

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

MARCH 2013

TABLE OF CONTENTS

1. ORGANISATION OF TAURON POLSKA ENERGIA S.A.	4
1.1. Basic Information on the Company and TAURON Capital Group	4
1.2. The management concept of the Company and TAURON Capital Group	5
1.2.1. The management rules of the Company and TAURON Capital Group	5
1.2.2. Changes in the management rules of the Company and TAURON Capital Group	7
1.3. Organisational or capital relationships	9
1.4. Major domestic and foreign investment	11
1.4.1. Purchase of shareholding securities	11
1.4.2. Purchase of debt securities	12
2. OPERATIONS OF TAURON POLSKA ENERGIA S.A.	13
2.1. Timeline of key events	13
2.2. Basic products, goods, services	14
2.3. Potential customers market and sources of supply	16
2.4. Material events and achievements of the Company significantly influencing its operations	18
2.5. Information on agreements concluded by the Company	22
2.5.1. Agreements significant for operations of the Company	22
2.5.2. Material transactions with the affiliated entities under conditions other than arm's length basis	24
2.5.3. Information on agreements on credits and loans raised and terminated	24
2.5.4. Information on granted loans and sureties as well as sureties and guarantees received	26
2.6. Information concerning employment	28
2.7. The development policy of the Company	30
2.7.1. Planned Structure of TAURON Capital Group	30
2.7.2. Implementation of Corporate Strategy	30
2.7.3. Factors essential for development	32
2.8. Assessment of implementation opportunities of investment projects	32
2.9. Risk and threat factors	33
3. ANALYSIS OF THE FINANCIAL AND ECONOMIC SITUATION OF TAURON POLSKA ENERGIA S.A.	37
3.1. Principles of preparation of the annual financial statements	37
3.2. Overview of economic and financial values disclosed in the annual financial statement	37
3.3. Differences between the financial results recognised in the annual report and the forecasts of results for the year as published earlier	41
3.4. Basic financial and non-financial ratios	41
3.5. Income from the bonds issue programme	42
3.6. Financial instruments	42
3.6.1. Implementing financial instruments in the elimination of credit risk, significant disruptions of cash flows and losing financial liquidity	42
3.6.2. Goals and methods of financial risk management	43
3.7. Present and forecast financial situation	43
3.8. Factors and events of unusual character significantly affecting the financial results achieved	43
3.8.1. Internal factors and their assessment	43
3.8.2. External factors and their assessment	43
3.9. Assessment of financial resources management	50
3.10. Information concerning the entity authorised to examine financial statements	51
4. SHARES AND SHAREHOLDERS	52
4.1. Structure of the share capital	52
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	53

4.3.	Agreements concerning potential changes in shareholding structure	53
4.4.	Purchase of treasury shares	53
4.5.	Programmes of employees shares	53
4.6.	Listing of shares at the Warsaw Stock Exchange (GPW)	54
5.	STATEMENT OF APPLICATION OF CORPORATE GOVERNANCE	57
5.1.	Indicating the applied set of rules of corporate governance	57
5.2.	Indicating abandoned rules of corporate governance	57
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	58
5.4.	Shareholders holding large blocks of shares	59
5.5.	Owners of securities providing special control rights	59
5.6.	Limitations on performing of the voting right	59
5.7.	Limitations on transfer of securities proprietary rights	60
5.8.	Rules on appointing and dismissing managing and supervising persons and their rights	60
5.8.1.	Management Board	60
5.8.2.	Supervisory Board	61
5.9.	Description of the procedure of amendment of the CompanyArticles of Association	63
5.10.	Way of operating of the General Meeting, its fundamental authorities and description of shareholders' rights and mode of their performance	63
5.11.	Composition of managing and supervising bodies and their committees, its changes, description of performance	65
5.11.1.	Management Board	65
5.11.2.	Supervisory Board	67
5.11.3.	Audit Committee	70
5.11.4.	Nominations and Remuneration Committee	72
5.11.5.	Strategy Committee	73
5.12.	Remuneration of key management and supervisory personnel	74
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	75
6.	OTHER SIGNIFICANT INFORMATION AND EVENTS	76
6.1.	Proceedings pending before the court, competent arbitration authority or public authority body	76
6.2.	Important achievements in research and development	76
6.3.	Issues concerning natural environment	76
6.4.	Policy on Corporate Social Responsibility (CSR)	76
6.5.	Awards and distinctions	77
6.6.	Investor relations	78
	Annex A: Glossary of terms and list of abbreviations	80
	Annex B: List of tables and figures	83

1. ORGANISATION OF TAURON POLSKA ENERGIA S.A.

1.1. Basic Information on the Company and TAURON Capital Group

TAURON Polska Energia Spółka Akcyjna (hereinafter referred to as the Company or TAURON) 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.

General Information

Name (enterprise):	TAURON Polska Energia Spółka Akcyjna;
Legal form:	joint stock company;
Seat:	Katowice;
Website:	www.tauron-pe.pl;
National Court Register:	District Court Katowice–Wschód in Katowice;
KRS:	0000271562
NIP:	9542583988
REGON:	240524697

The basic types of activities carried out by the Company:

- 1) Electric energy trading (PKD 35.14 Z),
- 2) Operations of central companies (head offices) and holdings, excluding financial holdings (PKD 70.10 Z),
- 3) Wholesale of fuel and derivative products (coal and biomass trading) (PKD 46.71 Z),
- 4) Gas fuel trading (PKD 35.23 Z).

Share capital as of 31 December 2012 (paid-up): PLN 8,762,746,970.00; number of shares: 1,752,549,394 shares, including: AA series (bearer shares) 1,589,438,762 shares, BB shares (ordinary registered shares) 163,110,632 shares;

Par value of one share: PLN 5,00.

The Company does not hold any branches (plants).

Structure of TAURON Capital Group

As of 31 December 2012, the key companies of TAURON Capital Group, besides the parent company, TAURON Polska Energia S.A., include 15 subsidiaries subject to consolidation. Moreover, the 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%.

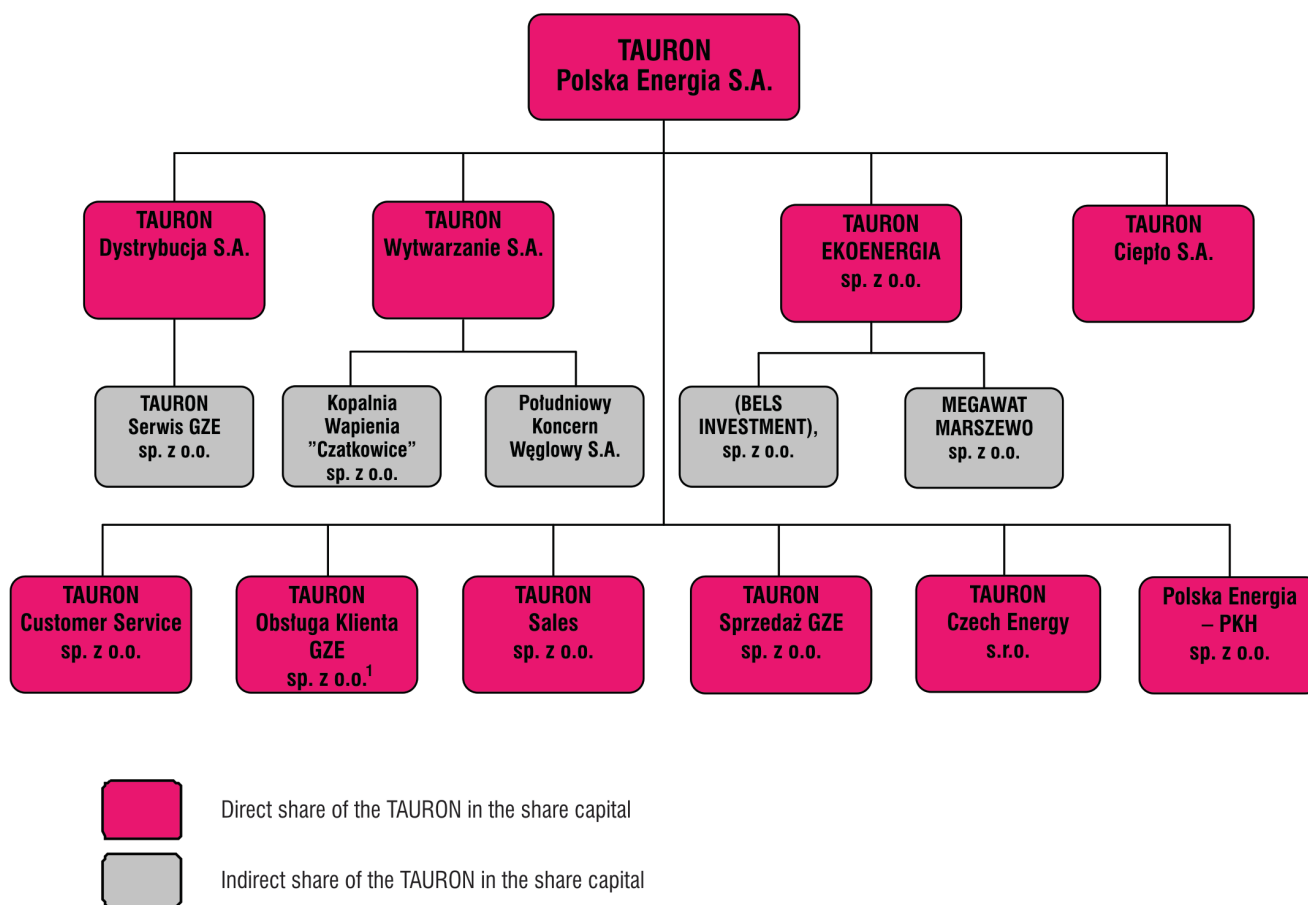
Among the companies of TAURON Capital Group subject to consolidation, the most important subsidiaries include:

- 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 supply of electric energy to retail customers,
- 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 deal among others, with trade of electric energy and heat, extraction of limestone and stone for construction purposes as well as with implementation of investments in Renewable Energy Sources Area (RES).

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, 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 1.3 of this report.

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

1.2.1. 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 management rules of 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 based on 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)
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.

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

Changes in management rules of the Company

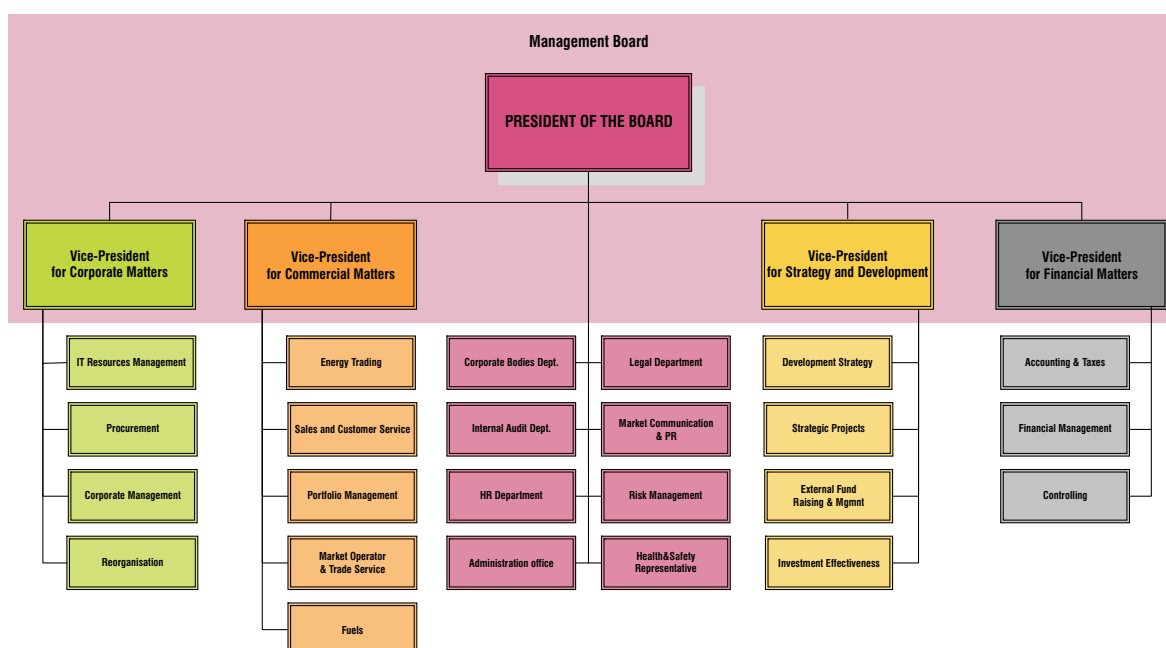
In 2012 no changes were introduced in the scope of the Company management rules against those applicable in 2011, however, changes in organisational structure and within the responsibilities of the Company business units, included in the Organisational Regulations, were implemented, including:

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” according to specific Business Areas, 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 individual 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. trading 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.

1.3. 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 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.	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. Mysłowska 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 Blachownia Nowa	47-225 Kędzierzyn Koźle ul. Energetyków 11	Generation of electric energy	49.86%	TAURON Wytwarzanie – 50.00%	49.90%	TAURON Wytwarzanie – 50.00%

1.4. Major domestic and foreign investment

1.4.1. Purchase of shareholding securities

In the scope of purchase of shares and stocks in companies, the main investment 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 2.4. 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 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.

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 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.

