the retail market are in most cases taken and the invoices issued in periods other than the reporting periods. Therefore, the Group companies trading in energy make an estimate of the sales at each balance sheet date for the period not covered by the reading.

Additional estimation of revenue from sales of electricity as at 31 December 2012, which also included additional estimation of the imbalance of electricity declared and used, resulted in the reduction of sales revenue recognized in these consolidated financial statements by PLN 24,383 thousand.

Compensations for termination of long-term contracts

The Group receives compensations for stranded costs in accordance with the Act of 29 June 2007 on the principles for covering costs incurred by electricity generating companies due to early termination of long-term contracts for the sale of power and electricity (Power Purchase Agreements). Revenue from such compensations is recognized in line with the compensation earned until the end of the period covered by the compensation scheme. In order to estimate the amount of the revenue attributable to the given period the Group makes estimates to determine the index of the estimated stranded costs to the sum total of the discounted yearly advances received, returned and expected (including the yearly advances received to date), the annual adjustments and the anticipated final adjustment. The details of compensation for termination of long-term contracts are discussed in Note 37.

Valuation of provisions for employee benefits

Provisions for employee benefits were determined using actuarial valuations. Also, provisions were recognized for benefits paid under voluntary redundancy schemes. The details of the above-mentioned provisions are presented in Note 31.

Key assumptions used by the actuary at the balance sheet to calculate the amount of the obligation are as follows:

	31 December 2012	31 December 2011
Discount rate (%)	4.00%	5.75%
Estimated inflation rate (%)	2.52%	2.52%
Employee rotation rate (%)	1.09% – 5.86%	0.40% – 5.15%
Estimated salary increase rate (%)	2.52% – 2.92%	2.52% – 3.03%
Estimated electricity price increase rate (%)	3.52%	3.48%
Estimated increase rate for contribution to the Social Fund (%)	4.00%	3.60% – 5.00%
Remaining average employment period	10.52 – 13.95	9.41 – 14.50

The sensitivity of the results of the valuation as at 31 December 2012 to a change in financial discount rate by 0.5 percentage points is presented in the table below:

Provision	Carrying amount of provision at the discount rate of 4%	Analysed carrying amount – 96%	Value of provision at the discount rate of 3.5%	Value of provision at the discount rate of 4.5%
Post-employment benefits, of which:	1 048 436	1 014 618	1 092 580	947 613
Provision for retirement, disability and similar benefits	260 356	247 200	262 369	233 382
Employee electricity rates/Coal allowances	652 314	634 418	684 694	590 046
Social Fund	135 766	133 000	145 517	124 185
Jubilee bonuses	579 547	544 178	567 593	522 340
Total:	1 627 983	1 558 796	1 660 173	1 469 953
Change in relation to analysed carrying amount			101 377	(88 843)

The sensitivity analysis included the carrying amount of provisions for employee benefits, amounting to PLN 1,558,796 thousand, which accounts for 96% of the carrying amount of the total provision for employee benefits. The sensitivity analysis did not include the results of valuation of the Group companies (4% of the balance of the provision) for which valuation was not performed by the group actuary.

A decrease of the discount rate by 0.5 percentage points would have caused an increase of the provision for employee benefits from PLN 1,558,796 thousand to PLN 1,660,173 thousand, i.e. by PLN 101,377 thousand, while an increase of the discount rate by 0.5 percentage points, i.e. the use of a 4.5% rate, would have caused a decrease of the provision to PLN 1,469,953 thousand, i.e. by PLN 88,843 thousand.

Valuation of provision for decommissioning liabilities and for dismantling and removal of fixed assets

This provision is recognized with respect to the mining enterprises being part of the Group based on the estimate of the anticipated decommissioning costs related to the dismantling and removal of facilities and the restoration of land to its original condition. The amount of the provision is estimated based on studies prepared on the basis of deposit exploitation projections (for mining facilities) and

technological and economic analyses. In addition, provisions for the dismantling and removal of fixed assets are recognized when such obligations arise or are undertaken by the Group.

The provision for decommissioning liabilities and for dismantling and removal of fixed assets is discussed in detail in Note 32.2.2.

Deferred tax assets

Deferred tax assets are measured using the tax rates that are expected to apply in the period when the asset is expected to be realized, based on tax laws that have been enacted at the balance sheet date. The Group recognizes deferred tax assets based on the assumption that taxable profits will be available against which the deferred tax asset can be utilized. Deterioration of future taxable profits might render this assumption unreasonable.

Based on the forecasts prepared for the Tax Capital Group (TCG), according to which taxable profits will be earned in 2012 and in subsequent years, it has been concluded that there is no risk that the deferred tax asset recognized in these consolidated financial statements will not be realized.

Valuation of IRS and forward currency contracts

The fair value of forward currency contracts is determined based on the discounted future cash flows generated by these transactions, calculated based on the difference between the forward price and the transaction price. The forward price is calculated based on the NBP fixing rate and the interest rate curve implied from FX swap transactions.

The fair value of interest rate swaps is determined based on the discounted future cash flows generated by these transactions, calculated based on the difference between the forward price and the transaction price. The forward price is calculated based on the zero-coupon interest rate curve.

The fair value of derivatives used for hedging purposes and subject to hedge accounting as well as derivatives measured at fair value through profit or loss is presented in Note 40.

Fair value of other financial instruments

The fair value of financial instruments for which no active market exists is assessed by means of appropriate valuation techniques. The Group applies professional judgment in selecting appropriate methods and assumptions. The methods used for measuring the fair value of financial instruments are presented in Note 40.1.

Write-downs against energy-related property rights recognized under inventories

Inventories were measured at the balance sheet date at their net realizable values. As a result of a decline in the market prices of property rights related to energy certificates which are recognized by the Group under inventories it was necessary to recognize write-downs against these assets at the balance sheet date.

The Group restated its property rights related to renewable energy certificates in the amount of 787,728, which resulted in the recognition of write-downs of PLN 86,689 thousand. The price used in the valuation was determined based on quotations on a high liquidity exchange market. The Company believes that, given large fluctuations in the prices of such property rights, the adopted price is the best estimate of their net realizable value.

In addition, the Group recognized a write-down of PLN 3,249 thousand against property rights related to certificates of electricity generated using other cogeneration plants as well as a write-down of PLN 205 thousand against property rights related to gas cogeneration energy certificates.

Allowances for doubtful debts

At the balance sheet date the Group makes an assessment of whether there is any objective evidence of impairment of an individual receivable or a group of receivables. Where the recoverable amount of the asset is less than its carrying amount, an entity recognizes an allowance to bring down the carrying amount to the present value of the expected cash flows.

The details of allowances for trade and other receivables are presented in Note 41.4.5.1.

11. Segment information

The Group presents segment information for the current and comparative reporting periods in accordance with IFRS 8 *Operating segments*.

The Group is organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets.

As of 1 January 2012, changes were made to presentation of segments which involved separating two new operating segments: the Heat Segment and the Customer Service Segment and amending the allocation of companies to the individual operating segments. These changes resulted mainly from merger processes carried out in 2011, changes to the business names of the companies and acquisition

of companies from the GZE Group. Separation of new segments is the consequence of the Group's reorganization and the Board's monitoring of results separately at the level of the Heat and Customer Service segments. The allocation of companies to particular segments was changed as follows:

- Elektrociepłownia Tychy S.A. and Elektrociepłownia EC Nowa Sp. z o.o., which merged with TAURON Ciepło S.A. in the 2nd quarter of 2012, were part of the Generation Segment, whereas the activities of TAURON Ciepło S.A. represented other activities of the Group. Currently TAURON Ciepło S.A. is assigned to the Heat Segment;
- TAURON Obsługa Klienta Sp. z o.o. was allocated to the Sales Segment, whereas the activities of TAURON Obsługa Klienta GZE Sp. z o.o. were part of other activities of the Group. Currently these companies comprise the Customer Service Segment;
- Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. was allocated to the Sales Segment, while currently it represents other activities of the Group;

Elektrociepłownia Stalowa Wola S.A., accounted for using the equity method in the consolidated financial statements, was presented under the Generation Segment, while currently it is presented under the Heat Segment.

Comparative figures for the period from 1 January 2011 to 31 December 2011 have been restated accordingly.

The Group's reporting format during the period from 1 January 2012 to 31 December 2012 and in the comparable period was based on the following operating segments:

- Mining Segment, which includes hard coal mining. The entity which operates in the Mining Segment of the TAURON Group is Południowy Koncern Węglowy S.A.,
- Generation Segment, which includes generation of electricity using conventional sources, including combined heat and power generation, as well as generation of electricity using joint combustion of biomass and other energy acquired thermally. The main types of fuel used by the Generation Segment are hard coal, biomass and coke-oven gas. The Generation Segment of the TAURON Group includes operations of TAURON Wytwarzanie S.A. In addition, this segment also includes the investment in the newly established Elektrownia Blachownia Nowa Sp. z o.o., which is recognized using the equity method in the consolidated financial statements;
- Renewable Sources of Energy Segment, which includes generation of electricity using renewable sources, excluding generation of electricity using joint combustion of biomass, which, due to the specific nature of such generation, has been included in the Generation Segment. Entities which operate in the Renewable Sources of Energy Segment of the TAURON Group are TAURON Ekoenergia Sp. z o.o., BELS INVESTMENT Sp. z o.o., MEGAWAT MARSZEWO Sp. z o.o.;
- Segment of Sales, which includes wholesale trading in electricity, trading in emission allowances and energy certificates and sale of electricity to domestic end users or entities which further resell electricity. Entities which operate in that segment of the TAURON Group are TAURON Polska Energia S.A., TAURON Sprzedaż Sp. z o.o., TAURON Czech Energy s.r.o. and TAURON Sprzedaż GZE Sp. z o.o.;
- Distribution Segment, including operations of TAURON Dystrybucja S.A. and TAURON Serwis GZE Sp. z o.o.;
- Heat Segment, which includes distribution and sales of heat. The entity which operates in that segment is TAURON Ciepło S.A. In addition, the investment in Elektrociepłownia Stalowa Wola S.A., which is accounted for using the equity method in the consolidated financial statements, is also presented in this segment;
- Customer Service Segment, which mainly includes services to internal customers in respect of sales process services as well as in respect of financial and accounting services to selected Group companies. Entities which operate in that segment are TAURON Obsługa Klienta Sp. z o.o. and TAURON Obsługa Klienta GZE Sp. z o.o.

In addition to the main business segments listed above, the TAURON Group also conducts operations in quarrying of stone (including limestone) for the power industry, metallurgy, construction and highway engineering industry as well as in the area of production of sorbents for use in wet desulfurization installations and fluidized bed combustors (Kopalnia Wapienia Czatkowice Sp. z o.o.). The operations of Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. are also treated as other activities of the Group.

The Group settles transactions between segments as if they were made between unrelated parties, using current market prices.

Revenue from transactions between segments is eliminated on consolidation.

Administrative expenses of the parent, after elimination of costs arising from intercompany transactions, are presented under unallocated expenses. Administrative expenses are incurred by the parent for the benefit of the whole Group and cannot be directly allocated to a single operating segment.

Segment assets do not include deferred tax, income tax receivable or financial assets, except for trade receivables and other financial receivables as well as cash and cash equivalents, which represent segment assets.

Segment liabilities do not include deferred tax, income tax payable or financial liabilities, except for trade payables, commitments resulting from the purchase of fixed and intangible assets and payroll creditors, which represent segment liabilities.

None of the Group's operating segments has been combined with another segment to create the above-mentioned reporting segments.

The Management Board separately monitors the operating results of the segments to take decisions on how to allocate the resources, to evaluate the effects of the allocation and to evaluate performance. Evaluation of performance is based on operating profit or loss, which to a certain extent, as explained in the table (Note 11.1), are measured differently from the operating profit or loss in the consolidated financial statements and EBITDA.

The Group defines EBITDA as profit/loss from continuing operations before taxation and finance income and expense, increased by depreciation.

The Group's financing (including finance costs and income) and income tax are monitored at the level of the Group and are not allocated to segments.

In addition, the Group presents geographical areas of its activities, which do not represent operating segments.

11.1. Operating segments

The following tables present revenue and profit information and certain asset and liability information regarding the Group's operating segments for the years ended 31 December 2012 and 31 December 2011.

Year ended 31 December 2012	Mining	Generation	Renewable sources of energy	Distribution	Sales	Heat	Customer service	Other	Unallocated items	Total	Eliminations	Total operations
Revenue												
Sales to external customers	639 412	5 094 767	20 062	2 160 146	15 604 929	964 622	20 985	236 334	-	24 741 257	-	24 741 257
Inter-segment sales	838 423	710 290	186 519	3 905 624	2 924 917	15 425	317 659	249 954	-	9 148 811	(9 148 811)	-
Segment revenue	1 477 835	5 805 057	206 581	6 065 770	18 529 846	980 047	338 644	486 288	-	33 890 068	(9 148 811)	24 741 257
Profit/(loss) of the segment	174 945	293 460	103 879	1 065 660	452 113	148 634	12 008	34 048	(31 138)	2 253 609	-	2 253 609
Unallocated expenses	-	-	-	-	-	-	-	-	(100 208)	(100 208)	-	(100 208)
Profit/(loss) from continuing operations before tax and net finance income (costs)	174 945	293 460	103 879	1 065 660	452 113	148 634	12 008	34 048	(131 346)	2 153 401	-	2 153 401
Share in profit/(loss) of joint venture recognised using the equity method	-	(186)	-	-	-	(1 548)	-	-	-	(1 734)	-	(1 734)
Net finance income (costs)	-	-	-	-	-	-	-	-	(215 818)	(215 818)	-	(215 818)
Profit/(loss) before income tax	174 945	293 274	103 879	1 065 660	452 113	147 086	12 008	34 048	(347 164)	1 935 849	-	1 935 849
Income tax expense	-	-	-	-	-	-	-	-	(394 550)	(394 550)	-	(394 550)
Net profit/(loss) for the period	174 945	293 274	103 879	1 065 660	452 113	147 086	12 008	34 048	(741 714)	1 541 299	-	1 541 299
EBITDA	287 431	832 744	143 450	1 944 168	478 342	217 630	25 131	42 347	(131 346)	3 839 897	-	3 839 897
Assets and liabilities												
Segment assets	1 214 157	9 723 736	1 573 092	12 871 268	3 774 164	1 504 107	56 607	177 510	-	30 894 641	-	30 894 641
Investments in joint ventures recognised using the equity method	-	32 390	-	-	-	19 596	-	-	-	51 986	-	51 986
Unallocated assets	-	-	-	-	-	-	-	-	327 050	327 050	-	327 050
Total assets	1 214 157	9 756 126	1 573 092	12 871 268	3 774 164	1 523 703	56 607	177 510	327 050	31 273 677	-	31 273 677
Segment liabilities	604 152	1 252 124	361 929	2 474 184	2 123 835	276 006	107 120	42 383	-	7 241 733	-	7 241 733
Unallocated liabilities	-	-	-	-	-	-	-	-	7 303 711	7 303 711	-	7 303 711
Total liabilities	604 152	1 252 124	361 929	2 474 184	2 123 835	276 006	107 120	42 383	7 303 711	14 545 444	-	14 545 444
Other segment information												
Capital expenditure*	167 268	857 153	340 396	1 785 779	62 003	221 763	21 554	15 588	-	3 471 504	-	3 471 504
Depreciation/amortization	(112 486)	(539 284)	(39 571)	(878 508)	(26 229)	(68 996)	(13 123)	(8 299)	-	(1 686 496)	-	(1 686 496)

* Capital expenditure includes expenditures for property, plant and equipment and intangible assets, excluding acquisition of greenhouse gas emission allowances.

Year ended 31 December 2011 (restated figures)	Mining	Generation	Renewable sources of energy	Distribution	Sales	Heat	Customer service	Other	Unallocated items	Total	Eliminations	Total operations
Revenue												
Sales to external customers	533 548	5 319 194	2 438	1 465 151	12 256 150	902 044	35 819	240 878	–	20 755 222	–	20 755 222
Inter-segment sales	637 665	631 270	178 236	3 203 086	1 301 757	48 125	189 442	241 525	–	6 431 106	(6 431 106)	–
Segment revenue	1 171 213	5 950 464	180 674	4 668 237	13 557 907	950 169	225 261	482 403	–	27 186 328	(6 431 106)	20 755 222
Profit/(loss) of the segment	11 200	512 959	100 622	637 080	263 543	160 631	10 030	29 126	(4 720)	1 720 471	–	1 720 471
Unallocated expenses	–	–	–	–	–	–	–	–	(74 967)	(74 967)	–	(74 967)
Profit/(loss) from continuing operations before tax and net finance income (costs)	11 200	512 959	100 622	637 080	263 543	160 631	10 030	29 126	(79 687)	1 645 504	–	1 645 504
Share in profit/(loss) of joint venture recognised using the equity method	–	–	–	–	–	(1 046)	–	–	–	(1 046)	–	(1 046)
Net finance income (costs)	–	–	–	–	–	–	–	–	(44 507)	(44 507)	–	(44 507)
Profit/(loss) before income tax	11 200	512 959	100 622	637 080	263 543	159 585	10 030	29 126	(124 194)	1 599 951	–	1 599 951
Income tax expense	–	–	–	–	–	–	–	–	(333 017)	(333 017)	–	(333 017)
Net profit/(loss) for the period	11 200	512 959	100 622	637 080	263 543	159 585	10 030	29 126	(457 211)	1 266 934	–	1 266 934
EBITDA	111 040	1 047 145	126 036	1 302 691	270 927	229 030	12 704	37 165	(79 687)	3 057 051	–	3 057 051
Assets and liabilities												
Segment assets	1 137 294	9 692 185	967 960	12 070 339	2 670 206	1 351 415	67 078	172 161	–	28 128 638	–	28 128 638
Investments in joint ventures recognised using the equity method	–	–	–	–	–	22 717	–	–	–	22 717	–	22 717
Unallocated assets	–	–	–	–	–	–	–	–	375 641	375 641	–	375 641
Total assets	1 137 294	9 692 185	967 960	12 070 339	2 670 206	1 374 132	67 078	172 161	375 641	28 526 996	–	28 526 996
Segment liabilities	494 853	1 515 448	47 253	2 241 088	1 627 154	251 875	81 848	32 257	–	6 291 776	–	6 291 776
Unallocated liabilities	–	–	–	–	–	–	–	–	6 148 002	6 148 002	–	6 148 002
Total liabilities	494 853	1 515 448	47 253	2 241 088	1 627 154	251 875	81 848	32 257	6 148 002	12 439 778	–	12 439 778
Other segment information												
Capital expenditure*	177 617	828 524	44 030	1 284 707	20 190	129 677	14 083	4 895	–	2 503 723	–	2 503 723
Depreciation/amortization	(99 840)	(534 186)	(25 414)	(665 611)	(7 384)	(68 399)	(2 674)	(8 039)	–	(1 411 547)	–	(1 411 547)

* Capital expenditure includes expenditures for property, plant and equipment and intangible assets, excluding acquisition of greenhouse gas emission allowances.

11.1. Geographical areas

The majority of the Group's operations are conducted on the territory of Poland. Sales to overseas clients during the years ended 31 December 2012 and 31 December 2011 amounted to PLN 757,716 thousand and PLN 665,279 thousand, respectively.

12. Revenues and expenses

The figures for the year ended 31 December 2012 also include revenues and costs of the companies acquired as a result of the purchase of the GZE S.A. Group, which are consolidated as of the date of acquisition i.e. 13 December 2011.

12.1. Sales revenue

	Year ended 31 December 2012	Year ended 31 December 2011
Revenue from sale of goods for resale, finished goods and materials, of which:	18 507 421	15 888 724
Electricity	15 881 619	13 553 113
Heat energy	632 152	594 071
Property rights arising from energy certificates	223 797	249 226
Greenhouse gas emission allowances	249 303	258 032
Compensation for termination of PPAs	567 012	414 795
Coal	603 249	501 581
Furnace blast	146 327	149 711
Compressed air	75 155	70 406
Milling products	36 390	27 899
Other goods for resale, finished goods and materials	92 417	69 890
Rendering of services, of which:	6 186 627	4 825 806
Distribution and trade services	5 762 585	4 473 534
Connection fees	178 033	148 140
Maintenance of road lighting	100 599	76 240
Charges for illegal electricity consumption	14 808	10 451
Other services	130 602	117 441
Other revenue, of which:	47 209	40 692
Total sales revenue	24 741 257	20 755 222

12.2. Other operating income

	Year ended 31 December 2012	Year ended 31 December 2011 <i>(restated figures)</i>
Penalties, fines, compensations received or receivable	35 640	30 840
Reversal of provisions	29 677	26 894
Subsidies/grants and revenue representing the equivalent of amortization/depreciation charges on subsidies/grants to fixed assets or fixed assets received free of charge	16 236	11 097
Reversal of impairment losses recognised for other assets	10 912	3 692
Surplus inventories	16	3 543
Tax refunds (other than CIT)	138	3 515
Court proceedings costs, litigation and enforcement costs received or receivable	4 371	2 110
Income from perpetual usufruct received free of charge	14	1 599
Preferential loans valuation	1 526	1 526
Sale/recovery of scrap metal	724	1 497
Statute-barred/forgiven liabilities	648	534
Other	18 999	12 599
Total other operating income	118 901	99 446

Other operating income from the reversal of provisions in the year ended 31 December 2012 mainly include the reversal by TAURON Dstrybucja S.A. of part of the provision for the use of real estate under power generation facilities without contract, amounting to

PLN 12,777 thousand, and the reversal by TAURON Ciepło S.A. of the provision for contested claims of IPW Polin Sp. z o.o., amounting to PLN 9,366 thousand.

12.3. Other operating expenses

	Year ended 31 December 2012	Year ended 31 December 2011 <i>(restated figures)</i>
Recognition of provisions	(51 935)	(28 501)
Loss on the disposal of property, plant and equipment/intangible assets	(14 763)	(15 387)
Costs of electrical and other damages to non-current assets	(10 124)	(13 140)
Social activity costs	(4 647)	(7 876)
Court fees, litigation and enforcement costs	(7 015)	(5 270)
Penalties, fines, compensations	(4 038)	(2 388)
Recognition of impairment losses against other assets	(10 745)	(4 313)
Delegated employees	(3 508)	(3 757)
Donations	(4 181)	(2 296)
Membership fees	(2 350)	(2 040)
Write-off for abandoned investments and production as well as liquidated materials	(12 487)	(1 015)
Adjustment of property tax for previous years	(1 116)	–
Other	(10 749)	(1 475)
Total other operating expenses	(137 658)	(87 458)

Other operating expenses arising from the recognition of provisions mainly include the recognition of a provision for the use of land without contract:

- amounting to PLN 22,558 thousand by TAURON Ciepło S.A.
- amounting to PLN 20,510 thousand by TAURON Dystrybucja S.A.

12.4. Finance income

	Year ended 31 December 2012	Year ended 31 December 2011
Income from financial instruments, of which:	127 507	109 006
Interest income	84 022	91 776
Dividends	8 367	8 203
Reversal of write-downs for financial assets	16 187	7 315
Gain on the disposal of investments	14 692	–
Net revenue from realized derivative instruments	4 234	–
Revaluation of financial assets	5	1 712
Other finance income, of which:	3 799	6 761
Reversal of interest write-downs	1 779	5 645
Interest on amounts due from the state budget	250	76
Other	1 770	1 040
Total finance income	131 306	115 767

12.5. Finance costs

	Year ended 31 December 2012	Year ended 31 December 2011
Financial instrument costs, of which:	(261 254)	(85 983)
Interest costs	(233 512)	(63 933)
Recognition of impairment losses	(19 271)	(7 710)
Revaluation of financial assets	(986)	(342)
Foreign exchange losses	(413)	(5 168)
Commission relating to borrowings and debt securities	(7 072)	(6 205)
Loss on disposal of investments	–	(2 625)
Other finance costs, of which:	(85 870)	(74 291)
Interest on employee benefits	(74 291)	(68 348)
Interest on amounts due to the state budget	(1 694)	(903)
Other finance costs	(9 885)	(5 040)
Total finance costs	(347 124)	(160 274)

The increase in interest costs in the year ended 31 December 2012 compared with the comparative period results mainly from interest costs on debentures issued in December 2011 and January 2012.

During the year ended 31 December 2012, the total amount of interest paid by the Group under loans and borrowings as well as finance leases amounted to PLN 296,526 thousand. Borrowing costs capitalized during the current period are presented by the Group in the consolidated statement of cash flows as expenditures for the purchase of property, plant and equipment and intangible assets under cash flows from investing activities.

12.6. Costs by type

	Year ended 31 December 2012	Year ended 31 December 2011 (restated figures)
Costs by type		
Depreciation of property, plant and equipment and amortization of intangible assets	(1 686 496)	(1 411 547)
Impairment of property, plant and equipment and intangible assets	91 491	(71 519)
Materials and energy	(3 348 530)	(2 873 756)
Maintenance and repair services	(287 395)	(210 396)
Distribution services	(1 572 192)	(1 316 462)
Other external services	(829 779)	(706 256)
Taxes and charges	(631 611)	(594 243)
Employee benefits expense	(2 930 200)	(2 541 581)
Inventory write-downs	(147 716)	(946)
Allowance for doubtful debts	(48 021)	(35 561)
Other	(124 253)	(120 264)
Total costs by type	(11 514 702)	(9 882 531)
Change in inventories, prepayments, accruals and deferred income	(128 635)	(4 925)
Cost of goods produced for internal purposes	487 724	409 152
Selling and distribution expenses	552 291	283 382
Administrative expenses	734 754	663 970
Cost of goods for resale and materials sold	(11 413 486)	(9 643 402)
Cost of sales	(21 282 054)	(18 174 354)

The reversal of the write-down recognized against property rights included in intangible assets had no effect on the result for 2012, as simultaneously the Group reversed the provision for cancellation of energy certificates. In accordance with the accounting policy, the portion of the provision covered by the energy certificates held is recognized at the value of the certificates held, which means that recognition of a write-down resulted in the reduction of the cost of recognition of the provision in 2011 and the method of accounting for it in 2012. In the 1st quarter of 2012, energy certificates covered by the impairment write-down were surrendered for cancellation, as a result of which the impairment write-down recognized in 2011 in the amount of PLN 91,114 thousand was utilized.

The increase in selling and distribution expenses is mainly due to selling and distribution expenses of the acquired companies: TAURON Dystrybucja GZE S.A. (currently TAURON Dystrybucja S.A.), TAURON Sprzedaż GZE Sp. z o.o. and TAURON Obsługa Klienta GZE Sp. z o.o.

12.7. Depreciation expense and impairment recognized

	Year ended 31 December 2012	Year ended 31 December 2011
Items included in cost of sales:	(1 507 348)	(1 424 037)
Depreciation of property, plant and equipment	(1 559 568)	(1 333 091)
Impairment of property, plant and equipment	(14 790)	34 086
Amortization of intangible assets	(28 871)	(18 774)
Impairment of intangible assets	95 881	(106 258)
Items included in selling and distribution expenses:	(16 967)	(4 070)
Depreciation of property, plant and equipment	(20 089)	(3 037)
Amortization of intangible assets	(7 278)	(1 033)
Impairment of intangible assets	10 400	–
Items included in administrative expenses:	(56 326)	(42 869)
Depreciation of property, plant and equipment	(30 405)	(27 627)
Impairment of property, plant and equipment	–	653
Amortization of intangible assets	(25 921)	(15 895)
Items included in cost of goods produced for internal purposes:	(14 364)	(12 090)
Depreciation of property, plant and equipment	(13 884)	(10 730)
Amortization of intangible assets	(480)	(1 360)
Total depreciation/amortization expense and impairment	(1 595 005)	(1 483 066)

12.8. Employee benefits expenses

	Year ended 31 December 2012	Year ended 31 December 2011 (restated figures)
Wages and salaries	(1 979 946)	(1 867 258)
Social security costs	(399 196)	(339 433)
Jubilee bonuses	(141 163)	(16 521)
Social Fund	(66 020)	(72 181)
Post-employment benefits expenses, of which:	(78 200)	(81 431)
Provision for retirement, disability and similar benefits	(3 498)	(8 105)
Coal allowances and special electricity rates and charges	(6 764)	(6 395)
Social Fund	(516)	(2 006)
Contributions to employee retirement plans	(67 422)	(64 925)
Voluntary termination benefits	(164 234)	(82 473)
Other employee benefits expenses	(101 441)	(82 284)
Employee benefits expenses, of which:	(2 930 200)	(2 541 581)
Items included in cost of sales	(1 901 423)	(1 738 541)
Items included in selling and distribution expenses	(247 095)	(139 938)
Movement in stocks of finished goods	(155 751)	(140 800)
Items included in administrative expenses	(435 206)	(377 827)
Items included in cost of goods produced for internal purposes	(190 725)	(144 475)

13. Income tax

13.1. Tax expense

Major components of income tax expense for the years ended 31 December 2012 and 31 December 2011 are as follows:

	Year ended 31 December 2012	Year ended 31 December 2011 (restated figures)
Current income tax	(343 950)	(210 343)
Current income tax expense	(340 974)	(206 181)
Adjustments to current income tax from previous years	(2 976)	(4 162)
Deferred tax	(50 600)	(122 674)
Income tax expense in profit/(loss)	(394 550)	(333 017)
Income tax expense relating to other comprehensive income	77 693	(7 058)

13.2. Reconciliation of the effective income tax rate

A reconciliation of income tax expense applicable to accounting profit before tax at the statutory income tax rate to income tax expense at the Group's effective income tax rate for the years ended 31 December 2012 and 31 December 2011 is as follows:

	Year ended 31 December 2012	Year ended 31 December 2011 (restated figures)
Profit/(loss) before tax from continued operations	1 935 849	1 599 951
Profit/(loss) before taxation	1 935 849	1 599 951
Tax at Poland's statutory tax rate of 19%	(367 811)	(303 991)
Adjustments to income tax from previous years	(2 976)	(4 162)
Tax non-deductible costs, of which:	(30 293)	(30 896)
Recognition of non-deductible provisions and write-downs/allowances	(3 915)	(7 044)
National Disabled Persons Rehabilitation Fund (PFRON)	(4 663)	(4 283)
Permanent differences on costs related to tangible assets	(9 064)	(4 081)
Other	(12 651)	(15 488)
Income not included in taxable profit, of which:	14 257	11 971
Dividends	1 487	1 550
Reversal of non-deductible provisions and write-downs/allowances	1 317	1 848
Other	11 453	8 573
Changes in deferred tax estimates	890	(836)
Dividend tax	(4 207)	-
Other	(4 410)	(5 103)
Tax at the effective rate of 20.4% (2011 – 20.8%)	(394 550)	(333 017)
Income tax (expense) in profit/(loss)	(394 550)	(333 017)

13.3. Deferred income tax

Deferred income tax relates to the following:

	As at 31 December 2012	As at 31 December 2011 (restated figures)
Deferred tax liability		
– difference between tax base and carrying amount of fixed and intangible assets	1 924 488	1 845 991
– difference between tax base and carrying amount of financial assets	14 063	13 612
– different timing of recognition of sales revenue for tax purposes	57 327	108 010
– recognition of estimated revenue from sale of power distribution services	7 347	4 912
– difference between tax base and carrying amount of property rights arising from energy certificates	48 181	63 750
– compensation for termination of long-term contracts	101 499	93 859
– other	24 874	29 782
Deferred tax liability	2 177 779	2 159 916
Deferred tax assets		
– difference between tax base and carrying amount of fixed and intangible assets	3 283	1 770
– difference between tax base and carrying amount of inventories	24 101	4 568
– power infrastructure received free of charge and received connection fees	89 158	86 115
– provisions	596 808	516 974
– difference between tax base and carrying amount of financial assets	23 700	17 192
– difference between tax base and carrying amount of financial liabilities	3 864	3 666
– valuation of hedging instruments	36 227	–
– different timing of recognition of cost of sales for tax purposes	20 972	70 806
– other accrued expenses	17 763	19 460
– tax losses	352	6 272
– different timing of recognition of revenue from sales of greenhouse gas emission allowances for tax purposes	21 772	61 182
– other	13 066	18 177
Deferred tax assets	851 066	806 182
After setting off balances at the level of individual Group companies, deferred tax for the Group is presented as:		
Deferred tax asset	24 135	20 079
Deferred tax liability	(1 350 848)	(1 373 813)

As at 31 December 2012 and 31 December 2011, deferred tax assets and deferred tax liabilities of the companies comprising the Tax Capital Group as described in detail in Note 9.25 were offset due to the fact that, beginning from 1 January 2012, these companies will submit a consolidated tax return.

