



***Additional information to
the extended consolidated
report of TAURON Group
for the First Quarter of 2012***

10 May 2012

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1. Organisation of TAURON Capital Group

1.1. Basic Information on the Group

As of 31 March 2012, TAURON Capital Group Polska Energia S.A. consisted of the parent company, TAURON Polska Energia S.A. (hereinafter referred to as the Company, the Issuer or TAURON), 47 subsidiaries (direct and indirect), 13 affiliates with the share between 50%-20% and 30 other companies.

The main companies subject to consolidation included: Południowy Koncern Węglowy S.A. dealing with hard coal mining, TAURON Wytwarzanie S.A. dealing with generation of power from conventional sources and biomass co-burning, TAURON Ekoenergia sp. z o.o. dealing with generation of power from renewable sources, TAURON Dystrybucja S.A. providing electric energy distribution services, TAURON Sprzedaż sp. z o.o. dealing with supply of electric energy to retail customers, TAURON Obsługa Klienta sp. z o.o., dealing with customer service and TAURON Ciepło S.A. providing heat distribution services.

The consolidation also covered the following subsidiaries of the company Górnośląski Zakład Elektroenergetyczny S.A. (GZE) which have become the indirect subsidiaries of TAURON Polska Energia S.A. as of the day the agreement on sales of GZE S.A. shares was concluded between TAURON Polska Energia S.A. and Vattenfall AB (13 December 2011):

- a) TAURON Dystrybucja GZE S.A. (formerly: Vattenfall Distribution Poland S.A.), providing electric energy distribution services,
- b) TAURON Serwis GZE sp. z o.o. (formerly: Vattenfall Network Services Poland sp. z o.o.), dealing with maintenance of facilities included in the distribution grid of TAURON Dystrybucja GZE S.A. (formerly: Vattenfall Distribution Poland S.A.),
- c) TAURON Sprzedaż GZE sp. z o.o. (formerly: (Vattenfall Sales Poland sp. z o.o.) - dealing with sales of electric energy,
- d) TAURON Ekoenergia GZE sp. z o.o. (formerly: (Vattenfall Wolin – North sp. z o.o.) - dealing with generation of electric energy from renewable sources (the company holds a wind farm),
- e) TAURON Obsługa Klienta GZE sp. z o.o. (formerly: (Vattenfall Business Services Poland sp. z o.o.) - dealing, among others, with customer service.

Moreover, TAURON Group consisted of 9 other subsidiaries, subject to consolidation, involved, among others, in generation of electric energy and heat, trade of electricity and heat, crushing and grinding of limestone as well as extraction of limestone and stone for construction purposes.

On 12 October 2010, in order to ensure performance of TAURON Group, perceived as a single economic entity consisting of autonomous commercial law companies, the Management Board of TAURON Polska Energia S.A. established the TAURON Group, comprising the hereunder companies and TAURON Polska Energia S.A., as the parent company, and adopted the TAURON Group Code as the underlying normative act of TAURON Group operations. As of the date of adoption of the Resolutions on their accession to TAURON Group by the General Meeting/ General Meeting of Shareholders, the companies listed below gained the status of TAURON Group members.

As of 31 March 2012, the following subsidiaries are included in TAURON Group:

Table no. 1 List of subsidiaries included in TAURON Group (as of 31 March 2012)

No.	Company enterprise	Date of accession to TAURON Group
1.	TAURON Sprzedaż sp. z o.o.	26/10/2010
2.	TAURON Obsługa Klienta sp. z o.o.	26/10/2010
3.	TAURON Ekoenergia sp. z o.o.	26/10/2010
4.	TAURON Wytwarzanie S.A.	28/10/2010
5.	Elektrociepłownia EC Nowa sp. z o.o.	04/11/2010
6.	TAURON Czech Energy s.r.o.	10/11/2010
7.	Elektrociepłownia Tychy S.A.	22/11/2010
8.	Polska Energia – PKH sp. z o.o.	29/11/2010
9.	TAURON Dystrybucja S.A.	06/12/2010
10.	TAURON Ciepło S.A.	09/12/2010
11.	Kopalnia Wapienia Czatkowice sp. z o.o.	05/01/2011
12.	Południowy Koncern Węglowy S.A.	31/01/2011
13.	TAURON Dystrybucja GZE S.A. (formerly: Vattenfall Distribution Poland S.A.)	24/01/2012
14.	TAURON Sprzedaż GZE sp. z o.o. (formerly: Vattenfall Sales Poland sp. z o.o.)	24/01/2012
15.	TAURON Obsługa Klienta GZE sp. z o.o. (formerly: Vattenfall Business Services Poland sp. z o.o.)	24/01/2012
16.	TAURON Ekoenergia GZE sp. z o.o. (formerly: Vattenfall Wolin-North sp. z o.o.)	24/01/2012
17.	TAURON Serwis GZE sp. z o.o. (formerly: Vattenfall Network Services Poland sp. z o.o.)	24/01/2012
18.	TAURON Wytwarzanie GZE sp. z o.o. (formerly: Vattenfall Generation Poland sp. z o.o.)	24/01/2012

During the reporting period, the following GZE S.A. subsidiaries joined TAURON Group (pursuant to resolutions of the general meetings/ general meetings of shareholders of individual companies), which, as of the day of agreement on disposal of GZE shares concluded between TAURON Polska Energia S.A. and Vattenfall AB, became the indirect subsidiaries of TAURON Polska Energia S.A.:

- a) TAURON Dystrybucja GZE S.A.,
- b) TAURON Sprzedaż GZE sp. z o.o.,
- c) TAURON Obsługa Klienta GZE sp. z o.o.,
- d) TAURON Ekoenergia GZE sp. z o.o.,
- e) TAURON Serwis GZE sp. z o.o.,
- f) TAURON Wytwarzanie GZE sp. z o.o.

The Code of TAURON Group regulates the functionality of the Group, providing for implementation of the goals through specially tailored solutions in the area of management of TAURON Group entities, including, in particular, defining the operating objectives of the companies, allowing for achievement of the adopted outcomes.

On 12 October 2010, in order to provide for effective management of TAURON Group, the Management Board of TAURON Polska Energia S.A. adopted resolutions on creating of Business Areas, on membership of individual companies included in the TAURON Group in the respective Business Areas as well as on establishment of Management Areas within which relevant principles of cooperation are introduced.

Another essential element enabling operating decision-making within TAURON Group, due to the adoption of the TAURON Group Code, was the establishment of new advisory and quasi-supervisory bodies of the Group - the four Committees of TAURON Group:

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

The aim of establishment of the Committees was the achievement of 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 the TAURON subsidiaries.

The underlying task of the committees is to monitor the implementation of the adopted coherent actions by all the participants of the Group, compliant with the TAURON Group Code and for the benefit of TAURON Group business. The specific functions of the Committees have been specifically defined in the by-laws of their operations adopted by the TAURON Polska Energia S.A. Management Board.

1.2. Entities subject to consolidation

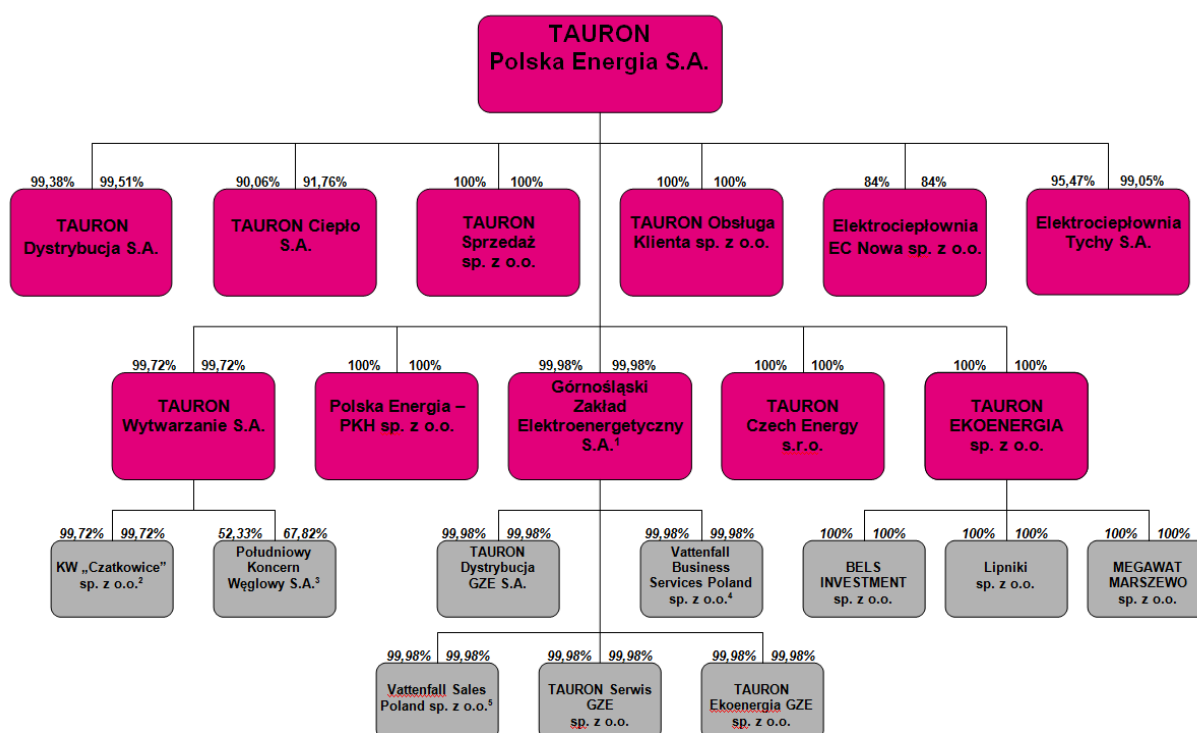
As of 31 March 2012, within TAURON Capital Group, financial statements of twenty one subsidiaries are covered by consolidation with the financial statement of the Company, by applying full consolidation method. The list of companies covered by full consolidation method is presented below:

- 1) TAURON Wytwarzanie S.A. (hereinafter referred to as: TAURON Wytwarzanie),
- 2) TAURON Dystrybucja S.A. (hereinafter referred to as: TAURON Dystrybucja),
- 3) TAURON Sprzedaż sp. z o.o. (hereinafter referred to as: TAURON Sprzedaż),
- 4) TAURON Obsługa Klienta sp. z o.o. (hereinafter referred to as: TAURON Obsługa Klienta),
- 5) TAURON Ekoenergia sp. z o.o. (hereinafter referred to as: TAURON Ekoenergia),
- 6) Elektrociepłownia Tychy S.A. (hereinafter referred to as: Elektrociepłownia Tychy),
- 7) Polska Energia - Pierwsza Kompania Handlowa sp. z o.o. (hereinafter referred to as: PE – PKH),
- 8) TAURON Ciepło S.A. (hereinafter referred to as: TAURON Ciepło),
- 9) Elektrociepłownia EC Nowa sp. z o.o. (hereinafter referred to as: Elektrociepłownia EC Nowa),
- 10) TAURON Czech Energy s.r.o. (hereinafter referred to as: TAURON Czech Energy),
- 11) Górnośląski Zakład Elektroenergetyczny S.A. (hereinafter referred to as: GZE),
- 12) Kopalnia Wapienia "Czatkowice" sp. z o.o. (hereinafter referred to as: KW Czatkowice),
- 13) Południowy Koncern Węglowy S.A. (hereinafter referred to as: PKW),
- 14) BELS INVESTMENT sp. z o.o. (hereinafter referred to as: BELS INVESTMENT),
- 15) MEGAWAT MARSZEWO sp. z o.o. (hereinafter referred to as: MEGAWAT MARSZEWO),
- 16) Lipniki sp. z o.o. (hereinafter referred to as: Lipniki),
- 17) TAURON Dystrybucja GZE S.A. (hereinafter referred to as: TAURON Dystrybucja GZE S.A.),
- 18) Vattenfall Sales Poland sp. z o.o. (*) (hereinafter referred to as: TAURON Sprzedaż GZE),
- 19) TAURON Serwis GZE sp. z o.o. (hereinafter referred to as: TAURON Serwis GZE),
- 20) TAURON Ekoenergia GZE sp. z o.o. (hereinafter referred to as: TAURON Ekoenergia GZE),
- 21) Vattenfall Business Services Poland sp. z o.o.(*) (hereinafter referred to as: TAURON Obsługa Klienta GZE).

(*) on 2 April 2012 the District Court registered the change of names of Vattenfall Sales Poland sp. z o.o. to TAURON Sprzedaż GZE sp. z o.o. and Vattenfall Business Services Poland sp. z o.o. to TAURON Obsługa Klienta GZE sp. z o.o.

1.3. Structure of the Capital Group

The diagram below presents all the companies whose results are consolidated within TAURON Capital Group as of 31 March 2012.



Notes:

Companies with direct share of TAURON Polska Energia S.A.

Companies with indirect share of TAURON Polska Energia S.A.

Direct share of TAURON Polska Energia S.A. in the share capital/ votes at General Meeting (WZ)/ Meeting of the Shareholders (ZW).

Indirect share of TAURON Polska Energia S.A. in the share capital/ votes at General Meeting (WZ)/ Meeting of the Shareholders (ZW).

¹ as of 16 April 2012 TAURON Polska Energia S.A. holds 100% of shares of Górnośląski Zakład Elektroenergetyczny S.A.

² TAURON Polska Energia S.A. utilises shares owned by TAURON Wytwarzanie S.A., constituting 100% of shares in Kopalnia Wapienia "Czatkowice" sp. z o.o. share capital, accounting for 100% of votes at the General Meeting

³ TAURON Polska Energia S.A. utilises shares owned by TAURON Wytwarzanie S.A., constituting 52.48% of shares in PKW S.A. company share capital, accounting for 68.01% of votes at the General Meeting.

⁴ as of 2 April 2012, the company changed the enterprise name to TAURON Sprzedaż GZE sp. z o.o.

⁵ as of 2 April 2012, the company changed the enterprise name to TAURON Obsługa Klienta GZE sp. z o.o.

In the 1st quarter of 2012 the following changes in the structure of TAURON Group subsidiaries took place:

1. Opening of liquidation proceedings of the indirect subsidiary of TAURON Polska Energia S.A. On 9 January 2012, Ośrodek Szkoleniowo – Wypoczynkowy Rożnów sp. z o.o.

with its seat in Rożnów (OSW Rożnów, indirect subsidiary of the Issuer through Zespół Elektrowni Wodnych Rożnów sp. z o.o.) received the extract of the order of the District Court for Kraków-Śródmieście in Kraków, the 12th Commercial Department of the National Court Register (Court) dated 30 December 2011, based on which the Court registered the opening of the liquidation proceedings of OSW Rożnów. Mr Stanisław Mazurkiewicz, the President of the Board of OSW Rożnów was appointed as the liquidator. The decision on liquidation of OSW Rożnów was adopted due to economic reasons and it is compliant with the Corporate Strategy of TAURON Group, which, in particular, has foreseen liquidation of the non-core activity, i.e. the activity which is not covered by the basic operations of TAURON Group. OSW Rożnów used to generate revenue on sales at the level of several thousand Polish Zloty, accordingly, the results of the entity were not consolidated within the consolidated financial statements of TAURON Polska Energia S.A. Capital Group. (approximately 0.004 % of the value of consolidated income for 2010). The entry on opening of the liquidation was executed on 2 January 2012, based on the motion of 20 December 2011, in the register of entrepreneurs (current report no. 2/2012 of 10 January 2012).

2. On 24 January 2012 the general meetings/meetings of shareholders of GZE S.A. subsidiaries, being the indirect subsidiaries of TAURON, adopted resolutions concerning the amendments to the Articles of Association/the Statutes of the companies, among others, referring to the change of company enterprise (excluding the company Vattenfall Sales Poland sp. z o.o., in case of which, the relevant resolution of the shareholders' meeting was adopted on 21 February 2012). The said changes became effective as of the date of registration of the amendments to the Articles of Association/the Statutes of the companies by the appropriate registry court, accordingly:
 - a) On 15 February 2012, the Company Vattenfall Network Services Poland sp. z o.o. changed its enterprise name to TAURON Serwis GZE sp. z o.o.,
 - b) On 20 February 2012, the Company Vattenfall Distribution Poland S.A. changed its enterprise name to TAURON Dystrybucja GZE S.A.,
 - c) On 27 February 2012, the Company Vattenfall Wolin – North sp. z o.o., changed its enterprise name to TAURON Ekoenergia GZE sp. z o.o.,
 - d) On 12 March 2012, the Company Vattenfall Generation Poland sp. z o.o. changed its enterprise name to TAURON Wytwarzanie GZE sp. z o.o.,
 - e) On 2 April 2012, the Company Vattenfall Sales Poland sp. z o.o. and Vattenfall Business Services Poland sp. z o.o. changed their enterprise names, to TAURON Sprzedaż GZE sp. z o.o. and TAURON Obsługa Klienta GZE sp. z o.o., respectively.

The aforementioned changes took place due to implementation of the programme of takeover and integration of assets of the company GZE S.A.

Following the reporting period, the following changes in the structure of TAURON Group subsidiaries took place:

1. On 17 January 2012, the plan of merger of the following companies was signed: TAURON Ciepło S.A. (Acquiring Company) and Elektrociepłownia Tychy S.A., Elektrociepłownia EC Nowa sp. z o.o. and Energetyka Ciepła w Kamiennej Górze sp. z o.o. (Acquired Companies). The plan of the merger was announced in the Court and Commercial Gazette on 24 January 2012. In relation to assessment of the merger plan, the opinion of the chartered accountant was prepared on 20 February 2012. On 10 April 2012 the General Meeting of the companies TAURON Ciepło S.A. and Elektrociepłownia Tychy S.A., and the General Meetings of the companies Elektrociepłownia EC Nowa sp. z o.o. and Energetyka Ciepła w Kamiennej Górze sp. z o.o. adopted resolutions concerning the merger of the aforementioned companies. On 30 April 2012, the merger was registered in the register of entrepreneurs of the National Court Register. The merger was executed pursuant to art. 492 § 1 item 1 of the Code of Commercial Companies through takeover of the Acquired Companies by the Acquiring Company, i.e. by transfer of the total assets of the Acquired Companies to the Acquiring Company in exchange for shares which are issued by the

Acquiring Company to the shareholders of Elektrociepłownia Tychy S.A., the shareholders of Elektrociepłownia EC Nowa sp. z o.o. and the shareholders of Energetyka Ciepła w Kamiennej Górze sp. z o.o. The exchange ratio was established in the following way:

- one share of Elektrociepłownia Tychy S.A. corresponds to 1,364 shares of TAURON Ciepło S.A.,
- one share of Elektrociepłownia EC Nowa sp. z o.o. corresponds to 60,170 shares of TAURON Ciepło S.A.,
- one share of Energetyka Ciepła w Kamiennej Górze sp. z o.o. corresponds to 88,837 shares of TAURON Ciepło S.A.

Accordingly, the share capital of TAURON Ciepło S.A. was increased from PLN 444,664 to PLN 865,937, i.e. by PLN 421,273.

The aforementioned activities are compliant with the "Corporate Strategy for TAURON Group for 2011-2015, with estimates up to the year 2020", adopted by the Management Board of TAURON Polska Energia S.A. and they constitute the next step in the development of the Heat Area in TAURON Group.

2. On 4 April 2012 TAURON and its single-person subsidiary – TAURON Ekoenergia sp. z o.o. completed the transaction involving contribution of all 22,000 shares of the company Zespół Elektrowni Wodnych Rożnów sp. z o.o., at the par value of PLN 50 each and the aggregate nominal value of PLN 1,100,000, constituting 100% of the company shares, to TAURON Ekoenergia sp. z o.o. by TAURON, as the contribution in kind, in exchange for the shares in the increased share capital of TAURON Ekoenergia sp. z o.o. The aforementioned activity results from the adopted "Corporate Strategy for TAURON Group for 2011-2015, with estimates up to the year 2020", and its objective is to streamline the performance in the business area of Renewable Energy Sources.
3. Due to finalisation of the process involving forced redemption of GZE S.A. shares, held by the minority shareholders, implemented pursuant to art. 418 of the Code of Commercial Companies, on 16 April 2012 TAURON became the sole shareholder of GZE S.A.. In the framework of the aforementioned process, the company TAURON Polska Energia S.A. redeemed 307 shares of the company GZE S.A., becoming the owner of the total 1,250,000 shares of the company. Accordingly, the share of TAURON Polska Energia S.A. in the share capital and in the votes at the General Meeting of GZE S.A. was increased from 99.98% to 100%. The objective of the aforementioned activity, implemented under the project „Incorporation of the Company GZE S.A. to TAURON Polska Energia S.A.”, is to streamline the proprietary structure of GZE S.A. and preparation of this company for incorporation to the structure of TAURON Polska Energia S.A.