Acquisition of shares of new issue in the company TAURON Dystrybucja

On 14 December 2012 the District Court for Kraków Śródmieście in Kraków, the 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 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 aforementioned 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.

1.4.2. Purchase of debt securities

Acting on the basis of the implemented model of central financing as well as in accordance with the conditions of the effective 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

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

2. OPERATIONS OF TAURON POLSKA ENERGIA S.A.

2.1. Timeline of key events

The following timeline presents the key events associated with the operations of the Company 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 Polskie Górnictwo Naftowe i Gazownictwo S.A. (PGNiG), concerning joint exploration and extraction of shale gas. Signing the agreement concerning the 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 by the Company to the agreement concluded on 11 March 2011 between TAURON and PGNiG and Elektrownia Stalowa Wola S.A. (ESW) concerning 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. Signing the framework agreement between the Company and GDF Suez Trading concerning the settlement of any transactions concluded between the parties in connection with the purchase and sales of electric energy. Holding the Ordinary General Meeting of the Company (WZ) for the financial year 2011 (adopting the resolution on profit distribution for the financial year 2011, defining the amount allocated for payment of the dividend for shareholders, the dividend record day and the dividend payment day). 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. 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. Registration of the merger of TAURON (acquiring company) and GZE company (acquired company) by the District Court for Katowice–Wschód in Katowice, 8th Commercial Department of the National Court Register. 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.
July August	<ul style="list-style-type: none"> Signing the framework agreement between the Company and PGNiG, ENEA S.A. (ENEA), KGHM Polska Miedź S.A. (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.
September October	<ul style="list-style-type: none"> 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. Approval of the tariff of the Company for gas fuel trading by the ERO President.
November December	<ul style="list-style-type: none"> Signing the annex to the framework agreement between TAURON, PGNiG, ENEA, KGHM and PGE concerning the exploration and extraction of shale gas. Signing of the letter of intent between the Company and PGNiG concerning the construction and exploitation of the gas-fired energy unit in Elektrownia Łagisza.

2.2. Basic products, goods, services

The table below shows the statement of comprehensive income for the financial year 2012, divided into basic types of activities.

Table no. 8 Statement of comprehensive income for the financial year 2012, divided into types of activities (data in thousand PLN)

Year ended 31 December 2012	Total activities	Sales of energy and other products of energy market	Holding activities	Unallocated items
Revenues				
Sales to external clients	2,455,294	2,455,294	–	–
Sales in TAURON Capital Group	7,434,578	7,434,578	–	–
Total revenue of the segment	9,889,872	9,889,872	–	–
Profit/loss of the segment	151,549	151,549	–	–
Unallocated costs	(104,439)	–	–	(104,439)
Profit/(loss) on continued activities before taxes and financial revenues (costs)	47,110	151,549	–	(104,439)
Net financial revenues (costs)	1,432,846	–	1,449,781	(16,935)
Profit/(loss) before tax	1,479,956	151,549	1,449,781	(121,374)
Income Tax	(44,768)	–	–	(44,768)
Net profit (loss) for the period	1,435,188	151,549	1,449,781	(166,142)
EBITDA	61,193	165,632	–	(104,439)

The activities of the Company are recognised in two segments: in the segment “Sales of energy and other products of energy market” and in the segment “Holding activities”.

The financial revenues and costs cover revenues due to dividend as well as net interest rate revenues and costs gained and incurred by Company due to operation of the central financing model in TAURON Capital Group.

The unallocated items cover the overhead costs of the Company, as they are incurred for the benefit of the whole TAURON Capital Group, thus, they cannot be directly allocated to the operating segment.

The basic types of activities carried out by the Company comprise:

- 1) Operations of central companies (head offices) and holdings, excl. financial holdings (PKD 70.10 Z),
- 2) Electric energy trading (PKD 35.14 Z),
- 3) Wholesale of fuel and derivative products (coal and biomass trading) (PKD 46.71 Z),
- 4) Gas fuel trading (PKD 35.23 Z).

As the parent entity TAURON holds the consolidating and governing function in the TAURON Capital Group.

In connection with implementation of the new business model and centralisation of the functions, TAURON extended the scope of its activities, by taking over a part of competences from the companies of TAURON Capital Group. Besides the wholesale of electric energy and the associated products, it refers mainly to: commercial services, securing the needs in the scope of CO₂ emission allowances and certificates of origin of energy under the redemption obligation, procurement management, including purchases of fuels: coal, biomass, gas and other, financial management, IT support, accounting and tax counselling, legal services and audit. At the same time, the above functions are gradually limited in the companies of TAURON Capital Group. Such centralisation is aimed at improvement of effectiveness in TAURON Capital Group.

Besides the governing function, the basic operations of the Company include wholesale electric energy trading on the territory of the Republic of Poland, based on the concession on electric energy trading (OEE/508/18516/W/2/2008/MZn), issued by the President of ERO for the period from 1 June 2008 until 31 May 2018.

The Company has focused on the purchase and sales of electric energy for the needs of securing the purchase and sales positions of entities included in TAURON Capital Group and on wholesale electricity trading. Sales of electric energy performed by the Company in the financial year 2012 was mainly addressed to: TAURON Sprzedaż and TAURON Sprzedaż GZE. Additionally, under the agreement on portfolio management, the Company conducts electricity sales for the needs of covering grid losses of the company TAURON Dystrybucja. Another important element of activities involves sales to external end consumers, conducted both in TAURON Sprzedaż and in the Company. The Company manages sales to clients of strategic importance (demonstrating significant electricity consumption – above 100 GWh). Consequently, it is necessary to conduct trading of certificates of origin of electric energy from renewable energy sources and co-generation units (both gas and coal fired) in order to fulfil the redemption obligation related to the above certificates.

This group of strategic clients includes such entities as: KGHM, ArcelorMittal Poland S.A., CMC Zawiercie S.A., Zakłady Górniczo-Hutnicze "Bolesław" S.A., Kompania Węglowa S.A. (Kompania Węglowa), companies of Polskie Sieci Elektroenergetyczne S.A. Group (PSE) and other entities of various industrial sectors, of high electricity demand.

Functions performed in this area include implementation of the marketing strategy adopted by the Company as well as marketing plans in the area of sales to customers of strategic nature, research on product needs related to the energy trading market in order to improve the product offer of the Company as well as acquisition of information concerning operations of competition, events occurring in the Company environment, in order to predict potential future behaviours of competitors.

In addition, the Company coordinates the governance activities in the area of sales, marketing and customer service implemented by the companies: TAURON Sprzedaż and TAURON Obsługa Klienta.

The Company is involved in energy trading, i.e. purchase and sales of energy on the wholesale market in the country and abroad. The activities are conducted on the spot market and forward market, both in the scope of financial contracts and in contracts with physical delivery. TAURON actively participates in auctions of the cross-border exchange of interconnecting energy transmission capacity on the Polish-Czech and Polish-German border, managed by the Central Allocation Office GmbH (CAO). The trade on the German market mainly takes place through the European Energy Exchange (EEX) exchange in the scope of trading the financial instruments of futures type, besides, transactions on the OTC market are also concluded (OTC-over the counter market). On the Czech market, through its subsidiary – TAURON Czech Energy, the Company operates on the Prague Power Exchange Central Europe a.s., comprising the markets of the Czech Republic, Slovakia and Hungary, as well as on the OTE a.s. exchange.

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

The Company also serves as the competence centre in the area of CO₂ emission allowances for companies of TAURON Capital Group and external customers. Since January 2011, the so-called Installation Group has been operating in the area of CO₂ emission allowances, administered by TAURON. The Installation Group was established to provide for common settlement of emission allowances within facilities belonging to TAURON Capital Group. Due to centralisation of emission trading, the synergy effect was obtained, based on increasing the effectiveness and efficiency as well as optimising the exploitation costs of available resources of the entities included in TAURON Capital Group. Parallel to centralisation of this function in TAURON, the Company is responsible for settlement of CO₂ emission allowances of companies, cost-effective management of the allowances granted, ensuring the subsidiaries' emission needs, support in negotiating the future emission allowances limits.

While implementing the above goals in the area of CO₂ emission allowances trading, the Company actively participates in trading on the Paris exchange BlueNext, the European Climate Exchange in London, EEX exchange in Leipzig and the European OTC market.

In addition, TAURON also acts as the Market Operator for companies of TAURON Capital Group and for external customers. Trade balancing is carried out on the basis of the transmission Agreement of 21 August 2008 concluded with the Transmission System Operator (TSO) – PSE. At the turn of 2010 and 2011, the Company extended its capacity of the Market Operator in favour of companies of TAURON Capital Group belonging to the Generation Business Area. In accordance with the Instruction on Transmission Grid Operation and Maintenance, the Company currently holds exclusive trade and technical capacity in scheduling coordination, it is responsible for optimisation of generation, i.e. selection of generation units for performance as well as efficient distribution of loads in order to execute the contracts concluded, taking into consideration technical conditions of the generation units, network constraints and other factors, from various perspectives. Within the services provided to the Generation Business Area, the Company participates in preparation of repair plans, plans of available capacity as well as production plans for generation units, in various time horizons, as well as in their settlement with the TSO and the Distribution System Operator (DSO).

In accordance with the adopted business model, TAURON fulfils governing functions in the scope of production fuel procurement management for the needs of the generating entities included in TAURON Capital Group. Since 1 January 2012 the Company, centralising the production fuel procurement, has started its activities in the scope of purchase and sales of biomass and provision of continuous supplies for the needs of the generating units included in TAURON Wytwarzanie.

As of 1 June 2012 the operating activity has been extended in the scope of purchase of fuels and provision of continuous supplies by adding coal. Through consolidation of fuel procurement operations, competence in the area of gas fuel trading was also systematically built. On 27 April 2012 TAURON obtained the relevant concession for gas fuel trading on the territory of the country and on 19 October 2012, the President of ERO approved the Tariff for gas fuel. Since 3 November 2012, based on the concession held and the tariff approved, the Company has been supplying high-methane gas to TAURON Wytwarzanie. Since 1 December 2012 gas trading has been extended by providing coke oven gas supplies by the Company to TAURON Wytwarzanie. The revenues obtained under the aforementioned activities did not have material impact on the financial result and market position of the Company.

2.3. Potential customers market and sources of supply

Electric energy

In 2012 the structure of wholesale energy trading was influenced by the amendments of the Act of 10 April 1997: *Energy Law*, imposing the obligation on generators to sell electric energy through open tender, on Internet trading platforms on the regulated market or at commodity exchanges.

The main beneficiary of the amendment to the Act and the place of the highest concentration of demand and supply is Towarowa Gielda Energii S.A. (TGE), where the Company performed the majority of energy purchases, concluding transactions both on the forward and SPOT markets. In connection with the aforementioned amendment to the energy law, the quantity of electric energy purchased directly for the needs of TAURON Capital Group from generation companies belonging to the Group was at a level much lower, as compared to 2010. The volume of purchase of electric energy in relation to the previous years is shown in the table below:

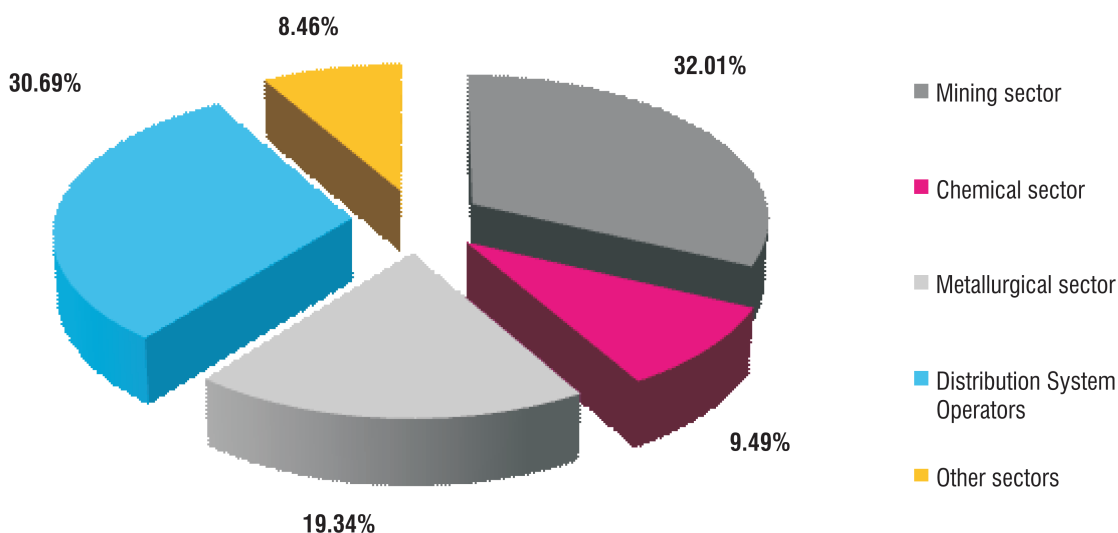
Table no. 9 Volume of electric energy purchase (data in TWh)

Item	Year 2012	Year 2011	Year 2010	Dynamics (2012/2011)
Total volume of electric energy purchased, including:	45.1	40.5	35.6	111%
Purchase from generators (from TAURON Capital Group and outside TAURON Capital Group)	2.2	2.3	20.2	96%
Purchase from trading companies (outside TAURON Capital Group) and energy exchange	41.3	37.0	14.1	112%
Purchase on the balancing market	1.5	1.0	1.2	150%
Other purchase (import)	0.1	0.2	0.1	50%

In the financial year 2012 the Company sold 45.1 TWh of electric energy, which made a growth of over 11% in relation to sales achieved in the financial year 2011. Growth of sales in 2012 resulted mainly from commencement of contracting in favour of the company TAURON Sprzedaż GZE. The volume of sales to TAURON Sprzedaż GZE in 2012 reached about 1.82 TWh, which made approximately 4% of total sales of the Company. The highest volume of sales of electric energy was allocated in TAURON Sprzedaż – the main customer of the Company. In 2012, this volume reached about 27.9 TWh, which made almost 62% of total sales of the Company. Sales was performed based on the current market situation and under the conditions of market competition.