Movement in deferred tax liability

	Year ended 31 December 2012	As at 31 December 2011 (restated figures)
Opening balance as at 1 January	2 159 916	1 756 415
Increases (relating to)	391 829	612 519
in correspondence with profit or loss	391 815	356 547
in correspondence with other comprehensive income	–	
acquisition of a subsidiary	–	255 972
other	14	–
Decreases (relating to)	(373 966)	(209 018)
in correspondence with profit or loss	(373 932)	(208 982)
in correspondence with other comprehensive income	(34)	–
other	–	(36)
Closing balance as at 31 December	2 177 779	2 159 916

Movement in deferred tax assets

	Year ended 31 December 2012	As at 31 December 2011 (restated figures)
Opening balance as at 1 January	806 182	728 323
Increases (relating to)	657 103	654 286
in correspondence with profit or loss	579 043	589 532
in correspondence with other comprehensive income	78 060	4 728
acquisition of a subsidiary	–	60 026
Decreases (relating to)	(612 219)	(576 427)
in correspondence with profit or loss	(611 760)	(564 641)
in correspondence with other comprehensive income	(401)	(11 786)
other	(58)	–
Closing balance as at 31 December	851 066	806 182

13.4. Tax Capital Group

As at 31 December 2012, the Tax Capital Group had tax liability amounting to PLN 53,631 thousand.

14. Property, plant and equipment

Year ended 31 December 2012

	Land	Perpetual usufruct	Buildings, premises and civil engineering structures	Plant and machinery	Motor vehicles	Other	Tangible fixed assets, total	Assets under construction	Property, plant and equipment, total
COST									
Opening balance	64 182	840 101	14 235 511	11 276 537	335 761	237 105	26 989 197	1 628 070	28 617 267
Direct purchase	-	-	140	92	443	42	717	3 212 363	3 213 080
Transfer of assets under construction	9 921	4 711	1 206 635	1 589 503	56 161	46 045	2 912 976	(2 912 976)	-
Sale, disposal	(52)	(1 325)	(2 411)	(10 196)	(9 497)	(57)	(23 538)	(28 683)	(52 221)
Reclassifications	(6)	17	28 978	(11 334)	5	(17 660)	-	-	-
Donations and free-of-charge transfers	-	(509)	(4 547)	(674)	(73)	(530)	(6 333)	-	(6 333)
Liquidation	(9)	(40)	(49 494)	(187 601)	(793)	(4 919)	(242 856)	(333)	(243 189)
Received free of charge	-	14	15 660	1 000	-	8	16 682	-	16 682
Transfers to assets held for sale	-	-	(38 840)	(22 559)	(708)	(999)	(96 014)	(201)	(96 215)
Received for use under rental, lease or similar agreements	-	-	-	44	913	-	957	-	957
Spare parts allocated to fixed assets	-	-	176	2 049	-	-	2 225	-	2 225
Overhaul expenses	-	-	200	719	-	-	919	101 748	102 667
Write-off of discontinued investments	-	-	-	-	-	-	-	(10 634)	(10 634)
Transfers to intangible assets	-	-	-	-	-	-	-	(1 961)	(1 961)
Items discovered	-	468	1 730	56	-	-	2 254	-	2 254
Items generated internally	-	-	-	-	-	-	-	48 917	48 917
Other movements	-	126	(4 508)	(4 446)	-	(5)	(8 833)	(1 971)	(10 804)
Foreign exchange differences from translation of foreign entities	-	-	-	(10)	(2)	-	(12)	-	(12)
Closing balance	72 024	812 667	15 389 230	12 633 180	382 210	259 030	29 548 341	2 034 339	31 582 680
ACCUMULATED DEPRECIATION									
Opening balance	(645)	(771)	(2 905 171)	(2 987 379)	(126 895)	(115 663)	(6 136 524)	(5 096)	(6 141 620)
Depreciation for the period	-	-	(748 705)	(787 641)	(46 662)	(40 938)	(1 623 946)	-	(1 623 946)
Increase of impairment	(812)	(13 010)	(944)	(861)	-	(60)	(15 687)	(387)	(16 074)
Decrease of impairment	-	199	404	144	24	47	818	6	824
Sale, disposal	-	1	876	6 554	6 188	118	13 737	-	13 737
Reclassifications	-	(1)	(12 871)	1 801	(5)	11 076	-	-	-
Donations and free-of-charge transfers	-	-	4 049	664	35	530	5 278	-	5 278
Liquidation	-	-	33 750	181 786	776	4 193	220 505	333	220 838
Transfers to assets held for sale	812	13 010	31 297	22 391	704	930	69 144	-	69 144
Other movements	-	(1)	1 034	3 623	(21)	(1 352)	3 283	(1 411)	1 872
Foreign exchange differences from translation of foreign entities	-	-	-	4	-	-	4	-	4
Closing balance	(645)	(573)	(3 596 281)	(3 558 914)	(165 856)	(141 119)	(7 463 388)	(6 555)	(7 469 943)
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	63 537	839 330	11 330 340	8 289 158	208 866	121 442	20 852 673	1 622 974	22 475 647
NET CARRYING AMOUNT AT THE END OF THE PERIOD	71 379	812 094	11 792 949	9 074 266	216 354	117 911	22 084 953	2 027 784	24 112 737

Year ended 31 December 2011 (restated figures)

	Land	Perpetual usufruct	Buildings, premises and civil engineering structures	Plant and machinery	Motor vehicles	Other	Tangible fixed assets, total	Assets under construction	Property, plant and equipment, total
COST									
Opening balance	61 995	789 048	10 656 165	9 753 514	255 375	257 369	21 773 466	723 919	22 497 385
Adjustments	(3 425)	3 425	-	-	-	-	-	-	-
Opening balance after adjustments	58 570	792 473	10 656 165	9 753 514	255 375	257 369	21 773 466	723 919	22 497 385
Direct purchase	-	-	1	292	163	88	544	2 317 551	2 318 095
Transfer of assets under construction	3 249	750	888 692	672 640	51 550	32 572	1 649 453	(1 649 453)	-
Sale, disposal	30	(5 173)	(10 621)	(2 379)	(4 072)	(2 631)	(24 846)	(10 619)	(35 465)
Reclassifications	-	1	(132)	96 075	-	(95 944)	-	-	-
Donations and free-of-charge transfers	-	-	-	(228)	(3)	(180)	(411)	-	(411)
Liquidation	(6)	(6)	(35 347)	(142 972)	(1 843)	(3 919)	(184 093)	(139)	(184 232)
Received free of charge	31	1 568	32 942	642	-	-	35 183	-	35 183
Acquisition of subsidiary	2 323	50 781	2 701 793	894 453	33 066	50 219	3 732 635	122 334	3 854 969
Received for use under rental, lease or similar agreements	-	-	-	4 542	1 503	-	6 045	(4 542)	1 503
Spare parts allocated to fixed assets	-	-	105	(7 033)	-	(284)	(7 212)	-	(7 212)
Overhaul expenses	-	-	455	5 918	-	-	6 373	95 888	102 261
Write-off of discontinued investments	-	-	-	-	-	-	-	(871)	(871)
Transfers to intangible assets	-	-	-	-	-	-	-	(7 551)	(7 551)
Items discovered	12	-	2 910	48	-	3	2 973	-	2 973
Items generated internally	-	-	-	-	-	-	-	31 602	31 602
Other movements	(27)	(293)	(1 452)	1 017	22	(189)	(922)	9 951	9 029
Foreign exchange differences from translation of foreign entities	-	-	-	8	-	1	9	-	9
Closing balance	64 182	840 101	14 235 511	11 276 537	335 761	237 105	26 989 197	1 628 070	28 617 267
ACCUMULATED DEPRECIATION									
Opening balance	(374)	(1 341)	(2 353 470)	(2 391 976)	(93 111)	(126 277)	(4 966 549)	(5 900)	(4 972 449)
Depreciation for the period	-	-	(605 643)	(706 126)	(38 864)	(23 852)	(1 374 485)	-	(1 374 485)
Increase of impairment	(322)	(259)	(632)	(1 127)	(5)	(44)	(2 389)	-	(2 389)
Decrease of impairment	-	147	29 930	6 175	163	306	36 721	407	37 128
Sale, disposal	51	682	9 840	2 381	3 261	1 574	17 789	-	17 789
Reclassifications	-	-	43	(29 305)	-	29 262	-	-	-
Donations and free-of-charge transfers	-	-	-	203	3	127	333	-	333
Liquidation	-	-	14 322	132 342	1 650	3 023	151 337	399	151 736
Depreciation posted to assets under construction	-	-	-	-	-	68	68	(68)	-
Other movements	-	-	439	58	8	150	655	66	721
Foreign exchange differences from translation of foreign entities	-	-	-	(4)	-	-	(4)	-	(4)
Closing balance	(645)	(771)	(2 905 171)	(2 987 379)	(126 895)	(115 663)	(6 136 524)	(5 096)	(6 141 620)
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	61 621	787 707	8 302 695	7 361 538	162 264	131 092	16 806 917	718 019	17 524 936
NET CARRYING AMOUNT AT THE END OF THE PERIOD	63 537	839 330	11 330 340	8 289 158	208 866	121 442	20 852 673	1 622 974	22 475 647

The recognition and reversal of impairment losses on property, plant and equipment relate to individually determined fixed assets.

In the year ended 31 December 2012, the Group purchased property, plant and equipment amounting to PLN 3,213,080 thousand, which mainly included:

- Purchases made by companies from the Distribution Segment for an amount of PLN 1,753,001 thousand related to the construction and replacement of grid assets, of which the largest capital expenditures of PLN 37,490 thousand were incurred for modernization of the 110 KV switch yard carried out by TAURON Dystrybucja S.A. – Będzin Branch.
- Purchases made by TAURON Wytwarzanie S.A. for an amount of PLN 738,041 thousand, related to the construction of new production capacities and modernization of the existing generation units. The largest capital expenditures were incurred for the following investment projects carried out by TAURON Wytwarzanie S.A.:
 - Restoration of production capacities in TAURON Wytwarzanie S.A. – the Bielsko Biała CHP Plant: PLN 221,169 thousand,
 - Construction of RES generation unit in TAURON Wytwarzanie S.A. – the Jaworzno III Power Plant: PLN 169,389 thousand,
 - Construction of a unit for generation of electricity using a renewable energy source – the K-10 boiler in TAURON Wytwarzanie S.A. – the Stalowa Wola Power Plant: PLN 45,697 thousand,
 - Modernization of primary equipment of unit No. 4 in TAURON Wytwarzanie S.A. – the Jaworzno III Power Plant: PLN 38,925 thousand.
- Purchases made by TAURON Ciepło S.A. for an amount of PLN 184,883 thousand, of which the largest amount – PLN 71,215 thousand – related to reconstruction of a fluidized bed combustor in the Tychy CHP Plant.
- Purchases made by MEGAWAT MARSZEWO Sp. z o.o. for an amount of PLN 302,021 thousand, related to construction of the Marszewo wind farm.

The carrying amount of plant and equipment held under finance lease agreements or hire purchase contracts at 31 December 2012 is PLN 56,550 thousand (31 December 2011: PLN 64,178 thousand). Leased assets and assets under hire purchase contracts are pledged as security for the related finance lease and hire purchase liabilities.

The carrying amount of buildings and structures held under finance lease agreements or hire purchase contracts at 31 December 2012 is PLN 20,951 thousand (31 December 2011: PLN 22,266 thousand). Leased assets and assets under hire purchase contracts are pledged as security for the related finance lease and hire purchase liabilities.

In 2012, the Group capitalized interest of PLN 77,559 thousand (31 December 2011: PLN 28,495 thousand). in the cost of assets under construction and intangible assets not made available for use.

Impairment tests

Due to the existence of certain circumstances in the Group companies' environment which might result in the decrease of the value in use of property, plant and equipment compared with their carrying amounts, an impairment test was performed for property, plant and equipment as at the balance sheet date.

The impairment test of property, plant and equipment was performed at the level of the individual companies except for:

- TAURON Ekoenergia Sp z o.o, where the test was performed separately for operations related to generation of electricity using water-power plants and wind turbines, and
- TAURON Ciepło S.A., where operations relating to generation of heat and electric energy in the professional CHP plant and in the system-based CHP plant as well as operations relating to heat generation, transmission and distribution (the former heat enterprises) were separated.

The following assumptions were adopted for estimating the value in use of property, plant and equipment:

- The adopted track of boiler coal prices, other coal assortments and fuel gases;
- The adopted development track of wholesale prices of electricity, taking into account, among others, the impact of the balance between the supply and demand of electricity on the market, fuel costs and costs of purchase of CO₂ allowances;
- Emission caps for 2012 for the particular CGUs according to NAP II for the period 2013–2020 in accordance with the derogation notice sent by the Polish government to the European Commission;
- The volumes of green and red energy production arising from production capacities along with the track of prices for particular energy certificates;
- The receipt of compensation by eligible generators for early termination of long-term contracts according to financial models valid at the testing dates;
- Regulated income of distribution companies ensuring coverage of reasonable costs and a reasonable return on capital employed. The level of the return depends on the so-called Regulatory Value of Assets;
- The adopted development track of retail electricity prices based on wholesale black energy prices, taking into account excise cost, cost of the obligation to surrender energy certificates for cancellation and an appropriate level of margin;

- Sales volumes taking into account the rise in GDP as well as growing market competition;
- Tariff income of heat generation companies ensuring coverage of reasonable costs and a reasonable return on capital employed;
- Maintenance of the existing non-current assets' production capacities as a result of restoration investments;

The level of the weighted average cost of capital (WACC) used in calculations, ranging from 8.00% to 12.06% at nominal value before tax during the projection period.

Based on test results, there is no need to recognize impairment losses on any of the CGUs or on other intangible assets.

15. Non-current intangible assets and goodwill

Year ended 31 December 2012

	Development expenses	Goodwill	Software, concessions, patents, licenses and similar items	Greenhouse gas emission allowances	Other intangible assets	Intangible assets not made available for use	Intangible assets, total
COST							
Opening balance	4 389	247 057	275 852	97 495	85 475	13 831	724 099
Direct purchase	–	–	658	–	27	105 198	105 883
Transfer of intangible assets not made available for use	–	–	73 217	–	8 468	(81 685)	–
Sale, disposal	–	–	(833)	–	–	–	(833)
Reclassifications	–	–	2 980	–	(2 980)	–	–
Liquidation	(565)	–	(8 117)	–	(13)	–	(8 695)
Received free of charge	–	–	–	–	374	–	374
Transfers from assets under construction	–	–	611	–	–	1 350	1 961
Other movements	74	–	841	(1 621)	–	373	(333)
Foreign exchange differences from translation of foreign entities	–	–	(15)	–	–	(19)	(34)
Closing balance	3 898	247 057	345 194	95 874	91 351	39 048	822 422
ACCUMULATED AMORTIZATION							
Opening balance	(3 482)	–	(142 744)	(15 166)	(2 363)	–	(163 755)
Amortization for the period	(289)	–	(51 413)	–	(10 848)	–	(62 550)
Increase of impairment	–	–	–	–	–	–	–
Decrease of impairment	–	–	–	15 166	–	–	15 166
Sale, disposal	–	–	833	–	–	–	833
Reclassifications	(57)	–	(970)	–	1 027	–	–
Liquidation	565	–	4 310	–	8	–	4 883
Received free of charge	–	–	–	–	–	–	–
Other movements	–	–	218	–	–	–	218
Foreign exchange differences from translation of foreign entities	–	–	2	–	–	–	2
Closing balance	(3 263)	–	(189 764)	–	(12 176)	–	(205 203)
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	907	247 057	133 108	82 329	83 112	13 831	560 344
NET CARRYING AMOUNT AT THE END OF THE PERIOD	635	247 057	155 430	95 874	79 175	39 048	617 219

During the year ended 31 December 2012, the most significant purchases included SAP licenses, Microsoft licenses, Oracle licenses and software, and a support system for purchases' organization.

Year ended 31 December 2011 (restated figures)

	Development expenses	Goodwill	Software, concessions, patents, licenses and similar items	Greenhouse gas emission allowances	Other intangible assets	Intangible assets not made available for use	Intangible assets, total
COST							
Opening balance	4 389	169 553	213 417	59 977	4 430	10 362	462 128
Direct purchase	–	–	1 535	41 776	–	47 863	91 174
Transfer of intangible assets not made available for use	–	–	38 112	–	6 219	(44 331)	–
Sale, disposal	–	–	–	(4 699)	–	–	(4 699)
Donations and free-of-charge transfers	–	–	(55)	–	–	–	(55)
Liquidation	–	–	(4 570)	–	(9)	–	(4 579)
Received free of charge	–	–	–	–	453	–	453
Acquisition of a subsidiary	–	77 504	20 777	–	74 332	–	172 613
Write-off of discontinued investments	–	–	–	–	–	(638)	(638)
Transfers from assets under construction	–	–	6 633	–	90	828	7 551
Other movements	–	–	3	441	(40)	(293)	111
Foreign exchange differences from translation of foreign entities	–	–	–	–	–	40	40
Closing balance	4 389	247 057	275 852	97 495	85 475	13 831	724 099
ACCUMULATED AMORTIZATION							
Opening balance	(2 913)	–	(110 806)	(22)	(1 596)	(450)	(115 787)
Amortization for the period	(569)	–	(35 718)	–	(775)	–	(37 062)
Increase of impairment	–	–	–	(15 166)	–	–	(15 166)
Decrease of impairment	–	–	–	22	–	–	22
Sale, disposal	–	–	–	–	–	–	–
Donations and free-of-charge transfers	–	–	36	–	–	–	36
Liquidation	–	–	3 742	–	8	450	4 200
Received free of charge	–	–	–	–	–	–	–
Other movements	–	–	2	–	–	–	2
Closing balance	(3 482)	–	(142 744)	(15 166)	(2 363)	–	(163 755)
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	1 476	169 553	102 611	59 955	2 834	9 911	346 340
NET CARRYING AMOUNT AT THE END OF THE PERIOD	907	247 057	133 108	82 329	83 112	13 831	560 344

Impairment tests

Due to the existence of certain circumstances in the Group companies' environment which may result in the decrease of the value in use of the cash-generating units ("CGUs") to which goodwill was allocated compared with their carrying amount, as at 31 December 2012 an impairment test was performed for goodwill in the individual operating segments as well as for other intangible assets.

At the acquisition date, the goodwill acquired is allocated to each of the cash-generating units ("CGU") that may benefit from business combination synergies. The lowest level in the TAURON Group to which goodwill can be allocated and at which goodwill is monitored for internal management purposes is considered to be an operating segment determined in accordance with IFRS 8 *Operating Segments*.

The impairment test for goodwill was performed with respect to net assets increased by goodwill of the particular operating segments: Mining, Renewable Sources of Energy, Distribution and Heat.

In 2012, the carrying amount of goodwill did not change compared with the restated carrying amount of goodwill as at 31 December 2011 and it amounts to PLN 247,057 thousand.

The table below presents goodwill as at 31 December 2011 allocated to the individual segments, after an adjustment to the final settlement of the acquisition of GZE S.A.:

	Coal mining	Generation of electricity using renewable sources	Distribution	Heat	Total
Opening balance	13 973	–	–	155 580	169 553
Final settlement of the acquisition of Górnośląski Zakład Elektroenergetyczny S.A.	–	–	25 602	–	25 602
Acquisition of Lipniki Sp. z o.o.	–	51 902	–	–	51 902
Closing balance	13 973	51 902	25 602	155 580	247 057

The key assumptions affecting the estimation of the value in use of the segments tested are as follows:

Mining

- The adopted track of boiler coal prices, other coal assortments and fuel gases;
- The adopted track of retail electricity prices based on wholesale black energy prices, taking into account excise cost, cost of the obligation to submit energy certificates for cancellation and an appropriate level of margin;
- Maintenance of the existing non-current assets' production capacities as a result of replacement investments.

Generation

- Volumes of green electricity production resulting from generation capacities together with the adopted track of electricity prices based on wholesale black energy prices from the previous year, prices of certificates under current regulations.
- Maintenance of the existing non-current assets' generation capacities as a result of replacement investments.

Distribution

- Regulated income of distribution companies ensuring coverage of reasonable costs and a reasonable return on capital employed. The level of the return depends on the so-called Regulatory Value of Assets.
- Maintenance of electricity distribution capacities using the existing non-current assets as a result of replacement investments.

Heat

- Tariff income of heat generation companies ensuring coverage of reasonable costs and a reasonable return on capital employed.
- The volumes of green, red and yellow energy production arising from production capacities along with the track of prices for particular energy certificates.
- Emission caps for 2012 for the particular CGUs according to NAP II, for the period 2013–2020 in accordance with the derogation notice sent by the Polish government to the European Commission.
- Maintenance of heat generation, distribution and sale capacities using the existing non-current assets as a result of replacement investments.

These assumptions were also used for estimating the value in use of other intangible assets.

The test was performed based on the present value of estimated cash flows from operations. The calculations were made for cash flows for 2013–2022 and the residual value. The basis for cash flow calculations is the planned EBIT for 2013–2022 and amortization for this period. The amount of EBIT results from the approved and adopted operating plan for 2013 and the long-term plan for the Group companies through 2022. The use of projections exceeding 5 years is mainly due to long-term investment processes in the power industry. The macroeconomic and industry-specific assumptions used in projections are updated whenever any premises for their modification are observed on the market. Any legal developments known at the date of the test are also included in the projections.

The discount rate used in the calculation reflects the weighted average cost of capital (WACC) and takes into account a risk-free interest rate equal to the current yield on 10-year State Treasury bonds (5.2%) and a premium for the risk specific to operations conducted in the power industry (5%). The rate of increase used in extrapolation of cash flow projections beyond the specific period included in planning is 2.5% and corresponds to the expected long-term inflation rate.

The sensitivity analyses that have been performed indicate that the most significant factors affecting the estimation of the value in use of cash-generating units are the forecasted wholesale prices of electricity and the adopted discount rates.

Based on test results, there is no need to recognize impairment losses on any of the CGUs or on other intangible assets.

16. Shares in joint ventures accounted for using the equity method

Elektrociepłownia Stalowa Wola S.A.

Elektrociepłownia Stalowa Wola S.A. is a special purpose entity set up in 2010 on the initiative of TAURON Polska Energia S.A. and PGNiG S.A., which is intended to carry out an investment project involving construction of a gas and steam unit in Stalowa Wola, fired with natural gas and with a gross electric power of 400 MWe and net thermal power of 240 MWt. The project is to be completed in 2015. The partners intend to carry out the project sharing the rights and obligations on an equal basis.

Elektrociepłownia Stalowa Wola S.A. as a joint venture has been accounted for using the equity method in the consolidated financial statements. TAURON Polska Energia S.A. holds an indirect interest amounting to 49.86% in the share capital of this company and 49.90% in its governing body through TAURON Wytwarzanie S.A.

On 20 June 2012, two loan agreements were signed between PGNiG S.A., TAURON Polska Energia S.A. and Elektrociepłownia Stalowa Wola S.A. in order to meet the conditions necessary for granting funding to Elektrociepłownia Stalowa Wola S.A. by the European Bank for Reconstruction and Development and the European Investment Bank:

- A syndicated loan agreement signed in order to provide funding for the implementation of an investment project. The syndicated loan agreement means that the repayment of loan and interest will be deferred and subordinated to the repayment of the amounts due to the European Investment Bank, the European Bank for Reconstruction and Development and other financial institutions. Based on contractual provisions, the maximum amount of the loan granted by TAURON Polska Energia S.A. is PLN 152,000 thousand. At the balance sheet date, the amount of funds transferred under the loan was PLN 115,000 thousand. The Company accrued interest due on the loan in the amount of PLN 2,802 thousand. The loan is to be fully repaid no later than by the end of 2032;
- The VAT loan agreement, which will provide funds for the funding of output VAT related to the costs of implementation of the investment project, incurred at the stage of designing, constructing and making the investment available for use. Based on contractual provisions, the maximum amount of the loan granted by TAURON Polska Energia S.A. is PLN 20,000 thousand. The loan is renewable. The timetable of its utilization is consistent with the planned dates for payments related to the implementation of the investment project. The balance of utilization of the loan is decreased by the funds obtained from the VAT refund. Final repayment is due 6 months after the date of completion of the investment project. In the 2nd quarter of 2012, the Company transferred funds PLN 13,000 thousand to Elektrociepłownia Stalowa Wola. In the 3rd quarter of 2012, Elektrociepłownia Stalowa Wola S.A. repaid that amount together with accrued interest. In the 4th quarter of 2012, the Company transferred funds of PLN 11,500 thousand to Elektrociepłownia Stalowa Wola. At the balance date, this amount has been repaid by Elektrociepłownia Stalowa Wola S.A. At the balance sheet date, the Company has a receivable arising from interest accrued on the aforementioned loan in the amount of PLN 11 thousand.

In the consolidated financial statements, interest income from loans granted to Elektrociepłownia Stalowa Wola S.A. was presented by the Group only to the extent reflecting the interests of non-related investors in the joint venture.

Elektrownia Blachownia Nowa Sp. z o.o.

On 5 September 2012, the subsidiary TAURON Wytwarzanie S.A. and KGHM Polska Miedź S.A. set up a special purpose entity under the name Elektrownia Blachownia Nowa Sp. z o.o. with its registered office in Kędzierzyn Koźle. The company was set up for the purpose of comprehensive implementation of an investment project involving preparation, construction and operation of a gas and steam power unit with a capacity of approx. 850 MWe on the premises of TAURON Wytwarzanie S.A. – Oddział Elektrownia Blachownia [The Blachownia Power Plant Branch]. The estimated total expenditures for the investment project will be approx. PLN 3,500,000 thousand. The investment project will be carried out using the project finance formula, and at least 50% of its budget will be financed using external sources. The design and construction of the gas and steam power unit will be conducted in the “turn-key” system, together with the infrastructure, installations and auxiliary devices. In accordance with the adopted timetable, the unit will be made operational in the 2nd quarter of 2017.

Each of TAURON Wytwarzanie S.A. and KGHM Polska Miedź S.A. acquired 50% of shares in the share capital of Elektrownia Blachownia Nowa Sp. z o.o., which amounted to PLN 65,152 thousand at the founding date. The shares in the company are equal and indivisible. Payment for the shares amounting to PLN 32,576 thousand was made by TAURON Wytwarzanie S.A. on 9 October 2012. On 30 October 2012 the District Court in Opole, 8th Economic Department of the National Court Register, entered the company in the Register of Entrepreneurs.

Elektrownia Blachownia Nowa Sp. z o.o. as a joint venture has been accounted for using the equity method in the consolidated financial statements. TAURON Polska Energia S.A. has an indirect interest of 49.86% in the company's share capital and of 49.90% in its governing body, exercised through TAURON Wytwarzanie S.A.

Investments in joint ventures as at 31 December 2012 accounted for using the equity method are presented in the table below:

	As at 31 December 2012	Elektrociepłownia Stalowa Wola S.A.	Elektrownia Blachownia Nowa Sp. z o.o.
Non-current assets	354 710	326 993	27 717
Current assets	55 255	16 473	38 782
Non-current liabilities (-)	(236 147)	(236 147)	-
Current liabilities (-)	(66 400)	(64 862)	(1 538)
Total net assets	107 418	42 457	64 961
Share in net assets	53 559	21 169	32 390
Elimination of transactions with Group companies	(1 573)	(1 573)	-
Investment in joint venture	51 986	19 596	32 390
Share in sales revenue of joint venture	447	171	276
Share in profit/(loss) of joint venture	(1 734)	(1 548)	(186)

The investment in the Elektrociepłownia Stalowa Wola S.A. joint venture as at 31 December 2011 accounted for using the equity method is presented in the table below:

	As at 31 December 2011
Non-current assets	40 423
Current assets	7 796
Non-current liabilities (-)	(255)
Current liabilities (-)	(2 403)
Total net assets	45 561
Share in net assets	22 717
Share in sales revenue of joint venture	146
Share in profit/(loss) of joint venture	(1 046)

17. Other long-term non-financial assets

	As at 31 December 2012	As at 31 December 2011 (restated figures)
Prepayments for assets under construction and intangible assets	205 864	26 178
Other prepayments	30 089	4 282
Costs of preparing production in hard coal mines	123 756	114 463
Total	359 709	144 923

Increase in prepayments for assets under construction and intangible assets is mainly due to advance paid by MEGAWAT MARSZEWO Sp. z o.o. to the constructor of Marszewo wind farm, amounting to PLN 126,402 thousand i.e. 20% of the value of the contract, and the advance paid by BELS INVESTMENT Sp. z o.o. to the constructor of the Wicko wind farm, amounting to PLN 73,130 thousand i.e. 30% of the value of the contract.

18. Current intangible assets

Year ended 31 December 2012

	Energy certificates	Greenhouse gas emission allowances	Current intangible assets, total
COST			
Opening balance	774 942	187 126	962 068
Direct purchase	817 189	94 102	911 291
Energy certificates generated internally	116 632	–	116 632
Cancellation of energy certificates	(1 058 226)	(221 208)	(1 279 434)
Other movements	(1 064)	1 606	542
Closing balance	649 473	61 626	711 099
ACCUMULATED AMORTIZATION			
Opening balance	(91 114)	–	(91 114)
Increase of impairment	–	–	–
Decrease of impairment	91 114	–	91 114
Closing balance	–	–	–
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	683 828	187 126	870 954
NET CARRYING AMOUNT AT THE END OF THE PERIOD	649 473	61 626	711 099

Year ended 31 December 2011

	Energy certificates	Greenhouse gas emission allowances	Current intangible assets, total
COST			
Opening balance	523 017	101 173	624 190
Direct purchase	728 799	187 126	915 925
Sale, disposal	(4 953)	–	(4 953)
Energy certificates generated internally	297 747	–	297 747
Cancellation of energy certificates	(855 721)	(101 173)	(956 894)
Acquisition of subsidiary	87 589	–	87 589
Other movements	(1 536)	–	(1 536)
Closing balance	774 942	187 126	962 068
ACCUMULATED AMORTIZATION			
Opening balance	–	–	–
Increase of impairment	(91 114)	–	(91 114)
Decrease of impairment	–	–	–
Closing balance	(91 114)	–	(91 114)
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	523 017	101 173	624 190
NET CARRYING AMOUNT AT THE END OF THE PERIOD	683 828	187 126	870 954

19. Inventories

	As at 31 December 2012	As at 31 December 2011
Historical cost		
Raw materials	394 098	443 660
Semi-finished goods and work-in-progress	143 456	97 213
Finished goods	35 773	8 118
Goods for resale	3 300	2 329
Property rights arising from energy certificates	222 534	29 099
Emission allowances	2 434	–
Total	801 595	580 419
Write-downs to net realisable value		
Raw materials	(2 970)	(4 273)
Property rights arising from energy certificates	(90 143)	(1 356)
Emission allowances	(200)	–
Total	(93 313)	(5 629)
Net realisable value		
Raw materials	391 128	439 387
Semi-finished goods and work-in-progress	143 456	97 213
Finished goods	35 773	8 118
Goods for resale	3 300	2 329
Property rights arising from energy certificates	132 391	27 743
Emission allowances	2 234	–
Total	708 282	574 790
Movement in write-downs to net realisable value		
Opening balance	(5 629)	(5 060)
Recognition	(153 604)	(5 592)
Reversal	5 888	4 571
Utilization	60 032	347
Other	–	105
Closing balance	(93 313)	(5 629)

20. Trade and other receivables

As at 31 December 2012, the balance of trade receivables amounted to PLN 2,199,577 thousand and as at 31 December 2011 – PLN 1,881,992 thousand. For terms and conditions relating to related party transactions, refer to Note 39. Doubtful debts allowances and aging analysis of receivables are presented in Note 41.4.5.1.

Trade receivables are non-interest bearing and are usually receivable within 30 days with respect to institutional clients. Amounts due from individual clients are received on a monthly basis or every two months.

Except for sales to individual clients, sales are made only to customers who have undergone an appropriate credit verification procedure. As a result, Management believe there is no additional credit risk that would exceed the doubtful debts allowance recognized for trade receivables of the Group.

Other receivables as at 31 December 2012 amounted to PLN 837,118 thousand, of which the largest item was the receivable from compensation for termination of long-term contracts amounting to PLN 534,207 thousand. As at 31 December 2011, other receivables of PLN 861,352 thousand included PLN 493,993 thousand of receivables from compensation for termination of long-term contracts.

21. Other financial assets

	As at 31 December 2012	As at 31 December 2011 <i>(restated figures)</i>
Shares in unlisted and listed companies	153 167	162 187
Bonds, T-bills and other debt securities	1 425	101 732
Deposits	26 219	25 250
Loans granted	117 813	–
Other long-term receivables	9 388	9 796
Other	2 854	2 126
Total	310 866	301 091
non-current	305 444	193 067
current	5 422	108 024

The decrease in bonds, T-bills and other debt securities as at 31 December 2012 compared with the 2011 year-end balance results from the disposal by Vattenfall Distribution Poland S.A. (currently TAURON Dystrybucja S.A.) and Vattenfall Sales Poland Sp. z o.o. (currently TAURON Sprzedaż GZE Sp. z o.o.) of Treasury bonds with a value of PLN 99,507 thousand.

The increase in loans granted is mainly due to loans granted by TAURON Polska Energia S.A. to Elektrociepłownia Stalowa Wola S.A., amounting to PLN 117,813 thousand at the balance sheet date (including long-term loans of PLN 117,802 thousand), as discussed in detail in Note 16.