1.4. Effects of changes in the structure of the Company and the Capital Group

In the first quarter of 2012, the processes focused on merger of companies, to be performed during the current year, have been initiated:

- **Merger of companies in the Heat Area**

On 30 April 2012, the merger of the following companies was registered in the register of entrepreneurs of the National Court Register: TAURON Ciepło S.A., Elektrociepłownia Tychy S.A., Elektrociepłownia EC Nowa sp. z o.o. and Energetyka Ciepła w Kamiennej Górze sp. z o.o. Detailed information concerning the merger can be found in item 1.3. *Structure of the Capital Group - consolidated companies.*

- **Merger of TAURON Polska Energia S.A. with the subsidiary - Górnośląski Zakład Elektroenergetyczny S.A.**

On 17 April 2012 the Management Board of TAURON Polska Energia S.A. (Acquiring Company) took the decision on the intended merger with the subsidiary - GZE S.A. (Acquired Company) and informed the public of the merger plan, including other documents compiled in accordance with art. 499 of the Code of Commercial Companies (current report no. 15/2012 of 17 April 2012). The plan of the merger was announced in the Court and Commercial Gazette on 24 April 2012. The merger shall be performed in accordance with art. 499 § 1 item 1 of the Code of Commercial Companies, i.e. by transfer of total assets of the Acquired Company to the Acquiring Company. Considering the fact that the Acquiring Company holds 100% shares in equity of the Acquired Company, the Merger will be executed in accordance with Article 515 § 1 of the Code of Commercial Companies, without increase of the Acquiring Company share capital. The Articles of Association of the Acquiring Company shall remain unchanged. Pursuant to Article 516 § 6 of the Code of Commercial Companies, the merger will be executed in the so-called simplified mode, without submitting the Merger Plan to the certified auditor for examination. Transfer of assets of the Acquired Company to the Acquiring Company will take place on the day when the merger is entered into the Register of Entrepreneurs of the National Court Register maintained for TAURON Polska Energia S.A. (Merger Day). Information concerning the first announcement for the shareholders on the planned merger was published in the current report No. 20/2012 of 27 April 2012.

The objective of the merger is to streamline the organizational structure of TAURON Capital Group in accordance with the assumptions of the "Corporate Strategy for TAURON Polska Energia Group for 2011-2015, with estimates up to the year 2020" which assumes consolidation of companies of TAURON Group.

2. Operations of TAURON Capital Group

2.1. Core business areas

TAURON Capital Group is a vertically integrated energy utility enterprise holding the leading position in generation, distribution and sales of electric energy in Poland. It belongs to the largest distributors and suppliers of electricity, both in Poland and in Central and Eastern Europe. TAURON Capital Group is also the second largest utility company in Poland in terms of installed power capacity and net electric energy production volume.

TAURON Group conducts its operations in the following Business Areas (Segments):

- Mining, comprising mainly mining, preparation and sales of hard coal in Poland, the activity provided by PKW,
- Generation, comprising mainly generation of electric energy and heat from conventional sources, including co-generation, as well as generation of electric power and heat using biomass co-burning, and other thermally acquired energy. The main fuels used by Generation Business Area comprise hard coal, biomass and coke-oven gas. Within TAURON Group, TAURON Wytwarzanie operates in the Generation Area.
- Renewables, comprising generation of electric energy from renewable sources, excluding generating of electric energy using biomass co-burning which, due to specific nature of the generation process, is included in the Generation Business Area. Within TAURON Group, the following entities operate in the Renewables Business Area: TAURON Ekoenergia, BELS INVESTMENT, MEGAWAT MARSZEWO, Lipniki and TAURON Ekoenergia GZE,
- Distribution, covering distribution of electric energy using distribution grids located in southern Poland, the activity provided by TAURON Dystrybucja, Górnśląski Zakład Elektroenergetyczny, TAURON Dystrybucja GZE and TAURON Serwis GZE,
- Sales, comprising sales of electric energy to end-customers and wholesale trading of electric energy, as well as trading and management of CO₂ emission allowances and the proprietary rights arising

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from the energy certificates of origin. Within TAURON Group, the following entities operate in this Business Area: TAURON Polska Energia, TAURON Sprzedaż, TAURON Czech Energy and TAURON Sprzedaż GZE,

- Customer Service, covering mainly services rendered for internal client (companies of TAURON Capital Group), involving service related to the sales process and financial-accounting process of selected companies of the Group. Within this area, TAURON Obsługa Klienta and TAURON Obsługa Klienta GZE operate. Until the end of 2011, TAURON Obsługa Klienta was assigned to the Sales Business Area, while operations of TAURON Obsługa Klienta GZE constituted a part of other Group activities,
- Heat, covering generation, distribution and sales of heat and other utilities, within which TAURON Ciepło, Elektrociepłownia Tychy and Elektrociepłownia EC Nowa operate. Until the end of 2011, the companies Elektrociepłownia Tychy and Elektrociepłownia EC Nowa were assigned to the Generation Business Area, while operations of TAURON Ciepło, until the end of 2011, constituted a part of other Group activities,
- Other, comprising mainly activities in the area of extraction of stone, including limestone, for the needs of power industry, metallurgy, construction and road building as well as production of sorbents for installations of flue gas desulphurization using the wet method and for the use in the fluidized bed boilers (activity provided by the company KW Czatkowice). The company dealing with trade of electric energy and derivative products (PE – PKH sp. z o.o.) is also assigned to this Business Area.

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

In the first quarter of 2012, TAURON Group reached the following key operating parameters:

Key operating parameters	unit	Q 1 2012	Q 1 2011	Dynamics Q 1 2012/ Q 1 2011
Commercial coal production	M Mg	1.21	1.15	105.2%
Generation of electric energy (net production of the Group), including:	TWh	4.97	5.90	84.2%
<i>Net production of Generation Area</i>	<i>TWh</i>	<i>4.70</i>	<i>5.67</i>	<i>82.9%</i>
<i>Net production of RES Area</i>	<i>TWh</i>	<i>0.15</i>	<i>0.11</i>	<i>136.4%</i>
<i>Net production of Heat Area</i>		<i>0.12</i>	<i>0.12</i>	<i>100.0%</i>
Generation of electric energy from renewable sources of the Group, including:	TWh	0.30	0.23	130.4%
<i>Production of biomass from Generation Area</i>	<i>TWh</i>	<i>0.15</i>	<i>0.12</i>	<i>127.6%</i>
<i>Production of hydro plants and wind farms of RES Area</i>	<i>TWh</i>	<i>0.15</i>	<i>0.11</i>	<i>136.4%</i>
Heat generation by the Group, including:	PJ	7.80	7.36	106.0%
<i>Production of heat from Generation Area</i>	<i>PJ</i>	<i>5.36</i>	<i>5.00</i>	<i>107.2%</i>
<i>Production of heat from Heat Area</i>	<i>PJ</i>	<i>2.44</i>	<i>2.36</i>	<i>103.4%</i>
Distribution of electric energy	TWh	12.70	9.89	128.4%
Retail sales of electric energy	TWh	11.79	9.24	127.6%
Number of clients - Distribution	thou.	5,284	4,125	128.1%

2.2. Significant achievements and failures of TAURON Capital Group in the period covered by the report

2.2.1. Sales structure according to core business areas

The table below shows the volumes and structure of sales of TAURON Capital Group, divided into individual Core Business Areas (Segments) for the 1st quarter of 2012, compared to the 1st quarter of 2011.

Specification	unit	Q 1 2012	Q 1 2011	Dynamics Q 1 2012/ Q 1 2011
Sales of coal by Mining Area	M Mg	1.154	1.146	100.7%
Sales of electric energy and heat by Generation Area	TWh	5.27	6.48	81.3%
	PJ	5.36	5.00	107.2%
Sales of electric energy generated in hydroelectric power plants and wind farms by RES Area	TWh	0.15	0.11	136.4%
Sales of electric energy distribution services by Distribution Area	TWh	12.70	9.89	128.4%
Retail sales of electric energy and other products of the energy market by Sales Area	TWh	11.79	9.24	127.6%
Sales of electric energy by Heat Area	TWh	0.12	0.12	100.0%
Sales of heat purchased and generated by Heat Area	PJ	6.40	6.08	105.3%

Coal mining

The basic activity conducted by TAURON Capital Group within the Mining Business Area covers mining, preparation and sales of hard coal. Through PKW TAURON Capital Group directly owns and runs Zakład Górniczy Sobieski and Zakład Górniczy Janina.

The volume of coal sales in the 1st quarter of 2012 amounted to almost 1.2 million t, which makes an increase by about 0.7%, as compared to the corresponding period of 2011. The increased volume of sales results from higher production of coal for sale (1.21 M Mg in the 1st quarter of 2012, as compared to 1.15 M Mg in the 1st quarter of 2011), which was possible due to favourable geological and mining conditions, contrary to difficulties in underground works occurring in the previous years.

Generation of electric energy and heat from conventional sources

The basic activity of the Generation Business area within TAURON Capital Group comprises generation of electric energy and heat in 9 power plants and co-generation plants (installations generating electric power and useful heat), coal-fired or using biomass co-burning. The total installed capacity of generation units of the Generation Area at the end of March 2012 reached 5,283 MW of electric energy (which means that it remained at unchanged level in relation to 2011, making 15.3% of the national generation capacity) and 2,444 MW of heat.

In the first quarter of 2012, the Generation Area produced about 4.7 TWh of net electric energy (including about 0.15 TWh from biomass), which makes about 17% less than in the corresponding period of 2011 when the production of net electric energy reached almost 5.7 TWh (including 0.12 TWh from biomass). The lower production of net electric energy results from current availability of the blocks as well as from market conditions (generation costs covering the purchase of CO₂ emission allowances, in relation to prices of electric energy). Additionally, commissioning of the new unit of Elektrownia Bełchatów influenced the limitation of performance imposed by TSO. Sales of electric energy from own production, including energy purchased for trading purposes in the 1st quarter of 2012 reached over 5.27 TWh, which means decrease by 18.7%, in relation to the corresponding period of the previous year.