The Company was also continuing the process of direct sales of electric energy to strategic clients, represented mainly by final consumers from various industrial sectors, using energy for own production purposes, and to DSOs – to cover the balancing differences.

Figure no. 3 Structure of Sales of the Company in 2012 to strategic clients, according to sectors



The volume of sales of electric energy is shown in the table below.

Table no. 10 Volume of electric energy sales (data in TWh)

Item	Year 2012	Year 2011	Year 2010	Dynamics (2012/2011)
Total sales of electric energy, including:	45.1	40.5	35.6	111%
Wholesale	38.5	33.7	33.4	114%
Retail sales	3.9	4.7	1.1	83%
Sales on the balancing market	1.6	1.2	1.1	133%
Other sales	1.1	0.9	0.03	122%

Fuels

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 Zdzeszownicach 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. 11 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	–

2.4. Material events and achievements of the Company significantly influencing its operations

The most important events of significant impact on operations of the Company, which occurred during the financial year 2012, and until the day of this report included:

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 05 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 07 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).

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.

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 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 on entering the merger of the following companies to the National Court Register on 12 June 2012: 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 2.5.1 hereof.

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

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.

Detailed information on the aforementioned agreements is included in item 2.5.1 hereof.

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 are: 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.

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 2.5.1 of this report, should also be considered as important events of material impact on operations of the Company 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 Programme was drafted with the underlying goal to provide for the increase of TAURON Capital Group value.

Consolidation and restructuring programmes have been prepared the execution of which should result in cost reduction by approx. PLN 860 over the years 2013–2015 (total amount over the entire 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.

Other events after the balance sheet day

Information on other significant events occurring after the balance sheet day until the day of this report has also been provided in note 40 of the Consolidated financial statement of TAURON Polska Energia S.A. for the year ended on 31 December 2012.

2.5. Information on agreements concluded by the Company

2.5.1. Agreements significant for operations of the Company

In the financial year 2012 the Company concluded the following Agreements significant for operations of the Company:

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 no. 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 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.

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

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

Detailed information on significant transactions with affiliated entities has been provided in note 34 of the Consolidated financial statement of TAURON Polska Energia S.A. for the year ended on 31 December 2012.

2.5.3. 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 in 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 2.5.4. 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. 12 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. 13 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. 14 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
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.

In the financial year 2012 the Company did not terminate any credit and loan agreements.

2.5.4. 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. 15 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 or credits 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. 16 The table below specifies 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

The Company 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. 17 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

Company	Beneficiary	Agreement	Guarantee amount (in thous. PLN)	Currency	Date of granting	Effective term
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).

2.6. Information concerning employment

Information concerning employment in the Company in the years 2011–2012 and its structure, is presented in the graphs below:

Figure no. 4 Employment in FTEs (rounded up to the full FTE)

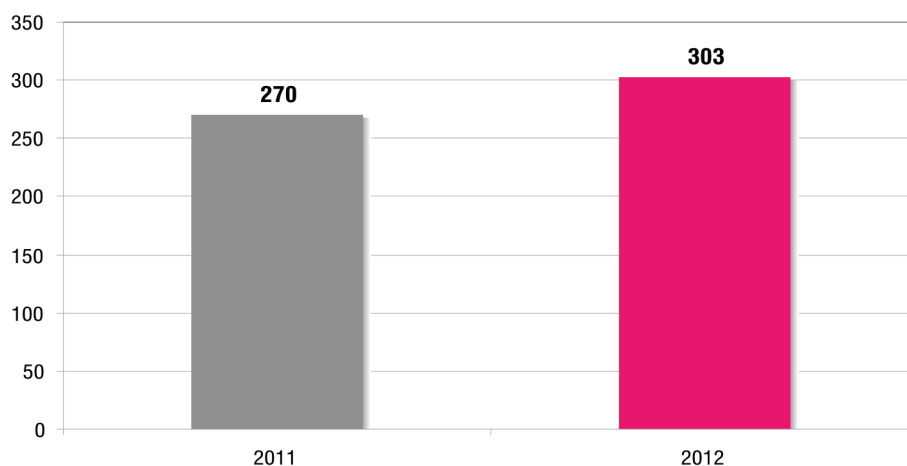


Figure no. 5 Structure of employment according to education

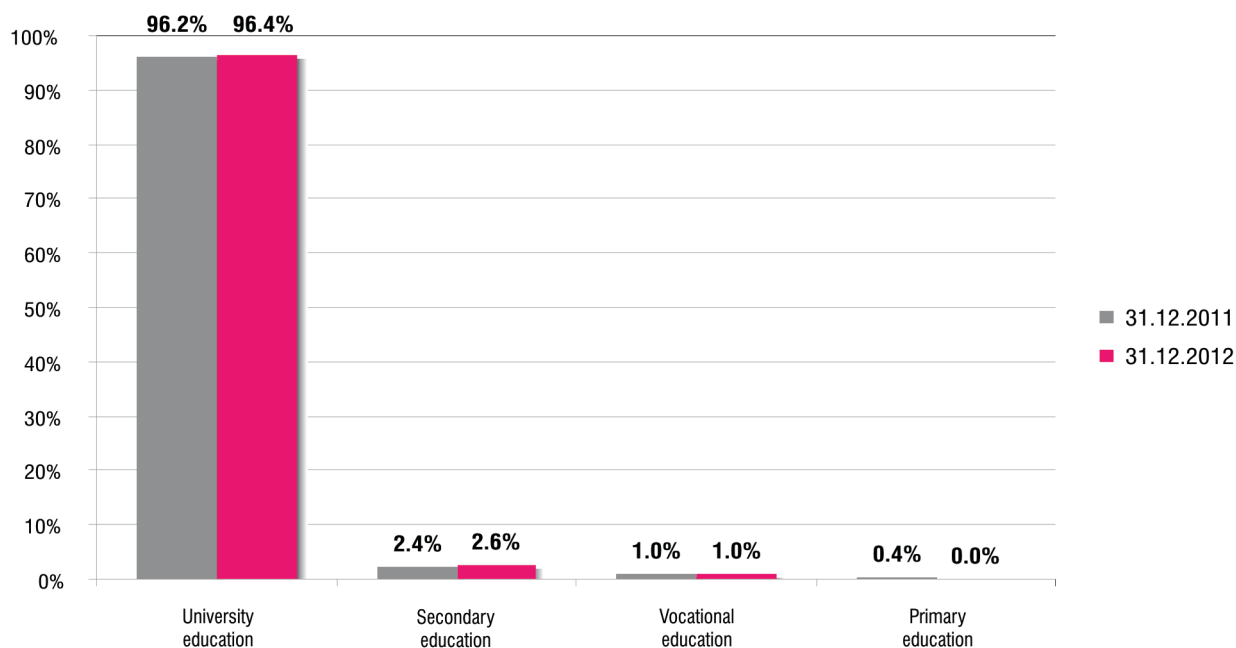


Figure no. 6 Structure of employment according to age

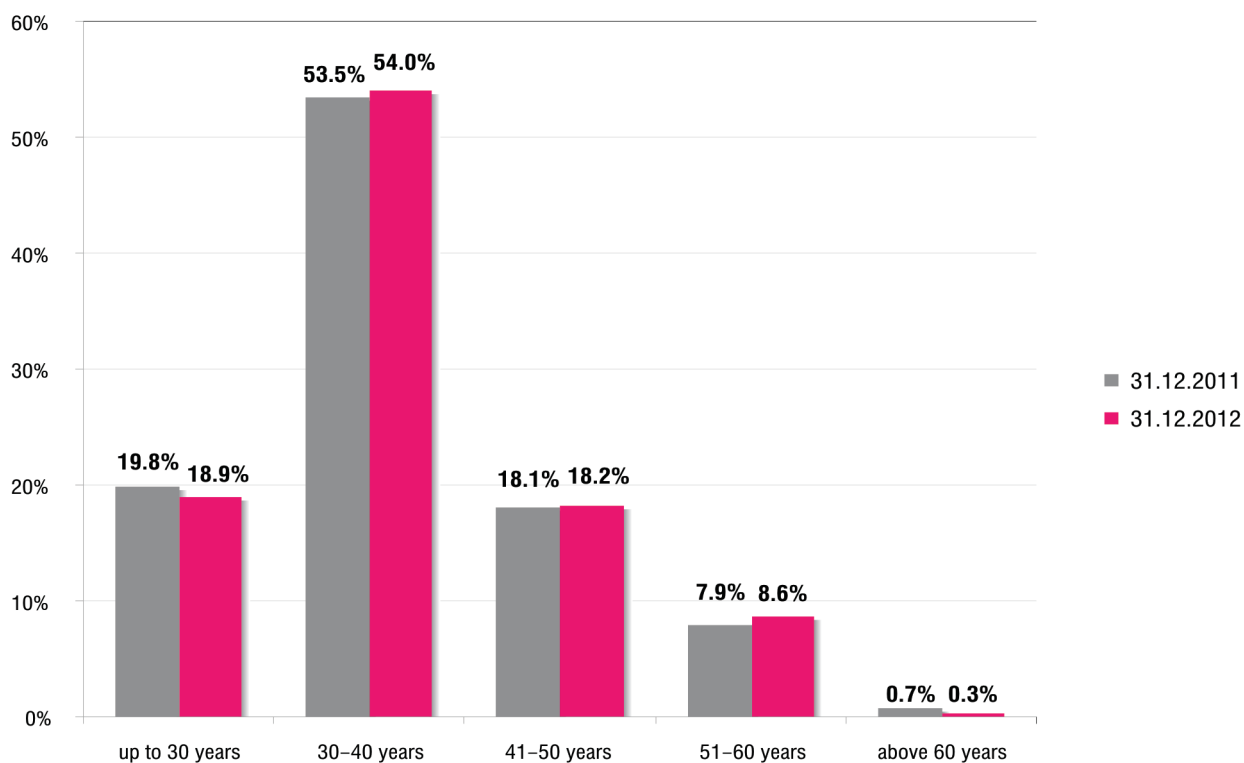
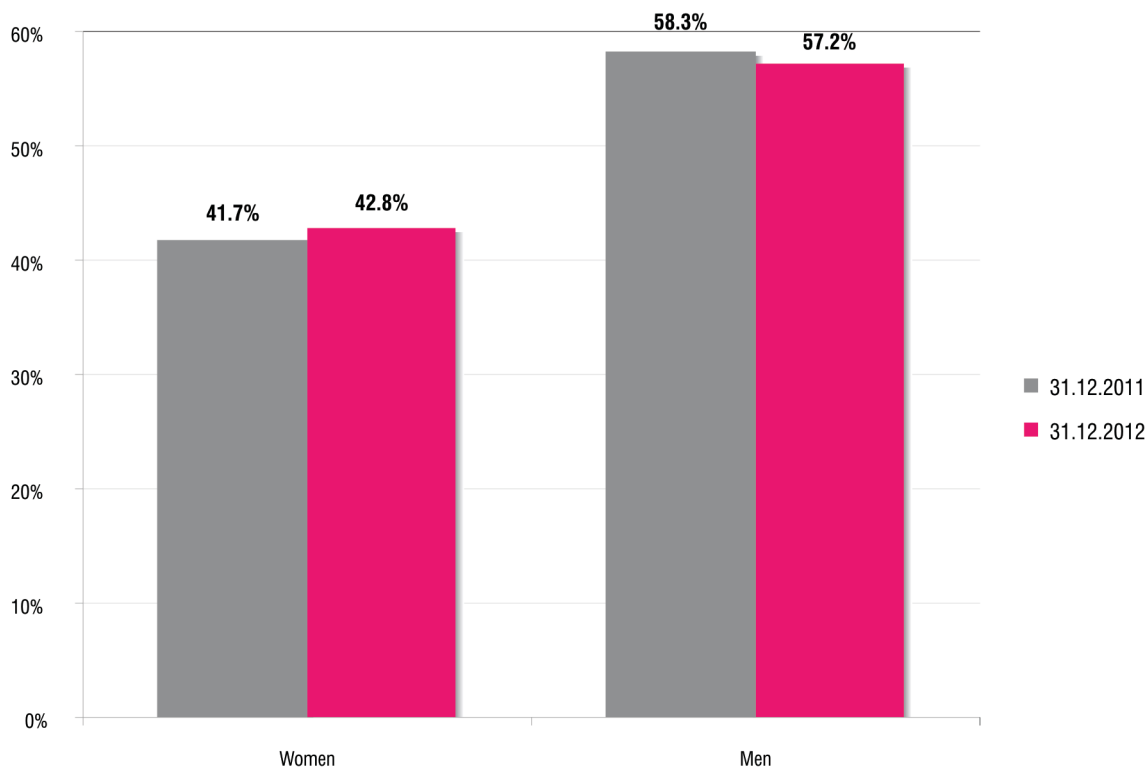


Figure no. 7 Structure of employment according to gender

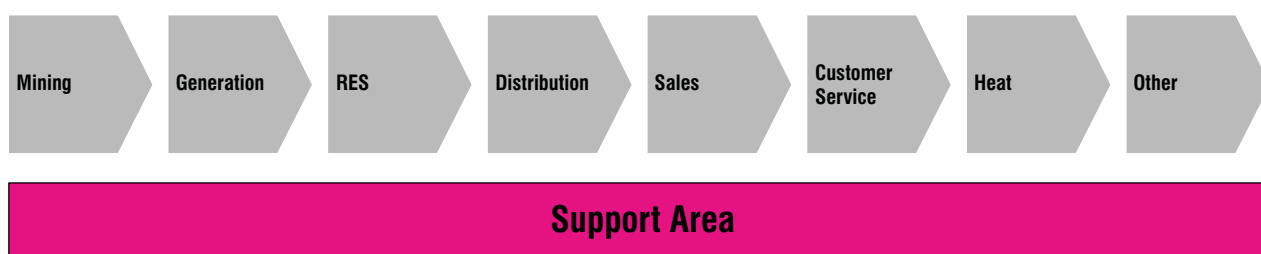


2.7. The development policy of the Company

2.7.1. 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. 8 Value chain in TAURON Capital Group



2.7.2. Implementation of Corporate Strategy

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.