In the year ended 31 December 2012, proceeds from sale of bonds and other debt securities recorded at an amount of PLN 102,506 thousand in the consolidated statement of cash flows mainly consist of proceeds from the disposal of Treasury bonds with a value of PLN 99,507 thousand, as discussed above. Proceeds from sale of other financial assets amounting to PLN 22,011 thousand mainly consist of proceeds of PLN 12,501 thousand obtained by TAURON Sprzedaż GZE Sp. z o.o. from the disposal of shares in Towarowa Gielda Energii S.A.

In the year ended 31 December 2011, proceeds from sale of other financial assets recorded at an amount of PLN 112,811 thousand in the consolidated statement of cash flows were mainly comprised of proceeds of PLN 91,813 thousand from sale of investment fund units by the Company and its subsidiary, TAURON Wytwarzanie S.A. Expenditures for the purchase of financial assets amounting to PLN 147,989 thousand were mainly comprised of the expenditures of PLN 85,000 thousand incurred by the Company for the purchase of investment fund units and expenditures of PLN 47,512 thousand incurred for the purchase of Treasury bonds by the subsidiaries Vattenfall Distribution Poland S.A. (currently TAURON Dystrybucja S.A.) and Vattenfall Sales Poland Sp. z o.o. (currently TAURON Sprzedaż GZE Sp. z o.o.).

22. Other current non-financial assets

	As at 31 December 2012	As at 31 December 2011 <i>(restated figures)</i>
Subscription	72	159
Property and tort insurance	26 781	31 466
Membership fees, training	16	996
IT, telecom and postal services	8 331	2 789
Other deferred costs	15 061	13 996
Costs of preparing production in hard coal mines	20 526	38 812
Costs of extraction tunnels	1 029	4 294
Prepayments for deliveries	912	499
Receivables from input VAT	160 494	97 761
Receivables from excise duty	22 637	36 826
Other tax receivables	8 022	198
Surplus of Social Fund assets over Social Fund liabilities	3 714	2 802
Other current assets	4 776	3 622
Total	272 371	234 220

The increase in the VAT receivable is due to the VAT overpayment resulting mainly from the tax obligation which arose on the investment purchases made by BELS INVESTMENT Sp. z o.o. and MEGAWAT MARSZEWO Sp. z o.o.

23. Cash and cash equivalents

Cash at bank earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods, usually between one day and one month, depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates.

For the purposes of the consolidated statement of cash flows, cash and cash equivalents comprised the following:

	As at 31 December 2012	As at 31 December 2011
Cash at bank and in hand	326 801	264 082
Short-term deposits (up to 3 months)	703 605	200 456
Other	523	41 132
Total cash and cash equivalents presented in the statement of financial position, of which:	1 030 929	505 670
– restricted cash	290 063	176 241
Bank overdraft	(129 566)	–
Foreign exchange and other differences	(9 709)	146
Total cash and cash equivalents presented in the statement of cash flows	891 654	505 816

The difference between the balance of cash and cash equivalents in the statement of financial position and the balance in the statement of cash flows is mainly due to bank overdrafts and exchange differences arising from valuation of cash held in foreign currency accounts.

The increase in the balance of overdraft is due to the Company's use of external funding of PLN 129,566 thousand under the cash pool agreement.

Restricted cash mainly consists of cash held in the settlement account for trading in electricity at Towarowa Gielda Energii S.A., amounting to PLN 248,211 thousand, cash held in special purpose accounts for trading on the European Energy Exchange (EEX) and European Climate Exchange (ICE) of PLN 18,161 thousand.

24. Non-current assets held for sale

As at 31 December 2012, non-current assets held for sale amounting to PLN 36,215 thousand included the following:

- Due to the discontinuation of production in the Halemba Power Plant in March 2012, the Management Board of TAURON Wytwarzanie S.A. decided to sell all assets in this location. Activities were undertaken to prepare the power plant for sale. On 8 October 2012, a tender announcement was published, which, however, did not bring the expected results. Currently the option of sale is being considered: a separate sale of power plant premises together with equipment and a separate sale of the furnace waste dump area, or other methods of development of this site such as, for example, preparation and sale of investment sites. At the balance sheet date, the carrying amount of the power plant's assets classified for sale amounted to PLN 19,939 thousand;
- Megaukład Ciepłownia Zawodzie (The Zawodzie Heating Plant Mega-system) located in Częstochowa, being the property of TAURON Dystrybucja S.A., with the carrying amount of PLN 2,709 thousand. The asset was designated for sale as at 31 December 2010 and it has not been sold as at the balance sheet date despite the tenders announced for its sale. Further activities are being undertaken to sell the asset, and a revaluation of the property has been performed;
- Ośrodek Szkoleniowo-Wypoczynkowy Rożnów (Rożnów Training and Recreation Center) with the carrying amount of PLN 2,711 thousand and Ośrodek Szkoleniowo-Wypoczynkowy Jaga (Jaga Training and Recreation Center) with the carrying amount of PLN 1,907 thousand, being the property of TAURON Dystrybucja S.A. Based on the decision of the company's Board of Directors dated 15 February 2011, the said recreation centers were designated for sale. The company has undertaken activities to sell these assets through an estate agency;
- Two plots of land held under perpetual usufruct by TAURON Dystrybucja S.A. with carrying amounts of PLN 114 thousand and PLN 33 thousand. The plot with the value of PLN 114 thousand was sold in January 2013;
- A property with a value of PLN 1,763 thousand, owned by TAURON Ciepło S.A., located in Kossów, commune of Radków, the Świętokrzyskie voivodship, comprising a developed plot of land with a surface of 3.1900 ha. This asset was held for sale as at 31 December 2010 and 31 December 2011. The company's management has been continuing its efforts to sell this asset. In addition, in 2012 the company classified a plot of land with an office and administrative building in Dąbrowa Górnicza with a value of PLN 5,172 thousand as a non-current asset held for sale and initiated a tender procedure for the sale of this property.
- The right of perpetual usufruct of land located in Będzin together with the ownership of administrative and office buildings and outhouses situated thereon with a value of PLN 1,867 thousand, being the property of TAURON Sprzedaż Sp. z o.o. The property has not been sold despite the tender held in 2012. The company entered into cooperation with an estate agency.

As at 31 December 2011, non-current assets classified as held for sale amounted to PLN 8,951 thousand.

25. CO₂ emission allowances

On 14 November 2008, the Council of Ministers adopted the National Allocation Plan for CO₂ allowances for the years 2008–2012 (“NAP II”) under the EU emissions trading system, which allocated the CO₂ emission limits (caps) to the individual installations participating in the emissions trading system.

The tables below present the CO₂ emission allowances granted under the National Allocation Plan and acquired on the secondary market, including a break-down into the portion of allowances used for internal purposes and the portion sold in the years ended 31 December 2012 and 31 December 2011.

CO₂ emission allowances in the year ended 31 December 2012

Company	Opening balance of CO ₂ allowances	Acquired	CO ₂ emission	Sold	Closing balance of CO ₂ allowances
TAURON Polska Energia S.A.	9 844 042	24 721 000	–	(27 480 042)	7 085 000
TAURON Wytwarzanie S.A.	11 958 860	16 737 950	(18 697 049)	(13 912 468)	(3 912 707)
TAURON Dystrybucja S.A.	1 649	–	–	(1 649)	–
TAURON Ciepło S.A.	4 032 982	1 824 800	(3 110 776)	(1 909 532)	837 474
Total	25 837 533	43 283 750	(21 807 825)	(43 303 691)	4 009 767

As at 31 December 2012, the aggregate amount of surplus CO₂ allowances held by the Group is 4,024,811.

In accordance with its accounting policy, the Group recognizes a provision for deficit emission allowances if actual emission exceeds the amount of allowances granted to the Group within the entire trading period.

CO₂ emission allowances in the year ended 31 December 2011

Company	Opening balance of CO ₂ allowances	Acquired	CO ₂ emission	Sold	Closing balance of CO ₂ allowances
TAURON Polska Energia S.A.	3 095 000	19 781 042	–	(13 032 000)	9 844 042
TAURON Wytwarzanie S.A.	37 951 879	8 807 767	(21 345 745)	(13 455 041)	11 958 860
TAURON Dystrybucja S.A.	1 649	–	–	–	1 649
TAURON Ciepło S.A.*	6 738 572	1 521 998	(3 323 496)	(904 092)	4 032 982
Total	47 787 100	30 110 807	(24 669 241)	(27 391 133)	25 837 533

* In 2012, a business combination took place which involved the following companies: TAURON Ciepło S.A., Elektrociepłownia Tychy S.A., Elektrociepłownia EC Nowa Sp. o.o. and Elektrociepłownia w Kamiennej Górze Sp. z o.o. The figures for the year 2011 have been presented on an aggregate basis for all combined companies.

In order to integrate management of trading in CO₂ emission allowances, under decision No. IF/VI/66192/1/10 of the Śląski Voivode of 21 December 2010 an Installation Group has been created as a result of the TAURON Group’s efforts to achieve the best possible business results to ensure its further development on the CO₂ market.

Starting from January 2011 TAURON Polska Energia S.A. provides CO₂ allowances portfolio management services to the Group companies operating as the Installation Group, which comprises TAURON Wytwarzanie S.A. and TAURON Ciepło S.A.

The Company’s competencies include activities related to trading in and cancellation of allowances for the benefit of the Group, while the duties of the companies from the Installation Group include determining the amount of emission from their units and reporting this to relevant authorities as well as having their annual emission reports reviewed by an authorized independent reviewer.

26. Issued capital and other items of equity

26.1. Issued capital

Issued capital as at 31 December 2012

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

As at 31 December 2012, the value of issued capital, the number of shares and nominal value per share have not changed since 31 December 2011.

Shareholding structure as at 31 December 2012 (to the Company's best knowledge)

Shareholder	Number of shares	Value of shares	Percentage of share capital	Percentage of total vote
State Treasury (notification of 29 March 2011)	526 883 897	2 634 419	30,06%	30,06%
KGHM Polska Miedź S.A. (notification of 23 March 2011)	182 110 566	910 553	10,39%	10,39%
ING Otwarty Fundusz Emerytalny (notification of 28 December 2011)	88 742 929	443 715	5,06%	5,06%
Other shareholders	954 812 002	4 774 060	54,49%	54,49%
Total	1 752 549 394	8 762 747	100,00%	100,00%

The shareholding structure as at 31 December 2012, according to the Company's best knowledge, did not change in comparison to 31 December 2011.

26.2. Shareholders rights

State Treasury rights

On 18 August 2005, the Act of 3 June 2005 on Special Powers of the State Treasury and their Exercise in Companies of Significant Importance for Public Order or Public Security (Journal of Laws No. 132, item 1108) came into force. TAURON Polska Energia S.A. is subject to the provisions of this Act under relevant executive regulations. In the directors' opinion, the Company operates in conformity with the binding law. No observer has been appointed as at the date of these financial statements.

26.3. Reserve capital

During the year ended 31 December 2012, reserve capital increased by PLN 540,139 thousand as a result of the resolution of the Ordinary General Shareholders' Meeting of TAURON Polska Energia S.A. dated 24 April 2012 on the allocation of the amount of PLN 540,139 thousand from the net profit for 2011 to the reserve capital.

26.4. Retained earnings and restrictions on distribution

As the amount of the Company's reserve capital exceeds one third of its issued share capital, the Company is not required to transfer 8% of the profit for the year to the reserve capital for absorption of losses (as required by the Code of Commercial Companies). Appropriation of the reserve capital and other reserves depends on the decision of the General Meeting of Shareholders; however, the reserve capital in the amount of one third of the issued share capital may be used solely for the absorption of losses reported in the separate financial statements of the company and shall not be used for any other purpose. As at 31 December 2012, the value of the issued share capital of the parent reported in the statutory financial statements was PLN 8,762,747 thousand, and the value of the reserve capital was PLN 7,953,021 thousand.

Within retained earnings/accumulated losses, the amount of PLN 1,437,883 thousand, which represents the Company's undistributed profits for 2012 and previous years, as discussed in detail in Note 22.5 of the Company's separate financial statements for 2012, is eligible for distribution.

Retained earnings arising from accounting for business combinations with the subsidiaries as well as actuarial gains and losses related to provisions for post-employment benefits which are recognized in other comprehensive income are not eligible for distribution.

As at 31 December 2012 and as at the date of authorization of these financial statements for issue, there are no other restrictions on distribution of profit in the form of dividends.

26.5. Revaluation reserve from valuation of financial instruments

Revaluation reserve from valuation of hedging instruments

The revaluation reserve from valuation of hedging instruments results from the valuation of Interest Rate Swaps used to hedge the interest rate risk arising from issued debentures. As at 31 December 2012, the Group was a party to hedging transactions covered by the policy for specific risk management in the area of finance. In accordance with the decision of the Financial Risk Management Committee dated 30 January 2012, in March 2012 the parent hedged against the interest rate risk arising from debentures issued under the Debentures Issue Program by entering into an interest rate swap (IRS) for a period of 5 years. This transaction was entered into due to variability of the expected future cash flows from interest payments resulting from the issue of debentures in PLN with a floating interest rate based on WIBOR 6M. The Company hedged 80% of such cash flows.

At the balance sheet date, the Group recognized the amount of PLN 153,703 thousand in the revaluation reserve from valuation of hedging instruments. In the year ended 31 December 2012, the Group earned net revenues from IRS transactions of PLN 5,556 thousand, of which PLN 6,466 thousand is the amount received from realization of the hedge and relates to interest payments realized by the Group, while the amount of PLN (910) thousand is the portion of valuation relating to accrued interest on debentures as at the balance sheet date that has been transferred from the revaluation reserve.

In the statement of cash flows, the amount received by the Group from realization of the hedge reduced the expenditure related to interest paid on debentures, which is presented under cash flows from financing activities.

	Revaluation reserve from valuation of hedging instruments
As at 1 January 2012	–
Valuation of hedging instruments as at 31 December 2012	190 666
Transfer of valuation relating to accrued interest on debentures as at 31 December 2012 to net result	(910)
Deferred tax	(36 053)
As at 31 December 2012	153 703

Revaluation reserve from valuation of available-for-sale financial assets

In the 2nd quarter of 2012, the subsidiary TAURON Sprzedaż GZE Sp. z o.o., as a result of the remeasurement of its shares in Towarowa Giełda Energii S.A. to market value, increased their carrying amount from PLN 1,107 thousand to PLN 12,500 thousand i.e. by PLN 11,393 thousand. Gains on the remeasurement were recognized in the revaluation reserve from the valuation of available-for-sale financial assets net of the deferred tax. In July 2012, TAURON Sprzedaż GZE Sp. z o.o. sold the above-mentioned shares of Towarowa Giełda Energii S.A., as a result of which the gains on remeasurement that had previously been recognized in the revaluation reserve from the valuation of available-for-sale financial assets were taken to profit or loss. As at the balance sheet date, the Group did not report any revaluation reserve from valuation of available-for-sale financial assets.

26.6. Non-controlling interests

	Year ended 31 December 2012	Year ended 31 December 2011 (restated figures)
At the beginning of period	454 897	507 246
Change in accounting policy	–	(10 967)
At the beginning of period (restated figures)	454 897	496 279
Dividends paid by subsidiaries	(16 870)	(14 278)
Share in actuarial gains/(losses) related to provisions for post-employment benefits	(14 819)	1 928
Acquisition of non-controlling interests by the Group	(1 420)	(1 104)
Mandatory squeeze-out	(6 510)	(50 582)
Share in subsidiaries' net profit or loss	74 497	21 818
Acquisition of subsidiaries from the GZE S.A. Group	–	898
Change in non-controlling interests due to mergers	3 348	(62)
At the end of period	493 123	454 897

27. Earnings per share

In principle, basic earnings per share amounts is calculated by dividing the net profit for the period attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the period.

Presented below is the data concerning profit and shares, which was used in the calculation of basic and diluted earnings per share as presented in the statement of comprehensive income.

	Year ended 31 December 2012	Year ended 31 December 2011 (restated figures)
Net profit from continuing operations attributable to equity holders of the parent	1 466 802	1 245 116
Profit from discontinued operations attributable to equity holders of the parent	–	–
Net profit	1 466 802	1 245 116
Net profit attributable to ordinary shareholders, used to compute diluted earnings per share	1 466 802	1 245 116
Number of ordinary shares used to compute basic and diluted earnings per share	1 752 549 394	1 752 549 394

The table below presents earnings per share for the years ended 31 December 2012 and 31 December 2011 as presented in the statement of comprehensive income.

Earnings per share (in PLN)	Year ended 31 December 2012	Year ended 31 December 2011 (restated figures)
Basic and diluted, for profit for the period attributable to equity holders of the parent	0.84	0.71
Basic and diluted, for profit for the period from continuing operations attributable to equity holders of the parent	0.84	0.71

28. Dividends paid and proposed

	Year ended 31 December 2012	Year ended 31 December 2011
Dividends paid in the period		
Dividends paid throughout the year by subsidiaries	(16 434)	(13 676)
Final dividends paid by the parent	(543 290)	(262 882)
Total dividends	(559 724)	(276 558)

As at the date of authorization of these consolidated financial statements for issue, no decision has been taken on the proposed payment of dividend by the parent from the profit for 2012.

The restrictions for dividend distribution are described in Note 26.4 of explanatory notes to these consolidated financial statements.

On 24 April 2012, the Ordinary General Shareholders' Meeting resolved to distribute an amount of PLN 543,290 thousand for dividends to the Company's shareholders. The dividend was paid from the Company's net profit for 2011 amounting to PLN 1,083,429 thousand. The dividend day was set at 2 July 2012 and the dividend payment date at 20 July 2012. As at the balance sheet date, the above-mentioned dividend liability was fully paid off.

On 6 May 2011, the Ordinary General Shareholders' Meeting resolved to distribute an amount of PLN 262,882 thousand for dividends to the Company's shareholders. This amount was composed of the Company's net profit for 2010 in the amount of PLN 190,478 thousand and utilization of the Company's reserve capital of PLN 72,404 thousand, which represented part of the Company's net profit for 2009 allocated to the reserve capital. The dividend payment date was 20 July 2011.

The dividend per share paid by the parent for particular years is as follows:

	Year ended 31 December 2012	Year ended 31 December 2011
Dividend paid per share (PLN)	0.31	0.15

29. Business combinations and acquisitions of non-controlling interests

Final settlement of the acquisition of in Górnośląski Zakład Elektroenergetyczny S.A.

On the basis of the preliminary agreement for the sale of shares in Górnośląski Zakład Elektroenergetyczny S.A. (GZE S.A.) signed with Vattenfall AB on 23 August 2011 and having fulfilled, on 30 November 2011, the condition precedent which was to obtain unconditional consent of the President of the Competition and Consumers Protection Office (UOKiK) for the transaction and, on 13 December 2011, contractual conditions including the payment of cash required under the transaction, on 13 December 2011 TAURON Polska Energia S.A. acquired 1,249,693 shares in the share capital of GZE S.A. with a nominal value of PLN 100 each and a total nominal value of PLN 124,969 thousand, representing 99.98% of the company's share capital.

The total value of the transaction was PLN 4,625,955 thousand, of which PLN 3,623,517 thousand was paid on the transaction date (this amount includes the deposit of PLN 120,000 thousand that had been provided to Vattenfall AB under the preliminary purchase agreement, together with accrued interest), while the amount of PLN 1,002,438 thousand represents Vattenfall AB's debt towards GZE S.A. and its subsidiaries that has been taken over by TAURON Polska Energia S.A. as part of the transaction. Costs directly attributable to the acquisition, amounting to PLN 5,500 thousand, were charged against profit.

As a result of acquisition of GZE S.A.'s shares, TAURON Polska Energia S.A. became an indirect owner of shares in the following significant subsidiaries of GZE S.A.:

- Vattenfall Distribution Poland S.A.,
- Vattenfall Network Services Poland Sp. z o.o.,
- Vattenfall Sales Poland Sp. z o.o.,
- Vattenfall Business Services Poland Sp. z o.o.,
- Vattenfall Wolin-North Sp. z o.o.

As the above-mentioned transaction took place near the end of the previous financial year, TAURON as the acquirer had not completed its valuation of the acquired assets and liabilities as at the date of preparing the consolidated financial statements for the year ended 31 December 2011 and, therefore, the assets acquired and liabilities assumed were presented at that time at temporary values.

As a result of analyses and valuations of the acquired assets and liabilities conducted during the year 2012 – both by the Company and by independent experts – the final fair value of the identifiable assets, liabilities and contingent liabilities of GZE S.A. and its subsidiaries at the acquisition date has been determined.

Final fair value of identifiable assets, liabilities and contingent liabilities of GZE S.A. and its subsidiaries at the acquisition date

Assets acquired and liabilities assumed	As at 13 December 2011 final value	As at 13 December 2011 temporary value	Change
Property, plant and equipment	3 678 037	3 113 437	564 600
Intangible assets	182 698	131 992	50 706
Shares in subsidiaries and associates accounted for at cost	6 054	10 457	(4 403)
Other long-term non-financial assets	491	6 249	(5 758)
Inventories	2 277	2 277	–
Trade and other receivables	355 397	349 639	5 758
Financial assets	81 974	81 974	–
Cash and cash equivalents	314 792	314 792	–
Other current non-financial assets	13 532	13 532	–
Long-term provisions	(92 735)	(88 948)	(3 787)
Deferred tax liability	(196 102)	(68 575)	(127 527)
Deferred income and long-term government grants	(43 242)	(43 242)	–
Trade and other payables	(391 975)	(391 975)	–
Income tax payable	(7 067)	(7 067)	–
Deferred income and short-term government grants	(15 589)	(15 589)	–
Short-term provisions	(184 778)	(184 778)	–
Other current non-financial liabilities	(110 311)	(110 154)	(157)
Net assets (after existing relationship)	3 593 453	3 114 021	479 432

The assets of the then Vattenfall Distribution Poland S.A., stated at PLN 3,327,510 thousand at the date of acquisition of control, which accounted for 92% of net assets acquired as a result of the transaction, had the greatest share in the net assets acquired.

The results of valuations performed by experts as at 13 December 2011 were compared with the recoverable amount of the given asset determined as its value in use i.e. the present estimated value of future cash flows that are expected from the continued use of the asset. No need to recognize impairment write-downs was identified.

Calculation of the cost of acquisition

Calculation of the cost of acquisition is presented in the table below:

Cash paid	3 623 517
Seller's debt taken over by TAURON	1 002 438
Cost of acquisition:	4 625 955
Existing relationship	(1 007 798)
Cost of acquisition after existing relationship	3 618 157

Goodwill

Goodwill recognized at the business combination date at an amount of PLN 25,602 thousand was stated at the excess of the consideration paid and the value of non-controlling interests over the net value of the identifiable assets acquired and liabilities assumed as at the date of acquisition.

The non-controlling interest was stated at the value of the proportionate share in the identifiable net assets of the acquiree.

The calculation of final goodwill in accordance with the IFRS 3 methodology is presented in the table below:

Cost of acquisition after existing relationship	3 618 157
Non-controlling interest (0.025%)	898
Total:	3 619 055
Assets acquired and liabilities assumed	(3 593 453)
Goodwill	25 602

Goodwill was allocated in full to the distribution segment in which the synergy effects arising from the business combination are expected to be realized.

The value of non-controlling interests in the Group increased as a result of the above-mentioned transaction by PLN 898 thousand.

Final settlement vs. temporary values

A comparison of goodwill, net assets and non-controlling interests at temporary and final values is presented in the table below:

	Temporary value in the consolidated financial statements for the year 2011	Final value in the consolidated financial statements for the year 2012	Difference
Goodwill	504 914	25 602	(479 312)
Net assets	3 114 021	3 593 453	479 432
Non-controlling interest	(778)	(898)	(120)
	3 618 157	3 618 157	-

As a result of valuations of the fair value of the assets acquired, the final fair value recognized at the date of acquisition of control increased by PLN 479,432 thousand compared with the temporary value, mainly due to the effects of the valuation of assets of the distribution segment.

Consequently, the temporary value of goodwill recognized in the consolidated financial statements for the year ended 31 December 2011 decreased by PLN 479,312 thousand, while the value of non-controlling interests in the assets acquired net of liabilities assumed increased by PLN 120 thousand.

Mergers of subsidiaries and acquisition of non-controlling interests

Due to the reorganization of the Group's structure significant mergers of subsidiaries took place in 2012:

- On 30 April 2012, merger of TAURON Ciepło S.A. (acquirer) with: Elektrociepłownia Tychy S.A. (acquiree), Elektrociepłownia EC Nowa Sp. z o.o. (acquiree) and Energetyka Ciepła w Kamiennej Górze Sp. z o.o. (acquiree) was entered in the Register of Entrepreneurs of the National Court Register. The share capital of TAURON Ciepło S.A. was increased from PLN 444,664 thousand to PLN 865,937 thousand, i.e. by PLN 421,273 thousand. As a result of the merger, non-controlling interests increased by PLN 1,875 thousand, with a simultaneous decrease of retained earnings by the same amount.
- On 12 June 2012, merger of the parent, TAURON Polska Energia S.A. (acquirer) and a subsidiary, Górnośląski Zakład Elektroenergetyczny S.A. (acquiree) was entered in the Register of Entrepreneurs of the National Court Register. As a result of the buyout of the shares of Górnośląski Zakład Elektroenergetyczny S.A., since 16 April 2012 TAURON Polska Energia S.A. has been a holder of 100% of shares in the share capital of Górnośląski Zakład Elektroenergetyczny S.A. The buyout of non-controlling interests for a price of PLN 1,015 thousand resulted in the decrease of non-controlling interests by PLN 784 thousand and the decrease of retained earnings by PLN 231 thousand. Due to the fact that TAURON Polska Energia S.A. held 100% of shares in the share capital of the acquired company, the merger was conducted under Article 515 Clause 1 of the Code of Commercial Companies, without increasing the acquirer's share capital.
- On 1 June 2012, merger of TAURON Ekoenergia Sp. z o.o. (acquirer) and Lipniki Sp. z o.o. (acquiree) was entered in the Register of Entrepreneurs of the National Court Register. This merger was effected without increasing the share capital and without any

amendments to the Articles of Association. The acquirer was the sole shareholder of the acquired company. The merger had no impact on the consolidated financial statements.

- On 1 October 2012, merger of the following companies: TAURON Dystrybucja S.A. (acquirer) with TAURON Dystrybucja GZE S.A. (acquiree) and TAURON Ekoenergia Sp. z o.o. (acquirer) with TAURON Ekoenergia GZE Sp. z o.o. (acquiree) was registered. The merger of TAURON Dystrybucja S.A. with TAURON Dystrybucja GZE S.A. resulted in the increase of non-controlling interests by PLN 1,473 thousand and a simultaneous decrease of retained earnings by the same amount.

The mergers described above were effected under the take-over procedure, i.e. pursuant to Article 492 Clause 1 Item 1 of the Code of Commercial Companies, by way of transferring all of the assets of the acquiree to the acquirer. As a result of the merger, the acquired companies were dissolved without liquidation.

On 24 August 2012, TAURON Polska Energia S.A. acquired from the State Treasury 50,803,138 shares of its subsidiary, TAURON Ciepło S.A., which accounted for 0.06% of the share capital of TAURON Ciepło S.A., for PLN 220 thousand. The buyout of non-controlling interests resulted in the decrease of non-controlling interests by PLN 514 thousand and increase of retained earnings by PLN 294 thousand.

As a result of the squeeze-outs of own shares for redemption purposes continued in the TAURON Group, the value of non-controlling interests in TAURON Wytwarzanie S.A. and TAURON Dystrybucja S.A. decreased by PLN 6,510 thousand, while retained earnings increased by PLN 1,215 thousand.

30. Lease

30.1. Operating lease commitments – Group as the lessee

On 30 April 2008, a subsidiary of TAURON Polska Energia S.A., Południowy Koncern Energetyczny S.A., now TAURON Wytwarzanie S.A., due to the sale of property located in Katowice at ul. Lwowska 23 to PKE Broker Sp. z o.o., concluded a lease agreement for the use of this property. TAURON Polska Energia S.A. is a sub-lessee of a portion of the property. Annual lease charges in the years 2012 and 2011 amounted to PLN 6,073 thousand and PLN 6,032 thousand, respectively.

As at 31 December 2012, the Company rents, under lease agreements, real estate located in Katowice at ul. Ks. Piotra Ściegiennego 3 where is located the Company's head office. Average monthly rentals for the Company's head office in 2012 amounted to PLN 239 thousand (for the first 7 months the Company used a discount granted by the lessor i.e. GHELAMCO GP2 Sp. z o.o.). In addition, during 2012 the Company rented office space in Warsaw. The lessor of the property is REGUS BUSINESS CENTRE Sp. z o.o. Monthly rentals for this property amount to PLN 35 thousand.

In addition, the subsidiary Południowy Koncern Węglowy S.A. uses mining plant and equipment under operating lease agreements. Annual lease charges in the years 2012 and 2011 amounted to PLN 29,386 thousand and PLN 18,629 thousand, respectively. The increase of lease charges in 2012 is due to the signing of new lease agreements for mining plant and equipment by Południowy Koncern Węglowy S.A.

30.2. Finance lease and hire purchase commitments

As at 31 December 2012 and 31 December 2011, future minimum rentals payable under finance leases and hire purchase contracts and the present value of the net minimum lease payments are as follows:

	As at 31 December 2012		As at 31 December 2011	
	Minimum lease payments	Present value of lease payments	Minimum lease payments	Present value of lease payments
Within 1 year	17 866	14 482	19 529	14 761
Within 1 to 5 years	46 631	41 772	65 113	56 232
More than 5 years	24	24	–	–
Minimum lease payments, total	64 521	56 278	84 642	70 993
Less amounts representing finance charges	(8 243)	–	(13 649)	–
Present value of minimum lease payments, of which:	56 278	56 278	70 993	70 993
current	14 482	14 482	14 761	14 761
non-current	41 796	41 796	56 232	56 232

The main item of finance leases is the liability under the lease of plant and technical equipment as well as real estate held by the companies from the Heat segment. As at 31 December 2012, the carrying amount of the above-mentioned liabilities under finance leases amounted to PLN 50,773 thousand (as at 31 December 2011: PLN 63,120 thousand).

31. Provisions for employee benefits

31.1. Provisions for post-employment benefits and jubilee bonuses

Based on a valuation performed using actuarial techniques, the Group recognizes provisions for future employee benefits, including:

- retirement, disability and death benefits,
- reduced electricity rates and charges granted to employees,
- transfers to the Social Fund for future and present pensioners,
- coal allowances,
- jubilee bonuses.

The IASB made amendments to IAS 19 *Employee Benefits*, which are applicable for annual periods beginning on or after 1 January 2013, with the possibility of early application. The Group decided to early apply the revised IAS 19, beginning from the year ended 31 December 2012. Comparative data has been restated as appropriate.

The key amendments from the Group's perspective include the liquidation of the "corridor approach" as an allowed method of accounting for actuarial gains and losses and the introduction of the requirement to present the effects of remeasurement in other comprehensive income. In accordance with the adopted accounting policy, the Group applied the corridor approach in determining the defined benefit obligation and recognizing actuarial gains and losses in profit or loss. Elimination of this method resulted in the requirement to immediately recognize all actuarial gains and losses in other comprehensive income and caused an increase in the provision for employee benefits recognized in the statement of financial position up to the present value of the obligation according to actuarial valuation. The effect of these amendments on the consolidated financial statements as at 31 December 2011 and 1 January 2011 is presented in Note 8.

The amounts of these provisions and reconciliation presenting the movements in provisions during the financial year are presented in the tables below.

Movement in provisions for employee benefits, year ended 31 December 2012

	Provision for retirement, disability and similar benefits	Employee electricity rates	Social Fund	Provision for coal allowances	Jubilee bonuses	Provisions, total
Opening balance (adjusted figures)	230 814	447 984	120 000	38 338	484 643	1 321 779
Current service costs	8 357	9 422	1 878	595	27 381	47 633
Actuarial gains and losses	47 110	139 418	17 469	17 077	121 661	342 735
Benefits paid	(16 423)	(22 298)	(6 538)	(1 455)	(53 164)	(99 878)
Past service costs	(4 831)	(2 349)	(3 344)	–	(7 884)	(18 408)
Interest expense	12 832	25 549	6 759	2 180	26 971	74 291
Other movements	(17 503)	(2 147)	(458)	–	(20 061)	(40 169)
Closing balance	260 356	595 579	135 766	56 735	579 547	1 627 983
CURRENT	23 468	25 516	4 774	1 851	56 824	112 433
NON-CURRENT	236 888	570 063	130 992	54 884	522 723	1 515 550

Due to organizational changes in the Group and the related migration of employees between the companies, the terms and conditions of the schemes for some employees have changed causing a decrease of the provision by PLN 18,408 thousand, which has been presented above as past service costs. In addition, part of the actuarial provision for future employee benefits in the portion related to those employees who were covered by the voluntary redundancy scheme was transferred to the provision for voluntary redundancy schemes – for a total amount of PLN 40,169 thousand (other movements).