Production and sales of heat by the Generation Area in the 1st quarter of 2012 reached about 5.4 PJ, and it was higher by about 7.2% in relation to production and sales of the corresponding period of 2011, amounting to 5.0 PJ, which is the consequence of different weather conditions occurring in the 1st quarter of this year, increasing the heat demand (colder and longer winter).

Generation of electric energy and heat from renewable sources

The basic activity conducted by TAURON Capital Group in the RES Area comprises generation of electric energy from renewable sources in hydroelectric plants and wind farms as well as managing of TAURON Group Projects in the area of energy generation from renewable energy sources. In RES Area 35 hydroelectric plants of total installed capacity of 132.7 MW_e operate as well as two wind farms of the total installed capacity of 60.75 MW_e, which makes 3.4% of total installed capacity of TAURON Capital Group.

In the 1st quarter of 2012, the RES Area generated and sold 0.15 TWh of electric energy, as compared to 0.11 TWh in the corresponding period of the previous year, which means the increase of production by over 36% in relation to the level reached in the 1st quarter of 2011. The increased production was possible due to acquisition of wind farms Lipniki and Wolin in 2011.

Distribution of electric energy

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

In the 1st quarter of 2012, the Distribution Area supplied in total 12.7 TWh of electric energy, including almost 12.0 TWh to the end consumers. During this period, the Distribution Area provided distribution services in favour of almost 5.3 million consumers. In the corresponding period of the previous year, the Distribution Area supplied in total 9.9 TWh of electric energy to about 4.1 million consumers, including 8.7 TWh to the end consumers. The increased volume of supplies is mainly the result of takeover of GZE distribution area. Bringing the results to comparability, without considering the GZE company volume, the electric energy supply in the 1st quarter of the current year has shown upward tendency, due to acquisition of new consumers and the increased demand of the hitherto consumers. In the first quarter of 2012, the significant increase in export supply volume was noted.

Sales of energy and other products of the energy market

Sales Area comprises activities focused on sales of electric energy and wholesale trading of electric energy and other products of the energy market. Operations within sales cover sales of electric energy to end customers, including key accounts. On the other hand, operations within wholesale trade cover mainly wholesale trade of electric energy, trade and management of CO₂ emission allowances and the proprietary rights arising from the certificates of origin

In the first quarter of 2012, the companies of the Sales Area sold the total of almost 11.8 TWh of electric energy to about 5.3 million end customers, both households and enterprises, which makes the growth by 27.6% as compared to the corresponding period of 2011 when sales reached about 9.2 TWh. The increased volume of sales can be mainly attributed to takeover of GZE sales company. Bringing the results to comparability, the upward tendency of energy sales has been maintained. The increased volume of sales was caused by acquisition of business clients for the year 2012 as well as higher energy consumption by industrial clients in this period, in relation to the corresponding period of 2011.

Heat

Heat Area covers operations involving generation, distribution and sales of heat and other utilities. In the 1st quarter of 2012 sales of heat generated and purchased by the companies of the Business Areas amounted to 6.40 PJ in relation to 6.08 PJ in the 1st quarter of 2011. The growth in the volume of sales occurred due to acquisition of new customers as well as the increased demand for heat because of weather conditions in the 1st quarter 2012 (lower ambient temperature than in the 1st quarter of 2011). During the period of 2012 under analysis, the co-generation plants of the Area generated and sold about 0.12 TWh of electric energy, which means that the level of the 1st quarter of the previous year was maintained.

2.2.2. Implementation of investment programme

In the 1st quarter of 2012, the investment expenditure of TAURON Capital Group amounted to about PLN 510 M and it was higher by almost 121% as compared to expenditure incurred in the corresponding period of the previous year (in the 1st quarter of 2011, it amounted to PLN 231 M). This results mainly from significant increase of investment in the Business Areas of Generation and Distribution.

The main investment projects in the first quarter of 2012 include: construction of new generating capacity (PLN 87 M) as well as construction of installation for reduction of NO_x emission (PLN 45 M) in the Generation Business Area, reconstruction of capacity in the Heat Business Area (PLN 55 M), construction of new interconnection capacity (PLN 82 M) as well as modernisation and reconstruction of grids (PLN 130 M) in the Distribution Business Area.

In the 1st quarter of 2012, the following strategic investment projects were continued in TAURON Capital Group:

- 1) construction of steam and gas fired unit (BGP), including the heat generation component at Stalowa Wola - the investment is implemented with participation of the strategic partner - PGNiG S.A. The investment is aimed at construction and commissioning of the new steam and gas fired unit of capacity of about 400 MW_e and 240 MW_t. On 15 April 2010 the Implementation Agreement was signed between the Company, PGNiG S.A., PGNiG Energia S.A. and ESW, which specifies, in particular, the rules of preparation and execution of the investment process. On 26 April 2012, the agreement with the General Contractor of the unit was signed - the company Abener Energia. Delivery of the project is scheduled in 2015;
- 2) construction of power unit of the capacity of 50 MW_e and 182 MW_t, adjusted to electric energy and heat generation within the area of Zespół Elektrociepłowni Bielsko-Biała (ZEC in Bielsko-Biała) belonging to TAURON Wytwarzanie. The purpose of the investment is to replace exploited generating units of low efficiency with the unit of high performance, complying with all environmental protection requirements concerning emissions of NO_x, SO₂ and particulate matter. Construction works coordinated by the General Contractor - Polimex Mostostal S.A. are in progress. Delivery of the investment is planned in mid-2013;
- 3) construction of the wind farm of 40 MW capacity in the location of Wicko. On 7 May 2012, the most favourable offer was selected, submitted by the consortium of companies Aldesa Nowa Energia sp. z o.o. and Aldesa Construcciones S.A. Delivery of the investment is scheduled in 2013;
- 4) construction of the wind farm of 82 MW capacity in the location of Marszewo. On 19 January 2012 the Agreement with the General Contractor of the wind farm of 82 MW capacity was signed – the consortium of companies Iberdrola Engineering and Construction Poland, and Iberdrola Y Construcción. The procedures aimed at takeover of the construction site by the contractor in order to launch the construction works are underway. Commissioning is planned in 2014;
- 5) construction of the steam and gas fired unit (BGP) at EC Katowice, including the heat generation component of capacity of 135 MW_e and 90 MW_t. In January 2012, the utilities contract concerning implementation of the above mentioned investment was published. Currently, the process of contractor selection is in progress. Delivery of the project has been planned at the turn of 2015/2016;
- 6) construction of the co-generating biomass-fuelled unit of the capacity of 50 MW_e and 45 MW_t, at the area of Elektrownia Jaworzno III belonging to TAURON Wytwarzanie. The investment is under implementation. Completion of construction works is scheduled at the end of 2012;
- 7) modernisation of one of the boilers at Elektrownia Stalowa Wola belonging to TAURON Wytwarzanie, in order to adjust it to biomass burning. The construction works are on-going. The commissioning is scheduled in 2012.

- 8) construction of new generation capacity in co-generation at the level of 50 MW_e and 86 MW_t at EC Tychy. Currently, the selection process of contractor of the new unit is in progress. Delivery of the investment is scheduled at the beginning of 2016;
- 9) modernisation of the existing unit at EC Tychy in order to adjust it to biomass burning (40 MW_e). The construction and assembly works are on-going. The commissioning is scheduled in 2012.
- 10) construction of the new power unit of the capacity of 910 MW at supercritical parameters at the area of Elektrownia Jaworzno III belonging to TAURON Wytwarzanie. It is expected that the new unit will demonstrate high performance and availability as well as low levels of emissions of NO_x, SO₂, CO₂ and particulate matter. The selection process of contractor and engineer of the project is in progress. On 28 February 2012, invitation to submit offers was sent to five tenderers participating in the bid, including the Terms of Reference within the call for tender aimed at selection of the contractor. Completing of this investment project has been planned at the turn of 2016/2017.
- 11) construction of installation for denitrification of combustion gases in 6 units at Elektrownia Jaworzno III and 4 units at Elektrownia Łaziska belonging to TAURON Wytwarzanie. This investment will enable to reduce the NO_x emission in these units to the levels which will be binding for Poland starting from 2018. The construction works are on-going. Delivery of the project is scheduled at the turn of 2015/2016;
- 12) construction of the new steam and gas fired unit of 850 MW capacity, natural gas burning, at the site of Elektrownia Blachownia - within the actions undertaken by the Company and TAURON Wytwarzanie in the scope of the project on reconstruction of generating capacity in Elektrownia Blachownia, with participation of the strategic partner KGHM Polska Miedź S.A. Activities aimed at establishment of special purpose vehicle and activities related to acquisition of the European Commission approval for concentration are in progress. Commissioning of the project is planned at the turn of 2015/2016.

The level of outages of the generation capacity in TAURON Group, estimated until 2020, is about 1,900 MW_e. At the same time, within the generation portfolio, commissioning of the new generation capacity in different technologies is planned at the level of about 3,200 MW_e by 2020.

Strategic investment as well as their financing within TAURON Group are managed centrally at the level of the parent company, i.e. TAURON Polska Energia S.A. The Capital Group will finance the current and future investment projects from funds generated from operating activity and by acquisition of debt financing.

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

On 25 April 2012 the Court of Appeal in Warsaw issued a decision (Decision) dismissing the appeal made by the President of Energy Regulatory Office (ERO President) against the decision of the District Court in Warsaw – Court for Competition and Consumer Protection (CCCP) of 26 May 2010, concerning determination of the amount of annual adjustment of stranded costs due to TAURON Wytwarzanie S.A. for the year 2008, in connection with the early termination of long-term contracts for electricity and power supply (the so-called LTC compensation). It means that the annual adjustment of stranded costs for 2008 due to the TAURON Wytwarzanie amounts to PLN 79.1 million and corresponds to the amount requested by the Company in the proceedings. Because in 2009 the ERO President determined the annual adjustment of stranded costs for 2008 at the amount of minus PLN 159.5 million and the CCCP suspended execution of this decision halfway, as a result of the Decision TAURON Wytwarzanie will receive the reimbursement of PLN 159.9 million. The Decision is legally binding. The Parties are entitled to a cassation appeal before the Supreme Court. Due to the fact that the Company has consistently

applied the policy of valuation and recognition of stranded costs adopted in 2008, according to which the stranded costs are recognized as revenue in the financial year for which they are due, and at the amount covering the anticipated annual adjustment, and the anticipated impact of the final adjustment, regardless of the actual date of receipt of the compensation amounts, the Decision will have no direct impact on the financial results of the Company and the TAURON Group (current report no. 19/2012 of 25 April 2012).