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 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 MW_e.

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.

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.

2.7.3. Factors essential for development

Results of operations of the Company 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.

2.8. Assessment of implementation opportunities of investment projects

In 2012, investment expenditure of TAURON was not significant due to the fact that the strategic investment projects were implemented in companies of TAURON Capital Group. 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 assesses 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.

2.9. 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. 9 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 both 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 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 – 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 Office 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 3.6.2 of this report.

3. ANALYSIS OF THE FINANCIAL AND ECONOMIC SITUATION OF TAURON POLSKA ENERGIA S.A.

3.1. Principles of preparation of the annual financial statements

The 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 the Company in the area of the accounting rules applied by the Company, 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 standards and interpretations approved by the International Accounting Standards Board as well as the International Financial Reporting Interpretation Committee.

The financial statement was generated with the assumption that the Company would continue its business operations within the foreseeable future. As of the date of the financial report, no circumstances are recognised, indicating any risk for business continuity of the Company.

The accounting principles (policy) adopted for preparing the financial statements have been provided in note 5 of the Consolidated financial statement of TAURON Polska Energia S.A. for the year ended on 31 December 2012.

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

Statement on comprehensive income

The table below presents the annual unit (stand-alone) statement of comprehensive income.

Table no. 18 The annual unit (stand-alone) statement of comprehensive income in the years 2010–2012 (data in thousand PLN)

Statement on comprehensive income prepared according to IFRS	2012	2011	2010	Dynamics (2012/2011)
Continued operations				
Revenue on sales of goods, products and materials without excluding excise tax	9,823,438	8,823,744	7,172,814	111.3%
Excise tax	(3,219)	(15,122)	–	21.3%
Revenue on sales of goods, products and materials	9,820,219	8,808,622	7,172,814	111.5%
Revenue on sales of services	69,643	36,522	12,444	190.7%
Other revenue	10	4	13	250.0%
Revenue on sales	9,889,872	8,845,148	7,185,271	111.8%
Own cost of sales	(9,710,955)	(8,663,010)	(7,067,452)	112.1%
Gross profit on sales	178,917	182,138	117,819	98.2%
Other operating revenue	1,979	3,354	742	59.0%
Costs of sales	(27,142)	(22,850)	(12,493)	118.8%
Overheads	(104,439)	(79,544)	(95,789)	131.3%
Other Operating Expenses	(2,205)	(1,268)	(652)	173.9%
Operating profit	47,110	81,830	9,627	57.6%
<i>Operating profit margin (%)</i>	<i>0.48%</i>	<i>0.93%</i>	<i>0.13%</i>	51.6%
Financial revenue	1,764,978	1,122,177	195,648	157.3%
Financial expenses	(332,132)	(96,096)	(6,476)	345.6%
Gross profit	1,479,956	1,107,911	198,799	133.6%
<i>Gross profit margin (%)</i>	<i>15.0%</i>	<i>12.5%</i>	<i>2.8%</i>	120.0%
Income Tax	(44,768)	(21,818)	(8,321)	205.2%
Net profit on continuing operations	1,435,188	1,086,093	190,478	132.1%
<i>Net profit margin (%)</i>	<i>14.5%</i>	<i>12.3%</i>	<i>2.7%</i>	117.9%
Other comprehensive income	(189,969)	155	0	X
Total revenue for the period	1,245,219	1,086,248	190,478	114.6%
EBITDA	61,193	86,935	13,056	70.4%
<i>EBITDA Margin (%)</i>	<i>0.62%</i>	<i>0.98%</i>	<i>0.18%</i>	63.3%

In 2012 the net profit of the Company amounted to PLN 1,435,188 thousand, which means increase by 32.1% as compared to 2011. The margin of net profit of the Company (ratio of net profit to revenues on sales) reached 14.5% against 12.3% gained in 2011.

The significant growth of net profit was influenced by dividends obtained from subsidiaries, higher by about 53.6% as compared to the level of 2011.

The operating profit gained in 2012 makes 57.6% of the value of 2011, which mainly resulted from the increased costs of activities of the Company, in particular, besides the growth of own costs of sales in connection with a higher volume of electricity purchased, the following costs increased:

- depreciation (by about PLN 9 million), mainly as a result of a one-off redemption of low value tangible fixed assets purchased in the 1st quarter of 2012,
- advertising (by about PLN 8.6 million), in connection with the increased activity of the Company in sponsoring projects,
- employee benefits (by about PLN 8 million), mainly due to the change in employment level,
- taxes and fees (by about PLN 2.5 million).

The increased cost of operations of the Parent Company is associated with the process of centralisation of functions and acquisition of competences from companies of TAURON Capital Group, implemented in TAURON Capital Group, with the purpose of improvement of effectiveness in TAURON Capital Group. At the same time, the functions acquired and the related costs are gradually reduced in companies of TAURON Capital Group. It refers, in particular, to commercial services, securing the needs of TAURON Capital Group companies in the scope of CO₂ emission allowances and certificates of origin in terms of the redemption obligation, procurement management, including the purchase of fuels (coal, biomass, gas and other), financial management, IT support, legal and economic counselling, audit.

Table no. 19 Revenue on sales of the Company (data in thousand PLN)

Item	2012	2011	2010	Dynamics (2012/2011)
Revenue on sales	9,889,872	8,845,148	7,185,271	111.8%
Revenue on sales of goods, products and materials	9,820,219	8,808,622	7,172,814	111.5%
including: Sales of electric energy (without excluding excise tax)	9,298,615	8,354,930	6,981,780	111.3%
Revenue on sales of services and other revenue	69,653	36,526	12,457	190.7%
including: Sales of commercial services	51,993	28,385	9,716	183.2%
Revenue on other operating activity	1,979	3,354	742	59.0%
Revenue on financial activity	1,764,978	1,122,177	195,648	157.3%

The growth of revenue on sales in 2012 as compared to 2011 is associated with the increased volume of sales of electric energy by about 11.4%. The growth of revenue on sales of services, as compared to 2011, occurred mainly in the scope of services referring to organisation of fuel supplies. Since 2012 the Company has been acting as the intermediary in transaction of biomass and coal purchase for the companies of Generation and Heat Segments. The Company buys raw materials from PKW and from entities outside TAURON Capital Group, whereas the whole sales is performed to the companies of TAURON Capital Group. The Company recognises revenues due to intermediary services – organisation of supplies, exclusively.

The growth of revenues on financial activities in 2012, as compared to 2011, occurred mainly due to the higher dividends received from subsidiaries and higher interest on deposits of available cash.

The activities of the Company are mostly conducted on the Polish market where the value of sales in the years 2012 and 2011 amounted to PLN 9,349.6 million and PLN 8,372.4 million, respectively.

The value of sales to foreign clients in the years 2012 and 2011, amounted to PLN 540.3 million and PLN 472.7 million, respectively.

Table no. 20 Level and structure of costs (data in thousand PLN)

Item	2012	2011	2010	Dynamics (2012/2011)
Total costs	10,176,873	8,862,768	7,182,862	114.8%
Own cost of sales	9,710,955	8,663,010	7,067,452	112.1%
Costs of sales and overheads	131,581	102,394	108,282	128.5%
Other operating expenses	2,205	1,268	652	173.9%
Costs of financial activities	332,132	96,096	6,476	345.6%

In 2012 total costs of the Company operations amounted to PLN 10,176.9 thousand and they were higher by 14.8% than in the previous year. Own costs of sales increased by 12.1% in 2012 as compared to 2011, which mainly results from the increased costs of energy purchase, arising from the increased volume of purchase and the average purchase price of electric energy. The own cost of sales also

increased due to impairment losses of market prices for property rights arising from certificates of origin and allowances for emission of pollutants. Accordingly, the Company created impairment losses at the level of PLN 34.8 million for property rights arising from certificates of origin and PLN 0.2 million for allowances for emission of pollutants.

As mentioned above, the increased cost of sales and overheads in 2012, in relation to the comparable period, arises from the impairment losses applied to property rights and the increased costs of amortisation and advertising.

Other operating expenses include mainly the fees due to external organisations and donations. The growth of costs year-on-year is connected with allocation of funds for the establishment of TAURON Foundation in 2012 (PLN 1 million).

The growth of financial costs in 2012, as compared to 2011, is mainly affected by higher interest costs due to bonds issued in December 2011 and in January 2012. In the Company, the central model of financing of TAURON Capital Group activities operates, which foresees acquisition of financing at the level of the Parent Company.

Financial end economic standing of the Company

In the table below, the annual unit (stand-alone) statement of financial situation of the Company is presented.

Table no. 21 Annual unit (stand-alone) statement of financial situation (data in thousand PLN)

Statement of financial situation prepared according to IFRS	Status as of 31 December 2012	Status as of 31 December 2011 (data converted)	Status as of 01 January 2011 (data converted)	Dynamics (2012/2011)
ASSETS				
Fixed Assets	22,997,644	21,386,633	17,224,689	107.5%
Tangible fixed assets	20,786	11,611	5,425	179.0%
Intangible assets	53,053	15,487	7,322	342.6%
Stocks and shares	20,184,404	20,184,103	16,353,470	100.0%
Bonds and other debt securities	2,615,000	1,137,040	848,200	230.0%
Loans granted	117,802	–	–	–
Other non-financial assets	6,599	830	1,686	795.1%
Assets due to deferred Income tax	–	37,562	8,586	–
Current assets	2,760,425	1,436,421	1,220,568	192.2%
Intangible assets	113,302	33,120	9,773	342.1%
Inventory	176,172	41,028	9,238	428.7%
Receivables due to income tax	–	852	2,822	0.0%
Trade receivables and other receivables	1,460,484	1,062,438	634,531	137.5%
Bonds and other debt securities	40,261	13,003	383	309.6%
Derivatives	466	–	257	–
Cash and equivalents	910,421	281,852	527,011	323.0%
Other short-term non-financial assets	59,319	4,128	36,553	1437.0%
TOTAL ASSETS	25,758,069	22,823,054	18,445,257	112.9%
LIABILITIES				
Equity	18,042,008	17,341,198	16,523,373	104.0%
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 instruments revaluation reserve	(189,756)	–	–	–
Retained profits/Uncovered losses	1,515,996	1,165,569	275,340	130.1%
Long-term liabilities	5,280,856	4,140,327	848,772	127.5%
Loans, credits and debt securities	5,125,082	4,136,112	845,650	123.9%
Derivatives	150,594	–	–	–
Provisions for employee benefits	4,605	3,225	2,986	142.8%
Liabilities arising from leasing contracts	480	990	136	48.5%
Accruals and governmental subsidies	95	–	–	–
Short-term liabilities	2,435,205	1,341,529	1,073,112	181.5%
Trade liabilities and other liabilities	723,253	326,126	540,702	221.8%
Current portion of interest-bearing credits, loans and debt securities	1,392,660	719,380	461,627	193.6%
Derivatives	40,624	80	–	–
Liabilities due to income tax	54,057	33,687	–	160.5%

Statement of financial situation prepared according to IFRS	Status as of 31 December 2012	Status as of 31 December 2011 (data converted)	Status as of 01 January 2011 (data converted)	Dynamics (2012/2011)
Current part of liabilities due to leasing	510	627	906	81.3%
Other non-financial liabilities	93,365	85,702	26,094	108.9%
Accruals and governmental subsidies	10,532	8,223	6,719	128.1%
Short-term provisions, employee benefits and other provisions	120,204	167,704	37,064	71.7%
TOTAL LIABILITIES	25,758,069	22,823,054	18,445,257	112.9%

The increase in assets at the end of 2012 in relation to 2011 arises mainly from the increase of item *Bonds and other debt securities*, covering bonds purchased by the Company, issued by subsidiaries. The change of balance in the year ended on 31 December 2012, in relation to the comparable period, is caused by the Company takeover of bonds issued by subsidiaries of the total value of PLN 2,920 million and by redemption of the bonds at a total amount of PLN 1,452 million.

According to the status as of 31 December 2012 and 31 December 2011, the total equity of the Company amounts to PLN 18,042.0 million and PLN 17,341.2 million, respectively, which makes 70% and 76% of the total value of liabilities.