Movement in provisions for employee benefits, year ended 31 December 2011 (restated figures)

	Provision for retirement, disability and similar benefits	Employee electricity rates	Social Fund	Provision for coal allowances	Jubilee bonuses	Provisions, total
Opening balance	183 009	351 573	105 955	33 526	468 688	1 142 751
Adjustments	53 034	64 253	10 845	7 220	–	135 352
Opening balance after adjustments	236 043	415 826	116 800	40 746	468 688	1 278 103
Acquisition of subsidiary	12 362	38 931	4 744	–	33 507	89 544
Current service costs	8 402	4 815	2 134	1 728	27 061	44 140
Actuarial gains and losses	(11 738)	(15 973)	(4 373)	(5 065)	(10 540)	(47 689)
Benefits paid	(26 696)	(18 118)	(5 634)	(1 323)	(58 828)	(110 599)
Interest expense	12 457	22 503	6 329	2 252	24 807	68 348
Other movements	(16)	–	–	–	(52)	(68)
Closing balance (adjusted figures)	230 814	447 984	120 000	38 338	484 643	1 321 779
CURRENT	31 398	23 015	5 302	1 624	57 282	118 621
NON-CURRENT	199 416	424 969	114 698	36 714	427 361	1 203 158

The Group determines provisions for future employee benefits at an amount estimated using actuarial methods, taking into account the discount rate defined on the basis of market rates of return from treasury bonds. Analysis of provisions into non-current and current is made by the Group based on estimates relating to the distribution of payments over time, prepared using actuarial techniques. The main assumptions adopted by the actuary at the balance sheet date for the calculation of the amount of liability are presented in Note 10.

31.2. Provisions for employment termination benefits

Movement in the provisions for voluntary redundancy schemes, year ended 31 December 2012

	Voluntary redundancy schemes				Total
	TAURON Wytwarzanie S.A.	TAURON Dystrybucja S.A.	TAURON Serwis GZE Sp. z o.o.	TAURON Obsługa Klienta Sp. z o.o.	
Opening balance	5 719	29 336	217	–	35 272
Recognition	47 684	33 426	–	9 549	90 659
Reversal	(545)	(1 422)	–	–	(1 967)
Utilization	(17 847)	(38 594)	(217)	–	(56 658)
Other movements	40 169	465	–	–	40 634
Closing balance	75 180	23 211	–	9 549	107 940
CURRENT	25 707	23 211	–	6 353	55 271
NON-CURRENT	49 473	–	–	3 196	52 669

Movement in the provisions for voluntary redundancy schemes, year ended 31 December 2011

	Voluntary redundancy schemes			Total
	TAURON Wytwarzanie S.A.	TAURON Dystrybucja S.A.	TAURON Serwis GZE Sp. z o.o.	
Opening balance	18 950	31 380	–	50 330
Recognition	26 701	61 061	–	87 762
Reversal	(442)	(14 646)	–	(15 088)
Utilization	(39 490)	(48 459)	–	(87 949)
Acquisition of subsidiary	–	–	217	217
Closing balance	5 719	29 336	217	35 272
CURRENT	5 719	29 336	–	35 055
NON-CURRENT	–	–	217	217

The Group has been running the following voluntary redundancy schemes ("VRS"):

- On 28 March 2012, an Employment Cost Reduction Agreement was signed in TAURON Wytwarzanie S.A. From its effective date up to 31 December 2012, 718 individuals took advantage of this Agreement.

A provision was recognized as at 31 December 2012 due to the planned redundancy of 553 employees in the period from 1 January 2013 to 30 June 2014. The balance of the provision as at 31 December 2012 was PLN 75,095 thousand. In addition, as at 31 December 2012 TAURON Wytwarzanie S.A. also recognized a provision for costs resulting from the Agreement on liquidation of the Halemba Power Plant, amounting to PLN 85 thousand.

In the year ended 31 December 2012:

- a provision of PLN 47,684 thousand was recognized for future benefits to employees under the VRS;
 - due to the resignation of several employees from participation in the scheme and the remeasurement of the provision due to the benefits paid, a provision in the amount of PLN 545 thousand was reversed;
 - part of the actuarial provision for future employee benefits was transferred to the provision for VRS in the portion relating to those employees who were covered by the scheme, at the total amount of PLN 40,169 thousand;
 - a provision of, respectively, PLN 5,111 thousand and PLN 12,736 thousand was utilized due to payment of benefits to the employees who took advantage of the Agreement on liquidation of the Halemba Power Plant and due to payment of retirement benefits and jubilee bonuses to employees covered by agreements;
 - additionally, some individuals received benefits of PLN 71,829 thousand due to termination of their contracts under the VRS, which were charged directly to the Group's costs.
- In TAURON Dystrybucja S.A., the schemes implemented in 2011 were continued in the year ended 31 December 2012. During the reporting period, the company recognized a provision of PLN 33,426 thousand. Under voluntary redundancy schemes, the company terminated employment contracts with 419 employees, with a total of PLN 34,516 thousand of one-off severance payments being paid. Furthermore, in 2012 the company continued to make payments to the individuals who left it in 2011 taking advantage of the schemes that were terminated on 30 December 2011 and acquired the rights to such payments after receiving an unemployment allowance for a period not exceeding 6 months (Pre-retirement Redundancy Scheme). The amount of benefits paid under that scheme is PLN 3,743 thousand. In addition, in 2012 severance payments of a total amount of PLN 335 thousand were made from the schemes effective in the then TAURON Dystrybucja GZE S.A. to the employees leaving that company.

On 18 December 2012, another edition of voluntary redundancy schemes was announced. These schemes will be completed in June 2013.
- In TAURON Serwis GZE Sp. z o.o., all benefits arising from the provision recognized as at 31 December 2011 (PLN 217 thousand) were paid.
 - In TAURON Obsługa Klienta Sp. z o.o., due to reorganizational changes taking place at this company, on 31 December 2012 the company launched a voluntary redundancy scheme to be completed by 31 December 2014, which includes a Pre-retirement Benefit Scheme, Early Retirement Benefit Scheme and Redundancy Payment Scheme. The provision recognized by the company for these schemes amounted to PLN 9,549 thousand as at 31 December 2012.
 - In addition, in the year ended 31 December 2012, TAURON Ciepło S.A. incurred costs of PLN 3,713 thousand under a voluntary redundancy scheme. All the benefits payable under the scheme were paid by the company. As at 31 December 2012, the company did not recognize a provision for the voluntary redundancy scheme.

32. Other provisions

32.1. Movements in provisions

Year ended 31 December 2012

	Provision for counterparty claims, court disputes, onerous contracts, disputes with employees	Provision for restructuring	Provision for restoration of land and dismantling and removal of fixed assets	Provision for gas emission obligations	Provision for obligation to submit energy certificates	Provision for use of real estate under power generation facilities without contract and other provisions	Provisions, total
Opening balance	43 149	944	63 610	187 132	703 449	86 244	1 084 528
Discount rate adjustment	–	–	(779)	–	–	–	(779)
Recognition	4 932	–	30 577	96 898	1 352 022	56 752	1 541 181
Reversal	(13 796)	–	–	(14)	(8)	(16 531)	(30 349)
Utilisation	(1 008)	(179)	–	(221 095)	(1 180 840)	(6 373)	(1 409 495)
Other movements	436	(765)	732	–	(647)	765	521
Foreign exchange differences from translation of foreign entities	–	–	–	–	–	(48)	(48)
Closing balance	33 713	–	94 140	62 921	873 976	120 809	1 185 559
CURRENT	33 713	–	12 442	62 921	873 976	119 984	1 103 036
NON-CURRENT	–	–	81 698	–	–	825	82 523

Year ended 31 December 2011 (restated figures)

	Provision for counterparty claims, court disputes, onerous contracts, disputes with employees	Provision for restructuring	Provision for restoration of land and dismantling and removal of fixed assets	Provision for gas emission obligations	Provision for obligation to submit energy certificates	Provision for use of real estate under power generation facilities without contract and other provisions	Provisions, total
Opening balance	34 274	612	34 699	101 173	787 031	66 903	1 024 692
Adjustments	–	–	(4 578)	–	–	–	(4 578)
Opening balance after adjustments	34 274	612	30 121	101 173	787 031	66 903	1 020 114
Acquisition of subsidiary	576	765	8 679	–	100 559	30 575	141 154
Discount rate adjustment	–	–	1 014	–	–	–	1 014
Recognition	12 640	797	23 726	187 132	1 018 586	20 948	1 263 829
Reversal	(7 905)	(1)	–	–	–	(29 336)	(37 242)
Utilisation	(96)	(1 229)	–	(101 173)	(1 199 103)	(4 222)	(1 305 823)
Other movements	3 660	–	70	–	(3 624)	1 360	1 466
Foreign exchange differences from translation of foreign entities	–	–	–	–	–	16	16
Closing balance	43 149	944	63 610	187 132	703 449	86 244	1 084 528
CURRENT	43 149	944	3 250	187 132	703 449	85 404	1 023 328
NON-CURRENT	–	–	60 360	–	–	840	61 200

32.2. Details of significant provisions

32.2.1. Provision for counterparty claims, court disputes, onerous contracts

Provision for proceedings before the Consumers and Competition Protection Office

The Competition and Consumers Protection Office conducts antimonopoly proceedings against TAURON Dystrybucja S.A. in respect of the alleged abuse of dominant position on the electricity distribution market. The company appealed against the decisions of the Competition and Consumers Protection Office. Provision for the proceedings pending before the Competition and Consumers Protection Office amounts to PLN 11,576 thousand and did not change in comparison to the amount recognized as at 31 December 2011.

Provision for the claims of ArcelorMittal Poland S.A.

The provision for the claims of ArcelorMittal Poland S.A. amounts to PLN 7,200 thousand and did not change in comparison to the provision as at 31 December 2011.

Provision for the claims of IPW Polin Sp. z o.o.

In December 2012, the provision for contested claims of IPW Polin Sp. z o.o. for the use of invention designs and the effects of applying new technologies in the operation of turbo generators, amounting to PLN 10,281 thousand, was reversed.

32.2.2. Provision for restoration of land and costs of dismantling and removal of fixed assets

Under the Geological and Mining Law, Południowy Koncern Węglowy S.A. and Kopalnia Wapienia Czatkowice Sp. z o.o. recognize provisions for future decommissioning costs of their mining facilities. As at 31 December 2012 the provision recognized by Kopalnia Wapienia Czatkowice Sp. z o.o., amounted to PLN 5,548 thousand, and the provision recognized by Południowy Koncern Węglowy S.A. amounted to PLN 20,521 thousand. As at 31 December 2011, the provision recognized by Kopalnia Wapienia Czatkowice Sp. z o.o. amounted to PLN 3,591 thousand, and the provision recognized by Południowy Koncern Węglowy S.A., amounted to PLN 19,451 thousand.

TAURON Wytwarzanie S.A. recognized a provision for the restoration of land under waste dumps. In 2012, the company remeasured the above-mentioned provision and increased its amount by PLN 28,512 thousand. As a result, as at 31 December 2012 the provision amounted to PLN 46,512 thousand. As at 31 December 2011, the amount of this provision was PLN 18,000 thousand.

The Renewable Sources of Energy segment entities recognized a provision for the cost of dismantling wind farms after the completion of their usage, at the amount of PLN 12,075 thousand. As at 31 December 2011 the provisions amounted to PLN 13,610 thousand.

Due to the legal obligation to dismantle and remove fixed assets after the period of their usage, TAURON Wytwarzanie S.A. recognizes a provision for the estimated future costs necessary to discharge this obligation. As at 31 December 2012, the provision amounted to PLN 9,484 thousand. As at 31 December 2011, the provision amounted to PLN 8,958 thousand.

32.2.3. Provision for obligation to surrender energy certificates

Due to the sale of electricity to final users, the Group is required to surrender for cancellation a certain number of certificates of electricity generated using renewable sources, gas-fired plants and cogeneration. As at 31 December 2012, the provision recognized in this respect amounted to PLN 873,976 thousand.

32.2.4. Provision for gas emission related obligations

A provision for obligations arising from gas emission is recognized despite the fact that, at the Group level, there is no deficiency of gas emission allowances compared to actual emission. Provision is recognized with respect to Certified Emission Reductions (CERs) and Emission Reduction Units (ERUs) which have been acquired as a result of the exchange of EUAs for CERs and EUAs and CERs for ERUs which, in accordance with the adopted accounting policy, are surrendered for cancellation in the first turn.

The exchange of EUAs for CERs and EUAs and CERs for ERUs results in the recognition of revenue from operating activities. Simultaneously, a provision is recognized in the same amount for the obligation to surrender CERs and ERUs for cancellation.

As at 31 December 2012, the provision for gas emission related obligations amounted to PLN 62,921 thousand.

32.2.5. Other provisions

Provision for use of land without a contract

The Group companies recognize provisions for all claims reported by the owners of the real estate on which distribution systems and heat installations are located. As at 31 December 2012, the provision amounted to PLN 74,899 thousand. During the year, the companies recognized a provision of PLN 45,119 thousand and reversed a provision of PLN 13,037 thousand. The companies do not recognize provisions for unreported potential claims from owners of land with an unregulated status.

In 2012, a third party raised claims against TAURON Ciepło S.A. for the use of real estate without a contract. The company has challenged both the amount of the claim as well as the claimant's right to set it off against its current liabilities towards the company arising from the supplies of heat. In consequence, the company brought an action in the court in order to assert its current claims against the debtor. In the course of the proceedings the court recognized the debtor's claim to set off its claims against its current liabilities to the company, while the final total amount of the defendant's claim for the use of real estate without a contract will be determined at a later stage of these proceedings. The company's Management Board expects that the dispute will be resolved in 2013. Due to the pending dispute, having in mind the adopted accounting policy, a provision was recognized for the estimated costs of the said claim. Bearing in mind the pending court dispute, based on the provisions of IAS 37.92, the Group has not disclosed all information related to the above-mentioned issue that is required by IAS 37.

Provision for real estate tax

Due to pending tax proceedings, and taking into consideration the verdict of the Constitutional Tribunal of 13 September 2011 as well as the current case law, Południowy Koncern Węglowy S.A. recognizes a provision for the real estate tax on structures located in underground workings. As at 31 December 2012, the provision for real estate tax including interest amounted to PLN 2,410 thousand.

33. Accruals and deferred income

33.1. Deferred income and government grants

	As at 31 December 2012	As at 31 December 2011
Deferred income		
Donations, fixed assets received free-of-charge	205 423	204 535
Non-government subsidies	54	299
Subsidies received for the purchase of fixed assets	135 031	57 944
Connection fees	306 343	314 204
Other	1 189	7 704
Total, of which:	648 040	584 686
Non-current	597 971	536 499
Current	50 069	48 187
Government grants		
Forgiven loans from environmental funds	9 880	8 987
Other	121 590	104 849
Total, of which:	131 470	113 836
Non-current	125 344	106 050
Current	6 126	7 786

Other government grants comprise mainly government grants received by Południowy Koncern Węglowy S.A. for initial investments in coal mines, amounting to PLN 32,251 thousand, and the remeasurement of preferential loans received by TAURON Wytwarzanie S.A. to market value, amounting to PLN 40,446 thousand and by TAURON Ciepło S.A. amounting to PLN 4,285 thousand.

The increase in the subsidies received for the purchase of fixed assets is mainly due to the acquisition of funds by TAURON Wytwarzanie S.A. under the "Infrastructure and Environment 2007–2013" Operational Programme for the following investment projects:

- construction of a unit for generation of electricity using a Renewable Energy Source in the Stalowa Wola Power Plant – PLN 22,499 thousand,
- construction of a biomass boiler in the Jaworzno III Power Plant – PLN 24,900 thousand,
- boiler accommodation in order to reduce NOx emission in units 9, 10, 11, 12 in the Łaziska Power Plant – PLN 5,423 thousand.

33.2. Accruals – current portion

	As at 31 December 2012	As at 31 December 2011
Unused holidays	32 837	26 025
Bonuses	171 832	180 289
Audit fees	635	680
Environmental protection charges	1 905	1 268
Excise tax accrued	2 535	8 162
Other	7 885	6 661
Total	217 629	223 085
Non-current	–	–
Current	217 629	223 085

34. Other current non-financial liabilities

	As at 31 December 2012	As at 31 December 2011 (restated figures)
Taxes, customs, social security and other payables, of which:	529 647	418 826
Excise	87 519	70 494
VAT	186 269	116 817
Social security	155 771	143 012
Personal Income Tax	56 233	50 007
Environmental charges	27 294	28 525
Real Estate Tax	6 580	4 164
Other	9 981	5 807
Other non-financial liabilities, of which:	239 587	226 241
Payments from customers relating to future periods, of which:	237 725	224 708
prepayments for connection fees	57 904	96 724
amounts overpaid by customers	169 537	121 846
other	10 284	6 138
Other	1 862	1 533
Total	769 234	645 067

35. Social assets, Social Fund liabilities and special funds

The tables below present an analysis of the individual funds:

- Social Fund

	As at 31 December 2012	As at 31 December 2011
Loans granted to employees	45 745	48 001
Cash	14 560	27 161
Other Fund assets and liabilities	(483)	(129)
Social Fund liabilities	(56 108)	(72 231)
Net balance	3 714	2 802
Transfers made to the Social Fund during the period	(72 288)	(73 904)

- Mine Decommissioning Fund

In accordance with the provisions of the Geological and Mining Law and the executive regulations issued based on that Act, the mining companies being part of the Group set up a Mine Decommissioning Fund (“MDF”). The MDF is set up as a certain percentage of the value of depreciation of property plant and equipment recognized for tax purposes or by reference to the exploitation fee, by way of a transfer of cash equivalent to such depreciation charges to a separate bank account. The financial assets of the MDF are presented

in the statement of financial position as long-term financial assets, whereas the balance of the MDF is recognized as part of the provision for decommissioning liabilities related to mines. The tables below present the amount of the transfer to the MDF, the balance of the MDF assets and the balance of net decommissioning liabilities.

Financial assets of the Mine Decommissioning Fund

	Year ended 31 December 2012	Year ended 31 December 2011
Assets as at 1 January	24 162	21 025
Contributions made	2 679	3 037
Interest	1 765	100
Utilization	-	-
Assets as at 31 December	28 606	24 162
Transfers made to the MDF in the period	(3 444)	(2 724)

Financial liabilities of the Mine Decommissioning Fund

	Year ended 31 December 2012	Year ended 31 December 2011
Mine Decommissioning Fund	31 999	26 774
Surplus of discounted estimated decommissioning costs	4 322	2 508
Surplus of Mine Decommissioning Fund over discounted estimated decommissioning costs	(10 251)	(6 240)
Total decommissioning liability	26 070	23 042

36. Capital commitments

As at 31 December 2012, the Group has commitments to incur expenditures for property, plant and equipment at amount of PLN 1,717,934 thousand, which mainly include:

- capital commitment related to the construction of the Marszewo wind farm, being the property of MEGAWAT MARSZEWO Sp. z o.o., along with the supply of turbines, amounting to PLN 194,351 thousand,
- capital commitment related to the construction of the Wicko wind farm being the property of BELS INVESTMENT Sp. z o.o., amounting to PLN 156,011 thousand,
- capital commitment related to boiler accommodation in the Jaworzno III Power Plant being the property of TAURON Wytwarzanie S.A. in order to reduce greenhouse gas emission, amounting to PLN 132,722 thousand,
- the capital commitment of TAURON Dystrybucja S.A. amounting to PLN 83,900 thousand and relating to the reconstruction of the Groszowice-Hermanowice high-voltage transmission line including construction of optical fiber.

As at 31 December 2011, the Group had commitments to incur expenditures for property, plant and equipment at an amount of PLN 1,603,316 thousand, which mainly included the capital commitment of PLN 165,914 thousand relating to boiler accommodation in the Jaworzno III Power Plant, being the property of TAURON Wytwarzanie S.A., to reduce emission of greenhouse gases, and the capital commitment of PLN 151,795 thousand relating to the restoration of production capacity in the Bielsko-Biala CHP Plant, being part of TAURON Wytwarzanie S.A.

37. Contingent liabilities

Mining damages

The Group, as part of its policy to recognize provisions for future liabilities, recognizes and presents in its consolidated financial statements provisions for mining damages resulting from the mining activities of the mining companies, at the amount of documented claims reported, acknowledged or examined by courts in this respect. The mining companies being part of the Group are not aware of any method to determine the amount of future mining damages that would enable them to reliably estimate the amount of future costs of repair of mining damages arising in the course of extraction of deposits.

Use of real estate without a contract

The distribution companies being part of the Group does not have the legal title to all plots of land on which the distribution systems and the related equipment are situated. In the future the Group may be required to incur costs for the use of real estate without underlying

contracts; however, it must be emphasized that the risk of loss of assets is remote. The Group recognizes a provision for all court disputes in this respect. The Group does not recognize a provision for unreported potential claims from owners of land with an unregulated status due to the lack of a detailed record of unregulated land and the resulting inability to reliably estimate the amount of potential claims. However, considering the history of reported claims and the costs incurred in this respect in previous years, the risk of incurring significant costs in respect of such claims can be considered as remote.

Compensation for stranded costs

As a result of the Act of 29 June 2007 on the Principles for Covering Costs Incurred by Electricity Generators due to Early Termination of Long-term Power Purchase Agreements (Journal of Laws of 2007, No. 130, item 905 – “the PPA Act”) coming into effect, TAURON Wytwarzanie S.A. volunteered to join the program of early termination of long-term power purchase agreements (“PPAs”) by signing an agreement to terminate such contracts. The signing of such an agreement provides a basis for electricity generators to receive funds to cover their expenses that are not covered by the income derived from the sale of generated electricity, reserve capacity and system-related services on a competitive market after early termination of PPAs, resulting from the expenditures incurred by such companies for assets related to electricity generation up to 1 May 2004. Under the PPA Act, the maximum amount of stranded costs and the amounts used in the calculation of annual adjustments to stranded costs were established for each electricity generator. After termination of PPAs, beginning from the year 2008, TAURON Wytwarzanie S.A. receives quarterly cash advances based on the submitted requests. Annual adjustments will be subsequently made to 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 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 S.A. recognized, based on the developed financial model, compensation revenue amounting to PLN 2,095,801 thousand for the period 2008–2011.

Information on the amount of the adjustment to stranded costs for 2008–2011:

- for 2008:

Under the decision of the President of the Energy Regulatory Office dated 31 July 2009, the company was obligated to return an amount of PLN 159,508 thousand to Zarządca Rozliczeń S.A. by 30 September 2009. The President of URE, while giving reasons for his decision, noted that the selling price included by the company in the calculation of compensation for stranded costs did not meet the criterion for selling price of electricity on a competitive market as majority of sales transactions had been made within the TAURON Polska Energia S.A. Capital Group. In addition, the President of URE challenged the inclusion of the value of the provision for missing carbon dioxide allowances in the calculation of stranded costs due to the deficit of such allowances in 2008.

As a result of appeal proceedings, based on the judgments of: the Regional Court in Warsaw the Court for Competition and Consumers Protection dated 26 May 2010 and of the Court of Appeal in Warsaw dated 25 April 2012, which modified the President of URE’s decision, the company received an adjustment to stranded costs for 2008 from Zarządca Rozliczeń S.A. in Warsaw amounting to PLN 158,842 thousand. The President of URE took advantage of the right of appeal and filed a cassation appeal against the judgment of the Court of Appeal, which was delivered to the Court of Appeal in Warsaw on 24 September 2012. On 25 October 2012, the cassation appeal was served on the lawyers representing TAURON Wytwarzanie S.A. On 8 November 2012 TAURON Wytwarzanie S.A. through the Court of Appeal in Warsaw filed a reply to the Supreme Court concerning mentioned above cassation appeal. The Company claimed that this appeal should not be considered by the Supreme Court, or in case of acceptance to consider, it should be dismissed due to lack of reasonable basis. As at the date of these consolidated financial statements, the Company has not been informed whether the appeal was accepted to be considered or dismissed.

Due to the fact that the company has been continuously applying the policy for measurement and recognition of stranded costs adopted in 2008, under which they are recognized as revenue in the financial year for which they are due, at an amount including the expected annual adjustment and the expected effect of the final adjustment, regardless of the date on which compensation is actually received, the judgment had no direct impact on the results of the company or of the TAURON Group.

- for 2009:

Under the decision dated 29 July 2010, the President of URE determined the amount of positive annual adjustment to stranded costs of TAURON Wytwarzanie S.A. for 2009 at PLN 138,202 thousand. On 30 September 2010, Zarządca Rozliczeń S.A. paid this amount to the company.

- for 2010:

Under the decision dated 29 July 2011, the President of URE determined the amount of positive annual adjustment to stranded costs of TAURON Wytwarzanie S.A. for 2010 at PLN 205,703 thousand. On 30 September 2011, Zarządca Rozliczeń S.A. paid this amount to the company.

- for 2011:

Under the decision dated 31 July 2012, the President of URE determined the amount of positive annual adjustment to stranded costs of TAURON Wytwarzanie S.A. for 2011 at PLN 211,677 thousand. This decision is consistent with the amount estimated by the Company and thus it has no impact on the results of the TAURON Group. On 28 September 2012, Zarządca Rozliczeń S.A. paid this amount to the company.

Revenues and proceeds from compensations for terminated PPAs

	Year ended 31 December 2012	Year ended 31 December 2011
Revenue from compensations for terminated PPAs	567 012	414 795
Proceeds from compensations for terminated PPAs	526 799	373 975
Receivables from compensations for terminated PPAs at the balance sheet date	534 207	493 993

Administrative proceedings initiated by the President of the Energy Regulatory Office (URE)

The President of the Competition and Consumers Protection Office (UOKiK), Branch in Wrocław (decision No. RWR 61/26/12/JB of 12 December 2012) instituted ex officio proceedings against TAURON Sprzedaż Sp. z o.o. with respect to its alleged use of practices violating collective consumers' interests, consisting in groundless charging of interest for delayed payments for forecasted electricity consumption that are shown by the automated payment servicing system, due to allocating the amounts paid by customers to the receivables that will be due in the future and leaving their oldest liabilities as unpaid. In reply to this, the company applied for issuing a decision imposing on it a requirement to fulfill the obligation to discontinue activities violating the Consumers and Competition Protection Act of 16 February 2007 (Journal of Laws 2007, No. 50, item 331 as amended) and to undertake activities to prevent continued existence of the alleged violations. As at the date of these consolidated financial statements, the company is in the course of preparing specific obligations as referred to above, together with proposed deadlines for their fulfillment.

On 19 March 2010, the President of URE issued a decision in which it decided to withdraw ex officio the exemption from the requirement to submit electricity tariff for approval that was granted to Vattenfall Sales Poland Sp. z o.o. (currently TAURON Sprzedaż GZE Sp. z o.o.) by virtue of the position of the President of URE dated 28 June 2001. The Company filed an appeal against this decision with the Regional Court in Warsaw the Court for Competition and Consumers Protection (CCCP). On 9 December 2011, the CCCP passed a judgment which reversed the President's decision. On 20 September 2012, the Court of Appeal in Warsaw announced a judgment in the matter of URE's appeal against CCCP's judgment regarding the withdrawal of the exemption granted to TAURON Sprzedaż GZE Sp. z o.o. from the requirement to submit for approval the electricity tariff for group G. The Court dismissed URE's appeal. The judgment is final. Written explanation was served on 31 December 2012. The President of URE has right to lodge an cassation appeal from this judgment.

The company's Management believe that the probability of an unfavorable outcome of the above-mentioned cases is low, hence no provision has been recognized for those events.

Administrative proceedings initiated by the President of the Competition and Consumers Protection Office

The President of the Competition and Consumers Protection Office (UOKiK), Branch in Wrocław (decision No. RWR 61/26/12/JB of 12 December 2012) instituted ex officio proceedings against TAURON Sprzedaż Sp. z o.o. with respect to the alleged use of practices violating collective consumers' interests, consisting in groundless charging of interest for delayed forecasted electricity consumption payments that are shown by the system of automated payment servicing procedures, due to allocating the amounts paid by customers to the receivables that will be due in the future and leaving their oldest liabilities as unpaid. In reply to this, the company applied for issuing a decision imposing on it the requirement to fulfill the obligation to discontinue activities violating the Consumers and Competition Act of 16 February 2007 (Journal of Laws 2007, No. 50, item 331 as amended) and to undertake activities to prevent continued existence of the alleged violations. As at the date of these consolidated financial statements, the company is in the course of preparing specific obligations as referred to above, together with proposed deadlines for their fulfillment.

Claims of Huta Łaziska S.A.

Due to the Company's merger with Górnośląski Zakład Elektroenergetyczny S.A. (GZE), TAURON Polska Energia S.A. has become a party to a court dispute with Huta Łaziska S.A.

In recent years, GZE was a party to court disputes with Huta Łaziska S.A. The main reason for this was Huta's failure to fulfill its obligation to pay the amounts due for electricity supplies, which resulted in the withholding of electricity supplies to Huta Łaziska by GZE in 2001.

Based on the decision of 12 October 2001, the President of URE ordered GZE to resume electricity supplies to Huta under the terms of the agreement dated 30 July 2001 at the price of PLN 67/MWh until the date of final resolution of the dispute, and on 14 November 2001 the President of URE finally resolved the dispute by issuing a decision stating that the withholding of electricity supplies was not unjustified. Huta appealed against this decision. On 25 July 2006, the Court of Appeal in Warsaw passed a final judgment ending the dispute over

the decision of the President of URE dated 14 November 2001. Huta lodged a cassation appeal against the judgment of the Court of Appeal, which was dismissed by the judgment of the Supreme Court dated 10 May 2007.

Due to the withholding of electricity supplies, Huta raised a claim against GZE for damages amounting to PLN 182,060 thousand. Currently an action is pending under Huta's suit of 12 March 2007 against GZE and the State Treasury represented by the President of URE for the payment of PLN 182,060 thousand together with interest from the date of filing the suit to the date of payment, in respect of damages for alleged losses resulting from GZE's failure to comply with the decision of the President of URE dated 12 October 2001. In this case, the courts of the first and second instance passed judgments favorable for GZE; however, in the judgment of 29 December 2011 the Supreme Court overruled the judgment of the Court of Appeal and remanded the case for reexamination by this Court. On 5 June 2012, the Court of Appeal overruled the judgment of the Regional Court and remanded the case for reexamination by the Regional Court. The Regional Court set a hearing for The first hearing before the court of first instance was held on 27 November 2012, and another on 25 February 2013. The date of the next hearing has been set at 24 April 2013.

Based on the Company's legal analysis of the claims raised by Huta and by its main shareholder, GEMI Sp. z o.o., the Company believes that they are groundless and the risk that they will have to be satisfied is remote. As a result, no provision has been recognized by the Company for any costs associated with these claims.

Excise

Contingent liabilities resulting from excise are presented in Note 38.

Other contingent liabilities

	As at 31 December 2012	As at 31 December 2011
Loan repayment guarantee	–	2 408
Bank guarantee liabilities	1 898	1 898
Legal action liabilities	1 240	2 797
Other contingent liabilities	1 858	2 863
Total contingent liabilities	4 996	9 966

38. Tax settlements

Tax settlements, together with other areas of legal compliance (e.g. customs or foreign exchange law) are subject to review and investigation by a number of authorities, which are entitled to impose severe fines, penalties and interest charges. The lack of reference to well established regulations in Poland results in a lack of clarity and integrity in the regulations. Frequent contradictions in legal interpretations both within government bodies and between companies and government bodies create uncertainties and conflicts. These facts create tax risks in Poland that are substantially more significant than those typically found in countries with more developed tax systems.

Tax authorities may examine the accounting records within up to five years after the end of the year in which the final tax payments were to be made. Consequently, the Group may be subject to additional tax liabilities, which may arise as a result of additional tax audits. The Group believes that adequate provisions have been recorded for known and quantifiable risks in this regard as at 31 December 2012.

As at the date of these consolidated financial statements, the following proceedings are pending in the Group companies in respect of state budget settlements:

Excise

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

The Ministry of Finance is, however, of the opinion that such a refund would result in an unjustified enrichment of electricity-generators and hence it is groundless. This Minister of Finance's opinion is supported by the resolution of the full Commercial Chamber of the Supreme Administrative Court dated 22 June 2011, which states that "the amount of excise paid due to sale of electricity in a situation where the person who made the payment did not suffer any property loss as a result of such payment does not represent an overpayment". For this reason, the possibility of recovering the excise seems to be uncertain.

At the same time, certain contractors of the TAURON Group submitted claims against companies selling electricity for adjustment of the prices of purchased electricity, on the grounds that the price of electricity included excise which should be refunded by the State Treasury to electricity purchasers.

Due to the significant uncertainty regarding the final resolution of the above issue, in these consolidated financial statements the Group did not recognize any effects of the potential refund of overpaid excise or the existing or potential claims of electricity purchasers.

Real estate tax

The details of provisions for disputes relating to real estate tax on workings and the related structures are presented in Note 32.2.5.

The approach to taxation of equipment used for generation and transmission of electricity with real estate tax is subject to varying interpretations. 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. At the date of these consolidated financial statements, the potential outcomes of the proceedings conducted in this respect are not significant for the TAURON Group. The Group's position with regard to taxation of energy equipment with real estate tax may change in the future, depending on the decisions issued by courts and potential changes in law.