2.2.4. Ordinary General Meeting of the Company

On 24 April 2012 the Ordinary General Meeting of TAURON Polska Energia S.A. (OGM) adopted, among others, resolutions on approval of financial statements of the Company and the TAURON Capital Group for the year 2011 as well as on approval of the reports of the Management Board on the operations of the Company and the report on the operations of the Capital Group for the year 2011. Furthermore, the OGM took the decision on profit distribution for the year 2011 as well as defined the amount allocated for payment of the dividend for shareholders, the dividend record day and the dividend payment day. OGM acknowledged the fulfilment of duties by all members of the Company's Management Board and Supervisory Board who served in the fiscal year 2011. OGM also adopted the resolution on amendment to the Company's Articles of Association in the scope of significant modification of the Company's operations. The scope of the Company's operations shall be extended by extraction of crude petroleum and natural gas, support activities for petroleum and natural gas extraction, manufacture and processing of refined petroleum products and gas fuels, and performance of geological and engineering excavation and drilling (current reports no. 16/2012, 17/2012 and 18/2012 of 24 April 2012). The abovementioned amendments to the Company's Articles of Association were entered in the register of entrepreneurs on 7 May 2012 (current report No. 22/2012 of 8 May 2012).

2.2.5. Payment of Dividend

On 24 April 2012 the Ordinary General Meeting of the Company adopted the resolution on profit distribution for the year 2011 as well as defined the amount allocated for payment of the dividend for shareholders, the dividend record day and the dividend payment day. In accordance with the resolution, the Ordinary General Meeting decided to allocate the amount PLN 543,290,312.14 for payment of the dividend for shareholders from the net profit for the financial year 2011, which means that the amount of the dividend per share is PLN 0.31. The total number of shares covered by the dividend is 1,752,549,394. 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 (current report no. 18/2012 of 24 April 2012).

3 Analysis of assets and financial situation of the Capital Group

3.1 Financial situation of TAURON Group following the first quarter of 2012.

3.1.1 Consolidated statement on comprehensive income

The table below presents selected items of the consolidated statement on comprehensive income of TAURON Capital Group for the period of 3 months, ended on 31 March 2012, as well as comparative data for the period of 3 months ended on 31 March 2011. These items are referred to in accordance with the interim condensed consolidated financial report compliant with the IFRS (International Financial Reporting Standards) for the period of 3 months ended on 31 March 2012, compared to the first quarter of 2011.

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Specification	Q 1 2012		Q 1 2011	
	in thousand PLN	% of total revenue on sales	in thousand PLN	% of total revenue on sales
Continuing operations				
Revenue on sales of goods, products and materials without elimination of excise	4,974,130	77%	4,079,450	77%
Excise tax	-145,211	-2%	-106,307	-2%
Revenue on sales of goods, products and materials	4,828,919	75%	3,973,143	75%
Revenue on sales of services	1,614,099	25%	1,315,110	25%
Other revenue	11,835	0.2%	10,822	0.2%
Revenue on sales	6,454,853	100%	5,299,075	100%
Own cost of sales	-5,601,218	-87%	-4,560,882	-86%
Gross profit (loss) on sales	853,635	13%	738,193	14%
Other operating revenue	27,423	0%	19,346	0%
Costs of sales	-116,780	-2%	-72,231	-1%
Overheads	-176,615	-3%	-146,521	-3%
Other Operating Expenses	-22,386	0%	-27,792	-1%
Operating profit (loss)	565,277	8.8%	510,995	10%
<i>Operating profit margin (%)</i>	<i>8.8%</i>		<i>9.6%</i>	
Financial revenue	31,877	0%	22,479	0%
Financial expenses	-91,205	-1%	-46,437	-1%
Share in profit of the affiliates	-354		-297	0%
Gross profit (loss)	505,595	8%	486,740	9%
<i>Gross profit margin (%)</i>	<i>7.8%</i>		<i>9.2%</i>	
Income Tax	-105,441	-2%	-98,769	-2%
Net profit (loss) on continuing operations	400,154	6%	387,971	7%
<i>Net profit margin (%)</i>	<i>6.2%</i>		<i>7.3%</i>	
Net profit (loss) on discontinued operations	0		0	
Net profit (loss) for the financial year	400,154	6%	387,971	7%
Other comprehensive income for the financial year including deduction of tax	-9,733		121	
Total income for financial year	390,421	6%	388,092	7%
Profit attributable to:				
Shareholders of the parent company	386,857		382,471	
Non-controlling interests	13,297		5,500	
Total income attributable to:				
Shareholders of the parent company	377,124		382,592	
Non-controlling interests	13,297		5,500	
EBIT and EBITDA				
EBIT	565,277		510,995	
EBITDA	975,252		860,670	

In the 1st quarter of 2012 TAURON Group recognised revenue on sales at the level of about PLN 6,455 million, which means the increase by about 21.8% as compared to PLN 5,299 million reached in the 1st quarter of 2011. As compared to the corresponding period of 2011, TAURON Group reached higher

revenue on sales in all operating areas, excluding the Generation Business Area (mainly due to the lower electric energy production). The highest dynamics of revenue growth has been recorded in the Business Areas of Sales, Distribution and RES.

The revenue on sales also covers revenue due to compensation arising from terminated LTC, which amounted to PLN 121.1 million in the 1st quarter of 2012, reaching the level almost 65% higher than the level reached in the corresponding period of 2011 (PLN 73.5 million).

The increased operating expenses, in relation to the corresponding period of the previous year (excluding the Distribution Area), are connected mainly with the higher volume of sales, mainly of electric energy. In TAURON Capital Group companies, activities in the area of optimisation of fixed costs are on-going. The lower dynamics of cost growth was demonstrated by improvement of EBIT and EBITDA ratios as well as gross and net profit.

3.1.2 Financial results according to core business areas

The table below shows the results of TAURON Capital Group, divided into individual Core Business Areas (Segments) for the periods of the 1st quarter of 2012 and the 1st quarter of 2011.

Data for individual Business Areas do not cover consolidation exclusions.

Specification (thousand PLN)	Q 1 2012	Q 1 2011
Coal mining		
Revenue on sales	306,981	284,066
Operating profit	22,747	-4,414
Amortisation	25,655	26,036
EBITDA	48,402	21,622
Generation of electric energy and heat from conventional sources		
Revenue on sales	1,469,410	1,538,137
Operating profit	121,439	173,774
Amortisation	132,648	133,927
EBITDA	254,087	307,701
Generation of electric energy and heat from renewable sources		
Revenue on sales	66,643	51,643
Operating profit	43,239	34,120
Amortisation	10,373	6,010
EBITDA	53,612	40,130
Distribution of electric energy		
Revenue on sales	1,562,400	1,189,517
Operating profit	231,036	167,402
Amortisation	214,064	161,654
EBITDA	445,100	329,056
Sales of energy and other products of the energy market		
Revenue on sales	4,504,583	3,387,963
Operating profit	96,379	84,611
Amortisation	4,883	1,617
EBITDA	101,262	86,228
Customer Service		
Revenue on sales	83,846	78,478
Operating profit	10,076	5,975

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Specification (thousand PLN)	Q 1 2012	Q 1 2011
Amortisation	3,470	509
EBITDA	13,546	6,484
Heat		
Revenue on sales	341,936	318,629
Operating profit	59,850	58,350
Amortisation	16,809	17,964
EBITDA	76,659	76,314
Other		
Revenue on sales	111,683	111,241
Operating profit	8,834	6,204
Amortisation	2,073	1,958
EBITDA	10,907	8,162
Non-attributable items and exemptions		
Revenue on sales	(1,992,629)	(1,587,928)
Operating profit	(28,323)	(15,027)
Amortisation	0	0
EBITDA	28,323	(15,027)
Total EBITDA	975,252	860,670

Coal mining

In the 1st quarter of 2012, as compared to performance of the 1st quarter 2011, the growth of revenue on coal sales by about 8.1% was noted, which results mainly from the average sales price of a ton of coal which was higher by 8.0% (increased market prices and improvement of quality parameters) as well as from the growth of sales volume, due to favourable geological and mining conditions, contrary to the 1st quarter of the previous year, when significant difficulties had occurred, caused mainly by increased inflow of groundwater.

In the analysed period, the variable costs YoY are at the comparable level, while the fixed costs (excluding amortisation and taxes) increased by about 15% – it refers mainly to costs of materials and energy used for mining activity (due to increased mining output).

The aforementioned factors resulted in considerably higher results of basis operations achieved in the 1st quarter of 2012, as compared to the 1st quarter of 2011. EBIT increased by about PLN 27.2 million, EBITDA – by about PLN 26.8 million.

Generation of electric energy and heat from conventional sources

In the 1st quarter of 2012 the revenue on sales in the Generation Business Area decreased by about 4.5% as compared to the 1st quarter of 2011, which results from the lower volume of electric energy sales (reasons described in item 2.21). The decreased revenue, related to the lower sales volume, is partly compensated by the higher sales price of electric energy.

Higher revenue on heat sales achieved in the 1st quarter of 2012 results from the increased volume of heat sales due to lower ambient temperatures in February this year, increased heat prices arising from the new tariff for heat introduced at the end of 2011 as well as from the increase in the general heat price in the first quarter of this year, by 2.3%, as compared to the average price in the 1st quarter of 2011.

In the 1st quarter of 2012, the increase of unit variable costs was noted, mainly due to the rise in prices of coal and heating oil. Moreover, rise in unit costs of biofuel was noted, as a result of the increased prices of individual types of biofuel as well as the growth of the compulsory share of the more expensive agro biomass.