The capital on revaluation reserve for hedging instruments results from valuation of Interest Rate Swap (IRS) instruments, hedging the risk of interest rate due to the bonds issued.

The liabilities of the Company due to loans and credits received and due to the bonds issued as of 31 December 2012, referred to bonds issued under the bonds issue programme at the level of PLN 4,301.8 million, loans from subsidiaries drawn under the *Agreement on cash pool services*, at the amount of PLN 1,175.9 million, credits received from EIB at the level of PLN 910.4 million and the overdraft facility at the amount of PLN 129.6 million (external financing under the cash pooling agreement).

Change in the items: short-term provisions and employee benefits is associated with the sales of electric energy to end consumers and the obligation of redemption of the specific number of certificates of electric energy origin from renewable, gas sources and from co-generation. The provision created at the end of 2011 was used in the first quarter of 2012 to the level of PLN 164.6 million. In 2012 the Company applied redemption of certificates of origin at the value of PLN 37.5 million and paid the substitution fee of about PLN 127 million and the redemption fee of PLN 0.06 million.

Statement of Cash Flows

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

Statement of Cash Flows prepared according to IFRS	2012	2011	2010	Dynamics (2012/2011)
Cash flows from operating activities				
Gross profit/(loss)	1,479,956	1,107,911	198,799	133.6%
Adjustments	(1,895,316)	(1,389,197)	(421,519)	136.4%
Net cash from operating activities	(415,360)	(281,286)	(222,720)	147.7%
Cash flows from investment activities				
Sales of tangible fixed assets and intangible assets	191	192	11	99.5%
Purchase of tangible fixed assets and intangible assets	(46,503)	(14,069)	(6,970)	330.5%
Sales of bonds and other debt securities and units in investment funds	1,455,041	134,460	–	1,082.1%
Purchase of bonds and other debt securities and units in investment funds	(2,922,999)	(433,302)	(848,200)	674.6%
Purchase of stocks and shares	(262,131)	(3,426,768)	(80,711)	7.6%
Dividends received	1,550,613	967,409	181,948	160.3%
Interest received	118,261	54,800	–	215.8%
Repayment of loans granted	416,512	168,000	–	247.9%
Loans granted	(396,093)	(348,009)	–	113.8%
Other	(946)	–	3,548	X
Net cash from investment activities	(88,054)	(2,897,287)	(750,374)	3.0%
Cash flows from financial activities				
Repayment of liabilities due to financial leasing	(597)	(926)	(811)	64.5%
Issue of debt securities	150,000	3,300,000	848,200	4.5%
Credits/loans drawn	960,000	–	–	X
Credits/loans repayment	(51,000)	–	–	X
Dividends disbursed	(543,290)	(262,882)	–	206.7%

Statement of Cash Flows prepared according to IFRS	2012	2011	2010	Dynamics (2012/2011)
Interest paid	(279,378)	(45,506)	(178)	613.9%
Other	(10,793)	(12,735)	(1,700)	84.8%
Net cash from financial activities	224,942	2,977,951	845,266	7.6%
Increase/(decrease) in net cash and cash equivalents	(278,472)	(200,622)	(127,828)	138.8%
Net exchange differences	(1,435)	(61)	(44)	2,352.5%
Cash opening balance	(115,048)	85,574	213,402	X
Cash closing balance	(393,520)	(115,048)	85,574	342.0%

The status of cash received from operating, investment and financial activities of the Company for 2012, considering the status of opening balance of cash flows, amounted to PLN (393.5) million. The negative level of cash closing balance results from the adjustment of cash and pecuniary assets, consisting of balances of loans granted and received, implemented under cash pooling transactions, due to the fact that they do not constitute cash flows from investment or financial activities, therefore, being used mainly for management of current cash flows.

3.3. 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 for 2012. This decision resulted from considerable volatility of the market and substantial number of variables affecting its predictability.

3.4. Basic financial and non-financial ratios

Financial ratios

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

Table no. 23 Basic financial rates of the Company

Item	2012	2011	2010	Dynamics (2012/2011)
Gross Profitability (gross result / revenue on sales)	15.0%	12.5%	2.8%	120.0%
Net Profitability (gross result / revenue on sales)	14.5%	12.3%	2.7%	117.9%
Return on equity (gross result / equity)	8.2%	6.4%	1.2%	128.1%
Return on assets (net result / total assets)	5.6%	4.8%	1.0%	116.7%
EBIT (PLN thous) (result on operating activities)	47,110	81,830	9,627	57.6%
EBIT Margin (EBIT / revenue on sales)	0.48%	0.93%	0.13%	51.6%
EBITDA (PLN thous) (result on operating activities before depreciation)	61,193	86,935	13,056	70.4%
EBITDA Margin (EBITDA / revenue on sales)	0.62%	0.98%	0.18%	63.3%
Current liquidity ratio (current assets / short-term liabilities)	1.13	1.07	1.14	105.6%

The gross and net profitability of the Company increased in 2012, as compared to 2011. The level of operating result is typical for a company conducting activities involving management of a holding (costs related to management of TAURON Capital Group are included in operating activities while revenue gained from dividends is captured under financial activities). The decreased level of operating profit is connected with implementing of a new business model and centralising the functions in TAURON Capital Group – the Company extended the scope of its activities, taking over some competences from the companies of TAURON Capital Group. At the same time, the functions acquired are gradually limited in the respective companies. Such centralisation is aimed at improvement of effectiveness in TAURON Capital Group.

The ability of the Company to settle its liabilities was not threatened in 2012.

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.

3.5. 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.

3.6. Financial instruments

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

The Company carries out on-going monitoring of credit risk generated within the conducted operations.

In 2012, the Company was exposed to credit risk of customers, resulting from the concluded commercial contracts. In order to reduce the risk, 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.

Within the financial risk management, in 2012 the Company 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). The Company is exposed to the risk of floating interest rate arising from the indebtedness, associated with the WIBOR reference rate. Moreover, in 2012, the Company, within the policy of financial risk management, secured the currency exposure occurring within the commercial activities (mainly due to the CO₂ emission allowances trading), by concluding the forward contracts. The aim of these transactions was to secure the Company 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), 12 active forward derivative transactions occurred, as specified in the table below.

Table no. 24 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 type of transaction (end 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, the Company implemented cash pooling mechanism, described in more detail in item 2.5.4. 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 2.5.3. of this report.

Additionally, during 2012, to ensure the adequate level of liquidity security and the possibilities to implement the investment programme, 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 3.5. 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 2.5.3. of this report.

3.6.2. Goals and methods of financial risk management

The Company 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 sensitivity of cash flows of the Company 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 above mentioned policy, the Company applies the derivatives the characteristics of which allows for application of hedge accounting.

Moreover, the Company implemented the *Policy of Financial Liquidity Management in TAURON Group*. Owing 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 measurements and assessment of liquidity at the level of TAURON Capital Group.

3.7. Present and forecast financial situation

The financial situation of the Company is stable and no adverse 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.

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

3.8.1. Internal factors and their assessment

In 2012 no material internal factors occurred which would significantly affect the financial result achieved. Nevertheless, events which influenced the activities of the Company and its result in 2012, included, among others:

- consolidation of commercial procedures, intensification of commercial activities with the company TAURON Sprzedaż GZE,
- further centralisation of the function of Market Operator in the Company,
- management of 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.

3.8.2. External factors and their assessment

The results of the Company in 2012 were affected by the following external factors:

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 observed since 2009.

According to the PSE data, the domestic consumption of electric energy in 2012 decreased by about 0.6% – to the level of 157 TWh (by about 1 TWh), the total production of electric energy has also decreased – by about 2% year on year. 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.

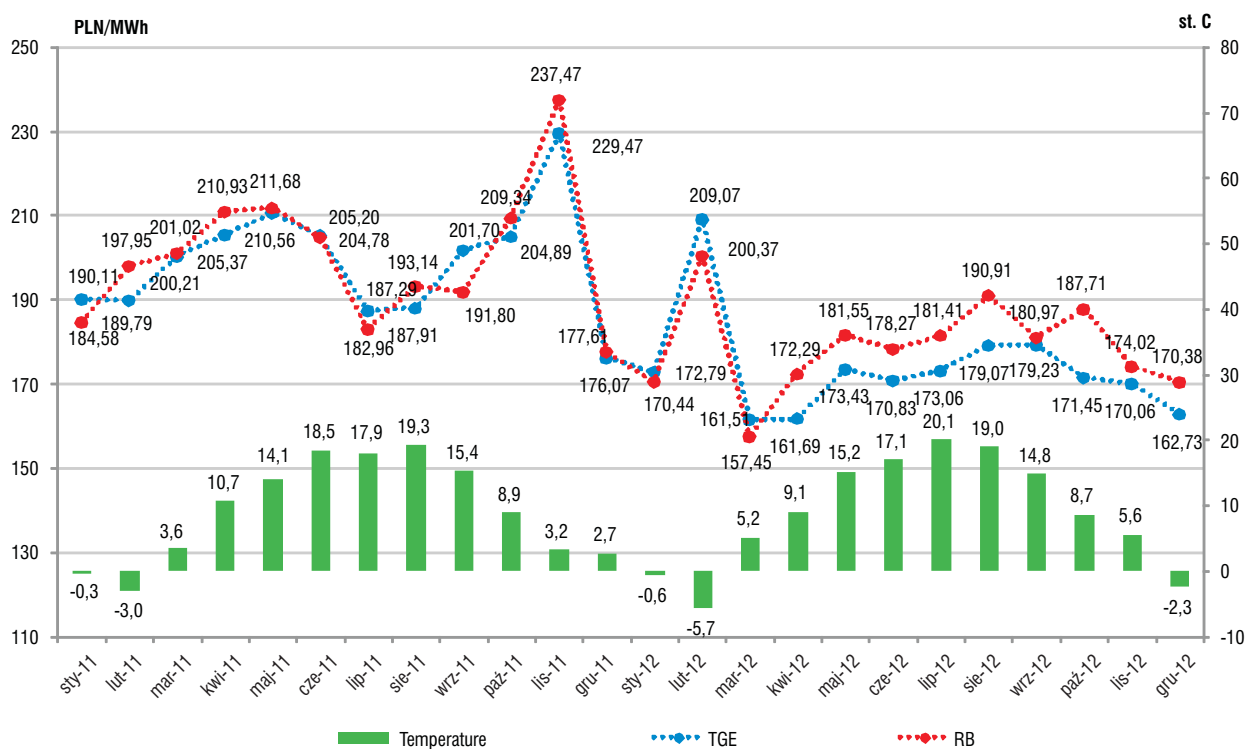
The impact of the deepening economic slowdown in 2012 was more and more clearly visible in consumption and production of electricity in Poland. The decline in electricity demand also resulted in the slump of market quotations of electric energy.

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.

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. 10 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. 11 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. 12 Quotations of annual contracts EEX Germany



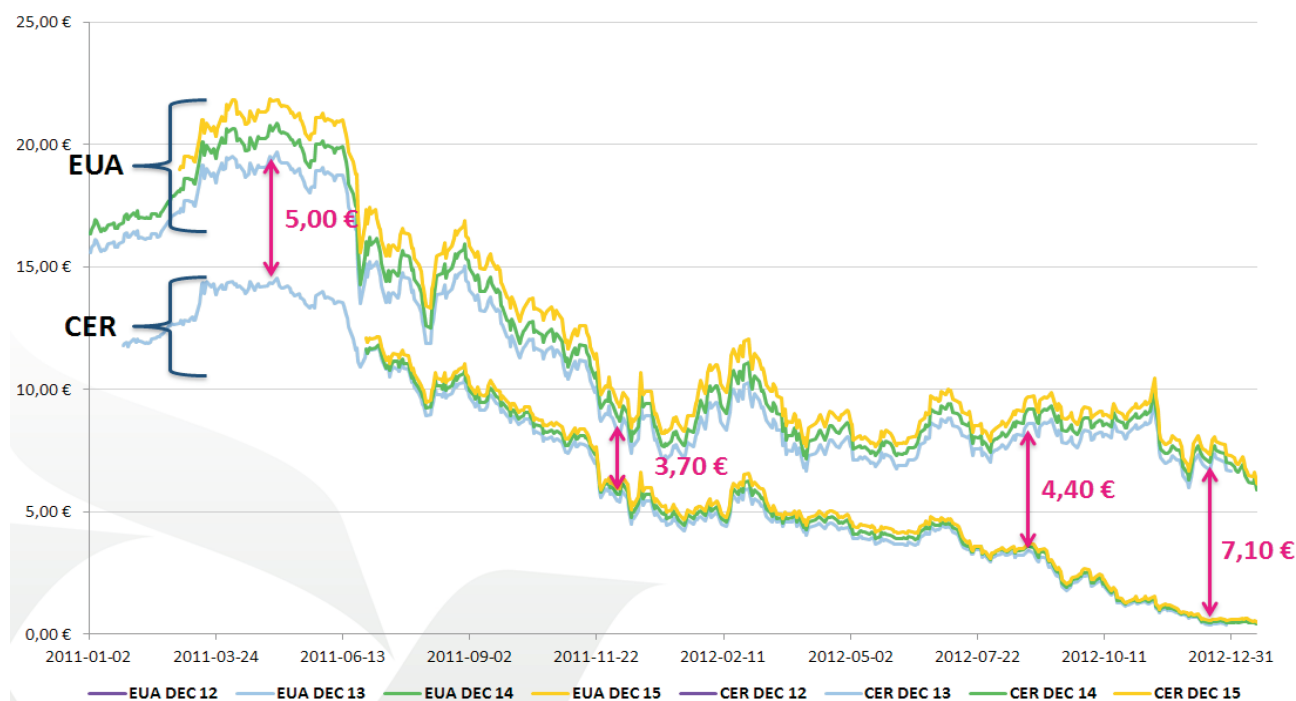
The decline of industrial production in 2012 against the preceding year and the decrease of economic forecasts for the next years was also reflected in the drop of prices of CO₂ emission allowances. The price of EUA emission allowances in 2012 dropped from the maximum level of EUR 9.43/t to the minimum 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 purpose of 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. 13 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. 14 Indices of proprietary rights of the so-called red certificates – quotations in 2011 and 2012