39. Related party disclosures

39.1. Transactions with companies under joint control

The Group has two joint ventures: Elektrociepłownia Stalowa Wola S.A. and Elektrownia Blachownia Nowa Sp. z o.o., which have been described in detail in Note 16.

39.2. Transactions with State Treasury companies

The main shareholder of the Group is the State Treasury of the Republic of Poland, therefore State Treasury companies are treated as related parties.

The total value of transactions with State Treasury companies is presented in the table below.

Revenues and expenses

	Year ended 31 December 2012	Year ended 31 December 2011
Revenue	2 440 950	1 746 443
Costs*	(4 190 473)	(3 168 992)

* Includes costs recognized in the statement of comprehensive income.

Receivables and payables

	As at 31 December 2012	As at 31 December 2011
Receivables	302 588	469 020
Payables	588 194	571 740

Among the State Treasury companies, the following were the largest clients of the TAURON Polska Energia S.A. Group during the year 2012: PSE Operator S.A., KGHM Polska Miedź S.A., Kompania Węglowa S.A. and PKP Energetyka S.A. Total sales to these counterparties accounted for almost 68% of revenue from transactions with State Treasury companies. The largest purchase transactions were made by the Group with PSE Operator S.A., Kompania Węglowa S.A. Purchases from these counterparties accounted for over 76% of the value of purchases from the State Treasury companies during the year 2012.

Among the State Treasury companies, the following were the largest clients of the TAURON Polska Energia S.A. Group during the year 2011: PSE Operator S.A., KGHM Polska Miedź S.A. and Kompania Węglowa S.A. Total sales to these counterparties accounted for almost 85% of revenue from transactions with State Treasury companies. The largest purchase transactions were made by the Group with PSE Operator S.A., Kompania Węglowa S.A. Purchases from these counterparties accounted for over 77% of the value of purchases from the State Treasury companies during the year 2011.

The Capital Group enters into significant transactions in energy markets through Izba Rozliczeniowa Giełd Towarowych S.A. In 2012, revenue from this company amounted to PLN 4,083,153 thousand and accounted for over 10% of total revenues of the Group. As this entity

only deals with organization of commodities exchange trading, a decision was taken not to consider purchase and sale transactions made through this entity as related party transactions and not to treat this entity as a major client.

Transactions with State Treasury companies mainly relate to the operating activities of the Group and are made at an arm's length.

39.3. Compensation of key management personnel

	Parent		Subsidiaries	
	Year ended 31 December 2012	Year ended 31 December 2011	Year ended 31 December 2012	Year ended 31 December 2011
Board of Directors	8 071	8 863	21 375	23 860
Short-term employee benefits (salaries and surcharges)	7 267	7 933	19 522	20 740
Jubilee bonuses	–	–	26	42
Post-employment benefits	–	83	468	756
Employment termination benefits	–	–	284	325
Other	804	847	1 075	1 997
Supervisory Board	937	812	1 243	2 067
Short-term employee benefits (salaries and surcharges)	937	812	1 125	1 971
Jubilee bonuses	–	–	–	–
Post-employment benefits	–	–	–	–
Employment termination benefits	–	–	–	–
Other	–	–	118	96
Other key management personnel	9 477	7 163	42 622	33 846
Short-term employee benefits (salaries and surcharges)	8 507	6 245	40 319	32 472
Jubilee bonuses	–	202	913	842
Post-employment benefits	126	–	131	–
Employment termination benefits	–	88	966	305
Other	844	628	293	227
Total	18 485	16 838	65 240	59 773

The increase in compensation of other members of subsidiaries' key management personnel is due to including in 2012 the compensation of the key management personnel of the GZE S.A. Group companies that were included in consolidation as of 13 December 2011.

The decrease in compensation of the Boards of Directors and Supervisory Boards of subsidiaries in 2012 compared with 2011 is mainly due to the restructuring processes of the Group that took place in 2012.

Other transactions, arising from civil law contracts concluded between the parent and members of its governing bodies, relate to the use of business cars for private purposes.

During the year covered by these consolidated financial statements, members of the executive and supervisory bodies of the Group companies did not receive loans from the Social Fund. As at 31 December 2012 there were no outstanding loans.

40. Financial instruments

40.1. Carrying amounts and fair values of categories and classes of financial instruments

The fair value of the financial instruments held by the Group as at 31 December 2012 and 31 December 2011 did not significantly differ from their carrying amounts in the financial statements for the individual years, due to the following reasons:

- the potential discounting effect relating to short-term instruments is not significant;
- the instruments relate to arm's length transactions.

Categories and classes of financial assets	As at 31 December 2012		As at 31 December 2011 (restated figures)	
	Carrying amount	Fair value	Carrying amount	Fair value
1 Assets at fair value through profit or loss	472	472	100 225	99 583
Shares in unlisted and listed companies (current)	6	6	716	74
Investment fund units	–	–	2	2
Derivative instruments	466	466	–	–
Bonds, T-bills and other debt securities	–	–	99 507	99 507
2 Financial assets available for sale	156 974	3 813	165 820	4 349
Shares in unlisted and listed companies (non-current)	148 222	–	156 883	–
Shares in unlisted and listed companies (current)	4 939	–	4 588	–
Investment fund units	2 388	2 388	2 124	2 124
Bonds, T-bills and other debt securities	1 425	1 425	2 225	2 225
3 Loans and receivables	3 190 115	3 190 115	2 778 390	2 778 390
Trade receivables	2 199 577	2 199 577	1 881 992	1 881 992
Deposits	26 219	26 219	25 250	25 250
Loans granted	117 813	117 813	–	–
Other financial receivables	846 506	846 506	871 148	871 148
4 Financial assets excluded from the scope of IAS 39	51 986	–	22 717	–
Investments in joint ventures recognised using the equity method	51 986	–	22 717	–
5 Cash and cash equivalents	1 030 929	1 030 929	505 670	505 670
Total, including	4 430 476		3 572 822	
Non-current assets	357 430		215 784	
Investments in associates and joint ventures recognised using the equity method	51 986		22 717	
Other long-term financial assets	305 444		193 067	
Current assets	4 073 046		3 357 038	
Trade and other receivables	3 036 695		2 743 344	
Other current financial assets	5 422		108 024	
Cash and cash equivalents	1 030 929		505 670	

* The Group is unable to reliably determine the fair value of the shares held in companies which are not listed on active markets. They are measured at the balance sheet date at cost less impairment losses.

Categories and classes of financial liabilities	As at 31 December 2012		As at 31 December 2011 (restated figures)	
	Carrying amount	Fair value	Carrying amount	Fair value
1 Financial liabilities at fair value through profit or loss	552	552	80	80
Derivative instruments	552	552	80	80
2 Financial liabilities measured at amortized cost	8 146 211	8 146 211	6 823 202	6 823 202
Preferential loans	99 100	99 100	176 966	176 966
Arm's length loans	979 372	979 372	141 973	141 973
Bank overdrafts	129 566	129 566	–	–
Issued debentures and other debt securities	4 301 834	4 301 834	4 147 174	4 147 174
Trade payables	1 399 019	1 399 019	1 471 434	1 471 434
Other financial liabilities	82 459	82 459	71 744	71 744
Commitments resulting from purchases of fixed and intangible assets	966 768	966 768	630 295	630 295
Salaries and wages	161 150	161 150	148 393	148 393
Insurance contracts	26 943	26 943	35 223	35 223
3 Liabilities under guarantees, factoring and excluded from the scope of IAS 39	56 278	56 278	70 993	70 993
Obligations under finance leases and hire purchase contracts	56 278	56 278	70 993	70 993
4 Derivative hedging instruments (liabilities)	190 666	190 666	–	–
Total, including	8 393 707		6 894 275	
Long-term liabilities	5 423 162		4 316 144	
Interest-bearing loans and borrowings	5 222 882		4 251 944	
Finance lease and hire purchase commitments	41 796		56 232	
Trade payables and other financial long-term liabilities	7 890		7 968	
Derivative instruments	150 594		–	
Short-term liabilities	2 970 545		2 578 131	
Trade and other payables	2 628 449		2 349 121	
Derivative instruments	40 624		80	
Current portion of interest-bearing loans and borrowings	286 990		214 169	
Current portion of finance lease and hire purchase commitments	14 482		14 761	

40.2. Fair value hierarchy

Classes of financial instruments	As at 31 December 2012	
	Level 1	Level 2
Assets		
Shares in unlisted and listed companies	6	–
Commodity-related derivatives	466	–
Investment fund units	2 388	–
Bonds, T-bills and other debt securities	1 425	–
Liabilities		
Currency derivatives	–	552
IRS derivatives	–	190 666

Classes of financial instruments	As at 31 December 2011	
	Level 1	Level 2
Assets		
Shares in unlisted and listed companies	74	–
Investment fund units	2 126	–
Bonds, T-bills and other debt securities	101 732	–
Liabilities		
Currency derivatives	–	80

40.3. Items of income, expense, gains and losses recognized in the statement of comprehensive income, by category of financial instruments

Year ended 31 December 2012

	Assets at fair value through profit or loss	Financial assets available for sale	Financial assets held to maturity	Loans and receivables	Financial assets excluded from the scope of IAS 39	Financial liabilities at fair value through profit or loss	Financial liabilities at amortized cost	Liabilities under guarantees, factoring and excluded from the scope of IAS 39	Hedging instruments	Total
Dividends and shares in profits	18	8 349	–	–	–	–	–	–	–	8 367
Interest income/(expense)	39 672	–	–	44 350	–	–	(237 783)	(2 195)	6 466	(149 490)
Currency translation differences	(1 821)	–	–	135	–	–	532	741	–	(413)
Reversal of impairment losses/ "upwards" revaluation	574	–	–	16 084	–	–	–	–	–	16 658
Recognition of impairment losses/ "downwards" revaluation	(148)	(833)	–	(18 360)	–	(472)	–	–	(910)	(20 723)
Commission relating to borrowings and debt securities	–	–	–	–	–	–	(7 072)	–	–	(7 072)
Gain/(loss) on disposal of investments	(4)	14 696	–	–	–	–	–	–	–	14 692
Other	4 704	–	–	–	–	(470)	–	–	–	4 234
Net profit (loss)	42 995	22 212	–	42 209	–	(942)	(244 323)	(1 454)	5 556	(133 747)

Year ended 31 December 2011

	Assets at fair value through profit or loss	Financial assets available for sale	Financial assets held to maturity	Loans and receivables	Financial assets excluded from the scope of IAS 39	Financial liabilities at fair value through profit or loss	Financial liabilities at amortized cost	Liabilities under guarantees, factoring and excluded from the scope of IAS 39	Hedging instruments	Total
Dividends and shares in profits	–	8 196	–	–	7	–	–	–	–	8 203
Interest income/(expense)	54 015	–	18	37 369	–	(2 892)	(54 902)	(5 765)	–	27 843
Currency translation differences	(204)	–	–	7 763	–	(2)	(11 548)	(1 177)	–	(5 168)
Reversal of impairment losses/“upwards” revaluation	18	1 060	315	5 940	–	1 694	–	–	–	9 027
Recognition of impairment losses/“downwards” revaluation	(5)	(268)	–	(7 442)	–	(337)	–	–	–	(8 052)
Commission relating to borrowings and debt securities	–	–	–	–	–	–	(6 205)	–	–	(6 205)
Gain/(loss) on disposal of investments	(35)	(2 590)	–	–	–	–	–	–	–	(2 625)
Net profit (loss)	53 789	6 398	333	43 630	7	(1 537)	(72 655)	(6 942)	–	23 023

40.4. Details of significant items within the individual categories of financial instruments

40.4.1. Assets at fair value through profit or loss

The largest item of assets at fair value through profit or loss is comprised of State Treasury bonds in the amount of PLN 99,507 thousand, acquired by TAURON Sprzedaż GZE Sp. z o.o. and TAURON Dystrybucja GZE S.A. (currently TAURON Dystrybucja S.A.).

40.4.2. Financial assets available for sale

Available-for-sale financial assets are mainly comprised of shares in the following companies:

- shares in Spółka Ciepłowniczo-Energetyczna Jaworzno III Sp. z o.o. with a value of PLN 35,694 thousand;
- shares in Przedsiębiorstwo Energetyki Ciepłej Sp. z o.o. Tychy with a value of PLN 31,608 thousand.
- shares in Knauf Jaworzno III Sp. z o.o. with a value of PLN 19,857 thousand,

As at 31 December 2011, the most important items in this category of financial assets were shares in the same companies.

40.4.3. Loans and receivables

Trade and other receivables are described in detail in Notes 20 and 41.4.2.

Long-term loans of PLN 117,813 thousand include a loan granted to Elektrociepłownia Stalowa Wola S.A. together with interest, as discussed in detail in Note 16.

40.4.4. Financial assets excluded from the scope of IAS 39

As at 31 December 2012, the Group had the following joint ventures that were accounted for using the equity method:

- special purpose entity Elektrownia Blachownia Nowa Sp. z o.o. – PLN 32,390 thousand. Its shareholders are TAURON Wytwarzanie S.A. and KGHM Polska Miedź S.A., each of which holds 50% of shares in the company’s share capital and governing body.
- special purpose entity Elektrociepłownia Stalowa Wola S.A. – PLN 19,596 thousand. Its shareholders are TAURON Wytwarzanie S.A. and PGNiG Energia S.A., each of which holds 50% of shares in the company’s share capital and governing body.

The increase in the value of financial assets excluded from the scope of IAS 39 is mainly due to the acquisition of shares in Elektrownia Blachownia Nowa Sp. z o.o. by TAURON Wytwarzanie S.A. As at 31 December 2011, the Group had only one joint venture, Elektrociepłownia Stalowa Wola S.A., with a value of PLN 22,717 thousand.

The above-mentioned investments have been discussed in detail in Note 16.

40.4.5. Financial liabilities measured at amortized cost

40.4.5.1. Loans taken out

The tables below present loans taken out as at 31 December 2012 and 31 December 2011.

Loans taken out as at 31 December 2012

Currency	Interest rate	Value of loans as at the balance sheet date		of which maturing within (after the balance sheet date):					
		currency	PLN	less than 3 months	3–12 months	1–2 years	2–3 years	3–5 years	over 5 years
PLN	floating	282 840	282 840	148 359	47 348	32 738	6 236	13 576	34 583
	fixed	917 765	917 765	340	72 439	93 192	93 192	186 382	472 220
Total PLN		1 200 605	1 200 605	148 699	119 787	125 930	99 428	199 958	506 803
EUR	floating	1 231	5 032	629	1 887	2 516	–	–	–
	fixed	–	–	–	–	–	–	–	–
Total EUR		1 231	5 032	629	1 887	2 516	–	–	–
Total			1 205 637	149 328	121 674	128 446	99 428	199 958	506 803
Interest increasing carrying amount			2 401						
Total loans			1 208 038						

Loans taken out as at 31 December 2011

Currency	Interest rate	Value of loans as at the balance sheet date		of which maturing within (after the balance sheet date):					
		currency	PLN	less than 3 months	3–12 months	1–2 years	2–3 years	3–5 years	over 5 years
PLN	floating	297 859	297 859	32 909	164 609	52 503	30 776	8 062	9 000
	fixed	12 055	12 055	493	1 507	1 903	1 359	2 717	4 076
Total PLN		309 914	309 914	33 402	166 116	54 406	32 135	10 779	13 076
EUR	floating	1 898	8 381	906	2 039	2 718	2 718	–	–
	fixed	–	–	–	–	–	–	–	–
Total EUR		1 898	8 381	906	2 039	2 718	2 718	–	–
USD	floating	17	59	–	59	–	–	–	–
	fixed	–	–	–	–	–	–	–	–
Total USD		17	59	–	59	–	–	–	–
Total			318 354	34 308	168 214	57 124	34 853	10 779	13 076
Interest increasing carrying amount			585						
Total loans			318 939						

The table below demonstrates movements in the balance of loans without interest increasing their carrying amount for the years ended 31 December 2012 and 31 December 2011.

	Year ended 31 December 2012	Year ended 31 December 2011
Opening balance	318 354	554 797
Acquisition of a subsidiary	–	138 261
Movement in bank overdrafts	129 566	(2 464)
Movement in loans (excluding bank overdrafts):	757 717	(372 240)
Taken out	1 005 000	87 254
Repaid	(257 210)	(467 183)
Change in valuation	9 927	7 689
Closing balance	1 205 637	318 354

Proceeds from loans recognized in the consolidated statement of cash flow in the amount of PLN 1,005,000 thousand zlotys consist mainly of loans taken by the parent company from European Investment Bank in the amount of PLN 960,000 thousand zlotys.

Repayments of loans recognized in the consolidated statement of cash flow in the amount of PLN 257,210 thousand zlotys consist mainly of repayments of investments loans by subsidiaries TAURON Wytwarzanie S.A. and TAURON Dystrybucja S.A. in the total amount of PLN 110,101 thousand zlotys and repayment of loan taken by subsidiary TAURON Wytwarzanie S.A. from the National Fund for Environmental Protection in the amount of PLN 88,000 thousand zlotys.

The Group's liabilities under loans taken out as at 31 December 2012 related mainly to the following items:

- loans taken out from the European Investment Bank for an amount of PLN 910,394 thousand, as described below,
- overdraft of PLN 129,566 thousand (funding used under the cash pool agreement – the Company may use external funding for an amount of PLN 300,000 thousand),
- loans taken out by the Group companies for investment purposes, including mainly:
 - a loan taken out by TAURON Dystrybucja S.A. for the purpose of refinancing capital expenditures incurred during the years 2008 and 2009, the value of which at the balance sheet date was PLN 51,331 thousand (as at 31 December 2011: PLN 77,782 thousand),
 - a loan received by TAURON Wytwarzanie S.A. from the Voivodship Fund for Environmental Protection and Water Management for RES investments in the Jaworzno III Power Plant. The balance of the loan at the balance sheet date was PLN 40,000 thousand (as at 31 December 2011: PLN 25,000 thousand).

Loans from the European Investment Bank

In the year ended 31 December 2012 TAURON Polska Energia S.A. received two loans from the European Investment Bank, for a total amount of PLN 510,000 thousand. The respective loan agreements were signed on 24 October 2011.

The funds acquired under these loans are used for the implementation of two investment projects in the area of production:

- PLN 300,000 thousand is used for the conversion and transfer for use of a high efficiency coal-fired cogeneration unit with the accompanying infrastructure in the Bielsko-Biala CHP Plant. Those funds will be used by the TAURON Group to replace the current unit with a unit of a higher efficiency amounting to 50 MWe and 182 MWt. Construction of this unit started in December 2008 and will last until mid 2013;
- PLN 210,000 thousand is used for the construction and start-up of a new 50 MWe and 45 MWt biomass boiler in the Jaworzno III Power Plant, which was made available for use at the end of 2012, and the repair of a steam turbine.

The above-mentioned loans are being repaid in installments on an annual basis, with the total amount of the installment amounting to PLN 51,000 thousand. The repayment date for principal installments is 15th December of each year and the date for the repayment of the whole principal is 15 December 2021. Interest on the borrowed funds is payable on a semi-annual basis, on 15 June and 15 December each year.

Interest on loans is calculated based on a fixed rate binding until 15 June 2016. On this date, new terms will be specified with respect to the amount of interest and/or change in the basis for its calculation.

On 3 July 2012, the Company entered into another loan agreement with the European Investment Bank for total funding of PLN 900,000 thousand. The funds obtained from this loan are to be used for grid investments – for the implementation of a 5-year investment program aimed at modernization and development of the power grids of TAURON Dystrybucja S.A. located in Southern Poland. The total cost of the project is approx. PLN 2,000,000 thousand. The first tranche of the loan amounting to PLN 450,000 thousand was made available in July 2012.

The tranche will be paid in installments, on a half-year basis, in the amount of PLN 20,455 thousand. The dates for payment of principal installments are 15 June and 15 December each year. The first payment is due on 15 December 2013 and the total repayment of the principal amount is due on 15 June 2024. Interest on the loan is payable on a half-year basis, on 15 June and 15 December each year. The maximum repayment period is 12 years from the date of payment of the first tranche of the loan.

Interest on the tranche of the loan that has been made available is calculated using a fixed rate binding until 15 December 2017. On this date, new financing terms will be determined with respect to the amount of interest and/or change in the basis of its calculation.

Subsequent tranches of the loan have been made available after the balance sheet date as discussed in details in the Note 44.

At the balance sheet date, the balance of liabilities under loans obtained from the European Investment Bank amounted to PLN 910,394 thousand, of which PLN 2,140 thousand represented accrued interest.

40.4.5.2. Debentures and other securities issued

As at 31 December 2012, the Group's liability under issued debentures amounted to PLN 4,301,834 thousand. This liability arose as a result of the parent's issue of debentures in the following tranches:

- on 29 December 2010, Tranche A debentures were issued with a nominal value of PLN 848,200 thousand and maturity date of 29 December 2015,
- on 12 December 2011, Tranche B debentures were issued with a total nominal value of PLN 300,000 thousand and maturity date of 12 December 2015;
- on 12 December 2011, Tranche C debentures were issued with a total nominal value of PLN 3,000,000 thousand and maturity date of 12 December 2016;
- on 30 January 2012, Tranche B debentures were issued with a value of PLN 150,000 thousand and maturity date of 30 January 2015.

Debentures are issued in a dematerialized form. These are unsecured coupon debentures with a floating interest rate of WIBOR 6M plus a fixed margin. Interest on these debentures is payable on a semi-annual basis.

The Company hedged a portion of interest-related cash flows resulting from issued debentures by entering into interest rate swaps (IRS), as discussed in detail in Note 26.5

The agreements signed by the Company with banks include covenants which are commonly used in such transactions. As at 31 December 2012, none of these covenants has been breached.

The tables below present the balances of the Group's liability under issued debentures together with accrued interest as at 31 December 2012 and 31 December 2011.

Debentures issued as at 31 December 2012

Company	Tranche	Interest rate	Currency	As at balance sheet date		of which maturing within					
				Interest accrued	Principal at amortised cost	Less than 3 months	3-12 months	1-2 years	2-3 years	3-5 years	Over 5 years
TAURON Polska Energia S.A.	Tranche A	floating	PLN	349	846 524	-	-	-	846 524	-	-
TAURON Polska Energia S.A.	Tranche B	floating	PLN	4 707	449 150	-	-	-	449 150	-	-
TAURON Polska Energia S.A.	Tranche C	floating	PLN	8 531	2 992 573	-	-	-	-	2 992 573	-
Total debentures				13 587	4 288 247	-	-	-	1 295 674	2 992 573	-

Debentures issued as at 31 December 2011

Company	Tranche	Interest rate	Currency	As at balance sheet date		of which maturing within					
				Interest accrued	Principal at amortised cost	Less than 3 months	3–12 months	1–2 years	2–3 years	3–5 years	Over 5 years
TAURON Polska Energia S.A.	Tranche A	floating	PLN	412	846 106	–	–	–	–	846 106	–
TAURON Polska Energia S.A.	Tranche B	floating	PLN	968	298 920	–	–	–	–	298 920	–
TAURON Polska Energia S.A.	Tranche C	floating	PLN	9 682	2 991 086	–	–	–	–	2 991 086	–
Total debentures				11 062	4 136 112	–	–	–	–	4 136 112	–

On 29 June 2012, an agreement was signed 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., under which the value of the program of issue of TAURON Polska Energia S.A.'s debentures was increased by tranches D and E with a value of, respectively, PLN 2,475,000 thousand and PLN 275,000 thousand, i.e. up to the total amount of PLN 7,050,000 thousand. The funds that will be acquired from the issue of debentures under tranches D and E will be used to finance investments projects in the TAURON Group as well as general corporate needs in the TAURON Group

40.4.6. Derivatives used for hedging purposes (liabilities)

Derivatives used for hedging interest rate cash flows arising from issued debentures have been discussed in detail in Note 26.5.

40.4.7. Assets pledged as security

The Group uses various forms of security to secure payment of liabilities. The most frequently used ones include mortgages, registered pledges, liens and lease agreements relating to real estate and other items of property, plant and equipment as well as inventories, receivables, or frozen cash in bank accounts.

The carrying amounts of assets pledged as security for liabilities at particular balance sheet dates are presented in the table below.

Carrying amount of assets pledged as security for liabilities

	As at 31 December 2012	As at 31 December 2011
Real estate	728 953	730 416
Plant and equipment	50 231	136 201
Motor vehicles	950	2 439
Assets under construction	2	75
Cash	20 796	663
Other financial and non-financial receivables	435	5 771
Total assets pledged as security for liabilities	801 367	875 565

The decrease of the carrying amount of plant and machinery pledged as security for liabilities in the year ended 31 December 2012 is mainly due to the repayment, at the end of 2011, of a loan by Południowy Koncern Węglowy S.A. which was mainly secured by a registered pledge on fixed assets with carrying amount of PLN 42,349 thousand as at 31 December 2011. Due to the repayment of the loan in the 1st quarter of 2012, the company deleted registered pledges on plant and machinery.

The increase in the balance of cash representing a security for payment of liabilities is mainly due to collaterals established for transactions made on commodity exchange markets. In order to secure futures transactions for emission allowances and energy made on the ICE Futures Europe Exchange and on the European Energy Exchange, the Company transfers initial deposits for such transactions into separate bank accounts – the total amount of such deposits as at 31 December 2012 was PLN 17,553 thousand.

Other forms of security for payment of liabilities

In addition to the collaterals listed above, the Group also uses other forms of security to secure payment of liabilities, of which the most significant ones as at 31 December 2012 related to loans taken out by TAURON Wytwarzanie S.A. and included: assignment authorizations to bank accounts – PLN 20,000 thousand and blank promissory notes for PLN 68,977 thousand. Loans taken out by TAURON Dystrybucja S.A. were secured by granting authorizations to dispose of the funds in borrowers' bank accounts up to the balance of the outstanding loan plus interest and other amounts due to the bank – a total of PLN 51,331 thousand as at 31 December 2012. In order to secure proper performance of the contract and of the agreements signed by the company, including those relating to the funding of investment projects, TAURON Dystrybucja S.A. issued blank promissory notes (for a total amount of PLN 94,430 thousand). Elektrociepłownia Tychy S.A. (currently TAURON Ciepło S.A.) issued a blank promissory note for an amount of PLN 92,383 thousand to secure the sale and leaseback agreement signed in 2007. This agreement is additionally secured by the assignment of receivables, assignment of rights under insurance policies, mortgage on real estate and plant and machinery (in the table above) and authorization to dispose of bank accounts.

The parent, under the debentures issue program, signed a declaration of submission to enforcement:

- up to PLN 1,560,000 thousand – valid until 31 December 2016,
- do up to the amount of PLN 6,900,000 thousand – valid until 31 December 2018 (as at 31 December 2011 up to PLN 3,600,000 thousand – the increase of this amount by PLN 3,300,000 thousand is due to the signing of another agreement under which the value of the program of issue of TAURON Polska Energia S.A.'s debentures was increased by PLN 2,750,000 thousand, up to the total amount of PLN 7,050,000 thousand, as discussed in detail in Note 40.4.5.2).

In order to secure the framework agreement concerning bank guarantees from PKO Bank Polski S.A., TAURON Polska Energia S.A. provided a declaration of submission to enforcement under Article 97 of the Banking Law up to the amount of PLN 125,000 thousand, valid until 31 December 2017. Additional collateral for this agreement is authorization to the bank account held with PKO Bank Polski S.A. As at 31 December 2012, the maximum amount of the limit set for the guarantees is PLN 100,000 thousand. The agreement will be valid until 31 December 2016.

Under the above-mentioned agreement, at the Company's request PKO Bank Polski S.A. issued bank guarantees to secure the liabilities of TAURON Polska Energia S.A.'s subsidiaries for a total amount of PLN 3,597 thousand and to secure the Company's transactions:

- up to PLN 80,000 thousand – a guarantee for Izba Rozliczeniowa Gield Towarowych S.A. valid until 31 March 2013;
- up to EUR 800 thousand (PLN 3,271 thousand) – a guarantee for CAO Central Allocation Office GmbH valid until 3 February 2014.

The bank guarantee agreement with PKO Bank Polski S.A., for which the Company provided a declaration of submission to enforcement under Article 97 of the Banking Law up to the amount of PLN 48,000 thousand, valid until 31 December 2012, expired in the 1st quarter of 2012.

In order to secure the transactions made by the Company in electricity markets through Towarowa Gielda Energii S.A. and its participation in the system securing the liquidity of settlements, TAURON Wytwarzanie S.A. issued a suretyship to Izba Rozliczeniowa Gield Towarowych S.A. (IRGIT S.A.) for the settlement of the Company's future transactions up to the amount of PLN 145,000 thousand. It was agreed that the Company would pay a consideration to TAURON Wytwarzanie S.A. for setting up collateral in the form of a suretyship. In order to secure IRGIT's claims under the suretyship agreement signed between TAURON Wytwarzanie S.A. and IRGIT S.A. in respect of Tauron Polska Energia S.A.'s liabilities, restrictions were placed on the EUAs of TAURON Wytwarzanie S.A. entered in the National Register of Emission Allowances (KRUE) amounting to 10,000 thousand tonnes. This collateral shall be valid until 31 March 2013.

In order to secure funds for future decommissioning costs, the mining companies that are part of the Group have recognized a Mine Decommissioning Fund (Note 35).

41. Financial risk management objectives and policies

The Group companies manage financial risk in a mindful and responsible manner, based on the developed and adopted Policy for Specific Risk Management in the Area of Finance, which includes a set of principles and standards consistent with best practices in this respect. A comprehensive risk management framework that is consistent with business processes allows for identification and management of correlations between the risk incurred and the level of income that can be earned. The intention of those managing risk at the Group companies is to keep the exposure within the pre-agreed and authorized safety levels rather than to fully eliminate the exposure arising from changes in the identified and monitored risk factors.

The primary objective of financial risk management is to manage the risk so as to reduce as much as possible the sensitivity of the Group's cash flows to changing financial risks and to minimize finance costs and hedging expenses incurred under derivative transactions.

Apart from derivatives, the key financial instruments used by the Group include bank and other loans, debentures, finance leases, cash and deposits. The main purpose of using these financial instruments is to provide funds for the operations of the Group companies. Due to the nature of its business processes, the Group also holds and uses other financial instruments, such as trade receivables and payables, which arise directly in the course of the Group's business activities.

The Group's current policy and the policy in place during the entire period covered by these consolidated financial statements have been not to engage in trading in financial instruments.

The key risks arising from the Group's financial instruments are interest rate risk, liquidity risk, currency risk and credit risk.

On 10 May 2011, the Board of Directors of the parent passed a resolution implementing in the Group a policy for specific risk management in the area of finance, the objectives of which are as follows:

- Defining the financial risk management strategy and principles in the Group;
- Defining acceptable tools for hedging financial risk;
- Defining the decision-making process in the area of financial risk management in the Group,
- Implementation of general standards in the area of financial risk management, in line with the Group's requirements and the related best practices;
- Defining the general rules for organization of activities relating to financial risk in the Group, including delegation of duties to enable proper control of the activities relating to financial risk management;
- Defining general principles of hedge accounting in the Group which define the principles and types of hedge accounting and the accounting treatment of hedging instruments and hedged items to be applied as part of hedge accounting under IFRS.

The policy for specific risk management in the area of finance defines the strategy of financial risk management in the area of currency and interest rate risks.

The aim of the currency risk management is to reduce the negative impact of changes in foreign exchange rates on the Group's cash flows to an acceptable level. The aim of the interest rate risk management is to reduce, to an acceptable level, the negative impact of fluctuations in market interest rates on cash flows and the annual net interest expense being part of finance income and costs presented in the Group's consolidated financial statements.

The policy for specific risk management in the area of finance and hedge accounting policies refer to the cash flow risk and do not include fair value risk due to its low significance for the Group.

As a result of the implementation of the policy for specific risk management in the area of finance, the financial risk management function was centralized in order to optimize the financial risk management process, including minimization of the Group's costs in this area. From the perspective of financial risk management in the Group, the individual companies are responsible for identifying, measuring and reporting the financial risk associated with their activities to the parent company.

In 2012, the parent entered into derivative Interest Rate Swap transactions falling under hedge accounting in order to hedge cash flows arising from issued debentures against the risk of changes in interest rates. During the year 2012 the parent also entered into forward currency contracts in order to hedge against the risk of changes in currency rates, which are not subject to hedge accounting.

In addition, in 2011, the Group companies implemented a Policy for Management of Financial Liquidity in the TAURON Group. Owing to this policy, which includes, among others, precise weekly updates of financial plans, scenario analyses and comparative analyses, management of the liquidity position of the TAURON Group is optimized and the risk of loss of liquidity is reduced. Based on the adopted policy, TAURON Polska Energia S.A. sets the optimum amount and structure of the liquidity reserve and performs measurements and assessments of the liquidity risk at the level of the TAURON Group.

It has been assumed that each employee is responsible for risk management. Employees are aware of the risks arising in their areas of operations and feel responsible for risk management. The Group companies also monitor the market price risk arising from all financial instruments held by the Group. The Group companies' accounting policies relating to derivatives are set out in Note 9.12.