The EBIT operating result of the Generation Area reached about PLN 121 million. The results achieved were negatively affected by the lower sales volume of electric energy from own production, higher unit generation costs and increased fixed costs, excluding amortisation (the growth mainly results from the provision established for costs of severance payment for employees leaving the company due to the on-

going restructuring). The factors which had positive effect on the results achieved included higher price of electric energy sales, higher result on transactions of replacement of CO₂ emission allowances as well as revenue on compensation to cover stranded costs due to termination of long-term contracts (LTC) (increase by PLN 47.6 million), which can be mainly attributed to the change of result set in accordance with the provisions of the Act 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, i.e. with excluding of revenue-cost streamline related to activities other than production and sales of electric energy and Regulatory System Services*.

Generation of electric energy and heat from renewable sources

In the 1st quarter of 2012, the revenue on sales in the RES Business Area increased by about 29% as compared to the corresponding period of 2011 which was mainly affected by the increase in electric energy sales volume and the proprietary rights.

The operating result EBIT and EBITDA result of RES Business Area reached higher level than in 2011. The revenue and result of this Business Area is mainly affected by the production volume of electric energy. The increase in volume in relation to the comparable period of 2011 was mainly influenced by energy production by the wind farms Lipniki and TAURON Ekoenergia GZE.

The higher electric energy sales price had positive impact on favourable results of the RES Area, while the negative results were mainly related to lower average sales price of proprietary rights and higher fixed costs (the growth results mainly from additional costs connected with exploitation of wind farms).

Distribution of electric energy

Higher level of revenue and EBIT in the 1st quarter of 2012, in relation to the comparable period of 2011, results mainly from the takeover of GZE distribution area. EBIT of the 1st quarter of the current year has also increased YoY against the result brought to comparability. The increased result may be attributed to the following reasons of changes in the revenue and cost levels.

The revenue reached in the 1st quarter of 2012 is higher than the revenue of the corresponding period of 2011, brought to comparability, due to increased value of sales of distribution services to the end consumers (growth of sales volume and growth of the average unit fee for distribution services) as well as higher export sales (significant growth of volume and minimum decrease in price). Within other revenue connected with distribution activities, connection fees and revenues on exceeded capacity have increased. In terms of value, sales to end consumers in 2012 increased in relation to 2011 in each tariff group, in terms of quantity, it decreased only in group G.

In the 1st quarter of 2012, variable costs increased in relation to the costs in the 1st quarter of 2011, brought to comparability, both due to higher purchase of energy for the needs of balance differences and prices of this energy. In the 1st quarter of the current year, the index of network losses reached the level comparable to that achieved in the corresponding period of the previous year. The performance of the 1st quarter of 2012 also differs significantly from the performance of the 1st quarter of the previous year in terms of amortisation (effect of implementation of all investment expenditure) as well as taxes and fees, mainly on network assets. Both amortisation costs as well as taxes and fees are totally transferred in the tariff.

The level of EBIT was positively influenced by results on other operating activity as well as other statutory activity (not related to distribution activities, covering, among others, street lighting).

Sales of energy and other products of the energy market

Revenue on sales and EBIT result of the Sales Business Area in the 1st quarter of 2012 reached higher results in relation to the corresponding period of the year 2011. The favourable effect was mainly attributed to takeover of the company TAURON Sprzedaż GZE.

The revenue on retail sales of electric energy in the 1st quarter of 2012 was higher than in the 1st quarter of 2011, both due to increase in prices and the volume of supplies. The quantitative increase in sales was caused by acquisition of business clients for the year 2012 and higher consumption of energy by industrial clients in this period, in relation to the corresponding period of 2011. On the other hand, higher level of sales price of electric energy in the 1st quarter of the current year, compared on YoY basis, results mainly from introduction of the new tariff for individual clients and raised prices for business

clients, in accordance with market tendencies of energy prices. Additionally, new contracts with consumers (acquisitions and renewals) are concluded at higher sales prices than in 2011. The growth of sales prices results from higher costs of energy purchase.

The higher variable costs YoY are determined by the growing energy purchase price, by 4.6% on average. The level of variable costs was positively influenced mainly by lower costs of purchase of the so-called red certificates of origin, whose market price decreased significantly in relation to the previous year.

Performance of fixed costs in the 1st quarter of 2012 was lower than the level performed in the corresponding period of the previous year, due to lower costs of customer service and savings related to gradual liquidation of payment collection points from clients.

Customer Service

The growth in revenue on sales and improvement of EBIT result in the 1st quarter of 2012, in relation to the corresponding period of 2011 were mainly determined by acquisition of the company TAURON Obsługa Klienta GZE, which did not belong to TAURON Group in the 1st quarter of 2011. EBIT of the 1st quarter of the current year has also increased YoY against the result of the year 2011 brought to comparability. It may be attributed to the following reasons of changes in the revenue and cost levels.

Revenue on sales of services reached in the 1st quarter of 2012 is higher than the revenue of the 1st quarter of 2011, brought to comparability. The growth is related to SLA services – Service Level Agreement (increased fees for customer service for Distribution clients, decreased fees for customer service of Sales clients), and additional agreements in the area of customer service (mainly with the sales companies). In the scope of other service activities, sales of IT services decreased, which is related to partial exclusion of this process from TAURON Obsługa Klienta GZE and leaving it within the structure of Vattenfall AB (the excluded processes involve IT services for entities beyond TAURON Group).

Costs involved in customer service maintain their correlation to the growing revenue, as the latter is determined based on calculation applying the method "cost +".

Heat

In the 1st quarter of 2012, the revenue on sales in the Heat Business Area increased by about 7.3% as compared to the corresponding period of 2011, which was mainly influenced by: increased volume of the heat transmitted (resulting from the enhanced demand of consumers due to lower ambient temperature in the 1st quarter of 2012), increased volume of compressed air production (arising from growth of demand of the main customer – ArcelorMittal Poland), increase in prices of the utilities supplied – electric energy, heat, wind of blast furnace and compressed air as well as growth of revenue on sales of the proprietary rights.

The operating result EBIT and EBITDA result of Heat Business Area reached the level close to the comparable level of the year 2011.

Other

In the 1st quarter of 2012, the revenue on sales in the Other Business Area remained at the level comparable to the corresponding period of the year 2011.

The growth of EBIT and EBITDA reached in the 1st quarter of 2012, in relation to the corresponding period of the previous year, results from lower operating costs of companies allocated to this Business Area.

3.2 Status of assets

Consolidated statement on financial situation

Consolidated statement on financial situation (in thousand PLN)	Status as of 31 March 2012 (not assessed)	Status as of 31 December 2011
ASSETS		
Fixed Assets		
Tangible fixed assets	22,013,708	21,911,047
Intangible assets	986,863	988,950
Stocks and shares in affiliated companies and joint ventures recognised applying the equity method	22,364	22,717
Other long-term financial assets	197,296	197,296
Other long-term non-financial assets	217,563	96,349
Deferred Income tax assets	8,487	31,965
Total fixed assets	23,446,281	23,248,498
Current assets		
Short-term intangible assets	743,420	870,954
Inventory	538,761	574,790
Receivables due to income tax	122,844	64,266
Trade receivables and other receivables	3,115,010	2,743,344
Other short-term financial assets	4,762	108,024
Other short-term non-financial assets	324,360	289,034
Cash and equivalents	546,203	505,670
Total current assets	5,395,360	5,156,082
Fixed assets classified for trade	10,846	8,951
TOTAL ASSETS	28,852,487	28,413,531
LIABILITIES		
Equity attributable to shareholders of the parent company		
Share capital	8,762,747	8,762,747
Supplementary capital	7,412,882	7,412,882
Foreign Exchange differences due to translation of foreign entities	(60)	87
Retained profits / Uncovered losses	(111,128)	(497,995)
Hedging tools revaluation reserve	(9,586)	0
Non-controlling shares	474,598	461,347
Total equity	16,529,453	16,139,068
Long-term liabilities		
Loans, credits and debt securities	4,867,857	4,251,944
Liabilities due to leasing and lease contracts with purchase option	51,418	56,232
Long-term provisions and employee benefits	1,215,105	1,202,840
Long-term prepayments and governmental subsidies	636,800	642,549
Trade liabilities and other long-term financial liabilities	6,533	7,968
Provision for deferred tax assets	1,309,864	1,270,390
Total long-term liabilities	8,087,577	7,431,923
Short-term liabilities		
Trade liabilities and other liabilities	1,663,080	2,349,201
Current portion of interest-bearing credits, loans and debt securities	330,178	214,169
Liabilities due to leasing and lease contracts with purchase option	14,668	14,761
Other short-term liabilities	824,980	644,910
Accruals and governmental subsidies	255,149	279,058

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Consolidated statement on financial situation (in thousand PLN)	Status as of 31 March 2012 (not assessed)	Status as of 31 December 2011
Liabilities due to income tax	174,357	163,437
Short-term provisions and employee benefits	973,045	1,177,004
Other short-term liabilities	4,235,457	4,842,540
Total liabilities	12,323,034	12,274,463
TOTAL LIABILITIES	28,852,487	28,413,531

As of 31 March 2012 the balance sheet total of TAURON Capital Group was at the level comparable to the status as of 31 December 2011 (increase by about 1.5%).

As of 31 March 2012 and as of 31 December 2011, fixed assets of TAURON Group constituted 81% and 82% of total assets, respectively.

As of 31 March 2012, current assets of TAURON Group reached the status higher by about PLN 240 million, as compared to the status at the end of 2011 which mainly results from the higher level of trade receivables.

Increase in total equity of TAURON Capital Group at the end of March 2012 results mainly from the net profit generated in the first quarter of 2012.

Slight increase of the status of liabilities results from the level of debt due to bank loans, credits and debt securities, higher by almost PLN 616 million as well as the level of trade liabilities, lower by about PLN 686 million.

The decrease in short-term provisions by about PLN 204 million, as of 31 March 2012, as compared to the status as of 31 December 2011 results mainly from reversal of provision due to the obligation to submit energy certificates of origin for redemption, in connection with the actual redemption of the certificates which occurred in March 2012.

As of the end of March 2012, the level of net financial liabilities of the Capital Group amounted to PLN 4,717.9 million against PLN 4,031.4 million at the end of December 2011. The increase by PLN 686.5 million results from the higher level of long-term liabilities (among others, obtaining of loans from the European Investment Bank at the total value of PLN 510 million and issue of the subsequent tranche of bonds at the value of PLN 150 million).