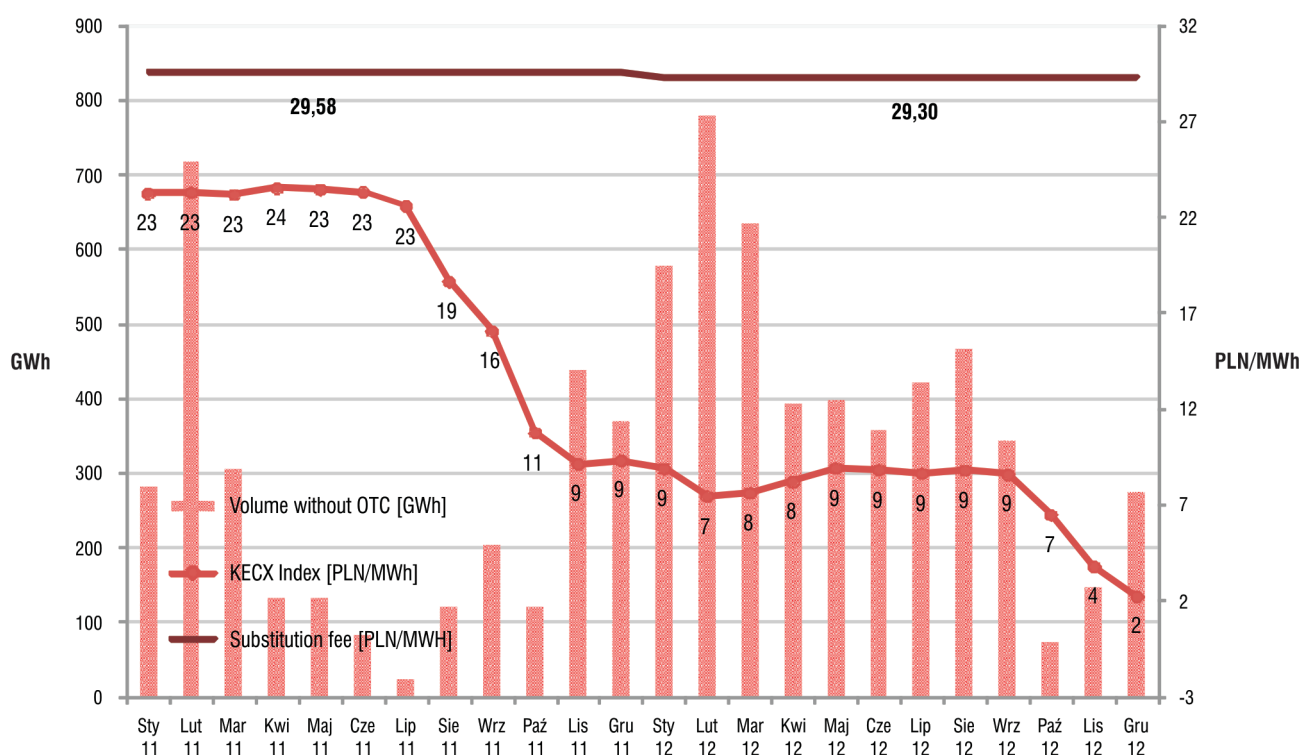


Figure no. 15 Indices of proprietary rights of the so-called green certificates – quotations in 2011 and 2012

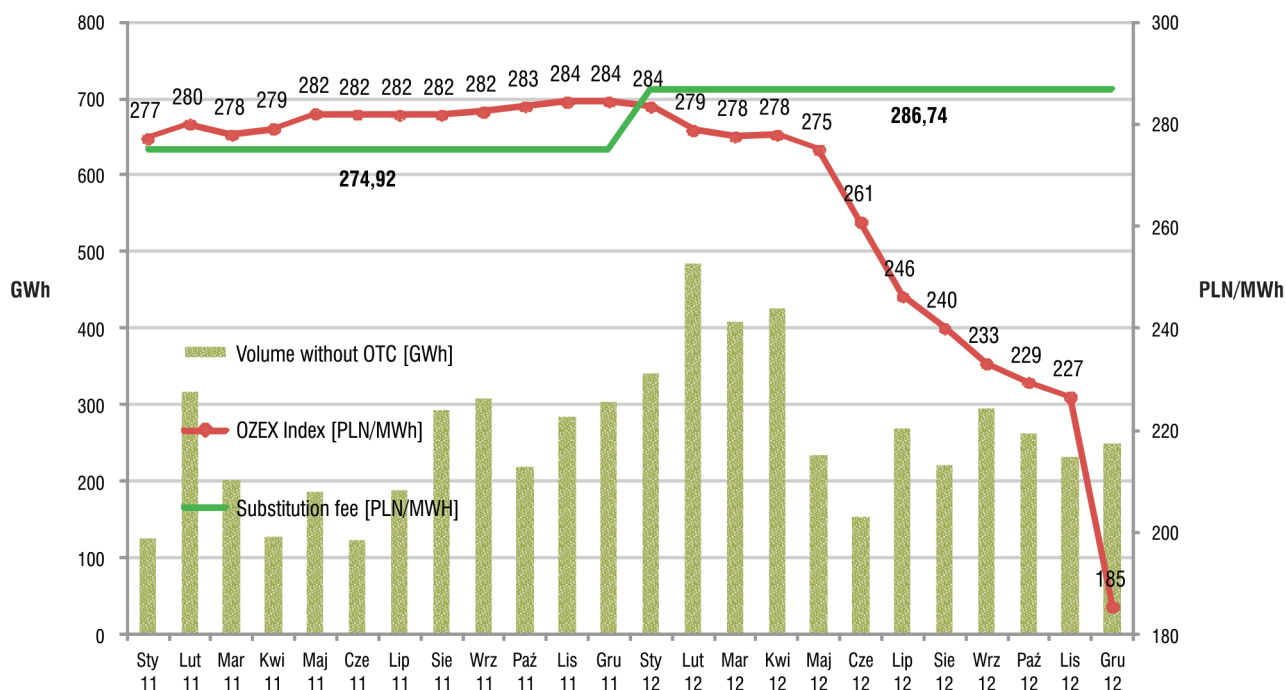


Figure no. 16 Indices of proprietary rights of the so-called yellow certificates – quotations in 2011 and 2012

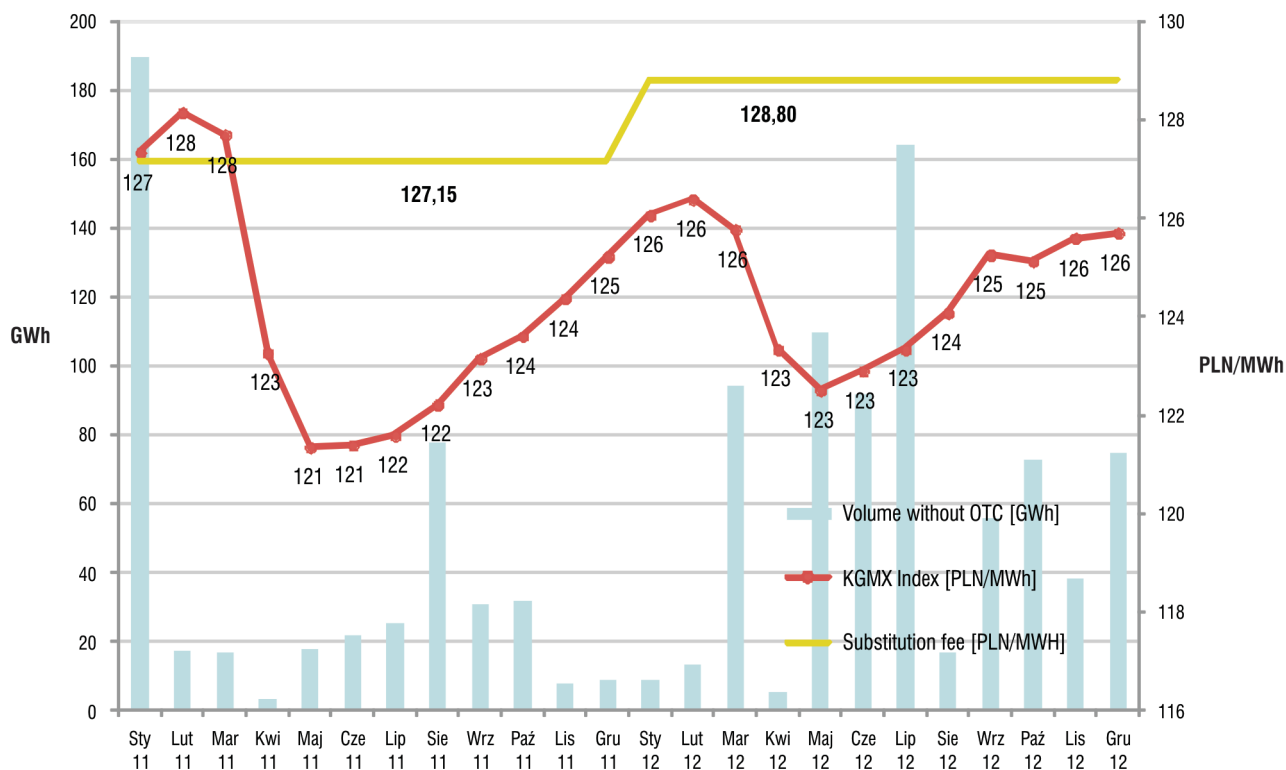
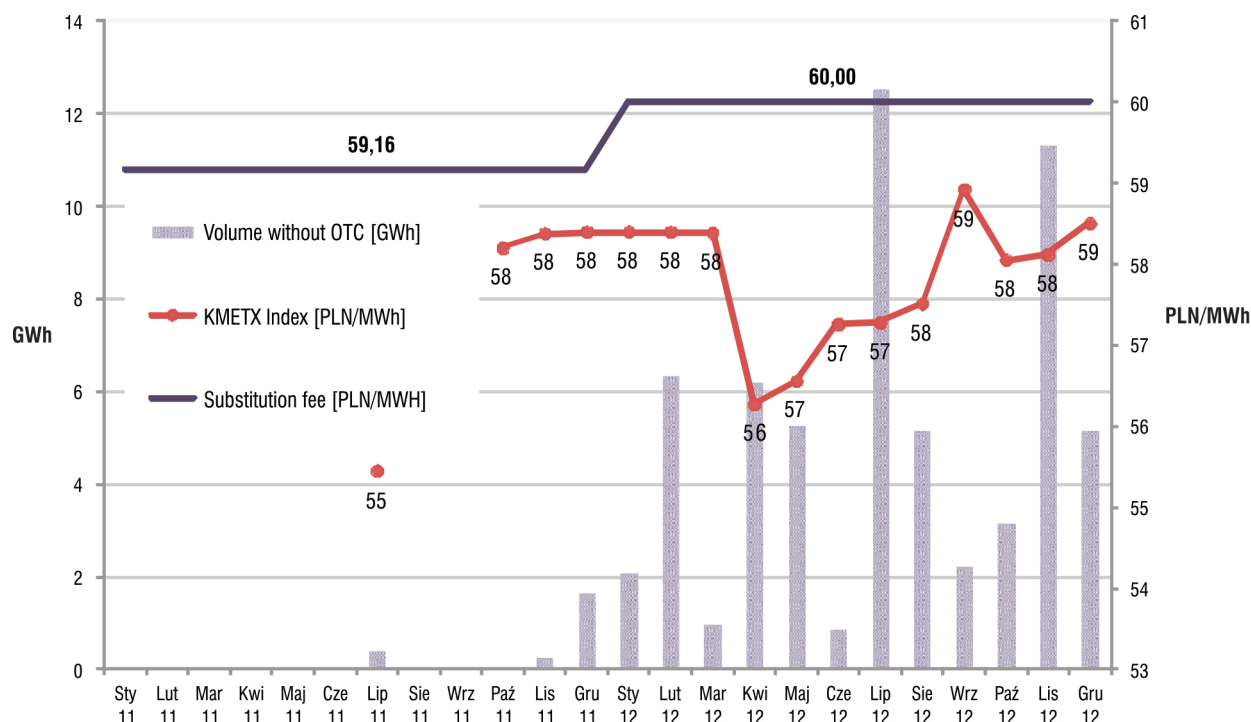


Figure no. 17 Indices of proprietary rights of the so-called violet certificates – quotations in 2011 and 2012



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 accordance with provisions of art. 49a of the Act of 10 April 1997 – Energy Law, in 2013 companies of TAURON Capital Group will be bound by the obligation to sell not less than 15% of electric energy generated in a particular year, on commodity exchange, within the meaning of the Act of 26 October 2000 on *commodity exchanges* or on the market organised by the entity maintaining the regulated market on the territory of the Republic of Poland. It means that 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.