41.1. Interest rate risk

The Group is exposed to the risk of changes in interest rates due to acquiring financing subject to variable interest rates and investing in assets that are subject to variable and fixed interest rates. The Group companies are additionally exposed to the risk of lost benefits in respect of their fixed interest debt due to declines in the interest rates.

The tables below present the carrying amounts of the Group's financial instruments exposed to interest rate risk, analyzed by maturity.

31 December 2012 – fixed interest rate

Financial instruments	<1 year	1–2 years	2–3 years	3–5 years	>5 years	Total
Financial liabilities						
Preferential loans	1 359	1 359	1 359	2 717	2 714	9 508
Arm's length loans	73 533	91 833	91 833	183 665	469 527	910 391
Issued debentures and other debt securities	8 712	–	439 234	2 992 573	–	3 440 519
Derivative instruments (IRS)	40 071	55 811	53 215	41 569	–	190 666

31 December 2012 – floating interest rate

Financial instruments	<1 year	1–2 years	2–3 years	3–5 years	>5 years	Total
Financial assets						
Deposits	–	–	–	–	26 219	26 219
Loans granted	11	–	–	–	117 802	117 813
Cash and cash equivalents	1 030 929	–	–	–	–	1 030 929
Financial liabilities						
Bank overdrafts	129 566	–	–	–	–	129 566
Preferential loans	27 601	7 596	6 236	13 576	34 583	89 592
Arm's length loans	38 805	25 144	–	–	–	63 949
Issued debentures and other debt securities	4 875	–	856 440	–	–	861 315

31 December 2011 – fixed interest rate

Financial instruments	<1 year	1–2 years	2–3 years	3–5 years	>5 years	Total
Financial assets						
Deposits	2 604	–	–	–	–	2 604
Bonds, T-bills and other debt securities	99 507	–	–	–	–	99 507
Financial liabilities						
Preferential loans	1 996	1 903	1 359	2 717	4 076	12 051

31 December 2011 – floating interest rate

Financial instruments	<1 year	1–2 years	2–3 years	3–5 years	>5 years	Total
Financial assets						
Deposits	607	–	–	–	22 039	22 646
Cash and cash equivalents	505 670	–	–	–	–	505 670
Financial liabilities						
Preferential loans	116 704	25 517	5 632	8 062	9 000	164 915
Arm's length loans	84 405	29 706	27 862	–	–	141 973
Issued debentures and other debt securities	11 062	–	–	4 136 112	–	4 147 174

Interest on financial instruments with floating interest rates is updated in periods of less than 1 year. Interest on financial instruments with fixed interest rates is fixed over the entire period to maturity of these instruments. Other financial instruments of the Group, which have not been included in the tables above, are non-interest bearing and are therefore not exposed to interest rate risk.

41.2. Currency risk

The Group companies are exposed to changes in EUR/PLN and CZK/PLN exchange rates due to their operational and financial activities. The tables below present the Group's exposure to currency risk, analyzed by the particular classes of financial instruments in the years 2012 and 2011.

Currency position as at 31 December 2012

	Total carrying amount in PLN	EUR		USD		CZK	
		in currency	in PLN	in currency	in PLN	in currency	in PLN
Financial assets							
Trade receivables and other financial receivables	3 046 083	4 898	20 026	–	–	29 012	4 729
Cash and cash equivalents	1 030 929	7 925	32 397	–	–	4 908	800
Derivatives (assets)	466	92	376	–	–	–	–
Total		12 915	52 799	–	–	33 920	5 529
Financial liabilities							
Arm's length loans	979 372	–	–	–	–	–	–
Trade payables	1 399 019	4 694	19 192	–	–	7 669	1 250
Commitments resulting from purchases of fixed and intangible assets	966 768	95	389	–	–	–	–
Finance lease and hire purchase commitments	56 278	1 849	7 559	–	–	–	–
Derivatives (liabilities)	191 218	135	552	–	–	–	–
Total		6 773	27 692	–	–	7 669	1 250
Net currency position		6 142	25 107	–	–	26 251	4 279

Currency position as at 31 December 2011

	Total carrying amount in PLN	EUR		USD		CZK	
		in currency	in PLN	in currency	in PLN	in currency	in PLN
Financial assets							
Trade receivables and other financial receivables	2 753 140	1 388	6 131	–	–	96 885	16 577
Cash and cash equivalents	505 670	7 052	31 146	–	–	20 298	3 473
Total		8 440	37 277	–	–	117 183	20 050
Financial liabilities							
Arm's length loans	141 973	1 900	8 394	18	60	–	–
Trade payables	1 471 434	5 136	22 684	1	5	21 303	3 645
Commitments resulting from purchases of fixed and intangible assets	630 295	263	1 161	–	–	–	–
Finance lease and hire purchase commitments	70 993	2 448	10 813	–	–	–	–
Total		9 747	43 052	19	65	21 303	3 645
Net currency position		(1 307)	(5 775)	(19)	(65)	95 880	16 405

In 2012, the TAURON Group, as part of its financial risk management, hedged the exposure to currency risk arising in the course of trading activities of the Group companies, by entering into forward contracts. The aim of these transactions was to hedge the Group companies against cash flows variability arising from fluctuations in currency rates. As at 31 December 2012, the TAURON Group had one open derivative transaction amounting to PLN 552 thousand (liability).

41.3. Commodity price risk

The TAURON Polska Energia S.A. Group companies are exposed to unfavorable impact of risks associated with changes in cash flows and financial results denominated in Polish currency due to changes in prices of commodities. The Group's exposure to commodity price risk is reflected in the volume of purchases of basic raw materials and goods for resale, which include hard coal, gas and energy. The volumes and purchase costs of basic raw materials from external suppliers are presented in the table below.

Fuel type	Unit	2012		2011	
		Volume	Purchase cost	Volume	Purchase cost
Coal	tonne	6 847 205	1 690 366	8 919 257	2 175 352
Gas	thousand m3	2 974 790	189 965	3 180 555	199 619
Electricity	MWh	50 974 657	10 309 558	44 940 029	8 920 476
Heat energy	GJ	5 693 571	119 542	5 807 432	166 867
Total			12 309 431		11 462 314

41.4. Credit risk

Credit risk arises from a potential credit event which may take the form of the following: contractor's insolvency, payment of part of a receivable, a significant delay in payment of a receivable or other unexpected departure from contractual terms.

Apart from individual customers, the Group companies trade only with recognized, creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. Where necessary, the contractor is required to submit proper collateral in the form of bank, insurance or corporate guarantees as well as clauses providing for the withholding of power supplies in the case of late payment of liabilities. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

The TAURON Polska Energia S.A. Group companies are exposed to credit risk arising in the following areas:

- core activities – credit risk arises mainly from purchases and sales of electricity and heat energy, purchases and sales of fossil fuels etc.;
- investment activities – credit risk arises from transactions relating to implementation of investment projects, the success of which depends on the financial position of the Group's suppliers;
- business activities (market risk management) – credit risk arises from possible default of the counterparty in a derivative transaction if the fair value of the derivative transaction is positive for the Group;
- investing available cash – credit risk arises from the Group companies investing available cash in securities subject to credit risk i.e. financial instruments other than those issued by the State Treasury.

Classes of financial instruments giving rise to exposure to credit risk, which have different characteristics of credit risk include:

- deposits;
- bonds, Treasury bills and other debt securities;
- trade receivables;
- loans granted;
- other financial receivables;
- other financial assets;
- cash and cash equivalents;
- derivative instruments.

There is no significant concentration of credit risk within the Group's core activities, except as listed in Note 41.4.

With respect to credit risk arising from financial assets of the Group, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

41.4.1. Bonds, Treasury bills and other debt securities held by the Group

Debt securities held by the Group are described in detail in Note 40.4.1.

41.4.2. Trade receivables

Trade receivables mainly include receivables from sale of energy and additional services. Due to on-going monitoring of trade receivables there is no additional credit risk that would exceed the doubtful debts allowance recognized for trade receivables of the Group.

In managing credit risk, the Group uses mainly the following mechanisms and techniques:

- assessment of contractors' financial standing and assignment of credit limits;
- requesting specific collateral from clients with poor financial standing;
- use of standard contractual provisions for credit risk and standard collateral for transactions made on credit terms;
- on-going monitoring of payments and early debt collection system;
- systematic measurement of credit risk arising in trading activities; and
- on-going monitoring of the client's financial standing; cooperation with credit bureaus and debt collection companies.

As at 31 December 2012, the Group's largest trade receivables were due from Kompania Węglowa S.A.: PLN 55,850 thousand, PKP Energetyka S.A.: PLN 44,120 thousand,

As at 31 December 2011, the Group's largest trade receivables were due from Kompania Węglowa S.A.: PLN 71,406 thousand, PSE Operator S.A.: PLN 57,180 thousand, ArcelorMittal Poland S.A.: PLN 49,397 thousand.

41.4.3. Deposits, cash and cash equivalents

The Group manages credit risk related to cash and cash equivalents by diversifying the banks in which surplus cash is invested. All of the entities with which the Group enters into deposit transactions operate in the financial sector. They only include banks with a high rating and an appropriate level of equity as well as strong and stable market position.

The share of three banks with which the Group holds the largest cash balances as at 31 December 2012 accounted for 58% of all cash balances.

41.4.4. Derivative instruments

All the entities with which the Group enters into derivative transactions operate in the financial sector. They include Polish banks with a high financial rating and an appropriate level of equity as well as a strong and stable market position.

41.4.5. Impairment write-downs and ageing of financial assets

As at 31 December 2012 and 31 December 2011, impairment write-downs were recognized against trade receivables, other receivables and other financial assets.

The Group has no material items that were non-recoverable at the balance sheet date and for which no allowance was recognized.

41.4.5.1. Impairment write-downs and ageing analysis of trade and other receivables

Impairment write-downs for trade and other receivables

	Year ended 31 December 2012	Year ended 31 December 2011
Allowance/write-down at the beginning of period	(173 864)	(154 882)
Recognised	(99 863)	(73 802)
Utilized	31 686	31 098
Reversed	44 161	24 127
Cancelled	546	59
Other movements	(23)	(464)
Allowance/write-down at the end of period	(197 357)	(173 864)
Value of item before allowance	3 234 052	2 917 208
Value of item net of allowance (carrying amount)	3 036 695	2 743 344

Ageing analysis of trade and other receivables as at 31 December 2012

	Not past due	Past due					Total
		<30 days	30–90 days	90–180 days	180–360 days	>360 days	
Before allowance/write-down	2 681 539	258 838	78 612	36 011	50 508	128 544	3 234 052
Allowance/write-down	(13 047)	(1 738)	(5 140)	(11 020)	(41 077)	(125 335)	(197 357)
After allowance/write-down	2 668 492	257 100	73 472	24 991	9 431	3 209	3 036 695

Ageing analysis of trade and other receivables as at 31 December 2011

	Not past due	Past due					Total
		<30 days	30–90 days	90–180 days	180–360 days	>360 days	
Before allowance/write-down	2 411 143	239 598	75 789	33 887	42 288	114 503	2 917 208
Allowance/write-down	(18 208)	(1 697)	(3 213)	(6 160)	(33 233)	(111 353)	(173 864)
After allowance/write-down	2 392 935	237 901	72 576	27 727	9 055	3 150	2 743 344

41.4.5.2. Impairment write downs for other financial assets

Impairment write downs for other financial assets as at 31 December 2012

	Year ended 31 December 2012	Year ended 31 December 2011 (restated figures)
Allowance/write-down at the beginning of period	(3 244)	(3 263)
Recognised	(79)	(501)
Utilized	–	7
Reversed	65	513
Other movements	6	–
Allowance/write-down at the end of period	(3 252)	(3 244)
Other financial assets before allowance/write-down	314 118	304 335
Carrying amount of other financial assets, of which:	310 866	301 091
– long-term	305 444	193 067
– short-term	5 422	108 024

41.5. Liquidity risk

The Group maintains a balance between continuity of funding and flexibility through the use of various sources of financing, such as bank overdrafts, bank loans, debentures, finance leases and hire purchase contracts. The use of such sources of financing enables management of liquidity risk and successfully minimizes any negative effects following from realization of such risk.

In order to minimize any cash flow disturbances and the risk of loss of liquidity, the TAURON Group applied the cash pooling mechanism, as it was the case in the previous year. Cash pooling, irrespective of the funds gathered by the particular participants, is linked to a flexible credit facility in the form of an overdraft in current account, the amount of PLN 300,000 thousand.

The tables below summarize the maturity profile of the Group's financial liabilities as at 31 December 2012 and 31 December 2011 based on contractual undiscounted payments.

Financial liabilities as at 31 December 2012

	less than 3 months	3–12 months	1–2 years	2–3 years	3–5 years	more than 5 years	Total
Interest-bearing loans and issued debentures	155 974	409 539	428 552	1 674 475	3 424 366	587 190	6 680 096
Trade payables	1 398 390	629	–	–	–	–	1 399 019
Commitments resulting from purchases of fixed and intangible assets	966 768	–	–	–	–	–	966 768
Derivative instruments	552	40 072	55 811	53 215	41 568	–	191 218
Other financial liabilities	244 865	17 797	5 393	1 509	545	443	270 552
Obligations under finance leases and hire purchase contracts	4 903	9 579	14 657	20 467	6 646	26	56 278
Guarantees granted and similar items	1 898	–	–	–	–	–	1 898
Total	2 773 350	477 616	504 413	1 749 666	3 473 125	587 659	9 565 829

Financial liabilities as at 31 December 2011

	less than 3 months	3–12 months	1–2 years	2–3 years	3–5 years	more than 5 years	Total
Interest-bearing loans and issued debentures	38 984	422 312	301 943	275 952	4 552 548	14 256	5 605 995
Trade payables	1 468 200	400	2 434	400	–	–	1 471 434
Commitments resulting from purchases of fixed and intangible assets	630 295	–	–	–	–	–	630 295
Derivative instruments	80	–	–	–	–	–	80
Other financial liabilities	200 822	46 570	5 416	1 359	745	448	255 360
Obligations under finance leases and hire purchase contracts	5 249	9 510	14 353	23 783	18 098	–	70 993
Guarantees granted and similar items	4 306	–	–	–	–	–	4 306
Total	2 347 936	478 792	324 146	301 494	4 571 391	14 704	8 038 463

41.6. Derivatives

In order to hedge interest cash flows arising from issued debentures against the risk of changes in interest rates, in 2012 the parent entered into derivative IRS transactions, which covered 80% of issued debentures. These transactions are subject to hedge accounting. The balance of the Group's liability under hedging derivatives as at 31 December 2012 amounted to PLN 190,666 thousand. Further details of transactions made under hedge accounting are presented in Note 26.5.

As at 31 December 2012, the Group also had liabilities under derivative instruments of PLN 522 thousand (as at 31 December 2011: PLN 80 thousand). This liability results from the balance sheet date valuation of forward currency contracts held by TAURON Polska Energia S.A. The parent hedges against the risk of changes in currency rates due to entering into foreign currency transactions. These transactions are not subject to hedge accounting.

In addition, as at 31 December 2012, the Group had an asset arising from the valuation of commodity-related derivatives, amounting to PLN 466 thousand. This asset results from the balance sheet date valuation of forward transactions for the purchase and sale of emission allowances, which are entered into for speculative purposes.

41.7. Market risk – sensitivity analysis

The Group identifies the following main types of market risk to which it is exposed:

- interest rate risk,
- currency risk,
- electricity price risk,
- risk of changes in the prices of CO₂ emission allowances and energy certificates and
- risk of changes in the prices of commodities (e.g. coal).

Currently, the Group is mainly exposed to the risk of changes in the EUR/PLN and CZK/PLN exchange rates. In addition, the Group is exposed to changes in reference interest rates for PLN, EUR.

The Group uses scenario analysis in analyzing sensitivity to changes in market risk factors. The Group uses expert scenarios reflecting its subjective assessments with respect to individual market risk factors in the future.

The aim of the scenario analyses presented in this section is to analyze the effect of changes in market risk factors on the Group's results. Only those items which meet the definition of financial instruments in accordance with IFRS were included in the analysis.

The potential changes in foreign exchange rates are determined within a time horizon up until the date of the next financial statements and were calculated based on annual implied volatilities for currency options quoted on the interbank market for a given currency pair at the balance sheet date or – if no market quotations were available – based on historical volatilities for a period of one year preceding the balance sheet date.

In the interest rate risk sensitivity analysis, the Group makes use of a parallel shift in the interest rate curve for a potential change in reference interest rates within a time horizon up until the date of the next financial statements. For the purpose of interest rate risk sensitivity analysis, the Group used the average levels of the reference interest rates in a given year. The magnitude of potential changes in the interest rates was estimated based on the implied volatilities of the ATMF interest rate options quoted on the interbank market for the currencies for which the Group had an interest rate risk exposure at the balance sheet date.

In the case of the interest rate risk sensitivity analysis, the effect of changes in risk factors has been included in interest income/expense for financial instruments measured at amortized cost and in the fair value at the balance sheet date for financial instruments with variable interest rates carried at fair value.

Presented below is a sensitivity analysis for each type of market risk the Group was exposed to at the balance sheet date, indicating the effect that the potential changes in the individual risk factors would have on profit before taxation, by class of financial assets and liabilities.

41.7.1. Currency risk sensitivity analysis

The Group identifies its exposure to the risk of changes in the EUR/PLN and CZK/PLN exchange rates. The tables below present sensitivity of profit before taxation to reasonably possible changes in foreign exchange rates within a time horizon up until the date of the next financial statements, assuming all other variables are held constant:

Year ended 31 December 2012

The risk exposure as at 31 December 2012 is representative of the Group's risk exposure within the 1-year period preceding that date.

Classes of financial instruments	31 December 2012		Sensitivity analysis for currency risk as at 31 December 2012			
	Carrying amount	Value at risk	EUR/PLN		CZK/PLN	
			exchange rate EUR/PLN + 8.65%	exchange rate EUR/PLN - 8.65%	exchange rate CZK/PLN + 7.35%	exchange rate CZK/PLN - 7.35%
	In PLN thousand	In PLN thousand	Profit/(Loss)		Profit/(Loss)	
Trade receivables and other financial receivables	3 046 083	24 755	1 732	(1 732)	348	(348)
Cash and cash equivalents	1 030 929	33 197	2 802	(2 802)	59	(59)
Derivatives (assets)	466	376	33	(33)	–	–
Arm's length loans	979 372	5 032	(435)	435	–	–
Trade payables	1 399 019	20 442	(1 660)	1 660	(92)	92
Finance lease and hire purchase commitments	56 278	7 559	(654)	654	–	–
Commitments resulting from purchases of fixed and intangible assets	966 768	389	(34)	34	–	–
Derivatives (liabilities)	191 218	552	(48)	48	–	–
Total			1 736	(1 736)	315	(315)

Year ended 31 December 2011

The risk exposure as at 31 December 2011 is representative of the Group's risk exposure within the 1-year period preceding that date.

Classes of financial instruments	31 December 2011		Sensitivity analysis for currency risk as at 31 December 2011					
	Carrying amount	Value at risk	EUR/PLN		USD/PLN		CZK/PLN	
			exchange rate EUR/PLN +14.05%	exchange rate EUR/PLN -14.05%	exchange rate USD/PLN +23.35%	exchange rate USD/PLN -23.35%	exchange rate CZK/PLN +11.33%	exchange rate CZK/PLN -11.33%
	In PLN thousand	In PLN thousand	Profit/(Loss)		Profit/(Loss)		Profit/(Loss)	
Trade receivables and other financial receivables	2 753 140	22 708	862	(862)	–	–	1 878	(1 878)
Cash and cash equivalents	505 670	34 619	4 376	(4 376)	–	–	393	(393)
Arm's length loans	141 973	8 454	(1 179)	1 179	(14)	14	–	–
Trade payables	1 471 434	26 334	(3 188)	3 188	–	–	(413)	413
Obligations under finance leases and hire purchase contracts	70 993	10 813	(1 520)	1 520	–	–	–	–
Commitments resulting from purchases of fixed and intangible assets	630 295	1 161	(163)	163	–	–	–	–
Total			(812)	812	(14)	14	1 858	(1 858)

41.7.2. Interest rate risk sensitivity analysis

The Group identifies its exposure to the risk of changes in WIBOR and EURIBOR. The tables below present sensitivity of the Group's profit before taxation and other comprehensive income before taxation to reasonably possible changes in interest rates within a time horizon up until the date of the next financial statements, assuming all other variables are held constant:

Year ended 31 December 2012

Classes of financial instruments	31 December 2012		Sensitivity analysis for interest rate risk as at 31 December 2012					
	Carrying amount	Value at risk	WIBOR				EURIBOR	
			WIBOR + 113 bp		WIBOR -113 bp		EURIBOR + 91 bp	EURIBOR -91 bp
	In PLN thousand	In PLN thousand	Profit/(Loss)	Other comprehensive income	Profit/(Loss)	Other comprehensive income	Profit/(Loss)	Profit/(Loss)
Deposits	26 219	26 219	296	–	(296)	–	–	–
Loans granted	117 813	117 813	1 331	–	(1 331)	–	–	–
Cash and cash equivalents	1 030 929	1 030 929	11 274	–	(11 274)	–	295	(295)
Preferential loans	99 100	89 592	(1 012)	–	1 012	–	–	–
Arm's length loans	979 372	68 981	(723)	–	723	–	(46)	46
Bank overdrafts	129 566	129 566	(1 464)	–	1 464	–	–	–
Issued debentures and other debt securities	4 301 834	4 301 834	(48 611)	–	48 611	–	–	–
Derivatives (liabilities)	191 218	190 666	–	125 667	–	(125 667)	–	–
Total			(38 909)	125 667	38 909	(125 667)	249	(249)

Year ended 31 December 2011

Classes of financial instruments	31 December 2011		Sensitivity analysis for interest rate risk as at 31 December 2011			
	Carrying amount	Value at Risk	WIBOR		EURIBOR	
			WIBOR +84 bp	WIBOR -84 bp	EURIBOR +72 bp	EURIBOR -72 bp
	In PLN thousand	In PLN thousand	Profit/(Loss)		Profit/(Loss)	
Deposits	25 250	22 646	190	(190)	–	–
Cash and cash equivalents	505 670	505 670	3 957	(3 957)	224	(224)
Preferential loans	176 966	164 915	(1 385)	1 385	–	–
Arm's length loans	141 973	141 973	(1 122)	1 122	(60)	60
Issued debentures and debt securities	4 147 174	4 147 174	(34 836)	34 836	–	–
Total			(33 196)	33 196	164	(164)

42. Finance management

Thanks to activities undertaken in previous years and continued in 2012, which resulted in the centralization of the finance management area, the TAURON Group successfully managed its financial resources. The main tools which enable an effective management of financial resources include the central financing model and the financial liquidity management policy implemented by the TAURON Group as well as the cash pooling used in the TAURON Group. Additionally, the finance management system is supported by the central specific risk management policy and central insurance policy of the TAURON Group, where the Company acts as managing entity which sets the directions for the activities undertaken by establishing proper exposure limits.

In accordance with the adopted central financing model, the Company is responsible for acquiring funding for the TAURON Group companies. Funds acquired both internally (from TAURON Group companies generating financial surpluses) as well as externally (from the financial market) are then transferred to the TAURON Group companies reporting a requirement for funding (the program of issue of intercompany debentures was implemented in the TAURON Group for this purpose).

Such a form of acquiring funding makes it possible, first of all, to reduce the cost of capital, increases the possibility of acquiring funding, reduces the number and form of collaterals established on the assets of the TAURON Group (the Company acquires funding without setting up collaterals) as well as covenants required by financial institutions, and reduces administrative expenses too. Furthermore, the central financing model makes it possible to acquire funding from sources which are unavailable to individual companies, such as an issue of Eurobonds. The implementation of the central financing model successfully changed the approach to financing investment projects in the TAURON Group. Funding is acquired based on the consolidated balance sheet of the whole TAURON Group and is not assigned to specific investment projects – it is taken to fill in the financial gap at the level of the TAURON Group. The structure of the financing of investment projects in a given period is the same as the structure of the financing of all operations of the TAURON Group. The adopted model allows for implementation of investment plans in accordance with the adopted Corporate Strategy.

The second important factor affecting the effectiveness of finance management is the liquidity management policy in the TAURON Group. The implementation of proper forecasting standards makes it possible to determine the precise liquidity position, which allows for optimization of the selection of the moment of acquiring funding and the maturities and types of investment instruments as well as the proper level of the liquidity reserve. This results in both the reduction of costs and the improvement of safety. Day-to-day liquidity management is supported by the cash pooling mechanism implemented. Its primary objective is to ensure financial liquidity in the TAURON Group while reducing the costs of short-term external borrowings and maximizing the amount of finance income generated using surplus cash. Thanks to the cash pooling structure, the TAURON Group companies that suffer from short-term deficits of cash may in the first turn use the funds of the companies reporting cash surpluses with no need to acquire external funding.

In addition, the TAURON Group implemented a uniform bank guarantee program – under a single agreement concluded between TAURON Polska Energia S.A. and PKO BP S.A., and subsequently between TAURON Polska Energia S.A. and the TAURON Group companies, guarantees can be issued in favor of any company from the TAURON Group under a centralized limit. This solution reduced the cost of acquired guarantees, made their acquisition independent of the condition of an individual company and reduced the total number of activities necessary to obtain a guarantee.

Irrespective of this, within their ongoing financial operations the TAURON Group companies effectively managed their cash flows by matching the payment dates of their liabilities and receivables.

In 2012, the TAURON Group was fully capable of discharging its liabilities as they became due and payable.

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value.

The Group manages its capital structure and adjusts it to reflect changes in economic conditions. To maintain or adjust its capital structure, the Group may create a policy for dividend payments to shareholders, return capital to shareholders, issue new shares or adjust the level of its external debt.

The Group first of all monitors its debt ratio which is defined as the relation of net financial debt to EBITDA.

Net financial debt is defined as the financial debt of the TAURON Group net of cash and short-term investments with maturities up to 1 year. EBITDA is defined as operating profit of the TAURON Group increased by depreciation. Financial debt is defined as an obligation to pay or return money (including principal and interest). The value of the above-mentioned ratio is also monitored by the institutions which provide funding to TAURON and by rating agencies and has a measurable effect on the possibility and cost of acquiring funding as well as on the assessment of the Company's creditworthiness.

At the balance sheet date, the value of the debt ratio was 1.2, which, according to the existing market standards, is assessed as a safe level that allows the Group to continue to incur financial liabilities.

	As at 31 December 2012	As at 31 December 2011 (restated figures)
Net financial debt:	4 529 799	3 923 412
Financial debt of TAURON Group	5 566 150	4 537 106
Cash and cash equivalents	(1 030 929)	(505 670)
Short-term investments	(5 422)	(108 024)
EBITDA:	3 839 897	3 057 051
Operating profit of TAURON Group	2 153 401	1 645 504
Depreciation and amortization	1 686 496	1 411 547
Debt ratio	1.2	1.3

43. Auditor's fees

The details of the auditor's fees are presented in Note 3.12 of the Directors' Report of the TAURON Polska Energia S.A. Group for the year ended 31 December 2012.

44. Events after the balance sheet date

Loans from the European Investment Bank

After the balance sheet date, the parent received further tranches of loans from the European Investment Bank under the loan agreement signed on 3 July 2012:

- on 25 January 2013 – PLN 200,000 thousand,
- on 22 February 2013 – PLN 250,000 thousand.

As a result, the Company has utilized the full amount of the funding available under the aforementioned agreement, i.e. PLN 900,000 thousand. The funds obtained from the loan are used for grid investments.

Merger of the subsidiary TAURON Obsługa Klienta Sp. z o.o. with TAURON Obsługa Klienta GZE Sp. z o.o.

On 31 January 2013, merger of TAURON Obsługa Klienta sp. z o.o. with its registered office in Wrocław (acquiring company) with TAURON Obsługa Klienta GZE sp. z o.o. with its registered office in Gliwice (acquired company) was entered in the Register of Entrepreneurs of National Court Register. As a result, share capital of TAURON Obsługa Klienta sp. z o.o. was increased by the amount PLN 2,202 thousand from the amount PLN 2,718 thousand to PLN 4,920 thousand.

Signing of an annex to the framework agreement for joint prospecting and extraction of shale hydrocarbons

On 21 February 2013, Annex No. 2 was signed to the Framework Agreement of 4 July 2012 for Joint Prospecting and Extraction of Shale Hydrocarbons. The parties to this agreement are as follows: Polskie Górnictwo Naftowe i Gazownictwo S.A., KGHM Polska Miedź S.A., PGE Polska Grupa Energetyczna S.A., ENEA S.A. and TAURON Polska Energia S.A. The parties agreed to extend the deadline for determining specific terms of collaboration until 4 May 2013. If the parties do not agree specific terms of their collaboration by this date, each of them may terminate the agreement. In addition, the agreement shall expire if the parties do not acquire all the required corporate consents within three months of making such arrangements, or if the consents required for concentration are not obtained by 31 December 2013. The change of the deadlines as referred to above is due to pending negotiations on the specific terms of collaboration, under which, among others, project documentation is being developed.

Board of Directors of the Company

Katowice, 12 March 2013

Dariusz Lubera – President

Joanna Schmid – Vice President

Dariusz Stolarczyk – Vice President

Krzysztof Zawadzki – Vice President

**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:

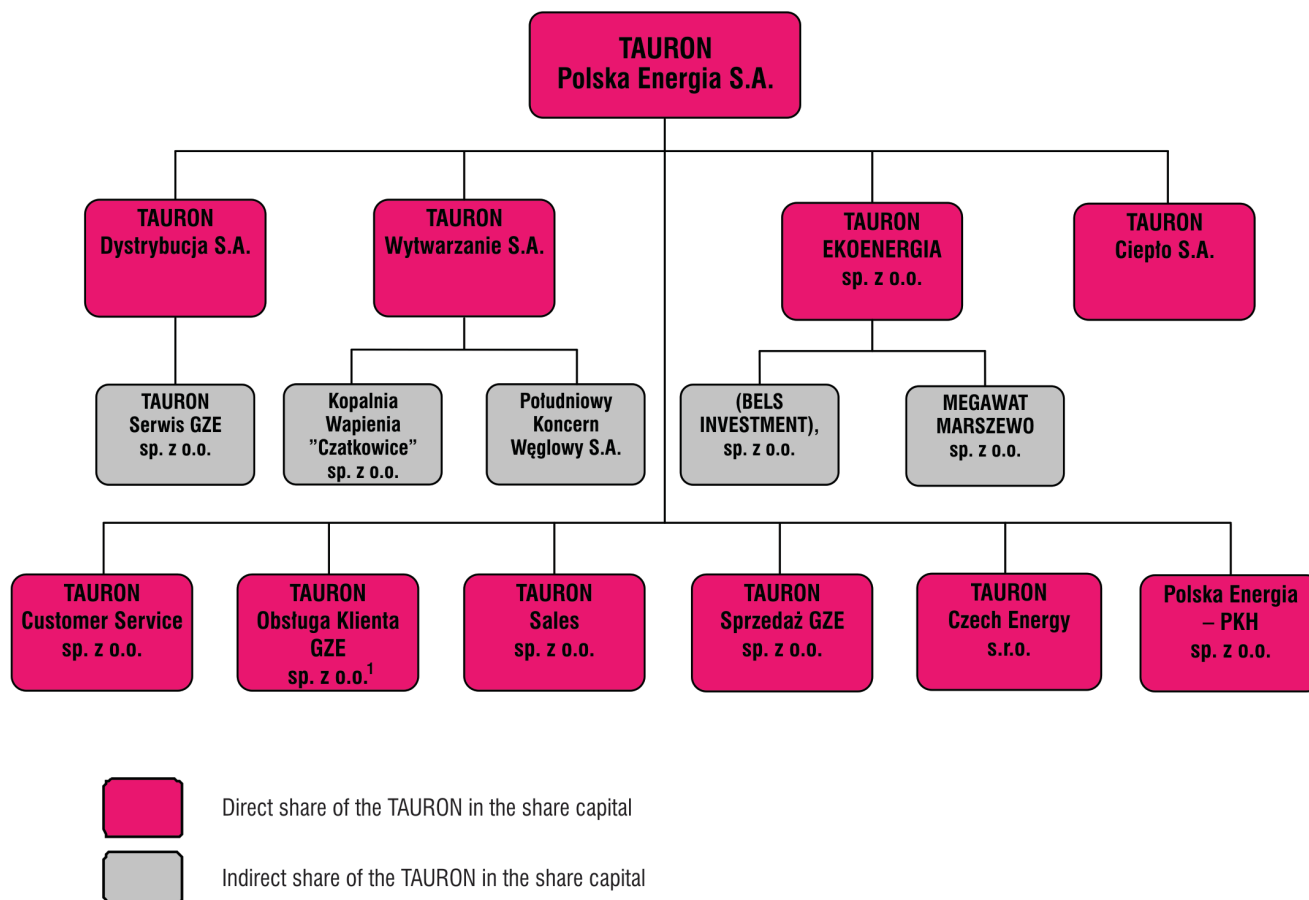
- 1) TAURON Dystrybucja S.A. (TAURON Dystrybucja) – providing electric energy distribution services,
- 2) TAURON Wytwarzanie S.A. (TAURON Wytwarzanie) – dealing with generation of power from conventional sources and biomass co-burning,
- 3) TAURON EKOENERGIA sp. z o.o. (TAURON EKOENERGIA) – dealing with 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.