3.3 Cash Flows

Statement of Cash Flow

The table below presents cash flows of TAURON Capital Group for the period of three months ended, respectively: on 31 March of 2012 and 2011

Specification (thousand PLN)	Q 1 2012	Q 1 2011
Cash flows from operating activities		
Gross profit/(loss)	505,595	486,740
Adjustments by:		
Share in the profit of an affiliated entity and joint venture recognised by equity method	354	297
Amortisation	409,916	349,588
Profit (loss)/ on exchange differences	(1,011)	(308)
Interest and dividend, net	56,209	20,372
Profit (loss) on investment activity	3,889	1,035
(Increase)/decrease in receivables	372,618	214,271
(Increase)/decrease in inventory	35,235	55,183
Increase/(decrease) in liabilities, excluding credits and loans	(156,809)	(217,821)

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Specification (thousand PLN)	Q 1 2012	Q 1 2011
Change in other short- and long-term assets	143,799	111,446
Change in deferred income and government grants and accrued expenses	(36,835)	7,825
Change in provisions	(245,144)	(471,640)
Income Tax paid	(88,134)	(90,710)
Other	37	4
Net cash from operating activities	254,483	37,740
Cash flows from investment activities		
Sales of tangible fixed assets and intangible assets	2,909	10,399
Purchase of tangible fixed assets and intangible assets	(968,722)	(509,788)
Sales of other financial assets	106,426	9,125
Acquisition of shares in affiliated companies and joint ventures recognised applying the equity method	(2,722)	(13,000)
Purchase of other financial assets	-	(14,529)
Interest received	(5,500)	0
Granting of loans	-	15
Other	-	(1)
Cash flows from investment activities	(867,609)	(517,779)
Cash flows from financial activities		
Purchase of non-controlling treasury shares	(36)	(24,185)
Repayment of liabilities due to financial leasing	(4,952)	(9,894)
Cash inflows due to loans/credits	542,000	60,594
Repayment of loans/credits	(31,103)	(152,215)
Issue of debt securities	150,000	0
Dividends paid to non-controlling shareholders	0	(2)
Interest paid	(6)	(8,468)
Other	(4,839)	(7,624)
Net cash from financial activities	649,358	(141,794)
Increase/(decrease) in net cash and cash equivalents and equivalents	36,232	(621,833)
Net exchange differences	(303)	338
Cash opening balance	505,816	1,471,660
Cash closing balance, including	542,048	849,827
- of limited disposability	252,481	87,164

The status of cash as of 31 March 2012 amounted to PLN 542.0 million and it was higher than at the end of the corresponding period of the previous year by PLN 307.8 million.

Total net cash flows from operating, investment and financial activity of TAURON Group for the period of three months, ended on 31 March 2012 reached PLN 36.2 million, as compared to PLN (621.8) million for the period ended on 31 March 2011. The main factor influencing the change was increase in investment expenditure and increase of inflows due to the issue of the subsequent tranche of bonds.

Increase of cash flows from operating activity in the 1st quarter of 2012, as compared to the 1st quarter 2011, by about PLN 216.7 million. is mainly the result of: change in provisions (by about PLN 226.5 million), higher gross profit (by about PLN 18.9 million), higher depreciation (by about PLN 60.3 million) and increase in the status of liabilities (by about PLN 158.3 million).

Negative cash flows from investment activity for the 1st quarter ended on 31 March 2012 reached PLN (867.6) million, as compared to PLN (517.8) million for the 1st quarter of the previous year, which results from increased investment expenses.

Positive net cash flows from financial activity for the 1st quarter ended on 31 March 2012 reached PLN 649.4 million, as compared to PLN (141.80) million for the 1st quarter of the previous year. The increase is mainly the result of rise in inflows due to loans and credits by PLN 481.4 million and due to issue of bonds for financing of investments by PLN 150 million.

Cash flows reached by TAURON Capital Group in 2011 correspond to the adequate picture in the developing enterprise: operating cash stream is positive, investment stream is negative and financial cash stream is positive. It means that the investment expenses exceed the operating inflows, therefore, acquisition of external financing sources is necessary for further development of the Group and for implementation of its investment plans.

3.4 Factors and events, particularly of unusual character, significantly affecting the financial results achieved

During the period under analysis, no factors and events of unusual character occurred, which would significantly affect the financial results achieved.

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

In the Issuer's opinion, results of operations of the Capital Group will be affected mainly, as it happened in the past, by the following factors:

- the macroeconomic situation, especially in Poland, as well as the economic situation of the area of operations of TAURON Capital Group, situation of the European Union and the global economy;
- political environment, especially in Poland as well as at the European Union level;
- changes in regulations of the energy sector, activity/decisions of the President of ERO;
- amendments to the Act on Energy Law and other acts of law related to the requirement of public sales of electric energy by the generators;
- electric energy prices on the wholesale market;
- prices of electric energy and coal as well as distribution tariffs, as factors influencing the level of revenue;
- prices of certificates of origin of energy from renewable and co-generation sources;
- prices of CO₂ emission allowances;
- prices of energy raw materials;
- demand for electric energy and heat;
- seasonality and weather conditions;
- level of compensation for covering the stranded costs related to termination of the LTC;
- potential failures of equipment, installations and grid owned by TAURON Group.

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

TAURON Polska Energia S.A. did not publish any forecasts of financial results for the financial year 2012.

4 Shares and Shareholders

4.1. Shareholders holding at least 5% of the total number of votes

Below, the shareholders holding at least 5% of the total number of votes at the General Meeting of the Company, either directly or indirectly, through subsidiaries, are presented, including changes in proprietary structure of significant blocks of shares, which occurred in the period since the last interim report.

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In accordance with notifications received by the Company, the structure of shareholders holding at least 5% of the total number of votes at the General Meeting of the Issuer, either directly or indirectly, through subsidiaries, as of the date of publication of this report, i.e. 10 May 2012, was as follows:

Shareholders	Number of shares held	Percentage interest in share capital	Number of votes held	Percentage interest in the general number of votes
State Treasury*	526,883,897	30.06%	526,883,897	30.06%
KGHM Polska Miedź S.A.**	182,110,566	10.39%	182,110,566	10.39%
ING Otwarty Fundusz Emerytalny***	88,742,929	5.06%	88,742,929	5.06%

*in accordance with the shareholder's notification of 29 March 2011

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

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

Since 19 March 2012, i.e. the date of publication of the last interim report, until the date of publication of this quarterly report, no changes in proprietary structure of significant blocks of shares of the Issuer occurred.

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

The specification of the status of shares of the Issuer, or authorisation to the shares, held by persons managing and supervising the Issuer is presented below, including the indication of changes in the proprietary status since the delivery of the last interim report, individually for each of the persons.

The status of shares of the Company TAURON Polska Energia S.A., or authorisation to the shares, held by persons managing and supervising the Company in the period from 19 March 2012 (date of publication of the annual report for 2011) until 10 May 2012 (the date of presentation of this quarterly report) was as follows:

Managing persons:

Name and surname	Number of shares as of 19 March 2012	Change in number of shares held	Number of shares as of 10 May 2012
Dariusz Lubera	6,576	no change	6,576
Joanna Schmid	0	no change	0
Dariusz Stolarczyk	42,611	no change	42,611
Krzysztof Zamasz	935	no change	935
Krzysztof Zawadzki	27,337	no change	27,337

no change - lack of any changes

Supervising persons:

The status of shares of the Company TAURON Polska Energia S.A., or authorisation to the shares, held by persons managing and supervising the Company in the period from the day of publication of the annual report for 2011 until the day of presentation of this quarterly report was as follows:

Name and surname	Number of shares as of 19 March 2012	Change in number of shares held	Number of shares as of 10 May 2012
Antoni Tajduś	0	no change	0
Rafał Wardziński	0	no change	0
Leszek Koziorowski	0	no change	0
Jacek Kuciński	935	no change	935
Włodzimierz Luty	935	no change	935
Jacek Szyke	0	no change	0
Marek Ściążko	0	no change	0
Agnieszka Trzaskalska	0	no change	0

no change - lack of any changes

5 Other relevant information and events

5.1. Exceeding of the 10% equity threshold within the trading turnover between TAURON Group and PSE Operator S.A.

On 5 January 2012, TAURON Polska Energia S.A. informed that 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 billion (including: PLN 1,508 million of cost items for the companies of TAURON Group, and about PLN 250 million of income items), accordingly, the value of turnover has reached the material amount (exceeding the 10% equity threshold of the Issuer). Turnover of the highest value, i.e. about PLN 636.6 million net, was generated under the agreement of 15 January 2008, concluded between ENION S.A. (currently TAURON Dystrybucja S.A.) and PSE Operator. The subject of the Agreement is provision of transmission services by PSE Operator, understood as transport of electric energy via the transmission grid. The agreement has been concluded for indefinite period of time. The estimated value of this Agreement during the period of 5 years following its effective date is about PLN 3 billion. The services are cleared in accordance with the terms and conditions and charges approved by the President of the Energy Regulatory Office defined in the tariff, and considering the provisions of Instruction for Transmission System Operation and Maintenance (IRiESP) (current report no. 1/2012 of 5 January 2012).

5.2. Changes in the Supervisory Board of TAURON Polska Energia S.A.

On 11 January 2012, Mr Michał Michalewski was dismissed from the Supervisory Board of TAURON Polska Energia S.A. by the State Treasury. The dismissal took place pursuant to §23 section 1 item 3 of the Company's Articles of Association (current report no. 3/2012 of 12 January 2012).

On 11 January 2012, Mr Rafał Wardziński was appointed as the member of the Supervisory Board of TAURON Polska Energia S.A. by the State Treasury. The appointment took place pursuant to §23 section 1 item 3 of the Company's Articles of Association (current report no. 4/2012 of 12 January 2012).

5.3. Issue of corporate bonds

On 30 January 2012 TAURON Polska Energia S.A. issued 1,500 treasury bonds under tranche B at the issue value and nominal value equal to PLN 100,000. The redemption date of the bonds shall fall on 30 January 2015, and interest shall be payable semi-annually.

The current total debt of the Company due to the bonds issued amounts to PLN 4,298.2 million (including PLN 3,000 million within tranche C, PLN 848.2 million within tranche A and PLN 450 million within tranche B). The funds raised due to issue of the bonds were allocated to acquisition of GZE, refinancing of TAURON Group liabilities and for general corporate needs. Information on the corporate bonds issue programmes was presented in the current reports no. 63/2010 of 16 December 2010, no. 53/2011 of 28 October 2011 and 60/2011 of 12 December 2011.