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 the Company to launch gas trading on the gas exchange managed by Towarowa Gielda Energii S.A. (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.

3.9. 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 in TAURON Capital Group, the Company 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, which allows for determining the 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. 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, the Company 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.

Independently, within the current financial activity, the Company effectively managed the cycle of money flow through adjustment of payment terms of liabilities and receivables.

In 2012, the Company demonstrated full capacity to settle its liabilities on their payment date.

3.10. Information concerning the entity authorised to examine financial statements

The entity authorised, auditing the Consolidated financial statement of TAURON Polska Energia S.A. 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 it 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 is shown in the table below.

Table no. 25 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	70	70
Other certifying services	35	30
Other services (including training)	72	103
Total	177	203

4. SHARES AND SHAREHOLDERS

4.1. Structure of the share capital

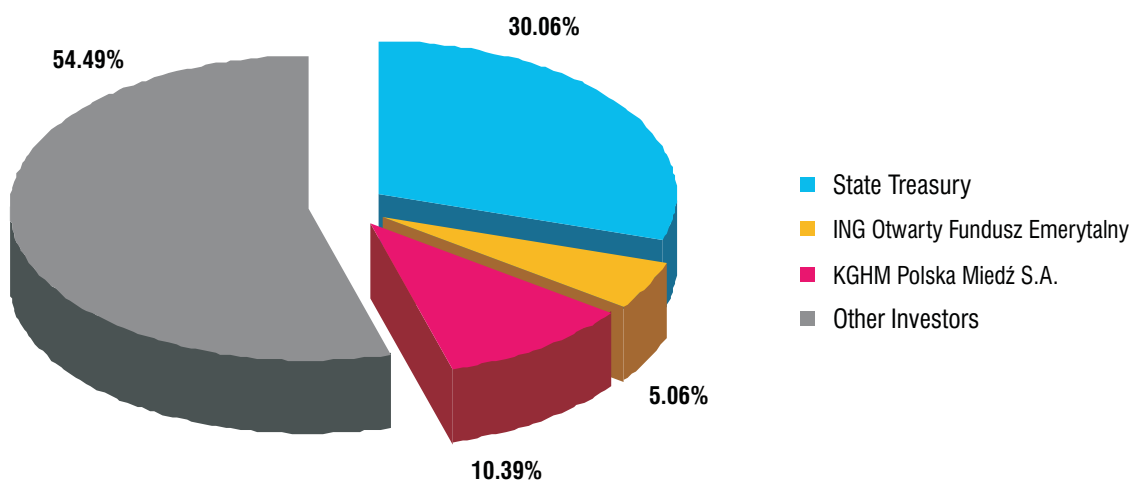
As of 31 December 2012 and on the day of this report:

- 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 1,752,549,394.00 at par value of PLN 5 each, including 1,589,438,762 ordinary registered shares of AA series and 163,110.632 ordinary bearer shares of BB series.
- The structure of the share capital of the Company was as presented in the table below.

Table no. 26 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. 18 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. 27 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. 28 Proprietary status of the Company shares and share/stocks in entities affiliated with the Company – 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 actors, mostly independent of the national energy groups. The decisions and opinions of investors and analysts of energy markets were affected by strong decline in market prices of energy, the projected legislative changes contained in the proposal of the act on renewable energy sources, lower level of complimentary allocation of CO₂ emission allowances planned in 2013, and the perspective of expiry of compensations due to termination of LTC, where the Company was a significant beneficiary.

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

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

Table no. 29 Key data concerning TAURON shares

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

Source: Statistical Bulletin of GPW

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

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

Figure no. 19 Graph of quotes of Company shares and value of turnover in 2012

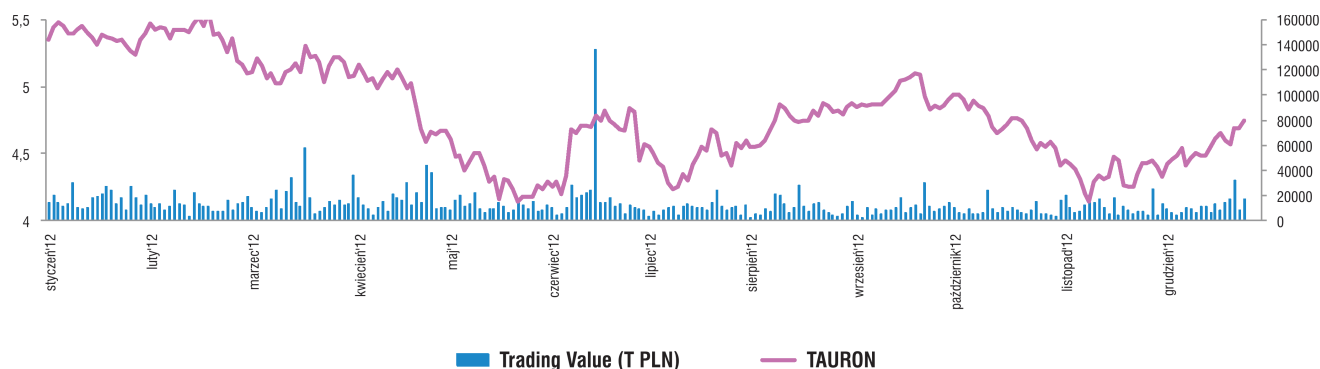


Figure no. 20 Graph of quotations of Company shares and value since the exchange debut (30 June 2010) to 31 December 2012

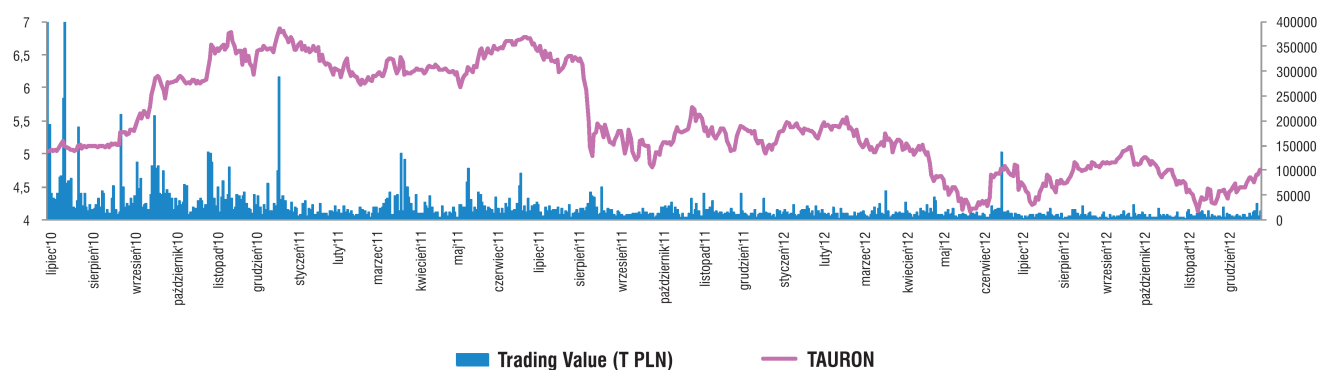
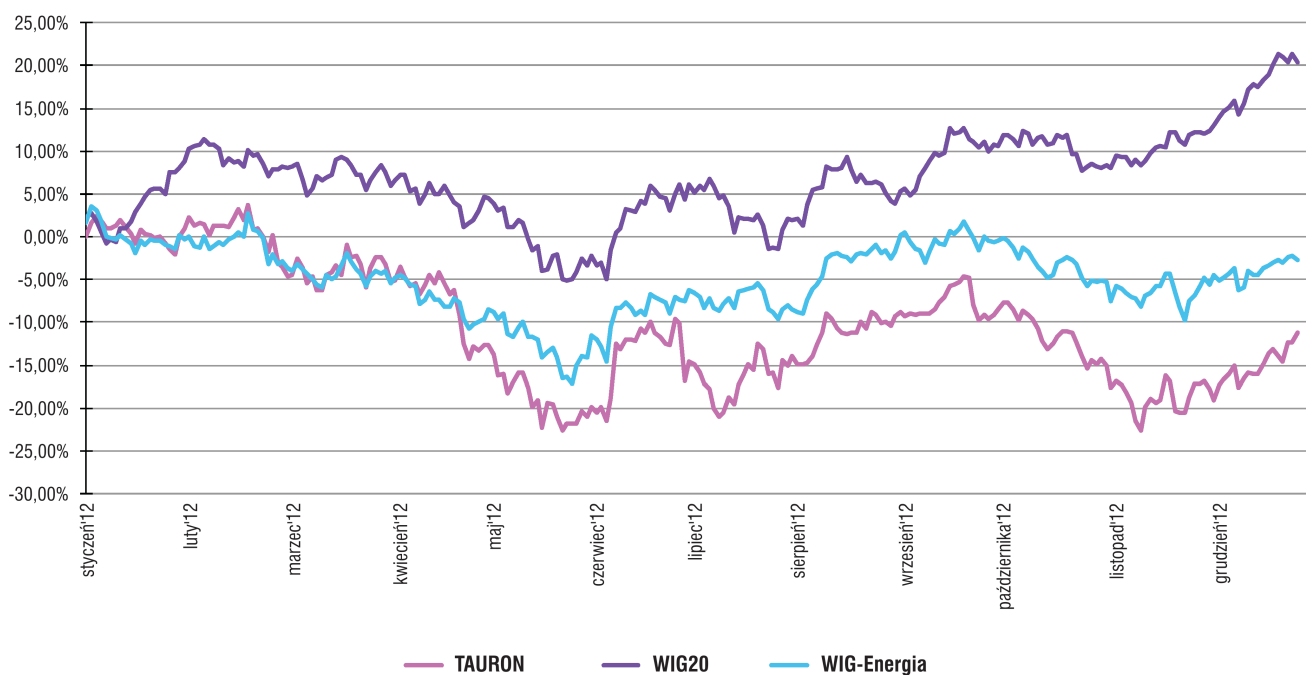


Figure no. 21 Change of quotations of Company shares compared to WIG20 and WIG-Energia indices in 2012



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. 30 Important events in 2012

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

5. STATEMENT OF APPLICATION OF CORPORATE GOVERNANCE

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

5.1. Indicating the applied set of rules of corporate governance

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

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

The text of the aforementioned set of Good Practices the Company is subject to, and the application of which could have been decided by the Company on voluntary basis is published at the GPW website at (<http://www.corp-gov.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 specified in 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. 31 Shareholders holding large blocks of shares directly or indirectly

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

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

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

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

5.5. Owners of securities providing special control rights

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

5.6. Limitations on performing of the voting right

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

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

1. The voting right of shareholders holding over 10% of total votes in the Company shall be limited in the way that none of them can perform at the General Meeting more than 10% of the total votes in the Company.
2. Voting right limitation included in point 1 above does not apply to the State Treasury and entities subsidiary to the State Treasury in the period of time in which the State Treasury together with subsidiary entities subsidiary of the State Treasury has a number of the Company's shares entitling to performing at least 25% of total votes in the Company.
3. Shareholders' votes, between which there is a controlling or dependence relationship within the meaning of § 10 of the Articles of Association (Association of Shareholders) are cumulated; in case when the cumulated number of votes exceeds 10% of total votes in the Company, it is subject to reduction. Rules of votes accumulation and reduction have been defined in 6 and 7 below.
4. A shareholder, within the meaning of § 10 of the Articles of Association is every person, including its parent company and subsidiary company, which is entitled directly or indirectly to a voting right at the General Assembly on the basis of any legal title; it also applies to a person who does not hold the Company's shares, and in particular to a user, pledgee, person entitled on the basis of a depositary receipt under regulations of the Act of 29 July 2005 on *financial instruments trading*, as well as a person entitled to take part in the General Meeting despite disposal of shares after the date of establishing the right to take part in the General Meeting.
5. A parent company and subsidiary company, for the purposes of § 10 of the Articles of Association, is understood as a person:
 - 1) holding a status of a dominating entrepreneur, dependent entrepreneur or has both the status of a dominating and dependent entrepreneur within the meaning of 16 February 2007 on *competition and consumers' protection* or,
 - 2) holding the status of a parent company, higher level parent company, subsidiary company, lower level subsidiary company or which has both the status of a parent company (including a parent company of higher status and subsidiary (including a subsidiary company of lower level status or co-subsidiary) within the meaning of Accounting Act of 29 September 1994, or

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

5.7. Limitations on transfer of securities proprietary rights

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

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

5.8.1 Management Board

Rules on appointing and dismissing members of the Management Board

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

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

Competence of the Management Board

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

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

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

5.8.2. Supervisory Board

Rules on appointing and dismissing members of the Supervisory Board

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

- 1) in the period, in which the State Treasury, together with entities dependent on the State Treasury 4 within the meaning of § 10 item 5 of the Articles of Association, has a number of shares of the Company entitling to perform at least 25% of the total votes in the Company, the State Treasury is represented by the minister competent for the issues of the State Treasury, is entitled to appoint and dismiss the members of the Supervisory Board in the amount equal to half of the maximum number of the composition of the Supervisory Board defined in the Articles of Association (in case when the number is not integral it is rounded down to an integral number, for example 4.5 is rounded down to 4 increased by 1, provided that the State Treasury:
 - a) is obliged to vote at the General Meeting on establishing the number of members in the Supervisory Board representing the maximum number of members of the Supervisory Board defined in the Articles of Association or in case of submitting such a motion to the Management Board by a shareholder or shareholders who have a number of votes entitling to perform at least 5% of the total votes in the Company,
 - b) is excluded from the voting right at the General Meeting on appointing and dismissing of other members of the Supervisory Board, including independent members of the Supervisory Board; it does not, however, apply to the case when the Supervisory

Board cannot act due to a composition minor than required by the Articles of Association, and the shareholders present at the General Meeting other than the State Treasury do not supplement the composition of the Supervisory Board in accordance with the distribution of places in the Supervisory Board defined in present point;

- 2) in the period of time in which the State Treasury, together with entities dependent on the State Treasury within the meaning of § 10 item 5 of the Articles of Association, has a number of the Company's shares entitling to perform under 25% of total voting rights in the Company, the State Treasury, represented by a minister competent for the issues of the State Treasury shall be entitled to appoint and dismiss one member of the Supervisory Board.
- 3) appointing and dismissing of members of the Supervisory Board by the State Treasury pursuant to the aforementioned item 1) or item 2) takes place by means of a statement submitted to the Company.