- 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.
- 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.
- 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

- 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.

- 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.

- 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.
- 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.
- 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

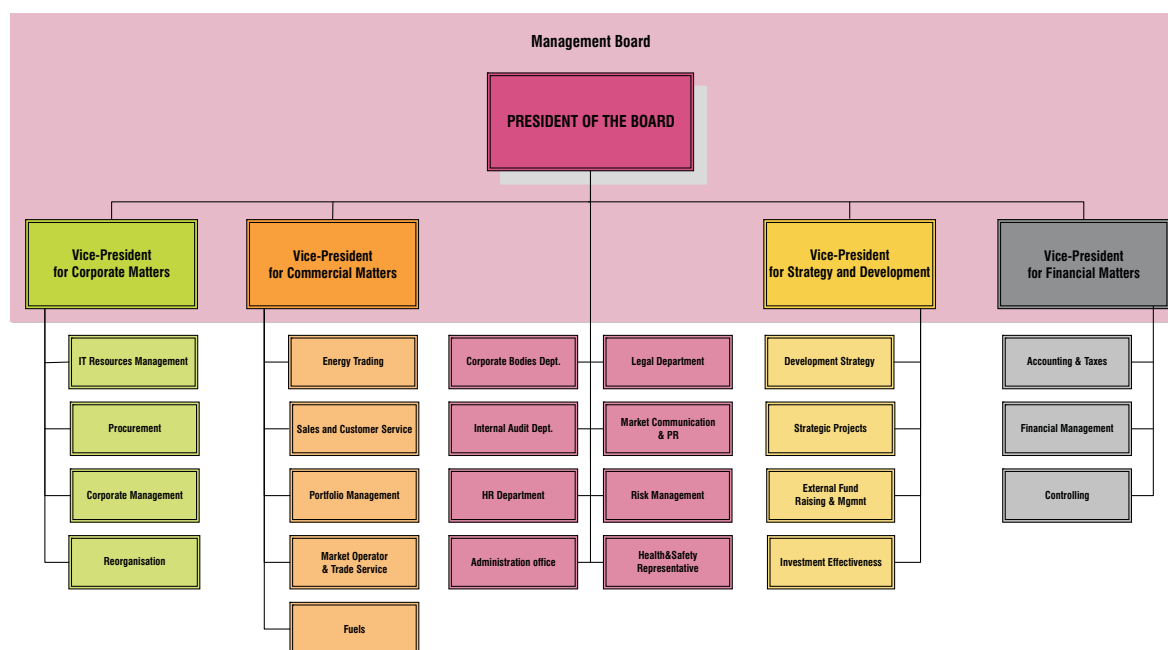
Changes in the management rules of the Company

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 Ostrava 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.

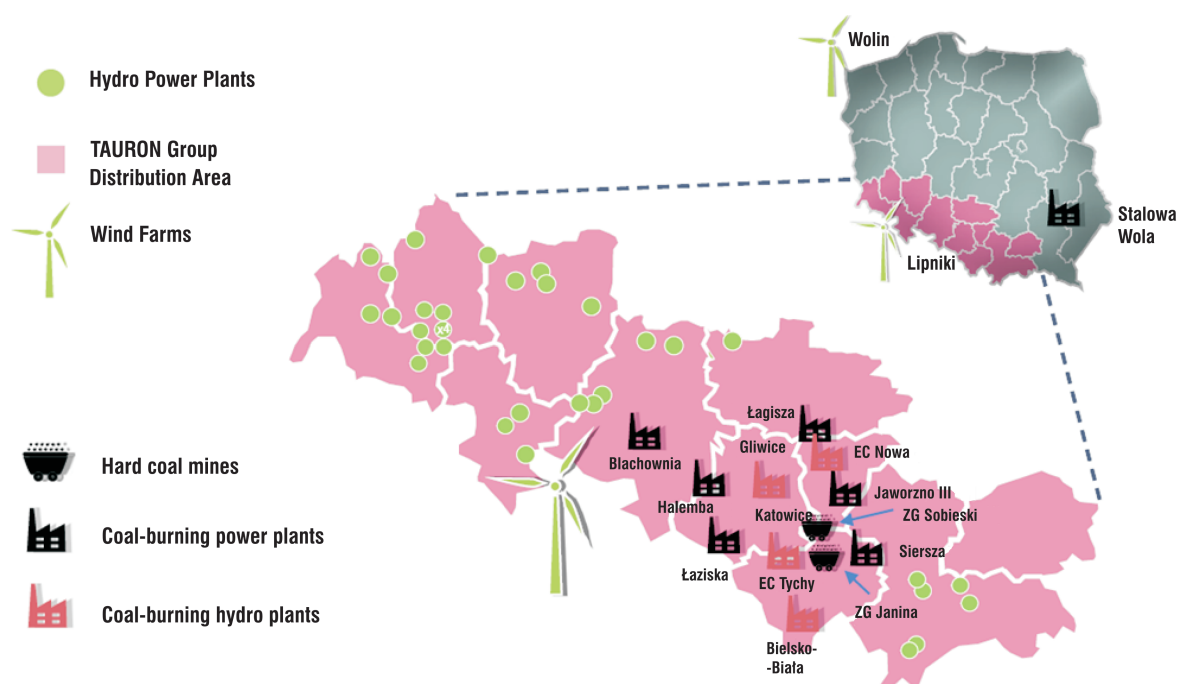
Heat, covering generation, distribution and sales of heat and other utilities, within which TAURON Ciepło operates (following the merger with the companies: Elektrociepłownia Tychy, Elektrociepłownia EC Nowa and EC w Kamiennej Górze). Until the end of 2011, the companies EC Tychy and EC Nowa were assigned 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



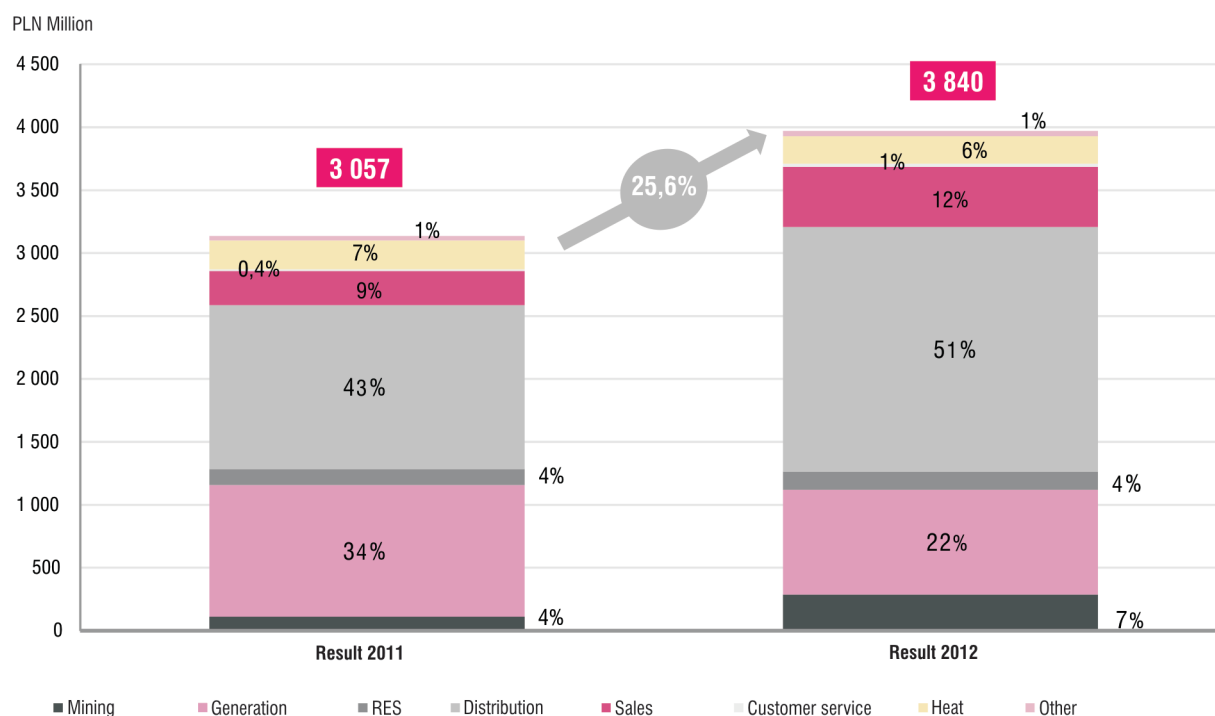
2.3. Financial results according to core business areas

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

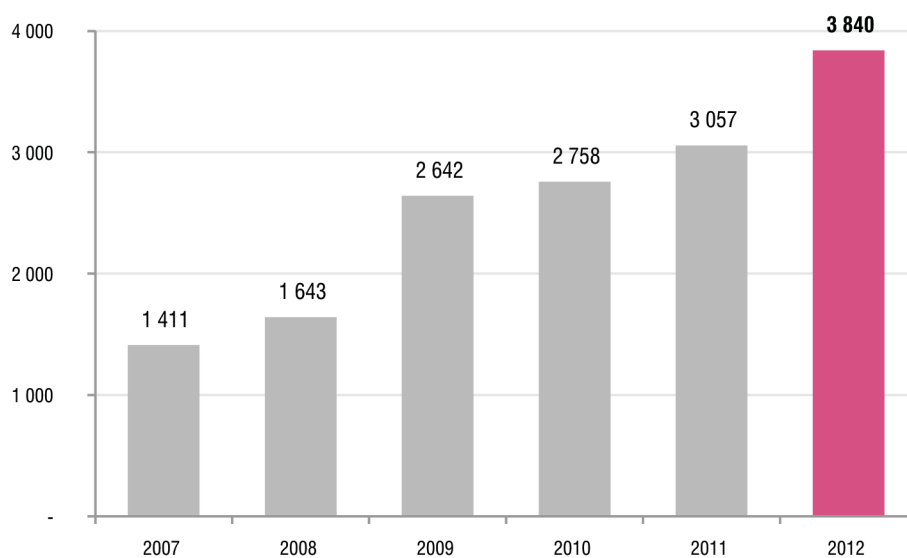
EBITDA (thousand PLN)	Year 2012	Year 2011	Dynamics (2012/2011)	Change (2012 vs. 2011)
Coal mining	287,431	111,040	258.9%	176,391
Generating electric energy and heat from conventional sources	832,744	1,047,145	79.5%	-214,401
Generation of electric energy and heat from renewable sources	143,450	126,036	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.

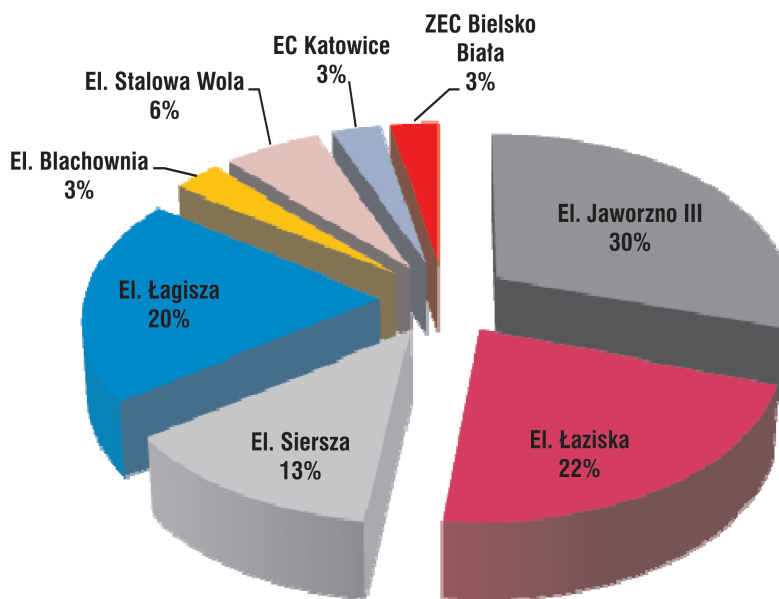
In 2012, sales of hard coal by PKW amounted to 5.4 million Mg, including 3.7 million Mg (about 69%) to the companies of Generation and Heat Segments of TAURON Capital Group.

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.

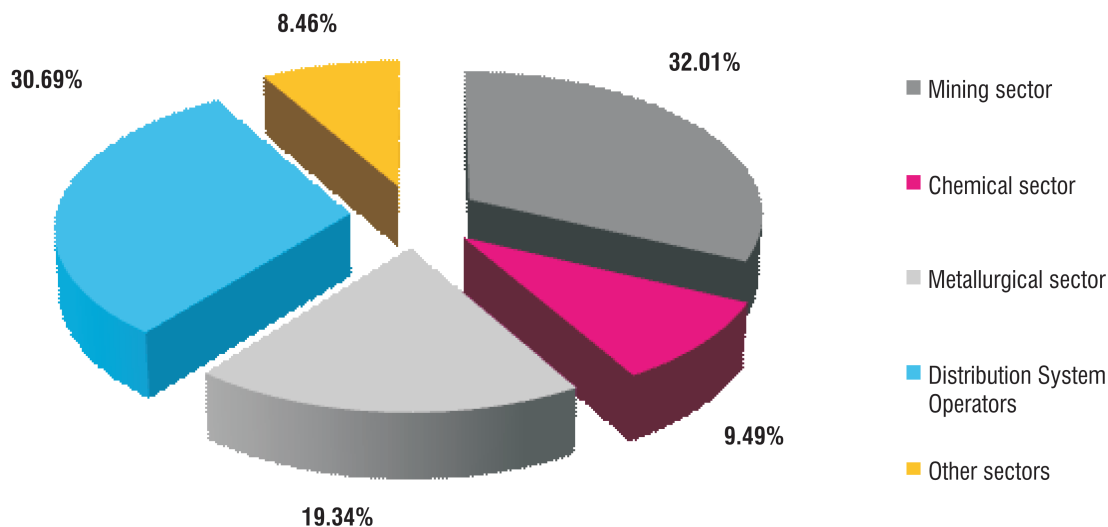
Table no. 19 Volume of electric energy sold and number of clients in 2012

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

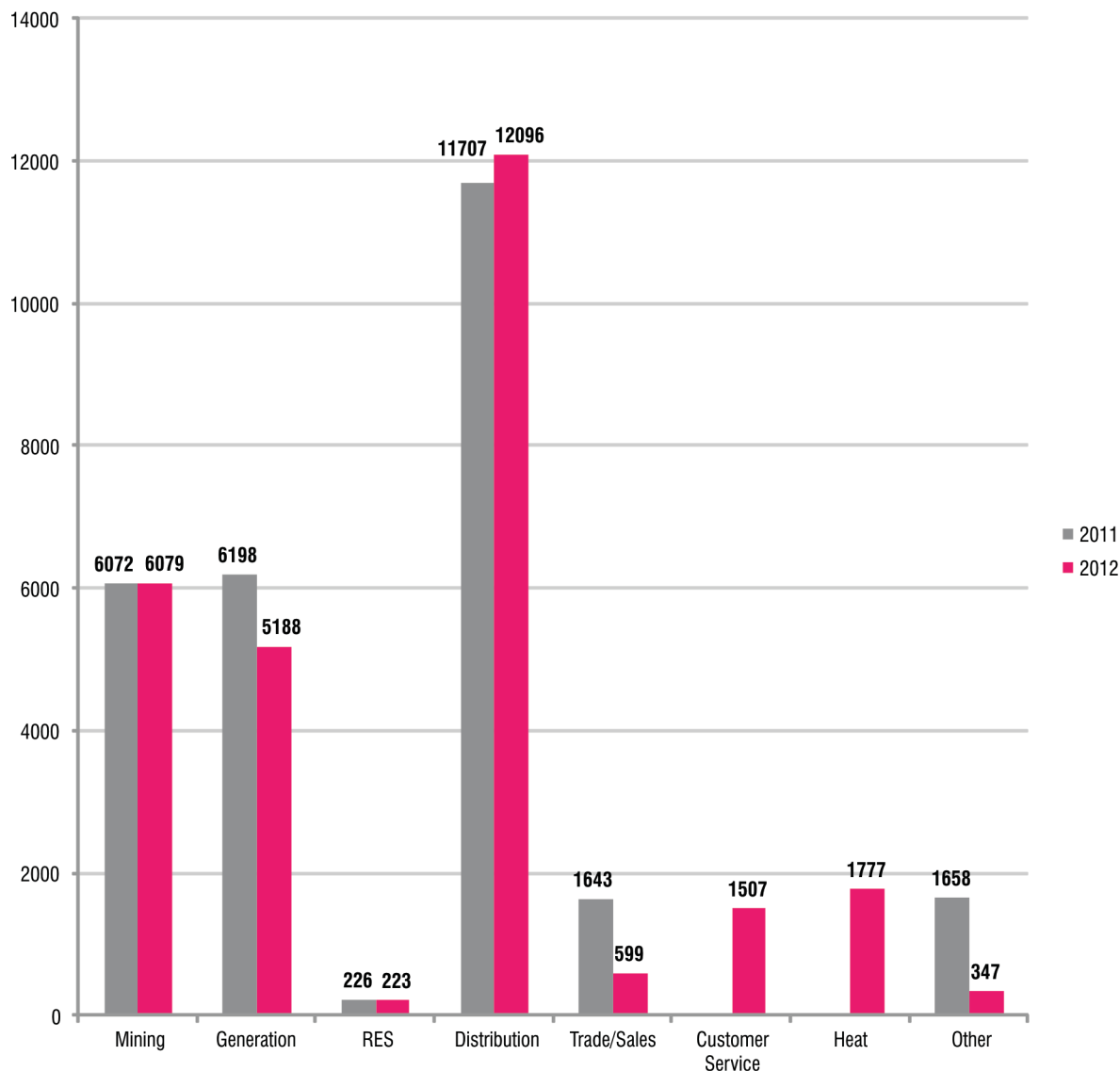
Company	Beneficiary	Agreement	Guarantee amount (in thous. PLN)	Currency	Date of granting	Effective term
TAURON	CAO	payment guarantee	800	EUR	01 January 2012	03 February 2014
TAURON	IRGIT	payment guarantee	20,000	PLN	19 January 2012	26 March 2013
TAURON	IRGIT	payment guarantee	30,000	PLN	26 March 2013	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



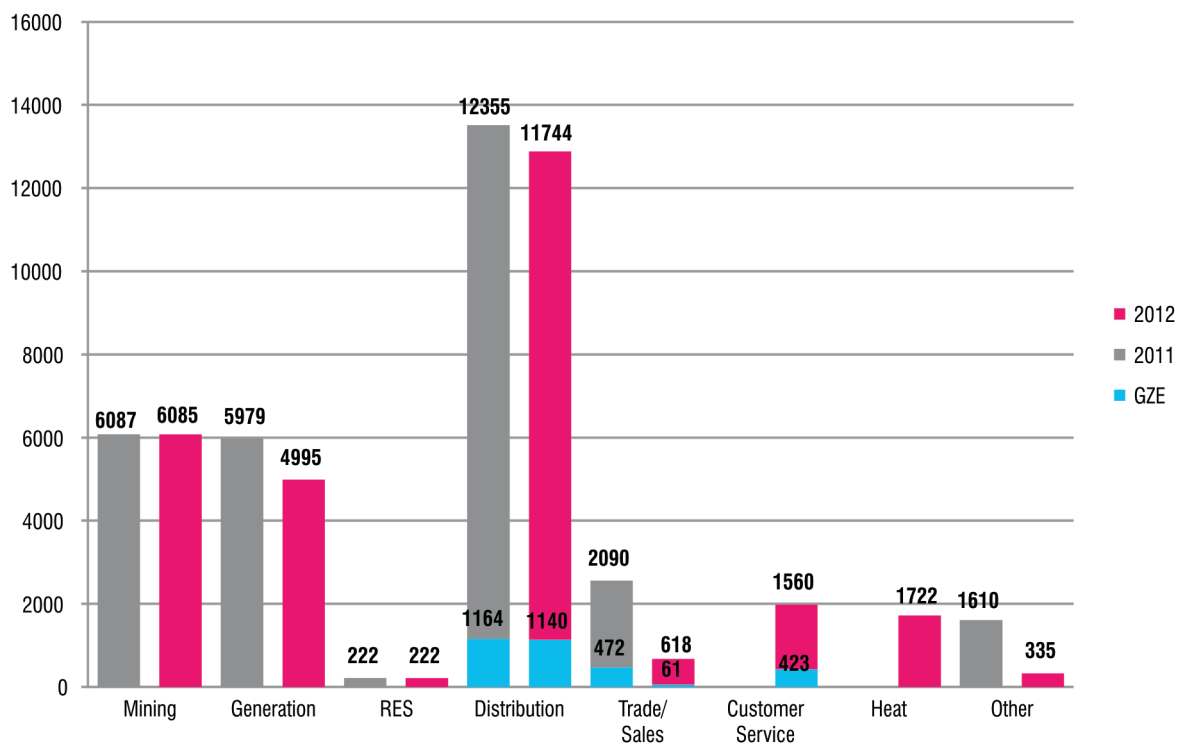
Changes in employment in individual Business Areas of TAURON Capital Group in 2012, as compared to the average employment in 2011, result, among others, from the *Programmes of Voluntary Redundancy* implemented in 2012 in the Business Areas: Distribution, Generation and Heat, from mobility of employees 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.

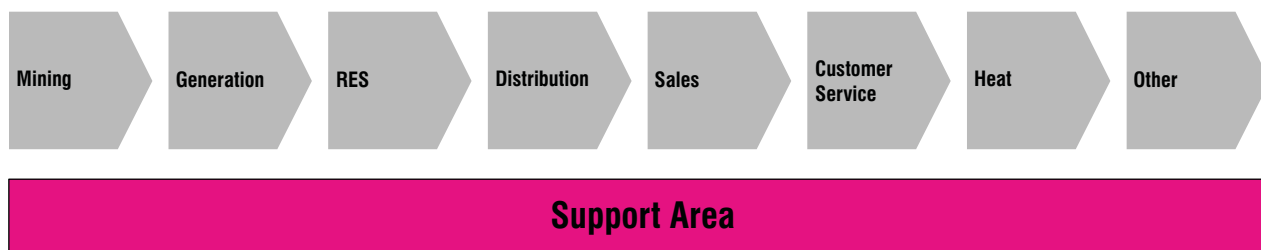
The updated Corporate Strategy was applicable in 2012 and description of its implementation and the detailed information concerning the development directions arising from the updated Corporate Strategy is included in item 2.9.3 of this report.

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

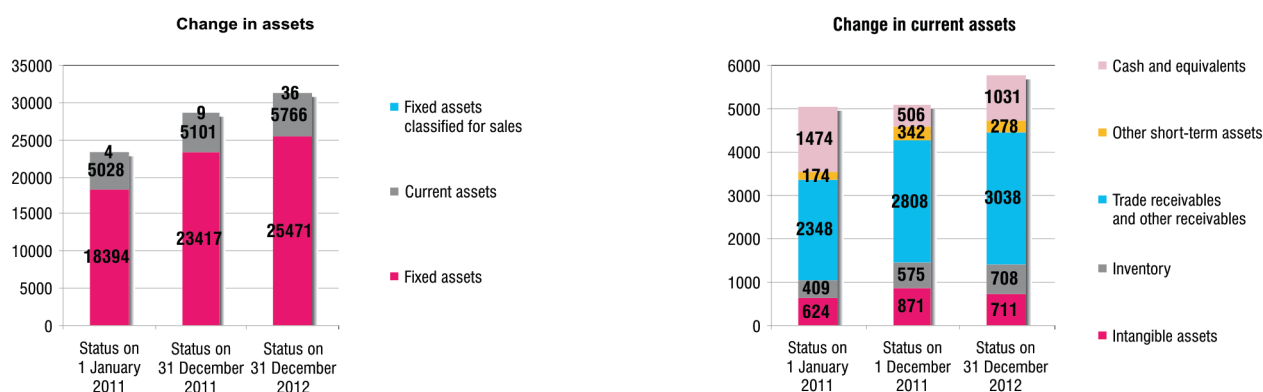
In the table below, the annual consolidated statement of financial situation – assets, is presented.

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%).

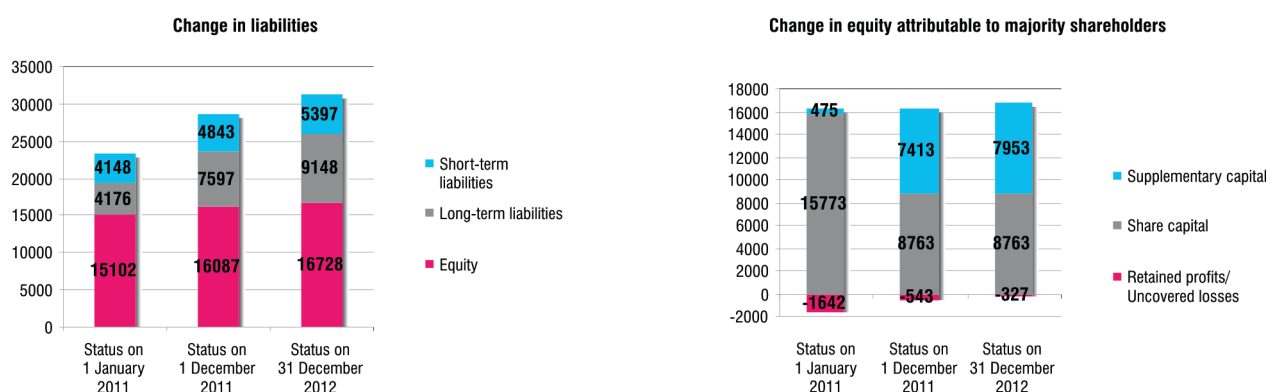
In the table below, the annual consolidated statement of financial situation – liabilities, is presented.

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%

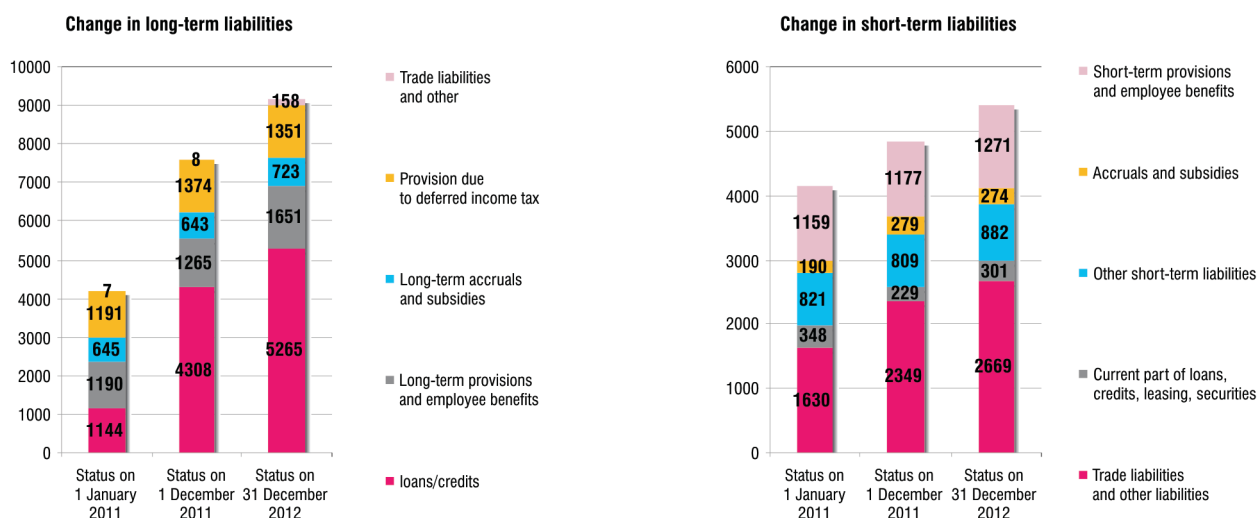
Statement on financial situation	Status as of 31 December 2012	Status as of 31 December 2011 (data converted)	Status as of 1 January 2011 (data converted)	Dynamics (2012/2011)
Other short-term liabilities	769,234	645,067	752,819	119.2%
Derivatives	40,624	80	6,917	–
Accruals and governmental subsidies	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

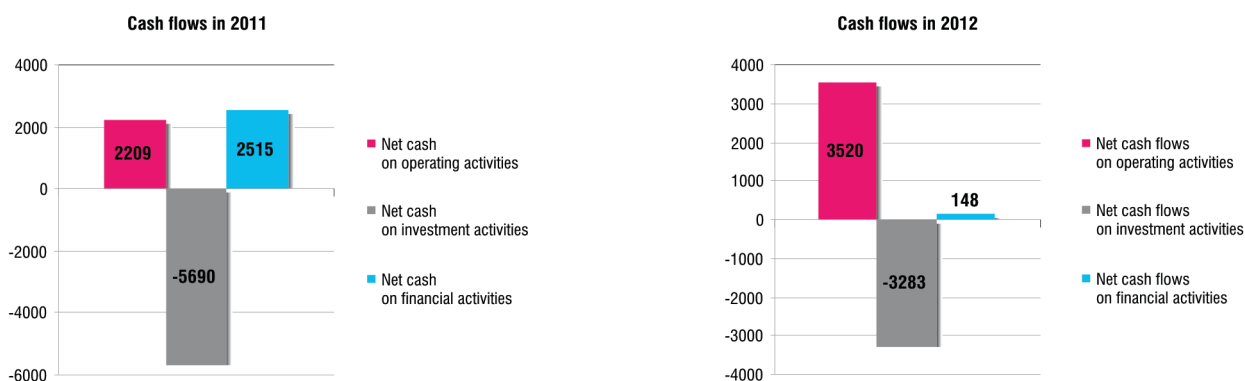
The table below presents the cash flow statement.

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

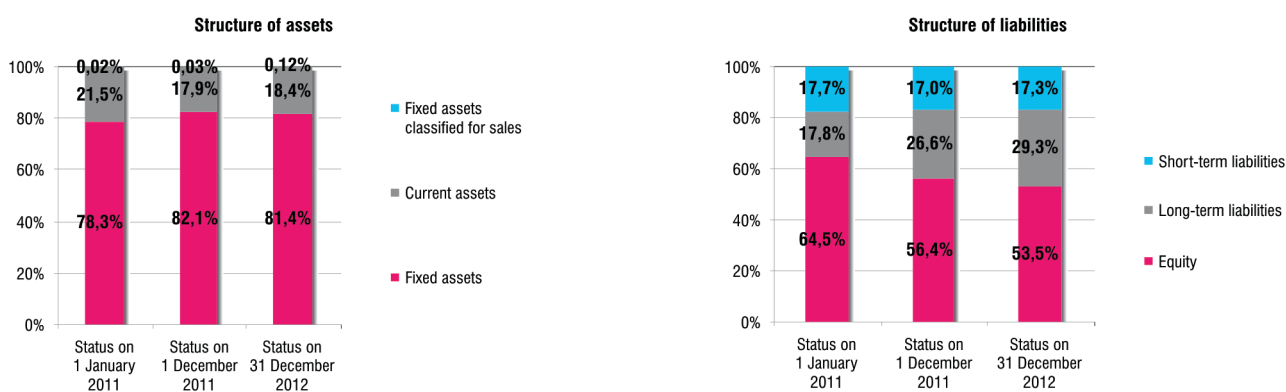
In the table below, the structure of the annual consolidated statement of financial standing is presented.