5.4. Signing of the Annex to the Agreement on electricity supply of 11 March 2011

On 14 March 2012 the annex was signed (Annex) to agreement on electricity supply (Agreement), signed on 11 March 2011 between TAURON, PGNiG Energia S.A. (PGNiG Energia) and Elektrociepłownia Stalowa Wola S.A. (ECSW). The agreement refers to the project executed jointly by TAURON and Polskie Górnictwo Naftowe i Gazownictwo S.A. (PGNiG) called "Construction of a steam and gas-fired unit at Stalowa Wola" and its subject is the long-term supply of electricity generated using the steam and gas-fired unit at ECSW in Stalowa Wola to TAURON and PGNiG Energia. Under the Annex to the Agreement, Polskie Górnictwo Naftowe i Gazownictwo S.A. has 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) and bear joint liability towards ECSW for obligations resulting from the Agreement (current report no. 8/2012 of 14 March 2012).

5.5. Concluding of Agreement with GDF Suez Trading

On 3 April 2012 the framework agreement (Agreement) was signed between TAURON Polska Energia S.A. 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, including options related to purchase, sales, supply and consumption of electric energy. The agreement has been concluded for indefinite period of time. The scope and terms and conditions of the Agreement are identical with the subject and terms and conditions of the Agreement concluded on 30 November 2011 between TAURON and Electrabel NV/SA belonging to GDF Suez Group (current report no. 58/2011). Conclusion of the Agreement is the result of organizational changes in the GDF Suez Group, the target of which is to concentrate energy trading operations in GDF Suez Trading. According to the Company's best knowledge, ultimately, significant majority of electricity turnover will be generated based on the Agreement, and not based on the aforementioned agreement between the Company and Electrabel NV/SA. In connection with the above, the conclusion of the Agreement with GDF Suez Trading has neutral influence on the total anticipated value of turnover between the TAURON Group and GDF Suez Group, referred to in current report No. 58/2011 (current report no. 14/2012 of 3 April 2012).

5.6. Letters of Intent concerning the intended cooperation on shale gas

On 25 January 2012 TAURON Polska Energia S.A. and PGNiG S.A. signed the letter of intent, in which the parties decided that the letter would be the expression of the parties' intent to continue further talks and negotiations with the purpose of settlement of terms and conditions of their potential mutual cooperation on exploration and management of shale gas deposits within the part of the area covered by the Wejherowo license, held by PGNiG S.A. On 24 April 2012 the letter of intent was concluded between PGNiG S.A. and TAURON Polska Energia S.A., PGE S.A., KGHM Polska Miedź S.A. and Enea S.A., pursuant to which the parties shall enter into negotiations targeted towards settlement of detailed terms and conditions of cooperation in the scope of exploration, recognition and exploitation of shale gas.

5.7. Proceedings pending in the court, competent arbitration authority or public authority body

During the reporting period no proceedings were pending in TAURON Capital Group (related to the Issuer or its subsidiaries) concerning liabilities and debts whose single or aggregate value would exceed 10% of the equity of TAURON Polska Energia S.A.

5.8. Information on transactions with affiliated entities

All transactions with affiliated entities are concluded under market conditions. Detailed information on significant transactions with affiliated entities has been provided in note 28 of the Consolidated interim financial statement for the period of three months, ended on 31 March 2012.

5.9. Information on granted guarantees, loan or credit sureties

In the 1st quarter of 2012, neither TAURON Polska Energia S.A., nor its subsidiaries have granted any loan or credit sureties or guaranties – jointly to one entity or this entity's subsidiary, at the aggregate value equivalent to the value of at least 10% of TAURON Polska Energia S.A. equity.

5.10. Other information which, according to the Issuer's opinion, is essential for the evaluation of the human resources, assets, financial situation, financial result and their changes, and which is essential to assess the possibility of fulfilment of obligations by the Capital Group of the Issuer

5.10.1 Macroeconomic situation

The macroeconomic situation of the country is directly reflected in the financial results achieved by TAURON Group.

In the first quarter of 2012, the consumption of electric energy in Poland increased insignificantly as compared to the corresponding period of 2011, i.e. by 1.6% (according to the data of PSE Operator). The distribution of changes in energy demand was considerably irregular in individual months, i.e. in January, slight decline was noted, in February - significant growth (by 7.3%), while in March, the decline was recorded (by 1.9%). It can be generally assumed that changes in energy consumption were affected by meteorological conditions, i.e. relatively warm January, wave of strong frost in February and warm March. The weather conditions are well illustrated by the high volatility of prices at the SPOT market of electric energy. The standard deviation for the weekly single moving averages of the IRDN index listed at the Power Exchange was very high, reaching almost 32% in the analysed period. In the middle of February, the weekly average of the IRDN index reached the level even above PLN 280/MWh, while in the remaining periods the quotes oscillated in the range of about PLN 155-180/ MWh.

Lack of reliable data makes it currently impossible to evaluate the impact of GDP changes on fluctuations in electric energy demand in the country in the 1st quarter of 2012.

Due to the downturn at the global markets, the price of CO₂ emission allowance, following last year's decline, still remained at relatively low level. The value of allowances in the 1st quarter of 2012 ranged from EURO 6.2/EUA to EURO 9.3/EUA. The EUA/CER spread remained at very high level, generally reaching the value above 3 Euro, and during the peak moment, it even hit Euro 4.24 (data according to listings of Bluenext exchange).

5.10.2 Termination of long-term contracts

In connection with the termination of long term contracts (LTC) pursuant to the "Act 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" (LTC Act), the generators who had previously parties to such contracts were granted the right to receive compensation for covering of the so-called stranded costs

(generation company costs resulting from expenditure incurred by the generator before 1 May 2004, on assets associated with generation of electric energy, not covered by the revenue gained from sales of the generated electric energy, reserve capacity and system services on the competitive market after the premature termination of the long term contract). The LTC Act limits the total amount of funds that may be paid to all generators for covering the stranded costs, discounted as of 1 January 2007, to the amount of PLN 11.6 billion.

5.10.3 Basic data on generating companies of TAURON Group subject to the LTC Act

Impact of compensations due to termination of LTC on the results achieved by TAURON Group was described in Note 25 to the interim condensed consolidated financial statement compliant with the International Financial Reporting Standards (IFRS) for the period of 3 months ended on 31 March 2012. In the 1st quarter of 2012, the company of the Generation Business Area - TAURON Wytwarzanie S.A., recognised income due to the compensation at the amount of PLN 121.1 million.

5.10.4 Market Position

TAURON Capital Group is one of the two largest utility companies in the country. It is the leader in terms of distribution and supply of electricity and the second largest electric energy producer in Poland. Besides production and distribution of electric energy, the core activity of TAURON Group covers trade of electric energy, coal mining, heat generation as well as distribution and supply of heat.

5.10.5 Potential

TAURON Capital Group is the key player in the energy sector and an important link in the system of Polish energy security. The Holding operates within the area equivalent to nearly one-fifth of the country territory. The Corporate Strategy of TAURON Capital Group assumes systematic development of the company in Poland and abroad. Within the entire value chain, TAURON Capital Group holds assets that cover the majority of its business needs.

5.10.6 National Allocation Plan on Distribution of Emission Allowances for the years 2008-2012

The National Allocation Plan for CO₂ emission allowances (KPRU), in relation to the Community emission allowances trading, is subject to notification by the European Commission. In view of the fact that the European Commission, on the occasion of the two previous settlement periods, has limited the amount allocated to Poland for allowances of CO₂ emission, in relation to the level proposed in the KPRU, the granted limits constitute significant constraint for the power engineering sector.

For the settlement period, which covers the years 2008-2012 (KPRU II), Poland applied for the allowance of 284 million ton of CO₂. Pursuant to the decision of the European Commission, Poland was granted the annual average limit at the amount of 208.5 million ton. In accordance with the current KPRU II, only 110.8 million ton of CO₂ shall be allocated to professional power plants while the CO₂ emitted under normal conditions is estimated at around 120 million ton.

5.10.7 Wholesale trade

Changes in electric energy demand in the National Power System influenced the volume of sales executed in the 1st quarter of 2012 to the companies TAURON Sprzedaż and TAURON Dystrybucja. In relation to the previous year, the energy supply to TAURON Sprzedaż was by 81 GWh (1.1%) higher, while the energy supply to TAURON Dystrybucja was by 40 GWh (5.5%) lower.

Due to acquisition of assets of the company TAURON Sprzedaż GZE by TAURON, the additional volume of energy occurred in TAURON portfolio, targeted towards provision of supplies to end clients serviced by this company.

In the 1st quarter of 2012, the total TAURON sales, covering also the supplies to retail clients and sales at the competitive market, , reached 11,698 TWh. Considering the total national electric energy consumption of 42,346 TWh, the TAURON market share is 27.6%.

Strong freezing weather occurring in February influenced the growth of the price level of electric energy, however, due to the relatively limited open position in the portfolios of electric energy, this phenomenon did not have significant effect on achievement of the assumed financial result.

The very high EUA/CER spread maintaining at the European exchange markets in 2012 enabled the company to generate a high, positive result in the wholesale portfolio of CO₂ emission allowances, due to the conducted EUA/CER exchange for the needs of group of installations of TAURON Group.

5.10.8 Retail sales

The essential factor influencing the operations in the scope of retail trade of electric energy is the increase of costs related to the obligation to redeem the certificates of origin from RES. This results from the increased share of the purchased proprietary rights in relation to the substitution fees included in the planned cost. The market purchase price is higher than the discounted value of substitution fee by the amount of excise tax. Due to the fact that this tax is recovered at the moment of its redemption, the real impact of increased purchase of the aforementioned rights on the cost of the obligation will be demonstrated through decreased amount of the paid excise tax in consecutive months of the current year. Current market prices of proprietary rights are beneficial for the buyers, i.e. they are lower than the discounted cost of the substitution fee.

Higher purchase costs of electric energy arise from the higher sales volume and higher purchase price of energy. Unit cost of purchase is higher than planned mainly due to the high volatility in prices on the SPOT market caused by meteorological factors and the situation on the European energy market. It is also essential that the settlement period of purchase of electric energy in the 1st quarter of 2012 has not been completed yet, and the adjustments of settlements at the balancing market, related to 2011, were considered in the 1st quarter of 2012.

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