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

Independent members of the Supervisory Board provide the Company, before being appointed to the composition of the Supervisory Board, with a written statement of having fulfilled the prerequisites of independence. In case of a situation causing failure to fulfil the 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 Meeting is 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 & 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 & 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 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 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 Ściażko – Member of the Supervisory Board

Graduate of Faculty of Technology and Chemical Engineering, Technical University in Gliwice – speciality: chemical engineering. Moreover, Mr Marek Ściażko 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 is 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 Audit Committee consisted of three Members. Since 30 May 2011, the Nominations and Remuneration Committee operated with four members and since 12 December 2012 it returned to three members composition.

Personal composition of the Nominations and Remuneration Committee as of 01 January 2012

1. Antoni Tajduś – Chairman of the Nominations and Remuneration Committee,
2. Włodzimierz Luty – Member of The Nominations and Remuneration Committee,
3. Jacek Kuciński – Member of The Nominations and Remuneration Committee,
4. Agnieszka Trzaskalska – Member of The Nominations and Remuneration Committee.

Changes in the personal composition of The Nominations and Remuneration Committee

Due to dismissal of Włodzimierz Luty from the Supervisory Board by the State Treasury acting pursuant to its personal powers arising from the Company Articles of Association, as of 12 December 2012 Mr Luty ceased acting as a member of the Nominations and Remuneration Committee.

Personal composition of the Nominations and Remuneration Committee as of 31 December 2012 and on the day of this report

1. Antoni Tajduś – Chairman of the Nominations and Remuneration Committee,
2. Jacek Kuciński – Member of The Nominations and Remuneration Committee,
3. Agnieszka Trzaskalska – Member of The Nominations and Remuneration Committee.

Mode of operation

A detailed description of the Nominations and Remuneration Committee operation is included in *Regulations of the Nominations and Remuneration Committee of the Supervisory Board of TAURON Polska Energia S.A.*

The Nominations and Remuneration Committee is an advisory and opinion-making body acting jointly as a part of the Supervisory Board structure and it performs a support and advisory function towards the Supervisory Board. The tasks of the Nominations and Remuneration Committee are carried out by submitting motions, recommendations, opinions and statements on the scope of its tasks to the Supervisory Board, by means of resolutions passed by the Nominations and Remuneration Committee. The Nominations and Remuneration Committee acts independently from the Management Board of the Company. The Management Board may not give binding orders to the Nominations and Remunerations Committee on performing its duties.

The composition of the Nominations and Remunerations Committee consists of three to five members, including at least one independent member of the Supervisory Board. Activities of the Nominations and Remunerations Committee are managed by the Chairperson.

Meetings of the Nominations and Remunerations Committee are convened by the Chairperson of the Nominations and Remunerations Committee on his/her own initiative or upon the motion of a member of the Nominations and Remunerations Committee or upon the motion of the Chairperson the Supervisory Board. Meetings of the Nominations and Remunerations Committee take place as the need arises.

The Chairperson of the Nominations and Remunerations Committee may invite members of the Supervisory Board, who are not members of the Nominations and Remunerations Committee, members of the Management Board and employees of the Company as well as other persons working or cooperating with the Company, including the chartered auditor to the meetings of the Nominations and Remunerations Committee. The Chairperson of the Nominations and Remunerations Committee or a person appointed by him/her submits motions, recommendations and reports to the Supervisory Board.

The Nominations and Remunerations Committee passes resolutions, if at least half of its members have been present at the meeting and all its members have been duly invited. The resolutions of the Nominations and Remunerations Committee are adopted by an absolute majority of votes present at the meeting, where the absolute majority of votes is understood as more votes given "for" than "against" and "abstain". The Nominations and Remunerations Committee may pass resolutions in a written mode or by using means of direct remote communication.

The Nominations and Remunerations Committee may pass resolutions in writing or by using means of direct remote communication, i.e. tele- or videoconferences.

The Company Management Board shall be informed about recommendations and assessments submitted to the Supervisory Board by the Nominations and Remunerations Committee. Every year, the Nominations and Remunerations Committee provides public record information, through the Company, on the composition of the Nominations and Remunerations Committee, number of meetings held and participation in the meetings during the year as well as on main activities. The Nominations and Remunerations Committee submits to the Supervisory Board a report on its activities in a given financial year.

The tasks of the Nominations and Remunerations Committee include:

- 1) recommendations to the Supervisory Board on a recruitment procedure for the positions of members of the Company Management Board,
- 2) assessing candidates for members of the Management Board as well submitting an opinion in this scope to the Supervisory Board,
- 3) recommendations to the Supervisory Board on the form and contents of agreements concluded with members of the Management Board,
- 4) recommendations to the Supervisory Board on remuneration and bonus system of the members of the Management Board,
- 5) recommendations to the Supervisory Board on the need to suspend a member of the Management Board due to material reasons
- 6) recommendations to the Supervisory Board on the need to delegate a member of the Supervisory Board to temporarily perform the duties of members of the Management Board who cannot perform their duties together with a proposal of remuneration.

The Company Management Board provides the possibility to use the services of external advisers by the Nominations and Remuneration Committee in the scope required for performing the obligations of the Committee.

Detailed description of the activities of the Nominations and Remuneration Committee in the previous financial year is contained in the Report on activities of the Nominations and Remunerations Committee, constituting the attachment to the Report of the Supervisory Board, submitted on annual basis to the General Meeting and published at the Company website <http://www.tauron-pe.pl/>.

5.11.5. Strategy Committee

The Strategy Committee was appointed on 8 May 2012 by the Supervisory Board among its members. At the time, the Strategy Committee consisted of four Members. Since 29 October 2012, the Strategy Committee has five members.

Personal composition of the Strategy Committee as of 08 May 2012

1. Jacek Szyke – Member of the Strategy Committee,
2. Marek Ściążko – Member of the Strategy Committee,
3. Agnieszka Trzaskalska – Member of the Strategy Committee,
4. Rafał Wardziński – Member of the Strategy Committee.

At the first meeting of the Strategy Committee on 11 June 2012, Mr Jacek Szyke was appointed as the Chairman of the Strategy Committee.

Changes in the Strategy Committee personal composition

On 29 October 2012 the Supervisory Board appointed Jacek Kuciński as a member of the Strategy Committee.

Personal composition of the Strategy Committee as of 31 December 2012 and on the day of this report

1. Jacek Szyke – Chairman of the Strategy Committee,
2. Jacek Kuciński – Member of the Strategy Committee,
3. Marek Ściążko – 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. 32 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. 33 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.

6.2. Important achievements in research and development

In the period covered by this report activities were carried out in connection with involvement of the Company 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 Company holds the status of Associated Partner of KIC InnoEnergy. The main area of interest of the Company 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, for which the Company is one of the shareholders. Representatives of the Company were involved in activities of the working group "Horizon 2020", operating under KIC InnoEnergy. Involvement in the activities of KIC InnoEnergy has also resulted in engaging TAURON Wytwarzanie, under the Project contract, in implementation of the project "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. The Company, as the member of two consortia which 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 connection with 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.

In the Company, 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 on 4 November 2011 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. Participation of the Company is associated with implementation of 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*.

6.3. Issues concerning natural environment

The Company does not conduct any business activities which would result in infringement of the environmental protection requirements, causing the obligation to pay the fees for economic use of the environment. As a user of company vehicles, the Company is subject to the provisions of the Act of 27 April 2001 *Environmental Protection Law* in the scope of calculating the fee for using the environment due to emission of gases or particulate matter to ambient air. However, due to the level of the fee calculated, the Company was not bound to pay it in 2012.

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 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 Podkarpackie 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.

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.

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. 34 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: <ul style="list-style-type: none"> – 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 Ciepła 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 Błachownia Nowa	Elektrownia Błachownia 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

Annex B: List of tables and figures

Below the list of tables and figures occurring in this report is provided.

List of tables

Table no. 1	List of companies of TAURON Capital Group included in "TAURON Group" as of 31 December 2012
Table no. 2	List of companies of TAURON Capital Group included in "TAURON Group" for the specific Business Area as of 31 December 2012
Table no. 3	List of significant subsidiaries in which the Company holds direct share as of 31 December 2012
Table no. 4	List of significant subsidiaries in which the Company holds indirect share as of 31 December 2012
Table no. 5	List of significant co-subsidiaries in which the Company holds indirect share as of 31 December 2012
Table no. 6	Value of issues taken over, divided into individual companies of TAURON Capital Group (issuers)
Table no. 7	Timeline of key events
Table no. 8	Statement of comprehensive income for the financial year 2012, divided into types of activities (data in thousand PLN)
Table no. 9	Volume of electric energy purchase (data in TWh)
Table no. 10	Volume of electric energy sales (data in TWh)
Table no. 11	Fuel supplies implemented by TAURON in 2012 to entities of TAURON Capital Group
Table no. 12	Specification of working capital credit agreements concluded by the Company, commencing in 2012
Table no. 13	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
Table no. 14	Balance of loans granted to the Company by the subsidiaries under the cash pooling as of 31 December 2012
Table no. 15	Total amounts of loans granted by the Company in 2012 within the cash pooling structure in favour of individual companies of TAURON Capital Group
Table no. 16	The table below specifies the agreements on sureties, guarantees and commitments effective as of 31 December 2012
Table no. 17	Specification of bank guarantees granted under the Framework Agreement
Table no. 18	The annual unit (stand-alone) statement of comprehensive income in the years 2010–2012 (data in thousand PLN)
Table no. 19	Revenue on sales of the Company (data in thousand PLN)
Table no. 20	Level and structure of costs (data in thousand PLN)
Table no. 21	Annual unit (stand-alone) statement of financial situation (data in thousand PLN)
Table no. 22	Statement of Cash Flow (data in thousand PLN)
Table no. 23	Basic financial ratios of the Company
Table no. 24	Information on forward transactions and derivatives as of 31 December 2012
Table no. 25	Level of remuneration of the independent auditor (chartered accountant) due to the services provided for companies of TAURON Capital Group (data in thousand PLN)
Table no. 26	Structure of the share capital of the Company as of 31 December 2012 and on the day of this report
Table no. 27	Proprietary status of the Company shares and share/stocks in entities affiliated with the Company – managing persons
Table no. 28	Proprietary status of the Company shares and share/stocks in entities affiliated with the Company – supervising persons
Table no. 29	Key data concerning TAURON shares
Table no. 30	Important events in 2012
Table no. 31	Shareholders holding large blocks of shares
Table no. 32	Remuneration of members of the Management Board for 2012, divided into components (data in thousand PLN)
Table no. 33	Remuneration of members of the Supervisory Board for 2012 (data in thousand PLN)
Table no. 34	Explanation of abbreviations and trade terms applied in the text of the report

List of Figures

- Figure no. 1 Structure of TAURON Capital Group, including the companies subject to consolidation, according to the status as of 31 December 2012
- Figure no. 2 Organisational chart of TAURON Polska Energia S.A., as of 31 December 2012
- Figure no. 3 Structure of Sales of the Company in 2012 to strategic clients, according to sectors
- Figure no. 4 Employment in FTEs (rounded up to the full FTE)
- Figure no. 5 Structure of employment according to education
- Figure no. 6 Structure of employment according to age
- Figure no. 7 Structure of employment according to gender
- Figure no. 8 Value chain in TAURON Capital Group
- Figure no. 9 Processes within corporate risk management in TAURON Capital Group
- Figure no. 10 Average monthly energy prices on the SPOT, TGE and RB markets
- Figure no. 11 Turnover of BASE Y-13 contracts
- Figure no. 12 Quotations of annual contracts EEX Germany
- Figure no. 13 FORWARD EUA and CER (EEX)
- Figure no. 14 Indices of proprietary rights of the so-called red certificates – quotes in 2011 and 2012
- Figure no. 15 Indices of proprietary rights of the so-called green certificates – quotes in 2011 and 2012
- Figure no. 16 Indices of proprietary rights of the so-called yellow certificates – quotes in 2011 and 2012
- Figure no. 17 Indices of proprietary rights of the so-called violet certificates – quotes in 2011 and 2012
- Figure no. 18 Structure of the share capital of the Company as of 31 December and on the day of this report
- Figure no. 19 Graph of quotations of Company shares and value of turnover in 2012
- Figure no. 20 Graph of quotations of Company shares and value of turnover in since the debut until 31 December 2012
- Figure no. 21 Change of quotations of Company shares compared to WIG20 and WIG-Energia indices in 2012