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:

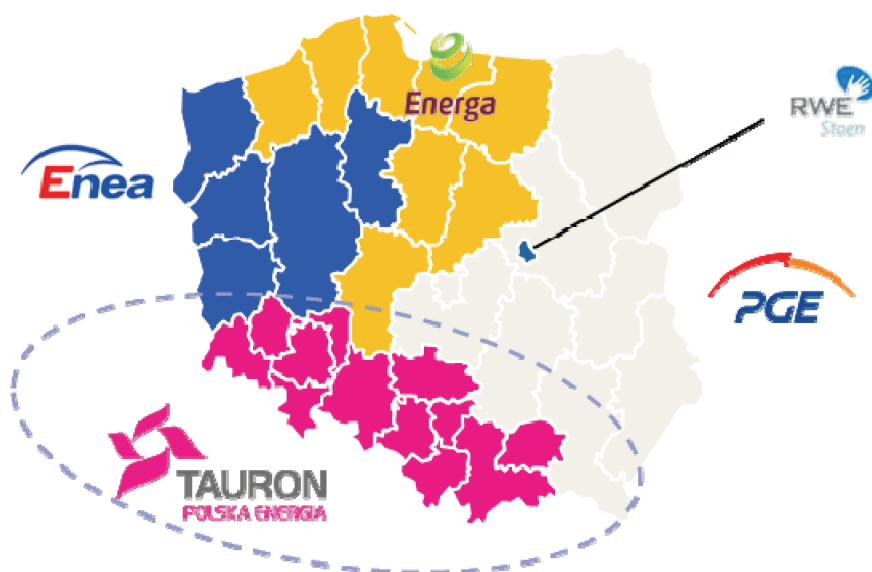
- clear decrease of production of electricity based on coal (by about 7%),
- increase in electric energy production based on lignite (about 3.7%),
- increase of electric energy production by wind farms (about 41.3%), which reflects the dynamic development of the RES,
- drop of export (by about 45.8%),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

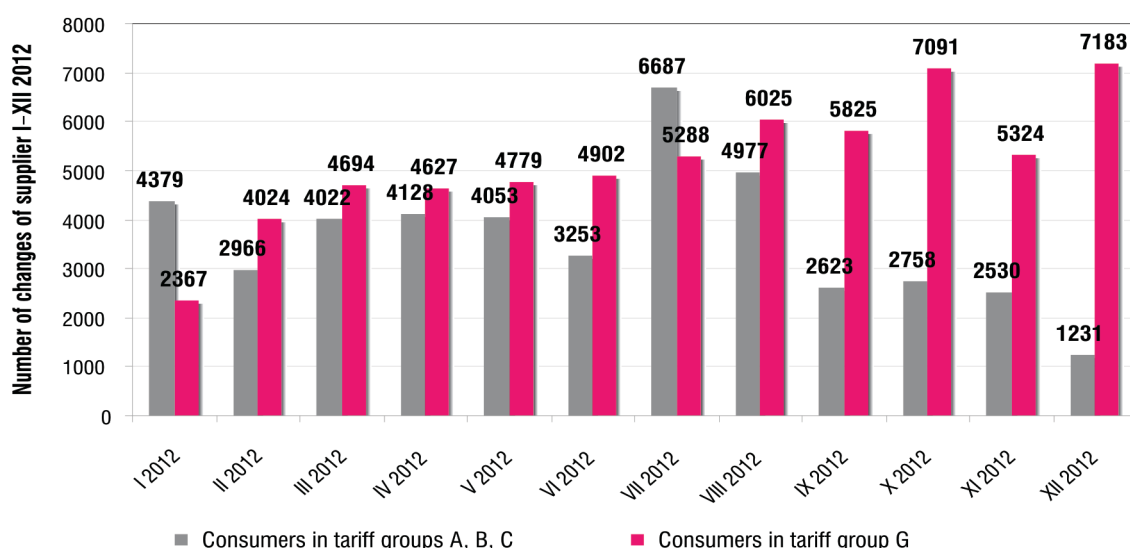
The impact of the deepening economic slowdown in 2012 was more and more clearly visible in consumption and production of electricity in Poland. The decline in electricity demand also resulted in the slump of market quotations of electric energy.

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

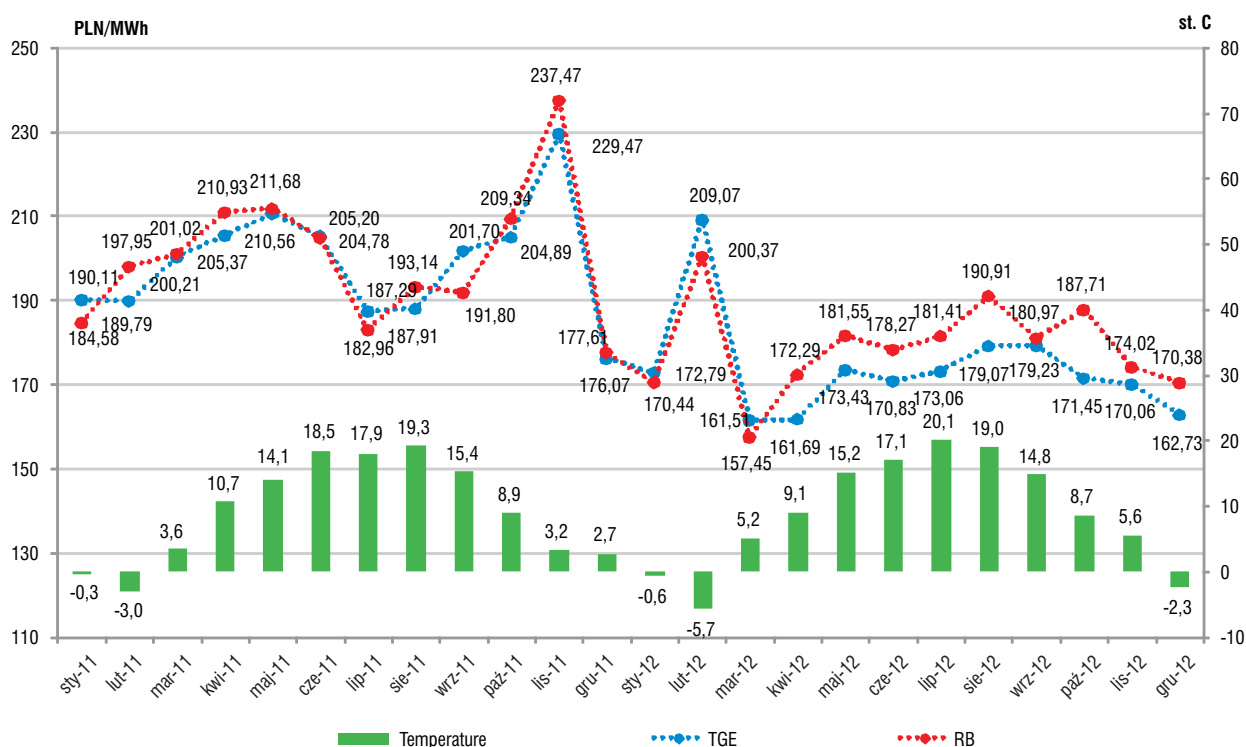


Source: www.ure.gov.pl

Prices of energy and related products

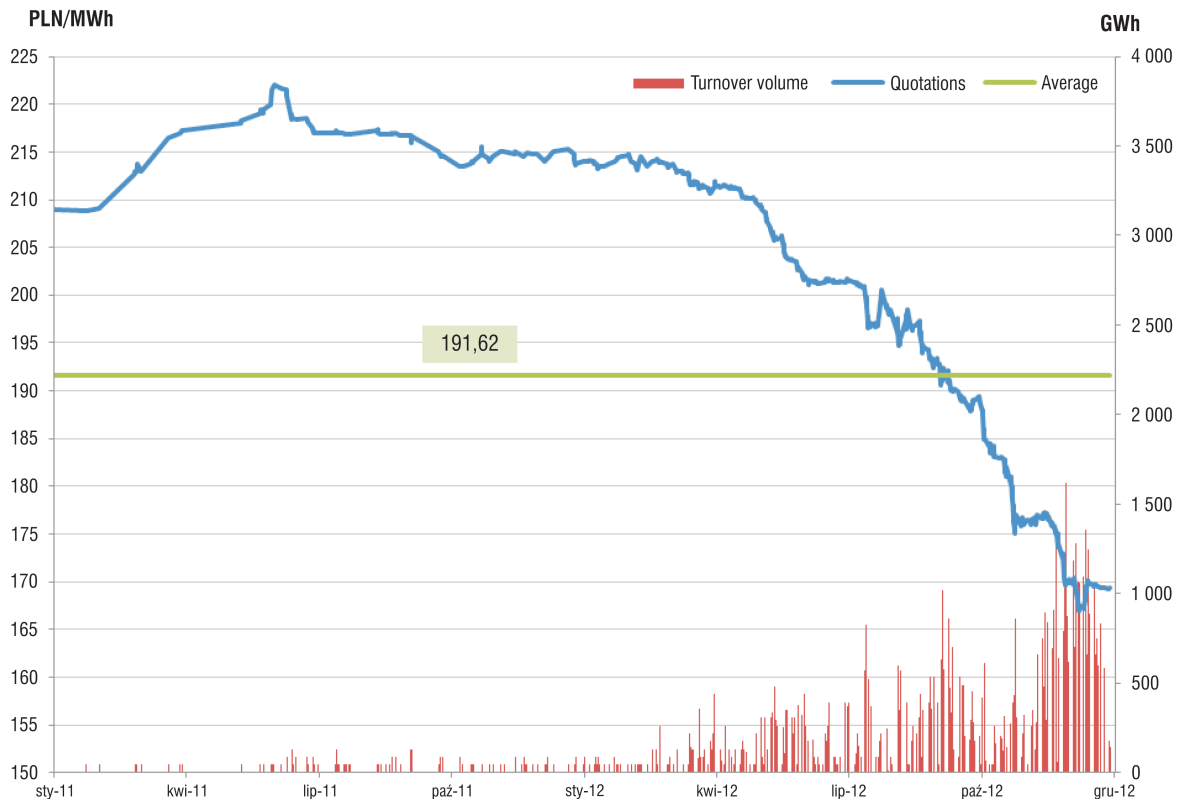
In 2012, the downward trend in electric energy prices dominated. In the period from January to December 2012, the monthly average price of electric energy in *baseload* type contracts on the SPOT market dropped from the level of about PLN 173/MWh to PLN 163/MWh. In the same period, electric energy price 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



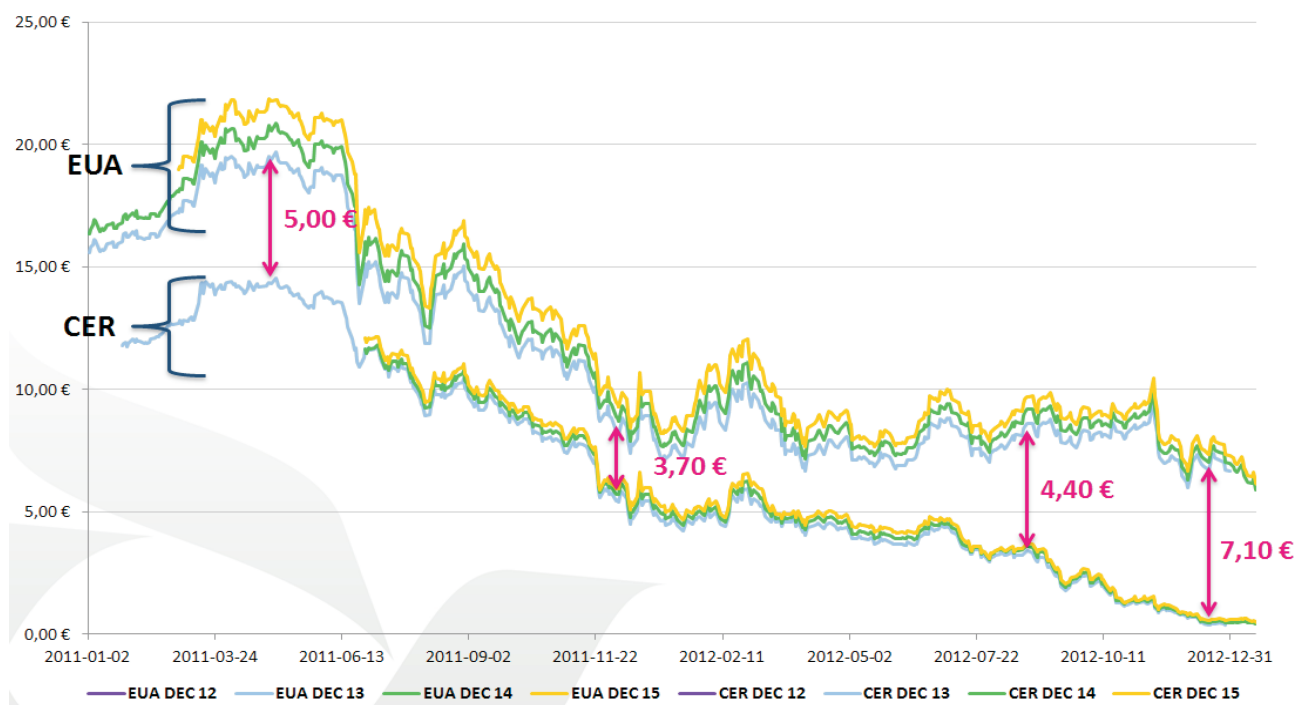
The decline of industrial production in 2012 against the preceding year and the decrease of economic forecasts for the next years was also reflected in the drop of prices of CO₂ emission allowances. The price of EUA emission allowances in 2012 dropped from the maximum level of EUR 9.43/t to the minimum 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

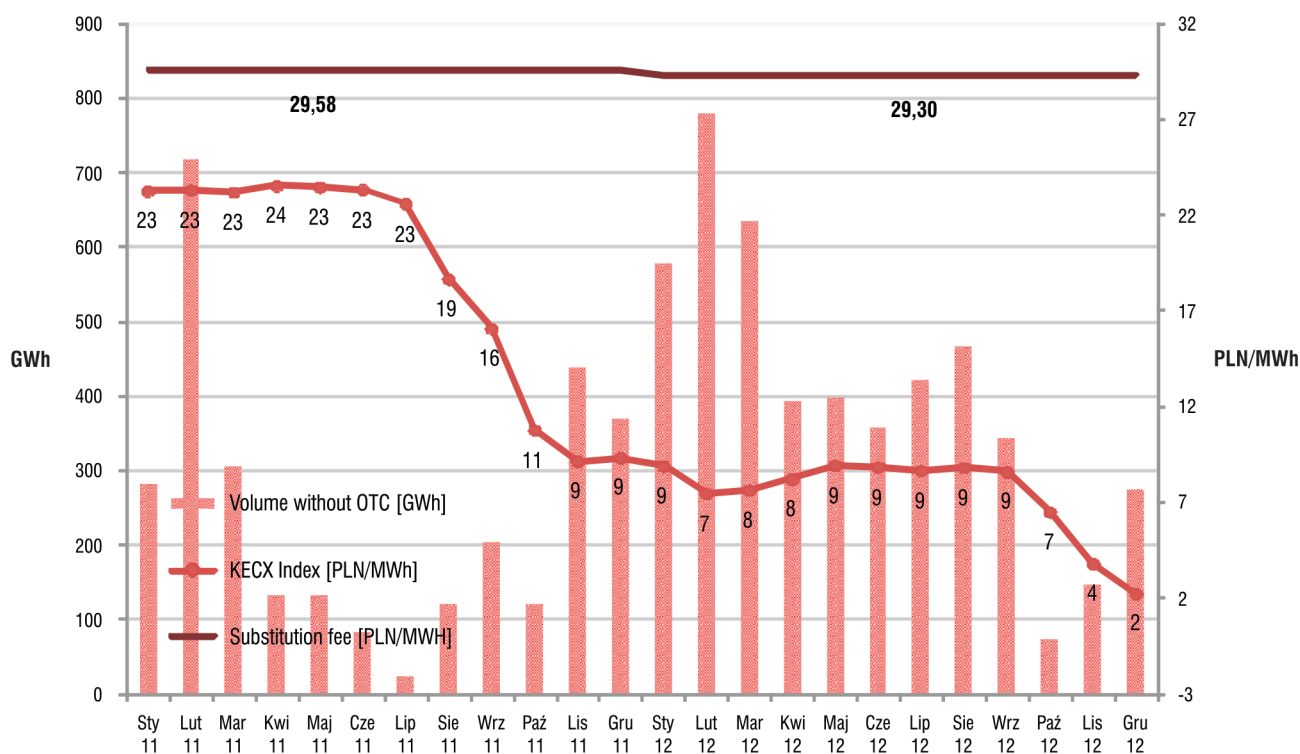


Figure no. 24 Indices of proprietary rights of the so-called green certificates – quotations in 2011 and 2012

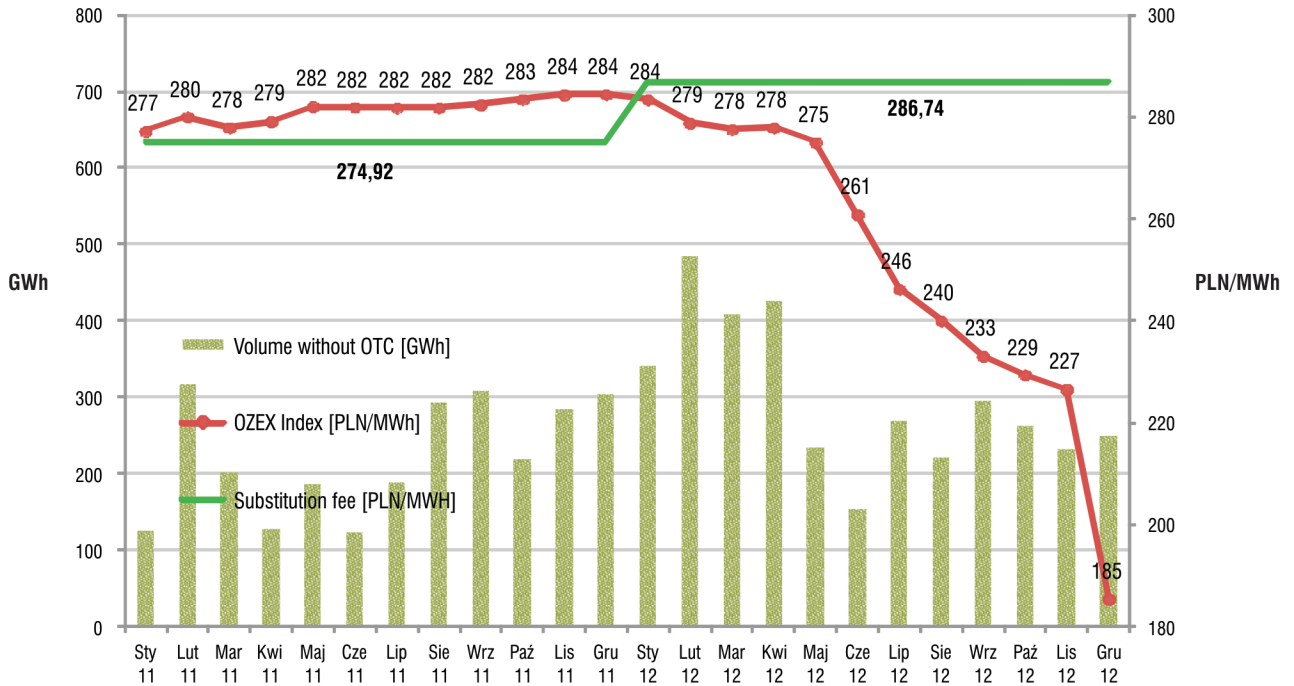


Figure no. 25 Indices of proprietary rights of the so-called yellow certificates – quotations in 2011 and 2012

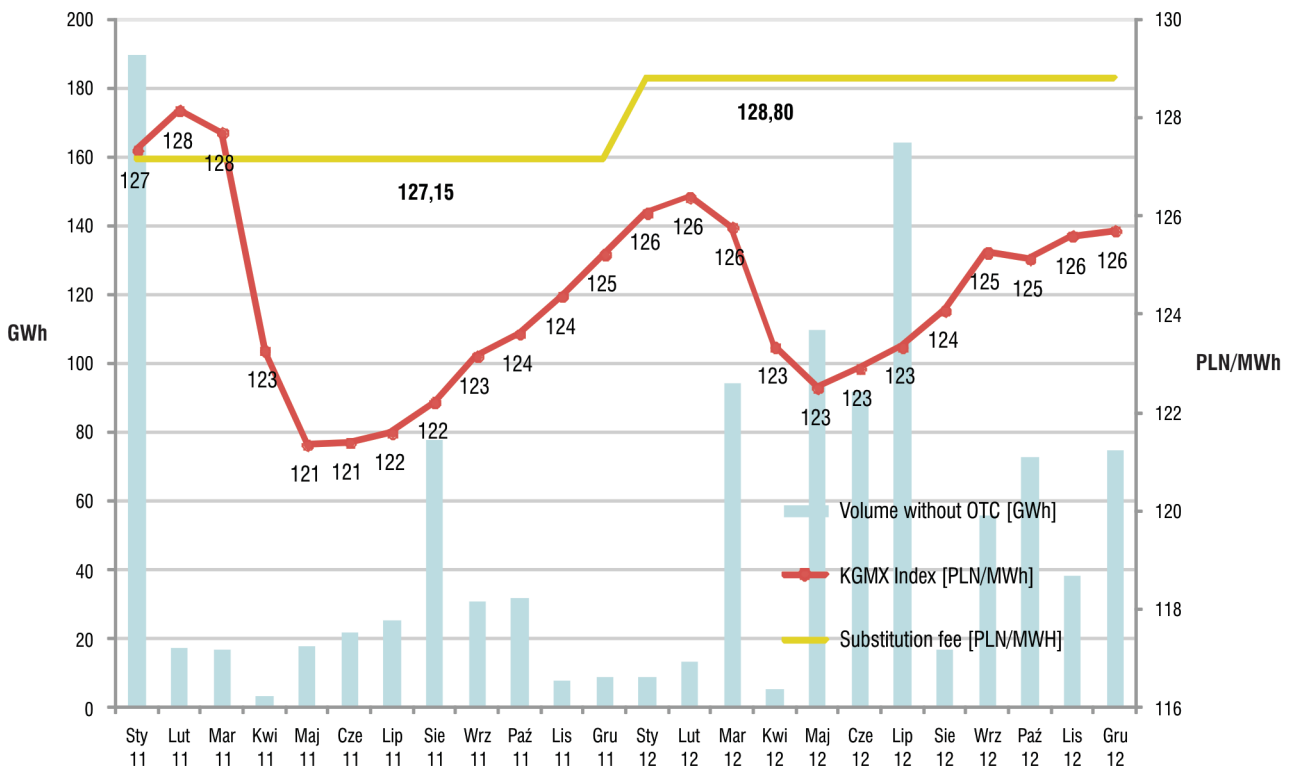
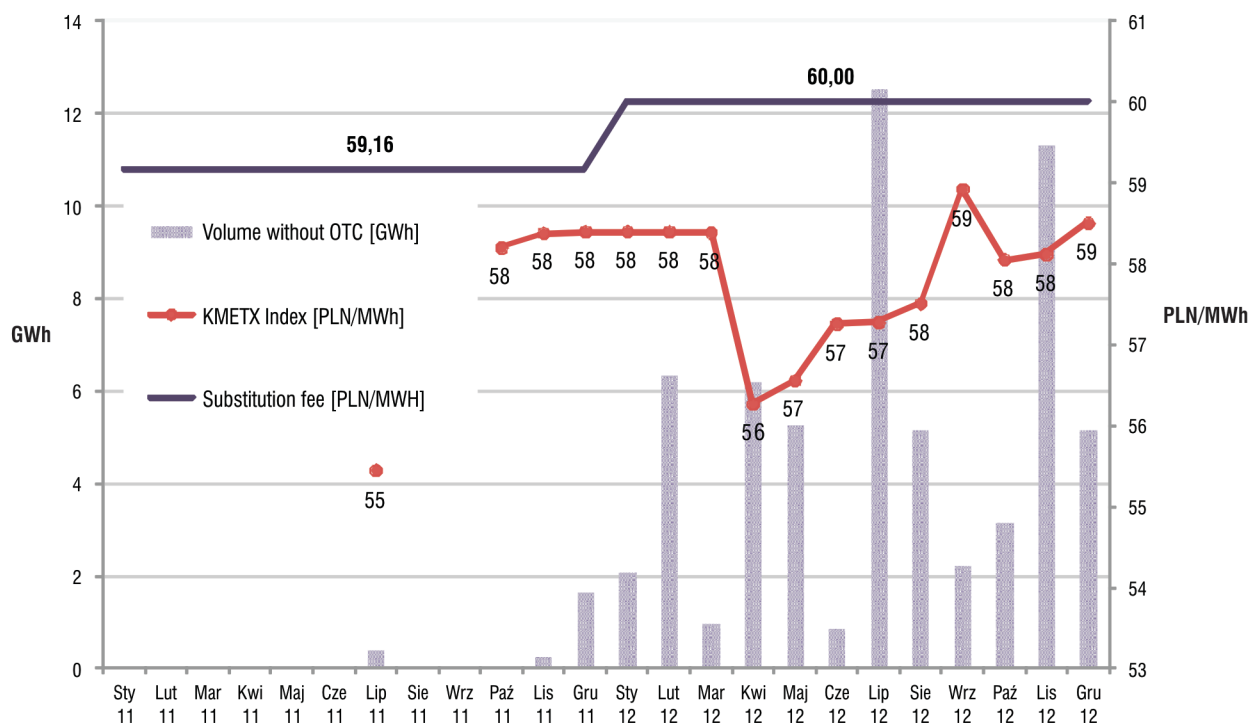


Figure no. 26 Indices of proprietary rights of the so-called violet certificates – quotations in 2011 and 2012



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

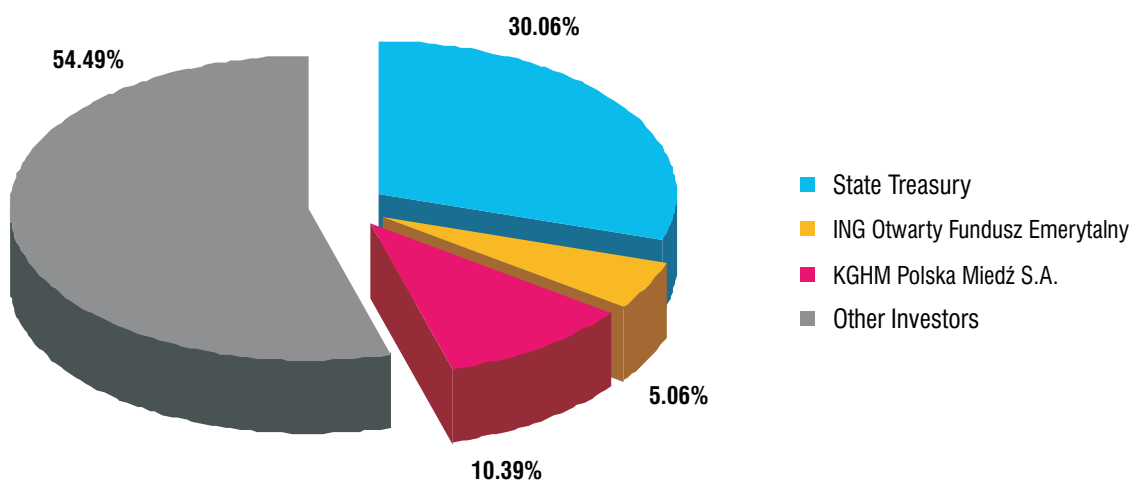
As of 31 December 2012 and on the day of this report:

- 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 price 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 factors, 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.

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

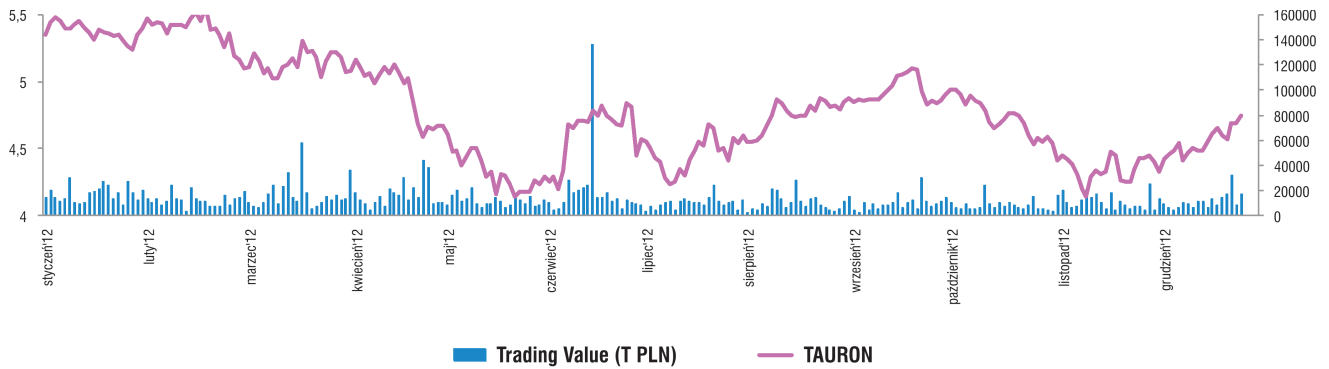


Figure no. 29 Graph of quotations of Company shares and value since the exchange debut (30 June 2010) to 31 December 2012

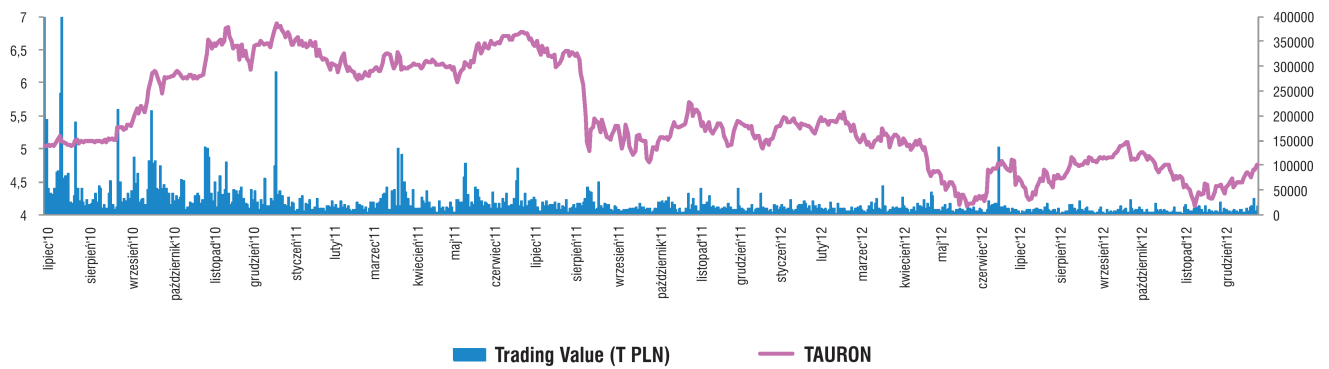


Figure no. 30 Change of quotations of Company shares compared to WIG20 and WIG-Energia indices in 2012



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 Recommendations issued 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	Hold / PLN 5.60	IPOPEMA Securities
24/01/2012	Buy / PLN 7.20	Credit Suisse
12/07/2012	Buy / PLN 6.00	
27/01/2012	Hold / PLN 5.50	ING Securities
24/07/2012	Hold / PLN 4.50	
23/02/2012	Hold / PLN 6.00	Raiffeisen Centrobank
02/04/2012	Hold / PLN 5.70	
15/04/2012	Buy / PLN 5.10	DM PKO BP
18/04/2012	Hold / PLN 5.60	DM BZ WBK
10/07/2012	Hold / PLN 5.30	
12/10/2012	Hold / 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	Hold / PLN 4.60	UBS Investment Research
09/07/2012	Hold / PLN 4.65	UniCredit
24/07/2012	Buy / PLN 5.80	Espirito Santo
21/08/2012	Underweight / PLN 4.80	HSBC
07/12/2012	Underweight / PLN 4.50	
26/10/2012	Sell / PLN 3.80	IPOPEMA Securities
30/10/2012	Hold / 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 Otworthy 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:

- 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.
- 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.
- 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.
- 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.
- A parent company and subsidiary company, for the purposes of § 10 of the Articles of Association, is understood as a person:
 - 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 Ściażko – 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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**STATEMENTS OF THE MANAGEMENT BOARD OF
TAURON POLSKA ENERGIA S.A.**

STATEMENT

**of the Management Board of TAURON Polska Energia S.A.
on the compliance of the Consolidated financial statements
of TAURON Polska Energia S.A. Capital Group
for the year ended 31 December 2012
prepared in accordance with International Financial reporting Standards
and the Management Board's report on the operation
of TAURON Polska Energia S.A. Capital Group for the year 2012**

I, the undersigned, represent that, to my best knowledge, the consolidated financial statements of TAURON Polska Energia S.A. Capital Group prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2012 and comparable figures were prepared in accordance with applicable accounting rules and give the true and fair picture of the assets, financial standing and performance of TAURON Capital Group.

I also certify that the Management Board's report on the operation of TAURON Polska Energia S.A. Capital Group for the year 2012 gives the true picture of the development, achievements and situation of TAURON Capital Group, including the description of key risks and threats.

Management Board Members:

Dariusz Lubera	– President of the Management Board
Joanna Schmid	– Vice-President of the Management Board
Dariusz Stolarczyk	– Vice-President of the Management Board
Krzysztof Zawadzki	– Vice-President of the Management Board

12 March 2013

date

STATEMENT

**of the Management Board of TAURON Polska Energia S.A.
on the appointment of the entity authorized to audit financial statements
(Consolidated financial statements of TAURON Polska Energia S.A. Capital Group
prepared in accordance with International Financial Reporting Standards
for the year ended 31 December 2012)**

I, the undersigned, represent that the entity authorized to audit financial statements and examining the financial statements of TAURON Polska Energia S.A. Capital Group prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2012 was appointed in accordance with legal regulations, and this entity and auditors examining the statements have met conditions for developing an impartial and independent report on the review of the audited financial statements in accordance with applicable regulations and professional standards.

The Management Board Members:

Dariusz Lubera	– President of the Management Board
Joanna Schmid	– Vice-President of the Management Board
Dariusz Stolarczyk	– Vice-President of the Management Board
Krzysztof Zawadzki	– Vice-President of the Management Board

12 March 2013

date